

Note: This is an excerpt translation of the “Shihanki-Houkokusho” for the convenience of overseas stakeholders. In cases where any differences occur between the English version and the original Japanese version, the Japanese version shall prevail. RIKEN TECHNOS CORPORATION assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising from the translation.

Quarterly Consolidated Financial Statements

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

Third quarter of
the 91st term

From April 1, 2019
to December 31, 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 December 31, 2019
Assets		
Current assets		
Cash and deposits	17,550,326	16,259,493
Notes and accounts receivable - trade	*2 26,020,053	*2 24,762,918
Merchandise and finished goods	6,918,874	7,147,771
Work in process	785,762	776,127
Raw materials and supplies	5,222,601	5,101,357
Other	1,408,509	1,377,863
Allowance for doubtful accounts	(96,701)	(86,117)
Total current assets	57,809,424	55,339,415
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	10,122,379	10,048,777
Machinery, equipment and vehicles, net	9,543,445	9,579,894
Land	6,409,088	6,433,793
Leased assets, net	36,105	29,818
Construction in progress	699,155	306,880
Other, net	702,593	650,900
Total property, plant and equipment	27,512,767	27,050,063
Intangible assets		
Goodwill	100,221	793,882
Leased assets	7,998	5,834
Other	1,696,276	1,374,034
Total intangible assets	1,804,497	2,173,751
Investments and other assets		
Investment securities	5,734,433	6,320,489
Long-term loans receivable	48,255	43,219
Retirement benefit asset	565,739	649,288
Deferred tax assets	421,434	433,841
Other	1,315,119	1,039,889
Allowance for doubtful accounts	(3,770)	(3,770)
Total investments and other assets	8,081,213	8,482,958
Total non-current assets	37,398,478	37,706,773
Total assets	95,207,902	93,046,188

(Thousands of yen)

	As of March 31, 2019		As of December 31, 2019	
Liabilities				
Current liabilities				
Notes and accounts payable - trade	*2	18,306,323	*2	17,473,615
Short-term borrowings	*3	8,144,431	*3	7,481,816
Current portion of long-term borrowings		712,703		601,792
Current portion of bonds		800,000		800,000
Lease obligations		15,572		9,908
Income taxes payable		712,389		380,008
Provision for bonuses		677,135		369,797
Provision for bonuses for directors (and other officers)		103,007		57,580
Other		2,505,573		2,829,972
Total current liabilities		31,977,136		30,004,491
Non-current liabilities				
Long-term borrowings		4,120,063		3,563,241
Lease obligations		30,691		27,223
Deferred tax liabilities		944,178		1,216,938
Provision for retirement benefits for directors (and other officers)		141,291		126,391
Provision for share-based remuneration for directors (and other officers)		158,100		168,204
Retirement benefit liability		959,810		1,063,012
Asset retirement obligations		323,044		326,520
Other		75,117		91,099
Total non-current liabilities		6,752,298		6,582,632
Total liabilities		38,729,434		36,587,124
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		32,416,316
Treasury shares		(488,720)		(1,790,419)
Total shareholders' equity		46,620,918		46,511,737
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities		2,571,083		3,011,367
Foreign currency translation adjustment		44,410		(68,399)
Remeasurements of defined benefit plans		(294,312)		(223,536)
Total accumulated other comprehensive income		2,321,182		2,719,431
Non-controlling interests		7,536,367		7,227,895
Total net assets		56,478,468		56,459,064
Total liabilities and net assets		95,207,902		93,046,188

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

(Thousands of yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Net sales	71,781,070	74,132,526
Cost of sales	58,855,026	60,842,002
Gross profit	12,926,043	13,290,524
Selling, general and administrative expenses	8,787,885	9,222,414
Operating profit	4,138,158	4,068,109
Non-operating income		
Interest income	25,797	36,818
Dividend income	140,600	151,363
Foreign exchange gains	—	18,898
Other	95,104	148,523
Total non-operating income	261,501	355,602
Non-operating expenses		
Interest expenses	157,812	176,340
Foreign exchange losses	4,491	—
Other	9,474	53,927
Total non-operating expenses	171,778	230,267
Ordinary profit	4,227,881	4,193,444
Extraordinary income		
Gain on sales of non-current assets	3,390	4,991
Gain on sales of investment securities	292,203	71,324
Gain on bargain purchase	19,487	—
Total extraordinary income	315,082	76,315
Extraordinary losses		
Loss on sales of non-current assets	1,408	2,504
Loss on retirement of non-current assets	21,811	12,205
Environmental expenses	25,587	—
Total extraordinary losses	48,807	14,709
Profit before income taxes	4,494,156	4,255,050
Income taxes	1,166,019	1,170,249
Profit	3,328,136	3,084,801
Profit attributable to non-controlling interests	966,505	856,636
Profit attributable to owners of parent	2,361,631	2,228,164

Consolidated Statements of Comprehensive Income

(Thousands of yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Profit	3,328,136	3,084,801
Other comprehensive income		
Valuation difference on available-for-sale securities	(807,100)	440,581
Foreign currency translation adjustment	(237,568)	(88,502)
Remeasurements of defined benefit plans, net of tax	57,841	70,776
Total other comprehensive income	(986,827)	422,854
Comprehensive income	2,341,309	3,507,656
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,463,879	2,626,413
Comprehensive income attributable to non-controlling interests	877,429	881,242

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 third 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 third quarter under review were 186,631 thousand yen and 423 thousand shares, respectively.

(c) Book value of borrowings 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 third quarter under review were 47,190 thousand yen and 85 thousand shares, respectively.

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

59,140 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, 2019	As of December 31, 2019
Notes receivable endorsed	2,215	1,935

*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, 2019 is as follows:

	(Thousands of yen)	
	As of March 31, 2019	As of December 31, 2019
Notes receivable - trade	905,865	648,568
Notes payable - trade	3,678	2,778

*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 December 31, 2019
Total overdraft facility limit	12,180,000	12,180,000
Outstanding borrowings within the limit	4,715,000	4,715,000
Unused balance	7,465,000	7,465,000

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, 2018	Nine months ended December 31, 2019
Depreciation	2,672,339	2,875,373
Amortization of goodwill	151,147	106,339

Shareholders' Equity and Others

I. Nine months ended December 31, 2018 (from April 1, 2018 to December 31, 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.

(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. Nine months ended December 31, 2019 (from April 1, 2019 to December 31, 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.

(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. Nine months ended December 31, 2018 (from April 1, 2018 to December 31, 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	22,762,383	17,859,364	15,662,711	14,988,927	71,273,387	507,683	71,781,070	—	71,781,070
(2) Intersegment sales or transfers	—	—	—	22,901	22,901	566,103	589,005	(589,005)	—
Total	22,762,383	17,859,364	15,662,711	15,011,828	71,296,289	1,073,787	72,370,076	(589,005)	71,781,070
Segment profit (loss)	2,298,372	1,199,585	298,694	282,467	4,079,119	38,897	4,118,017	20,141	4,138,158

(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 20,141 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. Nine months ended December 31, 2019 (from April 1, 2019 to December 31, 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	22,373,857	17,906,683	15,749,578	17,697,777	73,727,897	404,629	74,132,526	—	74,132,526
(2) Intersegment sales or transfers	—	40	5,033	—	5,073	364,856	369,929	(369,929)	—
Total	22,373,857	17,906,724	15,754,612	17,697,777	73,732,971	769,485	74,502,456	(369,929)	74,132,526
Segment profit (loss)	2,067,771	1,288,263	242,906	431,027	4,029,969	(2,361)	4,027,608	40,501	4,068,109

(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 40,501 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

Information has been omitted because the amount is of minor significance.

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 third 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:

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
(1) Basic earnings per share (yen)	36.67	34.84
(Basis for calculation)		
Profit attributable to owners of parent (Thousands of yen)	2,361,631	2,228,164
Amount not attributable to common shareholders (Thousands of yen)	–	–
Profit attributable to owners of parent regarding common stock (Thousands of yen)	2,361,631	2,228,164
Average number of shares of common stock outstanding during the period (Thousands of shares)	64,405	63,957
(2) Diluted earnings per share (yen)	35.45	33.93
(Basis for calculation)		
Adjustment on profit attributable to owners of parent (Thousands of yen)	–	–
Increase in common stock (Thousands of shares)	2,221	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.