

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

*Interim Consolidated Financial Statements (Unaudited)*  
*for the Nine-Month Period Ended December 31, 2017*

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

### Interim Consolidated Balance Sheets

December 31, 2017 as compared with March 31, 2017 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	December 31, 2017	March 31, 2017	December 31, 2017
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents (Note 3)	¥ 13,734	¥ 17,414	\$ 121,486
Receivables (Note 4):			
Trade notes	2,772	5,839	24,520
Trade accounts	23,855	19,305	211,012
Allowance for doubtful accounts	(91)	(60)	(804)
Short-term investments (Note 3)	333	330	2,945
Inventories	6,944	6,157	61,424
Deferred tax assets	619	620	5,475
Prepaid expenses and other current assets	719	507	6,360
	<u>48,887</u>	<u>50,114</u>	<u>432,436</u>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>			
Land	15,661	15,477	138,531
Buildings and structures	43,248	44,953	382,556
Machinery and vehicles	47,937	49,047	424,033
Furniture and fixtures	6,644	6,217	58,770
Lease assets	2,524	2,238	22,326
Construction in progress	4,492	879	39,734
Total	<u>120,508</u>	<u>118,814</u>	<u>1,065,970</u>
Accumulated depreciation	<u>(76,420)</u>	<u>(77,593)</u>	<u>(675,984)</u>
	<u>44,088</u>	<u>41,220</u>	<u>389,986</u>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities	19,710	20,212	174,347
Investments in associated companies	216	436	1,910
Goodwill	910	251	8,049
Intangible assets	1,098	1,214	9,712
Long-term loans receivable	30	-	265
Deferred tax assets	169	169	1,494
Other long-term assets	1,213	1,010	10,729
Allowance for doubtful accounts	<u>(43)</u>	<u>(47)</u>	<u>(380)</u>
	<u>23,306</u>	<u>23,246</u>	<u>206,156</u>
<b>TOTAL</b>	<u>¥ 116,282</u>	<u>¥ 114,581</u>	<u>\$ 1,028,589</u>

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

### Interim Consolidated Balance Sheets

December 31, 2017 as compared with March 31, 2017 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	December 31, 2017	March 31, 2017	December 31, 2017
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Short-term loans payable	¥ -	¥ 10	\$ -
Current portion of long-term debt	590	1,058	5,218
Payables:			
Trade notes	1,677	8,076	14,834
Trade accounts	16,846	9,680	149,013
Income taxes payable	429	473	3,794
Accrued bonuses	446	1,225	3,945
Other current liabilities	7,322	7,721	64,767
<b>Total current liabilities</b>	<b>27,311</b>	<b>28,245</b>	<b>241,583</b>
<b>LONG-TERM LIABILITIES:</b>			
Long-term debt	14,120	14,110	124,900
Liability for retirement benefits	5,441	5,564	48,129
Deferred tax liabilities	3,214	3,180	28,429
Provision for dismantling of non-current assets	2,000	-	17,691
Other long-term liabilities	372	299	3,290
<b>Total long-term liabilities</b>	<b>25,149</b>	<b>23,155</b>	<b>222,459</b>
<b>EQUITY:</b>			
Common stock—authorized, 36,080,000 shares; issued, 9,020,000 shares as of December 31, 2017 and 360,800,000 shares; issued, 90,200,000 shares as of March 31, 2017	4,510	4,510	39,893
Capital surplus	1,728	1,742	15,285
Retained earnings	48,052	47,360	425,050
Treasury stock—at cost, 242,141 shares as of December 31, 2017 and 2,417,614 shares as of March 31, 2017	(549)	(548)	(4,856)
Accumulated other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities	10,048	9,991	88,881
Foreign currency translation adjustments	(2)	85	(17)
Remeasurement of defined benefit plans	(7)	(17)	(61)
<b>Total</b>	<b>63,779</b>	<b>63,124</b>	<b>564,166</b>
Non-controlling interests	42	55	371
<b>Total equity</b>	<b>63,821</b>	<b>63,180</b>	<b>564,537</b>
<b>TOTAL</b>	<b>¥ 116,282</b>	<b>¥ 114,581</b>	<b>\$ 1,028,589</b>

See notes to interim consolidated financial statements.

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

### Interim Consolidated Statements of Income Nine-Month Periods Ended December 31, 2017 and 2016 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Nine-Month Period Ended December 31		Nine-Month Period Ended December 31
	2017	2016	2017
NET SALES (Note 5)	¥ 70,600	¥ 71,058	\$ 624,502
COST OF SALES	<u>58,080</u>	<u>57,893</u>	<u>513,754</u>
Gross profit	12,520	13,164	110,747
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 5):			
Delivery expenses	3,192	3,226	28,235
Provision of allowance for doubtful accounts	23	(69)	203
Salaries and allowances	4,142	4,160	36,638
Provision for employees' bonuses	132	126	1,167
Provision for directors' bonuses	45	45	398
Retirement benefit expenses	184	243	1,627
Other	<u>3,450</u>	<u>2,918</u>	<u>30,517</u>
Total selling, general and administrative expenses	<u>11,170</u>	<u>10,652</u>	<u>98,805</u>
Operating income (Note 5)	<u>1,349</u>	<u>2,512</u>	<u>11,932</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	331	252	2,927
Interest expenses	(79)	(76)	(698)
Gain on sales of goods	219	203	1,937
Rent income (expenses) on facilities	91	94	804
Dividend income of insurance	163	185	1,441
Gain (loss) on sales and retirement of non-current assets	(464)	(113)	(4,104)
Gain on step acquisition	44	-	389
Gain on sales of investment securities	4,066	18	35,966
Impairment loss (Note 5)	(1,441)	(148)	(12,746)
Provision for dismantling of non-current assets	(2,000)	-	(17,691)
Other—net	<u>33</u>	<u>(91)</u>	<u>291</u>
Other income—net	<u>964</u>	<u>325</u>	<u>8,527</u>
INCOME BEFORE INCOME TAXES	2,314	2,838	20,468
INCOME TAXES	<u>855</u>	<u>842</u>	<u>7,563</u>
NET INCOME	1,458	1,995	12,896
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	<u>(24)</u>	<u>16</u>	<u>(212)</u>
NET INCOME ATTRIBUTABLE TO OWNERS OF PARENT	<u>¥ 1,483</u>	<u>¥ 1,979</u>	<u>\$ 13,118</u>

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

### Interim Consolidated Statements of Income

#### Nine-Month Periods Ended December 31, 2017 and 2016 (Unaudited)

	Yen		U.S. Dollars (Note 1)
	Nine-Month Period Ended December 31		Nine-Month Period Ended December 31
	2017	2016	2017
PER SHARE OF COMMON STOCK:			
Basic net income	¥ 168.94	¥ 225.50	\$ 1.49
Diluted net income	149.46	199.50	1.32
Cash dividends applicable to the period	5.00	4.00	0.04

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.

The interim dividend per share is the amount before the consolidation of shares on October 1, 2017, because the dividend record date is September 30, 2017.

See notes to interim consolidated financial statements.

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

### Interim Consolidated Statements of Comprehensive Income Nine-Month Periods Ended December 31, 2017 and 2016 (Unaudited)

	Millions of Yen		Thousands of
	Nine-Month		U.S. Dollars
	2017	2016	(Note 1)
	Period Ended		Nine-Month
	December 31		Period Ended
	2017	2016	December 31
NET INCOME	¥ 1,458	¥ 1,995	\$ 12,896
OTHER COMPREHENSIVE INCOME:			
Unrealized gain (loss) on available-for-sale securities	52	2,169	459
Deferred gain (loss) on hedges	-	1	-
Foreign currency translation adjustments	(83)	(211)	(734)
Remeasurement of defined benefit plans	9	99	79
Share of other comprehensive income in associated companies accounted for using the equity method	(1)	(19)	(8)
Total other comprehensive income	(21)	2,038	(185)
COMPREHENSIVE INCOME	¥ 1,436	¥ 4,033	\$ 12,702
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of parent	¥ 1,461	¥ 4,017	\$ 12,923
Non-controlling interests	(24)	16	(212)

See notes to interim consolidated financial statements.

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

### Interim Consolidated Statements of Cash Flows

Nine-Month Periods Ended December 31, 2017 and 2016 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Nine-Month Period Ended December 31		Nine-Month Period Ended December 31
	2017	2016	2017
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes	¥ 2,314	¥ 2,838	\$ 20,468
Adjustments for:			
Income taxes—paid	(844)	(1,622)	(7,465)
Depreciation and amortization	3,118	2,741	27,580
Amortization of goodwill	117	-	1,034
(Gain) Loss on sales and retirement of property, plant and equipment	464	113	4,104
Impairment loss (Note 5)	1,441	148	12,746
(Gain) Loss on step acquisition	(44)	-	(389)
(Gain) Loss on sales of investment securities	(4,066)	(18)	(35,966)
Changes in assets and liabilities:			
(Increase) Decrease in trade receivables	(1,321)	(296)	(11,685)
(Increase) Decrease in inventories	(708)	227	(6,262)
Increase (Decrease) in trade payables	595	(536)	5,263
Increase (Decrease) in liability for retirement benefits	(139)	(36)	(1,229)
Increase (Decrease) in accrued consumption tax	(27)	174	(238)
Increase (Decrease) in accrued expense	174	38	1,539
Increase (Decrease) in accrued bonuses	(779)	(776)	(6,890)
Increase (Decrease) in provision for dismantling of non-current assets	2,000	-	17,691
Other—net	(6)	223	(53)
Total adjustments	(25)	379	(221)
Net cash provided by operating activities	2,288	3,217	20,238
<b>INVESTING ACTIVITIES:</b>			
Purchases of property, plant and equipment	(6,883)	(2,677)	(60,884)
Purchases of intangible assets	(175)	(216)	(1,547)
Proceeds from sales of property, plant and equipment	34	12	300
Purchases of investment securities	(44)	(520)	(389)
Proceeds from sales of investment securities	4,677	126	41,371
Purchases of shares of subsidiaries resulting in change in scope of consolidation	(594)	-	(5,254)
Other—net	(404)	(93)	(3,573)
Net cash used in investing activities	(3,389)	(3,369)	(29,977)
<b>FORWARD</b>	¥ (1,101)	¥ (151)	\$ (9,739)

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

### Interim Consolidated Statements of Cash Flows

#### Nine-Month Periods Ended December 31, 2017 and 2016 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Nine-Month Period Ended December 31		Nine-Month Period Ended December 31
	2017	2016	2017
FORWARD	¥ (1,101)	¥ (151)	\$ (9,739)
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term loans payable	(31)	-	(274)
Repayments of long-term debt	(1,738)	(792)	(15,373)
Dividends paid	(790)	(702)	(6,988)
Proceeds from issuance of bonds	-	7,971	-
Redemption of bonds	-	(5,000)	-
Other—net	(5)	(0)	(44)
Net cash provided by (used in) financing activities	(2,565)	1,475	(22,689)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(12)	(60)	(106)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,679)	1,263	(32,543)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	17,414	14,234	154,038
CASH AND CASH EQUIVALENTS, END OF PERIOD (Note 3)	¥ 13,734	¥ 15,497	\$ 121,486

See notes to interim consolidated financial statements.



# KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

## Notes to Interim Consolidated Financial Statements (Unaudited)

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### 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 ¥113.05 to \$1, the approximate rate of exchange as of December 29, 2017. 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, 2017, with certain simplified methods, except for the policy specifically allowed and adopted for interim accounting periods described below.

- a. Consolidation*—Koishikawa Process Co., Ltd. has been excluded from the scope of consolidation as it was merged into Cosmo Graphic Co., Ltd., a consolidated subsidiary, in the three-month period ended June 30, 2017. PT Arisu Graphic Prima became a consolidated subsidiary from an associated company accounted for by the equity method as more of its shares were acquired by the Company. The reportable segment of PT Arisu Graphic Prima’s operations is the Living and Industrial Materials segment.
- b. 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.

### 3. SUPPLEMENTARY CASH FLOW INFORMATION

Cash and cash equivalents as of December 31, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of
	December 31, 2017	December 31, 2016	U.S. Dollars December 31, 2017
Cash and time deposits	¥ 14,068	¥ 14,825	\$ 124,440
Time deposits exceeding three months to maturity	(333)	(328)	(2,945)
Short-term investment with maturity date within three months from acquisition date	-	1,000	-
Cash and cash equivalents	<u>¥ 13,734</u>	<u>¥ 15,497</u>	<u>\$ 121,486</u>

### 4. TRADE NOTES AND OTHERS

Notes maturing at the end of the period are settled on their clearance dates. As the balance sheet date of the Nine-Month period ended December 31, 2017 was a bank holiday, 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 December 31, 2017:

	Millions of Yen	Thousands of
		U.S. Dollars
Trade notes receivable	¥ 564	\$ 4,988

## 5. SEGMENT INFORMATION

### *Information about Sales and Profit (Loss)*

	Millions of Yen			
	Reportable Segment			Total
<u>December 31, 2017</u>	<u>Information Communication</u>	<u>Information Security</u>	<u>Living and Industrial Materials</u>	
Sales:				
Sales to external customers	¥ 29,886	¥ 22,094	¥ 17,115	¥ 69,096
Intersegment sales or transfers	<u>1,240</u>	<u>747</u>	<u>278</u>	<u>2,266</u>
Total	<u>¥ 31,127</u>	<u>¥ 22,842</u>	<u>¥ 17,393</u>	<u>¥ 71,363</u>
Segment profit (loss)	¥ (21)	¥ 491	¥ 601	¥ 1,071

	Millions of Yen			
	<u>Other (*1)</u>	<u>Total</u>	<u>Reconciliations (*2)</u>	<u>Interim Consolidated Statements of Income (*3)</u>
Sales:				
Sales to external customers	¥ 1,503	¥ 70,600	¥ -	¥ 70,600
Intersegment sales or transfers	<u>6,001</u>	<u>8,267</u>	<u>(8,267)</u>	<u>-</u>
Total	<u>¥ 7,505</u>	<u>¥ 78,868</u>	<u>¥ (8,267)</u>	<u>¥ 70,600</u>
Segment profit (loss)	¥ 331	¥ 1,402	¥ (53)	¥ 1,349

	Millions of Yen			
	Reportable Segment			
December 31, 2016	Information Communication	Information Security	Living and Industrial Materials	Total
Sales:				
Sales to external customers	¥ 31,440	¥ 22,508	¥ 15,718	¥ 69,667
Intersegment sales or transfers	1,270	908	300	2,478
Total	<u>¥ 32,711</u>	<u>¥ 23,416</u>	<u>¥ 16,018</u>	<u>¥ 72,146</u>
Segment profit (loss)	¥ 149	¥ 1,459	¥ 413	¥ 2,022

	Millions of Yen			
	Other (*1)	Total	Reconciliations (*2)	Interim Consolidated Statements of Income (*3)
Sales:				
Sales to external customers	¥ 1,390	¥ 71,058	¥ -	¥ 71,058
Intersegment sales or transfers	6,214	8,692	(8,692)	-
Total	<u>¥ 7,604</u>	<u>¥ 79,751</u>	<u>¥ (8,692)</u>	<u>¥ 71,058</u>
Segment profit (loss)	¥ 366	¥ 2,389	¥ 123	¥ 2,512

December 31, 2017	Thousands of U.S. Dollars			
	Reportable Segment			Total
	Information Communication	Information Security	Living and Industrial Materials	
Sales:				
Sales to external customers	\$ 264,360	\$ 195,435	\$ 151,393	\$ 611,198
Intersegment sales or transfers	10,968	6,607	2,459	20,044
Total	<u>\$ 275,338</u>	<u>\$ 202,052</u>	<u>\$ 153,852</u>	<u>\$ 631,251</u>
Segment profit (loss)	\$ (185)	\$ 4,343	\$ 5,316	\$ 9,473

	Thousands of U.S. Dollars			
	Other (*1)	Total	Reconciliations (*2)	Interim Consolidated Statements of Income (*3)
Sales:				
Sales to external customers	\$ 13,295	\$ 624,502	\$ -	\$ 624,502
Intersegment sales or transfers	53,082	73,126	(73,126)	-
Total	<u>\$ 66,386</u>	<u>\$ 697,638</u>	<u>\$ (73,126)</u>	<u>\$ 624,502</u>
Segment profit (loss)	\$ 2,927	\$ 12,401	\$ (468)	\$ 11,932

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 (loss) stated in the interim consolidated statements of income.

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

#### **Significant impairment loss on non-current assets**

Because the Company decided to rebuild its head office, and there is no plan for its future use, the Company recognized an impairment loss of ¥1,441 million (\$12,746 thousand) on property, plant and equipment for the Nine-Month period ended December 31, 2017.

Among them, the impairment loss recorded in the "Information Communication" segment is ¥440 million (\$3,892 thousand), and the impairment loss on corporate assets not included in the reportable segment is ¥1,000 million (\$8,845 thousand).

The Company recognized an impairment loss of ¥148 million for the "Information Communication" segment for the Nine-Month period ended December 31, 2016.

**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 ¥776 million (\$6,864 thousand) in the Nine-Month period ended December 31, 2017.

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