

Consolidated Quarterly Financial Results for the Six Months Ended September 30, 2017 [Japanese GAAP]

November 13, 2017

Company: **Hokuetsu Kishu Paper Co., Ltd.**

Stock Exchange Listing: Tokyo

Stock Code: 3865

URL: <http://www.hokuetsu-kishu.jp>

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Scheduled date of submission of quarterly report: November 14, 2017

Scheduled date of commencement of dividend payments: December 4, 2017

Supplementary documents for quarterly results: Yes

Quarterly results briefing: Yes (for institutional investors and analysts)

(Figures rounded down to the nearest million yen)

1. Consolidated Business Results for the Six Months Ended September 30, 2017

(April 1, 2017 through September 30, 2017)

(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	%
Six months ended September 30, 2017	132,445	0.1	4,562	(26.3)	6,945	61.3	5,362	63.6
Six months ended September 30, 2016	132,319	12.8	6,187	77.0	4,306	14.0	3,277	44.9

(Note) Comprehensive income: Six months ended September 30, 2017: 6,489 million yen (261.2%)

Six months ended September 30, 2016: 1,796 million yen (-9.5%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended September 30, 2017	28.41	27.74
Six months ended September 30, 2016	17.40	16.71

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2017	366,229	186,642	50.8
As of March 31, 2017	362,205	181,034	49.8

(Reference) Equity: As of September 30, 2017: 185,911 million yen

As of March 31, 2017: 180,294 million yen

2. Dividends

	Annual dividend per share				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2017	–	6.00	–	6.00	12.00
Fiscal year ending March 31, 2018	–	6.00			
Fiscal year ending March 31, 2018 (forecast)			–	6.00	12.00

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

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2018

(April 1, 2017 through March 31, 2018)

(% 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
Full year	275,000	4.8	12,000	(7.0)	16,000	13.8	11,000	6.0	58.25

(Note) Revisions to business forecasts published most recently: Yes

*** Notes**

(1) Changes in significant subsidiaries during the six months ended September 30, 2017 (changes in specified subsidiaries accompanying changes in the scope of consolidation): None

(2) Application of accounting procedures specific to preparation of the consolidated quarterly financial statements: None

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

(i) Changes in accounting policies due to revision of 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

(4) Shares outstanding (common stock)

(i) Number of shares outstanding at the end of period (treasury stock included):

As of September 30, 2017	209,263,814 shares	As of March 31, 2017	209,263,814 shares
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(ii) Number of treasury stock at the end of period:

As of September 30, 2017	20,294,643 shares	As of March 31, 2017	20,794,944 shares
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(iii) Average number of shares during period:

Six months ended September 30, 2017	188,734,297 shares	Six months ended September 30, 2016	188,425,994 shares
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*** The quarterly business result report is exempt from the quarterly review procedure based on the Financial Instruments and Exchange Act.**

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

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. Refer to “1. Qualitative Information on Consolidated Operating Results, etc. for the First Half; (3) Qualitative Information Concerning Consolidated Earnings Forecasts” on page 3 of the accompanying materials for matters related to results forecasts.

*** 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. Qualitative Information on Consolidated Operating Results, etc. for the First Half

(1) Qualitative Information Concerning Consolidated Operating Results

During the six months under review, net sales rose, but operating income declined, due primarily to rising raw material and fuel prices. Ordinary income and net income attributable to owners of parent company increased, chiefly reflecting an improvement in foreign exchange losses and gains. Net sales amounted to 132,445 million yen (up 0.1% year on year) and operating income declined to 4,562 million yen (down 26.3% year on year). Ordinary income rose to 6,945 million yen (up 61.3% year on year). Net income attributable to owners of parent company came to 5,362 million yen (up 63.6% year on year).

(2) Qualitative Information Concerning Consolidated Financial Position

Total assets increased 4,024 million yen from the end of the previous fiscal year, to 366,229 million yen. Major factors included increases in cash and deposits of 4,882 million yen and investment securities of 3,254 million yen, chiefly reflecting rising share prices, as well as a fall in property, plant and equipment of 2,982 million yen due mainly to depreciation.

Total liabilities declined 1,583 million yen from the end of the previous fiscal year, to 179,587 million yen. This was attributable mainly to a decrease in interest-bearing debt of 1,782 million yen.

Net assets rose 5,607 million yen from the end of the previous fiscal year, to 186,642 million yen, chiefly reflecting an increase in retained earnings of 4,231 million yen due mainly to net income attributable to owners of parent company.

(3) Qualitative Information Concerning Consolidated Earnings Forecasts

The full-year consolidated earnings forecasts for the fiscal year ending March 31, 2018 announced on May 12, 2017 are revised based on the results in the first half of the fiscal year under review and the outlook for results in the second half. The net sales forecast is revised to 275,000 million yen.

The earnings forecasts are based on information that the Company has obtained and certain assumptions that the Company believes reasonable. Actual results may differ significantly from the forecasts due to a variety of reasons.

2. Consolidated Quarterly Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheet

(Million yen)

	As of March 31, 2017	As of September 30, 2017
(Assets)		
Current assets		
Cash and deposits	19,494	24,376
Notes and accounts receivable - trade	64,150	60,596
Electronically recorded monetary claims	3,858	4,797
Merchandise and finished goods	20,510	21,196
Work in process	1,976	2,034
Raw materials and supplies	22,402	23,258
Other	7,254	7,228
Allowance for doubtful accounts	(48)	(47)
Total current assets	139,598	143,441
Non-current assets		
Property, plant and equipment		
Buildings and structures	80,360	80,888
Accumulated depreciation	(47,394)	(48,239)
Buildings and structures, net	32,966	32,648
Machinery, vehicles, tools, furniture and fixtures	410,774	413,851
Accumulated depreciation	(328,827)	(334,281)
Machinery, vehicles, tools, furniture and fixtures, net	81,946	79,569
Other, net	29,468	29,181
Total property, plant and equipment	144,381	141,398
Intangible assets	3,172	3,048
Investments and other assets		
Investments in securities	68,906	72,161
Other	8,606	8,638
Allowance for doubtful accounts	(2,460)	(2,458)
Total investments and other assets	75,052	78,341
Total non-current assets	222,606	222,788
Total assets	362,205	366,229

(Million yen)

	As of March 31, 2017	As of September 30, 2017
(Liabilities)		
Current liabilities		
Notes and accounts payable - trade	20,149	19,147
Electronically recorded obligations	7,737	7,587
Short-term loans payable	26,823	23,613
Commercial papers	11,000	12,500
Income taxes payable	1,334	965
Provision	3,109	3,063
Other	13,409	14,305
Total current liabilities	83,564	81,183
Non-current liabilities		
Bonds payable	30,000	30,000
Long-term debt, less current maturities	48,540	48,609
Provision	840	819
Liability for defined benefit	13,656	13,792
Asset retirement obligations	2,056	2,100
Other	2,511	3,083
Total non-current liabilities	97,605	98,403
Total liabilities	181,170	179,587
Net assets		
Shareholders' equity		
Capital stock	42,020	42,020
Capital surplus	45,396	45,537
Retained earnings	90,752	94,983
Treasury stock	(10,160)	(9,956)
Total shareholders' equity	168,010	172,584
Accumulated other comprehensive income		
Unrealized holding gains on available-for-sale securities, net of taxes	10,534	12,453
Unrealized losses on hedging derivatives, net of taxes	(56)	(6)
Foreign currency translation adjustment	1,595	694
Accumulated adjustments for retirement benefit, net of taxes	210	184
Total accumulated other comprehensive income	12,284	13,326
Share subscription rights	140	139
Non-controlling interests	600	591
Total net assets	181,034	186,642
Total liabilities and net assets	362,205	366,229

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
Quarterly Consolidated Statements of Income
(First six-month period)

	(Million yen)	
	For the six-month ended September 30, 2016	For the six-month ended September 30, 2017
Net sales	132,319	132,445
Cost of sales	105,915	107,449
Gross profit	26,403	24,995
Selling, general and administrative expenses	20,216	20,433
Operating income	6,187	4,562
Non-operating income		
Interest income	32	33
Dividends income	532	664
Equity in income of affiliates	990	956
Foreign currency exchange gains	–	718
Other	654	646
Total non-operating income	2,209	3,019
Non-operating expenses		
Interest expenses	325	323
Foreign currency exchange losses	2,989	–
Costs in relation to suspending the operation of production equipment	402	–
Other	373	311
Total non-operating expenses	4,091	635
Ordinary income	4,306	6,945
Extraordinary income		
Gain on sales of property, plant and equipment	10	228
Gain on sales of investment in securities	0	46
Gain on liquidation of associates	–	29
Insurance income	–	20
Total extraordinary income	11	325
Extraordinary losses		
Loss on sales or disposal of property, plant and equipment	1,081	1,100
Loss on reduction of property, plant and equipment	–	34
Loss on sales of shares of associates	–	54
Other	2	–
Total extraordinary losses	1,083	1,189
Income before income taxes	3,233	6,081
Income taxes - current	632	821
Income taxes - deferred	(640)	(191)
Total income taxes	(7)	630
Net income	3,241	5,451
Net income (loss) attributable to non-controlling interests	(36)	88
Net income attributable to owners of parent company	3,277	5,362

Quarterly Consolidated Statements of Comprehensive Income
(First six-month period)

(Million yen)

	For the six-month ended September 30, 2016	For the six-month ended September 30, 2017
Net income	3,241	5,451
Other comprehensive income		
Unrealized holding gains (loss) on available-for-sale securities, net of taxes	325	1,224
Unrealized gains (loss) on hedging derivatives, net of taxes	171	44
Foreign currency translation adjustment	(2,013)	(903)
Adjustments for retirement benefit, net of taxes	(92)	(37)
Share of other comprehensive income of associates accounted for using equity method	163	711
Total other comprehensive income	(1,444)	1,038
Comprehensive income	1,796	6,489
Comprehensive income attributable to owners of parent company	1,925	6,404
Comprehensive income attributable to non-controlling interests	(128)	85

(3) Quarterly Consolidated Statement of Cash Flows

(Million yen)

	For the six-month ended September 30, 2016	For the six-month ended September 30, 2017
Cash flows from operating activities		
Income before income taxes	3,233	6,081
Depreciation	9,778	9,523
Amortization of goodwill	74	63
Insurance income	–	(20)
Increase (decrease) in net defined benefit liability	(236)	2
Interest and dividend income	(564)	(698)
Interest expenses	325	323
Equity in (income) losses of affiliates	(990)	(956)
Loss on reduction of property, plant and equipment	–	34
Loss (gain) on sales or disposal of property, plant and equipment	1,070	872
Decrease (increase) in notes and accounts receivable - trade	1,975	2,636
Decrease (increase) in inventories	2,762	(1,650)
Decrease (increase) in consumption taxes refund receivable	95	(15)
Increase (decrease) in notes and accounts payable - trade	(2,084)	(1,113)
Increase (decrease) in accrued consumption taxes	90	(655)
Other	1,309	(281)
Subtotal	16,838	14,144
Interest and dividend income received	1,508	884
Interest paid	(319)	(321)
Income taxes paid	(1,687)	(1,528)
Net cash provided by (used in) operating activities	16,340	13,179
Cash flows from investing activities		
Payments for purchases of investment in securities	(78)	(26)
Payments for purchases of property, plant and equipment	(6,017)	(4,936)
Proceeds from sales of property, plant and equipment	117	291
Payments of loans receivable	(7)	(57)
Collection of loans receivable	78	11
Other	(524)	(450)
Net cash provided by (used in) investing activities	(6,430)	(5,169)
Cash flows from financing activities		
Net increase (decrease) in short-term loans	(3,801)	1,733
Net increase (decrease) in commercial papers	(7,000)	1,500
Proceeds from long-term loans	412	3,441
Repayments of long-term loans	(2,932)	(8,278)
Proceeds from issuance of bonds	10,000	–
Dividends paid	(1,136)	(1,136)
Dividends paid to non-controlling interests	(71)	(93)
Payments for purchases of treasury stock	(0)	(1)
Other	(345)	(171)
Net cash provided by (used in) financing activities	(4,876)	(3,006)
Translation (loss) gain on cash and cash equivalents	(1,381)	19
Net increase (decrease) in cash and cash equivalents	3,651	5,022
Cash and cash equivalents at beginning of period	18,890	19,284
Cash and cash equivalents at end of period	22,542	24,307

(4) Notes to Quarterly Consolidated Financial Statements

(Notes to Going Concern Assumption)

Not applicable.

(Notes on Any Significant Change in the Value of Shareholders' Equity)

Not applicable.