

KYODO PRINTING CO., LTD.
and Consolidated Subsidiaries

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

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Balance Sheets

September 30, 2016 as compared with March 31, 2016 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	September 30, 2016	March 31, 2016	September 30, 2016
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 5)	¥ 13,242	¥ 14,234	\$ 130,953
Receivables:			
Trade notes	4,742	6,007	46,894
Trade accounts	19,080	20,118	188,686
Allowance for doubtful accounts	(57)	(62)	(563)
Short-term investments	324	376	3,204
Inventories	7,657	6,470	75,721
Deferred tax assets	637	625	6,299
Prepaid expenses and other current assets	652	582	6,447
	<u>46,279</u>	<u>48,353</u>	<u>457,664</u>
PROPERTY, PLANT AND EQUIPMENT:			
Land	15,327	15,327	151,572
Buildings and structures	43,043	43,190	425,662
Machinery and vehicles	48,763	48,313	482,229
Furniture and fixtures	6,307	6,037	62,371
Lease assets	2,383	2,393	23,566
Construction in progress	815	401	8,059
Total	<u>116,640</u>	<u>115,665</u>	<u>1,153,481</u>
Accumulated depreciation	<u>(77,966)</u>	<u>(77,368)</u>	<u>(771,024)</u>
	<u>38,674</u>	<u>38,296</u>	<u>382,456</u>
INVESTMENTS AND OTHER ASSETS:			
Investment securities	17,110	15,975	169,204
Investments in associated companies	448	232	4,430
Intangible assets	1,250	1,324	12,361
Deferred tax assets	176	210	1,740
Other long-term assets	1,274	1,207	12,598
Allowance for doubtful accounts	<u>(256)</u>	<u>(284)</u>	<u>(2,531)</u>
	<u>20,004</u>	<u>18,666</u>	<u>197,824</u>
TOTAL	<u>¥ 104,958</u>	<u>¥ 105,315</u>	<u>\$ 1,037,954</u>

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Balance Sheets

September 30, 2016 as compared with March 31, 2016 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	September 30, 2016	March 31, 2016	September 30, 2016
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Current portion of long-term debt	¥ 6,021	¥ 6,046	\$ 59,543
Payables:			
Trade notes	7,766	8,577	76,799
Trade accounts	10,348	10,119	102,333
Income taxes payable	570	1,040	5,636
Accrued bonuses	1,172	1,199	11,590
Other current liabilities	5,039	5,253	49,831
Total current liabilities	30,920	32,238	305,775
LONG-TERM LIABILITIES:			
Long-term debt	6,430	6,834	63,587
Liability for retirement benefits	5,642	5,853	55,795
Deferred tax liabilities	2,166	1,881	21,420
Other long-term liabilities	225	238	2,225
Total long-term liabilities	14,464	14,808	143,037
EQUITY (Note 6):			
Common stock—authorized, 360,800,000 shares; issued, 90,200,000 shares as of September 30, 2016 and March 31, 2016	4,510	4,510	44,600
Capital surplus	1,742	1,742	17,227
Retained earnings	46,212	45,473	457,001
Treasury stock—at cost, 2,415,597 shares as of September 30, 2016 and 2,415,160 shares as of March 31, 2016	(547)	(547)	(5,409)
Accumulated other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities	7,764	7,091	76,780
Foreign currency translation adjustments	(43)	143	(425)
Remeasurement of defined benefit plans	(87)	(154)	(860)
Total	59,551	58,259	588,914
Non-controlling interests	21	9	207
Total equity	59,573	58,269	589,131
TOTAL	¥ 104,958	¥ 105,315	\$ 1,037,954

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, 2016 and 2015 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2016	2015	2016
NET SALES (Note 7)	¥ 45,529	¥ 43,553	\$ 450,247
COST OF SALES	<u>37,255</u>	<u>36,779</u>	<u>368,423</u>
Gross profit	8,273	6,773	81,813
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 7):			
Delivery expenses	2,019	1,982	19,966
Provision of allowance for doubtful accounts	(25)	(11)	(247)
Salaries and allowances	2,459	2,419	24,317
Provision for employees' bonuses	389	366	3,846
Provision for directors' bonuses	30	30	296
Retirement benefit expenses	159	176	1,572
Other	<u>1,965</u>	<u>1,812</u>	<u>19,432</u>
Total selling, general and administrative expenses	<u>6,996</u>	<u>6,775</u>	<u>69,185</u>
Operating income (loss) (Note 7)	<u>1,276</u>	<u>(1)</u>	<u>12,618</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	174	161	1,720
Interest expenses	(53)	(62)	(524)
Gain on sales of goods	137	150	1,354
Rent income (expenses) on facilities	62	60	613
Dividend income of insurance	185	137	1,829
Gain (loss) on sales and retirement of non-current assets	(66)	198	(652)
Impairment loss (Note 7)	(148)	-	(1,463)
Other—net	<u>24</u>	<u>87</u>	<u>237</u>
Other income—net	<u>316</u>	<u>734</u>	<u>3,125</u>
INCOME BEFORE INCOME TAXES	1,593	732	15,753
INCOME TAXES	<u>490</u>	<u>273</u>	<u>4,845</u>
NET INCOME	1,102	458	10,897
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	<u>11</u>	<u>1</u>	<u>108</u>
NET INCOME ATTRIBUTABLE TO OWNERS OF PARENT	<u>¥ 1,091</u>	<u>¥ 457</u>	<u>\$ 10,789</u>

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Statements of Income

Six-Month Periods Ended September 30, 2016 and 2015 (Unaudited)

	Yen		U.S. Dollars	
	Six-Month Period Ended September 30		Six-Month Period Ended September 30	
	2016	2015	2016	
PER SHARE OF COMMON STOCK (Note 6):				
Basic net income	¥ 12.43	¥ 5.22	\$	0.12
Diluted net income	11.00	4.61		0.10
Cash dividends applicable to the period	4.00	4.00		0.03

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, 2016 and 2015 (Unaudited)

	Millions of Yen		Thousands of
	Six-Month		U.S. Dollars
	Period Ended		(Note 1)
	September 30		Six-Month
	2016	2015	Period Ended
			September 30
			2016
NET INCOME	¥ 1,102	¥ 458	\$ 10,897
OTHER COMPREHENSIVE INCOME:			
Unrealized gain (loss) on available-for-sale securities	673	140	6,655
Foreign currency translation adjustments	(165)	(9)	(1,631)
Remeasurement of defined benefit plans	66	84	652
Share of other comprehensive income in associated companies accounted for using the equity method	(21)	2	(207)
Total other comprehensive income	552	216	5,458
COMPREHENSIVE INCOME	¥ 1,655	¥ 675	\$ 16,366
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of parent	¥ 1,643	¥ 674	\$ 16,248
Non-controlling interests	11	1	108

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, 2016 and 2015 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2016	2015	2016
OPERATING ACTIVITIES:			
Income before income taxes	¥ 1,593	¥ 732	\$ 15,753
Adjustments for:			
Income taxes—paid	(996)	(520)	(9,849)
Depreciation and amortization	1,794	2,116	17,741
(Gain) Loss on sales and retirement of property, plant and equipment	66	(198)	652
Impairment loss (Note 7)	148	-	1,463
Changes in assets and liabilities:			
(Increase) Decrease in trade receivables	2,299	1,718	22,735
(Increase) Decrease in inventories	(1,191)	(1,618)	(11,778)
Increase (Decrease) in trade payables	(576)	(393)	(5,696)
Increase (Decrease) in liability for retirement benefits	(115)	25	(1,137)
Increase (Decrease) in accrued consumption tax	(14)	(770)	(138)
Increase (Decrease) in accrued expense	(190)	(44)	(1,878)
Other—net	(259)	(141)	(2,561)
Total adjustments	964	173	9,533
Net cash provided by operating activities	2,557	906	25,286
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(2,009)	(2,117)	(19,867)
Purchases of intangible assets	(136)	(187)	(1,344)
Proceeds from sales of property, plant and equipment	11	513	108
Purchases of investment securities	(507)	(15)	(5,013)
Proceeds from sales of investment securities	44	14	435
Other—net	(52)	(75)	(514)
Net cash used in investing activities	(2,649)	(1,868)	(26,196)
FORWARD	¥ (92)	¥ (961)	\$ (909)

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Statements of Cash Flows

Six-Month Periods Ended September 30, 2016 and 2015 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2016	2015	2016
FORWARD	¥ (92)	¥ (961)	\$ (909)
FINANCING ACTIVITIES:			
Repayments of long-term debt	(529)	(1,124)	(5,231)
Dividends paid	(351)	(351)	(3,471)
Other—net	(0)	(0)	(0)
Net cash used in financing activities	(881)	(1,475)	(8,712)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(18)	(11)	(178)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(992)	(2,449)	(9,810)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	14,234	15,368	140,763
CASH AND CASH EQUIVALENTS, END OF PERIOD (Note 5)	¥ 13,242	¥ 12,919	\$ 130,953

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 ¥101.12 to \$1, the approximate rate of exchange as of September 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 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, 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 the 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 from 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 matching expenses with revenues more appropriately. In addition, it enables reasonable comparison of profitability 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 ¥534 million (\$5,280 thousand), resulting in increases in operating income and income before income taxes of ¥460 million (\$4,549 thousand) and ¥461 million (\$4,558 thousand), respectively, for the six-month period ended September 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 September 30, 2016 and 2015 consisted of the following:

	Millions of Yen		Thousands of
	September 30, 2016	September 30, 2015	U.S. Dollars September 30, 2016
Cash and time deposits	¥ 13,566	¥ 13,297	\$ 134,157
Time deposits exceeding three months to maturity	(324)	(378)	(3,204)
Cash and cash equivalents	<u>¥ 13,242</u>	<u>¥ 12,919</u>	<u>\$ 130,953</u>

6. SUBSEQUENT EVENT

Issuance of Bonds

Based on the resolution at the Board of Directors' meeting held on September 28, 2016, the Company issued bonds as follows.

The 7th unsecured bonds

1. Total amount of issuance	¥5,000 million (\$49,446 thousand)
2. Issue price	¥100 (\$0.98) for a par value of ¥100 (\$0.98)
3. Interest rate	0.46% per annum
4. Payment due date	October 20, 2016
5. Redemption date	October 20, 2021
6. Redemption method	Lump-sum redemption at maturity
7. Use of funds	Redemption of bonds
8. Collateral	The bonds are not secured or guaranteed, and no assets are reserved particularly for the bonds.
9. Financial covenants	Negative pledge clause is attached.

The 8th unsecured bonds

1. Total amount of issuance	¥3,000 million (\$29,667 thousand)
2. Issue price	¥100 (\$0.98) for a par value of ¥100 (\$0.98)
3. Interest rate	0.73% per annum
4. Payment due date	October 20, 2016
5. Redemption date	October 20, 2023
6. Redemption method	Lump-sum redemption at maturity
7. Use of funds	Capital investments
8. Collateral	The bonds are not secured or guaranteed, and no assets are reserved particularly for the bonds.
9. Financial covenants	Negative pledge clause is attached.

Appropriation of Retained Earnings

Appropriation of retained earnings for the six-month period ended September 30, 2016, was approved at the Company's Board of Directors' meeting held on November 9, 2016 as follows:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
Interim cash dividends, ¥4.00 (\$0.03) per share	¥	351	\$ 3,471

7. SEGMENT INFORMATION

Information about Sales and Profit (Loss)

	Millions of Yen			
	Reportable Segment			Total
	Information Communication	Information Security	Living and Industrial Materials	
<u>September 30, 2016</u>				
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)	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

	Millions of Yen			
	Reportable Segment			
September 30, 2015	Information Communication	Information Security	Living and Industrial Materials	Total
Sales:				
Sales to external customers	¥ 19,484	¥ 13,531	¥ 9,690	¥ 42,706
Intersegment sales or transfers	715	506	184	1,406
Total	<u>¥ 20,199</u>	<u>¥ 14,038</u>	<u>¥ 9,875</u>	<u>¥ 44,112</u>
Segment profit (loss)	¥ (483)	¥ 519	¥ 55	¥ 91

	Millions of Yen			
	Other (*1)	Total	Reconciliations (*2)	Consolidated Statements of Income (*3)
Sales:				
Sales to external customers	¥ 846	¥ 43,553	¥ -	¥ 43,553
Intersegment sales or transfers	3,753	5,159	(5,159)	-
Total	<u>¥ 4,600</u>	<u>¥ 48,712</u>	<u>¥ (5,159)</u>	<u>¥ 43,553</u>
Segment profit (loss)	¥ 121	¥ 212	¥ (214)	¥ (1)

September 30, 2016	Thousands of U.S. Dollars (Note 1)			
	Reportable Segment			
	Information Communication	Information Security	Living and Industrial Materials	Total
Sales:				
Sales to external customers	\$ 187,678	\$ 150,059	\$ 104,104	\$ 441,851
Intersegment sales or transfers	8,089	5,389	1,839	15,328
Total	<u>\$ 195,767</u>	<u>\$ 155,458</u>	<u>\$ 105,953</u>	<u>\$ 457,189</u>
Segment profit (loss)	\$ (2,818)	\$ 11,649	\$ 2,927	\$ 11,768

September 30, 2016	Thousands of U.S. Dollars (Note 1)			
	Other (*1)	Total	Reconciliations (*2)	Consolidated Statements of Income (*3)
	Sales:			
Sales to external customers	\$ 8,386	\$ 450,247	\$ -	\$ 450,247
Intersegment sales or transfers	38,775	54,104	(54,104)	-
Total	<u>\$ 47,161</u>	<u>\$ 504,351</u>	<u>\$ (54,104)</u>	<u>\$ 450,247</u>
Segment profit (loss)	\$ 1,602	\$ 13,380	\$ (751)	\$ 12,618

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

The Company recognized impairment loss of ¥148 million (\$1,463 thousand) for the Information Communication Segment for the six-month period ended September 30, 2016.

Change in Reportable Segments, etc.

- (1) Effective from the three-month period ended June 30, 2016, the Group changed the names 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 merely a 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 for the Information Communication Segment decreased by ¥126 million (\$1,246 thousand) and segment profit for the Information Security Segment, Living and Industrial Materials Segment, and Other Segment increased by ¥173 million (\$1,710 thousand), ¥177 million (\$1,750 thousand), and ¥9 million (\$89 thousand), respectively, and segment loss in “Reconciliations” increased by ¥26 million (\$257 thousand) for the six-month period ended September 30, 2016 compared to the previous method.

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