



Consolidated Financial Statements

Year Ended March 31, 2017

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, 2017

(Millions of Yen)

ASSETS		LIABILITIES	
CURRENT ASSETS	481,503	CURRENT LIABILITIES	306,569
Cash and cash equivalents	61,658	Accounts payable-trade	30,512
Notes and accounts receivable-trade	76,008	Short-term borrowings	14,590
Inventories	265,175	Borrowing precious metals	179,869
Lending precious metals	58,064	Current portion of bonds	2,000
Consumption taxes receivable	7,816	Current portion of long-term debt	2,000
Accounts receivable-other	4,723	Accounts payable-other	53,425
Other	8,698	Income taxes payable	2,785
Allowance for doubtful accounts	△641	Deposit	12,024
		Provision for bonuses	1,810
NONCURRENT ASSETS	99,800	Other	7,551
PROPERTY, PLANT AND EQUIPMENT	63,345		
Buildings and structures	23,394	LONG-TERM LIABILITIES	79,031
Machinery and equipment	18,572	Bonds payable	4,000
Land	13,899	Long-term debt	61,092
Other	7,478	Asset retirement obligations	1,079
INTANGIBLE FIXED ASSETS	15,379	Deferred tax liabilities	6,125
Software	2,401	Liability for retirement benefits	3,043
Software in progress	781	Other	3,692
Goodwill	4,025	TOTAL LIABILITIES	385,601
Trademark	1,028		
Customer related assets	6,627	EQUITY	
Other	516	SHAREHOLDERS' EQUITY	187,043
INVESTMENTS AND OTHER ASSETS	21,076	Common stock	500
Investment securities	2,973	Capital surplus	11,135
Shares of associated companies	13,310	Retained earnings	183,272
Investments in associated affiliates	1,457	Treasury stock	△7,864
Other	3,461	ACCUMULATED OTHER COMPREHENSIVE INCOME	7,135
Allowance for doubtful accounts	△126	Unrealized gain on available-for-sale securities	1,374
		Foreign currency translation adjustments	10,507
		Defined retirement benefit plans	△4,746
		Non-controlling interests	1,523
TOTAL ASSETS	581,304	TOTAL EQUITY	195,702
		TOTAL LIABILITIES and EQUITY	581,304

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

Consolidated Statement of Income

Year Ended March 31, 2017

(Millions of Yen)

Net sales		1,064,259
Cost of sales		1,026,590
Gross profit		37,669
Selling, general and administrative expenses		29,429
Operating income		8,239
Non-operating income		
Interest income and dividends	137	
Royalty	157	
Rent income	487	
Gain on sales of non-ferrous metal	125	
Other	458	1,366
Non-operating expenses		
Interest expenses	314	
Commitment fee	311	
Equity in earnings/losses of associated companies	306	
Loss on foreign exchange-net	353	
Loss on valuation of derivatives	1,719	
Other	298	3,304
Ordinary income		6,301
Extraordinary income		
Gain on sales of fixed assets	17	
Other	39	56
Extraordinary losses		
Loss on sales and retirement of non-current assets	208	
Loss on revaluation of investments in securities	10	
Loss on sales of golf membership rights	10	229
Income before income taxes		6,128
Income taxes-Current	2,393	
Income taxes-Deferred	△131	2,261
Net income		3,867
Net income attributable to non-controlling interests		176
Net income attributable to owners of parent		3,690

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

Consolidated Statement of Changes in Equity

Year Ended March 31, 2017

(Millions of Yen)

	Shareholder's equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2016	500	11,135	179,670	Δ7,864	183,441
Changes in the year					
Dividends of surplus	—	—	Δ88	—	Δ88
Net income attributable to owners of parent	—	—	3,690	—	3,690
Net changes of items other than shareholders' equity	—	—	—	—	—
Net changes in the year	—	—	3,602	—	3,602
Balance as of March 31, 2017	500	11,135	183,272	Δ7,864	187,043

	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, 2016	966	3,624	Δ3,025	1,566	1,273	186,280
Changes in the year						
Dividends of surplus	—	—	—	—	—	Δ88
Net income attributable to owners of parent	—	—	—	—	—	3,690
Net changes of items other than shareholders' equity	407	6,882	Δ1,721	5,569	250	5,817
Net changes in the year	407	6,882	Δ1,721	5,569	250	9,421
Balance as of March 31, 2017	1,374	10,507	Δ4,746	7,135	1,523	195,702

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 47 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

(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 2 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 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
- ① Property, 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)
- (Except for facilities attached to buildings and structures and assets acquired by foreign consolidated subsidiaries)
- Facilities attached to buildings and structures ... Declining-balance method (Except for Facilities attached to buildings and structures acquired after April 1, 2016, which apply the straight-line method)
- (Except for assets acquired by foreign consolidated subsidiaries)
- 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.
- (Except for assets acquired by foreign consolidated subsidiaries)
- 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
- ② Intangible assets ... Straight-line method
- (excluding lease assets) 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.
- ③ Lease 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
- 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.
- ② Bonuses to employees ... Bonuses to employees are accrued at the year-end to which such bonuses are attributable.

- ③Bonuses to Directors and Audit & ... Bonuses to Directors and Audit & Supervisory Board Members
Supervisory Board Members are accrued at the year-end to which such bonuses are attributable.
- ④Allowance for retirement benefits ... In order to provide for payment of retirement benefits for
to Directors and Audit & Directors and Audit & Supervisory Board Members, necessary
Supervisory Board Members amount is recorded based on rules on retirement benefits (in-house rules).
- (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 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.
- 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 benefit 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]

Application to Practical Change of the Depreciation Method Based on FY2016 Tax Reform

According to Corporate Income Tax Law Reform, we have changed the depreciation method for structures affixed to buildings and structures which we acquired after April 1, 2016 from the declining-balance method to the straight-line method based on FY2016 Tax Reform (June 17, 2016).

This change had minor impact on profit.

[Additional Information]

Accounting Standard for the Recoverability of Deferred Tax Assets

We have applied the “Accounting Standard for the Recoverability of Deferred Tax Assets” (ASBJ

Statement No. 26, March 28, 2016) from this year.

[Consolidated balance sheet]

1. Accumulated depreciation of property, plant and equipment	...	¥117,174 million
2. Warranty liabilities		
Contingent liabilities for guarantees and items of a similar nature of housing loans of employees from financial institutions		
Bank of loan	...	¥3,504 million
Housing loans of employees	...	¥97 million
Guarantee for VAT	...	¥33 million

[Consolidated statements of changes in equity]

1. Number of shares as of March 31, 2017		
Common stock	67,138 thousand	
A class stock	30,299 thousand	
2. Number of treasury stocks as of March 31, 2017		
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 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
November 14, 2016 Board meeting	Common stock	Retained earnings	¥22 million	¥0.75	September 30, 2016	November 28, 2016
November 14, 2016 Board meeting	A class stock	Retained earnings	¥22 million	¥0.75	September 30, 2016	November 28, 2016

(2) Dividends for which the record date came during the year ended March 31, 2017, 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 12, 2017 Board meeting	Common stock	Retained earnings	¥22 million	¥0.75	March 31, 2017	June 26, 2017
June 12, 2017 Board meeting	A class stock	Retained earnings	¥22 million	¥0.75	March 31, 2017	June 26, 2017

[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, 2017 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	61,658	61,658	—
(2) Notes and accounts receivable-trade	76,008	76,008	—
△641	△641	△641	—
Allowance for doubtful accounts*1	△641	△641	—
Net amount	75,366	75,366	—
(3) Investment securities	2,788	2,788	—
(4) Shares of associated companies	2,837	2,824	12
(5) Accounts payable-trade	△30,512	△30,512	—
(6) Short-term borrowings	△14,590	△14,590	—
(7) Deposit	△12,024	△12,024	—
(8) Bonds payable	△6,000	△6,013	13
(9) Long-term debt	△63,092	△63,796	704
(10) Derivatives*2	△924	△924	—

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 (¥2,000 million) and of long-term debt (¥2,000 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 ¥169 million and investments in associated companies of ¥10,472 million are not included in the table due to the difficulty of estimating cash flow.

[Per share information]

1. Equity per share	...	¥3,276.47
2. Net income per share	...	¥62.28

[Business Combinations]

Business combination through acquisition

(1) Overview of business combination

i. Names and businesses of acquired company

Name of acquiring company	Tanaka Kikinzoku Kogyo K.K.
Business of acquiring company	Manufacturing and sales of precious metals and industrial products
Name of acquired company	Metalor Technologies International SA
Business of acquiring company	Refining precious metals and manufacturing and sales of electroplating, equipment for electroplating and electronic contacts

ii. Main purpose of business combination

We aim at boosting growth potential, improving profitability and creating strong global business foundation mainly in Europe and North America by acquisition of shares of Metalor Technologies International SA

iii. Date of business combination

September 27, 2016 (Share Acquisition Date)
December 31, 2016 (Deemed Acquisition Date)

iv. Legal form of business combination

Share acquisition for cash consideration

v. Name of the company after combination

There is no change in the name.

vi. Acquired voting rights ratio

Voting rights ratio after acquisition 100%

vii. Main grounds for determining the acquirer

This was a share acquisition for a cash consideration by Tanaka Kikinzoku Kogyo K.K., a consolidated subsidiary of the Company.

(2) Period for which operating results of the acquired companies were included in the consolidated financial statements

The consolidated financial statements for this fiscal year do not include operating results of acquired company.

(3) Acquisition cost of the acquired companies and its breakdown by type of consideration

Consideration for acquisition	Cash and deposit ¥59,728 million
Acquisition cost	¥59,728 million

(4) Detail and amount of main expenses related to the acquisition

Advisory expenses, etc., ¥1,125 million

(5) Amount, cause, amortization method and amortization period of goodwill

i. Amount of goodwill

¥4,025 million

As allocation of the acquisition cost has not been completed, this amount is a provisional estimate based on practical information currently available.

ii. Cause

The is due to the anticipated future excess earning power

iii. Amortization method and amortization period

Amortization method Straight-line method

Amortization period 5 years (From April 1, 2017)

(6) Amount of assets assumed and liabilities acquired through the business combination and their major breakdown

Current assets	¥111,268 million
Noncurrent assets	¥29,471 million
Total assets	¥140,739 million
Current liabilities	¥73,492 million
Long-term liabilities	¥9,527 million
Total liabilities	¥83,020 million