Innovative Vision of the Bando Group for the 21st Century

The Bando Group will employ energetic individuals with professionalism to lead the company in the expansion of our core business in global markets, and passionately pursue new business opportunities with a strong sense to protect the world environment.

Guidelines for the Bando Group

1. Employ energetic personnel with professionalism, and reform business activities.
2. Minimize control and maximize actions.
3. Delegate authority, and make optimum decisions in a prompt manner.
4. Maximize profits from existing products.
5. Invest in new entrepreneurial ventures.
6. Strengthen the personnel and evaluation systems to encourage personnel to feel a sense of worth in relation to their work.
7. Strengthen initiatives to reduce environmental impact as we move towards the realization of a low-carbon society.

We have started the second stage of the “Breakthroughs for the future” mid-to-long term business plan (BF-2).
New Business Creation

The BF-2 top-priority strategy is new business creation.

We will form a group of solid new businesses while further expanding the portfolio centering on the products already being mass produced in sectors such as optoelectronics, power electronics and welfare/nursing care.

Targeted Markets/ Priority Sectors/ Main Products

- Display sector
- Power electronics sector
- Medical/welfare/nursing care market

Our Targets

+12 billion yen

*Net sales growth target (fiscal 2022 vs fiscal 2017)
Core Business Expansion

We aim to secure the top share in target markets by focusing on the development of specifications for highly functional, energy-saving, and reduced environmental impact products in the Automotive Parts Business, Industrial Products Business and Advanced Elastomer Products Business, as well as by making proposals that enhance customer convenience.

Our Targets

Capture the top market share by focusing on priority business types and regions

+52%

+36%

+6%

*Net sales growth rate target (fiscal 2022 vs fiscal 2017)
Enhancement and Evolution in Manufacturing

We started innovative manufacturing method development under BF-1 at our three plants in Japan and are continuing under BF-2. We will pursue further innovative manufacturing methods for our main products of power transmission belts in particular, as well as build automated lines and roll them out to overseas production bases to stabilize a low cost to sales ratio.

- Development of innovative manufacturing methods
- Promotion of IoT and AI
- Manufacturing cost reduction activities aimed at global total optimization

Our Targets

Establish a cost to sales ratio of 70% or less
“Human capital” is the source of various types of value creation, and work style innovation of individuals and the organization will be the core elements of BF-2. We aim to bolster our foundation for sustainable growth and reduce our SG&A expense ratio by reforming work styles, strengthening global management, and securing and developing human resources.

**Our Targets**

- Achieve an SG&A expense ratio of 20% or less by strengthening the management base for sustainable growth
- Enable every individual to maximize their abilities
- Shorten production line working hours through IT
- Create various feelings of well-being through flexible work styles
- Work healthily and enthusiastically

**Guideline 4**

**Work Style Revolution**

- Establish the information system necessary for global management (unify core systems)
- Review working environments and establish enhanced productivity and health management
- Reform the corporate culture to create innovation
- Promote improved work efficiency and labor saving

**Strengthening of Global Management**

- Continuously develop human resource leaders who can be successful globally and establish a spiral to nurture and produce such types

**Acquisition and Training of Human Resources**

- Use tablets for recording inspections
- A meeting about work efficiency improvement
- Instruction regarding the BPS (Bando Production System)
Our History: Innovation for the Future

Bando Chemical Industries aims for sustainable growth in both new and current businesses by leveraging its ability to innovate, which has brought world-first and Japan-first products to market that help solve issues faced by its customers and society.

- Developed the first rubber conveyor belts in Japan
- Developed the first cotton belts (the Bando Cotton Belt) in Japan
- Developed MONOPLY BELT, the first single-ply conveyor belts in Japan
- Developed the first V belts in Japan
- Developed BANROPE, the first V belts in Japan
- Developed SUNLINETM-A, the first light-duty conveyor belts in Japan
- Developed the first rubber conveyor belts in Japan
- Developed BANDO AWANCE™, the world’s first dry belt for continuously variable transmissions (CVT)
- Developed BANCOLLANTM Synchronous Belt UG Type, the world’s first polyurethane toothed belt with glass cord
- Developed SYNCHROBELT, the first toothed belts in Japan
- Developed the BANCOLLANTM Synchronous Belt UG Type, the world’s first polyurethane toothed belt with glass cord
- Developed BANDO AVANCETM, the world’s first dry belt for continuously variable transmissions (CVT)
- Developed Bando Wiper Edge™ EX, the world’s first special urethane seal blade for machine tools
- Developed C-STRECH™, a completely new elastic strain sensor
- Hyper Flat Drive (HFD) System™ won the Director-General’s Prize, the Agency for Natural Resources and Energy

Developed the BANDO AWANCE™, the world’s first dry belt for continuously variable transmissions (CVT)

1906
1921
1932
1947
1959
1964
1972
1988
1995
2014
2015
2016

Accumulated ability to innovate

Sustainable growth in both new businesses and current businesses
Accelerating Development of New Businesses

The Company is accelerating efforts to expand new businesses that hold the key to the second stage of its “Breakthroughs for the future” plan. Based on the key concepts of the environment, energy conservation and high performance, Bando is concentrating resources on research and development at its New Businesses Promotion Center, Research Laboratories for Core Technologies, and Manufacturing Planning Center in the priority fields of power electronics, optoelectronics, printing electronics, and welfare and nursing care in the key markets of medical and healthcare equipment/electronic products/automotive.

Since launching the mid-to-long term business plan “Breakthroughs for the future,” the Company has allocated more than ¥1 billion every year for R&D and marketing in these new businesses, Bando aims to open the doors to a new stage of growth.

Number of patent registrations in new businesses (Cases)

<table>
<thead>
<tr>
<th>Year</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>8</td>
<td>20</td>
<td>40</td>
</tr>
</tbody>
</table>

2.9 times

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

During BF-2, the aim is to sustain growth in both new businesses and current businesses. By leveraging accumulated strengths, we will focus on further polishing our core businesses.

In the Industrial Products Business, demand looks likely to expand briskly in key markets. Backed by our top share of the domestic market in OEM supply of power transmission belts for injection molds and machine tools, we aim to solidify our position further while developing high-value-added products in a bid to differentiate from rivals.

Strong Financial Position

We are working to build an even stronger financial position, as we continue the capital investments needed for growth.

At the end of the fiscal year ended March 31, 2018, our equity ratio was at an all-time high.

Expertise in Environmentally-friendly Products

Our customers, and society as a whole, have welcomed the added value provided by our “eco moving” brand of environmentally-friendly products. We had ten “eco moving” products in our portfolio in fiscal 2017, mostly belt products, and plan to expand our line-up further.

We have grouped this brand, and products that satisfy at least 50% of the baseline values for key environmental claims that define this brand, into the “Environmentally-Friendly products” category, and are working to expand it along with “Products with Fewer Hazardous Substances.”

By the fiscal year ending March 31, 2023, the final year of BF-2, we aim to have increased the ratio of “Environmentally-Friendly Products” and “Products with Fewer Hazardous Substances” to at least 50% of newly marketed products.

Aiming for at least 50% ratio of “Environmentally-Friendly Products” and “Products with Fewer Hazardous Substances”

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Aiming for at least 50% ratio of “Environmentally-Friendly Products” and “Products with Fewer Hazardous Substances”
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.

**Automotive Parts Business**

We excel in OEM business in the four- and two-wheeled vehicle 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

**Power Transmission Belts**
for four- and two-wheeled vehicles

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

**Industrial Products Business**

We excel in OEM business in the industrial machinery, agricultural machinery and conveyance sectors. Similar to the Automotive Parts Business, we are developing environmentally-friendly power transmission systems for use in a variety of fields.

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

**Industrial Power Transmission Belts**
for industrial and agricultural machinery

*Strengths and Characteristics*
- Development of energy-efficient belts and belts suited to high power machinery
- Global production and sales network, with 21 bases in 15 countries

**Conveyor Belts**

*Strengths and Characteristics*
- A full line-up 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

**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

**Main Products**

- VS Belts
- Automatic Tensioners
- TENSION MASTER™
- Red™ S8 V Belts for agricultural machinery
- HFD System™
- STS/HP-STS/Captor™ Vi
- BANCOLLAN™ Long Synchronous Belts
- G-CARRY™
- Pipe Conveyor Belts
- Mr. COOK™ F2224 Non-Stick Belts
- Lightweight Jointless P-Series Belts
- BANCOLLAN™ Long Synchronous Belts
- Development Rollers
- BANDO GLANMESSE™
- Medical films

*Net sales by business segment* 2018

- Automotive Parts Business: 46.7%
- Industrial Products Business: 36.3%
- Conveyer Belts: 17.0%
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.

Quality Management System
Sixteen of our domestic divisions and overseas business locations have received ISO 9001 certification, while 10 of our domestic and overseas business locations have obtained IATF 16949 certification.

Environmental Initiatives
Eighteen of our domestic divisions and overseas business locations have received ISO 14001 certification and all of our domestic production bases have introduced solar power generation systems.

Sales by region (as of March 2018)

- Japan: 50.36%
- Asia: 28.35%
- China: 9.90%
- Europe, America & other: 11.39%

Overseas sales ratio: 49.64%
Highlights

Fiscal year endings are March 31 in the years shown below

Net sales

Operating income

Operating margin

Interest-bearing debt D/E ratio

Raw material costs (indicators)

Exchange rate transition

Capital investment

Free cash flow

Net assets

Total assets

CO₂ emissions

Energy consumption

Waste generation

Shareholders’ equity* Equity ratio

Annual dividend per share Payout ratio

ROA ROE

PRTR substance emission and transfer volumes

Occupational accident frequency rate

Ratio of foreign employees

* Sharesholders’ equity = net assets – minority interests

* Exchange rate base is 2012/12.

* Exchange rate base is 2012/12.

* CO₂ conversion factors are based on the emission factors of the electric power supplier, published by the Ministry of the Environment.

* Exchange rate base is 2012/12.

* Raw materials cost (indicators) base is 2013/12.
We are forging the next stage of growth with initiatives in the second stage of “Breakthroughs for the future.”

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

Message from the President

Performance in Fiscal 2017

Net sales increased in all segments, albeit slightly. Profit declined due to impairment losses

The Bando Group completed the first stage of its mid-to-long term business plan “Breakthroughs for the future” in fiscal 2017, having implemented measures in priority fields and key regions with a focus on evolving and deepening current businesses, creating new businesses, and reforming the cost structure. As a result, in the Automotive Parts Business, net sales increased 3.4% year on year to ¥41,701 million as growth was restrained by weaker sales in China and Japan, despite increased sales of variable speed belts for scooters and accessory drive power transmission belts in Asia, as well as of accessory drive power transmission belts and repair parts in Europe and the U.S. In the Industrial Products Business, net sales rose only 2.9% from the previous fiscal year to ¥32,369 million due to weaker sales in China, although sales of power transmission belts for industrial and agricultural machinery in Asia, power transmission belts for industrial machinery in Japan increased. In the Advanced Elastomer Products Business, higher sales of wrapping films for automobiles and motorcycles and high-performance rollers and blades were partially offset by weaker sales of films for industrial use and medical applications, and net sales expanded only 1.7% year on year to ¥15,161 million.

With net sales up, albeit weakly, in every segment, consolidated net sales increased 3.3% year on year to ¥91,263 million, and operating income expanded 7.5% from the previous fiscal year to ¥6,336 million, reflecting a boost to gross profit from foreign currency translation effects and a lower SG&A expense ratio. However, profit attributable to shareholders of the parent decreased 3.1% to ¥4,796 million, owing to impairment losses on some products that resulted from a reshuffling of the product portfolio. We increased the year-end dividend by ¥1 to ¥15 per share, bringing the total annual dividend up ¥4 to ¥30 per share*.

* Figures adjusted for the reverse stock split the Company conducted on October 1, 2016, consolidating two shares of common stock into one share.
“Breakthroughs for the Future” Mid-to-Long Term Business Plan: Overall Image and Summary of the First Stage

10-year mid-to-long term business plan launched in fiscal 2013

In fiscal 2013, the Bando Group embarked on its 10-year mid-to-long term business plan “Breakthroughs for the future.” 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 global supplier of belts and high-performance products in the global market. In regard to profit growth, our priority measures are based on improving the profitability of current businesses in the first five years (BF-1), and expanding sales from new businesses to perform the role of a driving force in the second half (BF-2).

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

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

Key concepts
- 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
- Business domain: Global development of belt and high-performance product businesses
- Key concepts: Provide value-added products that contribute to environmental preservation, energy conservation and higher functionality
- New business expansion
- Sales/profits
- Current business: Expand global business/increase added value
- BF-1 (five years)
- BF-2 (five years)

Summary of the first stage (BF-1)

Representing the first step as part of our goal to become a standout global supplier, our targets for the first stage of the plan (fiscal 2013 to fiscal 2017) for the final year ended March 2018 were net sales of ¥100 billion, operating income of ¥10 billion, ROA of 6% and new products comprising 30% of total sales. Specifically, we focused our strengths on promoting the evolution and deepening of current businesses, while enhancing our R&D and market development efforts to help establish new businesses.

As a result, overseas net sales expanded ¥9.8 billion (28%) over the past five years, but net sales fell short of our initial numerical target owing to weaker-than-anticipated sales at major customers overseas due to unforeseen circumstances, as well as longer-than-expected time to develop and launch new products. Even though we reduced the cost to sales ratio as intended, operating income also did not reach our initial target, owing to sales falling short, higher SG&A expenses centered on higher IT investment in Japan and overseas, and R&D expenses in new businesses.

BF-1 numerical targets and progress

<table>
<thead>
<tr>
<th>(¥ billion)</th>
<th>Fiscal 2012 results</th>
<th>Fiscal 2017 results vs. fiscal 2012</th>
<th>BF-1 targets (Fiscal 2017)</th>
<th>Deviation from targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>85.7</td>
<td>91.2</td>
<td>+5.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Operating income</td>
<td>4.0</td>
<td>6.3</td>
<td>+2.2</td>
<td>10.0</td>
</tr>
<tr>
<td>ROA</td>
<td>3.1%</td>
<td>4.9%</td>
<td>+1.8 points</td>
<td>6.0%</td>
</tr>
<tr>
<td>New product ratio</td>
<td>—</td>
<td>12.8%</td>
<td>+12.8 points</td>
<td>30.0%</td>
</tr>
</tbody>
</table>

Operating Environment

Balanced global economic growth continues, but specific markets starting to change structurally

In the world economy, a trade war has fostered between the U.S. and China recently, but extreme bloc economies look unlikely to spread. Over the mid-to-long term, we expect continued balanced growth in the world economy to be driven by China and Asia, and forecast robust demand in markets related to the Automotive Parts Business, the Industrial Products Business, and the Advanced Elastomer Products Business during the five years of BF-2. However, the automobile and office equipment markets, where we have enjoyed competitive advantages, are approaching a turning point with belt-less engines from the rise of electric vehicles and hybrid cars, as well as with paperless offices. We believe these trends will have an even larger impact around the time that BF-2 comes to a conclusion.

Bando is approaching an inflection point in the long-term growth cycle

Actually, this is not the first time that we have experienced a turning point in our major longstanding markets. Looking back at the growth cycles the Company has experienced since its founding in 1906 (see the chart on the next page), Bando has been able to continue growing by transforming its business portfolio in tune with changes in leading industries during each cycle. Under the mid-to-long term business plan “Breakthroughs for the future,” we are aware of this turning point approaching in the leading industries we have focused on to date, and are preparing to establish a new business foundation for the next 30 years. Accordingly, our most important priority for BF-2 is to concentrate on creating new products and fostering new businesses. At the same time, we aim to expand earnings by continuing to strengthen our main businesses during BF-2, as we originally conceived for the overall picture for “Breakthroughs for the future.” By tending to our corporate culture as the underpinning of these initiatives in both new businesses and current businesses, we will take one step closer to being a standout global supplier, the concept of our mid-to-long term business plan.

Message from the President

Nonetheless, we made progress reducing the cost to sales ratio as planned, thanks to spending a substantial amount to update our production lines at two domestic plants (the Kakogawa Plant and Ashikaga Plant), sales mix improvement, and lower material costs. In the creation of new businesses, we developed new products in the optoelectronics, power electronics and welfare/nursing care fields, and began to mass produce and sell them. With these major accomplishments, we are more confident in our ability to achieve sustained growth from BF-2 onward.

Consolidated earnings

<table>
<thead>
<tr>
<th></th>
<th>Fiscal 2016</th>
<th>Fiscal 2017</th>
<th>YoY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>¥88,387 million</td>
<td>¥91,263 million</td>
<td>+2,876</td>
</tr>
<tr>
<td>Operating income</td>
<td>¥5,896 million</td>
<td>¥6,336 million</td>
<td>+440</td>
</tr>
<tr>
<td>Profit attributable to shareholders of the parent</td>
<td>¥4,951 million</td>
<td>¥4,796 million</td>
<td>−155</td>
</tr>
</tbody>
</table>

Annual Report 2018
Growth cycles since the Company’s founding

Breakthrough: “Breakthroughs for the future” mid-to-long term business plan (fiscal 2013 to fiscal 2022)

Outline of BF-2

Quantitative targets for BF-2

With the aim of realizing sustainable growth in both new and current businesses, we target a new business sales ratio of at least 10% by fiscal 2022, the final year of BF-2. Compared with fiscal 2017, we aim to increase consolidated net sales by about ¥30 billion to ¥120 billion, operating income to ¥12 billion (operating margin 10%), and improve ROE by roughly 4 percentage points to 12%. Compared with BF-1, we plan to increase capital investment, including in new businesses, by about 30% to ¥30 billion, while expanding R&D investment by roughly 20% to ¥25 billion.

BF-2 numerical targets and investments

Sustainable growth in both new businesses and current businesses

<table>
<thead>
<tr>
<th>Fiscal 2017 results</th>
<th>Fiscal 2022 targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales ¥91.2 billion</td>
<td>¥120 billion</td>
</tr>
<tr>
<td>Operating income ¥6.3 billion</td>
<td>¥12 billion</td>
</tr>
<tr>
<td>ROE 7.9%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Our future business portfolio

The chart on the right depicts the outlines of a business portfolio for BF-2 that has at least 10% of sales from new businesses and consolidated net sales of ¥120 billion. In the Automotive Parts Business, strong growth is not expected based on the assumption that sales will decline in Japan, but we aim to raise the growth rate in the Industrial Products Business and the Advanced Elastomer Products Business. In addition, we target a new business ratio of at least 20% overall among our current businesses.

Outline of BF-2

Future business portfolio

Basic strategy for BF-2

Bando is concentrating on work style innovation for individuals and organizations within the context of human capital, its most important business resource, as a part of initiatives to achieve its quantitative targets and realize its future business portfolio. Going beyond simple reductions in overtime work expenses, we are promoting self-directed and creative work styles while upgrading work environments and systems, training personnel and changing the mindset of employees.

In addition, we are prioritizing the allocation of business resources for activities that lead to the creation of new businesses, the foremost priority of BF-2, to transform our business portfolio. In expanding core businesses consisting of the Automotive Parts Business, Industrial Products Business, and Advanced Elastomer Products Business, we intend to provide new high-value-added products and increase customer convenience by turning products into services, with the ultimate aim of securing top shares of targeted markets. Moreover, in continuation from BF-1, we aim to hone technologies and advance systems further through capital investment and work style innovation to expand these core businesses worldwide and strengthen earnings potential via the art of manufacturing.

BF-2: Four guidelines

Aiming to be a standout global supplier

Guideline 1 New Business Creation

Focusing on optoelectronics, power electronics, and welfare/nursing care fields

In new businesses, we honed our core technologies for compounding, dispersing and combining elastomers and resins during BF-1. As a result of focusing on development that combines these core technologies with new technologies, we have commenced mass production and sale of a number of promising new products (refer to the red areas on the chart below). During BF-2, we will take these product lines and form a cluster of new businesses while expanding our portfolio into the optoelectronics field, where critical needs are growing alongside expansion in automotive applications, the power electronics field, which demands innovation in thermal management technologies, and the welfare/nursing care fields, which show promising potential for market growth.

Targeted markets/priority sectors/main products for New Businesses

- **Guideline 1**: New Business Creation

- **Guideline 2**: Core business expansion

- **Guideline 3**: Enhancement and evolution in manufacturing

- **Guideline 4**: Work style innovation for individuals and the organization

- **BF-2**: Four guidelines
Aiming for top positions in key markets

We aim to further expand our core businesses consisting of the Automotive Parts Business, Industrial Products Business and Advanced Elastomer Products Business, but some fields have maturing markets. We intend to take the top position in key markets by finely segmenting them along the lines of marketplaces, regions and customers, and then building advantageous relationships with leading companies in each key market. Specifically, we have strengthened technical mapping activities for the development of specifications for reducing environmental burden, conserving energy and improving performance in line with market needs. We are increasing value for customers through activities that help improve customer convenience, such as technology and service developments for targeted customers.

Basic strategy for expanding Core Businesses

Capture the top market share by focusing on priority business types and regions

Guideline 2 Core Business Expansion

Steps and timeline for expansion in new businesses

As a first step toward new business expansion, we will seek to penetrate the market with the product lines we developed during BF-1 by cross-developing them for overseas customers and finishing quality engineering while moving on establishing better production and manufacturing technologies. By advancing the commercialization of better products with new concepts, we aim to expand sales further and shift toward mass production. Moreover, we will continue to search for new product themes in focused fields, and engage proactively in open innovation and M&As. Due to the considerable amount of time required to implement these measures, we forecast sales growth in new businesses will begin to pick up from the latter part of BF-2.

Timeline for growth in New Businesses

In the Automotive Parts Business, we expect sales to decrease as electric vehicles and hybrid cars catch on in the automotive market, and we anticipate a minor increase in sales overseas. However, the segment will remain our largest source of earnings for now, and it will continue to be a core business that reflects on our brand value and the value we provide to society. We aim for continued growth in the segment by taking on the overseas repair market and by increasing sales of products for new applications.

Net sales growth rate target for the Automotive Parts Business

### Four-wheeled vehicles

- Acquire local OEM customers, increase sales in the repair market
  - Adapt the specifications of cost-competitive products to
    - (1) Local Chinese automakers
    - (2) European automakers
  - Enhance brand awareness and develop repair/sales network in
    - (1) China
    - (2) India
- Sales of products responding to electronics shift for applications other than accessory drive power transmission
  - Increase sales of timing belts for electronic power steering (EPS) systems (rack-assist types), etc.

### Two-wheeled vehicles

- Increase our share of OEM for key customers
  - Maintain and increase our share of OEMs for major priority customers with a full line-up of products
- Develop products in the low-price regions
- Expand sales in the repair market
  - Enhance brand awareness and develop repair/sales network in
    - (1) India
    - (2) Vietnam

### Industrial Products Business

In the Industrial Products Business, we aim to differentiate from the competition in key markets to expand sales of the business as much as new businesses during BF-2.

Net sales growth rate target for the Industrial Products Business

### Power transmission belts for industrial machinery, etc.

- Focus on the key markets with market mapping
  - Increase sales to leading companies in the key markets
    - (1) Agricultural machinery
    - (2) Machine tools
    - (3) Robots
- Expand sales channels overseas
- Expand sales of high-value-added products
  - Accelerate sales of Bando Wiper Edge™ EX
  - Market transmission belts for large agricultural machinery and rice hulling rolls

- Improve profitability of conveyor belts
  - Differentiate from rivals with hallmark products
  - Develop low-price products
  - Turn products into services
- Enhance marketing in each segment of light-duty conveyor belts
  - Key markets: (1) Food processing
  - Transportation/logistics
  - Increase processing bases and introduce automated manufacturing lines

### Conveyor belts

<table>
<thead>
<tr>
<th>Field</th>
<th>Product</th>
<th>Example of use</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Optoelectronics</td>
<td>Optically clear adhesive sheets Free Crystal™</td>
<td>Better visibility/superior workability</td>
<td>Display devices, etc.</td>
</tr>
<tr>
<td></td>
<td>Precision polishing materials</td>
<td>Excellent polishing performance/long life span</td>
<td>Optical fiber, color filters/FPD/substrates</td>
</tr>
<tr>
<td>Power electronics</td>
<td>High thermal conductive sheets HEATEX™</td>
<td>High thermal conductivity/lower thermal resistance of electronic devices</td>
<td>Electronic devices, etc.</td>
</tr>
<tr>
<td></td>
<td>Metal nanoparticle bonding material FlowMetal™</td>
<td>Low temperature bonding/pressure-free bonding for sold/high reliability/high thermal conductivity/low electrical resistance</td>
<td>Bonding of power semiconductors and optical semiconductors that operate at high temperatures</td>
</tr>
<tr>
<td>Welfare/nursing care</td>
<td>Elastic strain sensor C-STRETCH™</td>
<td>Highly accurate detection/high flexibility/easy to apply</td>
<td>Biometric sensors, systems, etc.</td>
</tr>
</tbody>
</table>

Five promising products for driving growth in New Businesses

<table>
<thead>
<tr>
<th>Field</th>
<th>Product</th>
<th>Example of use</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Optoelectronics</td>
<td>Optically clear adhesive sheets Free Crystal™</td>
<td>Better visibility/superior workability</td>
<td>Display devices, etc.</td>
</tr>
<tr>
<td></td>
<td>Precision polishing materials</td>
<td>Excellent polishing performance/long life span</td>
<td>Optical fiber, color filters/FPD/substrates</td>
</tr>
<tr>
<td>Power electronics</td>
<td>High thermal conductive sheets HEATEX™</td>
<td>High thermal conductivity/low thermal resistance of electronic devices</td>
<td>Electronic devices, etc.</td>
</tr>
<tr>
<td></td>
<td>Metal nanoparticle bonding material FlowMetal™</td>
<td>Low temperature bonding/pressure-free bonding for sold/high reliability/high thermal conductivity/low electrical resistance</td>
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<td>Biometric sensors, systems, etc.</td>
</tr>
</tbody>
</table>
Toward establishing a consolidated cost to sales ratio of 70% or less

We focused on reducing our consolidated cost to sales ratio during BF-1, and we successfully developed innovative production methods at our plants in Japan that allowed us to lower the cost to sales ratio to below 70% as of March 31, 2018, from around 74% previously. Although crude oil prices and personnel expenses are likely to increase in the future, we intend to keep the cost to sales ratio below 70% by taking appropriate measures.

To begin, we will continue to develop innovative manufacturing methods with the objective of lowering the cost of sales significantly further. Additionally, we will also build automated production lines, reduce man hours by deploying IoT in our plants, and take advantage of AI (robots).

At overseas production bases, we intend to introduce the innovative manufacturing methods we developed at domestic plants. We will reinforce activities to lower the cost of sales with the aim of achieving global optimization through optimizing production based on the principle of producing near demand, integrating product and material types, reducing material costs, and optimizing global logistics.

Guideline 3  Enhancement and Evolution in Manufacturing

Advanced Elastomer Products Business

In the Advanced Elastomer Products Business, we expect related markets to evolve into new growth fields. We are accelerating the transition in our business portfolio with the introduction of high-value-added products into growth markets. Of the core businesses, we believe the Advanced Elastomer Products Business has the greatest potential for sales growth.

Net sales growth rate target for the Advanced Elastomer Products Business

• Develop new markets with current products
  Develop business for precision bells outside the OA equipment market
  (1) Security cameras (2) Banking terminals
• Expand sales of strategic products in new markets
  Groe sales in the optoelectronics market
  FREE CRYSTAL™ Capture market share in the easy-removability-sheet market
  BANDO MDEC™ Increase sales of cleaning system
  GRIND™
• Expand sales of high-value-added products
  Expand sales of highly processed products rather than focusing on the stand-alone films business (Building materials market)
  Differentiate our products from competitors’ as ones that combine functionality and design with the convenience of small batch customization to promote the downstream business (vehicles market)
  Continue to market our films for use in motorcycle accessories and in materials for vehicle interiors

Trend of consolidated cost to sales ratio

Message from the President

Achieve an SG&A expense ratio of 20% or less by strengthening the management base for sustainable growth

Regarding the human capital that will drive forward all the initiatives in guidelines 1–3, we are encouraging changes in work styles to improve labor productivity in production and sales divisions, and in back office departments. We aim to improve productivity and raise awareness of health management while reassessing work environments for all employees. Our hope is that this will foster a corporate culture that generates innovation.

We are updating our information systems to enable business management on a global scale, and integrating core systems. We are strengthening global management by increasing business efficiency and promoting labor saving measures.

In addition, we are focusing on acquiring and training personnel with the aim of developing leaders who can be successful globally, and to establish a spiral to continuously nurture and produce such types.

Through these initiatives, Bando aims to reduce the SG&A expense ratio from just under 24% in fiscal 2017 to below 20% by fiscal 2022.

Path to Achieving Operating Income Target

We aim to reach ¥12 billion in operating income by completing all four guidelines.

To achieve our operating income target of ¥12 billion in fiscal 2022, we must reach our target for net sales of ¥120 billion by completing guidelines 1 and 2. We then intend to attain an operating margin of at least 10% by completing guideline 3 (cost to sales ratio below 70%) and guideline 4 (SG&A expense ratio below 20%). This will put us within reach of our target of operating income of ¥12 billion.

Growth in operating income during BF-2

Expand net sales

SG&A expense ratio: 20% or less

Cost to sales ratio: 70% or less

New businesses + ¥12 billion

Current businesses + ¥16.8 billion

Guideline 4  Work Style Innovation of Individuals and the Organization

For sustainable growth

We are continuously nurturing and producing such types.

By strengthening the management base

Achieve an SG&A expense ratio of 20% or less

We are focusing on acquiring and training personnel with the aim of developing leaders who can be successful globally, and to establish a spiral to continuously nurture and produce such types.

By reducing material costs, and optimizing global logistics.

By increasing business efficiency and promoting labor saving measures.

We are strengthening global management business management on a global scale, and integrating core systems. We are increasing business efficiency and promoting labor saving measures.

We are strengthening global management business management on a global scale, and integrating core systems. We are increasing business efficiency and promoting labor saving measures.

We are strengthening global management business management on a global scale, and integrating core systems. We are increasing business efficiency and promoting labor saving measures.
Excellent processing technologies and compounding technologies for raw rubber materials
Solid relationships with customers, including joint development with automakers
Relatively strong customer base with customers diversified to a certain degree
Global product supply network made up of production and sales bases in more than a dozen countries worldwide

Performance for the Fiscal Year Ended March 31, 2018

The segment achieved net sales of ¥41,701 million, up 3.4% from the previous fiscal year. Results by region are as follows.

Europe, America & other
Net sales grew 2.7% year on year, primarily due to sales of belts in the U.S. to South America as well as repair parts in Turkey.

China
Net sales declined 21.0% from the previous fiscal year, mainly owing to weaker sales resulting from lower output at key customers.

Asia
Net sales increased 12.9% year on year, driven by growth in sales of accessory drive power transmission belts and systems in Thailand, in addition to a rise in sales of variable speed belts for scooters in Thailand, Vietnam and India.

Japan
Net sales decreased 1.3% from the previous fiscal year due to a decline in sales of accessory drive power transmission systems from customers shifting to local procurement overseas, despite an increase in sales of accessory drive power transmission belts along with growth in domestic automobile output.

Segment profit grew 11.1% year on year to ¥2,264 million, reflecting expanded sales in Asia, Europe, and the Americas, which outweighed lower sales to major customers in China.

Segment Strengths
- Excellent processing technologies and compounding technologies for raw rubber materials
- Solid relationships with customers, including joint development with automakers
- Relatively strong customer base with customers diversified to a certain degree
- Global product supply network made up of production and sales bases in more than a dozen countries worldwide

Segment Risks and Opportunities

Risks
- Long-term contraction in the domestic market
- Lower prices and less usage of rubber belt products due to proliferation of hybrid cars, small vehicles and the downsizing of turbocharged vehicles
- Spread of automobiles without traditional engines, such as electric vehicles

Opportunities
- Growth in overseas repair parts market, such as in China, Southeast Asia, etc.
- Steady growth in high-value-added business opportunities, such as improvements in silence and transmission efficiency
- Further growth in business opportunities in Asian countries such as India and Vietnam where demand is brisk for motorcycles
- Additional new demand for rubber belts due to the increased use of electronics in automobiles, such as that related to electronic power steering, electronic parking brakes, and power sliding doors

Priority Measures for the Second Stage of “Breakthroughs for the Future”

For four-wheeled vehicles
- Acquire OEM business with local overseas customers, expand sales in the repair market
- Launch products meeting the needs of electrification other than, aside from accessory drive applications

For two-wheeled vehicles
- Acquire OEM business with key customers
- Expand sales in the repair market

Enhancement and evolution in manufacturing
- Develop innovative production methods, promote IoT and AI, reduce production costs aiming for global optimization

ESG Initiatives: Social

Bando Manufacturing (Thailand) Ltd. awarded the National Occupational Safety and Health Award 2017

Bando Manufacturing (Thailand) Ltd., which makes accessory drive power transmission belts for four-wheeled vehicles and variable speed belts for scooters, is concentrating on creating a safe workplace for employees including establishment of a Safety Training Center to raise employee awareness of safety. In October 2017, such initiatives earned the National Occupational Safety and Health Award 2017 from Thailand’s Ministry of Labour.
Review of Operations

Focus on setting ourselves apart from the competition in key markets

Segment Strengths

- Competitive products based on core technologies, relatively strong earnings foundation
- Top share of domestic market in friction transmission belts as industrial materials
- Strong in the repair market thanks to robust sales agency network

Performance for the Fiscal Year Ended March 31, 2018

For the fiscal year ended March 31, 2018, net sales grew 2.9% year on year to ¥32,369 million. Results by region are as follows.

**Europe, America & other**

Net sales increased 8.0% year on year as sales of industrial power transmission belts in the U.S. increased domestically and to South America, and sales promotions contributed to growth in Turkey.

**China**

Net sales decreased 23.9% year on year, owing mainly to a decline in sales of power transmission belts for agricultural machinery.

**Asia**

Net sales rose 23.7% year on year from stronger sales of power transmission belts for industrial and agricultural machinery from efforts to boost sales in Thailand, Vietnam and India.

**Japan**

Net sales grew 3.0% year on year as stronger sales of industrial power transmission belts and pulleys from increased capital investment outweighed weaker sales of conveyor belts.

Segment profit decreased 4.2% year on year to ¥1,907 million, reflecting sluggish sales of power transmission belts for agricultural machinery in China, which outweighed sales growth in Japan, Asia, Europe, and the Americas.

Segment Risks and Opportunities

**Risks**

- Impact from contraction in domestic market
- Impact of changes in rubber prices on raw materials costs
- Stiffer price competition due to large number of rivals

**Opportunities**

- Further productivity improvements and streamlining based on core technologies
- Expansion in applications overseas, other than automobiles
- Development of markets in the U.S., China and Southeast Asia

**Priority Measures for the Second Stage of “Breakthroughs for the Future”**

**Belts for industrial machinery and other products**

- Make strategic moves in key markets based on market mapping
- Expand sales channels overseas
- Expand sales of high-value-added products

**Conveyor belts**

- Bolster conveyor belt profitability
- Strengthen market specific marketing for light-duty conveyor belts

**Enhancement and evolution in manufacturing**

- Develop innovative production methods, promote IoT and AI, reduce production costs aiming for global optimization

**ESG Initiatives: Environment**

Strengthen steps to prevent water quality incidents at the Kakogawa Plant

In Japan, damage from heavy rainfall due to unseasonal weather has been on the rise in recent years. At the Kakogawa Plant, which makes conveyor belts, we are...
Segment Strengths

- Development of high-performance products utilizing accumulated expertise in elastomer materials technology and molding technology
- Catering to customer needs by leveraging characteristics of materials such as polyurethane and engineering plastics
- Catering to customer needs by adding functionality based on leveraging characteristics of polyolefin, polyvinyl chloride, polyester and polyurethane plastics

Performance for the Fiscal Year Ended March 31, 2018

For the fiscal year ended March 31, 2018, net sales grew 1.7% year on year to ¥15,161 million. Results by product are as follows.

Precision Parts

Total sales rose 1.9% year on year, owing to growth in sales of high-performance rollers and blades from increased output at key customers—office equipment manufacturers.

High-Performance Films

Total sales increased 3.3% year on year, reflecting a rise in sales of wrapping films for four-wheeled and two-wheeled vehicles where new applications are being developed, which outweighed a decline in sales of industrial and medical films.

Segment profit grew 46.0% year on year to ¥429 million, driven by sales growth and the change in sales mix.

Segment Risks and Opportunities

Risks
- Falling demand for precision parts due to declining usage of paper media in Japan and shift to in-house manufacture by some customers

Opportunities
- Growth in sales of high-value-added products, new business creation
- Using more highly processed, high-value-added functional films to enter building materials and automotive markets

Priority Measures for the Second Stage of “Breakthroughs for the Future”

Precision Parts
- Deploy current products in markets where they are not now in use (expand applications for precision belts and other products in non-office automation markets)
- Grow sales of strategic products in new markets (expand sales in the optoelectronics market)

High-Performance Films
- Shift toward high added value by expanding finished product business (building materials and vehicles market)

Enhancement and evolution in manufacturing
- Develop innovative production methods, promote IoT and AI, reduce production costs aiming for global optimization

ESG Initiatives: Environment

Switch to high-efficiency equipment and LED at Ashikaga Plant

At the Ashikaga Plant, which makes advanced elastomer products, we employed the Ministry of the Environment’s ASSET program* to switch to a high-efficiency power generator that uses city gas instead of heavy oil, and air conditioning equipment that utilizes waste hot water from generator, and LED lighting. The new power generator provides most of the electricity used by the plant (half in the summer and two-thirds in the spring, fall and winter). Further, the recent equipment replacements and shift to LED are expected to reduce CO₂ emissions by 1,686 tons, which is equivalent to over 20% of the Ashikaga Plant’s annual CO₂ emissions.

* Advanced technologies promotion Subsidy Scheme with Emission reduction Targets

Installation of the high-efficiency power generator
Determining Material Issues

The Bando Group recognizes that society expects it to uphold its social responsibilities through CSR activities, and that such activities must lead to the realization of its management philosophy. Accordingly, in the fiscal year ended March 31, 2018, we determined material issues with a view to revising our CSR objectives and themes from a global standard perspective. Under our new CSR objectives based on our material issues and management philosophy, we will promote CSR activities to ensure that we can continue to respond to changes in society and demands from our stakeholders.

Determination Process

The Bando Group’s material issues were determined by the following process.

**STEP 1 Identify issues for discussion**

We identified 36 items, mainly those provided in the GRI Standards, while making reference to international guidelines including the GRI Standards and EICC (currently RBA) Code of Conduct, as well as competition benchmarks.

**STEP 2 Establish a priority order**

We assigned scores to the 36 items by evaluating them based on their impact from the Company’s perspective. We also conducted an evaluation from the stakeholders’ perspectives based on surveys of ESG survey institutions and our business partners. We mapped the items on two axes to determine 17 material issues for the Bando Group.

**STEP 3 Evaluate the validity of the items**

We had the CSR experts evaluate the validity of the 17 items that we had determined based on the documents summarizing the Company’s activities to date, its determination process and background of material issues.

**STEP 4 Management approval**

After confirmation by the CSR Promotion Committee, the material issues and the determined items were approved by the Board of Directors.

Review of CSR Promotion Themes and Initiatives Going Forward

The 17 determined material issues were referenced against the management philosophy to set new CSR promotion themes. Looking ahead, we will set qualitative and quantitative targets (including KPIs) for each theme and intend to review them in each business year using a PDCA cycle.

The 17 determined material issues are aligned with our business, and are classified into the following themes.

**New CSR promotion themes**

- Compliance/Human rights
- Environment
- Safety/Labor
- Value communication with society

**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 2017**

The Group engaged in various activities in line with six CSR promotion themes. (Further information on the new CSR promotion themes can be found on p.36)

<table>
<thead>
<tr>
<th>CSR promotion themes</th>
<th>Achievements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance/Human rights</td>
<td>Legal Compliance Committee</td>
</tr>
<tr>
<td>Environment</td>
<td>Head Office Environment Committee; Manufacturing Planning Center, Safety and Environmental Promotion Department</td>
</tr>
<tr>
<td>Safety/Labor</td>
<td>Human Rights/Labor/Safety</td>
</tr>
<tr>
<td>Value communication with society</td>
<td>Social Contribution</td>
</tr>
<tr>
<td>Stakeholder communication</td>
<td>Information Disclosure</td>
</tr>
</tbody>
</table>

**Head office/ business facilities**

President

CSR Promotion Committee Chair: Executive in charge of CSR

Group affiliates

CSR Promotion Committee secretariat

**President**

**Chair: Executive in charge of CSR**

**Group affiliates**

**CSR Promotion Committee secretariat**

CSR promotion themes

- **Compliance/Human rights**
  - Legal Compliance Committee
- **Environment**
  - Head Office Environment Committee; Manufacturing Planning Center, Safety and Environmental Promotion Department
- **Safety/Labor**
  - Human Rights/Labor/Safety
- **Value communication with society**
  - Social Contribution
- **Stakeholder communication**
  - Information Disclosure

**President**

**Chair: Executive in charge of CSR**

**Group affiliates**

**CSR Promotion Committee secretariat**
Formation of a Resource-Recycling Society — Reducing Waste Emissions

The Company’s industrial waste largely consists of rubber and plastics. Rubber is difficult to reuse, so the Company focuses primarily on initiatives to reduce initial waste generation at manufacturing sites. Specifically, we have improved our production facilities and reviewed our manufacturing methods, and taken steps to promote the 3Rs (reduce, reuse, and recycle). In the fiscal year ended March 31, 2018, the Company actively promoted efforts to improve facilities and develop new manufacturing methods, achieving a 3.9% year-on-year reduction in raw material-related waste per volume of raw material input. Moreover, we also strengthened our initiatives on “material recycling,” which involves use of waste as raw materials for products, and by rigorously separating waste we continued to achieve zero emissions. Looking ahead, we will continue to make effective use of raw materials with a view to reducing the volume of waste generated.

Contributing to the Creation of an Abundant Global Environment through Business Activities — “Environmental Claims”

The Bando Group conducts environmentally-friendly business activities through product development, technology, and manufacturing. Products that meet one or more of the baseline standards in the Company’s proprietary Environmental Claims form the core of the Company’s ten “eco moving” brand products. Amongst these, products that meet at least 50% of the baseline values in the Environmental Claims are grouped together as “Environmentally-Friendly Products,” which the Company is working to expand. (Further information about the ten “eco moving” products can be found on P. 13 Snapshot.)

Environmental Claims — (The Company’s proprietary standard)

1. Saving energy
   The products energy loss during use is cut by 15% or more, in comparison with the corresponding reference product.

2. Saving resources
   The raw materials used for the product are reduced by 10% or more by mass, in comparison with the corresponding reference product.

3. Reduction in quantity of waste
   Product-related waste during use is reduced by 10% or more by mass, in comparison with the corresponding reference product.

4. Using recycled materials
   The products use 20% or more recycled materials by weight.

5. Using eco materials
   The product uses 80% or more eco-materials by weight (recycled materials as well as non-petroleum-based natural resources and materials).

6. Reduction of CO2 emissions
   The product reduces CO2 emissions by 10% or more during its lifecycle, in comparison with the corresponding reference product. Or, the product reduces CO2 emissions by 15% or more during any stage of its lifecycle (material procurement, production, transportation, use, or disposal).

7. Carbon offset
   The product is certified by the carbon offset certification system (third-party institution), and the appropriate carbon offset activities have been implemented.

Work Style Innovation — Enabling Every Individual to Maximize Their Abilities

In Japan, work style needs are diversifying, including a decline in the productive population due to a falling birthrate and aging population, and balancing childcare and nursing care with work. Against this backdrop, it is important to address issues such as increasing productivity through investment and innovation, increasing employment opportunities, and creating environments where people can fulfill their ambitions and demonstrate their capabilities. Under BF-2, guideline 4, the Bando Group is focusing on “work style innovation of individuals and the organization.” In April 2018, we established the Work Style Innovation Department to drive reforms in our work processes, increase productivity, and reform our corporate culture. The department will work to change work styles to enable generation of high added value within a limited time, and to reduce overtime hours per employee by 10% each year over the next five years. In this way, it aims to realize a corporate culture in which every employee enjoys and feels motivated by their work.

ESG Section/Environmental Initiatives

Waste crushed into chips for reuse
Artificial wood for landscaping made from recycled rubber waste

ESG Section/Social Initiatives

Waste crushed into chips for reuse
Artificial wood for landscaping made from recycled rubber waste

Improve Production Line Operational Efficiency with IT

In production line inventory operations, rather than writing on paper or inputting numbers manually, we introduced a system that reads QR codes and automatically inputs numbers and this has reduced the number of man-hours and labor hours to less than half. Furthermore, by automating the process of sending electronic slips by email or gathering information on defects and creating a defect causal analysis Pareto chart, we have reduced the time needed by production line chiefs to complete these operations from three hours a day to just 30 minutes. Through these and other initiatives, we have been using IT to increase productivity.

Flexible Work Styles Realize Various Kinds of Motivation for Working

In April 2017, we established a “Work Location Change Request System” for people to request a change of work location due to reasons such as a spouse’s transfer or the need to nurse a family member. We also created a system for people who have temporarily resigned for such reasons to apply for reemployment by registering beforehand. In April 2018, we introduced a work-from-home system for employees involved in childcare or nursing care. We will continue to enable more flexible ways of working and support various methods and motivations for working.

Initiatives for Employees to Work Healthily and Enthusiastically

In April 2017, we appointed a new executive in charge of health and we are strengthening our initiatives on employee health. We have set specific targets on metabolic syndrome and mental health, and the “Healthy and Enthusiastic Workplace Creation Team,” jointly organized by labor and management will lead our efforts to realize employees’ own visions for their health and create comfortable workplaces. Partly due to the impact of this initiative, we have been included for a second consecutive year as a “Health & Productivity Stock Selection by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange.”

Development of Human Resource Leaders Who Can Be Successful Globally

As one of our priority measures under BF-2, guideline 4, we are focusing on development of human resource leaders who can be successful globally. At the “Bando Management School,” we are working to develop the future management of the Company, while “Overseas Practical Training” is used to educate personnel by dispatching them overseas for practical operations. In our reduction education programs for new recruits, we have incorporated an English-language training component taught by foreign teachers, and we provide ongoing e-learning courses after the training. In this way, we are working to strengthen the English-language capabilities of each of our younger employees as a basic part of developing global personnel.

At our “Manufacturing School,” which is designed to develop leaders on the manufacturing front lines, we nurture the ability to solve issues at production sites and focus on strengthening the knowledge and expertise required for leaders on manufacturing sites through self-directed improvement activities. In the fiscal year ended March 31, 2017, we started participating in other companies’ improvement activities as well, helping to change our awareness. We have also had personnel from overseas production sites participate in some of the training.

Discuss on work style innovation
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 labor unions. In line with such thinking, the Company focuses on ensuring sound, transparent and efficient management by enhancing its corporate governance system.

Board of Directors

Bando aims to further enhance auditing and oversight functions by adopting a Company with an Audit & Supervisory Committee structure. The Company’s Board of Directors consists of eight members, with four of those eight 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.

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 21, 2018 are summarized below.

Takahiro Matsusaka

Many years of experience 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 Corporation (SMBC), a major business partner of the Company, due to the 14 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 3% 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, Mr. Shigematsu concurrently holds the position of Outside Director at Murata Manufacturing Co., Ltd. As the Company does not have any special relationship with Murata Manufacturing Co., Ltd., there is no conflict of interest with ordinary shareholders as defined by the Tokyo Stock Exchange, and 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, Mr. Shimizu concurrently holds the position of Outside Director at Suminoe Textile Co., Ltd. As the Company does not have any special relationship with Suminoe Textile Co., Ltd., there is no conflict of interest with ordinary shareholders as defined by the Tokyo Stock Exchange, and Mr. Shimizu has a high degree of independence.

Audit & Supervisory Committee

The Audit & Supervisory Committee members comprise four directors, of whom three are external directors. Furthermore, one of the directors serves on a full-time basis.

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. Specifically, the appointment of directors and the setting of their compensation are carried out by resolution of the Board of Directors after deliberation by the Nominating Committee and Compensation Committee, whose members include external directors and directors serving as Audit & Supervisory Committee members. 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, 2018, the total amount of director and Audit & Supervisory Committee member compensation is shown below.

<table>
<thead>
<tr>
<th>Monetary Remuneration</th>
<th>Stock Remuneration</th>
<th>Total Compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Persons</td>
<td>Total Amount</td>
<td>Number of Persons</td>
</tr>
<tr>
<td>Directors not serving as members of the Audit &amp; Supervisory Committee (of which, external directors)</td>
<td>5</td>
<td>¥10 million</td>
</tr>
<tr>
<td>(of which, external directors)</td>
<td>(¥0 million)</td>
<td>(¥0 million)</td>
</tr>
<tr>
<td>Directors who serve as members of the Audit &amp; Supervisory Committee (of which, external directors)</td>
<td>3</td>
<td>¥37 million</td>
</tr>
<tr>
<td>(of which, external directors)</td>
<td>(¥37 million)</td>
<td>(¥0 million)</td>
</tr>
<tr>
<td>Total (of which, external directors)</td>
<td>8</td>
<td>¥47 million</td>
</tr>
<tr>
<td></td>
<td>(¥37 million)</td>
<td>(¥0 million)</td>
</tr>
</tbody>
</table>

Notes:
1. As of March 31, 2018, the Company has four directors not serving as members of the Audit & Supervisory Committee (no external directors); and three directors who serve as members of the Audit & Supervisory Committee (including three external directors).
2. The numbers above include one director not serving as a member of the Audit & Supervisory Committee who resigned at the conclusion of the Ordinary General Meeting of Shareholders held on June 22, 2017.
3. The total monetary remuneration of directors not serving as members of the Audit & Supervisory Committee was limited to a maximum of ¥75 million per year, and the total monetary remuneration of directors who serve as members of the Audit & Supervisory Committee was limited to a maximum of ¥94 million per year.
4. The total amount of monetary remuneration of the aforementioned directors not serving as members of the Audit & Supervisory Committee includes a profit-linked component for the fiscal year ended March 31, 2018 (monetary remuneration linked to business performance), calculated based on the Company’s criteria for profit-linked bonus. Projected payments are included in reserves.
5. The total amount of stock remuneration is the amount of costs recorded for 16,419 stock award points (equivalent to 16,419 shares of company stock) awarded to executive directors in accordance with performance during the fiscal year ended March 31, 2018. The maximum amount of stock remuneration that can be paid to executive directors during a single fiscal year is ¥50 million and 54,000 shares.
6. In addition to the above-listed information, salaries and bonuses for employees who concurrently serve as directors as follows.
   Three employee salaries: ¥49 million
   Three employee bonuses: ¥25 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 Company 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 Bando Group will work to further improve the effectiveness of internal control based on the four objectives of internal control: (1) reliability of financial reporting, (2) operational effectiveness and efficiency, (3) legal compliance regarding business activities, and (4) asset protection.

Basic Stance on the Elimination of Antisocial Forces

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

Compliance Promotion

The Group has formulated and distributes to all Group executives and employees the Bando Group Code of Conduct, which stipulates proper actions in such areas as “compliance with laws and corporate ethics,” “product and service safety,” “honest and fair business activities,” and “fair and equitable procurement transactions.” In addition, the Group works to raise awareness of compliance by designating 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 four people reporting directly to the president. The Internal Audit Department implements systematic internal audits which include the internal control system (covering internal control system for financial reporting) of all departments as well as domestic and overseas affiliates. Accompanied by the Audit & Supervisory Committee members in principle, the Internal Audit Department conducts on-site audits at Company’s business facilities and affiliates, the results of which are reported to the president, directors not serving as members of the Audit & Supervisory Committee and the Audit & Supervisory Committee.

Basic Policy on Information Disclosure

The Group proactively engages in public relations and investor relations activities with the intention of quickly disclosing information to stakeholders on the basis of transparency, fairness and consistency. The Group discloses information in strict accordance with laws and regulations under the Financial Instruments and Exchange Act and set by the Tokyo Stock Exchange. In addition, the Group makes a concerted effort to disclose information in a timely fashion that furthers the understanding of its activities. At Bando, the General Administration Department is responsible for public relations, including the timely disclosure of information.

* Details of the Company’s disclosure policy are provided at the following.
Message from an External Director

Primin Diversity in Terms of Ideas and Viewpoints, and Following Progress on BF-2

It is two years since Bando Chemical Industries, Ltd transitioned to a Company with an Audit & Supervisory Committee. The Committee was established with three external directors, but in June 2018, we added an internal director as the Committee member. We consider this structure more effective for auditing and supervision.

In this role, external directors (the Committee members) adopt different perspectives to the operational side of the business, ones that I think act as checks on the application of traditional modes of thinking. I often refer to it as one of challenging preconceptions.

The Company has previously created opportunities for the executive side to provide explanations on the background and course of proposals prior to Board meetings so that more active discussion can be conducted in the meetings. Now, this has been further developed so that explanations are given not only for proposals of the Board meeting on that day, but also an outline of mid-to-long term business plan in the fiscal year ending March 31, 2019. As we reflected on the results of the first stage and set the direction for the second stage, as an external director I raised issues from a diversity perspective and gave my opinion. As we go forward, I will continue to support the Company’s progress on the second stage as an external director, looking to see if the Company is managing to transition from the ideas of the past.

The Company moved into the second stage of its mid-to-long term business plan in the fiscal year ending March 31, 2019. As we reflected on the results of the first stage and set the direction for the second stage, as an external director I raised issues from a diversity perspective and gave my opinion. As we go forward, I will continue to support the Company’s progress on the second stage as an external director, looking to see if the Company is managing to transition from the ideas of the past.

Takahiro Matsusaka
External Director
(Chair of the Audit & Supervisory Committee)
Management’s Discussion and Analysis

Operating Environment

During the fiscal year ended March 31, 2018, the U.S. economy was robust and the European economy continued on a moder- ate recovery trend. In Asia, exports drove growth as the global economy rebounded. In China, internal and external demand was brisk. Japan’s economy also continued to recover. In the automotive sector, a key market for the Bando Group, automobile production volume was down in the U.S. and Europe compared with the previous fiscal year. In China, automobile output held steady. In Japan, production volume was higher than the previous fiscal year, thanks in part to the introduction of new models.

Business Overview

Fiscal 2017 was the final year of the first stage of the Group’s “Breakthroughs for the future” mid-to-long-term business plan covering the period from fiscal 2013 to fiscal 2017. We focused our efforts on increasing sales of transmission belts for automobiles, two-wheeled vehicles, agricultural equipment and general industrial machinery, and of light-duty conveyor belts. We continued to develop the Group’s sales channels, centered around Japan, China and the ASEAN region.

The Company aggressively developed new products for fields outside current businesses. For example, we commenced sales of LASHINGBITE™, a tension meter for cargo lashing belts with high precision. Moreover, we developed BANDO DEC-20™, a dust particle measuring device that facilitates the visualization of falling dust, a problem faced in clean rooms.

Operating Results

Consolidated net sales in the fiscal year ended March 31, 2018 were ¥91,263 million, an increase of 3.3% year on year.

Operating income rose 7.5% year on year to ¥6,336 million, owing to higher gross profit due in part to foreign exchange rate factors, despite a worsening in the cost to sales ratio due to higher raw material prices.

The SG&A ratio improved by 0.4 percentage points over the previous fiscal year to 23.2% due to the impact of cost reduction efforts while the cost to sales ratio increased by 0.1 percentage point to 69.8% due to the aforementioned impact of increased raw materials prices.

As a result, the operating margin increased by 0.2 percentage points to 6.9%.

Profit attributable to shareholders of the parent fell 3.1% year on year to ¥4,796 million. This mainly reflected increases in foreign exchange losses and impairment loss.

Operating Results by Business Segment

Automotive Parts Business

In Japan, automobile production volume was higher than the previous fiscal year, leading to an increase in sales of RIB ACE™ and other accessory drive power transmission belts. However, sales decreased for accessory drive power transmission system products, such as Automatic Tensioners, owing in part to customers switching to local procurement at their overseas bases.

Overseas, sales declined in China due to lower output by key customers. However, sales in the Asia region expanded thanks to an aggressive pursuit of customers for its accessory drive power transmission belts and system products, and variable speed belts for scooters.

As a result, segment net sales rose 3.4% year on year to ¥41,701 million. Segment profit increased 11.1% to ¥3,264 million.

Industrial Products Business

In industrial power transmission belts, sales of power transmission belts for agricultural machinery and other products were down in China. However, initiatives to boost marketing in the ASEAN region, the U.S. and Europe translated into higher sales of power transmission belts for agricultural machinery and industrial machinery. In Japan, private-sector capital investment-related demand increased for robots and the like, resulting in higher sales of pulleys and power transmission belts for industrial machinery.

In conveyor belts, sales decreased owing to a decline in projects such as for coal-fired thermal power generation plants in Japan.

As a result, segment net sales increased 2.9% year on year to ¥32,369 million. However, segment profit declined 4.2% to ¥1,907 million, owing mainly to weaker demand for power transmission belts for agricultural machinery in China.

Advanced Elastomer Products Business

In high-performance film products, sales of films for industrial use and medical applications decreased, but sales increased for wrapping films for automobiles and two-wheeled vehicles, a new application we have been developing as a part of our business transformation efforts.

In precision performance products, sales increased for high-performance rollers and blades in accordance with higher production at office equipment manufacturers, which are key customers.

As a result, segment net sales increased 1.7% year on year to ¥15,161 million. Segment profit rose 46.0% year on year to ¥4,292 million, owing to the increase in sales, the change in the sales mix, and other factors.

Other Business

Bando is engaged in other business, such as the manufacture and sales of robot-related devices. Sales in other business increased 8.9% year on year to ¥2,732 million, but segment profit fell 25.9% to ¥317 million due in part to upfront investments for the development of new products.

Financial Position

Total assets as of March 31, 2018 amounted to ¥99,236 million, an increase of ¥2,541 million year on year. Current assets increased by ¥1,536 million due to increases in electronically recorded monetary claims — operating and inventories, while other assets increased by ¥1,005 million, mainly due to increases in operating and investments in securities.

Total liabilities decreased ¥2,113 million compared with the previous fiscal year-end to ¥35,842 million. Current liabilities increased by ¥2,700 million due to an increase in electronically recorded obligations — operating, while...
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, 2018.

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 Group 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 the Group’s performance could be significantly impacted by disasters, depending on the size of the disaster.

Management’s Discussion and Analysis

Earnings Forecasts for the Year Ending March 31, 2019

In the fiscal year ending March 31, 2019, there are concerns that worldwide trade will shrink and economies will weaken if there is an entrenchment of protectionist government policies, such as U.S. tariffs on imports of steel and aluminum. However, the global economy is projected to remain strong, supported by growing demand in the U.S. In Japan, exports are on the rise, and corporate capital investment is likely to hold steady amid the redevelopment of urban areas. There are also signs of a turnaround in consumer spending. We therefore expect the Japanese economy to continue recovering on the back of brisk domestic and overseas demand.

Under these circumstances, the Group aims to achieve the management targets it has set for the second five-year stage (BF-2), which spans from the fiscal year ending March 31, 2019 to the fiscal year ending March 31, 2023, of its 10 year mid-to-long term business plan “Breakthroughs for the future” that has been in motion since the fiscal year ended March 31, 2014. For the fiscal year ending March 31, 2019, we are forecasting consolidated net sales of ¥94,000 million, up 3.0% year on year, operating income of ¥6,500 million, up 2.6%, and profit attributable to shareholders of the parent of ¥5,000 million, up 4.3%.

Basic Policy Regarding the Distribution of Profits

Our basic policy is to enhance the return of profits and aim for making stable dividend payments targeting a consolidated payout ratio of 30% over the near term, while considering our earnings and financial position. 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, to further enhance corporate value.

We paid a year-end dividend of ¥15 for the fiscal year ended March 31, 2018 following a comprehensive consideration of the aforementioned policies, operating results for the fiscal year, and other factors. We plan to pay a ¥16 year-end dividend for the fiscal year ending March 31, 2019. Combined with the interim dividend, this will result in a planned annual dividend of ¥32 per share.

Cash Flow

Net cash provided by operating activities totaled ¥8,995 million, compared with ¥8,800 million provided in the previous fiscal year, with the recording of income before income taxes of ¥6,413 million.

Net cash used in investing activities was ¥4,802 million, compared with ¥4,639 million used in the previous fiscal year. This was due to the booking of ¥4,665 million in expenses for the purchases of property, plant and equipment; ¥375 million in expenses for the purchases of intangible assets, and other factors.

Net cash used in financing activities was ¥2,588 million, compared with ¥422 million provided in the previous fiscal year, largely reflecting payments on long-term borrowings of ¥3,048 million and cash dividends paid totaling ¥1,347 million.

As a result, cash and cash equivalents as of March 31, 2018 totaled ¥18,477 million, down ¥458 million compared with the previous fiscal year-end.

Capital Investment and Fund Procurement

Capital investment undertaken in the fiscal year ended March 31, 2018 totaled ¥5,767 million. Major capital investment items are shown below. The financing required was obtained from the Company’s own funds and borrowings.

<table>
<thead>
<tr>
<th>Business Segment</th>
<th>Amount (¥ million)</th>
<th>Main Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive Parts Business</td>
<td>¥2,869</td>
<td>Installed new — and expanded or upgraded existing — manufacturing equipment</td>
</tr>
<tr>
<td>Industrial Products Business</td>
<td>¥988</td>
<td>Installed new — and expanded or upgraded existing — manufacturing equipment</td>
</tr>
<tr>
<td>Advanced Elastomer Products Business</td>
<td>¥574</td>
<td>Installed new — and expanded or upgraded existing — manufacturing equipment</td>
</tr>
<tr>
<td>Other</td>
<td>¥705</td>
<td>Installed new system and research equipment</td>
</tr>
<tr>
<td>Total</td>
<td>¥5,131</td>
<td></td>
</tr>
</tbody>
</table>

Results for the fiscal year, and other factors. We plan to pay a ¥16 year-end dividend for the fiscal year ending March 31, 2019. Combined with the interim dividend, this will result in a planned annual dividend of ¥32 per share.

long-term liabilities decreased by ¥2,383 million due to factors including a decrease in long-term debt resulting from a contractual repayment.

Net assets increased ¥4,653 million from the previous fiscal year-end to ¥63,394 million. Retained earnings increased ¥3,449 million due partly to the recording of profit attributable to shareholders of the parent, and accumulated other comprehensive income increased ¥1,258 million.

As a result, the equity ratio increased 3.1 percentage points from 60.5% at the previous fiscal year-end to 63.6%.

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.

As a result, cash and cash equivalents as of March 31, 2019 totaled ¥18,477 million, down ¥458 million compared with the previous fiscal year-end.
### Consolidated Balance Sheets

Bando Chemical Industries, Ltd. and Consolidated Subsidiaries
March 31, 2018 and 2017

#### Assets

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>¥ 18,477</td>
<td>$173,900</td>
</tr>
<tr>
<td>Time deposits</td>
<td>471</td>
<td>4,433</td>
</tr>
<tr>
<td>Notes and accounts receivable:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade</td>
<td>18,951</td>
<td>178,362</td>
</tr>
<tr>
<td>Other</td>
<td>161</td>
<td>1,519</td>
</tr>
<tr>
<td>Electronically recorded monetary claims — operating</td>
<td>2,835</td>
<td>26,678</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(38)</td>
<td>(355)</td>
</tr>
<tr>
<td>Inventories</td>
<td>11,890</td>
<td>111,899</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>1,021</td>
<td>9,610</td>
</tr>
<tr>
<td>Total Current Assets</td>
<td>54,337</td>
<td>511,406</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Property, Plant and Equipment:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
</tr>
<tr>
<td>Buildings and structures</td>
</tr>
<tr>
<td>Machinery and equipment</td>
</tr>
<tr>
<td>Construction in progress</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
</tr>
<tr>
<td>Total Property, Plant and Equipment, Net</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Other Assets:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Intangible assets</td>
</tr>
<tr>
<td>Investments in securities</td>
</tr>
<tr>
<td>Investments in affiliates</td>
</tr>
<tr>
<td>Deferred tax assets</td>
</tr>
<tr>
<td>Other, net</td>
</tr>
<tr>
<td>Total Other Assets</td>
</tr>
<tr>
<td>Total Assets</td>
</tr>
</tbody>
</table>

#### Liabilities and Net Assets

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>¥ 1,145</td>
<td>$10,778</td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
<td>1,804</td>
<td>16,980</td>
</tr>
<tr>
<td>Notes and accounts payable:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade</td>
<td>9,966</td>
<td>93,801</td>
</tr>
<tr>
<td>Electronically recorded obligations — operating</td>
<td>4,441</td>
<td>41,798</td>
</tr>
<tr>
<td>Construction and other</td>
<td>3,660</td>
<td>34,449</td>
</tr>
<tr>
<td>Income taxes payable</td>
<td>926</td>
<td>8,713</td>
</tr>
<tr>
<td>Allowance for stock-based compensation</td>
<td>16</td>
<td>146</td>
</tr>
<tr>
<td>Provision for loss on liquidation of subsidiaries and associates</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>3,086</td>
<td>29,039</td>
</tr>
<tr>
<td>Total Current Liabilities</td>
<td>25,044</td>
<td>235,704</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Long-term Liabilities:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term debt</td>
</tr>
<tr>
<td>Allowance for stock-based compensation</td>
</tr>
<tr>
<td>Net defined benefit liability</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
</tr>
<tr>
<td>Total Long-term Liabilities</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Net Assets:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock</td>
</tr>
<tr>
<td>Authorized 187,000,000 shares</td>
</tr>
<tr>
<td>Issued 2017 and 2018 — 47,213,536 shares</td>
</tr>
<tr>
<td>Capital surplus</td>
</tr>
<tr>
<td>Retained earnings</td>
</tr>
<tr>
<td>Treasury stock, at cost</td>
</tr>
<tr>
<td>2017 — 1,367,394 shares</td>
</tr>
<tr>
<td>2018 — 1,415,326 shares</td>
</tr>
<tr>
<td>Total Shareholders’ Equity</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Total Accumulated Other Comprehensive Income:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulated other comprehensive income</td>
</tr>
<tr>
<td>Unrealized gains on available-for-sale securities</td>
</tr>
<tr>
<td>Deferred gains on hedges</td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
</tr>
<tr>
<td>Remeasurements of defined benefit plans</td>
</tr>
<tr>
<td>Total Accumulated Other Comprehensive Income</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Total Net Assets</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>63,394</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Total Liabilities and Net Assets:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>¥199,236</td>
</tr>
</tbody>
</table>
### Consolidated Statements of Income and Comprehensive Income

Bando Chemical Industries, Ltd. and Consolidated Subsidiaries

**Years ended March 31, 2018 and 2017**

<table>
<thead>
<tr>
<th>Consolidated Statements of Income</th>
<th>2018</th>
<th>2017</th>
<th>2018</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Sales</strong></td>
<td>¥1,263</td>
<td>¥888,387</td>
<td>¥1,261</td>
<td>$858,954</td>
</tr>
<tr>
<td><strong>Cost of Sales</strong></td>
<td>63,731</td>
<td>61,596</td>
<td>59,624</td>
<td></td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>27,532</td>
<td>26,791</td>
<td>25,130</td>
<td></td>
</tr>
<tr>
<td><strong>Selling, General and Administrative Expenses</strong></td>
<td>21,196</td>
<td>20,095</td>
<td>19,493</td>
<td></td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
<td>6,336</td>
<td>8,096</td>
<td>8,637</td>
<td></td>
</tr>
</tbody>
</table>

**Other Income (Expenses):**

<table>
<thead>
<tr>
<th>Item</th>
<th>2018</th>
<th>2017</th>
<th>2018</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest and dividend income</td>
<td>273</td>
<td>239</td>
<td>2,564</td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td>(208)</td>
<td>(232)</td>
<td>(1,958)</td>
<td></td>
</tr>
<tr>
<td>Equity in earnings of affiliates</td>
<td>477</td>
<td>592</td>
<td>4,486</td>
<td></td>
</tr>
<tr>
<td>Foreign exchange losses, net</td>
<td>(340)</td>
<td>(41)</td>
<td>(3,197)</td>
<td></td>
</tr>
<tr>
<td>Gain on sale of investments in securities</td>
<td>48</td>
<td>80</td>
<td>448</td>
<td></td>
</tr>
<tr>
<td>Loss on disposal of property, plant and equipment</td>
<td>(112)</td>
<td>(63)</td>
<td>(1,059)</td>
<td></td>
</tr>
<tr>
<td>Impairment loss</td>
<td>(185)</td>
<td>(18)</td>
<td>(1,739)</td>
<td></td>
</tr>
<tr>
<td>Other, net</td>
<td>124</td>
<td>100</td>
<td>1,178</td>
<td></td>
</tr>
<tr>
<td><strong>Income before income taxes</strong></td>
<td>6,413</td>
<td>6,593</td>
<td>60,562</td>
<td></td>
</tr>
</tbody>
</table>

**Income Taxes:**

<table>
<thead>
<tr>
<th>Category</th>
<th>2018</th>
<th>2017</th>
<th>2018</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>1,675</td>
<td>1,737</td>
<td>15,763</td>
<td></td>
</tr>
<tr>
<td>Deferred</td>
<td>(93)</td>
<td>(34)</td>
<td>(873)</td>
<td></td>
</tr>
<tr>
<td><strong>Profit</strong></td>
<td>1,582</td>
<td>1,573</td>
<td>14,890</td>
<td></td>
</tr>
</tbody>
</table>

**Profit Attributable to Non-Controlling Interests**

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
<th>2018</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>35</td>
<td>29</td>
<td>336</td>
<td>$ 45,136</td>
</tr>
</tbody>
</table>

**Profit Attributable to Shareholders of the Parent**

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
<th>2018</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥ 4,976</td>
<td>¥ 4,951</td>
<td>¥ 45,136</td>
<td></td>
</tr>
</tbody>
</table>

**Consolidated Statements of Comprehensive Income**

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
<th>2018</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥ 4,831</td>
<td>¥ 4,950</td>
<td>¥ 45,472</td>
<td></td>
</tr>
</tbody>
</table>

### Consolidated Statements of Changes in Net Assets

Bando Chemical Industries, Ltd. and Consolidated Subsidiaries

**Years ended March 31, 2018 and 2017**

<table>
<thead>
<tr>
<th>Balance at April 1, 2016</th>
<th>Balance at March 31, 2018</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥103,077</td>
<td>¥28,190</td>
<td>$552,858</td>
<td></td>
</tr>
</tbody>
</table>

**Other Comprehensive Income**

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
<th>2018</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥ 6,074</td>
<td>¥ 5,955</td>
<td>¥ 57,172</td>
<td></td>
</tr>
</tbody>
</table>

**Comprehensive Income Attributable to:**

<table>
<thead>
<tr>
<th>Shareholders of the parent</th>
<th>Non-controlling interests</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥ 6,053</td>
<td>¥ 5,975</td>
</tr>
</tbody>
</table>

**Thousands of U.S. dollars**

<table>
<thead>
<tr>
<th>Common stock</th>
<th>Capital surplus</th>
<th>Unrealized translation adjustments</th>
<th>Non-controlling interest</th>
<th>Total net assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>$28,190</td>
<td>$552,858</td>
<td>$103,077</td>
<td>$28,190</td>
<td>$552,858</td>
</tr>
</tbody>
</table>

**Balance at April 1, 2016**

<table>
<thead>
<tr>
<th>Common stock</th>
<th>Capital surplus</th>
<th>Unrealized translation adjustments</th>
<th>Non-controlling interest</th>
<th>Total net assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>$103,077</td>
<td>$28,190</td>
<td>$552,858</td>
<td>$103,077</td>
<td>$28,190</td>
</tr>
</tbody>
</table>

**Balance at March 31, 2018**

<table>
<thead>
<tr>
<th>Common stock</th>
<th>Capital surplus</th>
<th>Unrealized translation adjustments</th>
<th>Non-controlling interest</th>
<th>Total net assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>$103,077</td>
<td>$28,190</td>
<td>$552,858</td>
<td>$103,077</td>
<td>$28,190</td>
</tr>
</tbody>
</table>

**Non-controlling interests**

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
<th>2018</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>21</td>
<td>28</td>
<td>197</td>
<td>$ 56,975</td>
</tr>
</tbody>
</table>
Consolidated Statements of Cash Flows
Bando Chemical Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

Consolidated Statements of Cash Flows

Bando Chemical Industries, Ltd. and Consolidated Subsidiaries

Cash Flows from Operating Activities:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>$ 18,477</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income before income taxes</td>
<td>¥ 6,413</td>
<td>¥ 6,553</td>
<td>$ 60,362</td>
</tr>
<tr>
<td>Adjustments for</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>(1,912)</td>
<td>(1,523)</td>
<td>(17,997)</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>4,384</td>
<td>4,101</td>
<td>41,258</td>
</tr>
<tr>
<td>Amortization of goodwill and negative goodwill</td>
<td>10</td>
<td>9</td>
<td>91</td>
</tr>
<tr>
<td>Impairment loss</td>
<td>185</td>
<td>18</td>
<td>1,739</td>
</tr>
<tr>
<td>(Decrease) increase in allowance for doubtful accounts</td>
<td>(4)</td>
<td>19</td>
<td>(38)</td>
</tr>
<tr>
<td>Increase in provision for stock-based compensation</td>
<td>26</td>
<td>29</td>
<td>248</td>
</tr>
<tr>
<td>Decrease in provision for loss on liquidation of subsidiaries and associates</td>
<td>(11)</td>
<td>(17)</td>
<td>(99)</td>
</tr>
<tr>
<td>Increase in liability for retirement benefits</td>
<td>80</td>
<td>277</td>
<td>754</td>
</tr>
<tr>
<td>Foreign exchange losses (gains), net</td>
<td>67</td>
<td>52</td>
<td>628</td>
</tr>
<tr>
<td>Equity in earnings of affiliates</td>
<td>(477)</td>
<td>(392)</td>
<td>(4,486)</td>
</tr>
<tr>
<td>Loss on sales and disposal of property, plant and equipment</td>
<td>109</td>
<td>58</td>
<td>1,030</td>
</tr>
<tr>
<td>Changes in assets and liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in notes and accounts receivable — trade</td>
<td>(1,189)</td>
<td>(2,519)</td>
<td>(11,194)</td>
</tr>
<tr>
<td>Increase in inventories</td>
<td>(1,033)</td>
<td>(542)</td>
<td>(9,721)</td>
</tr>
<tr>
<td>Increase in notes and accounts payable — trade</td>
<td>1,749</td>
<td>172</td>
<td>16,463</td>
</tr>
<tr>
<td>Other, net</td>
<td>586</td>
<td>724</td>
<td>5,505</td>
</tr>
<tr>
<td>Net Increase (Decrease) in Cash and Cash Equivalents</td>
<td>(459)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Cash Flows from Financing Activities:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Cash Used in Financing Activities</td>
<td>(4,606)</td>
<td>422</td>
</tr>
<tr>
<td>Other, net</td>
<td>(35)</td>
<td>(24)</td>
</tr>
<tr>
<td>Net Cash Provided by (Used in) Financing Activities</td>
<td>(4,641)</td>
<td>447</td>
</tr>
</tbody>
</table>

Cash Flows from Investing Activities:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from sales of property, plant and equipment</td>
<td>30</td>
<td>106</td>
</tr>
<tr>
<td>Proceeds from sales of intangible assets</td>
<td>575</td>
<td>515</td>
</tr>
<tr>
<td>Proceeds from sales of investments in securities</td>
<td>51</td>
<td>25</td>
</tr>
<tr>
<td>Proceeds from sales of investments in securities</td>
<td>136</td>
<td>110</td>
</tr>
<tr>
<td>Other, net</td>
<td>(3)</td>
<td>(16)</td>
</tr>
<tr>
<td>Net Cash Used in Investing Activities</td>
<td>(6,802)</td>
<td>(4,639)</td>
</tr>
</tbody>
</table>

Corporate Data

Company name: Bando Chemical Industries, Ltd.
Founded: April 14, 1906
Capital: ¥10,952 mil. (As of March 31, 2018)
Consolidated sales: ¥91,263 mil. (FYE March 2018)
Employees (Consolidated): 4,128 (As of March 31, 2018)

Investor Information (As of March 31, 2018)

Principal Shareholders (As of March 31, 2018)

<table>
<thead>
<tr>
<th>Name and Address</th>
<th>Number of Shares (Thousands)</th>
<th>Investment ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bando business partner stakeholders</td>
<td>3,742</td>
<td>8.06</td>
</tr>
<tr>
<td>Sumitomo Mitsui Banking Corporation</td>
<td>2,315</td>
<td>4.99</td>
</tr>
<tr>
<td>Mitsubishi UFJ Trust and Banking Corporation</td>
<td>2,002</td>
<td>4.31</td>
</tr>
<tr>
<td>Meiji Yasuda Life Insurance Company</td>
<td>2,000</td>
<td>4.30</td>
</tr>
<tr>
<td>Mizuho Bank</td>
<td>1,800</td>
<td>3.88</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (trust account)</td>
<td>1,582</td>
<td>3.41</td>
</tr>
<tr>
<td>The Bank of Tokyo-Mitsubishi UFJ, Ltd.</td>
<td>1,575</td>
<td>3.39</td>
</tr>
<tr>
<td>The Master Trust Bank of Japan, Ltd. (trust account)</td>
<td>1,352</td>
<td>2.91</td>
</tr>
<tr>
<td>Nippon Life Insurance Company</td>
<td>1,174</td>
<td>2.53</td>
</tr>
</tbody>
</table>

GOVERNMENT OF NORWAY | 1,174 | 2.53 |

Investor Information (As of March 31, 2018)

Stock Price

<table>
<thead>
<tr>
<th>Year</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>1,600</td>
<td>1,400</td>
</tr>
<tr>
<td>2014</td>
<td>1,200</td>
<td>1,000</td>
</tr>
<tr>
<td>2015</td>
<td>1,400</td>
<td>1,200</td>
</tr>
<tr>
<td>2016</td>
<td>1,600</td>
<td>1,400</td>
</tr>
<tr>
<td>2017</td>
<td>1,800</td>
<td>1,600</td>
</tr>
<tr>
<td>2018</td>
<td>2,000</td>
<td>1,800</td>
</tr>
</tbody>
</table>

* Since the Company conducted a 2-to-1 stock consolidation on October 1, 2016, the results from April 2013 to August 2016 are presented with adjusted values.
Corporate image, "ON THE RUN!"

Bando Chemical Industries, Ltd. is focusing on new business creation in the second stage of its "Breakthroughs for the future" mid-to-long term business plan.

The corporate image of "ON THE RUN!" was designed for the second stage, which commenced in April 2018, depicting an athlete (the Company) made up of various products of the current and new businesses of Bando, racing toward the next growth stage with the entire company working together as one.