HOKUETSU KISHU PAPER CO., LTD.

BUILDING UP OUR STRENGTHS TO MEET EVERY CHALLENGE

Annual Report 2013

Year ended March 31, 2013

Building up Our Strengths to

THE GROUP'S SPECIAL FEATURES

The Hokuetsu Kishu Paper Group provides a steady supply of high quality products that meet the needs of the market through sophisticated technical capabilities and cutting-edge initiatives. We maintain leading market shares in the paper industry in Japan in our core businesses of Printing Paper, White Paperboard, Specialty Paper and Paper Processing.

Looking ahead, we will engage in technological development leveraging the Group's strengths and undertake initiatives to open up new fields, with the aim of achieving further growth in each business.

PRINTING PAPER BUSINESS

We provide a varied and abundant product lineup of printing paper for excellent printing and processing activities.

We have the top market share in Japan in colored wood-free paper due to our track record and abundant product lineup over 50 years.

21.0% market share, ranked 2nd in Japan, for **coated printing paper**

Top **67.8%** market share in Japan for **colored wood-free paper**

TOPICS

Installed cutters at Niigata Mill

WHITE PAPERBOARD BUSINESS

We meet our customers' needs with wide-ranging grades of white paperboard products for commercial printed materials, such as catalogs and postcards, and published materials, as well as a wide variety of packaging materials.

TOPICS

A new mill is being constructed in Guangdong Province, China

20.7% market share, ranked 2nd in Japan

SPECIALTY PAPER BUSINESS

With a product lineup that meets a diverse range of customer needs as our key strength, we command high market shares for products like abrasive paper and adhesive postcard base paper.

TOPICS

Acquired Financiere Bernad Dumas SAS, a France-based company

Sole manufacturer of **vulcanized fiber** in Japan

PAPER PROCESSING BUSINESS

We have been developing operations in liquid package containers and business forms in addition to processed paper and such paper processing products as functional processing materials. Amongst these, we hold the top market share in Japan for gable-top liquid containers such as milk cartons.

TOPICS

Installed color printers at BF Co., Ltd.

Liquid package containers: Market share ranked **3rd** in Japan

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

Meet Every Challenge

Profile

On October 1, 2009, Hokuetsu Paper Mills, Ltd. and KISHU PAPER Co., Ltd. consolidated their operations through a share exchange and adopted the corporate name Hokuetsu Kishu Paper Co., Ltd.

Established in Nagaoka City, Niigata Prefecture, in 1907, Hokuetsu Paper Mills started out by manufacturing paperboard, then expanded its field of business to include printing paper, specialty paper and paper processing. It was the first company in the world to operate full-fledged on-machine coaters. As a company focused on coated paper production, the company gained a high market share in the Kanto region, its largest market. Meanwhile, KISHU PAPER was founded in Minamimuro-Gun, Mie Prefecture in 1950, and in the colored wood-free paper field has been driving the market as the top maker.

On April 1, 2011, the two companies fully merged and have been working to further improve Group-wide management efficiency and raise corporate value.

The Hokuetsu Kishu Paper Corporate Philosophy

> The Hokuetsu Kishu Paper Group will pursue all potential opportunities in the paper business with the aim of contributing to society and achieving sustainable growth.

The Hokuetsu Kishu Paper Group is striving to fulfill the expectations and win the trust of all of our stakeholders, including customers, stockholders, business partners, local communities and employees, by pursuing all potential opportunities in the paper business in order to create new value.

The Group has formulated its corporate philosophy, which is designed to contribute to society and achieve sustainable growth.

- 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 conscious management**, we will strive for sustainable growth.

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We will improve our corporate value by focusing on the unique strengths of Hokuetsu Kishu Paper.

Fiscal 2012 Performance

During fiscal 2012, ended March 31, 2013, net sales of the Hokuetsu Kishu Paper Group declined 9.7% year on year to ¥208.3 billion. This was the result of a fall back from the surge in replacement demand to fill supply shortages in the papermaking industry following the Great East Japan Earthquake, and of lackluster domestic demand for products like printing and communication paper.

On the earnings front, despite the Group pushing ahead with various measures to reduce costs, the Group was significantly negatively impacted by a decline in printing paper production and sales volume and falling sales prices mainly due to competition with imported paper. As a result, net income decreased 34.5% year on year to ¥8.4 billion.

Implementation of Various Measures Based on the G-1st Medium-term Management Plan

In line with the medium-term management plan, G-1st, the Group aims to improve corporate value and is accordingly implementing a variety of strategic measures. We have expanded our domestic business foundation through such initiatives as completing a merger with KISHU PAPER Co., Ltd., and in fiscal 2011, ended March 31, 2012, we converted The Toyo Fibre Co., Ltd. into a wholly owned subsidiary and established the sales agent Hokuetsu Kishu Sales Co., Ltd. Moreover, in fiscal 2012, ended March 31, 2013, we converted Daio Paper Corporation into an affiliate of the Company accounted for by the equity method, and through a comprehensive technological alliance developed various initiatives to maximize synergies.

We will continue to aggressively promote our growth strategies by globalizing our business operations with the aim of achieving further growth. We are also making steady strides toward becoming a truly global company. For instance, following on from our conversion of China's Totaku Shanghai Electric Materials Co., Ltd. into a subsidiary in fiscal 2011, in fiscal 2012 we made France's Financiere Bernard Dumas SAS into a wholly owned subsidiary, to advance into a new business field with this company's main product line of battery separators for Valve Regulated Lead-Acid batteries.

We will devote our energies to further improving the corporate value of the Hokuetsu Kishu Paper Group. We look forward to your continued support and cooperation.

Sekio Kishimoto
President and CEO

CONSOLIDATED FINANCIAL HIGHLIGHTS

(Fiscal years ended March 31)

Financial data	Millions of yen					Thousands of U.S. dollars (Note 2)
	2009	2010 (Note 1)	2011	2012	2013	2013
Net sales	¥182,815	¥193,952	¥217,014	¥230,576	¥208,289	$2,216,076
Operating income	8,125	9,892	8,743	10,828	3,667	39,015
Ordinary income (Note 3)	6,752	9,574	10,283	13,906	10,725	114,108
Net income	1,913	7,239	5,432	12,797	8,379	89,148
EBITDA (Note 4)	25,846	31,696	32,455	35,384	25,707	273,508
Capital expenditures	31,376	6,286	8,636	7,977	12,160	129,375
Total assets	313,732	340,970	322,255	332,995	343,180	3,651,239
Net assets	136,713	139,989	139,822	152,704	161,080	1,713,799
Interest-bearing debt	135,730	134,850	119,227	115,084	126,917	1,350,325

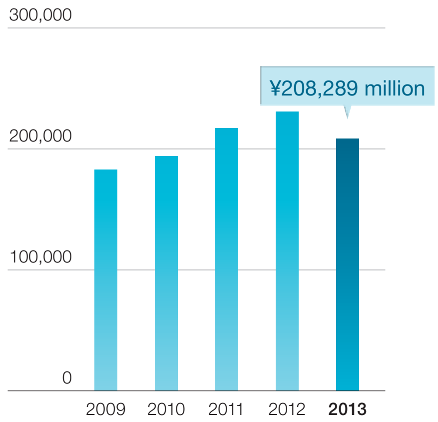
Cash flows						
Cash flows from operating activities	¥ 10,000	¥ 36,944	¥ 25,859	¥ 29,083	¥ 21,363	$ 227,290
Cash flows from investing activities	(34,804)	(10,637)	(6,209)	(9,565)	(25,127)	(267,337)

Per share data (Yen/U.S. dollars)						
Earnings per share (EPS)	¥ 9.01	¥ 34.38	¥ 26.21	¥ 62.70	¥ 41.11	$ 0.44
Book value per share (BPS)	640.36	667.32	680.03	737.82	781.25	8.31
Dividends per share	12.00	12.00	12.00	12.00	12.00	0.13

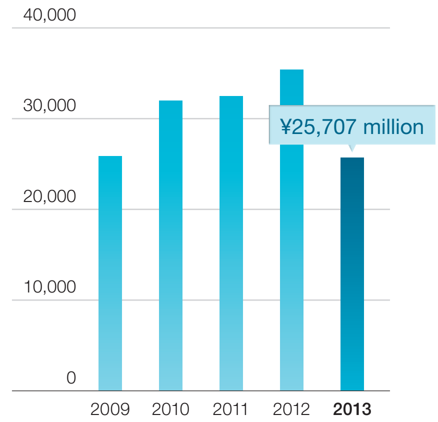
Key Ratios					
EBITDA/Net sales	14.1%	16.3%	15.0%	15.3%	12.3%
Operating income ratio	4.4%	5.1%	4.0%	4.7%	1.8%
Net income ratio	1.0%	3.7%	2.5%	5.6%	4.0%
Equity ratio	43.3%	40.8%	43.2%	45.3%	46.3%
ROA (Note 5)	2.2%	2.9%	3.1%	4.2%	3.2%
ROE	1.4%	5.3%	3.9%	8.8%	5.4%
Debt equity ratio (times)	1.00	0.97	0.86	0.76	0.80

Notes: 1. Owing to the inclusion of KISHU PAPER Co., Ltd. into the scope of consolidation as of October 1, 2009 through a share exchange, the consolidated financial settlement for the fiscal year ended March 31, 2010 included KISHU PAPER's consolidated results from October 1, 2009 to March 31, 2010.
2. Amounts in U.S. dollars were converted at ¥93.99 to one dollar, the currency exchange rate prevailing in the Tokyo Foreign Exchange Market as of March 31, 2013.
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

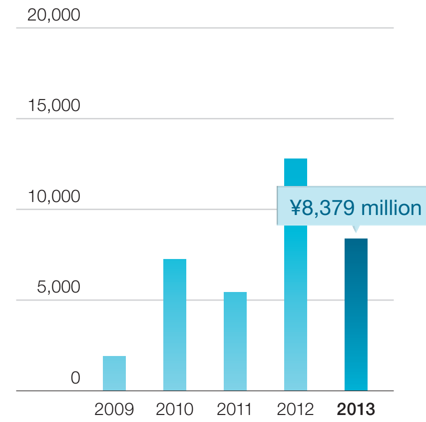
Net Sales
(Millions of yen)



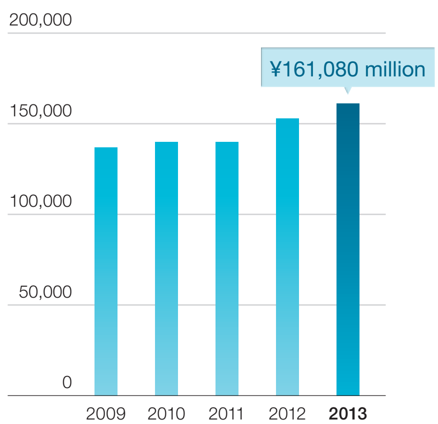
EBITDA
(Millions of yen)



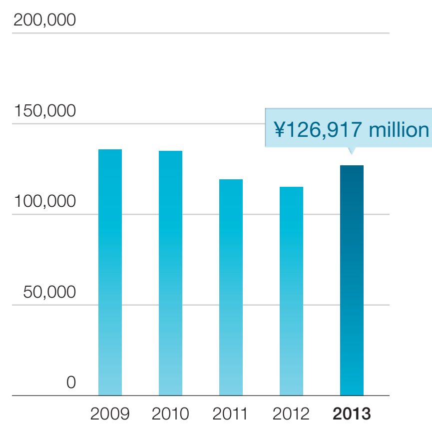
Net Income
(Millions of yen)



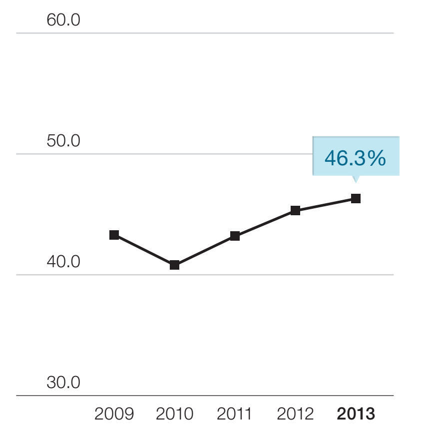
Net Assets
(Millions of yen)



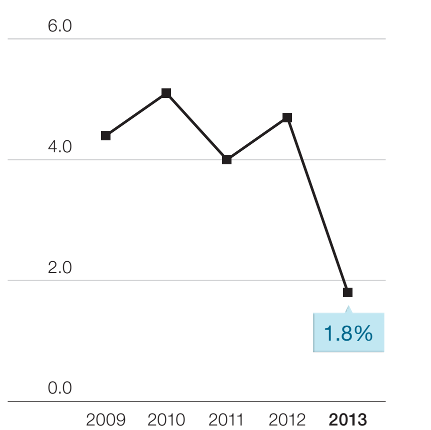
Interest-bearing Debt
(Millions of yen)



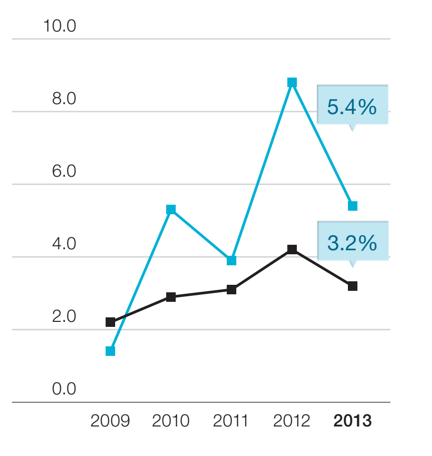
Equity Ratio
(%)



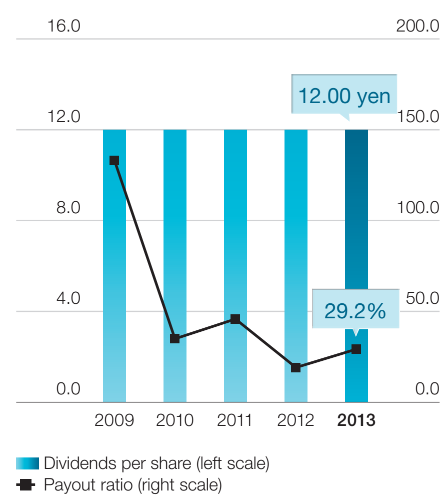
Operating Income Ratio
(%)

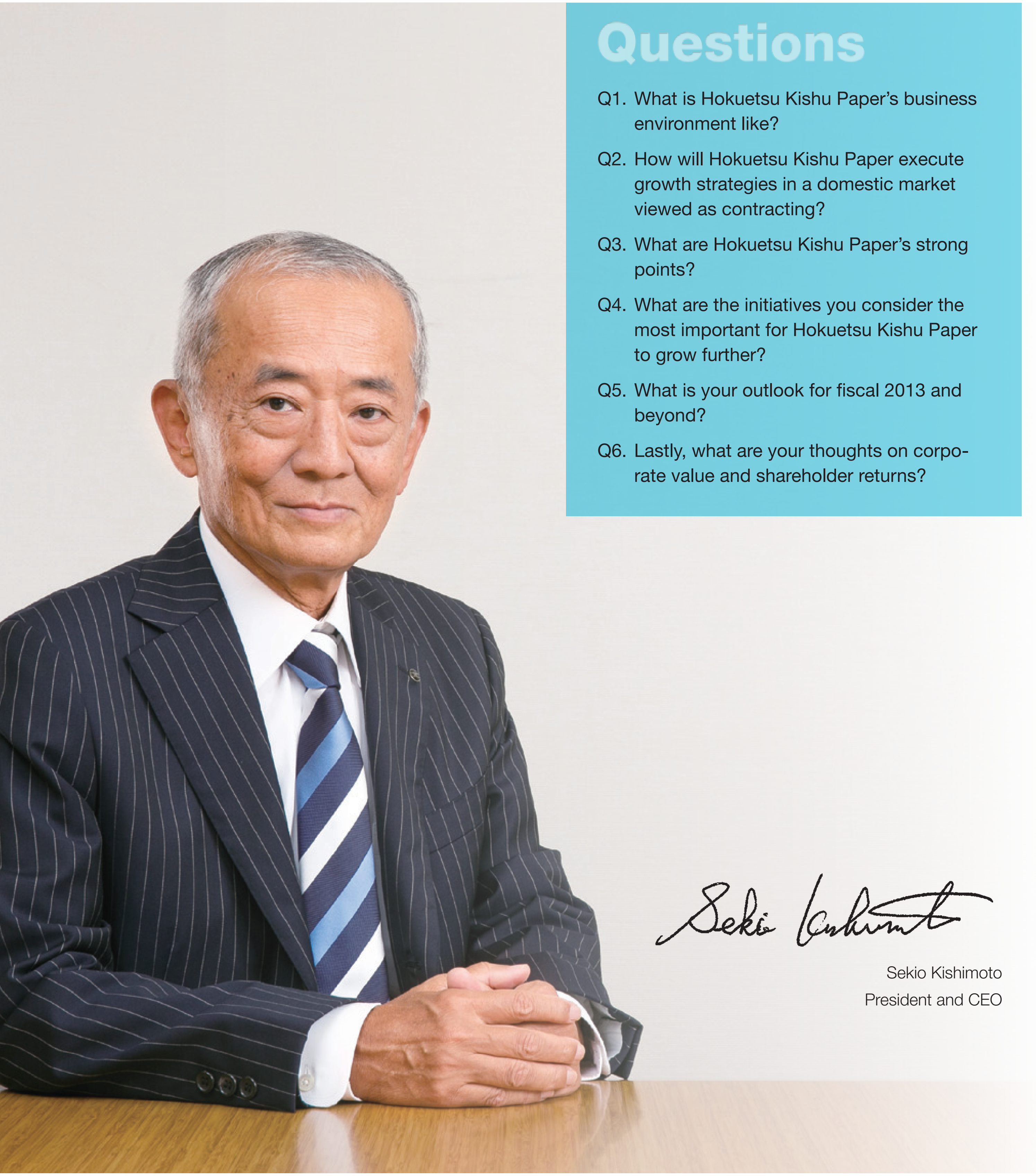


ROA/ROE
(%)



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





Questions

Q1. What is Hokuetsu Kishu Paper's business environment like?

Q2. How will Hokuetsu Kishu Paper execute growth strategies in a domestic market viewed as contracting?

Q3. What are Hokuetsu Kishu Paper's strong points?

Q4. What are the initiatives you consider the most important for Hokuetsu Kishu Paper to grow further?

Q5. What is your outlook for fiscal 2013 and beyond?

Q6. Lastly, what are your thoughts on corporate value and shareholder returns?

Sekio Kishimoto
President and CEO

Q1. What is Hokuetsu Kishu Paper's business environment like?

We face problems that are shared by all of the materials sector in Japan. In response, we are working to strengthen the competitiveness of the entire Hokuetsu Kishu Group, expand exports and establish overseas production bases.

The Japanese paper and paperboard markets have been downsizing ever since 2006. In addition to sluggish domestic demand, the business environment we faced in 2012 was made challenging by the absence of the special demand we saw in the wake of the Great East Japan Earthquake, and paper imports increasing as a result of the strong yen. On the other hand, once the yen's exchange rate began to depreciate rapidly from the end of 2012 onward, the import volume of paper from China and Indonesia that had been weighing on the Japanese market began to subside. Consequently, our shipment volume, as well as that of other Japanese paper mills, showed a recovery trend. But with the price of wood chips and other imported raw materials and fuel rising, business conditions continue to include an opposing wind.

Such sluggishness in domestic demand, compounded by input costs rising as a consequence of the exchange rate, is a problem that not only the paper and pulp industry, but the entire materials sector in Japan faces. The Hokuetsu Kishu Group is facing those continually challenging conditions with a shared sense of urgency, working as one to promptly execute business strategies that are a prerequisite for us to grow.

In line with the medium-term management plan G-1st that we unveiled in April 2011, in order to strengthen us further as a Group we must adopt a two-pronged approach of improving our efficiency and cost competitiveness in the domestic market, while expanding exports and establishing manufacturing bases overseas.

* Please refer to the featured Progress Report on the G-1st Medium-term Management Plan on page 11 for further details.

Q2. How will Hokuetsu Kishu Paper execute growth strategies in a domestic market viewed as contracting?

In response to the rapid changes in the market environment, we have been working to strengthen our competitiveness by such measures as establishing Hokuetsu Kishu Sales Co., Ltd. and making The Toyo Fibre Co., Ltd. into a wholly-owned subsidiary.

Demand for printing and communication paper consumed by newspapers, magazines and advertising inserts, as well as for photocopying and liquid package cartons, is a living reflection of the market economy—an inseparable mirror of the prevailing conditions if you will. From the vantage point of this mirror, one can forecast that demand in the domestic market will continue to ease gradually as birth rates decline and the population ages, and as IT transforms various aspects of the economy as we know it.

In view of this forecast, we will vigorously enhance our competitive standing in the domestic market without being unduly swayed by whether or not market conditions are good or bad.

Allow me to introduce a timeline of the core G-1st initiatives we implemented with the aim of strengthening the Group's competitiveness. In April 2011, we introduced a business division system that has enabled us to speedily and effectively implement our core business strategies. We also integrated our existing sales agents to establish Hokuetsu Kishu Sales Co., Ltd. as a subsidiary. Our aim in this integration was to keep up with rapid changes in the market environment to optimize the services we provide our customers. Moreover, in February 2012 we made The Toyo Fibre Co., Ltd. into a wholly-owned subsidiary in a bid to reinforce our unique strengths further. This combination of Hokuetsu Kishu and Toyo Fibre made us the only remaining manufacturer of vulcanized fiber in Japan, and with the largest output capacity in the world. In August 2012 we invested in Daio Paper Corporation as an equity-method affiliate, in a general technological alliance from which we are seeking to maximize synergies, and we are moving ahead with various initiatives.

Q3. What are Hokuetsu Kishu Paper's strong points?

Our strong points are the high quality products meeting the needs of our customers that we provide through sophisticated technological capabilities and cutting-edge environmentally friendly initiatives.

Our strong points are the high quality products we provide in response to customers' needs, our advanced technological capabilities undergirding them, and our cutting-edge initiatives for the environment. As an embodiment of these strengths, we are the industry leader in domestic market share of colored wood-free paper and coated manila board, and we hold the second position in coated printing paper and coated duplex board. Our proprietary technologies are also applied in industrial paper and other fields of specialty paper in manufacturing products with high added value that expand the potential paper has to offer. Our advanced technological capabilities and cutting-edge initiatives for the environment are behind a virtuous cycle that not only enhances product quality but further augments the attractiveness of our products.

We have consistently met the challenge of producing high-quality, reversible white paperboard, developing new technologies with the installation of the world's first fully-automated on-machine coaters for A3 paper production*1, and introducing Japan's first full-fledged elemental chlorine free (ECF)*2 bleaching, to mention but a few examples. Our advanced environmental management initiatives include the construction of "minimum impact mills," which enable us to produce products with a small environmental footprint by reducing our unit CO_2 emissions per kilogram far below the industry average. This "minimum impact" concept of minimizing the Group's impact on natural environments and the ecosystem, as well as our other advanced technological capabilities and cutting-edge initiatives for the environment, form the foundation to our strength and the undergirding to our high product quality. Looking ahead, we are determined to hone these further in responding to customers' needs.

*1 On-machine coater: A papermaking machine that simultaneously manufactures the base paper and coats the base paper, on one machine.
*2 ECF: Elemental Chlorine Free, a method for manufacturing pulp that does not use chlorine gas in the pulp bleaching process.

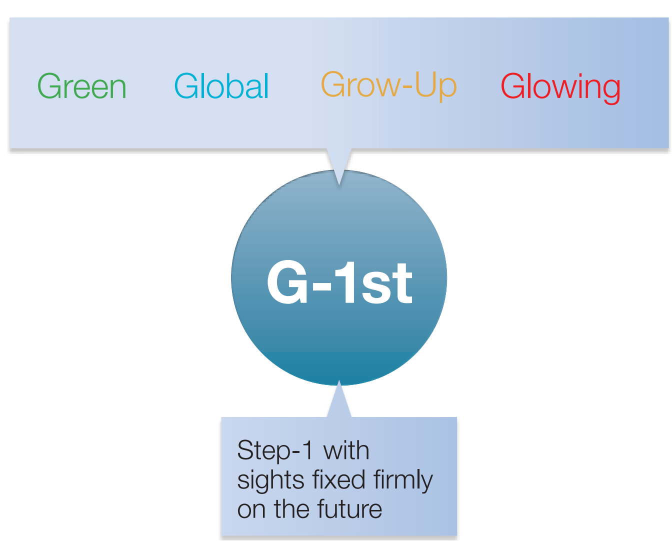
Q4. What are the initiatives you consider the most important for Hokuetsu Kishu Paper to grow further?

To sustain our growth, we must most importantly cultivate new growth fields and growth markets, and focus on globalizing as a basic strategy.

The strategy for sustainable growth we formulated in the G-1st plan is a constant way of thinking that we are applying to business environments as they change. This strategy calls for the following four priorities, which we will continually implement with a steady hand.

The Four Priorities

- **Green**: Further reduce CO_2 emissions per product unit to decrease our impact on the environment
- **Global**: Further expand exports and establish overseas production bases
- **Grow-Up**: Strengthen the foundation of each business and efficiently and rapidly implement policies
- **Glowing**: Establish solid governance and compliance structures and nurture human resources



Let me reiterate. The cultivation of new growth fields and growth markets is an imperative if Hokuetsu Kishu Paper is to grow sustainably in a domestic market where demand is expected to continue falling. Since G-1st was formulated in April 2011, we have spared no effort in engaging with globalization as a major pillar to this plan. I might also add that those efforts have garnered significant results. To introduce a list of initiatives by major business field, the printing paper business is working on a plan to export 300,000 tons annually, and the Group saw two cutters and an automatic packing machine come on line at its Niigata Mill in February 2013. Meanwhile the white paperboard business in China, which has an annual production of paperboard for paper containers of approximately 13 million tons, is building a new mill to produce white paperboard in Guangdong Province to locally supply China. The new mill is scheduled for completion in April 2014. In the specialty paper business, we completed the conversion of France's Financiere Bernard Dumas SAS into a wholly owned subsidiary in September 2012. This subsidiary's main product line of battery separators is a foothold for us in a new business field.

We will actively develop such growth fields, including with the use of M&A opportunities, as the Group continues to globalize.

Q5. What is your outlook for fiscal 2013 and beyond?

We will implement growth strategies that will include a policy of revising prices in response to the depreciating yen, rigorous efforts to cut down costs, and a focus on our China business.

The Japanese economy will probably appear to brighten as the yen continues to depreciate, while earnings and stock prices of mainly the exporters recover, reflecting current optimism about the government's new economic policies. However, in the background will be a global market concerned with the slowing of the pace of economic growth in the emerging countries, against which we will have to remain vigilant.

At the same time, the environment we face remains a challenging one. This is not only because prices for paper in the domestic market have yet to recover from an upsurge in imports in 2012 and other factors, but because the costs have been driven up at the same time by the yen's exchange rate depreciating since the end of last year. Our response so far has been to implement price revisions for our four categories of printing paper; namely, wood-free paper, coated paper, lightweight coated paper, and bit light coated paper. In addition, we have taken measures to structurally rebuild profitability by measures that include sales promotions for the products we export and rigorous efforts to cut down costs.

Meanwhile, we need to separate the short-term factors from the structural impediment in looking at why business conditions underfoot have been deteriorating. The structural impediment I speak of is the decrease in domestic demand for printing and communication paper caused by the population decline and the ongoing progress of IT. By contrast, the weight of imports on paper prices, and substantial cost increases brought about by the yen depreciating come to mind as short-term factors with a substantial impact on profitability. But if the exchange rate stabilizes at around ¥100 to the U.S. dollar as we forecast, the risk imposed by an increase in paper imports should subside.

Printing and communication paper has become a uniform and indistinguishable commodity especially in terms of quality on the global market, and global prices have also begun to converge. If the exchange rate stabilizes at around ¥100/US$1, Japanese market prices will become the same as the global median. This should lead to Japanese paper imports decreasing as the higher quality standards in Japan become more of a disincentive. Having said that, we must say that for the time being the situation will continue in which the exchange rate influences the nature of the Japanese market.

In light of this, I think that our effort to strengthen each of our domestic business foundations while globalizing to enhance our international competitiveness* will be soon put to the test as regards producing results.

* Please refer to the featured Progress Report on the G-1st Medium-term Management Plan on page 11 for further details.

Q6. Lastly, what are your thoughts on corporate value and shareholder returns?

Achieving growth by management based on an open relationship of transparency and trust with stakeholders is our path to raising corporate value, as well as shareholder returns.

Transparent management is very important to Hokuetsu Kishu Paper. Explaining our accountability clearly and gaining the understanding of stakeholders is crucial to executing our business strategies in support of growth, and in turn raising the Group's trustworthiness.

As I have said repeatedly, the Hokuetsu Kishu Group's strongpoints lie in our high-quality products undergirded by our advanced technological capabilities and cutting-edge initiatives for the environment. All employees were responsible for creating these strengths, and this makes our flat corporate culture all the more important in terms of striving together in the same direction. Our organization is slim and free of impediments because of this egalitarian culture, and this also makes management based on speedy decisions possible. We are therefore driven to apply corporate governance even more rigorously and to adhere to management practices that are trustworthy in the eyes of our stakeholders.

* For details, please see Question 3 and its answer in the Q&A on page 8.

We are also a company that aims for stable management with an emphasis on stable dividends as regards shareholder returns. We never wavered from paying a steady stream of dividends in the aftermath of the financial crisis following the Lehman bankruptcy, and will continue to do so in the future. Our track record shows both a dividend yield above industry average, and that our stock-price performance has remained consistently high. Hokuetsu Kishu Paper will pursue earnings stabilization and shareholder returns in order to pay stable dividends in the future.

SPECIAL FEATURE: PROGRESS REPORT ON THE G-1ST MEDIUM-TERM MANAGEMENT PLAN

Global Competitive-ness

Grow-Up

Green Conscious

Glowing Challenge

G-1st

Since its founding more than 100 years ago, the Hokuetsu Kishu Paper Group has continued to grow by devoting itself to paper manufacturing grounded in advanced technologies and steady R&D activities over the years.

In April 2011, we drew up a long-term plan, Vision 2020, which sets forth the Group's growth strategies and its ideal corporate image, based on in-depth study and analysis of the current business environment surrounding the Group. We formulated the G-1st Medium-term Management Plan for the three years from April 2011, which we see as the first step toward achieving Vision 2020.

Under this G-1st Medium-term Management Plan, the Group has identified key issues related to sales, the environment, overseas development, in-house structure and human resources and is vigorously pressing ahead with Group-wide reforms with the view to achieving growth.

Vision 2020—Achieving the Hokuetsu Kishu Paper Group's Ideal Corporate Image by 2020

- An enterprise that is environmentally conscious in every corporate activity and promotes environmental management
- An enterprise that offers attractive products with excellent quality and cost-competitiveness using advanced technological capability
- An enterprise that aims for steady growth while enthusiastically continuing to meet challenges
- Sales target: More than ¥300 billion (Overseas sales ratio: 25%)

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

Amid projections of declining domestic demand over the long term, the Company will implement the G-1st Medium-term Management Plan in order to maintain sustained growth, with emphasis on the following four key issues:

- Green: Work to reduce environmental burdens and further improve the level of the CO_2 emission factor
- Global: Further expand exports and establish overseas production bases
- Grow-Up: Strengthen the foundation of each business and efficiently and rapidly implement policies
- Glowing: Establish solid governance and compliance structures and nurture human resources

Global Competitiveness

Under the G-1st Medium-term Management Plan, we are working to develop our businesses globally, taking full advantage of the distinctive features of each business.

In the printing paper business, we have been making steady progress on plans to export 300,000 tons of printing paper per year. In February 2013, we began operation of two new cutters and an automatic packaging machine at the Niigata Mill. In the white paperboard business, we are building a white paperboard mill in Guangdong Province, China. The new mill is scheduled for completion in April 2014. Furthermore, in the specialty paper business, we converted French company Financiere Bernad Dumas SAS (Dumas) into a wholly owned subsidiary in September 2012. Dumas' main product is battery separators for Valve Regulated Lead-Acid batteries (VRLA). In these ways, we are making steady strides toward becoming a truly global company.

Development of White Paperboard Business in China

—Construction of White Paperboard Mill in Jiangmen, Guangdong Province

Economic development is fueling considerable market growth in China. The country boasted the highest paper and paperboard production and consumption in the world at approximately 100 million tons each. In this enormous market, we established the white paperboard production and sales subsidiary Jiangmen Xing Hui Paper Mill Co., Ltd. in Guangdong Province, China, with the aim of further expanding our white paperboard business.

In December 2012, we held a groundbreaking ceremony for construction of a new coated white paperboard mill in Jiangmen, Guangdong Province, China, and construction work is currently under way. In April 2014, we plan to have completed a white paperboard production facility with an annual production capacity of 300,000 tons a year, and to start production. By making thorough preparations on both the production and sales fronts, we will press ahead with our growth strategy in overseas markets.

Construction of a mill and groundbreaking ceremony

Cultivating New Fields in the Glass Micro-fiber Sheet Business

—Conversion of Financiere Bernard Dumas SAS (Dumas), a Manufacturer of Battery Separators for VRLA, Into a Wholly Owned Subsidiary

In the glass micro-fiber sheet business of the specialty paper business, Hokuetsu Kishu Paper has world-class technologies related to glass micro-fiber based high-efficiency air filter media. The Company has a leading global share of the market for ultra high-performance filter paper for air filters used mainly in the clean rooms of semiconductor, liquid crystal and recording media plants. In September 2012, Hokuetsu Kishu Paper converted France-based Financiere Bernard Dumas SAS (Dumas) into a wholly owned subsidiary. Dumas boasts a top share of the European market in the field of glass micro-fiber based battery separators for Valve Regulated Lead-Acid batteries (VRLA). The goal of this acquisition is to further advance the Company's glass micro-fiber sheet business on a global scale.

Going forward, the two companies will actively conduct technical exchanges to share the Company's world-class high-quality air filter media manufacturing technology and Dumas' advanced manufacturing technology for battery separators for VRLA. At the same time, the two companies will take initiatives to drive further growth such as cultivating new fields in the glass micro-fiber sheet business and reforming existing business operations.

BERNARD. DUMAS

Production at the company Financiere Bernard Dumas SAS

Grow-Up

The G-1st Medium-term Management Plan's growth strategies consist of a global strategy, where we are targeting further business expansion overseas, and our domestic strategy, where we aim to reestablish a strong earnings structure by achieving high efficiency.

In the domestic business, which currently is the Group's primary earnings base, we are working to enhance product competitiveness, cut costs and upgrade sales capabilities by reinforcing distribution channels and agents.

Furthermore, we have been implementing measures aimed at enhancing Group-wide capabilities. In February 2012, Hokuetsu Kishu Paper converted The Toyo Fibre Co., Ltd. into a wholly owned subsidiary. Then in August 2012, we converted Daio Paper Corporation into an affiliate of the Company accounted for by the equity method, and based on a comprehensive technical tie-up with the company, we are working to enhance the competitiveness of our technologies and cost competitiveness in each field.

Driving Further Expansion of Strong Businesses by Enhancing Management Efficiency

—Growth Strategies for the Four Main Businesses

Printing Paper Business:

In the domestic market, where demand continues to gradually decline, we are working to continuously cut mill costs to ensure that we generate earnings. In terms of our sales strategy, we aim to increase domestic sales volume by strengthening ties with agents including Hokuetsu Kishu Sales Co., Ltd. and developing new products. These efforts are based on exhaustive market analysis and the gathering and analysis of data on customer needs. Furthermore, in order to focus on developing new business in overseas markets, we now have a framework in place for expanding exports following the installation of two new cutters at the Niigata Mill.

White Paperboard Business:

We are working to expand sales in new fields by honing our competitiveness in terms of quality through a concerted effort by sales, production and engineering. The White Paperboard Business Division is also striving to reinforce its operating base by proactively collaborating with other businesses, including in the paper processing businesses centered on Hokuetsu Package Co., Ltd. We are currently building a white paperboard mill in Guangdong Province, China. Through these and other measures, we will actively pursue global business development.

Specialty Paper Business:

In the specialty paper business, we are implementing a sales strategy with emphasis on responding promptly to changes in user needs. We see the development of new products and cultivation of new fields as the highest priorities of our sales strategy. Accordingly, we are developing high-value-added products that take full advantage of the strengths and features of our business. In addition, we are working to cut costs by exploring optimal production cycles and production lots, with the aim of further enhancing production efficiency.

Paper Processing Business:

In the paper processing business, there is stable demand for paper containers for food, beverages and other products, as these are indispensable in daily life, and we expect future growth in this area. In this climate, the Paper Processing Business Division is pressing ahead with consulting-based sales and proactively carrying out cost improvements, within the overall activity of creating products that satisfy our customers. We are also cultivating new fields, including overseas markets, by working closely with the Paper Business, White Paperboard Business and Specialty Paper Business divisions, which are engaged in upstream fields.

Bolstering Group-wide Capabilities

—Comprehensive Technical Tie-up with Daio Paper

Hokuetsu Kishu Paper entered into a comprehensive technical tie-up basic agreement with Daio Paper Corporation in November 2012, with the aim of enhancing the corporate value of both companies. Based on this agreement which includes all common products produced by the two companies, all mills and manufacturing subsidiaries, efforts are also focused on mutual OEM supply of products and utility-related areas, as well as enhancing logistics efficiency.

Specifically, we have established a Comprehensive Technical Tie-up Committee chaired by the heads of the technical divisions of both companies. Under this committee, the following four sub-committees have been set up and are active as executive bodies: the Base Paper Technical Sub-Committee, the Pulp Technical Sub-Committee, the Utility Technical Sub-Committee, and the Individual Issues Study Sub-Committee.

Green
Conscious

Under the G-1st Medium-term Management Plan, the Hokuetsu Kishu Paper Group is executing various initiatives to further refine environmental management, which it has been carrying out to date.

Specific measures include various environmental protection activities, reducing CO_2 and other greenhouse gas emissions, minimizing energy consumption in corporate activities, and actively using renewable energy.

Reducing CO_2 and Other Greenhouse Gas Emissions
—Minimum Level in Industry of CO_2 Emissions per Ton of Paper Manufactured

The Group has long maintained the industry's minimum level of CO_2 emissions per ton of paper manufactured. We are taking initiatives to increase the appeal of the Company's products, with the aim of achieving further CO_2 emissions reductions.

At present, we are installing new large-scale natural gas power generating equipment at the Niigata Mill, for the purpose of reducing heavy oil usage and cutting CO_2 emissions. This equipment consists of a high-efficiency gas turbine generator fueled by natural gas and a heat recovery steam generator that uses heat from the emissions. The steam produced by the heat recovery steam generator will be sent to the mill's existing turbines, where it will be used to generate power. By using this energy within the mill, we can reduce our current heavy oil usage. The equipment will be built and operated by MC Hokuetsu Energy Service Co., Ltd., a joint venture company formed by Hokuetsu Kishu Paper and Mitsubishi Corporation. We plan to start operation of the equipment in February 2014.

Installation site of the gas turbine generator and major components

Usage of Renewable Energy
—Active Use of Biomass Fuel and Solar Power Generation Initiatives

To reduce CO_2 emissions, the Group must lower its fossil fuel consumption. Accordingly, we proactively use renewable energy. To put this approach into practice, we have progressively introduced usage of biomass fuels such as black liquor and woodchips at our paper mills. We have installed biomass boilers at the Niigata Mill, the Kishu Mill and the Kanto Mill Katsuta. We use these biomass boilers to conduct in-house power generation while reducing our fossil fuel consumption. This has brought significant benefits to the Group as a whole.

Furthermore, the Group is currently implementing solar power generation initiatives at the Kanto Mill Katsuta, in addition to biomass power generation using biomass boilers. By effectively using a site on the mill's premises, we are installing solar power generation equipment with a power generation capacity of up to 1.5 MW. The goal is to start operation of this equipment in 2014.


Japan's largest biomass boiler at the Kanto Mill Katsuta

Glowing Challenge

Under the G-1st Medium-term Management Plan, the Group is developing human resources to ensure that it answers the expectations of all stakeholders, contributes to the betterment of society and achieves sustainable growth.

The Company's human resource development is centered on on-the-job training, but also combines off-the-job training. In the latter, we recommend correspondence courses to employees and have established training programs that include sending trainees to graduate school programs for working adults. Through these measures, we strive to raise operating efficiency while enhancing skills and knowledge.

Developing Human Resources to Implement Global Strategies
—Overseas Trainee Program

Developing human resources who can succeed in the international community is an urgent priority for promoting "Global Competitiveness," one of our business expansion strategies in the G-1st Medium-term Management Plan. Accordingly, the Company is continuing its Overseas Trainee Program, which it has implemented over the years.

The Overseas Trainee Program is designed to station trainees at overseas posts in the U.S., China, and other locations, for the purpose of enhancing their responsiveness to different cultures, and developing human resources who can succeed globally. The program emphasizes the development of on-site capabilities in each overseas location, including understanding of overseas markets through language training, proficiency in local business practices, and building practical work experience through overseas assignments.

In addition, the Group is implementing measures eyeing global business expansion, such as conducting Company-wide TOEIC testing and increasing the number of employees stationed overseas. Currently, the Group has stationed employees overseas in China as well as South Africa. Looking ahead, we will continue to develop human resources with an eye on undertaking new globalization initiatives.

Overseas trainees in the U.S. and China

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

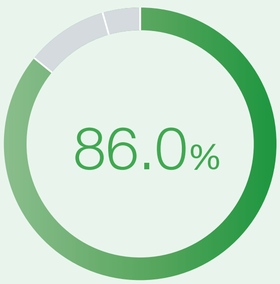
- **Hokuetsu Package Co., Ltd.**
  Liquid package cartons, laminated paper, design packages, functional materials, environmentally friendly products
- **BF Co., Ltd.**
  Business forms, DPS, RFID, various printing services

OTHERS

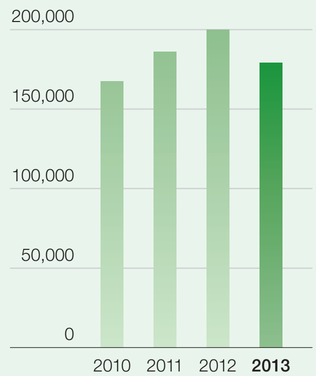
Main Businesses

Wood products business
Construction business, manufacturing, sales, installment and maintenance of machinery
Transportation and warehousing business
Others (Management of golf practice ranges and driving schools, etc.)

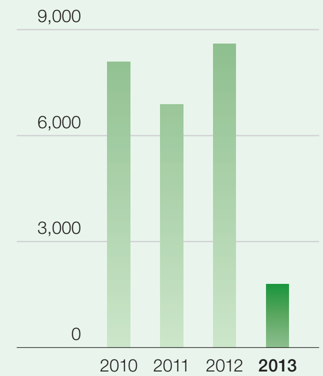
Composition of Sales
(Fiscal year ended March 2013)



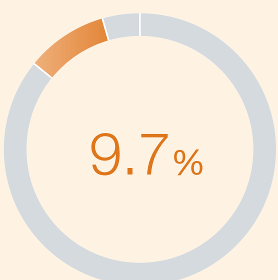
Net Sales
(Millions of yen)



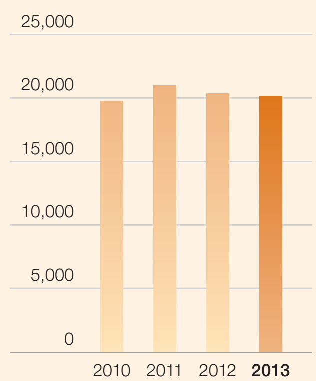
Operating Income
(Millions of yen)



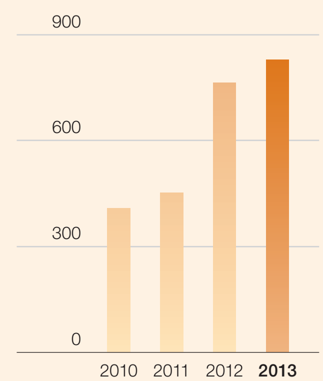
Composition of Sales
(Fiscal year ended March 2013)



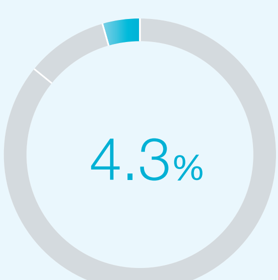
Net Sales
(Millions of yen)



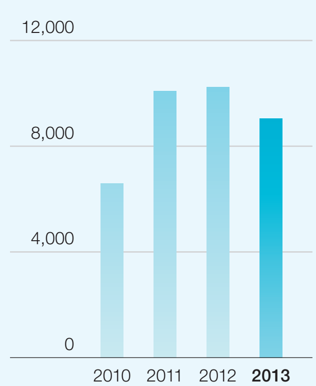
Operating Income
(Millions of yen)



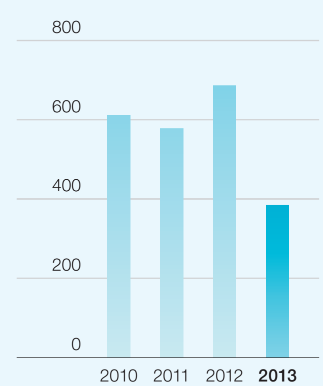
Composition of Sales
(Fiscal year ended March 2013)



Net Sales
(Millions of yen)



Operating Income
(Millions of yen)



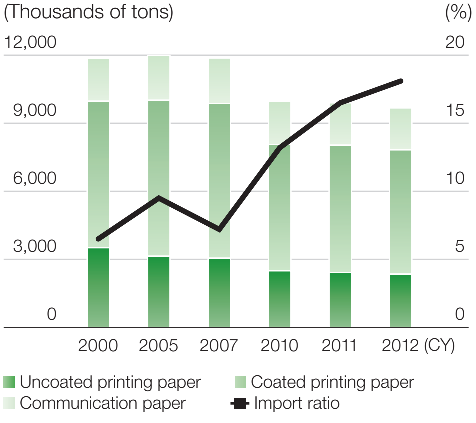
PAPER AND PULP SEGMENT

Paper Business Division

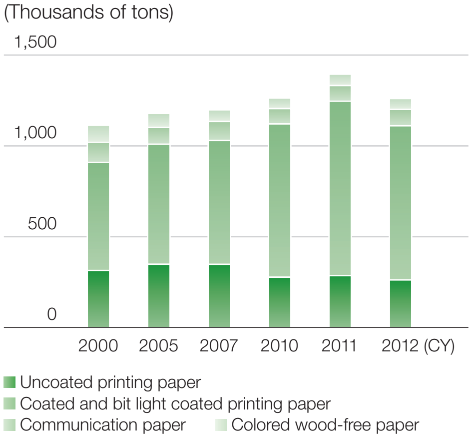
By rapidly addressing user needs for products that are more environmentally friendly, we aim to increase domestic sales and exports.

Takayuki Sasaki
General Manager,
Paper Business Division

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.

Business Strengths and Characteristics

Our printing paper business comprises printing and communication paper including paper used for books, magazines, catalogs, and pamphlets. Among these, in coated paper, one of the main paper products we produce, we were ranked second in domestic share of production volume in 2012. Further, our colored wood-free paper *Kishu Rainbow* is embraced by an extensive customer base, making it a top brand commanding a 67.8% share of domestic production.

One defining feature of our products is our "minimum impact" philosophy. Under this philosophy, we strive to keep any negative impact on the natural environment to an absolute minimum. In practice, Hokuetsu Kishu Paper's paper products have far lower CO_2 emissions per kilogram of paper than the industry average. At present, we are installing natural gas power generating equipment at the Niigata Mill, our mainstay plant in the printing paper business. Further CO_2 emissions reductions can be expected after this equipment enters service. In addition, we have achieved CO_2 emissions cuts at the Kishu Mill by switching our mode of transportation from rail to ship by constructing a warehouse at the Port of Shingu. Going forward, we will continue to take such steps to reduce our environmental impact to an absolute minimum.

Business Environment and Performance

Domestic demand for printing and communication paper totaled 9.675 million tons in 2012, declining 2.1% year on year, mainly due to the growing popularity of digital recording media.

Looking at domestic market conditions, the market was defined by an oversupply of paper reflecting rapid growth in the share of imported paper on the back of the historically strong yen. Another factor was the recovery of papermakers that sustained damage in the Great East Japan Earthquake. We have faced an increasingly challenging business environment. Production volume for coated printing paper decreased 12.8% year on year, mainly due to the absence of the previous fiscal year's replacement demand to fill supply shortages in the papermaking industry following the March 11 earthquake. In addition, the yen's depreciation since the end of 2012 has led to higher costs for fuel and raw materials, including imported wood chips, the main raw material in the printing paper business.

Under these conditions, we are implementing measures to expand earnings opportunities. Examples include a quick delivery service leveraging the Niigata Mill's advantageous location in close proximity to paper consumption markets, and collaboration with our sales agent subsidiary Hokuetsu Kishu Sales Co., Ltd. to find out what users really want.

Turning to exports, we are projecting export sales volume of approximately 300,000 tons in the fiscal year ending March 31, 2014, compared with approximately 220,000 tons in the fiscal year ended March 31, 2013. Following the installation in February 2013 of two new cutters at the Niigata Mill, we now have a framework in place to export 300,000 tons of paper. Our efforts will be focused on cultivating new export markets to rise above challenging sales conditions in Japan.

PAPER AND PULP SEGMENT

White Paperboard Business Division

In Japan, we aim to expand sales to each user by carefully identifying market needs. Furthermore our sales, production and engineering divisions will work as one to lay the groundwork for the start of operations at a new white paperboard mill in China.

Akihiro Aoki
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 our main products coated manila board and coated duplex board, boast the industry's leading share in Japan. As part of overseas business development promoted under the G-1st Medium-term Management Plan, we are building a white paperboard mill in Guangdong Province, China, where we see growth potential. The mill is scheduled for completion in April 2014. We aim to establish a new overseas earnings base through the provision of attractive products backed by our technical capacity for ensuring high quality, high efficiency and a low environmental burden, which we have developed over the years.

Furthermore, we will install solar power generation equipment on a site inside the premises of the Kanto Mill Katsuta in the fiscal year ending March 31, 2015. In addition to biomass power generation carried out since then, we are also working to develop a power generation business using renewable energy.

Business Environment and Performance

Domestic demand for white paperboard totaled 1.47 million tons in 2012, decreasing 4.7%. Our production declined 1.5% year on year to 304,000 tons.

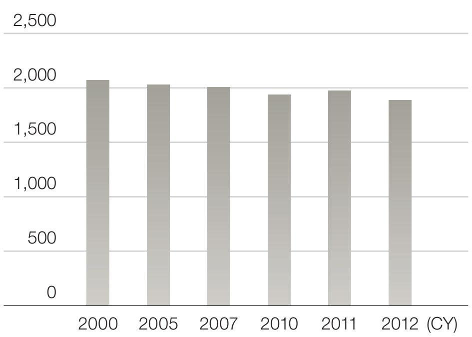
Domestic white paperboard demand is tending to decline for cultural and publishing applications, and demand for lifestyle and industrial applications depends on the pricing aspect. Although an underlying strength is apparent in pharmaceutical applications, in food-related applications there is a shift to the adoption of flexible packaging and an ongoing trend for a variety of lightweight and compact containers. Under these circumstances, in Hokuetsu Kishu Paper's white paperboard business, in addition to publishing applications, we expect to continue to receive ongoing orders. In lifestyle and industrial applications, and in pharmaceutical applications, we are focusing on growth fields and working to increase orders received. In food-related applications also, we are focusing on expanding sales to new users in addition to existing users.

With our overseas initiatives, we are currently doing construction work to start operations at a new mill located in China's Guangdong Province. Guangdong Province is one of China's manufacturing hubs and we expect to see strong and ample demand for white paperboard used mainly in packaging. In the future, environmental consideration will become increasingly important in China. As a result, our green technologies based on our long-held "minimum impact" concept have been highly evaluated and we are confident that they will be useful in our corporate activities. The sales, production and technological departments of the White Paperboard Business Division are united in implementing initiatives directed toward the completion of the new mill.

Moreover, in recent years we have seen the quality requirements for products becoming more and more demanding. We will continue to implement initiatives leading to improved customer satisfaction, such as renovating papermaking machines. This initiative is the result of the "paperboard quality improvement project" that the White Paperboard Business Division implemented at the Kanto Mill from 2011 to 2012.

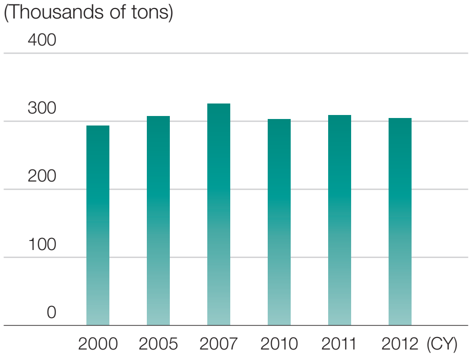
Domestic Demand for White Paperboard

(Thousands of tons)



Hokuetsu Kishu's White Paperboard Output

(Thousands of tons)



PAPER AND PULP SEGMENT

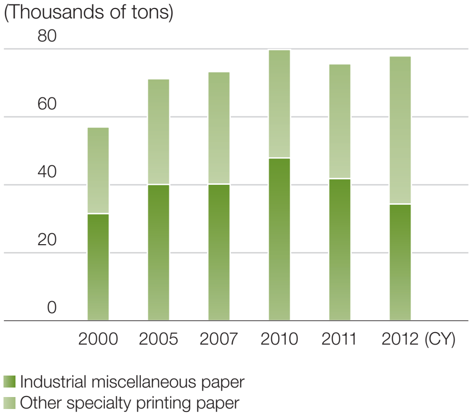
Specialty Paper Business Division

Driving globalization in the specialty paper business, we are promoting new product development while cutting costs.

Yoshinori Kawashima
General Manager,
Specialty Paper
Business Division

Hard fiberboard (Pasco)

Hokuetsu Kishu's Specialty Paper Output by Type



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

Business Strengths and Characteristics

The Group's specialty paper business encompasses high-quality printing paper, fine paper, industrial paper, communication paper, specially treated paper, specialty fiberboard and functional paper. We have a robust product lineup in each category to meet diverse customer needs, and command high domestic market shares for products like abrasive paper, adhesive postcard base paper and chip carrier tape.

As an initiative to strengthen our domestic business under the G-1st Medium-term Management Plan, we made Toyo Fibre Co., Ltd. a wholly owned subsidiary. This made us the only domestic producer in Japan of vulcanized fiber and also the company with the largest production capacity worldwide. As part of our overseas business development, we made the French company Financiere Bernad Dumas SAS into a wholly owned subsidiary, and are proactively conducting technological exchanges that will soon manifest the combined synergies of both companies.

Business Environment and Performance

In 2012, domestic specialty paper demand fell 4.4% year on year to 708,000 tons for industrial miscellaneous paper and declined 6.8% to 148,000 tons for other specialty printing paper.

Despite an increasingly harsh demand environment for fine paper and high-quality printing paper with advertising flyers declining, and because of a shift to general-grade paper, we achieved increased sales of high-quality printing paper by uncovering new applications in the publishing field. However, our industrial paper business continued to face a gradual decline in domestic demand, including overseas production transfers by business partners. Adhesive postcard paper saw a negative impact from digitization causing contractions in some fields, but there was also a positive impact from the shift away from envelopes, such as with pension coverage regular notices. As a result, our sales volume increased about 15% year on year.

In fiscal 2012, we made the French company Financiere Bernard Dumas SAS into a wholly owned subsidiary. This company manufactures and sells battery separators for Valve Regulated Lead-Acid batteries and air purification filters, and boasts the top market share in the European market for these glass micro-fiber based battery separators. At the same time, the Nagaoka Mill produces air filters using glass micro-fiber, boasting a leading market share. Making use of the new subsidiary's technology, the Nagaoka Mill will produce these battery separators and establish a supply framework from bases in both Japan and France. As a result, we will meet demand not only in Europe but also in Asia, where growth is expected. Looking ahead, we will proactively conduct technological exchanges that will soon and steadily manifest the combined synergies of both companies, build our overseas strategy, reduce the costs of raw materials procurement, and train personnel. While strengthening our business activities in this multifaceted manner, we will push ahead with the globalization of the specialty paper business.

New product development is essential in specialty paper as life cycles are often short. The management of Hokuetsu Kishu Paper attaches a very high priority to creating future core products in specialty paper businesses. Focusing our targets on high-quality products for niche markets that leverage the features of our Nagaoka Mill and Osaka Mill, we aim to develop new products and build a production and development framework that can propose products that reduce clients' costs even further.

PACKAGING AND PAPER PROCESSING SEGMENT

Paper Processing Business Division

Positioning paper processing as the Group's fourth core business, we aim to create new value.

Akihiro Aoki
General Manager,
Paper Processing
Business Division

Gable-top cartons and paper containers for convenience stores

Printing of adhesive postcards and general forms

Business Strengths and Characteristics

The Hokuetsu Kishu Paper Group's paper processing business comprises the two companies of Hokuetsu Package Co., Ltd. and BF Co., Ltd.

Hokuetsu Package deals with a wide variety of main products, including liquid package cartons, decorated packages (paper containers), processed paper (laminated paper) and functional processing materials (paper and film). The mainstay liquid package cartons boast a dominant share of the domestic gable-top carton market under the Tohei Pak brand.

The Printing and Digital Processing Service (DPS) Division of BF receives data entrusted to it by customers and conducts the operations of editing, printing out, and affixing and sealing papers. It is highly trusted by its customers.

Business Environment and Performance

The year-on-year beverage sales volume in Hokuetsu Package's core liquid package container business was expected to be broadly flat or slightly decreased due to the unstable weather in 2012, but proactive initiatives to improve productivity and reduce costs managed to achieve an improvement in earnings.

Sales increased year on year for packages, processed paper, and functional processing materials as a result of new orders for large projects and the ongoing implementation of structural reforms, including a review of the production framework.

Printing and digital printing markets are contracting fast as the paperless movement gains ground, and operating conditions are becoming increasingly challenging. BF succeeded in improving earnings by implementing structural reforms to raise productivity and lower expenses, including by consolidating plants to concentrate production.

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.

BF will implement further improvements such as enhancing productivity, conduct sales activities focused on adhesive postcards and OCR slips, and proactively make proposals that use color printers possessing newly introduced advanced printing technology.

ENVIRONMENTAL INITIATIVES

Targeting “minimum impact” through state-of-the-art technology and environmental initiatives

In the course of our lives as human beings, we cannot completely eliminate our various impacts on the natural world. Nevertheless, it is important that we use the latest technology to keep our negative impact on the natural environment and the ecological system to a minimum, thereby ensuring that people and nature can co-exist in a sustained manner.

Based on our corporate philosophy of “Through commitment to environmentally conscience management, we will strive for sustainable growth,” the Hokuetsu Kishu Paper Group is implementing environmental initiatives aimed at establishing “minimum impact mills” that will reduce the environmental impact of their operations as much as possible.

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 apply this concept to our mill facilities and to our production activities. In more detail, the concept of “minimum impact” means minimizing our negative impact on the natural environment and the ecological system by making the best possible use of the technology currently available, and by developing the best possible technology and the best possible facilities that we are currently able to.

Based on this thinking, we conduct our business activities with the aim of establishing “minimum impact mills” in order to minimize our impact on the environment through all the stages from raw materials to finished products.

As regards initiatives concerned with raw materials, we source all imported hardwood wood chips from sustainable plantations, and source domestic wood chips from forests that have renewed themselves. As a result, we are both conducting sustainable forest management and securing the stable procurement of raw materials.

Turning to our manufacturing processes, in 1986 we became the first company in Japan to operate a full-fledged on-machine coater*1 as a papermaking machine. This technology dramatically enhanced production and energy efficiencies. In 1998, we launched the first full-scale ECF*2 bleaching plant in Japan. The ECF method does not use chlorine in the pulp bleaching process.

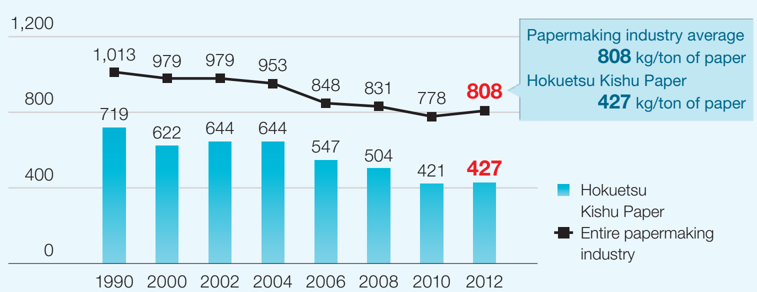
As regards energy usage at our mills, we proactively make use of renewable energy, and we are shifting our energy sourcing of fuels used in private power generation from heavy oil to the more environmentally “clean” natural gas, which emits less CO_2. In addition, we proactively employ biomass power generation facilities that use black liquor, which is generated as a byproduct of the pulp making process, or wood fuel. This initiative greatly reduces the CO_2 emissions. Moreover, we conduct energy-saving and water-saving initiatives not only at our mills but also at our offices, including Head Office. Looking ahead, we are committed to moving steadily forward with the implementation of our concept of “minimum impact.”

*1 On-machine coater: A papermaking machine that simultaneously manufactures the base paper and coats the base paper, on one machine.
*2 ECF: Elemental Chlorine Free, a method for manufacturing pulp that does not use chlorine gas in the pulp bleaching process.

Striving to minimize CO_2 emissions

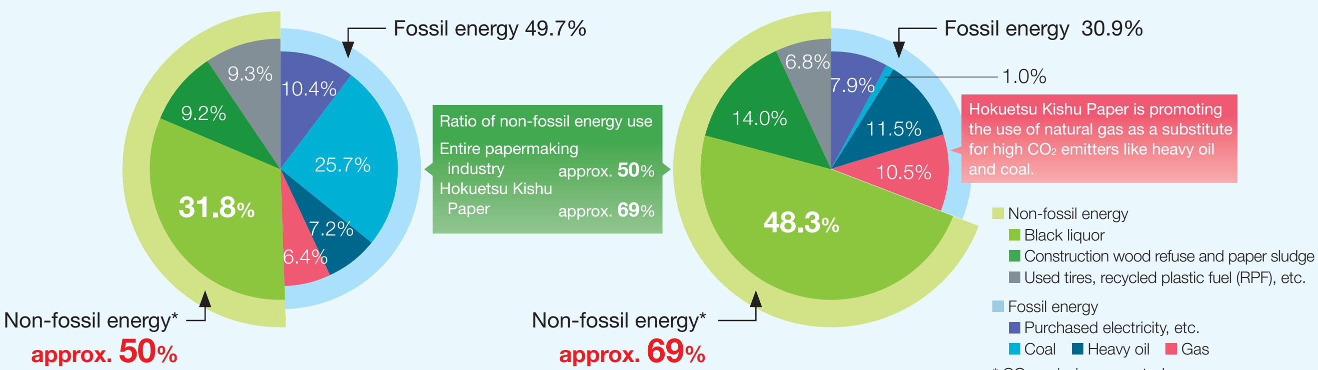
The Group is proactively shifting to energy sources that produce less CO_2. Currently, we have succeeded in bringing non-fossil energy’s share of our total energy consumption to approximately 69%. Also, we are conserving energy and using cutting-edge production facilities to steadily reduce our CO_2 emission factor. In fact, our CO_2 emissions per ton of paper are at a minimum in the industry at 427 kg.

Unit CO_2 Emissions (kg-CO_2/ton of paper)



Breakdown of Energy Sources in the Papermaking Industry

Breakdown of Energy Sources for All Hokuetsu Kishu Paper Plants



Source: Japan Paper Association

* CO_2 emissions counted as zero.

MANAGEMENT STRUCTURE

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

Corporate Governance

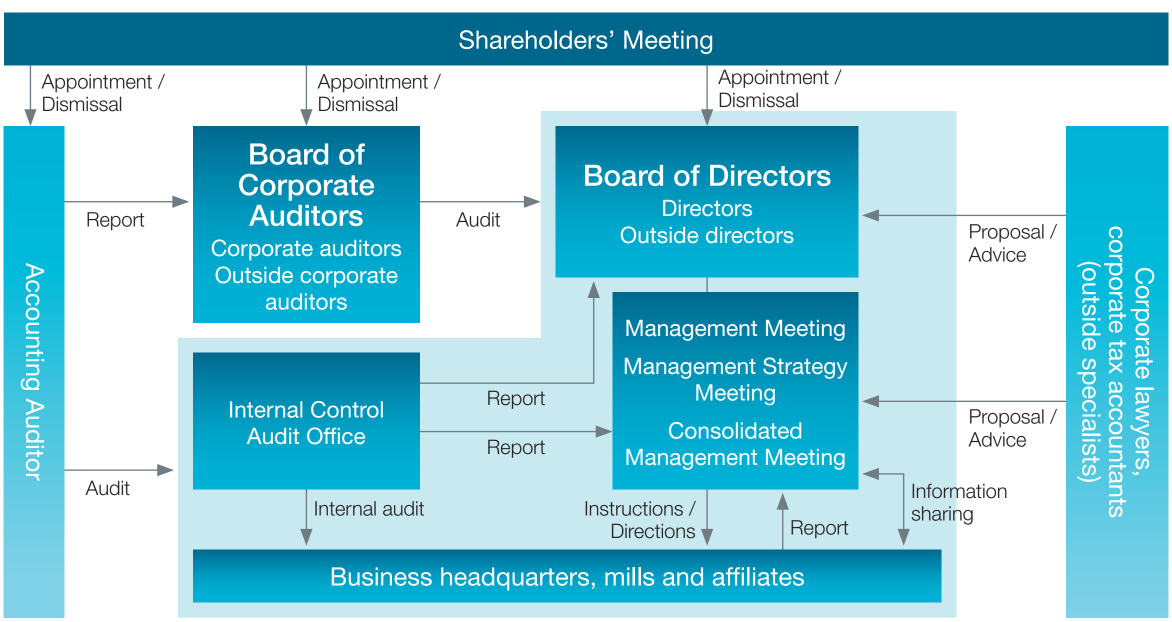
Managerial Decision-making and Business Execution Structures

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 10 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 including two outside corporate auditors. For the outside corporate auditors, the Company has 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.

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 has 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 has 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.

All Group directors and employees of the Hokuetsu Kishu Paper Group work to ensure strict compliance and I believe that such a corporate culture is the foundation for achieving growth throughout the Group.

Kazumichi Matsuki
Chief Compliance Officer

Whenever profit and ethics collide during everyday business activities, we, as members of the Hokuetsu Kishu Paper Group, will put ethics first in order to meet the expectations of society. This philosophy represents the Group's basic approach to compliance. There will be no change in the Group's commitment to meeting its compliance objectives.

It is my duty as the Chief Compliance Officer (CCO) to raise compliance awareness among all Group officers and employees in the course of their daily business activities, and to make these compliance initiatives an integral part of the Group's corporate culture. These initiatives are crucial to answering the expectations of society by having the Group strictly carry out compliance beyond the scope of merely obeying laws and regulations.

In terms of actual activities, we are implementing measures to increase basic understanding of compliance. These measures include conducting training to promote an understanding of the laws and regulations that form the basis of compliance; distributing the Compliance Handbook and Compliance Cards, both of which have been revised to make the content more up-to-date and practical; and publishing articles on compliance in our internal newsletter. Furthermore, compliance officer meetings are held regularly and are attended by the CCO and compliance officers at each division. At these meetings, information is shared on the status of compliance activities in each division. The issues facing a particular division or mill are discussed as issues relevant to the entire Group, and a Group-wide effort is made to resolve each issue. In these and other ways, we incorporate compliance enhancement initiatives into our business activities.

Currently, we are working to proactively expand our business with the aim of globalizing our business operations and bolstering Group-wide capabilities. At the same time compliance has continued to acquire greater importance in the global business arena. This has made it all the more essential for us to share and strengthen the same compliance awareness with all officers and employees of subsidiaries and affiliates. Going forward, we will strive to build systems that combine the laws and regulations and business practices of each overseas country with Group-wide compliance practices at our subsidiary in France and our new paper mill in China. Through these and other measures, we aim to further enhance compliance throughout the Group.

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 (Independent Director)	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 (Independent Director)	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)	385	290	48	47	11
Corporate Auditors (excluding Outside Corporate Auditors)	48	48	–	–	2
Outside Director and Outside Corporate Auditors	10	10	–	–	5

Note: The headcount on March 31, 2013 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).

Board of Directors and Corporate Auditors

(As of July 1, 2013)

(From left) Michio Tsuchida, Sekio Kishimoto, Takayuki Sasaki, Kazumichi Matsuki

Representative Director, President and CEO

Sekio Kishimoto

Senior Managing Directors

Takayuki Sasaki
Michio Tsuchida
Kazumichi Matsuki

Directors

Akihiro Aoki
Kiyoshi Nirasawa
Masanori Sakamoto
Hiroshi Suzuki
Yoshinori Kawashima
Akira Murakoshi*1

Standing Corporate Auditors

Kazunori Hosoi
Junichi Horikawa

Corporate Auditors

Jun Itoigawa*2
Nobusato Suzuki*2

Corporate Officers

Takao Sakabe
Kisao Taniguchi
Haruichi Shimizu
Mitsushige Yamamoto
Shimpei Kusaka
Kimio Uchiyama
Yasuyuki Kondo

*1 Outside Director
*2 Outside Corporate Auditor

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Five-year Summary

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

	Millions of yen (except per share amounts)				
	2009	2010	2011	2012	2013
For the Year:					
Net sales	¥182,815	¥193,952	¥217,014	¥230,576	¥208,289
Operating income	8,125	9,892	8,743	10,828	3,667
Ordinary income	6,752	9,574	10,283	13,906	10,725
Net income	1,913	7,239	5,432	12,797	8,379
Return on equity	1.4%	5.3%	3.9%	8.8%	5.4%
Per Share Data:					
Net income	¥ 9.01	¥ 34.38	¥ 26.21	¥ 62.70	¥ 41.11
Cash dividends	12.00	12.00	12.00	12.00	12.00
At Year-end:					
Total assets	¥313,732	¥340,970	¥322,255	¥332,995	¥343,180
Total net assets	136,713	139,989	139,822	152,704	161,080

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business Environment and Results

During fiscal 2012, ended March 31, 2013, the Japanese economy continued to face an uncertain outlook, mainly due to the European sovereign debt crisis, concerns about a slowdown in emerging economies, and the yen's protracted appreciation, despite reconstruction demand following the Great East Japan Earthquake. The Japanese economy also showed some positive signs of improvement, reflecting anticipation for the government's new economic stimulus measures. These included expectations for a recovery in corporate business results centered on export companies in step with the yen's depreciation, and rising stock prices. Nevertheless, conditions still warrant ongoing vigilance.

The Hokuetsu Kishu Paper Group saw net sales decrease on account of lower sales volume in Japan. This reflected a decline in demand for paper due to the rapid penetration of e-books and other digital media, and an increase in paper imports accompanying the stronger yen.

On the earnings front, the Group posted lower earnings, mainly due to a decline in printing paper production and sales volume and falling sales prices. This was despite cost cutting measures and the recording of negative goodwill as equity in income of affiliates. The negative goodwill was associated with the conversion of Daio Paper Corporation into an affiliate of the Company accounted for by the equity method following the acquisition of Daio Paper shares.

	Millions of yen		
	2012	2013	Change
Net sales	¥230,576	¥208,289	(9.7)%
Operating income	10,828	3,667	(66.1)%
Ordinary income	13,906	10,725	(22.9)%
Net income	12,797	8,379	(34.5)%

Business Results by Segment

Paper and Pulp Segment

The Paper and Pulp segment posted a decrease in net sales due primarily to a decline in sales volume of printing paper, and falling sales prices, despite efforts to enhance customer services. Earnings also decreased despite Group-wide efforts to cut costs across the board. The main reasons were the decrease in sales volume and lower sales prices.

• Results by Product

Printing Paper: The Group's sales volume decreased, mainly due to lower demand reflecting the rapid penetration of e-books and other digital media, as well as an increase in paper imports accompanying the stronger yen. Another factor was the absence of the previous fiscal year's replacement demand to fill supply shortages in the papermaking industry following the March 11 earthquake.

White Paperboard: Sales volume of white paperboard decreased as a whole, mainly due to the use of more compact containers mainly for food, and the shift to alternative materials such as films driven by the adoption of flexible packaging.

Specialty Paper: Sales in the communication paper category were firm, due in part to new orders received for certain types of this paper. However, the Group faced a challenging business environment for winning orders in the fine paper and industrial paper categories.

	Millions of yen		
	2012	2013	Change
Net sales	¥200,000	¥179,077	(10.5%)
Operating income	8,596	1,798	(79.1%)

Packaging and Paper Processing Segment

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

	Millions of yen		
	2012	2013	Change
Net sales	¥20,347	¥20,175	(0.8)%
Operating income	764	829	8.4 %

Others

Both sales and earnings decreased in the Others segment (encompassing wood products, construction, transportation, warehousing and other businesses) due to an overall decline in orders received from external customers.

	Millions of yen		
	2012	2013	Change
Net sales	¥10,229	¥9,037	(11.6)%
Operating income	687	385	(44.0)%

Financial Position

Total assets as of the end of fiscal 2012 (March 31, 2013) increased to ¥343,180 million from a year earlier. This was mainly due to an increase in investments and other assets of ¥17,840 million as a result of an increase in investments in and receivables from unconsolidated subsidiaries and affiliates. On the other hand, there was a decrease in net property, plant and equipment of ¥7,990 million, reflecting mainly depreciation.

Total liabilities as of March 31, 2013 increased to ¥182,100 million from a year earlier. The main reasons were an increase of ¥11,833 million in interest-bearing debt, partly offset by a decrease of ¥4,664 million in notes and accounts payable and electronically recorded obligations-operating and a decline of ¥1,860 million in income taxes payable.

Net assets as of March 31, 2013 increased to ¥161,080 million from a year earlier. The main reasons were an increase of ¥5,932 million in retained earnings and an increase of ¥2,373 million in unrealized holding gains on securities, net of taxes, owing mainly to rising stock prices of shares held.

	Millions of yen		
	2012	2013	Change
Total assets	¥332,995	¥343,180	¥ 10,185
Current assets	128,158	128,493	335
Property, plant and equipment	170,386	162,396	(7,990)
Investments and other assets	34,451	52,291	17,840
Current liabilities	103,304	90,514	(12,790)
Long-term liabilities	76,987	91,586	14,599
Net assets	152,704	161,080	8,376
Interest-bearing debt	115,084	126,917	11,833
Equity ratio	45.3%	46.3%	Up1.0 pp
Return on equity (ROE)	8.8%	5.4%	Down 3.4 pp

Cash Flows

Net cash provided by operating activities decreased year on year. The main sources of cash were ¥10,267 million in income before income taxes and minority interests, ¥19,625 million in depreciation and amortization, and a decrease in notes and accounts receivable of ¥7,531 million. The main components of cash used were a ¥5,552 million decrease in notes and accounts payable and a ¥1,876 million increase in inventories. Other main factors reducing cash included ¥3,882 million in equity in earnings of affiliates, ¥3,254 million in income taxes paid and ¥942 million in interest paid.

Net cash used in investing activities increased year on year. The main uses of cash were ¥54,130 million in payments for purchases of investment securities, ¥6,725 million for purchase of investments in subsidiaries, and ¥11,425 million in payments for purchases of property, plant and equipment. Cash was mainly provided by ¥48,491 million in proceeds from sales and redemption of investment securities.

Net cash provided by financing activities increased from net cash used in the previous fiscal year. The main contributors to cash were ¥32,111 million in proceeds from long-term loans. The main uses of cash were ¥14,105 million for repayments of long-term loans and a ¥5,000 million decrease in commercial paper.

	Millions of yen		
	2012	2013	Change
Cash flows from operating activities	¥29,083	¥ 21,363	¥ (7,720)
Cash flows from investing activities	(9,565)	(25,127)	(15,562)
Cash flows from financing activities	(9,367)	9,170	18,537

Basic Policies Regarding Earnings Distribution and Dividend Payments for Fiscal 2012 and 2013

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 in fiscal 2012, the same as the year-end dividend in the previous fiscal year. Combined with the interim dividend of ¥6 per share, the annual dividend was also maintained on par with that of the previous fiscal year, at ¥12 per share.

For fiscal 2013, ending March 31, 2014, 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 2013 Outlook

In fiscal 2013, the Japanese economy is expected to show some positive signs of improvement, reflecting expectations for the government's new economic stimulus policies. These include expectations for improved corporate business results centered on export companies in step with the yen's depreciation, and rising stock prices. Nevertheless, conditions still warrant ongoing vigilance.

Under these circumstances, the Hokuetsu Kishu Paper Group has revised prices for printing paper (prices for four types) from late April 2013. The goal is to rebuild an earnings structure capable of restoring production levels in response to falling prices reflecting the rapid increase in imported paper, burgeoning raw material and fuel costs and other factors. At the same time, the Group will endeavor to secure sales and earnings through such initiatives as exhaustively cutting costs in all categories and increasing sales from exports.

	Millions of yen		
	Fiscal 2012 (Actual)	Fiscal 2013 (Forecast)	Change
Net sales	¥208,289	¥221,000	6.1 %
Operating income	3,667	3,500	(4.5)%
Ordinary income	10,725	7,000	(34.7)%
Net income	8,379	5,000	(40.3)%

Major Business Risks

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

- Fluctuations in product demand and prices
- Legal regulations and litigation
- Raw material and fuel market prices
- Natural and other disasters
- Foreign exchange rate fluctuations
- Capital investment
- Overseas political and economic circumstances
- Alliance-type contracts with other companies
- Interest rate fluctuations
- Mergers and acquisitions (M&A), among other capital transactions

CONSOLIDATED BALANCE SHEETS

HOKUETSU KISHU PAPER CO., LTD. AND CONSOLIDATED SUBSIDIARIES
As of March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2013	2012	2013
CURRENT ASSETS:			
Cash and deposits (Notes 3 & 4)	¥ 29,056	¥ 23,158	$ 309,139
Notes and accounts receivable (Note 4)			
Trade	60,750	68,540	646,345
Unconsolidated subsidiaries and affiliates	395	140	4,203
Allowance for doubtful accounts	(65)	(89)	(692)
Inventories (Note 6)	33,267	31,331	353,942
Deferred income taxes (Note 11)	2,033	2,391	21,630
Prepaid expenses and other	3,057	2,687	32,525
TOTAL CURRENT ASSETS	128,493	128,158	1,367,092
PROPERTY, PLANT AND EQUIPMENT (Note 7):			
Land and timberland	25,039	24,737	266,401
Buildings and structures	72,727	70,461	773,774
Machinery and equipment	374,319	372,913	3,982,540
Leased assets	4,909	4,742	52,229
Construction in progress	3,952	2,896	42,047
	480,946	475,749	5,116,991
Less accumulated depreciation	(318,550)	(305,363)	(3,389,190)
NET PROPERTY, PLANT AND EQUIPMENT	162,396	170,386	1,727,801
INVESTMENTS AND OTHER ASSETS:			
Investments in securities (Notes 4, 5 & 7)	23,466	21,927	249,665
Investments in and receivables from unconsolidated subsidiaries and affiliates	21,626	4,640	230,088
Long-term loans receivable	41	58	436
Guarantee deposits	873	1,020	9,288
Deferred income taxes (Note 11)	3,328	4,520	35,408
Other	3,185	2,494	33,887
Allowance for doubtful accounts	(228)	(208)	(2,426)
TOTAL INVESTMENTS AND OTHER ASSETS	52,291	34,451	556,346
TOTAL ASSETS	¥ 343,180	¥ 332,995	$ 3,651,239

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

LIABILITIES AND NET ASSETS	Millions of yen 2013	Millions of yen 2012	Thousands of U.S. dollars (Note 1) 2013
CURRENT LIABILITIES:			
Short-term loans (Notes 4, 7 & 8)	¥ 31,455	¥ 31,655	$ 334,663
Commercial paper (Notes 4 & 8)	7,000	12,000	74,476
Current maturities of long-term debt (Notes 4, 7 & 8)	15,184	15,179	161,549
Notes and accounts payable (Note 4)			
Trade	21,742	26,543	231,322
Unconsolidated subsidiaries and affiliates	1,132	996	12,044
Income taxes payable (Note 11)	732	2,592	7,788
Accrued expenses	7,170	7,874	76,285
Other	6,099	6,465	64,890
TOTAL CURRENT LIABILITIES	90,514	103,304	963,017
LONG-TERM LIABILITIES:			
Long-term debt (Notes 4, 7 & 8), less current maturities	73,278	56,250	779,636
Deferred income taxes (Note 11)	212	196	2,256
Employees' severance and retirement benefits (Note 17)	12,854	13,172	136,759
Retirement benefits for directors and corporate auditors	17	27	181
Accrued environmental expenditures	84	272	894
Provision for business structure improvement	349	479	3,713
Negative goodwill	2,654	4,437	28,237
Asset retirement obligations	1,469	1,482	15,629
Other (Note 7)	669	672	7,118
TOTAL LONG-TERM LIABILITIES	91,586	76,987	974,423
CONTINGENT LIABILITIES (Note 9)			
NET ASSETS (Note 10)			
SHAREHOLDERS' EQUITY:			
Common stock:			
authorized			
—500,000,000 shares in 2013			
—500,000,000 shares in 2012			
issued and outstanding			
—209,263,814 shares in 2013			
—209,263,814 shares in 2012	42,021	42,021	447,079
Capital surplus	45,481	45,481	483,892
Retained earnings	70,694	64,762	752,144
Treasury stock	(2,689)	(2,317)	(28,609)
TOTAL SHAREHOLDERS' EQUITY	155,507	149,947	1,654,506
ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAXES			
Unrealized holding gains on securities, net of taxes	3,235	862	34,418
Unrealized gains on hedging derivatives, net of taxes	(6)	(42)	(64)
Foreign currency translation adjustment	170	3	1,809
TOTAL ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAXES	3,399	823	36,163
SHARE SUBSCRIPTION RIGHTS	86	38	915
MINORITY INTERESTS	2,088	1,896	22,215
TOTAL NET ASSETS	161,080	152,704	1,713,799
TOTAL LIABILITIES AND NET ASSETS	¥343,180	¥332,995	$3,651,239

CONSOLIDATED STATEMENTS OF INCOME

HOKUETSU KISHU PAPER CO., LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2013, 2012 and 2011

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2013	2012	2011	2013
NET SALES (Notes 12 & 19)	¥208,289	¥230,576	¥217,014	$2,216,076
COST OF SALES (Note 12)	173,670	188,238	177,521	1,847,750
GROSS PROFIT	34,619	42,338	39,493	368,326
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 13)	30,952	31,510	30,750	329,311
OPERATING INCOME	3,667	10,828	8,743	39,015
OTHER INCOME (EXPENSES):				
Interest and dividend income	665	625	614	7,075
Interest expenses	(947)	(1,082)	(1,466)	(10,075)
Foreign exchange gains (losses)	249	161	(356)	2,649
Gain on negative goodwill	279	2,262	—	2,968
Amortization of negative goodwill	1,783	1,783	1,789	18,970
Equity in income of affiliates	3,882	60	71	41,302
Gain on sales of investments in securities	30	11	—	319
Loss on sales of investments in securities	(5)	(0)	(38)	(53)
Loss on devaluation of investments in securities	(184)	(2,790)	(161)	(1,958)
Loss on sales or disposal of property, plant and equipment	(1,104)	(836)	(562)	(11,746)
Income from subsidies	651	823	973	6,926
Impairment loss of fixed assets (Note 14)	(79)	(321)	(343)	(840)
One-time amortization of prior service costs	—	(130)	(227)	—
Reversal of provision for business structure improvement	—	—	19	—
Loss on liquidation of subsidiaries and affiliates	—	(49)	—	—
Costs in relation to suspending the operation of production equipment	(296)	(203)	(698)	(3,149)
Effect of the application of accounting standards for asset retirement obligations	—	—	(388)	—
Loss due to disaster	—	(1,003)	(1,495)	—
Other, net	1,676	2,183	713	17,832
	6,600	1,494	(1,555)	70,220
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	10,267	12,322	7,188	109,235
INCOME TAXES (Note 11):				
Current	1,283	2,550	2,274	13,650
Deferred	607	(3,041)	(448)	6,458
	1,890	(491)	1,826	20,108
INCOME BEFORE MINORITY INTERESTS	8,377	12,813	5,362	89,127
MINORITY INTERESTS	(2)	16	(70)	(21)
NET INCOME	¥ 8,379	¥ 12,797	¥ 5,432	$ 89,148

	Yen			U.S. dollars (Note 1)
	2013	2012	2011	2013
AMOUNTS PER SHARE OF COMMON STOCK (Note 2):				
Net income	¥41.11	¥62.70	¥26.21	$0.437
Diluted net income	41.07	62.68	—	0.437
Cash dividends applicable to the year	12.00	12.00	12.00	0.13

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

HOKUETSU KISHU PAPER CO., LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2013, 2012 and 2011

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2013	2012	2011	2013
INCOME BEFORE MINORITY INTERESTS	¥ 8,377	¥12,813	¥ 5,362	$ 89,127
OTHER COMPREHENSIVE INCOME				
Unrealized holding gains on securities, net of taxes	1,974	1,094	(1,151)	21,002
Unrealized gains on hedging derivatives, net of taxes	36	70	(37)	383
Foreign currency translation adjustment	288	6	—	3,064
Share of other comprehensive income of associates accounted for using equity method	401	34	(9)	4,266
TOTAL OTHER COMPREHENSIVE INCOME	2,699	1,204	(1,197)	28,715
COMPREHENSIVE INCOME	¥11,076	¥14,017	¥ 4,165	$117,842
Comprehensive Income attribute to owners of the parent shareholders	10,956	13,996	4,241	116,565
Comprehensive Income attribute to minority interests	120	21	(76)	1,277

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

HOKUETSU KISHU PAPER CO., LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2013, 2012 and 2011

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2013	2012	2011	2013
CASH FLOWS FROM OPERATING ACTIVITIES:				
Income before income taxes and minority interests	¥ 10,267	¥ 12,322	¥ 7,188	$ 109,235
Depreciation and amortization	19,625	22,178	22,496	208,799
Impairment loss of fixed assets	79	321	343	840
Amortization of negative goodwill	(1,783)	(1,783)	(1,789)	(18,970)
Gain on negative goodwill	(279)	(2,262)	—	(2,968)
Loss on sales or disposal of property, plant and equipment	366	209	463	3,894
Interest and dividend income	(665)	(625)	(614)	(7,075)
Interest expenses	947	1,082	1,466	10,075
Loss on devaluation of investments in securities	184	2,790	161	1,958
(Increase) decrease in notes and accounts receivable	7,531	(463)	878	80,126
(Increase) decrease in inventories	(1,876)	(2,485)	(612)	(19,960)
Increase (decrease) in notes and accounts payable	(5,552)	(1,009)	1,645	(59,071)
Increase (decrease) in employees' severance and retirement benefits	(326)	302	201	(3,468)
Effect of the application of accounting standards for asset retirement obligations	—	—	388	—
Equity in (earnings) losses of affiliates	(3,882)	(60)	(71)	(41,302)
Other, net	(686)	(312)	(3,040)	(7,299)
SUBTOTAL	23,950	30,205	29,103	254,814
Interest and dividend income received	779	636	634	8,288
Interest paid	(942)	(1,136)	(1,496)	(10,022)
Income taxes paid	(3,254)	(622)	(2,382)	(34,621)
Proceeds from insurance income	830	—	—	8,831
NET CASH PROVIDED BY OPERATING ACTIVITIES	21,363	29,083	25,859	227,290
CASH FLOWS FROM INVESTING ACTIVITIES:				
Payments for time deposits	—	—	(19)	—
Proceeds from time deposits	—	—	101	—
Payments for purchases of investment securities	(54,130)	(84)	(112)	(575,912)
Purchase of investments in subsidiaries	(6,725)	—	—	(71,550)
Proceeds from sales and redemption of investment securities	48,491	110	45	515,916
Payments for purchases of property, plant and equipment	(11,425)	(8,238)	(7,126)	(121,555)
Proceeds from sales of property, plant and equipment	130	1,275	152	1,383
Proceeds from national subsidies	200	200	200	2,128
Acquisition of business	(325)	(1,639)	—	(3,458)
Other, net	(1,343)	(1,189)	550	(14,289)
NET CASH USED IN INVESTING ACTIVITIES	(25,127)	(9,565)	(6,209)	(267,337)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Increase (decrease) in short-term loans	(200)	(1,205)	(15,662)	(2,128)
Increase (decrease) in commercial paper	(5,000)	8,000	1,000	(53,197)
Proceeds from long-term loans	32,111	445	11,000	341,643
Repayments of long-term loans	(14,105)	(14,088)	(21,106)	(150,069)
Proceeds from issuance of unsecured yen straight bonds	—	10,000	10,000	—
Redemption of unsecured yen straight bonds	(300)	(10,300)	—	(3,192)
Dividends paid	(2,453)	(2,454)	(2,510)	(26,099)
Proceeds from stock issuance to minority shareholders	—	1,087	—	—
Payments for purchases of treasury stock	(5)	(6)	(1,812)	(53)
Other, net	(878)	(846)	(930)	(9,341)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	9,170	(9,367)	(20,020)	97,564
TRANSLATION (LOSS) GAIN ON CASH AND CASH EQUIVALENTS	260	172	(124)	2,766
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,666	10,323	(494)	60,283
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	23,158	11,194	11,668	246,388
INCREASE IN CASH AND CASH EQUIVALENTS FROM NEWLY CONSOLIDATED SUBSIDIARIES (Note 3)	181	1,641	—	1,926
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS RESULTING FROM MERGER OF SUBSIDIARIES	—	—	20	—
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 3)	¥ 29,005	¥ 23,158	¥ 11,194	$ 308,597

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

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

HOKUETSU KISHU PAPER CO., LTD. AND CONSOLIDATED SUBSIDIARIES
For the Years ended March 31, 2013, 2012 and 2011

	Number of shares	Common stock	Capital surplus	Retained earnings	Treasury stock
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)
Increase by share exchanges	—	—	—	—	—
Net income	—	—	—	8,379	—
Cash dividends paid (¥12.00 per share)	—	—	—	(2,447)	—
Disposal of treasury stock	—	—	(0)	—	1
Purchases of treasury stock	—	—	—	—	(8)
Retirement of treasury stock	—	—	—	—	(10)
Change in equity in affiliates accounted for by equity method—treasury stock	—	—	—	—	(355)
Change of scope of consolidation	—	—	—	—	—
Net changes during the year	—	—	—	—	—
Balance at March 31, 2013	209,263,814	¥42,021	¥45,481	¥70,694	¥(2,689)

	Number of shares	Common stock	Capital surplus	Retained earnings	Treasury stock
Balance at March 31, 2012	209,263,814	$447,079	$483,892	$689,031	$(24,652)
Increase by share exchanges	—	—	—	—	—
Net income	—	—	—	89,148	—
Cash dividends paid ($0.13 per share)	—	—	—	(26,035)	—
Disposal of treasury stock	—	—	0	—	11
Purchases of treasury stock	—	—	—	—	(85)
Retirement of treasury stock	—	—	—	—	(106)
Change in equity in affiliates accounted for by equity method—treasury stock	—	—	—	—	(3,777)
Change of scope of consolidation	—	—	—	—	—
Net changes during the year	—	—	—	—	—
Balance at March 31, 2013	209,263,814	$447,079	$483,892	$752,144	$(28,609)

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
¥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
—	—	—	—	—	—	—	—
8,379	—	—	—	—	—	—	8,379
(2,447)	—	—	—	—	—	—	(2,447)
1	—	—	—	—	—	—	1
(8)	—	—	—	—	—	—	(8)
(10)	—	—	—	—	—	—	(10)
(355)	—	—	—	—	—	—	(355)
—	—	—	—	—	—	—	—
—	2,373	36	167	2,576	48	192	2,816
¥155,507	¥ 3,235	¥ (6)	¥170	¥ 3,399	¥86	¥2,088	¥161,080

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
$1,595,350	$ 9,171	$(447)	$ 32	$ 8,756	$404	$20,172	$1,624,682
—	—	—	—	—	—	—	—
89,148	—	—	—	—	—	—	89,148
(26,035)	—	—	—	—	—	—	(26,035)
11	—	—	—	—	—	—	11
(85)	—	—	—	—	—	—	(85)
(106)	—	—	—	—	—	—	(106)
(3,777)	—	—	—	—	—	—	(3,777)
—	—	—	—	—	—	—	—
—	25,247	383	1,777	27,407	511	2,043	29,961
$1,654,506	$34,418	$ (64)	$1,809	$36,163	$915	$22,215	$1,713,799

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, 2013, which was ¥93.99 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		
	2013	2012	2011
Consolidated subsidiaries	21	20	16
Affiliates accounted for by the equity method	6	6	7

In the fiscal year ended March 31, 2012, Hokuetsu Kyouritsu Co., Ltd., which was an affiliate of the Company, acquired a treasury stock. Therefore, this subsidiary is now included as a consolidated subsidiary 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, 2013, 2012 and 2011.

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.

(Change in accounting policies with amendment of respective law or regulation that are not distinguishable from change in accounting estimates)

From the year ending March 31, 2013, in accordance with the amendment in corporate tax law, the Company and its domestic subsidiaries have changed its depreciation method for property, plant and equipments. Assets acquired on or after April 1, 2012 are depreciated using the method prescribed in amended corporate tax law. This change had a negligible impact on profits and loss for the fiscal year ended March 31, 2013.

(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.

(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) 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).

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

(o) 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.

(p) 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.

(q) 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 203,841,437 shares, 204,097,825 shares and 207,263,899 shares in 2013, 2012 and 2011, respectively. For the year ended March 31, 2013, diluted net income per share was ¥41.07 ($0.437).

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.

(r) Reclassification and restatement
Certain prior year amounts have been reclassified to conform to the current year presentation.

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

(s) Accounting standard and guidance but not yet adopted
“Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, amended May 17, 2012)
“Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, amended May 17, 2012)

(1) Summary
Under the amended rule, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss would be recognized within the net asset section, after adjusting for tax effects, and the deficit or surplus would be recognized as a liability or asset without any adjustments. For determining method of attributing expected benefit to periods, the Standard now allows to choose benefit formula basis, as well as the straight-line basis. Method for determination of discount rate has also been amended.

(2) Effective dates
Effective for the end of annual periods ending on or after March 31, 2014. Amendments relating to determination of retirement benefit obligations and current service costs are effective from the beginning of annual periods ending on or after March 31, 2015.

(3) Effect of Application of the standard
The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standard on the consolidated financial statements.

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, 2013 and 2012 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Cash and deposits	¥29,056	¥23,158	$309,139
Less time deposits with maturities exceeding three months	(51)	—	(542)
Cash and cash equivalents	¥29,005	¥23,158	$308,597

Note 4: Financial Instruments

Information on financial instruments for the year ended March 31, 2013 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.

The Company and certain consolidated subsidiaries use interest rate swap contracts to reduce their exposure to the risk of fluctuations in interest costs related to debt, and interest rate and currency swaps to reduce exposure to the risk of fluctuations in principal and interest costs related to foreign currency-denominated 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.

Fair Values of Financial Instruments

The book values, fair values and differences of the financial instruments as of March 31, 2013 and 2012 are as follows. Financial instruments with fair values not readily determinable are excluded from the following table (see (b)):

	Millions of yen		
	2013		
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 29,056	¥ 29,056	¥ (0)
(2) Notes and accounts receivable	61,145	61,145	—
(3) Investments in securities:			
① Stocks of affiliates	14,642	14,593	(49)
② Available-for-sale securities	16,803	16,803	—
Total assets	¥121,646	¥121,597	¥ (49)
(5) Notes and accounts payable	¥ 18,556	¥ 18,556	¥ —
(6) Electronically recorded obligations—operating	4,318	4,318	—
(7) Short-term loans	31,455	31,455	—
(8) Commercial paper	7,000	7,000	—
(9) Bonds	30,000	30,376	376
(10) Long-term loans payable*3	56,575	56,744	169
Total liabilities	¥147,904	¥148,449	¥545
Derivative transactions*4	¥ (9)	¥ (9)	¥ —

	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	¥ —
(7) Short-term loans	31,655	31,655	—
(8) Commercial paper	12,000	12,000	—
(9) Bonds*2	30,300	30,732	432
(10) Long-term loans payable*3	38,568	38,760	192
Total liabilities	¥140,062	¥140,686	¥624
Derivative transactions*4	¥ (66)	¥ (66)	¥ —

	Thousands of U.S. dollars		
	2013		
	Book value	Fair value	Difference
(1) Cash and deposits	$ 309,139	$ 309,139	$ (0)
(2) Notes and accounts receivable	650,548	650,548	—
(3) Investments in securities:			
① Stocks of affiliates	155,783	155,262	(521)
② Available-for-sale securities	178,774	178,774	—
Total assets	$1,294,244	$1,293,723	$ (521)
(5) Notes and accounts payable	$ 197,425	$ 197,425	$ —
(6) Electronically recorded obligations—operating	45,941	45,941	—
(7) Short-term loans	334,663	334,663	—
(8) Commercial paper	74,476	74,476	—
(9) Bonds	319,182	323,184	4,002
(10) Long-term loans payable*3	601,926	603,724	1,798
Total liabilities	$1,573,613	$1,579,413	$5,800
Derivative transactions*4	$ (96)	$ (96)	$ —

*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
Deposits that have indefinite maturities are stated at book value because the fair values of these deposits are substantially the same as the book value. The fair values of time deposits are substantially the same as book value because the time deposits have short maturities. Accordingly, the relevant book values of time deposits are treated as the fair values of time deposits. In addition, long-term deposits due in one year are stated at amounts quoted by financial institutions with which the Company does business.

(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) Electronically recorded obligations-operating (7) Short-term loans, and (8) 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.

(9) Bonds
Bonds issued by the Company have market prices, and are therefore based on the market price at the balance sheet date.

(10) 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: ¥12,788 million ($136,057 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	
	2013		2012		2013	
	Due in one year	Due after one year through two years	Due in one year	Due after one year through two years	Due in one year	Due after one year through two years
Cash and deposits	¥29,056	¥—	¥23,158	¥ —	$309,139	$—
Notes and accounts receivable	61,145	—	68,680	—	650,548	—
Long-term time deposits	—	—	—	50	—	—
Total	¥90,201	¥—	¥91,838	¥50	$959,687	$—

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

	Millions of yen 2013					
	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	¥31,455	¥ —	¥ —	¥ —	¥ —	¥ —
Commercial paper	7,000	—	—	—	—	—
Bonds	—	10,000	10,000	10,000	—	—
Long-term loans payable*	14,479	5,251	14,374	11,076	7,240	4,155
Total	¥52,934	¥15,251	¥24,374	¥21,076	¥7,240	¥4,155

	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	¥—

	Thousands of U.S. dollars 2013					
	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	$334,663	$ —	$ —	$ —	$ —	$ —
Commercial paper	74,476	—	—	—	—	—
Bonds	—	106,394	106,394	106,394	—	—
Long-term loans payable*	154,048	55,868	152,931	117,842	77,029	44,208
Total	$563,187	$162,262	$259,325	$224,236	$77,029	$44,208

* 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, 2013 and 2012:

Available-for-sale securities:

	Millions of yen		
	2013		
Type	Acquisition cost	Book value	Difference
Equity securities:			
with book value (fair value) exceeding acquisition costs	¥ 9,695	¥14,321	¥4,626
with book value (fair value) not exceeding acquisition costs	2,911	2,482	(429)
	¥12,606	¥16,803	¥4,197

	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

	Thousands of U.S. dollars		
	2013		
Type	Acquisition cost	Book value	Difference
Equity securities:			
with book value (fair value) exceeding acquisition costs	$103,149	$152,367	$49,218
with book value (fair value) not exceeding acquisition costs	30,972	26,407	(4,565)
	$134,121	$178,774	$44,653

Total sales of available-for-sale securities sold in the year ended March 31, 2013 amounted to ¥99 million ($1,053 thousand), the related losses amounted to ¥5 million ($53 thousand) and the related gains amounted to ¥30 million ($319 thousand). Total sales of available-for-sale securities sold in the year ended March 31, 2012 amounted to ¥136 million, the related losses amounted to ¥0 million and the related gains amounted to ¥11 million.

Note 6: Inventories

Inventories at March 31, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Merchandise and Finished goods	¥18,017	¥17,132	$191,691
Work-in-process	1,985	1,736	21,119
Raw materials and supplies	13,265	12,463	141,132
	¥33,267	¥31,331	$353,942

Note 7: Assets Pledged

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

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Buildings	¥—	¥ 64	¥—
Equipment	—	355	—
Land	—	928	—
	¥—	¥1,347	¥—

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

Short-term loans outstanding at March 31, 2013 and 2012 are partially secured with interest of 0.12% to 0.98% per annum and 0.12% to 1.00% per annum, respectively.

The interest rate on commercial paper at March 31, 2013 is 0.11%.

Long-term debt at March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Partially secured loans from banks and unsecured loans from insurance companies and other financial institutions, 0.37% to 3.32% maturing serially through 2020	¥ 56,575	¥ 38,568	$ 601,926
0.900% unsecured yen straight bonds due in 2012	—	300	—
1.77% unsecured yen straight bonds due in 2014	10,000	10,000	106,394
0.794% unsecured yen straight bonds due in 2015	10,000	10,000	106,394
0.685% unsecured yen straight bonds due in 2016	10,000	10,000	106,394
Lease obligations	1,887	2,561	20,077
	88,462	71,429	941,185
Less current maturities	(15,184)	(15,179)	(161,549)
Total	¥ 73,278	¥ 56,250	$ 779,636

The annual maturities of long-term debt at March 31, 2013 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2014	¥15,184	$161,549
2015	15,721	167,262
2016	24,786	263,709
2017	21,346	227,109
2018 and thereafter	11,425	121,556
	¥88,462	$941,185

Note 9: Contingent Liabilities

Contingent liabilities at March 31, 2013 for loans guaranteed by the Companies on behalf of third parties amount to ¥0 million ($0 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 25, 2013, the shareholders approved cash dividends amounting to ¥1,234 million ($13,129 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2013. 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 37.8% in the year ended March 31, 2013.

The normal statutory income tax rate is approximately 39.5% for the years ended March 31, 2012 and 2011.

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, 2013 and 2012:

	2013	2012
Statutory tax rate	37.8 %	39.5 %
Non-deductible expenses	0.8	0.6
Dividends received not taxable	(1.0)	(1.1)
Per capita inhabitants taxes	0.5	0.4
Gain on negative goodwill	(1.0)	(7.3)
Loss on step acquisitions	0.5	0.4
Valuation allowance	(5.8)	(40.2)
Effect of change in tax rates	—	2.6
Effect of multiple tax rates	1.1	—
Equity in income of affiliates	(14.3)	(0.2)
Other	(0.2)	1.3
Effective tax rate	18.4 %	(4.0)%

Significant components of deferred income tax assets and liabilities at March 31, 2013 and 2012 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred income tax assets:			
Accrued bonuses	¥ 944	¥ 1,025	$ 10,044
Unrealized gain from sales of inventories between the Companies	269	407	2,862
Employees' severance and retirement benefits	5,037	5,175	53,591
Long-term accrued amount payable	100	113	1,064
Unrealized gain from sales of fixed assets between the Companies	1,233	1,236	13,118
Unrealized holding gain on fixed assets	820	845	8,724
Depreciation and amortization	1,577	1,546	16,778
Impairment loss of fixed assets	909	1,020	9,671
Loss on devaluation of investments in securities	1,253	1,206	13,331
Provision for business structure improvement	131	193	1,394
Accrued environmental expenditures	28	96	298
Net operating loss carry forwards	485	318	5,160
Asset retirement obligations	523	527	5,565
Other	1,485	1,763	15,800
Subtotal deferred income tax assets	14,794	15,470	157,400
Valuation allowance	(4,340)	(4,309)	(46,175)
Total deferred income tax assets	¥10,454	¥11,161	$111,225
Deferred income tax liabilities:			
Reserve deductible for Japanese tax purpose	¥ (89)	¥ (337)	$ (947)
Reserve for deferred gain on sales of fixed assets for tax purpose	(943)	(676)	(10,033)
Valuation difference on Property, plant and equipment	(2,422)	(2,428)	(25,769)
Unrealized holding gain on securities	(1,386)	(444)	(14,747)
Other	(465)	(563)	(4,947)
Total deferred income tax liabilities	¥ (5,305)	¥ (4,448)	$ (56,443)
Net deferred income tax assets (liabilities)	¥ 5,149	¥ 6,713	$ 54,782

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, 2013, 2012 and 2011 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Sales	¥ 466	¥9,788	¥36,156	$ 4,958
Purchases	5,781	6,182	5,899	61,507

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 ¥813 million ($8,650 thousand), ¥877 million and ¥1,051 million for the years ended March 31, 2013, 2012 and 2011, respectively.

Note 14: Impairment Loss on Fixed Assets

In the year ended March 31, 2013, the Companies recorded impairment loss on fixed assets for the following group of assets:

Use	Location	Type	Amount: Millions of yen	Amount: Thousands of U.S. dollars
Processed paper production equipment	Tokorozawa-city, Saitama	Machinery, vehicles Equipment and others	¥42	$447
Idle assets	Kiho-cho, Minamimuro-gun, Mie and others	Long-term prepaid expenses and others	37	393

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, the Company reduced the book value of the relevant paper processing and production facilities to the recoverable 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, 2012, the Companies recorded impairment loss on fixed assets for the following group of assets:

Use	Location	Type	Amount: Millions of yen
Processed paper production equipment	Hitachinaka-city, Ibaraki and others	Machinery, vehicles Equipment and others	¥165
Pallets production-related equipment	Shingu-city, Wakayama and others	Machinery, vehicles Equipment and others	121
Idle assets	Niigata-city, Niigata and others	Machinery, vehicles Equipment and others	35

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, 2013 and 2012 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
	2013	2012	2013
Machinery, equipment and others			
Purchase price equivalent	¥1,663	¥1,679	$17,693
Accumulated depreciation equivalent	1,025	836	10,905
Accumulated impairment loss equivalent	33	33	351
Book value equivalent	605	810	6,437

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
	2013	2012	2013
Due within one year	¥209	¥212	$2,224
Due after one year	405	614	4,309
	¥614	¥826	$6,533
Balance of impairment loss account on leased assets included in the outstanding lease commitments	¥ 10	¥ 16	$ 106

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
	2013	2012	2011	2013
Lease payments	¥212	¥240	¥270	$2,256
Reversal of allowance for impairment loss on leased assets	6	6	6	64
Depreciation equivalent	206	234	264	2,192

(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, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
(lessee)			
Due within one year	¥ —	¥ 36	$ —
Due after one year	—	—	—
	¥ —	¥ 36	$ —
(lessor)			
Due within one year	¥ 25	¥ 26	$ 266
Due after one year	115	140	1,224
	¥140	¥166	$1,490

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
Interest rate and currency swaps contracts	Principal and interest on foreign currency 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, 2013 are as follows.

(1) Compound financial instruments

	Millions of yen			
	2013			
	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	¥(0)

	Thousands of U.S. dollars			
	2013			
	Contract amount			
Type of derivative transaction	Total	Over one year	Fair value	Valuation gains and losses
The fair value of derivative-embedded deposits	$532	$—	$532	$(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 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)

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, 2013 are as follows.

(1) Currency-related

		Millions of yen		
		2013		
		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		¥1,096	¥—	¥31
EUR		¥ 72	¥—	¥ 0

		Thousands of U.S. dollars		
		2013		
		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		$11,661	$—	$330
EUR		$ 766	$—	$0

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

(2) Interest-related

		Millions of yen		
		2013		
		Contract amount		
Type of derivative transaction	Main hedged items	Total	Over one year	Fair value
Interest rate swap contracts				
Receive floating, Pay fixed	Long-term loans payable	¥2,717	¥1,289	¥(41)

		Thousands of U.S. dollars		
		2013		
		Contract amount		
Type of derivative transaction	Main hedged items	Total	Over one year	Fair value
Interest rate swap contracts				
Receive floating, Pay fixed	Long-term loans payable	$28,907	$13,714	$(436)

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		
		2013		
		Contract amount		
Type of derivative transaction	Main hedged items	Total	Over one year	Fair value
Interest rate swap contracts				
Receive floating, Pay fixed	Long-term loans payable	¥9,632	¥9,000	¥—

		Thousands of U.S. dollars		
		2013		
		Contract amount		
Type of derivative transaction	Main hedged items	Total	Over one year	Fair value
Interest rate swap contracts				
Receive floating, Pay fixed	Long-term loans payable	$102,479	$95,755	$—

(3) Interest and currency-related

Type of derivative transaction	Main hedged items	Millions of yen 2013 Contract amount Total	Over one year	Fair value
Interest rate and currency swaps contracts				
Receive floating, Pay fixed	Long-term loans payable			
Receive U.S. dollar, Pay Japanese Yen		¥500	¥500	¥—

Type of derivative transaction	Main hedged items	Thousands of U.S. dollars 2013 Contract amount Total	Over one year	Fair value
Interest rate and currency swaps contracts				
Receive floating, Pay fixed	Long-term loans payable			
Receive U.S. Dollar, Pay Japanese Yen		$5,320	$5,320	$—

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

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

(1) Currency-related

Type of derivative transaction	Main hedged items	Millions of yen 2012 Contract amount Total	Over one year	Fair value
Forward exchange contracts				
Buy contracts	Trade payables			
U.S. Dollar		¥484	¥—	¥9
EUR		¥179	¥—	¥7

(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, Pay fixed	Long-term loans payable	¥4,145	¥2,717	¥(82)

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, Pay fixed	Long-term loans payable	¥1,570	¥632	¥—

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, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Projected benefit obligation	¥(19,869)	¥(20,986)	$(211,395)
Unrecognized actuarial differences	(468)	1,067	(4,979)
Less fair value of pension assets	7,888	7,172	83,924
Prepaid pension costs	(405)	(425)	(4,309)
Liability for severance and retirement benefits	¥(12,854)	¥(13,172)	$(136,759)

Included in the consolidated statements of income for the years ended March 31, 2013, 2012 and 2011 are severance and retirement benefit expenses composed of the following:

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Service costs—benefits earned during the year	¥1,009	¥ 957	¥ 888	$10,735
Interest cost on projected benefit obligation	379	382	371	4,032
Expected return on pension assets	(5)	(10)	(81)	(53)
Amortization of actuarial differences	203	250	315	2,160
One-time amortization of prior service costs	(47)	130	175	(500)
Severance and retirement benefit expenses	¥1,539	¥1,709	¥1,668	$16,374

	2013	2012	2011
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	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, 2013 and 2012:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Balance at the beginning of the year	¥1,482	¥1,514	$15,767
Adjustments over time	9	9	96
Decrease due to change of estimates	(10)	—	(106)
Decrease in loss on disposal of property, plant and equipment	(12)	(52)	(128)
Increase due to newly consolidated subsidiaries	—	11	—
Balance at the end of the year	¥1,469	¥1,482	$15,629

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					
	2013					
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others*1	Corporate or elimination*2	Consolidated*3
Sales:						
Outside customers	¥179,077	¥20,175	¥199,252	¥ 9,037	¥ —	¥208,289
Intersegment	2,269	212	2,481	28,176	(30,657)	—
Total	181,346	20,387	201,733	37,213	(30,657)	208,289
Operating expenses	179,548	19,558	199,106	36,828	(31,312)	204,622
Operating income	¥ 1,798	¥ 829	¥ 2,627	¥ 385	¥ 655	¥ 3,667
Identifiable assets	¥316,148	¥18,657	¥334,805	¥18,535	¥(10,160)	¥343,180
Depreciation and amortization	¥ 18,550	¥ 980	¥ 19,530	¥ 510	¥ (415)	¥ 19,625
Impairment loss	¥ 37	¥ 42	¥ 79	¥ —	¥ —	¥ 79
Increase in property, plant and equipment/intangible assets	¥ 11,230	¥ 996	¥ 12,226	¥ 395	¥ (461)	¥ 12,160

	Thousands of U.S. dollars					
	2013					
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others*1	Corporate or elimination*2	Consolidated*3
Sales:						
Outside customers	$1,905,277	$214,651	$2,119,928	$ 96,148	$ —	$2,216,076
Intersegment	24,141	2,255	26,396	299,777	(326,173)	—
Total	1,929,418	216,906	2,146,324	395,925	(326,173)	2,216,076
Operating expenses	1,910,288	208,086	2,118,374	391,829	(333,142)	2,177,061
Operating income	$ 19,130	$ 8,820	$ 27,950	$ 4,096	$ 6,969	$ 39,015
Identifiable assets	$3,363,634	$198,500	$3,562,134	$197,202	$(108,097)	$3,651,239
Depreciation and amortization	$ 197,361	$ 10,427	$ 207,788	$ 5,426	$ (4,415)	$ 208,799
Impairment loss	$ 393	$ 447	$ 840	$ —	$ —	$ 840
Increase in property, plant and equipment/intangible assets	$ 119,481	$ 10,597	$ 130,078	$ 4,202	$ (4,905)	$ 129,375

*1 The "Others" category indicates business segments not included in the reporting segments, encompassing the wood products business, the construction business, 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 ¥655 million ($6,969 thousand) mainly represent eliminations of intersegment transactions.
(2) Adjustments in segment assets in the amount of ¥(10,160) million ($(108,097) thousand) include ¥(16,689) million ($(177,561) thousand) for eliminations of intersegment debts and credits and ¥6,529 million ($69,465 thousand) for the corporate assets that are not allocated to each reportable segment.
(3) Adjustments in increases in property, plant and equipment and intangible fixed assets totaling ¥(461) million ($(4,905) thousand) represent eliminations of intersegment unrealized gains on noncurrent assets.
*3 Segment income is adjusted to reflect operating income as recorded in the consolidated statements of income.

	Millions of yen					
	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.

(Related Information)
Fiscal year ended March 31, 2013

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 inside 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	2013	2013
SHINSEI PULP & PAPER COMPANY LIMITED	¥40,419	$430,035
KOKUSAI PULP & PAPER CO., LTD.	¥22,706	$241,579

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 inside 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	2012
SHINSEI PULP & PAPER COMPANY LIMITED	¥45,184
KOKUSAI PULP & PAPER CO., LTD.	¥27,306

(Information regarding the amounts of amortization and unamortized balance by reportable segment)
Fiscal year ended March 31, 2013

	Millions of yen					
	2013					
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others	Corporate or elimination	Consolidated
Goodwill:						
Amortization of goodwill	¥ 25	¥—	¥ 25	¥ —	¥—	¥ 25
Balance at end of year	¥ 89	¥—	¥ 89	¥ —	¥—	¥ 89
Negative goodwill:						
Amortization of negative goodwill	¥1,460	¥27	¥1,487	¥296	¥—	¥1,783
Balance at end of year	¥2,189	¥41	¥2,230	¥424	¥—	¥2,654

	Thousands of U.S. dollars					
	2013					
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others	Corporate or elimination	Consolidated
Goodwill:						
Amortization of goodwill	$ 226	$ —	$ 266	$ —	$—	$ 266
Balance at end of year	$ 947	$ —	$ 947	$ —	$—	$ 947
Negative goodwill:						
Amortization of negative goodwill	$15,534	$287	$15,821	$3,149	$—	$18,970
Balance at end of year	$23,290	$436	$23,726	$4,511	$—	$28,237

(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, 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 "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, 2013

In the fiscal year ended March 31, 2013, the Company recorded a gain on negative goodwill of ¥38 million ($404 thousand) in conjunction with the acquisition on October 1, 2012 of additional shares of BF Co., Ltd., a consolidated subsidiary of the Company in the packaging/paper processing business.

In other businesses, Hokuetsu Kyouritsu Co., Ltd., which was an affiliate of the Company, became a subsidiary on March 5, 2013 through an acquisition of treasury stock by this subsidiary. In conjunction with this measure, the Companies recorded a gain on negative goodwill of ¥241 million (2,564 thousand).

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.

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	The contents of a business operation or an occupation	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	A general trading company	(Parent company ownership ratio) Direct 25.5	Agency for the products of the Company	Sales of paper	¥18,675 million	Account receivable —trade	¥3,629 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.

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

2013										
Attribute	Name	Location	Amount of capital or investment in capital	The contents of a business operation or an occupation	Ownership ratio of voting rights (%)	Relationship	Nature of transaction	Trading amount	Account	Balance at the end of the fiscal year
Affiliate	Daio Paper Corporation	Shikoku chuo-city, Ehime	¥30,415 million ($323,598 thousand)	Paper and pulp manufacturing	Direct 21.9 Indirect 0.0	Sales of shares	Sales of shares	¥48,392 million ($514,863 thousand)	—	—

(Transaction terms and conditions, policy to decide such terms and conditions and other)
The price was determined on the discounted cash flow (DCF) method and the market multiple method.

(c) Notes on parent company or significant affiliated company

For the fiscal year ended March 31, 2013, the significant affiliated company is Daio Paper Corporation and its summarized financial statement is as follows. Because Daio Paper Corporation became an affiliate accounted for by the equity method at the end of the second quarter of the fiscal year ended March 31, 2013, it's statements of income items have been calculated for it's six-month period from the third quarter to the fourth quarter of the same fiscal year.

	Millions of yen	Thousands of U.S. dollars
	2013	2013
Total current assets	¥246,259	$2,620,055
Total noncurrent assets	412,369	4,387,371
Total current liabilities	260,131	2,767,645
Total noncurrent liabilities	290,675	3,092,616
Total net assets	107,910	1,148,101
Net sales	209,013	2,223,779
Loss before income taxes	(2,735)	(29,099)
Net loss	(3,653)	(38,866)

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
	2013	2012	2013
Unrealized holding gains (losses) on securities, net of taxes			
Occurrence amount	¥2,733	¥(1,149)	$ 29,078
Recycling	183	2,786	1,947
Before tax effect	2,916	1,637	31,025
Tax effect	(942)	(543)	(10,023)
Unrealized holding gains (losses) on securities, net of taxes	1,974	1,094	21,002
Unrealized holding gains (losses) on hedging derivatives, net of taxes			
Occurrence amount	¥ 24	¥ 34	$ 255
Recycling	40	78	426
Before tax effect	64	112	681
Tax effect	(28)	(42)	(298)
Unrealized holding gains (losses) on hedging derivatives, net of taxes	36	70	383
Foreign currency translation adjustment			
Occurrence amount	¥ 288	¥ 6	$ 3,064
Recycling	—	—	—
Before tax effect	288	6	3,064
Tax effect	—	—	—
Foreign currency translation adjustment	288	6	3,064
Share of other comprehensive income of associates accounted for using equity method			
Occurrence amount	¥ 314	¥ 69	$ 3,340
Recycling	87	(35)	926
Share of other comprehensive income of associates accounted for using equity method	401	34	4,266
Total other comprehensive income	¥2,699	¥ 1,204	$ 28,715

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, 2013.

Stock options	Persons granted	Number of stock options granted	Grant date	Exercise price	Exercise period
2012 Subscription rights to shares	11 directors	153,500 shares	July 17, 2012	¥1 ($0.01)	From July 18, 2012 to July 17, 2027
2011 Subscription rights to shares	11 directors	117,000 shares	July 11, 2011	¥1	From July 12, 2011 to July 11, 2026

The following shows the number of stock options.

	2011 Share subscription rights (shares)	2012 Share subscription rights (shares)
Non-vested stock option:		
Outstanding at March 31, 2011	—	—
Granted	—	153,500
Forfeited	—	—
Vested	—	153,500
Outstanding at March 31, 2012	—	—
Vested stock option:		
Outstanding at March 31, 2011	117,000	—
Vested	—	153,500
Exercised	—	—
Forfeited	—	—
Outstanding at March 31, 2012	117,000	153,500

The following shows the estimate method for stock option price.

	2011 Subscription rights to shares	2011 Subscription rights to shares
Estimate method	Black-Scholes option-pricing models	Black-Scholes option-pricing models
Expected volatility	33.120%	33.243%
Expected life	8 years	8 years
Expected dividend	¥12/share	¥12/share ($0.13/share)
Risk-free interest rate	0.844%	0.502%

Note 23: Subsequent Events

(a) Distribution of retained earnings

The following items were approved at the annual shareholders' meeting of the Company held on June 25, 2013:

Payment of a cash dividend of ¥6.00 ($0.06) per share to shareholders as of March 31, 2013 or a total of ¥1,234 million ($13,129 thousand)

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, 2013 and 2012, and the consolidated statements of income, statements of comprehensive income ,statements of changes in net assets and statements of cash flows for the years ended March 31, 2013 and 2012 and 2011, and a summary of significant accounting policies and other explanatory information.

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, 2013 and 2012, and their financial performance and cash flows for the years ended March 31, 2013 and 2012 and 2011 in accordance with accounting principles generally accepted in Japan.

Convenience Translation
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

July 31, 2013
Tokyo, Japan

SUBSIDIARIES AND AFFILIATES

As of March 1, 2013

Consolidated Subsidiaries

Hokuetsu Package Co., Ltd.
3-2-2, Nihonbashihongoku-cho, 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

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

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, Waigaoqiao 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

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, 2013

Corporate Name	Hokuetsu Kishu Paper Co., Ltd.
Head Office	3-2-2, Nihonbashihongoku-cho, 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	4,124 (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 March 2013

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, 2013

Number of shares authorized	500,000,000
Number of shares issued	209,263,814
Number of shareholders	13,517

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)	12,734	6.09
Japan Trustee Services Bank, Ltd. (Trust Account)	7,317	3.50
NIPPONKOA Insurance Co., Ltd.	4,499	2.15
Daio Paper Corporation	4,286	2.05
Kawasaki-kami Unyu Co., Ltd.	4,286	2.05
The Daishi Bank, Ltd.	4,217	2.02
The Hokuetsu Bank, Ltd.	4,215	2.01
Chase Manhattan Bank GTS Clients Account Escrow (Standing proxy: Custody & Proxy Dept., Mizuho Corporate Bank, Ltd.)	4,025	1.92
Hokuetsu Kishu Paper Stock Ownership Association	3,795	1.81

HOKUETSU KISHU PAPER CO., LTD.

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