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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 89th term	From October 1, 2017 to December 31, 2017
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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, 2017	As of December 31, 2017
Assets		
Current assets		
Cash and deposits	14,508,274	14,209,965
Notes and accounts receivable - trade	23,762,379	*2 24,613,422
Merchandise and finished goods	5,731,533	6,669,350
Work in process	558,400	677,918
Raw materials and supplies	4,823,450	5,587,893
Deferred tax assets	429,567	416,402
Other	1,133,890	1,559,439
Allowance for doubtful accounts	(129,560)	(130,799)
Total current assets	50,817,935	53,603,591
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,737,777	9,292,925
Machinery, equipment and vehicles, net	9,222,775	9,213,100
Land	6,427,165	6,437,209
Leased assets, net	22,460	26,484
Construction in progress	932,233	1,726,749
Other, net	618,154	727,694
Total property, plant and equipment	26,960,565	27,424,164
Intangible assets		
Goodwill	483,537	339,854
Leased assets	3,745	12,994
Other	2,656,002	2,229,430
Total intangible assets	3,143,285	2,582,278
Investments and other assets		
Investment securities	6,035,880	7,193,833
Long-term loans receivable	54,916	53,571
Net defined benefit asset	502,834	565,456
Deferred tax assets	230,356	256,267
Other	603,906	832,275
Allowance for doubtful accounts	(3,770)	(3,770)
Total investments and other assets	7,424,123	8,897,633
Total non-current assets	37,527,975	38,904,077
Total assets	88,345,910	92,507,669

(Thousands of yen)

	As of March 31, 2017	As of December 31, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	16,913,755	*2 18,625,620
Short-term loans payable	*3 6,544,873	*3 6,566,673
Current portion of long-term loans payable	315,635	201,528
Lease obligations	10,231	10,369
Income taxes payable	575,041	536,273
Provision for bonuses	625,177	345,763
Provision for directors' bonuses	63,100	50,462
Other	2,529,349	3,099,965
Total current liabilities	27,577,165	29,436,655
Non-current liabilities		
Bonds payable	4,000,000	1,770,000
Long-term loans payable	4,866,068	4,709,097
Lease obligations	21,468	29,501
Deferred tax liabilities	1,159,930	1,594,786
Provision for director stock benefits	17,410	80,991
Net defined benefit liability	1,069,617	1,091,969
Asset retirement obligations	310,128	313,487
Other	127,782	134,658
Total non-current liabilities	11,572,407	9,724,492
Total liabilities	39,149,572	39,161,147
Net assets		
Shareholders' equity		
Capital stock	8,514,018	8,514,018
Capital surplus	6,670,465	7,185,682
Retained earnings	27,137,248	28,290,749
Treasury shares	(3,108,532)	(1,321,125)
Total shareholders' equity	39,213,200	42,669,326
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,785,333	3,649,162
Foreign currency translation adjustment	502,996	335,182
Remeasurements of defined benefit plans	(527,469)	(472,741)
Total accumulated other comprehensive income	2,760,859	3,511,602
Non-controlling interests	7,222,277	7,165,592
Total net assets	49,196,337	53,346,521
Total liabilities and net assets	88,345,910	92,507,669

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

(Thousands of yen)

	Nine months ended December 31, 2016	Nine months ended December 31, 2017
Net sales	64,769,129	69,678,269
Cost of sales	52,013,298	57,016,087
Gross profit	12,755,831	12,662,181
Selling, general and administrative expenses	8,521,387	8,764,632
Operating income	4,234,443	3,897,548
Non-operating income		
Interest income	23,558	19,499
Dividend income	105,518	121,640
Foreign exchange gains	—	27,096
Other	79,892	109,881
Total non-operating income	208,969	278,118
Non-operating expenses		
Interest expenses	106,522	137,115
Foreign exchange losses	30,590	—
Other	13,309	15,954
Total non-operating expenses	150,423	153,069
Ordinary income	4,292,989	4,022,597
Extraordinary income		
Gain on sales of non-current assets	2,464	5,111
Gain on sales of investment securities	—	98,096
Total extraordinary income	2,464	103,207
Extraordinary losses		
Loss on sales of non-current assets	—	5,945
Loss on retirement of non-current assets	7,567	28,025
Total extraordinary losses	7,567	33,970
Income before income taxes	4,287,886	4,091,833
Income taxes	1,268,671	1,272,940
Profit	3,019,215	2,818,892
Profit attributable to non-controlling interests	994,256	968,779
Profit attributable to owners of parent	2,024,958	1,850,113

Consolidated Statements of Comprehensive Income

(Thousands of yen)

	Nine months ended December 31, 2016	Nine months ended December 31, 2017
Profit	3,019,215	2,818,892
Other comprehensive income		
Valuation difference on available-for-sale securities	987,584	863,787
Foreign currency translation adjustment	(2,665,421)	(218,652)
Remeasurements of defined benefit plans, net of tax	61,788	47,588
Total other comprehensive income	(1,616,048)	692,723
Comprehensive income	1,403,166	3,511,616
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,334,197	2,600,856
Comprehensive income attributable to non-controlling interests	68,969	910,760

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

RIMTEC CORPORATION conducted a company split as of April 1, 2017, with RIMTEC MANUFACTURING CORPORATION, which was newly established, as the succeeding company. In addition, as of the same date, RIKEN ELASTOMERS CORPORATION conducted a company split, with REC MANUFACTURING CORPORATION, which was newly established, as the succeeding company, and at the same time, it merged RIMTEC CORPORATION and changed its trade name to RIKEN AMERICAS CORPORATION. As of the same date, REC MANUFACTURING CORPORATION changed its trade name to RIKEN ELASTOMERS CORPORATION.

As a result, the Group comprises the Company and its 21 subsidiaries as of December 31, 2017.

RIKEN ELASTOMERS CORPORATION and RIMTEC MANUFACTURING CORPORATION are included in the scope of consolidation from the second quarter, since the difference between the Company’s quarterly consolidated closing date and the two companies’ quarterly closing date does not exceed three months. RIMTEC CORPORATION is excluded from the scope of consolidation from the second quarter, as the difference exceeds three months.

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 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 third 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 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 third quarter under review were 120,285 thousand yen and 218 thousand shares, respectively.

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

124,350 thousand yen as of the end of the third quarter under review

Notes to Consolidated Balance Sheets

1. Notes receivable endorsed

	(Thousands of yen)	
	As of March 31, 2017	As of December 31, 2017
Notes receivable endorsed	1,666	569

*2. Notes maturing on the quarterly balance sheet date

When the quarterly balance sheet date falls on a holiday of financial institutions, the notes maturing on the quarterly balance sheet date will be accounted for as if they were settled on the maturity date.

The amount of notes matured on December 31, 2017 is as follows:

	(Thousands of yen)	
	As of March 31, 2017	As of December 31, 2017
Notes receivable - trade	-	705,949
Notes payable - trade	-	3,695

*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, 2017	As of December 31, 2017
Total overdraft facility limit	11,030,000	11,130,000
Outstanding borrowings within the limit	4,015,000	3,930,000
Unused balance	7,015,000	7,200,000

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, 2016	Nine months ended December 31, 2017
Depreciation	2,325,477	2,498,633
Amortization of goodwill	143,683	143,683

Shareholders' Equity and Others

I. 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.

II. Nine months ended December 31, 2017 (from April 1, 2017 to December 31, 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.

(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, 2017	Common stock	370,307	6	September 30, 2017	December 4, 2017	Retained earnings

(Note) Total dividends do not include 4,255 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, 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.

II. Nine months ended December 31, 2017 (from April 1, 2017 to December 31, 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	49,120,119	9,629,654	8,241,293	66,991,066	2,687,203	69,678,269	—	69,678,269
(2) Intersegment sales or transfers	180,856	60,734	311	241,902	744,299	986,201	(986,201)	—
Total	49,300,975	9,690,388	8,241,604	67,232,968	3,431,502	70,664,470	(986,201)	69,678,269
Segment profit (loss)	3,850,001	(242,241)	543,059	4,150,819	(58,863)	4,091,955	(194,406)	3,897,548

- (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 194,406 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, 2016	Nine months ended December 31, 2017
(1) Basic earnings per share (yen)	33.97	30.83
(Basis for calculation)		
Profit attributable to owners of parent (Thousands of yen)	2,024,958	1,850,113
Amount not attributable to common shareholders (Thousands of yen)	–	–
Profit attributable to owners of parent regarding common stock (Thousands of yen)	2,024,958	1,850,113
Average number of shares of common stock outstanding during the period (Thousands of shares)	59,612	60,011
(2) Diluted earnings per share (yen)	29.72	27.79
(Basis for calculation)		
Adjustment on profit attributable to owners of parent (Thousands of yen)	–	–
Increase in common stock (Thousands of shares)	8,528	6,562
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.