TERAOKA

Annual Report 2014

Year ended March 31, 2014

TERAOKA SEISAKUSHO CO., LTD.

PROFILE

Teraoka Seisakusho Co., Ltd. was established in 1921 and has since grown into a leading manufacturer of highly functional packing, electrical insulation, electronic equipment, other industrial and general home-use adhesive tapes.

TERAOKA's P-Cut Tape (polyethylene cloth adhesive tape) remains a customer favorite due to its ease of use, as no scissors are required to cut it.
It has been improved since its launch in 1994 and with additions to the line-up, it has become one of the defining products for our company. Customers like that it can be simply torn, it doesn't leave significant adhesive marks and its compact size, making it widely used not only in curing on building sites, but also in households for packages and moving. Sales of this product have improved for the second consecutive year. The future evolution of P-Cut Tape will be something to watch.

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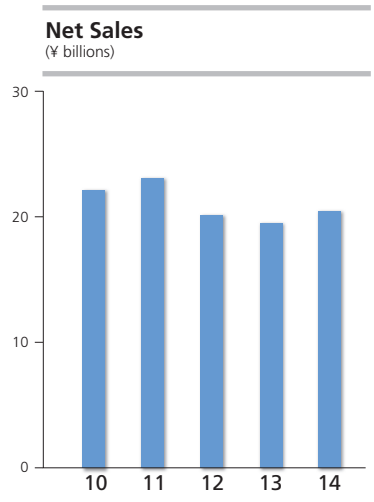
For the years ended March 31,

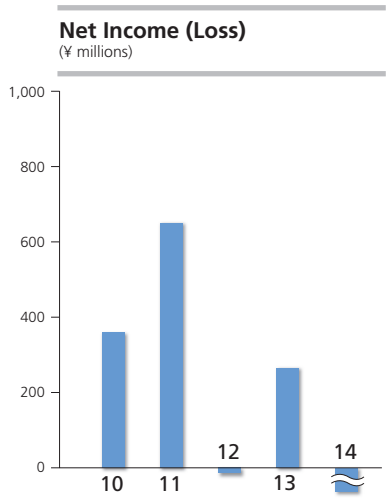
	Millions of yen		Thosands of U.S. dollars
	2014	2013	**2014**
Net Sales	**¥20,529**	¥19,935	**$199,462**
Operating Loss	**(105)**	(92)	**(1,025)**
Income (Loss) before Income Taxes	**(794)**	674	**(7,715)**
Net Income (Loss)	**(924)**	263	**(8,978)**
Total Assets	**32,596**	33,647	**316,717**
Net Assets	**26,277**	26,670	**255,317**

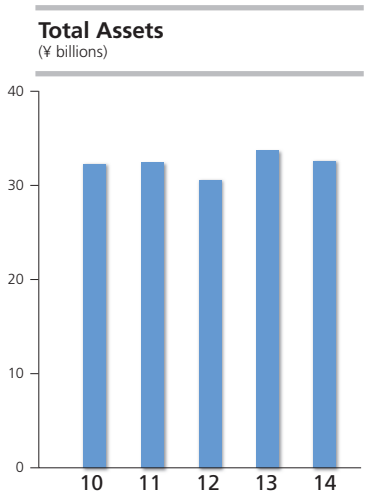
Ratio (%)		
Operating Loss to Net Sales	**(0.5)**	(0.5)
Equity Ratio	**80.6**	79.3
Return on Average Assets (ROA)	**(2.8)**	0.8
Return on Average Stockholders' Equity (ROE)	**(3.5)**	1.0

Per Share	Yen		U.S. dollars
Net Income (Loss)	**¥(35.09)**	¥9.99	**$(0.34)**
Cash Dividends	**10.00**	10.00	**0.10**

The U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥102.92 = U.S.$1, the rate prevailing on March 31, 2014.







TO OUR STOCKHOLDERS

Keishiro Teraoka,
President

Results for FY 2014

We report to you the business summary of the 2014 Fiscal Year, the period ending March 31, 2014, TERAOKA's 104th business term.

Along with the continuing development of new competitive products from the previous term, the Company and Group reviewed sales strategy and yield improvement from manufacturing technology reform, and focused on gaining new clients thanks to our cooperation with ITOCHU Corperation. Our Indonesian manufacturing subsidiary has entered its second year, and apart from greatly increasing production volume and items, quality has been steadily improving. Because of company-wide efforts to improve business, sales gradually improved during the beginning of the financial year.

The consolidated net sales for this term were ¥20,529 million (US$199,462 thousand), a 3.0% increase on the previous term. As for operating profit/loss, through streamlining and efficiency improvements of manufacturing processes, reduction in the cost of sales, and efforts to review expenses, operating income for individual operating results improved, but because of the costs relating to increasing production at the Indonesian manufacturing subsidiary, the consolidated operating loss is ¥105 million (US$1,025 thousand). The consolidated operating loss for the previous term was ¥92 million (US$894 thousand). Due to the foreign exchange profit calculated at the end of the term, consolidated loss before income taxes was ¥794 million (US$7,715 thousand). Also, as a result of calculating ¥1,383 million (US$13,439 thousand) as impairment loss regarding the adhesive tape manufacturing facilities of the advanced precision production and clean functionality at the Ibaraki factory in order to maintain a healthy business structure, the consolidated net loss for the period was ¥924 million (US$8,978 thousand).

The end of term dividend was distributed at ¥5.00 (US$0.05) per share and the mid-term dividend preceding it was also ¥5.00 (US$0.05) per share for a total of ¥10.00 (US$0.10) per share in annual dividends.

Problem Prevention

The Company and Group consider the following to be the most important challenges.

1. Enhance business base and reduce costs

Along with efficiently and consistently managing the logistics process and sales after product procurement, keeping an appropriate inventory, restructuring to meet the size of the business, and building a stronger business base, there will also be costs reductions.

2. Product development

By pursuing features such as usability, convenience and functionality expected of adhesive tape and soon releasing new and competitive products on to the market, we will increase our profit margin.

3. Stabilizing and expansion of Indonesian manufacturing subsidiary

The Indonesian manufacturing subsidiary has entered its second year since the start of full production, and production volume and items have been steadily increasing, but personnel and financial support from Japan is still necessary. We will continue to push education and training and by improving these resources on-site and continue to nurture the subsidiary so that it can contribute to profit in the consolidate accounting in the near future.

4. Human resource development

By raising the bar of capabilities of individual employees through in-house training, OJT review and self-development and training employees to increase their corporate value, we will build an organization structure that can survive global competition.

Future Focus

With regard to next term's outlook, there are concerns such as the slowdown in consumer spending due to an increase in consumption tax and the impact on the domestic economy of the downturn in overseas economies. Amidst this business environment, apart from further improvements in quality by achieving stability and expanding operations of the Indonesian manufacturing subsidiary, the Company and Group will continue to strengthen rationalization investment and mix profitability with the goal of business recovery. With regard to sales, we will enhance sales activities to create demand domestically and overseas, and soon introduce high-quality and unique new products to the market, as well as respond to customer needs.

We would like to take this opportunity to express our sincere gratitude to our shareholders for their continued patronage and support.

June 26, 2014

Keishiro Teraoka,
President

REVIEW OF OPERATIONS

In order to continue developing high-performance and high-value products that meet the needs of the market, through a sophisticated, market-orientated development system and an improvement of joint development with end users, our Company and Group's R&D will be more active in cutting-edge fields.

New achievements for the Company and Group in this fiscal year have been the continued success of polyester film adhesive tape and waterproof thin foam double face adhesive tape, that are used to fix various components in smartphones and tablets etc., Kapton® film adhesive tape, various types of aluminum foil conductive adhesive tape and flame retardant double-coated thermal conductive adhesive tape. Also, with considerations for recyclability and sick house syndrome, low-VOC (solvent free) removable double-coated adhesive tape, polythene cloth adhesive tape for harness fixing and film masking tape were put on the market and we expect these products to find footing in a wide range of industries.

Total R&D costs in this consolidated accounting period were ¥855 million (US$8,307 thousand) and the consolidated sales ratio was 4.2%. This is a decrease of 0.2 points from the previous term.

Consolidated sales for the Company and Group were ¥20,529 million (US$199,462 thousand), which we have broken down by product segment below.

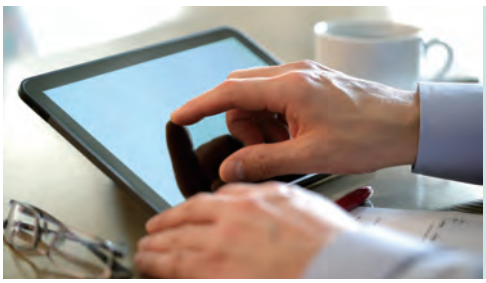
Packing Tapes

Regarding the Packing Tapes division, shipments of the Indonesian manufacturing subsidiary have increased significantly and market penetration has been growing steadily. There was a reduction in demand during the first half of the year, but this gradually recovered in the second half. There was also a surge in demand before the tax increases and an increase in consumer cloth tape sales. Consolidated sales for this product segment increased by 0.2% over the previous term to ¥4,059 million (US$39,434 thousand). This segment accounts for 19.8% of total consolidated sales and decreased by 0.6 points under the previous term.

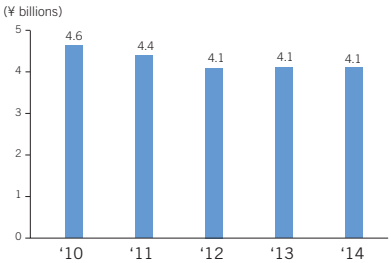
Electrical Insulation and Electronic Equipment Tapes

With regards to the Electrical Insulation and Electronic Equipment Tapes segment, we will first consider electric tape. Electric tape is relatively steady for automobiles and industrial machinery etc., but we continue to face difficult times due to the price competition with overseas tape manufacturers. Electronic tape continued to experience low sales of digital consumer adhesive tape in the first half of the year. However not only did demand decrease in the second half of the year, the result of work in launching new promising products and sales activities of new products, resulted in us seeing the first signs of recovery.

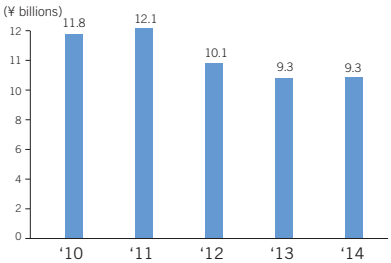
As a result, consolidated sales for this product segment increased by 0.1% over the previous term to ¥9,346 million (US$90,812 thousand). This segment's consolidated sales account ratio was 45.5%, and increased by 1.3 points over the previous term.



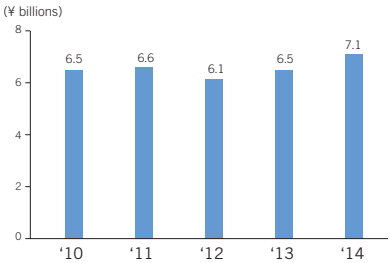
Sales of Packing Tapes



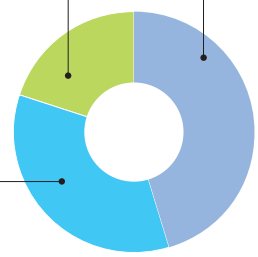
Sales of Electrical Insulation and Electronic Equipment Tapes



Sales of Other Industrial Tapes



BREAKDOWN OF SALES BY CATEGORY



Other Industrial Tapes

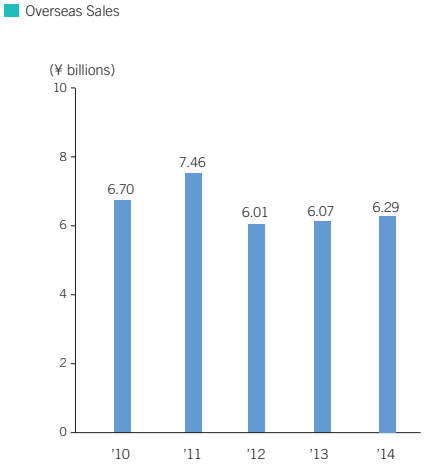
With regards to the Other Industrial Tapes segment, because of a boom in the residential construction industry and an increase in public works, there has been significant growth in polyethylene cloth adhesive tape (P-Cut Tape) and curing cloth tape. The annual sales volume of P-Cut Tape continued to grow last year and hit a record high.

As a result, consolidated sales for this product segment increased by 8.8% over the previous term to ¥7,124 million (US$69,217 thousand). The segment's consolidated sales account for 34.7% and increased by 1.9 points over the previous term.

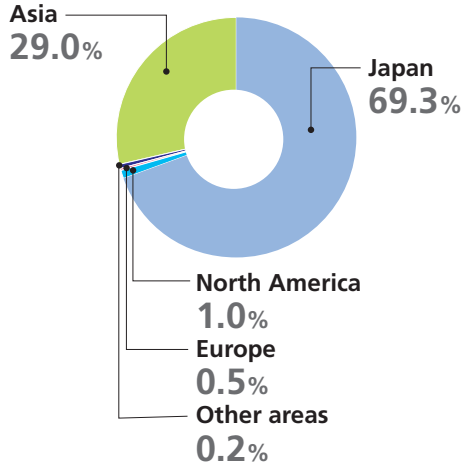
Overseas Sales

Regarding overseas sales for this term, through cooperation with ITOCHU we have continued to gain new clients in Europe, and North and South America. In Asia, we established our Seoul branch and a new representative office in Taiwan in February 2013. They have focused on sales activities to local electrical manufacturers, and immediately responding to local Japanese manufacturers and in the area of automotive adhesive tape, there has be a recovery in the market, so sales have remained strong. However, due to manufacturing adjustments of mobile phone manufacturers, it was not possible to meet our initial estimates. Compared to the previous term packaging tapes increased 14.1% and electrical insulation and electronic equipment tapes increased 1.4%, both an improvement on the previous term. Industrial tapes increased by 22.3% on the previous term. Gross export value was ¥6,293 million (US$61,144 thousand), a 3.6% increase over the previous term. Gross export value makes up 30.7% of total consolidated sales and increased 0.2 points compared to the previous term.

CHANGES IN OVERSEAS SALES



GEOGRAPHICAL SALES MARKETS



Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED FIVE-YEAR SUMMARY

	Millions of yen					Thousands of U.S. dollars
Years ended March 31	2010	2011	2012	2013	**2014**	**2014**
Net Sales	¥22,909	¥23,137	¥20,333	¥19,935	**¥20,529**	**$199,462**
Operating Income (Loss)	522	598	(168)	(92)	**(105)**	**(1,025)**
Income (Loss) before Income Taxes	575	1,007	(119)	674	**(794)**	**(7,715)**
Net Income (Loss)	359	649	(138)	263	**(924)**	**(8,978)**
Total Assets	32,098	32,330	30,434	33,647	**32,596**	**316,717**
Net Assets	23,669	24,035	23,838	26,670	**26,277**	**255,317**
Ratio (%)						
Operating Income to Net Sales	2.3	2.6	(0.8)	(0.5)	**(0.5)**	
Equity Ratio	73.7	74.3	78.3	79.3	**80.6**	
Return on Average Assets (ROA)	1.1	2.0	(0.4)	0.8	**(2.8)**	
Return on Average Stockholders' Equity (ROE)	1.5	2.7	(0.6)	1.0	**(3.5)**	
Per Share	Yen					U.S. dollars
Net Income (Loss)	¥17.93	¥32.91	¥(7.02)	¥9.99	**¥(35.09)**	**$(0.34)**
Cash Dividends	7.00	10.00	10.00	10.00	**10.00**	**0.10**

The U.S. dollars are translated at the rate of ¥102.92 per U.S.$1, prevailing on March 31, 2014.

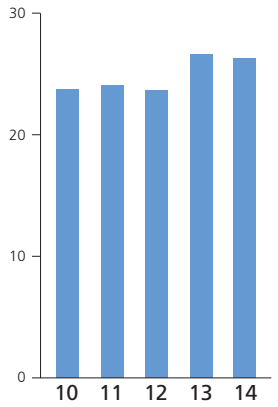
Financial Statements

Fiscal Year 2014

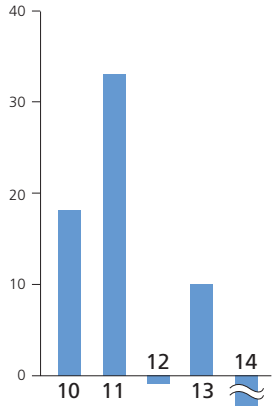
Year ended March 31, 2014

FINANCIAL REVIEW

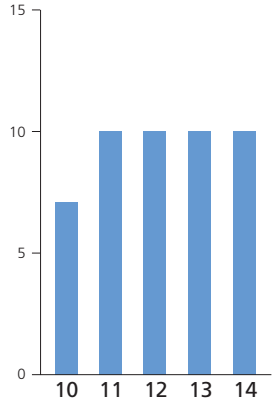
Net Assets
(¥ billions)



Net Income (Loss) per Share (Yen)



Cash Dividends per Share (Yen)



Business Performance

There was concern about the Japanese economy because of the downturn in the world economy from the slow down of emerging markets against the backdrop reduction of monetary easing in the United States. However, despite this, there has been an increase in business confidence as a result of a series of economic measures implemented by the government, an improved export environment due to the weakening of the yen, and an increase in stock prices, which have meant that the economy has managed to maintain its gradual recovery.

In the current fiscal year, the Company and Group, besides continuing to work on the development of new competitive products, has also reviewed sales strategy and yield improvement through improving manufacturing technology, establishing an efficient management system and cultivating new clients through its cooperation with ITOCHU. This is the second year that the Indonesian manufacturing subsidiary has been operating. Apart from greatly increasing manufacturing volume and items, it has also steadily improved quality. Through company-wide efforts for business recovery, sales gradually improved in the first half of the fiscal year.

As a result, consolidated net sales for this term were ¥20,529 million (US$199,462 thousand), a 3.0% increase from the previous term. Consolidated operating loss was subsequently ¥105 million (US$1,025 thousand). This was because of costs for the increased production of the Indonesian manufacturing subsidiary, despite there being a reduction in sales costs through the streamlining and efficiency improvements of the manufacturing process and a review of expenses that led to an improvement of operating income in individual operating results. The consolidated loss before income taxes was ¥794 million (US$7,715 thousand).

In addition, to maintain a healthy business structure, ¥1,383 million (US$13,439 thousand) was calculated as an impairment loss in relation to adhesive tape manufacturing facilities for high precision and clean performance at the Ibaraki plant. As a result of this, the consolidated net loss was ¥924 million (US$8,978 thousand).

Segment Information

Regarding the Packing Tapes division, shipments of the Indonesian manufacturing subsidiary have increased significantly and market penetration has been growing steadily. In the first half of the year there was a delay in the impact of the economic recovery in the logistics market, and so demand was slow, including in the mail order field, which has been a growing market, but in the second half of the year, there was steady improvement and there was a sudden demand before the tax increase in the mail order and construction markets, and there was also an increase in consumer cloth tape sales.

Consolidated sales for this product segment increased by 0.2% over the previous term to ¥4,059 million (US$39,434 thousand). This segment accounts for 19.8% of total consolidated sales and decreased by 0.6 points over the previous term.

With regards to the Electrical Insulation and Electronic Equipment Tapes segment, we will first consider electric tape. Electric tape is relatively stable for automobiles and industrial machinery etc., but we continue to face difficult times due to the price competition with overseas tape manufacturers. Electronic tape continued to experience low sales of digital consumer adhesive tape in the first half of the year. However not only did demand increase in the second half of the year, the result of work in launching new promising products and sales activities of new products, resulted in us seeing the first signs of recovery. Tape for mobile phones was impacted by the manufacturing adjustments made by mobile phone manufacturers, and demand continues to seesaw, but because of steady business activities with domestic and overseas manufacturers, sales have steadily been recovering.

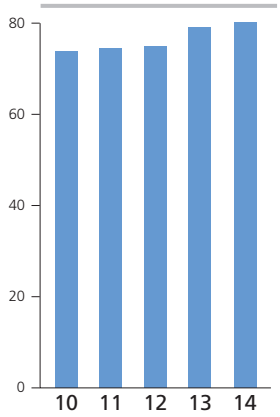
Consolidated sales for this product segment increased by 0.1% under the previous term to ¥9,346 million (US$90,812 thousand). This segment's consolidated sales ratio was 45.5% and increased by 1.3 points under the previous term.

Regarding the Other Industrial Tapes segment, due to the increase in public works and an active residential construction industry, P-Cut Tape and curing cloth tape sales have greatly

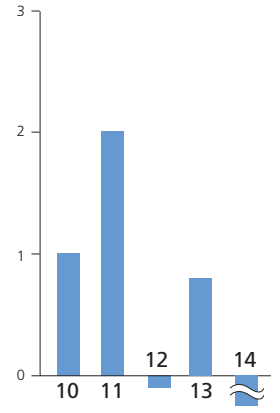
increased, especially in mail-order. There was a surge in demand before the increase in consumption tax at the end of the fiscal year, and the annual sales volume of P-Cut Tape hit a record high last year.

Consolidated sales for this product segment increased by 8.8% over the previous term to ¥7,124 million (US$69,217 thousand). This segment's consolidated sales account for 34.7%, and increased by 1.9 points over the previous term.

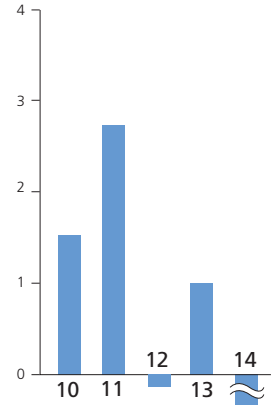
Equity Ratio (%)



Return on Average Assets (ROA) (%)



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



Financial Position

Total assets for the end of year consolidated accounting decreased by 3.1% or ¥1,051 million (US$10,212 thousand) under the previous end of year consolidated accounting to ¥32,596 million (US$316,717 thousand).

Total current assets for the end of year increased by 0.2% or ¥42 million (US$408 thousand) over the previous end of year consolidated accounting to ¥17,057 million (US$165,731 thousand). This was mainly due to an increase in inventory.

Total fixed assets for the end of year consolidated accounting decreased 6.5% or ¥1,093 million (US$10,620 thousand) under the previous end of year consolidated accounting to ¥15,539 million (US$150,986 thousand). This was mainly due to impairment loss.

Total liabilities for the end of year consolidated accounting decreased 9.4% or ¥658 million (US$6,393 thousand) under the previous end of year consolidated accounting to ¥6,319 million (US$61,400 thousand). Out of this, total current liabilities decreased by 1.0% or ¥60 million (US$583 thousand) under the previous end of term to ¥5,674 million (US$55,130 thousand). This was mainly due to a decrease in accrued tax payable. Total long-term liabilities for the end of the term decreased 48.1% or ¥598 million (US$5,810 thousand) under the previous end of year consolidated accounting to ¥645 million (US$6,270 thousand). This was mainly due to the repayment of long-term debt.

Total net assets for the end of year consolidated accounting decreased 1.5% or ¥393 million (US$3,818 thousand) under the previous end of year consolidated accounting to ¥26,277 million (US$255,317 thousand). This was mainly due to a decrease in retained earnings.

The result of these figures is a capital-to-asset ratio of 80.6%, an increase of 1.3 points from the previous term.

Cash Flows

Capital from operating activities increased by ¥349 million (US$3,399 thousand). This increase in the current term was mainly due to an increase in accounts payable.

Cash flow used for investment activities reduced by ¥363 million (US$3,532 thousand). In the previous term activities there was a ¥2,544 million (US$24,718 thousand) decrease in capital. The main factor for this in this term was expenditure for acquisition of tangible fixed assets.

There was ¥763 million (US$7,418 thousand) decrease in capital from financial activities. There was a decrease of ¥1,561 million (US$15,167 thousand) in used capital from the previous accounting year. The main factor for this was the repayment of long-term borrowings.

From these activities, consolidated cash and cash equivalents for end of year consolidated accounting were ¥6,361 million (US$61,802 thousand), a decrease of ¥643 million (US$6,248 thousand) compared to the previous year end consolidated accounting.

Dividends

TERAOKA considers the payment of dividends to its shareholders as one of our most important business issues, and we operate under a basic policy of continued stable dividend payments.

The end of term dividend was ¥5.00 (US$0.05) and combined with the previously distributed interim dividend of ¥5.00 (US$0.05) per share, makes the total annual dividends ¥10.00 (US$0.10) per share.

Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
ASSETS			
Current Assets:			
Cash and time deposits	¥ 6,440	¥ 7,004	$ 62,576
Notes and accounts receivable:			
Trade	5,968	5,803	57,986
Less: Allowance for doubtful accounts (Note 2-h)	(8)	(10)	(78)
Inventories (Note 2-c)	4,027	3,424	39,123
Deferred income taxes (Note 2-g)	292	310	2,839
Other current assets	338	484	3,285
Total current assets	17,057	17,015	165,731
Property, Plant and Equipment (Note 2-d):			
Land	4,021	4,033	39,069
Buildings	11,268	11,036	109,486
Machinery and equipment	24,257	24,093	235,691
Construction in progress	54	57	524
	39,600	39,219	384,770
Less: Accumulated depreciation	(27,691)	(25,457)	(269,055)
Property, plant and equipment, net	11,909	13,762	115,715
Intangible Assets	192	70	1,868
Investments and Other Assets:			
Investments in securities (Notes 2-b and 5)	3,161	2,489	30,710
Deferred income taxes (Note 2-g)	9	9	83
Net defined benefit asset	21	—	205
Other	249	304	2,421
Less: Allowance for doubtful accounts (Note 2-h)	(2)	(2)	(16)
Total investments and other assets	3,438	2,800	33,403
Total assets	¥ 32,596	¥ 33,647	$ 316,717

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

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Notes and accounts payable:			
Trade	¥ 4,015	¥ 3,645	$ 39,013
Short-term borrowings	4	4	40
Current portion of long-term borrowings	375	500	3,644
Accrued income taxes	115	329	1,117
Accrued expenses	530	566	5,153
Other current liabilities	635	690	6,163
Total current liabilities	5,674	5,734	55,130
Long-term Liabilities:			
Long-term borrowings	—	375	—
Provision for retirement benefits (Notes 2-i and 6)			
Employees	—	405	—
Net defined benefit liability	25	—	249
Deferred liabilities taxes (Note 2-g)	327	160	3,178
Asset retirement obligations	177	171	1,719
Other	116	132	1,124
Total long-term liabilities	645	1,243	6,270
Total liabilities	6,319	6,977	61,400
NET ASSETS			
Stockholders' Equity:			
Common stock:	5,057	5,057	49,136
Authorized: 80,000,000 shares			
Issued: 26,687,955 shares as of March 31, 2014 and 26,687,955 shares as of March 31, 2013, respectively			
Additional paid-in capital	4,644	4,644	45,122
Retained earnings	15,251	16,438	148,178
Less: Treasury stock, at cost	(137)	(136)	(1,329)
Total Stockholders' equity	24,815	26,003	241,107
Accumulated other comprehensive income			
Unrealized gains on securities (Notes 2-b and 5)	1,122	641	10,904
Foreign currency translation adjustments (Note 2-j)	168	26	1,633
Remeasurements of defined benefit plans	172	—	1,673
Total accumulated other comprehensive income	1,462	667	14,210
Total net assets	26,277	26,670	255,317
Total liabilities and net assets	¥32,596	¥33,647	¥316,717

Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Net Sales	¥20,529	¥19,935	$199,462
Cost of Sales	16,218	15,678	157,578
Gross profit	4,311	4,257	41,884
Selling, General and Administrative Expenses	4,416	4,349	42,909
Operating loss	(105)	(92)	(1,025)
Other Income and Expenses:			
Interest and dividend income	72	66	702
Interest expenses	(14)	(23)	(132)
Loss on disposal of property, plant and equipment	(2)	(5)	(19)
Loss on abandonment of inventories	—	(115)	—
Foreign exchange gains, net	611	794	5,939
Impairment loss	(1,383)	—	(13,439)
Other,net	27	49	259
	(689)	766	(6,690)
Income (Loss) before income taxes	(794)	674	(7,715)
Income taxes:			
Current	296	348	2,877
Deferred	(166)	63	(1,614)
Total income taxes	130	411	1,263
Net income (loss) before minority interests	(924)	263	(8,978)
Net income (loss)	¥ (924)	¥ 263	$ (8,978)

Per Share	Yen		U.S. dollars
Per share of common stock			
Net income (loss)	¥(35.09)	¥ 9.99	$(0.34)
Cash dividends	10.00	10.00	0.10

	Millions of yen		Thousands of U.S. dollars
Consolidated Statement of Comprehensive Income	2014	2013	2014
Net income (loss) before minority interests	¥(924)	263	$(8,978)
Other Comprehensive Income			
Unrealized gains on securities	481	238	4,672
Foreign currency translation adjustments	142	254	1,382
Total other comprehensive income	623	492	6,054
Comprehensive Income	(301)	755	(2,924)
Total comprehensive income attributable to:			
Owners of the parent	(301)	755	(2,924)
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, 2014 and 2013

	Millions of yen									
	Stockholders' Equity					Accumulated Other Comprehensive Income				
	Common Stock	Additional Paid in Capital	Retained Earnings	Treasury Stock, at Cost	Total Stockholders' Equity	Unrealized Gains on Securities	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income	Total Net Assets
Balance at April 1, 2012	¥3,904	¥3,491	¥16,405	¥(136)	¥23,664	¥ 403	¥(229)	¥ —	¥ 174	¥23,838
Issuance of new Stock	1,153	1,153	—	—	2,306	—	—	—	—	2,306
Cash dividends paid	—	—	(230)	—	(230)	—	—	—	—	(230)
Net income (loss)	—	—	263	—	263	—	—	—	—	263
Purchase of treasury stock	—	—	—	(0)	(0)	—	—	—	—	(0)
Net changes of items other than Stockholders' equity	—	—	—	—	—	238	254	—	492	492
Total changes of items during the period	1,153	1,153	33	(0)	2,339	238	254	—	492	2,831
Balance at March 31, 2013	¥5,057	¥4,644	¥16,438	¥(136)	¥26,003	¥641	¥26	—	¥667	¥26,670
Balance at April 1, 2013	¥5,057	¥4,644	¥16,438	¥(136)	¥26,003	¥641	¥26	—	¥667	¥26,670
Issuance of new Stock	—	—	—	—	—	—	—	—	—	—
Cash dividends paid	—	—	(263)	—	(263)	—	—	—	—	(263)
Net income (loss)	—	—	(924)	—	(924)	—	—	—	—	(924)
Purchase of treasury stock	—	—	—	(1)	(1)	—	—	—	—	(1)
Net changes of items other than Stockholders' equity	—	—	—	—	—	481	142	172	795	795
Total changes of items during the period	—	—	(1,187)	(1)	(1,188)	481	142	172	795	(393)
Balance at March 31, 2014	¥5,057	¥4,644	¥15,251	¥(137)	¥24,815	¥1,122	¥ 168	¥172	¥1,462	¥26,277

	Thousands of U.S. dollars									
	Stockholders' Equity					Accumulated Other Comprehensive Income				
	Common Stock	Additional Paid in Capital	Retained Earnings	Treasury Stock, at Cost	Total Stockholders' Equity	Unrealized Gains on Securities	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income	Total Net Assets
Balance at April 1, 2013	$49,136	$45,122	$159,715	$(1,328)	$252,645	$ 6,232	$ 251	$ —	$ 6,483	$259,128
Issuance of new Stock	—	—	—	—	—	—	—	—	—	—
Cash dividends paid	—	—	(2,559)	—	(2,559)	—	—	—	—	(2,559)
Net income (loss)	—	—	(8,978)	—	(8,978)	—	—	—	—	(8,978)
Purchase of treasury stock	—	—	—	(1)	(1)	—	—	—	—	(1)
Net changes of items other than Stockholders' equity	—	—	—	—	—	4,672	1,382	1,673	7,727	7,727
Total changes of items during the period	—	—	(11,537)	(1)	(11,538)	4,672	1,382	1,673	7,727	(3,811)
Balance at March 31, 2014	$49,136	$45,122	$148,178	$(1,329)	$241,107	$10,904	$1,633	$1,673	$14,210	$255,317

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, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Operating Activities:			
Income (loss) before income taxes	¥ (794)	¥ 674	$ (7,715)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,170	1,216	11,366
Impairment loss	1,383	—	13,439
Increase (decrease) in allowance for doubtful accounts	(2)	(2)	(20)
Increase (decrease) in net defined benefit liability	(133)	—	(1,289)
Interest and dividend income	(72)	(66)	(702)
Interest expenses	14	23	132
Foreign exchange losses (gains)	(537)	(603)	(5,215)
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable	(161)	152	(1,561)
(Increase) decrease in inventories	(576)	(194)	(5,600)
Increase (decrease) in notes and accounts payable	354	534	3,443
Increase (decrease) in accrued consumption taxes	(53)	53	(512)
Other, net	208	(206)	2,020
Subtotal	801	1,581	7,786
Interest and dividends income received	72	66	702
Interest expenses paid	(14)	(23)	(132)
Income taxes (paid) refund	(510)	132	(4,957)
Net cash provided by operating activities	349	1,756	3,399
Investing Activities:			
Payment for purchases of property, plant and equipment	(195)	(2,496)	(1,894)
Payment for purchases of intangible assets	(154)	(45)	(1,500)
Payment for purchases of investment in securities	(2)	(3)	(24)
Proceeds from sales of investment securities	68	—	660
Decrease (increase) in time deposits	(80)	—	(774)
Net cash used in investing activities	(363)	(2,544)	(3,532)
Financing Activities:			
Dividends paid	(263)	(230)	(2,559)
Increase (decrease) in long-term borrowings	(500)	(500)	(4,858)
Proceeds from issuance of common stock	—	2,291	—
Payment for acquisition of treasury stock	(0)	(0)	(1)
Net cash used in financing activities	(763)	1,561	(7,418)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	134	150	1,303
Net Increase (decrease) in Cash and Cash Equivalents	(643)	923	(6,248)
Cash and Cash Equivalents at Beginning of Period	7,004	6,081	68,050
Cash and Cash Equivalents at End of Period	¥6,361	¥ 7,004	$61,802

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, 2014 and 2013

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 ¥102.92= U.S.$1, the prevailing exchange rate on March 31, 2014.

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, 2014 and 2013 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. For other than temporary declines in fair value, other securities are reduced to net realizable value by a charge to income.

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 ..... 4~16 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. Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of an asset or asset group exceeds

its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or asset group, or the net selling price at disposition.

f. 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.

g. 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.

h. 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.

i. Accrued retirement benefits

(1) The method of attributing expected retirement benefit to periods

The method of attributing expected retirement benefit to periods is allocated by the Straight-line basis (the expected benefit divided by the total service years would be deemed as arising in each period).

(2) Actuarial gains and losses

Actuarial gains and losses are amortized by the declining balance method over a certain period (5 years) within the average remaining years of service of the eligible employees commencing with the following periods.

(Accounting Change)

The Companies have applied the "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No. 26 of May 17, 2012) and "Guidance on Accounting standard for Retirement Benefits" (ASBJ Guidance No. 25 of May 17, 2012) since the current fiscal year end (except for the main clause of Article 35 of the standard and the main clause of Article 67 of the guidance).

Under the new standard, pension assets are deducted from retirement benefit obligations and the net amount is recognized as net defined benefit asset/liability, and previously unrecognized actuarial gains and losses are recorded as net defined benefit asset eventually.

In accordance with transitional accounting as stipulated in Article 37 of the standard, the effect of the changes on accounting policies arising from initial application is recognized as remeasurements of defined benefit plans in accumulated other comprehensive income at the current fiscal year end.

As a result, net defined benefit asset increased by ¥21 million (US$205 thousand), and accumulated other comprehensive income increased by ¥172 million (US$1,673 thousand) at the current fiscal year end.

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.

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 ¥15 million (US$150 thousand) and ¥1 million at March 31, 2014 and 2013.

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, 2014 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).

Financial Instruments	Millions of yen		
	Carrying	Estimate fair value	Difference
(1) Cash and deposits	¥6,440	¥6,440	—
(2) Notes and accounts receivable	5,968	5,968	—
(3) Marketable securities and investments in securities	3,142	3,142	—
(4) Notes and accounts payable	(4,015)	(4,015)	—
(5) Short-term debt	(4)	(4)	—
(6) Long-term debt	(375)	(376)	(1)
(7) Derivative transaction	—	—	—

(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, 2014	Millions of yen
Unlisted equity securities	¥19

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

(3) Redemption schedule for receivables and marketable securities with maturities at March 31, 2014

	Millions of yen
	Due in One Year or Less
Cash and deposits	¥ 6,440
Notes and accounts receivable	5,968
Marketable securities and investments in securities	—
Total	¥12,408

(4) The redemption schedule for short-term debt and long-term debt at March 31, 2014 and 2013 was as follows:

	Millions of yen		Average interest rates (%)
	2014	2013	2014
Short-term debt	¥ 4	¥ 4	5.0
Long-term debt	—	375	—
Current portion of long-term debt	375	500	1.9
Total	¥379	¥879	

The annual maturities of long-term debt for 5 years subsequent to March 31, 2014 are summarized below:

Year ending March 31,	Millions of yen
2015	¥375

5. Securities

Historical costs, fair value and gross unrealized gains and losses for marketable securities as of March 31, 2014 and 2013 are as follows:

	Millions of yen				
	2014				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other securities:					
Equity securities	¥1,460	¥3,142	¥1,682	¥1,682	¥—
Other	—	—	—	—	—
Total	¥1,460	¥3,142	¥1,682	¥1,682	¥—

	Millions of yen				
	2013				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other securities:					
Equity securities	¥1,524	¥2,470	¥946	¥959	¥(13)
Other	—	—	—	—	—
Total	¥1,524	¥2,470	¥946	¥959	(¥13)

	Thousands of U.S. dollars				
	2014				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other securities:					
Equity securities	$14,182	$30,526	$16,344	$16,344	$—
Other	—	—	—	—	—
Total	$14,182	$30,526	$16,344	$16,344	$—

Securities that do not have fair values are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Equity securities	¥19	¥19	$184
Other	—	—	—
Total	¥19	¥19	$184

6. Retirement and pension plans

(1) Provision for employees' retirement benefit obligations as of March 31, 2013 consisted of the following:

	Millions of yen
	2013
Benefit obligations	¥(4,008)
Pension assets	3,739
Unrecognized actuarial differences	(136)
Provisions for retirement benefits	(405)

(2) Employees' retirement benefit expenses for the year ended March 31, 2013 consisted of the following:

	Millions of yen
	2013
Service costs	¥220
Interest costs	79
Expected return on pension assets	(66)
Amortization of unrecognized actuarial difference	95
Benefits expenses total	¥328

(3) Significant assumptions of the pension plan used to determine these amounts are as follows:

	2013
Method of attributing benefits to periods of service	Straight line method
Discount rate	2.0%
Expected rate of return on pension assets	2.0%
Years over which the actuarial differences obligations are allocated	5 years

The Company has a defined benefit pension plan. Our domestic consolidated subsidiary and one of overseas consolidated subsidiaries have retirement lump-sum plans. In addition, when an employee retires, an employee may be paid additional retirement benefits that are not part of retirement benefit obligations. In lump-sum benefit plans offered by domestic consolidated subsidiary etc. the retirement benefits and liabilities relating to the retirement benefits are calculated using the simplified method.

The detailed notes relating to defined benefit pension plans for the fiscal year ended March 31, 2014 were as follows:

(1) Changes in defined benefit obligations

	Millions of yen	Thousands of U.S. dollars
As of April 1, 2013	¥3,985	$38,718
Service cost	219	2,128
Interest cost	80	774
Actuarial gains and losses	24	237
Benefits paid	(168)	(1,632)
As of March 31, 2014	**¥4,140**	**$40,225**

(2) Changes in Pension Asset

	Millions of yen	Thousands of U.S. dollars
As of April 1, 2013	¥3,739	$36,328
Expected return on pension assets	75	727
Actuarial gains and losses	206	2,006
Contributions by the employer	309	3,001
Benefits paid	(168)	(1,632)
As of March 31, 2014	**¥4,161**	**$40,430**

(3) Reconciliation of retirement benefit liabilities using the simplified method.

	Millions of yen	Thousands of U.S. dollars
As of April 1, 2013	¥23	$230
Benefits expenses	2	19
Benefits paid	—	—
As of March 31, 2014	**¥25**	**$249**

(4) Reconciliation of benefit obligations and pension assets with net defined benefit liability and asset on the Consolidated Balance Sheets

	Millions of yen	Thousands of U.S. dollars
Funded defined benefit obligations	¥ 4,140	$ 40,225
Pension assets	(4,161)	(40,430)
Net	(21)	(205)
Unfunded defined benefit obligations	25	249
Net amount of liabilities and assets recognized in consolidated balance sheet	4	44
Liabilities (net defined benefit liability)	25	249
Assets (net defined benefit assets)	(21)	(205)
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ 4	$ 44

Note: This includes plans using the simplified method.

(5) Retirement benefit expenses

	Millions of yen	Thousands of U.S. dollars
Service costs	¥219	$2,128
Interest costs	80	774
Expected return on pension assets	(75)	(727)
Recognition of actuarial gains and losses	(50)	(486)
Benefits expenses calculated on the simplified method	2	19
Total	¥176	$1,708

(6) Remeasurements of defined benefit plans

	Millions of yen	Thousands of U.S. dollars
Unrecognized actuarial gains and losses	¥268	$2,602

(7) Pension Assets

① Breakdown of pension assets

Debt securities	62%
Equity securities	30%
Cash and deposits	3%
Other	5%
Total	100%

② Rate of expected return on pension assets

Expected return rate on plan assets is determined by considering the current and anticipated future portfolio of pension assets and current and anticipated future long-term performance of individual asset classes that comrise the funds' asset mix.

(8) Basic assumptions for calculating benefit obligations

Discount rate	2.0%
Expected return rate on plan assets	2.0%

7. Impairment loss

The Companies group their operating assets in accordance with the classifications used for internal management.

For assets for business whose profitability has declined, the carrying amounts were reduced to the recoverable amounts, and the amounts of these reductions were recorded as impairment loss. Impairment loss of ¥1,383 million (US$13,439 thousand) for the year ended March 31, 2014 included ¥1,023 million (US$9,941 thousand) for buildings and structures, ¥360 million (US$3,498 thousand) for machinery and equipment.

March 31, 2014

Use	Classification	Location	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)
Assets for Business	Buildings and structures, machinery and equipment, land	Ibaraki prefecture	¥1,383	$13,439

The recoverable amounts of assets for business are measured at the net selling price. But they are measured at memorandum price because of having difficulty in selling or converting.

8. Income Taxes

Deferred income tax assets and liabilities as of March 31, 2014 and 2013 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred tax assets:			
Accrued bonus to employees	¥ 148	¥ 162	$ 1,435
Depreciation	24	48	229
Loss on valuation of investment securities	104	122	1,015
Retirement & severance benefits	—	144	—
Net defined benefit liability	8	—	73
Tax loss carryforward	345	130	3,352
Impairment loss	493	—	4,790
Other	(38)	53	(368)
Valuation allowance	(783)	(341)	(7,604)
Total deferred tax assets	¥ 301	¥ 318	$ 2,922
Deferred tax liabilities:			
Reserve for advanced depreciation of noncurrent assets	(28)	(37)	(270)
Unrealized gains on other securities	(560)	(305)	(5,440)
Net defined benefit asset	(9)	—	(89)
Other deferred tax liabilities	270	182	2,621
Total	¥(327)	¥(160)	$ (3,178)
Net deferred tax assets (liabilities)	¥ (26)	¥ 158	$ (256)

9. Subsequent Event

(1) Appropriation of retained earnings

Subsequent to March 31, 2014, the Company's Board of Directors, with the approval of stockholders on June 24, 2014 declared a cash dividend of ¥132 million (US$1,279 thousand) equal to ¥5.00 (US$0.05) per share, applicable to earnings of the year ended March 31, 2014 and payable to stockholders on the stockholders' register on March 31, 2014.

REPORT OF INDEPENDENT AUDITORS

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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, 2014 and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audits in conformity with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Teraoka Seisakusho Co., Ltd. and consolidated subsidiaries as of March 31, 2014 and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation
Our audit also comprehended the translation of Japanese yen amount into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Tokyo, Japan
June 24, 2014

Inoue Auditing Co., Inc.

Inoue Auditing Co., Inc.

COMPANY DATA

Company Outline

(as of March 31, 2014)

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	¥5,057 million (US$49,136 thousand)
Employees	535 (612 consolidated)

Board of Directors and Auditors

(as of June 24, 2014)

President	Keishiro Teraoka
Managing Director	Kenichi Tsuji
Directors	Masakazu Naito Hiroyoshi Ohbori Kiyohiro Takagi Tsuyoshi Ohsaki
Standing Audit & Supervisory Board Member	Yutaka Nomiyama
Audit & Supervisory Board Members	Masaru Nakamura Yoshiyasu Ito Kazunori Shimamoto
Senior Operating Officer	Jun Watanabe
Operating Officers	Taiji Namekawa Masao Mochizuki Ken Ebitani

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, Nagoya, Seoul and Taipei
Sales Office	Sendai

INVESTOR INFORMATION

Investor Information

(as of March 31, 2014)

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 26,687,955
Stockholders	2,355
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 (%)
Itochu Corporation	6,672	25.34
Customers' Stockholding Group	2,548	9.68
Keishiro Teraoka	886	3.37
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	818	3.11
Resona Bank, Ltd.	678	2.58
Japan Trustee Services Bank, Ltd. (Trust Account)	678	2.57
Employees' Stockholding Group	596	2.26
Kuniko Teraoka	526	2.00
The Nomura Trust and Banking Co., Ltd. (Trust Account)	479	1.82
Trust & Custody Services Bank, Ltd. (Trust Account)	360	1.37

TERAOKA

http://www.teraokatape.co.jp

Printed in Japan