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HOKUETSU KISHU PAPER CO., LTD.

Annual Report 2010

Be Strong, Be Global, Be Sustainable

Annual Report 2010

Year ended March 31, 2010

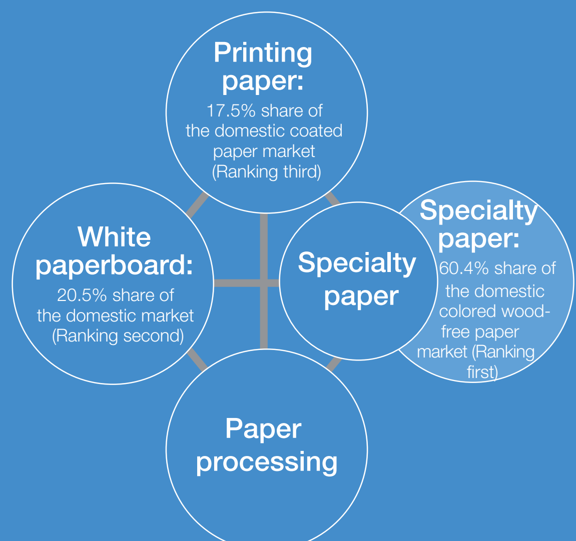
HOKUETSU KISHU PAPER CO., LTD.

For Sustainable Growth

The newly formed Hokuetsu Kishu Paper Group will pursue long-term sustainability by leveraging the advantages of business consolidation to reinforce its business foundation.

Group Synergies

Through the business consolidation, the Group can expect such synergistic effects as lower costs due to joint raw material procurement. In addition, by drastically expanding the specialty paper and paper processing businesses, the Group intends to enhance its four mainstay businesses, including the printing paper and white paperboard businesses. By doing so, the Group will further reinforce its domestic business foundation.



* Source: Japan Paper Association

Global Strategy

The Hokuetsu Kishu Paper Group is striving to expand exports to East Asian countries, particularly China, in order to meet rapidly growing demand. The Group also promoting the optimization of raw material procurement on a global scale while making effective use of Japan's largest papermaking machines such as the N-9.* By doing so, the Group aims to grow its cost-competitiveness in the overseas market.

* N-9: Operation of the N-9 began in September 2008 at Hokuetsu Paper Mills' flagship Niigata Mill, where the Group has established a highly-efficient production structure aimed at improving global competitiveness.

Contents

Profile

On October 1, 2009, Hokuetsu Paper Mills, Ltd. and KISHU PAPER Co., Ltd. consolidated their operations through a share exchange and adopted the corporate name Hokuetsu Kishu Paper Co., Ltd. Established in Nagaoka City, Niigata Prefecture, in 1907, Hokuetsu Paper Mills' three main fields of business were printing paper, white paperboard and specialty paper. Over the years, the company evolved into a company producing mainly coated paper. KISHU PAPER was founded in Minamimuro-Gun, Mie Prefecture, in 1950, with a primary business focus on such specialty paper as colored wood-free paper. Upon the business consolidation, KISHU PAPER's business philosophy to aim for the development and production of high-quality, high-value-added products was joined with Hokuetsu Paper Mills' tradition of maintaining highly efficient leading-edge facilities with relatively low environmental burdens. The new Hokuetsu Kishu Paper Group will pursue synergistic benefits by leveraging both companies' competitive edges.

- Net sales rose 6.1% year on year to ¥194.0 billion due to the expansion of the scope of consolidation through the business integration.
- On the earnings front, operating income grew 21.7% to ¥9.9 billion and net income soared 278.4% to ¥7.2 billion due to the lower raw materials and fuel prices, cutbacks in costs thanks to joint procurement and enhanced efficiencies at mills.

Consolidated Financial Highlights (Note 1)

HOKUETSU KISHU PAPER CO., LTD.
During the fiscal year ended March 31

	Millions of yen (excluding the amount per share)		Increase/Decrease	Thousands of U.S. dollars (Note 2) (excluding the amount per share)
	2010	2009	2010/2009	2010
For the year:				
Net sales	**¥193,952**	¥182,815	6.1%	**$2,084,609**
Operating income	**9,892**	8,125	21.7%	**106,320**
Net income	**7,239**	1,913	278.4%	**77,805**
EBITDA (Note 3)	**31,696**	25,846		
At year-end:				
Total assets	**¥340,970**	¥313,732	8.7%	**$3,664,768**
Total net assets	**139,989**	136,713	2.4%	**1,504,611**
Per share data:				
Net income	**¥ 34.38**	¥ 9.01	281.6%	**$ 0.37**
Cash dividends	**12.00**	12.00	0%	**0.13**
Ratio:				
Operating income ratio	**5.1%**	4.4%	—	
Net income ratio	**3.7%**	1.0%	—	
ROA (Note 4)	**2.9%**	2.2%	—	

Notes: 1. Owing to the inclusion of KISHU PAPER Co., Ltd. into the scope of consolidation as of October 1, 2009 through a share exchange, the consolidated financial settlement for the fiscal year ended March 31, 2010 included KISHU PAPER's consolidated results from October 1, 2009 to March 31, 2010.
2. Amounts in U.S. dollars were converted at ¥93.04 to one dollar, the currency exchange rate prevailing at the Tokyo Foreign Exchange Market as of March 31, 2010.
3. EBITDA = Ordinary income + interest expenses + depreciation and amortization costs - negative goodwill
Ordinary income = Operating income + Non operating income
4. ROA = Ordinary income ÷ Average total assets at the beginning and end of the fiscal year × 100

Corporate Name Definitions
In this annual report, the corporate names of the two companies are Hokuetsu Paper Mills, Ltd. and KISHU PAPER Co., Ltd. before September 30, 2009 and Hokuetsu Kishu Paper Co., Ltd. and KISHU PAPER Co., Ltd. from October 1, 2009.

Forward-Looking Statements
This annual report contains forward-looking statements that are subject to a number of risks and uncertainties. Accordingly, actual results and events could differ materially from such forward-looking statements based on information available at the time of writing. The Hokuetsu Kishu Paper Group undertakes no obligation to publicly update or revise forward-looking statements to reflect current information, events or circumstances that are unexpected to occur as of the time this report is being compiled.

Hokuetsu Kishu Paper Co., Ltd. is striving toward expanding its position overseas as a global paper supplier by leveraging its large cutting-edge facilities backed by a strong business foundation realized through the ongoing business consolidation of Hokuetsu Paper Mills, Ltd. and KISHU PAPER Co., Ltd.

Drawing on Group Strengths

Fiscal 2009 Results

During fiscal 2009, the year ended March 31, 2010, the business environment surrounding the Hokuetsu Kishu Paper Group continued to be severe, reflecting the sluggish demand conditions for its mainstay coated paper that have prevailed in Japan since fiscal 2008. Against this backdrop, the Group suspended production at the Nagaoka Mill, Kanto Mill Ichikawa and KISHU PAPER's Osaka Mill as part of efforts to substantially scale back the manufacture of products for the domestic market in order to reflect adjustments in the supply and demand balance. On the other hand, based on the N-9 (No. 9 papermaking machine) plan, the Group began expanding exports to meet increasing demand for paper in Asia. As a result, net sales rose 6.1% year on year to ¥193,952 million due to the inclusion of the KISHU PAPER Group's results into the scope of consolidation.

On the earnings front, operating income grew 21.7% year on year to ¥9,892 million, income before income taxes and minority interests surged 105.9% to ¥8,738 million, and net income jumped 278.4% to ¥7,239 million. Contributing to these results were the enhancement of productivity, including through improved fuel efficiency despite the impact of falling raw materials and fuel prices; six months of revenues totaling approximately ¥1,000 million from KISHU PAPER Group; and negative goodwill incurred from the share exchange.

The operating income ratio recovered from 4.4% to 5.1%, and ROA increased from 2.2% in the previous fiscal year to 2.9%. Given these figures, the Group's profitability is steadily improving.

Business Consolidation and Its Effects

Since initiating the business consolidation, the Group has been striving to establish a reinforced corporate structure. Only six months down the road, such efforts are already bearing fruit.

Initially, we anticipated a synergy effect of ¥400 million in the fiscal year under review, but the actual figure turned out to be ¥766 million, well beyond our expectations. A breakdown of this figure includes ¥119 million in production from improved productivity and reduced costs for repair and maintenance, raw materials and shipping; ¥506 million in procurement from reduced costs due to the sharing of chip ships and joint procurement of raw materials; and ¥126 million in the administration and management from the streamlining of operations through office transfer and integration as well as the improvement of the financial account balance.

In April 2011, the merger with KISHU PAPER, completing the business consolidation, will be fully realized. Amid intensifying global competition, we concluded that we needed the two companies to fully integrate if we were to effectively utilize both companies' management resources and eliminate inefficient businesses to carry out across-the-board management strategy. With regard to the synergy effect of the completed business consolidation, we are aiming for ¥2,700 million in fiscal 2012 ending March 31, 2013.

“Even though it has been only six months since the business consolidation, the Hokuetsu Kishu Paper Group is already recording a synergy effect. Aiming to build a firm business foundation, we will strive to further rationalize and nurture complementary businesses. We will also pursue the best possible utilization of human resources for the entire Group.”

> With the aim of achieving sustainable growth, the Hokuetsu Kishu Paper Group will focus on business development on a global scale as well as on continuous and effective CSR activities.

Securing Sustainable Growth

Expanding Exports

Aiming to cultivate and expand in overseas markets, we commenced the operation of N-9, Japan's largest papermaking machine, in 2008. This allowed us to further reinforce our global market cost-competitiveness. Once operations began, however, we confronted an unexpected drop in demand and, accordingly, had to partially shut down production facilities and significant reduce production for the domestic market.

In the midst of global economic recovery centering on China, we were able to expand exports to meet overseas demand, mainly from Asia, in accordance with plans initiated along with the installation of the N-9. Simultaneously, in pursuit of achieving across-the-board cost reductions, including land transportation costs, we began to ship products manufactured in the Niigata Mill that had previously gone through Yokohama Port from Niigata Higashi Port instead. We will make continuing efforts to improve export profitability.

Given the growth potential of paper demand in Asia, our Asian competitors are also striving to increase production. However, most competitors in China and South Korea merely procure pulp from suppliers and do not handle the entire manufacturing process. Therefore, their production costs are likely to be influenced by pulp market conditions. Our advantage with regard to overseas business development is an integrated manufacturing system that, using wood chips as a raw material, covers everything from pulp production to high-quality paper production. This gives us a competitive edge in the Asian market despite shipping from the relatively minor port of Niigata. We expect to make steady progress in domestic sales while establishing a highly efficient production structure through export expansion. Backed by this reinforced business structure, we will strive to further strengthen every aspect of our international competitiveness, including cost efficiency, customer satisfaction and quality.

CSR Activities

Positioning CSR activities as one of its challenges for sustainable growth, the Hokuetsu Kishu Paper Group established a Group CSR Committee chaired by the president to proactively set annual objectives.

We also created the position of Chief Compliance Officer under the direct control of the president and hold compliance officer meetings to carry out various compliance measures. Under this framework, the Group will make sure that all employees are thoroughly aware that compliance is an absolute requirement in all corporate activities and the conduct of business operations.

To this end, we believe it is important to both build a relationship of trust with our employees and boost motivation at worksites. Accordingly, we decided not to downsize even in the midst of weak demand, instead promoting the more effective use of personnel by positioning optimization.

In terms of environmental burden, we have proactively carried out investment in environment protection measures aimed at switching over energy resources from heavy oil to natural gas, which emits less CO_2, at the Kanto Mill Ichikawa, Nagaoka Mill and Niigata Mill and to biomass at the Kanto Mill Katsuta.

Furthermore, we expanded the overseas afforestation project in consideration of the fact that over 90% of our chips are imported. By doing so, we increased the supply from our own forest resources and thus secured the stable procurement of raw materials while promoting environmental preservation.

Dividend Policy

Hokuetsu Kishu Paper considers that securing stable shareholder returns while proactively promoting business development from a long-term perspective and reinforcing and expanding corporate structure is one of its important management policies.

Based on this policy, we decided on a year-end dividend of ¥6 per share (¥12 for full year), which is on par with the previous fiscal year.

During the fiscal year under review, total assets increased due to the business consolidation with KISHU PAPER and fund procurement for capital investment involving the N-9, which lasted until the previous fiscal year. However, we maintained a capital ratio of 40.8%. Now that the capital investment phase is complete, we can further consolidate our financial ground. Together with this effort, we will reduce interest-bearing debt from ¥134,850 million as of March 31, 2010 to ¥117,000 million at the end of the current fiscal year.

Spirit of Mutual Cooperation

We have pursued business activities based on a belief that a third force could lead the paper industry to healthy development. KISHU PAPER agreed with our vision. Thanks to this, we realized the business consolidation and embarked on a new path as such a third force.

The new corporate name, Hokuetsu Kishu Paper Co., Ltd., summarizes this business consolidation. I believe that our Groupwide attitude toward work shows a "spirit of mutual cooperation" that goes beyond the differences between two companies' corporate cultures and values. This means we will have increasing opportunities to learn new ways of thinking, ideas and knowledge. Through active discussion and the integration of knowledge and strength, we will create a new corporate culture as "Hokuetsu Kishu Paper."

Through this business consolidation, we are increasingly confident in our future vision to become the global paper company that supplies products to Japan as well as to the world, particularly in the Pacific Rim region. Growing out of the traditional business model of a paper company that relies only on domestic demand, we will strive to secure sustainable growth as a global paper company that is internationally competitive.

We sincerely ask for stakeholders' continued support and understanding.

Sekio Kishimoto
President and CEO

> The new corporate name Hokuetsu Kishu briefly represents this business consolidation. I believe that our Groupwide attitude toward work shows a "spirit of mutual cooperation" that goes beyond the differences between two companies' corporate cultures and values. Underpinned by this spirit, we will aim for the further growth of the entire Group.

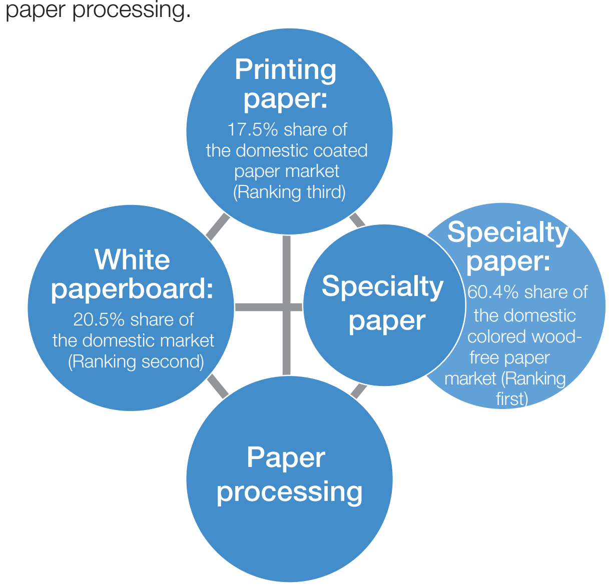
Group Synergies

Created through the business consolidation of Hokuetsu Paper Mills, Ltd., which is located in eastern Japan and boasts a competitive edge attributable to an efficient production structure, and KISHU PAPER Co., Ltd., which is located in western Japan and boasts advanced technologies as well as high-quality specialty paper capabilities, the Group enjoys a strong and growing domestic market presence. The business consolidation has brought not only this strength but wide geographical coverage due to the complementary distribution of the two companies' operations. Moreover, the consolidation has enabled the Group to establish a rational and firm corporate structure in which business is developed through the exchange of technology and information, reduction of costs and integration of business functions.

Four Core Businesses

Printing Paper, White Paperboard, Specialty Paper, Paper Processing

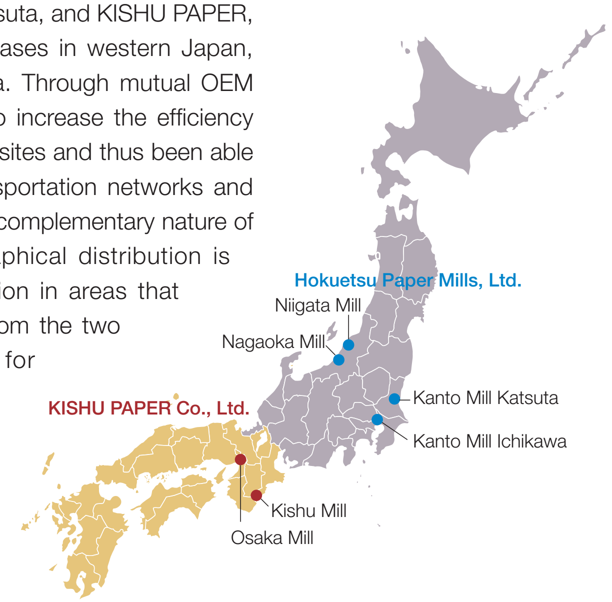
Despite its strength in the coated paper and white paperboard fields, Hokuetsu Paper Mills fell short in addressing needs in the non-coated paper and specialty paper markets. On the other hand, KISHU PAPER enjoyed an advantage in the specialty paper field that was complementary to Hokuetsu Paper Mills' operations. Therefore, the two companies decided to merge and thereby enable the reinforcement of their paper businesses while expanding the range of products on offer by setting up four mainstay product lines: printing paper, white paperboard, specialty paper and paper processing.



A Complementary Geographical Situation

Hokuetsu in Eastern Japan + KISHU in Western Japan

There is a complementary relationship between Hokuetsu Paper Mills, which operates its Niigata Mill and other production bases in eastern Japan, including in Nagaoka, Ichikawa and Katsuta, and KISHU PAPER, which operates production bases in western Japan, including in Kishu and Osaka. Through mutual OEM efforts, we have been able to increase the efficiency and distribution of production sites and thus been able to eliminate overlapping transportation networks and reduce costs. In addition, the complementary nature of the two companies' geographical distribution is helping raise brand recognition in areas that previously were too distant from the two companies' separate mills for proper market coverage. As a result, the Group is coming to enjoy a strong presence nationwide.




Kishu Mill

Achieving Synergies

An Effect of ¥2,700 Million Expected in Fiscal 2012

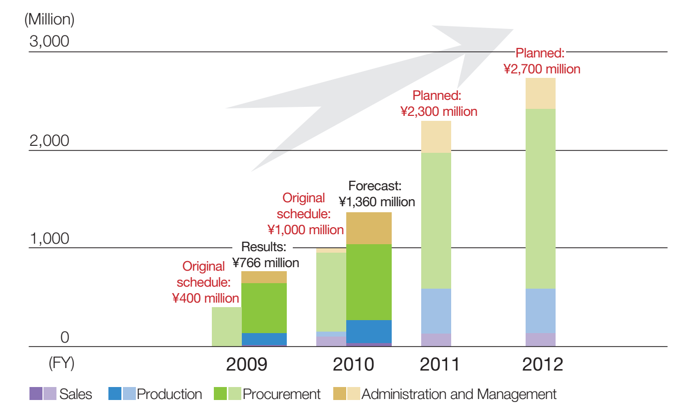
Since the business consolidation, Hokuetsu Kishu Paper has been striving to maximize structural synergies in sales, production, procurement and administration. In fiscal 2012, ending March 31, 2013, the Group expects the impact of these synergies to amount to approximately ¥2,700 million, ¥1,800 million of which will be attributable to the streamlining of our procurement structure.

In fiscal 2009, the first year of operations following the business consolidation, the overall synergistic impact turned out to be worth ¥766 million and came mainly from KISHU PAPER's utilization of Hokuetsu Kishu Paper's chip ships as well as joint materials procurement.

In fiscal 2010, the Group anticipated that the integrated procurement structure would yield synergistic benefits equivalent to ¥1,360 million, topping the ¥1,000 million originally scheduled. Having achieved business consolidation in its first year, the Group will continue to expect a substantial synergistic effect from its joint material procurement system and the mutual exploitation of Hokuetsu Kishu Paper's chip ships in addition to synergies yielded by the consolidated administration and management structure, which includes integrated offices and an improved financial account balance. Furthermore, we anticipate a larger synergy effect from streamlined production systems, which will greatly contribute to the Group's business in the future.

Aggressively pursuing further synergistic benefits, the Hokuetsu Kishu Paper Group will continue to enhance cost-competitiveness.

Synergy Effect (Planned and Results)



(Million)

	(FY)	2009	2010	2011	2012
Sales	Integrated marketing bases Reducing distribution costs through mutual OEM efforts Streamlining of existing product lineups	15	33	131	133
Production	Supply pulp from the Niigata Mill to Kishu Mill Cutback in repair costs due to the efficient utilization of Group subsidiaries Sharing of spare parts Installing a pulp making machine in the Kishu Mill Reducing materials	119	234	456	456
Procurement	Joint utilization of Hokuetsu Kishu Paper's chip ships Joint materials procurement Reviewing kinds of chip materials	506	771	1,380	1,830
Administration and Management	Reducing administration costs at Tokyo Headquarters and other offices Reducing costs for listing of stocks and audit Improving financial account balance System integration and other measures	126	326	328	314
Total synergy effects		766	1,364	2,295	2,733

(Note) Fiscal 2009: results; fiscal 2010: forecasts; fiscal 2011 and 2012: planned

Global Strategy

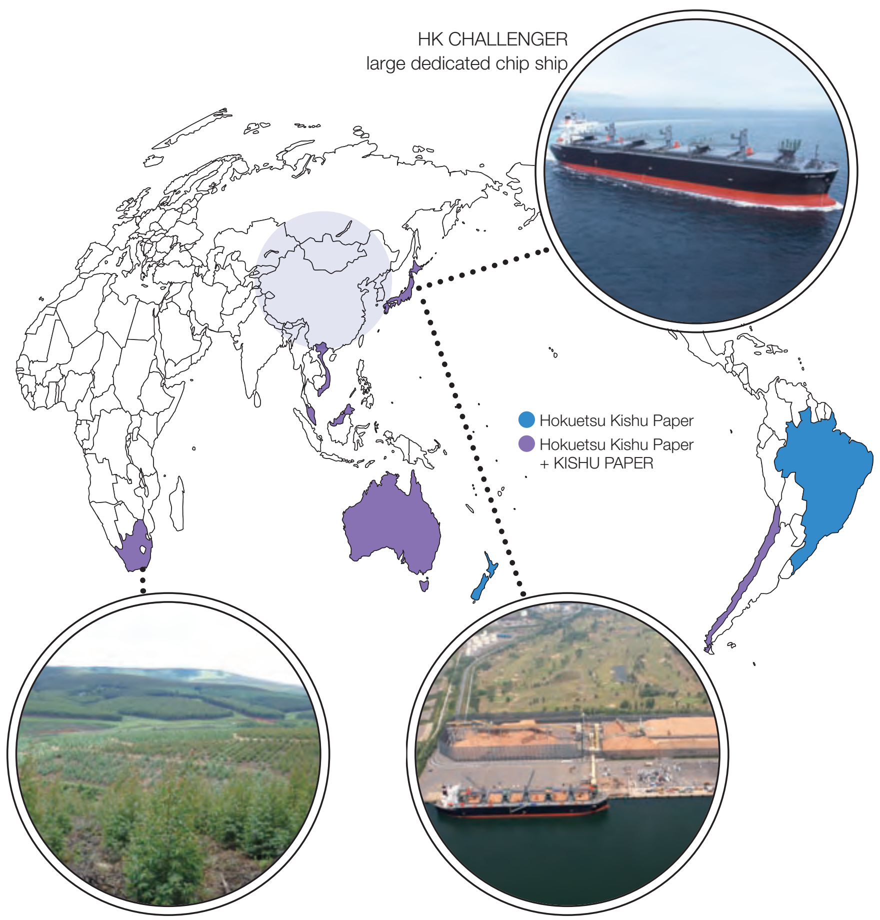
The Hokuetsu Kishu Paper Group is striving to expand exports with a focus on the Asian paper market, which is burgeoning due to growing demand for printing paper. At the same time, more than 90% of chips, the Group's principal raw material, is imported. In order to secure the sustainable procurement of chips, the Group engages in a range of activities worldwide, including afforestation in South Africa, the joint procurement of materials, the consolidation of mills in seaside districts and the optimization of distribution. In addition, the Group is aiming to build both the cost and environmental aspects of international competitiveness by leveraging its possession of the largest papermaking machine in Japan.

Raw Materials Procurement Optimization

Over 90% of the chips the Group uses are imported. To ensure a good balance of material quality, supply efficiency and stable procurement, the Group sources chips mainly from Brazil, Chile and South Africa. Chips from Brazil are acacia, those from Chile are eucalyptus and those from South Africa are both acacia and eucalyptus, and all are imported from local chip factories. At the same time, we ensure that wood resources are maintained in accordance with well-designed afforestation plans and that traceability is assured. In 2008, the Group established a joint venture exclusively devoted to afforestation in South Africa. As of March 31, 2009, this joint venture had expanded the forested area it handles 162% compared with 2008.

On the transportation front, Hokuetsu Kishu Paper possesses 12 dedicated ships for chips and is conducting efficient transportation by sharing them with KISHU PAPER.

Chips are collected and stored in a yard located in Niigata Higashi Port by dedicated ships from chip factories across the world. The yard's quayside facility for unloading cargos directly from ships can store chips equivalent to approximately a one-month supply for the Niigata Mill. Located 23 kilometers away from Niigata Mill, this yard is for the Company's private use, and trucks transport a constant supply every day.



Tree-planting business in South Africa

Chip yard at Niigata Higashi Port

Niigata Mill

Expanding Exports

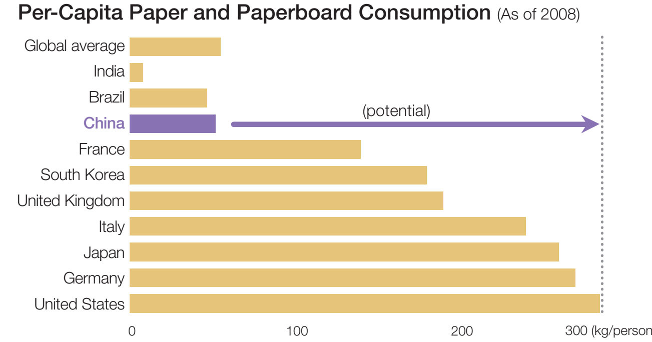
With Strengthened Cost-Competitiveness, Embarking on Businesses in Growth Markets

Rapidly Growing Asian Markets, Including China

Despite stagnant demand for paper in the Japanese market, there are signs of rapid demand growth overseas, mainly in such Asian countries as China. Although China's overall paper consumption now rivals that of the United States, its per capita consumption still remains merely one fourth of that of Japan. Therefore, there is a large growth potential in the Chinese paper market.

Responding to growing demand in Asian countries, including China, the Company has strived to strengthen its cost-competitiveness in order to enhance its export ratio, which was approximately 10% in fiscal 2009. Such efforts are mainly supported by its lineup of on-machine coaters, including the Niigata Mill's N-9, which is Japan's largest machine for the manufacture of coated printing paper and capable of the high-speed handling of all processes online. Boasting an annual production capacity of 1.4 million tons, the Niigata Mill is one of a few paper mills worldwide with an annual production capacity of over one million tons. In fact, the Company boasts Japan's top production capacity in terms of printing and communication paper (according to the "2009 Production Ranking by Paper Company" of the Japan Paper Association). Hokuetsu Kishu Paper will make every effort to further enhance the cost-competitiveness of its large-scale, cutting-edge facilities while striving to improve its facility utilization ratio by increasing exports. By doing so, the Company will gain competitive superiority in the market.

Per-Capita Paper and Paperboard Consumption (As of 2008)



Data: RISI 2008

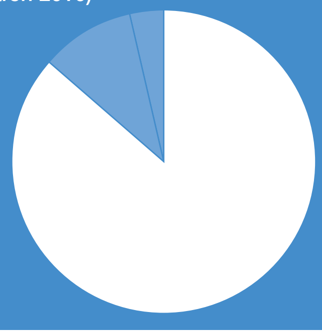
From Niigata Higashi Port to the World

The Niigata Mill is ideally located to directly respond to needs in the Tokyo metropolitan area as well as for shipping products overseas from Niigata Higashi Port. Meeting domestic needs, the Company dispatches approximately 30% of total production directly to the Tokyo metropolitan area via a private railway adjacent to the mill. In addition, Niigata Higashi Port boasts accessibility to eastern Asia's northwestern Pacific region. In recent years, industrial exports to Asian countries have been growing across the board. Amid such trends, approximately 70% of Hokuetsu Kishu Paper's exports were shipped from Niigata Higashi Port in 2009, while approximately 80% of Hokuetsu Paper Mills' exports were dispatched from Yokohama Port in 2006. With its base at Niigata Higashi Port, Hokuetsu Kishu Paper will exercise competitive advantages in terms of costs and export shipping times.

At a Glance

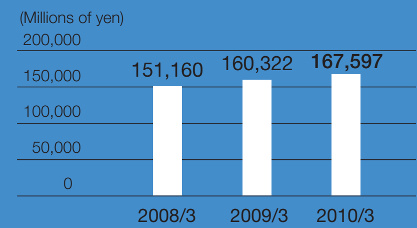
Pulp-related Products Business

Sales Revenue Ratio (March 2010) 86.4%



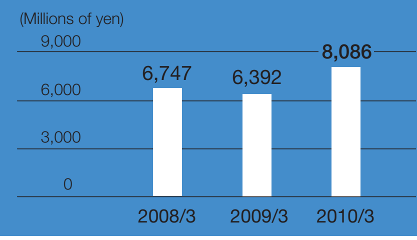
Net Sales

¥167,597 million
(YoY) +4.5%



Operating Income

¥8,086 million
(YoY) +26.5%



Main Products

Hokuetsu Kishu Paper Co., Ltd.

Printing paper: Coated paper, lightweight coated paper, bit light coated paper, wood-free paper, ground wood paper

White paperboard: Cast-coated paper, art-post paper, ivory board, cardboard, coated duplex board

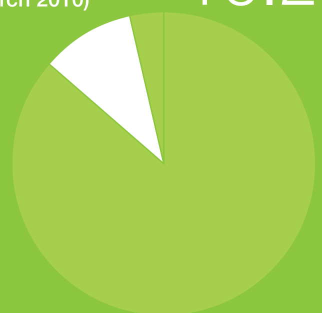
Specialty paper: IT-related materials, industrial paper, communications paper, design paper, mixed materials for molding use, specialty fiber board

KISHU PAPER Co., Ltd.

Wood-free paper
Colored wood-free paper
Wrapping paper
Specialty coated paper

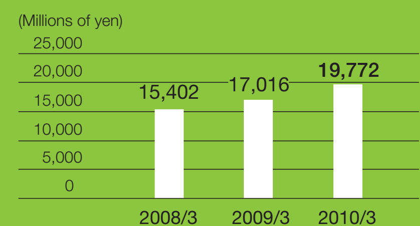
Processed Paper Products Business

Sales Revenue Ratio (March 2010) 10.2%



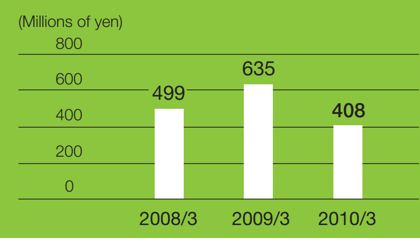
Net Sales

¥19,772 million
(YoY) +16.2%



Operating Income

¥408 million
(YoY) -35.7%



Main Products

Hokuetsu Package Co., Ltd.

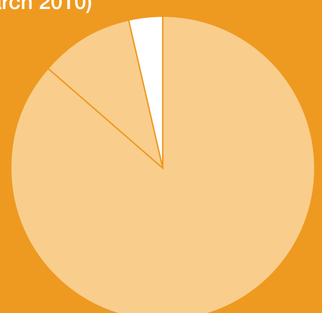
Liquid package cartons
Laminated paper
Design packages
Business forms
Functional materials
Environmentally friendly products

BF Co., Ltd.

Business forms
DPS
RFID
Various printing services

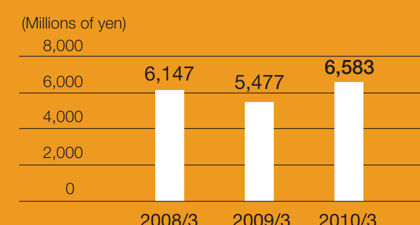
Other Business

Sales Revenue Ratio (March 2010) 3.4%



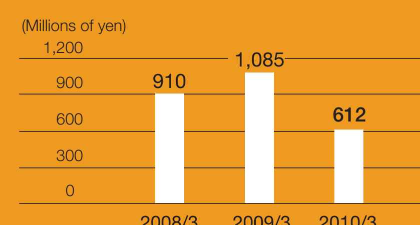
Net Sales

¥6,583 million
(YoY) +20.2%



Operating Income

¥612 million
(YoY) -43.6%



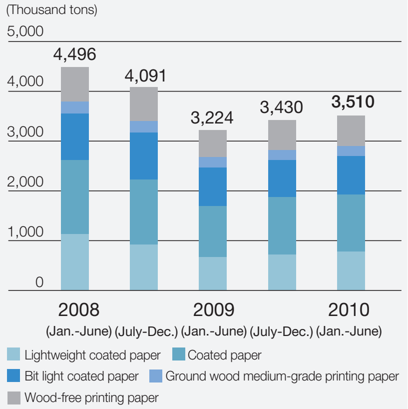
Main Products

Wood products business
Construction business, manufacturing, sales, installment and maintenance of machinery
Transportation and warehousing business
Others

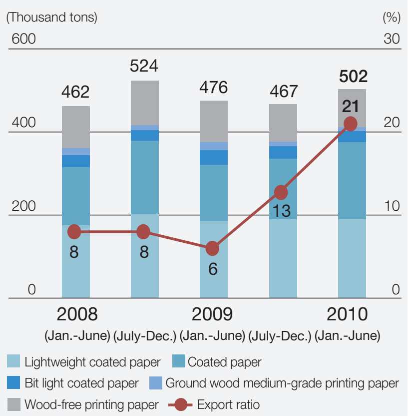
Printing Paper

Pulp-related products business

Domestic Production by Paper Type



Hokuetsu Kishu Paper's Production by Paper Type



N-9 winder

Business Environment

The Group's printing paper business products consist of printing and communications paper, especially types used for books, magazines, catalogues and advertisements. The Group has 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 mainly at the Niigata Mill. In addition to domestic sales, the Group focuses on exporting its mainstay products of A2 and A3 coated paper and lightweight coated paper to Asia, North America and Oceania.

Amid ongoing sluggish demand in the Japanese market, gross domestic demand for paper and paperboard in 2009 declined 9.3% year on year to 27,872 thousand tons.* Domestic demand for printing and communications paper, which accounts for the largest percentage of sales in the paper and paperboard category, was down 11.0% year on year to 10,113 thousand tons,* and it remained weak in the first half of 2010. The export market, on the other hand, showed steady recovery, mainly in Asia, from summer 2009 through the first half of 2010 (January-June).

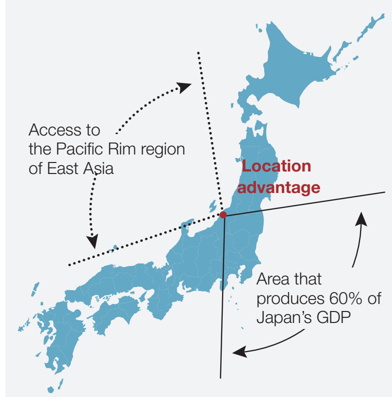
Domestic production of printing and communications paper in 2009 dropped 20.7% industrywide from the previous year due to an increase in the volume of paper imports. Despite the harsh market conditions, the Group was able to keep its own decrease in the production of printing and communications paper to only 4.2% year on year largely thanks to its efforts to expand exports. In 2008, the Group's exports amounted to approximately 80,000 tons and 7% of production. In 2009, exports expanded to approximately 100,000 tons and 10% of production, with growth in the first half of 2010 reaching 100,000 tons and 21%.

In 2010, the Group anticipates that domestic demand will either remain on par with the previous year or show a slight increase. However, we expect growth in Asian markets. The Group must further reinforce its cost-competitiveness overseas if it is to be able to succeed in the face of rising prices for crude oil, pulp and chips, further yen appreciation and stepped up production among competitors in China and South Korea.

* Source: Japan Paper Association

N-9 (Niigata No. 9 papermaking machine)

Value Chain in Niigata



Strategies and Policies

Securing stable earnings in the Japanese market by improving quality and services while aiming for business growth through growth in export markets

Strengthening Domestic Sales

To ensure that the new products it releases meet customer needs the Group is implementing proposal-based marketing in collaboration with its sales agents. One of the distinctive characteristics of the Group's business is that many of its clients enter into long-term contracts. Therefore, the most important thing to secure stable earnings in the domestic market is to maintain a sustainable, long-term relationship of trust with customers. In pursuit of this, the Group's sales approach is flexible, ranging from the offering of such products as highly popular thin paper, pure white paper and highly opaque paper to the presentation of proposals on ways for customers to reduce costs.

Strengthening of Overseas Sales

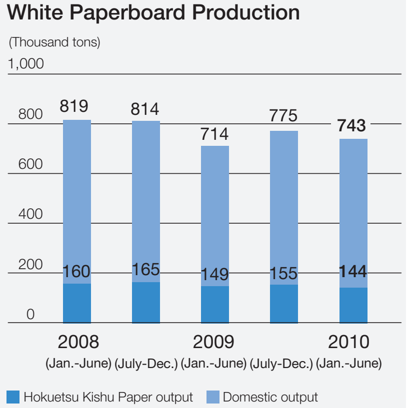
The Group has been expanding exports by consistently offering products that meet quality requirements in the Asian market at appropriate prices. In its overseas marketing activities, the Group works side by side with such local sales agencies as trading companies. Through these activities, the Group is making continuing efforts to expand sales in existing markets as well as to cultivate new markets in new areas.

In addition, the Group is striving to realize low-cost operations even outside production sites in order to secure its competitiveness against overseas companies. For example, it has transferred 70% of its shipping to Niigata Higashi Port, significantly reducing shipping costs and transit times to Asian countries compared with when Yokohama Port is used. The Group also endeavors to improve its operational system encompassing receiving and placing orders, storing goods at port warehouses, and shipping and distribution.

White Paperboard

Pulp-related products business

White Paperboard Production



Ichikawa No. 5 papermaking machine

Katsuta No. 1 papermaking machine

Business Environment

In the Group's white paperboard business, the main products are ivory board, cardboard and duplex board, which are manufactured at the Niigata Mill, the Kanto Mill Ichikawa and the Kanto Mill Katsuta. White paperboard is used for various applications, from packaging and such commercial printed matter as catalogues, pamphlets, displays and postcards to book covers, text paper and converting paper.

Domestic demand for paper and paperboard decreased 9.3%, while demand for white paperboard decreased 7.4%. In 2009, domestic production of white paperboard, decreased 8.9% year on year to 1,490 thousand tons. The Hokuetsu Kishu Paper Group, however, succeeded in restraining the decrease in its own production of white paperboard to a relatively moderate 6.3% fall to 305 thousand tons.

As the market now stands, demand for white paperboard is stagnant for publication use while that related to daily-use products and industrial use remained relatively strong. Given the relative stability of the market, the Group is able to supply white paperboard to such customers as publishers and pharmaceutical- and food-related companies, all of which can be expected to issue new and continuing orders.

* Source: Japan Paper Association

Strategies and Policies

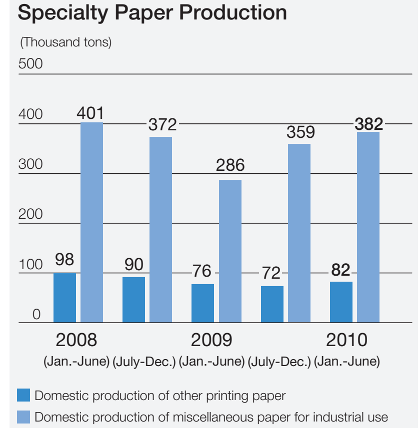
Securing earnings by maintaining stable domestic market

Against a backdrop of increasing demand for lower costs and shorter delivery times, in recent years customers have been shifting from an emphasis on high quality to a focus on reasonable prices. Despite this shift, however, demand for imported paper is still limited, reflecting users' preference for quality over price. As one of Japan's leading white paperboard manufacturers, the Group has geared its operational structure to respond to customers' requests in line with its policy—deliver the right product at the right time and in the right quantity. At the same time, the Group conducts proposal-based marketing to meet specific customer needs in diverse fields. In particular, the Group is focusing on expanding orders for products for use in the field of publication, for example, periodicals, and the daily life and industrial use fields, for example, food cups. In addition to these efforts, the Group will focus on cultivating new customers in fields that are relatively unaffected by market conditions and can expect sustainable demand while striving to acquire more orders in collaboration with sales agencies and printing companies.

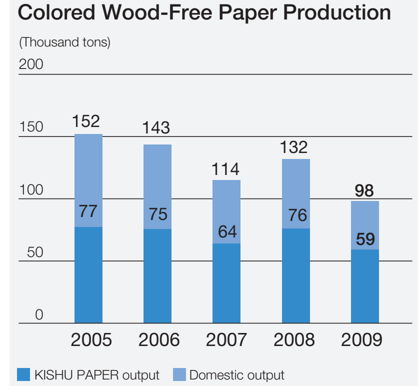
Specialty Paper

Pulp-related products business

Specialty Paper Production



Colored Wood-Free Paper Production



Nagaoka No. 6 papermaking machine

KISHU PAPER's colored wood-free paper

Business Environment

In the Group's specialty paper business, the Nagaoka Specialty Paper Division handles everything from development to manufacturing and sales. The Nagaoka Mill has an operational structure capable of meeting a wide variety of needs in the fields of industrial paper, communications paper, wood-free printing paper, fancy paper and hard fiberboard. With the inclusion of KISHU PAPER Co., Ltd. into the scope of consolidation, the Group's lineup of specialty paper has been further reinforced.

The specialty paper business continues to face harsh conditions. Although demand for miscellaneous paper for industrial use has steadily recovered since the second half of 2009, demand for other specialty printing paper remained sluggish. Specifically, domestic production of other specialty printing paper increased 7.5% year on year, while that for miscellaneous paper for industrial use in the first half of 2010 (January-June) grew 33.7%*.

On the other hand, KISHU PAPER's mainstay colored wood-free paper saw production decrease in the last few years. In 2009, the production fell even further, and it is expected to remain at the same level in the first half of 2010. Despite the circumstances, KISHU PAPER's market share is increasing thanks to its name recognition as a leading manufacturer of colored wood-free paper and wide production lineup.

* Source: Japan Paper Association

Strategies and Policies

Aiming to establish a new growth strategy as one of the four mainstay businesses

Given the high percentage of other specialty printing paper in its specialty paper business, the Group is considering taking another step in business reform by rearranging this segment's sales composition. For fancy paper, which boasts a wide range of applications, the Group needs to proactively create demand rather than wait for market recovery. Therefore, the Group is concentrating on the development of new products that can serve as new driving force.

Furthermore, KISHU PAPER's business in the specialty paper field is well-established and the company maintains a proprietary dealership system for colored wood-free paper. Given this, the Group is planning to make effective use of KISHU PAPER's marketing channels for specialty paper manufactured at the Nagaoka Mill. Specialty paper requires a highly specific approach to sales and KISHU PAPER's marketing channels offer advantages on the sales front as well as important tools for research into market needs in order to ensure efficient product development.

Processed Paper Products Business


Processed paper

Liquid package cartons

Business Environment

In the processed paper products business, Hokuetsu Package Co., Ltd., a subsidiary, manufactures and sells liquid package cartons, decorated packages (paper containers), processed paper (laminated paper), functional processing materials (paper, film), business forms and various environmentally friendly products. The Group's mainstay liquid package cartons boast the second largest share of the domestic roof-shaped carton market under the Tohei Pak brand. This type of carton is used for milk, milk-based beverages, soft drinks and fruit juice drinks. The Group manufactures and supplies products to customers in accordance with stringent quality controls. The inclusion of BF Co., Ltd., a KISHU PAPER subsidiary, into the scope of consolidation during the fiscal year under review increased the Group's capabilities in the information management field, including business form and digital printing.

In fiscal 2009, sales in this segment increased due to the inclusion of half of BF's sales. However, both Hokuetsu Package and BF recorded decreased income. On the earnings front, profit decreased due to increased fixed costs, reflecting weaker orders for package, film and data printing due to economic recession as well as increased depreciation and amortization because of the installation of new printing machines.

Strategies and Policies

Overall strengthening of quality, production and sales and pursuit of Group synergies

In the processed paper products business's mainstay liquid package carton operations, the Group aims for improved earnings with reinforced quality and production management, efficient production by means of new printing machines and an enhanced lineup of high-value-added products. In addition, the Group is planning to develop overseas businesses centered on China, where it has joint ventures.

In the processed paper products and functional products businesses, the Group will work in cooperation with customers to develop differentiated and new products.

Furthermore, Hokuetsu Package and BF jointly launched a Synergy Development Committee to further pursue Group synergies. As part of the Committee activities, the two companies are promoting personnel exchanges as well as strengthening production collaboration in their common Business Form Division. By doing so, the two companies will complement each other's business fields to meet wide-ranging demands of customers in the form printing (hardware side) and the information management and printing (software side) industries.

Other Businesses


Pulp processing equipment


Suita Golf Center

Business Environment, Strategies and Policies

In the Group's other businesses, Hokuetsu Forest Co., Ltd. and Kishu zorin Co., Ltd. handle the wood materials business; Hokuetsu Engineering Co., Ltd. engages in civil engineering, manufacturing, sales and the installment and maintenance of machinery; and Hokuetsu Logistics Co., Ltd. conducts warehousing and transportation; Hokuetsu Trading Corporation and Kishu Kohatsu Co., Ltd. are involved in the management of driving schools and golf practice ranges.

During the fiscal year under review, the Group recorded increased income thanks to the inclusion of income from KISHU PAPER subsidiaries. Nevertheless, due to a decrease in the number of civil engineering-related orders the Group recorded fall off in profit.

In the wood materials business, the Group established a wood chip production plant in the Miyanosato industrial estate in Hitachi Ota City, Ibaraki Prefecture, to produce fuel chips at a wood material recycler for delivery as fuel for a biomass boiler at Hokuetsu Kishu Paper Co., Ltd.'s Kanto Mill Katsuta. In addition, in response to the Kanto Mills' increasing demand for fuel chips, the Group constructed a second woodchip warehouse in April 2010 to promote the development of stable supply foundation.

In the logistics business, the Group established the Ichikawa No. 2 Warehouse on the premises of the Kanto Mill Ichikawa. Also, with the aim of improving storage efficiency and logistics quality, the Group disposed of the No. 2 papermaking machine as well as the cast-coater previously employed on the site as part of its "Kanto Mills Structural Reform" project.


Miyanosato chip warehouse


Ichikawa No. 2 Warehouse

Continually Working to Improve Corporate Governance and Compliance

The Hokuetsu Kishu Paper Group has positioned the long-term sustainable growth of corporate value as its most important management objective and promotes the development of appropriate corporate governance structure. In line with its corporate philosophy of "The Group shall work to deserve the trust of customers, shareholders, business partners, and local communities through fair and transparent corporate activities undertaken in compliance with laws and regulations," the Group aims to satisfy all stakeholders.

Board of Directors and Business Execution Structure

The Group has a business structure comprising a Shareholders' meeting, Board of Directors, and Board of Corporate Auditors and conducts internal audits in accordance with Japan's Corporation Law.

The Board of Directors currently comprises 14 directors. In addition to holding regular monthly meetings, the Board of Directors convenes extraordinary meetings when necessary to rule on important business execution matters and monitor management activities.

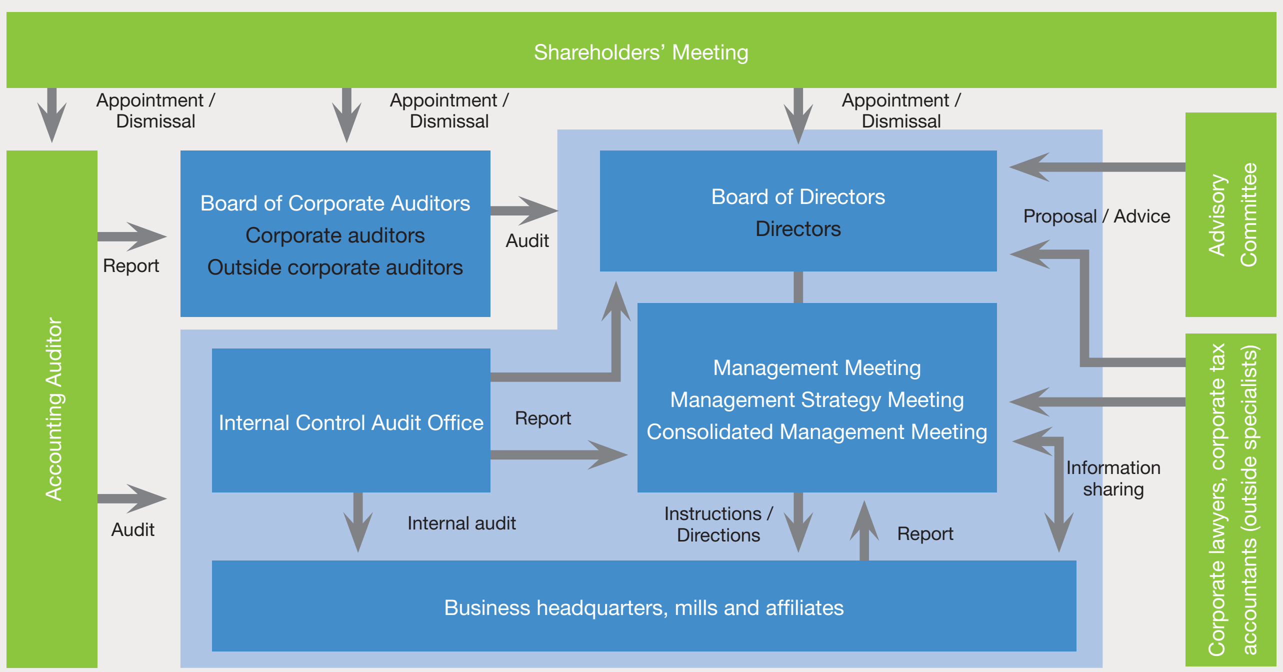
In addition, every month with the participation of the general managers of relevant divisions, the Management Meeting deliberates on business execution and the Management Strategy Meeting reviews business performance. Furthermore, the Group convenes a Consolidated Management Meeting once every six months with that is attended by the presidents and other top management of Hokuetsu Kishu Paper and its subsidiaries and affiliated companies, in pursuit of reinforced consolidated management.

Enhancement of Management Monitoring Structure

To secure the objectivity and neutrality of management monitoring, the Group set up the Board of Corporate Auditors, comprising four members that include two completely independent outside corporate auditors. Corporate auditors attend important meetings, such as Board of Directors' meetings and Management Meetings, in addition to conducting proactive audits to confirm appropriate management and adherence to laws by Hokuetsu Kishu Paper and its subsidiaries. In addition, the Group has appointed one outside director to participate in decision making with regard to important management issues and the supervision of business execution.

In this way, the Group has realized a governance structure that enables accurate and prompt decision making. Together with this, the Group has appointed an outside director and two completely independent corporate auditors who perform the role of auditing important management decisions and business execution. Together with this, the Group has established an advisory committee of outside experts who provide the Board of Directors with multi-dimensional and objective advice.

Company Organization and Diagram of Internal Control



Internal Control System

In accordance with Japan's Corporation Law, the Group has set up basic policies regarding the development and operation of an internal control system focusing on compliance and risk management.

Based on an understanding of compliance as "fair and transparent corporate activities with respect for social rules and conventional wisdom, with all directors and employees complying with domestic and international laws and regulations as well as various in-house rules," the Group established the "Hokuetsu Kishu Paper Group Compliance Rules." In tandem with maintaining this structure, the Group formulated its scope of ethics as a code of conduct to be shared by officers and all employees (Basic Code of Conduct). In addition, a Chief Compliance Officer has been appointed under the direct control of the president and we are aggressively conducting educational activities at worksites and compliance meetings together with each Group company. As a result, compliance awareness throughout the Group is steadily increasing and various compliance measures are being implemented on a Companywide level.

The Group has also established the Internal Control Audit Office. Based on regulations, internal audits that cover compliance status are implemented and audit results are reported to the Board of Directors and Management Meeting, with reports made to standing auditors. Moreover, the internal audit divisions, corporate auditors and accounting auditors convene regular meetings or on an as needed basis to report their findings and exchange information supplementing their audit reports. By working closely together, a structure is maintained whereby risks are understood and countermeasures promptly executed.

The Group strives to raise the awareness of each and every employee through a Compliance Hotline for the purpose of issuing compliance violation notifications and creating compliance cards. Along with these efforts is a structure that enables a direct understanding of internal risk information.

Internal Control on Financial Reporting

In accordance with the Financial Instruments and Exchange Law that took effect from fiscal 2008, ended March 31, 2009, the Group has been promoting the development of an internal control system covering financial reporting under the leadership of the Internal Control Audit Office. Accordingly, the Group verified the effectiveness of its internal control system relating to financial reporting both in the previous fiscal year and the current fiscal year, and has submitted internal control reports following audits by its accounting auditor.

Code of Ethics (Basic Code of Conduct)

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 "minimum-impact" mills.
- 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 the procurement, manufacturing and marketing processes.

In the manufacture of pulp and paper, the Hokuetsu Kishu Paper Group is fully aware of the importance of coexisting in harmony with nature in all processes from material procurement through production, distribution and sales. Therefore, the Group engages in environmental preservation activities.

Aiming to become a corporate group that can help realize a "society in which human beings and nature prosper in harmony," the Group proactively engages in CSR activities.

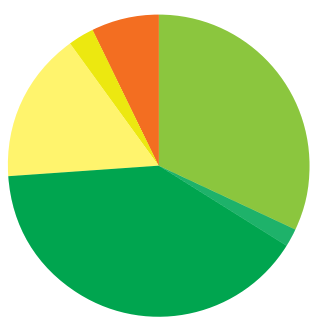
Material Procurement: Sustainable Forest Management

Stable Procurement of Raw Materials and Sustainable Forest Management

Over 90% of the wood chips the Group uses for papermaking is imported from overseas. These chips are all from trees nurtured in woodlots in such countries as South Africa, Brazil, Chile, Australia, and Malaysia—where the afforestation cycle (planting-nurturing-trimming-planting) follows a carefully calculated schedule—and are imported either directly from suppliers in such countries or via trading companies. Similarly, all wood chips sourced in Japan are procured from sustainable secondary forests mainly in Yamagata, Fukushima and Niigata Prefectures.

A tree farm in South Africa that is carefully managed for sustainable production

Wood Chip Imports by Production Area



South Africa: A Major Supplier of Chips

The Group imports wood chips mainly from South Africa. Using advanced afforestation technology, NCT Forestry Co-Operative Limited (NCT) carries out carefully calculated and sustainable forest management in South Africa. Trees planted in South Africa are mainly fast-growing pine trees, eucalyptus, and acacia, that are used for various applications, including paper making. Trees are grown in well-managed woodlots, processed at chip mills operated by an NCT subsidiary and exported from the Port of Durban. All the shipments from this port are for Hokuetsu Kishu Paper.

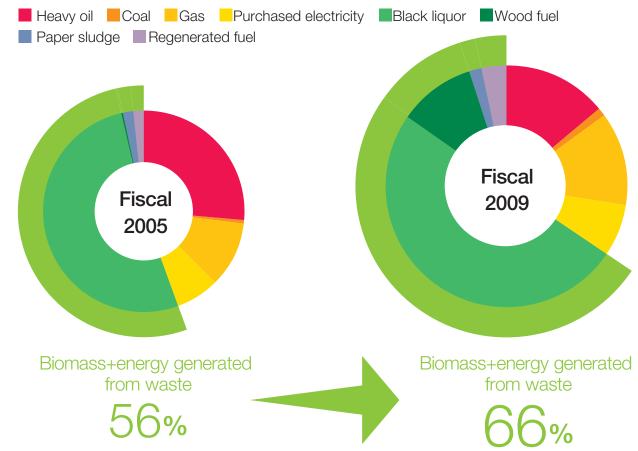
Establishing a joint venture with Mitsubishi Corporation and NCT, the Group is striving in close collaboration with NCT to secure a sustainable supply of raw materials and efficient transportation by developing a consistent supply chain extending from afforestation to chip processing.

Manufacturing: Reducing the Environmental Burdens of Production Lines

Shifting to Clean Energy

As part of environment-oriented management, one of the components of its corporate philosophy, the Group proactively engages in CO_2 emissions reduction, including through a shift to clean energy. Having achieved such a shift at the Kanto Mill Ichikawa, the Group switched fuels at the Nagaoka Mill from heavy oil to natural gas in 2006, making it an oil-free mill. The Kanto Mill Katsuta also became oil-free, with the exception of part of its combustion improver, by shifting to a woody biomass boiler in 2006. Furthermore, 70% of the Niigata Mill's operations are powered by chip-derived black liquor and a biomass boiler.

Companywide Energy Component Ratio



Quality Assurance Initiatives

With the understanding that providing the high-quality products and services that customers need is an important social responsibility, the Group is promoting a quality management structure based on the universal standards of the ISO9001 and ISO14001 certifications.

ISO9001: A quality management standard

Kanto Mill Katsuta:	Switched from ISO9002 certification in January 2003
Nagaoka Mill:	Switched from ISO9002 certification in August 2003
Kanto Mill Ichikawa and Katsuta:	Acquired certification in September 2005

ISO14001: An environmental management standard

Niigata Mill:	Acquired certification in September 2009
Nagaoka Mill:	Acquired certification in June 2000
Kanto Mill Ichikawa:	Acquired certification in October 2000
Kanto Mill Katsuta:	Acquired certification in April 2001

Distribution and Sales: Contribution to Local Communities

Strategic Utilization of the Niigata Higashi Port

Having major production bases in Niigata, the Group reviewed its export channels and expanded the use of Niigata Higashi Port in light of increasing exports to burgeoning Asian markets. This expansion allows the Group to make effective use of the port location for both material procurement and exports mainly to Asian countries.

Simultaneously, the Group will reduce transportation energy used in the entire distribution system.

Furthermore, in cooperation with several local companies that wish Niigata Higashi Port to be a hub port on the Sea of Japan side of the country,* the Group is striving to increase the overall volume of exports from Niigata Higashi Port.

* Hub port on the Sea of Japan side of the country: Promoted by the Ministry of Land, Infrastructure, Transport and Tourism, this is the third strategic project to designate sub-ports following the selection of hub ports for international containers (super hub ports) and international bulk shipments.

Niigata Higashi Port

Board of Directors and Corporate Auditors (As of July 12, 2010)

(Clockwise from front center)
Sekio Kishimoto, Kiyoshi Tamura, Kouichi Akagawa, Takayuki Sasaki, Hiroshi Sugawara, Norihiko Shimokoshi

Representative Director, President & CEO

Sekio Kishimoto

Senior Executive Directors

Kiyoshi Tamura

Norihiko Shimokoshi

Managing Directors

Kouichi Akagawa

Takayuki Sasaki

Hiroshi Sugawara

Directors

Kazunori Hosoi

Michio Tsuchida

Souhei Onoda

Fumiki Asai

Youichi Haruki

Shinichi Kinoshita

Michio Kaga*

Director and Executive Adviser

Masaaki Miwa

Standing Auditors

Fumiyoshi Tsuchida

Takashi Kobayashi

Auditors

Toshiji Sato**

Kazuo Uchida**

Executive Officers

Kazuo Nakamura

Norihisa Hirukawa

Fumio Abe

Hideo Yazawa

Akihiro Aoki

* Outside Director
** Outside Auditor

Financial Section

Contents

Five-Year Summary

HOKUETSU KISHU PAPER CO., LTD.
Years ended March 31

	Millions of yen (except per share amounts)				
	2006	2007	2008	2009	**2010**
FOR THE YEAR					
Net sales	¥153,692	¥158,992	¥172,709	¥182,815	**¥193,952**
Operating income	6,932	9,050	8,330	8,125	**9,892**
Income before income taxes and minority interests	6,418	7,300	6,914	4,243	**8,738**
Net income	3,238	4,395	4,074	1,913	**7,239**
Return on equity	2.9%	3.4%	2.9%	1.4%	**5.3%**
PER SHARE DATA					
Net income	¥ 19.31	¥ 22.75	¥ 19.19	¥ 9.01	**¥ 34.38**
Cash dividends	12.00	12.00	14.00	12.00	**12.00**
AT YEAR-END					
Total assets	¥232,486	¥269,124	¥292,726	¥313,732	**¥340,970**
Total net assets (Note)	112,800	143,439	140,184	136,713	**139,989**

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

Management Overview and Results

During fiscal 2009, ended March 31, 2010, the Japanese economy showed signs of gradual recovery due to various government-implemented economic measures. However, because personal consumption and capital investment remained stagnant, full-scale recovery did not take hold. In the pulp and paper industry, domestic demand continued to be weak and manufacturers were forced to reduce production and sales volume.

Amid this severe economic environment, the Hokuetsu Kishu Paper Group partially suspended production to accommodate decreased domestic demand and continued with substantial cutbacks in production for the domestic market as it adjusted to the supply-demand situation. At the same time, the Group strived to expand exports. During the fiscal year under review, Hokuetsu Paper Mills Co., Ltd. included KISHU PAPER Co., Ltd. into its scope of consolidation, making it a wholly owned subsidiary as of October 1, 2009 through a share exchange.

As a result, the Group's consolidated results for fiscal 2009 included those of the KISHU PAPER Group for the second half of the year under review* and, accordingly, net sales rose 6.1% year on year to ¥193,952 million. In terms of consolidated profit and loss, operating income grew 21.7% from the previous fiscal year to ¥9,892 million due to Groupwide efforts to reduce costs as well as the inclusion of profit recorded by the KISHU PAPER Group into the scope of consolidation. Furthermore, owing to the impact of such items as the amortization of negative goodwill incurred from the share exchange and the absence of large expenses related to assets recorded in the previous fiscal year, income before income taxes and minority interests surged 105.9% to ¥8,738 million and net income soared 278.4% to ¥7,239 million.

* The number of consolidated subsidiaries as of March 31, 2010 increased to 17, from 10 as of the previous fiscal year-end, due to the inclusion of KISHU PAPER Co., Ltd. and its six consolidated subsidiaries. The number of equity-method affiliates remained unchanged at seven.

Business Results by Segment

Pulp-Related Products

Domestic market conditions for this segment were harsh during the fiscal year under review, with stagnant sales of printing paper and white paperboard. Demand for printing paper was weak due to companies' drastic cutbacks in expenditure. The Company had to adjust production volumes, particularly that of coated paper, reflecting lower demand for fliers, catalogues and pamphlets due to reduced spending on advertising. Although the Company received new orders for white paperboard for food and medical packaging applications, demand related to publications and commercial printing continued to decrease, driving down overall sales. In specialty paper, domestic demand remained weak despite a recovery in demand for industrial paper in China.

Nevertheless, the Pulp-Related Products segment saw a 4.5% year on year climb in sales to ¥167,597 million and growth of 26.5% in operating income to ¥8,086 million, owing to the inclusion of the KISHU PAPER Group's results into the scope of consolidation as well as lower costs thanks to enhanced production efficiency.

Processed Paper Products

During the fiscal year under review, the Processed Paper Products segment benefited from such positive factors as the inclusion of sales of BF Co., Ltd., a KISHU PAPER Group subsidiary. On the earnings front, however, decreased orders and increases in such fixed costs as depreciation and amortization affected overall performance. As a result, although sales in this segment rose 16.2% year on year to ¥19,772 million, operating income receded 35.7% to ¥408 million.

Other

Sales in this segment also grew on the back of the inclusion of KISHU PAPER's subsidiaries into the scope of consolidation. However, overall profitability deteriorated due to a falloff in orders. As a result, net sales in this segment rose 20.2% year on year to ¥6,583 million, while operating income fell 43.6% to ¥612 million.

Revenues and Earnings

Despite the 6.1% increase in net sales, reflecting severe market conditions the Group recorded a higher cost of sales coupled with a decline in revenue from orders. In addition, depreciation and amortization increased. However, the 21.7% year on year rise in operating income to ¥9,892 million due to the inclusion of the earnings of the KISHU PAPER Group and a lower cost-of-sales ratio thanks to a decrease in raw material and fuel costs as well as improved productivity helped raise the operating income margin from 4.4% in the previous fiscal year to 5.1%.

In addition to the aforementioned amortization of negative goodwill included under other income (expenses), a decrease in the impairment loss of fixed assets related to Nagaoka Mill and Kanto Mill Ichikawa as well as the absence of expenses related to the advanced depreciation of property, plant and equipment recorded in the previous fiscal year contributed significantly to the 105.9% year on year jump in income before income taxes and minority interests to ¥8,738 million.

Furthermore, due to the recording of the impairment loss in the previous fiscal year the effective income taxes rate was down in the fiscal year under review. As a result, net income soared 278.4% year on year to ¥7,239 million. The ratio of net income to net sales thus improved from 1.0% in the previous fiscal year to 3.7%. Accordingly, net income per share grew from ¥9.01 to ¥34.38.

Financial Position

Total assets as of March 31, 2010 grew ¥27,238 million compared with the corresponding period of the previous fiscal year to ¥340,970 million. This was mainly attributable to a ¥58,440 million increase due to the inclusion of the KISHU PAPER Group's assets into the scope of consolidation as well as depreciation and amortization amounting to ¥21,362 million. Current assets grew ¥6,174 million year on year to ¥104,380 million due principally to an increase in notes and accounts receivable, while non-current assets, mainly property, plant and equipment, climbed ¥21,066 million to ¥236,590 million.

Total liabilities rose ¥23,961 million to ¥200,981 million. This was primarily attributable to a ¥42,836 million increase from the inclusion of the KISHU PAPER Group into the scope of consolidation, which offset decreases in long-term loans and bonds due, respectively, to repayment and redemption. As of March 31, 2010, current liabilities increased ¥18,487 million compared with the corresponding period of the previous fiscal year to ¥111,580 million, while long-term liabilities grew ¥5,475 million to ¥89,401 million.

Net assets improved ¥3,276 million year on year to ¥139,989 million. This was mainly attributable to an increase in capital surplus, reflecting the share exchange with KISHU PAPER, despite a decrease in retained earnings due to returns to shareholders and the disposition of treasury stock. As a result, net assets per share climbed from ¥640.36 in the previous fiscal year-end to ¥667.32. The equity ratio, however, edged down from 43.3% in the previous fiscal year-end to 40.8%.

Return on equity (ROE) improved from 1.4% in the previous fiscal year to 5.3%.

Cash Flows

Net cash provided by operating activities amounted to ¥36,944 million, up from ¥10,000 million in the previous fiscal year. Principal components of this result include increases in income before income taxes and minority interests and depreciation and amortization as well as a decrease in inventories.

Net cash used in investing activities was ¥10,637 million, improving from ¥34,804 million used in the previous fiscal year. The improvement was mainly attributable to a decrease in payments for purchases of property, plant and equipment on the back of decreased capital investment.

Net cash used in financing activities was ¥30,867 million, a turnaround from net cash provided by financing activities of ¥31,623 million in the previous fiscal year. This was primarily due to a major retreat in proceeds from long-term loans as well as a lower increase in short-term loans coupled with an increase in repayments of long-term loans and payments for purchases of treasury stock.

After the inclusion of an increase in cash and cash equivalents from newly consolidated subsidiaries to the above results, cash and cash equivalents at the end of the fiscal year under review came to ¥11,668 million, down ¥3,536 million from a year earlier.

Basic Policies Regarding Earnings Distribution and Dividend Payment for Fiscal 2009 and 2010

The Hokuetsu Kishu Paper Group considers maintaining stable returns for shareholders one of its important management policies, and it proactively conducts business operations with a long-term vision that reinforces its corporate structure. Based on this policy, the Group determined to distribute a year-end dividend of ¥6 per share, which is on par with the previous fiscal year-end. Combined with the interim dividend of ¥6 per share, the annual dividend payment will also remain on par with that of the previous fiscal year, at ¥12 per share.

Fiscal 2010 Outlook

In fiscal 2010, the Japanese economy is expected to show further signs of recovery. However, the global economic outlook remains uncertain due to financial problems in South European countries. In the pulp and paper industry, a drastic recovery cannot be expected, although domestic demand looks to bottom out in the current fiscal year. Moreover, severe conditions will persist, reflecting further rises in raw material and fuel prices.

Under such circumstances, the Group is making every effort to improve its earnings by putting in place thorough measures to reduce costs and increase exports. However, the Group anticipates a slight increase in sales and decrease in profit.

This forecast may be affected by various risk factors, including the following, and actual performance results may differ from the Group's forecast.

Major Business Risks

The Hokuetsu Kishu Group considers the following factors to constitute its principal business risks:

Fluctuations in product demand and prices, raw material and fuel market conditions, foreign currency exchange rates, overseas political and economic situations as well as interest rates; legal regulations and litigation; natural disasters; decision making for capital investment and the result of such investment; and business collaboration with other companies, including M&A.

Consolidated Balance Sheets

HOKUETSU KISHU PAPER CO., LTD.
As of March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2010	2009	2010
CURRENT ASSETS:			
Cash and deposits (Notes 3 & 4)	¥ 11,750	¥ 15,313	$ 126,290
Notes and accounts receivable (Note 4)			
Trade	49,466	37,117	531,663
Unconsolidated subsidiaries and affiliates	13,796	15,025	148,281
Allowance for doubtful accounts	(47)	(23)	(505)
Inventories (Note 6)	24,746	23,554	265,972
Deferred income taxes (Note 11)	2,606	1,484	28,009
Prepaid expenses and other	2,063	5,737	22,173
TOTAL CURRENT ASSETS	104,380	98,207	1,121,883
PROPERTY, PLANT AND EQUIPMENT (Note 7):			
Land and timberland	23,305	12,348	250,484
Buildings and structures	69,326	63,389	745,120
Machinery and equipment	369,171	353,836	3,967,874
Leased assets	4,692	462	50,430
Construction in progress	946	1,573	10,168
	467,440	431,608	5,024,076
Less accumulated depreciation	(268,294)	(248,356)	(2,883,642)
NET PROPERTY, PLANT AND EQUIPMENT	199,146	183,252	2,140,434
INVESTMENTS AND OTHER ASSETS:			
Investments in securities (Notes 4, 5 & 7)	24,363	19,120	261,855
Investments in and receivables from unconsolidated subsidiaries and affiliates	4,794	4,706	51,526
Long-term loans receivable	93	260	1,000
Guarantee deposits	1,570	1,808	16,874
Deferred income taxes (Note 11)	3,672	3,140	39,467
Other	3,149	3,585	33,846
Allowance for doubtful accounts	(197)	(346)	(2,117)
TOTAL INVESTMENTS AND OTHER ASSETS	37,444	32,273	402,451
	¥340,970	¥313,732	$3,664,768

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND NET ASSETS	2010	2009	2010
CURRENT LIABILITIES:			
Short-term loans (Notes 4, 7 & 8)	¥ 47,122	¥ 40,082	$ 506,470
Commercial paper (Note 4 & 8)	3,000	—	32,244
Current maturities of long-term debt (Notes 4, 7 & 8)	21,671	20,982	232,921
Notes and accounts payable (Note 4)			
Trade	21,552	17,745	231,642
Unconsolidated subsidiaries and affiliates	918	1,814	9,867
Income taxes payable (Note 11)	1,557	1,641	16,735
Accrued expenses	6,384	5,646	68,616
Other	9,376	5,183	100,774
TOTAL CURRENT LIABILITIES	111,580	93,093	1,199,269
LONG-TERM LIABILITIES:			
Long-term debt (Notes 4, 7 & 8), less current maturities	63,057	74,667	677,741
Deferred income taxes (Note 11)	3,076	—	33,061
Employees' severance and retirement benefits (Note 17)	10,658	8,090	114,553
Retirement benefits for directors and corporate auditors	86	87	924
Accrued environmental expenditures	1,283	259	13,790
Provision for business structure improvement	455	—	4,890
Negative goodwill	8,004	4	86,028
Other (Note 7)	2,782	819	29,901
CONTINGENT LIABILITIES (Note 9)			
NET ASSETS (Note 10)			
SHAREHOLDERS' EQUITY:			
Common stock:			
authorized			
—500,000,000 shares in 2010			
—500,000,000 shares in 2009			
issued and outstanding			
—209,263,814 shares in 2010			
—214,052,054 shares in 2009	42,021	42,021	451,645
Capital surplus	45,435	40,244	488,338
Retained earnings	51,279	54,919	551,150
Treasury stock	(330)	(1,081)	(3,547)
TOTAL SHAREHOLDERS' EQUITY	138,405	136,103	1,487,586
ACCUMULATED GAINS FROM VALUATION AND TRANSLATION ADJUSTMENTS			
Unrealized holding gains on securities, net of taxes	891	(308)	9,577
Unrealized gains on hedging derivatives, net of taxes	(77)	82	(828)
TOTAL ACCUMULATED GAINS FROM VALUATION AND TRANSLATION ADJUSTMENTS	814	(226)	8,749
MINORITY INTERESTS	770	836	8,276
TOTAL NET ASSETS	139,989	136,713	1,504,611
	¥340,970	¥313,732	$3,664,768

Consolidated Statements of Income

HOKUETSU KISHU PAPER CO., LTD.
For the years ended March 31, 2010, 2009 and 2008

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2010	2009	2008	2010
NET SALES (Notes 12 & 18)	¥193,952	¥182,815	¥172,709	$2,084,609
COST OF SALES (Note 12)	157,262	151,652	141,008	1,690,262
Gross profit	36,690	31,163	31,701	394,347
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 13)	26,798	23,038	23,371	288,027
Operating income	9,892	8,125	8,330	106,320
OTHER INCOME (EXPENSES):				
Interest and dividend income	613	857	520	6,589
Interest expenses	(1,674)	(1,746)	(1,240)	(17,992)
Foreign exchange gains (losses)	(48)	(20)	(203)	(516)
Amortization of negative goodwill	913	2	2	9,813
Equity in income of affiliates	81	63	105	871
Gain on sales of investments in securities, net	14	—	—	150
Loss on devaluation of investments in securities	(408)	(29)	(3)	(4,385)
Loss on sales or disposal of property, plant and equipment	(445)	(663)	(724)	(4,783)
Income from subsidies	—	1,000	—	—
Advanced depreciation of property, plant and equipment	—	(1,000)	—	—
Impairment loss of fixed assets (Note 14)	(85)	(1,891)	—	(914)
Gain on restructuring of retirement benefit scheme	228	—	—	2,451
One-time amortization of prior service costs	—	—	(34)	—
Reversal of provision for business structure improvement	60	—	—	645
Loss on liquidation of subsidiaries and affiliates	(226)	(4)	—	(2,429)
Costs in relation to suspending the operation of production equipment	(719)	(707)	—	(7,728)
Other, net	542	256	161	5,825
	(1,154)	(3,882)	(1,416)	(12,403)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	8,738	4,243	6,914	93,917
INCOME TAXES (Note 11):				
Current	2,967	2,988	2,925	31,890
Deferred	(1,545)	(752)	(141)	(16,606)
	1,422	2,236	2,784	15,284
INCOME BEFORE MINORITY INTERESTS	7,316	2,007	4,130	78,633
MINORITY INTERESTS	77	94	56	828
NET INCOME	¥ 7,239	¥ 1,913	¥ 4,074	$ 77,805

	Yen			U.S. dollars (Note 1)
	2010	2009	2008	2010
Amounts per share of common stock (Note 2):				
Net income	¥34.38	¥ 9.01	¥19.19	$0.37
Diluted net income	—	—	—	—
Cash dividends applicable to the year	12.00	12.00	14.00	0.13

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

Consolidated Statements of Cash Flows

HOKUETSU KISHU PAPER CO., LTD.
For the years ended March 31, 2010, 2009 and 2008

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2010	2009	2008	2010
CASH FLOWS FROM OPERATING ACTIVITIES:				
Income before income taxes and minority interests	¥ 8,738	¥ 4,243	¥ 6,914	$ 93,917
Depreciation and amortization	21,362	17,348	12,325	229,600
Impairment loss of fixed assets	85	1,891	—	914
Amortization of negative goodwill	(913)	(2)	(2)	(9,813)
Loss on disposal of property, plant and equipment	428	612	990	4,600
Advanced depreciation of property, plant and equipment	—	1,000	—	—
Income from subsidies	—	(1,000)	—	—
Interest and dividend income	(613)	(857)	(520)	(6,589)
Interest expenses	1,674	1,746	1,240	17,992
Loss on devaluation of investments in securities	408	29	3	4,385
(Increase) decrease in notes and accounts receivable	441	6,470	(3,876)	4,740
(Increase) decrease in inventories	6,470	(9,858)	(1,737)	69,540
Increase (decrease) in notes and accounts payable	(2,168)	(4,100)	2,382	(23,302)
Increase (decrease) in employees' severance and retirement benefits	119	395	111	1,279
Other, net	4,797	(3,808)	(580)	51,559
Subtotal	40,828	14,109	17,250	438,822
Interest and dividend income received	635	878	540	6,825
Interest paid	(1,765)	(1,644)	(1,161)	(18,970)
Income taxes paid	(2,754)	(3,343)	(3,634)	(29,600)
NET CASH PROVIDED BY OPERATING ACTIVITIES	36,944	10,000	12,995	397,077
CASH FLOWS FROM INVESTING ACTIVITIES:				
Payments for time deposits	(41)	(79)	(163)	(441)
Proceeds from time deposits	68	91	183	731
Payments for purchases of securities	(237)	(1,237)	(2,212)	(2,547)
Proceeds from sales and redemption of investment securities	1,006	1,313	—	10,813
Payments for purchases of property, plant and equipment	(7,430)	(35,776)	(33,213)	(79,858)
Proceeds from sales of property, plant and equipment	226	132	56	2,429
Proceeds from national subsidies	200	200	727	2,149
Other, net	(4,429)	552	(789)	(47,603)
NET CASH USED IN INVESTING ACTIVITIES	(10,637)	(34,804)	(35,411)	(114,327)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Increase (decrease) in short-term loans	860	16,953	(96)	9,243
Increase (decrease) in commercial paper	3,000	—	—	32,244
Proceeds from long-term loans	200	37,700	20,700	2,149
Repayments of long-term loans	(12,757)	(10,412)	(6,871)	(137,113)
Proceeds from issuance of unsecured yen straight bonds	—	—	20,000	—
Redemption of unsecured yen straight bonds	(10,233)	(10,000)	(10,000)	(109,985)
Dividends paid	(2,551)	(2,553)	(2,978)	(27,418)
Payments for purchases of treasury stock	(8,839)	(31)	(16)	(95,002)
Other, net	(547)	(34)	(6)	(5,879)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(30,867)	31,623	20,733	(331,761)
TRANSLATION (LOSS) GAIN ON CASH AND CASH EQUIVALENTS	(22)	22	(88)	(237)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,582)	6,841	(1,771)	(49,248)
Increase in cash and cash equivalents from newly consolidated subsidiaries (Note 3)	1,045	—	—	11,232
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	15,205	8,364	10,135	163,424
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 3)	¥11,668	¥15,205	¥ 8,364	$125,408

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

Consolidated Statements of Changes in Net Assets

HOKUETSU KISHU PAPER CO., LTD.
For the Years ended March 31, 2010, 2009 and 2008

	Millions of yen										
	Number of shares	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' 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, 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	—	—	—	—	(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	—	—	—	—	(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
Increase by share exchanges	13,756,260	—	5,681	—	—	5,681	—	—	—	—	5,681
Net income	—	—	—	7,239	—	7,239	—	—	—	—	7,239
Cash dividends paid (¥12.00 per share)	—	—	—	(2,552)	—	(2,552)	—	—	—	—	(2,552)
Disposal of treasury stock	—	—	—	—	778	778	—	—	—	—	778
Purchases of treasury stock	—	—	—	—	(8,844)	(8,844)	—	—	—	—	(8,844)
Retirement of treasury stock	(18,544,500)	—	(490)	(8,327)	8,817	—	—	—	—	—	—
Net changes during the year	—	—	—	—	—	—	1,199	(159)	1,040	(66)	974
Balance at March 31, 2010	209,263,814	¥42,021	¥45,435	¥51,279	¥ (330)	¥138,405	¥ 891	¥ (77)	¥ 814	¥770	¥139,989

	Thousands of U.S. dollars (Note 1)										
	Number of shares	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' 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, 2009	214,052,054	$451,645	$432,545	$590,273	$(11,619)	$1,462,844	$ (3,310)	$ 881	$ (2,429)	$8,985	$1,469,400
Increase by share exchanges	13,756,260	—	61,060	—	—	61,060	—	—	—	—	61,060
Net income	—	—	—	77,805	—	77,805	—	—	—	—	77,805
Cash dividends paid ($0.14 per share)	—	—	—	(27,429)	—	(27,429)	—	—	—	—	(27,429)
Disposal of treasury stock	—	—	—	—	8,362	8,362	—	—	—	—	8,362
Purchases of treasury stock	—	—	—	—	(95,056)	(95,056)	—	—	—	—	(95,056)
Retirement of treasury stock	(18,544,500)	—	(5,267)	(89,499)	94,766	—	—	—	—	—	—
Net changes during the year	—	—	—	—	—	—	12,887	(1,709)	11,178	(709)	10,469
Balance at March 31, 2010	209,263,814	$451,645	$488,338	$551,150	$ (3,547)	$1,487,586	$ 9,577	$ (828)	$ 8,749	$8,276	$1,504,611

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 KISHU PAPER CO., 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, 2010, which was ¥93.04 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.

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

	Number of Companies		
	2010	2009	2008
Consolidated subsidiaries	17	10	10
Affiliates accounted for by the equity method	7	7	7

Through the share exchange with KISHU PAPER Co., Ltd. (hereafter, "KISHU PAPER") executed on October 1, 2009, KISHU PAPER and its six subsidiaries are now included as consolidated subsidiaries of the Company.

(b) Consolidated statements of cash flows

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

(c) Translation of foreign currencies

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

(d) Securities

Under the Japanese accounting standard for financial instruments, all companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (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, 2010, 2009 and 2008.

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 merchandise and finished goods. Cost of work-in-process is primarily determined using the FIFO (first-in, first-out) method. Cost of timber is primarily determined using the specific identification method.

As a result of this change, operating income and income before income taxes and minority interests decreased by ¥607 million for the year ended March 31, 2009. The effects on segment information are described in Note 18.

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

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

Buildings, machinery and equipment

• mainly straight-line method over the useful lives prescribed by the Japanese tax regulations.

Other tangible fixed assets

• mainly 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, operating income and income before income taxes and minority interests decreased by ¥1,387 million, respectively. The effects on segment information are described in Note 18.

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. The effects on segment information are described in Note 18.

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. The effects on segment information are described in Note 18.

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 and ¥5 million, 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 (mainly 10 years) within the average of the estimated remaining service lives commencing with the following period. Prior service costs are expensed as incurred.

Effective from the fiscal year ended March 31, 2010, the Companies adopted the "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (Accounting Standards Board of Japan ("ASBJ") Statement No. 19 issued on July 31, 2008). The new accounting standard requires domestic companies to use the rate of return on long-term government or gilt-edged bonds as of the end of the fiscal year for calculating the projected benefit obligation of a defined-benefit plan. Previously, domestic companies were allowed to use a discount rate determined taking into consideration fluctuations in the yield of long-term government or gilt-edged bonds over a certain period. The change had no material impact on the consolidated statement of income for the year ended March 31, 2010. The difference in the projected benefit obligations at March 31, 2010 calculated pursuant to the new accounting standard and the previous accounting standard is immaterial, and which will be recognized as income or loss in the periods commencing after March 31, 2010.

(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 and asbestos.

(l) Provision for business structure improvement

A provision has been made for the amount of estimated losses incurred in connection with a review of the suspension of operations at the KISHU PAPER Osaka printing paper production facilities, which was implemented to improve business structure.

(m) Issuance costs of stocks and bonds

Issuance costs of stocks and bonds are expensed as incurred.

(n) 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.

(o) Income taxes

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

(p) 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 210,555,817 shares, 212,230,847 shares and 212,284,197 shares in 2010, 2009 and 2008, 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.

(q) 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

A reconciliation of cash and deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows at March 31, 2010 and 2009 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Cash and deposits	¥11,750	¥15,313	$126,290
Less time deposits with maturities exceeding three months	(82)	(108)	(882)
Cash and cash equivalents	¥11,668	¥15,205	$125,408

Assets and liabilities as of the date of KISHU PAPER and its six subsidiaries' inclusion into the Company's scope of consolidation through share exchange and net gain on assets of subsidiaries through share exchange are as follows:

	Millions of yen	Thousands of U.S. dollars
	2010	2010
Current assets	¥21,534	$231,449
Non-current assets	36,906	396,668
Current liabilities	(24,722)	(265,714)
Non-current liabilities	(18,114)	(194,690)
Negative goodwill	(8,713)	(93,648)
Minority interests	(108)	(1,161)
Share exchange expenses	(324)	(3,482)
Acquisition cost of KISHU PAPER's shares	6,459	69,422
KISHU PAPER's cash and cash equivalents	1,045	11,232
Issuance price of the Company's shares through share exchange	(6,459)	(69,422)
Increase in cash and cash equivalents from newly consolidated subsidiaries	¥ 1,045	$ 11,232

Note 4: Financial Instruments

Effective from the fiscal year ended March 31, 2010, the Companies adopted the revised "Accounting Standard for Financial Instruments" (Accounting Standards Board of Japan ("ASBJ") Statement No. 10 revised on March 10, 2008) and the "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19 revised on March 10, 2008). Information on financial instruments for the year ended March 31, 2010 required pursuant to the revised accounting standards is as follows.

Status of Financial Instruments

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

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

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

In addition, the Company and certain consolidated subsidiaries use interest rate swap contracts to mitigate interest rate fluctuation risks associated with debt.

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

Derivative transactions are determined in accordance with the internal guidelines, which set forth delegation of authority, and are conducted by the Company's Corporate Planning Department. After ascertaining the outstanding balance and market price with the counterparty, such derivative transactions will be reported to the Board of Directors on a quarterly basis. Consolidated subsidiaries also manage their derivative transactions based on the Company's regulations.

Fair Values of Financial Instruments

The book values, fair values and differences of the financial instruments as of March 31, 2010 are as follows. Financial instruments with fair values not readily determinable are excluded from the following table (see (b)):

	Millions of yen		
	2010		
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 11,750	¥ 11,750	¥ —
(2) Notes and accounts receivable	63,262	63,262	—
(3) Investments in securities:			
Available-for-sale securities	17,973	17,973	—
Total assets	¥ 92,985	¥ 92,985	¥ —
(4) Notes and accounts payable	¥ 22,470	¥ 22,470	¥ —
(5) Short-term loans	47,122	47,122	—
(6) Commercial paper	3,000	3,000	—
(7) Bonds	20,000	20,368	368
(8) Long-term loans payable*1	60,497	60,888	391
Total liabilities	¥153,089	¥153,848	¥759
Derivative transactions*2	¥ (112)	¥ (112)	¥ —

	Thousands of U.S. dollars		
	2010		
	Book value	Fair value	Difference
(1) Cash and deposits	$ 126,290	$ 126,290	$ —
(2) Notes and accounts receivable	679,944	679,944	—
(3) Investments in securities:			
Available-for-sale securities	193,175	193,175	—
Total assets	$ 999,409	$ 999,409	$ —
(4) Notes and accounts payable	$ 241,509	$ 241,509	$ —
(5) Short-term loans	506,470	506,470	—
(6) Commercial paper	32,244	32,244	—
(7) Bonds	214,962	218,917	3,955
(8) Long-term loans payable*1	650,226	654,428	4,202
Total liabilities	$1,645,411	$1,653,568	$8,157
Derivative transactions*2	$ (1,204)	$ (1,204)	$ —

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

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

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

Assets

(1) Cash and deposits and (2) Notes and accounts receivable

Because these are settled in the short-term, fair value is generally equivalent to book value; therefore, book value is used to determine fair value.

(3) Investments in securities

The fair values of these assets are determined using the quoted share exchange price. Please see Note 5 regarding securities categorized by holding purposes.

Liabilities

(4) Notes and accounts payable (5) Short-term loans, and (6) Commercial paper

Because these are settled in the short-term, fair value is generally equivalent to book value; therefore, book value is used to determine fair value.

(7) Bonds

The fair values of bonds are determined using market value as of the date of the balance sheet date.

(8) Long-term loans payable

The fair values of long-term loans payable are determined by discounting the aggregated amounts of the principal and interest using estimated interest rates assuming that the same type of borrowing was newly made. If interest rate swap contracts are used as hedges and meet certain hedging criteria, the fair values of the long-term loans payable is determined by discounting the aggregated amounts of the principal and interest, which the net amount to be paid or received under the interest rate swap contract is added to or deducted from, using estimated interest rates, assuming that the same type of borrowings were newly made.

Derivative Transaction

For details of derivative transactions, please see Note 16.

(b) Unlisted equity securities (consolidated balance sheet value: ¥10,030 million ($107,803 thousand)) have no market price and there is no way of estimating for future cash flows. Determining fair value is therefore acknowledged to be extremely difficult and they are not included in (3) Investments in securities: available-for-sale securities.

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

	Millions of yen	Thousands of U.S. dollars
	Due in one year	Due in one year
Cash and deposits	¥11,750	$126,290
Notes and accounts receivable	63,262	679,944
Total	¥75,012	$806,234

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

	Millions of yen					
	Due in one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due over five years
Short-term bank loans	¥47,122	¥ —	¥ —	¥ —	¥ —	¥ —
Commercial paper	3,000	—	—	—	—	—
Bonds	—	10,000	—	—	10,000	—
Long-term loans payable*	20,755	11,590	10,612	11,956	2,865	2,719
Total	¥70,877	¥21,590	¥10,612	¥11,956	¥12,865	¥2,719

	Thousands of U.S. dollars					
	Due in one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due over five years
Short-term bank loans	$506,470	$ —	$ —	$ —	$ —	$ —
Commercial paper	32,244	—	—	—	—	—
Bonds	—	107,481	—	—	107,481	—
Long-term loans payable*	223,077	124,570	114,058	128,504	30,793	29,224
Total	$761,791	$232,051	$114,058	$128,504	$138,274	$29,224

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

Note 5: Securities

The following tables summarize acquisition costs and book value of securities with available fair value as of March 31, 2010 and 2009:

Available-for-sale securities:

	Millions of yen		
	2010		
Type	Acquisition cost	Book value	Difference
Equity securities:			
with book value (fair value) exceeding acquisition costs	¥ 6,112	¥ 9,278	¥3,166
with book value (fair value) not exceeding acquisition costs	10,356	8,695	(1,661)
	¥16,468	¥17,973	¥1,505

	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)

	Thousands of U.S. dollars		
	2010		
Type	Acquisition cost	Book value	Difference
Equity securities:			
with book value (fair value) exceeding acquisition costs	$ 65,692	$ 99,721	$34,029
with book value (fair value) not exceeding acquisition costs	111,307	93,454	(17,853)
	$176,999	$193,175	$16,176

Total sales of available-for-sale securities sold in the year ended March 31, 2010 amounted to ¥1,008 million ($10,834 thousand) and the related gains amounted to ¥14 million ($150 thousand). Total sales of available-for-sale securities sold in the year ended March 31, 2009 amounted to ¥313 million and the related losses amounted to ¥0 million

Note 6: Inventories

Inventories at March 31, 2010 and 2009 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Finished goods	¥11,802	¥10,737	$126,849
Work-in-process	1,761	1,022	18,927
Raw materials and supplies	11,183	11,795	120,196
	¥24,746	¥23,554	$265,972

Note 7: Assets Pledged

Assets pledged as collateral for short-term loans, long-term debt and other long-term liabilities totaling ¥10,930 million ($117,476 thousand) at March 31, 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Buildings	¥ 2,963	¥—	$ 31,847
Equipment	10,285	—	110,544
Land	7,997	—	85,952
Securities	1,302	—	13,994
	¥22,547	¥—	$242,337

Note 8: Short-Term Loans, Commercial Paper, and Long-Term Debt

Short-term loans outstanding at March 31, 2010 and 2009 are partially secured with interest of 0.61% to 2.50% per annum and 0.85% to 3.25% per annum, respectively.

The interest rate on commercial paper at March 31, 2010 is 0.12%.

Long-term debt and lease obligations at March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Partially secured loans from banks and unsecured loans from insurance companies and other financial institutions, 0.58% to 5.05% maturing serially through 2016	¥60,497	¥65,184	$650,225
0.92% unsecured yen straight bonds due in 2009	—	10,000	—
1.77% unsecured yen straight bonds due in 2014	10,000	10,000	107,481
1.36% unsecured yen straight bonds due in 2011	10,000	10,000	107,481
Lease obligations, maturing through 2016	4,231	465	45,475
	84,728	95,649	910,662
Less current maturities	(21,671)	(20,982)	(232,921)
Total	¥63,057	¥74,667	$677,741

The annual maturities of long-term debt and lease obligations at March 31, 2010 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2011	¥31,672	$340,413
2012	12,456	133,878
2013	11,441	122,969
2014	22,591	242,810
2015	3,267	35,113
2016 and thereafter	3,301	35,479
	¥84,728	$910,662

Note 9: Contingent Liabilities

Contingent liabilities at March 31, 2010 for loans guaranteed by the Companies on behalf of third parties amount to ¥18,249 million ($196,141 thousand), which includes ¥18,242 million ($196,066 thousand) in 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 ¥218 million ($2,343 thousand).

Note 10: Net Assets

Net assets comprise three subsections, which are shareholders' equity, accumulated gains/losses from valuation and translation adjustments and minority interests.

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

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

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

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

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

At the annual shareholders' meeting held on June 25, 2010, the shareholders approved cash dividends amounting to ¥1,255 million ($13,489 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2010. Such appropriations are recognized in the period in which they are approved by the shareholders.

Note 11: 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, 2010, 2009 and 2008.

Differences between statutory tax rates and the effective tax rates for the years ended March 31, 2008 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 purposes for the years ended March 31, 2010 and 2009:

	2010	2009
Statutory tax rate	39.5%	39.5%
Non-deductible expenses	0.7	1.4
Dividends received not taxable	(1.7)	(4.9)
Per capita inhabitants taxes	0.4	0.7
Valuation allowance	(24.2)	13.9
Other	1.5	2.1
Effective tax rate	16.2%	52.7%

Significant components of deferred income tax assets and liabilities at March 31, 2010 and 2009 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Deferred income tax assets:			
Unrealized gain from sales of inventories between the Companies	¥ 280	¥ 320	$ 3,010
Accrued bonuses	991	793	10,651
Employees' severance and retirement benefits	4,740	3,161	50,946
Long-term accrued amount payable	876	—	9,415
Unrealized gain from sales of fixed assets between the Companies	1,309	1,432	14,069
Unrealized holding gain on fixed assets	2,656	—	28,547
Depreciation and amortization	714	—	7,674
Impairment loss of fixed assets	1,044	—	11,221
Loss on devaluation of investments in securities	451	—	4,847
Provision for business structure improvement	242	—	2,601
Accrued environmental expenditures	519	—	5,578
Net operating loss carryforwards	1,949	—	20,948
Other	1,681	2,200	18,068
Subtotal deferred income tax assets	17,452	7,906	187,575
Valuation allowance	(9,122)	(1,126)	(98,044)
Total deferred income tax assets	¥ 8,330	¥ 6,780	$ 89,531
Deferred income tax liabilities:			
Reserve deductible for Japanese tax purpose	¥ (877)	¥(1,353)	$ (9,426)
Reserve for deferred gain on sales of fixed assets for tax purpose	(791)	(663)	(8,502)
Unrealized holding gain on securities	(2,456)	—	(26,397)
Other	(1,004)	(140)	(10,791)
Total deferred income tax liabilities	¥(5,128)	¥(2,156)	$(55,116)
Net deferred income tax assets (liabilities)	¥ 3,202	¥ 4,624	$ 34,415

Note 12: Sales to and Purchases from Unconsolidated Subsidiaries and Affiliates

Sales to and purchases from unconsolidated subsidiaries and affiliates for the years ended March 31, 2010, 2009 and 2008 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	2010
Sales	¥35,703	¥37,695	¥37,988	$383,738
Purchases	5,433	6,484	4,064	58,394

Note 13: Research and Development Expenses

Research and development expenses are recognized in the consolidated statements of income in the year when they are incurred. Research and development expenses included in selling, general and administrative expenses are ¥1,231 million ($13,231 thousand), ¥1,054 million and ¥1,332 million for the years ended March 31, 2010, 2009 and 2008, respectively.

Note 14: Impairment Loss on Fixed Assets

In the year ended March 31, 2010, the Companies recorded impairment loss on fixed assets for the following group of assets:

Use	Location	Type	Amount Millions of yen	Amount Thousands of U.S. dollars
Idle assets	Niigata and others, Niigata	Machinery, vehicles Equipment and others	¥85	$914

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

The carrying amount of idle properties, which are not expected to be used in the future, were reduced to memorandum value. The amount of reduction is recognized in other expenses as an impairment loss of fixed assets.

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

Use	Location	Type	Amount Millions of yen
Specialty paper production equipment	Nagaoka, Niigata	Building and structures	¥ 229
		Machinery, vehicles	1,247
		Equipment and others	3
		Leased assets	33
Printing paper production equipment	Ichikawa, Chiba	Building and structures	1
		Machinery, vehicles	377
		Equipment and others	1
			¥1,891

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

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. The carrying amount of the production equipment is reduced to memorandum value. The amount of reduction is recognized in other expenses as impairment loss of fixed assets.

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

Note 15: Lease Transactions

Lease transactions for the years ended March 31, 2010 and 2009 are as follows:

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

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

	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars 2010
Machinery, equipment and others			
Purchase price equivalent	¥2,080	¥2,321	$22,356
Accumulated depreciation equivalent	742	691	7,975
Accumulated impairment loss equivalent	33	33	355
Book value equivalent	1,305	1,597	14,026

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

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

	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars 2010
Due within one year	¥ 270	¥ 297	$ 2,902
Due after one year	1,063	1,333	11,425
	¥1,333	¥1,630	$14,327
Balance of impairment loss account on leased assets included in the outstanding lease commitments	¥ 28	¥ 33	$ 301

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

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

	Millions of yen 2010	Millions of yen 2009	Millions of yen 2008	Thousands of U.S. dollars 2010
Lease payments	¥297	¥281	¥196	$3,192
Reversal of allowance for impairment loss on leased assets	6	—	—	64
Depreciation equivalent	292	281	196	3,138
Impairment loss	—	33	—	—

(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, 2010 and 2009 are as follows:

	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars 2010
Due within one year	¥ 39	¥ 39	$ 419
Due after one year	74	113	796
	¥113	¥152	$1,215

Note 16: 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 debt 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 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 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 or the changes in fair value of hedged items and the corresponding changes in the hedging derivative instruments. If the percentage changes of hedged items and hedging instruments, ranging between approximately 80% to 125%, hedging transactions are considered to be effective.

Derivative transactions for which hedge accounting had not been applied at March 31,2010 are as follows.

	Millions of yen 2010 Contract amount Total	Over one year	Fair value	Recognized gain (loss)
Foreign currency swap contracts	¥36	¥—	¥11	¥11

	Thousands of U.S. Dollars 2010 Contract amount Total	Over one year	Fair value	Recognized gain (loss)
Foreign currency swap contracts	$387	$—	$118	$118

Derivative transactions for which hedge accounting had been applied at March 31, 2010 are as follows.
(1) Currency-related

Type of derivative transaction	Main hedged items	Millions of yen 2010 Contract amount Total	Over one year	Fair value
Forward exchange contracts				
Buy contracts	Trade payables			
U.S. Dollar		¥2,954	¥—	¥70

Type of derivative transaction	Main hedged items	Thousands of U.S. dollars 2010 Contract amount Total	Over one year	Fair value
Forward exchange contracts				
Buy contracts	Trade payables			
U.S. Dollar		$31,750	$—	$752

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

(2) Interest-related

Type of derivative transaction	Main hedged items	Millions of yen 2010 Contract amount Total	Over one year	Fair value
Interest rate swap contracts				
Receive floating	Long-term loans payable			
Pay fixed		¥8,401	¥5,573	¥(193)

Type of derivative transaction	Main hedged items	Thousands of U.S. dollars 2010 Contract amount Total	Over one year	Fair value
Interest rate swap contracts				
Receive floating	Long-term loans payable			
Pay fixed		$90,294	$59,899	$(2,074)

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

The following interest rate swap contracts are used as hedges and meet certain hedging criteria. The net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Type of derivative transaction	Main hedged items	Millions of yen 2010 Contract amount Total	Over one year	Fair value
Interest rate swap contracts				
Receive floating	Long-term loans payable			
Pay fixed		¥6,071	¥2,223	¥—

Type of derivative transaction	Main hedged items	Thousands of U.S. dollars 2010 Contract amount Total	Over one year	Fair value
Interest rate swap contracts				
Receive floating	Long-term loans payable			
Pay fixed		$65,252	$23,893	$—

The following tables summarize contract amounts, fair values and recognized gains or losses on 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

Note 17: 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, 2010 and 2009 consisted of the following:

	Millions of yen 2010	2009	Thousands of U.S. dollars 2010
Projected benefit obligation	¥(18,979)	¥(13,038)	$(203,988)
Unrecognized actuarial differences	1,404	1,774	15,090
Less fair value of pension assets	7,378	3,775	79,299
Prepaid pension costs	(461)	(601)	(4,954)
Liability for severance and retirement benefits	¥(10,658)	¥ (8,090)	$(114,553)

Included in the consolidated statements of income for the years ended March 31, 2010, 2009 and 2008 are severance and retirement benefit expenses composed of the following:

	Millions of yen 2010	2009	2008	Thousands of U.S. dollars 2010
Service costs – benefits earned during the year	¥ 743	¥ 642	¥641	$ 7,986
Interest cost on projected benefit obligation	295	231	225	3,171
Expected return on pension assets	(37)	(37)	(41)	(398)
Amortization of actuarial differences	365	233	113	3,923
One-time amortization of prior service costs	—	—	34	—
Severance and retirement benefit expenses	¥1,366	¥1,069	¥972	$14,682

	2010	2009	2008
Discount rate:	**2.0% (mainly)**	2.0%	2.0%
Rates of expected return on pension assets:	**1.0% (mainly)**	1.0%	1.0%
Periods over which the prior service costs is amortized:	**1 year**	1 year	1 year
Periods over which the actuarial gains/losses are amortized*:	**10 years (mainly)**	10 years	10 years

The estimated amount of all retirement benefits to be paid at the future retirement date is mainly 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.

Note 18: 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) Processed paper products:
Manufacture and sale of processed paper products

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

	Millions of yen					
	2010					
	Pulp-related products	Processed paper products	Other	Total	Corporate or elimination	Consolidated
Sales:						
Outside customers	**¥167,597**	**¥19,772**	**¥ 6,583**	**¥193,952**	**¥ —**	**¥193,952**
Intersegment	**1,679**	**148**	**22,586**	**24,413**	**(24,413)**	**—**
Total	**169,276**	**19,920**	**29,169**	**218,365**	**(24,413)**	**193,952**
Operating expenses	**161,190**	**19,512**	**28,557**	**209,259**	**(25,199)**	**184,060**
Operating income	**¥ 8,086**	**¥ 408**	**¥ 612**	**¥ 9,106**	**¥ 786**	**¥ 9,892**
Identifiable assets	**¥314,205**	**¥20,966**	**¥18,675**	**¥353,846**	**¥(12,876)**	**¥340,970**
Depreciation and amortization	**¥ 20,203**	**¥ 895**	**¥ 650**	**¥ 21,748**	**¥ (386)**	**¥ 21,362**
Impairment loss	**¥ 85**	**¥ —**	**¥ —**	**¥ 85**	**¥ —**	**¥ 85**
Capital expenditures	**¥ 4,551**	**¥ 1,218**	**¥ 718**	**¥ 6,487**	**¥ (201)**	**¥ 6,286**

	Millions of yen					
	2009					
	Pulp-related products	Processed paper 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	¥ (7,358)	¥313,732
Depreciation and amortization	¥ 16,468	¥ 536	¥ 732	¥ 17,736	¥ (388)	¥ 17,348
Impairment loss	¥ 1,891	¥ —	¥ —	¥ 1,891	¥ —	¥ 1,891
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, the operating income of the "Pulp related products segment," "Processed paper products segment" and "Other segment" decreased by ¥589 million, ¥18 million and ¥0 million, 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, the operating income of the "Pulp related products segment" decreased by ¥1,401 million and the operating income of the "Other segment" increased by ¥13 million.

	Millions of yen					
	2008					
	Pulp-related products	Processed paper 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, the operating income of the "Pulp-related products segment," "Processed paper 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 the "Pulp-related products segment," "Processed paper products segment" and "Other segment" decreased by ¥958 million, ¥17 million and ¥22 million, respectively.

	Thousands of U.S. dollars					
	2010					
	Pulp-related products	Processed paper products	Other	Total	Corporate or elimination	Consolidated
Sales:						
Outside customers	**$1,801,344**	**$212,511**	**$ 70,754**	**$2,084,609**	**$ —**	**$2,084,609**
Intersegment	**18,046**	**1,590**	**242,756**	**262,392**	**(262,392)**	**—**
Total	**1,819,390**	**214,101**	**313,510**	**2,347,001**	**(262,392)**	**2,084,609**
Operating expenses	**1,732,481**	**209,716**	**306,932**	**2,249,129**	**(270,840)**	**1,978,289**
Operating income	**$ 86,909**	**$ 4,385**	**$ 6,578**	**$ 97,872**	**$ 8,448**	**$ 106,320**
Identifiable assets	**$3,377,096**	**$225,344**	**$200,720**	**$3,803,160**	**$(138,392)**	**$3,664,768**
Depreciation and amortization	**$ 217,143**	**$ 9,620**	**$ 6,986**	**$ 233,749**	**$ (4,149)**	**$ 229,600**
Impairment loss	**$ 914**	**$ —**	**$ —**	**$ 914**	**$ —**	**$ 914**
Capital expenditures	**$ 48,914**	**$ 13,091**	**$ 7,718**	**$ 69,723**	**$ (2,161)**	**$ 67,562**

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 19: Business Combinations

Application of purchase method

(a) Name of the acquired company and its business, major reason for the business combination, date of the business combination, legal form of the business combination, name of the controlling entry after the business combination, share of voting rights acquired

(1) Name of the acquired company and its business
Name of acquired company: KISHU PAPER Co., Ltd.
Line of business: Manufacturing, processing and sales of printing paper

(2) Major reason for the business combination
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.

(3) Date of the business combination
October 1, 2009

(4) Legal form of the business combination
Share exchange to include KISHU PAPER as one of the Company's wholly owned subsidiaries

(5) Name of the controlling entity after the business combination
HOKUETSU KISHU PAPER CO., LTD.

(6) Share of voting rights acquired
100%

(b) Period of operation of the acquired company included in the consolidated financial statements

From October 1, 2009 to March 31, 2010

(c) Acquisition cost of the acquired company

	Millions of yen	Thousands of U.S. dollars
Consideration as a result of acquisition Common stock of the Company	¥6,459	$69,422
Expenses directly incurred for acquisition	324	3,482
Acquisition cost	¥6,783	$72,904

(d) Share exchange ratio by share type, calculation method, number of shares issued and valuation

(1) The exchange ratio by share type
One share of KISHU PAPER common stock will be exchanged and issued for 0.195 shares of Hokuetsu Kishu Paper common stock

(2) Calculation method
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 on the Share Exchange Ratio after careful and repeated negotiations based on the analysis and method of calculation by respective independent third-party assessment institution.

(3) Number of shares issued and valuation
Number of common stock issued: 15,056,260 shares
Breakdown of the number of common stock issued:
Newly issued shares: 13,756,260 shares
Treasury stock allocated: 1,300,000 shares

	Millions of yen	Thousands of U.S. dollars
Valuation	¥6,459	$69,422

(e) Amounts of negative goodwill generated, reasons for such goodwill generation, and amortization method and period

	Millions of yen	Thousands of U.S. dollars
(1) Amount of negative goodwill generated	¥8,713	$93,648

(2) Reason for generation
The fair value of net assets of the company exceeded the acquisition cost at the time of business combination and the variance between these amounts is recognized as negative goodwill.

(3) Amortization method and period
Straight-line method over a period of five years

(f) The amounts of assets and liabilities taken over from the acquired company on the day of business combination and breakdown

	Millions of yen	Thousands of U.S. dollars
Current assets	¥21,534	$231,449
Non-current assets	36,906	396,668
Total assets	¥58,440	$628,117

	Millions of yen	Thousands of U.S. dollars
Current liabilities	¥24,722	$265,714
Non-current liabilities	18,114	194,690
Total liabilities	¥42,836	$460,404

(g) Approximate amounts of impact on the consolidated statement of income for the fiscal year ended March 31, 2010 assuming that the business combination had been completed on the commencement date of the fiscal year

	Millions of yen	Thousands of U.S. dollars
Net sales	¥22,411	$240,875
Operating income	1,100	11,823
Net income	¥ 1,319	$ 14,177

Note 20: Related Party Transactions

Effective from the year ended March 31, 2009, the Companies adopted the accounting standard, "Accounting Standard for Related Party Disclosures" (Statement No. 11 issued by the Accounting Standards Board of Japan on October 17, 2006), and Guidance No. 13, "Guidance on Accounting Standard for Related Party Disclosures" (Statement No. 13 issued by the Accounting Standards Board of Japan on October 17, 2006). There is no change in addition to the prior disclosures, as a result of this application.

Transactions with related party

(a) Unconsolidated subsidiary and affiliate, etc., of the Company

2010									
Attribute	Name	Location	Amount of capital or investment in capital	Ownership ratio of voting rights (%)	Relationship	Nature of transaction	Trading amount	Account	Balance at the end of the fiscal year
Affiliate	Marudai Shigyo Co., Ltd.	Chiyoda-ku, Tokyo	¥162 million ($1,741 thousand)	Direct 36 Indirect -	Agency for the products of the Company	Sales of paper	¥35,603 million ($382,663 thousand)	Account receivable-trade	¥13,744 million ($147,721 thousand)

Transaction terms and conditions, policy to decide such terms and conditions and other
The sales price of paper is determined by the negotiations, considering market prices.

2009									
Attribute	Name	Location	Amount of capital or investment in capital	Ownership ratio of voting rights (%)	Relationship	Nature of transaction	Trading amount	Account	Balance at the end of the fiscal year
Affiliate	Marudai Shigyo Co., Ltd.	Chiyoda-ku, Tokyo	¥162 million	Direct 36 Indirect -	Agency for the products of the Company	Sales of paper	¥37,634 million	Account receivable-trade	¥13,529 million

Transaction terms and conditions, policy to decide such terms and conditions and other
The sales price of paper is determined by the negotiations, considering market price.

(b) Notes relating to the parent company and major affiliate

None

Note 21: Subsequent Events

(a) Distribution of retained earnings

The following items were approved at the annual shareholders' meeting of the Company held on June 25, 2010:

Payment of a cash dividend of ¥6.00 ($0.06) per share to shareholders as of March 31, 2010 or a total of ¥1,255 million ($13,489 thousand)

(b) Absorption of Consolidated Subsidiary

At May 14, 2010 the Board of Directors of the Company resolved and concluded a basic agreement, as of the same date, regarding the business combination through a merger by absorption with its wholly owned subsidiary of KISHU PAPER.

(1) Purpose of the Business Integration through the Absorption

On October 1, 2009, Hokuetsu Kishu Paper conducted a share exchange with the objective of creating a business combination through a merger by absorption, so as to include KISHU PAPER in its scope of consolidation as a wholly owned subsidiary. The merger further expanded sales channels and strengthened product brands, while reducing costs through enhanced operational efficiencies gained as a result of production optimization, joint purchase of raw materials and fuels and the integration of product distribution. The Company decided to conclude the basic agreement for business integration through the absorption in its pursuit of further improvement in Groupwide management efficiencies and corporate value. Based on this merger, the Company aims to accelerate management decision-making and the execution of management strategies, concentrate and effectively utilize management resources, raise operational efficiencies and reinforce international competitiveness.

(2) Details of Merger

(i) Schedule of Merger

Board of Directors' meeting for resolving to conclude the basic agreement	May 14, 2010
Conclusion of the basic agreement	May 14, 2010
Board of Director's meeting to conclude merger agreement	November 2010 (Planned)
Conclusion of the merger agreement	November 2010 (Planned)
Effective date of merger	April 1, 2011 (Planned)

* For the Company, this merger is categorized as a short form merger as stipulated in Article 796 Paragraph 3 of the Law, and for KISHU PAPER, it is considered a short form stipulated in Article 784 Paragraph 1 of the Law.

Therefore the merger does not require a resolution at either of the two companies Shareholders' Meetings.

(ii) Under the merger, the Company will be the surviving company and KISHU PAPER will be the dissolved company.

(iii) Share allotment of the merger

The Company owns 100% of KISHU PAPER's shares, and will not issue new shares, increase capital or cash out after the merger.

(iv) Handing of new share subscription rights and bonds with pre-emptive rights

Not applicable

(3) Profile of the Surviving Company after the Merger

There will be no change in the business name, businesses, head office address, representative, capital or end of fiscal year after the merger.

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of HOKUETSU KISHU PAPER CO., LTD. (formerly HOKUETSU PAPER MILLS, LTD.) (a Japanese corporation) and consolidated subsidiaries as of March 31, 2010 and 2009, 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, 2010, 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 KISHU PAPER CO., LTD. and subsidiaries as of March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2010, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:
As discussed in Note 21 (2) of the consolidated financial statements, at May 14, 2010 the Company concluded the basic agreement, regarding the business combination through a merger by absorption of KISHU PAPER Co., Ltd.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 25, 2010

Subsidiaries and Affiliates

As of March 31, 2010

Consolidated subsidiaries

Hokuetsu Package Co., Ltd.
Uchikanda 282 Bldg. 7F, 2-15-9, Uchikanda, 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.
57, Enoki-cho, Higashi-ku, Niigata 950-0881
Manufacturing and sale of industrial machinery, electric instrumentation construction; Design and construction of civil engineering and buildings

Hokuetsu Trading Corporation
3-1-1, Zao, Nagaoka, Niigata 940-0028
Real estate; Management of driving school

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

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

Hokuetsu Logistics Co., Ltd.
560-11, Shimokido, Higashi-ku, Niigata 950-0885
Transportation and warehousing of products, mainly those of the Company

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

Techno-Hokuetsu, Ltd.
57, Enoki-cho, Higashi-ku, Niigata 950-0881
Paper and pulp manufacturing work; Industrial wastewater purification processing; Waste disposal, etc.

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

Hokuetsu Forest Co., Ltd.
1529, Aza-Shitadairayama ko, Oaza-Sakamoto, Aizubange-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

KISHU PAPER Co.,Ltd.
3-2-2, Hongoku-cho, Nihonbashi, Chuo-ku, Tokyo 103-0021
Manufacturing, processing and sale of paper and pulp

Kishu Zorin Co.,Ltd.
4-22-1, Minami-Suita, Suita, Osaka 564-0043
Manufacturing and sale of wood chips and palettes

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

BF Co., Ltd.
NBF Ikebukuro Tower, 1-33-8, Higashi-Ikebukuro, Toshima-ku, Tokyo 170-8438
Supply of computer-related components; Data processing services; Radio frequency identification operations

Kinan Sangyo Co., Ltd .
182, Udono, Kiho-cho, Minamimuro-gun, Mie 519-5701
Contract work at KISHU PAPER's Kishu Mill

Kishu Kami Seisen Co., Ltd .
182, Udono, Kiho-cho, Minamimuro-gun, Mie 519-5701
Contract work at KISHU PAPER's Kishu Mill

Affiliate companies accounted for under equity method

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

Nikkan Co., Ltd.
3-5-1, Nishizao, 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.
4936, Shimami-cho, Kita-ku, Niigata 950-3102
Manufacturing, repair and sale of pallets, etc.

Arakai Chip Co., Ltd.
1205, Aza-Dobashi, Oaza-Kawashima, Minamiaizu-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.
2-4-17, Zao, Nagaoka, Niigata 940-0028
In-house logistics, transportation of products and environmental maintenance at the Nagaoka Mill

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

Corporate Data

Overview As of March 31, 2010

Corporate Name	Hokuetsu Kishu Paper Co., 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	4,071 (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-kishu.jp

Offices and mills As of September 2010

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

Fukuoka Office
2-2, Tsunaba-machi, Hakata-ku, Fukuoka 812-0024

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

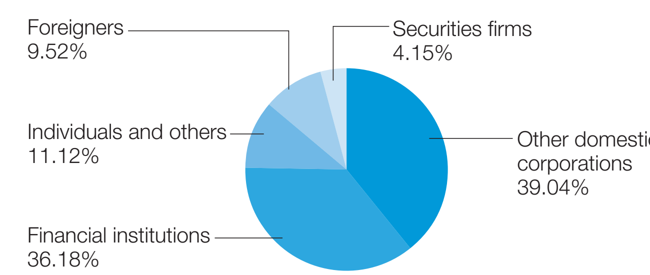
Stock information As of March 31, 2010

Number of shares authorized	500,000,000
Number of shares issued	209,263,814
Number of shareholders	14,370

Major shareholders

Name	Number of shares held (shares)	Ownership ratio (%)
Mitsubishi Corporation	51,740,055	24.72
The Master Trust Bank of Japan, Ltd. (Trust Account)	12,734,500	6.09
Japan Trustee Service Bank, Ltd. (Trust Account)	8,860,000	4.23
NIPPONKOA Insurance Co., Ltd.	5,992,860	2.86
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.])	5,614,000	2.68
Daio Paper Corporation	4,286,970	2.05
The Daishi Bank. Ltd.	4,217,526	2.02
The Hokuetsu Bank Ltd.	4,215,365	2.01
Mizuho Corporate Bank, Ltd.	3,920,000	1.87
The Norinchukin Bank	3,554,831	1.70

Stock distribution by type of shareholder



To Contribute to Society as a Superior Paper Company and Earn the Trust of our Stakeholders

We at the Hokuetsu Kishu Paper Co., Ltd. strive to achieve sustainable development throughout the Group and endeavor to contribute to lifestyles and culture in a highly information-oriented society. We do this with a keen sense of responsibility to meet the expectations of all of our stakeholders, including customers, stockholders, business partners, local communities and employees.

As we work to create value now and into the future, we present the following reaffirmation of our corporate philosophy so as to better contribute to society by undertaking business activities as a well-respected paper manufacturer.

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