HOKUETSU KISHU PAPER CO., LTD.

Aiming to Become a Truly Global Company

Annual Report 2012
Year ended March 31, 2012

The Hokuetsu Kishu Paper Corporate Philosophy

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.

- 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.
- We will provide attractive products and services to meet customer needs.
- 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.
- Through commitment to environmentally conscience management, we will strive for sustainable growth.

Overview of Hokuetsu Kishu Paper

Profile

On October 1, 2009, Hokuetsu Paper Mills, Ltd. was renamed Hokuetsu Kishu Paper Co., Ltd. following the management consolidation of KISHU PAPER Co., Ltd. through a share exchange. On April 1, 2011, the two companies completed the merger with the aim of further improving Group-wide management efficiency and corporate value.

Hokuetsu Paper Mills, Ltd.

Established in Nagaoka City, Niigata Prefecture in 1907, Hokuetsu Paper Mills commenced the manufacturing of paperboard and then expanded its field of business to printing paper, specialty paper and paper processing. It developed as a company chiefly involved in coated paper production using on-machine coaters based mainly in eastern Japan.

KISHU PAPER Co., Ltd.

KISHU PAPER was founded in Minamimuro-gun, Mie Prefecture in 1950. It developed as a company based mainly in western Japan with a primary business focus on such specialty paper as colored wood-free paper.

Management Integration

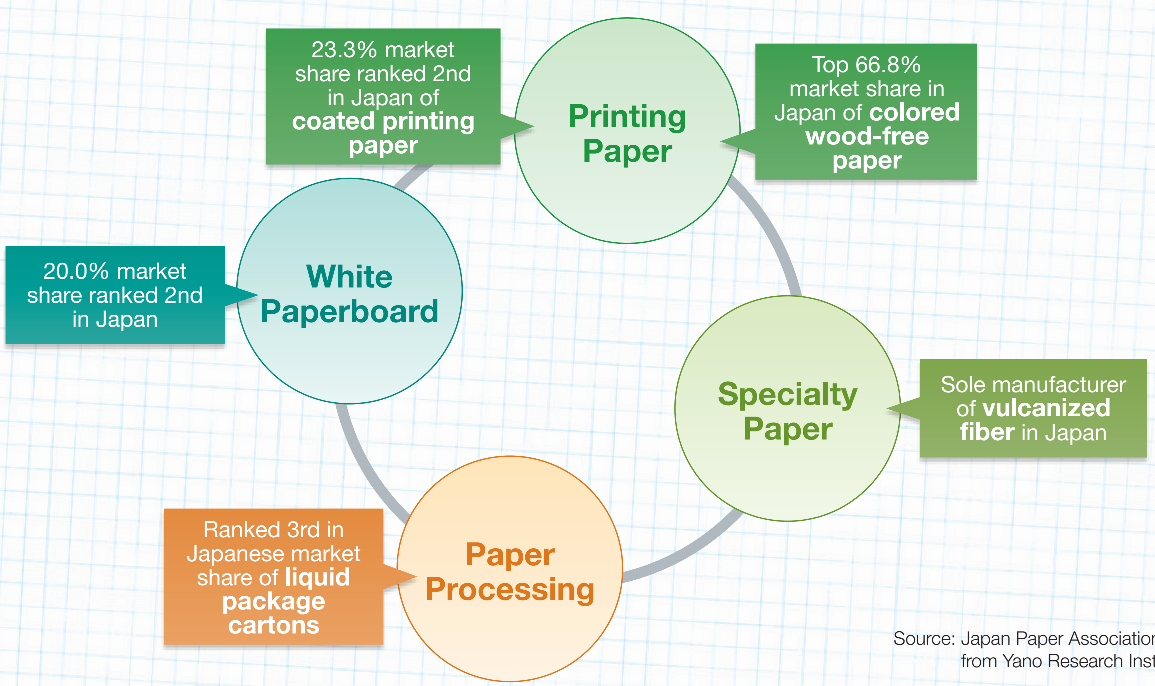
Complete Merger

Hokuetsu Kishu Paper Co., Ltd.

Since the merger, Hokuetsu Kishu Paper's stature within the paper industry in Japan as a supplier of attractive products and services has risen by bringing together the strengths of the two companies and maximizing synergies.

Core Businesses and Industry Position

Expansion and enhancement of the four core businesses of Printing Paper, White Paperboard, Specialty Paper and Paper Processing came to fruition in the merger of KISHU PAPER with Hokuetsu Paper Mills, resulting in top-class market shares in the paper industry in Japan.



Source: Japan Paper Association, with data from Yano Research Institute Ltd.

Medium to Long-term Strategy

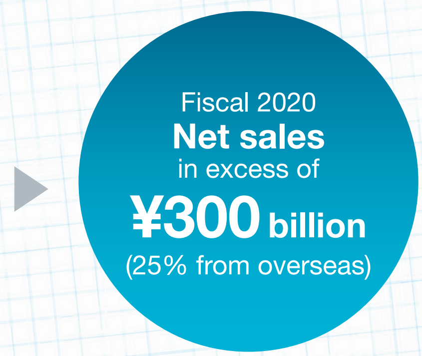
G-1st Medium-term Management Plan (from April 1, 2011 through March 31, 2014)

Based on expectations that the domestic market will continue to shrink, while all around the world concerns about environmental burdens will continue to grow, Hokuetsu Kishu Paper Group is implementing the G-1st medium-term management plan in striving to enhance its corporate value by (1) participating in growth markets situated mainly in the Asia Pacific region by further increasing exports and (2) promoting management that focuses more on environmental issues in its pursuit of sustainable growth.

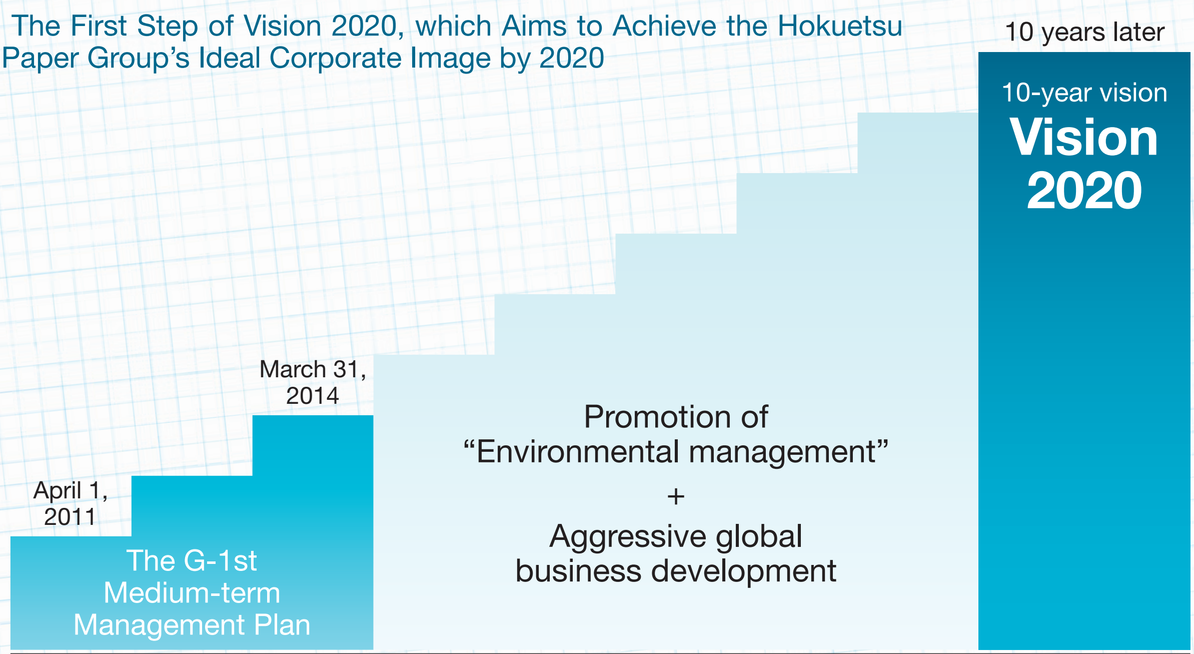
Four Keywords Symbolizing the G-1st Management Policies

Management Objectives

	2011 (Results)	2012 (Results)	2014 (Targets)
Net sales	¥217.0 billion	¥230.6 billion	¥235.0 billion
Ordinary income	¥ 10.3 billion	¥ 13.9 billion	¥ 15.0 billion
Ordinary income ratio	4.7%	6.0%	More than 6.3%
EBITDA	¥ 32.5 billion	¥ 35.4 billion	¥ 34.0 billion
EBITDA/Net sales	15.0%	15.3%	More than 14.4%



G-1st: The First Step of Vision 2020, which Aims to Achieve the Hokuetsu Kishu Paper Group's Ideal Corporate Image by 2020



Consolidated Financial Highlights

(Fiscal years ended March 31)

Financial data	Millions of yen					Thousands of U.S. dollars (Note 2)
	2008	2009	2010 (Note 1)	2011	2012	2012
Net sales	¥172,709	¥182,815	¥193,952	¥217,014	¥230,576	$2,807,110
Operating income	8,330	8,125	9,892	8,743	10,828	131,824
Ordinary income (Note 3)	7,891	6,752	9,574	10,283	13,906	169,296
Net income	4,074	1,913	7,239	5,432	12,797	155,795
EBITDA (Note 4)	21,456	25,846	31,696	32,455	35,384	430,777
Capital expenditures	37,725	31,376	6,286	8,636	7,977	97,115
Total assets	292,726	313,732	340,970	322,255	332,995	4,053,993
Net assets	140,184	136,713	139,989	139,822	152,704	1,859,070
Interest-bearing debt	101,024	135,730	134,850	119,227	115,084	1,401,701

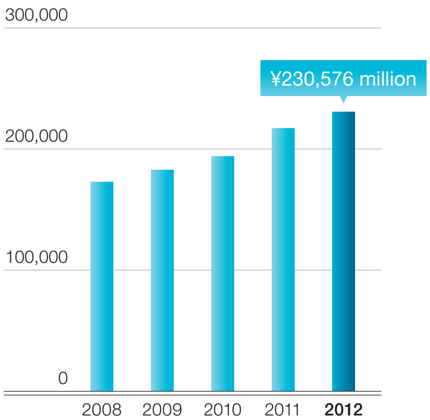
Cash flows						
Cash flows from operating activities	¥ 12,995	¥ 10,000	¥ 36,944	¥ 25,859	¥ 29,083	$ 354,066
Cash flows from investing activities	(35,411)	(34,804)	(10,637)	(6,209)	(9,565)	(116,448)

Per share data (Yen/U.S. dollars)						
Earnings per share (EPS)	¥ 19.19	¥ 9.01	¥ 34.38	¥ 26.21	¥ 62.70	$ 0.76
Book value per share (BPS)	656.96	640.36	667.32	680.03	737.82	8.98
Dividends per share	14.00	12.00	12.00	12.00	12.00	0.15

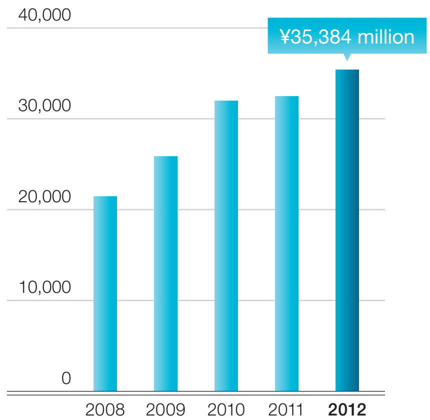
Key Ratios					
EBITDA/Net sales	12.4%	14.1%	16.3%	15.0%	15.3%
Operating income ratio	4.8%	4.4%	5.1%	4.0%	4.7%
Net income ratio	2.4%	1.0%	3.7%	2.5%	5.6%
Equity ratio	47.6%	43.3%	40.8%	43.2%	45.3%
ROA (Note 5)	2.8%	2.2%	2.9%	3.1%	4.2%
ROE	2.9%	1.4%	5.3%	3.9%	8.8%
Debt equity ratio (times)	0.72	1.00	0.97	0.86	0.76

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 ¥82.14 to one dollar, the currency exchange rate prevailing at the Tokyo Foreign Exchange Market as of March 31, 2012.
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

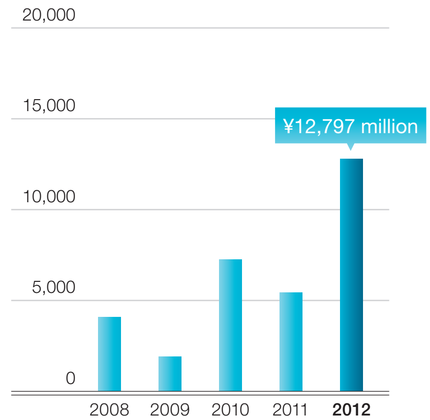
Net Sales
(Millions of yen)



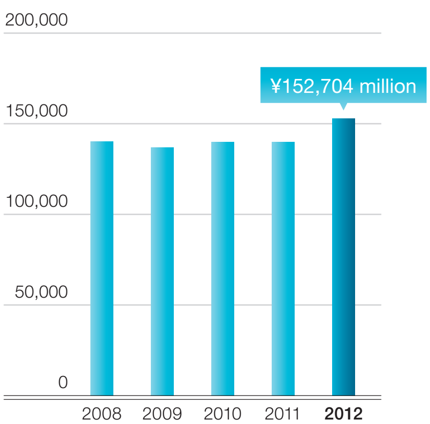
EBITDA
(Millions of yen)



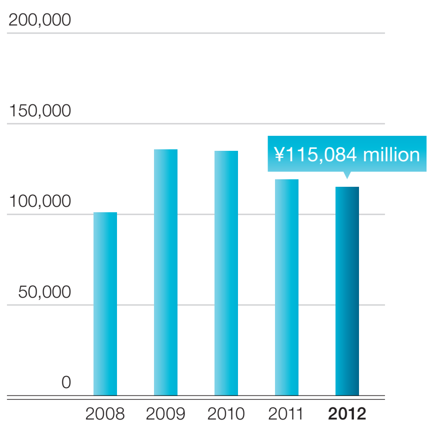
Net Income
(Millions of yen)



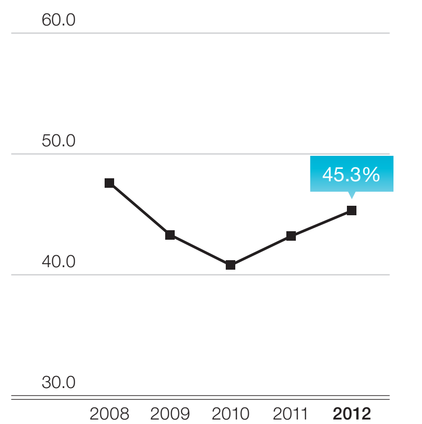
Net Assets
(Millions of yen)



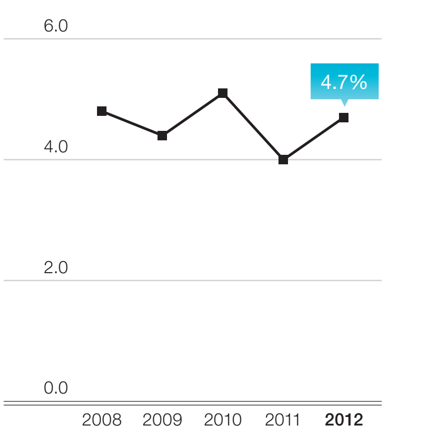
Interest-bearing Debt
(Millions of yen)



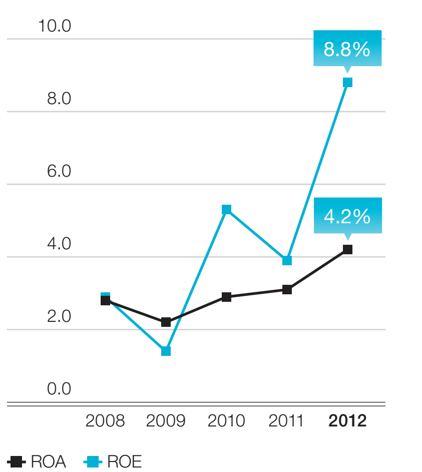
Equity Ratio
(%)



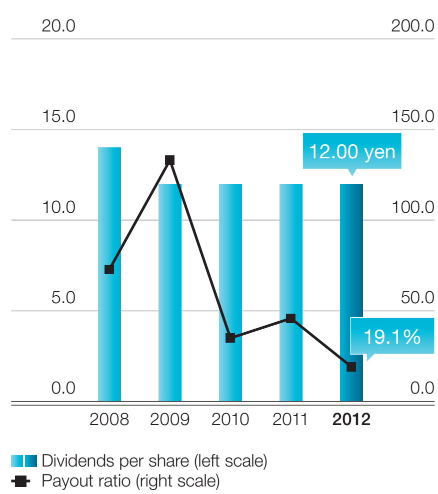
Operating Income Ratio
(%)



ROA/ROE
(%)



Dividends per Share/Payout Ratio
(Yen) (%)



To Our Stakeholders

We will keep working to live up to our stakeholders' expectations by steadfastly driving forward our global strategy and environmental management.

Fiscal 2011 Performance

During fiscal 2011, ended March 31, 2012, the Hokuetsu Kishu Paper Group grew net sales 6.2% year on year to ¥230.6 billion. We achieved growth despite a tough external environment marked by lackluster domestic demand for products like printing and communication paper in part by helping to fill supply shortages due to the Great East Japan Earthquake.

On the earnings front, we adjusted sales prices in response to soaring prices for fuel and raw materials such as wood chips and waste paper, took steps to boost sales volumes, and worked to reduce costs across the board. Thanks to these initiatives, operating income rose 23.8% year on year to ¥10.8 billion. Net income surged 135.6% year on year to ¥12.8 billion, partially owing to a reduced tax burden after the application of tax effect accounting associated with the absorption-type merger of KISHU PAPER Co., Ltd.

Promotion of the G-1st Medium-term Management Plan

In April 2011, the Group launched its three-year, medium-term management plan G-1st ending March 2014. Under this plan, we have reinforced our domestic business foundation through moves like completing the merger with KISHU PAPER, converting The Toyo Fibre Co., Ltd. into a wholly owned subsidiary, and setting up new sales agents.

We are also making steady strides toward becoming a truly global company. For instance, we are building a white paperboard mill in Guangdong Province, China, and made Shanghai Toh Tech Co., Ltd. a wholly owned subsidiary.

We will continue to aggressively promote such strategic business measures and devote our energies to achieving our medium-term management plan. We look forward to your continued support and cooperation.

Sekio Kishimoto
President and CEO

Interview With the President

Question 1

What is the outlook for fiscal 2012?

Domestic paper and paperboard demand has been broadly flat following the rapid contraction after the fall of Lehman Brothers in 2008. In particular, there is excess supply in Japan and overseas for printing and communication paper, which accounts for roughly 70% of our sales. We are also seeing the impact from growth in imported paper due to the yen's strength. We expect operating conditions to remain extremely challenging. However, we look for prices for fuel and raw materials like wood chips and pulp to be a bit calmer in fiscal 2012.

In this business environment, we will steadily execute business strategies in line with our medium-term management plan G-1st unveiled in April 2011. Namely, we will maximize utilization of existing production facilities to sharpen our competitive edge on cost and quality. We will also give special attention to lower environmental burdens at the production and sales stages and sales activities matching user needs, including by meeting delivery schedules and developing attractive products. Overseas, we will work to ascertain needs in growth markets—mainly in the Pacific Rim region—and actively make strategic investments.

Through these measures, we expect to generate sales of ¥231 billion, operating income of ¥11 billion, and net income of ¥7.5 billion.

Forecasts for Fiscal 2012

	Fiscal 2011 (results)	Fiscal 2012 (forecasts)
Net sales	¥230.6 billion	¥231.0 billion
Operating income	¥ 10.8 billion	¥ 11.0 billion
Net income	¥ 12.8 billion	¥ 7.5 billion

Question 2

What is your strategy for domestic operations?

In fiscal 2011, we established the sales agent subsidiary Hokuetsu Kishu Sales Co., Ltd. to strengthen our domestic business. First, I will provide some background to this move. Since we put the Niigata No. 6 papermaking machine online in 1986, we have expanded our facilities to increase our production capacity, mainly for coated paper. In 2009, we integrated KISHU PAPER to grow the scale of our operations. As a result, our paper output is now more than double that of 20 years ago. To fully capitalize on our robust production capacity, we needed to bring our sales capacity up to par. We decided the solution was to establish Hokuetsu Kishu Sales.

Benefits that have come from this include the unification of sales policy through consolidated management, and reduced sales, administration, and other costs. Further, it has been a major plus for sales strategy and product development by bringing user needs closer to home.

In fiscal 2011, we also acquired Toyo Fibre. With this addition to our experience of over 60 years as a fiber manufacturer, we became the only company in Japan with a foot in the vulcanized fiber sector and tops globally on production capacity. Further, we are seeing synergy benefits from the integration of our and Toyo Fibre's production and sales segments. Fiber faces fierce competition from plastic and other materials, and production consolidation is advancing on a global scale. However, there is traditional demand in lifestyle and industrial sectors, and we intend to bolster our earnings power in this field going forward.

What Is Vulcanized Fiber?

Vulcanized fiber is a material produced by immersing and bonding layers of base paper in a zinc chloride solution. Although made from paper, vulcanized fiber's strength and durability make it suitable for diverse applications including shoe soles, sanding discs, storage containers, suitcases, and packaging materials. Since it is so versatile, vulcanized fiber is used in many industries and fields.

Question 3

What are your plans for global development?

We think it will be hard to sustain growth if we rely solely on the domestic market, where weak demand is anticipated. For this reason, we made development overseas, where there are better prospects for growth at a lower cost, a key pillar of strategy in our G-1st medium-term management plan rolled out in April 2011.

In line with this strategy, we plan to increase paper exports by around 100,000 tons to just over 270,000 tons in fiscal 2012.

In addition, construction is on schedule for the white paperboard mill in China slated to come online in autumn 2013. Once completed, the mill will be able to produce around 300,000 tons of white paperboard a year. No white paperboard mills of this scale exist in Japan. It is being built with an eye to capturing the tremendous demand in the China market. With total construction cost at only around a fifth of the bill for building a mill of the same scale in Japan, we believe we can quickly recoup our investment in mill construction by putting into play our competitive advantages in outstanding quality and production technology.

We feel that we are making more headway than we had envisioned on export growth, the construction of the white paperboard mill, and other steps toward overseas development—the cornerstone of our G-1st medium-term management plan.

Please refer to the Special Feature on pages 12–15 for this information in further detail.

Question 4

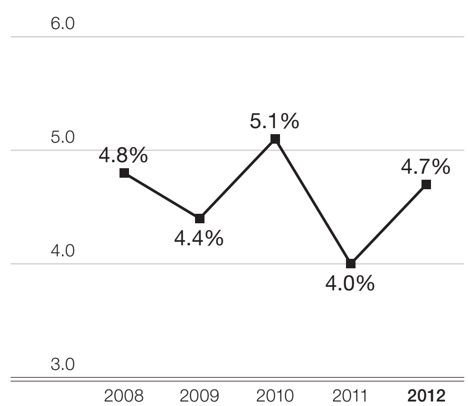
What are you doing to raise profit margins?

We are implementing measures to increase productivity at all of our mills in Japan to further raise profitability. The Nigata Mill's on-machine coaters exemplify efficient production, but our results do not stop there. Energy-Saving Subcommittees at each mill and small group activities promoted throughout the organization spearhead improvements to make the most of our cutting-edge facilities, and review of production processes and operations pay off in many ways. Adjusting chemical and wood chip ratios, improving raw material yields, and improving energy balance were instrumental in achieving a boost of roughly ¥1.9 billion year on year in fiscal 2011 from reducing the proportional cost of manufacturing. As for sales costs, we worked through repeated trial and error to successfully bring down packaging and loading costs in response to export product growth but the benefits have also extended to domestic shipments.

Turning to capital investments to increase efficiency, we set up new pulp bleaching chemicals facilities at the Niigata Mill, deployed equipment to raise paper dehydration capacity at the Kanto Mill, and improved black liquor concentration equipment at the Kishu Mill in fiscal 2011.

By having each and every employee engage in highly efficient business activities with costs in mind, we aim to forge a corporate structure capable of steadily generating profits.

Operating Income Ratio



Question 5

Could you tell us about your proactive pursuit of environmental management?

We see environmental management as a long-term growth driver. One of our characteristics is that we have mills in urban areas. As such, we have put heavy emphasis on building relationships with local residents near our production facilities throughout our history. We have worked especially hard to shore up our facilities to reduce environmental burden so that our mill operations do not pollute the surrounding environment. With our historical background, we take great pride in leading the industry on environmental management. For instance, our CO_2 emissions per ton of paper manufactured is only 421 kg—far below the industry average of 780 kg. Additionally, the Niigata Mill uses a system that efficiently circulates water to reduce water use. This system also lowers the heat of waste water discharged outside the mill, which helps to reduce environmental impact and improve specific energy consumption. In 2014, we plan to introduce natural gas power generating equipment at the Niigata Mill to further cut CO_2 emissions.

We began deploying state-of-the-art equipment to shrink our environmental impact before environmental awareness had grown to today's heightened levels. Incorporating the latest technology into our set of skills and knowledge to make further improvements is a part of our corporate culture. We see environmental competitiveness as a strength of which we can be proud and an important foundation for long-term growth.

Please refer to Environmental Initiatives on page 26 for this information in further detail.

Question 6

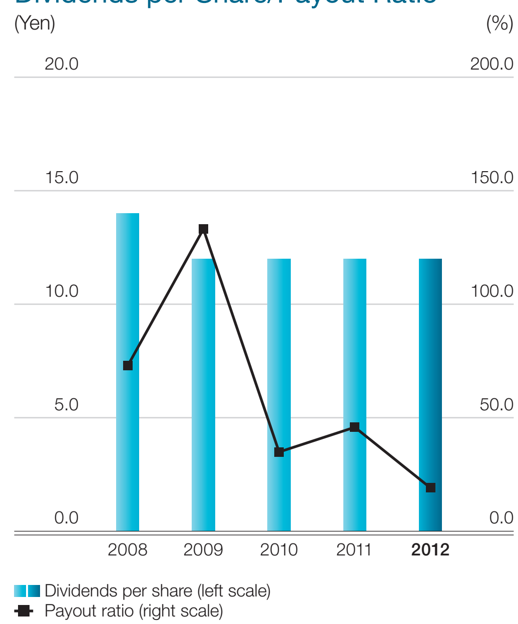
Lastly, could you please tell us your view on shareholder returns and your personal business philosophy?

I think increasing corporate value equates to shareholder returns. This encompasses management that involves aggressively investing in new business where high returns are projected to raise future corporate value, while steadily generating profits, building up capital, and maintaining a solid financial standing. We will also continue to provide stable dividends. We paid an annual dividend of ¥12 per share in fiscal 2011 for a dividend payout ratio of 19.1%.

Moreover, we practice highly transparent management, striving to present as complete and accurate a picture of where we stand as possible, including on business risks. I believe in always being sincere and honest with shareholders.

My personal business philosophy is to “keep taking on challenges.” I am always telling directors and employees, “Do not decide you cannot do something before you have even gotten started. First give it a go.” Establishing the sales agent Hokuetsu Kishu Sales and building a mill overseas seemed impossible before we drew up the plans, but we took action and gave it a go to see things actually fall into place. We have taken on an array of challenges over the years to become the first in the world to manufacture reversible white paperboard and fully deploy on-machine coaters for A3 paper production, and the first in Japan to fully deploy ECF pulp bleaching equipment. I want to broaden the reach of this pioneering spirit that we have cultivated throughout the Group. I think our greatest asset is our willingness to take on challenges without fear of failure, and that fostering this mindset is my greatest task as CEO.

Dividends per Share/Payout Ratio



Special Feature:

Capturing Overseas Demand

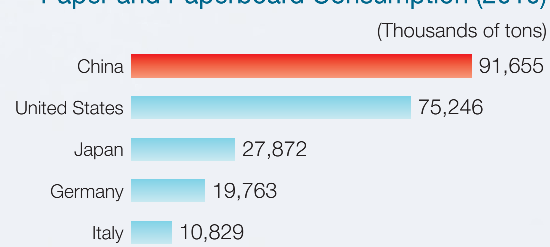
Increasing Demand in Asia Pacific

Demand for paper and paperboard in industrialized countries and regions like Japan, Europe, and the United States soared along the lines of GDP growth until around 2000. Growth then slowed to a moderate pace, and now these markets are mature. The Asia-Pacific region has taken over the industrialized markets' role in driving growth. Markets in the region have been expanding rapidly since 2000 to currently account for over 40% of global paper and paperboard demand.

Huge Chinese Market

Economic development is fueling considerable market growth in China. The country boasted the highest paper and paperboard production and consumption in the world at over 90 million tons each in 2010. Tapping into this huge market is the key to achieving further growth for paper companies worldwide.

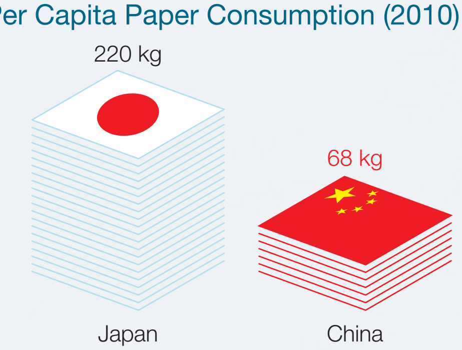
Paper and Paperboard Consumption (2010)



Even Greater Potential in China

Annual per capita consumption of paper and paperboard is a mere 68 kg in China, at only around a third of Japan's figure and with plenty of room left for growth. As economic development continues and national living standards rise in China, the population of around 1.3 billion is expected to consume an immense amount of paper. The market's potential is enormous.

Per Capita Paper Consumption (2010)



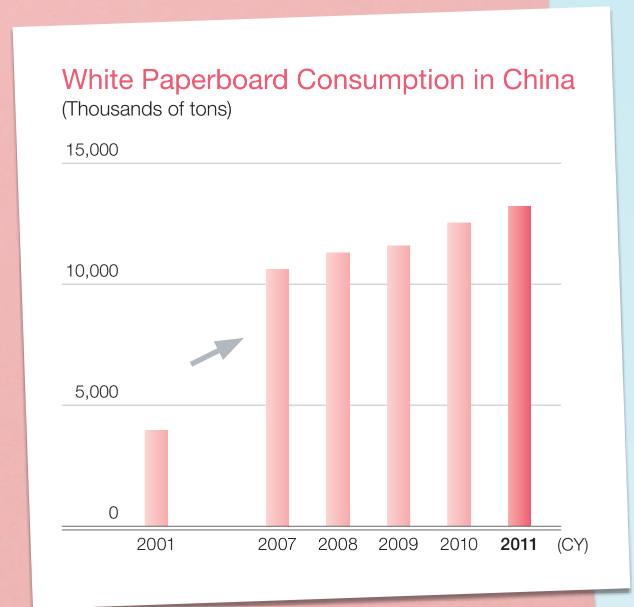
Point 1

Targeting the White Paperboard Market

Establishing Mill in Guangdong Province

China's white paperboard demand was 13 million tons in 2011, roughly seven times that of Japan. Used for packaging a wide variety of products, white paperboard has been growing at an annual clip of 7–8%, and is expected to stay on an uptrend, as China continues to grow economically.

We are building a mill in Guangdong Province with an annual capacity of 300,000 tons—close to the Group's white paperboard output—that we plan to bring online in autumn 2013. We look to invest about ¥12 billion in this. Our next step will be to consider a second phase of construction while carefully monitoring demand trends, and raise annual capacity to 600,000 tons if we decide to increase output. By setting our sights on the white paperboard market where growth prospects are good and developing our operations in this way, we aim to establish a new overseas earnings base for the Group.



Point 2

Strengthening Ties with Overseas Companies

Making Shanghai Toh Tech Co., Ltd. a Subsidiary

We are seeking to bolster technological and capital alliances with overseas companies to develop the Group's specialty paper and paper processing businesses overseas. To that end, we made Shanghai Toh Tech Co., Ltd. a subsidiary. This company manufactures carrier tape for transporting capacitor chips, for which we produce the base paper.

We expect the integration of production from base paper to final product to strengthen the Group's sales capability and lead to further quality and cost improvements, as well as new products developed from the cultivation of user needs.

Shanghai Toh Tech Co., Ltd.

Point 3

Expanding Printing Paper Exports

The Group actively exports printing paper. In fiscal 2011, the production capability of papermakers in Japan dropped due to the impact from the Great East Japan Earthquake, leading to a temporary shortage in the supply of printing paper. To cover this shortage, domestic printing paper shipments from Hokuetsu Kishu Paper were increased. This slowed export temporarily and resulted in our overall printing paper exports falling 19% year on year to around 170,000 tons in fiscal 2011. By contrast, we have plans to increase these paper exports 59% year on year to approximately 270,000 tons in fiscal 2012. Our export expansion strategy is helping to maintain the Niigata Mill's utilization ratio and cut production costs. Additionally, the Niigata Mill is advantageously located for exporting printing paper to Asian markets where growth is expected, as the neighboring Niigata East Port can be used to realize lower transportation costs. The Group will raise its price competitiveness from both the utilization ratio maintenance and transportation cost fronts to steadily capture demand in Asia, mainly in China.

Niigata Mill Location Perfect for Exporting to Asia

Export Growth Plans

Fiscal 2011		Fiscal 2012
Approximately 170,000 tons	▶▶▶	Approximately 270,000 tons

Point 4

Winning With Technological Prowess

Plans to install cutting-edge equipment at the new white paperboard mill in Guangdong Province

With numerous local paper manufacturers in China, competition is expected to heat up. The Group's technological prowess is its best weapon for beating out rivals in this climate. Our product quality is far superior to local papermakers.

For example, white paperboard used for product packaging calls for high quality, including in terms of strength and suitability for processing and printing. The advanced production technology required to meet these needs cannot be replicated overnight. We will set ourselves apart from local companies with the technological competencies that we have developed in the Japanese market, which is said to have the most stringent quality standards in the world.

Point 5

Developing Human Resources

Preparing Personnel for the Global Stage

Human resources are key to successful overseas expansion. For more than a decade, the Group has been pursuing global human resource development in part by sending employees overseas for training. In fiscal 2011, we sent two employees to study in China. Also, we are actively recruiting professionals with global business experience from outside the company.

Going forward, we will enhance our overseas training program and other measures to cultivate a robust world-class workforce to increase our international competitiveness.

Overseas training

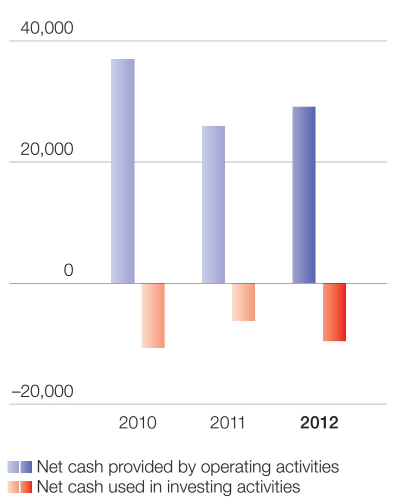
Point 6

Investing Capital

Aggressive Investment from a Solid Financial Standing

We plan to make overseas investments amounting to ¥60 billion over the next five years. Our scope includes mergers and acquisitions to gain technology and local sales networks we lack, which we will integrate with our management resources and technological strengths to maximize synergies. As we move forward with investment, we will maintain a solid financial standing capable of weathering uncertainty in the external environment. Accordingly, our basic policy is to cover future capital infusions with operating cash flows.

Net Cash Provided by Operating Activities / Net Cash Used in Investing Activities
(Millions of yen)



D/E ratio Fiscal 2011	Overseas investment budget over the next 5 years
0.76 times	**¥60.0** billion

At a Glance

Paper and Pulp Segment

Main Products

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

Packaging and Paper Processing Segment

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

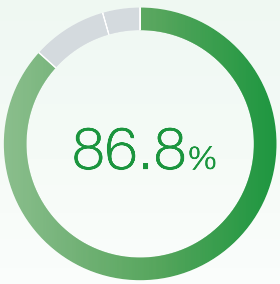
Others


Nagaoka Bunka Driving School

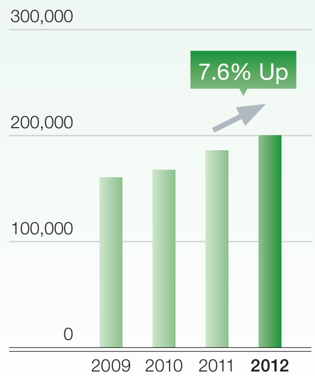
Main Products

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

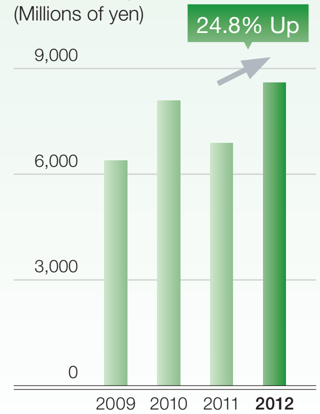
Composition of Sales
(March 2012)



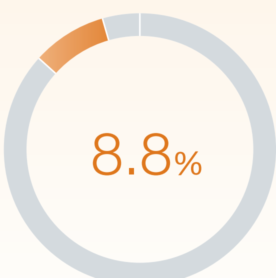
Net Sales
(Millions of yen)



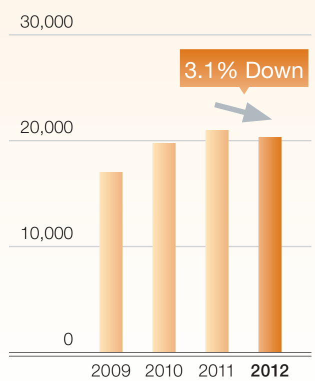
Operating Income
(Millions of yen)



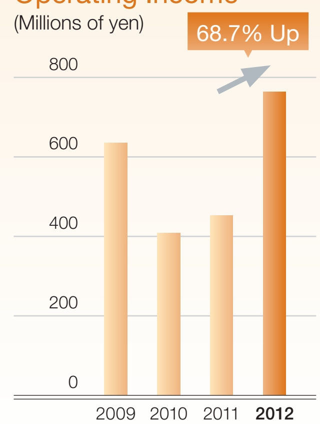
Composition of Sales
(March 2012)



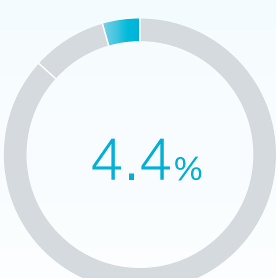
Net Sales
(Millions of yen)



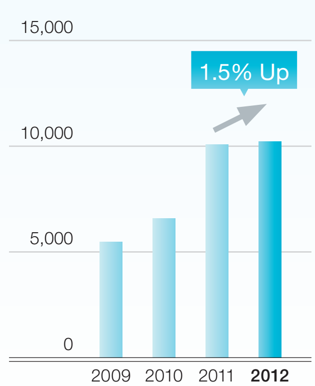
Operating Income
(Millions of yen)



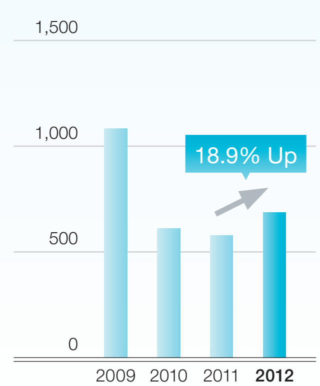
Composition of Sales
(March 2012)



Net Sales
(Millions of yen)



Operating Income
(Millions of yen)



Paper and Pulp Segment

Printing Paper

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

Takayuki Sasaki
General Manager,
Paper Business Division

Business Strengths and Characteristics

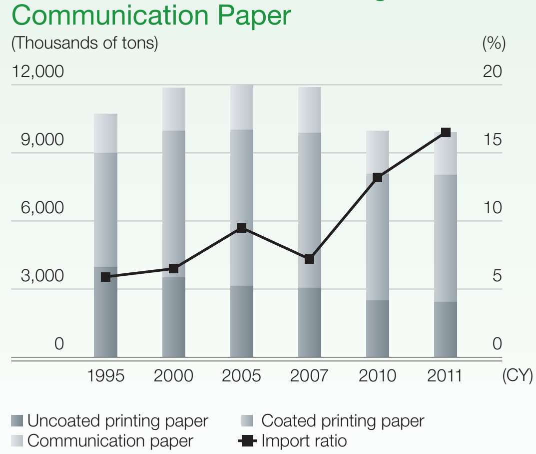
Our printing paper business includes printing and communication paper for books, magazines, catalogs, and advertisements. Since the Niigata No. 6 papermaking machine came online in 1986, coated paper efficiently produced using on-machine coaters has been our flagship product. We currently have four on-machine coaters at the Niigata Mill, were ranked second in domestic share of coated paper production volume in 2011, and are growing exports to Asia and the Oceania region. Further, our colored wood-free paper *Kishu Rainbow*'s diverse fan base built up over the years and wealth of offerings has made it a top brand commanding a 66.8% share of domestic production.

Business Environment and Performance

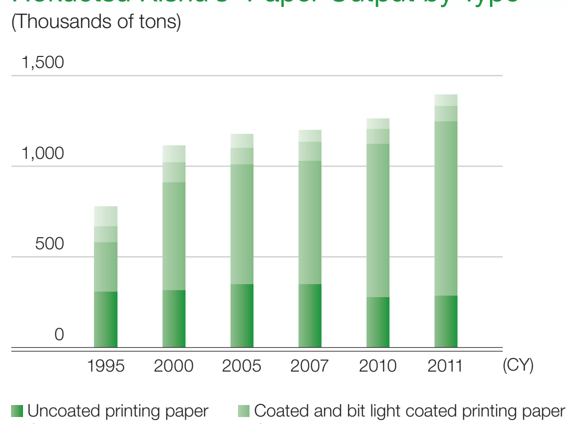
Domestic demand for printing and communication paper totaled 9.898 million tons in 2011, edging down 1.4% year on year. Domestic production capacity declined as some domestic manufacturers sustained damage from the Great East Japan Earthquake in March 2011. Papermakers across the board also adjusted prices in response to rising raw material and fuel costs. Partially owing to these two factors, paper import volume grew a sharp 24.1% year on year, while domestic manufacturers' shipment volume fell 4.0% year on year. Meanwhile, our production volume came to 1.428 million tons, up 10.3% year on year, on a lift from demand for production previously handled by disaster-hit manufacturers. Production volume grew 3.0% for uncoated printing paper, 13.8% for coated and bit light coated printing paper, 2.2% for communication paper, and 7.7% for colored wood-free paper.

Printing and communication paper demand is expected to remain basically flat in 2012, but paper import volume will probably stay high and production volumes are rebounding at disaster-struck manufacturers. Our orders have fallen as alternate production demand has waned, and lower production and sales volumes are inevitable. However, we look to secure solid production volume by putting coated paper exports, which temporarily fell due to a drop in the supply capability of papermakers in Japan following the earthquake disaster, back on a growth path. We also plan to generate healthy sales volume despite challenging domestic operating conditions by working with our sales agent subsidiary Hokuetsu Kishu Sales to find out what users really want and offering quality, responsive delivery, and environmental regard that differs from that for imported paper.

Domestic Demand for Printing and Communication Paper



Hokuetsu Kishu's* Paper Output by Type



* The graph above includes paper output by former KISHU PAPER Co., Ltd.

White Paperboard

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

Business Strengths and Characteristics

Used for the boxes containing daily products, cosmetics, medical products and others, 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, and expand production in China.

Business Environment and Performance

Amid a 0.4% decline in overall domestic paper and paperboard demand in 2011, white paperboard saw 1.8% growth. Domestic production of white paperboard totaled 1.54 million tons in 2011, increasing 1.7%. Our production rose 2.0% year on year to 309,000 tons.

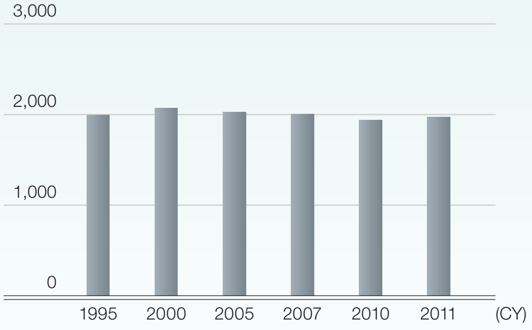
White paperboard demand is on the decline for cultural and publishing applications, but lifestyle and industrial needs are likely to remain relatively strong. In publishing applications, we mainly deliver white paperboard to publishing companies from which we can expect to receive ongoing orders. In lifestyle and industrial applications, we provide a steady supply of white paperboard to users in relatively stable markets where demand is also likely to grow such as pharmaceuticals and food.

Further, we expect to see strong and ample demand for white paperboard used in packaging in China's Guangdong Province where we are building a mill, as the area is one of China's manufacturing hubs. Moreover, environmental regard is likely to become increasingly important in China. Our long-held "minimum impact" concept and green technologies rooted in this concept will give us a huge edge, and we are confident that we can build positive relationships with local communities.

In recent years, we have seen growing demand from users for lower costs and quicker deliveries and a shift from high-grade to moderately priced products. At the same time, quality requirements are becoming more demanding. As one of Japan's top white paperboard players, the Group has in place a framework to facilitate just-in-time delivery of quality products.

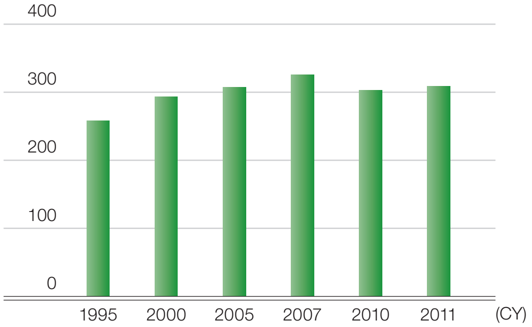
Domestic Demand for White Paperboard

(Thousands of tons)



Hokuetsu Kishu's White Paperboard Output

(Thousands of tons)



Specialty Paper

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 Strengths and Characteristics

The Group's specialty paper business encompasses high-quality printing paper, fine paper, functional paper, industrial paper, communication paper, specially treated paper, and specialty fiberboard. We have a robust product lineup in each category to meet diverse customer needs, and command high market shares for products like abrasive paper and adhesive postcard base paper. We are also focusing on developing products that meet the needs of users, drawing on our ample production facilities capable of handling an extensive variety of products and our Central Research Laboratory's development capabilities.

Business Environment and Performance

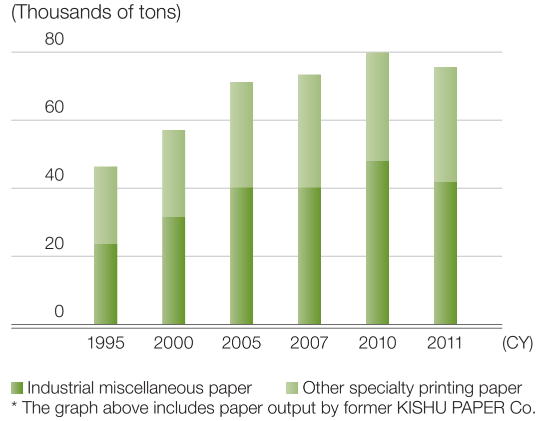
Domestic specialty paper production remains sluggish, falling 2.5% year on year to 725,000 tons for industrial miscellaneous paper and declining 6.6% to 154,000 tons for other specialty printing paper in fiscal 2011.

Capital and technological tie-ups are the pillar of the G-1st plan for the specialty paper business. In fiscal 2011, ended March 31, 2012, we made China's Shanghai Toh Tech Co., Ltd. and Japan's The Toyo Fibre Co., Ltd. into subsidiaries. Shanghai Toh Tech manufactures carrier tape that capacitor chip manufacturers use in packing their output for transport to electronics assemblers and chip mounting purposes, and aims to further expand sales in China. Like our company, Toyo Fibre manufactures vulcanized fiber, which is chemically treated base paper. Although vulcanized fiber demand is shrinking due to competition with other materials, the Group will now be the only domestic producer and we intend to leverage synergies from both firms to better the competition worldwide.

Despite an increasingly harsh demand environment for fine paper and high-quality printing paper with advertising declining, and due to a shift to general-grade paper, we achieved around 2% year on year sales volume growth in fiscal 2011, ended March 31, 2012, with a boost from continued orders for original products from users and export shipments. However, our industrial paper sales volume fell around 6%, dragged down by the strong yen as export-related companies account for a large share of volume. Adhesive postcard paper saw an impact from downsides such as invoices and other billing documents going online, on one hand, and upsides such as a shift away from envelopes, on the other; therefore, our sales volume remained just about flat year on year.

New product development is essential in specialty paper as life cycles are often short. Setting our sights on high-quality products for niche markets, we aim to deepen collaboration with users, sales agents, design companies, universities, and others to create new products unbound by the concept of paper and grow sales.

Hokuetsu Kishu's Specialty Paper Output by Type



* The graph above includes paper output by former KISHU PAPER Co., Ltd.

Paper Processing

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

Business Strengths and Characteristics

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, packages (paper containers), processed paper (laminated paper) and functional processing materials (film). The mainstay liquid package cartons boast a dominant share of the domestic gable top carton market under the Tohei Pak brand. BF focuses on the information management field, including digital printing, mainly in its Business Form Division.

Business Environment and Performance

Hokuetsu Package's core liquid package container business recorded higher year-on-year sales value in fiscal 2011 despite broadly flat beverage sales volume, thanks in part to success in winning new users.

Sales value for packages, processed paper, and functional processing materials declined, owing partially to the impact from the earthquake and tsunami. However, we did improve income by advancing structural reforms including concentration of production, mainly from the Kanagawa Mill to the Katsuta Mill.

Printing and digital printing markets are contracting fast as the paperless movement gains ground, and operating conditions are becoming increasingly challenging. BF is working on two fronts to improve earnings. It is driving forward structural reforms to raise productivity and lower expenses, including consolidating plants to concentrate production. It is also pursuing synergies through the integration of Hokuetsu Package's business form business.

Demand for liquid package containers and packages will likely remain flat in fiscal 2012, ending March 31, 2013, as well. For liquid package containers, we look to expand sales through proposal-based marketing to dairy product and soft drink manufacturers. For packages, we aim to leverage the Group's strength in integrated production—from base paper to design and finished product—to win orders for high value-added products that are tailored to user needs.

Additionally, BF will continue efforts to win orders for printing and digital printing, focusing on adhesive postcard printing, and cut costs to generate earnings.

Management Structure

We practice sound and highly transparent management to contribute to society as an appealing paper company and earn stakeholders' trust.

(From left) Michio Tsuchida, Kiyoshi Tamura, Sekio Kishimoto, Takayuki Sasaki, Kouichi Akagawa, Norihiko Shimokoshi

Board of Directors and Corporate Auditors

Representative Director, President and CEO
Sekio Kishimoto

Senior Managing Directors
Kiyoshi Tamura
Norihiko Shimokoshi
Kouichi Akagawa

Managing Directors
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
Jun Itoigawa**
Nobusato Suzuki**

Corporate Officers
Hideo Yazawa
Masanori Sakamoto
Takao Sakabe
Hiroshi Suzuki
Yoshinori Kawashima
Kiyoshi Nirasawa
Kisao Taniguchi

* Outside Director
** Outside Corporate Auditor

Corporate Governance

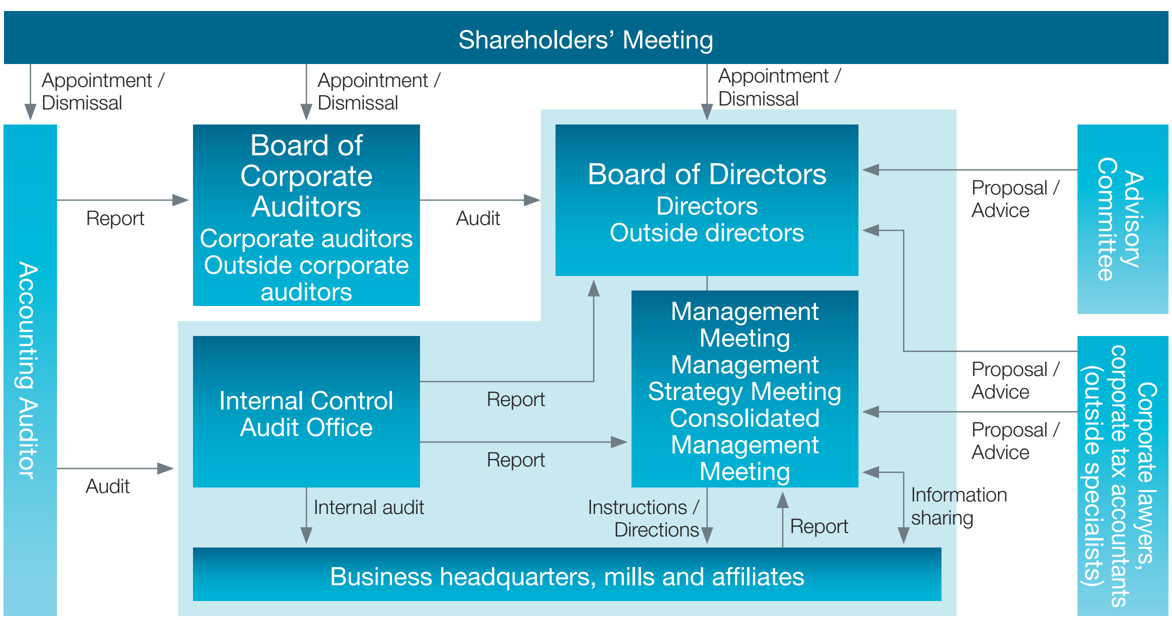
Managerial Decision-Making and Business Execution Structures

Hokuetsu Kishu Paper Co., Ltd. has a governance structure based on the Companies Act of Japan 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 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 biannually 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.

Company Organization and Diagram of Internal Control



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 finance and accounting.

Corporate auditors conduct 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 the Company and its subsidiaries.

Further, collaboration with the Internal Control Audit Office and accounting auditors helps to ensure that audits are effective.

Outside Director and Outside Corporate Auditors

Classification	Name	Reasons for Selection	Biography
Outside Director	Akira Murakoshi	We expect Mr. Murakoshi to leverage his extensive experience at Mitsubishi Corporation and wide insight to contribute to important management decisions and business execution oversight.	1982 Joined Mitsubishi Corporation 2004 Unit Manager, Packaging Unit, General Merchandise Division, Mitsubishi Corporation 2006 Unit Manager, Housing & Construction Materials Unit, Life Style Division, Mitsubishi Corporation 2010 General Manager, Living Essentials Group CEO Office, Mitsubishi Corporation 2011 Division COO, General Merchandise Division, Mitsubishi Corporation 2011 Director, Hokuetsu Kishu Paper Co., Ltd. (to present) 2012 Senior Vice President, Division COO, General Merchandise Division, Mitsubishi Corporation (to present)
Outside Corporate Auditor	Jun Itoigawa	We expect Mr. Itoigawa to enlist his ample financial institution and university experience and deep management insight to fulfill his role as an outside corporate auditor in overseeing the management of the Company overall and strengthening supervisory functions. We have also designated Mr. Itoigawa as an independent director because we believe his high degree of independence will enable him to give due consideration to minority shareholders' interests, appropriately executing his duties from an independent standpoint.	1964 Joined The Industrial Bank of Japan, Limited 1995 Managing Director (In charge of the Asia and Latin America regions, and M&A), The Industrial Bank of Japan, Limited 1999 Senior Managing Director, IBJ Leasing Co., Ltd. 2000 Deputy President, IBJ Leasing Co., Ltd. 2004 Advisor, The Dai-ichi Mutual Life Insurance Company 2007 Chairman of the Board of Administration, Rikkyo Gakuin (to present) 2012 Corporate Auditor, Hokuetsu Kishu Paper Co., Ltd. (to present)
Outside Corporate Auditor	Nobusato Suzuki	We expect Mr. Suzuki to draw on his robust steel industry and university experience and deep management insight to fulfill this role as an outside corporate auditor in overseeing the management of the Company overall and strengthening supervisory functions. We have also designated Mr. Suzuki as an independent director because we believe his high degree of independence will enable him to give due consideration to minority shareholders' interests, appropriately executing his duties from an independent standpoint.	1970 Joined Sumitomo Metal Industries, Ltd. 2003 Director, Senior Vice President and CFO, Sumitomo Metal Industries, Ltd. 2005 Representative Director and Vice President, Sumitomo Metal Logistics Service Co., Ltd. 2006 President and Representative Director, Sumitomo Metal Logistics Service Co., Ltd. 2008 Member of the Board of Trustees, Tokyo Woman's Christian University (to present) 2012 Standing member of the Board of Administration, Tokyo Woman's Christian University (to present) 2012 Corporate Auditor, Hokuetsu Kishu Paper Co., Ltd. (to present)

Remuneration of Directors and Corporate Auditors

Classification	Total amount of remuneration (millions of yen)	Remuneration breakdown (millions of yen)			Number of payees
		Basic remuneration	Stock options	Bonuses	
Directors (excluding an Outside Director)	407	316	37	53	17
Corporate Auditors (excluding Outside Corporate Auditors)	47	47	–	–	3
Outside Director and Outside Corporate Auditors	9	9	–	–	4

Note: The headcount on March 31, 2012 was 11 Directors (excluding an Outside Director), two Corporate Auditors (excluding Outside Corporate Auditors) and three Outside Directors and Corporate Auditors (one Outside Director and two Outside Corporate Auditors).

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 the 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 Group-wide 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.

We will grow as a Group by ensuring compliance and continuing to generate profits with integrity.

Kazumichi Matsuki
Chief Compliance Officer

Profits and ethics can collide during everyday business activities. When this happens, we are committed to always putting ethics first. While it is important for us to pursue profits as a stock company, profits should never come at the expense of ethics. Consistently generating profits with integrity is what earns us society's trust, and is ultimately the driving force for our growth. I see the Chief Compliance Officer's biggest task as taking the lead in promoting compliance awareness, dissemination and adherence throughout the Group.

Moreover, it is vital that "awareness" be backed by "knowledge" of relevant laws and regulations. Changes in regulations can render previous routine business activities illegal. To avoid such situations, we are working to increase "knowledge" related to compliance through a variety of in-house training.

Further, we are shoring up reporting, communicating, and consulting. This is an area we believe calls for special attention. For one, major industrial accidents are said to be foreshadowed by several small accidents. By catching these signs and nipping problems in the bud while they are minor, the probability of a major accident can be reduced dramatically. In other words, making a habit out of sharing even little things within the company is a decisive factor in preventing serious accidents. As such, we want to create good working environments that are conducive to reporting, communicating, and consulting.

We are setting out to expand our business globally. Globalization of our operations will come with expectations for even more robust compliance. Accordingly, we will continue to work diligently to improve and strengthen compliance.

Environmental Initiatives

Targeting “minimum impact” at every stage

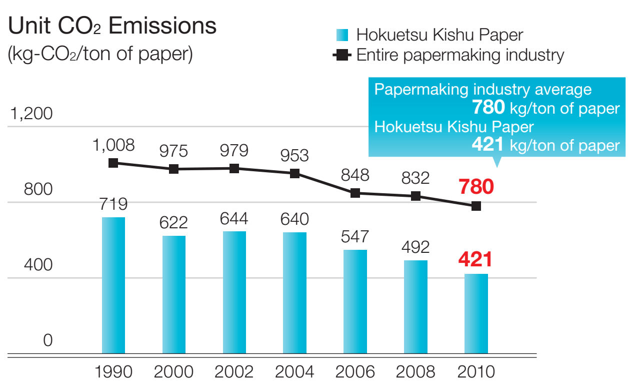
Neither people nor companies can completely eliminate their environmental footprint. Recognizing this, the “minimum impact” philosophy is to keep negative impact on the natural environment to an absolute minimum. This philosophy is at the heart of our business activities.

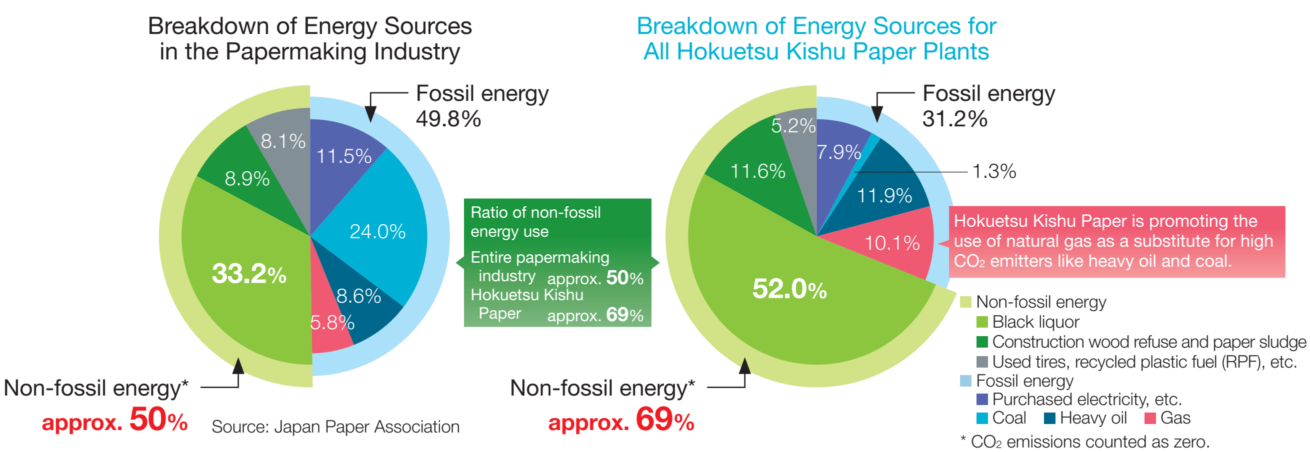
During the more than a century that we have been in business, our mills’ locations near residential areas have served to infuse the concept of “minimum impact” throughout the Group. We have acted on our beliefs by consistently advancing progressive environmental measures to establish “minimum impact mills” with the least possible environmental burden. We refer to products produced at these mills as “minimum impact paper.”

Moving ahead, we will endeavor to use fresh perspectives and new technologies to take “minimum impact mills” to the next level.

Striving to minimize CO_2 emissions

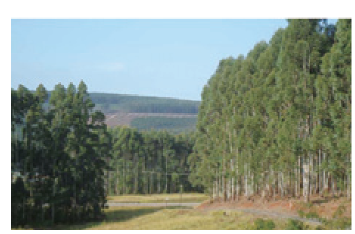
The Group is shifting to energy sources that produce less CO_2. We have succeeded in bringing non-fossil energy’s share of our total energy consumption to approximately 69%. Also, we are conserving energy and using cutting-edge production facilities to steadily reduce our CO_2 emissions factor. In fact, our CO_2 emissions per ton of paper are the lowest in the industry at 421 kg.





We only import plantation hardwood.

In 2005, we became the first in the industry to source all imported hardwood from sustainable plantations. At these plantations, trees for paper are planted, cultivated, and harvested after which the cycle is repeated. By sourcing wood chips domestically from forests that have renewed themselves, we also contribute to sound mountain forest development in Japan. In both cases, we use a raw material procurement system to verify legal compliance, and confirm proper operations through third-party audits.



Plantation in South Africa
(afforestation transforms wasteland into a green forest)

Financial Section

Five-Year Summary

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

	Millions of yen (except per share amounts)				
	2008	2009	2010	2011	2012
For The Year:					
Net sales	¥172,709	¥182,815	¥193,952	¥217,014	¥230,576
Operating income	8,330	8,125	9,892	8,743	10,828
Ordinary income	7,891	6,752	9,574	10,283	13,906
Net income	4,074	1,913	7,239	5,432	12,797
Return on equity	2.9%	1.4%	5.3%	3.9%	8.8%
Per Share Data:					
Net income	¥ 19.19	¥ 9.01	¥ 34.38	¥ 26.21	¥ 62.70
Cash dividends	14.00	12.00	12.00	12.00	12.00
At Year-end:					
Total assets	¥292,726	¥313,732	¥340,970	¥322,255	¥332,995
Total net assets	140,184	136,713	139,989	139,822	152,704

Management's Discussion and Analysis

Business Environment and Results

During fiscal 2011, ended March 31, 2012, the Japanese economy continued to recover gradually from the impact of the Great East Japan Earthquake. The outlook, however, remained uncertain due to financial instability stemming from the European sovereign debt crisis and the yen's historically high levels.

Amid stagnating demand for printing and communication paper in Japan, the Hokuetsu Kishu Paper Group saw net sales increase. This was due in part to the Group's response to supply shortages across the papermaking industry as a whole following the Great East Japan Earthquake.

On the earnings front, the Group adjusted sales prices in response to soaring prices for fuel and raw materials such as wood chips and waste paper, took steps to boost sales volumes, and worked to reduce costs across the board. As a result, both operating income and ordinary income increased compared to fiscal 2010. Net income rose substantially, owing in part to reduced tax expenses after the application of tax effect accounting associated with the merger by absorption of KISHU PAPER Co., Ltd.

	Millions of yen		
	2011	2012	Change
Net sales	¥217,014	¥230,576	6.2%
Operating income	8,743	10,828	23.8%
Ordinary income	10,283	13,906	35.2%
Net income	5,432	12,797	135.6%

Business Results by Segment

Paper and Pulp Segment

The Paper and Pulp Segment posted an increase in net sales due to mainly a rise in sales volume of printing paper, and the revision of sales prices. Earnings also increased, as Group-wide efforts to cut costs across the board, the increase in sales volume and sales price revisions outweighed raw material and fuel price rises.

• Results by Product

Printing Paper: The business environment was challenging, with companies cutting their spending on advertising and publicity, and due to an increase in paper imports accompanying the stronger yen. The Group's sales volume increased, however, as a result of responding to supply shortages for the papermaking industry as a whole following the March 11 earthquake, and continuing to conduct detailed marketing activities.

White Paperboard: Sales volume of white paperboard grew as a whole, owing to firm demand for use in paper containers for food and pharmaceuticals.

Specialty Paper: Shipments in the communication paper category were firm, due in part to new orders received. However, the business environment for specialty paper was harsh due to sluggish conditions in product lines such as fine paper, and the floods in Thailand affecting the industrial paper category.

	Millions of yen		
	2011	2012	Change
Net sales	¥185,924	¥200,000	7.6%
Operating income	6,887	8,596	24.8%

Packaging and Paper Processing Segment

Net sales declined in the Packaging and Paper Processing Segment in a challenging business environment for winning orders. By contrast, segment earnings rose thanks to various efforts to reduce costs.

	Millions of yen		
	2011	2012	Change
Net sales	¥21,008	¥20,347	(3.1)%
Operating income	453	764	68.7 %

Others

Sales in the Others segment (encompassing wood products, construction, transportation, warehousing and other businesses) increased as a consequence of aggressive activities to win orders. Earnings also increased, as measures to cut costs across the board countered rising raw material and fuel prices.

	Millions of yen		
	2011	2012	Change
Net sales	¥10,082	¥10,229	1.5%
Operating income	578	687	18.9%

Financial Position

Total assets as of the end of fiscal 2011 (March 31, 2012) increased year on year. This was mainly due to an increase in current assets of ¥24,422 million, primarily on account of an increase in cash and deposits. On the other hand, there was a decrease in net property, plant and equipment of ¥12,940 million, reflecting mainly depreciation.

Total liabilities as of March 31, 2012 decreased year on year, due mainly to a decrease in interest-bearing debt of ¥4,143 million.

Net assets as of March 31, 2012 increased year on year. This was mainly attributable to a ¥10,561 million increase in retained earnings.

	Millions of yen		
	2011	2012	Change
Total assets	¥322,255	¥332,995	¥ 10,740
Current assets	103,736	128,158	24,422
Property, plant and equipment	183,326	170,386	(12,940)
Investments and other assets	35,193	34,451	(742)
Current liabilities	98,032	103,304	5,272
Long-term liabilities	84,401	76,987	(7,414)
Net assets	139,822	152,704	12,882
Interest-bearing debt	119,227	115,084	(4,143)
Equity ratio	43.2%	45.3%	Up 2.1 pp
Return on equity (ROE)	3.9%	8.8%	Up 4.9 pp

Cash Flows

Net cash provided by operating activities increased year on year. The main contributors were ¥12,322 million in income before income taxes and minority interests and ¥22,178 million in depreciation and amortization. The main components of cash used were a ¥2,485 million increase in inventories, a ¥1,009 million decrease in notes and accounts payable, ¥1,136 million in interest paid, and ¥622 million in income taxes paid.

Net cash used in investing activities increased year on year. The main use of cash was ¥8,238 million in payments for purchases of property, plant and equipment.

Net cash used in financing activities decreased year on year. The main contributors to cash were ¥10,000 million in proceeds from issuance of unsecured yen straight bonds and an ¥8,000 million increase in commercial paper. The main uses of cash were ¥14,088 million for repayments of long-term loans and ¥10,300 million for redemption of unsecured yen straight bonds.

	Millions of yen		
	2011	2012	Change
Cash flows from operating activities	¥ 25,859	¥29,083	¥ 3,224
Cash flows from investing activities	(6,209)	(9,565)	(3,356)
Cash flows from financing activities	(20,020)	(9,367)	10,653

Basic Policies Regarding Earnings Distribution and Dividend Payments for Fiscal 2011 and 2012

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 for fiscal 2011, the same as the year-end dividend in the previous fiscal year. Combined with the interim dividend of ¥6 per share, the annual dividend payment was also maintained on par with that of the previous fiscal year, at ¥12 per share.

For fiscal 2012, ending March 31, 2013, the Company currently plans to maintain the annual dividend at ¥12 per share (¥6 per share for both the interim and year-end dividends), based on the following business outlook.

Fiscal 2012 Outlook

Uncertainties are expected to continue plaguing the Japanese economy, despite the economy showing some signs of regaining momentum. Uncertainties include a continued rise in the yen and oil prices, and electricity supply problems owing to the obscure outlook for nuclear power generation resuming.

Under these circumstances, the Hokuetsu Kishu Paper Group is determined to secure sales and earnings through such initiatives as exhaustively cutting costs in all categories and increasing sales from exports.

The Company has formulated the following business forecasts, based on a comprehensive evaluation of the circumstances above.

	Millions of yen		
	Fiscal 2011 (Actual)	Fiscal 2012 (Forecast)	Change
Net sales	¥230,576	¥231,000	0.2 %
Operating income	10,828	11,000	1.6 %
Ordinary income	13,906	13,500	(2.9)%
Net income	12,797	7,500	(41.4)%

Major Business Risks

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

- Fluctuations in product demand and prices
- Raw material and fuel market prices
- Foreign exchange rate fluctuations
- Overseas political and economic circumstances
- Interest rate fluctuations
- Legal regulations and litigation
- Natural and other disasters
- Decision making for capital investment and the result of such investment
- Alliances with other companies, among other business ties
- Mergers and acquisitions (M&A), among other capital transactions

Consolidated Balance Sheets

HOKUETSU KISHU PAPER CO., LTD.
As of March 31, 2012 and 2011

ASSETS	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars (Note 1) 2012
CURRENT ASSETS:			
Cash and deposits (Notes 3 & 4)	¥ 23,158	¥ 11,194	$ 281,933
Notes and accounts receivable (Note 4)			
Trade	68,540	47,967	834,429
Unconsolidated subsidiaries and affiliates	140	14,438	1,704
Allowance for doubtful accounts	(89)	(30)	(1,083)
Inventories (Note 6)	31,331	25,360	381,434
Deferred income taxes (Note 11)	2,391	2,891	29,109
Prepaid expenses and other	2,687	1,916	32,713
TOTAL CURRENT ASSETS	128,158	103,736	1,560,239
PROPERTY, PLANT AND EQUIPMENT (Note 7):			
Land and timberland	24,737	23,214	301,157
Buildings and structures	70,461	71,691	857,816
Machinery and equipment	372,913	374,428	4,539,968
Leased assets	4,742	4,729	57,731
Construction in progress	2,896	3,008	35,256
	475,749	477,070	5,791,928
Less accumulated depreciation	(305,363)	(293,744)	(3,717,592)
NET PROPERTY, PLANT AND EQUIPMENT	170,386	183,326	2,074,336
INVESTMENTS AND OTHER ASSETS:			
Investments in securities (Notes 4, 5 & 7)	21,927	22,253	266,947
Investments in and receivables from unconsolidated subsidiaries and affiliates	4,640	4,885	56,489
Long-term loans receivable	58	61	706
Guarantee deposits	1,020	1,251	12,418
Deferred income taxes (Note 11)	4,520	4,459	55,028
Other	2,494	2,470	30,363
Allowance for doubtful accounts	(208)	(186)	(2,533)
TOTAL INVESTMENTS AND OTHER ASSETS	34,451	35,193	419,418
TOTAL ASSETS	¥332,995	¥322,255	$4,053,993

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

LIABILITIES AND NET ASSETS	Millions of yen 2012	2011	Thousands of U.S. dollars (Note 1) 2012
CURRENT LIABILITIES:			
Short-term loans (Notes 4, 7 & 8)	¥ 31,655	¥ 31,460	$ 385,379
Commercial paper (Notes 4 & 8)	12,000	4,000	146,092
Current maturities of long-term debt (Notes 4, 7 & 8)	15,179	24,538	184,794
Notes and accounts payable (Note 4)			
Trade	26,543	22,985	323,143
Unconsolidated subsidiaries and affiliates	996	768	12,126
Income taxes payable (Note 11)	2,592	973	31,556
Accrued expenses	7,874	6,588	95,861
Other	6,465	6,720	78,707
TOTAL CURRENT LIABILITIES	103,304	98,032	1,257,658
LONG-TERM LIABILITIES:			
Long-term debt (Notes 4, 7 & 8), less current maturities	56,250	59,229	684,806
Deferred income taxes (Note 11)	196	2,966	2,386
Employees' severance and retirement benefits (Note 17)	13,172	12,603	160,360
Retirement benefits for directors and corporate auditors	27	103	329
Accrued environmental expenditures	272	278	3,311
Provision for business structure improvement	479	522	5,832
Negative goodwill	4,437	6,220	54,018
Asset retirement obligations	1,482	1,514	18,042
Other (Note 7)	672	966	8,181
TOTAL LONG-TERM LIABILITIES	76,987	84,401	937,265
CONTINGENT LIABILITIES (Note 9)			
NET ASSETS (Note 10)			
SHAREHOLDERS' EQUITY:			
Common stock:			
authorized			
—500,000,000 shares in 2012			
—500,000,000 shares in 2011			
issued and outstanding			
—209,263,814 shares in 2012			
—209,263,814 shares in 2011	42,021	42,021	511,578
Capital surplus	45,481	45,435	553,701
Retained earnings	64,762	54,201	788,434
Treasury stock	(2,317)	(2,144)	(28,208)
TOTAL SHAREHOLDERS' EQUITY	149,947	139,513	1,825,505
ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAX			
Unrealized holding gains on securities, net of taxes	862	(267)	10,494
Unrealized gains on hedging derivatives, net of taxes	(42)	(109)	(512)
Foreign currency translation adjustment	3	—	37
TOTAL ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAXES	823	(376)	10,019
SHARE SUBSCRIPTION RIGHTS	38	—	463
MINORITY INTERESTS	1,896	685	23,083
TOTAL NET ASSETS	152,704	139,822	1,859,070
TOTAL LIABILITIES AND NET ASSETS	¥332,995	¥322,255	$4,053,993

Consolidated Statements of Income

HOKUETSU KISHU PAPER CO., LTD.
For the years ended March 31, 2012, 2011 and 2010

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2012	2011	2010	2012
NET SALES (Notes 12 & 18)	¥230,576	¥217,014	¥193,952	$2,807,110
COST OF SALES (Note 12)	188,238	177,521	157,262	2,291,673
Gross profit	42,338	39,493	36,690	515,437
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 13)	31,510	30,750	26,798	383,613
Operating income	10,828	8,743	9,892	131,824
OTHER INCOME (EXPENSES):				
Interest and dividend income	625	614	613	7,609
Interest expenses	(1,082)	(1,466)	(1,674)	(13,173)
Foreign exchange gains (losses)	161	(356)	(48)	1,960
Gain on negative goodwill	2,262	—	—	27,538
Amortization of negative goodwill	1,783	1,789	913	21,707
Equity in income of affiliates	60	71	81	730
Gain on sales of investments in securities	11	—	14	134
Loss on sales of investments in securities	(0)	(38)	—	(0)
Loss on devaluation of investments in securities	(2,790)	(161)	(408)	(33,966)
Loss on sales or disposal of property, plant and equipment	(836)	(562)	(445)	(10,178)
Income from subsidies	823	973	—	10,019
Impairment loss of fixed assets (Note 14)	(321)	(343)	(85)	(3,908)
Gain on restructuring of retirement benefit scheme	—	—	228	—
One-time amortization of prior service costs	(130)	(227)	—	(1,583)
Reversal of provision for business structure improvement	—	19	60	—
Loss on liquidation of subsidiaries and affiliates	(49)	—	(226)	(597)
Costs in relation to suspending the operation of production equipment	(203)	(698)	(719)	(2,471)
Effect of the application of accounting standards for asset retirement obligations	—	(388)	—	—
Loss due to disaster	(1,003)	(1,495)	—	(12,211)
Other, net	2,183	713	542	26,578
	1,494	(1,555)	(1,154)	18,188
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	12,322	7,188	8,738	150,012
INCOME TAXES (Note 11):				
Current	2,550	2,274	2,967	31,044
Deferred	(3,041)	(448)	(1,545)	(37,022)
	(491)	1,826	1,422	(5,978)
INCOME BEFORE MINORITY INTERESTS	12,813	5,362	7,316	155,990
MINORITY INTERESTS	16	(70)	77	195
NET INCOME	¥ 12,797	¥ 5,432	¥ 7,239	$ 155,795

	Yen			U.S. dollars (Note 1)
	2012	2011	2010	2012
AMOUNTS PER SHARE OF COMMON STOCK (Note 2):				
Net income	¥62.70	¥26.21	¥34.38	$0.76
Diluted net income	¥62.68	—	—	$0.76
Cash dividends applicable to the year	12.00	12.00	12.00	0.15

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

Consolidated Statements of Comprehensive Income

HOKUETSU KISHU PAPER CO., LTD.
For the years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
INCOME BEFORE MINORITY INTERESTS	¥12,813	¥ 5,362	$155,990
Other comprehensive income			
Unrealized holding gains on securities, net of taxes	1,094	(1,151)	13,319
Unrealized gains on hedging derivatives, net of taxes	70	(37)	852
Foreign currency translation adjustment	6	—	73
Share of other comprehensive income of associates accounted for using equity method	34	(9)	414
TOTAL OTHER COMPREHENSIVE INCOME	1,204	(1,197)	14,658
COMPREHENSIVE INCOME	¥14,017	¥ 4,165	$170,648
Comprehensive income attribute to owners of the parent shareholders	13,996	4,241	170,392
Comprehensive income attribute to minority Interests	21	(76)	256

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

Consolidated Statements of Cash Flows

HOKUETSU KISHU PAPER CO., LTD.
For the years ended March 31, 2012, 2011 and 2010

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2012	2011	2010	2012
CASH FLOWS FROM OPERATING ACTIVITIES:				
Income before income taxes and minority interests	¥ 12,322	¥ 7,188	¥ 8,738	$ 150,012
Depreciation and amortization	22,178	22,496	21,362	270,002
Impairment loss of fixed assets	321	343	85	3,908
Amortization of negative goodwill	(1,783)	(1,789)	(913)	(21,707)
Gain on negative goodwill	(2,262)	—	—	(27,538)
Loss on sales or disposal of property, plant and equipment	209	463	428	2,544
Interest and dividend income	(625)	(614)	(613)	(7,609)
Interest expenses	1,082	1,466	1,674	13,173
Loss on devaluation of investments in securities	2,790	161	408	33,966
(Increase) decrease in notes and accounts receivable	(463)	878	441	(5,637)
(Increase) decrease in inventories	(2,485)	(612)	6,470	(30,252)
Increase (decrease) in notes and accounts payable	(1,009)	1,645	(2,168)	(12,284)
Increase (decrease) in employees' severance and retirement benefits	302	201	119	3,677
Effect of the application of accounting standards for asset retirement obligations	—	388	—	—
Other, net	(372)	(3,111)	4,797	(4,529)
Subtotal	30,205	29,103	40,828	367,726
Interest and dividend income received	636	634	635	7,742
Interest paid	(1,136)	(1,496)	(1,765)	(13,830)
Income taxes paid	(622)	(2,382)	(2,754)	(7,572)
NET CASH PROVIDED BY OPERATING ACTIVITIES	29,083	25,859	36,944	354,066
CASH FLOWS FROM INVESTING ACTIVITIES:				
Payments for time deposits	—	(19)	(41)	—
Proceeds from time deposits	—	101	68	—
Payments for purchases of investment securities	(84)	(112)	(237)	(1,023)
Proceeds from sales and redemption of investment securities	110	45	1,006	1,339
Payments for purchases of property, plant and equipment	(8,238)	(7,126)	(7,430)	(100,292)
Proceeds from sales of property, plant and equipment	1,275	152	226	15,522
Proceeds from national subsidies	200	200	200	2,435
Acquisition of business	(1,639)	—	—	(19,954)
Other, net	(1,189)	550	(4,429)	(14,475)
NET CASH USED IN INVESTING ACTIVITIES	(9,565)	(6,209)	(10,637)	(116,448)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Increase (decrease) in short-term loans	(1,205)	(15,662)	860	(14,670)
Increase (decrease) in commercial paper	8,000	1,000	3,000	97,395
Proceeds from long-term loans	445	11,000	200	5,418
Repayments of long-term loans	(14,088)	(21,106)	(12,757)	(171,512)
Proceeds from issuance of unsecured yen straight bonds	10,000	10,000	—	121,743
Redemption of unsecured yen straight bonds	(10,300)	—	(10,233)	(125,396)
Dividends paid	(2,454)	(2,510)	(2,551)	(29,876)
Proceeds from stock issuance to minority shareholders	1,087	—	—	13,234
Payments for purchases of treasury stock	(6)	(1,812)	(8,839)	(73)
Other, net	(846)	(930)	(547)	(10,300)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(9,367)	(20,020)	(30,867)	(114,037)
TRANSLATION (LOSS) GAIN ON CASH AND CASH EQUIVALENTS	172	(124)	(22)	2,094
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	10,323	(494)	(4,582)	125,675
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	11,194	11,668	15,205	136,280
INCREASE IN CASH AND CASH EQUIVALENTS FROM NEWLY CONSOLIDATED SUBSIDIARIES (Note 3)	1,641	—	1,045	19,978
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS RESULTING FROM MERGER OF SUBSIDIARIES	—	20	—	—
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 3)	¥ 23,158	¥ 11,194	¥ 11,668	$ 281,933

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

Consolidated Statements of Changes in Net Assets

HOKUETSU KISHU PAPER CO., LTD.
For the Years ended March 31, 2012, 2011 and 2010

	Number of shares	Common stock	Capital surplus	Retained earnings	Treasury stock
Balance at March 31, 2009	214,052,054	¥42,021	¥40,244	¥54,919	¥(1,081)
Increase by share exchanges	13,756,260	—	5,681	—	—
Net income	—	—	—	7,239	—
Cash dividends paid (¥12.00 per share)	—	—	—	(2,552)	—
Disposal of treasury stock	—	—	—	—	778
Purchases of treasury stock	—	—	—	—	(8,844)
Retirement of treasury stock	(18,544,500)	—	(490)	(8,327)	8,817
Net changes during the year	—	—	—	—	—
Balance at March 31, 2010	209,263,814	¥42,021	¥45,435	¥51,279	¥ (330)
Net income	—	—	—	5,432	—
Cash dividends paid (¥12.00 per share)	—	—	—	(2,510)	—
Disposal of treasury stock	—	—	—	—	1
Purchases of treasury stock	—	—	—	—	(1,815)
Retirement of treasury stock	—	—	—	—	—
Net changes during the year	—	—	—	—	—
Balance at March 31, 2011	209,263,814	¥42,021	¥45,435	¥54,201	¥(2,144)
Increase by share exchanges	—	—	46	—	277
Net income	—	—	—	12,797	—
Cash dividends paid (¥12.00 per share)	—	—	—	(2,454)	—
Disposal of treasury stock	—	—	0	—	1
Purchases of treasury stock	—	—	—	—	(6)
Retirement of treasury stock	—	—	—	—	—
Change in equity in affiliates accounted for by equity method—treasury stock	—	—	—	—	(445)
Change of scope of consolidation	—	—	—	218	—
Net changes during the year	—	—	—	—	—
Balance at March 31, 2012	209,263,814	¥42,021	¥45,481	¥64,762	¥(2,317)

	Number of shares	Common stock	Capital surplus	Retained earnings	Treasury stock
Balance at March 31, 2011	209,263,814	$511,578	$553,141	$659,861	$(26,102)
Increase by share exchanges	—	—	560	—	3,372
Net income	—	—	—	155,795	—
Cash dividends paid (¥12.00 per share)	—	—	—	(29,876)	—
Disposal of treasury stock	—	—	0	—	12
Purchases of treasury stock	—	—	—	—	(73)
Retirement of treasury stock	—	—	—	—	—
Change in equity in affiliates accounted for by equity method—treasury stock	—	—	—	—	(5,417)
Change of scope of consolidation	—	—	—	2,654	—
Net changes during the year	—	—	—	—	—
Balance at March 31, 2012	209,263,814	$511,578	$553,701	$788,434	$(28,208)

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

Millions of yen							
Total shareholders' equity	Unrealized holding gains (losses) on securities, net of taxes	Unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustment	Total accumulated other comprehensive income, net of taxes	Share subscription rights	Minority interests	Total net assets
¥136,103	¥ (308)	¥ 82	¥—	¥ (226)	¥—	¥ 836	¥136,713
5,681	—	—	—	—	—	—	5,681
7,239	—	—	—	—	—	—	7,239
(2,552)	—	—	—	—	—	—	(2,552)
778	—	—	—	—	—	—	778
(8,844)	—	—	—	—	—	—	(8,844)
—	—	—	—	—	—	—	—
—	1,199	(159)	—	1,040	—	(66)	974
¥138,405	¥ 891	¥ (77)	—	¥ 814	—	¥ 770	¥139,989
5,432	—	—	—	—	—	—	5,432
(2,510)	—	—	—	—	—	—	(2,510)
1	—	—	—	—	—	—	1
(1,815)	—	—	—	—	—	—	(1,815)
—	—	—	—	—	—	—	—
—	(1,158)	(32)	—	(1,190)	—	(85)	(1,275)
¥139,513	¥ (267)	¥(109)	—	¥ (376)	—	¥ 685	¥139,822
323	—	—	—	—	—	—	323
12,797	—	—	—	—	—	—	12,797
(2,454)	—	—	—	—	—	—	(2,454)
1	—	—	—	—	—	—	1
(6)	—	—	—	—	—	—	(6)
—	—	—	—	—	—	—	—
(445)	—	—	—	—	—	—	(445)
218	—	—	—	—	—	—	218
—	1,129	67	3	1,199	38	1,211	2,448
¥149,947	¥ 862	¥ (42)	¥ 3	¥ 823	¥38	¥1,896	¥152,704

Thousands of U.S. dollars (Note 1)							
Total shareholders' equity	Unrealized holding gains (losses) on securities, net of taxes	Unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustment	Total accumulated other comprehensive income, net of taxes	Share subscription rights	Minority interests	Total net assets
$1,698,478	$ (3,251)	$(1,327)	$—	$ (4,578)	$ —	$ 8,339	$1,702,239
3,932	—	—	—	—	—	—	3,932
155,795	—	—	—	—	—	—	155,795
(29,876)	—	—	—	—	—	—	(29,876)
12	—	—	—	—	—	—	12
(73)	—	—	—	—	—	—	(73)
—	—	—	—	—	—	—	—
(5,417)	—	—	—	—	—	—	(5,417)
2,654	—	—	—	—	—	—	2,654
—	13,745	815	37	14,597	463	14,744	29,804
$1,825,505	$10,494	$ (512)	$37	$10,019	$463	$23,083	$1,859,070

Notes to Consolidated Financial Statements

HOKUETSU KISHU PAPER CO., LTD.

Note 1: Basis of Presenting Consolidated Financial Statements

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

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of HOKUETSU KISHU PAPER CO., LTD. ("the Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2012, which was ¥82.14 to U.S. $1.00. The convenience translation should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Note 2: Summary of Significant Accounting Policies

(a) Consolidation

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

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

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

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

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

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

	Number of Companies		
	2012	2011	2010
Consolidated subsidiaries	20	16	17
Affiliates accounted for by the equity method	6	7	7

Hokuetsu Kishu Sales Co., Ltd., Xing Hui Investment Holdings Co., Ltd. and Jiangmen Xinghui Paper Mill Co., Ltd. were newly established. The Company acquired additional shares in The Toyo Fibre Co., Ltd. through the share exchange, and made an additional capital investment in Shanghai Toh Tech Co., Ltd. Therefore, these subsidiaries are now included as consolidated subsidiaries of the Company.

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

(b) Consolidated statements of cash flows

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

(c) Translation of foreign currencies

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

(d) Securities

Under the Japanese accounting standard for financial instruments, all companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes ("trading securities"), (b) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliates or (d) all other securities that are not classified in any of the above categories ("available-for-sale securities"). The Companies did not have the securities defined as (a) and (b) above in the years ended March 31, 2012, 2011 and 2010.

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

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

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

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

(e) Allowance for doubtful accounts

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

(f) Inventories

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

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

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

- Buildings, machinery and equipment
  mainly straight-line method over the useful lives 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.

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

(h) Finance leases

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

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.

(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 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 year for calculating the projected benefit obligation of a defined-benefit plan. Previously, domestic companies were allowed to use a discount rate determined taking into consideration fluctuations in the yield of long-term government or gilt-edged bonds over a certain period. The change had no material impact on the consolidated statement of income for the year ended March 31, 2010. The difference in the projected benefit obligations at March 31, 2010 calculated pursuant to the new accounting standard and the previous accounting standard is immaterial, and which will be recognized as income or loss in the periods commencing after March 31, 2010.

(j) Retirement benefits for directors and corporate auditors

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

(k) Accrued environmental costs
Accrued environmental costs are provided at an estimated amount to dispose of PCB (polychlorinated biphenyl) waste and asbestos.

(l) Provision for business structure improvement
A provision has been made for the amount of estimated losses incurred in connection with a review 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 disasters, the Company posted a provision for the estimated amount of loss expected as of the end of 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).

(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 204,097,825 shares, 207,263,899 shares and 210,555,817 shares in 2012, 2011 and 2010, respectively. For the year ended March 31, 2012, diluted net income per share was ¥62.68 ($ 0.763).

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

(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 year ended March 31, 2011.

And the consolidated balance sheet and the consolidated statement of changes in net assets as of and for the 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 year presentation.

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

(u) Additional information
The Company and its consolidated domestic subsidiaries adopted “Accounting Standard for Accounting Changes and Error Corrections” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 24 issued on December 4, 2009) and “Guidance on Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Guidance No. 24, issued on December 4, 2009) for accounting changes and corrections of prior period errors which are made from the fiscal year beginning on April 1, 2011.

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, 2012 and 2011 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Cash and deposits	¥23,158	¥11,194	$281,933
Less time deposits with maturities exceeding three months	—	—	—
Cash and cash equivalents	¥23,158	¥11,194	$281,933

The following shows details of assets and liabilities of Marudai Shigyo Co., Ltd. (former affiliate accounted for by the equity method), Shanghai Toh Tech Co., Ltd. and The Toyo Fibre Co., Ltd., which were newly included in the scope of consolidation through acquisition of stock of Marudai Shigyo Co., Ltd. by Marudai Shigyo Co., Ltd., investment and exchange of shares, respectively, as of the date of inclusion of consolidation, as well as the relations between the acquisition cost and net proceeds from the acquisition.

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 20,848	$ 253,811
Non-current assets	4,457	54,261
Goodwill	2	24
Current liabilities	(19,920)	(242,512)
Non-current liabilities	(1,549)	(18,858)
Minority Interests	(281)	(3,421)
Gain on negative goodwill	(2,103)	(25,603)
Investment value on an equity method before acquisition of controlling interests	(776)	(9,447)
Acquired companies' outstanding shares held by the Company before the acquisitions	(370)	(4,505)
Acquisition cost of newly consolidated subsidiaries	440	5,357
Cash and cash equivalents of newly consolidated subsidiaries	1,796	21,865
Market value of substitute treasury stock for share exchange	(324)	(3,945)
Other, net	132	1,607
Net : Proceeds from acquisition of newly consolidated subsidiaries	¥ 1,680	$ 20,453

Assets and liabilities of a company acquired through a business transfer are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 5,658	$ 68,882
Non-current assets	355	4,322
Goodwill	100	1,218
TOTAL ASSETS	6,113	74,422
Current liabilities	(4,059)	(49,416)
Non-current liabilities	(129)	(1,570)
TOTAL LIABILITIES	(4,188)	(50,986)
Value of transfer of business	1,925	23,436
Accrual equivalents	(286)	(3,482)
Net : Payments for transfer of business	¥ 1,639	$ 19,954

Note 4: Financial Instruments

Effective from the year ended March 31, 2010, the Companies adopted the revised "Accounting Standard for Financial Instruments" (Accounting Standards Board of Japan ("ASBJ") Statement No. 10 revised on March 10, 2008) and the "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19 revised on March 10, 2008). Information on financial instruments for the year ended March 31, 2012 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.

Long-term time deposits are deposits with derivatives (multi-callable deposits). For these deposits, there is a risk for penalty for early withdrawal when the Company terminates the agreement before maturity.

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, 2012 are as follows. Financial instruments with fair values not readily determinable are excluded from the following table (see (b)):

	Millions of yen		
	2012		
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 23,158	¥ 23,158	¥ —
(2) Notes and accounts receivable	68,680	68,680	—
(3) Investments in securities:			
Available-for-sale securities	15,741	15,741	—
(4) long-term deposit*1	50	50	(0)
Total assets	¥107,629	¥107,629	¥ (0)
(5) Notes and accounts payable	¥ 27,539	¥ 27,539	¥ —
(6) Short-term loans	31,655	31,655	—
(7) Commercial paper	12,000	12,000	—
(8) Bonds*2	30,300	30,732	432
(9) Long-term loans payable*3	38,568	38,760	192
Total liabilities	¥140,062	¥140,686	¥624
Derivative transactions*4	¥ (66)	¥ (66)	¥ —

	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	¥ —
(5) Notes and accounts payable	¥ 23,753	¥ 23,753	¥ —
(6) Short-term loans	31,460	31,460	—
(7) Commercial paper	4,000	4,000	—
(8) Bonds*2	30,000	30,401	401
(9) Long-term loans payable*3	50,390	50,672	282
Total liabilities	¥139,603	¥140,286	¥683
Derivative transactions*4	¥ (185)	¥ (185)	¥ —

	Thousands of U.S. dollars		
	2012		
	Book value	Fair value	Difference
(1) Cash and deposits	$ 281,933	$ 281,933	$ —
(2) Notes and accounts receivable	836,133	836,133	—
(3) Investments in securities:			
Available-for-sale securities	191,637	191,637	—
(4) long-term deposit*1	609	609	(0)
Total assets	$1,310,312	$1,310,312	$ (0)
(5) Notes and accounts payable	$ 335,269	$ 335,269	$ —
(6) Short-term loans	385,379	385,379	—
(7) Commercial paper	146,092	146,092	—
(8) Bonds*2	368,882	374,142	5,260
(9) Long-term loans payable*3	469,540	471,877	2,337
Total liabilities	$1,705,162	$1,712,759	$7,597
Derivative transactions*4	$ (804)	$ (804)	$ —

*1 Long-term deposits are included in “other” under “investments and other assets” on the consolidated balance sheets.
*2 Bonds payable within a year are classified as “current maturities of long-term debt” on the consolidated balance sheets.
*3 Current portion of long-term loans payable is classified as current maturities of long-term debt on the consolidated balance sheets.
*4 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.

(4) Long-term deposits
All of long-term deposits are derivative-embedded deposits (multi-callable deposits). See Note 16 “Derivative Transactions” for details.

Liabilities

(5) Notes and accounts payable (6) Short-term loans, and
(7) 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.

(8) Bonds
The fair value of bonds issued by the Group is based on the market price if available. When a market price is not available, the fair value is determined by discounting the principal and interest at an interest rate to be applied if similar bonds were newly issued.

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

Derivative Transaction
For details of derivative transactions, see Note 16.

(b) Unlisted equity securities (consolidated balance sheet value: ¥9,886 million ($120,355 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	
	2012		2011	2012	
	Due in one year	Due after one year through two years	Due in one year	Due in one year	Due after one year through two years
Cash and deposits	¥23,158	¥—	¥11,194	$ 281,933	$ —
Notes and accounts receivable	68,680	—	62,405	836,133	—
Long-term time deposits	—	50	—	—	609
Total	¥91,838	¥50	¥73,599	$1,118,066	$609

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

	Millions of yen					
	2012					
	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	¥31,655	¥ —	¥ —	¥ —	¥ —	¥—
Commercial paper	12,000	—	—	—	—	—
Bonds	300	—	10,000	10,000	10,000	—
Long-term loans payable*	14,030	14,506	5,214	4,818	—	—
Total	¥57,985	¥14,506	¥15,214	¥14,818	¥10,000	¥—

	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	¥—

	Thousands of U.S. dollars					
	2012					
	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	$385,379	$ —	$ —	$ —	$ —	$—
Commercial paper	146,092	—	—	—	—	—
Bonds	3,653	—	121,743	121,743	121,743	—
Long-term loans payable*	170,806	176,601	63,477	58,656	—	—
Total	$705,930	$176,601	$185,220	$180,399	$121,743	$—

* 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, 2012 and 2011:

Available-for-sale securities:

	Millions of yen		
	2012		
Type	Acquisition cost	Book value	Difference
Equity securities:			
with book value (fair value) exceeding acquisition costs	¥ 4,948	¥ 7,342	¥ 2,394
with book value (fair value) not exceeding acquisition costs	9,512	8,399	(1,113)
	¥14,460	¥15,741	¥ 1,281

	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)

	Thousands of U.S. dollars		
	2012		
Type	Acquisition cost	Book value	Difference
Equity securities:			
with book value (fair value) exceeding acquisition costs	$ 60,239	$ 89,384	$ 29,145
with book value (fair value) not exceeding acquisition costs	115,802	102,253	(13,549)
	$176,041	$191,637	$ 15,596

Total sales of available-for-sale securities sold in the year ended March 31, 2012 amounted to ¥136 million ($1,656 thousand), the related losses amounted to ¥0 million ($0 thousand) and the related gains amounted to ¥11 million ($134 thousand). Total sales of available-for-sale securities sold in the year ended March 31, 2011 amounted to ¥45 million, the related losses amounted to ¥38 million and the related gains amounted to ¥0 million.

Note 6: Inventories

Inventories at March 31, 2012 and 2011 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Merchandise and Finished goods	¥17,132	¥11,871	$208,570
Work-in-process	1,736	2,093	21,135
Raw materials and supplies	12,463	11,396	151,729
	¥31,331	¥25,360	$381,434

Note 7: Assets Pledged

Assets pledged as collateral for short-term loans, long-term debt and other long-term liabilities totaling ¥921 million ($11,213 thousand) at March 31, 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Buildings	¥ 64	¥12	$ 779
Equipment	355	1	4,322
Land	928	8	11,298
Securities	—	—	—
	¥1,347	¥21	$16,399

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

Short-term loans outstanding at March 31, 2012 and 2011 are partially secured with interest of 0.12% to 1.00% per annum and 0.28% to 0.84% per annum, respectively.

The interest rate on commercial paper at March 31, 2012 is 0.11%.

Long-term debt and lease obligations at March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Partially secured loans from banks and unsecured loans from insurance companies and other financial institutions, 0.37% to 3.32% maturing serially through 2016	¥ 38,568	¥ 50,390	$ 469,540
1.77% unsecured yen straight bonds due in 2014	10,000	10,000	121,743
1.36% unsecured yen straight bonds due in 2011	—	10,000	—
0.794% unsecured yen straight bonds due in 2015	10,000	10,000	121,743
0.685% unsecured yen straight bonds due in 2016	10,000	—	121,743
0.900% unsecured yen straight bonds due in 2012	300	—	3,652
Lease obligations, maturing through 2017	2,561	3,377	31,179
	71,429	83,767	869,600
Less current maturities	(15,179)	(24,538)	(184,794)
Total	¥ 56,250	¥ 59,229	$ 684,806

The annual maturities of long-term debt and lease obligations at March 31, 2012 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2013	¥15,179	$184,794
2014	15,174	184,732
2015	15,647	190,492
2016	15,227	185,379
2017 and thereafter	10,202	124,203
	¥71,429	$869,600

Note 9: Contingent Liabilities

Contingent liabilities at March 31, 2012 for loans guaranteed by the Companies on behalf of third parties amount to ¥6,203 million ($75,517 thousand), which includes ¥6,199 million ($75,469 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 ¥74 million ($901 thousand).

Note 10: Net Assets

Net assets comprise three subsections, which are shareholders' equity, accumulated other comprehensive income, 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 29, 2012, the shareholders approved cash dividends amounting to ¥1,234 million ($15,023 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2012. Such appropriations are recognized in the period in which they are approved by the shareholders.

Note 11: Income Taxes

The Companies are subject to a number of taxes levied on income, which, in the aggregate, resulted in normal statutory income tax rates of approximately 39.5% for the years ended March 31, 2012, 2011 and 2010.

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended March 31, 2012 and 2011:

	2012	2011
Statutory tax rate	39.5 %	39.5%
Non-deductible expenses	0.6	1.0
Dividends received not taxable	(1.1)	(3.0)
Per capita inhabitants taxes	0.4	0.7
Gain on negative goodwill	(7.3)	—
Loss on step acquisitions	0.4	—
Valuation allowance	(40.2)	(13.3)
Effect of change in tax rates	2.6	—
Other	1.1	0.5
Effective tax rate	(4.0)%	25.4%

Significant components of deferred income tax assets and liabilities at March 31, 2012 and 2011 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred income tax assets:			
Unrealized gain from sales of inventories between the Companies	¥ 407	¥ 234	$ 4,955
Accrued bonuses	1,025	896	12,479
Employees' severance and retirement benefits	5,175	5,459	63,002
Long-term accrued amount payable	113	150	1,376
Unrealized gain from sales of fixed assets between the Companies	1,236	1,274	15,047
Unrealized holding gain on fixed assets	845	2,432	10,287
Depreciation and amortization	1,546	554	18,822
Impairment loss of fixed assets	1,020	1,291	12,418
Loss on devaluation of investments in securities	1,206	240	14,682
Provision for business structure improvement	193	210	2,350
Accrued environmental expenditures	96	111	1,169
Net operating loss carry forwards	318	2,106	3,871
Asset retirement obligations	527	606	6,416
Other	1,763	1,951	21,463
Subtotal deferred income tax assets	15,470	17,514	188,337
Valuation allowance	(4,309)	(8,839)	(52,459)
Total deferred income tax assets	¥11,161	¥ 8,675	$135,878
Deferred income tax liabilities:			
Reserve deductible for Japanese tax purpose	¥ (337)	¥ (615)	$ (4,103)
Reserve for deferred gain on sales of fixed assets for tax purpose	(676)	(769)	(8,230)
Valuation difference on Property, plant and equipment	(2,428)	—	(29,559)
Unrealized holding gain on securities	(444)	(2,456)	(5,405)
Other	(563)	(451)	(6,855)
Total deferred income tax liabilities	¥ (4,448)	¥ (4,291)	$ (54,152)
Net deferred income tax assets (liabilities)	¥ 6,713	¥ 4,384	$ 81,726

(Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates)
On December 2, 2011, amendments to the Japanese tax regulations were enacted into law. As a result of these amendments, the statutory income tax rate for the Company will be reduced to 37.8% for years beginning on or after April 1, 2012 and 35.4% for years beginning on or after April 1, 2015. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2012 to March 31, 2015 and on or after April 1, 2015 are 37.8% and 35.4%, respectively, as of March 31, 2012. Due to these changes in statutory income tax rates, net deferred tax assets decreased by ¥317 million ($3,859 thousand) as of March 31, 2012 and deferred income tax expense and unrealized holding gains on securities increased by ¥364 million ($4,432 thousand) and ¥49 million ($597 thousand) respectively, while unrealized losses on hedging derivatives decreased by ¥2 million ($24 thousand) for the year ended March 31, 2012.

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

Sales to and purchases from unconsolidated subsidiaries and affiliates for the years ended March 31, 2012, 2011 and 2010 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2012	2011	2010	2012
Sales	¥9,788	¥36,156	¥35,703	$119,162
Purchases	6,182	5,899	5,433	75,262

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 ¥877 million ($10,677 thousand), ¥1,051 million and ¥1,231 million for the years ended March 31, 2012, 2011 and 2010, respectively.

Note 14: Impairment Loss on Fixed Assets

In the year ended March 31, 2012, the Companies recorded impairment loss on fixed assets for the following group of assets:

			Amount	
Use	Location	Type	Millions of yen	Thousands of U.S. dollars
Processed paper production equipment	Hitachinaka of Ibaraki and others	Machinery, vehicles Equipment and others	¥165	$2,009
Pallets production—related equipment	Shingu of wakayama and others	Machinery, vehicles Equipment and others	121	1,473
Idle assets	Niigata of Niigata and others	Machinery, vehicles Equipment and others	35	426

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 and other business , 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 year ended March 31, 2011, the Companies recorded impairment loss on fixed assets for the following group of assets:

			Amount
Use	Location	Type	Millions of yen
Processed paper production equipment	Hitachinaka of Ibaraki and others	Machinery, vehicles Equipment and others	¥117
Idle assets	Niigata of Niigata and others	Machinery, vehicles Equipment and others	226

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.

Note 15: Lease Transactions

Lease transactions for the years ended March 31, 2012 and 2011 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
	2012	2011	2012
Machinery, equipment and others			
Purchase price equivalent	¥1,679	¥2,025	$20,441
Accumulated depreciation equivalent	836	951	10,178
Accumulated impairment loss equivalent	33	33	402
Book value equivalent	810	1,041	9,861

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
	2012	2011	2012
Due within one year	¥212	¥ 236	$ 2,581
Due after one year	614	827	7,475
	¥826	¥1,063	$10,056
Balance of impairment loss account on leased assets included in the outstanding lease commitments	¥ 16	¥ 22	$ 195

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

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

	Millions of yen			Thousands of U.S. dollars
	2012	2011	2010	2012
Lease payments	¥240	¥270	¥297	$2,922
Reversal of allowance for impairment loss on leased assets	6	6	6	73
Depreciation equivalent	234	264	291	2,849

(d) Calculation method of depreciation equivalent:

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

Operating lease transactions

Lease commitments under non-cancelable operating leases for the years ended March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
(lessee)			
Due within one year	¥ 36	¥39	$ 438
Due after one year	—	36	—
	¥ 36	¥75	$ 438
(lessor)			
Due within one year	¥ 26	¥—	$ 317
Due after one year	140	—	1,704
	¥166	¥—	$2,021

Note 16: Derivative Transactions

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

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

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

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

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

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

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

Derivative transactions for which hedge accounting had not been applied at March 31, 2012 are as follows.

(1) Compound financial instruments

	Millions of yen			
	2012			
	Contract amount			
Type of derivative transaction	Total	Over one year	Fair value	Valuation gains and losses
The fair value of derivative-embedded deposits	¥50	¥50	¥50	¥(0)

	Thousands of U.S. dollars			
	2012			
	Contract amount			
Type of derivative transaction	Total	Over one year	Fair value	Valuation gains and losses
The fair value of derivative-embedded deposits	$609	$609	$609	$(0)

The fair value of derivative-embedded deposits is determined as the amount calculated as a single unit based on the assessed market value of the embedded derivative that is presented by the bank with which the agreement was made.

Derivative transactions for which hedge accounting had been applied at March 31, 2012 are as follows.

(1) Currency-related

		Millions of yen		
		2012		
		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		¥484	¥—	¥9
EUR		¥179	¥—	¥7

Type of derivative transaction	Main hedged items	Thousands of U.S. dollars		
		2012		
		Contract amount		
		Total	Over one year	Fair value
Forward exchange contracts				
Buy contracts	Trade payables			
U.S. Dollar		$5,892	$—	$110
EUR		$1,632	$—	$ 64

(2) Interest-related

Type of derivative transaction	Main hedged items	Millions of yen		
		2012		
		Contract amount		
		Total	Over one year	Fair value
Interest rate swap contracts				
Receive floating	Long-term loans payable			
Pay fixed		¥4,145	¥2,717	¥(82)

Type of derivative transaction	Main hedged items	Thousands of U.S. dollars		
		2012		
		Contract amount		
		Total	Over one year	Fair value
Interest rate swap contracts				
Receive floating	Long-term loans payable			
Pay fixed		$50,463	$33,078	$(998)

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

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

Type of derivative transaction	Main hedged items	Millions of yen		
		2012		
		Contract amount		
		Total	Over one year	Fair value
Interest rate swap contracts				
Receive floating	Long-term loans payable			
Pay fixed		¥1,570	¥632	¥—

Type of derivative transaction	Main hedged items	Thousands of U.S. dollars		
		2012		
		Contract amount		
		Total	Over one year	Fair value
Interest rate swap contracts				
Receive floating	Long-term loans payable			
Pay fixed		$19,114	$7,694	$—

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

(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)

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	¥—

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, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Projected benefit obligation	¥(20,986)	¥(20,650)	$(255,490)
Unrecognized actuarial differences	1,067	1,202	12,990
Less fair value of pension assets	7,172	7,286	87,314
Prepaid pension costs	(425)	(441)	(5,174)
Liability for severance and retirement benefits	¥(13,172)	¥(12,603)	$(160,360)

Included in the consolidated statements of income for the years ended March 31, 2012, 2011 and 2010 are severance and retirement benefit expenses composed of the following:

	Millions of yen			Thousands of U.S. dollars
	2012	2011	2010	2012
Service costs—benefits earned during the year	¥ 957	¥ 888	¥ 743	$11,651
Interest cost on projected benefit obligation	382	371	295	4,650
Expected return on pension assets	(10)	(81)	(37)	(122)
Amortization of actuarial differences	250	315	365	3,044
One-time amortization of prior service costs	130	175	—	1,583
Severance and retirement benefit expenses	¥1,709	¥1,668	¥1,366	$20,806

	2012	2011	2010
Discount rate:	2.0% (mainly)	2.0% (mainly)	2.0% (mainly)
Rates of expected return on pension assets:	1.0% (mainly)	1.0% (mainly)	1.0% (mainly)
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	10 years (mainly)	10 years (mainly)

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 10 years, beginning the following fiscal year of recognition.

Note 18: Asset Retirement Obligations

1. Asset retirement obligations recorded on the consolidated balance sheets

(1) Outline of the asset retirement obligations recorded:

The Company recorded asset retirement obligations covering the expenses for the removal of asbestos 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 64 years based on the useful life of each, and the discount rate of 0.516% to 2.330% is used.

(3) Increase or decrease in the total amount of the relevant asset retirement obligations during the fiscal year ended March 31, 2012 and 2011:

	Millions of yen		Thousands of U.S. dollars
	2012	2011*1	2012
Balance at the beginning of the year	¥1,514	¥1,504	$18,432
Adjustments over time	9	10	109
Decrease in loss on disposal of property, plant and equipment	(52)	—	(633)
Increase due to newly consolidated subsidiaries	11	—	134
Balance at the end of the year	¥1,482	¥1,514	$18,042

*1 The balance of the asset retirement obligation at beginning of the fiscal year was determined based upon the guidance set forth in “Accounting Standards for Asset Retirement Obligations” (ASBJ Statement No. 18 issued on March 31, 2008) and “Guidance on Accounting Standards for Assets Retirement Obligations” (ASBJ Guidance No. 21, issued on March 31, 2008).

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:

	Millions of yen					
	2012					
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others*1	Corporate or elimination*2	Consolidated*3
Sales:						
Outside customers	¥200,000	¥20,347	¥220,347	¥10,229	¥ —	¥230,576
Intersegment	1,831	239	2,070	27,784	(29,854)	—
Total	201,831	20,586	222,417	38,013	(29,854)	230,576
Operating expenses	193,235	19,822	213,057	37,326	(30,635)	219,748
Operating income	¥ 8,596	¥ 764	¥ 9,360	¥ 687	¥ 781	¥ 10,828
Identifiable assets	¥307,274	¥18,704	¥325,978	¥19,393	¥(12,376)	¥332,995
Depreciation and amortization	¥ 21,007	¥ 992	¥ 21,999	¥ 584	¥ (405)	¥ 22,178
Impairment loss	¥ 35	¥ 165	¥ 200	¥ 121	¥ —	¥ 321
Increase in property, plant and equipment/intangible assets	¥ 6,964	¥ 818	¥ 7,782	¥ 440	¥ (245)	¥ 7,977

*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 ¥781 million mainly represent eliminations of intersegment transactions.
(2) Adjustments in segment assets in the amount of ¥(12,376) million include ¥(17,248) million for eliminations of intersegment debts and credits and ¥4,872 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 ¥(245) 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.

	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, 2012
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	2012	2012
SHINSEI PULP & PAPER COMPANY LIMITED	¥45,184	$550,085
KOKUSAI PULP & PAPER CO., LTD.	¥27,306	$332,432

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
Name of Customers	2011
SHINSEI PULP & PAPER COMPANY LIMITED	¥44,963
Marudai Shigyo Co., Ltd.	¥35,959
KOKUSAI PULP & PAPER CO., LTD.	¥25,652

(Information regarding the amounts of amortization and unamortized balance by reportable segment)
Fiscal year ended March 31, 2012

	Millions of yen					
	2012					
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others	Corporate or elimination	Consolidated
Goodwill:						
Amortization of goodwill	¥ 10	¥ —	¥ 10	¥ —	¥—	¥ 10
Balance at end of year	¥ 90	¥ —	¥ 90	¥ —	¥—	¥ 90
Negative goodwill:						
Amortization of negative goodwill	¥1,460	¥27	¥1,487	¥296	¥—	¥1,783
Balance at end of year	¥3,649	¥68	¥3,717	¥720	¥—	¥4,437

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

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.

(Information about gain on negative goodwill by reporting segment)
For the year ended March 31, 2012

Based on the resolution of the Shareholders' Meeting and Board of Directors' Meeting on April 26, 2011, Marudai Shigyo Co., Ltd. ("Marudai Shigyo"), which was an affiliate of the Company in the paper and pulp segment, informed its shareholders about the purchase of treasury stock with the date for application on July 1, 2011. All the shareholders except the Company applied for the transfer of shares. Consequently, Marudai Shigyo became the Company's specified subsidiary and wholly-owned subsidiary upon the payment of consideration for the purchase of treasury stock by Marudai Shigyo on July 4, 2011. As a result, gain on negative goodwill of ¥1,536 million (18,700 thousand US dollars) was recorded in the fiscal year.

On October 1, 2011, Marudai Shigyo was merged into Hokuetsu Kishu Sales Co., Ltd., a wholly-owned subsidiary of the Company, and dissolved through an absorption-type merger.

Effective on February 1, 2012, the Company implemented a share exchange with shareholders of The Toyo Fibre Co., Ltd. ("Toyo Fibre"), which was an affiliate of the Company in the paper and pulp segment. Consequently, the Company became the wholly owning parent company and Toyo Fibre became the wholly owned subsidiary company. As a result, gain on negative goodwill of ¥726 million (8,838 thousand US dollars) was recorded in the fiscal year under review.

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

	Thousands of U.S. dollars					
	2012					
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Other*1	Corporate or elimination*2	Consolidated*3
Sales:						
Outside customers	$2,434,868	$247,711	$2,682,579	$124,531	$ —	$2,807,110
Intersegment	22,291	2,910	25,201	338,252	(363,453)	—
Total	2,457,159	250,621	2,707,780	462,783	(363,453)	2,807,110
Operating expenses	2,352,508	241,320	2,593,828	454,419	(372,961)	2,675,286
Operating income	$ 104,651	$ 9,301	$ 113,952	$ 8,364	$ 9,508	$ 131,824
Identifiable assets	$3,740,857	$227,709	$3,968,566	$236,097	$(150,670)	$4,053,993
Depreciation and amortization	$ 255,746	$ 12,077	$ 267,823	$ 7,110	$ (4,931)	$ 270,002
Impairment loss	$ 426	$ 2,009	$ 2,435	$ 1,473	$ —	$ 3,908
Increase in property, plant and equipment/intangible assets	$ 84,782	$ 9,959	$ 94,741	$ 5,357	$ (2,983)	$ 97,115

*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 $9,508 thousand mainly represent eliminations of intersegment transactions.

(2) Adjustments in segment assets in the amount of $(150,670) thousand include $(209,983) thousand for eliminations of intersegment debts and credits and $59,313 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, 2012

	Thousands of U.S. dollars					
	2012					
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others	Corporate or elimination	Consolidated
Goodwill:						
Amortization of goodwill	$ 122	$ —	$ 122	$ —	$—	$ 122
Balance at end of year	$ 1,096	$ —	$ 1,096	$ —	$—	$ 1,096
Negative goodwill:						
Amortization of negative goodwill	$17,774	$329	$18,103	$3,604	$—	$21,707
Balance at end of year	$44,424	$828	$45,252	$8,766	$—	$54,018

(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

Transactions with related party
(a) Parent company and principal stockholder, etc., of the Company

2012									
Attribute	Name	Location	Amount of capital or investment in capital	Ownership ratio (Parent company ownership ratio) of voting rights (%)	Relationship	Nature of transaction	Trading amount	Account	Balance at the end of the fiscal year
Other associated company	Mitsubishi Corporation	Chiyoda-ku, Tokyo	¥204,447 million ($2,489,007 thousand)	(Parent company ownership ratio) Direct 26	Agency for the products of the Company	Sales of paper	¥18,675 million ($227,356 thousand)	Account receivable —trade	¥3,629 million ($44,181 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.

(b) 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	Direct 36 Indirect–	Agency for the products of the Company	Sales of paper	¥36,096 million	Account receivable —trade	¥14,335 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 prices.

(c) Notes relating to the parent company and major affiliate
None

Note 21: Comprehensive Income

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

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Unrealized holding gains (losses) on securities, net of taxes		
Occurrence amount	¥(1,149)	$(13,988)
Recycling	2,786	33,917
Before tax effect	1,637	19,929
Tax effect	(543)	(6,610)
Unrealized holding gains (losses) on securities, net of taxes	1,094	13,319
Unrealized holding gains (losses) on hedging derivatives, net of taxes		
Occurrence amount	¥ 34	$ 414
Recycling	78	950
Before tax effect	112	1,364
Tax effect	(42)	(512)
Unrealized holding gains (losses) on hedging derivatives, net of taxes	70	852
Foreign currency translation adjustment		
Occurrence amount	¥ 6	$ 73
Recycling	—	—
Before tax effect	6	73
Tax effect	—	—
Unrealized holding gains (losses) on hedging derivatives, net of taxes	6	73
Share of other comprehensive income of associates accounted for using equity method		
Occurrence amount	¥ 69	$ 840
Recycling	(35)	(426)
Share of other comprehensive income of associates accounted for using equity method	34	414
Total other comprehensive income	¥ 1,204	$ 14,658

Note 22: Stock Option

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

The following shows the Company's stock options as of March 31, 2012.

Stock options	Persons granted	Number of stock options granted	Grant date	Exercise price	Exercise period
2011 Subscription rights to shares	11 directors	117,000 shares	July 11, 2011	¥1 ($0.01)	From July 12, 2011 to July 11, 2026

The following shows the number of stock options.

	2011 Share subscription rights (shares)
Non-vested stock option:	
Outstanding at March 31, 2011	—
Granted	117,000
Forfeited	—
Vested	117,000
Outstanding at March 31, 2012	—
Vested stock option:	
Outstanding at March 31, 2011	—
Vested	117,000
Exercised	—
Forfeited	—
Outstanding at March 31, 2012	117,700

The following shows the estimate method for stock option price.

	2011 Subscription rights to shares
Estimate method	Black-Scholes option-pricing models
Expected volatility	33.120%
Expected life	8 years
Expected dividend	¥12/share ($0.15/share)
Risk-free interest rate	0.844%

Note 23: Business Combinations

1. Business combination through acquisition

Effective on October 1, 2011, Hokuetsu Kishu Sales Co., Ltd., a wholly-owned subsidiary of the Company, took over the sales agent business (“sales agent business”) for the paper and pulp products of Tamura-Paper Inc.

(1) Outline of business combination

① Name of the counterparty and line of the acquired business
Name: Tamura-Paper Inc.
Description of business: sales agent business

② Major reason for the business combination
In the paper and pulp industry, the market environment remains severe due to the shrinking domestic demand and an increase in imported paper. In response to these changes in the environment spontaneously, the integration of the sales agent business was realized to provide higher quality services to customers and strengthen their reliance on us by unifying the sales agent business for paper products, shoring up and expanding the foundation and increasing our presence in the paper and pulp industry.

③ Date of the business combination
October 1, 2011

④ Legal form of the business combination
Acquisition of business

⑤ Name of the acquiree after the business combination
Hokuetsu Kishu Sales Co., Ltd.

(2) Period of the acquired company’s financial results included in the consolidated statements of income
From October 1, 2011 to March 31, 2012

(3) The cost of the acquired business and its breakdown

Cash payment for the acquisition:	¥1,925 million ($23,436 thousand)
Acquisition cost:	¥1,925 million ($23,436 thousand)

(4) Amount and cause of goodwill, and method and period of amortization

① Amount of goodwill incurred:
¥100 million ($1,218 thousand)

② Reason for goodwill incurred:
Goodwill arose due to the profitability expected from the future business development.

③ Method and period of amortization
Amortized using straight-line method over five years

(5) Amounts and major breakdown of the assets acquired and liabilities assumed on the date of the business combination

Current assets	¥5,658 million	($68,882 thousand)
Non-current assets	¥355 million	($4,322 thousand)
Total assets	¥6,013 million	($73,204 thousand)
Current liabilities	¥4,059 million	($49,416 thousand)
Non-current liabilities	¥129 million	($1,570 thousand)
Total liabilities	¥4,188 million	($50,986 thousand)

(6) Pro forma information of the Company's consolidated operating results and net income, if the business combination had been completed at the beginning of the current period.

Net sales	¥1,214 million	($14,780 thousand)
Operating income	¥46 million	($560 thousand)
Ordinary income	¥46 million	($560 thousand)
Net income	¥28 million	($341 thousand)

(Calculation method of the pro forma information)
The impact shown above is the difference between the amount of sales and income estimated assuming the business combinations had been carried out at the beginning of the year ended March 31, 2012 and those of Consolidated Statements of Income of the acquired company. The amortization of goodwill recognized in the business combinations calculated based on the assumption that the goodwill had been incurred at beginning of the current period. This note was not audited.

2. Transaction under common control

(Merger between the Company and Kishu Paper Co., Ltd.)
The Company merged with Kishu Paper Co., Ltd., a subsidiary of the Company, on April 1, 2011.

(1) Outline of the transaction

① Name and business line of the merged company
Name: Kishu Paper Co., Ltd.
Description of business: Production and sale of pulp and paper

② Date of the business combination
April 1, 2011

③ Legal form of the business combination
Under the Absorption, the Company remains as the surviving company and Kishu Paper Co., Ltd. has been dissolved.

④ Name of the acquiree after the business combination
Hokuetsu Kishu Paper Co., Ltd.

⑤ Outline and purpose of the transaction
Since Kishu Paper Co., Ltd. became a wholly-owned subsidiary of the Company through share exchange on October 1, 2009, the Company worked on expansion of sales channels and further strengthening of the product brand as well as on improvement of efficiency through optimal production, joint purchase of materials and fuels and unified distribution of products to cut back on costs. In order to further increase the business efficiency and corporate value of the Group, the Company and the subsidiary integrated the business through merger.

With the business integration through the absorption-type merger, the Company works to speed up decision-making on management and implementation of management strategies, to concentrate and make effective use of management resources, to improve the efficiency of operations, and to strengthen the international competitiveness.

(2) Outline of the accounting treatment adopted

This merger was accounted for as transaction under common control, in accordance with "Accounting Standard for Business Combinations" (ASBJ Statement No. 21 issued on December 26, 2008), and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 issued on December 26, 2008) .

(Merger between Hokuetsu Kishu Sales Co., Ltd. and Marudai Shigyo Co., Ltd.)

Hokuetsu Kishu Sales Co., Ltd., a wholly-owned subsidiary of the Company, merged with Marudai Shigyo Co., Ltd., a subsidiary of the Company, through the absorption-type merger on October 1, 2011.

(1) Outline of the transaction

① Name and business line of the merging and merged companies

Combining company

Name: Hokuetsu Kishu Sales Co., Ltd. (the Company's wholly-owned subsidiary)

Combined company

Name: Marudai Shigyo Co., Ltd. (the Company's wholly-owned subsidiary)

Description of business: Sales of paper, paperboard, pulp and processed products

② Date of the business combination

October 1, 2011

③ Legal form of the business combination

Under the Absorption, Hokuetsu Kishu Sales Co., Ltd. remains as the surviving company and Marudai Shigyo Co., Ltd. has been dissolved.

④ Name of the acquiree after the business combination

Hokuetsu Kishu Sales Co., Ltd.

⑤ Outline and purpose of the transaction

In the paper and pulp industry, the market environment remains severe due to the shrinking domestic demand and an increase in imported paper. In response to these changes in the environment spontaneously, the integration of the sales agent business was realized to provide higher quality services to customers and strengthen their reliance on us by unifying the sales agent business for paper products, shoring up and expanding the foundation and increasing our presence in the paper and pulp industry.

(2) Outline of the accounting treatment adopted

This merger was accounted for as transaction under common control, in accordance with "Accounting Standard for Business Combinations" (ASBJ Statement No. 21 issued on December 26, 2008), and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 issued on December 26, 2008) .

(Additional Information)

Purchase of treasury stock by Marudai Shigyo Co., Ltd.

1. Outline of the transaction

(1) Name and business line of the acquired company

Name: Marudai Shigyo Co., Ltd.

Description of business: Sales of paper, paperboard, pulp and processed products

(2) Major reason for the business combination

Based on the resolution of the Shareholders' Meeting and Board of Directors' Meeting on April 26, 2011, Marudai Shigyo Co., Ltd. ("Marudai Shigyo"), which was an affiliate of the Company, informed its shareholders about the purchase of treasury stock with the date for application on July 1, 2011. All the shareholders except the Company applied for the transfer of shares. Consequently, Marudai Shigyo became the Company's specified subsidiary and wholly-owned subsidiary upon the payment of consideration for the purchase of treasury stock by Marudai Shigyo on July 4, 2011.

(3) Date of the business combination

July 4, 2011 (date of share acquisition)

(4) Legal form of the business combination

Acquisition of stock (purchase of treasury stock by the acquired company)

(5) Name the acquiree after the business combination

Marudai Shigyo Co., Ltd.

(6) The Company's shares with voting rights acquired

Shares with voting rights owned before the business combinations:	36.27%
Shares with voting rights acquired on the business combinations:	63.73%
Shares with voting rights after the acquisition:	100.00%

2. Period of results of the acquired company's financial results included in the consolidated statements of income

From July 1, 2011 to September 30, 2011

3. Outline of the accounting treatment adopted

The shares acquisition was accounted for in accordance with the "Accounting Standard for Treasury Shares and Appropriation of Legal Reserves" (ASBJ Statement No. 1 issued on August 11, 2006) and "Revised Guidance on Accounting Standard for Treasury Shares and Appropriation of Legal Reserves" (ASBJ Guidance No. 2 issued on August 11, 2006).

4. Cost for the acquisition of shares and the breakdown
Cash ¥246 million ($2,995 thousand)

5. Amount and cause of gain on negative goodwill
(1) Amount of negative goodwill incurred:
¥1,536 million ($18,700 thousand)

(2) Reason for negative goodwill incurred:
The gain resulted from the difference between an increase in the shares of the Company in Marudai Shigyo and the acquisition cost.

Note 24: Subsequent Events

(a) Distribution of retained earnings

The following items were approved at the annual shareholders' meeting of the Company held on June 29, 2012:

Payment of a cash dividend of ¥6.00 ($0.07) per share to shareholders as of March 31, 2012 or a total of ¥1,234 million ($15,023 thousand)

(b) Acquisition and transfer of shares of Daio Paper Corporation, Daio Paper Corporation's affiliates and other companies

Based on the resolution of a meeting of the Board of Directors held on June 26, 2012, the Company and four members of Daio Paper Corporation's founding family, Mr. Takao Ikawa, Ms. Yaeko Ikawa, Mr. Mototaka Ikawa, and Mr. Takahiro Ikawa ("the founding family"), signed an agreement on the same day whereby the Company will acquire shares*1 of Daio Paper Corporation ("Daio Paper") and Daio Paper's affiliates and other companies held by the founding family. The Company and Daio Paper also signed an agreement on the same day whereby the Company will transfer to Daio Paper all shares of Daio Paper's affiliates and other companies excluding Daio Shoko Co.,Ltd. ("Daio Shoko") after these shares are acquired from the founding family.

Outline of the acquisition and transfer of shares:

① The Company will acquire the shares of Daio Paper, Daio Paper's affiliates and other companies held by the founding family. The Daio Paper's shares that will be acquired from the founding family are 3,641,000 shares.

② The Company will acquire the shares of Daio Paper from four companies*2 including Daio Paper's affiliates. The Daio Paper's shares that will be acquired from the four companies including the Daio Paper's affiliates total 8,410,000 shares. The Company will also acquire the shares of Daio Shoko held by two companies*3 including Daio Paper's affiliate. The Daio Shoko's shares that will be obtained from the two companies including Daio Paper's affiliate total 25,000 shares.

③ Excluding Daio Shoko's shares*4, the Company will transfer to Daio Paper all shares of Daio Paper's affiliates and other companies that are acquired through this agreement, at the same amount that the Company pays to the founding family for the acquisition of these shares.

The transactions listed from ① to ③ will be effected on the same date.

As a result, the Company will be the largest shareholder of Daio Paper with 22.12% of its shares (ratio of voting rights)*5 and make Daio Paper an affiliate of the Company accounted for under equity method.

Regarding these agreements, the Company commissioned an independent valuation agent Credit Suisse Securities (Japan) Limited ("Credit Suisse Securities") to analyze share value. Credit Suisse Securities used the market value method, the DCF method, and the market multiple method. Based on the analyses, the Company studied and negotiated acquisition price and reached an agreement on the price.

*1 Shares of Daio Paper's affiliates and other companies which the Company will acquire from founding family are as follows:
Daio Paper Package Co., Ltd., Daio Paper Design Package Corporation, Tokai Daio Paper Package Co., Ltd., Chugoku Daio Paper package Co., Ltd., Hanshin Daio Paper Package Corporation, Chubu Daio paper package Co., Ltd., Kansai Daio Paper Package Corporation, Oumi Daio Paper Package Co., Ltd., Computer Printing Co., Ltd., Elleair Printing Co., Ltd., Suehiro Graphic Arts Co., Ltd., Iwaki Daio Paper Corporation, Marubishi Paper Tech Co., Ltd., Daio Paper Tech Co., Ltd., Daio Kami Unyu Co., Ltd., Nagoya Kami Unyu Co., Ltd., Daio Paper Package Unyu Co., Ltd., Chubu Daio Paper Package Unyu Co., Ltd., Iwaki Daio Kami Unyu Co., Ltd., Daio Engineering Co., Ltd., Daio Maintenance Corporation, Osaka Kami Hanbai Co., Ltd., Shikoku Paper Sales Corporation, Chukyo Kami Pulp Hanbai Co., Ltd., Chugoku Kami Hanbai Co., Ltd., Daiken Kami Hanbai Co., Ltd., Sanwa Soko Sagyo Co., Ltd., Secondary Fiber Co., Ltd., Daio Packing System Co., Ltd., Iwaki Eco Pulp Co., Ltd., Dainichi Paper Corporation, Otsu Paperboard Co., Ltd., Elleair Life Co., Ltd., Kyoto Shoko Co., Ltd., Akabira Paper Corporation, Elleair Paper Tech Co., Ltd., Omiya Paper Corporation, Taisei Paper Corporation, Daio Paper Converting Co., Ltd., Elleair Texel Corporation, Daio Shoko Co., Ltd., Elleair Sogyo Co., Ltd., Elleair Sangyo Co., Ltd.

*2 Four companies are as follows:
Elleair Sogyo Co., Ltd., Elleair Sangyo Co., Ltd., Omiya Paper Corporation, Daio Engineering Co., Ltd.

*3 Two companies are as follows:
Elleair Sogyo Co., Ltd.,Elleair Sangyo Co., Ltd.

*4 Daio Shoko Co., Ltd. holds 9,542 shares of Daio Paper and would become the Company's subsidiary.

*5 Shares (ratio of voting rights) includes the shares held by Hokuetsu Kishu Sales Co., Ltd. and Daio Shoko Co., Ltd.

(1) Purpose of acquisition and transfer of shares

The acquisition and transfer of shares will facilitate the Company and Daio Paper to further strengthen their existing technology alliance, expand and deepen business domains, and combine efforts towards growth, to achieve development of both companies with enhanced corporate value. After a series of these transactions are completed, the Company and Daio Paper will discuss and study details of the alliance.

(2) Overview of issuing companies of shares acquired through these agreements (excluding the shares of Daio Paper's affiliates and other companies that will be transferred to Daio Paper after the share acquisition by the Company)

① Daio Paper Corporation

(a)	Corporate name	Daio Paper Corporation
(b)	Location	2-60, Mishimakamiya-cho, Shikokuchuo-city, Ehime
(c)	Title and name of representative	Mr. Masayoshi Sakou, Representative Director, CEO
(d)	Description of business	Manufacturing and sale of paper, paper board, and paper products for family use
(e)	Capital	¥30,415 million ($370,282 thousand)

② Daio Shoko Co., Ltd.

(a)	Corporate name	Daio Shoko Co., Ltd.
(b)	Location	2-2-13, Mishimaasahi-cho, Shikokuchuo-city, Ehime
(c)	Title and name of representative	Mr. Takao Ikawa, Representative Director, Chairman
(d)	Description of business	Purchase and sale of paper and pulp, insurance agency business
(e)	Capital	¥100 million ($1,217 thousand)

(3) Number of shares acquired through these agreements (excluding the shares of Daio Paper's affiliates and other companies that will be transferred to Daio Paper after the share acquisition by the Company) and the status of shares held before and after the acquisition

① Daio Paper Corporation

(a)	Number of shares held before the change	3,696,000 shares	Ownership ratio: 2.86%
(b)	Number of shares acquired	21,594,000 shares	—
(c)	Number of shares held after the change	25,290,000 shares	Ownership ratio: 19.60% (ratio of voting rights: 22.12%)

② Daio Shoko Co., Ltd.

(a)	Number of shares held before the change	—shares	Ownership ratio: —%
(b)	Number of shares acquired	101,000 shares	—
(c)	Number of shares held after the change	101,000 shares	Ownership ratio: 50.60%

(4) Timing of share acquisition

Around end of July 2012 (subject to the approval and permission from appropriate authorities)

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of HOKUETSU KISHU PAPER CO., LTD. ("the Company", a Japanese corporation) and its consolidated subsidiaries , which comprise the consolidated balance sheets as at March 31, 2012 and 2011, the consolidated statements of comprehensive income for the years then ended, and the consolidated statements of income, statements of changes in net assets and statements of cash flows for the years ended March 31, 2012 and 2011 and 2010, and a summary of significant accounting policies and other explanatory information expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2012 and 2011, and their financial performance and cash flows for the years ended March 31, 2012 and 2011 and 2010 in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 24 to the consolidated financial statements. Based on the resolution of a meeting of the Board of Directors held on June 26, 2012, the Company signed agreements which included the acquisition of stocks of Daio Paper Corporation ("Daio Paper"). As a result, the Company will be the largest shareholder of Daio Paper with 22.12% of its shares (ratio of voting rights) and make Daio Paper an affiliate of the Company accounted for under equity method.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2012 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 1to the consolidated financial statements.

KPMG AZSA LLC

June 29, 2012
Tokyo, Japan

Subsidiaries and Affiliates

As of October 1, 2012

Consolidated Subsidiaries

Hokuetsu Package Co., Ltd.
3-2-2, Hongoku-cho, Nihonbashi, Chuo-ku, Tokyo 133-0021
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

The Toyo Fibre Co., Ltd.
888, Ohtsuka, Numazu, Shizuoka 410-306
Manufacturing and sale of vulcanized fiber

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

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

Shanghai Toh Tech Co., Ltd.
330-8, Xiya Road, Waigaogiao Free Trade Zone, Shanghai-city, China
Manufacturing and sale of carrier tape

Affiliated 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.

Daio Paper Corporation
2-7-2, Yaesu , Chuo-ku, Tokyo 104-8468
Manufacturing and sale of paper, paperboard and pulp

Corporate Data

Overview
As of March 31, 2012

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	4,140 (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 2012

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, 2012

Number of shares authorized	500,000,000
Number of shares issued	209,263,814
Number of shareholders	13,829

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)	14,619	6.99
Japan Trustee Services Bank, Ltd. (Trust Account)	8,068	3.86
NIPPONKOA Insurance Co., Ltd.	5,699	2.72
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
Mizuho Corporate Bank, Ltd.	3,600	1.72
The Norinchukin Bank	3,554	1.70

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

Published Oct. 2012
Printed in Japan