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Quarterly Consolidated Financial Statements

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

Third quarter of the 88th term	From October 1, 2016 to December 31, 2016
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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 December 31, 2016
Assets		
Current assets		
Cash and deposits	14,207,006	12,797,073
Notes and accounts receivable - trade	22,774,907	*2 22,540,915
Merchandise and finished goods	5,708,516	5,850,532
Work in process	490,340	556,116
Raw materials and supplies	4,326,334	4,250,224
Deferred tax assets	403,630	383,119
Other	1,111,525	1,045,505
Allowance for doubtful accounts	(154,949)	(164,538)
Total current assets	48,867,312	47,258,946
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	7,688,889	7,983,204
Machinery, equipment and vehicles, net	7,542,407	7,611,846
Land	6,470,110	6,277,611
Leased assets, net	23,900	7,722
Construction in progress	3,557,754	2,741,279
Other, net	506,949	581,171
Total property, plant and equipment	25,790,011	25,202,838
Intangible assets		
Goodwill	675,115	531,431
Leased assets	5,410	4,161
Other	2,856,866	2,620,225
Total intangible assets	3,537,392	3,155,818
Investments and other assets		
Investment securities	4,509,526	5,896,532
Long-term loans receivable	7,928	6,251
Net defined benefit asset	334,377	442,465
Deferred tax assets	595,303	263,283
Other	519,968	480,440
Allowance for doubtful accounts	(4,332)	(3,770)
Total investments and other assets	5,962,772	7,085,203
Total non-current assets	35,290,176	35,443,860
Total assets	84,157,489	82,702,807

(Thousands of yen)

	As of March 31, 2016	As of December 31, 2016
Liabilities		
Current liabilities		
Notes and accounts payable - trade	16,836,244	*2 16,245,713
Short-term loans payable	*3 7,186,504	*3 6,209,768
Current portion of long-term loans payable	502,435	480,712
Lease obligations	19,933	7,470
Income taxes payable	457,872	445,584
Provision for bonuses	610,062	324,153
Provision for directors' bonuses	29,200	45,100
Other	2,441,709	2,608,108
Total current liabilities	28,083,962	26,366,612
Non-current liabilities		
Bonds payable	4,000,000	4,000,000
Long-term loans payable	2,886,697	4,312,261
Lease obligations	14,701	10,134
Deferred tax liabilities	882,230	923,656
Provision for director stock benefits	—	11,607
Net defined benefit liability	1,093,272	1,043,258
Asset retirement obligations	305,721	309,027
Other	144,062	128,453
Total non-current liabilities	9,326,687	10,738,399
Total liabilities	37,410,649	37,105,011
Net assets		
Shareholders' equity		
Capital stock	8,514,018	8,514,018
Capital surplus	6,562,944	6,628,952
Retained earnings	25,026,282	26,445,456
Treasury shares	(1,941,701)	(3,067,001)
Total shareholders' equity	38,161,544	38,521,426
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,701,299	2,688,037
Foreign currency translation adjustment	856,000	(883,287)
Remeasurements of defined benefit plans	(604,435)	(542,646)
Total accumulated other comprehensive income	1,952,864	1,262,103
Non-controlling interests	6,632,430	5,814,266
Total net assets	46,746,839	45,597,795
Total liabilities and net assets	84,157,489	82,702,807

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

(Thousands of yen)

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Net sales	67,434,128	64,769,129
Cost of sales	55,872,603	52,013,298
Gross profit	11,561,525	12,755,831
Selling, general and administrative expenses	8,203,188	8,521,387
Operating income	3,358,336	4,234,443
Non-operating income		
Interest income	20,758	23,558
Dividend income	119,048	105,518
Other	74,365	79,892
Total non-operating income	214,171	208,969
Non-operating expenses		
Interest expenses	81,232	106,522
Foreign exchange losses	133,738	30,590
Other	18,820	13,309
Total non-operating expenses	233,791	150,423
Ordinary income	3,338,716	4,292,989
Extraordinary income		
Gain on sales of non-current assets	4,048	2,464
Gain on sales of investment securities	6,038	—
Total extraordinary income	10,086	2,464
Extraordinary losses		
Loss on sales of non-current assets	6,972	—
Loss on retirement of non-current assets	24,982	7,567
Total extraordinary losses	31,955	7,567
Income before income taxes	3,316,847	4,287,886
Income taxes	1,002,880	1,268,671
Profit	2,313,967	3,019,215
Profit attributable to non-controlling interests	836,749	994,256
Profit attributable to owners of parent	1,477,218	2,024,958

Consolidated Statements of Comprehensive Income

(Thousands of yen)

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Profit	2,313,967	3,019,215
Other comprehensive income		
Valuation difference on available-for-sale securities	(190,149)	987,584
Foreign currency translation adjustment	(1,058,988)	(2,665,421)
Remeasurements of defined benefit plans, net of tax	73,694	61,788
Total other comprehensive income	(1,175,443)	(1,616,048)
Comprehensive income	1,138,523	1,403,166
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	748,485	1,334,197
Comprehensive income attributable to non-controlling interests	390,038	68,969

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 nine-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 third 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 third 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 98,189 thousand yen as of the end of the third 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 261 thousand shares at the end of the third quarter under review. The average number of these shares outstanding during the period was 339 thousand shares in the nine-month period of the previous fiscal year and 281 thousand shares in the nine-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 December 31, 2016
Notes receivable endorsed	5,040	3,723

*2. Notes matured at quarterly period-end

When the quarterly period-end is a holiday for financial institutions, the settlement of notes matured at the quarterly period-end is accounted for as if the matured notes were settled on the maturity date.

The amount of notes matured at the end of the third quarter under review is as follows:

	(Thousands of yen)	
	As of March 31, 2016	As of December 31, 2016
Notes receivable - trade	-	751,173
Notes payable - trade	-	1,400

*3. 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 December 31, 2016
Total overdraft facility limit	13,030,000	13,030,000
Outstanding borrowings within the limit	4,415,000	4,015,000
Unused balance	8,615,000	9,015,000

Notes to Consolidated Statements of Income

Not applicable.

Notes to Consolidated Statements of Cash Flows

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

	(Thousands of yen)	
	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Depreciation	2,430,979	2,325,477
Amortization of goodwill	205,946	143,683

Shareholders' Equity and Others

I. Nine months ended December 31, 2015 (from April 1, 2015 to December 31, 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.

(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. Nine months ended December 31, 2016 (from April 1, 2016 to December 31, 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.

(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. Nine months ended December 31, 2015 (from April 1, 2015 to December 31, 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	47,895,021	8,901,987	8,046,386	64,843,395	2,590,733	67,434,128	–	67,434,128
(2) Intersegment sales or transfers	172,598	562	–	173,160	291,488	464,649	(464,649)	–
Total	48,067,619	8,902,549	8,046,386	65,016,556	2,882,221	67,898,778	(464,649)	67,434,128
Segment profit (loss)	3,724,961	(562,834)	309,986	3,472,113	(29,254)	3,442,858	(84,521)	3,358,336

- (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 84,521 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. Nine months ended December 31, 2016 (from April 1, 2016 to December 31, 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	45,070,038	8,881,884	8,218,169	62,170,092	2,599,037	64,769,129	–	64,769,129
(2) Intersegment sales or transfers	172,922	45,642	–	218,564	458,353	676,918	(676,918)	–
Total	45,242,960	8,927,526	8,218,169	62,388,656	3,057,391	65,446,048	(676,918)	64,769,129
Segment profit (loss)	3,787,699	(192,493)	659,662	4,254,868	35,156	4,290,025	(55,581)	4,234,443

- (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 55,581 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:

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
(1) Basic earnings per share (yen)	24.65	33.97
(Basis for calculation)		
Profit attributable to owners of parent (Thousands of yen)	1,477,218	2,024,958
Amount not attributable to common shareholders (Thousands of yen)	–	–
Profit attributable to owners of parent regarding common stock (Thousands of yen)	1,477,218	2,024,958
Average number of shares of common stock outstanding during the period (Thousands of shares)	59,924	59,612
(2) Diluted earnings per share (yen)	21.58	29.72
(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.