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Quarterly Consolidated Financial Statements

(Pursuant to Article 24-4-7, Paragraph 1 of the
Japanese Financial Instruments and Exchange Act)

First quarter of
the 88th term

From April 1, 2016
to June 30, 2016

RIKEN TECHNOS CORPORATION

2-101, Kanda-Awajicho, Chiyoda-ku, Tokyo, Japan

Quarterly Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Thousands of yen)

	As of March 31, 2016	As of June 30, 2016
Assets		
Current assets		
Cash and deposits	14,207,006	15,373,495
Notes and accounts receivable - trade	22,774,907	21,574,422
Merchandise and finished goods	5,708,516	6,050,097
Work in process	490,340	521,074
Raw materials and supplies	4,326,334	4,073,833
Deferred tax assets	403,630	404,182
Other	1,111,525	997,863
Allowance for doubtful accounts	(154,949)	(154,892)
Total current assets	48,867,312	48,840,076
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	7,688,889	7,403,823
Machinery, equipment and vehicles, net	7,542,407	7,090,386
Land	6,470,110	6,404,259
Leased assets, net	23,900	17,424
Construction in progress	3,557,754	4,113,583
Other, net	506,949	482,040
Total property, plant and equipment	25,790,011	25,511,517
Intangible assets		
Goodwill	675,115	627,220
Leased assets	5,410	4,993
Other	2,856,866	2,829,666
Total intangible assets	3,537,392	3,461,881
Investments and other assets		
Investment securities	4,509,526	4,274,842
Long-term loans receivable	7,928	7,344
Net defined benefit asset	334,377	370,972
Deferred tax assets	595,303	616,864
Other	519,968	487,516
Allowance for doubtful accounts	(4,332)	(4,332)
Total investments and other assets	5,962,772	5,753,208
Total non-current assets	35,290,176	34,726,607
Total assets	84,157,489	83,566,684

(Thousands of yen)

	As of March 31, 2016	As of June 30, 2016
Liabilities		
Current liabilities		
Notes and accounts payable - trade	16,836,244	15,743,651
Short-term loans payable	*2 7,186,504	*2 7,190,687
Current portion of long-term loans payable	502,435	498,329
Lease obligations	19,933	17,872
Income taxes payable	457,872	513,478
Provision for bonuses	610,062	332,238
Provision for directors' bonuses	29,200	18,000
Other	2,441,709	2,968,584
Total current liabilities	28,083,962	27,282,843
Non-current liabilities		
Bonds payable	4,000,000	4,000,000
Long-term loans payable	2,886,697	4,288,762
Lease obligations	14,701	10,490
Deferred tax liabilities	882,230	858,897
Net defined benefit liability	1,093,272	1,100,808
Asset retirement obligations	305,721	306,823
Other	144,062	142,801
Total non-current liabilities	9,326,687	10,708,583
Total liabilities	37,410,649	37,991,427
Net assets		
Shareholders' equity		
Capital stock	8,514,018	8,514,018
Capital surplus	6,562,944	6,564,704
Retained earnings	25,026,282	25,101,303
Treasury shares	(1,941,701)	(1,936,966)
Total shareholders' equity	38,161,544	38,243,059
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,701,299	1,522,738
Foreign currency translation adjustment	856,000	232,989
Remeasurements of defined benefit plans	(604,435)	(583,839)
Total accumulated other comprehensive income	1,952,864	1,171,888
Non-controlling interests	6,632,430	6,160,308
Total net assets	46,746,839	45,575,257
Total liabilities and net assets	84,157,489	83,566,684

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
Consolidated Statements of Income

(Thousands of yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016
Net sales	22,239,778	21,274,978
Cost of sales	18,672,522	17,034,755
Gross profit	3,567,255	4,240,222
Selling, general and administrative expenses	2,714,203	2,910,941
Operating income	853,052	1,329,281
Non-operating income		
Interest income	5,392	7,761
Dividend income	60,613	53,526
Other	14,998	12,555
Total non-operating income	81,005	73,843
Non-operating expenses		
Interest expenses	25,072	24,808
Foreign exchange losses	6,751	206,181
Other	7,757	8,440
Total non-operating expenses	39,582	239,430
Ordinary income	894,475	1,163,694
Extraordinary losses		
Loss on sales of non-current assets	1,048	—
Loss on retirement of non-current assets	482	1,402
Total extraordinary losses	1,531	1,402
Income before income taxes	892,944	1,162,292
Income taxes	292,906	422,765
Profit	600,037	739,526
Profit attributable to non-controlling interests	237,284	358,308
Profit attributable to owners of parent	362,752	381,218

Consolidated Statements of Comprehensive Income

(Thousands of yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016
Profit	600,037	739,526
Other comprehensive income		
Valuation difference on available-for-sale securities	74,042	(178,561)
Foreign currency translation adjustment	(88,425)	(967,427)
Remeasurements of defined benefit plans, net of tax	24,564	20,596
Total other comprehensive income	10,181	(1,125,392)
Comprehensive income	610,219	(385,865)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	390,853	(399,757)
Comprehensive income attributable to non-controlling interests	219,365	13,892

Notes to Quarterly Consolidated Financial Statements

Basis of Presentation of Quarterly Consolidated Financial Statements

The accompanying quarterly consolidated financial statements of RIKEN TECHNOS CORPORATION (the “Company”) and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in accordance with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards (“IFRS”).

In addition, amounts are rounded down to the nearest thousand yen.

Changes in Scope of Consolidation

Not applicable.

Changes in Accounting Policies

In accordance with revisions of the Corporation Tax Law, in the first quarter under review, the Company has applied the “Practical Solution on a change in depreciation method due to Tax Reform 2016” (Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force (PITF) No. 32, June 17, 2016), and changed the depreciation method of facilities attached to buildings and structures acquired on and after April 1, 2016 from the declining-balance method to the straight-line method.

The effect of this change on operating income, ordinary income and income before income taxes for the three-month period under review is immaterial.

Special Accounting Applied for Preparing Quarterly Consolidated Financial Statements

(Calculation of taxes)

The Company computes the taxes first by reasonably estimating the effective tax rate after applying tax effect accounting against income before income taxes for the fiscal year including the first quarter under review, and next by multiplying the quarterly income before income taxes by such estimated effective tax rate.

However, in cases where the calculation of taxes using such estimated effective tax rate yields a result that is not reasonable to a significant extent, the effective statutory tax rate is used.

Additional Information

(Application of Revised Implementation Guidance on Recoverability of Deferred Tax Assets)

Effective from the first quarter under review, the Company has applied the “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016).

(Transactions of delivering the Company’s own stock to employees etc. through trusts)

For the purpose of welfare benefits for employees, the Company conducts transactions of delivering its own stock to the employee stockholding association through trusts.

(1) Overview of transactions

These transactions are conducted as the incentive plan under which the benefits of a rise in the Company’s stock price are passed along to all the employees who are members of the “RIKEN TECHNOS Employee Stockholding Association” (hereinafter referred to as the “Stockholding Association”).

A trust bank as the trustee of this plan acquires shares in the Company that are expected to be acquired by the Stockholding Association, en bloc in advance, and sells those shares in the Company to the Stockholding Association as needed when it acquires the shares.

If the amount equivalent to gain on sales of shares was accumulated in trust assets by the termination of this trust through the sale of shares to the Stockholding Association, the accumulated amount is distributed as residual assets to the members of the Company’s employee Stockholding Association who satisfy eligibility requirements for beneficiaries.

The Company has guaranteed loans that the trust bank received to acquire shares in the Company. Therefore, if there is the remaining loan amount that is equivalent to loss on sales of shares in the Company due to a decline in the Company’s stock price at the time of termination of the trust, the Company is required to pay the remaining loan amount under the guarantee agreement.

(2) Method of accounting for these transactions

The Company applies Paragraph 20 of the “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts” (ASBJ PITF No. 30, March 26, 2015) and continues to apply the previously employed method.

(3) Shares in the Company held by the trust

In the trust, the book value of the shares in the Company held by the trust was 95,067 thousand yen as of the end of the previous fiscal year and 90,333 thousand yen as of the end of the first quarter under review. These shares were recorded as treasury shares in shareholders’ equity.

The number of these shares was 301 thousand shares at the end of the previous fiscal year and 286 thousand shares at the end of the first quarter under review. The average number of these shares outstanding during the period was 354 thousand shares in the three-month period of the previous fiscal year and 295 thousand shares in the three-month period under review. In the calculation of per share information, these shares are included in treasury shares that are deducted.

Notes to Consolidated Balance Sheets

1. Notes receivable endorsed

	(Thousands of yen)	
	As of March 31, 2016	As of June 30, 2016
Notes receivable endorsed	5,040	3,542

*2. Overdraft agreements and unused overdraft facility balance

To efficiently secure equipment funds, the Company and its domestic consolidated subsidiaries have entered into overdraft agreements with banks with which they do business.

The unused balance of these prescribed limit agreements is as follows:

	(Thousands of yen)	
	As of March 31, 2016	As of June 30, 2016
Total overdraft facility limit	13,030,000	13,030,000
Outstanding borrowings within the limit	4,415,000	4,415,000
Unused balance	8,615,000	8,615,000

Notes to Consolidated Statements of Income

Not applicable.

Notes to Consolidated Statements of Cash Flows

The consolidated statements of cash flows for the three-month period under review were not prepared. Depreciation (including amortization of intangible assets except for goodwill) and amortization of goodwill for the three-month period under review are as follows:

	(Thousands of yen)	
	Three months ended June 30, 2015	Three months ended June 30, 2016
Depreciation	792,173	737,694
Amortization of goodwill	68,648	47,894

Shareholders' Equity and Others

I. Three months ended June 30, 2015 (from April 1, 2015 to June 30, 2015)

Dividends paid

(Resolution)	Type of shares	Total dividends (Thousands of yen)	Dividends per share (Yen)	Cut-off date	Effective date	Source of dividends
Ordinary general meeting of shareholders held on June 19, 2015	Common stock	299,519	5	March 31, 2015	June 22, 2015	Retained earnings

(Note) Total dividends do not include 1,799 thousand yen of dividends to Trust Account E. This is because shares in the Company held by Trust Account E are recognized as treasury shares.

II. Three months ended June 30, 2016 (from April 1, 2016 to June 30, 2016)

Dividends paid

(Resolution)	Type of shares	Total dividends (Thousands of yen)	Dividends per share (Yen)	Cut-off date	Effective date	Source of dividends
Ordinary general meeting of shareholders held on June 24, 2016	Common stock	299,810	5	March 31, 2016	June 27, 2016	Retained earnings

(Note) Total dividends do not include 1,506 thousand yen of dividends to Trust Account E. This is because shares in the Company held by Trust Account E are recognized as treasury shares.

Segment Information and Others

Segment information

I. Three months ended June 30, 2015 (from April 1, 2015 to June 30, 2015)

1. Information about net sales and profit or loss by reportable segment

(Thousands of yen)

	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Amount recorded on the consolidated statements of income (Note 3)
	Compound	Film	Food wrapping film	Total				
Net sales								
(1) Sales to external customers	15,991,513	2,966,518	2,476,623	21,434,655	805,123	22,239,778	–	22,239,778
(2) Intersegment sales or transfers	50,316	–	–	50,316	78,369	128,685	(128,685)	–
Total	16,041,829	2,966,518	2,476,623	21,484,971	883,492	22,368,464	(128,685)	22,239,778
Segment profit (loss)	1,061,568	(213,065)	28,922	877,426	(6,328)	871,097	(18,045)	853,052

- (Notes) 1. The “Other” category is the business segment that is not included in the reportable segments, and represents the manufacturing and sales of synthetic resin molding products and electric wire as well as the purchase and sales of merchandise.
2. The adjustment to segment profit (loss) represents negative 18,045 thousand yen in inter-segment eliminations.
3. Segment profit (loss) is adjusted to operating income in the consolidated statements of income.

2. Information about impairment loss on non-current assets or goodwill and others by reportable segment

Not applicable.

II. Three months ended June 30, 2016 (from April 1, 2016 to June 30, 2016)

1. Information about net sales and profit or loss by reportable segment

(Thousands of yen)

	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Amount recorded on the consolidated statements of income (Note 3)
	Compound	Film	Food wrapping film	Total				
Net sales								
(1) Sales to external customers	14,829,891	2,991,026	2,552,683	20,373,601	901,376	21,274,978	–	21,274,978
(2) Intersegment sales or transfers	57,812	–	–	57,812	226,968	284,781	(284,781)	–
Total	14,887,704	2,991,026	2,552,683	20,431,414	1,128,344	21,559,759	(284,781)	21,274,978
Segment profit (loss)	1,195,083	(57,678)	196,811	1,334,216	23,681	1,357,898	(28,616)	1,329,281

- (Notes) 1. The “Other” category is the business segment that is not included in the reportable segments, and represents the manufacturing and sales of synthetic resin molding products and electric wire as well as the purchase and sales of merchandise.
2. The adjustment to segment profit (loss) represents negative 28,616 thousand yen in inter-segment eliminations.
3. Segment profit (loss) is adjusted to operating income in the consolidated statements of income.

2. Information about impairment loss on non-current assets or goodwill and others by reportable segment

Not applicable.

Business Combinations

Not applicable.

Per Share Information

Basic earnings per share and the basis for calculation thereof, and diluted earnings per share and the basis for calculation thereof are as follows:

	Three months ended June 30, 2015	Three months ended June 30, 2016
(1) Basic earnings per share (yen)	6.05	6.36
(Basis for calculation)		
Profit attributable to owners of parent (Thousands of yen)	362,752	381,218
Amount not attributable to common shareholders (Thousands of yen)	—	—
Profit attributable to owners of parent regarding common stock (Thousands of yen)	362,752	381,218
Average number of shares of common stock outstanding during the period (Thousands of shares)	59,909	59,968
(2) Diluted earnings per share (yen)	5.30	5.57
(Basis for calculation)		
Adjustment on profit attributable to owners of parent (Thousands of yen)	—	—
Increase in common stock (Thousands of shares)	8,528	8,528
Outline of potential shares which were not used in calculating diluted earnings per share because they have no dilutive effects, and which had material changes after the end of the previous fiscal year	—	—

(Note) Because shares in the Company held by Trust Account E are recognized as treasury shares in the quarterly consolidated financial statements, the number of those shares has been deducted from the average number of shares of common stock outstanding during the period used for the calculation of basic earnings per share.

Significant Subsequent Events

Not applicable.