Consolidated Financial Statements

April 1, 2021-March 31, 2022

Hokuetsu Corporation

Consolidated Balance Sheets

Hokuetsu Corporation and Consolidated Subsidiaries
As of March 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2022**	2021	**2022**
CURRENT ASSETS:			
Cash and deposits (Notes 4 & 5)	**¥ 30,276**	¥ 29,847	**$ 247,333**
Notes and accounts receivable (Note 5)			
Trade	**67,397**	54,910	**550,584**
Unconsolidated subsidiaries and affiliates	**486**	445	**3,970**
Allowance for doubtful accounts	**(5)**	(3)	**(41)**
Inventories (Note 7)	**56,415**	47,466	**460,869**
Prepaid expenses and other	**5,740**	7,355	**46,892**
TOTAL CURRENT ASSETS	**160,309**	140,020	**1,309,607**
PROPERTY, PLANT AND EQUIPMENT:			
Land and timberland	**20,301**	24,883	**165,844**
Buildings and structures	**85,624**	85,263	**699,485**
Machinery and equipment	**439,429**	438,380	**3,589,813**
Leased assets	**185**	409	**1,511**
Right-of-use assets	**2,597**	2,557	**21,216**
Construction in progress	**2,167**	3,990	**17,703**
	550,303	555,482	**4,495,572**
Less accumulated depreciation	**(434,920)**	(429,033)	**(3,552,978)**
NET PROPERTY, PLANT AND EQUIPMENT	**115,383**	126,449	**942,594**
INVESTMENTS AND OTHER ASSETS:			
Investments in securities (Notes 5 & 6)	**22,022**	22,044	**179,904**
Investments in and receivables from unconsolidated subsidiaries and affiliates	**70,271**	65,512	**574,063**
Long-term loans receivable	**14**	4	**114**
Intangible assets	**2,406**	2,669	**19,655**
Guarantee deposits	**389**	439	**3,178**
Asset for retirement benefits (Note 17)	**3,870**	3,456	**31,615**
Deferred income taxes (Note 12)	**1,664**	1,621	**13,594**
Other (Note 8)	**916**	3,281	**7,483**
Allowance for doubtful accounts (Note 8)	**(288)**	(2,420)	**(2,353)**
TOTAL INVESTMENTS AND OTHER ASSETS	**101,264**	96,606	**827,253**
TOTAL ASSETS	**¥376,956**	¥363,075	**$3,079,454**

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

LIABILITIES AND NET ASSETS	Millions of yen 2022	2021	Thousands of U.S. dollars (Note 1) 2021
CURRENT LIABILITIES:			
Short-term loans (Notes 5 & 9)	**¥ 15,062**	¥ 17,561	**$ 123,046**
Commercial paper (Notes 5 & 9)	**3,000**	—	**24,508**
Current maturities of long-term debt (Notes 5 & 9)	**25,967**	25,661	**212,131**
Notes and accounts payable (Note 5)			
Trade	**26,057**	22,844	**212,867**
Unconsolidated subsidiaries and affiliates	**642**	626	**5,245**
Income taxes payable (Note 12)	**4,014**	720	**32,791**
Accrued expenses	**10,121**	8,851	**82,681**
Provision for business structure improvement	**—**	258	**—**
Other	**6,934**	8,495	**56,645**
TOTAL CURRENT LIABILITIES	**91,797**	85,016	**749,914**
LONG-TERM LIABILITIES:			
Long-term debt (Notes 5 & 9), less current maturities	**55,059**	70,769	**449,791**
Deferred income taxes (Note 12)	**2,909**	1,209	**23,764**
Accrued environmental expenditures	**1,137**	805	**9,288**
Provision for reforestation	**341**	292	**2,786**
Liability for retirement benefits (Note 17)	**5,661**	6,941	**46,246**
Asset retirement obligations (Note 18)	**2,845**	2,257	**23,242**
Other	**233**	367	**1,904**
TOTAL LONG-TERM LIABILITIES	**68,185**	82,640	**557,021**
CONTINGENT LIABILITIES (Note 10)			
NET ASSETS (Note 11)			
SHAREHOLDERS' EQUITY:			
Common stock: authorized –500,000,000shares in 2022 and 2021 issued and outstanding –188,053,114shares in 2022 and 2021	**42,021**	42,021	**343,281**
Capital surplus	**45,341**	45,341	**370,403**
Retained earnings	**131,616**	112,891	**1,075,206**
Treasury stock	**(9,639)**	(9,702)	**(78,744)**
TOTAL SHAREHOLDERS' EQUITY	**209,339**	190,551	**1,710,146**
ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAXES			
Unrealized holding gains on securities, net of taxes	**3,686**	4,344	**30,112**
Unrealized gains or losses on hedging derivatives, net of taxes	**157**	(18)	**1,283**
Foreign currency translation adjustment	**1,632**	(949)	**13,332**
Accumulated adjustments for retirement benefit, net of taxes (Note 17)	**1,439**	774	**11,755**
TOTAL ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAXES	**6,914**	4,151	**56,482**
SHARE SUBSCRIPTION RIGHTS	**76**	102	**622**
NON-CONTROLLING INTERESTS	**645**	615	**5,269**
TOTAL NET ASSETS	**216,974**	195,419	**1,772,519**
TOTAL LIABILITIES AND NET ASSETS	**¥376,956**	¥363,075	**$3,079,454**

Consolidated Statements of Income

Hokuetsu Corporation and Consolidated Subsidiaries
For the years ended March 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	**2022**
NET SALES (NOTE 20 & 21)	**¥261,617**	¥222,454	**$2,137,219**
COST OF SALES	**200,491**	183,979	**1,637,864**
GROSS PROFIT	**61,126**	38,475	**499,355**
SELLING,GENERAL AND ADMINISTRATIVE EXPENSES (Note 13)	**40,670**	36,773	**332,244**
OPERATING INCOME	**20,456**	1,702	**167,111**
OTHER INCOME(EXPENSES):			
Interest and dividend income	**804**	799	**6,568**
Interest expenses	**(393)**	(438)	**(3,211)**
Foreign exchange gains(losses)	**1,729**	190	**14,125**
Equity in income of affiliates	**5,861**	5,587	**47,880**
Gain on sales of investments in securities	**21**	5,324	**172**
Loss on devaluation of investments in securities	**(23)**	(588)	**(188)**
Loss on sales or disposal on property, plant and equipment	**(873)**	(1,143)	**(7,132)**
Impairment loss on long-lived asset (Note 14)	**(7,855)**	(115)	**(64,170)**
Loss on reduction of property, plant and equipment	**(31)**	(96)	**(253)**
Loss related to the Anti-Monopoly Act	**(360)**	—	**(2,941)**
Gain on reversal of retirement benefit obligations	**77**	—	**629**
Gain on sales of property, plant and equipment	**6,985**	61	**57,062**
Business structure improvement (Note 19)	**—**	(798)	**—**
Gain on change in equity	**—**	500	**—**
Other, net	**961**	2,347	**7,851**
	6,903	11,630	**56,392**
INCOME BEFORE INCOME TAXES	**27,359**	13,332	**223,503**
INCOME TAXES (Note 12):			
Current	**4,452**	848	**36,369**
Refund of income taxes	**—**	(1,351)	**—**
Deferred	**1,634**	(435)	**13,349**
	6,086	(938)	**49,718**
NET INCOME	**21,273**	14,270	**173,785**
NET INCOME(LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	**66**	97	**539**
NET INCOME ATTRIBUTABLE TO OWNERS OF PARENT COMPANY	**¥ 21,207**	¥ 14,173	**$ 173,246**

	Yen		U.S. dollars (Note 1)
	2022	2021	**2022**
AMOUNTS PER SHARE OF COMMON STOCK (Note2):			
Net income	**¥126.22**	¥84.40	**$1.03**
Diluted net income	**126.09**	83.00	**1.03**
Cash dividends applicable to the year	**24.00**	14.00	**0.20**

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

Consolidated Statements of Comprehensive Income

Hokuetsu Corporation and Consolidated Subsidiaries
For the years ended March 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	**2022**
NET INCOME	**¥21,273**	¥14,270	**$173,785**
OTHER COMPREHENSIVE INCOME (Note 21)			
Unrealized holding gains on securities, net of taxes	**(328)**	2,004	**(2,680)**
Unrealized gains or losses on hedging derivatives, net of taxes	**127**	(43)	**1,037**
Foreign currency translation adjustments	**2,635**	(1,282)	**21,526**
Adjustments for retirement benefit, net of taxes	**689**	1,466	**5,629**
Share of other comprehensive income of associates accounted for using equity method	**(308)**	361	**(2,516)**
TOTAL OTHER COMPREHENSIVE INCOME	**2,815**	2,506	**22,996**
COMPREHENSIVE INCOME	**¥24,088**	¥16,776	**$196,781**
Comprehensive income attribute to owners of the parent company	**23,969**	16,674	**195,809**
Comprehensive income attribute to non-controlling interests	**119**	102	**972**

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

Consolidated Statements of Cash Flows

Hokuetsu Corporation and Consolidated Subsidiaries
For the years ended March 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	**2022**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes	**¥27,359**	¥13,332	**$223,503**
Depreciation and amortization	**13,213**	14,482	**107,941**
Impairment loss on long-lived asset	**7,855**	115	**64,170**
Business structure improvement	**—**	798	**—**
Loss (gain) on sales or disposal of property, plant and equipment	**(6,112)**	1,082	**(49,931)**
Loss on reduction of property, plant and equipment	**31**	96	**253**
Reversal of retirement benefit obligations	**(77)**	—	**(629)**
Gain on sales of investments in securities	**(21)**	(5,320)	**(172)**
Interest and dividend income	**(804)**	(799)	**(6,568)**
Interest expenses	**393**	438	**3,211**
(Increase) decrease in notes and accounts receivable	**(11,586)**	981	**(94,649)**
(Increase) decrease in inventories	**(7,455)**	6,517	**(60,902)**
Increase (decrease) in notes and accounts payable	**2,850**	(2,184)	**23,282**
Increase (decrease) liability for retirement benefits	**(540)**	443	**(4,411)**
Equity in (income) losses of affiliates	**(5,861)**	(5,587)	**(47,880)**
Other, net	**(2,072)**	(565)	**(16,927)**
SUBTOTAL	**17,173**	23,829	**140,291**
Interest and dividend income received	**1,647**	1,450	**13,455**
Interest paid	**(397)**	(349)	**(3,243)**
Income taxes paid	**1,760**	(1,570)	**14,378**
Compensation received	**—**	99	**—**
Insurance payment received	**3**	302	**24**
NET CASH PROVIDED BY OPERATING ACTIVITIES	**20,186**	23,761	**164,905**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payment for purchases of investment securities	**(776)**	(10,625)	**(6,339)**
Proceeds from sales of investment securities	**32**	7,479	**261**
Payment for purchases of property, plant and equipment	**(12,919)**	(15,526)	**(105,539)**
Proceeds from sales of property, plant and equipment	**11,292**	69	**92,247**
Proceeds from transfer of businesses	**1,500**	—	**12,254**
Other, net	**(777)**	(972)	**(6,347)**
NET CASH USED IN INVESTING ACTIVITIES	**(1,648)**	(19,575)	**(13,463)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in short-term loans	**(4,134)**	7,060	**(33,772)**
Increase (decrease) in commercial paper	**3,000**	(7,000)	**24,508**
Proceeds from long-term loans	**—**	16,000	**—**
Repayment of long-term loans	**(5,373)**	(9,145)	**(43,893)**
Proceeds from issuance of unsecured yen straight bonds	**10,000**	—	**81,693**
Redemption of unsecured yen straight bonds	**(20,000)**	—	**(163,385)**
Dividends paid	**(2,353)**	(2,190)	**(19,222)**
Other, net	**(328)**	(367)	**(2,681)**
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**(19,188)**	4,358	**(156,752)**
TRANSLATION LOSS ON CASH AND CASH EQUIVALENTS	**1,079**	(81)	**8,815**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**429**	8,463	**3,505**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**29,847**	21,384	**243,828**
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**¥30,276**	¥29,847	**$247,333**

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

Consolidated Statements of Changes in Net Assets

Hokuetsu Corporation and Consolidated Subsidiaries
For the Years ended March 31, 2022 and 2021

Millions of yen

	Numer of shares	Common stock	Captital 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, 2020	188,053,114	¥42,021	¥45,341	¥100,880	¥(9,709)	¥178,533	¥2,160	¥ 21	¥ 337	¥ (868)	¥1,650	¥ 81	¥598	¥180,862
Net income attributable to owners of parent company	—	—	—	14,173	—	14,173	—	—	—	—	—	—	—	14,173
Cash dividends (¥14.00 per share)	—	—	—	(2,184)	—	(2,184)	—	—	—	—	—	—	—	(2,184)
Disposal of treasury stock	—	—	—	(1)	13	12	—	—	—	—	—	—	—	12
Purchases of treasury stock	—	—	—	—	(0)	(0)	—	—	—	—	—	—	—	(0)
Change in equity resulted from increase in consolidated subsidiary's investment	—	—	(0)	—	—	(0)	—	—	—	—	—	—	—	(0)
Increase in treasury stock by change in equity in affiliates under equity method	—	—	—	—	(6)	(6)	—	—	—	—	—	—	—	(6)
Change in scope of affiliates under equity method	—	—	—	23	—	23	—	—	—	—	—	—	—	23
Net changes during the year	—	—	—	—	—	—	2,184	(39)	(1,286)	1,642	2,501	21	17	2,539
Balance at March 31, 2021	188,053,114	¥42,021	¥45,341	¥112,891	¥(9,702)	¥190,551	¥4,344	¥ (18)	¥ (949)	¥ 774	¥4,151	¥102	¥615	¥195,419
Cumulative effects of changes in accounting policies	—	—	—	(94)	—	(94)	—	—	—	—	—	—	—	(94)
Restated balance	—	¥42,021	¥45,341	¥112,797	¥(9,702)	¥190,457	¥4,344	¥ (18)	¥ (949)	¥ 774	¥4,151	¥102	¥615	¥195,325
Net income attributable to owners of parent company	—	—	—	21,207	—	21,207	—	—	—	—	—	—	—	21,207
Cash dividends (¥24.00 per share)	—	—	—	(2,353)	—	(2,353)	—	—	—	—	—	—	—	(2,353)
Disposal of treasury stock	—	—	—	(6)	65	59	—	—	—	—	—	—	—	59
Purchases of treasury stock	—	—	—	—	(1)	(1)	—	—	—	—	—	—	—	(1)
Increase in treasury stock by change in equity in affiliates under equity method	—	—	—	—	(1)	(1)	—	—	—	—	—	—	—	(1)
Change in scope of affiliates under equity method	—	—	—	(29)	—	(29)	—	—	—	—	—	—	—	(29)
Net changes during the year	—	—	—	—	—	—	(658)	175	2,581	665	2,763	(26)	30	2,767
Balance at March 31, 2022	188,053,114	¥42,021	¥45,341	¥131,616	¥(9,639)	¥209,339	¥3,686	¥157	¥1,632	¥1,439	¥6,914	¥ 76	¥645	¥216,974

Thousands of U.S. dollars (Note 1)

	Numer of shares	Common stock	Captital 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, 2021	188,053,114	$343,281	$370,403	$ 922,237	$(79,258)	$1,556,663	$35,487	$ (147)	$ (7,753)	$6,323	$33,910	$833	$5,024	$1,596,430
Cumulative effects of changes in accounting policies	—	—	—	(768)	—	(768)	—	—	—	—	—	—	—	(768)
Restated balance	—	$343,281	$370,403	$ 921,469	$(79,258)	$1,555,895	$35,487	$ (147)	$ (7,753)	$6,323	$33,910	$833	$5,024	$1,595,662
Net income attributable to owners of parent company	—	—	—	173,246	—	173,246	—	—	—	—	—	—	—	173,246
Cash dividends ($0.20 per share)	—	—	—	(19,223)	—	(19,223)	—	—	—	—	—	—	—	(19,223)
Disposal of treasury stock	—	—	—	(49)	530	481	—	—	—	—	—	—	—	481
Purchases of treasury stock	—	—	—	—	(8)	(8)	—	—	—	—	—	—	—	(8)
Increase in treasury stock by change in equity in affiliates under equity method	—	—	—	—	(8)	(8)	—	—	—	—	—	—	—	(8)
Change in scope of affiliates under equity method	—	—	—	(237)	—	(237)	—	—	—	—	—	—	—	(237)
Net changes during the year	—	—	—	—	—	—	(5,375)	1,430	21,085	5,432	22,572	(211)	245	22,606
Balance at March 31, 2022	188,053,114	$343,281	$370,403	$1,075,206	$(78,744)	$1,710,146	$30,112	$1,283	$13,332	$11,755	$56,482	$622	$5,269	$1,772,519

Notes to Consolidated Financial Statements

Hokuetsu Corporation and Consolidated Subsidiaries
Years ended March 31, 2022 and 2021

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”)

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of HOKUETSU Corporation (“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, 2022, which was ¥122.41 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.

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	
	2022	2021
Consolidated subsidiaries	**18**	20
Affiliates accounted for by the equity metho	**4**	4

The consolidated financial statements are prepared using their financial statements as of March 31 except for following companies;

Companies	Fiscal year end
Alberta-Pacific Forest Industries Inc.	December 31
Xing Hui Investment Holdings Co., Ltd.	December 31
Jiangmen Xinghui Paper Mill Co., Ltd.	December 31
Bernard Dumas S.A.S.	December 31
Shanghai Toh Tech Co., Ltd.	December 31

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 spot exchange rates as of the fiscal year end, with the translation gains or losses reported in profit or loss.

Assets and liabilities of overseas subsidiaries are translated into Japanese yen at the spot exchange rates as of the fiscal year end, and their income and expenses are translated into Japanese yen at the average exchange rates during the fiscal year with the translation gains or losses included in foreign currency translation adjustment and non-controlling interests in the net assets section of the consolidated balance sheet.

(d) Securities

Under the Japanese accounting standard for financial instruments, all companies are required to 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, 2022 and 2021.

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 market value and the difference between market value and the carrying amount is recognized as loss in the period of the decline. If the 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 these fair values with a corresponding charge in the statement of income in the event net asset value declines significantly.

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

Available-for-sale securities with market values are stated at 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. Cost 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 historical 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 related to the acquisition of assets are deducted directly from the cost of the related assets.

- Buildings, structures and 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 future benefits 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 finance leases without transferring ownership are depreciated over the lease period as useful life using the straight-line method with no residual value.

(i) Right-of-use assets
The right-of-use asset is subsequently amortized on a straight-line basis over the shorter of the term of the lease or the useful life of the asset determined on the same basis as the Company's property, plant and equipment. Overseas subsidiaries using International Financial Reporting Standards applies IFRS No.16 Lease (hereinafter referred to as "IFRS16"). In accordance with IFRS16, lessees are required to recognize almost all leases as assets or liabilities in the consolidated balance sheet.

(j) Revenue recognition
The Group manufactures and sells mainly paper, pulp, folding cartons and processed paper products. For such sales of merchandise and products, revenue is recognized when the merchandise and products are delivered to the customer or when the customer accepts inspection. However, for certain sales in Japan, revenue is recognized at the time of shipment.

For sales of pulp and paper, which are considered to be agent sales, the Company and its consolidated subsidiaries recognize revenue on a net basis.

The sales contracts for such goods and products include variable consideration due to discounts and rebates after the contracts are signed, and the estimated amount of such variable consideration is included in the transaction price.

In addition, there is consideration paid to customers, such as sales incentives, which is reduced from the transaction price unless it is paid in exchange for separate goods or services received from the customer.

The consideration for transactions related to the sale of such goods and products is received in the short term after revenue is recognized, and does not include a significant financial component with respect to the receivables under the contracts with such customers.

(k) Accrued environmental expenditures
Accrued environmental expenditures are provided at an estimated amount for environmental expenses, including disposal cost of contaminated soil caused by the use of snow-melting agent by the Company's Canadian subsidiary and disposal of PCB (polychlorinated biphenyl) waste.

(l) Provision for loss on disaster
The Company sets aside an amount on the basis of estimated costs incurred in preparation for expenditures required for the restoration of assets damaged during a disaster.

(m) 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 reforestation and silviculture (coniferous forest) have been incorporated into accounts as liabilities.

(n) Provision for business structure improvement
A provision has been made for the amount of estimated losses incurred in connection with improvement of business structure.

(o) Provision on loss related to the Anti-Monopoly Act
The Company's subsidiary provides the estimated incurred amount for preparation of the payment such as surcharges related to the Anti-Monopoly Act.

(p) Issuance costs of stocks and bonds
Issuance costs of stocks and bonds are expensed as incurred.

(q) 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 hedge accounting is applied.

If derivative financial instruments are used as hedges and meet certain hedging criteria, unrealized gains or losses on derivatives are recorded for 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).

(r) 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.

(s) Per share information
Net income per share is computed based upon the average number of shares of common stock outstanding during each fiscal year. The average number of common shares used in the computation was 168,018,990 shares and 167,919,947 shares in 2022 and 2021, respectively.

For the year ended March 31, 2021, diluted net income per share was ¥126.09 ($1.03).

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.

(t) 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.

(u) Accounting methods for retirement benefits

(1) Attribution method for projected retirement benefits
In calculating retirement benefit obligations, the projected retirement benefits are attributed to the period up to the end of the current consolidated accounting period based on benefit formula basis.

(2) Method of amortization relating to actuarial gain or losses and past service cost.
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.

(v) Changes in accounting policies

(Adoption of Accounting Standard for Revenue Recognition)
The “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020. (hereinafter referred to as the “Accounting Standard for Revenue Recognition”) and related implementation guidance are adopted from the beginning of the current fiscal year, and revenue is recognized at the amount expected to be received in exchange for a promised goods or services when the customer obtains control of the promised goods or services.

As a result, a portion of revenue related to a transaction was previously recognized on a gross basis, but as a result of determining its role (as principal or agent) in providing the goods to the customer, the Company has changed its method of recognizing revenue on a net basis for transactions that are determined to be agent transactions.

In addition, a portion of the consideration payable to the customer, which was previously treated as selling, general and administrative expenses, is now reduced from the transaction price.

In accordance with the transitional treatment prescribed in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition, the cumulative effect of retrospective application of the new accounting policy prior to the beginning of the current fiscal year is adjusted to retained earnings at the beginning of the current fiscal year, and the new accounting policy is adopted from such beginning balance. However, the new accounting policy was not adopted retrospectively to contracts for which almost all revenue amounts were recognized in accordance with the previous treatment prior to the beginning of the current fiscal year by applying the method prescribed in Paragraph 86 of the Accounting Standard for Revenue Recognition. In addition, the Company has adopted the method prescribed in Subparagraph (1), Paragraph 86 of the Accounting Standard for Revenue Recognition and has accounted for contract modifications made prior to the beginning of the current fiscal year based on the contract terms after reflecting all contract modifications, and has adjusted the cumulative effect of such modifications to retained earnings at the beginning of the current fiscal year.

In addition, “Notes and accounts receivable - trade” presented in current assets in the consolidated balance sheets for the previous fiscal year is included in “Notes, accounts receivable - trade and contract assets” from this fiscal year, and “Other” presented in current liabilities for the previous fiscal year is included in “Contract liabilities” and “Other” from this fiscal year. However, in accordance with the transitional treatment prescribed in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, no reclassification has been made to the comparative information as the previous fiscal year using the new presentation.

As a result, the application of the revenue recognition accounting standard did not have a material impact on the consolidated financial statements.

(Adoption of Accounting Standard for Fair Value Measurement)
The “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019. Hereinafter referred to as “Accounting Standard for Calculation of Fair Value”) The “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019) and related guidance are adopted from the beginning of the current fiscal year. In accordance with the transitional treatment prescribed in paragraph 19 of the Accounting Standard for Fair Value Measurement and paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019), the new accounting policies prescribed by the accounting standards will be adopted prospectively. There is no impact on the consolidated financial statements.

(w) Changes in presentation method

(Consolidated statements of income)
“Gain on sales of noncurrent assets” included in “Other” of “Other income (expenses)” in the previous fiscal year is presented independently in the current fiscal year because of the increased importance of its amount. Consolidated financial statements for the previous fiscal year have been restated in order to reflect this change in presentation.

As a result, the amount of 2,408 million yen presented in “Other” of “Other income (expenses)” in the consolidated statements of profit and loss in the previous fiscal year has been restated as 61 million yen in “Gain on sales of noncurrent assets” and 2,347 million yen in “Other.”

(Consolidated statements of cash flows)
“Payments for purchases of treasury stock” included independently in “Cash flows from financing activities” presented independently in the previous fiscal year is presented in “Other” from the current fiscal year because it has become less important. Consolidated financial statements for the previous fiscal year have been restated in order to reflect this change in presentation.

As a result, the amount of (0) million yen presented in “Payments for purchases of treasury stock” and the amount of (282) million yen presented in “Other” of “Cash flows from financing activities” inon the consolidated statements of cash flows in the previous fiscal year have been restated as (282) million yen in “Other”.

Note 3: Significant accounting estimates

1. Recoverability of deferred income tax assets
The recoverability of deferred income tax assets must be determined based on estimates of future taxable income following future financial budget according to reasonable assumptions.

(1) Amount recorded in consolidated financial statements for the current fiscal year

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Deferred tax assets	**¥8,769**	¥7,777	**$71,636**

(2) Other information on accounting estimates that aids user understanding of the consolidated financial statements
(i) Measurement method for amount recorded in consolidated financial statements for the current fiscal year
The Company records deferred income tax assets based on future taxable income estimated using future financial budget.
(ii) Main assumptions used in the measurement of the amount recorded in the consolidated financial statements for the current fiscal year
Future financial budget will be affected by the raw fuel prices and the situation of the future spread of the COVID-19 pandemic. As a certain assumption in performing the best possible estimates, it is assumed that raw fuel prices will remain at the current situation and that the impact of the COVID-19 will gradually recover in the next fiscal year, although a certain level of impact will continue to exist. Thus, the Company has estimated future taxable income considering these impacts on the financial budget.
(iii) Impacts on the financial statements for the next fiscal year
The timing and amount of taxable income may be affected by uncertain fluctuations in future economic conditions. If the actual timing and amount differs from estimates, the deferred income tax assets recorded in the consolidated financial statements for the current fiscal year could experience material impacts.

2. Impairment loss on long-lived assets
If the Company recognizes signs of impairment of long-lived assets, the Company must conduct an impairment test.
(1) Amount recorded in consolidated financial statements for the current fiscal year

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Property, plant and equipment	**¥115,383**	¥126,449	**$942,594**
Intangible assets	**2,407**	2,669	**19,655**
Impairment loss on long-lived asset	**¥ 7,855**	¥ 364	**$ 64,170**

Of the impairment loss in the year ended March 31, 2021, 248 million yen was recorded as business structure improvement.

Of the above, 5,698 million yen in property, plant and equipment was recorded in the year ended March 31, 2021 and 3,758 million yen in property, plant and equipment and 2,434 million yen in impairment loss were recorded in the year March 31, 2022 for consolidated subsidiary Jiangmen Xinghui Paper Mill Co., Ltd. (hearinafter “Jiangmen Xinghui”)

(2) Other information on accounting estimates that aids user understanding of the consolidated financial statements
(i) Measurement method for amount recorded in consolidated financial statements for the current fiscal year
Whether there is an indication of impairment is assessed based on the usage scope/method or situation of profit/loss occurring from sales activities in the business using the assets or asset group, in addition to the situation of related management environment or market prices.

If an indication of impairment exists , the Company will determine whether or not to recognize an impairment loss. The Company will recognize an impairment loss if the total amount of undiscounted future cash flow obtained from the asset or asset group falls below the carrying amount. The carrying amount of the asset or asset group in excess of the recoverable amount is recorded as an impairment loss. The recoverable amount is the higher amount of either the value in use or the fair value less costs of disposal .

In addition, overseas subsidiaries that use IFRS assess whether there is an indication of impairment based on external factors (raw material market, product market, interest rates, legal environment, etc.) and internal factors (more than expected deterioration in economic results, etc.) related to assets or cash-generating units.

If an indication of impairment exists , the carrying amount of the asset or cash-generating unit in excess of the recoverable amount is recorded as an impairment loss. The recoverable amount is the higher amount of either the value in use or the fair value less costs of disposal.

(ii) Main assumptions used in the measurement of the amount recorded in the consolidated financial statements for the current fiscal year
The assessment of whether there is an indication of impairment and measurement of impairment loss will be affected by the raw fuel prices and the situation of the future spread of the COVID-19 pandemic. As a certain assumption in performing the best possible estimates, it is assumed that raw fuel prices will remain at the current situation and that the impact of the COVID-19 will gradually recover in the next fiscal year, although a certain level of impact will continue to exist. Thus, the Company has estimated future cash flow considering these impacts on the financial budget.

In Jiangmen Xinghui, demand for packaging materials including the Jiangmen Xinghui’s products declined due to the economic slowdown caused by the COVID-19 in China, measures to prevent its spread, and measures to control soaring real estate prices, and as a result, indication of impairment was recognized. Although the Jiangmen Xinghui’s property, plant and equipment include real estate such as land use rights, the fair value less costs of disposal was calculated using the income approach instead of the market approach because there were few examples of real estate transactions in the vicinity of Jiangmen Xinghui when adopting the market approach, and the discounted future cash flows calculated by third-party appraisal. The future cash flows were based on sales in the Jiangmen Xinghui’s future financial budget, and profit margins at competitors were considered from the perspective of market participants.

(iii) Impacts on the consolidated financial statements for the next fiscal year

The future market environment and the impacts that the COVID-19 pandemic will have on business performance remain uncertain. If future business performance differs from the budget reflecting the above assumptions, there may be a need to record significant impairment losses for property, plant and equipment recorded on the consolidated financial statements for the current fiscal year.

3. Measurement of accrued environmental expenditures for Alberta-Pacific Forest Industries Inc.

The Company's consolidated subsidiary Alberta-Pacific Forest Industries Inc. has recorded the present value of estimated expenditures for soil treatment following the use of snow-melting agent as an accrued environmental expenditure.

(1) Amount recorded in consolidated financial statements for the current fiscal year

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Accrued environmental expenditures - current	**¥ 9**	¥273	**$ 71**
Accrued environmental expenditures - long-term	**¥1,116**	¥780	**$9,118**

(2) Other information on accounting estimates that aids user understanding of the consolidated financial statements

(i) Measurement method for amount recorded in consolidated financial statements for the current fiscal year and main assumptions used in the measurement

The provincial laws of Alberta, Canada require soil remediation and administration as a response for soil treatment following the use of snow-melting agent. Alberta-Pacific Forest Industries Inc. has already submitted a remediation plan to the regulatory authority, but there is a possibility that the plan could require revisions due to findings during the process of plan implementation or instructions provided by the authority. The accrued environmental expenditures are measured based on the costs expected to occur in the future following the remediation plan based on the findings and instructions of the authority so far.

(ii) Impacts on the consolidated financial statements for the next fiscal year

The current remediation plan could require revisions based on findings identified or instructions of the authority following implementation of the remediation plan in the future. In such cases, there is a possibility that significant revisions to the accrued environmental expenditures recorded in the consolidated financial statements will be required for the current fiscal year.

Note 4: Cash and Cash Equivalents

A reconciliation of cash and deposits shown in the consolidated balance sheets and cash and cash equivalents presented in the consolidated statements of cash flows at March 31, 2022 and 2021 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Cash and deposits	**¥30,276**	¥29,847	**$247,333**
Cash and cash equivalents	**¥30,276**	¥29,847	**$247,333**

Note 5: Financial Instruments

Information on financial instruments for the year ended March 31, 2022 and 2021 are as follows.

Status of Financial Instruments

The Companies raises 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 capital 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 regularly obtain their fair value.

The Company uses interest rate swap contracts to reduce the risk of fluctuations in interest costs related to debt, and interest rate and currency swaps to reduce the risk of fluctuations in principal and interest costs related to foreign currency-denominated debt.

The Company and certain consolidated subsidiaries use forward exchange contracts to reduce the risk of fluctuations in foreign exchange rates regarding certain trade receivables and payables denominated in foreign currencies.

Fair Values of Financial Instruments

The book values, fair values and differences of the financial instruments as of March 31, 2022 and 2021 are as follows. Financial instruments with fair values not readily determinable are excluded from the following table (see (b)), and "Cash and deposits," "Notes and accounts receivable," "Notes and accounts payable," "Short-term loans" and "Commercial paper" are excluded from the following table because they are cash and their fair value approximates their book value due to their short maturities:

	Millions of yen		
			2022
	Book value	Fair value	Difference
(1) Investments in securities:			
Available-for-sale securities	**¥18,806**	**¥18,806**	**¥ —**
(2) Investments in and receivables from unconsolidated subsidiaries and affiliates			
Stocks of affiliates	**65,413**	**65,851**	**438**
Total assets	**¥84,219**	**¥84,657**	**¥ 438**
(3) Bonds	**¥20,000**	**¥19,941**	**¥ (59)**
(4) Long-term loans payable*2	**59,183**	**59,114**	**(69)**
Total liabilities	**¥79,183**	**¥79,055**	**¥(128)**
Derivative transactions*3	**¥ 148**	**¥ 148**	**¥ —**

	Millions of yen		
			2021
	Book value	Fair value	Difference
(1) Investments in securities:			
Available-for-sale securities	¥18,823	¥18,823	¥ —
(2) Investments in and receivables from unconsolidated subsidiaries and affiliates			
Stocks of affiliates	60,693	78,868	18,175
Total assets	¥79,516	¥97,691	¥18,175
(3) Bonds*1	¥30,000	¥30,015	¥ 15
(4) Long-term loans payable*2	64,510	64,552	42
Total liabilities	¥94,510	¥94,567	¥ 57
Derivative transactions*3	¥ (34)	¥ (34)	¥ —

	Thousands of U.S. dollars		
			2022
	Book value	Fair value	Difference
(1) Investments in securities:			
Available-for-sale securities	**$153,631**	**$153,631**	**$ —**
(2) Investments in and receivables from unconsolidated subsidiaries and affiliates			
Stocks of affiliates	**534,377**	**537,955**	**3,578**
Total assets	**$688,008**	**$691,586**	**$ 3,578**
(3) Bonds	**$163,386**	**$162,903**	**$ (483)**
(4) Long-term loans payable*2	**483,481**	**482,918**	**(563)**
Total liabilities	**$646,867**	**$645,821**	**$(1,046)**
Derivative transactions*3	**$ 1,209**	**$ 1,209**	**$ —**

*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) The fair value level of financial instruments.

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (that is, observable inputs).

(b) Equity securities without market prices are not included in "(1) Investments in securities". The carrying amount of those financial instruments are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Unlisted equity securities	**¥7,366**	¥7,313	**$60,175**

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

	Millions of yen				Thousands of U.S. dollars	
	2022		2021		**2022**	
	Due in one year	Due over one year	Due in one year	Due over one year	Due in one year	Due over one year
Cash and deposits	**¥30,276**	**¥—**	¥29,847	¥—	**$247,333**	**$—**
Notes and accounts receivable	**60,604**	**—**	49,654	—	**495,090**	**—**
Electronically recorded monetary claims	**7,133**	**—**	5,701	—	**58,271**	**—**
Total	**¥98,013**	**¥—**	¥85,202	¥—	**$800,694**	**$—**

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

	Millions of yen					
	2022					
	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 loans	**¥15,062**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**
Commercial paper	**3,000**	**—**	**—**	**—**	**—**	**—**
Bonds	**—**	**10,000**	**—**	**—**	**10,000**	**—**
Long-term loans payable*	**25,687**	**4,573**	**12,571**	**13,177**	**175**	**3,000**
Total	**¥43,749**	**¥14,573**	**¥12,571**	**¥13,177**	**¥10,175**	**¥3,000**

	Millions of yen					
	2021					
	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 loans	¥17,561	¥ —	¥ —	¥ —	¥ —	¥ —
Commercial paper	—	—	—	—	—	—
Bonds	20,000	—	10,000	—	—	—
Long-term loans payable*	5,367	25,685	4,571	12,570	13,175	3,142
Total	¥42,928	¥25,685	¥14,571	¥12,570	¥13,175	¥3,142

						Thousands of U.S. dollars
						2022
	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 loans	**$123,046**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
Commercial paper	**24,508**	**—**	**—**	**—**	**—**	**—**
Bonds	**—**	**81,693**	**—**	**—**	**81,693**	**—**
Long-term loans payable*	**209,843**	**37,358**	**102,696**	**107,646**	**1,430**	**24,508**
Total	**$357,397**	**$119,051**	**$102,696**	**$107,646**	**$83,123**	**$24,508**

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

(e) Financial instruments recorded on the consolidated balance sheets at fair value.

				Millions of yen
				2022
				Fair value
	Level 1	Level 2	Level 3	Total
Investments in securities:				
Available-for-sale securities	**¥18,806**	**¥ —**	**¥—**	**¥18,806**
Derivative transactions				
Currency-related	**—**	**148**	**—**	**148**
Interest-related	**—**	**—**	**—**	**—**
Total assets	**¥18,806**	**¥148**	**¥—**	**¥18,954**
Derivative transactions				
Currency-related	**¥ —**	**¥ —**	**¥—**	**¥ —**
Interest-related	**—**	**—**	**—**	**—**
Total liabilities	**¥ —**	**¥ —**	**¥—**	**¥ —**

				Thousands of U.S. dollars
				2022
				Fair value
	Level 1	Level 2	Level 3	Total
Investments in securities:				
Available-for-sale securities	**$153,631**	**$ —**	**$—**	**$153,631**
Derivative transactions				
Currency-related	**—**	**1,209**	**—**	**1,209**
Interest-related	**—**	**—**	**—**	**—**
Total assets	**$153,631**	**$1,209**	**$—**	**$154,840**
Derivative transactions				
Currency-related	**$ —**	**$ —**	**$—**	**$ —**
Interest-related	**—**	**—**	**—**	**—**
Total liabilities	**$ —**	**$ —**	**$—**	**$ —**

(f) Financial instruments other than those recorded on the consolidated balance sheets at fair value.

	Millions of yen			
	2022			
	Fair value			
	Level 1	Level 2	Level 3	Total
Investments in and receivables from unconsolidated subsidiaries and affiliates				
Stocks of affiliates	**¥65,851**	**¥ —**	**¥—**	**¥65,851**
Total assets	**¥65,851**	**¥ —**	**¥—**	**¥65,851**
Bonds	**—**	**19,941**	**—**	**19,941**
Long-term loans payable*2	**—**	**59,114**	**—**	**59,114**
Total liabilities	**¥ —**	**¥79,055**	**¥—**	**¥79,055**

	Thousands of U.S. dollars			
	2022			
	Fair value			
	Level 1	Level 2	Level 3	Total
Investments in and receivables from unconsolidated subsidiaries and affiliates				
Stocks of affiliates	**$537,955**	**$ —**	**$—**	**$537,955**
Total assets	**$537,955**	**$ —**	**$—**	**$537,955**
Bonds	**—**	**162,903**	**—**	**162,903**
Long-term loans payable*2	**—**	**482,918**	**—**	**482,918**
Total liabilities	**$ —**	**$645,821**	**$—**	**$645,821**

(g) Explanation of valuation techniques used in the calculation of fair value and inputs related to the calculation of fair value.

Assets

(1) (2) Investments in securities

The fair value of listed securities is measured at the quoted market price of the stock exchange. Since listed securities are traded in active markets, their fair value is classified as Level 1 fair value.

Liabilities

(3) Bonds

Since the bonds issued by the Company have quoted market prices, they are measured based on the quoted market prices. The bonds are classified as Level 2 fair value because they are traded infrequently in the market and are not considered to be quoted prices in an active market.

(4) 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 and is classified as Level 2 fair value. 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 and is classified as Level 2 fair value.

Derivative Transactions

The fair value of currency options and foreign exchange contracts is determined based on the prices quoted by the financial institutions with which the contracts were concluded, and is classified as Level 2 fair value.

Note 6: Securities

The following tables summarize acquisition costs and book value of securities with available fair value at March 31, 2022 and 2021:

	Millions of yen		
			2022
Type	Acquisition cost	Book value	Difference
Equity securities:			
with book value (fair value) exceeding acquisition costs	**¥9,122**	**¥14,191**	**¥5,069**
with book value (fair value) not exceeding acquisition costs	**5,350**	**4,615**	**(735)**
	¥14,472	**¥18,806**	**¥4,334**

	Millions of yen		
			2021
Type	Acquisition cost	Book value	Difference
Equity securities:			
with book value (fair value) exceeding acquisition costs	¥11,400	¥16,760	¥5,360
with book value (fair value) not exceeding acquisition costs	2,443	2,063	(380)
	¥13,843	¥18,823	¥4,980

	Thousands of U.S. dollars		
			2022
Type	Acquisition cost	Book value	Difference
Equity securities:			
with book value (fair value) exceeding acquisition costs	**$74,520**	**$115,930**	**$41,410**
with book value (fair value) not exceeding acquisition costs	**43,706**	**37,701**	**(6,004)**
	$118,226	**$153,631**	**$35,406**

Total sales of available-for-sale securities sold in the year ended March 31, 2022 amounted to ¥32 million ($261 thousand), the related gains amounted to ¥21 million ($172 thousand) and no related losses. Total sales of available-for-sale securities sold in the year ended March 31, 2021 amounted to ¥7,479 million, the related gains amounted to ¥5,324 million and the related losses amounted to ¥4 million.

Note 7: Inventories

Inventories at March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Merchandise and Finished goods	**¥27,260**	¥22,375	**$222,694**
Work-in-process	**2,685**	2,379	**21,934**
Raw materials and supplies	**26,470**	22,712	**216,241**
	¥56,415	¥47,466	**$460,869**

Note 8: Amounts Relating to Fraudulent Activity for the year ended March 31, 2015

Balances relating to fraudulent activity at March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Balances:			
Investments and other assets			
Other	**¥—**	¥2,360	**$—**
Allowance for doubtful accounts	**—**	(2,360)	**—**

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

(1) Short-term debt had weighted-average interest rates of 1.66% and 0.76% at March 31, 2022 and 2021, respectively.
(2) The weighted-average interest rate on commercial paper was (0.08)% at March 31, 2022.
(3) Long-term debt at March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Long-term loans from banks and other financial institutions			
(Loans due with one year, weighted-average interest rate 0.45%)	**¥25,687**	¥5,367	**$209,843**
(Loans due after one year, weighted-average interest rate 0.22%)	**33,496**	59,143	**273,638**
0.170% unsecured yen straight bonds due in 2021	**—**	10,000	**—**
0.180% unsecured yen straight bonds due in 2021	**—**	10,000	**—**
0.220% unsecured yen straight bonds due in 2024	**10,000**	10,000	**81,693**
0.110% unsecured yen straight bonds due in 2026	**10,000**	—	**81,693**
Lease obligations			
(Loans due with one year)	**280**	294	**2,287**
(Loans due after one year)	**1,563**	1,626	**12,768**
	81,026	96,430	**661,922**
Less current portion due with one year	**(25,967)**	(25,661)	**(212,131)**
Long-term debt	**¥55,059**	¥70,769	**$449,791**

(4) The annual maturities of long-term debt at March 31, 2022 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2023	**¥25,967**	**$212,131**
2024	**14,790**	**120,823**
2025	**12,763**	**104,264**
2026	**13,374**	**109,256**
2027	**10,351**	**84,560**
2028 and thereafter	**3,781**	**30,889**
	¥81,026	**$661,923**

Note 10: Contingent Liabilities

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Guarantee obligation	**¥6**	¥6	**$49**
Transfer of electronically recorded receivables	**10**	3	**82**

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 29, 2022, the shareholders approved cash dividends amounting to ¥2,867 million ($23,421 thousand). Such appropriations have not been accrued in the consolidated financial statements at March 31, 2022. 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 30.5% for the year ended March 31, 2022 and 2021.

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, 2022 and 2021:

	2022	2021
Statutory tax rate	**30.5%**	30.5%
Non-deductible expenses	**0.2**	0.3
Dividends received not taxable	**(0.4)**	(2.6)
Per capita inhabitants taxes	**0.2**	0.4
Valuation allowance	**2.2**	(25.3)
Equity in income of affiliates	**(6.5)**	(12.8)
Difference from tax rate of foreign subsidiaries	**(2.1)**	1.0
Other	**(1.9)**	1.5
Effective tax rate	**22.2**	(7.0)

Significant components of deferred income tax assets and liabilities at March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Deferred income tax assets:			
Accrued bonuses	**¥ 704**	¥ 716	**$ 5,751**
Unrealized gain from sales of inventories	**235**	72	**1,920**
Liability for retirement benefit	**4,053**	4,406	**33,110**
Long-term accrued amount payable	**20**	20	**163**
Unrealized gain from sales of fixed assets	**805**	872	**6,576**
Unrealized holding gain on fixed assets	**412**	310	**3,366**
Depreciation and amortization	**742**	578	**6,062**
Impairment loss of fixed assets	**4,400**	1,850	**35,945**
Loss on devaluation of investments in securities	**1,110**	1,139	**9,068**
Provision for business structure improvement	**—**	83	**—**
Accrued environmental expenditures	**279**	260	**2,279**
Asset retirement obligations	**785**	636	**6,413**
Net operating loss carry forwards	**1,743**	2,951	**14,239**
Allowance for doubtful accounts	**79**	824	**645**
Other	**2,589**	2,529	**21,150**
Subtotal deferred income tax assets	**17,956**	17,246	**146,687**
Valuation allowance related to net operating loss carryforwards*2	**(1,630)**	(1,917)	**(13,316)**
Valuation allowance related to deductible temporary differences*1	**(7,557)**	(7,552)	**(61,735)**
Valuation allowance*1	**(9,187)**	(9,469)	**(75,051)**
Total deferred income tax assets	**¥ 8,769**	¥ 7,777	**$ 71,636**
Deferred income tax liabilities:			
Asset for retirement benefit	**¥ (2,906)**	¥(2,791)	**$(23,740)**
Reserve deductible for Japanese tax purpose	**—**	(24)	**—**
Reserve for special account for advanced depreciation of fixed assets	**(2,598)**	—	**(21,224)**
Reserve for deferred gain on sales of fixed assets for tax purpose	**(779)**	(797)	**(6,364)**
Valuation difference on Property, plant and equipment	**(2,088)**	(1,939)	**(17,057)**
Unrealized holding gain on securities	**(1,355)**	(1,672)	**(11,069)**
Accumulated adjustments for retirement benefit	**(538)**	(277)	**(4,395)**
Other	**250**	135	**2,043**
Total deferred income tax liabilities	**¥(10,014)**	¥(7,365)	**$(81,806)**
Net deferred income tax assets (liabilities)	**¥ (1,245)**	¥ 412	**$(10,170)**

*1 The valuation allowance decreased by 282 million yen. The main reason for this decrease is due to the decrease in valuation allowance related to unrealized holding gain on fixed assets at certain consolidated subsidiary.

*2 The total amount of net operating loss carryforwards and other deferred income tax assets for each period carried forward for tax purposes.

Year ended March 31, 2022							Millions of yen
	2023	2024	2025	2026	2027	2028 and thereafter	Total
Loss carryforwards (a)	**¥ 25**	**659**	**509**	**6**	**12**	**532**	**¥ 1,743**
Valuation allowances	**¥(25)**	**(655)**	**(498)**	**(6)**	**(12)**	**(434)**	**¥(1,630)**
Deferred income tax assets (b)	**¥ —**	**4**	**11**	—	—	**98**	**¥113**

Year ended March 31, 2022							Thousands of U.S. dollars
	2023	2024	2025	2026	2027	2028 and thereafter	Total
Loss carryforwards (a)	**$ 204**	**5,384**	**4,158**	**49**	**98**	**4,346**	**$ 14,239**
Valuation allowances	**$(204)**	**(5,351)**	**(4,068)**	**(49)**	**(98)**	**(3,546)**	**$(13,316)**
Deferred income tax assets (b)	**$ —**	**33**	**90**	—	—	**800**	**$ 923**

(a) Net operating loss carryforwards is the amount multiplied by the statutory effective tax rate.
(b) The amount of ¥113 million ($923 thousand) of deferred income tax assets is recorded for net operating loss carryforwards of ¥1,743 million ($14,239 thousand) (amount multiplied by the statutory effective tax rate).
The amount of ¥113 million ($923 thousand) in deferred income tax assets was mainly recognized with regards to the balance of net operating loss carryforwards at the Company of 93 million ($840 thousand) (amount multiplied by the statutory effective tax rate).
A valuation allowance has not been recognized for the part determined to be recoverable due to projected future taxable income with regard to the net operating loss carryforwards recorded in deferred income tax assets.

Year ended March 31, 2021							Millions of yen
	2022	2023	2024	2025	2026	2027 and thereafter	Total
Loss carryforwards (a)	¥ 346	22	676	440	5	1,462	¥ 2,951
Valuation allowances	¥(336)	(22)	(675)	(440)	(5)	(439)	¥(1,917)
Deferred income tax assets (b)	¥ 10	—	1	—	—	1,023	¥ 1,034

(a) Net operating loss carryforwards is the amount multiplied by the statutory effective tax rate.
(b) The amount of 1,034 million yen of deferred income tax assets is recorded for net operating loss carryforwards of 2,951 million (amount multiplied by the statutory effective tax rate).
The amount of 1,034 million yen in deferred tax assets was mainly recognized with regards to the balance of net operating loss carryforwards at the Company of 991 million yen (amount multiplied by the statutory effective tax rate).
A valuation allowance has not been recognized for the part determined to be recoverable due to projected future taxable income with regard to the net operating loss carryforwards recorded in deferred income tax assets.

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 ¥615 million ($5,024 thousand) and ¥666 million for the years ended March 31, 2022 and 2021, respectively.

Note 14: Impairment Loss on Long-lived Asset

The Companies classify long-lived asset 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.

In the year ended March 31, 2022, the Companies recorded impairment loss on long-lived asset for the following group assets:

			Amount	Amount
Use	Location	Type	Millions of yen	Thousands of U.S. dollars
White paperboard business	Guangdong, China	Machinery and equipment, Vehicles, etc.	**2,434**	**19,884**
Idle assets	Nigata, Nigata and elsewhere	Machinery and equipment, Vehicles, etc.	**1,833**	**14,975**
Containerboard base paper	Nigata, Nigata	Machinery and equipment, Vehicles, etc.	**3,588**	**29,311**
Total	—	—	**¥7,855**	**$64,170**

(Process for Recognition of Impairment Loss on Longlived Asset)
With the deterioration of business environment, in the containerboard base paper production facilities of the Paper and Pulp Business segment, where the recoverable amount is less than the book value, the book value has been reduced to the recoverable amount, and the amount of the decrease is an impairment loss recorded as an other expense. The recoverable amount of the containerboard base paper production facilities is the fair value less cost to sell, and is calculated by a third-party appraisal.

With the deterioration of business environment, in the white paperboard production facilities of the Paper and Pulp Business segment, where the recoverable amount is less than the book value, the book value has been reduced to the recoverable amount and the amount of the decrease is an impairment loss recorded as an other expense. The recoverable amount of the white paperboard production facilities is calculated using the fair value based on IFRS. The recoverable amount is the fair value less cost of disposal, and is calculated by a third-party appraisal.

With regard to idle assets of the Paper and Pulp Business and other business, the book value was reduced to the recoverable amount because their future use is not expected, and the amount of the decrease is an impairment loss recorded as an other expense. The recoverable amount of these items is by the fair value less cost to sell and the recoverable amount for the assets which have difficulty in sale and other conversion is evaluated as zero.

In the year ended March 31, 2021, the Companies recorded impairment loss on long-lived asset for the following group of assets:

			Amount
Use	Location	Type	Millions of yen
Held for sale	Suita, Osaka and elsewhere	Buildings and structures, etc.	360
Idle assets	Chuo-ku, Tokyo and elsewhere	Buildings and structures, etc.	4
Total	—	—	¥364

(Process for Recognition of Impairment Loss on Long-lived Asset)
In terms of held for sale assets of the paper and pulp business, packaging and paper processing business and other businesses, the Company has decided to transfer long-lived asset with the purpose of effectively utilizing management resources and strengthening financial soundness. The book value of these assets was reduced to the recoverable amount and recorded ¥249 million in business structure improvement expenses and ¥111 million as impairment losses in other expenses.

In addition, since idle assets are not expected to be used in the future, their book value was reduced to the recoverable amount and, in turn, this amount was booked in other expenses as an impairment loss.

The recoverable amount is measured based on the fair value less costs of disposal. The fair value less costs of disposal for assets held for sale is evaluated based on the planned selling price and is set at zero for assets that are difficult to sell or convert to other uses.

Note 15: Lease Transactions

Lease transactions for the years ended March 31, 2022 and 2021 are as follows:

Operating lease transactions

Lease commitments under non-cancelable operating leases at March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
(lessee)			
Due within one year	**¥132**	¥133	**$1,078**
Due after one year	**144**	188	**1,177**
	¥276	¥321	**$2,255**
(lessor)			
Due within one year	**¥ 26**	¥ 26	**$ 212**
Due after one year	**341**	365	**2,786**
	¥367	¥391	**$2,998**

Note 16: Derivative Transactions

Derivative financial instruments currently utilized by the Companies include mainly forward exchange contracts, interest rate swap contracts, and interest rate and currency 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 and interest rate and currency swap contracts to avert the Companies' exposure to adverse movements in principal and interest on foreign currency loans payable.

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 by the Company's Corporate Planning Department and managed by the Company's Accounting Department in accordance with the established policies and within the specified limits on the amounts of derivative transactions allowed. Information on derivative transactions is reported quarterly to the president, general managers, and other management.

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 fair value of 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.

Among hedging relationships, the Company and its consolidated domestic subsidiaries have applied the exception set out in the *"Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR"* (PITF No.40, March 17, 2022) to all of those hedging relationships that are within the scope of the Practical Solution. The details of the hedging relationships to which the Practical Solution is applied are as follows:

Method of hedge accounting: Deferred hedge accounting

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

Hedging instrument: Derivative financial instruments (interest rate swaps)

Hedged item: Payment of interest rate related to funding

Type of hedge: Cash flow hedge

Derivative transactions for which hedge accounting had not been applied at March 31, 2022 and 2021 are as follows:

(1) Currency-related

	Millions of yen								Thousands of U.S. dollars			
	2022				2021				2022			
	Notional amount				Notional amount				Notional amount			
Type of derivative transaction	Total	Over one year	Fair value	Valuation Gain (Loss)	Total	Over one year	Fair value	Valuation Gain (Loss)	Total	Over one year	Fair value	Valuation Gain (Loss)
Currency options												
Sale contracts												
U.S. Dollar	**¥—**	**¥—**	**¥—**	**¥—**	¥313	¥—	¥(6)	¥(6)	**$—**	**$—**	**$—**	**$—**
Buy contracts												
U.S. Dollar	**¥—**	**¥—**	**¥—**	**¥—**	¥449	¥—	¥ 3	¥ 3	**$—**	**$—**	**$—**	**$—**

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

Derivative transactions for which hedge accounting had been applied at March 31, 2022 and 2021 are as follows:

(1) Currency-related

	Millions of yen						Thousands of U.S. dollars		
	2022			2021			2022		
	Notional amount			Notional amount			Notional amount		
Type of derivative transaction	Total	Over one year	Fair value	Total	Over one year	Fair value	Total	Over one year	Fair value
Forward exchange contracts									
Buy contracts									
U.S. Dollar	**¥1,050**	**¥—**	**¥ 19**	¥404	¥—	¥(31)	**$8,578**	**$—**	**$158**
EUR	**¥1,721**	**¥—**	**¥129**	¥—	¥—	¥ —	**$14,059**	**$—**	**$1,051**

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

(2) Interest –related

The following interest rate swap contracts are used as hedges and qualified for special hedging treatment. 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.

		Millions of yen						Thousands of U.S. dollars		
		2022			2021			2022		
		Notional amount			Notional amount			Notional amount		
Type of derivative transaction	Main hedged items	Total	Over one year	Fair value	Total	Over one year	Fair value	Total	Over one year	Fair value
Interest rate swap contracts										
Receive floating, Pay fixed	Long-term loans payable	**¥6,060**	**¥—**	**¥—**	¥6,820	¥6,060	¥—	**$49,506**	**$—**	**$—**

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

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.

		Millions of yen						Thousands of U.S. dollars		
		2022			2021			**2022**		
		Notional amount			Notional amount			Notional amount		
Type of derivative transaction	Main hedged items	Total	Over one year	Fair value	Total	Over one year	Fair value	Total	Over one year	Fair value
Interest rate and currency swaps contracts										
Receive floating, Pay fixed Receive U.S. dollar, Pay Japanese Yen	Long-term loans payable	**¥7,813**	**¥—**	**¥—**	¥8,780	¥7,813	¥—	**$63,826**	**$—**	**$—**

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 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.

Note 17: Retirement Benefits

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. Furthermore, the Company has set up a retirement benefits trust. In addition, a defined contribution pension plan has been established for certain overseas consolidated subsidiary.

Under the corporate pension fund plan and the lump-sum retirement payment plan of some consolidated subsidiaries, liabilities for retirement benefit and retirement benefit costs are calculated using the simplified method.

1. Defined benefit plans, except plan applied simplified method

(1) Movement in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Balance at the beginning of the year	**¥17,313**	¥16,973	**$141,435**
Service cost	**738**	799	**6,029**
Interest cost	**108**	110	**882**
Actuarial (gain) loss	**(51)**	(21)	**(417)**
Benefits paid	**(1,362)**	(521)	**(11,127)**
Other	**12**	(27)	**98**
Balance at the end of the year	**¥16,758**	¥17,313	**$136,900**

(2) Movements in plan assets

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Balance at the beginning of the year	**¥15,053**	¥13,231	**$122,972**
Expected return on plan assets	**90**	81	**735**
Actuarial (gain) loss	**1,124**	1,833	**9,182**
Contributions paid by the employer	**97**	169	**792**
Benefits paid	**(283)**	(241)	**(2,312)**
Other	**61**	(20)	**499**
Balance at the end of the year	**¥16,142**	¥15,053	**$131,868**

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

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Funded retirement benefit obligations	**¥ 14,227**	¥ 13,995	**$ 116,224**
Plan assets	**(16,142)**	(15,053)	**(131,868)**
	(1,915)	(1,058)	**(15,644)**
Unfunded retirement benefit obligations	**2,531**	3,318	**20,676**
Total Net liability (asset) for retirement benefits	**616**	2,260	**5,032**
Liability for retirement benefits	**4,387**	5,647	**35,838**
Asset for retirement benefits	**(3,771)**	(3,387)	**(30,806)**
Total Net liability (asset) for retirement benefits	**¥ 616**	¥ 2,260	**$ 5,032**

(4) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Service cost	**¥ 738**	¥ 799	**$ 6,029**
Interest cost	**108**	110	**882**
Expected return on plan assets	**(90)**	(81)	**(735)**
Net actuarial gain amortization	**(192)**	258	**(1,568)**
Other	**1**	1	**8**
Total retirement benefit costs	**¥ 565**	¥1,087	**$ 4,616**
Gain on reversal of retirement benefit obligations*	**(77)**	—	**(629)**

*This account is recorded in other income.

(5) Adjustments for retirement benefit

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Actuarial gains and (losses)	**¥983**	¥2,113	**$8,030**
Other	**(5)**	0	**(40)**
Total adjustments for retirement benefit	**¥978**	¥2,113	**$7,990**

(6) Accumulated adjustments for retirement benefit

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Unrecognized actuarial gains and (losses)	**¥(1,836)**	¥(858)	**$(14,999)**

(7) Plan assets
1. Plan assets comprise:

	2022	2021
Bonds	**17.8%**	18.8%
Equity securities	**67.8%**	67.2%
Cash and deposits	**4.4%**	4.0%
General account of life insurance companies	**8.3%**	9.0%
Other	**1.7%**	1.0%
Total*	**100.0%**	100.0%

* Total plan assets include the pension benefits trust, established under the corporate pension system, which accounted for 45.1% and 46.5% of plan assets in the previous and the current fiscal year, respectively.

2. Determination method of 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:

	2022	2021
Discount rate	**0.6% (mainly)**	0.6% (mainly)
Long-term expected rate of return	**1.0% (mainly)**	1.0% (mainly)
Anticipated rate of increase	**2.8% (mainly)**	2.8% (mainly)

2. Defined benefit plan applying the simplified method

(1) Movement in liability for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Balance at the beginning of the year	¥1,225	¥1,415	$9,999
Retirement benefit costs	186	152	1,528
Benefits paid	(163)	(250)	(1,332)
Contributions paid by the employer	(79)	(94)	(645)
Other	6	2	49
Balance at the end of the year	¥1,175	¥1,225	$9,599

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

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Funded retirement benefit obligations	¥ 900	¥ 905	¥ 7,352
Plan assets	(987)	(948)	(8,063)
	(87)	(43)	(711)
Unfunded retirement benefit obligations	1,262	1,268	10,310
Total Net liability (asset) for retirement benefits	1,175	1,225	9,599
Liability for retirement benefits	1,274	1,294	10,408
Asset for retirement benefits	(99)	(69)	(809)
Total Net liability (asset) for retirement benefits	¥1,175	¥1,225	¥ 9,599

(3) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Total retirement benefit costs based on the simplified method	¥187	¥152	$1,528

3. Defined contribution pension plan

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Required contributions provided to defined contribution pension plans at consolidated subsidiary	¥388	¥349	$3,170

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 (0.949)% to 2.330% is used.

(3) Movement in the total amount of the relevant asset retirement obligations during the fiscal year ended March 31, 2022 and 2021:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Balance at the beginning of the year	**¥2,378**	¥2,516	**$19,427**
Increase from acquisition of property, plant and equipment	**—**	3	**—**
Unwinding of discount	**8**	11	**65**
Increase due to change in estimates	**629**	85	**5,138**
Decrease on disposal of property, plant and equipment	**(217)**	(203)	**(1,772)**
Foreign currency translation adjustment	**143**	(34)	**1,168**
Balance at the end of the year	**¥2,941**	¥2,378	**$24,026**

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, in case the use periods of the leased properties related to such obligations are indefinite, 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.

Note19: Business structure improvement expenses

It was decided to dissolve and liquidate Kishu Kohatsu Co., Ltd., a consolidated subsidiary of the Company, and sell its property, plant and equipment which are leased from the Company.

Business structure improvement expenses consist mainly of the premium retirement allowance of Kishu Kohatsu Co., Ltd., impairment loss and removal costs of the property, plant and equipment.

Note 20: Segment Information

1. Overview of Reportable Segments

Reportable segments of the Company are components 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 Company evaluates business results on an each-company basis, and treats independent entities as a unit functioning within each of its business segments. The Company groups each company 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, along with the manufacture, processing and sale of processed paper products.

The Company has changed the presentation method of business segments. The Wood Material Business segment, Engineering Business segment and Logistics Business segment previously presented as individual segments have been included in the “other” segment from the current fiscal year because of the quantitative decrease in their materiality.

Furthermore, segment information for the previous fiscal year has been prepared and disclosed according to the reporting segment classification for the current fiscal year.

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 reportable 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 on segment sales, segment income or loss, segment assets and other significant items:

Millions of yen

	2022					
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others*1	Adjustments*2	Consolidated*3
Sales:						
Sales to outside customers	¥240,003	¥13,609	¥253,612	¥ 8,005	¥ —	¥261,617
Intersegment sales or transfers	2,467	31	2,498	22,380	(24,878)	—
Total	242,470	13,640	256,110	30,385	(24,878)	261,617
Segment income	¥ 19,242	¥ (72)	¥ 19,170	¥ 760	¥ 526	¥ 20,456
Segment assets	¥357,858	¥13,666	¥371,524	¥16,887	¥(11,455)	¥376,956
Other items						
Depreciation and amortization	¥ 12,518	¥ 648	¥ 13,166	¥ 439	¥ (392)	¥ 13,213
Impairment loss	¥ 7,855	¥ —	¥ 7,855	¥ 0	¥ —	¥ 7,855
Investment in affiliates	¥ 67,269	¥ —	¥ 67,269	¥ —	¥ —	¥ 67,269
Increase in property, plant and equipment/ intangible assets	¥ 13,101	¥ 284	¥ 13,385	¥ 336	¥ (259)	¥ 13,462

Thousands of U.S. dollars

	2022					
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others*1	Adjustments*2	Consolidated*3
Sales:						
Sales to outside customers	$1,960,648	$111,176	$2,071,824	$ 65,395	$ —	$2,137,219
Intersegment sales or transfers	20,154	253	20,407	182,828	(203,235)	—
Total	1,980,802	111,429	2,092,231	248,223	(203,235)	2,137,219
Segment income	$ 157,193	$ (588)	$ 156,605	$ 6,209	$ 4,297	$ 167,111
Segment assets	$2,923,438	$111,641	$3,035,079	$137,954	$ (93,579)	$3,079,454
Other items						
Depreciation and amortization	$ 102,263	$ 5,294	$ 107,557	$ 3,586	$ (3,202)	$ 107,941
Impairment loss	$ 64,170	$ —	$ 64,170	$ 0	$ —	$ 64,170
Investment in affiliates	$ 549,538	$ —	$ 549,538	$ —	$ —	$ 549,538
Increase in property, plant and equipment/ intangible assets	$ 107,026	$ 2,320	$ 109,346	$ 2,745	$ (2,116)	$ 109,975

*1 The "Others" category indicates business segments not included in the reportable segments, encompassing the wastepaper wholesale business, the construction business and the transportation and warehousing business.

*2 Amounts of adjustments are as follows:

(1) Adjustments in segment income in the amount of 526 million ($4,297 thousand) mainly represent eliminations of intersegment transactions.

(2) Adjustments in segment assets in the amount of ¥(11,455) million ($(93,579) thousand) include ¥(16,791) million ($(137,170) thousand) for eliminations of intersegment debts and credits and ¥5,336 million ($43,591 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 ¥(259) million ($(2,116) 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					
	2021					
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others*1	Adjustments*2	Consolidated*3
Sales:						
Sales to outside customers	¥198,770	¥15,600	¥214,370	¥ 8,084	¥ —	¥222,454
Intersegment sales or transfers	2,438	73	2,511	24,695	(27,206)	—
Total	201,208	15,673	216,881	32,779	(27,206)	222,454
Segment income	¥ 673	¥ 89	¥ 762	¥ 327	¥613	¥ 1,702
Segment assets	¥344,341	¥16,077	¥360,418	¥17,346	¥(14,689)	¥363,075
Other items						
Depreciation and amortization	¥ 13,468	¥ 901	¥ 14,369	¥ 494	¥ (381)	¥ 14,482
Impairment loss	¥ 130	¥ 82	¥ 212	¥ 152	¥ —	¥ 364
Investment in affiliates	¥ 62,552	¥ —	¥ 62,552	¥ —	¥ —	¥ 62,552
Increase in property, plant and equipment/ intangible assets	¥ 13,790	¥ 356	¥ 14,146	¥ 376	¥ (386)	¥ 14,136

*1 The "Others" category indicates business segments not included in the reportable segments, encompassing the wastepaper wholesale, the construction business and the transportation and warehousing business.
*2 Amounts of adjustments are as follows:
(1) Adjustments in segment income in the amount of 613 million mainly represent eliminations of intersegment transactions.
(2) Adjustments in segment assets in the amount of ¥(14,489) million include ¥(19,901) million for eliminations of intersegment debts and credits and ¥5,213 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 ¥(386) 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.
*4 ¥249 million impairment loss is included in business structure improvement expenses of extraordinary loss ¥798 million.

(Related information)
Year ended March 31, 2022

1. Information by Region

(1) Net Sales

	Millions of yen					
	2022					
	Japan	China	United States	Asia	Others	Total
Net Sales	**¥162,656**	**¥33,443**	**¥27,910**	**¥20,960**	**¥16,648**	**¥261,617**

	Thousands of U.S. dollars					
	2022					
	Japan	China	United States	Asia	Others	Total
Net Sales	**$1,328,780**	**$273,205**	**$228,004**	**$171,228**	**$136,002**	**$2,137,219**

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) Asia …… South Korea, Vietnam, Taiwan, Thailand, Malaysia
(2) Other …… Canada, Europe, Germany, France

(2) Property, plant and equipment

	Millions of yen			
	2022			
	Japan	Canada	Others	Total
Property, plant and equipment	**¥90,912**	**¥18,642**	**¥5,829**	**¥115,383**

	Thousands of U.S. dollars			
	2022			
	Japan	Canada	Others	Total
Property, plant and equipment	**$742,684**	**$152,291**	**$47,619**	**$942,594**

2. Information by Major Customer

Name of Customers	Millions of yen 2022	Thousands of U.S. dollars 2022
SHINSEI PULP & PAPER COMPANY LIMITED	**¥32,331**	**$264,121**

Year ended March 31, 2021

1. Information by Region

(1) Net Sales

	Japan	China	United States	Asia	Others	Total
						Millions of yen 2021
Net Sales	¥153,985	¥28,786	¥17,291	¥13,508	¥8,884	¥222,454

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) Asia …… South Korea, Vietnam, Taiwan, Thailand, Malaysia
(2) Other …… Europe, Canada, the Middle East, Latin America

(2) Property, plant and equipment

	Japan	Canada	Others	Total
				Millions of yen 2021
Property, plant and equipment	¥103,524	¥15,267	¥7,658	¥126,449

2. Information by Major Customer

Name of Customers	Millions of yen 2021
SHINSEI PULP & PAPER COMPANY LIMITED	¥30,314

(Information on the amounts of amortization and unamortized balance by reportable segment)
Year ended March 31, 2022

	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others	Adjustments	Consolidated
	Millions of yen					
	2022					
Goodwill:						
Amortization of goodwill	**¥133**	**¥—**	**¥133**	**¥—**	**¥—**	**¥133**
Balance at end of year	**¥802**	**¥—**	**¥802**	**¥—**	**¥—**	**¥802**

	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others	Adjustments	Consolidated
	Thousands of U.S. dollars					
	2022					
Goodwill:						
Amortization of goodwill	**$1,087**	**$—**	**$1,087**	**$—**	**$—**	**$1,087**
Balance at end of year	**$6,552**	**$—**	**$6,552**	**$—**	**$—**	**$6,552**

Year ended March 31, 2021

	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others	Adjustments	Consolidated
	Millions of yen					
	2021					
Goodwill:						
Amortization of goodwill	¥125	¥—	¥125	¥—	¥—	¥125
Balance at end of year	¥911	¥—	¥911	¥—	¥—	¥911

Note 21: Revenue

(1) Revenue by type of goods or service

	Millions of yen				
	2022				
	Paper and Pulp Business	Packaging and Paper Processing Business	Reportable segment total	Others	Consolidated
Paper	¥118,235	¥ —	¥118,235	¥ —	¥118,235
Paperboard	50,891	—	50,891	—	50,891
Pulp	50,478	—	50,478	—	50,478
Others	20,365	13,609	33,974	8,005	41,979
Revenue recognized from contracts with customers	239,969	13,609	253,578	8,005	261,583
Other revenues	34	—	34	—	34
Sales to outside customers	¥240,003	¥13,609	¥253,612	¥8,005	¥261,617

	Thousands of U.S. dollars				
	2022				
	Paper and Pulp Business	Packaging and Paper Processing Business	Reportable segment total	Others	Consolidated
Paper	$ 965,893	$ —	$ 965,893	$ —	$ 965,893
Paperboard	415,742	—	415,742	—	415,742
Pulp	412,368	—	412,368	—	412,368
Others	166,368	111,176	277,544	65,395	342,939
Revenue recognized from contracts with customers	1,960,371	111,176	2,071,547	65,395	2,136,942
Other revenues	277	—	277	—	277
Sales to outside customers	$1,960,648	$111,176	$2,071,824	$65,395	$2,137,219

(2) Revenue by region

	Millions of yen				
	2022				
	Paper and Pulp Business	Packaging and Paper Processing Business	Reportable segment total	Others	Consolidated
Japan	¥142,382	¥12,312	¥154,694	¥7,928	¥162,622
Asia	53,029	1,297	54,326	77	54,403
North America	37,949	—	37,949	—	37,949
Others	6,609	—	6,609	—	6,609
Revenue recognized from contracts with customers	239,969	13,609	253,578	8,005	261,583
Other revenues	34	—	34	—	34
Sales to outside customers	¥240,003	¥13,609	¥253,612	¥8,005	¥261,617

	Thousands of U.S. dollars				
	2022				
	Paper and Pulp Business	Packaging and Paper Processing Business	Reportable segment total	Others	Consolidated
Japan	$1,163,157	$100,580	$1,263,737	$64,766	$1,328,503
Asia	433,208	10,596	443,804	629	444,433
North America	310,016	—	310,016	—	310,016
Others	53,990	—	53,990	—	53,990
Revenue recognized from contracts with customers	1,960,371	111,176	2,071,547	65,395	2,136,942
Other revenues	277	—	277	—	277
Sales to outside customers	$1,960,648	$111,176	$2,071,824	$65,395	$2,137,219

(3) Contract balances at the beginning and the end of the current year

	Millions of yen	Thousands of U.S. dollars
	2022	**2022**
Receivables recognized from contracts with customers - the beginning	**¥55,277**	**$451,569**
Receivables recognized from contracts with customers - the end	**67,738**	**553,367**
Contract assets - the beginning	**79**	**645**
Contract assets - the end	**145**	**1,182**
Contract liabilities - the beginning	**491**	**4,015**
Contract liabilities - the end	**¥ 507**	**$ 4,142**

Contract assets consist of accounts receivable for completed construction contracts related to revenue recognized based on the measurement of the percentage of completion in construction contracts.

Contract assets are reclassified to receivables upon acceptance by the customer. Contract liabilities consist primarily of advance received from customers under sales contracts. Contract liabilities are delecognized upon revenue recognition.

The amount of revenue recognized in the current fiscal year that was included in the contract liability balance at the beginning of the period was 438 million yen.

(4) Transaction price allocated to remaining performance obligations

The Company and its consolidated subsidiaries apply the practical expedient method in disclose of the transaction price allocated to the residual performance obligation and do not include in the notes contracts with an initial expected contract term of one year or less.

The aggregate transaction price allocated to the remaining performance obligations and the period over which revenue is expected to be recognized are as follows

	Millions of yen	Thousands of U.S. dollars
	2022	**2022**
2023	**¥120**	**$ 979**
2024	**53**	**432**
2025 and thereafter	**—**	**—**
Total retirement benefit costs	**¥173**	**$1,411**

Note 22: Related Party Transactions

(1) Transactions with related party

Year ended March 31, 2022

Transactions with related party are immaterial as of and for the current year ended as of March 31, 2022.

Year ended March 31, 2021
Transactions with related party are immaterial as of and for the current year ended as of March 31, 2021.

(2) Notes on parent company or significant affiliated company

For the year ended March 31, 2022 and 2021, the significant affiliated company is Daio Paper Corporation and its summarized consolidated financial statement is as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Total current assets	**¥291,300**	¥328,364	**$2,379,708**
Total noncurrent assets	**549,001**	521,313	**4,484,936**
Total current liabilities	**238,321**	226,925	**1,946,908**
Total noncurrent liabilities	**335,415**	376,086	**2,740,095**
Total net assets	**266,704**	246,788	**2,178,776**
Net sales	**612,314**	562,928	**5,002,157**
Income before income taxes	**36,588**	32,717	**298,897**
Net income attributable to owners of parent company	**23,721**	22,115	**193,783**

Note 23: 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
	2022	2021	**2022**
Unrealized holding gains (losses) on securities, net of taxes			
Occurrence amount	**¥(648)**	¥2,359	**$(5,293)**
Reclassification adjustment	**2**	444	**16**
Before tax effect	**(646)**	2,803	**(5,277)**
Tax effect	**318**	(799)	**2,597**
Unrealized holding gains (losses) on securities, net of taxes	**¥(328)**	¥2,004	**$(2,680)**
Unrealized gains (losses) on hedging derivatives, net of taxes			
Occurrence amount	**¥177**	¥(9)	**$1,446**
Reclassification adjustment	**2**	(51)	**16**
Before tax effect	**179**	(60)	**1,462**
Tax effect	**(52)**	17	**(425)**
Unrealized gains (losses) on hedging derivatives, net of taxes	**¥127**	¥(43)	**$1,037**
Foreign currency translation adjustment			
Occurrence amount	**¥2,635**	¥(1,282)	**$21,526**
Reclassification adjustment	**—**	—	**—**
Before tax effect	**2,635**	(1,282)	**21,526**
Tax effect	**—**	—	**—**
Foreign currency translation adjustment	**¥2,635**	¥(1,282)	**$21,526**
Adjustments for retirement benefit, net of taxes			
Occurrence amount	**¥1,170**	¥1,855	**$9,558**
Reclassification adjustment	**(192)**	258	**(1,568)**
Before tax effect	**978**	2,113	**7,990**
Tax effect	**(289)**	(647)	**(2,361)**
Adjustments for retirement benefit, net of taxes	**¥689**	¥1,466	**$5,629**
Share of other comprehensive income of associates accounted for using equity method			
Occurrence amount	**¥(150)**	¥379	**$(1,225)**
Reclassification adjustment	**(158)**	(18)	**(1,291)**
Share of other comprehensive income of associates accounted for using equity method	**¥(308)**	¥361	**$(2,516)**
Total other comprehensive income	**¥2,815**	¥2,506	**$22,996**

Note 24: Stock Option

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

(1) The Company's stock options as of March 31, 2022.

Stock options	Persons granted	Number of stock options granted	Grant date	Exercise price	Exercise period
2016 Stock options	9 directors	58,500 shares	July 14, 2016	¥1	From July 15, 2016 to July 14, 2031
2017 Stock options	9 directors	35,500 shares	July 14, 2017	¥1	From July 15, 2017 to July 14, 2032
2018 Stock options	9 directors	65,000 shares	July 13, 2018	¥1	From July 14, 2018 to July 13, 2033
2019 Stock options	9 directors	68,500 shares	July 12, 2019	¥1	From July 13, 2019 to July 12, 2034
2020 Stock options	9 directors	110,500 shares	July 14, 2020	¥1	From July 15, 2020 to July 14, 2035
2021 Stock options	6 directors	66,000 shares	July 16, 2021	¥1 ($0.01)	From July 17, 2021 to July 16, 2036

(2) The number of stock options.

	2016 Stock options (shares)	2017 Stock options (shares)	2018 Stock options (shares)	2019 Stock options (shares)	2020 Stock options (shares)	2021 Stock options (shares)
Non-vested stock option:						
Outstanding at March 31, 2021	—	—	—	—	—	—
Granted	—	—	—	—	—	66,000
Forfeited	—	—	—	—	—	—
Vested	—	—	—	—	—	66,000
Outstanding at March 31, 2022	—	—	—	—	—	—
Vested stock option:						
Outstanding at March 31, 2021	5,500	21,000	50,500	68,500	110,500	—
Vested	—	—	—	—	—	66,000
Exercised	5,500	8,500	27,000	40,000	52,500	—
Forfeited	—	—	—	—	—	—
Outstanding at March 31, 2022	—	12,500	23,500	28,500	58,000	66,000

(3) The per share prices.

	2016 Stock options	2017 Stock options	2018 Stock options	2019 Stock options	2020 Stock options	2021 Stock options
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1($0.01)
Average stock price at exercise	¥610	¥594	¥603	¥584	¥623	¥ —
Fair value per share at grant date	¥657	¥743	¥505	¥488	¥289	¥509 ($4.15)

(4) The estimate method for stock option price.

	2016 Stock options	2017 Stock options	2018 Stock options	2019 Stock options	2020 Stock options	2021 Stock options
Estimate method	Black-Scholes option-pricing models	Black-Scholes option-pricing models	Black-Scholes option-pricing models	Black-Scholes option-pricing models	Black-Scholes option-pricing models	Black-Scholes option-pricing models
Expected volatility	37.117%	32.561%	32.621%	32.188%	33.522%	31.635%
Expected life	8 years	8 years	8 years	8 years	8 years	8 years
Expected dividend	¥12/share	¥12/share	¥12/share	¥12/share	¥12/share	¥14/share ($0.11/share)
Risk-free interest rate	(0.352)%	0.025%	(0.045)%	(0.207)%	(0.080)%	(0.096)%

KPMG

Independent auditor's report

To the Board of Directors of Hokuetsu Corporation:

Opinion

We have audited the accompanying consolidated financial statements of Hokuetsu Corporation ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2022 and 2021, the consolidated statements of income and comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Appropriateness of the recorded impairment loss on long-lived assets held by Jiangmen Xinghui Paper Mill Co., Ltd.

The key audit matter	How the matter was addressed in our audit
Property, plant and equipment of ¥115,382 million and intangible assets of ¥2,406 million were recognized in the consolidated balance sheet of Hokuetsu Corporation (the "Company") and its consolidated subsidiaries as of March 31, 2022. As described in Note 3 "Significant accounting estimates,	In order to assess the appropriateness of the recorded impairment loss on long-lived assets held by the Component Subsidiay, we requested the component auditor of the Component Subsidiay to perform audit procedures and then evaluated the report to conclude whether sufficient and appropriate audit evidence was obtained from the following procedures among others:

2.Impairment loss on long-lived assets" to the consolidated financial statements, included therein were ¥3,758 million of property, plant and equipment of Jiangmen Xinghui Paper Mill Co., Ltd. (the "Component Subsidiary") , a consolidated subsidiary of the Company, accounting for approximately 1.0% of total assets in the consolidated financial statements. An impairment loss of ¥2,434 million on the long-lived assets held by the Component Subsidiary was recognized in the current fiscal year. An impairment indicator was identified for the Component Subsidiay since its operating results have continuously been below its business plan due to a decline in demand for packaging materials and the Component Subsidiary's products as a result of the economic slowdown in China caused by COVID-19 and its containment measures, as well as the measures to address soaring real estate prices. The Component Subsidiay prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) and performs an impairment test when an impairment indicator exists. In the impairment testing, when the recoverable amount of a cash-generating unit is less than the carrying amount, an entity needs to reduce the carrying amount to the recoverable amount and recognize the resulting decrease in the carrying amount as an impairment loss. The recoverable amount is the higher of either the value in use or the fair value less cost of disposal. The Company estimates the recoverable amount of the long-lived assets held by the Component Subsidiary based on the fair value less cost of disposal. The fair value less cost of disposal is estimated based on the income approach, using the discounted present value of future cash flows calculated by an external specialist. Future cash flows are calculated based on sales in the business plan developed by management, taking into account the profit margins of comparable companies from a market participant's perspective. The future sales volume and unit selling price that make	**(1) Internal control testing** Test of the design and operating effectiveness of the Component Subsidiay's internal controls relevant to the measurement of an impairment loss on long-lived assets, with a greater focus on controls designed to appropriately develop a business plan and calcuate the discount rate necessary for measuring the fair value less cost of disposal. **(2) Assessment of the reasonableness of the estimate for fair value less cost of disposal** ● Discussed with management the projected sales volume and unit selling price, which were key assumptions, confirmed whether they were consistent with market forecasts and available external data, and compared them with the growth rates in past years. Furthermore, we performed the following procedures by involving a valuation specialist within the network firm of the component auditor: ● Inspected the results of the calculation of the profit margin of comparable companies performed by the external specialist engaged by managment, inquired of the external specialist about the basis for the calculation, compared the profit margin with relevant data published by external organizations, and assessed whether there were any events that would affect future profitability after the valuation date; ● Assessed whether the models, key assumptions and process for estimating the discount rate were appropriate; and ● Assessed whether the input data used to estimate the discount rate was appropriate through comparison with relevant data published by external organizations.

up sales in the business plan and the profit margins of comparable companies include assumptions involving uncertainty. Therefore, management's judgment thereon has a significant effect on the estimate of future cash flows. In addition, selecting appropriate models and input data for estimating the discount rate requires a high degree of expertise in valuation. We, therefore, determined that our assessment of the appropriateness of the recorded impairment loss on long-lived assets held by the Component Subsidiay was of most significance in our audit of the consolidated financial statements for this fiscal year, and accordingly, a key audit matter.	

Other Information

The other information comprises the information included in the disclosure documents that contain or accompany the audited consolidated financial statements, but does not include the consolidated financial statements and our auditor's reports thereon. We do not perform any work on the other information as we determine such information does not exist.

Responsibilities of Management and Corporate Auditors and the Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with corporate auditors and the board of corporate auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2022 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.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Akihiro Ohtani

Designated Engagement Partner

Certified Public Accountant

Yasuhisa Yajima

Designated Engagement Partner

Certified Public Accountant

Junichi Kimura

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

August 10, 2022

Notes to the Reader of Independent Auditor's Report:
This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.