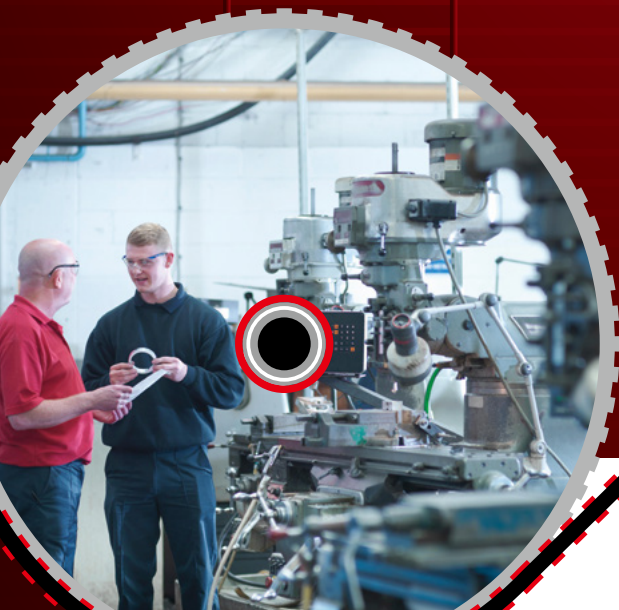


# Annual Report 2016

Year ended March 31, 2016



# Breakthroughs for the Future



## Profile

In the 110-year 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

Profile		Financial Section	44
The Value We Create	2	44 Management's Discussion and Analysis	
Snapshot	10	47 Business Risks	
Products	12	48 Consolidated Balance Sheets	
History	14	50 Consolidated Statements of Income and Consolidated Statements of Comprehensive Income	
Global Network	16	51 Consolidated Statements of Changes in Net Assets	
Highlights	18	52 Consolidated Statements of Cash Flows	
Message from the President	22	Corporate Data, Investor Information	53
Review of Operations	30		
CSR	34		
Corporate Governance	36		
Message from an External Director	42		
Management	43		

### Cautionary 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.

The Company's financial statements in English have not been audited by independent auditors. However, the original Japanese financial statements on which they are based have been audited by independent auditors. For more detailed information including notes to consolidated financial statements, please refer to the Company's Annual Report on the website:

<http://www.bando.co.jp/eng/ir/library/annual.html>

## 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.

**Based on our Management Philosophy, we are focused on Mid-to-Long Term Business Plan "Breakthroughs for the future."**

**Mitsutaka Yoshii**

*President and Representative Director,  
Bando Chemical Industries, Ltd.*



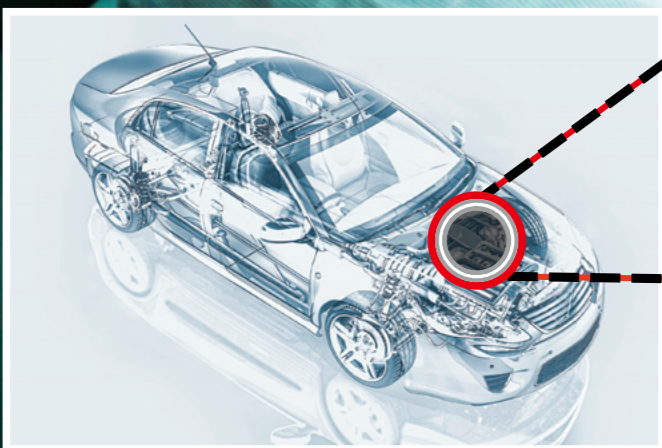
See the Message from the President on page 22 ▶

The Value We Create

# In the Automotive Industry

As the automotive industry continues to enjoy robust growth, the move toward more ecologically sound vehicles and innovation in engine design concepts knows no bounds.

As world No. 1 automotive power transmission belt maker (OEM), we are contributing to the creation of an environmentally friendly society by improving engine efficiency through the ongoing evolution of auxiliary drive belts.



Bando's Products

## High-load V-ribbed belts



VALUE

# 30%

**increase in power transmission capability**

High-load V-ribbed belts, one of Bando's flagship products, are high-load transmission belts that contribute to making automobile engines lighter and more compact. Use of high-strength rubber with a high-strength core increases transmission capability by approximately 30% compared to conventional belts, and the belt width is only about two-thirds that of a conventional belt.

The Value We Create

# At Manufacturing Plants



Energy conservation and environmental considerations are not issues for the automotive industry alone. Bando also contributes to reduced power consumption and improved efficiency in other manufacturing industries through the evolution of industrial power transmission belts used in manufacturing plants.



Plant HVAC System Compressor

Bando's Products

## HFD System™



**VALUE**

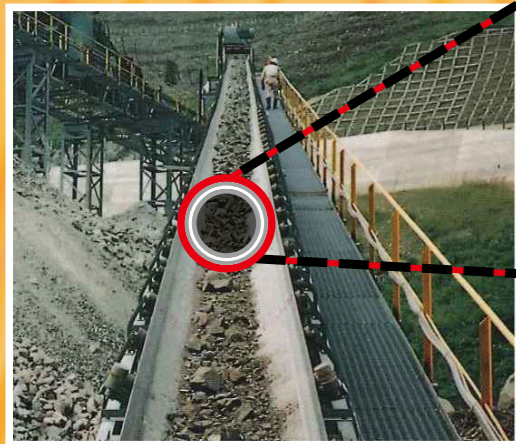
**Reduces power consumption by more than 7%**

Bando's Hyper Flat Drive (HFD) System™, which won the Grand Prize for Excellence in Energy Efficiency in 2014, is a transmission system that can contribute significantly to energy savings and reduced CO<sub>2</sub> emissions. With low belt-bending rigidity to reduce transmission loss, it can reduce power consumption and CO<sub>2</sub> emissions more than 7% compared to V-belts. Owing to a longer service life and reduced weight, these belts significantly reduce industrial waste.

The Value We Create

# In the Resource Industry

As economic globalization advances, resource industries are increasingly expected to provide higher added value through greater efficiency and energy savings. For harsh mining environments Bando develops and manufactures conveyor belts that not only offer durable performance, but can also achieve energy conservation and a reduction in CO<sub>2</sub> emissions.



Crushed stone transport conveyor

Bando's Products

## G-CARRY™ Conveyor Belt



VALUE

Reduces power consumption by about

**3%\***

Suitable for conveying bulk materials such as coal, ore, and limestone, and for transporting bags and powder materials, the G-CARRY™, Bando's standard belt, has been redeveloped with a core-body canvas and rubber cover, offering reduced power consumption and CO<sub>2</sub> emissions and improved durability.

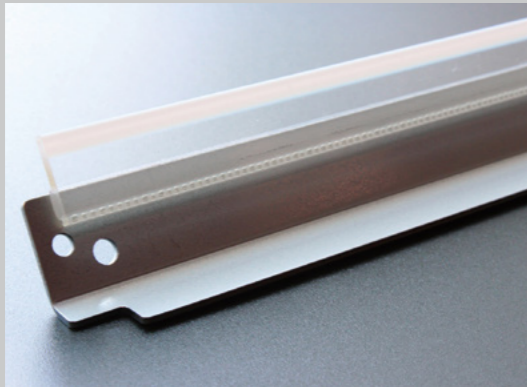
\*Results of in-house testing in comparison with Bando's conventional product. Energy savings may vary depending on operating conditions.

The Value We Create

# For Office Automation

Bando's Products

## BANCOLLAN™ BLADE G-Module™



VALUE

Thickness precision  
improved to

**±0.02mm**

The BANCOLLAN™ Blade G-Module™ is designed for use as a cleaning blade for photoconductive drums, transfer printing drums, and transfer printing belts. Unique processing significantly improves thickness precision (G-Module ±0.02 mm vs. conventional products ±0.1 mm), which is important for cleaning accuracy, and contributes to improved office document printing quality.



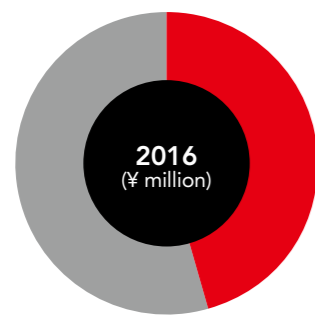
Bando's technical capabilities also offer value in bringing high performance to office automation equipment.

By making full use of the characteristics of rubber, polyurethane, engineering plastics and other materials, employing material and structural design technologies to add optimal functionality, and by offering high quality, precision processing, Bando improves the efficiency of office automation equipment, contributing to improved work productivity.

# Snapshot

Bando Chemical Industries is expanding its business scale and enhancing profitability in growth markets. The snapshot below describes our strengths and distinctive features.

## 1 Core Business in Automotive-related Fields



Sales of automotive parts business  
**¥42,750 million**

Sales of automotive parts business as % of total  
**45.8%**\*

Consolidated net sales  
**¥93,272 million**

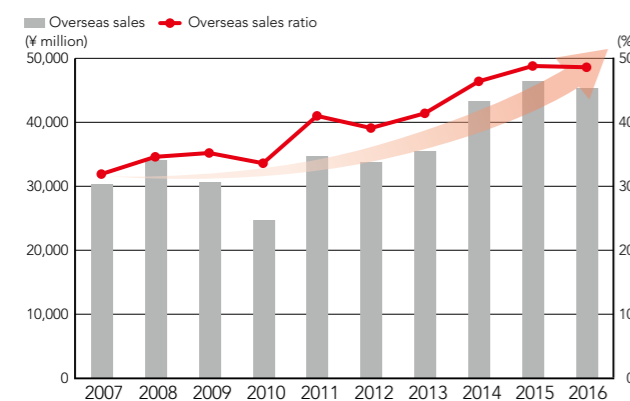
The auto industry continues to expand, driven by increased motorization mainly in emerging countries.

Automotive businesses account for 45.8%\* of total consolidated net sales at Bando. We expect the automotive parts business to provide good growth opportunities moving forward.

\* Sales of automotive parts business/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 focusing on business with overseas customers. Our overseas sales ratio is growing steadily.

## 3 Top Share in OEM Supply of Automotive Belts



**No. 1**  
global share  
OEM supply of automotive belts

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 2015, we command the top global share for OEM supply of automotive belts.

## 4 Top Share in OEM Supply of Power Transmission Belts for Injection Molds and Machine Tools in Japan

Our power transmission belts for injection molds and machine have been highly evaluated for their high power transmission capability and durability, and we hold the top share in Japan for these product.

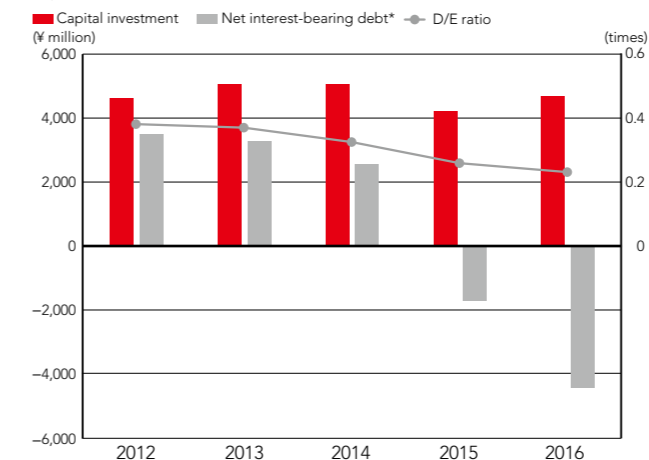
**No. 1**  
share in Japan



Synchronous belts for high load power transmission applications

## 5 Building an Even Stronger Financial Position

Capital investment / 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 investments needed for growth.

At the end of fiscal 2015, our net interest-bearing debt and D/E ratio were at all-time lows.

# Products

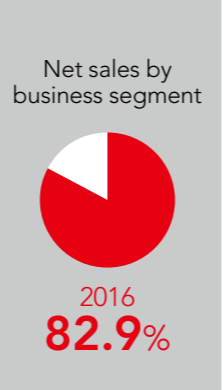
The Bando Group's products boast world-class performance and quality based on technologies developed over many years. Bando's specialty products display our superior design and development capabilities.

## 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.

**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

VS Belts



Automatic Tensioners

TENSION MASTER™

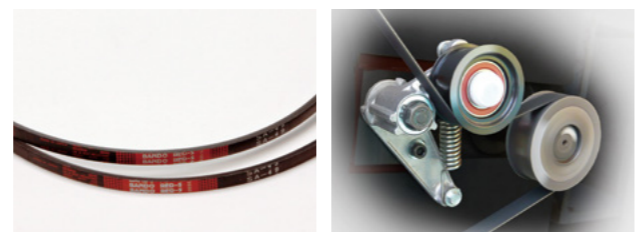
### Industrial Power Transmission Belts

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 22 bases in 15 countries

Main Products



Red™ SII V Belts for agricultural machinery

HFD System™



STS/HP/STS/Ceptor™-VI

BANCOLLAN™ 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™

Pipe Conveyor Belts



Mr. COOK™ F2224 Non-Stick Belts

Lightweight Jointless P-Series Belts

## Advanced Elastomer Products Business

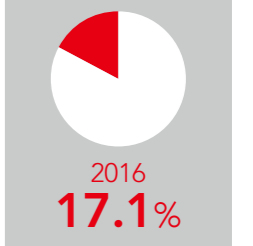
We maximize materials characteristics through the use of our precision processing, material and structural design technologies, and add optimal functionality to develop pioneering products with high precision and high quality, in consideration of the environment.

**Core Technologies** Elastomer and resins compounding design, dispersion and processing

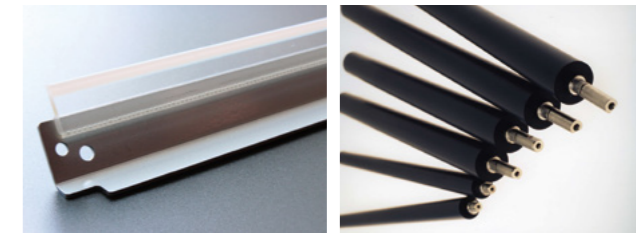
#### Strengths and Characteristics

- 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

Net sales by business segment



Main Products



BANCOLLAN™ BLADE G-Module™

Development Rollers



BANDO GLANMESSE™

Medical films

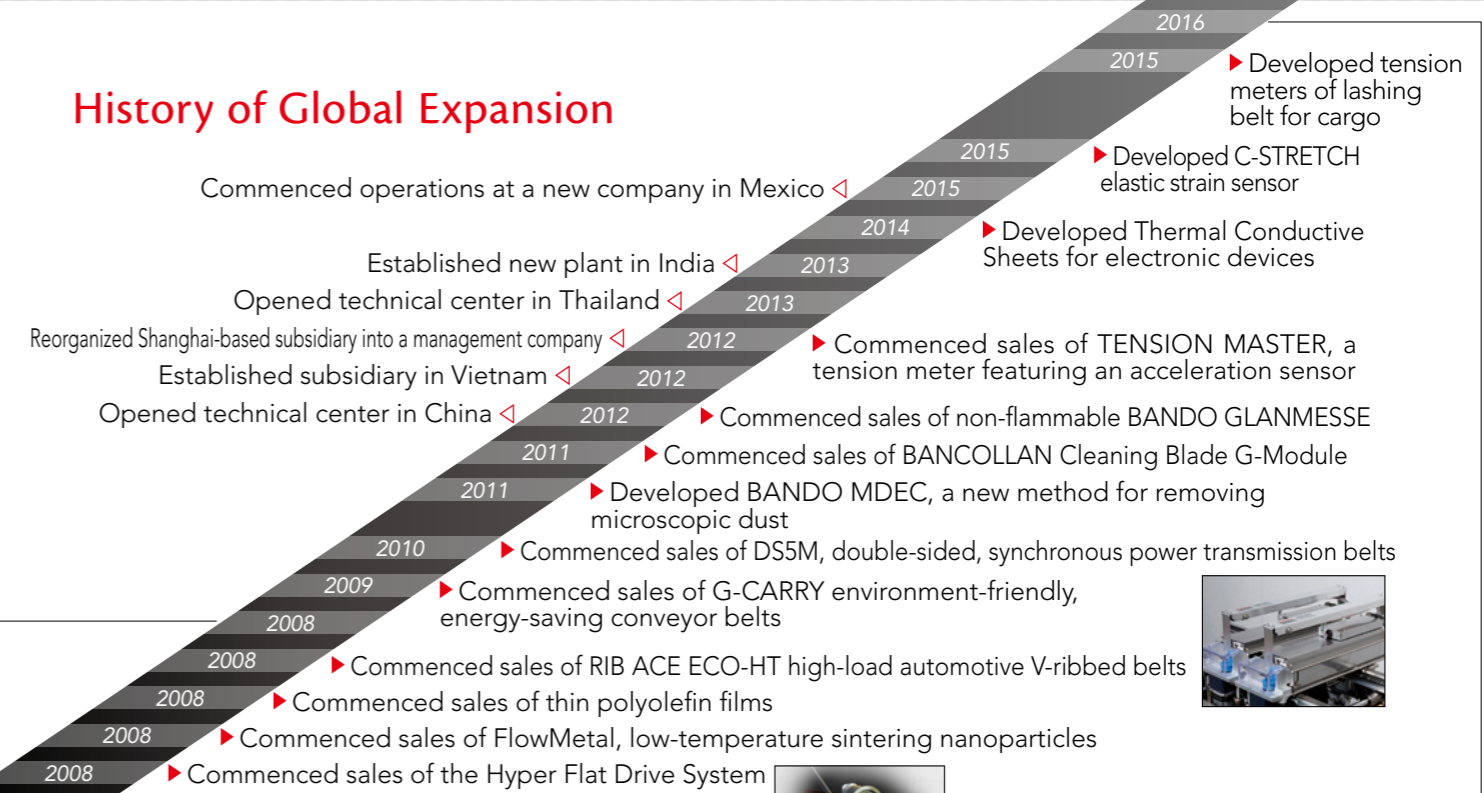


# History

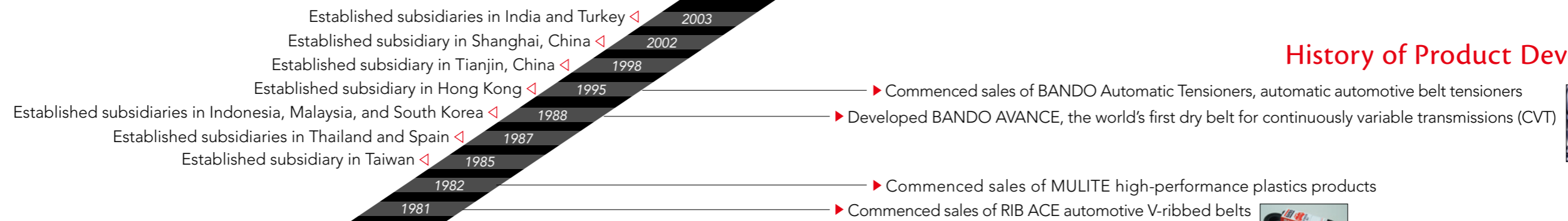
We have worked to build trust and brand recognition over 110 years since our founding.

Without contenting ourselves with this, we will incessantly strive to change and challenge to achieve the next "Breakthrough for the future."

## History of Global Expansion



## History of Product Development

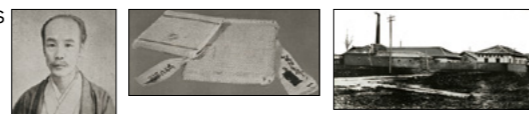


## Other

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

2016 Celebrated 110th founding anniversary

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

## Asia

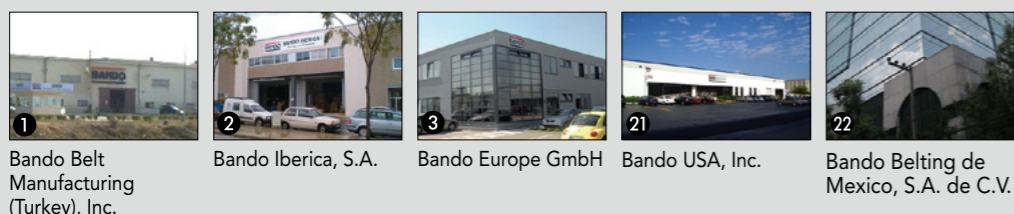


## China



\* 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.

## Europe, America & other



Sales by Region (as of March 2016)

Overseas sales ratio:

48.51%



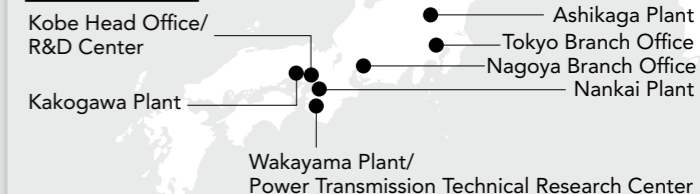
## Japan\*



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

Higashinohon Bando Co., Ltd.  
 Nishinohon Bando Co., Ltd.  
 Bando Elastomer Co., Ltd.  
 Bando Fukushima Products, Inc.  
 Vann Corporation  
 Koyo Sangyo Co., Ltd.  
 Hokuriku Bando, Inc.

### Manufacturing Affiliates

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

### Other Service Affiliates

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

## 10-Year Summary of Consolidated Financial Statements

Fiscal year endings are March 31 in the years shown below

### "DOING MORE on the new frontier"

#### 1st stage

- Enhance global development and profitability on core business
- Advanced product development

### "DOING MORE on the new frontier"

#### 2nd stage

- Expand overseas business and enhance cost competitiveness
- Accelerate new product development

### "Breakthroughs for the future"

#### 1st stage

- Evolution and deepening of current businesses
- Enhancement of R&D and market development

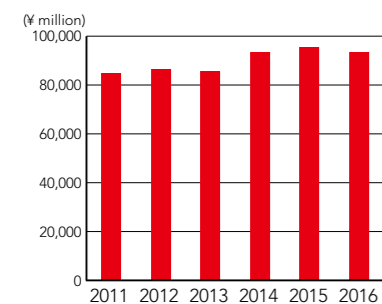
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net sales	Millions of yen	95,200	98,662	87,453	73,593	84,811	86,372	85,772	93,434	95,396	93,272
Operating income	Millions of yen	8,027	7,325	2,115	2,450	5,056	4,571	4,095	5,518	4,797	5,961
Operating margin	%	8.4%	7.4%	2.4%	3.3%	6.0%	5.3%	4.8%	5.9%	5.0%	6.4%
Profit attributable to shareholders of the parent	Millions of yen	3,985	5,289	(255)	1,234	3,333	1,440	2,510	4,280	3,757	4,386
Net cash provided by operating activities	Millions of yen	9,641	7,805	7,621	8,724	9,529	6,595	7,004	6,459	8,061	9,038
Net cash used in investing activities	Millions of yen	(6,288)	(9,830)	(4,937)	(3,147)	(4,922)	(4,768)	(5,781)	(5,038)	(3,931)	(4,184)
Net cash provided by (used in) financing activities	Millions of yen	1,888	(1,575)	(675)	(2,516)	805	(4,363)	(463)	(1,548)	(2,472)	(3,050)
Depreciation and amortization	Millions of yen	4,660	5,684	6,073	5,411	4,907	4,804	4,389	4,174	4,386	4,321
Capital investment	Millions of yen	7,692	7,166	4,176	2,791	3,381	4,619	5,052	5,046	4,198	4,676
Net assets	Millions of yen	42,568	44,972	38,352	40,020	40,542	39,444	43,226	49,277	56,777	55,205
Total assets	Millions of yen	96,530	90,801	76,621	78,020	82,905	79,659	82,207	89,623	94,700	90,765
Interest-bearing debt	Millions of yen	18,717	18,525	17,669	15,744	17,653	14,595	15,746	15,753	14,487	12,560
Shareholders' equity*	Millions of yen	41,707	44,046	37,345	39,188	39,677	38,559	42,775	48,772	56,273	54,786
Earnings per share	Yen	39.34	52.68	(2.55)	12.31	33.74	14.84	26.47	45.49	39.95	46.65
Net assets per share	Yen	412	439	372	391	405	402	455	518	598	584
Annual dividend per share	Yen	10.00	10.00	7.00	6.00	8.00	8.00	8.00	10.00	10.00	12.00
Average number of shares outstanding during the period	Thousand shares	101,310	100,393	100,313	100,294	98,788	97,034	94,811	94,095	94,063	94,018
Equity ratio	%	43.2	48.5	48.7	50.2	47.9	48.4	52.0	54.4	59.4	60.4
D/E ratio	times	0.449	0.421	0.473	0.402	0.445	0.379	0.368	0.323	0.257	0.229
ROA	%	4.3	5.6	(0.3)	1.6	4.1	1.8	3.1	5.0	4.1	4.7
ROE	%	9.8	12.3	(0.6)	3.2	8.5	3.7	6.2	9.4	7.2	7.9
P/E ratio	times	15.5	6.8	–	24.1	11.5	20.8	11.1	9.3	11.6	10.9
Payout ratio	%	25.4	19.0	–	48.7	23.7	53.9	30.2	22.0	25.0	25.7
Number of employees		3,393	3,414	3,436	3,285	3,427	3,545	3,592	3,817	3,930	3,920

\* 'Shareholders' equity' = net assets – minority interests

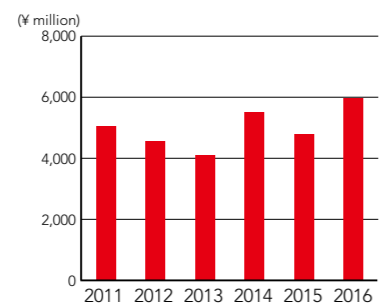
## Major Indicators

Fiscal year endings are March 31 in the years shown below

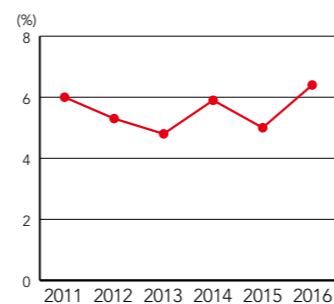
### Net sales



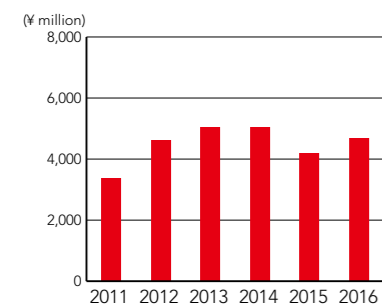
### Operating income



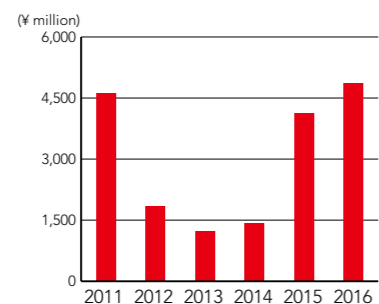
### Operating margin



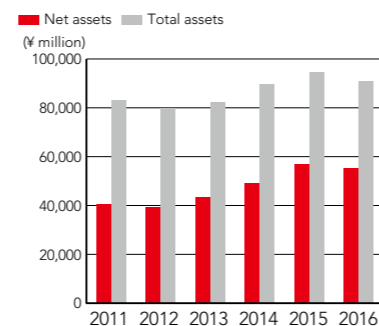
### Capital investment



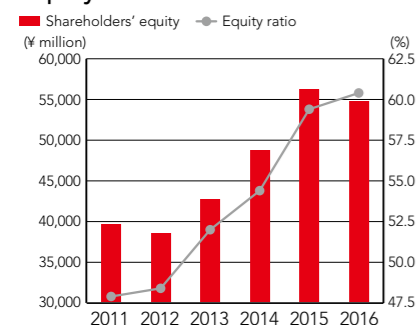
### Free cash flow



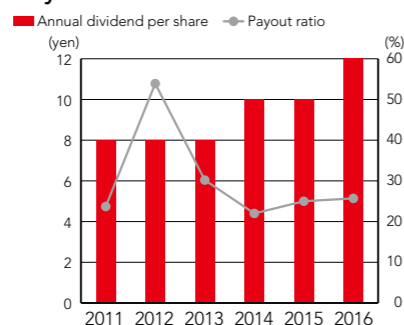
### Net assets Total assets



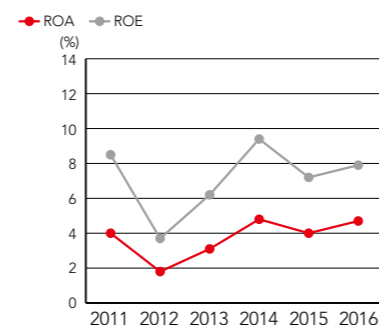
### Shareholders' equity\* Equity ratio



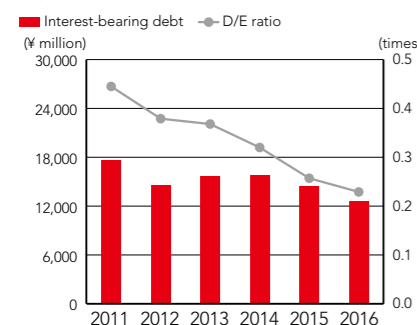
### Annual dividend per share Payout ratio



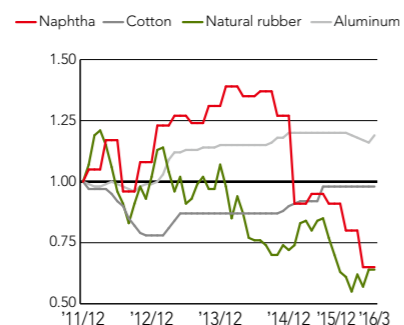
### ROA ROE



### Interest-bearing debt D/E ratio

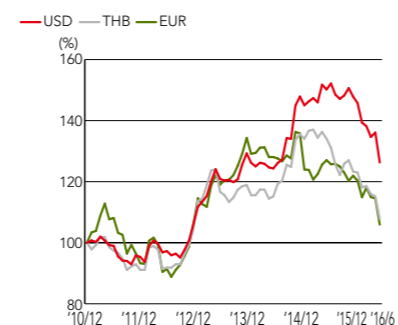


### Raw material costs (indicators)



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

### Exchange rate transition



\* Exchange rate base is 2010/12.

## Fiscal 2015 Topics

### Product Development and Others

Commenced sales of the Bando Wiper Edge™ EX seal blade for the sliding portion of machine tools



Commenced sales of SUNLINE™ Belt light-duty conveyor belts meeting EU regulations

Sunline™ belt

Commenced sales of high-load Ceptor™-X S8M Type and S14M Type toothed belts



Developed a tension meter of lashing belt for cargo

Tension meter of lashing belt for cargo

Nankai Plant achieved a record of 3,700,000 hours of accident-free operation

Developed the C-STRETCH™ elastic strain sensor

Commenced innovations on production lines for belt products



Kakogawa Plant

Ashikaga Plant



Completely renewed our corporate website

Corporate website top page



QUICK-CHANGE GIGA™

Consolidated subsidiary BL Autotec, Ltd. commenced sales of heavy-duty next-generation tool changer, QUICK-CHANGE GIGA™

Relocated the Tokyo Branch Office

Management

## Message from the President



**Mitsutaka Yoshii**  
*President and Representative Director,  
Bando Chemical Industries, Ltd.*

**“We will work to achieve the profit targets of our mid-term business plan, reaping the results of the past three years and accelerating our key initiatives.”**

In fiscal 2015, the third year of Bando’s five-year mid-term business plan, sales and profits fell in the Automotive Parts Business as production declined in Asia and automobile production volume in Japan slumped, but thorough cost reduction efforts ensured a rise in profits.

Our goal for fiscal 2016 is to quickly reap the results of our efforts over the past three years to strengthen our business foundation and our profit structure, ensuring we achieve our profit target for the final year of the plan.

吉井満隆

## Performance in Fiscal 2015

### Sales were down, but cost reductions and other factors contributed to an increase in profit.

In fiscal 2015, the Bando Group focused on the key initiatives for the third year of our mid-to-long term business plan, “Breakthroughs for the future.” While sales growth was seen in CVT belts for two-wheeled vehicles in India and Vietnam, and in the Industrial Products Business in the U.S., China, and Asia, a decline in production in China of automobiles for key automotive customers in China and Asia, and the impact of a slump in automotive production volume in Japan saw net sales in the Belt Business fall by 2.8% year on year, to ¥75,878 million. In the Advanced Elastomer Products Business, sales of high value-added performance film products increased, but with a drop in sales of precision parts

associated with declines in production at major office equipment manufacturers, net sales fell by 0.6% year on year, to ¥15,620 million.

As a result, consolidated net sales decreased 2.2% from the previous fiscal year to ¥93,272 million. However, thanks to a drop in naphtha prices, which resulted in lower raw material procurement prices; a thorough effort to reduce costs; and an improvement in profitability associated with efforts to increase production at overseas production sites, operating income increased 24.3% year on year, to ¥5,961 million. Profit attributable to shareholders of the parent, meanwhile, saw some impact from foreign exchange losses, but still grew 16.7% year on year, to ¥4,386 million. Our year-end dividend rose by ¥1 over the previous year, to ¥6 per share, while the annual dividend increased by ¥2, to ¥12 per share, in line with initial forecasts.

#### Consolidated earnings

	Fiscal 2014 results	Fiscal 2015	
		Results	YoY
Net sales	¥95,396 million	¥93,272 million	-2,123
Operating income	¥4,797 million	¥5,961 million	+1,163
Profit attributable to shareholders of the parent	¥3,757 million	¥4,386 million	+628

## “Breakthroughs for the Future” Mid-to-Long Term Business Plan: Overall Image and Progress

### Aiming to be a standout global supplier in two steps

In 2013, the Bando Group embarked on its mid-to-long term business plan “Breakthroughs for the future,” which ends in fiscal 2022. Under this plan, we aim to provide value-added products that contribute to environmental preservation, energy

conservation and higher functionality further refining our core technologies and reliable product quality in the fields of rubber, elastomers, and resins—where we have built up extensive 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 are working to evolve and deepen the Group’s current operations, particularly in the belt business, and strengthen research and development as well as market development in order to establish new businesses. Specifically, we are focusing on the key measures based on the five guidelines of the mid-term business plan: evolution of global market strategy, product evolution, evolution in manufacturing, new businesses creation, and evolution in management quality.

In the second stage, from fiscal 2018 to fiscal 2022, toward the realization of our aspirations, we will create new business based on the results of the first stage 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 by fiscal 2022.

Chart 1 Overall image of the mid-to-long term business plan

## “Breakthroughs for the future” mid-to-long term business plan

### Aiming to be a standout global supplier

- Global development of belt and high-performance product businesses
- Provide value-added products that contribute to environmental preservation, energy conservation and higher functionality
- Leverage core technologies and reliable product quality in rubber, elastomers and resins

#### Breakthroughs for the future First stage from fiscal 2013 to fiscal 2017

- Evolution and deepening of current businesses
- Enhancement of R&D and market development

#### Breakthroughs for the future Second stage from fiscal 2018 to fiscal 2022

- Realization of aspirations for 10 years ahead
- Establishment of a business to accompany the Belt Business

#### BF-1: Five Guidelines



### Progress of BF-1 in the first stage

As the first step to achieving the numerical targets by fiscal 2022, Bando aims to generate net sales of ¥100 billion and operating income of ¥10 billion in fiscal 2017, the final fiscal year of the first stage.

As of the end of the third year of the five-year first stage, we believe our target of ¥100 billion in net sales in fiscal 2017 is within range. However, reaching our targets of ¥10 billion in operating

income and an operating margin of 10% will require us to accelerate our efforts to implement various initiatives. In the remaining two years of BF-1, therefore, we will work to quickly reap the results of the strategic investments (see [Chart 3](#)) and other efforts implemented over the past three years, while at the same time focusing on three initiatives requiring acceleration (see [Chart 4](#)), thereby increasing the likelihood of achieving our operating income target.

**Chart 2** BF-1 Numerical targets and progress

Fiscal year	FY (billion)					BF-1 final year targets Fiscal 2017
	2012	2013	2014	2015	2016 (Forecast)	
Net sales	85.7	93.4	95.3	93.2	94.0	Net sales ¥100 billion
Operating income	4.0	5.5	4.7	5.9	6.0	Operating income ¥10 billion (Operating margin of 10.0%)
Operating margin	4.8%	5.9%	5.0%	6.4%	6.4%	

BF-1 (from fiscal 2013 to fiscal 2017)

**Chart 3** BF-1 Strategic investments carried out over the past three years

Location	Description	Date
India/Bangalore Plant	Opened integrated production plant	Fiscal 2013
Thailand/Bando Manufacturing (Thailand) Ltd.	Renewed the equipment of the main plant	Fiscal 2013
Indonesia/P.T. Bando Indonesia	Expanded production capacity	Fiscal 2013
China/Bando (Shanghai) Industry Equipment Element Co., Ltd.	Expanded production capacity	Fiscal 2014
Mexico/New company established	Sales of transmission belts and related products	Fiscal 2015
Japan: Renewal of conveyor belt production lines at the Kakogawa Plant	Providing high value-added products	Fiscal 2015
Japan: Renewal of the precision belt production line at the Ashikaga Plant	Providing high value-added products	Fiscal 2015

**Chart 4** BF-1 Three initiatives requiring acceleration over the next two years

- ① Accelerate overseas sales initiatives in response to changes in exchange rates and other external conditions
- ② Accelerate development of high value-added products and expand sales
- ③ Accelerate investments in innovative production methods to strengthen cost competitiveness, and progress in building an optimal production structure

## Key Initiatives for Fiscal 2016

### Operating environment

In fiscal 2016, the yen is forecast to continue strengthening against a backdrop of uncertainty about the global economy. Still, we expect to see growth in sales of automotive power transmission belts in the U.S. and Europe, and in belts for two-wheeled vehicles in Southeast Asia, as well as market expansion for industrial power transmission belts in the U.S. and Asia, and for belts for agricultural machinery in China and Asia. Given this operating environment, and bearing in mind the three

initiatives requiring acceleration, noted previously, the Bando Group will also work to accelerate our efforts toward evolution of a global market strategy, product evolution, evolution in manufacturing and new business creation as laid out in the guidelines in our mid-term business plan.

### Evolution of global market strategy

Utilizing the business foundation bolstered by the past three years of strategic investment, we will strengthen our sales structure primarily around belts

for automobiles, two-wheeled vehicles, agricultural machinery and general industrial use, as well as light-duty conveyor belts. We will move forward to develop new customers, mainly in Japan, China, and the ASEAN region.

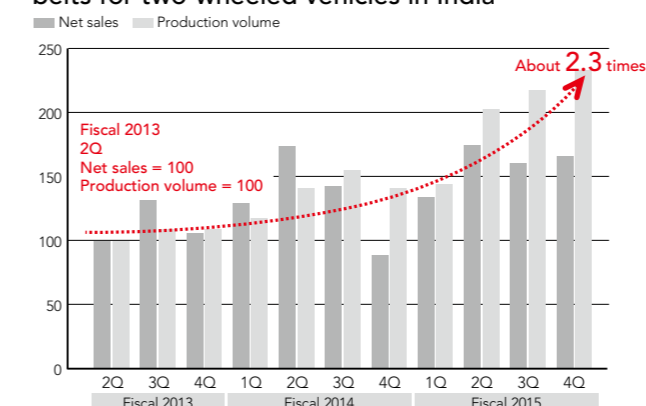
Currently, belts for two-wheeled vehicles are selling particularly well, and sales of these belts have been growing at rates higher than domestic market growth in India, where we opened a factory in Bangalore in 2013, and in Vietnam, where we opened a factory in 2012. In both cases, this has

been due to an expansion in scale, and improvements in profitability created by producing locally, the fruits of which have been a major improvement in profit structure.

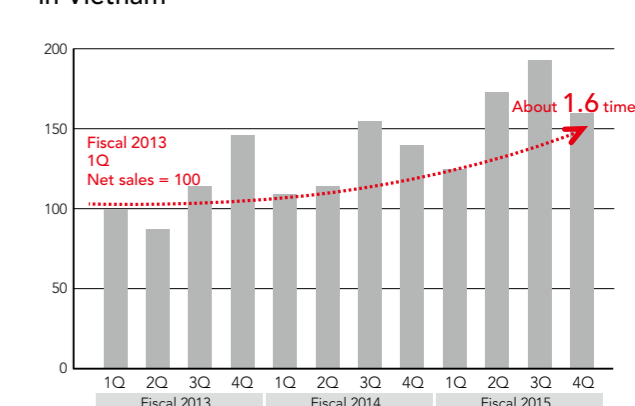
In other regions as well, clearly establishing and implementing these kinds of measures aimed at gaining competitive advantage will enable us to solidify our position as Asia's leader in the transmission belt segment, preparing us to accelerate growth toward achieving our BF-1 profit target.

**Chart 5** Growth in belts for two-wheeled vehicles in India and Vietnam

Change in net sales and production volume of belts for two-wheeled vehicles in India



Net sales of belts for two-wheeled vehicles in Vietnam



### Product evolution

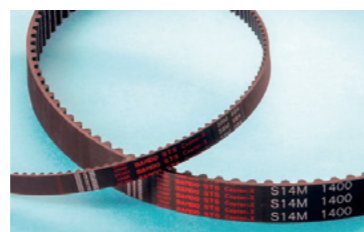
In product evolution, we continue to work on developing high-performance products to match market needs, and to improve added value. However, while global automobile production volumes are forecast to grow in fiscal 2016, that growth is not expected to be dramatic, and the Bando Group plans to compensate for that by utilizing our unique business platform for growth in belts for two-wheeled vehicles, Industrial Materials Business, and Advanced Elastomer Products Business.

In the Belt Business, sales of Double Cog Belts, high-performance CVT belts developed in 2015 for two-wheeled vehicles, have grown thanks

to a strong reputation among customers. In the Industrial Products Business, we introduced high value-added products that perform at top-class levels in their respective markets, including the Ceptor™-X toothed belt for high-load industrial machinery, developed in 2015; the Sunline™ Belt series of light-duty conveyor belts designed for food conveyance (compliant with European Commission regulations); and the Bando Wiper Edge™ EX for the sliding portion of machine tools. In the high-performance elastomer products business, we also worked to expand sales of development rollers with longer service life for OA equipment, which deliver the industry's highest level of performance.



Double Cog Belts™



Ceptor™-X



Sunline™ Belt

While accelerating our strategy of adding higher value to these existing products, we are also focused on developing new products that stay ahead of the market. For example, we are currently working to develop a synchronous drive belt for electric power systems. This is just, one case in which our belts are finding applications in fields outside of engine auxiliary drives. We expect to see a growing need for this product, which contributes to noise reduction, for luxury cars and automated driving systems, and by approaching

relevant customers, we will further expand this new market.

The Bando Group already has a significant share of the domestic market for belts for agricultural machinery. Capturing overseas markets remains an issue, however, and we are working to strengthen development of products such as belts for heavy-duty machinery and farming equipment that take foreign market characteristics into consideration, and timing those efforts to model changes in existing manufacturers' products.

## Evolution in manufacturing

We are focusing on strengthening our cost competitiveness to capture global markets. In developing and establishing innovative manufacturing methods, BF-1 strategic investment enabled us to renew our conveyor belt production line at the Kakogawa Plant and develop new manufacturing methods for polyurethane belts at the Ashikaga Plant, but we will work to further reduce costs by accelerating our efforts to reap the fruits of these successes. To advance development purchasing, we will continue



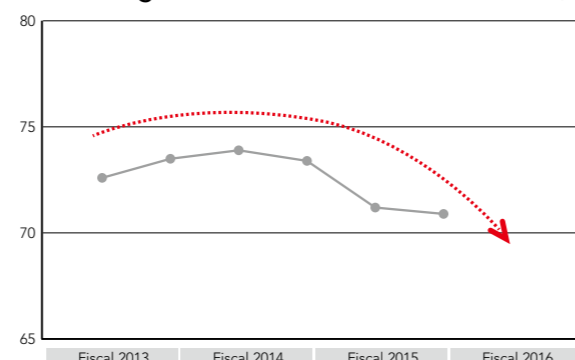
Kakogawa Plant



Ashikaga Plant

our search for materials both in Japan and overseas, while working to link these efforts to product development and the building of an optimized global production structure. In building that structure, our emphasis is on optimizing the balance between procurement, production and supply, and preparations have begun for production transfers in 2017 with the goal of implementing the concepts we have developed to date. Through this series of efforts, we hope to see the cost of sales ratio, which was 71% in fiscal 2015, improve to around 60% in fiscal 2016.

Chart 6 Image of a reduced cost to sales ratio (%)



## New businesses creation

In BF-1, the first phase of the mid-to-long term business plan, we aim to strengthen research and development and new market development, and in BF-2, the second phase, our goal is to establish a secondary business to our existing Belt Business. Using environmental protection, energy conservation and high performance as key objectives, we spent the last three years focusing research and development on the key markets for optoelectronics, transportation/automobiles, energy and robotics, with a specific concentration on research and development and new product development in the fields of power electronics, printer electronics and welfare/nursing care. As a result, products have now appeared that have realistic potential for commercialization and for which mass production is scheduled to begin.

For example, Free Crystal™, an optically clear adhesive (OCA) scheduled for launch in October of this year, can be used to fill air layers between elements in touch panel displays, greatly improving

visibility. This product, born out of our many years of experience in elastomer materials technology and molding technology, is expected to find application in automobiles and other uses as well.

In addition, the tension meter of lashing belt for cargo developed jointly with Sankyu Inc., a major logistics company, provides highly precise, numerical control of tension on lashing belts, preventing the lack of tension that can be one cause of cargo load collapse, and generating value by enhancing transport reliability. Sales of the product are expected to commence in fiscal 2016.

By focusing on these and other efforts, as noted in the chart below (see **Chart 7**) over the next two years of BF-1, the Bando Group will work to cultivate new businesses to act as next-generation pillars for the Company. In areas other than those shown below, we will continue to refine our core technologies for compounding, dispersing and combining elastomers and resins, merging these with new technologies to create a base of on-point technology for generating new products and developing new markets.

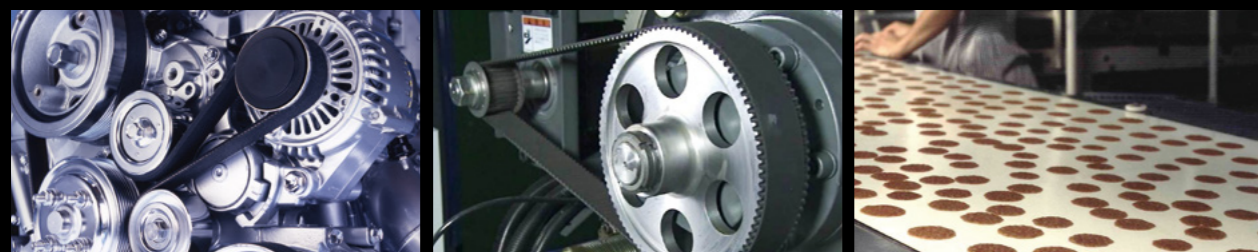
Chart 7 New businesses creation: Immediate main products

Target areas	Product development	Research	Product development/ Customer assessment	Mass production
Optoelectronics	Thermal conductive sheets (for electronic devices)		Sample products on sale, with improvement developments underway toward mass production	
	Metal nanoparticle past <b>FlowMetal™</b>		Assessed by several companies, work begun on precision production process toward mass production	
	Optically clear adhesive sheets <b>Free Crystal™</b>		Sales launched from October 2016	
Automotive/ transportation	Tension meter of lashing belt for cargo		Under joint development with Sankyu Inc. (Fiscal 2016 sales launch is projected)	
Robotics	Industrial robotic devices <b>QUICK-CHANGE GIGA™</b>		Sales launched from fiscal 2015	
Other	Elastic strain sensor <b>C-STRETCH™</b>		Assessment kits on sale primarily for the medical, welfare and nursing care fields	
	Tailor-made rubber products for reactive 3D printers		Engaged in the Cross-ministerial Strategic Innovation Promotion Program (SIP)	



# Belt Business

*Expanding sales and improving profitability to strengthen competitiveness*



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

The Belt Business serves as the greatest earnings driver to achieve the Group's mid-to-long term business plan, *Breakthroughs for the future*. Under BF-1—the first part of that plan—which finishes in the fiscal year ending March 31, 2018, we will achieve earnings growth centered on this

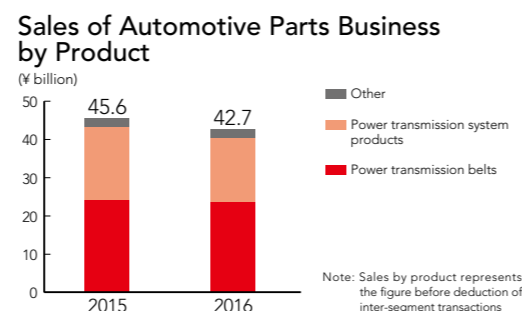
segment in a bid to solidify our growth foundation for the five-year period of BF-2 (from the fiscal year ending March 31, 2019 to the fiscal year ending March 31, 2023) and beyond.

## Performance for the Fiscal Year Ended March 31, 2016

The segment achieved net sales of ¥75,878 million, down 2.8% from the previous fiscal year. Sub-segment results are as follows.

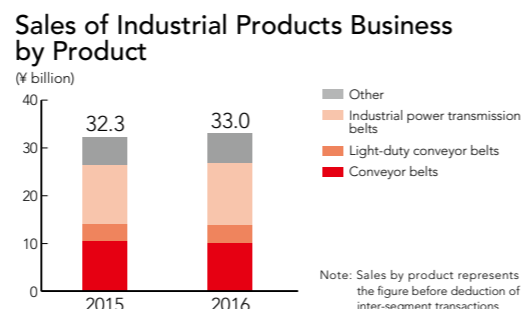
### Automotive Parts Business

Sales of accessory drive power transmission belts grew in the U.S., while sales of variable speed belts for scooters remained strong in India, Vietnam and Europe. Meanwhile, sales of power transmission systems declined due to production cuts at major customers in China, and a drop in the number of models using our parts in South Korea. Also a recoil from last-minute demand in Japan before an increase in the light vehicle tax, as well as a drop in domestic production volume resulted in decreased sales of ancillary drive transmission systems. As a result, sales for the sub-segment fell 6.4% year on year.



### Industrial Products Business

While sales of conveyor belts for resource development declined in Japan, sales of belts for agricultural machinery grew in China thanks in part to the return of subsidies for the purchase of agricultural machinery, as did sales of power transmission belts for industrial and agricultural machinery in Thailand, Vietnam and India. In the U.S., a strong economy led to growth in sales of industrial power transmission belts, and over all, sub-segment net sales increased 2.2% year on year.



Segment profit increased 26.3% year on year to ¥5,248 million, mainly due to the lower price raw materials such as naphtha and cost reduction measures in addition to enhanced profitability at overseas production bases.



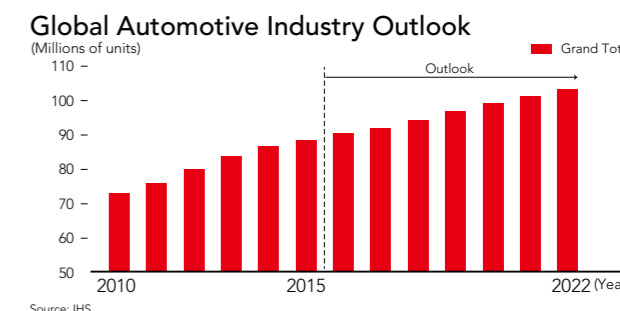
**Atsushi Someda**  
Executive Officer, General Manager,  
Automotive Parts Division



**Yuji Honda**  
General Manager, Industrial Products Division

## Market Conditions

In the global automobile market, while growth will be limited in the mature markets of Japan, Europe and North America, significant growth is expected overall due to market expansion in emerging countries, with global sales forecast to reach 100 million units annually by around 2020.



## Key Initiatives for the Fiscal Year Ending March 31, 2017

We will continue our initiatives designed to continuously solidify our leading position in Asia's belt markets.

In the Automotive Parts Business, we will strengthen sales in the repair market for four-wheeled and two-wheeled vehicles in China and the rest of Asia. In the Industrial Products Business, we will work to expand sales in China, and introduce new products for agricultural machinery, as well as products with superior environmental performance.

In terms of profit, we will work to expand operating income through sweeping cost reduction efforts at our production bases and by promoting a global optimized production structure. In conveyor belts and polyurethane belts, we will continue ramping up innovative manufacturing methods and promoting automation as we work to improve profitability.

	2015	2016 (results)	
		Change	% change
Net sales	78,101	75,878	(2,223) -2.8%
Automotive Parts	45,680	42,750	(2,928) -6.4%
Industrial Products	32,310	33,028	718 2.2%
Segment profit	4,155	5,248	1,093 26.3%

Location	Description	Amount invested	Expected completion date
Nankai Plant	Expansion of equipment relating to power transmission belts, etc.	1,284	Mar. 2017
Kakogawa Plant	Expansion of equipment relating to industrial products, including conveyor belts, etc.	376	Mar. 2017
Wakayama Plant	Expansion of equipment relating to power transmission belts, etc.	140	Mar. 2017
Power Transmission Technical Research Center	Investment in testing and research facilities	110	Mar. 2017
Bando USA, Inc.		144	Mar. 2017
Bando Korea Co., Ltd.		723	Mar. 2017
Bando Belt (Tianjin) Co., Ltd.	Expansion of equipment relating to power transmission belts, etc.	191	Mar. 2017
Bando Manufacturing (Thailand) Ltd.		750	Mar. 2017
Bando (India) Pvt. Ltd.		121	Mar. 2017
<b>Total</b>		<b>3,839</b>	

# Advanced Elastomer Products Business

Focus on expanding sales of high value-added products



**Takayuki Nagase**  
Executive Officer, General Manager,  
Advanced Elastomer Products Division

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

The Advanced 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). As our second core business after the

Belt Business, the Advanced Elastomer Products Business will achieve steady growth by accelerating the change to a high-added-value product portfolio, aimed at driving forward the uses of our core elastomer and resin compound design, dispersion and processing technologies.

## Performance for the Fiscal Year Ended March 31, 2016

For the fiscal year ended March 31, 2016, net sales declined 0.6% year on year, to ¥15,620 million. Sub-segment results are as follows.

### Precision Parts

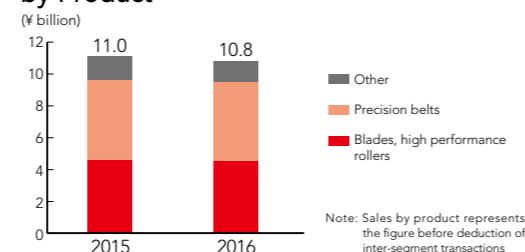
Sales of precision belts and high-performance rollers for office machinery were flat, and sales of blades and other precision polishing materials fell as major customers reduced production. As a result of these and other factors, sub-segment sales decreased 2.5% year on year.

### High-Performance Films

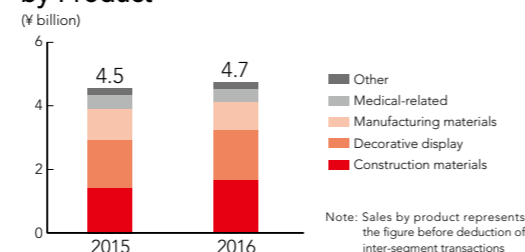
While sales of industrial films declined, there was an increase in sales of film used in construction materials and for decorative displays, and year on year sales in the sub-segment rose 4.2%.

Segment profit increased 131.0% year on year, to ¥759 million, thanks in part to growth in sales of high value-added products and the results of efforts to reduce costs.

### Sales of Precision Parts Business by Product



### Sales of High-performance Films Business by Product



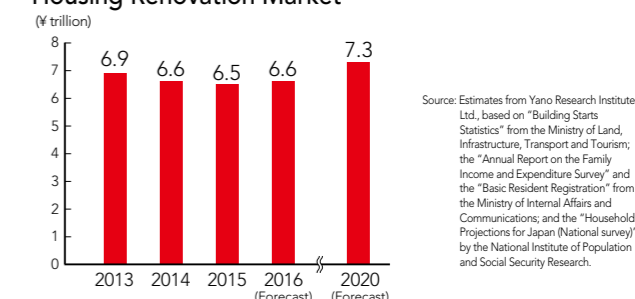
## Market Conditions

Global shipment quantities in the copier and multi-function printer markets, which include major customers for our precision parts business, are expected to grow around 1.7% in 2016 and around 2.0% in 2017\*. While the Japanese market for the copier and multi-function printer is somewhat saturated and is expected to remain more or less flat, we expect increased demand for the A4-sized copier and multi-function printer in Europe and the U.S., and also in Asia.

\* Quantitative base  
Source: Japan Business Machine and Information System Industries Association's "Projections of 2015 global shipments of office machinery, and forecasts for 2016 to 2017" (published February 23, 2016).

The number of domestic housing starts, which are closely linked to sales of high-performance film products, is basically projected to decrease going forward. Nevertheless, the home renovation market is forecast to grow to being a market of ¥7.3 trillion in 2020, an increase of about 12% compared with 2015, against a backdrop of increases in housing stock.

### Forecasts of Size of Housing Renovation Market



## Key Initiatives for the Fiscal Year Ending March 31, 2017

We will continue to refine our technologies for compounding, dispersing and combining elastomers and resins, which are our core technologies, and accelerate our actions to rebuild our product portfolio with a greater emphasis on high value-added products.

In the high-performance Elastomer Products Business, we will work to increase sales of development rollers with longer service life for OA equipment and other high value-added products, while expanding sales in the market for optoelectronics with our TOPX™ Precision Abrasive Film, the BANDO MDEC™ cleaning system and other products.

### Net sales and segment profit

	2015	2016 (results)	
		Change	% change
Net sales	15,713	15,620	-0.6%
Precision parts	11,096	10,822	-2.5%
High-performance films	4,550	4,742	4.2%
Segment profit	329	759	131.0%

(¥ million)

### Ongoing capital investment (for the fiscal year ending Mar. 31, 2017)

Location	Description	Amount invested	Expected completion date
Nankai Plant	Expansion of equipment relating to chemical products, etc.	281	Mar. 2017
Ashikaga Plant	Expansion of equipment relating to industrial products and power transmission belts, etc.	335	Mar. 2017
Total		616	

(¥ million)

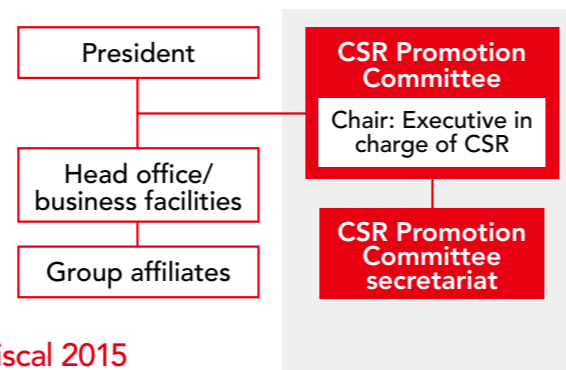
**Basic Stance on Corporate Social Responsibility (CSR)**

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

**CSR Management**

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

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



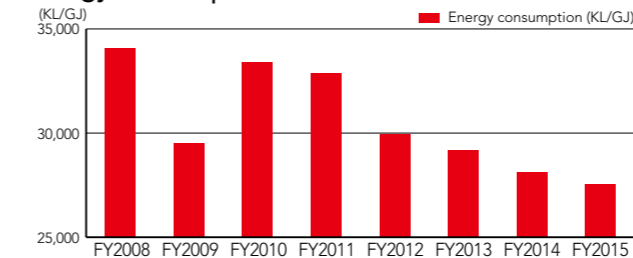
**CSR Promotion Themes and Major Achievements in Fiscal 2015**

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

CSR promotion themes	Compliance/Business Ethics	The Environment	Quality
	<p>The Group fully complies with the law and takes sincere actions to gain the trust of society</p> <p>Legal Compliance Committee</p>	<p>Work for environmental preservation by developing eco-friendly products and by being attentive to the environment in manufacturing practices</p> <p>Head Office Environment Committee; Manufacturing Planning Center, Safety and Environmental Promotion Department</p>	<p>Provide safe and reliable products and services</p> <p>Manufacturing Planning Center, Quality Control Department</p>
Major achievements	<ul style="list-style-type: none"> <li>Held Code of Conduct workshops at business locations</li> <li>Selection and testing of information leak prevention equipment, and taught information security using e-learning</li> </ul>	<ul style="list-style-type: none"> <li>Reduced unit volume of waste generation Raw material-related wastes -21.5% (year on year) Packaging-related wastes +32% (year on year)</li> <li>Reduced unit volume of energy consumption by 2.0% (year on year)</li> <li>Suppressed VOC gas emissions by 68% (compared to fiscal 2000)</li> <li>Start raising Eupatorium japonicum (thoroughwort), an endangered species, in Kakogawa Plant</li> </ul>	<ul style="list-style-type: none"> <li>Held Bando QC Circle World Convention</li> <li>Convened a product quality case study exhibition</li> <li>Implementation of an assessment of product conformity to standards</li> <li>Updated the information management system for chemicals used as raw materials</li> </ul>
CSR promotion themes	Human Rights/Labor/Safety	Social Contribution	Information Disclosure
	<p>Allow employee growth through their work, and provide safe, dynamic workplaces</p> <p>Head Office Health and Safety Committee; Human Resources Department; Manufacturing Planning Center, Safety and Environmental Promotion Department</p>	<p>Recognize the importance of communication with society, individual contributions to the community, and company-wide contributions to society for environmental preservation</p> <p>General Administration Department</p>	<p>Timely and proper information disclosure to stakeholders</p> <p>Finance and Accounting Department; General Administration Department</p>
Major achievements	<ul style="list-style-type: none"> <li>Held mental health classes and walking activities</li> <li>Enhanced training programs for each career stage and position</li> <li>Health and safety education and installation of disaster simulation equipment (Work-related injuries resulted in lost time during the fiscal year under review: 0 in Japan, 1 in domestic affiliates, 11 in overseas affiliates)</li> </ul>	<ul style="list-style-type: none"> <li>Supported volunteer activities</li> <li>Participated in activities organized by local resident associations, and cleanup, public safety and disaster prevention initiatives</li> <li>Conducted tours of Company facilities and accept internship, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Convened procurement policy briefings</li> <li>Published periodic CSR reports and business reports, and provided information on the Group's websites</li> <li>Held investor relations briefings</li> </ul>

**Reduction of Energy Consumption**

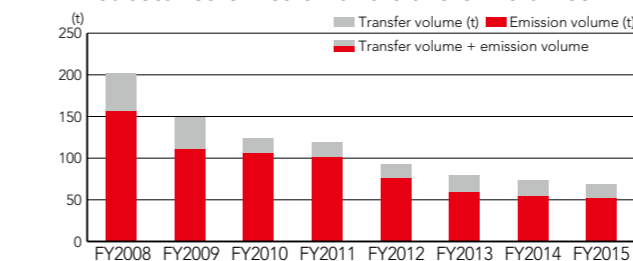
**Energy consumption**



In fiscal 2015, we reduced the energy consumption to 98% of the previous fiscal year, however, we failed to reach our target volume of energy consumption. From fiscal 2016, we will work on energy-saving activity by referring to advice from outside professionals.

**Emission and Transfer Volumes of PRTR Substances**

**PRTR substance emission and transfer volumes**

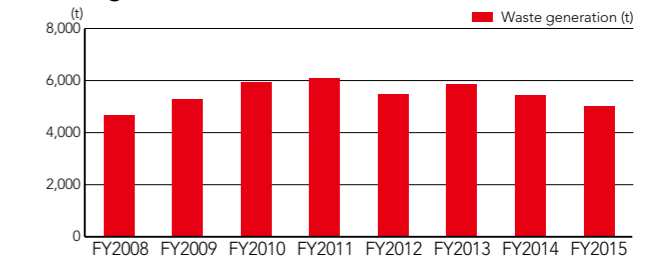


We identified materials we handle that are listed in the Pollutant Release and Transfer Register, and are working to reduce their use mainly by appropriate management and substituting other materials.

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

**Curtailment of Waste Generation**

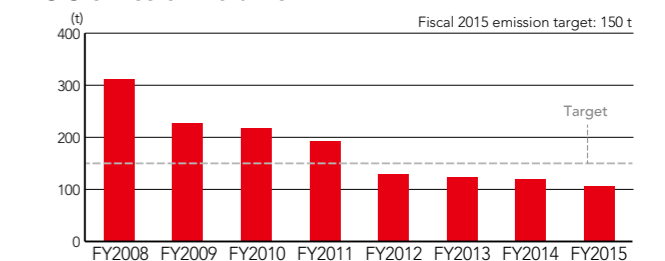
**Waste generation**



The Company's industrial waste largely consists of rubber and plastics. Since rubber is difficult to recycle, we work to curtail the generation of this type of waste.

**Reduction of VOC Gas Emissions**

**VOC emission volume**



In fiscal 2015, we ensured proper VOC handling. In so doing, we achieved a 68% reduction in VOC compared with fiscal 2000.

**Environmental Accounting**

	Fiscal 2013		Fiscal 2014		Fiscal 2015		Main projects in fiscal 2015
	Capital investment	Depreciation and amortization + personnel expenses + overhead	Capital investment	Depreciation and amortization + personnel expenses + overhead	Capital investment	Depreciation and amortization + personnel expenses + overhead	
Environmental conservation costs							
Pollution control	468	76,425	13,708	59,535	2,220	55,466	Installed ventilation equipment and leakage prevention plate
Business area cost							
Global environmental conservation	14,770	5,091	3,344	3,623	6,688	1,761	Seismic reinforcement and heat-blocking measures
Resource recycling	686	217,480	847	166,114	2,476	106,085	Well-boring
Upstream/downstream cost	0	0	0	0	0	121	
Administration cost	0	35,063	0	23,350	0	25,174	
R&D cost	0	31,354	0	29,493	0	22,644	
Social activity cost	3,715	8,396	0	5,634	675	5,880	Greening on the premises
Environmental remediation cost	0	722	0	1,177	0	669	
<b>Total</b>	<b>19,640</b>	<b>374,532</b>	<b>17,899</b>	<b>288,927</b>	<b>12,059</b>	<b>217,800</b>	

	Fiscal 2015		
	Fiscal 2013	Fiscal 2014	Fiscal 2015
Environmental conservation benefit			
Business area	59,518	20,077	22,640
Upstream/downstream	0	0	0
Other	83	0	0
<b>Total</b>	<b>59,601</b>	<b>20,077</b>	<b>22,640</b>

# 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

To reinforce audit and oversight functions, the Company transitioned to a Company with an Audit & Supervisory Committee by resolution of the General Meeting of Shareholders held on June 23, 2016.

The Company's Board of Directors consists of seven members, with three of those seven members serving as members of the Audit & Supervisory Committee. 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. The Board's three external directors are charged with the independent oversight of business operations. The Board meets at least once a 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.

## Audit & Supervisory Committee

The Audit & Supervisory Committee is composed of three members serving as external directors and one internal member serving on a full-time basis. Under the Companies Act, external directors must command a majority on the Audit & Supervisory Committee. Ensuring this ratio is higher than the statutory minimum

enables auditing and business oversight activities to be multi-faceted and undertaken by experts from a variety of fields.

## 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. The Audit & Supervisory Committee must approve the appointment of directors who will serve on it. The Audit & Supervisory Committee also deliberates on the remuneration of said directors.

In the fiscal year ended March 31, 2016, the total amount of director and audit & supervisory board member compensation is shown below.

[Reference data for period before transition to being a Company with an Audit & Supervisory Committee]

	Number of Persons	Total Compensation	Compensation Limit
Directors	6	¥92 million	¥240 million or less annually
Audit & Supervisory Board Members	4	¥54 million	¥7 million or less monthly
Total	10	¥146 million	

Notes:

- As of March 31, 2016, there are six directors (including two external directors) and four audit & supervisory board members (including three external audit & supervisory board members)
- The total amount of external director and external audit & supervisory board member compensation listed above is as follows.  
Two external directors: ¥15 million  
Three external audit & supervisory board members: ¥34 million
- The total amount of director compensation includes performance-related salary based on the Company's performance-related salary criteria (for full-time-basis directors only) for the fiscal year ended March 31, 2016. Performance-related salary was not be paid for the fiscal year ended March 31, 2016.
- In addition to the above-listed information, salaries and bonuses for employees who concurrently serve as directors are as follows.  
Two employee salaries: ¥35 million  
Two employee bonuses: ¥12 million

## Internal Control

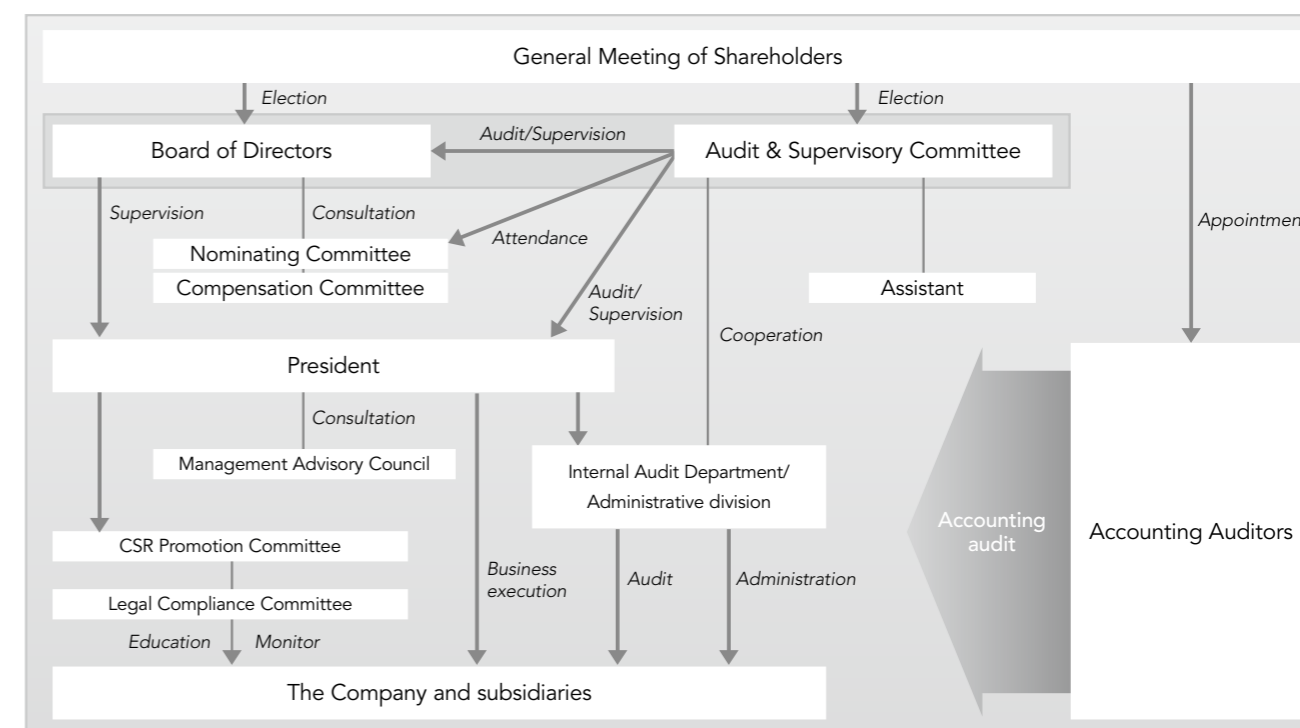
To meet the requirements stipulated in the Financial Instruments and Exchange Act pertaining to financial reporting performed by internal control reporting systems, the Bando Group maintains internal control in accordance with the basic frameworks for internal control outlined in Financial Services Agency criteria, and undertakes evaluations and reporting as defined by said criteria. The Company will work to further improve the effectiveness of internal control primarily through

the Internal Control Promotion Office and based on the four objectives of internal control: (1) reliability of financial reporting, (2) operational effectiveness and efficiency, (3) legal compliance regarding business activities, and (4) asset protection.

## Basic Stance on the Elimination of Antisocial Forces

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

## Management organization and corporate governance



### 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 three people reporting directly to the president. The Internal Audit Department implements systematic and comprehensive internal audits (which include the internal control system) of all departments as well as domestic and overseas affiliates. Accompanied by 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.

### Disclosures Based on Principles of Japan's Corporate Governance Code

The Company complies with the principles of the Corporate Governance Code.

#### Principle 1.4 Cross-Shareholdings

Cooperative relationships with a range of firms across fields such as financing, development, procurement, production and sales are essential if the Company is to prevail as a manufacturer of rubber and plastic components against fierce global competition. The Company's policy is to own shares in suppliers where it is judged that, in line with business strategy, maintaining or strengthening stable, long-term commercial relationships with such firms would contribute to the enhancement of the Group's corporate value over the mid-to-long term.

Decisions relating to the exercise of any voting rights pertaining to cross-shareholdings are taken based on a general consideration of whether the proposed voting resolution is (a) consistent with the aforementioned policy, and (b) likely to contribute to the enhancement of the corporate value of the equity issuer over the medium and long term.

#### Principle 1.7 Related Party Transactions

Any related party transactions involving the Company's directors or major shareholders must be approved and reported in accordance with internal rules to prevent any transactions that would be detrimental to the interests of the Company or shareholders. The status of any transactions between the Group and directors or their close relatives (within two degrees of kinship) is subject to periodic reporting.

#### Principle 3.1 Full Disclosure

1. Details of the Company's Management Philosophy and mid-to-long term business plans are provided in this Annual Report (p. 1, p. 24) and on the Company's website.

<http://www.bando.co.jp/eng/corporate/index.html>  
<http://www.bando.co.jp/eng/ir/index.html>

2. Details of the Company's basic stance on corporate governance and related policies are provided in this Annual Report (p. 36).

3. Please refer to p. 36 of this Annual Report for details of how remuneration for directors was determined before March 31, 2016. From fiscal year ending March 31, 2017, onward, remuneration of executive directors will consist of basic salary, a profit-linked bonus and performance-linked stock remuneration, while non-executive directors are entitled only to a basic salary. Limits on director remuneration are determined by resolution of the General Meeting of Shareholders. Current maximum annual remuneration is set at ¥190 million for all directors not serving as members of the Audit & Supervisory Committee, and at ¥84 million for all directors serving as Audit & Supervisory Committee members. Besides this direct monetary remuneration, directors are collectively entitled to annual grants of performance-linked stock remuneration of up to ¥50 million that are held in trust (this excludes non-executive directors). Any remuneration for directors is separate to salary and bonuses to which they are entitled for any concurrent position as an employee.

To ensure greater transparency in determining remuneration for directors, the Company has instituted the Compensation Committee, which is composed of the president, a director serving as an Audit & Supervisory Committee member, and an external director. The Board of Directors approves proposals for director remuneration based on the deliberation and advice of the Compensation Committee. With regard to the remuneration of directors serving as Audit & Supervisory Committee

members, any proposals are approved by the Board of Directors following Audit & Supervisory Committee consultation.

4. Any internal candidates for appointment to a director's position must satisfy the nomination criteria listed below.

- (1) Adequate comprehension of, and the ability to implement, the Company's "Management Philosophy," "Our Corporate Goals," "Management Policy," and the "Group Code of Conduct"
- (2) Strong determination to maximize value for shareholders and corporate value, coupled with the ability to display strong leadership
- (3) Ability to make practical, mature business decisions in a management capacity
- (4) Strong business ethics and high integrity and value Candidates for nomination as external director must have the capacity to provide independent oversight of operational execution and counsel and advice to contribute to sustained growth in corporate value, based on an appreciation of corporate management and business strategy.

Candidates for nomination as director serving as an Audit & Supervisory Committee member must have the capacity to conduct auditing and oversight activities from general and specialist viewpoints, based on an appreciation of aspects of business such as management, finance, accounting and risk management. The Articles of Incorporation set the maximum numbers of directors as 10 for directors not serving and five for directors serving on the Audit & Supervisory Committee.

To ensure greater transparency in appointment of directors, the Company has instituted the Nominating Committee, which is composed of the president, a director serving as an Audit & Supervisory Committee member, and an external director. The Board of Directors approves any candidates for appointment to director based on

the deliberation and advice of the Nominating Committee. With regard to the appointment of any directors serving as Audit & Supervisory Committee members, nominations are confirmed by the Board of Directors after their approval by the Audit & Supervisory Committee, based on the advice of the Nominating Committee.

#### Supplementary Principle 4.1.1

Besides any statutory items or other matters as stipulated in the Articles of Incorporation, the Board of Directors deliberates and determines important matters related to business execution as stipulated in the regulations pertaining to the Board of Directors, including management policies and plans, personnel-related decisions, plans for financing and capital investment, and the establishment or dissolution of subsidiaries or affiliates. Responsibility for deciding other items of business is delegated by the Board to the president. In addition, in accordance with Japanese laws and regulations and the Articles of Incorporation, with the Company's transition to a Company with an Audit & Supervisory Committee, some important business matters have been delegated to the president. To help improve the speed and efficiency of business execution, the president can delegate authority to make decisions on these matters to corporate executive officers as appropriate.

#### Principle 4.9 Independence Standards and Qualification for Independent Directors

In nominating candidates for independent director, the Nominating Committee ensures that such persons satisfy the independence criteria set by stock exchanges and are also capable of fulfilling their role and responsibilities from an independent standpoint. The rationales for the appointment of those independent directors serving as of June 23, 2016 are summarized below.

#### **Takahiro Matsusaka**

Many years of experience and related business knowledge gained working in managerial positions in financial institutions afford Mr. Matsusaka the capacity to conduct auditing and oversight activities from general and specialist viewpoints. He is not influenced by the views of Sumitomo Mitsui Banking Corp. (SMBC), a major business partner of the Company, due to the 12 years that he has spent working at other companies since leaving SMBC. Moreover, it is judged that the Company's decision-making is not subject to any undue influence by SMBC since (a) the Company conducts business with a number of financial institutions, (b) business with SMBC is conducted on the same terms as with other banks, and (c) loans from SMBC are equivalent to only about 5% of the Company's total assets. Hence, since there is no conflict of interest with ordinary shareholders as defined by the Tokyo Stock Exchange, Mr. Matsusaka has a high degree of independence.

#### **Takashi Shigematsu**

Many years of experience gained working as an engineer or manager in manufacturing firms and a related wealth of knowledge enable Mr. Shigematsu to conduct auditing and oversight activities from an independent perspective. In addition, the lack of any special relationship between the Company and Fujitsu Ten Limited means that there is no conflict of interest with ordinary shareholders as defined by the Tokyo Stock Exchange, and that Mr. Shigematsu has a high degree of independence.

#### **Haruo Shimizu**

Many years of experience gained working as a manager in manufacturing firms and a related wealth of knowledge enable Mr. Shimizu to conduct auditing and oversight activities from an independent perspective. In addition, the lack of any special relationship between the Company and EXEDY Corporation means that there is no conflict of interest with ordinary shareholders as defined by the Tokyo Stock Exchange, and that Mr. Shimizu has a high degree of independence.

#### Supplementary Principle 4.11.1

The Company ensures that the composition of the Board of Directors includes a diverse range of talented people of impeccable character with suitable experience and knowledge, taking into consideration the business environment and the related issues faced at the time. With regard to the size of the Board, to ensure lively and frank exchanges of opinion, the limits on the number of directors have been set at 10 for directors not serving and five for directors serving on the Audit & Supervisory Committee.

#### Supplementary Principle 4.11.2

Directors concurrently occupy the following positions with other listed companies.

#### **Takahiro Matsusaka**

*Corporate Auditor, Fukui Belt Industries, Ltd.*

#### **Takashi Shigematsu**

*Chairman & Representative Director, Fujitsu Ten Limited*

*Outside director, Murata Manufacturing Co., Ltd.*

#### Supplementary Principle 4.11.3

The Company has analyzed and evaluated the effectiveness of the Board of Directors at its meetings held in 2015. This involved directors and Audit & Supervisory Committee members each completing a self-evaluation questionnaire on the operation of the Board of Directors. The Board chairperson conducted an analysis and evaluation and reported the results to the Board for internal discussion. The exercise concluded that the Board's lively discussion based on multi-faceted viewpoints supported its effective operation.

#### Supplementary Principle 4.14.2

The Company provides directors with training as required on or after appointment through training seminars, the provision of literature regarding directorial roles and responsibilities, and by providing other opportunities to acquire required knowledge at the Company's expense. External directors are provided with materials and explanation to ensure a

basic knowledge of the Company's operations, and opportunities are provided to visit offices and factories in Japan and abroad as deemed appropriate.

#### Principle 5.1 Policy for Constructive Dialogue with Shareholders

Regarding all shareholders and investors as important stakeholders, the Company believes it is important to deepen mutual understanding based on a constructive dialogue about how to enhance corporate value and to use such dialogue as the basis for proper management policy. In line with such thinking, the executive director in charge of administrative functions oversees the dialogue in coordination with the central departments responsible for finance, general affairs and corporate planning and provides briefings to domestic and foreign institutional investors, and disclosure of information such as the details and progress of business plans, Group performance, and returns to shareholders. In these meetings, the president and the senior management of the Company seek to engage in dialogue with institutional investors about long-term creation of corporate value so that stakeholder views can better be reflected in the management of the business. The full online disclosure of any materials presented at such meetings via the Company's website ensures fair disclosure to individual investors and shareholders. Since the General Meeting of Shareholders also provides another valuable opportunity to engage with shareholders, the Company seeks to avoid holding it on the most popular dates, and also ensures that adequate time is allocated to the Q&A session.

The content of dialogue with shareholders and investors is reported as necessary to the Board of Directors and executive officer meetings. The Company has also instituted policies on disclosure and insider trading as part of efforts to prevent any occurrence of insider trading.

## Message from an External Director

### Striving to Maximize Corporate Value by Supporting the Growth of a Global Enterprise Focused on Localized Businesses



**Takahiro Matsusaka**  
External Director  
(Chair of the Audit & Supervisory Committee)

In June 2014, I was appointed as an auditor of Bando Chemical Industries, Ltd. assuming responsibility for a crucial part of its corporate governance. Bando has been actively implementing measures to enhance its corporate governance system before they were required by the amendments to the Companies Act of Japan that came into force in 2015, and Japan's Corporate Governance Code. These measures have included the appointment of external directors, along with the establishment of a Nominating Committee and a Compensation Committee. Moreover, I believe that the Company's corporate governance is functioning effectively not just in form but also in substance, with open and lively discussions held in meetings of the Board of Directors. In June 2016, Bando transitioned to a Company with an Audit & Supervisory Committee, and I was appointed as a director who is an Audit and Supervisory Committee member. I believe that this transition has reinforced Bando's corporate governance

and will help to further increase its corporate value.

Bando is a global enterprise that generates almost half of its net sales outside Japan, with the Company holding the top share of the Asian market for automotive power transmission belts. Throughout its 110-year history, Bando has achieved growth while maintaining close ties with local communities centered on the city of Kobe, where the Company was founded. As a banker, I have been involved with the growth of a large number of companies over the past 30 years or so. Every company that has evolved into a global enterprise has attached great importance to the strengths developed in the local communities where its business originated. The overseas business of Bando is expected to continue growing in the years ahead. While continuing to diligently preserve the DNA it has developed in Japan, I urge the Company to continue transferring this DNA into its overseas markets.

The Bangalore Plant, which was opened in India in 2013, is a case in point. Although the Company faced various issues when the plant was first opened, the Company went on to successfully establish recruitment, marketing and production activities closely tied to the local community. Today, the Bangalore Plant has grown into a key earnings driver for the entire Group. Needless to say, this success was underpinned by the experience and expertise developed by the Company in the course of fostering close ties with local communities in Japan.

Guided by the knowledge I have developed as a banker, I am committed to fulfilling my roles and responsibilities as a director and an Audit & Supervisory Committee member, thereby helping to drive further growth at the global enterprise that is Bando Chemical Industries.

## Management (As of June 23, 2016)

### Board of Directors



President and Representative Director:  
**Mitsutaka Yoshii**



Representative Director:  
**Yoshihisa Tamagaki**



Member of the Board:  
**Kyosuke Nakamura**



Member of the Board:  
**Shinji Kashiwada**



Member of the Board (Audit & Supervisory Committee Member):  
**Takahiro Matsusaka**



Member of the Board (Audit & Supervisory Committee Member):  
**Takashi Shigematsu**  
(External)



Member of the Board (Audit & Supervisory Committee Member):  
**Haruo Shimizu**  
(External)

### Corporate Executive Officers

President:  
**Mitsutaka Yoshii**

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

Executive Officers:  
**Joseph David Laudadio**  
**Katsuhiko Hata**  
**Katsuya Yamaguchi**  
**Takayuki Nagase**  
**Kazuyuki Mamba**  
**Satoshi Matsuo**  
**Atsushi Someda**

# Management's Discussion and Analysis

## Operating Environment

During the fiscal year ended March 31, 2016, the United States economy continued to expand steadily due to higher employment and consumer spending. In Europe, economies recovered despite the heightened geopolitical risks. Meanwhile, in Asia, there was instability in the ASEAN region due to the effects of an economic slowdown in China. In Japan, the modest pace of economic recovery was maintained due to effective fiscal and monetary policies, but uncertainty over a slowdown in the global economy persisted.

In the automotive market, a key sector for the Bando Group, automobile production remained firm in the United States and Europe. Poor sales in China in the first half of the year caused a widespread correction in output, but positive year on year growth in production was seen in the second half after the government moved, in October 2015, to cut taxes levied on sales of small cars. In Japan, production fell in year on year terms due to the effects of the surge in demand for subcompacts prior to the consumption tax hike. Demand in the industrial machinery field was supported by firm capital investment in Japan and a gentle recovery in domestic housing, a main market for high-performance films.

## Business Overview

Fiscal 2015 was the third year of the first stage of the Group's "Breakthroughs for the future" mid-to-long term business plan covering the period of fiscal 2013 to fiscal 2022. We focused our efforts on increasing sales of transmission belts for automobiles, two-wheeled vehicles, agricultural equipment and general industrial

applications, and of light-duty conveyor belts. We continued to develop the Group's customer base, notably across Japan, China and the ASEAN region.

Efforts to develop belts and other new products, including the C-STRETCH™ elastic strain sensor in the new business development field, continued. To improve profitability, we worked to reduce costs and enhance global competitiveness by developing optimum global purchasing, production and distribution functions.

## Operating Results

Consolidated net sales in the fiscal year ended March 31, 2016 were ¥93,272 million, a decline of 2.2% year on year, despite efforts as outlined above. This was due mainly to the effects of the appreciation of the yen starting in the fourth quarter of the year.

Operating income rose 24.3% year on year, to ¥5,961 million, thanks in part to the results of efforts to reduce costs.

Despite the SG&A ratio rising 1.1 percentage points to 22.7%, reflecting labor costs increase, the cost-to-sales ratio improved 2.5 percentage points to 70.9% due to successful efforts to reduce costs. As a result, the operating margin improved by 1.4 percentage points to 6.4%.

Profit attributable to shareholders of the parent rose 16.7% year on year to ¥4,386 million. This reflected increase in income and the absence of impairment loss on fixed assets recorded in fiscal 2014.

## Operating Results by Business Segment

### Belt Business

Sales of automotive accessory drive power transmission belts fell overall due to decline in automobile production in Japan despite increased automobile production in overseas markets. Sales of automotive accessory drive power transmission system products also fell due to poor demand in Japan and Asia.

Sales of variable speed belts for scooters increased in Asia.

Sales of industrial power transmission belts and belts for agricultural machinery grew due to the success of efforts to develop markets in the United States, China and the ASEAN region.

Despite steady growth in steep-incline conveyor belts, sales of conveyor belts for resource development decreased due to the fall in resource prices.

In resin conveyor belts (Sunline™ Belts), sales of belts for food machinery manufacturing process rose in Japan. However, overseas sales fell, reflecting lower capacity utilization among food production facilities in China.

Segment net sales decreased 2.8% year on year to ¥75,878 million. Segment profit rose 26.3% to ¥5,248 million, reflecting a drop in naphtha prices accompanying a decline in naphtha prices, along with cost reduction efforts and gains in profitability at overseas production sites from higher output.

### Advanced Elastomer Products Business

In precision performance products, sales of high-performance rollers and precision belts were sluggish due to a decrease in production of office machinery by

manufacturers based in China and other parts of Asia.

In high-performance film products, lower sales of films for industrial use were offset by higher sales of films for decorative displays, including films for construction materials and inkjet-printable wallpaper media BANDO GLANMESSE™. This was due to the success of our proactive marketing activities.

Segment net sales fell 0.6% year on year to ¥15,620 million. Segment profit rose 131.0% to ¥759 million, reflecting the growth in sales of high-value-added products and successful efforts to reduce costs.

### Other Business

Bando is engaged in other business, such as the manufacture and sales of robot-related devices. Sales in other business declined 0.6% year on year to ¥2,631 million. Segment profit increased 39.2% to ¥276 million.

## Financial Position

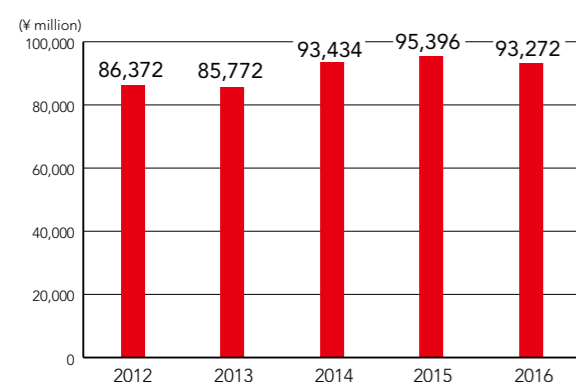
Total assets as of March 31, 2016 amounted to ¥90,765 million, a decrease of ¥3,935 million year on year. Current assets decreased by ¥1,599 million due to decrease in notes and accounts receivable-trade, while property, plant and equipment fell by ¥2,335 million.

Total liabilities decreased by ¥2,363 million compared with the previous year-end to ¥35,560 million. Current liabilities decreased by ¥991 million due to a fall in short-term borrowings, and long-term liabilities fell by ¥1,372 million.

Net assets decreased ¥1,571 million from the previous fiscal year-end to ¥55,205 million.

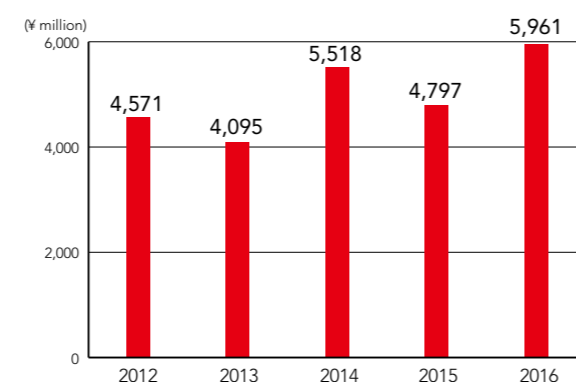
Retained earnings increased ¥3,351 million due partly to the recording of profit attributable to shareholders of the parent, and accumulated other

### Net sales\*

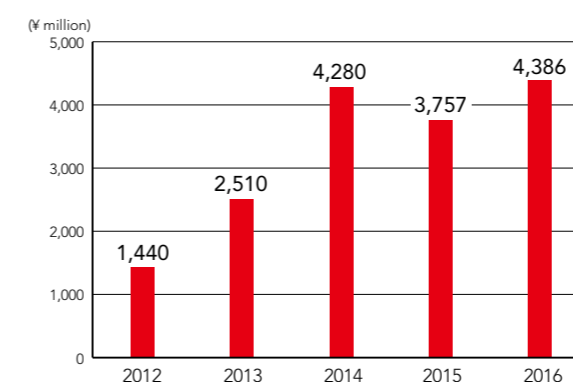


\* Fiscal year endings are March 31.

### Operating income\*

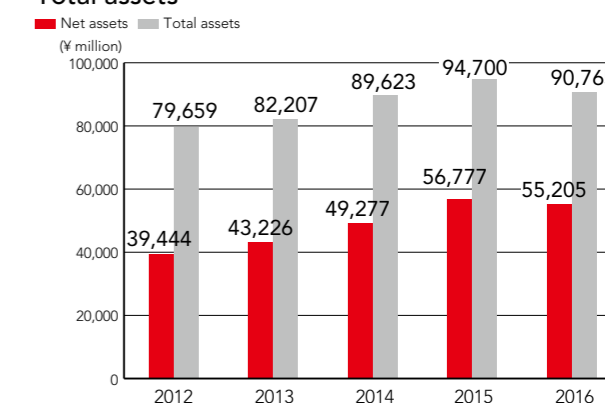


### Profit attributable to shareholders of the parent\*



\* Fiscal year endings are March 31.

### Net assets Total assets\*





comprehensive income decreased ¥4,698 million largely on foreign currency translation adjustments. As a result, the equity ratio increased 1.0 percentage points from 59.4% at the previous fiscal year-end to 60.4%.

### Capital Investment and Fund Procurement

Capital investment undertaken in the fiscal year-ended March 31, 2016 totaled ¥4,676 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
Automotive Parts Business	¥1,736	Improved manufacturing equipment, renewed molds
Industrial Products Business	1,111	Installed new manufacturing equipment, developed new manufacturing process
Advanced Elastomer Products Business	855	Streamlined and improved the energy efficiency of manufacturing equipment, improved manufacturing processes
Other	974	Installed new system and research equipment
Total	¥4,676	

### Cash Flow

Net cash provided by operating activities totaled ¥9,038 million, compared with ¥8,061 million in the previous fiscal year, with the recording of income before income taxes of ¥6,086 million and depreciation and amortization of ¥4,321.

Net cash used in investing activities was ¥4,184 million, compared with ¥3,931 million used in the previous fiscal year. This was primarily due to the booking of ¥3,883 million in expenses for purchases of property, plant and equipment.

Net cash used in financing activities was ¥3,049 million, compared with ¥2,472 million in the previous fiscal year, largely reflecting cash dividends paid totaling ¥1,035 million and payments on long-term borrowings of ¥2,049 million.

As a result, cash and cash equivalents as of March 31, 2016 totaled ¥16,436 million, up ¥738 million compared with the previous fiscal year-end.

### Earnings Forecasts for the Year Ending March 31, 2017

The macro economy in the fiscal year ending March 31, 2017 is expected to decelerate. Chinese economy is expected to slow down due to the issues of excess production capacity and the high debt burden, with other developing economies also slowing due to low resource prices. These impacts are expected to affect the United States and Europe, where growth in consumer spending has held up to date.

In Japan, there are concerns over impacts from overseas economic slowdown despite expectations of positive effects from financial policies and recovery in domestic demand.

Based on this prognosis, the Group will take priority measures in the fourth year of the "Breakthroughs for the future" mid-to-long term business plan. We forecast consolidated net sales of ¥94,000 million, up 0.8% year on year, operating income of ¥6,000 million, up 0.7%, and profit attributable to shareholders of the parent of ¥4,500 million, up 2.6%.

### Basic Policy Regarding the Distribution of Profits

The Company's basic policy is to enhance profits and maintain stable dividend payments to shareholders while taking into consideration its earnings 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. In line with this basic policy, we paid the year-end dividend of ¥6 for the fiscal year ended March 31, 2016, up ¥1 from the previous fiscal year end, resulting in the annual dividend of ¥12 per share, up ¥2 from the previous fiscal year. In March to April 2016, the Company also conducted a share buyback capped at ¥1.0 billion.

The Company conducted one-for-two reverse stock split\* on October 1, 2016, and we plan to pay a dividend of ¥12 in the current fiscal year (equivalent to the previous year-end dividend of ¥6 per share before the reverse stock split.)

\* This also included a reduction in the size of the minimum share-trading unit from 1,000 shares to 100 shares.

## 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, 2016.

### 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, but there could be sharply rising 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.

# Consolidated Balance Sheets

Bando Chemical Industries, Ltd. and Consolidated Subsidiaries  
March 31, 2016 and 2015

Assets	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
<b>Current Assets:</b>			
Cash and cash equivalents	¥ 16,436	¥ 15,697	\$ 145,938
Time deposits	545	502	4,840
Notes and accounts receivable:			
Trade	16,731	18,358	148,568
Other	265	87	2,352
Electronically recorded monetary claims — operating	1,617	965	14,362
Allowance for doubtful accounts	(38)	(31)	(340)
Inventories	10,509	11,801	93,307
Deferred tax assets	458	606	4,070
Other current assets	997	1,135	8,857
<b>Total Current Assets</b>	<b>47,520</b>	<b>49,120</b>	<b>421,954</b>
<b>Property, Plant and Equipment:</b>			
Land	6,507	6,768	57,782
Buildings and structures	27,605	27,892	245,117
Machinery and equipment	55,942	56,797	496,732
Construction in progress	1,508	1,349	13,390
Other	13,281	13,442	117,921
	104,843	106,248	930,942
Accumulated depreciation	(75,356)	(75,158)	(669,117)
<b>Property, Plant and Equipment, Net</b>	<b>29,487</b>	<b>31,090</b>	<b>261,825</b>
<b>Other Assets:</b>			
Intangible assets	1,189	1,375	10,556
Investments in securities	5,287	6,262	46,944
Investments in affiliates	5,041	5,266	44,755
Deferred tax assets	966	207	8,575
Other, net	1,275	1,380	11,332
<b>Total Other Assets</b>	<b>13,758</b>	<b>14,490</b>	<b>122,162</b>
<b>Total Assets</b>	<b>¥ 90,765</b>	<b>¥ 94,700</b>	<b>\$ 805,941</b>

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
<b>Current Liabilities:</b>			
Short-term borrowings	¥ 1,555	¥ 2,739	\$ 13,809
Current portion of long-term debt	3,513	1,996	31,196
Notes and accounts payable:			
Trade	9,908	11,254	87,977
Electronically recorded obligations — operating	2,767	3,035	24,570
Construction and other	3,587	3,131	31,855
Income taxes payable	439	431	3,898
Provision for loss on liquidation of subsidiaries and associates	31	—	272
Other current liabilities	3,180	3,385	28,234
<b>Total Current Liabilities</b>	<b>24,980</b>	<b>25,971</b>	<b>221,811</b>
<b>Long-term Liabilities:</b>			
Long-term debt	7,548	9,801	67,025
Net defined benefit liability	2,918	2,058	25,909
Other long-term liabilities	114	93	1,010
<b>Total Long-term Liabilities</b>	<b>10,580</b>	<b>11,952</b>	<b>93,944</b>
<b>Net Assets:</b>			
Common stock			
Authorized: 378,500,000 shares			
Issued 2015 and 2016 — 94,427,073 shares	10,952	10,952	97,247
Capital surplus	2,970	2,968	26,374
Retained earnings	42,091	38,740	373,741
Treasury stock, at cost			
2015 — 378,000 shares			
2016 — 654,165 shares	(257)	(114)	(2,279)
<b>Total Shareholders' Equity</b>	<b>55,756</b>	<b>52,546</b>	<b>495,083</b>
Accumulated other comprehensive income			
Unrealized gains on available-for-sale securities	1,431	2,061	12,710
Deferred gains (losses) on hedges	1	(0)	3
Foreign currency translation adjustments	(1,170)	2,171	(10,387)
Remeasurements of defined benefit plans	(1,232)	(504)	(10,942)
<b>Total Accumulated Other Comprehensive Income</b>	<b>(970)</b>	<b>3,728</b>	<b>(8,616)</b>
Non-controlling interests	419	503	3,719
<b>Total Net Assets</b>	<b>55,205</b>	<b>56,777</b>	<b>490,186</b>
<b>Total Liabilities and Net Assets</b>	<b>¥90,765</b>	<b>¥94,700</b>	<b>\$805,941</b>

# Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Bando Chemical Industries, Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
<b>Consolidated Statements of Income</b>			
<b>Net Sales</b>	<b>¥93,272</b>	¥95,396	<b>\$828,202</b>
<b>Cost of Sales</b>	<b>66,097</b>	69,997	<b>586,901</b>
Gross profit	27,175	25,399	241,301
<b>Selling, General and Administrative Expenses</b>	<b>21,214</b>	20,602	<b>188,373</b>
Operating income	5,961	4,797	52,928
<b>Other Income (Expenses):</b>			
Interest and dividend income	260	220	2,307
Interest expense	(288)	(320)	(2,558)
Equity in earnings of affiliates	509	646	4,522
Foreign exchange gains (losses), net	(148)	223	(1,313)
Gain on sale of investments in securities	24	—	214
Loss on disposal of property, plant and equipment	(306)	(42)	(2,719)
Impairment loss	(92)	(410)	(816)
Provision for loss on liquidation of subsidiaries and associates	(92)	—	(819)
Other, net	258	206	2,295
Income before income taxes	6,086	5,320	54,041
<b>Income Taxes:</b>			
Current	1,598	1,503	14,188
Prior years	0	—	3
Deferred	30	(33)	270
Profit	4,458	3,850	39,580
<b>Profit Attributable to Non-Controlling Interests</b>	<b>72</b>	93	<b>633</b>
<b>Profit Attributable to Shareholders of the Parent</b>	<b>¥ 4,386</b>	¥ 3,757	<b>\$ 38,947</b>
	Yen		U.S. dollars
	2016	2015	2016
<b>Per Share of Common Stock</b>			
Basic net income	¥46.65	¥39.95	\$0.41
Cash dividends	12.00	10.00	0.11

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
<b>Consolidated Statements of Comprehensive Income</b>			
<b>Profit</b>	<b>¥ 4,458</b>	¥3,850	<b>\$ 39,580</b>
<b>Other Comprehensive Income:</b>			
Unrealized gains (losses) on available-for-sale securities	(636)	567	(5,647)
Deferred gains (losses) on derivative instruments	1	(1)	4
Foreign currency translation adjustments	(3,063)	3,378	(27,197)
Remeasurements of defined benefit plans	(729)	546	(6,472)
Share of other comprehensive income in affiliates	(293)	218	(2,597)
Total other comprehensive income	(4,720)	4,708	(41,909)
<b>Comprehensive Income</b>	<b>¥ (262)</b>	¥8,558	<b>\$ (2,329)</b>
<b>Comprehensive Income Attributable to:</b>			
Shareholders of the parent	¥ (312)	¥8,408	\$ (2,773)
Non-controlling interests	50	150	444

# Consolidated Statements of Changes in Net Assets

Bando Chemical Industries, Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2016 and 2015

	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 (losses) on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency transaction adjustments	Remeasurements of defined benefit plans	Non-controlling interests	Total net assets
Balance at April 1, 2014	94,427	¥10,952	¥2,968	¥35,353	¥(102)	¥1,498	¥ 4	¥ (852)	¥(1,049)	¥505	¥49,277
Cumulative effects of changes in accounting policies	—	—	—	149	—	—	—	—	—	—	149
Restated Balance at April 1, 2014	—	10,952	2,968	35,502	(102)	1,498	4	(852)	(1,049)	505	49,426
Profit attributable to shareholders of the parent	—	—	—	3,758	—	—	—	—	—	—	3,758
Cash dividends	—	—	—	(941)	—	—	—	—	—	—	(941)
Purchases of treasury stock	—	—	—	—	(12)	—	—	—	—	—	(12)
Change in fiscal year-end of consolidated subsidiaries	—	—	—	421	—	—	—	—	—	—	421
Net change in the year	—	—	—	—	—	563	(4)	3,023	545	(2)	4,125
Balance at April 1, 2015	94,427	10,952	2,968	38,740	(114)	2,061	(0)	2,171	(504)	503	56,777
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—
Restated Balance at April 1, 2015	—	10,952	2,968	38,740	(114)	2,061	(0)	2,171	(504)	503	56,777
Profit attributable to shareholders of the parent	—	—	—	4,386	—	—	—	—	—	—	4,386
Cash dividends	—	—	—	(1,035)	—	—	—	—	—	—	(1,035)
Purchases of treasury stock	—	—	—	—	(143)	—	—	—	—	—	(143)
Disposal of treasury stock	—	—	0	—	0	—	—	—	—	—	0
Change in ownership interest of the parent arising from transactions with non-controlling shareholders	—	—	2	—	—	—	—	—	—	—	2
Net change in the year	—	—	—	—	—	(630)	1	(3,341)	(728)	(84)	(4,782)
<b>Balance at March 31, 2016</b>	<b>94,427</b>	<b>¥10,952</b>	<b>¥2,970</b>	<b>¥42,091</b>	<b>¥(257)</b>	<b>¥1,431</b>	<b>¥ 1</b>	<b>¥(1,170)</b>	<b>¥(1,232)</b>	<b>¥419</b>	<b>¥55,205</b>

	Thousands of U.S. dollars									
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency transaction adjustments	Remeasurements of defined benefit plans	Non-controlling interests	Total net assets
Balance at April 1, 2015	\$97,247	\$26,356	\$343,985	\$(1,020)	\$18,298	\$(2)	\$ 19,278	\$ (4,469)	\$ 4,467	\$504,140
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—
Restated Balance at April 1, 2015	97,247	26,356	343,985	(1,020)	18,298	(2)	19,278	(4,469)	4,467	504,140
Profit attributable to shareholders of the parent	—	—	38,947	—	—	—	—	—	—	38,947
Cash dividends	—	—	(9,191)	—	—	—	—	—	—	(9,191)
Purchases of treasury stock	—	—	—	(1,262)	—	—	—	—	—	(1,262)
Disposal of treasury stock	—	2	—	3	—	—	—	—	—	5
Change in ownership interest of the parent arising from transactions with non-controlling shareholders	—	16	—	—	—	—	—	—	—	16
Net change in the year	—	—	—	—	(5,588)	5	(29,665)	(6,473)	(748)	(42,469)
<b>Balance at March 31, 2016</b>	<b>\$97,247</b>	<b>\$26,374</b>	<b>\$373,741</b>	<b>\$(2,279)</b>	<b>\$12,710</b>	<b>\$ 3</b>	<b>\$(10,387)</b>	<b>\$(10,942)</b>	<b>\$3,719</b>	<b>\$490,186</b>

# Consolidated Statements of Cash Flows

Bando Chemical Industries, Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2016 and 2015

	Millions of Yen		Thousands of U.S. dollars
	2016	2015	2016
<b>Cash Flows from Operating Activities:</b>			
Income before income taxes	¥ 6,086	¥ 5,320	\$ 54,041
Adjustments for:			
Income taxes paid	(1,849)	(2,480)	(16,405)
Income taxes refunded	234	8	2,073
Depreciation and amortization	4,321	4,386	38,368
Amortization of goodwill and negative goodwill	10	3	88
Impairment loss	92	410	816
Increase (decrease) in allowance for doubtful accounts	30	(5)	269
Increase in provision for loss on liquidation of subsidiaries and associates	32	—	283
(Decrease) increase in liability for retirement benefits	(144)	24	(1,281)
Foreign exchange losses (gains), net	56	(26)	493
Equity in earnings of affiliates	(509)	(646)	(4,522)
Loss on sales and disposal of property, plant and equipment	257	15	2,278
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable — trade	(8)	559	(73)
Decrease (increase) in inventories	634	(282)	5,628
Decrease in notes and accounts payable — trade	(810)	(557)	(7,193)
Other, net	606	1,332	5,390
<b>Net Cash Provided by Operating Activities</b>	<b>9,038</b>	<b>8,061</b>	<b>80,253</b>
<b>Cash Flows from Investing Activities:</b>			
Increase in time deposits	(94)	(143)	(836)
Purchases of property, plant and equipment	(3,883)	(2,945)	(34,475)
Proceeds from sales of property, plant and equipment	109	67	966
Purchases of intangible assets	(408)	(502)	(3,620)
Purchases of investments in securities	(19)	(16)	(165)
Proceeds from sales of investments in securities	35	12	310
Purchases of investments in subsidiaries	—	(241)	—
Other, net	76	(163)	668
<b>Net Cash Used in Investing Activities</b>	<b>(4,184)</b>	<b>(3,931)</b>	<b>(37,152)</b>
<b>Cash Flows from Financing Activities:</b>			
Decrease in short-term borrowings	(1,050)	(763)	(9,320)
Proceeds from long-term borrowings	1,384	1,500	12,289
Payments on long-term borrowings	(2,049)	(2,232)	(18,197)
Purchases of treasury stock	(141)	(12)	(1,254)
Cash dividends paid	(1,035)	(941)	(9,191)
Cash dividends paid to non-controlling interests	(106)	(4)	(940)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(26)	—	(236)
Other, net	(26)	(20)	(229)
<b>Net Cash Used in Financing Activities</b>	<b>(3,049)</b>	<b>(2,472)</b>	<b>(27,078)</b>
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	<b>(1,066)</b>	<b>1,053</b>	<b>(9,467)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>739</b>	<b>2,711</b>	<b>6,556</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>15,697</b>	<b>12,981</b>	<b>139,382</b>
<b>Increase in cash and cash equivalents due to change in fiscal year-end of consolidated subsidiaries</b>	<b>—</b>	<b>5</b>	<b>—</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>¥16,436</b>	<b>¥15,697</b>	<b>\$145,938</b>

# Corporate Data / Investor Information

## Corporate Data

Company name: Bando Chemical Industries, Ltd.  
 Founded: April 14, 1906  
 Capital: ¥10,952 mil. (As of March 31, 2016)  
 Consolidated sales: ¥93,272 mil. (FYE March 2016)  
 Employees (Consolidated): 3,920 (As of March 31, 2016)

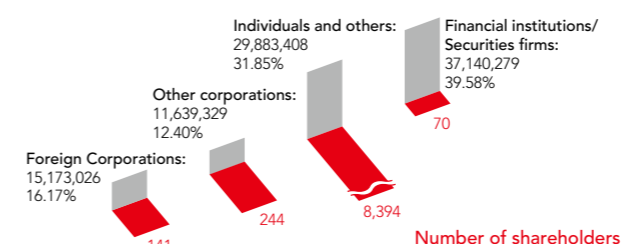
## Investor Information (As of March 31, 2016)

### Capital Stock

Shares Authorized: 378,500,000  
 Shares Outstanding: 94,427,073  
 (including 591,031 shares of treasury stock)  
 Number of Shareholders: 8,850

### Securities Traded: Tokyo Stock Exchange, Inc.

### Composition of Shareholders

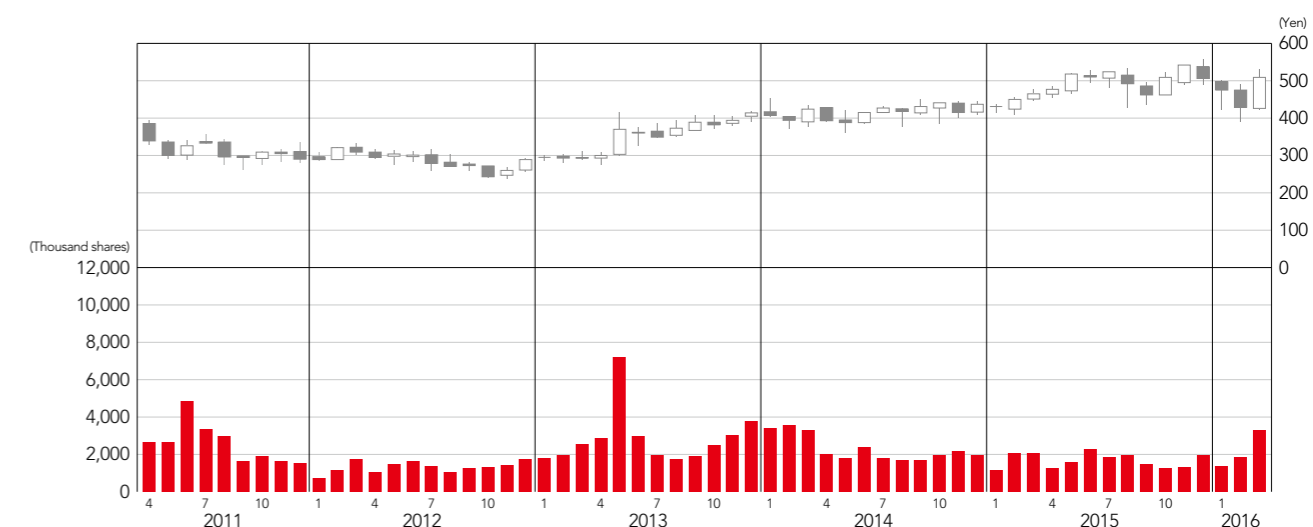


### Principal Shareholders (As of March 31, 2016)

	Number of shares held (thousands)	Investment ratio (%)
Bando business partner stakeholders	7,299	7.77
Sumitomo Mitsui Banking Corporation	4,651	4.95
Mitsubishi UFJ Trust and Banking Corporation	4,004	4.26
Meiji Yasuda Life Insurance Company	4,000	4.26
Mizuho Bank, Ltd.	3,600	3.83
The Bank of Tokyo-Mitsubishi UFJ, Ltd. (trust account)	3,150	3.35
Japan Trustee Services Bank, Ltd. (trust account)	2,997	3.19
Nippon Life Insurance Company	2,349	2.50
The Master Trust Bank of Japan, Ltd. (trust account)	2,035	2.16
Tokio Marine & Nichido Fire Insurance Co., Ltd.	1,839	1.96

Notes: 1. Investment ratios are calculated after deducting treasury stock (591,031 shares).  
 2. Investment ratios listed above are rounded down to two decimal places.

### Stock Price and Trading Volume





**BANDO CHEMICAL INDUSTRIES, LTD.**

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