

**Consolidated Financial Results
for the Year Ended March 31, 2021 [Japanese GAAP]**

May 14, 2021

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 Stock Code: 3865
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 Scheduled date of ordinary general meeting of shareholders: June 29, 2021
 Scheduled date of commencement of dividend payments: June 30, 2021
 Scheduled date of filing annual securities reports: June 29, 2021
 Supplementary documents for financial results: Yes
 Results briefing: Yes (for institutional investors and analysts)

Stock Exchange Listing: Tokyo
 URL: <http://www.hokuetsucorp.com>

(Figures rounded down to the nearest million yen)

1. Consolidated financial results for the year ended March 31, 2021 (April 1, 2020 through March 31, 2021)

(1) Consolidated results of operations (% change from the previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended March 31, 2021	222,454	(15.9)	1,701	(84.8)	9,756	(37.7)	14,172	75.6
Year ended March 31, 2020	264,618	(4.1)	11,208	10.6	15,652	20.3	8,072	(11.8)

(Note) Comprehensive income: Year ended March 31, 2021: 16,776 million yen (-%)
 Year ended March 31, 2020: 677 million yen (-78.9%)

	Basic earnings per share	Diluted earnings per share	Return on equity	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
	Yen	Yen	%	%	%
Year ended March 31, 2021	84.40	83.00	7.6	2.8	0.8
Year ended March 31, 2020	43.45	40.95	4.3	4.4	4.2

(Reference) Investment income by equity method: Year ended March 31, 2021: 5,587 million yen
 Year ended March 31, 2020: 4,580 million yen

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of March 31, 2021	363,075	195,419	53.6	1,159.49
As of March 31, 2020	344,731	180,861	52.3	1,073.08

(Reference) Equity: As of March 31, 2021: 194,702 million yen
 As of March 31, 2020: 180,183 million yen

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of the year
	Million yen	Million yen	Million yen	Million yen
Year ended March 31, 2021	23,760	(19,575)	4,358	29,846
Year ended March 31, 2020	43,974	(20,199)	(17,261)	21,383

2. Dividends

	Annual dividend per share					Total dividends (Total)	Dividend payout ratio (Consolidated)	Ratio of dividend to net assets (Consolidated)
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Year ended March 31, 2020	-	6.00	-	6.00	12.00	2,148	27.6	1.1
Year ended March 31, 2021	-	7.00	-	7.00	14.00	2,359	16.6	1.3
Year ending March 31, 2022 (forecast)	-	7.00	-	7.00	14.00		13.8	

3. Forecast of Consolidated Financial Results for the Year Ending March 31, 2022 (April 1, 2021 through March 31, 2022)

(% change from the previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
2Q (Accumulated)	125,000	21.0	7,500	-	10,000	-	11,000	491.5	65.51
Full year	255,000	14.6	15,000	781.4	20,000	105.0	17,000	19.9	101.24

*** Notes**

(1) Changes in significant subsidiaries during the year (changes in specified subsidiaries accompanying changes in the scope of consolidation): None

(2) Changes in accounting policies, accounting estimates and restatement of prior period financial statements

(i) Changes in accounting policies due to amendment to accounting standards: None

(ii) Changes in accounting policies other than (i): None

(iii) Changes in accounting estimates: None

(iv) Restatement of prior period financial statements: None

(3) Shares outstanding (common stock)

(i) Number of shares outstanding at year-end (treasury stock included):

As of March 31, 2021 188,053,114 shares As of March 31, 2020 188,053,114 shares

(ii) Number of treasury stock at year-end:

As of March 31, 2021 20,131,789 shares As of March 31, 2020 20,140,702 shares

(iii) Average number of shares during the year:

For the year ended March 31, 2021 167,919,947 shares For the year ended March 31, 2020 185,800,021 shares

(Reference) Overview of non-consolidated financial results

1. Non-consolidated financial results for the year ended March 31, 2021 (April 1, 2020 through March 31, 2021)

(1) Non-consolidated results of operations (% change from the previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Net profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended March 31, 2021	146,976	(15.9)	1,965	(34.4)	6,632	(32.5)	12,029	340.2
Year ended March 31, 2020	174,709	(1.7)	2,994	–	9,824	236.1	2,732	–

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Year ended March 31, 2021	71.39	71.30
Year ended March 31, 2020	14.67	14.66

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of March 31, 2021	271,560	126,647	46.6	751.01
As of March 31, 2020	260,526	115,008	44.1	682.16

(Reference) Equity: As of March 31, 2021: 126,545 million yen
As of March 31, 2020: 114,926 million yen

*** The summary of financial results is exempt from audits conducted by certified public accountants or an audit corporation.**

*** Explanation regarding appropriate use of business forecasts and other special instructions**

(Caution regarding forward-looking statements)

The forward-looking statements such as forecasts of financial results contained in this material are based on information available to the Company at the time of the publication of this document and certain assumptions that the Company considers to be reasonable, and may differ materially from the actual results due to various factors. For assumptions of business forecasts and a note about the use of business forecasts, please refer to page 5 “1. Summary of Operating Results (4) Future outlook.”

*** This document is an excerpt translation of the original in Japanese and is for reference purposes only. In case of any discrepancy between this document and the original in Japanese, the latter shall take precedence.**

1. Summary of Operating Results

(1) Summary of operating results during the year

(Operating results during the year)

During the current year, demand decreased substantially in the second quarter due to the slowdown in social and economic activities under the effects of COVID-19. Demand began recovering with the step-by-step resumption of social and economic activities in the second half. However, net sales and profits fell year on year, reflecting heavy declines in the second quarter. Meanwhile, profit attributable to owners of parent increased year on year with a gain on sales of all investment securities the Company had held in Japan Brazil Paper and Pulp Resources Development Co., Ltd. The Group's consolidated financial results for the current year were as follows:

Net sales	222,454 million yen	(down 15.9% year on year)
Operating profit	1,701 million yen	(down 84.8% year on year)
Ordinary profit	9,756 million yen	(down 37.7% year on year)
Profit attributable to owners of parent	14,172 million yen	(up 75.6% year on year)

The performance of major segments is as follows:

(i) Pulp and paper business

(Million yen)

	Previous year	Current year	Difference
Net sales	237,895	198,770	(39,124)
Operating profit	9,321	673	(8,648)

In the pulp and paper business, demand fell substantially in the second quarter due to the stagnation of social and economic activities under the effects of COVID-19. Demand began recovering with the step-by-step resumption of social and economic activities in the second half. However, net sales and profits fell year on year, reflecting heavy declines in the second quarter.

By product type, sales of paper decreased substantially from the previous fiscal year as a result of the slowdown in social and economic activities as well as the suspension and voluntary restraints that effected numerous events because of COVID-19.

Sales of paperboard for foods remained firm. However, sales of paperboard for cosmetics and souvenirs fell sharply due to the evaporation of inbound demand under the effects of COVID-19. By grade, special white paperboard and coated duplex board (with gray-back) for primary food containers, containers related to take-home foods, and boxes used for instant and retort-pouch foods remained strong. However, sales of special white paperboard and coated duplex board for souvenirs and pharmaceuticals fell significantly below the levels posted in the previous fiscal year. Sales of high-grade white paperboard sank sharply year on year, reflecting heavy falls for products for point-of-purchase (POP) store ads, different types of cards, cosmetics and pharmaceuticals. Moreover, the shipment of containerboard base paper to containerboard manufacturers, which are the product customers, began in April 2020.

Regarding specialty paper, sales of products in the functional paper category remained generally strong. Sales of base paper for chip carrier tapes used to carry electronic parts were favorable, helped by demand for new 5G smartphone models and demand for PCs and tablets supported by the growing practice of working from home. Sales of base paper for filters for air purifiers also remained strong due to increased hygiene awareness. Sales of functional paper as a whole surpassed the level posted in the previous fiscal year. Looking at fancy paper in general, sales of high-grade printing paper for catalogs and pamphlets were sluggish, like sales of paper, due to the suspension of, and voluntary restraints on, events. Sales of communication paper remained stagnant, the result of a shift from adhesive postcards for notices and vouchers to electronic media. Meanwhile, sales of OCR paper decreased substantially to fall below the result posted in the previous fiscal year.

Sales of pulp fell from the previous fiscal year, reflecting a drop in pulp prices attributable to weak economic activities under the effects of COVID-19.

(ii) Packaging/Paper processing business

(Million yen)

	Previous year	Current year	Difference
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Net sales	18,227	15,599	(2,628)
Operating profit	418	89	(328)

Net sales and profits for the packaging/paper processing business decreased, reflecting a fall in fluid container orders due to shape changes and a sharp decline in demand given the COVID-19 pandemic. Low sales posted in areas centered on packaging and information media were particularly responsible for the decreases.

(iii) Other businesses (including wood material, engineering, logistics businesses)

(Million yen)

	Previous year	Current year	Difference
Net sales	8,494	8,083	(411)
Operating profit	890	326	(563)

In wood material, engineering, logistics, and other businesses, sales of fuel chips for biomass boilers remained strong in the wood material business. However, large project orders decreased in the engineering business, transaction volumes fell in logistics businesses under the effect of COVID-19, and the operation of certain businesses ended with pullout decisions in other businesses. As a result, net sales and profits for other businesses declined year on year.

(2) Summary of financial conditions during the fiscal year

(Million yen)

	End of previous year	End of current year	Change
Total assets	344,731	363,075	18,344
Net assets	180,861	195,419	14,557
Equity ratio	52.3%	53.6%	1.4%
Net assets per share	1,073.08 yen	1,159.49 yen	86.40 yen
Interest-bearing debt at year-end	106,832	113,991	7,159

Total assets increased 18,344 million yen from the end of the previous fiscal year, to 363,075 million yen. Main factors included increases in investment securities of 16,462 million yen, cash and deposits of 8,463 million yen and asset for retirement benefits of 1,347 million yen, which more than offset decreases in merchandise and finished goods of 6,825 million yen and property, plant and equipment of 941 million yen due to depreciation.

Total liabilities rose 3,787 million yen from the end of the previous fiscal year, to 167,656 million yen. This was chiefly due to an increase in interest-bearing debt of 7,159 million yen, which more than offset decreases in notes and accounts payable – trade of 1,788 million yen and notes payable – facilities of 1,192 million yen.

Net assets rose 14,557 million yen from the end of the previous fiscal year, to 195,419 million yen. This mainly reflected increases in retained earnings of 12,011 million yen due to profit attributable to owners of parent and valuation difference on available-for-sale securities of 2,184 million yen.

(3) Summary of cash flow during the fiscal year

(Million yen)

	Previous year	Current year	Change
Cash flows from operating activities	43,974	23,760	(20,213)
Cash flows from investing activities	(20,199)	(19,575)	623
Cash flows from financing activities	(17,261)	4,358	21,619
Effect of exchange rate change on cash and cash equivalents	(332)	(80)	252
Net increase (decrease) in cash and cash equivalents	6,180	8,463	2,282
Cash and cash equivalents at beginning of the year	15,202	21,383	6,180
Cash and cash equivalents at end of the year	21,383	29,846	8,463

Cash and cash equivalents as of the end of current year increased 8,463 million yen year on year, to 29,846 million yen.

(Cash flow from operating activities)

Net cash provided by operating activities was 23,760 million yen (down 46.0% year on year.)

Major inflows were profit before income taxes of 13,331 million yen, depreciation of 14,482 million yen and a decrease in inventories of 6,516 million yen. Major outflows were share of profit of entities accounted for using equity method of 5,587 million yen and gain on sales of investment securities of 5,320 million yen.

(Cash flow from investing activities)

Net cash used in investing activities amounted to 19,575 million yen (down 3.1% year on year).

Major outflows were purchase of investment securities of 10,625 million yen and the purchase of property, plant and equipment of 15,526 million yen. A major inflow was proceeds from sales of investment securities of 7,478 million yen.

(Cash flow from financing activities)

Net cash provided by financing activities was 4,358 million yen (outflow of 17,261 million yen in the previous fiscal year).

Major inflows were an increase in short-term loans of 7,060 million yen and proceeds from long-term loans of 16,000 million yen. Major outflows were a decrease in commercial paper of 7,000 million yen, repayment of long-term loans of 9,145 million yen and dividends paid of 2,190 million yen.

(4) Future outlook

Forecast on financial results for the next fiscal year

The Japanese economy continues to face difficult conditions with the impact of COVID-19. Looking ahead, signs of recovery are expected to continue to be seen, given the effects of various policies and improvements in overseas economies amid measures to prevent the spread of COVID-19. However, there are concerns that the infection's spread in Japan and overseas may put downward pressure on the economy. Under these circumstances, given a range of factors such as rapid changes in domestic demand and global market price trends, there is growing uncertainty in the business environment surrounding the pulp and paper industry. The Group will continue to work on full-scale cost reductions to strengthen its financial conditions.

The following business forecast was prepared by considering these circumstances comprehensively.

The following forecast was based on information currently available to the Company at the time of the release of these materials. Actual result may differ from the above forecast due to various factors.

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Basic earnings per share
	Million yen	Million yen	Million yen	Million yen	Yen
Year ending March 31, 2022 (forecast)	255,000	15,000	20,000	17,000	101.24
Year ended March 31, 2021 (actual)	222,454	1,701	9,756	14,172	84.40
% change from the previous corresponding period	14.6	781.4	105.0	19.9	

2. Our Basic Philosophy on the Selection of Accounting Standards

Taking into account the period comparability of consolidated financial statements, the Group currently prepares consolidated financial statements based on Japanese GAAP. With respect to the International Financial Reporting Standards (IFRSs) the Company will address the issue appropriately with consideration to the various circumstances in Japan and overseas.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Million yen)

	As of March 31, 2020	As of March 31, 2021
(Assets)		
Current assets		
Cash and deposits	21,383	29,846
Notes and accounts receivable - trade	50,078	49,653
Electronically recorded monetary claims - operating	6,427	5,701
Merchandise and finished goods	29,200	22,374
Work in process	2,429	2,378
Raw materials and supplies	22,722	22,712
Other	5,445	7,355
Allowance for doubtful accounts	(6)	(3)
Total current assets	137,679	140,020
Non-current assets		
Property, plant and equipment		
Buildings and structures	84,722	85,263
Accumulated depreciation	(52,954)	(53,994)
Buildings and structures, net	31,767	31,268
Machinery, equipment and vehicles	423,773	431,975
Accumulated depreciation	(361,058)	(369,170)
Machinery, equipment and vehicles, net	62,715	62,805
Tools, furniture and fixtures	6,188	6,404
Accumulated depreciation	(4,948)	(5,079)
Tools, furniture and fixtures, net	1,240	1,324
Land	22,514	22,412
Leased assets	500	408
Accumulated depreciation	(395)	(318)
Leased assets, net	104	90
Right-of-use assets	2,619	2,557
Accumulated depreciation	(302)	(471)
Right-of-use assets, net	2,317	2,086
Construction in progress	4,251	3,989
Forestland	2,480	2,470
Total property, plant and equipment	127,390	126,448
Intangible assets	2,984	2,668
Investments and other assets		
Investment securities	70,366	86,829
Long-term loans	206	224
Asset for retirement benefits	2,109	3,456
Deferred tax assets	1,840	1,621
Other	4,577	4,226
Allowance for doubtful accounts	(2,425)	(2,420)
Total investments and other assets	76,675	93,937
Total non-current assets	207,051	223,055
Total assets	344,731	363,075

(Million yen)

	As of March 31, 2020	As of March 31, 2021
(Liabilities)		
Current liabilities		
Notes and accounts payable - trade	19,360	17,571
Electronically recorded obligations - operating	6,317	5,898
Short-term loans	19,338	22,928
Commercial papers	7,000	–
Current portion of bonds payable	–	20,000
Lease obligations	288	293
Income taxes payable	1,086	720
Accrued consumption taxes	892	1,230
Provision for bonuses	2,757	2,368
Provision for directors' bonuses	94	79
Provision for environmental measures	330	305
Provision for business structure improvement	–	258
Provision for loss on disaster	214	220
Provision for reforestation	177	142
Notes payable - facilities	2,642	1,449
Other	11,030	11,548
Total current liabilities	71,531	85,016
Non-current liabilities		
Bonds payable	30,000	10,000
Long-term loans	48,460	59,142
Lease obligations	1,744	1,626
Deferred tax liabilities	435	1,209
Provision for environmental measures	803	805
Provision for business structure improvement	197	–
Provision for reforestation	375	291
Retirement benefit liability	7,266	6,940
Asset retirement obligations	2,441	2,256
Other	612	367
Total non-current liabilities	92,337	82,639
Total liabilities	163,869	167,656
Net assets		
Shareholders' equity		
Share capital	42,020	42,020
Capital surplus	45,341	45,341
Retained earnings	100,879	112,891
Treasury shares	(9,708)	(9,702)
Total shareholders' equity	178,533	190,550
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,159	4,343
Deferred gains or losses on hedges	21	(18)
Foreign currency translation adjustment	337	(949)
Remeasurements of defined benefit plans	(868)	775
Total accumulated other comprehensive income	1,650	4,151
Share acquisition rights	81	102
Non-controlling interests	596	614
Total net assets	180,861	195,419
Total liabilities and net assets	344,731	363,075

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

(Million yen)

	For the year ended March 31, 2020	For the year ended March 31, 2021
Net sales	264,618	222,454
Cost of sales	213,143	183,978
Gross profit	51,474	38,475
Selling, general and administrative expenses	40,266	36,773
Operating profit	11,208	1,701
Non-operating income		
Interest income	93	26
Dividends income	1,030	772
Share of profit of entities accounted for using equity method	4,580	5,587
Other	1,633	3,366
Total non-operating income	7,338	9,752
Non-operating expenses		
Interest expenses	654	437
Foreign exchange losses	1,177	–
Leave allowance	–	535
Other	1,062	725
Total non-operating expenses	2,894	1,697
Ordinary profit	15,652	9,756
Extraordinary income		
Gain on sales of non-current assets	56	60
Gain on sales of investment securities	897	5,323
Gain on change in equity	48	499
Gain on reversal of asset retirement obligations	–	327
Gain on contribution of securities to retirement benefit trust	4,874	–
Insurance claim income	719	315
Compensation income	–	99
Other	23	1
Total extraordinary income	6,620	6,626
Extraordinary losses		
Loss on sales and retirement of non-current assets	1,751	1,142
Impairment loss	6,382	114
Loss on disaster	675	308
Loss on tax purpose reduction entry of non-current assets	57	95
Loss on sales of investment securities	0	3
Loss on valuation of investment securities	27	588
Business restructuring expenses	–	798
Loss on sales of equity investment of subsidiary	666	–
Total extraordinary losses	9,561	3,051
Profit before income taxes	12,711	13,331
Income taxes - current	2,210	848
Refund of income taxes	–	(1,351)
Income taxes - deferred	2,398	(435)
Total income taxes	4,609	(938)
Profit	8,101	14,269
Profit attributable to non-controlling interests	28	97
Profit attributable to owners of parent	8,072	14,172

Consolidated Statements of Comprehensive Income

(Million yen)

	For the year ended March 31, 2020	For the year ended March 31, 2021
Profit	8,101	14,269
Other comprehensive income		
Valuation difference on available-for-sale securities	(5,435)	2,004
Deferred gains or losses on hedges	16	(42)
Foreign currency translation adjustment	721	(1,282)
Remeasurements of defined benefit plans, net of tax	(1,404)	1,465
Share of other comprehensive income of entities accounted for using equity method	(1,322)	360
Total other comprehensive income	(7,424)	2,506
Comprehensive income:	677	16,776
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	652	16,673
Comprehensive income attributable to non-controlling interests	24	102

(4) Consolidated Statement of Cash Flows

(Million yen)

	For the year ended March 31, 2020	For the year ended March 31, 2021
Cash flows from operating activities		
Profit before income taxes	12,711	13,331
Depreciation	18,450	14,482
Impairment loss	6,382	114
Amortization of goodwill	125	124
Compensation income	–	(99)
Insurance claim income	(719)	(315)
Increase (decrease) in net defined benefit liability	186	443
Interest and dividend income	(1,124)	(798)
Interest expenses	654	437
Share of profit of entities accounted for using equity method	(4,580)	(5,587)
Loss (gain) on sale of investment securities	(897)	(5,320)
Loss on tax purpose reduction entry of non-current assets	57	95
Loss (gain) on sales and retirement of non-current assets	1,694	1,082
Business restructuring expenses	–	798
Loss (gain) on contribution of securities to retirement benefit trust	(4,874)	–
Decrease (increase) in trade receivables - trade	17,550	980
Decrease (increase) in inventories	801	6,516
Decrease (increase) in consumption taxes refund receivable	(161)	54
Increase (decrease) in notes and accounts payable - trade	(2,338)	(2,184)
Increase (decrease) in accrued consumption taxes	446	471
Other	2,782	(801)
Subtotal	47,148	23,829
Interest and dividend income received	1,528	1,449
Interest paid	(605)	(349)
Income taxes paid	(4,860)	(1,570)
Proceeds from compensation	–	99
Proceeds from insurance income	763	302
Net cash provided by (used in) operating activities	43,974	23,760
Cash flows from investing activities		
Payments for purchases of investment securities	(4,569)	(10,625)
Proceeds from sales of investment securities	2,128	7,478
Payments for purchases of property, plant and equipment	(14,857)	(15,526)
Payments for retirement of property, plant and equipment	(1,002)	(831)
Proceeds from sales of property, plant and equipment	65	68
Payments of loans receivable	(119)	(152)
Collection of loans receivable	136	133
Other	(1,979)	(121)
Net cash provided by (used in) investing activities	(20,199)	(19,575)

(Million yen)

	For the year ended March 31, 2020	For the year ended March 31, 2021
Cash flows from financing activities		
Net increase (decrease) in short-term loans	(1,463)	7,060
Net increase (decrease) in commercial papers	(3,500)	(7,000)
Proceeds from long-term loans	16,000	16,000
Repayments of long-term loans	(15,551)	(9,145)
Dividends paid	(2,274)	(2,190)
Dividends paid to non-controlling interests	(80)	(84)
Purchase of treasury shares	(10,097)	(0)
Other	(293)	(282)
Net cash provided by (used in) financing activities	(17,261)	4,358
Translation (loss) gain on cash and cash equivalents	(332)	(80)
Net increase (decrease) in cash and cash equivalents	6,180	8,463
Cash and cash equivalents at beginning of the year	15,202	21,383
Cash and cash equivalents at end of the year	21,383	29,846