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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 90th term

From April 1, 2018
to June 30, 2018

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, 2018	As of June 30, 2018
Assets		
Current assets		
Cash and deposits	14,790,082	14,876,087
Notes and accounts receivable - trade	*2 25,200,204	*2 24,735,365
Merchandise and finished goods	6,343,924	6,971,949
Work in process	650,566	725,104
Raw materials and supplies	5,195,751	5,248,900
Other	1,316,124	1,410,247
Allowance for doubtful accounts	(112,531)	(111,294)
Total current assets	53,384,121	53,856,361
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,804,889	9,461,354
Machinery, equipment and vehicles, net	9,226,349	9,000,087
Land	6,458,132	6,407,282
Leased assets, net	28,746	26,039
Construction in progress	1,336,417	1,291,826
Other, net	741,278	703,199
Total property, plant and equipment	27,595,814	26,889,788
Intangible assets		
Goodwill	291,959	244,065
Leased assets	11,995	10,996
Other	2,147,153	1,952,814
Total intangible assets	2,451,107	2,207,875
Investments and other assets		
Investment securities	6,571,580	6,188,285
Long-term loans receivable	54,286	52,932
Net defined benefit asset	563,405	594,873
Deferred tax assets	443,347	397,305
Other	806,311	794,016
Allowance for doubtful accounts	(3,770)	(3,770)
Total investments and other assets	8,435,162	8,023,642
Total non-current assets	38,482,084	37,121,307
Total assets	91,866,206	90,977,668

(Thousands of yen)

	As of March 31, 2018		As of June 30, 2018	
Liabilities				
Current liabilities				
Notes and accounts payable - trade	*2	17,727,414	*2	17,814,896
Short-term loans payable	*3	6,490,266	*3	6,701,052
Current portion of long-term loans payable		443,906		385,099
Lease obligations		11,739		13,060
Income taxes payable		569,420		629,926
Provision for bonuses		656,720		341,888
Provision for directors' bonuses		70,422		26,017
Other		2,850,672		3,583,173
Total current liabilities		28,820,563		29,495,113
Non-current liabilities				
Bonds payable		1,170,000		1,170,000
Long-term loans payable		4,396,471		4,084,755
Lease obligations		29,452		24,405
Deferred tax liabilities		1,021,590		882,262
Provision for executive officer incentive plan trust		93,575		117,403
Net defined benefit liability		1,116,690		1,093,763
Asset retirement obligations		314,607		315,744
Other		49,054		48,897
Total non-current liabilities		8,191,441		7,737,233
Total liabilities		37,012,004		37,232,346
Net assets				
Shareholders' equity				
Capital stock		8,514,018		8,514,018
Capital surplus		7,297,981		7,297,981
Retained earnings		28,937,991		29,393,990
Treasury shares		(828,559)		(820,144)
Total shareholders' equity		43,921,432		44,385,846
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities		3,219,427		2,952,240
Foreign currency translation adjustment		442,192		(166,712)
Remeasurements of defined benefit plans		(409,332)		(390,051)
Total accumulated other comprehensive income		3,252,287		2,395,476
Non-controlling interests		7,680,481		6,963,998
Total net assets		54,854,201		53,745,321
Total liabilities and net assets		91,866,206		90,977,668

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

(Thousands of yen)

	Three months ended June 30, 2017	Three months ended June 30, 2018
Net sales	22,831,088	23,546,263
Cost of sales	18,545,311	19,142,876
Gross profit	4,285,777	4,403,387
Selling, general and administrative expenses	2,953,967	2,901,966
Operating profit	1,331,809	1,501,420
Non-operating income		
Interest income	5,785	5,391
Dividend income	63,632	70,722
Foreign exchange gains	—	47,809
Other	27,609	16,564
Total non-operating income	97,028	140,488
Non-operating expenses		
Interest expenses	46,839	48,752
Foreign exchange losses	13,314	—
Other	11,121	1,739
Total non-operating expenses	71,275	50,491
Ordinary profit	1,357,562	1,591,416
Extraordinary income		
Gain on sales of non-current assets	1,014	2,965
Total extraordinary income	1,014	2,965
Extraordinary losses		
Loss on sales of non-current assets	417	19
Loss on retirement of non-current assets	21,653	11,725
Total extraordinary losses	22,071	11,745
Profit before income taxes	1,336,505	1,582,637
Income taxes	388,429	380,697
Profit	948,075	1,201,940
Profit attributable to non-controlling interests	337,747	352,429
Profit attributable to owners of parent	610,328	849,510

Consolidated Statements of Comprehensive Income

(Thousands of yen)

	Three months ended June 30, 2017	Three months ended June 30, 2018
Profit	948,075	1,201,940
Other comprehensive income		
Valuation difference on available-for-sale securities	383,470	(267,359)
Foreign currency translation adjustment	(462,400)	(963,630)
Remeasurements of defined benefit plans, net of tax	22,808	19,280
Total other comprehensive income	(56,122)	(1,211,709)
Comprehensive income	891,953	(9,769)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	703,423	(7,300)
Comprehensive income attributable to non-controlling interests	188,530	(2,469)

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 profit before income taxes for the fiscal year including the first quarter under review, and next by multiplying profit 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 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 115,390 thousand yen and 209 thousand shares, respectively, while those as of the end of the first quarter under review were 106,975 thousand yen and 194 thousand shares, respectively.

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

109,913 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, 2018	As of June 30, 2018
Notes receivable endorsed	1,110	1,564

*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 June 30, 2018 is as follows:

	(Thousands of yen)	
	As of March 31, 2018	As of June 30, 2018
Notes receivable - trade	862,874	843,016
Notes payable - trade	1,789	1,607

*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, 2018	As of June 30, 2018
Total overdraft facility limit	11,130,000	11,130,000
Outstanding borrowings within the limit	3,927,500	4,115,000
Unused balance	7,202,500	7,015,000

Notes to Consolidated Statements of Income

Not applicable.

Notes to Consolidated Statements of Cash Flows

The consolidated statements of cash flows for the 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, 2017	Three months ended June 30, 2018
Depreciation	813,065	861,806
Amortization of goodwill	47,894	47,894

Shareholders' Equity and Others

I. 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.

II. Three months ended June 30, 2018 (from April 1, 2018 to June 30, 2018)

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 22, 2018	Common stock	384,647	6	March 31, 2018	June 25, 2018	Retained earnings

(Note) Total dividends do not include 4,115 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, 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)
- 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.
 - The adjustment to segment profit (loss) represents negative 43,552 thousand yen in inter-segment eliminations.
 - Segment profit (loss) is adjusted to operating profit 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, 2018 (from April 1, 2018 to June 30, 2018)

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	16,526,275	3,582,610	2,453,821	22,562,707	983,556	23,546,263	—	23,546,263
(2) Intersegment sales or transfers	63,672	13,537	84	77,294	130,255	207,549	(207,549)	—
Total	16,589,947	3,596,148	2,453,905	22,640,001	1,113,811	23,753,813	(207,549)	23,546,263
Segment profit (loss)	1,276,388	129,171	102,822	1,508,382	21,103	1,529,485	(28,065)	1,501,420

- (Notes)
- 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.
 - The adjustment to segment profit (loss) represents negative 28,065 thousand yen in inter-segment eliminations.
 - Segment profit (loss) is adjusted to operating profit 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, 2017	Three months ended June 30, 2018
(1) Basic earnings per share (yen)	10.52	13.25
(Basis for calculation)		
Profit attributable to owners of parent (Thousands of yen)	610,328	849,510
Amount not attributable to common shareholders (Thousands of yen)	–	–
Profit attributable to owners of parent regarding common stock (Thousands of yen)	610,328	849,510
Average number of shares of common stock outstanding during the period (Thousands of shares)	58,035	64,114
(2) Diluted earnings per share (yen)	9.17	12.75
(Basis for calculation)		
Adjustment on profit attributable to owners of parent (Thousands of yen)	–	–
Increase in common stock (Thousands of shares)	8,528	2,494
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.