TERAOKA

Annual Report 2017

Year ended March 31, 2017

TERAOKA SEISAKUSHO CO., LTD.

PROFILE

Established in 1921, throughout over 95 years of business, Teraoka Seisakusho Co., Ltd. has risen to the top of manufacturing of highly functional packing, electrical insulation, electronic equipment, other industrial and general home-use adhesive tapes.

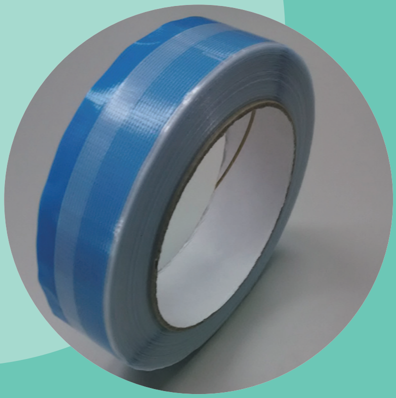
Improved work efficiency! Two types of curing tape on sale!

● Double-sided Glueless P-Cut Tape, P-Cut Tape "Easy"

A new product without glue on either side that easily peels off after use has joined the P-Cut tape series which can be easily cut off with hands. This tape with strong adhesive strength can be used in applications such as construction, moving, painting, etc., as a curing tape that can be peeled off while wearing gloves. It is available in two colors: Green and transparent.

● Double-layer structured curing tape with half the effort P-Cut Tape W (double)

We launched a new double-layered curing tape. Double-layer tape allows for double the curing in half the time. By peeling the first layer after the undercoat paint, it can be used for finishing, saving the trouble of repositioning the curing tape. Tape material is widely available from cloth tape to P-Cut tape, contributing to increased work efficiency in fields such as road paving and construction painting.



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Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

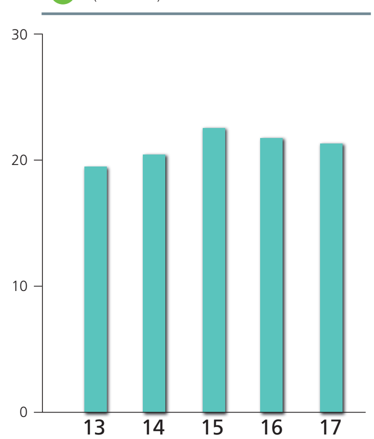
CONSOLIDATED FINANCIAL HIGHLIGHTS

For the years ended March 31,

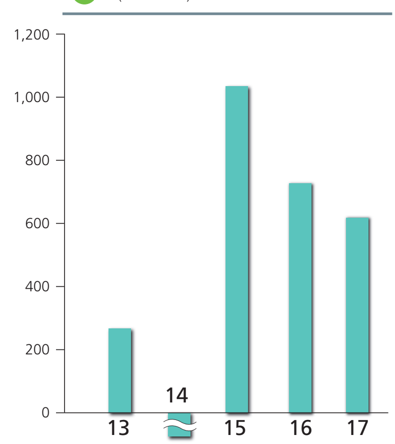
	Millions of yen		Thosands of U.S. dollars
	2017	2016	**2017**
Net Sales	**¥21,262**	¥21,771	**$189,504**
Operating Income	**1,039**	1,144	**9,259**
Income before Income Taxes	**768**	991	**6,842**
Net Income	**616**	727	**5,491**
Total Assets	**34,640**	33,495	**308,733**
Net Assets	**27,994**	27,963	**249,501**
Ratio (%)			
Operating Income to Net Sales	**4.9**	5.3	
Equity Ratio	**80.8**	83.5	
Return on Average Assets (ROA)	**1.8**	2.1	
Return on Average Stockholders' Equity (ROE)	**2.2**	2.6	
Per Share	Yen		U.S. dollars
Net Income	**¥23.96**	¥27.62	**$0.21**
Cash Dividends	**11.00**	11.00	**0.10**

The U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥112.20 = US$1, the rate prevailing on March 31, 2017.

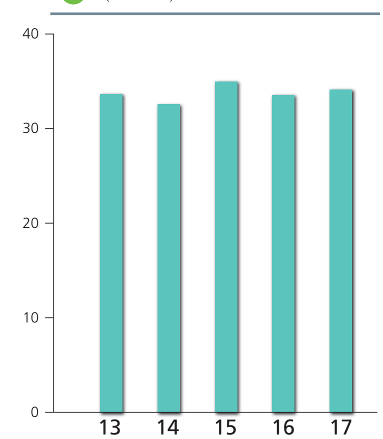
Net Sales
(¥ billions)



Net Income (Loss)
(¥ millions)



Total Assets
(¥ billions)



TO OUR STOCKHOLDERS

Result for FY 2017

The fiscal year 2017, ended March 31, 2017 marks our 107th business term.

Although the sales of electronic tapes related to mobile devices bottomed out in the second quarter for the Corporate Group in the current consolidated fiscal year, and there was no growth in sales that could fully establish an economic recovery in all product divisions. The Indonesian production subsidiary secured a surplus in the previous fiscal year as a result of a company-wide effort to improve quality and to build a stable and efficient production system.

As a result, for this term there was a 2.3% decrease of ¥21,262 million (US$189,504 thousand) in consolidated net sales from the previous term. The operating income was ¥1,039 million (US$9,259 thousand) this term, a 9.2% decrease from the previous term. Consolidated income before income taxes was ¥768 million (US$6,842 thousand), a 22.5% decrease from the previous term. The result is that, adjusted for the gains on sales of investment securities and environmental countermeasure expenses, the consolidated operating income pertaining to the parent company stock was ¥616 million (US$5,491 thousand), a 15.3% decrease from the previous term.

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

Future Focus

Japan's economic situation is on the track to recovery due to the weaker yen and revived corporate profits due to an improvement in exports, an increase in public investment, improvement in employment and income environment. However, political trends abroad such as changes to US policy management and European elections, are very likely to impact the market, and there are also geopolitical risks in the Middle East, Northeast Asia and other regions, that remain uncertain and can be expected to remain uncertain.

Under such circumstances, the Corporate Group will enter the final of the first three years (Phase 1) of the new mid-term management plan. In the latter three years of the plan (Phase 2), we will enter the stage of transforming this substance into muscle in order to greatly expand business performance. Human resource development is regarded as the most important management task and we will develop human resources with a firm focus on the future. We will continue to strengthen our sales base by cultivating new customers in Japan and overseas and attending to detail of the sales activities for existing customers, investing in capacity building for production facilities, promoting cost reduction activities, streamlining and efficiency. In addition to putting production efficiency of the Indonesian subsidiary and safe production, including quality, back on track, we will strive to improve quality throughout and will focus on overseas sales activities that take advantage of geographical advantages.

Problem Prevention

The Corporate Group considers the following issues to be the greatest priorities.

Keishiro Teraoka,
President

1. Enhancing Individual Training

The Corporate Group recognizes that the source of business competitiveness that is not influenced by the dramatically changing economic environment is found in people, and enhancement of human resource management to make the most of the abilities of each employee is necessary in all sales, manufacturing, R&D and management departments.

Along with flexibly responding to changes, we will create a business model and new systems for conducting business and in order to cause reform, we are building a system where it is possible for the Company and employee to grow together.

2. Enhancing Operations of Indonesian Manufacturing Subsidiaries

The subsidiary in Indonesia continues stable production and while progress is moderate, operations remain on track.

We are further enhancing human resource training in order to improve the product lineup and quality as well as independence. By conducting business as a single, united group with a flagship consolidated subsidiary, we will raise profit contribution of the consolidated basis to the next level.

3. Enhancing Quality Management and Assurance Systems

Along with establishing thorough, quality education and raising the bar for quality management abilities, we are establishing a system that can respond to the industry with the highest product quality control levels and improve the quality of our company's products through the establishment of appropriate quality risk management.

4. Prospective Technological and New Product Developments

New products with originality that are representative of the company are being launched on the market in a timely manner while advancing technological developments with high added value for prospective mid to long-term production and development of next-generation products that will become the pillars of new business.

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

June 23, 2017

K. Teraoka

Keishiro Teraoka,
President

REVIEW OF OPERATIONS

Based on the philosophy, "Good products provided to customers quickly and inexpensively," which is one of the company policies, the Corporate Group's research and development is focused on activities such as new product development and improved quality in adhesive tapes, measures for global environmental problems, etc.

Training of researchers in charge of cutting edge developments and providing solutions for customer demands in a timely manner. Further, in order to accurately identify the strengths of our company and move ahead of the competition, we will extract the core technologies of our Corporate Group and core technologies indispensable for commercialization, furthering develop of our strengths and establish exercises to make up for weaknesses.

New achievements in the current accounting year include the market introduction of single and double sided fixing tape for parts in smartphones, tablets and PCs 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.

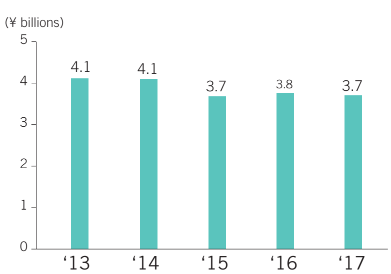
We will continue to take on new challenges with a mid to long-term theme regarding various parts required for the electrification of passenger vehicles, which is the largest certain change in industry throughout the world.

Total R&D costs in this consolidated accounting period were ¥846 million (US$7,539 thousand) and the consolidated sales ratio was 4.0%. This is an increase of 0.1 points compared to the previous term.

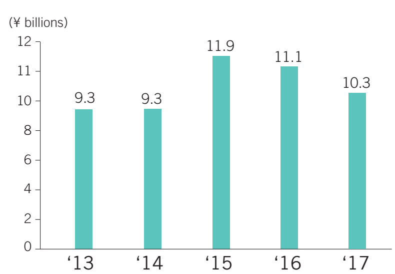
Consolidated sales for the Corporate Group were ¥21,262 million (US$189,504 thousand). Sales are broken down by product segment below.

P-Cut Tape "Easy"

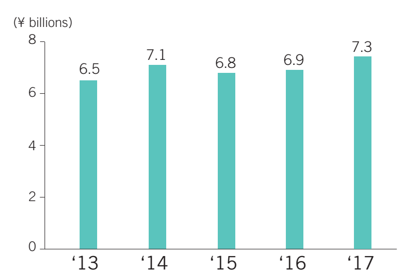
Sales of Packing Tapes



Sales of Electrical Insulation and Electronic Equipment Tapes



Sales of Other Industrial Tapes



Packing Tapes

Regarding Packing Tapes, cloth tapes for mail-order sales continued to be favorable in the third quarter, but due to overall poor market conditions, our production department's consolidated sales were ¥3,691 million (US$32,898 thousand) which was a 1.6% decrease from the previous term. This segment accounts for 17.4% of total consolidated sales and has increased by 0.2 points over the previous term.

Electrical Insulation and Electronic Equipment Tapes

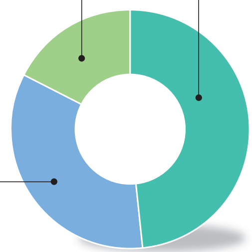
Regarding Electric and Electronic Equipment Tapes, from the middle of the third quarter there was a visible recovery in electronic equipment tape orders and while progress was made in solidifying transactions with existing customers and developing new customer transactions, it was insufficient to make up for the decrease suffered during the second quarter.

As a result, consolidated sales for this product segment greatly decreased by 6.8% from the previous term to ¥10,318 million (US$91,965 thousand). This segment accounts for 48.5% of total consolidated sales and decreased by 2.4 points below the previous term.

BREAKDOWN OF SALES BY CATEGORY

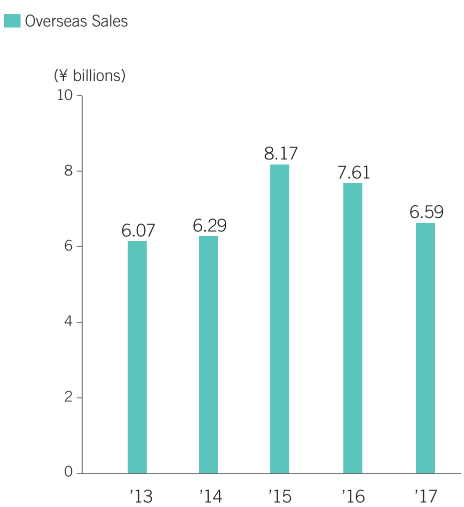
17.4% **Packing Tapes**
- Olive cloth tapes
- Kraft paper tapes
- Polypropylene film adhesive tapes

34.1% **Other Industrial Tapes**
- Double-coated adhesive tapes
- Corrosion-proof tapes
- Masking cloth tapes
- Surface protection tapes



48.5% **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

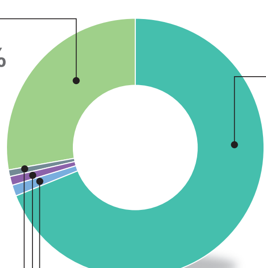
CHANGES IN OVERSEAS SALES



GEOGRAPHICAL SALES MARKETS

Asia **27.6%**

Japan **69.0%**



North America **1.5%**

Europe **0.9%**

Other areas **1.0%**

Other Industrial Tapes

Regarding Other Industrial Tapes, continuing into the third quarter, demand for infrastructure repairs increased and due to introduction of new products that improve operational efficiency the record sales volume was posted polyethylene cloth tape throughout the entire fiscal year. It was also supported by demand in other industrial uses.

The result was that consolidated sales for this product segment increased by 4.5% over the previous term to ¥7,253 million (US$64,641 thousand). This segment accounts for 34.1% of total consolidated sales, which is an increase of 2.2 points compared to the previous term.

P-Cut Tape W

Overseas Sales

Overseas sales for this term included the first stages of mail-order stationary supply sales in China, but due to the continued slump in mobile electronic equipment tapes, Packaging Tapes decreased 1.1%, Electrical Insulation and Electronic Equipment Tapes decreased 14.0% and Industrial Tapes decreased 8.6%. Gross export value was ¥6,594 million (US$58,774 thousand), a 13.4% decrease from the previous term. Gross export value makes up 31.0% of total consolidated sales, and has decreased 4.0 points compared to the previous term.

Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED FIVE-YEAR SUMMARY

Years ended March 31	Millions of yen 2013	2014	2015	2016	2017	Thousands of U.S. dollars 2017
Net Sales	¥19,935	¥20,529	¥22,477	¥21,771	**¥21,262**	**$189,504**
Operating Income (Loss)	(92)	(105)	1,024	1,144	**1,039**	**9,259**
Income (Loss) before Income Taxes	674	(794)	1,902	991	**768**	**6,842**
Net Income (Loss)	263	(924)	1,025	727	**616**	**5,491**
Total Assets	33,647	32,596	35,331	33,495	**34,640**	**308,733**
Net Assets	26,670	26,277	28,268	27,963	**27,994**	**249,501**

Ratio (%)	2013	2014	2015	2016	2017
Operating Income to Net Sales	(0.5)	(0.5)	4.6	5.3	**4.9**
Equity Ratio	79.3	80.6	80.0	83.5	**80.8**
Return on Average Assets (ROA)	0.8	(2.8)	3.0	2.1	**1.8**
Return on Average Stockholders' Equity (ROE)	1.0	(3.5)	3.8	2.6	**2.2**

Per Share	Yen 2013	2014	2015	2016	2017	U.S. dollars 2017
Net Income (Loss)	¥9.99	¥(35.09)	¥38.92	¥27.62	**¥23.96**	**$0.21**
Cash Dividends	10.00	10.00	10.00	11.00	**11.00**	**0.10**

The U.S. dollars are translated at the rate of ¥112.20 per US$1, prevailing on March 31, 2017.

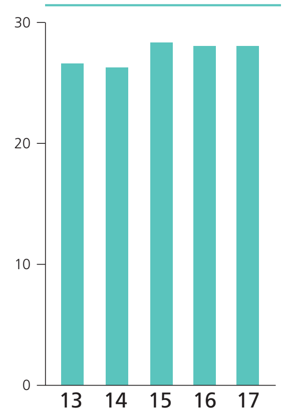
CONSOLIDATED FINANCIAL STATEMENTS

Fiscal Year 2017

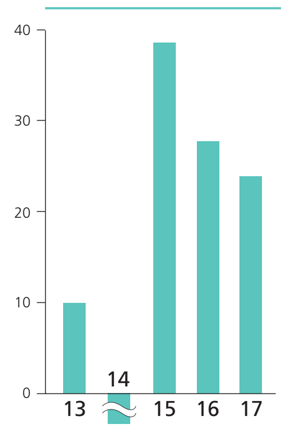
Year ended March 31, 2017

FINANCIAL REVIEW

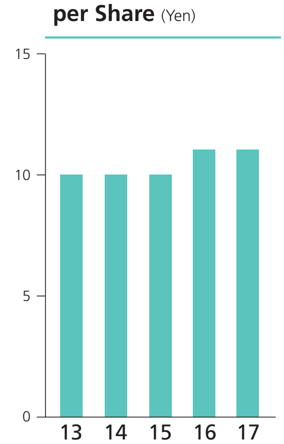
Net Assets
(¥ billions)



Net Income (Loss) per Share (Yen)



Cash Dividends per Share (Yen)



Business Performance

Japan's economy during this consolidated fiscal year consisted of rallying export, high stock prices and a low and stable resource market, with continued improvement of the corporate earnings environment. While consumer spending, continued to fluctuate, there was also steady improvement in employment and income conditions, finally showing signs of economic recovery. On the other hand, looking overseas, the US has experienced a favorable recovery within the employment environment. Consumer spending and expectations for the new administration's policies, and the economy remain favorable. The bottoming out of Europe's emerging economies serves as tail winds while corporate results and consumption continue to recover. China exports are leveling and the expectation is that there will be a pause in decelerating economic trend and then continued growth.

In this business environment, the Corporate Group passed the midpoint of the new medium-term management plan (Phase 1). In order to convert to a strong management structure for Phase 2 (3 years from April, 2018, to March, 2021) with the purpose of a great leap forward, we are continuing our efforts to cultivate human resources throughout the entire company, we have also focused on strengthening our new product development system, continuing cost reduction activities, and developing proposal-based sales activities. On the management front, we promoted rationalization and efficiency of operations, strengthened the internal control systems and risk management systems, and worked hard to improve corporate ethics.

In the current consolidated fiscal year, although the sales of electronic tapes related to mobile devices bottomed out in the second quarter, and there was no growth in sales that could fully establish an economic recovery in all product divisions. The Indonesian production subsidiary secured a surplus in the previous fiscal year as a result of a company-wide effort to improve quality and to build a stable and efficient production system.

Consolidated net sales for this term were ¥21,262 million (US$189,504 thousand), a 2.3% decrease from the previous term. The consolidated operating income was ¥1,039 million (US$9,259 thousand) this term, a 9.2% decrease from the previous term. Consolidated income before income taxes was ¥768 million (US$6,842 thousand), a 22.5% decrease from the previous term. The result is that, adjusted for the gains on sales of investment securities and environmental countermeasure expenses, the consolidated net income pertaining to the parent company stock was ¥616 million (US$5,491 thousand), a 15.3% decrease from the previous term.

Segment Information

The Company's Corporate 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.

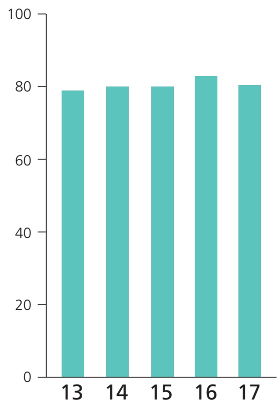
Regarding Packing Tapes, overall market conditions in terms of movement of goods were poor, but cloth tape for commercial use and for post sales throughout the year were favorable. This was not enough, however, to cover the entire division and consolidated sales were ¥3,691 million (US$32,898 thousand) which was a 1.6% decrease from the previous term. This segment accounts for 17.4% of total consolidated sales and has increased by 0.2 points over the previous term.

Regarding Electrical Insulation and Electronic Equipment Tapes, during the first quarter automobile related tapes were performing well, but mobile tape sales performed poorly. From the middle of the third quarter there was a visible recovery in electronic equipment tape orders and while progress was made in advancing transactions with existing customers and developing new customer transactions, it was insufficient to make up for the decrease suffered during the second quarter.

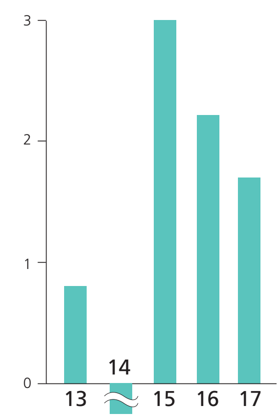
As a result, consolidated sales for this product segment greatly decreased by 6.8% from the previous term to ¥10,318 million (US$91,965 thousand). This segment accounts for 48.5% of total consolidated sales and decreased by 2.4 points below the previous term.

Regarding Other Industrial Tapes, due to fickle weather conditions during the second quarter, curing tape sales were sluggish, but demand for infrastructure repairs increased and due to introduction of new products that improve operational efficiency a record sales volume was posted throughout the entire fiscal year for polyethylene cloth tapes. It was also supported by demand in other industrial uses.

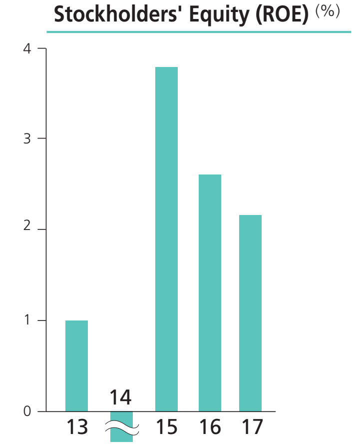
Equity Ratio
(%)



Return on Average Assets (ROA) (%)



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



The result was that consolidated sales for this product segment increased by 4.5% over the previous term to ¥7,253 million (US$64,641 thousand). This segment accounts for 34.1% of total consolidated sales, which is an increase of 2.2 points compared to the previous term.

On the other hand, the Overseas Sales slump in mobile electronic equipment tapes continued throughout the world. Also sales efforts for mail-order stationary supplies have begun in China, but were not able to cover all sales.

As a result, Packaging Tapes decreased 1.1%, Electrical Insulation and Electronic Equipment Tapes decreased 14.0% and Other Industrial Tapes decreased 8.6%. Gross export value was ¥6,594 million (US$58,774 thousand), a 13.4% decrease from the previous term. Gross export value also makes up 31.0% of total consolidated sales, and has decreased 4.0 points compared to the previous term.

Financial Position

Total assets for the end of year consolidated accounting increased by 3.4% or ¥1,145 million (US$10,208 thousand) over the previous end of year consolidated accounting to ¥34,640 million (US$308,733 thousand).

Total current assets for the end of year increased by 7.0% or ¥1,236 million (US$11,014 thousand) over the previous end of year consolidated accounting to ¥18,991 million (US$169,258 thousand). This was mainly due to an increase in cash and deposits.

Total fixed assets for the end of year consolidated accounting decreased 0.6% or ¥91 million (US$806 thousand) from the previous end of year consolidated accounting for a total of ¥15,649 million (US$139,475 thousand). This is mainly due to a decrease in fixed assets and tangible fixed assets.

Total liabilities for the end of year consolidated accounting increased 20.1% or ¥1,114 million (US$9,928 thousand) from the previous end of year consolidated accounting to ¥6,646 million (US$59,232 thousand). Out of this, total current liabilities increased by 13.1% or ¥590 million (US$5,257 thousand) from the previous end of term to ¥5,084 million (US$45,309 thousand). This was mainly due to an increase in trade payables. Total long-term liabilities for the end of the term increased 50.5% or ¥524 million (US$4,670 thousand) for the previous end of year consolidated accounting to ¥1,562 million (US$13,923 thousand). This is mainly due to the increase in environmental measure allowances and lease obligations.

Total net assets for the end of year consolidated accounting increased 0.1% or ¥31 million (US$280 thousand) above the previous end of year consolidated accounting to ¥27,994 million (US$249,501 thousand). This was mainly due to an increase in retained earnings and Acquisition of Own Shares.

The result of these figures is a capital-to-asset ratio of 80.8%, a decrease of 2.7 points from the previous term.

Cash Flows

Capital from operating activities increased by ¥2,003 million (US$17,855 thousand). Increase in these activities for the previous fiscal year was ¥1,172 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 ¥21 million (US$189 thousand). Even in these activities of the previous consolidated accounting term, ¥160 million was used for investment. This was mainly due to expenditures for acquisition of tangible fixed assets.

There was a ¥587 million (US$5,228 thousand) decrease in capital from financial activities. The amount of capital used in financial activities for the previous consolidated accounting year was ¥290 million. The decrease this term was mainly due to Acquisition of Own Shares.

From these activities, consolidated cash and cash equivalents for end of year consolidated accounting were ¥7,905 million (US$70,455 thousand), an increase of ¥1,368 million (US$12,199 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 continue stable dividend payments.

According to our basic stance on this type of dividend, the end of term dividend was ¥6.00 (US$0.05) and combined with the previously distributed interim dividend of ¥5.00 (US$0.04) per share, the total annual dividends were ¥11.00 (US$0.10) per share.

CONSOLIDATED BALANCE SHEETS

March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
ASSETS			
Current Assets:			
Cash and time deposits	¥ 8,223	¥ 6,856	$ 73,287
Notes and accounts receivable - trade	5,583	5,319	49,756
Electronically recorded monetary claims - operating	549	349	4,896
Less: Allowance for doubtful accounts (Note 2-h)	(7)	(7)	(62)
Inventories (Note 2-c)	3,965	4,347	35,342
Deferred income taxes (Note 2-g)	324	341	2,884
Other current assets	354	550	3,155
Total current assets	18,991	17,755	169,258
Property, Plant and Equipment (Notes 2-d and f):			
Land	4,051	4,052	36,102
Buildings	11,645	11,614	103,792
Machinery and equipment	24,792	24,658	220,964
Leased assets	269	—	2,402
Construction in progress	97	69	865
	40,854	40,393	364,125
Less: Accumulated depreciation	(29,782)	(29,124)	(265,440)
Property, plant and equipment, net	11,072	11,269	98,685
Intangible Assets	366	477	3,265
Investments and Other Assets:			
Investments in securities (Notes 2-b and 5)	3,893	3,735	34,698
Deferred income taxes (Note 2-g)	7	7	63
Net defined benefit asset	88	26	780
Other	226	226	2,013
Less: Allowance for doubtful accounts (Note 2-h)	(3)	(0)	(29)
Total investments and other assets	4,211	3,994	37,525
Total assets	¥ 34,640	¥ 33,495	$ 308,733

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Notes and accounts payable - trade	¥ 1,226	¥ 2,939	$ 10,926
Electronically recorded obligations - operating	2,482	328	22,119
Short-term borrowings	4	4	36
Accrued income taxes	118	16	1,054
Accrued expenses	484	457	4,314
Other current liabilities	770	750	6,860
Total current liabilities	5,084	4,494	45,309
Long-term Liabilities:			
Net defined benefit liability	31	29	278
Deferred liabilities taxes (Note 2-g)	545	597	4,861
Asset retirement obligations	293	294	2,609
Lease obligations	268	—	2,392
Provision for environmental measures	316	7	2,812
Other	109	111	971
Total long-term liabilities	1,562	1,038	13,923
Total liabilities	6,646	5,532	59,232
NET ASSEETS			
Stockholders' Equity:			
Common stock	5,057	5,057	45,072
Authorized: 80,000,000 shares			
Issued: 26,687,955 shares as of March 31, 2017 and 26,687,955 shares as of March 31, 2016, respectively			
Additional paid-in capital	4,644	4,644	41,390
Retained earnings	16,768	16,410	149,445
Less: Treasury stock, at cost	(462)	(137)	(4,121)
Total Stockholders' equity	26,007	25,974	231,786
Accumulated other comprehensive income			
Unrealized gains on securities (Notes 2-b and 5)	1,669	1,653	14,883
Foreign currency translation adjustments (Note 2-j)	322	384	2,864
Remeasurements of defined benefit plans	(4)	(48)	(32)
Total accumulated other comprehensive income	1,987	1,989	17,715
Total net assets	27,994	27,963	249,501
Total liabilities and net assets	¥34,640	¥33,495	$308,733

Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net Sales	¥21,262	¥21,771	$189,504
Cost of Sales	15,486	15,903	138,022
Gross Profit	5,776	5,868	51,482
Selling, General and Administrative Expenses	4,737	4,724	42,223
Operating income	1,039	1,144	9,259
Other Income and Expenses:			
Interest and dividend income	89	83	790
Commission received	70	—	628
Interest expenses	(0)	(1)	(3)
Foreign exchange gains (losses), net	(41)	(365)	(368)
Amortization of business commencement expenses	(25)	(25)	(226)
Commission paid	(475)	(20)	(4,234)
Gain on sales of investment securities	399	139	3,554
Environmental expenses	(333)	—	(2,970)
Other, net	45	36	412
	(271)	(153)	(2,417)
Income before income taxes	768	991	6,842
Income taxes:			
Current	188	140	1,671
Deferred	(36)	124	(320)
Total income taxes	152	264	1,351
Net income	¥ 616	¥ 727	$ 5,491
Profit attributable to non-controlling interests	—	—	—
Profit attributable to owners of parent	616	727	5,491

Per Share	Yen		U.S. dollars
Per share of common stock			
Net income	¥23.96	¥27.62	$0.21
Cash dividends	11.00	11.00	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, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net income	¥ 616	¥ 727	$ 5,491
Other Comprehensive Income			
Unrealized gains on securities	16	(29)	148
Foreign currency translation adjustments	(62)	(304)	(557)
Remeasurements of defined benefit plans, net of tax	44	(409)	397
Total other comprehensive income	(2)	(742)	(12)
Comprehensive Income	614	(15)	5,479
Total comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	614	(15)	5,479
Comprehensive income attributable to non-controlling interests	—	—	—

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

Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the years ended March 31, 2017 and 2016

	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	Remeasure-ments of Defined Benefit Plans	Total Accumu-lated Other Comprehen-sive Income	Total Net Assets
Balance at April 1, 2015	¥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
Balance at April 1, 2016	¥5,057	¥4,644	¥16,410	¥(137)	¥25,974	¥1,653	¥ 384	¥ (48)	¥1,989	¥27,963
Cash dividends paid	—	—	(258)	—	(258)	—	—	—	—	(258)
Net income (loss)	—	—	616	—	616	—	—	—	—	616
Purchase of treasury stock	—	—	—	(325)	(325)	—	—	—	—	(325)
Net changes of items other than Stockholders' equity	—	—	—	—	—	16	(62)	44	(2)	(2)
Total changes of items during the period	—	—	358	(325)	33	16	(62)	44	(2)	31
Balance at March 31, 2017	¥5,057	¥4,644	¥16,768	¥(462)	¥26,007	¥1,669	¥ 322	¥ (4)	¥1,987	¥27,994

	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	Remeasure-ments of Defined Benefit Plans	Total Accumu-lated Other Comprehen-sive Income	Total Net Assets
Balance at April 1, 2016	$45,072	$41,390	$146,256	$(1,224)	$231,494	$14,735	$3,421	$(429)	$17,727	$249,221
Cash dividends paid	—	—	(2,302)	—	(2,302)	—	—	—	—	(2,302)
Net income (loss)	—	—	5,491	—	5,491	—	—	—	—	5,491
Purchase of treasury stock	—	—	—	(2,897)	(2,897)	—	—	—	—	(2,897)
Net changes of items other than Stockholders' equity	—	—	—	—	—	148	(557)	397	(12)	(12)
Total changes of items during the period	—	—	3,189	(2,897)	292	148	(557)	397	(12)	280
Balance at March 31, 2017	$45,072	$41,390	$149,445	$(4,121)	$231,786	$14,883	$2,864	$ (32)	$17,715	$249,501

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, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Operating Activities:			
Income (Loss) before income taxes	¥ 768	¥ 991	$ 6,842
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	879	972	7,841
Environmental expenses	333	—	2,970
Gain on sales of investment securities	(399)	(139)	(3,554)
Increase (decrease) in allowance for doubtful accounts	4	(1)	33
Increase (decrease) in net defied benefit liability	5	(404)	42
Interest and dividends income	(89)	(83)	(790)
Interest expenses	0	1	3
Foreign exchange losses (gains)	18	345	157
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable	(468)	315	(4,173)
(Increase) decrease in inventories	376	136	3,350
Increase (decrease) in notes and accounts payable	447	(616)	3,987
Other, net	(124)	410	(1,107)
Subtotal	1,750	1,927	15,601
Interest and dividends income received	89	83	790
Interest expenses paid	(0)	(1)	(3)
Income taxes (paid) refund	164	(837)	1,467
Net cash provided by operating activities	2,003	1,172	17,855
Investing Activities:			
Payment for purchases of property, plant and equipment	(240)	(265)	(2,145)
Payment for purchases of intangible assets	(20)	(160)	(179)
Payment for purchases of investment in securities	(303)	(3)	(2,697)
Proceeds from sales of investment securities	542	214	4,832
Decrease (increase) in time deposits	—	54	—
Net cash used in investing activities	(21)	(160)	(189)
Financing Activities:			
Dividends paid	(258)	(290)	(2,302)
Payment for acquisition of treasury stock	(325)	(0)	(2,897)
Other, net	(4)	—	(29)
Net cash used in financing activities	(587)	(290)	(5,228)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(27)	(221)	(239)
Net Increase (Decrease) in Cash and Cash Equivalents	1,368	501	12,199
Cash and Cash Equivalents at Beginning of Period	6,537	6,036	58,256
Cash and Cash Equivalents at End of Period	¥7,905	¥6,537	$70,455

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, 2017 and 2016

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 ¥112.20= US$1, the prevailing exchange rate on March 31, 2017.

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, 2017 and 2016 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.

(Changes in Display Method)

(Consolidated Balance Sheets)

Electronically recorded monetary claims, which was included in notes and accounts receivable of total current assets as well as electronically recorded monetary obligation included in notes and accounts payable as well as other in total current liabilities in the previous consolidated fiscal year were separated and listed independently in this year's consolidated balance sheets with the perspective of clarifying the details in the statement.

We are currently transitioning the consolidated financial statements from the previous year in order to reflect this change in display method.

The result is that the ¥349 million displayed in notes and accounts receivable in current assets in the previous consolidated fiscal year's consolidated balance sheets is displayed as ¥349 million in electronically recorded monetary claims and the ¥328 million displayed in notes and accounts payable in total current liabilities has switched to ¥328 million in electronically recorded monetary obligations. The same transition is taking place for annotations in (financial instruments).

Also, provision for environmental measures, which was included in long-term payables of long-term liabilities has become more important, so it will be listed independently starting this consolidated fiscal year. We are currently transitioning the consolidated financial statements from the previous year in order to reflect this change in display method.

The result is that the ¥7 million displayed in long-term payables under long-term liabilities on the consolidated balance sheets in the previous consolidated fiscal year has transitioned to ¥7 million under provision for environmental measures.

(Changes in Accounting Estimates)

As a reasonable estimate of disposal costs for PCB waste materials, etc. became possible this consolidated fiscal year, the estimated amount was calculated as a special loss under provision for environmental measures.

Due to this change, the net income prior to adjustment for taxes, etc. decreased by ¥333 million this period compared to the method previously used.

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 ¥4 million (US$38 thousand) and ¥15 million at March 31, 2017 and 2016.

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, 2017 and unrealized gain (loss) are shown in the following table.

The table does not include financial instruments for which it is extremely difficult to determine the fair value. (Please refer to (2) below).

	Millions of yen		
Financial Instruments	Carrying	Estimate fair value	Difference
(1) Cash and deposits	¥ 8,223	¥ 8,223	—
(2) Notes and accounts receivable	5,583	5,583	—
(3) Electronically recorded monetary claims	549	549	—
(4) Marketable securities and investments in securities	3,874	3,874	—
(5) Notes and accounts payable	(1,226)	(1,226)	—
(6) Electronically recorded obligations	(2,482)	(2,482)	—
(7) 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, 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, 2017	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, 2017

	Millions of yen
	Due in One Year or Less
Cash and deposits	¥ 8,223
Notes and accounts receivable	5,583
Electronically recorded monetary claims	549
Marketable securities and investments in securities	—
Total	¥14,355

(4) The redemption schedule for short-term debt and long-term debt at March 31, 2017 and 2016 was as follows:

	Millions of yen		Average interest rates (%)
	2017	2016	2017
Short-term debt	¥4	¥4	3.9
Total	¥4	¥4	

5. Securities

Historical costs, fair value and gross unrealized gains and losses for marketable securities as of March 31, 2017 and 2016 are as follows:

	Millions of yen				
	2017				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other Securities:					
Equity securities	¥1,230	¥3,574	¥2,344	¥2,344	¥—
Other	300	300	0	0	—
Total	¥1,530	¥3,874	¥2,344	¥2,344	¥—

	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)

	Thousands of U.S. dollars				
	2017				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other Securities:					
Equity securities	$10,966	$31,853	$20,887	$20,887	$—
Other	2,674	2,676	3	3	—
Total	$13,640	$34,529	$20,890	$20,890	$—

Securities that do not have fair values are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Equity securities	¥19	¥19	$169
Other	—	—	—
Total	¥19	¥19	$169

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, 2017 and 2016 were as follows:

(1) Changes in defined benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Beginning balance of benefit obligations	¥4,511	¥4,033	$40,207
Service cost	275	263	2,447
Interest cost	23	56	209
Actuarial gains and losses	(79)	312	(705)
Benefits paid	(159)	(153)	(1,414)
Ending balance of benefit obligations	¥4,571	¥4,511	$40,744

(2) Changes in Pension Assets

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Beginning balance of pension assets	¥4,537	¥4,409	$40,440
Expected return on pension assets	91	88	809
Actuarial gains and losses	(40)	(94)	(362)
Contributions by the employer	230	288	2,051
Benefits paid	(159)	(153)	(1,414)
Ending balance of pension assets	¥4,659	¥4,537	$41,524

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Beginning balance of retirement benefit liabilities	¥29	¥24	$260
Benefits expenses	7	5	59
Benefits paid	(5)	—	(41)
Ending balance of retirement benefit liabilities	¥31	¥29	$278

(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
	2017	2016	2017
Funded defined benefit obligations	¥ 4,571	¥ 4,511	$ 40,744
Pension assets	(4,659)	(4,537)	(41,524)
Subtotal	(88)	(26)	(780)
Unfunded defined benefit obligations	31	29	278
Net amount of liabilities and assets recognized in consolidated balance sheet	(56)	3	(502)
Liabilities (net defined benefit liability)	31	29	278
Assets (net defined benefit assets)	(88)	(26)	(780)
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ (56)	¥ 3	$ (502)

Note: This includes plans using the simplified method.

(5) Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service costs	¥275	¥ 263	$2,447
Interest costs	23	56	209
Expected return on pension assets	(91)	(88)	(809)
Recognition of actuarial gains and losses	25	(196)	228
Benefits expenses caluculated on the simplified method	7	5	59
Total	¥239	¥ 40	$2,134

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Actual differences	¥64	¥(603)	$572

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrecognized actuarial gains and losses	¥(5)	¥(69)	$(47)

(8) Pension Assets

① Breakdown of pension assets

	2017	2016
Debt securities	69%	68%
Equity securities	23%	24%
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

	2017	2016
Discount rate	0.6%	0.5%
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, 2017 and 2016 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Accrued bonus to employees	¥ 122	¥ 115	$ 1,089
Depreciation	6	11	53
Loss on valuation of investment securities	80	90	717
Net defined benefit liability	9	9	85
Tax loss carryforward	441	472	3,931
Impairment loss	252	307	2,247
Loss on valuation of inventories	98	129	871
Asset retirement obligations	91	91	808
Provision for environmental measures	97	—	862
Other	(43)	(2)	(387)
Valuation allowance	(822)	(874)	(7,329)
Total deferred tax assets	¥ 331	¥ 348	$ 2,947
Deferred tax liabilities:			
Reserve for advanced depreciation of noncurrent assets	(11)	(15)	(103)
Unrealized gains on other securities	(674)	(692)	(6,007)
Net defined benefit asset	(27)	(8)	(241)
Other deferred tax liabilities	167	118	1,490
Total deferred tax liabilities	¥(545)	¥(597)	$(4,861)
Net deferred tax assets (liabilities)	¥(214)	¥(249)	$(1,914)

A reconciliation on the difference between the statutory tax rate and effective rate on taxable income for the fiscal years ended March 31, 2017 and 2016 is as follows:

	2017	2016
Statutory tax rate	30.9%	33.1%
Entertainment and other non-deductible expenses	0.9	0.9
Dividend and other non-taxable income	(0.7)	(0.5)
Per capita levy of inhabitant taxes	2.2	2.1
Adjustment on deferred tax assets due to change in income tax rate	—	3.4
Increase in valuation allowance	(6.8)	(4.0)
Tax deduction for research expenses	(8.2)	(3.2)
Rate difference from foreign subsidiaries	(2.7)	(6.3)
Consolidated adjustment	2.4	—
Other, net	1.7	1.1
Effective tax rate	19.7%	26.6%

8. Subsequent Event

Appropriation of retained earnings

Subsequent to March 31, 2017, the Company's Board of Directors, with the approval of stockholders on June 23, 2017 declared a cash dividend of ¥152 million (US$1,355 thousand) equal to ¥6.00 (US$0.05) per share, applicable to earnings of the year ended March 31, 2017 and payable to stockholders on the stockholders' register on March 31, 2017.

REPORT OF INDEPENDENT AUDITORS

Independent Auditor's Report

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, 2017 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, 2017 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.

Emphasis of matter

As it is listed in the notes (changes in accounting estimates), as a reasonable estimate of disposal costs for PCB waste materials ,etc ,the company changes the estimate concerned.
The matter concerned is not the thing which has an influence on our opinion.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amount into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Tokyo, Japan
June 23, 2017

Inoue Audit Corporation

INOUE AUDIT CORPORATION

COMPANY DATA

Company Outline

(as of March 31, 2017)

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	473 (665 consolidated)

Board of Directors and Auditors

(as of June 23, 2017)

President	Keishiro Teraoka
Senior Managing Director	Kenichi Tsuji
Managing Directors	Masakazu Naito
	Hiroyoshi Ohbori
Directors	Noriya Hashimoto
	Noriyoshi Shiraishi
Audit & Supervisory Board Members	Yutaka Nomiyama
	Jun Watanabe
	Masaki Miyake
	Harushige Sakai
Operating Officers	Taiji Namekawa
	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, 2017)

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	3,226
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	26.34
Customers' Stockholding Group	2,966.0	11.71
Keishiro Teraoka	890.1	3.51
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	818.8	3.23
Resona Bank, Ltd.	678.8	2.68
Employees' Stockholding Group	578.7	2.28
Kuniko Teraoka	526.0	2.08
BBH BOSTON F NOMURA Jp Sm Cap F 620065	395.7	1.56
Kanichiro Otsuka	262.3	1.04
Sompo Japan Nipponkoa Insurance Inc.	206.0	0.81

TERAOKA

http://www.teraokatape.co.jp

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