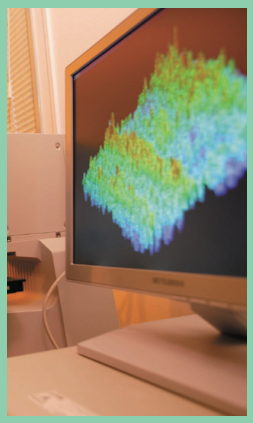
TERAOKA

Annual Report 2016

Year ended March 31, 2016



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 and other industrial and general home-use adhesive tapes.

PT. Teraoka Seisakusho Indonesia is one of five consolidated subsidiaries of Teraoka Group and established its first overseas manufacturing base in Karawang, Indonesia in 2011. The entire company came together for thorough, concerted efforts in production management and this year we achieved the first surplus since operations began in 2012.

The majority of raw materials are procured locally, producing fabric tapes, P-cut tapes and double-sided film tapes, of which most products are exported to Japan and China.

At the production site, daily efforts are actively made by the on-site workers to improve quality through spontaneous quality control activities performed by small groups and so-called quality control circle activities.

We would like to continue improving the individual on-site capabilities and contribute to the development of our group by focusing on the on-site abilities.

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Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED FINANCIAL HIGHLIGHTS

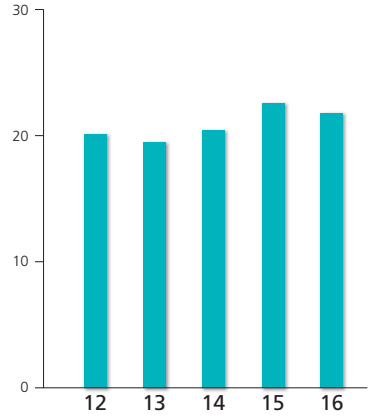
For the years ended March 31,

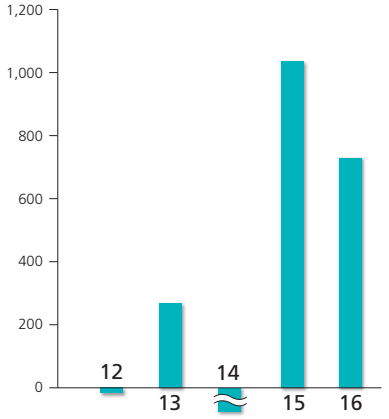
	Millions of yen		Thosands of U.S. dollars
	2016	2015	**2016**
Net Sales	**¥21,771**	¥22,477	**$193,192**
Operating Income	**1,144**	1,024	**10,149**
Income before Income Taxes	**991**	1,902	**8,793**
Net Income	**727**	1,025	**6,454**
Total Assets	**33,495**	35,331	**297,227**
Net Assets	**27,963**	28,268	**248,137**

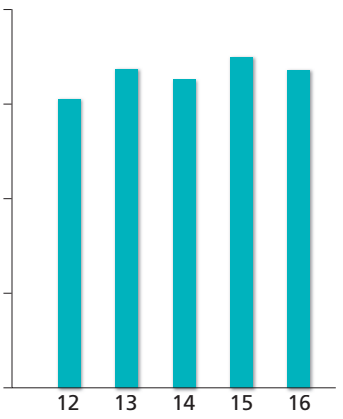
Ratio (%)		
Operating Income to Net Sales	**5.3**	4.6
Equity Ratio	**83.5**	80.0
Return on Average Assets (ROA)	**2.1**	3.0
Return on Average Stockholders' Equity (ROE)	**2.6**	3.8

Per Share	Yen		U.S. dollars
Net Income	**¥27.62**	¥38.92	**$0.25**
Cash Dividends	**11.00**	10.00	**0.10**

The U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥112.69 = US$1, the rate prevailing on March 31, 2016.







TO OUR STOCKHOLDERS

Result for FY 2016

Fiscal year 2016, the year ended March 31, 2016 marks our 106th business term.

In consolidated net sales for the current accounting year, Teraoka's Corporate Group strived to establish sales and profit through enhancing sales for mobile device-related, transportation equipment related and daily living related fields and approval activities for internal and external new sales contacts and expanding dealings with exiting sales contacts handled conventionally. However, we struggled with sales of our electronic tape for mobile devices, which had maintained good numbers until the first half of the term, dropped from the first term, due to effects of China's sudden economic slowdown and from partial restructuring of the industry.

However, on the consolidated operating income side, with the drop in pricing of natural rubber and naphtha, the price of raw materials dropped and profits increased from the previous term due to continued, thorough task reduction activities and improvements in overseas business.

Also, celebrating its 4th year of operations, Indonesia manufacturing subsidiary's entire company came together for thorough, concerted efforts in production and while small, there was a surplus over the entire fiscal year thanks to the decline in raw materials costs in addition to the increase in production volume of core products.

The result is that consolidated net sales for this term were ¥21,771 million (US$193,192 thousand), a 3.1% decrease from the previous term. The consolidated operating income was ¥1,144 million (US$10,149 thousand), which was an increase of 11.6% over the previous period. Due to the foreign exchange loss calculated at the end of the term, with the strengthened yen, consolidated income before income taxes was ¥991 million (US$8,793 thousand), a 47.9% decrease from the previous term. The result is that the consolidated operating income pertaining to the parent company stock was ¥727 million (US$6,454 thousand), a 29.0% decrease from the previous term.

The end of term dividend was distributed at ¥5.00 (US$0.04) per share and the mid-term dividend preceding it was ¥6.00 (US$0.05) per share for a total of ¥11.00 (US$0.10) per share in annual dividends.

Future Focus

As Japan's economic situation worsens as the yen strengthens and the low stock prices since the beginning of the year, in addition to the weak tone of personal consumption, there is concern of the slowdown of emerging economies, such as China, we expect this uncertainty to continue, such as with increased risk of downward swings in corporate profits.

Under such circumstances, our corporate group has got on track in safe production in the Indonesian manufacturing subsidiary, including production efficiency and quality, and besides continuously striving to improve product quality, in addition to making efforts in 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.

Keishiro Teraoka,
President

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 changing economic environment is found in people, and enhancement of human resource management to make the most of the abilities of each employee is necessary in all departments for sales, manufacturing, R&D and management. Along with flexibly responding to changes, we will create a business model and new systems for conducting business and in order to cause reform, we are building a system where it is possible for the company and employee to grow together.

2 Enhancing Operations of the Indonesian Manufacturing Subsidiary

Our Indonesian manufacturing subsidiary is continuing to make efforts for safe manufacturing and is now sustaining a profit, 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 establishing a system that fosters quality and answers the increasing demands from the industry for quality management 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 that are strong in originality backed by equipment and evaluation technology, and along with prompt introduction onto the market, we will continue with intellectual property first.

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

June 24, 2016

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 a wide range of R&D activity from general purpose to cutting edge fields through promotion of the market-orientated development system proposing Teraoka's original technology, and providing products jointly developed with end users.

New achievements in the current accounting year include the market introduction of single and double sided fixing tape for parts in electronic devices etc., high temperature heat-resistant tape for parts manufacturing, foam double-sided tape that is highly water-resistant and shock resistant tape for grounding electronics and electronic parts and electromagnetic shielding materials, super adhesive tape for fixating automobile parts, environment compatible non-halogen flame-retardant tape and specially shaped polyethylene cloth adhesive tape, and we anticipate product development over a wide range of industrial fields.

Total R&D costs in this consolidated accounting period were ¥848 million (US$7,522 thousand) and the consolidated sales ratio was 3.9%. This is an increase of 0.2 points compared to the previous term.

Consolidated sales for the corporate group were ¥21,771 million (US$193,192 thousand). Sales are broken down by product segment below.

Packing Tapes

For Packing Tapes, the downward effects from the increase in consumption tax during the same period in the previous year finally ceased and sales promotion campaigns were run effectively in conjunction with this.

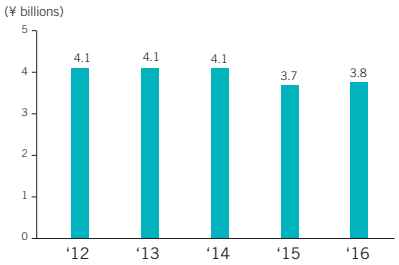
Consolidated sales for this product segment increased by 0.1% to ¥3,753 million (US$33,304 thousand). This segment accounts for 17.2% of total consolidated sales and has increased by 0.5 points over the previous term.

Electrical Insulation and Electronic Equipment Tapes

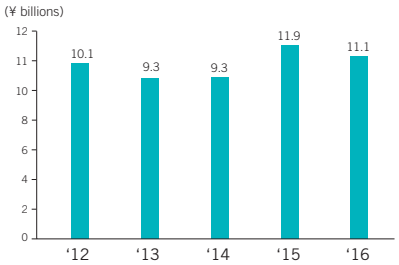
Electrical Insulation and Electronic Equipment Tapes segment, satisfactory orders received were maintained in the first half of the term for exported device related products unrelated to mobiles. However, with the influence of China's economic slowdown, the second half of the term suddenly turned into a struggle.

As a result, consolidated sales for this product segment greatly decreased by 7.1% from the previous term to ¥11,077 million (US$98,295 thousand). This segment accounts for 50.9% of total consolidated sales and decreased by 2.2 points below the previous term.

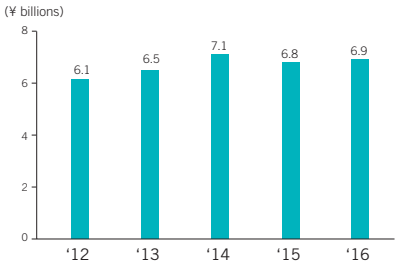
Sales of Packing Tapes



Sales of Electrical Insulation and Electronic Equipment Tapes



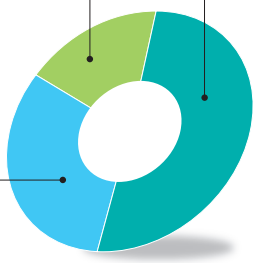
Sales of Other Industrial Tapes



BREAKDOWN OF SALES BY CATEGORY

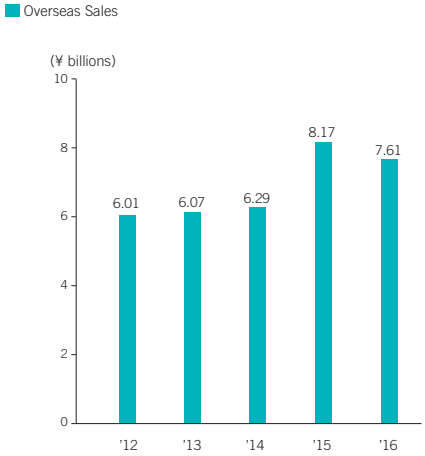
17.2% Packing Tapes
- Olive cloth tapes
- Kraft paper tapes
- Polypropylene film adhesive tapes

31.9% Other Industrial Tapes
- Double-coated adhesive tapes
- Corrosion-proof tapes
- Masking cloth tapes
- Surface protection tapes

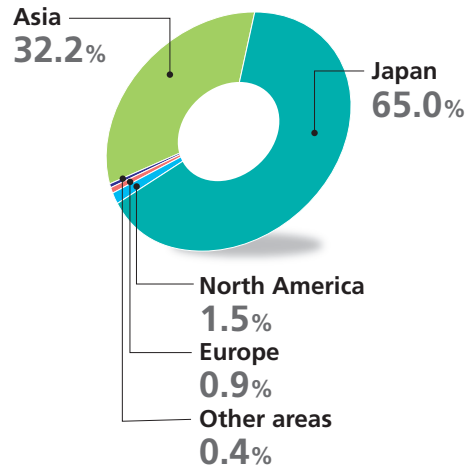


50.9% Electrical Insulation and Electronic Equipment Tapes
- Polyester film adhesive tapes
- Acetate cloth adhesive tapes
- Combination adhesive tapes
- Kapton® film adhesive tapes
- Nomex® adhesive tapes
- Glass cloth adhesive tapes
- EMI/RFI shielding tapes
- Silicone rubber adhesive tapes

CHANGES IN OVERSEAS SALES



GEOGRAPHICAL SALES MARKETS



Other Industrial Tapes

For Other Industrial Tapes, here was stable demand related to infrastructure/civil engineering and mail-order sales took a turn for the better. Among these, we were able to maintain overall steady orders received amidst sluggish consumption, even posting the highest sales record yet in poliethyline cloth tape, one of our staple products.

The result was that consolidated sales for this product segment increased by 2.1% over the previous term to ¥6,941 million (US$61,593 thousand). This segment accounts for 31.9% of total consolidated sales, which is an increase of 1.7 points compared to the previous term.

Overseas Sales

Overseas sales in the year under review are lower than the previous term in the Electrical Insulation and Electronic Equipment Tapes segment by 7.7%, but in other product segments, Packing Tapes increased by 9.9%. The Other Industrial Tapes segment has significantly increased over the previous term by 2.6%. Gross export value was ¥7,613 million (US$67,565 thousand), a 6.8% decrease from the previous term. Gross export value makes up 35.0% of total consolidated sales, and has decreased 1.3 points compared to the previous term.

Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED FIVE-YEAR SUMMARY

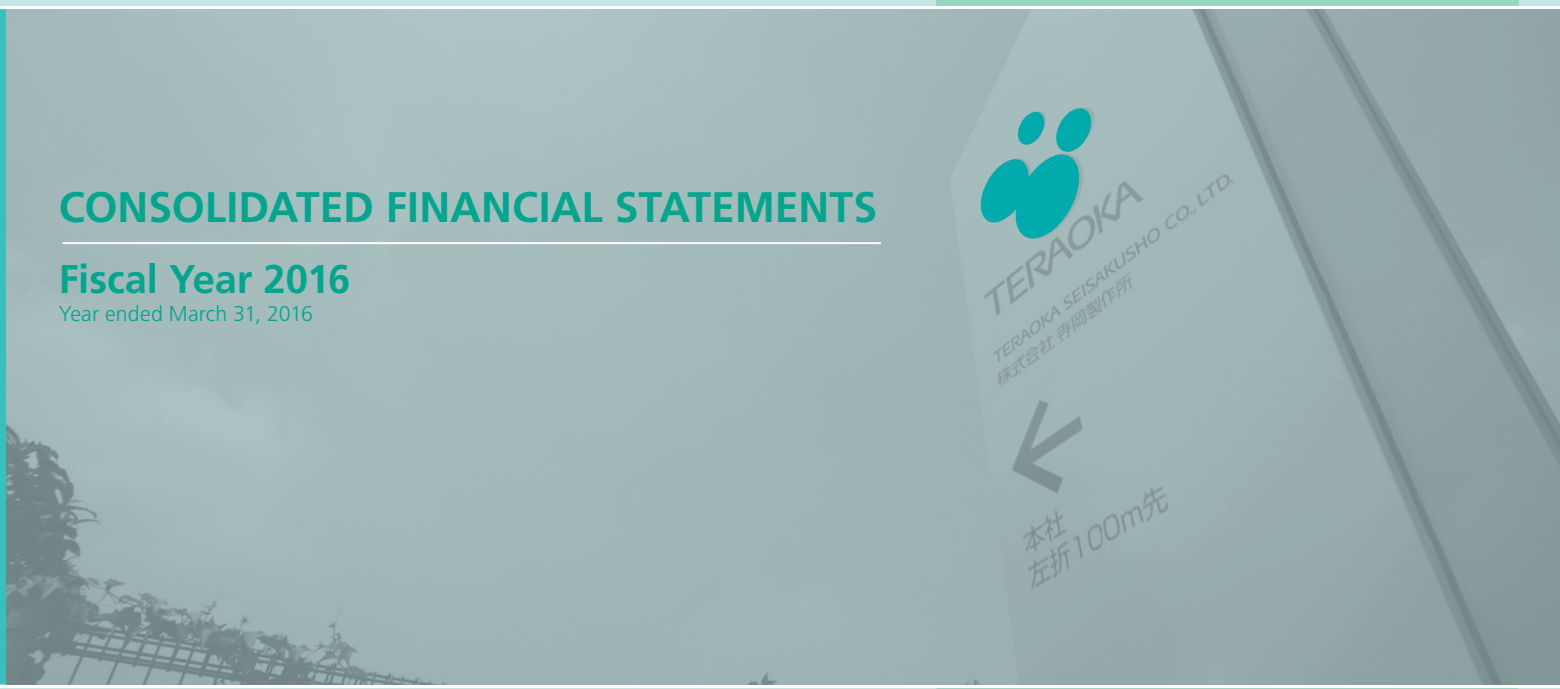
	Millions of yen					Thousands of U.S. dollars
Years ended March 31	2012	2013	2014	2015	**2016**	**2016**
Net Sales	¥20,333	¥19,935	¥20,529	¥22,477	**¥21,771**	**$193,192**
Operating Income (Loss)	(168)	(92)	(105)	1,024	**1,144**	**10,149**
Income (Loss) before Income Taxes	(119)	674	(794)	1,902	**991**	**8,793**
Net Income (Loss)	(138)	263	(924)	1,025	**727**	**6,454**
Total Assets	30,434	33,647	32,596	35,331	**33,495**	**297,227**
Net Assets	23,838	26,670	26,277	28,268	**27,963**	**248,137**
Ratio (%)						
Operating Income to Net Sales	(0.8)	(0.5)	(0.5)	4.6	**5.3**	
Equity Ratio	78.3	79.3	80.6	80.0	**83.5**	
Return on Average Assets (ROA)	(0.4)	0.8	(2.8)	3.0	**2.1**	
Return on Average Stockholders' Equity (ROE)	(0.6)	1.0	(3.5)	3.8	**2.6**	
Per Share	Yen					U.S. dollars
Net Income (Loss)	¥(7.02)	¥9.99	¥(35.09)	¥38.92	**¥27.62**	**$0.25**
Cash Dividends	10.00	10.00	10.00	10.00	**11.00**	**0.10**

The U.S. dollars are translated at the rate of ¥112.69 per US$1, prevailing on March 31, 2016.

CONSOLIDATED FINANCIAL STATEMENTS

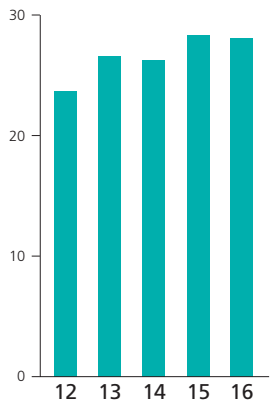
Fiscal Year 2016

Year ended March 31, 2016

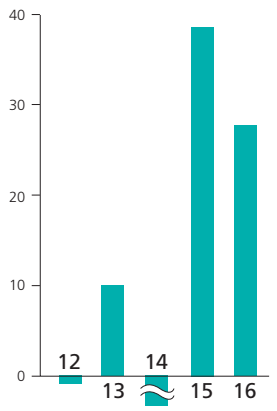


FINANCIAL REVIEW

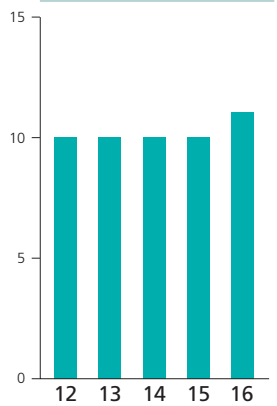
Net Assets
(¥ billions)



Net Income (Loss) per Share (Yen)



Cash Dividends per Share (Yen)



Business Performance

Regarding Japan's economy in the current accounting year, in addition to the steps taken towards improving corporate performance, employment situations and capital investment, focusing on big enterprise, while there was basic support for business conditions such as passing of a revised budget and inbound related expansion of consumer goods expenditures, personal consumptions trends were sluggish as always because income didn't grow as expected and due to the progression of strengthened yen with low stock prices and the negative interest rates introduced by Bank of Japan, there is a heightened sense of uncertainty for the future. However, looking overseas, while there are positive sides, such as the continuous growth of the US economy after improvements of the employment situation and individual consumption, without a leading force in the world economy and watching the slowdown of emerging economies, such as China, and economic slumps in resource-rich countries, there is concern of greater risk of downward swings.

In this business environment, in addition to proposing personnel training along with strategizing for the entire company as business resources, which are given the most importance in the mid-term business plan, we can reduce the influence of the ever growing uncertainty on our Corporate Group's business environment by reducing overall manufacturing costs through making progress in streamlining and optimizing production and restructuring advanced quality management and quality assurance systems to meet the high demand standards of users, and strive to construct a strong and stable business foundation.

In the current accounting year, we struggled with sales of our electronic tape for mobile devices, which had maintained good numbers until the first half of the term, dropped from the first term, due to effects of China's sudden economic slowdown and from partial restructuring of the industry.

Consolidated operating income, with the drop in pricing of natural rubber and naphtha, the price of raw materials dropped and profits increased from the previous term due to continued, thorough task reduction activities and improvements in overseas business. However, the effects of the weak yen the previous term came around in ordinary profit, reducing profits compared to the previous term due to foreign exchange loss due to the stronger yen.

Also, celebrating its 4th year of operations, the Indonesian manufacturing subsidiary's entire company came together for thorough, concerted efforts in production and while small, there was a surplus over the entire fiscal year thanks to the decline in raw materials costs in addition to the increase in production volume of core products.

The result is that consolidated net sales for this term were ¥21,771 million (US$193,192 thousand), a 3.1% decrease from the previous term. The consolidated operating income was ¥1,144 million (US$10,149 thousand) this term, an 11.6% increase over the previous term. Due to the foreign exchange loss calculated at the end of the term, with the strengthened yen, consolidated income before income taxes was ¥991 million (US$8,793 thousand), a 47.9% decrease from the previous term. The result is that the consolidated operating income pertaining to the parent company stock was ¥727 million (US$6,454 thousand), a 29.0% decrease from the previous term.

Segment Information

For Packing Tapes, the downward effects from the increase in consumption tax during the same period in the previous year finally ceased. Sales promotions are also being run effectively. However, end of the year demand for movement of goods and moving were sluggish, and sales didn't grow as expected in the second term. The result was that consolidated sales for this product segment increased by 0.1% over the previous term to ¥3,753 million (US$33,304 thousand). This segment accounts for 17.2% of total consolidated sales and has increased by 0.5 points over the previous term.

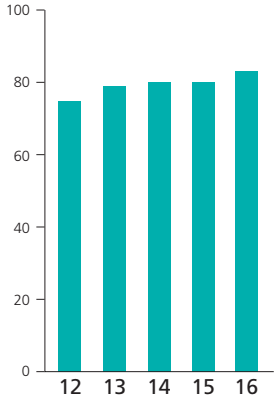
For Electrical Insulation and Electronic Equipment Tapes, satisfactory orders received were maintained in the first half of the term for exported device related products unrelated to mobiles. However, with the influence of China's economic slowdown, the second half of the term suddenly turned into a struggle due to continued production adjustments of sales corporations. The slump in electrical tape products for industrial equipment continued throughout the year. The consolidated sales for this product segment was ¥11,077 million (US$98,295 thousand), which was a decrease of 7.1% from the previous period. This segment accounts for 50.9% of total consolidated sales and decreased by 2.2 points below the previous term.

For Other Industrial Tapes, building materials related economic recovery was delayed in the first term, but there was recovery in the second term, there was stable demand related to infrastructure/civil engineering. Mail-order sales took a turn for the better. Of these, polyethylene cloth tape, our main product, was recognized in China, increasing overseas sales. The result was the ability to maintain overall steady orders received amidst sluggish consumption, even posting the highest sales record yet. The result was that consoli-

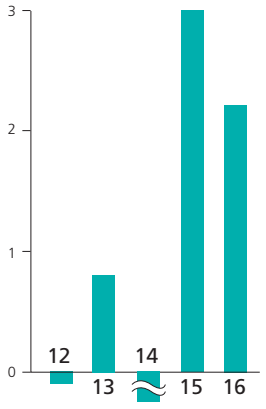
dated sales for this product segment increased by 2.1% over the previous term to ¥6,941 million (US$61,593 thousand). This segment accounts for 31.9% of consolidated sales and decreased by 1.7 points over the previous term.

However, looking overseas, we were greatly affected by the slowdown in China's economy and didn't assign sales activities to establish new sales contacts with Chinese mobile manufacturers, so we were unable to cover the slump in sales to Chinese manufacturers with sales to Japanese manufacturers. Sales of our major automobile-related products didn't grow as expected in the second term due to economic slowdown. The Electrical Insulation and Electronic Equipment Tapes segment decreased by 7.7%, but in other product segments, Packing Tapes has increased by 9.9%, and the Other Industrial Tapes segment increased over the previous period by 2.6%. Gross export value was ¥7,613 million (US$67,565 thousand), a 6.8% decrease from the previous term. Gross export value also makes up 35.0% of total consolidated sales, and has decreased 1.3 points compared to the previous term.

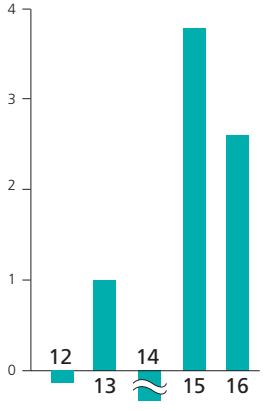
Equity Ratio (%)



Return on Average Assets (ROA) (%)



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



Financial Position

Total assets for the end of year consolidated accounting decreased by 5.2% or ¥1,836 million (US$16,298 thousand) from the previous end of year consolidated accounting to ¥33,495 million (US$297,227 thousand).

Total current assets for the end of year decreased by 1.9% or ¥346 million (US$3,069 thousand) from the previous end of year consolidated accounting to ¥17,755 million (US$157,556 thousand). This is mainly due to the decrease of bills receivable and accounts receivable.

Total fixed assets for the end of year consolidated accounting decreased 8.7% or ¥1,491 million (US$13,229 thousand) from the previous end of year consolidated accounting for a total of ¥15,740 million (US$139,671 thousand). This is mainly due to depreciation and amortization of fixed assets.

Total liabilities for the end of year consolidated accounting decreased 21.7% or ¥1,531 million (US$13,588 thousand) from the previous end of year consolidated accounting to ¥5,532 million (US$49,090 thousand). Out of this, total current liabilities decreased by 23.9% or ¥1,411 million (US$12,521 thousand) from the previous end of term to ¥4,494 million (US$39,879 thousand). This is mainly due to the decrease of bills payable and accounts payable. Total long-term liabilities for the end of the term decreased 10.4% or ¥120 million (US$1,065 thousand) for the previous end of year consolidated accounting to ¥1,038 million (US$9,211 thousand). This is mainly due to the reduction of deferred tax liability.

Total net assets for the end of year consolidated accounting decreased 1.1% or ¥305 million (US$2,707 thousand) below the previous end of year consolidated accounting to ¥27,963 million (US$248,138 thousand). This is mainly due to a reduction in adjusted cumulative total for retirement benefits.

The result of these figures is a capital-to-asset ratio of 83.5%, an increase of 3.5 points from the previous term.

Cash Flows

Capital from operating activities increased by ¥1,172 million (US$10,398 thousand). This was an increase on the previous year's consolidated accounting of ¥842 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 ¥160 million (US$1,422 thousand). Even in the activities of the previous consolidated accounting term, ¥773 million was used for investment. The main factor for this in the current term was expenditures for acquisition of fixed assets.

There was a ¥290 million (US$2,572 thousand) decrease in capital from financial activities. There was a decrease of ¥638 million in used capital from the previous consolidated accounting year. The decrease this term was mainly due to dividend payments.

From these activities, consolidated cash and cash equivalents for end of year consolidated accounting were ¥6,537 million (US$58,003 thousand), an increase of ¥501 million (US$4,446 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 ¥6.00 (US$0.05) per share, the total annual dividends were ¥11.00 (US$0.10) per share.

Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
ASSETS			
Current Assets:			
Cash and time deposits	¥ 6,856	¥ 6,410	$ 60,839
Notes and accounts receivable:			
Trade	5,668	6,010	50,299
Less: Allowance for doubtful accounts (Note 2-h)	(7)	(8)	(58)
Inventories (Note 2-c)	4,347	4,529	38,571
Deferred income taxes (Note 2-g)	341	330	3,027
Other current assets	550	830	4,878
Total current assets	17,755	18,101	157,556
Property,Plant and Equipment (Note 2-d):			
Land	4,052	4,076	35,959
Buildings	11,614	11,753	103,061
Machinery and equipment	24,658	24,788	218,807
Construction in progress	69	131	615
	40,393	40,748	358,442
Less: Accumulated depreciation	(29,124)	(28,509)	(258,442)
Property,plant and equipment,net	11,269	12,239	100,000
Intangible Assets	477	438	4,229
Investments and Other Assets:			
Investments in securities (Notes 2-b and 5)	3,735	3,856	33,146
Deferred income taxes (Note 2-g)	7	41	62
Net defined benefit asset	26	376	232
Other	226	280	2,002
Less: Allowance for doubtful accounts (Note 2-h)	(0)	(0)	(0)
Total investments and other assets	3,994	4,553	35,442
Total assets	¥ 33,495	¥ 35,331	$ 297,227

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Notes and accounts payable:			
Trade	¥ 3,267	¥ 3,906	$ 28,987
Short-term borrowings	4	5	39
Accrued income taxes	16	575	146
Accrued expenses	457	560	4,053
Other current liabilities	750	859	6,653
Total current liabilities	4,494	5,905	39,878
Long-term Liabilities:			
Net defined benefit liability	29	24	259
Deferred liabilities taxes (Note 2-g)	597	707	5,297
Asset retirement obligations	294	309	2,610
Other	118	118	1,045
Total long-term liabilities	1,038	1,158	9,211
Total liabilities	5,532	7,063	49,089
NET ASSETS			
Stockholders' Equity:			
Common stock:	5,057	5,057	44,876
Authorized: 80,000,000 shares			
Issued: 26,687,955 shares as of March 31, 2016 and 26,687,955 shares as of March 31, 2015, respectively			
Additional paid-in capital	4,644	4,644	41,210
Retained earnings	16,410	15,973	145,620
Less: Treasury stock, at cost	(137)	(137)	(1,218)
Total Stockholders' equity	25,974	25,537	230,488
Accumulated other comprehensive income			
Unrealized gains on securities (Note 2-b and 5)	1,653	1,682	14,671
Foreign currency translation adjustments (Note 2-j)	384	688	3,406
Remeasurements of defined benefit plans	(48)	361	(427)
Total accumulated other comprehensive income	1,989	2,731	17,650
Total net assets	27,963	28,268	248,138
Total liabilities and net assets	¥33,495	¥35,331	$297,227

Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Net Sales	¥21,771	¥22,477	$193,192
Cost of Sales	15,903	16,882	141,121
Gross profit	5,868	5,595	52,071
Selling, General and Administrative Expenses	4,724	4,571	41,922
Operating income	1,144	1,024	10,149
Other Income and Expenses:			
Interest and dividend income	83	78	737
Interest expenses	(1)	(4)	(10)
Purchase discounts	12	12	106
Insurance income	12	13	110
Foreign exchange gains (losses), net	(365)	986	(3,239)
Amortization of business commencement expenses	(25)	(25)	(225)
Gain on sales of investment securities	139	47	1,233
Early extra retirement payments	—	(101)	—
Cost for asset retirement obligations	—	(130)	—
Other, net	(8)	2	(68)
	(153)	878	(1,356)
Income before income taxes	991	1,902	8,793
Income taxes:			
Current	140	774	1,241
Deferred	124	103	1,098
Total income taxes	264	877	2,339
Net income	¥ 727	¥ 1,025	$ 6,454
Profit attributable to non-controlling interests	—	—	—
Profit attributable to owners of parent	727	1,025	6,454

Per Share	Yen		U.S. dollars
Per share of common stock			
Net income	¥27.62	¥38.92	$0.25
Cash dividends	11.00	10.00	0.10

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Net income	¥ 727	¥1,025	$ 6,454
Other Comprehensive Income			
Unrealized gains on securities	(29)	560	(259)
Foreign currency translation adjustments	(304)	520	(2,701)
Remeasurements of defined benefit plans, net of tax	(409)	189	(3,632)
Total other comprehensive income	(742)	1,269	(6,592)
Comprehensive Income	(15)	2,294	(138)
Total comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	(15)	2,294	(138)
Comprehensive income attributable to non-controlling interests	—	—	—

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

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the years ended March 31, 2016 and 2015

	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, 2014	¥5,057	¥4,644	¥15,251	¥(137)	¥24,815	¥1,122	¥168	¥ 172	¥1,462	¥26,277
Cummulative 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
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
Balance at April 1, 2015	¥5,057	¥4,644	¥15,973	¥(137)	¥25,537	¥1,682	¥688	¥ 361	¥2,731	¥28,268
Cummulative effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—
Balance at the beginning of current year reflected changes in accounting policies	5,057	4,644	15,973	(137)	25,537	1,682	688	361	2,731	28,268
Cash dividends paid	—	—	(290)	—	(290)	—	—	—	—	(290)
Net income (loss)	—	—	727	—	727	—	—	—	—	727
Purchase of treasury stock	—	—	—	(0)	(0)	—	—	—	—	(0)
Net changes of items other than Stockholders' equity	—	—	—	—	—	(29)	(304)	(409)	(742)	(742)
Total changes of items during the period	—	—	437	(0)	437	(29)	(304)	(409)	(742)	(305)
Balance at March 31, 2016 ...	¥5,057	¥4,644	¥16,410	¥(137)	¥25,974	¥1,653	¥384	¥ (48)	¥1,989	¥27,963

	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, 2015	$44,876	$41,210	$141,737	$(1,217)	$226,606	$14,930	$ 6,107	$ 3,205	$24,242	$250,848
Cummulative effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—
Balance at the beginning of current year reflected changes in accounting policies	44,876	41,210	141,737	(1,217)	226,606	14,930	6,107	3,205	24,242	250,848
Cash dividends paid	—	—	(2,571)	—	(2,571)	—	—	—	—	(2,571)
Net income (loss)	—	—	6,454	—	6,454	—	—	—	—	6,454
Purchase of treasury stock	—	—	—	(1)	(1)	—	—	—	—	(1)
Net changes of items other than Stockholders' equity	—	—	—	—	—	(259)	(2,701)	(3,632)	(6,592)	(6,592)
Total changes of items during the period	—	—	3,883	(1)	3,882	(259)	(2,701)	(3,632)	(6,592)	(2,710)
Balance at March 31, 2016 ...	$44,876	$41,210	$145,620	$(1,218)	$230,488	$14,671	$ 3,406	$ (427)	$17,650	$248,138

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, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Operating Activities:			
Income (Loss) before income taxes	¥ 991	¥1,902	$ 8,793
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	972	861	8,627
Early extra retirement payments	—	101	—
Cost for asset retirement obligations	—	130	—
Gain on sales of investment securities	(139)	(47)	(1,233)
Increase (decrease) in allowance for doubtful accounts	(1)	(2)	(11)
Increase(decrease)in net defined benefit liability	(404)	(207)	(3,586)
Interest and dividends income	(83)	(78)	(737)
Interest expenses	1	4	10
Foreign exchange losses (gains)	345	(726)	3,059
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable	315	(22)	2,791
(Increase) decrease in inventories	136	(415)	1,209
Increase (decrease) in notes and accounts payable	(616)	(156)	(5,466)
Other, net	410	(151)	3,647
Subtotal	1,927	1,194	17,103
Interest and dividends income received	83	78	737
Interest expenses paid	(1)	(4)	(10)
Income taxes (paid) refund	(837)	(426)	(7,432)
Net cash provided by operating activities	1,172	842	10,398
Investing Activities:			
Payment for purchases of property, plant and equipment	(265)	(184)	(2,354)
Payment for purchases of intangible assets	(160)	(278)	(1,425)
Payment for purchases of investment in securities	(3)	(3)	(23)
Proceeds from sales of investment securities	214	66	1,896
Decrease (increase) in time deposits	54	(374)	484
Net cash used in investing activities	(160)	(773)	(1,422)
Financing Activities:			
Dividends paid	(290)	(263)	(2,571)
Increase (decrease) in long-term borrowings	—	(375)	—
Payment for acquisition of treasury stock	(0)	(0)	(1)
Net cash used in financing activities	(290)	(638)	(2,572)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(221)	244	(1,962)
Net Increase (Decrease) in Cash and Cash Equivalents	501	(325)	4,442
Cash and Cash Equivalents at Beginning of Period	6,036	6,361	53,561
Cash and Cash Equivalents at End of Period	¥6,537	¥6,036	$58,003

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, 2016 and 2015

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 ¥112.69= US$1, the prevailing exchange rate on March 31, 2016.

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 fiscal years of overseas subsidiaries end December 31. Overseas subsidiaries' financial statements are based on temporary settlement dates of March 31, 2016 and 2015 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.

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$131 thousand) and ¥17 million at March 31, 2016 and 2015.

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, 2016 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	¥ 6,856	¥ 6,856	—
(2) Notes and accounts receivable	5,668	5,668	—
(3) Marketable securities and investments in securities	3,716	3,716	—
(4) Notes and accounts payable	(3,267)	(3,267)	—
(5) Short-term debt	(4)	(4)	—

(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, 2016	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, 2016

	Millions of yen
	Due in One Year or Less
Cash and deposits	¥ 6,856
Notes and accounts receivable	5,668
Marketable securities and investments in securities	—
Total	¥12,524

(4) The redemption schedule for short-term debt and long-term debt at March 31, 2016 and 2015 was as follows:

	Millions of yen		Average interest rates (%)
	2016	2015	2016
Short-term debt	¥4	¥5	4.1
Total	¥4	¥5	

5. Securities

Historical costs, fair value and gross unrealized gains and losses for marketable securities as of March 31, 2016 and 2015 are as follows:

	Millions of yen				
	2016				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other Securities:					
Equity securities	¥1,371	¥3,716	¥2,345	¥2,347	¥(2)
Other	—	—	—	—	—
Total	¥1,371	¥3,716	¥2,345	¥2,347	¥(2)

	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	¥—

	Thousands of U.S. dollars				
	2016				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other Securities:					
Equity securities	$12,168	$32,978	$20,810	$20,830	$(20)
Other	—	—	—	—	—
Total	$12,168	$32,978	$20,810	$20,830	$(20)

Securities that do not have fair values are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Equity securities	¥19	¥19	$168
Other	—	—	—
Total	¥19	¥19	$168

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, 2016 and 2015 were as follows:

(1) Changes in defined benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Beginning balance of benefit obligations	¥4,033	¥4,140	$35,787
Cumulative effects of changes in accounting policies	—	62	—
Related balance	4,033	4,202	35,787
Service cost	263	272	2,335
Interest cost	56	58	497
Actuarial gains and losses	312	(123)	2,771
Benefits paid	(153)	(376)	(1,359)
Ending balance of benefit obligations	¥4,511	¥4,033	$40,031

(2) Changes in Pension Assets

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Beginning balance of pension assets	¥4,409	¥4,160	$39,121
Expected return on pension assets	88	83	782
Actuarial gains and losses	(94)	242	(833)
Contributions by the employer	288	299	2,553
Benefits paid	(153)	(376)	(1,359)
Ending balance of pension assets	¥4,537	¥4,409	$40,264

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Beginning balance of retirement benefit liabilities	¥24	¥25	$213
Benefits expenses	5	5	46
Benefits paid	—	(6)	—
Ending balance of retirement benefit liabilities	¥29	¥24	$259

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Funded defined benefit obligations	¥ 4,511	¥ 4,033	$ 40,032
Pension assets	(4,537)	(4,409)	(40,264)
Subtotal	(26)	(376)	(232)
Unfunded defined benefit obligations	29	24	259
Net amount of liabilities and assets recognized in consolidated balance sheet	3	(352)	27
Liabilities (net defined benefit liability)	29	24	259
Assets (net defined benefit assets)	(26)	(376)	(232)
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ 3	¥ (352)	$ 27

Note: This includes plans using the simplified method.

(5) Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Service costs	¥ 263	¥272	$ 2,335
Interest costs	56	58	497
Expected return on pension assets	(88)	(83)	(782)
Recognition of actuarial gains and losses	(196)	(99)	(1,748)
Benefits expenses caluculated on the simplified method	5	5	46
Total	¥ 40	¥153	$ 348

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Actual differences	¥(603)	¥266	$(5,353)

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrecognized actuarial gains and losses	¥(69)	¥534	$(616)

(8) Pension Assets

① Breakdown of pension assets

	2016	2015
Debt securities	68%	65%
Equity securities	24%	27%
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

	2016	2015
Discount rate	0.5%	1.3%
Expected return rate on plan assets	2.0%	2.0%
Salary Increase Rate	2.8%	2.9%

7. Income Taxes

Deferred income tax assets and liabilities as of March 31, 2016 and 2015 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Accrued bonus to employees	¥ 115	¥ 141	$ 1,019
Depreciation	11	16	99
Loss on valuation of investment securities	90	95	796
Net defined benefit liability	9	7	79
Tax loss carryforward	472	493	4,188
Impairment loss	307	386	2,727
Loss on valuation of inventories	129	65	1,145
Asset retirement obligations	91	100	810
Other	(2)	(0)	(18)
Valuation allowance	(874)	(932)	(7,756)
Total deferred tax assets	¥ 348	¥ 371	$ 3,089
Deferred tax liabilities:			
Reserve for advanced depreciation of noncurrent assets	(15)	(20)	(131)
Unrealized gains on other securities	(692)	(712)	(6,139)
Net defined benefit asset	(8)	(161)	(72)
Other deferred tax liabilities	118	186	1,045
Total deferred tax liabilities	¥(597)	¥(707)	$(5,297)
Net deferred tax assets (liabilities)	¥(249)	¥(336)	$(2,208)

A reconciliation on the difference between the statutory tax rate and effective rate on taxable income for the fiscal years ended March 31, 2016 and 2015 is as follows:

	2016	2015
Statutory tax rate	33.1%	35.6%
Entertainment and other non-deductible expenses	0.9	1.2
Dividend and other non-taxable income	(0.5)	(0.7)
Per capita levy of inhabitant taxes	2.1	1.1
Adjustment on deferred tax assets due to change in income tax rate	3.4	2.9
Increase in valuation allowance	(4.0)	10.8
Tax deduction for research expenses	(3.2)	(6.2)
Rate difference from foreign subsidiaries	(6.3)	(0.9)
Other, net	1.1	2.3
Effective tax rate	26.6	46.1

Revision of the amount of deferred tax assets and deferred tax liability according to the changes in corporate tax rate, etc.

On March 29, 2016, amendments to the Japanese tax regulations, "Act for Partial Revision of the Income Tax Act" and "Act for Partial Revision etc. of the Local Tax Act," were enacted in the Diet. Based on the amendments, the normal effective statutory tax rate used to calculate deferred tax assets or liabilities changed from 33.1% to 30.86% for those temporary differences expected to be realized or settled from April 1, 2016 to March 31, 2018, and to 30.62% for those temporary differences expected to be realized or settled on or after April 1, 2018.

The result was a reduction of deferred tax liabilities (the amount after deducting deferred tax assets) of ¥12 million (US$107 thousand), including an increase of ¥39 million (US$345 thousand) in unrealized gains on available-for-sale securities, an increase of ¥7 million (US$62 thousand) in adjusted cumulative total and an increase of ¥34 million (US$300 thousand) in corporate tax adjustment added in the current consolidated fiscal year.

8. Subsequent Event

Appropriation of retained earnings

Subsequent to March 31, 2016, the Company's Board of Directors, with the approval of stockholders on June 24, 2016 declared a cash dividend of ¥132 million (US$1,168 thousand) equal to ¥5.00 (US$0.04) per share, applicable to earnings of the year ended March 31, 2016 and payable to stockholders on the stockholders' register on March 31, 2016.

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, 2016 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, 2016 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 24, 2016

Inoue Audit Corporation

INOUE AUDIT CORPORATION

COMPANY DATA

Company Outline

(as of March 31, 2016)

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	486 (648 consolidated)

Board of Directors and Auditors

(as of June 24, 2016)

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 Jun Watanabe Masaki Miyake Kazunori Shimamoto
Operating Officers	Taiji Namekawa Masao Mochizuki Ken Ebitani Nobuhisa Ishizaki

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
Representative Office	Taipei

INVESTOR INFORMATION

Investor Information

(as of March 31, 2016)

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	2,890
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	2,803.0	10.64
Keishiro Teraoka	888.9	3.38
Japan Trustee Services Bank, Ltd. (Trust Account)	826.6	3.14
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	818.8	3.11
CGML PB CLIENT ACCOUNT	760.2	2.89
Resona Bank, Ltd.	678.8	2.58
Kuniko Teraoka	526.0	2.00
Employees' Stockholding Group	525.9	2.00
BBH BOSTON F NOMURA Jp Sm Cap F 620065	350.9	1.33

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