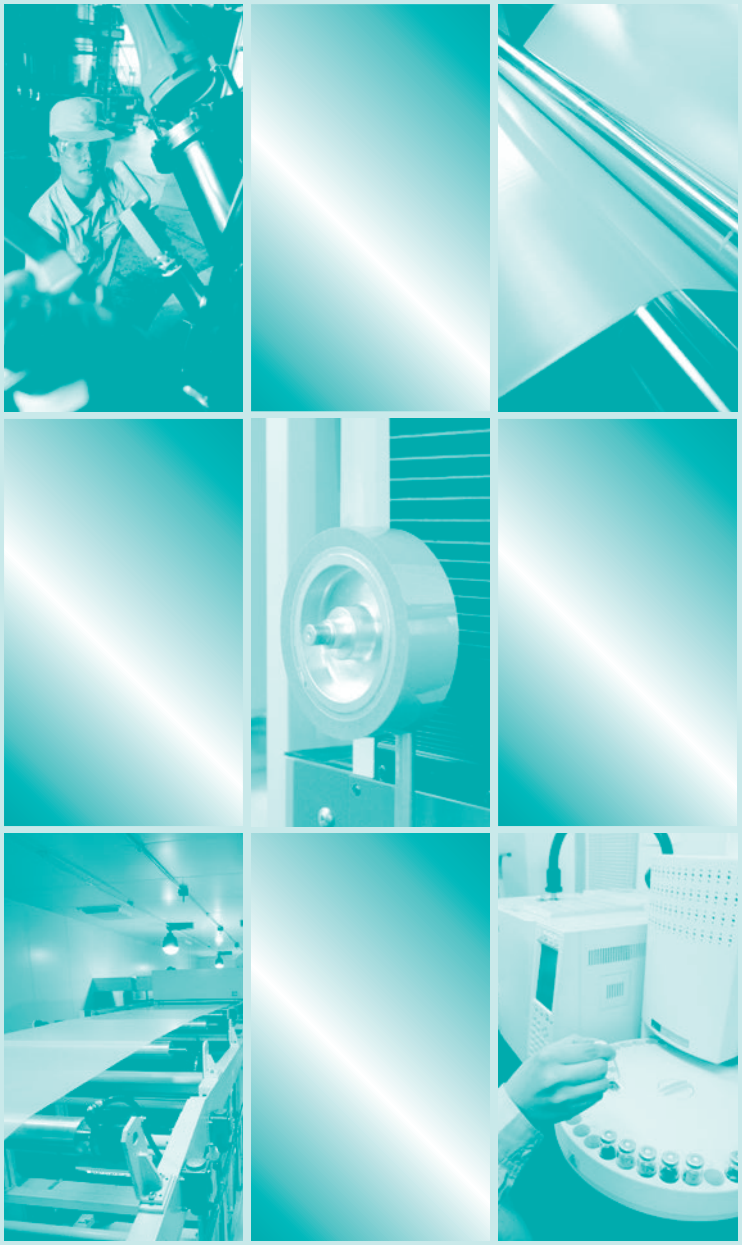
TERAOKA

Annual Report 2011

Year ended March 31, 2011



TERAOKA SEISAKUSHO CO., LTD.

PROFILE

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

Through our continued research and development, along with our dedication to our motto "To provide high-quality products quickly and at a reasonable price," in October of this fiscal year (2010) we released an upgraded version of our single-coated light-resistant tape. Light-resistant tapes are used to enhance flat-screen televisions, laptop computers, tablets, and cellular phones by preventing the excess light of LEDs, backlights and other light sources from leaking. The newly released version of this tape has both a higher light-resistance as well as stronger adhesion to enable use on curved surfaces. Furthermore, this environmentally friendly light-resistant tape is manufactured without the use of halogen compounds, and has been UL safety standards certified.

Worldwide demand for LCD products is anticipated to expand, especially for tablets, and we expect that demand for our tapes will grow in step with this expansion.

An experiment to compare light-resistance by shining light from beneath the tapes.

In the newest version, the tape's pattern did not show through the tape.

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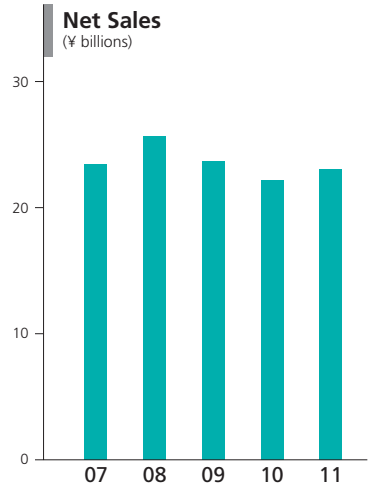
Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

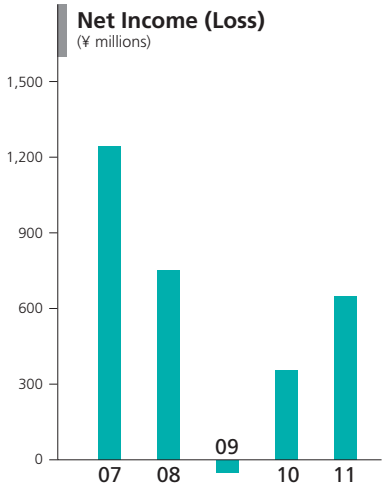
CONSOLIDATED FINANCIAL HIGHLIGHTS

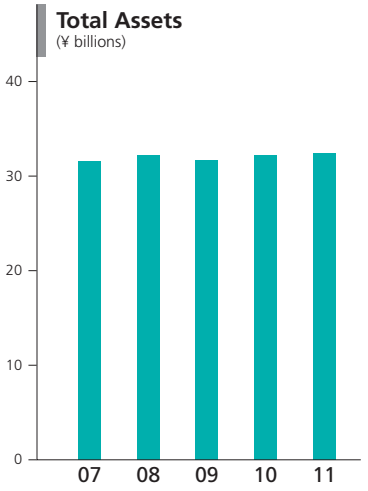
For the years ended March 31,

	Millions of yen		Thosands of U.S. dollars
	2011	2010	**2011**
Net Sales	**¥23,137**	¥22,909	**$278,260**
Operating Income	**598**	522	**7,193**
Income before Income Taxes	**1,007**	575	**12,109**
Net Income	**649**	359	**7,810**
Total Assets	**32,330**	32,098	**388,817**
Net Assets	**24,035**	23,669	**289,056**
Ratio (%)			
Operating Income to Net Sales	**2.6**	2.3	
Equity Ratio	**74.3**	73.7	
Return on Average Assets (ROA)	**2.0**	1.1	
Return on Average Stockholders' Equity (ROE)	**2.7**	1.5	
Per Share	Yen		U.S. dollars
Net Income	**¥32.91**	¥17.93	**$0.40**
Cash Dividends	**10.00**	7.00	**0.12**

The U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥83.15 = U.S.$1, the rate prevailing on March 31, 2011.







TO OUR STOCKHOLDERS

Business Environment

We extend our deepest sympathy to all stockholders affected by the Great East Japan Earthquake of March this past year.

We would like to announce that fiscal year 2011, the period ending March 31, 2011, marked TERAOKA's 101st business term.

Under the severe business environment faced by the company due to protracted appreciation of the yen and the rise in cost of some raw materials, we focused our efforts on increasing the sales of electrical insulation and electronic equipment tapes, which are our core products, while also expanding sales of our new products and promoting overseas sales. At the end of September 2010, we closed our Ohmiya factory to rationalize operations and increase productivity at every level of our organization.

Because our Ibaraki factory suffered damage during the Great East Japan Earthquake of March 11, 2011, we were forced to book substantial restoration expenses against the catastrophe reserve. During the reconstruction of the Ibaraki factory, we were able to shift production of electrical-use tapes manufactured there onto other factories. This, and other determined efforts by the company, allowed us to maintain and provide a stable supply of tape while restoring of the Ibaraki factory, which was reopened in mid-May.

Result for FY 2011

Consolidated net sales for this term increased by 1.0% to ¥23,137 million (US$278,260 thousand), while the consolidated operating income amounted to ¥598 million (US$7,193 thousand) an increase of 14.8% over the previous term. There were unexpected reconstruction costs and disposal costs for fixed assets involved in the closing of the Ohmiya factory. There were also restoration costs associated with the Ibaraki factory, which was affected by the Great East Japan Earthquake. However, due to the income from the sale of the land where the Ohmiya factory stood, the consolidated income before income taxes was ¥1,007 million (US$12,109 thousand), a 75.3% increase from the previous term, and the consolidated net income was ¥649 million (US$7,810 thousand), an increase of 80.8% from the previous term.

The term-end dividend was ¥5.00 (US$0.06) and the interim dividend was ¥5.00 (US$0.06), totaling ¥10.00 (US$0.12) per share in dividend payouts for the term.

Future Focus

The Company, along with a large number of our clients, was adversely affected by the Great East Japan Earthquake. Many companies in the electronics, automobile, and food related industries were forced to halt operation. Moreover, the downturn in consumer confidence and summertime electricity conservation are causing a drastic change in the surrounding business environment. Under this austere situation, TERAOKA will continue to minimize the effect of the earthquake, and exploit markets in developing countries where there is high demand.

Furthermore, in March of 2011, we established PT. Teraoka Seisakusho Indonesia in the Republic of Indonesia to handle integrated manufacturing. This will allow us to focus on Asian markets such as China and the ASEAN countries whose economies continue to grow quickly, while also allowing us to lower our foreign exchange risk from the appreciating Yen, aide in the decentralization of our manufacturing base, and stabilize the sourcing of raw materials. This subsidiary is scheduled to begin operation in June 2012.

We will capture the demand for high-functional and high-value products in the home electronics industry, which is expected continue expanding. We will also concentrate on maximizing corporate value by supplying products with high competitiveness and by developing cutting-edge adhesive technology.

In addition, we would like to enhance our corporate compliance and environmental responsibility by establishing an internal control system to restrict the use of hazardous substances, and treatment of industrial waste.

During these endeavors, we continue to ask for the support and patronage of our shareholders, clients and friends.

June 24, 2011

K. Teraoka

Keishiro Teraoka,
President

REVIEW OF OPERATIONS

In September 2010 we closed our Ohmiya factory in order to rationalize operations and increase productivity at every level of our organization. Meanwhile, in March 2011 we established PT. Teraoka Seisakusho Indonesia, scheduled to begin operation in June 2012, to capture the rapidly increasing international demands, especially in the Asian region, and to decentralize the manufacturing bases.

During the term, TERAOKA released a non-halogen light-resistant tape, VOC (volatile organic compounds) reduction double-coated adhesive tape and electric insulation tape, electromagnetic shielding copper foil double-coated tape, electronic film double-coated tape, an improved version of the P-Cut Tape (polyethylene cloth adhesive tape) and other environmentally friendly products.

Research & development expenses for the term amounted to ¥970 million (US$11,666 thousand), accounting for 4.1% of total consolidated sales, a decrease of 4.9% over the previous period.

Consolidated net sales for the Company during this term amounted to ¥23,137 million (US$278,260 thousand). The performance of the individual product segments is detailed below.

Packing Tapes

Sales of packing tapes faced hard times due to the downturn in domestic demand. We have attempted to market our products in other fields, but the competition from the influx of low-priced products from overseas was apparent. As a result, consolidated sales for this product segment amounted to ¥4,430 million (US$53,277 thousand), a 3.5% decrease from the previous term. This division accounted for 19.2% of the total consolidated sales, a 0.8% decrease from the previous term.

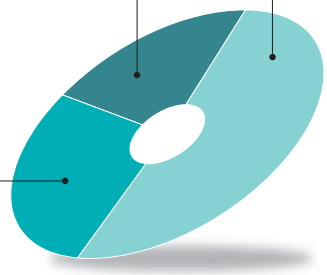
Electrical Insulation and Electronic Equipment Tapes

Sales of the Company's electrical insulation and electronic equipment tapes grew steadily during the first half of the fiscal term due to the rise in worldwide demand for cellular phones, computers, and other digital equipment. However, owing to the adjustments in consumer spending due to the rapid appreciation of the yen, sales were lower than expected. The sales of tapes used in automobiles increased in the first half of the term due to the tax exemption for eco-friendly cars, though it decreased in the second half. Overall, there was a substantial rise in sales in the East Asian region. Consequently, the consolidated net sales for this division amounted to ¥12,063 million (US$145,075 thousand), an increase of 2.3% over the previous term. This division accounted for 52.1% of total consolidated sales, 0.6% higher than the previous term.

BREAKDOWN OF SALES BY CATEGORY

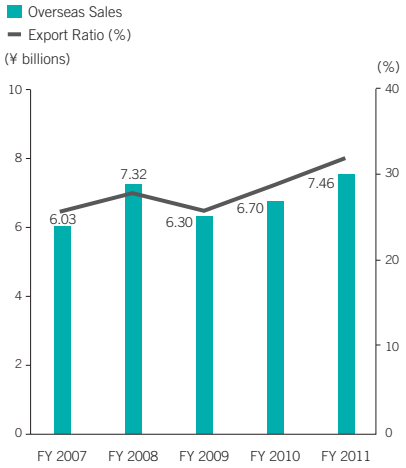
19.2% **Packing Tapes**
- Olive cloth tapes
- Kraft paper tapes
- Polypropylene cloth/film adhesive tapes

28.7% **Other Industrial Tapes**
- Double-coated adhesive tapes
- Corrosion-proof tapes
- Masking cloth tapes
- Surface protection tapes



52.1% **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

CHANGES IN OVERSEAS SALES



Other Industrial Tapes

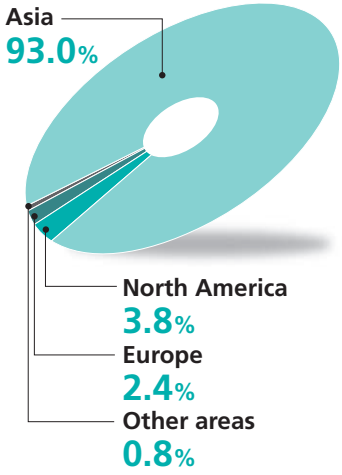
The construction industries showed continuous decline due to the slowing down of public projects. However, the sales of P-Cut Tapes (polyethylene cloth adhesive tapes) and curing tapes exceed the total sales of the previous term.

As a result, the consolidated net sales of industrial tapes amounted to ¥6,644 million (US$79,904 thousand), an increase of 1.9% over the previous term. This division accounted for 28.7% of total consolidated sales, 0.2% higher than the previous term.

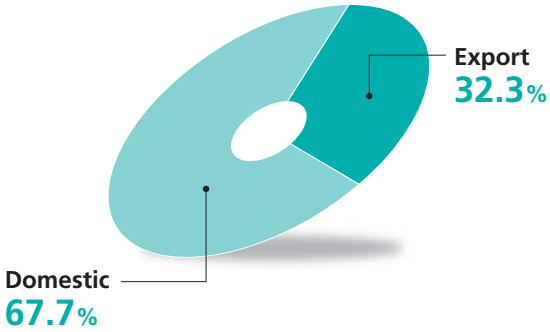
Overseas Sales

During the term, even with a sales decrease of 9.4% in packing tapes and 3.5% in industrial tapes, electrical insulation and electronic equipment tapes marked an increase of 13.3%, reflecting the growth in export to the Asian regions, while struggling against the appreciation of the yen. As a result, total overseas sales amounted to ¥7,462 million (US$89,741 thousand), an 11.3% increase over the previous term. Overseas sales accounted for 32.3% of TERAOKA's total consolidated sales, an increase of 3.0% over the previous term.

EXPORT MARKETS



EXPORT RATIO



Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED FIVE-YEAR SUMMARY

	Millions of yen					Thousands of U.S. dollars
Years ended March 31	2007	2008	2009	2010	**2011**	**2011**
Net Sales	¥23,536	¥25,945	¥23,833	¥22,909	**¥23,137**	**$278,260**
Operating Income	1,424	1,540	40	522	**598**	**7,193**
Income (Loss) before Income Taxes	2,004	1,155	(426)	575	**1,007**	**12,109**
Net Income (Loss)	1,242	758	(402)	359	**649**	**7,810**
Total Assets	32,271	32,696	31,849	32,098	**32,330**	**388,817**
Net Assets	24,472	24,343	23,416	23,669	**24,035**	**289,056**
Ratio (%)						
Operating Income to Net Sales	6.1	5.9	0.2	2.3	**2.6**	
Equity Ratio	75.8	74.5	73.5	73.7	**74.3**	
Return on Average Assets (ROA)	3.9	2.3	(1.2)	1.1	**2.0**	
Return on Average Stockholders' Equity (ROE)	5.1	3.1	(1.7)	1.5	**2.7**	
Per Share			Yen			U.S. dollars
Net Income (Loss)	¥62.12	¥37.93	¥(20.00)	¥17.93	**¥32.91**	**$0.40**
Cash Dividends	14.00	14.00	10.00	7.00	**10.00**	**0.12**

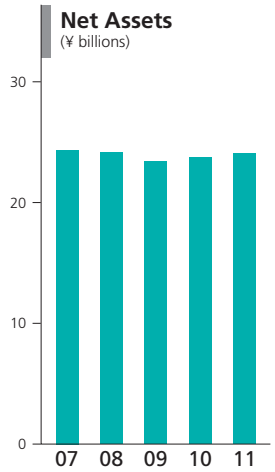
The U.S. dollars are translated at the rate of ¥83.15 per U.S.$1, prevailing on March 31, 2011.

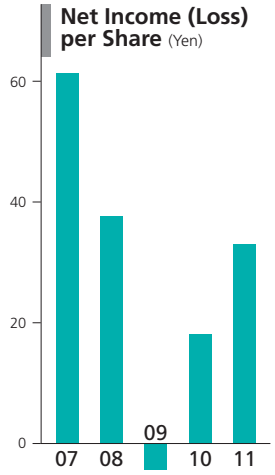
Financial Statements

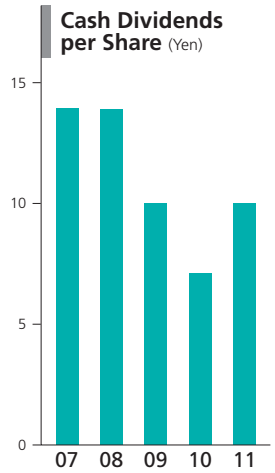
Fiscal Year 2011

Year ended March 31, 2011

FINANCIAL REVIEW







Business Performance

In comparison to the previous term, the Company's business environment was severe, due to protracted appreciation of the yen and the rise of prices for some raw materials. However, we made a concerted effort to increase sales of our core products as well as our new products, and we also promoted overseas sales. During the term, we closed our Ohmiya factory to rationalize operations and increase productivity at every level of our organization. Some of the machines in the Ibaraki factory were damaged by the Great East Japan Earthquake of March 11, 2011, and we allocated substantial restoration costs to the catastrophe reserve.

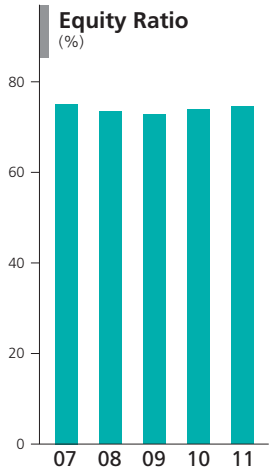
With the contribution of the increase in exports of our core products, electrical insulation and electronic equipment tapes to the Asian region, the consolidated net sales for the term in review were ¥23,137 million (US$278,260 thousand), an increase of 1.0% over the previous term. Consolidated operating income was ¥598 million (US$7,193 thousand), a 14.8% increase from the previous term. Consolidated income before income taxes was ¥1,007 million (US$12,109 thousand), a 75.3% increase from the previous term. The consolidated net income was ¥649 million (US$7,810 thousand), an increase of 80.8% from the previous term.

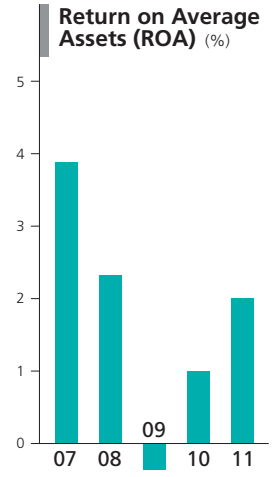
Segment Information

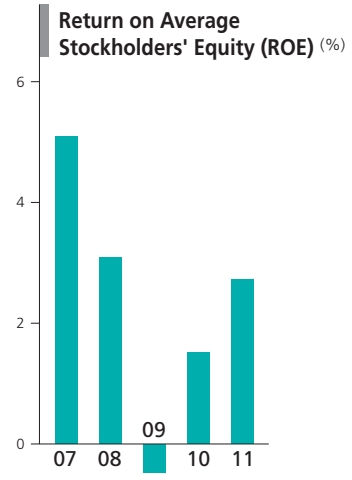
Sales for TERAOKA's packing tapes division remained severe, owing to a market contraction stemming from the continued stagnation of domestic demand. We have attempted to market our products in other fields, but the accelerating influx of low-priced products from overseas has made it challenging. Consolidated net sales for this segment were ¥4,430 million (US$53,277 thousand), a 3.5% decrease from the previous term. This division accounted for 19.2% of total consolidated sales, 0.8% lower than the previous term.

The Company's electrical insulation and electronic equipment tapes division saw improvement in sales in the first half of the term due to the steady increase in demand for cellular phones, computers, and other digital equipment. However, owing to the adjustments in consumer spending due to the rapid appreciation of the yen, sales were lower than our expectations. The sales of tapes used in automobiles also increased in the first half of the term due to a tax exemption for eco-friendly cars, though sales decreased in the second half. Overall, there was a substantial rise of sales in the East Asian region. In consequence, the consolidated net sales for this division amounted to ¥12,063 million (US$145,075 thousand), an increase of 2.3% over the previous term. This division accounted for 52.1% of total consolidated sales, 0.6% higher than the previous term.

The domestic construction industries showed continuous decline due to the slowing down of public projects. However, the sales of P-Cut tapes (polyethylene cloth tapes) and curing tapes exceeded the total sales of the previous term. As a result, the consolidated net sales of this division amounted to \6,644 million (US$79,904 thousand), an increase of 1.9% over the previous term. This division accounted for 28.7% of total consolidated sales, 0.2% higher than the previous term.







Financial Position

Total assets at the end of the fiscal term were ¥32,330 million (US$388,817 thousand), an increase of 0.7% or ¥232 million (US$2,790 thousand). The capital-to-asset ratio was 74.3%, up 0.6 points from the previous term.

Total current assets at the term-end amounted to ¥19,571 million (US$235,377 thousand), an increase of 11.8% or ¥2,063 million (US$24,811 thousand) when compared with the previous term-end, primarily owing to an increase of cash deposits.

Total fixed assets decreased by 12.6%, or ¥1,831 million (US$22,020 thousand), to ¥12,759 million (US$153,440 thousand) during the term. This is due to the decrease in physical fixed assets from the closure of the Ohmiya factory.

Total liabilities decreased 1.6%, or ¥134 million (US$1,612 thousand), to ¥8,295 million (US$99,761 thousand) during the term.

Total current liabilities increased by 1.8% or ¥105 million (US$1,263 thousand), amounting to ¥6,153 million (US$74,002 thousand) at term-end, owing to an increase of accrued income tax and other tax payments.

Total long-term liabilities decreased by 10.1% or ¥239 million (US$2,874 thousand) to ¥2,142 million (US$25,759 thousand), in part because of the decrease in long-term borrowings.

Total net assets increased by 1.5% or ¥366 million (US$4,402 thousand) to ¥24,035 million (US$289,056 thousand) due to the increase in income caused by the rebound in total sales for this term.

Cash Flows

Funds obtained through operating activities totaled ¥2,540 million (US$30,546 thousand), a decrease of 22.5% or ¥737 million (US$8,863 thousand) from the previous term. This was due mainly to the decrease in depreciation and amortization of ¥575 million (US$6,915 thousand) from the previous term.

Funds used for investment purposes amounted to ¥774 million (US$9,303 thousand). In the previous term there was a decrease of ¥1,543 million (US$18,557 thousand), but due primarily to revenue from the sale of the Ohmiya factory, these funds increased in the term under review.

Funds used for finance activities amounted to ¥675 million (US$8,117 thousand) during the term under review. In the previous term, we obtained ¥409 million (US$4,919 thousand) through these activities. Consequently the total amount decreased by ¥266 million (US$3,199 thousand) from the previous term. This was mainly due to the repayment of ¥500 million (US$6,013 thousand) in long-term borrowings.

Through these activities, consolidated cash and cash equivalents at the end of the term in review amounted to ¥10,021 million (US$120,519 thousand), an increase of ¥2,601 million (US$31,281 thousand) when compared with the end of the previous consolidated accounting term.

Dividends

TERAOKA considers the payment of dividends to its shareholders as one of our most important business functions, and we operate under a basic policy of continued stable dividend payments. After careful consideration of this term's business results, overall financial condition, cash flow, dividend propensity and future business forecasts, we have implemented a term-end dividend of ¥5 (US$0.06) per share and an interim dividend of ¥5 (US$0.06) per share, amounting to an annual dividend of ¥10 (US$0.12) per share.

Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
ASSETS			
Current Assets:			
Cash and time deposits	**¥ 10,021**	¥ 7,420	**$ 120,519**
Notes and accounts receivable:			
Trade	**5,888**	6,447	**70,812**
Less: Allowance for doubtful accounts (Note 2-g)	**(9)**	(12)	**(105)**
Inventories (Note 2-c)	**3,079**	3,205	**37,029**
Deferred income taxes (Note 2-f)	**298**	275	**3,582**
Other current assets	**294**	173	**3,540**
Total current assets	**19,571**	17,508	**235,377**
Property, Plant and Equipment (Note 2-d):			
Land	**3,733**	3,861	**44,892**
Buildings	**8,502**	8,992	**102,244**
Machinery and equipment	**22,308**	24,130	**268,289**
Construction in progress	**211**	131	**2,540**
	34,754	37,114	**417,965**
Less: Accumulated depreciation	**(24,268)**	(24,951)	**(291,854)**
Property, plant and eqipment, net	**10,486**	12,163	**126,111**
Intangible Assets	**76**	124	**915**
Investments and Other Assets:			
Investments in securities (Notes 2-b and 5)	**1,960**	2,102	**23,567**
Deferred income taxes (Note 2-f)	**53**	37	**640**
Other	**208**	195	**2,496**
Less: Allowance for doubtful accounts (Note 2-g)	**(24)**	(31)	**(289)**
Total investments and other assets	**2,197**	2,303	**26,414**
Total assets	**¥ 32,330**	¥ 32,098	**$ 388,817**

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

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Notes and accounts payable:			
Trade	**¥ 3,629**	¥ 3,879	**$ 43,647**
Short-term borrowings	**3**	3	**38**
Current portion of long-term borrowings	**500**	500	**6,013**
Accrued income taxes	**357**	31	**4,296**
Accrued expenses	**532**	606	**6,404**
Provision for loss on disaster (Note 2-h)	**103**	—	**1,236**
Other current liabilities	**1,029**	1,029	**12,368**
Total current liabilities	**6,153**	6,048	**74,002**
Long-term Liabilities:			
Long-term borrowings	**1,375**	1,875	**16,536**
Retirement & severance benenfits (Notes 2-i and 6)			
Employees	**438**	323	**5,267**
Deferred liabilities taxes (Note 2-f)	**18**	18	**222**
Asset retirement obligations (Note 2-m)	**166**	—	**2,001**
Negative Goodwill	**51**	76	**613**
Other	**94**	89	**1,120**
Total long-term liabilities	**2,142**	2,381	**25,759**
Total liabilities	**8,295**	8,429	**99,761**
NET ASSETS			
Stockholders' Equity:			
Common stock:			
Authorized: 80,000,000 shares			
Issued: 20,081,955 shares as of March 31, 2011 and 2010, respectively	**3,904**	3,904	**46,956**
Additional paid-in capital	**3,491**	3,491	**41,987**
Retained earnings	**16,741**	16,269	**201,333**
Less: Treasury stock, at cost	**(137)**	(136)	**(1,642)**
Total Stockholders' equity	**23,999**	23,528	**288,634**
Accumulated Other Comprehensive Income:			
Unrealized gains on securities (Notes 2-b and 5)	**252**	284	**3,031**
Foreign currency translation adjustments (Note 2-j)	**(217)**	(143)	**(2,609)**
Total accumulated other comprehensive income	**35**	141	**422**
Total net assets	**24,035**	23,669	**289,056**
Total liabilities and net assets	**¥32,330**	¥32,098	**$388,817**

Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Net Sales	**¥23,137**	¥22,909	**$278,260**
Cost of Sales	**17,597**	17,156	**211,630**
Gross profit	**5,540**	5,753	**66,630**
Selling, General and Administrative Expenses	**4,942**	5,231	**59,437**
Operating income	**598**	522	**7,193**
Other Income and Expenses:			
Interest and dividend income	**53**	55	**638**
Interest expenses	**(42)**	(49)	**(511)**
Loss on valuation of investment securities	**(10)**	—	**(116)**
Gain on sales of investment securities	**43**	14	**519**
Loss on sales of investment securities	**—**	(29)	**—**
Loss on disposal of property, plant and equipment	**(4)**	(22)	**(47)**
Foreign exchange gains (losses), net	**(118)**	(22)	**(1,420)**
Gain on allotment of shares	**16**	—	**194**
Gain on sales of land	**1,106**	—	**13,296**
Business structure improvement expenses	**(358)**	—	**(4,304)**
Loss on adjustment for changes of accounting standard for asset retirement obligations	**(177)**	—	**(2,124)**
Environmental expenses	**(26)**	—	**(309)**
Disaster loss	**(155)**	—	**(1,862)**
Other, net	**81**	106	**962**
	409	53	**4,916**
Income before income taxes	**1,007**	575	**12,109**
Income taxes:			
Current	**374**	58	**4,503**
Deferred	**(16)**	158	**(203)**
Total income taxes	**358**	216	**4,300**
Net income before minority interests	**649**	359	**7,810**
Net income	**¥ 649**	¥ 359	**$ 7,810**

	Millions of yen		Thousands of U.S. dollars
Consolidated Statement of Comprehensive Income	**2011**	2010	**2011**
Net income before minority interests	**¥ 649**	—	**$ 7,810**
Other Comprehensive Income			
Unrealized gains on securities	**(32)**	—	**(385)**
Foreign currency translation adjustments	**(74)**	—	**(886)**
Total other comprehensive income	**(106)**	—	**(1,271)**
Comprehensive Income	**544**	—	**6,539**
Total comprehensive income attributable to:			
Owners of the parent	**544**	—	**6,539**
Minority interests	**—**	—	**—**

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

Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Common Stock:			
Balance at beginning of year	**¥ 3,904**	¥ 3,904	**$ 46,956**
Issuance during the year	**—**	—	**—**
Balance at end of year	**3,904**	3,904	**46,956**
Additional Paid in Capital:			
Balance at beginning of year	**3,491**	3,491	**41,987**
Net sales treasury stock	**—**	—	**—**
Balance at end of year	**3,491**	3,491	**41,987**
Retained Earnings:			
Balance at beginning of year	**16,269**	16,031	**195,659**
Net Income	**649**	359	**7,810**
Cash dividends paid	**(177)**	(121)	**(2,136)**
Balance at end of year	**16,741**	16,269	**201,333**
Treasury Stock, at Cost:			
Balance at beginning of year	**(136)**	(1)	**(1,640)**
Purchase of treasury stock	**(1)**	(135)	**(2)**
Balance at end of year	**¥ (137)**	¥ (136)	**$ (1,642)**
Accumulated Other Comprehensive Income (Loss):			
Unrealized Gains on Securities:			
Balance at beginning of year	**284**	83	**3,415**
Net change during the year	**(32)**	201	**(384)**
Balance at end of year	**252**	284	**3,031**
Foreign Currency Translation Adjustments:			
Balance at beginning of year	**(143)**	(92)	**(1,723)**
Net change during the year	**(74)**	(51)	**(886)**
Balance at end of year	**(217)**	(143)	**(2,609)**
	Yen		U.S. dollars
Per Share of Common Stock			
Net income	**¥32.91**	¥17.93	**$0.40**
Cash dividends paid	**10.00**	7.00	**0.12**

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

Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Operating Activities:			
Net Income	**¥ 649**	¥ 359	**$ 7,810**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**1,859**	2,434	**22,355**
Allowance for doubtful accounts	**(10)**	2	**(126)**
Provision for retirement benefits	**115**	295	**1,378**
Deffered income taxes	**(16)**	157	**(203)**
Gain on sales of land	**(1,106)**	—	**(13,296)**
Business structure improvement expenses	**358**	—	**4,304**
Loss on disposal of property, plant and equipment	**—**	22	**—**
Loss (gain) on sales of investment securities	**(43)**	14	**(519)**
Loss (gain) on valuation of investment securities	**10**	—	**116**
Changes in assets and liabilities			
(Increase) decrease in notes and accounts receivable	**507**	(1,186)	**6,099**
(Increase) decrease in inventories	**116**	(20)	**1,393**
Increase (decrease) in notes and accounts payable	**(209)**	585	**(2,515)**
Increase (decrease) in accrued income taxes payable	**325**	132	**3,907**
Other, net	**(15)**	483	**(157)**
Total adjustment	**1,891**	2,918	**22,736**
Net cash provided by operating activities	**2,540**	3,277	**30,546**
Investing Activities:			
Payment for purchases of property, plant and equipment	**(516)**	(1,636)	**(6,203)**
Payment for purchases of intangible assets	**(3)**	(28)	**(32)**
Payment for purchases of investment in securities	**(3)**	(3)	**(35)**
Proceeds from sales of investment in securities	**141**	124	**1,695**
Proceeds from sales of land	**1,155**	—	**13,878**
Net cash used in investing activities	**774**	(1,543)	**9,303**
Financing Activities:			
Dividends paid	**(178)**	(120)	**(2,136)**
Increase (decrease) in short-term borrowings	**3**	(29)	**34**
Increase (decrease) in long-term borrowings	**(500)**	(125)	**(6,013)**
Other, net	**(0)**	(135)	**(2)**
Net cash used in financing activities	**(675)**	(409)	**(8,117)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(38)**	(31)	**(453)**
Net Increase (Decrease) in Cash and Cash Equivalents	**2,601**	1,294	**31,279**
Cash and Cash Equivalents at Beginning of Year	**7,420**	6,126	**89,240**
Cash and Cash Equivalents at End of Year	**¥10,021**	¥ 7,420	**$120,519**
Additional Cash flow information			
Interest paid	**42**	49	**511**
Income taxes paid	**¥ 50**	¥ (74)	**$ 596**

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, 2011 and 2010

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.

Under accounting standards generally accepted in Japan, a consolidated statement of comprehensive income is required from fiscal year ended March 31, 2011 and has been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheets and the consolidated statements of stockholders' equity. Information with respect to other comprehensive income for the year ended March 31, 2010 is disclosed in Note 7. In addition, "net income before minority interests" is disclosed in the consolidated statements of income from the year ended March 31, 2011.

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 ¥83.15= U.S.$1, the prevailing exchange rate on March 31, 2011.

2. Summary of Significant Accounting Policies

a. Consolidation

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

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, 2011 and 2010 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.

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.

e. Leased assets

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 depreciated on a straight-line basis, with lease period used as their useful lives and no residual value.

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. Provision for loss on disaster

The provision for loss on disaster is provided for payments of restoration costs on the Tohoku Earthquake at an amount estimated at the fiscal year-end.

i. 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.

j. 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.

k. Derivatives and hedge accounting

Derivative financial instruments are stated at fair value unless they are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

l. 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.

m. Changes in significant accounting policies: Adoption of accounting standard for asset retirement obligations

Effective the year ended March 31, 2011, the Company and its domestic subsidiaries have adopted "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, issued on March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, issued on March 31, 2008).

As a result of this adoption, income before income taxes decreased by ¥177 million (U.S.$2,124 thousand) for the year ended March 31, 2011.

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 ¥13 million (US$156 thousand) and ¥43 million at March 31, 2011 and 2010.

4. Financial Instruments

Overview

(1) Policy for financial instruments

The Company raises the funds by bank borrowings, and manages funds only through short-term time deposit and others. The Company uses derivatives for the purposes of managing foreign currency exchange risk related to trading receivables and payables, and does not enter into derivatives for speculative or trading purposes.

(2) Types of financial instruments and related risk

Trade receivables – notes receivable and accounts receivable – are exposed to credit risk in relation to customers. In addition, the Company is exposed to foreign currency exchange risk arising from receivables denominated in foreign currencies resulting from trade with overseas customers.

Equity securities – the Company holds equity securities, which are mainly issued by company who have business relationships with the Company, and these securities are exposed to the risk of fluctuation in market prices. Trade payables – notes payable and accounts payable – mostly have payment due dates within one year. A portion of trade payables, which is denominated in foreign currencies, is exposed to foreign currency exchange risk. Long-term debt is taken out principally for the purpose of capital expenditure. Long-term debt with interest rate fluctuation risks is carried out on fixed rate loans. Debt is exposed to liquidity risk relating to the funding as described below.

(3) Risk management for financial instruments

(a) Monitoring of credit risk (the risk that customers may default)

In accordance with the internal policies for managing credit risk of the Company, the Company monitors credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by customer.

To minimize the credit risk when entering into derivative transactions, counterparties are limited to financial institutions with high ratings.

(b) Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)

For equity securities included in investments in securities, the fair values of these securities are periodically reviewed and reported to the Board of Directors.

In conducting and managing derivative transactions, the accounting department confirm the effectiveness of hedging and obtain approval from the responsible person, depending on the notional contract value, based on the internal policies and formal regulations on market risk for financial instruments.

(c) Monitoring of liquidity risk for financing (the risk that the Company may not be able to meet its obligations on the scheduled due dates)

The Company manages the liquidity risk mainly through the monthly cash-flow plans, prepared by the Company.

(4) Supplementary explanation of the estimated fair value of financial instruments

The notional amounts of derivatives listed below are not necessarily indicative of the actual market risk involved in derivative transactions.

Estimated Fair Value of Financial Instruments

The carrying value of the financial instruments on the consolidated balance sheet as of March 31, 2011 and unrealized gain (loss) are shown in the following table. The table does not include financial instruments for which it is extremely difficult to determine the fair value. (Please refer to (2) below).

	Millions of yen		
	Carrying value	Estimate fair value	Difference
(1) Cash and deposits	¥10,021	¥10,021	¥—
(2) Notes and accounts receivable	5,888	5,888	—
(3) Marketable securities and investments in securities	1,941	1,941	—
(4) Notes and accounts payable	(3,629)	(3,629)	—
(5) Short-term debt	(3)	(3)	—
(6) Long-term debt	(1,875)	(1,897)	(22)
(7) Derivative transactions	—	—	—

(1) Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Cash and deposits and notes and accounts receivable
Since these items are settled in a short period, their carrying value approximates fair value.

Investment in securities
The fair value of equity securities is based on quoted market prices.

Notes and accounts payable and short-term debt
Since these items are settled in a short period of time, their carrying value approximates fair value.

Long-term debt
The fair value of long-term debt is based on the present value of the total amount including principal and interest, discounted by the expected interest rate to be applied if similar new loans with a similar remaining period were entered into.

(2) Financial instruments for which it is extremely difficult to determine the fair value were as follows:

As of March 31, 2011	Millions of yen
Unlisted equity securities	¥18

Because no quoted market prices are available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the preceding table.

(3) Redemption schedule for receivables and marketable securities with maturities at March 31, 2011

	Millions of yen
	Due in One Year or Less
Cash and deposits	¥10,021
Notes and accounts receivable	5,888
Marketable securities and investments in securities	—
Total	¥15,909

(4) The redemption schedule for short-term debt and long-term debt at March 31, 2011 and 2010 was as follows:

	Millions of yen		Average interest rates (%)
	2011	2010	**2011**
Short-term debt	**¥ 3**	¥ 3	4.3
Long-term debt	**1,375**	1,875	1.9
Current portion of long-term debt	**500**	500	1.9
Total	**¥1,878**	¥2,378	

The annual maturities of long-term debt for 5 years subsequent to March 31, 2011 are summarized below:

Year ending March 31,	Millions of yen
2012	¥500
2013	500
2014	500
2015	375

5. Securities

Historical costs, fair value and gross unrealized gains and losses for marketable securities as of March 31, 2011 and 2010 are as follows.

	Millions of yen				
	2011				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other securities:					
Equity securities	**¥1,517**	**¥1,941**	**¥423**	**¥536**	**¥(113)**
Other	**—**	**—**	**—**	**—**	**—**
Total	**¥1,517**	**¥1,941**	**¥423**	**¥536**	**¥(113)**

	Millions of yen				
	2010				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other securities:					
Equity securities	¥1,605	¥2,082	¥477	¥518	¥(41)
Other	—	—	—	—	—
Total	¥1,605	¥2,082	¥477	¥518	¥(41)

	Thousands of U.S. dollars				
	2011				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other securities:					
Equity securities	**$18,244**	**$23,343**	**$5,087**	**$6,446**	**$(1,359)**
Other	**—**	**—**	**—**	**—**	**—**
Total	**$18,244**	**$23,343**	**$5,087**	**$6,446**	**$(1,359)**

Securities that do not have fair values are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Equity securities	**¥18**	¥18	**$216**
Others	**—**	—	**—**
Total	**¥18**	¥18	**$216**

6. 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, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Benefit obligations	**¥(3,713)**	¥(3,839)	**$(44,654)**
Pension assets	**3,199**	3,199	**38,473**
Unrecognized actuarial differences	**76**	317	**914**
Prepaid retirement benefits cost in consolidated balance sheets	**—**	—	**—**
Provisions for retirement benefits	**438**	323	**5,268**

Employees' retirement benefit expenses for the years ended March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Service costs	**¥227**	¥213	**$2,730**
Interest costs	**76**	75	**914**
Expected return on pension assets	**(64)**	(57)	**(770)**
Amortization of unrecognized actuarial difference	**117**	347	**1,407**
Benefits expenses total	**¥356**	¥578	**$4,281**

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

	2011	2010
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

7. Comprehensive Income

Total comprehensive income for the year ended March 31, 2010 was as follows:

	Millions of yen
	2010
Total comprehensive income attributable to:	
Owners of the parents	¥508
Minority interests	—
Total comprehensive income	¥508

Other comprehensive income for the year ended March 31, 2010 consisted of the following:

	Millions of yen
	2010
Other comprehensive income:	
Unrealized gains on securities	¥201
Foreign currency translation adjustment	(52)
Total other comprehensive income	¥149

8. Subsequent Event

Appropriation of retained earnings

Subsequent to March 31, 2011, the Company's Board of Directors, with the approval of stockholders on June 24, 2011 declared a cash dividend of ¥99 million (US$1,186 thousand) equal to ¥5.00 (US$0.06) per share, applicable to earnings of the year ended March 31, 2011 and payable to stockholders on the stockholders' register on March 31, 2011.

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, 2010 and 2011, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended and consolidated statement of comprehensive income for the year ended March 31, 2011, 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, 2010 and 2011, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The accompanying consolidated financial statements as of and for the year ended March 31, 2011 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 24, 2011

Inoue Auditing Co., Inc.

COMPANY DATA

Company Outline

(as of March 31, 2011)

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
Incorporated	May 5, 1943
Paid-in Capital	¥3,904 million
Employees	552 (599 consolidated)

Board of Directors and Auditors

(as of June 24, 2011)

President	Keishiro Teraoka
Managing Directors	Kiyohiro Takagi Takeo Kawaguchi
Directors	Jun Watanabe Nobuo Ito Hiroyoshi Ohbori Tadashi Shirota Minoru Tanaka
Standing Corporate Auditor	Yutaka Nomiyama
Corporate Auditors	Motoaki Hattori Yoshiyasu Ito Kazunori Shimamoto
Operating Officers	Masao Mochizuki Taiji Namekawa

Consolidated Subsidiaries

Shin-ei Shoji Co., Ltd.	Tokyo, Japan
Teraoka Seisakusho (Hong Kong) Co., Ltd.	Hong Kong, China
Teraoka Seisakusho (Shanghai) Co., Ltd.	Shanghai, China
Teraoka Seisakusho (Shenzhen) Co., Ltd.	Shenzhen, China
PT. Teraoka Seisakusho Indonesia	Indonesia

R&D Center, Factories and Offices

R&D Center	Shinagawa-ku, Tokyo
Factories	
Ibaraki Factory	Kitaibaraki, Ibaraki Prefecture
Sano Factory	Sano, Tochigi Prefecture
Kannami Factory	Kannami-cho, Shizuoka Prefecture
Branch Offices	Tokyo, Osaka and Nagoya
Sales Offices	Sendai and Ohmiya

INVESTOR INFORMATION

Investor Information

(as of March 31, 2011)

Head Office	Teraoka Seisakusho Co., Ltd. 4-22, Hiromachi 1-chome,Shinagawa-ku, Tokyo 140-8711, Japan Telephone: 81-3-3491-1141 Facsimile: 81-3-3491-5316
Financial Year	April 1 to March 31
Common Stocks	Authorized Shares 80,000,000 Issued Shares 20,081,955
Stockholders	2,645
Stock Listing	Tokyo Stock Exchange, Second Section (Code: 4987)
Transfer Agency	Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan

Major Stockholders

Stockholders	Number of shares (thousand shares)	Ratio of share holding (%)
Customers' Stockholding Group	2,069	10.49
Keishiro Teraoka	883	4.48
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	818	4.15
Resona Bank, Ltd.	678	3.44
The Nomura Trust and Banking Co., Ltd. (Trust Account)	605	3.07
Japan Trustee Services Bank, Ltd. (Trust Account)	537	2.72
Kuniko Teraoka	526	2.67
Employees' Stockholding Group	494	2.51
Trust & Custody Services Bank, Ltd. (Trust Account)	328	1.66
Citigroup Global Markets Inc. — Securities Safekeeping Account 418	277	1.41

TERAOKA

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