

Financial Results for the Nine Months Ended December 31, 2021
[JGAAP]
(Consolidated)



February 14, 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: February 14, 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 Nine Months Ended December 31, 2021 (April 1, 2021 to December 31, 2021)

(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	%
Nine months ended December 31, 2021	410,343	—	5,995	—	6,379	—	5,415	—
Nine months ended December 31, 2020	296,207	3.4	(10,168)	—	(12,646)	—	(10,485)	—

(Note) Comprehensive income: Nine months ended December 31, 2021: 8,682 million yen (-%)
 Nine months ended December 31, 2020: (13,202) million yen (-%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended December 31, 2021	75.40	—
Nine months ended December 31, 2020	(145.73)	—

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 third quarter of the fiscal year ending March 31, 2022 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	%
Nine months ended December 31, 2021	296,446	51,126	17.2
Fiscal year ended March 31, 2021	275,119	43,581	15.8

(Reference) Equity: Nine months ended December 31, 2021: 51,071 million yen
 Fiscal year ended March 31, 2021: 43,489 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, 2021	—	0.00	—	10.00	10.00
Fiscal year ending March 31, 2022	—	5.00			
Fiscal year ending March 31, 2022 (Forecast)			—	9.00	14.00

Note: Revision to the forecast for dividends announced most recently: Yes

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2022 (April 1, 2021 - March 31, 2022)

(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	555,000	—	9,000	—	8,500	—	7,200	—	100.25

Note: Revision to the earnings forecast announced most recently: Yes

(Note 2) Effective from the beginning of the fiscal year ending March 31, 2022, the Group has adopted the “Accounting Standard for Revenue Recognition” (Corporate Accounting Standard No. 29) and others, and therefore each amount for the above consolidated financial results forecast is an amount after the adoption of the said accounting standard and others, and does not include any year-on-year percentage changes.

* 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: Yes

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

4) Retrospective restatement: None

(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):

Nine months ended December 31, 2021 73,244,408 shares

Fiscal year ended March 31, 2021 75,077,406 shares

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

Nine months ended December 31, 2021 1,410,953 shares

Fiscal year ended March 31, 2021 3,278,133 shares

3) Average number of shares during the period:

Nine months ended December 31, 2021 71,820,820 shares

Nine months ended December 31, 2020 71,953,033 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 Nine Months Ended December 31, 2021” of the attachments.

○ Table of Contents of Attachments

1. Qualitative Information Regarding Settlement of Accounts for the Nine Months Ended December 31, 2021 ..	2
(1) Explanation on Operating Results	2
(2) Explanation on Financial Position	3
(3) Explanation of consolidated financial results forecast and other forward-looking information.....	3
(1) Quarterly Consolidated Balance Sheets.....	4
(2) Quarterly Consolidated Statements of Income and Comprehensive Income.....	6
(3) Notes to Consolidated Financial Statements	8
(Notes on Going Concern Assumption).....	8
(Consolidated Statements of Income).....	8
(Notes on significant changes in the amount of shareholders' equity)	8
(Changes in accounting policies).....	9
(Additional Information)	10
(Segment Information, etc.).....	11

1. Qualitative Information Regarding Settlement of Accounts for the Nine Months Ended December 31, 2021

(1) Explanation on Operating Results

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, an explanation on operating results for net sales for the nine months ended December 31, 2021 does not include year-on-year percentage changes (%).

(1) Financial Position and Status of Operating Results

(a) Status of Operating Results

During the nine months ended December 31, 2021, the global economy turned to a moderate recovery trend thanks to the resumption of economic activities in accordance with a rise in COVID-19 vaccination rates, and the implementation of economic measures in various countries. On the other hand, the economic outlook remained uncertain due to the resurgence of another COVID-19 variant and the confusion in the global supply chain stemming from a worldwide shortage of semiconductors and delays in maritime transportation, among other reasons.

In Japan, economic activities were restarted and economic stimulus measures were implemented in response to the progress of COVID-19 vaccination and the lifting of the state of emergency at the end of September.

As a result, household consumption showed signs of recovery and corporate performance improved.

However, due to the current resurgence of a COVID-19 variant, there are concerns that the economy that led to some recovery may turn sluggish.

Under these circumstances, the Group strived to expand its global share and boosted the restructuring of its business portfolio in line with its long-term management vision, GIFT+1 2024.

As a result, net sales for the nine months ended December 31, 2021 were 410,343 million yen. In terms of operating profit and loss, gross profit increased on a year-on-year basis, boosted by a recovery from the previous fiscal year when the COVID-19 pandemic affected both domestic and overseas bases. Operating profit was 5,995 million yen (compared with an operating loss of 10,168 million yen in the same period of the previous fiscal year), ordinary profit was 6,379 million yen (an ordinary loss of 12,646 million yen in the same period of the previous fiscal year), and profit attributable to owners of parent was 5,415 million yen (a loss attributable to owners of parent of 10,485 million yen in the same period of the previous fiscal year).

Results for the nine months ended December 31, 2021 by segment are as follows.

<Wholesale pulp and paper, domestic locations>

During the nine months ended December 31, 2021, after the state of emergency and priority measures were lifted across the country, there were signs of recovery in personal consumption which had been stagnant, and there was a certain degree of recovery in demand for paper, mainly graphic paper such as catalogues and flyers. However, the effect was limited.

Demand for paperboard for paper containers recovered slightly as the flow of people increased following the lifting of the state of emergency. Net sales for containerboard base paper increased from the previous fiscal year. This was due to the continuously strong demand for beverage packing materials, and an increase in exports to overseas, China in particular.

Sales volume remained almost unchanged as waste paper production decreased amid low domestic paper consumption.

As a result, net sales were 191,311 million yen, and operating profit was 3,881 million yen (144.5% year-on-year) for the nine months ended December 31, 2021.

<Wholesale pulp and paper, overseas locations>

Both net sales and profits of the sector largely exceeded the previous fiscal year boosted by the success of the regional strategy, and the restructuring of the Group's business portfolio and profit structure, which drove its overall performance.

In Europe, despite local lockdowns imposed in some cities early in the first half, earnings of Antalis S.A.S., which we acquired in July 2020, improved substantially. This was due to efforts to improve profitability by reducing interest expenses associated with reduced debts, and streamline management, including business restructuring. There was also a healthy packaging business and a recovery of the visual communication market.

The economy of Oceania, especially Australia, was affected by the lockdowns imposed in major cities due to concerns about the spread of the Delta variant of COVID-19. However, Spicers Limited, which we acquired in 2019, expanded the scope of the mainstay packaging business and the sign and display business by way of M&A, and took advantages of its stock business in the paper business. As a result, earnings of Spicers Limited were enhanced rapidly.

In China, the earnings of KEISHIN PAPERS TRADE were weighed down by the paper and paperboard market that slumped after the third quarter due to the government's zero-COVID policy and a container shortage. However, they are on a recovery trend, helped by improved sales sites and the system established by its stock business.

In addition, KPP ASIA-PACIFIC PTE. LTD., which is in charge of the ASEAN region, has completed a corporate reorganization within the KPP Group, and is expanding earnings by capturing demand in the regions where the spread of COVID-19 has peaked out.

As a result, net sales were 21,815 million yen, and operating profit was 4,156 million yen (compared with an operating loss of 11,456 million yen in the same period of the previous fiscal year) for the nine months ended December 31, 2021.

<Real estate leasing>

Despite the continuous full operation of the KPP Yaesu Building, which is our main property, the Group's net sales decreased slightly due mainly to the reduced rent income arising from the redevelopment of owned buildings. In terms of profit, operating profit decreased due to land rent arising from the sale of land for the KPP Yaesu Building in February 2021.

As a result, net sales were 926 million yen (99.0% year-on-year), and operating profit was 136 million yen (26.6% year-on-year) for the nine months ended December 31, 2021.

(2) Explanation on Financial Position

Total assets at the end of the third quarter ended December 31, 2021 were 296,446 million yen, up 21,326 million yen from the end of the previous fiscal year. This was mainly due to an increase in trade receivables and inventory assets.

Liabilities were 245,319 million yen, up 13,781 million yen from the end of the previous fiscal year. This was due mainly to an increase in trade payables and commercial papers.

Net assets came to 51,126 million yen, up 7,544 million yen from the end of the previous fiscal year. This was due mainly to an increase in profit attributable to owners of parent and remeasurements of defined benefit plans. As a result of the above, the equity ratio was 17.2%, up 1.4 points from the end of the previous fiscal year.

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

Taking into consideration the recent business trends, the Company has revised its consolidated financial forecasts for the fiscal year ending March 2022, which were announced on August 11, 2021. For details, please refer to "Notice of Revision of Consolidated Financial Results Forecast and Dividend Forecast for the Fiscal Year Ending March 2022" announced today (February 14, 2022).

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	Previous Fiscal Year (March 31, 2021)	Third Quarter of Current Fiscal Year (December 31, 2021)
Assets		
Current assets		
Cash and deposits	30,546	13,004
Notes and accounts receivable - trade	112,782	129,625
Electronically recorded monetary claims - operating	12,928	21,119
Merchandise	40,012	48,348
Other	10,138	14,559
Allowance for doubtful accounts	(5,735)	(5,140)
Total current assets	200,672	221,516
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,935	6,396
Land	9,581	9,418
Other, net	18,329	18,149
Total property, plant and equipment	34,845	33,964
Intangible assets		
Goodwill	4,235	3,885
Other	4,541	4,631
Total intangible assets	8,777	8,517
Investments and other assets		
Investment securities	17,806	16,791
Retirement benefit asset	9,230	12,695
Other	12,972	12,846
Allowance for doubtful accounts	(9,184)	(9,886)
Total investments and other assets	30,824	32,446
Total non-current assets	74,447	74,929
Total assets	275,119	296,446

(Million yen)

	Previous Fiscal Year (March 31, 2021)	Third Quarter of Current Fiscal Year (December 31, 2021)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	81,672	96,517
Electronically recorded obligations - operating	3,552	4,965
Short-term borrowings	67,999	34,182
Commercial papers	—	13,000
Income taxes payable	9,273	1,216
Provisions	3,857	2,740
Other	24,637	29,131
Total current liabilities	190,993	181,754
Non-current liabilities		
Long-term borrowings	15,272	42,651
Retirement benefit liability	4,811	3,487
Provisions	443	484
Other	20,017	16,942
Total non-current liabilities	40,544	63,565
Total liabilities	231,537	245,319
Net assets		
Shareholders' equity		
Capital stock	4,723	4,723
Capital surplus	7,833	7,292
Retained earnings	31,826	36,143
Treasury shares	(1,089)	(535)
Total shareholders' equity	43,293	47,623
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,798	3,389
Deferred gains or losses on hedges	(54)	(32)
Foreign currency translation adjustment	(1,380)	(1,414)
Remeasurements of defined benefit plans	(2,167)	1,506
Total accumulated other comprehensive income	195	3,448
Non-controlling interests	92	54
Total net assets	43,581	51,126
Total liabilities and net assets	275,119	296,446

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Nine Months Ended December 31, 2021

(Million yen)

	Cumulative Third Quarter of the Previous Fiscal Year (From April 1, 2020 to December 31, 2020)	Cumulative Third Quarter of the Current Fiscal Year (From April 1, 2021 to December 31, 2021)
Net sales	296,207	410,343
Cost of sales	265,923	343,985
Gross profit	30,284	66,358
Selling, general and administrative expenses	40,452	60,362
Operating profit (loss)	(10,168)	5,995
Non-operating income		
Interest income	328	32
Dividend income	402	349
Share of profit of entities accounted for using equity method	—	111
Foreign exchange gains	—	593
Reversal of allowance for doubtful accounts	2	904
Other	441	375
Total non-operating income	1,176	2,367
Non-operating expenses		
Interest expenses	791	1,214
Loss on sales of trade receivables	126	11
Foreign exchange losses	28	—
Share of loss of entities accounted for using equity method	2,431	—
Other	275	757
Total non-operating expenses	3,654	1,983
Ordinary profit (loss)	(12,646)	6,379
Extraordinary income		
Gain on sales of non-current assets	84	1,123
Gain on sales of investment securities	6	265
Gain on bargain purchase	1,679	—
Gain on reversal of impairment losses	—	188
Penalty income	—	164
Other	—	13
Total extraordinary income	1,770	1,755
Extraordinary losses		
Business restructuring expenses	179	331
Loss on retirement of non-current assets	25	44
Loss on sales of non-current assets	—	0
Impairment loss	18	—
Loss on valuation of investment securities	230	556
Loss on sales of investment securities	—	2
Total extraordinary losses	453	935
Profit (loss) before income taxes	(11,329)	7,199
Income taxes—current	112	1,600
Income taxes—deferred	(796)	169
Total income taxes	(684)	1,770
Profit (loss)	(10,645)	5,429
Profit (loss) attributable to non-controlling interests	(159)	14
Profit (loss) attributable to owners of parent	(10,485)	5,415

Quarterly Consolidated Statements of Comprehensive Income
 Nine Months Ended December 31, 2021

(Million yen)

	Cumulative Third Quarter of the Previous Fiscal Year (From April 1, 2020 to December 31, 2020)	Cumulative Third Quarter of the Current Fiscal Year (From April 1, 2021 to December 31, 2021)
Profit (loss)	(10,645)	5,429
Other comprehensive income		
Valuation difference on available-for-sale securities	157	(409)
Deferred gains or losses on hedges	10	21
Foreign currency translation adjustment	(667)	(54)
Remeasurements of defined benefit plans, net of tax	(1,290)	3,674
Share of other comprehensive income of entities accounted for using equity method	(766)	20
Total other comprehensive income	(2,556)	3,252
Comprehensive income	(13,202)	8,682
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(13,042)	8,668
Comprehensive income attributable to non-controlling interests	(159)	14

(3) Notes to Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Consolidated Statements of Income)

*Share of loss of entities accounted for using equity method

Nine months ended December 31, 2020 (from April 1, 2020 to December 31, 2020)

Creditors of Universal Pulp and Paper (Shandong) Co., Ltd., a subsidiary of Mission Sky Group Limited, the Company's equity-method affiliate, filed for bankruptcy due to a cash crunch, and it was accepted by the district court. This includes share of loss of entities accounted for using equity method of 2,463 million yen.

Nine months ended December 31, 2021 (from April 1, 2021 to December 31, 2021)

Not applicable.

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

(Cancellation and disposal of treasury shares)

The Company resolved to cancel treasury shares at the meeting of Board of Directors held on September 22, 2021 in accordance with Article 178 of the Companies Act, and repurchased 1,832,998 shares of treasury stock for cancellation on October 1, 2021.

In addition, the Company disposed of 34,182 shares of treasury stock (disposal book value: 13 million yen) through the issuance of remuneration BIP trust for corporate officers. As a result, capital surplus decreased by 540 million yen and treasury shares decreased by 553 million yen for the nine months ended December 31, 2021.

(Changes in accounting policies)

(Application of Accounting Standard for Revenue Recognition, etc.)

The Group has adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as “Revenue Recognition Accounting Standard”) and others effective from the beginning of the first quarter ended June 30, 2021. Accordingly, revenue is recognized at the time of the transfer of control for promised goods or services to customers in the amount expected to be received in exchange for such goods or services. Major changes due to the adoption of the Revenue Recognition Accounting Standard and others are as follows.

- Revenue recognition regarding transactions acted as agent

In the wholesale pulp and paper business, the entire amount of consideration received from customers was previously recognized as revenue. The method has been changed to recognize revenue by the net amount, which is the entire amount less the amount paid to the supplier, for transactions performed as agent to provide goods or services, after the role (whether as entity itself or as agent) in the provision of goods or services to customers has been assessed.

- Variable consideration (sales rebate, transaction by provisional price)

Portion of the revised amount for sales rebates or transactions by provisional price previously have been treated as cost of sales. The method has been changed to estimate the amount of variable portion of consideration for transactions when providing goods or services to customers, and to include such amount in the transaction price.

In adopting the Revenue Recognition Accounting Standard and others, in accordance with the transitional treatment set forth in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard, the cumulative impact of retrospective application of the new accounting policies prior to the beginning of the first quarter ended June 30, 2021 was added to or subtracted from retained earnings at the beginning of the first quarter ended June 30, 2021. The new accounting policy has been applied from the beginning balance of the first quarter ended June 30, 2021.

As a result, net sales and cost of sales decreased by 11,888 million yen, respectively, for the nine months ended December 31, 2021. There are no impacts on the retained earnings of the beginning balance of the first quarter of the fiscal year under review.

In accordance with the transitional treatment prescribed in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), the Company did not provide information of disaggregated revenues from contracts with customers for the nine months ended December 31, 2020.

(Application of Accounting Standard for Fair Value Measurement, etc.)

The Group has adopted the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019) and others effective from the beginning of the first quarter ended June 30, 2021. In accordance with

the transitional treatment set forth in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the new accounting policy set forth by the Fair Value Measurement Accounting Standard and others will be applied in the future. There are no impacts on the Quarterly Consolidated Financial Statements.

(Additional Information)

(Impact of COVID-19)

There are no significant changes on the impact of COVID-19 described in the securities report (significant accounting estimates) for the previous fiscal year.

(Segment Information, etc.)

[Segment Information]

I Nine months ended December 31, 2020 (from April 1, 2020 to December 31, 2020)

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	187,175	108,095	936	296,207	—	296,207
Intersegment net sales or transfers	3,526	182	13	3,722	(3,722)	—
Total	190,702	108,278	949	299,930	(3,722)	296,207
Segment income (loss)	2,685	(11,456)	515	(8,255)	(1,913)	(10,168)

- (Notes) 1. The adjustment to segment profit or loss of (1,913) million yen consists of intersegment eliminations of 2 million yen and corporate expenses of (1,915) 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 or loss is adjusted with operating profit in the Quarterly Consolidated Statements of Income.
3. In the six months ended September 30, 2020, the Group included Antalis S.A. and its 73 subsidiaries in the scope of consolidation. This resulted in an increase in the assets of the “Wholesale pulp and paper, overseas locations” segment by 94,990 million yen compared with before consolidation.

2. Information on impairment loss on non-current assets and goodwill by reportable segment
Not applicable.

II Nine months ended December 31, 2021 (from April 1, 2021 to December 31, 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	191,311	218,105	926	410,343	—	410,343
Intersegment net sales or transfers	4,317	142	20	4,480	(4,480)	—
Total	195,628	218,247	947	414,823	(4,480)	410,343
Segment income	3,881	4,156	136	8,174	(2,178)	5,995

(Notes) 1. The adjustment to segment profit of (2,178) million yen consists of intersegment eliminations of (15) million yen and corporate expenses of (2,162) 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.

3. Matters on changes in reportable segments, etc.

As described in (Changes in accounting policies), the Group has adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and others effective from the beginning of the first quarter ended June 30, 2021, and has changed the method of accounting treatment on revenue recognition. Accordingly, the measurement method of business segment profit or loss has also been changed.

As a result of such change, net sales of wholesale pulp and paper in domestic locations for the nine months ended December 31, 2021 decreased by 11,888 million yen as compared with the amount under the previous method.