

KYODO PRINTING CO., LTD.
and Consolidated Subsidiaries

Interim Consolidated Financial Statements (Unaudited)
for the Nine-Month Period Ended December 31, 2018

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Balance Sheets

December 31, 2018 as compared with March 31, 2018 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	December 31, 2018	March 31, 2018	December 31, 2018
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 4)	¥ 8,924	¥ 14,606	\$ 80,461
Receivables:			
Trade notes (Note 3)	6,428	6,622	57,956
Trade accounts	20,392	20,697	183,860
Allowance for doubtful accounts	(64)	(73)	(577)
Short-term investments (Note 4)	332	333	2,993
Inventories	8,213	6,907	74,051
Prepaid expenses and other current assets	1,765	823	15,913
	<u>45,992</u>	<u>49,917</u>	<u>414,678</u>
PROPERTY, PLANT AND EQUIPMENT:			
Land	15,644	15,661	141,051
Buildings and structures	49,713	45,115	448,228
Machinery and vehicles	49,049	49,115	442,241
Furniture and fixtures	6,868	6,771	61,924
Lease assets	3,503	3,310	31,584
Construction in progress	2,296	3,299	20,701
Total	<u>127,076</u>	<u>123,273</u>	<u>1,145,757</u>
Accumulated depreciation	<u>(74,692)</u>	<u>(76,584)</u>	<u>(673,446)</u>
	<u>52,384</u>	<u>46,689</u>	<u>472,310</u>
INVESTMENTS AND OTHER ASSETS:			
Investment securities	17,552	19,186	158,254
Investments in subsidiaries and associated companies	150	191	1,352
Goodwill	656	858	5,914
Intangible assets	1,050	1,130	9,467
Long-term loans receivable	37	45	333
Asset for retirement benefits	1,276	1,042	11,504
Deferred tax assets	379	377	3,417
Other long-term assets	1,267	1,159	11,423
Allowance for doubtful accounts	<u>(50)</u>	<u>(52)</u>	<u>(450)</u>
	<u>22,321</u>	<u>23,936</u>	<u>201,253</u>
TOTAL	<u>¥ 120,698</u>	<u>¥ 120,544</u>	<u>\$ 1,088,251</u>

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Balance Sheets

December 31, 2018 as compared with March 31, 2018 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	December 31, 2018	March 31, 2018	December 31, 2018
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Current portion of long-term debt	¥ 5,571	¥ 542	\$ 50,229
Payables:			
Trade notes (Note 3)	8,063	8,248	72,698
Trade accounts	9,849	10,255	88,801
Income taxes payable	35	1,496	315
Accrued bonuses	428	1,202	3,858
Other current liabilities	8,017	7,725	72,283
Total current liabilities	31,966	29,470	288,215
LONG-TERM LIABILITIES:			
Long-term debt	16,425	16,507	148,093
Liability for retirement benefits	6,221	6,115	56,090
Provision for dismantling of non-current assets	2,000	2,000	18,032
Deferred tax liabilities	1,307	1,860	11,784
Other long-term liabilities	425	372	3,831
Total long-term liabilities	26,379	26,856	237,841
EQUITY:			
Common stock—authorized, 36,080,000 shares; issued, 9,020,000 shares as of December 31, 2018 and March 31, 2018	4,510	4,510	40,663
Capital surplus	1,765	1,728	15,913
Retained earnings	48,363	48,607	436,056
Treasury stock—at cost, 242,406 shares as of December 31, 2018 and 242,141 shares as of March 31, 2018	(588)	(549)	(5,301)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	8,281	9,679	74,664
Foreign currency translation adjustments	(116)	76	(1,045)
Remeasurement of defined benefit plans	91	92	820
Total	62,306	64,143	561,770
Non-controlling interests	46	73	414
Total equity	62,352	64,217	562,185
TOTAL	¥ 120,698	¥ 120,544	\$ 1,088,251

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, 2018 and 2017 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Nine-Month Period Ended December 31		Nine-Month Period Ended December 31
	2018	2017	2018
NET SALES (Note 5)	¥ 71,920	¥ 70,600	\$ 648,453
COST OF SALES	59,510	58,080	536,561
Gross profit	12,410	12,520	111,892
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 5):			
Delivery expenses	3,489	3,192	31,457
Provision of allowance for doubtful accounts	(10)	23	(90)
Salaries and allowances	4,144	4,142	37,363
Provision for employees' bonuses	123	132	1,109
Provision for directors' bonuses	39	45	351
Retirement benefit expenses	269	184	2,425
Other	3,519	3,450	31,728
Total selling, general and administrative expenses	11,574	11,170	104,354
Operating income (Note 5)	835	1,349	7,528
OTHER INCOME (EXPENSES):			
Interest and dividend income	282	331	2,542
Interest expenses	(90)	(79)	(811)
Gain on sales of goods	192	219	1,731
Rent income (expenses) on facilities	83	91	748
Dividend income of insurance	172	163	1,550
Loss on sales and retirement of non-current assets	(460)	(464)	(4,147)
Gain on step acquisition	-	44	-
Gain on sale of investment securities	272	4,066	2,452
Impairment loss (Note 5)	-	(1,441)	-
Provision for dismantling of non-current assets	-	(2,000)	-
Syndicated loan fee	(55)	-	(495)
Other—net	(78)	33	(703)
Other income—net	318	964	2,867
INCOME BEFORE INCOME TAXES	1,154	2,314	10,404
INCOME TAXES	545	855	4,913
NET INCOME	609	1,458	5,490
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	(26)	(24)	(234)
NET INCOME ATTRIBUTABLE TO OWNERS OF PARENT	¥ 635	¥ 1,483	\$ 5,725

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Statements of Income

Nine-Month Periods Ended December 31, 2018 and 2017 (Unaudited)

	Yen		U.S. Dollars	
	Nine-Month Period Ended December 31		Nine-Month Period Ended December 31	
	2018	2017	2018	
PER SHARE OF COMMON STOCK:				
Basic net income (*1)	¥ 72.41	¥ 168.94	\$	0.65
Diluted net income (*1)	64.06	149.46		0.57
Cash dividends applicable to the period (*1)	50.00	50.00		0.45

Notes:

(*1) 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, diluted net income and cash dividends applicable to the period are calculated on the assumption that the stock consolidation was carried out at the beginning of the previous consolidated fiscal year.

Shares of the Company owned by Trust & Custody Services Bank, Ltd. (trust E account) as a trust property of Board Benefit Trust (“BBT”) are included in treasury stock which is deducted from the calculation of the average number of shares during the period, in order to calculate basic net income per share.

The average number of shares of treasury stock deducted during the period was 28,500 shares in calculating the basic net income per share for the Nine-month period ended December 31, 2018.

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, 2018 and 2017 (Unaudited)

	Millions of Yen		Thousands of
	Nine-Month		U.S. Dollars
	2018	2017	(Note 1)
	Period Ended		Nine-Month
	December 31		Period Ended
	2018	2017	December 31
NET INCOME	¥ 609	¥ 1,458	\$ 5,490
OTHER COMPREHENSIVE INCOME:			
Unrealized gain (loss) on available-for-sale securities	(1,393)	52	(12,559)
Foreign currency translation adjustments	(194)	(83)	(1,749)
Remeasurement of defined benefit plans	(0)	9	(0)
Share of other comprehensive income in associated companies accounted for using the equity method	(4)	(1)	(36)
Total other comprehensive income	(1,592)	(21)	(14,353)
COMPREHENSIVE INCOME	¥ (983)	¥ 1,436	\$ (8,863)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of parent	¥ (955)	¥ 1,461	\$ (8,610)
Non-controlling interests	(27)	(24)	(243)

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, 2018 and 2017 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Nine-Month Period Ended December 31		Nine-Month Period Ended December 31
	2018	2017	2018
OPERATING ACTIVITIES:			
Income before income taxes	¥ 1,154	¥ 2,314	\$ 10,404
Adjustments for:			
Income taxes—paid	(2,261)	(844)	(20,385)
Depreciation and amortization	3,692	3,118	33,288
Amortization of goodwill	148	117	1,334
(Gain) Loss on sales and retirement of property, plant and equipment	457	464	4,120
Impairment loss (Note 5)	-	1,441	-
(Gain) Loss on step acquisition	-	(44)	-
(Gain) Loss on sales of investment securities	(272)	(4,066)	(2,452)
Changes in assets and liabilities:			
(Increase) Decrease in trade receivables	481	(1,321)	4,336
(Increase) Decrease in inventories	(1,314)	(708)	(11,847)
Increase (Decrease) in trade payables	(579)	595	(5,220)
Increase (Decrease) in liability for retirement benefits	(126)	(139)	(1,136)
Increase (Decrease) in accrued consumption tax	(40)	(27)	(360)
Increase (Decrease) in accrued expense	(185)	174	(1,668)
Increase (Decrease) in accrued bonuses	(773)	(779)	(6,969)
Increase (Decrease) in provision for dismantling of non-current assets	-	2,000	-
Other—net	(43)	(6)	(387)
Total adjustments	(817)	(25)	(7,366)
Net cash provided by operating activities	336	2,288	3,029
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(8,736)	(6,883)	(78,766)
Purchases of intangible assets	(229)	(175)	(2,064)
Proceeds from sales of property, plant and equipment	33	34	297
Purchases of investment securities	(504)	(44)	(4,544)
Proceeds from sales of investment securities	197	4,677	1,776
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	(594)	-
Other—net	(431)	(404)	(3,886)
Net cash used in investing activities	(9,670)	(3,389)	(87,187)
FORWARD	¥ (9,334)	¥ (1,101)	\$ (84,158)

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Statements of Cash Flows

Nine-Month Periods Ended December 31, 2018 and 2017 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Nine-Month Period Ended December 31		Nine-Month Period Ended December 31
	2018	2017	2018
FORWARD	¥ (9,334)	¥ (1,101)	\$ (84,158)
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term loans payable	-	(31)	-
Repayments of long-term debt	(421)	(1,738)	(3,795)
Dividends paid	(881)	(790)	(7,943)
Proceeds from long-term debt	5,000	-	45,081
Other—net	(0)	(5)	(0)
Net cash provided by (used in) financing activities	<u>3,696</u>	<u>(2,565)</u>	<u>33,324</u>
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	<u>(44)</u>	<u>(12)</u>	<u>(396)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,681)	(3,679)	(51,221)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>14,606</u>	<u>17,414</u>	<u>131,692</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD (Note 4)	<u>¥ 8,924</u>	<u>¥ 13,734</u>	<u>\$ 80,461</u>

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 ¥110.91 to \$1, the approximate rate of exchange as of December 28, 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 Nine-month period ended December 31, 2018. Deferred tax assets are presented under “INVESTMENTS AND OTHER ASSETS” and deferred tax liabilities are presented under “LONG-TERM LIABILITIES.”

Based on the resolution of the 138th Ordinary General Meeting of Shareholders held on June 28, 2018, the Company announced that it has adopted a new performance-linked stock compensation plan (the “Plan”) “BBT” for directors and executive officers of the Company and directors with titles of the Company at subsidiaries of the Company (“Directors, etc.”).

Regarding the accounting treatment related to the Plan, in accordance with “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts” (Practical Issue Task Force (“PITF”) No. 30, March 26, 2015), the gross method is applied.

a. Outline of transaction

Under the Plan, based on money contributed by the Company, the Company's shares are acquired through the trust, and in accordance with the Company's and certain subsidiaries' executive's share benefit provision, the Company's shares and the money equivalent to the amount calculated by converting Company shares at fair market value are provided to Directors, etc. through the trust according to the degree of performance achievement, etc. In principle, the timing when the Directors, etc. receive benefits of the Company's shares, etc. will be at the time of retirement of Directors, etc.

b. The Company's own stock remaining in the trust

The Company records the shares of the Company remaining in the trust as treasury stock in the net assets section based on the carrying amount (excluding the amount of accompanying expenses) in the trust. The carrying amount of the treasury stock at the end of the third quarter ended December 31, 2018 was ¥164 million (\$1,478 thousand), and the number of shares was 57,000 shares.

3. TRADE NOTES

Notes maturing at the end of the period are settled on their clearance dates. As the balance sheet dates of the Nine-month period ended December 31, 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 as of December 31, 2018 and March 31, 2018:

	Millions of Yen		Thousands of
	December 31, 2018	March 31, 2018	U.S. Dollars December 31, 2018
Trade notes receivable	¥ 420	¥ 471	\$ 3,786
Trade notes payable	-	70	-

4. SUPPLEMENTARY CASH FLOW INFORMATION

Cash and cash equivalents as of December 31, 2018 and 2017 consisted of the following:

	Millions of Yen		Thousands of
	December 31, 2018	December 31, 2017	U.S. Dollars December 31, 2018
Cash and time deposits	¥ 9,257	¥ 14,068	\$ 83,464
Time deposits exceeding three months to maturity	(332)	(333)	(2,993)
Cash and cash equivalents	¥ 8,924	¥ 13,734	\$ 80,461

5. SEGMENT INFORMATION

Information about Sales and Profit (Loss)

<u>December 31, 2018</u>	Millions of Yen			
	Reportable Segment			Total
	Information Communication	Information Security	Living and Industrial Materials	
Sales:				
Sales to external customers	¥ 28,589	¥ 22,903	¥ 18,893	¥ 70,386
Intersegment sales or transfers	1,183	648	309	2,142
Total	¥ 29,773	¥ 23,552	¥ 19,203	¥ 72,529
Segment profit (loss)	¥ (545)	¥ 975	¥ 204	¥ 634
	Millions of Yen			
	Other (*1)	Total	Reconciliations (*2)	Interim Consolidated Statements of Income (*3)
Sales:				
Sales to external customers	¥ 1,534	¥ 71,920	¥ -	¥ 71,920
Intersegment sales or transfers	6,219	8,362	(8,362)	-
Total	¥ 7,753	¥ 80,283	¥ (8,362)	¥ 71,920
Segment profit (loss)	¥ 241	¥ 875	¥ (39)	¥ 835

December 31, 2017	Millions of Yen			
	Reportable Segment			
	Information Communication	Information Security	Living and Industrial Materials	Total
Sales:				
Sales to external customers	¥ 29,886	¥ 22,094	¥ 17,115	¥ 69,096
Intersegment sales or transfers	1,240	747	278	2,266
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			
	Other (*1)	Total	Reconciliations (*2)	Interim Consolidated Statements of Income (*3)
Sales:				
Sales to external customers	¥ 1,503	¥ 70,600	¥ -	¥ 70,600
Intersegment sales or transfers	6,001	8,267	(8,267)	-
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

	Thousands of U.S. Dollars			
	Reportable Segment			
December 31, 2018	Information Communication	Information Security	Living and Industrial Materials	Total
Sales:				
Sales to external customers	\$ 257,767	\$ 206,500	\$ 170,345	\$ 634,622
Intersegment sales or transfers	10,666	5,842	2,786	19,312
Total	<u>\$ 268,442</u>	<u>\$ 212,352</u>	<u>\$ 173,140</u>	<u>\$ 653,944</u>
Segment profit (loss)	\$ (4,913)	\$ 8,790	\$ 1,839	\$ 5,716

	Thousands of U.S. Dollars			
	Other (*1)	Total	Reconciliations (*2)	Consolidated Statements of Income (*3)
Sales:				
Sales to external customers	\$ 13,831	\$ 648,453	\$ -	\$ 648,453
Intersegment sales or transfers	56,072	75,394	(75,394)	-
Total	<u>\$ 69,903</u>	<u>\$ 723,857</u>	<u>\$ (75,394)</u>	<u>\$ 648,453</u>
Segment profit (loss)	\$ 2,172	\$ 7,889	\$ (351)	\$ 7,528

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 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 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, and the impairment loss on corporate assets not included in the reportable segment is ¥1,000 million.

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 in the Nine-month period ended December 31, 2017.

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