

Note: This is an excerpt translation of the “Shihanki-Houkokusho” for the convenience of overseas stakeholders. In cases where any differences occur between the English version and the original Japanese version, the Japanese version shall prevail. RIKEN TECHNOS CORPORATION assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising from the translation.

Quarterly Consolidated Financial Statements

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

Second quarter of
the 88th term

From July 1, 2016
to September 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 September 30, 2016
Assets		
Current assets		
Cash and deposits	14,207,006	14,504,420
Notes and accounts receivable - trade	22,774,907	21,688,406
Merchandise and finished goods	5,708,516	5,725,865
Work in process	490,340	529,071
Raw materials and supplies	4,326,334	3,935,709
Deferred tax assets	403,630	368,813
Other	1,111,525	957,566
Allowance for doubtful accounts	(154,949)	(163,018)
Total current assets	48,867,312	47,546,835
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	7,688,889	7,745,421
Machinery, equipment and vehicles, net	7,542,407	7,722,018
Land	6,470,110	6,287,043
Leased assets, net	23,900	11,750
Construction in progress	3,557,754	3,170,233
Other, net	506,949	592,779
Total property, plant and equipment	25,790,011	25,529,247
Intangible assets		
Goodwill	675,115	579,326
Leased assets	5,410	4,577
Other	2,856,866	2,693,423
Total intangible assets	3,537,392	3,277,327
Investments and other assets		
Investment securities	4,509,526	4,855,236
Long-term loans receivable	7,928	6,708
Net defined benefit asset	334,377	405,553
Deferred tax assets	595,303	313,260
Other	519,968	475,821
Allowance for doubtful accounts	(4,332)	(4,332)
Total investments and other assets	5,962,772	6,052,247
Total non-current assets	35,290,176	34,858,822
Total assets	84,157,489	82,405,658

(Thousands of yen)

	As of March 31, 2016	As of September 30, 2016
Liabilities		
Current liabilities		
Notes and accounts payable - trade	16,836,244	15,470,094
Short-term loans payable	*2 7,186,504	*2 6,530,582
Current portion of long-term loans payable	502,435	490,650
Lease obligations	19,933	16,815
Income taxes payable	457,872	521,916
Provision for bonuses	610,062	461,399
Provision for directors' bonuses	29,200	36,000
Other	2,441,709	2,663,047
Total current liabilities	28,083,962	26,190,506
Non-current liabilities		
Bonds payable	4,000,000	4,000,000
Long-term loans payable	2,886,697	4,397,187
Lease obligations	14,701	5,736
Deferred tax liabilities	882,230	651,039
Provision for director stock benefits	—	5,803
Net defined benefit liability	1,093,272	1,081,418
Asset retirement obligations	305,721	307,925
Other	144,062	138,809
Total non-current liabilities	9,326,687	10,587,920
Total liabilities	37,410,649	36,778,427
Net assets		
Shareholders' equity		
Capital stock	8,514,018	8,514,018
Capital surplus	6,562,944	6,625,883
Retained earnings	25,026,282	25,844,068
Treasury shares	(1,941,701)	(1,993,262)
Total shareholders' equity	38,161,544	38,990,707
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,701,299	1,951,134
Foreign currency translation adjustment	856,000	(731,405)
Remeasurements of defined benefit plans	(604,435)	(563,243)
Total accumulated other comprehensive income	1,952,864	656,485
Non-controlling interests	6,632,430	5,980,037
Total net assets	46,746,839	45,627,230
Total liabilities and net assets	84,157,489	82,405,658

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

(Thousands of yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016
Net sales	44,628,022	43,171,574
Cost of sales	37,227,101	34,501,764
Gross profit	7,400,920	8,669,810
Selling, general and administrative expenses	*1 5,437,629	*1 5,757,294
Operating income	1,963,291	2,912,515
Non-operating income		
Interest income	13,468	17,257
Dividend income	68,099	66,816
Other	33,497	24,109
Total non-operating income	115,064	108,182
Non-operating expenses		
Interest expenses	52,234	65,235
Foreign exchange losses	66,436	269,835
Other	17,398	8,111
Total non-operating expenses	136,069	343,182
Ordinary income	1,942,286	2,677,515
Extraordinary income		
Gain on sales of non-current assets	3,400	2,075
Gain on sales of investment securities	6,038	0
Total extraordinary income	9,439	2,075
Extraordinary losses		
Loss on sales of non-current assets	6,101	—
Loss on retirement of non-current assets	6,747	7,695
Total extraordinary losses	12,848	7,695
Income before income taxes	1,938,876	2,671,895
Income taxes	648,018	822,554
Profit	1,290,858	1,849,341
Profit attributable to non-controlling interests	529,923	725,544
Profit attributable to owners of parent	760,934	1,123,796

Consolidated Statements of Comprehensive Income

(Thousands of yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016
Profit	1,290,858	1,849,341
Other comprehensive income		
Valuation difference on available-for-sale securities	(411,842)	249,834
Foreign currency translation adjustment	(23,637)	(2,479,413)
Remeasurements of defined benefit plans, net of tax	49,129	41,192
Total other comprehensive income	(386,350)	(2,188,386)
Comprehensive income	904,508	(339,045)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	396,791	(172,582)
Comprehensive income attributable to non-controlling interests	507,716	(166,462)

(3) Consolidated Statements of Cash Flows

(Thousands of yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016
Cash flows from operating activities		
Income before income taxes	1,938,876	2,671,895
Depreciation	1,617,312	1,505,865
Amortization of goodwill	137,297	95,788
Decrease in provision for bonuses	(96,865)	(142,068)
Increase (decrease) in provision for directors' bonuses	(14,600)	6,800
Increase (decrease) in allowance for doubtful accounts	(7,078)	12,544
Increase (decrease) in net defined benefit liability	(2,036,131)	42,519
Increase in provision for director stock benefits	—	5,803
Interest and dividend income	(81,567)	(84,073)
Interest expenses	52,234	65,235
Gain on sales of investment securities	(6,038)	(0)
Loss (gain) on sales of property, plant and equipment	2,700	(2,075)
Loss on retirement of property, plant and equipment	6,747	7,695
Decrease in notes and accounts receivable - trade	2,247,239	305,855
Increase in inventories	(786,360)	(434,294)
Decrease in notes and accounts receivable - trade	(480,595)	(608,173)
Decrease in accrued consumption taxes	(62,786)	(86,699)
Other, net	(108,111)	500,685
Subtotal	2,322,272	3,863,303
Interest and dividend income received	71,671	84,840
Interest expenses paid	(55,904)	(53,508)
Income taxes paid	(631,616)	(749,867)
Net cash provided by operating activities	1,706,422	3,144,767
Cash flows from investing activities		
Payments into time deposits	(0)	(6,334)
Proceeds from withdrawal of time deposits	—	619,124
Purchase of property, plant and equipment	(1,405,837)	(2,722,881)
Proceeds from sales of property, plant and equipment	12,704	2,075
Purchase of intangible assets	(335,029)	(144,606)
Purchase of investment securities	(328)	(1,830)
Proceeds from sales of investment securities	30,107	0
Collection of loans receivable	2,281	1,834
Other, net	(102,551)	(46,937)
Net cash used in investing activities	(1,798,652)	(2,299,555)

(Thousands of yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	1,732,989	(305,448)
Proceeds from long-term loans payable	—	2,306,220
Repayments of long-term loans payable	(1,242,187)	(241,289)
Repayments of lease obligations	(23,415)	(9,562)
Proceeds from sales of treasury shares	8,458	8,143
Purchase of treasury shares	(94)	(15)
Cash dividends paid	(298,856)	(299,425)
Dividends paid to non-controlling interests	(518,161)	(483,273)
Other, net	—	(59,688)
Net cash provided by (used in) financing activities	(341,266)	915,660
Effect of exchange rate change on cash and cash equivalents	8,632	(825,499)
Net increase (decrease) in cash and cash equivalents	(424,863)	935,374
Cash and cash equivalents at beginning of period	13,981,367	13,444,325
Cash and cash equivalents at end of period	*1 13,556,504	*1 14,379,699

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 of the current fiscal year, 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 six-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 second 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 of the current fiscal year, 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)

(1) Board Benefit Trust (BBT)

In accordance with the resolution at the ordinary general meeting of shareholders dated June 24, 2016, the Company introduced a new stock-based compensation plan “Board Benefit Trust (BBT)” for officers on September 14, 2016, for the purpose of raising officers’ awareness toward their contributions to improving the mid- to long-term corporate performance and increasing the corporate value.

(a) Overview of transactions

Based on the officers’ stock benefit plan which was established in advance, the Company and its group companies (the “Group”) grant points to officers. At the time of their retirement, the Group provides shares in the Company to the officers who satisfy requirements for beneficiaries in proportion to the points which the Group has granted to them. With regard to the shares which will be provided to officers in the future, a trust bank acquires the Company’s treasury shares through third-party allotment by using the money entrusted by the Group. Such shares are managed as trust assets separately.

(b) Method of accounting for these transactions

The Company applies the gross method in the same manner as stipulated in the “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts” (ASBJ PITF No. 30, March 26, 2015). The Company records expenses and provision corresponding to such expenses based on the number of points granted to officers in accordance with the plan.

(c) Shares in the Company held by the trust

The shares in the Company held by the trust were recorded as the treasury shares in shareholders’ equity with the book value (excluding associated costs) at the trust. The book value and number of these treasury shares as of the end of the second quarter under review were 209,960 thousand yen and 476 thousand shares, respectively.

(2) Stock Benefit Trust (Employee Stockholding Association Purchase-type)

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

(a) 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 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.

(b) 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.

(c) 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 86,924 thousand yen as of the end of the second 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 275 thousand shares at the end of the second quarter under review. The average number of these shares outstanding during the period was 346 thousand shares in the six-month period of the previous fiscal year and 287 thousand shares in the six-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 September 30, 2016
Notes receivable endorsed	5,040	1,803

*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 September 30, 2016
Total overdraft facility limit	13,030,000	13,030,000
Outstanding borrowings within the limit	4,415,000	4,215,000
Unused balance	8,615,000	8,815,000

Notes to Consolidated Statements of Income

*1. Main components of selling, general and administrative expenses

Main components of selling, general and administrative expenses are as follows:

	(Thousands of yen)	
	Six months ended September 30, 2015	Six months ended September 30, 2016
Freightage expenses	1,406,027	1,368,618
Salaries and bonuses	1,113,283	1,152,509
Provision for bonuses	109,134	109,966
Provision for directors' bonuses	14,600	36,000
Retirement benefit expenses	85,263	88,661
Provision for director stock benefits	—	5,803
Provision of allowance for doubtful accounts	1,597	13,488
Research and development expenses	465,827	449,939

Notes to Consolidated Statements of Cash Flows

*1. Reconciliation between "Cash and cash equivalents at end of period" in the consolidated statements of cash flows and "Cash and deposits" in the consolidated balance sheets

	(Thousands of yen)	
	Six months ended September 30, 2015	Six months ended September 30, 2016
Cash and deposits	13,700,057	14,504,420
Time deposits with maturities over 3 months	(143,553)	(124,720)
Cash and cash equivalents	13,556,504	14,379,699

Shareholders' Equity and Others

I. Six months ended September 30, 2015 (from April 1, 2015 to September 30, 2015)

1. 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.

2. Dividends whose cut-off date is in the six-month period under review and whose effective date is after the end of the second quarter under review

(Resolution)	Type of shares	Total dividends (Thousands of yen)	Dividends per share (Yen)	Cut-off date	Effective date	Source of dividends
Board of Directors meeting held on November 6, 2015	Common stock	299,652	5	September 30, 2015	December 2, 2015	Retained earnings

(Note) Total dividends do not include 1,665 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. Six months ended September 30, 2016 (from April 1, 2016 to September 30, 2016)

1. 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.

2. Dividends whose cut-off date is in the six-month period under review and whose effective date is after the end of the second quarter under review

(Resolution)	Type of shares	Total dividends (Thousands of yen)	Dividends per share (Yen)	Cut-off date	Effective date	Source of dividends
Board of Directors meeting held on November 7, 2016	Common stock	299,939	5	September 30, 2016	December 2, 2016	Retained earnings

(Note) Total dividends do not include 3,757 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. Six months ended September 30, 2015 (from April 1, 2015 to September 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	31,890,102	5,948,138	5,179,344	43,017,585	1,610,437	44,628,022	–	44,628,022
(2) Intersegment sales or transfers	116,920	–	–	116,920	243,913	360,833	(360,833)	–
Total	32,007,022	5,948,138	5,179,344	43,134,505	1,854,350	44,988,856	(360,833)	44,628,022
Segment profit (loss)	2,421,497	(464,882)	67,948	2,024,563	(15,185)	2,009,378	(46,086)	1,963,291

- (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 46,086 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. Six months ended September 30, 2016 (from April 1, 2016 to September 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	30,165,617	5,947,494	5,330,232	41,443,344	1,728,229	43,171,574	–	43,171,574
(2) Intersegment sales or transfers	113,200	–	–	113,200	377,209	490,409	(490,409)	–
Total	30,278,817	5,947,494	5,330,232	41,556,544	2,105,439	43,661,984	(490,409)	43,171,574
Segment profit (loss)	2,690,627	(128,978)	371,928	2,933,577	25,337	2,958,915	(46,399)	2,912,515

- (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 46,399 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:

	Six months ended September 30, 2015	Six months ended September 30, 2016
(1) Basic earnings per share (yen)	12.70	18.74
(Basis for calculation)		
Profit attributable to owners of parent (Thousands of yen)	760,934	1,123,796
Amount not attributable to common shareholders (Thousands of yen)	–	–
Profit attributable to owners of parent regarding common stock (Thousands of yen)	760,934	1,123,796
Average number of shares of common stock outstanding during the period (Thousands of shares)	59,917	59,975
(2) Diluted earnings per share (yen)	11.12	16.40
(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

At the Board of Directors meeting held on October 24, 2016, the Company resolved matters pertaining to repurchase of its own shares in accordance with the provisions of Article 156 of the Companies Act applied by replacing certain terms pursuant to the provisions of Article 165, Paragraph 3 of the same Act.

1. Reason

To contribute to return to shareholders by carrying out flexible capital policies to cope with changes in the management environment and thereby improving capital efficiency

2. Type of shares to be repurchased: Common stock

3. Number of shares to be repurchased: 3,000,000 (maximum)

4. Total amount to be paid for repurchase: 1,800,000 thousand yen (maximum)

5. Period of share repurchase: From November 1, 2016 to March 31, 2017