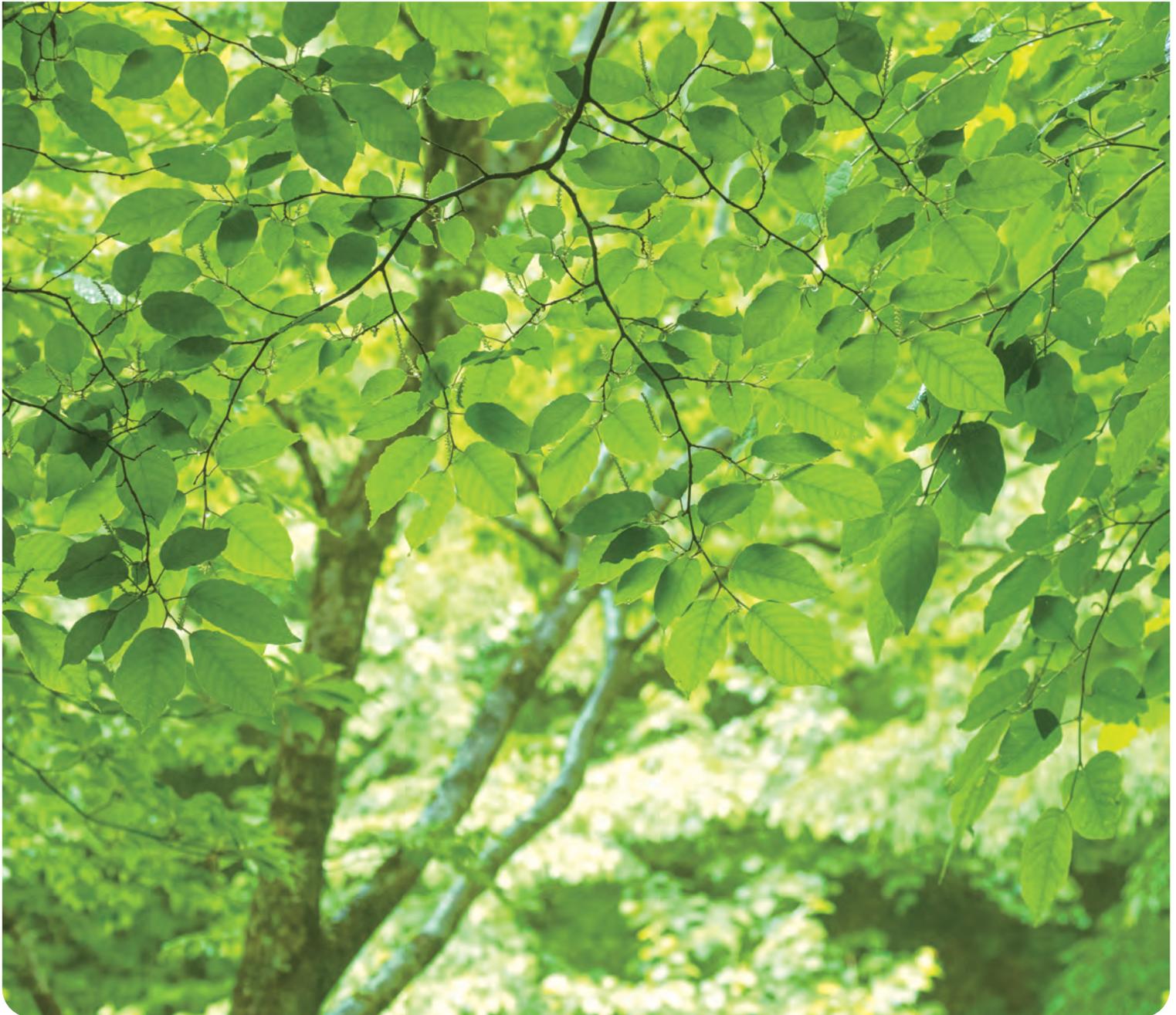


Hokuetsu Kishu Paper Group

Hokuetsu Kishu Paper Group Corporate Report 2016



The Hokuetsu Kishu Paper Group Corporate Report 2016 Editorial Policy

The objective of this Corporate Report is to deepen communication with all of our stakeholders by providing an integrated report that summarizes not only financial information, such as our business results, business outlook and progress of our Medium-Term Management Plan but also non-financial information, such as environment information, social information, and governance information. It is our hope that this Corporate Report will deepen understanding by our stakeholders of the Hokuetsu Kishu Paper Group, which is striving to increase corporate value through our core business of paper-making. We have also published even further detailed information on our company website and we encourage you to refer to this resource as well.

Companies covered by this report:
Hokuetsu Kishu Paper Group (main affiliated subsidiaries, etc.)

Period covered by the Report:
April 1, 2015 - March 31, 2016
(Some activities that took place after the end of this term are also reported.)

Issued:
November 2016

Publisher:
Sekio Kishimoto
President and CEO, Hokuetsu Kishu Paper Co., Ltd.

For further information, contact:
General Affairs Department
Hokuetsu Kishu Paper Co., Ltd.
3-2-2, Nihonbashi Hongoku-cho, Chuo-ku,
Tokyo 103-0021 Japan
Telephone +81-3-3245-4500
Facsimile +81-3-3245-4511

The Hokuetsu Kishu Paper Corporate Philosophy

To contribute to society as a superior paper company and earn the trust of our stakeholders.

1. We will work to further earn the trust of our customers, stockholders, trading partners, and the local communities we operate in by upholding the law and pursuing transparent business activities.
2. We will provide attractive products and services to meet customer needs.
3. Through a relationship of mutual trust between labor and management, we will create a bright and vigorous corporate culture that nurtures creativity and a thirst for challenge.
4. Through commitment to environmentally conscious management, we will strive for sustainable growth.

(Created April 1, 2003; revised October 1, 2009)

Kounose tree farm (Tokushima Prefecture), Hokuetsu Kishu Paper Group

CONTENTS

Message from the President	4
The Hokuetsu Kishu Paper Group: Towards the Next 100 Years	6
Main Business Areas and Their Current Conditions	10
The Business Segments of the Hokuetsu Kishu Paper Group and Their Future Prospects	12
Business Overview (1): Paper Business	14
Business Overview (2): White Paperboard Business	16
Business Overview (3): Specialty Paper Business	18
Business Overview (4): Paper Processing Business	20
Non-Financial Information and Related Measures	22
Corporate Governance	24
CSR Activities	26
Compliance System	27
Research and Development Initiatives	28
Product Safety and Quality Control Initiatives	29
Environmental Preservation Initiatives	30
Environment-Related Data	32
Measures for Procurement of Raw Materials	34
Management for Company Owned Forest's and Profit-Sharing Tree Farms in Japan	37
HR Management	38
Relationships with Local Communities	40
Executive Officers	42
Financial Information	43
Consolidated Financial Highlights	44
Management's Discussion and Analysis	46
Consolidated Balance Sheets	48
Consolidated Statements of Income and Consolidated Statements of Comprehensive Income	50
Consolidated Statements of Cash Flows	51
Consolidated Statements of Changes in Net Assets	52
Notes to Consolidated Financial Statements	54
Independent Auditor's Report	83
Affiliated Group Companies	84
Equity Data	85
Corporate Data	86

Achieve further growth as a global pulp and paper manufacturing company by adding a new market pulp business.



岸本 哲夫

Sekio Kishimoto
President and CEO

To all our stakeholders, I have the pleasure of presenting the Corporate Report 2016 of Hokuetsu Kishu Paper Co., Ltd.

Engaging in business expansion at every stage of the paper pulp business's value chain

The paper pulp industry is still experiencing a severe business environment due to factors that are contributing to a gradual long-term decline in domestic demand for printing paper and communication paper, such as the shift to electronic media. The Hokuetsu Kishu Paper Group has taken various measures in response to this business environment, including expanding exports in the paper business, strengthening business in China in the white paperboard business, increasing production and expanding sales bases for battery separators in cars in the specialty paper business, and working to establish an efficient production system and quality control system in our paper processing business. Furthermore, we acquired all shares in two Canadian companies, pulp manufacturing company Alpac Forest Products Inc. and sales company Alpac Pulp Sales Inc. (now Alberta Pacific Forest Industries Inc.), making them both wholly-owned subsidiaries. Through this, our group will continue to engage in business expansion at every stage of the paper pulp business value chain, and also strengthen our international competitiveness in the market pulp business.

In our forecast for FY2016, we expect to achieve a record 270 billion yen in consolidated sales and accomplish nearly all of our management goals under the 3-year Medium-Term Management Plan "C-next," in which FY2016 is the final year. Now we are transitioning as planned to the second phase of our Long-Term Management Plan "Vision 2020." We are considering strategic investments of several tens of billions of yen in the new Medium-Term Management Plan that we are currently formulating, and we will continue our quest to develop and grow as a global pulp and paper manufacturing company.

Further improvements to environmental measures

Our group has made "minimum impact" a basic policy, whereby we are actively taking industry-leading measures to reduce any adverse environmental impact to the least amount possible at every stage, from the procurement of raw materials to the manufacture of end products. As a result, we have maintained our top position among the major domestic paper manufacturing companies in Japan for the smallest amount of unit CO₂ emissions, which are approximately half the industry average. In particular, at our Niigata Mill, last fiscal year we changed our black liquor concentration equipment to the very latest high efficiency type and this reduced the amount of CO₂ emissions even further, while also improving energy efficiency. We will continue to actively invest in environment-related measures that will lessen environmental impact, and implement proactive environmental management policies.

Growing and advancing together with society

Since its establishment over a century ago, the Hokuetsu Kishu Paper Group, as an attractive paper-making company, has continuously devoted itself to paper-making, seeking to contribute to society and earn its trust. Going forward, we will continue to treasure our invaluable relationships with all of our stakeholders, responding to their needs and maintaining their trust, through our business of paper-making.

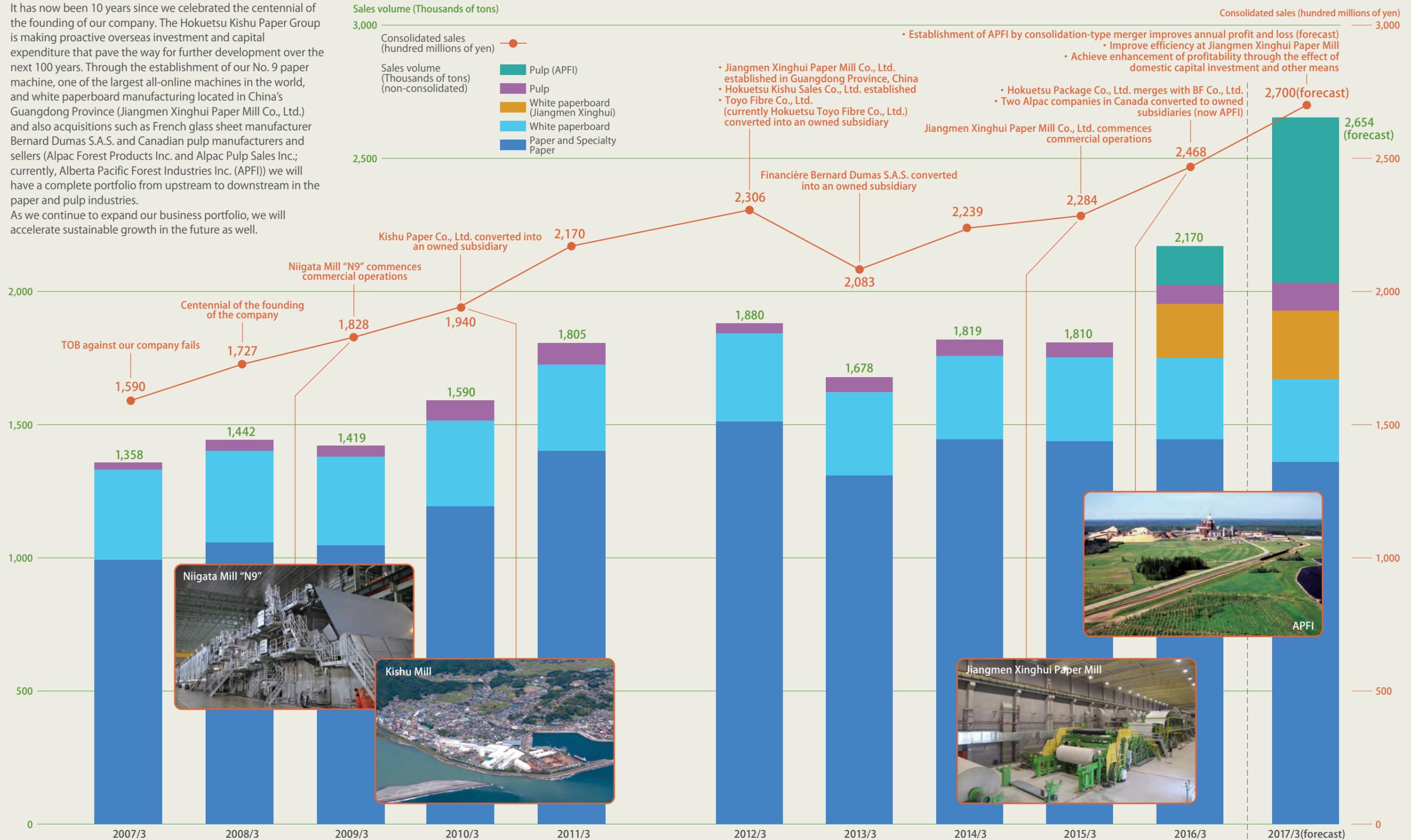
We ask for your continued support, guidance, and encouragement.

*Our vision to keep all kinds of environmental impact to an absolute minimum, and achieve harmony between human beings and nature.

Expanding our business portfolio to accelerate sustainable growth

It has now been 10 years since we celebrated the centennial of the founding of our company. The Hokuetsu Kishu Paper Group is making proactive overseas investment and capital expenditure that pave the way for further development over the next 100 years. Through the establishment of our No. 9 paper machine, one of the largest all-online machines in the world, and white paperboard manufacturing located in China's Guangdong Province (Jiangmen Xinghui Paper Mill Co., Ltd.) and also acquisitions such as French glass sheet manufacturer Bernard Dumas S.A.S. and Canadian pulp manufacturers and sellers (Alpac Forest Products Inc. and Alpac Pulp Sales Inc.; currently, Alberta Pacific Forest Industries Inc. (APFI)) we will have a complete portfolio from upstream to downstream in the paper and pulp industries. As we continue to expand our business portfolio, we will accelerate sustainable growth in the future as well.

Changes in Major Global Development and Consolidated Sales / Sales Volume Since the Centennial of Our Founding in 2007



Achieve our management goals, expand existing business and promote new overseas business

We have made a rapid and large-scale advance into overseas business expansion under the basic strategy of “C-next,” the Medium-Term Management Plan of the Hokuetsu Kishu Paper Group that began in April 2014. This fiscal year (ending March 2017) is the final fiscal year of the plan, and we expect to achieve both the 270 billion yen consolidated sales goal under “C-next,” and the Long-Term Management Plan “Vision 2020” goal of an overseas sales ratio of 25%. Currently we are incorporating strategic investments of several tens of billions of yen and engaging in the formulation of a new Medium-Term Management Plan as the final step towards accomplishing Vision 2020 that aims to expand our existing business and advance into new overseas business.

Vision 2020: Hokuetsu Kishu Paper Group’s Corporate Vision for 2020

- Be environmentally conscious in all corporate activities and promote environmental management
- Offer attractive products with excellent quality and competitiveness using advanced technology
- Work with passion and seek steady growth and ever greater challenges
- Sales target: ¥300 billion or above (overseas sales ratio: 25%)

Management Goals in Figures from C-next Plan

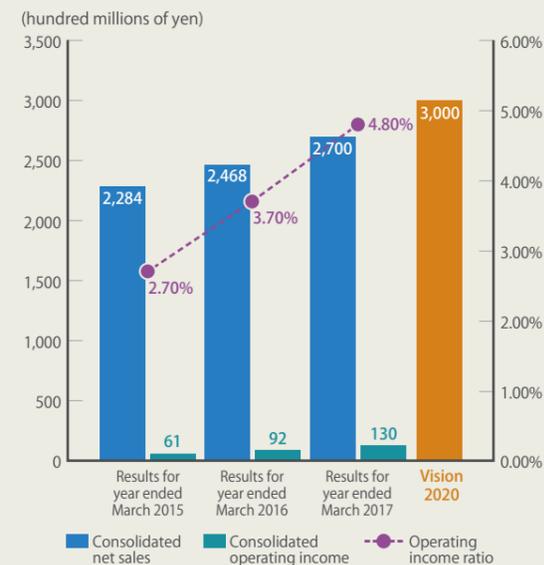
Consolidated, FY 2016

Net sales	¥270 billion
Operating income	¥13.5 billion
Net sales operating income ratio	5% increase
EBITDA	¥33 billion

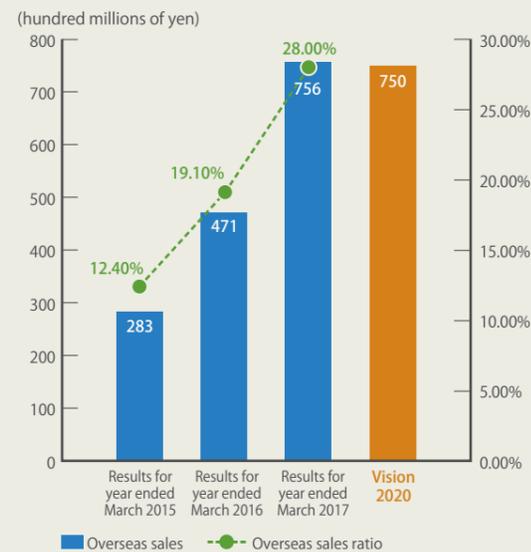


C-next Progress

Changes in Consolidated net sales / Operating income / Operating income ratio



Changes in Overseas sales/Overseas sales ratio



Overview of C-next Plan

Period of the Plan

From April 1, 2014, through March 31, 2017 (three years)

Basic Policy

Our basic policy is to strengthen our profit base and further improve our environmental measures.

Furthermore, we will create new fields in response to changes and reform our business structure. In doing so, we will seek further growth as a paper-making company.

Basic Strategy

● Strengthening our profit base

By maintaining a thorough grasp of future trends for paper pulp in the domestic market, we will implement the necessary changes to secure steady profits in any business environment.

● Improving our environmental measures further

We will strengthen our basic environmental policy of “minimum impact” and broadly develop a range of related activities. By manufacturing products based on these activities and providing them to society, we will also fulfil social responsibility.

● New business fields and business structure reform

We will get our white paperboard business in China up and running. In addition, by actively making strategic investments in domestic and international growth markets and new business fields, we will both reform our business structure, and secure future growth.

Strategies in Our Four Core Businesses

Paper Business

This is our Group’s main business, and we will realize No.1 competitiveness in the domestic market, to be highly competitive in the global market. (See Pages 14-15 for details)

White Paperboard Business

We will steadily establish both domestic and overseas operations to make this our next-generation growth engine. (See Pages 16-17 for details)

Specialty Paper Business

By accelerating our development of new products, new operations, and new markets, we will expand our scale to match the global market. (See Pages 18-19 for details)

Paper Processing Business

We will expand our scale with a focus on the packaging field, where growth is anticipated. (See Pages 20-21 for details)

Common Corporate Strategies

- Continue to reduce the environmental burden by ensuring “minimum impact” and maintain our position as an environmental front-runner in the industry.
- Maintain and strengthen our governance and compliance systems.
- Secure the right human resources and streamline the organization as needed for our future business development and global strategy.
- Actively seek out M&A opportunities as a means of achieving further growth.

Main Business Areas and Their Current Conditions



Achieving further globalization with the addition of the market pulp business to our four main business segments

The four main business segments of the Hokuetsu Kishu Paper Group are the paper business, the white paperboard business, the specialty paper business, and the paper processing business. With each of these core business segments, we continue to steadily provide high-quality products and to maintain top market share in the industry while meeting market needs.

We merged the three related Alpac companies involved in the Canadian pulp business that we acquired in 2015 and established the new integrated company Alberta Pacific Forest Industries Inc. on July 1, 2016. By investing in the pulp business in Canada, we are strengthening our position in the upstream resource sector and expanding our business portfolio.

Paper Business

In our primary business area of printing paper and communication paper, we have excellent suitability for the printing process, and a widely varied product line-up. Among these products, our coated printing paper holds a high domestic market share. → See Pages 14-15.



Specialty Paper Business

Our strength is a product line-up that can meet our highly diverse customer needs. In addition to base paper for abrasive coated paper and for press-bonded postcards, we are also focusing on battery separators made through the use of glass fiber sheets. → See Pages 18-19.



White Paperboard Business

We offer white paperboard in a wide range of grades for all types of uses, such as publishing paper and commercial printing paper for catalogues, postcards, etc., as well as a huge range of packages. → See Pages 16-17.



Paper Processing Business

In addition to the paper processing field, such as liquid package cartons, paper ware, and processed paper, we are also carrying out developments in the business form field. In the field of gable-top type of liquid package cartons as for milk (roof-type carton), we hold a top-ranking share in the Japanese market. → See Pages 20-21.



Our main production and business bases operated globally



Paper Business
Niigata Mill: Japan
Kishu Mill: Japan

White Paperboard Business
Kanto Mill (Katsuta, Ichikawa): Japan
Jiangmen Xinghui Paper Mill Co., Ltd.: China

Specialty Paper Business
Nagaoka Mill
Osaka Mill
Hokuetsu Toyo Fibre Co., Ltd.
Bernard Dumas S.A.S.: France
HK PAPER (USA), INC.: America

Paper Processing Business
BF & Package Co., Ltd.
Kanto Mill (Katsuta, Tokorozawa): Japan
Shanghai Toh Tech, Co. Ltd.: China

Market Pulp Businesses
Alberta Pacific Forest Industries Inc.: Canada

We continuously pursue to strengthen our competitiveness and customer satisfaction, aiming to expand our export business under a firm domestic sales foundation

Business Strengths and Characteristics

The main product of the division is printing and communication paper used for books, magazines, catalogs, and brochures. Within the product line-up, coated paper is our key product, and its production volume in the year 2015 had recorded 2nd in the domestic industry. Furthermore, our sales of uncoated, colored wood-free paper has continued for more than 60 years. With its abundant product line-up, we are keeping 65.7% of domestic market shares which shows our brand is being favored by a wide range of customers.

Business Environment and Performance

Total domestic shipment in the year 2015 for printing and communication paper manufacturers had fell below the level of the previous year. Decreasing demand on paper has not been restrained, due to the continuing digitalization of media followed by the spread of smartphones and tablets, the downsizing of advertisement on paper media, and the progressing low birthrate. However, by working on combining the respective benefits of paper and digital mediums, and by being perceptive on the functionality of paper, we will bring demand to recovery. In this severe market environment, with individual attempts with end users, we'll continuously maintain price and pursue optimum production and efficiency to steadily provide high quality products. In regard to exports, our performance in the year 2015 was 216,000 metric tons. Major destination countries and areas are Hong Kong, South Korea, Taiwan, North America, and Southeast Asia, and our biggest exporting market is Hong Kong with an annual approx. 30,000 metric tons in A2 grade coated paper. As well as to East Asia and Southeast Asia (Taiwan, Korea, Vietnam, Malaysia), we are exporting approx. 50,000 metric tons in A3 grade coated paper for flyer and calendar use. In the year 2016, we will continue to focus on further expanding, boosting our competitiveness in overseas markets, and developing new sales channels. We will work on our measures to build an optimal production system in our product mix that also includes the addition of domestic and overseas pulp sales.

Future Business Strategy

Facing the last year of "C-next," the Paper Business Division will engage in full-fledged efforts to enhance our competitiveness, focusing on the Niigata and Kishu mills, as a core business segment of the Hokuetsu Kishu Paper Group. By responding to rapid changes in the external environment, we will build a top quality production and sales framework to compete in the global market. In terms of sales, we will maintain our product value by selling with great care and keeping domestic sales share. Concerning exports, we will aim to increase sales volume and advance the business strategy of the Paper Business Division as detailed in "C-next."

Specifically, we will focus on the following:

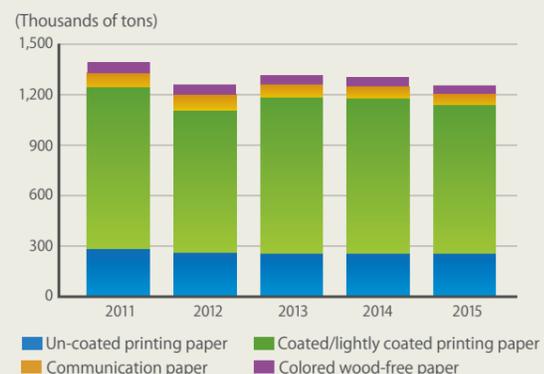
Production

- (1) Pursue further ideal production at the Niigata and Kishu mills and ensure stable operations and supply.
- (2) Improve quality stability and strengthen the trust that our users have.
- (3) Thoroughly implement cost reduction and efficiency improvement initiatives.

Sales

- (1) Based on domestic sales we will seek to gain customer satisfaction and promote the development of high value-added and new products.
- (2) Work to develop new uses for wood-free colored paper and further expand our market share.
- (3) Implement regular visits to our users by staff at our mills to strengthen the relationship further.
- (4) Development quality overseas markets wish for, and greater effort to promote and expand export sales.

Production of printing paper by product type



Measures for an optimal printing and communication paper production system

Promoting enhanced competitiveness

Amidst the remarkable decline in printing and communication paper demand, we promoted enhanced competitiveness and proposed Hokuetsu Kishu Paper products with this comprehensive strength. First, we implemented periodic and systematic user visits with a joint approach between our mills and sales, and we plan to strengthen the relationships with our customers. Also, we are accumulating each of our customers' requests for quality, and after planning a precise approach for the market overall we will seek out possibilities for development of new products as well as access to new applications. Particularly, because we anticipate a decline in the demand for paper media, we are thoroughly focused on paper and seek to pursue a positive stance of "what paper can do because it is paper" as we continue to make proposals for the creation of paper demand.

introduced them to distributors and users. By doing this, we received designations from designers, which led to an increase in cases of them being adopted by publishing-related companies. In the latter half of the same year, we implemented a colored wood-free paper idea contest. We collected more than 1,000 samples from this contest. These have been adopted in a variety of applications with an emphasis on functionality that include not only the main application of commercial printing, but also publishing and stationery. Additionally, while working together with distributors we are proactively engaged toward the revival of demand and new application development.

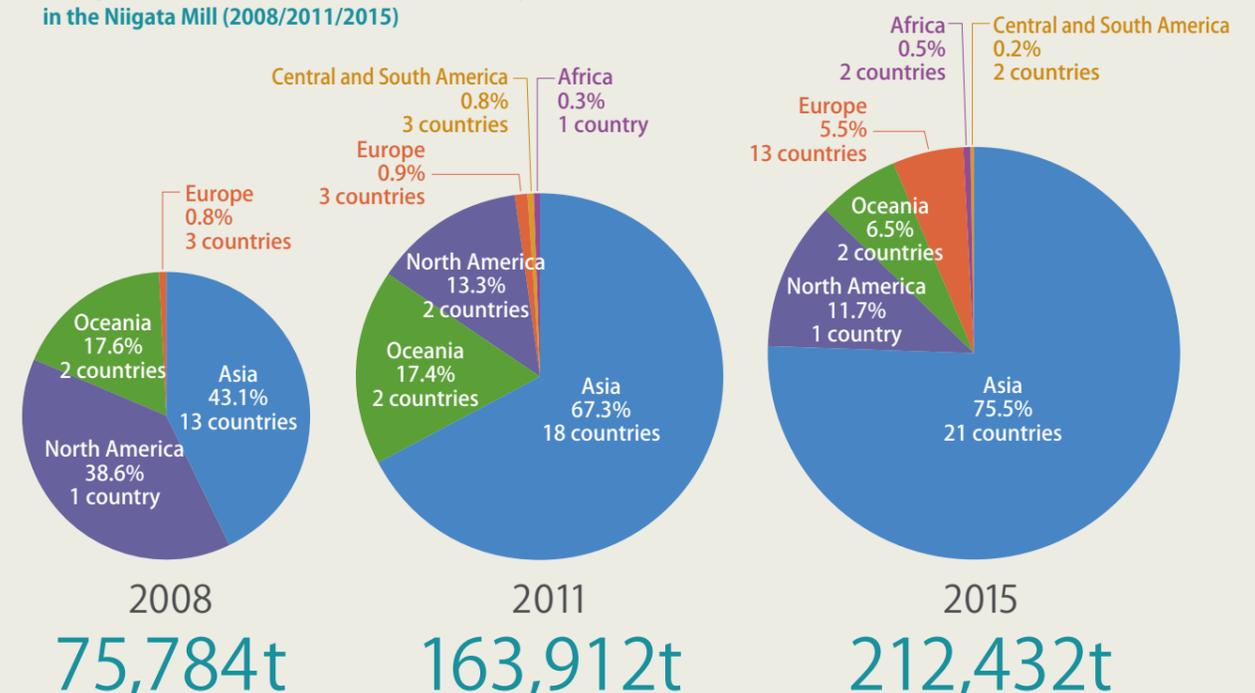
Expand our market share for colored wood free-paper

Expanding sales of colored wood free-paper is an important topic to be carried out in our "C-next" plan. In order to increase our market share further, it is necessary not only to protect our existing regular products, but also propose new possibilities to the market. In the first half of 2015, we created an unprecedented colored wood-free paper printing sample book, and created sample books like color guides with 10%-100% printing for each of the 33 color variations, and

Toward export sales of 300,000 tons

We have focused efforts on expanding export sales since our No. 9 paper machine, one of the largest in the world, started operating in 2008. Since then, we have been able to maintain supply stability, even in 2011 when the yen was at historically high levels. We are now seeking to increase the number of customers who understand Hokuetsu Kishu Paper's quality. While creating products based on the needs desired by the market and expanding our network in paper processing and other fields instead of limiting ourselves to the field of printing paper, we will aim to realize our target of export sales of 300,000 tons.

Changes in Numbers of Export Sales and Share by Destinations of Production in the Niigata Mill (2008/2011/2015)



With our top quality/high efficiency/low environmental burden technical strength, achieve a stronger profit base and increase customer satisfaction

Business Strengths and Characteristics

The main types of products are premium white paperboard, special white paperboard, coated duplex board (with gray-back), etc. We feature a wide range of products in order to meet our customers' diverse needs. The major usages for our products are commercial printing items such as many kinds of packages, catalogs, POP advertising, and postcards; the covers of publications, and so on; our products are used in a widely diverse range of fields. We will work to further strengthen our profit base, by selling the attractive products created with the technical strength that Hokuetsu Kishu Paper has cultivated for a long time, with its focus on top quality, high efficiency and a low environmental burden, at our domestic production bases of the Niigata Mill and the Kanto Mills (Ichikawa and Katsuta), and also at our overseas production base in Jiangmen City, Guangdong Province, China.

Business Environment and Performance

The domestic production of white paperboard manufacturers from January through December 2015 showed a minus performance of 97.3% compared to the previous year (approximately 1,340,000 tons). From the latter half of the fiscal year there was a slight resurgence due to the effect of inbound demand. Hokuetsu Kishu Paper recorded a slight decrease in production year on year of 98.7% (approximately 280,000 tons). Domestic demand for white paperboard is facing a gradual decline not only due to structural factors accompanying the population decrease with its low birthrate and aging population, but also from cost-cutting measures by customers that have continued to result in less packaging. On the other hand, there has been a strengthening trend among manufacturers of daily commodities for the paper medium and demand for POP applications is expected to follow a brisk trend. Also, in daily goods, cosmetics, and pharmaceutical products we foresee the continued influence of inbound demand, and we expect that with the addition of the shift to generic drugs we will see an increase in demand for paper applications. In terms of convenience store applications, it is expected that as the range of over-the-counter cooked products, such as fried chicken, continues to diversify this will lead to an expansion in demand for primary containers. We will continue to actively advance our sales activities in these fields, seeking to respond to and acquire market share in new needs.

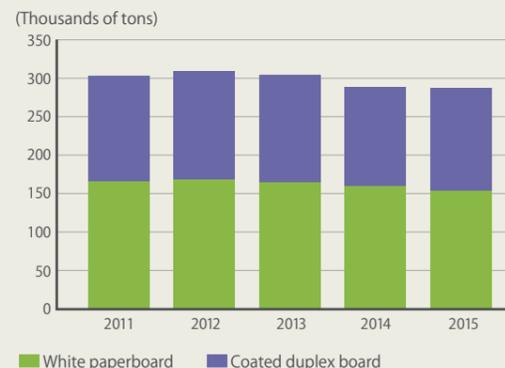
Future Business Strategy

Slogan: **Challenge, Consider, Responsibility, Communication**
 Subtitle: **Be thorough about reporting, contacting, and consultation**
 Based on putting in practice our maximum priority on safety and compliance management, we will achieve a stronger business profit base and increase customer satisfaction. As this is the final fiscal year of our Medium-Term Management Plan "C-next," all of our employees in the White Paperboard Business Division including the Jiangmen Xinghui Paper Mill Co., Ltd. in China are working together to ensure profits greater than we have budgeted.

Important Issues

- (1) Continue management for protection of the environment and compliance, including partner companies.
- (2) Through integration of production/sales/technology
 - Pursue the ideals for Hokuetsu Kishu Paper quality in the market.
 - Work on the construction of a full production system through optimization of production and creation of our BCP.
 - Aim to further increase customer satisfaction through strict criteria for quality assurance based on a role-sharing chart for quality functions.
 - Aim for the sales department to achieve the sales budget as well as attain reasonable inventory targets.
- (3) Raising further items for improvement under our platform of implementing prevention measures by investigating the root of operational problems and operational safety.
- (4) In terms of our white paperboard business operations in China, we will use the combined strength of the White Paperboard Business Division to establish a stable operations and sales system, aiming for stable and positive balance in the early stage.
- (5) Strengthen cooperation with the Paper Processing Business Division to enhance overall Group competitiveness.

White paperboard production by type



Our developing China business, which is poised for rapid growth

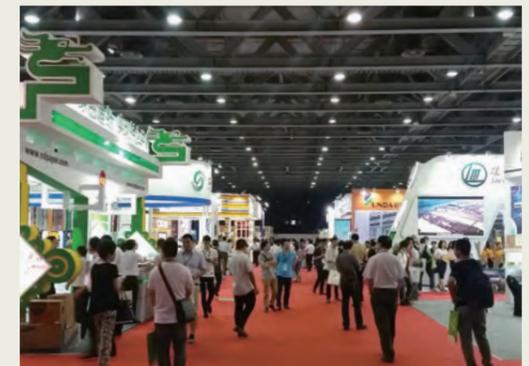
Stable production and export expansion, new product development

The Jiangmen Xinghui Paper Mill Co., Ltd. (Jiangmen City, Guangdong Province, China) is positioned as an essential part of our Group's global strategy. Commercial operations were initiated from January 2015, and we have now entered the second year. Quality and operations are stable, and ever since August 2015, sales amounts have been at a level exceeding 20,000 tons per month, with the exception of January-February when economic activity stagnated because of the Chinese New Year. In March 2016, we recorded our highest ever sales of 27,288 tons. Our customers are centered in Guangdong Province in China, but we also intend to increase sales to the relatively close areas of Guangzhou, Foshan, Zhongshan, and Jiangmen. We are also proactively engaged in efforts to export to neighboring countries, and we began transactions with customers in Taiwan, South Korea, Thailand, Malaysia, Vietnam and India. As for new product development, we developed bulky products which are much stiffer compared to general products, and began selling them as Grade H1. Additionally, we are earnestly developing suitable products for blister pack applications. We are aiming for further sales expansion by cultivating new markets and developing new products.

Expanding name recognition in China, proceeding in exchange with Japan

In May 2015, based on calls from the local government in Shuangshui Town, together with Yinzhouhu Paper-making Base's four paper manufacturers, we exhibited at the "13th Guangzhou International Paper Exhibition." Held over a period of three days, guests from over 500 companies inside and outside of China attended, and this was an extremely valuable opportunity to promote Hokuetsu Kishu Paper. Continuing from last year, in July 2016, five local employees from China visited the Niigata Mill and one of the Kanto Mills (Ichikawa) to engage in technical exchange meetings. At the Niigata Mill, they participated in the Safety and Health Convention as well as in the SG event.* In the SG event, they made an announcement about water preservation. By continuing to hold these technical exchange meetings, we aim to improve the white paperboard production skills of local employees in the future and also share various activities that are being implemented across the Group, including initiatives to improve operations and enhance technical skills.

*The SG event is a presentation event by small groups about autonomous management activities.



Anticipate the changing external environment and actively proceed with global development

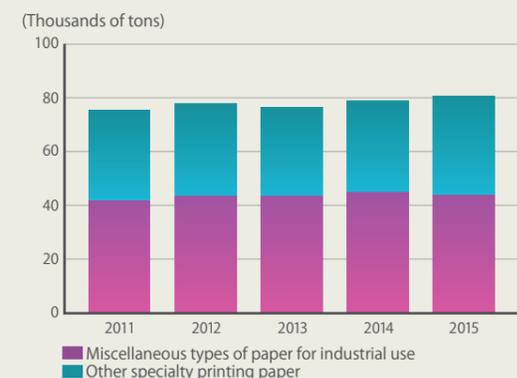
Business Strengths and Characteristics

The main product types of the specialty paper business division are premium printing paper, "fancy paper," paper for industrial use, communication paper, specialty processed products, specialty fiber boards, functional paper, and more. Among these, products such as abrasive-coated base paper, adhesive postcard base paper, and chip carrier tape boast a large share of the domestic market. Going forward, we plan to further strengthen our competitiveness and revenue-earning capability in the global market.

Business Environment and Performance

Total shipments by the Specialty Paper Business Division in 2015 totaled 101% of shipments for the previous year. Shipment has been firm for information paper and specialty paper in some areas such as the packaging and the food products sector. Fancy paper products in general are going through hard times as the market for catalogues, pamphlets and the like shrinks and paper continues to be downgraded as users demand cost reduction, but our high-quality printing paper continues to produce results led by rough gloss paper. In the functional paper field, shipments have been strong for carrier tape demand for a variety of smartphone and automobile parts and components, resulting in a 103% increase year-on-year for domestic delivery and exports combined. With regard to exports, our performance was 111% compared to the previous year, a 10% increase caused by sales of new proceeded paper or paper for Shanghai Toh Tech, Co. Ltd. in China, where sales have continued to be favorable. We plan on further expanding export sales in 2016, seeking to achieve a scale expansion in overseas markets.

Production of specialty paper by product type



Future Business Strategy

The Specialty Paper Business Division combined the strengths of our three domestic mills (Nagaoka Mill, Osaka Mill, and Kishu Mill) and our four consolidated subsidiaries (Hokuetsu Toyo Fibre Co., Ltd., Shanghai Toh Tech, Co., Ltd., Bernard Dumas S.A.S., and HK PAPER (USA), INC.), and in conjunction with the business areas of our subsidiaries the entire Group has been focused on business expansion. The efforts over these past few years have put us on a steady path, and we will continue to promote the strengthening of our business in the future as well.

Furthermore, in order to engage in new product development that accurately identifies customers' potential needs, we are developing measures under the following four points.

- (1) Strengthen marketing-oriented technology
- (2) Strengthen new product development ability that accurately identifies customer needs
- (3) Promote further global business development
- (4) Reconstruction of an optimal production system and optimal sales structure



Numazu Engineering Department Vulcanized fiber machine



Hokuetsu Toyo Fibre, which handles the manufacturing and sale of vulcanized fiber products and paper

Making the Specialty Paper Business Division into two sales departments

The Specialty Paper Business Division covers a broad range of industries. In order to conduct sales activities with a stronger customer perspective, we created two sales departments, the Fancy & Media Paper Sales Dept. and the Performance Materials Paper Sales Dept. as of January 2016. Through close cooperation between these two sales departments in each field with the Nagaoka Mill, Osaka Mill, Kishu Mill, and domestic and international affiliated companies, we can proceed with stronger development and cultivation of new products and customers in each field.

Fancy & Media Paper Sales Dept.

In the Fancy & Media Paper Sales Dept. there has continued to be a decrease in demand for fancy and media paper just as with general printing paper, but through the launch of new products and proposals such as oil resistant paper for the food industry field where the demand is strong, we are continuing to engage in the promotion of sales.

Of those, coloring books for adults using our fancy paper, SLIGHT, was featured in the media, and sales of SLIGHT have continued to be favorable. Instead of using drawing paper that is normally used in coloring books, the coloring books for adults uses our fancy paper, SLIGHT, that has been processed with a special pattern.

Its merit lies in the smooth, comfortable coating, and we plan to take advantage of this feature in future sales development.

Exhibiting at various exhibitions serves as excellent PR for Hokuetsu Kishu Paper products, and we will continue to strive to increase customer satisfaction. In October 2015, we supported and also exhibited at "Paper Restaurant 2015" which was organized by the Japan Papercraft Association and was held at the headquarter building of Toppan Forms.

This year's theme was "The Story of Taketori, Born from Paper." Together with exhibitions of works by paper artists, there were also workshops to enjoy paper craft such as origami, and we conducted PR activities by exhibiting the origami base paper that we provide to origami manufacturers as well as YAYOI COLOR. The Papercraft Association is planning an event with paper In FY2016 as well, and we will again support and exhibit to share how interesting paper can be.



Our exhibition booth at "Paper Restaurant 2015"

Performance Materials Paper Sales Dept.

The Performance Materials Paper Sales Dept. had been handling sales of air purification filters using glass fiber sheets that were produced at the Nagaoka Mill, but through technical exchange with Bernard Dumas S.A.S. they have started the manufacturing and sales of battery separators for automobiles using glass fiber sheets. We expect to see continuing expansion of demand in battery separators for automobiles, and we are proceeding to prepare a system that will cover the global market with three production bases in Japan, the US, and Europe. In particular, we are focused on establishing a production base in North America as early as possible.

In terms of the development of the HOCTO business for carrier tape, we are aiming to further expand our presence in the international and domestic electronic components markets which we expect will continue to expand in the future.

Also, we hope to take advantage of the strengths of Shanghai Toh Tech, Co., Ltd., which is the processing company for carrier tape, and plan to improve our sales capabilities even more.

Core products of the Performance Materials Paper Sales Dept.



Battery separators



Filters for air purification

Proceed with business development that will produce new value while focusing on growth fields

Business Strengths and Characteristics

The Hokuetsu Kishu Paper Group's Paper Processing Business is handled by our consolidated subsidiary BF and Package Co., Ltd.

As the Group's Paper Processing Business Division for the Hokuetsu Kishu Paper, we generate group synergy by coordinating with the other three business divisions which produce various types of paper, and we are proceeding with business development that takes advantage of our strengths in being able to handle start-to-finish production from base paper to end products.

Not only does it handle product-out in terms of selling products after they have been manufactured, it also serves as a base to help with ideas for market-in by conducting product development that reads the opinions and needs of customers, and providing total paper processing services through integration with production and sales departments.

Business Environment and Performance

FY2015's business environment continued to be structurally challenging, but with the opportunity of the merger of our two consolidated subsidiaries (Hokuetsu Package Co., Ltd. and BF Co., Ltd.), and as a result of strengthening sales capability and efficiency in each of our businesses, revenues and income were up compared to the same period of the previous year. The Liquid Container Division which accounts for more than 50% of sales is importing supplies of base paper. For that reason, significantly improving costs through internal efforts such as a revision of product pricing and a review of our procurement strategy along with hedging against exchange risk resulted in a recovery in profitability.

In the Paper Ware and Processed Paper Division, in addition to orders received for new items and large-scale projects, orders received for metallized paper such as for use in cosmetics packaging were favorable and this led to an extension in sales. In the Business Form Division (printing, DPS, etc.), revenue decreased due to the effect of the market which has seen a continuing decline in domestic demand and competition in product pricing.

Future Business Strategy

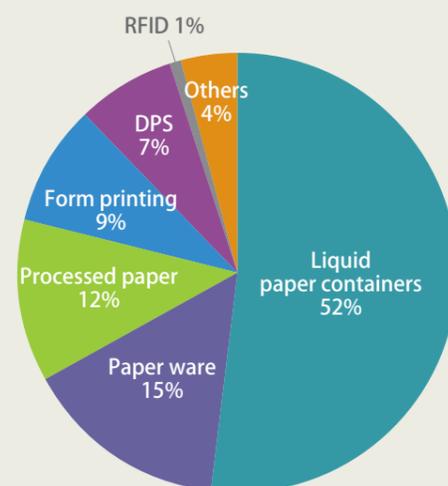
Through the merger in 2015, the business area of BF and Package Co., Ltd. has expanded, and in the two production departments under the umbrella of the Kanto Mills we are producing products under the following fields.

- (1) The liquid paper containers field that has an extensive track record with the Tohei Pak-brand
- (2) The paper ware field including primary food containers used in convenience stores
- (3) The processed paper field that handles top quality laminated products such as high-performance paper and decorative paper
- (4) The form printing field such as slips and computer-scored answer sheets
- (5) DPS (Data Processing Service) field with communication processing, data processing, and printout processing
- (6) Label tags and cards equipped with miniature IC chips RFID (Radio Frequency Identification)

We plan to engage in efforts to expand the export balance with the expansion of the business scale for the principle paper ware and processed paper fields in which continued stable growth is expected, while simultaneously pursuing expansion in profits by reviewing our existing business weight in light of the outlook for profits and competitiveness in the market. Furthermore, we aim to pursue improved product quality and strengthen brand power in all of our business activities and processes, from proposals to customers and product development up to production and delivery.

Based on this sort of business strategy the new company will continue to strive to generate new value and create products that are even more appealing to our customers of the four core businesses of the Hokuetsu Kishu Paper Group.

Sales Ratio by Divisions in FY2015 (%)



The Source of Value Creation—BF and Package Co., Ltd. Kanto Mills

Katsuta Production Dept.

Products in the paper ware field such as paper ware, food packaging, and confectionary boxes used at convenience stores and supermarkets, and products in the processed paper field used in medicine and cosmetics packaging including high-performance paper and decorative paper, and products belonging to the Tohei Pak-brand in the liquid paper containers field are all being produced at the Kanto Mills Katsuta Production Dept.



Primary food containers are being produced in the paper ware field, so this is becoming a production facility that has thoroughly implemented health and safety management such as equipping the facility with air showers to prevent contamination by foreign substances before entering rooms. We constructed a traceability system, and using the materials of Hokuetsu Kishu Paper and the Processed Paper Division, we are proposing the optimum materials and shapes for customers' applications.



Tokorozawa Production Dept.

Products in the form printing field which handles commercial printing of slips and delivery documents etc., the DPS field which handles print out processing of data such as invoices and inserts into envelopes and seals them, and the RFID field which produces tags equipped with miniature IC chips, are all being produced at the Kanto Mills Tokorozawa Production Dept.



In the DPS field, we handle customers' important personal information and safeguarding that confidential information is vital to the execution of our business. At the Tokorozawa Production Dept., we have been implementing thorough measures to prevent man-made accidents such as information loss by surveillance using a 24-hour Operational monitor camera in addition to access control using IC cards.



Non-Financial Information and Related Measures



We adopted the Basic Policy on Corporate Governance under which we are building an appropriate institutional framework.

The Basic Policy on Corporate Governance (the Basic Policy), available on our website, is based on the Hokuetsu Kishu Paper Corporate Philosophy, and aims at enhancing our stable, long-term corporate value and maintaining the trust of all our stakeholders.

Our basic policy regarding corporate governance is stipulated in Article 2 of the Basic Policy as follows:

Article 2

In order to achieve the most important goal of corporate management, which is the enhancement of stable, long-term corporate value, we will build an appropriate institutional framework for corporate governance based on the following basic concepts.

- ① We respect the rights of our shareholders and will strive to establish an environment in which shareholder can exercise its rights appropriately and to secure equality between shareholders.
 - ② We recognize the importance of corporate social responsibility and will strive to collaborate appropriately with shareholders and other stakeholders in order to develop a corporate culture in which business is conducted with self-discipline in a sound manner.
 - ③ We will ensure transparency and fairness in our decision-making by establishing an executory system for timely disclosure and by conducting the timely and appropriate disclosure of non-financial information beyond requirements mandated by laws and regulations.
 - ④ We will strive to secure the effectiveness of the board of directors based on our fiduciary responsibilities and accountability to our shareholders.
We will also enhance the strategic, decision-making, and supervisory functions of the board of directors through its analysis and assessment.
 - ⑤ We will actively and constructively engage in dialogue with our shareholders based on a basic policy established separately to support the enhancement of our stable, long-term corporate value.
2. The board of directors shall establish and disclose a code of ethics to be shared by all employees and executive officers of our corporate group.

We have also established our basic policy for engaging our shareholders in an active and constructive dialogue as follows in Article 16 of the Basic Policy.

Article 16

In order to emphasize active and constructive dialogue with our shareholders and to secure and enhance the common interest of the company and our shareholders, we will take every opportunity to listen to our shareholders, pay attention to matters of their interest and concern, and explain, so that we will be able to gain the full understanding of our shareholders regarding our management policies and other matters.

Basic Policy for Active and Constructive Dialogue with Our Shareholders

1. We will actively engage in constructive dialogue (face-to-face meetings) with our shareholders in order to support the enhancement of our stable, long-term corporate value.
2. Our executive officer in charge of the General Affairs Department shall be the contact point for the dialogue (face-to-face meetings) with our shareholders. The appropriate personnel to handle the actual dialogue will be determined in light of the purpose of the meeting and the significance of the substance, the nature of the party to the meeting, and other factors.
3. The results of the dialogue (face-to-face meetings) with our shareholders shall be examined closely, then reported to our executive officer in charge of the General Affairs Department and utilized in our management strategy, etc.
4. In order to conduct the timely disclosure of information on the state of our management and finances to our shareholders and investors, the Corporate Planning Department shall be in charge of IR, and shall conduct a meeting every six months on our financial results with the attendance of our president as well as engage regularly in IR activities as necessary. We will produce a corporate report (consolidated report) each year as a means to supplement these activities.
5. We will grasp our shareholder structure through our shareholder register as of March 31 and September 30 every year, and also conduct surveys of the substantial shareholders as necessary.
6. We will strive to prevent the leak of insider information based on the Hokuetsu Kishu Paper Group Regulation on Insider Transactions Control and other corporate regulations.

The Roles of the Board of Governors and the Board of Corporate Auditors

The board of directors strives to enhance the common interest of our shareholders and achieve appropriate corporate governance, in order to enhance stable, long-term corporate value. Moreover, the board of directors performs a supervisory function over all management, including the execution of the duties of corporate management team and decides important matters as prescribed by laws and regulations, our articles of incorporation, and our Rules for the Board of Directors. Furthermore, it delegates the decision-making for business matters other than those listed above to corporate management in order to enhance the mobility of the business and management vitality, while also exercising oversight of the status of the execution by the corporate management.

Outside directors give advice from a neutral position independent from management for enhancing our stable, long-term corporate value, and play a significant role in the decision-making for the important management issues of our company. They also supervise conflicts of interest between our company and management.

The board of directors establishes the institutional systems for internal discipline, and cooperates with the relevant departments to supervise and ensure that they are operating effectively.

The number of the members of the board of directors is 15 or fewer as prescribed by the articles of incorporation. The directors have diverse backgrounds and various expertise.

The candidates for outside directors are determined on the basis of their independence and neutrality, and expectations towards their contribution to the constructive deliberations by the board of directors pursuant to the criteria for determining independence set forth by the financial instruments exchange.

In nominating a candidate for director, the president and CEO drafts the nomination proposal on the basis of the evaluation of his/her capabilities for effective corporate governance and the enhancement of stable, long-term corporate value, etc., and the board of directors makes the decision after receiving advice from the outside directors.

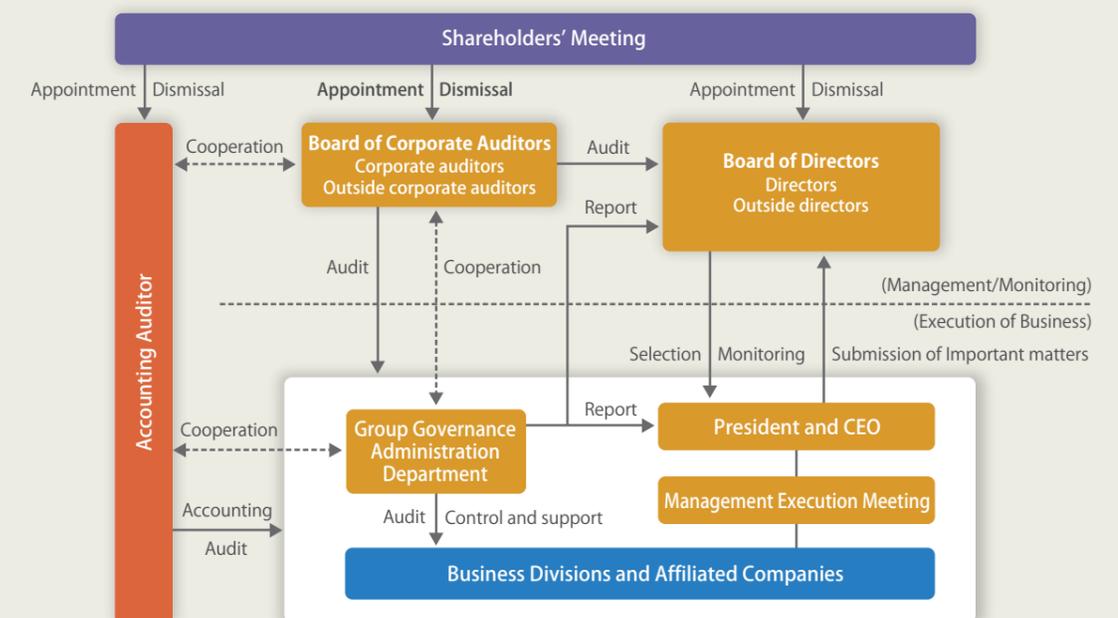
Our corporate auditors and our board of corporate auditors conduct operational audits and accounting audits from an independent and objective perspective on the basis of their fiduciary duties towards our shareholders. Our corporate auditors also audit the execution of the duties of each director, and express their appropriate opinions at board of directors meetings on the basis of their aforementioned fiduciary duties.

Our corporate auditors and our board of corporate auditors enhance their effectiveness by organically combining the robust independence of the outside corporate auditors and the high information gathering capacity of the standing corporate auditors. Our board of corporate auditors evaluates the outside accounting auditor on the basis of the duties of an outside accounting auditor to shareholders and investors by confirming the independence and the institutional business operations for quality control required of an outside accounting auditor.

The number of members of our board of corporate auditors will be 5 or fewer as prescribed by our articles of incorporation. Half or more of the members consist of outside corporate auditors in order to secure the independence of our board of corporate auditors. The outside corporate auditors are decided according to the criteria for determining independence set forth by the financial instruments exchange.

A candidate for standing corporate auditor is determined with the consent of the board of corporate auditors from persons who have significant knowledge and experience in our business operations. At least one of the corporate auditors has been assigned to our finance and accounting departments and is well-acquainted with those affairs. A candidate for outside corporate auditor is determined with the consent of the board of corporate auditors from experts in finance and accounting management, corporate legal affairs, management, etc.

Organizational Structure of Corporate Governance

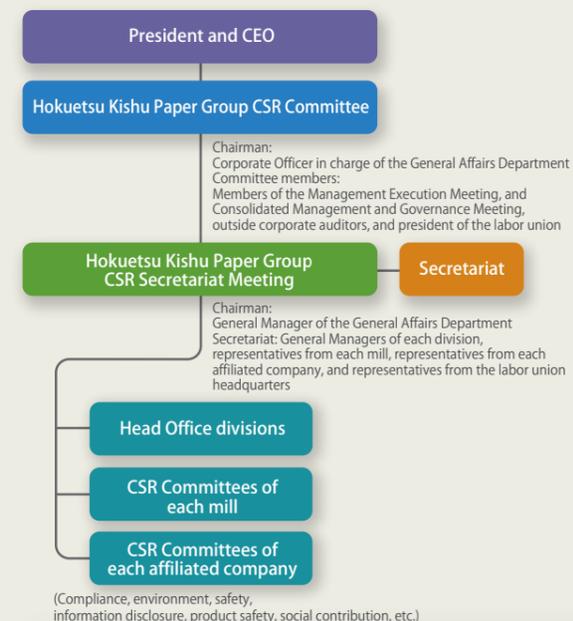


We review our priorities or CSR every year and put in place concrete initiatives that are highly effective.

Hokuetsu Kishu Paper Group has established the fundamental objective of strengthening global competitiveness by further improving the relationship of trust with its diverse stakeholders and achieving sustainable growth hand-in-hand with society, based on the corporate philosophy that is shared across the Group. We carry out CSR activities with this objective in mind.

System for Promoting CSR Activities

The Hokuetsu Kishu Paper Group CSR Committee, which comes under the direct control of the President and CEO, inspects and checks on the status of activities conducted by the Group, and ensures the effectiveness of these activities. Specifically, it establishes yearly targets that are unique to each division, office, and Group company based on company-wide objectives, conducts inspections at the end of the fiscal year to verify the achievement status for the targets, and sets the PDCA cycle in motion.



Inspections for FY2015 Targets

Each individual department has been working in accordance with their own specific targets to achieve the following 6 purposes: (1) to create safety-first workplaces, (2) to reinforce the group governance system with emphasis on compliance, (3) to implement simulation training based on a formulation of a business continuity plan, (4) to comply with laws and regulations and provide proactive environmental management information, (5) to grow by steadily executing the C-next Plan, and (6) to enhance co-existence with regional communities.

Specific initiatives

- 1. Safety**
Our Environmental Management Department promoted risk assessment and other measures.
- 2. Business Continuity Plan (BCP)**
An external institution held a BCP training session for our directors. We also conducted a mock drill for responding to a major earthquake. The drill enabled us to examine our BCP in each department and mill, clarify our response, and deepen our understanding.
- 3. Environment**
We conducted a seminar entitled "Waste Disposal: The Law and Practical Training" with outside lecturers for the employees of our company and Group companies to provide them with knowledge regarding waste disposal and to improve their practical skills. We actively engaged in public communication, as our environmental organs named KINKON entered its second year of quarterly publication. We also continued to take part in the environment exhibition, Eco-Products 2015.

Priority CSR Activity Implementation Target Initiatives for FY2016

[Basic Target]

Hokuetsu Kishu Paper Group strengthens global competitiveness by further improving the relationship of trust with its diverse stakeholders and achieving sustainable growth hand-in-hand with society, based on the corporate philosophy that is shared across the Group.

[Priority Activity Points]

- To strengthen the Group governance system by conducting fair and transparent business activities that place the emphasis on compliance.
- In order to eliminate industrial accidents including those getting a part of body caught in a machine to implement a range of safety activities designed to increase the sensitivity of employees toward risk, and advance our creation of safety-first workplaces led by safety promotion organizations.
- Based on our business continuity plan, to carry out simulation-based training to enhance response at critical moments.
- To comply strictly with environmental laws and regulations, strive to eradicate environmental claims, and take proactive steps to disseminate information about our environment-oriented initiatives.
- To work together as Group to firmly execute the C-next Plan, which is in its final year, and carry the results to the next Medium-Term Management Plan.
- To coexist with local communities through communication and social contribution activities.

We will establish a compliance system that encompasses our overseas subsidiaries

Hokuetsu Kishu Paper Group's compliance objective is to ensure that all executive officers and employees comply with domestic and overseas laws and regulations, in line with our Group-wide code of ethics, as well as to ensure that all our actions are fair and transparent, and based on social norms and conventional wisdom.

Complying with the Code of Ethics

We abide by the Hokuetsu Kishu Paper Corporate Philosophy and the code of ethics that sets out concrete standards of conduct, and ensure that all executive officers and employees of the Group comply with the law and our Articles of Incorporation. We demand that all executive officers and employees act in good faith based on the sense of morality and values that is expected of business people and working adults who are members of society.

Appointment of CCO and Setting Up of a Compliance Hotline

In order to ensure organization-wide compliance with the law, and based on the Hokuetsu Kishu Paper Group Compliance Regulations, we have appointed a Chief Compliance Officer who serves directly under the President and CEO. The Chief Compliance Officer formulates and reviews compliance policies, systems, and various measures in the Compliance Officer meetings, and works to ensure the thorough implementation of compliance measures at the company-wide level through Compliance Officers in each division. We have also set up a Compliance Hotline, which serves as an internal and external consultation service for employees of the Group to discuss any

compliance-related questions or doubts they may have. In addition, we have drawn up procedures to protect employees who consult the hotline.

As this year's undertaking, we established the compliance system for overseas consolidated subsidiaries. Specifically, we created compliance handbooks in Chinese and distributed them at Jiangmen Xinghui Paper Mill Co., Ltd. and Shanghai Toh Tech Co., Ltd., where we also established whistleblowing systems. We distributed compliance handbooks in French at Bernard Dumas S.A.S. APFI has its own whistleblowing system.

Audit by the Group Governance Administration Department

The Group Governance Administration Department conducts the internal audits of all the business activities of our company and its subsidiaries regarding the state of compliance with laws and regulations and internal rules, the appropriateness of the procedures and content of the execution of the business activities, etc., as well as follow-up audits on the state of improvement regarding the findings and recommendations from the internal audits. The Group Governance Administration Department reports the results of these audits to the board of directors and, as appropriate, the board of corporate auditors.



We develop highly competitive technology that meets the demands of customers

The organization of our research and development department is centered on the technology development headquarters' Research Laboratory and the Technical & Development Division. The Technical & Development Division works in close coordination with the sales department, production departments in mills, and the Research Laboratory to meet the demands of customers and to develop highly competitive products based on our Group's accumulated technological capabilities.

Meeting the needs of the market and customers

① Printing paper and white paperboard

In the printing paper and white paperboard business segments, we are working aggressively to improve product quality and develop new products while also focusing on research and development to reduce costs and enhance efficiency. We are also conducting research and development in order to strengthen our competitiveness in the global market. The production, technical and development, and sales departments are working in coordination with each other to develop new products that match the characteristics of each paper machine and to improve product qualities that meet market requirements.

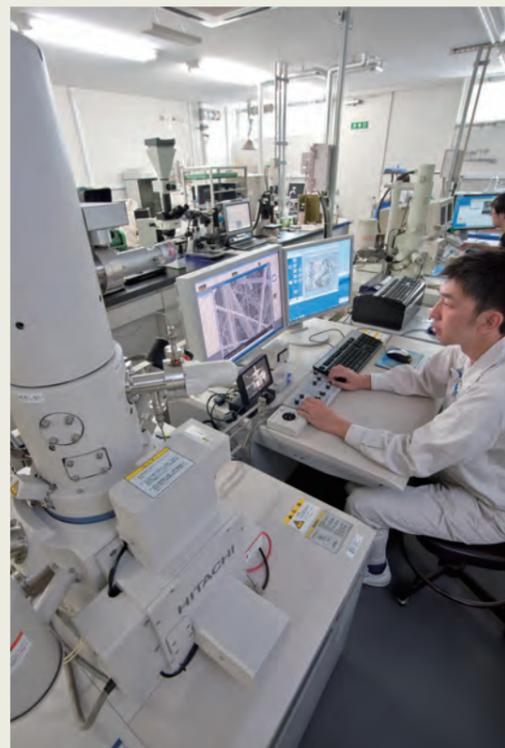
② Functional paper and specialty paper and communication paper

In the functional paper business segment, we are working to reduce costs and enhance efficiency while also undertaking the development of new products and quality improvement. In both the functional paper and specialty paper and communication paper business segments, we are actively going forward with the development of new, multifaceted products that respond to the needs of individual customers.

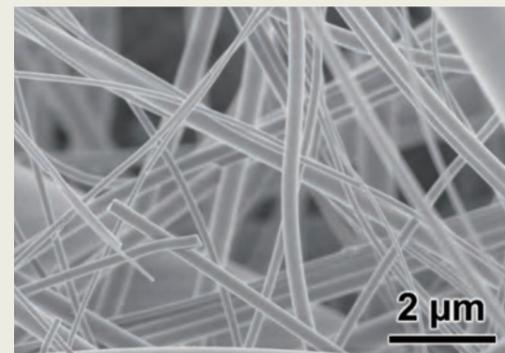
Application development of cellulose nanofibers

Cellulose nanofibers are produced by finely disintegrating plant fibers by chemical and mechanical means. The diameter of a cellulose nanofiber ranges from a few to a few dozen nanometers (a nanometer is one billionth of a meter). It is attracting powerful attention worldwide as a new material made from wood.

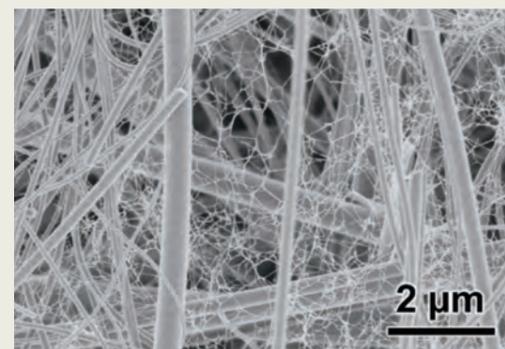
Our company is focusing on three-dimensional network structures using cellulose nanofibers. One application is an air filter. We are developing a super high performance air filter with countless nanopores by spreading spider web-like cellulose nanofibers in the space between glass fibers. We are also working to develop the manufacturing process for cellulose nanofiber aerogels (sponge-like three-dimensional structure), which have potential as an adsorbent and thermal insulation material.



The Research Laboratory adjacent to Nagaoka Mill



A magnified photo image of a conventional air filter



A magnified photo image of an air filter with cellulose nanofiber web

We implement strict quality control management and provide accurate information to our customers

Based on the following Basic Principles related to the Quality Control of Products, Hokuetsu Kishu Paper is careful to ensure the safety of products and at the same time we make efforts to supply attractive products that fulfill the needs of our customers.

Basic Principles

1. In order to provide attractive products, we promote product improvement and new product development based on customers' requests.
2. We manufacture products with stable quality that are safe and that customers can use with confidence, while obeying all relevant laws and regulations.
3. In order to improve our cost competitiveness and moreover in order to maintain our relative superiority in relation to other companies, we promote control of intellectual assets.
4. We respond sincerely to any complaints about our products and strive to provide a speedy and appropriate response in such cases. Further, through implementing measures to prevent recurrence, we promote quality improvement and obtain the trust of our customers.

Quality Supervision

Our internal quality auditor carries out regular checks on the safety of raw materials, the compliance with in-house standards of products to be used as food containers and wrapping, the proportion of recycled paper included in pulp, the regulatory compliance of each production department, etc. An independent body (quality management office) has been created within the Technical & Development Headquarters to carry out the auditing.

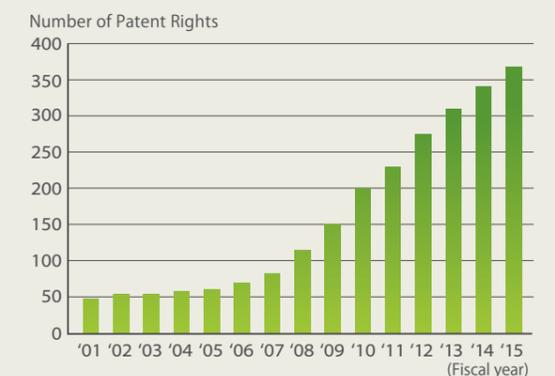


We confirm the safety of the chemical products being used and provide this information to our customers

In order to secure product safety, we ensure the safety of all new chemical products before use, and also make efforts to continually confirm data related to the chemical products that we are already using. Moreover, we also provide information in response to all kinds of product-related questions from our customers.

Management of Intellectual Property

The Basic Principles related to the Quality Control of Products sets forth our fundamental corporate regulations, and the management of intellectual property is one of the most important items therein. In line with these Basic Principles, we are steadily patenting the fruits of our research. As our corporate activities become global, patent applications overseas are increasing.



Trends in the Number of Patent Rights Held by the Hokuetsu Kishu Paper

Environmental initiatives are carried out in a systemic Group-wide manner in line with the Environmental Charter

We carry out a wide variety of different Group-wide environmental preservation initiatives, based on the Hokuetsu Kishu Paper Environmental Charter established in 1993.

Hokuetsu Kishu Paper Environmental Charter

Hokuetsu Kishu Paper Group declares its commitment to realizing the fundamental principles of the Charter as the core of its corporate activities through the concerted efforts of labor and management.

Fundamental Principles

To pursue environment-friendly corporate activities in order to become a corporate group of good standing, and contribute to the realization of a society capable of sustainable growth, thereby contributing toward preserving a rich global environment.

Fundamental Policies

- Protection and nurturing of forest resources
- Minimizing the environmental impact of our business activities
- Promoting efficient utilization of resources and energy saving

Action Guidelines

- Protection and nurturing of forest resources
- Enhancement of environment-friendly production technology
- Promotion of energy saving
- Promotion of reuse and recycling of used paper
- Reduction and effective utilization of waste materials
- Societal contribution and in-house education
- Appropriate response in emergencies

The Environmental Policy Committee is at the center of our environmental initiatives

The environmental preservation promotion structure is centered on the Environmental Policy Committee with support from environmental policy committees and the ISO promotion committee at each mill. Important environment-related matters are confirmed and voted on at Environmental Policy Committee meetings held at half-yearly intervals. The role of committee chair is taken by a chief environmental officer, and the role of deputy chair is taken by the president of the labor union. The reason for having the president of the labor union take on the role of deputy chair is to have environment-related management issues checked from the labor union's perspective and to have the labor union make proposals. The results of environmental audits is also reported to the committee.

Structure for Promoting Environmental Management



Each Organization and their Initiatives

● Environmental Management Department

The Environmental Management Department coordinates Group-wide environmental activities. In addition to informing the environmental management office at each mill and each company about revisions to environmental laws and related trends, as well as other related information, the department collates environmental data and provides guidance with the aim of enhancing the entire Group's response to environmental issues. The department also ascertains local conditions and provides guidance through environmental auditing as described below.

● Environmental Subcommittee and Energy Subcommittee

Additional to the Environmental Management Department, the Environmental Subcommittee and the Energy Subcommittee have been created as a subordinate body to the Group's environmental policy committee. The members of the subcommittees are environment- and energy-related employees from each mill, who work using a cross-functional bottom-up approach to exchange practical

information and provide advice to each other. Young management-level staff are selected to act as subcommittee chairs and carry out activities with a Group-wide perspective. An expanded Environmental Subcommittee meeting including members from Group companies is held whenever it is necessary to share information Group-wide about significant revisions to environment-related legislation, etc.

● Environmental policy committees at each mill and the environmental management office

In order to further enhance environmental preservation activities at mills, environmental policy committee meetings are held every month to confirm atmosphere- and water quality-related measurements and to deliberate on environmental issues. Each mill has an environmental management office or a safety and environment management office, which carry out work relating to environmental preservation. Work relating to the environment is based on an ISO14001 with implementation of a PDCA cycle.

Topics relating to Hokuetsu Kishu Paper Group's environmental preservation efforts

1. Implementation of environmental auditing

Environmental auditing of Hokuetsu Kishu Paper and Group companies is implemented by the Environmental Management Department and members of the aforementioned environmental subcommittees. The auditing was carried out at all mills and research laboratories of Hokuetsu Kishu Paper and a Group company in FY2015.

Environmental auditing entails checking compliance with environment-related laws, but we also see it as a precious opportunity to observe actual onsite conditions and provide advice to relevant staff members. In particular, it provides a good opportunity to engage in communication with environment-related staff members at Group companies, and contributes to the creation of a Group management system that provides a sense of unity.

branch and offices, and consolidated subsidiaries participate. In FY2015, Hokuetsu Engineering, the Hokuetsu Kishu Paper Group member engaged in the engineering and design and maintenance of facilities, held an intrafirm training session focused on construction.



Site visits at trouble spots by personnel in charge at each Hokuetsu Kishu Paper mill

2. Promotion of environmental education

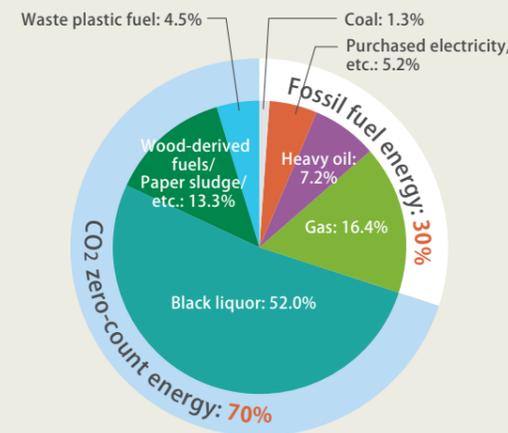
As a new undertaking in environmental education, the Environmental Management Department and the Environmental Subcommittee are taking the lead in conducting environmental positioning training sessions that bring together different mills. The first training session was held in FY2015 over two days at our Kanto Mill (Ichikawa), bringing together personnel from the waste water treatment divisions in each domestic mill. Every six months, we also conduct the waste disposal law and practical training for the managers and workers engaged in waste disposal at our mills and group companies. This is a one-day session with outside lecturers in which each of our head office departments and our mills, laboratory, local



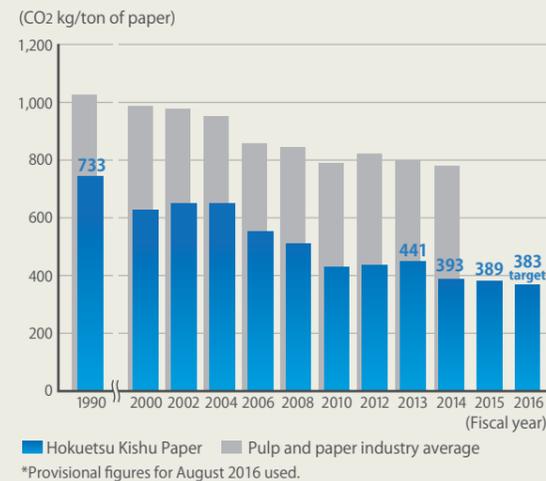
Scene from a training session at Hokuetsu Engineering Co, Ltd.

Hokuetsu Kishu Paper Group employs a minimum environmental impact policy at all of our production bases. The global challenge of reducing CO2 emissions is part of this. Our per-unit emission level is one of the best in the industry, through use of CO2 zero-count energy sources and low CO2 emission natural gas.

Hokuetsu Kishu Paper Group's energy composition ratio (results for FY2015)



Hokuetsu Kishu Paper Group's per-unit CO2 emission trend



Changes in Environmental Performance

	Unit	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016 target	
Global warming	CO2*1	kg/ton of paper	438	438	441	393	389	383
Air	SOx	kg/ton of paper	0.17	0.20	0.18	0.13	0.14	0.22
	NOx	kg/ton of paper	1.46	1.49	1.34	1.28	1.32	1.38
	Soot and dust	kg/ton of paper	0.08	0.07	0.08	0.07	0.07	0.12
Water quality	Water consumption	m ³ /ton of paper	52.1	56.4	53.1	55.4	56.4	58.0
	Wastewater BOD*2	kg/ton of paper	0.39	0.40	0.29	0.25	0.28	0.43
	Wastewater COD*2	kg/ton of paper	6.13	5.83	5.16	5.55	3.97	4.74
	Wastewater SS	kg/ton of paper	0.61	0.54	0.41	0.41	0.35	0.56
Chemical substances	Volume of chemicals subject to the PRTR law discharged/transported	g/ton of paper	1.29	1.64	1.36	2.49	1.73	1.55
Industrial waste	Final disposal	kg/ton of paper	12.1	9.4	5.2	5.2	4.1	3.6

Material Balance

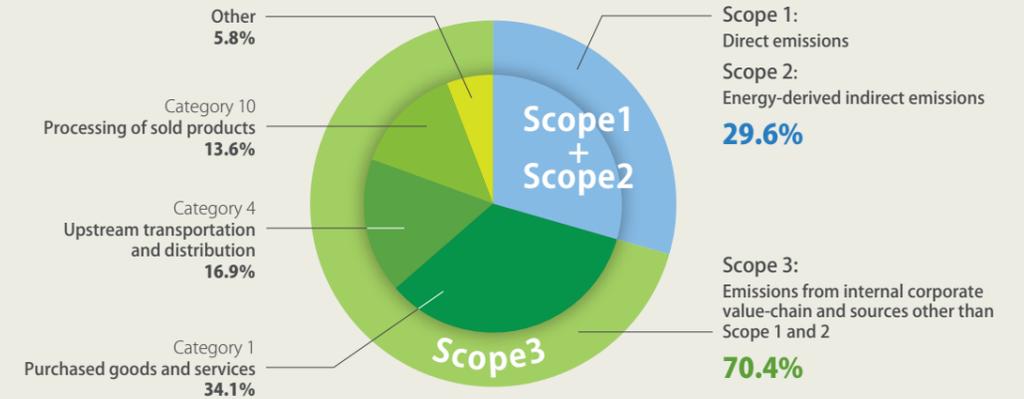
Input		Output		
Fossil energy input	10,946,000 GJ	CO2*1	653,000 t	
Non-fossil energy input	25,435,000 GJ	SOx	241 t	
Input of water resources	94,724,000 m ³	NOx	2,214 t	
Raw material consumption	Wood chips	1,941,000 t	Soot and dust	111 t
	Purchased pulp	78,000 t	Chemical substances subject to the PRTR law	Discharge 2.9 t Transported 0 t
	Used paper	274,000 t	Industrial waste generated	274,000 t
		Industrial waste final disposal volume	7,000 t	
		Paper/paperboard production volume	1,678,000 t	

*1 Provisional figures for August 2016 used for energy input and CO2 emissions.
*2 Mills that discharge wastewater to rivers use BOD, while mills that discharge wastewater to the sea use COD to management wastewater quality.

Greenhouse Gas Emissions Across the Corporate Value-Chain

We believe it is important to ascertain and manage greenhouse gas emission levels across the entire product lifecycle, from raw materials procurement to product usage and disposal. We estimate the indirect greenhouse gas emissions across the entire corporate value-chain (Scope 3 emissions), not just during our own production stages, as part of efforts to effectively reduce greenhouse gas emissions.

Estimates of greenhouse gas emissions across the entire corporate value-chain of the Hokuetsu Kishu Paper Group (results for FY2015)



Scope of calculations: Hokuetsu Kishu Paper Co., Ltd.
Target period: April 1, 2015 - March 31, 2016
Monetary unit: Millions of yen

Environmental Preservation Cost

Category	Major activities and their results	Investment	Cost
1. Business area costs: Environmental preservation costs to control environmental impact that results from key business operations within the business area		3,744	6,333
Composition	(1) Pollution control cost	105	2,962
	a. Air pollution	26	494
	b. Water pollution	77	2,360
	c. Noise, vibration, and odor	2	107
	(2) Global environmental preservation cost	3,304	1,345
	a. Prevention of global warming	246	1,331
	b. Energy preservation	2,998	(Included in manufacturing cost)
	c. Tree farms in Japan	60	6
	d. Afforestation activity overseas	-	6
	(3) Resource circulation cost	333	2,025
	a. Efficient utilization of resources	229	(Included in manufacturing cost)
	b. Reduction, recycling, treatment, disposal, etc., of industrial waste	103	2,025
2. Upstream/downstream costs: Environmental preservation costs to control environmental impact that results from key business operations upstream and downstream		-	546
Composition	(1) Purchase of materials, etc., with smaller environmental impact	Cost (difference) for purchasing low-sulfur fuels, and others	30
	(2) Recycling and collection of containers and packaging	Cost of recycling wooden pallets, and others	515
3. Administrative costs: Environmental preservation costs stemming from administrative activities		-	231
Composition	(1) Environmental training of employees, etc.	Education on environmental preservation, cost for obtaining licenses	3
	(2) Building, implementation, and obtaining certification for an environmental management system	ISO 14001-related costs	11
	(3) Monitoring and measuring environmental impact	Maintenance fees for measuring instruments, commission fees for analysis	66
	(4) Running costs for an environmental preservation system, etc.	An in-plant system for environmental management	149
4. R&D costs: Environmental preservation costs stemming from R&D activities		-	150
Composition	(1) R&D to develop products that contribute to environmental preservation	-	31
	(2) R&D and planning to curtail environmental impact at the manufacturing stage, etc.	-	118
5. Social activity costs: Environmental preservation costs stemming from social activities		2	68
Composition	(1) Planting of greenery, beautification, etc.	Greening of the mill sites, and others	34
	(2) Support, etc., of environmental preservation activities by the local community	Community environmental fair, and others	2
	(3) Support for environmental groups	-	16
	(4) Disclosure of environmental information and related advertisements	Costs for compiling Corporate reports	14
6. Environmental remediation costs: Costs incurred from dealing with environmental degradation		-	96
Total		3,746	7,425

Examples of Environmental Conservation Benefits

Classification by relationship with business activities	Examples of benefits	Performance
Environmental preservation benefit related to resources input into business activities	Energy-saving effect	141

Monetary unit (millions of yen)

We carry out stringent checks on the legality and sustainability of wood materials, based on our basic policy on raw materials procurement

Under our “Basic Policy for Raw Materials Procurement” established in 2005, we promote the legally sound procurement of wood chips used at our Niigata and Kishu Mills so that we are able to supply our customers with products that they can feel confident in using.

Hokuetsu Kishu Paper’s “Basic Policy for Raw Materials Procurement”

Hokuetsu Kishu Paper pursues raw material procurement in which value is placed on partnerships with suppliers based on the basic philosophy of the Hokuetsu Kishu Paper Environmental Charter to provide products that customers can use with assurance.

1. Priority on environment

- With the Environmental Charter of Hokuetsu Kishu Paper as the basis for raw materials procurement, we will purchase raw materials that our customers can use with a sense of reassurance.
- We will procure overseas wood resources from timber farm. We will expand our overseas timber farm programs and increase the use of wood resources harvested from our own forest resources. For domestic procurement, we will make use of and cultivate satoyama managed coppice and promote the utilization of unused materials.
- We will promote the procurement of wood materials that takes into consideration biodiversity preservation and worker health and safety.

2. Open and fair trade

- We will open our doors to all suppliers and engage in fair and open trade.

3. Legal compliance and disclosure of information

- We will procure raw materials that are in compliance with relevant laws.
- We will take steps to confirm that the wood materials purchased from our overseas suppliers were produced at appropriately managed forests, and through investment in overseas supplier companies and direct trade transactions. We will disclose information regarding our wood chip sources.

4. Mutual trust and prosperity

- We will build history and trust with our business partners, and pursue best procurement practices in the environment, safety, quality, and cost dimensions under a spirit of co-existence and co-prosperity.

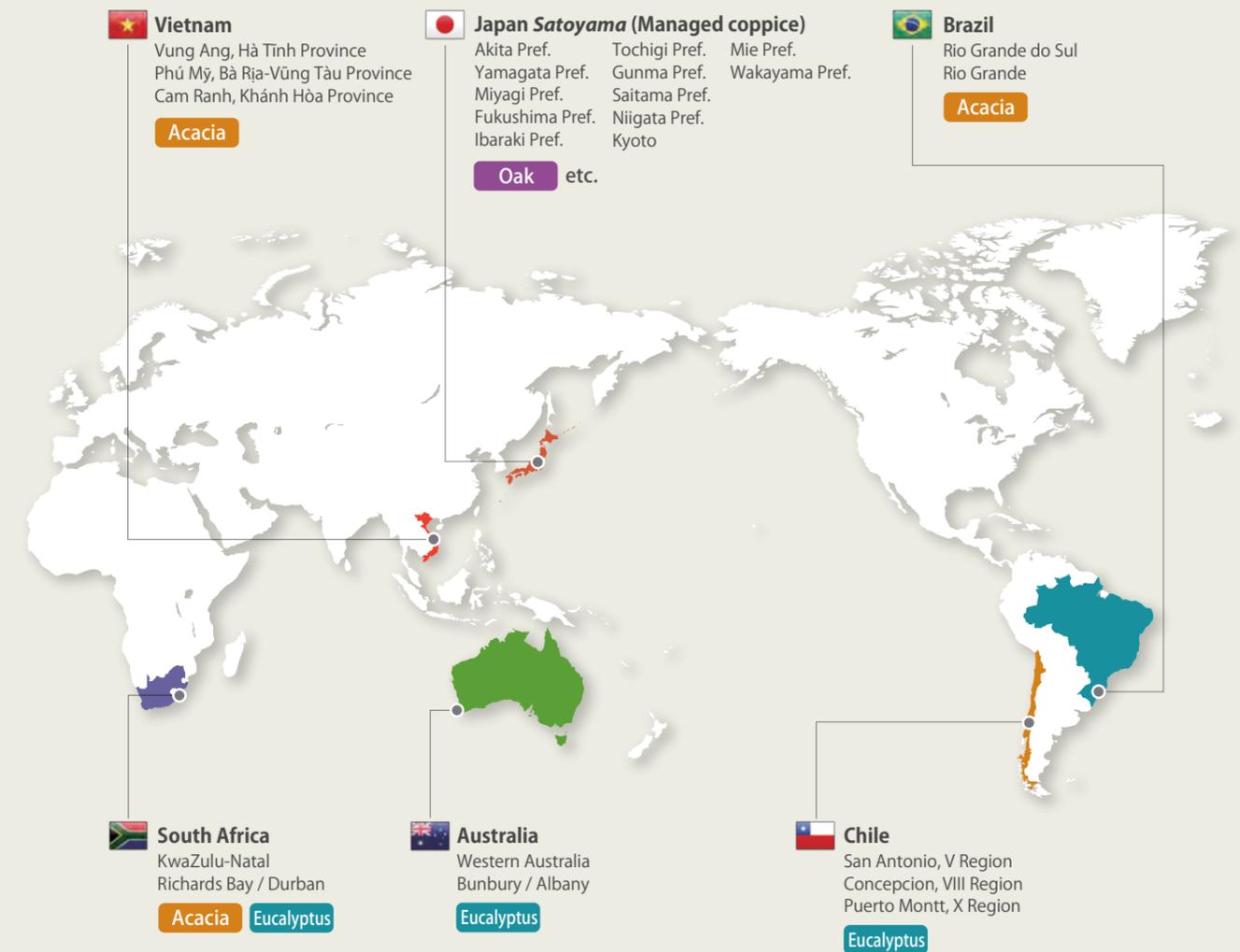
Only Properly-Managed Wood Used

95% of the wood chips we utilize as raw materials are sourced from overseas tree farms, with the remaining 5% being sourced from domestic satoyama secondary forest. From the perspectives of legality, forest sustainability and biodiversity preservation, and as a duty of a company that enjoys the blessings of nature, we use only wood that originates from properly-managed forests. We pay

meticulous care to all these wood chips to determine whether they are produced from timber grown in properly managed forests, and to ensure the legality of related transactions. Specifically, the Group defines wood chips that do not originate from the following five sources as wood chips obtained through legal methods, and procure only such wood chips.

1. Illegally harvested wood
2. Wood harvested in violation of traditional and civil rights
3. Wood harvested in forests where high preservation values are threatened by management activities
4. Wood harvested in forests being converted to afforestation or non-forest use
5. Wood from forests in which genetically modified trees are planted

Procurement of Wood Chips in FY2015



Country	Tree species	Forest type		Means of verifying legality			Overseas / Domestic wood chips Quantity procured (1,000 BDT)	Percentage
		Afforestation	Managed coppice	Traceability report	Declaration on legality of timber	Forest certification System		
Brazil	Acacia	●	—	●	●	●	1,853	95.46%
Chile	Eucalyptus	●	—	●	●	●		
South Africa	Acacia	●	—	●	●	●		
	Eucalyptus	●	—	●	●	●		
Australia	Eucalyptus	●	—	●	●	●		
Vietnam	Acacia	●	—	●	●	●	88	4.54%
Japan	Oak, etc.	—	●	●	●	(*)		
Total							1,941	100%

*We carried out a risk assessment of domestically produced chips based on Japan’s National Risk Assessment (NRA), approved in August 2014; and we subsequently received approval to handle the chips as controlled woodchips.

Rigorous Checks Based on Third-Party Audits and Original Standards

We use two types of wood chips in Niigata Mill and Kishu Mill: (1) FSC®*1 (Forest Stewardship Council) certified wood chips and (2) Controlled wood chips. FSC®-certified wood chips originate from timber grown in forests approved as FSC®-certified forests. They meet a variety of criteria including legality, sustainability, and biodiversity preservation. Controlled wood chips originate from timber that has been approved as properly managed timber based on a risk assessment to determine if the timber meets FSC® Controlled Wood standards and after undergoing

audits conducted by third-party organizations. These wood chips are permitted to mix with FSC®-certified wood chips.

We have also established our own traceability system*2 and periodically verify information relating to wood producing in the two mills. We also submit our procurement activities to external audits conducted by the Japan Paper Association, an industry organization, and other third-party organizations as part of our efforts to enhance the verification accuracy of this system.

*1 Hokuetsu Kishu Paper FSC® license code: FSC® C005497

*2 Traceability system: A method of tracking information related to production and distribution history. It could be described as a system for keeping tabs on production and distribution information.

Efforts regarding Raw Materials in Canada

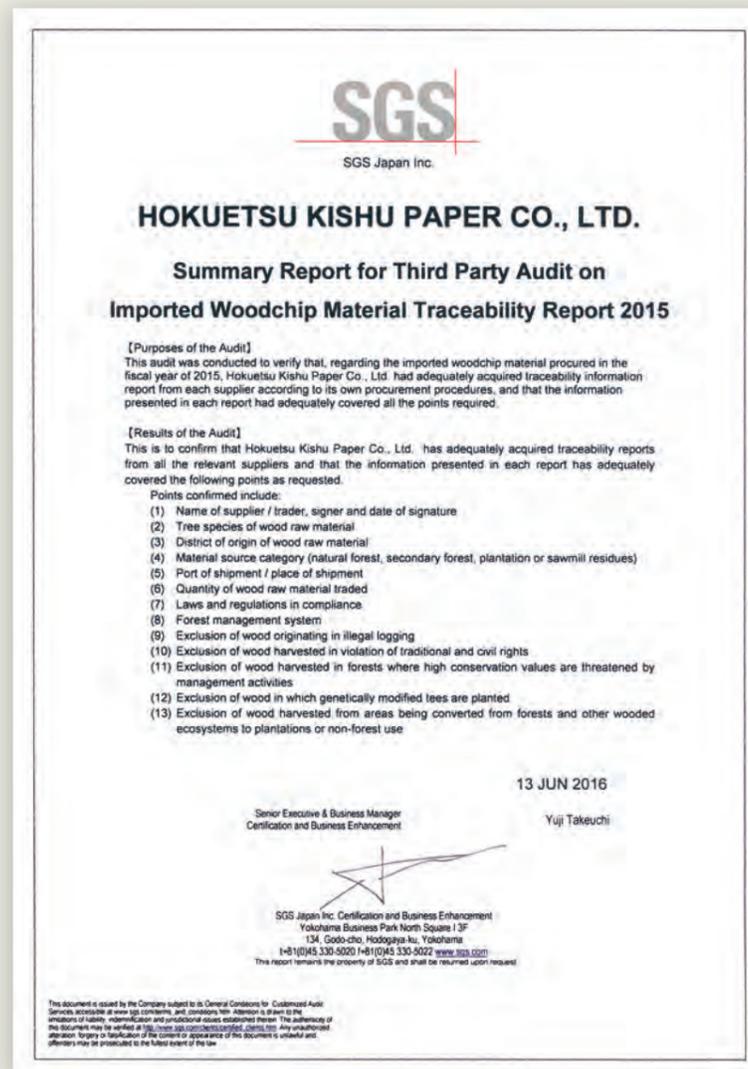
Alberta Pacific Forest Industries Inc. in Canada produces 620,000 tons (540,000 tons from hardwood and 80,000 tons from softwood) of bleached kraft pulp each year, which it sells mainly in North America and also exports to Japan, China, and South Korea. The company uses as raw material the wood it produces from forestland totaling 6,400,000 ha whose

management it has been consigned from the Province of Alberta. In 2005, it secured FSC®*3 certification for forestry management for these forests, which certifies that appropriate forestry management is being conducted, and has continued to conduct environmentally appropriate, socially beneficial and economically viable, responsible forestry management.

*3 Alberta Pacific Forest Industries Inc. FSC® license code: FSC® C022642

Status of Audits on Our FY2015 Traceability Report on Overseas Wood Chips

Regarding the imported chips we procured in FY2015, SGS Japan Inc., a third party certification company, received an appropriate traceability report based on our wood material procurement procedures, and they verified that the matters were right and proper. They also verified domestic wood chips and pulps.



We conduct forest management to foster healthy forests

Forests are expected to perform a wide variety of public interest functions beyond supplying wood such as soil preservation, headwater preservation, prevention of global warming, and protection of biodiversity. In order to enable forests to fully perform these functions, it is important to foster healthy forests through appropriate care and management.

Forest management in line with forest certification system

The management practices that our corporate group has adopted for company owned forests and profit-sharing tree farms, 12,230 ha in all, are aimed at fostering them as healthy forests.

In our tree farms, we conduct planned thinning to boost the growth of the remaining trees, which enhances greenhouse gas (CO2) absorption. We also undertake foresting that enhances soil preservation and headwater preservation functions. As for our indigenous forests, we use them in principle as forest preserves to maintain and protect biodiversity and otherwise manage them in the ways that match their characteristics.

Our company owned forests in Iwate Prefecture (Hikime excepted) are FSC®-certified, and our company owned forests in Tokushima Prefecture are certified by the Sustainable Green Ecosystem Council (SGEC).* Forest

certification is a system in which an independent institution inspects and certifies that healthy forest management is being conducted. FSC® is international and SGEC is Japanese; they both have excellent reputations. As a company with forest certifications, we conduct forest management in line with the spirit of the FSC® and SGEC in the corporate forests other than those in Iwate and Tokushima as well.

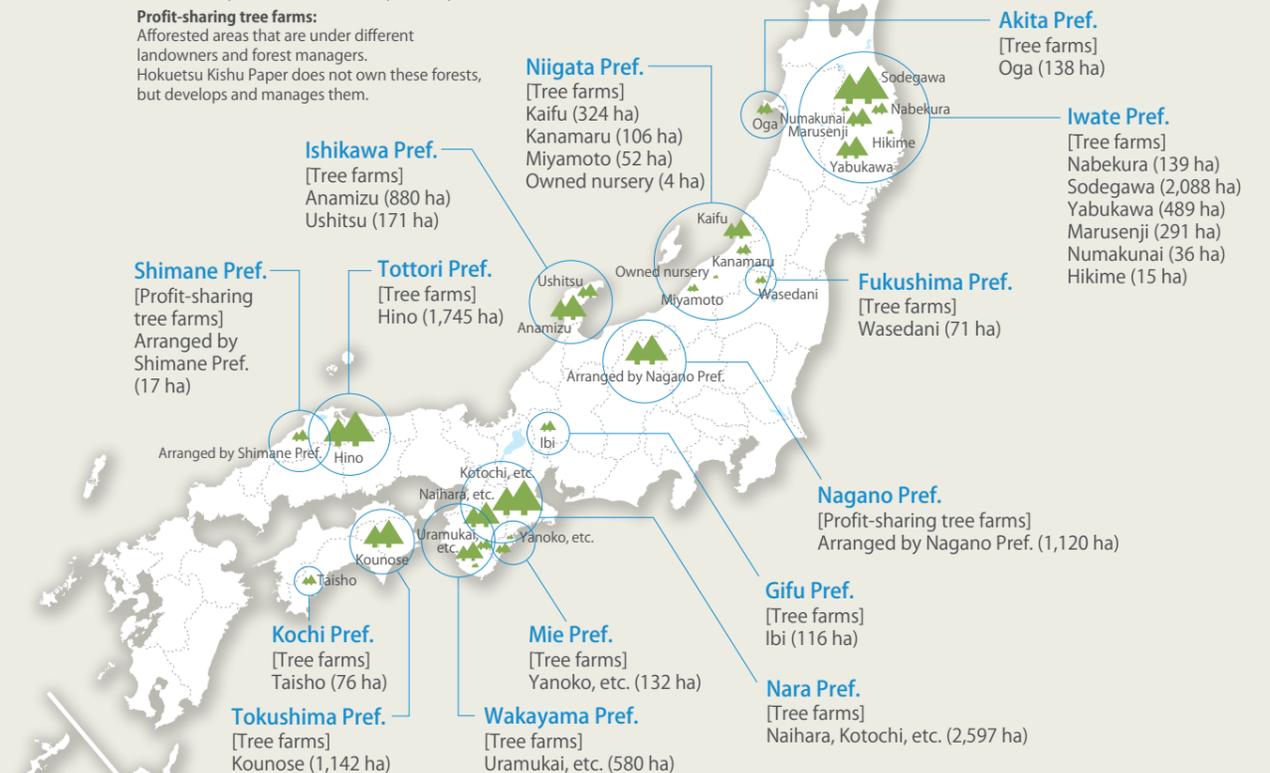
*The Sustainable Green Ecosystem Council (SGEC) and FSC® are both members of the Programme for the Endorsement of Forest Certification (PEFC), the world-renowned international forest certification system, and have been eligible for mutual recognition since June 2016.

*Corporate forest in Iwate FSC® license code: FSC® C023503

Total area of company owned forests and profit-sharing tree farms 12,330ha

Tree farms:
Company owned forests that are developed under the ownership of Hokuetsu Kishu Paper Group.

Profit-sharing tree farms:
Afforested areas that are under different landowners and forest managers. Hokuetsu Kishu Paper does not own these forests, but develops and manages them.



A workplace where employees can enjoy their work in safety and security under mutual trust between the company and its employees

Hokuetsu Kishu Paper Group has a Code of Ethics that all our executive officers and employees share as the corporate philosophy. The Code states that “the Group shall respect human rights, individual privacy, diverse values and individual characters,” and cultivates a corporate culture full of creativity and a mindset to challenge itself under a trusting relationship between the company and the employee. We are also working to develop a workplace where employees can work safely and securely with purpose and vigor. In particular, the entire company is working to develop human resources adapted to globalization and to provide a working environment that enables a diverse range of human resources and to build a safe workplace.

Initiatives for Developing Human Resources Who Are Able to Respond to Globalization

Our medium-term management plan “C-next,” launched in April 2014, includes a strategy for “cultivation of global human resources.” We have been rapidly stepping up our business activities, making acquisitions in France and Canada and launching white paperboard operations in China in just the past few years. To this end, we have been actively supporting graduate school programs for our employees and attending courses to take TOEIC exams among other things for over a decade. We will further expand these undertakings going forward in order to foster human resources that can excel in a broad range of capacities overseas.

Graduate School Programme

In the two years from April 2014 to March 2016, I took advantage of the graduate school system for employees to attend the Graduate Institute for Entrepreneurial Studies in Niigata and acquired an MBA. I took a variety of courses at the graduate school including corporate ethics, strategy, marketing, accounting, and law. I was also very much stimulated by encountering diverse ways of thinking through discussions with students from different professions, generations, and nationalities. In the future, I want to contribute to my company by utilizing what I gained in those two years in my work.

Ayumu Nakagawa (fifth from left)
Niigata Mill, general affairs



Overseas Expatriate

I have been living in a small town in the Province of Alberta in Canada since I was dispatched to Alberta Pacific Forest Industries Inc. in May 2015 and stationed there since November of the same year. I still feel some difficulties in English communication, but the people at the mill are all very friendly, so there are times when I can find joy in that to realize that we can touch each other's hearts even when we are unable to communicate verbally with fluency. This company is the largest pulp mill in North America. I take pride in working here, and I strive to be a part of its further development.

Ryuichi Suzumi (right, in photo)
Alberta Pacific Forest Industries Inc.



Initiatives to Actively Utilize Diverse Human Resources

In order to respond flexibly to changes in the social and business environment, and to achieve sustainable growth for the organization, we believe that it is important to build a working environment where employees share mutual respect for differences, and where each individual can maximize their capabilities and work enthusiastically. To that end, the Hokuetsu Kishu Paper Group is taking proactive steps to implement initiatives for the active utilization of diverse human resources while forbidding in our compliance handbook any discriminatory act whatsoever based on personal characteristics that have no relation to business operations such as gender, race, nationality, religion and other beliefs, and physical handicaps.

1. Promotion of the Role of Women

Our company adopted an action plan pursuant to the Act on Promotion of Women's Participation and Advancement in the Workplace. Ours is a five-year plan that runs from April 1, 2016 to March 31, 2021. The biggest challenge for our company is the low proportion of women in our employment and new hires. So we will expand our facilities for supporting women and our support for rearing children while stepping up our efforts to actively hire and raise the retention rate for women. With regard to another challenge, raising the rate of paid leave-taking, we set the target of a 10% increase for both men and women, and are encouraging our employees to take paid leave.

2. System for the Re-employment of Retired Employees

Hokuetsu Kishu Paper has launched a system for the re-employment of retired employees in 2006. The system underwent changes in tandem with revisions to the related legislation afterwards, and we have continued in our efforts to enhance the system.

In recent times, it is becoming increasingly difficult to secure manpower as a result of declining birthrates and an aging population. Hence, this system is extremely beneficial to both the company and the employees, as it provides employees with a stable livelihood while helping the company to ensure that the expertise of skilled employees is passed down.

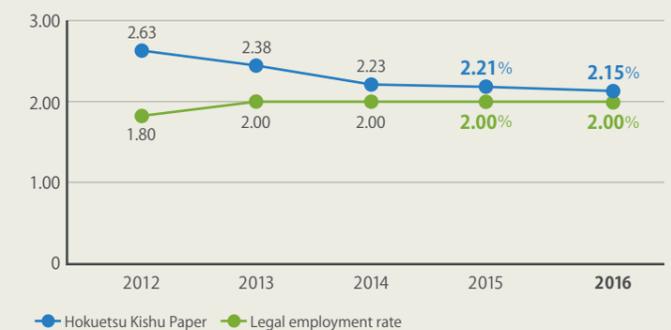
To date, a large number of employees have made use of this system. With the rise in the age at which pensioners are eligible to receive their pension funds, the number of employees using this system is expected to continue increasing in the future.

Changes in the number of re-employed retirees	(FY)				
	2011	2012	2013	2014	2015
Number of retired employees	36	34	22	52	64
Number of re-employed retirees	24	24	15	31	52
Ratio of re-employed retirees	66.7%	70.6%	68.2%	59.6%	81.3%

3. Employment of Persons with Disabilities

Hokuetsu Kishu Paper Group continues to employ staff who are disabled after work-related accidents or personal injury or illness, and provides such employees with work environments that are suited to their particular disabilities to enable them to continue to play active roles. We also proactively recruit people with disabilities through Public Employment Security Offices to engage in mill security work. As a result, since the legally stipulated disabled persons' employment quota was raised to 2% in 2013, we have kept employing people with disabilities at levels that exceed the quota.

Changes in the employment rate for persons with disabilities (%)



4. Support for a Balanced Lifestyle (Enhanced Childcare Leave Systems, etc.)

Hokuetsu Kishu Paper Group is proactive in providing pleasant working environments that allow employees to balance their work duties with childrearing and nursing. As a result, employees are able to feel secure in taking childrearing leave and other such leave, the acquisition rate for these few years, especially for female employees, is 100%. Also, employees are able to return to work smoothly, and the employee retention rate is 100%.

We aim to coexist with the local communities in and outside Japan as a company that people can more rely on

As part of our social contribution activities, we proactively interact with local communities and residents. We believe that this is an undertaking essential to the sustainable development of paper manufacturing, since the history of the Hokuetsu Kishu Paper Group was created together with the local communities and residents. This conviction remains unchanged even as our production and sales bases spread worldwide.

100 years since full operations began at our Niigata Mill

The Niigata Mill started out as Hokuetsu Itagami Co., Ltd., a subsidiary of ours in 1914. The current mill was completed in December the following year, and went into full operation in 1916 producing machine-made paper.

In 1964, it suffered catastrophic damage in the Niigata Earthquake, but was able to recover with the support of the local communities and residents and other

stakeholders. It entered 2016, its 100th anniversary of full operations, as our flagship mill with eight paper machines in operation.

The Niigata Mill is more than just our group flagship mill; it is the symbol of our efforts to “put heart and soul into papermaking.” We thrived with the support of the local communities and residents throughout the last 100 years; we will strive to make another leap forward over the next 100 years to justify their trust and meet their expectations.



The Niigata Mill 100 years ago (Hokuetsu Itagami's Niigata mill)



The Niigata Mill today



Visit to the mill by invitation, an event popular with local residents



We host a drawing contest every year during the summer holidays for third and fourth graders in the six elementary schools in the neighborhood. “The Baseball Field and Hokuetsu Kishu Paper,” winner of best drawing award in 2015.

Growing symbiosis with the local community in Canada

Selected “Safest Mill in Canada” for the third time

Our consolidated subsidiary Alpac Forest Products Inc. (currently Alberta Pacific Forest Industries Inc.) was selected as 2015’s “Safest Mill in Canada” by Pulp & Paper Canada, the Canadian pulp and paper trade magazine. The highly prestigious award, now in its 90th year, is bestowed on the mill that had the best safety record that year. This is the third time that the company won this award, the previous one coming in 2011.

The “Safest Mill in Canada” is divided into three categories, A, B, and C, according to the aggregate number of hours per month worked by the entire workforce. One mill is chosen from each category. The company won in A, the category for the largest mills (total of 80,000 man-hours worked or more). Going forward, we will actively exchange views on safety with each of the mills in the Hokuetsu Kishu Paper Group to further enhance the safety record of the entire group.



The mill and forest at (then) Alpac Forest Products Inc.



Photo taken to commemorate the “Safest Mill in Canada” award

Relief money for wildfire damage in Alberta

On May 1, 2016 (local time), a wildfire broke out in Fort McMurray in Alberta, Canada. Our company and Alpac Forest Products Inc. (currently Alberta Pacific Forest Industries Inc.) donated relief money to the disaster area through the Canadian Red Cross Society in order to support recovery and reconstruction in the face of the massive damage caused by the wildfire. We pray for the earliest possible recovery and reconstruction in the disaster area.



The giant forests of Alberta, Canada



Sekio Kishimoto
President and CEO



Akihiro Aoki
Managing Director



Masanori Sakamoto
Managing Director



Hiroshi Suzuki
Managing Director



Morinobu Obata
Director



Yoshihito Meguro
Director



Yoshinori Kawashima
Director



Mitsushige Yamamoto
Director



Kimio Uchiyama
Director



Mitsuyasu Iwata
Director (Outside Director)



Shin Ushijima
Director (Outside Director)

Standing Corporate Auditors

Junichi Horikawa Kaoru Mashima

Corporate Auditors (Outside Corporate Auditors)

Jun Itoigawa Kazuo Nakase

Corporate Officers

Kisao Taniguchi Makoto Yanagisawa Osamu Terao Haruichi Shimizu Shimpei Kusaka
Yasuyuki Kondo Hiroyuki Otsuka Shigeharu Tachibana Shoji Suzuki

(As of June 28, 2016)

Financial Information

Consolidated Financial Highlights	44
Management's Discussion and Analysis	46
Consolidated Balance Sheets	48
Consolidated Statements of Income and Consolidated Statements of Comprehensive Income	50
Consolidated Statements of Cash Flows	51
Consolidated Statements of Changes in Net Assets	52
Notes to Consolidated Financial Statements	54
Independent Auditor's Report	83

Consolidated Financial Highlights

Jump-100

Value up-10

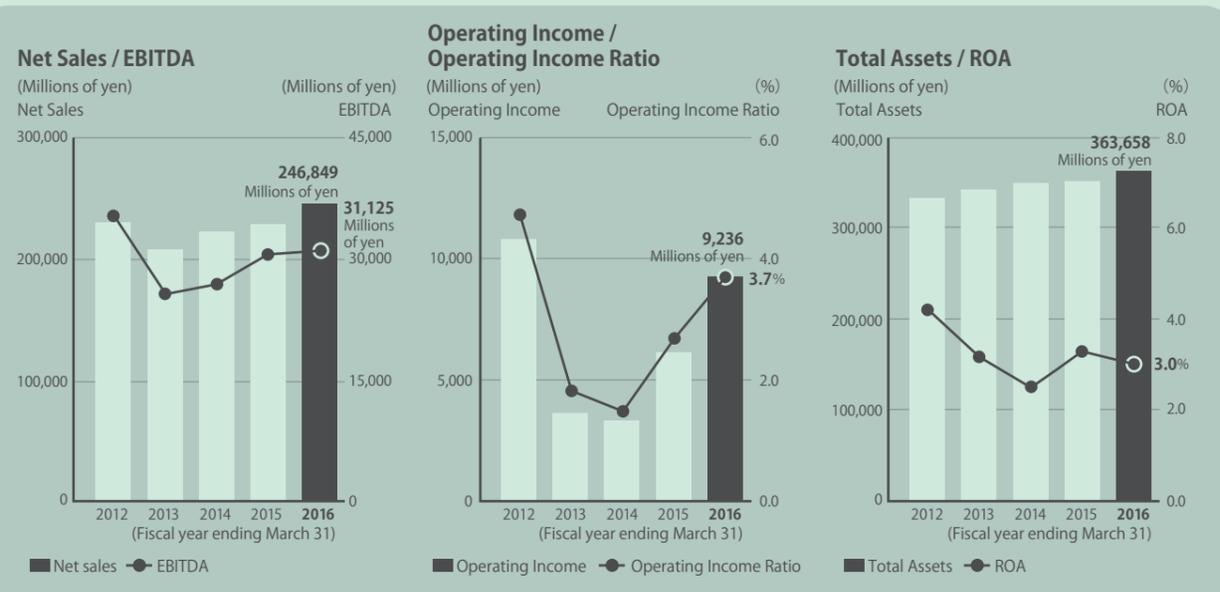
G-1st

C-next

Financial data	Millions of yen										Thousands of U.S. dollars (Note 2)
	Year ending March 31, 2007	Year ending March 31, 2008	Year ending March 31, 2009	Year ending March 31, 2010	Year ending March 31, 2011	Year ending March 31, 2012	Year ending March 31, 2013	Year ending March 31, 2014	Year ending March 31, 2015	Year ending March 31, 2016 (Note 1)	Year ending March 31, 2016 (Note 1)
Net sales	¥158,992	¥172,709	¥182,782	¥193,952	¥217,013	¥230,570	¥208,280	¥223,865	¥228,400	¥246,849	\$2,190,514
Ordinary income	9,050	8,330	8,122	9,888	8,742	10,823	3,658	3,308	6,140	9,236	81,959
Net income	9,220	7,891	6,593	9,436	10,148	13,781	10,516	8,481	11,463	10,588	93,957
Net income for this term belonging to shareholders of the parent company	4,395	4,074	1,750	7,106	5,296	12,673	8,169	6,105	8,359	7,477	66,350
EBITDA (Note 3)	20,516	21,456	25,695	31,580	32,336	35,283	25,538	26,974	30,582	31,125	276,200
Capital expenditures	43,022	37,725	31,376	6,286	8,635	7,977	12,160	23,919	11,128	9,425	83,637
Total assets	269,124	292,726	313,378	340,944	322,233	332,979	343,114	350,808	351,033	363,658	3,227,065
Net assets	143,439	140,184	135,029	138,173	137,870	150,628	158,794	158,824	168,573	169,529	1,504,384
Interest-bearing debt	77,291	101,025	137,060	136,640	121,157	117,144	129,137	136,387	123,724	129,586	1,149,933
Cash flows											
Cash flows from operating activities	14,907	12,295	9,620	36,484	25,719	28,953	21,203	18,676	27,858	20,944	185,855
Cash flows from investing activities	43,780	35,411	-34,804	-10,637	-6,209	-9,565	-25,127	-22,805	-16,261	-3,628	-32,195
Per share data (Yen/U.S. dollars)											
Earnings per share (EPS)	22.75	19.19	8.25	33.75	25.55	62.09	40.08	30.54	44.39	39.69	352
Book value per share (BPS)	672.37	656.96	632.42	658.61	670.49	727.66	770.02	834.44	888.16	894.74	7,940
Dividends per share	12.00	14.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	0.11
Key ratios											
EBITDA/Net sales (%)	12.9%	12.4%	14.1%	16.3%	14.9%	15.3%	12.3%	12.0%	13.4%	12.6%	
Operating income ratio (%)	5.7%	4.8%	4.4%	5.1%	4.0%	4.7%	1.8%	1.5%	2.7%	3.7%	
Net income ratio (%)	2.8%	2.4%	1.0%	3.7%	2.4%	5.5%	3.9%	2.7%	3.7%	3.0%	
Equity ratio (%)	53.0%	47.6%	42.8%	40.3%	42.6%	44.7%	45.6%	44.8%	47.7%	46.4%	
ROA (%) (Note 4)	3.7%	2.8%	2.2%	2.9%	3.1%	4.2%	3.1%	2.4%	3.3%	3.0%	
ROE (%)	3.4%	2.9%	1.3%	5.2%	3.9%	8.9%	5.4%	3.9%	5.2%	4.5%	
Debt equity ratio (times)	0.54	0.72	1.02	0.99	0.88	0.79	0.82	0.87	0.74	0.77	

Notes

- Owing to the inclusion of Alpac Forest Products Inc. and Alpac Pulp Sales Inc. in the scope of consolidation as of October 22, 2015, the consolidated financial statement for the fiscal year ended March 31, 2016, included Alpac Forest Products Inc. and Alpac Pulp Sales Inc.'s consolidated results from October 1, 2015 to December 31, 2015.
- Amounts in US dollars were converted at ¥112.69 to one dollar, the currency exchange rate prevailing in the Tokyo Foreign Exchange Market as of March 31, 2016.
- EBITDA = Ordinary income + interest expenses + depreciation and amortization costs + depreciation of goodwill - depreciation of negative goodwill
- ROA = Ordinary income ÷ average total assets at the beginning and end of the fiscal year × 100



Management's Discussion and Analysis

Business Environment and Results

During fiscal 2015, ending March 31, 2016, although the Japanese economy is gradually recovering due to improvements in corporate earnings and the employment environment, and increase of capital investment, the situation remained unpredictable due to factors such as the higher uncertainty of economies in developing and resource rich countries in Asia including China.

For the Hokuetsu Kishu Paper Group, despite a decline in the domestic sales volume of printing paper for both paper and white paperboard, income increased due to the commencement of a new white paperboard business in China and the acquisition of shares as Alpac Forest Products Inc. and Alpac Pulp Sales Inc. became consolidated subsidiaries.

Furthermore, the cost burden decreased with the revision of sale prices for printing paper and a drop in the prices for raw materials. In view of the above, the Group's results for this period were as follows.

Millions of yen		Change
Net sales:	¥246,849	+8.1%
Operating income:	¥9,236	+50.4%
Ordinary income:	¥10,588	-7.6%
Net income		
belonging to		
shareholders of the		
parent company:	¥7,477	-10.6%

Business Results by Segment

1. Paper and Pulp Segment

For the Paper and Pulp Segment, despite a decrease in domestic sales volume, income increased due to the revision of sale prices for printing paper, the commencement of new white paperboard business in China and the acquisition of shares as Alpac Forest Products Inc. and Alpac Pulp Sales Inc. became consolidated subsidiaries.

On the earnings front, the cost burden decreased with a drop in the prices for raw materials in addition to the developments above which resulted in higher earnings.

Results by Product

Printing paper: Despite the revision of sale prices, sales volume decreased due to reduced circulation of flyers etc. owing to a reduction in advertising expenditure among corporations as well as decreased use for paper reflecting the transition to e-books and other digital media.

White paperboard: Coated duplex board remained solid owing to regular products for food packaging and luxury white paperboard also was strong due to demand for cosmetics and pharmaceutical product-related goods as a consequence of visitors to Japan, but sales volume decreased in specialty white paperboard which includes packaging used for sweets and gift-related items.

Specialty Paper: Sales were solid for functional paper such as battery separators in cars, air filters for air purification, and carrier tapes. However, the Group faced a challenging business environment for securing orders in the category of luxury printing paper used for catalogues, pamphlets and calendars, and the fancy paper category.

In view of the above, the results for the Paper and Pulp Segment were as follows.

Millions of yen		Change
Net sales:	¥218,276	+8.8%
Operating income:	¥7,319	+64.7%

2. Packaging and Paper Processing Segment

Income increased in the Packaging and Paper Processing Segment as a result of the revision of sale prices and increased orders in liquid containers, and also increased orders for paper processing as well with the field of cosmetics benefiting from the effect of inbound visitors. Earnings increased due to the effect of various cost-cutting measures.

In view of the above, the results for the Packaging and Paper Processing Segment were as follows.

Millions of yen		Change
Net sales:	¥20,129	+1.6%
Operating income:	¥696	+57.3%

3. Others

Income increased in the Others segment (encompassing wood products, construction, transportation, warehousing, and other businesses) due to an increase in orders received in the construction business. On the earnings front, earnings rose due to the effect of various cost-cutting measures.

In view of the above, the results in the Others segment were as follows.

Millions of yen		Change
Net sales:	¥8,443	+6.4%
Operating income:	¥551	+19.2%

Financial Position

Total assets as of the end of fiscal 2015 (March 31, 2016) increased by ¥12,625 million to ¥363,658 million from a year earlier. This increase was mainly due to factors resulting from our making Alpac Forest Products Inc. and Alpac Pulp Sales Inc. wholly-owned subsidiaries.

Total liabilities as of March 31, 2016 increased by ¥11,669 million to ¥194,129 million from a year ago. The main reason was an increase of ¥5,861 million in interest-bearing debt.

Net assets as of March 31, 2016 increased by ¥955 million to ¥169,529 million from a year ago. The increase in net assets was brought about mainly by an increase in retained earnings from net profit belonging to shareholders of the parent company, etc. of ¥5,215 million, but a decrease in other net unrealized gains on securities of ¥2,504 million.

Cash Flows

The balance of cash and cash equivalents as of March 31, 2015 increased by ¥3,592 million to ¥18,890 million from a year earlier.

Cash flows from operating activities

Funds gained from operating activities totaled ¥20,944 million (24.8% decrease year-on-year). The main sources of cash were ¥9,821 million in income before income taxes and minority interests, ¥19,552 million in depreciation and amortization, an increase in notes and accounts payables of ¥2,534 million. The main components of cash used were returns from investment through the equity method of ¥3,960 million, increase in inventories of ¥4,113 million, and payment including income taxes paid of ¥2,352 million.

Cash flows from investing activities

Net cash used in investing activities totaled ¥3,628 million (77.7% decline year-on-year). The main components of cash used were ¥8,379 million for purchases of property, plants and equipment. The main source of cash was ¥5,380 million received from acquiring the shares of subsidiaries with the change in the range of consolidation.

Cash flows from financing activities

Net cash used for financing activities totaled ¥12,301 million (26.7% decrease year-on-year). The main components of cash used were ¥31,918 million in repayment of long-term loans, and payment of dividends of ¥2,271 million. The main contributors to cash were proceeds from long-term loans amounting to ¥2,271 million, ¥28,791 million in proceeds from the issuance of bonds, and ¥11,000 million increase of sales in commercial paper.

Basic Policies Regarding Earnings Distribution and Dividend Payments for Fiscal 2015 and 2016

In order to continue growth investment for the improvement of long-term and stable corporate value, Hokuetsu Kishu Paper Co., Ltd. implements capital policy in light of a balance of financial soundness, capital efficiency and returns to shareholders, and considers providing stable and continuous dividends as its "fundamental policy regarding capital measures." The dividend is distributed twice a year with an interim dividend and a year-end dividend, and the decision-making bodies for the Company with respect to interim dividends and year-end dividends are the Board of Directors and the General Meeting of Shareholders, respectively.

Based on this fundamental policy, the company decided to distribute a year-end dividend of ¥6 per share in fiscal 2015, ending March 31, 2016. Combined with the interim dividend of ¥6, the annual dividend was maintained at ¥12 per share.

For fiscal 2016, ending March 31, 2017, the company currently plans to maintain ¥6 per share for both the interim and year-end dividends, and the annual dividend at ¥12 per share.

Fiscal 2016 Outlook

The Japanese economy is showing signs of recovery, and in fiscal 2016 gradual recovery is expected due to various governmental policies. However, there is concern of an economic downturn as overseas economic uncertainty will rise such as with Asian emerging nations and resource-rich countries.

Under these circumstances, the business environment for the Paper and Pulp Segment is expected to remain uncertain going forward, against the background of factors such as the long-term decline in domestic demand for printing and communication paper, and fluctuations in exchange rates and fuel prices. We expect our consolidated subsidiaries Alpac Forest Products Inc. as well as Alpac Pulp Sales Inc. (now Alberta Pacific Forest Industries Inc.) to have an impact and contribute to business performance, and the Group will endeavor to strengthen our earnings structure and continue initiatives to exhaustively cut costs.

Millions of yen		Change
Net sales:	¥270,000	+9.4%
Operating income:	¥13,000	+40.7%
Ordinary income:	¥14,000	-32.2%
Net income		
belonging to		
shareholders of the		
parent company:	¥10,000	-33.8%

Major Business Risks

The Hokuetsu Kishu Paper Group currently considers the following to be its principal areas of business risk:

- Fluctuations in product demand and prices
- Fluctuations in raw material and fuel market prices
- Foreign exchange rate fluctuations
- Overseas political and economic circumstances
- Interest rate fluctuations
- Legal regulations and litigation
- Natural and other disasters
- Capital investment
- Alliance-type contracts with other companies
- Mergers and acquisitions (M&A), among other capital transactions

Consolidated Balance Sheets

Hokuetsu Kishu Paper Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2016 and 2015

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2016	2016
CURRENT ASSETS:			
Cash and deposits (Notes 3, 4 & 8)	¥15,803	¥19,088	\$169,385
Notes and accounts receivable (Note 4 & 8)			
Trade	60,759	65,463	580,912
Unconsolidated subsidiaries and affiliates	682	655	5,812
Allowance for doubtful accounts	(28)	(46)	(408)
Inventories (Note 6)	35,939	46,920	416,363
Deferred income taxes (Note 12)	2,157	1,846	16,381
Prepaid expenses and other	4,062	5,845	51,869
TOTAL CURRENT ASSETS	119,374	139,771	1,240,314
PROPERTY, PLANT AND EQUIPMENT:			
Land and timberland	24,839	26,368	233,987
Buildings and structures	78,030	78,800	699,263
Machinery and equipment	401,275	407,869	3,619,389
Leased assets	4,611	4,332	38,442
Construction in progress	2,274	1,810	16,062
	511,029	519,179	4,607,143
Less accumulated depreciation	(350,589)	(366,783)	(3,254,796)
NET PROPERTY, PLANT AND EQUIPMENT	160,440	152,396	1,352,347
INVESTMENTS AND OTHER ASSETS:			
Investments in securities (Notes 4 & 5)	28,209	26,154	232,088
Investments in and receivables from unconsolidated subsidiaries and affiliates	33,284	36,533	324,190
Long-term loans receivable	67	21	186
Guarantee deposits	686	600	5,324
Asset for retirement benefits (Note 17)	2,131	1,850	16,418
Deferred income taxes (Note 12)	1,317	1,585	14,065
Other (Note 7)	8,067	7,218	64,052
Allowance for doubtful accounts (Note 7)	(2,542)	(2,470)	(21,919)
TOTAL INVESTMENTS AND OTHER ASSETS	71,219	71,491	634,404
TOTAL ASSETS	¥351,033	¥363,658	\$3,227,065

The accompanying notes are an integral part of the consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2016	2016
CURRENT LIABILITIES:			
Short-term loans (Notes 4, 8 & 9)	¥19,518	¥13,987	\$124,119
Commercial paper (Note 4 & 9)	9,000	20,000	177,478
Current maturities of long-term debt (Notes 4 & 9)	27,218	25,756	228,556
Notes and accounts payable (Note 4 & 8)			
Trade	23,385	26,947	239,125
Unconsolidated subsidiaries and affiliates	1,294	1,231	10,924
Income taxes payable (Note 12)	1,514	1,203	10,675
Accrued expenses	7,586	9,085	80,620
Other	8,687	8,204	72,802
TOTAL CURRENT LIABILITIES	98,202	106,413	944,299
LONG-TERM LIABILITIES:			
Long-term debt (Notes 4 & 9), less current maturities	67,988	69,844	619,789
Deferred income taxes (Note 12)	936	515	4,570
Accrued environmental expenditures	47	46	408
Provision for business structure improvement	306	279	2,476
Provision for reforestation	—	842	7,472
Liability for retirement benefits (Note 17)	13,158	13,525	120,021
Asset retirement obligations (Note 18)	1,418	2,091	18,555
Other	405	574	5,092
TOTAL LONG-TERM LIABILITIES	84,258	87,716	778,383
CONTINGENT LIABILITIES (Note 10)			
NET ASSETS (Note 11)			
SHAREHOLDERS' EQUITY:			
Common stock:			
authorized			
—500,000,000 shares in 2015 and 2016			
issued and outstanding			
—209,263,814 shares in 2015 and 2016	42,021	42,021	372,890
Capital surplus	45,469	45,401	402,884
Retained earnings	77,455	82,671	733,614
Treasury stock	(10,225)	(10,189)	(90,416)
TOTAL SHAREHOLDERS' EQUITY	154,720	159,904	1,418,972
ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAXES			
Unrealized holding gains on securities, net of taxes	9,138	6,633	58,861
Unrealized losses on hedging derivatives, net of taxes	(69)	(169)	(1,500)
Foreign currency translation adjustment	2,508	1,891	16,780
Accumulated adjustments for retirement benefit, net of taxes (Note 17)	975	319	2,831
TOTAL ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAXES	12,552	8,674	76,972
SHARE SUBSCRIPTION RIGHTS	123	128	1,136
NON-CONTROLLING INTERESTS	1,178	823	7,303
TOTAL NET ASSETS	168,573	169,529	1,504,383
TOTAL LIABILITIES AND NET ASSETS	¥351,033	¥363,658	\$3,227,065

Consolidated Statements of Income

Hokuetsu Kishu Paper Co.,Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2016	2016
NET SALES (Notes 20)	¥228,400	¥246,849	\$2,190,514
COST OF SALES	190,817	203,036	1,801,722
GROSS PROFIT	37,583	43,813	388,792
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 13)	31,443	34,577	306,833
OPERATING INCOME	6,140	9,236	81,959
OTHER INCOME(EXPENSES):			
Interest and dividend income	746	782	6,939
Interest expenses	(817)	(821)	(7,285)
Foreign exchange gains (losses)	754	(2,838)	(25,184)
Gain on negative goodwill	202	—	—
Amortization of negative goodwill	871	—	—
Equity in income of affiliates	4,317	3,961	35,150
Gain on sales of investments in securities	2	71	630
Loss on sales of investments in securities	(0)	(0)	(0)
Loss on devaluation of investments in securities	—	(8)	(71)
Loss on sales or disposal of property, plant and equipment	(665)	(886)	(7,862)
Income from subsidies	—	1	9
Impairment loss of fixed assets (Note 14)	(236)	(46)	(408)
Loss on reduction of fixed assets	(264)	(2)	(18)
Costs in relation to suspending the operation of production equipment	(711)	(637)	(5,653)
Restructuring charges	(106)	—	—
Gain on abolishment of retirement benefit plan (Note 17)	—	41	364
Amortization of past service cost for retirement benefit accounting (Note 17)	—	(108)	(958)
Other, net (Note 7)	650	1,075	9,539
	4,743	585	5,192
INCOME BEFORE INCOME TAXES	10,883	9,821	87,151
INCOME TAXES (Note 12):			
Current	2,173	1,966	17,446
Deferred	341	661	5,866
	2,514	2,627	23,312
NET INCOME	8,369	7,194	63,839
NET INCOME(LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	10	(283)	(2,511)
NET INCOME ATTRIBUTABLE TO OWNERS OF PARENT COMPANY	¥8,359	¥7,477	\$66,350
		Yen	U.S. dollars (Note 1)
	2015	2016	2016
AMOUNTS PER SHARE OF COMMON STOCK (Note 2):			
Net income	¥44.39	¥39.69	\$0.35
Diluted net income	44.31	38.57	0.34
Cash dividends applicable to the year	12.00	12.00	0.11

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Comprehensive Income

Hokuetsu Kishu Paper Co.,Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2016	2016
NET INCOME	¥8,369	¥7,194	\$63,839
OTHER COMPREHENSIVE INCOME (Note 21)			
Unrealized holding gains on securities, net of taxes	1,755	(1,385)	(12,290)
Unrealized gains on hedging derivatives, net of taxes	(73)	(100)	(887)
Foreign currency translation adjustment	890	(688)	(6,105)
Adjustments for retirement benefit, net of taxes	468	(663)	(5,883)
Share of other comprehensive income of associates accounted for using equity method	1,955	(1,112)	(9,869)
TOTAL OTHER COMPREHENSIVE INCOME	4,995	(3,948)	(35,034)
COMPREHENSIVE INCOME	¥13,364	¥3,246	\$28,805
		Yen	U.S. dollars (Note 1)
	2015	2016	2016
Comprehensive income attribute to owners of the parent shareholders	13,245	3,599	31,937
Comprehensive income attribute to non-controlling interests	119	(353)	(3,132)

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

Hokuetsu Kishu Paper Co.,Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2016	2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes	¥10,883	¥9,821	\$87,151
Depreciation and amortization	19,006	19,553	173,511
Impairment loss of fixed assets	236	46	408
Restructuring charges	106	—	—
Amortization of negative goodwill	(871)	—	—
Gain on negative goodwill	(202)	—	—
Loss on sales or disposal of property, plant and equipment	538	696	6,176
Loss on reduction of fixed assets	264	2	18
Interest and dividend income	(746)	(782)	(6,939)
Interest expenses	817	821	7,285
(Increase) decrease in notes and accounts receivable	5,587	(1,388)	(12,317)
(Increase) decrease in inventories	(1,898)	(4,114)	(36,507)
Increase (decrease) in notes and accounts payable	(187)	2,535	22,495
Increase (decrease) liability for retirement benefits	(308)	(783)	(6,948)
Equity in (earnings) losses of affiliates	(4,317)	(3,961)	(35,150)
Other, net	(126)	645	5,724
SUBTOTAL	28,782	23,091	204,907
Interest and dividend income received	1,008	1,063	9,433
Interest paid	(895)	(857)	(7,605)
Income taxes paid	(1,357)	(2,353)	(20,880)
Proceeds from insurance income	320	—	—
NET CASH PROVIDED BY OPERATING ACTIVITIES	27,858	20,944	185,855
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for purchases of investment securities	(4,041)	(298)	(2,644)
Purchase of investments in subsidiaries	(374)	—	—
Proceeds from acquisition for shares of subsidiaries with changes in scope of consolidation	—	5,381	47,750
Payments for purchases of property, plant and equipment	(10,859)	(8,379)	(74,354)
Proceeds from sales of property, plant and equipment	149	246	2,183
Other, net	(1,136)	(578)	(5,130)
NET CASH USED IN INVESTING ACTIVITIES	(16,261)	(3,628)	(32,195)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in short-term loans	(8,115)	(7,095)	(62,960)
Increase (decrease) in commercial paper	1,000	11,000	97,613
Proceeds from long-term loans	11,051	28,792	255,497
Repayments of long-term loans	(7,640)	(31,919)	(283,246)
Redemption of unsecured yen straight bonds	(10,000)	(10,000)	(88,739)
Dividends paid	(2,271)	(2,272)	(20,162)
Payments for purchases of treasury stock	(2)	(2)	(18)
Other, net	(795)	(806)	(7,152)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(16,772)	(12,302)	(109,167)
TRANSLATION (LOSS) GAIN ON CASH AND CASH EQUIVALENTS	522	(1,421)	(12,609)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,653)	3,593	31,884
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	19,901	15,298	135,753
INCREASE IN CASH AND CASH EQUIVALENTS RESULTING FROM MERGER WITH UNCONSOLIDATED SUBSIDIARIES	50	—	—
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 3)	¥15,298	¥18,891	\$167,637

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Hokuetsu Kishu Paper Co., Ltd. and Consolidated Subsidiaries
For the Years ended March 31, 2016 and 2015

Millions of yen

	Number of shares	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gains (losses) on securities, net of taxes	Unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustment	Accumulated adjustments for retirement benefit, net of taxes	Total accumulated other comprehensive income, net of taxes	Share subscription rights	Non-controlling interests	Total net assets
Balance at March 31, 2014	209,263,814	¥42,021	¥45,481	¥72,184	¥(10,263)	¥149,423	¥5,420	¥5	¥1,719	¥521	¥7,665	¥118	¥1,618	¥158,824
Cumulative effects of changes in accounting policies	—	—	—	(878)	—	(878)	—	—	—	—	—	—	(5)	(883)
Restated balance	—	42,021	45,481	71,306	(10,263)	148,545	5,420	5	1,719	521	7,665	118	1,613	157,941
Net income attributable to owners of parent company	—	—	—	8,359	—	8,359	—	—	—	—	—	—	—	8,359
Cash dividends paid (¥12.00 per share)	—	—	—	(2,260)	—	(2,260)	—	—	—	—	—	—	—	(2,260)
Disposal of treasury stock	—	—	(12)	—	38	26	—	—	—	—	—	—	—	26
Purchases of treasury stock	—	—	—	—	(2)	(2)	—	—	—	—	—	—	—	(2)
Change in equity in affiliates accounted for by equity method - treasury stock	—	—	—	—	2	2	—	—	—	—	—	—	—	2
Increase by merger of consolidated subsidiary and non-consolidated subsidiary	—	—	—	28	—	28	—	—	—	—	—	—	—	28
Change in scope of consolidated affiliates	—	—	—	22	—	22	—	—	—	—	—	—	—	22
Net changes during the year	—	—	—	—	—	—	3,718	(74)	789	454	4,887	5	(435)	4,457
Balance at March 31, 2015	209,263,814	¥42,021	¥45,469	¥77,455	¥(10,225)	¥154,720	¥9,138	¥(69)	¥2,508	¥975	¥12,552	¥123	¥1,178	¥168,573
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Restated balance	—	42,021	45,469	77,455	(10,225)	154,720	9,138	(69)	2,508	975	12,552	123	1,178	168,573
Net income attributable to owners of parent company	—	—	—	7,477	—	7,477	—	—	—	—	—	—	—	7,477
Cash dividends paid (¥12.00 per share)	—	—	—	(2,261)	—	(2,261)	—	—	—	—	—	—	—	(2,261)
Disposal of treasury stock	—	—	(9)	—	39	30	—	—	—	—	—	—	—	30
Purchases of treasury stock	—	—	—	—	(3)	(3)	—	—	—	—	—	—	—	(3)
Change in capital increase of consolidated subsidiaries	—	—	(59)	—	—	(59)	—	—	—	—	—	—	—	(59)
Net changes during the year	—	—	—	—	—	—	(2,505)	(100)	(617)	(656)	(3,878)	5	(355)	(4,228)
Balance at March 31, 2016	209,263,814	¥42,021	¥45,401	¥82,671	¥(10,189)	¥159,904	¥6,633	¥(169)	¥1,891	¥319	¥8,674	¥128	¥823	¥169,529

Thousands of U.S. dollars (Note 1)

	Number of shares	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gains (losses) on securities, net of taxes	Unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustment	Accumulated adjustments for retirement benefit, net of taxes	Total accumulated other comprehensive income, net of taxes	Share subscription rights	Non-controlling interests	Total net assets
Balance at March 31, 2015	209,263,814	\$372,890	\$403,487	\$687,328	\$(90,736)	\$1,372,969	\$81,090	\$(612)	\$22,256	\$8,652	\$111,386	\$1,091	\$10,453	\$1,495,899
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Restated balance	—	372,890	403,487	687,328	(90,736)	1,372,969	81,090	(612)	22,256	8,652	111,386	1,091	10,453	1,495,899
Net income attributable to owners of parent company	—	—	—	66,350	—	66,350	—	—	—	—	—	—	—	66,350
Cash dividends paid (\$0.11 per share)	—	—	—	(20,064)	—	(20,064)	—	—	—	—	—	—	—	(20,064)
Disposal of treasury stock	—	—	(80)	—	347	267	—	—	—	—	—	—	—	267
Purchases of treasury stock	—	—	—	—	(27)	(27)	—	—	—	—	—	—	—	(27)
Change in capital increase of consolidated subsidiaries	—	—	(523)	—	—	(523)	—	—	—	—	—	—	—	(523)
Net changes during the year	—	—	—	—	—	—	(22,229)	(888)	(5,476)	(5,821)	(34,414)	45	(3,150)	(37,519)
Balance at March 31, 2016	209,263,814	\$372,890	\$402,884	\$733,614	\$(90,416)	\$1,418,972	\$58,861	\$(1,500)	\$16,780	\$2,831	\$76,972	\$1,136	\$7,303	\$1,504,383

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

Hokuetsu Kishu Paper Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

Note 1: Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of HOKUETSU KISHU PAPER CO., LTD. ("the Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial

Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2016, which was ¥112.69 to U.S. \$1.00. The convenience translation should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Note 2: Summary of Significant Accounting Policies

(a) Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries ("the Companies"). All significant inter-company balances, transactions and unrealized profits have been eliminated in consolidation.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

Goodwill, except for immaterial amounts, are amortized within twenty years from the day of the occurrence of goodwill for the period when the effect exists.

Negative goodwill, which occurred before the Companies adopted the "Accounting Standard for Business Combinations" (Statement No. 21 issued by Accounting Standards Board of Japan on December 26, 2008), are amortized on a straight-line basis over a period of 5 years.

Investments in all significant unconsolidated subsidiaries and affiliates are accounted for by the equity method.

The number of consolidated subsidiaries and affiliates accounted for by the equity method is as follows:

	Number of Companies	
	2015	2016
Consolidated subsidiaries	23	24
Affiliates accounted for by the equity method	6	5

The consolidated financial statements are prepared using their financial statements as of their closing date. Significant transactions, which occurred during the period between these fiscal year ends and March 31, are adjusted in the accompanying consolidated financial statements.

(b) Consolidated statements of cash flows

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents, and which represent an insignificant risk of change in value.

(c) Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date with the resulting gains or losses included in the current statements of income.

(d) Securities

Under the Japanese accounting standard for financial instruments, all companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes ("trading securities"), (b) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliates or (d) all other securities that are not classified in any of the above categories ("available-for-sale securities"). The Companies did not have the securities defined as (a) and (b) above in the years ended March 31, 2016 and 2015.

Equity securities issued by unconsolidated subsidiaries and affiliates not accounted for by the equity method are stated at the moving-average cost. If the market value of available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities, except for those accounted for by the equity method, is not readily available, such securities should be written down to net asset value with a

corresponding charge in the statement of income in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

Available-for-sale securities are included in investments and other assets.

Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gain and loss on these securities are reported, net of applicable income taxes, as a separate component of accumulated other comprehensive income, net of tax in net assets section. Realized gain and loss on sale of such securities are computed using the moving-average cost.

(e) Allowance for doubtful accounts

The Companies provide the allowance for doubtful accounts in an amount sufficient to cover probable losses on collection by estimating individually uncollectible amounts in addition to applying an actual rate of bad debts incurred in the past.

(f) Inventories

Inventories held for sale in the ordinary course of business are stated at the lower of cost or net sales value. Cost is primarily determined by the monthly average method for raw materials, supplies and merchandise and finished goods. Cost of work-in-process is primarily determined using the FIFO (first-in, first-out) method. Cost of timber is primarily determined using the specific identification method.

(g) Property, plant and equipment (excluding leased assets)

Property, plant and equipment are stated at cost. Subsidies are deducted directly from the cost of the related assets.

- Buildings, machinery and equipment
Mainly straight-line method over the useful lives.
- Other tangible fixed assets
Mainly declining-balance method at rates determined based on the useful lives.

Expenditures for new facilities and those that substantially increase the useful lives of existing plant and equipment are capitalized. Maintenance, repair and minor renewals are charged to expenses as incurred.

(h) Finance leases

Finance leases, except for certain immaterial or short-term finance leases which are accounted for as operating leases, are capitalized.

Leased assets related to financial leases that transfer ownership rights are depreciated by the same depreciation method that is applied to fixed assets owned by the Companies.

Leased assets related to finance leases without transferring ownership are depreciated over the lease period as useful life using the straight-line method with no residual value.

As permitted, finance leases which commenced prior to April 1, 2008 and have been accounted for as

operating leases, continue to be accounted for as operating leases with disclosure of certain "as if capitalized" information.

(i) Accrued environmental expenditures

Accrued environmental expenditures are provided at an estimated amount to dispose of PCB (polychlorinated biphenyl) waste.

(j) Provision for reforestation

Based on an agreement with the state government, the Company's Canadian subsidiary is engaged in forest harvesting for the purpose of procuring raw timber for pulp materials and the anticipated costs arising from forest planting (coniferous forest) have been incorporated into accounts as liabilities.

(k) Provision for business structure improvement

A provision has been made for the amount of estimated losses incurred in connection with a review which was implemented to improve business structure.

(l) Issuance costs of stocks and bonds

Issuance costs of stocks and bonds are expensed as incurred.

(m) Derivatives and hedge accounting

The Companies state derivative financial instruments at fair value and recognize changes in the fair value as gain or loss unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gain or loss resulting from changes in fair value of derivative financial instruments until the related loss or gain on the hedged items is recognized.

Special treatment has been adopted for interest rate swaps that qualify for special treatment.

In addition, integrated treatment has been adopted for interest rate and currency swaps that qualify for integrated treatment (special treatment / appropriated treatment).

(n) Income taxes

The Companies recognize the tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

(o) Per share information

Net income per share is computed based upon the average number of shares of common stock outstanding during each year. The average number of common shares used in the computation was 188,364,465 shares and 188,308,313 shares in 2016 and 2015, respectively. For the year ended March 31, 2016, diluted net income per share was ¥38.57 (\$ 0.34) .

Cash dividends per share have been presented on an accrual basis and include dividends to be approved after the balance sheet date, but applicable to the year then ended.

(p) Reclassification and restatement

Certain prior year amounts have been reclassified to conform to the current year presentation.

These reclassifications had no impact on previously reported results of operations or retained earnings.

(q) Accounting methods for retirement benefits

(1) Attribution method for projected retirement benefits

This method is applied in calculating retirement benefit obligations and involves attributing the projected retirement benefits to the period up to the end of the current consolidated accounting period based on benefit formula basis.

(2) Method of amortization actuarial gains or losses and amortization of past service cost

Past service cost is expensed as incurred.

Actuarial gains or losses are amortized from the subsequent financial year using the straight-line method over 10 years, which is not longer than an estimated average remaining service period of the employees when the gains or losses are incurred.

(3) Simplified method for small enterprises, etc.

When calculating retirement benefit obligations and retirement benefit costs, some consolidated subsidiaries use the simplified method, in which the year-end voluntary payments relating to retirement benefits are treated as retirement benefit obligations.

(r) Change in accounting policy

The Company and its domestic subsidiaries adopted "Revised Accounting Standard for Business Combinations" (ASBJ Statement No.21, September 13, 2013 (hereinafter, "Statement No.21")), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, September 13, 2013 (hereinafter, "Statement No.22")) and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7, September 13, 2013 (hereinafter, "Statement No.7")) (together, the "Business Combination Accounting Standards"), from the current fiscal year. As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company's ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the

consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income and the term "non-controlling interests" is used instead of "minority interests". Certain amounts in the prior year comparative information were reclassified to conform to such changes in the current year presentation.

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in article 58-2 (4) of Statement No.21, article 44-5 (4) of Statement No.22 and article 57-4 (4) of Statement No.7 with application from the beginning of the current fiscal year prospectively.

As a result, operating income and income before tax for the current fiscal year decreased by ¥248 million (\$2,201 thousand) and capital surplus as of the end of the current fiscal year decreased by ¥59 million (\$524 thousand).

In the consolidated statement of cash flows, cash flows from acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from financing activities" and cash flows from acquisition related costs for shares of subsidiaries with changes in the scope of consolidation or costs related to acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from operating activities".

Capital surplus as of the end of the current fiscal year in the consolidated statement of changes in net assets decreased by ¥59 million (\$524 thousand).

As a result, with regard to the net asset worth per share for the consolidated fiscal year, net income per share and diluted net income per share decreased respectively by ¥1.63 (\$0.01), ¥1.32 (\$0.01) and ¥1.31 (US\$0.01).

(s) Accounting standard and guidance but not yet adopted

"Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016 (hereinafter, "Guidance No.26"))

(1) Overview

Following the framework in Auditing Committee Report No. 66 "Audit Treatment regarding the Judgment of Recoverability of Deferred Tax Assets", which prescribes estimation of deferred tax assets according to the classification of the entity by one of five types, the following treatments were changed as necessary:

1. Treatment for an entity that does not meet any of the criteria for types 1 to 5;
2. Criteria for types 2 and 3;
3. Treatment for deductible temporary differences which an entity classified as type 2 is unable to schedule;
4. Treatment for the period which an entity classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current fiscal year; and
5. Treatment when an entity classified as type 4 also meets the criteria for types 2 or 3.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2017

(3) Effects of application of the Guidance

The effects of the application are under assessment at the time of preparation of these consolidated financial statements.

Note 3: Cash and Cash Equivalents

A reconciliation of cash and deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows at March 31, 2016 and 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Cash and deposits	¥15,803	¥19,088	\$169,385
Restricted deposits	(505)	(197)	(1,748)
Cash and cash equivalents	¥15,298	¥18,891	\$167,637

Breakdown of major assets and liabilities of companies that newly became consolidated subsidiaries through share acquisition

Breakdown of assets and liabilities at the time of consolidation of Alpac Forest Products Inc., and Alpac Pulp Sales Inc., which newly became consolidated subsidiaries through share acquisition, acquisition value of shares and proceeds from acquisition (net increase) are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥20,549	\$182,350
Property, plant and equipment	4,369	38,770
Current liabilities	(4,400)	(39,045)
Long-term liabilities	(13,809)	(122,540)
Foreign currency translation adjustment	183	1,624
Acquisition value of shares	6,892	61,159
Cash and cash equivalents	(12,273)	(108,909)
Proceeds from acquisition of shares of subsidiaries with changes in scope of consolidation	¥5,381	\$47,750

Note 4: Financial Instruments

Information on financial instruments for the year ended March 31, 2016 is as follows.

Status of Financial Instruments

The Companies raise necessary funds for investment plans to conduct its business of manufacturing, sale and processing of paper mainly by bank loans or issuance of bonds. Temporary cash surpluses are invested in deposits and short-term working funds are raised by bank borrowings or issuance of commercial paper. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described below.

The Company manages and mitigates customer credit risk from trade receivables in accordance with its Debt Management Policy. Consolidated subsidiaries also implement the same control in accordance with the Company's Debt Management Policy.

Investments in securities are exposed to the risk of market price fluctuations. Those securities are composed of mainly stocks associated with business and capital alliances with principal business partners. The Companies check regularly to maintain awareness of their fair value.

The Company and certain consolidated subsidiaries

use interest rate swap contracts to avert their exposure to the risk of fluctuations in interest costs related to debt, and interest rate and currency swaps to avert exposure to the risk of fluctuations in principal and interest costs related to foreign currency-denominated debt.

For trade receivables and payables denominated in foreign currencies, the Company and certain consolidated subsidiaries identify the foreign currency swap risk for each currency on a monthly basis and principally use forward exchange contracts to hedge such risk.

The Company uses crude oil swap contracts to avert the Company's exposure to adverse price movements of some fuel purchase transactions.

Fair Values of Financial Instruments

The book values, fair values and differences of the financial instruments as of March 31, 2016 and 2015 are as follows. Financial instruments with fair values not readily determinable are excluded from the following table (see (b)):

	Millions of yen		
	Book value	Fair value	Difference
			2016
(1) Cash and deposits	¥19,088	¥19,088	¥—
(2) Notes and accounts receivable	66,118	66,118	—
(3) Investments in securities:			
① Stocks of affiliates	30,972	30,100	(872)
② Available-for-sale securities	20,013	20,013	—
Total assets	¥136,191	¥135,319	¥(872)
(4) Notes and accounts payable	¥21,663	¥21,663	¥—
(5) Electronically recorded obligations-operating	6,515	6,515	—
(6) Short-term loans	13,987	13,987	—
(7) Commercial paper	20,000	20,000	—
(8) Bonds*1	20,000	20,111	111
(9) Long-term loans payable*2	74,556	75,122	566
Total liabilities	¥156,721	¥157,398	¥677
Derivative transactions*3	¥(242)	¥(242)	¥—

	Millions of yen		
	Book value	Fair value	Difference
			2015
(1) Cash and deposits	¥15,803	¥15,803	¥—
(2) Notes and accounts receivable	61,441	61,441	—
(3) Investments in securities:			
① Stocks of affiliates	28,406	32,670	4,264
② Available-for-sale securities	22,067	22,067	—
Total assets	¥127,717	¥131,981	¥4,264
(4) Notes and accounts payable	¥18,423	¥18,423	¥—
(5) Electronically recorded obligations-operating	6,256	6,256	—
(6) Short-term loans	19,518	19,518	—
(7) Commercial paper	9,000	9,000	—
(8) Bonds*1	30,000	30,156	156
(9) Long-term loans payable*2	63,560	63,699	139
Total liabilities	¥146,757	¥147,052	¥295
Derivative transactions*3	¥(3)	¥(3)	¥—

	Thousands of U.S. dollars		
	Book value	Fair value	Difference
			2016
(1) Cash and deposits	\$169,385	\$169,385	\$—
(2) Notes and accounts receivable	586,724	586,724	—
(3) Investments in securities:			
① Stocks of affiliates	274,842	267,104	(7,738)
② Available-for-sale securities	177,594	177,594	—
Total assets	\$1,208,545	\$1,200,807	\$(7,738)
(4) Notes and accounts payable	\$192,235	\$192,235	\$—
(5) Electronically recorded obligations-operating	57,814	57,814	—
(6) Short-term loans	124,119	124,119	—
(7) Commercial paper	177,478	177,478	—
(8) Bonds*1	177,478	178,463	985
(9) Long-term loans payable*2	661,603	666,625	5,022
Total liabilities	\$1,390,727	\$1,396,734	\$6,007
Derivative transactions*3	\$(2,147)	\$(2,147)	\$—

*1 Bonds payable within a year are classified as "current maturities of long-term debt" on the consolidated balance sheets.

*2 Current portion of long-term loans payable is classified as "current maturities of long-term debt" on the consolidated balance sheets.

*3 Receivables and payables incurred by derivative transactions are presented in net. Net payables are presented in parenthesis.

(a) Calculation method of fair values of financial instruments and securities and derivative transactions are as follows:

Assets

(1) Cash and deposits

With regard to deposits with indefinite maturity and time deposits with maturities within one year, the carrying values approximate fair value.

(2) Notes and accounts receivable

The carrying values of notes and account receivable approximate fair value because of their short maturities.

(3) Investments in securities

The fair value of marketable equity securities is measured at the quoted market price of the stock exchange. Please see Note 5 regarding securities categorized by holding purposes.

Liabilities

(4) Notes and accounts payable (5) Electronically recorded obligations-operating (6) Short-term loans, and (7) Commercial paper

The carrying values of liabilities mentioned above

approximate fair value because of their short maturities.

(8) Bonds

The fair value of bonds issued by the Company is measured at the quoted market price.

(9) Long-term loans payable

The fair values of long-term loans payable are determined by discounting the aggregated amount of the principal and interest using estimated interest rate, assuming that the same type of borrowing was newly made. The fair values of long term loans payable which qualify for special treatment for interest rate swaps and integrated treatment for interest rate currency swaps are determined by discounting the aggregated amount of the principal and interest that are included as part of the relevant interest rate swap and interest rate currency swap at the estimated interest rate, assuming that the same type of borrowing was newly made.

Derivative Transaction

For details of derivative transactions, see Note 16.

(b) Unlisted equity securities have no market price and there is no way of estimating for future cash flows. Determining fair value is therefore acknowledged to be extremely difficult and they are not included in (3) Investments in securities.

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Unlisted equity securities	¥10,172	¥10,791	\$95,758

(c) Planned redemption of receivables after the balance sheet date

	Millions of yen				Thousands of U.S. dollars	
	2015		2016		2016	
	Due in one year	Due after one year through two years	Due in one year	Due after one year through two years	Due in one year	Due after one year through two years
Cash and deposits	¥15,803	¥—	¥19,088	¥—	\$169,385	\$—
Notes and accounts receivable	61,441	—	66,118	—	586,724	—
Total	¥77,244	¥—	¥85,206	¥—	\$756,109	\$—

(d) Repayment schedule of short-term bank loans, commercial paper, bonds and long-term loans payable

	Millions of yen					
	2016					
	Due in one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due over five years
Short-term bank loans	¥13,987	¥—	¥—	¥—	¥—	¥—
Commercial paper	20,000	—	—	—	—	—
Bonds	10,000	—	10,000	—	—	—
Long-term loans payable*	15,104	11,358	8,342	13,962	7,957	17,833
Total	¥59,091	¥11,358	¥18,342	¥13,962	¥7,957	¥17,833

Millions of yen						
2015						
	Due in one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due over five years
Short-term bank loans	¥19,518	¥—	¥—	¥—	¥—	¥—
Commercial paper	9,000	—	—	—	—	—
Bonds	10,000	10,000	—	10,000	—	—
Long-term loans payable*	16,491	13,401	10,127	6,109	12,223	5,209
Total	¥55,009	¥23,401	¥10,127	¥16,109	¥12,223	¥5,209

Thousands of U.S. dollars						
2016						
	Due in one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due over five years
Short-term bank loans	\$124,119	\$—	\$—	\$—	\$—	\$—
Commercial paper	177,478	—	—	—	—	—
Bonds	88,739	—	88,739	—	—	—
Long-term loans payable*	134,031	100,790	74,026	123,897	70,610	158,248
Total	\$524,367	\$100,790	\$162,765	\$123,897	\$70,610	\$158,248

*Long-term loans payable include the current maturities of long-term loans payable.

Note 5: Securities

The following tables summarize acquisition costs and book value of securities with available fair value as of March 31, 2016 and 2015:

Available-for-sale securities:

Millions of yen			
2016			
Type	Acquisition cost	Book value	Difference
Equity securities:			
with book value (fair value) exceeding acquisition costs	¥10,156	¥17,628	¥7,472
with book value (fair value) not exceeding acquisition costs	2,521	2,385	(136)
	¥12,677	¥20,013	¥7,336

Millions of yen			
2015			
Type	Acquisition cost	Book value	Difference
Equity securities:			
with book value (fair value) exceeding acquisition costs	¥11,536	¥20,990	¥9,454
with book value (fair value) not exceeding acquisition costs	1,142	1,077	(65)
	¥12,678	¥22,067	¥9,389

Thousands of U.S. dollars			
2016			
Type	Acquisition cost	Book value	Difference
Equity securities:			
with book value (fair value) exceeding acquisition costs	\$90,123	\$156,429	\$66,306
with book value (fair value) not exceeding acquisition costs	22,371	21,164	(1,207)
	\$112,494	\$177,593	\$65,099

Total sales of available-for-sale securities sold in the year ended March 31, 2016 amounted to ¥106 million (\$941 thousand), the related gains amounted to ¥71 million (\$630 thousand) and the related losses amounted to ¥0

million (\$0 thousand). Total sales of available-for-sale securities sold in the year ended March 31, 2015 amounted to ¥22 million, the related gains amounted to ¥2 million and the related losses amounted to ¥0 million.

Note 6: Inventories

Inventories at March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Merchandise and Finished goods	¥19,835	¥23,730	\$210,577
Work-in-process	2,028	2,094	18,582
Raw materials and supplies	14,076	21,096	187,204
	¥35,939	¥46,920	\$416,363

Note 7: Amounts Relating to Fraud Committed by A Subsidiary's Employee

Balances relating to fraud committed by a subsidiary's employee at March 31, 2016 and 2015 and related provision for doubtful accounts for the years then ended are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Balances:			
Other in investments and other assets	¥2,405	¥2,360	\$20,942
Allowance for doubtful accounts in investments and other assets	(2,405)	(2,360)	(20,942)
Provision of allowance for doubtful accounts	¥188	—	—

Note 8: Assets Pledged and Secured Liability

Assets Pledged and Secured Liability at March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Cash and deposits	¥505	¥197	\$1,748
Notes and accounts receivable	200	—	—
	¥705	¥197	\$1,748

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Notes and accounts payable	¥505	¥731	\$6,487
Short-term loans	234	—	—
	¥739	¥731	\$6,487

Note 9: Short-Term Debt, Commercial Paper, and Long-Term Debt

(1) Short-term debt had weighted-average interest rates of 0.74% and 0.90% as of March 31, 2016 and 2015, respectively.

(2) The weighted-average interest rate on commercial paper at March 31, 2016 is 0.00%.

(3) Long-term debt at March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Long-term loans from banks and other financial institutions			
(Loans due with one year, weighted-average interest rate 0.61%)	¥16,491	¥15,104	\$134,031
(Loans due after one year, weighted-average interest rate 0.52%)	47,069	59,452	527,571
0.794% unsecured yen straight bonds due in 2015	10,000	—	—
0.685% unsecured yen straight bonds due in 2016	10,000	10,000	88,739
0.384% unsecured yen straight bonds due in 2019	10,000	10,000	88,739
Lease obligations			
(Loans due with one year)	727	652	5,786
(Loans due after one year)	919	392	3,479
	95,206	95,600	848,345
Less current portion due with one year	(27,218)	(25,756)	(228,556)
Long-term debt	¥67,988	¥69,844	\$619,789

(4) The annual maturities of long-term debt at March 31, 2016 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2017	¥25,756	\$228,556
2018	11,583	102,786
2019	18,397	163,253
2020	14,008	124,306
2021 and thereafter	25,856	229,444
	¥95,600	\$848,345

Note 10: Contingent Liabilities

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Balance of notes receivable transferred by endorsement	¥359	¥ 113	\$1,003

Note 11: Net Assets

Net assets comprise four subsections, which are shareholders' equity, accumulated other comprehensive income, net of tax, share subscription rights and non-controlling interests.

Under the Japanese Corporate Law ("the Law") and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

In cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Appropriations of legal earnings reserve and additional paid-in capital generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. However, by resolution of the shareholders' meeting, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. Other capital surplus and retained earnings are included in capital surplus and retained earnings, respectively.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law and regulations.

At the annual shareholders' meeting held on June 28, 2016, the shareholders approved cash dividends amounting to ¥1,136 million (\$10,081 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2016. Such appropriations are recognized in the period in which they are approved by the shareholders.

Note 12: Income Taxes

The Companies are subject to a number of taxes levied on income, which, in the aggregate, resulted in normal statutory income tax rates of approximately 32.8% and 35.4% in the year ended March 31, 2016 and 2015, respectively.

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended March 31, 2016 and 2015:

	2015	2016
Statutory tax rate	35.4%	32.8%
Non-deductible expenses	1.1	0.6
Dividends received not taxable	(0.9)	(0.5)
Per capita inhabitants taxes	0.5	0.5
Gain on negative goodwill	(0.7)	—
Valuation allowance	(3.0)	2.4
Effect of multiple tax rates	0.1	(0.1)
Effect of change in tax rates	3.4	1.7
Equity in income of affiliates	(14.0)	(13.2)
Other	1.2	2.5
Effective tax rate	23.1%	26.7%

Significant components of deferred income tax assets and liabilities at March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Deferred income tax assets:			
Accrued bonuses	¥827	¥842	\$7,472
Unrealized gain from sales of inventories between the Companies	262	319	2,831
Asset for retirement benefit	4,637	4,517	40,083
Long-term accrued amount payable	36	29	257
Unrealized gain from sales of fixed assets between the Companies	1,067	1,079	9,575
Unrealized holding gain on fixed assets	742	3,658	32,461
Depreciation and amortization	1,137	1,015	9,007
Impairment loss of fixed assets	864	658	5,839
Loss on devaluation of investments in securities	1,126	1,051	9,326
Provision for business structure improvement	180	85	754
Accrued environmental expenditures	15	14	124
Asset retirement obligations	456	431	3,825
Net operating loss carry forwards	202	1,172	10,400
Allowance for doubtful accounts	874	836	7,419
Other	1,967	2,637	23,401
Subtotal deferred income tax assets	14,392	18,343	162,774
Valuation allowance	(4,323)	(9,138)	(81,090)
Total deferred income tax assets	¥10,069	¥9,205	\$81,684
Deferred income tax liabilities:			
Liability for retirement benefit	¥(975)	¥(836)	\$(7,419)
Reserve deductible for Japanese tax purpose	(122)	(126)	(1,118)
Reserve for deferred gain on sales of fixed assets for tax purpose	(858)	(825)	(7,321)
Valuation difference on Property, plant and equipment	(2,224)	(1,938)	(17,198)
Unrealized holding gain on securities	(2,777)	(2,284)	(20,268)
Accumulated adjustments for retirement benefit	(545)	(189)	(1,677)
Other	(34)	(91)	(807)
Total deferred income tax liabilities	¥(7,535)	¥(6,289)	\$(55,808)
Net deferred income tax assets (liabilities)	¥2,534	¥2,916	\$25,876

The adjustment of deferred tax assets and liabilities due to the change in corporation tax rates

The Act for Partial Amendment of the Income Tax Act, etc., and the Act for Partial Amendment of the Local Tax Act, etc., were passed by the Diet of Japan on March 29, 2016, changing the statutory income tax rate used for calculating deferred tax assets and deferred tax liabilities (limited to those to be eliminated on and after April 1, 2016) from 32.1% in the previous consolidated fiscal year to 30.7% for those expected to be recovered or paid during the period from April 1, 2016 to March 31, 2018 and to 30.5% for those

expected to be recovered or paid on or after April 1, 2018.

As a result, net deferred tax assets (after deducting the deferred tax liabilities) decreased by ¥52 million (\$461 thousand) and unrealized gains or losses on hedges decreased by ¥3 million (\$27 thousand), and deferred income tax expense recognized for the fiscal year ended March 31, 2016, unrealized holding gains on securities, and accumulated adjustments for retirement benefit increased by ¥168 million (\$1,491 thousand), ¥110 million (\$976 thousand) and ¥10 million (\$89 thousand), respectively.

Note 13: Research and Development Expenses

Research and development expenses are recognized in the consolidated statements of income in the year when they are incurred. Research and development expenses included in selling, general and

administrative expenses are ¥710 million (\$6,300 thousand) and ¥735 million for the years ended March 31, 2016 and 2015, respectively.

Note 14: Impairment Loss on Fixed Assets

In the year ended March 31, 2016, the Companies recorded impairment loss on fixed assets for the following group of assets:

Use	Location	Type	Amount	
			Millions of yen	Thousands of U.S. dollars
Processed paper production equipment	Suita-city, Osaka	Buildings and structures	¥23	\$204
Idle assets	Kihou-cho, Minamimuro-gun, Mie and others	Land and others	23	204
Total			¥46	\$408

The Companies classify fixed assets into groups based on the place of business and the products with mutual supplementation. However, the Companies classify real estate for rent and idle properties, which are not expected to be used in the future, individually.

(Process for Recognition of Impairment Loss on Fixed Assets)

Due to a decision to consolidate production structures in parts of the packaging/paper processing business, the Companies reduced the book value of the relevant paper processing and production facilities to the

recoverable value, and recorded the reduction of said amount under other expenses as an impairment loss on fixed assets.

For idle assets with no planned future use, the Companies reduced book value to recoverable value and also recorded such reductions under other expenses as an impairment loss on fixed assets.

The recoverable value is measured by the net sale value, evaluated based on the rational estimates. The recoverable value for the assets which have difficulty in sale and other conversion is evaluated as zero.

In the year ended March 31, 2015, the Companies recorded impairment loss on fixed assets for the following group of assets:

Use	Location	Type	Amount	
			Millions of yen	Thousands of U.S. dollars
Processed paper production equipment	Hitachinaka-city, Ibaraki	Machinery, vehicles, equipment and others		¥102
Idle assets	Niigata-city, Niigata and others	Machinery, vehicles, equipment and others		134
Total				¥236

The Companies classify fixed assets into groups based on the place of business and the products with mutual supplementation. However, the Companies classify real estate for rent and idle properties, which are not expected to be used in the future, individually.

(Process for Recognition of Impairment Loss on Fixed Assets)

In view of the poor prospects for demand recovery in the packaging/paper processing business, the Companies resolved to withdraw from the abovementioned business. To that end, the Companies

reduced the book value of the relevant paper processing and production facilities to the recoverable value, and recorded the reduction of said amount under other expenses as an impairment loss on fixed assets.

For idle assets with no planned future use, the Companies reduced book value to recoverable value and also recorded such reductions under other expenses as an impairment loss on fixed assets.

The recoverable value is measured by the net sale value, evaluated based on the rational estimates. The recoverable value for the assets which have difficulty in sale and other conversion is evaluated as zero.

Note 15: Lease Transactions

Lease transactions for the years ended March 31, 2016 and 2015 are as follows:

Finance lease transactions without ownership transfer to lessee, which commenced prior to April 1, 2008

(a) Purchase price equivalent, accumulated depreciation equivalent, accumulated impairment loss equivalent and book value equivalent:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Machinery, equipment and others			
Purchase price equivalent	¥1,479	¥1,161	\$10,303
Accumulated depreciation equivalent	1,268	1,122	9,957
Accumulated impairment loss equivalent	—	—	—
Book value equivalent	211	39	346

Purchase price equivalent is calculated using the inclusive-of-interest method.

(b) Lease commitments and the balance of impairment loss account on leased assets included in the outstanding lease commitments:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Due within one year	¥172	¥39	\$346
Due after one year	39	—	—
	¥211	¥39	\$346
Balance of impairment loss account on leased assets included in the outstanding lease commitments	¥—	¥—	\$—

Lease commitments are calculated using the inclusive-of-interest method.

(c) Lease payments, reversal of allowance for impairment loss on leased assets, depreciation equivalent:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Lease payments	¥204	¥172	\$1,526
Reversal of allowance for impairment loss on leased assets	5	—	—
Depreciation equivalent	199	172	1,526

(d) Calculation method of depreciation equivalent:

Depreciation equivalent is computed on the straight-line method over the lease period without residual value.

Operating lease transactions

Lease commitments under non-cancelable operating leases for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
(lessee)			
Due within one year	¥104	¥141	\$1,251
Due after one year	199	162	1,438
	¥303	¥303	\$2,689
(lessor)			
Due within one year	¥26	¥26	\$231
Due after one year	63	38	337
	¥89	¥64	\$568

Note 16: Derivative Transactions

Derivative financial instruments currently utilized by the Companies include mainly forward exchange contracts, interest rate swap contracts, interest rate and currency swaps contracts and crude oil swaps contracts, all of which are for hedging purposes.

The Companies use forward exchange contracts to avert exposure to market risks arising from changes in foreign exchange rates, interest rate swap contracts to avert the Companies' exposure to adverse movements in interest rates, interest rate and currency swap contracts to avert the Companies' exposure to adverse movements in principal and interest on foreign currency loans payable, and crude oil swap contracts to avert the Companies' exposure to adverse price movements of some fuel purchase transactions.

Forward exchange contracts, interest rate swap contracts, and interest rate and currency swaps contracts, are subject to risks of foreign exchange rate

changes and interest rate changes, respectively.

The derivative transactions are executed and managed by the Company's Corporate Planning and Administration Department in accordance with the established policies and within the specified limits on the amounts of derivative transactions allowed. The Manager of the Corporate Planning and Administration Department reports information on derivative transactions to the Executive Management Meeting quarterly.

The Companies evaluate hedge effectiveness by comparing the cumulative changes in cash flows or the changes in fair value of hedged items and the corresponding changes in the hedging derivative instruments. If the percentage changes of hedged items and hedging instruments, ranging between approximately 80% to 125%, hedging transactions are considered to be effective.

Derivative transactions for which hedge accounting had not been applied at March 31, 2016 and 2015 are as follows:

Type of derivative transaction	Millions of yen								Thousands of U.S. dollars			
	2015				2016				2016			
	Contract amount		Fair value	Valuation Gain (Loss)	Contract amount		Fair value	Valuation Gain (Loss)	Contract amount		Fair value	Valuation Gain (Loss)
Forward exchange contracts	Total	Over one year				Total			Over one year			
Buy contracts												
U.S. Dollar	¥—	¥—	¥—	¥—	¥10	¥—	¥(0)	¥(0)	\$89	\$—	\$(0)	\$(0)
Canadian Dollar	¥—	¥—	¥—	¥—	¥86	¥—	¥2	¥2	\$763	\$—	\$18	\$18

Derivative transactions for which hedge accounting had been applied at March 31, 2016 and 2015 are as follows:

(1) Currency-related

Type of derivative transaction	Main hedged items	Millions of yen						Thousands of U.S. dollars		
		2015			2016			2016		
		Contract amount		Fair value	Contract amount		Fair value	Contract amount		Fair value
Forward exchange contracts		Total	Over one year			Total		Over one year		
Buy contracts	Trade payables									
U.S. Dollar		¥110	¥—	¥(4)	¥6,520	¥—	¥(245)	\$57,858	\$—	\$(2,174)
EUR		¥302	¥—	¥(3)	¥153	¥—	¥0	\$1,358	\$—	\$0

Fair value on Forward exchange contracts is based on the price offered by the contracted financial institution.

(2) Interest-related

Type of derivative transaction	Main hedged items	Millions of yen						Thousands of U.S. dollars		
		2015			2016			2016		
		Contract amount		Fair value	Contract amount		Fair value	Contract amount		Fair value
Interest rate swap contracts		Total	Over one year			Total		Over one year		
Receive floating, Pay fixed	Long-term loans payable	¥287	¥—	¥(2)	¥—	¥—	¥—	\$—	\$—	\$—

The following interest rate swap contracts are used as hedges and meet certain hedging criteria. The net amount to be paid or received under the interest rate

swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Type of derivative transaction	Main hedged items	Millions of yen						Thousands of U.S. dollars			
		2015			2016			2016			
		Contract amount		Fair value	Contract amount		Fair value	Contract amount		Fair value	
Interest rate swap contracts											
Receive floating, Pay fixed	Long-term loans payable	¥17,375	¥16,475	¥—	¥27,095	¥20,435	¥—	\$240,438	\$181,338	\$—	

Fair value on interest rate swap contracts is based on the price offered by the contracted financial institution. Market value of interest rate swap is included in the corresponding hedged long-term debt as this interest

rate swap is recorded as an adjustment to the corresponding hedged long-term debt under the special treatment.

(3) Interest and currency –related

Type of derivative transaction	Main hedged items	Millions of yen						Thousands of U.S. dollars			
		2015			2016			2016			
		Contract amount		Fair value	Contract amount		Fair value	Contract amount		Fair value	
Interest rate and currency swaps contracts											
Receive floating, Pay fixed	Long-term loans payable										
Receive U.S. dollar, Pay Japanese Yen		¥500	¥—	¥—	¥13,613	¥12,646	¥—	\$120,800	\$112,219	\$—	

Fair value on interest rate and currency swap contracts is based on the price offered by the contracted financial institution.

Market value of interest rate and currency swap is

included in the corresponding hedged long-term debt as this interest rate and currency swap is recorded as an adjustment to the corresponding hedged long-term debt under the special treatment.

(4) Commodities –related

Type of derivative transaction	Main hedged items	Millions of yen						Thousands of U.S. dollars			
		2015			2016			2016			
		Contract amount		Fair value	Contract amount		Fair value	Contract amount		Fair value	
Commodities swaps contracts											
Receive floating, Pay fixed	Fuel oil	¥162	¥—	¥5	¥—	¥—	¥—	\$—	\$—	\$—	

Fair value on commodities swap contracts is based on the price offered by the contracted financial institution.

Note 17: Retirement Benefits –Related

The Company and its consolidated subsidiaries have in place a corporate pension fund plan and a lump-sum retirement payment plan as their defined benefit pension plan, and some consolidated subsidiaries use small-to-medium enterprises' retirement benefit mutual aid schemes in conjunction therewith. In addition, the Company has set up a retirement benefits trust. In addition, a defined contribution pension plan has been established for a number of overseas consolidated subsidiaries.

Under the corporate pension fund plan and the lump-sum retirement payment plan of some

consolidated subsidiaries, retirement benefit obligations and retirement benefit costs are calculated using the simplified method.

In addition, at some consolidated subsidiaries, due to their merger with other consolidated subsidiaries, retirement benefit plans have been revised, or in some cases abolished. As a result, gain on abolishment of retirement benefit plan and amortization of past service cost for retirement benefit accounting were recorded as other income (expenses), of ¥41 million (\$364 thousand) and of ¥108 million (\$958 thousand), respectively.

1. Defined benefit plans, except plan applied simplified method

(1) Movement in retirement benefit obligations	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Balance at the beginning of the year	¥18,198	¥18,909	\$167,797
Cumulative effects of changes in accounting policies	1,201	—	—
Restated balance	19,399	18,909	167,797
Increase with acquisition of shares of new consolidated subsidiaries	—	1,175	10,427
Service cost	981	995	8,830
Interest cost	126	127	1,127
Actuarial loss (gain)	73	(175)	(1,553)
Benefits paid	(1,670)	(1,567)	(13,905)
Increase due to revision of retirement benefit plan	—	108	958
Decrease due to partial abolition of retirement benefit plan	—	(1,260)	(11,181)
Other	—	(65)	(578)
Balance at the end of the year	¥18,909	¥18,247	\$161,922

(2) Movements in plan assets

(2) Movements in plan assets	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Balance at the beginning of the year	¥8,283	¥9,079	\$80,566
Increase with acquisition of shares of new consolidated subsidiaries	—	803	7,126
Expected return on plan assets	83	87	772
Actuarial loss (gain)	929	(693)	(6,150)
Contributions paid by the employer	356	329	2,920
Benefits paid	(573)	(405)	(3,594)
Decrease due to partial abolition of retirement benefit plan	—	(1,380)	(12,246)
Other	—	(17)	(151)
Balance at the end of the year	¥9,078	¥7,803	\$69,243

(3) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

(3) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Funded retirement benefit obligations	¥6,843	¥6,070	\$53,865
Plan assets	(9,078)	(7,803)	(69,243)
	(2,235)	(1,733)	(15,378)
Unfunded retirement benefit obligations	12,066	12,177	108,057
Total Net liability (asset) for retirement benefits	9,831	10,444	92,679
Liability for retirement benefits	11,962	12,294	109,096
Asset for retirement benefits	(2,131)	(1,850)	(16,417)
Total Net liability (asset) for retirement benefits	¥9,831	¥10,444	\$92,679

(4) Retirement benefit costs	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Service cost	¥981	¥995	\$8,830
Interest cost	126	127	1,127
Expected return on plan assets	(83)	(87)	(772)
Net actuarial loss amortization	(218)	(317)	(2,813)
Other	—	(46)	(409)
Total retirement benefit costs	¥806	¥672	\$5,963
Gain on abolishment of retirement benefit plan*	—	(41)	(364)
Amortization of past service cost for retirement benefit accounting*	—	108	958

*These accounts are recorded in other income (expenses).

(5) Adjustments for retirement benefit	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Actuarial gains and losses	¥638	¥(834)	\$(7,401)
Adjustment due to partial abolition of retirement benefit plans	—	(160)	(1,420)
Other	—	(3)	(26)
Total adjustments for retirement benefit	¥638	¥(997)	\$(8,847)

(6) Accumulated adjustments for retirement benefit	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Actuarial gains and losses that are yet to be recognized	¥(1,696)	¥(699)	\$(6,203)

(7) Plan assets

1. Plan assets comprise:	2015	2016
Bonds	20.0%	26.2%
Equity securities	46.0%	47.9%
Cash and deposits	15.2%	6.2%
General account of life insurance companies	15.1%	17.6%
Other	3.7%	2.1%
Total*	100.0%	100.0%

*Total pension assets include the pension benefits trust, established under the corporate pension system, which accounted for 12.8% of assets in the previous fiscal year and 11.3% of assets in the current fiscal year under review.

2. Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(8) Actuarial assumptions

The principal actuarial assumptions:

	2015	2016
Discount rate	0.6% (mainly)	0.6% (mainly)
Long-term expected rate of return	1.0% (mainly)	1.0% (mainly)
Anticipated rate of increase	3.1% (mainly)	3.1% (mainly)

2. Defined benefit plan applying the simplified method

(1) Movement in liability for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Balance at the beginning of the year	¥1,162	¥1,196	\$10,613
Retirement benefit costs	176	293	2,600
Benefits paid	(69)	(117)	(1,038)
Contributions paid by the employer	(110)	(141)	(1,251)
Other	37	0	0
Balance at the end of the year	¥1,196	¥1,231	\$10,924

(2) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Funded retirement benefit obligations	¥606	¥733	\$6,505
Plan assets	(597)	(678)	(6,017)
	9	55	488
Unfunded retirement benefit obligations	1,187	1,176	10,436
Total Net liability (asset) for retirement benefits	1,196	1,231	10,924
Liability for retirement benefits	1,196	1,231	10,924
Total Net liability (asset) for retirement benefits	¥1,196	¥1,231	\$10,924

(3) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Total retirement benefit costs based on the simplified method	¥176	¥293	\$2,600

3. Defined contribution pension plan

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Required contributions provided to defined contribution pension plans at consolidated subsidiaries	—	¥99	\$879

Note 18: Asset Retirement Obligations

1. Asset retirement obligations recorded on the consolidated balance sheets

(1) Outline of the asset retirement obligations recorded:

The Company recorded asset retirement obligations covering the expenses for the removal of asbestos to be incurred at the time of removal from buildings and structures owned by the Company, treatment

expenses stipulated by the Waste Management and Public Cleansing Act, and expenses for the restoration to their original state of properties leased by consolidated subsidiaries.

(2) Basis for the calculation of the amount of the relevant asset retirement obligations:

The projected use period of each fixed asset is estimated to be 4 to 64 years based on the useful life of

each, and the discount rate of 0.516% to 2.330% is used.

(3) Increase or decrease in the total amount of the relevant asset retirement obligations during the fiscal year ended March 31, 2016 and 2015:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Balance at the beginning of the year	¥1,460	¥1,418	\$12,583
Increase from acquisition of property, plant and equipment	—	55	488
Adjustments over time	10	18	160
Increase (Decrease) due to change of estimates	(1)	1	9
Decrease in loss on disposal of property, plant and equipment	(51)	(17)	(151)
Increase from newly consolidated subsidiaries	—	634	5,626
Foreign currency translation adjustment	—	(18)	(160)
Balance at the end of the year	¥1,418	¥2,091	\$18,555

2. Asset retirement obligations other than those recorded on the consolidated balance sheets

The Companies have obligations to restore land, buildings and other structures which the Companies use under lease or rental contracts to their original state when vacating them. However, because the use periods of the leased properties related to such obligations are

unclear, and also in view of the fact that the Companies currently have no plan to exit from these properties, it is not possible to clearly estimate the amounts of asset retirement obligations. For this reason, the asset retirement obligations that correspond to these obligations are not recorded in the accompanying consolidated financial statements.

Note 19: Segment Information

1. Overview of Reporting Segments

Reporting segments of the Company are subject to regular review so that the Board of Directors is able to decide on the best allocation of management resources and evaluate results.

The Companies evaluate business results on an each entity basis, and treat independent entity as a unit functioning within each of its business segments. The Company groups each unit into segments according to commonality in economic characteristics, product manufacturing methods and markets. Based on this

approach, the Company maintains two reporting segments: the "Paper and Pulp Business" and the "Packaging and Paper Processing Business."

The Paper and Pulp Business consists of the manufacture and sale of paper and pulp products, while the Packaging and Paper Processing Business consists of the manufacture and sale of paper containers and liquid package cartons, various printing products, including business forms, and the data processing service (DPS) business.

2. Basis for measurement of segment sales, segment income or loss, segment assets and other significant items:

The basis of the accounting treatment for the reporting segments is substantially the same as described in

"Summary of Significant Accounting Policies" herein. The segment income represents the operating income-based amount. The intersegment revenues and transfers are determined based on the prevailing market value.

3. Information regarding segment sales, segment income or loss, segment assets and other significant items:

	Millions of yen					
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others*1	Corporate or elimination*2	Consolidated*3
Sales:						
Sales to outside customers	¥218,277	¥20,129	¥238,406	¥8,443	¥—	¥246,849
Intersegment sales or transfers	2,401	59	2,460	29,071	(31,531)	—
Total	220,678	20,188	240,866	37,514	(31,531)	246,849
Operating income	¥7,320	¥696	¥8,016	¥551	¥669	¥9,236
Identifiable assets	¥342,297	¥17,911	¥360,208	¥20,109	¥(16,659)	¥363,658
Other items						
Depreciation and amortization	¥18,653	¥872	¥19,525	¥446	¥(418)	¥19,553
Impairment loss	¥20	¥23	¥43	¥3	¥—	¥46
Investment in affiliates	¥33,526	¥—	¥33,526	¥—	¥—	¥33,526
Increase in property, plant and equipment/intangible assets	¥9,059	¥479	¥9,538	¥293	¥(406)	¥9,425

	Thousands of U.S. dollars					
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others*1	Corporate or elimination*2	Consolidated*3
Sales:						
Sales to outside customers	\$1,936,969	\$178,622	\$2,115,591	\$74,923	\$—	\$2,190,514
Intersegment sales or transfers	21,306	524	21,830	257,973	(279,803)	—
Total	1,958,275	179,146	2,137,421	332,896	(279,803)	2,190,514
Operating income	\$64,957	\$6,176	\$71,133	\$4,889	\$5,937	\$81,959
Identifiable assets	\$3,037,510	\$158,940	\$3,196,450	\$178,445	\$(147,830)	\$3,227,065
Other items						
Depreciation and amortization	\$165,525	\$7,738	\$173,263	\$3,957	\$(3,709)	\$173,511
Impairment loss	\$177	\$205	\$382	\$26	\$—	\$408
Investment in affiliates	\$297,506	¥—	\$297,506	\$—	\$—	\$297,506
Increase in property, plant and equipment/intangible assets	\$80,389	\$4,250	\$84,639	\$2,601	\$(3,603)	\$83,637

*1 The "Others" category indicates business segments not included in the reporting segments, encompassing the wood products business, the construction business, sales of real estate, the transportation and warehousing business and the wastepaper wholesale business.

*2 Amounts of adjustments are as follows:

(1) Adjustments in segment income in the amount of ¥669 million (\$5,937 thousand) mainly represent eliminations of intersegment transactions.

(2) Adjustments in segment assets in the amount of ¥(16,659) million (\$(147,830) thousand) include ¥(22,708) million (\$(201,509) thousand) for eliminations of intersegment debts and credits and ¥6,049 million (\$53,679 thousand) for the corporate assets that are not allocated to each reportable segment.

(3) Adjustments in increases in property, plant and equipment and intangible fixed assets totaling ¥(406) million (\$(3,603) thousand) represent eliminations of intersegment unrealized gains on noncurrent assets.

*3 Segment income is adjusted to reflect operating income as recorded in the consolidated statements of income.

							Millions of yen
							2015
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others*1	Corporate or elimination*2	Consolidated*3	
Sales:							
Sales to outside customers	¥200,647	¥19,820	¥220,467	¥7,933	¥—	¥228,400	
Intersegment sales or transfers	2,528	126	2,654	28,508	(31,162)	—	
Total	203,175	19,946	223,121	36,441	(31,162)	228,400	
Operating income	¥4,444	¥442	¥4,886	¥463	¥791	¥6,140	
Identifiable assets	¥326,104	¥17,667	¥343,771	¥18,830	¥(11,568)	¥351,033	
Other items							
Depreciation and amortization	¥18,039	¥944	¥18,983	¥443	¥(420)	¥19,006	
Impairment loss	¥97	¥132	¥229	¥7	¥—	¥236	
Investment in affiliates	¥30,978	¥—	¥30,978	¥—	¥—	¥30,978	
Increase in property, plant and equipment/intangible assets	¥10,937	¥273	¥11,210	¥512	¥(594)	¥11,128	

*1 The "Others" category indicates business segments not included in the reporting segments, encompassing the wood products business, the construction business, sales of real estate, the transportation and warehousing business and the wastepaper wholesale business.

*2 Amounts of adjustments are as follows:

- (1) Adjustments in segment income in the amount of ¥791 million mainly represent eliminations of intersegment transactions.
- (2) Adjustments in segment assets in the amount of ¥(11,568) million include ¥(19,501) million for eliminations of intersegment debts and credits and ¥7,933 million for the corporate assets that are not allocated to each reportable segment.
- (3) Adjustments in increases in property, plant and equipment and intangible fixed assets totaling ¥(594) million represent eliminations of intersegment unrealized gains on noncurrent assets.

*3 Segment income is adjusted to reflect operating income as recorded in the consolidated statements of income.

(Related information)

Fiscal year ended March 31, 2016

1. Information by Product or Service

This information is omitted here as it is disclosed in the Segment Information section.

2. Information by Region

(1) Net Sales

					Millions of yen
					2016
	Japan	Asia	Others	Total	
Net Sales	¥199,731	¥29,632	¥17,486	¥246,849	

					Thousands of U.S. dollars
					2016
	Japan	Asia	Others	Total	
Net Sales	\$1,772,393	\$262,951	\$155,170	\$2,190,514	

Classification of net sales is determined by country or geographical location of customers.

Major countries and areas which belong to segments other than Japan are as follows:

- (1) AsiaChina, Korea, Hong Kong, Taiwan, Vietnam, Thailand
- (2) Other.....North America, Europe, Oceania, the Middle East

(2) Property, plant and equipment

					Millions of yen
					2016
	Japan	China	Others	Total	
Property, plant and equipment	¥131,787	¥15,569	¥5,040	¥152,396	

					Thousands of U.S. dollars
					2016
	Japan	China	Others	Total	
Property, plant and equipment	\$1,169,465	\$138,158	\$44,724	\$1,352,347	

3. Information by Major Customer

Name of Customers	Millions of yen	Thousands of U.S. dollars
	2016	2016
SHINSEI PULP & PAPER COMPANY LIMITED	¥39,672	\$352,045

Fiscal year ended March 31, 2015

1. Information by Product or Service

This information is omitted here as it is disclosed in the Segment Information section.

2. Information by Region

(1) Net Sales

					Millions of yen
					2015
	Japan	Asia	Others	Total	
Net Sales	¥200,088	¥17,578	¥10,734	¥228,400	

Classification of net sales is determined by country or geographical location of customers.

Major countries and areas which belong to segments other than Japan are as follows:

- (1) AsiaChina, Hong Kong, Korea, Taiwan, Thailand, Vietnam
- (2) Other.....Europe, North America, Oceania, the Middle East

(2) Property, plant and equipment

					Millions of yen
					2015
	Japan	China	Others	Total	
Property, plant and equipment	¥142,982	¥16,329	¥1,129	¥160,440	

3. Information by Major Customer

Name of Customers	Millions of yen
	2015
SHINSEI PULP & PAPER COMPANY LIMITED	¥40,733
KOKUSAI PULP & PAPER CO., LTD.	¥26,334

(Information regarding the amounts of amortization and unamortized balance by reportable segment)
Fiscal year ended March 31, 2016

						Millions of yen
						2016
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others	Corporate or elimination	Consolidated
Goodwill:						
Amortization of goodwill	¥161	¥—	¥161	¥3	¥—	¥164
Balance at end of year	¥1,618	¥—	¥1,618	¥—	¥—	¥1,618
Negative goodwill:						
Amortization of negative goodwill	¥—	¥—	¥—	¥—	¥—	¥—
Balance at end of year	¥—	¥—	¥—	¥—	¥—	¥—

						Thousands of U.S. dollars
						2016
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others	Corporate or elimination	Consolidated
Goodwill:						
Amortization of goodwill	\$1,429	\$—	\$1,429	\$26	\$—	\$1,455
Balance at end of year	\$14,358	\$—	\$14,358	\$—	\$—	\$14,358
Negative goodwill:						
Amortization of negative goodwill	\$—	\$—	\$—	\$—	\$—	\$—
Balance at end of year	\$—	\$—	\$—	\$—	\$—	\$—

(Note) The amounts of "Other" are those related to the construction business and the machinery manufacture, sales and maintenance operations.

Fiscal year ended March 31, 2015

						Millions of yen
						2015
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others	Corporate or elimination	Consolidated
Goodwill:						
Amortization of goodwill	¥167	¥—	¥167	¥—	¥—	¥167
Balance at end of year	¥1,975	¥—	¥1,975	¥—	¥—	¥1,975
Negative goodwill:						
Amortization of negative goodwill	¥729	¥14	¥743	¥128	¥—	¥871
Balance at end of year	¥—	¥—	¥—	¥—	¥—	¥—

(Note) The amounts of "Others" are those related to the construction business and the machinery manufacture, sales and maintenance operations.

(Information about gain on negative goodwill by reporting segment)

For the year ended March 31, 2015

In the Paper and Pulp segment, the Company recorded a gain on negative goodwill of ¥202 million in conjunction with the acquisition of additional shares of Hokuetsu Package Co., Ltd. and Techno-Hokuetsu, Ltd, consolidated subsidiaries of the Company .

Note 20: Related Party Transactions

(1) Transactions with related party

Fiscal year ended March 31, 2016

Parent company and principal stockholder, etc., of the Company

											2016
Attribute	Name	Location	Amount of capital or investment in capital	The contents of a business operation or an occupation	Ownership ratio (Parent company ownership ratio) of voting rights (%)	Relationship	Nature of transaction	Trading amount	Account	Balance at the end of the fiscal year	
Principal stockholder	Mitsubishi Corporation	Chiyoda-ku, Tokyo	¥204,447 million (\$1,814,243 thousand)	A general trading company	(Parent company ownership ratio) Direct 19.4	Agency for the products of the Company	Sales of paper	¥18,228 million (\$161,753 thousand)	Account receivable-trade	¥4,371 million (\$38,788 thousand)	
							Acquisition of shares of affiliates	¥4,757 million (\$42,213 thousand)	—	—	

(Transaction terms and conditions, policy to decide such terms and conditions)

The sales price of paper is determined each time through negotiations, taking into account market prices.

The acquisition price of shares of affiliates was decided through mutual consultation between the two parties, with reference to prices calculated by third-party appraisers.

Fiscal year ended March 31, 2015

Parent company and principal stockholder, etc., of the Company

											2015
Attribute	Name	Location	Amount of capital or investment in capital	The contents of a business operation or an occupation	Ownership ratio (Parent company ownership ratio) of voting rights (%)	Relationship	Nature of transaction	Trading amount	Account	Balance at the end of the fiscal year	
Principal stockholder	Mitsubishi Corporation	Chiyoda-ku, Tokyo	¥204,447 million	A general trading company	(Parent company ownership ratio) Direct 19.4	Agency for the products of the Company	Sales of paper	¥19,028 million	Account receivable-trade	¥4,963 million	

(Transaction terms and conditions, policy to decide such terms and conditions)

The sales price of paper is determined each time through negotiations, taking into account market prices.

Unconsolidated subsidiary and affiliate, etc., of the Company

											2015
Attribute	Name	Location	Amount of capital or investment in capital	The contents of a business operation or an occupation	Ownership ratio of voting rights (%)	Relationship	Nature of transaction	Trading amount	Account	Balance at the end of the fiscal year	
Affiliate	Daio Paper Corporation	Shikoku chuo-city, Ehime	¥39,707 million	Paper and pulp manufacturing	Direct 22.0 Indirect 0.0	Sales of shares	Sales of shares	¥3,997 million	—	—	

(Transaction terms and conditions, policy to decide such terms and conditions and other.)

The Company decided to accept a capital increase through a third-party share allocation of ¥945.00 per share undertaken by Daio Paper Corporation.

(2) Notes on parent company or significant affiliated company

For the fiscal year ended March 31, 2016, the significant affiliated company is Daio Paper Corporation and its summarized financial statement is as follows.

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Total current assets	¥252,490	¥257,154	\$2,281,959
Total noncurrent assets	400,115	398,985	3,540,554
Total current liabilities	237,696	219,261	1,945,701
Total noncurrent liabilities	250,554	262,229	2,326,994
Total net assets	164,495	174,820	1,551,336
Net sales	450,239	474,077	4,206,913
Income before income taxes	17,373	21,997	195,199
Net income attributable to owners of parent company	13,209	14,594	129,506

Note 21: Comprehensive Income

Amounts reclassified to net income in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Unrealized holding gains (losses) on securities, net of taxes			
Occurrence amount	¥2,105	¥(1,992)	\$(17,677)
Recycling	(2)	(62)	(550)
Before tax effect	2,103	(2,054)	(18,227)
Tax effect	(348)	669	5,937
Unrealized holding gains (losses) on securities, net of taxes	¥1,755	¥(1,385)	\$(12,290)
Unrealized holding gains (losses) on hedging derivatives, net of taxes			
Occurrence amount	¥98	¥(204)	\$(1,810)
Recycling	(208)	63	559
Before tax effect	(110)	(141)	(1,251)
Tax effect	37	41	364
Unrealized holding gains (losses) on hedging derivatives, net of taxes	¥(73)	¥(100)	\$(887)
Foreign currency translation adjustment			
Occurrence amount	¥890	¥(688)	\$(6,105)
Recycling	—	—	—
Before tax effect	890	(688)	(6,105)
Tax effect	—	—	—
Foreign currency translation adjustment	¥890	¥(688)	\$(6,105)
Adjustments for retirement benefit, net of taxes			
Occurrence amount	¥856	¥(665)	\$(5,901)
Recycling	(218)	(332)	(2,946)
Before tax effect	638	(997)	(8,847)
Tax effect	(170)	334	2,964
Adjustments for retirement benefit, net of taxes	¥468	¥(663)	\$(5,883)
Share of other comprehensive income of associates accounted for using equity method			
Occurrence amount	¥1,953	¥(168)	\$(1,491)
Recycling	2	(944)	(8,378)
Share of other comprehensive income of associates accounted for using equity method	¥1,955	¥(1,112)	\$(9,869)
Total other comprehensive income	¥4,995	¥(3,948)	\$(35,034)

Note 22: Stock Option

The Company has the compensation plan based on the stock option system for its directors other than outside directors.

(1) The following shows the Company's stock options as of March 31, 2016.

Stock options	Persons granted	Number of stock options granted	Grant date	Exercise price	Exercise period
2011 Stock options	11 directors	117,000 shares	July 11, 2011	¥1	From July 12, 2011 to July 11, 2026
2012 Stock options	11 directors	153,500 shares	July 17, 2012	¥1	From July 18, 2012 to July 17, 2027
2013 Stock options	9 directors	117,000 shares	July 12, 2013	¥1	From July 13, 2013 to July 12, 2028
2014 Stock options	9 directors	80,000 shares	July 11, 2014	¥1	From July 12, 2014 to July 11, 2029
2015 Stock options	9 directors	62,000 shares	July 13, 2015	¥1 (\$0.01)	From July 14, 2015 to July 13, 2030

(2) The following shows the number of stock options.

	2011 Stock options (shares)	2012 Stock options (shares)	2013 Stock options (shares)	2014 Stock options (shares)	2015 Stock options (shares)
Non-vested stock option:					
Outstanding at March 31, 2015	—	—	—	—	—
Granted	—	—	—	—	62,000
Forfeited	—	—	—	—	—
Vested	—	—	—	—	62,000
Outstanding at March 31, 2016	—	—	—	—	—
Vested stock option:					
Outstanding at March 31, 2015	80,500	114,500	87,500	80,000	—
Vested	—	—	—	—	62,000
Exercised	38,500	24,500	9,500	5,500	—
Forfeited	—	—	—	—	—
Outstanding at March 31, 2016	42,000	90,000	78,000	74,500	62,000

(3) The following shows the per share prices.

	2011 Stock options	2012 Stock options	2013 Stock options	2014 Stock options	2015 Stock options
Exercise price	¥1	¥1	¥1	¥1	¥1(\$0.01)
Average stock price at exercise	¥736	¥775	¥682	¥746	—
Fair value price at grant date	¥428	¥314	¥359	¥354	¥599(\$5.32)

(4) The following shows the estimate method for stock option price.

	2011 Stock options	2012 Stock options	2013 Stock options	2014 Stock options	2015 Stock options
Estimate method	Black-Scholes option-pricing models				
Expected volatility	33.120%	33.243%	35.972%	37.089%	37.064%
Expected life	8 years				
Expected dividend	¥12 / share	¥12 / share	¥12 / share	¥12 / share	¥12 / share (\$0.11 / share)
Risk-free interest rate	0.844%	0.502%	0.685%	0.356%	0.295%

Note 23: Business Combinations

Business combinations through acquisition

(1) Overview of Business Combination

① Name and business of acquired companies

Name of acquired company	Alpac Forest Products Inc.
Business description	Pulp manufacturing business
Name of acquired company	Alpac Pulp Sales Inc.
Business description	Pulp sales business

② Main reasons for implementation of business combination

The acquisition will lead the Company to make a full-scale entry into the growing international market pulp business, where demand continues to expand globally. In addition, the acquisition also means that the Company will establish its business in every stage of the paper and pulp business value chain, ranging from the newly acquired market pulp business in the upstream sector to paper processing business in the downstream sector.

③ Date of business combination

October 22, 2015 (date of share acquisition)

④ Legal form of business combination

Share acquisition through cash consideration

⑤ Name of companies following business combination

Alpac Forest Products Inc.

Alpac Pulp Sales Inc.

⑥ Percentage of voting rights acquired

Alpac Forest Products Inc. :	100%
Alpac Pulp Sales Inc. :	100%

⑦ Primary basis for decision to acquire company

The Company acquired shares through cash consideration.

(2) Business period for the acquired companies included in consolidated financial statements October 1 to December 31, 2015

(3) Breakdown of acquisition costs of companies and type of consideration

Alpac Forest Products Inc.		Millions of yen	Thousands of U.S. dollars
Consideration for acquisition	Cash	¥6,892	\$61,159
Acquisition cost		¥6,892	\$61,159

Alpac Pulp Sales Inc.		Millions of yen	Thousands of U.S. dollars
Consideration for acquisition	Cash	¥0	\$0
Acquisition cost		¥0	\$0

(4) Details and amount of major expenses relating to acquisition

	Millions of yen	Thousands of U.S. dollars
Compensation and commissions paid for advisory services	¥248	\$2,201

(5) Goodwill accrued, factors for accrual, method and period of amortization No goodwill or negative goodwill occurred.

(6) Amount of assets and liabilities received through business combination and breakdown

	Millions of yen	Thousands of U.S. dollars
Current assets	¥20,549	\$182,350
Property, plant and equipment assets	4,369	38,770
Total assets	24,918	221,120
Current liabilities	4,400	39,045
Long-term liabilities	13,809	122,540
Total liabilities	18,209	161,585

(7) Estimated amount of influence that would be exerted on the consolidated statements of income for the current consolidated fiscal year if the business combination is assumed to have been completed on the day of commencement of the consolidated fiscal year

	Millions of yen	Thousands of U.S. dollars
Net sales	¥25,087	\$222,620
Operating income	4,467	39,640
Income before income taxes	4,527	40,172
Net income attributable to owners of parent company	2,979	26,435
	Yen	U.S. dollars
Net income per shares	¥15.82	\$0.14

(Method of calculation of estimated amount)

The estimated amount of influence has been calculated to be the difference between net sales and the profit and loss information calculated by assuming that the business combination has been completed on the day of commencement of the consolidated fiscal year and

net sales and the profit and loss information on the consolidated statements of income of the acquiring company.

The estimated amount of influence has not been audited.

Note 24: Subsequent Events

Distribution of Retained Earnings

The following items were approved at the annual shareholders' meeting of the Company held on June 28, 2016:

Payment of a cash dividend of ¥6.00 (\$0.05) per share, or a total of ¥1,136 million (\$10,081 thousand), to shareholders on record as of March 31, 2016.



Independent Auditor's Report

To the Board of Directors of HOKUETSU KISHU PAPER CO., LTD.:

We have audited the accompanying consolidated financial statements of HOKUETSU KISHU PAPER CO., LTD. ("the Company", a Japanese corporation) and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2016 and 2015, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC
 August 1, 2016
 Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Affiliated Group Companies

Consolidated Subsidiaries

Hokuetsu Kishu Sales Co., Ltd.
Takebashi 3-3 Bldg., 3-3, Kanda Nishiki-cho, Chiyoda-ku, Tokyo 101-0054
Sales and distribution agent

Alberta Pacific Forest Industries Inc.
P.O. Box 8000, Boyle, Alberta, Canada T0A 0M0
Manufacturing and sale of pulp

Xing Hui Investment Holdings Co., Ltd.
Unit 01-12, 19/F, Metro Centre, No. 32 Lam Hing Street, Kowloon Bay, Kowloon, Hong Kong, China
Management of a production and sales subsidiary

Jiangmen Xinghui Paper Mill Co., Ltd.
Complex Developing Area, Shuangshui Town, Xinghui District, Jiangmen, Guangdong Province, China
Manufacturing and sale of white paperboard

Bernard Dumas S.A.S.
Le Bourg 2, Rue de la Papeterie 24100, Creysse, France
Manufacturing and sale of glass fiber sheets

Hokuetsu Toyo Fibre Co., Ltd.
888, Otsuka, Numazu City, Shizuoka Prefecture 410-0306
Manufacturing and sale of vulcanized fiber products and paper

Hokuetsu Kami Seisen Co., Ltd.
57, Enoki-cho, Higashi-ku, Niigata City, Niigata Prefecture 950-0881
Cutting, selecting, packing and loading/unloading of the company's products

Kishu Kami Seisen Co., Ltd.
182, Udono, Kiho-cho, Minamimuro-gun, Mie Prefecture 519-5701
Cutting, selecting, packing and loading/unloading of the company's products

Katsuta Kami Seisen Co., Ltd.
1760, Takaba, Hitachinaka City, Ibaraki Prefecture 312-0062
Cutting, selecting, packing and loading/unloading of the company's products

Techno-Hokuetsu, Ltd.
57, Enoki-cho, Higashi-ku, Niigata City, Niigata Prefecture 950-0881
Paper and pulp manufacturing work, industrial wastewater purification processing, waste disposal, etc.

MC Hokuetsu Energy Service Company
47, Enoki-cho, Higashi-ku, Niigata City, Niigata Prefecture 950-0081
Supply of steam and electric power

Kinan Sangyo Co., Ltd.
182, Udono, Kiho-cho, Minamimuro-gun, Mie Prefecture 519-5701
Contract work related to paper manufacturing

BF & Package Co., Ltd.
3-2-2, Nihonbashihongoku-cho, Chuo-ku, Tokyo 103-0021
Manufacturing and sale of paper containers including liquid package cartons and packaging, and processed paper products such as laminated paper and related materials
Supply of computer-related components and mailing business

Shanghai Toh Tech Co., Ltd.
330-8, Xiya Road, Waigaoqiao Free Trade Zone, Shanghai-city, China
Sale of carrier tape for precision electronic parts, and processing and sale of punch goods

Hokuetsu Logistics Co., Ltd.
560-11, Shimokido, Higashi-ku, Niigata City, Niigata Prefecture 950-0885
Transportation and warehousing of products

Hokuetsu Suiun Co., Ltd.
560-11, Shimokido, Higashi-ku, Niigata City, Niigata Prefecture 950-0885
Transportation of products

Hokuetsu Forest Co., Ltd.
1529, Aza-Shitadairayamako, Oaza-Sakamoto, Aizubange-machi, Kawanuma-gun, Fukushima Prefecture 969-6586
Sale of raw fuel to paper mills, wood chips, and wood products

Hokuetsu Engineering Co., Ltd.
57, Enoki-cho, Higashi-ku, Niigata City, Niigata Prefecture 950-0881
Manufacturing and sale of industrial machinery, electric instrumentation construction, design and construction of civil engineering and buildings

Hokuetsu Kishu Pallet Co., Ltd.
3-2, Jimbo-cho, Kanda, Chiyoda-ku, Tokyo 101-0051
Management of forests and wood products
Manufacturing, repair and sale of pallets, etc.

Hokuetsu Trading Corporation
3-1-1, Zao, Nagaoka City, Niigata Prefecture 940-0028
Real estate and management of driving school

Keiyo Shigen Center Co., Ltd.
3-14-1, Shiohama, Ichikawa City, Chiba Prefecture 272-0127
Purchase and sale of used paper

Kishu Kohatsu Co., Ltd.
4-22-1, Minami-Suita, Suita City, Osaka 564-0043
Management of driving school and golf practice range

Affiliated Companies Accounted for Under the Equity Method

Daio Paper Corporation
2-60, Mishimakamiya-cho, Shikoku Chuo City, Ehime Prefecture 799-0492
Manufacturing and sale of paper, paperboard, pulp, and secondary products, and production, processing, and sale of everyday goods

Staff Saito Co., Ltd.
2-4-17, Zao, Nagaoka City, Niigata City, Niigata Prefecture 940-0028
In-house logistics, transportation of products, and environmental maintenance

Nikkan Co., Ltd.
3-5-1, Nishizao, Nagaoka City, Niigata Prefecture 940-0027
Manufacturing and sale of paper, nonwoven fabric, and films

Niigata GCC Co., Ltd.
35-1 Enoki-cho, Higashi-ku, Niigata Prefecture 950-0881
Manufacturing and sale of filler for papermaking

Niigata PCC Co., Ltd.
2-3, Kamiose-machi, Higashi-ku, Niigata Prefecture 950-0063
Manufacturing and sale of filler for papermaking

Equity Data

Stock Information (as of March 31, 2016)

Shareholder registry administrator	Mizuho Trust & Banking Co., Ltd. 1-2-1, Yaesu, Chuo-ku, Tokyo
Number of shares authorized	500,000,000
Number of shares issued	209,263,814
Number of shareholders	11,916

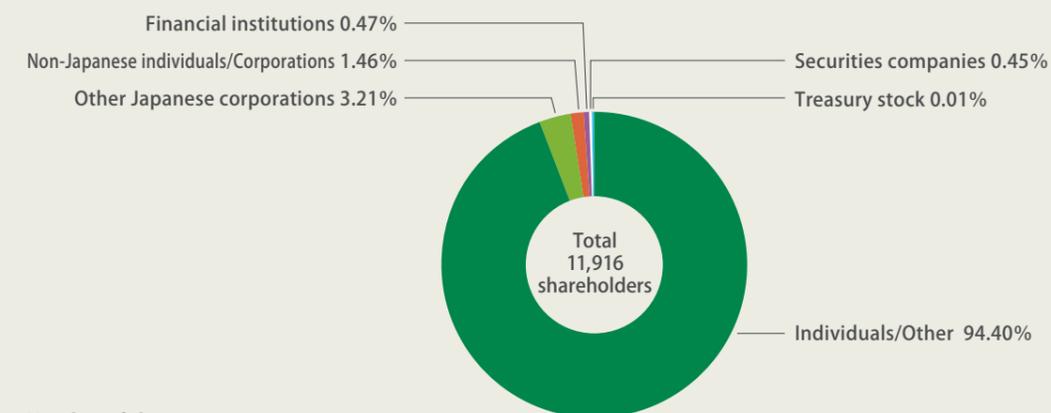
Major Shareholders (as of March 31, 2016)*

Name	Number of shares held (thousands of shares)	Percentage to total number of shares in issue (%)
Mitsubishi Corporation	36,619	17.50
The Master Trust Bank of Japan, Ltd. (Trust Account)	18,569	8.87
Japan Trustee Services Bank, Ltd. (Trust Account)	9,719	4.64
Hokuetsu Kishu Paper Stock Ownership Association	5,050	2.41
Sompo Japan Nipponkoa Insurance Inc.	4,499	2.15
Daio Paper Corporation	4,286	2.05
Kawasaki-kami Unyu Co., Ltd.	4,286	2.05
The Daishi Bank, Ltd.	4,217	2.02
The Hokuetsu Bank, Ltd.	4,215	2.01
Mizuho Bank, Ltd.	3,600	1.72

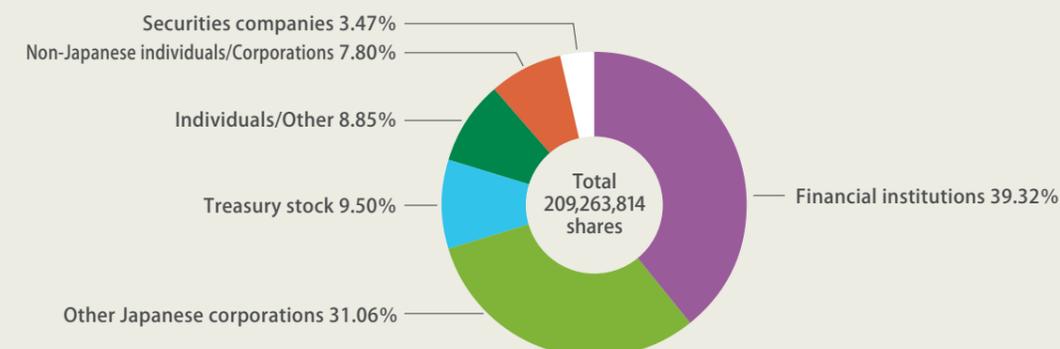
*In addition to the above, the Company holds 19,873 shares (9.50%) of treasury stock.

Distribution of shares by shareholders (as of March 31, 2016)

Number of shareholders



Number of shares



Corporate Data (as of March 31, 2016)

Corporate Name: Hokuetsu Kishu Paper Co., Ltd.	Fiscal year ending: March 31
Established: April 27, 1907	Number of consolidated subsidiaries: 24
The registered head office: 3-5-1, Nishizao, Nagaoka, Niigata Prefecture	Number of affiliated companies accounted for under the equity method: 5
Paid-in capital: 42,020,940,239 yen	Number of employees: 4,801 (consolidated); 1,489 (non-consolidated)

Offices and Mills (as of March 31, 2016)

Head Office

3-2-2 Nihonbashi hongoku-cho,
Chuo-ku, Tokyo 103-0021, Japan
Telephone +81-3-3245-4500

Osaka Branch

4-22-1 Minami-Suita, Suita,
Osaka 564-0043
Telephone +81-6-6339-5151

Nagoya Office

1-7-28, Nishiki, Naka-ku, Nagoya,
Aichi Prefecture 460-0003
(inside the TIG•ACTUS BUILDING)
Telephone +81-52-211-1272

Fukuoka Office

2-2 Tsunaba-machi, Hakata-ku,
Fukuoka Prefecture 812-0024
Telephone +81-92-271-4982

Niigata Office

57, Enoki-cho, Higashi-ku,
Niigata Prefecture 950-0881
Telephone +81-25-273-1141

Central Research Laboratory

3-5-1, Nishizao, Nagaoka,
Niigata Prefecture 940-0027
Telephone +81-258-24-0635

Niigata Mill

57, Enoki-cho, Higashi-ku,
Niigata Prefecture 950-0881
Telephone +81-25-273-1141



Kishu Mill

182, Udono, Kiho-cho, Minamimuro-gun,
Mie Prefecture 519-5701
Telephone +81-735-32-1111



Kanto Mill Ichikawa

3-21-1, Ohsu, Ichikawa City,
Chiba Prefecture 272-0032
Telephone +81-47-378-0101



Kanto Mill Katsuta

1760, Takaba, Hitachinaka City,
Ibaraki Prefecture 312-0062
Telephone +81-29-275-5500



Nagaoka Mill

3-2-1, Zao, Nagaoka City,
Niigata Prefecture 940-0028
Telephone +81- 258-24-0630



Osaka Mill

4-20-1, Minami-Suita, Suita City,
Osaka 564-0043
Telephone +81-6-6385-3851



Hokuetsu Kishu Paper Group Corporate Report 2016

Issued	November 2016
Publisher	Sekio Kishimoto, President and CEO
Inquiries	Hokuetsu Kishu Paper Co., Ltd. General Affairs Department 3-2-2, Nihonbashi hongoku-cho, Chuo-ku, Tokyo 103-0021, Japan Telephone +81-3-3245-4500 Facsimile +81-3-3245-4511
Website	http://www.hokuetsu-kishu.jp/

HOKUETSU KISHU PAPER CO., LTD.

3-2-2, Nihonbashihongoku-cho, Chuo-ku,
Tokyo 103-0021 Japan
Telephone +81-3-3245-4500
Facsimile +81-3-3245-4511

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



Cover printed on Hokuetsu Kishu Paper's High Apis NEO Max white, 174.5 g/m², inside pages on μ Matt EX, 128 g/m², and financial information on blue colored wood-free paper KISHURAINBOW.