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Quarterly Consolidated Financial Statements

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

Third quarter of
the 92nd term

From April 1, 2020
to December 31, 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 December 31, 2020
Assets		
Current assets		
Cash and deposits	18,342,206	19,655,160
Notes and accounts receivable - trade	*2 23,835,492	*2 20,516,488
Electronically recorded monetary claims - operating	*2 562,670	*2 1,982,070
Merchandise and finished goods	6,474,606	6,360,149
Work in process	788,560	786,530
Raw materials and supplies	4,720,146	4,653,698
Other	1,168,234	1,121,944
Allowance for doubtful accounts	(84,898)	(83,684)
Total current assets	55,807,020	54,992,357
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	10,106,727	10,068,947
Machinery, equipment and vehicles, net	9,457,101	8,651,333
Land	6,354,579	6,285,035
Leased assets, net	26,913	24,474
Construction in progress	287,737	173,208
Other, net	669,943	611,250
Total property, plant and equipment	26,903,003	25,814,249
Intangible assets		
Goodwill	743,518	592,427
Leased assets	5,251	3,502
Other	1,266,508	1,773,444
Total intangible assets	2,015,278	2,369,374
Investments and other assets		
Investment securities	5,182,750	7,123,136
Long-term loans receivable	44,218	23,538
Retirement benefit asset	512,807	524,030
Deferred tax assets	508,798	363,247
Other	898,773	842,798
Allowance for doubtful accounts	(3,770)	(3,770)
Total investments and other assets	7,143,578	8,872,981
Total non-current assets	36,061,860	37,056,605
Total assets	91,868,881	92,048,963

(Thousands of yen)

	As of March 31, 2020	As of December 31, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	*2 16,479,773	*2 14,596,767
Short-term borrowings	*3 7,324,167	*3 7,397,549
Current portion of long-term borrowings	614,308	567,432
Lease obligations	15,252	12,890
Income taxes payable	423,546	260,059
Provision for bonuses	596,165	356,522
Provision for bonuses for directors (and other officers)	72,077	53,159
Other	2,387,202	3,770,427
Total current liabilities	27,912,493	27,014,808
Non-current liabilities		
Long-term borrowings	3,458,857	2,899,454
Lease obligations	18,528	17,171
Deferred tax liabilities	1,042,985	1,584,829
Provision for retirement benefits for directors (and other officers)	86,841	-
Provision for share-based remuneration for directors (and other officers)	178,922	129,115
Retirement benefit liability	1,134,958	1,146,440
Asset retirement obligations	327,678	331,209
Other	120,798	135,205
Total non-current liabilities	6,369,571	6,243,425
Total liabilities	34,282,064	33,258,234
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	34,352,917
Treasury shares	(1,444,377)	(407,082)
Total shareholders' equity	47,695,956	49,057,434
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,170,858	3,543,001
Foreign currency translation adjustment	218,900	(478,929)
Remeasurements of defined benefit plans	(375,387)	(296,329)
Total accumulated other comprehensive income	2,014,371	2,767,742
Non-controlling interests	7,876,489	6,965,552
Total net assets	57,586,816	58,790,729
Total liabilities and net assets	91,868,881	92,048,963

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

(Thousands of yen)

	Nine months ended December 31, 2019	Nine months ended December 31, 2020
Net sales	74,132,526	63,370,842
Cost of sales	60,842,002	51,484,728
Gross profit	13,290,524	11,886,114
Selling, general and administrative expenses	9,222,414	8,436,490
Operating profit	4,068,109	3,449,623
Non-operating income		
Interest income	36,818	20,641
Dividend income	151,363	160,122
Foreign exchange gains	18,898	-
Subsidies for employment adjustment	-	77,596
Other	148,523	119,041
Total non-operating income	355,602	377,402
Non-operating expenses		
Interest expenses	176,340	112,827
Foreign exchange losses	-	89,488
Other	53,927	62,128
Total non-operating expenses	230,267	264,444
Ordinary profit	4,193,444	3,562,581
Extraordinary income		
Gain on sales of non-current assets	4,991	4,785
Gain on sales of investment securities	71,324	10,768
Total extraordinary income	76,315	15,553
Extraordinary losses		
Loss on sales of non-current assets	2,504	759
Loss on retirement of non-current assets	12,205	6,124
Total extraordinary losses	14,709	6,884
Profit before income taxes	4,255,050	3,571,251
Income taxes	1,170,249	847,330
Profit	3,084,801	2,723,920
Profit attributable to non-controlling interests	856,636	701,938
Profit attributable to owners of parent	2,228,164	2,021,981

Consolidated Statements of Comprehensive Income

(Thousands of yen)

	Nine months ended December 31, 2019	Nine months ended December 31, 2020
Profit	3,084,801	2,723,920
Other comprehensive income		
Valuation difference on available-for-sale securities	440,581	1,371,727
Foreign currency translation adjustment	(88,502)	(1,210,303)
Remeasurements of defined benefit plans, net of tax	70,776	79,057
Total other comprehensive income	422,854	240,481
Comprehensive income	3,507,656	2,964,401
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,626,413	2,775,352
Comprehensive income attributable to non-controlling interests	881,242	189,048

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 345,779 thousand yen and 752 thousand shares, respectively, while those as of the end of the third quarter under review were 282,476 thousand yen and 614 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 there are no treasury shares as of the end of the third quarter under review.

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

19,451 thousand yen as of the end of the third quarter under review

Changes in Presentation

(Quarterly Consolidated Balance Sheets)

“Electronically recorded monetary claims - operating,” which was included in “Notes and accounts receivable - trade” in the previous fiscal year, has been presented separately from the third quarter under review due to its increased monetary importance. To reflect this change in presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, 562,670 thousand yen, which was presented as “Notes and accounts receivable - trade” in the consolidated balance sheets for the previous fiscal year, has been reclassified as “Electronically recorded monetary claims - operating.”

Notes to Consolidated Balance Sheets

1. Notes receivable endorsed

	(Thousands of yen)	
	As of March 31, 2020	As of December 31, 2020
Notes receivable endorsed	1,041	—

*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, 2020 is as follows:

	(Thousands of yen)	
	As of March 31, 2020	As of December 31, 2020
Notes receivable - trade	34,934	327,507
Electronically recorded monetary claims - operating	42,767	59,740
Notes payable - trade	9,858	1,194

*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, 2020	As of December 31, 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 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, 2019	Nine months ended December 31, 2020
Depreciation	2,875,373	2,733,829
Amortization of goodwill	106,339	151,091

Shareholders' Equity and Others

I. 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.

II. Nine months ended December 31, 2020 (from April 1, 2020 to December 31, 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.

(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.

2. 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 nine months ended December 31, 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 third quarter under review, with retained earnings amounting to 34,352,917 thousand yen and treasury shares standing at 407,082 thousand yen.

Segment Information and Others

Segment information

I. 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 purchase, sales, etc. of raw materials.

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

This information has been omitted because the amount is of minor significance.

II. Nine months ended December 31, 2020 (from April 1, 2020 to December 31, 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	16,797,511	18,214,671	12,634,692	15,477,974	63,124,849	245,992	63,370,842	—	63,370,842
(2) Intersegment sales or transfers	—	7	—	—	7	144,739	144,746	(144,746)	—
Total	16,797,511	18,214,678	12,634,692	15,477,974	63,124,857	390,731	63,515,588	(144,746)	63,370,842
Segment profit (loss)	1,458,691	1,897,106	163,634	(116,109)	3,403,323	(9,802)	3,393,520	56,103	3,449,623

(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 56,103 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:

	Nine months ended December 31, 2019	Nine months ended December 31, 2020
(1) Basic earnings per share (Yen)	34.84	32.02
(Basis for calculation)		
Profit attributable to owners of parent (Thousands of yen)	2,228,164	2,021,981
Amount not attributable to common shareholders (Thousands of yen)	–	–
Profit attributable to owners of parent regarding common stock (Thousands of yen)	2,228,164	2,021,981
Average number of shares of common stock outstanding during the period (Thousands of shares)	63,957	63,140
(2) Diluted earnings per share (Yen)	33.93	–
(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 nine months ended December 31, 2020, is not presented because there are no potential shares.

Significant Subsequent Events

Not applicable.