Hokuetsu Paper Mills, Ltd.

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ECO-PULP エコパルプ® 植林紙®

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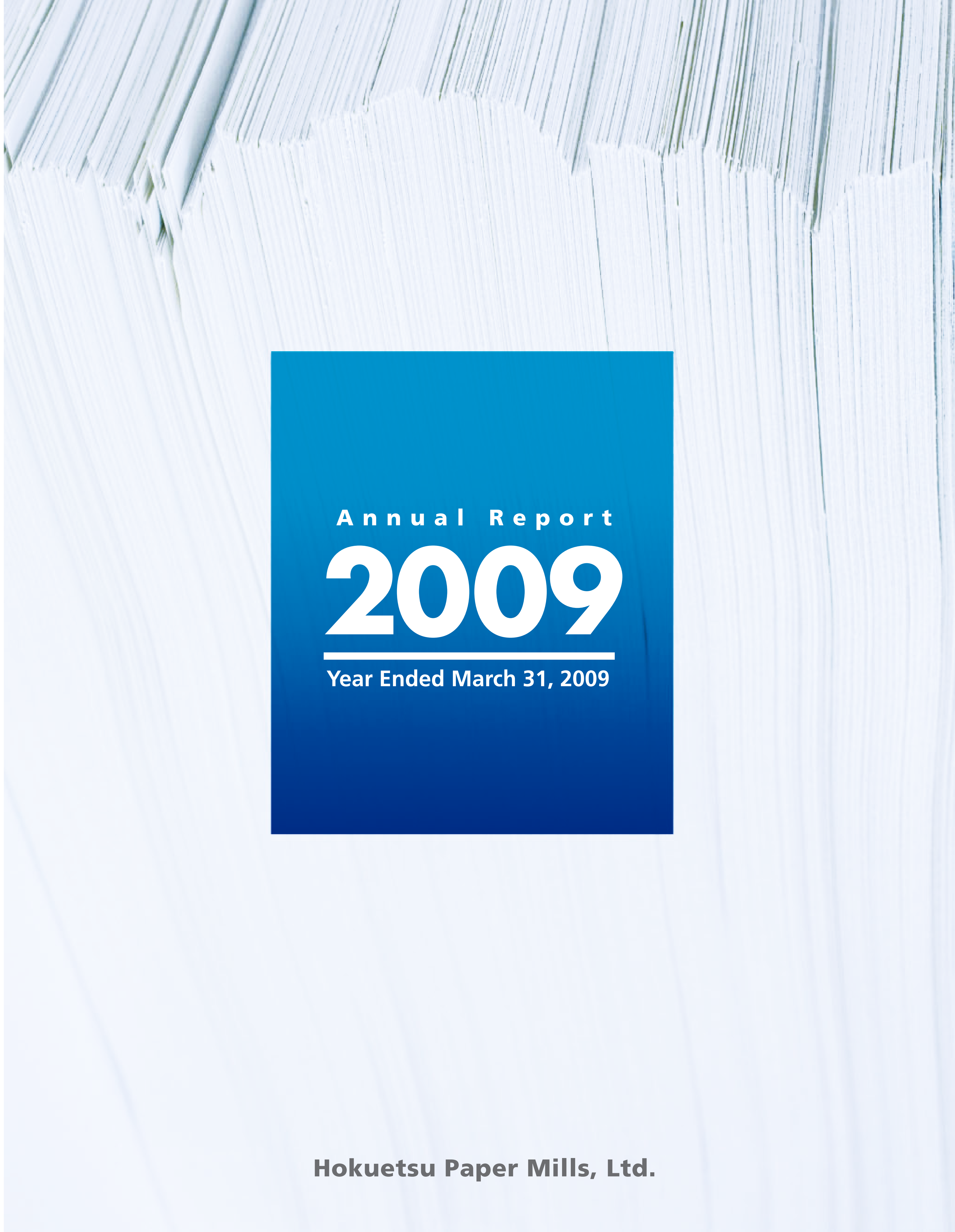


Annual Report 2009

Year Ended March 31, 2009

Hokuetsu Paper Mills, Ltd.

Profile

On October 1, 2009, Hokuetsu Paper Mills, Ltd. will acquire complete control of Kishu Paper Co., Ltd. through a share exchange to consolidate business, and change the company name to Hokuetsu Kishu Paper Co., Ltd.

By combining Kishu Paper's superior products and technologies and the Hokuetsu Group's main businesses such as manufacturing of printing paper, white paperboard and specialty paper and paper processing, we will continue to make efforts to stably supply high-quality products, improve operational efficiency, and enhance profitability under the corporate cultures that the two companies have cultivated since their foundation.

The newly-born Hokuetsu Kishu Paper Group will retain efficient management, environment-friendly management and sustainable growth as its original purposes, and aims to respond to the expectations of customers, shareholders, business partners, local communities and all other stakeholders while contributing to the sustainable development of the society as an attractive paper manufacturing company.

Contents

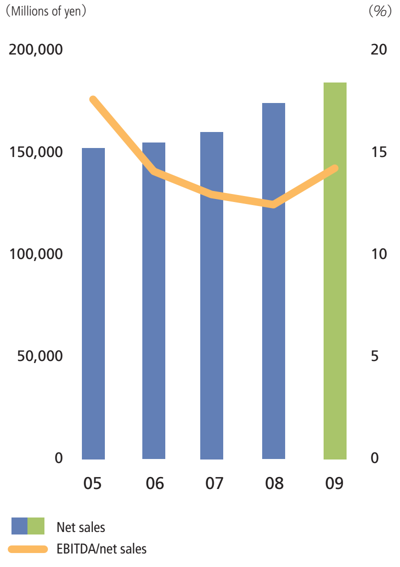
Consolidated Financial Highlights

Years ended March 31

	Millions of yen (Except per share amounts)		% change	Thousands of U.S. dollars (Note 1) (Except per share amounts)
	2009	2008	2009/2008	2009
For the year:				
Net sales	¥ 182,815	¥ 172,709	5.9%	$ 1,860,523
Operating income	8,125	8,330	–2.5%	82,689
Ordinary income	6,752	7,891	–14.4%	68,715
Net income	1,913	4,074	–53.0%	19,469
Ordinary income to net sales	3.7%	4.6%	–0.9 point	3.7%
EBITDA (Note 2)	25,846	21,456	20.5%	263,034
ROA	2.2%	2.8%	–0.6 point	2.2%
Per share data:				
Net income	¥ 9.01	¥ 19.19	–53.0%	$ 0.09
Cash dividends	12.00	14.00	–14.3%	0.12
At year-end:				
Total assets	¥ 313,732	¥ 292,726	7.2%	$ 3,192,876
Total net assets	136,713	140,184	–2.5%	1,391,339

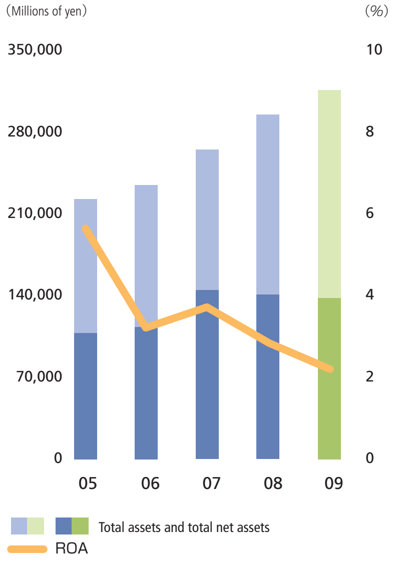
Note 1: U.S. dollar amounts are converted from Japanese yen for convenience only, at the rate of ¥98.26 to US$1.00, the approximate exchange rate on March 31, 2009.
Note 2: EBITDA = Ordinary income + Interest expenses + Depreciation and amortization

■ Net sales / EBITDA/net sales



■ Ordinary income / Ordinary income to net sales

■ Total assets and total net assets (Note 3) / ROA



Note 3: For the net assets amounts for 2005 and 2006, minority interests are excluded.

Hokuetsu Paper Mills at a Glance

Pulp and paper manufacturing business

Composition of sales

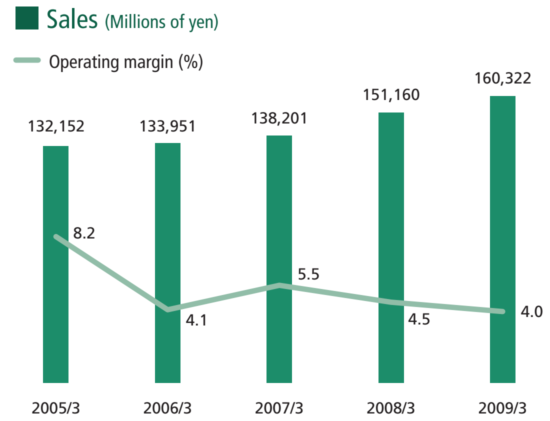
87.7%

Products

Printing paper
Coated paper
Lightweight coated paper
Bit light coated paper
Wood-free paper
Ground wood (medium grade) paper

White paperboard
Cast-coated paper
Art post
Ivory board
Cardboard
Duplex board

Specialty paper
IT-related materials
Industrial paper
Communication paper
Design paper
Mixed materials for molding
Hard fiberboard



The main areas of activity of this business include manufacturing, processing and sales of printing paper (wood-free paper, ground wood paper, bit light coated paper, coated paper), white paperboard (cast-coated paper, ivory board, cardboard, duplex board), specialty paper (specialty paper, vulcanized fibers and fiberboard), as well as electricity supply at the Kanto Mill. Sales in the pulp and paper manufacturing business increased from the previous year due to the implementation of price revisions for each product, although the sales volume of printing paper and paperboard decreased due to the drastic economic downturn. Operating income however declined from the previous year due to soaring prices for raw materials and fuel and an increase in depreciation and amortization expenses, despite positive effects from the product price revision.

Paper processing business

Composition of sales

9.3%

Products

Liquid package cartons
Paper containers for various types of liquid

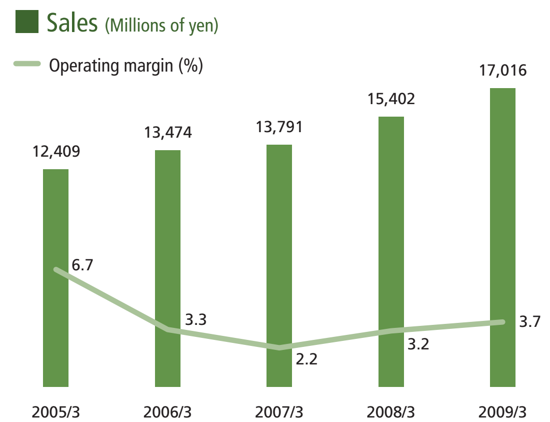
Laminated paper
Laminated paper

Paper packages
Food containers, cosmetic cases

Business forms and related materials
Report paper, labels, stickers

Functional materials
Various types of functional coating products

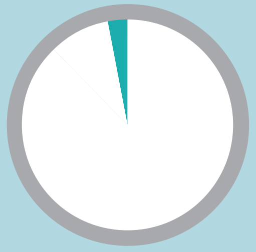
Environmentally-friendly products
Various types of environmentally-friendly products



Hokuetsu Package Co., Ltd. engages in the paper processing business, which business includes manufacturing, processing and sales of paper packages (packages such as primary food containers), processed paper (function-oriented types of laminated specialty paper), liquid package cartons (paper containers for liquids such as milk, processed milk, juice and coffee), business forms (OCR slips, secret letter paper, system envelopes, forms and labels), functional materials (functional film products) and environmentally-friendly products. Sales and operating income in the paper processing business increased from the previous year. This was due to our price revisions for paper containers for beverages, increased sales volumes and cost reductions by improving efficiency, in addition to the foreign exchange profit due to the appreciation of yen.

Other businesses

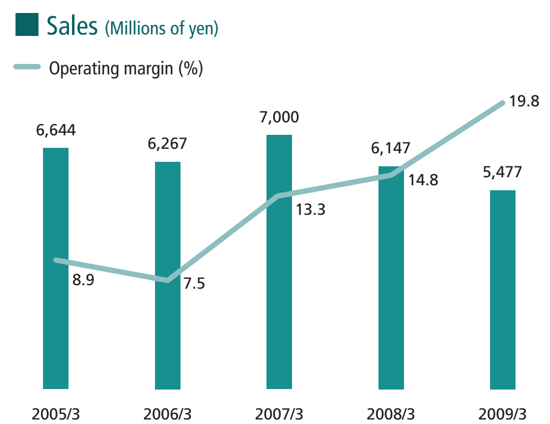
Composition of sales



3.0%

Products

Wood business
Construction, machinery production, sales and maintenance
Transportation and warehousing business
Others



The Group's companies engage in various businesses as follows:
Hokuetsu Forest Co., Ltd.—Forestry, manufacturing of wood products, collection, manufacturing and sales of fuel chips for biomass boilers;
Hokuetsu Engineering Co., Ltd.—Manufacturing, delivery, maintenance and repairing of production-related facilities;
Hokuetsu Logistics Co., Ltd.—Transporting and warehousing of the Company's products;
Hokuetsu Trading Corporation—Real estate business and agent for non-life insurance, operation of a driving school and others.
Sales in other businesses decreased from the previous year as orders from outside the Group declined across the board. But, operating income increased.

Message to Stakeholders

With the aim of achieving sustainable growth through efficient and environmental management, we will carry out both structural reforms to strengthen the Group's revenue base and business consolidation with KISHU PAPER to open up new business opportunities, while also striving to improve corporate value.

Summary of Financial Results for Fiscal 2008

Fiscal 2008, ended March 31, 2009, was a landmark year for the Hokuetsu Paper Mills Group. The Group started operation of the No. 9 papermaking machine at the Niigata Mill. With No. 9 papermaking machine having smoothly operated from September 2008, the Niigata Mill has further increased its global competitiveness. Demand for paper products remained relatively steady in the first half of fiscal 2008, but declined more than expected due to a sudden economic downturn in the second half of the year. Business became so difficult that the Group was forced to implement large-scale production adjustments including intermittent suspension of the No. 9 papermaking machine operation.

Under such circumstances, the Group posted consolidated net sales of ¥182,815 million, up 5.9% year-on-year, thanks to revision of product pricing. This marked the seventh consecutive year net sales have increased. Operating income decreased 2.5% year-on-year to ¥8,125 million and ordinary income declined 14.4% to ¥6,752 million. Net income plunged 53.0% to ¥1,913 million, after the Group posted impairment loss etc. as an extraordinary loss in relation to the scheduled shutdown of the No. 1 and No. 5 papermaking machines at the Nagaoka Mill and the No. 2 papermaking machine at the Kanto Mill Ichikawa based on the forecast of an inevitable, prolonged decline in demand.

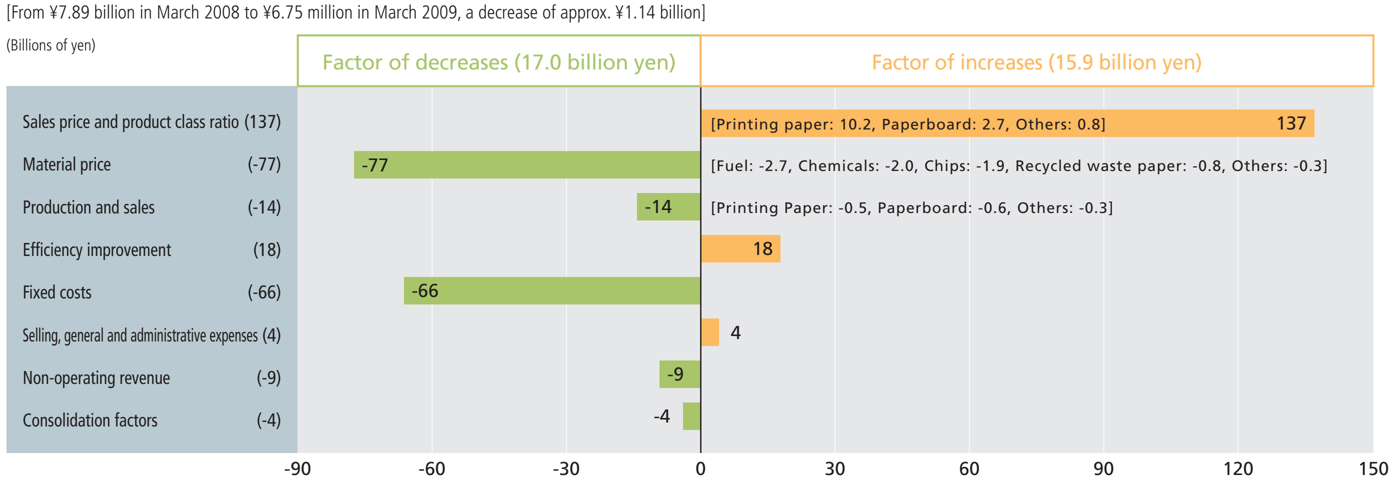
Consequently, ordinary income to net sales ratio decreased from 4.6% to 3.7% and ROA was down from 2.8% to 2.2%, although EBITDA (ordinary income + interest expenses + depreciation and amortization) increased from ¥21,500 million to ¥25,800 million. The initial year of the Mid-Term Management Plan, *Value-up 10*, ended with disappointing results. The factors acting to increase ordinary income are as follows: ¥13,700 million from the revision of sales prices announced in the first half of fiscal 2008 and the difference in the product class ratio, ¥1,800 million from improved efficiency of operations, and ¥400 million from a reduction in selling, general and administrative expenses, totaling ¥15,900 million.

The factors acting to decrease ordinary income are as follows: ¥7,700 million due to inereases in raw material and fuel prices (prices of almost all raw materials and fuels rose on average from the previous fiscal year, although prices did start to decline in the second half of fiscal 2008), ¥6,600 million due to an increase in fixed expenses (mainly depreciation and amortization costs), ¥1,400 million due to a decrease in production and sales quantity, ¥900 million in non-operating revenue, and ¥400 million due to consolidation factors, totaling ¥17,000 million. In the end, ordinary income decreased by around ¥1,100 million from the previous year.

Since demand for paper products is likely to remain sluggish throughout fiscal 2009, the Group needs to continue to make production adjustments. Sales quantities and net sales are expected

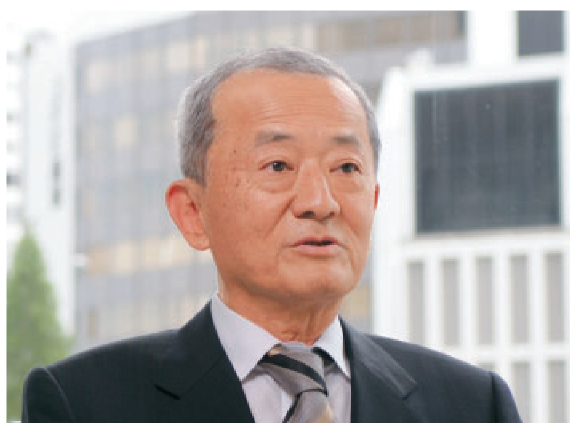
The factors of year-on-year increases and decreases in consolidated ordinary income

[From ¥7.89 billion in March 2008 to ¥6.75 million in March 2009, a decrease of approx. ¥1.14 billion]



to decline in fiscal 2009, although management forecasts that ordinary income will increase despite a decrease in net sales, due to falling raw material and fuel prices.

However, the Group's business performance continues to be heavily affected by the fluctuation of raw material and fuel prices. Further rises in these prices would leave the Group in a difficult situation in terms of profit-making. With raw material and fuel prices expected to expand in the medium- and long-term period, management thinks it necessary to revamp the Group's structure to cope with a possible spike in these prices and lingering weak demand for paper products.



State of the Paper and Pulp Industry and the Group's Structural Reforms

Total domestic demand for paper and paperboard decreased by 3.0% year-on-year to 30.75 million tons in 2008. Regarding products the Group manufactures, production of white paperboard increased by 1.6% to 2.04 million tons, while production of printing and communication papers was up 0.3% from the previous year for the January-June period to 5.92 million tons, but was down 9.0% from the previous year for the July-December period to 5.43 million tons. The financial crisis began influencing the real economy from the autumn of 2008, affecting demand for almost all products across the world. Paper and paperboard were no exception. Especially, the downturn greatly affected production of paper used for industrial purposes and coated paper used for advertisements and promotion, with drastically decreased demand. Production of coated paper declined by around 18.0% from the previous year for the period from January to March 2009. The major concerns are how long the current contraction in demand will continue and to what degree demand will come back after hitting rock bottom. Management believes it will take longer time to see demand for paper products recover to a "normal" level, since the domestic market for paper products has matured; the industry has close relations with manufacturing activities of other industries and consumption of both private and public sectors; and there is a possibility that weak consumer spending will last for a long time because of uncertainty over the future.

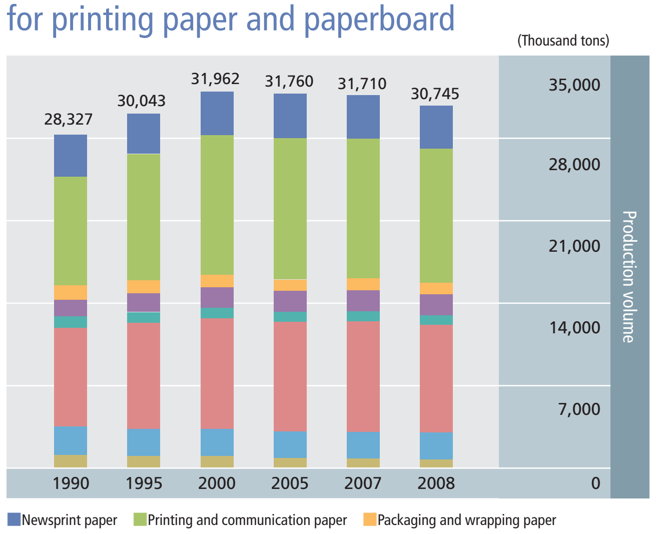
Meanwhile, the economic stagnation put a brake on and drove raw material and fuel prices that have been soaring for nearly five years now downward. However, some raw material and fuel prices have bottomed and are beginning to rise again. They are expected to keep rising in the medium and long term. An inflow of speculative money and a sudden change in foreign exchange rates could send these prices soaring again—it is hard to forecast as the globalized society changes so rapidly.

Thus, the Group has determined to implement *structural reforms* to production system to enable it to respond in the most optimal and efficient way to changing demands and to overcome challenges as well as to strengthen our revenue base. As a part of restructuring, management announced a shutdown of some production facilities in March 2009. The Group will halt operation of the No. 1 and No. 5 papermaking machines at the Nagaoka Mill and the No. 2 papermaking machine at the Kanto Mill Ichikawa this year. Management expects the measure will lessen the burden of fixed costs, improve production efficiency through the concentration of production, and continuously contribute to a reduction in expenses through conversion of the former site of a papermaking machine at the Kanto Mill Ichikawa into a warehouse. In addition to the above, the Group will devise and swiftly implement measures by concentrating its know-how and devoting all its energies so as to emerge from the unstable business environment ready to further develop business.

Suspended papermaking machines

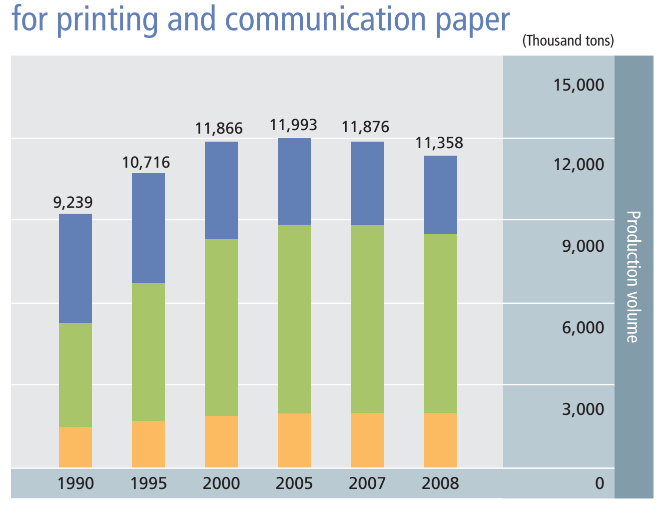
Mill	Machine	Date of suspension	Production capacity (annual)	Production items
Nagaoka Mill	No. 1 papermaking machine	May 2009	2,000 tons	Specialty paper and industrial paper
Nagaoka Mill	No. 5 papermaking machine	July 2009	10,000 tons	Specialty paper and industrial paper
Kanto Mill Ichikawa	No. 2 papermaking machine	September 2009	18,000 tons	Non-coated wood-free paper

Changes in domestic demand for printing paper and paperboard



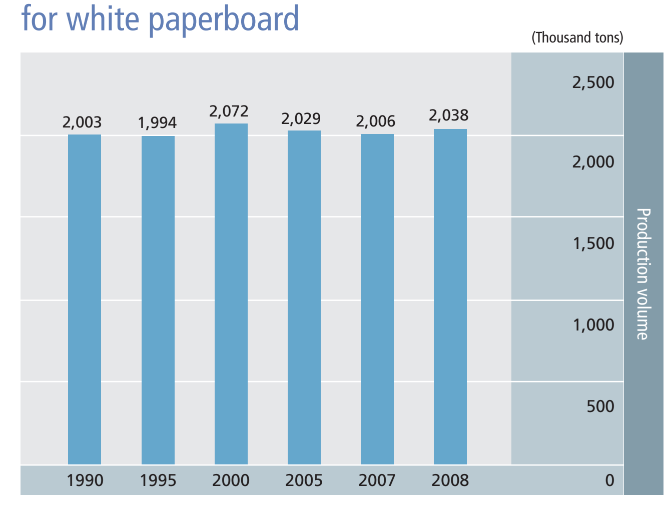
Source: Japan Paper Association

Changes in domestic demand for printing and communication paper



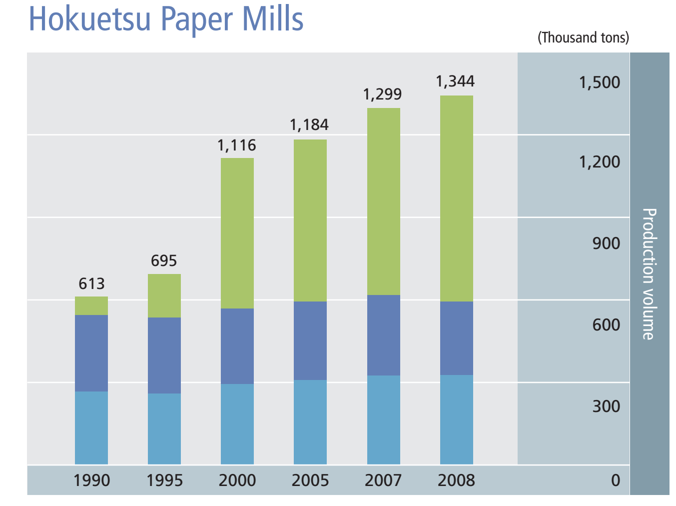
Source: Japan Paper Association

Changes in domestic demand for white paperboard



Source: Japan Paper Association

Changes in production output of Hokuetsu Paper Mills



Business Consolidation with KISHU PAPER

On March 27, 2009, Hokuetsu Paper Mills, Ltd. announced it would consolidate business with KISHU PAPER Co., Ltd.—an acquisition under which we will gain 100% control of KISHU PAPER through a share exchange on October 1, 2009. KISHU PAPER has various advanced manufacturing technologies, strong competitiveness and many products with a high market share in the specialty paper field. Management firmly believes the consolidation will bring synergies—*more than one-plus-one*—between the two companies in the future, since both companies have few products that compete directly with each other and can mutually supplement product lines.

The Group has worked to develop business by intensively investing in the production of coated paper ever since it installed the No. 6 papermaking machine at the Niigata Mill in 1986. Current production of coated paper only exceeds by more than three times the total production of printing paper at that time. With the introduction of the No. 9 papermaking machine at the Niigata Mill in 2008, management believes it has established a highly efficient production system that enables the Group to compete globally. In the field of white paperboard, it has also maintained competitiveness through investments to improve quality and efficiency.

The Group has also taken measures to fulfill needs in the non-coated paper and specialty paper markets, but recently, some product shipments are undergoing sharp decreases due to saturated demand and a shift in users' preferences. As a result, coated paper accounts for most of the Group's business. Meanwhile, domestic demand for coated paper has steadily increased since the Company began production of coated paper in 1986. Total domestic production has grown about 2.5 times since then, while the percentage of coated paper in printing paper production is now up from around 40.0% to 52.0%. At the same time, coated paper has become commoditized due to an increase in demand, with large fluctuations in both price and demand.

Amid this backdrop, strengthening non-coated paper and specialty paper in the business portfolio is a significant issue the Group must tackle. Management believes that business consolidation with KISHU PAPER, which has lines of non-coated paper, specialty paper, and packajing and wrapping paper, will perfectly complement the Group's business to improve its competitiveness and corporate value.

The newly born Hokuetsu Kishu Paper Group aims to become a distinctive manufacturer of printing paper, white paperboard and specialty paper with net sales of more than ¥280,000 million. Management will strive to realize potential synergies as soon as possible and carve out new business opportunities so that the Group can establish a more solid foundation as a global paper manufacturer that supplies its products not only in Japan but throughout the world, mainly in the Pacific Rim region.

Niigata Mill

Kishu Mill

Signing ceremony for business consolidation

Realization of Business Consolidation Effects and Restructuring to Cope with Changes

One of the significant matters management needs to address is realizing synergies resulting from the business consolidation as soon as possible through collaboration with KISHU PAPER Co., Ltd. Although the firm has been through financially difficult times over the past several years, management thinks this was probably due to the business environment, in which demand fell and raw material and fuel prices rose faster than KISHU predicted. As a result, the production costs of KISHU PAPER remained at relatively high levels. The Group expects business consolidation will largely contribute to a reduction in production costs. Centered on the Promotion Committee for Business Consolidation, each person in charge has been devising measures to create synergistic effects of more than ¥2,500 million in fiscal 2012, which include savings from improved efficiency through joint procurement of raw materials and fuels and establishment of an optimum production system (around ¥1,900 million) and a reduction of selling, general and administrative expenses.

The current tough business environment, structural reforms including a shutdown of papermaking machines and business consolidation are all events the Company has not experienced in the history of our Group. These are significant events in its history that are equivalent to the reconstruction of a factory following the Niigata Earthquake in 1964 and the entry into the coated paper business by installing the No. 6 papermaking machine at the Niigata Mill. A company must adapt to the environment in which it operates and make appropriate changes to survive. What made such managerial decision-making possible is the corporate culture that has been built by all employees of the Hokuetsu Paper Mills Group through overcoming many difficulties since its founding. Based on the corporate culture, management has resolved to transform itself quickly, flexibly and in various ways to overcome the current harsh business climate for further development and evolution of the Group's business.

Management always aims to realize the Group's original purposes—efficient management, environmental management and continued growth—and strives to contribute to all stakeholders. We appreciate your continuing support.

Sekio Kishimoto

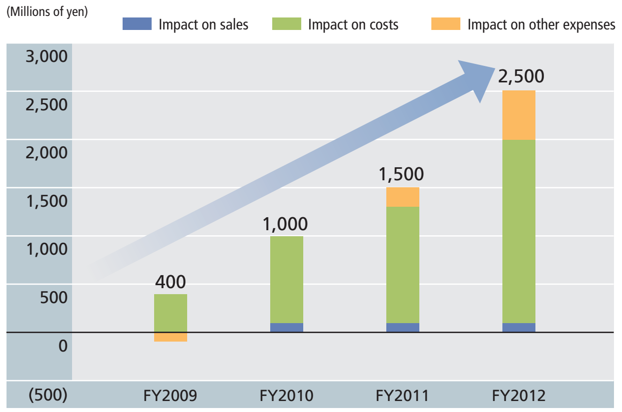
Representative Director
President & CEO

Synergy effects from consolidation (planned at the time of business consolidation announcement on March 27, 2009)

Synergy from consolidation

(Millions of yen)	2009	2010	2011	2012
Impact on sales	—	100	100	100
Enhancing product brand value				
Impact on costs	500	900	1,200	1,900
Chip procurement cost				
Optimal production				
Raising in-house pulp use rate				
Joint procurement of raw materials and fuels				
Reducing product cross transport				
Streamlining facility maintenance				
Impact on other expenses	(100)	—	200	500
Consolidating administrative divisions in head office and mills				
Consolidating sales system				
Consolidating mainframe computers to reduce costs				
Raising funds at lower cost				
Reducing expenses to maintain stock market listing				
Total synergies	400	1,000	1,500	2,500

Changes in synergies



Business Environment and Tasks

Printing paper business

No. 9 papermaking machine at the Niigata Mill

The Group's printing paper business products consist of printing and communication paper, especially types used for books, magazines, catalogues and advertisements. The Group has been expanding business with a wide-ranging lineup of wood-free printing paper, ground wood printing paper, bit light coated printing paper and coated paper and lightweight coated paper manufactured at the Niigata Mill. In September 2008, the Group started operation of the No. 9 papermaking machine at the Niigata Mill, the Group's flagship mill. The mill is a leading factory with advanced facilities including four on-machine coaters that enable integrated production of coated paper from papermaking to coating. Utilizing its ideal location close to major markets such as the Tokyo metropolitan area, Kansai and Chubu areas, the Group has established a business structure that can provide not only high-quality products but also high-quality services including flexible and quick responses to customers' needs.

Printing paper production equipment and items produced

		Type	Width of wire (mm)	Major items
Niigata Mill	2M/C	On-top multi-cylinder	3,710	Wood-free paper, ground wood paper
	3M/C	On-top multi-cylinder	3,710	Wood-free paper, ground wood paper, bit light coated paper
	5M/C	On-top multi-cylinder	6,100	Wood-free paper, bit light coated paper
	6M/C	On-top multi-cylinder	5,800	Lightweight coated paper, bit light coated paper
	7M/C	On-top multi-cylinder	5,880	Lightweight coated paper, coated paper
	8M/C	On-top multi-cylinder	8,050	Lightweight coated paper, coated paper
	9M/C	Twin wire multi-cylinder	10,000	Lightweight coated paper

Printing paper: Production output by item

Source: Japan Paper Association

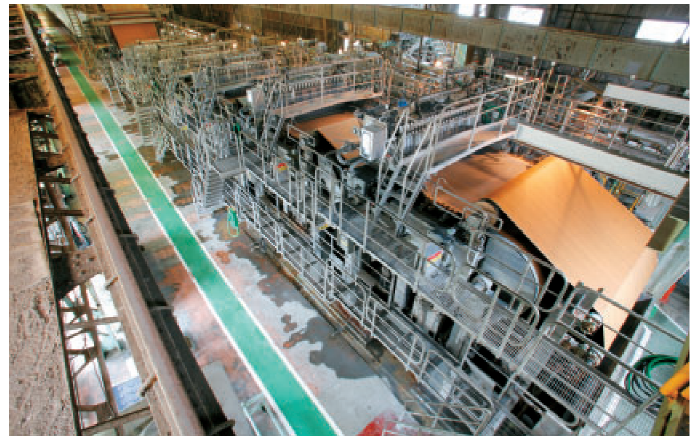
Reorganizing the Production System and Improving Capacity Utilization

The global economic contraction that followed the "Lehman Shock" also had an impact on demand for printing paper. Annual domestic production of coated paper and lightweight coated paper, Hokuetsu's highest volume products, declined in 2008. The Company saw its production increase in the first half of fiscal 2008 thanks to steady demand, and expanded its production capacity by introducing the No. 9 papermaking machine in September 2008. However, its capacity utilization of printing paper machines decreased in the second half of fiscal 2008 due to a drastic production cutback to cope with the slump in demand which had continued since autumn, although OEM production, a program based on an alliance with Nippon Paper Industries, turned up successful results. With demand for paper having remained sluggish in 2009, the Company has been forced to operate at levels substantially below its maximum capacity. Although the sharp decline in paper demand has bottomed out, it will be a while before demand recovers to the previous level. As a part of *structural reform* measures to strengthen the revenue base, management has decided to shut down the operation of the No. 2 papermaking machine at the Kanto Mill Ichikawa in September 2009 with the aim of establishing an optimum production system to flexibly cope with demand by shifting production of wood-free printing paper at the Kanto Mill Ichikawa to another mill.

In recent years, customers have preferred to use thinner paper as a way of reducing costs. We expect the economic downturn will accelerate this trend. The No. 9 papermaking machine is designed to manufacture thin lightweight coated paper. The Company will cultivate new business opportunities by taking advantage of higher-quality products and boost sales of thin lightweight coated paper by making the most optimal use of the features of each papermaking machine. With the operation of the No. 9 papermaking machine at the Niigata Mill, management aimed to establish an optimum production system and sell around 10% of total production in overseas markets using its competitiveness. However, sales to North America and Asia increased only slightly due to the current harsh business climate. This reflected the fact that demand for paper products in overseas markets declined significantly compared to Japan. In overseas market, the United States for example, the major users of coated paper are the automobile and real estate industries, and Japanese paper is regarded in these markets as a high-quality product. However, these industries have suffered the most from the global recession, thereby affecting paper sales to a great extent. Furthermore, exports from China and South Korea influenced our sales. Manufacturers in both countries increased shipments to the United States, with demand decreasing in the domestic market and their currencies depreciated against the U.S. dollar. Since there are some signs that overseas paper markets have hit the bottom; inventories of paper products are starting to return to normal levels; and the U.S. economy is apparently out of the worst, management is determined to promote the export of coated paper to the United States and Oceania in accordance with the initial plan, despite the unsuccessful start.

Business Environment and Tasks

White paperboard business



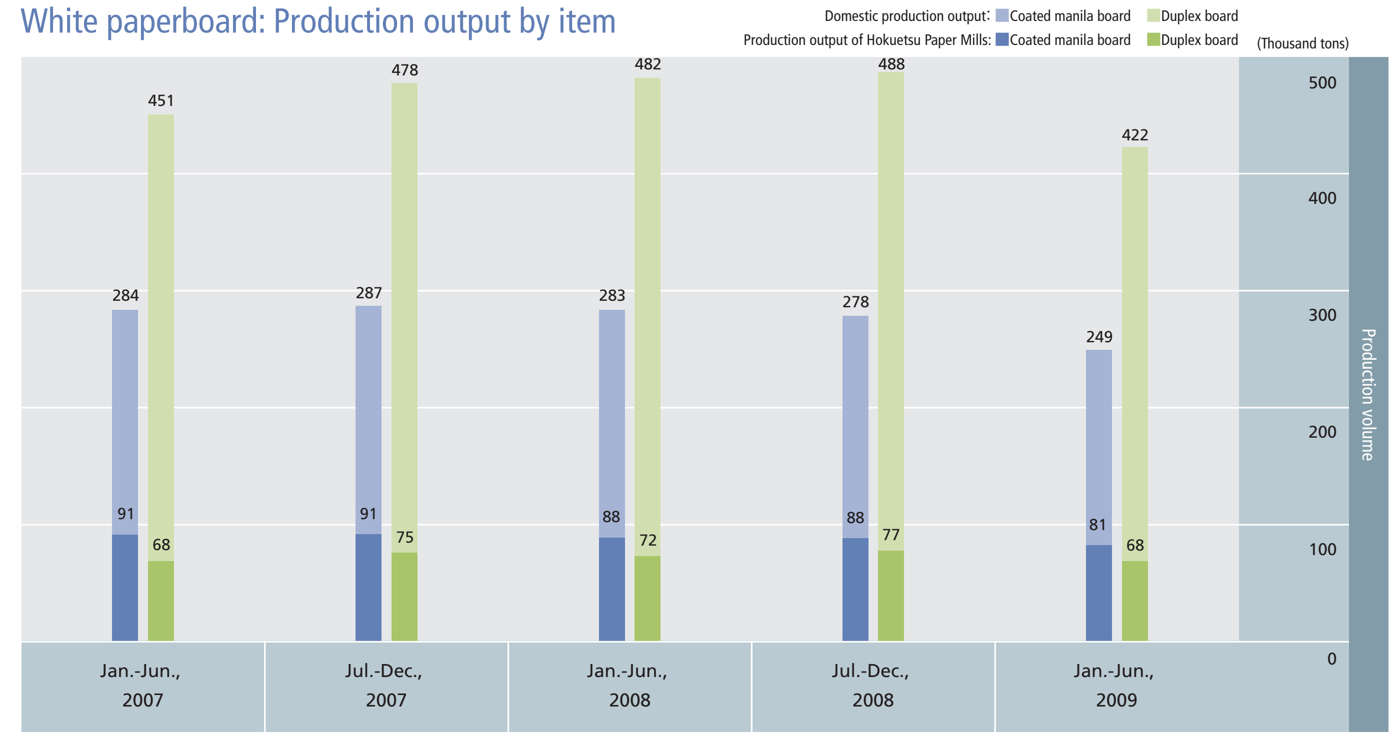
No. 5 papermaking machine at Kanto Mill Ichikawa

In the Group's white paperboard business, the main products are coated manila board and duplex board, which are manufactured at the Niigata Mill (No. 4 papermaking machine), the Kanto Mill Ichikawa and the Kanto Mill Katsuta. White paperboards are used for various applications, from packages and commercial printed matter such as catalogues, pamphlets, displays and postcards to book covers, text paper and converting paper. We have a lineup of white paperboard from duplex board to ivory board and cast-coated paper so that we can meet the needs of the age and customer demand.

Kanto Mill Katsuta

Kanto Mill Ichikawa

White paperboard: Production output by item



Source: Japan Paper Association

Responding quickly to customers' needs

Domestic production output of paperboard decreased by 2.3% year-on-year in 2008. The Company saw production of coated manila board among white paperboard used for paper packages decline by 1.7% year-on-year and duplex board increase by 4.4% year-on-year. From the second half of fiscal 2008, production has been showing a year-on-year decline due to the economic slow-down. In the white paperboard market, imported products do not pose any threat to our products, since they cannot satisfy the requirements of domestic customers who demand a higher-quality paper. However, demand has been shifting from high-end to low-end products, while users are requesting further price reductions and shorter delivery times. Management will strive to establish a business structure to appropriately respond to customers' requests—*deliver the right product at the right time and in the right quantity*—and cultivate new business opportunities to promote sales in cooperation with sales agents and the Group companies by proposing business solutions in accordance with specific requests from various customers in the fields of publication, commercial printing, paper containers, paper product and special demand-related.

White paperboard production equipment and items produced

		Type	Width of wire (mm)	Major items
Niigata Mill	4M/C	Trilaminar long net multi-cylinder	2,900	Coated manila board (ivory board, new year's postcards)
Kanto Mill Ichikawa	4M/C	Ultra former machine	2,845	Duplex board, coated manila board (specialty board)
	5M/C	Ultra former machine	2,920	Duplex board, coated manila board (specialty board)
Kanto Mill Katsuta	1M/C	Ultra former machine	3,750	Coated manila board (specialty board, ivory board)
	4M/C	Cast-coater		Cast-coated paper
	5M/C	Cast-coater		Cast-coated paper

Business Environment and Tasks

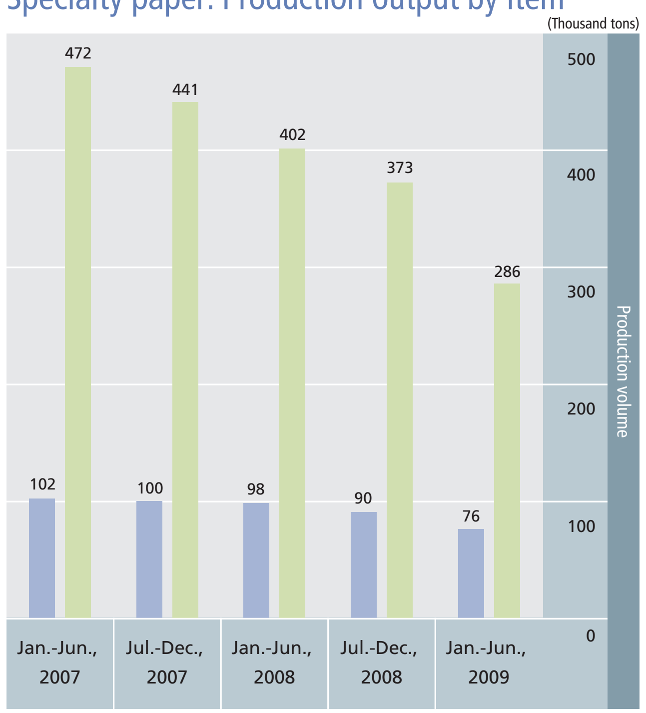
Specialty paper business

No. 6 papermaking machine at Nagaoka Mill

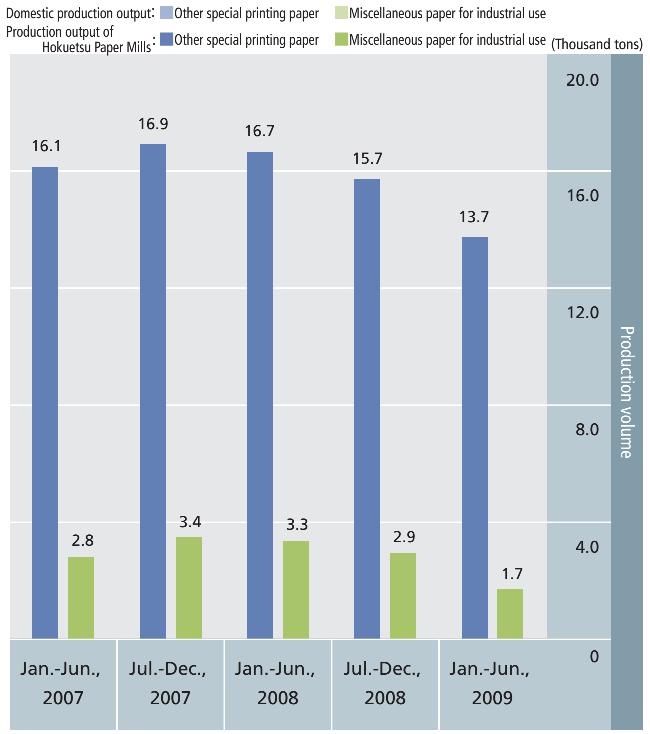
In the Group's specialty paper business, the Nagaoka Specialty Paper Division handles everything from development to manufacturing and sales. Our specialty paper products are manufactured at the Nagaoka Mill. The mill has functional paper machines for producing glass fiber filters, hard fiberboard (Pasco) machines, vulcanized fiber production machines and a multi-functional impregnation coating machine in addition to circular net papermaking machines and long net papermaking machines, so they can satisfy various needs in the fields of industrial paper, communication paper, wood-free printing paper, fancy paper and hard fiberboard. The Specialty Paper Division has been devoting its energy to the development of new technology to reflect customers' requests in each item and has created products that expand the possibilities of paper by exploring various elements such as materials, functions, decorations and texture.

Nagaoka Mill

Specialty paper: Production output by item



Source: Japan Paper Association



Upgrading the new product development system

In the specialty paper business, the domestic production output of other special printing paper and miscellanecus paper for industrial use declined by 6.9% and 15.2% year-on-year in 2008, respectively. In the first half of 2009, their production remained stagnant. To cope with this situation, the Nagaoka Mill conducted *structural reforms* that aim to strengthen its revenue base and shut down the No. 1 papermaking machine in May 2009 and the No. 5 papermaking machine in July 2009. Management will endeavor to reduce costs further by consolidating production. Meantime, it will focus on export of industrial paper and development of new products in the field of fancy paper in cooperation with customers and sales agents and cope with the current business environment by thoroughly implementing *measures for streamlining, cost-cutting and quick new product development*. The Nagaoka Specialty Paper Division attaches importance to its *Refresh ratio* as one yardstick for new product development. The ratio represents the percentage of new product sales to total sales. It has been steadily increasing thanks to our continuous efforts and currently sits around 29%. The Division will upgrade its development system to raise the ratio to 32% or higher this year.

Specialty paper production equipment and items produced

		Type	Width of wire (mm)	Major items
Nagaoka Mill	1M/C	Cylinder yankee paper machine	2,810	Production shutdown
	2M/C	Cylinder yankee paper machine	1,850	Special printing paper, industrial paper
	3M/C	Long net paper machine multi-cylinder	2,000	Special printing paper
	4M/C	Cylinder yankee paper machine multi-cylinder	1,370	Special printing paper, fancy paper
	5M/C	Cylinder paper machine multi-cylinder	2,800	Production shutdown
	6M/C	Cylinder paper machine multi-cylinder	2,800	Special printing paper, industrial paper
	Multi-functional impregnation coating machine (MSM)			Processed paper, film, special coated paper
	Fiber production machine			Vulcanized fibers
	Pasco machine			Pasco (fiberboard)
	Functional paper machine (D-1, D-2)			Air filter (glass fiber)

Business Environment and Tasks

Paper processing business

No. 4 offset rotary printing machine

In the paper processing business, Hokuetsu Package Co., Ltd., a subsidiary, manufactures and sells liquid package cartons, design packages (paper containers), processed paper (laminated paper), business forms, functional materials (functional coating on film and paper) and various environmentally friendly products. Since sales to the food industry account for a large portion of revenue in the paper processing business, the company gives top priority to quality control in food sanitation.

Its main factory is the Katsuta Mill located in Hitachinaka City, Ibaraki Prefecture, one of the largest processed paper products plants with multiple divisions in Japan. The mill manufactures high-quality products using paper produced at the Hokuetsu Paper Mills plants including the Kanto Mill Katsuta (situated on the same site as the Hokuetsu Package Co., Ltd. Katsuta Mill) and those imported from Europe and the United States. The company also operates the Kanagawa Mill in Ayase City, Kanagawa Prefecture, where it manufactures design packages.

Hokuetsu Package sells liquid package cartons, its mainstay product, under the *Tohei Pak* brand and has attained the second largest share of the domestic roof-shaped carton market. Its liquid package cartons are used as containers for milk, milk-based beverages, soft drinks and fruit juice drinks. The company manufactures and supplies products to customers using stringent quality controls.

As a member of the Hokuetsu Paper Mills Group, the company provides products useful for an affluent and comfortable life by utilizing its extensive paper knowledge.

Hokuetsu Package Co., Ltd. Katsuta Mill

Items produced: Liquid package cartons, laminated paper, packaging, business forms and related materials and various types of functional coating products

Production equipment: Liquid package cartons (4 offset rotary printing machines, 3 photogravure printing machines and 6 molding machines)
Laminated paper (1 extrusion laminator, 1 wet laminator)
Packaging (2 printing machines, 4 punching machines, and 13 molding machines)
Business forms (4 printing machines and 3 collating machines)
Various types of functional coating products (2 adhesive coaters, 3 bobbin slitters)

Hokuetsu Package Co., Ltd. Kanagawa Mill

Items produced: Packaging

Production equipment: 1 printing machine
2 punching machines
3 molding machines
2 window patching machines

Summary of the paper processing business

In fiscal 2008, sales and ordinary income increased over the previous year in the paper processing business. This is because the business was not as hard hit by the financial crisis as other sectors, since it mainly relies on sales to the food industry and import costs of paper actually lowered due to appreciation of the Japanese yen.

With more people buying convenience store meals rather than going to restaurants due to the slowing economy, sales of primary food containers to convenience stores grew, resulting in an increase in sales and ordinary income in the design package business. A new printing machine, which was introduced in early January 2008, also contributed to enhanced production. The processed paper business had performed well, thanks to an increase in orders for indoor game cards and an improvement in production efficiency following the introduction of a glue laminator in March 2007.

Profit margins declined in the liquid package cartons due to failure to reflect the jump in paper costs in product prices, despite an increase in orders. Sales of business forms, functional materials and environmentally friendly products were sluggish due to the economic downturn, but some signs of recovery were seen around June 2009.

As part of new capital expenditure, a new printing machine (No. 4 offset rotary printing machine) was introduced on the liquid package carton manufacturing line in June 2009. The printing machine is a multi-purpose machine which features offset six-color printing, double coating on the front and single coating on the back. The machine makes it possible to meet market needs by mass production of differentiated products in line.

In the paper processing business, Hokuetsu Package has strived to increase sales by cultivating new markets with differentiated products, while at the same time shifting its business base from the shrinking domestic market to overseas markets by operating joint-venture businesses in China—manufacturing of IC chip carrier tape in Shanghai and manufacturing of paper packages in Shandong.

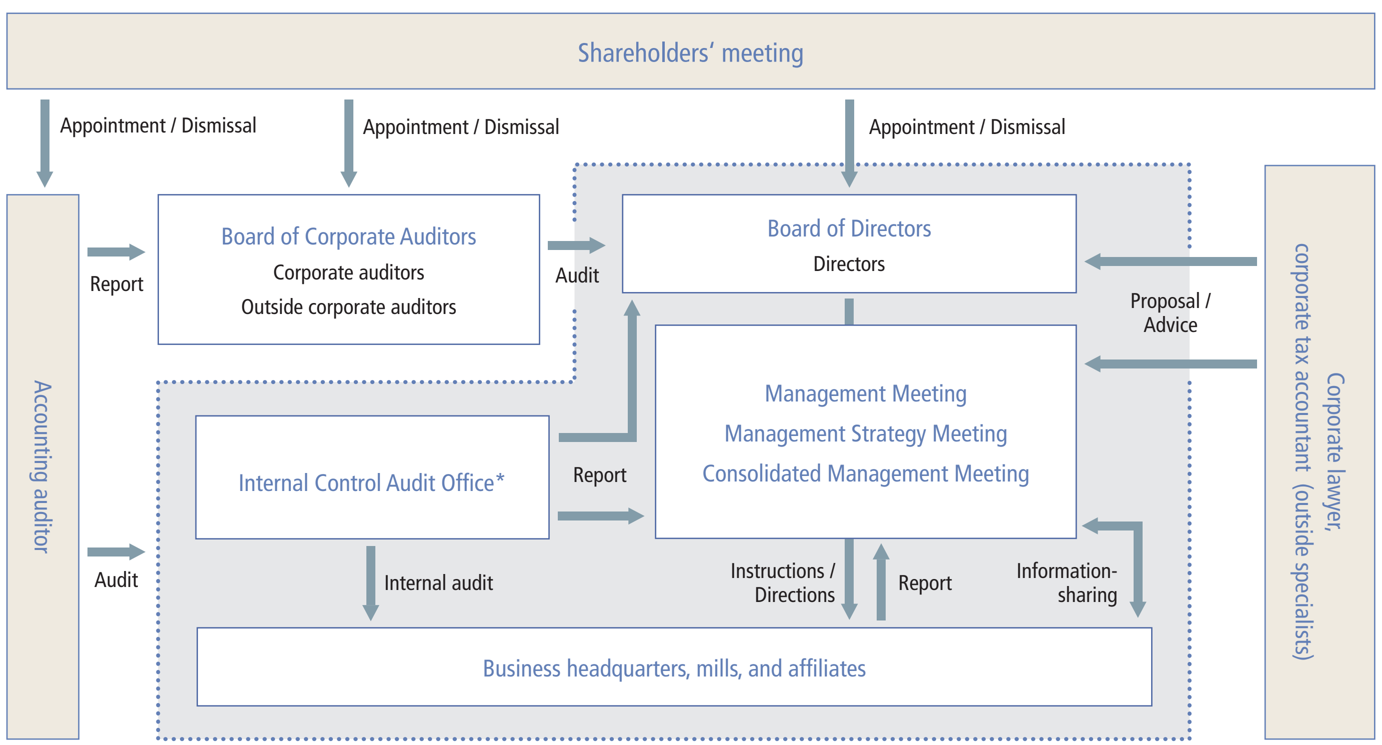
How the Group Has Tackled Corporate Governance and Compliance

The Hokuetsu Paper Mills Group's corporate philosophy consists of contributing to life and culture in the advanced information society, responding to the expectations of all stakeholders and playing a role in achieving the development of society as an attractive paper manufacturing company. In order to realize this philosophy, the Group needs to achieve sustainable growth. Thus, the Company considers strengthening global competitiveness and long-lasting, stable growth in corporate value through efficient and environment-friendly management to be the most significant managerial matters. At the same time, management believes it necessary to establish an appropriate corporate governance system through fair corporate activities and transparent decision-making with emphasis on compliance. This is why our Group's "Hokuetsu Paper Mills Corporate Philosophy" places "The Group shall be trusted by customers, shareholders, business partners, and local communities with its fair corporate activities, in compliance with laws and regulations" at the top of its rules. We have also established a basic code of conduct (code of ethics) to be observed by all directors and employees of the Group.

After a misstatement of the waste paper combination ratio for the Company's recycled paper, which was last year recognized as a serious violation of compliance rules, management has been working to improve its compliance promotion system since April 2008. The Group created the position of Chief Compliance Officer under the direct control of the President in accordance with the Hokuetsu Paper Mills Group Compliance Rules. Under this framework, we are striving to thoroughly implement compliance measures at a company-wide level through holding a monthly compliance officer meeting. Management has also improved the system for recognizing risks and countermeasures against them, which include setting up a Compliance Hotline, preparing a handbook on compliance rules and providing related education, preparing a compliance manual for each division, and self-checking according to the self-checking management guidelines. The guidelines are designed to conduct self-checks, correct and improve problems under the instruction of Division Compliance Officers, and to activate the plan-do-check cycle. The results of self-checks are reported to the compliance officer meeting and also used as reference when the Internal Control Audit Office understands the current status of business operations and evaluates its appropriateness to set the direction for future internal controls and other important areas. These processes allow us to enhance control functions by keeping internal control and self-checks closely connected.

The Group will continue to strengthen its compliance system further based on the *Corporate Philosophy*.

Diagram of the relationship between corporate organizations and internal control



As of April 16, 2008, Internal Audit Office was reorganized into Internal Control Audit Office.

Basic Code of Conduct (Code of Ethics)

Comply with laws and regulations and execute fair corporate activities

◎ The Company and each Group company shall comply with laws and regulations at home and overseas in all business activities.
◎ All employees working for the Group shall respect laws and regulations, social codes of conduct and socially accepted norms, and act with dignity and prudence regardless of whether they are on the job or not.
◎ Leaders in the organization shall take the initiative and give an example for others to raise awareness of corporate ethics throughout the organization.

Strengthen the relationship of trust with customers, shareholders, business partners and local communities through transparent corporate activities

◎ The Group shall respect fairness, justice and transparency in all its business activities and build relationships of trust with business partners under the principles of equality and mutual benefit.
◎ The Group shall respond to the expectations of shareholders and creditors by securing appropriate internal controls and transparency.
◎ The Group shall disclose information on its business activities widely to the public accurately and immediately through various public relations initiatives.
◎ The Group shall upgrade the function of its risk management system to immediately restore business activities in cases of emergency.
◎ The Group shall make various contributions to communities as a business group that develops alongside local communities.
◎ The Group shall appropriately manage information, including information assets and personal information.
◎ The Group shall maintain transparent and appropriate relationships with politics and public administration.

Provide attractive products and services

◎ The Group shall provide environment-friendly, high-quality and attractive products and services to all customers of the Company and each Group company.

Cultivate corporate culture with ample creativity and spirit of challenge through a relationship of trust between the Company and employees

◎ The Group shall respect the mutual trust between management and labor and among employees.
◎ The Group shall respect human rights, individual privacy, diverse values and individual characters.
◎ The Group shall foster human resources and fairly treat employees.
◎ The Group shall promote safety at workplaces and the health of employees.
◎ The Group shall enhance communication to seek self-purifying effects in corporate ethics.
◎ The Group shall enlighten employees on corporate ethics through the in-house education program.

Strive to conserve the environment

◎ The Group shall conduct business activities while keeping the global environment in mind.
◎ The Group shall commit itself to realizing a "minimum-impact" mill.
◎ The Group shall reduce environmental burden by providing Eco Ring products that are manufactured from replanted trees, wastepaper and environment-friendly pulp.
◎ The Group shall raise awareness of environment conservation in each of the procurement, manufacturing and marketing processes.

Compliance System

Compliance promotion organization Organizations that engage in compliance:

1 Chief Compliance Officer

- Responsible for thoroughly implementing compliance measures at a company-wide level
- Responsible for reporting any serious violation of compliance rules to the Board of Directors and Management Meeting
- Responsible for holding the compliance officer meeting (once a month, in principle)

2 Division Compliance Officer

- Responsible for thoroughly implementing compliance measures at the division
- Responsible for immediately reporting any violation of compliance rules at the division to the Chief Compliance Officer and for drawing up preventive measures
- Responsible for reporting how compliance rules are obeyed at the division at the compliance officer meeting

Board of Directors and Corporate Auditors

Takayuki Sasaki | Norihiko Shimokoshi | Sekio Kishimoto | Kiyoshi Tamura | Kouichi Akagawa

Representative Director, President & CEO
Sekio Kishimoto

Managing Directors
Kiyoshi Tamura
Norihiko Shimokoshi
Kouichi Akagawa
Takayuki Sasaki

Directors
Hiroshi Sugawara
Kazunori Hosoi
Michio Tsuchida
Souhei Onoda
Fumiki Asai
Youichi Haruki
Shinichi Kinoshita
Michio Kaga

Director and Executive Adviser
Masaaki Miwa

Standing Corporate Auditors
Fumiyoshi Tsuchida
Takashi Kobayashi

Corporate Auditors
Toshiji Sato
Kazuo Uchida

Executive Officers
Kazuo Nakamura
Heitaro Sakamoto
Hideo Kudo
Norihisa Hirukawa
Fumio Abe
Hideo Yazawa
Akihiro Aoki

Financial Section

Contents

Five-Year Summary

Years ended March 31

Millions of yen (except per share amounts)

	2005	2006	2007	2008	2009
For the year					
Net sales	¥ 151,205	¥ 153,692	¥ 158,992	¥ 172,709	¥ 182,815
Operating income	12,909	6,932	9,050	8,330	8,125
Ordinary income	12,548	7,205	9,220	7,891	6,752
Net income	6,959	3,238	4,395	4,074	1,913
Return on equity	6.7%	2.9%	3.4%	2.9%	1.4%
Per share data					
Net income	¥ 41.92	¥ 19.31	¥ 22.75	¥ 19.19	¥ 9.01
Cash dividends	12.00	12.00	12.00	14.00	12.00
At year-end					
Total assets	¥ 221,438	¥ 232,486	¥ 269,124	¥ 292,726	¥ 313,732
Total net assets (Note)	107,212	112,800	143,439	140,184	136,713

Note: For the net assets amounts for 2005 and 2006, minority interests are excluded.

CONSOLIDATED BALANCE SHEETS

HOKUETSU PAPER MILLS, LTD. March 31, 2009 and 2008

ASSETS	Millions of yen 2009	2008	Thousands of U.S. dollars (Note 1) 2009
CURRENT ASSETS:			
Cash and deposits (Note 3)	¥ 15,313	¥ 8,483	$ 155,842
Notes and accounts receivable			
Trade	37,117	41,193	377,743
Unconsolidated subsidiaries and affiliates	15,164	17,542	154,325
Other	779	338	7,928
Allowance for doubtful accounts	(23)	(57)	(234)
Inventories (Note 5)	23,554	13,703	239,711
Deferred income taxes (Note 10)	1,484	1,629	15,103
Prepaid expenses and other	4,819	1,396	49,043
TOTAL CURRENT ASSETS	98,207	84,227	999,461
PROPERTY, PLANT AND EQUIPMENT (Note 6):			
Land and timberland	12,348	12,399	125,667
Buildings and structures	63,389	54,363	645,115
Machinery and equipment	353,836	285,223	3,601,017
Leased assets	462	—	4,702
Construction in progress	1,573	54,310	16,009
	431,608	406,295	4,392,510
Less accumulated depreciation	(248,356)	(233,650)	(2,527,540)
NET PROPERTY, PLANT AND EQUIPMENT	183,252	172,645	1,864,970
INVESTMENTS AND OTHER ASSETS:			
Investments in securities (Note 4)	19,120	24,815	194,586
Investments in and receivables from unconsolidated subsidiaries and affiliates	4,706	4,316	47,893
Long-term loans receivable	260	292	2,646
Guarantee deposits	1,808	2,050	18,400
Deferred income taxes (Note 10)	3,140	1,426	31,956
Other	3,585	3,310	36,485
Allowance for doubtful accounts	(346)	(355)	(3,521)
TOTAL INVESTMENTS AND OTHER ASSETS	32,273	35,854	328,445
	¥313,732	¥292,726	$3,192,876

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

LIABILITIES AND NET ASSETS	Millions of yen 2009	2008	Thousands of U.S. dollars (Note 1) 2009
CURRENT LIABILITIES:			
Short-term loans (Notes 6 & 7)	¥ 40,082	¥ 23,129	$ 407,917
Current maturities of long-term debt (Notes 6 & 7)	20,982	18,868	213,535
Notes and accounts payable			
Trade	17,745	22,001	180,592
Unconsolidated subsidiaries and affiliates	2,704	2,280	27,519
Other	3,273	8,669	33,310
Income taxes payable (Note 10)	1,641	1,933	16,701
Accrued expenses	5,646	5,599	57,460
Other	1,020	1,037	10,381
TOTAL CURRENT LIABILITIES	93,093	83,516	947,415
LONG-TERM LIABILITIES:			
Long-term debt (Notes 6 & 7), less current maturities	74,667	59,028	759,892
Deferred income taxes (Note 10)	—	1,067	—
Employees' severance and retirement benefits (Note 16)	8,090	7,694	82,333
Retirement benefits for directors and corporate auditors	87	84	885
Accrued environmental expenditures	259	263	2,636
Other	823	890	8,376
CONTINGENT LIABILITIES (Note 8)			
NET ASSETS (Note 9)			
OWNERS' EQUITY:			
Common stock:			
authorized			
– 500,000,000 shares in 2009			
– 500,000,000 shares in 2008			
issued and outstanding			
– 214,052,054 shares in 2009			
– 214,052,054 shares in 2008	42,021	42,021	427,651
Capital surplus	40,244	40,244	409,566
Retained earnings	54,919	55,559	558,915
Treasury stock	(1,081)	(1,047)	(11,001)
TOTAL OWNERS' EQUITY	136,103	136,777	1,385,131
ACCUMULATED GAINS FROM VALUATION AND TRANSLATION ADJUSTMENTS			
Unrealized holding gains on securities, net of taxes	(308)	2,761	(3,135)
Unrealized gains on hedging derivatives, net of taxes	82	(87)	835
TOTAL ACCUMULATED GAINS FROM VALUATION AND TRANSLATION ADJUSTMENTS	(226)	2,674	(2,300)
MINORITY INTERESTS	836	733	8,508
TOTAL NET ASSETS	136,713	140,184	1,391,339
	¥313,732	¥292,726	$3,192,876

CONSOLIDATED STATEMENTS OF INCOME

HOKUETSU PAPER MILLS, LTD. Years ended March 31, 2009, 2008 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	2009
NET SALES (Notes 11 & 17)	¥182,815	¥172,709	¥158,992	$1,860,523
COST OF SALES (Note 11)	151,652	141,008	127,771	1,543,375
Gross Profit	31,163	31,701	31,221	317,148
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12)	23,038	23,371	22,171	234,459
Operating Income	8,125	8,330	9,050	82,689
OTHER INCOME (EXPENSES):				
Interest and dividend income	857	520	370	8,722
Interest expenses	(1,746)	(1,240)	(730)	(17,769)
Foreign exchange gains (losses)	(20)	(203)	23	(204)
Equity in income of affiliates	63	105	121	641
Gain on sales of investments in securities, net	—	—	303	—
Loss on devaluation of investments in securities	(29)	(3)	(15)	(296)
Loss on devaluation of investments in unconsolidated subsidiaries and affiliates	—	—	(82)	—
Loss on disposal of property, plant and equipment	(663)	(724)	(1,173)	(6,747)
Income from subsidies	1,000	—	2,879	10,177
Advanced depreciation of property, plant and equipment	(1,000)	—	(2,834)	(10,177)
Impairment loss of fixed assets (Note 13)	(1,891)	—	—	(19,245)
Provision for environmental expenditures	—	—	(263)	—
One-time amortization of prior service costs	—	(34)	(85)	—
Costs in relation to tender offer	—	—	(624)	—
Costs in relation to suspending the operation of production equipments	(707)	—	—	(7,195)
Other, net	254	163	360	2,585
	(3,882)	(1,416)	(1,750)	(39,508)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	4,243	6,914	7,300	43,181
INCOME TAXES (Note 10):				
Current	2,988	2,925	3,182	30,409
Deferred	(752)	(141)	(349)	(7,653)
	2,236	2,784	2,833	22,756
INCOME BEFORE MINORITY INTERESTS	2,007	4,130	4,467	20,425
MINORITY INTERESTS	94	56	72	956
NET INCOME	¥ 1,913	¥ 4,074	¥ 4,395	$ 19,469

	Yen			U.S. dollars (Note 1)
	2009	2008	2007	2009
Amounts per share of common stock (Note 2):				
Net income	¥ 9.01	¥19.19	¥22.75	$0.09
Diluted net income	—	—	—	—
Cash dividends applicable to the year	12.00	14.00	12.00	0.12

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

HOKUETSU PAPER MILLS, LTD. Years ended March 31, 2009, 2008 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	2009
CASH FLOWS FROM OPERATING ACTIVITIES:				
Income before income taxes and minority interests	¥ 4,243	¥ 6,914	¥ 7,300	$ 43,181
Depreciation and amortization	17,348	12,325	10,566	176,552
Impairment loss of fixed assets	1,891	—	—	19,245
Loss on disposal of property, plant and equipment	612	990	1,229	6,228
Advanced depreciation of property, plant and equipment	1,000	—	2,834	10,177
Income from subsidies	(1,000)	—	(2,879)	(10,177)
Interest and dividend income	(857)	(520)	(370)	(8,722)
Interest expenses	1,746	1,240	730	17,769
(Increase) Decrease in notes and accounts receivable	6,470	(3,876)	(3,541)	65,846
(Increase) Decrease in inventories	(9,858)	(1,737)	(742)	(100,326)
Increase (Decrease) in notes and accounts payable	(4,100)	2,382	801	(41,726)
Increase (Decrease) in employees' severance and retirement benefits	395	111	485	4,020
Increase (Decrease) in retirement benefits for directors and corporate auditors	3	(43)	46	31
Increase (Decrease) in accrued environmental expenditures	—	—	263	—
Other, net	(3,784)	(536)	(7)	(38,510)
Subtotal	14,109	17,250	16,715	143,588
Interest and dividend income received	878	540	392	8,936
Interest paid	(1,644)	(1,161)	(720)	(16,731)
Income taxes paid	(3,343)	(3,634)	(1,480)	(34,022)
NET CASH PROVIDED BY OPERATING ACTIVITIES	10,000	12,995	14,907	101,771
CASH FLOWS FROM INVESTING ACTIVITIES:				
Payments for time deposits	(79)	(163)	(74)	(803)
Proceeds from time deposits	91	183	37	926
Payments for purchases of securities	(1,237)	(2,212)	(4,152)	(12,589)
Proceeds from sales of securities	313	—	481	3,185
Proceeds from redemption of investment securities	1,000	—	—	10,177
Payments for purchases of property, plant and equipment	(35,776)	(33,213)	(41,865)	(364,095)
Proceeds from sales of property, plant and equipment	132	56	27	1,343
Proceeds from national subsidies	200	727	2,152	2,035
Other, net	552	(789)	(386)	5,618
NET CASH USED IN INVESTING ACTIVITIES	(34,804)	(35,411)	(43,780)	(354,203)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Increase (Decrease) in short-term loans	16,953	(96)	(2,887)	172,532
Proceeds from long-term loans	37,700	20,700	13,800	383,676
Repayments of long-term loans	(10,412)	(6,871)	(7,272)	(105,964)
Proceeds from issuance of common stock by allocation to third party	—	—	30,350	—
Proceeds from issuance of unsecured yen straight bonds	—	20,000	—	—
Redemption of unsecured yen straight bonds	(10,000)	(10,000)	—	(101,771)
Dividends paid	(2,553)	(2,978)	(2,254)	(25,982)
Payments for purchases of treasury stock	(31)	(16)	(42)	(315)
Other, net	(34)	(6)	(6)	(346)
NET CASH PROVIDED BY FINANCING ACTIVITIES	31,623	20,733	31,689	321,830
TRANSLATION GAIN (LOSS) OF CASH AND CASH EQUIVALENTS	22	(88)	0	224
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,841	(1,771)	2,816	69,622
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8,364	10,135	7,319	85,121
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 3)	¥15,205	¥ 8,364	¥10,135	$154,743

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

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

HOKUETSU PAPER MILLS, LTD. Years ended March 31, 2009, 2008 and 2007

	Number of shares	Millions of yen									
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total owners' equity	Unrealized holding gains on securities, net of taxes	Unrealized gains on hedging derivatives, net of taxes	Total accumulated gains from valuation and translation adjustments	Minority interests	Total net assets
Balance at March 31, 2006	164,052,054	¥ 26,821	¥ 25,094	¥ 52,417	¥ (871)	¥ 103,461	¥ 9,339	¥ —	¥ 9,339	¥ 630	¥ 113,430
Net income	—	—	—	4,395	—	4,395	—	—	—	—	4,395
Issuance of common stock by allocation to third party	50,000,000	15,200	15,150	—	—	30,350	—	—	—	—	30,350
Purchases of treasury stock, net	—	—	—	—	(154)	(154)	—	—	—	—	(154)
Cash dividends paid (¥12.00 per share)	—	—	—	(2,254)	—	(2,254)	—	—	—	—	(2,254)
Bonuses to directors	—	—	—	(94)	—	(94)	—	—	—	—	(94)
Net changes during the year	—	—	—	—	—	—	(2,325)	29	(2,296)	62	(2,234)
Balance at March 31, 2007	214,052,054	42,021	40,244	54,464	(1,025)	135,704	7,014	29	7,043	692	143,439
Net income	—	—	—	4,074	—	4,074	—	—	—	—	4,074
Purchases of treasury stock, net	—	—	—	—	(22)	(22)	—	—	—	—	(22)
Cash dividends paid (¥14.00 per share)	—	—	—	(2,979)	—	(2,979)	—	—	—	—	(2,979)
Net changes during the year	—	—	—	—	—	—	(4,253)	(116)	(4,369)	41	(4,328)
Balance at March 31, 2008	214,052,054	42,021	40,244	55,559	(1,047)	136,777	2,761	(87)	2,674	733	140,184
Net income	—	—	—	1,913	—	1,913	—	—	—	—	1,913
Purchases of treasury stock, net	—	—	—	—	(34)	(34)	—	—	—	—	(34)
Cash dividends paid (¥12.00 per share)	—	—	—	(2,553)	—	(2,553)	—	—	—	—	(2,553)
Net changes during the year	—	—	—	—	—	—	(3,069)	169	(2,900)	103	(2,797)
Balance at March 31, 2009	214,052,054	¥ 42,021	¥ 40,244	¥ 54,919	¥ (1,081)	¥ 136,103	¥ (308)	¥ 82	¥ (226)	¥ 836	¥ 136,713

	Number of shares	Thousands of U.S. dollars (Note 1)									
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total owners' equity	Unrealized holding gains on securities, net of taxes	Unrealized gains on hedging derivatives, net of taxes	Total accumulated gains from valuation and translation adjustments	Minority interests	Total net assets
Balance at March 31, 2008	214,052,054	$ 427,651	$ 409,566	$ 565,428	$ (10,655)	$ 1,391,990	$ 28,099	$ (885)	$ 27,214	$ 7,460	$ 1,426,664
Net income	—	—	—	19,469	—	19,469	—	—	—	—	19,469
Purchases of treasury stock, net	—	—	—	—	(346)	(346)	—	—	—	—	(346)
Cash dividends paid ($0.14 per share)	—	—	—	(25,982)	—	(25,982)	—	—	—	—	(25,982)
Net changes during the year	—	—	—	—	—	—	(31,234)	1,720	(29,514)	1,048	(28,466)
Balance at March 31, 2009	214,052,054	$ 427,651	$ 409,566	$ 558,915	$ (11,001)	$ 1,385,131	$ (3,135)	$ 835	$ (2,300)	$ 8,508	$ 1,391,339

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

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 (hereafter, "Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of Hokuetsu Paper Mills, Ltd. (hereafter, "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, 2009, which was ¥98.26 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 (hereafter, "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, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries. The differences between the investment cost and net assets of subsidiaries acquired are amortized on a straight-line basis over a period of 5 years. However, the excess is charged (or credited) to income in the period of acquisition when the amounts are immaterial.

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

Number of consolidated subsidiaries and companies under the application of the equity method is as follows:

	Number of Companies		
	2009	2008	2007
Consolidated subsidiaries	10	10	10
Affiliates applied by equity method	7	7	7

Niigata GCC Co., Ltd., which was established on March 12, 2007 as an affiliate, has been accounted for by the equity method from the year ended March 31, 2007.

(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 of not exceeding three months at the time of purchase are considered to be cash and cash equivalents, and which represent an insignificant risk of change in value.

(c) Translation of Foreign Currencies

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

(d) Securities

Under Japanese accounting standard for financial instruments, all companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "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 (hereafter, "available-for-sale securities"). The Companies did not have the securities defined as (a) and (b) above in the years ended March 31, 2009, 2008 and 2007.

Equity securities issued by unconsolidated subsidiaries and affiliates not accounted for by the equity method are stated at the moving-average cost.

If the market value of available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. Debt securities with no available fair market value are stated at the amortized cost, net of the amount considered not collectible. If the fair market value of equity securities, except for those accounted for by the equity method, is not readily available, such securities should be written down to net asset value with a corresponding charge in the statement of income in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

Available-for-sale securities maturing within one year from the balance sheet date are included in current assets, and other securities are included in investments and other assets.

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

(e) Allowance for Doubtful Accounts

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

(f) Inventories

Effective from the year ended March 31, 2009, the Companies adopted the accounting standard, "Accounting Standard for Measurement of Inventories" (Statement No. 9 issued by the Accounting Standards Board of Japan on July 5, 2006). As permitted under the superseded accounting standard, the Companies previously stated inventories at cost. The new accounting standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net realizable value. Cost is primarily determined by the monthly average method for raw materials, supplies and finished goods. Cost of work-in-process is primarily determined using the FIFO (first-in, first-out) method. The specific identification method is used to determine the cost of timber and land for sale.

As a result of this change, operating income and income before income taxes and minority interests decreased by ¥607 million ($6,177 thousand) for the year ended March 31, 2009. The effects on segment information are described in Note 17.

(g) Property, Plant and Equipment (excluding leased assets)

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

Buildings, machinery and equipment owned by the Company, machinery and equipment owned by certain consolidated subsidiaries and consolidated subsidiaries' buildings acquired after March 31, 1998 are depreciated using the straight-line method over the useful lives prescribed by the Japanese tax regulations. Other tangible fixed assets are depreciated using the declining-balance method at rates determined based on the useful lives prescribed by the Japanese tax regulations.

Effective from the year ended March 31, 2009, the Companies changed the useful lives based on the reassessment of the useful lives and asset classification in the light of the change in the Corporation Tax Code of Japan.

As a result of this change, depreciation expenses increased by ¥1,537 million ($15,642 thousand), operating income and income before income taxes and minority interests decreased by ¥1,387 million ($14,116 thousand), respectively.

In accordance with the revised Japanese tax regulations, effective from the year ended March 31, 2008, the Companies changed the depreciation method for property, plant and equipment acquired after March 31, 2007 to the method based on the revised Japanese tax regulations.

As a result of this change, depreciation expenses increased by ¥117 million, operating income and income before income taxes and minority interests decreased by ¥109 million, respectively.

Effective from the year ended March 31, 2008, property, plant and equipment acquired before April 1, 2007 for which the allowable limit on the depreciable amount has been reached are to be depreciated evenly over five years from the following fiscal year.

As a result of this change, depreciation expenses increased by ¥1,032 million, operating income and income before income taxes and minority interests decreased by ¥996 million and ¥1,001 million, respectively.

Effective from the year ended March 31, 2007, the Company changed the depreciation method for pulp manufacturing and steam generator equipments, which are included in machinery and equipment on the consolidated balance sheets, located in Niigata Mill, all machinery and equipment located in Nagaoka Mill excluding fiber board manufacturing equipments, and all machinery and equipment located in the other places from the declining-balance method to the straight-line method. This change was made for the purpose of improving the matching of revenue and costs by leveling out depreciation expenses over the useful lives of the assets concerned.

As a result of this change, depreciation expenses decreased by ¥2,806 million, operating income and income before income taxes and minority interests increased by ¥2,713 million and ¥2,715 million, respectively.

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

(h) Finance Leases

Effective from the year ended March 31, 2009, the Companies adopted the new accounting standard, "Accounting Standard for Lease Transactions" (Statement No. 13 issued by the Accounting Standards Board of Japan on March 30, 2007), and Guidance No. 16, "Guidance on Accounting Standard for Lease Transactions" (Statement No.16 issued by the Accounting Standards Board of Japan on March 30, 2007). The new accounting standards require that all finance lease transactions be treated as capital leases.

Prior to the year ended March 31, 2009, the Companies accounted for finance leases which do not transfer ownership of the leased property to the lessee as operating leases with disclosure of certain "as if capitalized" information in the notes to the consolidated financial statements.

Effective from the year ended March 31, 2009, the Companies adopted the new accounting standards for finance leases commencing after March 31, 2008 and capitalized assets used under such leases, except for certain immaterial or short-term finance leases, which are accounted for as operating leases.

The leased assets depreciated using the straight-line method over the lease period without residual value.

As permitted, finance leases which commenced prior to April 1, 2008 and have been accounted for as operating leases, continue to be accounted for as operating leases with disclosure of certain "as if capitalized" information.

The effects of adopting the new standards on the consolidated balance sheet as of March 31, 2009 were to increase property, plant and equipment and intangible assets by ¥436 million ($4,437 thousand) and ¥5 million ($51 thousand), respectively. As a result of this change, there was no effect on the consolidated statement of income of adopting the new standards.

(i) Employees' Severance and Retirement Benefits

Employees severing their connections with the Companies on retirement or otherwise are entitled, in most circumstances, to a lump-sum severance payment and annuity payments based on current rates of pay, length of service and certain other factors. Most employees are covered by two retirement benefit plans, an unfunded lump-sum severance payment plan and a funded noncontributory defined benefit pension plan.

The liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Companies provided allowance for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the pension assets at the balance sheet date.

Actuarial gains or losses are recognized as income or expenses using the declining-balance method over a certain period (10 years) within the average of the estimated remaining service lives commencing with the following period. Prior service costs are expensed as incurred.

(j) Retirement Benefits for Directors and Corporate Auditors

Directors who are the members of the Board of Directors and corporate auditors severing their connections with consolidated subsidiaries upon retirement or otherwise are entitled, in most circumstances, to lump-sum severance payments based on current rates of pay, length of services and certain other factors, including contributions to the consolidated subsidiaries. The consolidated subsidiaries accrue 100% of obligations based on their rules under the assumption that all directors and corporate auditors retired at the balance sheet date.

(k) Accrued Environmental Costs

Accrued environmental costs are provided at an estimated amount to dispose of PCB (polychlorinated biphenyl) waste under the Law Concerning Special Measures against PCB Waste.

(l) Issuance Costs of Stocks and Bonds

Issuance costs of stocks and bonds are expensed as incurred.

(m) Derivatives and Hedge Accounting

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

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

Also, if 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.

(n) Income Taxes

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

(o) Per Share Information

Net income per share is computed based upon the average number of shares of common stock outstanding during each year. The average number of common shares used in the computation was 212,230,847 shares, 212,284,197 shares and 193,156,338 shares in 2009, 2008 and 2007, respectively. Diluted net income per share is not disclosed because potentially dilutive securities are not issued.

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

(p) Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective from the year ended March 31, 2007, the Companies adopted the accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No.5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005).

(q) Accounting Standard for Statement of Changes in Net Assets

Effective from the year ended March 31, 2007, the Companies adopted the accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No.9 issued by the Accounting Standards Board of Japan on December 27, 2005).

Accordingly, the Company prepared the statements of changes in net assets for the year ended March 31, 2007 in accordance with the accounting standards.

(r) 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.

Note 3 - Cash and Cash Equivalents

Reconciliation of cash and deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows at March 31, 2009 and 2008 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Cash and deposits	¥ 15,313	¥ 8,483	$ 155,842
Less time deposits with maturities exceeding three months	(108)	(119)	(1,099)
Cash and cash equivalents	¥ 15,205	¥ 8,364	$ 154,743

Note 4 - Securities

The following tables summarize acquisition costs and book value of securities with available fair value as of March 31, 2009 and 2008:

Available-for-sale securities:

	Millions of yen		
	2009		
Type	Acquisition cost	Book value	Difference
Equity securities:			
with book value (fair value) exceeding acquisition costs	¥ 4,440	¥ 6,263	¥ 1,823
with book value (fair value) not exceeding acquisition costs	9,250	6,940	(2,310)
	¥ 13,690	¥ 13,203	¥ (487)

Type	Millions of yen 2008 Acquisition cost	Book value	Difference
Equity securities:			
with book value (fair value) exceeding acquisition costs	¥ 5,665	¥ 11,723	¥ 6,058
with book value (fair value) not exceeding acquisition costs	7,627	6,161	(1,466)
	¥ 13,292	¥ 17,884	¥ 4,592

Type	Thousands of U.S. dollars 2009 Acquisition cost	Book value	Difference
Equity securities:			
with book value (fair value) exceeding acquisition costs	$ 45,186	$ 63,739	$ 18,553
with book value (fair value) not exceeding acquisition costs	94,138	70,629	(23,509)
	$139,324	$134,368	$ (4,956)

The following tables summarize book value of securities with no available fair value as of March 31, 2009 and 2008:

Available-for-sale securities:

Type	Millions of yen 2009	2008	Thousands of U.S. dollars 2009
Non-listed equity securities	¥ 5,917	¥ 6,931	$ 60,218

Total sales of available-for-sale securities sold in the year ended March 31, 2009 amounted to ¥313 million ($3,185 thousand) and the related losses amounted to ¥0 million ($0 thousand). Total sales of available-for-sale securities sold in the year ended March 31, 2007 amounted to ¥481 million and the related gains amounted to ¥303 million.

Note 5 - Inventories

Inventories at March 31, 2009 and 2008 are summarized as follows:

	Millions of yen 2009	2008	Thousands of U.S. dollars 2009
Finished goods	¥ 10,731	¥ 4,481	$ 109,210
Work-in-process	1,022	1,329	10,401
Raw materials and supplies	11,795	7,886	120,039
Land for sale	6	7	61
	¥ 23,554	¥ 13,703	$ 239,711

Note 6 - Assets Pledged

Assets pledged as collateral for short-term bank loans and long-term debt totaling ¥610 million, respectively, at March 31, 2008 are as follows:

	Millions of yen 2009	2008	Thousands of U.S. dollars 2009
Building	¥ —	¥ 154	$ —
Equipment	—	328	—
Land	—	1,780	—
	¥ —	¥ 2,262	$ —

Note 7 - Short-Term Loans and Long-Term Debt

Short-term loans outstanding at March 31, 2009 and 2008 are partially secured with interest of 0.85% to 3.25% per annum and 0.97% to 3.25% per annum, respectively.

Long-term debt and lease obligations at March 31, 2009 and 2008 are as follows:

	Millions of yen 2009	2008	Thousands of U.S. dollars 2009
Partially secured loans from banks and unsecured loans from insurance companies and other financial institutions, 0.51% to 5.05% maturing serially through 2016	¥ 65,184	¥ 37,896	$ 663,382
0.51% unsecured yen straight bonds due in 2008	—	10,000	—
0.92% unsecured yen straight bonds due in 2009	10,000	10,000	101,771
1.77% unsecured yen straight bonds due in 2014	10,000	10,000	101,771
1.36% unsecured yen straight bonds due in 2011	10,000	10,000	101,771
Lease obligations, maturing through 2016	465	—	4,732
	95,649	77,896	973,427
Less current maturities	(20,982)	(18,868)	(213,535)
Total	¥ 74,667	¥ 59,028	$ 759,892

The annual maturities of long-term debt and lease obligations at March 31, 2009 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2010	¥ 20,982	$213,535
2011	18,253	185,762
2012	19,633	199,807
2013	9,530	96,988
2014	11,521	117,250
2015 and thereafter	15,730	160,085
	¥ 95,649	$973,427

Note 8 - Contingent Liabilities

Contingent liabilities at March 31, 2009 for loans guaranteed by the Companies on behalf of third parties amount to ¥23,779 million ($242,001 thousand), which includes ¥23,704 million ($241, 238 thousand) loans jointly guaranteed by the investors including the Company on behalf of a joint venture. The Company's guarantee portion of the joint guaranty is ¥224 million ($2,280 thousand).

Note 9 - Net Assets

As described in Note 2 (p), net assets comprise three subsections, which are owners' equity, accumulated gains/losses from valuation and translation adjustments and minority interests.

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws 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.

Under the Law, 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.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, 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 Japanese laws and regulations.

At the annual shareholders' meeting held on June 26, 2009, the shareholders approved cash dividends amounting to ¥1,276 million ($12,986 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2009. Such appropriations are recognized in the period in which they are approved by the shareholders.

Note 10 - 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 39.5% for the years ended March 31, 2009, 2008 and 2007.

Differences between statutory tax rates and the effective tax rates for the years ended March 31, 2008 and 2007 are not disclosed as differences are immaterial.

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purpose for the year ended March 31, 2009:

	2009
Statutory tax rate	39.5%
Non-deductible expenses	1.4
Dividends received not taxable	(4.9)
Per capita inhabitants taxes	0.7
Valuation allowance	13.9
Other	2.1
Effective tax rate	52.7%

Significant components of deferred income tax assets and liabilities at March 31, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Deferred income tax assets:			
Unrealized gain from sales of inventories between the Companies	¥ 320	¥ 271	$ 3,257
Accrued bonuses	793	802	8,070
Employees' severance and retirement benefits	3,161	3,003	32,170
Unrealized gain from sales of fixed assets between the Companies	1,432	1,350	14,574
Other	2,200	1,329	22,389
Subtotal deferred income tax assets	7,906	6,755	80,460
Valuation allowance	(1,126)	(536)	(11,459)
Total deferred income tax assets	¥ 6,780	¥ 6,219	$ 69,001
Deferred income tax liabilities:			
Reserve deductible for Japanese tax purpose	¥ (1,353)	¥(1,684)	$(13,770)
Reserve for deferred gain on sales of fixed assets for tax purpose	(663)	(672)	(6,747)
Unrealized holding gain on securities	—	(1,812)	—
Other	(140)	(63)	(1,425)
Total deferred income tax liabilities	(2,156)	(4,231)	(21,942)
Net deferred income tax assets (liabilities)	¥ 4,624	¥ 1,988	$ 47,059

Note 11 - Sales to and Purchases from Unconsolidated Subsidiaries and Affiliates

Sales to and purchases from unconsolidated subsidiaries and affiliates for the years ended March 31, 2009, 2008 and 2007 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Sales	¥ 37,695	¥ 37,988	¥ 36,770	$383,625
Purchases	6,484	4,064	2,049	65,988

Note 12 - Research and Development Expenses

Research and development expenses are recognized in the consolidated statements of income in the year when incurred. Research and development expenses included in selling, general and administrative expenses are ¥1,014 million ($10,320 thousand), ¥1,332 million and ¥1,134 million for the years ended March 31, 2009, 2008 and 2007, respectively.

Note 13 - Impairment Loss of Fixed Assets

In the year ended March 31, 2009, the Companies recorded impairment loss of fixed assets for the following group of assets:

Use	Location	Type	Amount Millions of yen	Amount Thousands of U.S. dollars
Specialty paper production equipments	Nagaoka, Niigata	Building and structures	¥ 229	$ 2,331
		Machinery, vehicles	1,247	12,690
		Equipments and others	3	31
		Leased assets	33	336
Printing paper production equipments	Ichikawa, Chiba	Building and structures	1	10
		Machinery, vehicles	377	3,837
		Equipments and others	1	10
			¥1,891	$19,245

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

With demand for paper and paperboard having drastically decreased due to a sharp economic downturn, it is forecasted that a full-scale economic recovery will take longer than expected. Thus, the Company does not expect to see autonomous elimination of a gap between demand and supply for paper and paperboard for some time.

Under such circumstances, the Board of Directors of the Company has resolved to suspend the operation of the above-mentioned production equipment. Carrying amount of the production equipments are reduced to memorandum value. The amount of reduction is recognized in other expenses as impairment loss of fixed assets.

In the calculation of amount of impaired leased assets, the future lease payment were considered as the carrying amount of the leased assets.

Note 14 - Lease Transactions

Lease transactions for the years ended March 31, 2009 and 2008 are as follows:

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

(a) Purchase Price Equivalent, Accumulated Depreciation Equivalent and Book Value Equivalent:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Machinery, equipment and others			
Purchase price equivalent	¥ 2,321	¥ 2,275	$23,621
Accumulated depreciation equivalent	691	498	7,032
Accumulated impairment loss equivalent	33	—	336
Book value equivalent	1,597	1,777	16,253

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

(b) Lease Commitments:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Due within one year	¥ 297	¥ 270	$ 3,023
Due after one year	1,333	1,507	13,566
	¥ 1,630	¥ 1,777	$16,589
Balance of impairment loss account on leased assets included in the outstanding lease commitments	¥ 33	¥ —	$ 336

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

(c) Lease Payments and Depreciation Equivalent:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Lease payments	¥ 281	¥ 196	¥ 223	$ 2,860
Depreciation equivalent	281	196	223	2,860
Impairment loss	33	—	—	336

(d) Calculation Method of Depreciation Equivalent:

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

Operating lease transactions

Lease commitments under non-cancelable operating leases for the years ended March 31, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Due within one year	¥ 39	¥ 39	$ 397
Due after one year	113	152	1,150
	¥ 152	¥ 191	$ 1,547

Note 15 - Derivative Transactions

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

The Companies use forward exchange contracts and foreign currency options to offset exposure to market risks arising from changes in foreign exchange rates, and interest rate swap contracts to lower the interest costs related to debts and reduce the Companies' exposure to adverse movements in interest rates.

Forward exchange contracts, foreign currency options and interest rate swap contracts are subject to risks of foreign exchange rate changes and interest rate changes, respectively.

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

The following summarizes hedging derivative financial instruments used by the Companies and hedged items:

Hedging instruments	Hedged items
Forward exchange contracts and foreign currency options	Foreign currency trade payables
Interest rate swap contracts	Interest on loans payable

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

The following tables summarize contract amounts, fair values and recognized gains or losses of derivative transactions for which hedge accounting had not been applied at March 31, 2009:

	Millions of yen 2009			
	Contract amount			
	Total	Over one year	Fair value	Recognized gain (loss)
Foreign currency swap contracts	¥ 72	¥ 36	¥ 31	¥ 31

	Thousands of U.S. dollars 2009			
	Contract amount			
	Total	Over one year	Fair value	Recognized gain (loss)
Foreign currency swap contracts	$ 733	$ 366	$ 315	$ 315

The following tables summarize contract amounts, fair values and recognized gains or losses of derivative transactions for which hedge accounting had not been applied at March 31, 2008:

	Millions of yen 2008			
	Contract amount			
	Total	Over one year	Fair value	Recognized gain (loss)
Foreign currency swap contracts	¥ 108	¥ 72	¥ 34	¥ 34

Note 16 - Employees' Severance and Retirement Benefits

As explained in Note 2 (i), the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liability for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2009 and 2008 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Projected benefit obligation	¥ (13,038)	¥ (12,245)	$(132,689)
Unrecognized actuarial differences	1,774	1,130	18,054
Less fair value of pension assets	3,775	4,096	38,418
Prepaid pension costs	(601)	(675)	(6,116)
Liability for severance and retirement benefits	¥ (8,090)	¥ (7,694)	$ (82,333)

Included in the consolidated statements of income for the years ended March 31, 2009, 2008 and 2007 are severance and retirement benefit expenses comprised of the following:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Service costs - benefits earned during the year	¥ 642	¥ 641	¥ 582	$ 6,534
Interest cost on projected benefit obligation	231	225	208	2,351
Expected return on pension assets	(37)	(41)	(40)	(377)
Amortization of actuarial differences	233	113	57	2,371
One-time amortization of prior service costs	—	34	85	—
Severance and retirement benefit expenses	¥ 1,069	¥ 972	¥ 892	$ 10,879

The discount rates used by the Companies are 2.0%, for the years ended March 31, 2009, 2008 and 2007. The rates of expected return on pension assets used by the Companies are 1.0%, 1.0% and mainly 1.0% for the years ended March 31, 2009, 2008 and 2007, respectively. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains/losses are recognized in statement of income using the declining-balance method over mainly 10 years, beginning the following fiscal year of recognition, and prior service costs are expensed as incurred.

Note 17 - Segment Information

Business segment information

The Companies are primarily in operation with the following three businesses.

(1) Pulp related products:
Manufacture and sale of pulp, paper products

(2) Paper process products:
Manufacture and sale of paper process products

(3) Other:
Operations in businesses of timber, construction, manufacture, sale, repairs and utilities of machinery, import and sale of materials including pulp, real estate, transportation and warehouse, wholesale of used paper and other.

	Millions of yen 2009					
	Pulp related products	Paper process products	Other	Total	Corporate or elimination	Consolidated
Sales:						
Outside customers	¥ 160,322	¥ 17,016	¥ 5,477	¥ 182,815	¥ —	¥ 182,815
Intersegment	1,381	25	38,543	39,949	(39,949)	—
Total	161,703	17,041	44,020	222,764	(39,949)	182,815
Operating expenses	155,311	16,406	42,935	214,652	(39,962)	174,690
Operating income	¥ 6,392	¥ 635	¥ 1,085	¥ 8,112	¥ 13	¥ 8,125
Identifiable assets	¥ 289,870	¥ 16,216	¥ 15,004	¥ 321,090	¥ (7,359)	¥ 313,731
Depreciation and amortization	¥ 16,468	¥ 536	¥ 732	¥ 17,736	¥ (388)	¥ 17,348
Capital expenditures	¥ 30,215	¥ 1,070	¥ 738	¥ 32,023	¥ (647)	¥ 31,376

As explained in Note 2 (f), effective from the year ended March 31, 2009, the Companies adopted the new accounting standard for inventories.

As a result of this change, operating income of "Pulp related products segment," "Paper process products segment" and "Other segment" decreased by ¥589 million ($5,994 thousand), ¥18 million ($183 thousand) and ¥0 million ($0 thousand), respectively.

Also as explained in Note 2 (g), effective from the year ended March 31, 2009, the Companies changed the useful lives based on the reassessment of the useful lives and asset classification in light of the change in the Corporation Tax Code of Japan.

As a result of this change, operating income of "Pulp related products segment" decreased by ¥1,401 million ($14,258 thousand), and operating income of "Other segment" increased by ¥13 million ($132 thousand).

	Millions of yen 2008					
	Pulp related products	Paper process products	Other	Total	Corporate or elimination	Consolidated
Sales:						
Outside customers	¥ 151,160	¥ 15,402	¥ 6,147	¥ 172,709	¥ —	¥ 172,709
Intersegment	1,633	26	29,684	31,343	(31,343)	—
Total	152,793	15,428	35,831	204,052	(31,343)	172,709
Operating expenses	146,046	14,929	34,921	195,896	(31,517)	164,379
Operating income	¥ 6,747	¥ 499	¥ 910	¥ 8,156	¥ 174	¥ 8,330
Identifiable assets	¥ 266,484	¥ 14,710	¥ 24,143	¥ 305,337	¥ (12,611)	¥ 292,726
Depreciation and amortization	¥ 11,510	¥ 473	¥ 637	¥ 12,620	¥ (295)	¥ 12,325
Capital expenditures	¥ 36,653	¥ 867	¥ 737	¥ 38,257	¥ (532)	¥ 37,725

As explained in Note 2 (g), effective from the year ended March 31, 2008, the Companies changed the depreciation method for property, plant and equipment acquired after March 31, 2007 to the method based on the revised Japanese tax regulations.

As a result of this change, operating income of "Pulp related products segment," "Paper process products segment" and "Other segment" decreased by ¥62 million, ¥5 million and ¥42 million, respectively.

Also, effective from the year ended March 31, 2008, property, plant and equipment acquired before April 1, 2007 for which the allowable limit on the depreciable amount has been reached are to be depreciated evenly over five years from the following fiscal year.

As a result of this change, operating income of "Pulp related products segment," "Paper process products segment" and "Other segment" decreased by ¥958 million, ¥17 million and ¥22 million, respectively.

	Millions of yen					
	2007					
	Pulp related products	Paper process products	Other	Total	Corporate or elimination	Consolidated
Sales:						
Outside customers	¥ 138,201	¥ 13,791	¥ 7,000	¥ 158,992	¥ —	¥ 158,992
Intersegment	1,471	28	26,350	27,849	(27,849)	—
Total	139,672	13,819	33,350	186,841	(27,849)	158,992
Operating expenses	132,103	13,514	32,418	178,035	(28,093)	149,942
Operating income	¥ 7,569	¥ 305	¥ 932	¥ 8,806	¥ 244	¥ 9,050
Identifiable assets	¥ 240,808	¥ 13,512	¥ 20,243	¥ 274,563	¥ (5,439)	¥ 269,124
Depreciation and amortization	¥ 9,713	¥ 565	¥ 551	¥ 10,829	¥ (263)	¥ 10,566
Capital expenditures	¥ 41,114	¥ 1,191	¥ 1,420	¥ 43,725	¥ (703)	¥ 43,022

As explained in Note 2 (g), effective from the year ended March 31, 2007, the Company changed the depreciation method for pulp manufacturing and steam generator equipments located in Niigata Mill, all machinery and equipment located in Nagaoka Mill excluding fiber board manufacturing equipments, and all machinery and equipment located in the other places from the declining-balance method to the straight-line method. As a result of this change, operating income of "Pulp related products segment" increased by ¥2,713 million.

	Thousands of U.S. dollars					
	2009					
	Pulp related products	Paper process products	Other	Total	Corporate or elimination	Consolidated
Sales:						
Outside customers	$ 1,631,610	$ 173,173	$ 55,740	$ 1,860,523	$ —	$ 1,860,523
Intersegment	14,055	254	392,255	406,564	(406,564)	—
Total	1,645,665	173,427	447,995	2,267,087	(406,564)	1,860,523
Operating expenses	1,580,613	166,965	436,953	2,184,531	(406,697)	1,777,834
Operating income	$ 65,052	$ 6,462	$ 11,042	$ 82,556	$ 133	$ 82,689
Identifiable assets	$ 2,950,031	$ 165,032	$ 152,697	$ 3,267,760	$ (74,884)	$ 3,192,876
Depreciation and amortization	$ 167,596	$ 5,455	$ 7,450	$ 180,501	$ (3,949)	$ 176,552
Capital expenditures	$ 307,501	$ 10,889	$ 7,511	$ 325,901	$ (6,585)	$ 319,316

Geographic segment information

Geographic segment information is omitted due to no overseas subsidiaries and significant overseas branches.

Overseas sales information

Overseas sales information is omitted as overseas sales are less than 10% of consolidated net sales.

Note 18 - Subsequent Events

(a) Distribution of Retained Earnings

The followings are approved at the annual shareholders' meeting of the Company held on June 26, 2009:

Payment of a cash dividend of ¥6.00 ($0.06) per share to shareholders as of March 31, 2009 or a total of ¥1,276 million ($12,986 thousand).

(b) Share Exchange Agreement

On March 27, 2009, the Board of Directors of the Company resolved to implement a share exchange ("Share Exchange") with Kishu Paper Co., Ltd. ("Kishu Paper") in which Hokuetsu Paper Mills, Ltd. will become a parent of the wholly owned subsidiary and Kishu Paper will become a wholly owned subsidiary. And the Company entered into a share exchange agreement on the same date.

The outline of the Share Exchange is as follows:

(1) Name of a Wholly Owned Subsidiary Made by Share Exchange

Kishu Paper Co., Ltd.

(2) Businesses of the Wholly Owned Subsidiary Made by Share Exchange

Manufacturing, processing and sales of printing paper

(3) Purpose of the Share Exchange

The consolidation of businesses between the Company and Kishu Paper is expected to allow management to overcome problems both companies have faced. As a distinctive paper manufacturing group with lines of printing paper, white paperboard and specialty paper, the Company aims to establish overwhelming cost competitiveness and bring about synergy between both companies to the maximum extent.

(4) Schedule of the Share Exchange (Effective Date)

October 1, 2009 (planned)

(Note: Pursuant to Paragraph 3 of Article 796 of the Japanese Corporate Law [simplified share exchange], the Company is due to implement the Share Exchange without an approval of the General Meeting of Shareholders.)

(5) Ratio of Exchange

(Share allocation ratio)

The Company is due to allocate 0.195 shares of common stock of Hokuetsu Paper Mills in exchange of one (1) share of common stock of Kishu Paper held by shareholders who are registered in the list of shareholders of Kishu Paper on the day before the effective date of the Share Exchange (October 1, 2009 [planned]).

(The number of shares to be distributed in the Share Exchange)

In conducting the Share Exchange, the Company is due to distribute 1,300,000 shares of common stock (planned) owned by itself in addition to 13,762,717 shares of newly issued common stock of the Company (planned). However, the number of shares to be distributed may be changed due to the retirement of treasury stock by Kishu Paper.

(6) Basis of Calculation of the Share Exchange Ratio

In order to ensure the fairness and appropriateness of the Share Exchange Ratio, the Company appointed Credit Suisse Securities (Japan) Limited as an independent third-party assessment institution, while Kishu Paper appointed Ernst & Young Transaction Advisory Services Co., Ltd. as an independent third-party assessment institution. Both companies agreed to decide the Share Exchange Ratio after careful and repeated negotiations based on the analysis and method of calculation by respective independent third-party assessment institution.

(7) Trade Name of the Parent of the Wholly Owned Subsidiary after the Share Exchange

Hokuetsu Paper Mills, Ltd.

(Effective from October 1, 2009, Hokuetsu Paper Mills, Ltd. is due to change its name to Hokuetsu Kishu Paper Co., Ltd.)

Independent Auditors' Report

KPMG

Independent Auditors' Report

To the Board of Directors of
HOKUETSU PAPER MILLS, LTD.:

We have audited the accompanying consolidated balance sheets of HOKUETSU PAPER MILLS, LTD. (a Japanese corporation) and consolidated subsidiaries as of March 31, 2009 and 2008, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended March 31, 2009, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of HOKUETSU PAPER MILLS, LTD. and subsidiaries as of March 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2009, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion,we draw attention to the following:
(1) As discussed in Note 18 (b) to the consolidated financial statements, on March 27, 2009, the Board of Directors of the Company resolved to implement a share exchange with Kishu Paper Co., Ltd. in which Hokuetsu Paper Mills, Ltd. will become a parent of the wholly owned subsidiary and Kishu Paper will become a wholly owned subsidiary. And the Company entered into a share exchange agreement on the same date.
(2) As discussed in Note 2 (p) to the consolidated financial statements, effective from the year ended March 31, 2007, HOKUETSU PAPER MILLS, LTD. and consolidated subsidiaries adopted the accounting standards for the presentation of net assets in the balance sheet.
(3) As discussed in Note 2 (g) to the consolidated financial statements, effective from the year ended March 31, 2007, HOKUETSU PAPER MILLS, LTD. changed the depreciation method for certain machinery and equipment from the declining-balance method to the straight-line method.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 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.

Tokyo, Japan
June 26, 2009

KPMG AZSA & Co.

Subsidiaries and Affiliates

Consolidated subsidiaries

Hokuetsu Package Co., Ltd.
Uchikanda 282 Bldg. 7F, 15-9, Uchikanda 2-chome,
Chiyoda-ku, Tokyo 101-0047
Manufacturing and sale of paper containers including liquid package cartons and packaging, and processed paper products such as laminated paper, business forms and related materials; Sale of environmentally-friendly products

Hokuetsu Engineering Co., Ltd.
At Hokuetsu Paper Mills, Ltd., 57, Enoki-machi,
Higashi-ku, Niigata 950-0881
Manufacturing and sale of industrial machinery, electric instrumentation construction, and design and construction of civil engineering and buildings

Hokuetsu Trading Corporation
Sankeido Bldg. 9F, 4-3-15, Nihonbashi-Muromachi,
Chuo-ku, Tokyo 103-0022
Real estate and nonlife insurance agency businesses; Management of driving school

Hokuetsu Kami Seisen Co., Ltd.
At Hokuetsu Paper Mills, Ltd., 57, Enoki-machi,
Higashi-ku, Niigata 950-0881
Cutting, selecting, packing and loading/unloading of the Company's products

Katsuta Kami Seisen Co., Ltd.
At Hokuetsu Paper Mills, Ltd., 1760, Takaba,
Hitachinaka, Ibaraki 312-0062
Cutting, selecting, packing and loading/unloading of the Company's products

Hokuetsu Logistics Co., Ltd.
3-2-2, Hongoku-cho, Nihonbashi, Chuo-ku, Tokyo 103-0021
Transportation and warehousing of products, mainly of the Company

Hokuetsu Suiun Co., Ltd.
560-11, Shimokido, Higashi-ku, Niigata 950-0885
Transportation of the Company's products

Techno-Hokuetsu, Ltd.
At Hokuetsu Paper Mills, Ltd., 57, Enoki-machi,
Higashi-ku, Niigata 950-0811
Paper and pulp manufacturing work, industrial wastewater purification processing and waste disposal, etc.

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

Hokuetsu Forest Co., Ltd.
1529, Aza-Shimohira Yamako, Oaza-Sakamoto, Aizu Sakashita-machi, Kawanuma-gun, Fukushima 969-6586
Production and sale of gardening afforestation materials including wood chips, wood products, bark compost and sawdust for mushroom cultivation

Affiliate companies accounted for under equity method

Marudai Shigyo Co., Ltd.
Takehashi 3-3 Bldg., 3-3, Kanda Nishiki-machi, Chiyoda-ku,
Tokyo 101-0054
Processing and purchase/sale of various types of paper and chemically synthesized products

Nikkan Co., Ltd.
5-1, Nishizao 3-chome, Nagaoka, Niigata 940-0027
Manufacturing and sale of paper, stationery and chemicals, surface coating and sale of non-woven fabric and films

Hokuetsu Kyouritsu Co., Ltd.
251-1, Aza-Maedori, Nigorigawa, Kita-ku, Niigata 950-3131
Manufacturing, repair and sale of pallets, etc.

Arakai Chip Co., Ltd.
1205, Aza-Dobashi, Oaza-Kawashima, Tajima-machi, Minamiaizu-gun, Fukushima 967-0012
Manufacturing of wood chips

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

Staff Saito Co., Ltd.
2-55, Zao 3-chome, Nagaoka, Niigata 940-0028
In-house logistics, transportation of products and environmental maintenance at the Nagaoka Mill

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

Corporate Data

Overview
As of March 31, 2009

Corporate Name	Hokuetsu Paper Mills, Ltd.
Head Office	3-2-2, Hongoku-cho, Nihonbashi, Chuo-ku, Tokyo 103-0021, Japan Tel: +81-3-3245-4500 Fax: +81-3-3245-4511
Established	April 27, 1907
Paid-in Capital	¥42,021 million
Listing	Tokyo Stock Exchange, First Section Osaka Securities Exchange, First Section
Number of Employees	3,028 (Consolidated)
Annual Meeting	The annual meeting of shareholders of the Company is normally held in June of each year in Nagaoka, Niigata, Japan
URL	http://www.hokuetsu-paper.co.jp http://www.hokuetsu-kishu.jp

Offices and mills
As of September 2009

Central Research Laboratory
3-5-1, Nishi-Zao, Nagaoka, Niigata 940-0027

Niigata Mill
57, Enoki-cho, Higashi-ku, Niigata 950-0881

Nagaoka Mill
3-2-1, Zao, Nagaoka, Niigata 940-0028

Kanto Mill Ichikawa
3-21-1, Ohsu, Ichikawa, Chiba 272-0032

Kanto Mill Katsuta
1760, Takaba, Hitachinaka, Ibaraki 312-0062

Osaka Branch
4-5-17, Minami-Suita, Suita, Osaka 541-0058

Nagoya Office
1-2-11, Nishiki, Naka-ku, Nagoya, Aichi 460-0003

Niigata Office
57, Enoki-cho, Higashi-ku, Niigata 950-0881

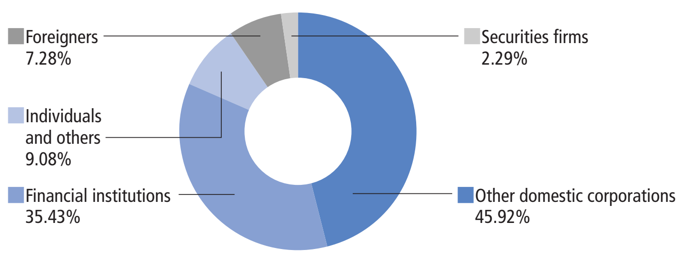
Stock information
As of March 31, 2009

Number of shares authorized	500,000,000
Number of shares issued	214,052,054
Number of shareholders	7,662

Major shareholders

Name	Number of shares held (thousand shares)	Ownership ratio (%)
Mitsubishi Corporation	51,564	24.09
Nippon Paper Industries Co., Ltd.	18,367	8.58
The Master Trust Bank of Japan, Ltd. (Trust Account)	13,111	6.13
Japan Trustee Service Bank, Ltd. (Trust Account)	9,286	4.34
Japan Trustee Service Bank, Ltd. (Trust Account 4G)	6,008	2.81
NIPPONKOA Insurance Co., Ltd.	5,992	2.80
Japan Trustee Service Bank, Ltd. (Re-trust [entrustment of trust assets from The Sumitomo Trust & Banking Co., Ltd. and Employee Retirement Benefit Trust of Oji Paper Co., Ltd.])	5,614	2.62
Mizuho Corporate Bank, Ltd.	4,697	2.19
Daio Paper Corporation	4,286	2.00
The Daishi Bank. Ltd.	4,217	1.97

Stock distribution by type of shareholder



Hokuetsu Paper Mills Corporate Philosophy

To Contribute to Society and Win Trust as an Attractive Paper Manufacturing Company

Hokuetsu Paper Mills, Ltd. has been striving to achieve sustainable development of the entire Group's business with the belief that we will contribute to life and culture in the advanced information society and respond to the expectations of all stakeholders, including customers, shareholders, business partners, local communities and employees.

Management has re-established the following corporate philosophy so that the Company can continue to create value, operate as an attractive paper manufacturing company and contribute to society well into the future.

1. The Group shall be trusted by customers, shareholders, business partners, and local communities with its fair corporate activities, in compliance with relevant laws and regulations.
2. The Group shall supply quality products and services in response to customers' requests.
3. The Group shall endeavor to create a cheerful and flexible corporate culture that serves to nurture further creativity and a challenging spirit, through mutual trust between labor and management.
4. The Group shall achieve sustainable growth by promoting management with emphasis on protecting the environment.