Consolidated Financial Statements

April 1, 2022-March 31, 2023

Hokuetsu Corporation

Consolidated Balance Sheets

Hokuetsu Corporation and Consolidated Subsidiaries
As of March 31, 2023 and 2022

ASSETS	Millions of yen 2023	2022	Thousands of U.S. dollars (Note 1) 2023
CURRENT ASSETS:			
Cash and deposits (Notes 4 & 5)	**¥ 18,063**	¥ 30,276	**$ 135,263**
Notes and accounts receivable (Note 5)			
Trade	**83,828**	67,397	**627,737**
Unconsolidated subsidiaries and affiliates	**753**	486	**5,639**
Allowance for doubtful accounts	**(5)**	(5)	**(37)**
Inventories (Note 7)	**63,667**	56,415	**476,764**
Prepaid expenses and other	**4,469**	5,740	**33,464**
TOTAL CURRENT ASSETS	**170,775**	160,309	**1,278,830**
PROPERTY, PLANT AND EQUIPMENT:			
Land and timberland	**20,413**	20,301	**152,861**
Buildings and structures	**87,761**	85,624	**657,189**
Machinery and equipment	**446,305**	439,429	**3,342,107**
Leased assets	**185**	185	**1,385**
Right-of-use assets	**2,803**	2,597	**20,990**
Construction in progress	**3,992**	2,167	**29,894**
	561,459	550,303	**4,204,426**
Less accumulated depreciation	**(444,398)**	(434,920)	**(3,327,827)**
NET PROPERTY, PLANT AND EQUIPMENT	**117,061**	115,383	**876,599**
INVESTMENTS AND OTHER ASSETS:			
Investments in securities (Notes 5 & 6)	**22,273**	22,022	**166,789**
Investments in and receivables from unconsolidated subsidiaries and affiliates	**64,640**	70,271	**484,050**
Long-term loans receivable	**63**	14	**472**
Intangible assets	**2,468**	2,406	**18,481**
Guarantee deposits (Note 8)	**4,393**	389	**32,897**
Asset for retirement benefits (Note 17)	**4,317**	3,870	**32,327**
Deferred income taxes (Note 12)	**1,779**	1,664	**13,322**
Other	**960**	916	**7,189**
Allowance for doubtful accounts	**(284)**	(288)	**(2,127)**
TOTAL INVESTMENTS AND OTHER ASSETS	**100,609**	101,264	**753,400**
TOTAL ASSETS	**¥388,445**	¥376,956	**$2,908,829**

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

LIABILITIES AND NET ASSETS	Millions of yen 2023	2022	Thousands of U.S. dollars (Note 1) 2023
CURRENT LIABILITIES:			
Short-term loans (Notes 5 & 9)	**¥ 8,682**	¥ 15,062	**$ 65,014**
Commercial paper (Notes 5 & 9)	**10,000**	3,000	**74,884**
Current maturities of long-term debt (Notes 5 & 9)	**18,677**	25,967	**139,861**
Notes and accounts payable (Note 5)			
Trade	**28,362**	26,057	**212,386**
Unconsolidated subsidiaries and affiliates	**742**	642	**5,556**
Income taxes payable (Note 12)	**2,919**	4,014	**21,859**
Accrued expenses	**10,583**	10,121	**79,250**
Other	**5,901**	6,934	**44,189**
TOTAL CURRENT LIABILITIES	**85,866**	91,797	**642,999**
LONG-TERM LIABILITIES:			
Long-term debt (Notes 5 & 9), less current maturities	**66,366**	55,059	**496,975**
Deferred income taxes (Note 12)	**2,224**	2,909	**16,654**
Accrued environmental expenditures	**1,268**	1,137	**9,495**
Provision for reforestation	**325**	341	**2,434**
Liability for retirement benefits (Note 17)	**3,807**	5,661	**28,508**
Asset retirement obligations (Note 18)	**2,410**	2,845	**18,047**
Other	**229**	233	**1,715**
TOTAL LONG-TERM LIABILITIES	**76,629**	68,185	**573,828**
CONTINGENT LIABILITIES (Note 10)			
NET ASSETS (Note 11)			
SHAREHOLDERS' EQUITY:			
Common stock:			
authorized			
–500,000,000shares in 2023 and 2022			
issued and outstanding			
–188,053,114shares in 2023 and 2022	**42,021**	42,021	**314,670**
Capital surplus	**45,342**	45,341	**339,538**
Retained earnings	**135,489**	131,616	**1,014,595**
Treasury stock	**(9,626)**	(9,639)	**(72,083)**
TOTAL SHAREHOLDERS' EQUITY	**213,226**	209,339	**1,596,720**
ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAXES			
Unrealized holding gains on securities, net of taxes	**4,418**	3,686	**33,084**
Unrealized gains or losses on hedging derivatives, net of taxes	**80**	157	**599**
Foreign currency translation adjustment	**5,908**	1,632	**44,241**
Accumulated adjustments for retirement benefit, net of taxes (Note 17)	**1,577**	1,439	**11,809**
TOTAL ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAXES	**11,983**	6,914	**89,733**
SHARE SUBSCRIPTION RIGHTS	**91**	76	**681**
NON-CONTROLLING INTERESTS	**650**	645	**4,868**
TOTAL NET ASSETS	**225,950**	216,974	**1,692,002**
TOTAL LIABILITIES AND NET ASSETS	**¥388,445**	¥376,956	**$2,908,829**

Consolidated Statements of Income

Hokuetsu Corporation and Consolidated Subsidiaries
For the years ended March 31, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	**2023**
NET SALES (NOTE 19 & 20)	**¥301,205**	¥261,617	**$2,255,541**
COST OF SALES	**237,187**	200,491	**1,776,149**
GROSS PROFIT	**64,018**	61,126	**479,392**
SELLING,GENERAL AND ADMINISTRATIVE EXPENSES (Note 13)	**46,730**	40,670	**349,933**
OPERATING INCOME	**17,288**	20,456	**129,459**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**1,531**	804	**11,465**
Interest expenses	**(796)**	(393)	**(5,961)**
Foreign exchange gains (losses)	**2,238**	1,729	**16,759**
Equity in income (loss) of affiliates	**(8,610)**	5,861	**(64,475)**
Gain on sales of investments in securities	**234**	21	**1,752**
Loss on devaluation of investments in securities	**—**	(23)	**—**
Loss on sales or disposal on property, plant and equipment	**(899)**	(873)	**(6,732)**
Impairment loss on long-lived assets (Note 14)	**—**	(7,855)	**—**
Loss on reduction of property, plant and equipment	**(7)**	(31)	**(52)**
Loss related to the Anti-Monopoly Act	**—**	(360)	**—**
Gain on contribution of securities to retirement benefit trust	**1,417**	—	**10,611**
Gain on reversal of retirement benefit obligations	**—**	77	**—**
Gain on sales of property,plant and equipment	**846**	6,985	**6,335**
Other, net	**516**	961	**3,864**
	(3,530)	6,903	**(26,434)**
INCOME BEFORE INCOME TAXES	**13,758**	27,359	**103,025**
INCOME TAXES (Note 12):			
Current	**6,364**	4,452	**47,656**
Deferred	**(1,010)**	1,634	**(7,563)**
	5,354	6,086	**40,093**
NET INCOME	**8,404**	21,273	**62,932**
NET INCOME (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	**78**	66	**584**
NET INCOME ATTRIBUTABLE TO OWNERS OF PARENT COMPANY	**¥ 8,326**	¥ 21,207	**$ 62,348**

	Yen		U.S. dollars (Note 1)
	2023	2022	**2023**
AMOUNTS PER SHARE OF COMMON STOCK (Note 2):			
Net income	**¥49.54**	¥126.22	**$0.37**
Diluted net income	**49.48**	126.09	**0.37**
Cash dividends applicable to the year	**18.00**	24.00	**0.14**

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, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	**2023**
NET INCOME	**¥ 8,404**	¥21,273	**$ 62,932**
OTHER COMPREHENSIVE INCOME (Note 22)			
Unrealized holding gains on securities, net of taxes	**719**	(328)	**5,384**
Unrealized gains or losses on hedging derivatives, net of taxes	**(105)**	127	**(786)**
Foreign currency translation adjustments	**847**	2,635	**6,343**
Adjustments for retirement benefit, net of taxes	**153**	689	**1,146**
Share of other comprehensive income of associates accounted for using equity method	**3,471**	(308)	**25,992**
TOTAL OTHER COMPREHENSIVE INCOME	**5,085**	2,815	**38,079**
COMPREHENSIVE INCOME	**¥13,489**	¥24,088	**$101,011**
Comprehensive income attribute to owners of the parent company	**13,395**	23,969	**100,307**
Comprehensive income attribute to non-controlling interests	**94**	119	**704**

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, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	**2023**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes	**¥13,758**	¥27,359	**$103,025**
Depreciation and amortization	**11,854**	13,213	**88,767**
Impairment loss on long-lived assets	**—**	7,855	**—**
Loss (gain) on sales or disposal of property, plant and equipment	**53**	(6,112)	**397**
Loss on reduction of property, plant and equipment	**7**	31	**52**
Reversal of retirement benefit obligations	**—**	(77)	**—**
Loss (gain) on contribution of securities to retirement benefit trust	**(1,417)**	—	**(10,611)**
Gain on sales of investments in securities	**(234)**	(21)	**(1,752)**
Interest and dividend income	**(1,531)**	(804)	**(11,465)**
Interest expenses	**796**	393	**5,961**
(Increase) decrease in notes and accounts receivable	**(15,974)**	(11,586)	**(119,620)**
(Increase) decrease in inventories	**(5,960)**	(7,455)	**(44,631)**
Increase (decrease) in notes and accounts payable	**2,074**	2,850	**15,531**
Increase (decrease) liability for retirement benefits	**234**	(540)	**1,752**
Equity in (income) losses of affiliates	**8,610**	(5,861)	**64,475**
Other, net	**(1,370)**	(2,072)	**(10,258)**
SUBTOTAL	**10,900**	17,173	**81,623**
Interest and dividend income received	**2,339**	1,647	**17,516**
Interest paid	**(730)**	(397)	**(5,467)**
Income taxes (paid) refund	**(7,451)**	1,760	**(55,796)**
Payments for deposit money	**(4,000)**	—	**(29,954)**
Insurance payment received	**689**	3	**5,160**
NET CASH PROVIDED BY OPERATING ACTIVITIES	**1,747**	20,186	**13,082**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payment for purchases of investment securities	**(433)**	(776)	**(3,242)**
Proceeds from sales of investment securities	**416**	32	**3,115**
Payment for purchases of property, plant and equipment	**(12,516)**	(12,919)	**(93,725)**
Proceeds from sales of property, plant and equipment	**1,048**	11,292	**7,848**
Proceeds from transfer of businesses	**—**	1,500	**—**
Other, net	**(1,268)**	(777)	**(9,495)**
NET CASH USED IN INVESTING ACTIVITIES	**(12,753)**	(1,648)	**(95,499)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in short-term loans	**(8,428)**	(4,134)	**(63,112)**
Increase (decrease) in commercial paper	**7,000**	3,000	**52,419**
Proceeds from long-term loans	**31,380**	—	**234,986**
Repayment of long-term loans	**(27,324)**	(5,373)	**(204,613)**
Proceeds from issuance of unsecured yen straight bonds	**—**	10,000	**—**
Redemption of unsecured yen straight bonds	**—**	(20,000)	**—**
Dividends paid	**(4,381)**	(2,353)	**(32,807)**
Other, net	**(347)**	(328)	**(2,599)**
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**(2,100)**	(19,188)	**(15,726)**
TRANSLATION LOSS ON CASH AND CASH EQUIVALENTS	**893**	1,079	**6,687**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**(12,213)**	429	**(91,456)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**30,276**	29,847	**226,719**
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**¥18,063**	¥30,276	**$135,263**

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, 2023 and 2022

Millions of yen

	Numer of shares	Common stock	Captital 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, 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
Cumulative effects of changes in accounting policies	—	—	—	(94)	—	(94)	—	—	—	—	—	—	—	(94)
Restated balance	—	¥42,021	¥45,341	¥112,797	¥ (9,702)	¥190,457	¥4,344	¥ (18)	¥ (949)	¥ 774	¥ 4,151	¥102	¥615	¥195,325
Net income attributable to owners of parent company	—	—	—	21,207	—	21,206	—	—	—	—	—	—	—	21,206
Cash dividends (¥14.00 per share)	—	—	—	(2,353)	—	(2,352)	—	—	—	—	—	—	—	(2,352)
Disposal of treasury stock	—	—	—	(6)	65	59	—	—	—	—	—	—	—	59
Purchases of treasury stock	—	—	—	—	(1)	(1)	—	—	—	—	—	—	—	(1)
Increase in treasury stock by change in equity in affiliates under equity method	—	—	—	—	(1)	(1)	—	—	—	—	—	—	—	(1)
Change in scope of affiliates under equity method	—	—	—	(29)	—	(29)	—	—	—	—	—	—	—	(29)
Net changes during the year	—	—	—	—	—	—	(658)	175	2,581	665	2,763	(26)	30	2,767
Balance at March 31, 2022	188,053,114	¥42,021	¥45,341	¥131,616	¥ (9,639)	¥209,339	¥3,686	¥157	¥ 1,632	¥1,439	¥ 6,914	¥ 76	¥645	¥216,974
Adjustment of hyperinflation by affiliate company	**—**	**—**	**—**	**(80)**	**—**	**(80)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(80)**
Restated balance	**—**	**¥42,021**	**¥45,341**	**131,536**	**¥ (9,639)**	**¥209,259**	**¥3,686**	**¥157**	**¥ 1,632**	**¥1,439**	**¥ 6,914**	**¥ 76**	**¥645**	**¥216,894**
Net income attributable to owners of parent company	**—**	**—**	**—**	**8,326**	**—**	**8,326**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**8,326**
Cash dividends (¥26.00 per share)	**—**	**—**	**—**	**(4,370)**	**—**	**(4,370)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(4,370)**
Disposal of treasury stock	**—**	**—**	**1**	**—**	**14**	**15**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**15**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**(1)**	**(1)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(1)**
Change in scope of affiliates under equity method	**—**	**—**	**—**	**(3)**	**—**	**(3)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(3)**
Net changes during the year	**—**	**—**	**—**	**—**	**—**	**—**	**732**	**(77)**	**4,276**	**138**	**5,069**	**15**	**5**	**5,089**
Balance at March 31, 2023	**188,053,114**	**¥42,021**	**¥45,342**	**¥135,489**	**¥ (9,626)**	**¥213,226**	**¥4,418**	**¥ 80**	**¥5,908**	**¥1,577**	**¥11,983**	**¥ 91**	**¥650**	**¥225,950**

Thousands of U.S. dollars (Note 1)

	Numer of shares	Common stock	Captital 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, 2022	188,053,114	$314,670	$339,531	$ 985,592	$(72,181)	$1,567,612	$27,602	$1,176	$12,221	$10,776	$51,775	$569	$4,830	$1,624,786
Adjustment of hyperinflation by affiliate company	**—**	**—**	**—**	**(599)**	**—**	**(599)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(599)**
Restated balance	**—**	**$314,670**	**$339,531**	**$ 984,993**	**$(72,181)**	**$1,567,013**	**$27,602**	**$1,176**	**$12,221**	**$10,776**	**$51,775**	**$569**	**$4,830**	**$1,624,187**
Net income attributable to owners of parent company	**—**	**—**	**—**	**62,348**	**—**	**62,348**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**62,348**
Cash dividends ($0.20 per share)	**—**	**—**	**—**	**(32,724)**	**—**	**(32,724)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(32,724)**
Disposal of treasury stock	**—**	**—**	**7**	**—**	**105**	**112**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**112**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**(7)**	**(7)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(7)**
Change in scope of affiliates under equity method	**—**	**—**	**—**	**(22)**	**—**	**(22)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(22)**
Net changes during the year	**—**	**—**	**—**	**—**	**—**	**0**	**5,482**	**(577)**	**32,020**	**1,033**	**37,958**	**112**	**38**	**38,108**
Balance at March 31, 2023	**188,053,114**	**$314,670**	**$339,538**	**$1,014,595**	**$(72,083)**	**$1,596,720**	**$33,084**	**$599**	**$44,241**	**$11,809**	**$89,733**	**$681**	**$4,868**	**$1,692,002**

Notes to Consolidated Financial Statements

Hokuetsu Corporation and Consolidated Subsidiaries
Years ended March 31, 2023 and 2022

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, 2023, which was ¥133.54 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 gains 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	
	2023	2022
Consolidated subsidiaries	**18**	18
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, 2023 and 2022.

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) Revenue recognition
The Companies manufactures and sells mainly paper, pulp, folding cartons and processed paper products. For such sales of merchandise and products, revenue is recognized when the merchandise and products are delivered to the customer or when the customer accepts inspection. However, for certain sales in Japan, revenue is recognized at the time of shipment.

For sales of pulp and paper, which are considered to be agent sales, the Company and its consolidated subsidiaries recognize revenue on a net basis.

The sales contracts for such goods and products include variable consideration due to discounts and rebates after the contracts are signed, and the estimated amount of such variable consideration is included in the transaction price. Estimates are based on the Group's past experience and reasonable expectations based on negotiations with the customer at the time the estimate was made, and are included in the transaction price to the extent that it is very likely that a material reversal will not occur.

In addition, there is consideration paid to customers, such as sales incentives, which is reduced from the transaction price unless it is paid in exchange for separate goods or services received from the customer.

The consideration for transactions related to the sale of such goods and products is received in the short term after revenue is recognized, and does not include a significant financial component with respect to the receivables under the contracts with such customers.

(k) 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.

(l) 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.

(m) 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.

(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 168,064,868 shares and 168,018,990 shares in 2023 and 2022, respectively.

For the year ended March 31, 2023, diluted net income per share was ¥49.48 ($0.37).

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
(Accounting standards and guidance not yet adopted)
Following accounting standards and guidance are those issued but not yet adopted.
- *Accounting Standard for Current Income Taxes* (ASBJ Statement No.27, October 28, 2022, ASBJ)
- *Accounting Standard for Presentation of Comprehensive Income* (ASBJ Statement No.25, October 28, 2022, ASBJ)
- *Guidance on Accounting Standard for Tax Effect Accounting* (ASBJ Guidance No.28, October 28, 2022, ASBJ)

(1) Overview
Transfer of JICPA's practical guidelines on tax effect accounting to ASBJ was completed with the issuance of standards and guidance including ASBJ Statement No.28, *Partial Amendments to Accounting Standard for Tax Effect Accounting* (hereinafter collectively referred to as "ASBJ Statement No.28, etc.") in February 2018. During their deliberations, it had been determined that the following two issues would be further discussed subsequent to the issuance of ASBJ Statement No. 28, etc. The above standards and guidance were issued as a result of the discussions on the two issues below:
- Categories in which income tax expense should be recorded (taxes on other comprehensive income)
- Tax effects associated with sales of shares of subsidiaries, etc. (i.e., shares of subsidiaries or affiliates) when the companies taxation regime is applied

(2) Effective date
The standards and guidance will be effective from the beginning of the fiscal year ending March 31, 2025.
(3) Effects of application of the standards and guidance
The effects of application of *Accounting Standard for Current Income Taxes*, etc. on the consolidated financial statements are currently under evaluation.

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

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Deferred tax assets	**¥9,884**	¥8,769	**$74,015**

(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 mainly by the raw fuel prices, product market conditions and exchange rates. As a certain assumption in performing the best possible estimates, it is assumed that raw fuel prices, product market conditions and exchange rates will remain at the current situation in 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 loss on long-lived assets, the Company must conduct an impairment test.

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

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Property, plant and equipment	**¥117,061**	¥115,383	**$876,599**
Intangible assets	**2,468**	2,407	**18,481**
Impairment loss on long-lived asset	**¥ —**	¥ 7,855	**$ —**

Of the above, ¥3,758 million in property, plant and equipment and ¥2,434 million in impairment loss were recorded in the year ended March 31, 2022 and ¥4,017 million ($30,081 thousand) in property, plant and equipment was recorded in the year ended March 31, 2023 for consolidated subsidiary Jiangmen Xinghui Paper Mill Co., Ltd. (hearinafter “Jiangmen Xinghui”)

(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 business 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 mainly by the raw fuel prices, product market conditions and exchange rates. As a certain assumption in performing the best possible estimates, it is assumed that raw fuel prices, product market conditions and exchange rates will remain at the current situation in the next fiscal year. Thus, the Company has estimated future cash flow considering these impacts on the financial budget.
In Jiangmen Xinghui, demand for packaging materials including the Jiangmen Xinghui’s products had declined for a long time due to the economic slowdown caused by the Chinese government’s zero-corona policy. However, no impairment loss was recorded because the recoverable amount exceeded the book value. The recoverable amount was based on the fair value less costs of disposal, which was measured by third-party appraisal.

(iii) Impacts on the consolidated financial statements for the next fiscal year
The future market environment 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

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Accrued environmental expenditures - current	**¥ 35**	¥ 9	**$ 262**
Accrued environmental expenditures - long-term	**¥1,185**	¥1,116	**$8,874**

(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.

4. Impairment loss on long-lived assets of affiliates accounted for by the equity method

If an impairment loss is recognized for goodwill or other long-lived assets in affiliates accounted for by the equity method, it will affect the balance of investment in affiliates and equity in income or loss of affiliates in the consolidated financial statements.

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

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Stocks of affiliates	**¥63,644**	¥69,563	**$476,591**
Equity in income (loss) of affiliates	**¥ (8,610)**	¥5,861	**$ (64,475)**

Of the above ¥63,644 million ($476,591 thousand) in stocks of affiliates, ¥59,411 million ($444,893 thousand) was invested in Daio Paper Corporation.
The Company recorded equity in loss of affiliates by ¥8,611 million ($64,483 thousand) for the current fiscal year, including the effect of impairment losses on certain goodwill and other long-lived assets of Daio Paper Corporation.

(2) Other information on accounting estimates that aids user understanding of the consolidated financial statements
The details as for impairment loss on long-lived assets, including goodwill, held by affiliates accounted for by the equity method are generally the same as those described in “2 Impairment loss on long-lived assets”.

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, 2023 and 2022 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Cash and deposits	**¥18,063**	¥30,276	**$135,263**
Cash and cash equivalents	**¥18,063**	¥30,276	**$135,263**

Note 5: Financial Instruments

Information on financial instruments for the year ended March 31, 2023 and 2022 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, 2023 and 2022 are as follows. Financial instruments with fair values not readily determinable are excluded from the following table (see (b)), and “Cash and deposits,” “Notes and accounts receivable,” “Notes and accounts payable,” “Short-term loans” and “Commercial paper” are excluded from the following table because they are cash and their fair value approximates their book value due to their short maturities:

			Millions of yen
			2023
	Book value	Fair value	Difference
(1) Investments in securities:			
Available-for-sale securities	**¥19,008**	**¥19,008**	**¥ —**
(2) Investments in and receivables from unconsolidated subsidiaries and affiliates			
Stocks of affiliates	**59,411**	**43,013**	**(16,398)**
Total assets	**¥78,419**	**¥62,021**	**¥(16,398)**
(3) Bonds*1	**¥20,000**	**¥19,935**	**¥ (65)**
(4) Long-term loans payable*2	**63,315**	**63,252**	**(63)**
Total liabilities	**¥83,315**	**¥83,187**	**¥ (128)**
Derivative transactions*3	**¥ (11)**	**¥ (11)**	**¥ —**

			Millions of yen
			2022
	Book value	Fair value	Difference
(1) Investments in securities:			
Available-for-sale securities	¥18,806	¥18,806	¥ —
(2) Investments in and receivables from unconsolidated subsidiaries and affiliates			
Stocks of affiliates	65,413	65,851	438
Total assets	¥84,219	¥84,657	¥ 438
(3) Bonds*1	¥20,000	¥19,941	¥ (59)
(4) Long-term loans payable*2	59,183	59,114	(69)
Total liabilities	¥79,183	¥79,055	¥(128)
Derivative transactions*3	¥ 148	¥ 148	¥ —

			Thousands of U.S. dollars
			2023
	Book value	Fair value	Difference
(1) Investments in securities:			
Available-for-sale securities	**$142,339**	**$142,339**	**$ —**
(2) Investments in and receivables from unconsolidated subsidiaries and affiliates			
Stocks of affiliates	**444,893**	**322,099**	**(122,794)**
Total assets	**$587,232**	**$464,438**	**$(122,794)**
(3) Bonds*1	**$149,768**	**$149,281**	**$ (487)**
(4) Long-term loans payable*2	**474,128**	**473,656**	**(472)**
Total liabilities	**$623,896**	**$622,937**	**$ (959)**
Derivative transactions*3	**$ (82)**	**$ (82)**	**$ —**

*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) The fair value level of financial instruments.

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (that is, observable inputs).

(b) Equity securities without market prices are not included in "(1) Investments in securities". The carrying amount of those financial instruments are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Unlisted equity securities	**¥7,497**	¥7,366	**$56,140**

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

	Millions of yen				Thousands of U.S. dollars	
	2023		2022		**2023**	
	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	**¥ 18,063**	**¥—**	¥30,276	¥—	**$135,263**	**$—**
Notes and accounts receivable	**75,748**	**—**	60,604	—	**567,231**	**—**
Electronically recorded monetary claims	**8,753**	**—**	7,133	—	**65,546**	**—**
Total	**¥102,564**	**¥—**	¥98,013	¥—	**$768,040**	**$—**

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

	Millions of yen					
	2023					
	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	**¥ 8,682**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**
Commercial paper	**10,000**	**—**	**—**	**—**	**—**	**—**
Bonds	**10,000**	**—**	**—**	**10,000**	**—**	**—**
Long-term loans payable*	**8,376**	**16,375**	**16,980**	**3,979**	**9,205**	**8,400**
Total	**¥37,058**	**¥16,375**	**¥16,980**	**¥13,979**	**¥9,205**	**¥8,400**

	Millions of yen					
	2022					
	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	¥15,062	¥ —	¥ —	¥ —	¥ —	¥ —
Commercial paper	3,000	—	—	—	—	—
Bonds	—	10,000	—	—	10,000	—
Long-term loans payable*	25,687	4,573	12,571	13,177	175	3,000
Total	¥43,749	¥14,573	¥12,571	¥13,177	¥10,175	¥3,000

	Thousands of U.S. dollars					
	2023					
	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	**$ 65,014**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
Commercial paper	**74,884**	**—**	**—**	**—**	**—**	**—**
Bonds	**74,884**	**—**	**—**	**74,884**	**—**	**—**
Long-term loans payable*	**62,723**	**122,622**	**127,153**	**29,796**	**68,931**	**62,903**
Total	**$277,505**	**$122,622**	**$127,153**	**$104,680**	**$68,931**	**$62,903**

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

e) Financial instruments recorded on the consolidated balance sheets at fair value.

	Millions of yen			
	2023			
	Fair value			
	Level 1	Level 2	Level 3	Total
Investments in securities:				
Available-for-sale securities	**¥19,008**	**¥—**	**¥—**	**¥19,008**
Derivative transactions				
Currency-related	**—**	**—**	**—**	**—**
Interest-related	**—**	**—**	**—**	**—**
Total assets	**¥19,008**	**¥—**	**¥—**	**¥19,008**
Derivative transactions				
Currency-related	**¥ —**	**¥11**	**¥—**	**¥ 11**
Interest-related	**—**	**—**	**—**	**—**
Total liabilities	**¥ —**	**¥11**	**¥—**	**¥ 11**

	Millions of yen			
	2022			
	Fair value			
	Level 1	Level 2	Level 3	Total
Investments in securities:				
Available-for-sale securities	¥18,806	¥ —	¥—	¥18,806
Stocks				
Derivative transactions				
Currency-related	—	148	—	148
Interest-related	—	—	—	—
Total assets	¥18,806	¥148	¥—	¥18,954
Derivative transactions				
Currency-related	¥ —	¥ —	¥—	¥ —
Interest-related	—	—	—	—
Total liabilities	¥ —	¥ —	¥—	¥ —

	Thousands of U.S. dollars			
	2023			
	Fair value			
	Level 1	Level 2	Level 3	Total
Investments in securities:				
Available-for-sale securities	**$142,339**	**$—**	**$—**	**$142,339**
Derivative transactions				
Currency-related	**—**	**—**	**—**	**—**
Interest-related	**—**	**—**	**—**	**—**
Total assets	**$142,339**	**$—**	**$—**	**$142,339**
Derivative transactions				
Currency-related	**$ —**	**$82**	**$—**	**$ 82**
Interest-related	**—**	**—**	**—**	**—**
Total liabilities	**$ —**	**$82**	**$—**	**$ 82**

(f) Financial instruments other than those recorded on the consolidated balance sheets at fair value.

	Millions of yen			
				2023
				Fair value
	Level 1	Level 2	Level 3	Total
Investments in and receivables from unconsolidated subsidiaries and affiliates				
Stocks of affiliates	**¥43,013**	**¥ —**	**¥—**	**¥43,013**
Total assets	**¥43,013**	**¥ —**	**¥—**	**¥43,013**
Bonds	**—**	**19,935**	**—**	**19,935**
Long-term loans payable	**—**	**63,252**	**—**	**63,252**
Total liabilities	**¥ —**	**¥83,187**	**¥—**	**¥83,187**

	Millions of yen			
				2022
				Fair value
	Level 1	Level 2	Level 3	Total
Investments in and receivables from unconsolidated subsidiaries and affiliates				
Stocks of affiliates	¥65,851	¥ —	¥—	¥65,851
Total assets	¥65,851	¥ —	¥—	¥65,851
Bonds	—	19,941	—	19,941
Long-term loans payable	—	59,114	—	59,114
Total liabilities	¥ —	¥79,055	¥—	¥79,055

	Thousands of U.S. dollars			
				2023
				Fair value
	Level 1	Level 2	Level 3	Total
Investments in and receivables from unconsolidated subsidiaries and affiliates				
Stocks of affiliates	**$322,098**	**$ —**	**$—**	**$322,098**
Total assets	**$322,098**	**$ —**	**$—**	**$322,098**
Bonds	**—**	**149,281**	**—**	**149,281**
Long-term loans payable	**—**	**473,656**	**—**	**473,656**
Total liabilities	**$ —**	**$622,937**	**$—**	**$622,937**

(g) Explanation of valuation techniques used in the calculation of fair value and inputs related to the calculation of fair value.

Assets

(1) (2) Investments in securities

The fair value of listed securities is measured at the quoted market price of the stock exchange. Since listed securities are traded in active markets, their fair value is classified as Level 1 fair value.

Liabilities

(3) Bonds

Since the bonds issued by the Company have quoted market prices, they are measured based on the quoted market prices. The bonds are classified as Level 2 fair value because they are traded infrequently in the market and are not considered to be quoted prices in an active market.

(4) 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 and is classified as Level 2 fair value. 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 and is classified as Level 2 fair value.

Derivative Transactions

The fair value of currency options and foreign exchange contracts is determined based on the discounted present value using observable inputs such as interest rates and exchange rates, and is classified as Level 2 fair value.

Note 6: Securities

The following tables summarize acquisition costs and book value of securities with available fair value at March 31, 2023 and 2022:

Type	Acquisition cost	Book value	Difference
	Millions of yen		
			2023
Equity securities:			
with book value (fair value) exceeding acquisition costs	**¥ 8,588**	**¥14,800**	**¥6,212**
with book value (fair value) not exceeding acquisition costs	**5,170**	**4,208**	**(962)**
	¥13,758	**¥19,008**	**¥5,250**

Type	Acquisition cost	Book value	Difference
	Millions of yen		
			2022
Equity securities:			
with book value (fair value) exceeding acquisition costs	¥ 9,122	¥14,191	¥5,069
with book value (fair value) not exceeding acquisition costs	5,350	4,615	(735)
	¥14,472	¥18,806	¥4,334

Type	Acquisition cost	Book value	Difference
	Thousands of U.S. dollars		
			2023
Equity securities:			
with book value (fair value) exceeding acquisition costs	**$ 64,310**	**$110,828**	**$46,518**
with book value (fair value) not exceeding acquisition costs	**38,715**	**31,511**	**(7,204)**
	$103,025	**$142,339**	**$39,314**

Total sales of available-for-sale securities sold in the year ended March 31, 2023 amounted to ¥416 million ($3,115 thousand), the related gains amounted to ¥234 million ($1,752 thousand) and no related losses. Total sales of available-for-sale securities sold in the year ended March 31, 2022 amounted to ¥32 million, the related gains amounted to ¥21 million and no related losses.

Note 7: Inventories

Inventories at March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Merchandise and Finished goods	**¥28,458**	¥27,260	**$213,105**
Work-in-process	**2,793**	2,685	**20,915**
Raw materials and supplies	**32,416**	26,470	**242,744**
	¥63,667	¥56,415	**$476,764**

Note 8: Assets Pledged

Assets Pledged at March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Guarantee deposits*	**¥4,000**	¥—	**$29,954**

*Deposited as collateral of the Approval for Withdrawing Goods Prior to Import Permit based on the Customs Act.

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

(1) Short-term debt had weighted-average interest rates of 5.28% and 1.66% at March 31, 2023 and 2022, respectively.
(2) The weighted-average interest rate on commercial paper was 0.00% and (0.08)% at March 31, 2023 and 2022.
(3) Long-term debt at March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Long-term loans from banks and other financial institutions			
(Loans due with one year, weighted-average interest rate 0.27%)	**¥ 8,376**	¥25,687	**$ 62,723**
(Loans due after one year, weighted-average interest rate 0.35%)	**54,939**	33,496	**411,405**
0.220% unsecured yen straight bonds due in 2024	**10,000**	10,000	**74,884**
0.110% unsecured yen straight bonds due in 2026	**10,000**	10,000	**74,884**
Lease obligations			
(Loans due with one year)	**301**	280	**2,254**
(Loans due after one year)	**1,427**	1,563	**10,686**
	85,043	81,026	**636,836**
Less current portion due with one year	**(18,677)**	(25,967)	**(139,861)**
Long-term debt	**¥66,366**	¥55,059	**$496,975**

(4) The annual maturities of long-term debt at March 31, 2023 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2024	**¥18,677**	**$139,861**
2025	**16,593**	**124,255**
2026	**17,193**	**128,748**
2027	**14,170**	**106,111**
2028	**9,389**	**70,308**
2029 and thereafter	**9,021**	**67,553**
	¥85,043	**$636,836**

Note 10: Contingent Liabilities

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Guarantee obligation	**¥ 6**	¥ 6	**$ 45**
Transfer of electronically recorded receivables	**12**	10	**90**
Discounted export bill	**¥39**	¥—	**$292**

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, 2023, the shareholders approved cash dividends amounting to ¥1,518 million ($11,367 thousand). Such appropriations have not been accrued in the consolidated financial statements at March 31, 2023. 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, 2023 and 2022.

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, 2023 and 2022:

	2023	2022
Statutory tax rate	**30.5%**	30.5%
Non-deductible expenses	**1.0**	0.2
Dividends received not taxable	**(2.6)**	(0.4)
Per capita inhabitants taxes	**0.3**	0.2
Valuation allowance	**(5.1)**	2.2
Equity in (income) loss of affiliates	**19.1**	(6.5)
Difference from tax rate of foreign subsidiaries	**(6.1)**	(2.1)
Other	**1.8**	(1.9)
Effective tax rate	**38.9**	22.2

Significant components of deferred income tax assets and liabilities at March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Deferred income tax assets:			
Accrued bonuses	¥ 657	¥ 704	$ 4,920
Unrealized gain on inventories	227	235	1,700
Liability for retirement benefit	3,952	4,053	29,594
Long-term accrued amount payable	20	20	150
Unrealized gain on fixed assets	728	805	5,452
Evaluation difference on property, plant and equipment	391	412	2,928
Depreciation and amortization	736	742	5,511
Impairment loss of fixed assets	4,257	4,400	31,878
Loss on devaluation of investments in securities	1,110	1,110	8,312
Accrued environmental expenditures	307	279	2,299
Asset retirement obligations	739	785	5,534
Net operating loss carry forwards	2,576	1,743	19,290
Allowance for doubtful accounts	79	79	592
Other	2,871	2,589	21,498
Subtotal deferred income tax assets	18,650	17,956	139,658
Valuation allowance related to net operating loss carryforwards*2	(2,393)	(1,630)	(17,920)
Valuation allowance related to deductible temporary differences*1	(6,373)	(7,557)	(47,723)
Valuation allowance*1	(8,766)	(9,187)	(65,643)
Total deferred income tax assets	¥ 9,884	¥ 8,769	$ 74,015
Deferred income tax liabilities:			
Assert for retirement benefit	¥ (3,446)	¥ (2,906)	$(25,805)
Reserve for special account for advanced depreciation of fixed assets	(2,090)	(2,598)	(15,651)
Reserve for deferred gain on sales of fixed assets for tax purpose	(819)	(779)	(6,133)
Valuation difference on Property, plant and equipment	(2,336)	(2,088)	(17,493)
Unrealized holding gain on securities	(1,521)	(1,355)	(11,390)
Accumulated adjustments for retirement benefit	(581)	(538)	(4,351)
Other	464	250	3,476
Total deferred income tax liabilities	¥(10,329)	¥(10,014)	$(77,347)
Net deferred income tax assets (liabilities)	¥ (445)	¥ (1,245)	$ (3,332)

*1 The valuation allowance decreased by ¥421 million ($3,153 thousand). The main reason for this decrease is due to the decrease by ¥919 million ($6,882 thousand) in the valuation allowance with a review of the collectability of deferred tax assets at the Company, which more than offset the increase in the valuation allowance related to tax loss carryforwards at certain consolidated subsidiary.

*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, 2023

	2024	2025	2026	2027	2028	2029 and thereafter	Total
							Millions of yen
Loss carryforwards (a)	**¥ 690**	**523**	**6**	**13**	**698**	**646**	**¥ 2,576**
Valuation allowances	**¥(690)**	**(515)**	**(6)**	**(13)**	**(698)**	**(471)**	**¥(2,393)**
Deferred imcome tax assets (b)	**¥ —**	**8**	**—**	**—**	**—**	**175**	**¥ 183**

Year ended March 31, 2023

	2024	2025	2026	2027	2028	2029 and thereafter	Total
							Thousands of U.S. dollars
Loss carryforwards (a)	**$ 5,167**	**3,916**	**45**	**97**	**5,227**	**4,838**	**$ 19,290**
Valuation allowances	**$(5,167)**	**(3,857)**	**(45)**	**(97)**	**(5,227)**	**(3,527)**	**$(17,920)**
Deferred imcome tax assets (b)	**$ —**	**59**	**—**	**—**	**—**	**1,311**	**$ 1,370**

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

(b) The amount of ¥183 million ($1,378 thousand) of deferred income tax assets is recorded for net operating loss carryforwards of ¥2,576 million ($19,290 thousand) (amount multiplied by the statutory effective tax rate), which is mainly recognized with regards to the balance of net operating loss carryforwards at the Company of ¥165 million ($1,236 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, 2022

	2023	2024	2025	2026	2027	2028 and thereafter	Total
							Millions of yen
Loss carryforwards (a)	¥ 25	659	509	6	12	532	¥ 1,743
Valuation allowances	¥(25)	(655)	(498)	(6)	(12)	(434)	¥(1,630)
Deferred income tax assets (b)	¥ —	4	11	—	—	98	¥ 113

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

(b) The amount of ¥113 million of deferred income tax assets is recorded for net operating loss carryforwards of ¥1,743 million (amount multiplied by the statutory effective tax rate).

The amount of ¥113 million in deferred income tax assets was mainly recognized with regards to the balance of net operating loss carryforwards at the Company of ¥93 million (amount multiplied by the statutory effective tax rate), which is mainly recognized with regards 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 ¥702 million ($5,257 thousand) and ¥615 million for the years ended March 31, 2023 and 2022, 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, 2023, the Companies did not recorded impairment loss on long-lived asset.

In the year ended March 31, 2022, the Companies recorded impairment loss on long-lived asset for the following group assets:

Use	Location	Type	Amount Millions of yen
White paperboard business	Guangdong, China	Machinery and equipment, Vehicles, etc.	2,434
Idle assets	Nigata, Nigata and elsewhere	Machinery and equipment, Vehicles, etc.	1,833
Containerboard base paper	Nigata, Nigata	Machinery and equipment, Vehicles, etc.	3,588
Idle assets	Sheng, Wakayama and elsewhere	Land, etc.	0
Total	—	—	¥7,855

(Process for Recognition of Impairment Loss on Long-lived Asset)
With the deterioration of business environment, in the containerboard base paper production facilities of the Paper and Pulp Business 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. The recoverable amount of the containerboard base paper production facilities is the fair value less cost to sell, and is calculated by a third-party appraisal.

With the deterioration of business environment, in the white paperboard production facilities of the Paper and Pulp Business 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. The recoverable amount of the white paperboard production facilities is calculated using the fair value based on IFRS. The recoverable amount is the fair value less cost of disposal, and is calculated by a third-party appraisal.

With regard to idle assets of the Paper and Pulp Business and other business, 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 by the fair value less cost to sell and 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, 2023 and 2022 are as follows:

Operating lease transactions

Lease commitments under non-cancelable operating leases at March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
(lessee)			
Due within one year	**¥ 51**	¥132	**$ 382**
Due after one year	**95**	144	**711**
	¥146	¥276	**$1,093**
(lessor)			
Due within one year	**¥ 26**	¥ 26	**$ 195**
Due after one year	**315**	341	**2,359**
	¥341	¥367	**$2,554**

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.

Derivative transactions for which hedge accounting had not been applied at March 31, 2023 and 2022 are as follows:

(1) Currency-related

	Millions of yen								Thousands of U.S. dollars			
	2023				2022				**2023**			
	Notional amount				Notional amount				Notional amount			
Type of derivative transaction	Total	Over one year	Fair value	Valuation Gain (Loss)	Total	Over one year	Fair value	Valuation Gain (Loss)	Total	Over one year	Fair value	Valuation Gain (Loss)
Forward exchange contracts												
Sale contracts												
U.S. Dollar	**¥719**	**¥—**	**¥(18)**	**¥(18)**	¥—	¥—	¥—	¥—	**$5,384**	**$—**	**$(135)**	**$(135)**
Buy contracts												
U.S. Dollar	**¥719**	**¥—**	**¥ 8**	**¥ 8**	¥—	¥—	¥—	¥—	**$5,384**	**$—**	**$ 60**	**$ 60**

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, 2023 and 2022 are as follows:

(1) Currency-related

	Millions of yen						Thousands of U.S. dollars		
	2023			2022			**2023**		
	Notional amount			Notional amount			Notional amount		
Type of derivative transaction	Total	Over one year	Fair value	Total	Over one year	Fair value	Total	Over one year	Fair value
Forward exchange contracts									
Buy contracts									
U.S. Dollar	**¥147**	**¥—**	**¥(1)**	¥1,050	¥—	¥ 19	**$1,101**	**$—**	**$(7)**
EUR	**¥ —**	**¥—**	**¥—**	¥1,721	¥—	¥129	**$ —**	**$—**	**$—**

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 qualified for special hedging treatment. The net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

		Millions of yen						Thousands of U.S. dollars		
		2023			2022			2023		
		Notional amount			Notional amount			Notional amount		
Type of derivative transaction	Main hedged items	Total	Over one year	Fair value	Total	Over one year	Fair value	Total	Over one year	Fair value
Interest rate swap contracts										
Receive floating, Pay fixed	Long-term loans payable	¥—	¥—	¥—	¥6,060	¥—	¥—	$—	$—	$—

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

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

		Millions of yen						Thousands of U.S. dollars		
		2023			2022			2023		
		Notional amount			Notional amount			Notional amount		
Type of derivative transaction	Main hedged items	Total	Over one year	Fair value	Total	Over one year	Fair value	Total	Over one year	Fair value
Interest rate and currency swaps contracts										
Receive floating, Pay fixed Receive U.S. dollar, Pay Japanese Yen	Long-term loans payable	¥—	¥—	¥—	¥7,813	¥—	¥—	$—	$—	$—

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 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.

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
	2023	2022	**2023**
Balance at the beginning of the year	**¥16,758**	¥17,313	**$125,490**
Service cost	**719**	738	**5,384**
Interest cost	**115**	108	**861**
Actuarial (gain) loss	**(402)**	(51)	**(3,010)**
Benefits paid	**(702)**	(1,362)	**(5,256)**
Other	**68**	12	**509**
Balance at the end of the year	**¥16,556**	¥16,758	**$123,978**

(2) Movements in plan assets

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Balance at the beginning of the year	**¥16,142**	¥15,053	**$120,878**
Expected return on plan assets	**100**	90	**749**
Actuarial (gain) loss	**183**	1,124	**1,370**
Contributions paid by the employer	**26**	97	**195**
Benefits paid	**(255)**	(283)	**(1,910)**
Contribution to retirement benefit trust	**2,003**	—	**14,999**
Other	**55**	61	**412**
Balance at the end of the year	**¥18,254**	¥16,142	**$136,693**

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

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Funded retirement benefit obligations	**¥ 14,113**	¥ 14,227	**$ 105,684**
Plan assets	**(18,254)**	(16,142)	**(136,693)**
	(4,141)	(1,915)	**(31,009)**
Unfunded retirement benefit obligations	**2,443**	2,531	**18,294**
Total Net liability (asset) for retirement benefits	**(1,698)**	616	**(12,715)**
Liability for retirement benefits	**2,523**	4,387	**18,893**
Asset for retirement benefits	**(4,221)**	(3,771)	**(31,608)**
Total Net liability (asset) for retirement benefits	**¥ (1,698)**	¥ 616	**$ (12,715)**

(4) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Service cost	**¥ 720**	¥ 738	**$ 5,392**
Interest cost	**115**	108	**861**
Expected return on plan assets	**(101)**	(90)	**(756)**
Net actuarial gain amortization	**(380)**	(192)	**(2,846)**
Other	**1**	1	**7**
Total retirement benefit costs	**¥ 355**	¥565	**$ 2,658**
Gain on contribution of securities to retirement benefit trust*	**1,417**	—	**10,611**
Gain on reversal of retirement benefit obligations*	**—**	(77)	**—**

*This account is recorded in other income.

(5) Adjustments for retirement benefit

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Actuarial gains and (losses)	**¥205**	¥983	**$1,535**
Other	**8**	(5)	**60**
Total adjustments for retirement benefit	**¥213**	¥978	**$1,595**

(6) Accumulated adjustments for retirement benefit

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Unrecognized actuarial gains and (losses)	**¥(2,049)**	¥(1,836)	**$(15,344)**

(7) Plan assets

1. Plan assets comprise:

	2023	2022
Bonds	**16.8%**	17.8%
Equity securities	**70.1%**	67.8%
Cash and deposits	**4.6%**	4.4%
General account of life insurance companies	**7.3%**	8.3%
Other	**1.2%**	1.7%
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 52.8% 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:

	2023	2022
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
	2023	2022	**2023**
Balance at the beginning of the year	**¥1,175**	¥1,225	**$8,799**
Retirement benefit costs	**222**	186	**1,662**
Benefits paid	**(136)**	(163)	**(1,018)**
Contributions paid by the employer	**(75)**	(79)	**(562)**
Other	**2**	6	**15**
Balance at the end of the year	**¥1,188**	¥1,175	**$8,896**

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

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Funded retirement benefit obligations	**¥ 883**	¥ 900	**¥ 6,612**
Plan assets	**(975)**	(987)	**(7,301)**
	(92)	(87)	**(689)**
Unfunded retirement benefit obligations	**1,280**	1,262	**9,585**
Total Net liability (asset) for retirement benefits	**1,188**	1,175	**8,896**
Liability for retirement benefits	**1,284**	1,274	**9,615**
Asset for retirement benefits	**(96)**	(99)	**(719)**
Total Net liability (asset) for retirement benefits	**¥1,188**	¥1,175	**¥ 8,896**

(3) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Total retirement benefit costs based on the simplified method	**¥222**	¥187	**$1,662**

3. Defined contribution pension plan

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Required contributions provided to defined contribution pension plans at consolidated subsidiary	**¥483**	¥388	**$3,617**

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 0.516% to 2.330% is used.

(3) Movement in the total amount of the relevant asset retirement obligations during the fiscal year ended March 31, 2023 and 2022:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Balance at the beginning of the year	**¥2,941**	¥2,378	**$22,023**
Unwinding of discount	**20**	8	**150**
Increase due to change in estimates	**(84)**	629	**(629)**
Decrease in loss on disposal of property, plant and equipment	**(278)**	(217)	**(2,082)**
Foreign currency translation adjustment	**143**	143	**1,071**
Balance at the end of the year	**¥2,742**	¥2,941	**$20,533**

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.

Note 19: 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 Company evaluates business results on an each-company basis, and treats independent entities 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 two reporting segments: the “Paper and Pulp Business” and the “Packaging and Paper Processing 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, along with the manufacture, processing and sale of processed paper products.

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

	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others*1	Adjustments*2	Consolidated*3
	2023					
Sales:						
Sales to outside customers	¥279,109	¥13,740	¥292,849	¥ 8,356	¥ —	¥301,205
Intersegment sales or transfers	2,156	28	2,184	22,667	(24,851)	—
Total	281,265	13,768	295,033	31,023	(24,851)	301,205
Segment income	¥ 16,093	¥ (4)	¥ 16,089	¥ 695	¥ 504	¥ 17,288
Segment assets	¥370,000	¥14,307	¥384,307	¥16,782	¥(12,644)	¥388,445
Other items						
Depreciation and amortization	¥ 11,230	¥ 609	¥ 11,839	¥ 431	¥ (416)	¥ 11,854
Impairment loss	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —
Investment in affiliates	¥ 61,257	¥ —	¥ 61,257	¥ —	¥ —	¥ 61,257
Increase in property, plant and equipment/ intangible assets	¥ 11,669	¥ 357	¥ 12,026	¥ 782	¥ (276)	¥ 12,532

Thousands of U.S. dollars

	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others*1	Adjustments*2	Consolidated*3
	2023					
Sales:						
Sales to outside customers	$2,090,078	$102,890	$2,192,968	$ 62,573	$ —	$2,255,541
Intersegment sales or transfers	16,145	210	16,355	169,739	(186,094)	—
Total	2,106,223	103,100	2,209,323	232,312	(186,094)	2,255,541
Segment income	$ 120,511	$ (30)	$ 120,481	$ 5,204	$ 3,774	$ 129,459
Segment assets	$2,770,705	$107,137	$2,877,842	$125,670	$ (94,683)	$2,908,829
Other items						
Depreciation and amortization	$ 84,095	$ 4,560	$ 88,655	$ 3,227	$ (3,115)	$ 88,767
Impairment loss	$ —	$ —	$ —	$ —	$ —	$ —
Investment in affiliates	$ 458,716	$ —	$ 458,716	$ —	$ —	$ 458,716
Increase in property, plant and equipment/ intangible assets	$ 87,382	$ 2,673	$ 90,055	$ 5,857	$ (2,067)	$ 93,845

*1 The "Others" category indicates business segments not included in the reportable segments, encompassing the wood products business, the construction business, the transportation and warehousing business and the wastepaper wholesale business.

*2 Amounts of adjustments are as follows:
(1) Adjustments in segment income in the amount of ¥504 million ($3,774 thousand) mainly represent eliminations of intersegment transactions.
(2) Adjustments in segment assets in the amount of ¥(12,644) million ($(94,683) thousand) include ¥(18,263) million ($(136,761) thousand) for eliminations of intersegment debts and credits and ¥5,619 million ($42,078 thousand) for the corporate assets that are not allocated to each reportable segment.
(3) Adjustments in increases in property, plant and equipment and intangible fixed assets totaling ¥(276) million ($(2,067) 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.

	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others[*1]	Adjustments[*2]	Consolidated[*3]
	Millions of yen					
	2022					
Sales:						
Sales to outside customers	¥240,003	¥13,609	¥253,612	¥ 8,005	¥ —	¥261,617
Intersegment sales or transfers	2,467	31	2,498	22,380	(24,878)	—
Total	242,470	13,640	256,110	30,385	(24,878)	261,617
Segment income	¥ 19,242	¥ (72)	¥ 19,170	¥ 760	¥ 526	¥ 20,456
Segment assets	¥357,858	¥13,666	¥371,524	¥16,887	¥(11,455)	¥376,956
Other items						
Depreciation and amortization	¥ 12,518	¥ 648	¥ 13,166	¥ 439	¥ (392)	¥ 13,213
Impairment loss	¥ 7,855	¥ —	¥ 7,855	¥ 0	¥ —	¥ 7,855
Investment in affiliates	¥ 67,269	¥ —	¥ 67,269	¥ —	¥ —	¥ 67,269
Increase in property, plant and equipment/ intangible assets	¥ 13,101	¥ 284	¥ 13,385	¥ 336	¥ (259)	¥ 13,462

*1 The "Others" category indicates business segments not included in the reportable segments, encompassing the wood products business, the construction business, the transportation and warehousing business and the wastepaper wholesale business.

*2 Amounts of adjustments are as follows:

(1) Adjustments in segment income in the amount of ¥526 million mainly represent eliminations of intersegment transactions.

(2) Adjustments in segment assets in the amount of ¥(11,455) million include ¥(16,791) million for eliminations of intersegment debts and credits and ¥5,336 million for the corporate assets that are not allocated to each reportable segment.

(3) Adjustments in increases in property, plant and equipment and intangible fixed assets totaling ¥(259) million represent eliminations of intersegment unrealized gains on noncurrent assets.

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

(Related information)
Year ended March 31, 2023

1. Information by Region

(1) Net Sales

	Japan	United States	China	Asia	Others	Total
	Millions of yen					
	2023					
Net Sales	**¥179,690**	**¥44,488**	**¥30,248**	**¥25,026**	**¥21,753**	**¥301,205**

	Japan	United States	China	Asia	Others	Total
	Thousands of U.S. dollars					
	2023					
Net Sales	**$1,345,589**	**$333,144**	**$226,509**	**$187,404**	**$162,895**	**$2,255,541**

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) Asia …… South Korea, Vietnam, Taiwan, India, Thailand
(2) Other …… Canada, Europe, Germany, France

(2) Property, plant and equipment

	Japan	Canada	Others	Total
	Millions of yen			
	2023			
Property, plant and equipment	**¥89,753**	**¥21,111**	**¥6,197**	**¥117,061**

	Japan	Canada	Others	Total
	Thousands of U.S. dollars			
	2023			
Property, plant and equipment	**$672,106**	**$158,087**	**$46,406**	**$876,599**

2. Information by Major Customer

Name of Customers	Millions of yen 2023	Thousands of U.S. dollars 2023
SHINSEI PULP & PAPER COMPANY LIMITED	**¥35,017**	**$262,221**

Year ended March 31, 2022

1. Information by Region

(1) Net Sales

	Japan	United States	China	Asia	Others	Total
						Millions of yen 2022
Net Sales	¥162,656	¥27,910	¥33,443	¥20,960	¥16,648	¥261,617

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) Asia ...... South Korea, Vietnam, Taiwan, Thailand, Malaysia
(2) Other ...... Canada, Europe, Germany, France

(2) Property, plant and equipment

	Japan	Canada	Others	Total
				Millions of yen 2022
Property, plant and equipment	¥90,912	¥18,642	¥5,829	¥115,383

2. Information by Major Customer

Name of Customers	Millions of yen 2022
SHINSEI PULP & PAPER COMPANY LIMITED	¥32,331

(Information on the amounts of amortization and unamortized balance by reportable segment)
Year ended March 31, 2023

	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others	Adjustments	Consolidated
	Millions of yen					
	2023					
Goodwill:						
Amortization of goodwill	**¥141**	**¥—**	**¥141**	**¥—**	**¥—**	**¥141**
Balance at end of year	**¥725**	**¥—**	**¥725**	**¥—**	**¥—**	**¥725**

	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others	Adjustments	Consolidated
	Thousands of U.S. dollars					
	2023					
Goodwill:						
Amortization of goodwill	**$1,056**	**$—**	**$1,056**	**$—**	**$—**	**$1,056**
Balance at end of year	**$5,429**	**$—**	**$5,429**	**$—**	**$—**	**$5,429**

Year ended March 31, 2022

	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others	Adjustments	Consolidated
	Millions of yen					
	2022					
Goodwill:						
Amortization of goodwill	¥133	¥—	¥133	¥—	¥—	¥133
Balance at end of year	¥802	¥—	¥802	¥—	¥—	¥802

Note 20: Revenue

(1) Revenue by type of goods or service

Millions of yen

	2023				
	Paper and Pulp Business	Packaging and Paper Processing Business	Reportable segment total	Others	Consolidated
Paper	**¥134,660**	**¥ —**	**¥134,660**	**¥ —**	**¥134,660**
Paperboard	**51,246**	**—**	**51,246**	**—**	**51,246**
Pulp	**67,510**	**—**	**67,510**	**—**	**67,510**
Others	**25,649**	**13,740**	**39,389**	**8,356**	**47,745**
Revenue recognized from contracts with customers	**279,065**	**13,740**	**292,805**	**8,356**	**301,161**
Other revenues	**44**	**—**	**44**	**—**	**44**
Sales to outside customers	**¥279,109**	**¥13,740**	**¥292,849**	**¥8,356**	**¥301,205**

Thousands of U.S. dollars

	2023				
	Paper and Pulp Business	Packaging and Paper Processing Business	Reportable segment total	Others	Consolidated
Paper	**$1,008,387**	**$ —**	**$1,008,387**	**$ —**	**$1,008,387**
Paperboard	**383,750**	**—**	**383,750**	**—**	**383,750**
Pulp	**505,541**	**—**	**505,541**	**—**	**505,541**
Others	**192,070**	**102,891**	**294,961**	**62,573**	**357,534**
Revenue recognized from contracts with customers	**2,089,748**	**102,891**	**2,192,639**	**62,573**	**2,255,212**
Other revenues	**329**	**—**	**329**	**—**	**329**
Sales to outside customers	**$2,090,077**	**$102,891**	**$2,192,968**	**$62,573**	**$2,255,541**

Millions of yen

	2022				
	Paper and Pulp Business	Packaging and Paper Processing Business	Reportable segment total	Others	Consolidated
Paper	¥118,235	¥ —	¥118,235	¥ —	¥118,235
Paperboard	50,891	—	50,891	—	50,891
Pulp	50,478	—	50,478	—	50,478
Others	20,365	13,609	33,974	8,005	41,979
Revenue recognized from contracts with customers	239,969	13,609	253,578	8,005	261,583
Other revenues	34	—	34	—	34
Sales to outside customers	¥240,003	¥13,609	¥253,612	¥8,005	¥261,617

(2) Revenue by region

Millions of yen

	2023				
	Paper and Pulp Business	Packaging and Paper Processing Business	Reportable segment total	Others	Consolidated
Japan	**¥158,328**	**¥13,030**	**¥171,358**	**¥8,289**	**¥179,647**
Asia	**54,497**	**710**	**55,207**	**67**	**55,274**
North America	**58,222**	**—**	**58,222**	**—**	**58,222**
Others	**8,018**	**—**	**8,018**	**—**	**8,018**
Revenue recognized from contracts with customers	**279,065**	**13,740**	**292,805**	**8,356**	**301,161**
Other revenues	**44**	**—**	**44**	**—**	**44**
Sales to outside customers	**¥279,109**	**¥13,740**	**¥292,849**	**¥8,356**	**¥301,205**

	Thousands of U.S. dollars				
	2023				
	Paper and Pulp Business	Packaging and Paper Processing Business	Reportable segment total	Others	Consolidated
Japan	**$1,185,622**	**$ 97,574**	**$1,283,196**	**$62,071**	**$1,345,267**
Asia	**408,095**	**5,317**	**413,412**	**502**	**413,914**
North America	**435,989**	**—**	**435,989**	**—**	**435,989**
Others	**60,042**	**—**	**60,042**	**—**	**60,042**
Revenue recognized from contracts with customers	**2,089,748**	**102,891**	**2,192,639**	**62,573**	**2,255,212**
Other revenues	**329**	**—**	**329**	**—**	**329**
Sales to outside customers	**$2,090,077**	**$102,891**	**$2,192,968**	**$62,573**	**$2,255,541**

	Millions of yen				
	2022				
	Paper and Pulp Business	Packaging and Paper Processing Business	Reportable segment total	Others	Consolidated
Japan	¥142,382	¥12,312	¥154,694	¥7,928	¥162,622
Asia	53,029	1,297	54,326	77	54,403
North America	37,949	—	37,949	—	37,949
Others	6,609	—	6,609	—	6,609
Revenue recognized from contracts with customers	239,969	13,609	253,578	8,005	261,583
Other revenues	34	—	34	—	34
Sales to outside customers	¥240,003	¥13,609	¥253,612	¥8,005	¥261,617

(3) Contract balances

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Receivables recognized from contracts with customers - the beginning	**¥67,738**	¥55,277	**$507,249**
Receivables recognized from contracts with customers - the end	**84,501**	67,738	**632,777**
Contract assets - the beginning	**145**	79	**1,086**
Contract assets - the end	**80**	145	**599**
Contract liabilities - the beginning	**507**	491	**3,797**
Contract liabilities - the end	**¥ 538**	¥ 507	**$ 4,029**

Contract assets consist of accounts receivable for completed construction contracts related to revenue recognized based on the measurement of the percentage of completion in construction contracts.

Contract assets are reclassified to receivables upon acceptance by the customer. Contract liabilities consist primarily of advance received from customers under sales contracts. Contract liabilities are delecognized upon revenue recognition.

The amount of revenue recognized that was included in the contract liability balance at the beginning of the current and the previous year are ¥507 million ($3,797 thousand) and ¥483 million, respectively.

The amount of revenue (primarily changes in transaction prices) recognized in the current and previous fiscal years from performance obligations that were satisfied (or partially satisfied) in prior periods was not material.

(4) Transaction price allocated to remaining performance obligations

The Company and its consolidated subsidiaries apply the practical expedient method in disclose of the transaction price allocated to the residual performance obligation and do not include in the notes contracts with an initial expected contract term of one year or less.

The aggregate transaction price allocated to the remaining performance obligations and the period over which revenue is expected to be recognized are as follows

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
2024	**¥—**	¥120	**$—**
2025	**—**	53	**—**
2026 and thereafter	**—**	—	**—**
Total retirement benefit costs	**¥—**	¥173	**$—**

Note 21: Related Party Transactions

(1) Transactions with related party

Year ended March 31, 2023
Transactions with related party are immaterial as of and for the current year ended as of March 31, 2023.

Year ended March 31, 2022
Transactions with related party are immaterial as of and for the current year ended as of March 31, 2022.

(2) Notes on parent company or significant affiliated company

For the year ended March 31, 2023 and 2022, 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
	2023	2022	**2023**
Total current assets	**¥355,058**	¥291,300	**$2,658,814**
Total noncurrent assets	**568,373**	549,001	**4,256,200**
Total current liabilities	**252,797**	238,321	**1,893,043**
Total noncurrent liabilities	**426,063**	335,415	**3,190,527**
Total net assets	**244,670**	266,704	**1,832,185**
Net sales	**646,213**	612,314	**4,839,097**
Income before income taxes	**(39,201)**	36,588	**(293,552)**
Net income (loss) attributable to owners of parent company	**(34,705)**	23,721	**(259,885)**

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
	2023	2022	**2023**
Unrealized holding gains (losses) on securities, net of taxes			
Occurrence amount	**¥1,092**	¥ (648)	**$ 8,177**
Reclassification adjustment	**(176)**	2	**(1,318)**
Before tax effect	**916**	(646)	**6,859**
Tax effect	**(197)**	318	**(1,475)**
Unrealized holding gains (losses) on securities, net of taxes	**¥ 719**	¥ (328)	**$ 5,384**
Unrealized gains (losses) on hedging derivatives, net of taxes			
Occurrence amount	**¥31**	¥ 177	**$ 232**
Reclassification adjustment	**(181)**	2	**(1,355)**
Before tax effect	**(150)**	179	**(1,123)**
Tax effect	**45**	(52)	**337**
Unrealized gains (losses) on hedging derivatives, net of taxes	**¥ (105)**	¥ 127	**$ (786)**
Foreign currency translation adjustment			
Occurrence amount	**¥ 847**	¥2,635	**$ 6,343**
Reclassification adjustment	**—**	—	**—**
Before tax effect	**847**	2,635	**6,343**
Tax effect	**—**	—	**—**
Foreign currency translation adjustment	**¥ 847**	¥2,635	**$ 6,343**
Adjustments for retirement benefit, net of taxes			
Occurrence amount	**¥ 593**	¥1,170	**$ 4,441**
Reclassification adjustment	**(380)**	(192)	**(2,846)**
Before tax effect	**213**	978	**1,595**
Tax effect	**(60)**	(289)	**(449)**
Adjustments for retirement benefit, net of taxes	**¥ 153**	¥ 689	**$ 1,146**
Share of other comprehensive income of associates accounted for using equity method			
Occurrence amount	**¥3,839**	¥ (150)	**$28,748**
Reclassification adjustment	**(368)**	(158)	**(2,756)**
Share of other comprehensive income of associates accounted for using equity method	**¥3,471**	¥ (308)	**$25,992**
Total other comprehensive income	**¥5,085**	¥2,815	**$38,079**

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 Company's stock options as of March 31, 2023

Stock options	Persons granted	Number of stock options granted	Grant date	Exercise price	Exercise period
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	65,000 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	From July 15, 2020 to July 14, 2035
2021 Stock options	6 directors	66,000 shares	July 16, 2021	¥1	From July 17, 2021 to July 16, 2036
2022 Stock options	6 directors	52,500 shares	July 15, 2022	¥1 ($0.01)	From July 16, 2022 to July 15, 2037

(2) The number of stock options

	2017 Stock options (shares)	2018 Stock options (shares)	2019 Stock options (shares)	2020 Stock options (shares)	2021 Stock options (shares)	2022 Stock options (shares)
Non-vested stock option:						
Outstanding at March 31, 2022	—	—	—	—	—	—
Granted	—	—	—	—	—	52,500
Forfeited	—	—	—	—	—	—
Vested	—	—	—	—	—	52,500
Outstanding at March 31, 2023	—	—	—	—	—	—
Vested stock option:						
Outstanding at March 31, 2022	12,500	23,500	28,500	58,000	66,000	—
Vested	—	—	—	—	—	52,500
Exercised	—	—	—	—	30,000	—
Forfeited	—	—	—	—	—	—
Outstanding at March 31, 2023	125,500	23,500	28,500	58,000	36,000	52,500

(3) The per share prices

	2017 Stock options	2018 Stock options	2019 Stock options	2020 Stock options	2021 Stock options	2022 Stock options
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1($0.01)
Average stock price at exercise	¥ —	¥ —	¥ —	¥ —	¥759	¥ —
Fair value price at grant date	¥743	¥505	¥488	¥289	¥509	¥535 ($4.01)

(4) The estimate method for stock option price

	2017 Stock options	2018 Stock options	2019 Stock options	2020 Stock options	2021 Stock options	2022 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
Expected volatility	32.561%	32.621%	32.188%	33.522%	31.635%	31.348%
Expected life	8 years	8 years	8 years	8 years	8 years	8 years
Expected dividend	¥12/share	¥12/share	¥12/share	¥12/share	¥14/share	¥24/share ($0.18/share)
Risk-free interest rate	0.025%	(0.045)%	(0.207)%	(0.080)%	(0.096)%	(0.194)%

KPMG

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, 2023 and 2022, 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, 2023 and 2022, 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 the determination as to whether an impairment loss should be recognized on 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 ¥117,061 million and intangible assets of ¥2,468 million were recognized in the consolidated balance sheet of Hokuetsu Corporation (the "Company") and its consolidated subsidiaries as of March 31, 2023. As described in Note	In order to assess the appropriateness of the determination as to whether an impairment loss should be recognized on long-lived assets held by the Component Subsidiary, we requested the component auditor of the Component Subsidiary to perform an audit and then evaluated the report of the component

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3, “Significant accounting estimates, 2. Impairment loss on long-lived assets” to the consolidated financial statements, included therein were ¥4,017 million of property, plant and equipment of Jiangmen Xinghui Paper Mill Co., Ltd. (the “Component Subsidiary”), a consolidated subsidiary of the Company, accounting for approximately 1.0% of total assets in the consolidated financial statements.
An impairment indicator was identified for the Component Subsidiary since its operating results had continuously been below its business plan due to a prolonged decline in demand for packaging materials including the Component Subsidiary’s products, resulting from the economic slowdown caused by the zero-COVID policy that the Chinese government imposed.
The Component Subsidiary prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) and performs an impairment test when an impairment indicator is identified for long-lived assets. In the impairment testing, when the recoverable amount of a cash-generating unit is less than the carrying amount, an entity needs to reduce the carrying amount to the recoverable amount and recognize the resulting decrease in the carrying amount as an impairment loss. The recoverable amount is the higher of either the value in use or the fair value less cost of disposal.
The Company estimated the recoverable amount of the long-lived assets held by the Component Subsidiary based on the fair value less cost of disposal. The fair value less cost of disposal was estimated based on the real estate appraisal value obtained from an external specialist, among others. Since the fair value less cost of disposal exceeded the carrying amount, an impairment loss was not recognized.
The estimate of the fair value less cost of disposal in measuring the recoverable
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auditor to conclude on whether sufficient and appropriate audit evidence was obtained from the following procedures, among others:
(1) Internal control testing
Test of the design and operating effectiveness of the Component Subsidiary’s internal controls relevant to the determination as to whether an impairment loss should be recognized on long-lived assets, with a greater focus on controls relevant to the evaluation of the results of the external specialist’s work.
(2) Assessment of the reasonableness of the estimated fair value less cost of disposal
Performance of the following procedures with the assistance of a valuation specialist within the network firms of the component auditor:

Assessed the competence, skills and objectivity of the specialist used by management based on the information about his or her experience and qualifications, memberships with professional organizations, and whether any conflicts of interest exist with the Company;
Assessed the appropriateness of the valuation methods adopted by the specialist that management used;
Assessed the reasonableness of assumptions and the reliability of underlying data through comparison with available external data, such as comparable market transactions; and
Recalculated the fair value less cost of disposal based on the valuation methods adopted by the specialist that management used.

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We, therefore, determined that our assessment of the determination as to whether an impairment loss should be recognized on long-lived assets held by the Component Subsidiary was one of the most significant matters in our audit of the consolidated financial statements for this fiscal year, and accordingly, a key audit matter.</td><td></td></tr>
<tr><td colspan="2">Appropriateness of the valuation of an affiliate’s long-lived assets including goodwill</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>Investments in and receivables from unconsolidated subsidiaries and affiliates of ¥64,640 million were recognized in the consolidated balance sheet of Hokuetsu Corporation (the “Company”) and its consolidated subsidiaries as of March 31, 2023. As described in Note 3, “Significant accounting estimates, 4. Impairment loss on long-lived assets of affiliates accounted for by the equity method” to the consolidated financial statements, included therein was the investment in Daio Paper Corporation, an 24.8% owned affiliate accounted for using the equity method, of ¥59,411 million, representing approximately 15.3% of total assets in the consolidated financial statements. Daio Paper Corporation recognized long-lived assets of ¥568,373 million, including ¥45,847 million for goodwill on a stand-alone basis.

The business environment of Daio Paper Corporation had deteriorated as a result of significant increases in the manufacturing costs of paper, processed goods and all other products, because the procurement costs of major raw materials, such as coals, heavy oil, chips and pulp, remained high due to soaring natural resource prices coupled with the depreciation of the yen hitting a historical low, in addition to increases in logistics costs and material costs for cargo packaging. Under these circumstances, demand for paper</td><td>In order to assess whether the valuation of long-lived assets including goodwill of Daio Paper Corporation was appropriate, we requested the component auditor of Daio Paper Corporation, an affiliate, to perform an audit and then evaluated the report of the component auditor to conclude on whether sufficient 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 the Company’s relevant internal controls through obtaining an understanding of the processes related to the identification of an impairment indicator for long-lived assets including goodwill and the determination as to the recognition and measurement of an impairment loss.

(2) Assessment of the reasonableness of the identification of an impairment indicator and the determination as to the recognition and measurement of the impairment loss
● Obtained an understanding of the business environment surrounding each asset and asset group, by inquiring of management and the personnel responsible for the relevant departments and inspecting the materials including the minutes of the Company’s meetings, and then assessed whether there was an indicator of significant deterioration in the business environment;
● Assessed the past operating results to identify an impairment indicator;
● Performed the following procedures as necessary with respect to assumptions adopted in the mid-term business plan that formed the basis for</td></tr>
</table>

had continuously been decreasing in the Paper and Paperboard Business. Moreover, in the Home & Personal Care Business, operations may not be able to proceed as initially planned due to the risk of fluctuations in demand or a market slowdown of certain product categories and risks specific to overseas businesses. In order to identify an impairment indicator, Daio Paper Corporation assesses whether recurring operating losses have been recorded, or are expected to be recorded, for some consecutive years, and whether the business environment has significantly deteriorated, or is expected to significantly deteriorate, taking into account the past operating results, the budget based on the mid-term business plan and the business plan at the time when goodwill was first recognized, among others. In determining whether an impairment loss should be recognized and measuring the impairment loss, future cash flows are estimated using the three-year business plan that is prepared based on the mid-term business plan approved by management. The carrying amount of the asset group for which it is determined that an impairment loss should be recognized is reduced to the recoverable amount which is measured as the higher of either the value in use based on the future cash flows or the net selling price of the asset group. The Company recognized equity in losses of affiliates amounting to ¥8,611 million for the current fiscal year, including the effect of an impairment loss of ¥12,660 million recognized by Daio Paper Corporation on certain of its goodwill and property, plant and equipment in accordance with the above policy. These assessments required subjective management judgment as the projections such as sales volume and unit selling prices involved a high degree of uncertainty. In addition, the amounts of the investment in Daio Paper Corporation and the recognized	management's assessment of the identification of an impairment indicator and the determination as to the recognition and measurement of the impairment loss: • Comparison of the projected net sales and operating profit in the mid-term business plan with the past results; • Inspection of materials supporting the projected sales volume prepared by the Company and the discussion with management regarding new measures and market forecasts that formed the basis of the projected sales volume, as well as the assessment of the consistency of the projected sales volume with the projections adopted in the mid-term business plan; and • Assessment of the consistency of the projected selling prices with the publicly announced pricing strategy of the Company and its competitors in the same industry, including the status of negotiations with customers. ● Assessed the appropriateness of the recoverable amount with the assistance of a valuation specialist by evaluating the reasonableness of the method of determining the discount rate used to calculate the value-in-use, among others; and ● Confirmed that the carrying amount of the asset group for which it was determined that an impairment loss should be recognized was reduced to the recoverable amount by comparing the recoverable amount and the carrying amount.

amount of equity in losses of affiliates were material. We, therefore, determined that our assessment of the appropriateness of the valuation of long-lived assets including goodwill of Daio Paper Corporation, including the identification of an impairment indictor, and the determination as to the recognition and measurement of the impairment loss, was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	

Other Information

The other information comprises the information included in the disclosure documents that contain or accompany the audited consolidated financial statements, but does not include the consolidated financial statements and our auditor’s reports thereon. We do not perform any work on the other information as we determine such information does not exist.

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, 2023 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.

Akihiro Ohtani

Designated Engagement Partner

Certified Public Accountant

Yasuhisa Yajima

Designated Engagement Partner

Certified Public Accountant

Junichi Kimura

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

August 10, 2023

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.