

Hokuetsu Kishu Paper Group

# Hokuetsu Kishu Paper Group Corporate Report 2015





## The Hokuetsu Kishu Paper Group Corporate Report 2015 Editorial Policy

As the second step of the Hokuetsu Kishu Paper Group's Long-Term Management Plan "Vision 2020" that sets out our goals for the year 2020, we are working to advance "C-next," our Medium-Term Management Plan, which started from April 2014. We have implemented three priority management policies—"Strengthening our profit base," "Further improvements to environmental measures," and "Strengthened governance" towards the creation of a high-efficiency, high-profit business structure. The objective of this Corporate Report is to deepen communication with our stakeholders, by reporting financial information and ESG information (environment information, social information, governance information) with a focus on the important issues relating to "C-next," through which the Hokuetsu Kishu Paper Group is striving 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, 2014 - March 31, 2015  
(Some activities that took place after the end of this term are also reported.)

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### 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)

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## Towards further growth by strengthening our domestic base and advancing overseas business expansion.



岸本 哲夫

Sekio Kishimoto  
President and CEO

To all our stakeholders, I have the pleasure of presenting the Corporate Report 2015 of Hokuetsu Kishu Paper Co., Ltd.

As the second step of our Long-Term Management Plan "Vision 2020" that sets out our goals for the year 2020, we are working to advance "C-next," our Medium-Term Management Plan that will enter its third and final year in FY2016. Under this plan, we are advancing measures to strengthen our profit base in our four main business segments of Paper, White Paperboard, Specialty Paper, and Paper Processing; and to also create new business fields, reform our business structure, and further improve our environmental measures, with a view to achieving sustainable growth.

### Strengthening our profit base and reforming business structure

There has not been any recovery in demand in the paper pulp industry. In the business area of printing paper and communication paper in particular, structural factors such as the shift to electronic media are contributing to a gradual long-term decline. In this business environment, we have striven to ensure sustainable growth through concentrated investment of management resources in areas of the paper pulp business other than the paper business, including our white paperboard business in China and specialty paper business in France. Simultaneously, we have been working to enhance downstream sectors of the paper pulp business, including paper processing; and also to strengthen our distribution functions. These efforts have resulted in the establishment of a robust domestic business base.

Furthermore, in October 2015, in the upstream sector we acquired all shares in two Canadian companies, pulp manufacturing company Alpac Forest Products Inc. and sales company Alpac Pulp Sales Inc., making them both wholly-owned subsidiaries. The acquisition of these two subsidiaries marks our full-scale entry into the pulp business, in which global demand is continuing to grow. We expect that this will further strengthen our international competitiveness and profit base. Strategic investments such as these will enable our group to achieve the management targets set out in our Long-Term Management Plan "Vision 2020" several years in advance (Consolidated sales: Over 300 billion yen; overseas sales ratio: 25%).

Going forward, our group will continue to engage in business expansion in every stage of the paper pulp business value chain, from upstream to downstream sectors. Through such efforts, we will remain alert to any future changes in the business environment, and will work to further expand our corporate scale through reform of our business structure and strengthening of our profit base.

### Further improvements to environmental measures

Our group has made "minimum impact" a basic policy, through which we are actively engaged in industry-leading measures to reduce any adverse environmental impact to the least amount possible at every stage, from the procurement of raw materials to the manufacture of end products. Among the major domestic paper manufacturing companies in Japan, we maintain our top-ranked position for the smallest amount of unit CO<sub>2</sub> emissions, which are approximately half the industry average. In addition, in May this year we started operations of a solar power generation plant at our Niigata Mill. We will continue to actively invest in environment-related measures that will lessen environmental impact, and we will also seek to effectively utilize natural energy resources to further reduce our CO<sub>2</sub> emissions.

### Aiming for growth and development in conjunction with that of society

Since its establishment over a century ago, the Hokuetsu Kishu Paper Group, as an attractive paper-making company, has continuously pursued its devotion to paper-making, seeking to win trust and to contribute to society. Going forward, aware that our relationships with all of our stakeholders are irreplaceable treasures, we will respond to your needs and maintain your trust, through our core business of paper-making.

We ask for your continued support, guidance, and encouragement.

# Financial/Non-financial Highlights

**Jump-100**

**Value up-10**

**G-1st**

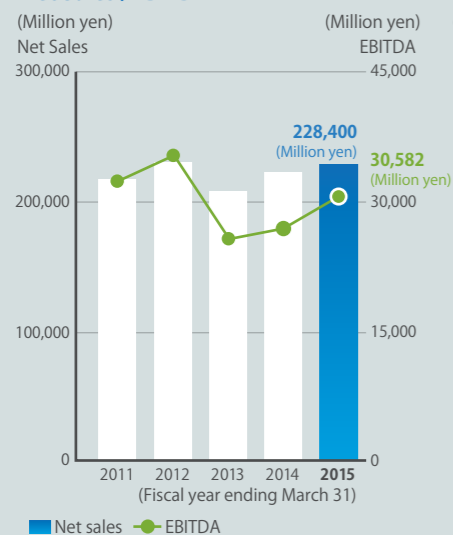
**C-next**

Financial data	Million yen										Thousand U.S. dollars (Note 2)
	Year ending March 31, 2006	Year ending March 31, 2007	Year ending March 31, 2008	Year ending March 31, 2009	Year ending March 31, 2010	Year ending March 31, 2011 (Note 1)	Year ending March 31, 2012	Year ending March 31, 2013	Year ending March 31, 2014	Year ending March 31, 2015	Year ending March 31, 2015
Net sales	¥153,692	¥158,992	¥172,709	¥182,782	¥193,952	¥217,013	¥230,570	¥208,280	¥223,865	<b>¥228,400</b>	\$1,899,060
Operating income	6,932	9,050	8,330	8,122	9,888	8,742	10,823	3,658	3,308	<b>6,140</b>	51,052
Ordinary income	7,205	9,220	7,891	6,593	9,436	10,148	13,781	10,516	8,481	<b>11,463</b>	95,311
Net income	3,238	4,395	4,074	1,750	7,106	5,296	12,673	8,169	6,105	<b>8,359</b>	69,502
EBITDA (Note 3)	21,551	20,516	21,456	25,695	31,580	32,336	35,283	25,538	26,974	<b>30,582</b>	254,278
Capital expenditures	16,546	43,022	37,725	31,376	6,286	8,635	7,977	12,160	23,919	<b>11,128</b>	92,525
Total assets	232,486	269,124	292,726	313,378	340,944	322,233	332,979	343,114	350,808	<b>351,033</b>	2,918,708
Net assets	112,800	143,439	140,184	135,029	138,173	137,870	150,628	158,794	158,824	<b>168,573</b>	1,401,621
Interest-bearing debt	73,650	77,291	101,025	137,060	136,640	121,157	117,144	129,137	136,387	<b>123,724</b>	1,028,719
<b>Cash flows</b>											
Cash flows from operating activities	16,066	14,907	12,295	9,620	36,484	25,719	28,953	21,203	18,676	<b>27,858</b>	231,629
Cash flows from investing activities	15,831	43,780	35,411	-34,804	-10,637	-6,209	-9,565	-25,127	-22,805	<b>-16,261</b>	-135,204
<b>Per share data (Yen/U.S. dollars)</b>											
Earnings per share (EPS)	19.31	22.75	19.19	8.25	33.75	25.55	62.09	40.08	30.54	<b>44.39</b>	369
Book value per share (BPS)	693.58	672.37	656.96	632.42	658.61	670.49	727.66	770.02	834.44	<b>888.16</b>	7,385
Dividends per share	12.00	12.00	14.00	12.00	12.00	12.00	12.00	12.00	12.00	<b>12.00</b>	0.10
<b>Key ratios</b>											
EBITDA/Net sales	14.0%	12.9%	12.4%	14.1%	16.3%	14.9%	15.3%	12.3%	12.0%	<b>13.4%</b>	
Operating income ratio	4.5%	5.7%	4.8%	4.4%	5.1%	4.0%	4.7%	1.8%	1.5%	<b>2.7%</b>	
Net income ratio	2.1%	2.8%	2.4%	1.0%	3.7%	2.4%	5.5%	3.9%	2.7%	<b>3.7%</b>	
Equity ratio	48.5%	53.0%	47.6%	42.8%	40.3%	42.6%	44.7%	45.6%	44.8%	<b>47.7%</b>	
ROA (Note 4)	3.2%	3.7%	2.8%	2.2%	2.9%	3.1%	4.2%	3.1%	2.4%	<b>3.3%</b>	
ROE	2.9%	3.4%	2.9%	1.3%	5.2%	3.9%	8.9%	5.4%	3.9%	<b>5.2%</b>	
Debt equity ratio (times)	0.65	0.54	0.72	1.02	0.99	0.88	0.79	0.82	0.87	<b>0.74</b>	

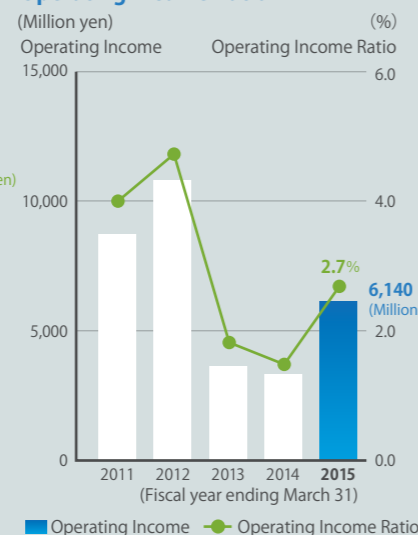
Notes  
 1. Owing to the inclusion of Kishu Paper Co., Ltd. in the scope of consolidation as of October 1, 2009, through a share exchange, the consolidated financial statement for the fiscal year ended March 31, 2010, included Kishu Paper's consolidated results from October 1, 2009, to March 31, 2010.  
 2. Amounts in US dollars were converted at ¥120.27 to one dollar, the currency exchange rate prevailing in the Tokyo Foreign Exchange Market as of March 31, 2015.  
 3. EBITDA = Ordinary income + interest expenses + depreciation and amortization costs + depreciation of goodwill - depreciation of negative goodwill  
 4. ROA = Ordinary income ÷ average total assets at the beginning and end of the fiscal year × 100

Data on environmental initiatives (See Pages 36 and 37 for details)

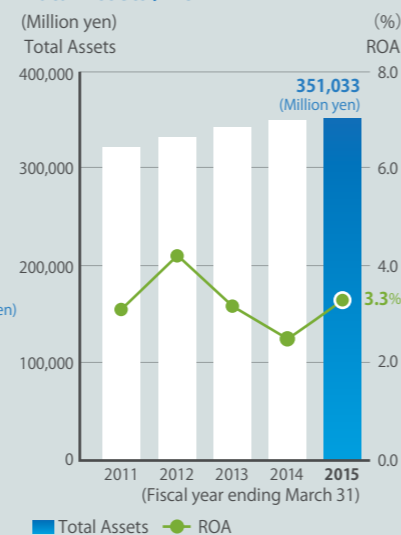
## Net Sales / EBITDA



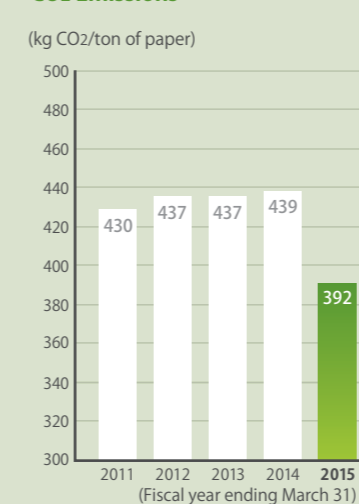
## Operating Income / Operating Income Ratio



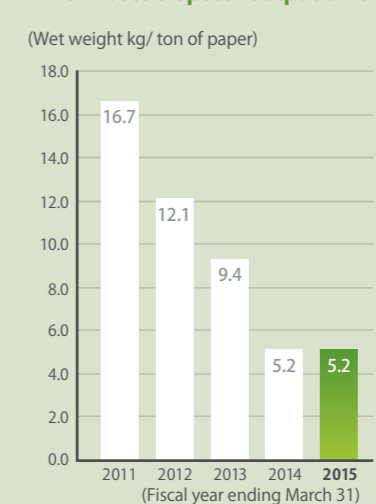
## Total Assets / ROA



## Trends in Corporate Unit CO2 Emissions



## Final waste disposal output unit





# History of the Hokuetsu Kishu Paper Group

## Over 100 years of company development and societal contribution. We aim to achieve sustainable growth with sincere papermaking.

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.

### Events in Hokuetsu Kishu Paper's history

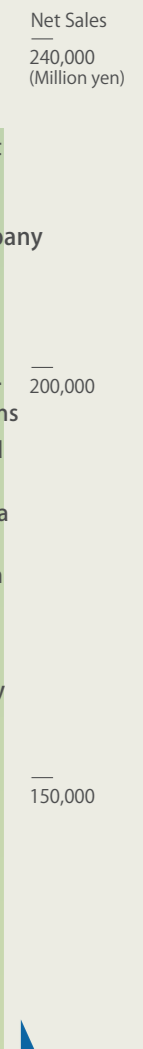
- 1907**  
Hokuetsu Paper Mills, Ltd. established in Nagaoka City, Niigata Prefecture
- 1914**  
Hokuetsu Itagami Co., Ltd. established in Niigata City, Niigata Prefecture
- 1917**  
Hokuetsu Itagami Co., Ltd. merges with Hokuetsu Paper Mills, Ltd. to create Niigata Mill
- 1920**  
Ichikawa Mill built in Ichikawa City, Chiba Prefecture
- 1925**  
Company policy established and published
- 1935**  
Fiber production begins at Nagaoka Factory
- 1937**  
Hokuetsu Pulp Co., Ltd. established in Niigata City

- 1944**  
Hokuetsu Pulp Co., Ltd. was merged to create Pulp Mill
- 1949**  
Listed on the Tokyo Stock Exchange
- 1950**  
Kishu Pulp & Paper Co., Ltd. established in Minami-Muro-gun, Mie Prefecture
- 1951**  
Construction of Kishu Mill by Kishu Pulp & Paper
- 1955**  
Construction of Osaka Mill by Kishu Pulp & Paper
- 1956**  
High-quality paper machine (No. 3) installed at Nagaoka Mill
- 1960**  
Kishu Pulp & Paper Co., Ltd. name changed to Kishu Paper Co., Ltd.

- 1961**  
Coated white paperboard machine (No. 4) installed at Ichikawa Mill
- 1964**  
Coated white paperboard machine (No. 5) installed at Ichikawa Mill
- 1966**  
Reconstruction of Niigata Mill completed (Machine No. 2 relocated, Machine No. 3 newly installed)
- 1968**  
Fourdrinier triple-layer ivory board paper machine (No. 4) newly installed at Niigata Mill
- 1970**  
Large wood-free paper machine (No. 4) installed at Niigata Mill
- 1971**  
Katsuta Mill built in Hitachinaka City
- 1975**  
Specialty white paperboard machine (No. 1) newly installed at Katsuta Mill
- 1977**  
Hokuetsu Package Co., Ltd. established

- 1986**  
Wood-free and ordinary grade lightweight coated paper machine (No. 6) newly installed at Niigata Mill
- 1990**  
Wood-free and ordinary grade coated paper machine (No. 7) newly installed at Niigata Mill
- 1993**  
Hokuetsu Paper environmental charter established
- 1998**  
Wood-free coated paper machine (No. 8) newly installed at Niigata Mill
- 2000**  
ECF process adopted company-wide for all pulp products
- 2001**  
Ichikawa Mill and Katsuta Mill merge to create Kanto Mill

- 2002**  
Specialty paper machine (No. 6) newly installed at Nagaoka Mill
- 2005**  
Basic policy for raw material procurement established
- 2007**  
Centennial of the founding of the company
- 2008**  
Wood-free coated paper machine (No. 9) newly installed at Niigata Mill
- 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**  
Daio Paper Corporation converted into an affiliate company, by applying the equity method through stock acquisition
- 2012**  
Financiere Bernard Dumas S.A.S. converted into a wholly-owned subsidiary through stock acquisition
- 2012**  
Toyo Fibre Co., Ltd. (currently Hokuetsu Toyo Fibre Co., Ltd.) converted into a wholly-owned subsidiary
- 2014-2016**  
Start of the Medium-Term Management Plan C-next
- 2015**  
Jiangmen Xinghui Paper Mill Co., Ltd. commences commercial operations
- 2015**  
Hokuetsu Package Co., Ltd. absorbs BF Co., Ltd. to create BF & Package Co., Ltd.



### 1901-1920

From establishment to creation of a manufacturing base



Nagaoka Mill

### 1921-1940

Stormy conditions Laying the foundation for rationalization and development



Niigata Mill

### 1941-1960

The switch from pulp to papermaking Post-war reconstruction



Kishu Mill

### 1961-1980

Venturing into the logistics revolution of the era of rapid economic growth with white paperboard



Kanto Mill (Ichikawa)

### 1981-2000

Demand for coated paper increases with the arrival of the age of the Internet and environmental awareness



Niigata Mill (No. 8 paper machine)

### 2001-2020

Full-scale implementation of the global portfolio



Jiangmen Xinghui Paper Mill Co., Ltd.

- 1904**  
Outbreak of Russo-Japanese War
- 1905**  
Natsume Soseki's "I am a Cat" published
- 1914**  
Outbreak of World War I
- 1920**  
Launch of the League of Nations Japan becomes permanent council member

- 1923**  
Great Kanto Earthquake
- 1925**  
Universal Manhood Suffrage Act Radio broadcasts begin
- 1929**  
New York stock market crash Beginning of the Great Depression
- 1939**  
Outbreak of World War II

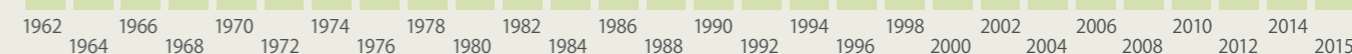
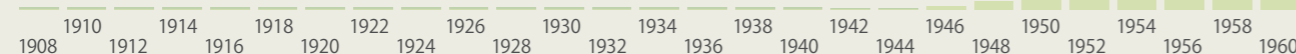
- 1941-1945**  
Outbreak of Pacific War
- 1945**  
Japan accepts Potsdam Declaration (WWII ends)
- 1949**  
Hideki Yukawa becomes first Japanese Nobel laureate (Nobel Prize in Physics)
- 1951**  
Treaty of San Francisco signed
- 1953**  
Television broadcasts commence

- 1964**  
Niigata Earthquake
- 1964**  
Tokyo Olympics held Tokaido Shinkansen opens
- 1970**  
Expo '70 held in Osaka
- 1972**  
Diplomatic ties between Japan and China restored
- 1973**  
First Oil Crisis Floating exchange rate system adopted for the Japanese yen

- 1985**  
A higher value for the Japanese yen accepted internationally through the Plaza Accord
- 1986**  
Beginning of the bubble economy
- 1989**  
Nikkei Stock Average reaches record high of 38,915 JPY
- 1990**  
East and West Germany reunited
- 1999**  
The European single currency (Euro) launched

- 2008**  
First smartphone appears in Japan (Apple iPhone 3G)
- 2008**  
International financial crisis sparked by Lehman Brothers collapse sees Nikkei Stock Average drops to 6,994.90 JPY, its lowest level since the end of the bubble economy
- 2011**  
Japanese yen increases in value to a record 75.95 JPY versus USD
- 2011**  
Great East Japan Earthquake
- 2020**  
Second Tokyo Olympics scheduled

### Economic and societal events





## Steady progress in the creation of new business fields and reform of our business structure

C-next, the Medium-Term Management Plan of the Hokuetsu Kishu Paper Group, started in April 2014, and entered its second year of implementation in FY2015.

In C-next, while following the base of the 4 G Priorities developed in our previous Medium-Term Management Plan, G-1st, three Cs have been added: Change, Challenge, and Create – as we strive for the realization of further growth.

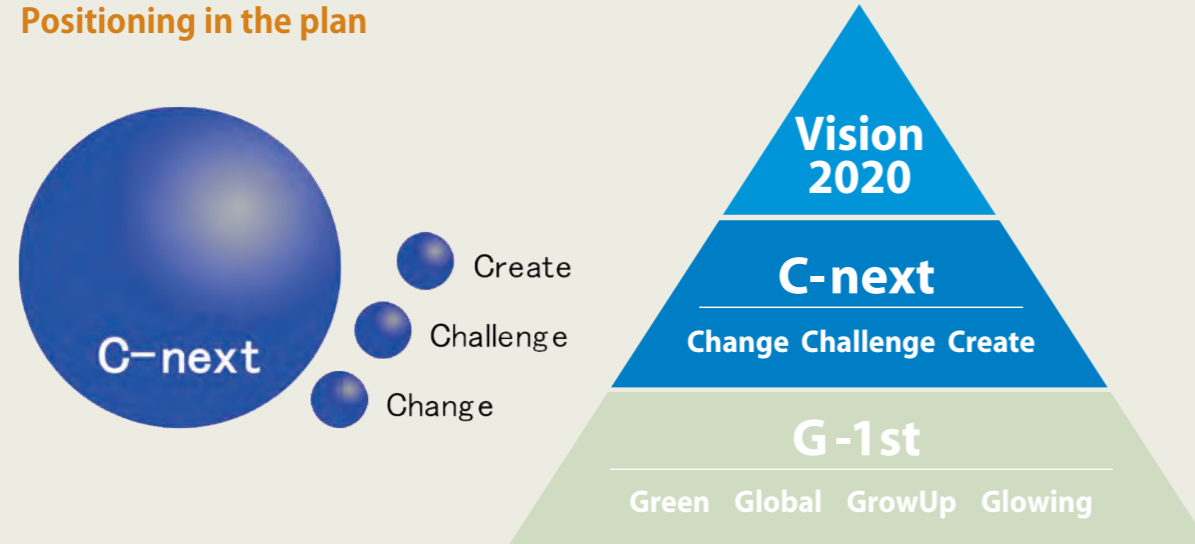
## Vision2020

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



## C-next Plan

### Period of the plan

from April 1, 2014, through March 31, 2017 (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.

### Creation of 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. (See Pages 18-19 for details)

### [White Paperboard Business]

We will steadily establish both domestic and overseas operations to make this our next-generation growth engine. (See Pages 20-21 for details)

### [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. (See Pages 22-23 for details)

### [Paper Processing Business]

We will expand our scale with a focus on the packaging field, where growth is anticipated. (See Pages 24-25 for details)

## Common Corporate Strategies

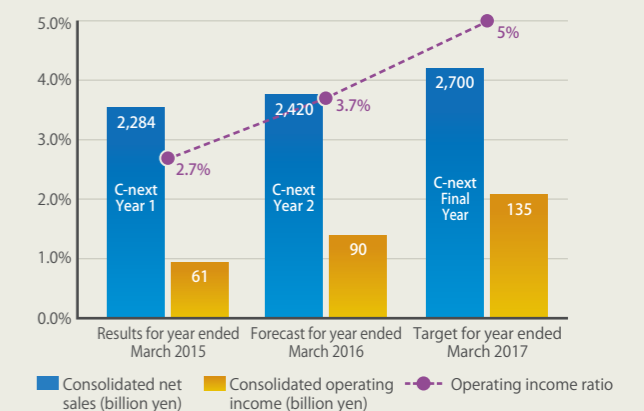
- Continue to reduce the environmental burden by ensuring “minimum impact” and maintain our position as an environmental front-runner in the industry.
- Maintain and strengthen our governance and compliance systems.
- Secure the right human resources and streamline the organization as needed for our 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	more than 5%
EBITDA	¥33 billion

## C-next Progress





## Expanding our portfolio by the acquisition of one of North America's largest market pulp businesses

In March 2015, the Hokuetsu Kishu Paper Group announced the acquisition of two Canadian companies, pulp manufacturing company Alpac Forest Products Inc. and sales company Alpac Pulp Sales Inc., making them both fully-owned subsidiaries. Our Group continues to make concerted efforts towards the achievement of the targets set out in our Long-Term Management Plan "Vision 2020."

### Alpac Forest Products Inc.— the largest single-line market pulp manufacturing facility in North America

Alpac Forest Products Inc. (AFPI) owns the largest single-line market pulp manufacturing facility in North America. Situated 250km north of Edmonton, the capital city of Alberta Province, Canada, the company boasts an annual manufacturing capacity of 620,000t, comprising 540,000t of hardwood bleached kraft pulp (LBKP) and 80,000t of softwood bleached kraft pulp (NBKP).

The company manages vast forest resources, covering 6.4 million hectares (equivalent to the combined area of Kyushu and Shikoku islands), which are granted by the provincial government of Alberta. These forests successfully obtained "Forest Management Certification" from the Forest Stewardship Council (FSC) in 2005, and they are the largest FSC-certified forests in Canada.

AFPI is engaged in sustainable forest management with consideration for all aspects of environment, society, and economy. Focused around its core pulp business, AFPI is also working to expand its revenue sources, including through biomass power generation using excess steam and forest harvesting and reforestation contracts relating to oil sands development. Through these efforts, the company has achieved a multi-faceted business structure that ensures stable revenues.

### A global sales network, with 60% of sales to North America and 40% to Asia

Alpac Pulp Sales Inc. (APSI) is located in Vancouver, British Columbia, Canada, and is responsible for sales of pulp manufactured by APFI. More than 60% of sales are destined for the North American market, with Asian markets, predominantly Japan, Korea, and China, accounting for the rest.

#### Main tree species handled



Aspen (hardwood)

Spruce (softwood)

Name	Alpac Forest Products Inc.	Alpac Pulp Sales Inc.
Location	Boyle, Alberta Canada	Vancouver, British Columbia Canada
Business areas	Pulp manufacturing business	Pulp sales business
Paid-in capital	285 million CAD	3.5 million CAD
Date of establishment	March 1998	November 2002
Business results	(International accounting standards) (Fiscal year ending: December 2014) (Unit: 1,000 CAD)	
Net sales	359,382 (consolidated)	392,414
Net income	20,468 (consolidated)	3,418

### Full-scale entry into the market pulp business as global demand continues to expand

The domestic paper industry is facing changes in market structure due to the declining population and other factors, as well as being rocked by the effects of globalization, including competition with imported paper. While maintaining a foothold in the Japanese market, it is essential for our Group to look beyond our national borders and achieve competitiveness and strong management foundation that will enable us to compete globally in all aspects, from quality to cost and efficiency. By making the two companies in the Alpac Group fully-owned subsidiaries, we have made a full-scale entry into the market pulp business, where global demand continues to expand. As well as further strengthening the Group's international competitiveness and our profit



Alpac Forest Products Inc. plant, Alberta, Canada

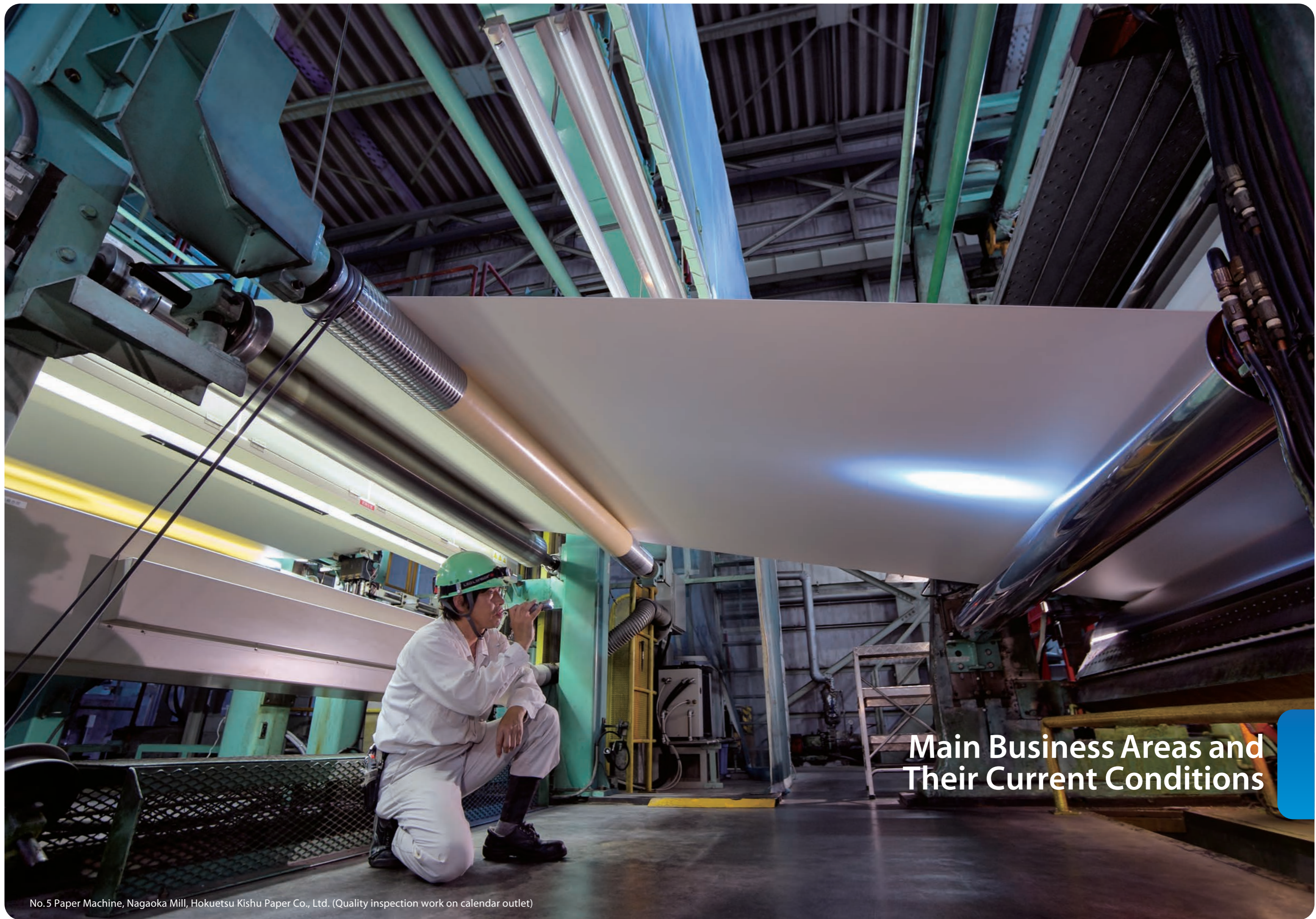
base, this move will further expand the breadth of our business portfolio, with the new addition of the North American-focused market pulp business domain to our business operations. It will also lead to further business expansion in every stage of the pulp and paper business value chain, from upstream to downstream sectors.

Towards the achievement of the stated management targets of our Long-Term Management Plan "Vision 2020," namely consolidated sales over 300 billion yen and an overseas sales ratio of 25%, we will continue our quest to develop and grow as a global pulp and paper manufacturing company.



Forest management area granted by the Alberta provincial government under management by Alpac Forest Products Inc. (6.4 million hectares)





## Main Business Areas and Their Current Conditions



## 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 share 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.



### Focus on expanding sales of AGM battery separators in the U.S. market

An absorbent Glass Mat (AGM) battery is a special type of battery fitted with a sponge-like mat (separator) to prevent spillage of battery electrolytes (dilute sulfuric acid). Use of AGM batteries is growing around the world, including in vehicle batteries and also as emergency-use batteries for cellular phone network base stations. Demand in the automotive sector in the United States is expected to increase rapidly. HK PAPER (USA) INC., a Group subsidiary, is focusing its efforts on expanding sales of AGM battery separators in response to growing global needs.

### 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 colored woodfree paper holds the top share in the domestic market by performing over 60 years and offers a large range of products.

For details of business conditions, see Pages 18-19



### White Paperboard Business

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

For details of business conditions, see Pages 20-21



### Specialty Paper Business

Our strength is a product line-up that can meet our diverse customer needs. We are focusing on base paper for sand paper, press-bonded postcards, as well as battery separators made by glass fiber sheets.

For details of business conditions, see Pages 22-23



### Paper Processing Business

In addition to the paper processing field, such as liquid package cartons, paper ware, and processed paper, 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 domestic market.

For details of business conditions, see Pages 24-25



## Aiming to secure domestic share and expand exports with quality and services our customers can rely on

### Business Strengths and Characteristics

The main products in our paper business are printing and communication paper used for books, magazines, catalogs, and pamphlets. Among these, coated paper is our main product, and in 2014 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, are enjoyed by an extensive, broad-ranging customer, which makes it a top brand with a 65.9% share. 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. We will continue to pursue both high-efficient operations and a minimum environmental impact.

### Business Environment and Performance

In 2014, total domestic shipments by all manufacturers of printing and communication paper fell below level of the previous year. Domestic demand faced a severe situation in which a downturn was unavoidable. Factors for this downturn include the reaction to the consumption tax rate increase in 2014, but can also be attributed to declining demand for commercial printing of catalogues and pamphlets as a part of ongoing cost-cutting measures by customers, as well as the acceleration of digitization, particularly in the publishing industry. Against the backdrop of this severe market environment, we successfully exceeded the previous year's business performance, thanks to measures individually tailored to user needs.

On the other hand, from the autumn of 2014, the rapid depreciation of the yen led to steep rises in the price of raw materials. Although we have made every effort to absorb cost increases ourselves, we were no longer able to cover with self-help forcing us to pass on price increases to product prices. In December we were the first in the industry to announced price adjustments for printing and communication paper. The Paper Business Division made every effort to price adjustment that would ensure reproducible prices, and with the understanding of our customers we implemented the price adjustment in spring of 2015. We will work to maintain the post-adjustment prices and further step up our efforts to ensure optimal production and efficiency so that we can provide products stably.

In regard to exports, our performance in 2014 was approximately 223,000 tons. In 2015 we plan to expand exports to the 300,000 ton. As our domestic base declines,

we will continue to focus our efforts on boosting our competitiveness in overseas markets and developing new sales channels in order to build and maintain a full production system.

### Future Business Strategy

As a core business segment of the Hokuetsu Kishu Paper Group, the Paper Business Division will engage in full-fledged efforts to enhance our competitive strengths, focusing on the Niigata and Kishu mills. By responding to rapid changes in the external environment, we will build a production and sales framework that is No. 1 in the domestic paper industry to compete in the global market. In domestic sales, we will maintain prices at post-adjustment levels and work to maintain our domestic sales share. In export sales by achieving increased sales volume we will advance the business strategy of the Paper Business Division as detailed in the "C-next" Plan. In specific terms, we will focus our efforts on the following:

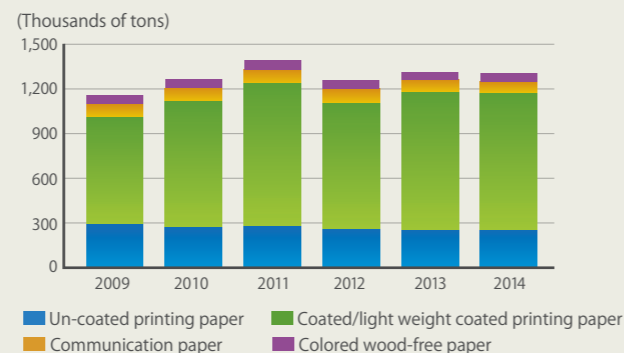
#### Production

- (1) Pursue further optimization of the Niigata and Kishu mills and ensure stable operations.
- (2) Improve quality stability and strengthen the trust that our users have in our products.
- (3) Thoroughly implement cost reduction and efficiency improvement initiatives.

#### Sales

- (1) Based on domestic sales we will seek to gain customer satisfaction and promote the development of value-added and new products.
- (2) Work to develop new uses for colored wood-free paper and further expand our market share.
- (3) Implement regular visits to our users by mill staff to strengthen the production pipeline further.
- (4) Strengthen further more export sales.

### Production of printing paper by product type



## Towards the 300,000 tons export of printing and communication paper

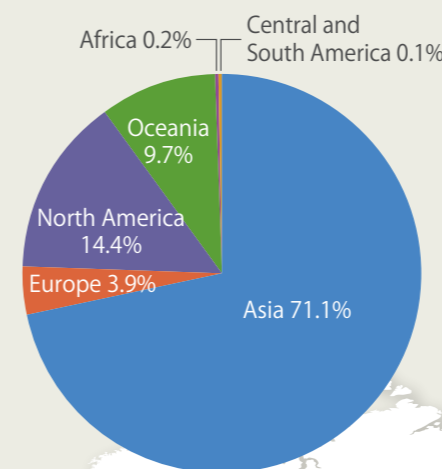
### Top 54% share for exports of wood-free and lightweight coated paper

According to the backdrop of declining domestic demand, we are working to expand export sales in order to realize full production system. We aim to further strengthen the relationship we have built up with our users, and plan to engage aggressively in sales activities in regions where new demand is forecast in global markets. Our No.9 Paper Machine, one of the largest in the world, was operated in 2008. Since then, while considering domestic supply-demand balance we have focused efforts on expanding export sales as one part of our corporate strategy. Even in the severe period when the yen was at historically high levels in the region of 75-80 yen to the dollar, we were able to maintain supply stability with continuous steady business operations. These efforts are now bearing fruit. In 2014, our products were exported to a total of 39 countries. Main export destinations are the United States, Hong Kong, Korea, Vietnam and Thailand, etc., and exports to countries such as India, Pakistan and South Africa are increasing. In terms of export volumes of wood-free and lightweight coated paper, among domestic manufacturers, we are top ranked, with a total market share of approximately 54%.

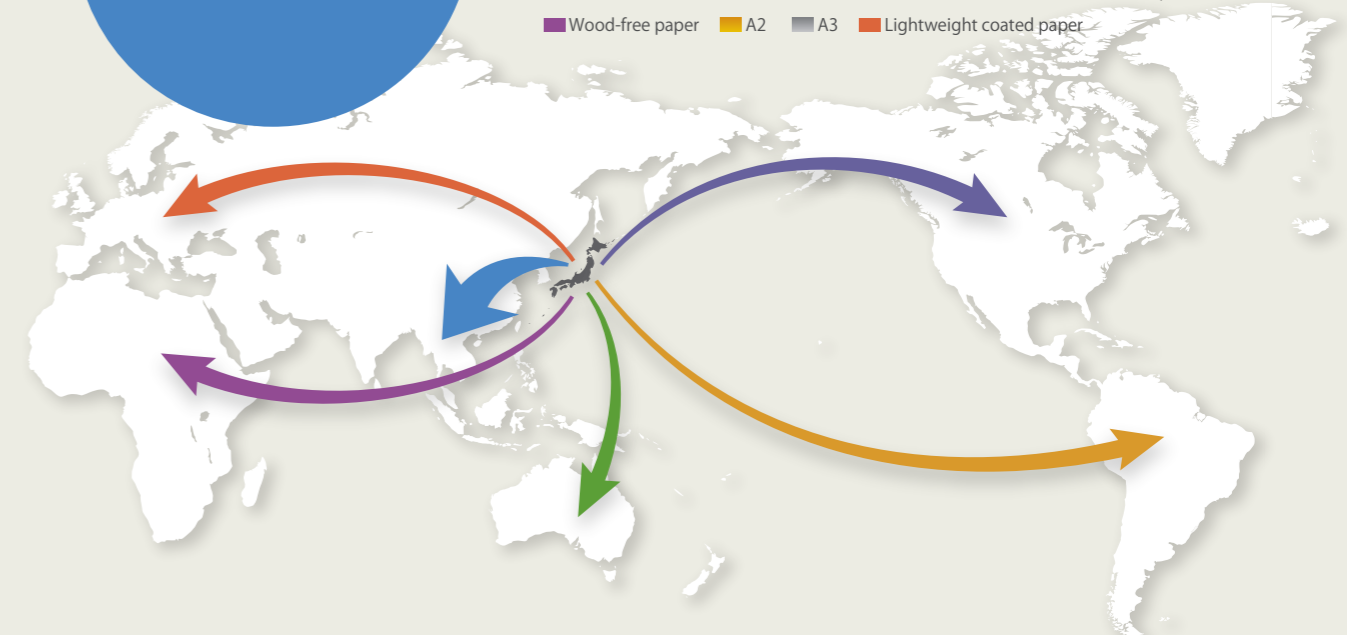
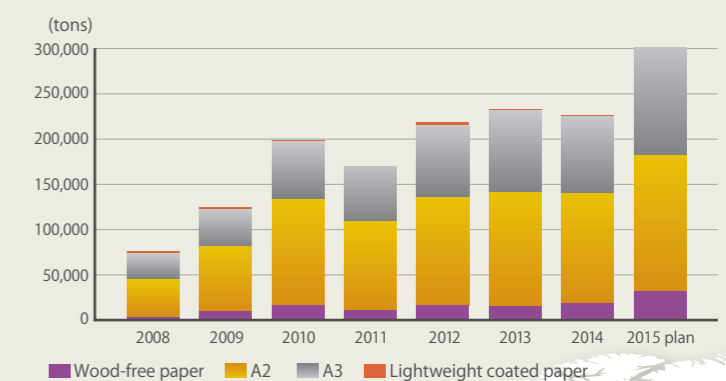
### Strongly market-focused ideas and activities

In order to realize our target of export sales of 300,000 tons, we need to: (1) develop new export destinations, (2) increase sales to existing major export destinations, and (3) increase sales to emerging markets such as Thailand and Vietnam. To achieve these goals, it is important for us to convey our export strategy to sales agents and gain their cooperation. Looking further ahead, market-oriented ideas and initiatives will also be important. Examples of such ideas could include the development of products exclusively for export that are matched to a country's specific needs. Japanese paper is very highly regarded in global markets for its high quality and usability. The needs of various countries to which we export all differ, and recently in many countries these needs are becoming more advanced and sophisticated. We intend to engage in efforts to increase export sales to countries and customers that are seeking to achieve a high-level balance in terms of quality and cost competitiveness.

### Export sales ratio by region



### Exports records and future plans





## Strengthening our profit base in domestic business and adapting quickly in the white paperboard business in China

### Business Strengths and Characteristics

The main types of products manufactured by the Hokuetsu Kishu Paper White Paperboard Business Division are 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.

At our domestic production bases of the Niigata Mill and the Kanto Mills (Ichikawa and Katsuta), and also at our overseas production base in Jiangmen City, Guangdong Province, China, we will work to further strengthen our profit base, leveraging the attractive products created with the technical strength that Hokuetsu Kishu Paper has cultivated, with its focus on top quality, high efficiency and a low environmental burden.

### Business Environment and Performance

The domestic production of white paperboard manufacturers in Japan in 2014 was approximately 1.38 million tons, showing a minus performance of 99.9% compared to the previous year. Hokuetsu Kishu Paper recorded a slight increase in production over the year of 101.7% (approx. 290,000 tons). Domestic demand for white paperboard for cultural and publishing applications is continuing to decline, reflecting the spread of digital contents, including smartphones.

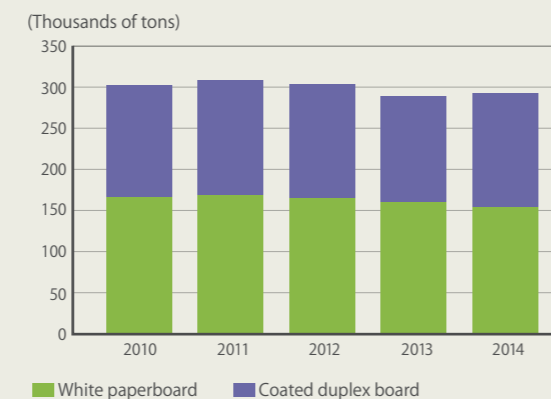
In the food packaging business, one of our core fields, the shift to flexible packaging and moves toward compact and lightweight packaging is particularly noticeable. We are strengthening our efforts in fixtures and sales promotion goods in the medium of paper as important sales promotion items for manufacturers of daily commodities, while the demand for POP applications is also expected to follow a brisk trend. For pharmaceutical applications, the shift to generic medicines and increases in the elderly population are projected to generate increased demand. In terms of convenience store applications, as the range of over-the-counter cooked products continues to diversify, it is expected that this will lead to expansion in demand for primary containers. We will continue to actively advance our sales activities in these fields, seeking to respond to and acquire market share in new needs.

### Future Business Strategy

From 2015 the White Paperboard Business Division plans to prioritize the following two activities:

- (1) Work to develop and expand priority users and strengthen cooperation with the Paper Processing Business Division to enhance overall Group competitiveness.
- (2) In terms of our white paperboard business operations in China, we will engage in close communication (reporting, liaising, consulting) with the relevant divisions, and use the combined strength of the White Paperboard Business Division to aim for stable and profitable operations, working together through a horizontally structured network with the domestic white paperboard business in Japan.

### White paperboard production by type



## The White Paperboard Business in China

### Operations launched in January 2015

Jiangmen Xinghui Paper Mill Co., Ltd. (Jiangmen City, Guangdong Province, China) is positioned as an essential part of our Group's global strategy. The groundbreaking ceremony for construction took place in December 2012 and trial operations were launched from the end of July 2014, after which commercial operations were initiated from January 2015. The company has an annual production capacity for coated white paperboard of 300,000 tons and following the full-scale launch of operations of the paper machines at the mill, our Group has become Japan's largest manufacturer of coated white paperboard. Our company has a history of over 50 years of production of coated white paperboard (coated duplex board with grey back) at our Kanto Mill (Ichikawa). However, at Jiangmen Xinghui Paper Mill Co., Ltd., which is engaged in production of the same type of paperboard, we faced a series of new challenges, in view of the differences with the Japanese domestic market in terms of the types of used paper that are used as raw materials and the quality needs of Chinese customers. We have faced these challenges, and are now able to engage in stable production of products that meet the needs of our customers and are working to further expand sales.

### Main focus on production and sale of all-purpose grade paper for packages

For the Chinese market in coated duplex board (with gray-back), we are engaged in the production and sale of three differentiated grades—A, B and C—that respond to usage needs. We are currently focusing on production and sale of the all-purpose C grade paperboard. Our sales area is centered on Guangdong Province, which is the largest consumer region in China for coated duplex board, within which we are concentrating on areas in proximity to our mill in the western region of the Pearl River Delta (Jiangmen, Zhongshan, Foshan, etc.).



### A working environment that empowers female employees

Of the approximately 340 employees at our mill in China, more than 70 are women. Our female employees are mainly assigned to non-production divisions, such as quality control (testing of paper and raw materials), where they participate actively in shift work.



### Technical exchange with the Kanto Mills (Ichikawa and Katsuta)

In July 2015, five local employees from China visited the Kanto Mills (Ichikawa and Katsuta) to engage in a technical exchange meeting. By continuing to hold these technical exchange meetings, in the future we aim to improve the white paperboard production skills of local employees and also share various activities that are being implemented across the Group, including initiatives to improve operations and enhance technical skills.



## We will drive synergy with overseas subsidiaries to realize scale expansion in line with globalization

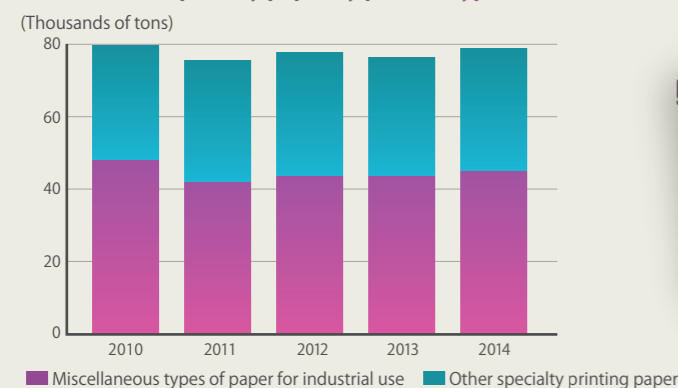
### Business Strengths and Characteristics

The main product line up 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, and more. Among these, products, abrasive base paper, adhesive postcard base paper, and chip carrier tape boast a large share of the domestic market. Going forward, we plan to further strengthen our competitiveness and revenue-earning capability in the global market.

### Business Environment and Performance

Total shipments by the Specialty Paper Business Division in 2014 was 99.2% to the previous year. Although we achieved robust sales in some areas, including adhesive postcard base paper, overall in the communication paper and specialty paper fields, the situation remained severe due to shrinking market, moves to adopt general use paper in line with users' desire to reduce costs, and reduction in sales due to the increasing digitization of publications and advertisements. In the field of functional paper, there was brisk trade in carrier tape for use in various components, including smart phones; and the total of domestic and export sales exceeded the total for the previous year (105%). Rapid exchange rate fluctuations and increasing price of raw materials in 2014, had expanded our production costs, and therefor in December 2014 we had announced price adjustments. We are continuing our efforts to restore reproducible prices. With regard to exports, our performance was 106% compared to the previous year and we plan on further expanding export sales in 2015, seeking to achieve a scale expansion in overseas markets.

### Production of specialty paper by product type

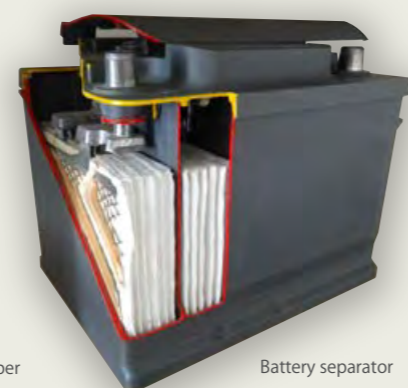


### Future Business Strategy

The Specialty Paper Business Division aims to combine the strengths of our three domestic mills (Nagaoka Mill, Osaka Mill, Kishu Mill) and our consolidated subsidiaries (Hokuetsu Toyo Fibre Co., Ltd., Shanghai Toh Tech, Co. Ltd., Bernard Dumas S.A.S.; HK PAPER (USA) INC.) to achieve further business development in the global market. To this end, we have worked to expand exports and promote optimized production (integration of our fiber business) and achieve synergy with Bernard Dumas S.A.S., in such areas as battery separator and air filters. We continuously plan to accelerate the development of new technologies and new products at our domestic and overseas production bases. We are also proceeding with the expansion of our business bases in North America, and from these new business bases we will aim to expand sales of our existing product lineup and also enter promising new markets. In the domestic market, we will provide new proposals for the food industry field where the demand is strong, and also work to boost publicity for our Group's products through collaboration with designers and participation in various exhibitions and trade fairs, aiming to enhance customer satisfaction.

### Specific measures in global markets

- Europe: France (Bernard Dumas S.A.S.)  
Expanding production and sale of battery separator air filters
- China: Shanghai (Shanghai Toh Tech, Co. Ltd.)  
Measures to create new demand and to expand sales
- North America: Chicago (HK PAPER (USA) INC.)  
Expanding sales of AGM battery separators, fiber sheet products, and for all kinds of specialty paper
- Domestic: Nagaoka Mill  
New entry to the battery separator market and business expansion



Battery separator

## Aiming to be a top player in battery separators

### Towards expanding global demand for "sealed" battery separators, capable of adapting to harsh usage conditions

The battery separators produced by Bernard Dumas S.A.S. are used in "sealed" lead-acid batteries. In lead-acid batteries the lead and lead dioxide electrode plates are immersed in an electrolyte of dilute sulfuric acid. This creates electricity through a chemical reaction, and separator made of glass micro fiber facilitates this reaction. Sealed lead-acid batteries are particularly well-suited to environments that involve movement or vibration, and are also easy to maintain. Conventional, they have been used predominantly in uninterruptible power source equipment, such as in motorcycles and cellular phone network base stations. However, in recent years in Europe, there has been a rapid increase in the number of vehicles fitted with engine automatic start and stop systems (EASS) as a means of boosting fuel efficiency. This increased frequency in starting and stopping the engine places a significant burden on the car battery, and therefore the usage of sealed lead-acid batteries is increasing, given their adaptability to harsh usage conditions.

As a result of these developments, demand is rising rapidly for glass mat battery separators, which are a vital component in sealed lead-acid batteries. It is anticipated that Asia and North America will follow Europe in increasing the number of vehicles that are fitted with sealed lead-acid batteries, and battery separators are therefore considered to be a product for which global demand will surge. In order to respond to the anticipated expansion in global demand for battery separators, we are currently giving consideration to engaging in local production in the United States, in addition to our existing production bases in Japan (Nagaoka Mill) and Europe (Bernard Dumas S.A.S.). By establishing a tri-polar global structure for production and sales we aim to become a top player globally for air filter paper and in the glass microfiber business, including battery separators. Specifically, from 2015 we have changed the sales structure for battery separators in the United States to a direct sales structure, through our local subsidiary HK PAPER (USA), INC. In so doing, we have further strengthened our sales structure in the U.S. market.

### Global bases of the Specialty Paper Business Division





## The merger of two of our consolidated subsidiaries will create new value as one of our core businesses

### Business Strengths and Characteristics

The Paper Processing Business Division consists of a Paper Processing Division (processed paper and paper ware), a Liquid Container Division, a Business Forum and Data Processing Services (DPS) Division, and an RFID\* Division.

The main products are paper ware, food packaging, and confectionery boxes and more, used at convenience stores and supermarkets; processed paper used in medicine and cosmetics packaging including high-performance paper and decorative paper; Tohei Pak-brand liquid paper containers; a range of business/office forms; data processing services for direct-mail, etc.; and RFID automatic recognition technology employing label tags with inlets equipped with miniature IC chips. Our high quality and cost-competitive products for a wide variety of different segments are produced at the Katsuta and Tokorozawa Mills.

\*RFID (Radio frequency identifier)

A wireless and contactless system that uses electromagnetic fields to read and input data to an RF tag containing ID information.

### Business Environment and Performance

Adverse business conditions such as the consumption tax increase, the weakening of the Japanese yen, and increasingly fierce competition in the industry, continued to affect the Paper Processing Business Division in FY2014. Although the Processed Paper Division and Data Processing Division enjoyed increased revenue, rises in the price of the raw paper materials used in liquid containers due to the weakening of the yen, and a large reduction in revenue for the Business Form Division due to the paperless office trend, has had a sizable effect leading to an overall decrease in sales revenue for the Paper Processing Business Division in FY2014.

Seeking to further strengthen the Paper Processing Business Division, from April 1, 2015 our two consolidated subsidiaries, Hokuetsu Package Co., Ltd., and BF Co., Ltd., were merged to become BF & Package Co., Ltd.

As one of the four core businesses of the Hokuetsu Kishu Paper Group, the new company will continue to strive to generate new value and create products that are even more appealing to our customers.

### Future Business Strategy

BF and Package consists of three business divisions. The Sales Division works to enhance the company's marketing and proposal capabilities, and promote the cross-selling of all products and the development of new products. The Production Technology Division is working to apply the Katsuta Mill's "GF (Get Future) Initiative" at the Tokorozawa Mill, and also facilitate mutual exchange and a collaborative business framework.

The Administrative Division is seeking to standardize workflow, etc. to enhance internal control, as well as reduce costs and increase business efficiency. Specific business strategies being deployed include the acceleration of a business portfolio shift which involves reviewing the relative weight in terms of the competitiveness and expected profitability of the existing business of the Liquid Container Sales Division, the Paper Processing Sales Division, and the BF Sales Division, as well as development of new containers and capital investment relating to the rollout of a new paper processing business. As part of this initiative, efforts are being made to create synergies made possible by the merger and to rapidly establish the BF & Package brand in the market.



北越紀州製紙グループ  
ビーエフ&パッケージ株式会社  
BF&Package co., Ltd.

#### About the logo of the new company

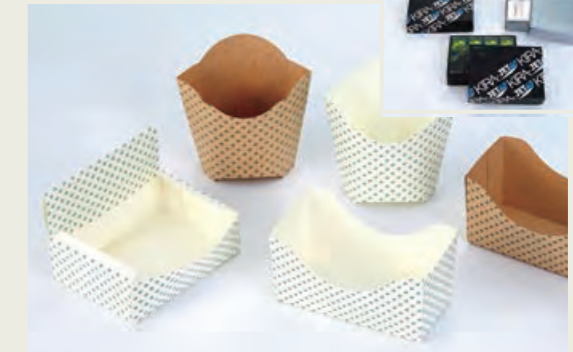
The logo of the new company is designed to represent the packages and business forms that the two merged companies have handled to date. It depicts business forms stacked in three tiers, representing our triple business structure of liquid containers, processed paper, and business forms. The green and blue colors were the corporate colors of the previous companies, and express how the strengths of the two companies have been combined into one new company.

### Main Product Line-Up



#### Processed paper

Lami Board is used in a variety of products. Lami Board is the overall term we use for decorative paper. We have a wide-ranging product lineup, including everything from coated products, including our pearl coated and aluminum paste (AP) coated papers, through to our PELMI, VM and Hologram series.



#### Paper ware

We produce packaging for various products, including paper containers used in convenience stores and other outlets. In addition, building on the strengths of the Hokuetsu Kishu Paper Group, we have constructed an integrated system that encompasses all stages from materials, through to design and production.



#### Liquid containers

Tohei Pak is our milk carton brand, in which we possess a wealth of experience and business results. We have developed a "light-shielding carton," which does not use aluminum foil and ensures high-level light shielding performance with minimal environmental impact, as well as our eye-catching "pearl carton," with its focus on aesthetics.



#### Business forms

In an environment in which all facilities are temperature and humidity controlled, we engage in production using an interconnected system that links printing, processing and distribution processes. Using our multi-color (6 to 9 color) printing machines to their maximum potential and with processing equipment including a roll collector capable of combining 12 sheets, we produce high-performance and high-quality products.



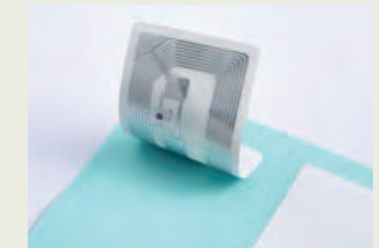
#### Data Processing Services (DPS)

Mass mailing items for which data has been output are sorted by the size of the envelope, and after processing an OMR code is used to identify the names on each address, enabling flyers, etc., to be inserted and the envelopes to be sealed in a short time frame. For output data that contains personal and private information, relating to invoices and receipts, for example, these are printed on specialty paper that adheres under pressure, and are processed in such a way as to conceal private information. Crimping machines are used that can deal with cut paper and continuous paper feeds.



#### Radio Frequency Identification (RFID)

By making IC tags into labels (stickers) it is possible to print on their surface using a printer. In addition, by combining adhesive label-type RF labels with RFID compatible printers, it is possible to issue labels continuously and affix them smoothly, making the management of rental items and library books, etc., more efficient.





# Non-Financial Information and Related Measures



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

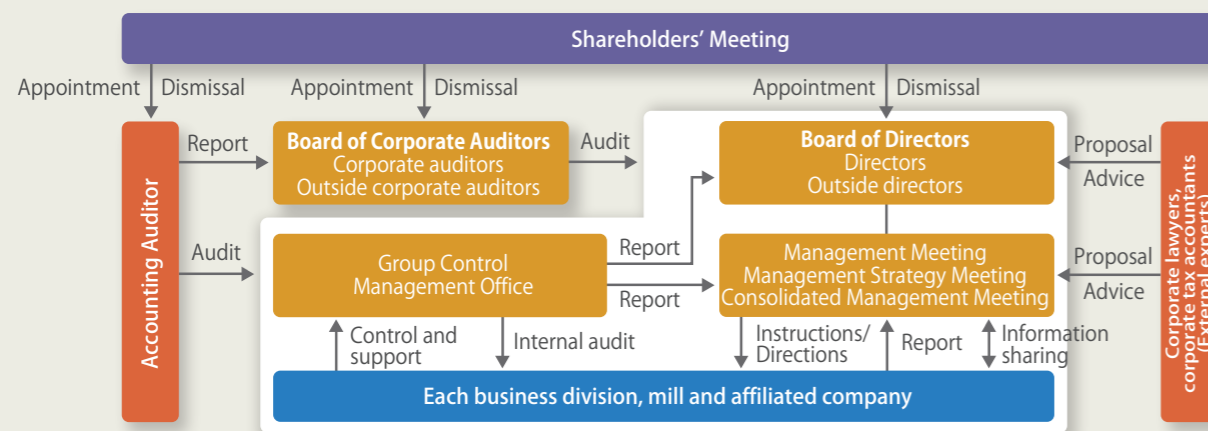
Hokuetsu Kishu Paper positions the improvement of the long-term stability of our corporate value as our top management priority.

To that end, we have established and implemented a proper corporate governance system and are working to further enhance it. These corporate governance activities are being steadily implemented, based on our obligation to submit (by December 2015) a Corporate Government Report, under the stipulations of the partial revision to the securities listing regulations following the formulation of "Japan's Corporate Governance Code" by Tokyo Stock Exchange.

### 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."

### Organizational structure relating to decision-making, enforcement and monitoring in management



### 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 177th General Shareholders' Meeting held on June 26, 2015, the Board of Directors now comprises 11 members, including two outside directors.

Outside directors are appointed who have a wealth of experience and abundant knowledge in corporate management, who are able to undertake decisions from a more neutral and fair position, and who, in view of the objectives for the appointment of outside directors, are highly independent and able to give due consideration to the interests of minority shareholders.

#### Information concerning the appointment of new outside directors

Name	Reason for appointment
Mitsuyasu Iwata	He has a wealth of experience, including at the Ministry of Economy, Trade and Industry, and also has a high degree of expertise as a manager at a power utility company. It was therefore determined that he is duly able to fulfill duties of providing advice to our company and monitoring business execution. In addition, as it is judged that he has no special vested interests in our company, nor are there any concerns about a conflict of interest with general shareholders, he has been appointed as an independent director who is designated by the Tokyo Stock Exchange as a director.
Shin Ushijima	He has a wealth of advanced specialist experience and knowledge as a lawyer, and it was therefore determined that he is duly able to fulfill duties of providing advice to our company and monitoring business execution from an objective perspective based on laws and ordinances. In addition, as it is judged that he has no special vested interests in our company, nor are there any concerns about a conflict of interest with general shareholders, he has been appointed as an independent director who is designated by the Tokyo Stock Exchange as a director.

### 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 177th General Shareholders' Meeting held on June 26, 2015, 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.

Outside corporate auditors are appointed who 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 they possess as business people, and who, in view of the objectives for the appointment of an outside corporate auditor, are highly independent and able to give due consideration to the interests of minority shareholders.

#### Status of main activities of outside corporate auditors

Name	
Jun Itoigawa	For the business year concerned, he attended 17 of the 19 meetings of the Board of Directors, and 12 of the 13 meetings of the Board of Corporate Auditors. He has appropriately made the necessary statements in deliberations on agenda items, drawing largely on his wealth of experience gained at financial institutions and universities, as well as his deep insight as a business person.
Nobusato Suzuki	For the business year concerned, he attended 16 of the 19 meetings of the Board of Directors and all 13 meetings of the Board of Corporate Auditors. He has appropriately made the necessary statements in deliberations on agenda items, drawing largely on his wealth of experience gained in the steel industry and universities, as well as his deep insight as a business person.

### Executive Officers' Remuneration, and Method for Determining the Remuneration

At the 173th 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))	315	234	31	50	9
Corporate auditors (excluding outside corporate auditors)	35	35	—	—	3
Outside directors and outside corporate auditors	12	12	—	—	3

Note: The headcount as of March 31, 2015, was nine directors (excluding outside directors), two corporate auditors (excluding outside corporate auditors), and three outside directors and outside corporate auditors (one outside director, two outside corporate auditors).

### Amendment of the Basic Policy on the Internal Control System

In response to the law on the partial amendment of the Companies Act (hereunder the "Revised Companies Act"), we implemented a partial amendment to the Basic Policy on the Internal Control System of Hokuetsu Kishu Paper Co., Ltd. This amendment will serve to further improve management across the Hokuetsu Kishu Paper Group as a whole. (For further details please refer to the Securities Report.)

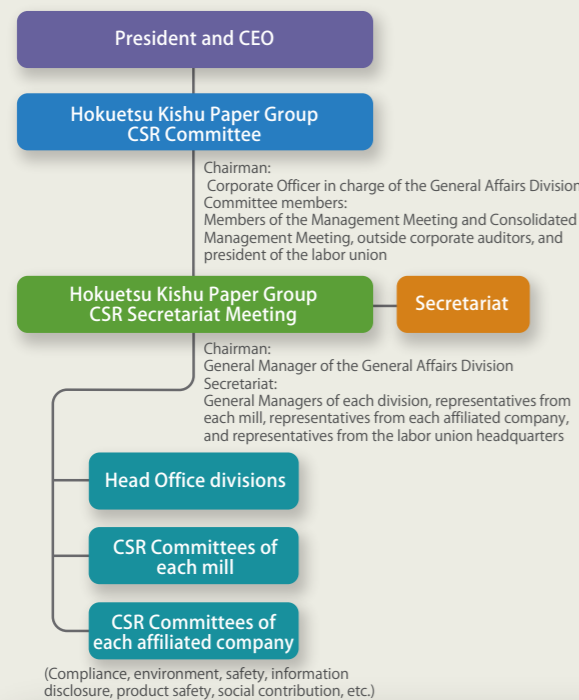


## We review our priorities every year and put in place concrete initiatives that are highly effective

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.



### Inspections for FY2014 Targets

Each individual department has been working in accordance with their own specific targets to achieve further growth and enhance co-existence with regional communities. These goals are accomplished through ongoing efforts to create workplaces that prioritize safety above all else, reinforcing the group governance system with emphasis on compliance, drafting BCP (a business continuity plan), complying with laws and regulations, implementing proactive environmental management policies, and steadily executing the "C-next" plan.

#### Specific initiatives

##### 1. Safety

Led by the safety and environment management office, we have given renewed emphasis to health and safety activities as we aim to create accident-free workplaces. These activities include thorough implementation of basic safety behavior, such as confirming safety with pointing and calling techniques, pre-operation risk prediction, wearing protective equipment, and rolling out measures to prevent the occurrence of similar accidents at other workplaces and companies.

##### 2. Environment

In order to further reduce CO2 emissions, we utilize gas turbine electricity generators and heat recovery boilers. With the aim of promoting Hokuetsu Kishu Paper Group's environmental initiatives internally and externally, we have also launched a CO2 emission reduction strategy PR team, established a "Slim CO2" symbol, launched a quarterly publication called "KINKON" communicating our environmental initiatives, and have exhibited at Eco-Products 2014.

### Priority CSR Activity Implementation Target Initiatives for FY2015

Hokuetsu Kishu Paper Group's priority CSR activity implementation target initiatives for FY2015 were drafted based on reviews of the initiatives implemented in FY2014.

1. Implement a range of safety activities designed to increase the sensitivity of employees toward risk, and advance our creation of safety-first workplaces led by safety promotion organizations.
2. To strengthen the Group governance system by conducting fair business activities that place the emphasis on compliance.
3. Based on our business continuity plan, carry out simulation-based training to enhance response at critical moments.
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.

## The essence of the C-next Plan is to commit ourselves to conducting fair business activities

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.

### Thorough implementation of measures to prevent recurrence of misconduct by former employees of our consolidated subsidiaries

In May 2015, misconduct by a former employee of one of our consolidated subsidiaries was discovered. After the discovery of the misconduct, an investigatory committee headed by our external outside company auditor was immediately created to thoroughly clarify the details of the misconduct. The findings of the committee, the preventative measures implemented, and disciplinary action were subsequently published. The investigation report pointed out problems relating to internal controls. To prevent a recurrence of such misconduct, Hokuetsu Kishu Paper Group will work to reconstruct its governance system and carry out fundamental Group-wide reforms. These efforts will be centered on a new Group Governance Administration Division, created by expanding the current internal control audit office.





## Establishing customer-focused research and development as part of our Group culture

The organization of our research and development department is centered on the technology development headquarters' research laboratory and the Technical & Development Division. The Technical & Development Division works in close coordination with the sales department, production departments in mills, and the research laboratory to meet the demands of customers and to develop highly competitive products based on our Group's accumulated technological capabilities.

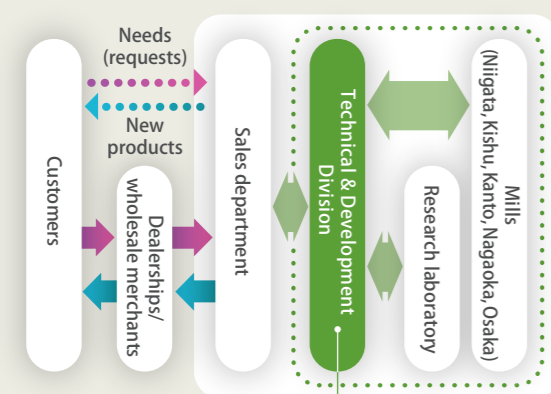
### Customer-focused R&D and production facilities

In 1985 Hokuetsu Kishu Paper Group became the first paper company in the world to install an on-machine coater (to carry out paper production and coating on the same line). We currently operate four such production lines, and our base technologies and R&D initiatives could be said to be advanced even by global standards. One of the major features of our paper production is our customer-focused R&D. The staff managing production lines (papermaking machines) at each of our mills visit customers in person to learn about emerging needs and receive specific requests. The fact that we see the faces of our customers in person means our point of contact with them is not limited to providing products, and means we are able to carry out development and production in a way that is closely aligned with the market. Having the staff responsible for development and production work visit customers to talk in person is not as easy as it sounds. However taking communication costs into consideration, in the end it is an efficient way to develop new products and find quality enhancement solutions. Customer-focused papermaking is strongly engrained in Hokuetsu Kishu Paper Group's R&D and production floor culture.

### Effective synergies capitalizing on advanced technological capabilities

Under the current "C-next" Medium-Term Management Plan, we will carry out proactive investment in domestic and overseas growth markets and fields. With regard to the R&D field, the development of competitive products that take advantage of effective synergies with subsidiaries created through merging and acquisition is vital. The French company Bernard Dumas S.A.S., which became a subsidiary company of ours in 2012, has a high global market share of glass microfiber separators for vehicle batteries. Since 1988 we have also been producing air filter sheets for clean rooms, etc. By integrating the technologies of both companies and holding discussions, and sharing information with customers, we were able in a short period of time to begin producing high-quality battery separators at our Nagaoka Mill. The products are ultimately delivered to domestic and overseas automakers. With the acquisition of Bernard Dumas S.A.S., we become one of the world's leading manufacturers of glass microfiber paper. We will continue to pursue effective synergies based on our advanced technological capabilities and move forward with R&D of products that can respond to global needs.

### Conductor for Product development and quality enhancement [Technical & Development Division]



Coordination of needs, drafting of development policies, consideration of specifications, etc



Laboratory adjacent to Nagaoka Mill

## 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' requests.
2. We manufacture products with stable 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 in relation to other companies, we promote control of intellectual assets.
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.

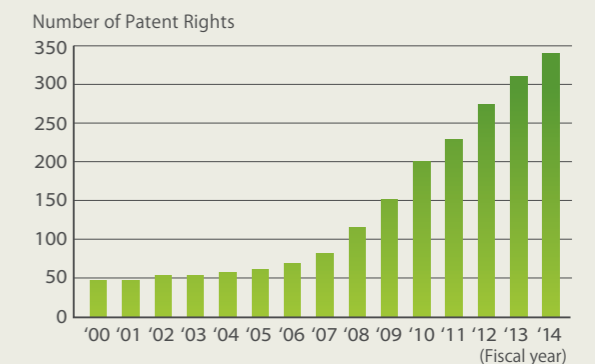
### Quality Supervision

Our internal quality auditor carries out regular checks on the safety of raw materials, the compliance with in-house standards of products to be used as food containers and wrapping, the proportion of recycled paper included in pulp, the regulatory compliance of each production department, etc. An independent body (quality management office) has been created within the Technical & Development Headquarters to carry out the auditing.



### 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.



Trends in the No. of Patent Rights Held by the Hokuetsu Kishu Paper Group

### We confirm the safety of the paper chemicals products being used and provide this information to our customers

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



## Environmental initiatives are carried out in a systemic Group-wide manner in line with the Environmental Charter

We carry out a wide variety of different Group-wide environmental protection initiatives, based on the Hokuetsu Kishu Paper Environmental Charter established in 1993.

### Hokuetsu Kishu Paper Environmental Charter

Hokuetsu Kishu Paper Group declares its commitment to realizing the fundamental principles of the Charter as the core of its corporate activities through the concerted efforts of labor and management.

#### Fundamental Principles

To pursue environment-friendly corporate activities in order to become a corporate group of good standing, and contribute to the realization of a society capable of sustainable growth, thereby contributing toward preserving a rich global environment.

#### Fundamental Policies

- Protection and nurturing of forest resources
- Minimizing the environmental impact of our business activities
- Promoting effective use of resources and energy saving

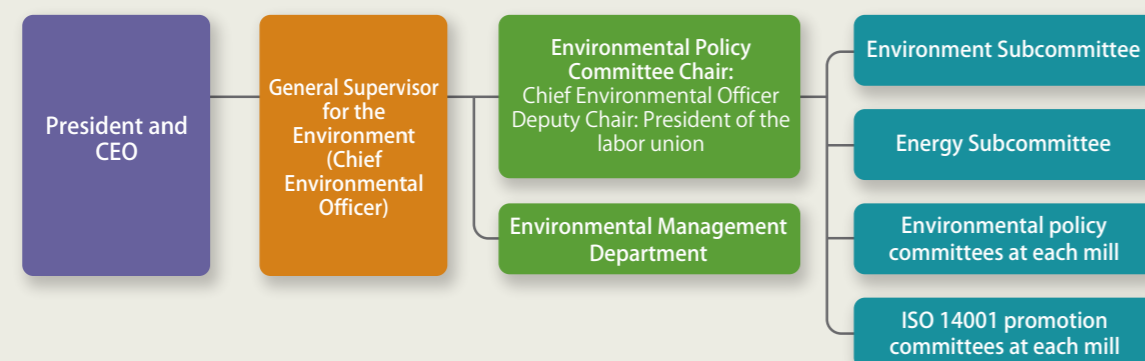
#### Action Guidelines

- Protection and nurturing of forest resources
- Enhancement of environment-friendly production technology
- Promotion of energy saving
- Promotion of reuse and recycling of used paper
- Reduction and effective use of waste materials
- Societal contribution and in-house education
- Appropriate response in emergencies

### The Environmental Policy Committee is at the center of our environmental initiatives

The environmental conservation promotion structure is centered on the Environmental Policy Committee with support from environmental policy committees and the ISO promotion committee at each mill. Important environment-related matters are confirmed and voted on at Environmental Policy Committee meetings held at half-yearly intervals. The role of committee chair is taken by the chief environmental officer, and the role of deputy chair is taken by the president of the labor union. The reason for having the president of the labor union take on the role of deputy chair is to have environment-related management issues checked from the labor union's perspective and to have the labor union make proposals. The results of environmental audits is also reported to the committee.

### Structure for Promoting Environmental Management



### Each Organization and their Initiatives

#### ● Environmental Management Department

The Environmental Management Department coordinates Group-wide environmental activities. In addition to informing the environmental management office at each mill and each company about revisions to environmental laws and related trends, as well as other related information, the department collates environmental data and provides guidance with the aim of enhancing the entire Group's response to environmental issues. The department also ascertains local conditions and provides guidance through environmental auditing as described below.

#### ● Environmental Subcommittee and Energy Subcommittee

Additional to the Environmental Management Department, the Environmental Subcommittee and the Energy Subcommittee have been created as a subordinate body to Group-wide environmental conservation committee. The members of the subcommittees are environment- and energy-related employees from each mill, who work using a cross-functional bottom-up approach to exchange practical information and provide advice to each other.

Young management-level staff are selected to act as subcommittee chairs and carry out activities with a Group-wide perspective. An expanded Environmental Subcommittee meeting including members from Group companies is held whenever it is necessary to share information Group-wide about significant revisions to environment-related legislation, etc.

#### ● Environmental conservation policy at each mill and the environmental management office

In order to further enhance environmental conservation activities at mills, environmental conservation committee meetings are held every month to confirm atmospheric and water-quality measurements and to deliberate on environmental issues. Each mill has an environmental management office or a safety and environment management office, which carry out work relating to environmental conservation. Work relating to the environment is based on an ISO14001 with implementation of a PDCA cycle.

### Topics relating to Hokuetsu Kishu Paper Group's environmental conservation efforts

#### 1. Implementation of environmental auditing

Environmental auditing of Hokuetsu Kishu Paper and affiliated companies is implemented by the Environmental Management Department and members of the aforementioned environmental subcommittees. The auditing is carried out at each of mills and research laboratories once a year and once every three years at consolidated subsidiaries. At other subsidiaries and affiliated companies, the frequency of audits is not set and is carried out as necessary. Environmental auditing entails checking compliance with environment-related laws, but we also see it as a precious opportunity to observe actual onsite conditions and provide advice to relevant staff members. In particular, it provides a good opportunity to engage in communication with environment-related staff members at Group companies, and contributes to the creation of a Group management system that provides a sense of unity.



#### 2. Promotion of environmental education

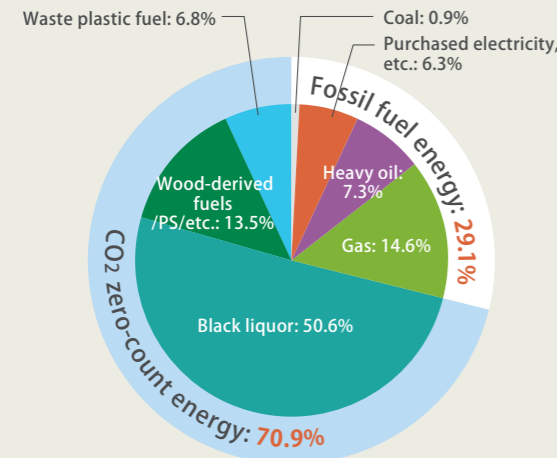
Of all the environment-related education we provide, we are most focused on education relating to Waste Disposal and Public Cleansing Law. Waste disposal law and practice training is provided on a half-yearly basis to employees from mills and Group companies responsible for carrying out and managing waste-related work. The training involves a one-day class taught by an external instructor and is attended by employees from relevant parent company divisions, all mills, laboratories, offices, and consolidated subsidiaries. The content of the classes alternates each six months between beginner-level training covering relevant general knowledge and points, and advanced training involving learning how to interpret legislation. The classes also involve group discussion and a Q&A session regarding daily work duties, and are very well-received by participants.



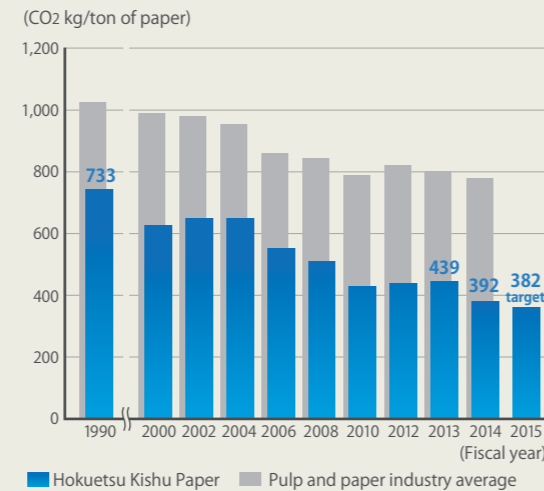


Hokuetsu Kishu Paper Group has been proactive in engaging in environmental conservation initiatives, and in 2000 we led the world in switching to use of the ECF\*1 method for the pulp produced at all of our mills. Another of those initiatives is our increasing use of green energy in order to reduce CO2 emissions, and our per-unit emission level is one of the best in the industry. We employ a minimum environmental impact policy at all of our production bases.

**Hokuetsu Kishu Paper Group's energy composition ratio (results for FY2014)**



**Hokuetsu Kishu Paper Group's per-unit CO2 emission trend**



**Changes in Environmental Performance**

	Unit	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015 target	
Global warming	CO2	kg/ton of paper	430	437	437	439	392	382
Air	SOx	kg/ton of paper	0.20	0.17	0.20	0.18	0.13	0.21
	NOx	kg/ton of paper	1.41	1.46	1.49	1.34	1.27	1.34
	Soot and dust	kg/ton of paper	0.09	0.08	0.07	0.08	0.07	0.11
Water quality	Water consumption	m <sup>3</sup> /ton of paper	56.5	52.1	56.4	53.1	54.9	56.9
	Wastewater BOD*2	kg/ton of paper	0.43	0.39	0.40	0.29	0.25	0.41
	Wastewater COD*2	kg/ton of paper	6.51	6.13	5.83	5.16	5.55	4.80
	Wastewater SS	kg/ton of paper	0.76	0.61	0.54	0.41	0.41	0.54
Chemical substances	Volume of chemicals subject to the PRTR law discharged/transported	g/ton of paper	3.31	1.29	1.64	1.36	2.49	1.74
Industrial waste	Final disposal	kg/ton of paper	16.7	12.1	9.4	5.2	5.2	4.9

**Material Balance**

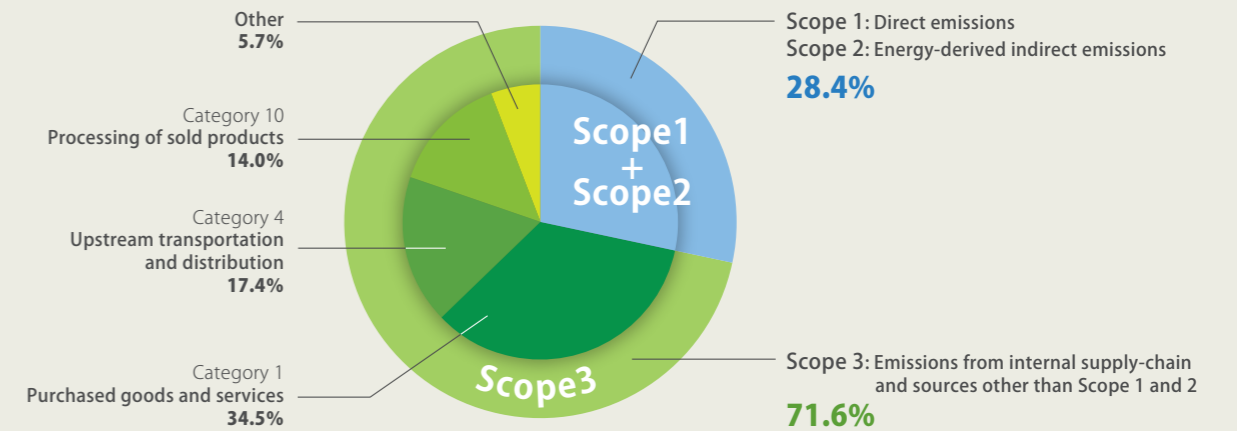
Input		Output		
Fossil energy input	11,323,000 GJ	CO2	677,000 t	
Non-fossil energy input	27,659,000 GJ	SOx	218 t	
Input of water resources	94,819,000 m <sup>3</sup>	NOx	2,200 t	
Raw material consumption	Wood chips	1,928,000 t	Soot and dust	125 t
	Purchased pulp	87,000 t	Chemical substances subject to the PRTR law	Discharge 4.3 t Transported 0 t
	Used paper	270,000 t	Industrial waste final disposal volume	9,000 t
			Paper/paperboard production volume	1,726,000 t

\*1 A bleaching method that produces almost no organochloride compounds by using chlorine dioxide instead of chlorine gas.  
\*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 Corporate Value Chain**

At Hokuetsu Kishu Paper Group, we believe it is important to ascertain and manage greenhouse gas emission levels across the entire product lifecycle, from raw materials procurement to product usage and disposal. We estimate the indirect greenhouse gas emissions across the corporate value chain (Scope 3 emissions), not just during our own production stages, as part of efforts to effectively reduce greenhouse gas emissions.

Estimates of greenhouse gas emissions across the corporate value chain of the Hokuetsu Kishu Paper Group (results for FY2014)



Scope of calculations: Hokuetsu Kishu Paper Co., Ltd.  
Target period: April 1, 2014 - March 31, 2015  
Monetary unit: Millions of yen

**Environmental Conservation Cost**

Category	Major activities and their results	Investment	Cost
<b>1. Business area costs: Environmental conservation costs to control environmental impact that results from key business operations within the business area</b>		<b>749</b>	<b>6,851</b>
Composition	(1) Pollution prevention cost	153	3,113
	a. Air pollution	29	579
	b. Water pollution	119	2,412
	c. Noise, vibration, and odor	4	121
	(2) Global environmental conservation cost	324	1,575
	a. Prevention of global warming	155	1,563
	b. Energy conservation	130	(Included in manufacturing cost)
	c. Tree farms in Japan	38	6
	d. Reforestation overseas	-	5
	(3) Resource circulation cost	271	2,162
	a. Effective use of resources	263	(Included in manufacturing cost)
	b. Reduction, recycling, treatment, disposal, etc., of industrial waste	7	2,162
<b>2. Upstream/downstream costs: Environmental conservation costs to control environmental impact that results from key business operations upstream and downstream</b>		-	<b>545</b>
Composition	(1) Purchase of materials, etc., with smaller environmental impact	-	19
	Cost (difference) for purchasing low-sulfur fuels, and others	-	19
	(2) Recycling and collection of containers and packaging	-	525
	Cost of recycling wooden pallets, and others	-	525
<b>3. Administrative costs: Environmental conservation costs stemming from administrative activities</b>		-	<b>232</b>
Composition	(1) Environmental training of employees, etc.	-	3
	Education on environmental conservation, cost for acquiring licenses	-	3
	(2) Building, implementation, and acquiring certification for an environmental management system	-	8
	ISO 14001-related costs	-	8
	(3) Monitoring and measuring environmental impact	-	66
	Maintenance fees for measuring instruments, commission fees for analysis	-	66
	(4) Running costs for an environmental conservation system, etc.	-	154
	An in-plant system for environmental management	-	154
<b>4. R&amp;D costs: Environmental conservation costs stemming from R&amp;D activities</b>		-	<b>146</b>
Composition	(1) R&D to develop products that contribute to environmental conservation	-	32
	(2) R&D and planning to curtail environmental impact at the manufacturing stage, etc.	-	113
<b>5. Social activity costs: Environmental conservation costs stemming from social activities</b>		<b>3</b>	<b>67</b>
Composition	(1) Planting of greenery, beautification, etc.	3	33
	Greening of the mill sites, and others	3	33
	(2) Support, etc., of environmental conservation activities by the local community	-	2
	Community environmental fair, and others	-	2
	(3) Support for environmental groups	-	16
	(4) Disclosure of environmental information and related advertisements	-	14
	Costs for compiling Corporate reports	-	14
<b>6. Environmental remediation costs: Costs incurred from dealing with environmental degradation</b>		-	<b>98</b>
<b>Total</b>		<b>753</b>	<b>7,942</b>

**Examples of Environmental Conservation Benefits**

Monetary unit (millions of yen)

Classification by relationship with business activities	Examples of benefits	Performance
Environmental conservation benefit related to resources input into business activities	Energy-saving effect	319



## We carry out stringent checks on the legality and sustainability of wood materials, based on our basic policy on raw materials procurement

In order to be able to provide our customers with products they can feel secure in using, we are proceeding with verifying the legality of wood materials (chips) before procuring them based on our basic policy for raw materials procurement, which came into effect in 2005.

### Only Properly-Managed Wood Used

95% of the wood chips we utilize as raw materials are sourced from overseas tree plantations, with the remaining 5% being sourced from domestic *satoyama* (managed coppice). 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-C005497

\*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

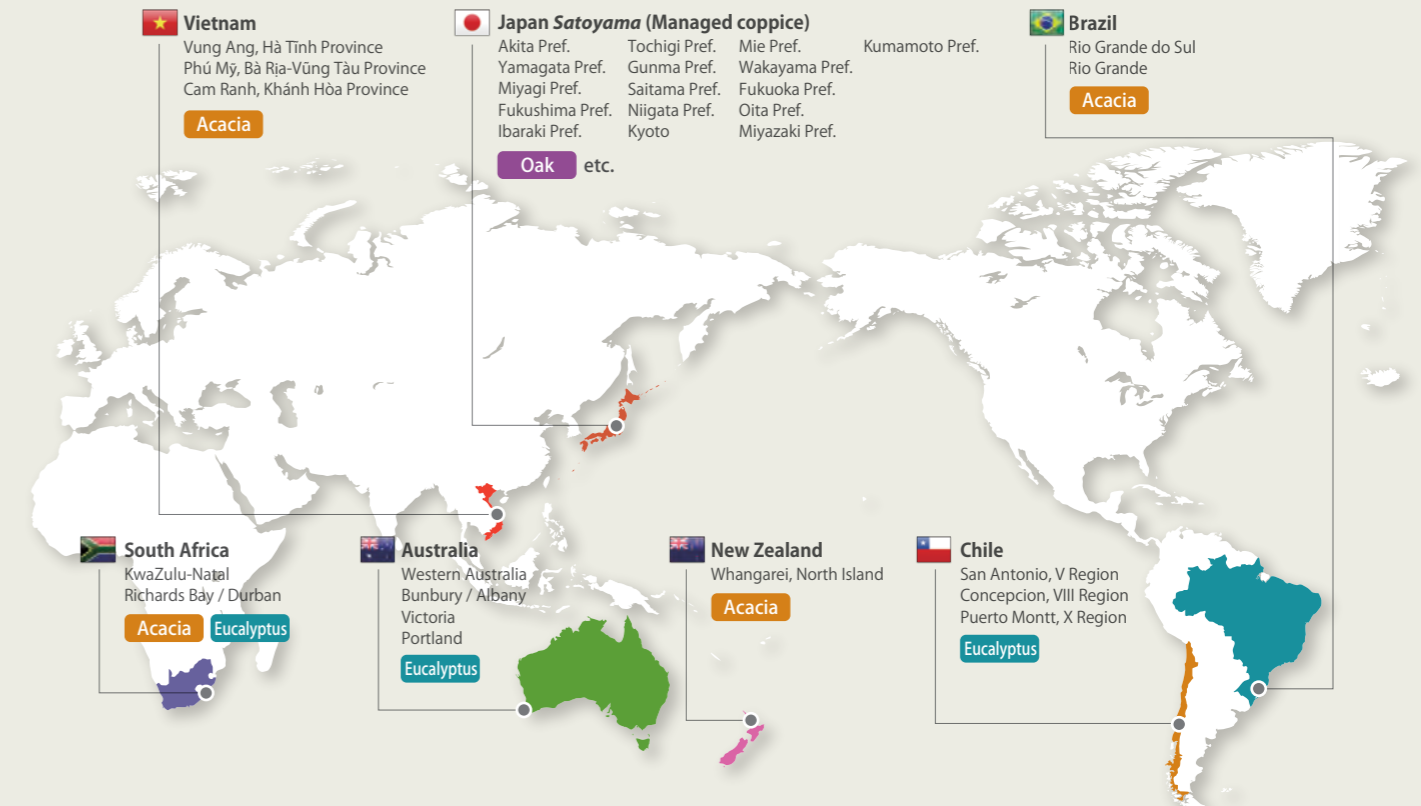
- We will open our doors to all suppliers and engage in fair and open trade.

#### 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 FY2014

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	●	—	●	●	●	1,830	95%
Chile	Eucalyptus	●	—	●	●	●		
South Africa	Acacia	●	—	●	●	●		
Australia	Eucalyptus	●	—	●	●	●		
New Zealand	Acacia	●	—	●	●	●		
Vietnam	Acacia	●	—	●	●	●		
Japan	Oak, etc.	—	●	●	●	(※3)	92	5%
Total							1,922	100%

\*3 We carried out a risk assessment of domestically produced chips based on National Risk Assessment for Japan (NRA), approved in August 2014, and we subsequently obtained approval of utilizing the chips as controlled woodchips.

### Status of Audits on Our FY2014 Traceability Report on Overseas Wood Chips

Regarding the imported chips we procured in FY2014, SGS Japan Inc., a third party certification company, received an appropriate traceability report based on our wood material procurement procedures, and they verified that the matters below were right and proper.

#### Verification items:

- (1) Name of supplier / trader, signer and date of signature
- (2) Tree species of wood raw material
- (3) District of origin of wood raw material
- (4) Material source category (natural forest, secondary forest, plantation or sawmill residues)
- (5) Port of shipment / place of shipment
- (6) Quantity of wood raw material traded
- (7) Laws and regulations in compliance
- (8) Forest management system
- (9) Exclusion of wood originating in illegal logging
- (10) Exclusion of wood harvested in violation of traditional and civil rights
- (11) Exclusion of wood harvested in forests where high conservation values are threatened by management activities
- (12) Exclusion of wood in which genetically modified trees are planted
- (13) Exclusion of wood harvested from areas being converted from forests and other wooded ecosystems to plantations or non-forest use





## Enhancing efficiency through cooperating with local companies in line with Japan's Forest Management Plan

Sustainable forest management is, of course, one of the responsibilities of paper companies that possess their own forests or have shares in forests. As part of our contribution to environmental conservation, Hokuetsu Kishu Paper Group carries out forest thinning, and we are proactively working to streamline our forest management activities.

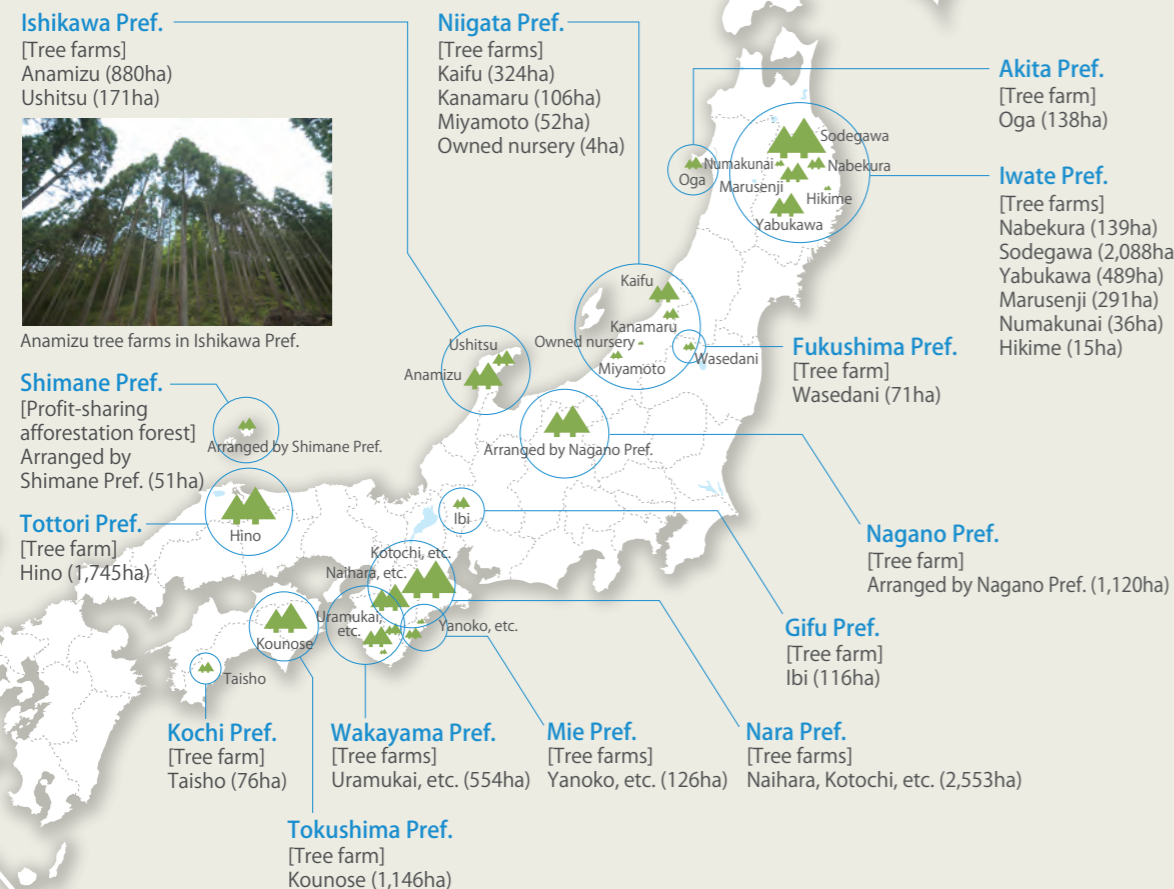
### Our forests are mainly used for providing building materials or as conservation reserves

The Forest Management Plan currently being pursued by the government involves a joint approach to the planning and implementation of forest thinning, etc. The aim of the plan is to streamline the maintenance and nurturing of forests, and increase the supply of timber. Hokuetsu Kishu Paper Group possesses a total 12,291 hectares of company-owned and profit-sharing afforestation forests, and we are carrying out thinning work in accordance with the Forest Management Plan. We originally acquired our own forests to serve as reserves for pulp materials. However, we currently source 95% of our pulp materials from overseas broad-leaf tree plantations. Our

company-owned and profit-sharing afforestation forests are primarily used to provide building materials and as conservation reserves. The Forest and Forestry Revitalization Plan, published by the Forestry Agency in 2009, included the target of increasing the wood self-sufficiency rate from 25% to 50% in 10 years (2019). Our tree farms cover a considerable area, and the management and nurturing of these forests ought to contribute to forest management in the surrounding areas and also contribute to increasing the wood self-sufficiency rate. We are working with local companies well-versed in forestry to manage and nurture our company-owned and profit-sharing afforestation forests in an efficient manner.

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

**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.



## Efficient thinning of our tree farms in Noto and Anamizu

### Management of tree farms contributes to the revitalization of the local communities

We possess approximately 880 hectares of tree farms in the Anamizu area, located almost in the middle of the Noto Peninsula in Ishikawa Prefecture. In 2012, we signed a forest management outsourcing plan agreement with local business Nakano Co. Ltd. to begin thinning and other oversight and management activities in our tree farms, in accordance with the Forest Management Plan. One of the characteristic activities in which we are engaging at our tree farms in the Anamizu area is the utilization of high-performance forestry machinery to carry out more efficient thinning work. As a

result, we were able to increase price competition for timber from trees such as noto-hiba, a popular building material. Nakano Co. Ltd.'s forest management advisor, Kunio Uratani, says: "When developing forests, first of all you need to make access roads. This not only makes it easier to haul in the necessary machinery and haul timber out, it also helps with the management of the forests of adjacent landowners. The roads that have been made in Hokuetsu Kishu Paper's tree farms are proving extremely useful for the management of forests over the entire region." It could be said that this is a good example of efficient management of tree farms helping to invigorate the utilization of local forest resources, and thereby contributing to local communities.



New "harvester" machines are able to carry out tree felling, pruning, and bucking, and timber gathering work, and are capable of carrying out such work roughly eight times more efficiently than conventional methods using chainsaws.



"Grapple crane trucks" are equipped with special cranes designed for use with logs, and they speed up loading work and help reduce timber transporting costs.



A forestry road in a company-owned forest in the Anamizu area constructed by local companies using grant money.



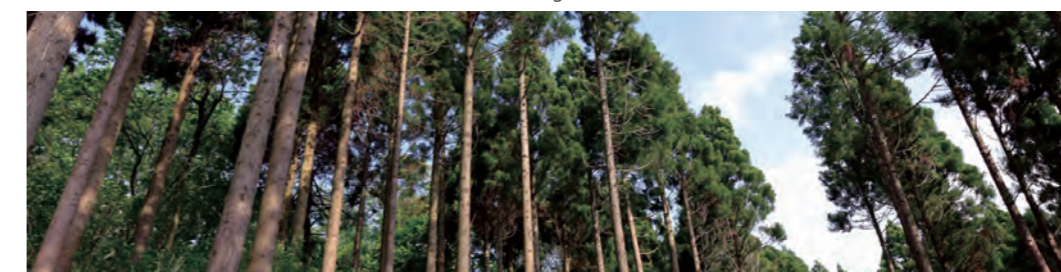
Takeshi Nakano (right, President), Kizashi Yoshimura (center, timber business department manager), and Kunio Uratani, from Nakano Co. Ltd., the company to which we have outsourced management of our forests in the Anamizu area.

### Forests in Noto produce excellent timber

We are carrying out forest thinning operations, etc. in tree farms in the Anamizu area, in collaboration with Nakano Co. Ltd. One of the characteristics of forests in Anamizu and other parts of Noto is that trees such as até that provide high quality timber grow up straight. As the forests are situated on low-lying hills with gentle slopes, it is easy to haul timber out. Forests in the Noto region and throughout Japan are facing an ageing problem. The trees being thinned were planted after the war, and right now they are ready to be cut. I believe the roles of afforestation and clear-cutting are likely to become increasingly important in terms of environment conservation, such as CO2 reduction, as well as forest management.



Masashi Aiuchi, President, Hokuto Sangyo Ltd.





## We aim to create workplaces where employees can feel safe, secure, and satisfied with their work

Hokuetsu Kishu Paper Group is moving to make its workplaces ones at which employees can feel safe and secure, and can work actively to achieve their own goals. We give particular focus to providing training that is responsive to increasing workforce globalization and work environments that are suited to a diverse workforce, and we are also making a Group-wide effort to create safer workplaces.

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

With the acquisition of a French company, the launch of a white paperboard business in Jiangmen, China, and the announcement of plans to fully acquire a Canadian company, etc. over the last few years, we have been rapidly expanding our presence overseas. In order to continue to further expand these overseas businesses, it is vital for us to foster human resources capable of performing overseas. Our medium-term management plan "C-Next", which was implemented last year, includes a strategy for fostering global human resources. We have been preparing for this for over ten years now with an overseas trainee system, support for graduate school programs for adult students, providing opportunities for staff to sit TOEIC exams, etc., and we are now working to further expand the scope of these initiatives to produce more employees capable of performing well globally.

#### Overseas Trainee System

I studied Chinese in the city of Guangzhou in China's Guangdong Province from February 2012 to March 2013. I spent that year immersed in the Chinese language, with university Chinese classes in the mornings and private lessons in the afternoons. During the course of my daily study, I began to notice differences in the way paper is consumed in China and Japan, making it a highly meaningful experience for me as an employee of a global papermaking company. After completing my studies, I was sent to work at the Chinese white paperboard business Jiangmen Xinghui Paper Mill Co., Ltd. in October 2013. Following on from my language studies, I am now aiming to further improve my language and work skills through discussing technologies with local employees at the mill.

**Tomokazu Tamagawa** (on the right)  
Jiangmen Xinghui Paper Mill Co., Ltd., China



#### Business School

I have been given the opportunity to participate in the MBA program at Chuo University's Graduate School of Strategic Management for two years from September 2014. Students can select classes from a wide range of fields, including strategy, marketing, and finance, and for myself, a graduate in agricultural studies, I find that I am gaining fresh new knowledge every day. The study involves a great deal of group work, and this provides the opportunity to interact in a natural way with people of a variety of ages working in a variety of different fields. Some of my fellow students manage their own companies, and studying in the program gives me the opportunity to build up a network of contacts. I am devoting myself to balancing my work duties with my MBA study in order to put into practice what I learn, and to contribute to the company.

**Takeshi Hida**  
Overseas Resource Department



#### Overseas Expatriate

I have been stationed at Bernard Dumas S.A.S. in Creysse, Dordogne, France since October 2014. Bernard Dumas S.A.S. a consolidated subsidiary of Hokuetsu Kishu Paper Group, specializes in the production and sales of glass fiber sheets. A similar product is also produced at Hokuetsu Kishu Paper's Nagaoka Mill, and each company is proactively sharing their respective specialty technologies (Bernard Dumas=battery separators, Nagaoka=air filters). Both companies have already begun production of products that take advantage of each other's technologies, and efforts are being made to further expand this exchange.

Although I do experience some problems in my daily life due to language difficulties, I enjoy meeting with local staff on the weekends, and I am also enjoying experiencing life in a different culture.

**Hisashi Hamabe** (center)  
Bernard Dumas S.A.S. France



### 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. 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 the year before last, 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.

Changes in the number of re-employed retirees	2011	2012	2013	2014	(FY) 2014
Number of retired employees	36	34	22	52	
Number of re-employed retirees	24	24	15	31	

Changes in the employment rate for persons with disabilities (%)



#### 2. Employment of Persons with Disabilities

Hokuetsu Kishu Paper Group continues to employ staff who are disabled after work-related accidents or personal injury or illness, and provides such employees with work environments that are suited to their particular disabilities to enable them to continue to play active roles. We also proactively recruit people with disabilities through Public Employment Security Offices to engage in mill security work. As a result, since 2009 we have employed people with disabilities at levels that exceed the legally stipulated disabled persons' employment quota of 2%.

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

Hokuetsu Kishu Paper Group is proactive in providing pleasant working environments that allow employees to balance their work duties with childrearing and nursing. As a result, employees are able to feel secure in taking childrearing leave and other such leave, employees are able to return to work smoothly, and the employee retention rate is 100%.

### Health and Safety Management Initiatives

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.

Basic Policy:

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

#### Small Group Activity Initiatives

Since April 1983, Hokuetsu Kishu Paper Group has been proactively conducting Small Group (SG) Activities across the entire Group in accordance with the following three principles:

1. Participation by everyone
2. Autonomous management
3. Activities involve improving current conditions

An All-Hokuetsu Kishu Small Group Activity Presentation Event is held in July every year to present activities that have achieved excellent results, and one group from each workplace is selected to participate.



FY2015 All-Hokuetsu Kishu Small Group Activity Presentation Event



## We aim to coexist with the local communities in which we operate as a company that people can rely on

As part of our CSR activities, we proactively interact with local communities and residents. We actively encourage local residents to visit our mills in Japan. Overseas we have been using our woodchip ships to participate in the Kyu-Can-Cho Project since FY2014.

### Actively encouraging local residents and customers to visit our mills

We have production bases and laboratories located in 7 prefectures, and at various time throughout the year, we provide a variety of different tours according to the needs of the visiting groups. The tours are primarily provided to local school children and neighborhood officials. We also hold business explanation meetings for business partners, and provide tours of our facilities as a way of participating in the events of local government bodies. Providing tours of our mills to local residents and other stakeholders provides us with an excellent opportunity to explain the papermaking process and our environmental initiatives. We will continue to work to ensure that our workplaces and mills are by nature open to the local communities.

### Number of visitors to our mills in FY2014

(Survey period: April 1, 2014 – March 31, 2015)

Mill tour participants	Hokuetsu Kishu Paper*1
People from business partner companies	1,310
People from local school	1,983
Other (employees' family members, etc.)	953
Total	4,246

\*1 Niigata Mill Kishu Mill, Kanto Mill, Nagaoka Mill, Osaka Mill, and laboratories

Primary affiliated companies*2	533
--------------------------------	-----

\*2 BF & Package Co., Ltd. and Hokuetsu Toyo Fibre Co., Ltd.



Kanto Mill (Ichikawa)



Kanto Mill (Katsuta)



Niigata Mill



Osaka Mill

## Participation in the Kyu-Can-Cho Project

### Transporting canned bread to southern Africa in our woodchip transporter ships

Sympathizing with the aims of PAN Akimoto Co. Ltd.'s anti-famine Kyu-Can-Cho Project, from September 2014 we began contributing to the project by transporting tinned bread (called "Kyu-Kan-Cho") on our woodchip transporter ships to the Kingdom of Swaziland in southern Africa.

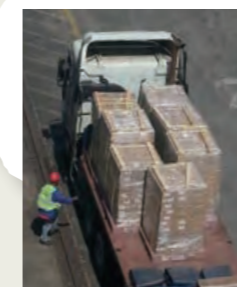
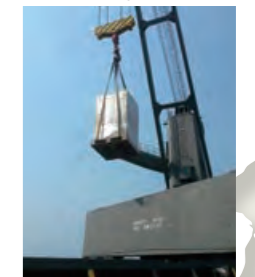
The Kyu-Kan-Cho Project involves collecting tinned bread stored at schools and so on as emergency rations once the expiration date is less than one year away and delivering the bread to regions suffering from disasters and food shortages. We procure woodchips and lumber directly from South Africa and Swaziland, and have close connections with the regions with plantations and wood producing areas in those countries. Swaziland is a small

country with financial problems and there are elementary schools in rural areas that do not have the wherewithal to provide school lunches. We shipped 7,200 cans of bread to South Africa from Niigata East Port located near our Niigata Mill. The journey took approximately one month, and in November 2014 with the help of the Swaziland Red Cross, etc. we delivered the bread to Galilee Community Primary School. The smiles on the faces of the children as they said "thanks!" were by all accounts striking. We intend to continue shipping PAN Akimoto Co. Ltd.'s tinned bread to Swaziland in future.

Children in Swaziland receiving the tinned bread



Loading tinned bread into the ship after unloading the woodchips



Transporting the tinned bread overland to Swaziland from a port in South Africa

Republic of South Africa

Kingdom of Swaziland

Niigata East Port

Return journey: Shipping tinned bread from Niigata East Port to South Africa on a woodchip ship



Outward journey: Shipping woodchips from a port in South Africa to Niigata East Port



Hokuetsu Kishu Paper's woodchip ship, the "Ushaka"





Sekio Kishimoto  
President and CEO



Akihiro Aoki  
Managing Director



Masanori Sakamoto  
Managing Director



Hiroshi Suzuki  
Managing Director



Morinobu Obata  
Director



Yoshihito Meguro  
Director



Yoshinori Kawashima  
Director



Mitsushige Yamamoto  
Director



Kimio Uchiyama  
Director



Mitsuyasu Iwata  
Director (Outside Director)



Shin Ushijima  
Director (Outside Director)

Standing Corporate Auditors

Junichi Horikawa Yasuji Kazumori

Corporate Auditors (Outside Corporate Auditors)

Jun Itoigawa Nobusato Suzuki

Corporate Officers

Kisao Taniguchi Kaoru Mashima Haruichi Shimizu Shimpei Kusaka  
Yasuyuki Kondo Hiroyuki Otsuka Shigeharu Tachibana

(As of June 26, 2015)

## Financial Section

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### Five-year Summary

Fiscal years ended March 31

Millions of yen  
(except per share amounts)

	2011	2012	2013	2014	2015
<b>For the Year :</b>					
Net sales	¥217,013	¥230,570	¥208,280	¥223,865	<b>¥228,400</b>
Operating income	8,742	10,823	3,658	3,308	<b>6,140</b>
Ordinary income	10,148	13,781	10,516	8,481	<b>11,463</b>
Net income	5,296	12,673	8,169	6,105	<b>8,359</b>
Return on equity	3.9%	8.9%	5.4%	3.9%	<b>5.2%</b>
<b>Per Share Data :</b>					
Net income	¥25.55	¥62.09	¥40.08	¥30.54	<b>¥44.39</b>
Cash dividends	12.00	12.00	12.00	12.00	<b>12.00</b>
<b>At Year-end :</b>					
Total assets	¥ 322,233	¥ 332,979	¥ 343,114	¥ 350,808	<b>¥ 351,033</b>
Total net assets	137,870	150,628	158,795	158,824	<b>168,573</b>



# Management's Discussion and Analysis

## Business Environment and Results

During fiscal 2014, ending March 31, 2015, despite gradual recovery due to improvements in corporate earnings and the employment environment, the situation for the Japanese economy remained uncertain due to factors such as the reactionary decline in demand accompanying the consumption tax hike, and concerns of a downturn in overseas economies.

For the Hokuetsu Kishu Paper Group, despite a decline in the sales volume of printing paper, export levels remained high, and the revision of sale prices for printing paper undertaken in the previous year was effective, thereby contributing to an increase in growth in sales.

On the earnings front, although raw material prices rose significantly as a result of yen depreciation from the latter half of the fiscal year, the Group posted higher earnings in comparison with the previous year, due to the effects of revision of sale prices for printing paper undertaken in the previous year, as well as of various cost-cutting measures.

In view of the above, the Group's results for fiscal 2014 were as follows.

Millions of yen		Change
Net sales:	¥228,400	+2.0%
Operating income:	¥6,140	+85.6%
Ordinary income:	¥11,463	+35.2%
Net income:	¥8,359	+36.9%

## Business Results by Segment

### 1. Paper and Pulp Segment

For the Paper and Pulp Segment, despite a fall in sales volume due to reactionary decline in demand accompanying the consumption tax hike, the continuing high levels of exports and the effect of the revision of sale prices for printing paper undertaken in the previous year contributed to growth in sales. On the earnings front, although raw material prices rose significantly as a result of yen depreciation from the latter half of the fiscal year, the Group posted higher earnings in comparison with the previous year, due to the effects of revision of sale prices for printing paper undertaken in the previous year, as well as of various cost-cutting measures.

#### Results by Product

Printing paper: Despite lower demand reflecting the transition to e-books and other digital media, as well as reduction in advertising expenditure among corporations, the revision of sale prices undertaken in the previous year contributed to a growth in sales. A further price revision will be carried out as part of the company's response to the further depreciation of the yen.

White paperboard: Sales volume of white paperboard remained at approximately the same level, but sales grew for white paperboard overall due to the steady sales of specialty white paperboard and luxury white paperboard, used for sweets and cosmetics packaging containers, as well as for promotional items of daily necessities.

Specialty Paper: Sales were solid for functional paper such as battery separators in cars, air filters for air purification, and carrier tapes. However, the Group faced a challenging business environment for securing orders in the category of luxury printing paper used for catalogues and pamphlets, and the fancy paper category.

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

Millions of yen		Change
Net sales:	¥220,647	+2.9%
Operating income:	¥4,444	+238.2%

### 2. Packaging and Paper Processing Segment

Net sales declined in the Packaging and Paper Processing Segment as a result of the challenging environment overall for securing orders. Despite various cost-cutting measures, segment earnings fell due to factors such as the hike in raw material prices resulting from yen depreciation.

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

Millions of yen		Change
Net sales:	¥19,820	-1.2%
Operating income:	¥442	-32.3%

### 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 fell despite various cost-cutting measures, due to the hike in raw material prices.

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

Millions of yen		Change
Net sales:	¥7,933	-9.2%
Operating income:	¥463	-13.3%

## Financial Position

Total assets as of the end of fiscal 2014 (March 31, 2015) increased by ¥225 million to ¥351,033 million from a year earlier. This was mainly due to factors such as an increase of ¥12,191 million in investment securities resulting from our underwriting of the allocation of new shares to a third party through Daio Paper Corporation, as well as a fall in the value of tangible fixed assets by ¥7,020 million due to depreciation.

Total liabilities as of March 31, 2015 fell by ¥9,524 million to ¥182,460 million from a year ago. The main reason was a decrease of ¥12,663 million in interest-bearing debt. Net assets as of March 31, 2015 increased by ¥9,749 million to ¥168,573 million from a year ago. The increase in net assets was brought about mainly by an increase in retained earnings from net profit, etc. of ¥5,271 million, and an increase in other net unrealized gains on securities of ¥3,718 million.

## Cash Flows

The balance of cash and cash equivalents as of March 31, 2015 decreased by ¥4,603 million to ¥15,298 million from a year earlier.

### Cash flows from operating activities

Funds gained from operating activities totaled ¥27,858 million (49.2% increase year-on-year). The main sources of cash were ¥10,883 million in income before income taxes and minority interests, ¥19,006 million in depreciation and amortization, a decrease in notes and accounts receivables of ¥5,587 million. The main components of cash used were returns from investment through the equity method of ¥4,317 million, increase in inventories of ¥1,898 million, and amortization of negative goodwill of ¥871 million.

### Cash flows from investing activities

Net cash used in investing activities totaled ¥16,261 million (28.7% decline year-on-year). The main components of cash used were ¥4,041 million in payments for purchases of investment securities, and ¥10,859 million for purchases of property, plant and equipment.

### Cash flows from financing activities

Net cash used for financing activities totaled ¥16,772 million (124.5% increase year-on-year). The main components of cash used were ¥10,000 million in redemption of debentures, ¥8,115 million net decrease in short-term loans, ¥7,640 million in repayment of long-term loans, and payment of dividends of ¥2,271 million. The main contributors to cash were proceeds from long-term loans amounting to ¥11,051 million.

## Basic Policies Regarding Earnings Distribution and Dividend Payments for Fiscal 2014 and 2015

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 2014, 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 2015, ending March 31, 2016, 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 2015 Outlook

In fiscal 2015, the Japanese economy is expected to recover gradually and to remain steady over the next fiscal year.

Under these circumstances, although the Hokuetsu Kishu Paper Group expects the revision of product sales prices to contribute positively to sales and profit, the business environment for the Paper and Pulp Segment is expected to remain uncertain going forward, against the background of factors such as the long-term decline in domestic demand for printing and communication paper, and fluctuations in exchange rates and fuel prices. The Group will endeavor to strengthen sales and earnings, through such initiatives as continuing to exhaustively cut costs. In addition, it will also put effort into stabilizing sales and earnings as soon as possible for the white paperboard segment of Jiangmen Xinghui Paper Mill Co., Ltd., which commenced sales and production in January this year.

Millions of yen		Change
Net sales:	¥242,000	+6.0%
Operating income:	¥9,000	+46.6%
Ordinary income:	¥11,500	+0.3%
Net income:	¥6,500	-22.2%

## 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, 2015 and 2014

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2015	2015
<b>CURRENT ASSETS:</b>			
Cash and deposits (Notes 3, 4 & 8)	¥19,992	¥15,803	\$131,396
Notes and accounts receivable (Note 4 & 8)			
Trade	66,600	60,759	505,188
Unconsolidated subsidiaries and affiliates	341	682	5,671
Allowance for doubtful accounts	(19)	(28)	(233)
Inventories (Note 6)	33,725	35,939	298,819
Deferred income taxes (Note 12)	1,756	2,157	17,935
Prepaid expenses and other	2,828	4,062	33,774
<b>TOTAL CURRENT ASSETS</b>	<b>125,223</b>	<b>119,374</b>	<b>992,550</b>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>			
Land and timberland	24,730	24,839	206,527
Buildings and structures	74,479	78,030	648,790
Machinery and equipment	384,892	401,275	3,336,451
Leased assets	4,665	4,611	38,339
Construction in progress	12,697	2,274	18,908
	501,463	511,029	4,249,015
Less accumulated depreciation	(334,003)	(350,589)	(2,915,016)
<b>NET PROPERTY, PLANT AND EQUIPMENT</b>	<b>167,460</b>	<b>160,440</b>	<b>1,333,999</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investments in securities (Notes 4 & 5)	26,072	28,209	234,547
Investments in and receivables from unconsolidated subsidiaries and affiliates	23,174	33,284	276,744
Long-term loans receivable	26	67	557
Guarantee deposits	750	686	5,704
Asset for retirement benefits (Note 18)	1,558	2,131	17,719
Deferred income taxes (Note 12)	1,512	1,317	10,950
Other (Note 7)	7,388	8,067	67,074
Allowance for doubtful accounts (Note 7)	(2,355)	(2,542)	(21,136)
<b>TOTAL INVESTMENTS AND OTHER ASSETS</b>	<b>58,125</b>	<b>71,219</b>	<b>592,159</b>
<b>TOTAL ASSETS</b>	<b>¥350,808</b>	<b>¥351,033</b>	<b>\$2,918,708</b>

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)
	2014	2015	2015
<b>CURRENT LIABILITIES:</b>			
Short-term loans (Notes 4, 8 & 9)	¥27,035	¥19,518	\$162,285
Commercial paper (Note 4 & 9)	8,000	9,000	74,832
Current maturities of long-term debt (Notes 4 & 9)	18,267	27,218	226,307
Notes and accounts payable (Note 4 & 8)			
Trade	23,328	23,385	194,438
Unconsolidated subsidiaries and affiliates	1,288	1,294	10,759
Income taxes payable (Note 12)	654	1,514	12,588
Accrued expenses	7,211	7,586	63,075
Other	6,820	8,687	72,229
<b>TOTAL CURRENT LIABILITIES</b>	<b>92,603</b>	<b>98,202</b>	<b>816,513</b>
<b>LONG-TERM LIABILITIES:</b>			
Long-term debt (Notes 4 & 9), less current maturities	83,085	67,988	565,295
Deferred income taxes (Note 12)	270	936	7,782
Accrued environmental expenditures	60	47	391
Provision for business structure improvement	514	306	2,544
Liability for retirement benefits (Note 18)	12,634	13,158	109,404
Negative goodwill	871	—	—
Asset retirement obligations (Note 19)	1,460	1,418	11,790
Other	487	405	3,368
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>99,381</b>	<b>84,258</b>	<b>700,574</b>
<b>CONTINGENT LIABILITIES (Note 10)</b>			
<b>NET ASSETS (Note 11)</b>			
<b>SHAREHOLDERS' EQUITY:</b>			
Common stock:			
authorized			
—500,000,000 shares in 2014 and 2015			
issued and outstanding			
—209,263,814 shares in 2014 and 2015	42,021	42,021	349,389
Capital surplus	45,481	45,469	378,058
Retained earnings	72,184	77,455	644,009
Treasury stock	(10,263)	(10,225)	(85,017)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>149,423</b>	<b>154,720</b>	<b>1,286,439</b>
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAXES</b>			
Unrealized holding gains on securities, net of taxes	5,420	9,138	75,979
Unrealized gains on hedging derivatives, net of taxes	5	(69)	(574)
Foreign currency translation adjustment	1,719	2,508	20,853
Accumulated adjustments for retirement benefit, net of taxes (Note 18)	521	975	8,107
<b>TOTAL ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAXES</b>	<b>7,665</b>	<b>12,552</b>	<b>104,365</b>
<b>SHARE SUBSCRIPTION RIGHTS</b>	<b>118</b>	<b>123</b>	<b>1,023</b>
<b>MINORITY INTERESTS</b>	<b>1,618</b>	<b>1,178</b>	<b>9,794</b>
<b>TOTAL NET ASSETS</b>	<b>158,824</b>	<b>168,573</b>	<b>1,401,621</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>¥350,808</b>	<b>¥351,033</b>	<b>\$2,918,708</b>



## Consolidated Statements of Income

Hokuetsu Kishu Paper Co.,Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2015, 2014 and 2013

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2013	2014	2015	2015
<b>NET SALES (Notes 13 &amp; 20)</b>	¥208,280	¥223,865	<b>¥228,400</b>	<b>\$1,899,060</b>
<b>COST OF SALES (Note 13)</b>	173,670	189,763	<b>190,817</b>	<b>1,586,571</b>
GROSS PROFIT	34,610	34,102	<b>37,583</b>	<b>312,489</b>
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 14)</b>	30,952	30,794	<b>31,443</b>	<b>261,437</b>
OPERATING INCOME	3,658	3,308	<b>6,140</b>	<b>51,052</b>
<b>OTHER INCOME(EXPENSES):</b>				
Interest and dividend income	665	673	<b>746</b>	<b>6,203</b>
Interest expenses	(962)	(1,015)	<b>(817)</b>	<b>(6,793)</b>
Foreign exchange gains (losses)	249	529	<b>754</b>	<b>6,268</b>
Gain on negative goodwill	279	125	<b>202</b>	<b>1,680</b>
Amortization of negative goodwill	1,783	1,783	<b>871</b>	<b>7,242</b>
Equity in income of affiliates	3,831	2,365	<b>4,317</b>	<b>35,894</b>
Gain on sales of investments in securities	30	0	<b>2</b>	<b>17</b>
Loss on sales of investments in securities	(5)	—	<b>(0)</b>	<b>(0)</b>
Loss on devaluation of investments in securities	(184)	—	—	—
Loss on sales or disposal of property, plant and equipment	(1,104)	(495)	<b>(665)</b>	<b>(5,529)</b>
Income from subsidiaries	651	2,337	—	—
Impairment loss of fixed assets (Note 15)	(79)	(194)	<b>(236)</b>	<b>(1,962)</b>
Loss on reduction of fixed assets	(17)	(2,359)	<b>(264)</b>	<b>(2,195)</b>
Costs in relation to suspending the operation of production equipment	(296)	(180)	<b>(711)</b>	<b>(5,912)</b>
Restructuring charges	—	(402)	<b>(106)</b>	<b>(881)</b>
Other, net (Note 7)	1,559	1,255	<b>650</b>	<b>5,404</b>
	6,400	4,422	<b>4,743</b>	<b>39,436</b>
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS</b>	10,058	7,730	<b>10,883</b>	<b>90,488</b>
<b>INCOME TAXES (Note 12):</b>				
Current	1,283	879	<b>2,173</b>	<b>18,068</b>
Deferred	608	723	<b>341</b>	<b>2,835</b>
	1,891	1,602	<b>2,514</b>	<b>20,903</b>
<b>INCOME BEFORE MINORITY INTERESTS</b>	8,167	6,128	<b>8,369</b>	<b>69,585</b>
<b>MINORITY INTERESTS</b>	(2)	23	<b>10</b>	<b>83</b>
<b>NET INCOME</b>	¥8,169	¥6,105	<b>¥8,359</b>	<b>\$69,502</b>
			yen	Thousands of U.S. dollars (Note 1)
	2013	2014	2015	2015
<b>AMOUNTS PER SHARE OF COMMON STOCK (Note 2):</b>				
Net income	¥40.08	¥30.54	<b>¥44.39</b>	<b>\$0.37</b>
Diluted net income	40.03	30.49	<b>44.31</b>	<b>0.37</b>
Cash dividends applicable to the year	12.00	12.00	<b>12.00</b>	<b>0.10</b>

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, 2015, 2014 and 2013

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2013	2014	2015	2015
<b>INCOME BEFORE MINORITY INTERESTS</b>	¥8,167	¥6,128	<b>¥8,369</b>	<b>\$69,585</b>
<b>OTHER COMPREHENSIVE INCOME (Note 22)</b>				
Unrealized holding gains on securities, net of taxes	1,974	2,033	<b>1,755</b>	<b>14,592</b>
Unrealized gains on hedging derivatives, net of taxes	36	11	<b>(73)</b>	<b>(607)</b>
Foreign currency translation adjustment	288	1,648	<b>890</b>	<b>7,400</b>
Adjustments for retirement benefit, net of taxes	—	—	<b>468</b>	<b>3,891</b>
Share of other comprehensive income of associates accounted for using equity method	400	155	<b>1,955</b>	<b>16,255</b>
<b>TOTAL OTHER COMPREHENSIVE INCOME</b>	2,698	3,847	<b>4,995</b>	<b>41,531</b>
<b>COMPREHENSIVE INCOME</b>	¥10,865	¥9,975	<b>¥13,364</b>	<b>\$111,116</b>
Comprehensive Income attribute to owners of the parent shareholders	10,745	9,851	<b>13,245</b>	<b>110,127</b>
Comprehensive Income attribute to minority interests	120	124	<b>119</b>	<b>989</b>

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, 2015, 2014 and 2013

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2013	2014	2015	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Income before income taxes and minority interests	¥10,058	¥7,730	<b>¥10,883</b>	<b>\$90,488</b>
Depreciation and amortization	19,625	19,071	<b>19,006</b>	<b>158,028</b>
Impairment loss of fixed assets	79	194	<b>236</b>	<b>1,962</b>
Restructuring charges	—	402	<b>106</b>	<b>881</b>
Amortization of negative goodwill	(1,783)	(1,783)	<b>(871)</b>	<b>(7,242)</b>
Gain on negative goodwill	(279)	(125)	<b>(202)</b>	<b>(1,680)</b>
Loss on sales or disposal of property, plant and equipment	366	272	<b>538</b>	<b>4,474</b>
Loss on reduction of fixed assets	17	2,359	<b>264</b>	<b>2,195</b>
Subsidy income	—	(2,337)	—	—
Interest and dividend income	(665)	(673)	<b>(746)</b>	<b>(6,203)</b>
Interest expenses	962	1,015	<b>817</b>	<b>6,793</b>
Loss on devaluation of investments in securities	184	—	—	—
(Increase) decrease in notes and accounts receivable	7,532	(4,999)	<b>5,587</b>	<b>46,454</b>
(Increase) decrease in inventories	(1,876)	(165)	<b>(1,898)</b>	<b>(15,781)</b>
Increase (decrease) in notes and accounts payable	(5,552)	1,539	<b>(187)</b>	<b>(1,555)</b>
Increase (decrease) in employees' severance and retirement benefits	(326)	—	—	—
Increase (decrease) liability for retirement benefits	—	(191)	<b>(308)</b>	<b>(2,561)</b>
Equity in (earnings) losses of affiliates	(3,831)	(2,365)	<b>(4,317)</b>	<b>(35,894)</b>
Other, net	(705)	(86)	<b>(126)</b>	<b>(1,047)</b>
SUBTOTAL	23,806	19,858	<b>28,782</b>	<b>239,312</b>
Interest and dividend income received	779	900	<b>1,008</b>	<b>8,381</b>
Interest paid	(958)	(1,013)	<b>(895)</b>	<b>(7,442)</b>
Income taxes paid	(3,254)	(1,070)	<b>(1,357)</b>	<b>(11,283)</b>
Proceeds from insurance income	830	—	<b>320</b>	<b>2,661</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	21,203	18,675	<b>27,858</b>	<b>231,629</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Payments for purchases of investment securities	(54,130)	(1,618)	<b>(4,041)</b>	<b>(33,599)</b>
Purchase of investments in subsidiaries	(6,725)	(858)	<b>(374)</b>	<b>(3,110)</b>
Proceeds from sales and redemption of investment securities	48,491	503	—	—
Payments for purchases of property, plant and equipment	(11,425)	(22,418)	<b>(10,859)</b>	<b>(90,289)</b>
Proceeds from sales of property, plant and equipment	130	666	<b>149</b>	<b>1,239</b>
Proceeds from national subsidies	200	1,679	—	—
Acquisition of business	(325)	—	—	—
Other, net	(1,343)	(759)	<b>(1,136)</b>	<b>(9,445)</b>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	(25,127)	(22,805)	<b>(16,261)</b>	<b>(135,204)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Increase (decrease) in short-term loans	(40)	(7,714)	<b>(8,115)</b>	<b>(67,473)</b>
Increase (decrease) in commercial paper	(5,000)	1,000	<b>1,000</b>	<b>8,315</b>
Proceeds from long-term loans	32,111	15,105	<b>11,051</b>	<b>91,885</b>
Repayments of long-term loans	(14,105)	(14,973)	<b>(7,640)</b>	<b>(63,524)</b>
Proceeds from issuance of unsecured yen straight bonds	—	10,000	—	—
Redemption of unsecured yen straight bonds	(300)	—	<b>(10,000)</b>	<b>(83,146)</b>
Dividends paid	(2,453)	(2,452)	<b>(2,271)</b>	<b>(18,883)</b>
Payments for purchases of treasury stock	(5)	(7,566)	<b>(2)</b>	<b>(17)</b>
Other, net	(878)	(871)	<b>(795)</b>	<b>(6,610)</b>
<b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>	9,330	(7,471)	<b>(16,772)</b>	<b>(139,453)</b>
<b>TRANSLATION (LOSS) GAIN ON CASH AND CASH EQUIVALENTS</b>	260	1,719	<b>522</b>	<b>4,340</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	5,666	(9,882)	<b>(4,653)</b>	<b>(38,688)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	23,158	29,005	<b>19,901</b>	<b>165,469</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS FROM NEWLY CONSOLIDATED SUBSIDIARIES</b>	181	778	—	—
<b>INCREASE IN CASH AND CASH EQUIVALENTS RESULTING FROM MERGER WITH UNCONSOLIDATED SUBSIDIARIES</b>	—	—	<b>50</b>	<b>416</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 3)</b>	¥29,005	¥19,901	<b>¥15,298</b>	<b>\$127,197</b>

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, 2015, 2014 and 2013

Millions of yen

	Number of shares	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gains (losses) on securities, net of taxes	Unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustment	Accumulated adjustments for retirement benefit, net of taxes	Total accumulated other comprehensive income, net of taxes	Share subscription rights	Minority interests	Total net assets
<b>Balance at March 31, 2012</b>	209,263,814	¥42,021	¥45,481	¥62,686	¥(2,317)	¥147,871	¥862	¥(42)	¥3	—	¥823	¥38	¥1,896	¥150,628
Net income	—	—	—	8,169	—	8,169	—	—	—	—	—	—	—	8,169
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)
Change in equity in affiliates accounted for by equity method - treasury stock	—	—	—	—	(10)	(10)	—	—	—	—	—	—	—	(10)
Change in treasury stock held by newly consolidated affiliates	—	—	—	—	(355)	(355)	—	—	—	—	—	—	—	(355)
Net changes during the year	—	—	—	—	—	—	2,373	36	167	—	2,576	48	192	2,816
<b>Balance at March 31, 2013</b>	209,263,814	¥42,021	¥45,481	¥68,408	¥(2,689)	¥153,221	¥3,235	¥(6)	¥170	—	¥3,399	¥86	¥2,088	¥158,794
Net income	—	—	—	6,105	—	6,105	—	—	—	—	—	—	—	6,105
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
<b>Balance at March 31, 2014</b>	209,263,814	¥42,021	¥45,481	¥72,184	¥(10,263)	¥149,423	¥5,420	¥5	¥1,719	¥521	¥7,665	¥118	¥1,618	¥158,824
Cumulative effects of changes in accounting policies	—	—	—	(878)	—	(878)	—	—	—	—	—	—	(5)	(883)
Restated balance	—	42,021	45,481	71,306	(10,263)	148,545	5,420	5	1,719	521	7,665	118	1,613	157,941
Net income	—	—	—	8,359	—	8,359	—	—	—	—	—	—	—	8,359
Cash dividends paid (¥12.00 per share)	—	—	—	(2,260)	—	(2,260)	—	—	—	—	—	—	—	(2,260)
Disposal of treasury stock	—	—	(12)	—	38	26	—	—	—	—	—	—	—	26
Purchases of treasury stock	—	—	—	—	(2)	(2)	—	—	—	—	—	—	—	(2)
Change in equity in affiliates accounted for by equity method - treasury stock	—	—	—	—	2	2	—	—	—	—	—	—	—	2
Increase by merger of consolidated subsidiary and non-consolidated subsidiary	—	—	—	28	—	28	—	—	—	—	—	—	—	28
Change in scope of consolidated affiliates	—	—	—	22	—	22	—	—	—	—	—	—	—	22
Net changes during the year	—	—	—	—	—	—	3,718	(74)	789	454	4,887	5	(435)	4,457
<b>Balance at March 31, 2015</b>	209,263,814	¥42,021	¥45,469	¥77,455	¥(10,225)	¥154,720	¥9,138	¥(69)	¥2,508	¥975	¥12,552	¥123	¥1,178	¥168,573

Thousands of U.S. dollars (Note 1)

	Number of shares	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gains (losses) on securities, net of taxes	Unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustment	Accumulated adjustments for retirement benefit, net of taxes	Total accumulated other comprehensive income, net of taxes	Share subscription rights	Minority interests	Total net assets
<b>Balance at March 31, 2014</b>	209,263,814	\$349,389	\$378,157	\$600,183	\$(85,333)	\$1,242,396	\$45,065	\$42	\$14,293	\$4,332	\$63,732	\$981	\$13,453	\$1,320,562
Cumulative effects of changes in accounting policies	—	—	—	(7,300)	—	(7,300)	—	—	—	—	—	—	(42)	(7,342)
Restated balance	—	349,389	378,157	592,883	(85,333)	1,235,096	45,065	42	14,293	4,332	63,732	981	13,411	1,313,220
Net income	—	—	—	69,502	—	69,502	—	—	—	—	—	—	—	69,502
Cash dividends paid (\$0.10 per share)	—	—	—	(18,791)	—	(18,791)	—	—	—	—	—	—	—	(18,791)
Disposal of treasury stock	—	—	(99)	—	316	217	—	—	—	—	—	—	—	217
Purchases of treasury stock	—	—	—	—	(17)	(17)	—	—	—	—	—	—	—	(17)
Change in equity in affiliates accounted for by equity method - treasury stock	—	—	—	—	17	17	—	—	—	—	—	—	—	17
Increase by merger of consolidated subsidiary and non-consolidated subsidiary	—	—	—	232	—	232	—	—	—	—	—	—	—	232
Change in scope of consolidated affiliates	—	—	—	183	—	183	—	—	—	—	—	—	—	183
Net changes during the year	—	—	—	—	—	—	30,914	(616)	6,560	3,775	40,633	42	(3,617)	37,058
<b>Balance at March 31, 2015</b>	209,263,814	\$349,389	\$378,058	\$644,009	\$(85,017)	\$1,286,439	\$75,979	\$(574)	\$20,853	\$8,107	\$104,365	\$1,023	\$9,794	\$1,401,621

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, 2015 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, 2015, which was ¥120.27 to U.S. \$1.00. The convenience translation should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

## Note 2: Summary of Significant Accounting Policies

### (a) Consolidation

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

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

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

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

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

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

	Number of Companies		
	2013	2014	2015
Consolidated subsidiaries	21	23	23
Affiliates accounted for by the equity method	6	6	6

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, 2015, 2014 and 2013.

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 Companies.

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 188,308,313 shares, 199,911,192 shares and 203,841,437 shares in 2015, 2014 and 2013, respectively. For the year ended March 31, 2015, diluted net income per share was ¥44.31 (\$0.37).

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



### (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 benefit formula basis.

(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

The Company and its consolidated domestic subsidiaries adopted article 35 of the "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26, May 17, 2012 (hereinafter, "Statement No.26")) and article 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25, May 26, 2015 (hereinafter, "Guidance No.25")) from the current fiscal year. The Company and its consolidated domestic subsidiaries have revised the method of determination of retirement benefit obligations and current service costs, changed the attribution method for projected retirement benefits from straight-line attribution to benefit formula, and changed the method of determination of the discount rate from a discount rate that is based on the number of years that approximate the average remaining service period of employees to a method that employs a single weighted-average discount rate reflecting the projected timing of retirement benefit payments and the amount of payment for each projected payment period.

In accordance with article 37 of Statement No.26, the effect of changing the determination of retirement benefit obligations and current service costs has been recognized in retained earnings at the beginning of the current fiscal year.

As a result of the application, the liability for retirement benefits obligation increased by ¥911 million (\$7,575 thousand), and investments in securities decreased by ¥39 million (\$324 thousand), asset for retirement benefits decreased by ¥291 million (\$2,420 thousand), retained earnings decreased by ¥878 million (\$7,300 thousand), and minority stockholders' equity decreased by ¥5 million (\$42 thousand) at the beginning of the current fiscal year.

The effects of this change on operating income, ordinary income, income before tax, and earnings per share in the current consolidated fiscal year are immaterial.

### (r) Accounting standard and guidance but not yet adopted

- "Revised Accounting Standards for Business Combination" (ASBJ Statement No.21, September 13, 2013)
- "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, September 13, 2013)
- "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7, September 13, 2013)
- "Revised Accounting Standard for Earnings Per Share" (ASBJ Statement No.2, September 13, 2013)
- "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standards for Business Divestitures" (ASBJ Guidance No.10, September 13, 2013)
- "Revised Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No.4, September 13, 2013)

(1) Summary

The above standards and guidance have been revised primarily to account for:

- ① How the changes of the shares in subsidiaries, over which the Company continues to control, should be treated by the Company when additional stock of a subsidiary is acquired.
  - ② Treatment of acquisition related costs
  - ③ Presentation of current net income and the change of shareholder's equity from minority interests to non-controlling interests
  - ④ Provisional application of accounting treatments
- (2) Effective date  
Effective from the beginning of the fiscal year ending March 31, 2016.  
Provisional application of the accounting standards is scheduled to begin for business combinations effective after the beginning of the fiscal year ending March 31, 2016.
- (3) Effects of the application of the standards  
The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

- "Practical Solution on Accounting for Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ PITF No.18, March 26, 2015)

(1) Summary

It reflects the change in the accounting standards of goodwill under U.S. GAAP amended in January 2014, reflects the "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22) amended in September 2013, and clarifies the amortization of actuarial gains or losses in retirement benefit accounting.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2016.

(3) Effects of the application of the standards

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

## 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, 2015 and 2014 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Cash and deposits	¥19,992	¥15,803	\$131,396
Time deposits with a maturity of more than three months	(48)	—	—
Restricted deposits	(43)	(505)	(4,199)
Cash and cash equivalents	¥19,901	¥15,298	\$127,197

## Note 4: Financial Instruments

Information on financial instruments for the year ended March 31, 2015 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 are invested in deposits 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.

The Company use crude oil swap contracts to avert the Company's exposure to adverse price movements of some fuel purchase transactions.

### Fair Values of Financial Instruments

The book values, fair values and differences of the financial instruments as of March 31, 2015 and 2014 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	¥15,803	¥15,803	¥—
(2) Notes and accounts receivable	61,441	61,441	—
(3) Investments in securities:			
① Stocks of affiliates	28,406	32,670	4,264
② Available-for-sale securities	22,067	22,067	—
Total assets	¥127,717	¥131,981	¥4,264
(4) Notes and accounts payable	¥18,423	¥18,423	¥—
(5) Electronically recorded obligations-operating	6,256	6,256	—
(6) Short-term loans	19,518	19,518	—
(7) Commercial paper	9,000	9,000	—
(8) Bonds*1	30,000	30,156	156
(9) Long-term loans payable*2	63,560	63,699	139
Total liabilities	¥146,757	¥147,052	¥295
Derivative transactions*3	¥(3)	¥(3)	¥—



	Millions of yen		
	Book value	Fair value	Difference
			2014
(1) Cash and deposits	¥19,992	¥19,992	¥—
(2) Notes and accounts receivable	66,941	66,941	—
(3) Investments in securities:			
① Stocks of affiliates	18,366	34,058	15,692
② Available-for-sale securities	19,923	19,923	—
Total assets	¥125,222	¥140,914	¥15,692
(4) Notes and accounts payable	¥18,176	¥18,176	¥—
(5) Electronically recorded obligations-operating	6,440	6,440	—
(6) Short-term loans	27,035	27,035	—
(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	¥158,602	¥158,990	¥388
Derivative transactions*3	¥7	¥7	¥—

	Thousands of U.S. dollars		
	Book value	Fair value	Difference
			2015
(1) Cash and deposits	\$131,396	\$131,396	\$—
(2) Notes and accounts receivable	510,859	510,859	—
(3) Investments in securities:			
① Stocks of affiliates	236,185	271,639	35,454
② Available-for-sale securities	183,479	183,479	—
Total assets	\$1,061,919	\$1,097,373	\$35,454
(4) Notes and accounts payable	\$153,181	\$153,181	\$—
(5) Electronically recorded obligations-operating	52,016	52,016	—
(6) Short-term loans	162,285	162,285	—
(7) Commercial paper	74,832	74,832	—
(8) Bonds*1	249,438	250,736	1,298
(9) Long-term loans payable*2	528,478	529,633	1,155
Total liabilities	\$1,220,230	\$1,222,683	\$2,453
Derivative transactions*3	\$(25)	\$(25)	\$—

\*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 17.

**(b) Unlisted equity securities have no market price and there is no way of estimating for future cash flows. Determining fair value is therefore acknowledged to be extremely difficult and they are not included in (3) Investments in securities.**

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Unlisted equity securities	¥10,164	¥10,172	\$84,576

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

	Millions of yen				Thousands of U.S. dollars	
	2014		2015		2015	
	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	¥19,992	¥—	¥15,803	¥—	\$131,396	\$—
Notes and accounts receivable	66,941	—	61,441	—	510,859	—
Total	¥86,933	¥—	¥77,244	¥—	\$642,255	\$—

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

	Millions of yen					
	2015					
	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	¥19,518	¥—	¥—	¥—	¥—	¥—
Commercial paper	9,000	—	—	—	—	—
Bonds	10,000	10,000	—	10,000	—	—
Long-term loans payable*	16,491	13,401	10,127	6,109	12,223	5,209
Total	¥55,009	¥23,401	¥10,127	¥16,109	¥12,223	¥5,209

	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	¥27,035	¥—	¥—	¥—	¥—	¥—
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	¥52,528	¥26,406	¥23,224	¥9,423	¥15,383	¥7,022

	Thousands of U.S. dollars					
	2015					
	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	\$162,285	\$—	\$—	\$—	\$—	\$—
Commercial paper	74,832	—	—	—	—	—
Bonds	83,146	83,146	—	83,146	—	—
Long-term loans payable*	137,117	111,424	84,202	50,794	101,630	43,311
Total	\$457,380	\$194,570	\$84,202	\$133,940	\$101,630	\$43,311

\*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, 2015 and 2014:

### Available-for-sale securities:

Type	Millions of yen		
	Acquisition cost	Book value	Difference
			<b>2015</b>
Equity securities:			
with book value (fair value) exceeding acquisition costs	¥11,536	¥20,990	¥9,454
with book value (fair value) not exceeding acquisition costs	1,142	1,077	(65)
	<b>¥12,678</b>	<b>¥22,067</b>	<b>¥9,389</b>

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	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
			<b>2015</b>
Equity securities:			
with book value (fair value) exceeding acquisition costs	\$95,918	\$174,524	\$78,606
with book value (fair value) not exceeding acquisition costs	9,495	8,955	(540)
	<b>\$105,413</b>	<b>\$183,479</b>	<b>¥78,066</b>

Total sales of available-for-sale securities sold in the year ended March 31, 2015 amounted to ¥22 million (\$183 thousand), the related gains amounted to ¥2 million (\$17 thousand) and the related losses

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

## Note 6: Inventories

Inventories at March 31, 2015 and 2014 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Merchandise and Finished goods	¥18,572	¥19,835	\$164,920
Work-in-process	1,829	2,028	16,862
Raw materials and supplies	13,324	14,076	117,037
	¥33,725	¥35,939	\$298,819

## Note 7: Amounts Relating to Fraud Committed by A Subsidiary's Employee

Balances relating to fraud committed by a subsidiary's employee at March 31, 2015 and 2014 and related provision for doubtful accounts for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Balances:			
Other in investments and other assets	¥2,217	¥2,405	\$19,997
Allowance for doubtful accounts in investments and other assets	(2,217)	(2,405)	(19,997)
Provision of allowance for doubtful accounts	¥116	¥188	\$1,563

## Note 8: Assets Pledged and Secured Liability

Assets Pledged and Secured Liability at March 31, 2015 and 2014 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Cash and deposits	¥—	¥505	\$4,199
Notes and accounts receivable	—	200	1,663
	¥—	¥705	\$5,862

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Notes and accounts payable	¥—	¥505	\$4,199
Short-term loans	—	234	1,946
	¥—	¥739	\$6,145



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

(1) Short-term debt had weighted-average interest rates of 0.90% and 0.63% as of March 31, 2015 and 2014, respectively.

(2) The weighted-average interest rate on commercial paper at March 31, 2015 is 0.10%.

(3) Long-term debt at March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Long-term loans from banks and other financial institutions			
(Loans due with one year, weighted-average interest rate 0.71%)	¥7,493	¥16,491	\$137,117
(Loans due after one year, weighted-average interest rate 0.64%)	51,458	47,069	391,361
1.77% unsecured yen straight bonds due in 2014	10,000	—	—
0.794% unsecured yen straight bonds due in 2015	10,000	10,000	83,146
0.685% unsecured yen straight bonds due in 2016	10,000	10,000	83,146
0.384% unsecured yen straight bonds due in 2019	10,000	10,000	83,146
Lease obligations			
(Loans due with one year)	774	727	6,044
(Loans due after one year)	1,627	919	7,642
	101,352	95,206	791,602
Less current portion due with one year	(18,267)	(27,218)	(226,307)
Long-term debt	¥83,085	¥67,988	\$565,295

(4) The annual maturities of long-term debt at March 31, 2015 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2016	¥27,218	\$226,307
2017	23,962	199,235
2018	10,336	85,940
2019	16,150	134,281
2020 and thereafter	17,540	145,839
	¥95,206	\$791,602

## Note 10: Contingent Liabilities

(Fiscal year ended March 31, 2014)

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.

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
(Fiscal year ended March 31, 2015)			
Balance of notes receivable transferred by endorsement	¥—	¥359	\$2,985

## Note 11: 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, 2015, the shareholders approved cash dividends amounting to ¥1,136 million (\$9,445 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2015. Such appropriations are recognized in the period in which they are approved by the shareholders.

## Note 12: Income Taxes

The Companies are subject to a number of taxes levied on income, which, in the aggregate, resulted in normal statutory income tax rates of approximately 35.4% and 37.8% in the year ended March 31, 2015 and 2014, respectively.

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, 2015 and 2014:

	2014	2015
Statutory tax rate	37.8%	35.4%
Non-deductible expenses	1.7	1.1
Dividends received not taxable	(1.0)	(0.9)
Per capita inhabitants taxes	0.7	0.5
Gain on negative goodwill	(0.6)	(0.7)
Valuation allowance	(8.2)	(3.0)
Effect of multiple tax rates	0.4	0.1
Effect of change in tax rates	—	3.4
Equity in income of affiliates	(11.6)	(14.0)
Other	1.5	1.2
Effective tax rate	20.7%	23.1%

Significant components of deferred income tax assets and liabilities at March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Deferred income tax assets:			
Accrued bonuses	¥851	¥827	\$6,876
Unrealized gain from sales of inventories between the Companies	64	262	2,178
Asset for retirement benefit	4,610	4,637	38,555
Long-term accrued amount payable	57	36	299
Unrealized gain from sales of fixed assets between the Companies	1,141	1,067	8,872
Unrealized holding gain on fixed assets	809	742	6,169
Depreciation and amortization	1,292	1,137	9,454
Impairment loss of fixed assets	957	864	7,184
Loss on devaluation of investments in securities	1,242	1,126	9,362
Provision for business structure improvement	182	180	1,497
Accrued environmental expenditures	19	15	125
Asset retirement obligations	520	456	3,791
Net operating loss carry forwards	304	202	1,680
Allowance for doubtful accounts	836	874	7,267
Other	1,884	1,967	16,355
Subtotal deferred income tax assets	14,768	14,392	119,664
Valuation allowance	(4,790)	(4,323)	(35,944)
Total deferred income tax assets	¥9,978	¥10,069	\$89,720
Deferred income tax liabilities:			
Liability for retirement benefit	¥(872)	¥(975)	\$(8,107)
Reserve deductible for Japanese tax purpose	(3)	(122)	(1,014)
Reserve for deferred gain on sales of fixed assets for tax purpose	(941)	(858)	(7,134)
Valuation difference on Property, plant and equipment	(2,423)	(2,224)	(18,492)
Unrealized holding gain on securities	(2,429)	(2,777)	(23,090)
Accumulated adjustments for retirement benefit	—	(545)	(4,531)
Other	(312)	(34)	(283)
Total deferred income tax liabilities	¥(6,980)	¥(7,535)	\$(62,651)
Net deferred income tax assets	¥2,998	¥2,534	\$21,069

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

On March 31, 2015, amendments to the Japanese tax regulations were enacted into law. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2015 to March 31, 2016 and on or after April 1, 2016 are changed from 35.4% for the fiscal year ended March 31, 2015 to 32.8% and 32.1%, respectively, as of March 31, 2015.

As a result of these changes in tax rates, net deferred tax assets (after deducting the deferred tax liabilities) decreased by ¥29 million (\$241 thousand) as of March 31, 2015, and deferred income tax expense recognized for the fiscal year ended March 31, 2015 decreased by ¥367 million (\$3,051 thousand). Unrealized gains on hedging derivatives decreased by ¥3 million (\$25 thousand). Unrealized holding gains on securities increased by ¥284 million (\$2,361 thousand) and accumulated adjustments for retirement benefit increased by ¥56 million (\$466 thousand).

### Note 13: Sales to and Purchases from Unconsolidated Subsidiaries and Affiliates

Sales to and purchases from unconsolidated subsidiaries and affiliates for the years ended March 31, 2015, 2014 and 2013 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2013	2014	2015	2015
Sales	¥466	¥807	¥1,174	\$9,761
Purchases	5,781	5,887	6,018	50,037

### Note 14: 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 ¥735 million (\$6,111 thousand), ¥769 million and ¥813 million for the years ended March 31, 2015, 2014 and 2013, respectively.

### Note 15: Impairment Loss on Fixed Assets

In the year ended March 31, 2015, 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	Hitachinaka-city, Ibaraki	Machinery and equipment and others	¥102	\$848
Idle assets	Niigata-city, Niigata and others	Machinery and equipment and others	134	1,114
Total			¥236	\$1,962

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.

(Process for Recognition of Impairment Loss on Fixed Assets)

In view of the poor prospects for demand recovery in the packaging/paper processing business, the Companies resolved to withdraw from the abovementioned business. To that end, the Companies

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.

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
Vulcanized fiber production equipment	Nagaoka-city, Niigata	Machinery and equipment and others	¥158
Specialty paper production equipment	Suita-city, Osaka	Machinery and equipment and others	154
Idle assets	Sakata-city, Yamagata and others	Land and others	40
Total			¥352

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.

(Process for Recognition of 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.



## Note 16: Lease Transactions

Lease transactions for the years ended March 31, 2015 and 2014 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
	2014	2015	2015
Machinery and equipment			
Purchase price equivalent	¥1,663	¥1,479	\$12,297
Accumulated depreciation equivalent	1,228	1,268	10,543
Accumulated impairment loss equivalent	34	—	—
Book value equivalent	401	211	1,754

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
	2014	2015	2015
Due within one year	¥194	¥172	\$1,430
Due after one year	211	39	324
	¥405	¥211	\$1,754
Balance of impairment loss account on leased assets included in the outstanding lease commitments	¥4	¥—	\$—

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

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

	Millions of yen			Thousands of U.S. dollars
	2013	2014	2015	2015
Lease payments	¥212	¥209	¥204	\$1,696
Reversal of allowance for impairment loss on leased assets	6	6	5	41
Depreciation equivalent	206	203	199	1,655

### (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, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
(lessee)			
Due within one year	¥104	¥104	\$865
Due after one year	302	199	1,655
	¥406	¥303	\$2,520
(lessor)			
Due within one year	¥26	¥26	\$216
Due after one year	89	63	524
	¥115	¥89	\$740

## Note 17: Derivative Transactions

Derivative financial instruments currently utilized by the Companies include mainly forward exchange contracts, interest rate swap contracts, interest rate and currency swaps contracts and crude oil 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, interest rate swap contracts to lower the interest costs related to debt and avert the Companies' exposure to adverse movements in interest rates, interest rate and currency swap contracts to avert the Companies' exposure to adverse movements in principal and interest on foreign currency loans payable, and crude oil swap contracts to avert the Companies' exposure to adverse price movements of some fuel purchase transactions.

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 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 that do not adopt hedge accounting are not applicable as of March 31, 2014 and 2015.

Derivative transactions for which hedge accounting had been applied at March 31, 2015 and 2014 are as follows:

### (1) Currency-related

Type of derivative transaction	Main hedged items	Millions of yen						Thousands of U.S. dollars			
		2014			2015			2015			
		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		¥3,894	¥—	¥16	¥110	¥—	¥(4)	\$915	\$—	\$(33)	
EUR		¥335	¥—	¥4	¥302	¥—	¥(3)	\$2,511	\$—	\$(25)	

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			
		2014			2015			2015			
		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	¥1,289	¥287	¥(13)	¥287	¥—	¥(2)	\$2,386	\$—	\$(17)	

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			
		2014			2015			2015			
		Contract amount		Fair value	Contract amount		Fair value	Contract amount		Over one year	Fair value
Interest rate swap contracts											
Receive floating, Pay fixed	Long-term loans payable	¥15,275	¥14,375	¥—	¥17,375	¥16,475	¥—	\$144,467	\$136,983	\$—	

Fair value on interest rate swap contracts is based on the price offered by the contracted financial institution. Market value of interest rate swap is included in the corresponding hedged long-term debt as this interest

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

### (3) Interest and currency –related

Type of derivative transaction	Main hedged items	Millions of yen						Thousands of U.S. dollars			
		2014			2015			2015			
		Contract amount		Fair value	Contract amount		Fair value	Contract amount		Over one year	Fair value
Interest rate and currency swaps contracts											
Receive floating, Pay fixed	Long-term loans payable	¥500	¥500	¥—	¥500	¥—	¥—	\$4,157	\$—	\$—	
	Receive U.S. dollar, Pay Japanese Yen										

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

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

### (4) Commodities –related

Type of derivative transaction	Main hedged items	Millions of yen						Thousands of U.S. dollars			
		2014			2015			2015			
		Contract amount		Fair value	Contract amount		Fair value	Contract amount		Over one year	Fair value
Commodities swaps contracts											
Receive floating, Pay fixed	Fuel oil	¥—	¥—	¥—	¥162	¥—	¥5	\$1,347	\$—	\$42	

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

## Note 18: Retirement Benefits –Related

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

Under the corporate pension fund plan and the lump-sum retirement payment plan of some consolidated subsidiaries, retirement benefit obligations and retirement benefit costs are calculated using the

simplified method.

With regard to the Tokyo Kamisho Employees' Pension Fund and the Osaka Kamisho Employees' Pension Fund that some consolidated subsidiaries had been members of, the former dissolved with the authorization of the Minister of Health, Labour and Welfare effective November 20, 2014 and the latter dissolved with the authorization of the Minister of Health, Labour and Welfare effective January 30, 2015. The dissolution of the two funds have no impact on the Company's consolidated financial statements.

(Fiscal year ended March 31, 2015)

### 1. Defined benefit plans, except plan applied simplified method

#### (1) Movement in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Balance at the beginning of the year	¥18,239	¥18,198	\$151,309
Cumulative effects of changes in accounting policies	—	1,201	9,986
Restated balance	18,239	19,399	161,295
Service cost	719	981	8,157
Interest cost	342	126	1,048
Actuarial loss (gain)	29	73	607
Benefits paid	(1,131)	(1,670)	(13,886)
Balance at the end of the year	¥18,198	¥18,909	\$157,221

#### (2) Movements in plan assets

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Balance at the beginning of the year	¥7,381	¥8,283	\$68,870
Expected return on plan assets	78	83	690
Actuarial loss (gain)	766	929	7,724
Contributions paid by the employer	397	356	2,960
Benefits paid	(339)	(573)	(4,764)
Balance at the end of the year	¥8,283	¥9,078	\$75,480

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

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Funded retirement benefit obligations	¥6,769	¥6,843	\$56,897
Plan assets	(8,283)	(9,078)	(75,480)
	(1,514)	(2,235)	(18,583)
Unfunded retirement benefit obligations	11,429	12,066	100,324
Total Net liability (asset) for retirement benefits	9,915	9,831	81,741
Liability for retirement benefits	11,473	11,962	99,460
Asset for retirement benefits	(1,558)	(2,131)	(17,719)
Total Net liability for retirement benefits	¥9,915	¥9,831	\$81,741



(4) Retirement benefit costs	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Service cost	¥719	¥981	\$8,157
Interest cost	342	126	1,048
Expected return on plan assets	(79)	(83)	(690)
Net actuarial loss amortization	(145)	(218)	(1,813)
Total retirement benefit costs	¥837	¥806	\$6,702

(5) Adjustments for retirement benefit	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Actuarial gains and losses	¥—	¥(638)	\$(5,305)

(6) Accumulated adjustments for retirement benefit	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Actuarial gains and losses that are yet to be recognized	¥(1,059)	¥(1,696)	\$(14,102)

#### (7) Plan assets

1. Plan assets comprise:	2014	2015
Bonds	29.4%	20.0%
Equity securities	49.4%	46.0%
Cash and deposits	—	15.2%
General account of life insurance companies	17.2%	15.1%
Other	4.0%	3.7%
Total	100.0%	100.0%

2. Long-term expected rate of return  
Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

#### (8) Actuarial assumptions

The principal actuarial assumptions:	2014	2015
Discount rate	2.0% (mainly)	0.6% (mainly)
Long-term expected rate of return	1.0% (mainly)	1.0% (mainly)

## 2. Defined benefit plan applying the simplified method

(1) Movement in liability for retirement benefits	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Balance at the beginning of the year	¥1,124	¥1,162	\$9,662
Retirement benefit costs	171	176	1,463
Benefits paid	(68)	(69)	(574)
Contributions paid by the employer	(100)	(110)	(915)
Other	35	37	308
Balance at the end of the year	¥1,162	¥1,196	\$9,944

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

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Funded retirement benefit obligations	¥568	¥606	\$5,039
Plan assets	(472)	(597)	(4,964)
	96	9	75
Unfunded retirement benefit obligations	1,066	1,187	9,869
Total Net liability for retirement benefits	1,162	1,196	9,944
Liability for retirement benefits	1,162	1,196	9,944
Total Net liability for retirement benefits	¥1,162	¥1,196	\$9,944

## (3) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Total retirement benefit costs based on the simplified method	¥172	¥176	\$1,463

## 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 ¥32 million (\$266 thousand) and ¥49 million for the years ended March 31, 2015 and 2014, respectively.

### (1) Recent funding position for the multiple-employer contribution system

Fiscal year ended March 31, 2014 (As of March 31, 2013)

	Tokyo Kamisho Employees' Pension Fund	Osaka Kamisho Employees' Pension Fund
	Millions of yen	Millions of yen
Amount of plan assets	¥54,396	¥24,598
The total of the amount of actuarial liability and the amount of minimum actuarial reserve accounted for in pension finance (Note)	75,196	26,153
Net	¥(20,800)	¥(1,555)

Note: In fiscal 2013 (ending March 31, 2014), this item was listed as "Amount of retirement benefit obligations accounted for in pension finance."

Fiscal year ended March 31, 2015

Not listed for the current fiscal year due to the dissolution of the Tokyo Kamisho Employees' Pension Fund and the Osaka Kamisho Employees' Pension Fund.

### (2) Contribution ratio paid by the Companies for multiple-employer contribution system as a whole

Fiscal year ended March 31, 2014 (As of March 31, 2013)

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

Fiscal year ended March 31, 2015

Not listed for the current fiscal year due to the dissolution of the Tokyo Kamisho Employees' Pension Fund and the Osaka Kamisho Employees' Pension Fund.

### (3) Further note

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 Companies have recognized ¥24 million (\$200 thousand) and ¥36 million for the years ended March

31, 2015 and 2014, respectively, as a special installment payment allocated for this amortization. The ratios in (2) above do not match the actual burden ratios of the Companies.

## Note 19: 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, 2015 and 2014:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Balance at the beginning of the year	¥1,469	¥1,460	\$12,139
Adjustments over time	10	10	83
Decrease due to change of estimates	(5)	(1)	(8)
Decrease in loss on disposal of property, plant and equipment	(14)	(51)	(424)
Balance at the end of the year	¥1,460	¥1,418	\$11,790

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

The Companies have obligations to restore the original state when vacating land, building and other structures, which the Companies 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 Companies 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 20: 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 Companies evaluate 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

### 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

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

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

"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
2015						
Sales:						
Sales to outside customers	¥200,647	¥19,820	¥220,467	¥7,933	¥—	¥228,400
Intersegment sales or transfers	2,528	126	2,654	28,508	(31,162)	—
Total	203,175	19,946	223,121	36,441	(31,162)	228,400
Operating income	¥4,444	¥442	¥4,886	¥463	¥791	¥6,140
Identifiable assets	¥326,104	¥17,667	¥343,771	¥18,830	¥(11,568)	¥351,033
Other items						
Depreciation and amortization	¥18,039	¥944	¥18,983	¥443	¥(420)	¥19,006
Impairment loss	¥97	¥132	¥229	¥7	¥—	¥236
Investment in affiliates	¥30,978	¥—	¥30,978	¥—	¥—	¥30,978
Increase in property, plant and equipment/intangible assets	¥10,937	¥273	¥11,210	¥512	¥(594)	¥11,128
Thousands of U.S. dollars						
2015						
Sales:						
Sales to outside customers	\$1,668,305	\$164,795	\$1,833,100	\$65,960	\$—	\$1,899,060
Intersegment sales or transfers	21,019	1,048	22,067	237,033	(259,100)	—
Total	1,689,324	165,843	1,855,167	302,993	(259,100)	1,899,060
Operating income	\$36,950	\$3,675	\$40,625	\$3,849	\$6,578	\$51,052
Identifiable assets	\$2,711,433	\$146,894	\$2,858,327	\$156,564	\$(96,183)	\$2,918,708
Other items						
Depreciation and amortization	\$149,988	\$7,849	\$157,837	\$3,683	\$(3,492)	\$158,028
Impairment loss	\$807	\$1,097	\$1,904	\$58	\$—	\$1,962
Investment in affiliates	\$257,570	\$—	\$257,570	\$—	\$—	\$257,570
Increase in property, plant and equipment/intangible assets	\$90,937	\$2,270	\$93,207	\$4,257	\$(4,939)	\$92,525

\*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 ¥791 million (\$6,578 thousand) mainly represent eliminations of intersegment transactions.

(2) Adjustments in segment assets in the amount of ¥(11,568) million (\$(96,183) thousand) include ¥(19,501) million (\$(162,144) thousand) for eliminations of intersegment debts and credits and ¥7,933 million (\$65,960 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 ¥(594) million (\$(4,939) 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
							2014
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others*1	Corporate or elimination*2	Consolidated*3	
Sales:							
Sales to outside customers	¥195,062	¥20,063	¥215,125	¥8,740	¥—	¥223,865	
Intersegment sales or transfers	2,312	284	2,596	27,225	(29,821)	—	
<b>Total</b>	<b>197,374</b>	<b>20,347</b>	<b>217,721</b>	<b>35,965</b>	<b>(29,821)</b>	<b>223,865</b>	
Operating income	¥1,314	¥654	¥1,968	¥534	¥806	¥3,308	
Identifiable assets	¥324,481	¥18,644	¥343,125	¥18,532	¥(10,849)	¥350,808	
Other items							
Depreciation and amortization	¥18,051	¥1,006	¥19,057	¥440	¥(426)	¥19,071	
Impairment loss	¥346	¥1	¥347	¥5	¥—	¥352	
Investment in affiliates	¥20,907	¥—	¥20,907	¥—	¥—	¥20,907	
Increase in property, plant and equipment/intangible assets	¥25,258	¥545	¥25,803	¥356	¥(459)	¥25,700	

\*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 ¥806 million mainly represent eliminations of intersegment transactions.
- (2) Adjustments in segment assets in the amount of ¥(10,849) million include ¥(17,515) million for eliminations of intersegment debts and credits and ¥6,694 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 ¥(459) 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, 2015

### 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
					2015
	Japan	Asia	Others	Total	
Net Sales	¥200,088	¥17,578	¥10,734	¥228,400	

					Thousands of U.S. dollars
					2015
	Japan	Asia	Others	Total	
Net Sales	\$1,663,657	\$146,154	\$89,249	\$1,899,060	

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

					Millions of yen
					2015
	Japan	China	Others	Total	
Property, plant and equipment	¥142,982	¥16,329	¥1,129	¥160,440	

					Thousands of U.S. dollars
					2015
	Japan	China	Others	Total	
Property, plant and equipment	\$1,188,842	\$135,770	\$9,387	\$1,333,999	

### 3. Information by Major Customer

Name of Customers	Millions of yen	Thousands of U.S. dollars
	2015	2015
SHINSEI PULP & PAPER COMPANY LIMITED	¥40,733	\$338,680
KOKUSAI PULP & PAPER CO., LTD.	¥26,334	\$218,957

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	¥197,068	¥17,156	¥9,641	¥223,865	

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	
	2014	
SHINSEI PULP & PAPER COMPANY LIMITED	¥41,164	
KOKUSAI PULP & PAPER CO., LTD.	¥25,404	

(Information regarding the amounts of amortization and unamortized balance by reportable segment)  
Fiscal year ended March 31, 2015

						Millions of yen
						2015
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others	Corporate or elimination	Consolidated
Goodwill:						
Amortization of goodwill	¥167	¥—	¥167	¥—	¥—	¥167
Balance at end of year	¥1,975	¥—	¥1,975	¥—	¥—	¥1,975
Negative goodwill:						
Amortization of negative goodwill	¥729	¥14	¥743	¥128	¥—	¥871
Balance at end of year	¥—	¥—	¥—	¥—	¥—	¥—

						Thousands of U.S. dollars
						2015
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others	Corporate or elimination	Consolidated
Goodwill:						
Amortization of goodwill	\$1,389	\$—	\$1,389	\$—	\$—	\$1,389
Balance at end of year	\$16,421	\$—	\$16,421	\$—	\$—	\$16,421
Negative goodwill:						
Amortization of negative goodwill	\$6,061	\$117	\$6,178	\$1,064	\$—	\$7,242
Balance at end of year	\$—	\$—	\$—	\$—	\$—	\$—

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

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

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

(Information about gain on negative goodwill by reporting segment)

For the year ended March 31, 2015  
In the Paper and Pulp segment, the Company recorded a gain on negative goodwill of ¥202 million (\$1,680 thousand) in conjunction with the acquisition of additional shares of Hokuetsu Package Co., Ltd. and Techno-Hokuetsu, Ltd, consolidated subsidiaries of the Company .

For the year ended March 31, 2014  
In the Paper and Pulp segment, as a result of underwriting a capital increase in Xing Hui Investment Holdings Co., Ltd., a consolidated subsidiary of the Company, negative goodwill of ¥7 million have been charged to the allocated income in this year. 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, negative goodwill of ¥118 million have been charged to the allocated income in this year.

## Note 21: Related Party Transactions

### (1) Transactions with related party

Fiscal year ended March 31, 2015

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

											2015
Attribute	Name	Location	Amount of capital or investment in capital	The contents of a business operation or an occupation	Ownership ratio (Parent company ownership ratio) of voting rights (%)	Relationship	Nature of transaction	Trading amount	Account	Balance at the end of the fiscal year	
Principal stockholder	Mitsubishi Corporation	Chiyoda-ku, Tokyo	¥204,447 million (\$1,699,900 thousand)	A general trading company	(Parent company ownership ratio) Direct 19.4	Agency for the products of the Company	Sales of paper	¥19,028 million (\$158,211 thousand)	Account receivable-trade	¥4,963 million (\$41,265 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.

Unconsolidated subsidiary and affiliate, etc., of the Company

											2015
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	¥39,707 million (\$330,149 thousand)	Paper and pulp manufacturing	Direct 22.0 Indirect 0.0	Sales of shares	Sales of shares	¥3,997 million (\$33,234 thousand)	—	—	

(Transaction terms and conditions, policy to decide such terms and conditions and other)  
The Company decided to accept a capital increase through a third-party share allocation of ¥945.00 (\$7.86) per share undertaken by Daio Paper Corporation.

Fiscal year ended March 31, 2014

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 (Parent company 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	A general trading company	(Parent company ownership ratio) Direct 19.5	Agency for the products of the Company	Sales of paper	¥15,722 million	Account receivable-trade	¥3,723 million	
							Acquisition of treasury stock	¥7,561 million	—	—	

(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.



## (2) Notes on parent company or significant affiliated company

For the fiscal year ended March 31, 2015, the significant affiliated company is Daio Paper Corporation and its summarized financial statement is as follows.

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Total current assets	¥243,872	¥252,490	\$2,099,360
Total noncurrent assets	402,163	400,115	3,326,806
Total current liabilities	253,244	237,696	1,976,353
Total noncurrent liabilities	273,616	250,554	2,083,263
Total net assets	119,253	164,495	1,367,714
Net sales	430,055	450,239	3,743,569
Income before income taxes	6,609	17,373	144,450
Net income	6,293	13,209	109,828

## Note 22: Comprehensive Income

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

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Unrealized holding gains (losses) on securities, net of taxes			
Occurrence amount	¥3,077	¥2,105	\$17,502
Recycling	(0)	(2)	(17)
Before tax effect	3,077	2,103	17,485
Tax effect	(1,044)	(348)	(2,893)
Unrealized holding gains (losses) on securities, net of taxes	¥2,033	¥1,755	\$14,592
Unrealized holding gains (losses) on hedging derivatives, net of taxes			
Occurrence amount	¥516	¥98	\$815
Recycling	(500)	(208)	(1,730)
Before tax effect	16	(110)	(915)
Tax effect	(5)	37	308
Unrealized holding gains (losses) on hedging derivatives, net of taxes	¥11	¥(73)	\$(607)
Foreign currency translation adjustment			
Occurrence amount	¥1,648	¥890	\$7,400
Recycling	—	—	—
Before tax effect	1,648	890	7,400
Tax effect	—	—	—
Foreign currency translation adjustment	¥1,648	¥890	\$7,400
Adjustments for retirement benefit, net of taxes			
Occurrence amount	¥—	¥856	\$7,117
Recycling	—	(218)	(1,812)
Before tax effect	—	638	5,305
Tax effect	—	(170)	(1,414)
Adjustments for retirement benefit, net of taxes	¥—	¥468	\$3,891
Share of other comprehensive income of associates accounted for using equity method			
Occurrence amount	¥178	¥1,953	\$16,238
Recycling	(23)	2	17
Share of other comprehensive income of associates accounted for using equity method	¥155	¥1,955	\$16,255
Total other comprehensive income	¥3,847	¥4,995	\$41,531

## Note 23: Stock Option

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

### (1) The following shows the Company's stock options as of March 31, 2015.

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	From July 13, 2013 to July 12, 2028
2014 Stock options	9 directors	80,000 shares	July 11, 2014	¥1 (\$0.01)	From July 12, 2014 to July 11, 2029

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

	2011 Stock options (shares)	2012 Stock options (shares)	2013 Stock options (shares)	2014 Stock options (shares)
Non-vested stock option:				
Outstanding at March 31, 2014	—	—	—	—
Granted	—	—	—	80,000
Forfeited	—	—	—	—
Vested	—	—	—	80,000
Outstanding at March 31, 2015	—	—	—	—
Vested stock option:				
Outstanding at March 31, 2014	89,000	153,500	117,000	—
Vested	—	—	—	80,000
Exercised	8,500	39,000	29,500	—
Forfeited	—	—	—	—
Outstanding at March 31, 2015	80,500	114,500	87,500	80,000

### (3) The following shows the per share prices.

	2011 Stock options	2012 Stock options	2013 Stock options	2014 Stock options
Exercise price	¥1	¥1	¥1	¥1(\$0.01)
Average stock price at exercise	¥457	¥458	¥448	—
Fair value price at grant date	¥428	¥314	¥359	¥354(\$2.94)

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

	2011 Stock options	2012 Stock options	2013 Stock options	2014 Stock options
Estimate method	Black-Scholes option-pricing models	Black-Scholes option-pricing models	Black-Scholes option-pricing models	Black-Scholes option-pricing models
Expected volatility	33.120%	33.243%	35.972%	37.089%
Expected life	8 years	8 years	8 years	8 years
Expected dividend	¥12 / share	¥12 / share	¥12 / share	¥12 / share (\$0.10/ share)
Risk-free interest rate	0.844%	0.502%	0.685%	0.356%



**Note 24: Business Combinations**

**Significant subsequent Events about business combinations**

As regards the business combination outlined below, while its main terms were agreed upon in fiscal 2014 (ended March 31, 2015), the business combination has

not been completed by the date of the consolidated financial statements.

(Business Combination by Acquisition)  
The Company resolved at its board of directors meeting held on February 20, 2015 to acquire 70% stake in Alpac Forest Products Inc. (hereinafter, "AFPI"), which is engaged in the pulp manufacturing business in Canada, and 100% stake in Alpac Pulp Sales Inc. (hereinafter, "APSI"), which is engaged in the sales business of pulp manufactured by AFPI, respectively from Mitsubishi Corporation, to make both companies subsidiaries. The

Company resolved at its board of directors meeting held on March 27, 2015 to acquire the remaining 30% stake in AFPI from Oji Holdings Corporation (hereinafter, "Oji Holdings") to make AFPI a wholly owned subsidiary. On March 31, 2015, the share transfer agreement for AFPI was concluded between the Company, Mitsubishi Corporation, and Oji Holdings. On the same day, the share transfer agreement for APSI was concluded between the Company and Mitsubishi Corporation.

**(1) Overview of Business Combination**

① The name and business of acquired companies

Name of acquired company	Alpac Forest Products Inc.
Business description	Pulp manufacturing business
Name of acquired company	Alpac Pulp Sales Inc.
Business description	Pulp sales business

③ Scheduled date of business combination

The business combination is expected to be executed without delay, after the approvals and licenses, etc. necessary for the execution of the transaction have been obtained pursuant to laws and ordinances.

② Main reasons for business combination

The business combination is intended for the Company's full-scale entry into the growing international market pulp business and further strengthening of the Company's international competitiveness and revenue base, as well as establishment of businesses at every stage of the paper business value chain, ranging from the newly acquired market pulp business on the upstream to the paper processing business on the downstream.

④ Legal form of business combination

Share acquisition

⑤ (Expected) name of companies following combination

Alpac Forest Products Inc.  
Alpac Pulp Sales Inc.

⑥ (Expected) percentage of voting rights acquired

Alpac Forest Products Inc.	: 100% of total issued shares
Alpac Pulp Sales Inc.	: 100% of total issued shares

**(2) (Expected) acquisition cost of acquired companies, etc. and their breakdown**

Acquisition cost	Alpac Forest Products Inc.	CAD 74.99 million
	Alpac Pulp Sales Inc.	CAD 1
Acquisition-related expenses	Advisory fee, etc.	Undetermined

**(3) Outline of Accounting Procedures**

The accounting procedures pertaining to the acquisitions are expected to apply "Accounting Standard for Business Combinations (ASBJ Statement No.21)" and "Guidance on Accounting Standard for

Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No.10)," with the Company as the acquiring company.

**Note 25: Subsequent Events**

**Distribution of Retained Earnings**

The following items were approved at the annual share-holders' meeting of the Company held on June 26, 2015:

Payment of a cash dividend of ¥6.00 (\$0.05) per share, or a total of ¥1,136 million (\$9,445 thousand), to shareholders.

**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, 2015 and 2014, 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, 2015 and 2014 and 2013, 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, 2015 and 2014, and their financial performance and cash flows for the years ended March 31, 2015 and 2014 and 2013 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, 2015 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

August 14, 2015  
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

**BF & 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  
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

## Equity Data

### Stock Information (as of March 31, 2015)

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	12,685

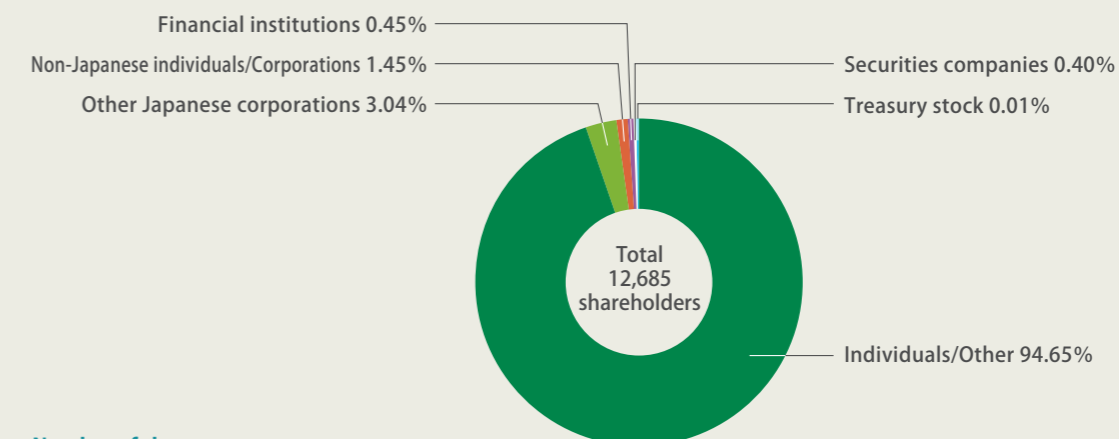
### Major Shareholders (as of March 31, 2015)\*

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)	15,554	7.43
Japan Trustee Services Bank, Ltd. (Trust Account)	7,590	3.63
Hokuetsu Kishu Paper Stock Ownership Association	4,864	2.32
Sompo Japan Nipponkoa Insurance Inc.	4,499	2.15
Daio Paper Corporation	4,286	2.05
Kawasaki-kami Unyu Co., Ltd.	4,286	2.05
The Daishi Bank, Ltd.	4,217	2.02
The Hokuetsu Bank, Ltd.	4,215	2.01
Mizuho Bank, Ltd.	3,600	1.72

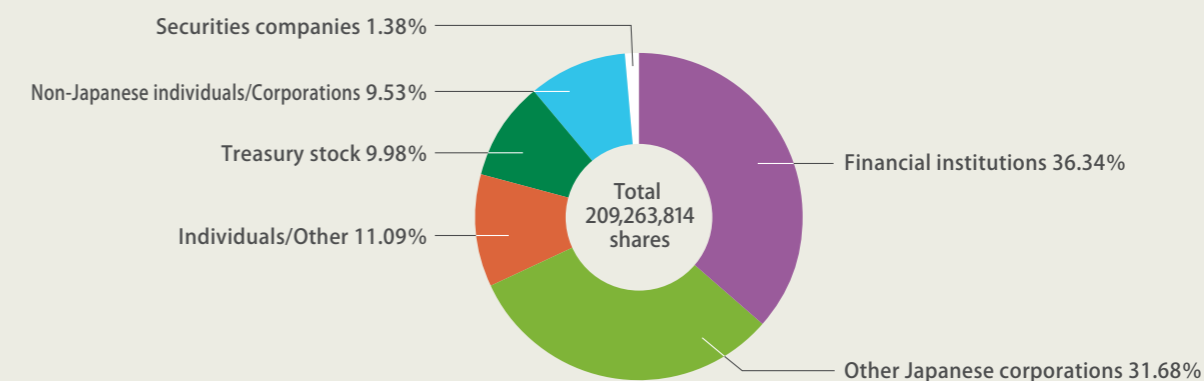
\* In addition to the above, the Company holds 19,948 shares (9.53%) of treasury stock.

### Distribution of shares by shareholders (as of March 31, 2015)

#### Number of shareholders



#### Number of shares



## Corporate Data (as of March 31, 2015)

Corporate Name: Hokuetsu Kishu Paper Co., Ltd.	Fiscal year ending: March 31
Established: April 27, 1907	Number of consolidated subsidiaries: 23
The registered head office: 3-5-1, Nishizao, Nagaoka, Niigata Prefecture	Number of affiliated companies accounted for under the equity method: 6
Paid-in capital: 42,020,940,239 yen	Number of employees: 4,394 (consolidated); 1,508 (non-consolidated)

## Offices and Mills (as of March 31, 2015)

### Head Office

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

### Osaka Branch

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

### Nagoya Office

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

### Fukuoka Office

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

### Niigata Office

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

## Central Research Laboratory

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

### Niigata Mill

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



### Kishu Mill

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



### Kanto Mill Ichikawa

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



### Kanto Mill Katsuta

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



### Nagaoka Mill

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



### Osaka Mill

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



## Hokuetsu Kishu Paper Group Corporate Report 2015

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Website	<a href="http://www.hokuetsu-kishu.jp/">http://www.hokuetsu-kishu.jp/</a>



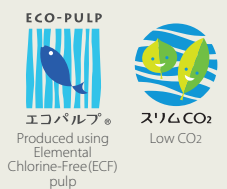
**HOKUETSU KISHU PAPER CO., LTD.**

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