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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 89th term

From April 1, 2017
to June 30, 2017

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, 2017	As of June 30, 2017
Assets		
Current assets		
Cash and deposits	14,508,274	14,671,733
Notes and accounts receivable - trade	23,762,379	23,115,876
Merchandise and finished goods	5,731,533	6,308,641
Work in process	558,400	657,768
Raw materials and supplies	4,823,450	5,113,837
Deferred tax assets	429,567	397,804
Other	1,133,890	1,382,858
Allowance for doubtful accounts	(129,560)	(126,875)
Total current assets	50,817,935	51,521,644
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,737,777	9,445,494
Machinery, equipment and vehicles, net	9,222,775	8,877,745
Land	6,427,165	6,410,346
Leased assets, net	22,460	27,691
Construction in progress	932,233	1,008,422
Other, net	618,154	652,257
Total property, plant and equipment	26,960,565	26,421,958
Intangible assets		
Goodwill	483,537	435,642
Leased assets	3,745	3,329
Other	2,656,002	2,505,704
Total intangible assets	3,143,285	2,944,676
Investments and other assets		
Investment securities	6,035,880	6,584,376
Long-term loans receivable	54,916	52,453
Net defined benefit asset	502,834	507,409
Deferred tax assets	230,356	219,032
Other	603,906	476,053
Allowance for doubtful accounts	(3,770)	(3,770)
Total investments and other assets	7,424,123	7,835,554
Total non-current assets	37,527,975	37,202,190
Total assets	88,345,910	88,723,834

(Thousands of yen)

	As of March 31, 2017	As of June 30, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	16,913,755	17,278,630
Short-term loans payable	*2 6,544,873	*2 6,336,827
Current portion of long-term loans payable	315,635	330,883
Lease obligations	10,231	10,987
Income taxes payable	575,041	448,059
Provision for bonuses	625,177	291,531
Provision for directors' bonuses	63,100	22,460
Other	2,529,349	3,052,326
Total current liabilities	27,577,165	27,771,705
Non-current liabilities		
Bonds payable	4,000,000	4,000,000
Long-term loans payable	4,866,068	4,795,146
Lease obligations	21,468	24,254
Deferred tax liabilities	1,159,930	1,326,773
Provision for director stock benefits	17,410	55,823
Net defined benefit liability	1,069,617	1,036,991
Asset retirement obligations	310,128	311,248
Other	127,782	141,373
Total non-current liabilities	11,572,407	11,691,610
Total liabilities	39,149,572	39,463,316
Net assets		
Shareholders' equity		
Capital stock	8,514,018	8,514,018
Capital surplus	6,670,465	6,712,663
Retained earnings	27,137,248	27,399,309
Treasury shares	(3,108,532)	(3,146,575)
Total shareholders' equity	39,213,200	39,479,416
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,785,333	3,167,704
Foreign currency translation adjustment	502,996	191,056
Remeasurements of defined benefit plans	(527,469)	(504,806)
Total accumulated other comprehensive income	2,760,859	2,853,954
Non-controlling interests	7,222,277	6,927,147
Total net assets	49,196,337	49,260,518
Total liabilities and net assets	88,345,910	88,723,834

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

(Thousands of yen)

	Three months ended June 30, 2016	Three months ended June 30, 2017
Net sales	21,274,978	22,831,088
Cost of sales	17,034,755	18,545,311
Gross profit	4,240,222	4,285,777
Selling, general and administrative expenses	2,910,941	2,953,967
Operating income	1,329,281	1,331,809
Non-operating income		
Interest income	7,761	5,785
Dividend income	53,526	63,632
Other	12,555	27,609
Total non-operating income	73,843	97,028
Non-operating expenses		
Interest expenses	24,808	46,839
Foreign exchange losses	206,181	13,314
Other	8,440	11,121
Total non-operating expenses	239,430	71,275
Ordinary income	1,163,694	1,357,562
Extraordinary income		
Gain on sales of non-current assets	—	1,014
Total extraordinary income	—	1,014
Extraordinary losses		
Loss on sales of non-current assets	—	417
Loss on retirement of non-current assets	1,402	21,653
Total extraordinary losses	1,402	22,071
Income before income taxes	1,162,292	1,336,505
Income taxes	422,765	388,429
Profit	739,526	948,075
Profit attributable to non-controlling interests	358,308	337,747
Profit attributable to owners of parent	381,218	610,328

Consolidated Statements of Comprehensive Income

(Thousands of yen)

	Three months ended June 30, 2016	Three months ended June 30, 2017
Profit	739,526	948,075
Other comprehensive income		
Valuation difference on available-for-sale securities	(178,561)	383,470
Foreign currency translation adjustment	(967,427)	(462,400)
Remeasurements of defined benefit plans, net of tax	20,596	22,808
Total other comprehensive income	(1,125,392)	(56,122)
Comprehensive income	(385,865)	891,953
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(399,757)	703,423
Comprehensive income attributable to non-controlling interests	13,892	188,530

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.

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

(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 87th Ordinary General Meeting of Shareholders held on June 24, 2016, the Company introduced a new stock-based compensation plan “Board Benefit Trust (BBT)” on September 14, 2016, for the purpose of raising awareness of Directors who execute business (excluding Directors who are Audit & Supervisory Committee Members) and Executive Officers toward their contributions to improving the mid- to long-term corporate performance and increasing the corporate value as well as making Directors who do not execute business (excluding Directors who are Audit & Supervisory Committee Members) and Directors who are Audit & Supervisory Committee Members contribute to increasing the mid- to long-term corporate value through supervision or audit.

(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 Directors etc. (Directors and Executive Officers). At the time of their retirement, the Group provides shares in the Company to the Directors etc. 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 Directors etc. in the future, a trust bank acquires the Company’s treasury shares through third-party allotment by using the money contributed by the Company. Such shares are managed as trust assets separately.

(b) Shares in the Company remaining at the trust

The shares in the Company remaining at the trust are recorded as the treasury shares in net assets 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 previous fiscal year were 209,960 thousand yen and 476 thousand shares, respectively, while those as of the end of the first quarter under review were 209,960 thousand yen and 476 thousand shares, respectively.

(c) Book value of loans payable recorded due to the application of the gross method

Not applicable.

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

For the purpose of promoting welfare benefits for employees and giving incentives pertaining to the improvement of corporate value of the Company, the Company introduced “Stock Benefit Trust (Employee Stockholding Association Purchase-type)” (hereinafter referred to as the “Plan”), pursuant to the resolution at the Board of Directors meeting held on May 24, 2017.

(a) Overview of transactions

The Plan is an 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 the Plan acquires shares in the Company that are expected to be acquired by the Stockholding Association over the five years after the establishment of the trust, 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 by the trust bank 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) Shares in the Company remaining at the trust

The shares in the Company remaining at the trust are 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 first quarter under review were 133,265 thousand yen and 242 thousand shares.

(c) Book value of loans payable recorded due to the application of the gross method

137,500 thousand yen as of the end of the first quarter under review

Notes to Consolidated Balance Sheets

1. Notes receivable endorsed

	(Thousands of yen)	
	As of March 31, 2017	As of June 30, 2017
Notes receivable endorsed	1,666	729

*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, 2017	As of June 30, 2017
Total overdraft facility limit	11,030,000	11,030,000
Outstanding borrowings within the limit	4,015,000	4,035,000
Unused balance	7,015,000	6,995,000

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, 2016	Three months ended June 30, 2017
Depreciation	737,694	813,065
Amortization of goodwill	47,894	47,894

Shareholders' Equity and Others

I. 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.

II. Three months ended June 30, 2017 (from April 1, 2017 to June 30, 2017)

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 23, 2017	Common stock	348,203	6	March 31, 2017	June 26, 2017	Retained earnings

(Note) Total dividends do not include 2,856 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, 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.

II. Three months ended June 30, 2017 (from April 1, 2017 to June 30, 2017)

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	16,007,598	3,385,054	2,521,690	21,914,344	916,744	22,831,088	–	22,831,088
(2) Intersegment sales or transfers	54,038	14,089	–	68,127	87,816	155,944	(155,944)	–
Total	16,061,637	3,399,143	2,521,690	21,982,472	1,004,560	22,987,032	(155,944)	22,831,088
Segment profit (loss)	1,164,123	11,986	196,790	1,372,900	2,462	1,375,362	(43,552)	1,331,809

- (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 43,552 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, 2016	Three months ended June 30, 2017
(1) Basic earnings per share (yen)	6.36	10.52
(Basis for calculation)		
Profit attributable to owners of parent (Thousands of yen)	381,218	610,328
Amount not attributable to common shareholders (Thousands of yen)	–	–
Profit attributable to owners of parent regarding common stock (Thousands of yen)	381,218	610,328
Average number of shares of common stock outstanding during the period (Thousands of shares)	59,968	58,035
(2) Diluted earnings per share (yen)	5.57	9.17
(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.