HOKUETSU KISHU PAPER CO., LTD.

Annual Report 2011

Year ended March 31, 2011

HOKUETSU KISHU PAPER CO., LTD.

Annual Report 2011

HOKUETSU KISHU PAPER CO., LTD.

3-2-2 Hongoku-cho, Nihonbashi, Chuo-ku Tokyo 103-0021, Japan

Telephone +81-3-3245-4500 Facsimile +81-3-3245-4511

ECO-PULP

エコパルプ

植林紙

Cover printed on Hokuetsu Kishu Paper's μ Matt, 157g/m², inside pages on μ Matt, 127.9g/m², and financial section on colored wood-free paper Kishu Rainbow.

Published Oct. 2011

Printed in Japan

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 commenced the manufacturing of paperboard, then expanded its field of business to printing paper, specialty paper and paper processing, becoming a company chiefly involved in coated paper production using on-machine coaters. 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. On April 1, 2011, the two companies completed the merger with the aim of further improving Groupwide management efficiency and corporate value. 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 strive to be a company that contributes to society through the provision of attractive products and services by leveraging both companies' competitive edges.

Niigata Mill

Contents

Aiming to Become a Truly Global Company

—Transition to a New Medium-Term Management Plan—

In its medium-term management plan, Hokuetsu Kishu Paper has consistently pursued improved production efficiency and lower environmental burdens. In the course of these efforts, we have promoted proactive capital investment and cost reduction activities. Under the new G-1st medium-term management plan, the Hokuetsu Kishu Paper Group will advance its environmental management and globalization with the aim of achieving a position as a global company as defined in Vision 2020.

2000 – 2002

Step-up 21

Maintain industry-leading productivity and cost-competitiveness

1. Promote customer-oriented operations
2. Promote environmental measures
3. Enhance Group management and improve financial structure
4. Rationalize Group employment level
5. Lower operating cost of each plant

2003 – 2007

Jump-100

Acquire international competitiveness in terms of quality, cost and earnings power

1. Meet new technology challenges and reduce costs through “strengthened competitiveness”
2. Evolve as a coated paper manufacturer—N-6 paper making machine to N-7, to N-8
3. Commit to customer-oriented sales operation and environment-focused management
4. Continue to ensure high earnings and stable dividends

2008 – 2010

Value-up 10

Maximize corporate value and realize international competitiveness

1. Reach investment targets
2. Promote balanced environmental management and internationalization
3. Train and optimally utilize human resources
4. Enhance the management foundation

2011 – 2013

G-1st

Environment-oriented management and development of global competitiveness

G-1st New Medium-Term Management Plan

Aiming for the further reduction of its environmental burdens, the Group will offer increasingly environment-friendly products. Simultaneously, the Group will make maximum use of existing production facilities to enhance competitiveness in terms of both quality and cost and offer attractive products. In the domestic market, the Group will increase sales with reinforced distribution channels and agencies. Overseas, the Group will expand exports by participating in growth markets, mainly in the Pacific Rim region.

Furthermore, the Group will consolidate its earnings foundation by making across-the-board efforts to reduce costs and streamlining operations with the aim of promoting strategic investment in overseas business development.

1. Strengthen sales capabilities that are thoroughly customer-oriented and develop overseas sales network
2. Reduce environmental burdens (maintaining the industry’s lowest level of CO_2 emissions per product ton)
3. Expand exports and establish overseas production bases
4. Establish solid governance and compliance structures
5. Develop human resources

Vision 2020

Net sales: More than ¥300 billion
(Overseas sales ratio: 25%)

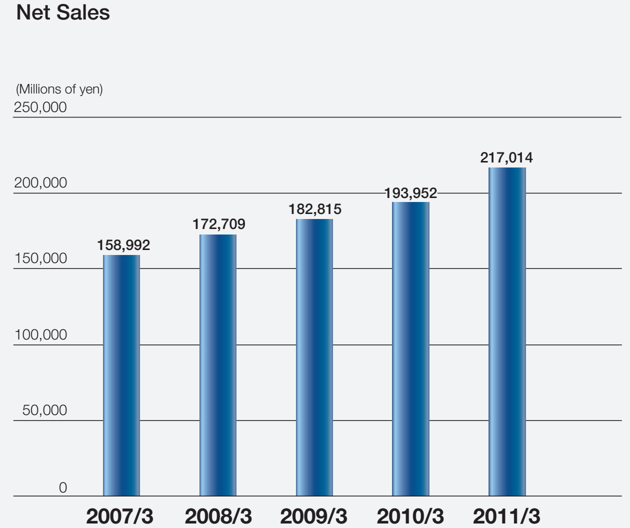
- Be environmentally conscious in every corporate activity and promote environmental management
- Offer attractive products with excellent quality and cost-competitiveness using advanced technological capability
- Aim for steady growth while continuing to meet challenges

Consolidated Financial Highlights (Fiscal years ended March 31)

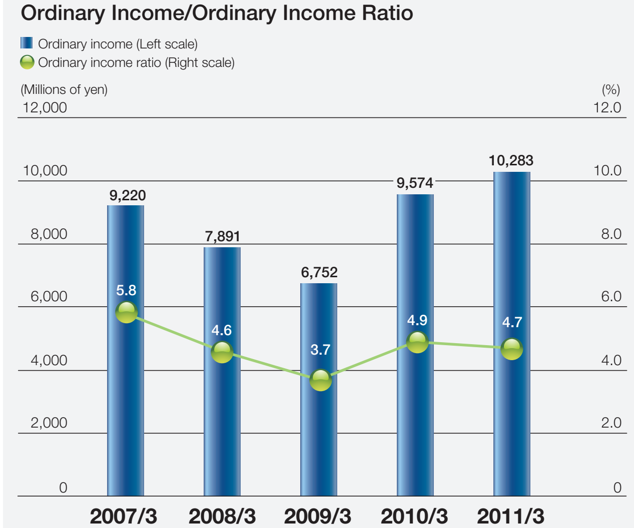
	Millions of yen											Thousands of U.S. dollars (Note 2)
	2002	2003	2004	2005	2006	2007	2008	2009	2010 (Note 1)	2011		2011
For the year:												
Net sales	¥136,172	¥142,156	¥147,579	¥151,205	¥153,692	¥158,992	¥172,709	¥182,815	¥193,952	**¥217,014**	1	**$2,609,910**
Operating income	10,064	10,715	13,194	12,909	6,932	9,050	8,330	8,125	9,892	**8,743**	2	**105,147**
Ordinary income (Note 3)	9,299	10,118	12,468	12,548	7,205	9,220	7,891	6,752	9,574	**10,283**		**123,656**
Net income	2,772	2,979	6,451	6,959	3,238	4,395	4,074	1,913	7,239	**5,432**	3	**65,328**
EBITDA (Note 4)	24,879	25,325	26,718	26,440	21,551	20,516	21,456	25,846	31,696	**32,455**	4	**390,319**
At year-end:												
Total net assets	¥ 92,737	¥ 94,039	¥101,801	¥107,212	¥112,800	¥143,439	¥140,184	¥136,713	¥139,989	**¥139,822**		**$1,681,563**
Total assets	220,890	213,296	224,956	221,438	232,486	269,124	292,726	313,732	340,970	**322,255**		**3,875,586**
Per share data (Yen/U.S. dollars):												
Net income	¥ 16.90	¥ 17.65	¥ 38.81	¥ 41.92	¥ 19.31	¥ 22.75	¥ 19.19	¥ 9.01	¥ 34.38	**¥ 26.21**		**$ 0.32**
Cash dividends	10.00	10.00	10.00	12.00	12.00	12.00	14.00	12.00	12.00	**12.00**		**0.14**
Ratios (%):												
EBITDA/Net sales	18.3%	17.8%	18.1%	17.5%	14.0%	12.9%	12.4%	14.1%	16.3%	**15.0%**		
Ordinary income ratio	6.8	7.1	8.4	8.3	4.7	5.8	4.6	3.7	4.9	**4.7**		
Net income ratio	2.0	2.1	4.4	4.6	2.1	2.8	2.4	1.0	3.7	**2.5**		
ROA (Note 5)	4.1	4.7	5.7	5.6	3.2	3.7	2.8	2.2	2.9	**3.1**	4	
Capital expenditures	¥ 15,022	¥ 11,796	¥ 16,049	¥ 9,195	¥ 16,546	¥ 43,022	¥ 37,725	¥ 31,376	¥ 6,286	**¥ 8,636**		**$ 103,848**

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 ¥83.15 to one dollar, the currency exchange rate prevailing at the Tokyo Foreign Exchange Market as of March 31, 2011.
3. Ordinary income is an important management indicator at Hokuetsu Kishu Paper and a common item on financial statements in Japan. It is calculated by adding to or subtracting from operating income items such as interest and dividend income, equity in earnings of unconsolidated subsidiaries and associated companies, interest expenses and exchange gains or losses.
4. EBITDA = Ordinary income + interest expenses + depreciation and amortization costs - negative goodwill
5. ROA = Ordinary income ÷ Average total assets at the beginning and end of the fiscal year × 100

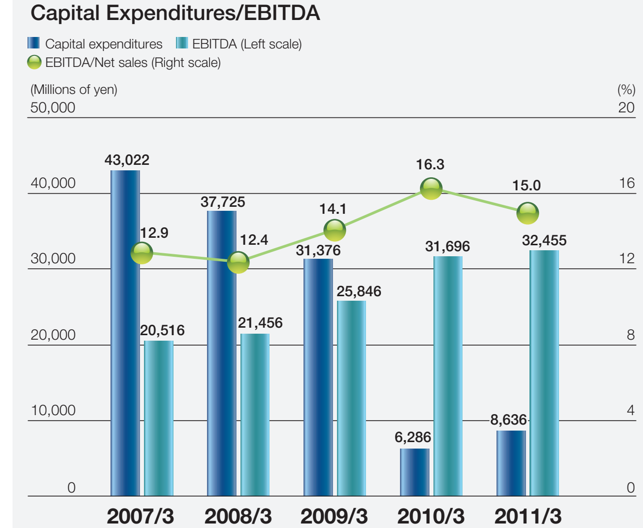
Net Sales



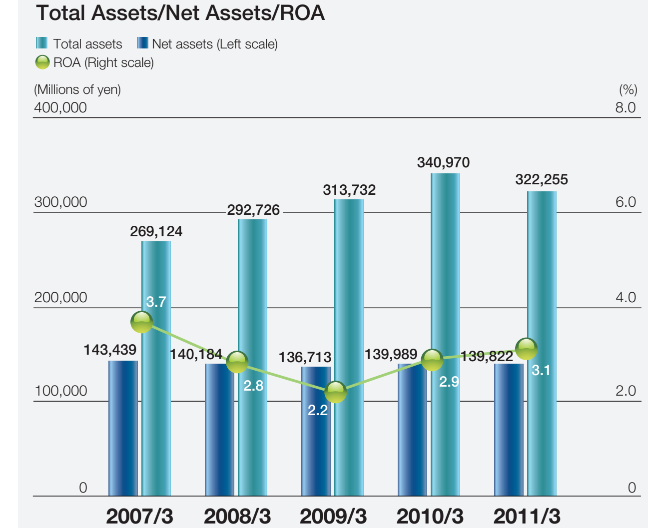
Ordinary Income/Ordinary Income Ratio



Capital Expenditures/EBITDA



Total Assets/Net Assets/ROA



Overview of the Fiscal Year under Review

1 Net Sales: ¥217,014 million
The full-year consolidation of KISHU PAPER Co., Ltd. contributed to an 11.9% year-on-year sales increase. The Hokuetsu Kishu Paper Group registered a ninth consecutive year of net sales growth, which reached a record high.

2 Operating Income: ¥8,743 million
Despite raising the production ratio accounted for by exports and the positive effects of efforts to reduce various costs, operating income declined 11.6% year on year due mainly to sluggish domestic market conditions and raw material and fuel price hikes. However, ordinary income grew 7.4% to ¥10,283 million, reflecting the amortization of negative goodwill and the business consolidation with KISHU PAPER.

3 Net Income: ¥5,432 million
Net income dropped 25.0% compared with the previous fiscal year.

4 ROA: 3.1%

EBITDA: ¥32,455 million
ROA improved for the second consecutive year and EBITDA increased for the fourth consecutive year.

- The Group recorded a loss on disaster of ¥1,495 million due to damage related to the Great East Japan Earthquake.

- **Interest-Bearing Debt: ¥119,227 million**

D/E Ratio: 0.86 times
The balance of interest-bearing debt decreased ¥15,623 million year on year, while D/E ratio declined 0.11 of a percentage point, representing the improvement in the Group's financial standing.

Sekio Kishimoto, President & CEO

With a Vision of Where We Will Be in 10 Years, We Are Taking Our First Step toward Further Growth and Becoming a Truly Global Company

"During fiscal 2010, the year ended March 31, 2011, the Hokuetsu Kishu Paper Group recorded increased sales and ordinary income. This was owing to our efforts in export expansion and continuous cost reduction as well as the inclusion of the full-year results of KISHU PAPER Co., Ltd. into the scope of consolidation.

Aiming for long-term, sustainable growth through the promotion of global business development and thorough implementation of environmental management, the Group will consolidate its position as a company that contributes to society through the provision of attractive products and services."

Fiscal 2010 Performance

During fiscal 2010, the Hokuetsu Kishu Paper Group faced a harsh business environment, including an ongoing decline in domestic sales prices for printing paper and rising prices for raw materials and fuels. In addition, the Great East Japan Earthquake at the end of the fiscal year under review damaged some of the Group's production facilities. Fortunately, we were able to resume operations promptly, and, owing to the full-year consolidation of KISHU PAPER, the Group recorded increases in sales and ordinary income.

The growth in sales was mainly for printing paper and reflected our efforts to increase exports in line with our basic management principles of strengthening global competitiveness. On top of this, the full-year consolidation of KISHU PAPER contributed to the result and, accordingly, net sales rose 11.9% year on year to ¥217 billion, making fiscal 2010 the ninth consecutive year of sales growth.

On the earnings front, although domestic prices of printing paper dropped even as raw material and fuel prices inflated, several factors contributed to a profit increase, for example, the improvement of our facility utilization ratio due mainly to an increase in the production of export items and enhanced production efficiency through the improvement of energy use as well as the business integration with KISHU PAPER, including the amortization of negative goodwill. As a result, operating income fell 11.6% year on year to ¥8.7 billion, while ordinary income rose 7.4% to ¥10.3 billion.

During the fiscal year under review, we recorded a loss on disaster of ¥1.5 billion, reflecting the impact of the Great East Japan Earthquake. Accordingly, net income fell 25% year on year to ¥5.4 billion.

EBITDA stood at ¥32.5 billion and ROA (ordinary income basis) was 3.1%, both of which showed a year-on-year growth. The Group's profitability has been improving.

The Group was unable to attain the numerical targets set in the V-10 medium-term management plan due to the changes in the business environment. However, we are continuing to progress toward the creation of a management foundation that will support sustainable growth. Progress thus far has encompassed the business consolidation with KISHU PAPER; the enhancement of the utilization ratio of the N-9 (Niigata No. 9 papermaking machine) by increasing exports; the reorganization, beginning in April 2011, of our business structure, which now includes business divisions; and the establishment of a new sales subsidiary in Japan and a mill in China.

Targets to Achieve Long-Term Growth and the Establishment of Vision 2020

With the aim of achieving sustainable growth, the Group recognizes two long-term targets: "Further cultivation of overseas markets" and "thorough promotion of environmental management." Focusing on these targets, we drew up a long-term plan, Vision 2020, to achieve the Hokuetsu Kishu Paper Group's aims by fiscal 2020.

Cultivation of Overseas Markets

The Group has promoted the cultivation of overseas markets mainly by exporting printing paper while investing in overseas companies and supplying them with specialty paper and paper processing. On this occasion, however, we will further promote participation in overseas markets as we work to expand businesses in growth markets, primarily in the Pacific Rim region.

To that end, for the main four businesses of printing paper, white paperboard, specialty paper and paper processing, we will set up strategies individually.

In the printing paper business, we will focus on the expansion of exports from Niigata to such Asian countries as China. In the white paperboard business, we will establish a mill in China to reinforce production. For the specialty paper and paper processing businesses, we will further enhance and strengthen our overseas support and investment. Through these initiatives, we will aim to achieve overseas sales of ¥75 billion and an overseas sales ratio of 25% in fiscal 2020.

Promotion of Environmental Management

Taking a comprehensive approach, the Group has developed eco-friendly technologies. We have implemented various proactive measures aimed at reducing our environmental burden, for example, introducing energy-efficient, state-of-the-art facilities and engaging in energy-saving activities. Specific measures include the introduction of elemental chlorine free (ECF) bleaching, a technology that is new to Japan, and promoting the use of such renewable energy as biomass boilers that use black liquor (a byproduct of the pulp production process) or wood chips. As a result, the Group has maintained its top position in the industry in terms of low CO_2 emissions volume. Spurred by this achievement, we will pursue further CO_2 emissions cutbacks and the further lowering of our environmental burden.

Our New Medium-Term Management Plan: Taking the First Step toward Our Fiscal 2020 Goal

In line with Vision 2020, we aim to achieve sustainable growth as a company that thoroughly implements environmental management and is globally competitive. As a first step toward realizing this corporate vision over the next ten years, in April 2011 we launched a new medium-term management plan. Under this plan, we will set up new sales agents to develop distribution network in order to promptly meet changes in the gradually shrinking domestic market and to provide customer-oriented, high-quality services. Together with this, we will establish a large white paperboard mill in Guangdong Province, China, where we see growth potential, and focus on cementing our position in China. Numerical targets for the final year of the plan are net sales of ¥235 billion, ordinary income of ¥15 billion and a ratio of ordinary income to net sales of more than 6.3%. The merger by absorption with KISHU PAPER and changeover to a new corporate structure on April 1, 2011, was for the purpose of reinforcing the Group's main businesses and facilitating the efficient and swift implementation of business strategies. Under this new structure, the Hokuetsu Kishu Paper Group will aggressively implement business operations in accordance with the following themes.

Printing paper: With quality and services to meet user needs, we aim to increase domestic sales and exports.

White paperboard: Establishing a white paperboard mill in China, we continue to promote globalization. By striving to boost competitiveness through the improvement of quality, we aim to increase domestic sales.

Specialty paper: Accurately meeting changing user needs, we promote the development of new products while reducing costs.

Paper processing: Positioning paper processing as the Group's fourth core business, we aim to further expand businesses.

Details of strategies in the above four businesses are introduced on pages 14–19.

Dividend Policy

Hokuetsu Kishu Paper Co., Ltd. considers securing stable shareholder returns while proactively promoting business development from a long-term perspective and reinforcing and expanding corporate structure to be an important management policy. Based on this policy, we decided on a annual dividend of ¥12 per share for the fiscal year under review.

Over the next three years, we plan to proactively invest in such projects as the establishment of a white paperboard mill in China. Along with these efforts, we will focus on the reducing interest-bearing debt, as we continue to consolidate our financial ground.

Our Ideal Corporate Image

In Vision 2020, we have created an ideal that we can aspire to as a Group, namely, a company that promotes environmental management and places the utmost priority on the environment in every corporate activity; a company that has high technological capabilities and offers a lineup of products that are highly attractive thanks to their high quality and cost competitiveness; and a company that maintains an enthusiastic and challenging attitude towards sustainable growth. Through corporate activities, we will establish a position as a truly global company while striving to become one that is trusted by all stakeholders. We sincerely ask for stakeholders' continued support and understanding of our management.

Sekio Kishimoto

Sekio Kishimoto
President & CEO

Special Feature

Market Trends:
A Mature Japanese Market and High Growth Potential in the Markets of the Asia-Pacific Rim Region

Global Paper and Paperboard Market

From a global perspective, the paper and paperboard markets of advanced regions like the United States and Europe have reached the mature stage, and demand growth in these regions is thus slow or partly declining. On the other hand, the Asia-Pacific Rim region has become a driving force for growth. In the last several years, demand in the Asia-Pacific Rim region has been robust, and it now accounts for one third of global demand.

Most notably, China, which has become a major economic force, outstripped the United States to become the world's top manufacturer and consumer of paper and paperboard in 2009 (January–December), with an annual production as well as a consumption volume of approximately 90 million tons. However, the per capita consumption of paper and paperboard in China is merely 60 kg a year, which is far below the global average. Therefore, there is still plenty of room for growth.

In 2010, on the back of global economic recovery, the production of paper and paperboard was generally on the increase. This trend was observed not only in China, but in other Asian countries and emerging nations, such as South Korea and Brazil.

Due partly to sluggish domestic demand, major Japanese papermaking companies are striving to expand their operations in the Asian market. Although market competition is expected to further intensify as companies expand their paper production facilities in China, the Hokuetsu Kishu Paper Group is aiming to expand exports by leveraging its strengths.

Domestic Paper and Paperboard Market

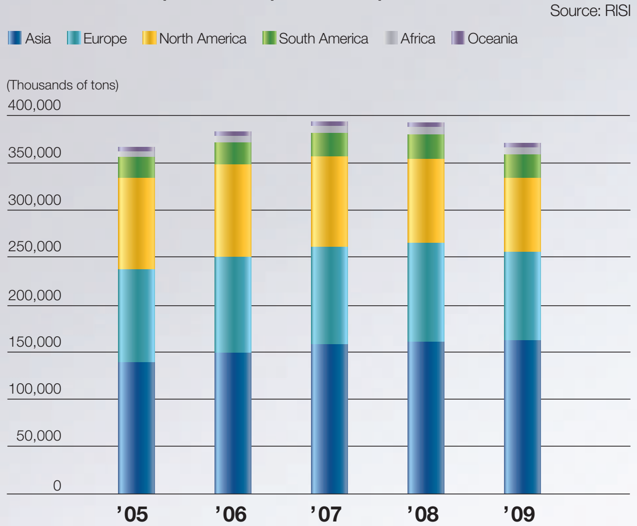
Sometime in the last few years, total Japanese demand for paper and paperboard peaked. A demand decrease was seen as the Japanese economy saw significant deterioration after Lehman Brother's fall in autumn 2008. In 2010, however, demand rose 1.4% year on year to 28.26 million tons, topping the previous year. Domestic demand for the Group's mainstay printing and communication paper dropped 1.6% while that for white paperboard grew 2.8% year on year.

Demand for newsprint and printing and communication paper, including for fliers and catalogues, continued to be stagnant in the face of the growing popularity of such media as the Internet and smartphones. Demand for paperboard, on the other hand, grew on the back of increased demand for containers for beverages and processed food that reflected both the extreme heat in summer as well as recovery in personal consumption owing to the Japanese government's fiscal stimulus policy.

In 2011, paper demand is anticipated to be low, particularly for printing and communication paper, reflecting companies' ongoing efforts to control advertising expenses and the transition from paper to other media.

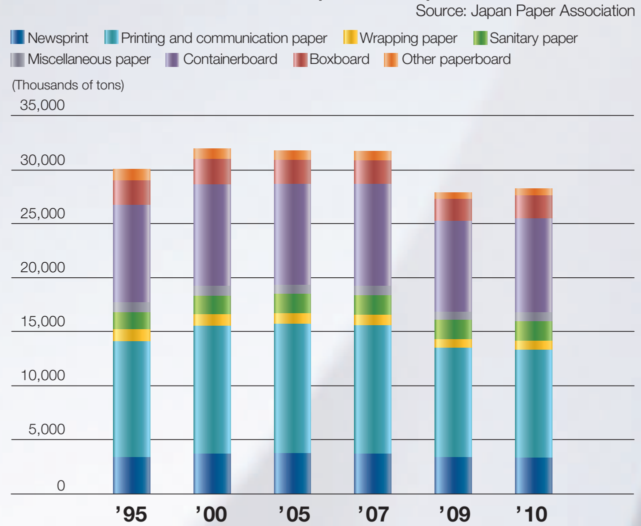
Global Consumption of Paper and Paperboard

Source: RISI



Total Domestic Demand for Paper and Paperboard

Source: Japan Paper Association



Establishment of Vision 2020:
Aggressive Global Business Development and Environmental Management Promotion

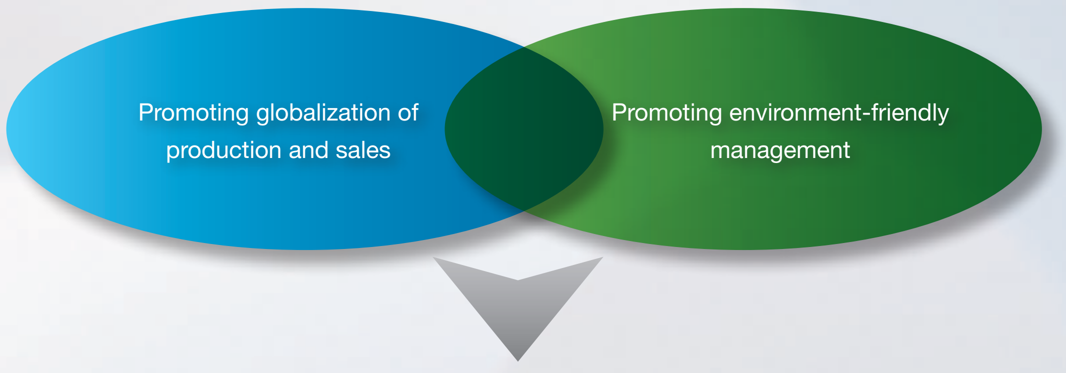
Market Conditions

In view of the remarkable economic growth in Asia, particularly in China, the Group anticipates future increases in overseas demand

Stagnant domestic market due to a gradual decline in demand

Society's Expectations

On the back of growing environmental awareness, efforts to address environmental issues will result in enhanced corporate value



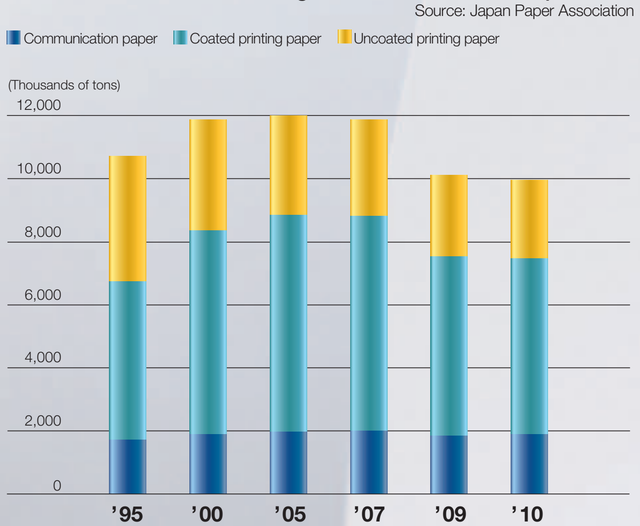
Establishment of Vision 2020
Aiming to Become a Truly Global Company

- Be environmentally conscious in every corporate activity and promote environmental management
- Offer attractive products with excellent quality and cost-competitiveness using advanced technological capability
- Aim for steady growth while continuing to meet challenges

Sales target: More than ¥300 billion (Overseas sales ratio: 25%)

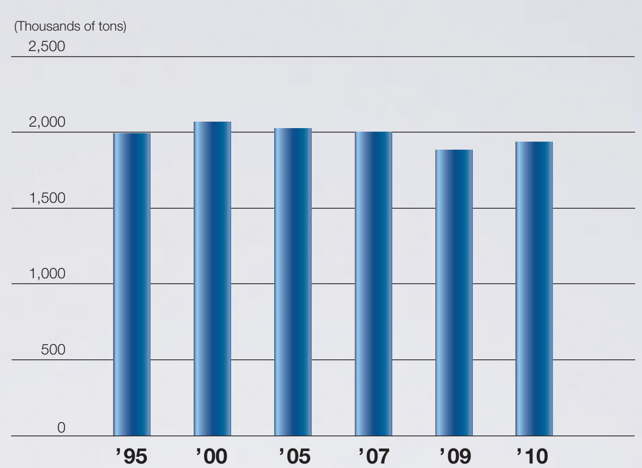
Domestic Demand for Printing and Communication Paper

Source: Japan Paper Association



Domestic Demand for White Paperboard

Source: Japan Paper Association



Overview of the New Medium-Term Management Plan "G-1st"

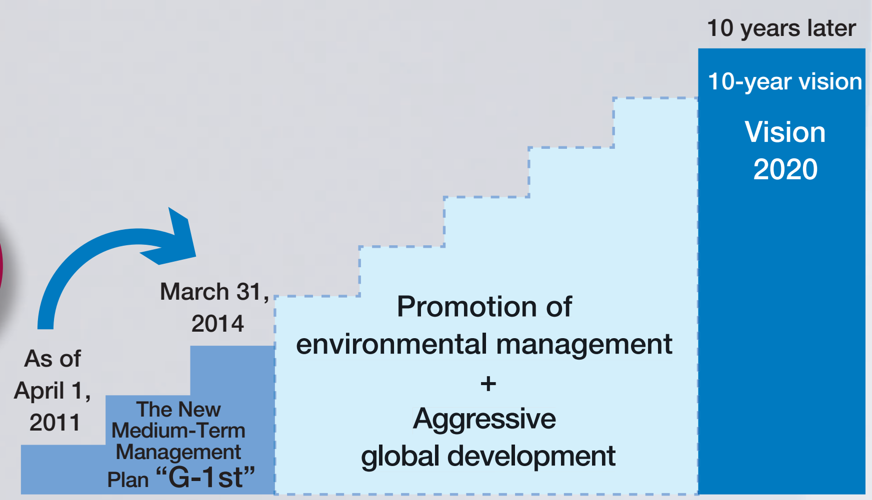
The Hokuetsu Kishu Paper Group's Journey

Since the Lehman Brother's fall, the domestic market has continued to shrink, while all around the world concerns about environmental burdens have continued to grow. Against this backdrop, the Hokuetsu Kishu Paper Group will strive to enhance its corporate value by (1) participating in growth markets situated mainly in the Pacific Rim region by further increasing exports and (2) promoting management that focuses more on environmental issues in its pursuit of sustainable growth. The Group's new medium-term management plan, G-1st, was formulated to support these endeavors.

Having set a long-term goal for 10 years from now, in 2020, we positioned the first three-year, medium-term management plan starting April 2011 as the first step. During the course of these three years, the Group will identify key issues related to sales, the environment, overseas development, in-house structure and human resources and address them across the board. The Group will also build strategies for each of its four main businesses, and proactively implement related measures.

Four Keywords Symbolizing the G-1st Management Policies

G-1st: The First Step of Vision 2020 Aimed at Achieving the Hokuetsu Kishu Paper Group's Ideal Corporate Image by 2020



Management Objectives: Fiscal 2013

Net sales:	¥235 billion
Ordinary income*:	¥15 billion
Ordinary income* to net sales ratio:	More than 6.3%
EBITDA:	¥34 billion
EBITDA to net sales ratio:	More than 14.4%

* Ordinary income is an important management indicator at Hokuetsu Kishu Paper and a common item on financial statements in Japan. It is calculated by adding to or subtracting from operating income items such as interest and dividend income, equity in earnings of unconsolidated subsidiaries and associated companies, interest expenses and exchange gains or losses.

Management Strategy

"Reinforcement of domestic sales and aggressive global development"

Key Subjects

1. Sales

Reinforcement of sales capabilities at Hokuetsu Kishu Sales Co., Ltd. and existing sales agent companies, development and expansion of overseas sales channels and implementation of customer-oriented sales activities

2. Environment

With the key phrases "improving the operation ratio at advanced facilities," "improvement activities" and "renewable energy," the Group will reduce environmental burdens (maintaining the industry's lowest CO_2 emissions volume per product ton)

3. Overseas development

Expansion of exports and establishment of overseas production base (Guangdong Province, China)

4. In-house structure

Efficient and speedy implementation of policies by the business division system

Thorough cost reductions and business streamlining across the Group

Establishment of solid governance and compliance systems

5. Human resources

Nurturing personnel through the human resource development program and recruiting system so that employees can participate actively in global businesses

Promotion of active use of outside organizations

Strategies in the Main Four Businesses

1. Printing paper

With quality and services to meet user needs, we aim to increase domestic sales and exports

→ See page 14 for details

2. White paperboard

Establishing a white paperboard mill in China, we continue to promote globalization

By striving to boost competitiveness through the improvement of quality, we aim to increase domestic sales

→ See page 16 for details

3. Specialty paper

Accurately meeting changing user needs through product development while reducing costs

→ See page 18 for details

4. Paper processing

Positioning paper processing as the Group's fourth core business, we aim to further expand businesses

→ See page 19 for details

Printing Paper

Paper and Pulp Segment

Offering a level of quality and service that meets user needs, we aim to expand domestic sales and exports.

Takayuki Sasaki
General Manager, Paper Business Division

Business Environment and Specific Strategies

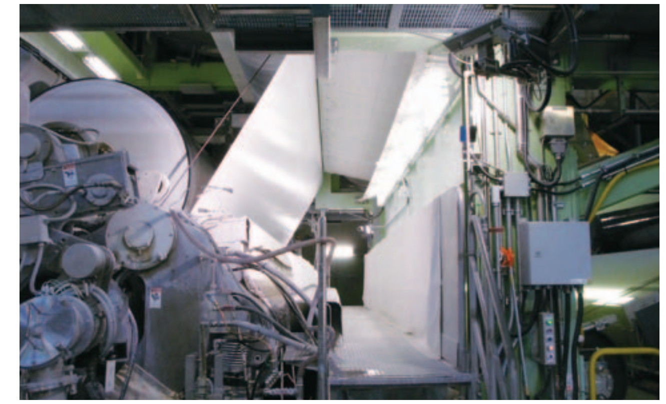
The Group's printing paper business product lineup includes printing and communication paper for books, magazines, catalogues and advertisements. In the years since the Niigata No. 6 papermaking machine began operating in 1986, coated paper has grown to become the Group's flagship product, and the Group's production volume is steadily increasing thanks to judicious capital investment and excellent production efficiency at the Niigata Mill. Currently, the Group's coated paper accounts for approximately 19% of domestic production.

Sales Structure Reinforcement

Today, the Japanese printing and communication paper market faces extremely severe conditions characterized by stagnant demand and intensifying competition among domestic and overseas makers. In strengthening its marketing foundation to address such situation, the Group considers that it is important to establish a marketing structure different from that of other companies and pursue closer relationships with users. Specifically, the Group is creating a business structure that offers higher quality services and is capable of flexibly responding to users by integrating the Group's newly established wholly owned subsidiary Hokuetsu Kishu Sales Co., Ltd. and several existing sales agent companies.

One of the Niigata Mill's strengths is its location close to the Tokyo metropolitan area, one of Japan's major paper consumption areas. Distributing products directly from mills by truck, we deliver items to users in a speedy manner.

N-9 (No. 9 papermaking machine)



N-9's blade coater (coating facility)

Expanding Exports from Niigata

Overseas Market Expansion

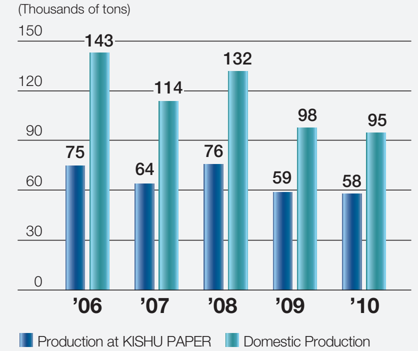
Overseas, the Group is expanding exports, especially in high growth potential Asian markets. Through stable and sustainable exports, the Group aims to build the relationship of trust with users in overseas markets while developing businesses throughout the Asian region.

Production Efficiency Improvement

On the production front, increases in sales volume lead to improvements in production efficiency. In other words, the more such large advanced facilities as the printing paper business' mainstay No. 9 papermaking machine at the Niigata Mill are utilized, the greater the production efficiency. A higher utilization ratio results in better energy efficiency for the entire mill as well as improved yields for pharmaceuticals and raw materials. Working in an integrated manner, the production and sales sections will strive to increase sales both in Japan and overseas through higher quality goods and services that meet user needs. With increased production through these efforts, we will strengthen our earnings capabilities.

Colored Wood-Free Paper

Production of Colored Wood-Free Paper



Business Environment and Specific Strategies

Domestic production of colored wood-free paper dropped substantially in 2009, and in 2010, it declined 3.1% year on year to 95,000 tons. KISHU PAPER Co., Ltd. accounts for 58,000 tons, or approximately 61% of this total. The Group is working to further reinforce its extensive services as a supplier of the top brand of colored wood-free paper as well as strengthening distribution channels to provide products to elementary schools nationwide. KISHU PAPER Co., Ltd.'s colored wood-free paper marketing was handled through a dealership-type distribution network that boasted a membership of 270 wholesalers. Leveraging this network, the Group will strive to strength its brand power while expanding sales channels not only as a marketing strategy for the printing paper business but also as a marketing strategy throughout the Group.

White Paperboard

Paper and Pulp Segment

Having established a white paperboard mill in China, we are promoting global business expansion while stepping up competitiveness in the Japanese market by enhancing quality to increase domestic sales volume.

Kiyoshi Tamura
General Manager, White Paperboard Business Division

Katsuta No. 1 papermaking machine

Business Environment and Specific Strategies

Used for the boxes containing daily products, cosmetics and small home appliances, Hokuetsu Kishu Paper's white paperboard, particularly coated manila board and coated duplex board, boast the industry's leading share in Japan. One of the Group's mainstay products, MARI KOTE coated duplex board is seeing its importance further increase. The Group will promote overseas business development aimed at expanding its share of the market for such products in Asia.

Establishment of a Paper Mill in Guangdong Province

Annual demand for white paperboard in China as of 2009 was 11.6 million tons, approximately eight times greater than that in Japan. This demand has been growing by 7% to 8% a year and is anticipated to continue in the future. Meanwhile, the Chinese government is encouraging the decommissioning of old-style mills as part of its environmental measures, which means that this market has much greater potential for growth than the printing paper market, which is becoming saturated. Companies manufacturing goods for export are particularly concentrated in Guangdong Province, one of the main paper consumption areas in China. In view of the likely further increase in demand, the Group decided to construct a mill making coated duplex board in Guangdong Province.

The annual production capacity of this new mill is planned to be 600,000 tons, twice Hokuetsu Kishu Paper's entire domestic paperboard production volume. To begin with, the Group plans to begin constructing a facility with an annual production capacity of 300,000 tons in autumn 2011 that will commence operations in 2013. Capital expenditure will be ¥12 billion for the first phase. In 2015, when plans call for full-scale operations to start, the Group will launch second-phase construction with a careful eye on demand trends. Although there are several local competitors, we are confident that we will be able to successfully participate in the market thanks to our advanced level of technologies and competitive edge in quality. On the sales front, the Group will focus on coated duplex board for the packaging of products destined for export. By 2015, the Group aims to achieve sales from the mill amounting to ¥16 billion along with an operating income ratio of 10%.

To date, the Japanese papermaking industry has developed to meet domestic demand. Now, it is important to focus on how to rectify the Group's inefficacies and shortfalls upon the commencement of business in China. The Group will address its insufficiencies by working together with local business partners and trading companies. For example, a local paper sales agency will handle contract negotiations with local authorities and companies, labor management and exercise sales capabilities in local markets, and Mitsubishi Corporation will be responsible for the overall scheme development and sales activities.

Quality Improvement in the Japanese Market

In the domestic white paperboard market, the Group will further promote the "paperboard quality improvement project" launched in the previous fiscal year. In Japan, the Group's white paperboard is mainly used for food and pharmaceutical-related packaging and thus must undergo strict quality management. Therefore, the Group believes that the improvement and maintenance of product quality will help reinforce customer trust.

Development of White Paperboard Business in China

Specialty Paper

Paper and Pulp Segment

Responding promptly to changes in user needs, we are promoting new product development while cutting costs.

Masanori Sakamoto
General Manager, Specialty Paper Business Division

Business Environment and Specific Strategies

The Group's specialty paper business handles six types of products, namely, industrial paper, communication paper, specially treated paper, high-quality printing paper, specialty fiberboard and fine paper, with products in each category to meet a diverse range of customer needs. The business consolidation with KISHU PAPER Co., Ltd. further enhanced this already extensive product lineup. In addition, we will further expand product lineups by making maximum use of our advanced production facilities.

Expanding Sales Channels, Cutting Costs and Developing New Products

Business strategies in the specialty paper business center on the following three goals.

Our primary goal is to expand sales channels. The Group is using its colored wood-free paper sales channel, which extends across Japan, to increase sales volume. Specifically, the Group has identified key customers in each area, and it holds mill tours and product presentation sessions for these customers on a regular basis. Such interaction with customers deepens their understanding of the Group and its diverse products. Overseas, we are planning to develop businesses more proactively; therefore, the Group continually undertakes market research, concentrating on Southeast Asia, as it seeks out and cultivates new users.

Our second goal is to cut production costs. Amid a highly competitive market environment, both in Japan and overseas, it is necessary to boost our competitive edge by improving production efficiency. Based on thorough examinations of product lineups at each mill, the Group is working to select the most appropriate production machines while increasing in-house production and proactively streamlining and consolidating product lineups.

Our third goal is to further reinforce the structure of new product development. In the specialty paper market, products have short life cycles. It is therefore necessary to develop new products to cultivate new demand while the current product lineups enjoy stable demand.

Getting direct feedback from customers, we engage in the development of new products in collaboration with the Central Research Laboratory, which was reinforced by adding more staff.

In the specialty paper business, we understand that we need to make constant efforts to create new types of paper to meet user needs.

Paper Processing

Packaging and Paper Processing Segment

Positioning paper processing as our fourth core business, we will aim to further expand operations.

Business Environment and Specific Strategies

The Hokuetsu Kishu Paper Group's paper processing business is operated by Hokuetsu Package Co., Ltd. and BF Co., Ltd.

Hokuetsu Package's main products are liquid package cartons, decorated packages (paper containers), processed paper (laminated paper) and functional processing materials (paper and film). The mainstay liquid package cartons boast a dominant share of the domestic roof-shaped carton market under the Tohei Pak brand. BF focuses on the information management field, including digital printing, mainly in its Business Form Division.

New Demand Cultivation through Proposal-Based Marketing

The greatest strength in the Group's paper processing business is that it is an integrated production system that extends from base paper to the finished product. This brings the Group excellent cost-competitiveness and enables flexible response to diverse customer needs. Taking advantage of this system, the Group promotes proposal-based marketing to cultivate new demand.

Specifically, Hokuetsu Package's Liquid Package Division is striving to increase sales of products for soft drink package applications, while the Package Division is expanding its lineup of setup products in order to boost sales of packaging for snacks. In addition, addressing environmental issues, the Group is working on the further development and stepped up sales of substitutes for plastic (paper containers, functional paper, etc.). The Group is also laying out plans for new business development alongside its domestic business partners as they expand their operations in overseas markets.

Pursuing Synergies in the Business Form Division

With the aim of further promoting business streamlining, Hokuetsu Package and BF intend to consolidate their business form businesses, and accordingly BF will take over functions of Hokuetsu Package's Business Form Division. The two companies anticipate further synergies from their collaborative efforts, which serve to differentiate them from their competitors.

Maintaining an Ongoing Commitment to the Environment

Our environmental activities focus on exerting “minimum impact,” that is, minimizing all kinds of negative impact on the natural environment.

Keiichi Nakamata
General Manager, Environmental Management Department

Promotion of “Minimum Impact Mills”

The concept of “minimum impact,” which aims for harmonious relationships between people and nature, began in Europe. Starting with behavior on a personal level, minimum impact involves trying to keep the contamination of mountains and rivers to the least possible amount and to not harm vegetation unnecessarily. This concept encourages people to minimize all actions that could negatively impact the natural environment.

The Hokuetsu Kishu Paper Group promotes its business activities in accordance with this concept. Every human activity impacts the environment. The papermaking business is certainly no exception, and we are aware of the environmental impact of every one of the papermaking and other processes our products undergo, beginning with the wood we use as a raw material, through the transport of raw materials and products to the use of large papermaking machinery and equipment. Therefore, we have proactively engaged in the establishment of “minimum impact mills” to reduce the environmental impact of these operations as much as possible.

Initiatives and Key Issues

Initiatives undertaken at the upstream stages of the production process include the procurement of wood exclusively from sustainable plantations overseas, and from *satoyama,* community forests with woods that have been regenerated by stump sprouting, in Japan. Such plantations facilitate both sustainable forest management and the stable procurement of raw materials. An example of initiatives taken to improve production processes is the launch of the first full-scale Elemental Chlorine Free (ECF) bleaching plant in Japan in 1998. The ECF method does not use chlorine in the pulp bleaching process and thus water discharged from the plant is cleaner.

A particular concern as the Group aims for sustainable growth is saving energy in the production process. Therefore, we strive to save energy and reduce CO_2 emissions in accordance with three specific policies.

ECO-PULP
エコパルプ®

Eco Pulp bleached in the ECF plant is recognized as an environment-friendly fresh pulp with low environmental burden in Japan.

A biomass boiler in the Kanto Mill Katsuta with the power generation capacity of 41,000kW. It generates more than twice as much electricity as is needed by the Mill during peak-time usage, so the excess power is sold externally.

Three Policies Addressing the Key Issue of Saving Energy

One of the three policies is to make improvements in daily operations that will conserve energy. Setting up Energy-Saving Subcommittees at each mill, we review production processes, strive to ensure that our advanced facilities work at maximum efficiency and thus achieve large cutbacks in energy use and engage in various activities along related themes touching on business operations and management, including advanced water-saving technology. Specifically at the Niigata Mill, we launched a team with full-time staff to make down-to-earth efforts to achieve annual energy savings of approximately 4,000kW last year. To date, more suggestions had been gathered to reduce energy usage a further 3,000kW. Combined, these savings would enable us to reduce our energy consumption to an amount equivalent to that used by approximately 100,000 households annually, a great achievement.

In addition to such steady efforts, we have long worked to introduce advanced energy-saving facilities in line with our second policy and worked to enable more efficient papermaking. In 1964, our mainstay Niigata Mill was damaged in an earthquake. While restoring the Mill, we installed more energy-efficient facilities to enhance production efficiency. In Japan in 1986, we introduced the industry’s first on-machine coater, an innovation that defied the industry’s common wisdom that the manufacturing of base paper and the coating of base paper should always be done separately in separate machines. This technology alone drastically enhanced production and energy efficiencies. We continue to strive to further improve energy efficiency by pursuing ever higher performance and operating ratios, including for the N-9 (Niigata No. 9 papermaking machine).

The third policy is to shift to energy sources that produce lower CO_2 emissions. Since the Great East Japan Earthquake, private power generation has been increasingly drawing attention. However, we began shifting our energy sourcing from heavy oil to more environment-friendly natural gas, which emits less CO_2, well before the earthquake. In addition, the Niigata Mill, Kishu Mill and Kanto Mill Katsuta employ biomass power generation facilities that use black liquor generated as byproduct of the pulp making process as well as wood chips. The Kanto Mill Ichikawa and Nagaoka Mill own in-house power generation facilities that use natural gas, satisfying the greater part of demand with this low CO_2 emitting power source.

Aiming to Operate in Harmonious Coexistence with Society

As our mills are located in urban areas and thus surrounded by residences, we were inspired to develop “minimum impact mills,” and such initiative naturally led us to become a leading company in environmental activities. Furthermore, it fostered a sense of pride among employees, while boosting their morale. Such concern for the environment is an important part of the foundation of the Group philosophy to become a company trusted by all stakeholders, including local communities and customers. We will continue to develop clean, urban-type mills.

Corporate Governance and Compliance

Managerial Decision-Making and Business Execution Structures

Hokuetsu Kishu Paper Co., Ltd. has a governance structure comprising a Shareholders' Meeting, Board of Directors, and Board of Corporate Auditors. In addition, the Company has formulated a unique governance structure, including a Management Meeting and Management Strategy Meeting.

The Board of Directors currently comprises 12 directors, including one outside director. Holding regular monthly meetings and extraordinary meetings when necessary, the Board of Directors rules on basic management items and important business execution matters and monitors management activities. The outside director participates in the Company's decision making with regard to important management issues as well as in the supervision of business execution by leveraging their objectivity and abundant knowledge about business.

In terms of business execution, every month with the participation of the directors and the general managers of relevant divisions, the Management Meeting deliberates on business execution and the Management Strategy Meeting reviews business performance. Furthermore, the Company 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 consolidated subsidiaries and affiliated companies, in pursuit of reinforced consolidated Group management.

Enhancement of Management Monitoring and Audit Structure

To secure the objectivity and neutrality of management monitoring, the Company set up the Board of Corporate Auditors, comprising four members that include two outside corporate auditors. For outside corporate auditors, the Company appointed external experts who are completely independent and have extensive knowledge of legal affairs, finance and accounting.

Corporate auditors conduct proactive audits that entail attending important meetings, such as Board of Directors' meetings and Management Meetings, reviewing directors' reports on business execution and financial reporting documents, and investigating the business and financial condition of Hokuetsu Kishu Paper and its subsidiaries. In addition, corporate auditors strive to implement effective audits by collaborating with the Internal Control Audit Office as well as with accounting auditors.

During the fiscal year under review, both outside corporate auditors attended all of the Board of Corporate Auditors' meetings (held almost monthly) and the Board of Directors' meetings, making necessary statements in an appropriate manner.

Reinforcement of Compliance

With the aim of having all directors and employees strictly carry out compliance, the Group established the "Hokuetsu Kishu Paper Group Compliance Rules." Under the direct control of the president, the Group created the position of Chief Compliance Officer and compliance officers at each division to hold monthly compliance officer meetings, promote compliance and provide regular compliance education. In addition, the president periodically makes proactive pronouncements regarding compliance. In doing so, the Group is striving to raise employees' awareness of compliance. Furthermore, the Group established Compliance Hotline, which is accessible both inside and outside the Group, for the purpose of consulting on matters suspected as compliance violations as well as to protect whistleblowers' privacy.

Risk Management Structure

The Hokuetsu Kishu Paper Group established a Groupwide policy aimed at preventing and addressing risks in order to minimize damage from exposure to such risks.

The Group assesses its risk management status at monthly Management Meetings and biannual Consolidated Management Meetings. In accordance with each rule regarding risks and the disaster control rules, the Group is further reinforcing its risk management system.

Internal Control over Financial Reporting

The Group has developed an internal control system over financial reporting under the leadership of the Internal Control Audit Office. Since the internal control reporting system was initiated in Japan in fiscal 2008, the Group has evaluated the effectiveness of its internal control system over financial reporting every fiscal year, and the effectiveness of this system has been verified by its accounting auditors.

Reinforcing Compliance Structure

The management of Hokuetsu Kishu Paper attaches a very high priority to the long-term sustainable growth of its corporate value. In the midst of changing corporate environment, each of us must remain highly aware of compliance and sensitive to risks in order to develop a strong organization.

Kazumichi Matsuki
Chief Compliance Officer

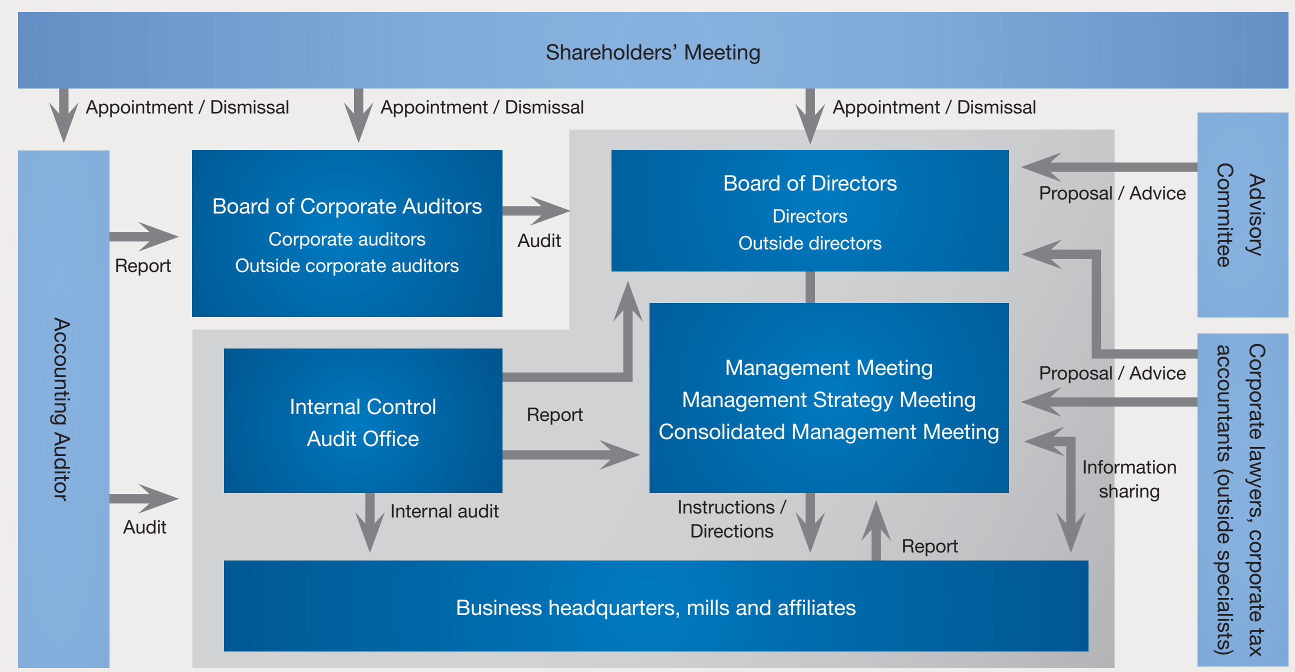
"It takes years to build a castle, and only seconds to destroy it." I was taught this truism by one of seniors at my former job. It means that even though we have long gained a favorable reputation and built relationships of trust by developing and offering high-quality products, they would be all lost at once if we have a compliance-related scandal. Keeping this in mind, we have to engage in our daily operations in a sincere manner with the aim of gaining trust from society and becoming a company of customer choice.

Together with governance, the reinforcement of compliance structure is stipulated as an important target in the G-1st new medium-term management plan, and President Kishimoto is taking initiatives in this movement. The corporate environment is rapidly changing in conjunction with the globalization, and there is a growing risk of being accused by society for doing something that had been allowed up until yesterday. Given this, all the Hokuetsu Kishu Paper Group's directors and employees need to be keenly aware of current changes in the situation and associated risks, and review potential risks in each Group company's business models, business divisions and operating sites.

Compliance tends to be considered as a restraining factor of corporate growth, but I think we need to accept this as being a necessary stepping stone for corporate value enhancement.

Although I have only recently taken the position of Hokuetsu Kishu Paper's Compliance Officer, I would strive to improve, by making full use of the experience I accumulated at my former job, the effectiveness of the compliance structure that this company has developed. Through these efforts, I will help realize a compliance system that we follow more out of choice than obligation and invigorate the Hokuetsu Kishu Paper Group.

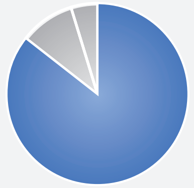
Company Organization and Diagram of Internal Control

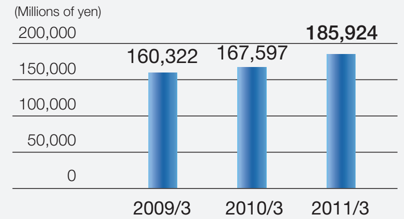


Paper and Pulp Segment

Composition of Sales (March 2011)

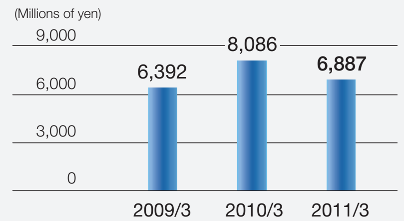
85.7%





Net Sales ¥185,924 million (YoY) +10.9%

Operating Income ¥6,887 million (YoY) –14.8%



Sales in the Paper and Pulp segment grew due to the increase in exports, mainly of printing paper, as well as the full-year consolidation of KISHU PAPER Co., Ltd. Despite the Group taking various measures to reduce costs, profit declined on the back of a sluggish Japanese market and price hikes for raw materials and fuels, including wood chips and waste paper. By product type, sales of printing paper grew as a result of the Group's efforts to offer detailed customer-oriented services in its domestic marketing activities and to expand exports. Sales of white paperboard rose, reflecting increased orders for this product's use in paper containers for food and pharmaceuticals. Sales of specialty paper recovered to the level enjoyed before the impact of the Lehman Brother's fall thanks to increasing demand for industrial paper from the automobile and semiconductor industries.

Main Products

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

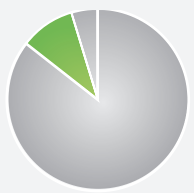
White paperboard: Cast-coated paper, art-post paper, ivory board, coated duplex board

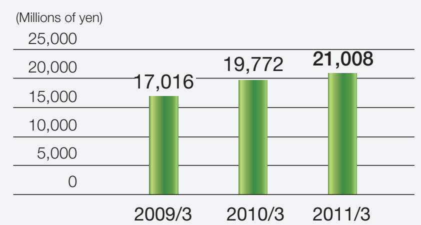
Specialty paper: IT-related materials, industrial paper, communication paper, design paper, mixed materials for molding use, specialty fiber board, wrapping paper, specialty coated paper

Packaging and Paper Processing Segment

Composition of Sales (March 2011)

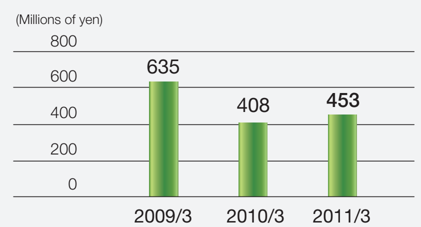
9.7%





Net Sales ¥21,008 million (YoY) +6.3%

Operating Income ¥453 million (YoY) +11.0%



The Packaging and Paper Processing segment encompasses the manufacturing and sale of paper containers, including liquid package cartons, and various printing materials, such as business forms, as well as data processing services (DPS). During the fiscal year under review, sales in this segment grew due to the full-year consolidation of BF Co., Ltd. Despite a harsh environment for securing new orders, this segment recorded increased profit due to lower raw materials prices attributable to the strong yen.

Main Products

Hokuetsu Package Co., Ltd.

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

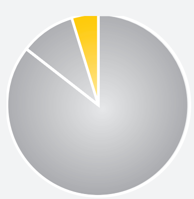
BF Co., Ltd.

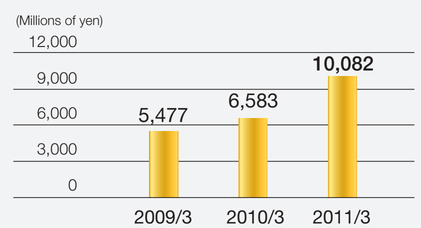
Business forms
DPS
RFID
Various printing services

Others

Composition of Sales (March 2011)

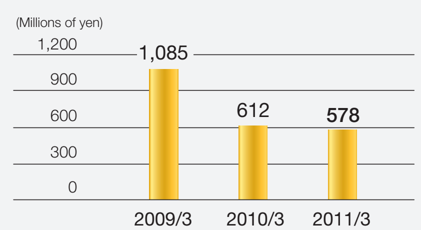
4.6%





Net Sales ¥10,082 million (YoY) +53.2%

Operating Income ¥578 million (YoY) –5.6%



In the Others segment, Hokuetsu Forest Co., Ltd. and Kishu Zorin Co., Ltd. operate the wood materials business; Hokuetsu Engineering Co., Ltd. engages in construction, manufacturing, sales and the installment and maintenance of machinery; Hokuetsu Logistics Co., Ltd. handles warehousing and transportation; and Hokuetsu Trading Corporation and Kishu Kohatsu Co., Ltd. deal in real estate, and manage driving schools and golf practice ranges. Sales in the Others segment increased due to the full-year consolidation of KISHU PAPER subsidiaries. Profit, however, declined due to overall severe business conditions.

Main Products

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

* During the fiscal year under review, reporting segment names were changed from "Pulp-Related Products" to "Paper and Pulp" and from "Processed Paper Products" to "Packaging and Paper Processing" while "Other Businesses" was replaced by "Others." However, the components of these segments remain unchanged, so their respective results are herein compared with those of the previous fiscal year.

At the Hokuetsu Kishu Paper headquarters showroom
(From left) Norihiko Shimokoshi, Kouichi Akagawa, Sekio Kishimoto, Michio Tsuchida, Kiyoshi Tamura, Takayuki Sasaki

Representative Director, President & CEO

Sekio Kishimoto

Senior Managing Directors

Kiyoshi Tamura

Norihiko Shimokoshi

Managing Directors

Kouichi Akagawa

Takayuki Sasaki

Michio Tsuchida

Directors

Kazumichi Matsuki

Souhei Onoda

Fumio Abe

Akihiro Aoki

Yoshihisa Iesato

Akira Murakoshi*

Standing Corporate Auditors

Kazunori Hosoi

Fumiyoshi Tsuchida

Corporate Auditors

Toshiji Sato**

Kazuo Uchida**

Senior Corporate Officer

Kazuo Nakamura

Corporate Officers

Hideo Yazawa

Masanori Sakamoto

Takao Sakabe

Hiroshi Suzuki

Yoshinori Kawashima

* Outside Director
** Outside Corporate Auditor

Financial Section

Contents

Five-Year Summary

HOKUETSU KISHU PAPER CO., LTD.
Fiscal years ended March 31

	Millions of yen (except per share amounts)				
	2007	2008	2009	2010	**2011**
FOR THE YEAR					
Net sales	¥158,992	¥172,709	¥182,815	¥193,952	**¥217,014**
Operating income	9,050	8,330	8,125	9,892	**8,743**
Income before income taxes and minority interests	7,300	6,914	4,243	8,738	**7,188**
Net income	4,395	4,074	1,913	7,239	**5,432**
Return on equity	3.4%	2.9%	1.4%	5.3%	**3.9%**
PER SHARE DATA					
Net income	¥ 22.75	¥ 19.19	¥ 9.01	¥ 34.38	**¥ 26.21**
Cash dividends	12.00	14.00	12.00	12.00	**12.00**
AT YEAR-END					
Total assets	¥269,124	¥292,726	¥313,732	¥340,970	**¥322,255**
Total net assets	143,439	140,184	136,713	139,989	**139,822**

Management Overview and Consolidated Results

During fiscal 2010, ended March 31, 2011, the Japanese economy showed signs of gradual recovery on the back of the government's fiscal stimulus policy and foreign demand. However, due to the appreciation of the yen and prolonged deflation, full-scale recovery did not take hold. Exacerbating the situation, the Great East Japan Earthquake struck on March 11, 2011, causing tremendous damage that affected a wide range of industries.

The Hokuetsu Kishu Paper Group's Kanto Mill Katsuta in Ibaraki Prefecture was partially damaged and suspended operations. Fortunately, the main production facilities did not suffer any serious damage and were able to resume operations at an early stage. Therefore, the impact on net sales and operating income was relatively minor. In the fiscal year under review, the Group posted a loss due to disaster of ¥1,495 million.

During the fiscal year under review, the Group enjoyed a substantial increase in sales thanks to continued efforts to expand exports in accordance with its basic management policy of reinforcing global competitiveness. The year's results also showed the additional effect of the consolidation of full-year results of the KISHU PAPER Group, which joined the Group midway through the previous fiscal year (October 1, 2009). Reflecting these factors, net sales for the fiscal year under review grew 11.9% year on year to ¥217,014 million.

On the earnings front, the Group made across-the-board efforts to reduce various costs, achieving some positive results. However, slumps in the domestic printing paper and paperboard markets as well as rising prices for wood chips, wastepaper and crude oil greatly affected the Group's performance, and thus operating income fell 11.6% year on year to ¥8,743 million. In addition, the posting of the abovementioned loss due to disaster contributed to a 25.0% year on year drop in net income to ¥5,432 million.

Business Results by Segment

During the fiscal year under review, reporting segment names were changed from "Pulp-Related Products" to "Paper and Pulp" and from "Processed Paper Products" to "Packaging and Paper Processing" while "Other Businesses" was replaced by "Others." However, the components of these segments remain unchanged, so their respective results are herein compared with those of the previous fiscal year.

Paper and Pulp Segment

Sales in the Paper and Pulp segment rose 10.9% year on year to ¥185,924 million. This was attributable to increased exports, mainly of printing paper, and the inclusion of KISHU PAPER Co., Ltd.'s full-year results in the consolidated results.

Looking at results by product, sales of printing paper increased largely due to the full-year consolidation of KISHU PAPER Co., Ltd., customer-oriented targeted marketing in Japan and efforts to increase export sales. Sales of white paperboard grew, owing to new orders for food and medical packaging applications. Specialty paper also enjoyed increased sales, reflecting the recovery in demand for industrial paper in the automobile and semiconductor industries and the full-year consolidation of KISHU PAPER Co., Ltd.

Despite Groupwide efforts to reduce costs, a slump in the domestic market as well as rising prices for wood chips, wastepaper and crude oil greatly affected earnings. Accordingly, this segment's operating income dropped 14.8% year on year to ¥6,887 million.

Packaging and Paper Processing Segment

Sales in this segment climbed 6.3% year on year to ¥21,008 million, owing to the consolidation of full-year results of BF Co., Ltd. of the KISHU PAPER Group. Despite the harsh business environment, this segment's operating income grew 11.0% to ¥453 million, thanks to the yen appreciation, which resulted in lower raw materials prices.

Others

Sales in the Others segment (encompassing wood products, construction, transportation, warehousing and other businesses) surged 53.2% year on year to ¥10,082 million, reflecting the consolidation of the full-year results of KISHU PAPER subsidiaries. On the other hand, operating income in this segment declined 5.6% to ¥578 million, reflecting the deterioration of market conditions.

Earnings

Net sales increased 11.9% as mentioned above. Despite the Groupwide cost reduction efforts, the cost of sales ratio and ratio of SG&A to net sales increased due to the slumps in the domestic printing paper and paperboard markets as well as rising prices for wood chips, wastepaper and crude oil. As a result, operating income fell 11.6% year on year to ¥8,743 million. Reflecting this, the operating income margin deteriorated from 5.1% in the previous fiscal year to 4.0%.

In other income and expenses, the Hokuetsu Kishu Paper Group recorded the amortization of negative goodwill while incurring the aforementioned loss due to disaster and registering the effect of the application of accounting standards for asset retirement obligations. Accordingly, income before income taxes and minority interests fell 17.7% year on year to ¥7,188 million, and net income dropped 25.0% to ¥5,432 million.

As a result, the ratio of net income to net sales deteriorated from 3.7% in the previous fiscal year to 2.5%, and net income per share decreased from ¥34.38 to ¥26.21.

Financial Position

Total assets as of the end of fiscal 2010 (March 31, 2011) were down ¥18,715 million compared with the end of the previous fiscal year to ¥322,255 million. Current assets declined ¥644 million to ¥103,736 million due mainly to a decrease in notes and accounts receivable, while net property, plant and equipment dropped ¥15,820 million to ¥183,326 million, due primarily to the effect of depreciation. Total investments and other assets fell ¥2,251 million to ¥35,193 million. During the fiscal year under review, capital expenditures (including that in intangibles) surpassed the previous fiscal year's ¥6,286 million, reaching ¥8,636 million.

Total liabilities as of March 31, 2011 declined ¥18,548 million from a year ago to ¥182,433 million. Current liabilities fell ¥13,548 million to ¥98,032 million due primarily to a decrease in short-term loans, and long-term liabilities dropped ¥5,000 million to ¥84,401 million, mainly reflecting a decline in long-term loans. The outstanding balance of interest-bearing debt, including short- and long-term loans and bonds, declined ¥15,623 million year on year to ¥119,227 million.

Net assets decreased ¥167 million to ¥139,822 million, as an increase in retained earnings was substantially offset by the additional purchase of treasury stock and the effect of incurring unrealized losses on securities (net of taxes) due to the market price declines of the equity securities held. As a result, net assets per share grew from ¥667.32 at the previous fiscal year-end to ¥680.03. The equity ratio also improved from 40.8% to 43.2%.

Return on equity (ROE), however, saw a setback from 5.3% in the previous fiscal year to 3.9%.

Cash Flows

Net cash provided by operating activities amounted to ¥25,859 million, down from ¥36,944 million provided in the previous fiscal year. Principal factors of this decline include an increase in inventories and lower income before income taxes and minority interests.

Net cash used in investing activities was ¥6,209 million, less than the ¥10,637 million used in the previous fiscal year. This was mainly attributable to a decrease in payments for loans receivable, included in other, net.

Net cash used in financing activities totaled ¥20,020 million, down from ¥30,867 million used in the previous fiscal year. This was primarily attributable to proceeds from the issuance of unsecured yen straight bonds and a decrease in payments for purchases of treasury stock, although repayments of short- and long-term loans increased.

After factoring in adjustments, such as translation loss, cash and cash equivalents at the end of the fiscal year under review stood at ¥11,194 million, down ¥474 million from a year earlier.

Basic Policies Regarding Earnings Distribution and Dividend Payment for Fiscal 2010 and 2011

Hokuetsu Kishu Paper Co., Ltd. considers providing stable returns to shareholders to be one of its important management policies, while it proactively conducts business operations with a long-term vision and works to reinforce its corporate structure. Based on this policy, the Company decided 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 has also been maintained on par with that of the previous fiscal year, at ¥12 per share.

For fiscal 2011, ending March 31, 2012, the Company currently plans to maintain the dividend at ¥12 per share (¥6 per share for both the interim and year-end dividends) based on the following business outlook.

Fiscal 2011 Outlook

The Great East Japan Earthquake caused massive damage to the Japanese economy. In addition, it is anticipated that it will take a very long time to resolve the situation resulting from the series of accidents at The Tokyo Electric Power Company, Incorporated's Fukushima Daiichi Nuclear Power Plant. This prospect casts a shadow over the restoration efforts in disaster areas, and the future thus remains unclear.

However, the Group expects gradual recovery in demand as industries strive to restore production. Supporting these efforts, the Group will fulfill its responsibility to supply the domestic and overseas markets with needed products.

Amid such circumstances, Hokuetsu Kishu Paper (the Group's main entity) absorbed the wholly owned subsidiary KISHU PAPER Co., Ltd. by merger on April 1, 2011, as planned. This will accelerate the Group's implementation of management strategies while enhancing operational efficiency and improving corporate value through the realization of synergies.

For fiscal 2011, the Group anticipates a sales increase on the back of a rising printing paper sales volume. Earnings are also expected to grow, reflecting improved business efficiencies thanks to the positive effects of the merger as well as ongoing cost reduction efforts despite the continual rise in prices for raw materials and fuels.

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

Major Business Risks

The Hokuetsu Kishu Paper Group currently considers the following factors to constitute its principal areas of business risk: 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, 2011 and 2010

ASSETS	Millions of yen 2011	2010	Thousands of U.S. dollars (Note 1) 2011
CURRENT ASSETS:			
Cash and deposits (Notes 3 & 4)	¥ 11,194	¥ 11,750	$ 134,624
Notes and accounts receivable (Note 4)			
Trade	47,967	49,466	576,873
Unconsolidated subsidiaries and affiliates	14,438	13,796	173,638
Allowance for doubtful accounts	(30)	(47)	(361)
Inventories (Note 6)	25,360	24,746	304,991
Deferred income taxes (Note 11)	2,891	2,606	34,769
Prepaid expenses and other	1,916	2,063	23,043
TOTAL CURRENT ASSETS	103,736	104,380	1,247,577
PROPERTY, PLANT AND EQUIPMENT (Note 7):			
Land and timberland	23,214	23,305	279,182
Buildings and structures	71,691	69,326	862,189
Machinery and equipment	374,428	369,171	4,503,043
Leased assets	4,729	4,692	56,873
Construction in progress	3,008	946	36,175
	477,070	467,440	5,737,462
Less accumulated depreciation	(293,744)	(268,294)	(3,532,700)
NET PROPERTY, PLANT AND EQUIPMENT	183,326	199,146	2,204,762
INVESTMENTS AND OTHER ASSETS:			
Investments in securities (Notes 4, 5 & 7)	22,253	24,363	267,625
Investments in and receivables from unconsolidated subsidiaries and affiliates	4,885	4,794	58,749
Long-term loans receivable	61	93	734
Guarantee deposits	1,251	1,570	15,045
Deferred income taxes (Note 11)	4,459	3,672	53,626
Other	2,470	3,149	29,705
Allowance for doubtful accounts	(186)	(197)	(2,237)
TOTAL INVESTMENTS AND OTHER ASSETS	35,193	37,444	423,247
TOTAL ASSETS	¥322,255	¥340,970	$3,875,586

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

LIABILITIES AND NET ASSETS	Millions of yen 2011	2010	Thousands of U.S. dollars (Note 1) 2011
CURRENT LIABILITIES:			
Short-term loans (Notes 4, 7 & 8)	¥ 31,460	¥ 47,122	$ 378,352
Commercial paper (Note 4 & 8)	4,000	3,000	48,106
Current maturities of long-term debt (Notes 4, 7 & 8)	24,538	21,671	295,106
Notes and accounts payable (Note 4)			
Trade	22,985	21,552	276,428
Unconsolidated subsidiaries and affiliates	768	918	9,236
Income taxes payable (Note 11)	973	1,557	11,702
Accrued expenses	6,588	6,384	79,230
Other	6,720	9,376	80,818
TOTAL CURRENT LIABILITIES	98,032	111,580	1,178,978
LONG-TERM LIABILITIES:			
Long-term debt (Notes 4, 7 & 8), less current maturities	59,229	63,057	712,315
Deferred income taxes (Note 11)	2,966	3,076	35,670
Employees' severance and retirement benefits (Note 17)	12,603	10,658	151,569
Retirement benefits for directors and corporate auditors	103	86	1,239
Accrued environmental expenditures	278	1,283	3,343
Provision for business structure improvement	522	455	6,278
Negative goodwill	6,220	8,004	74,805
Asset retirement obligations	1,514	—	18,208
Other (Note 7)	966	2,782	11,618
TOTAL LONG-TERM LIABILITIES	84,401	89,401	1,015,045
CONTINGENT LIABILITIES (Note 9)			
NET ASSETS (Note 10)			
SHAREHOLDERS' EQUITY:			
Common stock:			
authorized			
—500,000,000 shares in 2011			
—500,000,000 shares in 2010			
issued and outstanding			
—209,263,814 shares in 2011			
—209,263,814 shares in 2010	42,021	42,021	505,364
Capital surplus	45,435	45,435	546,422
Retained earnings	54,201	51,279	651,846
Treasury stock	(2,144)	(330)	(25,785)
TOTAL SHAREHOLDERS' EQUITY	139,513	138,405	1,677,847
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSSES), NET OF TAX*			
Unrealized holding gains on securities, net of taxes	(267)	891	(3,211)
Unrealized gains on hedging derivatives, net of taxes	(109)	(77)	(1,311)
TOTAL ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSSES), NET OF TAXES	(376)	814	(4,522)
MINORITY INTERESTS	685	770	8,238
TOTAL NET ASSETS	139,822	139,989	1,681,563
TOTAL LIABILITIES AND NET ASSETS	¥322,255	¥340,970	$3,875,586

* Consolidated statements of changes in net assets are also applicable to change of the account.

Consolidated Statements of Income

HOKUETSU KISHU PAPER CO., LTD.
For the fiscal years ended March 31, 2011, 2010 and 2009

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2011	2010	2009	2011
NET SALES (Notes 12 & 18)	¥217,014	¥193,952	¥182,815	$2,609,910
COST OF SALES (Note 12)	177,521	157,262	151,652	2,134,949
Gross profit	39,493	36,690	31,163	474,961
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 13)	30,750	26,798	23,038	369,814
Operating income	8,743	9,892	8,125	105,147
OTHER INCOME (EXPENSES):				
Interest and dividend income	614	613	857	7,384
Interest expenses	(1,466)	(1,674)	(1,746)	(17,631)
Foreign exchange gains (losses)	(356)	(48)	(20)	(4,281)
Amortization of negative goodwill	1,789	913	2	21,515
Equity in income of affiliates	71	81	63	854
Gain on sales of investments in securities, net	—	14	—	—
Loss on sales of investments in securities, net	(38)	—	—	(457)
Loss on devaluation of investments in securities	(161)	(408)	(29)	(1,936)
Loss on sales or disposal of property, plant and equipment	(562)	(445)	(663)	(6,759)
Income from subsidies	973	—	1,000	11,702
Advanced depreciation of property, plant and equipment	—	—	(1,000)	—
Impairment loss of fixed assets (Note 14)	(343)	(85)	(1,891)	(4,125)
Gain on restructuring of retirement benefit scheme	—	228	—	—
One-time amortization of prior service costs	(227)	—	—	(2,730)
Reversal of provision for business structure improvement	19	60	—	228
Loss on liquidation of subsidiaries and affiliates	—	(226)	(4)	—
Costs in relation to suspending the operation of production equipment	(698)	(719)	(707)	(8,394)
Effect of the application of accounting standards for asset retirement obligations	(388)	—	—	(4,666)
Loss due to disaster	(1,495)	—	—	(17,980)
Other, net	713	542	256	8,575
	(1,555)	(1,154)	(3,882)	(18,701)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	7,188	8,738	4,243	86,446
INCOME TAXES (Note 11):				
Current	2,274	2,967	2,988	27,348
Deferred	(448)	(1,545)	(752)	(5,388)
	1,826	1,422	2,236	21,960
INCOME BEFORE MINORITY INTERESTS	5,362	7,316	2,007	64,486
MINORITY INTERESTS	(70)	77	94	(842)
NET INCOME	¥ 5,432	¥ 7,239	¥ 1,913	$ 65,328

	Yen			U.S. dollars (Note 1)
	2011	2010	2009	2011
Amounts per share of common stock (Note 2):				
Net income	¥26.21	¥34.38	¥ 9.01	$0.32
Diluted net income	—	—	—	—
Cash dividends applicable to the year	12.00	12.00	12.00	0.14

Consolidated Statements of Comprehensive Income (Loss)

HOKUETSU KISHU PAPER CO., LTD.
For the fiscal year ended March 31, 2011

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2011	2010	2009	2011
INCOME BEFORE MINORITY INTERESTS	¥5,362	¥—	¥—	$64,486
Other Comprehensive Income (Loss)				
Unrealized holding gains on securities, net of taxes	(1,151)	—	—	(13,843)
Unrealized gains on hedging derivatives, net of taxes	(37)	—	—	(445)
Share of other comprehensive income of associates accounted for using equity method	(9)	—	—	(108)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(1,197)	—	—	(14,396)
Comprehensive Income (Loss)	¥4,165	¥—	¥—	$50,090
Comprehensive Income attribute to owners of the parent shareholders	4,241	—	—	51,004
Comprehensive Income attribute to minority interests	(76)	—	—	(914)

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

Consolidated Statements of Cash Flows

HOKUETSU KISHU PAPER CO., LTD.
For the fiscal years ended March 31, 2011, 2010 and 2009

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2011	2010	2009	2011
CASH FLOWS FROM OPERATING ACTIVITIES:				
Income before income taxes and minority interests	¥ 7,188	¥ 8,738	¥ 4,243	$ 86,446
Depreciation and amortization	22,496	21,362	17,348	270,547
Impairment loss of fixed assets	343	85	1,891	4,125
Amortization of negative goodwill	(1,789)	(913)	(2)	(21,515)
Loss on disposal of property, plant and equipment	463	428	612	5,568
Advanced depreciation of property, plant and equipment	—	—	1,000	—
Income from subsidies	—	—	(1,000)	—
Interest and dividend income	(614)	(613)	(857)	(7,384)
Interest expenses	1,466	1,674	1,746	17,631
Loss on devaluation of investments in securities	161	408	29	1,936
(Increase) decrease in notes and accounts receivable	878	441	6,470	10,559
(Increase) decrease in inventories	(612)	6,470	(9,858)	(7,360)
Increase (decrease) in notes and accounts payable	1,645	(2,168)	(4,100)	19,784
Increase (decrease) in employees' severance and retirement benefits	201	119	395	2,417
Effect of the application of accounting standards for asset retirement obligations	388	—	—	4,666
Other, net	(3,111)	4,797	(3,808)	(37,414)
Subtotal	29,103	40,828	14,109	350,006
Interest and dividend income received	634	635	878	7,625
Interest paid	(1,496)	(1,765)	(1,644)	(17,992)
Income taxes paid	(2,382)	(2,754)	(3,343)	(28,647)
NET CASH PROVIDED BY OPERATING ACTIVITIES	25,859	36,944	10,000	310,992
CASH FLOWS FROM INVESTING ACTIVITIES:				
Payments for time deposits	(19)	(41)	(79)	(229)
Proceeds from time deposits	101	68	91	1,215
Payments for purchases of securities	(112)	(237)	(1,237)	(1,347)
Proceeds from sales and redemption of investment securities	45	1,006	1,313	541
Payments for purchases of property, plant and equipment	(7,126)	(7,430)	(35,776)	(85,701)
Proceeds from sales of property, plant and equipment	152	226	132	1,828
Proceeds from national subsidies	200	200	200	2,406
Other, net	550	(4,429)	552	6,615
NET CASH USED IN INVESTING ACTIVITIES	(6,209)	(10,637)	(34,804)	(74,672)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Increase (decrease) in short-term loans	(15,662)	860	16,953	(188,358)
Increase (decrease) in commercial paper	1,000	3,000	—	12,026
Proceeds from long-term loans	11,000	200	37,700	132,291
Repayments of long-term loans	(21,106)	(12,757)	(10,412)	(253,831)
Proceeds from issuance of unsecured yen straight bonds	10,000	—	—	120,265
Redemption of unsecured yen straight bonds	—	(10,233)	(10,000)	—
Dividends paid	(2,510)	(2,551)	(2,553)	(30,186)
Payments for purchases of treasury stock	(1,812)	(8,839)	(31)	(21,792)
Other, net	(930)	(547)	(34)	(11,185)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(20,020)	(30,867)	31,623	(240,770)
TRANSLATION (LOSS) GAIN ON CASH AND CASH EQUIVALENTS	(124)	(22)	22	(1,491)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(494)	(4,582)	6,841	(5,941)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	11,668	15,205	8,364	140,325
Increase in cash and cash equivalents from newly consolidated subsidiaries (Note 3)	—	1,045	—	—
Increase (decrease) in cash and cash equivalents resulting from merger of subsidiaries	20	—	—	241
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 3)	¥11,194	¥11,668	¥15,205	$134,625

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 fiscal years ended March 31, 2011, 2010 and 2009

	Number of shares	Millions of yen: 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 other comprehensive income (losses), net of taxes	Minority interests	Total net assets
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
Net income	—	—	—	5,432	—	5,432	—	—	—	—	5,432
Cash dividends paid (¥12.00 per share)	—	—	—	(2,510)	—	(2,510)	—	—	—	—	(2,510)
Disposal of treasury stock	—	—	—	—	1	1	—	—	—	—	1
Purchases of treasury stock	—	—	—	—	(1,815)	(1,815)	—	—	—	—	(1,815)
Retirement of treasury stock	—	—	—	—	—	—	—	—	—	—	—
Net changes during the year	—	—	—	—	—	—	(1,158)	(32)	(1,190)	(85)	(1,275)
Balance at March 31, 2011	209,263,814	¥42,021	¥45,435	¥54,201	¥(2,144)	¥139,513	¥ (267)	¥(109)	¥ (376)	¥685	¥139,822

	Number of shares	Thousands of U.S. dollars (Note 1): 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 other comprehensive income (losses), net of taxes	Minority interests	Total net assets
Balance at March 31, 2010	209,263,814	$505,364	$546,422	$616,705	$ (3,969)	$1,664,522	$10,716	$ (926)	$ 9,790	$9,260	$1,683,572
Net income	—	—	—	65,328	—	65,328	—	—	—	—	65,328
Cash dividends paid ($0.14 per share)	—	—	—	(30,187)	—	(30,187)	—	—	—	—	(30,187)
Disposal of treasury stock	—	—	—	—	12	12	—	—	—	—	12
Purchases of treasury stock	—	—	—	—	(21,828)	(21,828)	—	—	—	—	(21,828)
Retirement of treasury stock	—	—	—	—	—	—	—	—	—	—	—
Net changes during the year	—	—	—	—	—	—	(13,927)	(385)	(14,312)	(1,022)	(15,334)
Balance at March 31, 2011	209,263,814	$505,364	$546,422	$651,846	$(25,785)	$1,677,847	$ (3,211)	$(1,311)	$(4,522)	$8,238	$1,681,563

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, 2011, which was ¥83.15 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		
	2011	2010	2009
Consolidated subsidiaries	16	17	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 fiscal years ended March 31, 2011, 2010 and 2009.

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 fiscal 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 other comprehensive income (losses), net of tax in net assets section. Realized gain and loss on sale of such securities are computed using the moving-average cost.

(e) Allowance for doubtful accounts

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

(f) Inventories

Effective from the fiscal 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 fiscal year ended March 31, 2009. The effects on segment information are described in Note 19.

(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 fiscal 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 19.

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 fiscal 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 fiscal 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 fiscal 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 fiscal 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 which was implemented to improve business structure.

(m) Provision for loss on disaster
In preparation for anticipated expenditure for the restoration of facilities damaged due to the Great East Japan Earthquake, the Company posted a provision for the estimated amount of loss expected as of the end of the fiscal year under review.

(n) Asset retirement obligations
Effective April 1, 2010, the Companies adopted "Accounting Standards for Asset Retirement Obligations" (Accounting Standards Board of Japan (ASBJ) Statement No. 18 of March 31, 2008) and "Guidance on Accounting Standards for Asset Retirement Obligations" (ASBJ Guidance No. 21 of March 31, 2008).

Accordingly, operating income declined by ¥19 million ($229 thousand), and income before income taxes and minority interests decreased by ¥408 million ($4,907 thousand).

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

(p) 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.

(q) 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.

(r) 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 207,263,899 shares, 210,555,817 shares and 212,230,847 shares in 2011, 2010 and 2009, 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 fiscal year then ended.

(s) Comprehensive income
Effective March 31, 2011, the Company adopted "Accounting Standard for Presentation of Comprehensive Income" (Accounting Standard Board of Japan ("ASBJ") Statement No. 25 on June 30, 2010) and "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, revised on June 20, 2010).

As a result of the adoption of these standards, the Company has presented the consolidated statement of comprehensive income in the consolidated financial statements for the fiscal year ended March 31, 2011.

And the consolidated balance sheet and the consolidated statement of changes in net assets as of and for the fiscal year ended March 31, 2010 have been modified to conform with the new presentation rules of 2011.

(t) Reclassification and restatement
Certain prior year amounts have been reclassified to conform to the current fiscal 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, 2011 and 2010 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Cash and deposits	¥11,194	¥11,750	$134,624
Less time deposits with maturities exceeding three months	—	(82)	—
Cash and cash equivalents	¥11,194	¥11,668	$134,624

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
	2010
Current assets	¥21,534
Non-current assets	36,906
Current liabilities	(24,722)
Non-current liabilities	(18,114)
Negative goodwill	(8,713)
Minority interests	(108)
Share exchange expenses	(324)
Acquisition cost of KISHU PAPER's shares	6,459
KISHU PAPER's cash and cash equivalents	1,045
Issuance price of the Company's shares through share exchange	(6,459)
Increase in cash and cash equivalents from newly consolidated subsidiaries	¥ 1,045

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 fiscal year ended March 31, 2011 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, 2011 are as follows. Financial instruments with fair values not readily determinable are excluded from the following table (see (b)):

	Millions of yen		
	2011		
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 11,194	¥ 11,194	¥ —
(2) Notes and accounts receivable	62,405	62,405	—
(3) Investments in securities:			
Available-for-sale securities	15,867	15,867	—
Total assets	¥ 89,466	¥ 89,466	¥ —
(4) Notes and accounts payable	¥ 23,753	¥ 23,753	¥ —
(5) Short-term loans	31,460	31,460	—
(6) Commercial paper	4,000	4,000	—
(7) Bonds	30,000	30,401	401
(8) Long-term loans payable*1	50,390	50,672	282
Total liabilities	¥139,603	¥140,286	¥683
Derivative transactions*2	¥ (185)	¥ (185)	¥ —

	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		
	2011		
	Book value	Fair value	Difference
(1) Cash and deposits	$ 134,624	$ 134,624	$ —
(2) Notes and accounts receivable	750,511	750,511	—
(3) Investments in securities:			
Available-for-sale securities	190,824	190,824	—
Total assets	$1,075,959	$1,075,959	$ —
(4) Notes and accounts payable	$ 285,664	$ 285,664	$ —
(5) Short-term loans	378,352	378,352	—
(6) Commercial paper	48,106	48,106	—
(7) Bonds	360,795	365,617	4,822
(8) Long-term loans payable*1	606,013	609,405	3,392
Total liabilities	$1,678,930	$1,687,144	$8,214
Derivative transactions*2	$ (2,225)	$ (2,225)	$ —

*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: ¥10,197 million ($122,634 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
	2011	2010	2011
	Due in one year	Due in one year	Due in one year
Cash and deposits	¥11,194	¥11,750	$134,624
Notes and accounts receivable	62,405	63,262	750,511
Total	¥73,599	¥75,012	$885,135

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

	Millions of yen					
	2011					
	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	¥31,460	¥ —	¥ —	¥ —	¥ —	¥—
Commercial paper	4,000	—	—	—	—	—
Bonds	10,000	—	—	10,000	10,000	—
Long-term loans payable*	13,657	12,894	14,306	5,214	4,319	—
Total	¥59,117	¥12,894	¥14,306	¥15,214	¥14,319	¥—

	Millions of yen					
	2010					
	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					
	2011					
	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	$378,352	$ —	$ —	$ —	$ —	$—
Commercial paper	48,106	—	—	—	—	—
Bonds	120,265	—	—	120,265	120,265	—
Long-term loans payable*	164,245	155,069	172,051	62,706	51,942	—
Total	$710,968	$155,069	$172,051	$182,971	$172,207	$—

*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, 2011 and 2010:

Available-for-sale securities:

	Millions of yen		
	2011		
Type	Acquisition cost	Book value	Difference
Equity securities:			
with book value (fair value) exceeding acquisition costs	¥ 4,920	¥ 7,432	¥2,512
with book value (fair value) not exceeding acquisition costs	11,401	8,435	(2,966)
	¥16,321	¥15,867	¥ (454)

	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

	Thousands of U.S. dollars		
	2011		
Type	Acquisition cost	Book value	Difference
Equity securities:			
with book value (fair value) exceeding acquisition costs	$ 59,170	$ 89,381	$30,211
with book value (fair value) not exceeding acquisition costs	137,114	101,443	(35,671)
	$196,284	$190,824	$ (5,460)

Total sales of available-for-sale securities sold in the fiscal year ended March 31, 2011 amounted to ¥45 million ($541 thousand), the related losses amounted to ¥38 million ($457 thousand) and the related gains amounted to ¥0 million ($0 thousand). Total sales of available-for-sale securities sold in the fiscal year ended March 31, 2010 amounted to ¥1,008 million and the related gains amounted to ¥14 million.

Note 6: Inventories

Inventories at March 31, 2011 and 2010 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Finished goods	¥11,871	¥11,802	$142,766
Work-in-process	2,093	1,761	25,171
Raw materials and supplies	11,396	11,183	137,054
	¥25,360	¥24,746	$304,991

Note 7: Assets Pledged

Assets pledged as collateral for short-term loans, long-term debt and other long-term liabilities totaling ¥200 million ($2,405 thousand) at March 31, 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Buildings	¥12	¥ 2,963	$144
Equipment	1	10,285	13
Land	8	7,997	96
Securities	—	1,302	—
	¥21	¥22,547	$253

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

Short-term loans outstanding at March 31, 2011 and 2010 are partially secured with interest of 0.28% to 0.84% per annum and 0.61% to 2.50% per annum, respectively.

The interest rate on commercial paper at March 31, 2011 is 0.16%.

Long-term debt and lease obligations at March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Partially secured loans from banks and unsecured loans from insurance companies and other financial institutions, 0.58% to 5.05% maturing serially through 2016	¥50,390	¥60,497	$ 606,013
1.77% unsecured yen straight bonds due in 2014	10,000	10,000	120,265
1.36% unsecured yen straight bonds due in 2011	10,000	10,000	120,265
0.794% unsecured yen straight bonds due in 2015	10,000	—	120,265
Lease obligations, maturing through 2016	3,377	4,231	40,612
	83,767	84,728	1,007,420
Less current maturities	(24,538)	(21,671)	(295,105)
Total	¥59,229	¥63,057	$ 712,315

The annual maturities of long-term debt and lease obligations at March 31, 2011 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2012	¥24,538	$ 295,105
2013	13,737	165,207
2014	14,956	179,868
2015	15,629	187,962
2016	14,712	176,933
2017 and thereafter	195	2,345
	¥83,767	$1,007,420

Note 9: Contingent Liabilities

Contingent liabilities at March 31, 2011 for loans guaranteed by the Companies on behalf of third parties amount to ¥12,234 million ($147,132 thousand), which includes ¥12,229 million ($147,072 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 ¥146 million ($1,756 thousand).

Note 10: Net Assets

Net assets comprise three subsections, which are shareholders' equity, accumulated other comprehensive income (losses), net of tax 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, 2011, the shareholders approved cash dividends amounting to ¥1,231 million ($14,805 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2011. 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 fiscal years ended March 31, 2011, 2010 and 2009.

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the fiscal years ended March 31, 2011 and 2010:

	2011	2010
Statutory tax rate	39.5%	39.5%
Non-deductible expenses	1.0	0.7
Dividends received not taxable	(3.0)	(1.7)
Per capita inhabitants taxes	0.7	0.4
Valuation allowance	(13.3)	(24.2)
Other	0.5	1.5
Effective tax rate	25.4%	16.2%

Significant components of deferred income tax assets and liabilities at March 31, 2011 and 2010 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Deferred income tax assets:			
Unrealized gain from sales of inventories between the Companies	¥ 234	¥ 280	$ 2,814
Accrued bonuses	896	991	10,776
Employees' severance and retirement benefits	5,459	4,740	65,652
Long-term accrued amount payable	150	876	1,804
Unrealized gain from sales of fixed assets between the Companies	1,274	1,309	15,322
Unrealized holding gain on fixed assets	2,432	2,656	29,248
Depreciation and amortization	554	714	6,663
Impairment loss of fixed assets	1,291	1,044	15,526
Loss on devaluation of investments in securities	240	451	2,886
Provision for business structure improvement	210	242	2,526
Accrued environmental expenditures	111	519	1,335
Net operating loss carry forwards	2,106	1,949	25,328
Asset retirement obligations	606	—	7,288
Other	1,951	1,681	23,464
Subtotal deferred income tax assets	17,514	17,452	210,632
Valuation allowance	(8,839)	(9,122)	(106,302)
Total deferred income tax assets	¥ 8,675	¥ 8,330	$104,330
Deferred income tax liabilities:			
Reserve deductible for Japanese tax purpose	¥ (615)	¥ (877)	$ (7,396)
Reserve for deferred gain on sales of fixed assets for tax purpose	(769)	(791)	(9,248)
Unrealized holding gain on securities	(2,456)	(2,456)	(29,537)
Other	(451)	(1,004)	(5,424)
Total deferred income tax liabilities	¥ (4,291)	¥ (5,128)	$ (51,605)
Net deferred income tax assets (liabilities)	¥ 4,384	¥ 3,202	$ 52,725

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

Sales to and purchases from unconsolidated subsidiaries and affiliates for the fiscal years ended March 31, 2011, 2010 and 2009 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	2011
Sales	¥36,156	¥35,703	¥37,695	$434,829
Purchases	5,899	5,433	6,484	70,944

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 ¥1,051 million ($12,640 thousand), ¥1,231 million and ¥1,054 million for the fiscal years ended March 31, 2011, 2010 and 2009, respectively.

Note 14: Impairment Loss on Fixed Assets

In the fiscal year ended March 31, 2011, 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
Processed paper production equipment	Hitachinaka of Ibaraki and others	Machinery, vehicles Equipment and others	¥117	$1,407
Idle assets	Niigata of Niigata and others	Machinery, vehicles Equipment and others	226	2,718

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.

(Impairment Loss on Fixed Assets)
In view of the poor prospects for demand recovery in the packaging/paper processing business due to the economic slump, the Companies resolved to terminate and dispose of the abovementioned production facilities as part of its production structure reforms. To that end, the Companies reduced book value to memorandum value and recorded the reduction of said amount under other expenses as an impairment loss on fixed assets. For idle assets with no planned future use, the Companies the reduced book value to recoverable value and also recorded such reductions under other expenses as an impairment loss on fixed assets.

In the fiscal 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
Idle assets	Niigata and others, Niigata	Machinery, vehicles Equipment and others	¥85

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.

Note 15: Lease Transactions

Lease transactions for the fiscal years ended March 31, 2011 and 2010 are as follows:

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

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

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Machinery, equipment and others			
Purchase price equivalent	¥2,025	¥2,080	$24,354
Accumulated depreciation equivalent	951	742	11,437
Accumulated impairment loss equivalent	33	33	397
Book value equivalent	1,041	1,305	12,520

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

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

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Due within one year	¥ 236	¥ 270	$ 2,838
Due after one year	827	1,063	9,946
	¥1,063	¥1,333	$12,784
Balance of impairment loss account on leased assets included in the outstanding lease commitments	¥ 22	¥ 28	$ 265

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			Thousands of U.S. dollars
	2011	2010	2009	2011
Lease payments	¥270	¥297	¥281	$3,247
Reversal of allowance for impairment loss on leased assets	6	6	—	72
Depreciation equivalent	264	292	281	3,175
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 fiscal years ended March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Due within one year	¥39	¥ 39	$469
Due after one year	36	74	433
	¥75	¥113	$902

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 been applied at March 31, 2011 are as follows.
(1) Currency-related

		Millions of yen		
		2011		
		Contract amount		
Type of derivative transaction	Main hedged items	Total	Over one year	Fair value
Forward exchange contracts				
Buy contracts	Trade payables			
U.S. Dollar		¥829	¥—	¥(40)
EUR		¥ 82	¥—	¥ 6

		Thousands of U.S. dollars		
		2011		
		Contract amount		
Type of derivative transaction	Main hedged items	Total	Over one year	Fair value
Forward exchange contracts				
Buy contracts	Trade payables			
U.S. Dollar		$9,970	$—	$(481)
EUR		$ 986	$—	$ 72

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

(2) Interest-related

		Millions of yen		
		2011		
		Contract amount		
Type of derivative transaction	Main hedged items	Total	Over one year	Fair value
Interest rate swap contracts				
Receive floating	Long-term loans payable			
Pay fixed		¥5,573	¥4,145	¥(152)

		Thousands of U.S. dollars		
		2011		
		Contract amount		
Type of derivative transaction	Main hedged items	Total	Over one year	Fair value
Interest rate swap contracts				
Receive floating	Long-term loans payable			
Pay fixed		$67,023	$49,850	$(1,828)

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.

		Millions of yen		
		2011		
		Contract amount		
Type of derivative transaction	Main hedged items	Total	Over one year	Fair value
Interest rate swap contracts				
Receive floating	Long-term loans payable			
Pay fixed		¥2,108	¥1,370	¥—

		Thousands of U.S. dollars		
		2011		
		Contract amount		
Type of derivative transaction	Main hedged items	Total	Over one year	Fair value
Interest rate swap contracts				
Receive floating	Long-term loans payable			
Pay fixed		$25,352	$16,476	$—

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

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

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

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

(2) Interest-related

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

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.

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

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, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Projected benefit obligation	¥(20,650)	¥(18,979)	$(248,346)
Unrecognized actuarial differences	1,202	1,404	14,456
Less fair value of pension assets	7,286	7,378	87,625
Prepaid pension costs	(441)	(461)	(5,304)
Liability for severance and retirement benefits	¥(12,603)	¥(10,658)	$(151,569)

Included in the consolidated statements of income for the fiscal years ended March 31, 2011, 2010 and 2009 are severance and retirement benefit expenses composed of the following:

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	2011
Service costs – benefits earned during the year	¥ 888	¥ 743	¥ 642	$10,679
Interest cost on projected benefit obligation	371	295	231	4,462
Expected return on pension assets	(81)	(37)	(37)	(974)
Amortization of actuarial differences	315	365	233	3,788
One-time amortization of prior service costs	175	—	—	2,105
Severance and retirement benefit expenses	¥1,668	¥1,366	¥1,069	$20,060

	2011	2010	2009
Discount rate:	2.0% (mainly)	2.0% (mainly)	2.0%
Rates of expected return on pension assets:	1.0% (mainly)	1.0% (mainly)	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 (mainly)	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: Asset Retirement Obligations

As of March 31, 2011

1. Asset retirement obligations recorded on the consolidated balance sheets

(1) Outline of the asset retirement obligations recorded:

The Company recorded asset retirement obligations covering the expenses for the removal of asbestos as well as the disposal/treatment expenses stipulated by the law concerning disposal and public cleansing of industrial waste, which will be incurred at the time of removal from buildings and structures owned by the Company.

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

The projected use period of each fixed asset is estimated to be 4 to 16 years based on the useful life of each, and the discount rate of 0.516% to 2.330% is used.

(3) Increase or decrease in the total amount of the relevant asset retirement obligations during the fiscal year ended March 31, 2011:

Balance at the beginning of the year (Note)	¥1,504 million
Adjustments over time	¥9 million
Balance at the end of the year	¥1,513 million

(Note) The balance at the beginning of the year recognized due to the adoption of the "Accounting Standards for Asset Retirement Obligations" (ASBJ Statement No. 18 issued on March 31, 2008) and the "Guidance on Accounting Standards for Asset Retirement Obligations" (ASBJ Guidance No. 21 issued on March 31, 2008) from the fiscal year ended March 31, 2011.

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

The Hokuetsu Kishu Paper Group has obligations to restore the original state when vacating land, building and other structures, which the Group uses under lease/rental contracts. However, because the use periods of the leased/rental properties relative to such obligations are unclear and, in addition, the Group currently has no plan of exiting from these properties, it is not possible to clearly estimate the amounts of asset retirement obligations. For this reason, the asset retirement obligations that correspond to these obligations are not recorded in the accompanying consolidated financial statements.

Note 19: Segment Information

1. Overview of reporting segments

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

The Hokuetsu Kishu Paper Group evaluates business results on an each entity basis, and treat independent entity as an unit functioning within each of its business segments. The Company groups each unit into segments according to commonality in economic characteristics, product manufacturing methods and markets. Based on this approach, the Company maintains two reporting segments: the "Paper and Pulp Business" and the "Packaging and Paper Processing Business."

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

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

The basis of the accounting treatment for the reporting segments is substantially the same as described in "Summary of Significant Accounting Policies" herein.

The segment income represents the operating income-based amount. The intersegment revenues and transfers are determined based on the prevailing market value.

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

For the fiscal years ended March 31, 2010 and 2009

The information is omitted herein, since the Company's segment information reporting of the consolidated financial statements in prior years based on the conventional accounting treatment corresponds to that required under the new "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17 issued on March 27, 2009), etc.

	Millions of yen					
	2011					
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others *1	Corporate or elimination *2	Consolidated *3
Sales:						
Outside customers	¥185,924	¥21,008	¥206,932	¥10,082	¥ —	¥217,014
Intersegment	1,895	319	2,214	24,675	(26,889)	—
Total	187,819	21,327	209,146	34,757	(26,889)	217,014
Operating expenses	180,932	20,874	201,806	34,179	(27,714)	208,271
Operating income	¥ 6,887	¥ 453	¥ 7,340	¥ 578	¥ 825	¥ 8,743
Identifiable assets	¥298,224	¥18,413	¥316,637	¥18,879	¥(13,261)	¥322,255
Depreciation and amortization	¥ 21,208	¥ 1,093	¥ 22,301	¥ 602	¥ (407)	¥ 22,496
Impairment loss	¥ 201	¥ 135	¥ 336	¥ 7	¥ —	¥ 343
Increase in property, plant and equipment/intangible assets	¥ 8,086	¥ 381	¥ 8,467	¥ 417	¥ (248)	¥ 8,636

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

*2 Amounts of adjustments are as follows:

(1) Adjustments in segment income in the amount of ¥825 million mainly represent eliminations of intersegment transactions.

(2) Adjustments in segment assets in the amount of ¥(13,261) million include ¥(16,488) million for eliminations of intersegment debts and credits and ¥3,227 million for the corporate assets that are not allocated to each reportable segment.

(3) Adjustments in increases in property, plant and equipment and intangible fixed assets totaling ¥(248) million represent eliminations of intersegment unrealized gains on noncurrent assets.

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

(Additional Information)
Effective April 1, 2010, the Companies adopted “Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (Accounting Standards Board of Japan (ASBJ) Statement No. 17 of March 27, 2009) and “Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Guidance No. 20 of March 21, 2008).

(Related Information)
Fiscal year ended March 31, 2011
1. Information by Product or Service
This information is omitted here as it is disclosed in the Segment Information section.

2. Information by Region
(1) Net sales
This information is omitted as domestic sales to unaffiliated customers accounted for more than 90% of net sales in the consolidated statements of income.
(2) Property, plant and equipment
This information is omitted as total amount of property, plant and equipment outside Japan accounted for more than 90% of total property, plant and equipment in the consolidated balance sheet.

3. Information by Major Customer

	Millions of yen	Thousands of U.S. dollars
Name of Customers	2011	2011
SHINSEI PULP & PAPER COMPANY LIMITED	¥44,963	$540,746
Marudai Shigyo Co., Ltd.	¥35,959	$432,459
KOKUSAI PULP & PAPER CO., LTD.	¥25,652	$308,503

(Information regarding the amounts of amortization and unamortized balance by reportable segment)
Fiscal year ended March 31, 2011

	Millions of yen					
	2011					
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others	Corporate or elimination	Consolidated
Negative goodwill:						
Amortization of negative goodwill	¥1,466	¥27	¥1,493	¥ 296	¥—	¥1,789
Balance at end of year	¥5,108	¥96	¥5,204	¥1,016	¥—	¥6,220

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

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 fiscal 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 fiscal 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.

	Thousands of U.S. dollars					
	2011					
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others *1	Corporate or elimination *2	Consolidated *3
Sales:						
Outside customers	$2,236,007	$252,652	$2,488,659	$121,251	$ —	$2,609,910
Intersegment	22,790	3,836	26,626	296,753	(323,379)	—
Total	2,258,797	256,488	2,515,285	418,004	(323,379)	2,609,910
Operating expenses	2,175,971	251,040	2,427,011	411,053	(333,301)	2,504,763
Operating income	$ 82,826	$ 5,448	$ 88,274	$ 6,951	$ 9,922	$ 105,147
Identifiable assets	$3,586,578	$221,443	$3,808,021	$227,048	$(159,483)	$3,875,586
Depreciation and amortization	$ 255,057	$ 13,145	$ 268,202	$ 7,240	$ (4,895)	$ 270,547
Impairment loss	$ 2,417	$ 1,624	$ 4,041	$ 84	$ —	$ 4,125
Increase in property, plant and equipment/intangible assets	$ 97,246	$ 4,582	$ 101,828	$ 5,003	$ (2,983)	$ 103,848

*1 The "Others" category indicates business segments not included in the reporting segments, encompassing the wood products business, the construction business, sales of various materials, sales of real estate, the transportation and warehousing business and the wastepaper wholesale business.
*2 Amounts of adjustments are as follows:
(1) Adjustments in segment income in the amount of $9,922 thousand mainly represent eliminations of intersegment transactions.
(2) Adjustments in segment assets in the amount of $(159,483) thousand include $(198,292) thousand for eliminations of intersegment debts and credits and $38,809 thousand for the corporate assets that are not allocated to each reportable segment.
(3) Adjustments in increases in property, plant and equipment and intangible fixed assets totaling $(2,983) million represent eliminations of intersegment unrealized gains on noncurrent assets.
*3 Segment income is adjusted to reflect operating income as recorded in the consolidated statements of income.

(Information regarding the amounts of amortization and unamortized balance by reportable segment)
Fiscal year ended March 31, 2011

	Thousands of U.S. dollars					
	2011					
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others	Corporate or elimination	Consolidated
Negative goodwill:						
Amortization of negative goodwill	$17,631	$ 325	$17,956	$ 3,559	$—	$21,515
Negative goodwill at end of year	$61,431	$1,155	$62,586	$12,219	$—	$74,805

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

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 20: Related Party Transactions

Effective from the fiscal 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

2011									
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 ($1,948 thousand)	Direct 36 Indirect -	Agency for the products of the Company	Sales of paper	¥36,096 million ($434,107 thousand)	Account receivable-trade	¥14,335 million ($172,399 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.

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	Direct 36 Indirect -	Agency for the products of the Company	Sales of paper	¥35,603 million	Account receivable-trade	¥13,744 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: Comprehensive Income

Comprehensive income for the fiscal year ended March 31, 2010 was as follow:

	Millions of yen
Comprehensive income attributable to owners of the parent	¥8,280
Comprehensive income attributable to minority interests	69
Total comprehensive income	¥8,349

Other comprehensive income for the fiscal year ended March 31, 2010 was as follow:

	Millions of yen
Unrealized holding gains on securities, net of taxes	¥1,204
Unrealized losses on hedging derivatives, net of taxes	(169)
Share of other comprehensive income of associates accounted for using equity method	(2)
Total other comprehensive income	¥1,033

Note 22: Subsequent Events

(1) Distribution of retained earnings

The following items were approved at the annual shareholders' meeting of the Company held on June 24, 2011:

Payment of a cash dividend of ¥6.00 ($0.07) per share to shareholders as of March 31, 2011 or a total of ¥1,231 million ($14,805 thousand)

(2) Absorption of KISHU PAPER Co., Ltd.

Hokuetsu Kishu Paper absorbed the wholly owned subsidiary KISHU PAPER Co., Ltd. (KISHU PAPER) on April 1, 2011 (Absorption), completing the business integration.

(a) 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 completed business integration through the Absorption in its pursuit of further improvement to Groupwide management efficiencies and corporate value. Based on this merger, the Company aims to accelerate management decision-making and execution of management strategies, concentrate and effectively utilize management resources, raise operational efficiencies and reinforce international competitiveness.

(b) Details of Absorption

(i) Date of Absorption

April 1, 2011

(ii) Absorption method

Under the Absorption, the Company remains as the surviving company and KISHU PAPER has been dissolved.

(iii) Share allotment of the Absorption

The Company owns 100% of KISHU PAPER's shares, and there was no issuance of new shares, increase capital or cash out with the Absorption.

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

Not applicable

(c) Acquired Assets and assumed Liabilities

As of the effective date of the Absorption, Hokuetsu Kishu Paper took over KISHU PAPER's assets, liabilities and other rights and obligations.

(d) Overview of Companies Involved in the Absorption (As of March 31, 2011)

(1) Corporate name	Hokuetsu Kishu Paper Co., Ltd. (surviving company)	KISHU PAPER Co., Ltd. (extinct company)
(2) Business	Manufacturing and sales of printing paper, paperboard and other products	Manufacturing, processing and sales of printing paper
(3) Establishment	April 27, 1907	October 5, 1950
(4) Headquarters address	Nagaoka City, Niigata Prefecture (registered) Chuo-ku, Tokyo (actual)	Suita City, Osaka (registered) Chuo-ku, Tokyo (actual)
(5) Representative	Sekio Kishimoto, Representative Director, President & CEO	Takayuki Sasaki, Representative Director, President & CEO
(6) Capital	¥42,020 million ($505,352 Thousand)	¥5,140 million ($61,816 Thousand)
(7) Number of shares issued and outstanding	209,263,814 shares	77,211,590 shares
(8) Net assets	¥139,822 million ($1,681,563 Thousand) (consolidated)	¥19,336 million ($232,544 Thousand) (non-consolidated)
(9) Total assets	¥322,255 million ($3,875,586 Thousand) (consolidated)	¥47,186 million ($567,480 Thousand) (non-consolidated)
(10) Net assets per share	¥680.03 ($8.18) (consolidated)	¥250.44 ($3.01) (non-consolidated)
(11) Major shareholders and shareholding ratio	Mitsubishi Corporation 24.72% The Master Trust Bank of Japan, Ltd. (Trust Account) 5.61% Japan Trustee Services Bank, Ltd. (Trust Account) 4.50% NIPPONKOA Insurance Co., Ltd. 2.86% Japan Trustee Services Bank, Ltd. (Trust Account from The Sumitomo Trust and Banking Co., Ltd./Retirement Benefit Trust Account for Oji Paper Co., Ltd.) 2.68%	Hokuetsu Kishu Paper Co., Ltd. 100%

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. (a Japanese corporation) and consolidated subsidiaries as of March 31, 2011 and 2010, the related consolidated statements of income and comprehensive income for the year ended March 31, 2011, statements of income for the year ended March 31, 2010 and 2009, and statements of changes in net assets and cash flows for each of the three years then ended 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, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2011, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:
In Note21 of the consolidated financial statements, the comprehensive income for the year ended March 31, 2010 is disclosed.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

Tokyo, Japan
June 28, 2011

Subsidiaries and Affiliates

As of October 1, 2011

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 and related materials; Sale of environmentally-friendly products

BF Co., Ltd.
667-1, Minami-nagai, Tokorozawa, Saitama 359-0011
Supply of computer-related components; Data processing services; Radio frequency identification operations

Hokuetsu Kishu Sales 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

Hokuetsu Kami Seisen Co., Ltd.
57, Enoki-cho, Higashi-ku, Niigata 950-0881
Cutting, selecting, packing and loading/unloading 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.

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

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

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

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

Hokuetsu Forest Co., Ltd.
1529, Aza-Shitadairayamako, 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

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

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

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

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

Xing Hui Investment Holdings Co., Ltd.
Unit01-12, 19/F, Metro Centre, No. 32 Lam Hing Street, Kowloon Bay, Kowloon, Hong Kong
Management of a production and sales subsidiary

Affiliate Companies Accounted for under Equity Method

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

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

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

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

Hokuetsu Kyouritsu Co., Ltd.
4936, Shimami-cho, Kita-ku, Niigata 950-3102
Manufacturing, repair and sale of pallets, etc.

Corporate Data

Overview As of March 31, 2011

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
Fiscal Year Ending	Annually on March 31
Number of Employees	3,951 (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 October 2011

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

Kishu Mill
182, Udono, Kiho-cho, Minamimuro-gun, Mie 519-5701

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

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

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

Osaka Mill
4-20-1, Minami-Suita, Suita, Osaka 564-0043

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

Osaka Branch
4-22-1, Minami-Suita, Suita, Osaka 564-0043

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, 2011

Number of shares authorized	500,000,000
Number of shares issued	209,263,814
Number of shareholders	13,765

Major shareholders

Name	Number of shares held (thousands of shares)	Percentage to total number of shares in issue (%)
Mitsubishi Corporation	51,740	24.72
The Master Trust Bank of Japan, Ltd. (Trust Account)	11,742	5.61
Japan Trustee Services Bank, Ltd. (Trust Account)	9,437	4.50
NIPPONKOA Insurance Co., Ltd.	5,992	2.86
Japan Trustee Services Bank, Ltd. (Re-trust [entrustment of trust assets] from The Sumitomo Trust & Banking Co., Ltd./Employee Retirement Benefit Trust Account of Oji Paper Co., Ltd.)	5,614	2.68
Daio Paper Corporation	4,286	2.05
The Daishi Bank, Ltd.	4,217	2.02
The Hokuetsu Bank, Ltd.	4,215	2.01
JPMorgan Securities Japan Co., Ltd.	3,765	1.80
Mizuho Corporate Bank, Ltd.	3,600	1.72

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.

Kishu Mill