TERAOKA

Annual Report 2009

Year ended March 31, 2009

TERAOKA SEISAKUSHO CO., LTD.

PROFILE

Since its establishment in 1921, Teraoka Seisakusho Co., Ltd. has evolved into a leading developer of highly functional packing, electrical insulation, electronic equipment, other industrial and general home-use adhesive tapes.

Demand for our double-coated tapes for use in electronic devices such as cell phones, in particular, has continued to grow steadily, owing to their adhesive strength, extreme thinness, transparency, light blocking and recycling properties, and their environment-friendliness.

In the term under review, TERAOKA began marketing an ultra-thin, double-coated tape of 0.005mm, the thinnest in the industry. This highly functional 3-layer structured polyester film represents the culmination of many years of adhesion technology research and development carried out by the Company to meet the rapidly changing demands of the marketplace.

TERAOKA adhesive tapes

Measuring machine indicates 0.005mm thinness.

Changes in Overseas Sales

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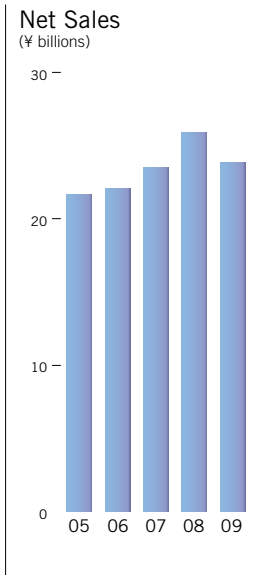
Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

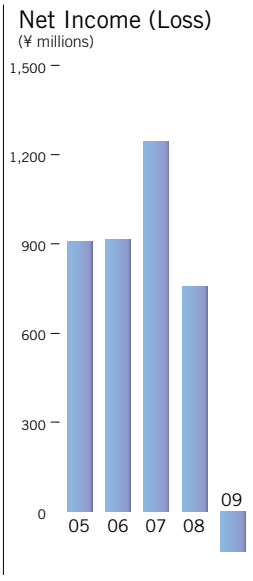
CONSOLIDATED FINANCIAL HIGHLIGHTS

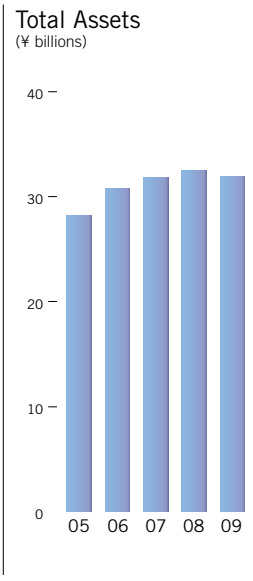
For the years ended March 31,

	Millions of yen		Thosands of U.S. dollars
	2009	2008	**2009**
Net Sales	**¥23,833**	¥25,945	**$242,550**
Operating Income	**40**	1,540	**407**
Income (Loss) before Income Taxes	**(426)**	1,155	**(4,335)**
Net Income (Loss)	**(402)**	758	**(4,091)**
Total Assets	**31,849**	32,696	**324,130**
Net Assets	**23,416**	24,343	**238,307**
Ratio (%)			
Operating Income to Net Sales	**0.2**	5.9	
Equity Ratio	**73.5**	74.5	
Return on Average Assets (ROA)	**(1.2)**	2.3	
Return on Average Stockholders' Equity (ROE)	**(1.7)**	3.1	
Per Share	Yen		U.S. dollars
Net Income (Loss)	**¥(20.00)**	¥37.93	**$(0.20)**
Cash Dividends	**10.00**	14.00	**0.10**

The U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥98.26 = U.S.$1, the rate prevailing on March 31, 2009.







Business Environment

During fiscal 2009, the year ended March 31, 2009, TERAOKA's 99th business term, the Japanese economy continued to react to the effects of rising crude oil prices and costs for other natural resources, and the effects of the global slowdown in economic growth following on the financial crisis in the U.S. In the latter half of the year, Japanese exports slowed, exacerbating the downward trend in corporate profits, which also contributed to further deterioration of the employment situation for Japanese companies.

The Company's business environment remained severe, as markets slowed, necessitating a downward shift in production and subsequent inventory adjustments among TERAOKA's major manufacturing industry clientele, and price competition became even more fierce than in the previous term. Under these circumstances, we strove to improve our marketing strategies in order to increase market competitiveness and by increasing the value-added content of our expanding lineup of tape products. Further efforts were made to rationalize operations and lower operating costs at every level of our organization, and as a result TERAOKA has strengthened its fundamentals and positioned itself for increased profitability in the future.

Results for FY 2009

Consolidated results reflected the harsh operating environment for TERAOKA during the term under review. Consolidated net sales decreased by 8.1%, to ¥23,833 million (US$242,550 thousand), while consolidated operating income amounted to ¥40 million (US$407 thousand), an unprecedented decrease of 97.4% over the previous period. The consolidated loss before income taxes for the term was ¥426 million (US$4,335 thousand). This total reflected the valuation loss of securities held by the Company, owing to the protracted slump in stock prices throughout fiscal 2009, resulting in a consolidated net loss for the term amounting to ¥402 million (US$4,091 thousand). An interim dividend of ¥7.00 (US$0.07) and a term-end dividend of ¥3.00 (US$0.03) were paid to shareholders, totaling, ¥10.00 (US$0.10) per share payout for the period.

Future Focus

For the immediate future, we are anticipating further deterioration in domestic production, reflecting the continuing falloff in exports in the current fiscal period. With the slowdown in global economic expansion and the resulting decrease in government spending and consumer confidence, we expect the business environment to remain extremely severe.

Under these austere conditions, TERAOKA will continue to develop product development and marketing strategies one step ahead of rapidly evolving market demands, and through even tighter management and more effective production systems, we believe we will move the Company in the direction of profitability once again. Towards this goal, we have begun to implement a plan to close our Fukuoka Office and close our Ohmiya Factory.

Through these and other efforts, we continue to strengthen our corporate fundamentals and expand our market shares, while diversifying our lineup of highly advanced, highly functional tape products, and in these endeavors we continue to ask for the support and patronage of our shareholders, clients and friends.

June 26, 2009

K. Teraoka

Keishiro Teraoka
President

REVIEW OF OPERATIONS

TERAOKA is a technology-based enterprise with formidable research & development capabilities. In order to compete in a rapidly evolving global marketplace, technological innovation and value-added product content is what has allowed the Company to maintain a competitive lead in markets demanding highly advanced tape products. During the fiscal term in review, we continued to focus our efforts on developing increasingly specialized intermediary components for use in high technology product manufacturing, and in our expanding line of consumer use tape products.

During the term TERAOKA marketed its environmentally friendly non-halogen VOC (organic solvent) double-faced tape and electric insulation tape, and its newly developed 5-micron double-faced tape, the thinnest in the industry, a VOC head-conductive tape, a conductive tape, and a solvent-less thin silicon rubber adhesive tape.

During the fiscal term in review, consolidated net sales for the Company amounted to ¥23,833 million (US$242,550 thousand). Research & development expenses amounted to ¥1,067 million (US$10,859 thousand), accounting for 4.5% of total consolidated sales.

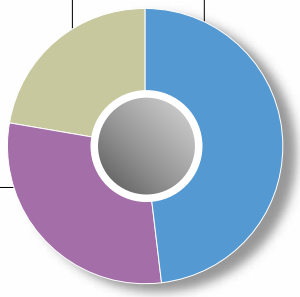
Breakdown of Sales by Category

Packing Tapes
- Olive cloth tapes
- Kraft paper tapes
- Polypropylene cloth/film adhesive tapes

22.3%

Other Industrial Tapes
- Double-coated adhesive tapes
- Corrosion-proof tapes
- Masking cloth tapes
- Surface protection tapes

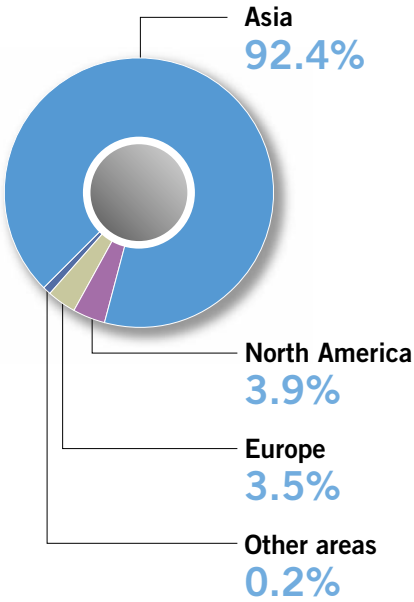
29.6%



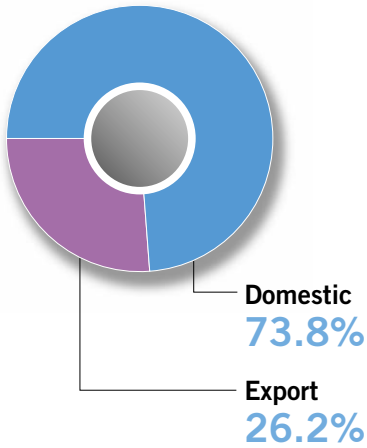
Electrical Insulation and Electronic Equipment Tapes
- Polyester cloth/film adhesive tapes
- Acetate cloth adhesive tapes
- Combination adhesive tapes
- Kapton film adhesive tapes
- Nomex adhesive tapes
- Glass cloth adhesive tapes
- EMI/RFI shielding tapes

48.1%

Export Markets



Export Ratio



Packing Tapes

Sales of packaging adhesive tapes, and in particular, for TERAOKA's Light Olive Tape, increased during the term, by 2.1%, owing to efforts by the Company to increase mail-order sales and expand its home center venues. As a result, consolidated sales for this product segment amounted to ¥5,320 million (US$54,142 thousand). This division accounted for 22.3% of the total consolidated sales.

Electrical Insulation and Electronic Equipment Tapes

Sales of the Company's electrical insulation and electronic equipment tapes grew steadily during the first half of the fiscal term, however, owing to the falloff in demand for digital equipment related tapes used in flat-screen TV and cell phones, and tapes for automotive parts, in the second half of the year, consolidated net sales for this division amounted to ¥11,456 million (US$116,589 thousand), a decrease of 12.0% over the previous term. This division accounted for 48.1% of total consolidated sales.

Other Industrial Tapes

Consolidated sales of industrial tapes, including protecting cloth and P-Cut Tapes (polyethylene cloth tapes) for home construction and remodeling, decreased by 8.4% from the previous year during the term, to ¥7,057 million (US$71,819 thousand). This division accounted for 29.6% of total consolidated sales.

Overseas Sales

During the term, exports decreased markedly, reflecting the downturn in global economic growth and growing fear in financial sectors worldwide. Owing to this situation, overseas sales decrease by 14.6% from the previous term to ¥6,251 million (US$63,617 thousand). Overseas sales accounted for 26.2% of TERAOKA's total consolidated sales.

CONSOLIDATED FIVE-YEAR SUMMARY

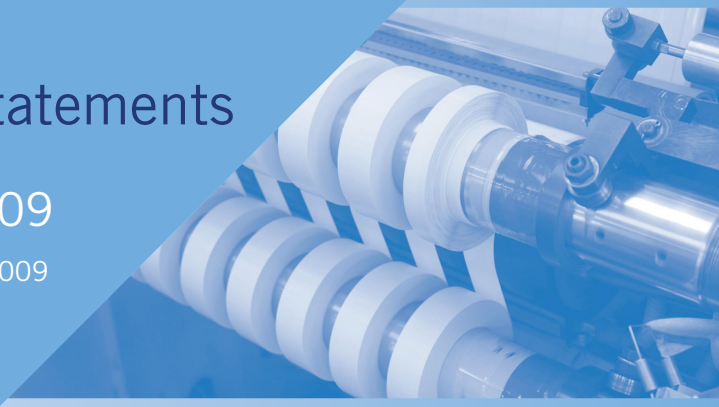
	Millions of yen					Thousands of U.S. dollars
Years ended March 31	2005	2006	2007	2008	**2009**	**2009**
Net Sales	¥21,063	¥21,829	¥23,536	¥25,945	**¥23,833**	**$242,550**
Operating Income	1,463	1,399	1,424	1,540	**40**	**407**
Income (Loss) before Income Taxes	1,401	1,452	2,004	1,155	**(426)**	**(4,335)**
Net Income (Loss)	931	945	1,242	758	**(402)**	**(4,091)**
Total Assets	28,791	31,184	32,271	32,696	**31,849**	**324,130**
Net Assets	22,576	23,940	24,472	24,343	**23,416**	**238,307**
Ratio (%)						
Operating Income to Net Sales	6.9	6.4	6.1	5.9	**0.2**	
Equity Ratio	78.4	76.8	75.8	74.5	**73.5**	
Return on Average Assets (ROA)	3.2	3	3.9	2.3	**(1.2)**	
Return on Average Stockholders' Equity (ROE)	4.2	4.1	5.1	3.1	**(1.7)**	
Per Share	Yen					U.S. dollars
Net Income (Loss)	¥44.65	¥45.62	¥62.12	¥37.93	**¥(20.00)**	**$(0.20)**
Cash Dividends	14.00	14.00	14.00	14.00	**10.00**	**0.10**

The U.S. dollars are translated at the rate of ¥98.26 per U.S.$1, prevailing on March 31, 2009.

Financial Statements

Fiscal Year 2009

Year ended March 31, 2009



Business Performance

In TERAOKA's operating environment, markets contracted radically owing to the economic downturn during the term, especially the curtailment of production and inventory adjustments in the various manufacturing industries to which we supply our products. Price competition also continued to become increasingly severe.

Under these circumstances, TERAOKA established a new production facility and developed new products to strengthen our future competitiveness, and we also endeavored to improve our earnings by revising product prices to cope with higher prices for raw materials, optimizing inventory quantities, and reducing costs, however, business performance continued to weaken owing to the downturn in the Japanese and overseas economies. Despite our concerted efforts to improve management and sales performance, consolidated net sales for the period in review amounted to ¥23,833 million (US$242,550 thousand), a decrease of 8.1% over the previous term. Consolidated operating income declined by a record 97.4%, to ¥40 million (US$407 thousand). Moreover, consolidated loss before income taxes amounted to ¥426 million (US$4,335 thousand) and consolidated net loss was ¥402 million (US$4,091 thousand).

Segment Information

Sales for TERAOKA's Packing Tapes Division increased over the previous term, by 2.1%, owing to efforts to expand mail-order and at-home centers, resulting in consolidated net sales of ¥5,320 million US$54,142 thousand).

The Electrical Insulation and Electronic Equipment Tapes Division endeavored to improve sales, however the sharp decline in demand from manufacturers of digital devices and automotive parts, primary markets for these products during the term resulted in a 12.0% decrease in sales for this segment to ¥11,456 million (US$116,589 thousand).

In the Other Industrial Tapes Division, shipments of protecting tapes and P-Cut Tapes (polyethylene cloth tapes) declined, reflecting the further downturn in home building and remodeling as a result of the slowing economy. Therefore, sales of this division for the fiscal term amounted to ¥7,057 million (US$71,819 thousand), a decrease of 8.4% from the previous term.

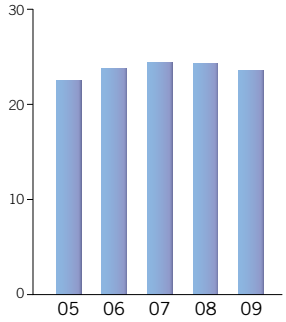
By region, domestic total sales amounted to ¥17,582 million (US$178,933 thousand), a decrease of 5.6% from the previous term, while total export sales were ¥6,251 million (US$63,617 thousand), a decrease of 14.6% from the previous term.
Sales to China, Singapore and other Asian markets accounted for 92.4% of total exports in fiscal 2009. Shipments to North America and European markets constitute 7.6% of TERAOKA's overseas total consolidated sales.

Financial Position

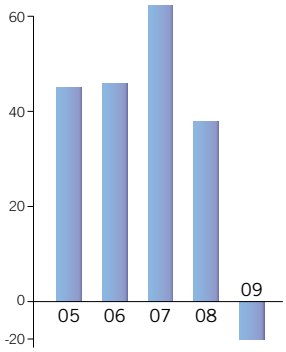
Total consolidated assets at the end of the fiscal term were ¥31,849 million (US$324,130 thousand), a decrease of 2.6%, or ¥847 million (US$8,620 thousand). The capital-to-asset ratio was 73.5%, down 1.0 point from the previous term.

Total current assets at the term-end amounted to ¥15,133 million (US$154,009 thousand), a decrease

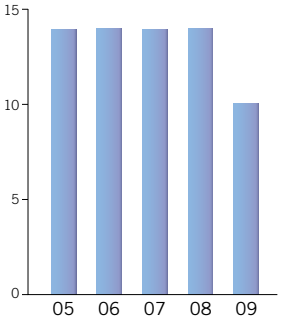
Net Assets
(¥ billions)



Net Income (Loss) per Share
(Yen)



Cash Dividends per Share
(Yen)



of 13.3%, or ¥2,328 million (US$23,692 thousand) when compared with the previous term-end, owing in part to a ¥1,833 million (US$18,655 thousand) decrease in notes and accounts receivable. The total fixed assets increased by 9.7%, or ¥1,482 million (US$15,082 thousand), to ¥16,717 million (US$170,130 thousand), during the term. Construction in progress increased by ¥1,963 million (US$19,978 thousand).

Total current liabilities decreased by 29.3%, or ¥2,409 million (US$24,517 thousand), amounting to ¥5,821 million (US$59,241 thousand) at term-end, owing to a decrease of ¥1,445 million (US$14,706 thousand) in notes and accounts payable.
Total fixed liabilities increased by ¥2,489 million (US$25,331 thousand) to ¥2,612 million (US$26,582 thousand), in part because long-term borrowings increased by ¥2,375 million (US$24,171 thousand) during the term in review.

Total net assets at year-end amounted to ¥23,416 million (US$238,307 thousand), representing a year-on-year decrease of 3.8%, or ¥927 million (US$9,434 thousand), owing primarily to a decline in retained earnings of ¥701 million (US$7,134 thousand).

Cash Flows

Funds obtained through operating activities totaled ¥1,931 million (US$19,652 thousand), a decrease of 16.0% from the previous term. This decline was due mainly to depreciations and amortizations of ¥1,464 million (US$14,899 thousand); the amount of decrease in notes and accounts receivable increased by ¥2,103 million (US$21,402 thousand), and the amount of decrease in notes and accounts payable amounted to ¥1,466 million (US$14,920 thousand).

Funds used for investment purposes amounted to ¥3,098 million (US$31,529 thousand), an increased of 314.2% over the previous term. This increase reflected the increase in payments of ¥3,058 million (US$31,122 thousand) for purchase of property, plant and equipment during the term.

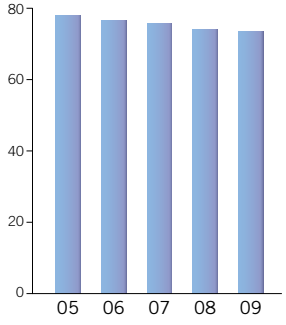
Funds obtained through financing activities amounted to ¥1,208 million (US$12,294 thousand). In the previous term, we used the fund of ¥263 million (US$2,666 thousand). In fiscal 2009, ¥2,500 million (US$25,443 thousand) represented long-term borrowings from banks.

Through these activities, consolidated cash and cash equivalents at the end of the term in review amounted to ¥6,128 million (US$62,365 thousand), an increase of ¥89 million (US$906 thousand) when compared with the end of the previous consolidated accounting period.

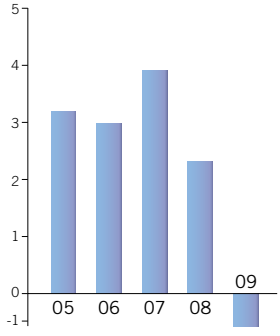
Dividends

During each term, TERAOKA's basic policy is to continue a stable dividend payment to shareholders after careful consideration of its business results, including operating results for the period in review, its overall financial condition, cash flow, dividend propensity and future business forecasts, in order to maintain a stable financial base. With projections of a continued severe business environment in the next accounting year, it was decided to pay an interim dividend of ¥7 (US$0.07) per share and a term-end dividend of ¥3 (US$0.03) per share, for an annual dividend of ¥10 (US$0.10) per share.

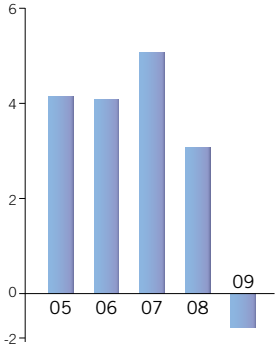
Equity Ratio (%)



Return on Average Assets (ROA) (%)



Return on Average Stockholders' Equity (ROE) (%)



Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
ASSETS			
Current Assets:			
Cash and time deposits	**¥ 6,129**	¥ 6,339	**$ 62,375**
Notes and accounts receivable:			
Trade	**5,280**	6,918	**53,734**
Affiliate	**—**	195	**—**
Less: Allowance for doubtful accounts (Note 2-g)	**(11)**	(2)	**(112)**
Inventories (Note 2-c)	**3,191**	3,529	**32,475**
Deferred income taxes (Note 2-f)	**164**	239	**1,669**
Other current assets	**380**	242	**3,868**
Total current assets	**15,133**	17,460	**154,009**
Property, Plant and Equipment (Note 2-d):			
Land	**3,784**	3,724	**38,510**
Buildings	**7,392**	7,328	**75,229**
Machinery and equipment	**21,779**	20,410	**221,647**
Construction in progress	**4,117**	2,154	**41,899**
	37,072	33,616	**377,285**
Less: Accumulated depreciation	**(23,148)**	(22,120)	**(235,579)**
Property, plant and eqipment, net	**13,924**	11,496	**141,706**
Intangible Assets	**197**	333	**2,005**
Investments and Other Assets:			
Investments in securities (Notes 2-b and 4)	**1,900**	2,922	**19,337**
Investments in affiliates	**—**	113	**—**
Deferred income taxes (Note 2-f)	**443**	50	**4,508**
Other	**283**	322	**2,880**
Less: Allowance for doubtful accounts (Note 2-g)	**(31)**	—	**(315)**
Total investments and other assets	**2,595**	3,407	**26,410**
Total assets	**¥31,849**	¥32,696	**¥324,130**

The accompanying notes to consolidated financial statements are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Notes and accounts payable:			
Trade	**¥ 3,306**	¥ 4,751	**$ 33,645**
Short-term borrowings	**36**	1,046	**366**
Current portion of long-term borrowings	**125**	—	**1,272**
Accrued income taxes	**—**	323	**—**
Accrued expenses	**374**	578	**3,806**
Other current liabilities	**1,980**	1,532	**20,152**
Total current liabilities	**5,821**	8,230	**59,241**
Long-term Liabilities:			
Long-term borrowings	**2,375**	—	**24,171**
Retirement and severance benenfits (Notes 2-h and 5):			
Employees	**28**	—	**285**
Deferred liabilities taxes (Note 2-f)	**18**	—	**183**
Negative Goodwill	**102**	6	**1,038**
Other	**89**	117	**905**
Total long-term liabilities	**2,612**	123	**26,582**
Total liabilities	**8,433**	8,353	**85,823**
NET ASSETS			
Stockholders' Equity:			
Common stock:			
Authorized: 80,000,000 shares			
Issued: 20,081,955 shares as of March 31, 2009 and 2008, respectively	**3,904**	3,904	**39,731**
Additional paid-in capital	**3,491**	3,491	**35,528**
Retained earnings	**16,031**	16,732	**163,149**
Less: Treasury stock, at cost	**(1)**	(98)	**(10)**
Total Stockholders' equity	**23,425**	24,029	**238,398**
Valuation and Translation Adjustments:			
Unrealized gains on securities (Notes 2-b and 4)	**83**	395	**845**
Foreign currency translation adjustments (Note 2-i)	**(92)**	(81)	**(936)**
Total valuation and translation adjustments	**(9)**	314	**(91)**
Total net assets	**23,416**	24,343	**238,307**
Total liabilities and net assets	**¥31,849**	¥32,696	**$324,130**

CONSOLIDATED STATEMENTS OF INCOME

For the years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Net Sales	**¥23,833**	¥25,945	**$242,550**
Cost of Sales	**19,206**	19,896	**195,461**
Gross profit	**4,627**	6,049	**47,089**
Selling, General and Administrative Expenses	**4,587**	4,509	**46,682**
Operating income	**40**	1,540	**407**
Other Income and Expenses:			
Interest and dividend income	**79**	93	**804**
Interest expenses	**(19)**	(6)	**(193)**
Loss on disposal of inventory asset	**(15)**	(6)	**(153)**
Loss on write-down of investment in securities	**(503)**	(373)	**(5,119)**
Loss on disposal of property, plant and equipment	**(34)**	(11)	**(346)**
Foreign exchange gains (losses), net	**(68)**	(143)	**(692)**
Equity in earnings (losses) of affliated company	**—**	14	**—**
Other, net	**94**	47	**957**
	(466)	(385)	**(4,742)**
Income (Loss) before income taxes	**(426)**	1,155	**(4,335)**
Income Taxes:			
Current	**67**	496	**682**
Deferred	**(91)**	(99)	**(926)**
	(24)	397	**(244)**
Net income (loss)	**¥ (402)**	¥ 758	**$ (4,091)**

The accompanying notes to consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Common Stock:			
Balance at beginning of year	**¥ 3,904**	¥ 3,904	**$ 39,731**
Issuance during the year	**—**	—	**—**
Balance at end of year	**3,904**	3,904	**39,731**
Additional Paid in Capital:			
Balance at beginning of year	**3,491**	3,491	**35,528**
Net sales treasury stock	**—**	—	**—**
Balance at end of year	**3,491**	3,491	**35,528**
Retained Earnings:			
Balance at beginning of year	**16,732**	16,254	**170,283**
Net Income (Loss)	**(402)**	758	**(4,091)**
Cash dividends paid	**(281)**	(280)	**(2,860)**
Disposal of treasury stock	**(18)**	—	**(183)**
Balance at end of year	**16,031**	16,732	**163,149**
Treasury Stock, at Cost:			
Balance at beginning of year	**(98)**	(76)	**(1,009)**
Purchase of treasury stock	**—**	(22)	**—**
Disposal of treasury stock	**97**	—	**999**
Balance at end of year	**¥ (1)**	¥ (98)	**¥ (10)**
Unrealized Gains on Securities:			
Balance at beginning of year	**395**	855	**4,020**
Net change during the year	**(312)**	(460)	**(3,175)**
Balance at end of year	**83**	395	**845**
Foreign Currency Translation Adjustments:			
Balance at beginning of year	**(81)**	44	**(824)**
Net change during the year	**(11)**	(125)	**(112)**
Balance at end of year	**(92)**	(81)	**(936)**

	Yen		U.S. dollars
Per Share of Common Stock			
Net income (loss)	**¥(20.00)**	¥37.93	**$(0.20)**
Cash dividends paid	**10.00**	14.00	**0.10**

The accompanying notes to consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Operating Activities:			
Net Income	**¥ (402)**	¥ 758	**$ (4,091)**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**1,464**	1,372	**14,899**
Allowance for doubtful accounts	**34**	(1)	**346**
Provision for retirement benefits	**2**	(139)	**20**
Deffered income taxes	**(91)**	(99)	**(926)**
Equity in earning (losses) of affliciated company	**—**	(14)	**—**
Loss on disposal of property,plant and equipment	**30**	11	**305**
Loss on write-down of investment in securities	**500**	373	**5,089**
Changes in assets and liabilities			
(Increase) decrease in notes and accounts receivable	**2,103**	(19)	**21,402**
(Increase) decrease in inventories	**348**	(766)	**3,542**
Increase (decrease) in notes and accounts payable	**(1,466)**	908	**(14,920)**
Increase (decrease) in accrued income taxes payable	**(425)**	9	**(4,325)**
Other, net	**(166)**	(93)	**(1,689)**
Total adjustment	**2,333**	1,542	**23,743**
Net cash provided by operating activities	**1,931**	2,300	**19,652**
Investing Activities:			
Payment for purchases of property, plant and equipment	**(3,058)**	(2,645)	**(31,122)**
Payment for purchases of intangible assets	**(40)**	(65)	**(407)**
Payment for purchases of marketable securities	**—**	(1,395)	**—**
Payment for purchases of investment in securities	**(3)**	(35)	**(31)**
Proceeds from sales of marketable securities	**—**	3,392	**—**
Other, net	**3**	—	**31**
Net cash used in investing activities	**(3,098)**	(748)	**(31,529)**
Financing Activities:			
Dividends paid	**(281)**	(280)	**(2,860)**
Increases (decrease) in short-term borrowings	**(1,010)**	39	**(10,279)**
Increases in long-term borrowings	**2,500**	—	**25,443**
Other, net	**(1)**	(22)	**(10)**
Net cash used in financing activities	**1,208**	(263)	**12,294**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(5)**	(81)	**(51)**
Net Increase (Decrease) in Cash and Cash Equivalents	**36**	1,208	**366**
Cash and Cash Equivalents at Beginning of Year	**6,039**	4,831	**61,460**
Cash and Cash Equivalents of Newly Consolidated Subsidiaries	**53**	—	**539**
Cash and Cash Equivalents at End of Year	**¥6,128**	¥6,039	**$62,365**
Additional Cash Flow Information			
Interest paid	**18**	6	**183**
Income taxes paid	**¥ 492**	¥ 486	**$ 5,007**

The accompanying notes to consolidated financial statements are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended March 31, 2009 and 2008

1. Basis of Presenting Financial Statements

The accompanying consolidated financial statements of TERAOKA SEISAKUSHO CO., LTD. (the "Company") and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company, as required by the Financial Instruments and Exchange Law of Japan. However, certain account balances, as disclosed in the basic consolidated financial statements in Japan, have been reclassified to the extent deemed necessary to enable presentation in a form which is more familiar to readers outside Japan.

The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

For the convenience of readers, the accompanying consolidated financial statements are presented in U.S. dollars by translating yen amounts at the rate of ¥98.26=U.S.$1, the prevailing exchange rate on March 31, 2009.

2. Summary of Significant Accounting Policies

a. Consolidation

The accompanying consolidated financial statements include the accounts of the Company and four subsidiaries, TERAOKA SEISAKUSHO (Hong Kong) CO., LTD., TERAOKA SEISAKUSHO (Shanghai) CO., LTD., TERAOKA SEISAKUSHO (Shenzhen) CO., LTD. and SHIN-EI SHOJI CO., LTD.

Significant inter-company balances, unrealized inter-company profits and losses among the companies are entirely eliminated. The assets and liabilities of the consolidated subsidiaries are incorporated into the financial statements at fair value and the difference between net assets at fair value and investment amounts are amortized by the straight-line method over a period of five years.

The fiscal years of overseas subsidiaries end December 31. Overseas subsidiaries' financial statements are based on temporary settlement dates of March 31, 2009 and 2008 and are used for the consolidation of the Company.

b. Investments in securities

Debt securities that are intended to be held to maturity ("held-to maturity debt securities") are measured at amortized cost in the balance sheet. Securities other than held-to maturity debt securities ("other securities") are measured at fair value.

Other Securities that have fair values are stated at fair value, with unrealized gains and losses included in the net assets, net of applicable income taxes. Realized gains and losses on sales of securities are based on the moving average cost of the securities. Other securities that do not have fair values are stated at cost determined by the moving average method.

c. Inventories

The Company mainly applies the cost method based on the periodic average method which determines the amount of the inventories shown on the balance sheet by writing them down based on the decrease in their profitability.

(Changes in accounting policies)

Until the fiscal year ended March 31, 2008, the lower of cost method mainly based on the periodic average method or fair value was adopted for measuring inventories held for sale in the ordinary course of business.

However, the "Accounting Standard For Measurement of Inventories" has been applied from the fiscal year ended March 31, 2009, and now these inventories are mainly measured by means of the cost method based on the periodic average method, which determines the amount of the inventories shown on the balance sheet by writing them down based on the decrease in their profitability.

As a result, operating income, ordinary income each decreased by ¥64 million (US$651 thousand), loss before income taxes increased by ¥64 million (US$651 thousand).

d. Property, plant and equipment and depreciation

Property, plant and equipment are carried at cost. Depreciation is computed principally by the declining balance method at a rate based on their estimated useful lives, which range as follow:

Buildings	3~50 years
Machinery and equipment	4~8 years

Depreciation of buildings, machinery and equipment of overseas subsidiaries and buildings acquired by the Company and its domestic subsidiary on or after April 1, 1998 is computed by the straight-line method due to changes in Japanese income tax regulations.

(Additional information)

Effective from the fiscal year ended March 31, 2009, the Company and its domestic subsidiary reexamined the period of depreciation for machinery and consequently changed the period of depreciation for machinery in accordance with the revised Japanese Corporation Tax Law.

As a result of this change, operating income and loss before income taxes for the period had an insignificant effect, compared with the amount under the formerly applied method.

e. Leased assets

(Changes in accounting policies)

Under accounting standards generally accepted in Japan, leased assets related to finance leases that do not transfer ownership of the leased property to the lessee are depreciation on a straight-line basis, with lease period used as their useful lives and no residual value. The accounting treatment for finance leases that do not transfer ownership of the leased property to the lessee which took place before March 31, 2008 continues to be in accordance with the method used for operating lease transaction.

The impact of this change on profit or loss has been insignificant.

f. Income taxes

Income taxes are provided based on amounts required by the tax return for the period.

The Company has adopted the asset-liability method of tax effect accounting to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purpose, and the amounts used for income tax purposes.

g. Allowance for doubtful accounts

Allowance for doubtful accounts provides for possible losses on the uncollectability of receivables at the amount of estimated uncollectability, based on past experience of doubtful receivables and individual evaluation of collectability of the receivables.

h. Retirement and severance benefits

Employees who terminate their services with the Company are generally entitled to lump-sum severance payments based on their current basic rates of pay and length of service. In addition, the Company maintains tax-qualified pension plans with insurance companies and trust banks. The plans entitle employees with more than 10 years of services, upon retirement, to receive either lump-sum payments or annuity payments over 10 years.

The provision for employees' retirement benefits recorded in the balance sheets, less the pension plan assets, was sufficient to satisfy the projected benefit obligation for employees' services up to the balance sheet dates.

The Company's overseas subsidiaries do not have such retirement benefit plan.

i. Foreign currency translation

All receivables and payables denominated in foreign currencies at the balance sheet date are translated into yen at current exchange rates. The resulting exchange gains or losses are charged to income.

Balance sheets of consolidated overseas subsidiaries are translated into yen at the year-end rates except for stockholders' equity accounts, which are translated at the historical rates. Income statements of consolidated overseas subsidiaries are translated at average rates. Translation differences are presented as "foreign currency translation adjustments" in the accompanying consolidated financial statements.

j. Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows include all highly liquid investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value.

3. Contingent Liabilities

Contingent liabilities in respect of trade notes and export bills discounted with banks with recourse in the ordinary course of business, amounted to ¥12 million (US$122 thousand) and ¥72 million at March 31, 2009 and 2008.

4. Securities

Historical costs, fair value and gross unrealized gains and losses for marketable securities as of March 31, 2009 and 2008 are as follows.

	Millions of yen				
	2009				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other securities:					
Equity securities	**¥1,740**	**¥1,880**	**¥139**	**¥229**	**¥(89)**
Corporate bonds			**0**	**0**	**0**
Other			**—**	**—**	**—**
Total	**¥1,740**	**¥1,880**	**¥139**	**¥229**	**¥(89)**

	Millions of yen				
	2008				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other securities:					
Equity securities	¥2,238	¥2,902	¥664	¥769	¥(105)
Corporate bonds			0	0	0
Other			—	—	—
Total	¥2,238	¥2,902	¥664	¥769	¥(105)

	Thousands of U.S. dollars				
	2009				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other securities:					
Equity securities	**$17,708**	**$19,133**	**$1,415**	**$2,331**	**$(906)**
Corporate bonds	**0**	**0**	**0**	**0**	**0**
Other	**0**	**0**			
Total	**$17,708**	**$19,133**	**$1,415**	**$2,331**	**$(906)**

Securities that do not have fair values are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Equity securities	**¥18**	¥18	**$183**
Others	**—**	—	**—**
Total	**¥18**	¥18	**$183**

5. Retirement and Severance Benefits

Employees who terminate their services with the Company are generally entitled to lump-sum severance payments based on their current basic rates of pay and length of service. In addition, the Company maintains tax-qualified pension plans for employees with more than 10 years of services.

Provision for employees' retirement benefit obligations as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Benefit obligations	**¥(3,771)**	¥(3,804)	**$(38,378)**
Pension assets	**2,854**	3,642	**29,045**
Unrecognized actuarial differences	**941**	313	**9,577**
Prepaid retirement benefits cost in consolidated balance sheets	**52**	—	**529**
Provisions for retirement benefits	**(28)**	151	**(285)**

Employees' retirement benefit expenses for the years ended March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Service costs	**¥209**	¥205	**$2,127**
Interest costs	**76**	76	**773**
Expected return on pension assets	**(72)**	(85)	**(732)**
Amortization of unrecognized actuarial difference	**115**	(168)	**1,170**
Benefits expenses total	**¥328**	¥ 28	**$3,338**

Significant assumptions of pension plans used to determine these amounts are as follows:

	2009	2008
Discount rate	**2.0 %**	2.0 %
Expected rate of return on pension assets	**2.0 %**	2.0 %
Years over which the actuarial differences obligations are allocated	**5 years**	5 years

6. Subsequent Event

Appropriation of retained earnings

Subsequent to March 31, 2009, the Company's Board of Directors, with the approval of stockholders on June 26, 2009 declared a cash dividend of ¥60 million (US$611 thousand) equal to ¥3.00 (US$0.03) per share, applicable to earnings of the year ended March 31, 2009 and payable to stockholders on the stockholders' register on March 31, 2009.

REPORT OF INDEPENDENT AUDITORS

INOUE AUDITING CO., INC.
Shuhan Kaikan Bldg.
3-37, Kanda-sakuma-cho
Chiyoda-ku, Tokyo, Japan

To the Board of Directors of Teraoka Seisakusho Co., Ltd.

We have audited the accompanying consolidated balance sheets of Teraoka Seisakusho Co., Ltd. and consolidated subsidiaries as of March 31, 2008 and 2009, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Teraoka Seisakusho Co., Ltd. and consolidated subsidiaries as of March 31, 2008 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan, consistently applied during the period.

The accompanying consolidated financial statements as of and for the year ended March 31, 2009 have been translated into U.S. dollars solely for the convenience of the readers. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into U.S. dollars on the basis set forth in Note 1 of the Notes to Consolidated Financial Statements.

Tokyo, Japan
June 26, 2009

Inoue Auditing Co., Inc.

Inoue Auditing Co., Inc.

COMPANY DATA

Company Outline

(as of March 31, 2009)

Company Name	TERAOKA SEISAKUSHO CO., LTD.
Head Office	4-22, Hiromachi 1-chome, Shinagawa-ku, Tokyo 140-8711, Japan Tel: 81-3-3491-1141 Fax: 81-3-3491-5316
Founded	February 11, 1921
Paid-in Capital	¥3,904 million
Employees	552

Board of Directors and Auditors

(as of June 26, 2009)

President	Keishiro Teraoka
Managing Director	Kiyohiro Takagi
Directors	Kuniyuki Takei Takeo Kawaguchi Jun Watanabe Yutaka Nomiyama Toshinobu Nishimura
Standing Corporate Auditor	Motoaki Hattori
Corporate Auditors	Hirokazu Nakamura Kazunori Shimamoto Kohji Dohmoto
Operating Officers	Minoru Tanaka Hiroyoshi Ohbori Nobuo Ito Tadashi Shirota Masao Mochizuki

Consolidated Subsidiaries

Teraoka Seisakusho (Hong Kong) Co., Ltd.
Teraoka Seisakusho (Shanghai) Co., Ltd.
Teraoka Seisakusho (Shenzhen) Co., Ltd.
Shin-ei Shoji Co., Ltd.

R&D Center, Factories and Branch Offices

R&D Center	Shinagawa-ku, Tokyo
Ibaraki Factory	Kitaibaraki, Ibaraki Prefecture
Sano Factory	Sano, Tochigi Prefecture
Ohmiya Factory	Saitama, Saitama Prefecture
Kannami Factory	Tagata-gun, Shizuoka Prefecture
Branch Offices	Tokyo, Osaka, Nagoya, Sendai, Ohmiya and Fukuoka

Investor Information

(as of March 31, 2009)

Financial Year	April 1 to March 31	
Common Stocks	Authorized Shares	80,000,000
	Issued Shares	20,081,955
Stockholders	2,328	
Stock Listing	Tokyo Stock Exchange, Second Section	
Transfer Agency	Mitsubishi UFJ Trust and Banking Corporation	
	4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan	

Major Stockholders	Number of shares (thousand shares)	Voting right ratio (%)
Customers' Stockholding Group	1,719	8.56
Japan Trustee Services Bank, Ltd.	978	4.87
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	976	4.86
Keishiro Teraoka	881	4.39
Resona Bank, Ltd.	678	3.38
The Master Trust Bank of Japan, Ltd.	561	2.79
Kuniko Teraoka	526	2.61
Employees' Stockholding Group	444	2.21
RBC Dexia Investor Services Trust, London Client Account	386	1.92
SGSS / SGBT LUX	286	1.42

TERAOKA

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