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April 7, 2016

Summary of Financial Results of the Second Quarter of the Fiscal Year ending August 31, 2016 [Japanese standards] (Consolidated)

Company name: ChiikiShinbunsha Company Limited
 Securities code: 2164
 Representative: Yukifumi Chikama, Representative Director
 Contact: Kouji Miyamoto, Director, Administrative Headquarter Manager
 and Manager of Business Management Division
 Stock Exchange listings: Tokyo
 URL: <http://chiikinews.co.jp/>
 Tel: +81-47-420-0303

Scheduled date of filing of quarterly report: April 13, 2016
 Scheduled date of payment of dividend: No
 Preparation of supplementary references regarding quarterly results: Yes
 Holding the briefing of quarterly results: Yes (For institutional investors and analysts)

(All amounts are rounded down to the nearest million yen)
 (△ means negative)

1. Financial Results of the Second Quarter of the Fiscal Year ending August 31, 2016 (Sep. 1, 2015 – Feb. 29, 2016)

(1) Consolidated results of operations (cumulative total)

(Percentages represent changes from previous year)

	Net Sales		Operating income		Ordinary income		Quarterly net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
2Q FY08/2016	1,892	22.3	△76	—	△75	—	△136	—
2Q FY08/2015	1,546	—	89	—	91	—	57	—

(Note) Comprehensive income
 2Q FY08/2016: △136 million yen
 2Q FY08/2015: 57 million yen

	Quarterly Net income per share	Diluted quarterly net income per share
	Yen	Yen
2Q FY08/2016	△73.86	—
2Q FY08/2015	31.19	—

(Note) From the 2Q of FY 08/2015, consolidated accounting period has been adopted for creating quarterly consolidated financial statements, and therefore amounts for the 2Q FY 08/2015 and increase/decrease ratios as compared to the previous year are not applicable.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
2Q FY08/2016	1,561	714	45.8
FY08/2015	1,634	894	54.7

(Reference) Shareholders equity:
 2Q FY08/2016: 714 million yen
 FY08/2015: 894 million yen

2. Dividends

	Annual dividend				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY08/2015	—	0.00	—	10.00	10.00
FY08/2016	—	0.00	—	—	—
FY08/2016 (forecasts)	—	—	—	2.00	2.00

(NOTE) Revisions to dividend forecasts published most recently: None

3. Consolidated performance forecasts for the Fiscal Year ending August 31, 2016 (Sep. 1, 2015 – Aug. 31, 2016)

(Percentages represent changes from the previous year)

	Net sales		Operating income		Ordinary income		Income attributable to owners of parent		Net profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full term	3,929	13.7	△144	—	△142	—	△212	—	△115.39

(NOTE) Revisions to performance forecasts published most recently: Yes

1. Qualitative Information regarding the Current Quarter

(1) Descriptions regarding operating results

During the current second quarter consolidated cumulative period, Japanese economy has seen gradual economic upswing with improved overall corporate profit and employment environment due to various economic policies including monetary easing, whereas there seems to be some economic weakness because of economic downturn in Asian emerging countries including China. At the same time, there still seems less progress in restoration of consumer confidence than anticipated due to sluggish growth of real wage. For the future, there would remain unpredictable situation, as overseas economies have shown some weakness and there would be some risk that Japanese economy might be suppressed.

Free-paper/free-magazine market in which we operate has diversified its media and targets, whereas price competition has become common with not only printed advertisement but also with internet advertisement, making our management environment still hard to survive.

Under such circumstances, customer base and know-how for editing and sales developed by both of ChiikiShinbunsha Co., Ltd. and The Shopper Inc. (the entire shares of which had been acquired by the Company, thereby becoming its subsidiary) have been integrated, their operating resources being proactively shared and utilized, that led to further enhancing various services provided by our group. Adding the subsidiary resulted in our group's fundamental business in publishing newspapers having increased in the number of versions from previously 55 in 55 areas within 2 prefectures to 64 in 64 areas within 3 prefectures and Tokyo; and weekly number of copies printed has increased from around 2.04 million to 3 million (as of February 29, 2016).

As part of our strategies for the business in publishing newspapers, face-to-face sales activities with advertising clients have been further enhanced as a measure of increasing sales activities, and we built up relationship of mutual trust by having more opportunities for contacting our clients, in an attempt to acquire more and more customers. In addition, we have enhanced our abilities to gather regional information and evolved/developed our contents to the ones which readers would anticipate every week. Also, we leveraged further integration of the "Chiiki Shinbun (regional newspaper)" (a free-paper) with "Chiikomi" (regional information community site managed by our Web business department), which has enabled us to provide more value-added advertisement, achieving higher customer satisfaction.

As for measures of The Shopper, in order to evolve/develop the "Chiiki Shinbun Shopper" paper to more community-based media, preparation work has been carried out for segmentalizing the area to distribute "Saitama-Omiya/Ageo" version (149,000 copies printed) into 4 areas, that means "Omiya-Shintoshin ver.", "Owada-Iwatsuki ver.", "Higashiomiya-Miyahara ver.", and "Ageo-Okegawa ver." have been created from July, 2015. And in order to maximize advertising effectiveness of the "Chiiki Shinbun Shopper" paper, a delivery center was established to consolidate our distribution infrastructure, together with additional 50,000 copies printed so that increased density of distribution could be achieved.

Despite our efforts as mentioned above, competition in free-paper market has become further intensive. In our business of distributing inserted flyers, not only ChiikiShinbunsha but also for The Shopper, targeted customers of our clients have become more evident by utilizing Geographical Information System (GIS) customized according to their respective areas, which helped to realize efficient services aiming to maximize advertising effects. However, sales performance of this term was lower as compared to the previous year during which we benefited from special demand in the context of nationwide local elections conducted last year.

Elsewhere, our business as a ticket agency by making use of available spaces on free-papers obtained exclusive right to sell tickets for "Professional Sumo in Machida" that is planned to be held in April, 2016, and those tickets have already been completely sold out. And "Regional Regeneration Strategy Office" was established in December, 2015, in order to build up relationship with local governments in an attempt to expand administration-related business.

In such context, during the current second quarter consolidated cumulative period, net sales was 1,892,161,000 yen (increase by 22.3% YoY) that means substantial increase due to adding The Shopper Inc. as a subsidiary; however, because of increase in expenses and labor cost for securing human resources in preparation for segmentalizing target areas of The Shopper, and of increase in investment into the core system and others, ordinary loss was 75,024,000 (last year, ordinary income of 91,457,000 yen), and impairment of 42,153,000 yen were of goodwill and noncurrent assets of The Shopper were accrued as extraordinary loss that was 136,185,000 (quarterly net profit of 57,515,000 yen in the previous year).

(2) Descriptions regarding financial position

1) Status of assets, liabilities and net assets

A. Assets

Total assets at the end of the current second quarter consolidated fiscal period decreased from the end of the previous consolidated fiscal year by 73,490,000 yen to 1,561,335,000 yen. This is mainly because despite increase in accounts receivable-trade by 77,125,000 yen, cash and deposits decreased by 113,174,000 yen, as well as decrease in property,

plant and equipment by 7,490,000 yen, decrease in other intangible assets by 10,163,000 yen, and decrease in goodwill by 42,976,000 yen.

B. Liabilities

Current liabilities at the end of the current second quarter consolidated fiscal period increased from the end of the previous consolidated fiscal year by 102,514,000 yen to 592,399,000 yen. This is mainly due to increase in accounts payable-others by 50,927,000 yen and increase in accounts payable-trade by 35,042,000 yen.

Non-current liabilities at the end of the current second quarter consolidated fiscal period increased from the end of the previous consolidated fiscal year by 3,632,000 yen to 253,937,000 yen. This is mainly because despite decrease in liabilities on retirement benefits by 2,856,000 yen, lease obligations (included in "other") increased by 5,604,000 yen.

C. Net assets

Total net assets at the end of the current second quarter consolidated fiscal period decreased from the end of the previous consolidated fiscal year by 179,638,000 yen to 714,998,000 yen. This is mainly because of allocating quarterly net loss of 136,185,000 yen, and in addition, as described in the "Appendix 2. Matters regarding Summary Information (Notes), (3) Changes in accounting principles, changes and restatements of accounting estimates", decrease in retained earnings by 25,015,000 yen due to applying the accounting standard for business combination, and also because of paying dividends of 18,436,000 yen.

(3) Descriptions regarding future prospects such as consolidated performance forecasts

With respect to performance forecasts for the fiscal year ending August 31, 2016, please refer to "Notices concerning declaration of extraordinary loss (impairment loss including goodwill), difference between performance forecasts and actual performance, revisions to the full term performance forecasts and reduction in directors' compensations" as published on April 1, 2016.

2. Matters regarding Summary Information (Notes)

(1) Changes in important subsidiaries during the current consolidated cumulative period

Not applicable.

(2) Application of special accounting methods to the preparation of quarterly consolidated financial statement

Not applicable.

(3) Changes in accounting principles, changes and restatements of accounting estimates

(Application of Accounting Standard for Business Combination, etc.)

"Accounting Standard for Consolidated Financial Statements" (Corporate Accounting Standard No. 22 of September 13, 2013), and "Accounting Standard for Business Divestitures" (Corporate Accounting Standard No. 7 of September 13, 2013) have been applied to the Group's accounting method since the first quarter consolidated fiscal period, and therefore balance amount due to change in equity interest which the Group has in its subsidiaries in case of continuous control over them is allocated as capital surplus and expenses related to acquisition are allocated as having been incurred during the consolidated fiscal year during which such acquisition took place. With respect to business combination to be carried out after the beginning of the first quarter consolidated fiscal period, accounting method shall be revised so that allocation amount of acquisition cost readjusted due to ascertainment of provisional accounting treatment should be reflected on the quarterly consolidated financial statements for the quarterly consolidated fiscal period during which relevant business combination took place. In addition, the manner in which quarterly net profit and others are represented has been revised. In order to reflect such changes in representation, quarterly consolidated financial statements for the second quarter of the previous consolidated cumulative fiscal period were reconstructed accordingly.

Application of Accounting Standards for Business Combination and for others are in compliance with the transitional treatments as set out in Accounting Standard for Business Combination, Sec. 58-2 (3), Accounting Standard for Consolidated Financial Statements, Sec. 44-5 (3), and Accounting Standard for Business Divestitures, Sec. 57-4 (3), having been applied, and assuming that new accounting principles were applied retroactively to every previous fiscal terms, cumulatively affected amount at the beginning of the first quarter consolidated fiscal period has been reflected on the retained earnings.

As a result, amount of goodwill decreased by 25,015,000 yen and retained earnings also decreased by 25,015,000 yen at the beginning of the first quarter consolidated fiscal period. In addition, operating loss, ordinary loss and net loss before income taxes and minority interests in the current second consolidated cumulative period decreased respectively by 2,779,000 yen.