

KYODO PRINTING CO., LTD.
and Consolidated Subsidiaries

Interim Consolidated Financial Statements (Unaudited)
for the Six-Month Period Ended September 30, 2018

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Balance Sheets

September 30, 2018 as compared with March 31, 2018 (Unaudited)

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	September 30, 2018	March 31, 2018	September 30, 2018
CURRENT ASSETS:			
Cash and cash equivalents (Note 4)	¥ 9,860	¥ 14,606	\$ 86,811
Receivables:			
Trade notes (Note 3)	5,926	6,622	52,174
Trade accounts	19,861	20,697	174,863
Allowance for doubtful accounts	(61)	(73)	(537)
Short-term investments (Note 4)	333	333	2,931
Inventories	8,475	6,907	74,617
Prepaid expenses and other current assets	1,128	823	9,931
Total current assets	<u>45,525</u>	<u>49,917</u>	<u>400,818</u>
PROPERTY, PLANT AND EQUIPMENT:			
Land	15,647	15,661	137,761
Buildings and structures	49,391	45,115	434,856
Machinery and vehicles	50,716	49,115	446,522
Furniture and fixtures	7,025	6,771	61,850
Lease assets	3,312	3,310	29,160
Construction in progress	975	3,299	8,584
Total	<u>127,069</u>	<u>123,273</u>	<u>1,118,762</u>
Accumulated depreciation	<u>(76,122)</u>	<u>(76,584)</u>	<u>(670,206)</u>
Net property, plant and equipment	<u>50,946</u>	<u>46,689</u>	<u>448,547</u>
INVESTMENTS AND OTHER ASSETS:			
Investment securities	21,251	19,186	187,101
Investments in subsidiaries and associated companies	151	191	1,329
Goodwill	712	858	6,268
Intangible assets	1,058	1,130	9,315
Long-term loans receivable	40	45	352
Asset for retirement benefits	1,197	1,042	10,538
Deferred tax assets	381	377	3,354
Other long-term assets	1,251	1,159	11,014
Allowance for doubtful accounts	<u>(50)</u>	<u>(52)</u>	<u>(440)</u>
Total investments and other assets	<u>25,993</u>	<u>23,936</u>	<u>228,851</u>
TOTAL	<u>¥ 122,464</u>	<u>¥ 120,544</u>	<u>\$ 1,078,217</u>

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Balance Sheets

September 30, 2018 as compared with March 31, 2018 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	September 30, 2018	March 31, 2018	September 30, 2018
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Current portion of long-term debt	¥ 577	¥ 542	\$ 5,080
Payables:			
Trade notes (Note 3)	7,875	8,248	69,334
Trade accounts	9,704	10,255	85,437
Income taxes payable	287	1,496	2,526
Accrued bonuses	1,197	1,202	10,538
Other current liabilities	10,316	7,725	90,825
	<u>29,958</u>	<u>29,470</u>	<u>263,761</u>
LONG-TERM LIABILITIES:			
Long-term debt	16,476	16,507	145,060
Liability for retirement benefits	6,113	6,115	53,821
Provision for dismantling of non-current assets	2,000	2,000	17,608
Deferred tax liabilities	2,528	1,860	22,257
Other long-term liabilities	307	372	2,702
	<u>27,426</u>	<u>26,856</u>	<u>241,468</u>
EQUITY:			
Common stock—authorized, 36,080,000 shares; issued, 9,020,000 shares as of September 30, 2018 and March 31, 2018	4,510	4,510	39,707
Capital surplus	1,764	1,728	15,530
Retained earnings	48,242	48,607	424,740
Treasury stock—at cost, 242,316 shares as of September 30, 2018 and 242,141 shares as of March 31, 2018	(588)	(549)	(5,176)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	11,144	9,679	98,115
Foreign currency translation adjustments	(144)	76	(1,267)
Remeasurement of defined benefit plans	91	92	801
Total	65,020	64,143	572,459
Non-controlling interests	59	73	519
	<u>65,079</u>	<u>64,217</u>	<u>572,979</u>
TOTAL	<u>¥ 122,464</u>	<u>¥ 120,544</u>	<u>\$ 1,078,217</u>

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, 2018 and 2017 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2018	2017	2018
NET SALES (Note 5)	¥ 45,989	¥ 44,266	\$ 404,904
COST OF SALES	<u>38,357</u>	<u>36,827</u>	<u>337,709</u>
Gross profit	7,631	7,438	67,186
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 5):			
Delivery expenses	2,112	1,943	18,594
Provision of allowance for doubtful accounts	(13)	5	(114)
Salaries and allowances	2,484	2,478	21,870
Provision for employees' bonuses	370	389	3,257
Provision for directors' bonuses	26	30	228
Retirement benefit expenses	211	121	1,857
Other	<u>2,345</u>	<u>2,265</u>	<u>20,646</u>
Total selling, general and administrative expenses	<u>7,536</u>	<u>7,233</u>	<u>66,349</u>
Operating income (Note 5)	<u>95</u>	<u>204</u>	<u>836</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	173	214	1,523
Interest expenses	(54)	(47)	(475)
Gain on sales of goods	130	141	1,144
Rent income (expenses) on facilities	57	60	501
Dividend income of insurance	172	163	1,514
Loss on sales and retirement of non-current assets	(293)	(291)	(2,579)
Gain on step acquisition	-	44	-
Gain on sale of investment securities	87	4,064	765
Impairment loss (Note 5)	-	(1,441)	-
Provision for dismantling of non-current assets	-	(2,000)	-
Syndicated loan fee	(55)	-	(484)
Other—net	<u>2</u>	<u>27</u>	<u>17</u>
Other income—net	<u>219</u>	<u>937</u>	<u>1,928</u>
INCOME BEFORE INCOME TAXES	314	1,141	2,764
INCOME TAXES	<u>255</u>	<u>491</u>	<u>2,245</u>
NET INCOME	59	650	519
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	<u>(13)</u>	<u>(16)</u>	<u>(114)</u>
NET INCOME ATTRIBUTABLE TO OWNERS OF PARENT	<u>¥ 72</u>	<u>¥ 667</u>	<u>\$ 633</u>

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

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

	Yen		U.S. Dollars	
	Six-Month Period Ended September 30		Six-Month Period Ended September 30	
	2018	2017	2018	
PER SHARE OF COMMON STOCK:				
Basic net income (*1)	¥ 8.28	¥ 76.03	\$	0.07
Diluted net income (*1)	7.33	67.26		0.06
Cash dividends applicable to the period (*1)	50.00	50.00		0.44

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 16,286 shares in calculating the basic net income per share for the Six-month period ended September 30, 2018.

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, 2018 and 2017 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2018	2017	2018
NET INCOME	¥ 59	¥ 650	\$ 519
OTHER COMPREHENSIVE INCOME:			
Unrealized gain (loss) on available-for-sale securities	1,464	(983)	12,889
Foreign currency translation adjustments	(221)	(64)	(1,945)
Remeasurement of defined benefit plans	(0)	6	(0)
Share of other comprehensive income in associated companies accounted for using the equity method	0	(4)	0
Total other comprehensive income	1,242	(1,046)	10,935
COMPREHENSIVE INCOME	¥ 1,301	¥ (395)	\$ 11,454
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of parent	¥ 1,316	¥ (379)	\$ 11,586
Non-controlling interests	(14)	(16)	(123)

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, 2018 and 2017 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2018	2017	2018
OPERATING ACTIVITIES:			
Income before income taxes	¥ 314	¥ 1,141	\$ 2,764
Adjustments for:			
Income taxes—paid	(1,412)	(374)	(12,431)
Depreciation and amortization	2,409	2,064	21,209
Amortization of goodwill	99	65	871
(Gain) Loss on sales and retirement of property, plant and equipment	290	290	2,553
Impairment loss (Note 5)	-	1,441	-
(Gain) Loss on step acquisition	-	(44)	-
(Gain) Loss on sales of investment securities	(87)	(4,064)	(765)
Changes in assets and liabilities:			
(Increase) Decrease in trade receivables	1,517	328	13,356
(Increase) Decrease in inventories	(1,576)	(1,858)	(13,875)
Increase (Decrease) in trade payables	(914)	113	(8,047)
Increase (Decrease) in liability for retirement benefits	(155)	(161)	(1,364)
Increase (Decrease) in accrued consumption tax	(53)	(198)	(466)
Increase (Decrease) in accrued expense	(79)	220	(695)
Increase (Decrease) in accrued bonuses	(4)	(26)	(35)
Increase (Decrease) in provision for dismantling of non-current assets	-	2,000	-
Other—net	(151)	(120)	(1,329)
Total adjustments	(118)	(323)	(1,038)
Net cash provided by operating activities	196	817	1,725
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(3,751)	(4,492)	(33,025)
Purchases of intangible assets	(131)	-	(1,153)
Proceeds from sales of property, plant and equipment	27	2	237
Purchases of investment securities	(42)	(41)	(369)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	(594)	-
Other—net	(341)	(342)	(3,002)
Net cash used in investing activities	(4,239)	(5,467)	(37,321)
FORWARD	¥ (4,043)	¥ (4,649)	\$ (35,596)

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Statements of Cash Flows

Six-Month Periods Ended September 30, 2018 and 2017 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2018	2017	2018
FORWARD	¥ (4,043)	¥ (4,649)	\$ (35,596)
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term loans payable	-	(31)	-
Repayments of long-term debt	(193)	(611)	(1,699)
Dividends paid	(439)	(351)	(3,865)
Other—net	(0)	(196)	(0)
Net cash used in financing activities	(632)	(1,190)	(5,564)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(70)	(3)	(616)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,745)	(5,843)	(41,776)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	14,606	17,414	128,596
CASH AND CASH EQUIVALENTS, END OF PERIOD (Note 4)	¥ 9,860	¥ 11,571	\$ 86,811

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 ¥113.58 to \$1, the approximate rate of exchange as of September 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 Six-month period ended September 30, 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 second quarter ended September 30, 2018 was ¥164 million (\$1,443 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 Six-month period ended September 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 as of September 30, 2018 and March 31, 2018:

	Millions of Yen		Thousands of
	September 30, 2018	March 31, 2018	U.S. Dollars September 30, 2018
Trade notes receivable	¥ 290	¥ 471	\$ 2,553
Trade notes payable	-	70	-

4. SUPPLEMENTARY CASH FLOW INFORMATION

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

	Millions of Yen		Thousands of
	September 30, 2018	September 30, 2017	U.S. Dollars September 30, 2018
Cash and time deposits	¥ 10,193	¥ 11,904	\$ 89,742
Time deposits exceeding three months to maturity	(333)	(332)	(2,931)
Cash and cash equivalents	<u>¥ 9,860</u>	<u>¥ 11,571</u>	<u>\$ 86,811</u>

5. SEGMENT INFORMATION

Information about Sales and Profit (Loss)

	Millions of Yen			
	Reportable Segment			Total
September 30, 2018	Information Communication	Information Security	Living and Industrial Materials	
Sales:				
Sales to external customers	¥ 17,401	¥ 15,253	¥ 12,398	¥ 45,053
Intersegment sales or transfers	776	425	194	1,395
Total	¥ 18,177	¥ 15,678	¥ 12,593	¥ 46,449
Segment profit (loss)	¥ (693)	¥ 652	¥ 81	¥ 40
	Millions of Yen			
	Other (*1)	Total	Reconciliations (*2)	Interim Consolidated Statements of Income (*3)
Sales:				
Sales to external customers	¥ 936	¥ 45,989	¥ -	¥ 45,989
Intersegment sales or transfers	3,935	5,331	(5,331)	-
Total	¥ 4,871	¥ 51,320	¥ (5,331)	¥ 45,989
Segment profit (loss)	¥ 80	¥ 121	¥ (26)	¥ 95

September 30, 2017	Millions of Yen			
	Reportable Segment			
	Information Communication	Information Security	Living and Industrial Materials	Total
Sales:				
Sales to external customers	¥ 17,888	¥ 14,460	¥ 11,004	¥ 43,353
Intersegment sales or transfers	639	415	182	1,236
Total	¥ 18,527	¥ 14,875	¥ 11,186	¥ 44,589
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	¥ 4,681	¥ 49,271	¥ (5,005)	¥ 44,266
Segment profit (loss)	¥ 134	¥ 294	¥ (89)	¥ 204

	Thousands of U.S. Dollars			
	Reportable Segment			
September 30, 2018	Information Communication	Information Security	Living and Industrial Materials	Total
Sales:				
Sales to external customers	\$ 153,204	\$ 134,293	\$ 109,156	\$ 396,663
Intersegment sales or transfers	6,832	3,741	1,708	12,282
Total	<u>\$ 160,036</u>	<u>\$ 138,034</u>	<u>\$ 110,873</u>	<u>\$ 408,954</u>
Segment profit (loss)	\$ (6,101)	\$ 5,740	\$ 713	\$ 352

	Thousands of U.S. Dollars			
	Other (*1)	Total	Reconciliations (*2)	Consolidated Statements of Income (*3)
Sales:				
Sales to external customers	\$ 8,240	\$ 404,904	\$ -	\$ 404,904
Intersegment sales or transfers	34,645	46,936	(46,936)	-
Total	<u>\$ 42,886</u>	<u>\$ 451,840</u>	<u>\$ (46,936)</u>	<u>\$ 404,904</u>
Segment profit (loss)	\$ 704	\$ 1,065	\$ (228)	\$ 836

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 six-month period ended September 30, 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 ¥786 million in the Six-month period ended September 30, 2017.

6. SUBSEQUENT EVENT

Appropriation of Retained Earnings

The following appropriation of retained earnings as of September 30, 2018, was approved at the Company's Board of Directors' meeting held on November 7, 2018:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Interim cash dividends, ¥50.00 (\$0.44) per share	¥ 441	\$ 3,882

The total dividend includes ¥2 million (\$17 thousand) dividends on the Company's shares owned by Trust & Custody Services Bank, Ltd. (trust E account) as a trust property of "BBT."

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