Annual Report 2013

Year ended March 31, 2013

BANDO CHEMICAL INDUSTRIES, LTD.

In the 100-plus years since its founding in Japan in 1906, Bando Chemical Industries, Ltd. has been pursuing industrial development by making various contributions to rubber and plastic fabrication technologies in such areas as power transmission belts and systems, belts used in precision devices, and multimedia parts made from urethane and resins.

We are highly regarded by customers throughout the world owing to our efforts to develop new technologies and products that meet today's needs while manufacturing and stably supplying people- and environmentally-friendly products of unsurpassed performance and quality.

Possessing an unwavering spirit spanning back to our foundation, we will create a brighter future through the ceaseless innovation of our business.

Contents

Cautionary Note Concerning Forward-Looking Statements

This annual report includes forward-looking statements related to the Company's future performance forecasts. These statements are rationally determined by management based on information available at the time and therefore are subject to risk and uncertainty. Actual performance may differ from targets due to such factors as changes in the operating environment.

Management Philosophy

With a spirit of harmony and in good faith,
and to ensure the company's growth,
the Bando Group will work to earn the trust
of our customers and society
by creating and providing products and services
of added value and high quality.
With pride as members of the Bando Group,
we will contribute to society as a whole.

Our Products

The Bando Group's products boast world-class performance and quality based on technologies developed over many years. Bando's specialty products display our superior design and development capabilities.

Note: The following section lists the business segments used through fiscal 2012, which have been reorganized by the Group into the Belts business segment and Elastomer Products business segment from fiscal 2013 onward.

Power Transmission Business

Strengths and Characteristics

- High shares with OEMs in the automotive, office automation device, agricultural and industrial equipment industries
- Environmentally-friendly power transmission systems
- Comprehensive product lines suitable for various fields

Main Products


RIB ACE™


Automatic tensioners


STS/HP-STS/Ceptor™-VI


SYNCHROBELT™

Multimedia Parts Business

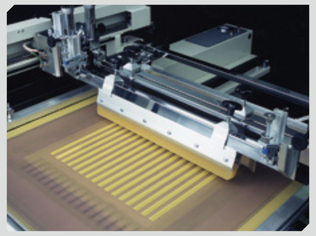
Strengths and Characteristics

- Draws on optimal material traits and adds Bando's material and structural design technologies
- Precision process technology that builds accuracy and quality into each product
- Reads market trends to create products that are a step ahead of customer needs and expectations

Main Products


BANCOLLAN™ Blades


Development Rollers


BANDO Squeegees


ALPHAFLEX™

Industrial Products Business

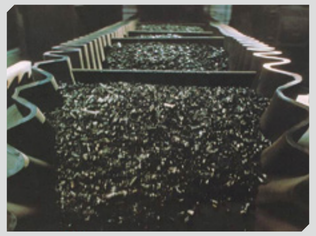
Strengths and Characteristics

- Belts made to heat- and oil-resistant specifications to enable the transport of various materials
- Technology that facilitates the production of low rolling-resistance belts for sealed-state, inclining/declining and curved system conveyance
- Precisely meets customer needs, including belts that prevent frayed edges, and non-slip and anti-electrostatic belts

* Flexowell® is a registered trademark of ContiTech Transportbandsysteme GmbH; used by permission.

Main Products


G-CARRY™


Flexowell® Conveyor Belts*


BANDO ECO CARRY™


SUNLINE™ Belts

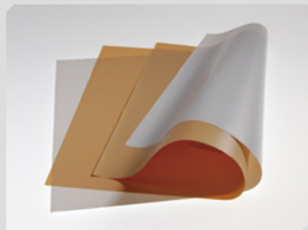
Plastics Products Business

Strengths and Characteristics

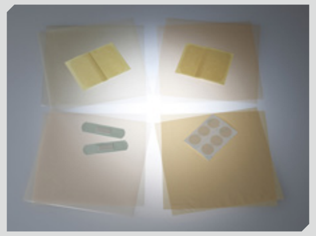
- Supplies backing material films for various applications, such as in the printing and medical fields
- Satisfies various customer needs through added product function by compounding or multi-layering plastics' component features
- Develops sophisticated products in consideration for the environment that are compatible with new materials and satisfy the future needs of customers

Main Products


BANDO GLANMESSE™


BANDO TECHRIA™


VINYBAN™


Medical films

Our History

Rather than simply being satisfied with the high level of trust and brand quality cultivated over our 100-plus years of history, we will advance new innovations and take on new challenges in order to continue evolving over the next century.

History of Global Expansion

- 2013 Established new plant in India
- 2013 Opened technical center in Thailand
- 2012 Reorganized Shanghai-based subsidiary into a management company
- 2012 Established subsidiary in Vietnam
- 2012 Opened technical center in China
- 2010 Opened Representative Office in Russia
- 2008 Opened Representative Office in Argentina
- 2003 Established subsidiaries in India and Turkey
- 2002 Established subsidiary in Shanghai, China
- 1998 Established subsidiary in Tianjin, China
- 1995 Established subsidiary in Hong Kong
- 1988 Established subsidiaries in Indonesia, Malaysia, and South Korea
- 1987 Established subsidiaries in Thailand and Spain
- 1985 Established subsidiary in Taiwan
- 1980 Established subsidiary in Singapore
- 1978 Established subsidiaries in the United States and West Germany
- 1975 Equity participation in industrial rubber product manufacturers in the Philippines and Malaysia
- 1969 Opened Representative Offices in the United States and West Germany

History of Product Development

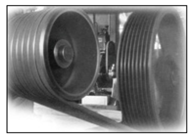
- 2013
- 2012 Commenced sales of TENSION MASTER, a tension meter featuring an acceleration sensor
- 2012 Commenced sales of non-flammable BANDO GLANMESSE
- 2011 Commenced sales of BANCOLLAN Cleaning Blade G-Module
- 2011 Developed BANDO MDEC, a new method for eliminating microscopic dust
- 2010 Commenced sales of DS5M, double-sided, synchronous power transmission belts
- 2009 Commenced sales of G-CARRY environment-friendly, energy-saving conveyor belts

- 2008 Commenced sales of RIB ACE ECO-HT high-load automotive V-ribbed belts
- 2008 Commenced sales of thin polyolefin films
- 2008 Commenced sales of FlowMetal, low-temperature sintering nanoparticles
- 2008 Commenced sales of the Hyper Flat Drive System

- 1995 Commenced sales of BANDO Automatic Tensioners, automatic automotive belt tensioners
- 1988 Developed BANDO AVANCE, the world's first dry belt for continuously variable transmissions (CVT)

- 1982 Commenced sales of MULITE high-performance plastics products
- 1981 Commenced sales of RIB ACE automotive V-ribbed belts

- 1975 Commenced full-scale production of photocopier cleaning blades
- 1972 Commenced sales of Japan's first light-duty conveyor belts
- 1964 Commenced production of Japan's first single-ply conveyor belts
- 1961 Commenced sales of polyurethane products
- 1959 Commenced sales of SYNCHROBELT toothed belts
- 1950 Commenced sales of plastic films and sheets
- 1932 Commenced sales of Japan's first V belts
- 1921 Commenced production of Japan's first conveyor belts
- 1913 Commenced production of rubber belts
- 1906 Commenced production of cotton belts



Other

- 1970 Listed on the First Section of the Tokyo Stock Exchange
- 1962 Listed on the Second Section of the Osaka Securities Exchange

A pioneer belt manufacturer since its founding in Japan, the Company has now grown to manufacture and sell products throughout the world as it continues to develop products in support of industry.

Aiming to become a standout supplier worldwide, we are expanding our global network based in Japan, Asia, the United States, and Europe.

Europe


Bando Belt Manufacturing (Turkey), Inc.


Bando Iberica, S.A.


Bando Europe GmbH

America


Bando USA, Inc.

Asia


Bando Jungkong Ltd.


Bando Manufacturing (Dongguan) Co., Ltd.


Pengeluaran Getah Bando (Malaysia) Sdn. Bhd.


Bando Korea Co., Ltd.


Bando Siix Ltd.


Kee Fatt Industries, Sdn. Bhd.


Bando Belt (Tianjin) Co., Ltd.


Sanwu Bando Inc.


Bando (Singapore) Pte. Ltd.

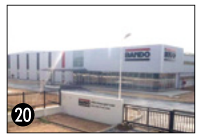

Bando (Shanghai) Management Co., Ltd.*


Philippine Belt Manufacturing Corp.


P.T. Bando Indonesia


Bando (Shanghai) Industrial Belt Co., Ltd.


Bando Manufacturing (Vietnam) Co., Ltd.


Bando (India) Pvt. Ltd.

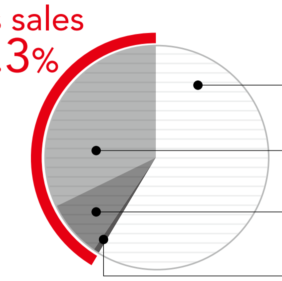

BL Autotec (Shanghai), Ltd.


Bando Manufacturing (Thailand) Ltd.*

* China Technical Center and Asia Technical Center were opened in 2012 and 2013, respectively, both of which are developing products with optimal specifications for markets.

Bando Chemical Industries' Global Network

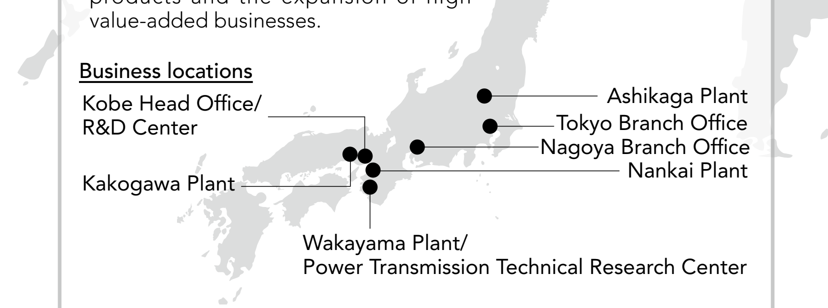
Sales by Region
(as of March 2013)



Japan*


Head Office

*Japanese business locations are leading the development of environment-friendly products and the expansion of high-value-added businesses.



Sales and Fabrication Service Affiliates
Bando Fukushima Products, Inc.
Higashinihon Bando Co., Ltd.
Vann Corporation
Koyo Sangyo Co., Ltd.
Hokuriku Bando, Inc.
Nishinihon Bando Co., Ltd.
Bando Elastomer Co., Ltd.

Manufacturing Affiliates
Fukui Belt Industries, Ltd.
Bando Machinery, Ltd.
BL Autotec, Ltd.
Bando-Scholtz Corporation

Other Service Affiliates
Bando Trading Co., Ltd.
Bando Kosan Co., Ltd.

Our Highlights

Six-Year Summary of Consolidated Financial Statements

Fiscal year endings are March 31 in the years shown below

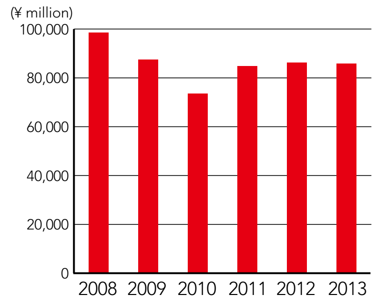
		2008	2009	2010	2011	2012	2013
Net sales	Millions of yen	98,662	87,453	73,593	84,811	86,372	85,772
Operating income	Millions of yen	7,325	2,115	2,450	5,056	4,571	4,095
Operating margin	%	7.4%	2.4%	3.3%	6.0%	5.3%	4.8%
Net income	Millions of yen	5,289	(255)	1,234	3,333	1,440	2,510
Net cash provided by (used in) operating activities	Millions of yen	7,805	7,621	8,724	9,529	6,595	7,004
Net cash provided by (used in) investing activities	Millions of yen	(9,830)	(4,937)	(3,147)	(4,922)	(4,768)	(5,781)
Net cash provided by (used in) financing activities	Millions of yen	(1,575)	(675)	(2,516)	805	(4,363)	(463)
Depreciation and amortization	Millions of yen	5,684	6,073	5,411	4,907	4,804	4,389
Capital investment	Millions of yen	7,166	4,176	2,791	3,381	4,619	5,052
Net assets	Millions of yen	44,972	38,352	40,020	40,542	39,444	43,226
Total assets	Millions of yen	90,801	76,621	78,020	82,905	79,659	82,207
Interest-bearing debt	Millions of yen	18,525	17,669	15,744	17,653	14,595	15,746
Shareholders' equity*	Millions of yen	44,046	37,345	39,188	39,677	38,559	42,775
Earnings per share	Yen	52.68	(2.55)	12.31	33.74	14.84	26.47
Net assets per share	Yen	439	372	391	405	402	455
Annual dividend per share	Yen	10.00	7.00	6.00	8.00	8.00	8.00
Average number of shares outstanding during the period	Thousand shares	100,393	100,313	100,294	98,788	97,034	94,811
Equity ratio	%	48.5	48.7	50.2	47.9	48.4	52.0
D/E ratio	times	0.421	0.473	0.402	0.445	0.379	0.368
ROA	%	5.8	(0.3)	1.6	4.0	1.8	3.1
ROE	%	12.3	(0.6)	3.2	8.5	3.7	6.2
P/E ratio	times	6.8	–	24.1	11.5	20.8	11.1
Payout ratio	%	19.0	–	48.7	23.7	53.9	30.2
Number of employees		3,414	3,436	3,285	3,427	3,545	3,592

* 'Shareholders' equity' on pages 8 to 9 = net assets – minority interests

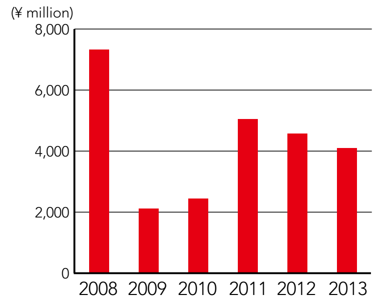
Major Indicators

Fiscal year endings are March 31 in the years shown below

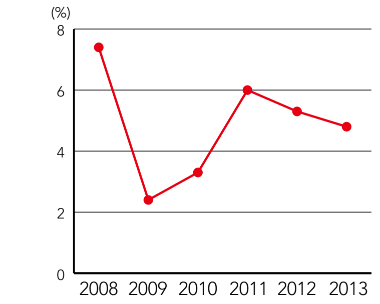
Net sales



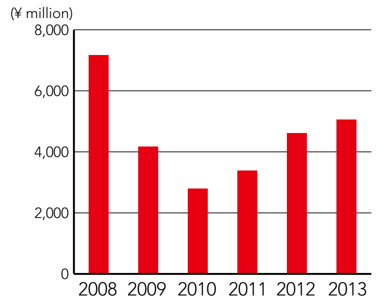
Operating income



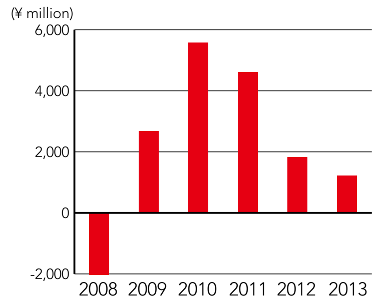
Operating margin



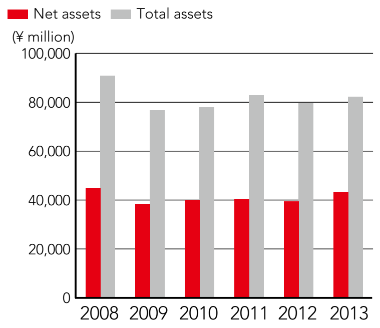
Capital investment



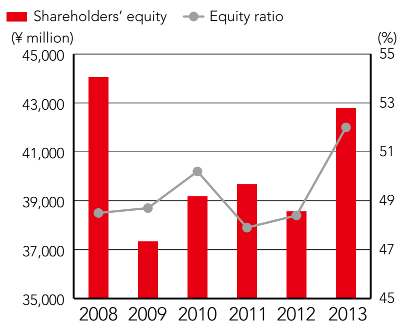
Free cash flow



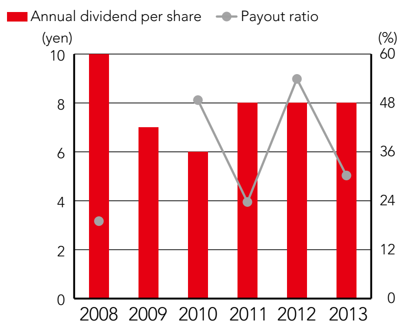
Net assets
Total assets



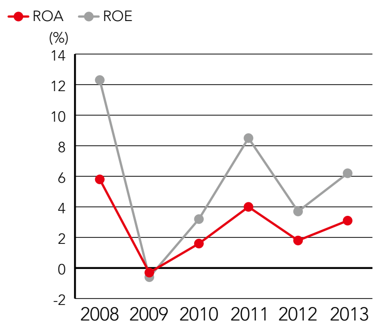
Shareholders' equity*
Equity ratio



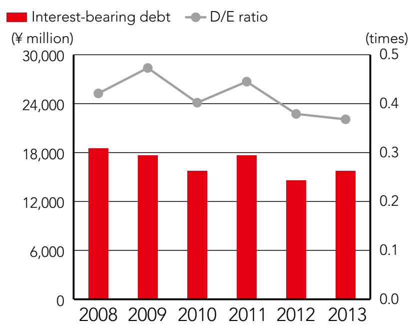
Annual dividend per share
Payout ratio



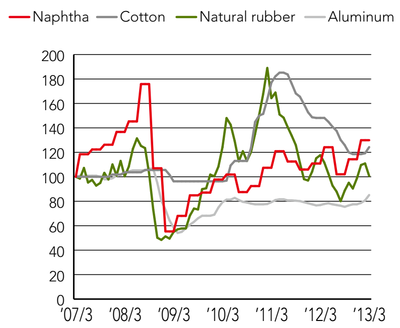
ROA
ROE



Interest-bearing debt
D/E ratio

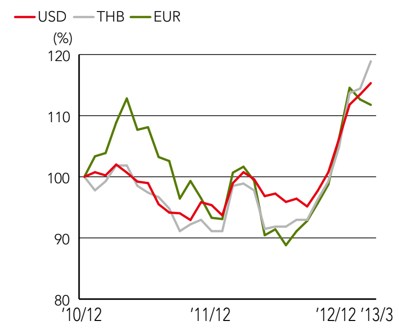


Raw material costs (indicators)



* Raw materials cost (indicators) base is 2007/3.

Exchange rate transition



* Exchange rate base is 2010/12.

Fiscal 2012 Topics

Global Expansion

2012 March April May June July August September October November December 2013 January February March

Established the Asia Technical Center at Bando Manufacturing (Thailand) Ltd. in Thailand

Established the management company, Bando (Shanghai) Management Co., Ltd., to promote operational efficiency by overseeing and supporting product sales, marketing and management operations in China

Established Bando (Shanghai) Industrial Belt Co., Ltd. in Shanghai, China for the endless processing and fabrication of light-duty SUNLINE Conveyor Belts to expand sales in the food, factory automation, package distribution and other industries using conveyor equipment in China

Light-duty SUNLINE Conveyor Belt

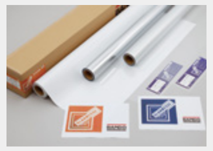
Introduced a solar power generation system at the Nankai Plant

Commenced sales of TENSION MASTER, a tension meter featuring an acceleration sensor

TENSION MASTER

Developed BANDO GLANMESSE, print media for ultrafast inkjet printers

Developed non-flammable BANDO GLANMESSE



BANDO GLANMESSE

Introduced the RIB ACE 2 (PL Series), drive belts for large-sized industrial machinery

RIB ACE 2 (PJ, PK, PL)

Commenced sales of S8M Long Synchrobelts with high electrical resistance

S8M Long Synchrobelts

Commenced sales of PS Belts (Precision Seamless) in fray-prevention specification and in special-thickness specification for specialized conveyance

Fray-Prevention PS Belts (left) and Special-Thickness PS Belts (right)

Product Development

Aiming to become a dominant supplier of belts and high-performance products in 10 years

Mitsutaka Yoshii

President,
Bando Chemical Industries, Ltd.

Bando starts "Breakthroughs for the future," our new mid-to-long term business plan

I hope that our stakeholders and investors overseas will find this annual report valuable in describing the Company's business operations and identifying its strengths, and in explaining our business strategies.

During Bando's previous mid-term business plan, which ran from April 2010 to March 2013, we pursued the expansion of our operations in the global market, with special focus on our belt business, while taking measures to improve the earnings structure of all our operational divisions. At the same time, we worked to develop new products and open up new markets to serve as earnings drivers for the next generation and beyond. Although we were unable to achieve our numerical goals under this business plan, due to major changes in the business environment as well as the impact of natural disasters, we succeeded in laying the groundwork for further rapid growth by the Bando Group, notably the global expansion of our business operations.

All members of the Bando Group are currently working to realize the goal of our new mid-to-long term business plan—"Breakthroughs for the future." Our ten-year goals are to achieve sustained growth in both belts and new business fields, including high-performance products, and for the Group to be a standout supplier worldwide.

I hope that our stakeholders and investors will continue to provide us with their support in our future endeavors.

Message from the President

Laying the groundwork for further rapid growth

Mitsutaka Yoshii
President,
Bando Chemical Industries, Ltd.

Overview of the previous business plan

In the fiscal year ended March 31, 2013, which was the final year of Bando's previous mid-term business plan, we recorded net sales of ¥85.7 billion, operating income of ¥4.0 billion, and an ROA of 3.1%, all on a consolidated basis. Although these figures fell short of our targets, we deem the plan to have been a success in qualitative terms, thanks to certain important achievements.

First, we succeeded in expanding our network of business bases overseas, centered on Asia, as part of our plans for operational expansion on a global scale. We started up production and sales operations at two new locations in China and one in Vietnam, and in March 2013 commenced fully integrated production at a plant in India. Another significant achievement in the Asian market was the establishment of two technical centers—one in China and one in Thailand. These centers will serve as bases for our marketing operations in their respective countries, and we believe this will be a key to the further growth of our overseas sales.

We also took steps to improve our earnings structure. We suffered sharp drops in demand for our products in 2011 as a result of the Great East Japan Earthquake and tsunami in Japan as well as the major floods in Thailand. Learning from this experience, we took measures to introduce a flexible manufacturing system that can cope easily with changes in both product type and product volume. We also strengthened our ability to respond to exchange rate fluctuations by aggressively seeking out overseas supply sources for raw materials, worked to lower the product defect rate in our manufacturing lines, and achieved a degree of success in raising the cost competitiveness of the entire Bando Group by amalgamating domestic sales companies. However, much remains to be done, and we intend to continue focusing our energies on the new mid-to-long term business plan to realize further improvement in the Group's earnings structure.

Our development of new products is directed by the key concepts of *environment, energy conservation, and clean.* In November 2010 we adopted the new environmental brand *eco moving*, and since then we have been steadily developing and manufacturing products under this brand name, which have received high praise from our customers. We are also revamping our existing products into high value-added products that embody these three key concepts.

In developing new products for growth markets we have introduced new technologies in the fabrication of rubber and plastics, and are confident that we have sown the seeds of future growth and profitability, particularly in the field of optoelectronics.

We believe that these achievements under our previous business plan constitute a solid foundation for the rapid growth and development of Bando under the new business plan currently underway.

Previous Mid-Term Business Plan Results

	Numerical targets (consolidated)		Results
Net sales	¥90.0 billion	▶	¥85.7 billion
Operating income	¥7.0 billion	▶	¥4.0 billion
ROA	5.0 % or above	▶	3.1 %

Under the first stage of our new mid-to-long-term business plan, we aim to capture the top market shares in Asia and the rest of the world, thanks to our advanced core technologies and reliable product quality

Our view of Bando's current business environment

In Bando's principal customer markets—four- and two-wheeled vehicles, agricultural and industrial equipment, and light-duty conveyor belts used in the distribution industry—demand is expected to increase strongly in emerging countries in line with population expansion and economic growth. In the industrialized countries, on the other hand, there is growing concern over environmental degradation, rising demand for energy conservation, and an increasing focus on safety. Against this backdrop, severe competition is expected in the development of new technologies that will make even more eco-friendly, value-added products possible.

Turning to the cost of Bando's manufacturing and sales activities, prices of raw materials such as naphtha distilled in Japan, cotton yarn, natural rubber, and aluminum are expected to remain high for the foreseeable future, and production costs are likely to be pushed up still further by hikes in electric power charges in Japan. On the foreign exchange markets, meanwhile, the yen is forecast to remain weak against the U.S. dollar, the euro, the Thai baht, the South Korean won, and other currencies, and this is expected to have a positive impact on the Group's business performance.

Amid this business environment, in fiscal 2012 the Bando Group enjoyed the world's top market share, at roughly 25% (fiscal 2012, estimate by Bando) in the supply of automotive power transmission belts under OEM contract, but the Group's sales and profits have remained flat for the past several years. We expect our operating environment to continue changing drastically in the foreseeable future. Amid this difficult situation, we have determined the need to draw up a business strategy from a longer-term perspective so as to address the issues where we fell short under the previous business plan, and thus bring about a breakthrough from our current business stagnation.

Our new mid-to-long term business plan overview and numerical targets

The Bando Group has commenced "Breakthroughs for the future," a mid-to-long term business plan running from the current fiscal year to fiscal 2022 (the term ending March 2023). Under this plan, we have set out a vision of the sort of enterprise we want the Company to be ten years from now. To attain this vision, we will further refine our core technologies and reliable product quality in the fields of rubber, elastomers, and resins—where we have built up an extensive fund of expertise since the Company's founding—to become a standout supplier of belts and high-performance products in the global market.

In the first stage of the plan, from fiscal 2013 to fiscal 2017, we will work to expand the Group's overseas operations and strengthen its earnings structure in line with the five guidelines set out below, with the targets for fiscal 2017 of ¥100 billion in consolidated net sales and ¥10 billion in consolidated operating income. At the same time, we will focus efforts on developing new businesses worthy of priority allocation of the Group's management resources.

In the second stage, from fiscal 2018 to fiscal 2022, we will concentrate on expanding earnings, with our belt operations and the new businesses created during the first stage acting as twin earnings drivers. Our aim is to become a truly global supplier by fiscal 2022, the final year under the plan, with net sales of around ¥150 billion.

Outline of planned investment during the first stage

In the first stage of the business plan, we aim to establish an earnings structure capable of regularly producing operating margins of 10% or higher. For this purpose, over the five-year period of the first stage we will implement capital investment totaling ¥25 billion, in addition to ¥5 billion in investment in research and development aimed at creating new business. More specifically, these investments will be implemented in accordance with the five guidelines described below.

Guideline No. 1: Evolution of global market strategy

In our belt operations overseas, we aim to become the undisputed leader in Asia in terms of market share, and are currently working to strengthen our operations in this field to achieve this goal. We will expand the scale of our existing production facilities in Thailand, Indonesia and elsewhere, and in addition, we aim to expand our production activities in emerging nations such as India and Vietnam with a view to opening up new markets in the so-called Greater Mekong Subregion, where strong economic growth is anticipated in the coming years. We intend to focus our efforts in this part of the world on increasing our sales of power transmission belts for four-wheeled and two-wheeled vehicles, agricultural equipment, and general industrial equipment, and of lightweight conveyor belts for use in the food and distribution industries. Our new factory in India started up in March 2013, and operations were going smoothly as of August 2013. We plan to increase production capacity at the factory to cope with growing demand. Our new factory in Vietnam is also enjoying brisk business, thanks to increased demand for belts for use in two-wheeled vehicles. In China, meanwhile, our sales are holding relatively firm despite a slowdown in economic growth. We are also working to create a supply chain capable of supporting production expansion. This includes a careful comparison of manufacturing costs and raw materials availability at each facility, enabling us to construct an optimal production system for each location, as well as an overall system in which production activity at our various production bases is mutually complementary.

Turning to Bando's operations in Japan, we are continuing to develop even more high-performance products in our core product lines while combining them with peripheral products into modules that we offer our customers as part of proposal packages tailor-made to fit their requirements. We also plan to raise the value-added level of our core products by packaging them together with additional design, installation, monitoring, and inspection services. We will reinforce the marketing network that we built under our previous business plan, viewing issues from our customers' perspective to create an optimal sales system. Simultaneously, we will construct inventory management, logistics, and processing systems finely adjusted to the particular needs of each marketing area. By these means, we hope to widen the sphere of operations of peripheral businesses centered on our high-performance products.

Guideline No. 2: Product evolution

For us to strengthen our earnings structure, our existing products must evolve. First, to develop products whose specifications best match the needs of each local market overseas, we must procure more raw materials locally. To make this possible, we opened new technical centers in China in 2012 and in Thailand in 2013. These centers play the pivotal role in our provision of technical services and in our development of products specifically customized to local market needs.

Regarding our *eco moving** environmental brand, we are exploring further possibilities in such product features as energy conservation and reduction in environmental impact, and are also expanding our operational sphere in relation to other core products, such as increasing added value, combining different functions, and incorporating core products and their peripheral products into modules.

*See P16-17 for an explanation of the *eco moving* concept

Guideline No. 3: Evolution in manufacturing

To further cement our customers' trust in our products and services, we aim to develop advanced manufacturing technologies that will realize a dramatic reduction in the product defect rate, lowering the rate for all our products and manufacturing lines. To do this, we will proactively implement capital investment, push ahead with structural reorganization, and take steps to improve the productivity of resources, labor, and capital. We will also reinforce our activities in the fields of target costing, development and procurement, and will utilize Bando Production System (BPS) activities to realize further improvement.

Guideline No. 4: New businesses creation

We recognize that if we are to achieve a breakthrough from our current business stagnation, it is an overriding imperative for us to create new businesses that can rank alongside our belt operations as earnings drivers for the next generation. Accordingly, we have identified our priority markets and product/service fields from a strategic viewpoint, and are now putting increased urgency into our development efforts, guided by the key concepts of *environment, energy conservation, and high-performance*.

Our priority markets include optoelectronics, automotive/transportation, energy, and robotics, in some of which we made our first inroads during the period of the previous business plan. We will continue to further refine our core technologies, including in compounding, dispersion, and composites of rubber, elastomers, resins, and other materials, to create cutting-edge technologies through fusion with technological expertise in other fields. On this basis, we aim to develop and commercialize new products. As far as priority product/service fields are concerned, we are focusing on power electronics, printed electronics, exterior and interior materials, displays, illumination, and medical-related.

With effect from fiscal 2013, we set in operation the BF ("Breakthroughs for the future") Promotion Department as one means of ensuring that progress is made in creating new businesses. The personnel in this department collect and collate information from the Company's marketing and technical staff, and closely scrutinize the various development themes proposed. Only those development proposals incorporating themes whose outcomes can be clearly envisaged will be selected for allocation of management resources.

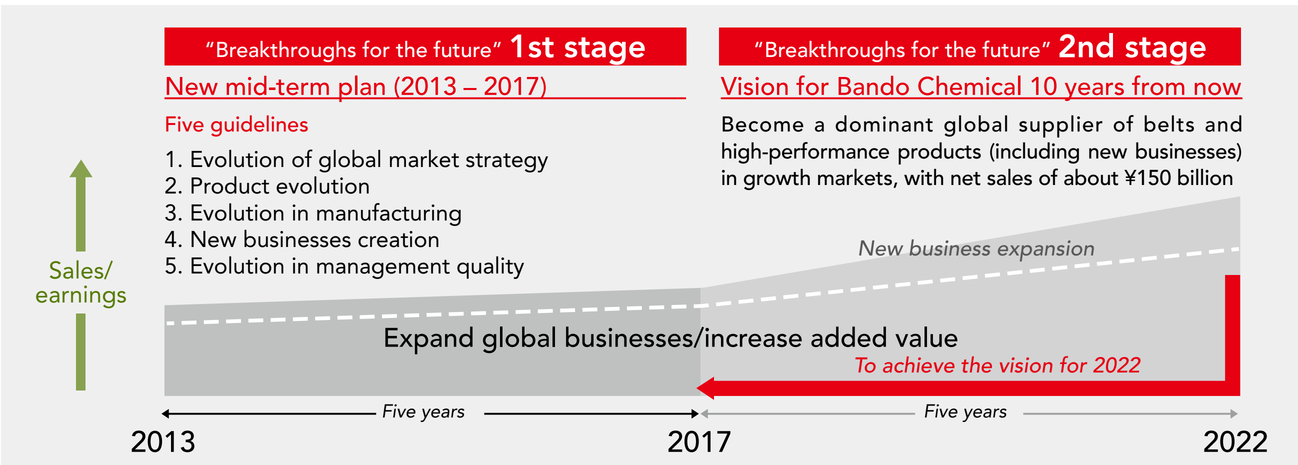
Guideline No. 5: Evolution in management quality

The management of Bando Chemical Industries is working to reinforce the Group's business base to allow the Group to display its comprehensive strengths on the global stage. During the first five-year period of the new business plan, we intend to focus on reshuffling our business portfolio in response to changes in our markets. We will carry out strategic investment in products with good growth potential, and will terminate the manufacture of unprofitable products and close down unprofitable businesses. In overseas markets, we will take a number of measures to strengthen consolidated management, including introducing an enterprise resource planning (ERP) system to facilitate the visualization of management indicators at our business facilities, and adopting the balanced scorecard (BSC) method and ABC analysis inventory control tools to strengthen our control over the Group's operations. To improve our hiring and nurturing of the qualified human resources that we need, we will design personalized career plans for each employee, and adopt systems to foster the management staff required for the next generation. We will also bolster our global personnel hiring and management system to train specialists and achieve effective diversity in the workplace. In addition, to realize a sounder financial position, we intend to reduce our net interest-bearing debt to zero and strengthen our exchange and interest-rate control system.

In April 2013 we carried out a wide-reaching organizational reform to enable us to steadily implement the measures described above for strengthening our business base. We restructured the organization of the Bando Group to facilitate the smooth application of our operational strategies in every corner of our operational network, including all our overseas facilities, and to ensure that those strategies are put into practice as rapidly as possible.

We will work to meet the expectations of all the stakeholders of the Bando Group by steadily following the five guidelines described above, so that we may become a standout supplier worldwide.

▶ Overview of the new mid-to-long term business plan—"Breakthroughs for the future"



Moving to Eco!

Pursuing Environmental Performance Using Technologies Featuring the World's Highest Standards

Committed to people- and environment-friendly manufacturing, Bando is accelerating the development of green products based on its *eco moving* brand to meet the increasing environmental and energy-saving needs of the automotive and other industries.

The *eco moving* Concept

We will accelerate the "move" to "eco" throughout the Group,

thoroughly develop products that reduce environmental burden,

and spread the new "movement" to our customers and society.

Labeling standards for *eco moving* products

Products receive the *eco moving* label if they meet any of the following three criteria.

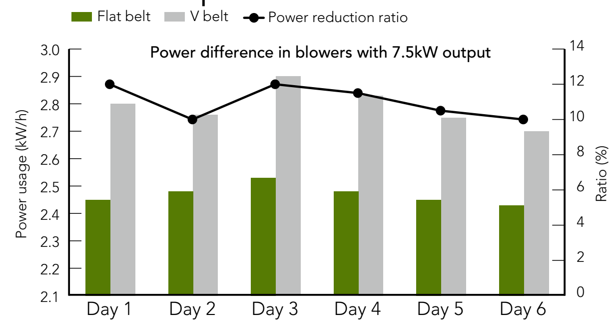
1. Compared with reference products, show reduced CO_2 emissions over the product lifecycle, and meet one or more internally established Environmental Claims (Energy Conservation, Waste Reduction, Use of Ecological Resources (recycled/non-petroleum), Carbon Offset, Resource Conservation, Use of Recycled Materials, Reduction of CO_2 Emissions)
2. Be granted certification from a third party operating an environmental certification system
3. Industry standards may be used for comparison purposes for a new product without a corresponding reference product, so long as the new product meets other necessary criteria

HFD system™ (Hyper Flat Drive System)

The No.1 Ultra Energy-Saving Eco Drive System

The HFD system is comprised of a flat belt, snaking control device, and an automatic tensioner, the combination of which enables energy savings and reduces CO_2 emissions. In addition, this system enables superior transmission efficiency and lifespan that exceeds V belts. It can be used in various industrial applications, including heating, ventilation and air conditioning equipment.

Power consumption verification results



Characteristic No.1:

High Power Transmission and High Efficiency

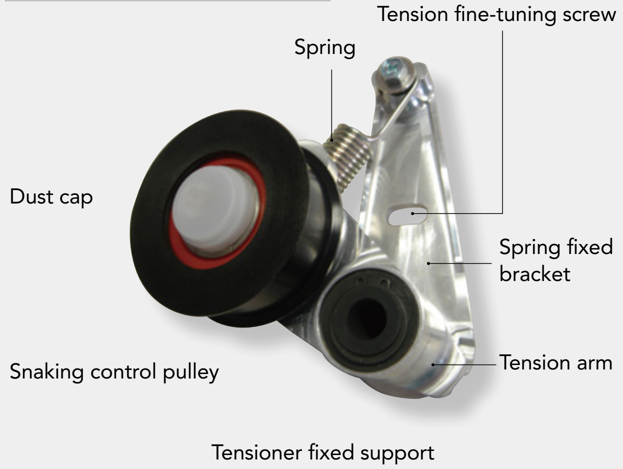
- Utilizing rubber and tensile cord design technologies cultivated over many years in the automotive sector to establish specifications for high power transmission, high-efficiency flat belts
- Realizing superior energy efficiency due to minimized loss thanks to lower belt bending rigidity

Characteristic No. 2:

Long Lifespan and Maintenance Free

- Using a tensioner pulley to control flat belt snaking enables the autonomous control of belts and pulleys.
- Using springs to stably control tension increases lifespan and eliminates the need for maintenance.

Device configuration



TENSION MASTER™

The Next-Generation Tension Meter Featuring the Highest Global Standard for Precision

TENSION MASTER™ is a tension meter that uses an acceleration sensor to measure tension from vibration frequencies produced by power transmission belts.

The lightweight main unit measures vibration frequency and a Smartphone application calculates tension. In addition, proper tension calculations increase belt lifespan. TENSION MASTER™ can be used for pre-shipment inspections of industrial equipment, measuring power transmission belt tension in factories, and as a natural frequency meter for facilities and equipment.

Characteristic No.1:

Tension Meter Capable of the Highest Global Standard for Measurement

- Capable of performing measurements even in noisy environments because of its ability to measure vibrations directly rather than relying on methods based on sonic waves
- Able to measure vibrations at the highest global precision standard even with layouts and belts that emit low-frequency sound, which is difficult when measuring sonic waves

Characteristic No. 2:

Calculation Software

- Calculation software is reasonably priced thanks to the use of specialized Smartphone applications*
- Compatible with either patterns that calculate vibration frequency based on tension or patterns that calculate tension based on vibration frequency

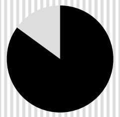
*Applications available on Google Play (iPhone version under development)

The Company introduced dual Administrative Headquarters to implement the five guidelines of the first stage of the mid-to-long term business plan—"Breakthroughs for the future," ("BF-1"). This has facilitated greater synergy among the Company's business segments.

This section provides an explanation of the Company's main business segments, which were restructured in fiscal 2013. An overview of operating results by the former business segments are provided in Management's Discussion and Analysis of Operating Results and Financial Position on pages 26 to 28.

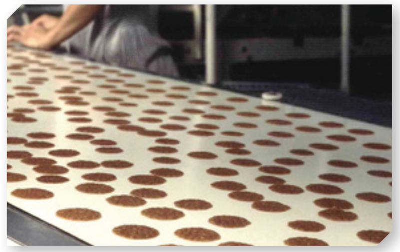
Belt Business

Net sales by business segment



FY2012
85%

Main products



Automotive power transmission belt products
Automotive power transmission belts and power transmission systems products, etc.

Industrial power transmission belt products
Belts and components used in multimedia, precision equipment, factory automation, etc.

Conveyor belts
Conveyor belts and systems products, related components, etc.

Key initiatives in BF-1

Strengthen initiatives to become No.1 in the Asian market

- Enhance existing production facilities (Thailand, Indonesia, etc.)
- Expand production at subsidiaries in emerging countries (India, Vietnam, etc.)
- Cultivate markets, with emphasis on China and the ASEAN region
- Develop markets in the Greater Mekong Subregion

Raise added value in key markets

- Provide belts and systems to automotive OEMs; provide belts and peripheral plastic products for two-wheel vehicles; and provide light-duty conveyor belts for food and package distribution

Key concepts:
environment, energy conservation, high-performance

- Expand products using the *eco moving* label; shift from single-function to multifunction products; provide modules combining core products and peripheral products

Significantly reduce the product defect rate in all products and manufacturing lines

Innovate cost competitiveness

- Improve productivity of resources, labor, and capital

Net sales and segment profit

	FY2012 Results
Net sales	¥72,142 million
Segment profit	¥4,344 million

Elastomer Products Business

Net sales by business segment

FY2012
15%

Main products

Components for printers and other electrophotographic output equipment
High-performance rollers, cleaning blades, engineering plastics products, etc.

High-performance film products
High-performance films and highly processed products used in construction materials, decorative displays, medical materials, industrial materials, daily living products, etc.

Key initiatives in BF-1

Raise added value in key markets

- Strategic products: Scraping function products, Medical films
- Strategic development products: Clean systems, Precision abrasives

Key concepts:
environment, energy conservation, high performance

- Expand products using the *eco moving* label

Create new businesses using the key concepts above

- Optoelectronics: Print electronics, Power electronics; Exterior, Interior materials; Display, Illumination
- Automotive and transportation: Power electronics; Exterior, interior materials
- Energy: Power electronics
- Robotics: Public welfare and nursing care

Net sales and segment loss

	FY2012 Results
Net sales	¥12,377 million
Segment loss	¥(163) million

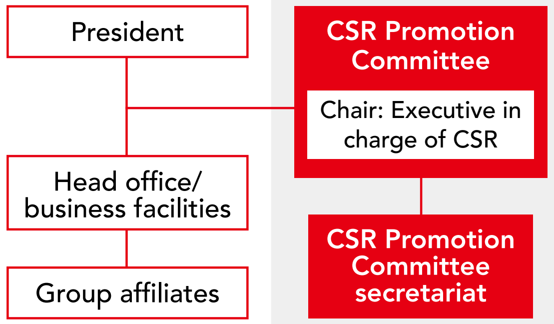
Basic Stance on Corporate Social Responsibility (CSR)

The Bando Group's stance on CSR lies in business activities rooted in the positive contributions it makes to people's lives and the development of society, which are embodied in the Group's management philosophy. In an effort to harmoniously coexist with stakeholders—customers, shareholders and investors, employees, business partners (including suppliers and retailers), and local communities—it is vital that we provide products and services that meet the needs of society while undertaking business activities that help preserve the global environment. The chief objective of the Group's CSR activities is to gain the trust of society, which is consistent with its corporate culture and in keeping with its obligations to stakeholders.

CSR Management

The Bando Group's CSR promotion system is led by the Company's CSR Promotion Committee.

Chaired by Bando's executive in charge of CSR, the CSR Promotion Committee decides on CSR policy for the entire Group, and monitors committees established for each CSR promotion theme as well as the CSR functions of individual departments. The Committee is also responsible for prioritizing issues, tracking the progress of CSR activities, promoting public information disclosure, and interacting with stakeholders.



CSR Promotion Themes and Major Achievements in Fiscal 2012

The Group engaged in various activities in line with six CSR promotion themes.

CSR promotion themes

Compliance/Business Ethics
Legal compliance and acting with integrity to gain the trust of society.
Legal Compliance Committee

The Environment
Work for environmental preservation by developing eco-friendly products and by being attentive to the environment in manufacturing practices.
Head Office Environment Committee; Manufacturing Planning Center Safety and Environmental Promotion Department

Quality
Provide safe and reliable products and services.
Manufacturing Planning Center, Quality Control Department

Major achievements

Compliance/Business Ethics:
- Held Code of Conduct workshops at affiliated companies
- Strengthened preventive measures against unauthorized website access and computer virus infection

The Environment:
- Developed two new *eco moving* products
- Reduced unit volume of waste generation by 4.4%
- Reduced unit volume of energy consumption by 1.0%
- Suppressed VOC gas emissions by 33.2%
- Installed a solar power generation system at the Nankai Plant
- Implemented biodiversity education and activities

Quality:
- Held an ASEAN QC Activities Convention
- Convened a product quality case study exhibition
- Improved quality through the use of barcodes

CSR promotion themes

Human Rights/Labor/Safety
Allow employee growth through their work, and provide safe, dynamic workplaces.
Head Office Health and Safety Committee; Human Resources Department; Manufacturing Planning Center, Safety and Environmental Promotion Department

Social Contribution
Recognize the importance of communication with society, individual contributions to the community, and company-wide contributions to society for environmental preservation.
General Administration Department

Information Disclosure
Timely and proper information disclosure to stakeholders.
Finance and Accounting Department; General Administration Department

Major achievements

Human Rights/Labor/Safety:
- Held mental health classes and walking activities
- Enhanced training programs for each career stage and position
- Health and safety education and installation of disaster simulation equipment (One work-related injury resulted in lost time during the fiscal year under review)

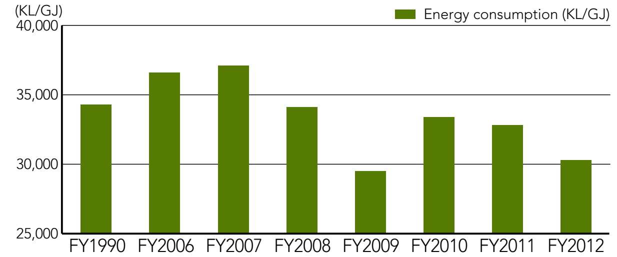
Social Contribution:
- Supported volunteer activities
- Participated in activities organized by local resident associations, and cleanup, public safety and disaster prevention initiatives
- Conducted tours of Company facilities

Information Disclosure:
- Convened procurement policy briefings
- Published periodic CSR reports and business reports, and provided information via the Group's websites
- Held investor relations briefings

Note: The tables below refer to Bando's domestic facilities in Japan.

Reduction of Energy Consumption

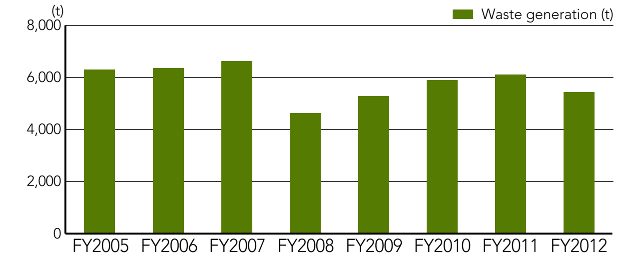
Energy consumption



In fiscal 2012, Bando switched from heavy oil/liquid petroleum gas to natural gas at the Ashikaga Plant and installed a solar power generation system at the Nankai Plant to serve as a renewable energy source.

Curtailment of Waste Generation

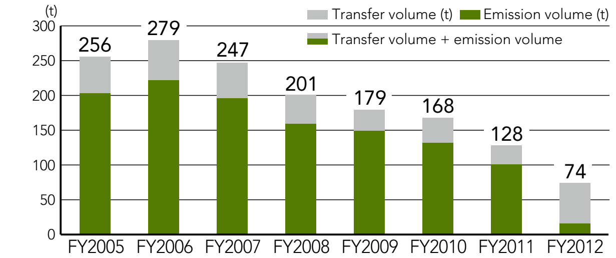
Waste generation



The Company's industrial waste largely consists of rubber and plastics. Since recycling rubber is difficult, Bando works to curtail the generation of this type of waste.

Emission and Transfer Volumes of PRTR Substances

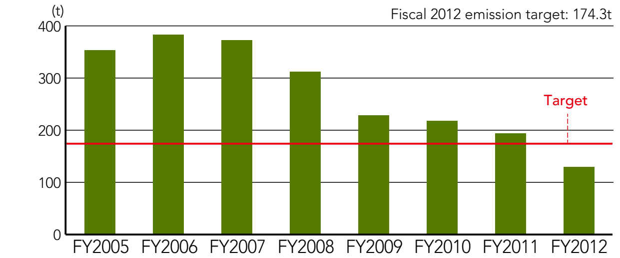
PRTR substance emission and transfer volumes



The Company is working to reduce the use and emission of chemical substances designated under PRTR (Pollutant Release and Transfer Register), search for alternatives, and steadily reduce their transfer.

Reduction of VOC Gas Emissions

VOC emission volume



Photochemical oxidants and suspended particulate matter are the main causes of VOCs (volatile organic compounds), and these emissions are regulated by the Clean Air Act. We achieved our fiscal 2012 goals to reduce VOC by 10% from fiscal 2011, update our VOC detoxification devices, and ensure proper VOC handling.

Environmental Accounting

The Company uses environmental accounting tools to determine and manage overall environmental costs, effectiveness, and volumes.

(¥ thousand)

Environmental Conservation Costs		Fiscal 2010 Capital investment	Fiscal 2010 Depreciation and amortization + personnel expenses + overhead	Fiscal 2011 Capital investment	Fiscal 2011 Depreciation and amortization + personnel expenses + overhead	Fiscal 2012 Capital investment	Fiscal 2012 Depreciation and amortization + personnel expenses + overhead	Main projects in fiscal 2012
Business area cost	Pollution control	3,812	63,402	8,009	44,195	7,387	68,024	Installed equipment and underground tanks, recovered oil separators
	Global environmental conservation	87,172	3,584	117,254	6,865	97,820	3,976	Solar power generation
	Resource recycling	101	226,637	3,855	183,159	0	172,594	Industrial waste treatment and disposal
Upstream/downstream cost		0	349	0	773	0	0	
Administration cost		0	22,065	0	27,384	0	11,231	Monitored and measured environmental burden, operated management systems
R&D cost		0	20,168	0	24,701	10,560	34,033	Developed products with reduced environmental burden
Social activity cost		0	17,185	0	12,588	168	9,590	Greening and beautification costs, environmental and social activities
Environmental remediation cost		0	0	0	737	0	0	
Total		91,086	353,390	129,118	299,665	115,936	299,448	

(¥ thousand)

Environmental conservation benefit	Fiscal 2010	Fiscal 2011	Fiscal 2012
Business area	42,710	68,983	51,195
Upstream/downstream	0	0	0
Other	90	133	247
Total	42,800	69,116	51,442

Installing a solar power generation system effectively reduced electricity.

Our Corporate Governance

Basic Stance on Corporate Governance

In order to improve corporate value, the actions of the Company are based on an adherence to the law and social norms as a member of society. In addition, the Company recognizes the importance of building positive relationships with customers (end users), current and potential investors, business partners, local communities and others. Accordingly, the Company focuses on ensuring sound, transparent and efficient management by enhancing its corporate governance system.

Board of Directors

The Company maintains a system centered on directors and corporate auditors to ensure management efficiency and to strengthen its audit and supervisory functions. The Company's Board of Directors consists of six directors, as of fiscal 2013, including one external director. The Board makes decisions concerning basic management policies, important management issues, and legally stipulated matters, as well as monitors the work performance of directors and corporate executive officers. As a rule, the Board meets once per month. In addition, the Company maintains a corporate executive officer system to improve operational efficiency and speed, and has established the Management Advisory Council to assist the president with management decisions. In the fiscal year ended March 31, 2013, the Board of Directors met 17 times, with the external director attending 100% of those meetings.

Board of Corporate Auditors

The Company has adopted a corporate auditor system. The Board of Corporate Auditors consists of four corporate auditors, including three external auditors, and meets monthly. The internal auditor and one external auditor serve on a full-time basis. All of the Company's corporate auditors attend Board of Directors' meetings and monthly management conferences. Moreover, the Board of Corporate Auditors assigns individual corporate auditors to attend various internal committee meetings and conduct hearings to determine the operational status of subsidiaries when deemed necessary. Through these and other actions, the corporate auditor system is able to fully monitor the performance of directors and corporate executive officers. In the fiscal year ended March 31, 2013, the Board of Corporate Auditors met 14 times, with the three external auditors attending 98% of those meetings.

Nominating Committee and Compensation Committee

Despite having no legal obligation under the Companies Act, the Company has established the Nominating Committee and Compensation Committee to serve as consultative bodies of the Board of Directors in an effort to further strengthen corporate governance. Decisions regarding director appointments and compensation are made by a resolution of the Board of Directors following deliberations by the Nominating and Compensation committees. In addition, these committees include the external director and external auditors who have been designated as independent executives to maintain a highly transparent system for making decisions about director nominations and compensation. In the fiscal year ended March 31, 2013, the total amount of director and corporate auditor compensation was as follows.

	Number of Persons	Total Compensation	Compensation Limit
Directors	7	¥106 million	¥240 million or less annually
Corporate auditors	4	¥54 million	¥7 million or less monthly
Total	11	¥161 million	

Notes:
1. Seven directors as of March 31, 2013 (including one external director)
2. Four corporate auditors as of March 31, 2013 (including three external auditors)
3. The total amount of external director and external auditor compensation listed above is as follows.
   One external director: ¥6 million
   Three external auditors: ¥34 million
4. The total amount of director compensation listed above includes performance-related salary based on the Company's performance-related salary criteria. However, in the fiscal year ended March 31, 2013, performance-related income was not paid since said criteria were not met.
5. In addition to the above-listed information, salaries and bonuses for employees who concurrently serve as directors are as follows.
   Four employee salaries: ¥81 million
   Four employee bonuses: ¥13 million

Internal Control

To meet the requirements stipulated in the Financial Instruments and Exchange Act pertaining to financial reporting performed by internal control reporting systems, the Bando Group maintains internal control in accordance with the basic frameworks for internal control outlined in Financial Services Agency criteria, and undertakes evaluations and reporting as defined by said criteria. The Company will work to further improve the effectiveness of internal control primarily through the Internal Control Promotion Office and based on the four objectives of internal control: (1) reliability of financial reporting, (2) operational effectiveness and efficiency, (3) legal compliance regarding business activities, and (4) asset protection.

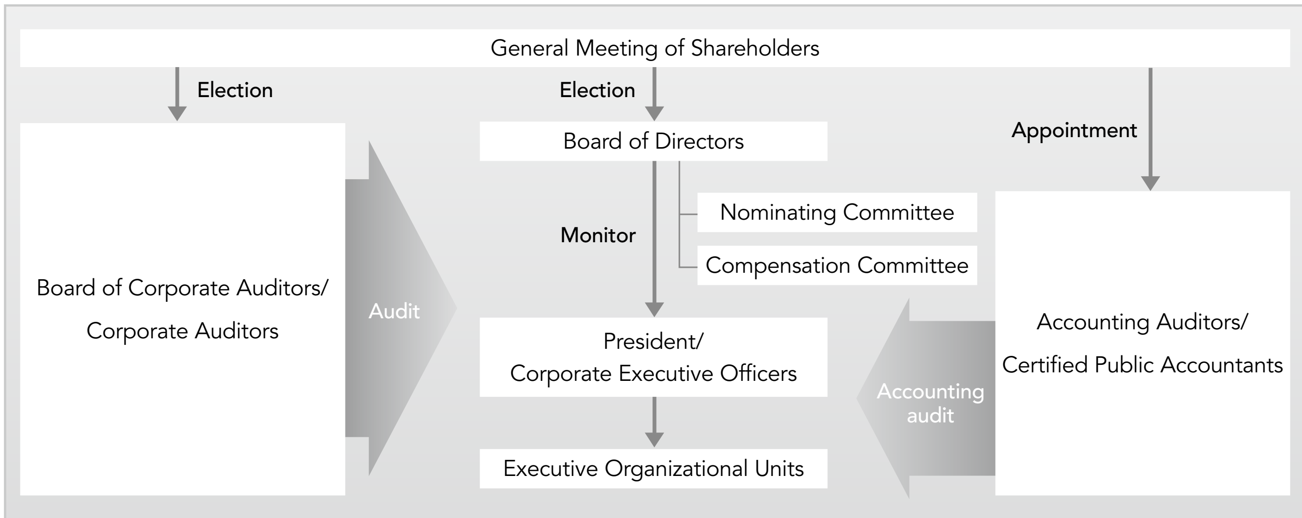
Basic Stance on the Elimination of Antisocial Forces

The Group takes stringent measures to eliminate antisocial forces by investigating prospective business partners prior to commencing new transactions based on relevant Group policies and the Bando Group Code of Conduct, which stresses the overriding importance of adhering to the law and corporate ethics. In addition, the Group maintains an internal reporting system to thoroughly raise awareness of the necessity of avoiding any actions that are illegal or contrary to corporate ethics. In the event that a business partner is revealed to be an antisocial organization, the Group will immediately dissolve its relationship with this organization.

Compliance Promotion

The Group has formulated and distributes to all Group executives and employees the Bando Group Code of Conduct, which stipulates proper actions in such areas as "compliance with laws and corporate ethics," "product and service safety," "honest and fair business activities," and "fair and equitable procurement transactions." In addition, the Group works to raise awareness of compliance by designating

Management organization and corporate governance



October as the Bando Group Corporate Ethics Month, conducting training sessions on the Bando Group Code of Conduct at Company business facilities or domestic and overseas affiliates every other year, and providing opportunities to discuss these topics internally. Moreover, the Group has established a system to further promote compliance by adopting an internal reporting system that includes external lawyers as well as a service for providing information on the formulation, revision and abolition of relevant laws.

Internal Audits

The Company has established the Internal Audit Department, an independent organization that is staffed by three people reporting directly to the president. The Internal Audit Department implements systematic and comprehensive internal audits (which include the internal control system) of all departments as well as domestic and overseas affiliates. Accompanied by corporate auditors, the Internal Audit Department conducts on-site audits within the Company and at affiliates, the results of which are reported to the president, directors and auditors.

Information Disclosure

The Company promotes fair and highly transparent management by disclosing important information in an appropriate and timely manner to shareholders and all other stakeholders.

The Company maintains PR functions that include timely information disclosure by the General Administration Department. In addition, the Company has established a system to facilitate the timely disclosure of information to stock exchanges and discloses such information on the Company website.

Management (As of June 25, 2013)

Board of Directors

Chairman:
Akio Ogura

Vice Chairman:
Kazuyoshi Tani

President and Representative Director:
Mitsutaka Yoshii

Director:
Masao Ohara

Director:
Shinji Kashiwada

External Director:
Yutaka Kato

Corporate Auditors

External Auditor: (full-time)	Hiroshi Kii
Auditor:	Shinichiro Miyamoto
External Auditors:	Keizo Ogawa
	Toru Tada

Corporate Executive Officers

President:	Mitsutaka Yoshii
Senior Executive Officers:	Masao Ohara
	Keiji Iwai
	Yoshihisa Tamagaki
	Masayuki Kitabayashi
	Hisashi Samejima
Executive Officers:	Yoshitaka Oshima
	Kyosuke Nakamura
	Shinji Kashiwada
	Joseph David Laudadio
	Katsuhiko Hata
	Katsuya Yamaguchi

Financial Review

Management's Discussion and Analysis of Operating Results and Financial Position

Operating Environment

During the fiscal year ended March 31, 2013, the global economy showed a stronger tendency towards stagnation overall, despite indications of a gradual economic recovery in the United States. These economic conditions were mainly attributable to negative growth in Europe caused by the European sovereign debt crisis, particularly in Greece, and a slowing of economic expansion in China, India and numerous other emerging countries in Asia.

In Japan, signs of an economic recovery began to appear following the change in government in December 2012, which included a weakening of excessively high yen rates and an improvement in export conditions. Nevertheless, harsh conditions prevailed throughout the fiscal year under review due largely to the global economic slowdown, the persistently strong yen until 2012, and a decrease in exports triggered by friction in Japan-China relations.

Business Overview

Under these circumstances, the Bando Group aggressively implemented various initiatives to achieve its management objectives based on fundamental strategies established in the mid-term business plan, "DOING MORE on the new frontier 2nd stage" (April 2010–March 2013), which concluded in fiscal 2012. Aiming to expand sales in growth markets centered on emerging countries, we promoted production capacity enhancements primarily in Asia and focused on expanding sales in China, India, and the ASEAN region. At the same time, the Group undertook measures to strengthen profitability and global cost competitiveness, such as reducing defects and production loss; improving productivity; and integrating specifications and undertaking value analysis/value engineering (VA/VE) activities to curb materials costs.

Operating Results

In the fiscal year ended March 31, 2013, consolidated net sales amounted to ¥85,772 million, nearly on par with the previous fiscal year. Operating income decreased 10.4% year on year to ¥4,095 million in spite of efforts to reduce costs. This result was due mainly to slightly lower sales coupled with higher raw material prices.

Net income jumped 74.3% year on year to ¥2,510 million chiefly thanks to the recording of foreign exchange gains from the weakening of the yen and a decline in extraordinary loss.

Operating Results by Business Segment

▶ Power Transmission Business

In automotive power transmission belt products, although sales of accessory drive power transmission belts fell, sales rose for such accessory drive power transmission systems as automatic tensioners and the BANDO SMOOTH COUPLER (pulleys with a built-in one-way clutch), backed by higher demand in Asia.

In industrial power transmission belt products, sales of V belts used in industrial machinery decreased in Japan and North America but rose in Asia owing to expanded marketing activities in growth markets.

Segment net sales increased 2.7% year on year to ¥55,029 million, but segment profit decreased 17.9% to ¥3,460 million.

▶ Multimedia Parts Business

Despite market releases of new products, sales of blades, precision belts, and other products fell as a result of shrinking markets for printers and other electrophotographic output devices, mainly reflecting economic stagnation in Europe.

Segment net sales decreased 12.9% year on year to ¥7,856 million, while segment loss stood at ¥179 million, compared with a segment loss of ¥518 million in the previous fiscal year.

In light of deteriorating market conditions, the Company recorded an impairment loss on fixed assets held by the Ashikaga Plant, which manufactures products in the Multimedia Parts business segment. Consequently, the Company posted an extraordinary loss of ¥852 million. The Company will further restructure this business segment in the future.

▶ Industrial Products Business

Although sales increased for steep-incline conveyor belts used in thermal power plants as well as other types of conveyor belts, sales of railway track-related products fell.

Segment net sales decreased 2.3% year on year to ¥17,252 million, but segment profit surged 85.3% to ¥891 million thanks to efforts to improve the profitability of conveyor belts.

▶ Plastics Products Business

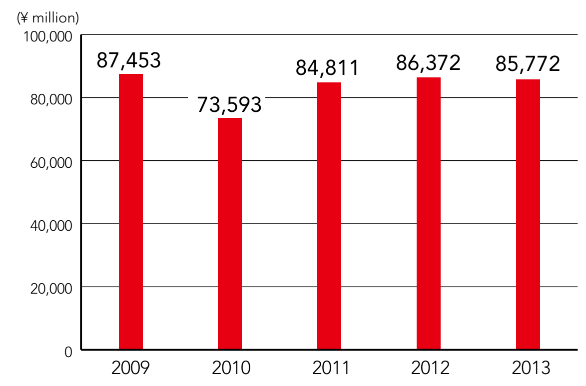
Sales of medical and industrial films declined primarily because of a fall in overseas sales by customers, reflecting the ongoing strength of the yen during the first half of the fiscal year under review.

Segment net sales decreased 8.1% year on year to ¥4,525 million, and segment profit dropped 87.1% to ¥16 million.

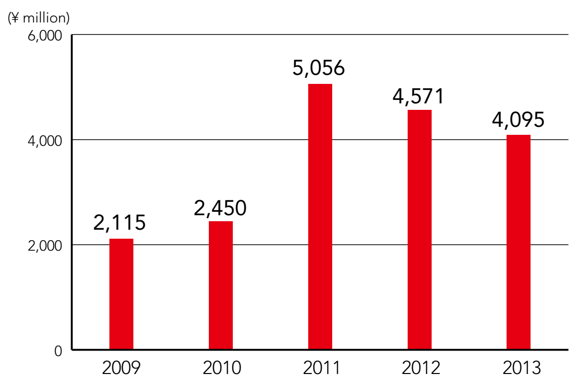
▶ Other Business

The Company engages in new businesses such as the manufacture and sale of metal nanoparticles, as well as robot-related devices. Segment net sales decreased 16.8% year on year to ¥1,494 million, and segment profit fell 28.1% to ¥73 million.

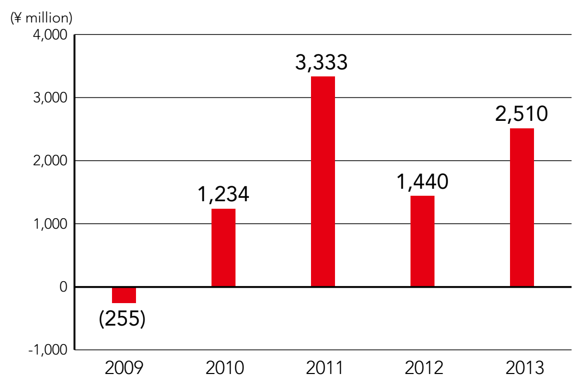
Net sales*



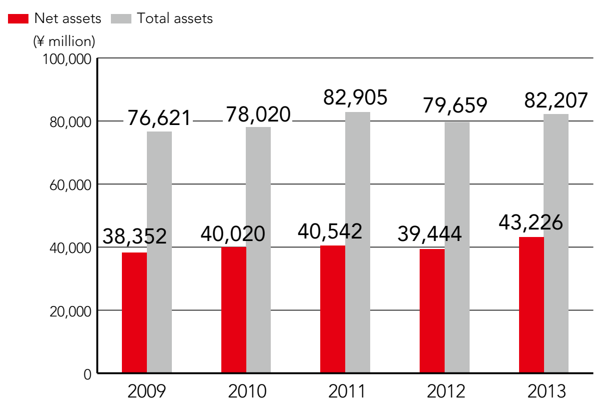
Operating income*



Net income or loss*



Net assets
Total assets*



* Fiscal year endings are March 31.

Financial Position

Total assets as of March 31, 2013 increased ¥2,547 million compared with the previous fiscal year-end to ¥82,207 million largely due to upswings in cash and deposits, and investment securities. Total liabilities decreased ¥1,233 million compared with the previous fiscal year-end to ¥38,981 million because of such factors as a fall in notes and accounts payable—trade. Net assets rose ¥3,781 million from the previous fiscal year-end to ¥43,226 million. This was primarily attributable to higher retained earnings accompanying the posting of net income as well as lower foreign currency translation adjustment (debit balance). Consequently, the equity ratio increased 3.6 percentage points from the previous fiscal year-end to 52.0%.

Capital Investment and Fund Procurement

Capital investment undertaken in the fiscal year ended March 31, 2013 totaled ¥5,052 million. Major capital investment items are shown below. The financing required for this capital investment was obtained from the following sources: the Company's own funds, the liquidation of notes and accounts receivable—trade, and borrowings.

Business Segment	Amount (¥million)	Main Activities
Power Transmission	¥3,323	Installed new and expanded existing manufacturing equipment, upgraded molds
Multimedia Parts	389	Streamlined and improved the efficiency of manufacturing equipment
Industrial Products	326	Upgraded existing and installed new manufacturing equipment
Plastics Products	235	Improved manufacturing processes
Other	778	Introduced Enterprise Resource Planning (ERP) systems at affiliates and a solar power generation system
Total	¥5,052	

Cash Flow

Net cash provided by operating activities was ¥7,004 million, up from ¥6,595 million provided in the previous fiscal year, with the recording of income before income taxes and minority interests of ¥3,541 million, and depreciation and amortization of ¥4,389 million. Net cash used in investing activities was ¥5,781 million, up from ¥4,768 million used in the previous fiscal year, primarily due to outflows totaling ¥4,280 million for the purchase of property, plant and equipment. Net cash used in financing activities was ¥463 million, down from ¥4,363 million used in the previous fiscal year, largely reflecting cash dividends paid by the Company totaling ¥761 million.

As a result, cash and cash equivalents as of March 31, 2013 totaled ¥12,267 million, up ¥1,245 million compared with the previous fiscal year-end.

Basic Policy regarding the Distribution of Profits

The Company's basic policy is to enhance profits and maintain stable dividend payments for shareholders while taking into consideration its earning position. In addition, distribution of profits is based on an examination of total shareholder returns, including share repurchases. Internal reserves are invested over the long term in such areas as R&D; new product, production technology and market development; the strengthening of business structure; internationalization; and the expansion into new business domains. Through these initiatives, we will work to further increase corporate value. In line with this basic policy, the annual dividend for the fiscal year ended March 31, 2013 was ¥8 per share, unchanged from the previous fiscal year.

Business Risks

Risks that could potentially impact the performance and financial position of the Bando Group are listed below. The forward-looking statements listed in this document are based on judgments made by the Group as of March 31, 2013.

Increasing Overseas Transactions

The Group primarily uses foreign exchange contracts to hedge the risks associated with the significant number of foreign currency receivables it currently carries and will implement other appropriate measures to hedge against such risks in the future. Nevertheless, the Group's performance could be adversely affected by fluctuations in foreign currency exchange rates.

In addition, the Group's performance and financial position could be adversely affected by changes in economic conditions in individual regions despite efforts to strengthen its overseas production and sales systems.

Recalls

As a components manufacturer, the Company delivers items to automotive, office automation equipment, consumer product and other manufacturers. In addition, its subsidiaries and affiliates mainly manufacture, process and sell these parts. Considering product quality to be of paramount importance for maintaining and developing current business operations, the Group focuses on implementing various initiatives to ensure product quality to the maximum extent possible. However, recalls and other actions could arise in cases where defects in automobiles and other items are caused by products (components) supplied by the Group.

In such cases, the Group will likely be required to cover all obligatory legal or contractual costs of recalls and other actions, which could adversely affect the Group's performance.

Raw Material Market Fluctuations and Procurement

The Group negotiates with business partners regarding delivery dates and prices by closely examining market prices as well as supply-demand circumstances. The Group forecasts further increases in raw material prices accompanying higher crude oil prices. Accordingly, the Group promotes research on alternative materials to stabilize supply and demand; revises and increases product prices in response to rising raw material prices; and strengthens measures to reduce overall costs. Nevertheless, the Group's performance could be adversely affected by a downturn in demand, a backlog in supply, or prolonged increases in material and/or fuel prices that exceed expectations.

Earthquakes and Other Natural Disasters

There are indications that a major earthquake could occur in the Tokai, Tonankai or Nankai regions of Japan. In addition, the potential for typhoons and floods exists. In the event of such a disaster, business sites including the Nankai Plant could sustain damage to production or other facilities, potentially leading to a temporary cessation of operations. Accordingly, each of the Company's four plants has formulated a business continuity plan (BCP) based on the assumption that it could be damaged under such circumstances. The BCPs include undertaking system upgrades to minimize disruptions to operations, notably the formulation of repair plans and the supplementary supply of products by overseas plants. Nevertheless, the Group's performance could be significantly impacted depending on the size of the disaster.

Consolidated Balance Sheets

Bando Chemical Industries, Ltd. and Consolidated Subsidiaries
March 31, 2013 and 2012

Assets	Millions of yen 2013	Millions of yen 2012	Thousands of U.S. dollars (Note 4) 2013
Current Assets:			
Cash and cash equivalents (Note 7)	¥12,267	¥11,022	$ 130,487
Time deposits (Note 7)	226	99	2,408
Notes and accounts receivable (Note 7):			
Trade	16,912	17,496	179,896
Other	1,150	1,090	12,228
Allowance for doubtful accounts	(29)	(30)	(308)
Inventories (Note 6)	10,460	9,896	111,261
Deferred tax assets (Note 12)	231	363	2,454
Other current assets	657	588	6,983
Total Current Assets	41,873	40,522	445,410
Property, Plant and Equipment:			
Land	6,261	6,865	66,597
Buildings and structures	23,979	24,467	255,071
Machinery and equipment	48,767	48,829	518,748
Construction in progress	3,273	1,562	34,815
Other	12,044	12,244	128,112
	94,324	93,968	1,003,343
Accumulated depreciation	(65,890)	(65,583)	(700,887)
Property, Plant and Equipment, Net	28,434	28,385	302,456
Other Assets:			
Other intangible assets	1,112	1,270	11,826
Investments in securities (Notes 7 and 8)	5,052	4,067	53,734
Investments in affiliates (Note 7)	3,994	3,305	42,483
Deferred tax assets (Note 12)	543	879	5,773
Other — net	1,200	1,231	12,767
Total Other Assets	11,900	10,752	126,583
Total	¥82,207	¥79,659	$ 874,450

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen 2013	Millions of yen 2012	Thousands of U.S. dollars (Note 4) 2013
Current Liabilities:			
Short-term borrowings (Notes 7 and 10)	¥ 2,285	¥ 2,072	$ 24,305
Current portion of long-term debt (Notes 7 and 10)	2,864	2,702	30,462
Notes and accounts payable (Note 7):			
Trade	14,803	16,160	157,458
Construction and other	2,985	2,542	31,757
Income taxes payable	349	359	3,710
Other current liabilities (Note 12)	2,860	2,869	30,417
Total Current Liabilities	26,145	26,704	278,109
Long-term Liabilities:			
Long-term debt (Notes 7 and 10)	10,626	9,857	113,030
Allowance for employees' retirement benefits (Note 11)	2,008	2,154	21,359
Other long-term liabilities (Note 12)	202	1,500	2,154
Total Long-term Liabilities	12,836	13,511	136,543
Commitments (Note 16)			
Net Assets (Note 13):			
Common stock			
Authorized: 378,500,000 shares			
Issued 2012 — 96,427,073 shares			
Issued 2013 — 94,427,703 shares	10,952	10,952	116,498
Capital surplus	2,968	3,537	31,573
Retained earnings	31,920	30,171	339,538
Treasury stock, at cost			
2012 — 497,936 shares			
2013 — 315,201 shares	(90)	(161)	(954)
Total Shareholders' Equity	45,750	44,499	486,654
Accumulated other comprehensive income			
Unrealized gain on available-for-sale securities	1,107	476	11,774
Foreign currency translation adjustments	(4,082)	(6,415)	(43,423)
Total Accumulated Other Comprehensive Income	(2,975)	(5,939)	(31,649)
Minority interests	451	885	4,793
Total Net Assets	43,226	39,444	459,798
Total Liabilities and Net Assets	¥82,207	¥79,659	$874,450

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Bando Chemical Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 4)
Consolidated Statements of Income	2013	2012	2013
Net Sales	¥85,772	¥86,372	$912,369
Cost of Sales	63,311	63,132	673,448
Gross profit	22,461	23,240	238,920
Selling, General and Administrative Expenses (Note 14)	18,366	18,669	195,363
Operating income	4,095	4,571	43,558
Other Income (Expenses):			
Interest and dividend income	163	172	1,738
Interest expense	(264)	(304)	(2,813)
Equity in earnings of affiliates	528	560	5,616
Foreign exchange gains (losses), net	437	(335)	4,645
Gain on sales of property, plant and equipment	5	13	53
Loss on disposal of property, plant and equipment	(112)	(322)	(1,187)
Loss on sales of property, plant and equipment	(4)	(652)	(42)
Loss on impairment of fixed assets (Note 19)	(1,157)	(756)	(12,309)
Other, net	(150)	(177)	(1,596)
	(554)	(1,802)	(5,895)
Income before income taxes and minority interests	3,541	2,769	37,663
Income Taxes (Note 12):			
Current	833	1,069	8,863
Prior years	—	99	—
Deferred	149	119	1,584
	982	1,287	10,446
Income before minority interests	2,559	1,483	27,218
Minority Interests	49	42	516
Net Income	¥ 2,510	¥ 1,440	$ 26,702

	Yen		U.S. dollars (Note 4)
	2013	2012	2013
Per Share of Common Stock (Note 15)			
Basic net income	¥26.47	¥14.84	$0.28
Cash dividends	8.00	8.00	0.09

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 4)
Consolidated Statements of Comprehensive Income	2013	2012	2013
Income before Minority Interests	¥2,559	¥1,483	$27,217
Other Comprehensive Income (Note 17):			
Unrealized gains (losses) on available-for-sale securities	636	94	6,769
Foreign currency translation adjustments	2,039	(1,082)	21,690
Share of other comprehensive income in affiliates	322	(197)	3,430
Total other comprehensive income	2,998	(1,186)	31,889
Comprehensive Income	¥5,557	¥ 297	$59,106
Comprehensive Income Attributable to:			
Shareholders of the parent	¥5,474	¥ 267	$58,230
Minority interests	82	30	876

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Bando Chemical Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

	Thousands of shares	Millions of yen							
	Number of shares of common stock outstanding	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gain on available-for-sale securities	Foreign currency transaction adjustments	Minority interests	Total net assets
Balance at April 1, 2011	99,927	¥10,952	¥4,682	¥29,514	¥ (703)	¥ 380	¥(5,147)	¥865	¥40,543
Net income	—	—	—	1,440	—	—	—	—	1,440
Cash dividends	—	—	—	(784)	—	—	—	—	(784)
Purchases of treasury stock	—	—	—	—	(603)	—	—	—	(603)
Sales of treasury stock	—	—	(0)	—	0	—	—	—	0
Retirement of treasury stock	(3,500)	—	(1,145)	—	1,145	—	—	—	—
Net change during the year	—	—	—	—	—	96	(1,268)	20	(1,152)
Balance at March 31, 2012	96,427	10,952	3,537	30,171	(161)	476	(6,415)	885	39,444
Net income	—	—	—	2,510	—	—	—	—	2,510
Cash dividends	—	—	—	(761)	—	—	—	—	(761)
Purchases of treasury stock	—	—	—	—	(498)	—	—	—	(498)
Sales of treasury stock	—	—	—	—	—	—	—	—	—
Retirement of treasury stock	(2,000)	—	(569)	—	569	—	—	—	—
Net change during the year	—	—	—	—	—	631	2,333	(434)	2,530
Balance at March 31, 2013	94,427	¥10,952	¥2,968	¥31,920	¥ (90)	¥1,107	¥(4,082)	¥451	¥43,226

	Thousands of U.S. dollars (Note 4)							
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gain on available-for-sale securities	Foreign currency transaction adjustments	Minority interests	Total net assets
Balance at March 31, 2012	$116,498	$37,626	$320,929	$(1,713)	$ 5,063	$(68,242)	$9,410	$419,571
Net income	—	—	26,700	—	—	—	—	26,700
Cash dividends	—	—	(8,091)	—	—	—	—	(8,091)
Purchases of treasury stock	—	—	—	(5,294)	—	—	—	(5,294)
Sales of treasury stock	—	—	—	—	—	—	—	—
Retirement of treasury stock	—	(6,053)	—	6,053	—	—	—	—
Net change during the year	—	—	—	—	6,711	24,819	(4,617)	26,913
Balance at March 31, 2013	$116,498	$31,573	$339,538	$ (954)	$11,774	$(43,423)	$4,793	$459,798

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Bando Chemical Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥ 3,541	¥ 2,769	$ 37,663
Adjustments for:			
Income taxes paid	(1,131)	(1,975)	(12,028)
Income taxes refunded	202	—	2,144
Depreciation and amortization	4,389	4,804	46,683
Amortization of goodwill and negative goodwill	(59)	31	(626)
Loss on impairment of fixed assets	1,157	756	12,309
Decrease in allowance for doubtful accounts	(10)	(20)	(106)
Increase (decrease) in allowance for retirement benefits	(164)	19	(1,741)
Foreign exchange losses (gains), net	(103)	89	(1,094)
Equity in earnings of affiliates	(528)	(560)	(5,616)
Loss on sales and disposal of property, plant and equipment	111	962	1,176
Changes in assets and liabilities:			
Decrease (increase) in notes and accounts receivable — trade	1,341	(1,618)	14,262
Increase (decrease) in inventories	8	(1,256)	88
Increase (decrease) in notes and accounts payable — trade	(2,103)	2,910	(22,373)
Decrease (increase) in notes and accounts receivable — other	136	(186)	1,451
Other, net	217	(132)	2,315
Net Cash Provided by Operating Activities	7,004	6,595	74,507
Cash Flows from Investing Activities:			
Decrease (increase) in time deposits	(81)	987	(861)
Purchases of property, plant and equipment	(4,280)	(5,576)	(45,527)
Proceeds from sales of property, plant and equipment	492	136	5,234
Purchases of intangible assets	(299)	(255)	(3,183)
Purchases of investments in securities	(50)	(13)	(534)
Purchases of investments in subsidiaries	(457)	—	(4,859)
Payments related to disposal of investments in subsidiaries resulting in change in scope of consolidation (Note 5)	(1,077)	—	(11,454)
Other, net	(29)	(48)	(309)
Net Cash Used in Investing Activities	(5,781)	(4,768)	(61,494)
Cash Flows from Financing Activities:			
Decrease in short-term borrowings	(41)	(3,504)	(432)
Proceeds from long-term borrowings	3,541	3,317	37,662
Payments on long-term borrowings	(2,682)	(5,745)	(28,524)
Proceeds from issuance of bonds	—	2,978	—
Purchases of treasury stock	(497)	(602)	(5,286)
Cash dividends paid	(761)	(784)	(8,091)
Cash dividends paid to minority shareholders	(10)	(10)	(110)
Other, net	(13)	(12)	(141)
Net Cash Used in Financing Activities	(463)	(4,363)	(4,922)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	484	(315)	5,152
Net Increase (Decrease) in Cash and Cash Equivalents	1,245	(2,851)	13,242
Cash and Cash Equivalents at Beginning of Year	11,022	13,873	117,244
Cash and Cash Equivalents at End of Year	¥12,267	¥11,022	$130,487

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Bando Chemical Industries, Ltd. and Consolidated Subsidiaries

1. Description of Business

Bando Chemical Industries, Ltd. (hereinafter, the "Company") is a pioneer belt manufacturer in Japan. The Company manufactures and sells power transmission belts for automobiles, industrial machines, agricultural machines, home appliances and information terminal devices, heavy and light duty conveyor belts, products for office automation and household appliances and films for a variety of markets.

2. Basis for Preparation 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 Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made to the prior year's financial statements to conform to the current year's presentation.

3. Summary of Significant Accounting Policies

(1) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 27 subsidiaries (collectively, the "Companies") as of March 31, 2013 and 2012. Investments in 7 affiliates, on which the Company has significant influence, are accounted for by the equity method as of March 31, 2013 and 2012.

The overseas consolidated subsidiaries have a year-end of December 31. Adjustments have been made for preparing the consolidated financial statements to reflect significant transactions which occurred between their year end and that of the Company.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profits included in assets resulting from transactions within the Companies are eliminated.

(2) Foreign currency transactions

All monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing at the balance sheet date. The foreign currency exchange gains or losses from transactions are charged to income.

Assets and liabilities of the overseas subsidiaries are translated into Japanese yen at the exchange rate prevailing at each balance sheet date. Differences arising from such translations are recorded as foreign currency translation adjustments and minority interests in the consolidated balance sheet. Income and expense accounts are translated at the average exchange rate for the year.

(3) Cash and cash equivalents

Cash and cash equivalents primarily consist of cash on hand and in banks, and other highly liquid investments with original maturities of three months or less.

(4) Allowance for doubtful accounts

Allowance for doubtful accounts is provided at the amounts calculated based on the past loss experience and an additional estimate of potential losses in the specific receivables.

(5) Inventories

Finished goods, work in process and raw materials are stated at the lower of cost or net selling value with cost determined by the first-in, first-out method. Merchandise and supplies are stated at the lower of cost or net selling value with cost determined by the gross average method.

Meanwhile, inventories held by domestic consolidated subsidiaries are stated at the lower of cost determined principally by the gross average method or net selling value. Inventories held by overseas consolidated subsidiaries are stated at the lower of cost determined mostly by the first-in, first-out method or net selling value.

(6) Investments in securities

Investments in securities are classified into three categories: trading securities, held-to-maturity debt securities or available-for-sale securities. Trading securities are carried at fair value. Gain or loss, both realized and unrealized, is recognized in income. Held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as available-for-sale securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, reported in net assets. Non-marketable securities classified as available-for-sale securities are carried at cost determined by the moving-average method.

(7) Property, plant and equipment

Property, plant and equipment are depreciated principally by the declining-balance method over their estimated useful lives. Buildings acquired on or after April 1, 1998 by the Company and its domestic consolidated subsidiaries are depreciated by the straight-line method over their estimated useful lives. Useful lives are as follows: three to 50 years for buildings and structures, and five to ten years for machinery and equipment.

(8) Goodwill

Goodwill represents the cost in excess of fair value of net assets acquired in business combination accounted for by the purchase method. Goodwill is amortized over five years by the straight-line method. Negative goodwill which occurred before March 31, 2010 is amortized over five years by the straight-line method.

(9) Other intangible assets

Capitalized computer software costs for internal use are amortized by the straight-line method over five years.

(10) Research and development costs

Research and development costs are charged to income as incurred.

(11) Leases

Leased assets under finance leases which do not transfer ownership to the lessee are capitalized and depreciated or amortized by the straight-line method with no residual value over their lease terms.

(12) Retirement benefits

Employees serving the Company and certain of its consolidated subsidiaries are generally entitled to retirement benefits determined by reference to current basic rates of pay, length of service and conditions under which the terminations occur. The Companies principally account for allowance for retirement benefits based on projected benefit obligations and plan assets at each balance sheet date.

Prior service cost is amortized by the straight-line method over ten years from the year in which they arise.

Actuarial gain or loss is amortized by the straight-line method over ten years from the next year in which they arise.

(13) Income taxes

The provision for income taxes is computed based on income before income taxes in the consolidated statements of income. The liability method is used to recognize deferred tax assets and liabilities for the future tax consequences of the temporary differences between the carrying amounts of assets and liabilities for financial and income tax reporting purposes. The Companies provide a valuation allowance when they believe that tax assets are not recoverable based on expected future taxable income.

(14) Derivatives and hedging activities

The Companies use derivative financial instruments to manage their exposures to changes in foreign currency exchange rates and interest rates. Foreign currency forward contracts are used to reduce foreign exchange risk. Interest rate swap contracts are used to reduce interest rate risk. The Companies do not enter into derivatives for trading or speculative purpose.

If derivatives are used for hedging purpose and qualify for hedge accounting, gains or losses on derivatives are deferred until maturity of hedged items. If the foreign currency forward contracts qualify for hedge accounting, the hedged receivables and payables denominated in foreign currencies are translated at the contracted rates. The interest rate swap contracts which qualify for hedge accounting and meet certain hedging criteria are not measured at market value, but the differential paid or received under the swap contracts is recognized and included in interest expense.

(15) Per share information

Net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the year.

Cash dividends per share presented in the consolidated statements of income are dividends attributable to the respective years including dividends to be paid after the year-end.

(16) Accounting standards that have not been adopted by the Company

Effective from the consolidated fiscal year beginning on April 1, 2013, the Company and its domestic consolidated subsidiaries will adopt "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No. 26, issued on May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on May 17, 2012). The effects of adopting these accounting standards are currently under examination.

4. U.S. Dollar Amounts

The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan. These translations should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into U.S. dollars.

The rate of ¥94.01 = U.S.$1.00, the approximate rate of exchange as at March 31, 2013, has been used for the purpose of such translations.

5. Cash Flow Information

Major components of assets and liabilities of the company which is no longer a consolidated subsidiary as a result of the disposal of the shares during the year ended March 31, 2013

Major assets and liabilities of Nishihyogo Kaihatsu Co., Ltd. at the time of sale of the shares, selling price of the shares and cash outflow due to sale are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 1,313	$ 13,963
Fixed assets	174	1,851
Current liabilities	(13)	(133)
Long-term liabilities	(1,265)	(13,458)
Other	11	117
Selling price	220	2,340
Cash and cash equivalents	(1,297)	(13,794)
Cash outflow due to sale	¥(1,077)	$(11,454)

6. Inventories

Inventories held by the Companies as of March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Merchandise and finished goods	¥ 6,569	¥6,499	$ 69,880
Work in process	1,424	1,382	15,151
Raw materials and supplies	2,466	2,015	26,230
Total	¥10,460	¥9,896	$111,261

7. Financial Instruments

(1) Policy for financial instruments

The Companies raise funds from stable and low-cost financing sources, mainly bank borrowings and bonds, as needed in light of the financial plan developed as a part of the annual management plan. The Companies invest temporary cash surplus in highly liquid and secured financial instruments. The Companies use derivatives to the extent necessary for financial risk management purposes.

(2) Nature and extent of risks arising from financial instruments

Receivables such as notes and accounts receivable-trade are exposed to customers' credit risk. Receivables denominated in foreign currencies are exposed to foreign exchange risk.

Investments in securities, mainly equity instruments, are exposed to market risk. The Companies quarterly review fair values of marketable securities.

Payables such as notes and accounts payable-trade are generally paid within four months. Payables denominated in foreign currencies are exposed to foreign exchange risk.

Bank borrowings and bonds are used to fund working capital and capital expenditures. Some of them are exposed to interest rate risk. The Companies reduce such risk arising from certain long-term borrowings by interest rate swap contracts.

Derivatives include foreign currency forward contracts used to hedge foreign exchange risk on receivables and payables denominated in foreign currencies, and interest rate swap contracts used to hedge interest rate risk on bank borrowings. Hedging instruments, hedged items, hedge policy, assessment method for hedge effectiveness and other matters related to hedge accounting are described in Note 3 (14), "Derivatives and hedging activities."

(3) Risk management for financial instruments

(a) Credit risk management

The Companies regularly monitor the financial position of customers to reduce the risk of defaults.

Since the Companies enter into derivative transactions only with highly-rated financial institutions, they believe there is little risk of defaults.

(b) Market risk management

The Companies use foreign currency forward contracts to hedge foreign exchange risk identified by currency and month for receivables and payables denominated in foreign currencies. With respect to investments in securities, the Companies regularly monitor fair values and the financial positions of the issuers and review the holding purpose of these securities.

(c) Liquidity risk management in financing activities

The Companies prepare and update the cash management plan in a timely manner, and maintain a certain level of liquidity on hand to reduce liquidity risk. The Companies have commitment line contracts to prepare for any contingency.

(4) Fair values of financial instruments

Fair values of financial instruments include market prices and values calculated reasonably when market prices are not readily available. As calculation of such value incorporates variable factors, using different assumptions may result in different values.

Book values and fair values of the financial instruments as of March 31, 2013 and 2012 were as follows:

Financial instruments whose fair values were not readily available were excluded from the following table:

	Millions of yen		
	2013		
	Book value	Fair value	Difference
Cash and cash equivalents	¥12,267	¥12,267	¥—
Time deposits	226	226	—
Notes and accounts receivable-trade	16,912	16,912	—
Investments in securities			
Available-for-sale securities	4,816	4,816	—
Total	¥34,221	¥34,221	¥—
Notes and accounts payable-trade	¥14,803	¥14,803	¥—
Short-term borrowings	2,285	2,285	—
Income taxes payable	349	349	—
Long-term borrowings	10,462	10,503	40
Bonds	3,000	3,028	28
Total	¥30,898	¥30,967	¥68
Derivative transactions			
Contracts to which hedge accounting was not applied	¥ (15)	¥ (15)	¥—
Contracts to which hedge accounting was applied	—	—	—

	Millions of yen		
	2012		
	Book value	Fair value	Difference
Cash and cash equivalents	¥11,022	¥11,022	¥—
Time deposits	99	99	—
Notes and accounts receivable-trade	17,496	17,496	—
Investments in securities			
Available-for-sale securities	3,832	3,832	—
Total	¥32,449	¥32,449	¥—
Notes and accounts payable-trade	¥16,160	¥16,160	¥—
Short-term borrowings	2,072	2,072	—
Income taxes payable	359	359	—
Long-term borrowings	9,524	9,593	69
Bonds	3,000	3,005	5
Total	¥31,115	¥31,189	¥74
Derivative transactions			
Contracts to which hedge accounting was not applied	¥ —	¥ —	¥—
Contracts to which hedge accounting was applied	—	—	—

	Thousands of U.S. dollars		
	2013		
	Book value	Fair value	Difference
Cash and cash equivalents	$130,487	$130,487	$ —
Time deposits	2,408	2,408	—
Notes and accounts receivable-trade	179,896	179,896	—
Investments in securities			
Available-for-sale securities	51,224	51,224	—
Total	$364,015	$364,015	$ —
Notes and accounts payable-trade	$157,458	$157,458	$ —
Short-term borrowings	24,305	24,305	—
Income taxes payable	3,710	3,710	—
Long-term borrowings	111,288	111,718	430
Bonds	31,911	32,208	297
Total	$328,672	$329,399	$727
Derivative transactions			
Contracts to which hedge accounting was not applied	$ (163)	$ (163)	$ —
Contracts to which hedge accounting was applied	—	—	—

Cash and cash equivalents, Time deposits, Notes and accounts receivable-trade

The fair values approximate book values because of the short-term maturities of these instruments.

Investments in securities

The fair values are measured at the quoted market prices of the stock exchange.

Notes and accounts payable-trade, Short-term borrowings, Income taxes payable

The fair values approximate book values because of the short-term maturities of these instruments.

Long-term borrowings

The fair values represent present values of the aggregated interest and principal discounted at interest rates that would be applied to new similar borrowings.

Long-term borrowings include the current portion of long-term borrowings.

Bonds

The fair values are measured at the quoted market prices.

Derivative transactions

Please see Note 9, "Derivatives."

Financial instruments whose fair values were not available as of March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Available-for-sale securities			
Unlisted equity securities	¥ 236	¥ 235	$ 2,510
Investments in affiliates	3,994	3,305	42,483
Total	¥4,230	¥3,540	$44,993

The above items were not included in investments in securities (available-for-sale securities) because their market price was not available and it was extremely difficult to determine their fair values.

Monetary assets and receivables with maturities were as follows:

	Millions of yen			
	2013			
	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	¥12,267	¥—	¥—	¥—
Time deposits	226	—	—	—
Notes and accounts receivable-trade	16,912	—	—	—
Total	¥29,405	¥—	¥—	¥—

	Millions of yen			
	2012			
	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	¥11,022	¥—	¥—	¥—
Time deposits	99	—	—	—
Notes and accounts receivable-trade	17,496	—	—	—
Total	¥28,617	¥—	¥—	¥—

	Thousands of U.S. dollars			
	2013			
	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	$130,487	$—	$—	$—
Time deposits	2,408	—	—	—
Notes and accounts receivable-trade	179,896	—	—	—
Total	$312,791	$—	$—	$—

Please see Note 10, "Short-term Borrowings and Long-term Debt" for annual maturities of long-term debt.

8. Investments in Securities

Marketable securities classified as available-for-sale securities as of March 31, 2013 and 2012 were as follows:

	Millions of yen		
	2013		
	Acquisition cost	Fair value (Book value)	Unrealized gains (losses)
Securities with gross unrealized gains:			
Equity securities	¥2,928	¥4,584	¥1,656
Securities with gross unrealized losses:			
Equity securities	249	232	(17)
Total	¥3,177	¥4,816	¥1,639

	Millions of yen		
	2012		
	Acquisition cost	Fair value (Book value)	Unrealized gains (losses)
Securities with gross unrealized gains:			
Equity securities	¥1,159	¥2,105	¥946
Securities with gross unrealized losses:			
Equity securities	2,000	1,727	(273)
Total	¥3,159	¥3,832	¥673

	Thousands of U.S. dollars		
	2013		
	Acquisition cost	Fair value (Book value)	Unrealized gains (losses)
Securities with gross unrealized gains:			
Equity securities	$31,145	$48,762	$17,617
Securities with gross unrealized losses:			
Equity securities	2,648	2,462	(186)
Total	$33,793	$51,224	$17,431

The Companies recognize impairment losses on available-for-sale securities when the market value declines by more than 30 percent and the possibility of market value recovery is remote. For the year ended March 31, 2013 and 2012, impairment losses were ¥33 million ($347 thousand) and ¥2 million, respectively.

9. Derivatives

Derivative transactions to which hedge accounting was not applied for the year ended March 31, 2013 were as follows:

	Millions of yen			
	2013			
	Contract amount	Contract amount due after 1 year	Fair value	Unrealized gains (losses)
Interest rate and currency swap contracts:				
Floating rate receipt, fixed rate payment:				
Japanese yen receipt/Indian rupee payment	¥ 400	¥320	¥(16)	¥(16)
U.S. dollar receipt/Indian rupee payment	679	543	1	1
Total	¥1,079	¥863	¥(15)	¥(15)

	Thousands of U.S. dollars			
	2013			
	Contract amount	Contract amount due after 1 year	Fair value	Unrealized gains (losses)
Interest rate and currency swap contracts:				
Floating rate receipt, fixed rate payment:				
Japanese yen receipt/Indian rupee payment	$ 4,255	$3,404	$(174)	$(174)
U.S. dollar receipt/Indian rupee payment	7,226	5,781	11	11
Total	$11,481	$9,185	$(163)	$(163)

* The fair value is based on prices provided by financial institutions.

Derivative transactions to which hedge accounting was applied for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen			
	2013			
	Main hedged item	Contract amount	Contract amount due after 1 year	Fair value
Foreign currency forward contracts:				
Sell:				
U.S. dollar	Notes and accounts receivable-trade	¥ 598	¥ —	*
Euro		191	—	*
Interest rate swap contracts:				
Floating rate receipt, fixed rate payment	Long-term borrowings	¥7,729	¥5,588	*

	Millions of yen			
	2012			
	Main hedged item	Contract amount	Contract amount due after 1 year	Fair value
Foreign currency forward contracts:				
Sell:				
U.S. dollar	Notes and accounts receivable-trade	¥ 458	¥ —	*
Euro		115	—	*
Interest rate swap contracts:				
Floating rate receipt, fixed rate payment	Long-term borrowings	¥7,111	¥4,987	*

	Thousands of U.S. dollars			
	2013			
	Main hedged item	Contract amount	Contract amount due after 1 year	Fair value
Foreign currency forward contracts:				
Sell:				
U.S. dollar	Notes and accounts receivable-trade	$ 6,359	$ —	*
Euro		2,032	—	*
Interest rate swap contracts:				
Floating rate receipt, fixed rate payment	Long-term borrowings	$82,215	$59,441	*

* The fair value of such derivative transactions was included in that of hedged items.

10. Short-term Borrowings and Long-term Debt

Short-term borrowings at March 31, 2013 and 2012 represented bank overdrafts with weighted average interest rates of 1.08% and 1.45%, respectively. The Companies had commitment line contracts to prepare for any contingency with one financial institution for an aggregated maximum amount of ¥6,000 million ($63,823 thousand). ¥3,759 million ($39,989 thousand) was unused as of March 31, 2013.

Long-term debt as of March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Unsecured long-term borrowings from banks and other financial institutions with weighted average interest rate of 1.69% in 2013 and 1.49% in 2012	¥10,462	¥ 9,524	$111,288
Unsecured bonds due 2017, 0.99%	3,000	3,000	31,911
Obligations under finance leases	28	35	293
	13,490	12,559	143,492
Less current portion of long-term debt	2,864	2,702	30,462
Total	¥10,626	¥ 9,857	$113,030

Annual maturities of long-term debt outstanding as of March 31, 2013 were as follows:

Year ending at March 31	Millions of yen	Thousands of U.S. dollars
2014	¥ 2,864	$ 30,462
2015	2,205	23,456
2016	2,036	21,662
2017	3,468	36,886
2018	2,917	31,026
2019 and thereafter	—	—
Total	¥13,490	$143,492

11. Retirement Benefits

The Company and certain of its consolidated subsidiaries have defined contribution pension plans and defined benefit pension plans for employees. The Company places plan assets in an employee retirement benefit trust.

Allowance for retirement benefits as of March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Projected benefit obligation (*)	¥(11,762)	¥(11,053)	$(125,112)
Plan assets at fair value	8,021	6,942	85,324
Unrecognized actuarial loss	1,852	2,122	19,695
Unrecognized prior service cost	(119)	(165)	(1,266)
Total recognized in the consolidated balance sheet	¥ (2,008)	¥ (2,154)	$ (21,359)

* Certain consolidated subsidiaries have adopted a simplified method to calculate their projected benefit obligation.

Net periodic benefit costs for the years ended March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Service cost (*1)	¥477	¥ 501	$5,077
Interest cost	204	205	2,176
Expected return on plan assets	(134)	(136)	(1,426)
Amortization of actuarial loss	220	388	2,339
Amortization of prior service cost	(46)	(90)	(489)
Other (*2)	193	166	2,050
Total	¥914	¥1,034	$9,727

*1 Expenses for employees' retirement benefits of consolidated subsidiaries are included in service cost.

*2 Other includes payments for the defined contribution pension plans.

Assumptions used in the calculation for the years ended March 31, 2013 and 2012 consisted of the following:

	2013	2012
Discount rate	1.2%	2.0%
Expected rate of return on plan assets	2.5%	2.5%
Method of attributing expected benefit to periods	Straight-line basis	Straight-line basis
Amortization period for unrecognized prior service cost	10 years	10 years
Amortization period for unrecognized actuarial gains (losses)	10 years	10 years

12. Income Taxes

Deferred tax assets and liabilities as of March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred tax assets:			
Allowance for employees' retirement benefits	¥ 689	¥ 735	$ 7,332
Transfer of certain marketable securities to retirement benefit trust	1,370	1,361	14,578
Loss on impairment of fixed assets	307	534	3,266
Tax loss carryforwards	355	470	3,768
Other	901	891	9,583
Valuation allowance for deferred tax assets	(924)	(1,085)	(9,834)
Total	¥ 2,698	¥ 2,906	$ 28,693
Deferred tax liabilities:			
Gain on set-up of retirement benefit trust	¥(1,080)	¥(1,080)	$(11,483)
Unrealized gain on available-for-sale securities	(530)	(200)	(5,641)
Reserve for deferred capital gains related to property, plant and equipment	(266)	(366)	(2,833)
Other	(86)	(54)	(913)
Total	¥(1,962)	¥(1,700)	$(20,870)
Net deferred tax assets	¥ 736	¥ 1,206	$ 7,823

Net deferred tax assets were included in the following accounts in the consolidated balance sheets as of March 31, 2013 and 2012:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Current assets — Deferred tax assets	¥231	¥362	$2,454
Other assets — Deferred tax assets	543	879	5,773
Current liabilities — Other	0	4	2
Long-term liabilities — Other	38	31	402

Reconciliation of the statutory tax rate to the effective income tax rate for the years ended March 31, 2013 and 2012 was as follows:

	2013	2012
Statutory tax rate	38.0%	40.6%
Different income tax rates applicable to income in certain foreign countries	(6.6)	(6.8)
Equity in earnings of affiliates	(5.7)	(8.2)
Nondeductible expenses	3.2	4.4
Nontaxable income	(0.3)	(0.4)
Tax deduction	(0.5)	(3.7)
Change in valuation allowance	(2.8)	12.0
Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates	—	4.6
Effect of reassessment of prior years' income taxes	0.1	1.1
Other, net	2.3	2.9
Effective income tax rate	27.7%	46.5%

13. Net Assets

Significant provisions in the Companies Act of Japan (the "Act") that affect financial and accounting matters are summarized below:

(1) Dividends

The Act allows Japanese companies to pay dividends at any time during the year in addition to the year-end dividend upon resolution at the shareholders' meeting.

The Act permits Japanese companies to distribute dividends in kind (non-cash assets) to shareholders subject to certain limitations 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 Act also 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 equity after dividends must be maintained at no less than ¥3 million.

(2) Increases/decreases and transfer of common stock, reserve and surplus

The Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (of retained earnings) or as additional paid-in capital (of capital surplus) depending on the equity account charged upon the payment of such dividends until the total aggregate amount of legal reserve and additional paid-in capital equals 25% of common stock. Under the Act, the total amount of additional paid-in capital and legal reserve may be increased without limitation. The Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(3) Treasury stock and treasury stock acquisition rights

The Act also requires Japanese companies to repurchase/dispose of treasury stock based on resolutions 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.

Under the Act, stock acquisition rights are presented as a separate component of equity.

The Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

14. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2013 and 2012 principally consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Salaries	¥5,285	¥5,209	$56,218
Packing and delivery expenses	1,964	1,062	20,896
Research and development costs	1,109	889	11,798
Net periodic benefit costs	414	432	4,406
Provision for doubtful accounts	5	15	56

15. Net Income per Share

The Companies had no dilutive securities for the years ended March 31, 2013 and 2012.

Basic net income per share for the years ended March 31, 2013 and 2012 was as follows:

	Millions of yen 2013	Millions of yen 2012	Thousands of U.S. dollars 2013
Net income available to common stockholders	¥2,510	¥1,440	$26,702

	Thousands of shares 2013	Thousands of shares 2012
Weighted-average number of shares	94,812	97,034

	Yen 2013	Yen 2012	U.S. dollars 2013
Net income per share	¥26.47	¥14.84	$0.28

16. Leases

The Companies lease certain machinery, vehicles and equipment, and software.

Total lease payments under finance leases for the years ended March 31, 2013 and 2012 were ¥16 million ($167 thousand) and ¥54 million, respectively.

Information about non-capitalized finance leases, if capitalized, at March 31, 2013 and 2012 was as follows:

Acquisition cost and accumulated depreciation:

	Millions of yen 2013 Machinery and equipment	Millions of yen 2013 Other
Acquisition cost	¥32	¥65
Accumulated depreciation	30	62
Net book value	¥ 2	¥ 3

	Millions of yen 2012 Machinery and equipment	Millions of yen 2012 Other
Acquisition cost	¥104	¥220
Accumulated depreciation	95	201
Net book value	¥ 9	¥ 19

	Thousands of U.S. dollars 2013 Machinery and equipment	Thousands of U.S. dollars 2013 Other
Acquisition cost	$347	$690
Accumulated depreciation	321	656
Net book value	$ 26	$ 34

Future contractual lease payments:

	Millions of yen 2013	Millions of yen 2012	Thousands of U.S. dollars 2013
Due within one year	¥5	¥20	$54
Due after one year	1	7	6
Total	¥6	¥27	$60

17. Consolidated Statements of Comprehensive Income

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income are as follows:

	Millions of yen	Thousands of U.S. dollars
Unrealized gain (loss) on available-for-sale securities:		
Net unrealized holding gains for the year	¥ 968	$10,296
Reclassification adjustments	32	348
Net change during the year	1,000	10,644
Income tax effects	(364)	(3,875)
Total	636	6,769
Foreign currency translation adjustments		
Net change during the year	2,039	21,690
Total	2,039	21,690
Share of other comprehensive income in affiliates		
Net change during the year	322	3,430
Total	322	3,430
Total other comprehensive income	¥2,998	$31,889

18. Segment Information

(1) Description of reportable segments

The Companies' reportable segments are components for which separate financial information is available, whose operating results are reviewed regularly by the chief operating decision maker in order to decide allocations of resources and assess segment performance.

The Company has adopted the division system. Each operating division develops a comprehensive strategy for respective products/services for domestic and overseas markets and conducts business activities. Therefore, the Companies consist of four reportable segments according to products based on operating divisions: "Power Transmission Belt," "Multimedia Parts," "Industrial Products" and "Plastics Products."

The "Power Transmission Belt" segment includes the manufacture and sale of power transmission belts for automobiles and industrial machines, etc. The "Multimedia Parts" segment includes the manufacture and sale of cleaning blades, conductive rollers, precision belts, polyurethane functional components, etc. The "Industrial Products" segment includes the manufacture and sale of heavy and light duty conveyor belts, etc. The "Plastics Products" segment includes films for a variety of markets.

(2) Methods of calculating sales, profit or loss, assets and other items by reportable segments

The accounting methods applied to the reportable segments is generally the same as those described in Note 3, "Summary of Significant Accounting Policies." Segment profit is based on operating income. Intersegment sales are based on market prices.

(3) Sales, profit or loss, assets, and other items by reportable segments

Millions of yen, 2013

	Reportable segments: Power Transmission	Multimedia Parts	Industrial Products	Plastics Products	Total reportable segments	Other	Total
Net sales							
Sales to customers	¥54,917	¥7,856	¥17,225	¥4,522	¥84,520	¥1,252	¥85,772
Intersegment sales	112	—	27	3	142	242	384
Total	¥55,029	¥7,856	¥17,252	¥4,525	¥84,662	¥1,494	¥86,156
Segment profit (loss)	¥ 3,460	¥ (179)	¥ 891	¥ 16	¥ 4,188	¥ 73	¥ 4,261
Segment assets	¥54,928	¥6,374	¥13,318	¥2,830	¥77,450	¥1,513	¥78,963
Other:							
Depreciation and amortization	¥ 2,757	¥ 788	¥ 606	¥ 225	¥ 4,376	¥ 30	¥ 4,406
Increase in property, plant and equipment and other intangible assets	¥ 3,323	¥ 389	¥ 326	¥ 236	¥ 4,274	¥ 155	¥ 4,429
Loss on impairment of fixed assets	¥ —	¥ 852	¥ —	¥ —	¥ 852	¥ 305	¥ 1,157

Millions of yen, 2012

	Reportable segments: Power Transmission	Multimedia Parts	Industrial Products	Plastics Products	Total reportable segments	Other	Total
Net sales							
Sales to customers	¥53,469	¥9,020	¥17,626	¥4,907	¥85,022	¥1,350	¥86,372
Intersegment sales	122	1	30	16	169	446	615
Total	¥53,591	¥9,021	¥17,656	¥4,923	¥85,191	¥1,796	¥86,987
Segment profit (loss)	¥ 4,214	¥ (518)	¥ 481	¥ 122	¥ 4,299	¥ 102	¥ 4,401
Segment assets	¥48,222	¥7,896	¥13,818	¥2,971	¥72,907	¥2,151	¥75,058
Other:							
Depreciation and amortization	¥ 2,816	¥ 933	¥ 727	¥ 278	¥ 4,754	¥ 43	¥ 4,797
Increase in property, plant and equipment and other intangible assets	¥ 3,422	¥ 503	¥ 470	¥ 161	¥ 4,556	¥ 63	¥ 4,619
Loss on impairment of fixed assets	¥ 80	¥ —	¥ —	¥ —	¥ 80	¥ 42	¥ 122

Thousands of U.S. dollars, 2013

	Reportable segments: Power Transmission	Multimedia Parts	Industrial Products	Plastics Products	Total reportable segments	Other	Total
Net sales							
Sales to customers	$584,161	$83,565	$183,226	$48,097	$899,049	$13,320	$912,369
Intersegment sales	1,195	—	293	32	1,520	2,569	4,089
Total	$585,356	$83,565	$183,519	$48,129	$900,569	$15,889	$916,458
Segment profit (loss)	$ 36,807	$ (1,909)	$ 9,478	$ 168	$ 44,544	$ 782	$ 45,326
Segment assets	$584,280	$67,801	$141,658	$30,105	$823,844	$16,097	$839,941
Other:							
Depreciation and amortization	$ 29,332	$ 8,377	$ 6,445	$ 2,395	$ 46,549	$ 317	$ 46,866
Increase in property, plant and equipment and other intangible assets	$ 35,352	$ 4,138	$ 3,471	$ 2,507	$ 45,468	$ 1,649	$ 47,117
Loss on impairment of fixed assets	$ —	$ 9,063	$ —	$ —	$ 9,063	$ 3,246	$ 12,309

*1 "Other" category represents operating segments not included in any reportable segments.

*2 Effective April 1, 2012, the Company changed the method to calculate segment profit and restated segment profit and depreciation of other items for the year ended March 31, 2012 to the amounts calculated under the new method. As a result, segment profit decreased by ¥2,631 million in Power Transmission Belt, by ¥897 million in Multimedia Parts, by ¥926 million in Industrial Products, and ¥280 million in Plastics Products, compared to those under the previous method. Also, depreciation of other items increased by ¥522 million in Power Transmission Belt, by ¥185 million in Multimedia Parts, by ¥177 million in Industrial Products, and ¥57 million in Plastics Products, compared to those under the previous method. Refer to "(5) Changes in reportable segments" for details of the changes in calculation method.

*3 "Depreciation and amortization" includes amortization of long-term prepaid expenses.

*4 "Increase in property, plant and equipment and other intangible assets" includes an increase in long-term prepaid expenses.

(4) Reconciliation of total reportable segments to the amount recognized in the consolidated financial statements

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Total reportable segment profit	¥4,188	¥4,299	$44,544
Income of "Other" category	73	102	782
Corporate expenses	(121)	214	(1,291)
Other	(45)	(44)	(477)
Operating income in the consolidated financial statements	¥4,095	¥4,571	$43,558

* Corporate expenses represent differences between the estimated general administrative expenses and research and development costs allocated to each reportable segment and the actual amount incurred.

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Total reportable segment assets	¥77,450	¥72,907	$823,844
Assets of "Other" category	1,513	2,151	16,097
Elimination of receivables of administrative departments of the Company	(3,629)	(4,634)	(38,600)
Corporate assets	6,873	9,235	73,109
Total assets in the consolidated financial statements	¥82,207	¥79,659	$874,450

* Corporate assets were principally buildings and software of the Company not attributable to any reportable segments.

	Millions of yen			
	2013			
	Total reportable segments	Other	Adjustment	Consolidated
Depreciation and amortization	¥4,376	¥ 30	¥ 32	¥4,438
Increase in property, plant and equipment and other intangible assets	4,274	155	623	5,052
Loss on impairment of fixed assets	852	305	—	1,157

	Millions of yen			
	2012			
	Total reportable segments	Other	Adjustment	Consolidated
Depreciation and amortization	¥4,754	¥43	¥ 40	¥4,837
Increase in property, plant and equipment and other intangible assets	4,556	63	1,032	5,651
Loss on impairment of fixed assets	80	42	634	756

	Thousands of U.S. dollars			
	2013			
	Total reportable segments	Other	Adjustment	Consolidated
Depreciation and amortization	$46,549	$ 317	$ 344	$47,210
Increase in property, plant and equipment and other intangible assets	45,468	1,649	6,628	53,745
Loss on impairment of fixed assets	9,063	3,246	—	12,309

*1 Adjustment is principally related to property, plant and equipment, intangible assets and long-term prepaid expenses not attributable to any reportable segments.

*2 "Depreciation and amortization" includes amortization of long-term prepaid expenses.

*3 "Increase in property, plant and equipment and other intangible assets" includes an increase in long-term prepaid expenses.

(5) Changes in reportable segments

(Changes in method to measure reportable segments' profit and loss)

The Company's corporate expenses consisting of headquarter expenses and research and development cost had not been allocated to reportable segments until the year ended March 31, 2012. After a review of the performance management system, however, such treatment was changed to allocate corporate expenses to each reportable segment using a certain allocation ratio from the year ended March 31, 2013.

The restated amount of the previous period calculated using the new method is presented in "(3) Sales, profit or loss, assets, and other items by reportable segments."

Information related to reportable segments

Information about geographic areas was as follows:

(a) Net sales

Millions of yen			
2013			
Japan	Asia	Other	Total
¥50,312	¥27,670	¥7,790	¥85,772

Millions of yen			
2012			
Japan	Asia	Other	Total
¥52,686	¥26,422	¥7,264	¥86,372

Thousands of U.S. dollars			
2013			
Japan	Asia	Other	Total
$535,178	$294,334	$82,857	$912,369

(b) Property, plant and equipment

Millions of yen			
2013			
Japan	Asia	Other	Total
¥17,040	¥8,461	¥2,933	¥28,434

Millions of yen			
2012			
Japan	Asia	Other	Total
¥19,679	¥5,994	¥2,712	¥28,385

Thousands of U.S. dollars			
2013			
Japan	Asia	Other	Total
$181,252	$90,004	$31,200	$302,456

19. Loss on Impairment of Fixed Assets

The details of loss on impairment of fixed assets for the year ended March 31, 2013 were as follows:

Purpose of use	Location	Asset type	Millions of yen	Thousands of U.S. dollars
Operating assets	Ashikaga, Tochigi	Buildings and structures	¥ 332	$ 3,527
		Machinery and equipment	450	4,788
		Construction in progress	17	183
		Other	53	565
		Total	852	9,063
Operating assets	Shiso, Hyogo	Buildings and structures	128	1,355
		Machinery and equipment	5	57
		Land	166	1,766
		Software	5	54
		Other	1	14
		Total	305	3,246
Total			¥1,157	$12,309

The details of loss on impairment of fixed assets for the year ended March 31, 2012 were as follows:

Purpose of use	Location	Asset type	Millions of yen
Idle assets	Kinokawa, Wakayama	Land	¥ 13
		Total	13
Assets held for sale	Kobe, Hyogo	Buildings and structures	8
		Land	605
		Other	7
		Total	620
Operating assets	Shiso, Hyogo	Buildings and structures	43
		Total	43
Other	—	Goodwill	80
		Total	80
Total			¥756

In reviewing fixed assets for impairment, the Companies categorize their operating assets mainly by operating division and idle assets by individual property.

For the year ended March 31, 2013, loss on impairment of fixed assets except for goodwill was recognized for the assets whose recoverable amount fell below the book value.

Recoverable amount is measured using net selling price or value in use. Net selling price is based on estimated selling price and value in use is calculated by discounting future cash flows at 5%.

20. Subsequent Events

On October 25, 2012, the Company's Board of Directors Meeting resolved to merge the Company's consolidated subsidiaries Higashinihon Bando Co., Ltd. and Hokkaido Bando Co., Ltd., and other consolidated subsidiaries Nishinihon Bando Co., Ltd. and Kyushu Bando Co., Ltd., and both mergers took place on April 1, 2013.

1. Names and business description of the merging companies, legal form of the business combination, name of the company after the merger and overview of the transaction including the purpose of the transaction
  1) Merger of Higashinihon Bando Co., Ltd. and Hokkaido Bando Co., Ltd.
    (1) Names and business description of the merging companies
      Higashinihon Bando Co., Ltd. (manufacture and sale of power transmission belts, conveyor belts, polyurethane functional components)
      Hokkaido Bando Co., Ltd. (manufacture and sale of power transmission belts and conveyor belts)
    (2) Legal form of business combination
      Absorption-type merger with Higashinihon Bando Co., Ltd. as the surviving company, and Hokkaido Bando Co., Ltd. ceased to exist.
    (3) Name of the company after the merger
      Higashinihon Bando Co., Ltd.
    (4) Overview of the transaction including the purpose of the transaction
      The purpose is to enhance the operating structure including reorganization of the operation base in the entire general industrial and maintenance markets, as well as to improve efficiency and competitiveness of the consolidated business management.
      Shares of Higashinihon Bando Co., Ltd. were allocated to shareholders of Hokkaido Bando Co., Ltd. using the share exchange ratio based on the financial results for the year ended March 31, 2012.
  2) Merger of Nishinihon Bando Co., Ltd. and Kyushu Bando Co., Ltd.
    (1) Names and business description of the merging companies
      Nishinihon Bando Co., Ltd. (manufacture and sale of power transmission belts, conveyor belts, polyurethane functional components)
      Kyushu Bando Co., Ltd. (manufacture and sale of power transmission belts, conveyor belts, polyurethane functional components)
    (2) Legal form of business combination
      Absorption-type merger with Nishinihon Bando Co., Ltd. as the surviving company, and Kyushu Bando Co., Ltd. ceased to exist.
    (3) Name of the company after the merger
      Nishinihon Bando Co., Ltd.
    (4) Overview of the transaction including the purpose of the transaction
      The purpose is to enhance the operating structure including reorganization of the operation base in the entire general industrial and maintenance markets, as well as to improve efficiency and competitiveness of the consolidated business management.
      Shares of Nishinihon Bando Co., Ltd. were allocated to shareholders of Kyushu Bando Co., Ltd. using the share exchange ratio based on the financial results for the year ended March 31, 2012.

2. Overview of the accounting treatment applied
The Company accounted for the business combination as transactions under common control in accordance with Accounting Standards Board of Japan ("ASBJ") Statement No. 21, "Accounting Standard for Business Combinations" (December 26, 2008) and ASBJ Guidance No. 10, "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (December 26, 2008).

Corporate Data/Investor Information

Corporate Data

Company name: Bando Chemical Industries, Ltd.
Founded: April 14, 1906
Capital: ¥10,952 mil. (As of March 31, 2013)
Consolidated sales: ¥85,772 mil. (FYE March 2013)
Employees (Consolidated): 3,592 (As of March 31, 2013)

Investor Information (As of March 31, 2013)

▶ Capital Stock

Shares Authorized: 378,500,000

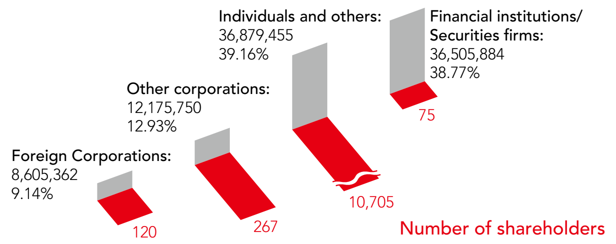
Shares Outstanding: 94,427,073
(including 260,622 shares of treasury stock)

Number of Shareholders: 11,167

▶ Securities Traded: Tokyo Stock Exchange, Inc.

▶ Composition of Shareholders

Composition of Shareholders

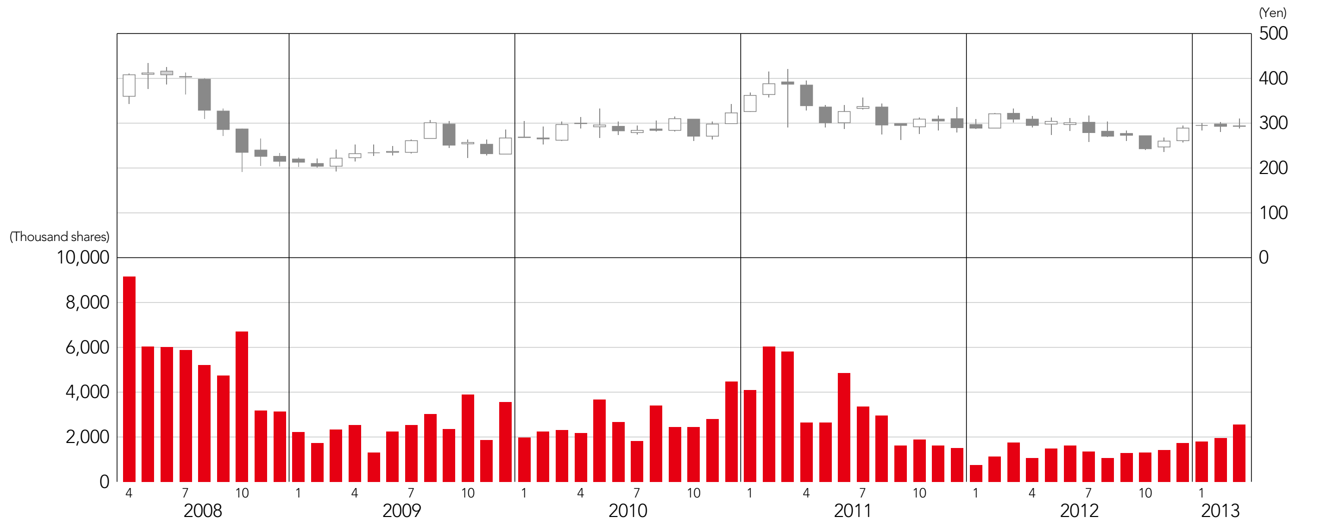


▶ Principal Shareholders (As of March 31, 2013)

	Number of shares held (thousands)	Investment ratio (%)
Bando business partner stakeholders	6,905	7.33
Sumitomo Mitsui Banking Corporation	4,651	4.93
Mitsubishi UFJ Trust and Banking Corporation	4,004	4.25
Meiji Yasuda Life Insurance Company	4,000	4.24
Mizuho Corporate Bank, Ltd.	3,600	3.82
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3,150	3.34
Nippon Life Insurance Company	2,936	3.11
Aioi Nissay Dowa Insurance Co., Ltd.	2,351	2.49
Japan Trustee Services Bank, Ltd. (trust account)	2,112	2.24
Tokio Marine & Nichido Fire Insurance Co., Ltd.	1,839	1.95

Notes: 1. Investment ratios are calculated after deducting treasury stock (260,622 shares).
2. Investment ratios listed above are rounded down to two decimal places.

▶ Stock Price and Trading Volume



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