

**Consolidated Financial Results
for the Year Ended March 31, 2022 [Japanese GAAP]**

May 13, 2022

Company: **Hokuetsu Corporation**
 Stock Code: 3865
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 Scheduled date of ordinary general meeting of shareholders: June 29, 2022
 Scheduled date of commencement of dividend payments: June 30, 2022
 Scheduled date of filing annual securities report: June 29, 2022
 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, 2022 (April 1, 2021 through March 31, 2022)

(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, 2022	261,616	17.6	20,455	–	29,514	202.5	21,206	49.6
Year ended March 31, 2021	222,454	(15.9)	1,701	(84.8)	9,756	(37.7)	14,172	75.6

(Note) Comprehensive income: Year ended March 31, 2022: 24,088 million yen (43.6%)
 Year ended March 31, 2021: 16,776 million yen (–%)

	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, 2022	126.22	126.09	10.3	8.0	7.8
Year ended March 31, 2021	84.40	83.00	7.6	2.8	0.8

(Reference) Investment income by equity method: Year ended March 31, 2022: 5,861 million yen
 Year ended March 31, 2021: 5,587 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, 2022	376,956	216,974	57.4	1,286.82
As of March 31, 2021	363,075	195,419	53.6	1,159.49

(Reference) Equity: As of March 31, 2022: 216,252 million yen
 As of March 31, 2021: 194,702 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, 2022	20,186	(1,648)	(19,187)	30,275
Year ended March 31, 2021	23,760	(19,575)	4,358	29,846

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, 2021	–	7.00	–	7.00	14.00	2,359	16.6	1.3
Year ended March 31, 2022	–	7.00	–	17.00	24.00	4,047	19.0	2.0
Year ending March 31, 2023 (forecast)	–	9.00	–	9.00	18.00		30.2	

Breakdown of year-end dividends for the fiscal year ending March 31, 2022: Ordinary dividend: 7.00 yen Special dividend: 10.00 yen

3. Forecast of Consolidated Financial Results for the Year Ending March 31, 2023 (April 1, 2022 through March 31, 2023)

(% 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)	130,000	2.9	1,500	(86.1)	2,000	(86.5)	1,000	(93.8)	5.95
Full year	280,000	7.0	11,000	(46.2)	14,000	(52.6)	10,000	(52.8)	59.51

*** 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: Yes

(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, 2022 188,053,114 shares As of March 31, 2021 188,053,114 shares

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

As of March 31, 2022 20,001,115 shares As of March 31, 2021 20,131,789 shares

(iii) Average number of shares during the year:

For the year ended March 31, 2022 168,018,990 shares For the year ended March 31, 2021 167,919,947 shares

(Reference) Overview of non-consolidated financial results

1. Non-consolidated financial results for the year ended March 31, 2022 (April 1, 2021 through March 31, 2022)

(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, 2022	164,681	12.0	7,291	270.9	13,091	97.4	7,368	(38.7)
Year ended March 31, 2021	146,976	(15.9)	1,965	(34.4)	6,632	(32.5)	12,029	340.2

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Year ended March 31, 2022	43.70	43.66
Year ended March 31, 2021	71.39	71.30

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of March 31, 2022	268,469	131,785	49.1	781.04
As of March 31, 2021	271,560	126,647	46.6	751.01

(Reference) Equity: As of March 31, 2022: 131,708 million yen
As of March 31, 2021: 126,545 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)

For the current fiscal year, demand showed signs of a recovery from the previous fiscal year, where demand declined significantly across the industry. Sales volumes increased for paper and white paperboard and the sales price of pulp rose. That led to increases in both sales and profit. The Group's consolidated financial results for the current fiscal year were as follows:

Net sales	261,616 million yen	(up 17.6% year on year)
Operating profit	20,455 million yen	(compared to an operating profit of 1,701 million yen a year ago)
Ordinary profit	29,514 million yen	(up 202.5% year on year)
Profit attributable to owners of parent	21,206 million yen	(up 49.6% 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	198,770	240,002	41,231
Operating profit	673	19,241	18,568

In the pulp and paper business, demand declined significantly across the industry in the previous fiscal year under the effects of COVID-19. However, signs of a recovery appeared in the current fiscal year. Sales volumes increased, which resulted in increases in sales and profits.

By product type, sales of paper were higher than in the previous fiscal year as a whole. After the state of emergency was lifted in the second half of current year, orders for applications of pamphlets for travel rallied and sales for the purpose of flyers for sale at the end of fiscal year expanded. Exports also increased from the previous fiscal year after recovery of economic activities amid global progress in COVID-19 vaccination.

Sales of paperboard also exceeded the level attained in the previous fiscal year, like those of paper. By grade, special white paperboard and coated duplex board (with gray-back) made solid sales for applications of primary food containers, containers related to take-home foods and boxes used for retort-pouch foods. Outside Japan, however, sales volumes decreased in China. Sales of high-grade white paperboard grew year on year. For applications of cosmetics and pharmaceuticals, sales remained as sluggish as in the previous fiscal year whereas sales for point-of-purchase (POP) store ads and different types of cards surged. Sales volumes of containerboard base paper, of which commercial production was commenced in April 2020, increased steadily during the current fiscal year and exceeded the previous fiscal year's level.

With respect to performance materials, solid sales of automotive battery separators, chip carrier tape base paper for transporting electronic components and abrasive base paper were achieved and sales for functional paper as a whole was higher than in the preceding fiscal year. Sales of communication paper were stagnant overall due to the entrenchment of teleworking and other impacts of the COVID-19 pandemic. Pulp sales surpassed the figure in the previous fiscal year, supported by the rise in sales prices following the recovery of overseas economic activities from the COVID-19 pandemic.

(ii) Packaging/Paper processing business

(Million yen)

	Previous year	Current year	Difference
Net sales	15,599	13,609	(1,990)
Operating profit	89	(71)	(161)

In the packaging/paper processing business, sales and profits decreased mainly due to the transfer of business in the area of information media and a fall in orders received for liquid containers as a result of their shape changes.

(iii) Other businesses

(Million yen)

	Previous year	Current year	Difference
Net sales	8,083	8,004	(78)
Operating profit	326	759	433

In other businesses, including wood material business, used paper wholesale business, construction business, and logistics business, external orders increased but sales decreased primarily due to the termination of certain business operations. In terms of profitability, an increase in profits was recorded, mainly reflecting the effect of a range of cost reduction initiatives.

(2) Summary of financial conditions during the fiscal year

(Million yen)

	End of previous year	End of current year	Change
Total assets	363,075	376,956	13,880
Net assets	195,419	216,974	21,555
Equity ratio	53.6%	57.4%	3.7%
Net assets per share	1,159.49 yen	1,286.82 yen	127.33 yen
Interest-bearing debt at year-end	113,991	99,088	(14,903)

Total assets increased 13,880 million yen from the end of the previous fiscal year, to 376,956 million yen. Significant factors included increases in notes and accounts receivable - trade, and contract assets of 11,095 million yen, electronically recorded monetary claims - operating of 1,431 million yen, merchandise and finished goods of 4,885 million yen, raw materials and supplies of 3,757 million yen, which more than offset decreases in property, plant and equipment of 11,066 million yen due in part to depreciation.

Total liabilities decreased 7,674 million yen from the end of the previous year, to 159,981 million yen. This was due chiefly to increases in notes and accounts payable - trade of 2,788 million yen, income tax payable of 3,293 million yen and deferred tax liabilities of 1,700 million yen, which more than offset a decrease in interest-bearing debt of 14,903 million yen.

Net assets rose 21,555 million yen from the end of the previous fiscal year, to 216,974 million yen. This mainly reflected increases in retained earnings of 18,724 million yen due to profit attributable to owners of parent and foreign currency translation adjustment of 2,581 million yen.

(3) Summary of cash flow during the fiscal year

(Million yen)

	Previous year	Current year	Change
Cash flows from operating activities	23,760	20,186	(3,574)
Cash flows from investing activities	(19,575)	(1,648)	17,927
Cash flows from financing activities	4,358	(19,187)	(23,545)
Effect of exchange rate change on cash and cash equivalents	(80)	1,078	1,158
Net increase (decrease) in cash and cash equivalents	8,463	428	(8,034)
Cash and cash equivalents at beginning of the year	21,383	29,846	8,463
Cash and cash equivalents at end of the year	29,846	30,275	428

Cash and cash equivalents as of the end of current year increased 428 million yen year on year, to 30,275 million yen.

(Cash flow from operating activities)

Net cash provided by operating activities was 20,186 million yen (down 15.0% year on year.)

Major inflows were profit before income taxes of 27,358 million yen, depreciation of 13,213 million yen, impairment loss of 7,855 million yen and an increase in notes and accounts payable - trade of 2,849 million yen. Major outflows were share of profit of entities accounted for

using equity method of 5,861 million yen, gain on sales and retirement of non-current assets of 6,111 million yen and an increase in trade receivables - trade of 11,586 million yen.

(Cash flow from investing activities)

Net cash used in investing activities amounted to 1,648 million yen (down 91.6% year on year).

Major outflows were purchase of investment securities of 775 million yen and the purchase of property, plant and equipment of 12,918 million yen. Major inflows were proceeds from sale of property, plant and equipment of 11,291 million yen and proceeds from sale of businesses of 1,500 million yen.

(Cash flow from financing activities)

Net cash used in financing activities was 19,187 million yen (Inflow of 4,358 million yen in the previous year).

Major outflows were a decrease in short-term loans of 4,133 million yen, repayment of long-term loans of 5,372 million yen, redemption of bonds of 20,000 million yen and dividends paid of 2,352 million yen.

Major inflows were a net increase in commercial paper of 3,000 million yen and proceeds from issuance of bonds of 10,000 million yen.

(4) Future outlook

(i) Forecast on financial results for the next fiscal year

The Japanese economy is expected to turn around, given full infection control measures amid a relaxation of the severe situation associated with the COVID-19 pandemic, the effects of policies as well as improvements in overseas economies. However, there are concerns that soaring material and fuel prices resulting from the situation in Ukraine may place downward pressure on the economy.

Under these circumstances, uncertainty over business conditions in the pulp and paper industry continues, with rapid changes in domestic demand trends, movements in global market prices and the rises in material and fuel prices. Implemented in the fiscal year ended March 31, 2022, the price revisions are expected to produce positive effects on the Group throughout the fiscal year. Moreover, the Group will further 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, 2023 (forecast)	280,000	11,000	14,000	10,000	59.51
Year ended March 31, 2022 (actual)	261,616	20,455	29,514	21,206	126.22
% change from the previous corresponding period	7.0	(46.2)	(52.6)	(52.8)	

(ii) Forecast on dividends for the next fiscal year

The Company continues to make investments for growth to boost its corporate value consistently and from a long-term perspective. With this in mind, it established the basic guidelines for capital policy with an emphasis on the implementation of continuous and stable dividend payments based on the capital policy of maintaining a balance between financial soundness, capital efficiency and shareholder returns.

The Company has made certain achievements in management initiatives implemented based on its long-term management vision. Taking these achievements and other factors comprehensively into consideration, with respect to dividend forecasts for the next fiscal year, the company plans to increase its interim dividends to 9 yen per share, year-end dividends to 9 yen per share and annual dividends to 18 yen per share.

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, 2021	As of March 31, 2022
(Assets)		
Current assets		
Cash and deposits	29,846	30,275
Notes and accounts receivable - trade	49,653	–
Notes and accounts receivable - trade, and contract assets	–	60,749
Electronically recorded monetary claims - operating	5,701	7,133
Merchandise and finished goods	22,374	27,260
Work in process	2,378	2,684
Raw materials and supplies	22,712	26,469
Other	7,355	5,741
Allowance for doubtful accounts	(3)	(5)
Total current assets	140,020	160,308
Non-current assets		
Property, plant and equipment		
Buildings and structures	85,263	85,623
Accumulated depreciation	(53,994)	(54,260)
Buildings and structures, net	31,268	31,363
Machinery, equipment and vehicles	431,975	432,919
Accumulated depreciation	(369,170)	(374,780)
Machinery, equipment and vehicles, net	62,805	58,138
Tools, furniture and fixtures	6,404	6,509
Accumulated depreciation	(5,079)	(5,219)
Tools, furniture and fixtures, net	1,324	1,290
Land	22,412	17,850
Leased assets	408	185
Accumulated depreciation	(318)	(119)
Leased assets, net	90	65
Right-of-use assets	2,557	2,596
Accumulated depreciation	(471)	(540)
Right-of-use assets, net	2,086	2,056
Construction in progress	3,989	2,166
Forestland	2,470	2,449
Total property, plant and equipment	126,448	115,382
Intangible assets	2,668	2,406
Investments and other assets		
Investment securities	22,044	22,022
Shares of subsidiaries and associates	64,784	69,562
Long-term loans	224	215
Asset for retirement benefits	3,456	3,869
Deferred tax assets	1,621	1,663
Other	4,226	1,811
Allowance for doubtful accounts	(2,420)	(288)
Total investments and other assets	93,937	98,857
Total non-current assets	223,055	216,647
Total assets	363,075	376,956

(Million yen)

	As of March 31, 2021	As of March 31, 2022
(Liabilities)		
Current liabilities		
Notes and accounts payable - trade	17,571	20,360
Electronically recorded obligations - operating	5,898	6,339
Short-term loans	22,928	40,748
Commercial papers	–	3,000
Current portion of bonds payable	20,000	–
Lease obligations	293	280
Income taxes payable	720	4,013
Accrued consumption taxes	1,230	432
Contract liabilities	–	507
Provision for bonuses	2,368	2,613
Provision for directors' bonuses	79	65
Provision for environmental measures	305	54
Provision for business structure improvement	258	–
Provision for loss on disaster	220	123
Provision for reforestation	142	191
Provision for loss related to the Anti-Monopoly Act	–	180
Notes payable - facilities	1,449	1,325
Other	11,548	11,559
Total current liabilities	85,016	91,796
Non-current liabilities		
Bonds payable	10,000	20,000
Long-term loans	59,142	33,495
Lease obligations	1,626	1,563
Deferred tax liabilities	1,209	2,909
Provision for environmental measures	805	1,136
Provision for reforestation	291	340
Retirement benefit liability	6,940	5,661
Asset retirement obligations	2,256	2,845
Other	367	231
Total non-current liabilities	82,639	68,184
Total liabilities	167,656	159,981
Net assets		
Shareholders' equity		
Share capital	42,020	42,020
Capital surplus	45,341	45,341
Retained earnings	112,891	131,615
Treasury shares	(9,702)	(9,639)
Total shareholders' equity	190,550	209,338
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,343	3,686
Deferred gains or losses on hedges	(18)	157
Foreign currency translation adjustment	(949)	1,632
Remeasurements of defined benefit plans	775	1,437
Total accumulated other comprehensive income	4,151	6,913
Share acquisition rights	102	77
Non-controlling interests	614	644
Total net assets	195,419	216,974
Total liabilities and net assets	363,075	376,956

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

Consolidated Statements of Income

(Million yen)

	For the year ended March 31, 2021	For the year ended March 31, 2022
Net sales	222,454	261,616
Cost of sales	183,978	200,490
Gross profit	38,475	61,125
Selling, general and administrative expenses	36,773	40,670
Operating profit	1,701	20,455
Non-operating income		
Interest income	26	27
Dividends income	772	776
Share of profit of entities accounted for using equity method	5,587	5,861
Foreign exchange gains	190	1,729
Other	3,176	1,855
Total non-operating income	9,752	10,250
Non-operating expenses		
Interest expenses	437	393
Leave allowance	535	11
Rental expenses	232	244
Provision of allowance for doubtful accounts	–	240
Other	492	300
Total non-operating expenses	1,697	1,191
Ordinary profit	9,756	29,514
Extraordinary income		
Gain on sales of non-current assets	60	6,985
Gain on sales of investment securities	5,323	20
Gain on change in equity	499	–
Gain on reversal of asset retirement obligations	327	–
Insurance claim income	315	34
Compensation income	99	–
Gain on reversal of retirement benefit obligations	–	77
Other	1	–
Total extraordinary income	6,626	7,117
Extraordinary losses		
Loss on sales and retirement of non-current assets	1,142	873
Impairment loss	114	7,855
Loss on disaster	308	130
Loss on tax purpose reduction entry of non-current assets	95	31
Loss on sales of investment securities	3	–
Loss on valuation of investment securities	588	22
Business restructuring expenses	798	–
Loss related to the Anti-Monopoly Act	–	360
Total extraordinary losses	3,051	9,273
Profit before income taxes	13,331	27,358
Income taxes - current	848	4,452
Refund of income taxes	(1,351)	–
Income taxes - deferred	(435)	1,633
Total income taxes	(938)	6,085
Profit	14,269	21,272
Profit attributable to non-controlling interests	97	66
Profit attributable to owners of parent	14,172	21,206

Consolidated Statements of Comprehensive Income

(Million yen)

	For the year ended March 31, 2021	For the year ended March 31, 2022
Profit	14,269	21,272
Other comprehensive income		
Valuation difference on available-for-sale securities	2,004	(328)
Deferred gains or losses on hedges	(42)	126
Foreign currency translation adjustment	(1,282)	2,634
Remeasurements of defined benefit plans, net of tax	1,465	689
Share of other comprehensive income of entities accounted for using equity method	360	(307)
Total other comprehensive income	2,506	2,815
Comprehensive income:	16,776	24,088
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	16,673	23,968
Comprehensive income attributable to non-controlling interests	102	119

(4) Consolidated Statement of Cash Flows

(Million yen)

	For the year ended March 31, 2021	For the year ended March 31, 2022
Cash flows from operating activities		
Profit before income taxes	13,331	27,358
Depreciation	14,482	13,213
Impairment loss	114	7,855
Amortization of goodwill	124	133
Compensation income	(99)	–
Insurance claim income	(315)	(34)
Increase (decrease) in net defined benefit liability	443	(539)
Interest and dividend income	(798)	(804)
Interest expenses	437	393
Share of profit of entities accounted for using equity method	(5,587)	(5,861)
Net gain on sale of investment securities	(5,320)	(20)
Loss on tax purpose reduction entry of non-current assets	95	31
Net loss (gain) on sales and retirement of non-current assets	1,082	(6,111)
Business restructuring expenses	798	–
Reversal of retirement benefit obligations	–	(77)
Decrease (increase) in notes and accounts receivable - trade	980	(11,586)
Decrease (increase) in inventories	6,516	(7,455)
Decrease (increase) in consumption taxes refund receivable	54	(1,034)
Increase (decrease) in notes and accounts payable - trade	(2,184)	2,849
Increase (decrease) in accrued consumption taxes	471	(798)
Other	(801)	(339)
Subtotal	23,829	17,172
Interest and dividend income received	1,449	1,646
Interest paid	(349)	(396)
Income taxes refunded (paid)	(1,570)	1,760
Proceeds from compensation	99	–
Proceeds from insurance income	302	2
Net cash provided by operating activities	23,760	20,186
Cash flows from investing activities		
Payments for purchases of investment securities	(10,625)	(775)
Proceeds from sales of investment securities	7,478	31
Payments for purchases of property, plant and equipment	(15,526)	(12,918)
Payments for retirement of property, plant and equipment	(831)	(777)
Proceeds from sales of property, plant and equipment	68	11,291
Payments of loans receivable	(152)	(110)
Collection of loans receivable	133	177
Proceeds from transfer of businesses	–	1,500
Other	(121)	(67)
Net cash used in investing activities	(19,575)	(1,648)

(Million yen)

	For the year ended March 31, 2021	For the year ended March 31, 2022
Cash flows from financing activities		
Net increase (decrease) in short-term loans	7,060	(4,133)
Net increase (decrease) in commercial papers	(7,000)	3,000
Proceeds from long-term loans	16,000	–
Repayments of long-term loans	(9,145)	(5,372)
Proceeds from issuance of bonds	–	10,000
Redemption of bonds	–	(20,000)
Dividends paid	(2,190)	(2,352)
Dividends paid to non-controlling interests	(84)	(89)
Other	(282)	(238)
Net cash provided by (used in) financing activities	4,358	(19,187)
Translation (loss) gain on cash and cash equivalents	(80)	1,078
Net increase in cash and cash equivalents	8,463	428
Cash and cash equivalents at beginning of period	21,383	29,846
Cash and cash equivalents at end of the year	29,846	30,275

(5) Notes to Quarterly Consolidated Financial Statements

(Notes to Going Concern Assumption)

Not applicable.

(Changes in Accounting Policies)

(Application of Accounting Standard for Revenue Recognition)

The "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020. (hereinafter referred to as the "Accounting Standard for Revenue Recognition") and related implementation guidance are applied from the beginning of the current fiscal year, and revenue is recognized at the amount expected to be received in exchange for promised goods or services when the customer obtains control of the promised goods or services.

As a result, a portion of revenue related to a transaction was previously recognized on a gross basis, but as a result of determining its role (as principal or agent) in providing the goods to the customer, the Company has changed its method of recognizing revenue on a net basis for transactions that are determined to be agent transactions.

In addition, a portion of the consideration payable to the customer, which was previously treated as selling, general and administrative expenses, is now subtracted from the transaction price.

In accordance with the transitional treatment prescribed in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition, the cumulative effect of retrospective application of the new accounting policy prior to the beginning of the current fiscal year is adjusted to retained earnings at the beginning of the current fiscal year, and the new accounting policy is applied from such beginning balance. However, the new accounting policy was not applied retrospectively to contracts for which almost all revenue amounts were recognized in accordance with the previous treatment prior to the beginning of the current fiscal year by applying the method prescribed in Paragraph 86 of the Accounting Standard for Revenue Recognition. In addition, the Company has applied the method prescribed in Subparagraph (1), Paragraph 86 of the Accounting Standard for Revenue Recognition and has accounted for contract modifications made prior to the beginning of the current fiscal year based on the contract terms after reflecting all contract modifications, and has adjusted the cumulative effect of such modifications to retained earnings at the beginning of the current fiscal year.

In addition, "Notes and accounts receivable - trade" presented in current assets in the consolidated balance sheets for the previous fiscal year is included in "Notes, accounts receivable - trade and contract assets" from this fiscal year, and "Other" presented in current liabilities for the previous fiscal year is included in "Contract liabilities" and "Other" from this fiscal year. However, in accordance with the transitional treatment prescribed in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, no reclassification has been made to the comparative information as the previous fiscal year using the new presentation.

As a result, the application of the revenue recognition accounting standard did not have a material impact on the consolidated financial statements.

(Application of Accounting Standard for Fair Value Measurement)

The Company began applying the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30 issued on July 4, 2019, hereinafter the "Fair Value Measurement Standard") and related implementation guidance at the beginning of the current fiscal year. In accordance with the transitional treatment set forth in Section 19 of the Fair Value Measurement Standard and Section 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10 issued on July 4, 2019), the Company applies new accounting policies prescribed in the Fair Value Measurement Standard and related implementation guidance prospectively. Their application produces no impact on the consolidated financial statements.