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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 92nd term

From April 1, 2020
to June 30, 2020

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, 2020	As of June 30, 2020
Assets		
Current assets		
Cash and deposits	18,342,206	18,674,646
Notes and accounts receivable - trade	24,398,163	21,760,625
Merchandise and finished goods	6,474,606	6,577,283
Work in process	788,560	862,513
Raw materials and supplies	4,720,146	4,917,432
Other	1,168,234	1,290,606
Allowance for doubtful accounts	(84,898)	(84,686)
Total current assets	55,807,020	53,998,421
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	10,106,727	9,721,058
Machinery, equipment and vehicles, net	9,457,101	8,966,756
Land	6,354,579	6,252,902
Leased assets, net	26,913	24,009
Construction in progress	287,737	282,480
Other, net	669,943	618,002
Total property, plant and equipment	26,903,003	25,865,210
Intangible assets		
Goodwill	743,518	693,154
Leased assets	5,251	4,668
Other	1,266,508	1,947,294
Total intangible assets	2,015,278	2,645,117
Investments and other assets		
Investment securities	5,182,750	5,821,674
Long-term loans receivable	44,218	41,930
Retirement benefit asset	512,807	517,899
Deferred tax assets	508,798	364,920
Other	898,773	897,285
Allowance for doubtful accounts	(3,770)	(3,770)
Total investments and other assets	7,143,578	7,639,940
Total non-current assets	36,061,860	36,150,268
Total assets	91,868,881	90,148,690

(Thousands of yen)

	As of March 31, 2020	As of June 30, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	16,479,773	15,683,098
Short-term borrowings	*2 7,324,167	*2 7,300,311
Current portion of long-term borrowings	614,308	594,963
Lease obligations	15,252	12,812
Income taxes payable	423,546	408,352
Provision for bonuses	596,165	272,844
Provision for bonuses for directors (and other officers)	72,077	20,531
Other	2,387,202	3,267,578
Total current liabilities	27,912,493	27,560,493
Non-current liabilities		
Long-term borrowings	3,458,857	3,287,047
Lease obligations	18,528	17,257
Deferred tax liabilities	1,042,985	1,140,716
Provision for retirement benefits for directors (and other officers)	86,841	—
Provision for share-based remuneration for directors (and other officers)	178,922	184,257
Retirement benefit liability	1,134,958	1,056,131
Asset retirement obligations	327,678	328,855
Other	120,798	151,281
Total non-current liabilities	6,369,571	6,165,547
Total liabilities	34,282,064	33,726,040
Net assets		
Shareholders' equity		
Share capital	8,514,018	8,514,018
Capital surplus	7,373,812	7,373,812
Retained earnings	33,252,502	33,091,680
Treasury shares	(1,444,377)	(1,430,627)
Total shareholders' equity	47,695,956	47,548,883
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,170,858	2,631,683
Foreign currency translation adjustment	218,900	(420,233)
Remeasurements of defined benefit plans	(375,387)	(349,034)
Total accumulated other comprehensive income	2,014,371	1,862,414
Non-controlling interests	7,876,489	7,011,350
Total net assets	57,586,816	56,422,649
Total liabilities and net assets	91,868,881	90,148,690

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

(Thousands of yen)

	Three months ended June 30, 2019	Three months ended June 30, 2020
Net sales	24,555,035	21,696,594
Cost of sales	20,109,719	17,894,037
Gross profit	4,445,315	3,802,556
Selling, general and administrative expenses	3,066,943	2,889,222
Operating profit	1,378,371	913,334
Non-operating income		
Interest income	11,928	7,111
Dividend income	73,334	78,352
Other	43,297	29,035
Total non-operating income	128,561	114,499
Non-operating expenses		
Interest expenses	63,060	42,995
Foreign exchange losses	33,640	15,177
Other	13,720	22,973
Total non-operating expenses	110,421	81,145
Ordinary profit	1,396,511	946,687
Extraordinary income		
Gain on sales of non-current assets	2,019	5,009
Gain on sales of investment securities	18,800	—
Total extraordinary income	20,819	5,009
Extraordinary losses		
Loss on sales of non-current assets	2,190	778
Loss on retirement of non-current assets	2,092	3,485
Total extraordinary losses	4,282	4,263
Profit before income taxes	1,413,049	947,433
Income taxes	393,555	266,941
Profit	1,019,493	680,491
Profit attributable to non-controlling interests	294,246	331,868
Profit attributable to owners of parent	725,247	348,622

Consolidated Statements of Comprehensive Income

(Thousands of yen)

	Three months ended June 30, 2019	Three months ended June 30, 2020
Profit	1,019,493	680,491
Other comprehensive income		
Valuation difference on available-for-sale securities	(69,976)	460,264
Foreign currency translation adjustment	259,795	(1,146,395)
Remeasurements of defined benefit plans, net of tax	23,592	26,352
Total other comprehensive income	213,410	(659,778)
Comprehensive income	1,232,904	20,713
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	826,192	196,666
Comprehensive income attributable to non-controlling interests	406,712	(175,953)

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 345,779 thousand yen and 752 thousand shares, respectively, while those as of the end of the first quarter under review were 345,779 thousand yen and 752 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 39,600 thousand yen and 72 thousand shares, respectively, while those as of the end of the first quarter under review were 25,850 thousand yen and 47 thousand shares, respectively.

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

40,600 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, 2020	As of June 30, 2020
Notes receivable discounted	—	468
Notes receivable endorsed	1,041	1,004

*2. 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, 2020	As of June 30, 2020
Total overdraft facility limit	12,180,000	12,180,000
Outstanding borrowings within the limit	4,635,000	4,915,000
Unused balance	7,545,000	7,265,000

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, 2019	Three months ended June 30, 2020
Depreciation	879,607	883,501
Amortization of goodwill	44,654	50,363

Shareholders' Equity and Others

I. 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.

II. Three months ended June 30, 2020 (from April 1, 2020 to June 30, 2020)

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 19, 2020	Common stock	504,179	8	March 31, 2020	June 22, 2020	Retained earnings

(Note) Total dividends do not include 6,597 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, 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 and sales of raw materials, etc.
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.

II. Three months ended June 30, 2020 (from April 1, 2020 to June 30, 2020)

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	6,288,255	5,774,371	4,261,145	5,242,198	21,565,971	130,622	21,696,594	—	21,696,594
(2) Intersegment sales or transfers	—	—	—	—	—	79,915	79,915	(79,915)	—
Total	6,288,255	5,774,371	4,261,145	5,242,198	21,565,971	210,537	21,776,509	(79,915)	21,696,594
Segment profit (loss)	617,765	514,255	(76,388)	(158,797)	896,833	(107)	896,726	16,607	913,334

- (Notes) 1. The “Other” category is the business segment that is not included in the reportable segments, and represents the purchase and sales of raw materials, etc.
2. The adjustment to segment profit (loss) represents 16,607 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.

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, 2019	Three months ended June 30, 2020
(1) Basic earnings per share (yen)	11.16	5.53
(Basis for calculation)		
Profit attributable to owners of parent (Thousands of yen)	725,247	348,622
Amount not attributable to common shareholders (Thousands of yen)	–	–
Profit attributable to owners of parent regarding common stock (Thousands of yen)	725,247	348,622
Average number of shares of common stock outstanding during the period (Thousands of shares)	64,976	63,032
(2) Diluted earnings per share (yen)	10.88	–
(Basis for calculation)		
Adjustment on profit attributable to owners of parent (Thousands of yen)	–	–
Increase in common stock (Thousands of shares)	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	–	–

- (Notes)
1. 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.
 2. Diluted earnings per share for the three months ended June 30, 2020 is not presented because there are no potential shares.

Significant Subsequent Events

At the Board of Directors meeting held on July 31, 2020, the Company decided to cancel treasury shares, based on the provisions of Article 178 of the Companies Act.

1. Type of shares to be cancelled: Common stock of the Company
2. Total number of shares to be cancelled: 2,000 thousand shares (3.03% of total number of issued shares before the cancellation)
3. Scheduled date of cancellation: August 17, 2020