

Consolidated Financial Statements

April 1, 2020-March 31, 2021

Hokuetsu Corporation

Management's Discussion and Analysis

Business Environment and Results

The Japanese economy during the current fiscal year was generally in a difficult business environment due to the global spread of the COVID-19 pandemic. The Japanese pulp and paper industry also remains in an extremely difficult situation due to reduced demand for printing and communication paper in addition to the effects of the COVID-19 pandemic.

In the Group, socio-economic activities stagnated due to the effects of the COVID-19 pandemic, and demand fell sharply in the second quarter. Entering the second half of the year, even though socio-economic activities gradually resumed and demand recovered, the decline in the second quarter was large, and sales and profits declined for the full year. On the other hand, net income attributable to owners of parent company increased due to recording a gain on sales of investments in securities from the transfer of all shares of Japan Brazil Paper and Pulp Resources Development Co., Ltd. held by the Company. The Group's results for this period were as follows.

Millions of yen		Change
Net sales:	¥222,454	(-15.9%)
Operating income:	¥1,701	(-84.8%)
Ordinary income:	¥9,756	(-37.7%)
Net income attributable to owners of parent company:	¥14,172	(+75.6%)

Business Results by Segment

1. Paper and Pulp Business

For the Paper and Pulp Business, socio-economic activities stagnated due to the effects of the COVID-19 pandemic, and demand sharply fell in the second quarter. Entering the second half of the year, even though socio-economic activities gradually resumed and demand recovered, the decline in the second quarter was large, and sales and profits declined for the full year. By product type, sales of paper greatly declined compared to the previous year as socio-economic activities stagnated due to the effects of the COVID-19 pandemic and events were successively cancelled or restrained.

With paperboard, sales for food products were firm due to the effects of the COVID-19 pandemic, while sales for cosmetics and souvenirs sharply fell due to the disappearance of inbound tourism demand. By grade, specialty white paperboard and coated duplex board performed well for primary food containers, food-related containers for takeout, and boxes for instant foods and retort foods, but sales for souvenirs and pharmaceuticals significantly decreased, falling below the previous year's sales. Sales of premium white paperboard significantly decreased for storefront POP applications, various cards, cosmetics, and pharmaceuticals, and fell below the previous year's results. In addition, shipments of containerboard base paper to corrugated board manufacturer customers began in April 2020.

As for specialty paper, sales in the functional paper field were generally strong. Demand for new models of 5G smartphones and demand for personal computers and tablets due to the spread of remote work have been tailwinds for sales of chip carrier tape base paper for transporting electronic components, and air purification filters, etc. also performed well due to heightened awareness of hygiene. Functional paper overall exceeded the previous year's results. For fancy paper in general, as with paper, sales of premium printing paper for catalogs and pamphlets were sluggish due to the events being cancelled or restrained. With

communication paper, sales of adhesive postcard paper for notifications were sluggish due to the shift to digital media, and sales of OCR paper were greatly reduced, with performance falling below the previous year's results.

With pulp, the price of pulp fell as a result of the stagnation in economic activity due to the effects of the COVID-19 pandemic, and fell below the previous year's results.

In view of the above, the results in the Paper and Pulp Business were as follows.

Millions of yen		Change
Net sales:	¥198,770	(-16.4%)
Operating income:	¥673	(+92.8%)

2. Packaging and Paper Processing Business

In the Packaging and Paper Processing Business, sales and profits declined due to demand sharply falling from a reduction in orders because of changes in the shape of liquid containers and from the effects of the COVID-19 pandemic, and due to poor sales, particularly in the packaging and information media fields.

As a consequence of this, the results for the Packaging and Paper Processing Business were as follows.

Millions of yen		Change
Net sales:	¥15,599	(-14.4%)
Operating income:	¥89	(-78.6%)

3. Wood Material Business

In the Wood Material Business, sales and profits increased due to strong sales of fuel chips for biomass boilers.

As a consequence of this, the results for the Wood Material Business were as follows.

Millions of yen		Change
Net sales:	¥3,419	(+18.9%)
Operating income:	¥317	(+12.0%)

4. Engineering Business

In the Engineering Business, sales and profits declined due to a decrease in orders for large-scale projects.

As a consequence of this, the results for the Engineering Business were as follows.

Millions of yen		Change
Net sales:	¥911	(-2.3%)
Operating income:	¥228	(-32.8%)

5. Logistics Business

In the Logistics Business, sales and profits declined due to a decrease in handling volume from the effects of the COVID-19 pandemic.

As a consequence of this, the results for the Logistics Business were as follows.

Millions of yen		Change
Net sales:	¥829	(-24.8%)
Operating income:	¥-159	(Operating income of -27 in the previous consolidated fiscal year)

6. Others

In the Others Segment, sales and profits declined due to the Group's decision in August 2020 to withdraw from certain businesses and from concluding operations for a portion of the businesses.

As a consequence of this, the results for the Others Segment were as follows.

Millions of yen		Change
Net sales:	¥2,922	(-18.4%)
Operating income:	¥-60	(Operating income of 293 in the previous consolidated fiscal year)

Financial Position

Total assets as of the end of fiscal 2020 (March 31, 2021) increased ¥18,344 million from the previous year to ¥363,075 million. This increase was mainly due to investments in securities increasing ¥16,462 million, cash and deposits increasing ¥8,463 million, and assets for retirement benefits increasing ¥1,347 million on one hand, accompanied by merchandise and finished goods decreasing ¥6,825 million and property, plant and equipment decreasing ¥941 million due to depreciation expenses.

Total liabilities as of March 31, 2021 increased by ¥3,787 million to ¥167,656 million from the previous year. This increase was mainly due to interest-bearing debt increasing ¥7,159 million on the one hand, accompanied by notes and accounts payable decreasing ¥1,788 million and equipment-related notes payable decreasing by ¥1,192 million.

Net assets as of March 31, 2021 increased by ¥14,557 million to ¥195,419 million from the previous year. The increase in net assets was brought about mainly by an increase in retained earnings from net income attributable to owners of parent company, etc., of ¥12,011 million, and an increase in unrealized holding gains on securities, net of taxes of ¥2,184 million.

Cash Flows

The balance of cash and cash equivalents as of March 31, 2021 increased by ¥8,463 million from the previous year to ¥29,846 million.

Cash flows from operating activities

Net cash provided by operating activities totaled ¥23,760 million (46.0% decrease year-on-year).

The main contributors to cash provided were ¥13,331 million in income before income taxes, ¥14,482 million in depreciation and amortization, and a decrease in inventories of ¥6,516 million. The main components of cash used were equity in income of affiliates of ¥5,587 million and gain on sales of investments in securities of ¥5,320 million.

Cash flows from investing activities

Net cash used in investing activities totaled ¥19,575 million (3.1% decrease year-on-year).

The main components of cash used were ¥10,625 million for purchase of investment securities and ¥15,526 million for the purchase of property, plant and equipment. The main contributor to cash provided was proceeds from sales of investment securities of ¥7,478 million.

Cash flows from financing activities

Net cash gained from financing activities totaled ¥4,358 million (¥17,261 million of net cash used in the previous consolidated fiscal year).

The main contributors to cash provided were a ¥7,060 million increase in short-term loans and ¥16,000 million in proceeds from long-term loans. The main components of cash used were a ¥7,000 million decrease in commercial papers, ¥9,145 million repayments of long-term loans, and ¥2,190 million for payment of dividends.

Basic Policies Regarding Earnings Distribution and Dividend Payments for Fiscal 2020 and Fiscal 2021

In order to continue growth investment to improve long-term and stable corporate value, Hokuetsu Corporation implements capital policy in light of a balance of financial

soundness, capital efficiency and returns to shareholders, and considers providing stable and continuous dividends as its "fundamental policy regarding capital measures." The dividend is distributed twice a year with an interim dividend and a year-end dividend, and the decision-making bodies for the company with respect to interim dividends and year-end dividends are, in compliance with the provisions of the Articles of Association, the Board of Directors and the General Meeting of Shareholders respectively.

Based on this fundamental policy, the Company decided to distribute a year-end dividend of ¥7 per share in fiscal 2020, ended March 31, 2021. Combined with the interim dividend of ¥7, the annual dividend was maintained at ¥14 per share. For the dividend for fiscal 2021, ended March 31, 2022, the Company currently plans ¥7 per share for both the interim and year-end dividends and the annual dividend at ¥14 per share.

Fiscal 2021 Outlook

The Japanese economy continues to be in a difficult situation due to the effects of the COVID-19 pandemic. With regards to future prospects, it is expected that, while taking measures to prevent the spread of the COVID-19 pandemic, the recovery movement will continue due to the effects of various governmental policies and the improvement of overseas economies, but there are concerns about both the domestic and overseas spread of the COVID-19 pandemic as a downside risk.

Given these circumstances, the environment surrounding the pulp and paper industry continues to be uncertain due to rapid changes in demand trends in Japan and global market price trends, etc.. The Group will continue to make thorough efforts to reduce costs to strengthen its profit structure. We have prepared the following earnings forecast taking into consideration these circumstances.

Millions of yen		Change
Net sales:	¥255,000	(-14.6%)
Operating income:	¥15,000	(+781.4%)
Ordinary income:	¥20,000	(+105.0%)
Net income attributable to owners of parent company:	¥17,000	(+19.9%)

Major Business Risks

The Group currently considers the following to be its principal areas of business risks.

(Particularly important risks)

- Fluctuations in product demand and prices
- Fluctuations in raw material and fuel market prices
- Overseas political and economic circumstances
- Legal regulations and litigation
- Capital investment
- Natural disasters
- Climate change
- COVID-19
- Information security (important risk)
- Mergers and acquisitions among other capital transactions
- Share price fluctuations
- Foreign exchange rate fluctuations
- Interest rate fluctuations
- Internal control of overseas subsidiaries

Consolidated Balance Sheets

Hokuetsu Corporation and Consolidated Subsidiaries
As of March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2021	2020	2021
CURRENT ASSETS:			
Cash and deposits (Notes 4 & 5)	¥29,847	¥21,384	\$269,572
Notes and accounts receivable (Note 5)			
Trade	54,910	56,068	495,936
Unconsolidated subsidiaries and affiliates	445	438	4,019
Allowance for doubtful accounts	(3)	(7)	(27)
Inventories (Note 7)	47,466	54,352	428,703
Prepaid expenses and other	7,355	5,445	66,428
TOTAL CURRENT ASSETS	140,020	137,680	1,264,631
PROPERTY, PLANT AND EQUIPMENT:			
Land and timberland	24,883	24,994	224,738
Buildings and structures	85,263	84,722	770,078
Machinery and equipment	438,380	429,963	3,959,357
Leased assets	409	500	3,694
Right-of-use assets	2,557	2,620	23,094
Construction in progress	3,990	4,251	36,037
	555,482	547,050	5,016,998
Less accumulated depreciation	(429,033)	(419,660)	(3,874,937)
NET PROPERTY, PLANT AND EQUIPMENT	126,449	127,390	1,142,061
INVESTMENTS AND OTHER ASSETS:			
Investments in securities (Notes 5 & 6)	22,044	19,005	199,097
Investments in and receivables from unconsolidated subsidiaries and affiliates	65,512	52,099	591,691
Long-term loans receivable	4	9	36
Intangible assets	2,669	2,985	24,106
Guarantee deposits	439	482	3,965
Asset for retirement benefits (Note 17)	3,456	2,109	31,214
Deferred income taxes (Note 12)	1,621	1,840	14,641
Other (Note 8)	3,281	3,557	29,633
Allowance for doubtful accounts (Note 8)	(2,420)	(2,425)	(21,857)
TOTAL INVESTMENTS AND OTHER ASSETS	96,606	79,661	872,526
TOTAL ASSETS	¥363,075	¥344,731	\$3,279,218

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

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
CURRENT LIABILITIES:			
Short-term loans (Notes 5 & 9)	¥17,561	¥10,189	\$158,607
Commercial paper (Notes 5 & 9)	—	7,000	—
Current maturities of long-term debt (Notes 5 & 9)	25,661	9,439	231,765
Notes and accounts payable (Note 5)			
Trade	22,844	24,749	206,322
Unconsolidated subsidiaries and affiliates	626	929	5,654
Income taxes payable (Note 12)	720	1,087	6,503
Accrued expenses	8,851	8,945	79,940
Provision for business structure improvement	258	—	2,330
Other	8,495	9,194	76,726
TOTAL CURRENT LIABILITIES	85,016	71,532	767,847
LONG-TERM LIABILITIES:			
Long-term debt (Notes 5 & 9), less current maturities	70,769	80,205	639,171
Deferred income taxes (Note 12)	1,209	435	10,919
Accrued environmental expenditures	805	804	7,271
Provision for business structure improvement	—	197	—
Provision for reforestation	292	376	2,637
Liability for retirement benefits (Note 17)	6,941	7,266	62,690
Asset retirement obligations (Note 18)	2,257	2,442	20,385
Other	367	612	3,314
TOTAL LONG-TERM LIABILITIES	82,640	92,337	746,387
CONTINGENT LIABILITIES (Note 10)			
NET ASSETS (Note 11)			
SHAREHOLDERS' EQUITY:			
Common stock:			
authorized			
— 500,000,000 shares in 2021 and 2020			
issued and outstanding			
— 188,053,114 shares in 2021 and 2020	42,021	42,021	379,525
Capital surplus	45,341	45,341	409,510
Retained earnings	112,891	100,880	1,019,608
Treasury stock	(9,702)	(9,709)	(87,626)
TOTAL SHAREHOLDERS' EQUITY	190,551	178,533	1,721,017
ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAXES			
Unrealized holding gains on securities, net of taxes	4,344	2,160	39,234
Unrealized gains or losses on hedging derivatives, net of taxes	(18)	21	(163)
Foreign currency translation adjustment	(949)	337	(8,571)
Accumulated adjustments for retirement benefit, net of taxes (Note 17)	774	(868)	6,991
TOTAL ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAXES	4,151	1,650	37,491
SHARE SUBSCRIPTION RIGHTS	102	81	921
NON-CONTROLLING INTERESTS	615	598	5,555
TOTAL NET ASSETS	195,419	180,862	1,764,984
TOTAL LIABILITIES AND NET ASSETS	¥363,075	¥344,731	\$3,279,218

Consolidated Statements of Income

Hokuetsu Corporation and Consolidated Subsidiaries
For the years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
NET SALES (Note 20)	¥222,454	¥264,618	\$2,009,158
COST OF SALES	183,979	213,143	1,661,660
GROSS PROFIT	38,475	51,475	347,498
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 13)	36,773	40,266	332,126
OPERATING INCOME	1,702	11,209	15,372
OTHER INCOME (EXPENSES):			
Interest and dividend income	799	1,124	7,216
Interest expenses	(438)	(654)	(3,956)
Foreign exchange gains (losses)	190	(1,178)	1,716
Equity in income of affiliates	5,587	4,581	50,461
Gain on sales of investments in securities	5,324	897	48,085
Loss on devaluation of investments in securities	(588)	(27)	(5,311)
Loss on sales or disposal on property, plant and equipment	(1,143)	(1,752)	(10,323)
Impairment loss on long-lived asset (Note 14)	(115)	(6,383)	(1,039)
Loss on reduction of property, plant and equipment	(96)	(57)	(867)
Gain on contribution of securities to retirement benefit trust (Note 17)	—	4,875	—
Business structure improvement expenses (Note 19)	(798)	—	(7,207)
Gain on change in equity	500	49	4,516
Other, net	2,408	27	21,749
	11,630	1,502	105,040
INCOME BEFORE INCOME TAXES	13,332	12,711	120,412
INCOME TAXES (Note 12):			
Current	848	2,211	7,659
Refund of income taxes	(1,351)	—	(12,202)
Deferred	(435)	2,398	(3,929)
	(938)	4,609	(8,472)
NET INCOME	14,270	8,102	128,884
NET INCOME (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	97	29	876
NET INCOME ATTRIBUTABLE TO OWNERS OF PARENT COMPANY	¥14,173	¥8,073	\$128,008
		Yen	U.S. dollars (Note 1)
	2021	2020	2021
AMOUNTS PER SHARE OF COMMON STOCK (Note 2):			
Net income	¥84.40	¥43.45	\$0.76
Diluted net income	83.00	40.95	0.75
Cash dividends applicable to the year	12.00	12.00	0.11

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

Consolidated Statements of Comprehensive Income

Hokuetsu Corporation and Consolidated Subsidiaries
For the years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
NET INCOME	¥14,270	¥8,102	\$128,884
OTHER COMPREHENSIVE INCOME (Note 22)			
Unrealized holding gains on securities, net of taxes	2,004	(5,436)	18,100
Unrealized gains or losses on hedging derivatives, net of taxes	(43)	17	(388)
Foreign currency translation adjustments	(1,282)	722	(11,580)
Adjustments for retirement benefit, net of taxes	1,466	(1,405)	13,241
Share of other comprehensive income of associates accounted for using equity method	361	(1,322)	3,260
TOTAL OTHER COMPREHENSIVE INCOME	2,506	(7,424)	22,633
COMPREHENSIVE INCOME	¥16,776	¥678	\$151,517
Comprehensive income attribute to owners of the parent company	16,674	653	150,596
Comprehensive income attribute to non-controlling interests	102	25	921

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

Consolidated Statements of Cash Flows

Hokuetsu Corporation and Consolidated Subsidiaries
For the years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes	¥13,332	¥12,711	\$120,412
Depreciation and amortization	14,482	18,451	130,798
Impairment loss on long-lived asset	115	6,383	1,039
Business structure improvement	798	—	7,207
Loss (gain) on sales or disposal of property, plant and equipment	1,082	1,695	9,772
Loss on reduction of property, plant and equipment	96	57	867
Gain on contribution of securities to retirement benefit trust	—	(4,875)	—
Gain on sales of investments in securities	(5,320)	(897)	(48,049)
Interest and dividend income	(799)	(1,124)	(7,216)
Interest expenses	438	654	3,956
(Increase) decrease in notes and accounts receivable	981	17,551	8,860
(Increase) decrease in inventories	6,517	801	58,860
Increase (decrease) in notes and accounts payable	(2,184)	(2,339)	(19,725)
Increase (decrease) liability for retirement benefits	443	187	4,001
Equity in (income) losses of affiliates	(5,587)	(4,581)	(50,461)
Other, net	(565)	2,475	(5,102)
SUBTOTAL	23,829	47,149	215,219
Interest and dividend income received	1,450	1,528	13,096
Interest paid	(349)	(606)	(3,152)
Income taxes paid	(1,570)	(4,859)	(14,180)
Compensation received	99	—	894
Insurance payment received	302	763	2,727
NET CASH PROVIDED BY OPERATING ACTIVITIES	23,761	43,975	214,604
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payment for purchases of investment securities	(10,625)	(4,570)	(95,963)
Proceeds from sales of investment securities	7,479	2,128	67,549
Payment for purchases of property, plant and equipment	(15,526)	(14,857)	(140,228)
Proceeds from sales of property, plant and equipment	69	65	623
Other, net	(972)	(2,965)	(8,778)
NET CASH USED IN INVESTING ACTIVITIES	(19,575)	(20,199)	(176,797)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in short-term loans	7,060	(1,464)	63,764
Increase (decrease) in commercial paper	(7,000)	(3,500)	(63,223)
Proceeds from long-term loans	16,000	16,000	144,509
Repayment of long-term loans	(9,145)	(15,552)	(82,596)
Dividends paid	(2,190)	(2,275)	(19,780)
Payments for purchases of treasury stock	(1)	(10,097)	(9)
Other, net	(366)	(374)	(3,304)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	4,358	(17,262)	39,361
TRANSLATION LOSS ON CASH AND CASH EQUIVALENTS	(81)	(333)	(732)
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,463	6,181	76,436
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	21,384	15,203	193,136
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	¥29,847	¥21,384	\$269,572

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

Consolidated Statements of Changes in Net Assets

Hokuetsu Corporation and Consolidated Subsidiaries
For the Years ended March 31, 2021 and 2020

Millions of yen

	Number of shares	Common stock	Capital surplus	Retained earnings	Treasury stock	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	Accumulated adjustments for retirement benefit, net of taxes	Total accumulated other comprehensive income, net of taxes	Share subscription rights	Non-controlling interests	Total net assets
Balance at March 31, 2019	209,263,814	¥42,021	¥45,348	¥105,599	¥(9,933)	¥183,035	¥8,877	¥(2)	¥(388)	¥583	¥9,070	¥104	¥652	¥192,861
Cumulative effects of changes in accounting policies	—	—	—	(248)	—	(248)	—	—	—	—	—	—	—	(248)
Restated balance	—	¥42,021	¥45,348	¥105,351	¥(9,933)	¥182,787	¥8,877	¥(2)	¥(388)	¥583	¥9,070	¥104	¥652	¥192,613
Net income attributable to owners of parent company	—	—	—	8,073	—	8,073	—	—	—	—	—	—	—	8,073
Cash dividends (¥12.00 per share)	—	—	—	(2,269)	—	(2,269)	—	—	—	—	—	—	—	(2,269)
Disposal of treasury stock	—	—	(0)	—	55	55	—	—	—	—	—	—	—	55
Purchases of treasury stock	—	—	—	—	(10,097)	(10,097)	—	—	—	—	—	—	—	(10,097)
Retirement of treasury stock	(21,210,000)	—	(7)	(10,275)	10,282	—	—	—	—	—	—	—	—	—
Increase in treasury stock by change in equity in affiliates under equity method	—	—	—	—	(16)	(16)	—	—	—	—	—	—	—	(16)
Net changes during the year	—	—	—	—	—	—	(6,717)	23	725	(1,451)	¥(7,420)	¥(23)	¥(54)	(7,497)
Balance at March 31, 2020	188,053,114	¥42,021	¥45,341	¥100,880	¥(9,709)	¥178,533	¥2,160	¥21	¥337	¥(868)	¥1,650	¥81	¥598	¥180,862
Net income attributable to owners of parent company	—	—	—	14,173	—	14,173	—	—	—	—	—	—	—	14,173
Cash dividends (¥13.00 per share)	—	—	—	(2,184)	—	(2,184)	—	—	—	—	—	—	—	¥(2,184)
Disposal of treasury stock	—	—	—	(1)	13	12	—	—	—	—	—	—	—	12
Purchases of treasury stock	—	—	—	—	(0)	(0)	—	—	—	—	—	—	—	(0)
Change in equity resulted from increase in consolidated subsidiary's investment	—	—	(0)	—	—	—	—	—	—	—	—	—	—	(0)
Increase in treasury stock by change in equity in affiliates under equity method	—	—	—	—	(6)	(6)	—	—	—	—	—	—	—	(6)
Change in scope of affiliates under equity method	—	—	—	23	—	23	—	—	—	—	—	—	—	23
Net changes during the year	—	—	—	—	—	—	2,184	(39)	(1,286)	1,642	2,501	21	17	2,539
Balance at March 31, 2021	188,053,114	¥42,021	¥45,341	¥112,891	¥(9,702)	¥190,551	¥4,344	¥(18)	¥(949)	¥774	¥4,151	¥102	¥615	¥195,419

Thousands of U.S. dollars (Note 1)

	Number of shares	Common stock	Capital surplus	Retained earnings	Treasury stock	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	Accumulated adjustments for retirement benefit, net of taxes	Total accumulated other comprehensive income, net of taxes	Share subscription rights	Non-controlling interests	Total net assets
Balance at March 31, 2020	188,053,114	\$379,525	\$409,510	\$911,127	\$(87,690)	\$1,612,472	\$19,509	\$190	\$3,044	\$(7,840)	\$14,903	\$732	\$5,401	\$1,633,508
Net income attributable to owners of parent company	—	—	—	128,008	—	128,008	—	—	—	—	—	—	—	128,008
Cash dividends (\$0.11 per share)	—	—	—	(19,726)	—	(19,726)	—	—	—	—	—	—	—	(19,726)
Disposal of treasury stock	—	—	—	(9)	118	109	—	—	—	—	—	—	—	109
Purchases of treasury stock	—	—	—	—	(0)	(0)	—	—	—	—	—	—	—	(0)
Change in equity resulted from increase in consolidated subsidiary's investment	—	—	(0)	—	—	—	—	—	—	—	—	—	—	(0)
Increase in treasury stock by change in equity in affiliates under equity method	—	—	—	—	(54)	(54)	—	—	—	—	—	—	—	(54)
Change in scope of affiliates under equity method	—	—	—	208	—	208	—	—	—	—	—	—	—	208
Net changes during the year	—	—	—	—	—	—	19,725	(353)	(11,615)	14,831	22,588	189	154	22,931
Balance at March 31, 2021	188,053,114	\$379,525	\$409,510	\$1,019,608	\$(87,626)	\$1,721,017	\$39,234	\$(163)	\$(8,571)	\$6,991	\$37,491	\$921	\$5,555	\$1,764,984

Notes to Consolidated Financial Statements

Hokuetsu Corporation and Consolidated Subsidiaries
Years ended March 31, 2021 and 2020

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”)

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of HOKUETSU Corporation (“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, 2021, which was ¥110.72 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 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.

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

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

	Number of Companies	
	2021	2020
Consolidated subsidiaries	20	20
Affiliates accounted for by the equity method	4	4

The consolidated financial statements are prepared using their financial statements as of March 31 except for following companies;

Companies	Fiscal year end
Alberta-Pacific Forest Industries Inc.	December 31
Xing Hui Investment Holdings Co., Ltd.	December 31
Jiangmen Xinghui Paper Mill Co., Ltd.	December 31
Bernard Dumas S.A.S.	December 31
Shanghai Toh Tech Co., Ltd.	December 31

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 spot exchange rates as of the fiscal year end, with the translation gains or losses reported in profit or loss. Assets and liabilities of overseas subsidiaries are translated into Japanese yen at the spot exchange rates as of the fiscal year end, and their income and expenses are translated into Japanese yen at the average exchange rates during the fiscal year with the translation gains or losses included in foreign currency translation adjustment and non-controlling interests in the net assets section of the consolidated balance sheet.

(d) Securities

Under the Japanese accounting standard for financial instruments, all companies are required to 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, 2021 and 2020.

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 market value and the difference between market value and the carrying amount is recognized as loss in the period of the decline. If the 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 these fair values with a corresponding charge in the statement of income in the event net asset value declines significantly.

Available-for-sale securities are included in investments and other assets.

Available-for-sale securities with market values are stated at 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. Cost 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 historical 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 related to the acquisition of assets are deducted directly from the cost of the related assets.

- Buildings, structures and machinery and equipment
Mainly straight-line method over the useful lives.
- Other tangible fixed assets
Mainly declining-balance method at rates determined based on the useful lives.

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

(h) Finance leases

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

Leased assets related to finance leases without transferring ownership are depreciated over the lease period as useful life using the straight-line method with no residual value.

(i) Right-of-use assets

The right-of-use asset is subsequently amortized on a straight-line basis over the shorter of the term of the lease or the useful life of the asset determined on the same basis as the Company's property, plant and equipment. Overseas subsidiaries using International Financial Reporting Standards applies IFRS No.16 Lease (hereinafter referred to as "IFRS16"). In accordance with IFRS16, lessees are required to recognize almost all leases as assets or liabilities in the consolidated balance sheet.

(j) Accrued environmental expenditures

Accrued environmental expenditures are provided at an estimated amount for environmental expenses, including disposal cost of contaminated soil caused by the use of snow-melting agent by the Company's Canadian subsidiary and disposal of PCB (polychlorinated biphenyl) waste.

(k) Provision for loss on disaster

The Company sets aside an amount on the basis of estimated costs incurred in preparation for expenditures required for the restoration of assets damaged during a disaster.

(l) Provision for reforestation

Based on an agreement with the state government, the Company's Canadian subsidiary is engaged in forest harvesting for the purpose of procuring raw timber for pulp materials and the anticipated costs arising from reforestation and silviculture (coniferous forest) have been incorporated into accounts as liabilities.

(m) Provision for business structure improvement

A provision has been made for the amount of estimated losses incurred in connection with improvement of business structure.

(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 hedge accounting is applied.

If derivative financial instruments are used as hedges and meet certain hedging criteria, unrealized gains or losses on derivatives are recorded for changes in fair value of derivative financial instruments until the related loss or gain on the hedged items is recognized.

Special treatment has been adopted for interest rate swaps that qualify for special treatment.

In addition, integrated treatment has been adopted for interest rate and currency swaps that qualify for integrated treatment (special treatment / appropriated treatment).

(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 fiscal year. The average number of common shares used in the computation was 167,919,947 shares and 185,800,021 shares in 2021 and 2020, respectively.

For the year ended March 31, 2021, diluted net income per share was ¥83.00 (\$ 0.75).

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 methods for retirement benefits

(1) Attribution method for projected retirement benefits

In calculating retirement benefit obligations, the projected retirement benefits are attributed to the period up to the end of the current consolidated accounting period based on benefit formula basis.

(2) Method of amortization relating to actuarial gain or losses and past service cost.

Actuarial gains or losses are amortized from the subsequent financial year using the straight-line method over 10 years, which is not longer than an estimated average remaining service period of the employees when the gains or losses are incurred.

(3) Simplified method for small enterprises, etc.

When calculating retirement benefit obligations and retirement benefit costs, some consolidated subsidiaries use the simplified method, in which the year-end voluntary payments relating to retirement benefits are treated as retirement benefit obligations.

(t) Disclosure of new accounting standards issued but not yet effective

Following accounting standards and guidance are those issued but not yet adopted.

“Accounting Standard on Revenue Recognition” (ASBJ Statement No. 29; March 31, 2020)

“Implementation Guidance on Accounting Standard on Revenue Recognition” (ASBJ Guidance No. 30; March

31, 2020)

(1) Overview

This is a comprehensive accounting standard on revenue recognition. Revenues are to be recognized by applying the following five steps.

Step 1: Identify of contract with customer.

Step 2: Identify the performance obligation in contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when, or as, the entity satisfies a performance obligation.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects from adoption of this accounting standards.

The Company and its consolidated domestic subsidiaries applies these new standards from the beginning of the next fiscal year, through the recognition of the cumulative effect of the changes in accounting policies to opening retained earnings in accordance with the transitional provision set out in paragraph 84 of the Accounting Standard. The effect on opening retained earnings is immaterial.

“Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019)

“Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, July 4, 2019)

“Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, July 4, 2019)

“Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019)

“Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

In order to enhance comparability with internationally recognized accounting standards, “Accounting Standard for Fair Value Measurement” and “Implementation Guidance on Accounting Standard for Fair Value Measurement” (together, hereinafter referred to as “Fair Value Accounting Standards”) were developed and guidance on methods measuring fair value was issued. Fair Value Accounting Standards are applicable to the fair value measurement of the following items:

- Financial instruments in “Accounting Standard for Financial Instruments”; and
- Inventories held for the purpose of trading in “Accounting Standard for Measurement of Inventories”

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects from adoption of this accounting standards.

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

(u) Changes in presentation method

(Adoption of "Accounting Standard for Disclosure of Accounting Estimates")

The Companies adopted ASBJ Statement No. 31 "Accounting Standard for Disclosure of Accounting Estimates" (March 31, 2020) to the consolidated financial statements for the current consolidated fiscal year, and therefore significant accounting estimates are disclosed in the note to the consolidated financial statements.

The note does not include information for the prior consolidated fiscal year in accordance with the transitional provision set out in paragraph 11 of the Accounting Standard.

(Consolidated statements of income)

"Gain on change in equity" included in "Other" of "Other income(expenses)" in the previous fiscal year is presented independently in the current fiscal year because it has become more important.

Consolidated statements of income for the previous fiscal

year have been restated in order to reflect this change in presentation.

As a result, the amount of 76 million yen presented in "Other" of "Other income(expenses)" in the consolidated statements of income in the previous fiscal year has been restated as 49 million yen in "Gain on change in equity" and 27 million yen in "Other".

(Consolidated statements of cash flows)

"Gain on sales of investments in securities" included in "Other" of "Cash flows from operating activities" in the previous fiscal year is stated independently from the current fiscal year because it has become more important.

Consolidated financial statements in the previous fiscal year have been restated in order to reflect this change in presentation.

As a result, the amount of 1,578 million yen presented in "Other" of "Cash flows from operating activities" in the consolidated statements of cash flows in the previous fiscal year has been restated as (897) million yen in "Gain on sales of investments in securities" and 2,475 million yen in "Other".

Note 3: Significant accounting estimates

1. Recoverability of deferred income tax assets

The recoverability of deferred income tax assets must be determined based on estimates of future taxable income following future financial budget according to reasonable assumptions.

(1) Amount recorded in consolidated financial statements for the current fiscal year

The Company recorded deferred income tax assets of ¥7,777 million on the consolidated balance sheets for the current fiscal year.

(2) Other information on accounting estimates that aids user understanding of the consolidated financial statements

(i) Measurement method for amount recorded in consolidated financial statements for the current fiscal year

The Company records deferred income tax assets based on future taxable income estimated using future financial budget.

(ii) Main assumptions used in the measurement of the amount recorded in the consolidated financial statements for the current fiscal year

Future financial budget will be affected by the situation of the future spread of the COVID-19 pandemic and the timing of its conclusion. As a certain assumption in performing the best possible estimates, although conditions are expected to moderately recover in Japan, it will be difficult to recover to the level seen before the COVID-19 pandemic in the next fiscal year, and overseas it is assumed that the current situation of infections will continue until the end of the next fiscal year. Thus, the Company has estimated future taxable income considering these impacts on the financial budget.

(iii) Impacts on the financial statements for the next fiscal year

The timing and amount of taxable income may be affected by uncertain fluctuations in future economic conditions. If the actual timing and amount differs from estimates, the deferred income tax assets recorded in the consolidated financial statements for the current fiscal year could experience material impacts.

2. Impairment loss on long-lived assets

If the Company recognizes signs of impairment of long-lived assets, the Company must conduct an impairment test.

(1) Amount recorded in consolidated financial statements for the current fiscal year

The Company recorded property, plant and equipment of ¥126,449 million and intangible assets of ¥2,669 million in the consolidated balance sheets for the current fiscal year. Of this, property, plant and equipment of ¥5,698 million was recorded for consolidated subsidiary Jiangmen Xinghui Paper Mill Co., Ltd.

(2) Other information on accounting estimates that aids user understanding of the consolidated financial statements

(i) Measurement method for amount recorded in consolidated financial statements for the current fiscal year

Whether there is an indication of impairment is assessed based on the usage scope/method or situation of profit/loss occurring from sales activities in the business using the assets or asset group, in addition to the situation of related management environment or market prices.

If an indication of impairment exists, the Company will determine whether or not to recognize an impairment loss. The Company will recognize an impairment loss if the total amount of undiscounted future cash flow obtained from the asset or asset group falls below the carrying amount. The carrying amount of the asset or asset group in excess of the recoverable amount is recorded as an impairment loss. The recoverable amount is the higher amount of either the value in use or the fair value less costs of disposal.

In addition, overseas subsidiaries that use IFRS assess whether there is an indication of impairment based on external factors (raw material market, product market, interest rates, legal environment, etc.) and internal factors (more than expected deterioration in economic results, etc.) related to assets or cash-generating units.

If an indication of impairment exists, the carrying amount of the asset or cash-generating unit in excess of the recoverable amount is recorded as an impairment loss. The recoverable amount is the higher amount of either the value in use or the fair value less costs of disposal.

- (ii) Main assumptions used in the measurement of the amount recorded in the consolidated financial statements for the current fiscal year
The assessment of whether there is an indication of impairment and measurement of impairment loss will be affected by the situation of the future spread of the COVID-19 pandemic and the timing of its conclusion. As a certain assumption in performing the best possible estimates, although conditions are expected to moderately recover in Japan, it will be difficult to recover to the level seen before the COVID-19 pandemic in the next fiscal year, and overseas it is assumed that the current situation of infections will continue until the end of the next fiscal year. Thus, the Company has estimated future cash flow considering these impacts on the financial budget.

In particular, for Jiangmen Xinghui Paper Mill Co., Ltd., the Company considers the impacts of recent U.S.-China trade friction and restrictions on imports of used paper on future financial budget.

During the second quarter of the current fiscal year, Jiangmen Xinghui Paper Mill Co., Ltd. was affected by the deterioration of the product market environment due to the COVID-19 pandemic and the rise in raw material prices due to restrictions on imports of used paper.

However, the Company has determined that there is no indication of impairment of long-lived assets because it is judged that profitability increased from the improving product market environment and revised sales strategy since the third quarter, and while continuing such sales strategy initiatives, the Company has judged the conditions of the product market environment since the third quarter will continue going forward.

- (iii) Impacts on the consolidated financial statements for the next fiscal year

The future market environment and the impacts that the COVID-19 pandemic will have on business performance remain uncertain. If future business performance differs from the budget reflecting the above assumptions, there may be a need to record significant impairment losses for property, plant and equipment recorded on the consolidated financial statements for the current fiscal year.

3. Measurement of accrued environmental expenditures for Alberta-Pacific Forest Industries Inc.
The Company's consolidated subsidiary Alberta-Pacific Forest Industries Inc. has recorded the present value of estimated expenditures for soil treatment following the use of snow-melting agent as an accrued environmental expenditure.
- (1) Amount recorded in consolidated financial statements for the current fiscal year
Alberta-Pacific Forest Industries Inc.'s accrued environmental expenditures has been recorded as ¥273 million in current liabilities and ¥780 million in long-term liabilities in the consolidated balance sheets for the current fiscal year.
- (2) Other information on accounting estimates that aids user understanding of the consolidated financial statements
- (i) Measurement method for amount recorded in consolidated financial statements for the current fiscal year and main assumptions used in the measurement
The provincial laws of Alberta, Canada require soil remediation and administration as a response for soil treatment following the use of snow-melting agent. Alberta-Pacific Forest Industries Inc. has already submitted a remediation plan to the regulatory authority, but there is a possibility that the plan could require revisions due to findings during the process of plan implementation or instructions provided by the authority. The accrued environmental expenditures are measured based on the costs expected to occur in the future following the remediation plan based on the findings and instructions of the authority so far.
- (ii) Impacts on the consolidated financial statements for the next fiscal year
The current remediation plan could require revisions based on findings identified or instructions of the authority following implementation of the remediation plan in the future. In such cases, there is a possibility that significant revisions to the accrued environmental expenditures recorded in the consolidated financial statements will be required for the current fiscal year.

Note 4: Cash and Cash Equivalents

A reconciliation of cash and deposits shown in the consolidated balance sheets and cash and cash equivalents presented in the consolidated statements of cash flows at March 31, 2021 and 2020 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Cash and deposits	¥29,847	¥21,384	\$269,572
Cash and cash equivalents	¥29,847	¥21,384	\$269,572

Note 5: Financial Instruments

Information on financial instruments for the year ended March 31, 2021 and 2020 are as follows.

Status of Financial Instruments

The Companies raises necessary funds for investment plans to conduct its business of manufacturing, sale and processing of paper mainly by bank loans or issuance of bonds. Temporary cash surpluses are invested in deposits and short-term working capital 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 regularly obtain their fair value.

The Company uses interest rate swap contracts to reduce the risk of fluctuations in interest costs related to debt, and interest rate and currency swaps to reduce the risk of fluctuations in principal and interest costs related to foreign currency-denominated debt.

The Company and certain consolidated subsidiaries use forward exchange contracts to reduce the risk of fluctuations in foreign exchange rates regarding certain trade receivables and payables denominated in foreign currencies.

Fair Values of Financial Instruments

The book values, fair values and differences of the financial instruments as of March 31, 2021 and 2020 are as follows. Financial instruments with fair values not readily determinable are excluded from the following table (see (b)):

	Millions of yen		
	Book value	Fair value	Difference
			2021
(1) Cash and deposits	¥29,847	¥29,847	¥—
(2) Notes and accounts receivable	49,654	49,654	—
(3) Electronically recorded monetary claims	5,701	5,701	—
(4) Investments in securities:			
① Stocks of affiliates	60,693	78,868	18,175
② Available-for-sale securities	18,823	18,823	—
Total assets	¥164,718	¥182,893	¥18,175
(5) Notes and accounts payable	¥17,571	¥17,571	¥—
(6) Electronically recorded obligations-operating	5,899	5,899	—
(7) Short-term loans	17,561	17,561	—
(8) Commercial paper	—	—	—
(9) Bonds*1	30,000	30,015	15
(10) Long-term loans payable*2	64,510	64,552	42
Total liabilities	¥135,541	¥135,598	¥57
Derivative transactions*3	¥(34)	¥(34)	¥—
			2020
			Millions of yen
	Book value	Fair value	Difference
(1) Cash and deposits	¥21,384	¥21,384	¥—
(2) Notes and accounts receivable	50,078	50,078	—
(3) Electronically recorded monetary claims	6,428	6,428	—
(4) Investments in securities:			
① Stocks of affiliates	47,204	52,973	5,769
② Available-for-sale securities	13,714	13,714	—
Total assets	¥138,808	¥144,577	¥5,769
(5) Notes and accounts payable	¥19,360	¥19,360	¥—
(6) Electronically recorded obligations-operating	6,318	6,318	—
(7) Short-term loans	10,189	10,189	—
(8) Commercial paper	7,000	7,000	—
(9) Bonds*1	30,000	29,953	(47)
(10) Long-term loans payable*2	57,610	57,589	(21)
Total liabilities	¥130,477	¥130,409	¥(68)
Derivative transactions*3	¥29	¥29	¥—

	Thousands of U.S. dollars		
	Book value	Fair value	2021 Difference
(1) Cash and deposits	\$269,572	\$269,572	\$—
(2) Notes and accounts receivable	448,465	448,465	—
(3) Electronically recorded monetary claims	51,490	51,490	—
(4) Investments in securities:			
① Stocks of affiliates	548,167	712,320	164,153
② Available-for-sale securities	170,005	170,005	—
Total assets	\$1,487,699	\$1,651,852	\$164,153
(5) Notes and accounts payable	\$158,697	\$158,697	\$—
(6) Electronically recorded obligations-operating	53,279	53,279	—
(7) Short-term loans	158,607	158,607	—
(8) Commercial paper	—	—	—
(9) Bonds* ¹	270,954	271,089	135
(10) Long-term loans payable* ²	582,641	583,021	380
Total liabilities	\$1,224,178	\$1,224,693	\$515
Derivative transactions* ³	\$(307)	\$(307)	\$—

*1 Bonds payable within a year are classified as "current maturities of long-term debt" on the consolidated balance sheets.

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

*3 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

With regard to deposits with indefinite maturity and time deposits with maturities within one year, the carrying values approximate fair value.

(2) Notes and accounts receivable and (3) Electronically recorded monetary claims

The carrying values of assets mentioned above approximate fair value because of their short maturities.

(4) Investments in securities

The fair value of marketable equity securities is measured at the quoted market price of the stock exchange. Please see Note 6 regarding securities categorized by holding purposes.

Liabilities

(5) Notes and accounts payable (6) Electronically recorded obligations-operating (7) Short-term loans, and (8) Commercial paper

The carrying values of liabilities mentioned above approximate fair value because of their short maturities.

(9) Bonds

The fair value of bonds issued by the Company is measured at the quoted market price.

(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 and integrated treatment for interest rate currency swaps are determined by discounting the aggregated amount of the principal and interest that are included as part of the relevant interest rate swap and interest rate currency swap at the estimated interest rate, assuming that the same type of borrowing was newly made.

Derivative Transactions

For details of derivative transactions, see Note 16.

(b) Unlisted equity securities 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 (4) Investments in securities.

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Unlisted equity securities	¥7,313	¥9,448	\$66,049

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

	Millions of yen				Thousands of U.S. dollars	
	2021		2020		2021	
	Due in one year	Due over one year	Due in one year	Due over one year	Due in one year	Due over one year
Cash and deposits	¥29,847	¥—	¥21,384	¥—	\$269,572	\$—
Notes and accounts receivable	49,654	—	50,078	—	448,465	—
Electronically recorded monetary claims	5,701	—	6,428	—	51,490	—
Total	¥85,202	¥—	¥77,890	¥—	\$769,527	\$—

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

	Millions of yen					
	2021					
	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 loans	¥17,561	¥—	¥—	¥—	¥—	¥—
Commercial paper	—	—	—	—	—	—
Bonds	20,000	—	10,000	—	—	—
Long-term loans payable*	5,367	25,685	4,571	12,570	13,175	3,142
Total	¥42,928	¥25,685	¥14,571	¥12,570	¥13,175	¥3,142

	Millions of yen					
	2020					
	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 loans	¥10,189	¥—	¥—	¥—	¥—	¥—
Commercial paper	7,000	—	—	—	—	—
Bonds	—	20,000	—	10,000	—	—
Long-term loans payable*	9,150	5,364	25,682	4,568	12,568	278
Total	¥26,339	¥25,364	¥25,682	¥14,568	¥12,568	¥278

	Thousands of U.S. dollars					
	2021					
	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 loans	\$158,607	\$—	\$—	\$—	\$—	\$—
Commercial paper	—	—	—	—	—	—
Bonds	180,636	—	90,318	—	—	—
Long-term loans payable*	48,474	231,981	41,284	113,530	118,994	28,378
Total	\$387,717	\$231,981	\$131,602	\$113,530	\$118,994	\$28,378

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

Note 6: Securities

The following tables summarize acquisition costs and book value of securities with available fair value at March 31, 2021 and 2020:

Available-for-sale securities:

Type	Millions of yen		
	Acquisition cost	Book value	2021 Difference
Equity securities:			
with book value (fair value) exceeding acquisition costs	¥11,400	¥16,760	¥5,360
with book value (fair value) not exceeding acquisition costs	2,443	2,063	(380)
	¥13,843	¥18,823	¥4,980

Type	Millions of yen		
	Acquisition cost	Book value	2020 Difference
Equity securities:			
with book value (fair value) exceeding acquisition costs	¥6,476	¥10,109	¥3,633
with book value (fair value) not exceeding acquisition costs	5,061	3,605	(1,456)
	¥11,537	¥13,714	¥2,177

Type	Thousands of U.S. dollars		
	Acquisition cost	Book value	2021 Difference
Equity securities:			
with book value (fair value) exceeding acquisition costs	\$102,962	\$151,372	\$48,410
with book value (fair value) not exceeding acquisition costs	22,065	18,633	(3,432)
	\$125,027	\$170,005	\$44,978

Total sales of available-for-sale securities sold in the year ended March 31, 2021 amounted to ¥7,479 million (\$67,549 thousand), the related gains amounted to ¥5,324 million (\$48,085 thousand) and the related losses

amounted to ¥4 million (\$36 thousand). Total sales of available-for-sale securities sold in the year ended March 31, 2020 amounted to ¥2,128 million, the related gains amounted to ¥897 million.

Note 7: Inventories

Inventories at March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Merchandise and Finished goods	¥22,375	¥29,201	\$202,086
Work-in-process	2,379	2,429	21,487
Raw materials and supplies	22,712	22,722	205,130
	¥47,466	¥54,352	\$428,703

Note 8: Amounts Relating to Fraudulent Activity for the year ended March 31, 2015

Balances relating to fraudulent activity at March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Balances:			
Investments and other assets			
Other	¥2,360	¥2,360	\$21,315
Allowance for doubtful accounts	(2,360)	(2,360)	(21,315)

Note 9: Short-Term Debt, Commercial Paper, and Long-Term Debt

(1) Short-term debt had weighted-average interest rates of 0.76% and 1.36% at March 31, 2021 and 2020, respectively.

(2) The weighted-average interest rate on commercial paper was (0.00)% at March 31, 2020.

(3) Long-term debt at March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Long-term loans from banks and other financial institutions			
(Loans due with one year, weighted-average interest rate 0.45%)	¥5,367	¥9,150	\$48,474
(Loans due after one year, weighted-average interest rate 0.22%)	59,143	48,460	534,167
0.170% unsecured yen straight bonds due in 2021	10,000	10,000	90,318
0.180% unsecured yen straight bonds due in 2021	10,000	10,000	90,318
0.220% unsecured yen straight bonds due in 2024	10,000	10,000	90,318
Lease obligations			
(Loans due with one year)	294	289	2,655
(Loans due after one year)	1,626	1,745	14,686
	96,430	89,644	870,936
Less current portion due with one year	(25,661)	(9,439)	(231,765)
Long-term debt	¥70,769	¥80,205	\$639,171

(4) The annual maturities of long-term debt at March 31, 2021 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2022	¥25,661	\$231,765
2023	25,935	234,239
2024	14,812	133,779
2025	12,797	115,580
2026	13,397	120,999
2027 and thereafter	3,828	34,574
	¥96,430	\$870,936

Note 10: Contingent Liabilities

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Guarantee obligation	¥6	¥6	\$54
Transfer of electronically recorded receivables	3	34	27

Note 11: Net Assets

Net assets comprise four subsections, which are shareholders' equity, accumulated other comprehensive income, net of tax, share subscription rights and non-controlling interests.

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

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

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

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

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

At the annual shareholders' meeting held on June 29, 2021, the shareholders approved cash dividends amounting to ¥1,180 million(\$10,658 thousand). Such appropriations have not been accrued in the consolidated financial statements at March 31, 2021. Such appropriations are recognized in the period in which they are approved by the shareholders.

Note 12: 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 30.5% for the year ended March 31, 2021 and 2020.

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, 2021 and 2020:

	2021	2020
Statutory tax rate	30.5%	30.5%
Non-deductible expenses	0.3	1.6
Dividends received not taxable	(2.6)	(0.1)
Per capita inhabitants taxes	0.4	0.4
Valuation allowance	(25.3)	(0.8)
Effect of change in tax rates	—	(5.4)
Equity in income of affiliates	(12.8)	(11.0)
Difference from tax rate of foreign subsidiaries	1.0	20.6
Other	1.5	0.5
Effective tax rate	(7.0)	36.3

Significant components of deferred income tax assets and liabilities at March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Deferred income tax assets:			
Accrued bonuses	¥716	¥788	\$6,467
Unrealized gain from sales of inventories	72	197	650
Liability for retirement benefit	4,406	4,543	39,794
Long-term accrued amount payable	20	20	181
Unrealized gain from sales of fixed assets	872	901	7,876
Unrealized holding gain on fixed assets	310	907	2,800
Depreciation and amortization	578	686	5,220
Impairment loss of fixed assets	1,850	2,022	16,709
Loss on devaluation of investments in securities	1,139	961	10,287
Provision for business structure improvement	83	60	750
Accrued environmental expenditures	260	266	2,348
Asset retirement obligations	636	690	5,744
Net operating loss carry forwards	2,951	2,662	26,653
Allowance for doubtful accounts	824	831	7,442
Accumulated adjustments for retirement benefit	—	378	—
Other	2,529	2,111	22,841
Subtotal deferred income tax assets	17,246	18,023	155,762
Valuation allowance related to net operating loss carryforwards (Note 2)	(1,917)	(2,210)	(17,314)
Valuation allowance related to deductible temporary differences (Note 1)	(7,552)	(8,138)	(68,208)
Valuation allowance (Note 1)	(9,469)	(10,348)	(85,522)
Total deferred income tax assets	¥7,777	¥7,675	\$70,240
Deferred income tax liabilities:			
Asset for retirement benefit	¥(2,791)	¥(2,399)	\$(25,208)
Reserve deductible for Japanese tax purpose	(24)	(44)	(217)
Reserve for deferred gain on sales of fixed assets for tax purpose	(797)	(813)	(7,198)
Valuation difference on Property, plant and equipment	(1,939)	(1,942)	(17,513)
Unrealized holding gain on securities	(1,672)	(871)	(15,101)
Accumulated adjustments for retirement benefit	(277)	—	(2,502)
Other	135	(201)	1,221
Total deferred income tax liabilities	¥(7,365)	¥(6,270)	\$(66,518)
Net deferred income tax assets (liabilities)	¥412	¥1,405	\$3,722

Note 1: The valuation allowance decreased by 879 million yen. The main reason for this decrease is due to the decrease in valuation allowance related to unrealized holding gain on fixed assets at certain consolidated subsidiary.

Note 2: The total amount of net operating loss carryforwards and other deferred income tax assets for each period carried forward for tax purposes.

Year ended March 31, 2021

	Millions of yen						
	2022	2023	2024	2025	2026	2027 and thereafter	Total
Loss carryforwards (a)	¥346	22	676	440	5	1,462	¥2,951
Valuation allowances	¥(336)	(22)	(675)	(440)	(5)	(439)	¥(1,917)
Deferred income tax assets	¥10	—	1	—	—	1,023	¥1,034

	Thousands of U.S. dollars						
	2022	2023	2024	2025	2026	2027 and thereafter	Total
Loss carryforwards (a)	\$3,125	199	6,105	3,974	45	13,205	\$26,653
Valuation allowances	\$(3,035)	(199)	(6,096)	(3,974)	(45)	(3,965)	\$(17,314)
Deferred income tax assets	\$90	—	9	—	—	9,240	\$9,339

(a) Net operating loss carryforwards is the amount multiplied by the statutory effective tax rate.

(b) The amount of ¥1,034 million (\$9,339 thousand) of deferred income tax assets is recorded for net operating loss carryforwards

- of ¥2,951 million (\$26,653 thousand) (amount multiplied by the statutory effective tax rate).
- (c) The amount of ¥1,034 million (\$9,339 thousand) in deferred income tax assets was mainly recognized with regards to the balance of net operating loss carryforwards at the Company of ¥991 million (\$8,951 thousand) (amount multiplied by the statutory effective tax rate).
- A valuation allowance has not been recognized for the part determined to be recoverable due to projected future taxable income with regard to the net operating loss carryforwards recorded in deferred income tax assets.

Year ended March 31, 2020							Millions of yen	
	2021	2022	2023	2024	2025	2026 and thereafter	Total	
Loss carryforwards (a)	¥623	439	22	667	435	476	¥2,662	
Valuation allowances	¥(623)	(428)	(22)	(667)	(435)	(35)	¥(2,210)	
Deferred income tax assets	¥—	11	—	—	—	441	¥452	

- (a) Net operating loss carryforwards is the amount multiplied by the statutory effective tax rate.
- (b) The amount of 452 million yen of deferred income tax assets is recorded for net operating loss carryforwards of 2,662 million (amount multiplied by the statutory effective tax rate).
- (c) The amount of 452 million yen in deferred tax assets was mainly recognized with regards to the balance of net operating loss carryforwards at the Company of 425 million yen (amount multiplied by the statutory effective tax rate).
- A valuation allowance has not been recognized for the part determined to be recoverable due to projected future taxable income with regard to the net operating loss carryforwards recorded in deferred income tax assets.

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 ¥666million (\$6,015 thousand) and ¥682 million for the years ended March 31, 2021 and 2020, respectively.

Note 14: Impairment Loss on Long-lived Asset

The Companies classify long-lived asset 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.

In the year ended March 31, 2021, the Companies recorded impairment loss on long-lived asset for the following group assets:

Use	Location	Type	Amount	Amount
			Millions of yen	Thousands of U.S. dollars
Held for sale assets	Suita, Osaka and elsewhere	Buildings and structures, etc.	360	3,252
Idle assets	Chuo-ku, Tokyo and elsewhere	Buildings and structures, etc.	4	36
Total	—	—	¥364	\$3,288

(Process for Recognition of Impairment Loss on Long-lived Asset)

In terms of held for sale assets of the paper and pulp business, packaging and paper processing business and other businesses, the Company has decided to transfer long-lived asset with the purpose of effectively utilizing management resources and strengthening financial soundness. The book value of these assets was reduced to the recoverable amount and recorded ¥249 million (\$2,249 thousand) in business structure improvement expenses and ¥111 million (\$1,003 thousand) as impairment losses in other expenses.

In addition, since idle assets are not expected to be used in the future, their book value was reduced to the recoverable amount and, in turn, this amount was booked in other expenses as an impairment loss. The recoverable amount is measured based on the fair value less costs of disposal. The fair value less costs of disposal for assets held for sale is evaluated based on the planned selling price and is set at zero for assets that are difficult to sell or convert to other uses.

In the year ended March 31, 2020, the Companies recorded impairment loss on long-lived asset for the following group of assets:

Use	Location	Type	Amount
			Millions of yen
White paperboard business	Guangdong, China	Machinery and equipment, Vehicles, etc.	¥6,309
Afforestation business	Alberta, Canada	Right-of-use assets	73
Paper processing facilities	Tokorozawa, Saitama	Machinery and equipment, Vehicles	1
Idle assets	Shingu, Wakayama and elsewhere	Land, etc.	0
Total	—	—	¥6,383

(Process for Recognition of Impairment Loss on long-lived Asset)

With the deterioration of the business environment due to U.S.-China trade friction, in the white paperboard production facilities of the Paper and Pulp segment, where the recoverable amount is less than the book value, the book value has been reduced to the recoverable amount, and the amount of the decrease is an impairment loss recorded as an other expense.

In evaluating afforestation business assets at fair value and a book value of zero for afforestation business assets in the Paper and Pulp Segment, the book value of related right-of-use assets was reduced to the recoverable amount, and the amount of the decrease is an impairment loss recorded as an other expense.

The recoverable amount of these items is calculated by the fair value based on IFRS. The recoverable amount of white paperboard production facilities is the fair value

less costs of disposal, and is calculated by a third-party appraisal.

In the Packaging and Paper Processing segment, the Board of Directors decided to withdraw from the target business because there are no expectations that demand will recover and it is difficult to maintain the system, so the book value is reduced to the recoverable amount and the amount of the decrease is an impairment loss recorded as an other expense.

With regard to idle assets, the book value was reduced to the recoverable amount because their future use is not expected, and the amount of the decrease is an impairment loss recorded as an other expense.

The recoverable amount of these items is measured by the fair value less costs of disposal and evaluated based on a reasonable estimate. The recoverable amount for the assets which have difficulty in sale and other conversion is evaluated as zero.

Note 15: Lease Transactions

Lease transactions for the years ended March 31, 2021 and 2020 are as follows:

Operating lease transactions

Lease commitments under non-cancelable operating leases at March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
(lessee)			
Due within one year	¥133	¥152	\$1,201
Due after one year	188	403	1,698
	¥321	¥555	\$2,899
(lessor)			
Due within one year	¥26	¥25	\$235
Due after one year	365	391	3,296
	¥391	¥416	\$3,531

Note 16: Derivative Transactions

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

The Companies use forward exchange contracts to avert exposure to market risks arising from changes in foreign exchange rates, interest rate swap contracts to avert the Companies' exposure to adverse movements in interest rates and interest rate and currency swap contracts to avert the Companies' exposure to adverse movements in principal and interest on foreign currency loans payable.

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

The derivative transactions are executed by the Company's Corporate Planning Department and managed by the Company's Accounting Department in accordance with the established policies and within the specified limits on the amounts of derivative transactions allowed. Information on derivative transactions is reported quarterly to the president, general managers, and other management.

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 fair value of 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.

Among hedging relationships, the Company and its consolidated domestic subsidiaries have applied the exception set out in the "Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR" (PITF No.40, September 29, 2020) to all of those hedging relationships that are within the scope of the Practical Solution. The details of the hedging relationships to which the Practical Solution is applied are as follows

Method of hedge accounting: Deferred hedge accounting

Special treatment has been adopted for interest swaps that qualify for special treatment.

Hedging instrument: Derivative financial instruments (interest rate swaps)

Hedged item: Payment of interest rate related to funding

Type of hedge: Cash flow hedge

Derivative transactions for which hedge accounting had not been applied at March 31, 2021 and 2020 are as follows:

(1) Currency-related

Type of derivative transaction	Millions of yen								Thousands of U.S. dollars			
	2021				2020				2021			
	Notional amount		Fair value	Valuation Gain (Loss)	Notional amount		Fair value	Valuation Gain (Loss)	Notional amount		Fair value	Valuation Gain (Loss)
	Total	Over one year				Total			Over one year			
Forward exchange contracts												
Sale contracts												
U.S. Dollar	¥313	¥—	¥(6)	¥(6)	¥—	¥—	¥—	¥—	\$2,827	\$—	\$(54)	\$(54)
Buy contracts												
U.S. Dollar	¥449	¥—	¥3	¥3	¥—	¥—	¥—	¥—	\$4,055	\$—	\$27	¥27

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

Derivative transactions for which hedge accounting had been applied at March 31, 2021 and 2020 are as follows:

(1) Currency-related

Type of derivative transaction	Millions of yen						Thousands of U.S. dollars		
	2021			2020			2021		
	Notional amount		Fair value	Notional amount		Fair value	Notional amount		Fair value
	Total	Over one year		Total	Over one year		Fair value	Total	
Forward exchange contracts									
Buy contracts									
U.S. Dollar	¥404	¥—	¥(31)	¥1,487	¥—	¥25	\$3,649	\$—	\$(280)
EUR	¥—	¥—	¥—	¥175	¥—	¥4	\$—	\$—	\$—

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

(2) Interest –related

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						Thousands of U.S. dollars		
		2021			2020			2021		
		Notional amount		Fair value	Notional amount		Fair value	Notional amount		Fair value
Total	Over one year	Total	Over one year		Total	Over one year				
Interest rate swap contracts										
Receive floating, Pay fixed	Long-term loans payable	¥6,820	¥6,060	¥—	¥7,580	¥6,820	¥—	\$61,597	\$54,733	\$—

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

Market value of interest rate swap is included in the corresponding hedged long-term debt as this interest

rate swap is recorded as an adjustment to the corresponding hedged long-term debt under the special treatment.

(3) Interest and currency –related

Type of derivative transaction	Main hedged items	Millions of yen						Thousands of U.S. dollars		
		2020			2019			2020		
		Notional amount		Fair value	Notional amount		Fair value	Notional amount		Fair value
Total	Over one year	Total	Over one year		Total	Over one year				
Interest rate and currency swaps contracts										
Receive floating, Pay fixed Receive U.S. dollar, Pay Japanese Yen	Long-term loans payable	¥8,780	¥7,813	¥—	¥9,747	¥8,780	¥—	\$79,299	\$70,565	\$—

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

Market value of interest rate and currency swap is

included in the corresponding hedged long-term debt as this interest rate and currency swap is recorded as an adjustment to the corresponding hedged long-term debt under the special treatment.

Note 17: Retirement Benefits

The Company and its consolidated subsidiaries have in place a corporate pension fund plan and a lump-sum retirement payment plan as their defined benefit pension plan, and some consolidated subsidiaries use small-to-medium enterprises' retirement benefit mutual aid schemes in conjunction therewith. Furthermore, the Company has set up a retirement benefits trust. In

addition, a defined contribution pension plan has been established for certain overseas consolidated subsidiary.

Under the corporate pension fund plan and the lump-sum retirement payment plan of some consolidated subsidiaries, liabilities for retirement benefit and retirement benefit costs are calculated using the simplified method.

1. Defined benefit plans, except plan applied simplified method

(1) Movement in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Balance at the beginning of the year	¥16,973	¥16,453	\$153,297
Service cost	799	810	7,216
Interest cost	110	113	993
Actuarial (gain) loss	(21)	225	(190)
Benefits paid	(521)	(647)	(4,706)
Other	(27)	19	(242)
Balance at the end of the year	¥17,313	¥16,973	\$156,368

(2) Movements in plan assets

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Balance at the beginning of the year	¥13,231	¥8,454	\$119,500
Expected return on plan assets	81	99	732
Actuarial (gain) loss	1,833	(1,637)	16,555
Contributions paid by the employer	169	189	1,526
Benefits paid	(241)	(280)	(2,177)
Contribution to retirement benefit trust	—	6,394	—
Other	(20)	12	(180)
Balance at the end of the year	¥15,053	¥13,231	\$135,956

(3) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Funded retirement benefit obligations	¥13,995	¥13,800	\$126,400
Plan assets	(15,053)	(13,231)	(135,956)
	(1,058)	569	(9,556)
Unfunded retirement benefit obligations	3,318	3,173	29,968
Total Net liability (asset) for retirement benefits	2,260	3,742	20,412
Liability for retirement benefits	5,647	5,844	51,003
Asset for retirement benefits	(3,387)	(2,102)	(30,591)
Total Net liability (asset) for retirement benefits	¥2,260	¥3,742	\$20,412

(4) Retirement benefit costs	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Service cost	¥799	¥810	\$7,216
Interest cost	110	112	993
Expected return on plan assets	(81)	(99)	(732)
Net actuarial gain amortization	258	(157)	2,330
Other	1	2	11
Total retirement benefit costs	¥1,087	¥668	\$9,818
Gain on contribution of securities to retirement benefit trust*	—	(4,875)	—

*This account is recorded in other income.

(5) Adjustments for retirement benefit	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Actuarial gains and (losses)	¥2,113	¥(2,019)	\$19,084
Other	0	1	0
Total adjustments for retirement benefit	¥2,113	¥(2,018)	\$19,084

(6) Accumulated adjustments for retirement benefit	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Unrecognized actuarial gains and (losses)	¥(858)	¥1,255	\$(7,749)

(7) Plan assets

1. Plan assets comprise:

	2021	2020
Bonds	18.8%	18.6%
Equity securities	67.2%	65.4%
Cash and deposits	4.0%	3.4%
General account of life insurance companies	9.0%	10.2%
Other	1.0%	2.4%
Total*	100.0%	100.0%

* Total plan assets include the pension benefits trust, established under the corporate pension system, which accounted for 46.5% and 45.1% of plan assets in the previous and the current fiscal year, respectively.

2. Determination method of long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets

have been considered in determining the long-term expected rate of return.

(8) Actuarial assumptions

The principal actuarial assumptions:

	2021	2020
Discount rate	0.6% (mainly)	0.6% (mainly)
Long-term expected rate of return	1.0% (mainly)	1.0% (mainly)
Anticipated rate of increase	2.8% (mainly)	2.8% (mainly)

2. Defined benefit plan applying the simplified method

(1) Movement in liability for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Balance at the beginning of the year	¥1,415	¥1,346	\$12,780
Retirement benefit costs	152	285	1,373
Benefits paid	(250)	(129)	(2,258)
Contributions paid by the employer	(94)	(86)	(849)
Other	2	(1)	18
Balance at the end of the year	¥1,225	¥1,415	\$11,064

(2) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Funded retirement benefit obligations	¥905	¥883	\$8,174
Plan assets	(948)	(833)	(8,562)
	(43)	50	(388)
Unfunded retirement benefit obligations	1,268	1,365	11,452
Total Net liability (asset) for retirement benefits	1,225	1,415	11,064
Liability for retirement benefits	1,294	1,422	11,687
Asset for retirement benefits	(69)	(7)	(623)
Total Net liability (asset) for retirement benefits	¥1,225	¥1,415	\$11,064

(3) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Total retirement benefit costs based on the simplified method	¥152	¥285	\$1,373

3. Defined contribution pension plan

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Required contributions provided to defined contribution pension plans at consolidated subsidiary	¥349	¥355	\$3,152

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 to be incurred at the time of removal from buildings and structures owned by the Company, treatment expenses

stipulated by the Waste Management and Public Cleansing Act, and expenses for the restoration to their original state of properties leased by consolidated subsidiaries.

(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 (1.020)% to 2.330% is used.

(3) Movement in the total amount of the relevant asset retirement obligations during the fiscal year ended March 31, 2021 and 2020:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Balance at the beginning of the year	¥2,516	¥2,541	\$22,724
Increase from acquisition of property, plant and equipment	3	48	27
Unwinding of discount	11	12	99
Increase due to change in estimates	85	47	768
Decrease in loss on disposal of property, plant and equipment	(203)	(161)	(1,833)
Foreign currency translation adjustment	(34)	29	(307)
Balance at the end of the year	¥2,378	¥2,516	\$21,478

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

The Companies have obligations to restore land, buildings and other structures which the Companies use under lease or rental contracts to their original state when vacating them. However, in case the use periods of the leased properties related to such obligations are

indefinite, and also in view of the fact that the Companies currently have no plan to exit 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.

Note19: Business structure improvement expenses

It was decided to dissolve and liquidate Kishu Kohatsu Co., Ltd., a consolidated subsidiary of the Company, and sell its property, plant and equipment which are leased from the Company.

Business structure improvement expenses consist mainly of the premium retirement allowance of Kishu Kohatsu Co., Ltd., impairment loss and removal costs of the property, plant and equipment.

Note 20: Segment Information

1. Overview of Reportable Segments

Reportable segments of the Company are components 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 Companies evaluate business results on an each company basis, and treat independent entity as a unit functioning within each of its business segments. The Company groups each company into segments according to commonality in economic characteristics, product manufacturing methods and markets. Based on this approach, the Company maintains five reporting segments: the "Paper and Pulp Business", the "Packaging and Paper Processing Business" the "Wood Material Business", the "Engineering Business" and the "Logistics Business".

The Paper and Pulp Business consists of the manufacture and sale of paper and pulp products, while the Packaging

and Paper Processing Business consists 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.

The Wood Material Business consists of collection and sales of fuel chips for biomass boilers. The Engineering Business consists of construction and the manufacture, sales and upkeep of machinery. The Logistics Business consists of the general cargo transport business and the warehousing business.

The Company has changed the presentation method of business segments. The Wood Material Business, Engineering Business and Logistics Business previously included in the "other" segment are presented as individual reporting segments from the current fiscal year because of the quantitative increase in their materiality.

Furthermore, segment information for the previous fiscal year has been presented and disclosed according to the reporting segment classification for the current fiscal year.

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 reportable 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 on segment sales, segment income or loss, segment assets and other significant items:

	Millions of yen								
	2021								
	Paper and Pulp Business	Packaging and Paper Processing Business	Wood Material Business	Engineering Business	Logistics Business	Total	Others*1	Adjustments*2	Consolidated*3
Sales:									
Sales to outside customers	¥198,770	¥15,600	¥3,419	¥912	¥830	¥219,531	¥2,923	¥—	¥222,454
Intersegment sales or transfers	2,438	73	1,841	6,012	12,179	22,543	4,663	(27,206)	—
Total	201,208	15,673	5,260	6,924	13,009	242,074	7,586	(27,206)	222,454
Segment income	¥673	¥89	¥318	¥229	¥(159)	¥1,150	¥(61)	¥613	¥1,702
Segment assets	¥344,341	¥16,077	¥3,788	¥5,344	¥4,990	¥374,540	¥3,224	¥(14,689)	¥363,075
Other items									
Depreciation and amortization	¥13,468	¥901	¥133	¥62	¥261	¥14,825	¥38	¥(381)	¥14,482
Impairment loss	¥130	¥82	¥1	¥—	¥—	¥213	¥151	¥—	¥364
Investment in affiliates	¥62,552	¥—	¥—	¥—	¥—	¥62,552	¥—	¥—	¥62,552
Increase in property, plant and equipment/intangible assets	¥13,790	¥356	¥40	¥40	¥231	¥14,457	¥65	¥(386)	¥14,136

	Thousands of U.S. dollars								
	2021								
	Paper and Pulp Business	Packaging and Paper Processing Business	Wood Material Business	Engineering Business	Logistics Business	Total	Others*1	Adjustments*2	Consolidated*3
Sales:									
Sales to outside customers	\$1,795,249	\$140,896	\$30,880	\$8,237	\$7,496	\$1,982,758	\$26,400	\$—	\$2,009,158
Intersegment sales or transfers	22,020	659	16,628	54,299	109,998	203,604	42,115	(245,719)	—
Total	1,817,269	141,555	47,508	62,536	117,494	2,186,362	68,515	(245,719)	2,009,158
Segment income	\$6,078	\$804	\$2,872	\$2,068	\$(1,436)	\$10,386	\$(550)	\$5,536	\$15,372
Segment assets	\$3,110,016	\$145,204	\$34,213	\$48,266	\$45,069	\$3,382,768	\$29,118	\$(132,668)	\$3,279,218
Other items									
Depreciation and amortization	\$121,640	\$8,138	\$1,201	\$560	\$2,357	\$133,896	\$343	\$(3,441)	\$130,798
Impairment loss	\$1,174	\$741	\$9	\$—	\$—	\$1,924	\$1,364	\$—	\$3,288
Investment in affiliates	\$564,957	\$—	\$—	\$—	\$—	\$564,957	\$—	\$—	\$564,957
Increase in property, plant and equipment/intangible assets	\$124,549	\$3,215	\$361	\$361	\$2,086	\$130,572	\$587	\$(3,486)	\$127,673

*1 The “Others” category indicates business segments not included in the reportable segments, encompassing the wastepaper wholesale business.

*2 Amounts of adjustments are as follows:

- (1) Adjustments in segment income in the amount of ¥613 million (\$5,536 thousand) mainly represent eliminations of intersegment transactions.
- (2) Adjustments in segment assets in the amount of ¥(14,689) million (\$(132,668) thousand) include ¥(19,901) million (\$(179,742) thousand) for eliminations of intersegment debts and credits and ¥5,213 million (\$47,083 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 ¥(386) million (\$(3,486) 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.

*4 ¥249 million (\$2,249 thousand) impairment loss is included in business structure improvement expenses of extraordinary loss ¥798 million (\$7,207 thousand).

Millions of yen

2020

	Paper and Pulp Business	Packaging and Paper Processing Business	Wood Material Business	Engineering Business	Logistics Business	Total	Others*1	Adjustments*2	Consolidated*3
Sales:									
Sales to outside customers	¥237,895	¥18,228	¥2,877	¥933	¥1,103	¥261,036	¥3,582	¥—	¥264,618
Intersegment sales or transfers	2,629	68	2,324	6,817	14,446	26,284	12,151	(38,435)	—
Total	240,524	18,296	5,201	7,750	15,549	287,320	15,733	(38,435)	264,618
Segment income	¥9,322	¥418	¥284	¥340	¥(28)	¥10,336	¥294	¥579	¥11,209
Segment assets	¥325,676	¥17,759	¥3,632	¥6,607	¥4,969	¥358,643	¥5,411	¥(19,323)	¥344,731
Other items									
Depreciation and amortization	¥17,470	¥954	¥133	¥68	¥198	¥18,823	¥41	¥(413)	¥18,451
Impairment loss	¥6,382	¥1	¥—	¥—	¥—	¥6,383	¥0	¥—	¥6,383
Investment in affiliates	¥49,097	¥—	¥—	¥—	¥—	¥49,097	¥—	¥—	¥49,097
Increase in property, plant and equipment/intangible assets	¥14,580	¥1,269	¥372	¥91	¥344	¥16,656	¥29	¥(454)	¥16,231

*1 The "Others" category indicates business segments not included in the reportable segments, encompassing the wastepaper wholesale.

*2 Amounts of adjustments are as follows:

- (1) Adjustments in segment income in the amount of ¥579 million (\$5,320 thousand) mainly represent eliminations of intersegment transactions.
- (2) Adjustments in segment assets in the amount of ¥(19,323) million (\$177,552 thousand) include ¥(23,483) million (\$215,777 thousand) for eliminations of intersegment debts and credits and ¥4,160 million (\$38,225 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 ¥(454) million (\$4,172 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.

(Related information)

Year ended March 31, 2021

1. Information by Region**(1) Net Sales**

Millions of yen

2021

	Japan	China	United States	Asia	Others	Total
Net Sales	¥153,985	¥28,786	¥17,291	¥13,508	¥8,884	¥222,454

Thousands of U.S. dollars

2021

	Japan	China	United States	Asia	Others	Total
Net Sales	\$1,390,760	\$259,989	\$156,169	\$122,001	\$80,239	\$2,009,158

Classification of net sales is determined by country or geographical location of customers.

Major countries and areas which belong to segments other than Japan are as follows:

- (1) AsiaSouth Korea, Vietnam, Taiwan, Thailand, Malaysia
- (2) Other.....Europe, Canada, the Middle East, Latin America

(2) Property, plant and equipment

Millions of yen

2021

	Japan	Canada	Others	Total
Property, plant and equipment	¥103,524	¥15,267	¥7,658	¥126,449

Thousands of U.S. dollars

2021

	Japan	Canada	Others	Total
Property, plant and equipment	\$935,007	\$137,888	\$69,166	\$1,142,061

2. Information by Major Customer

Name of Customers	Millions of yen	Thousands of U.S. dollars
	2021	2021
SHINSEI PULP & PAPER COMPANY LIMITED	¥30,314	\$273,790

Year ended March 31, 2020

1. Information by Region

(1) Net Sales

	Millions of yen					2020
	Japan	United States	China	Asia	Others	Total
Net Sales	¥183,880	¥26,925	¥25,973	¥16,702	¥11,138	¥264,618

Classification of net sales is determined by country or geographical location of customers.

Major countries and areas which belong to segments other than Japan are as follows:

(1) AsiaSouth Korea, India, Taiwan, Vietnam, Pakistan

(2) Other.....Canada, Europe, the Middle East, Oceania

(2) Property, plant and equipment

	Millions of yen			2020
	Japan	Canada	Others	Total
Property, plant and equipment	¥106,835	¥13,014	¥7,541	¥127,390

2. Information by Major Customer

Name of Customers	Millions of yen
	2020
SHINSEI PULP & PAPER COMPANY LIMITED	¥34,832

(Information on the amounts of amortization and unamortized balance by reportable segment)
Year ended March 31, 2021

	Millions of yen								
	2021								
	Paper and Pulp Business	Packaging and Paper Processing Business	Wood Material Business	Engineering Business	Logistics Business	Total	Others	Adjustments	Consolidated
Goodwill:									
Amortization of goodwill	¥125	¥—	¥—	¥—	¥—	¥125	¥—	¥—	¥125
Balance at end of year	¥911	¥—	¥—	¥—	¥—	¥911	¥—	¥—	¥911

	Thousands of U.S. dollars								
	2021								
	Paper and Pulp Business	Packaging and Paper Processing Business	Wood Material Business	Engineering Business	Logistics Business	Total	Others	Adjustments	Consolidated
Goodwill:									
Amortization of goodwill	\$1,129	\$—	\$—	\$—	\$—	\$1,129	\$—	\$—	\$1,129
Balance at end of year	\$8,228	\$—	\$—	\$—	\$—	\$8,228	\$—	\$—	\$8,228

Year ended March 31, 2020

	Millions of yen								
	2020								
	Paper and Pulp Business	Packaging and Paper Processing Business	Wood Material Business	Engineering Business	Logistics Business	Total	Others	Adjustments	Consolidated
Goodwill:									
Amortization of goodwill	¥125	¥—	¥—	¥—	¥—	¥125	¥—	¥—	¥125
Balance at end of year	¥1,004	¥—	¥—	¥—	¥—	¥1,004	¥—	¥—	¥1,004

Note 21: Related Party Transactions

(1) Transactions with related party

Year ended March 31, 2021

Transactions with related party are not applicable as of March 31, 2021.

Year ended March 31, 2020

Parent company and principal stockholder, etc., of the Company

2020

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	Transaction amount	Account	Balance at the end of the fiscal year
Principal stockholder	Mitsubishi Corporation	Chiyoda-ku, Tokyo	¥204,447 million	A general trading company	(Parent company ownership ratio) Direct 4.0	—	Purchases of treasury stock	¥9,359 million	—	—

(Transaction terms and conditions, policy to decide such terms and conditions)

The acquisition of its own shares by the company excuted based on a resolution of the Board of Directors on February 21, 2020 at the closing price 476 yen on February 25, 2020 by the Trading Network Off-Auction Own Share Repurchase Trading System (ToSTNeT-3). As a result of the transaction, Mitsubishi Corporation removed from "principal stockholder" and was no longer "related party".

(2) Notes on parent company or significant affiliated company

For the year ended March 31, 2021 and 2020, the significant affiliated company is Daio Paper Corporation and its summarized consolidated financial statement is as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Total current assets	¥328,364	¥299,019	\$2,965,715
Total noncurrent assets	521,313	463,860	4,708,391
Total current liabilities	226,925	215,434	2,049,539
Total noncurrent liabilities	376,086	338,090	3,396,730
Total net assets	246,788	209,536	2,228,938
Net sales	562,928	546,433	5,084,249
Income before income taxes	32,717	31,251	295,493
Net income attributable to owners of parent company	22,115	19,199	199,738

Note 22: 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
	2021	2020	2021
Unrealized holding gains (losses) on securities, net of taxes			
Occurrence amount	¥2,359	¥(1,866)	\$21,306
Reclassification adjustment	444	(5,745)	4,010
Before tax effect	2,803	(7,611)	25,316
Tax effect	(799)	2,175	(7,216)
Unrealized holding gains (losses) on securities, net of taxes	¥2,004	¥(5,436)	\$18,100
Unrealized gains (losses) on hedging derivatives, net of taxes			
Occurrence amount	¥(9)	¥24	\$(81)
Reclassification adjustment	(51)	—	(461)
Before tax effect	(60)	24	(542)
Tax effect	17	(7)	154
Unrealized gains (losses) on hedging derivatives, net of taxes	¥(43)	¥17	\$(388)
Foreign currency translation adjustment			
Occurrence amount	¥(1,282)	¥722	\$(11,580)
Reclassification adjustment	—	—	—
Before tax effect	(1,282)	722	(11,580)
Tax effect	—	—	—
Foreign currency translation adjustment	¥(1,282)	¥722	\$(11,580)
Adjustments for retirement benefit, net of taxes			
Occurrence amount	¥1,855	¥(1,861)	\$16,754
Reclassification adjustment	258	(157)	2,330
Before tax effect	2,113	(2,018)	19,084
Tax effect	(647)	613	(5,843)
Adjustments for retirement benefit, net of taxes	¥1,466	¥(1,405)	\$13,241
Share of other comprehensive income of associates accounted for using equity method			
Occurrence amount	¥379	¥368	\$3,423
Reclassification adjustment	(18)	(1,690)	(163)
Share of other comprehensive income of associates accounted for using equity method	¥361	¥(1,322)	\$3,260
Total other comprehensive income	¥2,506	¥(7,424)	\$22,633

Note 23: Stock Option

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

(1) The following shows the Company's stock options as of March 31, 2021.

Stock options	Persons granted	Number of stock options granted	Grant date	Exercise price	Exercise period
2013 Stock options	9 directors	117,000 shares	July 12, 2013	¥1	From July 13, 2013 to July 12, 2028
2014 Stock options	9 directors	80,000 shares	July 11, 2014	¥1	From July 12, 2014 to July 11, 2029
2015 Stock options	9 directors	62,000 shares	July 13, 2015	¥1	From July 14, 2015 to July 13, 2030
2016 Stock options	9 directors	58,500 shares	July 14, 2016	¥1	From July 15, 2016 to July 14, 2031
2017 Stock options	9 directors	35,500 shares	July 14, 2017	¥1	From July 15, 2017 to July 14, 2032
2018 Stock options	9 directors	65,500 shares	July 13, 2018	¥1	From July 14, 2018 to July 13, 2033
2019 Stock options	9 directors	68,500 shares	July 12, 2019	¥1	From July 13, 2019 to July 12, 2034
2020 Stock options	9 directors	110,500 shares	July 14, 2020	¥1(\$0.01)	From July 15, 2020 to July 14, 2035

(2) The following shows the number of stock options.

	2013 Stock options (shares)	2014 Stock options (shares)	2015 Stock options (shares)	2016 Stock options (shares)	2017 Stock options (shares)	2018 Stock options (shares)	2019 Stock options (shares)	2020 Stock options (shares)
Non-vested stock option:								
Outstanding at March 31, 2020	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	110,500
Forfeited	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	110,500
Outstanding at March 31, 2021	—	—	—	—	—	—	—	—
Vested stock option:								
Outstanding at March 31, 2020	9,500	5,500	6,000	5,500	21,000	55,500	68,500	—
Vested	—	—	—	—	—	—	—	110,500
Exercised	9,500	5,500	6,000	—	—	5,000	—	—
Forfeited	—	—	—	—	—	—	—	—
Outstanding at March 31, 2021	—	—	—	5,500	21,000	50,500	68,500	110,500

(3) The following shows the per share prices.

	2013 Stock options	2014 Stock options	2015 Stock options	2016 Stock options	2017 Stock options	2018 Stock options	2019 Stock options	2020 Stock options
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1(\$0.01)
Average stock price at exercise	¥376	¥376	¥376	—	—	¥374	—	—
Fair value price at grant date	¥359	¥354	¥599	¥657	¥743	¥505	¥488	¥289(\$2.61)

(4) The following shows the estimate method for stock option price.

	2013 Stock options	2014 Stock options	2015 Stock options	2016 Stock options	2017 Stock options	2018 Stock options	2019 Stock options	2020 Stock options
Estimate method	Black-Scholes option-pricing models	Black-Scholes option-pricing models	Black-Scholes option-pricing models	Black-Scholes option-pricing models	Black-Scholes option-pricing models	Black-Scholes option-pricing models	Black-Scholes option-pricing models	Black-Scholes option-pricing models
Expected volatility	35.972%	37.089%	37.064%	37.117%	32.561%	32.621%	32.188%	33.522%
Expected life	8 years	8 years	8 years	8 years	8 years	8 years	8 years	8 years
Expected dividend	¥12/share	¥12/share	¥12/share	¥12/share	¥12/share	¥12/share	¥12/share	¥12/share (\$0.11/share)
Risk-free interest rate	0.685%	0.356%	0.295%	(0.352)%	0.025%	(0.045)%	(0.207)%	(0.080)%

Note 24: Subsequent Events

Distribution of Retained Earnings

The following items were approved at the annual shareholders' meeting of the Company held on June 29, 2021:

Payment of a cash dividend of ¥7.00 (\$0.06) per share, or a total of ¥1,180 million (\$10,658 thousand), to shareholders on record as of March 31, 2021.

Sale of property, plant and equipment

The Company sold property, plant and equipment on April 2, 2021 as follows.

- (1) Reason for sale
The Company sold property, plant and equipment that it owns with the purpose of increasing the effective utilization of management resources and strengthening its financial soundness.
- (2) Summary of sale
 - i. Address: 1-11-1 Yokozuna, Sumida-ku
 - ii. Details of asset: land (685.94 m²) and buildings
 - iii. Use before sale: rental real estate

Note: Selling price and book value of the sold asset will not be disclosed at the request of the purchaser. However, these represent a fair value reflecting the market price from a tender bid. The gain on sale is the selling price minus the book value and costs to sell.
- (3) Summary of purchaser
The purchaser is a company domiciled in Japan. At the request of the purchaser, the name of the purchaser will not be disclosed. Furthermore, there are no reportable matters in terms of capital relationship, personnel relationship, and transactional relationship between the Company and the purchaser, and the purchaser is not considered a related party of the Company.
- (4) Schedule of sale
 - i. Date of resolution of the board of directors: December 23, 2020
 - ii. Date of conclusion of contract: January 29, 2021
 - iii. Delivery date: April 2, 2021
- (5) Impact on profit or loss
Following this sale of property, plant and equipment, the Company plans to record approximately ¥2,700 million as gain on sale of property, plant and equipment in other income in the first quarter of the fiscal year ending March 31, 2022.

Important capital investments

The Company approved the following capital investments at the meeting of its board of directors held on May 14, 2021.

1. Household paper production facilities
 - (1) Purpose of capital investment
The Company utilized its long-standing knowledge and technologies for high quality, low cost and high efficiency operations to establish new household paper production facilities within the Niigata Mill, which are being used to manufacture and market household paper products. These household paper products are made from more than 70% CO₂-free energy, and through the supply of these household paper products, the Company will contribute to the realization of a carbon neutral society in the future.
In addition, household paper products such as toilet paper, tissue paper and paper towels, are a daily essential item that is expected to see consistent demand into the future. The Company will utilize the geographic advantages of the Niigata Mill situated close to the massive consumer area of the Kanto region to produce and market household paper products.
 - (2) Details of capital investment
 - i. Location: Niigata City, Niigata Prefecture (inside the Company's Niigata Mill)
 - ii. Usage: household paper (toilet paper, tissue paper and paper towel) production facility
 - iii. Planned total investment: around ¥15,000 million
 - (3) Schedule for introduction of facility
Completion of construction scheduled for December 2023
 - (4) Production capacity
25,000 tons/year
 - (5) Significant impacts on sales and production activities from this facility
There will be immaterial impacts on the Company's consolidated income for the fiscal year ending March 31, 2022 due to this capital investment.
2. Reverse osmosis membrane backing production facility
 - (1) Purpose of capital investment
The Company will build a plant for the production and marketing of reverse osmosis membrane backing from a greenfield investment through a subsidiary to be established in Thailand that will utilize the Company's technologies developed at its Nagaoka Mill, which has been in operation for many years. The Nagaoka Mill and Thailand facility will work together to establish a global supply structure to respond to worldwide demand.

Furthermore, following improving hygiene environment, industrial development and growing populations, there is growing demand for reverse osmosis membrane elements used in various environmental applications, such as industrial water treatment, seawater desalination, reuse of sewerage and effluent, along with water purification devices in the consumer sector. As a result, there is also growing demand for reverse osmosis membrane backing.

(2) Details of capital investment

- i. Name of subsidiary: HOKUETSU CORPORATION (THAILAND), LTD. (tentative name)
- ii. Location: Thailand
- iii. Usage: Reverse osmosis membrane backing production facility
- iv. Planned total investment: around ¥6,000 million

- (3) Schedule for introduction of facility
Completion of construction scheduled for December 2023
- (4) Production capacity
5,000 tons/year
- (5) Significant impacts on sales and production activities from this facility
There will be immaterial impacts on the Company's consolidated income for the fiscal year ending March 31, 2022 due to this capital investment.

Independent Auditor's Report



Independent auditor's report

To the Board of Directors of Hokuetsu Corporation:

Opinion

We have audited the accompanying consolidated financial statements of Hokuetsu Corporation (“the Company”) and its consolidated subsidiaries (collectively referred to as “the Group”), which comprise the consolidated balance sheets as at March 31, 2021 and 2020, the consolidated statements of income and comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Appropriateness of management's judgement concerning the identification of an impairment indicator for long-lived assets of Jiangmen Xinghui Paper Mill Co., Ltd.

The key audit matter	How the matter was addressed in our audit
Property, plant and equipment of ¥126,448 million and intangible assets of ¥2,668 million were recognized in the consolidated balance sheet of Hokuetsu Corporation and its consolidated subsidiaries as of March 31, 2021. As described in Note 2 “Summary of Significant Accounting Policies, (u) Significant accounting estimates, 2. Impairment loss on	In order to assess the appropriateness of management's judgment as to whether there was an impairment indicator for long-lived assets of Jiangmen Xinghui Paper Mill Co., Ltd., we requested the component auditor of Jiangmen Xinghui Paper Mill Co., Ltd. to perform audit procedures and then evaluated the report to conclude whether sufficient

property, plant and equipment” to the consolidated financial statements, included therein were ¥5,698 million of property, plant and equipment of Jiangmen Xinghui Paper Mill Co., Ltd. which is a consolidated subsidiary, accounting for approximately 1.6% of total assets in the consolidated financial statements.

Jiangmen Xinghui Paper Mill Co., Ltd. prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) and performs an impairment test when there is an impairment indicator. In assessing whether there is any indication that an asset may be impaired, external sources of information, such as significant changes with an adverse effect on the entity in the technological, market, economic or legal environment and/or increases of market interest rates which are likely to affect the discount rate, and internal factors, such as indications that the economic performance of an asset is worse than expected, need to be considered.

Jiangmen Xinghui Paper Mill Co., Ltd. determined that there was no impairment indicator for these long-lived assets despite the adverse effect on performance caused by COVID-19 in the first half of the year because the improvement in profitability is expected to continue based on the fact that profitability has improved from the second half of the year as a result of the change in sales strategy and also in the business plan, and it is expected to achieve the level of sales volume in fiscal year 2019 which was not effected by COVID-19.

However the judgement concerning the identification of an impairment indicator for long-lived assets is complicated because the forecast of the market Jiangmen Xinghui Paper Mill Co., Ltd. operates in involves a high degree of uncertainty due to factors, such as the status of the relationship between the United States and China in recent years and the restriction on import used paper in China.

We, therefore, determined that our assessment of the appropriateness of management’s judgement concerning the identification of an impairment indicator for long-lived assets of Jiangmen Xinghui Paper Mill Co., Ltd. was of most significance in our audit of the consolidated financial statements for this fiscal year, and accordingly, a key audit matter.

and appropriate audit evidence was obtained from the following procedures among others:

(1) Internal control testing

- Test of the design and operating effectiveness of certain of Jiangmen Xinghui Paper Mill Co., Ltd.’s internal controls relevant to the identification of impairment indicators to long-lived assets, with a greater focus on controls designed to collect available information relevant to identifying impairment indicators, such as information on the monthly profit-and-loss results and external factors.

(2) Assessment of the appropriateness of the judgment concerning the identification of an impairment indicator

- Inspected materials relevant to monthly profit-and-loss, particularly sales and profit of Jiangmen Xinghui Paper Mill Co., Ltd., analysed causes of any variance between the business plan prepared in the prior year considering effects, such as COVID-19 and actual results and assessed the improvement of profitability.
- Inquired of management regarding risk factors influencing the achievability of the business plan prepared in this fiscal year. In addition, in order to assess the reasonableness of prospects continuing the improvement of profitability, performed following procedures;
 - Comparison and assessment of information released by external organizations regarding sales prices and raw material prices included in the business plan.
 - Assessment of the reasonableness of the assumption that it is expected to achieve the level of sales volume in fiscal year 2019 which was not effected by COVID-19 and, assessment of sales volume included in the business plan with comparison to actual sales volume for fiscal year 2019 considering sale volume for the second half of fiscal year 2020.

Responsibilities of Management and Corporate Auditors and the Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a

manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with corporate auditors and the board of corporate auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 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.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Yasuhisa Yajima

Designated Engagement Partner

Certified Public Accountant

Junichi Kimura

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

August 6, 2021

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.