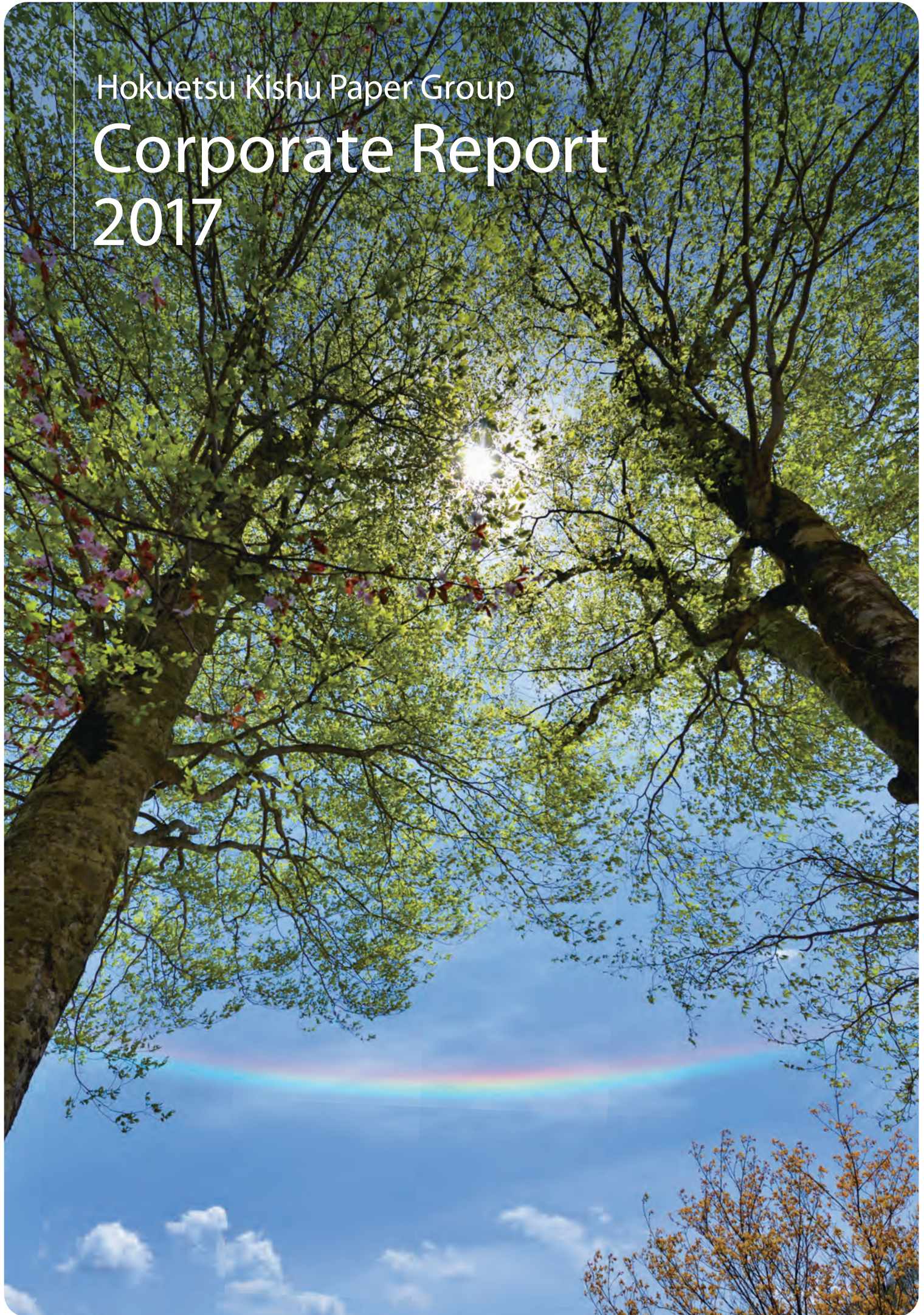


Hokuetsu Kishu Paper Group

Corporate Report 2017



The Hokuetsu Kishu Paper Group Corporate Report 2017 Editorial Policy

The objective of this Corporate Report is to deepen communication with all of our stakeholders by providing an integrated report that summarizes not only financial information, such as our business results, business outlook and progress of our Medium-Term Management Plan but also non-financial information, such as environment information, social information, and governance information. It is our hope that this Corporate Report will deepen understanding by our stakeholders of the Hokuetsu Kishu Paper Group, which is striving to increase corporate value through our core business of paper-making. We have also published even further detailed information on our company website and we encourage you to refer to this resource as well.

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

Period covered by the Report:
April 1, 2016 - March 31, 2017
(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)

CONTENTS

Message to our Stakeholders	4
Start of the V-DRIVE Medium-Term Management Plan	8
The Business Segments of the Hokuetsu Kishu Paper Group and Our Future Prospects	12
Business Overview (1): Paper Business	14
Business Overview (2): White Paperboard Business	16
Business Overview (3): Specialty Paper Business	18
Business Overview (4): Paper Processing Business	20
Business Overview (5): Pulp Business	22
Research and Development Initiatives	24
Product Safety and Quality Control Initiatives	25
Environmental Preservation Initiatives	26
Environment-Related Data	28
Action Guidelines for Procurement of Raw Materials	30
Corporate Governance	34
CSR Activities	36
Compliance System	37
Group Management	38
Group Company Profile	39
HR Management	40
Coexistence with Local Communities	41
Executive Officers	42
Financial Information	43
Consolidated Financial Highlights	44
Management's Discussion and Analysis	46
Consolidated Financial Statements:	
Consolidated Balance Sheets	48
Consolidated Statements of Income	50
Consolidated Statements of Comprehensive Income	50
Consolidated Statements of Cash Flows	51
Consolidated Statements of Changes in Net Assets	52
Notes to Consolidated Financial Statements	54
Independent Auditor's Report	81
Affiliated Group Companies	82
Equity Data	83
Corporate Data	84

The start of the V-DRIVE plan aiming for consolidated net sales of ¥300 billion

Sekio Kishimoto
President and CEO

Looking back on FY2016

The Japanese economy in the previous fiscal year from April 2016 to March 2017 continued to improve with stronger corporate earnings and employment. The implementation of various policies has also put the Japanese economy on a gradual recovery, but the business environment is increasingly harsh due to the uncertain impact on the global economy from the economic policies of the new administration in the United States and the issue of the UK withdrawing from the EU.

Although Hokuetsu Kishu Paper Group sales in Japan decreased, sales of Alberta-Pacific Forest Industries Inc. ("Al-Pac") in Canada are added for the full year, resulting in consolidated net sales reaching a record high of ¥262.3 billion, an increase of ¥15.5 billion (6.3% increase) from the previous year. Operating income was ¥12.9 billion, up ¥ 3.6 billion (39.7% increase) from the previous year, due to the contribution of Al-Pac's profits and improvement in operating efficiency at Jiangmen Xinghui Paper Mill Co., Ltd. in China.

Ordinary income was ¥14.0 billion, an increase of ¥3.4 billion (32.8% increase), and net income for this year belonging to shareholders of the parent company minus corporate tax was ¥10.3 billion, up ¥ 2.9 billion (38.8% increase) from the previous year.

Our group aims to achieve the goal of an overseas sales ratio of 25% set forth in the "Vision 2020" Long-Term Management Plan ahead of schedule, while using our manufacturing bases in China, France, and Canada as a foothold to transform our "product portfolio" and global "regional portfolio" simultaneously. As a result, the overseas sales ratio of our group increased significantly from 9% to 28% in the six years from the end of the fiscal year in March 2011.

Goals of the "C-next" Medium-Term Management Plan achieved

Our group formulated the Long-Term Management Plan "Vision 2020" in April 2011 with the goal of achieving consolidated net sales of over ¥300 billion and an overseas sales ratio of 25%. To reach this goal, we have been working under the medium-term management plans of "G-1st," from April 2011 to March 2014, and "C-next," from April 2014, over the past six years.

Our efforts have been based on the three basic strategies of the "C-next" plan, which are "create new business fields," "reform business structure," and "strengthen our profit base."

Outside Japan, we established Jiangmen Xinghui Paper Mill Co., Ltd. in China in 2011, built a white paperboard mill from undeveloped land, and acquired French company Bernard Dumas S.A.S. ("Dumas") in 2012 to become the second largest specialty glass fiber sheet manufacturer in the world.

Furthermore, we acquired Canadian pulp manufacturing and sales companies Alpac Forest Products Inc. and Al-Pac Pulp Sales Inc. in 2015 (and merged into Alberta-Pacific Forest Industries Inc. on July 1, 2016). This brought the Group to a position where it covers all stages of the paper pulp business value chain from upstream to downstream sectors.

In Japan, we strengthened our paper processing business by merging Hokuetsu Package Co., Ltd. with BF Co., Ltd., into BF & Package Co., Ltd.

As a result of carrying out these basic strategies, our group's consolidated sales for this year reached a record high, and we achieved virtually all of the goals set forth in the "C-next" plan.



Commemorating our 110th anniversary and the start of the "V-DRIVE" medium-term management plan

We were founded in 1907 and celebrated our 110th anniversary in April this year. At the same time, as a final step toward achieving "Vision 2020," we began a new three-year medium-term management plan, "V-DRIVE."

The plan is named after the three Vs of "Variation" in advancing the creation of new business fields and business structure reform, the "Value" of improving our corporate value, and the "Victory" of achieving the goals of "Vision 2020," combined with the "Drive" that accelerates business activities toward achieving the three Vs.

Under the plan's basic policies of "expanding overseas business," "reinforcing the competitiveness of our mills," and "strengthening the base of our consolidated management system," we have set the following targets for the fiscal year ending March 2020.

Consolidated net sales: ¥300 billion	Net sales operating income ratio: 5.0%	EBITDA: ¥40 billion
Operating income: ¥ 15 billion	ROE: 6.0%	Net debt-equity ratio: Below 0.6

To achieve the "V-DRIVE" plan, we are planning a total of ¥90 billion in investments; ¥50 billion in new investments for mergers and acquisitions and in strategic investment for research and development, and ¥40 billion in capital investments in Japan (¥30 billion) and abroad (¥10 billion) to strengthen our competitiveness.

Proactive development of overseas business

We have been actively investing abroad, and have established production bases in China, France, and Canada. Jiangmen Xinghui Paper Mill Co., Ltd. in China started commercial production in 2015. The company saw a strong increase in sales mainly in Guangdong province by offering products that meet the needs of customers combined with a stronger sales strategy through intensive marketing, which led to improved income in FY2016. We are now considering building a second paper machine in the mill to further expand the growth of the white paperboard business in China.

Shanghai Toh Tech, Co. Ltd. dramatically increases the production and sale of chip carrier tape base paper for transporting electronic components due to the sharp increase in demand for electronics components created by the spread of smartphones and the rapid digitization of automobiles. We will further expand sales in Chinese market where growth is expected in the future.

Dumas in France is going strong in the production and sales of automotive battery separators, and working to increase demand and establish a supply system for the global market. We will continue to consider establishing new production bases abroad while reinforcing the production capabilities of existing facilities.

Since acquiring Al-Pac of Canada in 2015, the company has made a significant contribution to the growth of sales and income of our group. Our group will position the pulp manufacturing and sales business as our “fifth core business,” adding it to our existing paper, white paperboard, specialty paper, and paper processing businesses, and we will continue to strengthen our competitiveness by making use of knowledge of Al-Pac in North America.

Continue industry-leading environmental measures

Our group has made “minimum impact” a basic policy aiming for harmony between nature and humanity by



reducing any adverse environmental impact to the least amount possible at every stage, from raw materials to end products. As a result of aggressively promoting environmental measures ahead of the industry, our CO2 emission intensity is about half the paper pulp industry average, and is the best in the industry.

The Niigata Mill is striving to reduce CO2 emissions and improve its energy efficiency by introducing gas cogeneration equipment and black liquor concentration equipment. In the 20th “Environmental Management Survey” conducted by the Nikkei in 2016, we ranked 31st out of 1,733 manufacturing companies, making us the top-ranked company in the paper pulp industry. We are also providing environmentally friendly products and actively promote environmental management by expanding FSC® certified paper for the Tokyo Olympics and Paralympics in 2020 and acquiring ISO14001 certification for Jiangmen Xinghui Paper Mill Co., Ltd. in China.

Accelerate R&D and commercialization of CNF/CNC

Our group has been actively and continuously engaged in the practical application and commercialization of functional specialty materials and other materials without limiting itself to traditional paper and paperboard frameworks. To speed up the development of new functional materials in the entire Group, the “Novel Materials Development Office” was established in April 2017.

We have great expectations for cellulose nanofibers (CNF). CNF is a light and durable material refined to a nano level that uses plant fiber from wood pulp and other materials. Our group is advancing R&D of CNF to further develop the accumulated technology with air purification filters using glass fiber. Specifically, we succeeded in developing a super high-performance air filter media that uses a spider web of CNF in the gaps between the glass fibers and a super low density, high specific surface area porous aerogel.

Through these efforts, in addition to receiving the President Award at the 33rd Annual Technical Meeting on Air Cleaning and Contamination Control sponsored by the Japan Air Cleaning Association, we were also awarded the Japan TAPPI Award by the Japan Technical Association of the Pulp and Paper Industry.

In addition, since 2010, Al-Pac in Canada has undertaken joint research on cellulose nanocrystals (CNC) with Alberta research institution, InnoTech Alberta. CNC is a new manufactured material produced by chemically treating pulp fibers to fragment the fibers to their crystals. Last year, together with Al-Pac, we reached an agreement with the Alberta provincial government in a partnership to further develop commercial CNC materials.

Contribute to society and sustainable growth

From April 2017, we have started to expand support for employees who are raising children by the existing “household allowance” to a “child support allowance,” revising the allowance payment standard including to change and extend the period of shortened work hours for childcare (to the end of the academic year for children in Grade 1) and the childcare leave period (until the age of one and a half or the end of the fiscal year in which a child turns one year old). Also, as society ages, we are planning to extend the age of retirement to 65 years old from April 2018 to prepare a work environment where employees can enthusiastically work throughout their lives.

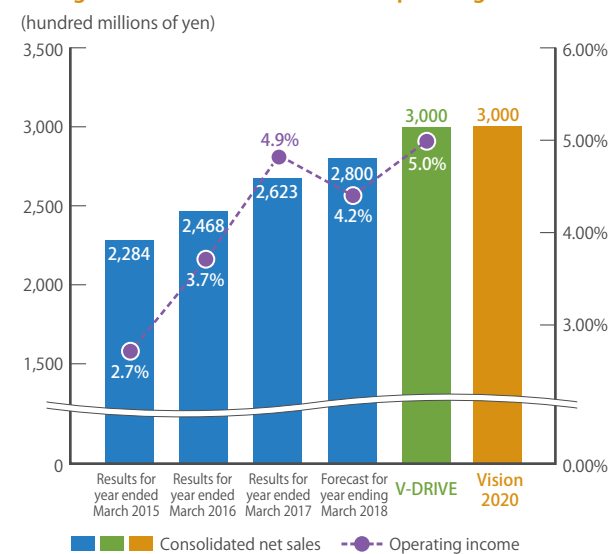
Since its establishment in 1907, our group has contributed to society by devoting itself to paper-making. We will maintain an unwavering spirit, and ask for your continued support, guidance, and encouragement.

(Hokuetsu Kishu Paper FSC License Code: FSC-C005497)

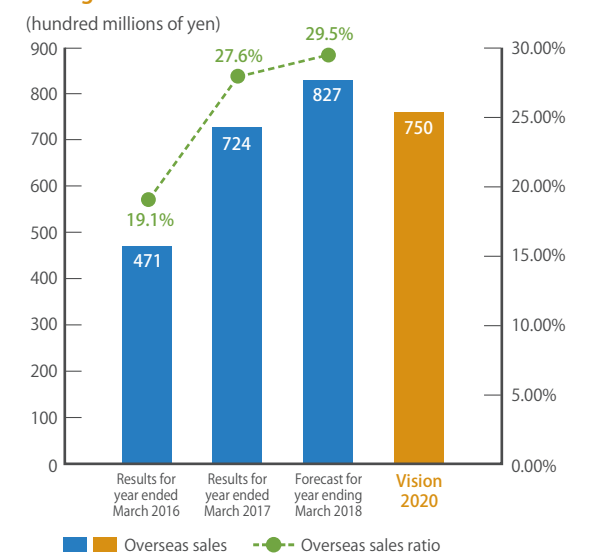
See p.8-p.9 for an outline of the “V-DRIVE” Medium-Term Management Plan

Initiatives toward accomplishing Vision 2020

Changes in Consolidated net sales/Operating income



Changes in Overseas sales/Overseas sales ratio



The start of “V-DRIVE” with the aim of achieving “Vision 2020”

The Hokuetsu Kishu Paper Group formulated and announced its long-term management plan, “Vision 2020,” in April 2011. Based on this plan, as a company that provides attractive products while promoting environmental management, we have continued to challenge ourselves to reach a target of more than ¥300 billion in net sales. The new medium-term management plan “V-DRIVE” is the final step towards achieving “Vision 2020.” Going forward, we will strive to improve our corporate value.

Vision 2020: Hokuetsu Kishu Paper Group’s Corporate Vision for 2020 (announced April 2011)

- 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%)

V-DRIVE Medium-Term Management Plan

Variation: Promote the creation of new fields and the reform of business structure

Value : Enhance the corporate value

Victory : Ride to victory by achieving Vision 2020

DRIVE : Accelerate corporate activities for these three “V”s

Overview of V-DRIVE management plan

Period of the Plan

From April 1, 2017, through March 31, 2020 (three years)

Consolidated management indicators

Net sales: ¥300 billion

Operating income: ¥15 billion

Net sales operating income ratio: 5.0% or above

ROE: 6.0% or above

EBITDA: ¥40 billion

Net debt-equity ratio: 0.6 or less

Vision 2020



Basic policy and strategy

Basic policy

- Expand the overseas business
- Refortify the competitiveness of mills
- Strengthen the base of the consolidated management system

Strategy

Expand overseas business

In addition to reviewing various new investments overseas from upstream to downstream sectors, we will also apply this development horizontally by utilizing our existing businesses in our overseas subsidiaries, including Alberta-Pacific Forest Industries Inc. (Canada), Bernard Dumas S.A.S. (France), and Jiangmen Xinghui Paper Mill Co., Ltd. (China).

Reinforce the competitiveness of our mills

We will deepen and strengthen our environmental management efforts, and put effort into strengthening our competitiveness by striving to build an optimal production system in the paper business and reducing costs in various ways including logistics costs.

Strengthen the base of our consolidated management system

We will put in place thorough compliance management in group companies within and outside Japan while strengthening corporate governance, and also strengthen the base of our consolidated management system as a truly global company.

Strategic policy for our four core businesses

Paper business

- Maintain sales of coated paper, wood-free paper and colored wood-free paper, and the paper export scale of 300,000 tons a year.
- Promote the development of specialty paper and increase sales of processing base paper.
- Fully enforce optimum production and cost reduction at both Niigata Mill and Kishu Mill.
- Strengthen the price maintenance function by building a sales system coupled with Hokuetsu Kishu Sales co.,Ltd.

White paperboard business

- Develop new products and increase customer satisfaction by rapidly responding to customer needs for quality.
- Capture growth in demand for primary containers.

Specialty paper business

- Further enhance domestic sales and actively promote business development on a global scale in cooperation with subsidiaries in Japan and overseas.

Paper processing business

- Enhance business development in the paper processing field, which is expected to grow, by demonstrating strength based on the integrated production of the Group ranging from the development of processed paper and materials for paper ware to processed products.

Our business around the world





Manufacture at the Niigata Mill, Hokuetsu Kishu Paper Co., Ltd. (No.9 Paper Machine)

Accelerating our global competitiveness and globalization by establishing a new core business as a foothold

Since its founding, the Hokuetsu Kishu Paper Group has consistently developed its business for over 110 years with a devotion to paper making. Our four core businesses are paper, white paperboard, specialty paper, and paper processing. We have garnered the support of our customers by providing them with various products that meet the needs of the market and with high quality, low environmental impact products at just the right time, which has allowed us to secure a high market share in each industry.

Today, we have added a fifth business to our existing portfolio with the acquisition in 2015 of Canadian company Alberta-Pacific Forest Industries Inc., which operates the largest pulp mill in North America, making the market pulp business a new core business.

We will pursue further strengthening of our competitiveness for the future in our domestic business in Japan, and will actively advance expansion strategies and incorporate overseas demand into our Group with our overseas bases in China, France, and Canada for our business overseas.

Paper Business → See Pages 14 -15.

Printing paper and communication paper is our primary business. Our products have a widely varied line-up and excellent suitability for the printing process. Among these products, our coated printing paper holds a high domestic market share.



Specialty Paper Business → See Pages 18 -19.

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




White Paperboard Business → See Pages 16 -17.

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




Paper Processing Business → See Pages 20 -21.

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. In the field of gable-top type of liquid package cartons as for milk (roof-type carton), we hold a top-ranking share in the Japanese market.



Pulp Business → See Pages 22 -23.

Pulp is a new core business of the Hokuetsu Kishu Paper Group. Canadian subsidiary Alberta-Pacific Forest Industries Inc., manages 6.4 million hectares of forest commissioned by the provincial government of Alberta for use as raw material for pulp.



Our main production and business bases operated globally



Paper Business
Niigata Mill: Japan
Kishu Mill: Japan

White Paperboard Business
Kanto Mill (Ichikawa, Katsuta): Japan
Jiangmen Xinghui Paper Mill Co., Ltd.: China

Specialty Paper Business
Nagaoka Mill: Japan
Osaka Mill: Japan
Hokuetsu Toyo Fibre Co., Ltd.: Japan
Shanghai Toh Tech, Co. Ltd.: China
Bernard Dumas S.A.S.: France
HK PAPER (USA), Inc.: America

Paper Processing Business
BF & Package Co., Ltd.
Kanto Mill (Katsuta, Tokorozawa)
: Japan

Pulp Businesses
Alberta Pacific Forest Industries Inc.
: Canada

Pushing forward with strategies under the banner of V-DRIVE

Business Overview

The main product of the paper business is printing and communication paper used for books, magazines, catalogs, and brochures. Within the product line-up, coated paper is our key product, and its production volume in 2016 had the second highest share in the domestic industry. Furthermore, our sales of colored wood-free paper have continued for more than 60 years, and with its rich product line-up, we have maintained a share of over 65% of the domestic market, which shows our brand is favored by a wide range of customers.

Performance Highlights

Total domestic shipments for printing and communication paper manufacturers in 2016 fell below the level of the previous year. The demand for paper continues to decline due to the continuing digitalization of media from the spread of smartphones and tablets, lower budgets for advertising on paper media, and the progressing low birthrate. However, we will work to recover demand by combining the respective benefits of paper and digital mediums, and taking advantage of the functionality of paper that cannot be replaced digitally.

In this market environment, we will work to secure our share of the domestic market and maintain production levels of the previous year by making individual efforts with end users. At the Niigata and Kishu mills, we continue to make capital investments to strengthen our competitiveness in some areas such as cost, quality, and efficiency. We will continue to maintain our price, further pursue optimum production and efficiency improvements, and stably provide high quality products.

We exported 240,000 metric tons of paper in 2016. Most of our exports are for Asia. Our largest market is Taiwan where we annually ship over 30,000 metric tons of A3 grade coated paper and wood-free paper. We also increased exports by exporting more than 80,000 metric tons of coated paper for flyers, calendars, and study books to South Korea, Vietnam, and Hong Kong. In 2017, we will strive to further expand exports, strengthen our competitiveness in overseas markets as domestic demand declines, and develop new customers.

Future Issues and Initiatives

With the start of the V-DRIVE Medium-Term Management Plan in the final step of the long-term management plan of Vision 2020, as a core business segment of the Hokuetsu Kishu Paper Group, the Paper Business Division will ensure the Niigata Mill, Kishu Mill, and the Sales Department are aligned in the same direction working together, and engaged in full-fledged efforts to enhance our competitiveness. We are responding to rapid changes in the external environment and building a production framework that can compete in the global market. In terms of sales, we will maintain our product value by selling with great care and increase our share of the domestic market. Concerning exports, we will aim to increase our sales volume and advance the business strategy of the Paper Business Division as detailed in V-DRIVE. Specifically, we will focus on the following:

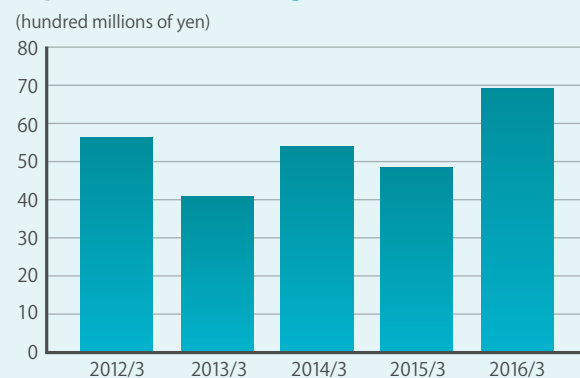
Production

- (1) Thoroughly pursue optimum production and lower costs at the Niigata and Kishu mills, while ensuring stable operations and supply.
- (2) Improve the reliability of quality and strengthen the relationships of trust we have with our users.
- (3) Reduce the environmental impact of our production operations through the effective use of resources.

Sales

- (1) Improve sales share through development of competitive new products based on our coated and wood-free paper, and further advance new uses for colored wood-free paper.
- (2) Conduct regular visits of our users by staff at our mills to strengthen relationships and ensure reliable quality and sales.
- (3) Accurately grasp overseas market trends, maintain and strengthen relationships with existing customers while further strengthening export sales.

Capital investment at Niigata and Kishu mills



Business Topics

Launch of the Publication Department

Although demand for publishing paper is declining, we launched the Publication Department in April 2017 with the aim of improving the sales share of our publishing divisions. As this division is the first to be established for a business segment, we will aim to increase orders and sales more effectively for user needs through the total coordination of all products while cooperating with the White Paperboard Business Division and the Specialty Paper Business Division.

We will endeavor to strengthen relationships with publishers by combining market research with periodic sales visits to strengthen relationships, and increase the exposure of the Publication Department and its awareness in the industry.

Working toward export sales of 300,000 tons

Since 2008, we have continued to supply printing and communication paper with the aim of increasing exports regardless of fluctuations in exchange rates. In 2016, we recorded our highest export volume (240,000 tons) by reliably supplying our largest users.

We are now seeking to increase the number of customers who understand the quality of Hokuetsu Kishu Paper.

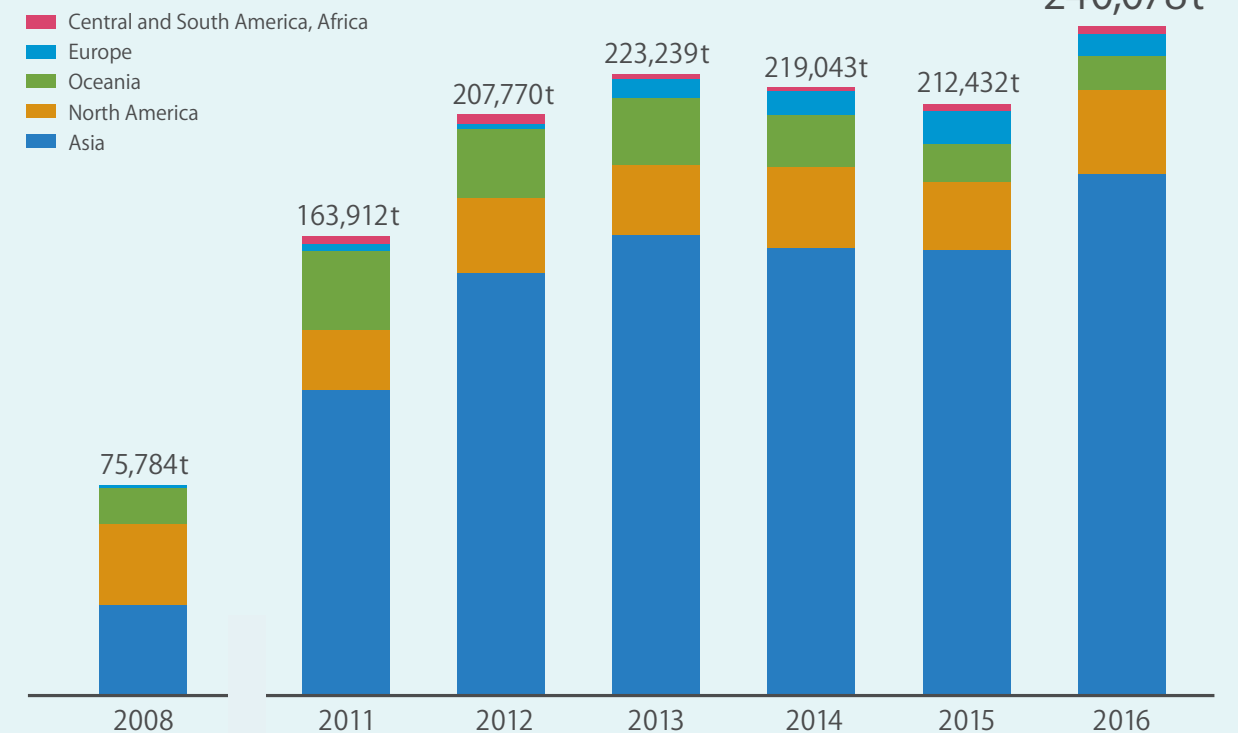
Our goal is to expand our sales market and aim for annual sales of 300,000 tons.

A logistics strategy that takes advantage of geographical conditions

The Paper Business Division at the Niigata Mill boasts the largest production volume of printing and communication paper in Japan, and has the added benefit of being located close to the huge Kanto consumption market. We will strive to strengthen the direct delivery system to the Kanto area by taking advantage of this geographical condition. In addition, we will also proceed with a logistics strategy that considers the needs and convenience of our customers by pursuing optimal warehouse locations and efficient delivery, including the positioning of warehouses in the consumption area. We will further strive for a modal shift that reduces the impact on the environment and work to integrate it with our sales.



Change in Niigata Mill export sales



Continuing aggressive production and sales efforts to capture new demand in growth fields

Business Overview

The main types of our products are premium white paperboard, special white paperboard, coated duplex board (with gray-back), etc. We feature a wide range of products in order to meet our customers' diverse needs. The major usages for our products are the covers of publications and commercial printing items such as many kinds of packages, catalogs, POP advertising, and postcards, and so on. Our products are used in a wide range of fields. Hokuetsu Kishu Paper has cultivated technical strength for a long time, and has focused on top quality, high efficiency and a low environmental burden. We will work to further strengthen our profit base by selling these attractive products created 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, which started production in 2015.

Performance Highlights

The domestic shipment of white paperboard manufacturers in 2016 was approximately 1,330,000 tons. It increased by 1.8% compared to the previous year. In the second half of the year there was a resurgence due to the effect of inbound demand. Domestic production of white paperboard of Hokuetsu Kishu Paper was approximately 280,000 tons. It increased by 0.9% year on year. Domestic demand for white paperboard is facing a gradual decline not only due to structural factors accompanying the population decrease with its low birthrate and aging population, but also from cost-cutting measures by customers that have continued to result in less packaging. On the other hand, manufacturers of daily commodities tend to increase using the paper medium. So demand for POP applications is expected to follow a brisk trend. Although inbound demand has gone through a cycle, daily goods and cosmetics are expected to continue to see solid shipments. With the shift to generic pharmaceuticals, demand for paper containers of pharmaceuticals is also expected to increase. Convenience stores continue to diversify their menus for over-the-counter cooked products, which is expected to increase 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 Issues and Initiatives

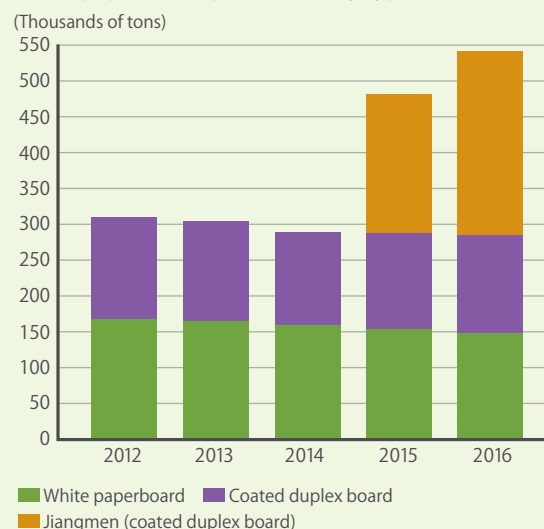
Slogan:
Challenge, Consider, Responsibility, Communication
 Subtitle:
Be thorough about reporting, contacting, and consultation

- With the start of the V-DRIVE Medium-Term Management Plan, all of our employees in the White Paperboard Business Division, including the Jiangmen Xinghui Paper Mill Co., Ltd. in China, are working together to ensure profits we have budgeted.
- Strive to rebuild a stronger business profit base and increase customer satisfaction based on management that puts safety first and practices compliance management.

Important Issues

- (1) Continue environmental management and adherence to compliance, and work together with affiliated companies to realize an accident-free workplace by raising awareness of safety first and putting it into practice.
- (2) Develop new products, enhance the relationship with users and optimize all processes.
- (3) Achieve stable operations by implementing preventive measures for operational problems and increasing overall technical capabilities through employee training.
- (4) Unite the White Paperboard Business Division with white paperboard operations in China and aim to improve profits through redesigning our sales strategy and lowering costs at mills.
- (5) Strengthen cooperation with the Paper Processing Business Division to enhance overall Group competitiveness.

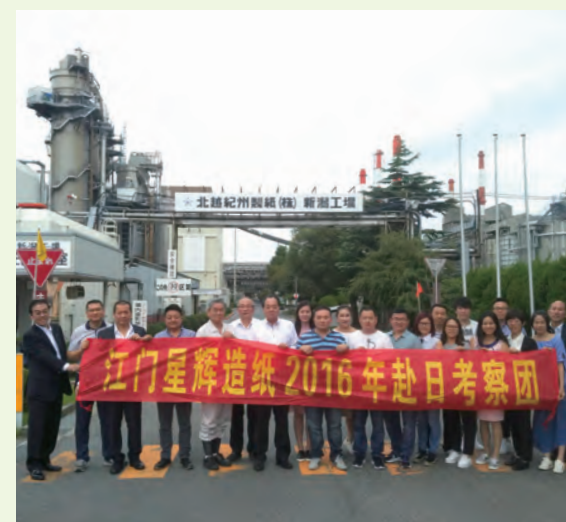
White paperboard production by type



Business Topics

Business conditions are improved by price revision. Launch of sales of blister specialty paper

This year is the third year for Jiangmen Xinghui Paper Mill Co., Ltd. which started production in January 2015. Compared to 2015, both production and sales in 2016 have increased, and the mill is now capable of producing 300,000 tons per year. While they struggled under sluggish prices after starting, the market price in 2016 for white paperboard dramatically rose due to a sharp increase in raw material and fuel prices coupled with the rapid increase in cost by devaluation of the renminbi. These developments allowed them to pass on costs in price, improving their business situation. In October 2016, we invited seven major customers in China and Hong Kong to our headquarters and the Niigata Mill and were able to deepen our relationships. With the prospect of developing new products suitable for blister pack applications, we held a product introduction seminar at a hotel in Humen Town, Dongguan, Guangdong province in December 2016, and began sales of blister specialty paper from February 2017. We are aiming to expand sales by securing regular customers and developing new products.



FSC® and ISO 14001 certified in China as awareness of environmental protection grows

Environmental awareness is increasing among Chinese citizens as environmental problems, such as water pollution and air pollution accompanying the rapid development of the economy and industry in China, have become serious in recent years. The Chinese government has responded by taking action to strengthen environmental protection regulations. Jiangmen Xinghui Paper Mill Co., Ltd. acquired FSC certification in January 2016, and in September that year, it also acquired ISO 14001 certification. The entire company is currently working to acquire Cleaner Production certification, a program being advanced by China's Ministry of Environmental Protection.

(Jiangmen Xinghui Paper Mill FSC license code: FSC-C128479)



Technical exchanges with the Kanto Mill and official participation in SG event

Continuing their participation in 2015 and 2016, employees from Jiangmen Xinghui Paper Mill Co., Ltd. will take part in the Group-wide SG event* which will be held at the Kanto Mill (Ichikawa Product Department) in the second half of FY2017. In addition to the SG event, they will also participate in a technical exchange with the Kanto Mill to further deepen their cooperative relationship.

*The SG event is a presentation event by small groups about autonomous management activities.



Developing new growth products and expanding into global markets

Business Overview

The main product types of the specialty paper business division are premium printing paper, "fancy paper," paper for industrial use, communication paper, specialty processed products, specialty fiber boards, functional paper, and more. Among these, products such as abrasive-coated base paper, adhesive postcard base paper, and chip carrier tape boast a large share of the domestic market. Going forward, we will further solidify our domestic base while strengthening our competitiveness and revenue-earning capability in the global market.

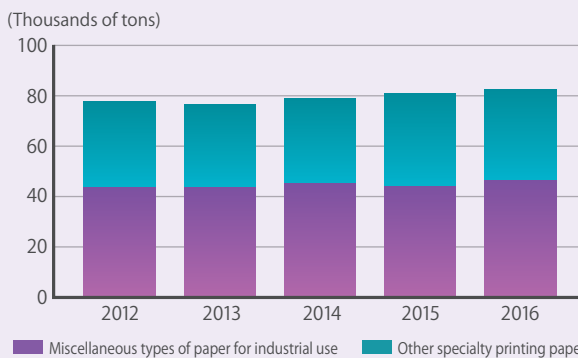
Performance Highlights

Total shipments by the Specialty Paper Business Division in 2016 totaled 105% of shipments for the previous year. Although sales of fancy and high-quality printing paper were lacking due to few large spot orders, we actively expanded sales promotion activities. Shipments in the packaging and food products sector were brisk. We were also able to increase the number of new additions in the communication paper sector with items such as notification applications, and exceeded our sales for the previous year.

Shipments in the functional paper sector exceeded the previous year's totals. Shipments of carrier tape (HOCTO) also increased due to the higher number of capacitors per unit due to greater demand for smartphones and mobile communication devices, and advances in automated driving and the digitization of automobiles.

Sales in the export business were flat, but volume increased to 106% compared to the previous year. This was due to the continued strong sales of new proceeded paper for Shanghai Toh Tech, Co., Ltd. in China. We plan to further increase sales in the future and aim to expand our size in the global market.

Production of specialty paper by product type



Future Issues and Initiatives

In the first year of the new Medium-Term Management plan, V-DRIVE, we are striving to develop new products that always anticipate and reflect needs in a rapidly changing market environment. We will establish a foundation through stable operation and cost reductions while building a high-efficiency production system across the Group to further improve profitability and strengthen competitiveness.

- (1) Unite business divisions by strengthening cooperation with each strategic business and subsidiary, and aim for sustainable global growth with a sense of speed.
- (2) Break from past approaches to cost reduction and implement new measures.
- (3) Unite development, production, and sales under a sales strategy to improve profits that continues to introduce product lines that meet customer needs.
- (4) Implement safe operation by thoroughly investigating the cause of problems and create corrective measures and promptly carrying out preventive maintenance.

Specialty Paper and Communication Paper

Although the market size of the printing and publishing industry is contracting due to the diffusion and penetration of IT and the internet, we are introducing new products to meet needs and maintain the scale of our Fancy & Media Paper business. Even with the impact of the internet on adhesive postcard paper, the main product of the Osaka Mill, we will proceed with technical development and establish quality together with our customers.

Functional Paper

Performance Materials Paper is dominated by manufacturing and industrial applications, and is a field where the Group specializes in offering unique products that are truly unique or have a top share of the market. We will strengthen cooperation with each strategic business and subsidiary, and aim for global growth under the following initiatives.

- Establish a production system to increase the production of carrier tape.
- Establish a production base in the United States for glass fiber air filters and battery separators. Also establish an optimal production system for global markets from production bases in Japan, Europe, and United States.
- Develop RO membrane backing business for the field of water treatment, which supplies safe water for growing populations and developing economies in emerging countries.
- Collaborate with laboratories to commercialize cellulose nanofiber (CNF) technology for use in air filters and other products.

Business Topics

Fancy & Media Paper Sales Dept.

In the field of specialty paper, we are working to develop and expand sales of new products, mainly in FSC® certified paper, packaging and food products. In addition, we are also continuing to broadly convey the merits of paper as part of our PR activities aimed at designers and other creative people. Our solo sponsorship of the Japan Book Design Award held by the Takashi Akiyama Poster Art Museum Nagaoka is one example. In addition to this, we are also working to raise the awareness of our products by exhibiting at exhibitions held by our users and sponsoring them.

(Hokuetsu Kishu Paper FSC license code: FSC-C005497)



Japan Book Design Award 2016

The field of communication paper has been focusing on expanding sales of adhesive postcard paper for widely-used adhesive postcards in confidential mail, and strengthening of development of processed paper for each type of communication paper. We are working with hardware manufactures to further improve the quality of inkjet adhesive postcards for new printers while strengthening our PR activities to expand sales. In addition, we are proposing applications for areas other than adhesive postcards. We are also working on developing applications for processed paper using the dimensional stability of communication papers and its high degree of suitability for processing.



Adhesive postcard paper

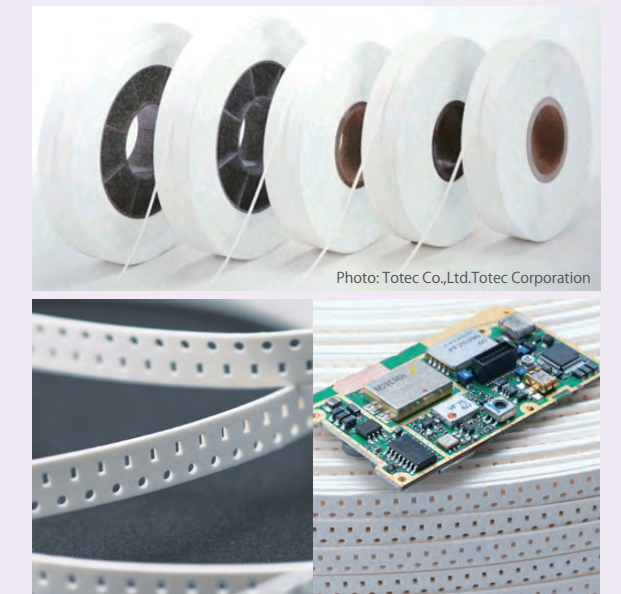
Performance Materials Paper Sales Dept.

Expanding the sale of HOCTO carrier tape base paper and RO membrane backings are big topics in the Performance Materials Paper Sales Department. Carrier tape is a paper used by chip manufacturers to transport electrical components, such as resistors and capacitor chips from the production line to mounting manufacturers. The paper carries chips that are loaded into the cavities (holes) on the paper.

The carrier tape market is expanding as the number of parts has increased due to high functionality for smartphones and other devices. Also, advances in automated driving and the digitization of automobiles, plus the increase in the number of components for sensors has spurred market expansion.

The Hokuetsu Kishu Paper Group has accumulated know-how in its transactions with Japanese electronics manufacturers, and holds the top share in Japan. We have a wide range of product lineups, and in 2016 shipments saw year on year growth of more than 10%. RO membranes, or reverse osmosis membranes, filter out impurities in water, such as ions and salts. They are used in plants that produce freshwater from sea water, and Japanese manufacturers have long had a strong market presence. The market for these membranes is growing as demand is increasing due to population growth and economic development in emerging countries, and shortages of water resources brought on by drought caused by global warming and industrialization.

We are working on a backing to protect RO membranes from water pressure. In 2010, we introduced a test plant, and in April 2017, established a thermal pressure processing section in the Nagaoka Mill, and began full-scale production. Worldwide demand for water is expected to grow in the future. We have started a full-scale foray that will focus on the development, production and expansion of RO membrane backings.



Carrier tape products

Improving our total packaging service with products that offer safety and security

Business Overview

The Hokuetsu Kishu Paper Group's Paper Processing Business is handled by our consolidated subsidiary BF and Package Co., Ltd. The business division works in collaboration with three other business divisions to create a group synergy effect and develop businesses that make full use of their strength in integrated production from the production of base paper to end products. The Katsuta Production Department of BF and Package, adjacent to the Katsuta Engineering Department of the Kanto Mill, produces from milk and drink cartons to primary food containers, packaging, and processed paper products. As this work requires that we respond to the growing needs for food safety, we acquired FSSC 22000 Food Safety System Certification, the international food safety management standard, at the end of 2016. As a company in the food supply chain that manufactures and sells packaging and containers, we will continue to improve our safety and health quality control levels. The Tokorozawa Production Department, the other manufacturing base, manufactures printing and communication-related products that require advanced technology and security management from adhesive postcard paper for invoices to computer-scored answer sheets and wireless communication labels.

Performance Highlights

There is a strong demand in the paper processing field due to increasing needs for decoration and variation in processing. Sales in FY2016 saw a slight year-on-year increase from intense competition in the packaging field due to the diversification of needs from demand for convenience store product materials, such as the shortening of product life cycle and the change in the shape of beverage containers, while the printing and information media field continued to see a tough business environment as a result of lower structural demand due to the digitization of paper media and the shift to in-house production. These changes in demand structure, fluctuations in exchange rates, and the cost of raw materials are expected to continue in the future. The Paper Processing Business Division will continue to pursue high-quality, high-efficiency production through internal efforts essentially, while expanding the range of potential risks to further cope with these external factor changes, and aim to achieve our goals by uniting production, sales, and management.

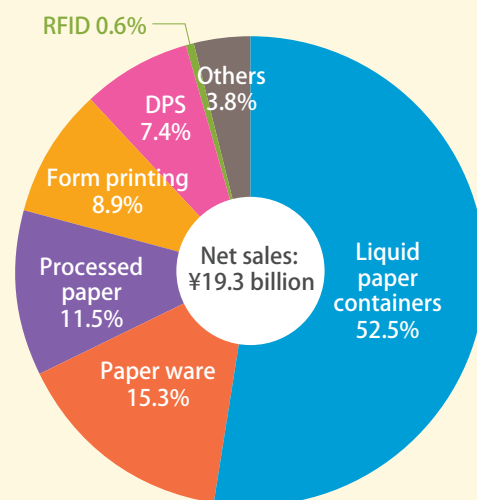
Future Issues and Initiatives

The Paper Processing Business Division will steadily implement the V-DRIVE Medium-Term Management Plan

in line with the milestones and targets for measures to strengthen the competitiveness of each division. Specifically, we will proceed according to the following basic policy.

- (1) Safety as a top priority
Build a bright, healthy, accident-free, and injury-free workplace by making safety a priority in everything we do by having all employees carefully and deliberately think and then act.
- (2) Strengthen governance and compliance system
Strengthen corporate governance by robustly conducting risk assessments of internal governance together with thorough compliance.
- (3) Pursue high quality
Pursue even higher quality in all business processes according to environment, quality, food safety, and personal information management systems.
- (4) Respond appropriately to change
 - Respond to changes in the market and strengthen sales activities according to sales strategies for users.
 - Reduce exchange risk, promote favorable purchasing, and reduce logistics costs.
 - Improve productivity by promoting cross-training through personnel exchanges between our two production departments, strengthening human resource development, and thorough cost control to achieve further reductions.
- (5) Introduce new equipment to enhance competitiveness
Further strengthen our integrated production system through capital expenditure in growth fields and exploit group synergies.
- (6) Promote new business
Promote the planning of new business with a sense of speed to develop new containers for drinks and expand business fields.

Sales Ratio by Divisions in FY2016 (%)



Business Topics

Meeting food safety needs with FSSC 22000 certification

BF and Package Co., Ltd. acquired FSSC 22000 (Food Safety System Certification 22000), the international food safety management systems standard, in December 2016. FSSC 22000 is an approved standard as one of the food safety certification schemes by the Global Food Safety Initiative (GFSI). This standard is required to manage food safety at a higher level than ISO 22000 established by the International Organization for Standardization. By acquiring FSSC 22000 certification, we have established a mechanism and system to respond to customers' needs according to food safety trends.



Certification overview

- Registered organization: BF and Package Co., Ltd. Production Engineering Division, Katsuta Production Department, Kanto Mill/Sales Division
- Registration number: JSAF 046
- Examining and registering agency: Japan Standards Association

Future action plan

Paper processing and packaging field (Katsuta Production Department)

The Katsuta Production Department aims to expand sales of functional paper, such as extrusion laminated paper and decorative paper. We are also striving to further expand sales channels in milk and drink cartons and primary food containers that take advantage of our cultivated experience and increased level of food safety.



Thorough inspection of food packaging and containers for consumers ensures quality control and health and safety management.

Printing and communication media field (Tokorozawa Production Department)

The Tokorozawa Production Department is working to develop sales by expanding sales channels to local governments and other priority users.



We use our proprietary security system to perform print out processing and enclosing/sealing processing.

Total packaging service backed by quality

The color of each segment corresponds to the pie chart on the left.

<p>Printing & fabrication Optimum printing and advanced fabrication</p>	<p>Paper processing Pursues the possibilities of paper by adding decorativeness and functionality to paper media</p>	<p>DPS* Data editing, printing, adhesion, enclosing/sealing, shipping</p> <p><small>*Data Processing Service</small></p>	<p>Design & planning Designing and planning according to the application by experienced professional staff</p>	<p>Quality management & environmental preservation Acquisition of ISO 9001/ISO 14001/FSSC 22000 certification. Takes all possible measures for quality management and preservation of the environment.</p>
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The challenge of cost competitiveness and new fields based on sustainable forest management

Business Overview

Canadian subsidiary Alberta-Pacific Forest Industries Inc. (Al-Pac) is responsible for the upstream sector of the Hokuetsu Kishu Paper Group, and is the heart of our pulp business. Al-Pac operates the largest pulp mill in North America, boasting an annual output of 540,000 tons of leaf bleached kraft pulp (LBKP) and 100,000 tons of needle bleached kraft pulp (NBKP).

Al-Pac is entrusted with managing 6.4 million hectares of forest land (an area that is larger than Kyushu and Shikoku combined) from the government of Alberta, and uses this resource as raw pulp material.

Al-Pac produces and sells high quality pulp with high purity and a high uniformity of fiber which comes from the forest resources managed by Al-Pac and the production technology of the mill. Thanks to the praise for their high quality and environmental measures, we have secured a stable customer base in North America, China, Japan, and South Korea.

Performance Highlights

Since acquiring Al-Pac's pulp business in October 2015, it has contributed to the consolidated results of the Group for the first time as of the fiscal year ended March 2017, and became the main driver of increased sales. The world pulp market continued to decline due to the impact of new large pulp mills in South America and Indonesia. However, in addition to Al-Pac's aggressive sales expansion, it worked to reduce various indirect costs, including integrating its sales company, and, as a result, achieved the goals of its initial plan and made a significant contribution to the profits of the entire Group.



Future challenges and Initiatives

Under the basic policy of the new V-DRIVE Medium-Term Business Plan, from FY2017, Al-Pac is the core entity responsible for the strategy of expanding our overseas business. Growing and strengthening their core business is critical to our growth. It is not enough to settle on extremely high standards for safety and corporate governance; we must also continue to produce high-quality pulp while nurturing new growth seeds. Some specific examples of our challenges are as follows.

(1) Power export

Al-Pac has a black liquor recovery boiler that uses the black liquor produced in the pulping process as fuel, and a biomass boiler that uses bark generated in the process of chipping wood as a main fuel. The power generation capacity using these boilers as a heat source can generate a maximum of about twice the amount of electricity consumed on-site, and the amount of electricity is adjusted according to the fluctuating price of electricity, and sold as power.

Biomass power generation that uses sources such as black liquor and bark is a carbon neutral, renewable energy source since forests absorb CO₂ as they grow. Canada is active in taking steps to reduce CO₂ at the federal and provincial levels, and Al-Pac's biomass power generation is regarded as an important source of renewable energy. It is energy that will have increasing social and economic value in the future.

(2) Chemicals by rail project

As a new project for 2017, construction has started on a pulping chemical freight car receiving/chemical mixing facility with an additional rail spur that is slated to begin operation in January 2018.

This strategic investment will make it possible to transport powdered chemicals by freight car instead of the usual method of transporting liquids by truck. In addition to drastically reducing transportation costs, it also expands the selection of suppliers, allowing us to purchase chemicals on favorable terms. This project is expected to be eligible for tax benefits from the province of Alberta and is expected to have a positive effect on employment by strengthening Al-Pac's cost competitiveness.

(3) Cellulose Nano Crystals (CNC)

CNC is a nano-level extraction of the crystalline parts (crystals) from fiber by using an acid hydrolysis treatment of the pulp. Research into CNC has been active in Canada for a long time and Al-Pac assigns employees to a provincial research facility in Alberta, which owns the pilot plant, to conduct joint research. CNC is a light yet strong material that is expected to be used in a wide range of applications by mixing it with various other materials. As the Hokuetsu Kishu Paper Group develops CNC manufacturing technology through Al-Pac, we will also strive to develop demand for CNC as a new material, and create markets and work to nurture it as a new business field of the pulp business.

Business Topics

Management of vast FSC® certified forests

The Forest Stewardship Council® (FSC) is an international nonprofit organization founded with the aim of spreading responsible forest management around the world. In addition to forest management, it also creates and carries out inspections of a mechanism to support the identification of the chain of custody of produced timber and its products. Al-Pac acquired FSC forest management certification in 2005. This means that the pulp produced from the trees harvested from Al-Pac's forests is considered to come from well-managed forests and can carry the FSC trademark, FSC-certified pulp has been garnering attention as a raw material for paper products for the Tokyo Olympic Games.

Maintaining FSC certification means not only respecting the natural environment, but also continuing to operate in a way that is in the public interest and is economically sustainable. We will continue practicing responsible forest management that seeks to make continuous improvements while engaging in dialogue with the FSC.



Forest land entrusted to Al-Pac from the Alberta provincial government (6.4 million hectares)



Strong awareness of ensuring workplace safety

Al-Pac's safety initiatives and consciousness are very high, so much so that it has been frequently selected for the prestigious "Safest Mill in Canada" award, which Pulp & Paper Canada magazine started in 1926. Al-Pac last received this award in 2015 and continues to work with all employees in order to further raise awareness of working safely. Since 2008, Al-Pac has been the proud recipient of Media Corp Inc.'s Canada Top 100 Employer project. The Canada's Top 100 Employer project aims to profile exceptional employers in a range of industries from regions across Canada. Al-Pac has been praised for its workplace environment, health and welfare system, and training program, among others. To ensure a proper work-life balance and the efficiency of our employees, we have adopted a system where those on day shift work four days a week (10 hours/day), while shift workers use a four-team two-shift system. We are a company that is close to the local communities, in some cases employing three generations of employees from the same family, so we are committed to connecting with our communities on a daily basis while constantly seeking to improve the workplace environment.



Coexistence in harmony with indigenous peoples is indispensable for sustainable growth

There are many indigenous peoples in Canada, such as First Nations (the general term to describe hundreds of indigenous communities), Metis (people who can trace their descent to First Nations peoples and European settlers), and the Inuit. Through dialogue with indigenous peoples, Al-Pac on occasion cooperates with indigenous peoples to conduct forest management activities including tree cutting. In addition, we actively support opportunities to study the culture and history of indigenous peoples, and are building cooperative relationships by making coexistence and mutual prosperity with indigenous people a basic policy of our business management. These initiatives have led to successes such as FSC certification and gold level Progressive Aboriginal Relations Certification (an award evaluated by indigenous people for the level of contribution in support of indigenous peoples), which we have been awarded every year since 2006.

(Alberta-Pacific Forest Industries FSC license code: FSC-C022642)

Active and ongoing efforts to develop new functional materials

The research and development department of the Hokuetsu Kishu Paper Group has been actively working on the practical application and commercialization of new materials that go beyond traditional paper and paperboard frameworks. We established a new research and development organization that spans the entire Group, and have started an advanced initiative to develop the practical application of cellulose nanofibers (CNF), which are expected to have multiple applications, under the key words of “function,” “feeling,” and “environment.”

New Functional Materials Development Office established to advance the development of porous CNF materials

The New Functional Materials Development Office is a new organization established within the Technical & Development Division in April 2017. The Office is a specialized research unit dedicated to development work, and is comprised of members from the Technical & Development Department, Sales Department, as well as staff from around the Group companies, in a cross-department support framework.

The New Functional Materials Development Office plays an important role in promptly proposing new products and new development projects to management. We are working to develop new materials while making full use of our management resources including pulp, paper, and paper processing. One such example is the application development of CNF.

We succeeded in stretching a spider web of CNF in the spaces between glass fibers, and demonstrated for the first time in the world that a high-performance air filter media can be made with CNF. The amount of CNF used is only about 0.1% of the glass fiber. This small amount greatly improves the filter performance, allowing for an

unprecedented savings in energy and the ability to trap ultrafine particles. We also succeeded in soaking the CNF in water and removed it in virtually its original state. It has a three-dimensional network structure, making it an aerogel, a porous sponge-like material with ultra-low density and high specific surface area. Aerogels are expected to be used for catalyst carriers, insulation materials, cell culture substrates, and absorbents. Moreover, we also succeeded in creating a water repellent aerogel that resists water and moisture.



Ultra-low density porous aerogel

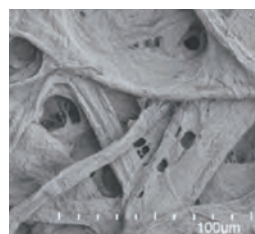
The intersection of vulcanized fiber and the nano world

Hokuetsu Kishu Paper is trying to make materials that take advantage of the merits of cellulose. One material that has recently attracted attention is vulcanized fiber (VF), a unique reinforcing material that is made of fused cellulose. The Hokuetsu Kishu Paper Group began producing VF over 80 years ago in 1935, and first started producing industrially in Japan. Today, we are one of the three major companies in this global market.

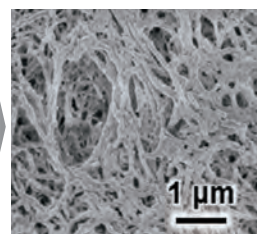
In addition to its excellent rigidity, VF also resists compression and abrasion, and has electrical insulation properties, while having paper properties. What makes VF so strong? During the manufacturing

process, the base paper is immersed in a zinc chloride solution, where the cellulose fibers react and are partially dissolved. Here, the cellulose fibers are nanoized, and recent research has shown that this is what gives VF its hardness. In the process of partially dissolving and washing the base paper, the nanoized cellulose fibers are fused tightly together to create a strong sheet.

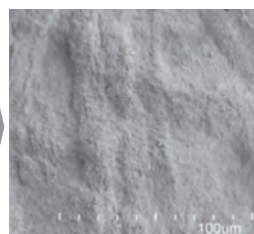
We will continue to aggressively develop technologies to further strengthen the functionality of VF through a fusion of cutting-edge CNF technology based on the technology cultivated from traditional VF.



Base paper before processing



Enlarged photo of reactive intermediate (the formation of cellulose nanofibers can be seen)



A tightly fused VF sheet



A trunk made from vulcanized fiber

Providing the correct information through strict quality control

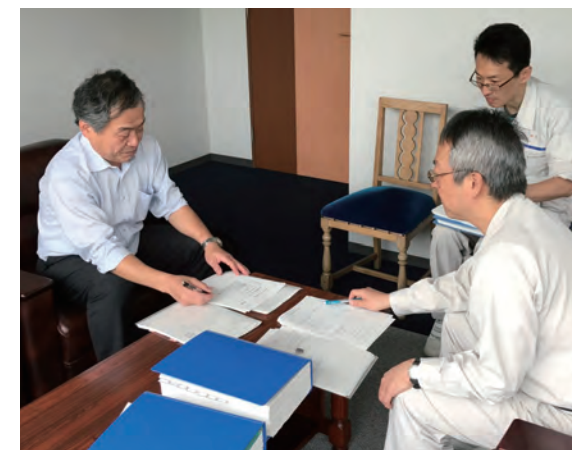
Based on the following Basic Principles related to the Quality Control of Products, Hokuetsu Kishu Paper is careful to ensure the safety of products and at the same time we make efforts to supply attractive products that fulfill the needs of our customers.

Basic Principles Related to the Quality Control of Products

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 property.
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.

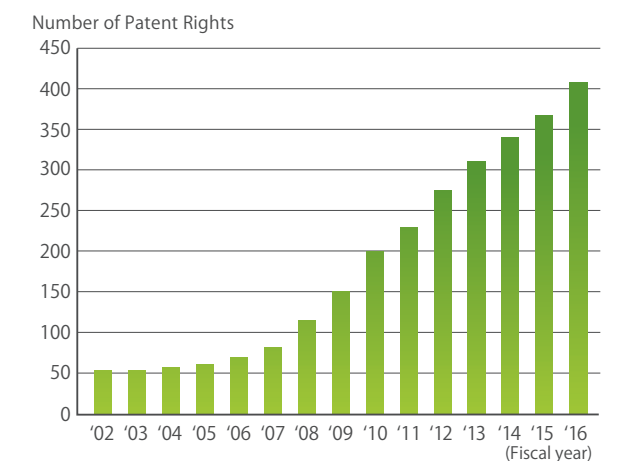
Quality Supervision

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 Division 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 global, patent applications overseas are increasing.



Trends in the Number of Patent Rights Held by the Hokuetsu Kishu Paper

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

In order to secure product safety, we ensure the safety of all new chemical products before use, and also make efforts to continually confirm data related to the chemical products 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 preservation initiatives, based on the Hokuetsu Kishu Paper Environmental Charter established in 1993.

Hokuetsu Kishu Paper Environmental Charter

Hokuetsu Kishu Paper 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 efficient utilization of resources and energy saving

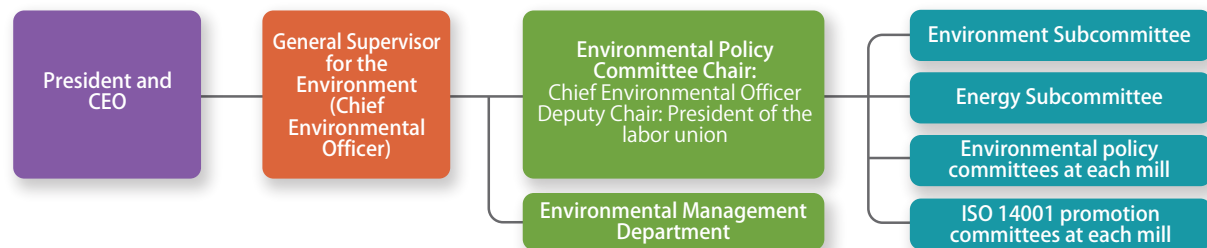
Action Guidelines

- 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 utilization 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 preservation 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 a chief environmental officer, and the role of deputy chair is taken by the president of the labor union. Environment-related management issues are checked from the perspective of both labor and management and proposals are made.

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, the department aims at enhancing the entire Group's response to environmental issues by ascertaining local conditions and providing guidance through environmental auditing.

● Environmental Subcommittee and Energy Subcommittee

The Environmental Subcommittee and the Energy Subcommittee have been created as a subordinate body to the Group's environmental policy committee. The members of the subcommittees are relevant employees from each mill, who work using a cross-functional bottom-up approach to exchange practical information and provide advice to each other. 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 policy committees at each mill and the environmental management office

In order to further enhance environmental preservation activities at mills, environmental policy committee meetings are held every month to confirm atmosphere- and water quality-related 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 preservation. Work relating to the environment is based on an ISO14001 with implementation of a PDCA cycle.

Hokuetsu Kishu Paper Group's environmental preservation topics

1. Implementation of environmental auditing

Environmental auditing of Hokuetsu Kishu Paper Group companies is implemented by the Environmental Management Department and members of the environmental subcommittees. The auditing was carried out at all mills and research laboratories of Hokuetsu Kishu Paper and 12 Group companies in FY2016. 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

The Environmental Management Department and the Environmental Subcommittee are taking the lead in conducting environmental positioning training sessions that bring together different mills. For FY2016, we discussed the problems that occurred at the mills for managers in charge of waste water treatment divisions, and invited an external lecturer to offer advice and exchange opinions with managers from other mills.

Every six months, we also conduct the waste disposal law and practical training for the staff engaged in waste disposal at Group companies. In FY2016, we invited an external lecturer to the mill for the first time, and held lectures for managers from all workplaces on the importance of waste management, risks, and countermeasures.

3. Environmental preservation efforts at overseas Group companies

Jiangmen Xinghui Paper Mill Co., Ltd. acquired ISO 14001 certification, which is an environmental management system. With environmental regulation increasingly stricter in China, we are promoting efficient environmental measures through the operation of the PDCA cycle based on ISO 14001.

Alberta-Pacific Forest Industries Inc., has received FSC® forest management certification, which is a worldwide forest certification system, for the forests it possesses, and is using part of them as a sustainable raw material to produce pulp.

Voices from leaders

Jiangmen Xinghui Paper Mill Co., Ltd.

Jiangmen Xinghui Paper Mill Co., Ltd. founded its Environment Management Center in September 2015 and received ISO 14001 certification in September 2016. Environmental Protection is a basic national policy of China, so acquiring ISO 14001 was essential as environmental legislation and enforcement of the law is becoming stricter day by day. We are promoting the ISO 14001 environmental management system while practicing energy conservation and high efficiency production, and becoming a "green company" (one that is environmentally friendly) will be a key point in competing in a strict market.

The challenge going forward is to be even more exacting in preventing the purchase of raw materials that can cause environmental problems based on the environmental evaluation results for raw material suppliers. We will continue to accumulate and publicize knowledge about the law and environment, and deepen our environmental management according to the Group's environmental policy.

Chen Zhimin, environment manager



Alberta-Pacific Forest Industries Inc.

The forests managed by Alberta-Pacific Forest Industries Inc. acquired FSC certification in 2005, and are the largest in the world today. Being in charge of the forest environment, I cooperate with external research organizations and ecologists, and in addition to investigating the impact of activities of the forest industry on biodiversity, I act as a liaison between our forestry divisions and the research institutes. I am very involved in the FSC organization, and in 2010 I helped draft guidance on national standards concerning the protection of endangered species such as caribou. In 2016, I was elected member of the Board of Directors of FSC Canada and about half of my work relates to FSC. I want to continue to contribute to responsible forest management for the future.

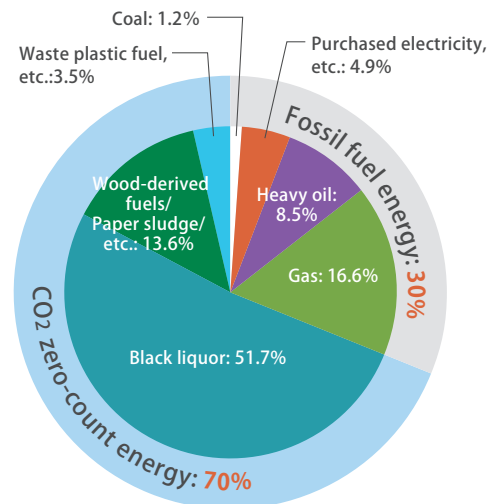
Elston Dzus, Business Unit Leader, Environmental Science
(Alberta-Pacific Forest Industries FSC license code: FSC-C022642)



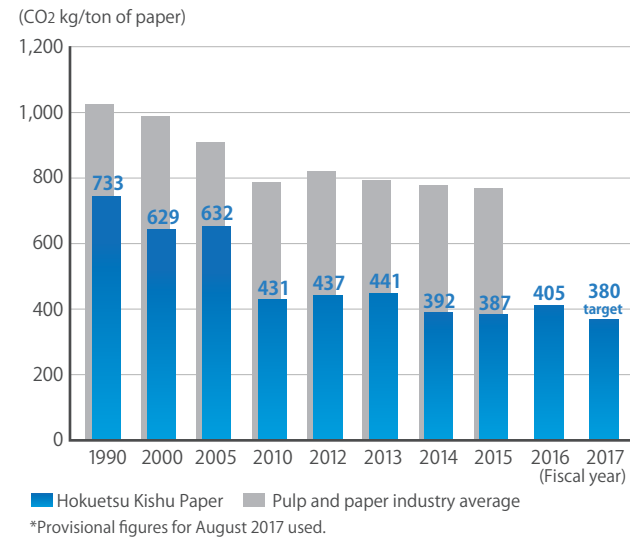
Environment-Related Data

Hokuetsu Kishu Paper Group employs a minimum environmental impact policy at all of our production bases as a participant in the global challenge of reducing CO2 emissions. Our per-unit emission level is one of the best in the industry, through use of CO2 zero-count natural gas with competitively low emissions.

Hokuetsu Kishu Paper's energy composition ratio (results for FY2016)



Hokuetsu Kishu Paper's per-unit CO2 emission trend



Material Balance

Input		Output		
Fossil energy input	11,192,000 GJ	CO2*1	670千t	
Non-fossil energy input	24,648,000 GJ	SOx	349t	
Input of water resources	94,920,000 m ³	NOx	2,251t	
Raw material consumption	Wood chips	1,854,000 t	Soot and dust	105t
	Purchased pulp	83,000 t	Chemical substances subject to the PRTR law	Discharge 2.4 t Transported 0t
	Used paper	258,000 t	Wastewater BOD*2	356 t
		Wastewater COD*2	791 t	
		Wastewater SS	456 t	
		Industrial waste generated	278,000 t	
		Industrial waste final disposal volume	9,000 t	
		Paper/paperboard production volume	1,656,000 t	

Scope: Hokuetsu Kishu Paper's results for FY2016

Changes in Environmental Performance

	Unit	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017 target
Global warming	CO2*1	kg/ton of paper	437	441	392	387	405
Air	SOx	kg/ton of paper	0.20	0.18	0.13	0.14	0.21
	NOx	kg/ton of paper	1.49	1.34	1.28	1.32	1.36
	Soot and dust	kg/ton of paper	0.07	0.08	0.07	0.07	0.06
Water quality	Water consumption	m ³ /ton of paper	56.4	53.1	55.4	56.4	57.3
	Wastewater BOD*2	kg/ton of paper	0.40	0.29	0.25	0.28	0.25
	Wastewater COD*2	kg/ton of paper	5.83	5.16	5.55	3.97	3.33
	Wastewater SS	kg/ton of paper	0.54	0.41	0.41	0.35	0.28
Chemical substances	Volume of chemicals subject to the PRTR law discharged/transported	g/ton of paper	1.64	1.36	2.49	1.73	1.45
Industrial waste	Final disposal	kg/ton of paper	9.4	5.2	5.2	4.1	5.7

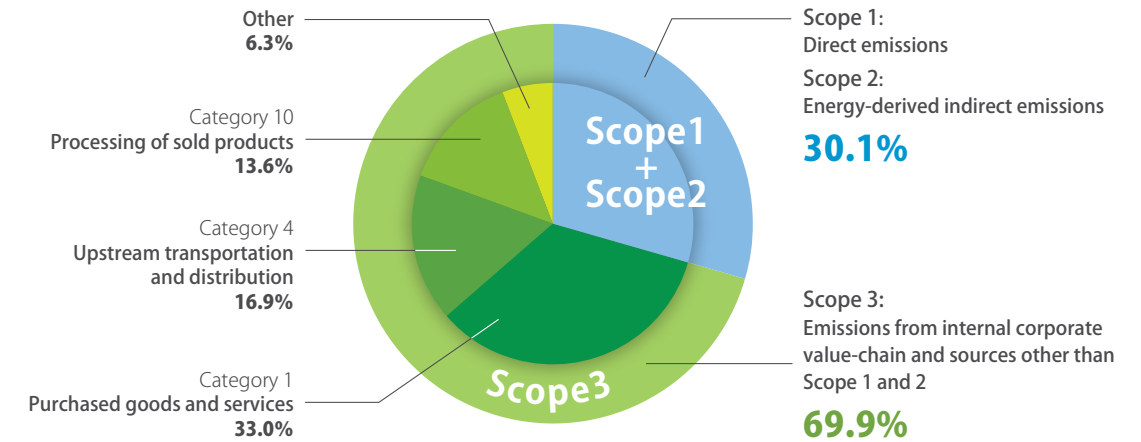
*1 Provisional figures for August 2017 used for energy input and CO2 emissions.

*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

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 entire 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 entire corporate value-chain of the Hokuetsu Kishu Paper Group (results for FY2016)



Scope of calculations: Hokuetsu Kishu Paper Co., Ltd.
Target period: April 1, 2016 - March 31, 2017
Monetary unit: Millions of yen

Environmental Preservation Cost

Category	Major activities and their results	Investment	Cost
1. Business area costs: Environmental preservation costs to control environmental impact that results from key business operations within the business area		2,161	5,701
Composition	(1) Pollution control cost	233	2,738
	a. Air pollution	11	490
	b. Water pollution	140	2,138
	c. Noise, vibration, and odor	81	109
	(2) Global environmental preservation cost	712	923
	a. Prevention of global warming	609	912
	b. Energy preservation	26	(Included in manufacturing cost)
	c. Tree farms in Japan	75	6
	d. Afforestation activity overseas	-	4
	(3) Resource circulation cost	1,215	2,039
	a. Efficient utilization of resources	348	(Included in manufacturing cost)
	b. Reduction, recycling, treatment, disposal, etc., of industrial waste	867	2,039
2. Upstream/downstream costs: Environmental preservation costs to control environmental impact that results from key business operations upstream and downstream		-	540
Composition	(1) Purchase of materials, etc., with smaller environmental impact	-	24
	(2) Recycling and collection of containers and packaging	-	516
3. Administrative costs: Environmental preservation costs stemming from administrative activities		-	233
Composition	(1) Environmental training of employees, etc.	-	3
	(2) Building, implementation, and obtaining certification for an environmental management system	-	8
	(3) Monitoring and measuring environmental impact	-	72
	(4) Running costs for an environmental preservation system, etc.	-	148
4. R&D costs: Environmental preservation costs stemming from R&D activities		-	169
Composition	(1) R&D to develop products that contribute to environmental preservation	-	52
	(2) R&D and planning to curtail environmental impact at the manufacturing stage, etc.	-	117
5. Social activity costs: Environmental preservation costs stemming from social activities		-	62
Composition	(1) Planting of greenery, beautification, etc.	-	32
	(2) Support, etc., of environmental preservation activities by the local community	-	1
	(3) Support for environmental groups	-	13
	(4) Disclosure of environmental information and related advertisements	-	14
6. Environmental remediation costs: Costs incurred from dealing with environmental degradation		-	94
Total		2,161	6,802

Examples of Environmental Conservation Benefits

Monetary unit (millions of yen)

Classification by relationship with business activities	Examples of benefits	Performance
Environmental preservation benefit related to resources input into business activities	Energy-saving effect	122

We survey stringent checks on the legality and sustainability of wood materials, based on fundamental policy for raw materials procurement

In accordance with “Fundamental Policy for Raw Materials Procurement” established in 2005, we promote legal woodchip procurement at our Niigata and Kishu Mills so that we are able to provide products to customers that they can feel confident using.

Hokuetsu Kishu Paper’s “Fundamental Policy for Raw Materials Procurement”

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

1. Prioritize the 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.
- Our woodchips are supplied by timber farms located overseas. We are also proceeding with the expansion of our timber farming business overseas to procure raw material from our own resource. Regarding domestic woodchip procurement, we promote the afforestation of the coppice forest “Satoyama” through the effective use of unused timber.
- We promote the procurement of wood materials in consideration of biodiversity preservation and worker health and safety.

2. Open and fair trade

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

3. Legal compliance and disclosure of information

- We procure raw materials that are in compliance with relevant laws.
- We take steps to confirm that the wood materials procured from overseas suppliers are produced at appropriately managed forests through overseas investment in the timber farming business and direct trading with suppliers, and we disclose information regarding our woodchip sources.

4. Mutual trust and prosperity

- We build history and trust with business partners, and pursue the best procurement practices in consideration of the environment, safety, quality, and cost dimensions under a spirit of co-existence and co-prosperity.

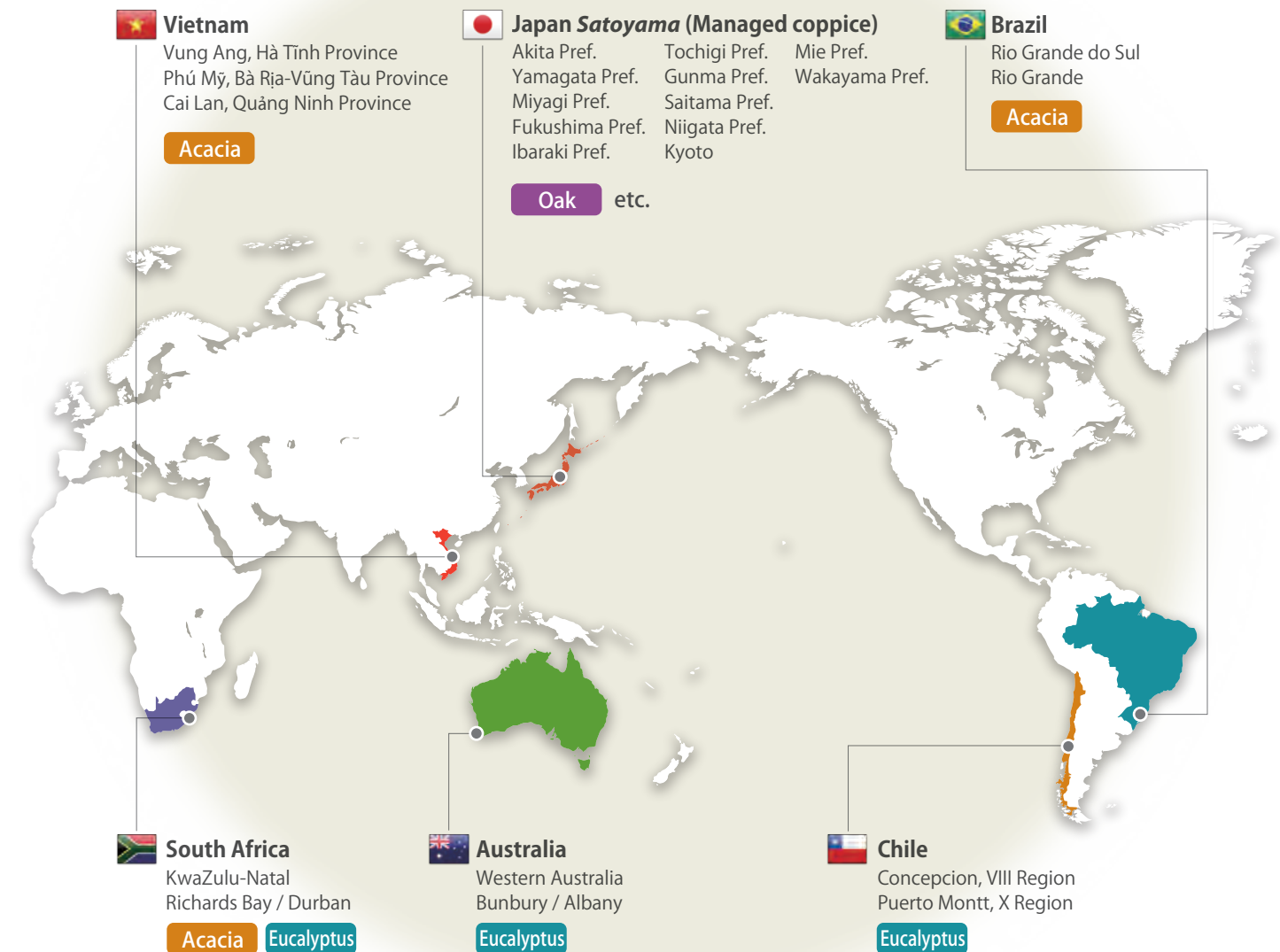
Only Properly-Managed Wood Used

96% of the woodchips we utilize as raw materials are sourced from overseas timber farms, with the remaining 4% being sourced domestically from Satoyama. From the perspectives of legality, forest sustainability and biodiversity preservation, we procure only wood materials that originate from properly managed forests as is our obligation as a company that enjoys the blessings of nature. We pay meticulous care

to all our woodchips to determine whether they are made from timber grown in properly managed forests, and to ensure the legality of related transactions. Specifically, the Group defines woodchips that do not originate from the following five sources as woodchips obtained through legal methods, and only procures woodchips of said nature.

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

Procurement of Wood Chips in FY2016



Country	Tree species	Forest type		Means of verifying legality			Overseas / Domestic wood chips Quantity procured (1,000 BDt)	Percentage
		Afforestation	Managed coppice	Traceability report	Declaration on legality of timber	Forest certification System		
Brazil	Acacia	●	—	●	●	●	1,773	96%
Chile	Eucalyptus	●	—	●	●	●		
South Africa	Acacia	●	—	●	●	●		
	Eucalyptus	●	—	●	●	●		
Australia	Eucalyptus	●	—	●	●	●		
Vietnam	Acacia	●	—	●	●	●		
Japan	Oak, etc.	—	●	●	●	(*)	81	4%
Total							1,854	100%

*We carried out a risk assessment of domestically produced chips based on Japan’s National Risk Assessment (NRA), approved in August 2014; and we subsequently received approval to handle the chips as controlled woodchips.

Strict Checks Based on Third-Party Audits and Internal Auditing

We consume woodchips in Niigata Mill and Kishu Mill: (1) FSC® certified woodchips and (2) Controlled woodchips. FSC-certified woodchips originate from timber grown in FSC-certified forests and meet a variety of criteria including legality, sustainability, and biodiversity preservation. "Controlled woodchips" originate from timber that has been approved as properly managed timber based on a risk assessment to determine if the timber meets FSC Controlled Wood standards and after undergoing audits conducted by third-party organizations. These woodchips are permitted to mix with FSC-certified woodchips.

We have also established our own traceability system* and periodically verify information relating to woodchips consumed at the two mills. In addition, 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.

(Hokuetsu Kishu Paper FSC license code: FSC-C005497)
* 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.

Status of Audits on FY2016 Traceability Report of Imported Woodchips

Regarding the imported woodchips, we procured in FY2016, SGS Japan Inc., a third party certification company, verified that we obtained traceability reports from suppliers properly and in accordance with our wood material procurement procedure, as well as verified that mentioned contents to be proved legality. They also verified domestic woodchips and pulp products we procured.

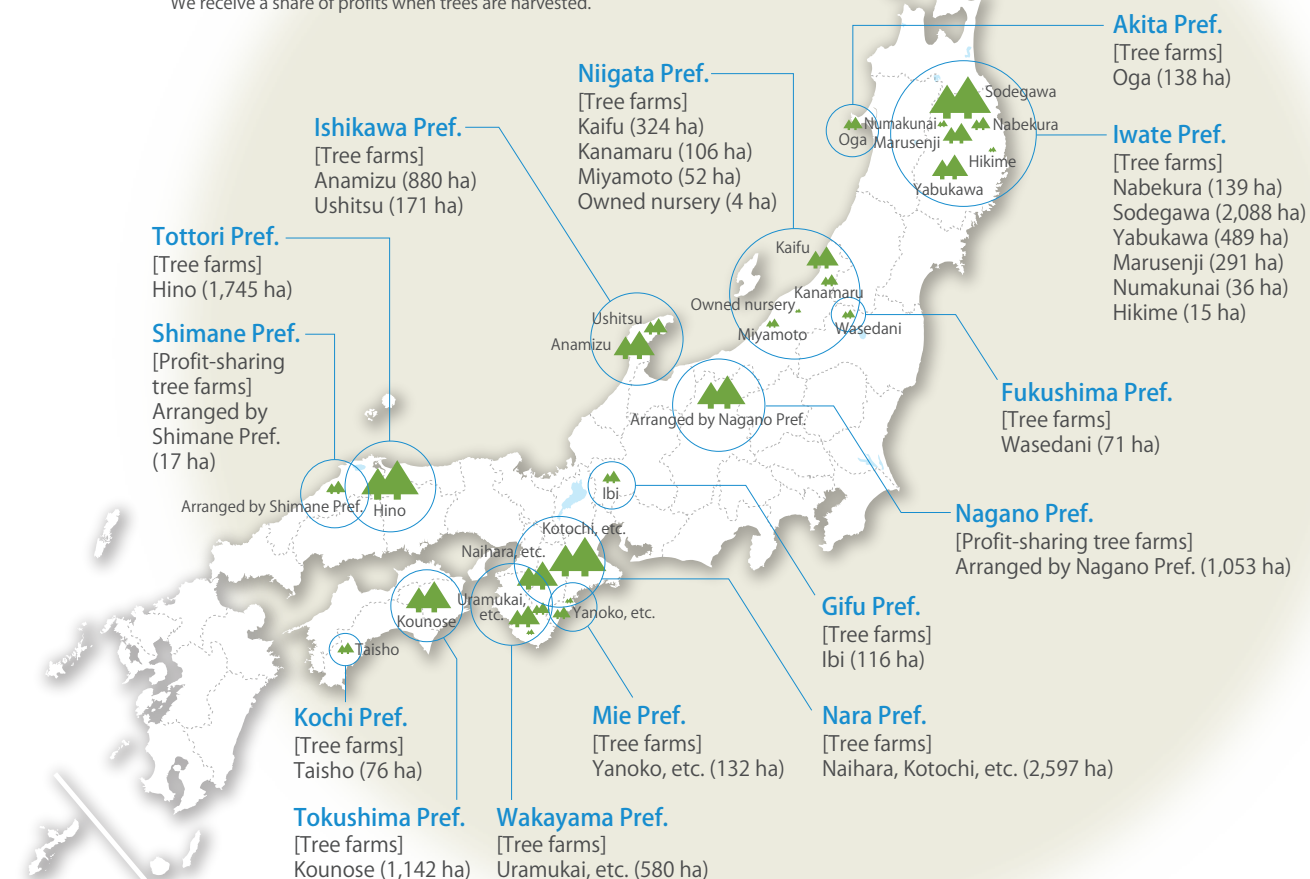


Total area of company owned forests and profit-sharing tree farms

12,262ha

Tree farms:
Company owned forests that are developed under the ownership of Hokuetsu Kishu Paper Group.

Profit-sharing tree farms:
Afforested areas where the Group invests in afforestation. We receive a share of profits when trees are harvested.



Forest management that takes into account social, economic, and environmental perspectives

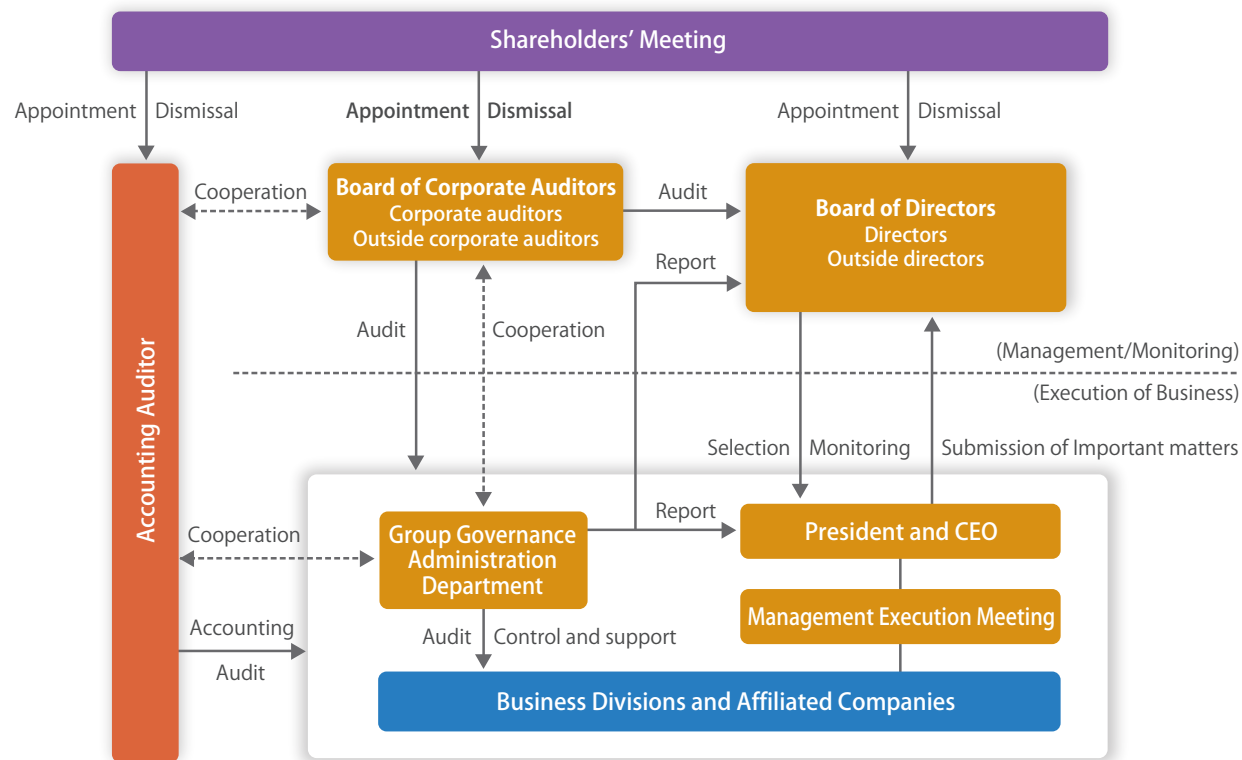
Hokuetsu Kishu Paper Group possesses 12,262 hectares of forest (our own tree farms and profit-sharing tree farms) in Japan. The main objective of owning forests was to secure pulp material when we began acquiring them in the decade from 1935 to 1945, but has transitioned into the establishment of building materials with higher added value due to changes in wood species as pulp material. We have carried out sustainable forest management by organizing appropriate afforestation and harvesting plans that conform to the forest management plan system established in Japan. As a result, we have been able to contribute to the public good by preserving soil, nurturing water sources, and conserving biodiversity. We also have acquired forest certification that demonstrates "appropriate and sustainable forest management is being

confirmed" by third parties, and we are also implementing forest management that takes into account social, economic, and environmental perspectives. In Nagano and Shimane prefectures, where our company was collecting pulp material during the ten years from 1955 to 1965, we have participated profit-sharing tree farm business promoted by the prefectures in which we bore the costs that have contributed to afforestation, tree-planting, and job creation at the local level for over 50 years. Going forward, opportunities to use the residual wood of forest lands will increase, but there is also a concern of growing pest damage caused by global warming. We foresee changes in the environment, and will thus respond by continuing to advance the healthy forest management that we have built up to now.

Pursuing “aggressive governance” in accordance with Japan’s Corporate Governance Code

The Basic Policy on Corporate Governance of Hokuetsu Kishu Paper Group is based on the Hokuetsu Kishu Paper Corporate Philosophy to meet the expectations of all stakeholders.

Organizational Structure of Corporate Governance



Our group’s basic policy on corporate governance is stipulated in Article 2 of the Basic Policy on Corporate Governance, as below. This policy is also published on our website.

Article 2 (Basic Philosophy of Corporate Governance)

In order to achieve the most important goal of corporate management, which is the enhancement of stable, long-term corporate value, we will build an appropriate institutional framework for corporate governance based on the following basic concepts.

- ① We respect the rights of our shareholders and will strive to establish an environment in which shareholders can exercise their rights appropriately and to secure equality between shareholders.
 - ② We recognize the importance of corporate social responsibility and will strive to collaborate appropriately with shareholders and other stakeholders in order to develop a corporate culture in which business is conducted with self-discipline in a sound manner.
 - ③ We will ensure transparency and fairness in our decision-making by establishing an executory system for timely disclosure and by conducting the timely and appropriate disclosure of non-financial information beyond requirements mandated by laws and regulations.
 - ④ We will strive to secure the effectiveness of the board of directors based on our fiduciary responsibilities and accountability to our shareholders. We will also enhance the strategic, decision-making, and supervisory functions of the board of directors through its analysis and assessment.
 - ⑤ We will actively and constructively engage in dialogue with our shareholders based on a basic policy established separately to support the enhancement of our stable, long-term corporate value.
2. The board of directors shall establish and disclose a code of ethics to be shared by all employees and executive officers of our corporate group.

The Roles of the Board of Governors and the Board of Corporate Auditors

Board of Directors

The board of directors strives to enhance the common interest of our shareholders and achieve appropriate corporate governance, in order to enhance stable, long-term corporate value. Moreover, the board of directors performs a supervisory function over all management, including the execution of the duties of the corporate management team and decides important matters as prescribed by laws and regulations, our articles of incorporation, and our Rules for the Board of Directors. Furthermore, it delegates the decision-making for business matters other than those listed above to corporate management in order to enhance the mobility of the business and management vitality, while also exercising oversight of the status of the execution by the corporate management.

Outside directors give advice from a neutral position independent from management for enhancing our stable, long-term corporate value, and play a significant role in the decision-making for the important management issues of our company. They also supervise conflicts of interest between our company and management.

The board of directors establishes the institutional systems for internal discipline, and cooperates with the relevant departments to supervise and ensure that they are operating effectively.

The number of the members of the board of directors is 15 or fewer as prescribed by the articles of incorporation. The directors have diverse backgrounds and various expertise.

The candidates for outside directors are determined on the basis of their independence and neutrality, and expectations towards their contribution to the constructive deliberations by the board of directors pursuant to the criteria for determining independence set forth by the financial instruments exchange.

In nominating a candidate for director, the president and CEO drafts the nomination proposal on the basis of the evaluation of his/her capabilities for effective corporate governance and the enhancement of stable, long-term corporate value, etc., and the board of directors makes the decision after receiving advice from the outside directors.

Board of Corporate Auditors

Our corporate auditors and our board of corporate auditors conduct operational audits and accounting audits from an independent and objective perspective on the basis of their fiduciary duties towards our shareholders. Our corporate auditors also audit the execution of the duties of each director, and express their appropriate opinions at board of directors meetings on the basis of their aforementioned fiduciary duties.

Our corporate auditors and our board of corporate auditors enhance their effectiveness by organically combining the robust independence of the outside corporate auditors and the high information gathering capacity of the standing corporate auditors.

Our board of corporate auditors evaluates the outside accounting auditor on the basis of the duties of an outside accounting auditor to shareholders and investors by confirming the independence and the institutional business operations for quality control required of an outside accounting auditor.

The number of members of our board of corporate auditors will be five or fewer as prescribed by our articles of incorporation. Half or more of the members consist of outside corporate auditors in order to secure the independence of our board of corporate auditors. The outside corporate auditors are decided according to the criteria for determining independence set forth by the financial instruments exchange.

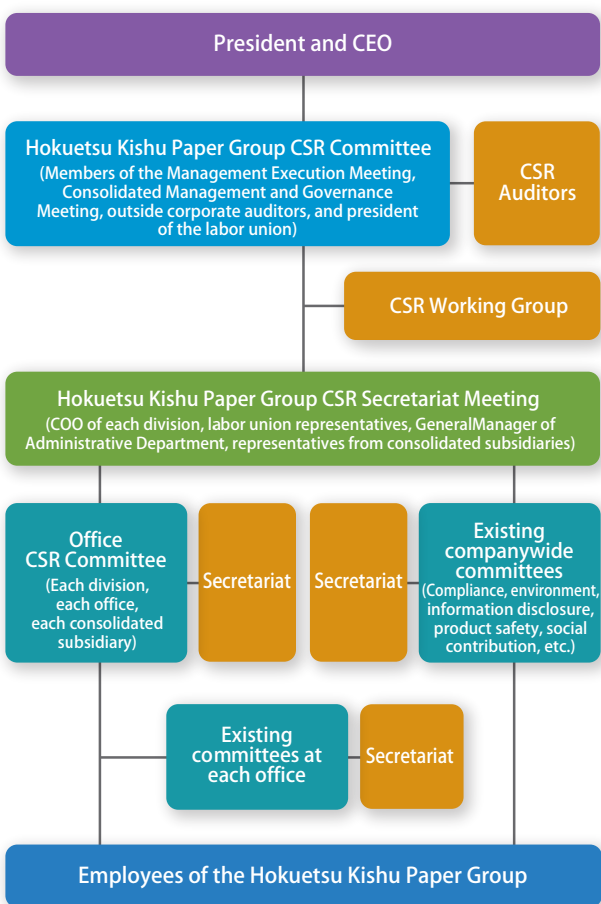
A candidate for standing corporate auditor is determined with the consent of the board of corporate auditors from persons who have significant knowledge and experience in our business operations. At least one of the corporate auditors has been assigned to our finance and accounting departments and is well-acquainted with those affairs. A candidate for outside corporate auditor is determined with the consent of the board of corporate auditors from experts in finance and accounting management, corporate legal affairs, management, etc.

Promoting sustained and effective initiatives

As an upstanding member of society, our group conducts business that takes economic, environmental and social aspects into consideration, and builds better relationships of trust with various stakeholders. We define these actions aimed at pursuing the sustainable development of our group collectively as CSR (Corporate Social Responsibility).

To fulfill our social responsibilities as a better corporate group that can contribute to the realization of a better society, our group promotes sustained and effective CSR activities.

System for Promoting CSR Activities



Inspections for FY2016 Targets

- Group governance and compliance system**
We conducted training related to insider trading and training to prevent the abuse of authority ("power harassment") in the workplace.
- Elimination of occupational accidents**
We established the Safety Management Department at head office on November 1, 2016, and a company-wide safety organization was reconstructed to strengthen efforts to eradicate accidents.
- BCP (Business Continuity Plan)**
We conducted BCP training at the Niigata Mill that simulated a major earthquake. We also prepared emergency contact networks with our customers.
- Environment**
Our environmental initiatives are described on p. 26 of this report.
- Steady implementation of "C-next"**
Details are described in the "Message from the President," "Start of the V-DRIVE Medium-Term Management Plan," and "Main Business Areas and Their Current Conditions."
- Society**
Our offices continue to engage in various activities that contribute to society, aiming to create a harmonious coexistence with the local community. Niigata Mill held a commemorative lecture meeting and celebration of the 100th anniversary of its operation, and an affiliated company participated in "U/I turn single parent support program" promoted by Niigata Prefecture.

Priority CSR Activity Implementation Target Initiatives for FY2017

[Basic Target]

Hokuetsu Kishu Paper Group strengthens 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.

[Priority Activity Points]

- To strengthen the Group governance system by conducting sustained training and education.
- Eliminate serious industrial accidents such as being caught/trapped in a machine, falls, etc.
- Maintain and improve trust from our customers and other stakeholder by continuing to implement BCP initiatives.
- To comply strictly with environmental laws and regulations, strive to eradicate environmental claims, and take proactive steps to disseminate information about our environment-oriented initiatives.
- Take on the challenge of further growth by steadily implementing the new V-DRIVE Medium-Term Management Plan.
- To coexist with local communities through communication and social contribution activities.

Continuing to strengthen the compliance system of the entire Group in Japan and overseas

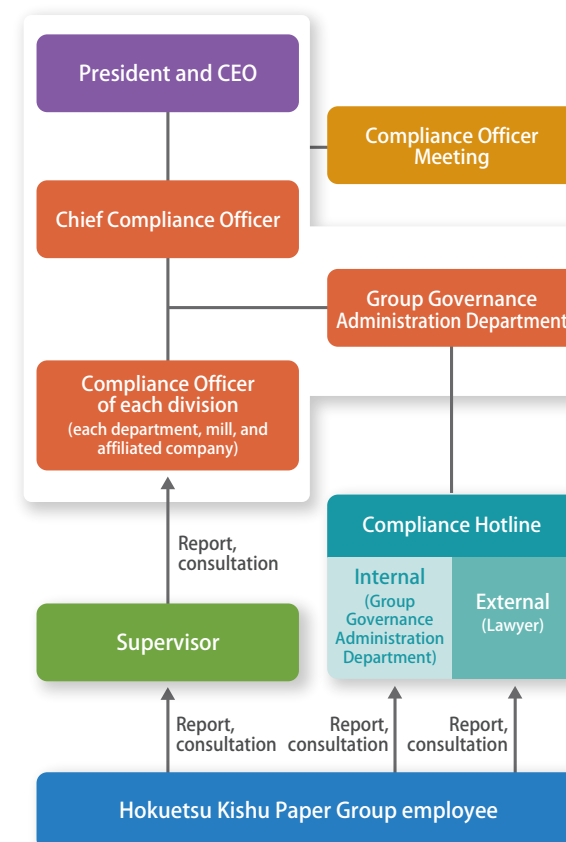
Hokuetsu Kishu Paper Group's compliance objective is to ensure that all executive officers and employees comply with domestic and overseas laws and regulations, in line with our group-wide code of ethics, as well as to ensure that all our actions are fair and transparent, and based on social norms and conventional wisdom. Our group continually implements various measures in order to build and strengthen a compliance system that is adhered to by all executives and employees of our group.

Conducting compliance training

Our group conducts compliance training for all executives and employees on a variety of themes and levels. The content and timing of the training is not limited to important events such as joining the company, being transferred, or being promoted, and is given on occasions when there are changes in the business environment, such as the amendment of laws and regulations or in the business trends of our group. Depending on the purpose of the training, we invite experts from external organizations and use our in-house lawyer as an instructor to make the most effective training. In 2017, our in-house lawyer visited our mills and affiliated companies across Japan to give lectures on compliance. Going forward, our group will continue to conduct its training and education on important compliance issues in a timely fashion, and will strive to maintain and improve the awareness of compliance among executives and employees.

Strengthening the compliance system of consolidated subsidiaries

Management of consolidated subsidiaries is an extremely important business challenge, and we have taken various measures to date on this important issue. In recent years, however, even major corporations representing Japan have had serious scandals due to inadequate management of their overseas consolidated subsidiaries, including cases where the survival of the company itself was in danger. In light of these circumstances, we established the Group Governance Department on April 1, 2017 with the aim of strengthening the corporate management system of domestic and overseas consolidated subsidiaries. The Group Governance Department is engaged in various initiatives aimed at strengthening the corporate management system of consolidated subsidiaries in Japan and overseas, without being constrained by the conventional framework. In particular, strengthening the compliance system of consolidated subsidiaries is an important factor in strengthening their corporate management system. As part of a series of measures to achieve this goal, in 2017, our group undertook numerous measures, such as establishing and revising internal regulations and guidelines at consolidated subsidiaries, for important and urgent compliance issues at domestic and overseas subsidiaries that included compliance with competition laws (the Antimonopoly Act in Japan), anti-bribery, and the management of signatures.



Compliance training carried out in 2017 (at Niigata Mill)

Working to Strengthen Our Consolidated Management Structure in Japan and Overseas

One of the major strategies of our group is to strengthen our consolidated management structure in collaboration with group companies in Japan and overseas. To acquire the strong competitiveness that is befitting of a truly global company, the entire our group is working together to thoroughly spread compliance management and strengthen corporate governance.

Our Group's Dramatic Expansion

As shown in the table on the right, our group has expanded dramatically in the last ten years and has globalized its business. In Japan, we merged and integrated Kishu Paper and established Hokuetsu Kishu Sales, while overseas, we built a white paperboard mill in China, and acquired production subsidiaries in France and Canada.

	169th Business Year	179th Business Year
Period	April 1, 2006 - March 31, 2007	April 1, 2016 - March 31, 2017
Consolidated sales	¥ 158,991 million	¥ 262,398 million
Number of employees (consolidated)	2,860	4,769
Subsidiaries and affiliated companies	27	39
Overseas subsidiaries	1	5

New Group Governance Department Established

As our corporate group has expanded, we have built a consolidated management system based on the management regulations of affiliated companies. However, our support for overseas subsidiaries in particular was unsatisfactory.

For this reason, we established the Group Governance Department on April 1, 2017 with the aim of reconstructing and strengthening the consolidated management system, including our overseas subsidiaries. Strengthening the consolidated management system is one of the important issues for the "V-DRIVE" new Medium-Term Management Plan and is also a critical element for our group to achieve its "Vision 2020" Long-Term Management Plan. It is because that the high level of competitiveness of our group stems from a strong consolidated management system.

Three Tasks of the Master Plan

The Group Governance Department has prepared a three-year master plan (basic plan) after repeated discussions to identify issues that need to be addressed and scheduling to solve issues. The master plan focuses on the following three major tasks.

- (1) Preparation of infrastructure for group management
- (2) Strengthen global compliance and risk management of overseas business
- (3) Preparation of regulation system and its content

In particular, we are asking overseas subsidiaries for their prompt action to support the development of regulations of anti-bribery and competition laws which carry high risks especially in overseas.

Understanding International Standards and Respecting Fundamental Human Rights

In a rapidly changing society with the globalization of the economy and increasing environmental consciousness of consumers and customers, there are increasing opportunities to appeal to social responsibility and public duties.

To develop our business activities globally, our basic code of conduct (Code of Ethics) states that we "foster relationships of trust with our various business partners based on fairness, impartiality, and transparency, in a spirit of equality and reciprocity in our business activities." Based on this, we will strive to understand various international standards relating to the laws, regulations, and human rights in each country and respect fundamental human rights.

Hokuetsu Kishu Sales: Our Wholly Owned Sales Agent in Japan

Hokuetsu Kishu Sales Co., Ltd. was founded in April 2011 as a wholly owned agent responsible for our domestic sales. We have integrated the main agencies of six historic companies, and are making full use of their combined power to fulfill our distribution function. The company handles a wide range of products from mainstays such as packaging and industrial materials paper, with a focus on paper, white paperboard, and specialty paper, earning the trust of our customers.

East Japan

Wholesale Division

The division offers a broad lineup and rich inventory to meet the needs of paper wholesalers. It builds a relationship of trust with its business partners through its stable supply.

Publishing Division

The division makes proposals that satisfy publishers, and are adopted in magazines and books. It also provides information on the latest trends in paper and products from other manufacturers.

Direct Demand Printing Division

The division is engaged in sales activities for printing companies and direct customers in a wide range of industries. It makes optimum proposals for a wide range of printing applications, and has a system that can deliver quickly.

Functional Materials Division

The division provides unique products with truly unique functionality required by users of specialty paper. It conducts detailed technical examinations with customers to develop customized products.

West Japan

Osaka Branch Office

The Osaka Branch Office provides reliable service through meticulous sales activities according to the needs of a wide range of wholesalers, printing companies, and direct customers, primarily in the Kansai region, which includes the Chugoku and Shikoku, the Kyushu and the Hokuriku region.

Nagoya Branch Office

Many of the Nagoya Branch Office's oldest customers come from the Chubu region around Nagoya. The office provides reliable sales by grasping the needs of customers and providing meticulous service.

Governance and Compliance Activities

As the main subsidiary of Hokuetsu Kishu Paper, we established the Internal Governance Administration Department where dedicated staff conduct internal audits of each division every month. Together with the Group Governance Administration Department, we also check that business is being conducted properly. As a compliance activity, we educate new employees about the Group's Basic Code of Conduct. Additionally, all employees participate in a biannual compliance seminar to ensure that compliance is understood.



Maintaining ISO 14001 Certification

We successfully completed our certification for transition for the 2015 revision of ISO 14001 and continued to maintain our registration. We have added additional registered sites in the FSC® certification maintenance review as we have expanded the number of FSC products we handle.

(Hokuetsu Kishu Sales FSC license code: FSC-C022598)



Toward a workplace where employees can enjoy their work in safety and security

Hokuetsu Kishu Paper Group is working to develop a workplace where employees can work safely and securely with purpose and vigor. In particular, the entire company is working to develop human resources adapted to globalization and to provide a working environment that enables a diverse range of human resources and to build a safe workplace.

New Safety Management Department to Oversee the Group

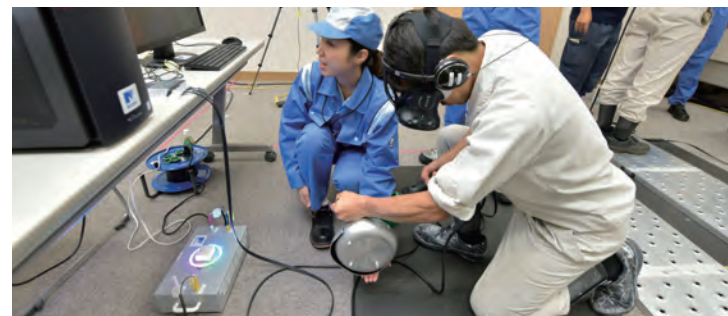
We established the Safety Management Department in November 2016 to oversee our group's safety and health and further strengthen our safety and health initiatives. In addition to activities at the Safety and Environmental Management Department of each factory and office to date, we are systematically organizing and promoting safety and health management activities for the entire group, including affiliated companies.

Specifically, we are involved in efforts such as (1) developing and overseeing basic policies and comprehensive measures relating to safety and health, (2) surveying and collecting information on safety and health, and (3) providing advice and guidance on safety and health to group companies. We also conduct safety audits of each mill and manufacturing base throughout the year, aiming to build a safe workplace for the entire group.

Safety Training Using VR Technology

To further improve the awareness and understanding of safety and health that forms the basis of our frontline capabilities, we are conducting safety training with VR (virtual reality) technology. To conduct the training to feel the danger, which is difficult though just a lecture, our program features the safety simulator from electric equipment maker Meidensha Corporation that lets you see, feel, and experience the danger around you realistically.

In the actual VR safety experience, you can experience the sensations of crashes, falls, and burns through realistic images of high places on scaffoldings, workbenches, and grinders, displayed on an HMD (head mounted display). Employees who participated in the training said that they were able to renew their safety awareness while being surprised at the realism of the images.



VR technology reproduces accidents and injuries that are difficult to experience



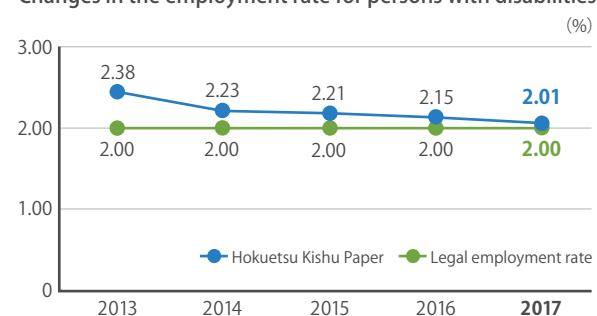
A recreation of a simulated fall from a grating bridge 63m above the ground

Re-employment of Retirees and Employment of Persons with Disabilities

Changes in the number of re-employed retirees

	2012	2013	2014	2015	2016
Number of retired employees	34	22	52	64	57
Number of re-employed retirees	24	15	31	52	47
Ratio of re-employed retirees	70.6%	68.2%	59.6%	81.3%	82.5%

Changes in the employment rate for persons with disabilities



BCP training to ensure a structure that meets customer demands

As an appealing paper manufacturer, our group has actively engaged with local communities and residents in order to contribute to society and earn its trust. Going forward, we will strive for sustainable growth with our various stakeholders in Japan and overseas.

Following the Great East Japan Earthquake of 2011, our group formulated a business continuity plan (BCP) for the head office, its mills, and major affiliated companies in order to strengthen its structure to supply products to customers even in an emergency, and has made preparations for emergencies. In March 2017, we conducted BCP training at our main Niigata Mill that assumed a major earthquake in order to clarify our initial response and current issues. On the day of the training, we learned the difference

between conventional disaster prevention drills with an emphasis on evacuation drills and BCP training, as well as reconfirmed our initial response to restore operations so that we can meet customer demands in the event of a major earthquake. We will continue to strengthen our BCP to ensure that we can reliably respond to customer requests by establishing a resilient system that can stably supply paper.



BCP training and workshop



BCP for Earthquakes and Tsunamis

1. Basic policy

The basic policy of the business continuity plan of Hokuetsu Kishu Paper Co., Ltd. is to protect human life and business assets in the event of a disaster, promptly restore business, minimize the impact on stakeholders, and establish trust with business partners during normal times.

1.1 Main business to be protected by Hokuetsu Kishu Paper

The main business to be protected in the event of unforeseen circumstances is the sales of paper.

1.2 Purpose of the BCP

The items to be observed in the event of unforeseen circumstances are as follows.

- (1) Ensure the safety of employees and their families, and instill calm in a confused workplace.
- (2) Maintain trust by fulfilling our responsibility of supplying products to our customers.
- (3) Maintain confidence of the market through swift and sustained measures.
- (4) Quickly stabilize operations and ensure employment of employees.



Sekio Kishimoto
President and CEO



Hiroshi Suzuki
Managing Director



Yoshinori Kawashima
Managing Director



Morinobu Obata
Managing Director



Mitsushige Yamamoto
Director



Shuji Sekimoto
Director



Kimio Uchiyama
Director



Yasuyuki Kondo
Director



Shigeharu Tachibana
Director



Mitsuyasu Iwata
Director
(Outside Director)



Kazuo Nakase
Director
(Outside Director)



Junichi Horikawa
Standing Corporate Auditor



Kaoru Mashima
Standing Corporate Auditor



Jun Itoigawa
Corporate Auditor
(Outside Corporate Auditor)



Keiji Watanabe
Corporate Auditor
(Outside Corporate Auditor)

Corporate Officers

Kisao Taniguchi Makoto Yanagisawa Osamu Terao Haruichi Shimizu Shimpei Kusaka
Shinobu Ogata Hiroyuki Otsuka Masayuki Kuribayashi Shoji Suzuki

(As of June 28, 2017)

Financial Information

Consolidated Financial Highlights	44
Management's Discussion and Analysis	46
Consolidated Financial Statements:	
Consolidated Balance Sheets	48
Consolidated Statements of Income	50
Consolidated Statements of Comprehensive Income	50
Consolidated Statements of Cash Flows	51
Consolidated Statements of Changes in Net Assets	52
Notes to Consolidated Financial Statements	54
Independent Auditor's Report	81

Consolidated Financial Highlights

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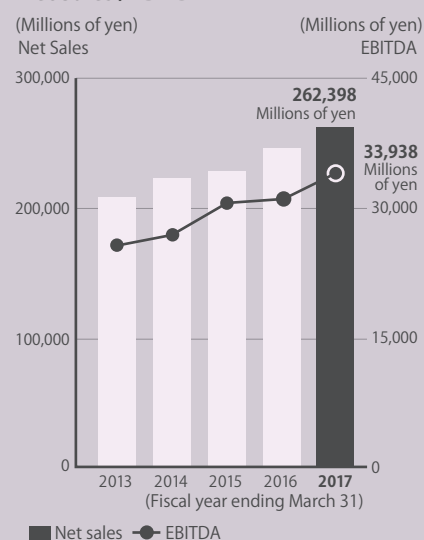
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Financial data	Millions of yen											Thousands of U.S. dollars (Note 1)
	Year ending March 31, 2007	Year ending March 31, 2008	Year ending March 31, 2009	Year ending March 31, 2010	Year ending March 31, 2011	Year ending March 31, 2012	Year ending March 31, 2013	Year ending March 31, 2014	Year ending March 31, 2015	Year ending March 31, 2016	Year ending March 31, 2017	
Net sales	¥158,992	¥172,709	¥182,782	¥193,952	¥217,013	¥230,570	¥208,280	¥223,865	¥228,400	¥246,849	¥262,398	\$2,338,663
Operating income	9,050	8,330	8,122	9,888	8,742	10,823	3,658	3,308	6,140	9,236	12,900	114,973
Ordinary income	9,220	7,891	6,593	9,436	10,148	13,781	10,516	8,481	11,463	10,588	14,056	125,276
Net income attributable to owners of parent company	4,395	4,074	1,750	7,106	5,296	12,673	8,169	6,105	8,359	7,477	10,381	92,522
EBITDA (Note 3)	20,516	21,456	25,695	31,580	32,336	35,283	25,538	26,974	30,582	31,125	33,938	302,478
Capital expenditures	43,022	37,725	31,376	6,286	8,635	7,977	12,160	23,919	11,128	9,425	12,751	113,645
Total assets	269,124	292,726	313,378	340,944	322,233	332,979	343,114	350,808	351,033	363,658	362,205	3,228,209
Net assets	143,439	140,184	135,029	138,173	137,870	150,628	158,794	158,824	168,573	169,529	181,035	1,613,503
Interest-bearing debt	77,291	101,025	137,060	136,640	121,157	117,144	129,137	136,387	123,724	129,586	116,754	1,040,588
Cash flows												
Cash flows from operating activities	14,907	12,295	9,620	36,484	25,719	28,953	21,203	18,676	27,858	20,944	28,918	257,736
Cash flows from investing activities	43,780	35,411	-34,804	-10,637	-6,209	-9,565	-25,127	-22,805	-16,261	-3,628	-13,649	-121,649
Per share data (Yen/U.S. dollars)												
Earnings per share (EPS)	22.75	19.19	8.25	33.75	25.55	62.09	40.08	30.54	44.39	39.69	55.09	0.49
Book value per share (BPS)	672.37	656.96	632.42	658.61	670.49	727.66	770.02	834.44	888.16	894.74	956.63	8.53
Dividends per share	12.00	14.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	0.11
Key ratios												
EBITDA/Net sales (%)	12.9%	12.4%	14.1%	16.3%	14.9%	15.3%	12.3%	12.0%	13.4%	12.6%	12.9%	
Operating income ratio (%)	5.7%	4.8%	4.4%	5.1%	4.0%	4.7%	1.8%	1.5%	2.7%	3.7%	4.9%	
Net income ratio (%)	2.8%	2.4%	1.0%	3.7%	2.4%	5.5%	3.9%	2.7%	3.7%	3.0%	4.0%	
Equity ratio (%)	53.0%	47.6%	42.8%	40.3%	42.6%	44.7%	45.6%	44.8%	47.7%	46.4%	49.8%	
ROA (%) (Note 4)	3.7%	2.8%	2.2%	2.9%	3.1%	4.2%	3.1%	2.4%	3.3%	3.0%	3.9%	
ROE (%)	3.4%	2.9%	1.3%	5.2%	3.9%	8.9%	5.4%	3.9%	5.2%	4.5%	6.0%	
Debt equity ratio (times)	0.54	0.72	1.02	0.99	0.88	0.79	0.82	0.87	0.74	0.77	0.65	

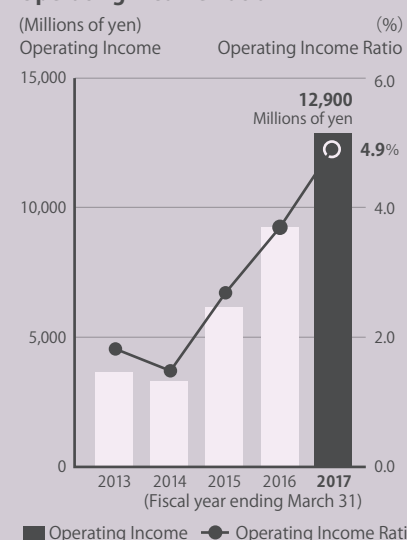
Notes

- Amounts in US dollars were converted at ¥112.20 to one dollar, the currency exchange rate prevailing in the Tokyo Foreign Exchange Market as of March 31, 2017.
- EBITDA = Ordinary income + interest expenses + depreciation and amortization costs + depreciation of goodwill - depreciation of negative goodwill
- ROA = Ordinary income ÷ average total assets at the beginning and end of the fiscal year × 100

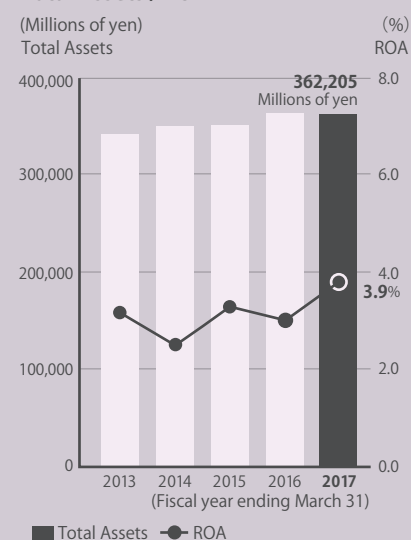
Net Sales / EBITDA



Operating Income / Operating Income Ratio



Total Assets / ROA



Management's Discussion and Analysis

Business Environment and Results

During fiscal 2016, ending March 31, 2017, although the Japanese economy is gradually recovering due to improvements in corporate earnings and the employment environment, accompanied by the effects of various governmental policies, the situation remained unpredictable due to uncertainty in overseas economies resulting from factors such as the impact on American economic policies deriving from the change of government and the UK leaving the EU.

For the Hokuetsu Kishu Paper Group, domestic sales volume declined, but income and profits increased due to the year-round contribution of Alberta-Pacific Forest Industries Inc. and improvement of the profitability of our overseas subsidiaries. The Group's results for this period were as follows.

Millions of yen		Change
Net sales:	¥262,398	+6.3%
Operating income:	¥12,900	+39.7%
Ordinary income:	¥14,056	+32.8%
Net income attributable to owners of parent company:	¥10,381	+38.8%

Business Results by Segment

1. Paper and Pulp Segment

For the Paper and Pulp Segment, despite a decrease in domestic sales volume, income increased due to the year-round contribution of Alberta-Pacific Forest Industries Inc.

On the earnings front, improved profits by the overseas consolidated subsidiaries resulted in higher earnings.

Results by Product

Printing Paper: The gentle economic recovery was a plus factor, but the impact of the transition to e-books and other digital media, and the move away from paper in publishing and advertising lowered sales.

White paperboard: Coated duplex board remained solid due to confectionary demand as products for food packaging grew with the continued swing to eating-in.

High-quality white paper board was also strong due to demands for convenience store and supermarket POP use and cosmetics related products. Specialty white paperboard benefitted from steady growth in sales for uses such as packaging for sweets and for pharmaceutical product-related goods.

Specialty papers: In the functional paper area, sales of chip carrier tape base paper used to transport electronic components soared due to growing demand for electronic components accompanying the penetration of smartphones and rapid computerization of automobiles, and its sales for use as automobile use battery separators and air-conditioning system filters were strong. In addition to falling demand for luxury printing papers and fancy papers for use in catalogs,

pamphlets, or calendars, continuing down-grading to ordinary paper continues. And pressure on sales in the communication use paper area was harsh as, despite the improvement over the previous year in sealed postcard paper used for notifications, use of paper for ledgers continued to decline and the transition to electronic media continued.

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

Millions of yen		Change
Net sales:	¥234,576	+7.5%
Operating income:	¥10,321	+41.0%

2. Packaging and Paper Processing Segment

In the Packaging and Paper Processing Segment, orders for processed paper and liquid containers increased, but the order environment was harsh in other fields, resulting in only a slight increase in sales. Earnings increased due to the effect of various cost-cutting measures.

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

Millions of yen		Change
Net sales:	¥20,146	+0.1%
Operating income:	¥1,261	+81.1%

3. Others

In the Others segment (encompassing wood products, construction, transportation, warehousing and other businesses), orders declined and income decreased in construction. On the earnings front, earnings rose due to the effect of various cost-cutting measures.

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

Millions of yen		Change
Net sales:	¥7,676	-9.1%
Operating income:	¥623	+13.1%

Financial Position

Total assets as of the end of fiscal 2016 (March 31, 2017) decreased by ¥1,453 million to ¥362,205 million from a year earlier. This decrease was mainly due to investment securities increasing by ¥7,129 million as a result of the rise of our share price on one hand accompanied by a ¥8,013 million decrease of tangible fixed assets due to depreciation expenses.

Total liabilities as of March 31, 2017 decreased by ¥12,959 million to ¥181,170 million from a year ago. The main reason was a decrease of ¥12,832 million in interest-bearing debt.

Net assets as of March 31, 2017 increased by ¥11,505 million to ¥181,035 million from a year ago. The increase in net assets was brought about mainly by an increase in retained earnings from net profit belonging to shareholders of the parent company etc. of ¥8,081 million and an increase in other net unrealized gains on securities of ¥3,091 million.

Cash Flows

The balance of cash and cash equivalents as of March 31, 2017 increased by ¥394 million to ¥19,285 million from a year earlier.

Cash flows from operating activities

Funds gained from operating activities totaled ¥28,918 million (38.1% increase year-on-year).

The main sources of cash were ¥12,515 million in income before income taxes and minority interests and ¥19,094 in depreciation and amortization. The main components of cash used were returns from investment through the equity method of ¥3,019 million, an increase of receivables of ¥2,338 million, and amount of corporate tax paid of ¥2,164 million.

Cash flows from investing activities

Net cash used in investing activities totaled ¥13,649 million (276.2% increase year-on-year).

The main components of cash used were ¥12,932 million for purchase of tangible fixed assets.

Cash flows from financing activities

Net cash used for financing activities totaled ¥14,447 million (17.4% increase year-on-year).

The main components of the cash used were ¥19,112 million for repayment of long-term loans, ¥10,000 million for redemption of corporate bonds, ¥2,273 million for payment of dividends, and ¥9,000 million for reducing commercial paper. The main contributors to cash were ¥20,000 million from the issuance of corporate bonds, ¥3,363 million proceeds from long-term loans, and ¥3,294 million from increase of short-term loans.

Basic Policies Regarding Earnings Distribution and Dividend Payments for Fiscal 2016 and Fiscal 2017

In order to continue growth investment for the improvement of long-term and stable corporate value, Hokuetsu Kishu Paper Co., Ltd. implements capital policy in light of a balance of financial soundness, capital efficiency and returns to shareholders, and considers providing stable and continuous dividends as its "fundamental policy regarding capital measures." The dividend is distributed twice a year with an interim dividend and a year-end dividend, and the decision-making bodies for the company with respect to interim dividends and year-end dividends are, in compliance with the provisions of the Articles of Association, the Board of Directors and the General Meeting of Shareholders respectively.

Based on this fundamental policy, the company decided to distribute a year-end dividend of ¥6 per share in fiscal 2016, ending March 31, 2017. Combined with the interim dividend of ¥6, the annual dividend was maintained at ¥12 per share.

For fiscal 2017, ending March 31, 2018, the company currently plans to maintain ¥6 per share for both the interim and year-end dividends and the annual dividend at ¥12 per share.

Fiscal 2017 Outlook

The Japanese economy is gradually recovering and in the next period, due to continuing improvements in corporate earnings and the employment environment, it is expected to continue this gradual recovery. However, there is fear of risk due to the impact of uncertainty in overseas economies resulting from factors such as the impact on American economic policies deriving from the change of government and the UK leaving the EU.

Under these circumstances, the business environment for the Pulp and Paper segment is expected to remain uncertain going forward as a result of factors such as decline in domestic demand for printing and communication paper and the rise in fuel prices. The Group will announce revisions of our product prices in Japan, and endeavor to strengthen our earnings structure and continue initiatives to exhaustively cut costs.

Millions of yen		Change
Net sales:	¥280,000	+6.7%
Operating income:	¥12,000	-7.0%
Ordinary income:	¥16,000	+13.8%
Net income attributable to owners of parent company:	¥11,000	+6.0%

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 among other capital transactions

Consolidated Balance Sheets

Hokuetsu Kishu Paper Co.,Ltd. and Consolidated Subsidiaries
As of March 31, 2017 and 2016

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
CURRENT ASSETS:			
Cash and deposits (Notes 3, 4 & 8)	¥19,494	¥19,088	\$173,743
Notes and accounts receivable (Note 4)			
Trade	67,201	65,463	598,939
Unconsolidated subsidiaries and affiliates	808	655	7,201
Allowance for doubtful accounts	(48)	(46)	(428)
Inventories (Note 6)	44,889	46,920	400,080
Deferred income taxes (Note 12)	1,780	1,846	15,865
Prepaid expenses and other	5,474	5,845	48,789
TOTAL CURRENT ASSETS	139,598	139,771	1,244,189
PROPERTY, PLANT AND EQUIPMENT:			
Land and timberland	26,368	26,368	235,009
Buildings and structures	80,361	78,800	716,230
Machinery and equipment	410,774	407,869	3,661,087
Leased assets	1,700	4,332	15,151
Construction in progress	2,844	1,810	25,348
	522,047	519,179	4,652,825
Less accumulated depreciation	(377,665)	(366,783)	(3,365,998)
NET PROPERTY, PLANT AND EQUIPMENT	144,382	152,396	1,286,827
INVESTMENTS AND OTHER ASSETS:			
Investments in securities (Notes 4 & 5)	30,560	26,154	272,371
Investments in and receivables from unconsolidated subsidiaries and affiliates	39,170	36,533	349,109
Long-term loans receivable	14	21	125
Guarantee deposits	535	600	4,768
Asset for retirement benefits (Note 17)	2,257	1,850	20,116
Deferred income taxes (Note 12)	1,459	1,585	13,004
Other (Note 7)	6,690	7,218	59,625
Allowance for doubtful accounts (Note 7)	(2,460)	(2,470)	(21,925)
TOTAL INVESTMENTS AND OTHER ASSETS	78,225	71,491	697,193
TOTAL ASSETS	¥362,205	¥363,658	\$3,228,209

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)
	2017	2016	2017
CURRENT LIABILITIES:			
Short-term loans (Notes 4 & 9)	¥17,159	¥13,987	\$152,932
Commercial paper (Note 4 & 9)	11,000	20,000	98,039
Current maturities of long-term debt (Notes 4 & 9)	9,897	25,756	88,209
Notes and accounts payable (Note 4 & 8)			
Trade	26,685	26,947	237,834
Unconsolidated subsidiaries and affiliates	1,202	1,231	10,713
Income taxes payable (Note 12)	1,335	1,203	11,898
Accrued expenses	8,913	9,085	79,439
Other	7,373	8,204	65,713
TOTAL CURRENT LIABILITIES	83,564	106,413	744,777
LONG-TERM LIABILITIES:			
Long-term debt (Notes 4 & 9), less current maturities	78,698	69,844	701,408
Deferred income taxes (Note 12)	1,749	515	15,588
Accrued environmental expenditures	45	46	401
Provision for business structure improvement	275	279	2,451
Provision for reforestation	521	842	4,643
Liability for retirement benefits (Note 17)	13,656	13,525	121,711
Asset retirement obligations (Note 18)	2,057	2,091	18,333
Other	605	574	5,394
TOTAL LONG-TERM LIABILITIES	97,606	87,716	869,929
CONTINGENT LIABILITIES (Note 10)			
NET ASSETS (Note 11)			
SHAREHOLDERS' EQUITY:			
Common stock:			
authorized			
—500,000,000 shares in 2017 and 2016			
issued and outstanding			
—209,263,814 shares in 2017 and 2016	42,021	42,021	374,519
Capital surplus	45,397	45,401	404,608
Retained earnings	90,752	82,671	808,841
Treasury stock	(10,160)	(10,189)	(90,553)
TOTAL SHAREHOLDERS' EQUITY	168,010	159,904	1,497,415
ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAXES			
Unrealized holding gains on securities, net of taxes	10,535	6,633	93,895
Unrealized losses on hedging derivatives, net of taxes	(57)	(169)	(508)
Foreign currency translation adjustment	1,596	1,891	14,224
Accumulated adjustments for retirement benefit, net of taxes (Note 17)	211	319	1,881
TOTAL ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAXES	12,285	8,674	109,492
SHARE SUBSCRIPTION RIGHTS	140	128	1,248
NON-CONTROLLING INTERESTS	600	823	5,348
TOTAL NET ASSETS	181,035	169,529	1,613,503
TOTAL LIABILITIES AND NET ASSETS	¥362,205	¥363,658	\$3,228,209

Consolidated Statements of Income

Hokuetsu Kishu Paper Co.,Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
NET SALES (Notes 19)	¥262,398	¥246,849	\$2,338,663
COST OF SALES	209,628	203,036	1,868,342
GROSS PROFIT	52,770	43,813	470,321
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 13)	39,870	34,577	355,348
OPERATING INCOME	12,900	9,236	114,973
OTHER INCOME(EXPENSES):			
Interest and dividend income	890	782	7,932
Interest expenses	(655)	(821)	(5,838)
Foreign exchange gains (losses)	(1,476)	(2,838)	(13,155)
Equity in income of affiliates	3,019	3,961	26,907
Gain on sales of investments in securities	28	71	250
Loss on sales of investments in securities	(2)	(0)	(18)
Loss on devaluation of investments in securities	(10)	(8)	(89)
Loss on sales or disposal on property, plant and equipment	(1,573)	(886)	(14,020)
Income from subsidies	2	1	18
Impairment loss on property, plant and equipment (Note 14)	—	(46)	—
Loss on reduction of property, plant and equipment	(2)	(2)	(18)
Costs in relation to suspending the operation of production equipment	(1,427)	(637)	(12,718)
Gain on abolishment of retirement benefit plan (Note 17)	—	41	—
Amortization of past service cost for retirement benefit accounting (Note 17)	—	(108)	—
Other, net	821	1,075	7,318
	(385)	585	(3,431)
INCOME BEFORE INCOME TAXES	12,515	9,821	111,542
INCOME TAXES (Note 12):			
Current	1,882	1,966	16,774
Deferred	337	661	3,003
	2,219	2,627	19,777
NET INCOME	10,296	7,194	91,765
NET INCOME(LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	(85)	(283)	(757)
NET INCOME ATTRIBUTABLE TO OWNERS OF PARENT COMPANY	¥10,381	¥7,477	\$92,522
		Yen	U.S. dollars (Note 1)
	2017	2016	2017
AMOUNTS PER SHARE OF COMMON STOCK (Note 2):			
Net income	¥55.09	¥39.69	\$0.49
Diluted net income	52.99	38.57	0.47
Cash dividends applicable to the year	12.00	12.00	0.11

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

Consolidated Statements of Comprehensive Income

Hokuetsu Kishu Paper Co.,Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
NET INCOME	¥10,296	¥7,194	\$91,765
OTHER COMPREHENSIVE INCOME (Note 21)			
Unrealized holding gains on securities, net of taxes	3,070	(1,385)	27,362
Unrealized gains on hedging derivatives, net of taxes	112	(100)	998
Foreign currency translation adjustment	(361)	(688)	(3,218)
Adjustments for retirement benefit, net of taxes	(128)	(663)	(1,141)
Share of other comprehensive income of associates accounted for using equity method	851	(1,112)	7,585
TOTAL OTHER COMPREHENSIVE INCOME	3,544	(3,948)	31,586
COMPREHENSIVE INCOME	¥13,840	¥3,246	\$123,351
Comprehensive income attribute to owners of the parent company	13,991	3,599	124,697
Comprehensive income attribute to non-controlling interests	(151)	(353)	(1,346)

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, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes	¥12,515	¥9,821	\$111,542
Depreciation and amortization	19,094	19,553	170,178
Impairment loss of property, plant and equipment	—	46	—
Loss (gain) on sales or disposal of property, plant and equipment	1,557	696	13,877
Loss on reduction of property, plant and equipment	2	2	18
Interest and dividend income	(890)	(782)	(7,932)
Interest expenses	655	821	5,838
(Increase) decrease in notes and accounts receivable	(2,338)	(1,388)	(20,838)
(Increase) decrease in inventories	1,663	(4,114)	14,822
Increase (decrease) in notes and accounts payable	176	2,535	1,569
Increase (decrease) liability for retirement benefits	(439)	(783)	(3,913)
Equity in (earnings) losses of affiliates	(3,019)	(3,961)	(26,907)
Other, net	785	645	6,996
SUBTOTAL	29,761	23,091	265,250
Interest and dividend income received	1,992	1,063	17,754
Interest paid	(671)	(857)	(5,980)
Income taxes paid	(2,164)	(2,353)	(19,288)
NET CASH PROVIDED BY OPERATING ACTIVITIES	28,918	20,944	257,736
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for purchases of investment securities	(281)	(298)	(2,504)
Proceeds from acquisition for shares of subsidiaries with changes in scope of consolidation	—	5,381	—
Payments for purchases of property, plant and equipment	(12,932)	(8,379)	(115,258)
Proceeds from sales of property, plant and equipment	239	246	2,130
Other, net	(675)	(578)	(6,017)
NET CASH USED IN INVESTING ACTIVITIES	(13,649)	(3,628)	(121,649)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in short-term loans	3,295	(7,095)	29,367
Increase (decrease) in commercial paper	(9,000)	11,000	(80,214)
Proceeds from long-term loans	3,363	28,792	29,973
Repayments of long-term loans	(19,112)	(31,919)	(170,339)
Proceeds from issuance of unsecured yen straight bonds	20,000	—	178,253
Redemption of unsecured yen straight bonds	(10,000)	(10,000)	(89,127)
Dividends paid	(2,273)	(2,272)	(20,258)
Payments for purchases of treasury stock	(2)	(2)	(18)
Other, net	(718)	(806)	(6,397)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(14,447)	(12,302)	(128,760)
TRANSLATION (LOSS) GAIN ON CASH AND CASH EQUIVALENTS	(428)	(1,421)	(3,815)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	394	3,593	3,512
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	18,891	15,298	168,369
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 3)	¥19,285	¥18,891	\$171,881

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, 2017 and 2016

	Millions of yen													
	Number of shares	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gains (losses) on securities, net of taxes	Unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustment	Accumulated adjustments for retirement benefit, net of taxes	Total accumulated other comprehensive income, net of taxes	Share subscription rights	Non-controlling interests	Total net assets
Balance at March 31, 2015	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
Net income attributable to owners of parent company	—	—	—	7,477	—	7,477	—	—	—	—	—	—	—	7,477
Cash dividends (¥12.00 per share)	—	—	—	(2,261)	—	(2,261)	—	—	—	—	—	—	—	(2,261)
Disposal of treasury stock	—	—	(9)	—	39	30	—	—	—	—	—	—	—	30
Purchases of treasury stock	—	—	—	—	(3)	(3)	—	—	—	—	—	—	—	(3)
Capital increase of consolidated subsidiaries	—	—	(59)	—	—	(59)	—	—	—	—	—	—	—	(59)
Net changes during the year	—	—	—	—	—	—	(2,505)	(100)	(617)	(656)	(3,878)	5	(355)	(4,228)
Balance at March 31, 2016	209,263,814	¥42,021	¥45,401	¥82,671	¥(10,189)	¥159,904	¥6,633	¥(169)	¥1,891	¥319	¥8,674	¥128	¥823	¥169,529
Net income attributable to owners of parent company	—	—	—	10,381	—	10,381	—	—	—	—	—	—	—	10,381
Cash dividends (¥12.00 per share)	—	—	—	(2,262)	—	(2,262)	—	—	—	—	—	—	—	(2,262)
Disposal of treasury stock	—	—	(4)	—	31	27	—	—	—	—	—	—	—	27
Purchases of treasury stock	—	—	—	—	(2)	(2)	—	—	—	—	—	—	—	(2)
Change in scope of consolidated affiliates under equity method	—	—	—	(38)	—	(38)	—	—	—	—	—	—	—	(38)
Net changes during the year	—	—	—	—	—	—	3,902	112	(295)	(108)	3,611	12	(223)	3,400
Balance at March 31, 2017	209,263,814	¥42,021	¥45,397	¥90,752	¥(10,160)	¥168,010	¥10,535	¥(57)	¥1,596	¥211	¥12,285	¥140	¥600	¥181,035

	Thousands of U.S. dollars (Note 1)													
	Number of shares	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gains (losses) on securities, net of taxes	Unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustment	Accumulated adjustments for retirement benefit, net of taxes	Total accumulated other comprehensive income, net of taxes	Share subscription rights	Non-controlling interests	Total net assets
Balance at March 31, 2016	209,263,814	\$374,519	\$404,643	\$736,818	\$(90,811)	\$1,425,169	\$59,118	\$(1,506)	\$16,854	\$2,843	\$77,309	\$1,141	\$7,335	\$1,510,954
Net income attributable to owners of parent company	—	—	—	92,522	—	92,522	—	—	—	—	—	—	—	92,522
Cash dividends (\$0.11 per share)	—	—	—	(20,160)	—	(20,160)	—	—	—	—	—	—	—	(20,160)
Disposal of treasury stock	—	—	(35)	—	276	241	—	—	—	—	—	—	—	241
Purchases of treasury stock	—	—	—	—	(18)	(18)	—	—	—	—	—	—	—	(18)
Change in scope of consolidated affiliates under equity method	—	—	—	(339)	—	(339)	—	—	—	—	—	—	—	(339)
Net changes during the year	—	—	—	—	—	—	34,777	998	(2,630)	(962)	32,183	107	(1,987)	30,303
Balance at March 31, 2017	209,263,814	\$374,519	\$404,608	\$808,841	\$(90,553)	\$1,497,415	\$93,895	\$(508)	\$14,224	\$1,881	\$109,492	\$1,248	\$5,348	\$1,613,503

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, 2017 and 2016

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, 2017, which was ¥112.20 to U.S. \$1.00. The convenience translation should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Note 2: Summary of Significant Accounting Policies

(a) Consolidation

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

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

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

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

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

	Number of Companies	
	2017	2016
Consolidated subsidiaries	22	24
Affiliates accounted for by the equity method	5	5

The consolidated financial statements are prepared using their financial statements as of their account 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 spot exchange rates as of the account closing date, with the translation gains or losses reported in profit or loss. Assets and liabilities of overseas subsidiaries are translated into Japanese yen at the spot exchange rates as of the account closing date, and their income and expenses are translated into Japanese yen at the average exchange rates during the accounting period, with the translation gains or losses included in foreign currency translation adjustment and non-controlling interests in the net assets section of the consolidated balance sheet.

(d) Securities

Under the Japanese accounting standard for financial instruments, all companies are required to 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, 2017 and 2016.

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

Expenditures for new facilities and those that substantially increase the 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 expenditures

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

(j) Provision for reforestation

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

(k) 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.

(l) Issuance costs of stocks and bonds

Issuance costs of stocks and bonds are expensed as incurred.

(m) 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.

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

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

(n) 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.

(o) 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 188,442,763 shares and 188,364,465 shares in 2017 and 2016, respectively. For the year ended March 31, 2017, diluted net income per share was ¥52.99 (\$ 0.47).

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.

(p) 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.

(q) 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 relating to actuarial gain or losses and past service cost.

Past service cost is expensed as incurred.

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.

(r) Change in accounting policy

Due to amendments to the Japanese Corporation Tax Act, the Company and its domestic subsidiaries adopted "Practical Solution on a change in depreciation method due to Tax Reform 2016" (Practice Issue Task Force No.32, June 17, 2016 (hereinafter, "PITF No.32")) from the current fiscal year and changed the depreciation method for buildings, facilities attached to buildings and structures, which were acquired since April 1, 2016, from the declining balance method to the straight line method. This change will have a minimal effect on profit/loss for the current fiscal year.

(s) Change in presentation method (Note 4)

The monetary amount of "Electronically recorded monetary claims" included in "Notes and accounts receivable" under "Total assets" in the previous fiscal year has become more important.

As a result, the amount of 66,118 million yen presented in "Notes and accounts receivable" on Note 4:Financial Instruments for the previous fiscal year has been reclassified as 63,531 million yen of "Notes and accounts receivable" and 2,587 million yen of "Electronically recorded monetary claims."

(t) Additional information

The Company and its domestic subsidiaries adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016 (hereinafter, "Guidance No.26")) from the current fiscal year.

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, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash and deposits	¥19,494	¥19,088	\$173,743
Restricted deposits	(209)	(197)	(1,862)
Cash and cash equivalents	¥19,285	¥18,891	\$171,881

Breakdown of major assets and liabilities of companies that newly became consolidated subsidiaries through share acquisition

Year ended March 31, 2016

Breakdown of assets and liabilities at the time of consolidation of Alpac Forest Products Inc., and Alpac Pulp Sales Inc., which newly became consolidated subsidiaries through share acquisition, acquisition value of shares and proceeds from acquisition (net increase) are as follows:

	Millions of yen
Current assets	¥20,549
Property, plant and equipment	4,369
Current liabilities	(4,400)
Long-term liabilities	(13,809)
Foreign currency translation adjustment	183
Acquisition value of shares	6,892
Cash and cash equivalents	(12,273)
Proceeds from acquisition of shares of subsidiaries with changes in scope of consolidation	¥5,381

Note 4: Financial Instruments

Information on financial instruments for the year ended March 31, 2017 and 2016 are as follows:

Status of Financial Instruments

The Companies raises necessary funds for investment plans to conduct its business of manufacturing, sale and processing of paper mainly by bank loans or issuance of bonds. Temporary cash surpluses are invested in deposits and short-term working 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 uses interest rate swap contracts to

avert their exposure to the risk of fluctuations in interest costs related to debt, and interest rate and currency swaps to avert exposure to the risk of fluctuations in principal and interest costs related to foreign currency-denominated debt.

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

Fair Values of Financial Instruments

The book values, fair values and differences of the financial instruments as of March 31, 2017 and 2016 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
			2017
(1) Cash and deposits	¥19,494	¥19,494	¥—
(2) Notes and accounts receivable	64,150	64,150	—
(3) Electronically recorded monetary claims	3,859	3,859	—
(4) Investments in securities:			
① Stocks of affiliates	34,359	45,134	10,775
② Available-for-sale securities	24,207	24,207	—
Total assets	¥146,069	¥156,844	¥10,775
(5) Notes and accounts payable	¥20,149	¥20,149	¥—
(6) Electronically recorded obligations-operating	7,738	7,738	—
(7) Short-term loans	17,159	17,159	—
(8) Commercial paper	11,000	11,000	—
(9) Bonds*1	30,000	30,049	49
(10) Long-term loans payable*2	58,206	58,012	(194)
Total liabilities	¥144,252	¥144,107	¥(145)
Derivative transactions*3	¥(82)	¥(82)	¥—

	Millions of yen		
	Book value	Fair value	Difference
			2016
(1) Cash and deposits	¥19,088	¥19,088	¥—
(2) Notes and accounts receivable	63,531	63,531	—
(3) Electronically recorded monetary claims	2,587	2,587	—
(4) Investments in securities:			
① Stocks of affiliates	30,972	30,100	(872)
② Available-for-sale securities	20,013	20,013	—
Total assets	¥136,191	¥135,319	¥(872)
(5) Notes and accounts payable	¥21,663	¥21,663	¥—
(6) Electronically recorded obligations-operating	6,515	6,515	—
(7) Short-term loans	13,987	13,987	—
(8) Commercial paper	20,000	20,000	—
(9) Bonds*1	20,000	20,111	111
(10) Long-term loans payable*2	74,556	75,122	566
Total liabilities	¥156,721	¥157,398	¥677
Derivative transactions*3	¥(242)	¥(242)	¥—

	Thousands of U.S. dollars		
	Book value	Fair value	Difference
			2017
(1) Cash and deposits	\$173,743	\$173,743	\$—
(2) Notes and accounts receivable	571,747	571,747	—
(3) Electronically recorded monetary claims	34,393	34,393	—
(4) Investments in securities:			
① Stocks of affiliates	306,230	402,264	96,034
② Available-for-sale securities	215,749	215,749	—
Total assets	\$1,301,862	\$1,397,896	\$96,034
(5) Notes and accounts payable	\$179,581	\$179,581	\$—
(6) Electronically recorded obligations-operating	68,966	68,966	—
(7) Short-term loans	152,932	152,932	—
(8) Commercial paper	98,039	98,039	—
(9) Bonds*1	267,380	267,816	436
(10) Long-term loans payable*2	518,770	517,042	(1,728)
Total liabilities	\$1,285,668	\$1,284,376	\$(1,292)
Derivative transactions*3	\$(731)	\$(731)	\$—

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

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

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

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

Assets

(1) Cash and deposits

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

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

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

(4) Investments in securities

The fair value of marketable equity securities is measured at the quoted market price of the stock exchange. Please see Note 5 regarding securities categorized by holding purposes.

Liabilities

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

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

(9) Bonds

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

(10) Long-term loans payable

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

Derivative Transaction

For details of derivative transactions, see Note 16.

(b) Unlisted equity securities have no market price and there is no way of estimating for future cash flows. Determining fair value is therefore acknowledged to be extremely difficult and they are not included in (4) Investments in securities.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unlisted equity securities	¥10,341	¥10,791	\$92,166

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

	Millions of yen				Thousands of U.S. dollars	
	2017		2016		2017	
	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	¥19,494	¥—	¥19,088	¥—	\$173,743	\$—
Notes and accounts receivable	64,150	—	63,531	—	571,747	—
Electronically recorded monetary claims	3,859	—	2,587	—	34,393	—
Total	¥87,503	¥—	¥85,206	¥—	\$779,883	\$—

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

	Millions of yen					
	2017					
	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	¥17,159	¥—	¥—	¥—	¥—	¥—
Commercial paper	11,000	—	—	—	—	—
Bonds	—	10,000	—	—	20,000	—
Long-term loans payable*	9,665	6,412	13,891	10,402	1,762	16,074
Total	¥37,824	¥16,412	¥13,891	¥10,402	¥21,762	¥16,074

Millions of yen						
2016						
	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	¥13,987	¥—	¥—	¥—	¥—	¥—
Commercial paper	20,000	—	—	—	—	—
Bonds	10,000	—	10,000	—	—	—
Long-term loans payable*	15,104	11,358	8,342	13,962	7,957	17,833
Total	¥59,091	¥11,358	¥18,342	¥13,962	¥7,957	¥17,833

Thousands of U.S. dollars						
2017						
	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	\$152,932	\$—	\$—	\$—	\$—	\$—
Commercial paper	98,039	—	—	—	—	—
Bonds	—	89,127	—	—	178,254	—
Long-term loans payable*	86,141	57,148	123,806	92,709	15,704	143,262
Total	\$337,112	\$146,275	\$123,806	\$92,709	\$193,958	\$143,262

*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 at March 31, 2017 and 2016:

Available-for-sale securities:

Millions of yen			
2017			
Type	Acquisition cost	Book value	Difference
Equity securities:			
with book value (fair value) exceeding acquisition costs	¥12,299	¥23,878	¥11,579
with book value (fair value) not exceeding acquisition costs	374	329	(45)
	¥12,673	¥24,207	¥11,534

Millions of yen			
2016			
Type	Acquisition cost	Book value	Difference
Equity securities:			
with book value (fair value) exceeding acquisition costs	¥10,156	¥17,628	¥7,472
with book value (fair value) not exceeding acquisition costs	2,521	2,385	(136)
	¥12,677	¥20,013	¥7,336

Thousands of U.S. dollars			
2017			
Type	Acquisition cost	Book value	Difference
Equity securities:			
with book value (fair value) exceeding acquisition costs	\$109,617	\$212,816	\$103,199
with book value (fair value) not exceeding acquisition costs	3,333	2,933	(400)
	\$112,950	\$215,749	¥102,799

Total sales of available-for-sale securities sold in the year ended March 31, 2017 amounted to ¥88 million (\$784 thousand), the related gains amounted to ¥28 million (\$250 thousand) and the related losses amounted to ¥2

million (\$18 thousand). Total sales of available-for-sale securities sold in the year ended March 31, 2016 amounted to ¥106 million, the related gains amounted to ¥71 million and the related losses amounted to ¥0 million.

Note 6: Inventories

Inventories at March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Merchandise and Finished goods	¥20,510	¥23,730	\$182,799
Work-in-process	1,976	2,094	17,611
Raw materials and supplies	22,403	21,096	199,670
	¥44,889	¥46,920	\$400,080

Note 7: Amounts Relating to Fraudulent Activity for the year ended March 31, 2015

Balances relating to fraudulent activity at March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balances:			
Other in investments and other assets	¥2,360	¥2,360	\$21,034
Allowance for doubtful accounts in investments and other assets	(2,360)	(2,360)	(21,034)

Note 8: Assets Pledged and Secured Liability

Assets Pledged and Secured Liability at March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash and deposits	¥209	¥197	\$1,862

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Notes and accounts payable	¥212	¥731	\$1,889

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

- (1) Short-term debt had weighted-average interest rates of 1.36% and 0.74% at March 31, 2017 and 2016, respectively.
- (2) The weighted-average interest rate on commercial paper were (0.00)% and 0.00% at March 31, 2017 and 2016, respectively.
- (3) Long-term debt at March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Long-term loans from banks and other financial institutions			
(Loans due with one year, weighted-average interest rate 0.56%)	¥9,665	¥15,104	\$86,141
(Loans due after one year, weighted-average interest rate 0.46%)	48,541	59,452	432,629
0.685% unsecured yen straight bonds due in 2016	—	10,000	—
0.384% unsecured yen straight bonds due in 2019	10,000	10,000	89,127
0.170% unsecured yen straight bonds due in 2021	10,000	—	89,127
0.180% unsecured yen straight bonds due in 2021	10,000	—	89,127
Lease obligations			
(Loans due with one year)	232	652	2,068
(Loans due after one year)	157	392	1,398
	88,595	95,600	789,617
Less current portion due with one year	(9,897)	(25,756)	(88,209)
Long-term debt	¥78,698	¥69,844	\$701,408

- (4) The annual maturities of long-term debt at March 31, 2017 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2018	¥9,897	\$88,209
2019	16,462	146,720
2020	13,937	124,216
2021	10,439	93,039
2022 and thereafter	37,860	337,433
	¥88,595	\$789,617

Note 10: Contingent Liabilities

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Notes receivable discounted	¥ 41	—	\$365
Balance of notes receivable transferred by endorsement	¥ 149	¥113	\$1,328

Note 11: Net Assets

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

Under the Japanese Corporate Law ("the Law") and regulations, the entire amount paid for new shares is required to be designated as common stock.

However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

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

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

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

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

At the annual shareholders' meeting held on June 28, 2017, the shareholders approved cash dividends amounting to ¥1,137 million (\$10,134 thousand). Such appropriations have not been accrued in the consolidated financial statements at March 31, 2017. Such appropriations are recognized in the period in which they are approved by the shareholders.

Note 12: Income Taxes

The Companies are subject to a number of taxes levied on income, which, in the aggregate, resulted in normal statutory income tax rates of approximately 30.7% and 32.8% for the year ended March 31, 2017 and 2016, 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, 2017 and 2016:

	2017	2016
Statutory tax rate	30.7%	32.8%
Non-deductible expenses	0.5	0.6
Dividends received not taxable	(0.4)	(0.5)
Per capita inhabitants taxes	0.4	0.5
Valuation allowance	(7.3)	2.4
Effect of multiple tax rates	(0.0)	(0.1)
Effect of change in tax rates	—	1.7
Equity in income of affiliates	(7.4)	(13.2)
Other	1.2	2.5
Effective tax rate	17.7%	26.7%

Significant components of deferred income tax assets and liabilities at March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred income tax assets:			
Accrued bonuses	¥799	¥842	\$7,121
Unrealized gain from sales of inventories between the Companies	291	319	2,594
Asset for retirement benefit	4,557	4,517	40,615
Long-term accrued amount payable	25	29	223
Unrealized gain from sales of fixed assets between the Companies	1,030	1,079	9,180
Unrealized holding gain on fixed assets	3,210	3,658	28,610
Depreciation and amortization	962	1,015	8,574
Impairment loss of fixed assets	542	658	4,831
Loss on devaluation of investments in securities	1,052	1,051	9,376
Provision for business structure improvement	84	85	749
Accrued environmental expenditures	30	14	267
Asset retirement obligations	433	431	3,859
Net operating loss carry forwards	1,503	1,172	13,396
Allowance for doubtful accounts	834	836	7,433
Other	2,466	2,637	21,978
Subtotal deferred income tax assets	17,818	18,343	158,806
Valuation allowance	(8,820)	(9,138)	(78,610)
Total deferred income tax assets	¥8,998	¥9,205	\$80,196
Deferred income tax liabilities:			
Liability for retirement benefit	¥(953)	¥(836)	\$(8,494)
Reserve deductible for Japanese tax purpose	(105)	(126)	(936)
Reserve for deferred gain on sales of fixed assets for tax purpose	(810)	(825)	(7,219)
Valuation difference on Property, plant and equipment	(1,939)	(1,938)	(17,282)
Unrealized holding gain on securities	(3,411)	(2,284)	(30,401)
Accumulated adjustments for retirement benefit	(140)	(189)	(1,248)
Other	(150)	(91)	(1,335)
Total deferred income tax liabilities	¥(7,508)	¥(6,289)	\$(66,915)
Net deferred income tax assets (liabilities)	¥1,490	¥2,916	\$13,281

Note 13: Research and Development Expenses

Research and development expenses are recognized in the consolidated statements of income in the year when they are incurred. Research and development expenses included in selling, general and administrative expenses are ¥778 million (\$6,934 thousand) and ¥710 million for the years ended March 31, 2017 and 2016, respectively.

Note 14: Impairment Loss on Property, plant and equipment

In the year ended March 31, 2016, the Companies recorded impairment loss on property, plant and equipment for the following group of assets:

Use	Location	Type	Amount
			Millions of yen
Processed paper production equipment	Suita-city, Osaka	Buildings and structures	¥23
Idle assets	Kihou-cho, Minamimuro-gun, Mie and others	Land and others	23
Total			¥46

The Companies classify property, plant and equipment 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 Property, plant and equipment)
Due to a decision to consolidate production structures in parts of the packaging/paper processing business, 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 property, plant and equipment.

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 property, plant and equipment.

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 15: Lease Transactions

Lease transactions for the years ended March 31, 2017 and 2016 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
	2017	2016	2017
Machinery, equipment and others			
Purchase price equivalent	¥—	¥1,161	\$—
Accumulated depreciation equivalent	—	1,122	—
Accumulated impairment loss equivalent	—	—	—
Book value equivalent	—	39	—

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
	2017	2016	2017
Due within one year	¥—	¥39	\$—
Due after one year	—	—	—
	¥—	¥39	\$—
Balance of impairment loss account on leased assets included in the outstanding lease commitments	¥—	¥—	\$—

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
	2017	2016	2017
Lease payments	¥39	¥172	\$348
Reversal of allowance for impairment loss on leased assets	—	—	—
Depreciation equivalent	39	172	348

(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 at March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
(lessee)			
Due within one year	¥238	¥141	\$2,121
Due after one year	606	162	5,401
	¥844	¥303	\$7,522
(lessor)			
Due within one year	¥31	¥26	\$276
Due after one year	48	38	428
	¥79	¥64	\$704

Note 16: Derivative Transactions

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

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

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

The derivative transactions are executed by the Company's Corporate Planning Department and managed by the Company's Accounting Department in accordance with the established policies and within the specified limits on the amounts of derivative transactions allowed. Information on derivative transactions is reported to the Executive Management Meeting 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 fair value of the hedging derivative instruments. If the percentage changes of hedged items and hedging instruments, ranging between approximately 80% to 125%, hedging transactions are considered to be effective.

Derivative transactions for which hedge accounting had not been applied at March 31, 2017 and 2016 are as follows:

Type of derivative transaction	Millions of yen								Thousands of U.S. dollars			
	2017				2016				2017			
	Contract amount		Over one year	Fair value	Contract amount		Over one year	Fair value	Contract amount		Over one year	Fair value
Forward exchange contracts	Total					Total						
Buy contracts												
U.S. Dollar	¥20	¥—	¥(0)	¥(0)	¥10	¥—	¥0	¥0	\$178	\$—	\$(0)	\$(0)
Canadian Dollar	¥—	¥—	¥—	¥—	¥86	¥—	¥2	¥2	\$—	\$—	\$—	\$—

Derivative transactions for which hedge accounting had been applied at March 31, 2017 and 2016 are as follows:

(1) Currency-related

Type of derivative transaction	Main hedged items	Millions of yen						Thousands of U.S. dollars		
		2017			2016			2017		
		Contract amount		Fair value	Contract amount		Fair value	Contract amount		Fair value
Forward exchange contracts		Total	Over one year			Total		Over one year		
Buy contracts	Trade payables									
U.S. Dollar		¥3,836	¥—	¥(80)	¥6,520	¥—	¥(245)	\$34,189	\$—	\$(713)
EUR		¥361	¥—	¥(2)	¥153	¥—	¥0	\$3,217	\$—	\$(18)

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

(2) Interest –related

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

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

Type of derivative transaction	Main hedged items	Millions of yen						Thousands of U.S. dollars		
		2017			2016			2017		
		Contract amount		Fair value	Contract amount		Fair value	Contract amount		Fair value
Interest rate swap contracts										
Receive floating, Pay fixed	Long-term loans payable	¥20,435	¥14,775	¥—	¥27,095	¥20,435	¥—	\$182,130	\$131,684	\$—

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		
		2017			2016			2017		
		Contract amount		Fair value	Contract amount		Fair value	Contract amount		Fair value
Interest rate and currency swaps contracts										
Receive floating, Pay fixed	Long-term loans payable	¥12,646	¥11,680	¥—	¥13,613	¥12,646	¥—	\$112,709	\$104,100	\$—

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

Market value of interest rate and currency swap is

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

Note 17: Retirement Benefits

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

established for a number of overseas consolidated subsidiaries.

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.

1. Defined benefit plans, except plan applied simplified method

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at the beginning of the year	¥18,247	¥18,909	\$162,629
Increase with acquisition of shares of new consolidated subsidiaries	—	1,175	—
Service cost	998	995	8,895
Interest cost	124	127	1,105
Actuarial loss (gain)	406	(175)	3,619
Benefits paid	(1,583)	(1,567)	(14,109)
Increase due to revision of retirement benefit plan	—	108	—
Decrease due to partial abolition of retirement benefit plan	—	(1,260)	—
Other	(9)	(65)	(80)
Balance at the end of the year	¥18,183	¥18,247	\$162,059

(2) Movements in plan assets

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at the beginning of the year	¥7,803	¥9,079	\$69,545
Increase with acquisition of shares of new consolidated subsidiaries	—	803	—
Expected return on plan assets	93	87	829
Actuarial loss (gain)	367	(693)	3,271
Contributions paid by the employer	372	329	3,316
Benefits paid	(572)	(405)	(5,098)
Decrease due to partial abolition of retirement benefit plan	—	(1,380)	—
Other	(11)	(17)	(98)
Balance at the end of the year	¥8,052	¥7,803	\$71,765

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Funded retirement benefit obligations	¥5,926	¥6,070	\$52,817
Plan assets	(8,052)	(7,803)	(71,765)
	(2,126)	(1,733)	(18,948)
Unfunded retirement benefit obligations	12,257	12,177	109,242
Total Net liability (asset) for retirement benefits	10,131	10,444	90,294
Liability for retirement benefits	12,363	12,294	110,187
Asset for retirement benefits	(2,232)	(1,850)	(19,893)
Total Net liability (asset) for retirement benefits	¥10,131	¥10,444	\$90,294

(4) Retirement benefit costs	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost	¥998	¥995	\$8,895
Interest cost	124	127	1,105
Expected return on plan assets	(93)	(87)	(829)
Net actuarial loss amortization	(143)	(317)	(1,275)
Other	3	(46)	27
Total retirement benefit costs	¥889	¥672	\$7,923
Gain on abolishment of retirement benefit plan*	—	(41)	—
Amortization of past service cost for retirement benefit accounting*	—	108	—

*These accounts are recorded in other income (expenses).

(5) Adjustments for retirement benefit	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Actuarial gains and losses	¥(182)	¥(834)	\$(1,622)
Adjustment due to partial abolition of retirement benefit plans	—	(160)	—
Other	(1)	(3)	(9)
Total adjustments for retirement benefit	¥(183)	¥(997)	\$(1,631)

(6) Accumulated adjustments for retirement benefit	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Actuarial gains and losses that are yet to be recognized	¥(516)	¥(699)	\$(4,599)

(7) Plan assets

1. Plan assets comprise:	2017	2016
Bonds	28.2%	26.2%
Equity securities	48.4%	47.9%
Cash and deposits	5.0%	6.2%
General account of life insurance companies	16.7%	17.6%
Other	1.7%	2.1%
Total*	100.0%	100.0%

*Total pension assets include the pension benefits trust, established under the corporate pension system, which accounted for 11.3% of assets in the previous fiscal year and 12.6% of assets in the current fiscal year.

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:

	2017	2016
Discount rate	0.6% (mainly)	0.6% (mainly)
Long-term expected rate of return	1.0% (mainly)	1.0% (mainly)
Anticipated rate of increase	3.2% (mainly)	3.1% (mainly)

2. Defined benefit plan applying the simplified method

(1) Movement in liability for retirement benefits	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at the beginning of the year	¥1,231	¥1,196	\$10,971
Retirement benefit costs	268	293	2,389
Benefits paid	(109)	(117)	(971)
Contributions paid by the employer	(121)	(141)	(1,078)
Other	(1)	0	(10)
Balance at the end of the year	¥1,268	¥1,231	\$11,301

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Funded retirement benefit obligations	¥809	¥733	\$7,210
Plan assets	(765)	(678)	(6,818)
	44	55	392
Unfunded retirement benefit obligations	1,223	1,176	10,900
Total Net liability (asset) for retirement benefits	1,267	1,231	11,292
Liability for retirement benefits	1,293	1,231	11,524
Asset for retirement benefits	(26)	—	(232)
Total Net liability (asset) for retirement benefits	¥1,267	¥1,231	\$11,292

(3) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Total retirement benefit costs based on the simplified method	¥269	¥293	\$2,398

3. Defined contribution pension plan

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Required contributions provided to defined contribution pension plans at consolidated subsidiaries	¥326	¥99	\$2,906

Note 18: Asset Retirement Obligations**1. Asset retirement obligations recorded on the consolidated balance sheets****(1) Outline of the asset retirement obligations recorded:**

The Company recorded asset retirement obligations covering the expenses for the removal of asbestos to be incurred at the time of removal from buildings and structures owned by the Company, treatment

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

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

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

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

(3) Increase or decrease in the total amount of the relevant asset retirement obligations during the fiscal year ended March 31, 2017 and 2016:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at the beginning of the year	¥2,091	¥1,418	\$18,636
Increase from acquisition of property, plant and equipment	—	55	—
Adjustments over time	10	18	89
Increase (Decrease) due to change of estimates	22	1	196
Decrease in loss on disposal of property, plant and equipment	(13)	(17)	(116)
Increase from newly consolidated subsidiaries	—	634	—
Foreign currency translation adjustment	(4)	(18)	(35)
Balance at the end of the year	¥2,106	¥2,091	\$18,770

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

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

unclear, and also in view of the fact that the Companies currently have no plan to exit from these properties, it is not possible to clearly estimate the amounts of asset retirement obligations. For this reason, the asset retirement obligations that correspond to these obligations are not recorded in the accompanying consolidated financial statements.

Note 19: Segment Information**1. Overview of 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 a 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
2017						
Sales:						
Sales to outside customers	¥234,576	¥20,146	¥254,722	¥7,676	¥—	¥262,398
Intersegment sales or transfers	2,644	98	2,742	34,392	(37,134)	—
Total	237,220	20,244	257,464	42,068	(37,134)	262,398
Operating income	¥10,321	¥1,261	¥11,582	¥624	¥694	¥12,900
Identifiable assets	¥339,201	¥17,525	¥356,726	¥19,441	¥(13,962)	¥362,205
Other items						
Depreciation and amortization	¥18,254	¥833	¥19,087	¥418	¥(411)	¥19,094
Impairment loss	¥—	¥—	¥—	¥—	¥—	¥—
Investment in affiliates	¥36,272	¥—	¥36,272	¥—	¥—	¥36,272
Increase in property, plant and equipment/intangible assets	¥12,450	¥367	¥12,817	¥300	¥(366)	¥12,751
Thousands of U.S. dollars						
2017						
Sales:						
Sales to outside customers	\$2,090,695	\$179,555	\$2,270,250	\$68,413	\$—	\$2,338,663
Intersegment sales or transfers	23,565	873	24,438	306,525	(330,963)	—
Total	2,114,260	180,428	2,294,688	374,938	(330,963)	2,338,663
Operating income	\$91,988	\$11,238	\$103,226	\$5,562	\$6,185	\$114,973
Identifiable assets	\$3,023,182	\$156,194	\$3,179,376	\$173,271	\$(124,438)	\$3,228,209
Other items						
Depreciation and amortization	\$162,692	\$7,424	\$170,116	\$3,725	\$(3,663)	\$170,178
Impairment loss	\$—	\$—	\$—	\$—	\$—	\$—
Investment in affiliates	\$323,280	\$—	\$323,280	\$—	\$—	\$323,280
Increase in property, plant and equipment/intangible assets	\$110,963	\$3,271	\$114,234	\$2,673	\$(3,262)	\$113,645

*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 ¥694 million (\$6,185 thousand) mainly represent eliminations of intersegment transactions.

(2) Adjustments in segment assets in the amount of ¥(13,962) million (\$(124,438) thousand) include ¥(21,728) million (\$(193,654) thousand) for eliminations of intersegment debts and credits and ¥7,766 million (\$69,215 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 ¥(366) million (\$(3,262) 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					2016
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others*1	Corporate or elimination*2	Consolidated*3
Sales:						
Sales to outside customers	¥218,277	¥20,129	¥238,406	¥8,443	¥—	¥246,849
Intersegment sales or transfers	2,401	59	2,460	29,071	(31,531)	—
Total	220,678	20,188	240,866	37,514	(31,531)	246,849
Operating income	¥7,320	¥696	¥8,016	¥551	¥669	¥9,236
Identifiable assets	¥342,297	¥17,911	¥360,208	¥20,109	¥(16,659)	¥363,658
Other items						
Depreciation and amortization	¥18,653	¥872	¥19,525	¥446	¥(418)	¥19,553
Impairment loss	¥20	¥23	¥43	¥3	¥—	¥46
Investment in affiliates	¥33,526	¥—	¥33,526	¥—	¥—	¥33,526
Increase in property, plant and equipment/intangible assets	¥9,059	¥479	¥9,538	¥293	¥(406)	¥9,425

*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 ¥669 million mainly represent eliminations of intersegment transactions.

(2) Adjustments in segment assets in the amount of ¥(16,659) million include ¥(22,708) million for eliminations of intersegment debts and credits and ¥6,049 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 ¥(406) million represent eliminations of intersegment unrealized gains on noncurrent assets.

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

(Related information)

Year ended March 31, 2017

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				
	Japan	Asia	North America	Others	Total
Net Sales	¥189,942	¥38,410	¥26,604	¥7,442	¥262,398

Thousands of U.S. dollars

	2017				
	Japan	Asia	North America	Others	Total
Net Sales	\$1,692,888	\$342,335	\$237,112	\$66,328	\$2,338,663

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) AsiaChina, South Korea, Vietnam, Taiwan, Hong Kong, Thailand

(2) North America.....United State of America, Canada

(3) OtherEurope, the Middle East, Oceania

(2) Property, plant and equipment

	Millions of yen			
	Japan	China	Others	Total
Property, plant and equipment	¥123,832	¥13,755	¥6,795	¥144,382

Thousands of U.S. dollars

	2017			
	Japan	China	Others	Total
Property, plant and equipment	\$1,103,672	\$122,594	\$60,561	\$1,286,827

3. Information by Major Customer

Name of Customers	Millions of yen	Thousands of U.S. dollars
	2017	2017
SHINSEI PULP & PAPER COMPANY LIMITED	¥37,328	\$332,692

Year ended March 31, 2016

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				
	Japan	Asia	North America	Others	Total
Net Sales	¥199,731	¥29,632	¥9,664	¥7,822	¥246,849

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) AsiaChina, South Korea, Hong Kong, Taiwan, Vietnam, Thailand

(2) North America.....United State of America, Canada

(3) OtherEurope, Oceania, the Middle East

(2) Property, plant and equipment

	Millions of yen			
	Japan	China	Others	Total
Property, plant and equipment	¥131,787	¥15,569	¥5,040	¥152,396

3. Information by Major Customer

Name of Customers	Millions of yen
	2016
SHINSEI PULP & PAPER COMPANY LIMITED	¥39,672

(Information regarding the amounts of amortization and unamortized balance by reportable segment)
Year ended March 31, 2017

						Millions of yen
						2017
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others	Corporate or elimination	Consolidated
Goodwill:						
Amortization of goodwill	¥134	¥—	¥134	¥—	¥—	¥134
Balance at end of year	¥1,372	¥—	¥1,372	¥—	¥—	¥1,372

						Thousands of U.S. dollars
						2017
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others	Corporate or elimination	Consolidated
Goodwill:						
Amortization of goodwill	\$1,194	\$—	\$1,194	\$—	\$—	\$1,194
Balance at end of year	\$12,228	\$—	\$12,228	\$—	\$—	\$12,228

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

Year ended March 31, 2016

						Millions of yen
						2016
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others	Corporate or elimination	Consolidated
Goodwill:						
Amortization of goodwill	¥161	¥—	¥161	¥3	¥—	¥164
Balance at end of year	¥1,618	¥—	¥1,618	¥—	¥—	¥1,618

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

Note 20: Related Party Transactions

(1) Transactions with related party

Year ended March 31, 2017

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

											2017
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 (\$1,822,166 thousand)	A general trading company	(Parent company ownership ratio) Direct 19.4	Agency for the products of the Company	Sales of paper	¥17,582 million (\$156,702 thousand)	Account receivable-trade	¥4,866 million (\$43,369 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.

Year ended March 31, 2016

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

											2016
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 19.4	Agency for the products of the Company	Sales of paper	¥18,228 million	Account receivable-trade	¥4,371 million	
							Acquisition of shares of affiliates	¥4,757 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 price of shares of affiliates was decided through mutual consultation between the two parties, with reference to prices calculated by third-party appraisers.

(2) Notes on parent company or significant affiliated company

For the year ended March 31, 2017 and 2016, the significant affiliated company is Daio Paper Corporation and its summarized consolidated financial statement is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Total current assets	¥257,048	¥257,154	\$2,290,980
Total noncurrent assets	400,530	398,985	3,569,786
Total current liabilities	196,288	219,261	1,749,447
Total noncurrent liabilities	270,380	262,229	2,409,804
Total net assets	191,079	174,820	1,703,021
Net sales	477,140	474,077	4,252,585
Income before income taxes	18,118	21,997	161,480
Net income attributable to owners of parent company	12,136	14,594	108,164

Note 21: Comprehensive Income

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrealized holding gains (losses) on securities, net of taxes			
Occurrence amount	¥4,211	¥(1,992)	\$37,531
Recycling	(14)	(62)	(125)
Before tax effect	4,197	(2,054)	37,406
Tax effect	(1,127)	669	(10,044)
Unrealized holding gains (losses) on securities, net of taxes	¥3,070	¥(1,385)	\$27,362
Unrealized holding gains (losses) on hedging derivatives, net of taxes			
Occurrence amount	¥(549)	¥(204)	\$(4,893)
Recycling	711	63	6,337
Before tax effect	162	(141)	1,444
Tax effect	(50)	41	(446)
Unrealized holding gains (losses) on hedging derivatives, net of taxes	¥112	¥(100)	\$998
Foreign currency translation adjustment			
Occurrence amount	¥(361)	¥(688)	\$(3,218)
Recycling	—	—	—
Before tax effect	(361)	(688)	(3,218)
Tax effect	—	—	—
Foreign currency translation adjustment	¥(361)	¥(688)	\$(3,218)
Adjustments for retirement benefit, net of taxes			
Occurrence amount	¥(40)	¥(665)	\$(357)
Recycling	(143)	(332)	(1,274)
Before tax effect	(183)	(997)	(1,631)
Tax effect	55	334	490
Adjustments for retirement benefit, net of taxes	¥(128)	¥(663)	\$(1,141)
Share of other comprehensive income of associates accounted for using equity method			
Occurrence amount	¥872	¥(168)	\$7,772
Recycling	(21)	(944)	(187)
Share of other comprehensive income of associates accounted for using equity method	¥851	¥(1,112)	\$7,585
Total other comprehensive income	¥3,544	¥(3,948)	\$31,586

Note 22: 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, 2017.

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	From July 12, 2014 to July 11, 2029
2015 Stock options	9 directors	62,000 shares	July 13, 2015	¥1	From July 14, 2015 to July 13, 2030
2016 Stock options	9 directors	58,500 shares	July 14, 2016	¥1 (\$0.01)	From July 15, 2016 to July 14, 2031

(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)	2015 Stock options (shares)	2016 Stock options (shares)
Non-vested stock option:						
Outstanding at March 31, 2016	—	—	—	—	—	—
Granted	—	—	—	—	—	58,500
Forfeited	—	—	—	—	—	—
Vested	—	—	—	—	—	58,500
Outstanding at March 31, 2017	—	—	—	—	—	—
Vested stock option:						
Outstanding at March 31, 2016	42,000	90,000	78,000	74,500	62,000	—
Vested	—	—	—	—	—	58,500
Exercised	19,000	10,000	20,000	—	13,500	—
Forfeited	—	—	—	—	—	—
Outstanding at March 31, 2017	23,000	80,000	58,000	74,500	48,500	58,500

(3) The following shows the per share prices.

	2011 Stock options	2012 Stock options	2013 Stock options	2014 Stock options	2015 Stock options	2016 Stock options
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1(\$0.01)
Average stock price at exercise	¥706	¥691	¥643	—	¥717	—
Fair value price at grant date	¥428	¥314	¥359	¥354	¥599	¥657(\$5.86)

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

	2011 Stock options	2012 Stock options	2013 Stock options	2014 Stock options	2015 Stock options	2016 Stock options
Estimate method	Black-Scholes option-pricing models	Black-Scholes option-pricing models	Black-Scholes option-pricing models	Black-Scholes option-pricing models	Black-Scholes option-pricing models	Black-Scholes option-pricing models
Expected volatility	33.120%	33.243%	35.972%	37.089%	37.064%	37.117%
Expected life	8 years	8 years	8 years	8 years	8 years	8 years
Expected dividend	¥12 / share	¥12 / share	¥12 / share	¥12 / share	¥12 / share	¥12 / share (\$0.11 / share)
Risk-free interest rate	0.844%	0.502%	0.685%	0.356%	0.295%	(0.352)%

Note 23: Subsequent Events**Distribution of Retained Earnings**

The following items were approved at the annual shareholders' meeting of the Company held on June 28, 2017:

Payment of a cash dividend of ¥6.00 (\$0.05) per share, or a total of ¥1,137 million (\$10,134 thousand), to shareholders on record as of March 31, 2017.

Independent Auditor's Report**Independent Auditor's Report**

To the Board of Directors of HOKUETSU KISHU PAPER Co., Ltd.:

We have audited the accompanying consolidated financial statements of HOKUETSU KISHU PAPER CO., LTD. ("the Company", a Japanese corporation) and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2017 and 2016, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, 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 misstatement, 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, 2017 and 2016, and their financial performance and cash flows for the years then ended 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, 2017 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 9, 2017

Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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

Alberta Pacific Forest Industries Inc.

P.O. Box 8000, Boyle, Alberta, Canada T0A 0M0
Manufacturing and sale of pulp

King 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 Toyo Fibre Co., Ltd.

888, Otsuka, Numazu City, Shizuoka Prefecture 410-0306
Manufacturing and sale of vulcanized fiber products and paper

Hokuetsu Kamiseisen Co., Ltd.

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

Kishu Kamiseisen Co., Ltd.

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

Katsuta Kamiseisen Co., Ltd.

1760, Takaba, Hitachinaka City, Ibaraki Prefecture 312-0062
Cutting, selecting, packing and loading/unloading of the company's products

Techno-Hokuetsu Co., Ltd.

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

MC Hokuetsu Energy Service Company

47, Enoki-cho, Higashi-ku, Niigata City, Niigata Prefecture 950-0081
Supply of steam and electric power

Kinan Sangyo Co., Ltd.

182, Udono, Kiho-cho, Minamimuro-gun, Mie Prefecture 519-5701
Contract work related to paper manufacturing

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 Logistics Co., Ltd.

560-11, Shimokido, Higashi-ku, Niigata City, Niigata Prefecture 950-0885
Transportation and warehousing of products

Hokuetsu Suion Co., Ltd.

560-11, Shimokido, Higashi-ku, Niigata City, Niigata Prefecture 950-0885
Transportation of products

Hokuetsu Forest Co., Ltd.

1529, Aza-Shitadairayamako, Oaza-Sakamoto, Aizubange-machi, Kawanuma-gun, Fukushima Prefecture 969-6586
Sale of raw fuel to paper mills, wood chips, and wood 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

Hokuetsu Kishu Pallet Co., Ltd.

3-2-2, Nihonbashihongoku-cho, Chuo-ku, Tokyo 103-0021
Management of forests and wood products
Manufacturing, repair and sale of pallets, etc.

Hokuetsu Trading Corporation

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

Keiyo Shigen Center Co., Ltd.

3-14-1, Shiohama, Ichikawa City, Chiba Prefecture 272-0127
Purchase and sale of used paper

Kishu Kohatsu Co., Ltd.

4-22-1, Minami-Suita, Suita City, Osaka 564-0043
Management of driving school and golf practice range

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, Kamiiose-machi, Higashi-ku, Niigata Prefecture 950-0063
Manufacturing and sale of filler for papermaking

Equity Data

Stock Information (as of March 31, 2017)

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	11,419

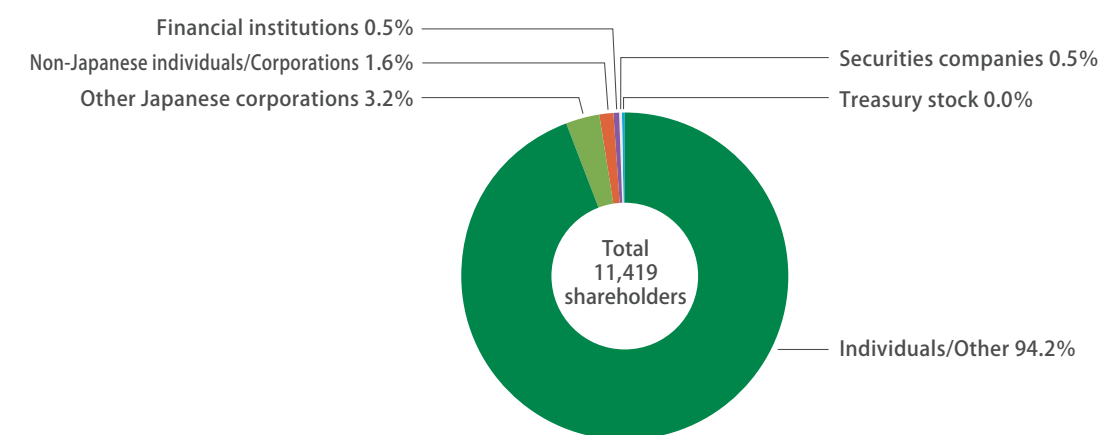
Major Shareholders (as of March 31, 2017)*

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)	19,698	9.41
Japan Trustee Services Bank, Ltd. (Trust Account)	9,485	4.53
Hokuetsu Kishu Paper Stock Ownership Association	5,390	2.58
Sompo Japan Nipponkoa Insurance Inc.	4,499	2.15
The Daishi Bank, Ltd.	4,317	2.06
The Hokuetsu Bank, Ltd.	4,315	2.06
Daio Paper Corporation	4,286	2.05
Kawasaki-kami Unyu Co., Ltd.	4,286	2.05
Mizuho Bank, Ltd.	3,600	1.72

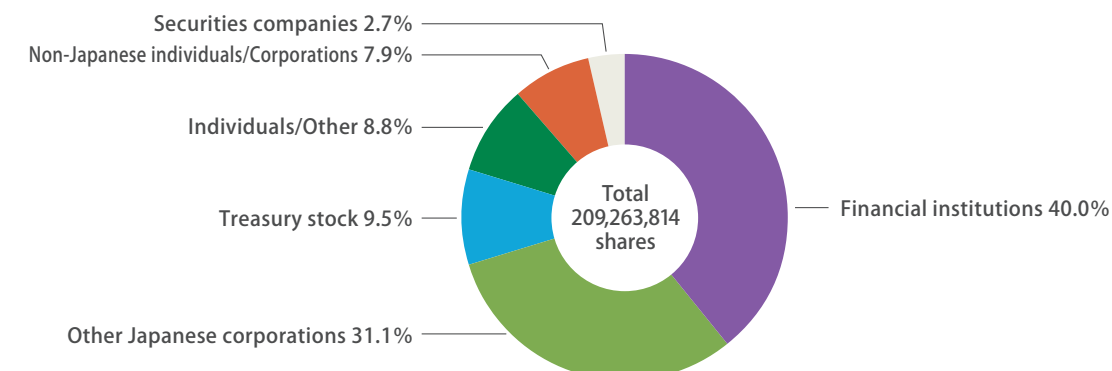
*In addition to the above, the Company holds 19,813 shares (9.4%) of treasury stock.

Distribution of shares by shareholders (as of March 31, 2017)

Number of shareholders



Number of shares



Corporate Data (as of March 31, 2017)

Corporate Name: Hokuetsu Kishu Paper Co., Ltd. Fiscal year ending: March 31
 Established: April 27, 1907 Number of consolidated subsidiaries: 22
 The registered head office: Number of affiliated companies accounted for under the equity method: 5
 3-5-1, Nishizao, Nagaoka, Niigata Prefecture Number of employees: 4,769 (consolidated); 1,544 (non-consolidated)
 Paid-in capital: 42,020,940,239 yen

Offices and Mills (as of March 31, 2017)

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



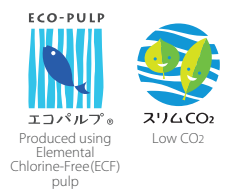
Hokuetsu Kishu Paper Group Corporate Report 2017

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