

HOKUETSU GROUP

Corporate Report 2018



HOKUETSU
GROUP

HOKUETSU GROUP Corporate Report 2018 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 ESG information pertaining to the environment, society, and governance. It is our hope that this Corporate Report will deepen the understanding of our stakeholders of the HOKUETSU GROUP, which is striving to increase corporate value through all aspects of the paper and pulp industry. 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 GROUP (Hokuetsu Corporation and main affiliated subsidiaries, etc.)

Period covered by the Report:
April 1, 2017 - March 31, 2018 (Some activities that took place after the end of this term are also reported.)

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Commitment to Sustainable Development Goals

The 2030 Agenda for Sustainable Development (SDGs) was adopted by all 195 member countries at the UN General Assembly in 2015. SDGs are the 169 targets in 17 goals (including poverty, inequality, education, and environment) that all countries and regions aim for to realize a better international society. The HOKUETSU GROUP supports these goals, and develops its business activities with the aim of realizing them through practices of the Group Corporate Philosophy and the Group Code of Conduct.



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Hokuetsu Kishu Paper evolved into Hokuetsu Corporation from July 2018

Transforming ourselves and going ahead towards a new future
In 2018, we established a new company name and group symbol, and have accordingly renovated our Group Corporate Philosophy and Group Code of Conduct.
Our aim for the future is sustainable growth as a global corporate group.
The new HOKUETSU GROUP centered on Hokuetsu Corporation will meet your expectations better than ever.



Our wish for the design of the symbol

This symbol is in the shape of the letter “h,” the initial letter in “HOKUETSU GROUP,” and represents the paper and pulp industry as a whole, the business field of our corporate group, symbolizing the paper machine.
It also means that we will connect “people,” “environment,” “technology,” “monozukuri (manufacturing technology),” and “future,” the key concepts in our Group Corporate Philosophy that we simultaneously established.

New company name

As of July 1, 2018

Hokuetsu Corporation

New group name

As of July 1, 2018

HOKUETSU GROUP

Group Corporate Philosophy

As of April 1, 2018

As a people-focused business group, we work to improve society globally, by providing socially and environmentally responsible products through innovative manufacturing on a global scale.

“People-focused business group” is the expression of our vision for the future, what we want to become, our goal.

- A business group that values its connection to its stakeholders and the relationship of trust with them.
- A business group that pursues the happiness of its employees.
- A business group that respects diversity and empowers its people.

“Socially and environmentally responsible” means to create a sustainable society in harmonious coexistence with nature, guided by the concept of “minimum impact” to keep all impact on the natural environment to the minimum at each stage from the procurement of raw materials to the manufacture of end products.

“Products through innovative manufacturing on a global scale” means to pursue innovation, to aim at delivering the greatest satisfaction to our customers by enhancing our technological capabilities.

“Socially and environmentally responsible”, “products through innovative manufacturing on a global scale”: these are the values, the philosophy, that we uphold. It is the mission of our corporate group, the foundation of our existence, to “work to improve society globally” through these values.

Group Code of Conduct

As of April 1, 2018

Relation to SDGs



The Group hereby sets forth “Group Code of Conduct” to signify the basic rules to be observed by all of its officers and employees in all activities they engage in toward realizing the Group’s Corporate Philosophy.

1. We Shall Comply with Laws and Regulations, and Act in a Responsible Manner in Line with the Social Norms

- (1) Compliance with Laws and Regulations
—We shall comply with all laws and regulations applicable in the countries and regions in which we operate, international norms and internal rules, and shall act in a responsible manner in accordance with the social norms.
- (2) Prohibition of Any Involvement with Antisocial Forces
—We shall have absolutely no relationship with any antisocial forces (all crime organizations, groups, and individuals).
If we receive unreasonable demands from antisocial forces, we shall take a resolute attitude as an organization and provide no favors whatsoever to them.

2. We Shall Strive for Environmental Conservation and Seek Harmonious Coexistence with Society and Local Communities

- (1) Environmental Conservation
—We shall continually seek to mitigate environmental load and strive for environmental conservation in order to contribute to realizing a sustainable society, guided by the concept of “minimum impact” to keep all impacts on the natural environment to the minimum at each stage from the procurement of raw materials to the manufacture of end products.
- (2) Harmonious Coexistence with Society and Local Communities
—We shall seek harmonious coexistence with society and local communities through communication with local communities and social contribution activities.

3. We Shall Respect Human Rights and Strive to Secure a Safe, Hygienic and Pleasant Workplace Environment

- (1) Appreciation of Diversity
—We shall respect cultures, religions, and customs of countries and regions in which we operate, and shall strive to act by appreciating diversity in values.
- (2) Respect for Human Rights and Prohibition of Harassment
—We shall respect human rights and shall refrain from any violation thereof including, but not limited to, discrimination against anyone on the basis of race, color, creed, religion, gender, national origin, age, disability or other factors, forced labor and child labor. And we shall prohibit any kind of harassment.
- (3) Safety and Hygiene of Workplace
—We shall give the highest priority to safety. We shall comply with laws and regulations as well as internal rules concerning labor safety and hygiene in order to prevent accidents and workplace injuries and shall also strive to secure a safe, hygienic and pleasant workplace environment.

4. We Shall Conduct Business with Integrity and Fairness

- (1) Safety of Products and Services
—We shall build up the relationship of trust with our customers by providing products and services with excellent quality and safety.
- (2) Fair Advertising Activities
—We shall not engage in false, misleading or defamation advertising.
- (3) Fair Competition
—We shall comply with all laws and regulations concerning fair competition and transactions applicable in the countries and regions in which we conduct business and internal rules, and we shall never engage in any misconduct that stifles fair competition, such as bid-rigging and cartels.
We shall not unilaterally change the terms and conditions of transactions by taking advantage of a superior bargaining position.
- (4) Prohibition of Bribery
—We shall comply with laws and regulations and internal rules, etc., concerning the prevention of bribery, and shall not take any action that may be taken as bribery to government officials or those in positions equivalent to them.
—We shall comply with relevant laws and regulations and internal rules regarding entertainment and gifts to officers and employees of customers and business partners, shall provide them to the extent deemed adequate by conventional wisdom, and shall not receive excessive entertainment or gifts beyond the scope of social courtesies
—We shall not engage in acts of providing favors to specific customers and business partners and in return receiving entertainment or gifts from them.
- (5) Stance toward Political Contributions and Donations
—We shall maintain sound and fair relations with political office, administrative agency and related parties, including business partners, and we shall make political contributions and donations in an appropriate manner after thoroughly considering their necessity and propriety.
- (6) Timely and Appropriate Disclosure of Information
—We shall disclose corporate information, including the Group’s management policy and financial information in a timely and appropriate manner in order to enhance management transparency and fulfill accountability to society.
- (7) Proper Accounting
—We shall perform proper accounting in order to ensure the accuracy and credibility of financial information and accounting.
- (8) Prohibition of Insider Trading
—We shall not sell or buy shares (insider trading) by taking advantage of undisclosed information that could give material influence on share prices (insider information). We shall not engage in acts that may induce insider trading by any third party, such as provision of information that may become insider information.

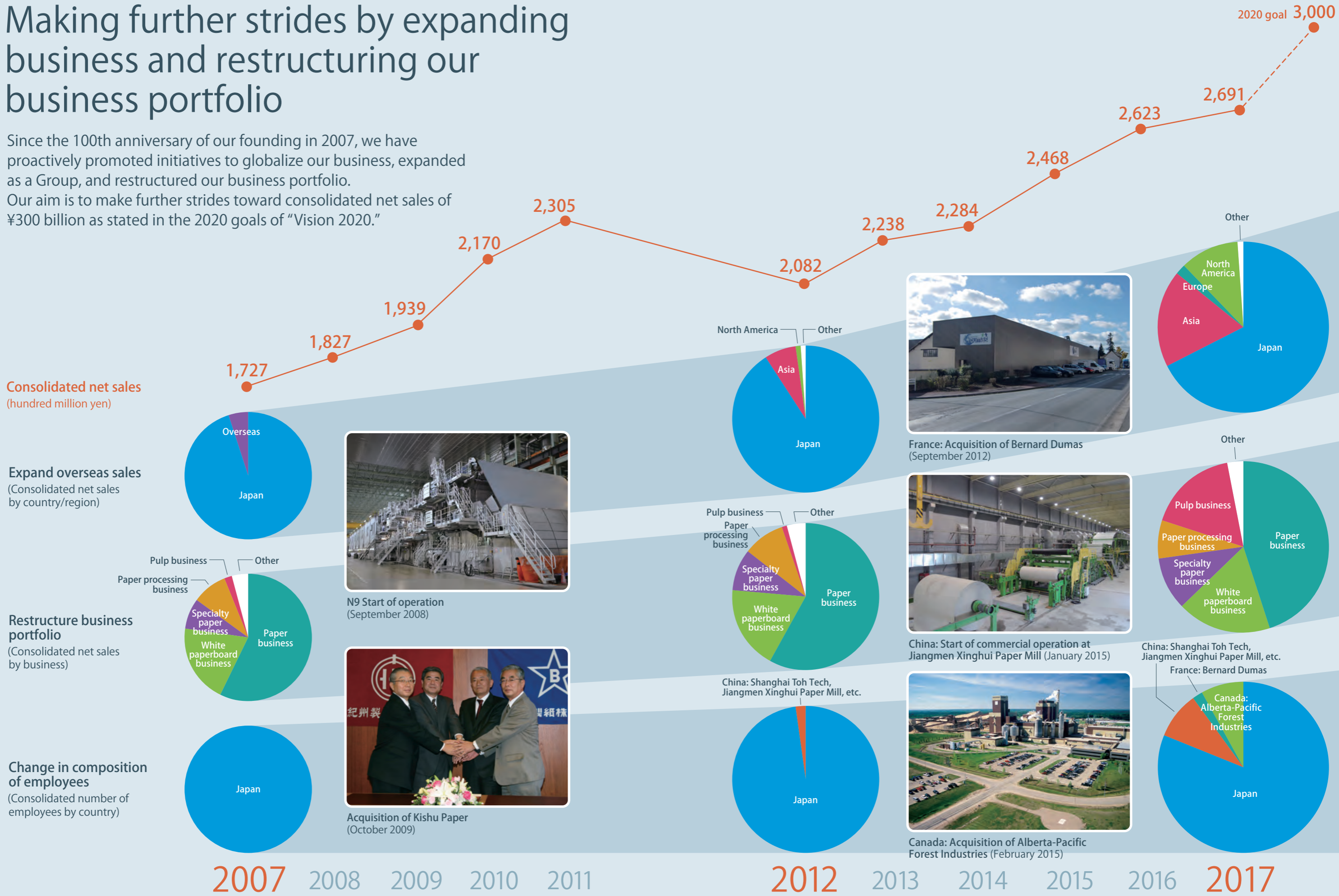
5. We Shall Appropriately Manage Corporate Assets and Information

- (1) Timely and Accurate Recording and Reporting of Information
—We shall manage all business records and reports, including but not limited to accounting books and other financial records in a timely and accurate manner, and shall refrain from preparing or reporting false or misleading records.
- (2) Strict Management of Information
—We shall strictly manage confidential information (including confidential information obtained from outside) without leaking, shall not disclose it without going through internal rules and other procedures, and shall refrain from making unauthorized or unfair use of it not only while employed but also after retirement.
- (3) Protection of Personal Information
—We shall respect privacy of officers and employees of customers and business partners as well as of officers and employees of the Group, and shall handle the collection, utilization, provision, storage and disposal of personal information with the greatest care not to leak it.
- (4) Respect for Intellectual Property
—We shall strive to appropriately utilize and secure our intellectual property rights, and shall respect intellectual property rights of others.
—We shall not obtain trade secrets of others by fraudulent or unlawful means. We shall not make use of trade secrets of others that were obtained or suspected to have been obtained by fraudulent or unlawful means.
- (5) Protection of Corporate Assets
—We shall efficiently utilize and protect our tangible and intangible assets and shall refrain from actions that prejudice their value by unauthorized use or private use.
- (6) Personal Conflicts of Interest
—We shall refrain from acts that may bring loss to us for personal gains, including the use of our assets or expenses for personal purposes and the unauthorized use of the internal information system.

Making further strides by expanding business and restructuring our business portfolio

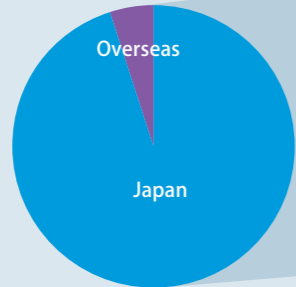
Since the 100th anniversary of our founding in 2007, we have proactively promoted initiatives to globalize our business, expanded as a Group, and restructured our business portfolio.

Our aim is to make further strides toward consolidated net sales of ¥300 billion as stated in the 2020 goals of "Vision 2020."

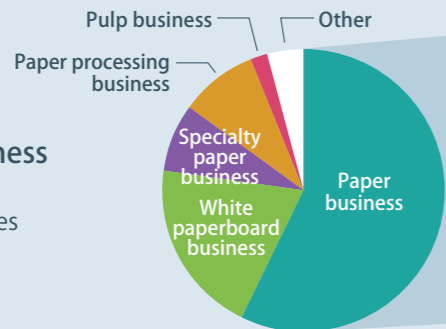


Consolidated net sales (hundred million yen)

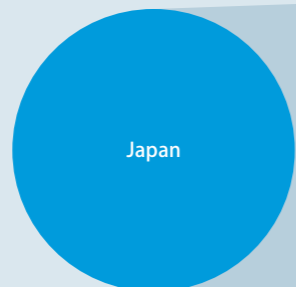
Expand overseas sales (Consolidated net sales by country/region)



Restructure business portfolio (Consolidated net sales by business)



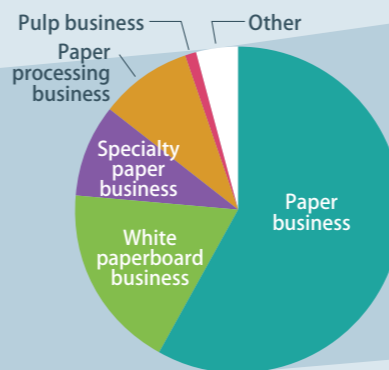
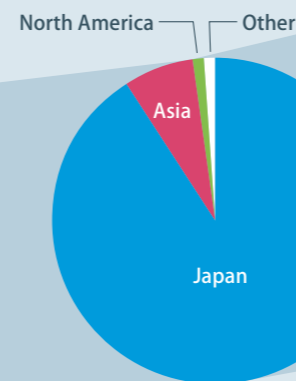
Change in composition of employees (Consolidated number of employees by country)



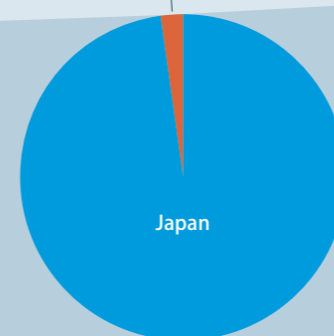
N9 Start of operation (September 2008)



Acquisition of Kishu Paper (October 2009)



China: Shanghai Toh Tech, Jiangmen Xinghui Paper Mill, etc.



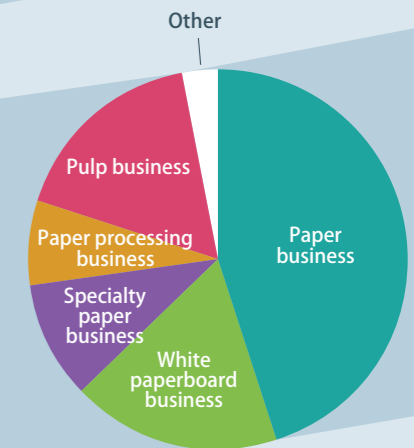
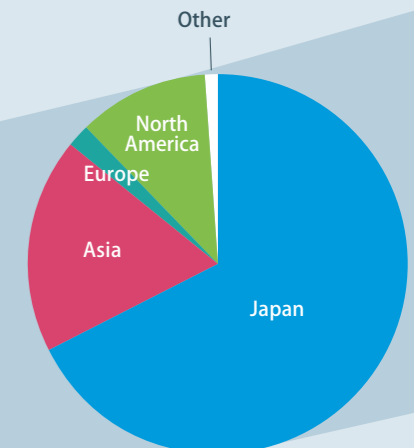
France: Acquisition of Bernard Dumas (September 2012)



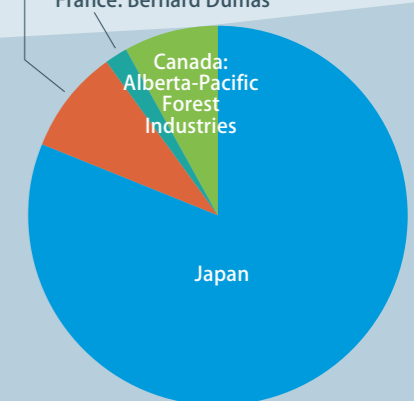
China: Start of commercial operation at Jiangmen Xinghui Paper Mill (January 2015)



Canada: Acquisition of Alberta-Pacific Forest Industries (February 2015)



China: Shanghai Toh Tech, Jiangmen Xinghui Paper Mill, etc.
France: Bernard Dumas



2007 2008 2009 2010 2011

2012 2013 2014 2015 2016 2017

Realizing further sustainable growth as the new Hokuetsu Corporation



岸本 哲夫

Sekio Kishimoto
President and CEO

Towards a true global business group

On July 1, 2018, we changed the name of the company (trade name) from Hokuetsu Kishu Paper Co., Ltd. to Hokuetsu Corporation. In changing our trade name, we have further advanced and broadened our business portfolio and broadly declared to Japan and the rest of the world that the Group has evolved into a global business group that will achieve sustainable growth. In April 2018, prior to changing the company name, we established our Group Corporate Philosophy, Group Code of Conduct, and Group symbol shared by the Group. The new Group Corporate Philosophy of "As a people-focused business group, we work to improve society globally, by providing socially and environmentally responsible products through innovative manufacturing on a global scale." defines the Group's mission and values, and we believe that it will boost the momentum of the Group and be the driving force for our development.

Record consolidated net sales for the fiscal year ended March 2018

From April 2017 to March 2018, the Japanese economy continued its moderately upward trend with improvements in corporate earnings and the employment environment underpinned by steady growth in overseas economies and improvements in capital investment worldwide. Nonetheless, the pulp and paper industry in Japan finds itself in a more severe business environment due to the impact of reduced demand for printing and writing paper, sluggish retail prices, and soaring fuel prices.

It was in such a business environment that the Group launched its "V-DRIVE" Medium-Term Management Plan in April 2017, and steadily implemented its management strategy to achieve its goals. As a result, consolidated net sales for the fiscal year ended March 31, 2018 increased by 2.6% from the previous fiscal year to a record high ¥269.1 billion.

Although business in Japan is facing challenges due to a structural recession from factors such as lower demand for printing and writing paper, the Group has been actively advancing business abroad. For example, the pulp business of Alberta-Pacific Forest Industries (Al-Pac) in Canada, the white paperboard business of Jiangmen Xinghui Paper Mill in China, and the specialty paper business of Bernard Dumas in France have all performed strongly, and the Group's overseas sales have increased significantly to 33% of its overall sales.

Steadily implementing "V-DRIVE" for further growth

The Group is strengthening sales in order to achieve the goals of consolidated net sales of over ¥300 billion and an overseas sales ratio of 25% in 2020 according to the "Vision 2020" Long-Term Management Plan. Sales in Japan should increase with further heightened environmental demand from the Tokyo Olympics and Paralympics, and we have made efforts to increase sales by adding FSC® certified products to our lineup in our core businesses of paper, white paperboard, and specialty paper.

In the paper business, the texture of our paper received acclaim, and was used to print a best-selling series of books that exceeded two million copies. We will continue to strive to expand products that meet the needs of our customers. With exports, we are pushing forward to expand sales in the North American market and develop markets in Vietnam and India with a target of 360,000 tons a year. Furthermore, we have taken steps to bolster the competitiveness of our entire paper business as well as to maximize profits by establishing the Profit Center within the Paper Business Division on April 1, 2018 to promote the centralized management of resource materials, production, and sales, along with a "Logistics Improvement Project Team" targeting the Niigata mill to reduce logistics costs through logistics reform.

In the white paperboard business, packaging areas such as food, medicine, and high-end cosmetics remained strong. Jiangmen Xinghui Paper Mill in China is contributing to the Group's performance, achieving profitability for the full business year. Currently, higher domestic product prices in China are steadily penetrating in response to strong demand and soaring prices for used paper. Moreover, the Chinese government has further strengthened environmental regulations, and the efforts of Jiangmen Xinghui Paper Mill ahead of those stronger environmental regulations may prove to be even more advantageous. The Group will continue to consider expanding its business in China, including plans for expanding mills.

In the specialty paper business, sales are growing, especially in performance paper, due to continued growth in the chip carrier base paper for transporting electronic components in thanks to growing demand for smartphones and automotive electronic components. Air filter media and other products are also strong. In addition, starting from 2017, sales have steadily increased in the Chinese market for polyester wet-laid nonwoven fabric using synthetic fiber papermaking technology.

The production and sale of automotive battery separators, manufactured by Bernard Dumas in France, continues to be strong, with record high production, sales, and profits.

We are moving forward with plans to further increase production capacity and establish new overseas production plants, as well as further expand the scale of our business through mutual OEMs between the Nagaoka Mill and Bernard Dumas.

In the paper processing business, we have been aiming for new orders and sales expansion of liquid package cartons and packaging and containers for food and confectioneries primarily in the packaging and containers area. Hokuetsu Package obtained the FSSC 22000 Food Safety System

Certification, and has promoted a business strategy as a member of the food chain that manufactures and sells food containers, and entered into an exclusive distribution agreement at the end of 2017 with a major Italian beverage filling machine manufacturer for the Japanese market. Currently, we are promoting the sale of containers and filling machines for dairy manufacturers and food and beverage manufacturers in Japan, and will continue to promote further growth in earnings in the paper processing business.



The pulp business, positioned as the fifth core business of the Group, is operated by Al-Pac in Canada, which we acquired in 2015, and owns the largest FSC® certified pulp mill in North America. By optimizing its periodic repair interval, Al-Pac was able to register record high production. It also has made a significant contribution to increasing the Group's earnings due to the rise in sales prices. In the future, we will adopt freight car to transport major chemicals for lower transportation costs and strengthen sales of pulp to North America, China, Japan, and South Korea.

(Hokuetsu Corporation FSC license code: FSC-C005497)
(Alberta-Pacific Forest Industries Inc. FSC license code: FSC-C022642)

Proactively advancing ESG and SDG initiatives

To improve our sustainable corporate value, the Group has been actively promoting ESG initiatives pertaining to Environmental, Social, and Governance criteria.

We have been implementing industry-leading environmental measures with a fundamental policy of "minimum impact" that minimizes any impact on the environment, and in fiscal year ended March 2018, we implemented environmental measures to construct pulp green liquor facilities and a wastewater clarifier at the Niigata Mill. Thanks to these efforts, we have won first place in the pulp and paper industry for the second year in a row in the 21st Environmental Management Survey conducted by Nikkei Inc. in 2017.

Regarding our relationship with society, in Japan, we have conducted various activities including mill tours and outreach lessons, and accepted internships from technical colleges. Overseas, in connection with our afforestation project in South Africa, we have continued cooperation on food aid for the children of the Kingdom of eSwatini (formerly known as Swaziland) adjacent to South Africa, through the procurement of wood chips.

With governance, in order to build and strengthen a Group corporate management system in response to the rapid expansion of our overseas business, we newly established a Group Governance Department in April 2017. We also held an overseas COO and governance conference in China in December of that year, and established the Global Strategy Planning Department in January 2018. In addition, we established basic rules on competition laws and anti-bribery for all Group companies, including overseas subsidiaries, and conducted training on them.

Furthermore, the Group is continuing its efforts to improve corporate value by closely linking management to the "Vision 2020" Long-Term Management Plan, the "V-DRIVE" Medium-Term Management Plan, and CSR activities with the Priority CSR Activities Implementation Target in compliance with ISO 26000. We also support The 2030 Agenda for Sustainable Development (SDGs) adopted by the UN General Assembly in 2015.

Evolution and growth for the next generation

To promote R&D, we established the Novel Materials Development Office in April 2017 and strengthened efforts in the development and application of new functional materials, such as cellulose nanofibers (CNF), in our specialty paper products and nanocarbon material applications. Since fiscal year 2018, we have been engaged in joint research with the Industrial Research Institute of Niigata Prefecture to develop surface coating agents using CNF. In addition, the Group will further enhance its competitiveness by leveraging technical innovation from new knowledge and technologies, such as cellulose nanocrystals (CNC) being researched and developed by Al-Pac in Canada, not only for existing products but also for new products.

The Group will continue to evolve and grow with a view to the next generation based on the trust of all our stakeholders. We truly appreciate your continued support and encouragement.

Making steady progress in “V-DRIVE” with the aim of achieving “Vision 2020”

The HOKUETSU GROUP announced the “Vision 2020” Long-Term Management Plan in April 2011. We are currently making steady progress in the “V-DRIVE” Medium-Term Management Plan with the aim of achieving “Vision 2020.”

We are working to restructure our business portfolio in order to realize the corporate image described in “Vision 2020.”

Vision 2020: HOKUETSU 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 the 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

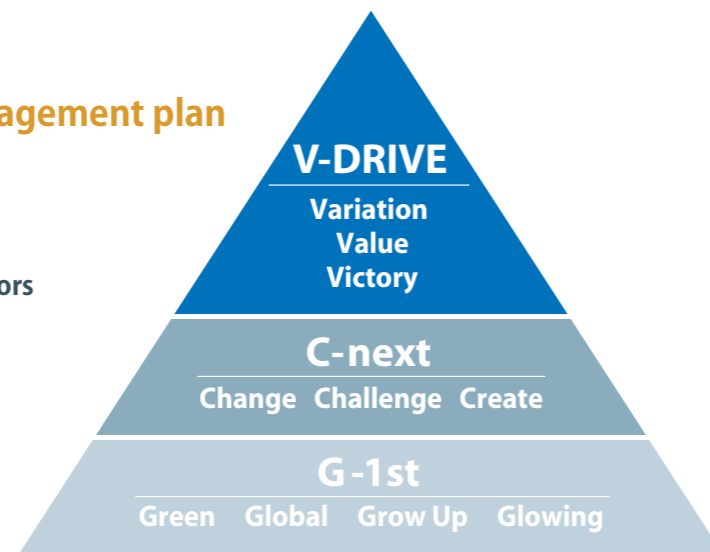
Net sales operating income ratio: 5.0% or above

ROE: 6.0% or above

EBITDA: ¥40 billion

Net debt-equity ratio: 0.6 or less

Vision 2020



Variation

Value

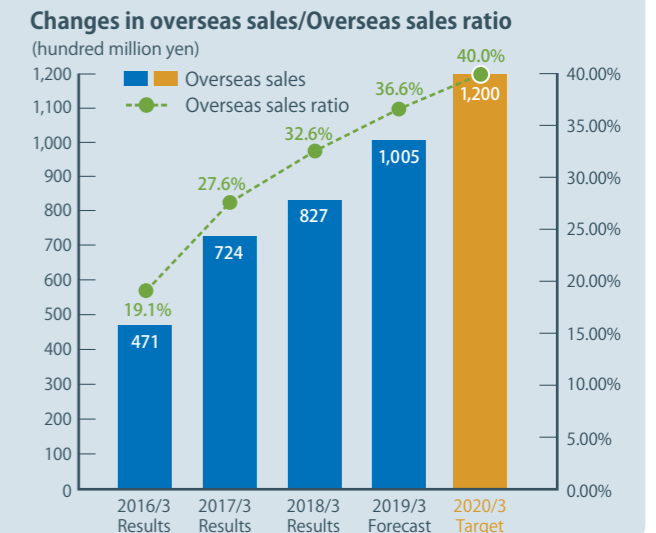
Victory

Medium-Term Management Plan **V-DRIVE**

Basic policy and main strategy of “V-DRIVE” Medium-Term Management Plan

1. Expand the overseas business

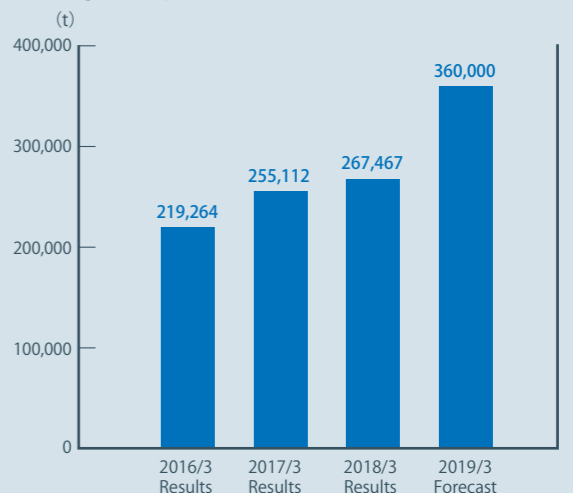
- Restructure business portfolio to reinforce earnings base
- Grow white paperboard business in China (p. 34–35)
- Increase profitability of pulp business in Canada (p. 40–41)
- Overseas sales ratio of 32.6% for the fiscal year ended March 2018
Aim for reaching 40% after having already achieved the “Vision 2020” target of 25%
- Planned total of ¥50 billion of strategic investment in overseas M&As and other investments



2. Refortify the competitiveness of mills

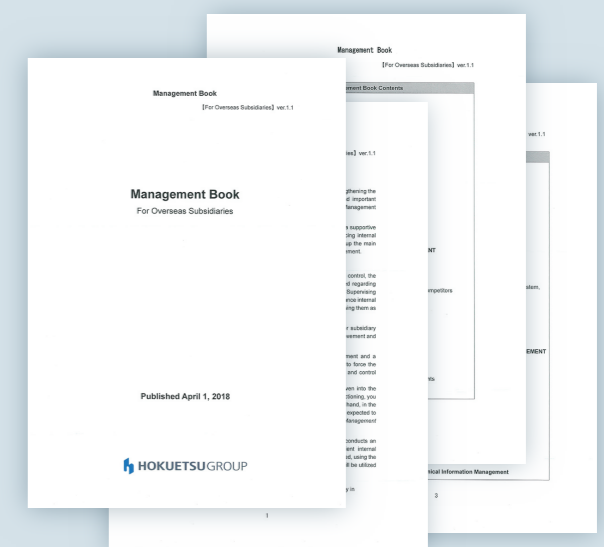
- Promote the rationalization of logistics such as the improvement of the mill direct delivery rate and inventory reduction
- Increase the export volume to 360,000 tons (267,000 tons exported in the fiscal year ended March 2018)
- Build an optimal production and sales system according to market trends
- Aggressive preservation measures for our superior boilers and paper machines
- Stable reinvestment using an abundant cash flow

Change in export sales



3. Strengthen the base of the consolidated management system

- Promote strengthening of governance in consolidated subsidiaries
 - Established new Group Corporate Philosophy and Group Code of Conduct (April 2018) (p. 4–5)
 - Established Group Governance Department (April 2017)
Created “Management Book” for strengthening corporate management system of overseas and Japanese Group companies
 - Held regular overseas COO and governance conference (December 2017)
 - Established Global Strategy Planning Department (January 2018)





Foundations for Value Creation

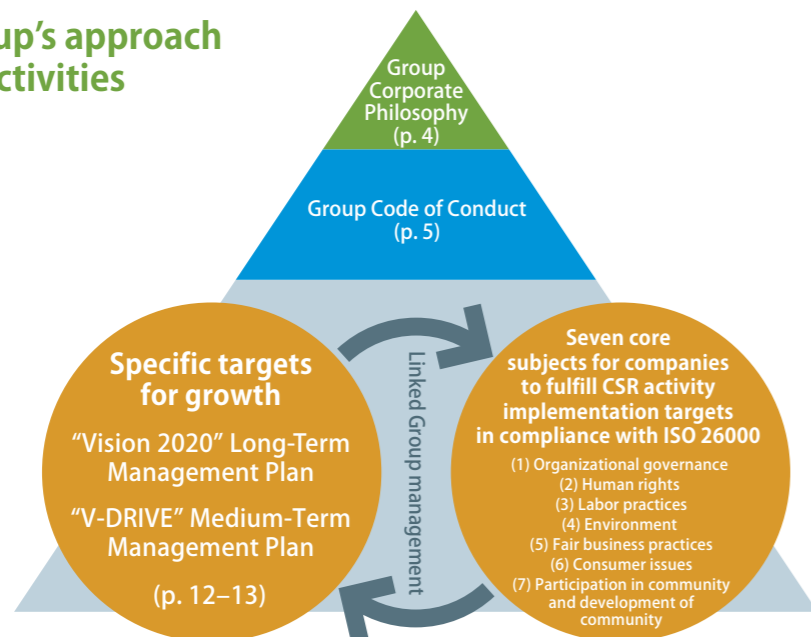
We report on the E (Environment), S (Social), and G (Governance) initiatives to achieve sustainable growth.



Promoting CSR activities as one of the drivers of management throughout the entire Group

The Group pursues a relationship of trust with employees, customers, business partners, suppliers, consumers, shareholders, local communities and all stakeholders. Together with our supporting the SDGs adopted by the UN General Assembly and improving corporate value by pursuing sustainable development, we have adopted specific activity goals in compliance with the International Organization for Standardization (ISO 26000), and are promoting sustained and highly effective CSR activities.

The Group's approach to CSR activities



For the Group to realize the Group Corporate Philosophy, we aim to improve corporate value with each of our employees keenly aware of the Group Code of Conduct while in pursuit of their daily work, together with specific targets for growth and CSR activities as the drivers of management.

Inspections for FY2017 CSR activity goals

- Strengthening of Group compliance system**
An inspection of the Group compliance system is described on p. 17.
- Strengthening of safety activities**
Since the establishment of the Safety Management Department in January 2016, group-wide efforts were made to eradicate accidents. We reduced the occurrence of accidents across the Group with proactive initiatives to prevent accidents, such as safety audits and follow-ups with the aim of raising the effectiveness of safety activities, information sharing and horizontal deployment to Group companies, and mutual exchanges with safety personnel through monthly TV meetings.
- Sustained implementation of BCP to maintain and improve trust from stakeholders**
We conducted BCP (business continuity plan) role playing at each office, mill and key Group companies simulating a major earthquake. At our head office, we also formulated a BCP for communicable diseases such as the Pandemic Influenza (Novel Influenza).
- Compliance with environmental laws and regulations, eradication of environmental claims, and the delivery of environment-oriented information**
Our environmental initiatives are described on p. 18–21 of this report.
- Steady implementation of "V-DRIVE" Medium-Term Management Plan**
Details are described in the "Message to our Stakeholders" and the main business segments and their business overviews.
- Coexistence with the local community**
We cooperated with outreach lessons and other events at universities and high schools, participated in a gender equality project promoted by Niigata Prefecture, accepting internships from National Institute of Technology, Nagaoka College and participating in explanatory meetings in Nagaoka (including the Central Research Laboratory), sent guest lectures for the lifelong learning project in Nagaoka City, conducted mill tours, carried out clean-up activities around mills, and sponsored and cooperated in various other events and activities. We also held an FSC® field tour overseas at AI-Pac (p. 41).
(Alberta-Pacific Forest Industries Inc. FSC license code: FSC-C022642)

Priority CSR Activity Goals for FY2018

No.	Classification	Activity goals for FY2018
1	Organizational governance (governance)	Promote the creation of an organization to maximize the corporate value of the Group.
2	Human rights (respect the rights given to all people)	Respect the rights given to all people and maintain an appropriate working environment.
3	Labor practices (work style)	Promote work-life balance and improve productivity through innovative and improved work styles.
4	Environment (promotion of environmental management)	Reduce environmental impact, aim for eradicating environmental claims, and realize a "Minimum Impact Mill".
5	Fair business practices (strict compliance)	Strengthen the Group compliance system through sustained education and training.
6	Consumer issues (responsibility to customers)	Fulfill responsibility to customers by aiming to eradicate various complaints.
7	Participation in community and development of community (Coexistence with local community)	Seek coexistence with local communities through communication with local communities and social contribution activities.

Continuing to strengthen the compliance system as a global corporate group

On April 1, 2018, the Group formulated its Group Corporate Philosophy (p. 4) to fulfill its responsibilities as a global corporate group and its Group Code of Conduct (p. 5) as the set of rules to achieve its philosophy. The Group continues to implement various measures to establish an effective compliance system that is practiced by all executives and employees of the Group in Japan and overseas.

Uniform compliance training conducted in Japan and overseas

Around the time our Group Code of Conduct was formulated and implemented, we conducted training for executives and employees in Japan and abroad concerning compliance with competition laws (the Antimonopoly Act in Japan) and anti-bribery, which are the most important themes in compliance for a global corporate group. In Japan, our in-house lawyer visited head office and each sales office (including consolidated subsidiaries) to give lectures based on case studies on the weight of the responsibility the Group has toward society and stakeholders, and the magnitude of damage the Group suffers when a problem occurs. Overseas, we used online educational tools (e-learning) to conduct advanced and uniform training for consolidated subsidiaries in Canada, France, and China efficiently. Going forward, the Group will continue its training and education on important compliance themes and will endeavor to improve knowledge and awareness of compliance among all executives and employees, both in Japan and overseas.

Overseas COOs Governance Meeting

In December 2017, the Group held its Overseas COOs Governance Meeting for the first time at Jiangmen Xinghui Paper Mill in China. The Hokuetsu Corporation's CEO, legal advisor, outside corporate auditor, and COOs (Chief Operating Officer) from four overseas consolidated subsidiaries gathered together for vigorous discussions on the Group's governance and internal control. The group discussed compliance with competition laws and anti-bribery based on the advice of the legal advisor in attendance, and reaffirmed that the Group unite to strengthen its compliance system together. The Overseas COOs Governance Meeting will be a regular event (basically once a year) as part of measures to strengthen the Group's governance and compliance system, with the Global Strategy Planning Department, established in January 2018, as the organization to support it.



The Overseas COOs Governance Meeting



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 our Environmental Charter.

Environmental Charter

Hokuetsu Corporation 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

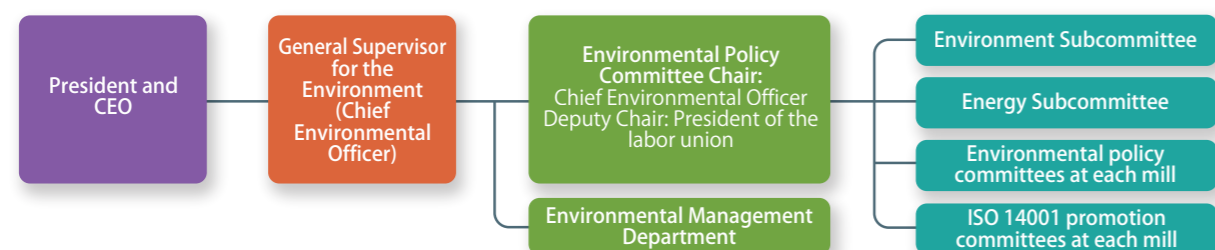
Action Guidelines

- 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

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.

Group environmental preservation topics

1. Implementation of environmental auditing

Environmental auditing of the Group is implemented by the Environmental Management Department and members of the aforementioned environmental subcommittees. The auditing was carried out at all mills and research laboratories of Hokuetsu Corporation and 5 Group companies in FY2017. 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 FY2017, an external lecturer gave a lecture on initial responses for when trouble occurs, and had enthusiastic discussions among environment-related staff members on topics such as case studies of trouble from each mill and case studies of adopting environmental instruments.

We also continue to hold waste management training for managers from all workplaces in the Group. From FY2017, we changed the name of the training to "Waste Compliance Training" (from the former name of "waste disposal law and practical training"), which included basic content that those

engaged in waste management and everyone as an employee of the Group should know.



3. Environmental preservation efforts at overseas Group companies

Voices from leaders

Freewheel Trade & Invest 7 (Pty) Ltd.

I have been assigned to Pietermaritzburg in the Republic of South Africa since April 2016. From an office in the city, I operate and manage four afforested areas (2,400 ha) around KwaZulu-Natal Province. We plant acacias and eucalyptus trees in the afforested areas and harvest them in 10 years, repeating the cycle to provide a sustainable source of raw materials.

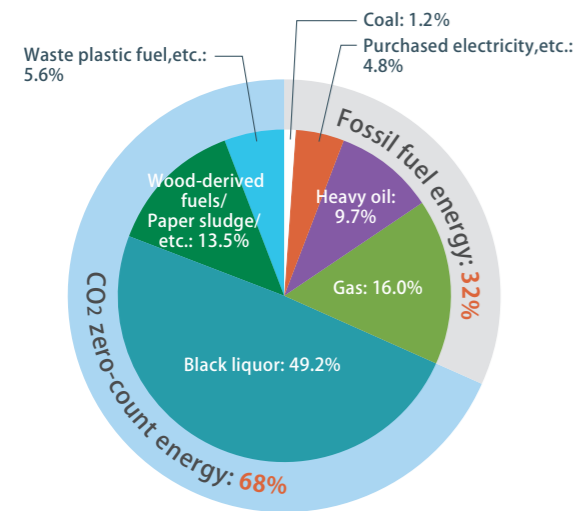
The Republic of South Africa is developing tree species for certain areas and to combat disease and pest damage, and plants various species according to the land. Our principle for creating an afforested area is "the right tree for the right land," and we plant new trees using the latest information on the development of new tree species from our local partners. It makes me happy when I check and see that the trees are growing well.

Takeshi Hida, Managing Director

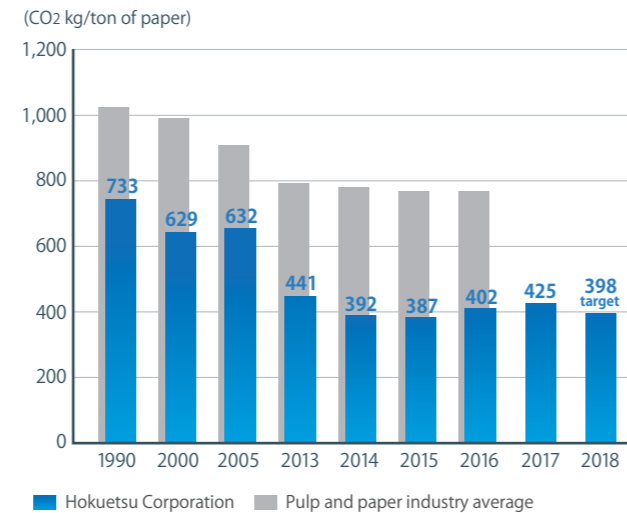


HOKUETSU GROUP employs a minimum environmental impact policy at all of our production bases as a participant in the global challenge of reducing CO2 emissions. Our per-unit emission level is one of the best in the industry, through use of CO2 zero-count natural gas with competitively low emissions

Hokuetsu Corporation's energy composition ratio (results for FY2017)



Hokuetsu Corporation's per-unit CO2 emission trend



Material Balance (results for FY2017)

Scope: Hokuetsu Corporation results for FY2016

Input		Output	
Fossil energy input	11,580,000 GJ	CO2	699,000 t
Non-fossil energy input	24,939,000 GJ	SOx	543 t
Input of water resources	95,411,000 m ³	NOx	2,388 t
Raw material consumption		Soot and dust	113 t
Wood chips	1,876,000 t	Chemical substances subject to the PRTR law	Discharge 1.5 t Transported 0 t
Purchased pulp	77,000 t	Wastewater BOD*1	363 t
Used paper	266,000 t	Wastewater COD*1	829 t
		Wastewater SS	459 t
		Industrial waste generated	288,000 t
		Industrial waste final disposal volume	7,000 t
		Paper/paperboard production volume	1,642,000 t

Changes in Environmental Performance

	Unit	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018 target
Global warming	CO2	kg/ton of paper	441	392	387	402	425*2
Air	SOx	kg/ton of paper	0.18	0.13	0.14	0.21	0.20
	NOx	kg/ton of paper	1.34	1.28	1.32	1.36	1.39
	Soot and dust	kg/ton of paper	0.08	0.07	0.07	0.06	0.07
Water quality	Water consumption	m ³ /ton of paper	53.1	55.4	56.4	57.3	57.7
	Wastewater BOD*1	kg/ton of paper	0.29	0.25	0.28	0.25	0.27
	Wastewater COD*1	kg/ton of paper	5.16	5.55	3.97	3.33	4.42
	Wastewater SS	kg/ton of paper	0.41	0.41	0.35	0.28	0.36
Chemical substances	Volume of chemicals subject to the PRTR law discharged/transported	g/ton of paper	1.36	2.49	1.73	1.45	0.91
Industrial waste	Final disposal	kg/ton of paper	5.2	5.2	4.1	5.7	4.0

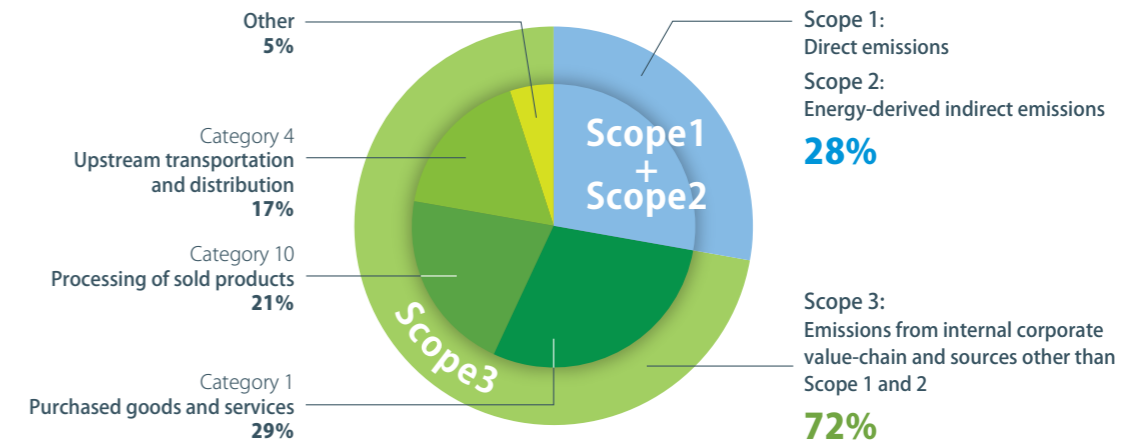
*1 Mills that discharge wastewater to rivers use BOD, while mills that discharge wastewater to the sea use COD to management wastewater quality.

*2 Biomass boiler repair period has been extended from FY2016, and restoration construction is being carried out for stable operation in the future. During this period, CO2 emissions have increased due to the operation of an alternate fossil fuel boiler.

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, and 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. From FY2017, we have been working toward effectively reducing greenhouse gas emissions as a Group, in addition to expanding our scope to overseas Group companies.

Estimates of greenhouse gas emissions across the entire corporate value-chain of the HOKUETSU GROUP (results for FY2017)



Scope of calculations: Hokuetsu Corporation
Target period: April 1, 2017 - March 31, 2018
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		1,839	6,176
Composition	(1) Pollution control cost	649	2,702
	a. Air pollution	66	460
	b. Water pollution	563	2,155
	c. Noise, vibration, and odor	19	86
	(2) Global environmental preservation cost	776	990
	a. Prevention of global warming	649	979
	b. Energy preservation	43	(Included in manufacturing cost)
	c. Tree farms in Japan	83	5
	d. Afforestation activity overseas	-	5
	(3) Resource circulation cost	413	2,483
	a. Efficient utilization of resources	311	(Included in manufacturing cost)
	b. Reduction, recycling, treatment, disposal, etc., of industrial waste	102	2,483
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	-	34
	(2) Recycling and collection of containers and packaging	-	505
3. Administrative costs: Environmental preservation costs stemming from administrative activities		-	247
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	-	80
	(4) Running costs for an environmental preservation system, etc.	-	154
4. R&D costs: Environmental preservation costs stemming from R&D activities		-	150
Composition	(1) R&D to develop products that contribute to environmental preservation	-	35
	(2) R&D and planning to curtail environmental impact at the manufacturing stage, etc.	-	114
5. Social activity costs: Environmental preservation costs stemming from social activities		6	66
Composition	(1) Planting of greenery, beautification, etc.	6	34
	(2) Support, etc., of environmental preservation activities by the local community	-	3
	(3) Support for environmental groups	-	14
	(4) Disclosure of environmental information and related advertisements	-	14
6. Environmental remediation costs: Costs incurred from dealing with environmental degradation		-	90
Total		1,845	7,270

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	135

We procure woodchips which are confirmed on legality

In accordance with the “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.

Fundamental Policy for Raw Materials Procurement

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

1. Prioritize the environment

- With the Environmental Charter 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 resources. 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.

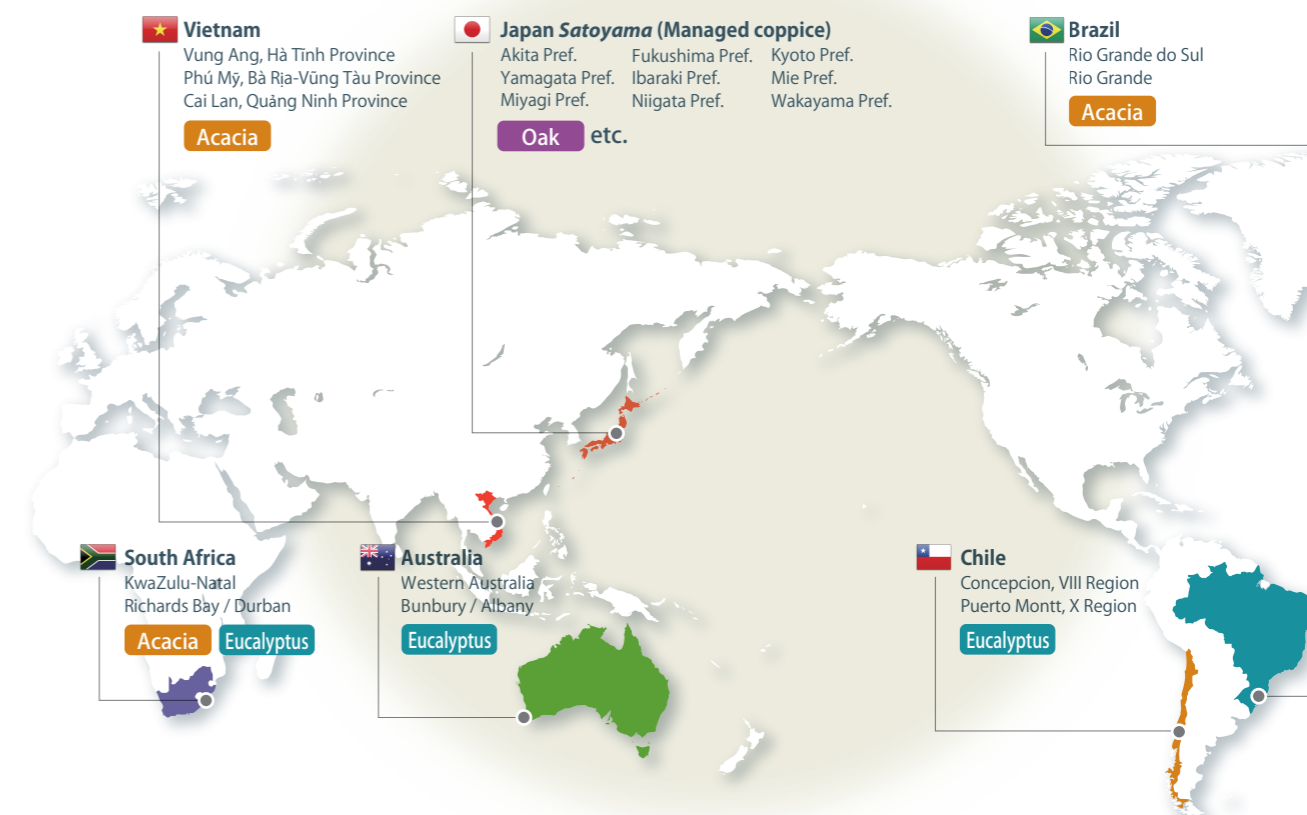
Only Properly-Managed Wood Used

96% of the woodchips we utilize as a raw material for pulp 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 Group 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 Woodchips in FY2017



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	●	—	●	●	●	1,804	96%
Chile	Eucalyptus	●	—	●	●	●		
South Africa	Acacia	●	—	●	●	●		
	Eucalyptus	●	—	●	●	●		
Australia	Eucalyptus	●	—	●	●	●		
Vietnam	Acacia	●	—	●	●	●	72	4%
Japan	Oak, etc.	—	●	●	●	(*)		
Total							1,876	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.

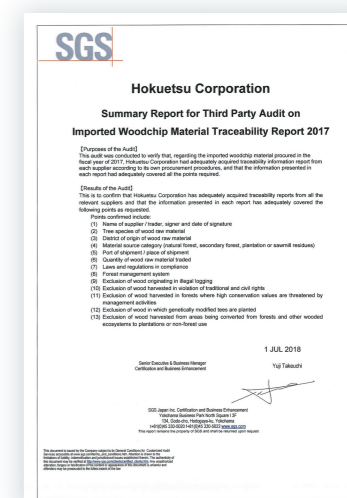
Strict Checks Based on Third-Party Audits and Internal Auditing

We currently consume (1) FSC® certified woodchips and (2) controlled woodchips in the Niigata Mill and Kishu Mill. 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, and regularly verify items such as legality, sustainability, and biodiversity preservation status, etc. In addition, we also submit our procurement activities to external audits conducted by the Japan Paper Association, an industry organization, and SGS Japan Inc., a third-party organization, as part of our efforts to enhance the verification accuracy of this system.

(Hokuetsu Corporation 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.



SGS Japan Inc. verified that we obtained traceability reports from suppliers properly and in accordance with our wood material procurement procedure, and verified the following check items were appropriate.

Developing and applying new functional materials supported by strict quality control

Our research and development is built around the laboratories of the Technical & Development Division and the Technical & Development Department. The Novel Materials Development Office, established in the Technical & Development Division in April 2017, cooperates with the Technical & Development Department and Sales Department to promote the use and practical application of cellulose nanofibers (CNF), while the quality management office acts an independent body that strictly checks compliance with various standards and regulations concerning product quality.

Research & Development

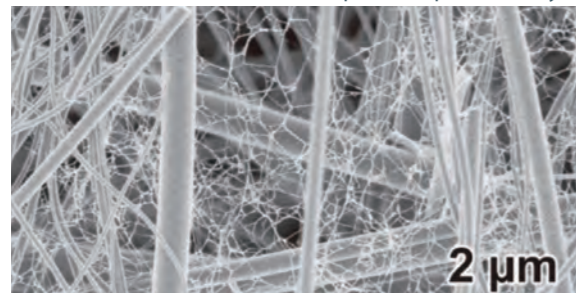
Working to enhance competitiveness by developing and applying new functional materials

Joint development of a CNF surface coating agent

In April 2018, the Novel Materials Development Office and Industrial Research Institute of Niigata Prefecture began joint research to develop a surface coating agent using CNF. In addition to CNF, the Group is also leveraging new knowledge and technologies, such as the cellulose nanocrystals (CNC) being researched and developed by AI-Pac in Canada, not only for existing products but also for new development to further enhance our competitiveness.

CNF research wins Japan TAPPI award

The HOKUETSU GROUP was awarded a prize by the Japan Technical Association of the Pulp and Paper Industry

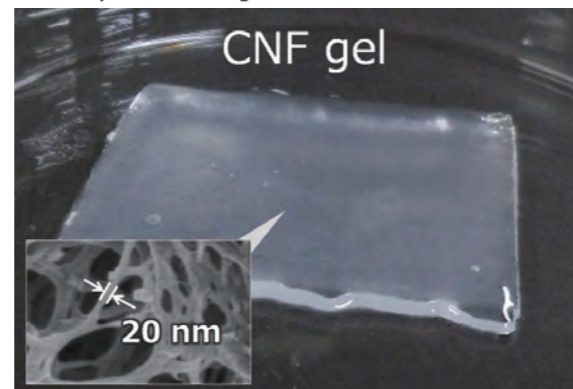


Enlarged photo of high-performance air filter media that uses a spider web of CNF in the gaps between the glass fibers

(Japan TAPPI) for the paper "Improvement of Air Filters by Nanocelluloses" co-authored with the University of Tokyo. The award is given to outstanding academic papers published in the Japan TAPPI Journal. The paper was recognized for using CNF to create a high performance filter with greater performance than current filters.

New concept CNF reinforced material

We are currently studying the development of an all-cellulose reinforced material that uses CNF as a base material instead of reinforced materials that use conventional resin as a base material. Recent studies have revealed that the CNF gel produced during manufacturing is the key to the strength of this reinforced material.



Quality Control

Strict quality control initiatives and providing correct information

Independent body tasked with auditing quality

Based on the Group's Basic Principles related to the Quality Control of Products, we are 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.

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, and 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.

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 of 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.

We will provide products that take into account the environment and society to maintain and develop healthy relationships with our customers.

We have established an operational framework that takes tremendous consideration in reducing the environmental load from the production and supply of the Group. We use all means of transportation, such as ships, railways, and trucks, effectively from woodchips, the raw material for paper, to finished products.

1. Afforestation cycle

We plant trees around the world to produce woodchip material, the main raw material for paper. Forests grow by absorbing CO₂, and grow into a forest suitable for chip material in about seven to 10 years. The production of woodchip materials as a renewable resources helps reduce CO₂.



Afforested area in South Africa

2. Raw material supply system supporting mill production

More than 90% of the woodchips supporting the production of paper used in Japan are imported from abroad. Half of the woodchips are used as pulp, the raw material for paper, while the other half is used as boiler fuel, which is used effectively as an energy source to power mills. We also promote the procurement of raw materials and other inputs in compliance with our Fundamental Policy for Raw Materials Procurement.



Chip yard in Niigata East Port

Our Product Export System

Our overseas exports have increased in recent years, with exports from the Niigata Mill exceeding 236,000 tons annually in 2017. We have typically used the ports of Tokyo and Yokohama for the majority of our exports, but now that we have a system to supply products to the world with the aim of 360,000 tons a year, Niigata East Port is currently our main terminal for all of our exports just as it was previously for woodchips. Major export destinations include North America, Hong Kong, Taiwan, Vietnam, Thailand, China, India, Malaysia, and Pakistan.

3. Paper production

At each mill, the Sales Department, mill, and the Technical & Development Department jointly and regularly visit users, and strive to produce paper according to customer requests. We have acquired the ISO 9001 and ISO 14001 certifications for quality control in each mill, and are building a thorough quality and environment management system.

We are pursuing high-quality, high-efficiency production that makes full use of our on-coater technology for our coated paper, together with promoting environmentally-friendly paper making (minimum impact mills) that produce low CO₂ emissions per ton of paper.



No. 8 recovery boiler at the Niigata Mill

4. From our mills to our customers

Products produced at our mills are delivered to customers all across Japan via dedicated railroads and trucks. In particular, we are helping to reduce CO₂ emissions by promoting rail transport from our main Niigata Mill to the Tokyo metropolitan area (Kanto region).

We deliver to our overseas customers worldwide mainly via Niigata East Port, close to the Niigata Mill.



Train transport using a dedicated line from the Niigata Mill

A united Group striving to create a safe and secure workplace where employees can work with purpose and vigor

The HOKUETSU GROUP is striving to establish a workplace where employees can work safely and securely with purpose and vigor. In recent years, the number of employees in our overseas subsidiaries has grown, and the Group is developing a safe workplace where human resources that are both adapted to globalization and diverse, can work together.

Actively improving the work environment and developing human resources

● Small group activities

Since 1983, we have been conducting “small group activities” with the ultimate goal of developing human resources. Each day, employees contribute the wisdom from their respective positions to identify and solve problems in the workplace through inventive ideas. Through these activities, we aim for the personal growth of employees and improved problem-solving skills in the workplace. Once every year, the Group comes together to hold presentations (SG conference) by representative circles. It was held at the Ichikawa City Cultural Hall in Chiba Prefecture in 2017. Subsidiaries from China and Canada gave presentations, and the event functioned effectively as an opportunity for everyone to mingle within the Group.



2017 SG conference

● Employment of retirees and persons with disabilities

We started a re-employment system from 2006 for employees who have retired. We later changed the system following revision of the law and have endeavored to expand the system. The re-employment system not only stabilizes the lives of employees, but as securing labor becomes increasingly difficult as the population continues to age and the birthrate declines, this system allows the transfer of expert skills and is very beneficial for both labor and management. From April 2018, in place of the re-employment system, we expanded the employment system by raising the employee age of retirement to 65 years old prior to the planned increase in the pension age. We also have a workplace where employees who are disabled due to occupational accidents, personal injury or illness can continue to be employed, and can make a contribution depending on the condition of their disability. In particular, we actively hire people with disabilities as security guards at mills.

● Establishment of the Work Style Reform Committee

Based on the Group Corporate Philosophy, we decided to fully engage in work style reform, in which the government has enacted laws and ordinances, and advocates creating a more meaningful work environment as a “people-focused business.” In promoting this initiative, we established the Work Style Reform Promotion Committee chaired by two managing directors who supervise technology and personnel, along with managers of each division and mill as committee members, who formulate measures promptly with a focus on key issues.

Change in average age and average years of employment

Average age			
	2016	2017	2018
Male	43.2	43.1	42.8
Female	39.0	38.8	39.8
Average	43.0	42.8	42.6

(Hokuetsu Corporation, non-consolidated)

Average years of employment			
	2016	2017	2018
Male	19.8	18.5	18.6
Female	13.6	11.9	11.3
Average	19.4	18.1	18.1

(Hokuetsu Corporation, non-consolidated)

More than 100,000 of canned bread has been delivered to eSwatini in past 4 years by using our woodchip carriers

As a part of social contribution activities, we are actively promoting exchanges with local communities. In addition to mill tours, clean-up activities, internships and hands-on learning for students, we have been contributing to support the “Kyu-Can-Cho Project” that delivers emergency canned bread rations to school kids in Kingdom of eSwatini (formerly known as Swaziland) since 2014.

Supporting to the “Kyu-Can-Cho Project” activity of Pan Akimoto Co., Ltd.

The “Kyu-Can-Cho Project” is an activity in which Pan Akimoto collects ever fresh canned bread prior to 1 year of its expiration date and delivers the collected canned bread to disaster-affected areas and people who face food shortages. We started assistance activities of the “Kyu-Can-Cho Project” in 2014 and are working with Pan Akimoto Co., Ltd., total coordinator, to deliver canned bread to elementary schools in eSwatini. Our woodchip carriers make around 20 voyages annually between Niigata and South Africa to transport woodchips as a raw material of paper products. As our woodchip carriers do not load cargo on the outward voyage to South Africa, we studied whether we could use empty space of cargo hold to transport canned bread and, in fact, this was possible. The canned bread is delivered to South Africa and is offloaded

from the woodchip carriers. After, it is transported to eSwatini by land transportation. The canned bread collected by Pan Akimoto Co., Ltd is delivered to elementary schools through an arrangement by Hokuetsu Corporation and the whole process is supported by cooperation from stevedoring company, shipping company, woodchip mill in South Africa, Baphalali Swaziland Red Cross and the Governor of the district. A staff, who engages in woodchip procurement, says “All of my concern goes away when I see wonderful smiles of kids and teachers I met there”. As of March 2018, canned bread delivered by our woodchip carriers exceeded 100,000 units so far. We will continue to support the “Kyu-Can-Cho Project” as our one of our sustainable social contribution activity.



Relationship between Hokuetsu Corporation and eSwatini

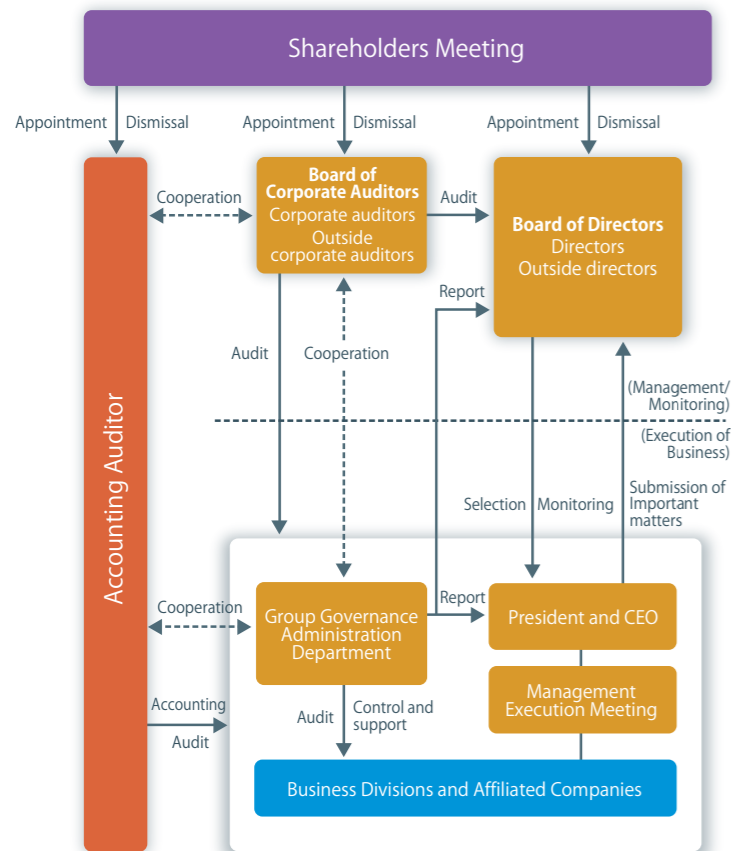
The Kingdom of eSwatini is a small country (slightly smaller than Shikoku Island of Japan) located next to South Africa. The agriculture and forestry business is one of the major economic activity in eSwatini. An afforestation activity is being conducted in eSwatini and eucalyptus and acacia are planted as raw material for paper products. The woodchips which Hokuetsu Corporation procures from South Africa, contain timber planted in eSwatini. eSwatini provides state education, however, due to the severe financial situation of the government, it cannot provide enough nutrition for growing children though its school lunches. We will continuously support the “Kyu-Can-Cho Project” and increase the number of children with smiling faces in eSwatini.



Aiming for transparent, fair, prompt and decisive decision making in accordance with Japan's Corporate Governance Code

We formulated the Group Corporate Philosophy in April 2018 under the key concepts of "people," "environment," "technology," "mono zukuri (manufacturing technology)," and "future." Our aim is to enhance stable, long-term corporate value and work to realize the best corporate governance so that we may continue to be a trusted company by all stakeholders.

Organizational Structure of Corporate Governance



FY2017 Results

Organization design		
Company with a Board of Directors and Board of Corporate Auditors		
Number of directors 11 (2 outside directors included)	Number of corporate auditors 4 (2 outside corporate auditors included)	Number of independent directors/ auditors 4
Number of Board of Directors meetings 13	Number of Board of Corporate Auditors 11	
Attendance rate of outside directors at Board of Directors meetings 100%	Attendance rate of outside corporate auditors at Board of Corporate Auditors meetings 95%	Financial auditor KPMG AZSA LLC

Assessment of the Effectiveness of the Board of Directors (FY2017 inspection)

Supplementary principle 4-11-3 Overview of analysis and assessment results of overall effectiveness of the Board of Directors

In order to improve the function of the Board of Directors, we assessed the effectiveness (including functions such as strategy development, decision-making and supervision) of the Board of Directors by all directors and auditors including outside, and discussed the results at the Board of Directors meeting.

As a result, since the members of the Board of Directors had constructive discussions on the knowledge, experience, and skills, etc. needed to effectively fulfill their roles and responsibilities and had the appropriate supervisory functions, the effectiveness of the Board of Directors has been confirmed in its entirety. We will continue to deepen discussions with the aim of further improving the effectiveness of the Board of Directors.

The Board of Directors continues to be the focus of initiatives for some issues that have been recognized, such as the allocation of time for matters put to the Board and the efficient provision of documents, and has been making constant improvements to the management of the Board of Directors.

Going forward, we will continue to work on improving the environment to deepen discussions among directors concerning our medium and long-term management strategies.

Basic Policy on Corporate Governance (excerpts)

Article 2: Basic Philosophy of Corporate Governance

The Group endeavors to enhance corporate governance in accordance with the following basic policy.

- (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 the 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 the Group Code of Conduct to be shared by all employees and executive officers of our corporate group.

Article 3: Role of the 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.

2. 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.
3. The Board of Directors 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.
4. Outside directors give advice from a neutral position independent from management for enhancing our stable, give 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.
5. 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.

Article 7: The Role of Corporate Auditors and the 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 the Board of Directors' meetings on the basis of their aforementioned fiduciary duties.

2. 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.
3. Our Board of Corporate Auditors evaluates the outside accounting auditors on the basis of their duties to shareholders and investors by confirming the independence and the institutional business operations for quality control, both of which are required of an outside accounting auditor.



Value Creation Achievements

We provide a summary of the achievements of our five core businesses in FY2017.

Boldly promoting measures to strengthen competitiveness in a global market

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 2017 had the second highest share in the domestic industry. Furthermore, our colored wood-free paper with its tradition and rich product line-up 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 2017 have fallen for four consecutive years since 2014. 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 declining birthrate. In this environment, 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. We will continue to maintain our price, further pursue optimum production and efficiency improvements, and stably provide high quality products. We exported 236,000 metric tons of paper from the Niigata Mill in 2017. We exported approximately 35,000 tons of coated paper to our key market in North America. Exports to Hong Kong increased and reached nearly the same amount, approximately 34,000 tons. Other major export destinations are in neighboring countries in Asia. We export more than 100,000 tons in total to Taiwan, Vietnam, South Korea, Thailand, and Malaysia, that includes wood-free paper for notebooks and books; and coated paper for flyer leaflets, calendars, and study reference books. In 2018, 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 second year of the "V-DRIVE" Medium-Term Management Plan in the final step of "Vision 2020," 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. To respond to rapid changes in the external environment, we will strive to improve our domestic market share. In exports, we will build a production system that can compete in the global market, and take bold measures to strengthen the competitiveness of the Paper Business Division as detailed in "V-DRIVE." Specifically, we will focus on the following:

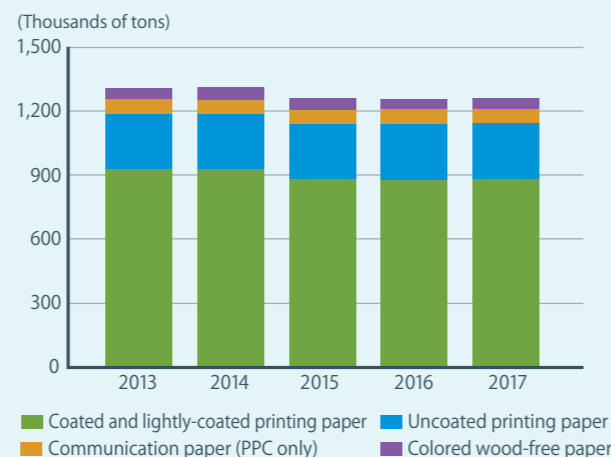
Production

- (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.

Paper production by product



Business Topics

Start of sales of FSC® certified products

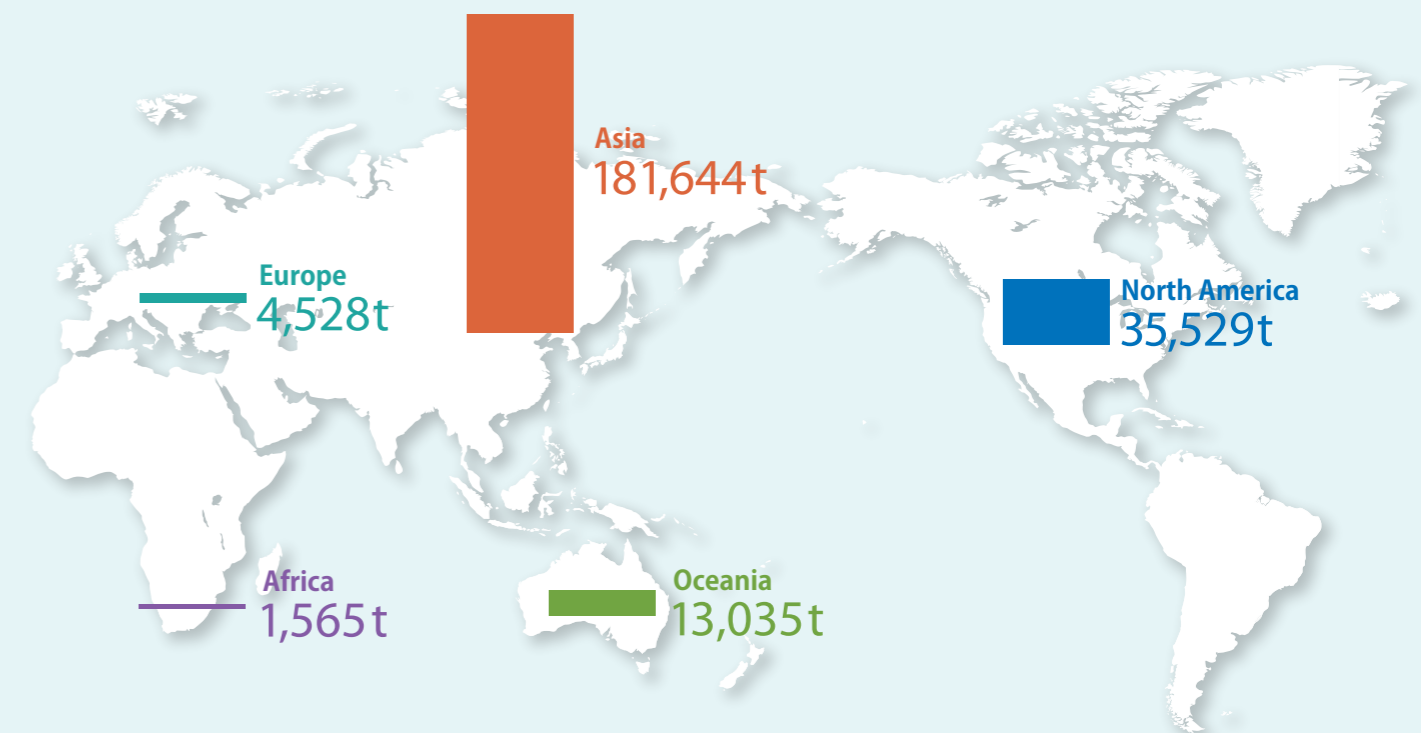
We began selling FSC-certified products for some of our coated paper products (A2 gloss μ Coat Neos-F sheet style from production in April 2017 and A2 matte μ Matte-F sheet style from December 2017 production). The Tokyo Organising Committee of the Olympic and Paralympic Games announced the basic principles of its Sustainable Sourcing Code, which includes consideration of: the environment, human rights, labor throughout the entire supply chain, ensuring traceability, and using resources effectively for services, etc. procured by the Tokyo Olympics and Paralympics. Companies reacted instantly to this development, and they began to use raw materials with FSC® certification for their own final products, delivery materials, buildings, and so on. We are also adding FSC-certified products to our lineup, aiming for products that are actively selected by users.



Further expansion of paper exports

The Group has been exporting and expanding mainly printing and communication paper since 2008, and has continued to supply it without being affected by fluctuations in foreign exchange rates. As a result, the relationship of trust we have developed with customers through these efforts has led to the recent expansion of sales volumes. In 2017, exports from the Niigata Mill decreased due to the large-scale maintenance of equipment, resulting in sales of 236,000 tons. In 2018, our plan is for over 300,000 tons of paper exports from Niigata Mill, and we are making progress in expanding sales. Consequently, at the Niigata Mill, we are steadily expanding production volume by developing new types of coated papers intended for overseas use, and developing sales channels to India and China. The Kishu Mill is also expanding exports, and the sales volume for wood-free processed paper is increasing in South Korea, China, India, and elsewhere. We will continue to aim to achieve our planned sales volume by expanding both regions and paper varieties.

Exports and destination of production of Niigata Mill products (2017)



(Hokuetsu Corporation FSC license code: FSC-C005497)

Accurately understanding changes in demand structure and accelerating production and sales efforts in growth areas

Business Overview

Our department's main products are premium white paperboard, special white paperboard, coated duplex board (with gray back), cast-coated paper, etc. We feature a wide range of products in order to meet our customers' diverse needs. The major usage for our products is in commercial printing, which include packages, catalogs, POP advertising, and postcards and the covers of publications. Our products are used in a wide range of fields.

Production sites in Japan are at the Niigata Mill and Kanto Mill (Ichikawa and Katsuta). Overseas, we had started operation of Jiangmen Xinghui Paper Mill, located in Jiangmen, Guangdong Province in China from January 2015. With HOKUETSU GROUP's technical strength for top quality, high efficiency and less environmental impact which is cultivated over the course of many years, we will further strengthen our profit base by selling attractive products.

Performance Highlights (White paperboard business in Japan)

In the year 2017, total domestic shipment of white paper board manufacturers is approx. 1.35 million tons and our group's figure is about 280 thousand tons which equal to 21% of the domestic market share. Domestic demand for white paperboard is facing a gradual decline due to structural factors accompanied by the aging population and declining birthrate. In addition, strict cost-cutting measures by users has resulted in miniaturizing packages in scale and shifting to soft packaging. In the publishing sector, cover applications are also gradually decreasing due to less printed copies.

On the other hand, for the pharmaceuticals and cosmetics sector, we are maintaining shipments due to the continuing inbound effect and rising demand for sophisticated products arising from health consciousness. In the food product sector, the number of retort food pouches has increased due to the tendency toward eating ready-made meals as a result of increasing numbers of nuclear families and propensity to save. Confectioneries, such as chocolate, remained strong.

To respond to changes in the demand structure of our customers, we have pursued total optimization by building a production system that fully leverages the characteristics of the three mills in Niigata, Katsuta, and Ichikawa. We are also working on initiatives in the functional paper sector in cooperation with the Specialty Paper Business Division and expect it to grow in the future.

Future Issues and Initiatives

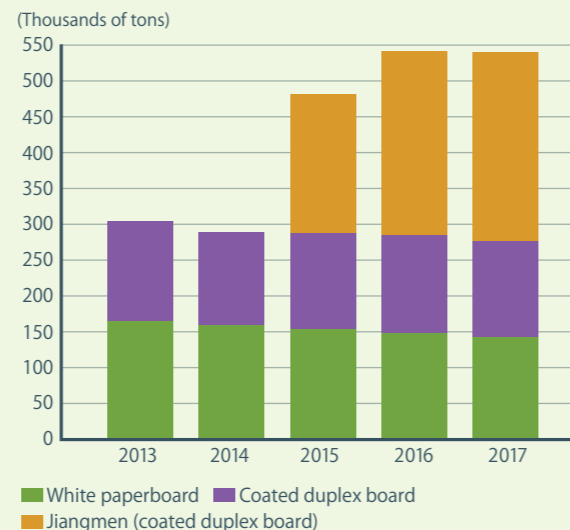
Important Issues

- (1) Continue environmental management and adherence to compliance, and work with partner companies to achieve zero industrial accidents by building a culture of safety and putting it into practice.
- (2) Develop new products, enhance our relationship with users, and promote efficient logistics reform.
- (3) Achieve stable operations by implementing preventive measures for operational problems, increasing overall technical capabilities through employee training and implementing preventive maintenance for equipment.
- (4) Formulate and carry out plans to improve the profitability of white paperboard operations in China by cooperating with the White Paperboard Business Division and other relevant departments.
- (5) Strengthen cooperation with the Paper Processing Business Division to enhance overall Group competitiveness.

Specific Initiatives

We will proceed with developing demand for primary food containers as a growth area and advance the development of quality including in new products. While we are anticipating greater demand for eco-friendly products with the hosting the Olympic and Paralympic Games Tokyo 2020, we are expanding sales of our Maricoat and NEW-DV flagship white paperboard while working to have them FSC® certified.

White paperboard production by type (Japan + China operations)



Business Topics (White paperboard business in China/Jiangmen Xinghui Paper Mill)

Business returns to profitability on an operating income basis

Jiangmen Xinghui Paper Mill Co., Ltd. had started production from January 2015 and the mill is entering fourth year of operation.

In 2017, despite sharp fluctuations in selling prices due to the changing price of used paper in China, sales increased significantly due to the impact of the strong white paperboard market that began in 2016. As a result, the mill was profitable on an operating income basis.

Users have steadily increased since sales began, and the reputation of Jiangmen Xinghui Paper Mill's products has also grown. They are not only growing sales in Guangdong Province, where Jiangmen is located, but also over a broad area from Dalian in the north to Hainan Island in the south. Supporters of Jiangmen Xinghui Paper Mill have also increased, and it is building a presence within the Group in China. In February 2018 the mill introduced a shaking machine to improve texture and strengthen rigidity. By improving facilities, it aims to further boost sales by promoting continuous improvements in quality and development of new products.



Electronic bulletin board installed at the front entrance with a live display of environmental values



Roof installed on the used paper yard



Consulate-General of China in Niigata visits Niigata Mill

The Consulate-General of the People's Republic of China in Niigata visited our Niigata Mill in June 2018. During the visit, we explained the company's history of over 100 years of development, our management philosophy, and also toured the mill's production line, wastewater treatment, and power generation facilities. Consul General Sun Dagang commented that he was deeply moved by the advanced manufacturing technology and environmental conservation efforts of the Niigata Mill, and that Japan and China would continue to support their growth and development as much as possible through exchanges and cooperation. Through our white paperboard business in China, we will act appropriately in response to China's environmental policy based on the superior knowledge and technology cultivated in Japan regarding environmental conservation.



A commemorative photo in front of the Niigata Mill

(Hokuetsu Corporation FSC license code: FSC-C005497)

Focusing on strengthening and expanding our earnings base to further enhance our advantage in growth markets

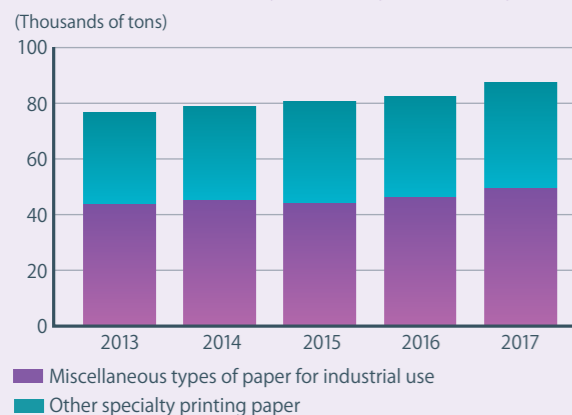
Business Overview

The main products of the Specialty Paper Business Division are premium printing paper, fancy paper, communication paper, paper for industrial use, specialty processed products, specialty fiber boards, functional paper, and more. Among these, products such as abrasive-coated base paper, adhesive postcard 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 2017 totaled 103% compared to the previous year. In the specialty paper market overall, despite an environment that lacked vitality due to reduced demand for pamphlets and a switch to regular paper, we aggressively rolled out sales efforts for publishing and other industries. In the communication paper sector, report form paper and OCR paper continue to slowly decline, but we advanced the development of processing applications both in Japan and overseas. In addition, due to local governments adopting adhesive postcard paper and our efforts to develop inkjet paper, shipments were in line with levels of the previous year. In the functional paper sector, shipments exceeded those of the previous year. Bolstered by vigorous demand from the electronic components industry, chip carrier tape base paper was strong. In addition, shipments of abrasive-coated base paper and filter material were strong due to robust demand for construction and building materials, and demand for filter materials in semiconductor investment. Exports increased to 113% of shipments for the previous year. This was due to an increase in sales of processed paper for Shanghai Toh Tech in China, where strong sales continue. We will continue to expand the scale of our operations in overseas markets.

Production of specialty paper by product type



Future Issues and Initiatives

In the Specialty Paper Business Division, the company is working closely with five strategic businesses and subsidiaries (Hokuetsu Toyo Fiber, Nikkan, Shanghai Toh Tech, Bernard Dumas, and HK Paper (USA)) and have promoted the expansion of our business area by shrinking the distance between end users on a global scale and linking latent needs to commercialization. This effort has steadily gotten on track and has been able to expand our business area. The effect of cooperating with head office has even improved the profitability of each strategic business and subsidiary. Significant results are emerging in the overall Specialty Paper Business, such as profits that double the sales ratio and an operating profit margin in excess of 10%. In FY2018, we are facing a severe headwind of a drastic rise in the price of raw materials and fuel, but will steadily advance "V-DRIVE" by strengthening our earnings base.

Specialty Paper and Communication Paper

The specialty and communication paper sector is struggling with the decline in demand for fancy paper, but we will work to expand sales related to the latent potential of premium printing paper and create demand for waterproof and oil-resistant paper. With communication paper, although both form and OCR paper face declining demand due to digitization and other factors, we are working to develop processed base paper applications and expand sales of adhesive postcard base paper.

Functional Paper

The functional paper sector is dominated by manufacturing and industrial applications, and is a field where the Group specializes in offering 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 system to increase the production of chip carrier tape base paper
- Establish a production base in the United States for battery separators
Establish an optimal production system for global markets from production bases in Japan, Europe, and the United States
- Plan to expand sales in the Chinese and Japanese market for RO (water treatment) membrane backing for the water treatment sector to supply safe water
- Collaborate with laboratories to commercialize cellulose nanofiber (CNF) technology

Business Topics

Fancy & Media Paper Sales Dept.

In the specialty paper sector, we are actively involved in exhibiting and sponsoring user exhibitions to enhance the overall presence of the Group, in addition to developing new products and activities to expand sales. Specifically, we co-sponsored the Kawade Shobo Shinsha "coloring for adults" contest, and used the contest to engage in PR at various exhibitions with the coloring events. The coloring classes at EcoPro 2017, Japan's largest event on the environment, is one example.

The "coloring for adults" contest attracts 6,000 to 8,000 entries every year from events held by Kawade Shobo Shinsha, Sakura Color Products, and the Yomiuri newspaper. We have been a co-sponsor from 2017 since the Group's general specialty paper products are used in almost all coloring books published by Kawade Shobo Shinsha.



Coloring class at EcoPro 2017

In the communication paper sector, we are focusing on expanding the sales of products compatible with high-speed inkjet printers for adhesive postcard paper where there is relatively strong demand. The shift from sealed to adhesive postcards continues as users cut costs in response to their needs, and initiatives for those needs is a pressing issue. As one of the initiatives, we are collaborating with printing equipment manufacturers to jointly improve quality, such as the coloring of printed text printing, bleeding, and stability of adhesion. We are also working to launch new products.

We will also take advantage of the stability of dimensions and workability of communication paper to similarly advance development of adhesive postcard base paper and other base paper for processing.



Adhesive postcard paper

Performance Materials Paper Sales Dept.

In the functional paper sector, collaboration is underway with two overseas subsidiaries, Bernard Dumas in France and Shanghai Toh Tech in China. Dumas, which became a wholly owned subsidiary in 2012, is a functional materials and specialty paper manufacturer established in 1924 that boasts the top share in Europe of glass fiber battery separators. With the company becoming a subsidiary, we have become the world's second largest glass fiber sheet manufacturer.

We are developing products while sharing technical know-how in our glass fiber business with them. Demand for automotive battery separators is rapidly increasing as they are an important component that supports the reliability of vehicles that stop idling in compliance with exhaust gas regulations. We are therefore working to strengthen the production system for battery separators.



Bernard Dumas factory

Shanghai Toh Tech is a manufacturer of paper chip carrier tape established in 2002. Carrier tape is tape for carrying electronic components such as capacitors and resistors. The company manufactures high quality paper carrier tape using our specialized paper for carrier tape.

Demand for electronic components is expected to increase due to the higher functionality of smartphones and the popularization of assisted driving systems for automobiles. Shipments in 2017 were more than 10% higher compared to the previous year. We will continue to actively invest to increase in production capacity and quality improvement.



Shanghai Toh Tech factory

Supplying high quality products by integrated production from the development of base paper and paper materials to processing

Business Overview

In the Paper Processing Business, our consolidated subsidiary, Hokuetsu Package Co., Ltd. (which changed its name from BF and Package Co., Ltd. on July 1, 2018), is developing its business by leveraging the strengths of its integrated production from the development of base paper and materials to processed products.

Its major business fields are: 1) paper containers, food containers, and confectionery boxes used by convenience stores and supermarkets, 2) processed paper such as Lami Board (the generic name for decorative paper) used in cosmetics and medical products packaging, 3) Tohei Pak brand milk and drink cartons, 4) adhesive postcard paper used for invoices, answer sheet paper, data processing of personal information, and printing and communication media, etc. requiring advanced technology such as RFID* tags. We are striving to deliver high quality products to customers in each field.

The Katsuta Engineering Department of the Kanto Mill at Hokuetsu Package, which produces milk and drink cartons and primary food containers, has acquired the FSC 22000 Food Safety System Certification, the international food safety management standard, and is committed to health and safety management. The Tokorozawa Production Department, which produces printing and communication media products, has acquired ISMS Information Security Management System certification, and is implementing strict security management.

Hokuetsu Package is also actively promoting environmental management in accordance with the Group's minimum impact basic policy. They have acquired FSC® certification to promote sustainable forest management and Programme for the Endorsement of Forest Certification Schemes (PEFC) Chain of Custody (CoC) certification (certification of products). They are also manufacturing products with clean energy from one of the largest biomass power generations in Japan which is at our Kanto Mill (Katsuta).

* RFID: Radio frequency identifier

A contactless system that uses radio waves to read and write the embedded ID information of an RF tag.

Performance Highlights

The processed paper sector saw increased sales supported by strong demand for decorative paper and paper with processing variations. In the packaging materials sector, in spite of the shortening of product lifecycles, including the demand for convenience store product materials, sales were stable owing to acquiring other product materials.

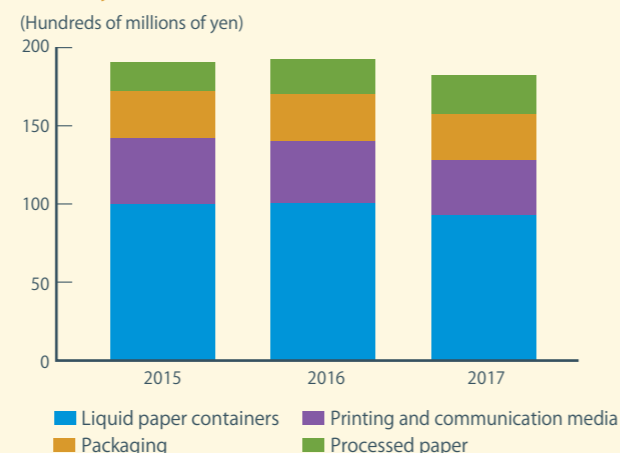
In the liquid container sector, on the other hand, sales declined due to the effect of the change in shape of drink cartons and reduction in structural demand in the

printing and communications media sector. As these two areas account for approximately 70% of sales, we will aggressively make capital investments in business fields where demand is expected to grow in the future, and will change the sales ratio in the medium term.

Future Issues and Initiatives

- (1) Improve safety awareness
By making danger visible, we will raise the safety awareness of each employee and implement systematic occupational health and safety education to create a safe and healthy workplace.
- (2) Enhance governance system
We will continue to strengthen our risk management and maintain and deepen internal control.
- (3) Pursue high quality and high efficiency
Each division will clarify their quality issues, formulate remedial measures, build a quality management system to verify its effect, and promote the introduction of new systems to improve operational efficiency.
- (4) Rapid response to changes in the business environment
 - Anticipate changes in the market environment and cooperate with other business divisions to accurately respond to user needs.
 - In collaboration with Italian IPI S.r.l. (IPI), we began selling new drink cartons and filling machines. We will also promote new businesses and plan and develop new products that meet market needs.
 - Strengthen our response capability to minimize negative impacts such as foreign exchange risk and higher prices for raw materials.

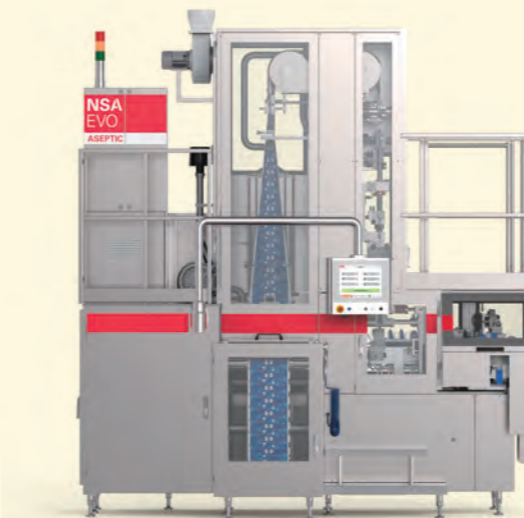
Sales by business



Business Topics

Partnering with IPI to sell new paper beverage containers

In order to enter the new drink carton market, Hokuetsu Package entered into an exclusive sales agreement in Japan with Mitsubishi Shoji Packaging Corporation and IPI of Italy for sterile filled drink cartons and aseptic filling machines. We began marketing of IPI aseptic filling systems (filling machines and drink cartons) for dairy, food, and beverage manufacturers. The biggest feature of the drink carton is that it is a long-term storable aseptic* container with high convenience (easy to open, easy to pour, easy to drink) with a large cap in the center of the top. We have a lineup of several shapes according to the application, and the Caliz type with a glass motif, in particular, has a unique body with a gentle curve that is easy to hold. The NSA-EVO aseptic filling machine that creates these shapes has a simple and compact design, and is a filling machine that realizes a high quality level with simple operation. Capacities can be set from 100 ml to 1,000 ml, with the ability to handle 6,000 containers per hour for 125 ml to 250 ml containers.



IPI aseptic filling machine (NSA-EVO/ASEPTIC)



IPI aseptic drink cartons for filling

(Hokuetsu Package FSC license code: FSC-C105145)

About 50 companies in the dairy, food, and beverage industries were invited to an exhibition held in spring this year, which was a success.

*Aseptic is a technology that sterilizes food and beverages, and packaging materials separately, and fills and packages food and beverages in a sterile environment to ensure long-term storage.

Providing environmentally-friendly products with two FSC-certified papers

Hokuetsu Package acquired PEFC certification in July 2017, and provides milk and drink cartons made from two types of certified paper that includes the FSC® certification it already has. In response to the growing need for environmental protection, they are also working toward giving certification marks to paper containers and processed paper. We will continue to contribute to the creation of a sustainable society by providing environmentally-friendly products and reducing our impact on the environment.

Protecting information assets with the ISMS international standard

The Tokorozawa Production Department conducts data processing services (DPS) and retains personal information from customers. As such, we protect information assets from information security threats in accordance with the ISO 27001 Information Security Management System (ISMS). For example, we strictly control room entrance according to security permissions by personal identification using IC cards, and handle the information securely and properly as we conduct business.

Further improving corporate value based on high added value forest management

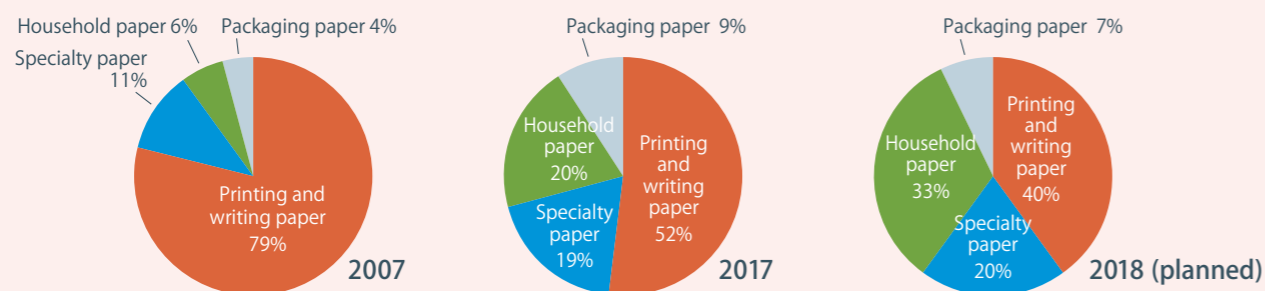
Business Overview

Canadian subsidiary, Alberta-Pacific Forest Industries Inc. (Al-Pac) is responsible for the upstream sector of the HOKUETSU GROUP, and is the heart of our pulp business. Al-Pac operates the largest pulp mill in North America, boasting an annual output of 560,000 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 for 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, environmental measures, and accurate response to customer needs, we have secured a stable customer base in North America, China, Japan, and South Korea.

Performance Highlights

In 2017, the Pulp Business contributed to the profits of the entire Group, with significant results that exceeded 2016 totals backed by higher sales prices due to the recovery in market conditions, increased sales as a result of higher production, and lower manufacturing indirect costs. Production-wise, we strive to stabilize and improve our day-to-day output, and are working to maximize production by considering optimization of the periodic maintenance interval. As demand for printing and writing paper continues to decline, we are aggressively working on technical support for household paper, such as tissue paper, and specialty paper manufacturers to diversify our pulp sales. Furthermore, we will do our utmost to have customers appreciate the quality and value of Al-Pac products by offering FSC® (Forest Stewardship Council) certified products etc. and diversifying our sales customers, leading to growth.

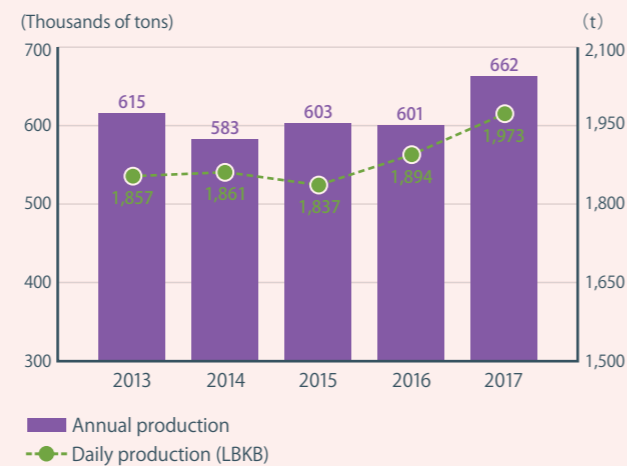
Sales ratio of Al-Pac pulp by usage



Future Issues and Initiatives

In order for Al-Pac to maintain its FSC certification, it must manage its vast forests in a manner that is "Ecologically, Economically, and Socially" suitable for the environment. In addition, FSC credits have typically been managed separately for hardwoods and softwoods. However, since there is only one forest, a new recognition that the way the forest is managed is shared, and not by tree type, was established, and the logs Al-Pac harvests were uniformly certified. As a result, it became possible to significantly increase the amount of pulp that can be supplied as FSC-certified pulp. By leveraging the high market valuation of FSC certification, we aim to build and thoroughly develop an ecological value chain from logs to the final product and its users, and deploy this laterally to differentiate the company's products. We intend to realize sustainable, improved, corporate value by strengthening our sales system so that it is not influenced by market conditions.

Change in production



Business Topics

Start of operation of chemical and freight car receiving facility

As a new investment, we installed an approximately 1 km long side track connecting to the existing railway line and built a new chemical receiving facility in order to receive the chemicals necessary for pulp production which had been transported by truck in the past. Construction was completed as planned in December 2017 and operation started in January 2018. This strategic investment significantly improved chemical transportation costs and expanded our supplier options, which made favorable procurement of chemicals and stable, long-term procurement possible. It has already contributed to strengthening Al-Pac's cost competitiveness.



Chemical cars on the side track



indigenous peoples, local employees, forest management researchers, etc.) where they learned about building a balanced and sustainable coexistence with all stakeholders. The tour ended on a high note with participants commenting that it was an operation that set an example for all countries

Manufacture and sale of biomethanol

Al-Pac has worked with its partners in Canada to put into practical use technology to extract and purify only methanol from gas generated in the pulp manufacturing process. The technology is innovative and has been subsidized by the Canadian government and the Government of the province of Alberta. Al-Pac built manufacturing facilities that include distillation towers and concentrating towers, and has worked with its partners to put the technology into production and improve quality. There are prospects for its practical application, and sustained continuous operation has become possible. Product quality has also improved, and customers have expressed their approval of plant-derived biomethanol.

FSC® field tour

As one of the pre-tours of the FSC Annual Meeting held in October 2017, Al-Pac hosted a field tour that was attended by members of four countries mainly from FSC Canada and WWF Russia, and introduced examples of forest management in Canada. The tour covered examples of protection of the natural environment through forest management from tree harvesting to product (pulp) production, and the social role of the company. Participants included those involved in the company's production and forest management (representatives of

Optimizing periodic maintenance intervals

Since starting operations in 1992, Al-Pac has consistently strived to develop and implement a systematic and appropriate facility maintenance plan. As a result, it has been able to keep its facilities in good shape over 25 years after the start of operations. Up to now, it has been performing long-term periodic maintenance (facility inspection, repairs) about every 12 months, and while everything has been maintained, it has tried to extend this periodic maintenance interval to increase production and lower maintenance costs. To do this requires that facilities be operated safely and efficiently over a long period. Based on their facilities management and operating results to date, they received approval from the relevant agencies, including the provincial government, and insurance companies, and postponed the scheduled periodic maintenance in 2017, and have been operating continuously for about 19 months. As a result of this effort, they achieved their highest production ever in 2017 when they did not perform long-term maintenance. It contributed to higher sales with a rising market, and significantly contributed to boosting profits. Al-Pac will continue to maintain and manage the facilities appropriately while considering the optimization of the interval for long-term periodic maintenance to ensure continuous operation.

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



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
Outside Director



Kazuo Nakase
Outside Director



Junichi Horikawa
Standing Corporate Auditor



Kaoru Mashima
Standing Corporate Auditor



Jun Itoigawa
Outside Corporate Auditor



Keiji Watanabe
Outside Corporate Auditor

Corporate Officers

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

(As of June 27, 2018)

Financial Information

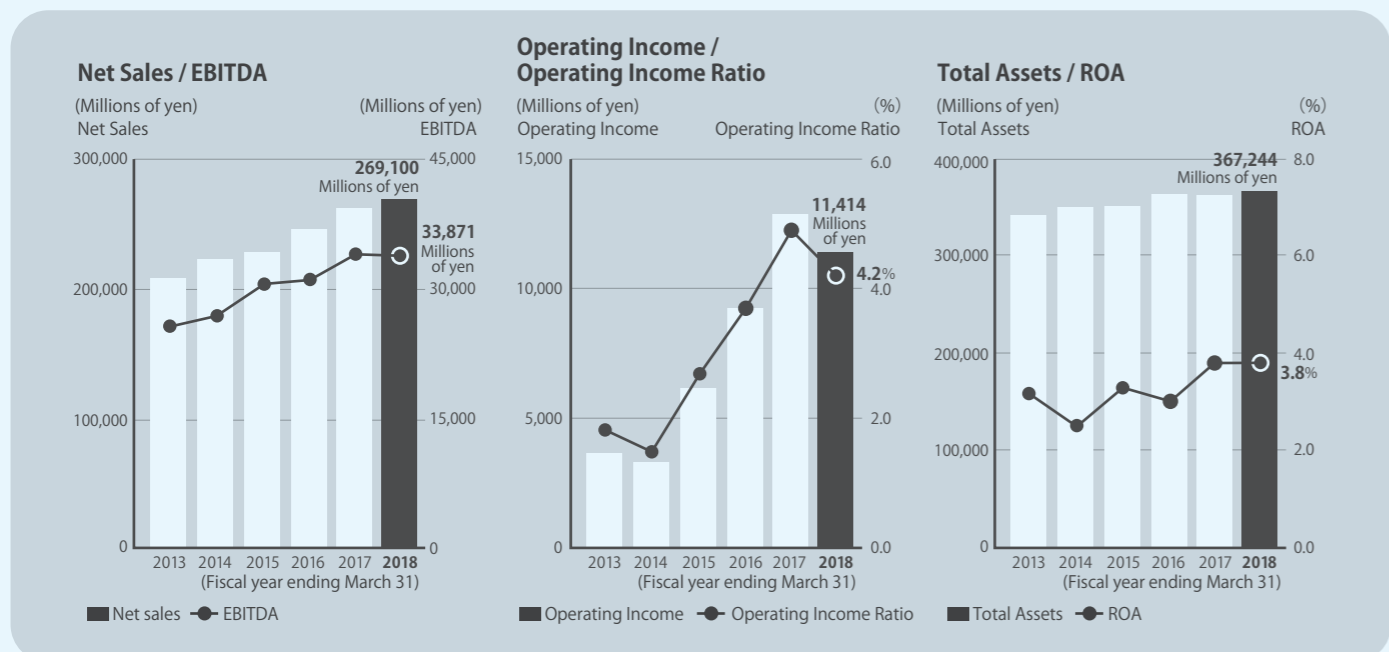
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Consolidated Financial Highlights

Jump-100 Value up-10 G-1st C-next V-DRIVE

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	Year ending March 31, 2018	Year ending March 31, 2018
Net sales	¥158,992	¥172,709	¥182,782	¥193,952	¥217,013	¥230,570	¥208,280	¥223,865	¥228,400	¥246,849	¥262,398	¥269,100	\$2,532,229
Operating income	9,050	8,330	8,122	9,888	8,742	10,823	3,658	3,308	6,140	9,236	12,900	11,414	107,406
Ordinary income	9,220	7,891	6,593	9,436	10,148	13,781	10,516	8,481	11,463	10,588	14,056	13,908	130,874
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	10,327	97,177
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	33,871	318,726
Capital expenditures	43,022	37,725	31,376	6,286	8,635	7,977	12,160	23,919	11,128	9,425	12,751	14,710	138,421
Total assets	269,124	292,726	313,378	340,944	322,233	332,979	343,114	350,808	351,033	363,658	362,205	367,244	3,455,764
Net assets	143,439	140,184	135,029	138,173	137,870	150,628	158,794	158,824	168,573	169,529	181,035	191,977	1,806,502
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	108,240	1,018,538
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	19,742	185,772
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	-14,158	-133,227
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	54.68	0.52
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	1,011.58	9.52
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	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%	12.6%	
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%	4.2%	
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%	3.8%	
Equity ratio (%)	53.0%	47.6%	42.8%	40.3%	42.6%	44.7%	45.6%	44.8%	47.7%	46.4%	49.8%	52.1%	
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%	3.8%	
ROE (%)	3.4%	2.9%	1.3%	5.2%	3.9%	8.9%	5.4%	3.9%	5.2%	4.5%	6.0%	5.6%	
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	0.57	

Notes
 1. Amounts in US dollars were converted at ¥106.27 to one dollar, the currency exchange rate prevailing in the Tokyo Foreign Exchange Market as of March 31, 2018.
 2. EBITDA = Ordinary income + interest expenses + depreciation and amortization costs + depreciation of goodwill - depreciation of negative goodwill
 3. ROA = Ordinary income ÷ average total assets at the beginning and end of the fiscal year × 100



Business Environment and Results

During fiscal 2017, ending March 31, 2018, although the Japanese economy is gradually recovering due to improvements in corporate earnings and the employment environment, accompanied by steady economic growth abroad and favorable capital expenditure, the business environment in the pulp and paper industry has become even more severe due to the shrinking demand for printing and communication paper, sluggish selling prices, rising raw material and fuel prices, and other factors.

For the HOKUETSU GROUP, income increased due to favorable sales at overseas subsidiaries, but profits declined due to soaring raw material and fuel prices. The Group's results for this period were as follows.

Millions of yen		Change
Net sales:	¥269,100	+2.6%
Operating income:	¥11,414	-11.5%
Ordinary income:	¥13,908	-1.1%
Net income attributable to owners of parent company:	¥10,327	-0.5%

Business Results by Segment

1. Paper and Pulp Segment

For the Paper and Pulp segment, income increased due to strong sales at overseas subsidiaries.

On the earnings front, profits fell due to soaring raw material and fuel prices.

By product type, sales of paper declined due to the influence of the digitization of advertising media and mail order catalogs, and the decrease in the number of publications printed.

Regarding white paperboard, coated duplex board remained strong in food products such as confectionery and retort pouches. With premium white paperboard, sales promotional products and storefront POP use related to convenience stores languished, with sales somewhat lower than the previous year. Also, specialty white paperboard sales remained steady for confectionery and souvenir packaging applications.

As for specialty paper, sales of chip carrier tape base paper for transporting electronic components increased in the functional paper field due to increased demand for smartphones and automotive electronic components. In addition, sales of automotive battery separators and filters for air purification were also firm. At the same time, despite a decline in demand for fancy paper in general as a down shift to general paper continues, premium printing paper has been strong. With communication paper, sales of adhesive postcard paper for notifications exceeded the previous year, but communication paper overall continued to see a severe sales situation as the use of forms decreases and the shift to digital media continues.

With pulp, sales at Alberta-Pacific Forest Industries Inc. were healthy due to rising pulp market conditions, etc., resulting in sales exceeding the previous year. In view of the above, the results in the Paper and Pulp segment were as follows.

Millions of yen		Change
Net sales:	¥242,082	+3.2%
Operating income:	¥8,809	-14.7%

2. Packaging and Paper Processing Segment

In the Packaging and Paper Processing segment, orders declined due to changes in the shape of liquid containers by some users, resulting in lower income and profits.

The results for the Packaging and Paper Processing Segment were as follows.

Millions of yen		Change
Net sales:	¥19,428	-3.6%
Operating income:	¥1,128	-10.5%

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:	¥7,590	-1.1%
Operating income:	¥815	+30.8%

Financial Position

Total assets as of the end of fiscal 2017 (March 31, 2018) increased ¥5,039 million from the previous year to ¥367,244 million. This increase was mainly due to notes and accounts receivable-trade increasing ¥5,028 million, electronically recorded monetary claims increasing ¥2,095 million, merchandise and finished goods increasing ¥2,990 million, investment securities increasing ¥2,818 million as a result of the rise of our share price on one hand, accompanied by a cash and deposits decreasing ¥5,178 million and tangible fixed assets decreasing ¥4,408 million due to depreciation expenses.

Total liabilities as of March 31, 2018 decreased by ¥5,903 million to ¥175,267 million from a year ago. The main reason was a decrease of ¥8,513 million in interest-bearing debt.

Net assets as of March 31, 2018 increased by ¥10,942 million from the previous year to ¥191,977 million. 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 ¥8,063 million.

Cash Flows

The balance of cash and cash equivalents as of March 31, 2018 decreased by ¥5,003 million from the previous year to ¥14,282 million.

Cash flows from operating activities

Funds gained from operating activities totaled ¥19,742 million (37.1% decrease year-on-year).

The main sources of cash were ¥13,521 million in income before income taxes and minority interests and ¥19,065 million in depreciation and amortization. The main components of cash used were returns from investment through the equity method of ¥1,844 million, an increase of receivables of ¥6,649 million, an increase of inventories of ¥3,707 million, and amount of corporate tax paid of ¥2,155 million.

Cash flows from investing activities

Net cash used in investing activities totaled ¥14,158 million (3.7% increase year-on-year).

The main components of cash used were ¥13,705 million for purchase of tangible fixed assets.

Cash flows from financing activities

Net cash used for financing activities totaled ¥10,645 million (26.3% decrease year-on-year).

The main components of the cash used were a ¥1,365 million decrease of short-term loans, ¥10,538 million repayment of long-term loans, and ¥2,274 million for payment of dividends. The main contributors to cash were ¥3,871 million in proceeds from long-term loans.

Basic Policies Regarding Earnings Distribution and Dividend Payments for Fiscal 2017 and Fiscal 2018

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

Based on this fundamental policy, the company decided to distribute a year-end dividend of ¥6 per share in fiscal 2017, ending March 31, 2018. Combined with the interim dividend of ¥6, the annual dividend was maintained at ¥12 per share.

For fiscal 2018, ending March 31, 2019, 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 2018 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 economic policies of the government of the United States and the future of emerging economies, including China.

Under these circumstances, the business environment for the pulp and paper industry 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 raw material and fuel prices. The Group will endeavor to strengthen our earnings structure and continue initiatives to exhaustively cut costs, along with continuing to change our business structure.

Millions of yen		Change
Net sales:	¥275,000	+2.2%
Operating income:	¥10,000	-12.4%
Ordinary income:	¥13,000	-6.5%
Net income attributable to owners of parent company:	¥8,500	-17.7%

Major Business Risks

The HOKUETSU 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 Corporation and Consolidated Subsidiaries
As of March 31, 2018 and 2017

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
CURRENT ASSETS:			
Cash and deposits (Notes 3, 4 & 8)	¥14,316	¥19,494	\$134,713
Notes and accounts receivable (Note 4)			
Trade	74,370	67,201	699,821
Unconsolidated subsidiaries and affiliates	763	808	7,180
Allowance for doubtful accounts	(83)	(48)	(781)
Inventories (Note 6)	49,191	44,889	462,887
Deferred income taxes (Note 12)	1,397	1,780	13,146
Prepaid expenses and other	6,033	5,474	56,771
TOTAL CURRENT ASSETS	145,987	139,598	1,373,737
PROPERTY, PLANT AND EQUIPMENT:			
Land and timberland	25,897	26,368	243,691
Buildings and structures	82,098	80,361	772,542
Machinery and equipment	418,924	410,774	3,942,072
Leased assets	832	1,700	7,829
Construction in progress	4,392	2,844	41,328
	532,143	522,047	5,007,462
Less accumulated depreciation	(392,170)	(377,665)	(3,690,317)
NET PROPERTY, PLANT AND EQUIPMENT	139,973	144,382	1,317,145
INVESTMENTS AND OTHER ASSETS:			
Investments in securities (Notes 4 & 5)	31,995	30,560	301,073
Investments in and receivables from unconsolidated subsidiaries and affiliates	40,541	39,170	381,491
Long-term loans receivable	7	14	66
Guarantee deposits	473	535	4,451
Asset for retirement benefits (Note 17)	2,638	2,257	24,824
Deferred income taxes (Note 12)	1,454	1,459	13,682
Other (Note 7)	6,614	6,690	62,237
Allowance for doubtful accounts (Note 7)	(2,438)	(2,460)	(22,942)
TOTAL INVESTMENTS AND OTHER ASSETS	81,284	78,225	764,882
TOTAL ASSETS	¥367,244	¥362,205	\$3,455,764

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)
	2018	2017	2018
CURRENT LIABILITIES:			
Short-term loans (Notes 4 & 9)	¥15,525	¥17,159	\$146,090
Commercial paper (Note 4 & 9)	11,000	11,000	103,510
Current maturities of long-term debt (Notes 4 & 9)	16,489	9,897	155,161
Notes and accounts payable (Note 4 & 8)			
Trade	27,751	26,685	261,137
Unconsolidated subsidiaries and affiliates	1,208	1,202	11,367
Income taxes payable (Note 12)	1,802	1,335	16,957
Accrued expenses	9,733	8,913	91,587
Other	7,324	7,373	68,920
TOTAL CURRENT LIABILITIES	90,832	83,564	854,729
LONG-TERM LIABILITIES:			
Long-term debt (Notes 4 & 9), less current maturities	65,226	78,698	613,776
Deferred income taxes (Note 12)	2,832	1,749	26,649
Accrued environmental expenditures	298	45	2,804
Provision for business structure improvement	271	275	2,550
Provision for reforestation	409	521	3,849
Liability for retirement benefits (Note 17)	11,772	13,656	110,774
Asset retirement obligations (Note 18)	2,951	2,057	27,769
Other	676	605	6,362
TOTAL LONG-TERM LIABILITIES	84,435	97,606	794,533
CONTINGENT LIABILITIES (Note 10)			
NET ASSETS (Note 11)			
SHAREHOLDERS' EQUITY:			
Common stock:			
authorized			
—500,000,000 shares in 2018 and 2017			
issued and outstanding			
—209,263,814 shares in 2018 and 2017	42,021	42,021	395,417
Capital surplus	45,524	45,397	428,381
Retained earnings	98,815	90,752	929,848
Treasury stock	(9,977)	(10,160)	(93,883)
TOTAL SHAREHOLDERS' EQUITY	176,383	168,010	1,659,763
ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAXES			
Unrealized holding gains on securities, net of taxes	11,361	10,535	106,907
Unrealized losses on hedging derivatives, net of taxes	(22)	(57)	(207)
Foreign currency translation adjustment	3,065	1,596	28,842
Accumulated adjustments for retirement benefit, net of taxes (Note 17)	367	211	3,453
TOTAL ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAXES	14,771	12,285	138,995
SHARE SUBSCRIPTION RIGHTS	122	140	1,148
NON-CONTROLLING INTERESTS	701	600	6,596
TOTAL NET ASSETS	191,977	181,035	1,806,502
TOTAL LIABILITIES AND NET ASSETS	¥367,244	¥362,205	\$3,455,764

Consolidated Statements of Income

Hokuetsu Corporation and Consolidated Subsidiaries
For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
NET SALES (Notes 19)	¥269,100	¥262,398	\$2,532,229
COST OF SALES	216,847	209,628	2,040,529
GROSS PROFIT	52,253	52,770	491,700
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 13)	40,839	39,870	384,294
OPERATING INCOME	11,414	12,900	107,406
OTHER INCOME(EXPENSES):			
Interest and dividend income	1,076	890	10,125
Interest expenses	(767)	(655)	(7,217)
Foreign exchange gains (losses)	76	(1,476)	715
Equity in income of affiliates	1,844	3,019	17,352
Gain on sales of investments in securities	46	28	433
Loss on devaluation of investments in securities	(58)	(10)	(546)
Loss on sales or disposal on property, plant and equipment	(2,602)	(1,573)	(24,485)
Impairment loss on property, plant and equipment (Note 14)	(88)	—	(828)
Loss on reduction of property, plant and equipment	(43)	(2)	(405)
Costs in relation to suspending the operation of production equipment	—	(1,427)	—
Gain on revision to retirement benefit plan (Note 17)	2,104	—	19,799
Other, net	519	821	4,884
	2,107	(385)	19,827
INCOME BEFORE INCOME TAXES	13,521	12,515	127,233
INCOME TAXES (Note 12):			
Current	2,192	1,882	20,627
Deferred	827	337	7,782
	3,019	2,219	28,409
NET INCOME	10,502	10,296	98,824
NET INCOME(LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	175	(85)	1,647
NET INCOME ATTRIBUTABLE TO OWNERS OF PARENT COMPANY	¥10,327	¥10,381	\$97,177
		Yen	Thousands of U.S. dollars (Note 1)
	2018	2017	2018
AMOUNTS PER SHARE OF COMMON STOCK (Note 2):			
Net income	¥54.68	¥55.09	\$0.52
Diluted net income	53.42	52.99	0.50
Cash dividends applicable to the year	12.00	12.00	0.11

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

Consolidated Statements of Comprehensive Income

Hokuetsu Corporation and Consolidated Subsidiaries
For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
NET INCOME	¥10,502	¥10,296	\$98,824
OTHER COMPREHENSIVE INCOME (Note 21)			
Unrealized holding gains on securities, net of taxes	934	3,070	8,789
Unrealized gains on hedging derivatives, net of taxes	35	112	329
Foreign currency translation adjustment	1,489	(361)	14,012
Adjustments for retirement benefit, net of taxes	210	(128)	1,976
Share of other comprehensive income of associates accounted for using equity method	(161)	851	(1,515)
TOTAL OTHER COMPREHENSIVE INCOME	2,507	3,544	23,591
COMPREHENSIVE INCOME	¥13,009	¥13,840	\$122,415
Comprehensive income attribute to owners of the parent company	12,813	13,991	120,570
Comprehensive income attribute to non-controlling interests	196	(151)	1,845

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

Consolidated Statements of Cash Flows

Hokuetsu Corporation and Consolidated Subsidiaries
For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes	¥13,521	¥12,515	\$127,233
Depreciation and amortization	19,065	19,094	179,402
Impairment loss of property, plant and equipment	88	—	828
Loss (gain) on sales or disposal of property, plant and equipment	2,342	1,557	22,038
Loss on reduction of property, plant and equipment	43	2	405
Interest and dividend income	(1,076)	(890)	(10,125)
Interest expenses	767	655	7,217
(Increase) decrease in notes and accounts receivable	(6,649)	(2,338)	(62,567)
(Increase) decrease in inventories	(3,707)	1,663	(34,883)
Increase (decrease) in notes and accounts payable	890	176	8,375
Increase (decrease) liability for retirement benefits	144	(439)	1,355
Equity in (earnings) losses of affiliates	(1,844)	(3,019)	(17,352)
Other, net	(2,529)	785	(23,799)
SUBTOTAL	21,055	29,761	198,127
Interest and dividend income received	1,420	1,992	13,363
Interest paid	(761)	(671)	(7,161)
Income taxes paid	(2,155)	(2,164)	(20,279)
Insurance payment received	183	—	1,722
NET CASH PROVIDED BY OPERATING ACTIVITIES	19,742	28,918	185,772
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for purchases of investment securities	(48)	(281)	(452)
Payments for purchases of property, plant and equipment	(13,705)	(12,932)	(128,964)
Proceeds from sales of property, plant and equipment	395	239	3,717
Other, net	(800)	(675)	(7,528)
NET CASH USED IN INVESTING ACTIVITIES	(14,158)	(13,649)	(133,227)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in short-term loans	(1,365)	3,295	(12,845)
Increase (decrease) in commercial paper	—	(9,000)	—
Proceeds from long-term loans	3,871	3,363	36,426
Repayments of long-term loans	(10,538)	(19,112)	(99,163)
Proceeds from issuance of unsecured yen straight bonds	—	20,000	—
Redemption of unsecured yen straight bonds	—	(10,000)	—
Dividends paid	(2,274)	(2,273)	(21,398)
Payments for purchases of treasury stock	(2)	(2)	(19)
Other, net	(337)	(718)	(3,170)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(10,645)	(14,447)	(100,169)
TRANSLATION (LOSS) GAIN ON CASH AND CASH EQUIVALENTS	58	(428)	546
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,003)	394	(47,078)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	19,285	18,891	181,472
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 3)	¥14,282	¥19,285	\$134,394

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

Consolidated Statements of Changes in Net Assets

Hokuetsu Corporation and Consolidated Subsidiaries
For the Years ended March 31, 2018 and 2017

	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, 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
Net income attributable to owners of parent company	—	—	—	10,327	—	10,327	—	—	—	—	—	—	—	10,327
Cash dividends (¥12.00 per share)	—	—	—	(2,264)	—	(2,264)	—	—	—	—	—	—	—	(2,264)
Disposal of treasury stock	—	—	127	—	249	376	—	—	—	—	—	—	—	376
Purchases of treasury stock	—	—	—	—	(66)	(66)	—	—	—	—	—	—	—	(66)
Change in scope of consolidated affiliates under equity method	—	—	—	(0)	—	(0)	—	—	—	—	—	—	—	(0)
Net changes during the year	—	—	—	—	—	—	826	35	1,469	156	2,486	(18)	101	2,569
Balance at March 31, 2018	209,263,814	¥42,021	¥45,524	¥98,815	¥(9,977)	¥176,383	¥11,361	¥(22)	¥3,065	¥367	¥14,771	¥122	¥701	¥191,977

	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, 2017	209,263,814	\$395,417	\$427,185	\$853,976	\$(95,606)	\$1,580,972	\$99,134	\$(536)	\$15,018	\$1,986	\$115,602	\$1,317	\$5,646	\$1,703,537
Net income attributable to owners of parent company	—	—	—	97,177	—	97,177	—	—	—	—	—	—	—	97,177
Cash dividends (\$0.11 per share)	—	—	—	(21,305)	—	(21,305)	—	—	—	—	—	—	—	(21,305)
Disposal of treasury stock	—	—	1,196	—	2,343	3,539	—	—	—	—	—	—	—	3,539
Purchases of treasury stock	—	—	—	—	(620)	(620)	—	—	—	—	—	—	—	(620)
Change in scope of consolidated affiliates under equity method	—	—	—	(0)	—	(0)	—	—	—	—	—	—	—	(0)
Net changes during the year	—	—	—	—	—	—	7,773	329	13,824	1,467	23,393	(169)	950	24,174
Balance at March 31, 2018	209,263,814	\$395,417	\$428,381	\$929,848	\$(93,883)	\$1,659,763	\$106,907	\$(207)	\$28,842	\$3,453	\$138,995	\$1,148	\$6,596	\$1,806,502

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

Notes to Consolidated Financial Statements

Hokuetsu Corporation and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

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 Corporation ("the Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and

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

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2018, which was ¥106.27 to U.S. \$1.00. The convenience translation should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Note 2: Summary of Significant Accounting Policies

(a) Consolidation

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

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries 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	
	2018	2017
Consolidated subsidiaries	22	22
Affiliates accounted for by the equity method	4	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.

During the current fiscal year, Hokuetsu Toyo Fibre Co., Ltd. changed its account closing date to March 31, which is the same as the consolidated financial statement date. The accounting period for the current fiscal year for this subsidiary is 13 months.

(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, 2018 and 2017.

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.

(i) Accrued environmental expenditures

Accrued environmental expenditures are provided at an estimated amount for environmental expenses, including disposal 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 188,864,106 shares and 188,442,763 shares in 2018 and 2017, respectively. For the year ended March 31, 2018, diluted net income per share was ¥53.42 (\$ 0.50).

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.

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) Disclosure of new accounting standards issued but not yet effective

"Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28; February 16, 2018)

"Implementation Guidance on the Recoverability of Deferred Tax Assets" (ASBJ Guideline No. 26; February 16, 2018)

(1) Overview

The above guidance was revised in regard to the treatments for taxable temporary differences for investments in subsidiaries within the context of non-consolidated financial statements, and to clarify the treatments in determining recoverability of deferred tax assets in a company which was categorized as 'Type1' according to the guidance.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2019.

(3) Effects of the application of the standards

The Company and its consolidated domestic subsidiaries are currently in the process of determining

the effects of these new standards on the consolidated financial statements.

"Accounting Standard on Revenue Recognition" (ASBJ Statement No. 29; March 30, 2018)

"Implementation Guidance on Accounting Standard on Revenue Recognition" (ASBJ Guidance No. 30; March 30, 2018)

(1) Overview

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

Step 1: Identify the contract with customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

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

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

(2) Effective date

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

(3) Effects of the application of the standards.

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

(s) Change in presentation method

"Loss on sales of investments in securities" and "Income from subsidies" presented as individual items in "Other income (expenses)" in the previous fiscal year are now presented in "Other" from the current fiscal year because their monetary amount become immaterial. To reflect this change in the presentation method, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, "Loss on sales of investments in securities" ([2] million yen), "Income from subsidies" (2 million yen), and "Other" (821 million yen) presented in "Other income (expenses)" in the previous fiscal year have been reclassified as "Other" (821 million yen).

(t) Additional information

(Method of accounting procedures related to retirement benefits)

The Company reviewed benefit levels following revisions to its retirement benefit plan. "Accounting for Transfer between Retirement Benefit Plans" (ASBJ Guidance No.1) was adopted for the accounting procedures following this transfer. For profit associated with this transfer, other income of 2,104 million yen was recorded as gain on revision to retirement benefit plan for 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, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash and deposits	¥14,316	¥19,494	\$134,713
Restricted deposits	(34)	(209)	(319)
Cash and cash equivalents	¥14,282	¥19,285	\$134,394

Note 4: Financial Instruments

Information on financial instruments for the year ended March 31, 2018 and 2017 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, 2018 and 2017 are as follows. Financial instruments with fair values not readily determinable are excluded from the following table (see (b)):

	Millions of yen		
	2018		
	Book value	Fair value	Difference
(1) Cash and deposits	¥14,316	¥14,316	¥—
(2) Notes and accounts receivable	69,179	69,179	—
(3) Electronically recorded monetary claims	5,954	5,954	—
(4) Investments in securities:			
① Stocks of affiliates	35,898	47,576	11,678
② Available-for-sale securities	25,641	25,641	—
Total assets	¥150,988	¥162,666	¥11,678
(5) Notes and accounts payable	¥21,841	¥21,841	¥—
(6) Electronically recorded obligations-operating	7,118	7,118	—
(7) Short-term loans	15,525	15,525	—
(8) Commercial paper	11,000	11,000	—
(9) Bonds*1	30,000	30,030	30
(10) Long-term loans payable*2	51,482	51,405	(77)
Total liabilities	¥136,966	¥136,919	¥(47)
Derivative transactions*3	¥(32)	¥(32)	¥—

	Millions of yen		
	2017		
	Book value	Fair value	Difference
(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)	¥—

	Thousands of U.S. dollars		
	2018		
	Book value	Fair value	Difference
(1) Cash and deposits	\$134,713	\$134,713	\$—
(2) Notes and accounts receivable	650,974	650,974	—
(3) Electronically recorded monetary claims	56,027	56,027	—
(4) Investments in securities:			
① Stocks of affiliates	337,800	447,690	109,890
② Available-for-sale securities	241,282	241,282	—
Total assets	\$1,420,796	\$1,530,686	\$109,890
(5) Notes and accounts payable	\$205,524	\$205,524	\$—
(6) Electronically recorded obligations-operating	66,980	66,980	—
(7) Short-term loans	146,090	146,090	—
(8) Commercial paper	103,510	103,510	—
(9) Bonds*1	282,300	282,582	282
(10) Long-term loans payable*2	484,445	483,721	(724)
Total liabilities	\$1,288,849	\$1,288,407	\$(442)
Derivative transactions*3	\$(301)	\$(301)	\$—

*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
	2018	2017	2018
Unlisted equity securities	¥10,186	¥10,341	\$95,850

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

	Millions of yen				Thousands of U.S. dollars	
	2018		2017		2018	
	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	¥14,316	¥—	¥19,494	¥—	\$134,713	\$—
Notes and accounts receivable	69,179	—	64,150	—	650,974	—
Electronically recorded monetary claims	5,954	—	3,859	—	56,027	—
Total	¥89,449	¥—	¥87,503	¥—	\$841,714	\$—

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

	Millions of yen					
	2018					
	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	¥15,525	¥—	¥—	¥—	¥—	¥—
Commercial paper	11,000	—	—	—	—	—
Bonds	10,000	—	—	20,000	—	—
Long-term loans payable*	6,417	13,838	10,350	4,767	16,110	—
Total	¥42,942	¥13,838	¥10,350	¥24,767	¥16,110	¥—

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

Thousands of U.S. dollars						
2018						
	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	\$146,090	\$—	\$—	\$—	\$—	\$—
Commercial paper	103,510	—	—	—	—	—
Bonds	94,100	—	—	188,200	—	—
Long-term loans payable*	60,384	130,215	97,393	44,857	151,596	—
Total	\$404,084	\$130,215	\$97,393	\$233,057	\$151,596	\$—

*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, 2018 and 2017:

Available-for-sale securities:

Millions of yen			
2018			
Type	Acquisition cost	Book value	Difference
Equity securities:			
with book value (fair value) exceeding acquisition costs	¥12,297	¥25,319	¥13,022
with book value (fair value) not exceeding acquisition costs	332	322	(10)
	¥12,629	¥25,641	¥13,012

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

Thousands of U.S. dollars			
2018			
Type	Acquisition cost	Book value	Difference
Equity securities:			
with book value (fair value) exceeding acquisition costs	\$115,715	\$238,252	\$122,537
with book value (fair value) not exceeding acquisition costs	3,124	3,030	(94)
	\$118,839	\$241,282	\$122,443

Total sales of available-for-sale securities sold in the year ended March 31, 2018 amounted to ¥81 million (\$762 thousand), the related gains amounted to ¥46 million (\$433 thousand). Total sales of available-for-sale securities sold in the year ended March 31, 2017 amounted to ¥88 million, the related gains amounted to ¥28 million and the related losses amounted to ¥2 million.

Note 6: Inventories

Inventories at March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Merchandise and Finished goods	¥23,500	¥20,510	\$221,135
Work-in-process	2,031	1,976	19,112
Raw materials and supplies	23,660	22,403	222,640
	¥49,191	¥44,889	\$462,887

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

Balances relating to fraudulent activity at March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balances:			
Other in investments and other assets	¥2,360	¥2,360	\$22,208
Allowance for doubtful accounts in investments and other assets	(2,360)	(2,360)	(22,208)

Note 8: Assets Pledged and Secured Liability

Assets Pledged and Secured Liability at March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash and deposits	¥34	¥209	\$319

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Notes and accounts payable	¥162	¥212	\$1,524

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

- (1) Short-term debt had weighted-average interest rates of 2.11% and 1.36% at March 31, 2018 and 2017, respectively.
- (2) The weighted-average interest rate on commercial paper were (0.01)% and (0.00)% at March 31, 2018 and 2017, respectively.
- (3) Long-term debt at March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Long-term loans from banks and other financial institutions			
(Loans due with one year, weighted-average interest rate 0.44%)	¥6,417	¥9,665	\$60,384
(Loans due after one year, weighted-average interest rate 0.49%)	45,065	48,541	424,061
0.384% unsecured yen straight bonds due in 2019	10,000	10,000	94,100
0.170% unsecured yen straight bonds due in 2021	10,000	10,000	94,100
0.180% unsecured yen straight bonds due in 2021	10,000	10,000	94,100
Lease obligations			
(Loans due with one year)	72	232	677
(Loans due after one year)	161	157	1,515
	81,715	88,595	768,937
Less current portion due with one year	(16,489)	(9,897)	(155,161)
Long-term debt	¥65,226	¥78,698	\$613,776

- (4) The annual maturities of long-term debt at March 31, 2018 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2019	¥16,489	\$155,161
2020	13,903	130,827
2021	10,399	97,855
2022	24,803	233,396
2023 and thereafter	16,121	151,699
	¥81,715	\$768,938

Note 10: Contingent Liabilities

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Notes receivable discounted	¥50	¥41	\$471
Balance of notes receivable transferred by endorsement	¥61	¥149	\$574
Discounted electronically recorded receivables	¥55	—	\$518
Transfer of electronically recorded receivables	¥33	—	\$311

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 27, 2018, the shareholders approved cash dividends amounting to ¥1,137 million (\$10,699 thousand). Such appropriations have not been accrued in the consolidated financial statements at March 31, 2018. 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 30.7% for the year ended March 31, 2018 and 2017, 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, 2018 and 2017:

	2018	2017
Statutory tax rate	30.7%	30.7%
Non-deductible expenses	1.1	0.5
Dividends received not taxable	(0.6)	(0.4)
Per capita inhabitants taxes	0.4	0.4
Valuation allowance	(3.0)	(7.3)
Effect of multiple tax rates	0.1	(0.0)
Equity in income of affiliates	(4.2)	(7.4)
Other	(2.2)	1.2
Effective tax rate	22.3%	17.7%

Significant components of deferred income tax assets and liabilities at March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred income tax assets:			
Accrued bonuses	¥725	¥799	\$6,822
Unrealized gain from sales of inventories between the Companies	104	291	979
Liability for retirement benefit	3,980	4,557	37,452
Long-term accrued amount payable	21	25	198
Unrealized gain from sales of fixed assets between the Companies	1,010	1,030	9,504
Unrealized holding gain on fixed assets	2,712	3,210	25,520
Depreciation and amortization	909	962	8,554
Impairment loss of fixed assets	515	542	4,846
Loss on devaluation of investments in securities	968	1,052	9,109
Provision for business structure improvement	83	84	781
Accrued environmental expenditures	169	30	1,590
Asset retirement obligations	866	433	8,149
Net operating loss carry forwards	2,140	1,503	20,137
Allowance for doubtful accounts	824	834	7,754
Other	1,704	2,466	16,034
Subtotal deferred income tax assets	16,730	17,818	157,429
Valuation allowance	(8,518)	(8,820)	(80,154)
Total deferred income tax assets	¥8,212	¥8,998	\$77,275
Deferred income tax liabilities:			
Asset for retirement benefit	¥(1,061)	¥(953)	\$(9,984)
Reserve deductible for Japanese tax purpose	(85)	(105)	(800)
Reserve for deferred gain on sales of fixed assets for tax purpose	(849)	(810)	(7,989)
Valuation difference on Property, plant and equipment	(1,937)	(1,939)	(18,227)
Unrealized holding gain on securities	(3,962)	(3,411)	(37,282)
Accumulated adjustments for retirement benefit	(231)	(140)	(2,174)
Other	(68)	(150)	(640)
Total deferred income tax liabilities	¥(8,193)	¥(7,508)	\$(77,096)
Net deferred income tax assets (liabilities)	¥19	¥1,490	\$179

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 ¥713million (\$6,709thousand) and ¥778 million for the years ended March 31, 2018 and 2017, respectively.

Note 14: Impairment Loss on Property, plant and equipment

In the year ended March 31, 2018, the Companies recorded impairment loss on property, plant and equipment for the following group of assets:

Use	Location	Type	Amount
			Millions of yen
Afforestation business	Kamikitayama-mura, Yoshino District, Nara Prefecture	Mountain forests	¥88
Idle assets	Shingu City, Wakayama Prefecture	Land	0
Total			¥88

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 the significant decline in market value of mountain forests in the afforestation business the book value was reduced to the recoverable amount and the

reduced amount was recorded under other expenses as an impairment loss.

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

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, 2018 and 2017 are as follows:

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

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Lease payments	¥—	¥39	\$—
Reversal of allowance for impairment loss on leased assets	—	—	—
Depreciation equivalent	—	39	—

(b) 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, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
(lessee)			
Due within one year	¥222	¥238	\$2,089
Due after one year	906	606	8,525
	¥1,128	¥844	\$10,614
(lessor)			
Due within one year	¥18	¥31	\$169
Due after one year	31	48	292
	¥49	¥79	\$461

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, 2018 and 2017 are as follows.

Type of derivative transaction	Millions of yen								Thousands of U.S. dollars					
	2018				2017				2018					
	Contract amount		Over one year	Fair value	Valuation Gain (Loss)	Contract amount		Over one year	Fair value	Valuation Gain (Loss)	Contract amount		Over one year	Fair value
Forward exchange contracts														
Buy contracts														
U.S. Dollar	¥13	¥—	¥(0)	¥(0)	¥20	¥—	¥(0)	¥(0)	\$122	\$—	\$(0)	\$(0)		

Derivative transactions for which hedge accounting had been applied at March 31, 2018 and 2017 are as follows.

(1) Currency-related

Type of derivative transaction	Main hedged items	Millions of yen						Thousands of U.S. dollars				
		2018			2017			2018				
		Contract amount		Over one year	Fair value	Contract amount		Over one year	Fair value	Contract amount		Over one year
Forward exchange contracts												
Buy contracts	Trade payables											
U.S. Dollar		¥1,693	¥—	¥(33)	¥3,836	¥—	¥(80)	\$15,931	\$—	\$(310)		
EUR		¥137	¥—	¥1	¥361	¥—	¥(2)	\$1,289	\$—	\$9		

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			
		2018			2017			2018			
		Contract amount		Fair value	Contract amount		Fair value	Contract amount		Fair value	
Total	Over one year	Total	Over one year		Total	Over one year					
Interest rate swap contracts											
Receive floating, Pay fixed	Long-term loans payable	¥14,775	¥11,340	¥—	¥20,435	¥14,775	¥—	\$139,033	\$106,709	\$—	

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			
		2018			2017			2018			
		Contract amount		Fair value	Contract amount		Fair value	Contract amount		Fair value	
Total	Over one year	Total	Over one year		Total	Over one year					
Interest rate and currency swaps contracts											
Receive floating, Pay fixed	Long-term loans payable										
Receive U.S. dollar, Pay Japanese Yen		¥11,680	¥10,713	¥—	¥12,646	¥11,680	¥—	\$109,909	\$100,809	\$—	

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

Market value of interest rate and currency swap is

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

Note 17: Retirement Benefits

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

Also, the Company has made revisions to its retirement benefits plan. As a result, other income of 2,104 million yen was recorded as gain on revision to retirement benefit plan for the current fiscal year.

1. Defined benefit plans, except plan applied simplified method**(1) Movement in retirement benefit obligations**

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at the beginning of the year	¥18,183	¥18,247	\$171,102
Service cost	977	998	9,194
Interest cost	125	124	1,176
Actuarial (gain) loss	(78)	406	(734)
Benefits paid	(804)	(1,583)	(7,566)
Decrease due to revisions to retirement benefit plan	(2,104)	—	(19,799)
Other	35	(9)	329
Balance at the end of the year	¥16,334	¥18,183	\$153,702

(2) Movements in plan assets

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at the beginning of the year	¥8,052	¥7,803	\$75,769
Expected return on plan assets	97	93	913
Actuarial (gain) loss	329	367	3,096
Contributions paid by the employer	275	372	2,588
Benefits paid	(237)	(572)	(2,230)
Other	24	(11)	224
Balance at the end of the year	¥8,540	¥8,052	\$80,360

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Funded retirement benefit obligations	¥6,047	¥5,926	\$56,902
Plan assets	(8,540)	(8,052)	(80,361)
	(2,493)	(2,126)	(23,459)
Unfunded retirement benefit obligations	10,287	12,257	96,801
Total Net liability (asset) for retirement benefits	7,794	10,131	73,342
Liability for retirement benefits	10,399	12,363	97,855
Asset for retirement benefits	(2,605)	(2,232)	(24,513)
Total Net liability (asset) for retirement benefits	¥7,794	¥10,131	\$73,342

(4) Retirement benefit costs	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service cost	¥977	¥998	\$9,194
Interest cost	125	124	1,176
Expected return on plan assets	(97)	(93)	(913)
Net actuarial loss amortization	(106)	(143)	(997)
Other	1	3	9
Total retirement benefit costs	¥900	¥889	\$8,469
Gain on revision to retirement benefit plan*	(2,104)	—	(19,799)

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

(5) Adjustments for retirement benefit	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Actuarial gains and losses	¥301	¥(182)	\$2,832
Other	2	(1)	19
Total adjustments for retirement benefit	¥ 303	¥(183)	\$ 2,851

(6) Accumulated adjustments for retirement benefit	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrecognized actuarial gains and losses	¥(819)	¥(516)	\$(7,707)

(7) Plan assets

1. Plan assets comprise:

	2018	2017
Bonds	28.4%	28.2%
Equity securities	49.1%	48.4%
Cash and deposits	5.0%	5.0%
General account of life insurance companies	15.9%	16.7%
Other	1.6%	1.7%
Total*	100.0%	100.0%

*Total pension assets include the pension benefits trust, established under the corporate pension system, which accounted for 12.6% of assets in the previous fiscal year and 12.4% of assets in the current fiscal year.

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

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

(8) Actuarial assumptions

The principal actuarial assumptions:

	2018	2017
Discount rate	0.6% (mainly)	0.6% (mainly)
Long-term expected rate of return	1.0% (mainly)	1.0% (mainly)
Anticipated rate of increase	2.8% (mainly)	3.2% (mainly)

2. Defined benefit plan applying the simplified method

(1) Movement in liability for retirement benefits	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at the beginning of the year	¥1,267	¥1,231	\$11,922
Retirement benefit costs	215	268	2,023
Benefits paid	(52)	(109)	(489)
Contributions paid by the employer	(90)	(121)	(848)
Other	(0)	(1)	(0)
Balance at the end of the year	¥1,340	¥1,268	\$12,608

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Funded retirement benefit obligations	¥855	¥809	\$8,046
Plan assets	(838)	(765)	(7,886)
	17	44	160
Unfunded retirement benefit obligations	1,323	1,223	12,449
Total Net liability (asset) for retirement benefits	1,340	1,267	12,609
Liability for retirement benefits	1,373	1,293	12,920
Asset for retirement benefits	(33)	(26)	(311)
Total Net liability (asset) for retirement benefits	¥1,340	¥1,267	\$12,609

(3) Retirement benefit costs	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Total retirement benefit costs based on the simplified method	¥215	¥269	\$2,023

3. Defined contribution pension plan

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Required contributions provided to defined contribution pension plans at consolidated subsidiaries	¥353	¥326	\$3,322

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, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at the beginning of the year	¥2,106	¥2,091	\$19,817
Adjustments over time	139	10	1,308
Increase (Decrease) due to change of estimates	931	22	8,761
Decrease in loss on disposal of property, plant and equipment	(208)	(13)	(1,957)
Foreign currency translation adjustment	63	(4)	593
Balance at the end of the year	¥3,031	¥2,106	\$28,522

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	Adjustments*2	Consolidated*3
2018						
Sales:						
Sales to outside customers	¥242,082	¥19,428	¥261,510	¥7,590	¥—	¥269,100
Intersegment sales or transfers	2,739	81	2,820	37,349	(40,169)	—
Total	244,821	19,509	264,330	44,939	(40,169)	269,100
Operating income	¥8,809	¥1,128	¥9,937	¥815	¥662	¥11,414
Identifiable assets	¥344,318	¥16,698	¥361,016	¥20,023	¥(13,795)	¥367,244
Other items						
Depreciation and amortization	¥18,297	¥783	¥19,080	¥411	¥(426)	¥19,065
Impairment loss	¥—	¥—	¥—	¥88	¥—	¥88
Investment in affiliates	¥37,814	¥—	¥37,814	¥—	¥—	¥37,814
Increase in property, plant and equipment/intangible assets	¥13,868	¥887	¥14,755	¥347	¥(392)	¥14,710
Thousands of U.S. dollars						
2018						
Sales:						
Sales to outside customers	\$2,277,990	\$182,817	\$2,460,807	\$71,422	\$—	\$2,532,229
Intersegment sales or transfers	25,774	763	26,537	351,453	(377,990)	—
Total	2,303,764	183,580	2,487,344	422,875	(377,990)	2,532,229
Operating income	\$82,893	\$10,614	\$93,507	\$7,670	\$6,229	\$107,406
Identifiable assets	\$3,240,030	\$157,128	\$3,397,158	\$188,417	\$(129,811)	\$3,455,764
Other items						
Depreciation and amortization	\$172,175	\$7,368	\$179,543	\$3,868	\$(4,009)	\$179,402
Impairment loss	\$—	\$—	\$—	\$828	\$—	\$828
Investment in affiliates	\$355,829	\$—	\$355,829	\$—	\$—	\$355,829
Increase in property, plant and equipment/intangible assets	\$130,498	\$8,346	\$138,844	\$3,266	\$(3,689)	\$138,421

*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 ¥662 million (\$6,229 thousand) mainly represent eliminations of intersegment transactions.

(2) Adjustments in segment assets in the amount of ¥(13,795) million (\$(129,811) thousand) include ¥(21,642) million (\$(203,651) thousand) for eliminations of intersegment debts and credits and ¥7,847 million (\$73,840 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 ¥(392) million (\$(3,689) 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					Consolidated*3
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others*1	Adjustments*2	
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

*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 mainly represent eliminations of intersegment transactions.
- (2) Adjustments in segment assets in the amount of ¥(13,962) million include ¥(21,728) million for eliminations of intersegment debts and credits and ¥7,766 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 ¥(366) 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, 2018

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					Total
	Japan	China	Asia	North America	Others	
2018						
Net Sales	¥181,324	¥34,671	¥14,595	¥30,431	¥8,079	¥269,100

Thousands of U.S. dollars

	Thousands of U.S. dollars					Total
	Japan	China	Asia	North America	Others	
2018						
Net Sales	\$1,706,258	\$326,254	\$137,339	\$286,356	\$76,022	\$2,532,229

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

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

- (1) Asia South Korea, Taiwan, Vietnam, Thailand, Malaysia
- (2) North America United State of America, Canada
- (3) Other Europe, Oceania, the Middle East

(2) Property, plant and equipment

	Millions of yen			Total
	Japan	China	Others	
2018				
Property, plant and equipment	¥116,707	¥13,832	¥9,434	¥139,973

Thousands of U.S. dollars

	Thousands of U.S. dollars			Total
	Japan	China	Others	
2018				
Property, plant and equipment	\$1,098,212	\$130,159	\$88,774	\$1,317,145

3. Information by Major Customer

Name of Customers	Millions of yen	Thousands of U.S. dollars
	2018	2018
SHINSEI PULP & PAPER COMPANY LIMITED	¥37,246	\$350,485

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					Total
	Japan	China	Asia	North America	Others	
2017						
Net Sales	¥189,942	¥24,200	¥14,210	¥26,604	¥7,442	¥262,398

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

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

- (1) Asia South Korea, Vietnam, Taiwan, Hong Kong, Thailand
- (2) North America United State of America, Canada
- (3) Other Europe, the Middle East, Oceania

(2) Property, plant and equipment

	Millions of yen			Total
	Japan	China	Others	
2017				
Property, plant and equipment	¥123,832	¥13,755	¥6,795	¥144,382

3. Information by Major Customer

Name of Customers	Millions of yen	Thousands of U.S. dollars
	2018	2018
SHINSEI PULP & PAPER COMPANY LIMITED	¥37,328	\$350,485

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

Year ended March 31, 2018

						Millions of yen
						2018
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others	Adjustments	Consolidated
Goodwill:						
Amortization of goodwill	¥131	¥—	¥131	¥—	¥—	¥131
Balance at end of year	¥1,383	¥—	¥1,383	¥—	¥—	¥1,383

Thousands of U.S. dollars

						2018
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others	Adjustments	Consolidated
Goodwill:						
Amortization of goodwill	\$1,233	\$—	\$1,233	\$—	\$—	\$1,233
Balance at end of year	\$13,014	\$—	\$13,014	\$—	\$—	\$13,014

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

Year ended March 31, 2017

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

(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, 2018

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

2018

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 (\$1,923,845 thousand)	A general trading company	(Parent company ownership ratio) Direct 19.4	Agency for the products of the Company	Sales of paper	¥17,703 million (\$166,585 thousand)	Account receivable-trade	¥5,163 million (\$48,584 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, 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	A general trading company	(Parent company ownership ratio) Direct 19.4	Agency for the products of the Company	Sales of paper	¥17,582 million	Account receivable-trade	¥4,866 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.

(2) Notes on parent company or significant affiliated company

For the year ended March 31, 2018 and 2017, 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
	2018	2017	2018
Total current assets	¥260,808	¥257,048	\$2,454,202
Total noncurrent assets	425,108	400,530	4,000,263
Total current liabilities	192,223	196,288	1,808,817
Total noncurrent liabilities	300,853	270,380	2,831,025
Total net assets	193,065	191,079	1,816,740
Net sales	531,311	477,140	4,999,633
Income before income taxes	11,124	18,118	104,677
Net income attributable to owners of parent company	3,971	12,136	37,367

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
	2018	2017	2018
Unrealized holding gains (losses) on securities, net of taxes			
Occurrence amount	¥1,468	¥4,211	\$13,814
Recycling	11	(14)	103
Before tax effect	1,479	4,197	13,917
Tax effect	(545)	(1,127)	(5,128)
Unrealized holding gains (losses) on securities, net of taxes	¥934	¥3,070	\$8,789
Unrealized gains (losses) on hedging derivatives, net of taxes			
Occurrence amount	¥(77)	¥(549)	\$(725)
Recycling	127	711	1,196
Before tax effect	50	162	471
Tax effect	(15)	(50)	(142)
Unrealized gains (losses) on hedging derivatives, net of taxes	¥35	¥112	\$329
Foreign currency translation adjustment			
Occurrence amount	¥1,489	¥(361)	\$14,012
Recycling	—	—	—
Before tax effect	1,489	(361)	14,012
Tax effect	—	—	—
Foreign currency translation adjustment	¥1,489	¥(361)	\$14,012
Adjustments for retirement benefit, net of taxes			
Occurrence amount	¥409	¥(40)	\$3,849
Recycling	(106)	(143)	(998)
Before tax effect	303	(183)	2,851
Tax effect	(93)	55	(875)
Adjustments for retirement benefit, net of taxes	¥210	¥(128)	\$1,976
Share of other comprehensive income of associates accounted for using equity method			
Occurrence amount	¥975	¥872	\$9,175
Recycling	(1,136)	(21)	(10,690)
Share of other comprehensive income of associates accounted for using equity method	¥(161)	¥851	\$(1,515)
Total other comprehensive income	¥2,507	¥3,544	\$23,591

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, 2018.

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	From July 15, 2016 to July 14, 2031
2017 Stock options	9 directors	35,500 shares	July 14, 2017	¥1 (\$0.01)	From July 15, 2017 to July 14, 2032

(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)	2017 Stock options (shares)
Non-vested stock option:							
Outstanding at March 31, 2017	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	35,500
Forfeited	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	35,500
Outstanding at March 31, 2018	—	—	—	—	—	—	—
Vested stock option:							
Outstanding at March 31, 2017	23,000	80,000	58,000	74,500	48,500	58,500	—
Vested	—	—	—	—	—	—	35,500
Exercised	14,000	47,500	8,500	28,500	4,500	17,000	—
Forfeited	—	—	—	—	—	—	—
Outstanding at March 31, 2018	9,000	32,500	49,500	46,000	44,000	41,500	35,500

(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	2017 Stock options
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1	¥1(\$0.01)
Average stock price at exercise	¥660	¥688	¥721	¥639	¥717	¥763	—
Fair value price at grant date	¥428	¥314	¥359	¥354	¥599	¥657	¥743(\$6.99)

(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	2017 Stock options
Estimate method	Black-Scholes option-pricing models	Black-Scholes option-pricing models	Black-Scholes option-pricing models	Black-Scholes option-pricing models	Black-Scholes option-pricing models	Black-Scholes option-pricing models	Black-Scholes option-pricing models
Expected volatility	33.120%	33.243%	35.972%	37.089%	37.064%	37.117%	32.561%
Expected life	8 years	8 years	8 years	8 years	8 years	8 years	8 years
Expected dividend	¥12/share	¥12/share	¥12/share	¥12/share	¥12/share	¥12/share	¥12/share (\$0.11/share)
Risk-free interest rate	0.844%	0.502%	0.685%	0.356%	0.295%	(0.352)%	0.025%

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

The following items were approved at the annual shareholders' meeting of the Company held on June 27, 2018:

Payment of a cash dividend of ¥6.00 (\$0.06) per share, or a total of ¥1,137 million (\$10,699 thousand), to shareholders on record as of March 31, 2018.

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

To the Board of Directors of Hokuetsu Corporation:

We have audited the accompanying consolidated financial statements of Hokuetsu Corporation ("the Company", a Japanese corporation) and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2018 and 2017, 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 judgment, 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, 2018 and 2017, 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, 2018 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, 2018
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.

Consolidated Subsidiaries

Hokuetsu Paper 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

Xing Hui Investment Holdings Co., Ltd.

Unit 01-12, 19/F, Metro Centre, No. 32 Lam Hing Street, Kowloon Bay, Kowloon, Hong Kong, China
Management of Jiangmen Xinghui Paper Mill Co., Ltd.

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 Paper Tec Niigata Co., Ltd.

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

Hokuetsu Paper Tec Kishu Co., Ltd.

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

Hokuetsu Paper Tec Katsuta 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

Hokuetsu Package Co., Ltd.

3-2-2, Nihonbashihongoku-cho, Chuo-ku, Tokyo 103-0021
Manufacturing and sale of paper containers including liquid package cartons and packaging, and processed paper products such as laminated paper and related materials
Supply of computer-related components and mailing business

Shanghai Toh Tech Co., Ltd.

330-8, Xiya Road, Waigaoqiao Free Trade Zone, Shanghai-city, China
Processing and sale of carrier tape for precision electronic parts

Hokuetsu Material Co., Ltd.

1529, Aza-Shitadairayamako, Oaza-Sakamoto, Aizubange-machi, Kawanuma-gun, Fukushima Prefecture 969-6586
Sale of wood chips for paper manufacturing and woods
Purchase and sale of used paper

Hokuetsu Logistics Co., Ltd.

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

Hokuetsu Suiun Co., Ltd.

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

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 Pallet Co., Ltd.

3-2-2, Nihonbashihongoku-cho, Chuo-ku, Tokyo 103-0021
Processing of woods, purchase and sale of processed wood products
Manufacturing, purchase and sale of pallets

Hokuetsu Trading Corporation

3-2-2, Nihonbashihongoku-cho, Chuo-ku, Tokyo 103-0021
Sale of raw materials, fuels and chemicals for paper manufacturing and chemical products

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

Nikkan Co., Ltd.

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

Niigata GCC Co., Ltd.

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

Niigata PCC Co., Ltd.

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

Stock Information (as of March 31, 2018)

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	11,582

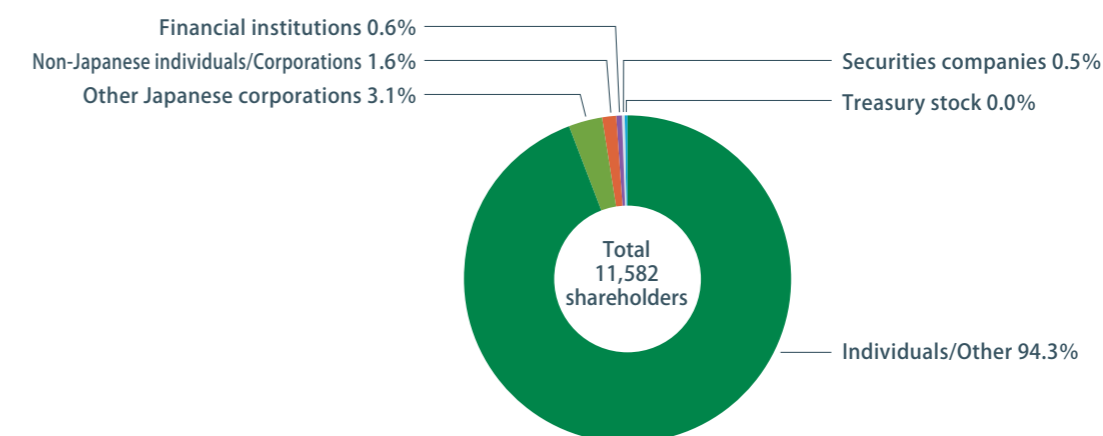
Major Shareholders (as of March 31, 2018)*

Name	Number of shares held (Thousands of shares)	Percentage to total number of shares in issue (%)
Mitsubishi Corporation	36,619	19.33
Japan Trustee Services Bank, Ltd. (Trust Account)	12,277	6.48
The Master Trust Bank of Japan, Ltd. (Trust Account)	10,924	5.77
Hokuetsu Kishu Paper Stock Ownership Association	5,533	2.92
Sompo Japan Nipponkoa Insurance Inc.	4,499	2.37
The Daishi Bank, Ltd.	4,317	2.28
The Hokuetsu Bank, Ltd.	4,315	2.28
Kawasaki-kami Unyu Co., Ltd.	4,286	2.26
DFA International Small Cap Value Portfolio	4,073	2.15
Mizuho Bank, Ltd.	3,600	1.90

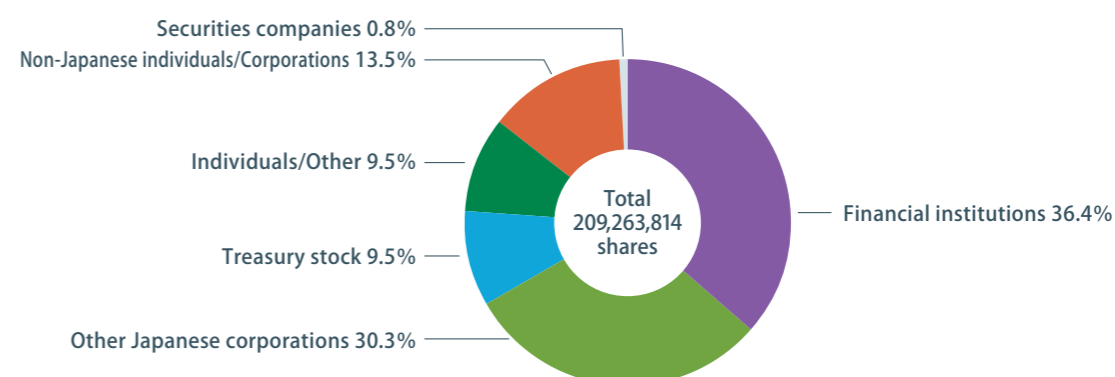
*In addition to the above, the Company holds 19,788 shares of treasury stock.

Distribution of shares by shareholders (as of March 31, 2018)

Number of shareholders



Number of shares



Corporate Data

Corporate Name: Hokuetsu Corporation
 Established: April 27, 1907
 The registered head office:
 3-5-1, Nishizao, Nagaoka, Niigata Prefecture
 Paid-in capital: 42,020,940,239 yen

Fiscal year ending: March 31
 Number of consolidated subsidiaries: 22 (17 in Japan , 5 overseas)
 Number of affiliated companies accounted for under the equity method: 4
 Number of employees: 4,779 (consolidated); 1,581 (non-consolidated)

Offices and Mills (as of March 31, 2018)

Head Office

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

Osaka Branch

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

Nagoya Office

1-7-28, Nishiki, Naka-ku, Nagoya,
 Aichi Prefecture 460-0003
 (inside the J-SQUARE Marunouchi)
 TEL +81-52-211-1272

Fukuoka Office

2-2 Tsunaba-machi, Hakata-ku,
 Fukuoka Prefecture 812-0024
 (inside the Fukuoka Daiichi Bldg.)
 TEL +81-92-271-4982

Niigata Office

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

Central Research Laboratory

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

Niigata Mill

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



Kishu Mill

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



Kanto Mill Ichikawa

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



Kanto Mill Katsuta

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



Nagaoka Mill

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



Osaka Mill

4-20-1, Minami-Suita, Suita City,
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HOKUETSU GROUP Corporate Report 2018

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