

KYODO PRINTING CO., LTD.
and Consolidated Subsidiaries

Interim Consolidated Financial Statements (Unaudited)
for the Three-Month Period Ended June 30, 2016

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Balance Sheets June 30, 2016 as compared with March 31, 2016 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	June 30, 2016	March 31, 2016	June 30, 2016
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 5)	¥ 15,156	¥ 14,234	\$ 147,202
Receivables:			
Trade notes	5,099	6,007	49,524
Trade accounts	19,070	20,118	185,217
Allowance for doubtful accounts	(58)	(62)	(563)
Short-term investments	325	376	3,156
Inventories	6,724	6,470	65,306
Deferred tax assets	636	625	6,177
Prepaid expenses and other current assets	677	582	6,575
	<u>47,632</u>	<u>48,353</u>	<u>462,626</u>
PROPERTY, PLANT AND EQUIPMENT:			
Land	15,327	15,327	148,863
Buildings and structures	43,217	43,190	419,745
Machinery and vehicles	48,181	48,313	467,958
Furniture and fixtures	6,142	6,037	59,654
Lease assets	2,404	2,393	23,348
Construction in progress	559	401	5,429
Total	<u>115,832</u>	<u>115,665</u>	<u>1,125,019</u>
Accumulated depreciation	<u>(77,506)</u>	<u>(77,368)</u>	<u>(752,777)</u>
	<u>38,326</u>	<u>38,296</u>	<u>372,241</u>
INVESTMENTS AND OTHER ASSETS:			
Investment securities	16,433	15,975	159,605
Investments in associated companies	216	232	2,097
Intangible assets	1,277	1,324	12,402
Deferred tax assets	192	210	1,864
Other long-term assets	1,133	1,207	11,004
Allowance for doubtful accounts	<u>(266)</u>	<u>(284)</u>	<u>(2,583)</u>
	<u>18,987</u>	<u>18,666</u>	<u>184,411</u>
TOTAL	<u>¥ 104,946</u>	<u>¥ 105,315</u>	<u>\$ 1,019,289</u>

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Balance Sheets June 30, 2016 as compared with March 31, 2016 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	June 30, 2016	March 31, 2016	June 30, 2016
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Current portion of long-term debt	¥ 6,033	¥ 6,046	\$ 58,595
Payables:			
Trade notes	8,515	8,577	82,702
Trade accounts	9,652	10,119	93,745
Income taxes payable	373	1,040	3,622
Accrued bonuses	362	1,199	3,515
Other current liabilities	6,839	5,253	66,423
Total current liabilities	31,777	32,238	308,634
LONG-TERM LIABILITIES:			
Long-term debt	6,643	6,834	64,520
Liability for retirement benefits	5,871	5,853	57,022
Deferred tax liabilities	1,909	1,881	18,541
Other long-term liabilities	228	238	2,214
Total long-term liabilities	14,653	14,808	142,317
EQUITY:			
Common stock—authorized, 360,800,000 shares; issued, 90,200,000 shares as of June 30, 2016 and March 31, 2016	4,510	4,510	43,803
Capital surplus	1,742	1,742	16,919
Retained earnings	45,771	45,473	444,551
Treasury stock—at cost, 2,415,507 shares as of June 30, 2016 and 2,415,160 shares as of March 31, 2016	(547)	(547)	(5,312)
Accumulated other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities	7,060	7,091	68,570
Foreign currency translation adjustments	87	143	844
Remeasurement of defined benefit plans	(121)	(154)	(1,175)
Total	58,503	58,259	568,210
Non-controlling interests	12	9	116
Total equity	58,515	58,269	568,327
TOTAL	¥ 104,946	¥ 105,315	\$ 1,019,289

See notes to interim consolidated financial statements.

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Statements of Income Three-Month Periods Ended June 30, 2016 and 2015 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Three-Month Period Ended June 30		Three-Month Period Ended June 30
	2016	2015	2016
NET SALES (Note 6)	¥ 22,722	¥ 20,863	\$ 220,687
COST OF SALES	18,559	17,663	180,254
Gross profit	4,162	3,199	40,423
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 6):			
Delivery expenses	1,058	972	10,275
Provision of allowance for doubtful accounts	(15)	(1)	(145)
Salaries and allowances	1,303	1,268	12,655
Provision for employees' bonuses	120	119	1,165
Provision for directors' bonuses	15	15	145
Retirement benefit expenses	83	87	806
Other	1,013	920	9,838
Total selling, general and administrative expenses	3,578	3,382	34,751
Operating income (loss) (Note 6)	583	(183)	5,662
OTHER INCOME (EXPENSES):			
Interest and dividend income	145	137	1,408
Interest expenses	(26)	(31)	(252)
Gain on sales of goods	69	77	670
Rent income (expenses) on facilities	31	29	301
Dividend income of insurance	184	137	1,787
Gain (loss) on sales and retirement of non-current assets	(37)	273	(359)
Other—net	11	22	106
Other income—net	378	646	3,671
INCOME BEFORE INCOME TAXES	962	463	9,343
INCOME TAXES	311	185	3,020
NET INCOME	651	277	6,322
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	2	0	19
NET INCOME ATTRIBUTABLE TO OWNERS OF PARENT	¥ 649	¥ 277	\$ 6,303

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Statements of Income Three-Month Periods Ended June 30, 2016 and 2015 (Unaudited)

	Yen		U.S. Dollars	
	Three-Month Period Ended June 30		Three-Month Period Ended June 30	
	2016	2015	2016	
PER SHARE OF COMMON STOCK:				
Basic net income	¥ 7.40	¥ 3.16	\$ 0.07	
Diluted net income	6.54	2.79	0.06	

See notes to interim consolidated financial statements.

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Statements of Comprehensive Income Three-Month Periods Ended June 30, 2016 and 2015 (Unaudited)

	Millions of Yen		Thousands of
	Three-Month		U.S. Dollars
	Period Ended		(Note 1)
	June 30		Three-Month
	2016	2015	Period Ended
			June 30
			2016
NET INCOME	¥ 651	¥ 277	\$ 6,322
OTHER COMPREHENSIVE INCOME:			
Unrealized gain (loss) on available-for-sale securities	(30)	694	(291)
Foreign currency translation adjustments	(55)	(18)	(534)
Remeasurement of defined benefit plans	33	42	320
Share of other comprehensive income in associate accounted for using the equity method	(0)	1	(0)
Total other comprehensive income	(53)	719	(514)
COMPREHENSIVE INCOME	¥ 597	¥ 997	\$ 5,798
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of parent	¥ 595	¥ 997	\$ 5,778
Non-controlling interests	2	0	19

See notes to interim consolidated financial statements.

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Statements of Cash Flows Three-Month Periods Ended June 30, 2016 and 2015 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Three-Month Period Ended June 30		Three-Month Period Ended June 30
	2016	2015	2016
OPERATING ACTIVITIES:			
Income before income taxes	¥ 962	¥ 463	\$ 9,343
Adjustments for:			
Income taxes—paid	(967)	(509)	(9,391)
Depreciation and amortization	874	1,008	8,488
(Gain) Loss on sales and retirement of property, plant and equipment	37	(273)	359
Changes in assets and liabilities:			
(Increase) Decrease in trade receivables	1,955	2,427	18,987
(Increase) Decrease in inventories	(255)	(919)	(2,476)
Increase (Decrease) in trade payables	(526)	(309)	(5,108)
Increase (Decrease) in liability for retirement benefits	65	72	631
Increase (Decrease) in accrued consumption tax	181	(558)	1,757
Increase (Decrease) in accrued expense	1,617	1,552	15,705
Increase (Decrease) in accrued bonuses	(836)	(769)	(8,119)
Other—net	(182)	(33)	(1,767)
Total adjustments	1,961	1,686	19,046
Net cash provided by operating activities	2,924	2,149	28,399
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(962)	(876)	(9,343)
Purchases of intangible assets	(65)	(86)	(631)
Proceeds from sales of property, plant and equipment	11	511	106
Purchases of investment securities	(460)	(4)	(4,467)
Other—net	88	30	854
Net cash used in investing activities	(1,388)	(425)	(13,480)
FORWARD	¥ 1,535	¥ 1,724	\$ 14,908

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Statements of Cash Flows Three-Month Periods Ended June 30, 2016 and 2015 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Three-Month Period Ended June 30		Three-Month Period Ended June 30
	2016	2015	2016
FORWARD	¥1,535	¥ 1,724	\$ 14,908
FINANCING ACTIVITIES:			
Repayments of long-term debt	(263)	(478)	(2,554)
Dividends paid	(351)	(351)	(3,409)
Other—net	(0)	-	(0)
Net cash used in financing activities	(615)	(829)	(5,973)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	1	(15)	9
NET INCREASE IN CASH AND CASH EQUIVALENTS	921	878	8,945
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	14,234	15,368	138,247
CASH AND CASH EQUIVALENTS, END OF PERIOD (Note 5)	¥ 15,156	¥ 16,247	\$ 147,202

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 ¥102.96 to \$1, the approximate rate of exchange as of June 30, 2016. 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 dollar 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, 2016, with certain simplified methods, except for the policy specifically allowed and adopted for interim accounting periods described below.

- a. Consolidation*—Kyodo Offset Co., Ltd. has been excluded from the scope of consolidation as it was merged into Kyodo Printing Bookbinding Co., Ltd., a consolidated subsidiary, in the three-month period ended June 30, 2016. PT Arisu Graphic Prima and BIONET LABORATORY Co., Ltd. have been newly included in the scope of equity method accounting as the Company acquired their shares.
- 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. CHANGES IN ACCOUNTING POLICIES

Change in Accounting Policy That is Not Easily Distinguished from a Change in Accounting Estimate

Change in depreciation method of property, plant and equipment

Prior to April 1, 2016, the Company and its domestic consolidated subsidiaries primarily used the declining-balance method for computing the depreciation of property, plant and equipment. Effective April 1, 2016, the Company and its domestic consolidated subsidiaries changed their method for computing the depreciation to the straight-line method.

The Company took the opportunity of consideration of reconstructing the production system, including reorganization of its domestic consolidated subsidiaries, to confirm the operating status of the production facilities, etc. It was found from the result that they have operated stably and contributed to earnings. This situation is expected to continue, therefore, the depreciation method using the straight-line method enables to match expenses with revenues more appropriately. In addition, it enables to compare profitability rationally by unifying the accounting method with its foreign consolidated subsidiaries using the straight-line method. Accordingly, the Company decided to change the depreciation method to the straight-line method.

As a result of this change, depreciation expense decreased by ¥251 million (\$2,437 thousand), resulting in an increase in operating income and income before income taxes of ¥197 million (\$1,913 thousand) for the three-month period ended June 30, 2016.

4. ADDITIONAL INFORMATION

Application of Implementation Guidance on Recoverability of Deferred Tax Assets

Effective from the three-month period ended June 30, 2016, the Group applied “Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan Guidance No. 26, March 28, 2016).

5. SUPPLEMENTARY CASH FLOW INFORMATION

Cash and cash equivalents as of June 30, 2016 and 2015 consisted of the following:

	Millions of Yen		Thousands of
	June 30, 2016	June 30, 2015	U.S. Dollars June 30, 2016
Cash and time deposits	¥ 15,482	¥ 16,531	\$ 150,369
Time deposits exceeding three months to maturity	(325)	(283)	(3,156)
Cash and cash equivalents	<u>¥ 15,156</u>	<u>¥ 16,247</u>	<u>\$ 147,202</u>

6. SEGMENT INFORMATION

Information about Sales and Profit (Loss)

	Millions of Yen			
	Reportable Segment			Total
June 30, 2016	Information Communication	Information Security	Living and Industrial Materials	
Sales:				
Sales to external customers	¥ 9,010	¥ 7,952	¥ 5,332	¥ 22,295
Intersegment sales or transfers	387	294	102	784
Total	¥ 9,398	¥ 8,247	¥ 5,434	¥ 23,079
Segment profit (loss)	¥ (377)	¥ 718	¥ 195	¥ 535
	Millions of Yen			
	Other (*1)	Total	Reconciliations (*2)	Consolidated (*3)
Sales:				
Sales to external customers	¥ 426	¥ 22,722	¥ -	¥ 22,722
Intersegment sales or transfers	1,978	2,762	(2,762)	-
Total	¥ 2,404	¥ 25,484	¥ (2,762)	¥ 22,722
Segment profit (loss)	¥ 69	¥ 605	¥ (21)	¥ 583

	Millions of Yen			
	Reportable Segment			
June 30, 2015	Information Communication	Information Security	Living and Industrial Materials	Total
Sales:				
Sales to external customers	¥ 8,948	¥ 6,929	¥ 4,568	¥ 20,447
Intersegment sales or transfers	340	240	92	673
Total	<u>¥ 9,288</u>	<u>¥ 7,170</u>	<u>¥ 4,661</u>	<u>¥ 21,120</u>
Segment profit (loss)	¥ (513)	¥ 313	¥ (27)	¥ (226)

	Millions of Yen			
	Other (*1)	Total	Reconciliations (*2)	Consolidated (*3)
Sales:				
Sales to external customers	¥ 416	¥ 20,863	¥ -	¥ 20,863
Intersegment sales or transfers	1,826	2,500	(2,500)	-
Total	<u>¥ 2,242</u>	<u>¥ 23,363</u>	<u>¥ (2,500)</u>	<u>¥ 20,863</u>
Segment profit (loss)	¥ 31	¥ (195)	¥ 12	¥ (183)

	Thousands of U.S. Dollars (Note 1)			
	Reportable Segment			Total
June 30, 2016	Information Communication	Information Security	Living and Industrial Materials	
Sales:				
Sales to external customers	\$ 87,509	\$ 77,233	\$ 51,787	\$ 216,540
Intersegment sales or transfers	3,758	2,855	990	7,614
Total	<u>\$ 91,278</u>	<u>\$ 80,099</u>	<u>\$ 52,777</u>	<u>\$ 224,155</u>
Segment profit (loss)	\$ (3,661)	\$ 6,973	\$ 1,893	\$ 5,196

	Thousands of U.S. Dollars (Note 1)			
	Other (*1)	Total	Reconciliations (*2)	Consolidated (*3)
Sales:				
Sales to external customers	\$ 4,137	\$ 220,687	\$ -	\$ 220,687
Intersegment sales or transfers	19,211	26,825	(26,825)	-
Total	<u>\$ 23,348</u>	<u>\$ 247,513</u>	<u>\$ (26,825)</u>	<u>\$ 220,687</u>
Segment profit (loss)	\$ 670	\$ 5,876	\$ (203)	\$ 5,662

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.

Change in Reportable Segments, etc.

- (1) Effective from the three-month period ended June 30, 2016, the Group changed the name of reportable segments from "Publications and commercial printing" and "Business media" to "Information communication" and "Information security," respectively.

There were no effects of this change on segment information since it was mere renaming of reportable segments.

- (2) As described in "Change in Accounting Policy That is Not Easily Distinguished from a Change in Accounting Estimate," effective from the three-month period ended June 30, 2016, the depreciation method for property, plant and equipment was changed from the declining-balance method to the straight-line method.

As a result, segment loss in "Information communication" decreased by ¥61 million (\$592 thousand) and segment profit in "Information security," "Living and industrial materials," and "Other" increased by ¥80 million (\$777 thousand), ¥84 million (\$815 thousand), and ¥4 million (\$38 thousand), respectively, and segment loss in "Reconciliations" increased by ¥32 million (\$310 thousand) for the three-month period ended June 30, 2016 compared to the previous method.

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