



**TERAOKA SEISAKUSHO CO., LTD.**

## PROFILE

Since its establishment in 1921, Teraoka Seisakusho Co., Ltd. has developed into a leading manufacturer of highly functional packing, electrical insulation, electronic equipment, other industrial and general home-use adhesive tapes.

Teraoka aims to “bring bright, new technology into people’s lives” through cutting edge adhesive technology across a variety of fields. As we approach the 100th anniversary of the Company’s founding, we strive to recreate the company into one with an awesome but humble presence by going above and beyond our corporate social responsibilities as well as maintaining assiduous innovations and taking on new challenges. We will continue to make efforts to develop new products with high added-value and provide these to the global market.

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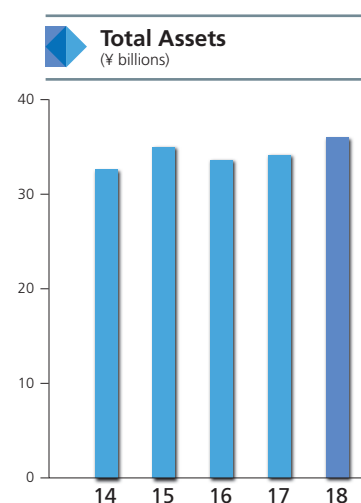
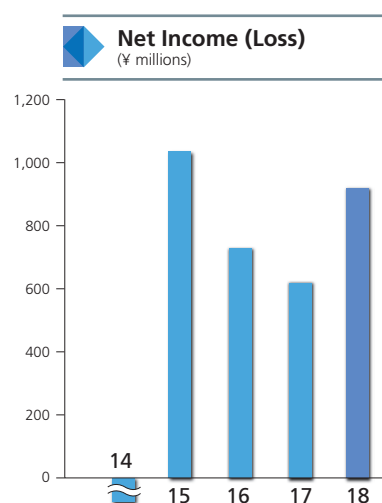
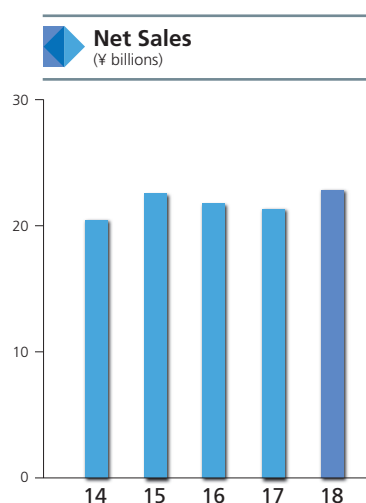


## CONSOLIDATED FINANCIAL HIGHLIGHTS

For the years ended March 31,

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net Sales .....	<b>¥22,816</b>	¥21,262	<b>\$214,696</b>
Operating Income .....	<b>1,319</b>	1,039	<b>12,414</b>
Income before Income Taxes .....	<b>1,291</b>	768	<b>12,148</b>
Net Income .....	<b>921</b>	616	<b>8,670</b>
Total Assets .....	<b>35,916</b>	34,640	<b>337,970</b>
Net Assets .....	<b>28,686</b>	27,994	<b>269,941</b>
Ratio (%)			
Operating Income to Net Sales .....	<b>5.8</b>	4.9	
Equity Ratio .....	<b>79.9</b>	80.8	
Return on Average Assets (ROA) .....	<b>2.6</b>	1.8	
Return on Average Stockholders' Equity (ROE) .....	<b>3.3</b>	2.2	
Per Share			
Net Income .....	<b>¥36.37</b>	¥23.96	<b>\$0.34</b>
Cash Dividends .....	<b>12.00</b>	11.00	<b>0.11</b>

The U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥106.27 = US\$1, the rate prevailing on March 31, 2018.





### Result for FY 2018

Fiscal year 2018, the year ended March 31, 2018 marks our 108th business term.

During this consolidated fiscal year, the Company's corporate group saw satisfactory sales for electronic tape related to mobile devices, which is our main product. The consolidated net sales for this term were ¥22,816 million (US\$214,696 thousand), a 7.3% increase over the previous term. The operating income was ¥1,319 million (US\$12,414 thousand) this term, a 27.0% increase over the previous term. Consolidated income before income taxes was ¥1,291 million (US\$12,148 thousand), a 68.2% increase from the previous term. The result is that the consolidated net income attributable to owners of parent was ¥921 million (US\$8,670 thousand), a 49.5% increase over the previous term.

The end of term dividend was distributed at ¥6.00 (US\$0.06) per share and the mid-term dividend preceding it was ¥6.00 (US\$0.06) per share for a total of ¥12.00 (US\$0.11) per share in annual dividends.

### Future Focus

Regarding Japan's economic potential going forward, economic conditions are expected to remain steady due to improved employment/income environment as an effect of the push-up of public investment from an equipment investment upsurge and demands related to the Olympics. At the same time, possible risks of economic slowdown include the risk of relations with North Korea becoming more tense, political turmoil in the US and Europe, economic downturn in China and protectionist policies in the US. Due to these risk factors, the international financial markets is in a state of confusion and since there is concern that the world economy may come to a standstill, this state of uncertainty is expected to continue.

Under these conditions, the Company Group will promote a Scrap and Build plan in order to structure an optimum production system. We will also provide a work environment with careful consideration for safety as we also strive to enhance our quality assurance system. Further, we will promote the introduction of IoT and in so doing we will strengthen our management's foundations by realizing even more reliability in product quality. We will endeavor to sustainably secure our sales operating income margin, which is an important management index for our group company. Also, our Indonesian subsidiary is striving to further improve quality as well as expanding the product lineup in order to establish a position in the Company Group's consolidated business.

### Problem Prevention

#### 1 Inappropriate Conduct Related to Some Company Products

We want to raise the issues arising from some of our products manufactured at our Sano and Ibaraki factories. We have confirmed that some of the test result data was overwritten and products that deviated from client specs were indeed shipped.

First of all, we would like to apologize deeply for any inconvenience or uncertainty we may have caused to many of you.

Regarding this issue, we established the Commission of inquiry was to make recommendations on preventive measures, as well as to investigate the truth behind thoroughly from the Company's Board of Directors delegate independence and neutrality are secured and in fact promotes the study of the relationship between.

Our board is conducting a strict verification regarding all company initiatives related to this issue, separately from these entrusted items.

Based on the committees report that was submitted at the end of June 2018, we intend to enhance quality control systems and production management systems along with detailed measures to prevent recurrence of the issues. Additionally, we will continue to improve our corporate governance and compliance systems.

## 2 Management Challenges

### 1) Enhancement of Compliance Structure

Based on the inappropriate behavior related to some of our products, 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 (compliance with corporate ethics and laws), and further we be increasing employee compliance awareness through company-wide education programs using e-learning while also conducting company-wide proactive efforts through a compliance committee.

### 2) Enhancing Quality Management and Assurance Systems

By implementing strict quality boost to build as soon as possible to respond to requests from industry to enforce quality education based on the principles and conduct, quality management demanding the highest also, increase our corporate value and stockholders', aiming to achieve common interests.

### 3) Establishing Continued Operating Profit on Sales

While gaining a deeper and comprehensive understanding of user needs for our products, we are conducting effective sales activities by concentrating human resources in the major segments, improving comprehensive competitiveness of company products in the Indonesia factories and planning product lineup expansion. We are also continuously ensuring operating profit on sales in ways such as clarifying a strategic position of the location in ASEAN, including putting the advantages of the location to good use.

### 4) Production system organization and new product development for the future

Along with promoting Scrap and Build of the equipment for organizing an optimum production system and achieving further improvement of product quality, we are proceeding with organic collaboration between manufacturing, technology 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.

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

June 22, 2018



Keishiro Teraoka,  
Chairman

Kenichi Tsuji,  
President



## REVIEW OF OPERATIONS

In the current consolidated fiscal year, the Japanese economy continues to recover in exports and equipment investment and corporate profits continue to rise. In addition to fixed individual consumption and vigorous labor saving investments, the employment and income environment has continued to improve, facilitating the longest continuous economic expansion since after WWII.

Taking a look overseas, while China's economy had been decelerating since 2016, the underlying political support for the economy has been effective and it is starting to recover. At the same time the EU economy is on the road to recovery. On the other hand, growth has been conspicuously slow in the UK due to Brexit talks. In the US, in addition to autonomous recovery in the private sector, such as in households, the addition of tax reform and government expenditures continue to boost the economy. Furthermore, in addition to the growth of consumer devices, such as smartphones, in emerging nations, information-related demands is growing significantly with moves to computerize vehicles and appliances, and the expansion of IoT and big data.

Under this economic environment, the Company Group, as this consolidated fiscal year is the final year of the Phase 1 of the new mid-term business plan (a three-year plan from April 2015 to March 2018) we have conducted a comprehensive review of the company-wide problems during the period. In addition, as further meas-

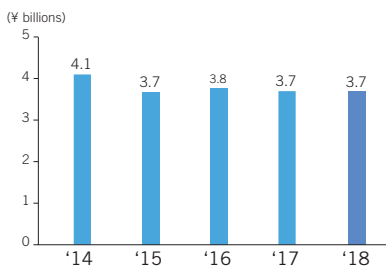


ures for growth, we made efforts to train personnel with a main focus of enhancing on-site capabilities, raised the technological standards by enhancing the quality assurance system and taking technical inventory, and enhanced the product development system and improved productivity. Through these activities we were able to continue with cost reduction activities and focus on active customer acquisition.

Total R&D costs in this consolidated accounting period were ¥847 million (US\$7,972 thousand) and the consolidated sales ratio was 3.7%. This is a decrease of 0.3 points below the previous term.

Consolidated sales for the corporate group were ¥22,816 million (US\$214,696 thousand). Sales are broken down by product segment below.

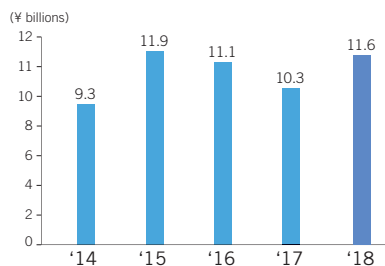
### Sales of Packing Tapes



### Packing Tapes

Consolidated sales for Packing Tapes increased 0.9% over the previous term to ¥3,724 million (US\$35,037 thousand) due to an increase in wide tapes for construction, development of new applications for special-grade cloth tape for overseas customers, and popularity in consumer-related products sold mostly online or by mail-order. However, this segment accounts for 16.3% of total consolidated sales and decreased by 1.1 points below the previous term.

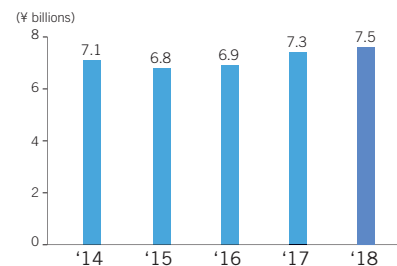
### Sales of Electrical Insulation and Electronic Equipment Tapes



### Electrical Insulation and Electronic Equipment Tapes

Regarding Electrical Insulation and Electronic Equipment Tapes, although LCD-related tapes and electrical parts processing tapes geared toward overseas mobile device manufacturers were affected by a rapid market decline, this was covered by new uses for new products, contributing to sales growth in this sector. Automotive part sales also expanded by promoting the transition to electrical equipment.

### Sales of Other Industrial Tapes



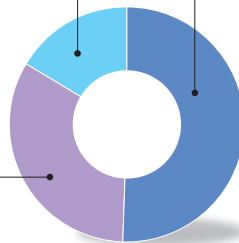
## BREAKDOWN OF SALES BY CATEGORY

### 16.3% Packing Tapes

- Olive cloth tapes
- Kraft paper tapes
- Polypropylene film adhesive tapes

### 33.1% Other Industrial Tapes

- Double-coated adhesive tapes
- Corrosion-proof tapes
- Masking cloth tapes
- Surface protection tapes



### 50.6% 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

As a result, consolidated sales for this product segment increased by 11.9% from the previous term to ¥11,550 million (US\$108,687 thousand). This segment accounts for 50.6% of total consolidated sales and has increased by 2.1 points over the previous term.

### Other Industrial Tapes

With regards to the Other Industrial Tapes segment, due to the impact of demand relating to the Olympics, besides curing cloth tape which is the main product for the infrastructure and building industry and durable polyethylene cloth tape, there has been an increase in orders for tapes for automobile parts.

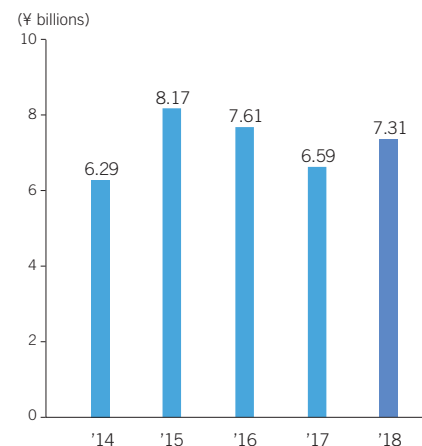
The result was that consolidated sales for this product segment increased by 4.0% over the previous term to ¥7,542 million (US\$70,972 thousand). This segment accounts for 33.1% of total consolidated sales, which is a decrease of 1.0 points compared to the previous term.



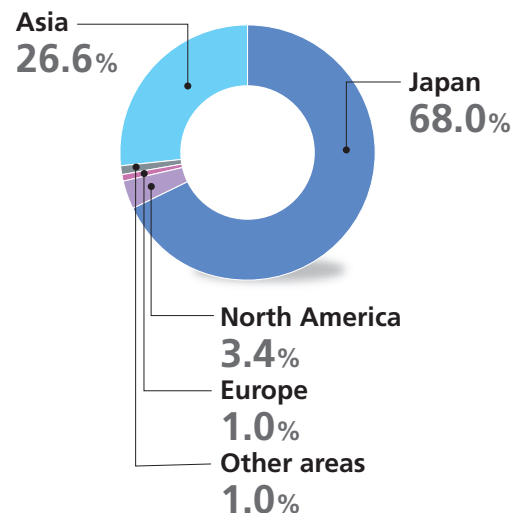
### Overseas Sales

Consolidated overseas sales for Packaging Tapes increased 15.7%, Electrical Insulation and Electronic Equipment Tapes increased 10.8% and Other Industrial Tapes increased 7.2% from the previous term. Gross export value was ¥7,308 million (US\$68,770 thousand), a 10.8% increase over the previous term. Gross export value makes up 32.0% of total consolidated sales, and has increased 1.0 points compared to the previous term.

## CHANGES IN OVERSEAS SALES



## GEOGRAPHICAL SALES MARKETS





## CONSOLIDATED FIVE-YEAR SUMMARY

Years ended March 31	Millions of yen					Thousands of U.S. dollars	
	2014	2015	2016	2017	2018	2018	
Net Sales .....	¥20,529	¥22,477	¥21,771	¥21,262	<b>¥22,816</b>	<b>\$214,696</b>	
Operating Income (Loss) .....	(105)	1,024	1,144	1,039	<b>1,319</b>	<b>12,414</b>	
Income (Loss) before Income Taxes .....	(794)	1,902	991	768	<b>1,291</b>	<b>12,148</b>	
Net Income (Loss) .....	(924)	1,025	727	616	<b>921</b>	<b>8,670</b>	
Total Assets .....	32,596	35,331	33,495	34,640	<b>35,916</b>	<b>337,970</b>	
Net Assets .....	26,277	28,268	27,963	27,994	<b>28,686</b>	<b>269,941</b>	
Ratio (%)							
Operating Income (Loss) to Net Sales .....	(0.5)	4.6	5.3	4.9	<b>5.8</b>		
Equity Ratio .....	80.6	80.0	83.5	80.8	<b>79.9</b>		
Return on Average Assets (ROA) .....	(2.8)	3.0	2.1	1.8	<b>2.6</b>		
Return on Average Stockholders' Equity (ROE) .....	(3.5)	3.8	2.6	2.2	<b>3.3</b>		
Per Share							
	Yen					U.S. dollars	
Net Income (Loss) .....	¥(35.09)	¥38.92	¥27.62	¥23.96	<b>¥36.37</b>	<b>\$0.34</b>	
Cash Dividends .....	10.00	10.00	11.00	11.00	<b>12.00</b>	<b>0.11</b>	

The U.S. dollars are translated at the rate of ¥106.27 per US\$1, prevailing on March 31, 2018.



# CONSOLIDATED FINANCIAL STATEMENTS

## Fiscal Year 2018

Year ended March 31, 2018



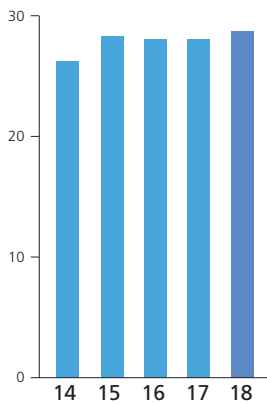
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TERAOKA SEISAKUSHO CO., LTD.  
株式会社 寺岡製作所



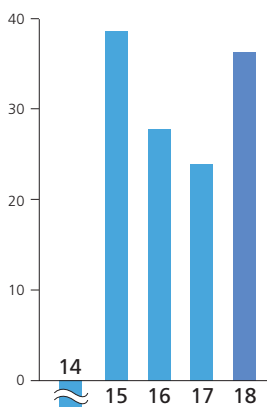
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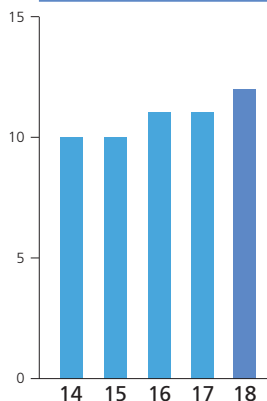
**Net Assets**  
(¥ billions)



**Net Income (Loss) per Share**  
(Yen)



**Cash Dividends per Share**  
(Yen)



## Business Performance

In the current consolidated fiscal year, the Japanese economy continues to recover in exports and corporate profits continue to rise. In addition to fixed individual consumption and vigorous labor saving investments, the employment and income environment has continued to improve, facilitating the longest continuous economic expansion since after WWII.

Taking a look overseas, while China's economy had been decelerating since 2016, the underlying political support for the economy has been effective and it is starting to recover. At the same time the EU economy is on the road to recovery. On the other hand, growth has been conspicuously slow in the UK due to Brexit talks. In the US, in addition to autonomous recovery in the private sector, such as in households, the addition of tax reform and government expenditures continue to boost the economy. Furthermore, in addition to the growth of consumer devices, such as smartphones, in emerging nations, information-related demands is growing significantly with moves to computerize vehicles and appliances, and the expansion of IoT and big data.

Under this business environment, the Company Group, as this consolidated fiscal year is the final year of the Phase 1 of the new mid-term business plan (a three-year plan from April 2015 to March 2018) we have conducted a comprehensive review of the company-wide problems during the period. In addition, as further measures for growth, we made efforts to train personnel with a main focus of enhancing on-site capabilities, raised the technological standards by enhancing the quality assurance system and taking technical inventory, and enhanced the product development system and improved productivity. Through these activities we were able to continue with cost reduction activities and focus on active customer acquisition.

As a result, consolidated net sales for this term, was a 7.3% increase of ¥22,816 million (US\$214,696 thousand), from the previous term. The consolidated operating income was ¥1,319 million (US\$12,414 thousand) this term, a 27.0% increase over the previous term. Consolidated income before income taxes was ¥1,291 million (US\$12,148 thousand), a 68.2% increase from the previous term. The result is that the consolidated net income attributable to owners of parent was ¥921 million (US\$8,670 thousand), a 49.5% increase over 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.

Consolidated sales for Packing Tapes increased 0.9% over the previous term to ¥3,724 million (US\$35,037 thousand) due to an increase in wide tapes for construction, development of new applications for special-grade cloth tape for overseas customers, and popularity in consumer-related products sold mostly online or by mail-order. This segment accounts for 16.3% of total consolidated sales and decreased by 1.1 points below the previous term.

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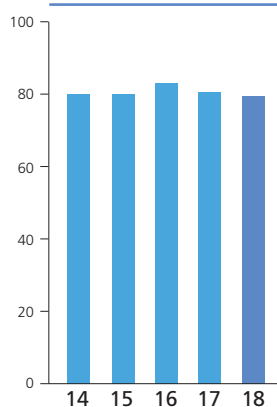
As a result, consolidated sales for this product segment increased by 11.9% from the previous term to ¥11,550 million (US\$108,687 thousand). This segment accounts for 50.6% of total consolidated sales and has increased by 2.1 points over the previous term.

With regards to the Other Industrial Tapes segment, due to the impact of demand relating to the Olympics, besides curing cloth tape which is the main product for the infrastructure and building industry and durable polyethylene cloth tape, there has been an increase in orders for tapes for automobile parts.

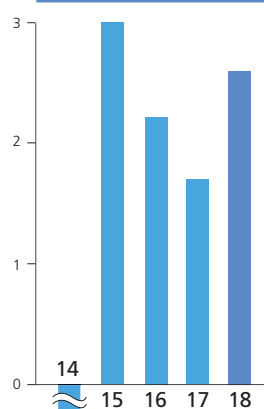
The result was that consolidated sales for this product segment increased by 4.0% over the previous term to ¥7,542 million (US\$70,972 thousand). This segment accounts for 33.1% of total consolidated sales, which is a decrease of 1.0 points compared to the previous term.

On the other hand, gross export value was ¥7,308 million (US\$68,770 thousand), a 10.8% increase over the previous term. Gross export value makes up 32.0% of total consolidated sales, and has increased 1.0 points compared to the previous term.

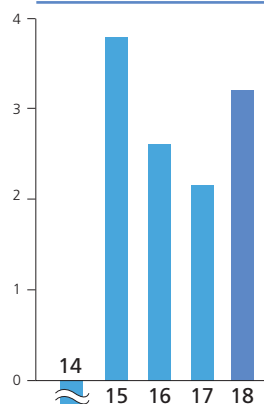
### Equity Ratio (%)



### Return on Average Assets (ROA) (%)



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



## Financial Position

Total assets for the end of year consolidated accounting increased by 3.7% or ¥1,276 million (US\$12,010 thousand) over the previous end of year consolidated accounting to ¥35,916 million (US\$337,970 thousand).

Total current assets for the end of year increased by 7.1% or ¥1,352 million (US\$12,724 thousand) over the previous end of year consolidated accounting to ¥20,343 million (US\$191,427 thousand). This was mainly due to an increase in cash and deposits.

Total fixed assets for the end of year consolidated accounting decreased 0.5% or ¥76 million (US\$714 thousand) from the previous end of year consolidated accounting for a total of ¥15,573 million (US\$146,543 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 8.8% or ¥584 million (US\$5,493 thousand) from the previous end of year consolidated accounting to ¥7,230 million (US\$68,029 thousand). Out of this, total current liabilities increased by 7.9% or ¥400 million (US\$3,772 thousand) from the previous end of term to ¥5,484 million (US\$51,610 thousand). This was mainly due to an increase in trade payables. Total long-term liabilities for the end of the term increased 11.7% or ¥184 million (US\$1,721 thousand) for the previous end of year consolidated accounting to ¥1,746 million (US\$16,419 thousand).

Total net assets for the end of year consolidated accounting increased 2.5% or ¥692 million (US\$6,517 thousand) above the previous end of year consolidated accounting to ¥28,686 million (US\$269,941 thousand). This was mainly due to an increase in retained earnings and other valuation difference on available-for-sale securities.

The result of these figures is a capital-to-asset ratio of 79.9%, a decrease of 0.9 points from the previous term.

## Cash Flows

Capital from operating activities increased by ¥1,692 million (US\$15,924 thousand). Increase in these activities for the previous fiscal year was ¥2,003 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 ¥452 million (US\$4,252 thousand). Even in these activities of the previous consolidated accounting term, ¥21 million was used for investment. This term mainly focused on expenditures for acquisition of tangible fixed assets.

There was a ¥327 million (US\$3,084 thousand) decrease in capital from financial activities. The amount of capital used in financial activities for the previous consolidated accounting year was ¥587 million. 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 ¥8,725 million (US\$82,103 thousand), an increase of ¥820 million (US\$7,716 thousand) compared to the previous year end consolidated accounting.

## Dividends

TERAOKA considers the payment of dividends to its stockholders 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\$0.06) per share and combined with the previously distributed interim dividend of ¥6.00 (US\$0.06) per share, the total annual dividends were ¥12.00 (US\$0.11) per share.



## CONSOLIDATED BALANCE SHEETS

March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and time deposits .....	¥ 9,077	¥ 8,223	\$ 85,416
Notes and accounts receivable - trade .....	5,909	5,583	55,601
Electronically recorded monetary claims - operating .....	1,013	549	9,532
Less: Allowance for doubtful accounts (Note 2-h) .....	(9)	(7)	(85)
Inventories (Note 2-c) .....	3,711	3,965	34,923
Deferred income taxes (Note 2-g) .....	334	324	3,143
Other current assets .....	308	354	2,897
Total current assets .....	<u>20,343</u>	<u>18,991</u>	<u>191,427</u>
<b>Property, Plant and Equipment (Notes 2-d and 2-f):</b>			
Land .....	4,032	4,051	37,938
Buildings .....	11,549	11,645	108,674
Machinery and equipment .....	24,763	24,792	233,018
Leased assets .....	269	269	2,536
Construction in progress .....	285	97	2,687
	<u>40,898</u>	<u>40,854</u>	<u>384,853</u>
Less: Accumulated depreciation .....	<u>(30,101)</u>	<u>(29,782)</u>	<u>(283,250)</u>
Property, plant and equipment, net .....	<u>10,797</u>	<u>11,072</u>	<u>101,603</u>
Intangible Assets .....	285	366	2,677
<b>Investments and Other Assets:</b>			
Investments in securities (Notes 2-b and 5) .....	4,134	3,893	38,897
Deferred income taxes (Note 2-g) .....	7	7	65
Net defined benefit asset .....	177	88	1,669
Other .....	174	226	1,639
Less: Allowance for doubtful accounts (Note 2-h) .....	(1)	(3)	(7)
Total investments and other assets .....	<u>4,491</u>	<u>4,211</u>	<u>42,263</u>
Total assets .....	<u>¥ 35,916</u>	<u>¥ 34,640</u>	<u>\$ 337,970</u>

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>Current Liabilities:</b>			
Notes and accounts payable - trade .....	¥ 1,294	¥ 1,226	\$ 12,180
Electronically recorded obligations - operating .....	2,455	2,482	23,104
Short-term borrowings .....	—	4	—
Lease obligations .....	19	19	183
Accrued income taxes .....	203	176	1,913
Accrued expenses .....	560	484	5,273
Other current liabilities .....	953	693	8,957
Total current liabilities .....	<u>5,484</u>	<u>5,084</u>	<u>51,610</u>
<b>Long-term Liabilities:</b>			
Net defined benefit liability .....	40	31	376
Deferred liabilities taxes (Note 2-g) .....	737	545	6,931
Asset retirement obligations .....	297	293	2,794
Lease obligations .....	249	268	2,343
Provision for environmental measures .....	316	316	2,969
Other .....	107	109	1,006
Total long-term liabilities .....	<u>1,746</u>	<u>1,562</u>	<u>16,419</u>
Total liabilities .....	<u>7,230</u>	<u>6,646</u>	<u>68,029</u>
<b>NET ASSETS</b>			
<b>Stockholders' Equity:</b>			
Common stock .....	5,057	5,057	47,588
Authorized: 80,000,000 shares			
Issued: 26,687,955 shares as of March 31, 2018 and 26,687,955 shares as of March 31, 2017, respectively			
Additional paid-in capital .....	4,644	4,644	43,700
Retained earnings .....	17,385	16,768	163,593
Less: Treasury stock, at cost .....	(462)	(462)	(4,353)
Total Stockholders' equity .....	<u>26,624</u>	<u>26,007</u>	<u>250,528</u>
<b>Accumulated other comprehensive income</b>			
Unrealized gains on securities (Notes 2-b and 5) .....	1,847	1,669	17,387
Foreign currency translation adjustments (Note 2-j) .....	151	322	1,419
Remeasurements of defined benefit plans .....	64	(4)	607
Total accumulated other comprehensive income .....	<u>2,062</u>	<u>1,987</u>	<u>19,413</u>
Total net assets .....	<u>28,686</u>	<u>27,994</u>	<u>269,941</u>
Total liabilities and net assets .....	<u>¥35,916</u>	<u>¥34,640</u>	<u>\$337,970</u>



## CONSOLIDATED STATEMENTS OF INCOME

For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net Sales .....	¥22,816	¥21,262	\$214,696
Cost of Sales .....	16,630	15,486	156,484
Gross Profit .....	6,186	5,776	58,212
Selling, General and Administrative Expenses .....	4,867	4,737	45,798
Operating income .....	1,319	1,039	12,414
<b>Other Income and Expenses:</b>			
Interest and dividend income .....	96	89	903
Commission received .....	41	70	390
Foreign exchange gains (losses), net .....	(274)	(41)	(2,579)
Amortization of business commencement expenses .....	(13)	(25)	(119)
Commission paid .....	—	(475)	—
Gain on sales of investment securities .....	74	399	696
Environmental expenses .....	—	(333)	—
Other, net .....	48	45	443
	(28)	(271)	(266)
Income before income taxes .....	1,291	768	12,148
<b>Income taxes:</b>			
Current .....	297	188	2,793
Deferred .....	73	(36)	685
Total income taxes .....	370	152	3,478
Net income .....	¥ 921	¥ 616	\$ 8,670
Profit attributable to non-controlling interests .....	—	—	—
Profit attributable to owners of parent .....	921	616	8,670
<b>Per Share</b>			
	Yen		U.S. dollars
<b>Per share of common stock</b>			
Net income .....	¥36.37	¥23.96	\$0.34
Cash dividends .....	12.00	11.00	0.11

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, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net income .....	¥921	¥616	\$8,670
<b>Other Comprehensive Income</b>			
Unrealized gains on securities .....	178	16	1,674
Foreign currency translation adjustments .....	(171)	(62)	(1,605)
Remeasurements of defined benefit plans, net of tax .....	68	44	641
Total other comprehensive income .....	75	(2)	710
Comprehensive Income .....	<u>996</u>	<u>614</u>	<u>9,380</u>
<b>Total comprehensive income attributable to:</b>			
Comprehensive income attributable to owners of parent .....	996	614	9,380
Comprehensive income attributable to non-controlling interests .....	—	—	—

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



## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the years ended March 31, 2018 and 2017

	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
<b>Balance at April 1, 2016</b> .....	¥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 .....	—	—	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
<b>Balance at March 31, 2017</b> ...	¥5,057	¥4,644	¥16,768	¥(462)	¥26,007	¥1,669	¥322	¥(4)	¥1,987	¥27,994
<b>Balance at April 1, 2017</b> .....	¥5,057	¥4,644	¥16,768	¥(462)	¥26,007	¥1,669	¥322	¥(4)	¥1,987	¥27,994
Cash dividends paid .....	—	—	(304)	—	(304)	—	—	—	—	(304)
Net income .....	—	—	921	—	921	—	—	—	—	921
Purchase of treasury stock .....	—	—	—	(0)	(0)	—	—	—	—	(0)
Net changes of items other than Stockholders' equity .....	—	—	—	—	—	178	(171)	68	75	75
Total changes of items during the period .....	—	—	617	(0)	617	178	(171)	68	75	692
<b>Balance at March 31, 2018</b> ...	¥5,057	¥4,644	¥17,385	¥(462)	¥26,624	¥1,847	¥151	¥64	¥2,062	¥28,686

	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
<b>Balance at April 1, 2017</b> .....	\$47,588	\$43,700	\$157,784	\$(4,351)	\$244,721	\$15,713	\$ 3,024	\$(34)	\$18,703	\$263,424
Cash dividends paid .....	—	—	(2,861)	—	(2,861)	—	—	—	—	(2,861)
Net income .....	—	—	8,670	—	8,670	—	—	—	—	8,670
Purchase of treasury stock .....	—	—	—	(2)	(2)	—	—	—	—	(2)
Net changes of items other than Stockholders' equity .....	—	—	—	—	—	1,674	(1,605)	641	710	710
Total changes of items during the period .....	—	—	5,809	(2)	5,807	1,674	(1,605)	641	710	6,517
<b>Balance at March 31, 2018</b> ...	\$47,588	\$43,700	\$163,593	\$(4,353)	\$250,528	\$17,387	\$ 1,419	\$607	\$19,413	\$269,941

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, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
<b>Operating Activities</b>			
Income before income taxes .....	¥1,291	¥ 768	\$12,148
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization .....	867	879	8,158
Environmental expenses .....	—	333	—
Gain on sales of investment securities .....	(74)	(399)	(696)
Increase (decrease) in allowance for doubtful accounts .....	(0)	4	(4)
Increase (decrease) in net defined benefit liability .....	17	5	162
Interest and dividends income .....	(96)	(89)	(903)
Interest expenses .....	0	0	2
Foreign exchange losses (gains) .....	183	18	1,729
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable .....	(809)	(468)	(7,615)
(Increase) decrease in inventories .....	230	376	2,165
Increase (decrease) in notes and accounts payable .....	57	447	535
Other, net .....	174	(124)	1,639
<b>Subtotal</b> .....	<b>1,840</b>	<b>1,750</b>	<b>17,320</b>
Interest and dividends income received .....	96	89	903
Interest expenses paid .....	(0)	(0)	(2)
Income taxes (paid) refund .....	(244)	164	(2,297)
<b>Net cash provided by operating activities</b> .....	<b>1,692</b>	<b>2,003</b>	<b>15,924</b>
<b>Investing Activities:</b>			
Payment for purchases of property, plant and equipment .....	(440)	(240)	(4,148)
Payment for purchases of intangible assets .....	(46)	(20)	(429)
Payment for purchases of investment in securities .....	(3)	(303)	(25)
Proceeds from sales of investment securities .....	91	542	860
Decrease (increase) in time deposits .....	(54)	—	(510)
<b>Net cash used in investing activities</b> .....	<b>(452)</b>	<b>(21)</b>	<b>(4,252)</b>
<b>Financing Activities:</b>			
Dividends paid .....	(304)	(258)	(2,861)
Decrease in short-term loans payable .....	(4)	—	(38)
Payment for acquisition of treasury stock .....	(0)	(325)	(2)
Other, net .....	(19)	(4)	(183)
<b>Net cash used in financing activities</b> .....	<b>(327)</b>	<b>(587)</b>	<b>(3,084)</b>
Effect of Exchange Rate Changes on Cash and Cash Equivalents .....	(93)	(27)	(872)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b> .....	<b>820</b>	<b>1,368</b>	<b>7,716</b>
<b>Cash and Cash Equivalents at Beginning of Period</b> .....	<b>7,905</b>	<b>6,537</b>	<b>74,387</b>
<b>Cash and Cash Equivalents at End of Period</b> .....	<b>¥8,725</b>	<b>¥7,905</b>	<b>\$82,103</b>

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, 2018 and 2017

## 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 ¥106.27=US\$1, the prevailing exchange rate on March 31, 2018.

## 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, 2018 and 2017 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.

**(Changes in Display Method)**

(Consolidated Statements of Income)

"Interest expenses" which was listed independently in the previous consolidated fiscal year is included in "Other, net" from the current consolidated fiscal year because it became scarce in value. In order to reflect changes in this presentation method, the consolidated financial statements for the previous consolidated fiscal year have been reclassified. As a result, "Interest expenses" of 0 million yen and "Other, net" of 45 million yen are reclassified as "Other, net" of 45 million yen in the consolidated statements of income in the previous consolidated fiscal year.

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### 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 ¥3 million (US\$25 thousand) and ¥4 million at March 31, 2018 and 2017.

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### 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, 2018 and unrealized gain (loss) are shown in the following table.

Financial Instruments	Millions of yen		
	Carrying	Estimate fair value	Difference
(1) Cash and deposits .....	¥ 9,077	¥ 9,077	—
(2) Notes and accounts receivable .....	5,909	5,909	—
(3) Electronically recorded monetary claims .....	1,013	1,013	—
(4) Marketable securities and investments in securities .....	4,115	4,115	—
(5) Notes and accounts payable .....	(1,294)	(1,294)	—
(6) Electronically recorded obligations .....	(2,455)	(2,455)	—

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

- (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, 2018	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, 2018

	Millions of yen
	Due in One Year or Less
Cash and deposits .....	¥ 9,077
Notes and accounts receivable .....	5,909
Electronically recorded monetary claims - operating .....	1,013
Marketable securities and investments in securities .....	—
<b>Total</b>	<b>¥15,999</b>

- (4) The redemption schedule for short-term debt and long-term debt at March 31, 2018 and 2017 was as follows:

	Millions of yen		Average interest rates (%)
	2018	2017	2018
Short-term debt .....	¥—	¥4	—
<b>Total</b> .....	<b>¥—</b>	<b>¥4</b>	

## 5. Securities

Historical costs, fair value and gross unrealized gains and losses for marketable securities as of March 31, 2018 and 2017 are as follows:

	Millions of yen				
	2018				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other Securities:					
Equity securities .....	¥1,216	¥3,809	¥2,593	¥2,593	¥—
Other .....	299	306	6	6	—
Total .....	¥1,515	¥4,115	¥2,599	¥2,599	¥—

	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	¥—

	Thousands of U.S. dollars				
	2018				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other Securities:					
Equity securities .....	\$11,439	\$35,843	\$24,404	\$24,404	\$—
Other .....	2,816	2,876	60	60	—
Total .....	\$14,255	\$38,719	\$24,464	\$24,464	\$—

Securities that do not have fair values are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
	Equity securities .....	¥19	¥19
Other .....	—	—	—
Total .....	¥19	¥19	\$178

## 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, 2018 and 2017 were as follows:

### (1) Changes in defined benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Beginning balance of benefit obligations .....	¥4,571	¥4,511	\$43,017
Service cost .....	254	275	2,394
Interest cost .....	28	23	262
Actuarial gains and losses .....	(12)	(79)	(112)
Benefits paid .....	(158)	(159)	(1,483)
Ending balance of benefit obligations .....	¥4,684	¥4,571	\$44,078

### (2) Changes in Pension Assets

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Beginning balance of pension assets .....	¥4,659	¥4,537	\$43,841
Expected return on pension assets .....	93	91	877
Actuarial gains and losses .....	84	(40)	793
Contributions by the employer .....	183	230	1,719
Benefits paid .....	(158)	(159)	(1,483)
Ending balance of pension assets .....	¥4,861	¥4,659	\$45,747

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Beginning balance of retirement benefit liabilities .....	¥31	¥29	\$293
Benefits expenses .....	13	7	119
Benefits paid .....	(4)	(5)	(36)
Ending balance of retirement benefit liabilities .....	¥40	¥31	\$376

**(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
	2018	2017	2018
Funded defined benefit obligations .....	¥ 4,684	¥ 4,571	\$ 44,078
Pension assets .....	(4,861)	(4,659)	(45,747)
Subtotal .....	(177)	(88)	(1,669)
Unfunded defined benefit obligations .....	40	31	376
Net amount of liabilities and assets recognized in consolidated balance sheet ....	(137)	(56)	(1,293)
Liabilities (net defined benefit liability) .....	40	31	376
Assets (net defined benefit assets) .....	(177)	(88)	(1,669)
Net amount of liabilities and assets recognized in consolidated balance sheet ....	¥ (137)	¥ (56)	\$ (1,293)

Note: This includes plans using the simplified method.

**(5) Retirement benefit expenses**

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service costs .....	¥254	¥275	\$2,394
Interest costs .....	28	23	262
Expected return on pension assets .....	(93)	(91)	(876)
Recognition of actuarial gains and losses .....	2	25	18
Benefits expenses calculated on the simplified method .....	13	7	119
Total .....	¥204	¥239	\$1,917

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Actual differences .....	¥98	¥64	\$924

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrecognized actuarial gains and losses .....	¥93	¥(5)	\$874

**(8) Pension Assets**

① Breakdown of pension assets

	2018	2017
Debt securities .....	68%	69%
Equity securities .....	24%	23%
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

	2018	2017
Discount rate .....	0.5%	0.6%
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, 2018 and 2017 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Accrued bonus to employees .....	¥ 125	¥ 122	\$ 1,173
Depreciation .....	3	6	26
Loss on valuation of investment securities .....	80	80	757
Net defined benefit liability .....	12	9	115
Tax loss carryforward .....	283	441	2,661
Impairment loss .....	236	252	2,222
Loss on valuation of inventories .....	103	98	965
Asset retirement obligations .....	92	91	864
Provision for environmental measures .....	97	97	909
Other .....	(34)	(43)	(316)
Valuation allowance .....	(656)	(822)	(6,168)
Total deferred tax assets .....	¥ 341	¥ 331	\$ 3,208
Deferred tax liabilities:			
Reserve for advanced depreciation of noncurrent assets .....	(9)	(11)	(87)
Unrealized gains on other securities .....	(752)	(674)	(7,077)
Net defined benefit asset .....	(54)	(27)	(511)
Other deferred tax liabilities .....	79	167	744
Total deferred tax liabilities .....	¥(737)	¥(545)	\$(6,931)
Net deferred tax assets (liabilities) .....	¥(396)	¥(214)	\$(3,723)

A reconciliation on the difference between the statutory tax rate and effective rate on taxable income for the fiscal years ended March 31, 2018 and 2017 is as follows:

	2018	2017
Statutory tax rate .....	30.9%	30.9%
Entertainment and other non-deductible expenses .....	2.4	0.9
Dividend and other non-taxable income .....	(0.4)	(0.7)
Per capita levy of inhabitant taxes .....	1.3	2.2
Increase in valuation allowance .....	(0.9)	(6.8)
Tax deduction for research expenses .....	(7.9)	(8.2)
Rate difference from foreign subsidiaries .....	(1.7)	(2.7)
Consolidated adjustment .....	4.8	2.4
Other, net .....	0.3	1.7
Effective tax rate .....	28.6%	19.7%

## 8. Subsequent Event

### Appropriation of retained earnings

Subsequent to March 31, 2018, the Company's Board of Directors, with the approval of stockholders on June 22, 2018 declared a cash dividend of ¥152 million (US\$1,430 thousand) equal to ¥6.00 (US\$0.06) per share, applicable

to earnings of the year ended March 31, 2018 and payable to stockholders on the stockholders' register on March 31, 2018.



## 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, 2018 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, 2018 and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

#### Convenience Translation

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

Tokyo, Japan  
June 22, 2018

*Inoue Audit Corporation*  
INOUE AUDIT CORPORATION



## COMPANY DATA

### Company Outline

(as of March 31, 2018)

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	489 (679 consolidated)

### Board of Directors and Auditors

(as of June 22, 2018)

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

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### 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, 2018)

Head Office	Teraoka Seisakusho Co., Ltd. 4-22, Hiromachi 1-chome, Shinagawa-ku, Tokyo 140-8711, Japan Telephone: 81-3-3491-1141 Facsimile: 81-3-3491-5316
Financial Year	April 1 to March 31
Common Stocks	Authorized Shares 80,000,000 Issued Shares 26,687,955
Stockholders	2,869
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	2,798.8	11.05
BNP PARIBAS SECURITIES SERVICES LUXEMBOURG/JASDEC/FIM/ LUXEMBOURG FUNDS/UCITS ASSETS	1,310.0	5.17
Keishiro Teraoka	890.9	3.52
MUFG Bank, Ltd.	818.8	3.23
Resona Bank, Ltd.	678.8	2.68
Japan Trustee Services Bank, Ltd.	649.6	2.56
Kuniko Teraoka	526.0	2.08
NOMURA PB NOMINEES LIMITED A/C CPB30072482276	411.2	1.62
Employees' Stockholding Group	391.0	1.54

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