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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 92nd term

From April 1, 2020
to September 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 September 30, 2020
Assets		
Current assets		
Cash and deposits	18,342,206	18,954,004
Notes and accounts receivable - trade	24,398,163	19,192,314
Merchandise and finished goods	6,474,606	6,445,151
Work in process	788,560	756,376
Raw materials and supplies	4,720,146	5,225,294
Other	1,168,234	1,028,478
Allowance for doubtful accounts	(84,898)	(83,731)
Total current assets	55,807,020	51,517,887
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	10,106,727	10,348,161
Machinery, equipment and vehicles, net	9,457,101	9,017,747
Land	6,354,579	6,311,874
Leased assets, net	26,913	21,105
Construction in progress	287,737	213,397
Other, net	669,943	644,461
Total property, plant and equipment	26,903,003	26,556,747
Intangible assets		
Goodwill	743,518	642,791
Leased assets	5,251	4,085
Other	1,266,508	1,886,678
Total intangible assets	2,015,278	2,533,555
Investments and other assets		
Investment securities	5,182,750	6,070,038
Long-term loans receivable	44,218	30,917
Retirement benefit asset	512,807	521,631
Deferred tax assets	508,798	368,916
Other	898,773	869,113
Allowance for doubtful accounts	(3,770)	(3,770)
Total investments and other assets	7,143,578	7,856,846
Total non-current assets	36,061,860	36,947,149
Total assets	91,868,881	88,465,037

(Thousands of yen)

	As of March 31, 2020	As of September 30, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	16,479,773	12,603,750
Short-term borrowings	*2 7,324,167	*2 7,198,990
Current portion of long-term borrowings	614,308	582,206
Lease obligations	15,252	13,276
Income taxes payable	423,546	532,655
Provision for bonuses	596,165	518,058
Provision for bonuses for directors (and other officers)	72,077	34,333
Other	2,387,202	3,071,961
Total current liabilities	27,912,493	24,555,233
Non-current liabilities		
Long-term borrowings	3,458,857	3,098,608
Lease obligations	18,528	13,189
Deferred tax liabilities	1,042,985	1,260,926
Provision for retirement benefits for directors (and other officers)	86,841	—
Provision for share-based remuneration for directors (and other officers)	178,922	120,255
Retirement benefit liability	1,134,958	1,144,750
Asset retirement obligations	327,678	330,032
Other	120,798	135,331
Total non-current liabilities	6,369,571	6,103,095
Total liabilities	34,282,064	30,658,328
Net assets		
Shareholders' equity		
Share capital	8,514,018	8,514,018
Capital surplus	7,373,812	6,597,580
Retained earnings	33,252,502	33,395,630
Treasury shares	(1,444,377)	(420,227)
Total shareholders' equity	47,695,956	48,087,001
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,170,858	2,806,332
Foreign currency translation adjustment	218,900	(132,103)
Remeasurements of defined benefit plans	(375,387)	(322,682)
Total accumulated other comprehensive income	2,014,371	2,351,546
Non-controlling interests	7,876,489	7,368,160
Total net assets	57,586,816	57,806,708
Total liabilities and net assets	91,868,881	88,465,037

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

(Thousands of yen)

	Six months ended September 30, 2019	Six months ended September 30, 2020
Net sales	49,541,346	40,589,512
Cost of sales	40,673,579	33,346,893
Gross profit	8,867,766	7,242,619
Selling, general and administrative expenses	*1 6,114,550	*1 5,569,844
Operating profit	2,753,216	1,672,774
Non-operating income		
Interest income	24,858	12,819
Dividend income	84,975	95,952
Other	99,643	121,225
Total non-operating income	209,476	229,997
Non-operating expenses		
Interest expenses	120,998	78,435
Foreign exchange losses	34,071	51,512
Other	36,712	35,265
Total non-operating expenses	191,782	165,213
Ordinary profit	2,770,911	1,737,558
Extraordinary income		
Gain on sales of non-current assets	1,994	3,944
Gain on sales of investment securities	56,779	6,657
Total extraordinary income	58,774	10,601
Extraordinary losses		
Loss on sales of non-current assets	2,313	760
Loss on retirement of non-current assets	8,016	5,875
Other	1,000	—
Total extraordinary losses	11,330	6,635
Profit before income taxes	2,818,355	1,741,524
Income taxes	812,096	500,068
Profit	2,006,258	1,241,455
Profit attributable to non-controlling interests	573,369	429,548
Profit attributable to owners of parent	1,432,888	811,906

Consolidated Statements of Comprehensive Income

(Thousands of yen)

	Six months ended September 30, 2019	Six months ended September 30, 2020
Profit	2,006,258	1,241,455
Other comprehensive income		
Valuation difference on available-for-sale securities	167,068	635,113
Foreign currency translation adjustment	(124,075)	(599,352)
Remeasurements of defined benefit plans, net of tax	47,184	52,705
Total other comprehensive income	90,177	88,466
Comprehensive income	2,096,435	1,329,922
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,523,182	1,149,082
Comprehensive income attributable to non-controlling interests	573,253	180,839

(3) Consolidated Statements of Cash Flows

(Thousands of yen)

	Six months ended September 30, 2019	Six months ended September 30, 2020
Cash flows from operating activities		
Profit before income taxes	2,818,355	1,741,524
Depreciation	1,817,877	1,791,578
Amortization of goodwill	89,308	100,727
Increase (decrease) in provision for bonuses	10,403	(77,993)
Increase (decrease) in provision for bonuses for directors (and other officers)	(57,130)	(37,744)
Increase (decrease) in allowance for doubtful accounts	(1,526)	(338)
Increase (decrease) in retirement benefit liability	86,384	57,396
Increase (decrease) in provision for share-based remuneration for directors (and other officers)	540	(6,710)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(19,712)	(86,841)
Interest and dividend income	(109,833)	(108,771)
Interest expenses	120,998	78,435
Loss (gain) on sales of investment securities	(56,779)	(6,657)
Loss (gain) on sales of property, plant and equipment	318	(3,183)
Loss on retirement of property, plant and equipment	8,016	5,875
Decrease (increase) in trade receivables	1,643,867	5,034,683
Decrease (increase) in inventories	(372,745)	(589,948)
Increase (decrease) in trade payables	(926,544)	(3,753,154)
Increase (decrease) in accrued consumption taxes	(92,878)	(21,972)
Other, net	135,982	491,065
Subtotal	5,094,902	4,607,971
Interest and dividends received	110,639	111,742
Interest paid	(122,543)	(78,530)
Income taxes paid	(897,546)	(330,143)
Net cash provided by (used in) operating activities	4,185,452	4,311,039
Cash flows from investing activities		
Payments into time deposits	(25,282)	(25,083)
Proceeds from withdrawal of time deposits	18,077	18,078
Purchase of property, plant and equipment	(985,370)	(1,106,009)
Proceeds from sales of property, plant and equipment	2,271	5,244
Purchase of intangible assets	(69,899)	(838,179)
Purchase of investment securities	(951)	(351)
Proceeds from sales of investment securities	97,040	21,945
Loan advances	—	(1,500)
Collection of loans receivable	2,472	13,508
Proceeds from refund of guarantee deposits	148,229	—
Other, net	109,608	(30,441)
Net cash provided by (used in) investing activities	(703,804)	(1,942,790)

(Thousands of yen)

	Six months ended September 30, 2019	Six months ended September 30, 2020
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(355,039)	(70,785)
Repayments of long-term borrowings	(387,117)	(334,597)
Repayments of lease obligations	(8,423)	(7,314)
Proceeds from sales of treasury shares	19,360	36,597
Purchase of treasury shares	(644,521)	(8)
Dividends paid	(518,597)	(503,001)
Dividends paid to non-controlling interests	(670,021)	(686,927)
Net cash provided by (used in) financing activities	(2,564,360)	(1,566,036)
Effect of exchange rate change on cash and cash equivalents	(28,079)	(197,395)
Net increase (decrease) in cash and cash equivalents	889,208	604,817
Cash and cash equivalents at beginning of period	17,036,114	17,812,026
Cash and cash equivalents at end of period	*1 17,925,323	*1 18,416,844

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 345,779 thousand yen and 752 thousand shares, respectively, while those as of the end of the second quarter under review were 282,476 thousand yen and 614 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 39,600 thousand yen and 72 thousand shares, respectively, while those as of the end of the second quarter under review were 13,145 thousand yen and 23 thousand shares, respectively.

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

26,421 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, 2020	As of September 30, 2020
Notes receivable endorsed	1,041	—

*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 September 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

*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, 2019	Six months ended September 30, 2020
Freightage expenses	1,503,401	1,322,539
Salaries and bonuses	1,177,816	1,221,540
Provision for bonuses	152,432	115,325
Provision for bonuses for directors (and other officers)	45,877	31,622
Retirement benefit expenses	126,250	102,901
Provision for share-based remuneration for directors (and other officers)	30,751	13,413
Provision of allowance for doubtful accounts	(7,471)	(338)
Research and development expenses	559,468	514,586

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, 2019	Six months ended September 30, 2020
Cash and deposits	18,446,739	18,954,004
Time deposits with maturities over 3 months	(521,416)	(537,160)
Cash and cash equivalents	17,925,323	18,416,844

Shareholders' Equity and Others

I. 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 ended September 30, 2019 and whose effective date is after the end of the second quarter ended September 30, 2019

(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.

II. Six months ended September 30, 2020 (from April 1, 2020 to September 30, 2020)

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 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.

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 30, 2020	Common stock	252,833	4	September 30, 2020	December 2, 2020	Retained earnings

(Note) Total dividends do not include 2,555 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.

3. Significant changes in shareholders' equity

Pursuant to the resolution at the Board of Directors meeting held on July 31, 2020, the Company canceled 2,000 thousand shares of its treasury share as of August 17, 2020. As a result, in the six months ended September 30, 2020, capital surplus, retained earnings and treasury shares decreased by 775,028 thousand yen, 159,371 thousand yen and 934,400 thousand yen, respectively. Capital surplus stood at 6,597,580 thousand yen at the end of the second quarter under review, with retained earnings amounting to 33,395,630 thousand yen and treasury shares standing at 420,227 thousand yen.

Segment Information and Others

Segment information

I. 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.

II. Six months ended September 30, 2020 (from April 1, 2020 to September 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	10,461,906	11,689,020	8,332,203	9,917,714	40,400,844	188,667	40,589,512	—	40,589,512
(2) Intersegment sales or transfers	995	—	—	—	995	106,750	107,746	(107,746)	—
Total	10,462,902	11,689,020	8,332,203	9,917,714	40,401,840	295,418	40,697,259	(107,746)	40,589,512
Segment profit (loss)	874,616	1,133,480	(31,433)	(335,424)	1,641,239	(8,230)	1,633,008	39,765	1,672,774

- (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 39,765 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:

	Six months ended September 30, 2019	Six months ended September 30, 2020
(1) Basic earnings per share (yen)	22.15	12.87
(Basis for calculation)		
Profit attributable to owners of parent (Thousands of yen)	1,432,888	811,906
Amount not attributable to common shareholders (Thousands of yen)	–	–
Profit attributable to owners of parent regarding common stock (Thousands of yen)	1,432,888	811,906
Average number of shares of common stock outstanding during the period (Thousands of shares)	64,684	63,105
(2) Diluted earnings per share (yen)	21.58	–
(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 six months ended September 30, 2020 is not presented because there are no potential shares.

Significant Subsequent Events

Not applicable.