



HOKUETSU

**Consolidated Financial Results
for the Year Ended March 31, 2018 [Japanese GAAP]**

May 14, 2018

Company: **Hokuetsu Kishu Paper Co., Ltd.**
 Stock Code: 3865
 Representative: Sekio Kishimoto, President & CEO
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 Scheduled date of ordinary general meeting of shareholders: June 27, 2018
 Scheduled date of commencement of dividend payment: June 28, 2018
 Scheduled date of filing annual securities report: June 27, 2018
 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, 2018 (April 1, 2017 through March 31, 2018)

(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, 2018	269,099	2.6	11,414	(11.5)	13,907	(1.1)	10,327	(0.5)
Year ended March 31, 2017	262,398	6.3	12,900	39.7	14,055	32.8	10,380	38.8

(Note) Comprehensive income: The year ended March 31, 2018: 13,008 million yen (-6.0%)
 The year ended March 31, 2017: 13,840 million yen (326.4%)

	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, 2018	54.68	53.42	5.6	3.8	4.2
Year ended March 31, 2017	55.09	52.99	6.0	3.9	4.9

(Reference) Investment income by equity method: The year ended March 31, 2018: 1,844 million yen
 The year ended March 31, 2017: 3,019 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, 2018	367,244	191,977	52.1	1,011.58
As of March 31, 2017	362,205	181,034	49.8	956.63

(Reference) Equity: As of March 31, 2018: 191,154 million yen
 As of March 31, 2017: 180,294 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, 2018	19,741	(14,158)	(10,644)	14,281
Year ended March 31, 2017	28,918	(13,648)	(14,446)	19,284

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, 2017	-	6.00	-	6.00	12.00	2,273	21.8	1.3
Year ended March 31, 2018	-	6.00	-	6.00	12.00	2,273	21.9	1.2
Year ending March 31, 2019 (forecast)	-	6.00	-	6.00	12.00		26.7	

3. Forecast of Consolidated Financial Results for the Year Ending March 31, 2019 (April 1, 2018 through March 31, 2019) (% 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)	136,000	2.7	4,000	(12.3)	5,500	(20.8)	3,000	(44.1)	15.88
Full year	275,000	2.2	10,000	(12.4)	13,000	(6.5)	8,500	(17.7)	44.98

*** 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 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

(3) Shares outstanding (common stock)

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

As of March 31, 2018	209,263,814 shares	As of March 31, 2017	209,263,814 shares
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(ii) Number of treasury stock at the year-end:

As of March 31, 2018	20,298,290 shares	As of March 31, 2017	20,794,944 shares
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(iii) Average number of shares during the year:

For the year ended March 31, 2018	188,864,106 shares	For the year ended March 31, 2017	188,442,763 shares
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*** 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**

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 under review

(Operating results during the year under review)

With respect to the business results for the year ended March 31, 2018, while net sales increased due to strong 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	269,099 million yen	(up 2.6% year on year)
Operating income	11,414 million yen	(down 11.5% year on year)
Ordinary income	13,907 million yen	(down 1.1% year on year)
Net income attributable to owners of parent company	10,327 million yen	(down 0.5% 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	234,576	242,082	7,506
Operating income	10,321	8,808	(1,512)

In the pulp and paper business, the Groups saw higher net sales due to 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 Western paper decreased due to the impact of electronic advertising media and mail-order catalogs and a decrease in the circulation of publications.

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 slightly year on year due to sluggish sales for use for convenience stores' sales promotion goods and POP in stores. Net sales of special white paperboard remained steady for package use for western confectionery and souvenirs.

As for specialty paper, in the area of functional paper, net sales for base paper for chip carrier tape to carry electronic parts increased because of the increased demand for smartphones and automotive electronic parts. Moreover, net sales of automotive battery separators and filters for air purifiers remained strong as well. Meanwhile, 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 exceeded those of last year, but 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 the sales volume rose year on year.

(ii) Packaging/Paper processing business

(Million yen)

	Previous year	Current year	Difference
Net sales	20,146	19,428	(717)
Operating income	1,261	1,128	(132)

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.

(iii) Other businesses

(Million yen)

	Previous year	Current year	Difference
Net sales	7,676	7,589	(87)
Operating income	623	815	192

As for other businesses such as the wood business, the construction business, the transportation and the warehousing business, net sales for construction decreased due to a decline in orders. Net sales of the other businesses increased thanks to the impact of a range of cost reductions.

(2) Summary of financial conditions during the fiscal year under review

(Million yen)

	End of previous year	End of current year	Change
Total assets	362,205	367,244	5,038
Net assets	181,034	191,977	10,942
Equity ratio	49.8%	52.1%	2.3%
Basic earnings per share	956.63 yen	1,011.58 yen	54.95 yen
Interest-bearing debt at year-end	116,753	108,240	(8,513)

Total assets increased 5,038 million yen from the end of the previous year, to 367,244 million yen. Major factors included increases in notes and account receivable-trade of 5,028 million yen, electronically recorded monetary claims - operating of 2,095 million yen, merchandise and finished goods of 2,990 million yen and investment securities of 2,818 million yen, chiefly reflecting rising stock prices, in spite of decreases in cash and deposits of 5,178 million yen and property, plant and equipment of 4,408 million yen, due mainly to depreciation.

Total liabilities decreased 5,903 million yen from the end of the previous year, to 175,266 million yen. This was mainly due to a decline in interest-bearing debt of 8,513 million yen.

Net assets rose 10,942 million yen from the end of the previous year, to 191,977 million yen. This chiefly reflected an increase in retained earnings of 8,062 million yen, due mainly to net income attributable to owners of parent company.

(3) Summary of cash flow during the fiscal year under review

(Million yen)

	Previous year	Current year	Change
Cash flows from operating activities	28,918	19,741	(9,176)
Cash flows from investing activities	(13,648)	(14,158)	(509)
Cash flows from financing activities	(14,446)	(10,644)	3,802
Effect of exchange rate change on cash and cash equivalents	(428)	58	486
Net increase (decrease) in cash and cash equivalents	394	(5,002)	(5,397)
Cash and cash equivalents at beginning of the year	18,890	19,284	394
Cash and cash equivalents at end of the year	19,284	14,281	(5,002)

Cash and cash equivalents as of the end of current year decreased 5,002 million yen year on year, to 14,281 million yen.

(Cash flow from operating activities)

Net cash provided by operating activities was 19,741 million yen (down 31.7% year on year.) Major inflows were income before income

taxes of 13,521 million yen and depreciation of 19,065 million yen, and major outflows were equity in income of affiliates of 1,844 million yen, an increase in notes and accounts receivable - trade of 6,649 million yen, an increase in inventories of 3,707 million yen and an increase in corporate taxes paid of 2,155 million yen.

(Cash flow from investing activities)

Net cash used in investing activities amounted to 14,158 million yen (up 3.7% year on year). A major factor was purchase of property, plant and equipment of 13,705 million yen.

(Cash flow from financing activities)

Net cash used in financing activities was 10,644 million yen (down 26.3% year on year). Major outflows were a net decrease in short-term debt of 1,365 million yen, repayments of long-term debt of 10,537 million yen, and cash dividends paid of 2,273 million yen. A major inflow was proceeds from long-term debt of 3,871 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, 2019 (forecast)	275,000	10,000	13,000	8,500	44.98
The year ended March 31, 2018 (actual)	269,099	11,414	13,907	10,327	54.68
% change from the previous corresponding period	2.2	(12.4)	(6.5)	(17.7)	(17.7)

(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 impact of uncertainties of overseas economies, such as the trend of the economic policies of the U.S. government administration and the economic outlook of emerging countries in Asia, including 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 will 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 comparability of consolidated financial statements, the Group currently prepares consolidated financial statements based on Japanese GAAP. With respect to the International Financial Reporting Standards (IFRS,) 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, 2017	As of March 31, 2018
(Assets)		
Current assets		
Cash and deposits	19,494	14,315
Notes and accounts receivable - trade	64,150	69,178
Electronically recorded monetary claims	3,858	5,954
Merchandise and finished goods	20,510	23,500
Work in process	1,976	2,030
Raw materials and supplies	22,402	23,659
Deferred tax assets	1,779	1,396
Other	5,474	6,033
Allowance for doubtful accounts	(48)	(82)
Total current assets	139,598	145,986
Non-current assets		
Property, plant and equipment		
Buildings and structures	80,360	82,098
Accumulated depreciation	(47,394)	(49,456)
Buildings and structures, net	32,966	32,641
Machinery, equipment and vehicles	405,531	413,379
Accumulated depreciation	(324,639)	(337,646)
Machinery, equipment and vehicles, net	80,891	75,733
Tools, furniture and fixtures	5,243	5,544
Accumulated depreciation	(4,187)	(4,494)
Tools, furniture and fixtures, net	1,055	1,049
Land	22,831	22,730
Leased assets	1,700	831
Accumulated depreciation	(1,443)	(572)
Leased assets, net	256	259
Construction in progress	2,843	4,391
Forestland	3,535	3,166
Total property, plant and equipment	144,381	139,972
Intangible assets	3,172	3,091
Investments and other assets		
Investment in securities	68,906	71,725
Long-term loans	297	277
Asset for retirement benefits	2,257	2,638
Deferred tax assets	1,459	1,453
Other	4,592	4,536
Allowance for doubtful accounts	(2,460)	(2,437)
Total investments and other assets	75,052	78,192
Total non-current assets	222,606	221,257
Total assets	362,205	367,244

(Million yen)

	As of March 31, 2017	As of March 31, 2018
(Liabilities)		
Current liabilities		
Notes and accounts payable - trade	20,149	21,840
Electronically recorded obligations	7,737	7,118
Short-term debt	26,823	21,941
Commercial papers	11,000	11,000
Current portion of bonds	–	10,000
Lease obligations	232	72
Income taxes payable	1,334	1,801
Accrued consumption taxes	968	225
Provision for bonuses	2,675	2,698
Provision for directors' bonuses	169	94
Provision for environmental measures	53	307
Provision for reforestation	211	177
Notes payable - facilities	1,851	2,071
Other	10,356	11,482
Total current liabilities	83,564	90,832
Non-current liabilities		
Bonds payable	30,000	20,000
Long-term debt, less current maturities	48,540	45,064
Lease obligations	157	160
Deferred tax liabilities	1,748	2,832
Provision for environmental measures	45	297
Provision for business structure improvement	274	270
Provision for reforestation	521	408
Liability for defined benefit	13,656	11,772
Asset retirement obligations	2,056	2,950
Other	605	676
Total non-current liabilities	97,605	84,434
Total liabilities	181,170	175,266
Net assets		
Shareholders' equity		
Capital stock	42,020	42,020
Capital surplus	45,396	45,524
Retained earnings	90,752	98,814
Treasury stock	(10,160)	(9,976)
Total shareholders' equity	168,010	176,383
Accumulated other comprehensive income		
Unrealized holding gains on securities, net of taxes	10,534	11,360
Unrealized losses on hedging derivatives, net of taxes	(56)	(21)
Foreign currency translation adjustment	1,595	3,064
Remeasurements of retirement benefit, net of taxes	210	367
Total accumulated other comprehensive income	12,284	14,770
Share subscription rights	140	121
Non-controlling interests	600	701
Total net assets	181,034	191,977
Total liabilities and net assets	362,205	367,244

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

Consolidated Statements of Income

(Million yen)

	For the year ended March 31, 2017	For the year ended March 31, 2018
Net sales	262,398	269,099
Cost of sales	209,628	216,846
Gross profit	52,769	52,253
Selling, general and administrative expenses	39,869	40,839
Operating income	12,900	11,414
Non-operating income		
Interest income	71	92
Dividends income	818	982
Foreign currency exchange gains	3,019	1,844
Other	1,591	1,426
Total non-operating income	5,500	4,346
Non-operating expenses		
Interest expenses	654	766
Foreign currency exchange losses	1,475	–
Costs in relation to suspending the operation of production equipment	1,426	–
Environmental expenses	–	438
Other	787	647
Total non-operating expenses	4,345	1,852
Ordinary income	14,055	13,907
Extraordinary income		
Gain on sales of property, plant and equipment	16	260
Gain on sales of investment securities	28	46
Gain on liquidation of associates	–	30
Gain on revision of retirement benefit plan	–	2,103
Insurance income	–	179
Other	1	1
Total extraordinary income	46	2,621
Extraordinary losses		
Loss on sales and disposal of property, plant and equipment	1,573	2,602
Impairment loss	–	87
Loss on disaster	–	163
Loss on reduction of property, plant and equipment	1	42
Loss on valuation of investment securities	10	58
Loss on sales of shares of associates	–	54
Other	2	–
Total extraordinary losses	1,587	3,008
Income before income taxes	12,514	13,521
Income taxes - current	1,881	2,191
Income taxes - deferred	337	827
Total income taxes	2,219	3,019
Net income	10,295	10,501
Net income (loss) attributable to non-controlling interests	(85)	174
Net income attributable to owners of parent company	10,380	10,327

Consolidated Statements of Comprehensive Income

(Million yen)

	For the year ended March 31, 2017	For the year ended March 31, 2018
Net income	10,295	10,501
Other comprehensive income		
Unrealized holding gains on securities, net of taxes	3,069	933
Unrealized gains on hedging derivatives, net of taxes	112	34
Foreign currency translation adjustment	(360)	1,489
Remeasurements of retirement benefit, net of taxes	(128)	209
Share of other comprehensive income of associates accounted for using equity method	851	(161)
Total other comprehensive income	3,544	2,506
Comprehensive income	13,840	13,008
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent company	13,991	12,813
Comprehensive income attributable to non-controlling interests	(151)	195

(4) Consolidated Statement of Cash Flows

(Million yen)

	For the year ended March 31, 2017	For the year ended March 31, 2018
Cash flows from operating activities		
Income before income taxes	12,514	13,521
Depreciation	19,093	19,065
Impairment loss of property, plant and equipment	–	87
Amortization of goodwill	134	130
Insurance income	–	(179)
Increase (decrease) in net defined benefit liability	(439)	144
Interest and dividend income	(890)	(1,075)
Interest expenses	654	766
Equity in (income) losses of affiliates	(3,019)	(1,844)
Loss on reduction of property, plant and equipment	1	42
Loss (gain) on sales and retirement of property, plant and equipment	1,556	2,342
Decrease (increase) in notes and accounts receivable - trade	(2,337)	(6,649)
Decrease (increase) in inventories	1,663	(3,707)
Decrease (increase) in consumption taxes refund receivable	77	(551)
Increase (decrease) in notes and accounts payable - trade	176	890
Increase (decrease) in accrued consumption taxes	169	(743)
Other	405	(1,184)
Subtotal	29,761	21,054
Interest and dividend income received	1,992	1,420
Interest paid	(670)	(761)
Income taxes paid	(2,164)	(2,155)
Proceeds from insurance income	–	183
Net cash provided by (used in) operating activities	28,918	19,741
Cash flows from investing activities		
Purchase of investment in securities	(281)	(48)
Purchase of property, plant and equipment	(12,932)	(13,705)
Payments for retirement of property, plant and equipment	(784)	(926)
Proceeds from sales of property, plant and equipment	239	394
Payments of loans receivable	(159)	(62)
Collection of loans receivable	254	78
Other	15	110
Net cash provided by (used in) investing activities	(13,648)	(14,158)

(Million yen)

	For the year ended March 31, 2017	For the year ended March 31, 2018
Cash flows from financing activities		
Net increase (decrease) in short-term debt	3,294	(1,365)
Net increase (decrease) in commercial papers	(9,000)	–
Proceeds from long-term debt	3,362	3,871
Repayments of long-term debt	(19,112)	(10,537)
Proceeds from issuance of bonds	20,000	–
Redemption of bonds	(10,000)	–
Dividends paid	(2,272)	(2,273)
Dividends paid to non-controlling interests	(71)	(93)
Purchase of treasury shares	(1)	(1)
Other	(645)	(243)
Net cash provided by (used in) financing activities	(14,446)	(10,644)
Effect of exchange rate change on cash and cash equivalents	(428)	58
Net increase (decrease) in cash and cash equivalents	394	(5,002)
Cash and cash equivalents at beginning of the year	18,890	19,284
Cash and cash equivalents at end of the year	19,284	14,281