

Financial Statements

2014



TAYCA CORPORATION

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CONSOLIDATED FIVE-YEAR SUMMARY

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES

	Millions of yen				
	2014	2013	2012	2011	2010
Net sales.....	¥36,186	¥34,778	¥34,480	¥32,039	¥29,892
Income before income taxes and minority interests.....	2,574	2,695	3,067	2,407	1,223
Net income.....	1,667	1,723	1,739	1,508	797
Total assets.....	42,634	41,173	40,970	39,273	39,976
Net assets.....	30,131	27,826	25,765	24,220	23,088
Common stock.....	9,855	9,855	9,855	9,855	9,855
Per share of common stock (in yen):					
Net income.....	¥ 33.61	¥ 34.72	¥ 35.04	¥ 30.38	¥ 15.92
Owner's equity.....	604.33	558.51	517.32	486.14	463.55

Notes: (1) Figures for 2010 – 2014 represent the results of fiscal year ended March 31, respectively.

(2) The computation of net income per share is based upon the weighted average number of shares outstanding during the period.

CONSOLIDATED BALANCE SHEETS

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES
March 31, 2014 and 2013

TAYCA CORPORATION

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Current assets:			
Cash and cash equivalents	¥ 5,544	¥ 3,229	\$ 53,868
Time deposits.....	79	79	767
Trade notes and accounts receivable.....	10,268	10,719	99,770
Inventories (Note 3).....	8,665	10,314	84,198
Other current assets.....	485	713	4,713
Allowance for doubtful accounts.....	(0)	(0)	(3)
Total current assets.....	25,041	25,055	243,314
Property, plant and equipment:			
Land	1,267	1,245	12,314
Buildings and structures.....	16,938	16,777	164,581
Machinery and equipment.....	40,974	40,272	398,119
Vehicles.....	184	186	1,793
Tools, furniture and fixtures	3,196	3,085	31,061
Construction in progress.....	274	297	2,671
Less: accumulated depreciation.....	(53,053)	(51,931)	(515,487)
Net property, plant and equipment.....	9,783	9,932	95,054
Investments and other assets:			
Investment securities	6,933	5,443	67,366
Other assets	813	631	7,903
Allowance for doubtful accounts.....	(23)	(26)	(223)
Intangible fixed assets.....	85	135	833
Total investments and other assets.....	7,809	6,184	75,879
	¥42,634	¥41,173	\$414,248

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Current liabilities:			
Short-term borrowings (Note 4).....	¥ 465	¥ 659	\$ 4,520
Current portion of long-term debt (Note 4).....	1,488	1,454	14,461
Trade notes and accounts payable.....	3,610	3,477	35,079
Accrued income taxes.....	412	339	4,011
Accrued expenses.....	95	109	929
Other current liabilities.....	2,121	2,217	20,608
Total current liabilities.....	8,193	8,257	79,610
Non-current liabilities:			
Long-term debt (Note 4).....	936	2,390	9,096
Long-term accrued amount payable.....	27	28	268
Liabilities for severance indemnities.....	—	2,487	—
Net defined benefit liabilities.....	2,590	—	25,169
Other non-current liabilities.....	755	182	7,340
Total non-current liabilities.....	4,309	5,088	41,874
Net assets			
Shareholder's equity			
Common stock:			
Authorized — 150,000,000 shares			
Issued — 51,428,828 shares in 2014 and 2013.....	9,855	9,855	95,763
Capital surplus.....	6,766	6,766	65,750
Retained earnings.....	11,162	9,792	108,462
Treasury stock, at cost:			
1,803,000 shares in 2014 and 1,798,659 shares in 2013.....	(542)	(540)	(5,269)
Total shareholder's equity.....	27,243	25,874	264,705
Accumulated other comprehensive income			
Unrealized gain on available-for-sale securities.....	2,797	1,868	27,178
Foreign currency translation adjustments.....	64	(24)	626
Accumulated remeasurements of defined benefit plans.....	(115)	—	(1,117)
Total accumulated other comprehensive income.....	2,746	1,844	26,686
Minority interests	141	107	1,370
Total net assets.....	30,131	27,826	292,762
	¥42,634	¥41,173	\$414,248

CONSOLIDATED STATEMENTS OF INCOME

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES
For the Years Ended March 31, 2014 and 2013

TAYCA CORPORATION

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Net sales	¥36,186	¥34,778	\$351,602
Cost of sales	28,810	27,185	279,931
Gross profit.....	7,376	7,593	71,671
Selling, general and administrative expenses	4,737	4,805	46,031
Operating income.....	2,638	2,787	25,639
Other income (expenses):			
Interest and dividend income.....	127	109	1,235
Interest expense.....	(78)	(108)	(758)
Other, net.....	(113)	(93)	(1,098)
Total other expenses.....	(64)	(92)	(622)
Income before income taxes and minority interests	2,574	2,695	25,017
Income taxes:			
Current.....	833	901	8,095
Deferred.....	51	63	496
Total income taxes.....	884	964	8,592
Income before minority interests	1,690	1,731	16,425
Minority interests	22	8	219
Net income	¥1,667	¥ 1,723	\$16,205
Net income per share	¥33.61	¥34.72	\$0.32

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES
For the Years Ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Income before minority interests	¥1,690	¥1,731	\$16,425
Other comprehensive income			
Unrealized gain on available-for-sale securities.....	929	534	9,026
Foreign currency translation adjustments.....	103	97	1,005
Total other comprehensive income.....	1,032	631	10,032
Total comprehensive income	2,723	2,362	26,457
Total comprehensive income attributable to:			
Owners of the parent.....	2,685	2,340	26,093
Minority interests.....	37	21	364

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES
For the Years Ended March 31, 2014 and 2013

TAYCA CORPORATION

	Millions of yen									
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Accumulated remeasurements of defined benefit plans	Minority interests	Total net assets
Balance, March 31, 2012	51,428	¥9,855	¥6,766	¥8,367	¥(539)	¥1,333	¥(107)	—	¥ 88	¥25,765
Net income				1,723						1,723
Cash dividends				(297)						(297)
Purchase of treasury stock					(1)					(1)
Net change in the term						534	83		19	637
Balance, March 31, 2013	51,428	9,855	6,766	9,792	(540)	1,868	(24)	—	107	27,826
Net income				1,667						1,667
Cash dividends				(297)						(297)
Purchase of treasury stock					(1)					(1)
Net change in the term						929	88	(115)	33	935
Balance, March 31, 2014	51,428	9,855	6,766	11,162	(542)	2,797	64	(115)	141	30,131

	Thousands of U.S. dollars (Note 1)								
Balance, March 31, 2013	95,763	65,750	95,149	(5,255)	18,151	(234)	—	1,049	270,373
Net income			16,205						16,205
Cash dividends			(2,893)						(2,893)
Purchase of treasury stock				(14)					(14)
Net change in the term					9,026	861	(1,117)	321	9,091
Balance, March 31, 2014	95,763	65,750	108,462	(5,269)	27,178	626	(1,117)	1,370	292,762

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES
For the Years Ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Operating activities:			
Income before income taxes and minority interests	¥2,574	¥2,695	\$25,017
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,965	2,040	19,098
Loss on disposal of property, plant and equipment	108	123	1,050
Interest and dividend income	(127)	(109)	(1,235)
Interest expense	78	108	758
Changes in assets and liabilities:			
(Increase) decrease in trade notes and accounts receivable	518	483	5,041
(Increase) decrease in inventories	1,689	(2,292)	16,414
Increase (decrease) in trade notes and accounts payable	63	(1,381)	621
Other	273	(490)	2,653
Subtotal	7,144	1,177	69,422
Interest and dividend income, received	127	109	1,235
Interest expense, paid	(83)	(111)	(807)
Income taxes, paid and refund	(759)	(1,326)	(7,375)
Net cash provided by operating activities	6,429	(151)	62,474
Investing activities:			
Payments for acquisition of property, plant and equipment	(1,810)	(1,589)	(17,594)
Payments for purchases of investment securities	(62)	(21)	(604)
Proceeds from sales of investment securities	—	2	—
Other	(231)	(101)	(2,248)
Net cash used in investing activities	(2,104)	(1,710)	(20,448)
Financing activities:			
Net increase (decrease) in short-term borrowings	(260)	156	(2,531)
Proceeds from long-term debt	—	1,300	—
Repayment of long-term debt	(1,468)	(1,505)	(14,266)
Payments for purchases of treasury stock	(1)	(1)	(14)
Dividends paid	(296)	(297)	(2,884)
Dividends paid to minority shareholders	(4)	(1)	(42)
Net cash used in financing activities	(2,031)	(348)	(19,739)
Effect of exchange rate change on cash and cash equivalents	21	26	205
Net increase in cash and cash equivalents	2,314	(2,183)	22,491
Cash and cash equivalents at beginning of year	3,229	5,412	31,376
Cash and cash equivalents at end of year	¥5,544	¥3,229	\$53,868

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES
For the Years Ended March 31, 2014 and 2013

TAYCA CORPORATION

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of TAYCA CORPORATION (the "Company") and its subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and principally operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥102.92 to \$1, the approximate rate of exchange at March 31, 2014. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of significant accounting policies

1) Principles of consolidation

The consolidated financial statements as of March 31, 2014 include the accounts of the Company and its 5 subsidiaries.

All significant intercompany balances and transactions have been eliminated in consolidation. All subsidiaries are consolidated on the basis of their results for fiscal years ended December 31.

2) Cash and cash equivalents

For the purposes of the consolidated statements of cash flows, cash and cash equivalents include cash-on-hand and in banks and other highly liquid investments with maturities of three months or less when purchased.

3) Inventories

Inventories are stated at the lower of cost or net selling value, cost being determined by the moving-average method.

4) Securities

Securities other than those of unconsolidated subsidiaries and affiliates are classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities are carried at fair value. Gain or loss, both realized and unrealized is credited or charged to income. Held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in equity. Cost of securities sold is determined by the moving average method. Non-marketable securities classified as other securities are carried at cost.

5) Property, plant, and equipment

Property, plant, and equipment are stated at cost. Depreciation of property, plant, and equipment of the Company and its domestic consolidated subsidiaries is computed substantially by the declining-balance method, while the straight-line method is applied to buildings acquired by the domestic companies after April 1, 1998, and is principally applied to the property, plant and equipment of foreign subsidiary.

6) Retirement Benefits

(1) Method of attributing benefits to periods of service

When calculating retirement benefit obligations, the straight-line basis was used for attributing expected retirement benefits to the periods of service until the close of the fiscal year ended March 31, 2014.

(2) Method of expenses for actuarial gains and losses

Actuarial gains and losses are amortized on a straight-line basis over certain periods within the average remaining service lives of

employees (mainly 10 years) from the year following that in which they arise.

7) Income taxes

Current income taxes are provided for based on amounts currently payable for each year. Deferred income taxes arising from temporary differences in the recognition of assets and liabilities for tax and financial reporting purposes are reflected in the consolidated financial statements.

8) Appropriations of retained earnings

Appropriations of retained earnings are reflected in the financial statements for the following year upon Board of Directors' or shareholders' approval.

9) Research and development costs

Research and development costs are charged to income as incurred.

10) Foreign currency transaction

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates at the balance sheet date.

Revenue and expense items denominated in foreign currencies are translated using the rate on the date of the transaction. Related exchange gains or losses are credited or charged to income as incurred.

11) Foreign currency financial statements

The balance sheet accounts of the foreign subsidiary is translated into Japanese yen at the current exchange rates as of the balance sheet date except for equity, which is translated at the historical rate. Revenue and expense accounts of the foreign subsidiary is translated into Japanese yen at the current exchange rates.

Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of equity.

12) Changes in Accounting Policy

(Application of the Accounting Standard for Retirement Benefits) Effective from the close of the fiscal year ended March 31, 2014, the Company and its consolidated domestic subsidiaries have applied the "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No.26, May 17, 2012 ("Statement No.26")) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25, May 17, 2012 ("Guidance No.25")), except for article 35 of Statement No.26 and article 67 of Guidance No.25. Consequently, the method was changed to recording the difference between retirement benefit obligations and plan assets as net defined benefit liabilities (or assets), and recording actuarial gains (or losses) as net defined benefit liabilities (or assets).

In accordance with the transitional treatment in article 37 of the Statement No.26, the effect of the change in accounting policies arising from initial application has been recognized in accumulated remeasurements of defined benefit plans in accumulated other comprehensive income.

As a result of the application, a liability for retirement benefits was recognized in the amount of ¥2,590 million yen (US\$25,169 thousand) and accumulated other comprehensive income has decreased by ¥115 million (US\$1,117 thousand), at the close of the fiscal year ended March 31, 2014. Net assets per share decreased by ¥2.32 yen (US\$0.02).

13) Unapplied Accounting Standards

- Accounting Standard for Retirement Benefits (ASBJ Statement No.26, May 17, 2012)
- Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No.25, May 17, 2012)

(1) Summary

Revisions were made to the accounting of unrecognized actuarial difference and unrecognized prior costs, the calculation methods for retirement benefit obligation and service costs, and the enhancement of disclosures.

(2) Effective dates

Revisions relating to the determination of retirement benefit obligations and current service costs are effective from the beginning of the fiscal year ending March 31, 2015. However, past consolidated financial statements will not be restated, owing to the transitional treatment set forth in Statement No.26 and Guidance No.25.

(3) Impact of application of the standards

The Company and its consolidated subsidiaries are currently in the process of estimating the effects of the revisions made to the determination of retirement benefit obligations and service costs on the consolidated financial statements.

3. Inventories

At the end of each fiscal year, inventories consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Finished goods and merchandise.....	¥4,997	¥ 5,912	\$48,556
Raw materials and supplies.....	3,061	3,849	29,748
Work in process	606	552	5,892
	¥8,665	¥10,314	\$84,198

4. Short-term borrowings and long-term debt

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Short-term borrowings.....	¥ 465	¥ 659	\$ 4,520
Current portion of long-term debt.....	1,488	1,454	14,461
Long-term debt.....	936	2,390	9,096
	¥2,889	¥4,504	\$28,078

Loans from banks due through 2036, with interest rates at 0.6% to 4.9%.

5. Segment information

Industry segment information

The Companies operate principally in two industrial segments.

Each segment has the following main products:

Titanium dioxide and its derivatives: Titanium dioxide, Micro titanium dioxide, Surface treatment business

Others: Surfactants, Sulfuric acid, Aluminum triphosphate
Business warehouses, Electro-ceramics products

	Millions of yen			
	Titanium dioxide and its derivatives	Others	Adjustments	Consolidated
For the year ended March 31, 2014				
Sales:				
Sales to outside customers	¥20,689	¥15,497	¥ —	¥36,186
Inter-segment sales and transfers.....	—	672	(672)	—
Total.....	20,689	16,170	(672)	36,186
Segment profit or loss.....	¥ 1,579	¥ 1,056	¥ 3	¥ 2,638
Segment assets.....	¥19,757	¥11,006	¥11,870	¥42,634
Depreciation and amortization	¥ 1,297	¥ 642	¥ 25	¥ 1,965
Amount of increase in tangible and intangible fixed assets ...	¥ 978	¥ 464	¥ (15)	¥ 1,427

	Millions of yen			
	Titanium dioxide and its derivatives	Others	Adjustments	Consolidated
For the year ended March 31, 2013				
Sales:				
Sales to outside customers	¥20,686	¥14,091	¥ —	¥34,778
Inter-segment sales and transfers.....	—	811	(811)	—
Total.....	20,686	14,903	(811)	34,778
Segment profit or loss.....	¥ 2,261	¥ 548	¥ (22)	¥ 2,787
Segment assets.....	¥22,512	¥ 9,819	¥8,840	¥41,173
Depreciation and amortization	¥ 1,301	¥ 703	¥ 35	¥ 2,040
Amount of increase in tangible and intangible fixed assets ...	¥ 1,213	¥ 495	¥ (30)	¥ 1,678

	Thousands of U.S. dollars			
	Titanium dioxide and its derivatives	Others	Adjustments	Consolidated
For the year ended March 31, 2014				
Sales:				
Sales to outside customers	\$201,022	\$150,580	\$ —	\$351,602
Inter-segment sales and transfers.....	—	6,537	(6,537)	—
Total.....	201,022	157,118	(6,537)	351,602
Segment profit or loss.....	\$ 15,343	\$ 10,265	\$ 30	\$ 25,639
Segment assets.....	\$191,969	\$106,940	\$115,338	\$414,248
Depreciation and amortization	\$ 12,611	\$ 6,241	\$ 245	\$ 19,098
Amount of increase in tangible and intangible fixed assets ...	\$ 9,507	\$ 4,509	\$ (146)	\$ 13,870

6. Subsequent event

Undisposed deficits at the end of the term under review were disposed through reversal of general reserve, as approved by the General Meeting of Shareholders held on June 27, 2014.

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends paid	¥ 297	\$ 2,893
Transfer of general reserve	1,200	11,659

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
TAYCA CORPORATION

We have audited the accompanying consolidated financial statements of TAYCA CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2014, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material 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 audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and 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 our 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, we consider 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, while the objective of the financial statement audit is 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 policies 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 present fairly, in all material respects, the financial position of TAYCA CORPORATION and its consolidated subsidiaries as at March 31, 2014, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Koel Audit Corporation

Osaka, Japan
June 20, 2014