



TERAOKA SEISAKUSHO CO., LTD.

PROFILE

Since its establishment as a comprehensive manufacturer of adhesive tape in 1921, Teraoka Seisakusho Co., Ltd. has remained an industry leader in driving development of original and advanced technology, providing customers with a diverse lineup of adhesive tapes that extend to packing, electrical insulation, electronic equipment, other industrial and general home-use adhesive tapes.

With the intensifying of demand of corporations for social responsibility, environmental considerations are becoming increasingly more important in corporate activities. At Teraoka Seisakusho, we have introduced cogeneration equipment in the Ibaraki Factory as an environmental measure. We plan to use this in our goal of reducing the amount of energy we use as well as CO₂ emissions. This equipment is a system that reduces energy costs and CO₂ by supplying power via our Company's generator and effectively using the heat emitted at that time.

The Ibaraki plant system generates power to energize the factory with the engine generator, for which fuel has been changed from heavy oil to liquid natural gas (LNG), and uses steam and cold water in the air conditioning equipment of the clean room, etc. Electricity continues to be supplied from the power transmission, but partial production is possible even in the event of a power outage. Likewise, the steam boiler fuel has been changed from heavy oil to LNG and we continue to make efforts to reduce energy costs and CO₂ as well as take initiatives for a low-carbon and recycling society.

Furthermore, from this fiscal year our motto has become, "First change, then make change." It is precisely because of this unprecedented situation and difficulty that flexible and dramatic reforms have happened at a much faster rate. By turning this fiscal year, which marks the 100th anniversary of our founding, into an extremely important transition period for the next generation, we can establish our position as a company with clear value, importance and presence, as well as a source of progress and development.



Cogeneration equipment at Ibaraki factory

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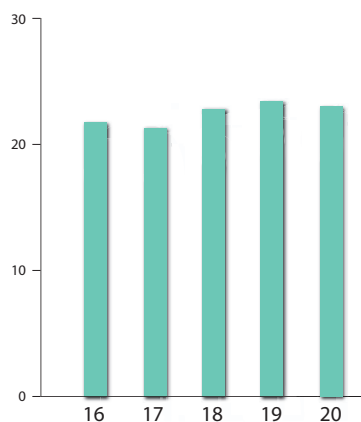
**CONSOLIDATED FINANCIAL HIGHLIGHTS**

For the years ended March 31,

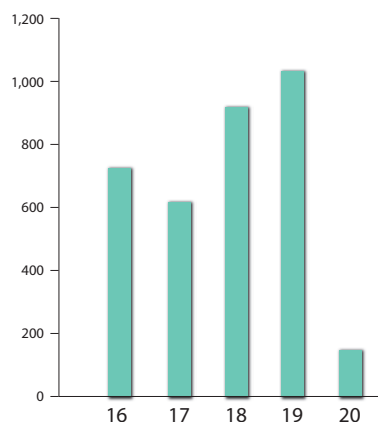
	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net Sales	¥22,895	¥23,558	\$210,377
Operating Income	104	1,144	954
Income before Income Taxes	317	1,366	2,917
Net Income	149	1,034	1,374
Total Assets	35,140	35,854	322,888
Net Assets	27,939	28,978	256,723
Ratio (%)			
Operating Income to Net Sales	0.5	4.9	
Equity Ratio	79.5	80.8	
Return on Average Assets (ROA)	0.4	2.9	
Return on Average Stockholders' Equity (ROE)	0.5	3.6	
Per Share			
	Yen		U.S. dollars
Net Income	¥ 5.90	¥40.84	\$0.05
Cash Dividends	10.00	14.00	0.09

The U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥108.83 = US\$1, the rate prevailing on March 31, 2020.

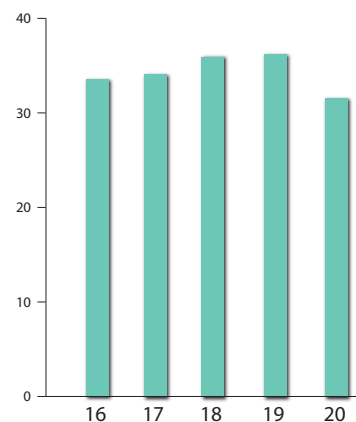
Net Sales
(¥ billions)



Net Income
(¥ millions)



Total Assets
(¥ billions)





Result for FY 2020

Fiscal year 2020, the year ended March 31, 2020 marks the 110th business term for the Company Group.

Although Japan's economy in this consolidated accounting fiscal year showed strenuous efforts in exports and capital investment up to the third quarter, individual consumption remained slow. Since the end of last fiscal year, the COVID-19 pandemic rapidly caused the stagnant economy to deteriorate. Meanwhile, on a world scale, in addition to a stagnant market sentiment due to trade friction between the U.S. and China since the start of the fiscal year, COVID-19 spread throughout the entire world, making the economic deterioration even more serious.

Amidst this business environment, the Company Group demonstrated our strength in mobility, focusing on expansion to the East Asian market, but with the ill effects on the economies of various countries, especially China, due to the drawn-out trade friction between the U.S. and China and COVID-19, sales dropped compared to the same period the previous year, especially of electrical insulation and electronic equipment tapes.

As a result, sales for the Company Group for the consolidated fiscal year were ¥22,895 million (US\$210,377 thousand), decreasing 2.8% from the previous year. In terms of profit, while times were tough, operating income was ¥104 million (US\$954 thousand) thanks to our focus on realizing effects of reviewing unprofitable products and detailed operating management activity from the fourth quarter. This was a 90.9% decrease from the previous fiscal year. Due to the foreign exchange loss calculated at the beginning of the fiscal year with the strengthened yen, consolidated income before income taxes was ¥317 million (US\$2,917 thousand), a 76.8% decrease from the previous term. In moving forward with our policy of gradual dissolution of mutual share holdings, net income attributable to the parent company for the year was ¥149 million (US\$1,374 thousand) due to posting selling profit of investment securities in the second quarter, which was an 85.6% decrease compared to the previous fiscal year.

Operating Problem Prevention

(1) Promotion of health and safety activities

In addition to making it clear that occupational safety is the top priority for management, we will also work on eradicating occupational accidents company-wide. We will continue to improve safety and sanitation management and comply with legislation related to safety and health and company regulations by continuous, comprehensive and proactive action by the safety and health committee.

(2) Enhancement of Compliance Structure

The Company Group is dedicated to creating a healthy corporate environment we can be proud of while achieving our CSR (corporate social responsibility). Moreover, we will be making compliance enhancement (corporate ethics and compliance with laws), and further we will be increasing employee compliance awareness through company-wide education programs using training and e-learning while also conducting company-wide proactive efforts through a compliance committee.

(3) Enhancing Quality Management and Assurance Arrangements

While thoroughly implementing quality management education based on company rules and principles, we are also building a system that facilitates response to demand from industries with the highest level of quality management by introducing an inspection system that eliminates human error. Furthermore, we will strictly operate the inspection system and the production management system that is currently being built, to improve corporate

value of the Company Group and achieve common interests with our shareholders.

(4) Establishing Continued Operating Profit on Sales

The Company continuously takes initiatives to improve and ensures improved Operating Profit on Sales through deep and comprehensive understanding of customer needs by actively communicating with product users, reviewing unprofitable products and conducting effective and new sales activities by concentrating human resources in focus segments.

(5) Production system organization and new product development for the future

Along with reviewing our craftsmanship from the roots, proactive capital investment and improving quality and productivity in order to build an optimum production system, we are making progress in organic collaboration between manufacturing, research and sales departments and will strive to put new products with a high profitability and high expected added value on the market in a timely manner, with consideration for environmental issues.

(6) Enhancing Personnel Training

The Company Group recognizes that the source of business competitiveness that is not influenced by the dramatically 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 including 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 cause reform, we are building a system where it is possible for the company and employee to grow together.



Dividends

The end of term dividend was distributed at ¥5.00 (US\$0.05) per share and the mid-term dividend preceding it was ¥5.00 (US\$0.05) per share for a total of ¥10.00 (US\$0.09) per share in annual dividends.

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

June 23, 2020

Keishiro Teraoka,
Chairman

Kenichi Tsuji,
President



REVIEW OF OPERATIONS

The Company Group R&D is held up by the pillars of both short-term and medium to long-term perspectives, developing new products based on adhesive tapes and resin sheets, developing materials with new function, developing new manufacturing methods, introduction of new technology thanks to external alliances, environmental measures, improved quality, improved stability in production and sales, etc.

The market continues to evolve. For example, the automotive and telecommunication industries are undergoing dramatic reforms based on concepts that differ from past methods, causing a paradigm shift. With this, the needs of the Company Group's customers has also become more diverse and sophisticated. The demand for environmental considerations is also increasing in many industries and services. The entire world has become aware of viral infection as a new risk due to the COVID-19 pandemic that has plagued us since the beginning of 2020. The fact is that the risk of viral infection not only affects and threatens the human body, but also has an extremely significant impact on the economy by the way infection prevention measures slow production activities and services. It has been determined that the research and development system that can provide stable products, supply value and solutions to the market is extremely important in a changing environment with such a massive impact on the economy.

In addition to taking our current technologies to the next level against these trends, by tackling development of new technology and capital investment, the Company Group hopes to continue to ensure provision of stable and high-quality products that will satisfy our customers, provision of solutions through both existing and new products, creating value to be provided to customers, creating value with customers and provision of products with high added value, as well as provision of stable products and services. We have already started efforts to contribute to society in response to risk of viral infection from a CSR perspective.

New achievements in this consolidated fiscal year include new product development of advanced-

fixation double-sided tape, strong adhesive double-sided tape, advanced-sealing double-sided tape, heat-resistant tape, heat management tape, etc. Also, new technological development expected to be launched in the medium to long-term saw progress in environmental technology development such as new adhesive material development, new functional coating material development, foam sheet applied technology development, solventless technology and petroleum alternative developments. Furthermore, we are actively investing in equipment, moving forward with expanding our R&D system by introducing experimental equipment related to new adhesive production methods, sheet forming, various analytical equipment and practical evaluation equipment, among others. Regarding environmental technology, due to the high demand for environmentally friendly products, we intend to focus on environmental technology development. Also, going forward we will draft technical strategies that span from the short to medium-term and will proceed in creating and implementing themes based on these strategies, then shifting to partial implementation. We also hope to continue implementing prior investment according to technology/product strategies and market trend forecasts.

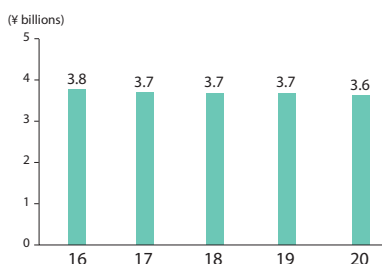
Total R&D costs in this consolidated accounting period were ¥1,067 million (US\$9,806 thousand), increasing 14.3% over the previous year. Furthermore, R&D accounted for 4.7% of consolidated sales, which was a 0.7 point increase over the previous fiscal year.

Individually by department, the sales department is making efforts to improve gross profit by reviewing unprofitable products and reorganization along with focusing on expanding new products related to automotive electrical components and for mobile devices, which have potential for development in a variety of markets. In the technology department, while focusing on new products, we also made efforts to improve production through effective stabilization of inventory operations and quality. Management has decided on a new personnel system that promotes individual growth and enhances efforts of the organization as a whole, and is also continuing efforts to reform the corporate culture through comprehensive compliance training, while also enhancing audit function.

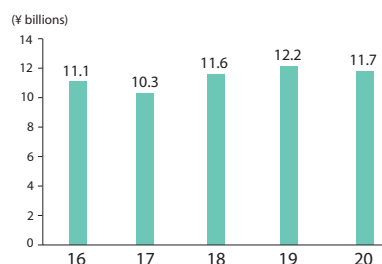
The result was that consolidated sales for the corporate group were ¥22,895 million (US\$210,377 thousand). The Company Group business consists of a single segment, manufacture and sale of adhesive tape. However, the following is an explanation of the state of sales by product division.



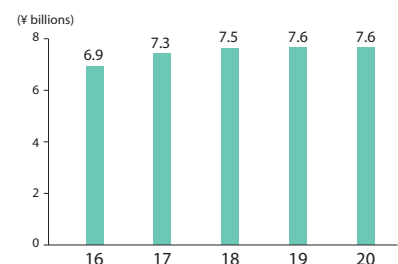
Sales of Packing Tapes



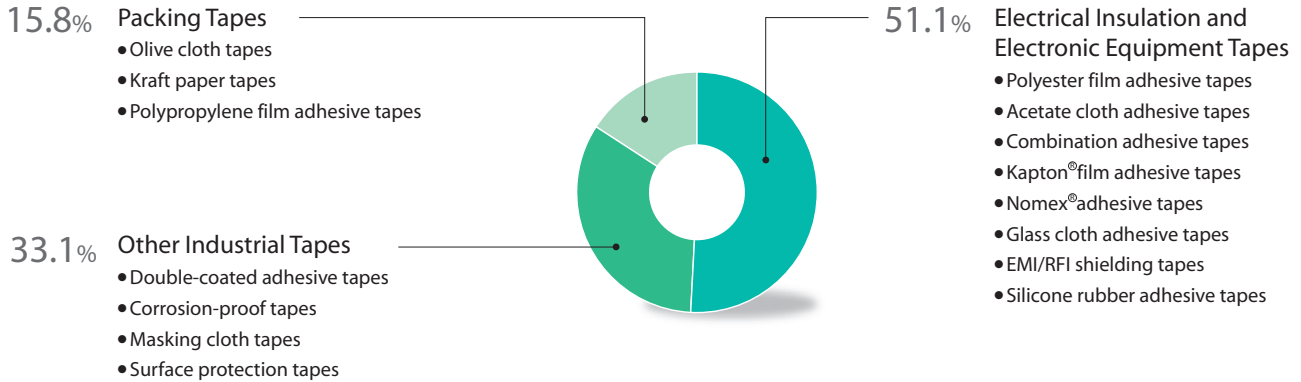
Sales of Electrical Insulation and Electronic Equipment Tapes



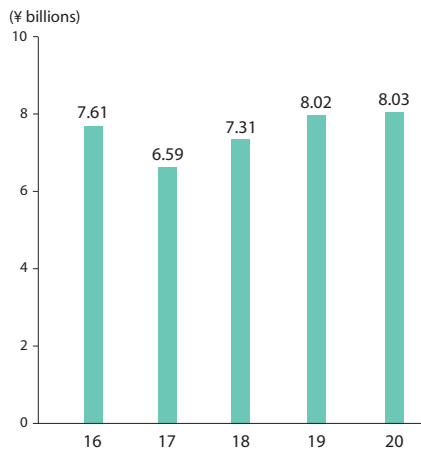
Sales of Other Industrial Tapes



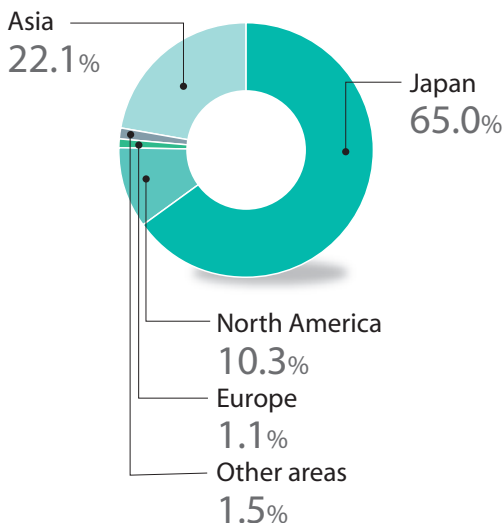
BREAKDOWN OF SALES BY CATEGORY



CHANGES IN OVERSEAS SALES



GEOGRAPHICAL SALES MARKETS



Packing Tapes

While consumer-related products, mainly mail-order sales, performed well, there was a decline in tape demands related to overseas projects, construction and civil engineering. Therefore, consolidated sales for this product were ¥3,622 million (US\$33,283 thousand), which is a 2.7% decrease from the previous year. This segment made up 15.8% of consolidated sales, which was the exact same percentage as last year.

Electrical Insulation and Electronic Equipment Tapes

While automotive equipment tape sales were steady, sales for this sector were only ¥11,696 million (US\$107,475 thousand) due to a downward shift of electronic equipment process tapes and tape for overseas mobile devices. This was a 4.1% decrease from the previous fiscal year. This segment accounts for 51.1% of total consolidated sales and has decreased by 0.7 points over the previous term.

Other Industrial Tapes

While new uses as measures against typhoons were discovered for polyethylene cloth tapes, which are major products used in infrastructure and construction, due to withdrawal of some unprofitable products and the downward shift of automotive equipment tapes, sales for this product segment were ¥7,577 million (US\$69,619 thousand). This is a 0.7% decrease from the previous term. This segment accounts for 33.1% of total consolidated sales and has increased by 0.7 points over the previous term.

Overseas Sales

The Company Group has expanded activities overseas by establishing corporate bodies and bases in Hong Kong SAR, Shanghai, Shenzhen, Indonesia, South Korea, as well as Taiwan.

Looking at overseas sales for the current consolidated fiscal year by segment, Packing Tapes were ¥248 million, a decrease of 9.7% while Electrical Insulation and Electronic Equipment Tapes sales were ¥7,511 million, increased by 0.2% from the previous year, but Other Industrial Tapes were ¥272 million, which was a 5.9% increase over the previous term. The result of this was overseas sales of ¥8,031 million (US\$73,795 thousand) in this segment, 0.1% growth compared to the previous term. This also accounted for 35.1% of consolidated sales. This was a 1.0 point increase compared to the previous term.

**CONSOLIDATED FIVE-YEAR SUMMARY**

Years ended March 31	Millions of yen					Thousands of U.S. dollars
	2016	2017	2018	2019	2020	2020
Net Sales	¥21,771	¥21,262	¥22,816	¥23,558	¥22,895	\$210,377
Operating Income	1,144	1,039	1,319	1,144	104	954
Income before Income Taxes	991	768	1,291	1,366	317	2,917
Net Income	727	616	921	1,034	149	1,374
Total Assets	33,495	34,640	35,575	35,854	35,140	322,888
Net Assets	27,963	27,994	28,686	28,978	27,939	256,723
Ratio (%)						
Operating Income to Net Sales	5.3	4.9	5.8	4.9	0.5	
Equity Ratio	83.5	80.8	80.6	80.8	79.5	
Return on Average Assets (ROA)	2.1	1.8	2.6	2.9	0.4	
Return on Average Stockholders' Equity (ROE)	2.6	2.2	3.3	3.6	0.5	
Per Share						
	Yen					U.S. dollars
Net Income	¥27.62	¥23.96	¥36.37	¥40.84	¥ 5.90	\$0.05
Cash Dividends	11.00	11.00	12.00	14.00	10.00	0.09

The U.S. dollars are translated at the rate of ¥108.83 per US\$1, prevailing on March 31, 2020.

CONSOLIDATED FINANCIAL STATEMENTS

Fiscal Year 2020

Year ended March 31, 2020



TERAOKA
TERAOKA SEISAKUSHO CO., LTD.

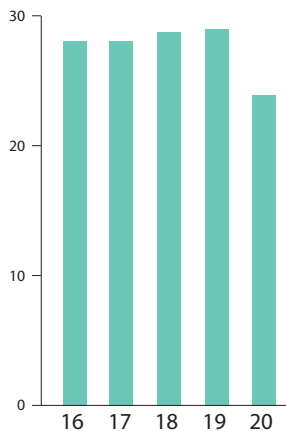
株式会社 寺岡製作所



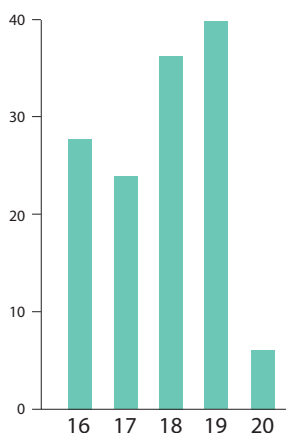
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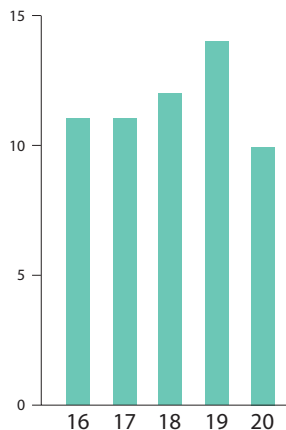
Net Assets
(¥ billions)



Net Income
per Share (Yen)



Cash Dividends
per Share (Yen)



Business Performance

In this consolidated fiscal year, in addition to the drawn-out trade friction between the U.S. and China up to the third quarter and spread of COVID-19 since the beginning of the year, the Company Group's environment has remained unpredictable with suspended economic activities due to lockdowns and self-quarantine in major cities and massive dips in sales of electrical and electronic tapes compared to the same periods the previous year.

Under these circumstances, individually by department, the sales department is making efforts to improve gross profit by reviewing unprofitable products and reorganization along with focusing on expanding new products related to automotive electrical components and for mobile devices, which have potential for development in a variety of markets. In the technology department, while focusing on new products, we also made efforts to improve production through effective stabilization of inventory operations and quality. Management has decided on a new personnel system that promotes individual growth and enhances efforts of the organization as a whole, and is also continuing efforts to reform the corporate culture through comprehensive compliance training, while also enhancing audit function.

The result was that consolidated sales for the consolidated fiscal year decreased by 2.8% over the previous term to ¥22,895 million (US\$210,377 thousand). Although circumstances were trying with the drawn-out trade friction between the U.S. and China up to the third quarter and spread of COVID-19 since the beginning of the year leading to massive dips in sales of electrical and electronic tapes compared to the same periods the previous year, operating income was ¥104 million (US\$954 thousand), a 90.9% decrease from the previous fiscal year thanks to our focus on realizing effects of reviewing unprofitable products and detailed operating management activity from the fourth quarter. Income before income taxes was ¥317 million (US\$2,917 thousand), a 76.8% decrease from the previous term due to the foreign exchange loss calculated at the beginning of the fiscal year with the strengthened yen. In moving forward with our policy of gradual dissolution of mutual share holdings, net income attributable to the parent company for the year was ¥149 million (US\$1,374 thousand) due to posting selling profit of investment securities in the second quarter, which was an 85.6% decrease compared to the previous fiscal year.

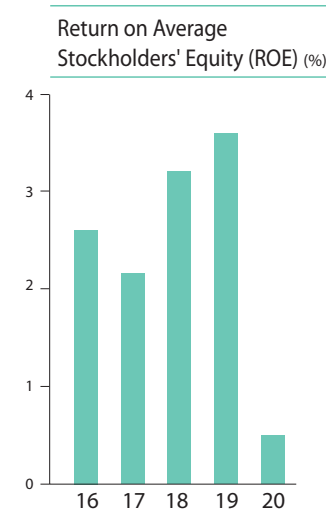
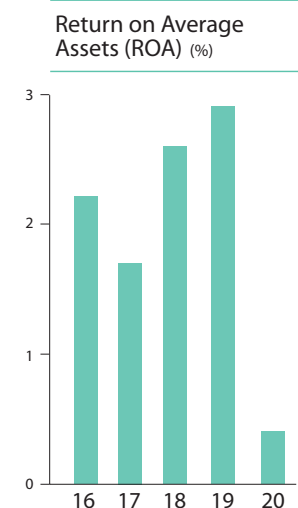
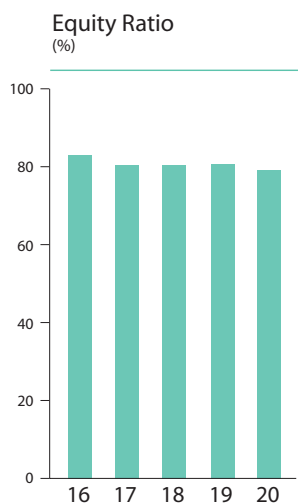
Segment Information

The Company Group business consists of a single segment, manufacture and sale of adhesive tapes. However, the following is an explanation of the state of sales by product division. In the Packing Tapes segment this term, while consumer-related products, mostly mail-order sales, performed well, there was a decline in tape demands related to overseas projects, construction and civil engineering, so consolidated sales for this product were ¥3,622 million (US\$33,283 thousand), which is a 2.7% decrease from the previous year. This segment accounts for 15.8% of total consolidated sales with no change whatsoever from the previous term.

In the Electrical Insulation and Electronic Equipment Tapes segment, automotive equipment tape sales were steady, sales for this sector were only ¥11,696 million (US\$107,475 thousand) due to a downward shift of electronic equipment process tapes and tapes for overseas mobile devices. This was a 4.1% decrease from the previous fiscal year. This segment accounts for 51.1% of total consolidated sales and has decreased by 0.7 points from the previous term.

In the Other Industrial Tapes segment, while new uses as measures against typhoons were discovered expanding polyethylene cloth tapes, which are major products used in infrastructure and construction, sales for this product segment were ¥7,577 million (US\$69,619 thousand) due to withdrawal of some unprofitable products and the downward shift of automotive equipment tapes. This is a 0.7% decrease from the previous term. This segment accounts for 33.1% of consolidated sales and increased by 0.7 points above the previous term.

At the same time, looking at results in the Overseas Sales segment, overseas sales for the current consolidated fiscal year increased by 0.1% over the previous fiscal year, coming to ¥8,031 million (US\$73,795 thousand). Comparing by segment, Packing Tapes decreased by 9.7% while Electrical Insulation and Electronic Equipment Tapes increased by 0.2% and Other



Industrial Tapes increased by 5.9%. Overseas Sales accounts for 35.1% of consolidated sales and this grew by 1.0 points compared to the previous year.

Financial Position

Total assets for the end of year consolidated accounting decreased by 2.0% from the previous end of year consolidated accounting to ¥35,140 million (US\$322,888 thousand).

Total current assets for the end of year decreased by 0.4% from the previous end of year consolidated accounting to ¥20,846 million (US\$191,544 thousand). This was mainly due to a decrease in inventory.

Total fixed assets for the end of year consolidated accounting decreased 4.2% from the previous end of year consolidated accounting to ¥14,294 million (US\$131,344 thousand). This was mainly due to the market value decrease in investment securities due to drop in stock price.

Total liabilities for the end of year consolidated accounting increased 4.7% over the previous end of year consolidated accounting to ¥7,201 million (US\$66,165 thousand). Out of this, total current liabilities increased by 9.4% over the previous end of term to ¥6,120 million (US\$56,236 thousand). This was mainly due to an increase in capital investment. Furthermore, total long-term liabilities decreased 15.7% below the previous end of year consolidated accounting to ¥1,081 million (US\$9,929 thousand).

Total net assets for the end of year consolidated accounting decreased 3.6% from the previous end of year consolidated accounting to ¥27,939 million (US\$256,723 thousand). This was mainly due to a decrease in other difference in securities valuation because of a drop in stock price and sale of stocks.

The result of these figures is a capital-to-asset ratio of 79.5%, a decrease of 1.3 points from the previous term.

Cash Flows

Capital from operating activities increased by ¥1,458 million (US\$13,403 thousand). This increase on the previous year's consolidated accounting was ¥1,458 million, the exact same amount as the previous term. The increase this term was again mainly attributed to depreciation, receivables and inventory.

Cash flow used for investment activities was ¥912 million (US\$8,380 thousand). Even in the activities of the previous consolidated accounting term, ¥883 million was used for investment. This was mainly due to expenditures for acquisition of tangible fixed assets.

There was a ¥272 million (US\$2,507 thousand) decrease in capital from financial activities. There was a decrease of ¥399 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 ¥9,192 million (US\$84,462 thousand), an increase of ¥233 million (US\$2,136 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 according to a basic policy of continued stable dividend payments.

Regarding dividends, in addition to elements affecting the amount, such as business results, current financial state, cash flow, dividend payout ratio, etc., dividends were determined based overall considerations of future business strategy, business development policies and projections, including considerations for ensuring a certain level of flexibility, as well as ensuring capital for investment.

According to our basic stance, the end of term dividend was ¥5.00 (US\$0.05) per share, and combined with the previously distributed interim dividend of ¥5.00 (US\$0.05) per share, the total annual dividends were ¥10.00 (US\$0.09) per share.

The payout ratio for this term was 169.5%.

**CONSOLIDATED BALANCE SHEETS**

March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
ASSETS			
Current Assets:			
Cash and time deposits	¥ 9,807	¥ 9,425	\$ 90,117
Notes and accounts receivable – trade	5,708	5,685	52,445
Electronically recorded monetary claims – operating	1,035	1,274	9,507
Merchandise and finished goods (Note 2-c)	1,813	1,715	16,658
Work in process (Note 2-c)	1,121	1,253	10,300
Raw materials and supplies (Note 2-c)	912	1,238	8,382
Other	458	355	4,207
Less: Allowance for doubtful accounts (Note 2-h)	(8)	(8)	(72)
Total current assets	<u>20,846</u>	<u>20,937</u>	<u>191,544</u>
Property, Plant and Equipment (Notes 2-d and 2-f):			
Buildings and structures	11,940	11,949	109,709
Machinery, equipment and vehicles	22,335	22,488	205,228
Land	4,034	4,047	37,063
Leased assets	269	269	2,476
Construction in progress	893	172	8,202
Other	2,248	2,083	20,662
	<u>41,719</u>	<u>41,008</u>	<u>383,340</u>
Less: Accumulated depreciation	<u>(30,396)</u>	<u>(30,226)</u>	<u>(279,298)</u>
Property, plant and equipment, net	<u>11,323</u>	<u>10,782</u>	<u>104,042</u>
Intangible Assets	111	209	1,021
Investments and Other Assets:			
Investments in securities (Notes 2-b and 5)	2,600	3,579	23,892
Deferred income taxes (Note 2-g)	97	35	887
Net defined benefit asset	—	119	—
Other	166	193	1,529
Less: Allowance for doubtful accounts (Note 2-h)	(3)	(0)	(27)
Total investments and other assets	<u>2,860</u>	<u>3,926</u>	<u>26,281</u>
Total assets	<u>¥ 35,140</u>	<u>¥ 35,854</u>	<u>\$ 322,888</u>

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Notes and accounts payable – trade	¥ 1,298	¥ 1,263	\$ 11,929
Electronically recorded obligations – operating	2,583	2,603	23,735
Lease obligations	19	19	178
Accrued income taxes	53	191	490
Accrued expenses	508	593	4,664
Other	1,659	925	15,240
Total current liabilities	<u>6,120</u>	<u>5,594</u>	<u>56,236</u>
Long-term Liabilities:			
Lease obligations	211	230	1,938
Deferred liabilities taxes (Note 2-g)	38	284	345
Provision for environmental measures	316	316	2,899
Net defined benefit liability	104	43	960
Asset retirement obligations	304	301	2,795
Long-term accounts payable - other	57	57	521
Other	51	51	471
Total long-term liabilities	<u>1,081</u>	<u>1,282</u>	<u>9,929</u>
Total liabilities	<u>7,201</u>	<u>6,876</u>	<u>66,165</u>
NET ASSETS			
Stockholders' Equity:			
Common stock	5,057	5,057	46,468
Authorized: 80,000,000 shares			
Issued: 26,687,955 shares as of March 31, 2020 and 26,687,955 shares as of March 31, 2019, respectively			
Additional paid-in capital	4,644	4,644	42,672
Retained earnings	17,935	18,039	164,806
Less: Treasury stock, at cost	(462)	(462)	(4,252)
Total Stockholders' equity	<u>27,174</u>	<u>27,278</u>	<u>249,694</u>
Accumulated other comprehensive income			
Unrealized gains on securities (Notes 2-b and 5)	764	1,445	7,019
Foreign currency translation adjustments (Note 2-j)	137	263	1,265
Remeasurements of defined benefit plans	(136)	(8)	(1,255)
Total accumulated other comprehensive income	<u>765</u>	<u>1,700</u>	<u>7,029</u>
Total net assets	<u>27,939</u>	<u>28,978</u>	<u>256,723</u>
Total liabilities and net assets	<u>¥35,140</u>	<u>¥35,854</u>	<u>\$322,888</u>

**CONSOLIDATED STATEMENTS OF INCOME**

For the years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net Sales	¥22,895	¥23,558	\$210,377
Cost of Sales	17,411	17,202	159,989
Gross Profit	5,484	6,356	50,388
Selling, General and Administrative Expenses	5,380	5,212	49,434
Operating income	104	1,144	954
Other Income and Expenses:			
Interest income	14	10	129
Dividend income	93	95	852
Insurance income	22	18	206
Foreign exchange gains (losses), net	(135)	207	(1,243)
Loss on retirement of non-current assets	(4)	(54)	(39)
Commission paid	(53)	(91)	(490)
Gain on sales of investment securities	247	—	2,275
Gain on sales of fixed assets	22	—	204
Other, net	7	37	69
	213	222	1,963
Income before income taxes	317	1,366	2,917
Income taxes:			
Current	162	294	1,487
Deferred	6	38	56
Total income taxes	168	332	1,543
Net income	¥ 149	¥ 1,034	\$ 1,374
Profit attributable to non-controlling interests	—	—	—
Profit attributable to owners of parent	149	1,034	1,374
Per Share			
	Yen		U.S. dollars
Per share of common stock			
Net income	¥ 5.90	¥40.84	\$0.05
Cash dividends	10.00	14.00	0.09

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, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net income	<u>¥ 149</u>	¥1,034	<u>\$ 1,374</u>
Other Comprehensive Income			
Unrealized gains on securities	(681)	(402)	(6,259)
Foreign currency translation adjustments	(126)	112	(1,159)
Remeasurements of defined benefit plans, net of tax	(128)	(72)	(1,180)
Total other comprehensive income	<u>(935)</u>	<u>(362)</u>	<u>(8,598)</u>
Comprehensive Income	<u>¥(786)</u>	<u>¥ 672</u>	<u>\$ (7,224)</u>
Total comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	(786)	672	(7,224)
Comprehensive income attributable to non-controlling interests	—	—	—



CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the years ended March 31, 2020 and 2019

	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, 2018	¥5,057	¥4,644	¥17,385	¥(462)	¥26,624	¥1,847	¥ 151	¥ 64	¥2,062	¥28,686
Cash dividends paid	—	—	(380)	—	(380)	—	—	—	—	(380)
Net income	—	—	1,034	—	1,034	—	—	—	—	1,034
Purchase of treasury stock	—	—	—	(0)	(0)	—	—	—	—	(0)
Net changes of items other than Stockholders' equity	—	—	—	—	—	(402)	112	(72)	(362)	(362)
Total changes of items during the period	—	—	654	(0)	654	(402)	112	(72)	(362)	292
Balance at March 31, 2019 ...	¥5,057	¥4,644	¥18,039	¥(462)	¥27,278	¥1,445	¥ 263	¥ (8)	¥1,700	¥28,978
Balance at April 1, 2019	¥5,057	¥4,644	¥18,039	¥(462)	¥27,278	¥1,445	¥ 263	¥ (8)	¥1,700	¥28,978
Cash dividends paid	—	—	(253)	—	(253)	—	—	—	—	(253)
Net income	—	—	149	—	149	—	—	—	—	149
Purchase of treasury stock	—	—	—	(0)	(0)	—	—	—	—	(0)
Net changes of items other than Stockholders' equity	—	—	—	—	—	(681)	(126)	(128)	(935)	(935)
Total changes of items during the period	—	—	(104)	(0)	(104)	(681)	(126)	(128)	(935)	(1,039)
Balance at March 31, 2020 ...	¥5,057	¥4,644	¥17,935	¥(462)	¥27,174	¥ 764	¥ 137	¥(136)	¥ 765	¥27,939

	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, 2019	\$46,468	\$42,672	\$165,760	\$(4,251)	\$250,649	\$13,278	\$ 2,424	\$ (75)	\$15,627	\$266,276
Cash dividends paid	—	—	(2,328)	—	(2,328)	—	—	—	—	(2,328)
Net income	—	—	1,374	—	1,374	—	—	—	—	1,374
Purchase of treasury stock	—	—	—	(1)	(1)	—	—	—	—	(1)
Net changes of items other than Stockholders' equity	—	—	—	—	—	(6,259)	(1,159)	(1,180)	(8,598)	(8,598)
Total changes of items during the period	—	—	(954)	(1)	(955)	(6,259)	(1,159)	(1,180)	(8,598)	(9,553)
Balance at March 31, 2020 ...	\$46,468	\$42,672	\$164,806	\$(4,252)	\$249,694	\$ 7,019	\$ 1,265	\$(1,255)	\$ 7,029	\$256,723

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Operating Activities			
Income before income taxes	¥ 317	¥1,366	\$ 2,917
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,001	932	9,201
Loss on retirement of non-current assets	4	54	39
Gain on sales of investment securities	(247)	—	(2,275)
Gain on sales of fixed assets	(22)	—	(204)
Increase (decrease) in allowance for doubtful accounts	3	(2)	27
Increase (decrease) in net defined benefit liability	(4)	(44)	(39)
Interest and dividends income	(107)	(105)	(982)
Interest expenses	—	0	—
Foreign exchange losses (gains)	55	(127)	501
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable	212	(21)	1,951
(Increase) decrease in inventories	348	(477)	3,202
Increase (decrease) in notes and accounts payable	20	103	188
Other, net	83	(21)	761
Subtotal	1,663	1,658	15,287
Interest and dividends income received	107	105	981
Interest expenses paid	—	(0)	—
Income taxes (paid) refund	(312)	(305)	(2,865)
Net cash provided by operating activities	1,458	1,458	13,403
Investing Activities:			
Payment for purchases of property, plant and equipment	(1,030)	(685)	(9,467)
Payments for retirement of property, plant and equipment	—	(47)	—
Proceeds from sales of property, plant and equipment	29	3	267
Payment for purchases of intangible assets	(36)	(53)	(330)
Payment for purchases of investment in securities	(3)	(3)	(25)
Proceeds from sales of investment securities	286	—	2,625
Payments for asset retirement obligations	(3)	—	(23)
Decrease (increase) in time deposits	(155)	(98)	(1,427)
Net cash used in investing activities	(912)	(883)	(8,380)
Financing Activities:			
Dividends paid	(253)	(380)	(2,328)
Payment for acquisition of treasury stock	(0)	(0)	(1)
Other, net	(19)	(19)	(178)
Net cash used in financing activities	(272)	(399)	(2,507)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(41)	58	(381)
Net Increase (Decrease) in Cash and Cash Equivalents	233	234	2,135
Cash and Cash Equivalents at Beginning of Period	8,959	8,725	82,327
Cash and Cash Equivalents at End of Period	¥ 9,192	¥8,959	\$84,462

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



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 ¥108.83=US\$1, the prevailing exchange rate on March 31, 2020.

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, 2020 and 2019 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 the Company and its domestic consolidated subsidiary is computed by the declining-balance method (excluding buildings (excluding building attachments) acquired on or after April 1, 1998 and building attachments and structures acquired on or after April 1, 2016 straight-line method), overseas consolidated subsidiaries adopt the straight-line method.

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.

(Related to Consolidated Financial Statement)

The financial importance of "Insurance income" which was included in "Other, net" under "Other Income and Expenses" in the previous consolidated fiscal year, has increased, so it has been listed independently for this consolidated fiscal year. We are currently transitioning the Consolidated Financial Statements from the previous consolidated fiscal year in order to reflect this change in display method. As a result, the ¥55 million listed in "Other, net" under "Other Income and Expenses" in the Consolidated Financial Statements of the previous consolidated fiscal year has been reclassified as ¥18 million under "Insurance income" and ¥37 million under "Other, net."

(Additional Information)

(About the effects of COVID-19)

Assuming the social economic activities that have been considerably stagnated due to the effects of COVID-19 recover to a certain level after a certain amount of time, and it becomes possible for our Group to maintain dealings, we are devising accounting estimates for judgment on the possibility to recover deferred taxes.

Furthermore, this assumption has a high level of uncertainty. On the other hand, even if infections are subdued temporarily, in case of extended world economic stagnation due to second and third waves, there is a possibility this will lead to decreased demand for our Group's products, which may significantly affect the consolidated financial reports for the next fiscal year and beyond.

3. Contingent Liabilities

Contingent Liabilities in respect of trade notes and export bills discounted with banks with recourse in the ordinary

course of business were none at March 31, 2019, and amounted to ¥7 million at March 31, 2020.

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, and electronically recorded monetary claims – 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, and electronically recorded obligations – 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, 2020 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	¥ 9,807	¥ 9,807	—
(2) Notes and accounts receivable	5,708	5,708	—
(3) Electronically recorded monetary claims	1,035	1,035	—
(4) Marketable securities and investments in securities	2,581	2,581	—
(5) Notes and accounts payable	(1,298)	(1,298)	—
(6) Electronically recorded obligations	(2,583)	(2,583)	—

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

Cash and deposits, Notes and accounts receivable, and Electronically recorded monetary claims

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, Electronically recorded obligations, 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, 2020	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, 2020*

	Millions of yen
	Due in One Year or Less
Cash and deposits	¥ 9,807
Notes and accounts receivable – trade	5,708
Electronically recorded monetary claims - operating	1,035
Marketable securities and investments in securities	—
Total	¥16,550

(4) *There are no repayments planned for long-term debt or other interest-bearing debt after the consolidated closing date.*

5. Securities

Historical costs, fair value and gross unrealized gains and losses for marketable securities as of March 31, 2020 and 2019 are as follows:

	Millions of yen				
	2020				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other Securities:					
Equity securities	¥1,183	¥2,280	¥1,097	¥1,138	¥(41)
Other	293	301	8	8	—
Total	¥1,476	¥2,581	¥1,105	¥1,146	¥(41)

	Millions of yen				
	2019				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other Securities:					
Equity securities	¥1,218	¥3,252	¥2,034	¥2,034	¥—
Other	298	308	10	10	—
Total	¥1,516	¥3,560	¥2,044	¥2,044	¥—

	Thousands of U.S. dollars				
	2020				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other Securities:					
Equity securities	\$10,870	\$20,950	\$10,080	\$10,452	\$(372)
Other	2,689	2,768	79	79	—
Total	\$13,559	\$23,718	\$10,159	\$10,531	\$(372)

Securities that do not have fair values are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
	Equity securities	¥19	¥19
Other	—	—	—
Total	¥19	¥19	\$174

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, 2020 and 2019 were as follows:

(1) Changes in defined benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Beginning balance of benefit obligations	¥4,840	¥4,684	\$44,474
Service cost	260	249	2,390
Interest cost	20	23	186
Actuarial gains and losses	(61)	53	(561)
Benefits paid	(95)	(169)	(871)
Ending balance of benefit obligations	¥4,964	¥4,840	\$45,618

(2) Changes in Pension Assets

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Beginning balance of pension assets	¥4,959	¥4,861	\$45,570
Expected return on pension assets	99	97	911
Actuarial gains and losses	(250)	(17)	(2,302)
Contributions by the employer	203	187	1,865
Benefits paid	(95)	(169)	(871)
Ending balance of pension assets	¥4,916	¥4,959	\$45,173

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Beginning balance of retirement benefit liabilities	¥43	¥40	\$394
Benefits expenses	14	3	132
Benefits paid	(1)	(0)	(11)
Ending balance of retirement benefit liabilities	¥56	¥43	\$515

(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
	2020	2019	2020
Funded defined benefit obligations	¥ 4,964	¥ 4,840	\$ 45,618
Pension assets	(4,916)	(4,959)	(45,173)
Subtotal	48	(119)	445
Unfunded defined benefit obligations	56	43	515
Net amount of liabilities and assets recognized in consolidated balance sheet	104	(76)	960
Liabilities (net defined benefit liability)	104	43	960
Assets (net defined benefit assets)	—	(119)	—
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ 104	¥ (76)	\$ 960

Note: This includes plans using the simplified method.

(5) Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Service costs	¥260	¥249	\$2,390
Interest costs	20	23	186
Expected return on pension assets	(99)	(97)	(911)
Recognition of actuarial gains and losses	4	(34)	40
Benefits expenses calculated on the simplified method	14	3	132
Total	¥199	¥144	\$1,837

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Actual differences	¥(185)	¥(105)	\$(1,701)

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unrecognized actuarial gains and losses	¥(197)	¥(12)	\$(1,809)

(8) Pension Assets**① Breakdown of pension assets**

	2020	2019
Debt securities	71%	67%
Equity securities	20%	25%
Cash and deposits	4%	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

	2020	2019
Discount rate	0.4%	0.4%
Expected return rate on plan assets	2.0%	2.0%
Salary Increase Rate	2.8%	2.8%

7. Income Taxes

Deferred income tax assets and liabilities as of March 31, 2020 and 2019 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Allowance for doubtful accounts	¥ 3	¥ 2	\$ 32
Accrued bonus to employees	125	116	1,149
Accrued enterprise tax	13	20	122
Unrealized intercompany profits	47	26	435
Loss on valuation of inventories	81	101	744
Depreciation	2	2	16
Long-term accounts payable - other	17	17	159
Loss on valuation of investment securities	80	80	739
Loss on valuation of golf club membership	2	2	21
Net defined benefit liability	16	14	148
Impairment loss	209	221	1,918
Asset retirement obligations	94	93	864
Tax loss carryforward	37	89	340
Provision for environmental measures	97	97	888
Other	112	15	1,021
Subtotal	935	895	8,596
Valuation allowance for tax loss carryforwards (Note 2)	(37)	(54)	(340)
Valuation allowance for deductible temporary difference	(357)	(350)	(3,284)
Total valuation allowance (Note 1)	(394)	(404)	(3,624)
Total deferred tax assets	¥ 541	¥ 491	\$ 4,972
Deferred tax liabilities:			
Reserve for advanced depreciation of noncurrent assets	(6)	(7)	(55)
Unrealized gains on other securities	(342)	(599)	(3,140)
Net defined benefit asset	(45)	(40)	(418)
Other	(89)	(94)	(817)
Total deferred tax liabilities	¥(482)	¥(740)	\$ (4,430)
Net deferred tax assets (liabilities)	¥ 59	¥(249)	\$ 542

Notes: 1. The total valuation allowance decreased by ¥10 million. This decrease is due to decrease of the valuation allowance for tax loss carryforwards in consolidated subsidiaries.

2. The tax loss carryforwards amount and the amount of deferred tax assets by the carryforwards maturity date

Previous Consolidated Fiscal Year (March 31, 2019)

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total
Tax loss carryforwards ^(a)	88	—	—	—	—	—	¥88 million
Valuation allowance	53	—	—	—	—	—	¥53 million
Deferred tax assets	35	—	—	—	—	—	^(b) ¥35 million

(a) The amount of tax loss carryforwards is the amount multiplied by the statutory tax rate.

(b) The result of considering prospective taxable earnings based on future earning power of the consolidated subsidiaries, we have determined that the deferred tax assets pertaining to tax loss carryforwards can be recovered.

Current Consolidated Fiscal Year (March 31, 2020)

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total
Tax loss carryforwards ^(c)	—	—	—	—	37	—	¥37 million
Valuation allowance	—	—	—	—	37	—	¥37 million
Deferred tax assets	—	—	—	—	—	—	—

(c) The amount of tax loss carryforwards is the amount multiplied by the statutory tax rate.

A reconciliation on the difference between the statutory tax rate and effective rate on taxable income for the fiscal years ended March 31, 2020 and 2019 is as follows:

	2020	2019
Statutory tax rate	30.6%	30.6%
Entertainment and other non-deductible expenses	1.9	4.0
Dividend and other non-taxable income	(1.8)	(0.4)
Per capita levy of inhabitant taxes	6.1	1.4
Increase in valuation allowance	13.6	(3.3)
Tax deduction for research expenses	(8.5)	(4.7)
Rate difference from foreign subsidiaries	0.0	(2.0)
Consolidated adjustment	10.6	(1.7)
Other, net	0.6	0.6
Effective tax rate	52.9%	24.3%

8. Subsequent Event

Appropriation of retained earnings

Subsequent to March 31, 2020, the Company's Board of Directors, with the approval of stockholders on June 23, 2020 declared a cash dividend of ¥127 million (US\$1,164 thousand) equal to ¥5.00 (US\$0.05) per share, applicable

to earnings of the year ended March 31, 2020 and payable to stockholders on the stockholders' register on March 31, 2020.



Independent Auditors' Report

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

Opinion

We have audited the accompanying consolidated financial statements of Teraoka Seisakusho Co., Ltd., which comprise the consolidated balance sheets as of March 31, 2020, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and basis of presenting consolidated financial statements, other notes and consolidated supplemental schedules.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Teraoka Seisakusho Co., Ltd. and its consolidated subsidiaries as of March 31, 2020, and their consolidated financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Audit Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company and its consolidated subsidiaries in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management, Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance 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 misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing whether it is appropriate to prepare the consolidated financial statements with the assumption of a going concern, and in accordance with accounting principles generally accepted in Japan, for disclosing, as necessary, matters related to going concern.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the directors' performance of duties within the maintenance and operation of the financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibilities are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion on the consolidated financial statements based on our audit from an independent point of view. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users of these consolidated financial statements. In accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgement. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- When auditing the consolidated financial statements, obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances in making risk assessments, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used by management and their method of application, as well as the reasonableness of accounting estimates by management and related notes thereto.

- Conclude on the appropriateness of management's use of the going concern basis for preparing the consolidated financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related notes to the consolidated financial statements or, if the notes to the consolidated financial statements on material uncertainty are inadequate, to express a qualified opinion with exceptions on the consolidated financial statements. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation of the consolidated financial statements and the notes thereto are in accordance with accounting standards generally accepted in Japan, as well as evaluate the overall presentation, structure, and content of the consolidated financial statements, including the related notes thereto, and whether the consolidated financial statements fairly represent the underlying transactions and accounting events.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Company and its consolidated subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the consolidated financial statements. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit process, and other matters required by auditing standards.

We also provide the Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements in Japan regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards in order to eliminate or reduce obstruction factors.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company and its consolidated subsidiaries which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Designated Engagement Partner,
Certified Public Accountant:

Masami Hiramatsu

Masami, Hiramatsu

Designated Engagement Partner,
Certified Public Accountant:

Hideo Kayashima

Hideo, Kayashima

Designated Engagement Partner,
Certified Public Accountant:

Yoshiharu Tsukamoto

Yoshiharu Tsukamoto

Inoue Audit Corporation

INOUE AUDIT CORPORATION

Tokyo, Japan

22 October, 2020

**COMPANY DATA****Company Outline**

(as of March 31, 2020)

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: 81-3-3491-1143
Founded	February 11, 1921
Incorporated	May 5, 1943
Paid-in Capital	¥5,057 million
Employees	539 (730 consolidated)

Board of Directors and Auditors

(as of June 23, 2020)

Chairman	Keishiro Teraoka
President	Kenichi Tsuji
Managing Director	Masakazu Naitou
Directors	Taiji Namekawa Nobuhisa Ishizaki Tatsuya Kubo Tatsuya Kamikawa Noriyoshi Shiraishi Keiko Hatta
Audit & Supervisory Board Members	Yutaka Nomiyama Jun Watanabe Masaki Miyake Harushige Sakai
Operating Officers	Mitsuhiro Takano Satoshi Hironaka Hideyuki Suzuki

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, 2020)

Head Office	Teraoka Seisakusho Co., Ltd. 4-22, Hiromachi 1-chome, Shinagawa-ku, Tokyo 140-8711, Japan Telephone: 81-3-3491-1141 Facsimile: 81-3-3491-1143
Financial Year	April 1 to March 31
Common Stocks	Authorized Shares 80,000,000 Issued Shares 26,687,955
Stockholders	3,437
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	26.35
Customers' Stockholding Group	2,936.9	11.60
BNP PARIBAS SECURITIES SERVICES LUXEMBOURG/JASDEC/FIM/LUXEMBOURG FUNDS/UCITS ASSETS	1,260.0	4.97
Japan Trustee Services Bank, Ltd.	938.1	3.70
MUFG Bank, Ltd.	818.8	3.23
Keishiro Teraoka	786.6	3.10
Resona Bank, Ltd.	678.8	2.68
Kuniko Teraoka	526.0	2.07
Employees' Stockholding Group	409.2	1.61
Yasuhara Chemical Co., Ltd.	250.0	0.98

TERAOKA

<http://www.teraokatape.co.jp>