

***KYODO PRINTING CO., LTD.
and Consolidated Subsidiaries***

*Interim Consolidated Financial Statements (Unaudited)
for the Three-Month Period Ended June 30, 2018*

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Balance Sheets June 30, 2018 as compared with March 31, 2018 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	June 30, 2018	March 31, 2018	June 30, 2018
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 4)	¥ 13,967	¥ 14,606	\$ 126,352
Receivables:			
Trade notes (Note 3)	6,181	6,622	55,916
Trade accounts	20,098	20,697	181,816
Allowance for doubtful accounts	(61)	(73)	(551)
Short-term investments (Note 4)	333	333	3,012
Inventories	7,216	6,907	65,279
Prepaid expenses and other current assets	911	823	8,241
	<u>48,647</u>	<u>49,917</u>	<u>440,085</u>
PROPERTY, PLANT AND EQUIPMENT:			
Land	15,648	15,661	141,559
Buildings and structures	48,920	45,115	442,554
Machinery and vehicles	49,352	49,115	446,462
Furniture and fixtures	6,922	6,771	62,619
Lease assets	3,450	3,310	31,210
Construction in progress	2,157	3,299	19,513
Total	<u>126,451</u>	<u>123,273</u>	<u>1,143,938</u>
Accumulated depreciation	<u>(76,022)</u>	<u>(76,584)</u>	<u>(687,732)</u>
	<u>50,428</u>	<u>46,689</u>	<u>456,196</u>
INVESTMENTS AND OTHER ASSETS:			
Investment securities	20,223	19,186	182,947
Investments in subsidiaries and associated companies	171	191	1,546
Goodwill	761	858	6,884
Intangible assets	1,109	1,130	10,032
Long-term loans receivable	42	45	379
Asset for retirement benefits	1,120	1,042	10,132
Deferred tax assets	385	377	3,482
Other long-term assets	1,125	1,159	10,177
Allowance for doubtful accounts	<u>(51)</u>	<u>(52)</u>	<u>(461)</u>
	<u>24,888</u>	<u>23,936</u>	<u>225,149</u>
TOTAL	<u>¥ 123,965</u>	<u>¥ 120,544</u>	<u>\$ 1,121,449</u>

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Balance Sheets June 30, 2018 as compared with March 31, 2018 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	June 30, 2018	March 31, 2018	June 30, 2018
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Current portion of long-term debt	¥ 575	¥ 542	\$ 5,201
Payables:			
Trade notes (Note 3)	8,591	8,248	77,718
Trade accounts	9,623	10,255	87,054
Income taxes payable	175	1,496	1,583
Accrued bonuses	410	1,202	3,709
Other current liabilities (Note 3)	13,074	7,725	118,273
Total current liabilities	32,451	29,470	293,567
LONG-TERM LIABILITIES:			
Long-term debt	16,538	16,507	149,611
Liability for retirement benefits	6,219	6,115	56,260
Provision for dismantling of non-current assets	2,000	2,000	18,092
Deferred tax liabilities	2,175	1,860	19,676
Other long-term liabilities	307	372	2,777
Total long-term liabilities	27,240	26,856	246,426
EQUITY:			
Common stock—authorized, 36,080,000 shares; issued, 9,020,000 shares as of June 30, 2018 and March 31, 2018	4,510	4,510	40,799
Capital surplus	1,728	1,728	15,632
Retained earnings	48,226	48,607	436,276
Treasury stock—at cost, 242,210 shares as of June 30, 2018 and 242,141 shares as of March 31, 2018	(550)	(549)	(4,975)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	10,370	9,679	93,812
Foreign currency translation adjustments	(183)	76	(1,655)
Remeasurement of defined benefit plans	92	92	832
Total	64,194	64,143	580,730
Non-controlling interests	78	73	705
Total equity	64,272	64,217	581,436
TOTAL	¥ 123,965	¥ 120,544	\$ 1,121,449

See notes to interim consolidated financial statements.

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Statements of Income Three-Month Periods Ended June 30, 2018 and 2017 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Three-Month Period Ended June 30		Three-Month Period Ended June 30
	2018	2017	2018
NET SALES (Note 5)	¥ 23,066	¥ 21,714	\$ 208,666
COST OF SALES	19,200	18,017	173,692
Gross profit	3,865	3,696	34,964
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 5):			
Delivery expenses	1,037	1,033	9,381
Provision of allowance for doubtful accounts	(12)	(4)	(108)
Salaries and allowances	1,312	1,277	11,869
Provision for employees' bonuses	125	129	1,130
Provision for directors' bonuses	12	15	108
Retirement benefit expenses	54	59	488
Other	1,157	1,078	10,466
Total selling, general and administrative expenses	3,686	3,589	33,345
Operating income (Note 5)	178	107	1,610
OTHER INCOME (EXPENSES):			
Interest and dividend income	135	176	1,221
Interest expenses	(32)	(18)	(289)
Gain on sales of goods	66	60	597
Rent income (expenses) on facilities	31	31	280
Dividend income of insurance	172	163	1,555
Loss on sales and retirement of non-current assets	(264)	(260)	(2,388)
Gain on step acquisition	-	43	-
Other—net	(40)	2	(361)
Other income—net	68	198	615
INCOME BEFORE INCOME TAXES	247	306	2,234
INCOME TAXES	184	162	1,664
NET INCOME	63	144	569
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	5	1	45
NET INCOME ATTRIBUTABLE TO OWNERS OF PARENT	¥ 58	¥ 142	\$ 524

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Statements of Income Three-Month Periods Ended June 30, 2018 and 2017 (Unaudited)

	Yen		U.S. Dollars	
	Three-Month Period Ended June 30		Three-Month Period Ended June 30	
	2018	2017	2018	
PER SHARE OF COMMON STOCK:				
Basic net income	¥ 6.66	¥ 16.27	\$ 0.06	
Diluted net income	5.89	14.39	0.05	

The Company conducted a consolidation of shares of common stock at a ratio of one share for each ten shares effective October 1, 2017. Basic net income and diluted net income are calculated on the assumption that the stock consolidation was carried out at the beginning of the previous consolidated fiscal year.

See notes to interim consolidated financial statements.

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Statements of Comprehensive Income Three-Month Periods Ended June 30, 2018 and 2017 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Three-Month Period Ended June 30		Three-Month Period Ended June 30
	2018	2017	2018
NET INCOME	¥ 63	¥ 144	\$ 569
OTHER COMPREHENSIVE INCOME:			
Unrealized gain on available-for-sale securities	690	756	6,242
Foreign currency translation adjustments	(261)	(65)	(2,361)
Remeasurement of defined benefit plans	(0)	3	(0)
Share of other comprehensive income in associated companies accounted for using the equity method	0	(5)	0
Total other comprehensive income	430	688	3,889
COMPREHENSIVE INCOME	¥ 494	¥ 832	\$ 4,468
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of parent	¥ 490	¥ 830	\$ 4,432
Non-controlling interests	4	1	36

See notes to interim consolidated financial statements.

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Statements of Cash Flows Three-Month Periods Ended June 30, 2018 and 2017 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Three-Month Period Ended June 30		Three-Month Period Ended June 30
	2018	2017	2018
OPERATING ACTIVITIES:			
Income before income taxes	¥ 247	¥ 306	\$ 2,234
Adjustments for:			
Income taxes—paid	(1,409)	(368)	(12,746)
Depreciation and amortization	1,176	1,007	10,638
(Gain) Loss on sales and retirement of property, plant and equipment	264	260	2,388
(Gain) Loss on step acquisition	-	(43)	-
Changes in assets and liabilities:			
(Increase) Decrease in trade receivables	1,025	1,976	9,272
(Increase) Decrease in inventories	(320)	(452)	(2,894)
Increase (Decrease) in trade payables	(280)	(428)	(2,533)
Increase (Decrease) in liability for retirement benefits	27	(32)	244
Increase (Decrease) in accrued consumption tax	(29)	57	(262)
Increase (Decrease) in accrued expense	1,520	1,624	13,750
Increase (Decrease) in accrued bonuses	(791)	(822)	(7,155)
Other—net	(59)	(246)	(533)
Total adjustments	1,122	2,532	10,150
Net cash provided by operating activities	1,369	2,838	12,384
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(1,167)	(2,046)	(10,557)
Purchases of intangible assets	(69)	(54)	(624)
Proceeds from sales of property, plant and equipment	1	0	9
Purchases of investment securities	(33)	(3)	(298)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	(594)	-
Other—net	(184)	(206)	(1,664)
Net cash used in investing activities	(1,453)	(2,904)	(13,144)
FORWARD	¥ (83)	¥ (66)	\$ (750)

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Statements of Cash Flows Three-Month Periods Ended June 30, 2018 and 2017 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Three-Month Period Ended June 30		Three-Month Period Ended June 30
	2018	2017	2018
FORWARD	¥ (83)	¥ (66)	\$ (750)
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term loans payable	-	(10)	-
Repayments of long-term debt	(53)	(315)	(479)
Dividends paid	(439)	(351)	(3,971)
Other—net	(0)	-	(0)
Net cash used in financing activities	(492)	(676)	(4,450)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(62)	(5)	(560)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(639)	(748)	(5,780)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	14,606	17,414	132,133
CASH AND CASH EQUIVALENTS, END OF PERIOD (Note 4)	¥ 13,967	¥ 16,665	\$ 126,352

See notes to interim consolidated financial statements.

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Notes to Interim Consolidated Financial Statements (Unaudited)

1. BASIS OF PRESENTING INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying interim consolidated financial statements of KYODO PRINTING CO., LTD. (the “Company”) and its consolidated subsidiaries (together, the “Group”) 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, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

The accounting standard for quarterly financial statements requires companies to prepare a set of interim consolidated financial statements for each quarter comprised of the consolidated balance sheet as of the current quarter-end and the consolidated statements of income, and comprehensive income, and cash flows for the year-to-date period. A statement of changes in equity is not required.

The interim consolidated statements of changes in equity are not presented herein.

In preparing these interim consolidated financial statements, certain reclassifications and rearrangements have been made to the interim consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The interim consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥110.54 to \$1, the approximate rate of exchange as of June 29, 2018. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Japanese yen figures less than a million yen are rounded down to the nearest million yen except for per share data. U.S. dollar figures are translated from millions of yen and rounded down to the nearest thousand dollars except for per share data.

2. SIGNIFICANT ACCOUNTING POLICIES

Substantially the same accounting policies have been followed in these interim consolidated financial statements as were applied in the preparation of the consolidated financial statements for the year ended March 31, 2018, with certain simplified methods, except for the policy specifically allowed and adopted for interim accounting periods described below.

- a. Tax Expense*—Tax expense for interim period is measured by applying a reasonably estimated effective tax rate for this fiscal year as adjusted after tax effect accounting to income before income taxes for the interim period.
- b. Additional Information*
Application of “Partial Amendments to Accounting Standard for Tax Effect Accounting,” etc. The Company has applied “Partial Amendments to Accounting Standard for Tax Effect Accounting” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 28, February 16, 2018), etc. from the beginning of the three-month period ended June 30, 2018. Deferred tax assets are presented under “INVESTMENTS AND OTHER ASSETS” and deferred tax liabilities are presented under “LONG-TERM LIABILITIES.”

3. TRADE NOTES AND OTHERS

Notes maturing at the end of the period are settled on their clearance dates. As the balance sheet dates of the three-month period ended June 30, 2018 and the year ended March 31, 2018 were bank holidays, the following amounts of notes matured on the balance sheet date were included in the balance of trade notes and other current liabilities as of June 30, 2018 and March 31, 2018:

	Millions of Yen		Thousands of U.S. Dollars
	June 30, 2018	March 31, 2018	June 30, 2018
Trade notes receivable	¥ 473	¥ 471	\$ 4,278
Trade notes payable	51	70	461
Other (notes payable - facilities)	5	-	45

4. SUPPLEMENTARY CASH FLOW INFORMATION

Cash and cash equivalents as of June 30, 2018 and 2017 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	June 30, 2018	June 30, 2017	June 30, 2018
Cash and time deposits	¥ 14,300	¥ 15,998	\$ 129,364
Time deposits exceeding three months to maturity	(333)	(332)	(3,012)
Short-term investments with a maturity date within three months from the acquisition date	-	1,000	-
Cash and cash equivalents	¥ 13,967	¥ 16,665	\$ 126,352

5. SEGMENT INFORMATION

Information about Sales and Profit (Loss)

June 30, 2018	Millions of Yen			Total
	Reportable Segment			
	Information Communication	Information Security	Living and Industrial Materials	
Sales:				
Sales to external customers	¥ 8,366	¥ 7,941	¥ 6,283	¥ 22,591
Intersegment sales or transfers	391	210	102	704
Total	¥ 8,758	¥ 8,151	¥ 6,385	¥ 23,296
Segment profit (loss)	¥ (472)	¥ 419	¥ 163	¥ 110

	Millions of Yen			Consolidated Statements of Income (*3)
	Other (*1)	Total	Reconciliations (*2)	
Sales:				
Sales to external customers	¥ 475	¥ 23,066	¥ -	¥ 23,066
Intersegment sales or transfers	1,981	2,686	(2,686)	-
Total	¥ 2,456	¥ 25,752	¥ (2,686)	¥ 23,066
Segment profit (loss)	¥ 44	¥ 155	¥ 23	¥ 178

	Millions of Yen			
	Reportable Segment			
June 30, 2017	Information Communication	Information Security	Living and Industrial Materials	Total
Sales:				
Sales to external customers	¥ 8,459	¥ 7,231	¥ 5,566	¥ 21,257
Intersegment sales or transfers	353	255	101	710
Total	¥ 8,813	¥ 7,486	¥ 5,668	¥ 21,968
Segment profit (loss)	¥ (503)	¥ 269	¥ 262	¥ 29

	Millions of Yen			
	Other (*1)	Total	Reconciliations (*2)	Consolidated Statements of Income (*3)
Sales:				
Sales to external customers	¥ 456	¥ 21,714	¥ -	¥ 21,714
Intersegment sales or transfers	1,946	2,656	(2,656)	-
Total	¥ 2,402	¥ 24,371	¥ (2,656)	¥ 21,714
Segment profit (loss)	¥ 57	¥ 87	¥ 20	¥ 107

June 30, 2018	Thousands of U.S. Dollars			
	Reportable Segment			
	Information Communication	Information Security	Living and Industrial Materials	Total
Sales:				
Sales to external customers	\$ 75,683	\$ 71,838	\$ 56,839	\$ 204,369
Intersegment sales or transfers	3,537	1,899	922	6,368
Total	<u>\$ 79,229</u>	<u>\$ 73,738</u>	<u>\$ 57,761</u>	<u>\$ 210,747</u>
Segment profit (loss)	\$ (4,269)	\$ 3,790	\$ 1,474	\$ 995

	Thousands of U.S. Dollars			
	Other (*1)	Total	Reconciliations (*2)	Consolidated Statements of Income (*3)
	Sales:			
Sales to external customers	\$ 4,297	\$ 208,666	\$ -	\$ 208,666
Intersegment sales or transfers	17,921	24,298	(24,298)	-
Total	<u>\$ 22,218</u>	<u>\$ 232,965</u>	<u>\$ (24,298)</u>	<u>\$ 208,666</u>
Segment profit (loss)	\$ 398	\$ 1,402	\$ 208	\$ 1,610

Notes: (*1) "Other" refers to business segments not included in the reportable segment, which mainly includes logistics business, insurance business and real estate management business.

(*2) Reconciliations for segment profit (loss) refer to corporate expenses and primarily consist of general and administrative expenses and research and development costs that are not attributable to any reportable segments.

(*3) Segment profit (loss) is adjusted to the operating income stated in the interim consolidated statements of income.

Information About Impairment Loss on Non-current Assets or Goodwill for Each Reportable Segment

Significant changes in the amount of goodwill

Goodwill was recognized in the "Living and Industrial Materials" segment because the Company acquired shares of PT Arisu Graphic Prima and made it into a subsidiary. The increased amount of goodwill associated with the above event was ¥779 million in the three-month period ended June 30, 2017.

6. SUBSEQUENT EVENT

At the Board of Directors' meeting held on August 7, 2018, the Company resolved to dispose of its treasury stock (hereinafter referred to as the "Disposal of Treasury Stock") by way of the third-party allotment as shown below, following the introduction of Board Benefit Trust (hereinafter referred to as the "System") announced on May 11, 2018:

1. Outline of the Disposal
 - a. Date of disposal: August 23, 2018
 - b. Class and number of shares to be disposed: 57,000 shares of common stock
 - c. Value of disposal: ¥2,887 (\$26.11) per share (¥164 million (\$1,483 thousand) in total)
 - d. Method of disposal: By way of the third-party allotment
 - e. Planned third-party: Trust & Custody Services Bank, Ltd. (trust E account)

2. Purpose of and Reason for the Disposal

The Disposal of Treasury Stock aims to dispose of treasury stock of the Company by way of the third party allotment to the trust E account established in Trust & Custody Services Bank, Ltd. (trustee re-trusted from Mizuho Trust & Banking Co., Ltd., which is a trustee established based on the trust agreement concluded with Mizuho Trust & Banking Co., Ltd. in relation to the System) in order to hold and dispose of the shares of the Company for the operation of the System.

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