

KYODO PRINTING CO., LTD.
and Consolidated Subsidiaries

Interim Consolidated Financial Statements (Unaudited)
for the Six-Month Period Ended September 30, 2019

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Balance Sheets

September 30, 2019 as compared with March 31, 2019 (Unaudited)

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	September 30, 2019	March 31, 2019	September 30, 2019
CURRENT ASSETS:			
Cash and cash equivalents (Note 5)	¥ 10,764	¥ 10,432	\$ 99,703
Receivables:			
Trade notes (Note 4)	5,204	6,685	48,203
Trade accounts	19,954	21,717	184,827
Allowance for doubtful accounts	(55)	(64)	(509)
Short-term investments (Note 5)	58	329	537
Inventories	8,447	7,367	78,241
Prepaid expenses and other current assets	1,218	1,391	11,281
	<u>45,593</u>	<u>47,859</u>	<u>422,313</u>
PROPERTY, PLANT AND EQUIPMENT:			
Land	14,579	14,579	135,040
Buildings and structures	50,333	51,902	466,218
Machinery and vehicles	48,089	49,315	445,433
Furniture and fixtures	6,941	6,953	64,292
Lease assets	3,311	3,471	30,668
Construction in progress	2,496	1,709	23,119
Total	<u>125,751</u>	<u>127,931</u>	<u>1,164,792</u>
Accumulated depreciation	<u>(72,352)</u>	<u>(74,652)</u>	<u>(670,174)</u>
Net property, plant and equipment	<u>53,398</u>	<u>53,279</u>	<u>494,609</u>
INVESTMENTS AND OTHER ASSETS:			
Investment securities	17,443	18,854	161,569
Investments in subsidiaries and associated companies	105	137	972
Goodwill	1,065	1,248	9,864
Intangible assets	1,376	1,195	12,745
Long-term loans receivable	30	35	277
Asset for retirement benefits	1,273	1,108	11,791
Deferred tax assets	497	481	4,603
Other long-term assets	1,151	1,240	10,661
Allowance for doubtful accounts	<u>(49)</u>	<u>(49)</u>	<u>(453)</u>
Total investments and other assets	<u>22,896</u>	<u>24,251</u>	<u>212,078</u>
TOTAL	<u>¥ 121,888</u>	<u>¥ 125,390</u>	<u>\$ 1,129,010</u>

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Balance Sheets

September 30, 2019 as compared with March 31, 2019 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	September 30, 2019	March 31, 2019	September 30, 2019
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Current portion of long-term debt	¥ 5,519	¥ 5,553	\$ 51,120
Payables:			
Trade notes (Note 4)	7,543	8,145	69,868
Trade accounts	9,978	9,791	92,423
Income taxes payable	601	151	5,566
Accrued bonuses	1,252	1,201	11,596
Other current liabilities (Note 4)	6,869	10,321	63,625
	<u>31,765</u>	<u>35,163</u>	<u>294,229</u>
LONG-TERM LIABILITIES:			
Long-term debt	16,258	16,353	150,592
Liability for retirement benefits	6,406	6,382	59,336
Provision for environmental measures	605	16	5,603
Provision for dismantling of non-current assets	1,385	1,970	12,828
Deferred tax liabilities	1,367	1,761	12,662
Other long-term liabilities	2,085	357	19,312
	<u>28,108</u>	<u>26,842</u>	<u>260,355</u>
EQUITY:			
Common stock—authorized, 36,080,000 shares; issued, 9,020,000 shares as of September 30, 2019 and March 31, 2019	4,510	4,510	41,774
Capital surplus	1,765	1,765	16,348
Retained earnings	48,797	48,832	451,991
Treasury stock—at cost, 434,985 shares as of September 30, 2019 and 298,748 shares as of March 31, 2019	(1,088)	(726)	(10,077)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	8,419	9,365	77,982
Foreign currency translation adjustments	(158)	(155)	(1,463)
Remeasurement of defined benefit plans	(203)	(213)	(1,880)
Total	<u>62,042</u>	<u>63,378</u>	<u>574,675</u>
Non-controlling interests	<u>(28)</u>	<u>6</u>	<u>(259)</u>
Total equity	<u>62,014</u>	<u>63,384</u>	<u>574,416</u>
TOTAL	<u>¥ 121,888</u>	<u>¥ 125,390</u>	<u>\$ 1,129,010</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, 2019 and 2018 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2019	2018	2019
NET SALES (Note 6)	¥ 48,593	¥ 45,989	\$ 450,101
COST OF SALES	40,252	38,357	372,841
Gross profit	8,341	7,631	77,260
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 6):			
Delivery expenses	2,220	2,112	20,563
Provision of allowance for doubtful accounts	(9)	(13)	(83)
Salaries and allowances	2,628	2,484	24,342
Provision for employees' bonuses	399	370	3,695
Provision for directors' bonuses	21	26	194
Retirement benefit expenses	218	211	2,019
Other	2,441	2,345	22,610
Total selling, general and administrative expenses	7,919	7,536	73,351
Operating income (Note 6)	421	95	3,899
OTHER INCOME (EXPENSES):			
Interest and dividend income	190	173	1,759
Interest expenses	(72)	(54)	(666)
Gain on sales of goods	128	130	1,185
Rent income (expenses) on facilities	20	57	185
Dividend income of insurance	154	172	1,426
Foreign exchange losses	(42)	-	(389)
Gain on sales of investment securities	615	101	5,696
Share of loss (profit) of entities accounted for using equity method	(64)	(40)	(592)
Reversal of provision for dismantling of non-current assets	585	-	5,418
Loss on sales and retirement of non-current assets	(373)	(293)	(3,454)
Loss on valuation of investment securities	(70)	(13)	(648)
Provision for environmental measures	(588)	-	(5,446)
Syndicated loan fee	(2)	(55)	(18)
Other—net	14	42	129
Other income—net	494	219	4,575
INCOME BEFORE INCOME TAXES	916	314	8,484
INCOME TAXES	553	255	5,122
NET INCOME	362	59	3,353

NET INCOME (LOSS) ATTRIBUTABLE TO NON- CONTROLLING INTERESTS	<u>(34)</u>	<u>(13)</u>	<u>(314)</u>
NET INCOME ATTRIBUTABLE TO OWNERS OF PARENT	<u>¥ 397</u>	<u>¥ 72</u>	<u>\$ 3,677</u>

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Statements of Income

Six-Month Periods Ended September 30, 2019 and 2018 (Unaudited)

	Yen		U.S. Dollars	
	Six-Month Period Ended September 30		Six-Month Period Ended September 30	
	2019	2018	2019	
PER SHARE OF COMMON STOCK:				
Basic net income (*1)	¥ 45.99	¥ 8.28	\$	0.42
Diluted net income (*1)	40.62	7.33		0.37
Cash dividends applicable to the period (*1)	50.00	50.00		0.46

Notes:

(*1) 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 and diluted 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 and the diluted net income per share for the Six-month period ended September 30, 2018 and 57,000 shares in calculating the basic net income per share and the diluted net income per share for the Six-month period ended September 30, 2019.

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, 2019 and 2018 (Unaudited)

	Millions of Yen		Thousands of
	Six-Month		U.S. Dollars
	Period Ended		(Note 1)
	September 30		Six-Month
	2019	2018	Period Ended
			September 30
			2019
NET INCOME	¥ 362	¥ 59	\$ 3,353
OTHER COMPREHENSIVE INCOME (LOSS):			
Unrealized gain (loss) on available-for-sale securities	(950)	1,464	(8,799)
Foreign currency translation adjustments	(3)	(221)	(27)
Remeasurement of defined benefit plans	9	(0)	83
Share of other comprehensive income in associate accounted for using the equity method	4	0	37
Total other comprehensive income (loss)	(938)	1,242	(8,688)
COMPREHENSIVE INCOME	¥ (576)	¥ 1,301	\$ (5,335)
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Owners of parent	¥ (541)	¥ 1,316	\$ (5,011)
Non-controlling interests	(34)	(14)	(314)

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, 2019 and 2018 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2019	2018	2019
OPERATING ACTIVITIES:			
Income before income taxes	¥ 916	¥ 314	\$ 8,484
Adjustments for:			
Income taxes (paid) refund	164	(1,412)	1,519
Depreciation and amortization	2,633	2,409	24,388
Amortization of goodwill	184	99	1,704
(Gain) Loss on sales and retirement of property, plant and equipment	373	290	3,454
(Gain) Loss on sales of investment securities	(615)	(87)	(5,696)
Changes in assets and liabilities:			
(Increase) Decrease in trade receivables	3,241	1,517	30,020
(Increase) Decrease in inventories	(1,084)	(1,576)	(10,040)
Increase (Decrease) in trade payables	(412)	(914)	(3,816)
Increase (Decrease) in liability for retirement benefits	(126)	(155)	(1,167)
Increase (Decrease) in accrued consumption tax	413	(53)	3,825
Increase (Decrease) in accrued expense	(543)	(79)	(5,029)
Increase (Decrease) in accrued bonuses	51	(4)	472
Increase (Decrease) in provision for dismantling of non-current assets	(585)	-	(5,418)
Increase (Decrease) in provision for environmental measures	588	-	5,446
Other—net	1,788	(151)	16,561
Total adjustments	6,072	(118)	56,243
Net cash provided by operating activities	6,988	196	64,727
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(6,252)	(3,751)	(57,910)
Purchases of intangible assets	(310)	(131)	(2,871)
Proceeds from sales of property, plant and equipment	115	27	1,065
Purchases of investment securities	(11)	(42)	(101)
Proceeds from sales of investment securities	604	-	5,594
Other—net	251	(341)	2,324
Net cash used in investing activities	(5,603)	(4,239)	(51,898)
FORWARD	¥ 1,384	¥ (4,043)	\$ 12,819

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Statements of Cash Flows

Six-Month Periods Ended September 30, 2019 and 2018 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2019	2018	2019
FORWARD	¥ 1,384	¥ (4,043)	\$ 12,819
FINANCING ACTIVITIES:			
Dividends paid	(439)	(439)	(4,066)
Repayments of long-term debt	(287)	(193)	(2,658)
Purchases of treasury stock	(361)	-	(3,343)
Other—net	(0)	(100)	(0)
Net cash used in financing activities	(1,088)	(632)	(10,077)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	36	(70)	333
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	332	(4,745)	3,075
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	10,432	14,606	96,628
CASH AND CASH EQUIVALENTS, END OF PERIOD (Note 5)	¥ 10,764	¥ 9,860	\$ 99,703

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 ¥107.96 to \$1, the approximate rate of exchange as of September 30, 2019. 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, 2019, with certain simplified methods, except for the policy specifically allowed and adopted for interim accounting periods described below.

- a. Scope of Consolidation*—Kyodo Blow Bottle Co., Ltd. has been newly included in the scope of consolidation from the Three-month period ended June 30, 2019 since it was newly established. BioNet Laboratory Inc., due to the sale of some shares held by the Company, is excluded from the scope of application of the equity method as of the end of the Six-month period ended September 30, 2019.
- 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. ADDITIONAL INFORMATION

Based on a resolution at the 138th annual shareholders’ meeting held on June 28, 2018, the Company introduced a Board Benefit Trust (“BBT”) as a performance-linked stock compensation plan (the “Plan”) for directors and executive officers of the Company and directors with titles of certain subsidiaries (“Directors, etc.”).

The Company adopted the gross method as to the accounting treatment of the trust in line with the “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts” (Accounting Standards Board of Japan, Practical Issues Task Force No. 30, March 26, 2015).

(1) Overview of the transaction

Under the Plan, the Company will acquire the Company’s stock through a trust using the money entrusted by the

Company. The Company's stock and/or money equivalent to their fair conversion value will be delivered to Directors, etc. through the trust based on the attainment of performance targets and other indicators in accordance with the internal rules on stock distribution to officers established by the Company and certain subsidiaries. Directors, etc. are eligible to receive the Company's stock, etc. in principle, when they retire.

(2) The remaining balance of the Company's own stock in the trust

The Company records the balance of the Company's stock remaining in the trust as treasury stock in the net assets section at the carrying amount (excluding the amount of ancillary expenses) in the trust. The carrying amount and the number of shares of such treasury stock was ¥164 million (\$1,519 thousand) and 57,000 shares, respectively, as of September 30, 2019 and March 31, 2019.

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 year ended March 31, 2019 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 March 31, 2019:

	Millions of Yen		Thousands of U.S. Dollars
	September 30, 2019	March 31, 2019	September 30, 2019
Trade notes receivable	¥ -	¥ 483	\$ -
Trade notes payable	-	55	-
Other (notes payable - facilities)	-	2	-

5. SUPPLEMENTARY CASH FLOW INFORMATION

Cash and cash equivalents as of September 30, 2019 and 2018 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	September 30, 2019	September 30, 2018	September 30, 2019
Cash and time deposits	¥ 10,823	¥ 10,193	\$ 100,250
Time deposits exceeding three months to maturity	(58)	(333)	(537)
Cash and cash equivalents	<u>¥ 10,764</u>	<u>¥ 9,860</u>	<u>\$ 99,703</u>

6. SEGMENT INFORMATION

Information about Sales and Profit (Loss)

	Millions of Yen			Total
	Reportable Segment			
September 30, 2019	Information Communication	Information Security	Living and Industrial Materials	
Sales:				
Sales to external customers	¥ 18,330	¥ 16,027	¥ 12,894	¥ 47,252
Intersegment sales or transfers	786	386	197	1,369
Total	<u>¥ 19,116</u>	<u>¥ 16,413</u>	<u>¥ 13,091</u>	<u>¥ 48,621</u>
Segment profit (loss)	¥ (389)	¥ 817	¥ (123)	¥ 304

Millions of Yen				
	Other (*1)	Total	Reconciliations (*2)	Consolidated Statements of Income (*3)
Sales:				
Sales to external customers	¥ 1,341	¥ 48,593	¥ -	¥ 48,593
Intersegment sales or transfers	4,064	5,434	(5,434)	-
Total	¥ 5,405	¥ 54,027	¥ (5,434)	¥ 48,593
Segment profit (loss)	¥ 76	¥ 381	¥ 40	¥ 421

Millions of Yen				
Reportable Segment				
September 30, 2018	Information Communication	Information Security	Living and Industrial Materials	Total
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)	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	¥ 120	¥ (26)	¥ 95

September 30, 2019	Thousands of U.S. Dollars			
	Reportable Segment			Total
	Information Communication	Information Security	Living and Industrial Materials	
Sales:				
Sales to external customers	\$ 169,785	\$ 148,453	\$ 119,433	\$ 437,680
Intersegment sales or transfers	7,280	3,575	1,824	12,680
Total	<u>\$ 177,065</u>	<u>\$ 152,028</u>	<u>\$ 121,257</u>	<u>\$ 450,361</u>
Segment profit (loss)	\$ (3,603)	\$ 7,567	\$ (1,139)	\$ 2,815

	Thousands of U.S. Dollars			
	Other (*1)	Total	Reconciliations (*2)	Consolidated Statements of Income (*3)
Sales:				
Sales to external customers	\$ 12,421	\$ 450,101	\$ -	\$ 450,101
Intersegment sales or transfers	37,643	50,333	(50,333)	-
Total	<u>\$ 50,064</u>	<u>\$ 500,435</u>	<u>\$ (50,333)</u>	<u>\$ 450,101</u>
Segment profit (loss)	\$ 703	\$ 3,529	\$ 370	\$ 3,899

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

Six-month periods ended September 30, 2019 and 2018

There was no applicable matter for the Six-month periods ended September 30, 2019 and 2018.

7. SUBSEQUENT EVENT

Appropriation of Retained Earnings

The following appropriation of retained earnings as of September 30, 2019, was approved at the Company's Board of Directors' meeting held on November 8, 2019:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Interim cash dividends, ¥50.00 (\$0.46) per share	¥ 432	\$ 4,001

The total dividend includes ¥2 million (\$18 thousand) dividends on the Company's shares owned by Trust & Custody Services Bank, Ltd. (trust E account) as a trust property of "BBT."

On-Site Inspection by the Japan Fair Trade Commission

On October 8, 2019, the Company received an on-site inspection from the Japan Fair Trade Commission on suspicion of violating the Antimonopoly Act with regard to the bidding of the Japan Pension Service's form creation business. The Company will fully cooperate with the Japan Fair Trade Commission's investigation.

* * * * *