

HOKUETSU KISHU PAPER CO., LTD.

Hokuetsu Kishu Paper Co., Ltd. Corporate Report

2014



The Hokuetsu Kishu Paper Co.,Ltd. Corporate Report Editorial Policy

In the past, the Hokuetsu Kishu Paper Group has published both an Annual Report and a CSR Report, and utilized them as tools for communication with our stakeholders. This year, however, in accordance with the new Medium-Term Management Plan that started in April 2014, C-next, in order to realize the “change, challenge, create” that we have established as the keywords of C-next, and also to enable all of our stakeholders to gain a better understanding of our corporate philosophy and business activities, we have compiled this Corporate Report. The objective of this Corporate Report is to deepen communication with all our stakeholders, by not only reporting financial information but also focusing on ESG information (environment information, social information, governance information) and important issues of the Hokuetsu Kishu Paper Group, which strives to achieve increased corporate value through our core business of paper-making.

Companies covered by this report:
Hokuetsu Kishu Paper Group (main affiliated subsidiaries, etc.)

Period covered by the Report:
April 1, 2013 - March 31, 2014
(Some activities that took place after the end of this term are also reported.)

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Sekio Kishimoto
President and CEO, Hokuetsu Kishu Paper Co., Ltd.

For further information, contact:
General Affairs Department
Hokuetsu Kishu Paper Co., Ltd.
3-2-2, Nihonbashi Hongoku-cho, Chuo-ku,
Tokyo 103-0021 Japan
Telephone +81-3-3245-4500
Facsimile +81-3-3245-4511

The Hokuetsu Kishu Paper Corporate Philosophy To contribute to society as a superior paper company and earn the trust of our stakeholders.

1. We will work to further earn the trust of our customers, stockholders, trading partners, and the local communities we operate in by upholding the law and pursuing transparent business activities.
2. We will provide attractive products and services to meet customer needs.
3. Through a relationship of mutual trust between labor and management, we will create a bright and vigorous corporate culture that nurtures creativity and a thirst for challenge.
4. Through commitment to environmentally conscious management, we will strive for sustainable growth.

(Created April 1, 2003; revised October 1, 2009)

The Otaki mountain stream in the company-owned forest in
Sotogawa, Kuzumakimachi, Iwate-gun, Iwate Prefecture

CONTENTS

History of the Hokuetsu Kishu Paper Group	4
Consolidated Financial Highlights	6
Message from the President	8
Special Feature (1): New Medium-Term Management Plan C-next	10
Special Feature (2): The White Paperboard Business in China	12
Special Feature (3): Reducing CO ₂ Emissions	14
Main Business Segments and Their Current Conditions	16
The Business Segments of the Hokuetsu Kishu Paper Group and their Future Prospects	18
Business Overview (1): Paper Business	20
Business Overview (2): White Paperboard Business	22
Business Overview (3): Specialty Paper Business	24
Business Overview (4): Paper Processing Business	26
Research and Development	28
Product Safety and Quality Control	29
Non-Financial Information and Related Measures	30
CSR Activities	32
Compliance	33
HR Management	34
Relationships with Local Communities	36
Environmental Conservation (1): Recycling Water	38
Environmental Conservation (2): Thinning Operations in Tree Farms	39
Environmental Conservation (3): Measures for Procurement of Raw Materials	40
Corporate Governance	42
Executive Officers	44
Financial Section	45
Management's Discussion and Analysis	46
Consolidated Balance Sheets	48
Consolidated Statements of Income / Consolidated Statements of Comprehensive Income	50
Consolidated Statements of Cash Flows	51
Consolidated Statements of Changes in Net Assets	52
Notes to Consolidated Financial Statements	54
Independent Auditor's Report	81
Affiliated Group Companies	82
Group Overview	83
Environmental Accounting	84
Environment-Related Data	85
Equity Data	86
Corporate Data	87

The spirit of paper-making that has been cultivated throughout our 100-year history. We pursue sustainable growth and a reduction in the environmental burden.

Ever since the establishment of the Hokuetsu Kishu Paper Group in 1907, we have contributed to society through our heartfelt devotion to paper-making. This devotion to paper-making has been steadily cultivated throughout our history of over 100 years, based on a spirit of mutual trust with all our stakeholders. In order to continue to respond to that trust, we will further pursue both sustainable growth and a reduction in the environmental burden.

- 1907**
Hokuetsu Paper Mills, Ltd. established in Nagaoka City, Niigata Prefecture
- 1914**
Hokuetsu White Paperboard Co., Ltd. established in Niigata City, Niigata Prefecture (In 1917 the two companies were affiliated to become the Niigata Mill.)
- 1920**
Ichikawa Mill built in Ichikawa City, Chiba Prefecture
- 1949**
Stock-listed on the Tokyo Stock Exchange

- 1964**
Damage suffered by the Niigata Mill as a result of the Niigata Earthquake; soon rebuilt
- 1971**
Katsuta Mill built in Katsuta City, Ibaraki Prefecture (currently Hitachinaka City)
- 1977**
Hokuetsu Package Co., Ltd. established
- 1986 -**
In the production of the top-quality paper lineup at the Niigata Mill, the world's first comprehensive large-scale on-line coating machine (N6) was installed, and subsequently two other large-scale machines were also installed

- 2007**
Centennial of the founding of the company
- 2011**
Absorption-type merger with Kishu Paper Co., Ltd. and consolidating of all operations
- 2011**
Hokuetsu Kishu Sales Co., Ltd. established
- 2011**
Jiangmen Xinghui Paper Mill Co., Ltd. established in Guangdong Province, China

- 2012**
Toyo Fibre Co., Ltd. converted into a wholly owned subsidiary
- 2012**
Through acquisition of its stock, Daio Paper Corporation converted into an affiliate company, by applying the equity method
- 2012**
Financière Bernard Dumas S.A.S. made into a wholly owned subsidiary
- 2014 -**
Start of the Medium-Term Management Plan C-next

We are progressing to the future

1907-1950

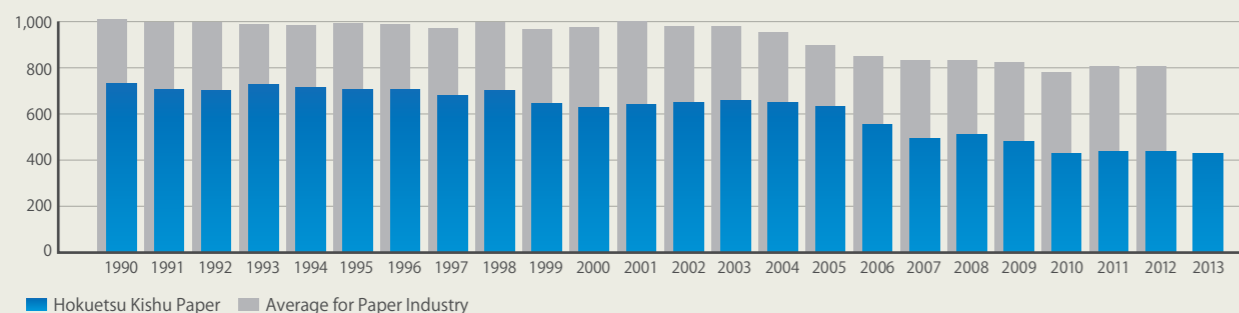
1951-2000

2001-2011

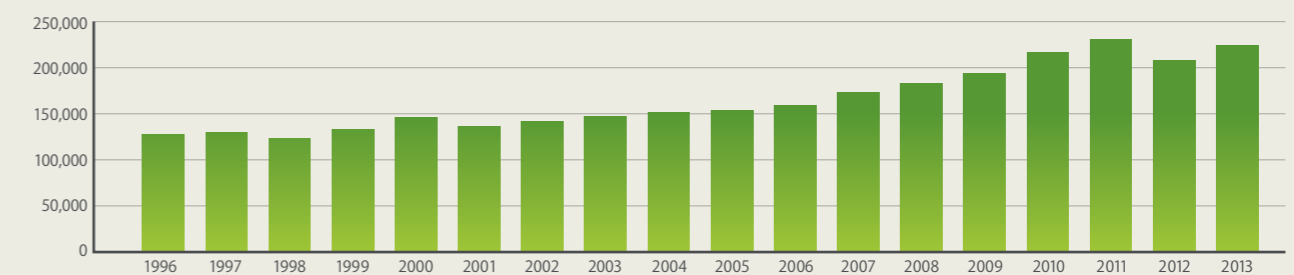
2012-2014

2015-

Trends in Corporate Unit CO2 Emissions (kg CO2/ton of paper)



Trends in Corporate Net Sales (Millions of yen)



Consolidated Financial Highlights

(fiscal years ended March 31)

Financial data	Millions of yen										Thousands of US dollars
	2005	2006	2007	2008	2009	2010	2011 (Note 1)	2012	2013	2014	2014
Net sales	¥151,205	¥153,692	¥158,992	¥172,709	¥182,815	¥193,952	¥217,014	¥230,576	¥208,289	¥223,886	\$2,175,340
Operating income	12,909	6,932	9,050	8,330	8,125	9,892	8,743	10,828	3,667	3,329	32,346
Ordinary income (Note 3)	12,548	7,205	9,220	7,891	6,752	9,574	10,283	13,906	10,725	8,583	83,395
Net income	6,959	3,238	4,395	4,074	1,913	7,239	5,432	12,797	8,379	6,243	60,659
EBITDA (Note 4)	26,440	21,551	20,516	21,456	25,846	31,696	32,455	35,384	25,707	26,870	261,076
Capital expenditures	9,195	16,546	43,022	37,725	31,376	6,286	8,636	7,977	12,160	23,918	232,394
Total assets	221,438	232,486	269,124	292,726	313,732	340,970	322,255	332,995	343,180	350,770	3,408,181
Net assets	107,212	112,800	143,439	140,184	136,713	139,989	139,822	152,704	161,080	161,248	1,566,731
Interest-bearing debt	71,446	73,650	77,291	101,025	135,731	134,850	119,227	115,084	126,917	133,937	1,301,370

Cash flows

Cash flows from operating activities	19,120	16,066	14,907	12,295	10,000	36,944	25,859	29,083	21,363	18,828	182,938
Cash flows from investing activities	10,500	15,831	43,780	35,411	(34,804)	(10,637)	(6,209)	(9,565)	(25,127)	(22,766)	(221,201)

Per share data (Yen/U.S. dollars)

Earnings per share (EPS)	41.92	19.31	22.75	19.19	9.01	34.38	26.21	62.70	41.11	31.23	0.30
Book value per share (BPS)	654.61	693.58	672.37	656.96	640.36	667.32	680.03	737.82	781.25	847.32	8.23
Dividends per share	12.00	12.00	12.00	14.00	12.00	12.00	12.00	12.00	12.00	12.00	0.12

Key ratios

EBITDA/Net sales	17.5%	14.0%	12.9%	12.4%	14.1%	16.3%	15.0%	15.3%	12.3%	12.0%
Operating income ratio	8.5%	4.5%	5.7%	4.8%	4.4%	5.1%	4.0%	4.7%	1.8%	1.5%
Net income ratio	4.6%	2.1%	2.8%	2.4%	1.0%	3.7%	2.5%	5.6%	4.0%	2.8%
Equity ratio	48.4%	48.5%	53.0%	47.6%	43.3%	40.8%	43.2%	45.3%	46.3%	45.5%
ROA	5.6%	3.2%	3.7%	2.8%	2.2%	2.9%	3.1%	4.2%	3.2%	2.5%
ROE	6.7%	2.9%	3.4%	2.9%	1.4%	5.3%	3.9%	8.8%	5.4%	3.9%
Debt equity ratio (times)	0.67	0.65	0.54	0.72	1.00	0.97	0.86	0.76	0.80	0.84

Medium-Term and Long-Term Management Plans

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
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Jump-100

Securing international competitiveness in quality, costs, and earning capacity

- At the Niigata Mill, a black liquor recovery boiler (8RB) of the largest scale in Japan has been put into operation.
- At the Kanto Mill (Katsuta), woody biomass generation equipment has been put into operation.

Value up-10

Maximizing corporate value and developing international competitiveness

- Start of operation at the Niigata Mill of the top-quality paper-coating machine No. 9.
- Through a share exchange, Kishu Paper Co., Ltd. was made a completely affiliated company.

G-1st

Environmentally friendly management and expanding our global competitiveness

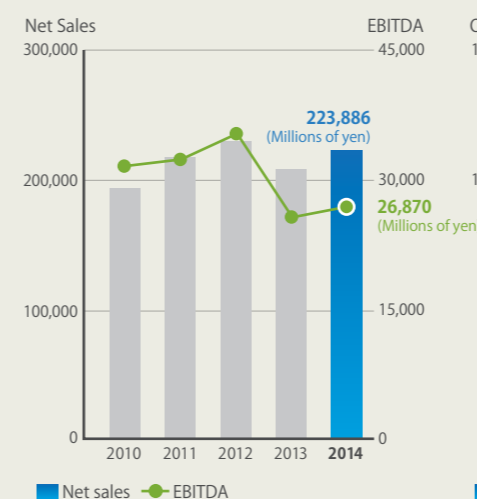
- Entry of white paperboard business into China.
- Establishment of the directly operated sales agent Hokuetsu Kishu Sales Co., Ltd.

Notes

- Owing to the inclusion of Kishu Paper Co., Ltd. in the scope of consolidation as of October 1, 2009 through a share exchange, the consolidated financial statement for the fiscal year ended March 31, 2010, included Kishu Paper's consolidated results from October 1, 2009 to March 31, 2010.
- Amounts in US dollars were converted at ¥102.92 to one dollar, the currency exchange rate prevailing in the Tokyo Foreign Exchange Market as of March 31, 2014.
- Ordinary income is an important management indicator at Hokuetsu Kishu Paper and a common item on financial statements in Japan. It is calculated by adding to or subtracting from operating income items such as interest and dividend income, equity in earnings of unconsolidated subsidiaries and associated companies, interest expenses and exchange gains or losses.
- EBITDA = Ordinary income + interest expenses + depreciation and amortization costs - negative goodwill
- ROA = Ordinary income ÷ average total assets at the beginning and end of the fiscal year x 100

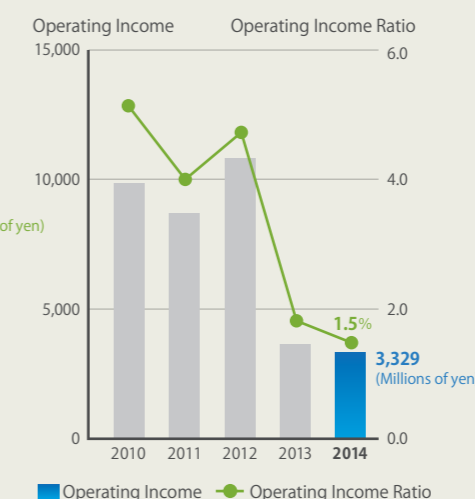
Net Sales / EBITDA

(Millions of yen) (Millions of yen)



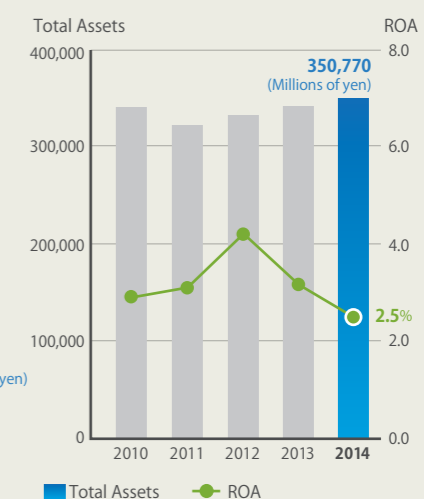
Operating Income / Operating Income Ratio

(Millions of yen) (%)



Total Assets / ROA

(Millions of yen) (%)



The keywords for
the Hokuetsu Kishu Paper Group are
“change, challenge, and create,”
as we seek new growth and expansion.



岸本 哲夫

Sekio Kishimoto
President and CEO

Report on the Consolidated Results, March 2014

In regard to the business environment surrounding our company, despite a partial recovery in domestic demand, we are still facing tough conditions. This is due to the soaring costs of raw materials caused by the sudden drop in the yen, and other factors.

Net sales increased 7.5% over the previous term totaling ¥223.8 billion. This was in part due to an increase in domestic sales of printing paper, as well as a rise in the export sales price, resulting from such factors as the decrease in imported paper caused by the weak yen, and price adjustments for domestic printing paper.

As for income and expenses, our net profit for this year was ¥6.2 billion, a decrease of 25.5% over the previous year. Although we implemented sales price increases and reduced various costs, raw material prices soared and the negative goodwill arising from the purchase of the shares of Daio Paper Corporation had already been accounted for by the equity method in the previous year.

Results of G-1st; start of C-next

Under the Medium-Term Management Plan C-1st, the Hokuetsu Kishu Paper Group has strengthened the profitability of our domestic operations by establishing the Hokuetsu Kishu Sales Co., Ltd., a wholly owned sales representative subsidiary. In addition, we have converted Daio Paper Corporation into an affiliate by the equity method and also implemented two price increases. Moreover, we have expanded exports and promoted other globalization measures, such as acquiring 100% ownership of the France-based Financière Bernard Dumas S.A.S., which mainly manufactures battery separators; and constructing the large-scale white paperboard production plant in China's Guangdong Province.

Our new Medium-Term Management Plan C-next was started in April 2014. The plan includes policies for further growth and expansion, with the goal of increasing our consolidated net sales to ¥270 billion by the March 2017 term. As one of our strategies, we have signed a basic agreement with Mitsubishi Paper Co., Ltd. to jointly operate a sales subsidiary in order to enhance our strength in sales. Hokuetsu Kishu Paper Group will continue to steadily implement C-next. In line with this plan, we will continue to adjust the product portfolios of our four main business segments (printing paper, white paperboard, specialty paper, and processed paper products), not only in the Japanese market but also in the steadily growing international market, so as to achieve new growth.

Environmentally conscious in all corporate activities

The Hokuetsu Kishu Paper Group's basic environmental policy is "minimum impact." We strive to keep our environmental impact at the lowest possible level throughout every process, from the procurement of raw materials to the manufacture of our final products. Through this policy we will continue to implement environmentally friendly paper-making. One of the most pressing global environmental issues is the reduction of CO₂ emissions. Our company has invested in many kinds of environmental equipment, etc., and in regard to CO₂ emissions per ton of paper, we have continued to maintain a low environmental burden that ranks in the top tier of the industry. In February 2014, inside the Niigata Mill grounds, we began operating gas turbine generator equipment and waste heat boilers, through the MC Hokuetsu Energy Service Co., Ltd., a joint company formed in collaboration with Mitsubishi Corporation. As a result, we have achieved power generation with world-class efficiency, as well as a further reduction in the amount of heavy oil used and CO₂ emitted. Moreover, at the Kanto Mill (Katsuta) and in our subsidiary Hokuetsu Forest Co., Ltd., we are expanding the use of natural energy through solar power generation, as well as reductions in CO₂ emissions.

We will continue to promote environmental management in all our corporate activities, providing environmentally friendly products and actively contributing to global environmental conservation.

Growth and development in conjunction with society

For over 100 years since its establishment, the Hokuetsu Kishu Paper Group has sought to contribute to society as an attractive paper-making company. Through our devotion to paper-making, we have continuously pursued both corporate development and contributions to society, in an effort to win your trust. Going forward, we will continue to place the utmost value in our relationships with all of our stakeholders. We will keep responding to your needs and maintaining your trust, through our core business of paper-making.

We kindly ask for your continued support and guidance.

We will create new business fields and reform our business structure to seek further growth.

In April 2014, the Hokuetsu Kishu Paper Group started the new Medium-Term Management Plan, C-next (FY 2014 - FY 2016). This incorporates the second step of the Vision 2020 long-term vision that we developed and announced in April 2011. With the 4 G Priorities from our previous Medium-Term Management Plan, G-1st, as a base, C-next adds three Cs: Change, Challenge, and Create – as we seek further growth.

Vision2020

Hokuetsu Kishu Paper Group's Corporate Vision for 2020

- Be environmentally conscious in all corporate activities and promote environmental management
- Offer attractive products with excellent quality and competitiveness using advanced technology
- Work with passion and seek steady growth and ever greater challenges
- Sales target: ¥300 billion or above (overseas sales ratio: 25%)

C-next

Positioning in the plan



Period of the plan

from April 1, 2014 through March 31, 2014 (three years)

Basic Policy

Our basic policy is to strengthen our profit base and further improve our environmental measures. Furthermore, we will create new fields in response to changes and reform our business structure. In doing so, we will seek further growth as a paper-making company.

Basic Strategy

Strengthening our profit base

By maintaining a thorough grasp of future trends for paper pulp in the domestic market, we will implement the necessary changes to secure steady profits in any business environment.

Improving our environmental measures further

We will strengthen our basic environmental policy of "minimum impact"* and broadly develop a range of related activities. By manufacturing products based on these activities and providing them to society, we will also bear social responsibility.

* Our vision to keep all kinds of environmental impact to an absolute minimum, and achieve harmony between human beings and nature.

New business fields and business structure reform

We will get our white paperboard business in China up and running. In addition, by actively making strategic investments in domestic and international growth markets and new business fields, we will both reform our business structure, and secure future growth.

Strategies in Our Four Core Businesses

[Paper Business]

This is our Group's main business, and we will realize No. 1 competitiveness in the domestic market, to be highly competitive in the global market.

[White Paperboard Business]

We will steadily establish both domestic and overseas operations to make this our next-generation growth engine.

[Specialty Paper Business]

By accelerating our development of new products, new operations, and new markets, we will expand our scale to match the global market.

[Paper Processing Business]

We will expand our scale with a focus on the packaging field, where growth is anticipated.

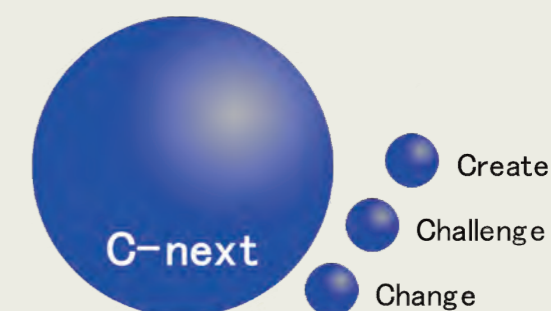
Common Corporate Strategies

- Continue to reduce the environmental burden by ensuring "minimum impact" and maintain our position as an environmental front-runner in the industry.
- Maintain and strengthen our governance and compliance systems.
- Secure the right human resources and streamline the organization as needed for our future business development and global strategy.
- Seek out M&A opportunities as a means of achieving further growth.

Management Goals in Figures

Consolidated, FY 2016

Net sales	¥270 billion
Operating income	¥13.5 billion
Net sales operating income ratio	5% increase
EBITDA	¥33 billion



Working as one to get our new core businesses up and running.

From July 2014, the Jiangmen Xinghui Paper Mill Co., Ltd. (XHPM) in China's Guangdong Province, an indirectly-owned subsidiary of our Group, began trial production of white paperboard. As part of our global business development, the white paperboard business in China will play an important role in the next-generation growth engine.



XHPM paper-making machine; total length: 270 m.

Decision to construct the white paperboard mill in China

In our Long-Term Management Plan, Vision 2020, we laid out the goal of becoming a truly global company. Our white paperboard business is a core business that underpins the company. For example, one of the business's main products, coated duplex board with grey back (Mari-coat), has a history of over 50 years. It is likely that this business segment will continue to grow in importance going forward. To that end, in May 2011, we targeted China's white paperboard market, which is expected to keep growing steadily in the future, and decided to construct a white paperboard mill on greenfield land. All the construction work has proceeded smoothly. The completed mill will have a production capacity of 300,000 tons per year, and we plan to conduct sales mainly in Guangdong Province, where there is strong demand.

Becoming the largest coated white paperboard manufacturer in Japan

In our new Medium-Term Management Plan, C-next, the white paperboard business in China is positioned as an

essential part of the growth strategy. From March 2014, we have increased the number of staff in this field, including locally based employees, and we are now carrying out final preparations for stable operation. When the Chinese mill reaches full operation with an annual production of 300,000 tons, the Hokuetsu Kishu Paper Group will become Japan's largest manufacturer of coated white paperboard. Moreover this will establish a new profit base in the Asian market. Our Group is working as one to get these businesses up and running.

Location Jiangmen City, Guangdong Province, China

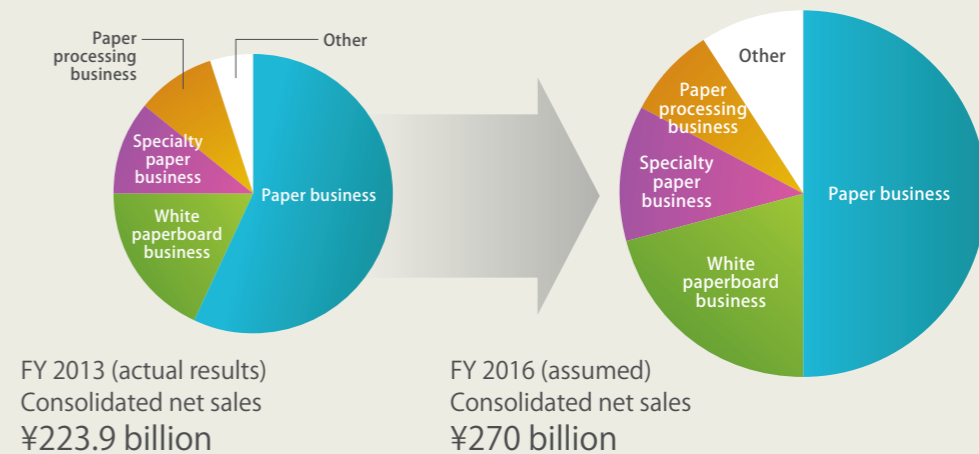


With all the Hokuetsu Kishu Paper Group's white paperboard manufacturing technologies, we will ensure stable production at an early stage.

This construction project was kicked off with a groundbreaking ceremony in December 2012. We started the trial operation of various equipment and facilities in July 2014, and are currently implementing measures to achieve stable operations and quality. For the trial operation, we

dispatched a total of about 40 members of our Group to provide on-site support. Although they were working in China, and faced with a completely different language, culture, and customs, the team worked in close cooperation with locally based operators to achieve our goals. Many of the local operators have tremendously high potential, and together with the white paperboard manufacturing technologies that the Hokuetsu Kishu Paper Group has cultivated over time, we will achieve stable production at an early stage.

Further expansion of the white paperboard business, with C-next as the core



An overall view of XHPM

Facility Outline and Corporate Data

Dimensions: 230 g/m² - 500 g/m²
Wire width: 4,900 mm
Product width: 4,300 mm
Production amount: 1,020 t/day
Raw materials equipment: DIP 2 Series
Production per day: 1,000 t

Utilities
The water used at the mill in steaming and slicing operations is provided by a government-affiliated corporation located on the paper industry grounds. Meanwhile, waste water is also conveyed to a processing plant on the same grounds. Further, electric power is provided by an electric power company located on the same grounds.

Corporate Data
Company Name: Jiangmen Xinghui Paper Mill Co., Ltd.
Location: Complex Developing Area, Shuangshui Town, Xinhui District, Jiangmen City, Guangdong Province
Establishment: October 2011
Area of grounds: approx. 240,000 m² (approx. 70,000 tsubo)
No. of employees: approx. 300

We are implementing measures to reduce CO2 emissions with the goal of achieving "minimum impact."

In pursuing "minimum impact" we are seeking harmony between human beings and nature. Our vision is to reduce every kind of environmental impact to the absolute minimum, and this "minimum impact" is the basic policy for the Hokuetsu Kishu Paper Group's environmental initiatives. Under this basic policy, we seek to reduce any adverse environmental impact to the minimum amount possible, at each stage from the procurement of raw materials to the manufacture of end products.

Reduction of as much as approximately 60% in unit CO2 emissions compared to FY 1990

The Hokuetsu Kishu Paper Group has implemented three specific measures to reduce CO2 emission: (1) a shift to forms of energy that produce only a relatively small amount of CO2, (2) the introduction of highly efficient production equipment, and (3) the furthering of our energy-saving activities. As a result of these measures, we have been able to reduce our unit CO2 emissions by as much as approximately 60% compared to FY 1990. Further, we began operation of the new natural gas generator equipment in the Niigata Mill in February 2014 and plan to improve the same mill's black liquor (*) condensation device in June 2015. As such we expect to reduce our unit emissions even more. Going forward, we intend to continue implementing various measures to reduce our CO2 emissions to an even greater extent.

* Black liquor: The main ingredient is the resins that are extruded when extracting fibers from wood chips in the process of manufacturing pulp. Burning this black liquor produces steam and electricity.

Winner of the Special Prize in the Japan Paper Association Global Warming Countermeasures Awards

The Hokuetsu Kishu Paper Group's CO2 emissions reduction measures are highly evaluated in the paper industry. The Japan Paper Association Global Warming Countermeasures Awards presents awards to companies in the paper industry that achieved a substantial reduction in unit CO2 emissions compared to FY 1990, during the FY 2008 - FY 2012 period.

The Special Prize Shield

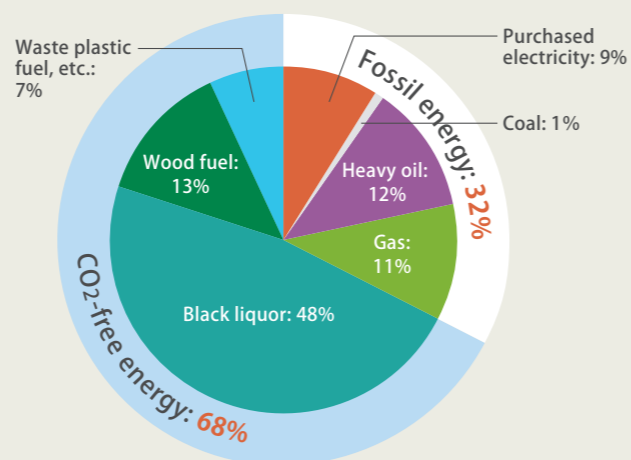


In spite of the fact that our production levels have increased by over 150% compared to FY 1990, we reduced CO2 emissions by 98%. In recognition of this achievement, Hokuetsu Kishu Paper was awarded the Special Prize.

Shifting to clean energy

One of our most effective measures for achieving a reduction in CO2 emissions is the shift to clean energy. A high percentage of our energy is CO2 free, about 68%. As for fossil energy, we are increasing our ratio of gas, which has a low rate of CO2 emissions in comparison with coal and heavy oil.

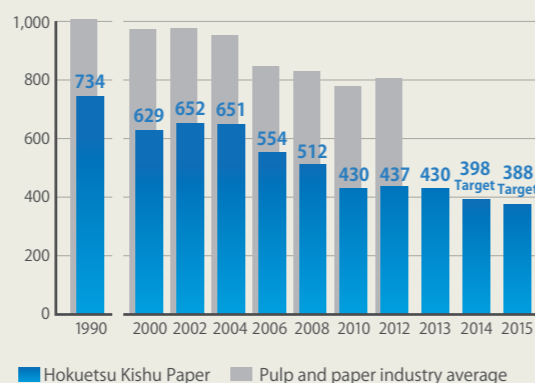
Breakdown of the Hokuetsu Kishu Paper Group's Energy Sources



Figures are rounded off to whole numbers.

Trends in the unit CO2 emissions of the Hokuetsu Kishu Paper Group

(CO2 kg/ton of paper)

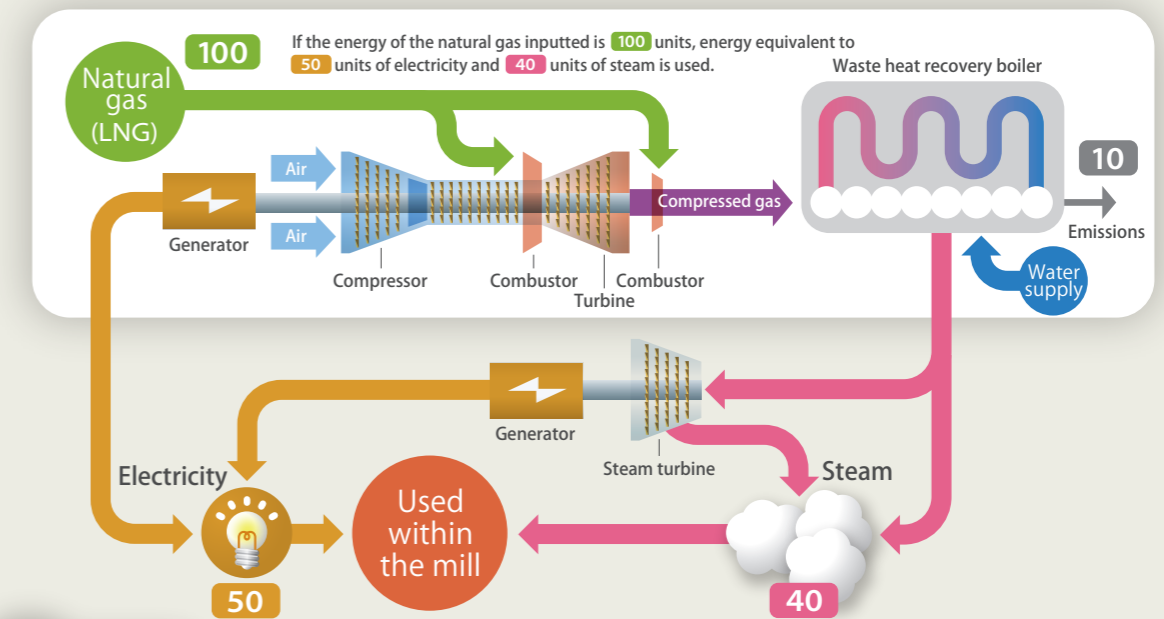


Natural gas power generation: A high-efficient clean energy source that also reduces CO2 emissions (Niigata Mill)

In February 2014, a natural gas-fired power generation facility began operation at the Niigata Mill. This is a large-scale, high-efficiency natural gas-fired co-generation system. With this world-ranking, high-efficient generation of energy, we have achieved substantial reductions in both the amount of fuel used and the amount of CO2 emitted.

In general, it is said that the energy loss arising at thermal power plants is 50% - 60%. In contrast, this facility enables a considerable reduction, to only 10%. This is possible

because the system generates no waste at all. The energy produced from natural gas is utilized to produce steam in the waste heat recovery boiler, and further energy is created in the steam turbines, while the remaining steam is also used for purposes such as drying paper in the paper-making machines in the mill. The amount of energy produced by this natural gas-fired power generation facility is approximately 45,000 kW. This covers about one-quarter of the electricity used in the Niigata Mill, and we also plan to reduce the amount of CO2 emissions by about 15% (60,000 tons). In terms of construction, the mill area is limited and it is an urban-type mill. Therefore, we are carefully implementing the necessary measures suitable for the construction plan and sound-proofing.



? Info.

きれいな空気が
みんなの笑顔
未来へつなぐ紙づくり



スリムCO2
Low CO2

Paper-making for the future:
Clean air and a happy society

The Hokuetsu Kishu Paper Group strives to reduce CO2 emissions, one of the most important global environmental issues. We have also designed a logo that symbolizes our mindset, Low CO2. The logo consists of two smiling leaves fluttering in a refreshing breeze, bathed in bright light. This represents abundant nature and children in the future. Furthermore, in order to express our environmental initiatives more broadly, we have decided on an appropriate slogan, after requesting submissions from across the Group.

2.5 MW Solar Power Generating Equipment Starts Operation

At our Kanto Mill (Katsuta), we started operation of a wood biomass power generation facility in 2006. Moreover, in FY2014, we have begun solar power generation utilizing about 20,000 m² of land within the mill area, as well as the roofs of buildings owned by our subsidiary Hokuetsu-Forests Co. Ltd. Combining both companies, we have achieved power generation of 2.5 MW, enabling the annual generation of 2.6 million kWh of power. By selling the entire amount of the electricity thus generated to electricity providers, we are helping to reduce the amount of coal and other energy sources used by electricity providers for power generation. As a result, we are contributing to reducing CO2 emissions by up to approximately 1,430 tons annually.

Solar power generation facility at Kanto Mill (Katsuta)





Main Business Segments and Their Current Conditions

Four Core Business Segments

No. 9 Paper Machine, Rewinder, Niigata Mill

To the Further Expansion of the Four Core Businesses and the Reform and Reconstruction of our Business Portfolios

The four main business segments of the Hokuetsu Kishu Paper Group are the paper business, the white paperboard business, the specialty paper business, and the paper processing business. We are advancing these four core business segments through our pioneering technology and active research and development. While meeting market needs, we continue to steadily provide high-quality products, and to maintain top-ranking market shares in the industry.

As we go forward, areas that we intend to strengthen include achieving the expanded equilibrium and optimum balance of our business portfolio. We will build a more global regional portfolio that incorporates growing overseas markets. With the two foci of products and regions, we will strive to implement the reform and rebuilding of our business portfolio. Moving ahead, while advancing the reform of our business structure in a strong and speedy manner, we will continue to aim for sustainable growth as a paper-making company that has earned the trust of our customers.



Reaching a Basic Agreement between Hokuetsu Kishu Sales Co., Ltd. and Mitsubishi Paper Sales Co., Ltd. towards Implementing Integration of the Management of the Two Companies.

With April 2015 as the goal, Hokuetsu Kishu Paper Co., Ltd. and Mitsubishi Paper Co., Ltd. have started discussions towards implementing integration of the management of our subsidiary Hokuetsu Kishu Sales Co., Ltd. and Mitsubishi Paper Sales Co., Ltd., a subsidiary and an exclusive agency of Mitsubishi Paper Co., Ltd. In addition to the increased presence in the distribution field through the expansion in scale that will result from this integration of management, we will also achieve greater efficiency through the strengthened sales capacity that will result from the improved product line-up and expansion of our sales routes, as well as through the integration of the business bases and distribution systems of the two companies.

Moreover, this integration will also enable us to achieve greater competitiveness in the paper distribution industry, as well as improved service through the directly run agencies of the two manufacturers.

Paper Business

In our primary business area of printing paper and communication paper, we have excellent suitability for the printing process, and a widely varied product line-up. Among these products, our top-quality colored paper, which holds the top share in the domestic market, has performed for 60 years and offers a large range of products.

For details of business conditions, see Pages 20 - 21



White Paperboard Business

We offer white paperboard in a wide range of grades for all types of uses, such as publishing paper and commercial printing paper for catalogues, postcards, etc., as well as a huge range of packages, to respond to the needs of all our customers.

For details of business conditions, see Pages 22 - 23



Specialty Paper Business

Our strength is a product line-up that can meet our highly diverse customer needs. In addition to base paper for abrasive coated paper and for press-bonded postcards, we are also focusing on battery separators made through the use of glass fiber sheets.

For details of business conditions, see Pages 24 - 25



Paper Processing Business

In addition to the paper processing field, such as liquid package cartons and processed paper and functional materials, we are also carrying out developments in the business form field. Amongst these, in the field of gable-top type of liquid package cartons as for milk (roof-type carton), we hold a top-ranking share in the Japanese market.

For details of business conditions, see Pages 26 - 27



To the Realization of Japan's Top Competitiveness that Can Take on the World, as a Core Business of the Hokuetsu Kishu Paper Group

Business Strengths and Characteristics

The main products in our paper business are printing paper and communication paper used for items such as books, magazines, catalogs, and pamphlets. Among these, coated paper is our main paper product, and in 2013 we were ranked second in the domestic share of coated paper production volume. Further, our uncoated, colored wood-free paper, with its long tradition and abundant product line-up, enjoys an extensive, broad-ranging customer base, making it a top brand with a 65.6% share of domestic production. Our main mill, the Niigata Mill, began the production of paper in the Taisho Period (1912 - 1926), and in 2015 will celebrate the 100th anniversary of the start of sales. As we go forward, we will continue to pursue both high-efficient operations and a minimum environmental impact.

Business Environment and Performance

Our total domestic production of printing paper and communication paper in 2013 was 101.9% compared to the previous year. For Hokuetsu Kishu Paper, a harsh business environment is continuing, because of various changes in the external environment such as the decrease in commercial printing and the accelerated speed of the digitization of publishing. However, as a result of the decrease in imported paper, reflecting the sudden yen depreciation, our production quantity of printing paper and communication paper was 104.2% compared to the previous year. In 2013, Hokuetsu Kishu Paper experienced a decline in the sales prices of printing paper and communication paper and a steep rise in the prices of raw materials and fuels, resulting from the sudden drop in the yen. We responded by implementing twice price adjustments and exerting efforts to restore reproducible prices. Moving ahead, while continuing to maintain the adjusted price level, we believe that further improvement in production efficiency is required. In regard to exports, our performance in FY2013 was about 220,000 tons, and we plan to have approximately the same level of export sales in FY2014. As a result of the installation of two new cutters at the Niigata Mill in February 2013, we now have a framework in place for export sales of 300,000 tons or more. Although we still face a harsh domestic sales environment, we are focusing our efforts on both strengthening our competitiveness in international markets and cultivating new markets.

Future Business Strategy

As a core business segment of the Hokuetsu Kishu Paper Group, the paper business division will build a production and sales framework that boasts the No. 1 competitiveness in the domestic paper industry, which has the ability to compete in the global market. In order to do so, as a theme, we will (1) strengthen the efficiency of the overall supply chain, and continue active export policy, and (2) strengthen our sales capacity by deepening the relationship between our main agencies and actively emphasizing the environmental superiority of our product. We are implementing four specific measures in this regard: (1) product mix, (2) reconstruction of pulp facilities, (3) strengthening our distribution function, and (4) individual price adjustments. In the circumstances prevalent today, in which major changes can occur in product market conditions, there is a need to advantageously sell the products of the Niigata Mill, our main mill, and to build a framework that maximizes profits. In Product Mix, which classifies Niigata Mill products into four categories of: domestic sales of printing paper, export sales of printing paper, domestic sales of pulp, and export sales of pulp, we have spent a year to establish a framework that allows our monthly production quantity to be adjusted in accordance with the current market conditions, our orders, and inventory situation. As a result, we are now capable of maintaining a stable full production system for the production of pulp. Moreover, we are also investing for the improvement of efficiency of the pulp facilities, which will lead to the strengthening of our competitiveness through reductions in costs.

Main Topics for This Term

Hokuetsu Kishu Paper began sales of colored wood-free paper in September 1954 under the brand name of "Crown," with a range of products in seven colors and two weights. Subsequently, both the colors and the weight have been increased, and now we have progressed to having this product available in 33 colors and seven weights. Supported in particular by our sales agencies and authorized dealerships, we celebrated the 60th anniversary of the start of sales in 2014. With their powerful sales network, brand strength, and attractive product line-up, these products are embraced by extensive customers, and used for a wide range of purposes, so that we continue to boast the top market share even today. Going forward, we will continue to strive to achieve expanded sales activities.

Main Product Line-Up

[Printing paper]

Wood-free paper

Offers clear whiteness with excellent printability. Neutralized paper with superior preservation quality.

- KINMARI (SW / V / N) • KISHU WOOD-FREE PAPER N
- KISHU RECYCLED WOOD-FREE PAPER
- CREAM KINMARI

Neutralized paper

Printing paper which is featured with superb printing effects, printability, and high opacity.

- SHIROMARI • TOKUGINMARI

Book paper

Cream wood-free paper with silky texture. Lightweight finishing for easier page-turning.

- PASSPIED SERIES • MENUET SERIES
- HS GAO

High bulk lightweight coated paper

Provides soft feeling, flexibility for turning pages, superb drying property and high opacity.

- HS HUMMING • HS SNOW FORCE
- HS LIGHT FORCE

Coated paper (gloss)

Luxurious, clear whiteness. Offers superb printing gloss, smoothness and fast drying property.

- μ COAT NEOS • Hi α • Hi-Σ

Coated paper (matt)

Flexible, thick and smooth paper surface. Good drying property and excellent printability.

- μ MATT • α MATT • Σ MATT
- KINMARI HI-L

[Colored wood-free paper]

Stable color tone and quality, with 60 years of performance. A wide variety of colored wood-free paper that holds top market share.

[Communication paper]

A wide variety lineup to match various sizes of photocopiers, including recycled paper, is available to support our customers.

- RECYCLED PPC80
- FINE PPC
- MARI COPY
- NEW FINE COLOR
- FC DREAM

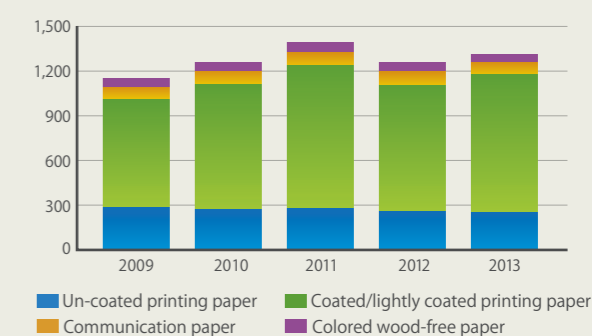
[Wrapping paper]

A lineup with quick response to the needs of the present day.

- Pure White Rolled Paper (HAMAYU)
- One-side glazed bleached kraft paper (KISHU WRAP)
- Bleached kraft paper

Production of printing paper by product type

(Thousands of tons)



Voice

In accordance with the changes of social environment such as IT development and the decline in fertility rates, as well as the diversification of values, it is surely an inevitable trend for the way that paper is handled to also change. Within these historical backgrounds, it is increasingly important to conduct product development which matches customer needs, and propose a new usage of paper, based on papermaking with high efficiency operation and low loading of CO₂ by our Niigata Mill and Kishu Mill's integrated production of pulp and paper. We would like to continue thinking outside the box and to promulgate the limitless possibilities of paper, with the help of our customers.

Keisuke Kitagori

Uncoated Wood-Free and HG Poster Paper Sales Department



By unflinchingly carrying out business operations in Japan and overseas, we are laying the cornerstone for the sustainable growth of the Hokuetsu Kishu Paper Group.

Business Strengths and Characteristics

The main types of products manufactured by the Hokuetsu Kishu Paper White Paperboard Business Division are premium white paperboard, special white paperboard, coated duplex board (with gray-back), etc. We feature a wide range of products in order to meet our customers' diverse needs. The major usages for our products are commercial printing items such as many kinds of packages, catalogs, POP advertising, and postcards; the covers of publications, and so on; our products are used in a widely diverse range of fields. Recently, in addition to the domestic production bases of the Niigata Mill and the Kanto Mills (Ichikawa and Katsuta), the construction of the white paperboard mill that had been proceeding in Jiangmen City, Guangdong Province, China, was smoothly completed, and the coated duplex board facilities there have now begun operation.

Through the attractive products created through the technological strength that Hokuetsu Kishu Paper has cultivated, with its focus on top quality, high-efficiency, and a low environmental burden, the ability of our white paperboard business in China to adapt rapidly has been realized, and we will endeavor to establish this business area as a new base of revenue.

Business Environment and Performance

The domestic production of white paperboard manufacturers in Japan in FY2013 was approximately 1.45 million tons, showing a minus performance of 98.6% compared to the previous year. Hokuetsu Kishu Paper also experienced a decrease over the previous year of 95.0%, with domestic production of approximately 290,000 tons. The domestic demand for white paperboard is tending to decline for cultural and publishing applications, reflecting the drop in the number of children per household and the spread of digital contents. Also, in food-related applications, one of our core fields, there is a shift to the adoption of various kinds of flexible packaging and an ongoing trend to lightweight and compact containers, requiring a wide range of responses. We are strengthening our efforts in fixtures and sales goods made in the medium of paper as important sales promotion items for manufacturers of daily goods and lifestyle products, while the demand for POP applications is also anticipated to follow a brisk trend. Meanwhile, for pharmaceutical applications, new demand is expected to arise as a result of the increases in the elderly population, in generic medicines, and in the number of drug stores. Further, as the range of over-the-counter cooked products available at

convenience stores continues to progress, expansion in the demand for primary containers is expected. We will actively advance our sales activities in order to gain customers in these new growth fields.

Future Business Strategy

In the New Medium-Term Business Management Plan that started in April 2014, C-next (see pages 10-11), we intend to focus our efforts on the following three specific points, as the main pillars of our business strategy.

(1) Turning up new areas of demand for white paperboard applications through a tie-up with the Paper Processing Business Division

By building on our strength of having an integrated manufacture line that ranges in capability from the production of thick paper to paper processing, we will strive to obtain the expansion of our sales routes.

(2) Advancing our environment-focused management

We will advance our efforts to achieve an "environmentally-friendly paper recycling mill" based on the experience we have cultivated as a pioneer of used paper recycling located in a large city, and on our environment-related technology.

(3) Realizing the capability to adapt rapidly in our China operations

The sales, production and technology sections of the White Paperboard Business Division are all working together as one to achieve the goals of C-next, not only by realizing the capability to adapt rapidly in our China operations, but also by gaining a firm foothold in domestic manufacturing and sales.

Main Topics for This Term

In November 2013 we built a new facility to process paper from used milk cartons in our Kanto Mill (Katsuta). This facility recycles the surplus parts of milk cartons, etc., manufactured by Hokuetsu Package, which has an adjacent location to the mill, as used paper raw materials to make premium white paperboard. As a result of this facility's becoming operational, we have now built a system that is able to overcome any possible difficulties in collecting the necessary used paper raw materials. We will strengthen quality improvement for all of our product types, as well as our tie-ups with the paper processing business division, and advance measures to realize an "environmentally-friendly paper recycling mill."

Main Product Line-Up

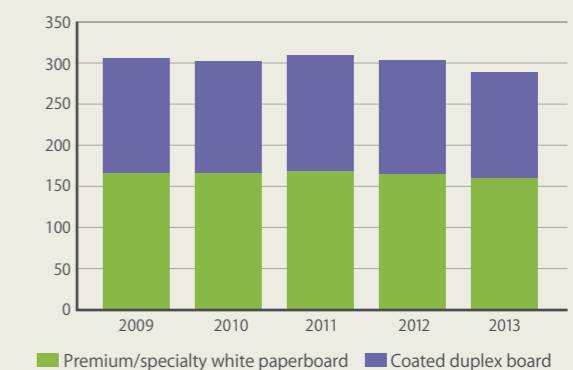
	Product Name	Grade	Application
Cast-coat	New Mari Est W	Ivory base	Publications, Catalogues
	New Mari Est V	Card B base	Calendars, Picture postcards
	New Mari Est BG	Coated white board base	Pamphlets, Posters, Displays High-grade packages, etc.
Art-post	Hokuetsu Art Post (AP)	Art Post	Premium printing paper Catalogues, Pamphlets Calendars, Picture postcards Art books, Photography books etc.
Premium white paperboard	Perfect W (PW)	Both sides coated ivory	High-grade commercial printing paper
	Berneige (BN)	Both sides coated card	Art printing paper, Catalogues
	No Back W (NW)	Both sides coated card	Pamphlets, Packaging, Picture postcards
	High Lucky (HL)	Both sides coated card	Publication body paper
	New-KW	Both sides coated card	Publication body covers Packaging, etc.
Specialty white paperboard	New Tough Ivory	Single side coated ivory	Pharmaceutical goods
	High Clean Coat (HK)	Single side coated Card A	Food items, Cosmetic products
	New-KV	Single side coated Card A	Other packages
	New-DV	Single side coated Card B	Various kinds of displays, etc.
Coated duplex board	Mari Coat	Coated white board	Various kinds of packages
	EP Paper (with gray-back)	Coated white board	Blister packs, Picture books, etc.



Swatch books

Production of white paperboard by type

(Thousands of tons)



Voice

My assignment is to get more customers to use Mari Coat (coated duplex board), which has won the favor of customers for around half a century since the launch of this product. In order to do so, first of all, it is essential to have our products become even more widely known. In addition to the existing manufacturers of snack and retort pouched foods, I will widely promote our products as environment-friendly goods, based on our policies to implement CO2 reduction, energy saving, and recycling-based production.

Taro Miura, White Paperboard Sales Department



We will realize a scale expansion that targets the global market, through accelerated development of new products, new businesses, and new markets.

Business Strengths and Characteristics

The main product types of the specialty paper business division are premium printing paper, "fancy paper," paper for industrial use, communication paper, specialty processed products, specialty fiber boards, functional paper, etc. Among these, products such as abrasive-coated base paper, adhesive postcard base paper, and chip carrier tape boast a large share of the domestic market.

In April 2014 we concentrated our fiber business into our subsidiary, Hokuetsu Toyo Fibre Co., Ltd., and that has been able to further strengthen our competitiveness and revenue-earning capability in the global market.

Business Environment and Performance

Regarding market trends in the specialty paper business field, the shortening of the product life cycle is progressing, and it has become increasingly more important to develop new products that meet the needs of customers.

Domestic production in FY2013 of the specialty paper business field was, for miscellaneous types of paper for industrial use, approximately 710,000 tons, or 100.7% compared to the previous year, and for other specialty printing paper, approximately 150,000 tons, or 99.5% compared to the previous year. For Hokuetsu Kishu Paper, for miscellaneous types of paper for industrial use, we maintained the same amount as in the previous year, while for other specialty printing paper our performance was 95.9% over the previous year. Furthermore, in conjunction with advancing the strengthening of the overall business development of the Hokuetsu Kishu Paper Group as a whole by incorporating the business areas of our affiliates and subsidiaries (Hokuetsu Toyo Fibre, Totaku (Shanghai) Electric Materials, Dumas), we will progress by speeding up our surveys and research aimed at the development of new technology and new products, and carry out entry into new markets with great potential, including through M&A, at a rapid pace, to move ahead while maintaining the mid- and long-term viewpoints.

Future Business Strategy

Aiming at the development of new products and the opening of new fields by strengthening our technologically focused marketing that targets customers in both the domestic and overseas markets, we are putting our efforts into the following four specific points.

(1) Strengthening our technology-focused marketing

In order to strengthen our ability to cultivate business

and develop technology that anticipates the potential demand in advance, we will build a framework that maintains close direct contact with the end users both in Japan and overseas, and conduct dynamic marketing development through technology-focused marketing that targets domestic and international customers.

(2) Strengthening our capacity to develop new products

In the specialty paper market, which is characterized by speedy revision and abolition, in order to continuously introduce new products and new business areas through the rolling plan system, we are advancing measures to introduce our ability to conduct surveys on potential demand and potential technology, and on company-related information.

(3) Strengthening and promoting our globalization

In order to strengthen our global business capacity, we will deepen the communication with our international customers and advance the expansion of our direct sales. For that purpose, we are also considering cultivating overseas business bases.

(4) Rebuilding an optimal production system and an optimal sales system

We will rebuild an optimal production system and an optimal business system in the specialty paper business division as part of the overall Hokuetsu Kishu Paper Group, which takes a wide-angle view of our mills in Nagaoka and Osaka, and of our domestic and overseas subsidiaries and affiliates. We will formulate a vision and an action plan to achieve these goals.

Main Topics for This Term

We will accelerate our business development of battery separators for use in cars, a promising field in the glass fiber sheet area, and further strengthen our system so that it moves from being two manufacturing bases, in Japan and France, to one that covers the entire global market.

In order to progress with our cultivation of the U.S. market, an enormous market for cars, we will strive to establish the Hokuetsu Kishu Paper Group's own unique sales routes in the U.S.

Also, in order to realize at an early stage the embodiment of new businesses that target promising fields such as water treatment and liquid filtration, we will consider the application of technologies from other industries and related business affiliations, M&A, etc., from a number of diverse perspectives, and actively carry out measures for such development.

Main Product Line-Up

Paper for industrial use

- Chip carrier tape
- Base paper for abrasive-coated paper
- Filter paper for use in air cleaning equipment
- Paper for use in various kinds of processes
- Waterproof paper, oilproof paper

Communication paper

- LBP paper
- Ink jet paper
- OCR paper
- Form paper

Specialty processed items

- Origami
- Thick-coated craft goods
- Adhesive paper

Premium printing paper

- Premium printing paper
- Map paper, marine chart paper
- Ink jet offset joint-use paper

Specialty fiber board

- Pasco
- Vulcanized fiber

Fancy paper

- Black series
- Color Kent Russia
- Colored card paper
- Embossed mark, felt mark, watermark
- Mixed paper



Microfine

This is extremely highly functional filter paper for use in air filters, which support cutting-edge technology such as semiconductors and pharmaceutical factories.



Adhesive paper

Adhesive paper is used widely for confidential postcards in order to transmit highly confidential personal information without fail.



Premium printing paper

High-Apis NEO is a premium printing paper with a vivid printed gloss and a soft texture.

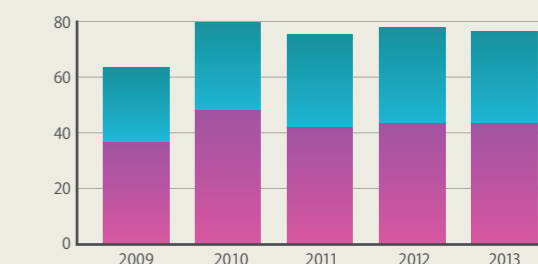


Pasco

A specialty laminated fiber board that is superior in lightness, strength, and resilience, and also has outstanding plasticity

Production of Specialty Paper by Product Type

(Thousands of tons)



■ Miscellaneous types of paper for industrial use
■ Other specialty paper printing paper



Voice

We sell paper that has a wide range of specialty applications that are quite different from what people usually think of as uses for paper, and make them wonder, "Huh? Can paper be used like this?" or "Is this really paper?" Since an outstanding level of quality is required in this field but, the more specialized the paper, the smaller the amount of use for it, we respond by making small lots for each separate application. As well as differentiation through materials and textures, we have added functionality such as food-related applications and industrial applications, enabling us to meet a diverse range of customer needs. Moreover, through exchanges with designers and collaborations with universities, we are also exerting efforts to go beyond only the immediate markets so as to "sow seeds" for the next generation of paper development.

Tadashi Hosomi, Specialty Paper Sales Section



Actualizing business expansion by focusing in the growth expected packaging field.

Business Strengths and Characteristics

The paper converting business division is an organization comprised of two subsidiary companies; Hokuetsu Package Co., Ltd. And BF Co., Ltd. Hokuetsu Package has a wide range of staple products, including liquid container, design packages (paper ware), processed paper (laminating), and functional materials (film processing). Above all, our liquid container holds the top share in the domestic market for gable top type milk cartons, under the brand of Toey Pack. For design packages (paper ware) our strength lies in the integrated manufacturing from the base paper to the final product.

BF have a role in printing and data processing services (DPS). The company carries out services such as editing, printing, enclosure and sealing of customer's data.

Business Environment and Performance

In the liquid container business, we have experienced a rise in the cost of materials resulting from currency depreciation, since base paper is imported from North America and Europe. By improving efficiency of production, we were successful in keeping sales volume year to year, regardless of the declining of total milk production to 98% from previous year.

The paper ware business has grown 10% year to year by acquiring new customers with large volume orders, and with the support of favorable convenience store related orders. Combined with the improved production efficiency, it became the driving force for growth of revenues and profits.

In the processed paper business, we have gained new items related to vapor deposition and transcription. Although functional materials experienced difficulties during the latter half of the year in the LCD field, both revenue and operating profit exceeded those of the previous year.

In regard to the printing of business forms and DPS, we were already facing harsh business conditions due to factors such as the trend towards a paperless business environment and ever more intense price competition. Along with expanding our dealings with our existing customers, and striving to obtain orders related to new cases as well as from new clients. We are seeking to secure good business performance through the construction of a system in the production division that ensures stable profit improvement.

Future Business Strategy

On a large scale, we will implement two business strategies. One is strengthening production and sales structure as well as research and development of new applications and products, through joint efforts with other core business divisions. The other is promoting a new business structure using the originality of our group in domestic and Asian markets.

In order to respond to the rapidly changing business environment, speed and strategy is becoming increasingly important. We will fulfil our responsibility as the fourth pillar of the group by taking a determined approach to imminent tasks and achieve sustainable growth by utilizing the strengths of Hokuetsu Package and BF. Putting these practice, the following three basic policies were formed.

(1) Building on our integrated production from base paper and cost competitive procurement by cooperation with other core business divisions, we will strive to expand our business volume in the paper converting field. Moreover, we will pursue greater effectiveness in operation of both Hokuetsu Package and BF to express a synergy effect.

(2) In the packaging field in which steady growth is expected, we aim to actualize a structure based on the two pillars of liquid package, and paper ware and processed paper. While in the business form field where the market is volatile, we will endeavor to accurately grasp, suggest, and provide solutions sought by customers to achieve a stable profit.

(3) Working closely with the white paperboard business operation in China, we will consider the development of our paper converting business in the Asia markets.

Main Topics for This Term

In order to respond to a business environment in which dramatic changes occur, we will steadily implement practical measures for various kinds of improvement and for addressing our tasks. Furthermore as a means to improve the performance of the paper converting headquarter, Hokuetsu Package and BF are working closely to attain greater efficiency in the administration division.

Hokuetsu Package Co., Ltd.

Constructed a complete paper converting business scheme that carries out integrated manufacturing from materials to converted products. Providing a large variety of products and services with high added value, from paper based liquid containers, paper ware, processed paper, and environmentally friendly products, to film based functional materials.



BF Co., Ltd.

Focusing on the Business Form division, developing potential fields in the Data Processing Service (DS) division, which employs our original security system to process customers' data, as well as in the Radio Frequency Identification (RFID) division which handles IC chips.



Voice

The paper converting group which I belong to, makes products with special features and that have added values, through laminate coating on paper. Up to this day, we have converted various materials to "paper" from plastic and tin can. Utilizing the strength of integrated manufacturing from base paper to final products of the group, we will contribute to society as the fourth pillar of our group by creating and suggesting new materials suited to the demands of society.

Kenji Yamauchi
Processed Paper Group
Processed Paper and Functional Materials Section
Hokuetsu Package Co., Ltd.



Working closely with the manufacturing and research divisions to develop products that are tailored to our customers' needs.

The Research Institute inside the Technology and Development Head Office, and the Technology and Development Division form the core of the Hokuetsu Kishu Paper Group's Research and Development Division. Moreover, new product development and quality improvement, as well as cost-reducing measures, are promoted at each mill. The Technology and Development Head Office integrates all of these research and development activities and develops products tailored to our customers' needs through close collaboration with the Sales Division, the Manufacturing Divisions at the mills, and the Research Institute.

The Research and Development Fields

(1) Printing Paper and White Paperboard

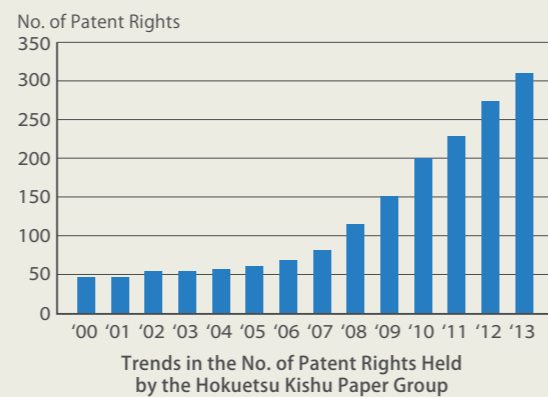
In the printing paper and white paperboard field, we are actively promoting quality improvement and new product development, while also focusing on reducing costs and improving efficiency. We also promote research and development for the purpose of strengthening our competitiveness in the global market. In addition, we are working in close collaboration with the Sales Division and the Research and Development Division to develop new products that incorporate the special features of our different papermaking machines, and ensure the level of quality demanded by the market.

(2) Functional Paper, Specialty Paper, and Communication Paper

In the functional paper field, as well as implementing measures for cost reduction and quality improvement, we are also dedicated to the development and quality enhancement of new products. In the fields of both specialty paper and communication paper we are also actively developing new products that are versatile and meet the needs of individual customers.

Management of Intellectual Property

The Basic Principles related to the Quality Control of Products sets forth our fundamental corporate regulations, and the management of intellectual property is one of the most important items therein. In line with these Basic Principles, we are steadily patenting the fruits of our research. As our corporate activities become increasingly global, patent applications overseas are also increasing.



Voice

In FY2013, we applied for 35 trademarks in Japan and overseas.

In our operations, if an infringement of the intellectual property rights of a third party occurs, there is the risk that suspension of sales of our products or a claim for damages will arise. One of our important duties is to prevent this from occurring.

In regard to the patent rights of third parties, in accordance with our corporate rules, the Regulations for the Supervision of Intellectual Property, the mills, Research Institute, and Technology and Development Division work together in close collaboration to conduct supervision, and to carry out any necessary surveys and measures. Further, when using new brands, we of course conduct surveys in advance on trademarks belonging to third parties. At the same time we also actively implement trademark applications for brands that should be protected as Hokuetsu Kishu Paper brands. In FY 2013, we applied for 35 trademarks in Japan and overseas. Moving forward, we will continue to secure the rights of our intellectual property, striving to achieve differentiation between Hokuetsu Kishu Paper products and those of other companies, and preventing the infringement of the intellectual property rights of third parties. Thus we will continue to steadily provide attractive products to our customers.

Hironobu Sawazaki, in charge of Intellectual Property in the Technology and Research Division



We implement strict quality control management and provide accurate information to our customers.

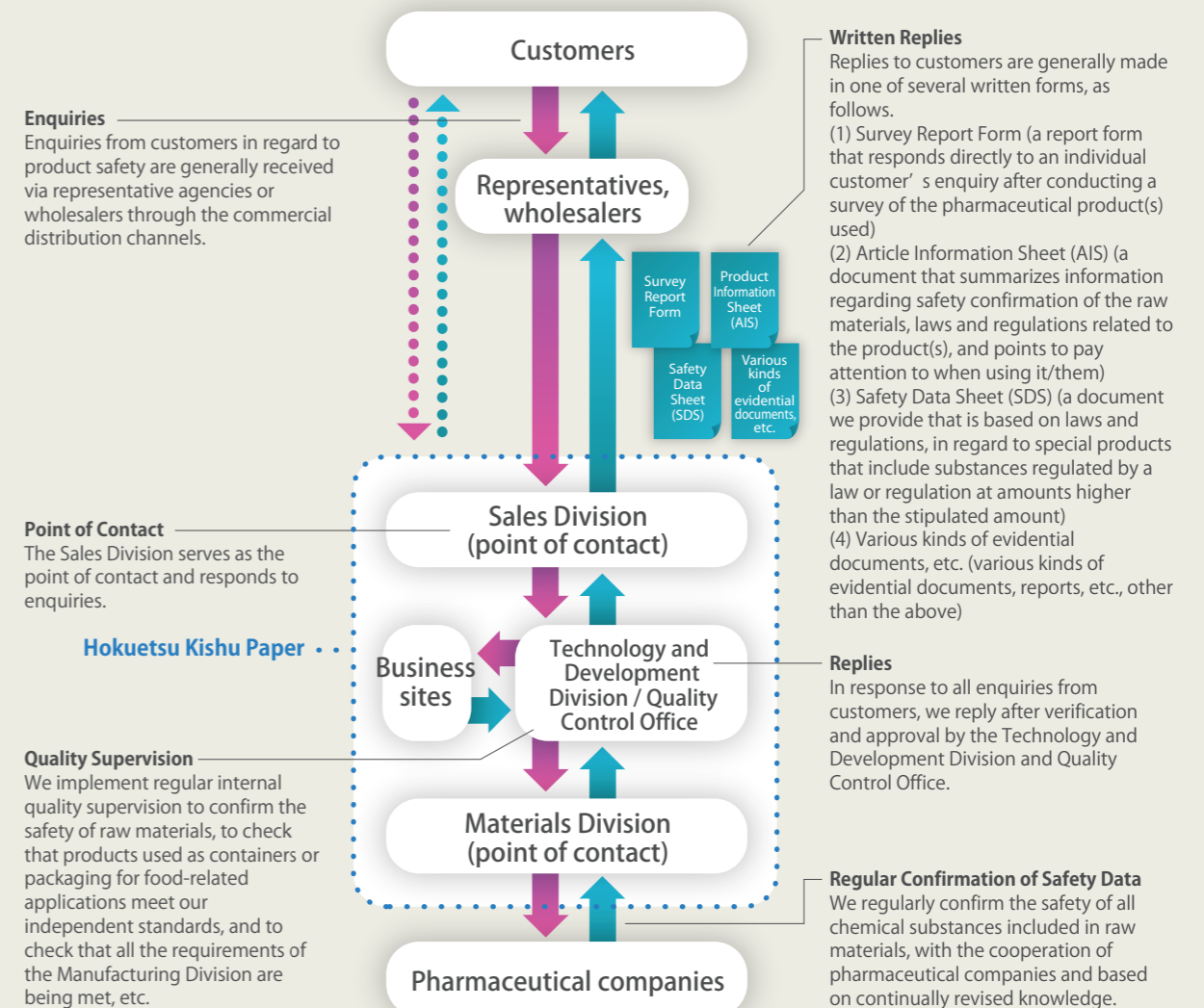
Based on the following Basic Principles related to the Quality Control of Products, Hokuetsu Kishu Paper is careful to ensure the safety of products and at the same time we make efforts to supply attractive products that fulfill the needs of our customers.

Basic Principles

1. In order to provide attractive products, we promote product improvement and new product development based on customers' needs.
2. We manufacture products with consistent quality that are safe and that customers can use with confidence, while obeying all relevant laws and regulations.
3. In order to improve our cost competitiveness and moreover in order to maintain our relative superiority over other companies, we promote intellectual property management.
4. We respond sincerely to any complaints about our products, and strive to provide a speedy and appropriate response in such cases. Further, through implementing measures to prevent recurrence, we promote quality improvement and obtain the trust of our customers.

We confirm the safety of the pharmaceutical products being used and provide this information to our customers.

In order to secure product safety, we ensure the safety of all new pharmaceutical products before use, and also make efforts to continually confirm data related to the pharmaceutical products that we are already using. Moreover, we also provide information in response to all kinds of product-related questions from our customers.



Non-Financial Information and Related Measures

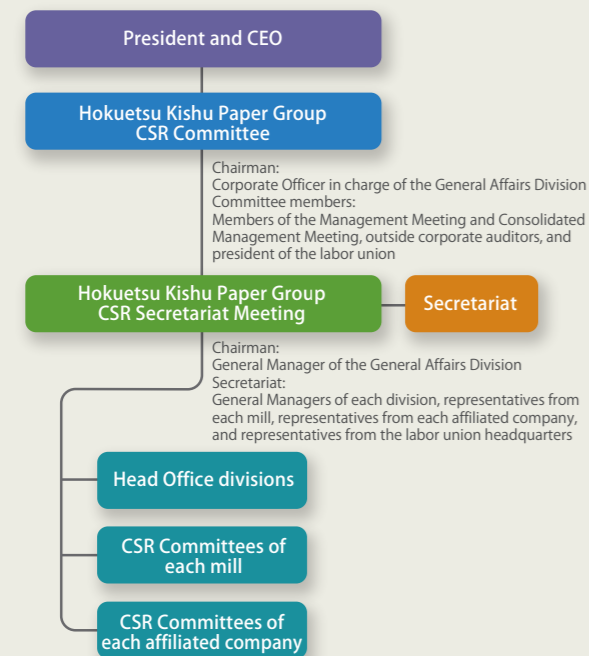
CSR Activities and Environmental
Conservation Measures

We review our priorities every year and put in place concrete initiatives that are highly effective.

The Hokuetsu Kishu Paper Group has established the fundamental objective of strengthening global competitiveness by further improving the relationship of trust with its diverse stakeholders and achieving sustainable growth hand-in-hand with society, based on the corporate philosophy that is shared across the Group. We carry out CSR activities with this objective in mind.

System for Promoting CSR Activities

The Hokuetsu Kishu Paper Group CSR Committee, which comes under the direct control of the President and CEO, inspects and checks on the status of activities conducted by the Group, and ensures the effectiveness of these activities. Specifically, it establishes yearly targets that are unique to each division, office, and Group company based on company-wide objectives, conducts inspections at the end of the fiscal year to verify the achievement status for the targets, and sets the PDCA cycle in motion.



(Compliance, environment, safety, information disclosure, product safety, social contribution, etc.)

Priority Initiatives

1. To promote the creation of an accident-free workplace by raising the awareness of all employees toward management responsibility, self-responsibility, and joint responsibility, and through the leadership of the safety promotion organizations.
2. To strengthen the Group governance system by conducting fair business activities that place the emphasis on compliance.
3. To formulate a business continuity plan (BCP) for all places of business, and create a system that is able to put in place the appropriate response measures in times of risk, such as during a disaster.
4. To comply strictly with environmental laws and regulations, strive to eradicate complaints from the local community, and take proactive steps to disseminate information about our environment-oriented initiatives.
5. To faithfully implement the C-next Plan, and take up the challenge toward achieving further growth.
6. To coexist with local communities through communication and social contribution activities.

Inspections for FY2013 Targets

In FY2013, we put in place initiatives that included strengthening our safety management and Group governance systems, complying strictly with environmental laws and regulations, and eradicate complaints from the local community. We achieved concrete results in the form of the formulation of a business continuity plan (BCP) for safety at the Niigata and Kishu Mills, and reviewed internal regulations.

As part of our environmental initiatives, we strived to reduce CO₂ emissions through the launch of operation of the new power generation facilities at the Niigata Mill. We also put in place initiatives to increase the volume of CO₂ absorbed by company-owned forests.

CSR Activity Targets for FY2014

The priority initiatives for Hokuetsu Kishu Paper Group's CSR activities in FY2014, drawn up based on inspections conducted in the previous fiscal year, are listed as follows. In particular, with respect to safety and disaster prevention initiatives, we have established separate targets for each priority item, and spelled out clear steps for strengthening environment-oriented management and disseminating information about our environmental management efforts.

We are committed to conducting fair business activities, which are the essence of our new medium-term management plan.

The Hokuetsu Kishu Paper Group's compliance objective is to ensure that all executive officers and employees comply with domestic and overseas laws and internal regulations, in line with our Group-wide code of conduct, as well as to ensure that all our actions are fair and transparent, and based on social norms and conventional wisdom.

Complying with the Code of Conduct

We abide by the Hokuetsu Kishu Paper Corporate Philosophy and the Code of Conduct that sets out concrete standards of conduct, and ensure that all executive officers and employees of the Company and Group companies comply with the law and our Articles of Incorporation. We demand that all executive officers and employees act in good faith based on the sense of morality and values that is expected of business people and working adults who are members of society.

Appointment of CCO and Setting Up of a Compliance Hotline

In order to ensure organization-wide compliance with the law, and based on the Hokuetsu Kishu Paper Group Compliance Regulations, we have appointed a Chief Compliance Officer who serves directly under the President and CEO. The Chief Compliance Officer formulates and reviews compliance policies, systems, and various measures in the Compliance Officer meetings, and works to ensure the thorough implementation of compliance measures at the company-wide level through Compliance Officers in each division.

We have also set up a Compliance Hotline, which serves as an internal and external consultation service for

employees of the Company and Group companies to discuss any compliance-related questions or doubts they may have. In addition, we have drawn up procedures to protect employees who consult the hotline.

Cutting Off Relationships with Antisocial Forces

Our Code of Conduct stipulates our resolution to confront antisocial forces and cut off all relationships with them. To that end, we take measures to ensure complete dissemination of this objective to all executive officers and employees of the Company and Group companies. At the same time, the compliance office takes charge in the collection, exchange, and management of information in cooperation with external professional agencies, and works to develop an organizational response system. Our new medium-term management plan, C-next, which started in April 2014, lays out our commitment to maintain and strengthen our governance and compliance systems as part of our company-wide strategy. We consider compliance to be the essence of the Hokuetsu Kishu Paper Group. In tandem with the expansion of our business and the scale of our company, we will strive to further promote fair business activities that place the emphasis on compliance.



Key Initiatives Implemented in FY2013

1. Continued to promote the signing of memorandums on eliminating antisocial forces

We put effort into promoting the signing of memorandums with new business partners and companies that we have not exchanged memorandums with. As a result, the number of companies that have signed memorandums with the Group increased from about 2,900 (September 2012) to 3,600 (November 2013).

2. Provided affiliated companies with compliance training and education

We conducted training sessions on our philosophy and compliance program for new domestic consolidated subsidiaries.

3. Conducted internal training in response to the revision of various laws

We launched training programs about the Waste Management and Public Cleansing Act, and included Group companies in the training.

We seek to raise employee motivation levels and create a rewarding working environment.

The Hokuetsu Kishu Paper Group promotes the creation of a rewarding working environment that our employees can work safely and securely in, and where they are motivated to work enthusiastically toward their personal goals. We develop human resources who are able to respond to globalization, and provide an environment that diverse human resources are able to work in. We also put company-wide effort into building a safe workplace.

Initiatives for Developing Human Resources Who are Able to Respond to Globalization

Hokuetsu Kishu Paper's new medium-term plan, C-next, started in April 2014. The development of global human resources has been laid out as one of the strategies in the plan.

In recent years, we have expanded our business rapidly overseas with the acquisition of a company in France and the launch of a white paperboard business in

China, among other initiatives. Hence, while we have been active in implementing an overseas trainee system and providing support for employees to attend graduate school courses as well as TOEIC classes for more than 10 years, we will put further effort into enhancing these initiatives going forward, in order to develop human resources who are able to take on active roles in a wide range of jobs overseas.



Voice

Overseas Trainee System

I participated in the English studies program at the University of British Columbia (UBC), located in Vancouver, Canada. The course lasted for eight months, from September 2010 to April 2011. At UBC, I mingled with students from diverse cultural backgrounds, and attended classes conducted entirely in English. On non-class days, I participated in a wide range of extracurricular activities. Hence, I was immersed in a completely English-speaking environment both at school and in my everyday life there. In addition to acquiring language proficiency, I was able to experience for myself the different values that each culture brings with it, which broadened my horizons. I have applied the international sensibilities gained through this system to tackling the challenges in my job.

Yoshihiko Oinuma, Specialty Paper Sales Department (far right)



Graduate School for Working Adults

For two years from April 2012 to March 2014, I studied at the Graduate Institute for Entrepreneurial Studies in the city of Niigata, under the Company's graduate school study system for working adults. Although I had to balance my work with the studies, I received much support from my workplace and succeeded in obtaining my Master of Business Administration (MBA) degree.

At the graduate school, I had the opportunity to engage in discussions and exchange opinions in classes with students of different occupational backgrounds, age groups, and nationalities, and I was greatly inspired by the many diverse views and ideas that I came into contact with. I am grateful for the meaningful experience that I was able to receive outside of the company. Going forward, I will apply what I have learnt in these two years to my work.

Tepei Yoshida, Accountant, Niigata Mill



Overseas Expatriate

I have been stationed in Jiangmen, in China's Guangdong Province, since July 2012. My work involves the construction of a white paperboard mill with annual production capacity of 300,000 tons for Jiangmen Xinghui Paper Mill Co., Ltd. This is the Company's first large-scale investment project overseas.

The project began with the procurement of a banana plantation, which is agricultural land, for use as industrial land. Through the various processes of landfilling, piling, civil engineering works, installation, and trial operation, I was engaged in various duties including discussions with government officers and suppliers, management of schedule, and discussing specifications and negotiation prices with suppliers on machinery and equipment, supplies, and chemicals.

I have grown accustomed to the Chinese language, and even enjoy the heated technical discussions that take place every day with the local staff. I will do my best to create a high-quality and highly efficient mill, so that we can fully apply the paperboard production technologies we have developed over many years in China as well.

Akihiro Ogawa, Jiangmen Xinghui Paper Mill Co., Ltd., China



Initiatives to Actively Utilize Diverse Human Resources

In order to respond flexibly to changes in the social and business environment, and to achieve sustainable growth for the organization, we believe that it is important to build a working environment where employees share mutual respect for differences, and where each individual can maximize their capabilities and work enthusiastically. To that end, the Hokuetsu Kishu Paper Group is taking proactive steps to implement initiatives for the active utilization of diverse human resources.

1. Support for a Balanced Lifestyle (Enhanced Childcare Leave Systems, etc.)

Hokuetsu Kishu Paper is taking active steps to create an employee-friendly working environment, where employees are able to balance their work life with childcare or elderly care duties. For female employees in particular, we have developed an environment to make it easier for female employees make use of the childcare leave system and continue to work after childbirth.

	2011	2012	2013
Number of employees eligible for childcare leave	1	5	4
Number of employees taking childcare leave	1	3	2

2. Employment of Persons with Disabilities

Hokuetsu Kishu Paper retains employees who are left with disabilities as a result of work-related or personal injury or illness. We also actively employ persons with disabilities through employment security offices to serve in security positions at our mills. As a result of these initiatives, after 2009, the Company's employment rate for persons with disability has consistently exceeded the legal employment rate.



3. System for the Re-employment of Retired Employees

Hokuetsu Kishu Paper has launched a system for the re-employment of retired employees in 2006. The system underwent changes in tandem with revisions to the related legislation last year, and we have continued in our efforts to enhance the system.

In recent times, it is becoming increasingly difficult to secure manpower as a result of declining birthrates and an aging population. Hence, this system is extremely beneficial to both the employer and the employees, as it provides employees with a stable livelihood while helping the employer to ensure that the expertise of skilled employees is passed down.

To date, a large number of employees have made use of this system. With the rise in the age at which pensioners are eligible to receive their pension funds, the number of employees using this system is expected to continue increasing in the future.

	2011	2012	2013
Number of retired employees	36	34	21
Number of re-employed retirees	24	24	14

Health and Safety Management Initiatives

The Hokuetsu Kishu Paper Group considers securing a safe working environment as one of its highest priorities. We will continue to place safety as our top priority going forward, in order to realize a working environment that employees feel secure working in, and to maintain stable operations in our business.

1. Basic Policy

We place safety above all, and seek to build a bright, healthy, and accident-free work place.

2. Policies for Priority Activities

- (1) To eradicate work-related accidents
- (2) To eradicate fires, explosions, and leakages, and strengthen our crisis management system
- (3) To eradicate traffic offences, vehicular damage caused by single-car accident, and driving under the influence of alcohol
- (4) To build healthy minds and bodies
- (5) To achieve company-wide development of the safety and environment management offices

3. Establishment of Specialized Safety Organizations

From 2013 to 2014, we reviewed our company-wide health and safety management system, and established new specialized divisions, such as the safety management office, that come under the direct control of the mill manager. In particular, specialized divisions that were established at the Kanto Mill in April 2013, ahead of others, have carried out various health and safety activities over the past year. These activities have gradually produced results and demonstrated their effectiveness, such as in raising the level of awareness among employees. Going forward, we aim to expand these activities to other mills and enhance health and safety activities across the company, in order to eradicate work-related accidents.



As a company that is trusted by society, we engage in communication activities with the local community.

The Hokuetsu Kishu Paper Group interacts actively with local communities and residents as part of our social contribution activities. The company owns tree farms (*1) and profit-sharing afforestation forests (*2) not only in Japan but also overseas, and activities related to these forests are extremely meaningful to us.

Providing Support for Activities of Environmental Education for School Children in Iwate Prefecture

Hokuetsu Kishu Paper provides support for activities of environmental education. One of these initiatives is the "School of Forest and Wind," which is organized for the school children of future generations. This initiative is conducted by the NPO Iwate Environmental Research Institute for School Children® (*3), and is held at the Sodegawa tree farm in Iwate Prefecture. It involves providing education on natural energy, and proposes recycling-oriented lifestyles through ecological living and educational spaces that harness resources provided by the land. Recently, it has also begun to organize activities that are targeted not only at school children, but also for persons who provide childcare support as well as environmental educators in the local community. It also publishes original handbooks and DVDs. The initiative is drawing attention from all parts of Japan. The Company supports the objectives of the "School of Forest and Wind," and provides parts of our company-owned forests, including timber from thinning,

short thin wood, and the earth, as spaces for outdoor activities. According to Nobuo Yoshinari, Chairman and Principal of the School, "By utilizing the wide expanse of forests owned by Hokuetsu Kishu Paper as our field, we were able to complete the creation of objects in various parts of the forest and ateliers using remnants of timber. Through natural energy and reuse of regional resources, and by creating opportunities for interacting with the forest, we aim to continue with our efforts to nurture 'the ability to live in the future' in our school children."

(*1) Tree farms refer to forests that are developed under the ownership of Hokuetsu Kishu Paper.

(*2) Profit-sharing afforestation forests refer to afforested areas that are under different landowners and forest managers. Hokuetsu Kishu Paper does not own these forests, but develops and manages them.

(*3) The NPO Iwate Environmental Research Institute for School Children is an organization that supports local development through research and practice of reusing schools that have closed down, from the perspectives of creating a space for children and using natural energy.



Secondhand Children's Clothing donation to South Africa

We donate secondhand children's clothing to South Africa as part of our social contribution activities. To date, the Head Office, Niigata Mill, and Kanto Mill (Ichikawa and Katsuta) have made donations to West Park School in Durban, South Africa.

West Park School is a special school for children with learning disabilities. Many of the children were born to poor social and economic environments, and many have been raised in special care facilities, orphanages, or by foster parents. As such, they are impoverished in the aspect of their material quality of life, and are very pleased to receive donations of clothing.

When the boxes of secondhand clothing reached the school, the senior students carried them from the trucks, and there were also students who immediately took out shirts from the boxes to try on. The Company runs a tree farming business in South Africa. The Company also invests in NCT Durban

Wood Chips (DWC), which supplies wood chips as the main resources of the Company. As a company that is deeply rooted in the local community, we engage in social contribution activities in the form of donating secondhand clothing to South Africa, which has strong ties with our company.



Voice

Field Report from Our Expatriate in South Africa

A large number of plants and animals inhabit the deserts and forests of South Africa. Rich marine life can also be found in the coastal region that straddles the side facing the Atlantic Ocean and the side facing the Indian Ocean. It is indeed a country that is rich in biodiversity. The government is actively involved in environmental conservation initiatives, and there are currently eight World Heritage sites in the country.

I have been stationed at a rural town called Pietermaritzburg since April 2014. My main duties are providing operational support for the tree-planting program that is led by our company, and providing support related to the shipment of wood chips purchased by our company from South Africa.

Hokuetsu Kishu Paper's tree-planting program is managed strictly in line with policies laid out by NCT, which is our business partner and contractor in this program, and in compliance with FSC Forest Management certification standards. The course of action for this program is based on four pillars: local economy, environmental measures, biodiversity, and working environment. With regard to environmental measures and biodiversity, some of our initiatives are carried out jointly with NPOs. These include the management of protected forest areas and monitoring of ecosystems, measures to control domestic animal infectious diseases through the construction of boundary fences, and the implementation of regular public briefing sessions.

Right after I took up my position here, I was surprised to learn that many businessmen speak languages such as Afrikaans and Zulu, in addition to the official language (English). I was also surprised that the forestry business is conducted in a highly institutionalized manner. In the areas of collaborating with environmental organizations and conducting study sessions with the local communities, I feel that the industry here is several steps ahead of the forestry business in Japan. I think that few Japanese people have the opportunity to stay in this country. I aim to make the best use of this opportunity while I am stationed here, become a member of the local community, and fully enjoy my stay in this country.

Manabu Mikamiyama, Overseas Resources Department
(stationed in South Africa)



We have introduced the latest water conservation technologies for the effective utilization of limited resources.

Large volumes of water are used in the papermaking process. For example, when the raw material (pulp) is first introduced into the process, 99% of water is injected into the paper machine along with 1% of raw material, in order to even out the raw material. The Niigata Mill has been actively incorporating water reuse technologies for many years.

Reusing Water that has been Used in the Papermaking Process

The Niigata Mill consumes 117,000 m³ of industrial water per day. The pulp production process (where water is used to wash the pulp) uses approximately 30% of this water, the papermaking process (where water is used to attenuate the paper) uses approximately 55% of the water, while other uses make up the remaining 15% of the water consumed. How can we increase the quantity of paper produced with a limited volume of water that can be consumed? To achieve this, it is vital to reuse the water that has already been used once. We have installed water treatment facilities such as clarifier, high-filter, and ultrafilter to recycle the water and make effective use of limited resources.

Increasing Paper Production by Seven Times and Reducing Water Ratio to 1/7

Wastewater, which contains fibers discharged through the papermaking process, is first stirred in the clarifier. The fibers are separated from the water through gravitational force. The separated water is filtered again through the high-performance filter, which makes use of sand and coal, in order to obtain cleaner water. The ultrafilter is a cutting edge filtering device which passes water through approximately 100 sheets of special film. The treated water is mostly clear and colorless, and so clean that it can hardly be differentiated from tap water. As a result of these initiatives, the Niigata Mill has achieved a paper production volume that is seven times that of 1972 even while it reduced the water ratio (volume of water needed to produce 1t of paper) to 1/7. The Hokuetsu Kishu Paper Group is committed to reducing its consumption not only of water resources, but also of all forms of energy.

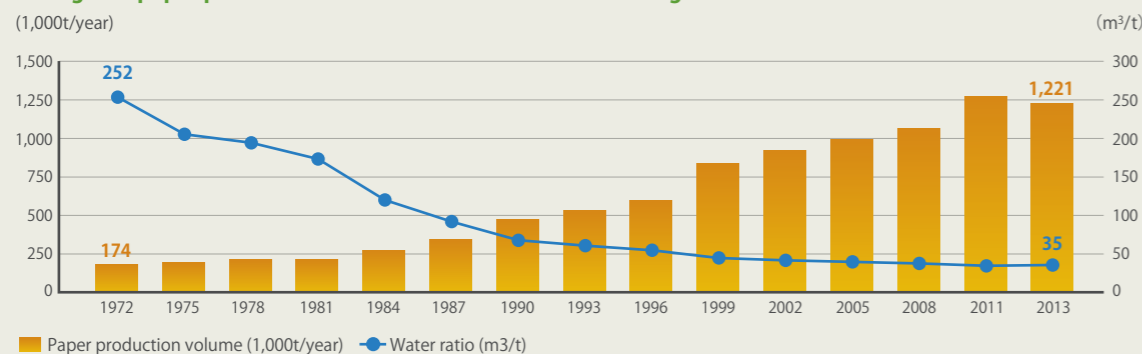


Clarifier



High-performance filter

Changes in paper production volume and water ratio at the Niigata Mill



We are expanding the area covered by our thinning activities under the Forestry Agency's Forest Management and Conservation System.

The Hokuetsu Kishu Paper Group urges thinning of tree in our tree farms in Japan according to the new Forest Management and Conservation System put in place by the Forest Agency. The Forest Management and Planning System plans and implements proper attention including thinning in tree farms with the aims of effectively developing forests as resources and supplying timber in a consolidated manner.

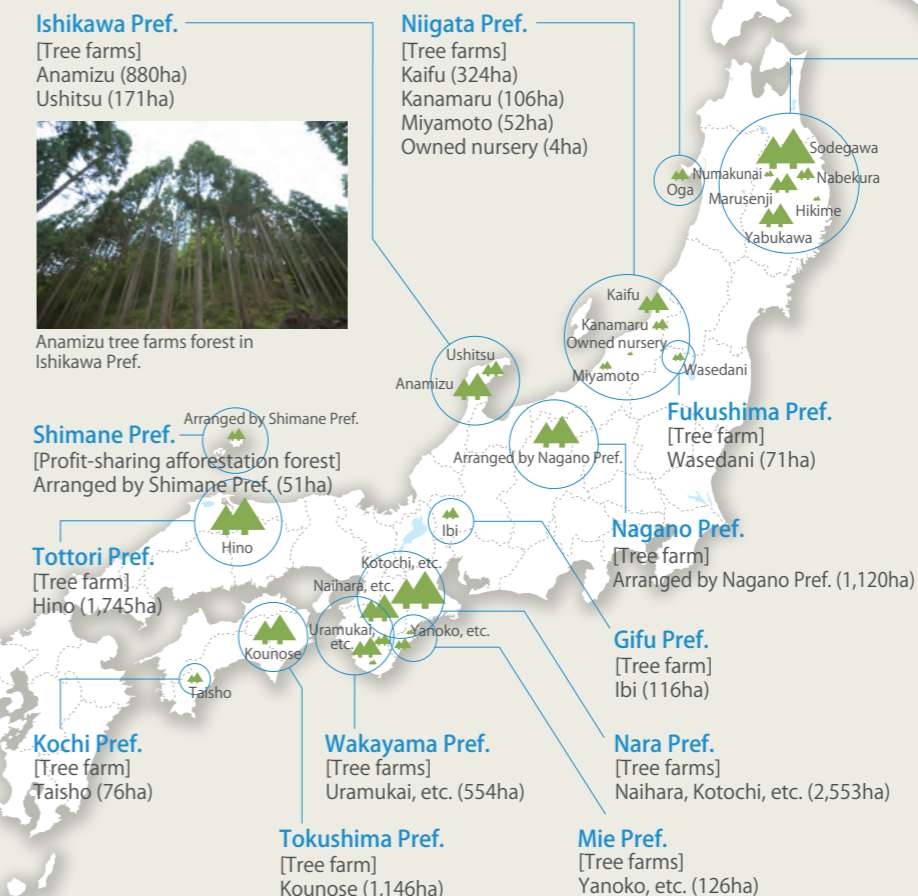
Strengthening Relations with Local Corporations

In accordance with the Forest Management and Conservation System, the surface area covered by thinning activities in our tree farms has increased dramatically in the past few years. The timber produced from our thinning activities is used mostly in the local community as construction material, plywood, or papermaking chips. Forest-thinning improves the growth of trees, and at the same time, also enhances biodiversity by increasing the amount of space in the forest and helping understory plant life to thrive. Of these, the Sodegawa tree farm in Iwate Prefecture, which is the one of the largest forest estates, has been undergoing additional thinning work since FY2013. This is carried out in cooperation

with Shirakaba Ringyo, a local company specialized in forestry, as well as with the local Kuzumaki-machi Shinrin Kumiai (forestry cooperative). The latter has been a sales contact for larch logs and served as the front company for subsidized projects, and is also the co-planner for the new Forest Management Planning System. With respect to the Anamizu tree farm in Ishikawa Prefecture, we have concluded a forest management contract with local company, Nakano K.K., under the new system. Under this contract, we are putting in place efficient forest-thinning programs through the introduction of high-performance forestry machinery.

Total area of tree farms and profit-sharing afforestation forests: 12,291ha

Tree farms: Forests that are developed under the ownership of Hokuetsu Kishu Paper Group
Profit-sharing afforestation forests: Afforested areas that are under different landowners and forest managers. Hokuetsu Kishu Paper does not own these forests, but develops and manages them.



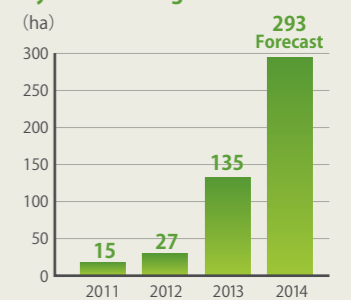
Akita Pref. [Tree farm] Oga (138ha)

Iwate Pref. [Tree farms] Nabekura (139ha) Sodegawa (2,088ha) Yabukawa (489ha) Marusenji (291ha) Numakunai (36ha) Hikime (15ha)



Sodegawa tree farms in Iwate Pref.

Changes in the area covered by our thinning activities



Policy and Situation for the Procurement of Wood Materials (Wood Chips)

Stringent checks on the Legality and Sustainability of Wood Materials

The Hokuetsu Kishu Paper Group ensures that the procurement of wood materials is in line with legal requirements, and bases procurement activities on our Basic Policy for Raw Materials Procurement in order to provide products that our customers can use with peace of mind.

Only Properly-Managed Wood Used

94% of the wood chips that are used as raw material in papermaking are obtained from timber from overseas plantations, while the remaining 6% is obtained from domestic Satoyama (managed coppice) areas. From the perspectives of legality, forest sustainability and biodiversity conservation, and as a duty of a company that enjoys the blessings of nature, we use only wood that originates from properly-managed forests. We pay meticulous care to all these wood chips to determine whether they are produced from timber grown in properly managed forests, and to ensure the legality of related transactions. Specifically, the Group defines wood chips that do not originate from the following five sources as wood chips obtained through legal methods, and procure only such wood chips.

1. Illegally harvested wood
2. Wood harvested in violation of traditional and civil rights
3. Wood harvested in forests where high conservation values are threatened by management activities
4. Wood harvested in forests being converted to plantations or non-forest use
5. Wood from forests in which genetically modified trees are planted.

Rigorous Checks Based on Third-Party Audits and Original Standards

As we use two types of wood chips: (1) FSC® (*1) (Forest Stewardship Council) certified wood chips and

(2) Controlled wood chips. FSC®-certified wood chips are produced using timber logged from FSC®-certified forests. They meet a variety of criteria including legality, sustainability, and biodiversity conservation, and are certified to be properly managed under principles and standards established by the FSC®. The wood originating from these forests can be described as having been grown under proper management. Controlled wood chips originated from timber that has been approved as properly managed timber. This approval is obtained based on a risk assessment to determine if the timber meets FSC® Controlled Wood standards and after undergoing audits conducted by third-party organizations. Although these wood chips are not certified, it is permitted to mix them with certified wood chips. We have also established our own traceability system*2 and periodically verify information relating to wood producing regions. We also submit our procurement activities to external audits conducted by the Japan Paper Association, an industry organization, and other third-party organizations as part of our efforts to enhance the verification accuracy of this system. Additionally, based on our Basic Policy for Raw Materials Procurement, the Hokuetsu Kishu Paper Group discloses information on wood chips in order to increase transparency.

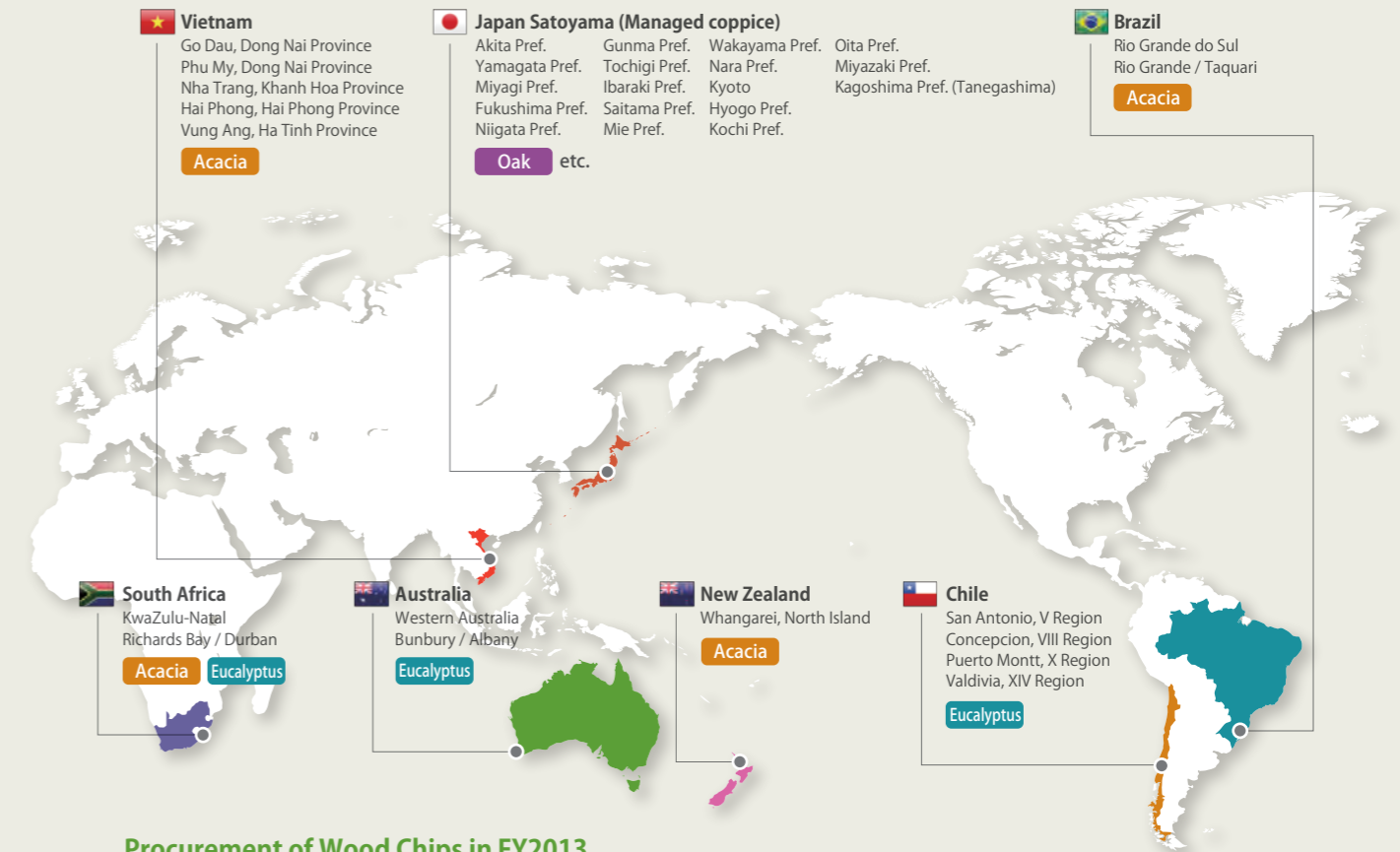
*1 FSC® logo license number: FSC-C023503

*2 Traceability system: A method of tracking information related to production and distribution history. It could be described as a system for keeping tabs on production and distribution information.

Hokuetsu Kishu Paper's "Basic Policy for Raw Materials Procurement"

Hokuetsu Kishu Paper pursues raw material procurement in which value is placed on partnerships with suppliers based on the basic philosophy of the Hokuetsu Kishu Paper Environmental Charter to provide products that customers can use with assurance.

1. Priority on environment
 - With the Environmental Charter of Hokuetsu Kishu Paper as the basis for raw materials procurement, we will purchase raw materials that our customers can use with a sense of reassurance.
 - We will procure overseas wood resources from plantations. We will expand our overseas plantation programs and increase the use of wood resources harvested from our own forest resources. For domestic procurement, we will make use of and cultivate satoyama managed coppice and promote the utilization of unused materials.
 - We will promote the procurement of wood materials that takes into consideration biodiversity conservation and worker health and safety.
2. Open and fair trade
 - We will open our doors to all suppliers and engage in fair and open trade.
3. Legal compliance and disclosure of information
 - We will procure raw materials that are in compliance with relevant laws.
 - We will take steps to confirm that the wood materials purchased from our overseas suppliers were produced at appropriately managed forests, and through investment in overseas supplier companies and direct trade transactions. We will disclose information regarding our wood chip sources.
4. Mutual trust and prosperity
 - We will build history and trust with our business partners, and pursue best procurement practices in the environment, safety, quality, and cost dimensions under a spirit of co-existence and co-prosperity.



Procurement of Wood Chips in FY2013

Country	Tree species	Forest type		Means of verifying legality			Overseas / Domestic wood chips Quantity procured (1,000 BDT)	Percentage
		Planted forest	Managed coppice	Traceability report	Declaration on legality of timber	Forest certification		
Brazil	Acacia	●	—	●	●	●	1,770	94%
Chile	Eucalyptus	●	—	●	●	●		
South Africa	Acacia	●	—	●	●	●		
	Eucalyptus	●	—	●	●	●		
Australia	Eucalyptus	●	—	●	●	●		
New Zealand	Acacia	●	—	●	●	●		
Vietnam	Acacia	●	—	●	●	●	110	6%
Japan	Oak, etc.	—	●	●	●	(※3)		
Total							1,880	100%

*3 Domestic wood chips are verified as controlled wood chips based on risk assessments conducted by Hokuetsu Kishu Paper. The National Risk Assessment for Japan was approved by FSC® in August 2014. As a result, domestic wood chips from the procurement areas used by Hokuetsu Kishu Paper are to be certified as FSC controlled wood chips.

Results of Third-Party Audits on Our FY2013 Traceability Report on Imported Wood Chips

1. Auditor

SGS Japan Inc.

2. Objectives and contents of audit

This audit was conducted in order to verify that imported wood chips procured in FY2013 were obtained through procurement methods for wood chips established by Hokuetsu Kishu Paper, that the traceability reports were obtained through proper methods, and that the contents pertaining to the regulation items were appropriately recorded.

3. Results of the audit

Based on the above audit, it was verified that the following verification items were properly recorded in the respective traceability reports.

Verification items:

- (1) Name of supplier/trading company, signer, and date of signing
- (2) Name of the species of the trees that the wood chips were obtained from

- (3) Harvesting area/country for the wood chips
- (4) Sources of wood chips (native forests, secondary forests, plantations, saw mill residue, etc.)
- (5) Loading port/Discharging port
- (6) Transaction volume
- (7) Compliance with laws
- (8) Management systems
- (9) Non-use of illegally harvested wood
- (10) Non-use of wood harvested in violation of traditional and civil rights
- (11) Non-use of wood harvested in forests where high conservation values are threatened by management activities
- (12) Non-use of wood from forests in which genetically modified trees are planted
- (13) Non-use of wood harvested in forests being converted to plantations or non-forest use

Date of certification: August 12, 2014

*Domestic wood chips and imported pulp, etc., were also subjected to audits and confirmed to be procured through proper means.

We aim to practice fair and highly transparent management in order to improve the long-term stability of our corporate value.

Hokuetsu Kishu Paper positions the improvement of the long-term stability of our corporate value as our top management priority. To that end, we have established and implemented a proper corporate governance system.

Basic Stance on Corporate Governance

We believe that good corporate governance is achieved through fair business activities that place an emphasis on compliance as well as transparent decision-making processes. For this reason, we have established, as the first item in the Hokuetsu Kishu Paper Corporate Philosophy, "to further earn the trust of our customers, stockholders, trading partners and the local communities we operate in by upholding the law and pursuing transparent business activities."

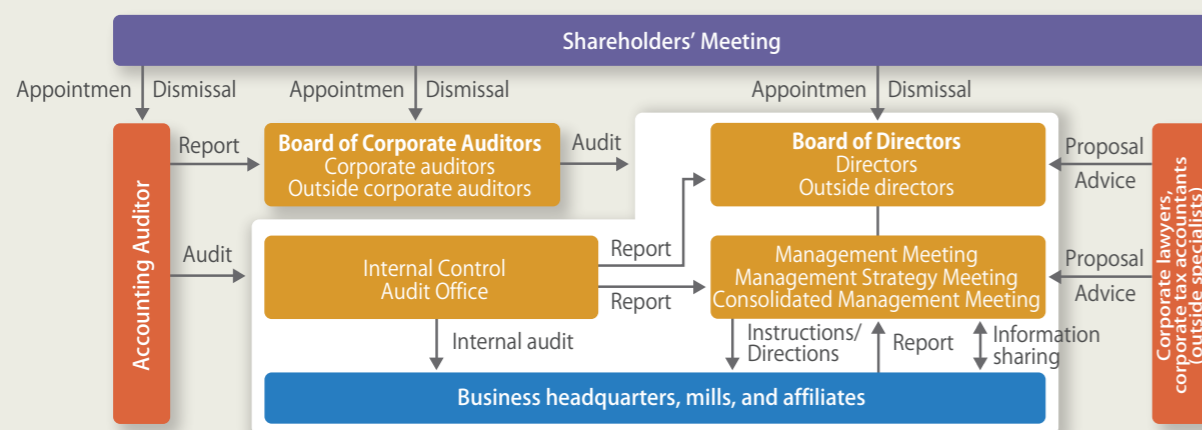
We aim to provide quality products to all our customers, build good relationships with our customers, trading partners and local communities by coexisting with the local communities, and gain the satisfaction of all the relevant stakeholders. We seek to improve the long-term stability of our corporate value through these efforts, and to meet the expectations of all our shareholders.

A System that Ensures Accuracy and Speed in Decision-Making

Hokuetsu Kishu Paper has a basic management organization that comprises a Board of Directors, Management Meeting, Management Strategy Meeting, and Board of Corporate Auditors. The Board of Directors makes important executive decisions and monitors management activities. An outside director is also appointed to play an active role in making important management decisions and monitoring business execution matters.

In addition, the Management Meeting engages in broad discussions on important management matters while the Management Strategy Meeting reviews business performance. These meetings are held once a month in principle, and are attended by the general managers of the relevant divisions. Furthermore, the Company convenes a Consolidated Management Meeting biannually that is attended by the presidents of Hokuetsu Kishu Paper and its consolidated subsidiaries and affiliated companies, in pursuit of reinforcing consolidated Group management.

Hokuetsu Kishu Paper has adopted a Board of Corporate Auditors system. The Board of Corporate Auditors strengthens cooperation between the standing corporate auditors and outside corporate auditors to create a highly effective system. Our governance structure is capable of responding to the business environment that we are situated in, and ensures accuracy and speed in decision-making. At the same time, the system secures objectivity and neutrality of management monitoring through the appointment of one outside director and two outside auditors, all of whom retain a high level of independence.



A Board of Directors that Makes Fundamental and Important Executive Decisions

The Board of Directors makes fundamental and important executive decisions for the company and monitors the execution of directors' duties, based on the Board of Director Regulations and other rules and regulations. Regular meetings are held once a month, and extraordinary meetings are called for when necessary.

The Company's Articles of Incorporation stipulate that the Board of Directors should comprise 15 or fewer members. After the conclusion of the 176th General Shareholders' Meeting held on June 26, 2014, the Board of Directors now comprises 10 members including one outside director.

The outside director has a wealth of experience and abundant knowledge in corporate management, and is able to undertake decisions from a more neutral and fair position. In light of the objectives for the appointment of an outside director, an outside director who is highly independent and able to give due consideration for the interests of minority shareholders is appointed. He or she must be an independent director who is designated by the Tokyo Stock Exchange as a director. Our outside director has no special vested interests in the Company.

A Board of Corporate Auditors that Checks on the Execution of Directors' Duties

The Board of Corporate Auditors monitors the execution of directors' duties in its position as an independent organization that has received the mandate of shareholders, and based on the Board of Corporate Auditors Regulations and other rules and regulations. In principle, the Board of Corporate Auditors convenes once a month. The Board of Corporate Auditors attend Board of Directors' meetings, Management Meetings, and Management Strategy Meetings, investigates the overall performance of the company and its financial situation, and conducts audits on the legality and validity of its activities.

The Company's Articles of Incorporation stipulate that the Board of Corporate Auditors should comprise five or fewer members. After the conclusion of the 176th General Shareholders' Meeting held on June 26, 2014, the Board of Corporate Auditors now comprises four members including two outside corporate auditors. One standing corporate auditor and two outside corporate auditors have a high level of finance and accounting knowledge.

The outside corporate auditors are capable of fulfilling monitoring and auditing functions for the overall management of the company based on their wealth of experience gained at corporations and universities, as well as the deep insight that they have as business people. In light of the objectives for the appointment of an outside corporate auditor, an outside corporate auditor who is highly independent and able to give due consideration for the interests of minority shareholders is appointed. He or she must be an independent corporate auditor who is designated by the Tokyo Stock Exchange. Our outside corporate auditor has no special vested interests in the Company.

Executive Officers' Remuneration, and Method for Determining the Remuneration

At the 173rd General Shareholders' Meeting held on June 24, 2011, Hokuetsu Kishu Paper established that the remuneration for directors would be made up of basic remuneration and stock options in the form of stock acquisition rights, with a combined value not exceeding 540 million yen per year. Remuneration for corporate auditors would comprise only a basic remuneration component not exceeding 72 million yen per year. Bonuses will be decided on at the General Shareholders' Meeting held each year, in consideration of the company's performance for the fiscal year in question.

The amount of remuneration for each director will be decided on by the Representative Director who has been authorized by the Board of Directors, based on a specific set of standards established by the company that corresponds with job responsibilities and degree of contribution. The amount of remuneration for each corporate auditor will be decided in consultation amongst the corporate auditors. The remuneration paid out to directors and corporate auditors in FY2013 was as follows.

Classification	Total amount of remuneration (millions of yen)	Breakdown of remuneration (millions of yen)			Number of payees
		Basic remuneration	Stock options	Bonuses	
Directors (excluding outside directors))	285	200	43	42	15
Corporate auditors (excluding outside corporate auditors)	42	42	—	—	3
Outside directors and outside corporate auditors	10	10	—	—	3

Note: The headcount as of March 31, 2014, was nine directors, two corporate auditors (excluding outside corporate auditors), and two outside corporate auditors.

Development of the Internal Control System

The Board of Directors verify the status of development and operation of the internal control system in Hokuetsu Kishu Paper, reviews its contents where necessary, and works to strengthen the internal control system as well as ensure its thorough implementation. With regard to compliance, we have established our Corporate Philosophy and drawn up a Code of Conduct that lays out a specific standard of conduct, appointed a Chief Compliance Officer that comes under the direct control of the President and CEO, and are working to strengthen our compliance system through the Compliance Officer Meeting.

As a system that seeks to ensure the proper conduct of business in the corporate organization, the responsible division reports important items related to subsidiary businesses to the directors and corporate auditors based on the Company's management regulations, and receive approval from the director in charge or the President and CEO. The responsible division communicates closely with subsidiaries and affiliated companies, based on management regulations for affiliated companies.

With regard to the timely disclosure of corporate information and the reliability of financial reports, we have put in place a system to carry out duties related to the timely disclosure of important corporate information. At the same time, we are also developing a system to formulate fundamental policies for financial reporting, and building a system to provide all our shareholders and other stakeholders with timely and accurate information.

We are working toward further reinforcing risk management based on the general Hokuetsu Kishu Paper Group Crisis Management Regulations as well as regulations that have been established pertaining to the risks that accompany the execution of the respective work duties. We also review this management system at the Management meeting held every month and the Consolidated Management Meeting held biannually.

An Internal Audit System that Also Conducts Follow-up Audits

Six members in the Internal Control Audit Office (of whom one holds a concurrent position in another division) conducts internal audits on all work processes based on the Internal Audit Regulations. These audits cover the status of compliance with laws, the Articles of Incorporation, and internal regulations, and the validity of work procedures and contents. It also conducts follow-up audits on the status of improvement for issues that have been pointed out and recommendations provided as a result of the internal audits. The Internal Control Audit Office reports the situation to the Board of Directors and Management Meeting, and also reports to the corporate auditors where necessary. The Internal Control Audit Office, corporate auditors, and accounting auditors convene report sessions periodically or where necessary, exchange information such as by sending copies of the audit reports, and strive to strengthen collaboration amongst one another.



Sekio Kishimoto
President and CEO



Takayuki Sasaki
Managing Director



Michio Tsuchida
Managing Director



Kazumichi Matsuki
Managing Director



Akihiro Aoki
Managing Director



Kiyoshi Nirasawa
Director



Masanori Sakamoto
Director



Hiroshi Suzuki
Director



Yoshinori Kawashima
Director



Morinobu Obata
Director (Outside Director)

Standing Corporate Auditors

Junichi Horikawa
Yasuji Kazumori

Corporate Auditors
(outside corporate auditors)

Jun Itoigawa
Nobusato Suzuki

Corporate Officers

Kisao Taniguchi
Haruichi Shimizu
Kimio Uchiyama
Yoshihito Meguro
Mitsushige Yamamoto
Yasuyuki Kondo
Kaoru Mashima
Shimpei Kusaka
Shigeharu Tachibana

(As of June 26, 2014)

Financial Section

Management's Discussion and Analysis	46
Consolidated Balance Sheets	48
Consolidated Statements of Income and Consolidated Statements of Comprehensive Income	50
Consolidated Statements of Cash Flows	51
Consolidated Statements of Changes in Net Assets	52
Notes to Consolidated Financial Statements	54
Independent Auditor's Report	81

Five-year Summary

Fiscal years ended March 31

Millions of yen
(except per share amounts)

	2010	2011	2012	2013	2014
For the Year :					
Net sales	¥193,952	¥217,014	¥230,576	¥208,289	¥223,886
Operating income	9,892	8,743	10,828	3,667	3,329
Ordinary income	9,574	10,283	13,906	10,725	8,583
Net income	7,239	5,432	12,797	8,379	6,243
Return on equity	5.3%	3.9%	8.8%	5.4%	3.9%
Per Share Data :					
Net income	¥34.38	¥26.21	¥62.70	¥41.11	¥31.23
Cash dividends	12.00	12.00	12.00	12.00	12.00
At Year-end :					
Total assets	¥ 340,970	¥ 322,255	¥ 332,995	¥ 343,180	¥ 350,770
Total net assets	139,989	139,822	152,704	161,080	161,248

Management's Discussion and Analysis

Business Environment and Results

During fiscal 2013, ending March 31, 2014, there were signs of improvement in corporate business results centered on export companies, in step with factors such as the correction of yen appreciation and rising stock prices against a background of economic measures and monetary policies. Personal consumption also moved toward a trend of recovery. Despite gradual recovery, the Japanese economy continued to face an uncertain outlook due to the European sovereign debt crisis and a slowdown in emerging economies, among other reasons.

For the Hokuetsu Kishu Paper Group, average sales price did not reach the same level as the same period in the previous year despite measures to revise domestic printing paper prices. However, the yen depreciation contributed to a drop in the volume of paper imports, resulting in a corresponding increase in the domestic sales volume of printing paper as well as a rise in export sales prices. As a result, the Group achieved sales growth for this period.

On the earnings front, the Group posted lower earnings in comparison with the previous year, when the negative goodwill associated with the acquisition of shares for Daio Paper Corporation was accounted for by the equity method. Despite cost-cutting measures and the revision of sales prices, earnings declined this year due to the hike in raw material and fuel prices.

In view of the above, the Group's results for fiscal 2013 were as follows.

Millions of yen		Change
Net sales:	¥223,886	7.5%
Operating income:	¥3,329	9.2%
Ordinary income:	¥8,583	20.0%
Net income:	¥6,243	25.5%

Business Results by Segment

1. Paper and Pulp Segment

For the Paper and Pulp segment, average sales price did not reach the same level as the same period in the previous year despite measures to revise domestic printing paper prices. However, the yen depreciation contributed to a drop in the volume of paper imports, resulting in a corresponding increase in the domestic sales volume of printing paper as well as a rise in export sales prices, and in turn, led to a growth in sales. Despite measures to revise sales prices and Group-wide efforts to cut costs across the board, earnings decreased as a result of the hike in raw material and fuel prices.

Results by Product

Printing paper: Despite lower demand reflecting the transition to e-books and other digital media, the yen depreciation contributed to a drop in the volume of paper imports, resulting in a corresponding increase in the domestic sales volume of printing paper as well as a rise in export sales prices, and in turn, led to a growth in sales.

White paperboard: Sales volume of white paperboard decreased as a whole, mainly due to the use of more compact packaging containers, as well as the shift toward more flexible packaging and digital media.

Specialty Paper: Sales were firm for luxury printing paper for use in photo collections and pamphlets, as well as for fancy paper for use as construction paper, in mail order companies, or mass retailers. However, the Group faced a challenging business environment for clinching orders in the communication paper category.

In view of the above, the results for the Paper and Pulp Segment were as follows.

Millions of yen		Change
Net sales:	¥195,062	8.9%
Operating income:	¥1,314	27.0%

2. Packaging and Paper Processing Segment

Net sales declined in the Packaging and Paper Processing Segment as a result of the decline in the large orders received last year. Despite various cost-cutting measures, segment earnings fell due to factors such as the hike in raw material and fuel prices.

In view of the above, the results for the Packaging and Paper Processing Segment were as follows.

Millions of yen		Change
Net sales:	¥20,063	0.6%
Operating income:	¥654	21.1%

3. Others

Sales declined in the Others segment (encompassing wood products, construction, transportation, warehousing, and other businesses) due to an overall decline in orders received. Earnings rose as a result of various cost-cutting measures.

In view of the above, the results in the Others segment were as follows.

Millions of yen		Change
Net sales:	¥8,761	3.1%
Operating income:	¥555	44.2%

Financial Position

Total assets as of the end of fiscal 2013 (March 31, 2014) increased by ¥7,590 million to ¥350,770 million from a year earlier. This was mainly due to factors such as capital investment into natural gas power generation facilities by MC Hokuetsu Energy Service Company, our white paperboard production facility located in China. As a result, the value of property, plant and equipment rose by ¥5,064 million yen. In addition, the rise in stock prices for shares held by the Group contributed to an increase in investments and other assets, which increased by ¥3,884 million yen.

Total liabilities as of March 31, 2014 increased by ¥7,422 million to ¥189,522 million from a year earlier. The main reason was an increase of ¥7,020 million in interest-bearing debt.

Net assets as of March 31, 2014 increased by ¥168 million to ¥161,248 million from a year earlier. The net assets decline was brought about by the acquisition of treasury stock and distribution of retained earnings, which contributed ¥7,574 million and ¥2,442 million respectively to the fall. On the other hand, this was offset by increases in net profit for the period of ¥6,243 million, other net unrealized gains on securities of ¥2,185 million, foreign currency conversion adjustments of ¥1,549 million, and adjusted cumulative figures for retirement benefits of ¥521 million.

Cash Flows

The balance of cash and cash equivalents as of March 31, 2014 decreased by ¥9,139 million to ¥19,866 million from a year earlier.

Cash flows from operating activities

Funds gained from operating activities totaled ¥18,828 million (11.9% decline year-on-year). The main sources of cash were ¥7,833 million in income before income taxes and minority interests, ¥19,071 million in depreciation and amortization, and an increase in notes and accounts payable of ¥1,539. The main components of cash used were an increase in notes and accounts receivable of ¥5,001 million, returns from investment through the equity method of ¥2,313 million, amortization of negative goodwill of ¥1,783 million, and ¥1,070 million in income taxes paid.

Cash flows from investing activities

Net cash used in investing activities totaled ¥22,766 million (9.4% decline year-on-year). The main components of cash used were ¥1,618 million in payments for purchases of investment securities, and ¥22,418 million for purchases of property, plant and equipment. Cash was mainly provided for by subsidies of ¥1,679 million.

Cash flows from financing activities

Net cash used for financing activities totaled ¥7,701 million (financing activities generated receipts of ¥9,170 million in the year earlier). The main components of cash used were ¥14,973 million in repayments of long-term loans, ¥7,944 million decrease in short-term loans, payments for the acquisition of treasury stock of ¥7,566 million, and payment of dividends of ¥2,452 million. The main contributors to cash were proceeds from long-term loans amounting to ¥15,105 million, and ¥10,000 million in proceeds from the issuance of bonds.

Basic Policies Regarding Earnings Distribution and Dividend Payments for Fiscal 2013 and 2014

Hokuetsu Kishu Paper Co., Ltd. considers providing stable returns to shareholders to be one of its important management policies, while it proactively conducts business operations with a long-term vision and works to reinforce its corporate structure. Based on this policy, the company decided to distribute a year-end dividend of ¥6 per share in fiscal 2013, the same

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

For fiscal 2014, ending March 31, 2015, the company currently plans to maintain the annual dividend at ¥12 per share (¥6 per share for both the interim and year-end dividends), based on the following business outlook.

Fiscal 2014 Outlook

In fiscal 2014, despite the repercussions of the rush demand rising from the hike in consumption tax, the Japanese economy is expected to show recover gradually on the back of recovery in consumption and the positive impact of various economic policies. However, there are also concerns on the other hand with regard to the slowdown in the growth of emerging economies as well as the economic downswing resulting from geopolitical risks.

Under these circumstances, the Hokuetsu Kishu Paper Group expects the revision of sales prices implemented in fiscal 2013 to contribute positively to the business across fiscal 2014, even amidst rising raw material and fuel prices. The Group will endeavor to secure sales and earnings through such initiatives as continuing to exhaustively cut costs in all categories.

Millions of yen		Change
Net sales:	¥237,000	5.9%
Operating income:	¥7,500	125.3%
Ordinary income:	¥10,500	22.3%
Net income:	¥6,500	4.1%

Major Business Risks

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

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

Consolidated Balance Sheets

Hokuetsu Kishu Paper Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2014 and 2013

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2014	2014
CURRENT ASSETS:			
Cash and deposits (Notes 3 & 4)	¥29,056	¥19,914	\$193,490
Notes and accounts receivable (Note 4)			
Trade	60,750	66,603	647,134
Unconsolidated subsidiaries and affiliates	395	341	3,313
Allowance for doubtful accounts	(65)	(19)	(185)
Inventories (Note 6)	33,267	33,725	327,682
Deferred income taxes (Note 10)	2,033	1,777	17,266
Prepaid expenses and other	3,057	2,843	27,623
TOTAL CURRENT ASSETS	128,493	125,184	1,216,323
PROPERTY, PLANT AND EQUIPMENT:			
Land and timberland	25,039	24,730	240,284
Buildings and structures	72,727	74,479	723,659
Machinery and equipment	374,319	384,892	3,739,720
Leased assets	4,909	4,665	45,326
Construction in progress	3,952	12,697	123,368
	480,946	501,463	4,872,357
Less accumulated depreciation	(318,550)	(334,003)	(3,245,268)
NET PROPERTY, PLANT AND EQUIPMENT	162,396	167,460	1,627,089
INVESTMENTS AND OTHER ASSETS:			
Investments in securities (Notes 4 & 5)	23,466	26,072	253,323
Investments in and receivables from unconsolidated subsidiaries and affiliates	21,626	23,173	225,155
Long-term loans receivable	41	26	253
Guarantee deposits	873	750	7,287
Asset for retirement benefits (Note 16)	—	1,558	15,138
Deferred income taxes (Note 10)	3,328	1,515	14,720
Other	3,185	5,170	50,234
Allowance for doubtful accounts	(228)	(138)	(1,341)
TOTAL INVESTMENTS AND OTHER ASSETS	52,291	58,126	564,769
TOTAL ASSETS	¥343,180	¥350,770	\$3,408,181

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

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2014	2014
CURRENT LIABILITIES:			
Short-term loans (Notes 4 & 7)	¥31,455	¥24,585	\$238,875
Commercial paper (Note 4 & 7)	7,000	8,000	77,730
Current maturities of long-term debt (Notes 4 & 7)	15,184	18,267	177,487
Notes and accounts payable (Note 4)			
Trade	21,742	23,328	226,661
Unconsolidated subsidiaries and affiliates	1,132	1,288	12,515
Income taxes payable (Note 10)	732	642	6,238
Accrued expenses	7,170	7,211	70,064
Other	6,099	6,820	66,265
TOTAL CURRENT LIABILITIES	90,514	90,141	875,835
LONG-TERM LIABILITIES:			
Long-term debt (Notes 4 & 7), less current maturities	73,278	83,085	807,277
Deferred income taxes (Note 10)	212	270	2,623
Employees' severance and retirement benefits (Note 16)	12,854	—	—
Retirement benefits for directors and corporate auditors	17	—	—
Accrued environmental expenditures	84	60	583
Provision for business structure improvement	349	514	4,994
Liability for retirement benefits (Note 16)	—	12,634	122,756
Negative goodwill	2,654	871	8,463
Asset retirement obligations	1,469	1,460	14,186
Other	669	487	4,732
TOTAL LONG-TERM LIABILITIES	91,586	99,381	965,614
CONTINGENT LIABILITIES (Note 8)			
NET ASSETS (Note 9)			
SHAREHOLDERS' EQUITY:			
Common stock:			
authorized			
—500,000,000 shares in 2014			
—500,000,000 shares in 2013			
issued and outstanding			
—209,263,814 shares in 2014			
—209,263,814 shares in 2013	42,021	42,021	408,288
Capital surplus	45,481	45,481	441,906
Retained earnings	70,694	74,608	724,913
Treasury stock	(2,689)	(10,263)	(99,718)
TOTAL SHAREHOLDERS' EQUITY	155,507	151,847	1,475,389
ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAXES			
Unrealized holding gains on securities, net of taxes	3,235	5,420	52,662
Unrealized gains on hedging derivatives, net of taxes	(6)	5	49
Foreign currency translation adjustment	170	1,719	16,702
Accumulated adjustments for retirement benefit (Note 16)	—	521	5,062
TOTAL ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAXES	3,399	7,665	74,475
SHARE SUBSCRIPTION RIGHTS	86	118	1,146
MINORITY INTERESTS	2,088	1,618	15,721
TOTAL NET ASSETS	161,080	161,248	1,566,731
TOTAL LIABILITIES AND NET ASSETS	¥343,180	¥350,770	\$3,408,181

Consolidated Statements of Income

Hokuetsu Kishu Paper Co.,Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2014, 2013 and 2012

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2012	2013	2014	2014
NET SALES (Notes 11 & 18)	¥230,576	¥208,289	¥223,886	\$2,175,340
COST OF SALES (Note 11)	188,238	173,670	189,763	1,843,791
GROSS PROFIT	42,338	34,619	34,123	331,549
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12)	31,510	30,952	30,794	299,203
OPERATING INCOME	10,828	3,667	3,329	32,346
OTHER INCOME(EXPENSES):				
Interest and dividend income	625	665	673	6,539
Interest expenses	(1,082)	(947)	(999)	(9,707)
Foreign exchange gains (losses)	161	249	529	5,140
Gain on negative goodwill	2,262	279	125	1,215
Amortization of negative goodwill	1,783	1,783	1,783	17,324
Equity in income of affiliates	60	3,882	2,313	22,474
Gain on sales of investments in securities	11	30	0	0
Loss on sales of investments in securities	(0)	(5)	—	—
Loss on devaluation of investments in securities	(2,790)	(184)	—	—
Loss on sales or disposal of property, plant and equipment	(836)	(1,104)	(495)	(4,810)
Income from subsidiaries	823	651	2,337	22,707
Impairment loss of fixed assets (Note 13)	(321)	(79)	(194)	(1,885)
Loss on reduction of fixed assets	—	17	(2,359)	(22,921)
One-time amortization of prior service costs	(130)	—	—	—
Loss on liquidation of subsidiaries and affiliates	(49)	—	—	—
Costs in relation to suspending the operation of production equipment	(203)	(296)	(180)	(1,749)
Restructuring charges	—	—	(402)	(3,906)
Loss due to disaster	(1,003)	—	—	—
Other, net	2,183	1,659	1,373	13,341
	1,494	6,600	4,504	43,762
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	12,322	10,267	7,833	76,108
INCOME TAXES(Note 10):				
Current	2,550	1,283	854	8,298
Deferred	(3,041)	607	713	6,928
	(491)	1,890	1,567	15,226
INCOME BEFORE MINORITY INTERESTS	12,813	8,377	6,266	60,882
MINORITY INTERESTS	16	(2)	23	223
NET INCOME	¥12,797	¥8,379	¥6,243	\$60,659
			yen	U.S. dollars (Note 1)
	2012	2013	2014	2014
AMOUNTS PER SHARE OF COMMON STOCK (Note 2):				
Net income	¥62.70	¥41.11	¥31.23	\$0.303
Diluted net income	62.68	41.07	31.18	0.303
Cash dividends applicable to the year	12.00	12.00	12.00	0.12

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

Consolidated Statements of Comprehensive Income

Hokuetsu Kishu Paper Co.,Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2014, 2013 and 2012

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2012	2013	2014	2014
INCOME BEFORE MINORITY INTERESTS	¥12,813	¥8,377	¥6,266	\$60,882
OTHER COMPREHENSIVE INCOME				
Unrealized holding gains on securities, net of taxes	1,094	1,974	2,033	19,753
Unrealized gains on hedging derivatives, net of taxes	70	36	11	107
Foreign currency translation adjustment	6	288	1,648	16,013
Share of other comprehensive income of associates accounted for using equity method	34	401	155	1,506
TOTAL OTHER COMPREHENSIVE INCOME	1,204	2,699	3,847	37,379
COMPREHENSIVE INCOME	¥14,017	¥11,076	¥10,113	\$98,261
Comprehensive Income attribute to owners of the parent shareholders	13,996	10,956	9,989	97,056
Comprehensive Income attribute to minority interests	21	120	124	1,205

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

Consolidated Statements of Cash Flows

Hokuetsu Kishu Paper Co.,Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2014, 2013 and 2012

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2012	2013	2014	2014
CASH FLOWS FROM OPERATING ACTIVITIES:				
Income before income taxes and minority interests	¥12,322	¥10,267	¥7,833	\$76,108
Depreciation and amortization	22,178	19,625	19,071	185,299
Impairment loss of fixed assets	321	79	194	1,885
Restructuring charges	—	—	402	3,906
Amortization of negative goodwill	(1,783)	(1,783)	(1,783)	(17,324)
Gain on negative goodwill	(2,262)	(279)	(125)	(1,215)
Loss on sales or disposal of property, plant and equipment	209	366	272	2,643
Loss on reduction of fixed assets	—	17	2,359	22,921
Subsidy income	—	—	(2,337)	(22,707)
Interest and dividend income	(625)	(665)	(673)	(6,539)
Interest expenses	1,082	947	999	9,707
Loss on devaluation of investments in securities	2,790	184	—	—
(Increase) decrease in notes and accounts receivable	(463)	7,531	(5,001)	(48,591)
(Increase) decrease in inventories	(2,485)	(1,876)	(165)	(1,603)
Increase (decrease) in notes and accounts payable	(1,009)	(5,552)	1,539	14,953
Increase (decrease) in employees' severance and retirement benefits	302	(326)	—	—
Increase (decrease) liability for retirement benefits	—	—	(191)	(1,856)
Equity in (earnings) losses of affiliates	(60)	(3,882)	(2,313)	(22,474)
Other, net	(312)	(703)	(86)	(836)
SUBTOTAL	30,205	23,950	19,995	194,277
Interest and dividend income received	636	779	900	8,744
Interest paid	(1,136)	(942)	(997)	(9,687)
Income taxes paid	(622)	(3,254)	(1,070)	(10,396)
Proceeds from insurance income	—	830	—	—
NET CASH PROVIDED BY OPERATING ACTIVITIES	29,083	21,363	18,828	182,938
CASH FLOWS FROM INVESTING ACTIVITIES:				
Payments for purchases of investment securities	(84)	(54,130)	(1,618)	(15,721)
Purchase of investments in subsidiaries	—	(6,725)	(858)	(8,337)
Proceeds from sales and redemption of investment securities	110	48,491	503	4,887
Payments for purchases of property, plant and equipment	(8,238)	(11,425)	(22,418)	(217,820)
Proceeds from sales of property, plant and equipment	1,275	130	666	6,471
Proceeds from national subsidies	200	200	1,679	16,314
Acquisition of business	(1,639)	(325)	—	—
Other, net	(1,189)	(1,343)	(720)	(6,995)
NET CASH USED IN INVESTING ACTIVITIES	(9,565)	(25,127)	(22,766)	(221,201)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Increase (decrease) in short-term loans	(1,205)	(200)	(7,944)	(77,186)
Increase (decrease) in commercial paper	8,000	(5,000)	1,000	9,716
Proceeds from long-term loans	445	32,111	15,105	146,764
Repayments of long-term loans	(14,088)	(14,105)	(14,973)	(145,482)
Proceeds from issuance of unsecured yen straight bonds	10,000	—	10,000	97,163
Redemption of unsecured yen straight bonds	(10,300)	(300)	—	—
Dividends paid	(2,454)	(2,453)	(2,452)	(23,824)
Proceeds from stock issuance to minority shareholders	1,087	—	—	—
Payments for purchases of treasury stock	(6)	(5)	(7,566)	(73,513)
Other, net	(846)	(878)	(871)	(8,463)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(9,367)	9,170	(7,701)	(74,825)
TRANSLATION (LOSS) GAIN ON CASH AND CASH EQUIVALENTS	172	260	1,722	16,732
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,323	5,666	(9,917)	(96,356)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	11,194	23,158	29,005	281,821
INCREASE IN CASH AND CASH EQUIVALENTS FROM NEWLY CONSOLIDATED SUBSIDIARIES (Note 3)	1,641	181	778	7,559
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 3)	¥23,158	¥29,005	¥19,866	\$193,024

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

Consolidated Statements of Changes in Net Assets

Hokuetsu Kishu Paper Co., Ltd. and Consolidated Subsidiaries
For the Years ended March 31, 2014, 2013 and 2012

Millions of yen

	Number of shares	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gains (losses) on securities, net of taxes	Unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustment	Accumulated adjustments for retirement benefit	Total accumulated other comprehensive income, net of taxes	Share subscription rights	Minority interests	Total net assets
Balance at March 31, 2011	209,263,814	¥42,021	¥45,435	¥54,201	¥(2,144)	¥139,513	¥(267)	¥(109)	—	—	¥(376)	—	¥685	¥139,822
Increase by share exchanges	—	—	46	—	277	323	—	—	—	—	—	—	—	323
Net income	—	—	—	12,797	—	12,797	—	—	—	—	—	—	—	12,797
Cash dividends paid (¥12.00 per share)	—	—	—	(2,454)	—	(2,454)	—	—	—	—	—	—	—	(2,454)
Disposal of treasury stock	—	—	0	—	1	1	—	—	—	—	—	—	—	1
Purchases of treasury stock	—	—	—	—	(6)	(6)	—	—	—	—	—	—	—	(6)
Change in equity in affiliates accounted for by equity method-treasury stock	—	—	—	—	(445)	(445)	—	—	—	—	—	—	—	(445)
Change of scope of consolidation	—	—	—	218	—	218	—	—	—	—	—	—	—	218
Net changes during the year	—	—	—	—	—	—	1,129	67	3	—	1,199	38	1,211	2,448
Balance at March 31, 2012	209,263,814	¥42,021	¥45,481	¥64,762	¥(2,317)	¥149,947	¥862	¥(42)	¥3	—	¥823	¥38	¥1,896	¥152,704
Net income	—	—	—	8,379	—	8,379	—	—	—	—	—	—	—	8,379
Cash dividends paid (¥12.00 per share)	—	—	—	(2,447)	—	(2,447)	—	—	—	—	—	—	—	(2,447)
Disposal of treasury stock	—	—	(0)	—	1	1	—	—	—	—	—	—	—	1
Purchases of treasury stock	—	—	—	—	(8)	(8)	—	—	—	—	—	—	—	(8)
Retirement of treasury stock	—	—	—	—	(10)	(10)	—	—	—	—	—	—	—	(10)
Change in equity in affiliates accounted for by equity method-treasury stock	—	—	—	—	(355)	(355)	—	—	—	—	—	—	—	(355)
Net changes during the year	—	—	—	—	—	—	2,373	36	167	—	2,576	48	192	2,816
Balance at March 31, 2013	209,263,814	¥42,021	¥45,481	¥70,694	¥(2,689)	¥155,507	¥3,235	¥(6)	¥170	—	¥3,399	¥86	¥2,088	¥161,080
Net income	—	—	—	6,243	—	6,243	—	—	—	—	—	—	—	6,243
Cash dividends paid (¥12.00 per share)	—	—	—	(2,442)	—	(2,442)	—	—	—	—	—	—	—	(2,442)
Disposal of treasury stock	—	—	(0)	—	14	14	—	—	—	—	—	—	—	14
Purchases of treasury stock	—	—	—	—	(7,569)	(7,569)	—	—	—	—	—	—	—	(7,569)
Change in equity in consolidated subsidiary- treasury stock	—	—	—	—	(10)	(10)	—	—	—	—	—	—	—	(10)
Change in equity in affiliates accounted for by equity method-treasury stock	—	—	—	—	(9)	(9)	—	—	—	—	—	—	—	(9)
Change of scope of consolidation	—	—	—	(12)	—	(12)	—	—	—	—	—	—	—	(12)
Increase by merger of consolidated subsidiary and non-consolidated subsidiary	—	—	—	20	—	20	—	—	—	—	—	—	—	20
Change of scope of consolidation in affiliates	—	—	—	105	—	105	—	—	—	—	—	—	—	105
Net changes during the year	—	—	—	—	—	—	2,185	11	1,549	521	4,266	32	(470)	3,828
Balance at March 31, 2014	209,263,814	¥42,021	¥45,481	¥74,608	¥(10,263)	¥151,847	¥5,420	¥5	¥1,719	¥521	¥7,665	¥118	¥1,618	¥161,248

Thousands of U.S. dollars (Note 1)

	Number of shares	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gains (losses) on securities, net of taxes	Unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustment	Accumulated adjustments for retirement benefit	Total accumulated other comprehensive income, net of taxes	Share subscription rights	Minority interests	Total net assets
Balance at March 31, 2013	209,263,814	\$408,288	\$441,906	\$686,883	\$(26,127)	\$1,510,950	\$31,432	\$(58)	\$1,652	—	\$33,026	\$835	\$20,288	\$1,565,099
Net income	—	—	—	60,659	—	60,659	—	—	—	—	—	—	—	60,659
Cash dividends paid (\$0.12 per share)	—	—	—	(23,727)	—	(23,727)	—	—	—	—	—	—	—	(23,727)
Disposal of treasury stock	—	—	(0)	—	136	136	—	—	—	—	—	—	—	136
Purchases of treasury stock	—	—	—	—	(73,543)	(73,543)	—	—	—	—	—	—	—	(73,543)
Change in equity in consolidated subsidiary- treasury stock	—	—	—	—	(97)	(97)	—	—	—	—	—	—	—	(97)
Change in equity in affiliates accounted for by equity method-treasury stock	—	—	—	—	(87)	(87)	—	—	—	—	—	—	—	(87)
Change of scope of consolidation	—	—	—	(116)	—	(116)	—	—	—	—	—	—	—	(116)
Increase by merger of consolidated subsidiary and non-consolidated subsidiary	—	—	—	194	—	194	—	—	—	—	—	—	—	194
Change of scope of consolidation in affiliates	—	—	—	1,020	—	1,020	—	—	—	—	—	—	—	1,020
Net changes during the year	—	—	—	—	—	—	21,230	107	15,050	5,062	41,449	311	(4,567)	37,193
Balance at March 31, 2014	209,263,814	\$408,288	\$441,906	\$724,913	\$(99,718)	\$1,475,389	\$52,662	\$49	\$16,702	\$5,062	\$74,475	\$1,146	\$15,721	\$1,566,731

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

Notes to Consolidated Financial Statements

Hokuetsu Kishu Paper Co.,Ltd. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2014

Note 1: Basis of Presenting Consolidated Financial Statements

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

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of HOKUETSU KISHU PAPER CO., LTD. ("the Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial

Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2014, which was ¥102.92 to U.S. \$1.00. The convenience translation should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Note 2: Summary of Significant Accounting Policies

(a) Consolidation

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

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

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

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

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

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

	Number of Companies		
	2012	2013	2014
Consolidated subsidiaries	20	21	23
Affiliates accounted for by the equity method	6	6	6

MC Hokuetsu Energy Service Co., Ltd. and Bernard Dumas S.A.S which were unconsolidated subsidiaries of the Company In the fiscal year ended March 31, 2013, have been consolidated since their importance of effect on the consolidated financial statements has increased.

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

(b) Consolidated statements of cash flows

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

(c) Translation of foreign currencies

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

(d) Securities

Under the Japanese accounting standard for financial instruments, all companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes ("trading securities"), (b) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliates or (d) all other securities that are not classified in any of the above categories ("available-for-sale securities"). The Companies did not have the securities defined as (a) and (b) above in the years ended March 31, 2014, 2013 and 2012.

Equity securities issued by unconsolidated subsidiaries and affiliates not accounted for by the equity method are stated at the moving-average cost. If the market value of available-for-sale securities

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

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

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

(e) Allowance for doubtful accounts

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

(f) Inventories

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

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

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

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

Expenditures for new facilities and those that substantially increase the useful lives of existing plant and equipment are capitalized. Maintenance, repair

and minor renewals are charged to expenses as incurred.

(h) Finance leases

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

Leased assets related to financial leases that transfer ownership rights are depreciated by the same depreciation method that is applied to fixed assets owned by the Company.

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.

As permitted, finance leases which commenced prior to April 1, 2008 and have been accounted for as operating leases, continue to be accounted for as operating leases with disclosure of certain "as if capitalized" information.

(i) Accrued environmental costs

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

(j) Provision for business structure improvement

A provision has been made for the amount of estimated losses incurred in connection with a review which was implemented to improve business structure.

(k) Issuance costs of stocks and bonds

Issuance costs of stocks and bonds are expensed as incurred.

(l) Derivatives and hedge accounting

The Companies state derivative financial instruments at fair value and recognize changes in the fair value as gain or loss unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gain or loss resulting from changes in fair value of derivative financial instruments until the related loss or gain on the hedged items is recognized.

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

(m) 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.

(n) Per share information

Net income per share is computed based upon the average number of shares of common stock outstanding during each year. The average number of common shares used in the computation was 199,911,192 shares, 203,841,437 shares and 204,097,825 shares in 2014, 2013 and 2012, respectively. For the year ended March 31, 2014, diluted net income per share was ¥31.18 (\$ 0.303) .

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.

(o) 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.

(p) Accounting methods for retirement benefits

(1) Attribution method for projected retirement benefits

This method is applied in calculating retirement benefit obligations and involves attributing the projected retirement benefits to the period up to the end of the current consolidated accounting period based on straight-line attribution.

(2) Method of amortization actuarial gain or losses
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.

(q) Change in accounting policy

Effective from the year ended March 31, 2014, the Company and its consolidated domestic subsidiaries have applied the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012 (hereinafter, the "Statement No.26")) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012 (hereinafter, the "Guidance No.25")) except the article 35 of the Statement No.26 and the article 67 of the Guidance No.25 and actuarial gains and losses that are yet to be recognized has been recognized and the difference between retirement benefit obligations and plan assets has been recognized as a liability for retirement benefits or retirement benefit assets.

In accordance with the article 37 of the Statement No.26, the effect of the change in accounting policies

arising from initial application has been recognized in accumulated adjustments for retirement benefit in accumulated other comprehensive income.

As a result of the application, a liability for retirement benefits in the amount of ¥12,634 million (\$122,756 thousand) has been recognized and retirement benefits assets in the amount of ¥1,558 million (\$15,138 thousand) has been recognized, while accumulated other comprehensive income has increased by ¥521 million (\$5,062 thousand) and minority stockholders' equity has decreased by ¥10 million(\$97 thousand), at the end of the current fiscal year.

The effects of this change on earnings per share are represented by an increase of ¥2.77 (\$0.03) in the amount of net assets per share in this consolidated accounting period.

(r) Accounting standard and guidance but not yet adopted

"Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, issued on May 17, 2012)

"Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on May 17, 2012)

From the viewpoint of improvement to financial reporting and international convergence, the ASBJ has been deliberating the establishment of a revised accounting standard for retirement benefits, ASBJ Statement No.26, Accounting Standard for Retirement Benefits (issued on May 17, 2012) and ASBJ Guidance No.25, Guidance on Accounting Standard for Retirement Benefits (issued on May 17, 2012), which mainly focus on (a) how actuarial gains and losses and prior service costs should be accounted for, (b) how projected benefit obligations and current service costs should be determined and (c) enhancement of disclosures.

The revision (b) will be introduced and made effective from the beginning of fiscal year 2015. (a) and (c) have already been applied. The resulting impacts on future consolidated financial statements are being examined.

Note 3: Cash and Cash Equivalents

A reconciliation of cash and deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows at March 31, 2014 and 2013 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Cash and deposits	¥29,056	¥19,914	\$193,490
Less time deposits with maturities exceeding three months	(51)	(48)	(466)
Cash and cash equivalents	¥29,005	¥19,866	\$193,024

Note 4: Financial Instruments

Information on financial instruments for the year ended March 31, 2014 is as follows:

Status of Financial Instruments

The Companies raises necessary funds for capital investment plans to conduct its business of manufacturing, sale and processing of paper mainly by bank loans or issuance of bonds. Temporary cash surpluses, if any, are invested in low risk financial assets and short-term working funds are raised by bank borrowings or issuance of commercial paper. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described below.

The Company manages and mitigates customer credit risk from trade receivables in accordance with its Debt Management Policy. Consolidated subsidiaries also implement the same control in accordance with the Company's Debt Management Policy.

Investments in securities are exposed to the risk of market price fluctuations. Those securities are composed of mainly stocks associated with business and capital alliances with principal business partners. The Companies check regularly to maintain awareness of their fair value.

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

For trade receivables and payables denominated in foreign currencies, the Company and certain consolidated subsidiaries identify the foreign currency swap risk for each currency on a monthly basis and principally use forward exchange contracts to hedge such risk.

Fair Values of Financial Instruments

The book values, fair values and differences of the financial instruments as of March 31, 2014 and 2013 are as follows. Financial instruments with fair values not readily determinable are excluded from the following table (see (b)):

	Millions of yen		
	Book value	Fair value	Difference
(1) Cash and deposits	¥19,914	¥19,914	¥—
(2) Notes and accounts receivable	66,944	66,944	—
(3) Investments in securities:			
① Stocks of affiliates	18,365	34,058	15,693
② Available-for-sale securities	19,923	19,923	—
Total assets	¥125,146	¥140,839	¥15,693
(4) Notes and accounts payable	¥18,176	¥18,176	¥—
(5) Electronically recorded obligations-operating	6,440	6,440	—
(6) Short-term loans	24,585	24,585	—
(7) Commercial paper	8,000	8,000	—
(8) Bonds*1	40,000	40,215	215
(9) Long-term loans payable*2	58,951	59,124	173
Total liabilities	¥156,152	¥156,540	¥388
Derivative transactions*3	¥7	¥7	¥—

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

	Thousands of U.S. dollars		
	Book value	Fair value	Difference
			2014
(1) Cash and deposits	\$193,490	\$193,490	\$ —
(2) Notes and accounts receivable	650,447	650,447	—
(3) Investments in securities:			
① Stocks of affiliates	178,440	330,918	152,478
② Available-for-sale securities	193,577	193,577	—
Total assets	\$1,215,954	\$1,368,432	\$ 152,478
(4) Notes and accounts payable	\$176,603	\$176,603	\$ —
(5) Electronically recorded obligations-operating	62,573	62,573	—
(6) Short-term loans	238,875	238,875	—
(7) Commercial paper	77,730	77,730	—
(8) Bonds*1	388,652	390,740	2,088
(9) Long-term loans payable*2	572,785	574,466	1,681
Total liabilities	\$1,517,218	\$1,520,987	\$3,769
Derivative transactions*3	\$ 68	\$ 68	\$ —

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

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

*3 Receivables and payables incurred by derivative transactions are presented in net. Net payables are presented in parenthesis.

(a) Calculation method of fair values of financial instruments and securities and derivative transactions are as follows:

Assets

(1) Cash and deposits

Deposits that have indefinite maturities are stated at book value because the fair values of these deposits are substantially the same as the book value. The fair values of time deposits are substantially the same as book value because the time deposits have short maturities. Accordingly, the relevant book values of time deposits are treated as the fair values of time deposits.

(2) Notes and accounts receivable

Because these are settled in the short-term, fair value is generally equivalent to book value;

therefore, book value is used to determine fair value.

(3) Investments in securities

The fair values of these assets are determined using the quoted share exchange price. Please see Note 5 regarding securities categorized by holding purposes.

Liabilities

(4) Notes and accounts payable (5) Electronically recorded obligations-operating (6) Short-term loans, and (7) Commercial paper Because these are settled in the short-term, fair value is generally equivalent to book value; therefore, book value is used to determine fair value.

(8) Bonds

Bonds issued by the Company have market prices, and are therefore based on the market price at the

balance sheet date.

(9) Long-term loans payable

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

rate, assuming that the same type of borrowing was newly made.

Derivative Transaction

For details of derivative transactions, see Note 15.

(b) Unlisted equity securities (consolidated balance sheet value: ¥10,164 million (\$98,756 thousand)) have no market price and there is no way of estimating for future cash flows. Determining fair value is therefore acknowledged to be extremely difficult and they are not included in (3) Investments in securities: available-for-sale securities.

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

	Millions of yen				Thousands of U.S. dollars	
	2013		2014		2014	
	Due in one year	Due after one year through two years	Due in one year	Due after one year through two years	Due in one year	Due after one year through two years
Cash and deposits	¥29,056	¥—	¥19,914	¥—	\$193,490	\$—
Notes and accounts receivable	61,145	—	66,944	—	650,447	—
Total	¥90,201	¥—	¥86,858	¥—	\$843,937	\$—

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

	Millions of yen					
	2014					
	Due in one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due over five years
Short-term bank loans	¥24,585	¥—	¥—	¥—	¥—	¥—
Commercial paper	8,000	—	—	—	—	—
Bonds	10,000	10,000	10,000	—	10,000	—
Long-term loans payable*	7,493	16,406	13,224	9,423	5,383	7,022
Total	¥50,078	¥26,406	¥23,224	¥9,423	¥15,383	¥7,022

	Millions of yen					
	2013					
	Due in one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due over five years
Short-term bank loans	¥31,455	¥—	¥—	¥—	¥—	¥—
Commercial paper	7,000	—	—	—	—	—
Bonds	—	10,000	10,000	10,000	—	—
Long-term loans payable*	14,479	5,251	14,374	11,076	7,240	4,155
Total	¥52,934	¥15,251	¥24,374	¥21,076	¥7,240	¥4,155

	Thousands of U.S. dollars					
	2014					
	Due in one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due over five years
Short-term bank loans	\$238,875	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial paper	77,730	—	—	—	—	—
Bonds	97,163	97,163	97,163	—	97,163	—
Long-term loans payable*	72,804	159,405	128,488	91,557	52,303	68,228
Total	\$486,572	\$256,568	\$225,651	\$91,557	\$149,466	\$68,228

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

Note 5: Securities

The following tables summarize acquisition costs and book value of securities with available fair value as of March 31, 2014 and 2013:

Available-for-sale securities:

Type	Millions of yen		
	Acquisition cost	Book value	Difference
			2014
Equity securities:			
with book value (fair value) exceeding acquisition costs	¥11,413	¥18,726	¥7,313
with book value (fair value) not exceeding acquisition costs	1,237	1,197	(40)
	¥12,650	¥19,923	¥7,273

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

Type	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
			2014
Equity securities:			
with book value (fair value) exceeding acquisition costs	\$110,892	\$181,947	\$71,055
with book value (fair value) not exceeding acquisition costs	12,019	11,630	(389)
	\$122,911	\$193,577	\$70,666

Total sales of available-for-sale securities sold in the year ended March 31, 2014 amounted to ¥3 million (\$29 thousand) and the related gains amounted to ¥0 million (\$0 thousand). Total sales of available-for-sale

securities sold in the year ended March 31, 2013 amounted to ¥99 million, the related losses amounted to ¥5 million and the related gains amounted to ¥30 million.

Note 6: Inventories

Inventories at March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Merchandise and Finished goods	¥18,017	¥18,572	\$180,451
Work-in-process	1,985	1,829	17,771
Raw materials and supplies	13,265	13,324	129,460
	¥33,267	¥33,725	\$327,682

Note 7: Short-Term Debt, Commercial Paper, and Long-Term Debt

- (1) Short-term debt had weighted-average interest rates of 0.63% and 0.51% as of March 31, 2014 and 2013, respectively.
(2) The interest rate on commercial paper at March 31, 2014 is 0.09%.
(3) Long-term debt at March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Long-term loans from banks and other financial institutions			
(Loans due with one year, weighted-average interest rate 0.48%)	¥14,478	¥7,493	\$72,804
(Loans due after one year, weighted-average interest rate 0.73%)	42,097	51,458	499,980
1.77% unsecured yen straight bonds due in 2014	10,000	10,000	97,163
0.794% unsecured yen straight bonds due in 2015	10,000	10,000	97,163
0.685% unsecured yen straight bonds due in 2016	10,000	10,000	97,163
0.384% unsecured yen straight bonds due in 2019	—	10,000	97,163
Lease obligations			
(Loans due with one year)	706	774	7,520
(Loans due after one year)	1,181	1,627	15,808
	88,462	101,352	984,764
Less current portion due with one year	(15,184)	(18,267)	(177,487)
Long-term debt	¥73,278	¥83,085	\$807,277

(4) The annual maturities of long-term debt at March 31, 2014 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥18,267	\$177,487
2016	27,128	263,583
2017	23,785	231,102
2018	9,629	93,558
2019 and thereafter	22,543	219,035
	¥101,352	\$984,765

Note 8: Contingent Liabilities

From September 2014, procedures will be carried out to dissolve the Tokyo Kamisho Employees' Pension Fund and the Osaka Kamisho Employees' Pension Fund, which are multi-employer employees' pension fund systems to which some domestic consolidated subsidiaries had become members. In dissolving these

pension funds, costs will be borne among members thereof based on the financial status of these funds at the time of dissolution. At the present time, however, a large number of uncertainties make it difficult to form a reasonable calculation.

Note 9: Net Assets

Net assets comprise three subsections, which are shareholders' equity, accumulated other comprehensive income, net of tax and minority interests.

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

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

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

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

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

At the annual shareholders' meeting held on June 26, 2014, the shareholders approved cash dividends amounting to ¥1,135 million (\$11,028 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2014. Such appropriations are recognized in the period in which they are approved by the shareholders.

Note 10: Income Taxes

The Companies are subject to a number of taxes levied on income, which, in the aggregate, resulted in normal statutory income tax rates of approximately 37.8% in the year ended March 31, 2014 and 2013.

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, 2014 and 2013:

	2013	2014
Statutory tax rate	37.8%	37.8%
Non-deductible expenses	0.8	1.1
Dividends received not taxable	(1.0)	(0.9)
Per capita inhabitants taxes	0.5	0.7
Gain on negative goodwill	(1.0)	(0.6)
Loss on step acquisitions	0.5	—
Valuation allowance	(5.8)	(8.6)
Effect of change in tax rates	—	1.8
Effect of multiple tax rates	1.1	0.4
Equity in income of affiliates	(14.3)	(11.2)
Other	(0.2)	(0.5)
Effective tax rate	18.4%	20.0%

Significant components of deferred income tax assets and liabilities at March 31, 2014 and 2013 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Deferred income tax assets:			
Accrued bonuses	¥944	¥851	\$8,269
Unrealized gain from sales of inventories between the Companies	269	64	622
Employees' severance and retirement benefits	5,037	—	—
Asset for retirement benefit	—	4,610	44,792
Long-term accrued amount payable	100	57	554
Unrealized gain from sales of fixed assets between the Companies	1,233	1,141	11,086
Unrealized holding gain on fixed assets	820	809	7,860
Depreciation and amortization	1,577	1,292	12,553
Impairment loss of fixed assets	909	957	9,298
Loss on devaluation of investments in securities	1,253	1,242	12,068
Provision for business structure improvement	131	182	1,768
Accrued environmental expenditures	28	19	185
Asset retirement obligations	523	520	5,052
Net operating loss carry forwards	485	304	2,954
Other	1,485	1,918	18,636
Subtotal deferred income tax assets	14,794	13,966	135,698
Valuation allowance	(4,340)	(3,964)	(38,515)
Total deferred income tax assets	¥10,454	¥10,002	\$97,182
Deferred income tax liabilities:			
Liability for retirement benefit	—	¥(872)	\$(8,473)
Reserve deductible for Japanese tax purpose	¥(89)	(3)	(29)
Reserve for deferred gain on sales of fixed assets for tax purpose	(943)	(941)	(9,143)
Valuation difference on Property, plant and equipment	(2,422)	(2,423)	(23,543)
Unrealized holding gain on securities	(1,386)	(2,429)	(23,601)
Other	(465)	(312)	(3,031)
Total deferred income tax liabilities	¥(5,305)	¥(6,980)	\$(67,820)
Net deferred income tax assets (liabilities)	¥5,149	¥3,022	\$29,362

Deferred income tax liabilities:

Liability for retirement benefit	—	¥(872)	\$(8,473)
Reserve deductible for Japanese tax purpose	¥(89)	(3)	(29)
Reserve for deferred gain on sales of fixed assets for tax purpose	(943)	(941)	(9,143)
Valuation difference on Property, plant and equipment	(2,422)	(2,423)	(23,543)
Unrealized holding gain on securities	(1,386)	(2,429)	(23,601)
Other	(465)	(312)	(3,031)
Total deferred income tax liabilities	¥(5,305)	¥(6,980)	\$(67,820)
Net deferred income tax assets (liabilities)	¥5,149	¥3,022	\$29,362

The adjustment of deferred tax assets and liabilities due to the change in corporation tax rates

On March 31 2014, the "Act for partial amendment of the Special Reconstruction Corporation Tax Act" (Act.No.10 of 2014) was officially issued and accordingly the special reconstruction corporate tax will not be imposed on the Company and its domestic subsidiaries from the year ending March 31, 2015. Corresponding to this change, the statutory tax rate

applied in calculating deferred income taxes for temporary differences, which are expected to reverse during the period from April 1, 2014 to March 31, 2015, was reduced from 37.8% to 35.4%.

As a result of these changes in tax rates, net deferred tax assets decreased by ¥144 million (\$1,399 thousand), and deferred income tax expense increased by ¥144 million (\$1,399 thousand) for the year ended March 31, 2014.

Note 11: Sales to and Purchases from Unconsolidated Subsidiaries and Affiliates

Sales to and purchases from unconsolidated subsidiaries and affiliates for the years ended March 31, 2014, 2013 and 2012 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2012	2013	2014	2014
Sales	¥9,788	¥466	¥807	\$7,841
Purchases	6,182	5,781	5,887	57,200

Note 12: 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 ¥769 million (\$7,472 thousand), ¥813 million and ¥877 million for the years ended March 31, 2014, 2013 and 2012, respectively.

Note 13: Impairment Loss on Fixed Assets

In the year ended March 31, 2014, the Companies recorded impairment loss on fixed assets for the following group of assets:

Use	Location	Type	Amount	
			Millions of yen	Thousands of U.S. dollars
Vulcanized fiber production equipment	Nagaoka-city, Niigata	Machinery, vehicles Equipment and others	¥158	\$1,535
Specialty paper production equipment	Suita-city, Osaka	Machinery, vehicles Equipment and others	154	1,496
Idle assets	Sakata-city, Yamagata and others	Land and others	40	389
Total			¥352	\$3,420

The Companies classify fixed assets into groups based on the place of business and the products with mutual supplementation. However, the Companies classify real estate for rent and idle properties, which are not expected to be used in the future, individually.

(Impairment Loss on Fixed Assets)

Because the decision has been taken to cease operations at the facilities for manufacturing vulcanized paper at Nagaoka Mill in the Paper and Pulp segment and consolidate the operations into the subsidiary of the company as part of efforts to optimize production and sales across the Group, the book value of the operations has been reduced to the residual value, and the sum of the decrease has been included in the restructuring charges and allocated to other expenses.

Similarly, because the decision has been taken to cease operations at the facilities for manufacturing Specialty paper at Osaka Mill in the Paper and Pulp segment based on the consolidation of production, the book value of the operations has been reduced to the residual value, and the sum of the decrease has been allocated to other expenses as an impairment cost.

For idle assets with no planned future use, the Companies reduced book value to recoverable value and also recorded such reductions under other expenses as an impairment loss on fixed assets.

The recoverable value is measured by the net sale value, evaluated based on the rational estimates. The recoverable value for the assets which have difficulty in sale and other conversion is evaluated as zero.

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

Use	Location	Type	Amount	
			Millions of yen	Thousands of U.S. dollars
Processed paper production equipment	Tokorozawa-city, Saitama	Machinery, vehicles Equipment and others		¥42
Idle assets	Kiho-cho, Minamimuro-gun, Mie and others	Long-term prepaid expenses and others		37
Total				¥79

The Companies classify fixed assets into groups based on the place of business and the products with mutual supplementation. However, the Companies classify real estate for rent and idle properties, which are not expected to be used in the future, individually.

(Impairment Loss on Fixed Assets)

In view of the poor prospects for demand recovery in the packaging/paper processing business, the Company reduced the book value of the relevant paper processing and production facilities to the recoverable

value and recorded the reduction of said amount under other expenses as an impairment loss on fixed assets.

For idle assets with no planned future use, the Companies reduced book value to recoverable value and also recorded such reductions under other expenses as an impairment loss on fixed assets.

The recoverable value is measured by the net sale value, evaluated based on the rational estimates. The recoverable value for the assets which have difficulty in sale and other conversion is evaluated as zero.

Note 14: Lease Transactions

Lease transactions for the years ended March 31, 2014 and 2013 are as follows:

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

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

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Machinery, equipment and others			
Purchase price equivalent	¥1,663	¥1,663	\$16,158
Accumulated depreciation equivalent	1,025	1,228	11,932
Accumulated impairment loss equivalent	33	34	330
Book value equivalent	605	401	3,896

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

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

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Due within one year	¥209	¥194	\$1,885
Due after one year	405	211	2,050
	¥614	¥405	\$3,935
Balance of impairment loss account on leased assets included in the outstanding lease commitments	¥10	¥4	\$39

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

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

	Millions of yen			Thousands of U.S. dollars
	2012	2013	2014	2014
Lease payments	¥240	¥212	¥209	\$2,030
Reversal of allowance for impairment loss on leased assets	6	6	6	58
Depreciation equivalent	234	206	203	1,972

(d) Calculation method of depreciation equivalent:

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

Operating lease transactions

Lease commitments under non-cancelable operating leases for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
(lessee)			
Due within one year	¥—	¥104	\$1,011
Due after one year	—	302	2,934
	¥—	¥406	\$3,945
(lessor)			
Due within one year	¥25	¥26	\$252
Due after one year	115	89	865
	¥140	¥115	\$1,117

Note 15: 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 offset exposure to market risks arising from changes in foreign exchange rates and interest rate swap contracts to lower the interest costs related to debt and 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 and managed by the Company's Corporate Planning Department in accordance with the established policies and within the specified limits on the amounts of derivative transactions allowed. The Manager of the Corporate

Planning Department reports information on derivative transactions to the Board of Directors quarterly.

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

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

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

Derivative transactions for which hedge accounting had not been applied at March 31, 2014 and 2013 are as follows.

(1) Compound financial instruments

Type of derivative transaction	Millions of yen						Thousands of U.S. dollars		
	2013			2014			2014		
	Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value
The fair value of derivative-embedded deposits	¥50	¥—	¥50	¥—	¥—	¥—	\$—	\$—	\$—

The fair value of derivative-embedded deposits is determined as the amount calculated as a single unit based on the assessed market value of the embedded

derivative that is presented by the bank with which the agreement was made.

Derivative transactions for which hedge accounting had been applied at March 31, 2014 and 2013 are as follows.

(1) Currency-related

Type of derivative transaction	Main hedged items	Millions of yen						Thousands of U.S. dollars		
		2013			2014			2014		
		Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value
Forward exchange contracts										
Buy contracts	Trade payables									
U.S. Dollar		¥1,096	¥—	¥31	¥3,894	¥—	¥16	\$37,835	\$—	\$155
EUR		¥72	¥—	¥0	¥335	¥—	¥4	\$3,255	\$—	\$39

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

(2) Interest-related

Type of derivative transaction	Main hedged items	Millions of yen						Thousands of U.S. dollars		
		2013			2014			2014		
		Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value
Interest rate swap contracts										
Receive floating, Pay fixed	Long-term loans payable	¥2,717	¥1,289	¥(41)	¥1,289	¥287	¥(13)	\$12,524	\$2,789	\$(126)

The following interest rate swap contracts are used as hedges and meet certain hedging criteria. The net amount to be paid or received under the interest rate

swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Type of derivative transaction	Main hedged items	Millions of yen						Thousands of U.S. dollars		
		2013			2014			2014		
		Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value
Interest rate swap contracts										
Receive floating, Pay fixed	Long-term loans payable	¥9,632	¥9,000	¥—	¥15,275	¥14,375	¥—	\$148,416	\$139,672	\$—

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.

2. Defined benefit plan applying the simplified method

(1) Movement in liability for retirement benefits

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Balance at April 1, 2013	¥1,124	\$10,921
Retirement benefit costs	171	1,662
Benefits paid	(68)	(661)
Contributions paid by the employer	(100)	(972)
Other	35	340
Balance at March 31, 2014	¥1,162	\$11,290

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

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Funded retirement benefit obligations	¥568	\$5,519
Plan assets	(472)	(4,586)
	96	933
Unfunded retirement benefit obligations	1,066	10,357
Total Net liability (asset) for retirement benefits at March 31, 2014	1,162	11,290
Liability for retirement benefits	1,162	11,290
Total Net liability (asset) for retirement benefits at March 31, 2014	¥1,162	\$11,290

(3) Retirement benefit costs

Total retirement benefit costs for the fiscal year ended March 31, 2014 based on the simplified method

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Total retirement benefit costs for the fiscal year ended March 31, 2014 based on the simplified method	¥172	\$1,671

3. Multiple employer contribution system

Contributions to the Employees' Pension Fund under the multiple employer contribution system, which are accounted for in the same way as the defined contributions system, amount to ¥49 million (\$476 thousand).

(1) Recent funding position for the multiple-employer contribution system at March 31, 2013 are as follows:

	Tokyo Kamisho Employees' Pension Fund		Osaka Kamisho Employees' Pension Fund	
	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
Amount of plan assets	¥54,396	\$528,527	¥24,598	\$239,001
Amount of retirement benefit obligations accounted for in pension finance	75,196	730,626	26,153	254,110
Net	¥(20,800)	\$(202,099)	¥(1,555)	\$(15,109)

(2) Group ratio for multiple-employer contribution system as a whole at March 31, 2013 are as follows:

	Tokyo Kamisho Employees' Pension Fund	Osaka Kamisho Employees' Pension Fund
Contribution	1.641%	0.575%

(3) Further note

The major factor for the deduction in <1> above is ¥21,402 million (\$207,948 thousand) balance of past service liabilities relating to pension finance. Under this system the amortization method for past service liabilities is spread over an 11 to 20-year period. In the consolidated financial statements for this period the

Group has recognized ¥36 million (\$350 thousand) as a special installment payment allocated for this amortization.

The ratios in <2> above do not match the actual burden ratios of the Group.

(Fiscal year ended March 31, 2013)

The liability for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2013 consisted of the following:

	Millions of yen
	2013
Projected benefit obligation	¥(19,869)
Unrecognized actuarial differences	(468)
Less fair value of pension assets	7,888
Prepaid pension costs	(405)
Liability for severance and retirement benefits	¥(12,854)

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

	Millions of yen	
	2012	2013
Service costs – benefits earned during the year	¥957	¥1,009
Interest cost on projected benefit obligation	382	379
Expected return on pension assets	(10)	(5)
Amortization of actuarial differences	250	203
One-time amortization of prior service costs	130	(47)
Severance and retirement benefit expenses	¥1,709	¥1,539

	2012	2013
Discount rate:	2.0% (mainly)	2.0% (mainly)
Rates of expected return on pension assets:	1.0% (mainly)	1.0% (mainly)
Periods over which the prior service costs is amortized:	1 year	1 year
Periods over which the actuarial gains/losses are amortized*:	10 years	10 years

The estimated amount of all retirement benefits to be paid at the future retirement date is mainly allocated equally to each service year using the estimated number of total service years.

* Actuarial gains/losses are recognized in statement of income using the declining-balance method over 10 years, beginning the following fiscal year of recognition.

Note 17: Asset Retirement Obligations

1. Asset retirement obligations recorded on the consolidated balance sheets

(1) Outline of the asset retirement obligations recorded:

The Company recorded asset retirement obligations covering the expenses for the removal of asbestos as well as the disposal/treatment expenses stipulated by the law concerning disposal and public cleansing of

industrial waste, which will be incurred at the time of removal from buildings and structures owned by the Company.

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

The projected use period of each fixed asset is estimated to be 4 to 64 years based on the useful life of

each, and the discount rate of 0.516% to 2.330% is used.

(3) Increase or decrease in the total amount of the relevant asset retirement obligations during the fiscal year ended March 31, 2014 and 2013:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Balance at the beginning of the year	¥1,482	¥1,469	\$14,273
Adjustments over time	9	10	97
Decrease due to change of estimates	(10)	(5)	(48)
Decrease in loss on disposal of property, plant and equipment	(12)	(14)	(136)
Balance at the end of the year	¥1,469	¥1,460	\$14,186

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

The Hokuetsu Kishu Paper Group has obligations to restore the original state when vacating land, building and other structures, which the Group uses under lease/rental contracts. However, because the use periods of the leased/ rental properties relative to such

obligations are unclear and, in addition, the Group currently has no plan of exiting from these properties, it is not possible to clearly estimate the amounts of asset retirement obligations. For this reason, the asset retirement obligations that correspond to these obligations are not recorded in the accompanying consolidated financial statements.

Note 18: Segment Information

1. Overview of Reporting Segments

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

The Hokuetsu Kishu Paper Group evaluates business results on an each entity basis, and treat independent entity as an unit functioning within each of its business segments. The Company groups each unit into segments according to commonality in economic characteristics, product manufacturing methods and

markets. Based on this approach, the Company maintains two reporting segments: the "Paper and Pulp Business" and the "Packaging and Paper Processing Business."

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

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

The basis of the accounting treatment for the reporting segments is substantially the same as described in

"Summary of Significant Accounting Policies" herein. The segment income represents the operating income-based amount. The intersegment revenues and transfers are determined based on the prevailing market value.

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

	Millions of yen					
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others*1	Corporate or elimination*2	Consolidated*3
2014						
Sales:						
Sales to outside customers	¥195,062	¥20,063	¥215,125	¥8,761	¥—	¥223,886
Intersegment sales or transfers	2,312	284	2,596	27,225	(29,821)	—
Total	197,374	20,347	217,721	35,986	(29,821)	223,886
Operating income	¥1,314	¥654	¥1,968	¥555	¥806	¥3,329
Identifiable assets	¥324,480	¥18,644	¥343,124	¥18,467	¥(10,821)	¥350,770
Other items						
Depreciation and amortization	¥18,051	¥1,006	¥19,057	¥440	¥(426)	¥19,071
Impairment loss	¥346	¥1	¥347	¥5	¥—	¥352
Increase in property, plant and equipment/intangible assets	¥25,258	¥545	¥25,803	¥356	¥(459)	¥25,700
Thousands of U.S. dollars						
2014						
Sales:						
Sales to outside customers	\$1,895,278	\$194,938	\$2,090,216	\$85,124	\$—	\$2,175,340
Intersegment sales or transfers	22,464	2,759	25,223	264,526	(289,749)	—
Total	1,917,742	197,697	2,115,439	349,650	(289,749)	2,175,340
Operating income	\$12,767	\$6,355	\$19,122	\$5,393	\$7,831	\$32,346
Identifiable assets	\$3,152,740	\$181,150	\$3,333,890	\$179,431	\$(105,140)	\$3,408,181
Other items						
Depreciation and amortization	\$175,389	\$9,774	\$185,163	\$4,275	\$(4,139)	\$185,299
Impairment loss	\$3,362	\$10	\$3,372	\$48	\$—	\$3,420
Increase in property, plant and equipment/intangible assets	\$245,414	\$5,295	\$250,709	\$3,459	\$(4,459)	\$249,709

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

*2 Amounts of adjustments are as follows:

- (1) Adjustments in segment income in the amount of ¥806 million (\$7,831 thousand) mainly represent eliminations of intersegment transactions.
- (2) Adjustments in segment assets in the amount of ¥(10,821) million (\$(105,140) thousand) include ¥(17,515) million (\$(170,181) thousand) for eliminations of intersegment debts and credits and ¥6,694 million (\$65,041 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 ¥(459) million (\$(4,459) thousand) represent eliminations of intersegment unrealized gains on noncurrent assets.

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

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

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

*2 Amounts of adjustments are as follows:

- (1) Adjustments in segment income in the amount of ¥655 million mainly represent eliminations of intersegment transactions.
(2) Adjustments in segment assets in the amount of ¥(10,160) million include ¥(16,689) million for eliminations of intersegment debts and credits and ¥6,529 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 ¥(461) million represent eliminations of intersegment unrealized gains on noncurrent assets.

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

(Related information)

Fiscal year ended March 31, 2014

1. Information by Product or Service

This information is omitted here as it is disclosed in the Segment Information section.

2. Information by Region

(1) Net Sales

Millions of yen				
2014				
	Japan	Asia	Others	Total
Net Sales	¥197,089	¥17,156	¥9,641	¥223,886

Thousands of U.S. dollars				
2014				
	Japan	Asia	Others	Total
Net Sales	\$1,914,973	\$166,693	\$93,674	\$2,175,340

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 -----China, Hong Kong, Korea, Taiwan, Vietnam
(2) Other -----Europe, North America, Oceania, the Middle East

(2) Property, plant and equipment

This information is omitted as total amount of property, plant and equipment inside Japan accounted for more than 90% of total property, plant and equipment in the consolidated balance sheet.

3. Information by Major Customer

Name of Customers	Millions of yen	Thousands of U.S. dollars
	2014	2014
SHINSEI PULP & PAPER COMPANY LIMITED	¥41,164	\$399,961
KOKUSAI PULP & PAPER CO., LTD.	¥25,404	\$246,832

Fiscal year ended March 31, 2013

1. Information by Product or Service

This information is omitted here as it is disclosed in the Segment Information section.

2. Information by Region

(1) Net Sales

This information is omitted as domestic sales to unaffiliated customers accounted for more than 90% of net sales in the consolidated statements of income.

(2) Property, plant and equipment

This information is omitted as total amount of property, plant and equipment inside Japan accounted for more than 90% of total property, plant and equipment in the consolidated balance sheet.

3. Information by Major Customer

Name of Customers	Millions of yen
	2013
SHINSEI PULP & PAPER COMPANY LIMITED	¥40,419
KOKUSAI PULP & PAPER CO., LTD.	¥22,706

(Information regarding the amounts of amortization and unamortized balance by reportable segment)

Fiscal year ended March 31, 2014

Millions of yen						
2014						
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others	Corporate or elimination	Consolidated
Goodwill:						
Amortization of goodwill	¥190	¥—	¥190	¥—	¥—	¥190
Balance at end of year	¥2,127	¥—	¥2,127	¥—	¥—	¥2,127
Negative goodwill:						
Amortization of negative goodwill	¥1,460	¥27	¥1,487	¥296	¥—	¥1,783
Balance at end of year	¥729	¥14	¥743	¥128	¥—	¥871

Thousands of U.S. dollars						
2014						
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others	Corporate or elimination	Consolidated
Goodwill:						
Amortization of goodwill	\$1,846	\$—	\$1,846	\$—	\$—	\$1,846
Balance at end of year	\$20,667	\$—	\$20,667	\$—	\$—	\$20,667
Negative goodwill:						
Amortization of negative goodwill	\$14,186	\$262	\$14,448	\$2,876	\$—	\$17,324
Balance at end of year	\$7,083	\$136	\$7,219	\$1,244	\$—	\$8,463

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

Millions of yen

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

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

(Information about gain on negative goodwill by reporting segment)

For the year ended March 31, 2014

In the Paper and Pulp segment, as a result of accepting a capital increase in Xing Hui Investment Holdings Co., Ltd., a consolidated subsidiary of the company, profits of ¥7 million (\$68 thousand) accrued through negative goodwill have been allocated in this consolidated accounting period.

With regard to other businesses, in line with Hokuetsu Kyouritsu Co., Ltd., a consolidated subsidiary of the company, becoming a wholly-owned subsidiary of the company through the company's acquisition of its own shares on 22 January 2014, profits of ¥118 million (\$1,147 thousand) accrued through negative goodwill have been allocated in this consolidated accounting period.

For the year ended March 31, 2013

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

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

Note 19: Related Party Transactions

Transactions with related party

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

2013

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

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

(b) Parent company and principal stockholder, etc., of the Company

2014

Attribute	Name	Location	Amount of capital or investment in capital	The contents of a business operation or an occupation	Ownership ratio of voting rights (%)	Relationship	Nature of transaction	Trading amount	Account	Balance at the end of the fiscal year
Principal stockholder	Mitsubishi Corporation	Chiyoda-ku, Tokyo	¥204,447 million (\$1,986,465 thousand)	A general trading company	(Parent company ownership ratio) Direct 19.5	Agency for the products of the Company	Sales of paper	¥15,722 million (\$152,759 thousand)	Account receivable-trade	¥3,723 million (\$36,174 thousand)
							Acquisition of treasury stock	¥7,561 million (\$73,465 thousand)	—	—

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

The sales price of paper is determined each time through negotiations, taking into account market prices.

The acquisition of its own shares by the company, from Mitsubishi Corporation, is a form of stock purchase through the Tokyo Stock Exchange Trading Network Off-Auction Own Share Repurchase Trading System (ToSTNeT-3).

On December 27, 2013, Mitsubishi Corporation's position changed from "other associated company" to "principal stockholder." However, because Mitsubishi Corporation continues to fall under "related party," its transaction amounts in this consolidated accounting

year and ratio of voting rights held and remaining balance at the end of this consolidated accounting year are presented. In the "type" column, the type at the end of this consolidated accounting year is presented.

(b) Parent company and principal stockholder, etc., of the Company

For the fiscal year ended March 31, 2014, the significant affiliated company is Daio Paper Corporation and its summarized financial statement is as follows. Because Daio Paper Corporation became an affiliate accounted for by the equity method at the end

of the second quarter of the fiscal year ended March 31, 2013, its statements of income items have been calculated for its six-month period from the third quarter to the fourth quarter of the same fiscal year.

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Total current assets	¥246,259	¥243,872	\$2,369,530
Total noncurrent assets	412,764	402,163	3,907,530
Total current liabilities	260,381	253,244	2,460,591
Total noncurrent liabilities	290,761	273,616	2,658,531
Total net assets	107,969	119,253	1,158,696
Net sales	209,013	430,055	4,178,537
Income (loss) before income taxes	(2,733)	6,609	64,215
Net income (loss)	(3,619)	6,293	61,145

Note 20: Comprehensive income

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

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Unrealized holding gains (losses) on securities, net of taxes			
Occurrence amount	¥2,733	¥3,077	\$29,897
Recycling	183	(0)	(0)
Before tax effect	2,916	3,077	29,897
Tax effect	(942)	(1,044)	(10,144)
Unrealized holding gains (losses) on securities, net of taxes	¥1,974	¥2,033	\$19,753
Unrealized holding gains (losses) on hedging derivatives, net of taxes			
Occurrence amount	¥24	¥516	\$5,013
Recycling	40	(500)	(4,858)
Before tax effect	64	16	155
Tax effect	(28)	(5)	(48)
Unrealized holding gains (losses) on hedging derivatives, net of taxes	¥36	¥11	\$107
Foreign currency translation adjustment			
Occurrence amount	¥288	¥1,648	\$16,013
Recycling	—	—	—
Before tax effect	288	1,648	16,013
Tax effect	—	—	—
Foreign currency translation adjustment	¥288	¥1,648	\$16,013
Share of other comprehensive income of associates accounted for using equity method			
Occurrence amount	¥314	¥177	\$1,719
Recycling	87	(23)	(223)
Share of other comprehensive income of associates accounted for using equity method	¥401	¥154	\$1,496
Total other comprehensive income	¥2,699	¥3,846	\$37,369

Note 21: Stock option

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

(1) The following shows the Company's stock options as of March 31, 2014.

Stock options	Persons granted	Number of stock options granted	Grant date	Exercise price	Exercise period
2011 Stock options	11 directors	117,000 shares	July 11, 2011	¥1	From July 12, 2011 to July 11, 2026
2012 Stock options	11 directors	153,500 shares	July 17, 2012	¥1	From July 18, 2012 to July 17, 2027
2013 Stock options	9 directors	117,000 shares	July 12, 2013	¥1 (\$0.01)	From July 13, 2013 to July 12, 2028

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

	2011 Stock options (shares)	2012 Stock options (shares)	2013 Stock options (shares)
Non-vested stock option:			
Outstanding at March 31, 2013	—	—	—
Granted	—	—	117,000
Forfeited	—	—	—
Vested	—	—	117,000
Outstanding at March 31, 2014	—	—	—
Vested stock option:			
Outstanding at March 31, 2013	117,000	153,500	—
Vested	—	—	117,000
Exercised	28,000	—	—
Forfeited	—	—	—
Outstanding at March 31, 2014	89,000	153,500	117,000

(3) The following shows the per share prices.

	2011 Stock options (shares)	2012 Stock options (shares)	2013 Stock options (shares)
Exercise price	¥1	¥1	¥1(\$0.01)
Average stock price at exercise	¥423	—	—
Fair value price at grant date	¥428	¥314	¥359(\$3.49)

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

	2011 Stock options (shares)	2012 Stock options (shares)	2013 Stock options (shares)
Estimate method	Black-Scholes option-pricing models	Black-Scholes option-pricing models	Black-Scholes option-pricing models
Expected volatility	33.120%	33.243%	35.972%
Expected life	8 years	8 years	8 years
Expected dividend	¥12 / share	¥12 / share	¥12 / share (\$0.12 / share)
Risk-free interest rate	0.844%	0.502%	0.685%

Note 22: Subsequent Events

(a) Distribution of retained earnings

The following items were approved at the annual share-holders' meeting of the Company held on June 26, 2014:

Payment of a cash dividend of ¥6.00 (\$0.06) per share, or a total of ¥1,135 million (\$11,028 thousand), to shareholders on record as of March 31, 2014.

(b) Share acquisition through acceptance of third-party share allocation by Daio Paper Corporation

At the Board of Directors meeting held on June 2, 2014, it was resolved that the Company would accept a capital increase through third party allocation of shares relating to the issuance of new shares and sale of shares through public offering and third-party share allocation to the Company by Daio Paper Corporation

(hereinafter, "Daio Paper"), which is an affiliated company of the Company accounted for by the equity method. Payment for this transaction was completed on June 17, 2014.
An overview of the transaction is as follows.

1. Purpose of accepting capital increase through third-party share allocation

Since 2008, the Company and Daio Paper have maintained a technical cooperation partnership. In August 2012, Daio Paper became an affiliated company of the Company accounted for by the equity method as a result of the Company's acquisition of the shares of Daio Paper and its affiliated companies and transfer of shares of the affiliated companies of Daio Paper. In November 2012, for the purpose of ensuring the development and improvement in corporate value of both companies by further strengthening the cooperative relationship, deepening and expanding the scope and content of cooperation and working together in efforts to address developmental challenges, a new agreement on

comprehensive technical cooperation was concluded with Daio Paper. Efforts are currently ongoing to ensure that the effects of this agreement are maximized.
Given the Company's view that accepting this capital increase through third-party share allocation to be implemented by Daio Paper and maintaining the relationship between the two companies would lead to the further expansion of specific efforts based on the comprehensive technical cooperation agreement and enhanced corporate value for the Company, the Company decided to accept the capital increase through third-party share allocation.

2. Overview of third-party allocation of new shares

(1) Number of shares acquired	4,230,000 shares
(2) Acquisition price	¥3,997 million (\$38,836 thousand) (¥945 per share (\$9.18 per share)) Same amount as the issuance price (offer price) in the public offering for new shares
(3) Date of payment	June 17, 2014
(4) Share ownership ratio after transaction (anticipated)	In addition to Daio Paper's issuance of new shares through general public offering and allocation of third-party shares to the Company, if all the applications for third-party allocation to be allotted to Daiwa Securities Co., Ltd. are submitted, the Company's ownership ratio in Daio Paper (including indirect ownership) is expected to be 21.24%.

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

We have audited the accompanying consolidated financial statements of HOKUETSU KISHU PAPER CO., LTD. ("the Company", a Japanese corporation) and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2014 and 2013, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years ended March 31, 2014 and 2013 and 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2014 and 2013, and their financial performance and cash flows for the years ended March 31, 2014 and 2013 and 2012 in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

July 31, 2014
Tokyo, Japan

Affiliated Group Companies

Consolidated Subsidiaries

Hokuetsu Kishu Sales Co., Ltd.
Takebashi 3-3 Bldg., 3-3, Kanda Nishiki-cho, Chiyoda-ku, Tokyo 101-0054
Sales and distribution agent

Hokuetsu Toyo Fibre Co., Ltd.
888, Otsuka, Numazu City, Shizuoka Prefecture 410-0306
Manufacturing and sale of vulcanized fiber products and paper

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

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

Bernard Dumas S.A.S.
Le Bourg 2, Rue de la Papeterie 24100, Creysse, France
Manufacturing and sale of glass fiber sheets

Hokuetsu Kami Seisen Co., Ltd.
57, Enoki-cho, Higashi-ku, Niigata City, Niigata Prefecture 950-0881
Cutting, selecting, packing and loading/unloading of the company's products

Techno-Hokuetsu, Ltd.
57, Enoki-cho, Higashi-ku, Niigata City, Niigata Prefecture 950-0881
Paper and pulp manufacturing work, industrial wastewater purification processing, waste disposal, etc.

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

Kinan Sangyo Co., Ltd.
182, Udono, Kiho-cho, Minamimuro-gun, Mie Prefecture 519-5701
Contract work related to paper manufacturing

Kishu Kami Seisen Co., Ltd.
182, Udono, Kiho-cho, Minamimuro-gun, Mie Prefecture 519-5701
Cutting, selecting, packing and loading/unloading of the company's products

MC Hokuetsu Energy Service Company
47, Enoki-cho, Higashi-ku, Niigata City, Niigata Prefecture 950-0081
Supply of steam and electric power

Hokuetsu Package Co., Ltd.
3-2-2, Nihonbashihongoku-cho, Chuo-ku, Tokyo 103-0021
Manufacturing and sale of paper containers including liquid package cartons and packaging, and processed paper products such as laminated paper and related materials

BF Co., Ltd.
667-1, Minami-Nagai, Tokorozawa City, Saitama Prefecture 359-0011
Supply of computer-related components and mailing business

Shanghai Toh Tech Co., Ltd.
330-8, Xiya Road, Waigaoqiao Free Trade Zone, Shanghai-city, China
Sale of carrier tape for precision electronic parts, and processing and sale of punch goods

Hokuetsu Forest Co., Ltd.
1529, Aza-Shitadairayamako, Aza-Sakamoto, Aizubange-machi, Kawanuma-gun, Fukushima Prefecture 969-6586
Sale of raw fuel to paper mills, wood chips, and wood products

Hokuetsu Logistics Co., Ltd.
560-11, Shimokido, Higashi-ku, Niigata City, Niigata Prefecture 950-0885
Transportation and warehousing of products

Hokuetsu Suiun Co., Ltd.
560-11, Shimokido, Higashi-ku, Niigata City, Niigata Prefecture 950-0885
Transportation of products

Hokuetsu Engineering Co., Ltd.
57, Enoki-cho, Higashi-ku, Niigata City, Niigata Prefecture 950-0881
Manufacturing and sale of industrial machinery, electric instrumentation construction, design and construction of civil engineering and buildings

Kishu Zorin Co., Ltd.
3-2, Jimbo-cho, Kanda, Chiyoda-ku, Tokyo 101-0051
Management of forests, and sale of various palettes and wood products

Hokuetsu Trading Corporation
3-1-1, Zao, Nagaoka City, Niigata Prefecture 940-0028
Real estate, management of driving school

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

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

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

Affiliated Companies Accounted for Under the Equity Method

Daio Paper Corporation
2-60, Mishimakamiya-cho, Shikoku Chuo City, Ehime Prefecture 799-0492
Manufacturing and sale of paper, paperboard, pulp, and secondary products, and production, processing, and sale of everyday goods

Staff Saito Co., Ltd.
2-4-17, Zao, Nagaoka City, Niigata City, Niigata Prefecture 940-0028
In-house logistics, transportation of products, and environmental maintenance

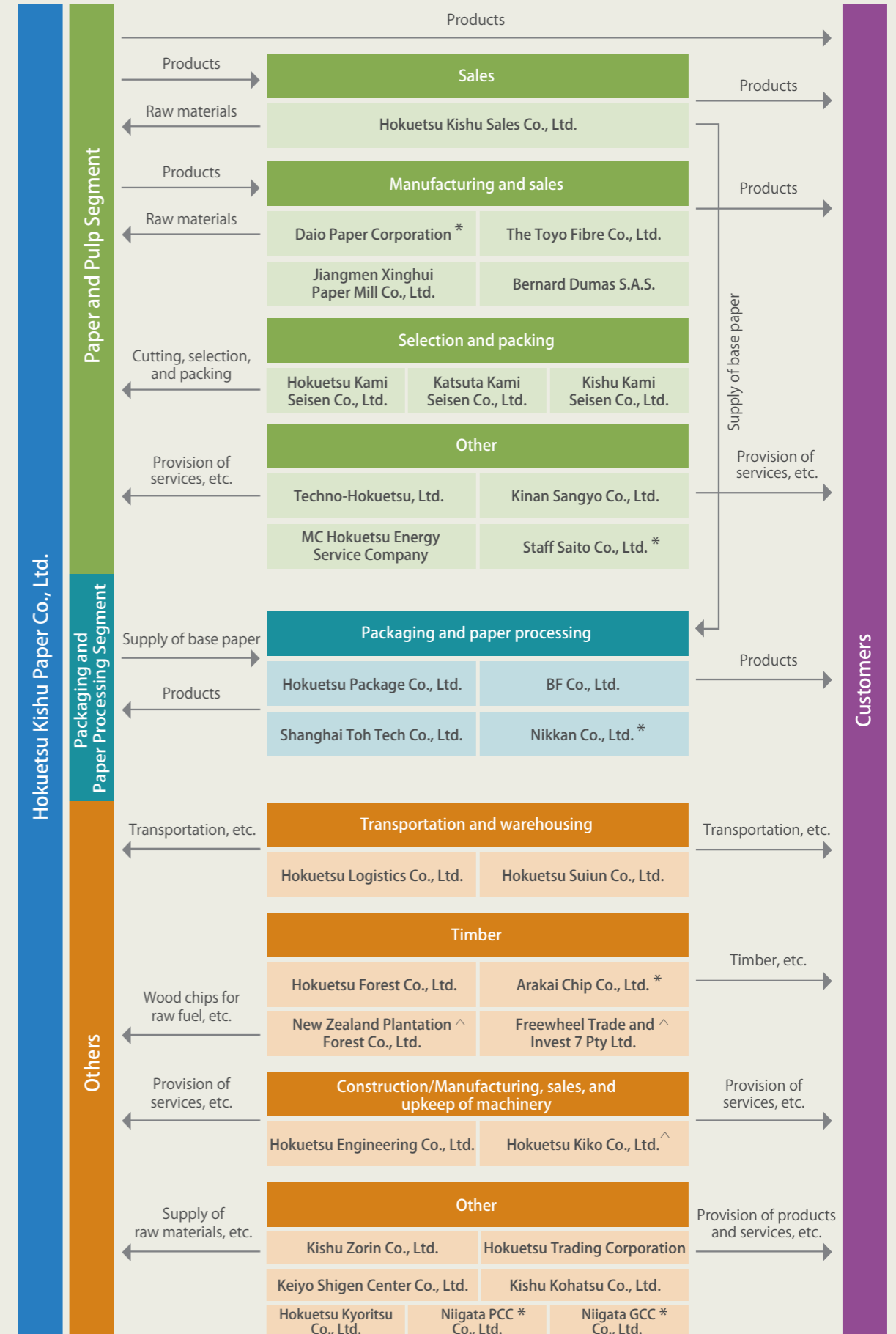
Nikkan Co., Ltd.
3-5-1, Nishizao, Nagaoka City, Niigata Prefecture 940-0027
Manufacturing and sale of paper, nonwoven fabric, and films

Niigata GCC Co., Ltd.
35-1 Enoki-cho, Higashi-ku, Niigata Prefecture 950-0881
Manufacturing and sale of filler for papermaking

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

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

Group Overview



Note: No mark: Consolidated subsidiary *Affiliated company accounted for under the equity method [△] Affiliated company not accounted for under the equity method

Environmental Conservation Cost

Scope of calculations: Hokuetsu Kishu Paper Co., Ltd.
Target period: April 1, 2013 - March 31, 2014
Monetary unit: Millions of yen

Category	Major activities and their results	Investment	Cost
1. Business area costs: Environmental conservation costs to control environmental impact that results from key business operations within the business area		1,601	6,731
Composition (1) Pollution prevention cost		272	3,162
a. Air pollution		122	562
b. Water pollution	Strengthen wastewater treatment facilities	127	2,425
c. Noise, vibration, and odor		23	174
(2) Global environmental conservation cost		815	1,237
a. Prevention of global warming		536	1,217
b. Energy conservation	Energy-saving equipment	234	(Included in manufacturing cost)
c. Company-owned forests in Japan	Cost for nurturing company-owned forests	44	14
d. Reforestation overseas		-	6
(3) Resource circulation cost		513	2,330
a. Efficient utilization of resources		238	(Included in manufacturing cost)
b. Reduction, recycling, treatment, disposal, etc., of industrial waste		274	2,330
2. Upstream/downstream costs: Environmental conservation costs to control environmental impact that results from key business operations upstream and downstream		-	540
Composition (1) Purchase of materials, etc., with smaller environmental impact	Cost (difference) for purchasing low-sulfur fuels, and others	-	17
(2) Recycling and collection of containers and packaging	Cost of recycling wooden pallets, and others	-	523
3. Administrative costs: Environmental conservation costs stemming from administrative activities		-	229
Composition (1) Environmental training of employees, etc.	Education on environmental conservation, cost for acquiring licenses	-	3
(2) Building, implementation, and acquiring certification for an environmental management system	ISO 14001-related costs	-	6
(3) Monitoring and measuring environmental impact	Maintenance fees for measuring instruments, commission fees for analysis	-	64
(4) Running costs for an environmental conservation system, etc.	An in-plant system for environmental management	-	155
4. R&D costs: Environmental conservation costs stemming from R&D activities		-	152
Composition (1) R&D to develop products that contribute to environmental conservation		-	30
(2) R&D and planning to curtail environmental impact at the manufacturing stage, etc.		-	121
5. Social activity costs: Environmental conservation costs stemming from social activities		5	61
Composition (1) Planting of greenery, beautification, etc.	Greening of the mill sites, and others	5	31
(2) Support, etc., of environmental conservation activities by the local community	Community environmental fair, and others	-	3
(3) Support for environmental groups		-	16
(4) Disclosure of environmental information and related advertisements	Costs for compiling CSR reports	-	10
6. Environmental remediation costs: Costs incurred from dealing with environmental degradation		-	98
Total		1,606	7,814

Item	Monetary value
Total investment during the target period	7,291
Total R&D cost during the target period	743

Note: Figures are rounded to the nearest million yen.

Examples of Environmental Conservation Benefits

Classification by relationship with business activities	Examples of benefits	Performance
Environmental conservation benefit related to resources input into business activities	Energy-saving effect	462
Environmental conservation benefits related to goods and services produced from business activities	Hokuetsu Kishu Paper's fresh pulp is ECF-bleached pulp made of wood from planted forests and satoyama	

Monetary unit (millions of yen)

Material Balance

Scope: Hokuetsu Kishu Paper's results for FY2013

Input		Output			
Fossil energy input	11,906,000 GJ	CO2	757,000 t		
Non-fossil energy input	25,892,000 GJ	SOx	320 t		
Input of water resources	93,482,000 m ³	NOx	2,359 t		
Raw material consumption	Wood chips	1,880,000 t	Soot and dust	133 t	
	Purchased pulp	103,000 t	Chemical substances subject to the PRTR law	Discharge	2.4 t
	Used paper	279,000 t		Transported	0 t
		Wastewater BOD5*	435 t		
		Wastewater CODMn*	1,450 t		
		Wastewater SS	723 t		
		Industrial waste generated	127,000 t		
		Industrial waste final disposal volume	8,000 t		
		Paper/paperboard production volume	1,759,000 t		

Changes in Environmental Performance

	Unit	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014 target
Global warming	CO2	kg/ton of paper	483	430	437	437	430
Air	SOx	kg/ton of paper	0.30	0.20	0.17	0.20	0.18
	NOx	kg/ton of paper	1.57	1.41	1.46	1.49	1.34
	Soot and dust	kg/ton of paper	0.13	0.09	0.08	0.07	0.08
Water quality	Water consumption	m ³ /ton of paper	58.0	56.5	52.1	56.4	53.1
	Wastewater BOD5*	kg/ton of paper	0.40	0.43	0.39	0.40	0.29
	Wastewater CODMn*	kg/ton of paper	7.54	6.51	6.13	5.83	5.16
	Wastewater SS	kg/ton of paper	0.77	0.76	0.61	0.54	0.41
Chemical substances	Volume of chemicals subject to the PRTR law discharged/transported	g/ton of paper	2.60	3.31	1.29	1.64	1.36
Industrial waste	Final disposal	kg/ton of paper	15.1	16.7	12.1	9.4	5.2

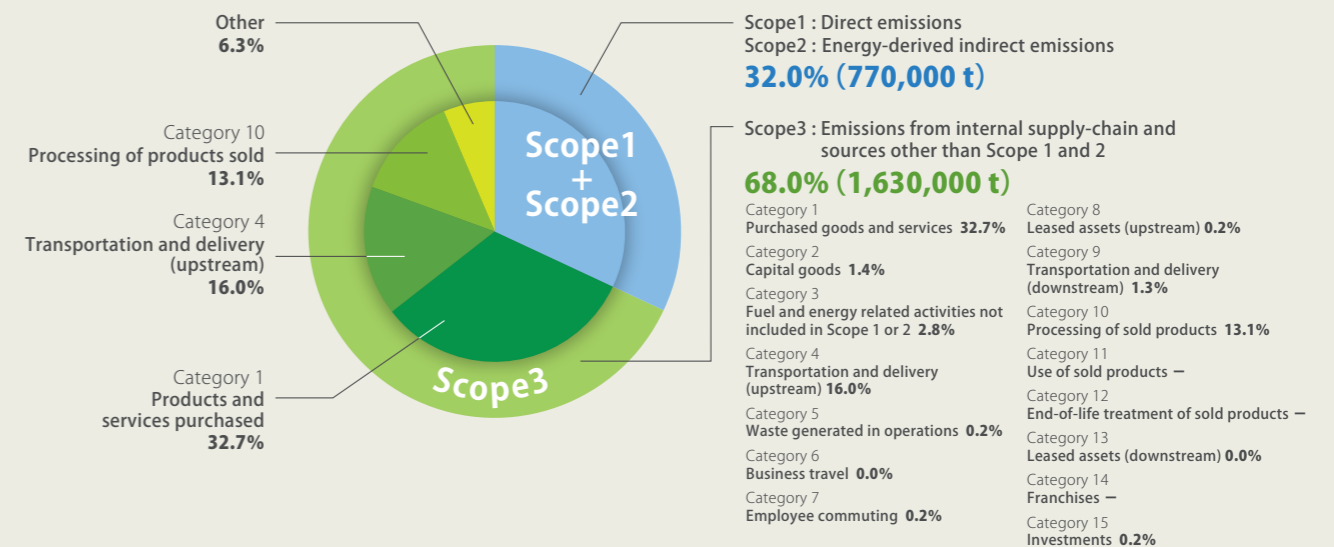
*Mills that discharge wastewater to rivers use BOD, while mills that discharge wastewater to the sea use COD to management wastewater quality.

Greenhouse Gas Emissions Across the Entire Supply-Chain

The Hokuetsu Kishu Paper Group aims to impose minimum impact on the environment, and considers it important to obtain and manage information about greenhouse gas emissions across the entire production lifecycle, from the procurement of raw materials to the use and disposal of products. Hence, we have estimated the indirect greenhouse gas emissions (Scope 3 emissions) not only for each stage of production in-house, but across the entire supply-chain.

We obtained an estimated greenhouse gas emissions of approximately 2.4 million tons across the entire supply-chain. Of this volume of emissions, approximately 33% was generated by category 1 activities (Purchased goods and services), and about 16% was generated by category 4 activities (Transportation and delivery (upstream)). Based on these results, we are reviewing initiatives aimed at reducing greenhouse gas emissions, such as by switching to the use of raw materials with a small environmental impact, and using energy-saving transportation methods.

Estimates of greenhouse gas emissions across the entire supply-chain of the Hokuetsu Kishu Paper Group



Stock Information (as of March 31, 2014)

Shareholder registry administrator	Mizuho Trust & Banking Co., Ltd. 1-2-1, Yaesu, Chuo-ku, Tokyo
Number of shares authorized	500,000,000
Number of shares issued	209,263,814
Number of shareholders	12,853

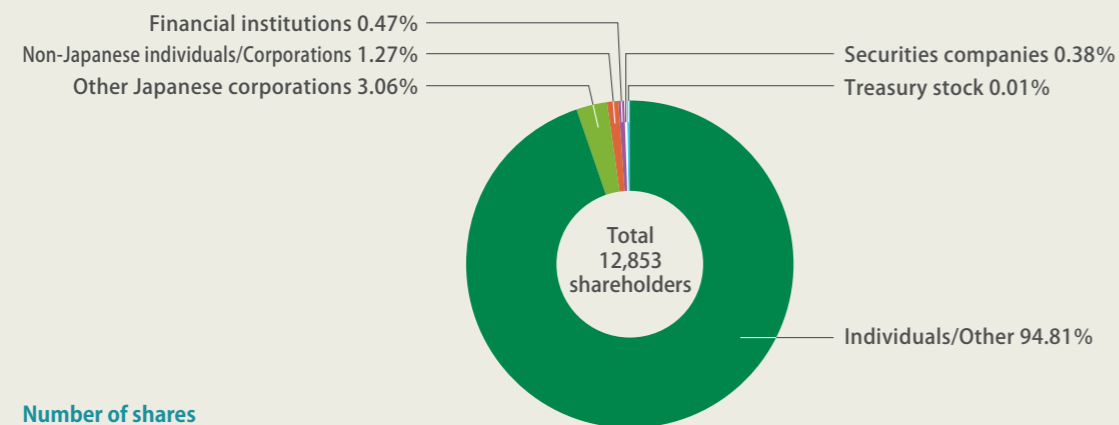
Major Shareholders (as of March 31, 2014) (Note 1)

Name	Number of shares held (thousands of shares)	Percentage to total number of shares in issue (%)
Mitsubishi Corporation	36,619	17.50
The Master Trust Bank of Japan, Ltd. (Trust Account)	13,309	6.36
Japan Trustee Services Bank, Ltd. (Trust Account)	8,186	3.91
NIPPONKOA Insurance Co., Ltd. (Note 2)	4,499	2.15
Hokuetsu Kishu Paper Stock Ownership Association	4,358	2.08
Daio Paper Corporation	4,286	2.05
Kawasaki-kami Unyu Co., Ltd.	4,286	2.05
The Daishi Bank, Ltd.	4,217	2.02
The Hokuetsu Bank, Ltd.	4,215	2.01
Mizuho Bank, Ltd.	3,600	1.72

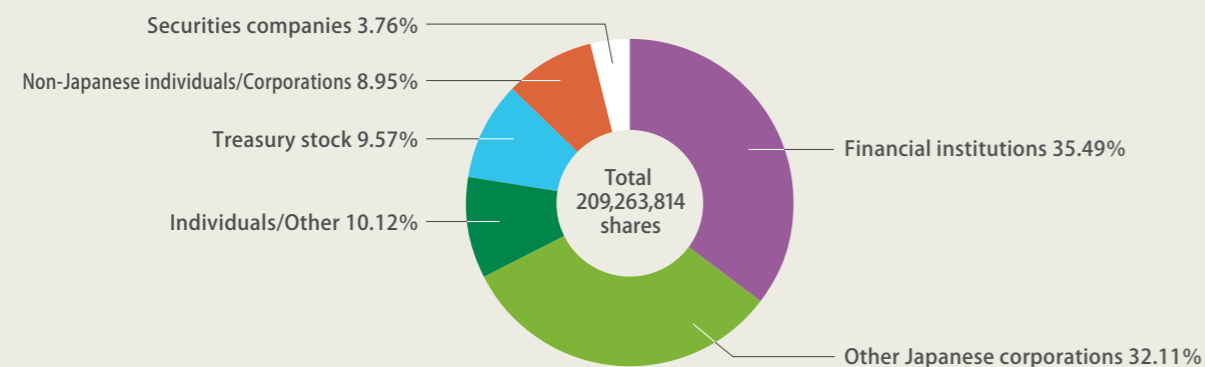
Notes:
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Distribution of shares by shareholders (as of March 31, 2014)

Number of shareholders



Number of shares



Corporate Data (as of March 31, 2014)

Corporate name: Hokuetsu Kishu Paper Co., Ltd.
 Established : April 27, 1907
 The registered head office :
 3-5-1, Nishizao, Nagaoka, Niigata Prefecture
 Paid-in capital : 42,020,940,239 yen

Fiscal year ending : March 31
 Number of consolidated subsidiaries : 23
 Number of affiliated companies accounted for under the equity method : 6
 Number of employees : 4,272 (consolidated) ; 1,561 (non-consolidated)

Offices and Mills (as of March 31, 2014)

1 Head Office

3-2-2 Nihonbashi hongoku-cho, Chuo-ku, Tokyo 103-0021, Japan
 Telephone +81-3-3245-4500



2 Osaka Branch

4-22-1 Minami-Suita, Suita, Osaka 564-0043
 Telephone +81-6-6339-5151



3 Nagoya Office

1-7-28, Nishiki, Naka-ku, Nagoya, Aichi Prefecture 460-0003 (inside the TIG-ACTUS BUILDING)
 Telephone +81-52-211-1272



4 Fukuoka Office

2-2 Tsunaba-machi, Hakata-ku, Fukuoka Prefecture 812-0024
 Telephone +81-92-271-4982



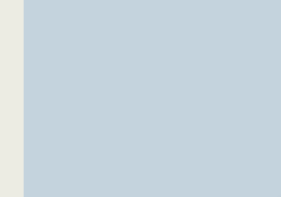
5 Niigata Office

57, Enoki-cho, Higashi-ku, Niigata Prefecture 950-0881
 Telephone +81-25-273-1141



6 Central Research Laboratory

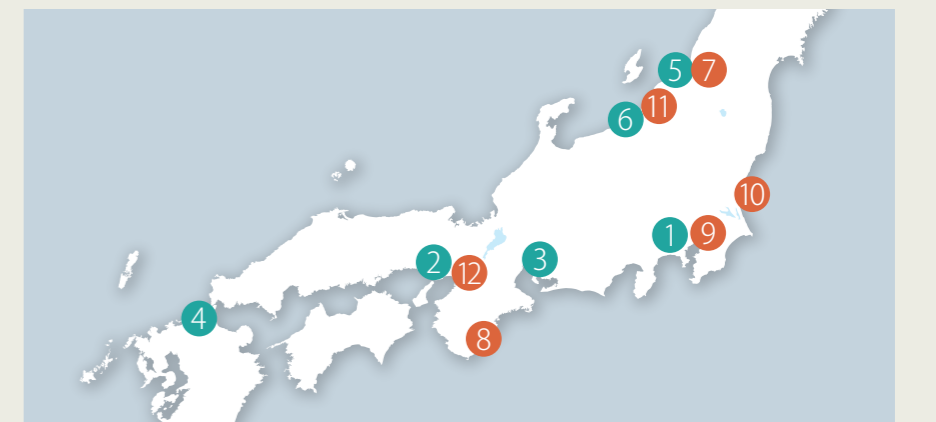
3-5-1, Nishizao, Nagaoka, Niigata Prefecture 940-0027
 Telephone +81-258-24-0635



10 Kanto Mill Katsuta
 1760, Takaba, Hitachinaka City, Ibaraki Prefecture 312-0062
 Telephone +81-29-275-5500

11 Nagaoka Mill
 3-2-1, Zao, Nagaoka City, Niigata Prefecture 940-0028
 Telephone +81- 258-24-0630

12 Osaka Mill
 4-20-1, Minami-Suita, Suita City, Osaka 564-0043
 Telephone +81-6-6385-3851



Hokuetsu Kishu Paper Corporate Report 2014

Issued : December 2014
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 Inquiries : Hokuetsu Kishu Paper Co., Ltd. General Affairs Department
 3-2-2, Nihonbashi hongoku-cho, Chuo-ku, Tokyo 103-0021, Japan
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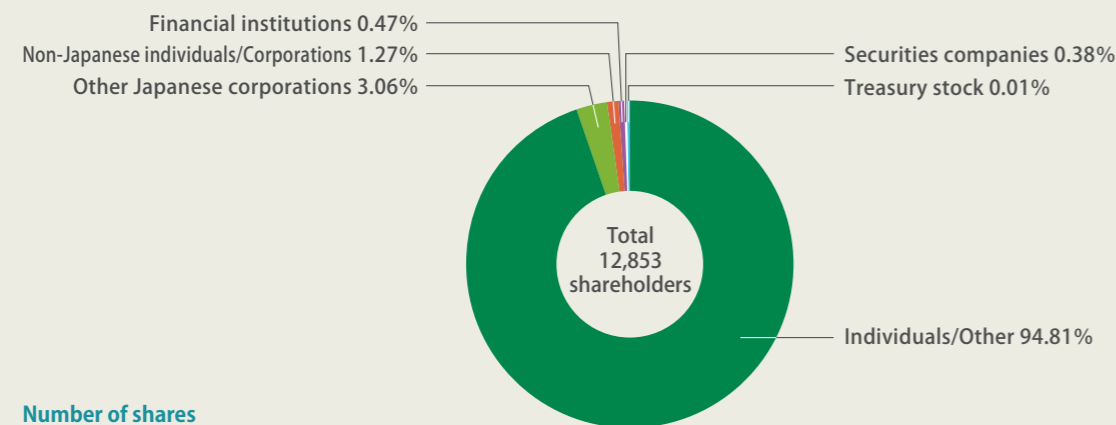
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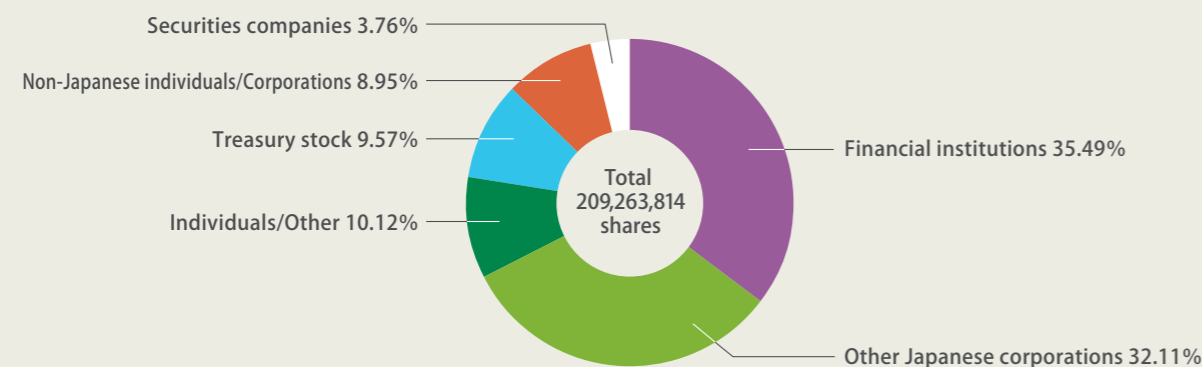
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7 Niigata Mill

57, Enoki-cho, Higashi-ku, Niigata Prefecture 950-0881
 Telephone +81-25-273-1141



8 Kishu Mill

182, Udono, Kiho-cho, Minamimuro-gun, Mie Prefecture 519-5701
 Telephone +81-735-32-1111

9 Kanto Mill Ichikawa

3-21-1, Ohsu, Ichikawa City, Chiba Prefecture 272-0032
 Telephone +81-47-378-0101

3 Nagoya Office

1-7-28, Nishiki, Naka-ku, Nagoya, Aichi Prefecture 460-0003 (inside the TIG•BUILDING)
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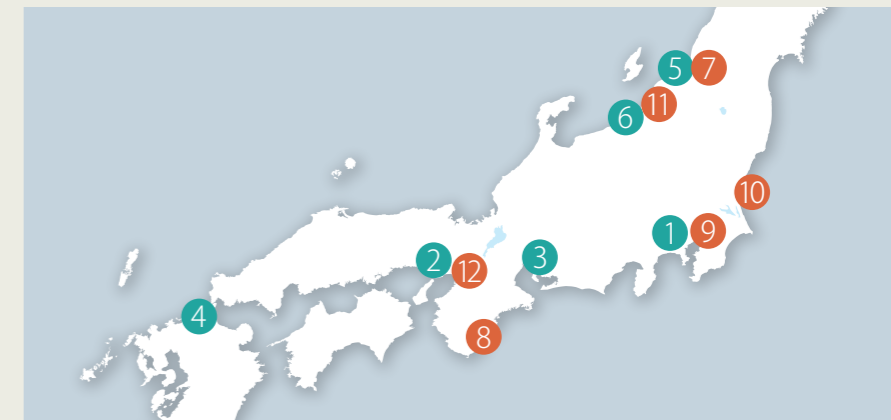
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 3-2-2, Nihonbashi hongoku-cho, Chuo-ku, Tokyo 103-0021, Japan
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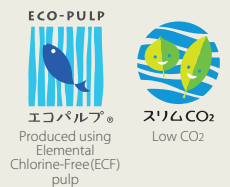
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www.hokuetsu-kishu.jp



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