

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

*Interim Consolidated Financial Statements (Unaudited)
for the Six-Month Period Ended September 30, 2017*

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Balance Sheets

September 30, 2017 as compared with March 31, 2017 (Unaudited)

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	September 30, 2017	March 31, 2017	September 30, 2017
CURRENT ASSETS:			
Cash and cash equivalents (Note 3)	¥ 11,571	¥ 17,414	\$ 102,634
Receivables (Note 4):			
Trade notes	2,508	5,839	22,245
Trade accounts	22,468	19,305	199,290
Allowance for doubtful accounts	(72)	(60)	(638)
Short-term investments (Note 3)	332	330	2,944
Inventories	8,094	6,157	71,793
Deferred tax assets	616	620	5,463
Prepaid expenses and other current assets	5,289	507	46,913
Total current assets	50,809	50,114	450,674
PROPERTY, PLANT AND EQUIPMENT:			
Land	15,663	15,477	138,930
Buildings and structures	43,193	44,953	383,120
Machinery and vehicles	50,328	49,047	446,407
Furniture and fixtures	6,506	6,217	57,708
Lease assets	2,466	2,238	21,873
Construction in progress	3,349	879	29,705
Total	121,508	118,814	1,077,771
Accumulated depreciation	(78,260)	(77,593)	(694,163)
Net property, plant and equipment	43,248	41,220	383,608
INVESTMENTS AND OTHER ASSETS:			
Investment securities	18,224	20,212	161,646
Investments in associated companies	227	436	2,013
Goodwill	971	251	8,612
Intangible assets	1,155	1,214	10,244
Deferred tax assets	173	169	1,534
Other long-term assets	1,148	1,010	10,182
Allowance for doubtful accounts	(43)	(47)	(381)
Total investments and other assets	21,857	23,246	193,870
TOTAL	¥ 115,915	¥ 114,581	\$ 1,028,162

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Balance Sheets

September 30, 2017 as compared with March 31, 2017 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	September 30, 2017	March 31, 2017	September 30, 2017
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term loans payable	¥ -	¥ 10	\$ -
Current portion of long-term debt	847	1,058	7,512
Payables (Note 4):			
Trade notes	1,711	8,076	15,176
Trade accounts	16,331	9,680	144,855
Income taxes payable	567	473	5,029
Accrued bonuses	1,198	1,225	10,626
Other current liabilities	7,534	7,721	66,826
Total current liabilities	28,191	28,245	250,053
LONG-TERM LIABILITIES:			
Long-term debt	14,721	14,110	130,574
Liability for retirement benefits	5,424	5,564	48,110
Deferred tax liabilities	2,769	3,180	24,560
Provision for dismantling of non-current assets	2,000	-	17,739
Other long-term liabilities	378	299	3,352
Total long-term liabilities	25,294	23,155	224,356
EQUITY:			
Common stock—authorized, 360,800,000 shares; issued, 90,200,000 shares as of September 30, 2017 and March 31, 2017	4,510	4,510	40,003
Capital surplus	1,728	1,742	15,327
Retained earnings	47,676	47,360	422,884
Treasury stock—at cost, 2,417,714 shares as of September 30, 2017 and 2,417,614 shares as of March 31, 2017	(548)	(548)	(4,860)
Accumulated other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities	9,008	9,991	79,900
Foreign currency translation adjustments	15	85	133
Remeasurement of defined benefit plans	(11)	(17)	(97)
Total	62,379	63,124	553,299
Non-controlling interests	50	55	443
Total equity	62,429	63,180	553,743
TOTAL	¥ 115,915	¥ 114,581	\$ 1,028,162

See notes to interim consolidated financial statements.

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Statements of Income Six-Month Periods Ended September 30, 2017 and 2016 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2017	2016	2017
NET SALES (Note 5)	¥ 44,266	¥ 45,529	\$ 392,637
COST OF SALES	36,827	37,255	326,654
Gross profit	7,438	8,273	65,974
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 5):			
Delivery expenses	1,943	2,019	17,234
Provision of allowance for doubtful accounts	5	(25)	44
Salaries and allowances	2,478	2,459	21,979
Provision for employees' bonuses	389	389	3,450
Provision for directors' bonuses	30	30	266
Retirement benefit expenses	121	159	1,073
Other	2,265	1,965	20,090
Total selling, general and administrative expenses	7,233	6,996	64,156
Operating income (Note 5)	204	1,276	1,809
OTHER INCOME (EXPENSES):			
Interest and dividend income	214	174	1,898
Interest expenses	(47)	(53)	(416)
Gain on sales of goods	141	137	1,250
Rent income (expenses) on facilities	60	62	532
Dividend income of insurance	163	185	1,445
Gain (loss) on sales and retirement of non-current assets	(291)	(66)	(2,581)
Gain on step acquisition	44	-	390
Gain on sales of investment securities	4,064	4	36,047
Impairment loss (Note 5)	(1,441)	(148)	(12,781)
Provision for dismantling of non-current assets	(2,000)	-	(17,739)
Other—net	27	19	239
Other income—net	937	316	8,311
INCOME BEFORE INCOME TAXES	1,141	1,593	10,120
INCOME TAXES	491	490	4,355
NET INCOME	650	1,102	5,765
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	(16)	11	(141)
NET INCOME ATTRIBUTABLE TO OWNERS OF PARENT	¥ 667	¥ 1,091	\$ 5,916

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Statements of Income

Six-Month Periods Ended September 30, 2017 and 2016 (Unaudited)

	Yen		U.S. Dollars	
	Six-Month Period Ended September 30		Six-Month Period Ended September 30	
	2017	2016	2017	
PER SHARE OF COMMON STOCK:				
Basic net income	¥ 76.03	¥ 124.29	\$ 0.67	
Diluted net income	67.26	109.96	0.59	
Cash dividends applicable to the period	4.00	4.00	0.03	

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 Six-Month Periods Ended September 30, 2017 and 2016 (Unaudited)

	Millions of Yen		Thousands of
	Six-Month		U.S. Dollars
	Period Ended		(Note 1)
	September 30		Six-Month
	2017	2016	Period Ended
			September 30
			2017
NET INCOME	¥ 650	¥ 1,102	\$ 5,765
OTHER COMPREHENSIVE INCOME:			
Unrealized gain (loss) on available-for-sale securities	(983)	673	(8,719)
Foreign currency translation adjustments	(64)	(165)	(567)
Remeasurement of defined benefit plans	6	66	53
Share of other comprehensive income in associated companies accounted for using the equity method	(4)	(21)	(35)
Total other comprehensive income	(1,046)	552	(9,277)
COMPREHENSIVE INCOME	¥ (395)	¥ 1,655	\$ (3,503)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of parent	¥ (379)	¥ 1,643	\$ (3,361)
Non-controlling interests	(16)	11	(141)

See notes to interim consolidated financial statements.

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Statements of Cash Flows

Six-Month Periods Ended September 30, 2017 and 2016 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2017	2016	2017
OPERATING ACTIVITIES:			
Income before income taxes	¥ 1,141	¥ 1,593	\$ 10,120
Adjustments for:			
Income taxes—paid	(374)	(996)	(3,317)
Depreciation and amortization	2,064	1,794	18,307
(Gain) Loss on sales and retirement of property, plant and equipment	290	66	2,572
Impairment loss (Note 5)	1,441	148	12,781
(Gain) Loss on step acquisition	(44)	-	(390)
(Gain) Loss on sales of investment securities	(4,064)	9	(36,047)
Changes in assets and liabilities:			
(Increase) Decrease in trade receivables	328	2,299	2,909
(Increase) Decrease in inventories	(1,858)	(1,191)	(16,480)
Increase (Decrease) in trade payables	113	(576)	1,002
Increase (Decrease) in liability for retirement benefits	(161)	(115)	(1,428)
Increase (Decrease) in accrued consumption tax	(198)	(14)	(1,756)
Increase (Decrease) in accrued expense	220	(190)	1,951
Increase (Decrease) in accrued bonuses	(26)	-	(230)
Increase (Decrease) in provision for dismantling of non-current assets	2,000	-	17,739
Other—net	(54)	(269)	(478)
Total adjustments	(323)	964	(2,864)
Net cash provided by operating activities	817	2,557	7,246
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(4,492)	(2,009)	(39,843)
Purchases of intangible assets	-	(136)	-
Proceeds from sales of property, plant and equipment	2	11	17
Purchases of investment securities	(41)	(507)	(363)
Proceeds from sales of investment securities	-	44	-
Purchases of shares of subsidiaries resulting in change in scope of consolidation	(594)	-	(5,268)
Other—net	(342)	(52)	(3,033)
Net cash used in investing activities	(5,467)	(2,649)	(48,492)
FORWARD	¥ (4,649)	¥ (92)	\$ (41,236)

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Statements of Cash Flows

Six-Month Periods Ended September 30, 2017 and 2016 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2017	2016	2017
FORWARD	¥ (4,649)	¥ (92)	\$ (41,236)
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term loans payable	(31)	-	(274)
Repayments of long-term debt	(611)	(529)	(5,419)
Dividends paid	(351)	(351)	(3,113)
Other—net	(196)	(0)	(1,738)
Net cash used in financing activities	(1,190)	(881)	(10,555)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(3)	(18)	(26)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,843)	(992)	(51,827)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	17,414	14,234	154,461
CASH AND CASH EQUIVALENTS, END OF PERIOD (Note 3)	¥ 11,571	¥ 13,242	\$ 102,634

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 ¥112.74 to \$1, the approximate rate of exchange as of September 30, 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.
- 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 September 30, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	September 30, 2017	September 30, 2016	September 30, 2017
Cash and time deposits	¥ 11,904	¥ 13,566	\$ 105,588
Time deposits exceeding three months to maturity	<u>(332)</u>	<u>(324)</u>	<u>(2,944)</u>
Cash and cash equivalents	<u>¥ 11,571</u>	<u>¥ 13,242</u>	<u>\$ 102,634</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 six-month period ended September 30, 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 September 30, 2017:

	Millions of Yen	Thousands of U.S. Dollars
Trade notes receivable	¥ 471	\$ 4,177
Trade notes payable	58	514

5. SEGMENT INFORMATION

Information about Sales and Profit (Loss)

	Millions of Yen			
	Reportable Segment			
	Information Communication	Information Security	Living and Industrial Materials	Total
<u>September 30, 2017</u>				
Sales:				
Sales to external customers	¥ 17,888	¥ 14,460	¥ 11,004	¥ 43,353
Intersegment sales or transfers	639	415	182	1,236
Total	<u>¥ 18,527</u>	<u>¥ 14,875</u>	<u>¥ 11,186</u>	<u>¥ 44,589</u>
Segment profit (loss)	¥ (594)	¥ 374	¥ 379	¥ 159
	Millions of Yen			
	Other (*1)	Total	Reconciliations (*2)	Interim Consolidated Statements of Income (*3)
Sales:				
Sales to external customers	¥ 912	¥ 44,266	¥ -	¥ 44,266
Intersegment sales or transfers	3,768	5,005	(5,005)	-
Total	<u>¥ 4,681</u>	<u>¥ 49,271</u>	<u>¥ (5,005)</u>	<u>¥ 44,266</u>
Segment profit (loss)	¥ 134	¥ 294	¥ (89)	¥ 204

	Millions of Yen			
	Reportable Segment			
September 30, 2016	Information Communication	Information Security	Living and Industrial Materials	Total
Sales:				
Sales to external customers	¥ 18,978	¥ 15,174	¥ 10,527	¥ 44,680
Intersegment sales or transfers	818	545	186	1,550
Total	<u>¥ 19,796</u>	<u>¥ 15,720</u>	<u>¥ 10,714</u>	<u>¥ 46,231</u>
Segment profit (loss)	¥ (285)	¥ 1,178	¥ 296	¥ 1,190

	Millions of Yen			
	Other (*1)	Total	Reconciliations (*2)	Interim Consolidated Statements of Income (*3)
Sales:				
Sales to external customers	¥ 848	¥ 45,529	¥ -	¥ 45,529
Intersegment sales or transfers	3,921	5,471	(5,471)	-
Total	<u>¥ 4,769</u>	<u>¥ 51,000</u>	<u>¥ (5,471)</u>	<u>¥ 45,529</u>
Segment profit (loss)	¥ 162	¥ 1,353	¥ (76)	¥ 1,276

	Thousands of U.S. Dollars			
	Reportable Segment			Total
September 30, 2017	Information Communication	Information Security	Living and Industrial Materials	
Sales:				
Sales to external customers	\$ 158,665	\$ 128,259	\$ 97,605	\$ 384,539
Intersegment sales or transfers	5,667	3,681	1,614	10,963
Total	<u>\$ 164,333</u>	<u>\$ 131,940</u>	<u>\$ 99,219</u>	<u>\$ 395,502</u>
Segment profit (loss)	\$ (5,268)	\$ 3,317	\$ 3,361	\$ 1,410

	Thousands of U.S. Dollars (Note 1)			
	Other (*1)	Total	Reconciliations (*2)	Interim Consolidated Statements of Income (*3)
Sales:				
Sales to external customers	\$ 8,089	\$ 392,637	\$ -	\$ 392,637
Intersegment sales or transfers	33,422	44,394	(44,394)	-
Total	<u>\$ 41,520</u>	<u>\$ 437,032</u>	<u>\$ (44,394)</u>	<u>\$ 392,637</u>
Segment profit (loss)	\$ 1,188	\$ 2,607	\$ (789)	\$ 1,809

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 (\$12,781 thousand) on property, plant and equipment for the six-month period ended September 30, 2017.

Among them, the impairment loss recorded in the "Information Communication" segment is ¥440 million (\$3,902 thousand), and the impairment loss on corporate assets not included in the reportable segment is ¥1,000 million (\$8,869 thousand).

The Company recognized an impairment loss of ¥148 million for the "Information Communication" segment for the six-month period ended September 30, 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 ¥786 million (\$6,971 thousand) in the six-month period ended September 30, 2017.

6. SUBSEQUENT EVENT

Change in the Number of Shares Constituting One Trading Unit and Consolidation of Shares

At the Board of Directors’ meeting held on May 11, 2017, the Company resolved to change the number of shares constituting one trading unit and partially amend its articles of incorporation, as well as resolved to submit a proposal concerning consolidation of shares at the 137th ordinary general shareholders’ meeting of the Company held on June 29, 2017. The proposal has been resolved as proposed at the said shareholders’ meeting. Based on the resolution, the Company changed the number of shares constituting one trading unit from 1,000 shares to 100 shares effective October 1, 2017, and conducted a consolidation of shares of common stock at a ratio of one share for each ten shares owned by shareholders recorded on the latest shareholder register as of September 30, 2017.

Appropriation of Retained Earnings

The following appropriation of retained earnings as of September 30, 2017, was approved at the Company’s Board of Directors’ meeting held on November 8, 2017:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Interim cash dividends, ¥5.00 (\$0.04) per share	¥ 439	\$ 3,893

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.

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