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Quarterly Consolidated Financial Statements

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

Second quarter of
the 91st term

From April 1, 2019
to September 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 September 30, 2019
Assets		
Current assets		
Cash and deposits	17,550,326	18,446,739
Notes and accounts receivable - trade	*2 26,020,053	*2 24,334,408
Merchandise and finished goods	6,918,874	7,245,062
Work in process	785,762	766,965
Raw materials and supplies	5,222,601	5,232,802
Other	1,408,509	1,228,182
Allowance for doubtful accounts	(96,701)	(89,129)
Total current assets	57,809,424	57,165,031
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	10,122,379	10,206,837
Machinery, equipment and vehicles, net	9,543,445	9,751,306
Land	6,409,088	6,429,288
Leased assets, net	36,105	29,667
Construction in progress	699,155	259,916
Other, net	702,593	698,422
Total property, plant and equipment	27,512,767	27,375,438
Intangible assets		
Goodwill	100,221	10,912
Leased assets	7,998	6,417
Other	1,696,276	1,484,701
Total intangible assets	1,804,497	1,502,031
Investments and other assets		
Investment securities	5,734,433	5,945,102
Long-term loans receivable	48,255	44,779
Retirement benefit asset	565,739	622,249
Deferred tax assets	421,434	413,899
Other	1,315,119	1,038,025
Allowance for doubtful accounts	(3,770)	(3,770)
Total investments and other assets	8,081,213	8,060,286
Total non-current assets	37,398,478	36,937,755
Total assets	95,207,902	94,102,787

(Thousands of yen)

	As of March 31, 2019	As of September 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	*2 18,306,323	17,350,200
Short-term borrowings	*3 8,144,431	*3 7,761,712
Current portion of long-term borrowings	712,703	630,610
Current portion of bonds	800,000	800,000
Lease obligations	15,572	11,361
Income taxes payable	712,389	609,802
Provision for bonuses	677,135	686,221
Provision for bonuses for directors (and other officers)	103,007	45,877
Other	2,505,573	2,941,817
Total current liabilities	31,977,136	30,837,602
Non-current liabilities		
Long-term borrowings	4,120,063	3,703,690
Lease obligations	30,691	26,479
Deferred tax liabilities	944,178	1,048,983
Provision for retirement benefits for directors (and other officers)	141,291	121,578
Provision for share-based remuneration for directors (and other officers)	158,100	158,641
Retirement benefit liability	959,810	1,033,922
Asset retirement obligations	323,044	325,361
Other	75,117	75,366
Total non-current liabilities	6,752,298	6,494,023
Total liabilities	38,729,434	37,331,625
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	32,131,000
Treasury shares	(488,720)	(1,094,213)
Total shareholders' equity	46,620,918	46,922,627
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,571,083	2,738,024
Foreign currency translation adjustment	44,410	(79,420)
Remeasurements of defined benefit plans	(294,312)	(247,128)
Total accumulated other comprehensive income	2,321,182	2,411,476
Non-controlling interests	7,536,367	7,437,057
Total net assets	56,478,468	56,771,161
Total liabilities and net assets	95,207,902	94,102,787

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

(Thousands of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Net sales	47,252,772	49,541,346
Cost of sales	38,692,717	40,673,579
Gross profit	8,560,055	8,867,766
Selling, general and administrative expenses	*1 5,854,095	*1 6,114,550
Operating profit	2,705,960	2,753,216
Non-operating income		
Interest income	17,624	24,858
Dividend income	78,594	84,975
Foreign exchange gains	47,412	—
Other	45,257	99,643
Total non-operating income	188,889	209,476
Non-operating expenses		
Interest expenses	102,373	120,998
Foreign exchange losses	—	34,071
Other	14,587	36,712
Total non-operating expenses	116,961	191,782
Ordinary profit	2,777,888	2,770,911
Extraordinary income		
Gain on sales of non-current assets	3,433	1,994
Gain on sales of investment securities	292,203	56,779
Total extraordinary income	295,637	58,774
Extraordinary losses		
Loss on sales of non-current assets	—	2,313
Loss on retirement of non-current assets	12,621	8,016
Environmental expenses	25,587	—
Other	—	1,000
Total extraordinary losses	38,208	11,330
Profit before income taxes	3,035,317	2,818,355
Income taxes	772,740	812,096
Profit	2,262,577	2,006,258
Profit attributable to non-controlling interests	655,781	573,369
Profit attributable to owners of parent	1,606,796	1,432,888

Consolidated Statements of Comprehensive Income

(Thousands of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Profit	2,262,577	2,006,258
Other comprehensive income		
Valuation difference on available-for-sale securities	(3,993)	167,068
Foreign currency translation adjustment	(754,868)	(124,075)
Remeasurements of defined benefit plans, net of tax	38,560	47,184
Total other comprehensive income	(720,300)	90,177
Comprehensive income	1,542,276	2,096,435
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,186,438	1,523,182
Comprehensive income attributable to non-controlling interests	355,838	573,253

(3) Consolidated Statements of Cash Flows

(Thousands of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Cash flows from operating activities		
Profit before income taxes	3,035,317	2,818,355
Depreciation	1,749,930	1,817,877
Amortization of goodwill	95,788	89,308
Increase (decrease) in provision for bonuses	(9,114)	10,403
Increase (decrease) in provision for bonuses for directors (and other officers)	(15,558)	(57,130)
Increase (decrease) in allowance for doubtful accounts	(2,060)	(1,526)
Increase (decrease) in retirement benefit liability	35,458	86,384
Increase (decrease) in provision for share-based remuneration for directors (and other officers)	34,874	540
Increase (decrease) in provision for retirement benefits for directors (and other officers)	–	(19,712)
Interest and dividend income	(96,219)	(109,833)
Interest expenses	102,373	120,998
Loss (gain) on sales of investment securities	(292,203)	(56,779)
Loss (gain) on sales of property, plant and equipment	(3,433)	318
Loss on retirement of property, plant and equipment	12,621	8,016
Decrease (increase) in trade receivables	86,951	1,643,867
Decrease (increase) in inventories	(598,823)	(372,745)
Increase (decrease) in trade payables	593,459	(926,544)
Increase (decrease) in accrued consumption taxes	69,121	(92,878)
Other, net	168,666	135,982
Subtotal	4,967,149	5,094,902
Interest and dividends received	95,064	110,639
Interest paid	(97,746)	(122,543)
Income taxes paid	(615,385)	(897,546)
Net cash provided by (used in) operating activities	4,349,081	4,185,452
Cash flows from investing activities		
Payments into time deposits	(18,076)	(25,282)
Proceeds from withdrawal of time deposits	127,246	18,077
Purchase of property, plant and equipment	(2,343,781)	(985,370)
Proceeds from sales of property, plant and equipment	3,507	2,271
Purchase of intangible assets	(12,976)	(69,899)
Purchase of investment securities	(196)	(951)
Proceeds from sales of investment securities	243,866	97,040
Collection of loans receivable	2,527	2,472
Proceeds from refund of guarantee deposits	–	148,229
Other, net	(2,659)	109,608
Net cash provided by (used in) investing activities	(2,000,542)	(703,804)

(Thousands of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	507,842	(355,039)
Repayments of long-term borrowings	(204,366)	(387,117)
Repayments of lease obligations	(10,341)	(8,423)
Proceeds from sales of treasury shares	15,502	19,360
Purchase of treasury shares	(3)	(644,521)
Dividends paid	(383,785)	(518,597)
Dividends paid to non-controlling interests	(711,054)	(670,021)
Net cash provided by (used in) financing activities	(786,207)	(2,564,360)
Effect of exchange rate change on cash and cash equivalents	(198,840)	(28,079)
Net increase (decrease) in cash and cash equivalents	1,363,492	889,208
Cash and cash equivalents at beginning of period	14,655,955	17,036,114
Cash and cash equivalents at end of period	*1 16,019,447	*1 17,925,323

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 second 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 second quarter under review were 186,631 thousand yen and 423 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 second quarter under review were 60,390 thousand yen and 109 thousand shares, respectively.

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

65,025 thousand yen as of the end of the second quarter under review

Notes to Consolidated Balance Sheets

1. Notes receivable endorsed

	(Thousands of yen)	
	As of March 31, 2019	As of September 30, 2019
Notes receivable endorsed	2,215	828

*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 September 30, 2019 is as follows:

	(Thousands of yen)	
	As of March 31, 2019	As of September 30, 2019
Notes receivable - trade	905,865	52,045
Notes payable - trade	3,678	—

*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 September 30, 2019
Total overdraft facility limit	12,180,000	12,180,000
Outstanding borrowings within the limit	4,715,000	4,865,000
Unused balance	7,465,000	7,315,000

Notes to Consolidated Statements of Income

*1. Main components of selling, general and administrative expenses

Main components of selling, general and administrative expenses are as follows:

	(Thousands of yen)	
	Six months ended September 30, 2018	Six months ended September 30, 2019
Freightage expenses	1,496,087	1,503,401
Salaries and bonuses	1,042,544	1,177,816
Provision for bonuses	158,302	152,432
Provision for bonuses for directors (and other officers)	54,864	45,877
Retirement benefit expenses	119,047	126,250
Provision for share-based remuneration for directors (and other officers)	40,632	30,751
Provision of allowance for doubtful accounts	(1,971)	(7,471)
Research and development expenses	528,414	559,468

Notes to Consolidated Statements of Cash Flows

*1. Reconciliation between “Cash and cash equivalents at end of period” in the consolidated statements of cash flows and “Cash and deposits” in the consolidated balance sheets

	(Thousands of yen)	
	Six months ended September 30, 2018	Six months ended September 30, 2019
Cash and deposits	16,040,524	18,446,739
Time deposits with maturities over 3 months	(21,076)	(521,416)
Cash and cash equivalents	16,019,447	17,925,323

Shareholders' Equity and Others

I. Six months ended September 30, 2018 (from April 1, 2018 to September 30, 2018)

1. 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.

2. Dividends whose cut-off date is in the six-month period ended September 30, 2018 and whose effective date is after the end of the second quarter ended September 30, 2018

(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 October 31, 2018	Common stock	387,039	6	September 30, 2018	December 3, 2018	Retained earnings

(Note) Total dividends do not include 3,898 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. Six months ended September 30, 2019 (from April 1, 2019 to September 30, 2019)

1. 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.

2. Dividends whose cut-off date is in the six-month period under review and whose effective date is after the end of the second quarter under review

(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 October 31, 2019	Common stock	509,998	8	September 30, 2019	November 28, 2019	Retained earnings

(Note) Total dividends do not include 4,264 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. Six months ended September 30, 2018 (from April 1, 2018 to September 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	14,888,906	11,731,993	10,410,717	9,853,593	46,885,210	367,561	47,252,772	—	47,252,772
(2) Intersegment sales or transfers	—	—	—	15,598	15,598	492,305	507,903	(507,903)	—
Total	14,888,906	11,731,993	10,410,717	9,869,191	46,900,808	859,867	47,760,676	(507,903)	47,252,772
Segment profit (loss)	1,452,025	881,773	247,109	99,586	2,680,495	28,714	2,709,209	(3,249)	2,705,960

- (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 3,249 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. Six months ended September 30, 2019 (from April 1, 2019 to September 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	14,941,108	11,632,740	10,769,180	11,913,359	49,256,387	284,958	49,541,346	—	49,541,346
(2) Intersegment sales or transfers	—	—	27	—	27	307,922	307,950	(307,950)	—
Total	14,941,108	11,632,740	10,769,208	11,913,359	49,256,415	592,881	49,849,296	(307,950)	49,541,346
Segment profit (loss)	1,398,538	727,658	331,356	279,631	2,737,184	1,991	2,739,175	14,040	2,753,216

- (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 14,040 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 ended June 30, 2019, 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 second 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.

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:

	Six months ended September 30, 2018	Six months ended September 30, 2019
(1) Basic earnings per share (yen)	25.04	22.15
(Basis for calculation)		
Profit attributable to owners of parent (Thousands of yen)	1,606,796	1,432,888
Amount not attributable to common shareholders (Thousands of yen)	–	–
Profit attributable to owners of parent regarding common stock (Thousands of yen)	1,606,796	1,432,888
Average number of shares of common stock outstanding during the period (Thousands of shares)	64,174	64,684
(2) Diluted earnings per share (yen)	24.12	21.58
(Basis for calculation)		
Adjustment on profit attributable to owners of parent (Thousands of yen)	–	–
Increase in common stock (Thousands of shares)	2,442	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

Not applicable.