

Financial Results for the Three Months Ended June 30, 2022
[JGAAP]
(Consolidated)



August 10, 2022

Company name: Kokusai Pulp & Paper Co., Ltd.

Stock exchange listing: Tokyo Stock Exchange

Code number: 9274

URL: <https://www.kppc.co.jp/>

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Scheduled date of filing quarterly securities report: August 10, 2022

Scheduled date of commencing dividend payments: -

Availability of supplementary explanatory materials on quarterly financial results: No

Schedule of quarterly financial results briefing session: No

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Three Months Ended June 30, 2022 (April 1, 2022 to June 30, 2022)

(1) Consolidated Operating Results

(Percentages represent year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended June 30, 2022	154,845	19.4	5,339	244.1	4,818	168.1	3,848	172.5
Three months ended June 30, 2021	129,687	—	1,551	—	1,797	—	1,412	—

(Note) Comprehensive income: Three months ended June 30, 2022: 6,151 million yen (231.1%)
Three months ended June 30, 2021: 1,857 million yen (-%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended June 30, 2022	53.57	—
Three months ended June 30, 2021	19.67	—

Note: Effective from the beginning of the first quarter ended June 30, 2021, the Group has adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and others. Therefore, each amount for the three months ended June 30, 2021 is an amount after the adoption of the said accounting standard and others, and does not include any year-on-year percentage changes.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
Three months ended June 30, 2022	309,178	61,861	20.0
Fiscal year ended March 31, 2022	290,707	56,374	19.4

(Reference) Equity: Three months ended June 30, 2022: 61,780 million yen
Fiscal year ended March 31, 2022: 56,291 million yen

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2022	—	5.00	—	9.00	14.00
Fiscal year ending March 31, 2023	—				
Fiscal year ending March 31, 2023 (Forecast)		9.00	—	8.00	17.00

Note: Revision to the forecast for dividends announced most recently: No

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

(Percentages represent year-on-year changes.)

	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
Full year	590,000	4.7	12,000	27.9	9,400	6.3	7,500	0.0	104.41

Note: Revision to the earnings forecast announced most recently: No

* Notes:

(1) Changes in significant subsidiaries during the fiscal year

(Changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements: No

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: No

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

4) Retrospective restatement: No

(4) Total number of issued and outstanding shares (common shares)

1) Total number of issued and outstanding shares at the end of the period (including treasury shares):

Three months ended June 30, 2022 73,244,408 shares

Fiscal year ended March 31, 2022 73,244,408 shares

2) Total number of treasury shares at the end of the period:

Three months ended June 30, 2022 1,404,035 shares

Fiscal year ended March 31, 2022 1,410,953 shares

3) Average number of shares during the period:

Three months ended June 30, 2022 71,835,184 shares

Three months ended June 30, 2021 71,801,868 shares

* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants or an audit firm.

* Explanation of the proper use of financial results forecast and other notes

(Cautionary notes regarding forward-looking statements)

The results forecast and other forward-looking statements contained in this document are based on the information currently available to the Company and certain assumptions deemed to be reasonable, and are not intended as a

guarantee that the Company will achieve them. Actual results may differ significantly due to various factors. For assumptions for the results forecast and points to consider in utilizing them, please see “(3) Explanation of consolidated financial results forecast and other forward-looking information” in “1. Qualitative Information Regarding Settlement of Accounts for the Three Months Ended June 30, 2022” of the attachments.

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1. Qualitative Information Regarding Settlement of Accounts for the Three Months Ended June 30, 2022

(1) Explanation on Operating Results

(a) Status of Operating Results

During the three months ended June 30, 2022, recovery from an economic slump due to COVID-19 was completed in Europe and the U.S. Meanwhile, inflationary pressure increased due to energy price hikes that were initiated by Russia's invasion of Ukraine and restricted product supply amid a global semiconductor shortage. As for China, it has become clear that its zero-COVID approach was causing the economy to slow.

Japan's economy, mainly in personal consumption, followed a moderate recovery trend as restrictions on economic activities were eased, but the economy has yet to emerge from deflation. The BOJ has been keeping interest rates at the current low level, and the resulting interest rate gap between Japan and other countries and yen depreciation has created imbalances in corporate earnings.

As a result, net sales for the three months ended June 30, 2022 were 154,845 million yen (up 19.4% year-on-year). Operating profit was 5,339 million yen (up 244.1% year-on-year), ordinary profit came to 4,818 million yen (up 168.1% year-on-year), and profit attributable to owners of parent was 3,848 million yen (up 172.5% year-on-year).

(b) Overview by Segment

Results for the three months ended June 30, 2022 by business are as follows.

<Wholesale pulp and paper, domestic locations>

During the three months ended June 30, 2022, a recovery in demand in the paper segment was limited, though price revisions of certain types of printing paper and communication paper created temporary demand. The books and comics paper segment also continued to be sluggish, with sales volume showing a year-on-year decline. Due to sales price revisions and rising export prices amid the depreciation of the yen, net sales remained unchanged.

The paperboard segment continued to perform well, boosted by sales from an E-commerce-driven home delivery business and beverage packaging materials. As a result, net sales exceeded the previous fiscal year. As for the paper production material segment, waste paper largely exceeded the previous year in both sales volume and net sales, due to the increase in prices reflecting tight supply and demand conditions due to decreased household waste paper production. Demand from domestic household paper manufacturers fell, but the pulp segment largely exceeded the previous year in both sales volume and net sales, helped by stronger exports to China and an increase in sales unit prices.

As a result, net sales were 66,506 million yen (up 9.2% year-on-year), and operating profit was 1,664 million yen (up 41.6% year-on-year) for the three months ended June 30, 2022.

<Wholesale pulp and paper, overseas locations>

Europe

The Europe business maintained its performance since the impact of Russia's invasion of Ukraine was limited. As for the paper business, market prices rose in response to upward price revisions due to a supply shortage and several rounds of fuel surcharge hikes. Sales of the visual communication business exceeded the previous fiscal year, thanks to a recovery of indoor and outdoor advertisement demand as events and restaurants reopened. The packaging business also continued to perform well.

Oceania

The Australia and New Zealand business exceeded the previous fiscal year both in net sales and in operating profit, thanks to additional earnings in connection with a series of M&A transactions, and a recovery of printing and packaging demand. As for the sign and display business, the results of the media-related business exceeded the previous fiscal year, though the hardware-related business was sluggish. The food packaging materials and other industrial materials business also performed well.

Southeast Asia

The indent business performed below the previous fiscal year level due to a container shortage and the inability to secure stock by way of allocation. The stock business centered on special paper remained unchanged in both net sales and operating profit.

China

In China, periodic lockdowns were implemented mainly in suburban cities, even including Shanghai in March, and the government prioritized its zero-COVID strategy over economic recovery. Accordingly, demand for paper and board paper fell largely, with both sales volume and net sales showing a year-on-year decline.

As a result, net sales were 88,032 million yen (up 28.5% year-on-year), and operating profit was 4,414 million yen (up 326.5% year-on-year) for the three months ended June 30, 2022. Overseas sales accounted for 56.9% of consolidated net sales.

<Real estate leasing>

Despite the continuous full operation of the KPP Yaesu Building, which is our main property, the Group's net sales fell slightly due mainly to the reduced rent income arising from the redevelopment of leasehold property. In terms of profit, operating profit increased thanks to cost reduction efforts, including the re-evaluation of leasehold property management.

As a result, net sales were 307 million yen (down 0.9% year-on-year), and operating profit was 49 million yen (up 15.6% year-on-year) for the three months ended June 30, 2022.

(2) Explanation on Financial Position

Total assets at the end of the first quarter ended June 30, 2022 were 309,178 million yen, up 18,471 million yen from the end of the previous fiscal year. This was due mainly to an increase in trade receivables and inventory assets.

Liabilities were 247,317 million yen, up 12,984 million yen from the end of the previous fiscal year. This was due mainly to an increase in trade payables and short-term borrowings.

Net assets came to 61,861 million yen, up 5,486 million yen from the end of the previous fiscal year. This was due mainly to recording of profit attributable to owners of parent. As a result of the above, the equity ratio was 20.0%, up 0.6 points from the end of the previous fiscal year.

(3) Explanation of consolidated financial results forecast and other forward-looking information

The consolidated financial forecasts for the fiscal year ending March 2023 are unchanged from those announced on May 13, 2022.

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheets

	(Million yen)	
	Previous Fiscal Year (March 31, 2022)	First Quarter of Current Fiscal Year (June 30, 2022)
Assets		
Current assets		
Cash and deposits	22,634	20,074
Notes and accounts receivable - trade	111,168	117,716
Electronically recorded monetary claims - operating	15,797	19,137
Merchandise and finished goods	51,270	61,051
Other	14,830	14,911
Allowance for doubtful accounts	(5,177)	(5,508)
Total current assets	210,523	227,383
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,333	6,278
Land	9,268	9,249
Other, net	18,593	18,724
Total property, plant and equipment	34,196	34,251
Intangible assets		
Goodwill	4,508	4,764
Other	4,739	5,017
Total intangible assets	9,248	9,781
Investments and other assets		
Investment securities	17,028	17,073
Retirement benefit asset	16,518	17,345
Other	13,331	14,070
Allowance for doubtful accounts	(10,139)	(10,727)
Total investments and other assets	36,738	37,761
Total non-current assets	80,183	81,794
Total assets	290,707	309,178

(Million yen)

	Previous Fiscal Year (March 31, 2022)	First Quarter of Current Fiscal Year (June 30, 2022)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	90,743	95,666
Electronically recorded obligations - operating	3,760	3,647
Short-term borrowings	26,615	46,054
Commercial papers	11,000	8,000
Income taxes payable	1,264	1,385
Provisions	4,359	4,727
Other	32,421	33,299
Total current liabilities	170,164	192,780
Non-current liabilities		
Long-term borrowings	42,622	32,755
Retirement benefit liability	4,616	4,340
Provisions	569	607
Other	16,359	16,834
Total non-current liabilities	64,167	54,537
Total liabilities	234,332	247,317
Net assets		
Shareholders' equity		
Capital stock	4,723	4,723
Capital surplus	7,292	7,292
Retained earnings	38,225	41,409
Treasury shares	(535)	(533)
Total shareholders' equity	49,705	52,892
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,480	3,441
Deferred gains or losses on hedges	(112)	(177)
Foreign currency translation adjustment	(782)	1,492
Remeasurements of defined benefit plans	4,000	4,131
Total accumulated other comprehensive income	6,586	8,887
Non-controlling interests	82	80
Total net assets	56,374	61,861
Total liabilities and net assets	290,707	309,178

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Three Months Ended June 30, 2022

	(Million yen)	
	Cumulative First Quarter of the Previous Fiscal Year (From April 1, 2021 to June 30, 2021)	Cumulative First Quarter of the Current Fiscal Year (From April 1, 2022 to June 30, 2022)
Net sales	129,687	154,845
Cost of sales	108,762	126,727
Gross profit	20,924	28,118
Selling, general and administrative expenses	19,372	22,779
Operating profit	1,551	5,339
Non-operating income		
Interest income	6	2
Dividend income	169	211
Share of profit of entities accounted for using equity method	34	19
Foreign exchange gains	4	—
Reversal of allowance for doubtful accounts	559	15
Other	85	95
Total non-operating income	860	344
Non-operating expenses		
Interest expenses	424	413
Loss on sales of trade receivables	70	133
Foreign exchange losses	—	37
Other	120	280
Total non-operating expenses	615	864
Ordinary profit	1,797	4,818
Extraordinary income		
Gain on sales of non-current assets	22	4
Gain on sales of shares of subsidiaries and associates	13	—
Other	0	—
Total extraordinary income	36	4
Extraordinary losses		
Loss on retirement of non-current assets	19	1
Loss on sales of non-current assets	0	0
Impairment loss	—	0
Other	—	0
Total extraordinary losses	19	2
Profit before income taxes	1,813	4,820
Income taxes—current	194	863
Income taxes—deferred	205	108
Total income taxes	400	971
Profit	1,413	3,849
Profit attributable to non-controlling interests	1	1
Profit attributable to owners of parent	1,412	3,848

Quarterly Consolidated Statements of Comprehensive Income
Three Months Ended June 30, 2022

	(Million yen)	
	Cumulative First Quarter of the Previous Fiscal Year (From April 1, 2021 to June 30, 2021)	Cumulative First Quarter of the Current Fiscal Year (From April 1, 2022 to June 30, 2022)
Profit	1,413	3,849
Other comprehensive income		
Valuation difference on available-for-sale securities	(345)	(39)
Deferred gains or losses on hedges	27	(64)
Foreign currency translation adjustment	(806)	2,224
Remeasurements of defined benefit plans, net of tax	1,551	130
Share of other comprehensive income of entities accounted for using equity method	18	51
Total other comprehensive income	444	2,301
Comprehensive income	1,857	6,151
Comprehensive income attributable to		
Owners of parent	1,856	6,149
Non-controlling interests	1	1

(3) Notes to Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Notes on significant changes in the amount of shareholders' equity)

Not applicable.

(Segment Information, etc.)

[Segment Information]

I Three months ended June 30, 2021 (from April 1, 2021 to June 30, 2021)

1. Information on net sales and profit (loss) by reportable segment

(Million yen)

	Reportable segment				Adjustment (Note 1)	Amount recorded in Quarterly Consolidated Statements of Income (Note 2)
	Wholesale pulp and paper, domestic locations	Wholesale pulp and paper, overseas locations	Real estate leasing	Total		
Net sales						
Net sales to external customers	60,888	68,489	310	129,687	—	129,687
Intersegment net sales or transfers	1,409	60	6	1,476	(1,476)	—
Total	62,297	68,549	316	131,164	(1,476)	129,687
Segment income	1,175	1,035	43	2,253	(702)	1,551

(Notes) 1. The adjustment to segment profit of (702) million yen consists of intersegment eliminations of (2) million yen and corporate expenses of (699) million yen. Corporate expenses are mainly general and administrative expenses at administrative divisions of the head office that are not attributable to any reportable segment.

2. Segment profit is adjusted with operating profit in the Quarterly Consolidated Statements of Income.

2. Information on impairment loss on non-current assets and goodwill by reportable segment

Not applicable.

II Three months ended June 30, 2022 (from April 1, 2022 to June 30, 2022)

1. Information on net sales and profit (loss) by reportable segment

(Million yen)

	Reportable segment				Adjustment (Note 1)	Amount recorded in Quarterly Consolidated Statements of Income (Note 2)
	Wholesale pulp and paper, domestic locations	Wholesale pulp and paper, overseas locations	Real estate leasing	Total		
Net sales						
Net sales to external customers	66,506	88,032	307	154,845	—	154,845
Intersegment net sales or transfers	1,507	198	6	1,712	(1,712)	—
Total	68,014	88,230	313	156,558	(1,712)	154,845
Segment income	1,664	4,414	49	6,129	(790)	5,339

(Notes) 1. The adjustment to segment profit of (790) million yen consists of intersegment eliminations of (13) million yen and corporate expenses of (776) million yen. Corporate expenses are mainly general and administrative expenses at administrative divisions of the head office that are not attributable to any reportable segment.

2. Segment profit is adjusted with operating profit in the Quarterly Consolidated Statements of Income.

2. Information on impairment loss on non-current assets and goodwill by reportable segment

Not applicable.