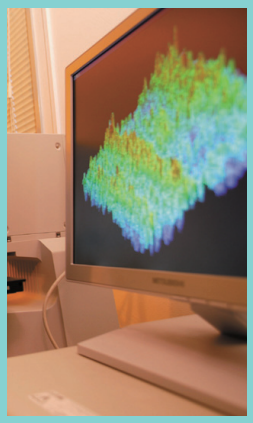
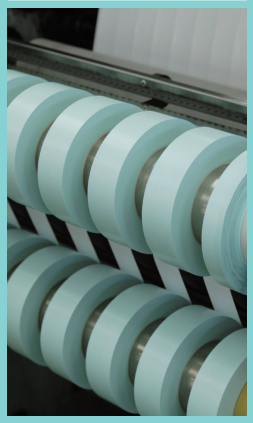
TERAOKA

Annual Report 2015

Year ended March 31, 2015





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.

Our Company has formulated a new medium-term management plan spanning April 2015 to March 2018 to further promote improvement of our corporate value.

New Medium-term Management Plan

Teraoka 100 Phase 1

1 Corporate Philosophy

Challenge the global market with advanced adhesive technologies.

2 Management Plan Vision

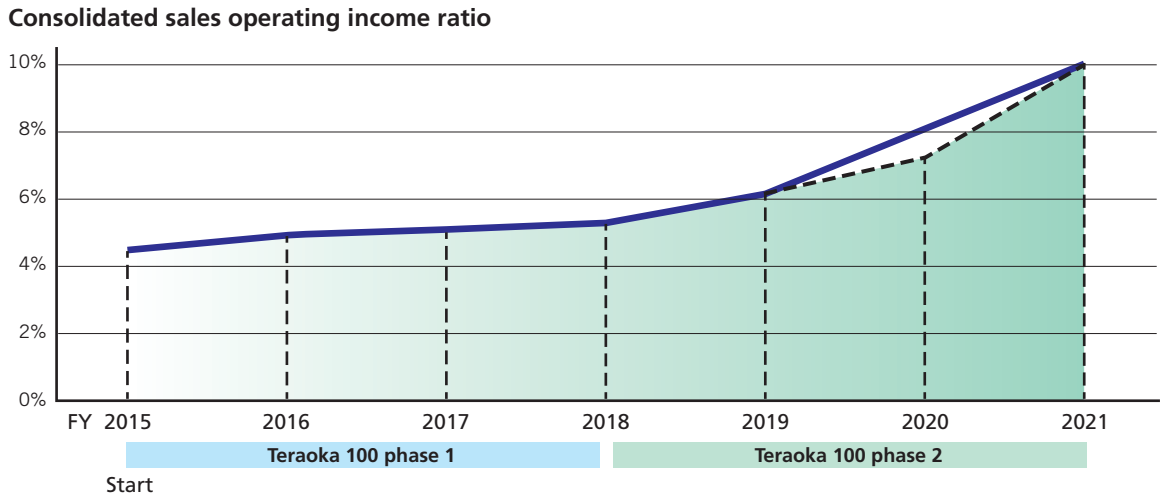
As a strong company stably generating a consistent consolidated operating profit, we continuously strive to improve corporate value through returning to the roots of corporate management, and promotion and execution of company-wide progress and reform. We will build a solid management foundation to secure a great leap during the next medium-term management plan (Teraoka 100 Phase 2), which will end in 2020 – the 100th anniversary of the Company's establishment.

3 Teraoka 100 Phase 1 Priority Initiatives and Goals

The business environment the Company is operating in during this business plan period, was determined to be unpredictable and fluid, was not greatly influenced by external factors such as business environment, and with realizing stable operating results as the most important goal for this period, strengthening/enhancing management foundation and building a business model that makes full use of knowledge will be the base for achieving this goal. Further, by utilizing the strengthened/enhanced management foundation, we will build up the strength required for this large leap during the next medium-term management plan (Phase 2).

4 Priority Performance Indicators

The image of consolidated sales operating income ratio



5 Corporate Slogan

We want to bring shiny, new technology into people's lives.

CONTENTS

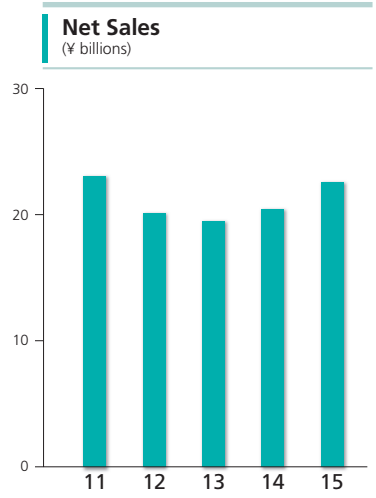
Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

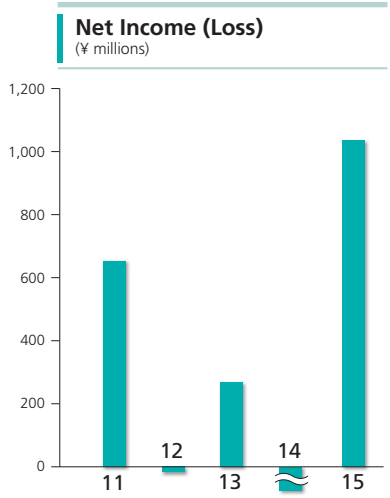
CONSOLIDATED FINANCIAL HIGHLIGHTS

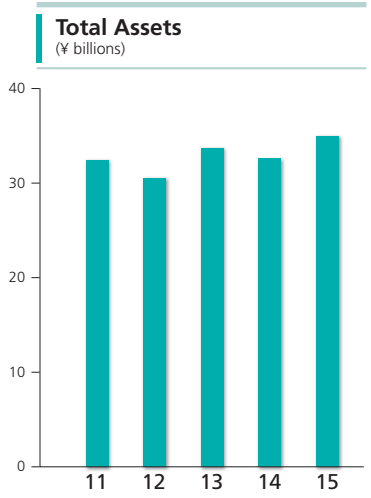
For the years ended March 31,

	Millions of yen		Thosands of U.S. dollars
	2015	2014	**2015**
Net Sales	**¥22,477**	¥20,529	**$186,884**
Operating Income (Loss)	**1,024**	(105)	**8,517**
Income (Loss) before Income Taxes	**1,902**	(794)	**15,819**
Net Income (Loss)	**1,025**	(924)	**8,521**
Total Assets	**35,331**	32,596	**293,765**
Net Assets	**28,268**	26,277	**235,038**
Ratio (%)			
Operating Income (Loss) to Net Sales	**4.6**	(0.5)	
Equity Ratio	**80.0**	80.6	
Return on Average Assets (ROA)	**3.0**	(2.8)	
Return on Average Stockholders' Equity (ROE)	**3.8**	(3.5)	
Per Share	Yen		U.S. dollars
Net Income (Loss)	**¥38.92**	¥(35.09)	**$0.32**
Cash Dividends	**10.00**	10.00	**0.08**

The U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥120.27 = US$1, the rate prevailing on March 31, 2015.







TO OUR STOCKHOLDERS

Result for FY 2015

Fiscal year 2015, the year ended March 31, 2015 marks our 105th business term.

During the current consolidated accounting year, our Corporate Group has made increased efforts to enhance profits such as expanding and diversifying sales channels by strengthening proposal-based business and developing new clients, ensuring opportunity gain through fixing an efficient inventory sales system, reducing production costs along with improving yield through constant review of the production process, making efforts for the former items with structuring more advanced quality control and guarantee systems etc.

Further, the Indonesian manufacturing subsidiary, which is entering its third year of operation has greatly increased its production capacity, and we are finally seeing consistent profit each month.

The consolidated net sales for this term were ¥22,477 million (US$186,884 thousand), a 9.5% increase over the previous term. The consolidated operating loss for the previous term was ¥105 million, but this term shows an operating profit of ¥1,024 million (US$8,517 thousand). Due to the foreign exchange profit calculated at the end of the term, with the weak yen, consolidated income before income taxes was ¥1,902 million (US$15,819 thousand). As a result, consolidated net income for the previous term was a consolidated loss of ¥924 million, but this term a consolidated net income of ¥1,025 million (US$8,521 thousand) has been posted.

The end of term dividend was distributed at ¥5.00 (US$0.04) per share and the mid-term dividend preceding it was also ¥5.00 (US$0.04) per share for a total of ¥10.00 (US$0.08) per share in annual dividends.

Future Focus

Regarding the future economic situation of Japan, in addition to continued financial and economic measures implemented by the government, while business confidence is anticipated to remain steady, for example with expectations for improvement of corporate capital investment, we also recognize that the unpredictability of the situation continues - for example, the opacity of personal consumption due to the increase in growing defensive consciousness among consumers and the concern over the economic slowdown of the European economy and emerging economies.

Under such circumstances, our Corporate Group has improved the operations of the Indonesian manufacturing subsidiary, including production efficiency and quality, and apart from continuously striving to improve product quality, by continuing to strengthen our business base by cultivating our existing customer base and developing new demand both domestically and abroad, we have been able to improve our consolidated base profit level through promoting rationalization and optimization of the manufacturing process, and enhancing the management base. Further, we have placed importance on the development of personnel specialized in sales, manufacturing, development and management as a priority and we are developing our human resources with an eye on the future.

Problem Prevention

The Corporate Group considers the following issues to be the most important challenges.

1 Enhancing Personnel Training

The Corporate Group recognizes that the source of business competitiveness that is not influenced by the dramatically changing economic environment is found in people,

Keishiro Teraoka,
President

and enhancement of human resource management to make the most of the abilities of each employee is necessary in all sales, manufacturing, R&D and management departments. Along with flexibly responding to changes, we will create a business model and new systems for conducting business and in order to promote reform, we are preparing a system which allows the company and employee to grow together.

2 Enhancing Operations of Indonesian Manufacturing Subsidiaries

Our Indonesian manufacturing subsidiary is now in a situation where operating efficiency has greatly improved and it is now feasible for it to be profitable, but through promotion of a management focus that unifies the subsidiary with the parent company for the expansion of production item lines, quality improvement and improvement of operating efficiency, we intend to further increase the profit contribution as part of the consolidated base.

3 Enhancing Quality Management and Assurance Systems

Along with training someone to watch over product quality and establishing a system that can respond to the industry with the highest product quality control levels, we will improve the quality of our Company's products through the establishment of appropriate quality risk management.

4 Unique Product Development and Intellectual Property

We will develop new technology and new products with originality and strong characteristics, backed by equipment and evaluation technology, and along with prompt introduction onto the market, we will implement an aggressive intellectual property strategy.

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

June 23, 2015

K. Teraoka

Keishiro Teraoka,
President

REVIEW OF OPERATIONS

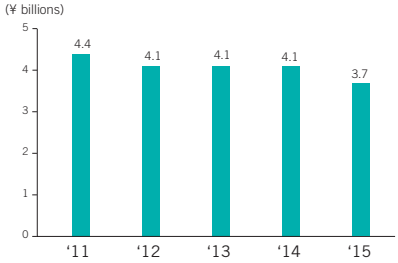
In order to continue developing products with high-performance and high-added value that meet the market needs, our Corporate Group's R&D plans to revitalize R&D activity through sophistication of the market-orientated development system and improvement of joint development with end users.

New achievements in the current accounting year include the market introduction of single and double sided tape for parts in smartphones, tablets and PCs etc., high temperature heat-resistant tape for parts manufacturing, various electromagnetic shielding material, thick, heat-conductive tape, double sided paper tape which considers recyclability or sick house syndrome (or volatile chemicals) measures, strong adhesive tape for affixing automobile parts, and tape for the manufacture of automobile parts, and we anticipate product development over a wide range of industrial fields.

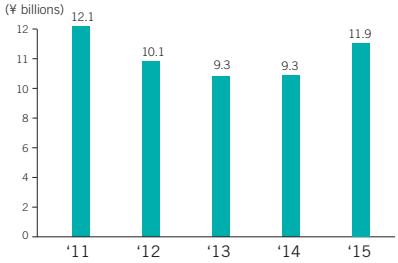
Total R&D costs in this consolidated accounting period were ¥832 million (US$6,925 thousand) and the consolidated sales ratio was 3.7%. This is a decrease of 0.5 points below the previous term.

Consolidated sales for the corporate group was ¥22,477 million (US$186,884 thousand), which are broken down by product segment below.

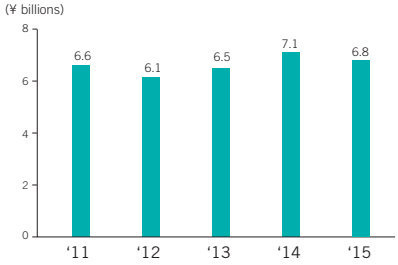
Sales of Packing Tapes



Sales of Electrical Insulation and Electronic Equipment Tapes



Sales of Other Industrial Tapes



Packing Tapes

The Packing and Packaging Tape segment has been impacted by the rise in consumption tax in April of last year, slowing orders in the second quarter and while there was a comeback in the third quarter, it was not enough to make up the lost business.

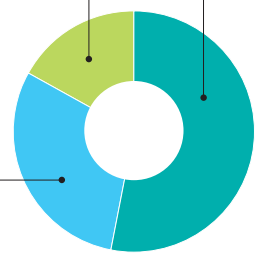
Consolidated sales for this product segment decreased by 7.6% under the previous term to ¥3,749 million (US$31,169 thousand). This segment accounts for 16.7% of total consolidated sales and decreased by 3.1 points below the previous term.

Electrical Insulation and Electronic Equipment Tapes

With regard to the Electrical Insulation and Electronic Equipment Tapes segment, beyond significant results from efforts to develop new customers, due to improved exports thanks to the weak yen, we have newly adapted to mobile-related devices mainly for overseas users and there has been positive growth trends in automobile-related tape exports.

As a result, consolidated sales for this product segment greatly increased by 27.6% over the previous term to ¥11,928 million (US$99,175 thousand). This segment accounts for 53.1% of consolidated sales, and has increased by 7.6 points over the previous term.

BREAKDOWN OF SALES BY CATEGORY

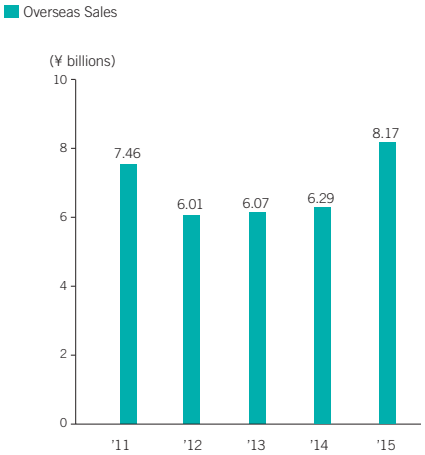


16.7% Packing Tapes
- Olive cloth tapes
- Kraft paper tapes
- Polypropylene film adhesive tapes

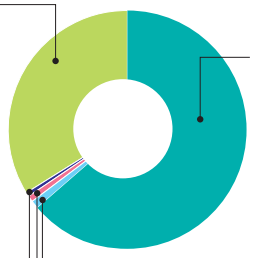
53.1% Electrical Insulation and Electronic Equipment Tapes
- Polyester film adhesive tapes
- Acetate cloth adhesive tapes
- Combination adhesive tapes
- Kapton® film adhesive tapes
- Nomex® adhesive tapes
- Glass cloth adhesive tapes
- EMI/RFI shielding tapes
- Silicone rubber adhesive tapes

30.2% Other Industrial Tapes
- Double-coated adhesive tapes
- Corrosion-proof tapes
- Masking cloth tapes
- Surface protection tapes

CHANGES IN OVERSEAS SALES



GEOGRAPHICAL SALES MARKETS



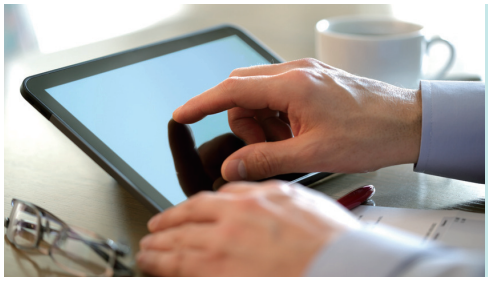
Asia 34.2%

Japan 63.7%

North America 1.2%

Europe 0.7%

Other areas 0.2%



Other Industrial Tapes

While the Other Industrial Tape segment was impacted by last-minute demand before the consumption tax increase and the subsequent fall in demand, and there was a decline in demand due to the poor climate during the beginning half of the period, due to an influx of inquiries for architectural curing tape in the latter half of the period and new application developments of polyethylene cloth tape as a main product, etc., consolidated sales of this product segment were ¥6,800 million (US$56,540 thousand), which is a decrease of 4.5% from the previous period. However, this decrease was because of the strategic move of some designated items to the Electrical Insulation and Electronic Equipment Tapes, and there was actually an increase of 1.9% from the previous period. This segment accounts for 30.2% of total consolidated sales, which is a decrease of 4.5 points compared to the previous term.

Overseas Sales

Overseas sales in the year under review have significantly exceeded the previous term in the Electrical Insulation and Electronic Equipment Tape segment by 41.0%, but in other product segments, Packing Tape has increased only slightly by 0.9%, and the Other Industrial Tape segment has significantly decreased by 53.1%. Gross export value was ¥8,167 million (US$67,906 thousand), a 29.8% increase over the previous term. Gross export value makes up 36.3% of total consolidated sales, and has increased 5.6 points compared to the previous term.

Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED FIVE-YEAR SUMMARY

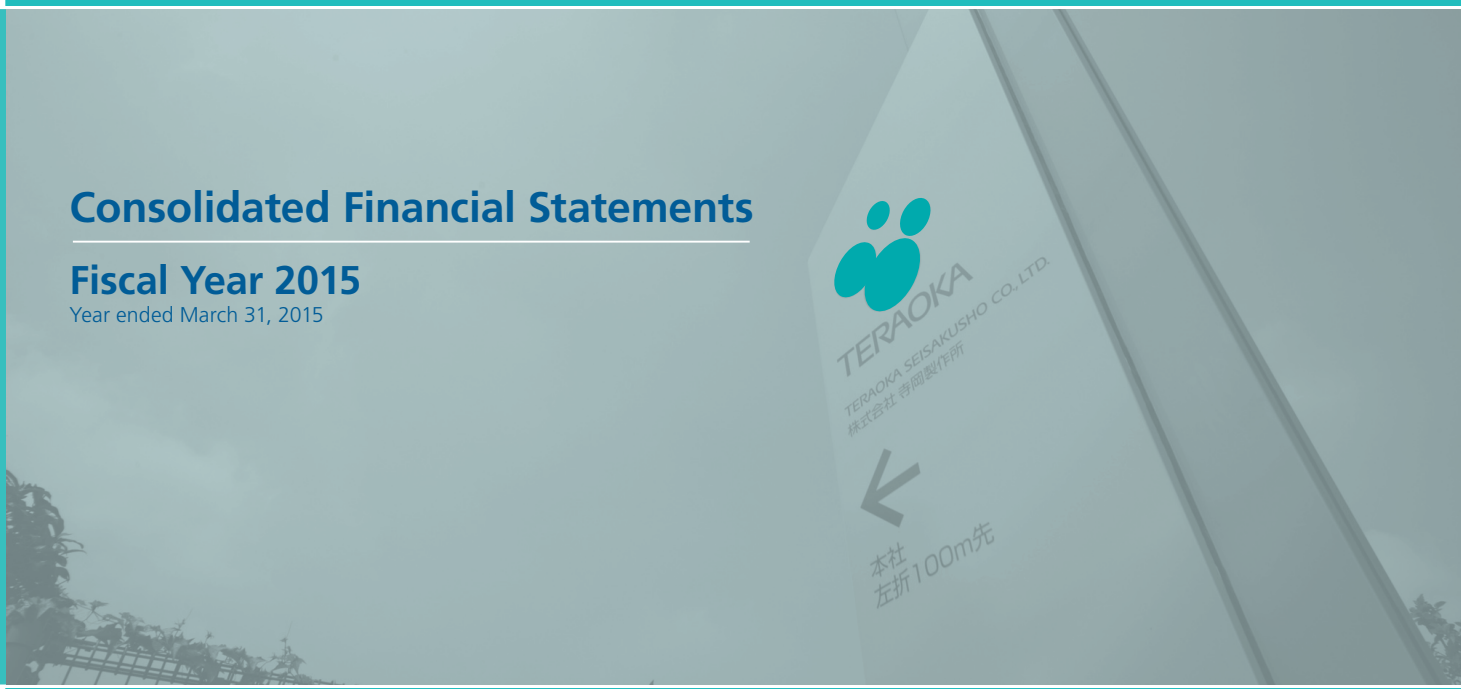
	Millions of yen					Thousands of U.S. dollars
Years ended March 31	2011	2012	2013	2014	**2015**	**2015**
Net Sales	¥23,137	¥20,333	¥19,935	¥20,529	**¥22,477**	**$186,884**
Operating Income (Loss)	598	(168)	(92)	(105)	**1,024**	**8,517**
Income (Loss) before Income Taxes	1,007	(119)	674	(794)	**1,902**	**15,819**
Net Income (Loss)	649	(138)	263	(924)	**1,025**	**8,521**
Total Assets	32,330	30,434	33,647	32,596	**35,331**	**293,765**
Net Assets	24,035	23,838	26,670	26,277	**28,268**	**235,038**
Ratio (%)						
Operating Income to Net Sales	2.6	(0.8)	(0.5)	(0.5)	**4.6**	
Equity Ratio	74.3	78.3	79.3	80.6	**80.0**	
Return on Average Assets (ROA)	2.0	(0.4)	0.8	(2.8)	**3.0**	
Return on Average Stockholders' Equity (ROE)	2.7	(0.6)	1.0	(3.5)	**3.8**	
Per Share	Yen					U.S. dollars
Net Income (Loss)	¥32.91	¥(7.02)	¥9.99	¥(35.09)	**¥38.92**	**$0.32**
Cash Dividends	10.00	10.00	10.00	10.00	**10.00**	**0.08**

The U.S. dollars are translated at the rate of ¥120.27 per US$1, prevailing on March 31, 2015.

Consolidated Financial Statements

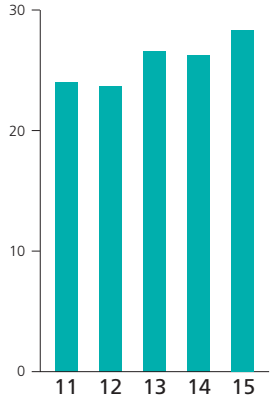
Fiscal Year 2015

Year ended March 31, 2015

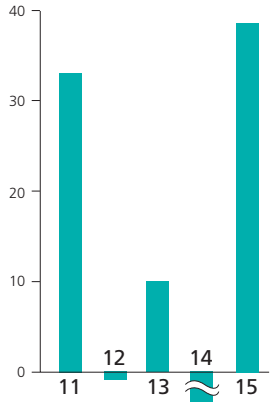


FINANCIAL REVIEW

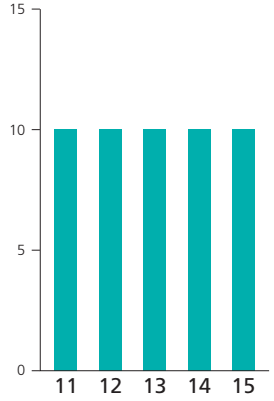
Net Assets
(¥ billions)



Net Income (Loss) per Share (Yen)



Cash Dividends per Share (Yen)



Business Performance

Japan's economy in the fiscal year under review, other than seeing an improvement corporate performance focusing on export-related business, due to the effects of the depreciating yen that has resulted from the government's active financial and economic measures, there has been a wide penetration in the economy overall of the effects of resource depreciation, especially crude oil, moving the economy into gradual recovery. However, while some sectors showed an increase in wages, centering on large companies, the slackened individual consumption following the increase in consumption tax, the European economy's inability to escape instability, the loss of benefits in the U.S. economy which is steadily recovering, and the slowdown of growth in emerging economies such as China and India, means that there is still uncertainty for the future.

Under these circumstances, our Corporate Group is committed to efforts for the expansion and diversification of sales channels, improvement of the production process, cost reduction and further improved quality control. Also, the operating efficiency of the Indonesian manufacturing subsidiary, which has celebrated its third year, has increased substantially, and monthly profitability is now feasible.

As a result, consolidated net sales for this term were ¥22,477 million (US$186,884 thousand), a 9.5% increase from the previous term. The consolidated operating loss for the previous term was ¥105 million, but this term a consolidated operating profit of ¥1,024 million (US$8,517 thousand) was posted. In addition, the consolidated loss before income taxes of the previous period was ¥794 million, but this fiscal period the consolidated income before income taxes was ¥1,902 million (US$15,819 thousand). Consolidated net income came to ¥1,025 million (US$ 8,521 thousand). The previous period had a consolidated net loss of ¥924 million.

Segment Information

The Packing Tape segment has been impacted by the rise in consumption tax in April of last year, slowing orders in the second quarter and despite a comeback in the third quarter, it was not enough to make up the lost business. Consolidated sales for this product segment was ¥3,749 million (US$31,169 thousand), which is a decrease from the previous period of 7.6%. This segment accounts for 16.7% of total consolidated sales and decreased by 3.1 points below the previous term.

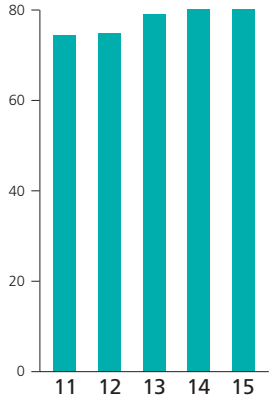
With regard to the Electrical Insulation and Electronic Equipment Tapes segment, beyond significant results from efforts to develop new customers, due to improved exports thanks to the weak yen, we have newly adapted to mobile-related devices mainly for overseas users and there has been positive growth trends in automobile-related tape exports. The consolidated sales for this product segment was ¥11,928 million (US$99,175 thousand), which was an increase of 27.6% over the previous period. This segment accounts for 53.1% of total consolidated sales and has increased by 7.6 points over the previous term.

While the Other Industrial Tape sector was impacted by last-minute demand before the consumption tax increase and the subsequent fall in demand, and there was a decline in demand due to the poor climate during the beginning half of the period, due to an influx of inquiries for architectural curing tape in the latter half of the period and new application developments of polyethylene cloth tape as a main product, etc., consolidated sales of this product segment were ¥6,800 million (US$56,540 thousand), which is a decrease of 4.5% from the previous period. This segment accounts for 30.2% of consolidated sales and decreased by 4.5 points over the previous term. This is due to the strategic move of some special items to the Electrical Insulation and Electronic Equipment Tapes, and there was actually an increase of 1.9% from the last period.

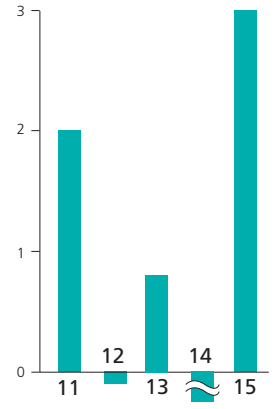
On one hand, overseas sales have significantly exceeded the previous term in the Electrical Insulation and Electronic Equipment Tape segment by 41.0%, but in other product segments,

Packing Tape has increased only slightly by 0.9%, and the Other Industrial Tape segment has significantly decreased by 53.1%. Gross export value was ¥8,168 million (US$67,912 thousand), a 29.8% increase over the previous term. Gross export value makes up 36.3% of total consolidated sales, and has increased 5.6 points compared to the previous term.

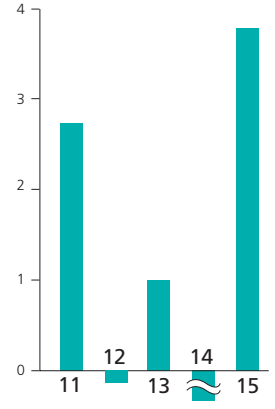
Equity Ratio (%)



Return on Average Assets (ROA) (%)



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



Financial Position

Total assets for the end of year consolidated accounting increased by 8.4% or ¥2,735 million (US$22,738 thousand) over the previous end of year consolidated accounting to ¥35,331 million (US$293,765 thousand).

Total current assets for the end of year increased by 6.1% or ¥1,044 million (US$8,679 thousand) over the previous end of year consolidated accounting to ¥18,101 million (US$150,501 thousand). This was mainly due to an increase in inventory.

Total fixed assets for the end of year consolidated accounting increased 10.9% or ¥1,691 million (US$14,058 thousand) over the previous end of year consolidated accounting to a total of ¥17,230 million (US$143,264 thousand). This was mainly due to the market value increase in investment securities.

Total liabilities for the end of year consolidated accounting increased 11.8% or ¥744 million (US$6,185 thousand) from the previous end of year consolidated accounting to ¥7,063 million (US$58,727 thousand). Out of this, total current liabilities increased by 4.1% or ¥231 million (US$1,920 thousand) from the previous end of term to ¥5,905 million (US$49,097 thousand). This was mainly due to an increase in accrued tax payable. Total long-term liabilities for the end of the term increased 79.5% or ¥513 million (US$4,265 thousand) for the previous end of year consolidated accounting to ¥1,158 million (US$9,630 thousand). This was mainly due to an increase in deferred tax liability following a market value increase in investment securities.

Total net assets for the end of year consolidated accounting increased 7.6% or ¥1,991 million (US$16,553 thousand) above the previous end of year consolidated accounting to ¥28,268 million (US$235,038 thousand). This was mainly due to an increase in retained earnings.

The result of these figures is a capital-to-asset ratio of 80.0%, a decrease of 0.6 points from the previous term.

Cash Flows

Capital from operating activities increased by ¥842 million (US$7,004 thousand). This was an increase on the previous year's consolidated accounting of ¥349 million. This increase in this term was mainly due to an increase in current net profit before taxes and other adjustments.

Cash flow used for investment activities was ¥773 million (US$6,427 thousand). Even in the activities of the previous consolidated accounting term, ¥363 million was used for investment. The main factor for this in the current term was expenditures for acquisition of fixed assets.

There was a ¥638 million (US$5,310 thousand) decrease in capital from financial activities. There was a decrease of ¥763 million in used capital from the previous consolidated accounting year. The main factor for a decrease this term was the repayment of long-term borrowings.

From these activities, consolidated cash and cash equivalents for end of year consolidated accounting were ¥6,036 million (US$50,185 thousand), a decrease of ¥325 million (US$2,702 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$0.04) and combined with the previously distributed interim dividend of ¥5.00 (US$0.04) per share, the total annual dividends were ¥10.00 (US$0.08) per share.

Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
ASSETS			
Current Assets:			
Cash and time deposits	¥ 6,410	¥ 6,440	$ 53,296
Notes and accounts receivable:			
Trade	6,010	5,968	49,967
Less: Allowance for doubtful accounts (Note 2-h)	(8)	(8)	(65)
Inventories (Note 2-c)	4,529	4,027	37,656
Deferred income taxes (Note 2-g)	330	292	2,742
Other current assets	830	338	6,905
Total current assets	18,101	17,057	150,501
Property,Plant and Equipment (Note 2-d):			
Land	4,076	4,021	33,894
Buildings	11,753	11,268	97,721
Machinery and equipment	24,788	24,257	206,106
Construction in progress	131	54	1,092
	40,748	39,600	338,813
Less: Accumulated depreciation	(28,509)	(27,691)	(237,049)
Property,plant and equipment, net	12,239	11,909	101,764
Intangible Assets	438	192	3,646
Investments and Other Assets:			
Investments in securities (Notes 2-b and 5)	3,856	3,161	32,063
Deferred income taxes (Note 2-g)	41	9	338
Net defined benefit asset	376	21	3,124
Other	280	249	2,329
Less: Allowance for doubtful accounts (Note 2-h)	(0)	(2)	(0)
Total investments and other assets	4,553	3,438	37,854
Total assets	¥ 35,331	¥ 32,596	$ 293,765

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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Notes and accounts payable:			
Trade	¥ 3,906	¥ 4,015	$ 32,476
Short-term borrowings	5	4	40
Current portion of long-term borrowings	—	375	—
Accrued income taxes	575	115	4,783
Accrued expenses	560	530	4,658
Other current liabilities	859	635	7,140
Total current liabilities	5,905	5,674	49,097
Long-term Liabilities:			
Net defined benefit liability	24	25	199
Deferred liabilities taxes (Note 2-g)	707	327	5,877
Asset retirement obligations (Note 2-m)	309	177	2,572
Other	118	116	982
Total long-term liabilities	1,158	645	9,630
Total liabilities	7,063	6,319	58,727
NET ASSETS			
Stockholders' Equity:			
Common stock:	5,057	5,057	42,048
Authorized: 80,000,000 shares			
Issued: 26,687,955 shares as of March 31, 2015 and 26,687,955 shares as of March 31, 2014, respectively			
Additional paid-in capital	4,644	4,644	38,613
Retained earnings	15,973	15,251	132,804
Less: Treasury stock, at cost	(137)	(137)	(1,140)
Total Stockholders' equity	25,537	24,815	212,325
Accumulated other comprehensive income			
Unrealized gains on securities (Notes 2-b and 5)	1,682	1,122	13,989
Foreign currency translation adjustments (Note 2-j)	688	168	5,721
Remeasurements of defined benefit plans	361	172	3,003
Total accumulated other comprehensive income	2,731	1,462	22,713
Total net assets	28,268	26,277	235,038
Total liabilities and net assets	¥35,331	¥32,596	$293,765

Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Net Sales	¥22,477	¥20,529	$186,884
Cost of Sales	16,882	16,218	140,365
Gross profit	5,595	4,311	46,519
Selling, General and Administrative Expenses	4,571	4,416	38,002
Operating income (loss)	1,024	(105)	8,517
Other Income and Expenses:			
Interest and dividend income	78	72	647
Interest expenses	(4)	(14)	(32)
Loss on disposal of property, plant and equipment	(8)	(2)	(65)
Foreign exchange gains, net	986	611	8,198
Impairment loss	—	(1,383)	—
Gain on sales of investment securities	47	—	389
Cost for asset retirement obligations (Note 2-m)	(130)	—	(1,079)
Early extra retirement payments	(101)	—	(837)
Other, net	10	27	81
	878	(689)	7,302
Income (Loss) before income taxes	1,902	(794)	15,819
Income taxes:			
Current	774	296	6,436
Deferred	103	(166)	862
Total income taxes	877	130	7,298
Net income (loss) before minority interests	1,025	(924)	8,521
Net income (loss)	¥ 1,025	¥ (924)	$ 8,521

Per Share	Yen		U.S. dollars
Per share of common stock			
Net income (loss)	¥38.92	¥(35.09)	$0.32
Cash dividends	10.00	10.00	0.08

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

Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Net income (loss) before minority interests	¥1,025	¥(924)	$8,521
Other Comprehensive Income			
Unrealized gains on securities	560	481	4,658
Foreign currency translation adjustments	520	142	4,324
Remeasurements of defined benefit plans, net of tax	189	—	1,571
Total other comprehensive income	1,269	623	10,553
Comprehensive Income	2,294	(301)	19,074
Total comprehensive income attributable to:			
Owners of the parent	2,294	(301)	19,074
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, 2015 and 2014

	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, 2013	¥5,057	¥4,644	¥16,438	¥(136)	¥26,003	¥ 641	¥ 26	¥ —	¥ 667	¥26,670
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—
Balance at the beginning of current year reflected changes in accounting policies	5,057	4,644	16,438	(136)	26,003	641	26	—	667	26,670
Issuance of new shares	—	—	—	—	—	—	—	—	—	—
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
Balance at April 1, 2014	¥5,057	¥4,644	¥15,251	¥(137)	¥24,815	¥1,122	¥168	¥172	¥1,462	¥26,277
Cumulative effects of changes in accounting policies	—	—	(40)	—	(40)	—	—	—	—	(40)
Balance at the beginning of current year reflected changes in accounting policies	5,057	4,644	15,211	(137)	24,775	1,122	168	172	1,462	26,237
Issuance of new shares	—	—	—	—	—	—	—	—	—	—
Cash dividends paid	—	—	(263)	—	(263)	—	—	—	—	(263)
Net income (loss)	—	—	1,025	—	1,025	—	—	—	—	1,025
Purchase of treasury stock	—	—	—	(0)	(0)	—	—	—	—	(0)
Net changes of items other than Stockholders' equity	—	—	—	—	—	560	520	189	1,269	1,269
Total changes of items during the period	—	—	762	(0)	762	560	520	189	1,269	2,031
Balance at March 31, 2015	¥5,057	¥4,644	¥15,973	¥(137)	¥25,537	¥1,682	¥688	¥361	¥2,731	¥28,268

	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, 2014	$42,048	$38,613	$126,802	$(1,137)	$206,326	$ 9,331	$1,397	$1,432	$12,160	$218,486
Cumulative effects of changes in accounting policies	—	—	(330)	—	(330)	—	—	—	—	(330)
Balance at the beginning of current year reflected changes in accounting policies	42,048	38,613	126,472	(1,137)	205,996	9,331	1,397	1,432	12,160	218,156
Issuance of new shares	—	—	—	—	—	—	—	—	—	—
Cash dividends paid	—	—	(2,189)	—	(2,189)	—	—	—	—	(2,189)
Net income (loss)	—	—	8,521	—	8,521	—	—	—	—	8,521
Purchase of treasury stock	—	—	—	(3)	(3)	—	—	—	—	(3)
Net changes of items other than Stockholders' equity	—	—	—	—	—	4,658	4,324	1,571	10,553	10,553
Total changes of items during the period	—	—	6,332	(3)	6,329	4,658	4,324	1,571	10,553	16,882
Balance at March 31, 2015	$42,048	$38,613	$132,804	$(1,140)	$212,325	$13,989	$5,721	$3,003	$22,713	$235,038

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, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Operating Activities:			
Income (Loss) before income taxes	¥1,902	¥ (794)	$15,819
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	861	1,170	7,166
Early extra retirement payments	101	—	837
Impairment loss	—	1,383	—
Cost for asset retirement obligations	130	—	1,079
Gain on sales of investment securities	(47)	—	(389)
Increase (decrease) in allowance for doubtful accounts	(2)	(2)	(16)
Increase (decrease) in net defined benefit liability	(207)	(133)	(1,722)
Interest and dividends income	(78)	(72)	(647)
Interest expenses	4	14	32
Foreign exchange losses (gains)	(726)	(537)	(6,037)
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable	(22)	(161)	(184)
(Increase) decrease in inventories	(415)	(576)	(3,452)
Increase (decrease) in notes and accounts payable	(156)	354	(1,295)
Increase (decrease) in accrued consumption taxes	—	(53)	—
Other, net	(151)	208	(1,256)
Subtotal	1,194	801	9,935
Interest and dividends income received	78	72	647
Interest expenses paid	(4)	(14)	(32)
Income taxes (paid) refund	(426)	(510)	(3,546)
Net cash provided by operating activities	842	349	7,004
Investing Activities:			
Payment for purchases of property, plant and equipment	(184)	(195)	(1,527)
Payment for purchases of intangible assets	(278)	(154)	(2,313)
Payment for purchases of investment in securities	(3)	(2)	(21)
Proceeds from sales of investment securities	66	68	545
Decrease (increase) in time deposits	(374)	(80)	(3,111)
Net cash used in investing activities	(773)	(363)	(6,427)
Financing Activities:			
Dividends paid	(263)	(263)	(2,189)
Increase (decrease) in long-term borrowings	(375)	(500)	(3,118)
Payment for acquisition of treasury stock	(0)	(0)	(3)
Net cash used in financing activities	(638)	(763)	(5,310)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	244	134	2,031
Net Increase (Decrease) in Cash and Cash Equivalents	(325)	(643)	(2,702)
Cash and Cash Equivalents at Beginning of Period	6,361	7,004	52,887
Cash and Cash Equivalents at End of Period	¥6,036	¥6,361	$50,185

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, 2015 and 2014

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 ¥120.27= US$1, the prevailing exchange rate on March 31, 2015.

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, 2015 and 2014 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 Company applies the benefit formula basis to measure the pension obligation. The expected retirement benefit attributed to periods of service under the plan's benefit formula is 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)

Effective from the beginning of the fiscal year ended March 31, 2015, the Company adopted the "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (ASBJ) Statement No. 26, issued May 17, 2012, hereinafter referred as the "Accounting Standards for Retirement Benefits") and its accompanying implementation guidance, "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, March 26, 2015.) with respect to certain provisions described in Section 35 of the standard and in Section 67 of the guidance.

In applying these accounting standards, there was a change from the straight-line basis to the benefit formula basis as the method for attributing the expected retirement benefit to periods of service for the calculation of the retirement benefit obligation and service costs. Also, the Company has changed the method for determining the discount rate from using a discount rate based on the number of years approximate to the average remaining service period of employees to using a single weighted average discount rate that reflects the estimated timing and amount of the retirement benefit payments.

Concerning the application of the Accounting Standards for Retirement Benefits, based on the provisional treatment set out in Section 37 of the accounting standards, the effects of such changes in the fiscal year ended March 31, 2015 have been adjusted in the beginning balance of retained earnings.

As a result, the beginning balance of net defined benefit liabilities increased by ¥62 million (US$513 thousand), and retained earnings decreased by ¥40 million (US$330 thousand).

But the impact on operating income, income before income taxes for fiscal year ended March 31, 2015 was immaterial.

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. Asset retirement obligations

(Change in accounting estimates for asset retirement obligations)

Effective from the fiscal year ended March 31, 2015, the Company has changed the estimate amount concerned about the asset retirement obligation that has been recorded as a future asbestos disposition cost containing materials removal expense. Because of protection for natural environment, asbestos disposition cost has been inclined to increased and enabled more reasonably.

By this change, the Company has recorded additional estimated cost ¥130 million (US$1,079 thousand) for asset retirement obligation, and income before income taxes has been decreased the same amount.

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 ¥17 million (US$141 thousand) and ¥15 million at March 31, 2015 and 2014.

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	¥6,410	¥6,410	—
(2) Notes and accounts receivable	6,010	6,010	—
(3) Marketable securities and investments in securities	3,837	3,837	—
(4) Notes and accounts payable	(3,906)	(3,906)	—
(5) Short-term debt	(5)	(5)	—

(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.

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

As of March 31, 2015	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, 2015

	Millions of yen
	Due in One Year or Less
Cash and deposits	¥ 6,410
Notes and accounts receivable	6,010
Marketable securities and investments in securities	—
Total	¥12,420

(4) The redemption schedule for short-term debt and long-term debt at March 31, 2015 and 2014 was as follows:

	Millions of yen		Average interest rates (%)
	2015	2014	2015
Short-term debt	¥5	¥ 4	5.0
Current portion of long-term debt	—	375	—
Total	¥5	¥379	

5. Securities

Historical costs, fair value and gross unrealized gains and losses for marketable securities as of March 31, 2015 and 2014 are as follows:

	Millions of yen				
	2015				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other Securities:					
Equity securities	¥1,443	¥3,837	¥2,394	¥2,394	¥—
Other	—	—	—	—	—
Total	¥1,443	¥3,837	¥2,394	¥2,394	¥—

	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	¥—

	Thousands of U.S. dollars				
	2015				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other Securities:					
Equity securities	$12,001	$31,906	$19,905	$19,905	$—
Other	—	—	—	—	—
Total	$12,001	$31,906	$19,905	$19,905	$—

Securities that do not have fair values are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Equity securities	¥19	¥19	$157
Other	—	—	—
Total	¥19	¥19	$157

6. Retirement and pension plans

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, 2015 and 2014 were as follows:

(1) Changes in defined benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Beginning balance of benefit obligations	¥4,140	¥3,985	$34,424
Cumulative effects of changes in accounting policies	62	—	513
Restated balance	4,202	3,985	34,937
Service cost	272	219	2,263
Interest cost	58	80	486
Actuarial gains and losses	(123)	24	(1,026)
Benefits paid	(376)	(168)	(3,128)
Ending balance of benefit obligations	¥4,033	¥4,140	$33,532

(2) Changes in Pension Asset

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Beginning balance of pension assets	¥4,160	¥3,739	$34,599
Expected return on pension assets	83	75	692
Actuarial gains and losses	242	206	2,009
Contributions by the employer	299	309	2,484
Benefits paid	(376)	(168)	(3,128)
Ending balance of pension assets	¥4,409	¥4,161	$36,656

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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Beginning balance of retirement benefit liabilities	¥25	¥23	$213
Benefits expenses	5	2	38
Benefits paid	(6)	—	(52)
Ending balance of retirement benefit liabilities	¥24	¥25	$199

(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
	2015	2014	2015
Funded defined benefit obligations	¥ 4,033	¥ 4,140	$ 33,532
Pension assets	(4,409)	(4,161)	(36,656)
Net	(376)	(21)	(3,124)
Unfunded defined benefit obligations	24	25	199
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ (352)	¥ 4	$ (2,925)
Liabilities (net defined benefit liability)	24	25	199
Assets (net defined benefit assets)	(376)	(21)	(3,124)
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ (352)	¥ 4	$ (2,925)

Note: This includes plans using the simplified method.

(5) Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Service costs	¥272	¥219	$2,263
Interest costs	58	80	486
Expected return on pension assets	(83)	(75)	(692)
Recognition of actuarial gains and losses	(99)	(50)	(821)
Benefits expenses calculated on the simplified method	5	2	38
Total	¥153	¥176	$1,274

(6) Remeasurements of defined benefit plans (Other comprehensive income)

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Actual differences	¥266	¥—	$2,214

(7) Remeasurements of defined benefit plans (Accumulated other comprehensive income)

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Unrecognized actuarial gains and losses	¥534	¥268	$4,438

(8) Pension Assets

① Breakdown of pension assets

	2015	2014
Debt securities	65%	62%
Equity securities	27%	30%
Cash and deposits	3%	3%
Other	5%	5%
Total	100%	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 comprise the funds' asset mix.

(9) Basic assumptions for calculating benefit obligations

	2015	2014
Discount rate	1.3%	2.0%
Expected return rate on plan assets	2.0%	2.0%
Expected rate of salary increase	2.9%	2.9%

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 for the year ended March 31, 2014 included ¥1,023 million for buildings and structures, ¥360 million for machinery and equipment.

March 31, 2014

Use	Classification	Location	Amount (Millions of yen)
Assets for Business	Buildings and structures, machinery and equipment, land	Ibaraki prefecture	¥1,383

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, 2015 and 2014 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Deferred tax assets:			
Accrued bonus to employees	¥ 141	¥ 148	$ 1,175
Depreciation	16	24	134
Loss on valuation of investment securities	95	104	788
Net defined benefit liability	7	8	57
Tax loss carryforward	493	345	4,099
Impairment loss	386	493	3,206
Other	165	(38)	1,372
Valuation allowance	(932)	(783)	(7,751)
Total deferred tax assets	¥ 371	¥ 301	$ 3,080
Deferred tax liabilities:			
Reserve for advanced depreciation of noncurrent assets	(20)	(28)	(165)
Unrealized gains on other securities	(712)	(560)	(5,916)
Net defined benefit asset	(161)	(9)	(1,339)
Other deferred tax liabilities	186	270	1,543
Total deferred tax liabilities	¥(707)	¥(327)	$ (5,877)
Net deferred tax assets (liabilities)	¥(336)	¥ (26)	$ (2,797)

A reconciliation on the difference between the statutory tax rate and effective rate on taxable income for the fiscal years ended March 31, 2015 and 2014 is as follows:

	2015	2014
Statutory tax rate	35.6%	—
Rate difference from foreign subsidiaries	(0.9)	—
Per capita levy of inhabitant taxes	1.1	—
Dividend and other non-taxable income	(0.7)	—
Increase in valuation allowance	10.8	—
Tax deduction for research expenses	(6.2)	—
Entertainment and other non-deductible expenses	1.2	—
Adjustment on deferred tax assets due to change in income tax rate	2.9	—
Other, net	2.3	—
Effective tax rate	46.1	—

No reconciliation is presented for the year ended March 31, 2014 because there was a loss before income tax.

Change in statutory effective tax rate

The "Act for Partial Amendment of the Income Tax Act" and the "Act for Partial Amendment of the Local Tax Act" were promulgated on March 31, 2015 and, as a result, tax rates became or will become lower from fiscal years beginning on or after April 1, 2015.

As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 35.6% to 33.1% for the temporary differences expected to be realized or settled from the fiscal year beginning on April 1, 2015, and to 32.3% for the temporary differences expected to be realized or settled from fiscal years beginning on or after April 1, 2016.

The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax liabilities (after offsetting deferred tax assets by ¥42 million (US$349 thousand), and increase unrealized gains on available-for-sale securities, remeasurements of defined benefit plans and deferred income taxes by ¥79 million (US$657 thousand), ¥18 million (US$146 thousand) and ¥55 million (US$454 thousand), respectively, as of and for the fiscal year ended March 31, 2015.

9. Subsequent Event

Appropriation of retained earnings

Subsequent to March 31, 2015, the Company's Board of Directors, with the approval of stockholders on June 23, 2015 declared a cash dividend of ¥132 million (US$1,095 thousand) equal to ¥5.00 (US$0.04) per share, applicable to earnings of the year ended March 31, 2015 and payable to stockholders on the stockholders' register on March 31, 2015.

REPORT OF INDEPENDENT AUDITORS

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, 2015 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, 2015 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 Note1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Tokyo, Japan
June 23, 2015

Inoue Audit Corporation

Inoue Audit Corporation

COMPANY DATA

Company Outline

(as of March 31, 2015)

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
Employees	497 (626 consolidated)

Board of Directors and Auditors

(as of June 23, 2015)

President	Keishiro Teraoka
Senior Managing Director	Kenichi Tsuji
Managing Directors	Masakazu Naito Hiroyoshi Ohbori
Directors	Kiyohiro Takagi Noriya Hashimoto Noriyoshi Shiraishi
Audit & Supervisory Board Members	Yutaka Nomiyama Masaru Nakamura Masaki Miyake Kazunori Shimamoto
Operating Officers	Jun Watanabe 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	Karawang, 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 and Seoul
Sales Office	Sendai
Representative Office	Taipei

INVESTOR INFORMATION

Investor Information

(as of March 31, 2015)

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	2,629
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	6,672.0	25.34
Customers' Stockholding Group	2,676.6	10.16
Japan Trustee Services Bank, Ltd. (Trust Account)	932.2	3.54
Keishiro Teraoka	887.9	3.37
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	818.8	3.11
Resona Bank, Ltd.	678.8	2.58
Employees' Stockholding Group	529.0	2.01
Kuniko Teraoka	526.0	2.00
CGML PB CLIENT ACCOUNT	400.8	1.52
BBH BOSTON F NOMURA Jp Sm Cap F 620065	311.3	1.18

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