



HOKUETSU

**Consolidated Financial Results
for the Year Ended March 31, 2019 [Japanese GAAP]**

May 17, 2019

Company: **Hokuetsu Corporation**
 Stock Code: 3865
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 Scheduled date of ordinary general meeting of shareholders: June 26, 2019
 Scheduled date of commencement of dividend payment: June 27, 2019
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 Supplementary documents for financial results: Yes
 Results briefing: Yes (for institutional investors and analysts)

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(Figures rounded down to the nearest million yen)

1. Consolidated financial results for the year ended March 31, 2019 (April 1, 2018 through March 31, 2019)

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent company	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended March 31, 2019	275,807	2.5	10,130	(11.2)	13,015	(6.4)	9,155	(11.3)
Year ended March 31, 2018	269,099	2.6	11,414	(11.5)	13,907	(1.1)	10,327	(0.5)

(Note) Comprehensive income: The year ended March 31, 2019: 3,210 million yen (-75.3%)
 The year ended March 31, 2018: 13,008 million yen (-6.0%)

	Basic earnings per share	Diluted earnings per share	Return on equity	Ratio of ordinary income to total assets	Ratio of operating income to net sales
	Yen	Yen	%	%	%
Year ended March 31, 2019	48.44	47.73	4.8	3.5	3.7
Year ended March 31, 2018	54.68	53.42	5.6	3.8	4.2

(Reference) Investment income by equity method: The year ended March 31, 2019: 1,259 million yen
 The year ended March 31, 2018: 1,844 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, 2019	368,082	192,861	52.2	1,016.16
As of March 31, 2018	366,447	191,977	52.2	1,011.58

(Reference) Equity: As of March 31, 2019: 192,104 million yen
 As of March 31, 2018: 191,154 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 year-end
	Million yen	Million yen	Million yen	Million yen
Year ended March 31, 2019	21,626	(19,274)	(934)	15,202
Year ended March 31, 2018	19,741	(14,158)	(10,644)	14,281

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, 2018	-	6.00	-	6.00	12.00	2,273	21.9	1.2
Year ended March 31, 2019	-	6.00	-	6.00	12.00	2,274	24.8	1.2
Year ending March 31, 2020 (forecast)	-	6.00	-	6.00	12.00		19.7	

3. Forecast of Consolidated Financial Results for the Year Ending March 31, 2020 (April 1, 2019 through March 31, 2020)

(% change from the previous corresponding period)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent company		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
2Q (Accumulated)	140,000	3.8	7,000	261.3	7,000	60.1	4,500	68.7	23.80
Full year	285,000	3.3	16,500	62.9	18,000	38.3	11,500	25.6	60.83

*** 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 of 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 the year-end (treasury stock included):

As of March 31, 2019 209,263,814 shares As of March 31, 2018 209,263,814 shares

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

As of March 31, 2019 20,213,382 shares As of March 31, 2018 20,298,290 shares

(iii) Average number of shares during the year:

For the year ended March 31, 2019 189,007,882 shares For the year ended March 31, 2018 188,864,106 shares

(Reference) Overview of non-consolidated financial results

1. Non-consolidated financial results for the year ended March 31, 2019 (April 1, 2018 through March 31, 2019)

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent company	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended March 31, 2019	177,811	0.9	(2,091)	–	2,923	64.3	(5,810)	–
Year ended March 31, 2018	176,245	(2.1)	(1,895)	–	1,779	(75.1)	2,378	(51.6)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Year ended March 31, 2019	(30.66)	–
Year ended March 31, 2018	12.55	12.54

(Note) Diluted earnings per share for the fiscal year ended March 31, 2019 are not stated because basic earnings per share are negative although there are dilutive shares.

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of March 31, 2019	279,110	129,841	46.5	684.37
As of March 31, 2018	287,259	140,115	48.7	738.85

(Reference) Equity: As of March 31, 2019: 129,737 million yen
As of March 31, 2018: 139,994 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 earnings forecasts and a note about the use of earnings 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)

With respect to the business results for the year ended March 31, 2019, while net sales increased due to strong exports and brisk sales of overseas subsidiaries, profits were down because the raw fuel price rose sharply. The Group's consolidated financial results for the fiscal year were as follows:

Net sales	275,807 million yen	(up 2.5% year on year)
Operating income	10,130 million yen	(down 11.2% year on year)
Ordinary income	13,015 million yen	(down 6.4% year on year)
Net income attributable to owners of parent company	9,155 million yen	(down 11.3% 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	242,082	248,253	6,171
Operating income	8,808	7,956	(852)

In the pulp and paper business, net sales increased due to strong exports and brisk sales of overseas subsidiaries. However, profits were down due to a sharp rise in the raw fuel price.

By product type, net sales for paper decreased on sluggish sales until the third quarter, reflecting declining demand due to electronic advertising media and mail-order catalogs, despite price revisions made in January 2019. In exports, however, sales volumes rose to a record high, mainly in Asian countries.

With regard to white paperboard, net sales of coated duplex board (with gray-back) for food-related items including confectionery and retort remained strong. Net sales of premium white paperboard were down due to sluggish sales for use for convenience stores' sales promotional goods and POP in stores, although sales for use for luxury cosmetics were firm. Net sales of special white paperboard remained steady for package use for western confectionery and souvenirs.

Regarding specialty paper, in the area of functional paper, net sales for base paper for chip carrier tape to carry electronic parts were strong until the end of the year, but the movement of goods, particularly those for China, came to a halt after the turn of the year. Net sales of filters for air purifiers remained firm in Japan, but exports declined due to a fall in orders after the turn of the year. With respect to the overall situation of fancy paper, a downgrade to general paper in addition to a decline in demand were seen, but high-grade printing paper remained robust. Net sales of adhesive postcards for notices fell below those of last year, and regarding overall communication paper, a decrease in use for vouchers and a shift to electronic media continued, creating a severe sales situation.

Net sales of pulp at Alberta-Pacific Forest Industries Inc. were strong due to rising pulp market conditions, and net sales of pulp increased from the previous fiscal year.

(ii) Packaging/Paper processing business

(Million yen)

	Previous year	Current year	Difference
Net sales	19,428	19,192	(235)
Operating income	1,128	841	(286)

A decrease in net sales and profits for the packaging/paper processing business were posted due to a decline in the order volume from a customer which made a change in the shape of fluid containers and a fall in demand associated with computerization in the area of information media.

(iii) Other businesses

(Million yen)

	Previous year	Current year	Difference
Net sales	7,589	8,361	772
Operating income	815	709	(106)

As for other businesses such as the wood business, the used paper wholesale business, the construction business, the transportation and the warehousing business, net sales increased due to a rise in external orders received by the wood business, although the overall orders environment was difficult. Profits decreased mainly due to increase in costs in the transportation and the warehousing business.

(2) Summary of financial conditions during the fiscal year

(Million yen)

	End of previous year	End of current year	Change
Total assets	366,447	368,082	1,634
Net assets	191,977	192,861	884
Equity ratio	52.2%	52.2%	0.0%
Basic earnings per share	1,011.58 yen	1,016.16 yen	4.58 yen
Interest-bearing debt at year-end	108,240	109,725	1,485

Total assets increased 1,634 million yen from the end of the previous year, to 368,082 million yen. Major factors included increases in cash and deposits of 887 million yen, merchandise and finished goods of 2,512 million yen, raw materials and supplies of 3,019 million yen, and investments in securities of 1,562 million yen, in spite of decreases in notes and accounts receivable – trade of 1,470 million yen and property, plant and equipment of 5,092 million yen primarily due to depreciation.

Total liabilities increased 749 million yen from the end of the previous year, to 175,220 million yen. This was mainly due to increases in interest-bearing debt of 1,485 million yen and income taxes payable of 729 million yen, as well as decreases in deferred tax liabilities of 991 million yen and asset retirement obligations of 574 million yen.

Net assets rose 884 million yen from the end of the previous year, to 192,861 million yen. This chiefly reflected an increase in retained earnings of 6,784 million yen mainly due to net income attributable to owners of parent company, and decreases in unrealized holding gains on securities of 2,484 million yen and foreign currency translation adjustment of 3,452 million yen.

(3) Summary of cash flow during the fiscal year

(Million yen)

	Previous year	Current year	Change
Cash flows from operating activities	19,741	21,626	1,884
Cash flows from investing activities	(14,158)	(19,274)	(5,116)
Cash flows from financing activities	(10,644)	(934)	9,710
Effect of exchange rate change on cash and cash equivalents	58	(496)	(554)
Net increase (decrease) in cash and cash equivalents	(5,002)	920	5,923
Cash and cash equivalents at beginning of the year	19,284	14,281	(5,002)
Cash and cash equivalents at end of the year	14,281	15,202	920

Cash and cash equivalents as of the end of current year increased 920 million yen year on year, to 15,202 million yen.

(Cash flow from operating activities)

Net cash provided by operating activities was 21,626 million yen (up 9.5% year on year.)

Major inflows were income before income taxes of 12,703 million yen and depreciation of 18,390 million yen, and major outflows were equity in income of affiliates of 1,259 million yen, an increase in inventories of 7,114 million yen and an increase in corporate taxes paid of 3,221 million yen.

(Cash flow from investing activities)

Net cash used in investing activities amounted to 19,274 million yen (up 36.1% year on year).

A major factor was the purchase of investment securities of 4,192 million yen, and purchase of property, plant and equipment of 15,626 million yen.

(Cash flow from financing activities)

Net cash used in financing activities was 934 million yen (down 91.2% year on year).

Major outflows were a net decrease in short-term debt of 3,813 million yen, a net decrease in commercial paper of 500 million yen, repayments of long-term debt of 6,446 million yen, and cash dividends paid of 2,273 million yen. A major inflow was proceeds from long-term debt of 12,200 million yen.

(4) Future outlook

	Net sales	Operating income	Ordinary income	Net income attributable to owners of parent company	Basic earnings per share
	Million yen	Million yen	Million yen	Million yen	Yen
The year ending March 31, 2020 (forecast)	285,000	16,500	18,000	11,500	60.83
The year ended March 31, 2019 (actual)	275,807	10,130	13,015	9,155	48.44
% change from the previous corresponding period	3.3	62.9	38.3	25.6	25.6

(Business environment forecast for the next fiscal year)

The Japanese economy remains on a moderate recovery track, and the mild recovery is expected to continue as corporate earnings and the employment situation continue to improve in the next fiscal year. However, there are concerns regarding the risks of the development of trade issues and the impact of uncertainties of overseas economics such as the economic outlook of China.

Under these circumstances, the environment surrounding the paper and pulp industry remains uncertain due to a decrease in domestic demands for printing paper and communication paper, and the rising raw fuel price. The Group expects that the effect of price revisions made in the fiscal year ended March 31, 2019 will make a contribution throughout the fiscal year. The Group will also continue to address cost reductions thoroughly to further reinforce the earnings structure.

The above earnings forecast was prepared by considering these circumstances comprehensively.

The above 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.

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 and Key Notes

(1) Consolidated Balance Sheet

(Million yen)

	As of March 31, 2018	As of March 31, 2019
(Assets)		
Current assets		
Cash and deposits	14,315	15,202
Notes and accounts receivable - trade	69,178	67,708
Electronically recorded monetary claims	5,954	6,228
Merchandise and finished goods	23,500	26,012
Work in process	2,030	2,247
Raw materials and supplies	23,659	26,679
Other	6,033	6,075
Allowance for doubtful accounts	(82)	(55)
Total current assets	144,590	150,098
Non-current assets		
Property, plant and equipment		
Buildings and structures	82,098	83,736
Accumulated depreciation	(49,456)	(50,949)
Buildings and structures, net	32,641	32,787
Machinery, equipment and vehicles	413,379	422,189
Accumulated depreciation	(337,646)	(350,187)
Machinery, equipment and vehicles, net	75,733	72,001
Tools, furniture and fixtures	5,544	5,767
Accumulated depreciation	(4,494)	(4,695)
Tools, furniture and fixtures, net	1,049	1,072
Land	22,730	22,504
Leased assets	831	758
Accumulated depreciation	(572)	(487)
Leased assets, net	259	271
Construction in progress	4,391	3,151
Forestland	3,166	3,090
Total property, plant and equipment	139,972	134,880
Intangible assets	3,091	2,907
Investments and other assets		
Investment in securities	71,725	73,287
Long-term loans	277	220
Asset for retirement benefits	2,638	2,668
Deferred tax assets	2,054	2,067
Other	4,536	4,379
Allowance for doubtful accounts	(2,437)	(2,427)
Total investments and other assets	78,793	80,195
Total non-current assets	221,857	217,983
Total assets	366,447	368,082

(Million yen)

	As of March 31, 2018	As of March 31, 2019
(Liabilities)		
Current liabilities		
Notes and accounts payable - trade	21,840	21,409
Electronically recorded obligations	7,118	6,632
Short-term debt	21,941	25,655
Commercial papers	11,000	10,500
Current portion of bonds	10,000	–
Lease obligations	72	74
Income taxes payable	1,801	2,531
Accrued consumption taxes	225	449
Provision for bonuses	2,698	2,688
Provision for directors' bonuses	94	95
Provision for environmental measures	307	343
Provision for loss on disaster	–	161
Provision for reforestation	177	125
Notes payable - facilities	2,071	2,350
Other	11,482	11,277
Total current liabilities	90,832	84,293
Non-current liabilities		
Bonds payable	20,000	30,000
Long-term debt, less current maturities	45,064	43,331
Lease obligations	160	164
Deferred tax liabilities	2,036	1,045
Provision for environmental measures	297	766
Provision for business structure improvement	270	246
Provision for reforestation	408	372
Liability for defined benefit	11,772	12,014
Asset retirement obligations	2,950	2,376
Other	676	609
Total non-current liabilities	83,638	90,926
Total liabilities	174,470	175,220
Net assets		
Shareholders' equity		
Capital stock	42,020	42,020
Capital surplus	45,524	45,348
Retained earnings	98,814	105,599
Treasury stock	(9,976)	(9,933)
Total shareholders' equity	176,383	183,034
Accumulated other comprehensive income		
Unrealized holding gains on securities, net of taxes	11,360	8,876
Unrealized losses on hedging derivatives, net of taxes	(21)	(1)
Foreign currency translation adjustment	3,064	(388)
Remeasurements of retirement benefit, net of taxes	367	583
Total accumulated other comprehensive income	14,770	9,070
Share subscription rights	121	104
Non-controlling interests	701	651
Total net assets	191,977	192,861
Total liabilities and net assets	366,447	368,082

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

Consolidated Statements of Income

(Million yen)

	For the year ended March 31, 2018	For the year ended March 31, 2019
Net sales	269,099	275,807
Cost of sales	216,846	224,668
Gross profit	52,253	51,138
Selling, general and administrative expenses	40,839	41,008
Operating income	11,414	10,130
Non-operating income		
Interest income	92	82
Dividends income	982	980
Equity in income of affiliates	1,844	1,259
Insurance claim income	244	582
Other	1,181	2,061
Total non-operating income	4,346	4,967
Non-operating expenses		
Interest expenses	766	773
Environmental expenses	438	648
Other	647	660
Total non-operating expenses	1,852	2,082
Ordinary income	13,907	13,015
Extraordinary income		
Gain on sales of property, plant and equipment	260	227
Gain on sales of investment securities	46	632
Gain on change in equity of associates	–	256
Gain on liquidation of associates	30	–
Gain on transfer of business	–	87
Gain on revision of retirement benefit plan	2,103	–
Insurance claim income	179	114
Other	1	1
Total extraordinary income	2,621	1,319
Extraordinary losses		
Loss on sales and disposal of property, plant and equipment	2,602	1,112
Impairment loss	87	142
Loss on disaster	163	342
Loss on reduction of property, plant and equipment	42	34
Loss on valuation of investment securities	58	–
Loss on sales of shares of subsidiaries and associates	54	–
Total extraordinary losses	3,008	1,631
Income before income taxes	13,521	12,703
Income taxes - current	2,191	3,837
Income taxes - deferred	827	(93)
Total income taxes	3,019	3,743
Net income	10,501	8,960
Net income (loss) attributable to non-controlling interests	174	(195)
Net income attributable to owners of parent company	10,327	9,155

Consolidated Statements of Comprehensive Income

(Million yen)

	For the year ended March 31, 2018	For the year ended March 31, 2019
Net income	10,501	8,960
Other comprehensive income		
Unrealized holding gains on securities, net of taxes	933	(2,317)
Unrealized gains on hedging derivatives, net of taxes	34	24
Foreign currency translation adjustment	1,489	(3,501)
Remeasurements of retirement benefit, net of taxes	209	(39)
Share of other comprehensive income of associates accounted for using equity method	(161)	83
Total other comprehensive income	2,506	(5,750)
Comprehensive income	13,008	3,210
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent company	12,813	3,455
Comprehensive income attributable to non-controlling interests	195	(244)

(4) Consolidated Statement of Cash Flows

(Million yen)

	For the year ended March 31, 2018	For the year ended March 31, 2019
Cash flows from operating activities		
Income before income taxes	13,521	12,703
Depreciation	19,065	18,390
Impairment loss of property, plant and equipment	87	142
Amortization of goodwill	130	133
Insurance income	(179)	(114)
Increase (decrease) in net defined benefit liability	144	188
Interest and dividend income	(1,075)	(1,063)
Interest expenses	766	773
Equity in income of affiliates	(1,844)	(1,259)
Loss on reduction of property, plant and equipment	42	34
Loss (gain) on sales and retirement of property, plant and equipment, net	2,342	884
Decrease (increase) in notes and accounts receivable - trade	(6,649)	110
Decrease (increase) in inventories	(3,707)	(7,114)
Decrease (increase) in consumption taxes refund receivable	(551)	435
Increase (decrease) in notes and accounts payable - trade	890	(563)
Increase (decrease) in accrued consumption taxes	(743)	229
Other	(1,184)	69
Subtotal	21,054	23,980
Interest and dividend income received	1,420	1,479
Interest paid	(761)	(720)
Income taxes paid	(2,155)	(3,221)
Proceeds from insurance income	183	108
Net cash provided by (used in) operating activities	19,741	21,626
Cash flows from investing activities		
Purchase of investment securities	(48)	(4,192)
Proceeds from sales of investment securities	80	1,105
Purchase of property, plant and equipment	(13,705)	(15,626)
Payments for retirement of property, plant and equipment	(926)	(875)
Proceeds from sales of property, plant and equipment	394	642
Payments of loans receivable	(62)	(124)
Collection of loans receivable	78	71
Other	29	(275)
Net cash provided by (used in) investing activities	(14,158)	(19,274)

(Million yen)

	For the year ended March 31, 2018	For the year ended March 31, 2019
Cash flows from financing activities		
Net increase (decrease) in short-term debt	(1,365)	(3,813)
Net increase (decrease) in commercial papers	–	(500)
Proceeds from long-term debt	3,871	12,200
Repayments of long-term debt	(10,537)	(6,446)
Proceeds from issuance of bonds	–	10,000
Redemption of bonds	–	(10,000)
Dividends paid	(2,273)	(2,273)
Dividends paid to non-controlling interests	(93)	(77)
Proceeds from share issuance to non-controlling shareholders	–	63
Purchase of treasury shares	(1)	(1)
Other	(243)	(85)
Net cash provided by (used in) financing activities	(10,644)	(934)
Effect of exchange rate change on cash and cash equivalents	58	(496)
Net increase (decrease) in cash and cash equivalents	(5,002)	920
Cash and cash equivalents at beginning of the year	19,284	14,281
Cash and cash equivalents at end of the year	14,281	15,202