

# Financial Statements

## 2013



### TAYCA CORPORATION

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## CONSOLIDATED FIVE-YEAR SUMMARY

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES

	Millions of yen				
	2013	2012	2011	2010	2009
Net sales.....	<b>¥34,778</b>	¥34,480	¥32,039	¥29,892	¥32,351
Income before income taxes and minority interests.....	<b>2,695</b>	3,067	2,407	1,223	533
Net income.....	<b>1,723</b>	1,739	1,508	797	449
Total assets.....	<b>41,173</b>	40,970	39,273	39,976	38,290
Net assets.....	<b>27,826</b>	25,765	24,220	23,088	21,784
Common stock.....	<b>9,855</b>	9,855	9,855	9,855	9,855
Per share of common stock (in yen):					
Net income.....	<b>¥ 34.72</b>	¥ 35.04	¥ 30.38	¥ 15.92	¥ 8.98
Owner's equity.....	<b>558.51</b>	517.32	486.14	463.55	433.56

Notes: (1) Figures for 2009 – 2013 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, 2013 and 2012

## TAYCA CORPORATION

<b>ASSETS</b>	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
<b>Current assets:</b>			
Cash and cash equivalents .....	¥ 3,229	¥ 5,412	\$ 34,357
Time deposits .....	79	79	840
Trade notes and accounts receivable.....	10,719	11,157	114,053
Inventories (Note 3).....	10,314	8,001	109,740
Other current assets .....	713	573	7,587
Allowance for doubtful accounts.....	(0)	(1)	(3)
Total current assets.....	25,055	25,221	266,575
<b>Property, plant and equipment:</b>			
Land .....	1,245	1,224	13,253
Buildings and structures .....	16,777	16,537	178,499
Machinery and equipment .....	40,272	39,233	428,473
Vehicles.....	186	180	1,985
Tools, furniture and fixtures .....	3,085	2,934	32,827
Construction in progress.....	297	643	3,168
Less: accumulated depreciation.....	(51,931)	(50,674)	(552,526)
Net property, plant and equipment.....	9,932	10,080	105,681
<b>Investments and other assets:</b>			
Investment securities .....	5,443	4,624	57,915
Other assets .....	631	871	6,722
Allowance for doubtful accounts.....	(26)	(23)	(278)
Intangible fixed assets.....	135	195	1,441
Total investments and other assets.....	6,184	5,668	65,800
	¥41,173	¥40,970	\$438,058

See accompanying Notes to Consolidated Financial Statements.

<b>LIABILITIES AND NET ASSETS</b>	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
<b>Current liabilities:</b>			
Short-term borrowings (Note 4) .....	¥ 659	¥ 456	\$ 7,015
Current portion of long-term debt (Note 4) .....	1,454	1,411	15,477
Trade notes and accounts payable.....	3,477	4,808	36,993
Accrued income taxes.....	339	764	3,615
Accrued expenses .....	109	118	1,167
Other current liabilities.....	2,217	2,398	23,589
Total current liabilities.....	8,257	9,958	87,859
<b>Non-current liabilities:</b>			
Long-term debt (Note 4) .....	2,390	2,586	25,433
Long-term accrued amount payable.....	28	102	298
Liabilities for severance indemnities.....	2,487	2,557	26,469
Other non-current liabilities.....	182	—	1,936
Total non-current liabilities.....	5,088	5,247	54,137
<b>Net assets</b>			
<b>Shareholder's equity</b>			
Common stock:			
Authorized — 150,000,000 shares			
Issued — 51,428,828 shares in 2013 and 2012 .....	9,855	9,855	104,861
Capital surplus .....	6,766	6,766	71,997
Retained earnings.....	9,792	8,367	104,190
Treasury stock, at cost:			
1,798,659 shares in 2013 and 1,794,103 shares in 2012.....	(540)	(539)	(5,755)
Total shareholder's equity .....	25,874	24,450	275,293
<b>Accumulated other comprehensive income</b>			
Unrealized gain on available-for-sale securities.....	1,868	1,333	19,875
Foreign currency translation adjustments .....	(24)	(107)	(256)
Total accumulated other comprehensive income.....	1,844	1,226	19,619
<b>Minority interests</b> .....	107	88	1,148
Total net assets.....	27,826	25,765	296,061
	¥41,173	¥40,970	\$438,058



# CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES  
For the Years Ended March 31, 2013 and 2012

## 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	Minority interests	Total net assets
<b>Balance, March 31, 2011</b>	51,428	¥9,855	¥6,767	¥6,926	¥(537)	¥1,180	¥ (58)	¥ 87	¥24,220
Net income				1,739					1,739
Cash dividends				(297)					(297)
Purchase of treasury stock					(2)				(2)
Disposal of treasury stock			(0)		0				0
Net change in the term						153	(48)	0	105
<b>Balance, March 31, 2012</b>	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
<b>Balance, March 31, 2013</b>	<b>51,428</b>	<b>¥9,855</b>	<b>¥6,766</b>	<b>¥9,792</b>	<b>¥(540)</b>	<b>¥1,868</b>	<b>¥ (24)</b>	<b>¥107</b>	<b>¥27,826</b>
	Thousands of U.S. dollars (Note 1)								
<b>Balance, March 31, 2012</b>	\$ 104,861	\$ 71,997	\$ 89,025	\$ (5,743)	\$ 14,192	\$ (1,145)	\$ 939	\$ 274,127	
Net income			18,333					18,333	
Cash dividends			(3,168)					(3,168)	
Purchase of treasury stock					(12)			(12)	
Net change in the term						5,683	888	209	6,781
<b>Balance, March 31, 2013</b>	<b>\$104,861</b>	<b>\$71,997</b>	<b>\$104,190</b>	<b>\$(5,755)</b>	<b>\$19,875</b>	<b>\$ (256)</b>	<b>\$1,148</b>	<b>\$296,061</b>	

See accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES  
For the Years Ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
<b>Operating activities:</b>			
Income before income taxes and minority interests	¥2,695	¥3,067	\$28,678
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,040	2,490	21,709
Loss on disposal of property, plant and equipment	123	338	1,309
Interest and dividend income	(109)	(112)	(1,160)
Interest expense	108	102	1,150
Changes in assets and liabilities:			
(Increase) decrease in trade notes and accounts receivable	483	(1,411)	5,143
(Increase) decrease in inventories	(2,292)	(942)	(24,386)
Increase (decrease) in trade notes and accounts payable	(1,381)	944	(14,700)
Other	(490)	(58)	(5,217)
Subtotal	1,177	4,419	12,525
Interest and dividend income, received	109	112	1,160
Interest expense, paid	(111)	(96)	(1,188)
Income taxes, paid and refund	(1,326)	(1,056)	(14,108)
Net cash provided by operating activities	(151)	3,377	(1,610)
<b>Investing activities:</b>			
Payments for acquisition of property, plant and equipment	(1,589)	(1,613)	(16,912)
Payments for purchases of investment securities	(21)	(11)	(223)
Proceeds from sales of investment securities	2	—	24
Other	(101)	(206)	(1,083)
Net cash used in investing activities	(1,710)	(1,831)	(18,194)
<b>Financing activities:</b>			
Net increase (decrease) in short-term borrowings	156	168	1,669
Proceeds from long-term debt	1,300	393	13,831
Repayment of long-term debt	(1,505)	(1,731)	(16,013)
Payments for purchases of treasury stock	(1)	(2)	(12)
Proceeds from sales of treasury stock	—	0	—
Dividends paid	(297)	(298)	(3,159)
Dividends paid to minority shareholders	(1)	(3)	(20)
Net cash used in financing activities	(348)	(1,473)	(3,705)
<b>Effect of exchange rate change on cash and cash equivalents</b>	<b>26</b>	<b>(19)</b>	<b>282</b>
<b>Net increase in cash and cash equivalents</b>	<b>(2,183)</b>	<b>53</b>	<b>(23,227)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>5,412</b>	<b>5,359</b>	<b>57,585</b>
<b>Cash and cash equivalents at end of year</b>	<b>¥3,229</b>	<b>¥5,412</b>	<b>\$34,357</b>

See accompanying Notes to Consolidated Financial Statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES  
For the Years Ended March 31, 2013 and 2012

## 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 ¥93.99 to \$1, the approximate rate of exchange at March 31, 2013. 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, 2013 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) Liabilities for severance indemnities

The Company and its domestic consolidated subsidiaries (excluding one subsidiary) made provisions for liabilities for severance indemnities in an amount deemed necessary at the term-end, based on the estimated amounts of projected benefit obligations and the fair value of the plan assets.

Actuarial gains/losses are recognized in income/expenses using the straight-line method over 10 years, which is shorter than the

average of the estimated remaining service lives commencing with the following period. Foreign subsidiary is outside the scope of application.

#### 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) Unapplied Accounting Standard

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

##### (1) Summary

Under the amended rule, actuarial gains and losses and past service costs that are yet to be recognized as profit or loss would be recognized within the net asset section of the consolidated balance sheet, after adjusting for tax effects, and the deficit or surplus would be recognized as a liability or asset without any adjustments. For determining the method of attributing the expected retirement benefit to period of service, the new standard allows for a choice of benefit formula basis in addition to the straight-line basis. Method for the determination of the discount rate has also been amended.

##### (2) Initial date on which the Company will apply the accounting standard

The Company will apply the accounting standard on March 31, 2014, except amendments related to a determination of retirement benefit obligations and current service costs, both of which will be applied from the beginning of fiscal 2015.

##### (3) Effect of the application of the accounting standard

The Company and its consolidated subsidiaries are currently in the process of estimating the effect of this new standard on their consolidated financial statements.

#### 13) Accounting Change

Application of "Accounting Standard for Accounting Changes and Error Corrections" and others

Effective from the year ended March 31, 2012, the Company and its domestic consolidated subsidiaries have applied the "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No.24, issued on December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No.24, issued on December 4, 2009).

Change in accounting policies in accordance with the amendment of respective laws or regulations that are not distinguishable from changes in accounting estimates

Effective from the fiscal year ended March 31, 2013, the Company has changed the depreciation method for relevant tangible fixed assets newly acquired from April 1, 2012 in accordance with the amendment of the Corporation Tax Law in Japan. This change had no material impact on operating income and income before income taxes and minority interests.

### 3. Inventories

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

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Finished goods and merchandise.....	¥ 5,912	¥5,127	\$ 62,907
Raw materials and supplies.....	3,849	2,349	40,959
Work in process .....	552	524	5,873
	<b>¥10,314</b>	<b>¥8,001</b>	<b>\$109,740</b>

### 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
<b>For the year ended March 31, 2013</b>				
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

	Millions of yen			
	Titanium dioxide and its derivatives	Others	Adjustments	Consolidated
<b>For the year ended March 31, 2012</b>				
Sales:				
Sales to outside customers.....	¥20,622	¥13,857	¥ —	¥34,480
Inter-segment sales and transfers .....	—	666	(666)	—
Total.....	20,622	14,524	(666)	34,480
Segment profit or loss.....	¥ 2,791	¥ 665	¥ 5	¥ 3,462
Segment assets.....	¥20,955	¥ 9,487	¥10,527	¥40,970
Depreciation and amortization .....	¥ 1,640	¥ 811	¥ 37	¥ 2,490
Amount of increase in tangible and intangible fixed assets ...	¥ 942	¥ 921	¥ 81	¥ 1,946

	Thousands of U.S. dollars			
	Titanium dioxide and its derivatives	Others	Adjustments	Consolidated
<b>For the year ended March 31, 2013</b>				
Sales:				
Sales to outside customers.....	\$220,097	\$149,928	\$ —	\$370,025
Inter-segment sales and transfers .....	—	8,634	(8,634)	—
Total.....	220,097	158,562	(8,634)	370,025
Segment profit or loss.....	\$ 24,065	\$ 5,835	\$ (240)	\$ 29,660
Segment assets.....	\$239,520	\$104,475	\$94,062	\$438,058
Depreciation and amortization .....	\$ 13,851	\$ 7,483	\$ 373	\$ 21,709
Amount of increase in tangible and intangible fixed assets .....	\$ 12,913	\$ 5,267	\$ (326)	\$ 17,854

### 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, 2013.

### 4. Short-term borrowings and long-term debt

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Short-term borrowings.....	¥ 659	¥ 456	\$ 7,015
Current portion of long-term debt.....	1,454	1,411	15,447
Long-term debt.....	2,390	2,586	25,433
	<b>¥4,504</b>	<b>¥4,454</b>	<b>\$47,926</b>

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

	Millions of yen	Thousands of U.S. dollars
	Year-end cash dividends paid .....	¥ 297
Transfer of general reserve .....	¥1,400	\$14,895

# 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, 2013, 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, 2013, 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, 2013 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, 2013