Breakthroughs for the Future

Annual Report 2014

Year ended March 31, 2014

BANDO CHEMICAL INDUSTRIES, LTD.

Profile

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 processing technologies in such areas as power transmission belts and systems, belts used in precision equipment, 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.

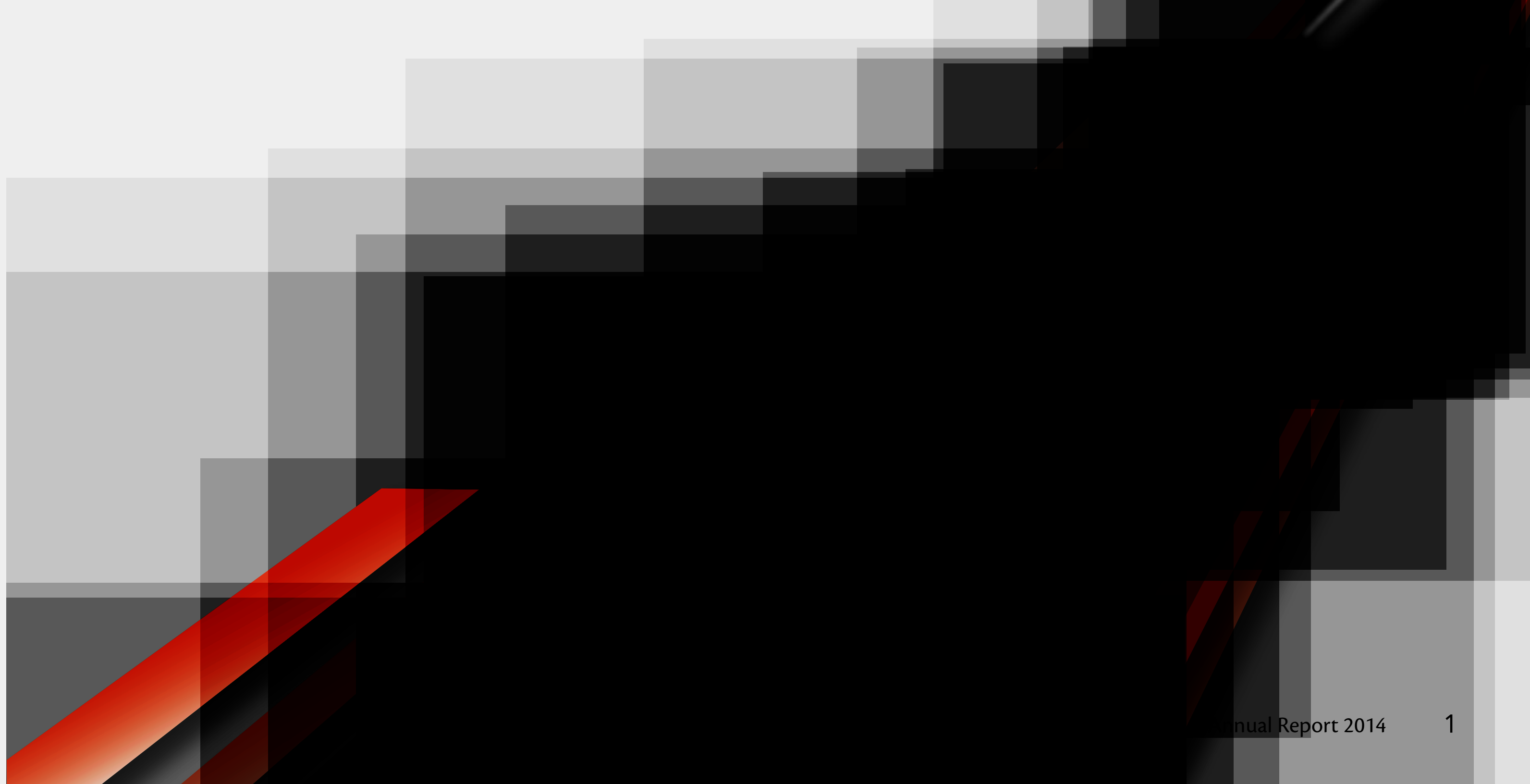
Contents

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.

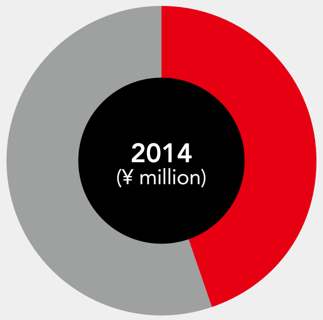


Snapshot

Bando Chemical Industries is building up a global presence in growth markets.

The snapshot below describes our strengths and distinctive features.

1 Core Business in Automotive Fields



Consolidated net sales
¥93,434 million

Sales of automotive power transmission belts and systems
¥41,989 million

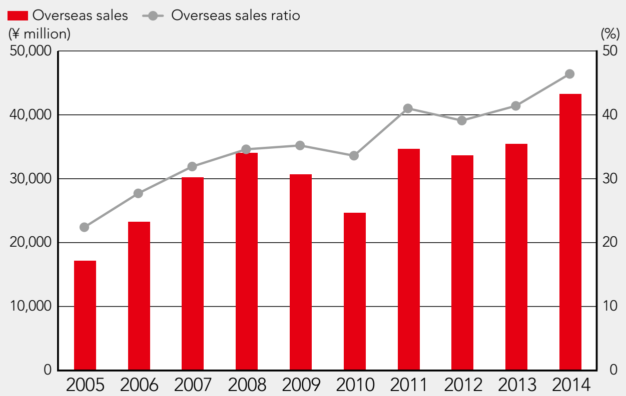
Sales of automotive power transmission belts and systems as % of total
44.9%*

The auto industry continues to expand, driven by increased motorization in emerging countries. Automotive businesses account for 44.9%* of total consolidated net sales at Bando. We expect the automotive business to provide good growth opportunities moving forward.

* Sales of automotive power transmission belts and systems (for four- and two-wheeled vehicles) / consolidated net sales

2 Overseas Sales Ratio Continues to Expand

Overseas sales
Overseas sales ratio



We are meeting the needs of our Japanese customers developing global operations and are also expanding our business with overseas customers. Overseas sales are therefore rising and now account for a higher percentage of the total.

3 Top Share in OEM Supply of Automotive Belts

OEM supply of automotive belts

No.1 global share

We have built up a good reputation based on our meticulous service to satisfy individual customer needs, excellent quality, and stable supply capabilities. As of the end of fiscal 2013, we command the top global share for OEM supply of automotive belts.

4 Expertise in Environment-friendly Products

eco moving

"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.

Our customers, and society as a whole, have welcomed the added value provided by our "*eco moving*" brand of environment-friendly products. We had ten "*eco moving*" products in our portfolio in fiscal 2013, mostly belt products, and plan to expand our line-up further.

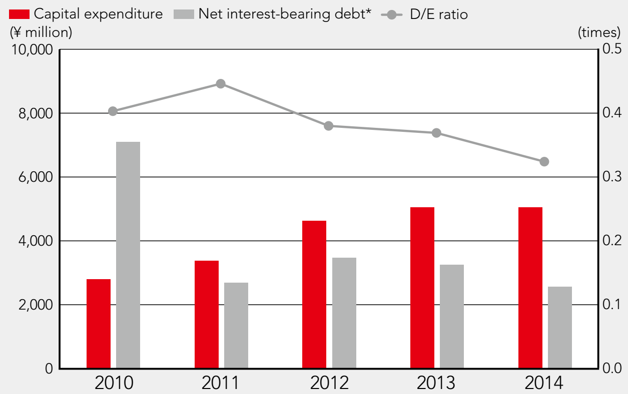
Further expansion

Ten products in our *eco moving* portfolio

- HFD System
- Ceptor-VI S8M type
- EPDM Rubber Belts
- Energy-Saving Red, Energy-Saving POWER ACE
- High-load V-Ribbed Belts
- G-CARRY
- ECO CARRY
- TENSION MASTER
- BANDO GLANMESSE (non-combustible)
- Polyolefin thin film

5 Building an Even Stronger Financial Position

Capital expenditure
Net interest-bearing debt*
D/E ratio



* Net interest-bearing debt = short-term borrowings + long-term borrowings + corporate bonds – cash and deposits

We are working to build an even stronger financial position, even as we continue the capital expenditures needed for growth. At the end of fiscal 2013, our net interest-bearing debt and D/E ratio were at all-time lows.

Products

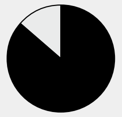
The Bando Group's products boast world-class performance and quality based on technologies developed over many years. Bando's specialty products display our superior design and development capabilities.

Belt Business

We excel in OEM business in the automotive, industrial machinery, agricultural machinery and conveyance sectors, where we hold a large global market share.

We develop environmentally-friendly power transmission systems and provide comprehensive product lines suitable for various fields.

Net sales by business segment



2014
86.5%

Core Technologies *Rubber and resins compound design, dispersion and processing technologies, power transmission system technologies*

Automotive Power Transmission Belts

For four- and two-wheeled vehicles

Strengths and Characteristics

- Integrated development of automotive auxiliary drive belts and power transmission systems (Tier 1 manufacturer of power transmission belt systems for automotive manufacturers)
- Development of high efficiency continuously variable transmission (CVT) belts for two-wheeled vehicles

Main Products


RIB ACE™ V-Ribbed Belts


Automatic Tensioners


TENSION MASTER™


VS Belts

Industrial Power Transmission Belts

For industrial and agricultural machinery

Strengths and Characteristics

- Development of energy-efficient belts and belts suited to high power machinery
- Global production and sales network, with 21 bases in 14 countries

Main Products


HFD System™


Red SII V Belts for agricultural machinery


STS/HP-STS/Ceptor™-VI


Long Synchronous Belts

Conveyor Belts

Strengths and Characteristics

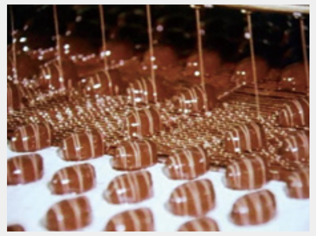
- A full lineup of rubber conveyor belts and light-duty resin conveyor belts
- Precisely meeting customers' needs with heat- and oil-resistant specifications, as well as fray-prevention, non-slip, anti-static and many other models

Main Products


G-CARRY™


BANDO ECO CARRY™

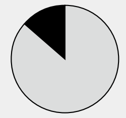

Mr. COOK™ F2224 Non-Stick Belts


Lightweight Jointless P-Series Belts

Elastomer Products Business

We maximize materials characteristics through the use of our precision processing, material and structural design technologies, and add optimal functionality to develop pioneering products with high precision and high quality, in consideration of the environment.

Net sales by business segment



2014
13.5%

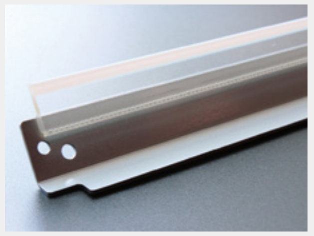
Core Technologies

Elastomer and resins compounding design, dispersion and processing

Strengths and Characteristics

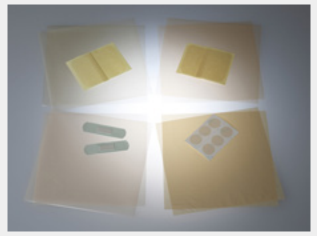
- Development and provision of high performance, clean precision parts
- Development and provision of functional films for various applications, such as in the printing and medical fields

Main Products


BANCOLLAN™ BLADE G-Module™


Development Rollers


BANDO GLANMESSE™


Medical films

History

We have worked to build trust and brand recognition over more than 100 years since our founding.

Without contenting ourselves with this, we will incessantly strive to change and challenge to achieve the next “Breakthrough.”

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
- 2011 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
- 1972 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

- 2012 Commenced sales of TENSION MASTER, a tension meter featuring an acceleration sensor
- 2011 Commenced sales of non-flammable BANDO GLANMESSE
- 2011 Commenced sales of BANCOLLAN Cleaning Blade G-Module
- 2010 Developed BANDO MDEC, a new method for eliminating microscopic dust
- 2009 Commenced sales of DS5M, double-sided, synchronous power transmission belts
- 2008 Commenced sales of G-CARRY environment-friendly, energy-saving conveyor belts

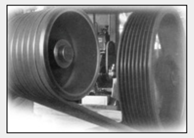
- 2008 Commenced sales of RIB ACE ECO-HT high-load automotive V-ribbed belts
- 2008 Commenced sales of thin polyolefin films
- 2008 Commenced sales of FlowMetal, low-temperature sintering nanoparticles
- 2008 Commenced sales of the Hyper Flat Drive System

- 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

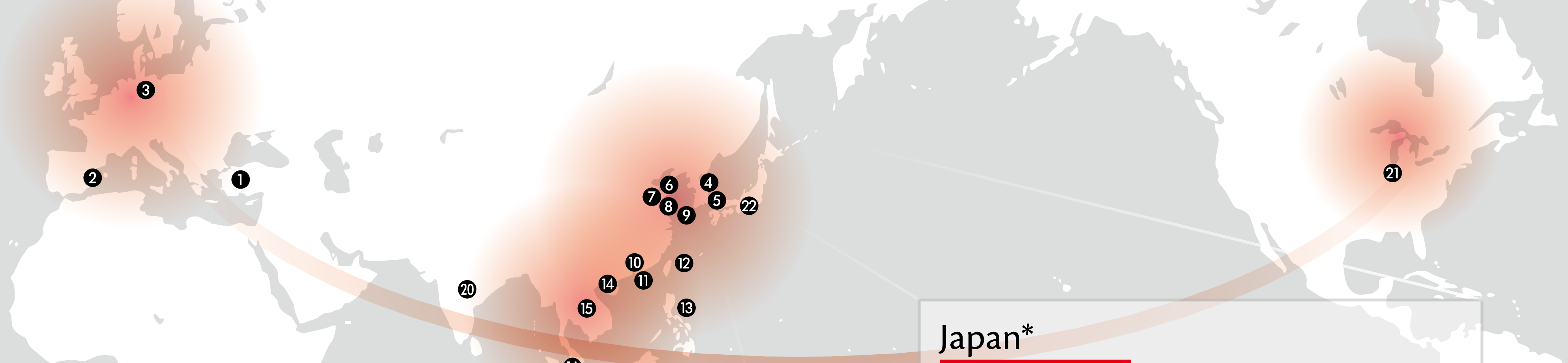
- 1970 Listed on the First Section of the Tokyo Stock Exchange
- 1962 Listed on the Second Section of the Osaka Securities Exchange

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.

Global Network

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

Bando Chemical Industries' Global Network



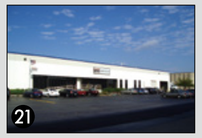
Europe

Bando Belt Manufacturing (Turkey), Inc.

Bando Iberica, S.A.

Bando Europe GmbH

America



Bando USA, Inc.

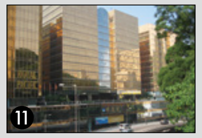
Asia

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.

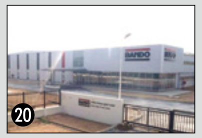
Bando (Shanghai) Management Co., Ltd.*

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.

Sales by Region

(as of March 2014)

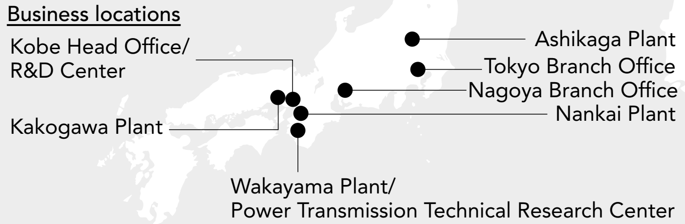
Overseas sales ratio: 46.3%

Japan*

Head Office

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

Business locations



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.
BL Autotec, Ltd.
Bando-Scholtz Corporation

Other Service Affiliates

Bando Trading Co., Ltd.
Bando Kosan Co., Ltd.

Highlights

10-Year Summary of Consolidated Financial Statements

Fiscal year endings are March 31 in the years shown below

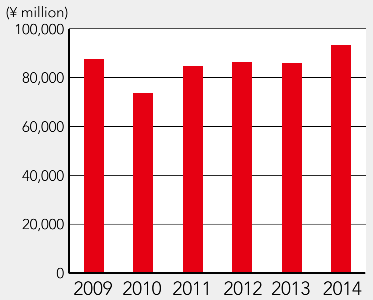
		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net sales	Millions of yen	76,958	84,257	95,200	98,662	87,453	73,593	84,811	86,372	85,772	93,434
Operating income	Millions of yen	5,760	5,057	8,027	7,325	2,115	2,450	5,056	4,571	4,095	5,518
Operating margin	%	7.5%	6.0%	8.4%	7.4%	2.4%	3.3%	6.0%	5.3%	4.8%	5.9%
Net income	Millions of yen	4,086	3,713	3,985	5,289	(255)	1,234	3,333	1,440	2,510	4,280
Net cash provided by operating activities	Millions of yen	9,814	6,057	9,641	7,805	7,621	8,724	9,529	6,595	7,004	6,459
Net cash used in investing activities	Millions of yen	(6,236)	(8,984)	(6,288)	(9,830)	(4,937)	(3,147)	(4,922)	(4,768)	(5,781)	(5,038)
Net cash provided by (used in) financing activities	Millions of yen	(1,223)	234	1,888	(1,575)	(675)	(2,516)	805	(4,363)	(463)	(1,548)
Depreciation and amortization	Millions of yen	4,306	4,661	4,660	5,684	6,073	5,411	4,907	4,804	4,389	4,174
Capital investment	Millions of yen	7,131	9,377	7,692	7,166	4,176	2,791	3,381	4,619	5,052	5,046
Net assets	Millions of yen	34,789	39,615	42,568	44,972	38,352	40,020	40,542	39,444	43,226	49,277
Total assets	Millions of yen	78,237	87,887	96,530	90,801	76,621	78,020	82,905	79,659	82,207	89,623
Interest-bearing debt	Millions of yen	11,572	15,499	18,717	18,525	17,669	15,744	17,653	14,595	15,746	15,753
Shareholders' equity*	Millions of yen	34,789	39,615	41,707	44,046	37,345	39,188	39,677	38,559	42,775	48,772
Earnings per share	Yen	38.24	35.23	39.34	52.68	(2.55)	12.31	33.74	14.84	26.47	45.49
Net assets per share	Yen	335	390	412	439	372	391	405	402	455	518
Annual dividend per share	Yen	7.00	13.00	10.00	10.00	7.00	6.00	8.00	8.00	8.00	10.00
Average number of shares outstanding during the period	Thousand shares	104,778	102,791	101,310	100,393	100,313	100,294	98,788	97,034	94,811	94,095
Equity ratio	%	44.5	45.1	43.2	48.5	48.7	50.2	47.9	48.4	52.0	54.4
D/E ratio	times	0.333	0.391	0.449	0.421	0.473	0.402	0.445	0.379	0.368	0.323
ROA	%	5.2	4.2	4.1	5.8	(0.3)	1.6	4.0	1.8	3.1	4.8
ROE	%	12.1	10.0	9.8	12.3	(0.6)	3.2	8.5	3.7	6.2	9.4
P/E ratio	times	13.4	14.9	15.5	6.8	–	24.1	11.5	20.8	11.1	9.3
Payout ratio	%	18.3	36.9	25.4	19.0	–	48.7	23.7	53.9	30.2	22.0
Number of employees		2,859	3,177	3,393	3,414	3,436	3,285	3,427	3,545	3,592	3,817

* 'Shareholders' equity' for 2007 and thereafter = net assets – minority interests

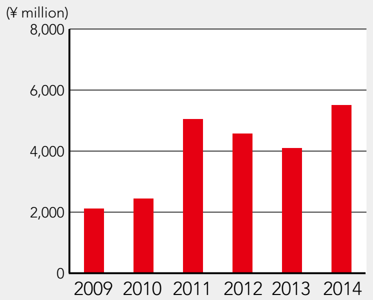
Major Indicators

Fiscal year endings are March 31 in the years shown below

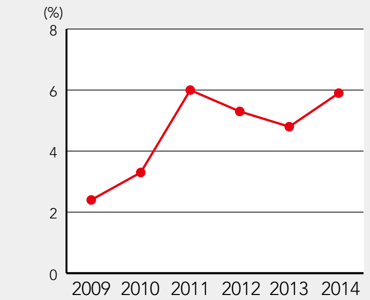
Net sales



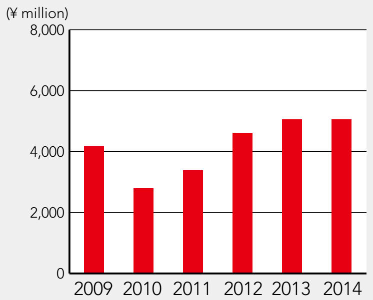
Operating income



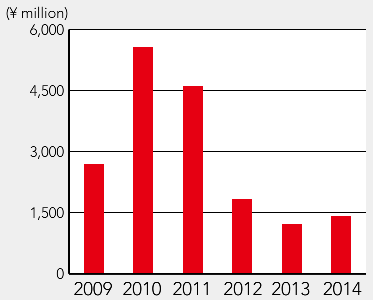
Operating margin



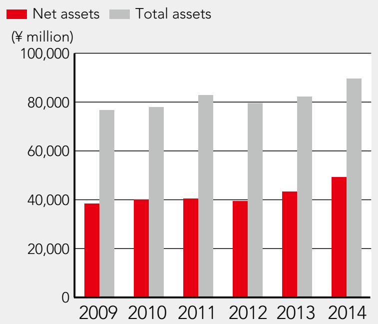
Capital investment



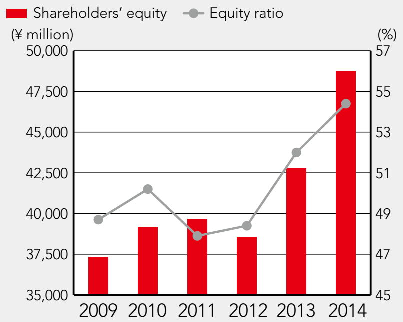
Free cash flow



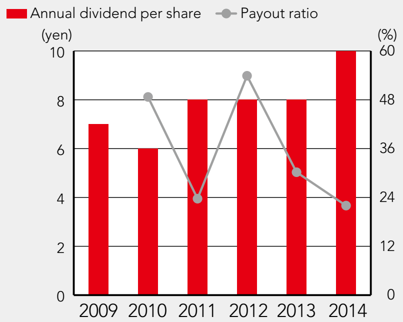
Net assets
Total assets



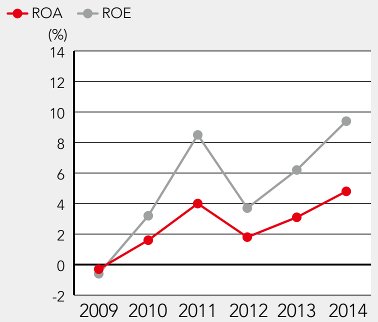
Shareholders' equity*
Equity ratio



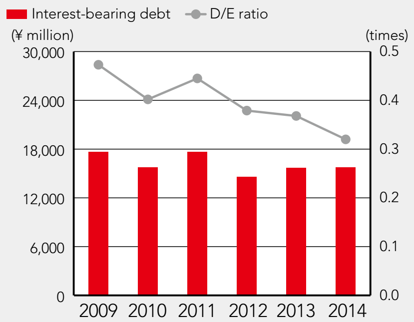
Annual dividend per share
Payout ratio



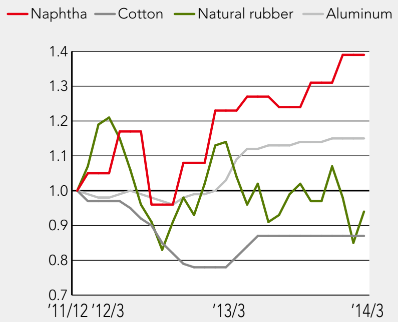
ROA
ROE



Interest-bearing debt
D/E ratio

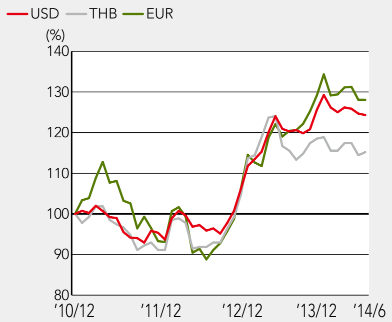


Raw material costs (indicators)



* Raw materials cost (indicators) base is 2011/12.

Exchange rate transition



* Exchange rate base is 2010/12.

Fiscal 2013 Topics

Product Development and Others

Commenced sales of TOPX™ S035, a precision polishing film shortening the finish polishing time for optical communication connectors and attaining stable polishing precision

Developed room-temperature sintering silver nanoparticle ink and low-temperature sintering silver nanoparticle die-attach materials as a result of the application of technologies for FlowMetal™ metal nanoparticle products

TOPX™ S035

March

Hyper Flat Drive (HFD™) System, which attained energy-efficient, next-generation power transmission, won the Grand Prize for Excellence in Energy Efficiency and the Director-General's Prize, the Agency for Natural Resources and Energy

HFD™ System

February

January

2014

Commenced sales of environment-friendly BANDO BANLITE™EZ-Stick™

Introduced S3M, S5M and S14M types in the Ceptor™-VI series of next-generation toothed belts

BANDO BANLITE™EZ-Stick™

December

November

Opened BANDO eco moving Ashikaga Solar Power Generation Plant

BANDO eco moving Ashikaga Solar Power Generation Plant opening ceremony

October

September

August

Commenced sales of STOP SHEET floor signs that users only have to set in place

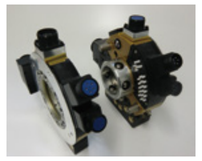
STOP SHEET usage example

July

Management

Introduced "Breakthroughs for the future," Bando's new mid-to-long term business plan

June



QUICK-CHANGE ZEUS

Commenced sales of QUICK-CHANGE ZEUS (150-230 kg payloads), for new-generation robots

Launched dual Administrative Headquarters composed of the Belt Business segment and the Elastomer Products Business segment

Integrated domestic sales companies (Hokkaido Bando Co., Ltd. merged with Higashinihon Bando Co., Ltd, with the latter being the surviving company, and Kyushu Bando Co., Ltd. merged with Nishinihon Bando Co., Ltd., with the latter being the surviving company)

May

April

March

2013

Mitsutaka Yoshii

President and Representative Director, Bando Chemical Industries, Ltd.

Fiscal 2014 is our year of implementation. We will cement our position as the No. 1 belt business in Asia and set our business on a growth trajectory towards achieving the targets in our medium-term business plan.

In fiscal 2013, the first year of our mid-term business plan, we strengthened our global business development capabilities in the belt business and recorded our second-highest net income figure to date.

Automotive markets are expanding and becoming more competitive. Here I describe our strategy to achieve further breakthroughs, solidify Bando's position as the No. 1 belt business in Asia and generate operating income of ¥10 billion in fiscal 2017.

吉井満隆

Message from the President

Mitsutaka Yoshii

President and Representative Director,
Bando Chemical Industries, Ltd.

Second-highest net income figure to date recorded in fiscal 2013

Fiscal 2013 was the first year in our mid-to-long term business plan "Breakthroughs for the future." Belt Business sales grew 10.7% year-on-year to ¥80,034 million and segment profit grew 18.8% year-on-year to ¥5,161 million, primarily due to sales growth overseas for our automotive power transmission belts, industrial power transmission belts, and conveyor belts. We attribute this to our efforts to implement the guidelines set out in the business plan.

In our Elastomer Products Business, where we have focused on transforming our product portfolio, sales rose 0.5% year-on-year to ¥12,438 million and segment profit improved by ¥174 million, moving from an operating loss last year to profit of ¥12 million.

As a result, consolidated operating income improved 34.8% year-on-year to ¥5,518 million. Forex gains and the absence of extraordinary losses booked last year meant net income rose 70.5% to ¥4,280 million. This is our second-highest net income figure after the record-breaking ¥5,289 million we recorded in fiscal 2007 shortly before the collapse of Lehman Brothers.

We increased the dividend for the first time in three years to an annual dividend of ¥10 per share, which is on a par with the dividend paid in fiscal 2007 before the global financial crisis.

▶ Consolidated earnings

	Fiscal 2012 results	Fiscal 2013	
		Results	YoY
Net sales	¥85,772 million	¥93,434 million	+8.9 %
Operating income	¥4,095 million	¥5,518 million	+34.8 %
Net income	¥2,510 million	¥4,280 million	+70.5 %

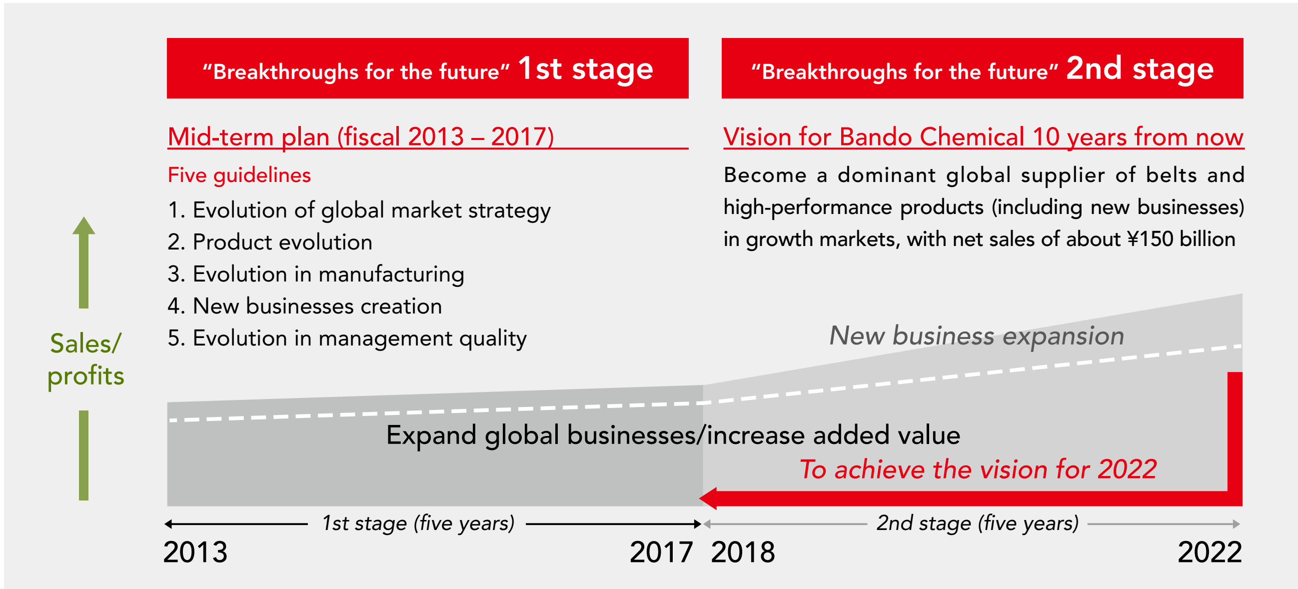
"Breakthroughs for the future" mid-to-long term business plan: Overview and progress

The "Breakthroughs for the future" mid-to-long term business plan, which runs from fiscal 2013 to fiscal 2022, aims to 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, particularly in the belt business, and strengthen earnings structures while also focusing on new product development. In the second stage, from fiscal 2018 to fiscal 2022, we will create new business to make a contribution equal in importance to our belt business. Leveraging the two earnings drivers, we will concentrate on expanding earnings to become a truly global supplier with net sales of around ¥150 billion.

In fiscal 2013 in the first stage, operating income was slightly below the initial target due to inventory valuation losses, but sales were above target due to focused business development in China and Asia and new products that utilize our core technologies starting to generate results. From the second year of the plan in fiscal 2014, we recognize that the Company will need to work harder, as earnings will no longer receive a boost from forex factors. The steady implementation of the guidelines in the mid-to-long term business plan should set our business on a growth trajectory towards our targets.

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



	Net sales	Operating income
Fiscal 2017 targets	¥100,000 million	¥10,000 million

Bando's current position and path to ¥10 billion operating income

Bando's portfolio includes many products with the top share of the global market, including automotive belts for OEM supply, CVT belts for two-wheeled vehicles, and polyurethane rubber parts for printers. Sales of our agricultural machinery belts are also growing in China and Asia because of the excellent quality of our products. Our ¥10 billion target for operating income in fiscal 2017 may appear rather ambitious, but we think it is within range if we focus on the measures discussed below and leverage our competitive capabilities backed by our high global share.

In the first stage, we aim to accelerate sales in the growth markets of China and Asia. Fiscal 2013 sales rose 45.2% year-on-year to ¥11,092 million in China and 13.7% to ¥22,781 million in Asia, helped by volume manufacturing as new production facilities started operating in China, Thailand, India, Vietnam, and Indonesia. We plan to expand our production capacity further and increase total sales in China and Asia by an additional ¥20 billion by fiscal 2017, laying the foundations for Bando to solidify our top position in Asian markets.

New Bangalore Plant (India)

As well as focusing on greater "volume," the Company must also make further improvements in "quality" (added value, profitability) if we are to make our operating income target of ¥10 billion. To achieve this, we are working on guidelines 2 and 3, namely product evolution and evolution in manufacturing, and are working to expand aftermarket sales to improve profitability.

In terms of product evolution, we are stepping up development of environmentally friendly, energy-efficient, and high-performance products, such as our BANDO MDEC™ cleaning system, our precision polishing product TOPX™ S035, and our HFD System™ that has been awarded the Grand Prize for Excellence in Energy Efficiency. We are also working to develop and launch products with optimal specifications for particular markets in shorter time frames. We are expanding services at our technical centers in China and Thailand to strengthen our local marketing presence and enhancing assessment facilities to satisfy local needs. We therefore expect to grow operating income by around ¥1 billion by fiscal 2017.

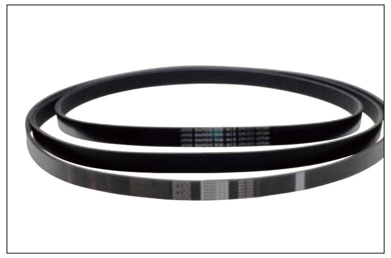
In terms of evolution in manufacturing, we have established the Cost Planning Department and improved the accuracy of cost control to make our products more cost competitive. We also reduced costs by updating manufacturing methods and production facilities. In material purchasing, we are promoting development purchasing* for functional materials (e.g., carbon, urethane, EPDM, and CR). Through these efforts, we aim to achieve the cost ratio below 70% and grow operating income by around ¥1.5 billion by fiscal 2017.

As well as efforts to reduce costs, we are also focusing on aftermarkets. Along with our OEM sales expansion we have established distributor networks in China, Asia, and elsewhere to expand high-margin aftermarket sales (repair and replacement), and raise profitability in the automotive power transmission belt business as a whole.

* Procurement Department involvement from the development stages, so that decisions on materials are made in consideration of supply stability and cost.

▶ Bando Chemical products with top market shares*

Top Market Share

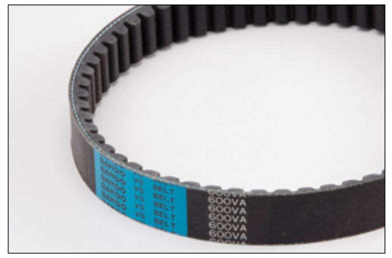


OEM supply of automotive belts

Top Market Share

Automotive automatic belt tensioners

Top Market Share

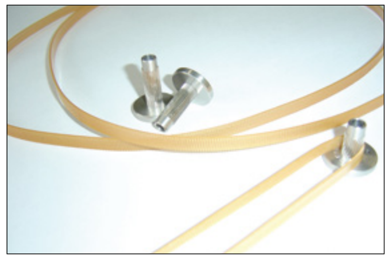


CVT belts for two-wheeled vehicles

Top Market Share

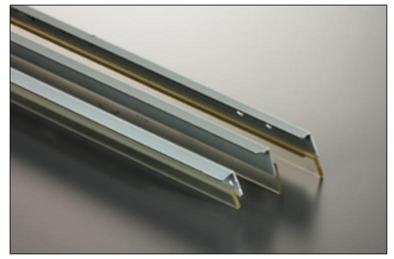
Polyurethane rubber printer parts

Top Market Share



Helical tooth belts for printers

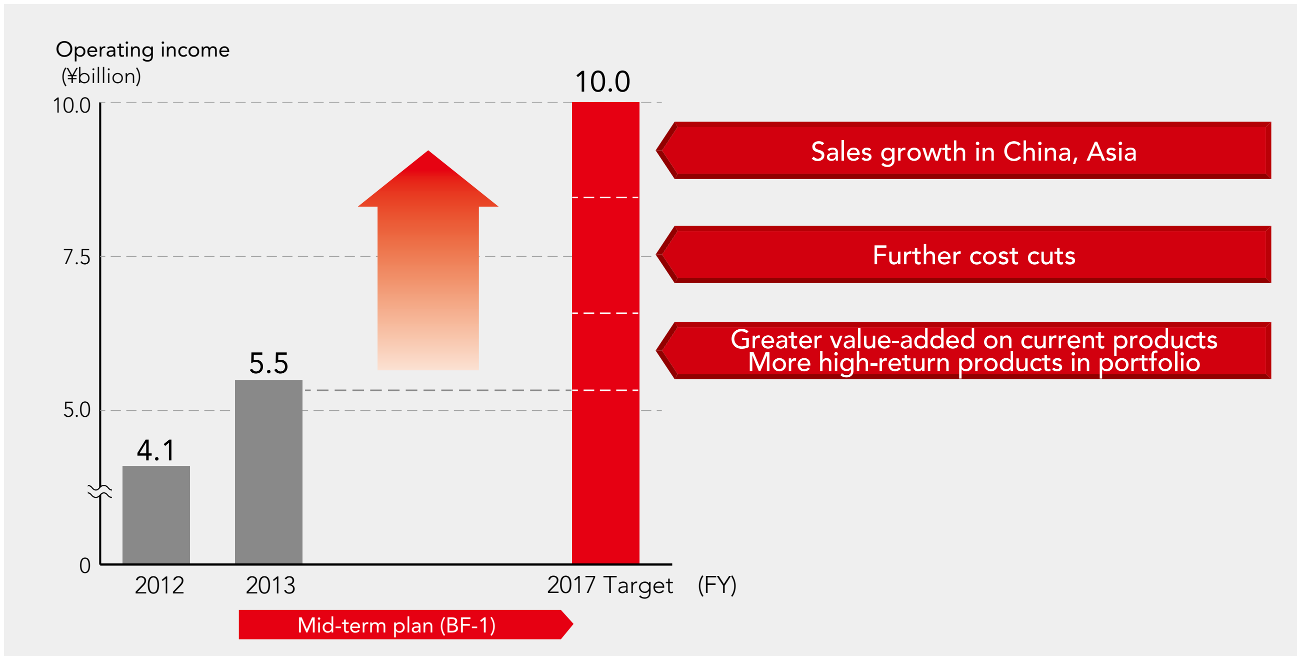
Top Market Share



Cleaning blades for printers

* Fiscal 2013

▶ Achieving the 1st stage operating income target



Taking on the challenge of developing profitable new businesses

During the five-year first stage, Bando Chemical will invest ¥5 billion in R&D to create new businesses. We will focus on "environmentally-friendly, energy-efficient, and high performance" businesses in the priority markets of optoelectronics, automotive/transport, energy, and robots and the priority fields of power electronics, printing electronics, and public welfare/nursing care. In fiscal 2013, we conducted R&D mainly at our R&D Center, Manufacturing Planning Center, and Power Transmission Technical Research Center, investing ¥3.59 billion in research and development including projects to develop improvements overall.

R&D Center

Power Transmission Technical Research Center

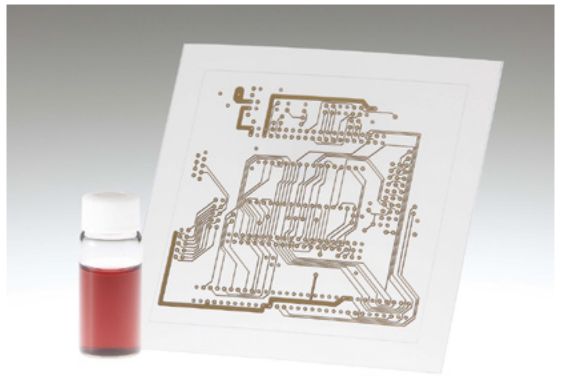
As part of our drive to create new businesses, we established the BF (Breakthroughs for the Future) Promotion Department in fiscal 2013 to enable both marketing and technical staff to collect and analyze information related to new products and new businesses. Also, in October 2013, we started the "Venture ☆ Cup" as a way to promote proposals on new products and enterprises. This system is a more effective way to tap into creative ideas and information from our employees.

Through these initiatives, new products that utilize our core technologies have started to generate results. Fiscal 2014 should pave the way for the commercialization of these new business ideas as profitable products.

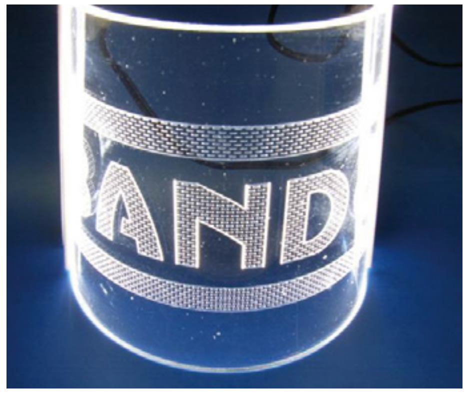
▶ Key markets for new business development

We will focus on "environmentally-friendly, energy-efficient, and high performance" businesses

Priority market	Priority field
Optoelectronics	Printed electronics
	Power electronics
	Exterior/interior materials
	Display, illumination
Automotive/ transportation	Power electronics
	Exterior/interior materials
	Other
Energy	Power electronics
	Other
Robots	Public welfare/nursing care
	Other



Printed electronics



Display, illumination

Opening up the Future through "Product Evolution" and "New Businesses Creation"

In its mid-to-long term business plan "Breakthroughs for the Future," Bando is implementing incremental innovation in order to realize "product evolution" and is also aiming to realize radical innovation toward "new business creation."

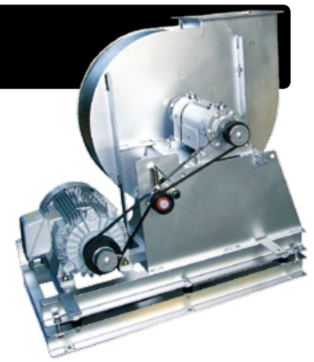
Executive Officer, General Manager,
Elastomer Products Business Administrative Headquarters and the R&D Center
Katsuhiko Hata

Product evolution — implementing incremental innovation

For Guideline No. 2 "Product evolution" in our mid-to-long term business plan, we are pursuing the development of products with "optimal specifications for markets" so that they match market needs in each region of the world.

Through incremental innovation to continuously create products that will help our customers to "reduce their environmental burden, increase efficiency, and shift to compact designs and functional composites," we are advancing our conversion to a portfolio consisting of high value-added products.

Transmission system "HFD System™"



Through its high energy savings performance, HFD System can reduce annual power consumption by 7 to 8% a year and we are working to promote its increased use, including a replacement for V belts.

Uses: blowers, air conditioners, etc.

Precision abrasive film "TOPX™ S035"

TOPX S035 realizes the highest levels in the industry for abrasive speed, abrasive accuracy, and durability. It contributes to improved quality and reduced processing time in optical communications connectors.

Uses: polishing optical fibers, hard disks, color filters, etc.

Paint substitutes "Decorative moldings"

In response to the rise in demand for paint substitutes, we have developed this technology for adhering film to curved surfaces.

Uses: paint substitutes, etc.

Cleaning system "BANDO MDEC™"

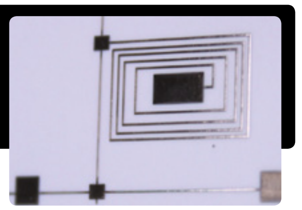
BANDO MDEC absorbs and eliminates microscopic dust by controlling the electrification of the roller surface. It offers high maintainability through its original mechanism for collecting waste.

Uses: eliminating microscopic dust in the manufacturing processes of printed circuit boards, displays

New business creation — taking on the challenge of radical innovation

For Guideline No. 4 "New business creation" in our mid-to-long term business plan, we are further fine tuning our core technologies for the compounding, dispersion, and composites of elastomers and resins for our key markets. Moreover, based on the "cutting-edge technology" through fusion with technological expertise in other fields, we are aiming to create new products and open up new markets and to develop them to be our next generation businesses that will serve as new pillars supporting the Company ("Radical innovation").

Room-temperature sintering silver nanoparticle ink



It utilizes our core technologies in compounding, dispersion, and composites. Electroconductivity is achieved simply through room temperature drying, which makes possible electronic circuits without generating heat.

Uses: electronic circuits, etc.

Silver nanoparticle die-attach material

It applies our metallic nanoparticle creation technology and has a melting point of 250 Celsius, which is lower than that of gold-tin alloy solder, and so joins to circuit boards without damaging electronic devices.

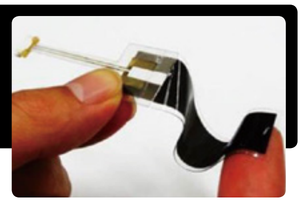
Uses: power semiconductors, LEDs, etc.

Thermal conductive sheets

By utilizing our compounding, dispersion, and processing technologies for rubber, we are able to vertically orientate the thermally conductive filler to realize high levels of thermal conductivity. It contributes to maintaining performance by lowering electronic devices' thermal resistance.

Uses: power semiconductors, etc.

Flexible strain sensor



This sensor made of rubber is highly compliant with curved surfaces as it has excellent flexibility and can be easily installed. We are targeting sales for it in the industrial and medical fields.

Uses: industrial machines, medical-treatment equipment, etc.

Steadily realizing incremental innovation

Our company's Hyper Flat Drive (HFD) System was awarded the "Grand Prize for Excellence in Energy Efficiency"*1 from the "Director-General of the Agency for Natural Resources and Energy"*2 in the fiscal 2013. HFD System is a leading example of how we achieve high added-value by implementing incremental innovation.

We will continue to develop these types of high value-added products and increase our competitive advantage through the provision of unique products.

*1 Joint application with Mitsuya Fan Mfg. Co., Ltd.

*2 Awards given in order to widely share information on companies within Japan in the industry, operations, and transportation sectors; practitioners who are promoting energy saving in factories and places of work; and practitioners who develop excellent energy-saving products; and also to recognize the excellent efforts of these practitioners (held by the Energy Conservation Center, Japan, and supported by the Ministry of Economy, Trade and Industry).
In fiscal 2013, there were 146 applicants, of which 50 won awards.

HFD System's breakthrough point

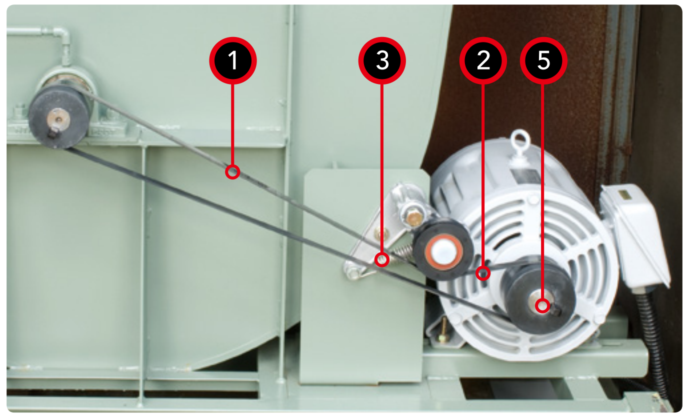
1. Realizes superior energy-saving effects from high transmission efficiency, as it minimizes loss through lower belt-bending rigidity.
Comparison with V belts: both power consumption and CO_2 emissions are reduced by an average of 7%.

2. The belt thickness is thin and distortion from bending is small, so it is compliant with compact designs as it enables reverse bending.
Comparison with V belts: a reduction of around 40%

3. Tensioning through an automatic tensioner increases lifespan and eliminates the need for maintenance.
Comparison with V belts: service life approximately 3 times

4. The increased lifespan and lower belt weight reduces the amount of industrial waste.
Comparison with V belts: a reduction to about 1/50th the amount

5. Flat pulley transmission practically eliminates noise and vibration.



Development background

As a pioneer in energy-saving V belt development, we launched Energy Saving Red Belts with high transmission efficiency in the 1990s, which established an excellent reputation in the market. Society has become even more environmentally aware in the 2000s. Demand grew for a revolutionary product that realizes even higher energy savings, and we resolved to develop HFD System.


Energy Saving Red

Boldly choosing a difficult path

At the conceptual phase, we considered that using an identical V belt would impose limitations if we were to achieve power-saving effects that surpassed those of the Energy Saving Red, so instead we focused on the flat belt, which has the highest transmission efficiency among belt drives. At times there were differences of opinion within the Company about how to address the flat belt's weak points of "snaking" and "reduction in tension." But ultimately, we decided to "bravely take on the challenge of using a flat belt, no matter how difficult," and so we began development.

A five year development period

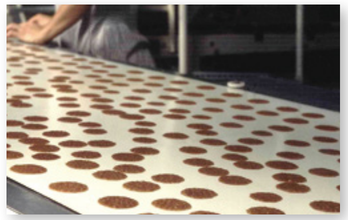
We spent around five years in development through continuous trial and error. To deal with the "snaking" problem, we developed a snaking control device with a pulley at its core and ultimately solved this problem through autonomously controlling the belt and pulley. We solved the "reduction in tension" problem by installing a tension-control mechanism (automatic tensioner) using springs. Finally in 2008, we launched the HFD System that combined a flat belt, a snaking control device, and an automatic tensioner.

High power-reduction effects, significant potential demand

As of April 2013, HFD System has been installed in 1,267 units of equipment, and it is expected that in only one year of operations, this will realize a power-reduction effect equivalent to around 133 million yen annually (1,267 units: 1 kwh × 12 yen/kwh × 24 hours × 365 days). Also, in the event that the HFD System is installed in 100,000 blowers in Japan, we anticipate that it will realize an enormous power-reduction effect equivalent to around 10.5 billion yen a year.

Currently, HFD System is largely used in the replacement market and OEM market for air conditioners and blowers, which is where Energy Saving Red is mostly used. In the future we are targeting replacement needs in fields where there is considerable demand for V belts, such as for compressors and cooling towers, and we are aiming for horizontal market expansion.

Belt Business



Helping to strengthen the foundations for growth as the Company's greatest earnings driver

Yoshihisa Tamagaki

Senior Executive Officer,
General Manager,
Belt Business Administrative Headquarters

Position and Target in the Mid-to-Long Term Business Plan

The Belt Business segment serves as the Company's greatest earnings driver, which is helping the Group achieve its mid-to-long term business plan *Breakthroughs for the future*. Especially in the first five years of the plan (BF-1, from the fiscal year ended March 31, 2014 to the fiscal year ending March 31, 2018), we will unfailingly achieve earnings growth centered on this segment in a bid to solidify our growth foundation for the five-year period of BF-2 (from the fiscal year ending March 31, 2019 to the fiscal year ending March 31, 2023) and beyond.

Performance for the Fiscal Year Ended March 31, 2014

This segment achieved net sales of ¥80,034 million, up 10.7% from the previous fiscal year. The sub-segment results are as follows.

Automotive Power Transmission Belts

Sales of power transmission belts in Japan decreased, along with an increase in the production of beltless hybrid vehicles. However, sales of accessory drive power transmission belts in China and those of variable speed belts for scooters in Asia expanded. In addition, the start of full-scale operation of the Bangalore Factory in India and the launch of a new factory in Vietnam made significant contributions to the results. Consequently, sub-segment sales climbed 11% year on year.

Industrial Power Transmission Belts

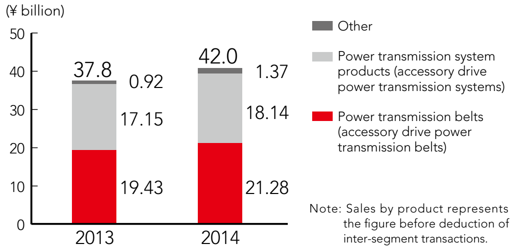
In China, sales of power transmission belts to Japanese agricultural machinery manufacturers increased considerably. Sales also rose in South America. In Asia, sales of belts for agricultural machinery and precision equipment expanded. Sub-segment sales were up 11% year on year.

Conveyor Belts

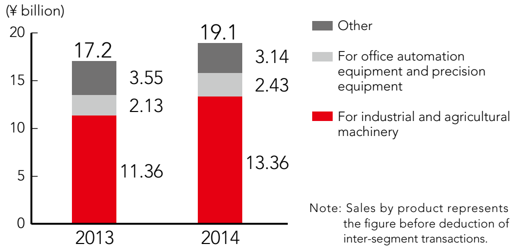
In Japan, we enjoyed growing sales of conveyor belts for steel works and of steep-incline belts for coal-fired power plants. Sales of conveyor belts for resources development rose in Australia, Canada and elsewhere. Our expansion of processing bases in China led to increased sales of resin light-duty conveyor belts. Sub-segment sales climbed 10% year on year.

Segment profit surged 18.8% year on year to ¥5,161 million, with increased sales volume, the effect of cost reductions, foreign exchange impacts and a decrease in depreciation and amortization, which offset the effects of the inventory write-down.

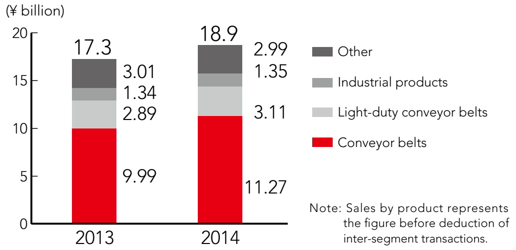
Sales of Automotive Power Transmission Belts by Product



Sales of Industrial Power Transmission Belts by Product



Sales of Conveyor Belts by Product

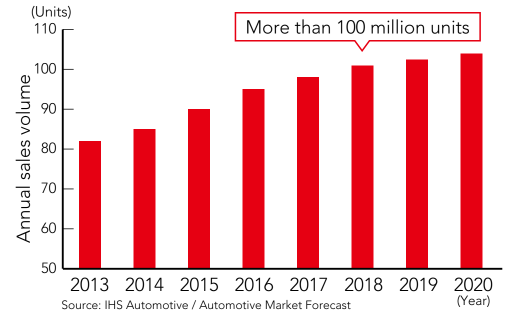


Market Conditions

The worldwide automotive sales volume has been rising steadily since the Lehman Brothers crisis to reach 84.64 million units in 2013, according to FOURIN's Monthly Report on the Global Automotive Industry (June 5, 2014). It is expected to continue growing to 100 million units in 2018 and to 105 million units in 2020. (Source: IHS Automotive / Automotive Market Forecast)

Global two-wheeled vehicle production volume is expected to continue growing. Its annual average growth rate will reach 7.2% by 2016 and the volume is set to reach 134.5 million units that year. (Source: The Freedonia Group: World Motorcycles, Feb. 1, 2013)

Outlook for Worldwide Automotive Sales Volume



Key Initiatives for the Fiscal Year Ending March 31, 2015

To continuously solidify our leading position in Asia's belt markets, we will further cultivate the Chinese and ASEAN markets and aim to open new markets in the Greater Mekong region, which has future growth potential. In product development, we will seek to increase the added value of existing products, upgrade our production technology and cost competitiveness, and focus on achieving such product features as reduced environmental impact, higher efficiency, compactness and multi-functionality. Primarily at our technical centers in China and Thailand, we will speed up development of products with optimal specifications for local markets.

■ Net sales and segment profit (¥million)

	2013	2014 (results)		
			Change	% change
Net sales	72,275	80,034	7,759	10.7%
Automotive power transmission belts	37,836	41,989	4,153	11.0%
Industrial power transmission belts	17,189	19,128	1,939	11.3%
Conveyor belts	17,250	18,917	1,667	9.7%
Segment profit	4,344	5,161	817	18.8%

■ Ongoing capital investment (for the fiscal year ending Mar. 31, 2015) (¥million)

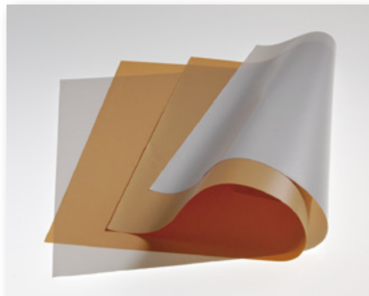
Company / Location	Descriptions	Amount invested	Expected completion date
Nankai Plant	Expansion of equipment relating to power transmission belts, etc.	520	Mar. 2015
Wakayama Plant		60	Mar. 2015
Kakogawa Plant	Expansion of equipment relating to industrial products, including conveyor belts, etc.	1,262	Mar. 2015
Power Transmission Technical Research Center	Testing and research facilities	52	Mar. 2015
Bando Korea Co., Ltd.	Expansion of equipment relating to power transmission belts, etc.	367	Dec. 2014
Bando Belt (Tianjin) Co., Ltd.		161	Dec. 2014
Bando Manufacturing (Thailand) Ltd.		741	Dec. 2014

Pushing ahead with earnings structure reforms by changing the product portfolio

Elastomer Products Business

Katsuhiko Hata

Executive Officer, General Manager,
Elastomer Products Business
Administrative Headquarters



Position and Target in the Mid-to-Long Term Business Plan

The Elastomer Products Business offers clean, high-performance products made of elastomers and resins in a bid to contribute to target achievement in the mid-to-long term business plan *Breakthroughs for the future* (from the fiscal year ended March 31, 2014 to the fiscal year ending March 31, 2023). Profitability in this segment is trending downward due to a slide in product prices after the Lehman Brothers crisis and the trend at our customers towards internal production. We will make intensive efforts at product evolution and offer high value-added products with the use of our core elastomer and resin compound design, dispersion and processing technologies, and restructure our product portfolio.

Performance for the Fiscal Year Ended March 31, 2014

For the fiscal year ended March 31, 2014, net sales grew 0.5% year on year, to ¥12,438 million. The sub-segment results are as follows.

Precision Parts

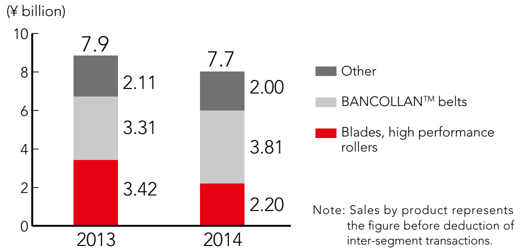
We obtained new business after developing high-performance rollers with longer service life, and saw domestic sales of BANCOLLAN™ belts rise. However, a shift at major customers to internal production resulted in a sharp drop in sales of cleaning blades. As a result, sub-segment sales were down 2% year on year.

High-Performance Films

Sales of films for construction materials surged following an increase in housing starts. Sales of films for decorative displays also expanded with an enhanced product lineup. Sub-segment sales were up 4% year on year.

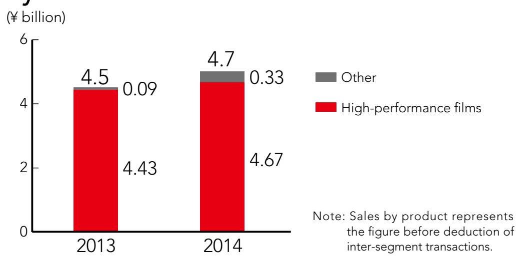
Segment profit moved from minus ¥164 million in the previous fiscal year to plus ¥12 million, regaining profitability, due partly to a reduction in depreciation expenses following impairment losses on the fixed assets of the former Multimedia Parts Business, which were posted in the previous fiscal year.

Sales of Precision Equipment Parts by Product



Note: Sales by product represents the figure before deduction of inter-segment transactions.

Sales of High-performance Films by Product



Note: Sales by product represents the figure before deduction of inter-segment transactions.

Market Conditions

Global shipment quantities in the copier and multi-function printer markets, which include major customers for our precision equipment parts, are expected to grow around 3.6% annually in 2014 and 2015. We expect a slight upswing in the Japanese color copier market, but the period until replacement is becoming longer. In overseas markets, shipments of low-end products, among others, should increase in Asia and elsewhere.

Sales of high performance film products are closely linked to domestic housing starts. In the fiscal year ended March 31, 2014, housing starts rose a strong 11.2% year on year, reflecting rush demand prior to the consumption tax hike in Japan. For the fiscal year ending March 31, 2015, the figure is forecast to fall 8.1% from the previous fiscal year, to 910,000, due in part as a reaction to the rush demand. For the fiscal year ending March 31, 2016, it should improve 4.4% year on year, to 950,000 starts. (Source: Material from the 212th NRI Media Forum on July 9, 2014, held by Nomura Research Institute)

Worldwide Copier and Multifunction Printer Shipment Forecast on a Quantity Basis (Units)

	2014 (forecast)			2015 (forecast)		
		Change	% change		Change	% change
Japan	577,700	3,000	0.5%	581,300	3,600	0.6%
Overseas	4,069,200	159,450	4.1%	4,232,350	163,150	4.0%
Worldwide	4,646,900	162,450	3.6%	4,813,650	166,750	3.6%

Source: Japan Business Machine and Information System Industries Association

Key Initiatives for the Fiscal Year Ending March 31, 2015

This segment's core technologies are at a high level in terms of both functional design and processing technologies. Given that it is hard to anticipate any dramatic growth in existing markets, we will accelerate our action to rebuild our product portfolio with a greater emphasis on high value-added products.

For example, the floor sign product developed in June 2013, STOP SHEET, provides extra value in enabling unlimited full-color print designs, and complies with the flameproof standards under Japan's Fire Service Act. These features have been highly evaluated, and we have received inquiries from financial institutions, medical institutions and many other customers. We will work even harder to boost sales going forward.

In addition, in March 2014, we released the TOPX S035 precision abrasive film for finish polishing of optical communication connectors as a new entry in the TOPX series of precision abrasive films. Polishing power, even with low polishing loads, is maintained and improved and contributes to reduced processing time and quality stabilization in optical communication connectors. For these reasons, we have received inquiries from a large number of prospective customers and we will work vigorously to achieve further sales expansion.

■ **Net sales and segment profit** (¥million)

	2013	2014 (results)		
			Change	% change
Net sales	12,381	12,438	57	0.5%
Precision equipment parts	7,856	7,719	(137)	(1.7)%
High-performance films	4,525	4,719	194	4.3%
Segment profit (loss)	(164)	12	174	–

■ **Ongoing capital investment (for the fiscal year ending Mar. 31, 2015)** (¥million)

Location	Descriptions	Amount invested	Expected completion date
Nankai Plant	Expansion of equipment relating to high-performance films, etc.	470	Mar. 2015
Ashikaga Plant	Expansion of equipment relating to industrial products and power transmission belts, etc.	570	Mar. 2015

CSR

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

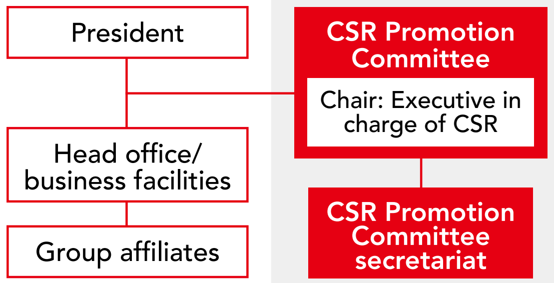
Basic Stance on Corporate Social Responsibility (CSR)

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 2013

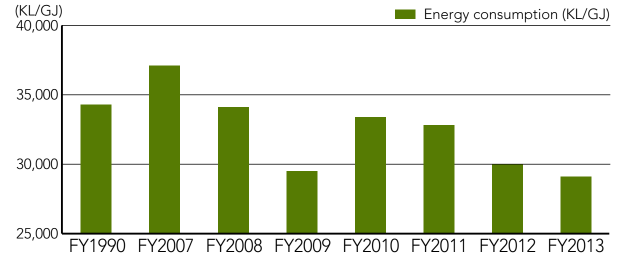
The Group engaged in various activities in line with six CSR promotion themes.

	Compliance/Business Ethics	The Environment	Quality
CSR promotion themes	Legal compliance and acting with integrity to gain the trust of society Legal Compliance Committee	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	Provide safe and reliable products and services Manufacturing Planning Center, Quality Control Department
Major achievements	• Held Code of Conduct workshops at business locations • Strengthened preventive measures against information leakage through the introduction of a PC operation log management system	• Reduced unit volume of waste generation by 1.5% • Reduced unit volume of energy consumption by 4.7% • Suppressed VOC gas emissions by 61.4% • Installed a solar power generation system at the Ashikaga Plant • Implemented biodiversity education and activities	• Held QC Circle activities and conventions in Japan and overseas • Convened a product quality case study exhibition • Implementation of an assessment of product conformity to standards • Introduction of a chemical substance information management system for materials used

	Human Rights/Labor/Safety	Social Contribution	Information Disclosure
CSR promotion themes	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	Recognize the importance of communication with society, individual contributions to the community, and company-wide contributions to society for environmental preservation General Administration Department	Timely and proper information disclosure to stakeholders Finance and Accounting Department; General Administration Department
Major achievements	• 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 (Three work-related injuries resulted in lost time during the fiscal year under review)	• Supported volunteer activities • Participated in activities organized by local resident associations, and cleanup, public safety and disaster prevention initiatives • Conducted tours of Company facilities	• Convened procurement policy briefings • Published periodic CSR reports and business reports, and provided information via the Group's websites • Held investor relations briefings

Reduction of Energy Consumption

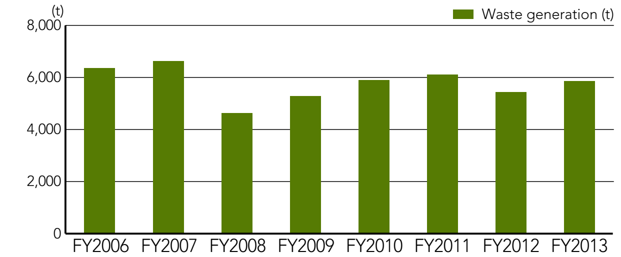
Energy consumption



In fiscal 2013, Bando progressed with a switch to more efficient equipment and LED lighting at the Nankai Plant. Energy-saving measures at all sites since fiscal 2012 have reduced unit volume of energy consumption.

Curtailment of Waste Generation

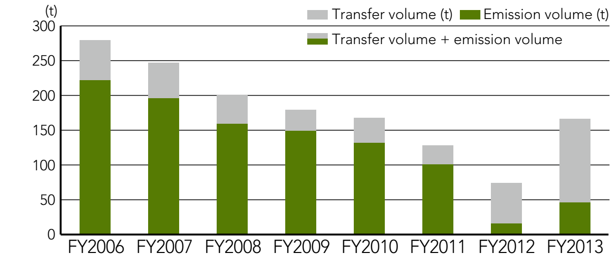
Waste generation



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

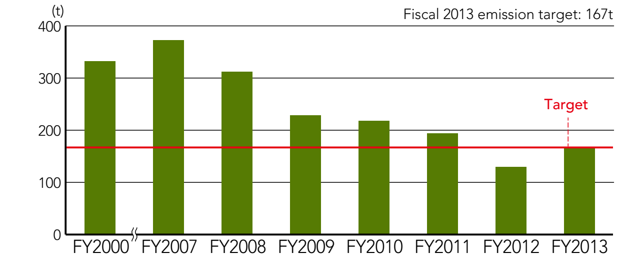
PRTR substance emission and transfer volumes



The Company is working to manage chemical substances designated under PRTR (Pollutant Release and Transfer Register), and manage them appropriately.

Reduction of VOC Gas Emissions

VOC emission volume



In fiscal 2013, we updated our VOC detoxification facilities and ensured proper VOC handling. In so doing, we achieved a 63% reduction in VOC compared with fiscal 2000, exceeding the industry's target of 50%.

Environmental Accounting

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

(¥ thousand)

Environmental Conservation Costs		Fiscal 2011 Capital investment	Fiscal 2011 Depreciation and amortization + personnel expenses + overhead	Fiscal 2012 Capital investment	Fiscal 2012 Depreciation and amortization + personnel expenses + overhead	Fiscal 2013 Capital investment	Fiscal 2013 Depreciation and amortization + personnel expenses + overhead	Main projects in fiscal 2013
Business area cost	Pollution control	8,009	44,195	7,387	68,024	468	76,425	Exhaust gas facilities
	Global environmental conservation	117,254	6,865	97,820	3,976	14,770	5,091	Switched to LED lighting, updated facilities
	Resource recycling	3,855	183,159	0	172,594	686	217,480	Industrial waste treatment and disposal
Upstream/downstream cost		0	773	0	0	0	0	
Administration cost		0	29,576	0	11,231	0	35,063	Monitored and measured environmental burden, operated management systems
R&D cost		0	24,701	10,560	34,033	0	31,354	Developed products with reduced environmental burden
Social activity cost		0	12,588	168	9,590	3,715	8,396	Greening and beautification costs, environmental and social activities
Environmental remediation cost		0	737	0	0	0	722	
Total		129,118	301,857	115,936	299,448	19,640	374,532	

(¥ thousand)

Environmental conservation benefit	Fiscal 2011	Fiscal 2012	Fiscal 2013
Business area	68,983	51,195	59,518
Upstream/downstream	0	0	0
Other	133	247	83
Total	69,116	51,442	59,601

Installing a solar-power generation system effectively reduced electricity.

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 audit & supervisory board members to ensure management efficiency and to strengthen its audit and supervisory functions. The Company's Board of Directors consists of five directors, including one external director. The Board makes decisions concerning basic management policies, important management issues, and legally stipulated matters, as well as monitoring 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, 2014, Board of Directors Meetings were held 15 times, with the external director attending 100% of those meetings.

Audit & Supervisory Board

The Company has adopted an audit & supervisory board member system. The Audit & Supervisory Board consists of four audit & supervisory board members, including three external audit & supervisory board members. The internal audit & supervisory board member and one external audit & supervisory board member serve on a full-time basis. The Audit & Supervisory Board Meeting is held every month. All of the Company's audit & supervisory board members attend Board of Directors' meetings and monthly management conferences. Moreover, the Audit & Supervisory Board assigns individual audit & supervisory board members 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 audit & supervisory board member system is able to fully monitor the performance of directors and corporate executive officers. In the fiscal year ended March 31, 2014, the Audit & Supervisory Board met 12 times, with the three external audit & supervisory board members attending 97% 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 audit & supervisory board members 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, 2014, the total amount of director and audit & supervisory board member compensation is shown below.

	Number of Persons	Total Compensation	Compensation Limit
Directors	7	¥162 million	¥240 million or less annually
Audit & Supervisory Board Members	5	¥54 million	¥7 million or less monthly
Total	12	¥216 million	

Notes:
1. Six directors as of March 31, 2014 (including one external director)
2. Four audit & supervisory board members as of March 31, 2014 (including three external audit & supervisory board members)
3. The total amount of external director and external audit & supervisory board member compensation listed above is as follows.
   One external director: ¥6 million
   Three external audit & supervisory board members: ¥34 million
4. The total amount of director compensation includes performance-related salary based on the Company's performance-related salary criteria (for full-time based directors only) for the fiscal year ended March 31, 2014.
5. In addition to the above-listed information, salaries and bonuses for employees who concurrently serve as directors are as follows.
   Two employee salaries: ¥30 million
   Two employee bonuses: ¥11 million

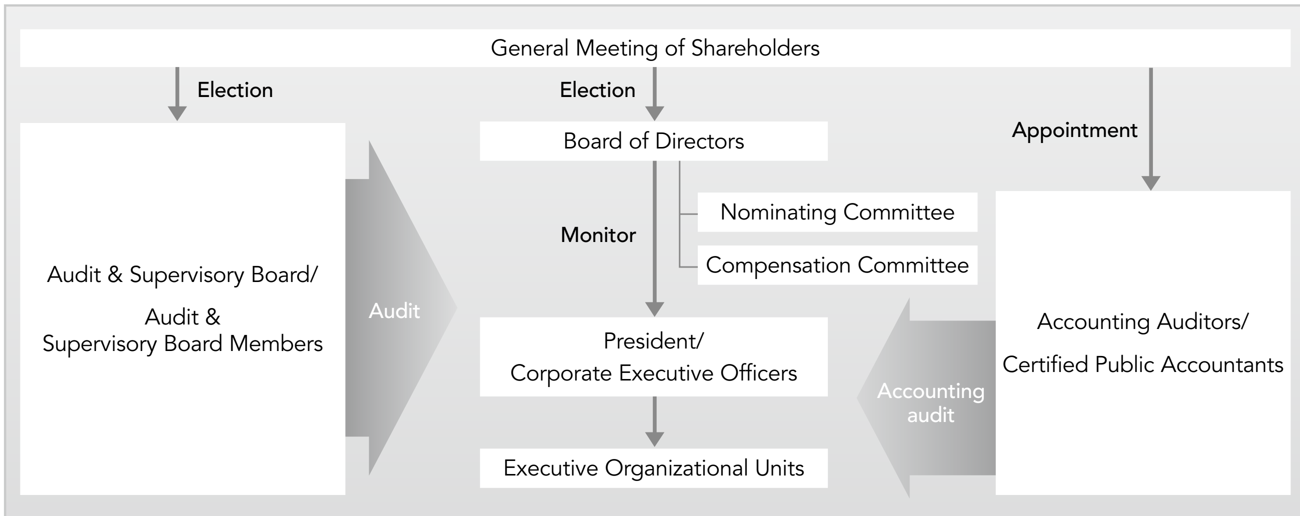
Internal Control

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

Management organization and corporate governance



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 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 two 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 audit & supervisory board members, 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 audit & supervisory board members.

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 24, 2014)

Board of Directors

President and Representative Director:
Mitsutaka Yoshii

Representative Director:
Yoshihisa Tamagaki

Director:
Kyosuke Nakamura

Director:
Shinji Kashiwada

External Director:
Yutaka Kato

Audit & Supervisory Board Members

Audit & Supervisory Board Member: (full-time)
Shinichiro Miyamoto

External Audit & Supervisory Board Member: (full-time)
Takahiro Matsusaka

External Audit & Supervisory Board Member:
Hiroshi Kii

Toru Tada

Corporate Executive Officers

President:
Mitsutaka Yoshii

Senior Executive Officers:
Yoshihisa Tamagaki
Masao Ohara
Keiji Iwai
Masayuki Kitabayashi
Hisashi Samejima
Kyosuke Nakamura

Executive Officers:
Yoshitaka Oshima
Shinji Kashiwada
Joseph David Laudadio
Katsuhiko Hata
Katsuya Yamaguchi
Takayuki Nagase

Supporting business decisions for global development and maximizing corporate value

Yutaka Kato
External Director

I have been engaged in providing support for venture companies and management guidance for Japanese and foreign companies as a business scholar and a specialist in managerial accounting and cost accounting. I draw on this experience to provide effective support for Bando, particularly in business decision-making where I look at risk taking and challenges in global business development, at the heart of the Company's management strategy.

External Directors are appointed to help maintain and maximize corporate value and shareholder value. I therefore investigate whether the Board of Directors is functioning well. Bando's Board of Directors engages in lively discussions between all the members and reaches decisions in an effective, healthy, fair, and transparent manner. I think that these decision-making processes also certainly help improve business efficiencies.

I am confident that Bando will make the most of its strengths in global business development and continue to expand its business, particularly in emerging markets, Europe, and the US. The operating climate has become more complex in recent years, as business risks develop in emerging countries. In my view, the main challenges facing Bando are how to grow its business while hedging against and overcoming such business risks and how to improve profitability by expanding business in high value-added areas.

Operating Environment

During the fiscal year ended March 31, 2014, the Chinese economy began to show signs of recovery, while some Asian economies experienced a slowing of growth, notably in South Korea, Thailand and India. In the United States, personal consumption firmed up amid an improved employment environment, and the economy appeared to have entered a phase of sustained recovery with solid corporate earnings and stable growth. Signs of recovery also appeared in Europe.

In Japan, moderate overall recovery momentum set in, with the overvaluation of the yen correcting in response to financial easing and government fiscal measures, and capital investment picking up. Personal spending was also robust, due in part to last-minute buying ahead of an increase in the consumption tax.

Business Overview

The year ended March 31, 2014 was the first year of the first phase in our mid-to-long term business plan "Breakthroughs for the future." The Bando Group aggressively worked to meet targets in the plan based on five guidelines which were designed to chart our course as a company over the next 10 years, such as "evolution of global market strategy." Specific measures included the introduction of dual Administrative Headquarters comprising our reorganized Belt and Elastomer Products Business segments. We now have a business model in which it will be easier to generate synergies and execute business strategy taking a global perspective. We also established a special office for new business development, integrated marketing companies in Japan, strengthened production capacity in the Asian region, promoted market and product development, and worked to reduce costs to strengthen profitability.

Operating Results

As a result of our efforts, consolidated net sales in the fiscal year ended March 31, 2014 increased 8.9% year on year to ¥93,434 million, buoyed by effects of weaker Japanese yen exchange rates.

Operating income increased 34.8% to ¥5,518 million. Cost-cutting measures and an increase in sales volumes combined with the weaker yen and reduced depreciation and amortization more than offset rising raw materials prices and valuation losses on inventory. The cost to sales ratio improved 0.3 point from 73.8% to 73.5%. The SG&A ratio improved by 0.8 point from 21.4% to 20.6%. The operating margin rose 1.1 point from 4.8% to 5.9%.

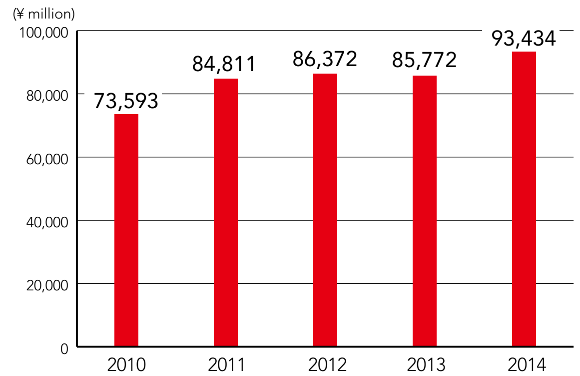
Net income increased 70.5% year-on-year to ¥4,280 million, mainly due to booking of foreign exchange gains and a rebound from the impairment loss booked in the previous fiscal year.

Operating Results by Business Segment

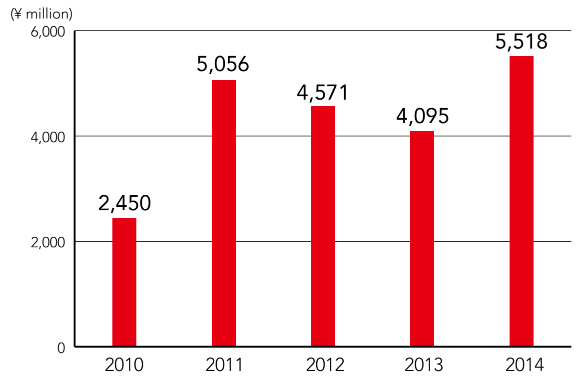
▶ Belt Business

Sales of automotive power transmission belt products improved for accessory drive power transmission belt and system products, due to growth in demand in

Net sales*



Operating income*



* Fiscal year endings are March 31.

overseas markets, chiefly in China and other Asian countries. Bando also boosted sales of variable speed belts for scooters in the Asian market.

Sales also grew for industrial power transmission belt products, including belts for agricultural machinery, driven by proactive marketing activities.

Conveyor belt sales grew on sales of conveyor belts for steelmakers and steep-incline conveyor belts for coal-fired power plants. Conveyor belt sales for resource development in Australia and Canada were also buoyant.

Sales likewise grew for light-duty resin conveyor belts (Sunline Belts) as we strengthened processing facilities in China and engaged in intensive marketing efforts.

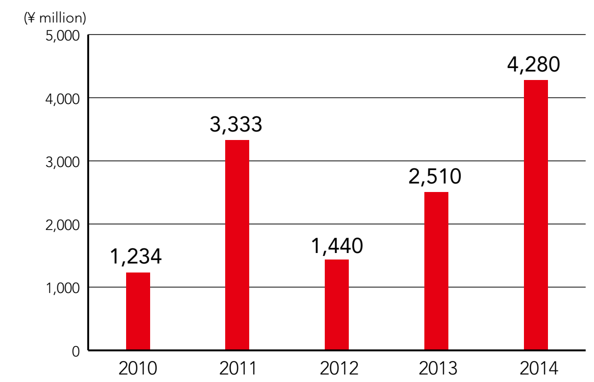
Segment net sales increased 10.7% year-on-year to ¥80,034 million, and segment profit grew 18.8% to ¥5,161 million.

▶ Elastomer Products Business

Sales of precision performance products, such as cleaning blades, for electrophotographic output devices declined amid a return by major customers to in-house manufacture, but high-performance rollers saw sales growth due to market recognition of their high quality, including long service life.

In high-performance film products, we expanded sales of films used in construction materials, benefited by an increase in housing starts. Bando also saw growth in sales of films for decorative displays after expansion of the lineup of BANDO GLANMESSE print media for inkjet printers.

Net income*



Segment net sales increased 0.5% year-on-year to ¥12,438 million. Elastomer Products returned to profitability after last year's segment loss of ¥164 million. Segment profit was ¥12 million.

▶ Other Business

Bando is engaged in other business, such as the manufacture and sales of robot-related devices. Sales in other business grew 49.4% year-on-year to ¥2,231 million. Segment profit increased 156.2% to ¥188 million.

Financial Position

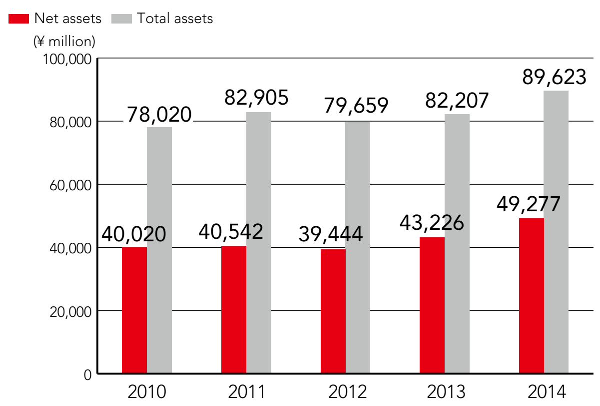
Total assets as of March 31, 2014 increased ¥7,415 million to ¥89,623 million compared with the previous fiscal year-end. This was due to a ¥1,993 million increase in notes and accounts receivable (current assets) and a ¥2,388 million increase in property, plant and equipment, net. Other assets increased ¥1,360 million, largely reflecting a rise in share prices of investments in securities.

Total liabilities increased ¥1,364 million compared with the previous fiscal year-end to ¥40,345 million. Current liabilities increased ¥639 million, and long-term liabilities rose ¥724 million due in part to booking of net defined benefit liability following revision of accounting standards relating to retirement benefit provisions.

Net assets increased ¥6,051 million from the previous fiscal year-end to ¥49,277 million.

Retained earnings increased ¥3,433 million due partly to the booking of net income, and accumulated other comprehensive income increased ¥2,576 million largely on foreign currency translation adjustments. As a result, the equity ratio increased 2.4 points from 52.0% at the previous fiscal year-end to 54.4%.

Net assets
Total assets*



Capital Investment and Fund Procurement

Capital investment undertaken in the fiscal year-ended March 31, 2014 totaled ¥5,046 million. Major capital investment items are shown below. The financing required was obtained from the following sources: the Company's own funds, the liquidation of notes and accounts receivable, and borrowings.

Business Segment	Amount (¥million)	Main Activities
Belts	¥2,682	Installed new and expanded or upgraded existing manufacturing equipment, upgraded molds
Elastomer Products	906	Streamlined and improved the energy efficiency of manufacturing equipment, improved manufacturing processes
Other	1,457	Improved welfare facilities, introduced solar power system(s)
Total	¥5,046	

Cash Flow

Net cash provided by operating activities totaled ¥6,459 million, compared with ¥7,004 million in the previous fiscal year, with the recording of income before income taxes and minority interests of ¥6,137 million. Net cash used in investing activities was ¥5,038 million, compared with ¥5,781 million used in the previous fiscal year. This was primarily due to the booking of ¥4,934 million in expenses for purchase of property, plant and equipment. Net cash used in financing activities was ¥1,548 million, compared with ¥463 million in the previous fiscal year, largely reflecting cash dividends paid totaling ¥847 million.

As a result, cash and cash equivalents as of March 31, 2014 totaled ¥12,981 million, up ¥714 million compared with the previous fiscal year-end.

Earnings Forecasts for the Year Ending March 31, 2015

The macro economy in the year ending March 31, 2015 is expected to show continued moderate overall recovery momentum, on expanded consumption in the United States and a pickup in Europe, as well as ongoing financial easing in Japan. Nonetheless, in light of increased geopolitical risk around the world and concern over the outlook for emerging economies, we remain cautious. At the same time, we foresee continued robust growth in the year ahead for our principal customer segment, the automotive industry, on increased global production volumes for automobiles and two-wheeled vehicles.

Based on such a prognosis, the Group will continue to take priority measures in the second year of the "Breakthroughs for the future" mid-to-long term business plan. We forecast consolidated net sales of ¥95,000 million, up 1.7% year-on-year, operating income of ¥5,800 million, up 5.1%, and net income of ¥4,300 million, up 0.5%.

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 year-end dividend of ¥5 for the fiscal year ended March 31, 2014, up ¥1 from the previous fiscal year end, resulting in the annual dividend of ¥10 per share, up ¥2 from the previous fiscal year. We plan to pay a dividend at the same level, ¥10, in the fiscal year ending March 31, 2015.

Business Risks

The Group considers the following to be important risks related to the performance and financial position of the Bando Group that could have a material effect on the decisions of investors. The forward-looking statements listed in this document are based on judgments made by the Group as of March 31, 2014.

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, 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 creating mechanisms 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 by disasters, depending on the size of the disaster.

Message from the CFO

Yoshitaka Oshima

Executive Officer, and Chief Financial Officer

Maintaining and improving a healthy financial position in support of the "Breakthroughs for the future" business plan

The Bando Group has set the following specific targets under the first stage of the "Breakthroughs for the future" mid-to-long term business plan.

■ Consolidated targets in the final year of BF-1 in the mid-to-long term plan

Fiscal 2017 net sales	¥100 billion
Fiscal 2017 operating income	¥10 billion
Fiscal 2017 ROA	6.0%

The following guidelines will drive our business to make these targets: 1) Evolution of global market strategy, 2) Product evolution, 3) Evolution in manufacturing, 4) New businesses creation, and 5) Evolution in management quality. In my role as CFO, I am focusing my attention on efficiently raising the funds necessary for strategic investment to maintain and improve our healthy financial position, based on the fifth guideline on evolution in management quality. During the five-year BF-1, we plan total capital investment of ¥25,000 million and will also invest ¥5,000 million in R&D to support the development of new businesses, in addition to our normal R&D investment.

We have diversified our fundraising methods since we were rated* by the credit ratings agency Rating and Investment Information, Inc. in fiscal 2007. We aim to choose the optimum fundraising method by contrasting the characteristics of the target investment with the interest rate and foreign-exchange trends on the market.

* Rating as of March 31, 2014: BBB+ (Issuer Rating)/a-2 (Short-term Rating)

Healthy finances

Reducing net interest-bearing debt to zero

The cash flows generated by strategic investments in growth products, defined through stronger management of our global portfolio, are first assigned to reduce net interest-bearing debt to zero. By the end of fiscal 2013, we had reduced net interest-bearing debt to ¥2,600 million, from ¥7,100 million in fiscal 2009, but our short-term business goal is to reduce this to zero as soon as possible. We also reduced the D/E ratio to an all-time low of 0.323 by the end of fiscal 2013 and aim to improve this further.

Improving the equity ratio

The equity ratio reached an all-time high of 54.4%, due to contributions from net income of ¥4,280 million and foreign currency translation adjustment of ¥3,230 million.

Achieving our ROA target

Strategic investment is necessary for growth, but we must invest judiciously if we are to maintain a healthy financial position. Our ROA target of 6% is based on total assets of around ¥100,000 million when operating income reaches ¥10,000 million (¥6,400 million on a net income basis). Accordingly, we will monitor and control any change in assets such that there is no significant increase in the balance of total assets from the ¥89,623 million as of March 31, 2014. If we achieve our ROA target, past trends suggest that ROE could surpass the previous all-time high of 12.3% in fiscal 2007, although this is not a direct target indicator for us.

Managing financial risk

We cannot ignore political change and other geopolitical risk that may impact our subsidiaries overseas, as well as foreign exchange and interest rate risk in Japan, including measures to counter the strong yen and a reversal of low interest rates. To hedge against such risks, we gather information from a consolidated business management perspective and need to respond rapidly to unusual events. We are steadily working on this and trying to prepare countermeasures based on various hypothetical scenarios.

Consolidated Balance Sheets

Bando Chemical Industries, Ltd. and Consolidated Subsidiaries
March 31, 2014 and 2013

Assets	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars (Note 4) 2014
Current Assets:			
Cash and cash equivalents (Note 6)	¥ 12,981	¥12,267	$126,179
Time deposits (Note 6)	211	226	2,050
Notes and accounts receivable (Note 6):			
Trade	18,905	16,912	183,761
Other	1,077	1,150	10,467
Allowance for doubtful accounts	(31)	(29)	(297)
Inventories (Note 5)	10,811	10,460	105,083
Deferred tax assets (Note 11)	656	231	6,378
Other current assets	931	657	9,040
Total Current Assets	45,541	41,873	442,661
Property, Plant and Equipment:			
Land	6,644	6,261	64,582
Buildings and structures	26,824	23,979	260,734
Machinery and equipment	54,729	48,767	531,966
Construction in progress	718	3,273	6,975
Other	12,840	12,044	124,813
	101,755	94,324	989,070
Accumulated depreciation	(70,933)	(65,890)	(689,476)
Property, Plant and Equipment, Net	30,822	28,434	299,594
Other Assets:			
Other intangible assets	1,059	1,112	10,298
Investments in securities (Notes 6 and 7)	5,513	5,052	53,588
Investments in affiliates (Note 6)	4,637	3,994	45,074
Deferred tax assets (Note 11)	724	543	7,037
Other — net	1,327	1,200	12,885
Total Other Assets	13,260	11,900	128,882
Total Assets	¥ 89,623	¥82,207	$871,137

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars (Note 4) 2014
Current Liabilities:			
Short-term borrowings (Notes 6 and 9)	¥ 3,348	¥ 2,285	$ 32,539
Current portion of long-term debt (Notes 6 and 9)	2,238	2,864	21,753
Notes and accounts payable (Note 6):			
Trade	14,167	14,803	137,706
Construction and other	2,526	2,985	24,548
Income taxes payable (Note 6)	1,364	349	13,255
Other current liabilities (Note 11)	3,142	2,860	30,551
Total Current Liabilities	26,785	26,145	260,352
Long-term Liabilities:			
Long-term debt (Notes 6 and 9)	10,202	10,626	99,161
Allowance for employees' retirement benefits (Note 10)	—	2,008	—
Net defined benefit liability (Note 10)	3,160	—	30,714
Other long-term liabilities (Note 11)	199	202	1,937
Total Long-term Liabilities	13,561	12,836	131,812
Net Assets (Note 12):			
Common stock			
Authorized: 378,500,000 shares			
Issued 2013 and 2014 — 94,427,703 shares	10,952	10,952	106,454
Capital surplus	2,968	2,968	28,852
Retained earnings	35,353	31,920	343,634
Treasury stock, at cost			
2013 — 315,201 shares			
2014 — 347,060 shares	(102)	(90)	(992)
Total Shareholders' Equity	49,171	45,750	477,948
Accumulated other comprehensive income			
Unrealized gains on available-for-sale securities	1,498	1,107	14,565
Deferred gains on hedges	4	—	36
Foreign currency translation adjustments	(852)	(4,082)	(8,287)
Remeasurements of defined benefit plans	(1,049)	—	(10,195)
Total Accumulated Other Comprehensive Income	(399)	(2,975)	(3,881)
Minority interests	505	451	4,906
Total Net Assets	49,277	43,226	478,973
Total Liabilities and Net Assets	¥89,623	¥82,207	$871,137

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Bando Chemical Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 4)
Consolidated Statements of Income	2014	2013	2014
Net Sales	¥93,434	¥85,772	$908,186
Cost of Sales	68,710	63,311	667,868
Gross profit	24,724	22,461	240,318
Selling, General and Administrative Expenses (Note 13)	19,206	18,366	186,684
Operating income	5,518	4,095	53,634
Other Income (Expenses):			
Interest and dividend income	188	163	1,825
Interest expense	(290)	(264)	(2,815)
Equity in earnings of affiliates	504	528	4,897
Foreign exchange gains (losses), net	238	437	2,313
Loss on disposal of property, plant and equipment	(85)	(112)	(828)
Impairment loss	—	(1,157)	—
Other, net	64	(150)	625
	619	(554)	6,017
Income before income taxes and minority interests	6,137	3,541	59,651
Income Taxes (Note 11):			
Current	1,946	833	18,914
Deferred	(180)	149	(1,749)
	1,766	982	17,165
Income before minority interests	4,371	2,559	42,486
Minority Interests	91	49	878
Net Income	¥ 4,280	¥ 2,510	$ 41,608

	Yen		U.S. dollars (Note 4)
	2014	2013	2014
Per Share of Common Stock (Note 14)			
Basic net income	¥45.49	¥26.47	$0.44
Cash dividends	10.00	8.00	0.10

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 4)
Consolidated Statements of Comprehensive Income	2014	2013	2014
Income before Minority Interests	¥4,371	¥2,559	$42,486
Other Comprehensive Income (Note 15):			
Unrealized gains (losses) on available-for-sale securities	388	636	3,773
Deferred gains (losses) on hedges	4	—	36
Foreign currency translation adjustments	3,106	2,039	30,191
Share of other comprehensive income in affiliates	180	322	1,748
Total other comprehensive income	3,678	2,998	35,748
Comprehensive Income	¥8,049	¥5,557	$78,234
Comprehensive Income Attributable to:			
Shareholders of the parent	¥7,906	¥5,474	$76,842
Minority interests	143	82	1,392

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, 2014 and 2013

	Thousands of shares	Millions of yen									
	Number of shares of common stock outstanding	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains on available-for-sale securities	Deferred gains on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Minority interests	Total net assets
Balance at April 1, 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)
Retirement of treasury stock	(2,000)	—	(569)	—	569	—	—	—	—	—	—
Net change during the year	—	—	—	—	—	631	—	2,333	—	(434)	2,530
Balance at April 1, 2013	94,427	10,952	2,968	31,920	(90)	1,107	—	(4,082)	—	451	43,226
Net income	—	—	—	4,280	—	—	—	—	—	—	4,280
Cash dividends	—	—	—	(847)	—	—	—	—	—	—	(847)
Purchases of treasury stock	—	—	—	—	(12)	—	—	—	—	—	(12)
Sales of treasury stock	—	—	0	—	0	—	—	—	—	—	0
Net change during the year	—	—	—	—	—	391	4	3,230	(1,049)	54	2,630
Balance at March 31, 2014	94,427	¥10,952	¥2,968	¥35,353	¥(102)	¥1,498	¥ 4	¥ (852)	¥(1,049)	¥505	¥49,277

	Thousands of U.S. dollars (Note 4)									
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains on available-for-sale securities	Deferred gains on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Minority interests	Total net assets
Balance at April 1, 2013	$106,454	$28,851	$310,263	$(872)	$10,759	$—	$(39,679)	$ —	$4,380	$420,156
Net income	—	—	41,608	—	—	—	—	—	—	41,608
Cash dividends	—	—	(8,237)	—	—	—	—	—	—	(8,237)
Purchases of treasury stock	—	—	—	(123)	—	—	—	—	—	(123)
Sales of treasury stock	—	1	—	3	—	—	—	—	—	4
Net change during the year	—	—	—	—	3,806	36	31,392	(10,195)	526	25,565
Balance at March 31, 2014	$106,454	$28,852	$343,634	$(992)	$14,565	$36	$ (8,287)	$(10,195)	$4,906	$478,973

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Bando Chemical Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥ 6,137	¥ 3,541	$ 59,651
Adjustments for:			
Income taxes paid	(1,078)	(1,131)	(10,479)
Income taxes refunded	153	202	1,490
Depreciation and amortization	4,174	4,389	40,576
Amortization of goodwill and negative goodwill	(27)	(59)	(259)
Impairment loss	—	1,157	—
Decrease in allowance for doubtful accounts	(18)	(10)	(170)
Decrease in allowance for retirement benefits	—	(164)	—
Decrease in net defined benefit liability	(500)	—	(4,861)
Foreign exchange losses (gains), net	25	(103)	245
Equity in earnings of affiliates	(504)	(528)	(4,897)
Loss on sales and disposal of property, plant and equipment	81	111	785
Loss (gain) on sales of investments in securities	(26)	0	(249)
Changes in assets and liabilities:			
Decrease (increase) in notes and accounts receivable — trade	(662)	1,341	(6,432)
Decrease in inventories	822	8	7,994
Decrease in notes and accounts payable — trade	(1,905)	(2,103)	(18,516)
Other, net	(213)	353	(2,095)
Net Cash Provided by Operating Activities	6,459	7,004	62,783
Cash Flows from Investing Activities:			
Decrease (increase) in time deposits	59	(81)	570
Purchases of property, plant and equipment	(4,934)	(4,280)	(47,955)
Proceeds from sales of property, plant and equipment	17	492	169
Purchases of intangible assets	(164)	(299)	(1,593)
Purchases of investments in securities	(20)	(50)	(190)
Proceeds from sales of investments in securities	59	0	574
Proceeds from redemption of investments in securities	100	—	972
Purchases of investments in subsidiaries	(67)	(457)	(651)
Payments related to disposal of investments in subsidiaries resulting in change in scope of consolidation	—	(1,077)	—
Other, net	(88)	(29)	(862)
Net Cash Used in Investing Activities	(5,038)	(5,781)	(48,966)
Cash Flows from Financing Activities:			
Increase (decrease) in short-term borrowings	530	(41)	5,153
Proceeds from long-term borrowings	1,659	3,541	16,130
Payments on long-term borrowings	(2,864)	(2,682)	(27,839)
Purchases of treasury stock	(12)	(497)	(112)
Cash dividends paid	(847)	(761)	(8,237)
Cash dividends paid to minority shareholders	(3)	(10)	(27)
Other, net	(11)	(13)	(115)
Net Cash Used in Financing Activities	(1,548)	(463)	(15,047)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	841	484	8,172
Net Increase (Decrease) in Cash and Cash Equivalents	714	1,245	6,942
Cash and Cash Equivalents at Beginning of Year	12,267	11,022	119,237
Cash and Cash Equivalents at End of Year	¥12,981	¥12,267	$126,179

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 25 subsidiaries (collectively, the "Companies") as of March 31, 2014 (27 subsidiaries as of March 31, 2013).

Higashinihon Bando Co., Ltd. and Hokkaido Bando Co., Ltd. merged on April 1, 2013. Higashinihon Bando Co., Ltd. was the surviving company. As a result, Hokkaido Bando Co., Ltd. was excluded from the scope of consolidation. Nishinihon Bando Co., Ltd. and Kyushu Bando Co., Ltd. merged on April 1, 2013. Nishinihon Bando Co., Ltd. was the surviving company. As a result, Kyushu Bando Co., Ltd. was excluded from the scope of consolidation.

Investments in 7 affiliates, on which the Company have significant influence, are accounted for by the equity method as of March 31, 2014 and 2013, respectively.

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 translations

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. Income and expense accounts are translated at the average exchange rate for the year. Differences arising from such translations are recorded as foreign currency translation adjustments and minority interests in the consolidated balance sheet.

(3) Cash and cash equivalents

Cash and cash equivalents are composed of cash on hand, demand deposits, and short-term investments with original maturities of three months or less that are readily convertible to cash and exposed to insignificant risk of fluctuation of values.

(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 determined by the first-in, first-out method or net selling value. Merchandise and supplies are stated at the lower of cost determined by the gross average method or net selling value.

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 except for lease assets 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 and negative goodwill which occurred before March 31, 2010 are 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. The retirement benefit obligations are attributed to each period by the straight-line method over estimated years of the eligible employees.

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.

Certain consolidated subsidiaries adopt the simplified method to calculate net defined benefit liability and retirement benefit costs.

(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 deferred 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. Interest rate and currency swap contracts are used to reduce interest rate risk and foreign exchange risk. The Companies do not enter into derivatives for trading or speculative purpose.

If derivatives are used for hedging purpose and qualify for hedging 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) Changes in accounting policies

Effective from the year ended March 31, 2014, the Company and its consolidated domestic subsidiaries have applied the Accounting Standard for Retirement Benefits (Accounting Standards Board of Japan ("ASBJ") Statement No. 26, May 17, 2012 (hereinafter, "Statement No. 26")) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012 (hereinafter, "Guidance No. 25")) except article 35 of Statement No. 26 and article 67 of Guidance No. 25, and modified to record retirement benefit obligations net of plan assets as net defined benefit liability, and record unrecognized actuarial gains (losses) and prior service costs as net defined benefit liability.

In accordance with the transitional treatment stipulated in article 37 of Statement No. 26, the effects of such changes on the current year have been adjusted through remeasurements of defined benefit plans in accumulated other comprehensive income.

As a result, net defined benefit liability of ¥3,160 million ($30,714 thousand) was recorded and accumulated other comprehensive income decreased by ¥1,049 million ($10,195 thousand), as of March 31, 2014.

In addition, net assets per share decreased by ¥11.15.

(17) Accounting pronouncements that have not been adopted by the Company

Article 35 of Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012)

Article 67 of Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012)

(a) Overview

The standard includes revisions to the accounting treatment of unrecognized actuarial gains (losses) and prior service costs, the calculation method of retirement benefit obligations and service costs, and the improvement of disclosure.

(b) Scheduled date of adoption

The revisions to the calculation method of retirement benefit obligations and service costs will be adopted effective April 1, 2014.

These accounting standards will not be applied retrospectively to the prior period's consolidated financial statements in accordance with the transitional accounting treatment.

(c) Effect of adopting the standard

The impacts of the revised calculation method of retirement benefit obligations and service costs on the consolidated financial statements are insignificant.

(18) Additional information

As the Company and certain of its domestic consolidated subsidiaries have been given approval to adopt the consolidated taxation system from the year ending March 31, 2015, the Company has applied the accounting treatment and presentation regarding deferred taxes in accordance with the "Practical Solution on Tentative Treatment of Tax Effect Accounting under Consolidated Taxation System (Part 1)" (ASBJ Practical Issues Task Force ("PITF") No. 5, March 18, 2011) and "Practical Solution on Tentative Treatment of Tax Effect Accounting under Consolidated Taxation System (Part 2)" (ASBJ PITF No. 7, June 30, 2010) from the year ended March 31, 2014 under the assumption that the Company will adopt the consolidated taxation system.

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 ¥102.88 = U.S.$1.00, the approximate rate of exchange as at March 31, 2014, has been used for the purpose of such translations.

5. Inventories

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

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Merchandise and finished goods	¥ 6,580	¥ 6,569	$ 63,953
Work in process	1,467	1,424	14,263
Raw materials and supplies	2,764	2,466	26,867
Total	¥10,811	¥10,460	$105,083

6. 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 secure 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, and interest rate and currency swap contracts used to hedge interest rate risk and foreign exchange risk on bank borrowings.

(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. The contract amounts and other information described in Note 8, "Derivatives" are not indicative of market risk exposure to derivative transactions.

Book values and fair values of the financial instruments as of March 31, 2014 and 2013 were as follows:

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

	Millions of yen		
	2014		
	Book value	Fair value	Difference
Cash and cash equivalents	¥12,981	¥12,981	¥—
Time deposits	211	211	—
Notes and accounts receivable-trade	18,905	18,905	—
Investments in securities			—
Available-for-sale securities	5,372	5,372	—
Total	¥37,469	¥37,469	¥—
Notes and accounts payable-trade	¥14,167	¥14,167	¥—
Short-term borrowings	3,348	3,348	—
Income taxes payable	1,364	1,364	—
Long-term borrowings	9,407	9,427	20
Bonds	3,000	3,032	32
Total	¥31,286	¥31,338	¥52
Derivative transactions			
Contracts to which hedge accounting was not applied	¥ (11)	¥ (11)	¥—
Contracts to which hedge accounting was applied	63	63	—

	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	—	—	—

	Thousands of U.S. dollars		
	2014		
	Book value	Fair value	Difference
Cash and cash equivalents	$126,179	$126,179	$ —
Time deposits	2,050	2,050	—
Notes and accounts receivable-trade	183,761	183,761	—
Investments in securities			—
Available-for-sale securities	52,221	52,221	—
Total	$364,211	$364,211	$ —
Notes and accounts payable-trade	$137,706	$137,706	$ —
Short-term borrowings	32,539	32,539	—
Income taxes payable	13,255	13,255	—
Long-term borrowings	91,433	91,631	198
Bonds	29,160	29,470	310
Total	$304,093	$304,601	$508
Derivative transactions			
Contracts to which hedge accounting was not applied	$ (109)	$ (109)	$ —
Contracts to which hedge accounting was applied	612	612	—

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 8, "Derivatives."

Financial instruments whose fair values were not available as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Available-for-sale securities			
Unlisted equity securities	¥ 141	¥ 236	$ 1,367
Investments in affiliates	4,637	3,994	45,074
Total	¥4,778	¥4,230	$46,441

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 investments in securities with maturities were as follows:

	Millions of yen			
	2014			
	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	¥12,981	¥—	¥—	¥—
Time deposits	211	—	—	—
Notes and accounts receivable-trade	18,905	—	—	—
Total	¥32,097	¥—	¥—	¥—

	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	¥—	¥—	¥—

	Thousands of U.S. dollars			
	2014			
	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	$126,179	$—	$—	$—
Time deposits	2,050	—	—	—
Notes and accounts receivable-trade	183,761	—	—	—
Total	$311,990	$—	$—	$—

Please see Note 9, "Short-term Borrowings and Long-term Debt" for annual maturities of long-term debt.

7. Investments in Securities

Marketable securities classified as available-for-sale securities as of March 31, 2014 and 2013 were as follows:

	Millions of yen		
	2014		
	Acquisition cost	Fair value (Book value)	Unrealized gains (losses)
Securities with gross unrealized gains:			
Equity securities	¥3,099	¥5,316	¥2,217
Securities with gross unrealized losses:			
Equity securities	59	56	(3)
Total	¥3,158	¥5,372	¥2,214

	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

	Thousands of U.S. dollars		
	2014		
	Acquisition cost	Fair value (Book value)	Unrealized gains (losses)
Securities with gross unrealized gains:			
Equity securities	$30,122	$51,671	$21,549
Securities with gross unrealized losses:			
Equity securities	574	550	(24)
Total	$30,696	$52,221	$21,525

Information about available-for-sale securities sold during the years ended March 31, 2014 and 2013 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Proceeds	¥59	¥0	$574
Realized gains	26	0	256
Realized losses	(0)	(0)	(7)

Information about available-for-sale securities redeemed during the years ended March 31, 2014 and 2013 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Proceeds	¥100	¥—	$972
Realized gains	—	—	—
Realized losses	—	—	—

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.

8. Derivatives

Derivative transactions to which hedge accounting was not applied for the years ended March 31, 2014 and 2013 were as follows:

(1) Currencies

	Millions of yen							
	2014				2013			
	Contract amount	Contract amount due after 1 year	Fair value	Unrealized gains (losses)	Contract amount	Contract amount due after 1 year	Fair value	Unrealized gains (losses)
Foreign currency forward contracts:								
Buy:								
Japanese yen	¥260	¥—	¥(11)	¥(11)	¥—	¥—	¥—	¥—

	Thousands of U.S. dollars			
	2014			
	Contract amount	Contract amount due after 1 year	Fair value	Unrealized gains (losses)
Foreign currency forward contracts:				
Buy:				
Japanese yen	$2,524	$—	$(109)	$(109)

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

(2) Interest rate and currencies

	Millions of yen							
	2014				2013			
	Contract amount	Contract amount due after 1 year	Fair value	Unrealized gains (losses)	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/India rupee payment	¥—	¥—	¥—	¥—	¥ 400	¥320	¥(16)	¥(16)
U.S. dollar receipt/India rupee payment	—	—	—	—	679	543	1	1
Total	¥—	¥—	¥—	¥—	¥1,079	¥863	¥(15)	¥(15)

* 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, 2014 and 2013 were as follows:

(1) Currencies

	Millions of yen							
	2014				2013			
	Main hedged item	Contract amount	Contract amount due after 1 year	Fair value	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	¥334	¥—	*	Notes and accounts receivable-trade	¥598	¥—	*
Euro		282	—	*		191	—	*
Buy:								
U.S. dollar	Notes and accounts payable-trade	30	—	*				
Japanese yen		22	—	*				
Great Britain pound		2	—	*				
Total		¥670	¥—	*		¥789	¥—	*

	Thousands of U.S. dollars			
	2014			
	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	$3,249	$—	*
Euro		2,739	—	*
Buy:				
U.S. dollar	Notes and accounts payable-trade	293	—	*
Japanese yen		212	—	*
Great Britain pound		17	—	*
Total		$6,510	$—	*

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

(2) Interest rate

	Millions of yen							
	2014				2013			
	Main hedged item	Contract amount	Contract amount due after 1 year	Fair value	Main hedged item	Contract amount	Contract amount due after 1 year	Fair value
Interest rate swap contracts:								
Floating rate receipt, fixed rate payment	Long-term borrowings	¥6,306	¥4,750	*	Long-term borrowings	¥7,729	¥5,588	*

	Thousands of U.S. dollars			
	2014			
	Main hedged item	Contract amount	Contract amount due after 1 year	Fair value
Interest rate swap contracts:				
Floating rate receipt, fixed rate payment	Long-term borrowings	$61,292	$46,170	*

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

(3) Interest rate and currencies

	Millions of yen							
	2014				2013			
	Main hedged item	Contract amount	Contract amount due after 1 year	Fair value	Main hedged item	Contract amount	Contract amount due after 1 year	Fair value
Interest rate swap contracts:								
Floating rate receipt, fixed rate payment:								
Japanese yen receipt/India rupee payment	Long-term borrowings	¥320	¥240	¥ (43)	Long-term borrowings	¥—	¥—	¥—
U.S. dollar receipt/India rupee payment		660	514	106		—	—	—
Total		¥980	¥754	¥ 63		¥—	¥—	¥—

	Thousands of U.S. dollars			
	2014			
	Main hedged item	Contract amount	Contract amount due after 1 year	Fair value
Interest rate swap contracts:				
Floating rate receipt, fixed rate payment:				
Japanese yen receipt/India rupee payment	Long-term borrowings	$3,110	$2,333	$ (422)
U.S. dollar receipt/India rupee payment		6,420	4,999	1,034
Total		$9,530	$7,332	$ 612

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

9. Short-term Borrowings and Long-term Debt

Short-term borrowings as of March 31, 2014 and 2013 represented bank overdrafts with weighted average interest rates of 1.97% and 1.08%, 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 ($58,320 thousand). ¥3,449 million ($33,527 thousand) was unused as of March 31 2014.

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

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Unsecured long-term borrowings from banks and other financial institutions with weighted average interest rate of 1.57% in 2014 and 1.69% in 2013	¥ 9,407	¥10,462	$ 91,433
Unsecured bonds due 2017, 0.99%	3,000	3,000	29,160
Obligations under finance leases	33	28	321
	12,440	13,490	120,914
Less current portion of long-term debt	2,238	2,864	21,753
Total	¥10,202	¥10,626	$ 99,161

Annual maturities of long-term debt outstanding as of March 31, 2014 were as follows:

Year ending at March 31	Millions of yen	Thousands of U.S. dollars
2015	¥ 2,238	$ 21,753
2016	2,129	20,695
2017	3,560	34,607
2018	3,010	29,253
2019	1,502	14,598
2020 and thereafter	1	8
Total	¥12,440	$120,914

10. Retirement Benefits

The details of retirement benefits for the year ended March 31, 2014 and 2013 were as follows:

Year ended March 31, 2014

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. Certain domestic consolidated subsidiaries join the Smaller Enterprise Retirement Allowance Mutual Aid system.

Certain domestic consolidated subsidiaries contribute to a multiemployer pension plan. One domestic consolidated subsidiary has contributed to a multiemployer pension plan but left the plan on March 31, 2014. The related costs were ¥57 million ($552 thousand) and charged to income as incurred.

Certain consolidated subsidiaries adopt the simplified method to calculate net defined benefit liability and retirement benefit costs.

(1) Defined benefit plans

(a) Movement in retirement benefit obligations, except defined benefit plans to which the simplified method was applied

	Millions of yen	Thousands of U.S. dollars
Balance at April 1, 2013	¥10,952	$106,455
Service cost	454	4,408
Interest cost	139	1,352
Actuarial losses (gains) arising during the year	271	2,635
Retirement benefits paid	(618)	(6,008)
Other	76	743
Balance at March 31, 2014	¥11,274	$109,585

(b) Movement in plan assets, except defined benefit plans to which the simplified method was applied

	Millions of yen	Thousands of U.S. dollars
Balance at April 1, 2013	¥7,548	$73,368
Expected return on plan assets	152	1,479
Actuarial losses (gains) arising during the year	478	4,644
Contributions paid by the employer	775	7,532
Retirement benefits paid	(611)	(5,941)
Other	53	518
Balance at March 31, 2014	¥8,395	$81,600

(c) Movement in net defined benefit liability of defined benefit plans to which the simplified method was applied

	Millions of yen	Thousands of U.S. dollars
Balance at April 1, 2013	¥337	$3,272
Retirement benefit costs	27	262
Retirement benefit paid	(36)	(353)
Contributions to the plans	(47)	(453)
Balance at March 31, 2014	¥281	$2,728

(d) Reconciliation of retirement benefit obligations and plan assets with net defined benefit liability and net defined benefit asset on the Consolidated balance sheets

	Millions of yen	Thousands of U.S. dollars
Retirement benefit obligations under the funded plans	¥11,913	$115,797
Fair value of plan assets	(8,847)	(85,992)
	3,066	29,805
Retirement benefit obligations under the unfunded plans	94	909
Net liabilities or assets recorded on the Consolidated balance sheets	3,160	30,714
Net defined benefit liability	3,160	30,714
Net liabilities or assets recorded on the Consolidated balance sheets	¥ 3,160	$ 30,714

* Defined benefit plans to which the simplified method was applied are included in the above table.

(e) Retirement benefit costs

	Millions of yen	Thousands of U.S. dollars
Service cost	¥454	$4,408
Interest cost	139	1,352
Expected return on plan assets	(152)	(1,479)
Amortization of actuarial losses (gains)	(57)	(553)
Amortization of prior service cost	(46)	(447)
Retirement benefit costs based on the simplified method	27	262
Total retirement benefit costs of defined benefit plans	¥365	$3,543

(f) Remeasurements of defined benefit plans

Breakdown of remeasurements of defined benefit plans (before tax effects)

	Millions of yen	Thousands of U.S. dollars
Unrecognized actuarial losses (gains)	¥(1,702)	$(16,541)
Unrecognized prior service cost	73	710
Total	¥(1,629)	$(15,831)

(g) Plan assets

Plan assets consisted of the following:

	2014
Equity securities	44%
Bonds	28
General account	12
Cash and deposits	6
Other	10
Total	100%

* Employee retirement benefit trust set up for the corporate pension plan accounts for 19% of total plan assets.

Expected rate of return on plan assets

The long-term expected rate of return on plan assets is determined based on the current and expected allocation of plan assets and on the current and expected future long-term rates of return on various assets composing plan assets.

(h) Actuarial assumptions

The principal actuarial assumptions at March 31, 2014 were as follows:

Discount rate	Mainly 1.2%
Expected rate of return on plan assets	Mainly 2.5%

(2) Defined contribution pension plans

Contributions to the defined contribution pension plans were ¥182 million ($1,769 thousand) for the year ended March 31, 2014.

(3) Multiemployer plan

(a) The funded status of the multiemployer plan:

	Millions of yen
	As of March 31, 2013
Plan assets	¥ 32,317
Retirement benefit obligations for calculation of pension finance	45,527
Total	¥(13,211)

(b) Ratio of total required contribution amount of the Companies to total funds of the plan

(From April 1, 2012 to March 31, 2013) 1.4%

The above ratio does not match the actual contribution ratio of the Companies.

(c) Supplementary explanation

The main reason for the differences in the amounts described above in (a) was the balance of prior service cost of ¥12,758 million ($124,008 thousand) as of March 31, 2013. Prior service cost is amortized by the straight-line method over 18 years. The Companies record special contribution of ¥29 million ($284 thousand) as expenses.

Year ended March 31, 2013

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

Allowance for employees' retirement benefits as of March 31, 2013 consisted of the following:

	Millions of yen
Projected benefit obligation (*)	¥(11,762)
Plan assets at fair value	8,021
Unrecognized actuarial losses	1,852
Unrecognized prior service cost	(119)
Allowance for employees' retirement benefits	¥ (2,008)

* Certain consolidated subsidiaries adopt the simplified method to calculate projected benefit obligation.

Net periodic benefit costs for the year ended March 31, 2013 consisted of the following:

	Millions of yen
Service cost (*1)	¥477
Interest cost	204
Expected return on plan assets	(134)
Amortization of actuarial losses	220
Amortization of prior service cost	(46)
Other (*2)	193
Total	¥914

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

*2 Other consists mainly of payments for the defined contribution pension plans.

Assumptions used in the calculation for the year ended March 31, 2013 consisted of the following:

Discount rate	Mainly 1.2%
Expected rate of return on plan assets	Mainly 2.5%
Method of attributing expected benefits to periods	Straight-line basis
Amortization period for unrecognized prior service costs	10 years
Amortization period for unrecognized actuarial gains or losses	10 years

11. Income Taxes

Deferred tax assets and liabilities as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred tax assets:			
Contributions to retirement benefit trust	¥ 1,381	¥ 1,370	$ 13,428
Allowance for employees' retirement benefits	—	689	—
Net defined benefit liability	1,089	—	10,581
Tax loss carryforwards	563	355	5,472
Impairment loss	230	307	2,240
Other	1,424	901	13,841
Valuation allowance for deferred tax assets	(1,058)	(924)	(10,287)
Total	¥ 3,629	¥ 2,698	$ 35,275
Deferred tax liabilities:			
Gain on set-up of retirement benefit trust	¥(1,080)	¥(1,080)	$(10,493)
Unrealized gain on available-for-sale securities	(718)	(530)	(6,975)
Reserve for deferred capital gains related to property, plant and equipment	(266)	(266)	(2,588)
Other	(234)	(86)	(2,284)
Total	¥(2,298)	¥(1,962)	$(22,340)
Net deferred tax assets*	¥ 1,331	¥ 736	$ 12,935

* Net deferred tax assets were included in the following accounts in the consolidated balance sheets as of March 31, 2014 and 2013:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Current assets — Deferred tax assets	¥656	¥231	$6,378
Other assets — Deferred tax assets	724	543	7,037
Current liabilities — Other	2	0	19
Long-term liabilities — Other	¥ 47	¥ 38	$ 461

Reconciliation of the statutory tax rate to the effective income tax rate for the years ended March 31, 2014 and 2013 was as follows:

	2014	2013
Statutory tax rate	38.0%	38.0%
Different income tax rates applicable to income in certain foreign countries	(6.9)	(6.6)
Equity in earnings of affiliates	(3.1)	(5.7)
Nondeductible expenses	1.8	3.2
Nontaxable income	(0.3)	(0.3)
Tax deduction	(1.9)	(0.5)
Change in valuation allowance	(0.2)	(2.8)
Other, net	1.4	2.4
Effective income tax rate	28.8%	27.7%

Change in statutory effective tax rate

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 10 of 2014) was promulgated on March 31, 2014, and the Company is no longer subject to the Special Reconstruction Corporation Tax for the fiscal years beginning on or after April 1, 2014. Consequently, the effective statutory tax rate used to calculate the Company's deferred tax assets and liabilities was changed from 38.0% to 35.6% for the temporary differences expected to be reversed during the fiscal year beginning on April 1, 2014. This change had no material impact on the consolidated financial statements for the year ended March 31, 2014.

12. 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 continues to provide 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 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 sum of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Act, additional paid-in capital and legal reserve may be reversed 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 permits Japanese companies to repurchase/dispose of treasury stock by resolution of the Board of Directors. The amount of treasury stock to be 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.

13. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2014 and 2013 principally consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Salaries	¥5,535	¥5,285	$53,796
Packing and delivery expenses	2,201	1,964	21,397
Research and development costs	1,142	1,109	11,102
Retirement benefit costs	209	414	2,032
Provision for doubtful accounts	¥ 11	¥ 5	$ 109

14. Net Income per Share

The Companies had no dilutive securities for the years ended March 31, 2014 and 2013.

Basic net income per share for the years ended March 31, 2014 and 2013 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Net income available to common stockholders	¥4,280	¥2,510	$41,608

	Thousands of shares	
	2014	2013
Weighted-average number of shares	94,096	94,812

	Yen		U.S. dollars
	2014	2013	2014
Net income per share	¥45.49	¥26.47	$0.44

15. Consolidated Statements of Comprehensive Income

Reclassification adjustments regarding other comprehensive income and related income tax effects for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Unrealized gains (losses) on available-for-sale securities:			
Recognized during the year	¥ 601	¥ 968	$ 5,843
Reclassification adjustments	(26)	32	(249)
Before tax effects adjustments	575	1,000	5,594
Income tax effects	(187)	(364)	(1,820)
Unrealized gains (losses) on available-for-sale securities	388	636	3,773
Deferred gains on hedges:			
Recognized during the year	5	—	52
Before tax effects adjustments	5	—	52
Income tax effects	(1)	—	(16)
Deferred gain on hedges	4	—	36
Foreign currency translation adjustments:			
Recognized during the year	3,106	2,039	30,191
Foreign currency translation adjustments	3,106	2,039	30,191
Share of other comprehensive income in affiliates accounted for by the equity method:			
Recognized during the year	180	322	1,748
Share of other comprehensive income in affiliates accounted for by the equity method	180	322	1,748
Total other comprehensive income	¥3,678	¥2,998	$35,748

16. 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 Companies have 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 two reportable segments according to products based on operating divisions: "Belt Business" and "Elastomer Products Business."

The "Belt Business" segment includes manufacturing and sales of automotive power transmission belt products, industrial power transmission belt products and conveyor belts, etc. The "Elastomer Products Business" segment includes manufacturing and sales of components for printers and other electrophotographic output equipment, and high-performance film products, etc.

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

The accounting treatments applied to the reportable segments is 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 — 2014

	Reportable segments						
	Belt Business	Elastomer Products Business	Total reportable segments	Other	Total	Adjustments	Consolidated Financial Statements
Net sales							
Sales to customers	¥79,894	¥12,423	¥92,317	¥1,117	¥93,434	¥ —	¥93,434
Intersegment sales	140	15	155	1,114	1,269	(1,269)	—
Total	¥80,034	¥12,438	¥92,472	¥2,231	¥94,703	¥(1,269)	¥93,434
Segment profit	¥ 5,161	¥ 12	¥ 5,173	¥ 188	¥ 5,361	¥ 157	¥ 5,518
Segment assets	¥74,506	¥ 9,292	¥83,798	¥2,376	¥86,174	¥ 3,449	¥89,623
Other:							
Depreciation and amortization	¥ 3,354	¥ 688	¥ 4,042	¥ 85	¥ 4,127	¥ 112	¥ 4,239
Increase in property, plant and equipment and other intangible assets	¥ 2,682	¥ 907	¥ 3,589	¥ 569	¥ 4,158	¥ 889	¥ 5,047

Millions of yen — 2013

	Reportable segments						
	Belt Business	Elastomer Products Business	Total reportable segments	Other	Total	Adjustments	Consolidated Financial Statements
Net sales							
Sales to customers	¥72,142	¥12,378	¥84,520	¥1,252	¥85,772	¥ —	¥85,772
Intersegment sales	133	3	136	242	378	(378)	—
Total	¥72,275	¥12,381	¥84,656	¥1,494	¥86,150	¥ (378)	¥85,772
Segment profit (loss)	¥ 4,344	¥ (164)	¥ 4,180	¥ 74	¥ 4,254	¥ (159)	¥ 4,095
Segment assets	¥66,843	¥ 9,204	¥76,047	¥1,513	¥77,560	¥4,647	¥82,207
Other:							
Depreciation and amortization	¥ 3,363	¥ 1,013	¥ 4,376	¥ 30	¥ 4,406	¥ 32	¥ 4,438
Increase in property, plant and equipment and other intangible assets	¥ 3,650	¥ 624	¥ 4,274	¥ 155	¥ 4,429	¥ 624	¥ 5,053
Impairment loss	¥ —	¥ 852	¥ 852	¥ 305	¥ 1,157	¥ —	¥ 1,157

Thousands of U.S. dollars — 2014

	Reportable segments						
	Belt Business	Elastomer Products Business	Total reportable segments	Other	Total	Adjustments	Consolidated Financial Statements
Net sales							
Sales to customers	$776,575	$120,752	$897,327	$10,859	$908,186	$ —	$908,186
Intersegment sales	1,366	143	1,509	10,824	12,333	(12,333)	—
Total	$777,941	$120,895	$898,836	$21,683	$920,519	$(12,333)	$908,186
Segment profit	$ 50,170	$ 114	$ 50,284	$ 1,822	$ 52,106	$ 1,528	$ 53,634
Segment assets	$724,201	$ 90,323	$814,524	$23,090	$837,614	$ 33,523	$871,137
Other:							
Depreciation and amortization	$ 32,597	$ 6,691	$ 39,288	$ 826	$ 40,114	$ 1,089	$ 41,203
Increase in property, plant and equipment and other intangible assets	$ 26,070	$ 8,813	$ 34,883	$ 5,533	$ 40,416	$ 8,637	$ 49,053

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

*2 "Adjustments" are as follows:

(a) Adjustments of segment profit (loss) include ¥12 million ($122 thousand) and ¥(38) million of the elimination of intersegment transactions, and ¥145 million ($1,406 thousand) and ¥(121) million of corporate expenses for the years ended March 31, 2014 and 2013, respectively. 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.

(b) Adjustments of segment assets include ¥(4,166) million ($(40,491) thousand) and ¥(2,226) million of the elimination of intersegment balances, and ¥7,615 million ($74,014 thousand) and ¥6,873 million of corporate assets for the years ended March 31, 2014 and 2013, respectively.

(c) Adjustments of "Increase in property, plant and equipment and other intangible assets" is principally related to those not attributable to reportable segments.

*3 "Segment profit (loss)" is adjusted to operating income described in the consolidated statements of income.

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

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

(4) Changes in reportable segments

Along with the reorganization effective April 1, 2013, the Companies reclassified reportable segments from "Power Transmission," "Multimedia Parts," "Industrial Products" and "Plastics Products" to "Belt Business" and "Elastomer Products Business." Segment information for the year ended March 31, 2013 has been prepared based on the new reportable segments.

Information related to reportable segments

Information about geographic areas was as follows:

(a) Net sales

Millions of yen — 2014

Japan	Asia	China	Other	Total
¥50,165	¥22,781	¥11,092	¥9,396	¥93,434

Millions of yen — 2013

Japan	Asia	China	Other	Total
¥50,312	¥20,029	¥7,641	¥7,790	¥85,772

Thousands of U.S. dollars — 2014

Japan	Asia	China	Other	Total
$487,610	$221,434	$107,812	$91,330	$908,186

(b) Property, plant and equipment

Millions of yen — 2014

Japan	Asia	China	Other	Total
¥17,526	¥8,425	¥1,679	¥3,192	¥30,822

Millions of yen — 2013

Japan	Asia	China	Other	Total
¥17,039	¥7,190	¥1,272	¥2,933	¥28,434

Thousands of U.S. dollars — 2014

Japan	Asia	China	Other	Total
$170,355	$81,890	$16,316	$31,033	$299,594

17. Business Combination

(Transactions under common control)

1. Overview of business combination

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 sales of power transmission belts, conveyor belts, polyurethane functional components)

Hokkaido Bando Co., Ltd. (manufacture and sales of power transmission belts and conveyor belts)

(2) Date of business combination

April 1, 2013

(3) 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.

(4) Name of the company after the merger

Higashinihon Bando Co., Ltd.

(5) Other matters

The purpose is to enhance the operating structure including reorganization of the operating base in the entire general industrial and maintenance markets, as well as to improve efficiency and competitiveness of the consolidated 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 sales of power transmission belts, conveyor belts, polyurethane functional components)

Kyushu Bando Co., Ltd. (manufacture and sales 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) Date of business combination

April 1, 2013

(4) Other matters

The purpose is to enhance the operating structure including reorganization of the operating base in the entire general industrial and maintenance markets, as well as to improve efficiency and competitiveness of the consolidated 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 Standard for Business Combinations" (ASBJ Statement No. 21, December 26, 2008) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, 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, 2014)
Consolidated sales: ¥93,434 mil. (FYE March 2014)
Employees (Consolidated): 3,817 (As of March 31, 2014)

Investor Information (As of March 31, 2014)

▶ Capital Stock

Shares Authorized: 378,500,000

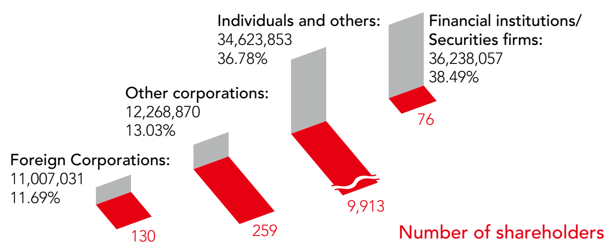
Shares Outstanding: 94,427,073
(including 289,262 shares of treasury stock)

Number of Shareholders: 10,378

▶ Securities Traded: Tokyo Stock Exchange, Inc.

▶ Composition of Shareholders

Composition of Shareholders

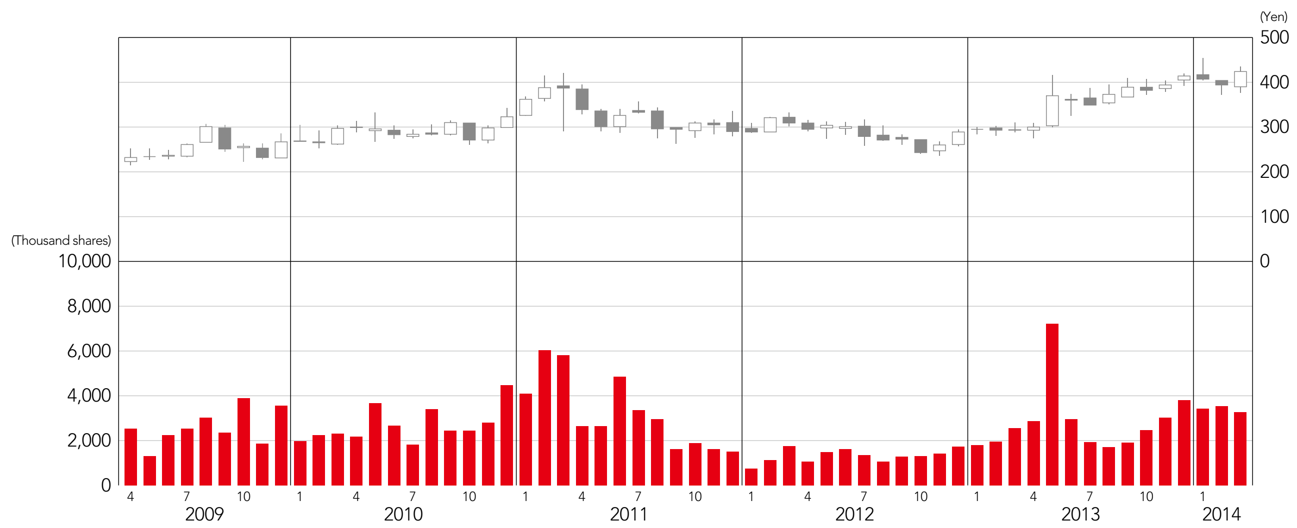


▶ Principal Shareholders (As of March 31, 2014)

	Number of shares held (thousands)	Investment ratio (%)
Bando business partner stakeholders	7,019	7.45
Sumitomo Mitsui Banking Corporation	4,651	4.94
Mitsubishi UFJ Trust and Banking Corporation	4,004	4.25
Meiji Yasuda Life Insurance Company	4,000	4.24
Mizuho Bank, Ltd.	3,600	3.82
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3,150	3.34
Nippon Life Insurance Company	2,642	2.80
Japan Trustee Services Bank, Ltd. (trust account)	2,053	2.18
Tokio Marine & Nichido Fire Insurance Co., Ltd.	1,839	1.95
Aioi Nissay Dowa Insurance Co., Ltd.	1,646	1.74

Notes: 1. Investment ratios are calculated after deducting treasury stock (289,262 shares).
2. Investment ratios listed above are rounded down to two decimal places.

▶ Stock Price and Trading Volume



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