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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 91st term

From April 1, 2019
to June 30, 2019

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, 2019	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	17,550,326	17,938,729
Notes and accounts receivable - trade	*2 26,020,053	*2 25,275,857
Merchandise and finished goods	6,918,874	7,443,076
Work in process	785,762	774,463
Raw materials and supplies	5,222,601	5,541,047
Other	1,408,509	1,486,273
Allowance for doubtful accounts	(96,701)	(94,527)
Total current assets	57,809,424	58,364,920
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	10,122,379	10,454,369
Machinery, equipment and vehicles, net	9,543,445	10,036,716
Land	6,409,088	6,437,434
Leased assets, net	36,105	32,597
Construction in progress	699,155	224,671
Other, net	702,593	690,346
Total property, plant and equipment	27,512,767	27,876,136
Intangible assets		
Goodwill	100,221	55,567
Leased assets	7,998	6,999
Other	1,696,276	1,594,076
Total intangible assets	1,804,497	1,656,644
Investments and other assets		
Investment securities	5,734,433	5,645,110
Long-term loans receivable	48,255	47,058
Retirement benefit asset	565,739	592,341
Deferred tax assets	421,434	427,904
Other	1,315,119	1,162,015
Allowance for doubtful accounts	(3,770)	(3,770)
Total investments and other assets	8,081,213	7,870,660
Total non-current assets	37,398,478	37,403,441
Total assets	95,207,902	95,768,361

(Thousands of yen)

	As of March 31, 2019		As of June 30, 2019	
Liabilities				
Current liabilities				
Notes and accounts payable - trade	*2	18,306,323	*2	18,146,315
Short-term borrowings	*3	8,144,431	*3	8,484,685
Current portion of long-term borrowings		712,703		691,206
Current portion of bonds		800,000		800,000
Lease obligations		15,572		13,325
Income taxes payable		712,389		449,092
Provision for bonuses		677,135		376,648
Provision for bonuses for directors (and other officers)		103,007		21,911
Other		2,505,573		3,632,874
Total current liabilities		31,977,136		32,616,058
Non-current liabilities				
Long-term borrowings		4,120,063		3,949,593
Lease obligations		30,691		28,428
Deferred tax liabilities		944,178		977,927
Provision for retirement benefits for directors (and other officers)		141,291		116,766
Provision for share-based remuneration for directors (and other officers)		158,100		173,038
Retirement benefit liability		959,810		988,268
Asset retirement obligations		323,044		324,203
Other		75,117		75,511
Total non-current liabilities		6,752,298		6,633,738
Total liabilities		38,729,434		39,249,796
Net assets				
Shareholders' equity				
Share capital		8,514,018		8,514,018
Capital surplus		7,371,821		7,371,821
Retained earnings		31,223,798		31,418,438
Treasury shares		(488,720)		(478,349)
Total shareholders' equity		46,620,918		46,825,928
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities		2,571,083		2,500,627
Foreign currency translation adjustment		44,410		192,220
Remeasurements of defined benefit plans		(294,312)		(270,720)
Total accumulated other comprehensive income		2,321,182		2,422,127
Non-controlling interests		7,536,367		7,270,508
Total net assets		56,478,468		56,518,564
Total liabilities and net assets		95,207,902		95,768,361

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

(Thousands of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019
Net sales	23,546,263	24,555,035
Cost of sales	19,142,876	20,109,719
Gross profit	4,403,387	4,445,315
Selling, general and administrative expenses	2,901,966	3,066,943
Operating profit	1,501,420	1,378,371
Non-operating income		
Interest income	5,391	11,928
Dividend income	70,722	73,334
Foreign exchange gains	47,809	—
Other	16,564	43,297
Total non-operating income	140,488	128,561
Non-operating expenses		
Interest expenses	48,752	63,060
Foreign exchange losses	—	33,640
Other	1,739	13,720
Total non-operating expenses	50,491	110,421
Ordinary profit	1,591,416	1,396,511
Extraordinary income		
Gain on sales of non-current assets	2,965	2,019
Gain on sales of investment securities	—	18,800
Total extraordinary income	2,965	20,819
Extraordinary losses		
Loss on sales of non-current assets	19	2,190
Loss on retirement of non-current assets	11,725	2,092
Total extraordinary losses	11,745	4,282
Profit before income taxes	1,582,637	1,413,049
Income taxes	380,697	393,555
Profit	1,201,940	1,019,493
Profit attributable to non-controlling interests	352,429	294,246
Profit attributable to owners of parent	849,510	725,247

Consolidated Statements of Comprehensive Income

(Thousands of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019
Profit	1,201,940	1,019,493
Other comprehensive income		
Valuation difference on available-for-sale securities	(267,359)	(69,976)
Foreign currency translation adjustment	(963,630)	259,795
Remeasurements of defined benefit plans, net of tax	19,280	23,592
Total other comprehensive income	(1,211,709)	213,410
Comprehensive income	(9,769)	1,232,904
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(7,300)	826,192
Comprehensive income attributable to non-controlling interests	(2,469)	406,712

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 206,299 thousand yen and 467 thousand shares, respectively, while those as of the end of the first quarter under review were 206,299 thousand yen and 467 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 79,750 thousand yen and 145 thousand shares, respectively, while those as of the end of the first quarter under review were 69,355 thousand yen and 126 thousand shares, respectively.

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

77,201 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, 2019	As of June 30, 2019
Notes receivable endorsed	2,215	654

*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, 2019 is as follows:

	(Thousands of yen)	
	As of March 31, 2019	As of June 30, 2019
Notes receivable - trade	905,865	734,437
Notes payable - trade	3,678	3,153

*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, 2019	As of June 30, 2019
Total overdraft facility limit	12,180,000	12,180,000
Outstanding borrowings within the limit	4,715,000	4,845,000
Unused balance	7,465,000	7,335,000

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, 2018	Three months ended June 30, 2019
Depreciation	861,806	879,607
Amortization of goodwill	47,894	44,654

Shareholders' Equity and Others

I. 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.

II. Three months ended June 30, 2019 (from April 1, 2019 to June 30, 2019)

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 21, 2019	Common stock	519,756	8	March 31, 2019	June 24, 2019	Retained earnings

(Note) Total dividends do not include 4,902 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, 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)
	TR	DH	EL	BC	Total				
Net sales									
(1) Sales to external customers	7,385,729	5,905,081	5,279,534	4,943,308	23,513,654	32,609	23,546,263	—	23,546,263
(2) Intersegment sales or transfers	—	—	—	9,594	9,594	60,648	70,243	(70,243)	—
Total	7,385,729	5,905,081	5,279,534	4,952,903	23,523,249	93,257	23,616,507	(70,243)	23,546,263
Segment profit (loss)	736,130	438,034	197,046	108,700	1,479,912	65	1,479,977	21,442	1,501,420

- (Notes) 1. The “Other” category is the business segment that is not included in the reportable segments, and represents the purchase, sales, etc. of raw materials.
2. The adjustment to segment profit (loss) represents 21,442 thousand yen in inter-segment eliminations.
3. 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, 2019 (from April 1, 2019 to June 30, 2019)

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)
	TR	DH	EL	BC	Total				
Net sales									
(1) Sales to external customers	7,550,152	5,726,647	5,359,323	5,880,065	24,516,188	38,846	24,555,035	—	24,555,035
(2) Intersegment sales or transfers	—	—	—	7,876	7,876	149,323	157,200	(157,200)	—
Total	7,550,152	5,726,647	5,359,323	5,887,942	24,524,065	188,170	24,712,235	(157,200)	24,555,035
Segment profit (loss)	618,179	398,848	186,117	174,505	1,377,651	11,854	1,389,505	(11,133)	1,378,371

- (Notes) 1. The “Other” category is the business segment that is not included in the reportable segments, and represents the purchase, sales, etc. of raw materials.
2. The adjustment to segment profit (loss) represents negative 11,133 thousand yen in inter-segment eliminations.
3. 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.

3. Matters related to changes in reportable segments

The Group has restructured into an organization suitable for the global market, in order to execute the strategy of the new mid-term management plan launched from the current fiscal year and to accurately capture the market needs which are changing at a faster pace than ever.

In conjunction with this organizational change, starting from the first quarter under review, we have revised the business segment classification system, with the reportable segments changing from the previous product-based segments of “compound,” “film,” and “food wrapping film” to the market-based segments of “transportation,” “daily life & healthcare,” “electronics,” and “building & construction.”

The segment information for the first quarter of the previous fiscal year contained in this report was prepared using the new classification system.

The name, abbreviation, and main markets of each respective reportable segment are as follows:

Transportation (TR): automobile, railroad, and shipping markets, etc.

Daily Life & Healthcare (DH): healthcare, materials for daily life, and food wrapping film markets, etc.

Electronics (EL): energy, communications, and IT equipment markets, etc.

Building & Construction (BC): housing, buildings, construction materials, and civil engineering markets)

(Note) The terms in parentheses are abbreviations for the reportable segments.

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, 2018	Three months ended June 30, 2019
(1) Basic earnings per share (yen)	13.25	11.16
(Basis for calculation)		
Profit attributable to owners of parent (Thousands of yen)	849,510	725,247
Amount not attributable to common shareholders (Thousands of yen)	–	–
Profit attributable to owners of parent regarding common stock (Thousands of yen)	849,510	725,247
Average number of shares of common stock outstanding during the period (Thousands of shares)	64,114	64,976
(2) Diluted earnings per share (yen)	12.75	10.88
(Basis for calculation)		
Adjustment on profit attributable to owners of parent (Thousands of yen)	–	–
Increase in common stock (Thousands of shares)	2,494	1,705
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 July 31, 2019, the Company decided on matters related to the acquisition of treasury shares, based on the provisions of Article 156 of the Companies Act as applied mutatis mutandis pursuant to the provisions of Article 165, Paragraph 3 of the Act.

1. Reason

To increase capital efficiency by executing a flexible capital strategy that can deal with changes in our operating environment, and thereby, contribute to shareholder return.

2. Type of shares acquired: common stock

3. Number of shares acquired: 2,800 thousand shares (maximum)

4. Total amount of acquisition: 1,680,000 thousand yen (maximum)

5. Period of acquisition: August 7, 2019 to October 31, 2019