TERAOKA

Annual Report 2019

Year ended March 31, 2019

TERAOKA SEISAKUSHO CO., LTD.

PROFILE

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

As we approach the 100th year anniversary of our founding, we have drafted the secondary medium-term management plan dubbed, “Teraoka 100,” to be applied over the 6 years starting April 2015, for which the aim is to improve the Company’s corporate value and in turn, the interests of stockholders. Then, April 2018 marked the beginning of Teraoka 100 Phase 2, which is the plan for the latter three years.

Our vision in this is to, “In light of our 100th anniversary, transform into a company with a tremendous presence through steady reform and taking on new challenges while fulfilling our CSR. We will take on the challenge of four basic strategies to achieve this vision.

- Train personnel who can demonstrate strong ability at worksite
- Corporate-wide Manufacturing Reforms
- Build a business and product portfolio for the purpose of growth
- Strengthen consolidated management strategy and overseas strategy

Although simple adhesive tapes continue to quietly posting results, the Company Group is always creating new value and taking strides to become a corporate with a tremendous presence, as your indispensable partner.

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Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

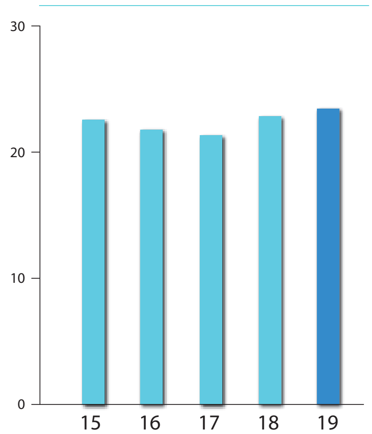
CONSOLIDATED FINANCIAL HIGHLIGHTS

For the years ended March 31,

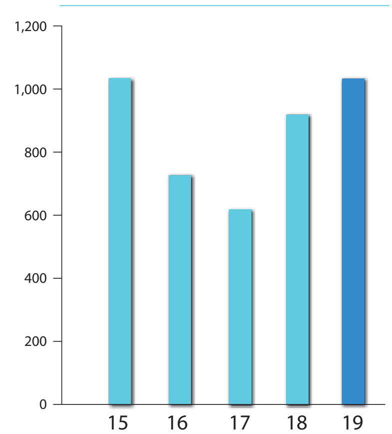
	Millions of yen		Thosands of U.S. dollars
	2019	2018	2019
Net Sales	¥23,558	¥22,816	$212,215
Operating Income	1,144	1,319	10,308
Income before Income Taxes	1,366	1,291	12,313
Net Income	1,034	921	9,320
Total Assets	35,854	35,575	332,982
Net Assets	28,978	28,686	261,047
Ratio (%)			
Operating Income to Net Sales	4.9	5.8	
Equity Ratio	80.8	80.6	
Return on Average Assets (ROA)	2.9	2.6	
Return on Average Stockholders' Equity (ROE)	3.6	3.3	
Per Share	Yen		U.S. dollars
Net Income	¥40.84	¥36.37	$0.37
Cash Dividends	14.00	12.00	0.13

The U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥111.01 = US$1, the rate prevailing on March 31, 2019.

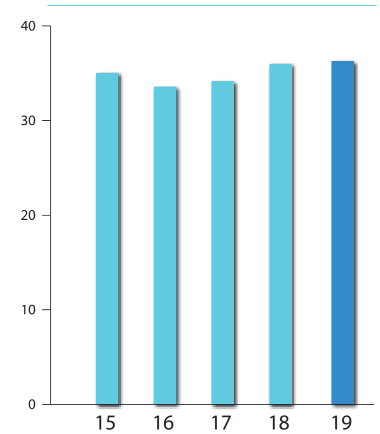
Net Sales
(¥ billions)



Net Income
(¥ millions)



Total Assets
(¥ billions)



TO OUR STOCKHOLDERS

Result for FY 2019

Fiscal year 2019, the year ended March 31, 2019 marks the 109th business term for the Company Group.

In the current accounting year, the Company Group struggled with sales of our electronic tapes for mobile devices, which had maintained good numbers, dropped from the first term, due to effects of China's sudden economic slowdown, resulting in falling short of projections announced on October 23 last year.

As a result, sales for the Company Group for the consolidated fiscal year were ¥23,558 million (US$212,215 thousand), increasing 3.3% over the previous term. We have also been active in hiring, including specialists, in order to bring the medium-term business plan to fruition, leading to an increase in sales expenses and general management expenses, bringing operating income to ¥1,144 million (US$10,308 thousand). This was a 13.3% decrease from the previous fiscal year. Consolidated income before income taxes was ¥1,366 million (US$12,313 thousand), a 5.9% increase from the previous term. Consolidated income for the parent company was ¥1,034 million (US$9,320 thousand), a 12.3% increase over the previous term.

Future Focus

Although robust demand for architecture and civil engineering, such as infrastructure development for the coming Olympic Games is expected, due to uncertainties such as trade friction between the US and China, and BREXIT, the immediate future of the Japanese economy is also uncertain. For the full year projected consolidated operating results for the March 2020 term, by expanding sales of existing high-profit products and launching of new products, review of unprofitable products, promotion of "manufacturing reforms" that include thorough inventory management and stabilizing quality, reducing costs by optimizing work tasks, sales are forecasted to be ¥26 billion (US$234 million), operating income to be ¥1,400 million (US$12,611 thousand), consolidated income before income taxes at ¥1,510 million (US$13,602 thousand), and consolidated income attributable to parent company stock is forecast at ¥1,170 million (US$10,540 thousand).

Problem Prevention

Inappropriate Conduct Related to Some Company Products

In regards to the inappropriate conduct pertaining to some of the Company's products, made public on April 6, 2018, we received an investigation report by an external investigation committee consisting of outside experts dated June 29 of the same year, and we announced measures to prevent recurrence based on this report on July 20 of the same year. The Company is sincerely promoting prevention of recurrence by taking the following efforts for Enhancement of Compliance Structure and to enhance the quality management and assurance system.

(1) Enhancement of Compliance Structure

The Company Group is dedicated to creating a healthy corporate environment we can be proud of while achieving our CSR (corporate social responsibility). Moreover, we will be making compliance enhancement (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 Arrangements

We are making efforts to increase our corporate value and exceed stockholders' benefits, aiming to surpass common interests by strictly implementing high-quality risk management such as building a system in response to demands of the industry with the highest quality management standard demands and by introducing inspection systems that eliminate human error, while also implementing thorough quality training based on rules and principles.

Management Challenges

(1) Establishing Continued Operating Profit on Sales

The Company will ensure improved Operating Profit on Sales through deep and comprehensive understanding of customer needs by actively communicating with product users, and conducting effective sales activities by concentrating human resources in focus segments.

(2) 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, research and sales departments and will strive to put new products with a high profitability and high expected added value on the market in a timely manner, with consideration for environmental issues.

Dividends

The end of term dividend was distributed at ¥5 (US$0.05) per share and the mid-term dividend preceding it was ¥9 (US$0.08) per share for a total of ¥14 (US$0.13) per share in annual dividends.

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

June 21, 2019

Keishiro Teraoka,
Chairman

Kenichi Tsuji,
President

REVIEW OF OPERATIONS

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

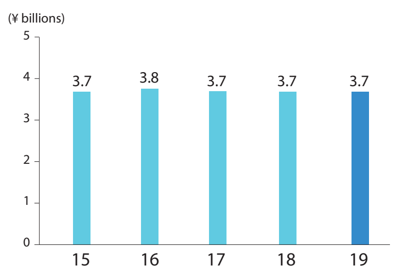
The market continues to evolve. For example, the automotive and telecommunication industries are undergoing dramatic reforms based on concepts that differ from past methods, causing a paradigm shift. With this, the needs of the Company Group's customers have also become more diverse and sophisticated. The demand for environmental considerations is also increasing in many industries and services. In response to these trends as well, the Company Group will continue to upgrade our technology as well as engage in new technology development and capital investment, proposing high-quality products with high added value that will satisfy our customers' needs, and provide stable products and services.

New achievements in this consolidated fiscal year include new product development of advanced-fixation double-sided tape, strong adhesive double-sided tape, advanced-sealing double-sided tape, heat-resistant tape, etc. Also, new technological development expected to be launched in the medium to long-term saw progress in new functional coating material development, solventless technology, petroleum alternative developments, etc. Furthermore, we are actively investing in equipment, moving forward with expanding our R&D system by introducing experimental equipment related to new adhesive production methods, various analytical equipment and practical evaluation equipment, among others.

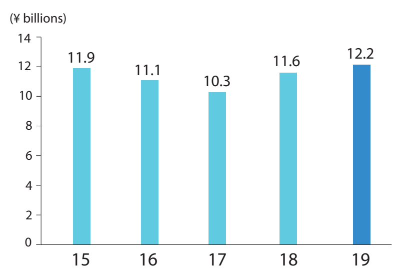
Total R&D costs in this consolidated accounting period were ¥934 million (US$8,413 thousand), increasing 10.2% over the previous year. Furthermore, R&D accounted for 4.0% of consolidated sales, which was 0.3 points increase over the previous fiscal year.

Consolidated sales for the corporate group was ¥23,558 million (US$212,215 thousand), which are broken down by product segment below.

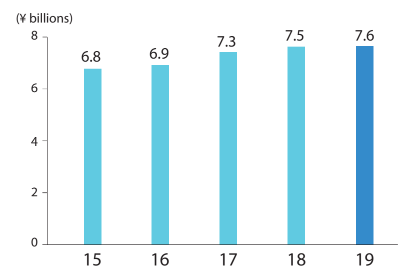
Sales of Packing Tapes



Sales of Electrical Insulation and Electronic Equipment Tapes



Sales of Other Industrial Tapes



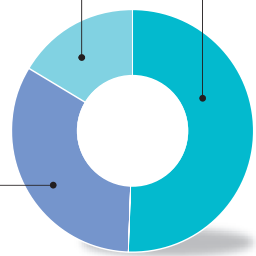
Packing Tapes

Consumer-related products that are mainly mail-order are steady and construction work tapes were continue to perform well, but overall inventory turnover has been in a slump since the beginning of the year. Therefore, consolidated sales for this product segment kept at the exact same level as the previous fiscal year at ¥3,724 million (US$33,545 thousand). This segment accounts for 15.8% of total consolidated sales and decreased by 0.5 points below the previous term.

Electrical Insulation and Electronic Equipment Tapes

While electronic equipment tapes and automotive equipment tape sales were strong in the second and third quarters, sales were only ¥12,201 million (US$109,913 thousand) due to effects of sudden decrease in production of mobile devices in China in the fourth quarter. This was a 5.6% increase over the previous fiscal year. This segment accounts for 51.8% of total consolidated sales and has increased by 1.2 points over the previous term.

BREAKDOWN OF SALES BY CATEGORY

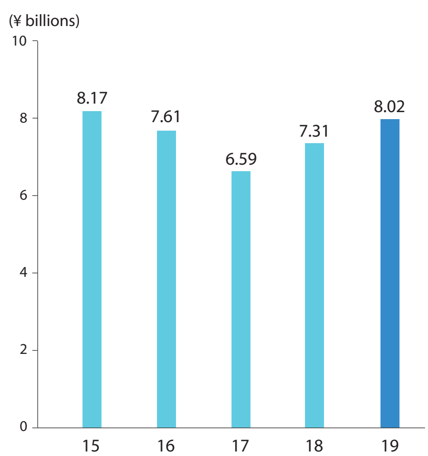


15.8% **Packing Tapes**
- Olive cloth tapes
- Kraft paper tapes
- Polypropylene film adhesive tapes

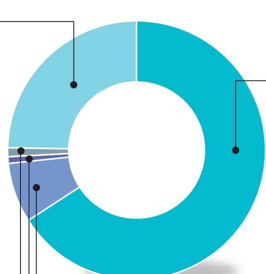
32.4% **Other Industrial Tapes**
- Double-coated adhesive tapes
- Corrosion-proof tapes
- Masking cloth tapes
- Surface protection tapes

51.8% **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 24.5%

Japan 66.0%

North America 7.4%

Europe 1.0%

Other areas 1.1%

Other Industrial Tapes

While sales were sluggish in automotive equipment tapes, sales for this product segment increased slightly to ¥7,633 million (US$68,758 thousand) thanks to strong performance of protective cloth tape and polyethylene cloth tape, which are major products used in infrastructure and construction. This is a 1.2% increase from the previous term. This segment accounts for 32.4% of consolidated sales and decreased by 0.7 points below the previous term.

Overseas Sales

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

Comparing overseas sales for the current consolidated fiscal year by segment, Packing Tapes decreased by 0.5% while Electrical Insulation and Electronic Equipment Tapes increased by 1.5%, but Other Industrial Tapes decreased by 1.0%. The result of this was overseas sales of ¥8,024 million (US$72,289 thousand) in this segment, 9.8% growth compared to the previous term. This also accounted for 34.1% of consolidated sales and was a 2.1 point increased compared to the previous term.

Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED FIVE-YEAR SUMMARY

	Millions of yen					Thousands of U.S. dollars
Years ended March 31	2015	2016	2017	2018	**2019**	**2019**
Net Sales	¥22,477	¥21,771	¥21,262	¥22,816	**¥23,558**	**$212,215**
Operating Income	1,024	1,144	1,039	1,319	**1,144**	**10,308**
Income before Income Taxes	1,902	991	768	1,291	**1,366**	**12,313**
Net Income	1,025	727	616	921	**1,034**	**9,320**
Total Assets	35,331	33,495	34,640	35,575	**35,854**	**332,982**
Net Assets	28,268	27,963	27,994	28,686	**28,978**	**261,047**
Ratio (%)						
Operating Income to Net Sales	4.6	5.3	4.9	5.8	**4.9**	
Equity Ratio	80.0	83.5	80.8	80.6	**80.8**	
Return on Average Assets (ROA)	3.0	2.1	1.8	2.6	**2.9**	
Return on Average Stockholders' Equity (ROE)	3.8	2.6	2.2	3.3	**3.6**	
Per Share	Yen					U.S. dollars
Net Income	¥38.92	¥27.62	¥23.96	¥36.37	**¥40.84**	**$0.37**
Cash Dividends	10.00	11.00	11.00	12.00	**14.00**	**0.13**

The U.S. dollars are translated at the rate of ¥111.01 per US$1, prevailing on March 31, 2019.

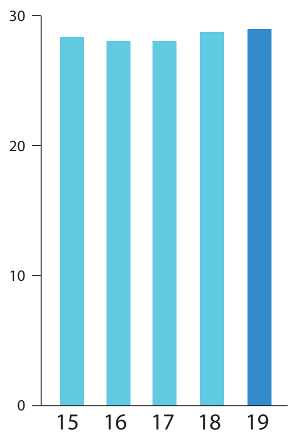
CONSOLIDATED FINANCIAL STATEMENTS

Fiscal Year 2019

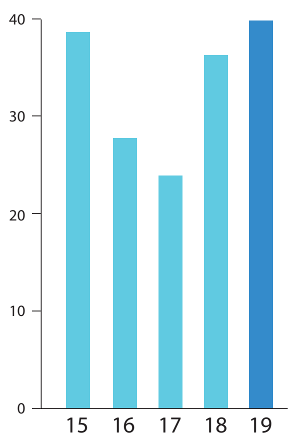
Year ended March 31, 2019

FINANCIAL REVIEW

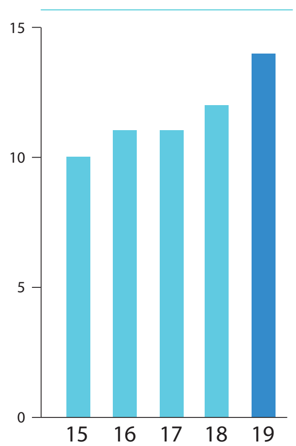
Net Assets
(¥ billions)



Net Income
per Share (Yen)



Cash Dividends
per Share (Yen)



Business Performance

In terms of Japan's economic state for this consolidated fiscal year, while industrial production index weakened somewhat in the second half of the year, bringing corporate profits to a standstill, the employment and income environment continued to improve, including steady increase in real income, resulting in moderate recovery of the household sector.
However, in addition to the worsening Chinese economy due to intensifying friction in trade between the US and China, the European and US economy slowdown contributed to sudden deterioration of the Company Group's surrounding environments, and we need to tread carefully in these continuously unpredictable circumstances.

The sales department partnered up with the R&D department in an effort to gain new orders, through projects like holding an independent exhibition, pushing the Company Group product strengths such as insulation, high heat resistance, strong adhesives, etc. In the R&D field we were able to launch new products with high added value. We have started some manufacturing reforms and various systematizations in order to take a big leap forward in the production sector.

The result was that consolidated sales for the consolidated fiscal year increased by 3.3% over the previous term to ¥23,558 million (US$212,215 thousand). However, as we are continuing to be active in hiring, including specialists, in order to bring the medium-term business plan to fruition, sales expenses and general management expenses increased, bringing operating income to ¥1,144 million (US$10,308 thousand), which was a 13.3% decrease from the previous year, but Income before Income Taxes increased 5.9% to ¥1,366 million (US$12,313 thousand) due to the weakened yen. The result is that the consolidated operating income pertaining to the parent company stock was ¥1,034 million (US$9,320 thousand), a 12.3% increase over the previous term, but this result did not meet the business projections announced in October of last year. This is due to struggles in electronic tape for mobile devices which was affected by China's economical slowdown, despite performing well prior.

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.

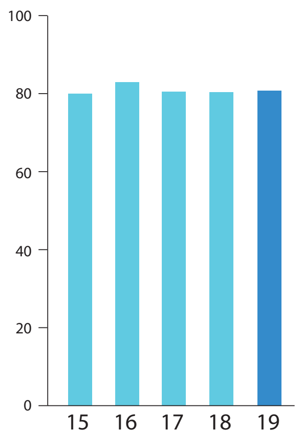
In this fiscal year's Packing Tapes sector, consumer-related products that are mainly mail-order are steady and construction work tapes were continue to perform well, but overall inventory turnover has been in a slump since the beginning of the year. Consolidated sales for this product segment kept at the exact same level as the previous fiscal year at ¥3,724 million (US$33,545 thousand). This segment accounts for 15.8% of total consolidated sales and decreased by 0.5 points below the previous term.

In the Electrical Insulation and Electronic Equipment Tapes sector, while electronic equipment tape and automotive equipment tape sales were strong in the second and third quarters, sales were only ¥12,201 million (US$109,913 thousand) due to effects of sudden decrease in production of mobile devices in China. This was a 5.6% increase over the previous fiscal year. This segment accounts for 51.8% of total consolidated sales and has increased by 1.2 points over the previous term.

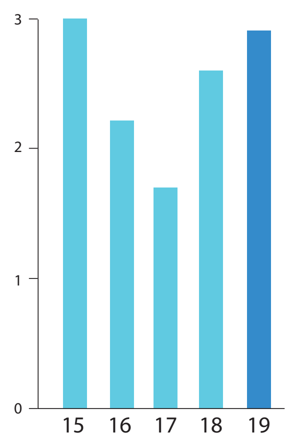
In the Other Industrial Tapes segment, while sales were sluggish in automotive equipment tapes, sales for this product segment increased slightly to ¥7,633 million (US$68,758 thousand) thanks to strong performance of protective cloth tape and polyethylene cloth tape, which are major products used in infrastructure and construction. This is a 1.2% increase from the previous term. This segment accounts for 32.4% of consolidated sales and decreased by 0.7 points below the previous term.

At the same time, looking at results in the Overseas Sales sector, overseas sales for the current consolidated fiscal year increased by 9.8% over the previous fiscal year, coming to ¥8,024 million (US$72,289 thousand). This also accounted for 34.1% of consolidated sales. This was a 2.1 point increased compared to the previous term.

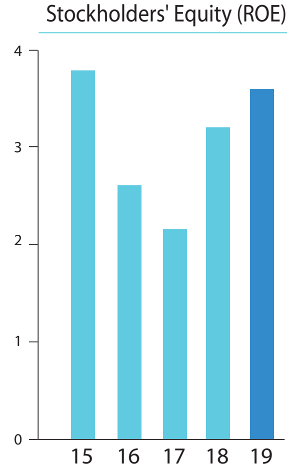
Equity Ratio
(%)



Return on Average Assets (ROA) (%)



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



Financial Position

Total assets for the end of year consolidated accounting increased by 0.8% over the previous end of year consolidated accounting to ¥35,854 million (US$322,982 thousand).

Total current assets for the end of year increased by 4.6% over the previous end of year consolidated accounting to ¥20,937 million (US$188,609 thousand). This was mainly due to an increase in cash and deposits.

Total fixed assets for the end of year consolidated accounting decreased 4.2% from the previous end of year consolidated accounting to ¥14,917 million (US$134,373 thousand). This was mainly due to the market value decrease in investment securities due to drop in stock price.

Total liabilities for the end of year consolidated accounting decreased 0.2% from the previous end of year consolidated accounting to ¥6,876 million (US$61,935 thousand). Out of this, total current liabilities increased by 2.0% over the previous end of term to ¥5,594 million (US$50,394 thousand). This was mainly due to an increase in operating receivables. Furthermore, total long-term liabilities decreased 0.2% below the previous end of year consolidated accounting to ¥6,876 million (US$61,935 thousand).

Total net assets for the end of year consolidated accounting increased 1.0% over the previous end of year consolidated accounting to ¥28,978 million (US$261,047 thousand). This was mainly due to an increase in retained earnings.

The result of these figures is a capital-to-asset ratio of 80.8%, an increase of 0.2 points from the previous term.

Cash Flows

Capital from operating activities increased by ¥1,458 million (US$13,140 thousand). This was an increase on the previous year's consolidated accounting of ¥1,692 million. The increases in this fiscal year were mainly increases in consolidated income before income taxes and capital from depreciation and amortization expenses, and decrease in capital due to corporate tax payments.

Cash flow used for investment activities was ¥883 million (US$7,955 thousand). Even in the activities of the previous consolidated accounting term, ¥452 million was used for investment. The main factor for this in the current term was expenditures for acquisition of fixed assets.

There was a ¥399 million (US$3,599 thousand) decrease in capital from financial activities. There was a decrease of ¥327 million in used capital from the previous consolidated accounting year. The decrease this term was mainly due to dividend payments.

From these activities, consolidated cash and cash equivalents for end of year consolidated accounting were ¥8,959 million (US$80,710 thousand), an increase of ¥234 million (US$2,108 thousand) compared to the previous year end consolidated accounting.

Dividends

TERAOKA considers the payment of dividends to its shareholders as one of our most important business issues, and we operate according to a basic policy of continued stable dividend payments.

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

According to our basic stance, the end of term dividend was ¥5.00 (US$0.05) per share, and combined with the previously distributed interim dividend of ¥9.00 (US$0.08) per share, the total annual dividends were ¥14.00 (US$0.13) per share. The payout ratio for this term was 47.2%.

Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
ASSETS			
Current Assets:			
Cash and time deposits	¥ 9,425	¥ 9,077	$ 84,903
Notes and accounts receivable – trade	5,685	5,909	51,215
Electronically recorded monetary claims – operating	1,274	1,013	11,472
Merchandise and finished goods (Note 2-c)	1,715	1,702	15,448
Work in process (Note 2-c)	1,253	968	11,284
Raw materials and supplies (Note 2-c)	1,238	1,041	11,153
Other	355	308	3,202
Less: Allowance for doubtful accounts (Note 2-h)	(8)	(9)	(68)
Total current assets	20,937	20,009	188,609
Property, Plant and Equipment (Notes 2-d and 2-f):			
Buildings and structures	11,949	11,549	107,640
Machinery, equipment and vehicles	22,488	22,624	202,573
Land	4,047	4,032	36,455
Leased assets	269	269	2,427
Construction in progress	172	285	1,550
Other	2,083	2,139	18,763
	41,008	40,898	369,408
Less: Accumulated depreciation	(30,226)	(30,101)	(272,284)
Property, plant and equipment, net	10,782	10,797	97,124
Intangible Assets	209	285	1,886
Investments and Other Assets:			
Investments in securities (Notes 2-b and 5)	3,579	4,134	32,242
Deferred income taxes (Note 2-g)	35	0	316
Net defined benefit asset	119	177	1,075
Other	193	174	1,734
Less: Allowance for doubtful accounts (Note 2-h)	(0)	(1)	(4)
Total investments and other assets	3,926	4,484	35,363
Total assets	¥ 35,854	¥ 35,575	$ 322,982

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Notes and accounts payable – trade	¥ 1,263	¥ 1,294	$ 11,378
Electronically recorded obligations – operating	2,603	2,455	23,447
Lease obligations	19	19	175
Accrued income taxes	191	203	1,720
Accrued expenses	593	560	5,337
Other	925	953	8,337
Total current liabilities	5,594	5,484	50,394
Long-term Liabilities:			
Lease obligations	230	249	2,068
Deferred liabilities taxes (Note 2-g)	284	396	2,557
Provision for environmental measures	316	316	2,842
Net defined benefit liability	43	40	387
Asset retirement obligations	301	297	2,713
Long-term accounts payable - other	57	57	511
Other	51	50	463
Total long-term liabilities	1,282	1,405	11,541
Total liabilities	6,876	6,889	61,935
NET ASSETS			
Stockholders' Equity:			
Common stock	5,057	5,057	45,556
Authorized: 80,000,000 shares			
Issued: 26,687,955 shares as of March 31, 2019 and 26,687,955 shares as of March 31, 2018, respectively			
Additional paid-in capital	4,644	4,644	41,834
Retained earnings	18,039	17,385	162,505
Less: Treasury stock, at cost	(462)	(462)	(4,168)
Total Stockholders' equity	27,278	26,624	245,727
Accumulated other comprehensive income			
Unrealized gains on securities (Notes 2-b and 5)	1,445	1,847	13,017
Foreign currency translation adjustments (Note 2-j)	263	151	2,376
Remeasurements of defined benefit plans	(8)	64	(73)
Total accumulated other comprehensive income	1,700	2,062	15,320
Total net assets	28,978	28,686	261,047
Total liabilities and net assets	¥35,854	¥35,575	$322,982

Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net Sales	¥23,558	¥22,816	$212,215
Cost of Sales	17,202	16,630	154,958
Gross Profit	6,356	6,186	57,257
Selling, General and Administrative Expenses	5,212	4,867	46,949
Operating income	1,144	1,319	10,308
Other Income and Expenses:			
Interest income	10	6	86
Dividend income	95	90	856
Commission received	—	41	—
Foreign exchange gains (losses), net	207	(274)	1,864
Loss on retirement of non-current assets	(54)	(1)	(485)
Amortization of business commencement expenses	—	(13)	—
Commission paid	(91)	—	(818)
Gain on sales of investment securities	—	74	—
Other, net	55	49	502
	222	(28)	2,005
Income before income taxes	1,366	1,291	12,313
Income taxes:			
Current	294	297	2,650
Deferred	38	73	343
Total income taxes	332	370	2,993
Net income	¥ 1,034	¥ 921	$ 9,320
Profit attributable to non-controlling interests	—	—	—
Profit attributable to owners of parent	1,034	921	9,320

Per Share	Yen		U.S. dollars
Per share of common stock			
Net income	¥40.84	¥36.37	$0.37
Cash dividends	14.00	12.00	0.13

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

Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net income	¥1,034	¥ 921	$ 9,320
Other Comprehensive Income			
Unrealized gains on securities	(402)	178	(3,628)
Foreign currency translation adjustments	112	(171)	1,017
Remeasurements of defied benefit plans, net of tax	(72)	68	(653)
Total other comprehensive income	(362)	75	(3,264)
Comprehensive Income	¥ 672	¥ 996	$ 6,056
Total comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	672	996	6,056
Comprehensive income attributable to non-controlling interests	—	—	—

Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the years ended March 31, 2019 and 2018

	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, 2017	¥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
Balance at March 31, 2018 ...	¥5,057	¥4,644	¥17,385	¥(462)	¥26,624	¥1,847	¥ 151	¥ 64	¥2,062	¥28,686
Balance at April 1, 2018	¥5,057	¥4,644	¥17,385	¥(462)	¥26,624	¥1,847	¥ 151	¥ 64	¥2,062	¥28,686
Cash dividends paid	—	—	(380)	—	(380)	—	—	—	—	(380)
Net income	—	—	1,034	—	1,034	—	—	—	—	1,034
Purchase of treasury stock	—	—	—	(0)	(0)	—	—	—	—	(0)
Net changes of items other than Stockholders' equity	—	—	—	—	—	(402)	112	(72)	(362)	(362)
Total changes of items during the period	—	—	654	(0)	654	(402)	112	(72)	(362)	292
Balance at March 31, 2019 ...	¥5,057	¥4,644	¥18,039	¥(462)	¥27,278	¥1,445	¥ 263	¥ (8)	¥1,700	¥28,978

	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, 2018	$45,556	$41,834	$156,608	$(4,167)	$239,831	$16,645	$1,359	$ 580	$18,584	$258,415
Cash dividends paid	—	—	(3,423)	—	(3,423)	—	—	—	—	(3,423)
Net income	—	—	9,320	—	9,320	—	—	—	—	9,320
Purchase of treasury stock	—	—	—	(1)	(1)	—	—	—	—	(1)
Net changes of items other than Stockholders' equity	—	—	—	—	—	(3,628)	1,017	(653)	(3,264)	(3,264)
Total changes of items during the period	—	—	5,897	(1)	5,896	(3,628)	1,017	(653)	(3,264)	2,632
Balance at March 31, 2019 ...	$45,556	$41,834	$162,505	$(4,168)	$245,727	$13,017	$2,376	$ (73)	$15,320	$261,047

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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Operating Activities			
Income before income taxes	¥1,366	¥1,291	$12,313
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	932	867	8,395
Loss on retirement of non-current assets	54	1	485
Gain on sales of investment securities	—	(74)	—
Increase (decrease) in allowance for doubtful accounts	(2)	(0)	(17)
Increase (decrease) in net defied benefit liability	(44)	17	(392)
Interest and dividends income	(105)	(96)	(942)
Interest expenses	0	0	2
Foreign exchange losses (gains)	(127)	183	(1,153)
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable	(21)	(809)	(190)
(Increase) decrease in inventories	(477)	230	(4,298)
Increase (decrease) in notes and accounts payable	103	57	931
Other, net	(21)	173	(190)
Subtotal	1,658	1,840	14,944
Interest and dividends income received	105	96	942
Interest expenses paid	(0)	(0)	(2)
Income taxes (paid) refund	(305)	(244)	(2,744)
Net cash provided by operating activities	1,458	1,692	13,140
Investing Activities:			
Payment for purchases of property, plant and equipment	(685)	(440)	(6,174)
Payments for retirement of property, plant and equipment	(47)	—	(421)
Proceeds from sales of property, plant and equipment	3	—	23
Payment for purchases of intangible assets	(53)	(46)	(477)
Payment for purchases of investment in securities	(3)	(3)	(24)
Proceeds from sales of investment securities	—	91	—
Decrease (increase) in time deposits	(98)	(54)	(882)
Net cash used in investing activities	(883)	(452)	(7,955)
Financing Activities:			
Dividends paid	(380)	(304)	(3,423)
Decrease in short-term loans payable	—	(4)	—
Payment for acquisition of treasury stock	(0)	(0)	(1)
Other, net	(19)	(19)	(175)
Net cash used in financing activities	(399)	(327)	(3,599)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	58	(93)	527
Net Increase (Decrease) in Cash and Cash Equivalents	234	820	2,113
Cash and Cash Equivalents at Beginning of Period	8,725	7,905	78,597
Cash and Cash Equivalents at End of Period	¥8,959	¥8,725	$80,710

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, 2019 and 2018

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 ¥111.01= US$1, the prevailing exchange rate on March 31, 2019.

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, 2019 and 2018 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)

(Changes accompanying the application of "Partial Amendments to Accounting Standard for Tax Effect Accounting")
"Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) is applicable from the start of the Consolidated Fiscal Year. Therefore, "Deferred income taxes" display method has changed to the "Investments and Other Assets" category, and "Deferred liabilities taxes" to the "Long-term Liabilities" category. The tax effect accounting notes have also been amended with these changes.

The result is that the ¥334 million under "Deferred income taxes" under "Current Assets" on the

Consolidated Balance Sheet in the previous consolidated fiscal year is included in the ¥396 million "Deferred liabilities taxes" under "Long-term Liabilities."

In addition, notes on "Accounting Standard for Tax Effect Accounting" (Note 8) (excluding total valuation allowance) and (Note 9) provided in Items 3 to 5 of the "Partial Amendments to Accounting Standard for Tax Effect Accounting" have been added to the tax effect accounting notes. However, related matters pertaining to the previous consolidated fiscal year have not been stated under the transitional treatment provided in Item 7 of the "Partial Amendments to Accounting Standard for Tax Effect Accounting."

(Related to Consolidated Financial Statement)
The financial importance of "Loss on retirement of non-current assets," which was included in "Other, net" under "Other Income and Expenses" in the previous consolidated fiscal year, has increased, so it has been listed independently for this consolidated fiscal year. We are currently transitioning the Consolidated Financial Statements from the previous consolidated fiscal year in order to reflect this change in display method. As a result, the ¥48 million listed in "Other, net" under "Other Income and Expenses" in the Consolidated Financial Statements of the previous consolidated fiscal year has been reclassified as ¥1 million under "Loss on retirement of non-current assets," and ¥49 million under "Other, net."

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 at March 31, 2018, and none at March 31, 2019.

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, 2019 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	¥ 9,425	¥ 9,425	—
(2) Notes and accounts receivable	5,685	5,685	—
(3) Electronically recorded monetary claims	1,274	1,274	—
(4) Marketable securities and investments in securities	3,560	3,560	—
(5) Notes and accounts payable	(1,263)	(1,263)	—
(6) Electronically recorded obligations	(2,603)	(2,603)	—

(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, 2019	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, 2019

	Millions of yen
	Due in One Year or Less
Cash and deposits	¥ 9,425
Notes and accounts receivable	5,685
Electronically recorded monetary claims - operating	1,274
Marketable securities and investments in securities	—
Total	¥16,384

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

5. Securities

Historical costs, fair value and gross unrealized gains and losses for marketable securities as of March 31, 2019 and 2018 are as follows:

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

	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	¥—

	Thousands of U.S. dollars				
	2019				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other Securities:					
Equity securities	$10,975	$29,295	$18,320	$18,320	$—
Other	2,683	2,777	94	94	—
Total	$13,658	$32,072	$18,414	$18,414	$—

Securities that do not have fair values are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Equity securities	¥19	¥19	$170
Other	—	—	—
Total	¥19	¥19	$170

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, 2019 and 2018 were as follows:

(1) Changes in defined benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Beginning balance of benefit obligations	¥4,684	¥4,571	$42,196
Service cost	249	254	2,239
Interest cost	23	28	215
Actuarial gains and losses	53	(12)	476
Benefits paid	(169)	(158)	(1,526)
Ending balance of benefit obligations	¥4,840	¥4,684	$43,600

(2) Changes in Pension Assets

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Beginning balance of pension assets	¥4,861	¥4,659	$43,794
Expected return on pension assets	97	93	876
Actuarial gains and losses	(17)	84	(158)
Contributions by the employer	187	183	1,689
Benefits paid	(169)	(158)	(1,526)
Ending balance of pension assets	¥4,959	¥4,861	$44,675

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Beginning balance of retirement benefit liabilities	¥40	¥31	$360
Benefits expenses	3	13	32
Benefits paid	(0)	(4)	(5)
Ending balance of retirement benefit liabilities	¥43	¥40	$387

(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
	2019	2018	2019
Funded defined benefit obligations	¥ 4,840	¥ 4,684	$ 43,600
Pension assets	(4,959)	(4,861)	(44,675)
Subtotal	(119)	(177)	(1,075)
Unfunded defined benefit obligations	43	40	387
Net amount of liabilities and assets recognized in consolidated balance sheet	(76)	(137)	(688)
Liabilities (net defined benefit liability)	43	40	387
Assets (net defined benefit assets)	(119)	(177)	(1,075)
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ (76)	¥ (137)	$ (688)

Note: This includes plans using the simplified method.

(5) Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service costs	¥249	¥254	$2,239
Interest costs	23	28	215
Expected return on pension assets	(97)	(93)	(876)
Recognition of actuarial gains and losses	(34)	2	(309)
Benefits expenses calculated on the simplified method	3	13	32
Total	¥144	¥204	$1,301

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Actual differences	¥(105)	¥98	$(942)

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unrecognized actuarial gains and losses	¥(12)	¥93	$(105)

(8) Pension Assets

① Breakdown of pension assets

	2019	2018
Debt securities	67%	68%
Equity securities	25%	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 comrise the funds' asset mix.

(9) Basic assumptions for calculating benefit obligations

	2019	2018
Discount rate	0.4%	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, 2019 and 2018 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Allowance for doubtful accounts	¥ 2	¥ 3	$ 22
Accrued bonus to employees	116	125	1,043
Accrued enterprise tax	20	24	176
Unrealized intercompany profits	26	50	230
Loss on valuation of inventories	101	103	907
Depreciation	2	3	18
Long-term accounts payable - other	17	16	157
Loss on valuation of investment securities	80	80	724
Loss on valuation of golf club membership	2	2	20
Net defined benefit liability	14	12	125
Impairment loss	221	236	1,995
Asset retirement obligations	93	92	839
Tax loss carryforward	89	283	798
Provision for environmental measures	97	97	870
Other	15	46	140
Subtotal	895	1,172	8,064
Valuation allowance for tax loss carryforwards (Note 2)	(54)	—	(485)
Valuation allowance for deductible temporary difference	(350)	—	(3,152)
Total valuation allowance (Note 1)	(404)	(656)	(3,637)
Total deferred tax assets	¥ 491	¥ 516	$ 4,427
Deferred tax liabilities:			
Reserve for advanced depreciation of noncurrent assets	(7)	(9)	(67)
Unrealized gains on other securities	(599)	(752)	(5,397)
Net defined benefit asset	(40)	(54)	(361)
Other	(94)	(97)	(844)
Total deferred tax liabilities	¥(740)	¥ (912)	$(6,669)
Net deferred tax assets (liabilities)	¥(249)	¥ (396)	$(2,242)

Notes: 1. The total valuation allowance decreased by ¥252 million. This decrease is due to decrease of the valuation allowance for tax loss carryforwards in consolidated subsidiaries.

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

Consolidated Fiscal Year (March 31, 2019)

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

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

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

A reconciliation on the difference between the statutory tax rate and effective rate on taxable income for the fiscal years ended March 31, 2019 and 2018 is as follows:

	2019	2018
Statutory tax rate	30.6%	30.9%
Entertainment and other non-deductible expenses	4.0	2.4
Dividend and other non-taxable income	(0.4)	(0.4)
Per capita levy of inhabitant taxes	1.4	1.3
Increase in valuation allowance	(3.3)	(0.9)
Tax deduction for research expenses	(4.7)	(7.9)
Rate difference from foreign subsidiaries	(2.0)	(1.7)
Consolidated adjustment	(1.7)	4.8
Other, net	0.6	0.3
Effective tax rate	24.3%	28.6%

8. Subsequent Event

Appropriation of retained earnings

Subsequent to March 31, 2019, the Company's Board of Directors, with the approval of stockholders on June 21, 2019 declared a cash dividend of ¥127 million (US$1,141 thousand) equal to ¥5.00 (US$0.05) per share, applicable to earnings of the year ended March 31, 2019 and payable to stockholders on the stockholders' register on March 31, 2019.

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, 2019 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, 2019 and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

Tokyo, Japan
June 21, 2019

Inoue Audit Corporation
INOUE AUDIT CORPORATION

COMPANY DATA

Company Outline
(as of March 31, 2019)

Company Name	TERAOKA SEISAKUSHO CO., LTD.
Head Office	4-22, Hiromachi 1-chome, Shinagawa-ku, Tokyo 140-8711, Japan Tel: 81-3-3491-1141 Fax: 81-3-3491-1143
Founded	February 11, 1921
Incorporated	May 5, 1943
Paid-in Capital	¥5,057 million
Employees	509 (701 consolidated)

Board of Directors and Auditors
(as of June 21, 2019)

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

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, 2019)

Head Office	Teraoka Seisakusho Co., Ltd. 4-22, Hiromachi 1-chome, Shinagawa-ku, Tokyo 140-8711, Japan Telephone: 81-3-3491-1141 Facsimile: 81-3-3491-1143
Financial Year	April 1 to March 31
Common Stocks	Authorized Shares 80,000,000 Issued Shares 26,687,955
Stockholders	3,578
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	2,867.3	11.32
BNP PARIBAS SECURITIES SERVICES LUXEMBOURG/JASDEC/FIM/LUXEMBOURG FUNDS/UCITS ASSETS	1,220.0	4.82
Keishiro Teraoka	891.7	3.52
MUFG Bank, Ltd.	818.8	3.23
Resona Bank, Ltd.	678.8	2.68
Japan Trustee Services Bank, Ltd.	581.2	2.29
Kuniko Teraoka	526.0	2.08
Employees' Stockholding Group	404.4	1.60
KBL EPB S.A. 107704	374.2	1.48

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