TANAKA

Consolidated Financial Statements

Year Ended March 31, 2016

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, 2016

(Millions of Yen)

ASSETS		LIABILITIES	
CURRENT ASSETS	359,672	CURRENT LIABILITIES	224,663
Cash and cash equivalents	27,083	Accounts payable-trade	14,984
Notes and accounts receivable-trade	50,880	Short-term borrowings	7,782
Inventories	215,991	Borrowing precious metals	176,299
Lending precious metals	57,707	Current portion of bonds	2,250
Consumption taxes receivable	3,320	Current portion of long-term debt	620
Accounts receivable-other	2,100	Income taxes payable	1,653
Other	2,758	Deposit	11,586
Allowance for doubtful accounts	△170	Provision for bonuses	1,795
		Other	7,690
NONCURRENT ASSETS	62,533		
PROPERTY, PLANT AND EQUIPMENT	39,715	LONG-TERM LIABILITIES	11,261
Buildings and structures	16,302	Bonds payable	6,000
Machinery and equipment	8,218	Long-term debt	2,000
Land	12,525	Liability for retirement benefits	317
Other	2,668	Asset retirement obligations	1,084
		Other	1,859
INTANGIBLE FIXED ASSETS	2,950	**TOTAL LIABILITIES**	235,924
Software	2,088	**EQUITY**	
Software in progress	382	SHAREHOLDERS' EQUITY	183,441
Other	479	Common stock	500
		Capital surplus	11,135
INVESTMENTS AND OTHER ASSETS	19,867	Retained earnings	179,670
Investment securities	2,388	Treasury stock	△7,864
Shares of associated companies	13,934	ACCUMULATED OTHER COMPREHENSIVE INCOME	1,566
Investments in associated affiliates	1,913	Unrealized gain on available-for-sale securities	966
Other	1,762	Foreign currency translation adjustments	3,624
Allowance for doubtful accounts	△133	Defined retirement benefit plans	△3,025
		Non-controlling interests	1,273
		TOTAL EQUITY	186,280
TOTAL ASSETS	422,205	**TOTAL LIABILITIES and EQUITY**	422,205

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

Consolidated Statement of Income

Year Ended March 31, 2016

(Millions of Yen)

Net sales		1,026,707
Cost of sales		990,996
Gross profit		35,710
Selling, general and administrative expenses		27,844
Operating income		7,865
Non-operating income		
Interest income and dividends	216	
Royalty	137	
Rent income	404	
Gain on foreign exchange-net	153	
Other	879	1,790
Non-operating expenses		
Interest expenses	209	
Equity in earnings/losses of associated companies	81	
Other	346	637
Ordinary income		9,017
Extraordinary income		
Gain on sales of fixed assets	35	
Gain on sales of securities	30	65
Extraordinary losses		
Loss on sales and retirement of non-current assets	177	
Impairment loss	98	
Loss on sales of securities	2	
Loss on revaluation of investments in securities	2	281
Income before income taxes		8,801
Income taxes-Current	3,258	
Income taxes-Deferred	332	3,590
Net income		5,211
Net income attributable to non-controlling interests		180
Net income attributable to owners of parent		5,030

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

Consolidated Statement of Changes in Equity

Year Ended March 31, 2016

(Millions of Yen)

	Shareholder's equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2015	500	11,135	174,817	Δ7,864	178,587
Changes in the year					
Dividends of surplus	—	—	Δ177	—	Δ177
Net income attributable to owners of parent	—	—	5,030	—	5,030
Net changes of items other than shareholders' equity	—	—	—	—	—
Net changes in the year	—	—	4,853	—	4,853
Balance as of March 31, 2016	500	11,135	179,670	Δ7,864	183,441

	Accumulated other comprehensive income				Non-controlling interests	Total equity
	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance as of April 1, 2015	1,520	5,876	Δ841	6,555	1,287	186,431
Changes in the year						
Dividends of surplus	—	—	—	—	—	Δ177
Net income attributable to owners of parent	—	—	—	—	—	5,030
Net changes of items other than shareholders' equity	Δ553	Δ2,251	Δ2,184	Δ4,989	Δ14	Δ5,003
Net changes in the year	Δ553	Δ2,251	Δ2,184	Δ4,989	Δ14	Δ150
Balance as of March 31, 2016	966	3,624	Δ3,025	1,566	1,273	186,280

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 19 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.
   Following 3 subsidiaries were excluded from the scope of consolidation due to merger:
   Tanaka Kikinzoku Hanbai K.K., Tanaka Kikinzoku International K.K., Tanaka Kikinzoku Business Service K.K.
   (2) Name of non-consolidated subsidiary
   TANAKA America Inc.
   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 subsidiary 1 company
   Affiliates 8 companies
   Names of principal subsidiaries and affiliates accounted for by the equity method
   Heesung 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. Significant accounting principles
   (1) Valuation standards and methodology for material assets
   ①Securities
   Other securities

Securities with a 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
②Derivatives	… Fair market value
③Inventories	
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

①Property, plant and equipment (excluding leased assets)

Buildings and structures	…	Declining-balance method (Except for buildings acquired after April 1,1998, which apply the straight-line method, excluding building fixtures)
Machinery and equipment	…	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

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.

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) Basis of material allowances

① Allowance 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.

(4) Other significant accounting principles

①Significant hedging transactions

Hedging accounting … Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured 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.

②Accounting 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.

③Accounting for consumption tax … Booked exclusive of consumption taxes

〔Changes in accounting policies〕

From the fiscal year starting April 1, 2015, the company fully adopted "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013) and other applicable standards. As a result, the method of recording the amount of difference caused by changes in the Company's ownership interests in subsidiaries in the case of subsidiaries under ongoing control of the company has been changed to record such amount as capital surplus, and the method of recording acquisition-related costs has been changed to recognize such costs as expenses for the fiscal year in which they are incurred. Furthermore, adjusted acquisition cost allocations resulting from business combinations on or after April 1, 2015 are updated from the tentative accounting treatment, and recognized in the consolidated financial statements for the fiscal year in which the business combinations are made. In accordance with these applications, some items such as net income have been renamed and reclassified.

Application of those standards above is in line with the transitional measures that are provided in Paragraph 58-2 (4) of the Accounting Standard for Business Combinations, Paragraph 44-5 (4) of the Accounting Standard for Consolidated Financial Statements and Paragraph 57-4 (4) of the Accounting Standard for Business Divestitures, and is effective starting April 1, 2015.

As a result, operating income, ordinary income and income before income taxes for the fiscal year ended March 31, 2016 have decreased by ¥343 million respectively, and net income per share has been decreased by ¥5.79.

〔Consolidated balance sheet〕

1. Accumulated depreciation of property, plant and equipment … ¥91,109 million

2. Warranty liabilities
Contingent liabilities for guarantees and items of a similar nature of housing loans of employees from financial institutions
… ¥130 million

〔Consolidated statements of changes in equity〕

1. Number of shares as of March 31, 2016

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

2. Number of treasury stocks as of March 31, 2016

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 10, 2015 Board meeting	Common stock	Retained earnings	¥66 million	¥2.25	March 31, 2015	June 29, 2015
June 10, 2015 Board meeting	A class stock	Retained earnings	¥66 million	¥2.25	March 31, 2015	June 29, 2015
November 24, 2015 Board meeting	Common stock	Retained earnings	¥22 million	¥0.75	September 30, 2015	November 27, 2015
November 24, 2015 Board meeting	A class stock	Retained earnings	¥22 million	¥0.75	September 30, 2015	November 27, 2015

(2) Dividends for which the record date came during the year ended March 31, 2016, 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 13, 2016 Board meeting	Common stock	Retained earnings	¥22 million	¥0.75	March 31, 2016	June 27, 2016
June 13, 2016 Board meeting	A class stock	Retained earnings	¥22 million	¥0.75	March 31, 2016	June 27, 2016

〔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, 2016 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	27,083	27,083	—
(2) Notes and accounts receivable-trade	50,880		
Allowance for doubtful accounts	△170		
Net amount	50,710	50,710	—
(3) Investment securities	2,263	2,263	—
(4) Shares of associated companies	2,812	2,233	579
(5) Accounts payable-trade	△14,984	△14,984	—
(6) Short-term borrowings	△7,782	△7,782	—
(7) Deposit	△11,586	△11,586	—
(8) Bonds payable	△8,250	△8,317	67
(9) Long-term debt	△2,620	△2,635	15
(10) Derivatives (net)	248	248	—

Note: Items marked with △ are liabilities

(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 (¥2,250 million) and of long-term debt (¥620 million) are included in the amounts respectively.

(10) Derivatives

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

(Note 2) Unlisted securities of ¥14 million, investments in partnerships of ¥110 million and investments in associated companies of ¥11,122 million are not included in the table due to the difficulty of estimating cash flow.

〔Per share information〕

1. Equity per share	…	¥3,121.72
2. Net income per share	…	¥84.89

〔Business Combinations〕

Transaction under common control

1. Business combination between the company and its subsidiary

(1) Overview of business combination

i. Names and businesses of the entities

Name of merging company	TANAKA Holdings, Co, Ltd.
Business of merging company	Management of group entities
Name of merged company	Tanaka Kikinzoku Business Service K.K.
Business of merged company	Administrative services

ii. Date of business combination

October 1, 2015

iii. Legal form of business combination

Absorption-type merger

iv. Name of the company after combination

TANAKA Holdings, Co, Ltd.

v. Purpose

Achieve more efficient group management by reorganizing administrative functions within the group companies

(2) Overview of applied accounting treatment

Business combination under common control based on "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013) and "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013) "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No.10, issued on September 13, 2013)

2. Business combination between subsidiaries

(1) Overview of business combination

i. Names and businesses of the entities

Name of merging company	Tanaka Kikinzoku Kogyo K.K.
Business of merging company	Manufacturing and sales of precious metals and industrial products
Name of merged companies	Tanaka Kikinzoku Hanbai K.K. Tanaka Kikinzoku International K.K.
Business of merged company	Sales of industrial products manufactured by Tanaka Kikinzoku group

ii. Date of business combination

October 1, 2015

iii. Legal form of business combination

Absorption-type merger

iv. Name of the company after combination

Tanaka Kikinzoku Kogyo K.K.

v. Purpose

Create strong business foundation through the integration of manufacturing, sales and R&D

(2) Overview of applied accounting treatment

Business combination under common control based on "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013) and "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013) "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, issued on September 13, 2013)