

***KYODO PRINTING CO., LTD.
and Consolidated Subsidiaries***

*Interim Consolidated Financial Statements (Unaudited)
for the Nine-Month Period Ended December 31, 2016*

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Balance Sheets

December 31, 2016 as compared with March 31, 2016 (Unaudited)

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	December 31, 2016	March 31, 2016	December 31, 2016
CURRENT ASSETS:			
Cash and cash equivalents (Note 5)	¥ 15,497	¥ 14,234	\$ 132,987
Receivables:			
Trade notes (Note 6)	5,746	6,007	49,309
Trade accounts	20,671	20,118	177,387
Allowance for doubtful accounts	(72)	(62)	(617)
Short-term investments (Note 5)	328	376	2,814
Inventories	6,238	6,470	53,531
Deferred tax assets	643	625	5,517
Prepaid expenses and other current assets	664	582	5,698
Total current assets	<u>49,717</u>	<u>48,353</u>	<u>426,645</u>
PROPERTY, PLANT AND EQUIPMENT:			
Land	15,327	15,327	131,528
Buildings and structures	43,139	43,190	370,196
Machinery and vehicles	49,245	48,313	422,595
Furniture and fixtures	6,277	6,037	53,865
Lease assets	2,451	2,393	21,033
Construction in progress	1,893	401	16,244
Total	<u>118,335</u>	<u>115,665</u>	<u>1,015,489</u>
Accumulated depreciation	<u>(78,335)</u>	<u>(77,368)</u>	<u>(672,230)</u>
Net property, plant and equipment	<u>39,999</u>	<u>38,296</u>	<u>343,250</u>
INVESTMENTS AND OTHER ASSETS:			
Investment securities	19,138	15,975	164,232
Investments in associated companies	420	232	3,604
Intangible assets	1,226	1,324	10,520
Deferred tax assets	159	210	1,364
Other long-term assets	1,076	1,207	9,233
Allowance for doubtful accounts	<u>(99)</u>	<u>(284)</u>	<u>(849)</u>
Total investments and other assets	<u>21,921</u>	<u>18,666</u>	<u>188,114</u>
TOTAL	<u>¥ 111,638</u>	<u>¥ 105,315</u>	<u>\$ 958,019</u>

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Balance Sheets

December 31, 2016 as compared with March 31, 2016 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	December 31, 2016	March 31, 2016	December 31, 2016
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Current portion of long-term debt	¥ 1,020	¥ 6,046	\$ 8,753
Payables:			
Trade notes (Note 6)	8,413	8,577	72,196
Trade accounts	9,739	10,119	83,575
Income taxes payable	313	1,040	2,686
Accrued bonuses	423	1,199	3,629
Other current liabilities (Note 6)	7,225	5,253	62,001
Total current liabilities	27,135	32,238	232,858
LONG-TERM LIABILITIES:			
Long-term debt	14,266	6,834	122,423
Liability for retirement benefits	5,673	5,853	48,682
Deferred tax liabilities	2,737	1,881	23,487
Other long-term liabilities	225	238	1,930
Total long-term liabilities	22,902	14,808	196,533
EQUITY:			
Common stock—authorized, 360,800,000 shares; issued, 90,200,000 shares as of December 31, 2016 and March 31, 2016	4,510	4,510	38,702
Capital surplus	1,742	1,742	14,948
Retained earnings	46,750	45,473	401,184
Treasury stock—at cost, 2,417,614 shares as of December 31, 2016 and 2,415,160 shares as of March 31, 2016	(548)	(547)	(4,702)
Accumulated other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities	9,262	7,091	79,481
Deferred gain (loss) on hedges	1	-	8
Foreign currency translation adjustments	(89)	143	(763)
Remeasurement of defined benefit plans	(54)	(154)	(463)
Total	61,573	58,259	528,387
Non-controlling interests	26	9	223
Total equity	61,599	58,269	528,610
TOTAL	¥ 111,638	¥ 105,315	\$ 958,019

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, 2016 and 2015 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Nine-Month Period Ended December 31		Nine-Month Period Ended December 31
	2016	2015	2016
NET SALES (Note 7)	¥ 71,058	¥ 70,837	\$ 609,782
COST OF SALES	<u>57,893</u>	<u>58,262</u>	<u>496,807</u>
Gross profit	13,164	12,575	112,966
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 7):			
Delivery expenses	3,226	3,193	27,683
Provision of allowance for doubtful accounts	(69)	(6)	(592)
Salaries and allowances	4,160	4,038	35,698
Provision for employees' bonuses	126	125	1,081
Retirement benefit expenses	243	260	2,085
Other	<u>2,963</u>	<u>2,790</u>	<u>25,426</u>
Total selling, general and administrative expenses	<u>10,652</u>	<u>10,401</u>	<u>91,409</u>
Operating income (loss) (Note 7)	<u>2,512</u>	<u>2,173</u>	<u>21,556</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	252	240	2,162
Interest expenses	(76)	(90)	(652)
Gain on sales of goods	203	224	1,742
Rent income (expenses) on facilities	94	89	806
Dividend income of insurance	185	137	1,587
Compensation expenses	(87)	-	(746)
Gain (loss) on sales and retirement of non-current assets	(113)	138	(969)
Impairment loss (Note 7)	(148)	-	(1,270)
Other—net	<u>14</u>	<u>140</u>	<u>120</u>
Other income—net	<u>325</u>	<u>878</u>	<u>2,788</u>
INCOME BEFORE INCOME TAXES	2,838	3,052	24,354
INCOME TAXES	<u>842</u>	<u>903</u>	<u>7,225</u>
NET INCOME	1,995	2,148	17,120
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	<u>16</u>	<u>(0)</u>	<u>137</u>
NET INCOME ATTRIBUTABLE TO OWNERS OF PARENT	<u>¥ 1,979</u>	<u>¥ 2,149</u>	<u>\$ 16,982</u>

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Statements of Income

Nine-Month Periods Ended December 31, 2016 and 2015 (Unaudited)

	Yen		U.S. Dollars	
	Nine-Month Period Ended December 31		Nine-Month Period Ended December 31	
	2016	2015	2016	
PER SHARE OF COMMON STOCK:				
Basic net income	¥ 22.55	¥ 24.48	\$	0.19
Diluted net income	19.95	21.66		0.17
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 Nine-Month Periods Ended December 31, 2016 and 2015 (Unaudited)

	Millions of Yen		Thousands of
	Nine-Month		U.S. Dollars
	2016	2015	(Note 1)
	Period Ended		Nine-Month
	December 31		Period Ended
	2016	2015	December 31
NET INCOME	¥ 1,995	¥ 2,148	\$ 17,120
OTHER COMPREHENSIVE INCOME:			
Unrealized gain (loss) on available-for-sale securities	2,169	1,028	18,613
Deferred gain (loss) on hedges	1	-	8
Foreign currency translation adjustments	(211)	(70)	(1,810)
Remeasurement of defined benefit plans	99	126	849
Share of other comprehensive income in associated companies accounted for using the equity method	(19)	3	(163)
Total other comprehensive income	2,038	1,088	17,489
COMPREHENSIVE INCOME	¥ 4,033	¥ 3,236	\$ 34,609
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of parent	¥ 4,017	¥ 3,237	\$ 34,471
Non-controlling interests	16	(0)	137

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, 2016 and 2015 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Nine-Month Period Ended December 31		Nine-Month Period Ended December 31
	2016	2015	2016
OPERATING ACTIVITIES:			
Income before income taxes	¥ 2,838	¥ 3,052	\$ 24,354
Adjustments for:			
Income taxes—paid	(1,622)	(841)	(13,919)
Depreciation and amortization	2,741	3,536	23,521
(Gain) Loss on sales and retirement of property, plant and equipment	113	(138)	969
Impairment loss (Note 7)	148	-	1,270
Changes in assets and liabilities:			
(Increase) Decrease in trade receivables	(296)	(1,134)	(2,540)
(Increase) Decrease in inventories	227	(659)	1,947
Increase (Decrease) in trade payables	(536)	1,000	(4,599)
Increase (Decrease) in liability for retirement benefits	(36)	106	(308)
Increase (Decrease) in accrued consumption tax	174	(551)	1,493
Increase (Decrease) in accrued expense	38	109	326
Increase(Decrease) in accrued bonuses	(776)	(733)	(6,659)
Other—net	204	129	1,750
Total adjustments	379	824	3,252
Net cash provided by operating activities	3,217	3,876	27,606
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(2,677)	(3,706)	(22,972)
Purchases of intangible assets	(216)	(287)	(1,853)
Proceeds from sales of property, plant and equipment	12	513	102
Purchases of investment securities	(520)	(18)	(4,462)
Proceeds from sales of investment securities	126	62	1,081
Other—net	(93)	(130)	(798)
Net cash used in investing activities	(3,369)	(3,567)	(28,911)
FORWARD	¥ (151)	¥ 308	\$ (1,295)

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Statements of Cash Flows

Nine-Month Periods Ended December 31, 2016 and 2015 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Nine-Month Period Ended December 31		Nine-Month Period Ended December 31
	2016	2015	2016
FORWARD	¥ (151)	¥ 308	\$ (1,295)
FINANCING ACTIVITIES:			
Repayments of long-term debt	(792)	(1,610)	(6,796)
Dividends paid	(702)	(702)	(6,024)
Proceeds from issuance of bonds	7,971	-	68,402
Redemption of bonds	(5,000)	-	(42,907)
Other—net	(0)	(0)	(0)
Net cash provided by financing activities	1,475	(2,313)	12,657
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(60)	(14)	(514)
NET DECREASE IN CASH AND CASH EQUIVALENTS	1,263	(2,019)	10,838
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	14,234	15,368	122,148
CASH AND CASH EQUIVALENTS, END OF PERIOD (Note 5)	¥ 15,497	¥ 13,349	\$ 132,987

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 ¥116.53 to \$1, the approximate rate of exchange as of December 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 ¥838 million (\$7,191 thousand), resulting in increases in operating income and income before income taxes of ¥774 million (\$6,642 thousand) and ¥775 million (\$6,650 thousand), respectively, for the nine-month period ended December 31, 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 December 31, 2016 and 2015 consisted of the following:

	Millions of Yen		Thousands of
	December 31, 2016	December 31, 2015	U.S. Dollars December 31, 2016
Cash and time deposits	¥ 14,825	¥ 13,726	\$ 127,220
Time deposits exceeding three months to maturity	(328)	(376)	(2,814)
Short-term investments with a maturity date within three months from the date of acquisition	1,000	-	8,581
Cash and cash equivalents	<u>¥ 15,497</u>	<u>¥ 13,349</u>	<u>\$ 132,987</u>

6. 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 nine-month period ended December 31, 2016 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 December 31, 2016:

	Millions of Yen	Thousands of
		U.S. Dollars
Trade notes receivable	¥ 541	\$ 4,642
Trade notes payable	40	343
Other	3	25

7. SEGMENT INFORMATION

Information about Sales and Profit (Loss)

	Millions of Yen			
	Reportable Segment			Total
December 31, 2016	Information Communication	Information Security	Living and Industrial Materials	
Sales:				
Sales to external customers	¥ 31,440	¥ 22,508	¥ 15,718	¥ 69,667
Intersegment sales or transfers	1,270	908	300	2,478
Total	¥ 32,711	¥ 23,416	¥ 16,018	¥ 72,146
Segment profit (loss)	¥ 149	¥ 1,459	¥ 413	¥ 2,022
	Millions of Yen			
	Other (*1)	Total	Reconciliations (*2)	Consolidated Statements of Income (*3)
Sales:				
Sales to external customers	¥ 1,390	¥ 71,058	¥ -	¥ 71,058
Intersegment sales or transfers	6,214	8,692	(8,692)	-
Total	¥ 7,604	¥ 79,751	¥ (8,692)	¥ 71,058
Segment profit (loss)	¥ 366	¥ 2,389	¥ 123	¥ 2,512

	Millions of Yen			
	Reportable Segment			
December 31, 2015	Information Communication	Information Security	Living and Industrial Materials	Total
Sales:				
Sales to external customers	¥ 32,550	¥ 22,099	¥ 14,862	¥ 69,512
Intersegment sales or transfers	1,211	906	298	2,415
Total	<u>¥ 33,761</u>	<u>¥ 23,006</u>	<u>¥ 15,160</u>	<u>¥ 71,928</u>
Segment profit (loss)	¥ 77	¥ 1,883	¥ 168	¥ 2,128

	Millions of Yen			
	Other (*1)	Total	Reconciliations (*2)	Consolidated Statements of Income (*3)
Sales:				
Sales to external customers	¥ 1,325	¥ 70,837	¥ -	¥ 70,837
Intersegment sales or transfers	6,000	8,416	(8,416)	-
Total	<u>¥ 7,326</u>	<u>¥ 79,254</u>	<u>¥ (8,416)</u>	<u>¥ 70,837</u>
Segment profit (loss)	¥ 332	¥ 2,461	¥ (288)	¥ 2,173

December 31, 2016	Thousands of U.S. Dollars			
	Reportable Segment			Total
	Information Communication	Information Security	Living and Industrial Materials	
Sales:				
Sales to external customers	\$ 269,801	\$ 193,151	\$ 134,883	\$ 597,846
Intersegment sales or transfers	10,898	7,791	2,574	21,264
Total	<u>\$ 280,708</u>	<u>\$ 200,943</u>	<u>\$ 137,458</u>	<u>\$ 619,119</u>
Segment profit (loss)	\$ 1,278	\$ 12,520	\$ 3,544	\$ 17,351

	Thousands of U.S. Dollars (Note 1)			
	Other (*1)	Total	Reconciliations (*2)	Consolidated Statements of Income (*3)
Sales:				
Sales to external customers	\$ 11,928	\$ 609,782	\$ -	\$ 609,782
Intersegment sales or transfers	53,325	74,590	(74,590)	-
Total	<u>\$ 65,253</u>	<u>\$ 684,381</u>	<u>\$ (74,590)</u>	<u>\$ 609,782</u>
Segment profit (loss)	\$ 3,140	\$ 20,501	\$ 1,055	\$ 21,556

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 (\$1,270 thousand) for the Information Communication Segment for the nine-month period ended December 31, 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 profit for the Information Communication Segment, Information Security Segment, Living and Industrial Materials Segment, Other Segment and “Reconciliations” increased by ¥194 million (\$1,664 thousand), ¥276 million (\$2,368 thousand), ¥276 million (\$2,368 thousand), and ¥14 million (\$120 thousand), ¥12 million (\$102 thousand) respectively for the nine-month period ended December 31, 2016 compared to the previous method.

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