TANAKA

Consolidated Financial Statements

Year Ended March 31, 2019

This English translation of the financial statements is prepared for reference purposes only and qualified in its entirety by the original Japanese version. In case of any discrepancy between this translation and the original version, the latter shall prevail.

Consolidated Balance Sheet

March 31, 2019

(Millions of Yen)

ASSETS		LIABILITIES	
CURRENT ASSETS	444,794	CURRENT LIABILITIES	266,823
Cash and cash equivalents	63,607	Accounts payable-trade	37,162
Notes and accounts receivable-trade	70,805	Short-term borrowings	11,734
Inventories	233,300	Borrowing precious metals	176,163
Lending precious metals	57,256	Current portion of bonds	1,250
Consumption taxes receivable	7,550	Current portion of long-term debt	7,859
Accounts receivable-other	4,721	Accounts payable-other	10,830
Other	8,224	Income taxes payable	2,166
Allowance for doubtful accounts	△672	Deposit	10,556
		Provision for bonuses	1,672
NONCURRENT ASSETS	110,164	Other	7,426
PROPERTY, PLANT AND EQUIPMENT	71,084		
Buildings and structures	28,022	LONG-TERM LIABILITIES	61,725
Machinery and equipment	22,668	Bonds payable	3,125
Land	14,167	Long-term debt	48,226
Construction in progress	2,293	Asset retirement obligations	1,182
Other	3,933	Liability for retirement benefits	2,645
		Deferred tax liabilities	2,681
INTANGIBLE FIXED ASSETS	11,887	Other	3,864
Software	2,862	**TOTAL LIABILITIES**	328,548
Software in progress	474	**EQUITY**	
Goodwill	2,976	SHAREHOLDERS' EQUITY	222,137
Customer related assets	5,340	Common stock	500
Other	233	Capital surplus	9,719
		Retained earnings	219,782
INVESTMENTS AND OTHER ASSETS	27,192	Treasury stock	△7,864
Investment securities	2,664	ACCUMULATED OTHER COMPREHENSIVE INCOME	4,105
Shares of associated companies	14,904	Unrealized gain on available-for-sale securities	1,038
Investments in associated affiliates	1,234	Foreign currency translation adjustments	4,134
Other	8,400	Defined retirement benefit plans	△1,067
Allowance for doubtful accounts	△12	Non-controlling interests	167
		TOTAL EQUITY	226,410
TOTAL ASSETS	554,958	**TOTAL LIABILITIES and EQUITY**	554,958

Note: Amounts of less than one million yen have been omitted.

Consolidated Statement of Income

Year Ended March 31, 2019

(Millions of Yen)

Net sales		925,258
Cost of sales		868,142
Gross profit		57,116
Selling, general and administrative expenses		38,657
Operating income		18,459
Non-operating income		
Interest income and dividends	158	
Royalty	195	
Rent income	822	
Gain on valuation of derivatives	1,715	
Equity in earnings/losses of associated companies	859	
Other	1,131	4,881
Non-operating expenses		
Interest expenses	694	
Commitment fee	84	
Loss on foreign exchange-net	3,245	
Other	662	4,687
Ordinary income		18,653
Extraordinary losses		
Loss on sales and retirement of non-current assets	71	
Loss on revaluation of investment securities	110	
Overseas subsidiaries business structure expenses	390	571
Income before income taxes		18,081
Income taxes-Current	5,883	
Income taxes-Deferred	365	6,249
Net income		11,831
Net income attributable to non-controlling interests		△19
Net income attributable to owners of parent		11,851

Note: Amounts of less than one million yen have been omitted.

Consolidated Statement of Changes in Equity

Year Ended March 31, 2019

(Millions of Yen)

	Shareholder's equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2018	500	9,719	196,574	△7,864	198,929
Cumulative effects of changes in accounting policies	—	—	11,534	—	11,534
Balance at beginning of year after retrospective adjustment	500	9,719	208,109	△7,864	210,463
Changes in the year					
Dividends of surplus	—	—	△177	—	△177
Net income attributable to owners of parent	—	—	11,851	—	11,851
Net changes of items other than shareholders' equity	—	—	—	—	—
Net changes in the year	—	—	11,673	—	11,673
Balance as of March 31, 2019	500	9,719	219,782	△7,864	222,137

	Accumulated other comprehensive income				Non-controlling interests	Total equity
	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income		
Balance as of April 1, 2018	1,331	10,104	△620	10,814	199	209,944
Cumulative effects of changes in accounting policies	—	△4,868	—	△4,868	—	6,666
Balance at beginning of year after retrospective adjustment	1,331	5,236	△620	5,947	199	216,610
Changes in the year						
Dividends of surplus	—	—	—	—	—	△177
Net income attributable to owners of parent	—	—	—	—	—	11,851
Net changes of items other than shareholders' equity	△293	△1,101	△446	△1,841	△32	△1,874
Net changes in the year	△293	△1,101	△446	△1,841	△32	9,799
Balance as of March 31, 2019	1,038	4,134	△1,067	4,105	167	226,410

Note: Amounts of less than one million yen have been omitted.

〔Basis of Presentation of Consolidated Financial Statements〕

1. Scope of consolidation

(1) Consolidated subsidiaries 44 companies

Names of principal subsidiaries

Tanaka Kikinzoku Kogyo K.K., Tanaka Denshi Kogyo K.K., Electroplating Engineers of Japan Ltd., Tanaka Kikinzoku Jewelry K.K., Metalor Technologies International SA, Metalor Technologies SA, Metalor Technologies USA Corporation

Change in the scope of consolidation

ORCHIDAE HOLDING AG, ZUG and ORCHIDAE HOLDING 2 AG, ZUG, which had been consolidated subsidiaries of the Group until the previous fiscal year, have been excluded from the scope of consolidation as of the fiscal year under review because these companies were absorbed effective January 1,2018 pursuant to absorption-type mergers where Metalor Technologies International SA, a consolidated subsidiary of our group, was the surviving company.

(2) Name of non-consolidated subsidiary

TANAKA America Inc., EEJA(SHANGHAI) CO., LTD.

The assets, net sales, net income and retained earnings of the non-consolidated subsidiary are small, and the aggregate effect on the consolidated financial statements is immaterial.

2. Scope of the equity method

(1) Subsidiaries and affiliates accounted for by the equity method

Non-consolidated subsidiaries 2 companies

Affiliates 7 companies

Names of principal subsidiaries and affiliates accounted for by the equity method

LT Metal Ltd., Furuya Metals Co., Ltd.

(2) Name of affiliate not accounted for by the equity method

Gimel Trading Co., Ltd.

The contributions to consolidated net income/loss, consolidated retained earnings and other consolidated financial statements of affiliate not accounted for by the equity method are negligible and immaterial in the aggregate.

3. Matters Related to Fiscal Years of Consolidated Subsidiaries

(1) The following consolidated subsidiaries have fiscal year-ends that are different from the consolidated fiscal year-end.

December 31: 31 companies

Names of main companies

Metalor Technologies International SA
TANAKA KIKINZOKU (NINGBO) Co., Ltd.
TANAKA KIKINZOKU (CHENGDU) Co., Ltd.
TANAKA ELECTRONICS (HANGZHOU) Co., Ltd.
TANAKA KIKINZOKU INTERNATIONAL (SHANGHAI) Co., Ltd.

Consolidated financial statements are prepared using financial statements of consolidated subsidiaries as of the end of their fiscal year.

Note that necessary adjustment for consolidation is made regarding material transactions that occur between December 31 and the consolidated fiscal year-end.

4. Significant accounting principles

(1) Valuation standards and methodology for material assets

① Securities

Other securities

Securities with readily determinable market value	… Fair market value based on the quoted market price at the fiscal year-end (with any unrealized gains or losses being reported directly as a component of shareholders' equity and the cost of any securities sold being computed by the moving average method)
Securities with no readily determinable market value	… Cost determined by the moving average method
② Derivatives	… Fair market value
③ Inventories	
Raw materials/ products in progress/ finished products	… Cost determined by the periodic average method, with balance sheet values reflecting write-downs for decreased profitability
Merchandise	… Cost determined by the specific identification method, with balance sheet values reflecting write-downs for decreased profitability
Supplies	… Last purchase price method

(2) Depreciation methods for material depreciable assets

① Property, plant and equipment (excluding leased assets)

Buildings and structures (Except for facilities attached to buildings and structures and assets acquired by foreign consolidated subsidiaries)	… Declining-balance method (Except for buildings acquired after April 1,1998, which apply the straight-line method, excluding building fixtures)

Facilities attached to buildings and structures (Except for assets acquired by foreign consolidated subsidiaries) …	Declining-balance method (Except for Facilities attached to buildings and structures acquired after April 1,2016, which apply the straight-line method)
Machinery and equipment (Except for assets acquired by foreign consolidated subsidiaries) …	Depreciation of machinery and equipment of the domestic subsidiary is substantially calculated by the straight-line method and of other subsidiaries principally by the declining balance method based upon the estimated economic useful life.
Others …	Declining-balance method (Whereas straight-line method is applied to assets acquired by foreign consolidated subsidiaries)

The range of useful lives is as follows.

Buildings and structures …	2 to 60 years
Machinery and equipment …	2 to 10 years
②Intangible assets (excluding lease assets) …	Straight-line method Software used in-house is depreciated over its estimated useful life (five years) based on the straight-line method. Goodwill is amortized using the straight-line method over five years. Customer related assets is amortized over nine to fourteen years.
③Lease assets	
Financial lease transactions that do not transfer ownership …	Straight-line method with estimated useful lives equal to lease terms, zero residual value.

(3) Recognitions of allowances

①Allowance for doubtful accounts …	Allowance for doubtful accounts is provided for possible credit losses stemming from monetary receivables. Estimates of irrecoverable amounts are based on historical loan-loss ratios for general receivables, and on a consideration of feasibly recoverable amounts in individual cases for specific dubious accounts.
②Bonuses to employees …	Bonuses to employees are accrued at the year-end to which such bonuses are attributable.
③Bonuses to Directors and Audit & Supervisory Board Members …	Bonuses to Directors and Audit & Supervisory Board Members are accrued at the year-end to which such bonuses are attributable.
④Allowance for retirement benefits to Directors and Audit & Supervisory Board Members …	In order to provide for payment of retirement benefits for Directors and Audit & Supervisory Board Members, necessary amount is recorded based on rules on retirement benefits (in-house rules).

(4) Other significant accounting principles

① Significant hedging transactions

Hedging accounting … Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not premeasured at market value.

Hedging methods, items and policies

- Hedging methods … Interest rate swaps
- Hedging items … Interest expense of borrowings with variable interest rates
- Hedging policies … Interest rate risks for certain transactions are subject to hedging based on internal rules.
- Hedging evaluation … For interest rate swaps for which special treatment is applied, evaluation of effectiveness is not conducted.

② Accounting for retirement benefit

In order to prepare retirement benefits for employees, assets/liability for retirement benefit is recognized as net amount of pension benefit obligations and pension assets based on the estimate at the end of fiscal year. The company adopted benefit formula basis method to impute pension befit obligations.

Prior service cost is amortized on a straight-line method within the average remaining service years (15 years). Actuarial gains and losses is amortized on a straight-line method within the average remaining service years (15 years) from the next fiscal year of recognition. Actuarial gains and losses are recognized within accumulated other comprehensive income after adjusting for tax effect.

③ Accounting for consumption tax … Booked exclusive of consumption taxes

[Changes in Accounting Policies]

1. Changes Due to Amendment of the "Implementation Guidance on Tax Effect Accounting"

The Company has applied the "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) as of the fiscal year under review and revised the treatment of taxable temporary differences pertaining to shares in subsidiaries. Accordingly, we recognize deferred tax liabilities for taxable temporary differences pertaining to shares in subsidiaries, except for the time when the company can make decisions to sell investments and has no intention to sell the shares in the foreseeable future. The changes in accounting policies have been applied retrospectively, and the cumulative effect of the changes in accounting policies has been reflected in the beginning carrying amount of net assets for the fiscal year under review.

Consequently, the beginning balance of retained earnings in the consolidated statement of changes in equity after the retrospective adjustment increased by 6,666 million yen.

2. Application of IFRS 15 "Revenue from Contracts with Customers" by foreign subsidiaries

Some of our group's foreign subsidiaries applied IFRS 15 "Revenue from Contracts with Customers" (published in May 2014) and "Clarification to IFRS 15" (published in April 2016) (collectively referred to as "IFRS 15") as of the fiscal year under review. When applying IFRS 15, the method of recognizing the cumulative effect of applying this standard as of the date of initial application is adopted as permitted under transitional provisions in this standard.

Following the application of IFRS 15, the Group recognizes revenue by applying the following five-step approach.

Step 1: Identify contract(s) with the customer
Step 2: Identify performance obligations under the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations under the contract
Step 5: Recognize revenue when (or as) the entity satisfies its performance obligations

There is no significant impact from applying the standard in the consolidated financial statements as compared with the previous accounting standards.

[Changes in the Method of Presentation]

Consolidated balance sheet

Changes due to application of "Partial Amendments to 'Accounting Standard for Tax Effect Accounting'"

Following the application of "Partial Amendments to 'Accounting Standard for Tax Effect Accounting'" (ASBJ Statement No 28, February 16, 2018; referred to as "Partial Amendments to Tax Effect Accounting Standard"), the company has applied the Partial Amendments to Tax Effect Accounting Standard as of the fiscal year under review. Accordingly, deferred tax assets are presented under investments and other assets and deferred tax liabilities are presented under long-term liabilities.

[Consolidated Balance Sheet]

1. Precious metals stored by Metalor Technologies International SA, a Group foreign consolidated subsidiary, and its subsidiaries for customers are not included in inventories in the consolidated financial statements because ownerships and risks thereof are attributable to customers.

   The market value of precious metals stored by Group foreign consolidated subsidiaries for customers as of the end of their fiscal year was 66,026 million yen.

2. Accumulated depreciation of property, plant and equipment … ¥128,893 million

3. Warranty liabilities
   Contingent liabilities for guarantees and items of a similar nature of housing loans of employees from financial institutions
   Housing loans of employees … ¥57 million

〔Consolidated statements of changes in equity〕

1. Number of shares as of March 31, 2019

Common stock	67,138 thousand
A class stock	30,299 thousand

2. Number of treasury stocks as of March 31, 2019

Common stock 37,506 thousand
A class stock 666 thousand

3. Dividends

(1) Dividend paid

Resolution	Class	Source of dividend	Total dividends paid	Dividend per share	Record date	Effective date
June 15, 2018 Board meeting	Common stock	Retained earnings	¥44 million	¥1.50	March 31, 2018	June 28, 2018
June 15, 2018 Board meeting	A class stock	Retained earnings	¥44 million	¥1.50	March 31, 2018	June 28, 2018
November 19, 2018 Board meeting	Common stock	Retained earnings	¥44 million	¥1.50	September 30, 2018	November 22, 2018
November 19, 2018 Board meeting	A class stock	Retained earnings	¥44 million	¥1.50	September 30, 2018	November 22, 2018

(2) Dividends for which the record date came during the year ended March 31, 2018, but for which the effective date will come in the following fiscal year

Resolution	Class	Source of dividend	Total dividend paid	Dividend per share	Record date	Effective date
June 14, 2019 Board meeting	Common stock	Retained earnings	¥44 million	¥1.50	March 31, 2019	June 27, 2019
June 14, 2019 Board meeting	A class stock	Retained earnings	¥44 million	¥1.50	March 31, 2019	June 27, 2019

〔Financial instruments〕

1. Policy for financial instruments

Our group have contractual commitment lines with major banks in order to secure sufficient liquidity, and use a cash management system covering the company and domestic subsidiaries to achieve integral cash control.

Our group uses financial instruments, mainly short-term and long-term loans and bond, and uses interest rate swap arrangements in order to hedge the risk of changes in variable interest rates on certain long-term loans payable, and also to hedge the risk of market rate changes on those long-term loans payable that have fixed interest rates.

Marketable securities are monitored for changes in market values, and the financial condition of the security issuers is examined every six months.

2. Fair value of financial instruments

The carrying amounts of financial instruments on the consolidated balance sheets, their fair values, and the differences between them as of March 31, 2019 are as follows. Financial instruments for which fair value cannot be reliably determined are excluded from the table (ref. Note 2).

(Millions of yen)

	Carrying amount	Fair value	Difference
(1) Cash and cash equivalents	63,607	63,607	—
(2) Notes and accounts receivable-trade	70,805	70,805	—
Allowance for doubtful accounts*1	△672	△672	—
Net amount	70,133	70,133	—
(3) Investment securities	2,428	2,428	—
(4) Shares of associated companies	3,438	6,980	3,542
(5) Accounts payable-trade	△37,162	△37,162	—
(6) Short-term borrowings	△11,734	△11,734	—
(7) Deposit	△10,556	△10,556	—
(8) Bonds payable	△4,375	△4,386	△11
(9) Long-term debt	△56,086	△55,393	693
(10) Derivatives*2	△1,682	△1,682	—

Note: Items marked with △ are liabilities

[*1] Allowance for doubtful accounts recorded for accounts receivable-trade has been deducted.

[*2] Receivable and payables incurred by derivative transactions are presented in net.

(Note 1) Valuation method

(1) Cash and cash equivalents (2) Notes and accounts receivable-trade

The fair values of these items approximate fair value because of their short maturities.

(3) Investment securities, (4) Shares of associated companies

The fair values of these items are measured at the quoted market prices on the respective securities exchanges.

(5) Accounts payable-trade, (6) Short-term borrowings, (7) Deposit

The fair values of these items approximate fair value because of their short maturities.

(8) Bonds payable, (9) Long-term debt

The fair values of these items are determined by discounting the cash flows with the assumed interest rate applicable if newly borrowed.

The current portions that mature in less than one year of bonds payable (¥1,250 million) and of long-term debt (¥7,859 million) are included in the amounts respectively.

(10) Derivatives

The fair value of derivatives and currency swap are based on valuations offered by financial institutions.

(Note 2) Unlisted securities of ¥14 million, investments in partnerships of ¥220 million and investments in associated companies of ¥11,466 million are not included in the table due to the difficulty of estimating cash flow.

〔Per share information〕

1. Equity per share	…	¥3,817.50
2. Net income per share	…	¥199.97

〔Business Combinations〕

Additional payment under share transfer agreement

The share transfer agreement entered into by the Group in September 2016 to acquire shares of Metalor technologies International SA provides that additional payments shall be due in the case of occurrence of certain subsequent events. In the case of an additional payment of the acquisition price, the acquisition costs will be revised as if the additional amount were paid at the time of acquisition, and the amount of goodwill and the amount of amortization thereof will be adjusted.

During the fiscal year under review, an additional payment of the acquisition price of 325 million yen was made. As a result, goodwill increased by 191 million yen and amortization of goodwill reported in the consolidated statement of income increased by 128 million yen as of the end of the fiscal year under review.

[Changes in the functional currency of foreign subsidiaries]

Metalor Technologies International SA, a Group foreign consolidated subsidiary, previously prepared financial statements using the Swiss franc, its local currency, as the functional currency. However, since its main revenues and cash flows are denominated in the US dollar, the company has changed its functional currency from the Swiss franc to the US dollar as of the fiscal year under review.

As a result of this change, the beginning balance of retained earnings in the consolidated statement of changes in equity after retrospective adjustment increased by 4,868 million yen and foreign currency translation adjustment decreased by the same amount.