

# SHAPING THE FUTURE WITH TREES

ANNUAL REPORT 2016

For the Fiscal Year Ended March 31, 2016



## Nippon Paper Industries Co., Ltd.

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NIPPON PAPER INDUSTRIES CO., LTD.

ANNUAL REPORT 2016

Securities Code: 3863



Nippon Paper Industries Co., Ltd.

(Securities Code 3863)

# A long history that has contributed to enrichment of daily life

## Pioneering and creating the paper culture

1870s - 1950s

- The number of newspapers and magazines multiplied and demand for paper grew rapidly for various uses such as account books and wrapping paper. Traditional Japanese paper (*washi*) could not be made in sufficient quantity to meet the increasing demand, and Western-style paper mass-produced by machine became the mainstream around the turn of the century.
- Annual production of paper and paperboard passed the 1 million tonne mark in 1936, but was adversely impacted by World War II, and dropped to less than 200,000 tonnes immediately after the war.

### Our Company

- Shoshi Kaisha, a papermaking company, was founded by industrialist Eiichi Shibusawa in 1873.



Paper being sorted (around 1930)

## Supporting Japan's rapid economic growth

1960s - 1970s

- Paper demand soared with Japan's postwar economic growth. By 1970, Japan had become the world's second-largest producer of paper.

### Our Company

- Sanyo Scott Company Ltd. (1961) and Jujo Kimberley Co., Ltd. (1963) were established, and sales of tissues and toilet paper rolls began in Japan. (These companies became the current Nippon Paper Crexia Co., Ltd.)
- Jujo Central Co., Ltd. was established in 1965 and began the liquid packaging business (the current Paper-Pak Business of Nippon Paper).



Kleenex® and Scottie® at the time of their launch

## Peak and transformation of the paper culture

1980s - 2000s

- Annual paper and paperboard production volume in Japan exceeded 20 million tonnes in 1985 and peaked at 31.8 million tonnes in 2000. Production then took a downward turn, which accelerated with the rise of electronic media, the 2008 financial crisis and other events.

### Our Company

- We provided various forms of value-added paper, such as lighter-weight newsprint and bulky paper featuring both light weight and thickness.



A paper machine that improved production efficiency

## Toward new value creation

2010s

- Biorefinery technologies are being developed to convert wood resources into various fuels and chemical products.

### Our Company

- Amid increasing demand for safer and cleaner energy, we are working to expand our power generation business with renewable energy sources including woody biomass, solar and wind.
- We intend to set up a mass production facility and quickly commercialize cellulose nanofiber, a new material with potential for use in various applications, from industrial products to daily necessities and food.



Biomass boiler

# A strong foundation built through many years of papermaking

Through its long history of paper manufacturing, Nippon Paper has provided products with outstanding quality to many people. In that process, we have accumulated technologies for making broad use of renewable wood resources as well as know-how related to generation of electric power essential to paper manufacturing.

By drawing on the network of the Nippon Paper Group, which consists of 160 companies, and using wood resources in fields with growth potential, such as chemicals, energy, packaging and healthcare, we will strive to create new value as a comprehensive biomass company.

## Foundation and Strengths



### Wood Resources

Annual amount used: approx. 4.5 million BDT<sup>1</sup>  
 Company-owned forests in Japan and overseas: approx. 180,000 hectares<sup>2</sup>

1. Amount used in domestic pulp and paper business  
 2. As of March 31, 2016



### Technology

Number of patents 208\*

\*Number of patents in FY2015/3



### Network

Group 160 companies\*

\*Subsidiaries and affiliated companies as of March 31, 2016



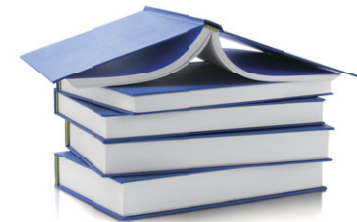
### Customers

Domestic share  
 Paper 28.5% (No. 1)\*  
 Paperboard 15.2% (No. 3)\*

\*Calendar year 2015

## A multifaceted paper business that supports daily life and culture

From newsprint, printing paper and business communication paper with *information* functions to household paper products with *wiping* functions and industrial paper, paperboard and packaging containers with *wrapping* functions, we have provided products to meet the needs of changing times, with an uncompromising approach to quality and safety. We have also actively developed products and proposed services to replace various materials with paper.



# We will create new value as a comprehensive biomass company.

## Energy Business

With on-site power-generation facilities at most of its production bases, the Nippon Paper Group has power generation capacity of approximately 1.8 million kW, among the largest in Japan outside of power companies. We are now using the technologies we have acquired to develop a woody biomass fuel. We will also promote expansion of other energy businesses for which society has high expectations, including solar and wind power.



Komatsushima solar power generation facilities

## Chemical Business

We make effective use of wood components such as cellulose and lignin to produce materials that support daily life. Examples include the use of dissolving pulp as a raw material for rayon, films and other products, and functional chemical products used in food and daily essentials. In addition, we are focusing on developing applications for cellulose nanofiber, a promising material of the future.



Cellulose nanofiber dispersion liquid and demonstration production plant

## Packaging Business

The products we are developing range from familiar items used in everyday life to products for cutting-edge industries, including liquid packaging cartons and paper cups for juice, milk and other beverages, and packaging materials for food, confectioneries and medicine. The establishment of the Packaging Research Laboratory and Packaging Communication Center in 2016 will further speed up new business development.



Liquid packaging cartons and paper packages

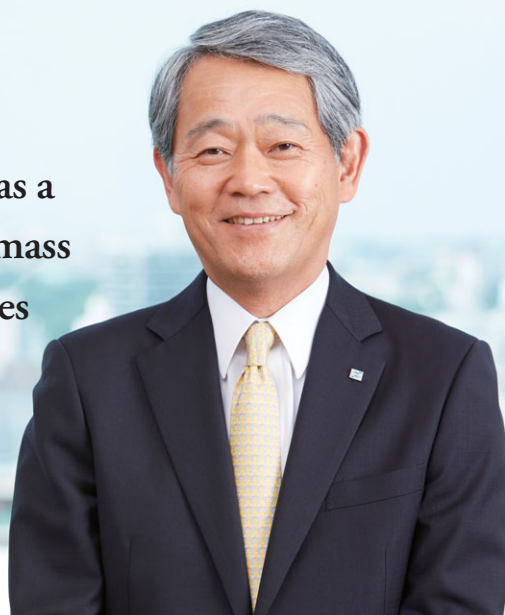
## Healthcare Business

By providing products for light incontinence and adult diapers that meet the needs of Japan's rapidly aging society, we support people in their daily lives. In addition, we are moving to expand into the Asia region, where market growth is expected, and are aiming to grow this business with a medium-term sales target of ¥20 billion.



Healthcare products

We aim to realize a sustainable society as a comprehensive biomass company that creates new value.



“Contribute to better living and cultural progress everywhere we do business...”

This Mission, which is part of our Group Mission, reflects our pride in the contributions the paper industry has consistently made to better living and cultural progress for people worldwide through the many functions of “paper.” Today, when the realization of a sustainable society is inevitable, the advantages of renewable wood resources are becoming even greater.

In the Nippon Paper Group’s Fifth Medium-Term Business Plan covering the three years to March 31, 2018, we are taking steps to enhance the competitiveness of existing businesses, which until now have been centered on paper. At the same time, we are strongly promoting the transformation of our business structure by broadening the range of our products created from wood resources. Developing and expanding the market for cellulose nanofiber, the world’s most advanced biomass material, is part of that strategy. The entire Nippon Paper Group is working to achieve the goals of the medium-term business plan.

I would like to thank our stakeholders for their continued support of the Nippon Paper Group, which is committed to creating new value as a comprehensive biomass company shaping the future with trees.

Fumio Manoshiro  
President and Representative Director  
Nippon Paper Industries Co., Ltd.

## Contents

### Introduction

To Our Stakeholders .....	6
FY2016/3 Highlights .....	8
Interview with the President .....	12

### Feature:

<b>The Potential and Prospects of Cellulose Nanofiber</b> .....	20
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### Business Section

The Nippon Paper Group at a Glance .....	26
New Developments – 1: Packaging .....	28
New Developments – 2: Paperboard .....	29
Pulp and Paper .....	30
Paper-Related .....	34
Wood Products and Construction Related / Other .....	36
New Developments – 3: Energy .....	36

### Management Section

Directors and Statutory Auditors .....	38
Corporate Governance .....	40
Comments from Outside Officers .....	45

### Sustainability Section

Promotion of CSR Activities .....	47
Environmental Initiatives .....	48
Initiatives for Communities and Society .....	49
Human Rights, Employment and Labor Initiatives .....	50

### Financial Section

Consolidated Six-Year Summary .....	52
Financial Overview .....	54
Business and Other Risk Factors .....	56
Consolidated Financial Statements .....	58

### Corporate Data

Consolidated Subsidiaries and Equity-Method Affiliates .....	66
Domestic Network .....	68
Overseas Network .....	70
Company Profile .....	74
Stock Information .....	75
Investor Information and IR Calendar .....	77

#### Notice regarding the consolidated financial information appearing in this annual report

Nippon Paper Industries Co., Ltd. (hereinafter “the Company”), merged with Nippon Paper Group, Inc., as of April 1, 2013, and took over its consolidated financial statements. The scope of consolidation for the Company has no substantial change from that of Nippon Paper Group, Inc., before the merger. Accordingly, the consolidated financial information until the fiscal year ended March 31, 2013, appearing in this annual report represents that of Nippon Paper Group, Inc.

#### Disclaimer

Statements in this annual report concerning plans, forecasts, strategies, beliefs and other forward-looking information related to Nippon Paper Industries Co., Ltd., and companies comprising its corporate group, other than those of historical fact, are forecasts of future business performance based on the judgments of management at Nippon Paper Industries Co., Ltd., and Nippon Paper Group companies in light of currently available information. Accordingly, please refrain from making investment decisions based solely on forecasts of business performance in this annual report. Actual business performance may differ significantly from these forecasts due to changes in a variety of factors.

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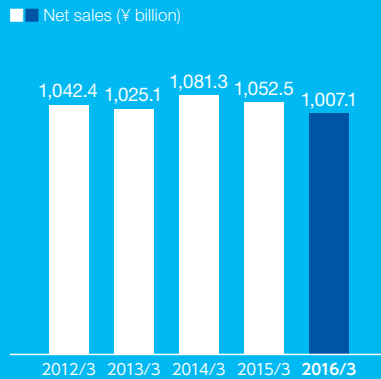
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# FY2016/3 Highlights

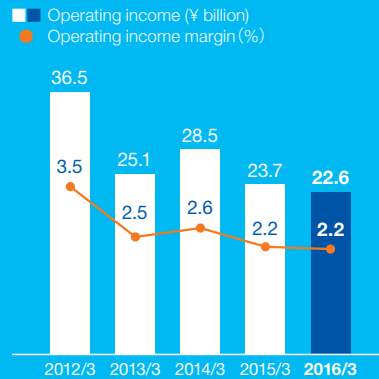
In FY2016/3, the Japanese economy continued on a moderate growth track, buoyed by improvement in the job market and steady consumer spending. However, the economic outlook was unclear due to the sharp decline in oil prices, slowing economic growth rates in newly industrialized countries and instability in stock prices and exchange rates. The pulp and paper industry continued to face a difficult operating environment, with weak demand for printing paper and high prices for recovered paper.

The Nippon Paper Group responded to these conditions by cutting costs and making efforts to adjust and maintain product prices. In overseas operations, however, earnings were slow to recover, and we recorded impairment losses on noncurrent assets and a loss on the closure of a mill. We also sold and replaced assets in order to improve asset efficiency, which is part of our medium-to-long-term strategy. Results for the past five years are shown below.

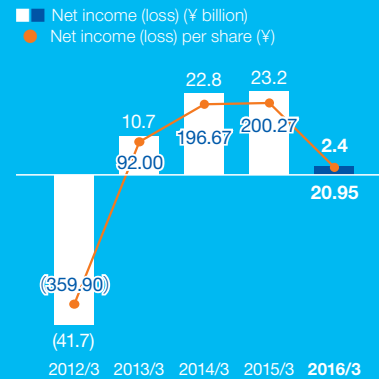
## Net Sales



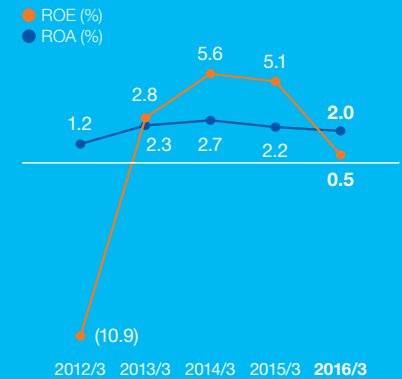
## Operating Income & Operating Income Margin



## Net Income (Loss)\* & Net Income (Loss)\* per Share

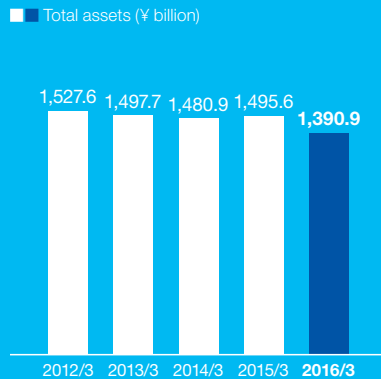


## ROE & ROA

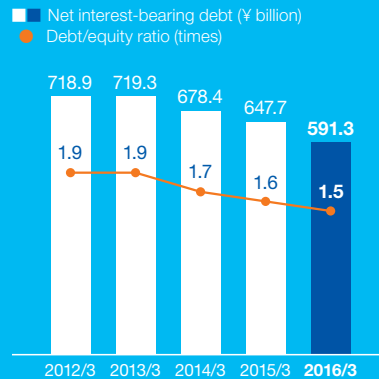


\*Profit (loss) attributable to owners of parent

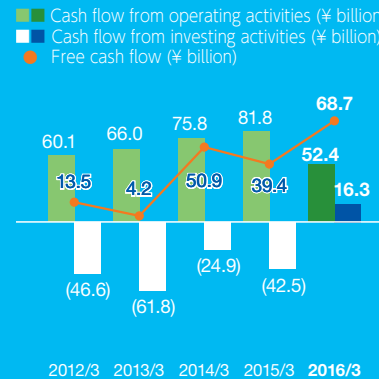
## Total Assets



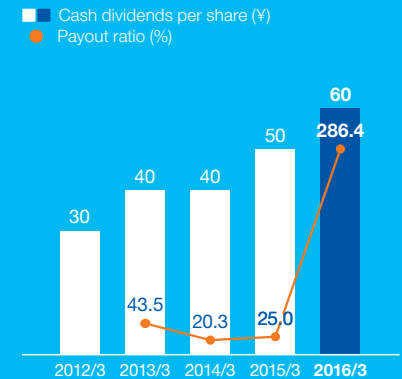
## Net Interest-Bearing Debt & Debt/Equity Ratio



## Cash Flow



## Cash Dividends per Share & Payout Ratio



» Share of Paper Market in 2015 (Jan.-Dec.)

28.5%

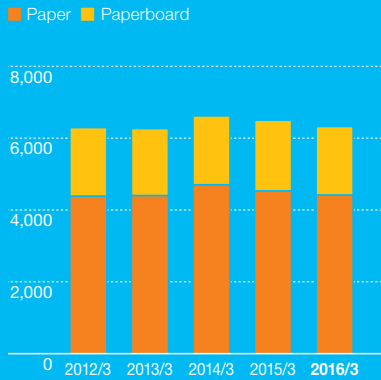
(Source: Japan Paper Association)

» Share of Paperboard Market in 2015 (Jan.-Dec.)

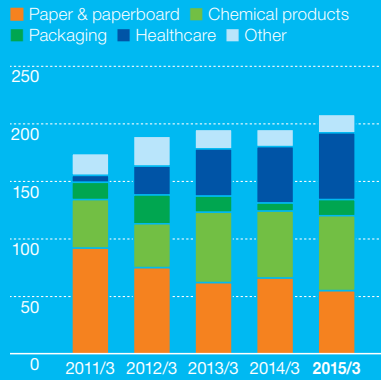
15.2%

(Source: Japan Paper Association)

» Production of Nippon Paper Group (kt)



» Number of Patent Applications by Nippon Paper Group



» Material Balance of Domestic Pulp and Paper Business

(FY ended March 31, 2015)

Input	
<b>Raw materials</b>	
Woodchips	4,286 thousand BDt
Logs	27 thousand BDt
Pulp	364 thousand BDt
Wastepaper	3,198 thousand BDt
<b>Water consumption</b>	827 million tonnes
<b>Energy</b>	
Electricity	954 GWh
Oil	165 thousand kl
Coal	2,059 thousand tonnes
Gas	93 thousand tonnes
Other non-fossil fuels	1,627 thousand tonnes
Black liquor*	3,255 thousand tonnes

Output	
<b>Paper products</b>	
Paper and household	4.15 million tonnes
Paperboard	1.75 million tonnes
Pulp	32 thousand tonnes

\*A by-product of producing pulp from wood chips.

Industry Data

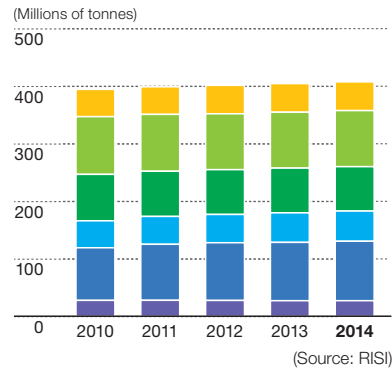
Worldwide

» Paper & Paperboard Consumption

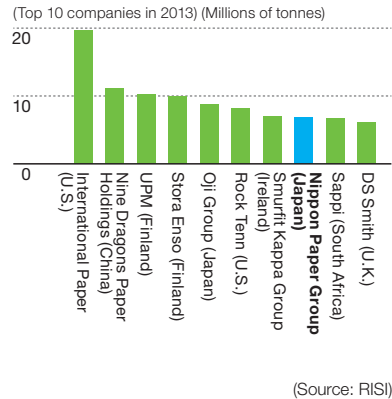
Year-on-year 0.7%  
(Source: RISI)

» Paper & Paperboard Consumption

Japan China Asia (except Japan and China)  
North America Europe Others



» Paper Companies by Production Volume



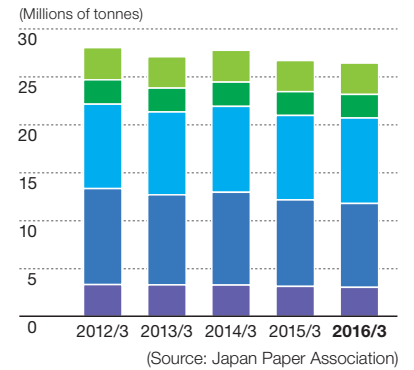
Domestic

» Paper & Paperboard Consumption

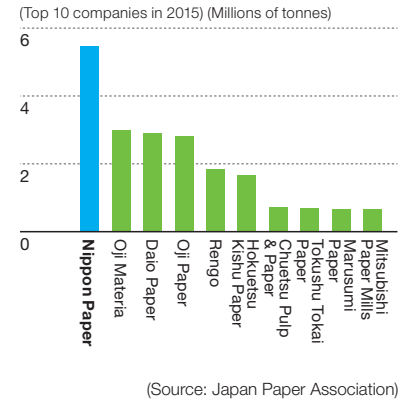
Year-on-year (1.0)%  
(Source: Japan Paper Association)

» Paper & Paperboard Consumption

Newsprint Printing and business communication paper  
Containerboard Paperboard for paper containers  
Other (Packaging, household and miscellaneous use)



» Paper Companies by Production Volume



### The entire Nippon Paper Group is committed to achieving the final targets of the Fifth Medium-Term Business Plan.

Fumio Manoshiro  
President and  
Representative Director  
Nippon Paper Industries  
Co., Ltd.



### What are your thoughts on the Company's overall performance in FY2016/3?

In FY2016/3, unfortunately, we did not achieve our first-year targets for the Fifth Medium-Term Business Plan, which covers the three years ending March 31, 2018. However, we steadily executed various measures, including our planned investments in growth areas. These measures will set the stage for future earnings growth.

In the domestic pulp and paper industry, demand has been declining, especially for newsprint and printing paper, due to the low birth rate and other trends. In spring 2015, price adjustments were made to printing paper in Japan, and as an industry leader, Nippon Paper conducted sales activities with price stability in mind. However, the stagnant domestic economy also had a significant impact on market conditions for paper and paperboard.

In May 2015, we formulated and announced our Group Mission, and it is critically important that we firmly establish that mission throughout the Group. During the past year, I have visited many Group companies, including overseas companies, and feel that the views of management and employees are coming into alignment based on the Group Mission, and the response has been positive. I would also like to further increase opportunities for dialogue with investors.

### FY2016/3 Consolidated Results

	FY2016/3	vs. Plan	YoY Change
Net sales	1,007.1	(52.9)	(45.4)
Operating income	22.6	(9.4)	(1.1)
Ordinary income	17.1	(12.9)	(6.1)
Net income*	2.4	(12.6)	(20.8)

\*Profit attributable to owners of parent

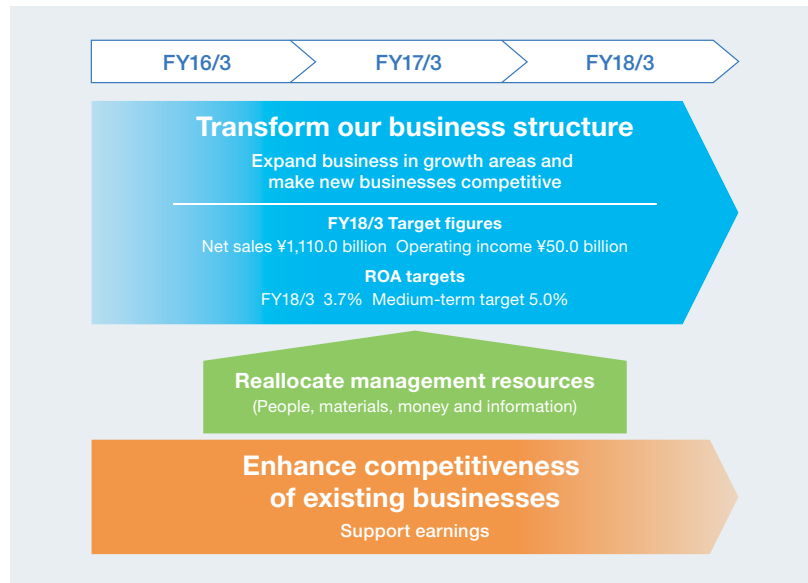


## Please talk about the progress of the Fifth Medium-Term Business Plan in its first year, FY2016/3, and your assessment of it.

The Fifth Medium-Term Business Plan consists of two pillars: “Enhance competitiveness in our existing businesses” and “transform our business structure (expand business in growth areas and make new businesses competitive).”

With regard to “enhancing the competitiveness of existing businesses,” paper and paperboard sales volume fell more than we anticipated, partly due to the effects of the stagnant domestic economy. We achieved some success in reducing controllable costs and making investments to stabilize operations and improve quality, but these actions were not enough to fully offset the decline in sales volume. In overseas business, we took steps to improve earnings, mainly in Australia and North America, but it is undeniable that these efforts are behind schedule. This deficiency in speed was the major point to reflect on in FY2016/3. On the other hand, I am confident that initiatives such as our business alliance with Tokushu Tokai Paper (the alliance will start in October 2016), the integration of our Yoshinaga Mill and Fuji Mill, and the integration of the Ashikaga Mill and Soka Mill will lead to enhanced competitiveness.

### Outline of Fifth Medium-Term Business Plan



For “transformation of our business structure,” we took appropriate actions in FY2016/3, starting with investments in fields where we expect growth in the future, such as energy, chemicals, healthcare and packaging. We plan to steadily realize the benefits of these measures in FY2017/3 and later.

The failure to reach our numerical targets in the first year of the Fifth Medium-Term Business Plan is something I take very seriously. But we must not become pessimistic about achieving the final-year targets for FY2018/3. Our measures are being implemented on schedule, although the delay in their effects was conspicuous. When we announced this medium-term business plan, I said to all of the directors, “This is our commitment.” How can we rebound in the next two years? Speeding up will be key, and we are determined to achieve the final-year targets.

## Please explain the Company’s main policies and initiatives in FY2017/3 for achieving the final-year targets of the Fifth Medium-Term Business Plan.

In FY2017/3, we will aim to enhance competitiveness in existing businesses with various measures. The benefits of investments made in FY2016/3 will start to become apparent, and in addition, we will make further cost reductions at domestic

### Basic Strategies for FY2017/3

Key Tasks	Main Contents
Maintain operating rates of domestic mills	<ul style="list-style-type: none"> <li>◆ Expand exports to make up for declining domestic demand                             <ul style="list-style-type: none"> <li>• Issue: Erosion of export profitability due to yen appreciation</li> <li>• Response: make further cost reductions</li> </ul> </li> </ul>
Improve profitability of overseas businesses	<ul style="list-style-type: none"> <li>◆ Stabilize operations</li> <li>◆ Carry out profit improvement measures</li> </ul>
Steadily realize the benefits of measures we have taken	<ul style="list-style-type: none"> <li>◆ Energy, Chemicals, Healthcare and Packaging                             <ul style="list-style-type: none"> <li>• Strengthen business in growth areas</li> </ul> </li> </ul>



Additional measures Regain FY2016/3 shortfall in operating income of ¥9.0 billion	<ul style="list-style-type: none"> <li>◆ M&amp;A in growth areas</li> <li>◆ Examine further cost reductions (manufacturing, logistics, sales)</li> <li>◆ Realize benefits from business alliance with Tokushu Tokai Paper</li> <li>◆ Consider optimal domestic/overseas production structure, including review of unprofitable businesses</li> </ul>
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By enhancing the competitiveness of existing businesses and transforming our business structure, we will aim for net sales of ¥1,110.0 billion and operating income of ¥50.0 billion in FY2018/3

paper and paperboard mills and maintain the operating rate by expanding exports.

In overseas business, our first priority will be completing measures to improve profitability. We will also work to stabilize operations by continuing support from Japan by Group employees. Our newly established Vietnam Office is conducting market research with its sights set mainly on packaging projects, and will boost our business in Asia.

For “transformation of our business structure,” we will steadily carry out the measures we implemented as planned during FY2016/3, and our primary focus will be on making sure we realize the benefits from our investments.

In addition to these initiatives, a key task in FY2017/3 will be regaining the shortfall in performance targets for FY2016/3. Specifically, we will take additional measures to make up the ¥9.0 billion shortfall in operating income. One such measure is the business alliance with Tokushu Tokai Paper. We expect to realize synergies from this alliance starting in the second half of the current fiscal year. We are also looking for further M&A opportunities in growth fields. In June 2016, we signed an agreement with Weyerhaeuser Company of the U.S., one of the world’s largest forest products companies, for the purchase of Weyerhaeuser’s liquid packaging board business. With the purchase of this business, we will gain new manufacturing and marketing bases in North America and establish an integrated production system from base paper to converting, enabling us to provide further added value to customers. We will emphasize M&A transactions like this one that will support our business structure transformation, particularly those that can extend the Nippon Paper Group’s value chain.

At the same time, we will review the future of businesses that are no longer profitable due to business model obsolescence or other reasons, and will quickly carry out asset replacements to improve operating income and return on assets.

## New businesses that will lead the future of the Nippon Paper Group have already begun operating. Where do the strengths of those businesses lie, and what are your objectives from a longer-term perspective?

We clearly state in our Group Mission that we are “a comprehensive biomass company shaping the future with trees.” Wood is a renewable resource that can play a significant role in realizing a sustainable society. The Nippon Paper Group makes full use of each tree with cascading applications to maximize the value of wood resources for the future.

For example, we provide not only paper and lumber, but also biochemical products used in food and daily essentials. We even utilize unused materials and

waste materials as biomass fuel in power generation. In FY2016/3, a biomass power generation facility at the Yatsushiro Mill started operation. The Nippon Paper Group has on-site power generation facilities at many of its production bases, and uses them to supply electric power for paper manufacturing. Along with the environmental merits of biomass, the locations and facilities of our mills and our know-how also give us an advantage in conducting the power generation business.

Moreover, we are working on development of new solid biomass fuels, and have decided to install demonstration facilities for the production of torrefied pellets (woody biomass fuel) in Thailand.

Cellulose nanofiber (CNF), a microfiber made from wood pulp that has been refined down to the nano level, is a new material aimed at creating value from wood. In FY2016/3, the Nippon Paper Group’s first CNF applied product in the healthcare field was introduced. (See the feature on pages 20-24 for more details about CNF.)

We are facing increasing competition for the practical use of CNF from manufacturers in the United States, Canada, northern Europe and other parts of the world, as well as in Japan. Winning this competition will mean controlling the future CNF market, and the keys to doing so are the technological and development capabilities necessary to achieve mass production at a low cost. In the future, CNF will replace existing materials in a wide range of applications. I see the Nippon Paper Group as the front-runner in that dynamic movement. Everyone in the Group is aware that winning the competition for commercial use of CNF, backed by our technological and development strengths, will make CNF a major pillar of our business structure transformation. We will continue our passionate commitment to achieving that goal.



## In closing, please share your policies for sound management, your enthusiasm for executing it, and your message to shareholders and other stakeholders.

The word “Fairness” is one of the Values in our Group Mission. This word is also the basis for addressing our highest management priority, which is increasing the transparency of management. To further enhance transparency, I call the Management Audit Office, which reports directly to me, the “last line of defense,” and am always telling the staff there to maintain their independence and not be swayed by outside pressure. In addition, to reinforce the oversight function of the Board of Directors, we have increased the number of outside directors to two in FY2017/3.

My promise to our shareholders is this: We will strive to fulfill our Group Mission and achieve the Fifth Medium-Term Business Plan with a strong sense of commitment. We are planning on operating income of ¥50.0 billion in FY2018/3, but this is not simply a target of the medium-term business plan; it represents the required level of strength for a group of our current size. What I mean is that when we think about the cash generation needed to achieve a good balance of returns to shareholders, investment in new businesses, fulfillment of our responsibility to employees, and maintenance of a sound financial position, operating income of ¥50.0 billion is one indicator. By achieving operating income of ¥50.0 billion, we can establish a positive spiral, and I am certain that the Nippon Paper Group will have good prospects for further growth.

In our Group Mission, “instill pride in employees” is part of our Vision. I believe that building a unified group where everyone shares the same goals will enable us to provide maximum value to our stakeholders.

Regarding shareholder returns, we plan to pay total dividends of ¥60 per share (interim and year-end dividends of ¥30 each) for FY2017/3 the same as in FY2016/3.

The entire Nippon Paper Group is committed to achieving the final targets of the Fifth Medium-Term Business Plan, and will work hard to meet our stakeholders’ expectations.

# Feature



## The Potential and Prospects of Cellulose Nanofiber

Development of a next-generation material

# What is Cellulose Nanofiber?

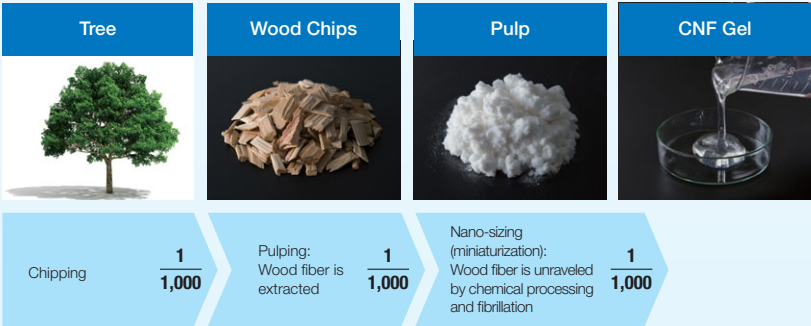
Wood fiber (pulp) is refined down to a nano size to form ultra-fine fibers. One of these fibers, or a bundle of them, is cellulose nanofiber (CNF). A nano-sized fiber is about 1/10,000 the thickness of a human hair, or three to four nanometers.<sup>1</sup> When such fine fibers are bundled, they become a wood fiber 20 to 30 micrometers in width.<sup>2</sup> By establishing the technology to unravel the structure of wood fibers, we have paved the way for the practical use of this cutting-edge biomass material.

1. Nanometer: 1 billionth of a meter  
 2. Micrometer: 1 millionth of a meter

### Characteristics of CNF

- ① **Light and strong**
- ② **Ultra-fine** fibers (fiber width: about 3 nm)
- ③ **Large specific surface area**
- ④ **Low thermal expansion**
- ⑤ **High gas barrier properties**
- ⑥ Exhibits characteristic **viscosity in water**
- ⑦ **Environmentally friendly** biomass material

### Relationship between Trees and CNF



### Practical Use of CNF Fueling Expectations in Diverse Industries

CNF is light and strong. It has roughly five times the strength of steel and a modulus of elasticity at the same level as aramid fiber. Deformation through a change in temperature gives it about the same fineness as glass fiber. It also has a high barrier against oxygen and other gases. As CNF is derived from trees, its production and disposal have little impact on the environment, and the abundance of forest resources helps to reduce costs. Other features of CNF include high transparency, characteristic viscosity exhibited in water, and a large specific surface area.<sup>3</sup>

If these multifaceted features can be utilized, CNF will have a realistic prospect of becoming an industrial material like carbon fiber. The practical applications of CNF are attracting interest and high expectations not only within the Nippon Paper Group but also in many other industries, including automobiles, electronics, food and cosmetics.

3. Specific surface area is the surface area per unit mass

### CNF Applications

Nano-composite materials	Functional sheets
<p><b>For automobile parts</b></p> <p>Lightweight and high-strength automobile parts can be produced by mixing CNF with resin or rubber.</p> 	<p><b>For packaging materials for foods, etc.</b></p> <p>Films featuring gas barrier functions are highly effective in preserving the freshness of foods.</p> 
<p><b>Functional additive</b></p> <p><b>For cosmetics, foods, paints, etc.</b></p> <p>CNF makes products more viscous in water and can disperse micro particles.</p> 	<p><b>For industrial filters, masks, etc.</b></p> <p>Sheets made from CNF with high specific surface area effectively capture airborne grit and dust.</p> 
	<p><b>For electronic materials and transparent displays</b></p> <p>CNF transparent sheets are expected to be used in the electronics field due to their high transparency and low thermal expansion.</p> 

## The Nippon Paper Group's Initiatives to Date

Nippon Paper participated in co-development of CNF in the NEDO<sup>4</sup> Project from 2007 to 2012, and was in charge of CNF manufacturing technology. We licensed the TEMPO catalytic oxidation method<sup>5</sup> from the University of Tokyo, which had been conducting basic research, and own the rights to the CNF manufacturing technique that uses the TEMPO method.

In 2013, we installed a demonstration facility with annual production capacity of 30 tonnes at the Iwakuni Mill, and set goals for manufacturing cost and quality. We also provided samples to more than 200 of our partner companies for application development. These activities are still ongoing.

4. New Energy and Industrial Technology Development Organization

5. A chemical denaturation method for cellulose by TEMPO catalysis, developed at the University of Tokyo. Using this method, pulp is easily defibrated, and it is possible to obtain nanofibers of uniform width.

## Launch of the World's First Commercial Products Made of Functional CNF

With the TEMPO oxidation method, metal ions and nanoparticles that have deodorant and antibacterial effects can be attached in large quantities to the surface of CNF.<sup>6</sup> Taking advantage of these characteristics, the Nippon Paper Group successfully developed sheets that exhibit high deodorant performance. Nippon Paper Crecia Co., Ltd. used these sheets in its new Hada Care Acty series of adult diapers, which were launched in October 2015. This is the world's first commercial product made from functional CNF sheets.

6. A method for generating metallic nanoparticles on the surface of CNF with the TEMPO oxidation method was developed at Kyushu University.

### Features of the Hada Care Acty Series

#### Highly Effective Deodorant Sheets

These sheets bind odor components to the metallic ions to exhibit a deodorant effect not only on ammonia but also on hydrogen sulfide, one of the causes of fecal odor.

#### Comfortable 3D Sheet

The cushiony 3D sheet contacts the skin from point-to-point to prevent leakage and provide a soft texture.

#### Absorbent Slit Structure

The slit structure allows the shape to conform to the crotch, ensuring a snug fit and protecting against leaks.



# The Future of CNF

## Prospects for Expansion of the CNF Market

In the area of automotive materials, likely applications include resins compounding CNF with polypropylene (PP) and nylon for use in stronger interior materials, and the replacement of some steel sheets for exterior panels with CNF-reinforced resins. The size of these potential markets is expected to reach ¥360-600 billion per year in 2030. Including other areas, the Ministry of Economy, Trade and Industry (METI) estimates that the CNF-related materials market may expand to ¥1 trillion annually in 2030 as CNF performance improves and costs decline.

## The Future of CNF Envisioned by the Nippon Paper Group

In addition to providing CNF itself, we also intend to establish businesses in downstream areas of the supply chain. For example, we are eyeing the possibility of primary processed materials such as plastics and rubber strengthened with CNF and packaging materials, functional paper, filters and other end products that make use of the transparency, gas barrier properties and other characteristics of CNF.

As a comprehensive biomass company, we are positioning CNF as a core growth field, and will work to establish more efficient mass production technology and develop broader applications, as well as to contribute to better living and cultural progress around the world.

## Building One of the World's Largest CNF Production Facilities

Based on the results of demonstration production at the Iwakuni Mill, we will build a facility for large-scale production of CNF at the Ishinomaki Mill. This will be one of the largest CNF production facilities in the world, with annual production capacity of 500 tonnes. It is scheduled to begin operation in April 2017. Production capacity at this facility can be ramped up in stages, and we will expand it to maximum capacity in accordance with market needs.

# Comments from Managers

## The Road to Commercialization of CNF and Expectations for the Future

### We will aim for the practical use of CNF in new fields



**Haruo Konno**  
Senior Technical Manager  
Cellulose Nanofiber  
Business Promotion Office

The technique of placing metal ions and nanoparticles on CNF using TEMPO oxidation was discovered at Kyushu University. This technique took advantage of the characteristics of the CNF we manufacture. When we were exploring applications that could use this technique, we learned that Nippon Paper Crecia Co., Ltd. had a need for deodorant and antibacterial properties in its hygiene products. In fact, development accelerated after we developed the sheets and obtained positive results in deodorizing experiments. The speed of Nippon Paper Crecia during development was really impressive.

Currently, we are providing CNF samples to companies in a wide range of industries and working on development of other applications in addition to deodorant sheets. A number of promising applications have been discovered. First, we will steadily connect promising applications to commercial products. There is significant competition for CNF in Japan and other countries, but we have decided to install mass production equipment, and will leverage this advantage and move forward to make CNF a major business.

### We will continue to create products with greater added value



**Tsuyoshi Murata**  
Deputy General Manager  
Product Development  
Department  
Nippon Paper Crecia  
Co., Ltd.

In autumn 2015, we began sales of the Hada Care Acty series of adult diapers, which use strong deodorant sheets made with functional CNF.

When we were developing the strong deodorant sheets with the CNF compound we had difficulty achieving both deodorant properties and the efficient operation of the diaper factory.

Since the deodorant function was the main feature, we created an experimental setup and conducted demonstrations with sales representatives at new product exhibitions and other events so that more people could experience its effects.

The product was actually used in nursing care facilities and hospitals, and received a positive evaluation for its deodorant functions and the soft texture of the surface sheet.

The deodorant sheets were also used in the Poise® Hada Care Pad, a product for light incontinence launched in spring 2016. Looking ahead, we plan to develop the sheets for use in disposable diapers for institutional use as well. I expect that eventually CNF will be recognized and CNF products will appear in the home in a variety of situations.

# Business Section



The Nippon Paper Group at a Glance .....	26
New Developments – 1: Packaging .....	28
New Developments – 2: Paperboard .....	29
Paper Business .....	30
Paperboard Business.....	31
Household Paper Products.....	32
Energy Business .....	33
Paper-Pak Business.....	34
Chemical Business.....	35
Wood Products and Construction	
Related / Other.....	36
New Developments – 3: Energy .....	36

## The Nippon Paper Group at a Glance

### Pulp and Paper

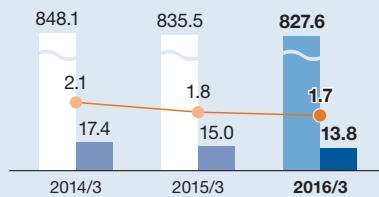
#### FY2016/3 Operating Results

Net sales share **82.2%**

Net sales	<b>¥827.6 billion</b> (down ¥8.0 billion year-on-year)
Operating income	<b>¥13.8 billion</b> (down ¥1.2 billion year-on-year)

#### Results

- Net sales (¥ billion)
- Operating income (¥ billion)
- Operating income margin (%)



#### Description of Business

Various paper, paperboard and household paper products in this segment lead the domestic industry in production, sales volume and quality. We are proactively developing overseas markets especially in Asia and the Pacific Rim.

#### Main Products and Services

##### Paper

- Newsprint
- Printing and publication paper
- Business communication paper
- Packaging paper

##### Paperboard

- Containerboard
- White paperboard
- Chipboard
- Base paper for building materials

##### Household paper products

- Facial tissue
- Bathroom tissue
- Adult diapers

##### Specialty and high-performance products

- Filter paper
- Thin paper
- Tobacco-related paper

### Paper-Related

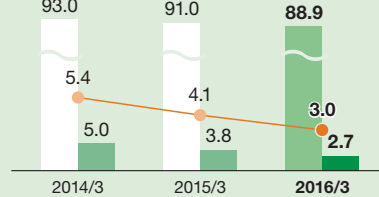
#### FY2016/3 Operating Results

Net sales share **8.8%**

Net sales	<b>¥88.9 billion</b> (down ¥2.1 billion year-on-year)
Operating income	<b>¥2.7 billion</b> (down ¥1.1 billion year-on-year)

#### Results

- Net sales (¥ billion)
- Operating income (¥ billion)
- Operating income margin (%)



#### Description of Business

In this segment, two business domains are promoted: the paper processing business delivers value-added products made of paper, and the chemical products and functional materials business utilizes various technologies and expertise entailing the advanced use of wood and papermaking by-products.

#### Main Products and Services

##### Processed paper products

- Liquid-packaging cartons
- Filling machines and maintenance services
- Paper bags

##### Chemical products and functional materials

- Dissolving pulp
- Chemical products
- Functional films
- Functional coating material

### Wood Products and Construction Related

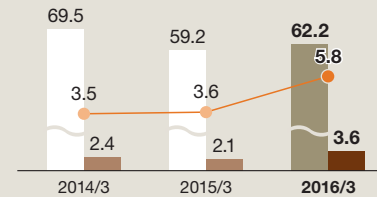
#### FY2016/3 Operating Results

Net sales share **6.2%**

Net sales	<b>¥62.2 billion</b> (up ¥2.9 billion year-on-year)
Operating income	<b>¥3.6 billion</b> (up ¥1.5 billion year-on-year)

#### Results

- Net sales (¥ billion)
- Operating income (¥ billion)
- Operating income margin (%)



#### Description of Business

This segment is engaged in three business domains: the lumber business that developed out of our efforts to procure wood for papermaking, the construction materials business that works lumber into value-added products, and the civil engineering and construction business that originated from the plant-maintenance units of our paper mills.

#### Main Products and Services

- Lumber
- Construction materials
- Civil engineering

### Other

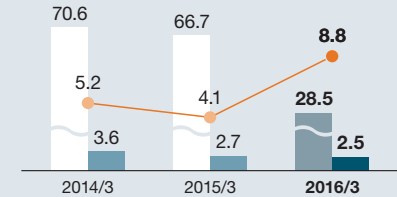
#### FY2016/3 Operating Results

Net sales share **2.8%**

Net sales	<b>¥28.5 billion</b> (down ¥38.2 billion year-on-year)
Operating income	<b>¥2.5 billion</b> (down ¥0.3 billion year-on-year)

#### Results

- Net sales (¥ billion)
- Operating income (¥ billion)
- Operating income margin (%)



#### Description of Business

This segment is engaged in a variety of businesses that generate synergies with the core businesses of the Group: the sports and leisure business, which draws on the Group's real estate assets; and the logistics business, which provides support to the pulp and paper business.

#### Main Products and Services

- Warehousing and transportation
- Sports and leisure

## New Developments – 1: Packaging

### Acquisition of the Liquid Packaging Board Business of Weyerhaeuser

In June 2016, Nippon Paper signed an agreement with Weyerhaeuser Company to acquire its liquid packaging board business in the state of Washington, U.S.A. This business has various operational advantages, including advanced technologies and equipment and a site suitable for exports, and has earned the trust of the market for its high quality. It has a major presence not only in North America, but also in Japan and elsewhere in Asia.

This business acquisition will strengthen and expand our packaging business, a growth field. It will also give us integrated capabilities from base paper to converting in our liquid packaging carton business, enabling us to provide customers with further added value as a “total system supplier.”

The strong partnership we have built with Weyerhaeuser through a joint venture in the printing paper business and transactions for liquid packaging board will support a smooth integration of the acquired business into our operations.



Production base in Longview

#### Business Acquired

Location	Longview, Washington, U.S.A.	
Product capacity	Liquid packaging board (unlaminated)	280,000 t
	Pulp	420,000 t
	Two laminators (base paper & resin)	240,000 t

#### Business Summary

(US\$ million)			
	Five-year average		CY2015
Net sales	401	362	
Operating income	21	9	

#### Anticipated Synergies

1. Improvement of customer satisfaction through integrated operations	<ul style="list-style-type: none"> <li>Seamless quality control from base paper to converting</li> <li>Incorporation of technology and knowledge from Weyerhaeuser's research and development</li> </ul>
2. Expansion of paper-cup sales in the U.S.	<ul style="list-style-type: none"> <li>Response to increasing preference for “paper” materials in U.S. market</li> </ul>
3. Business development in Asia	<ul style="list-style-type: none"> <li>Supply of base paper to Asia by taking advantage of Pacific Rim location</li> <li>Acceleration of new business development including processing</li> </ul>

## New Developments – 2: Paperboard

### Business Alliance with Tokushu Tokai Paper to Start in October 2016

In October 2016, Nippon Paper will start a business alliance with Tokushu Tokai Paper Co., Ltd.

Under the agreement, the two companies will integrate their sales functions in the containerboard and sack & general purpose kraft paper businesses and establishment a new sales company in which Nippon Paper will hold a 65% equity interest. This will enable reduction of distribution costs and other selling costs.

In addition, through a third-party allocation, Nippon Paper will acquire 35% of the shares in the Shimada Mill, which will be separated from Tokushu Tokai Paper. This will mobilize the know-how of both companies concerning quality, production efficiency and cost efficiency to further strengthen competitiveness.

The synergies from this alliance will play a major role in enhancing competitiveness in our existing businesses as we transform our business structure.

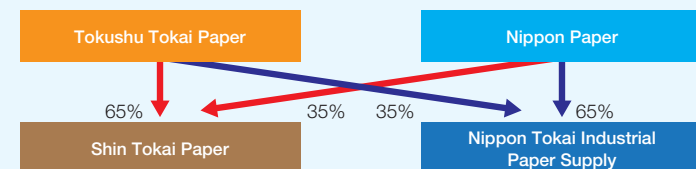
#### Business

	Joint sales company		Manufacturing company	
Start of business	October 1, 2016		October 1, 2016	
Name	Nippon Tokai Industrial Paper Supply Co., Ltd.		Shin Tokai Paper Co., Ltd.	
Shareholding ratios	Nippon Paper 65.0%, Tokushu Tokai 35.0%		Nippon Paper 35.0%, Tokushu Tokai 65.0%	
Investment	—		¥6,250 million	
Net sales <sup>1</sup>	Approx. ¥110.0 billion		—	
Domestic shipment volume <sup>2</sup>	—	Domestic shipment volume	Share	—
	Containerboard	1.7 million t	19%	
	Sack & general purpose kraft paper	100,000 t	25%	

<sup>1</sup> Combined sales in FY2016/3 for the businesses covered by the alliance

<sup>2</sup> Combined results in calendar 2015 for the businesses covered by the alliance

#### Structure of the Business Alliance (Shareholding ratios are after completion of the business alliance)





## Pulp and Paper

### Paper Business

We will enhance our competitiveness by fully pursuing the possibilities of paper.

**Atsushi Oharu**

Executive Officer  
General Manager of  
Printing Paper Sales Division



### Paperboard Business

With the synergy from the business alliance, we will steadily capitalize on growing demand for containerboard.

**Satoru Muto**

Executive Officer  
General Manager of Containerboard  
Sales Division



#### 》》 FY2016/3 Performance

In FY2016/3, we implemented price adjustments in spring 2015, and worked to stabilize the market amid declining demand for newsprint and printing paper in Japan. Our sales efforts produced some positive effects, such as winning large orders from the public sector, but the result was that domestic sales volume declined at essentially the same rate as domestic demand. We continued to hold the top share of sales of both newsprint and printing paper.

Exports, primarily to Asia and Oceania, expanded strongly, supported by the detailed on-site follow-up service we provide as the manufacturer.

#### 》》 Progress of the Fifth Medium-Term Business Plan

In October 2015, we launched U-LITE Dry, which features exceptional drying performance, in response to demand for higher printing efficiency. Used for applications such as calendars and pamphlets, this product was very well received, and we followed it with the launch of SILVER DIA Dry in June 2016.

In May 2016, we began rolling out a new product management system at all of our production facilities. This system will make it easy to see the progress of production and enable us to keep customers informed about the status of products, delivery and production. This will allow us to further narrow the distance between customers and Nippon Paper and respond to the trust customers place in us.

One of the great strengths of print media is its visual appeal, including its ability to convey information at a glance and its color reproducibility. We are committed to providing new value by fully pursuing the possibilities of paper.

#### 》》 FY2016/3 Performance

In FY2016/3, sales of containerboard, the core product of this business, decreased from the previous fiscal year. This was largely because a major integrated manufacturer that produces everything from base paper to boxes sharply increased use of its own containerboard. Exports to Southeast Asia also declined, partly due to the depreciation of local currencies. On the other hand, there are also end-users who value the quality of our base paper and have made us their designated supplier. Increasing such customers is another reason we are working to stabilize operations and reduce costs.

#### 》》 Progress of the Fifth Medium-Term Business Plan

October 2016 will be the start of our business alliance with Tokushu Tokai Paper Co., Ltd. With this company's Shimada Mill (Shizuoka Prefecture) included, we will have a more ideal nationwide network for the supply of containerboard. Like our Akita Mill, the Shimada Mill has kraft pulp manufacturing facilities, and possesses production technology for high-quality linerboard. At the same time, it is strong in terms of costs, but it will be able to lower its costs even more by applying the know-how we have cultivated.

Our new sales company will focus on capturing customer needs and technologies with commercial potential, and will aim to develop business that leads to new product development that can differentiate us. Another key theme will be rethinking the distribution and logistics structure.

Demand for containerboard is increasing, backed by flourishing e-commerce and other market trends. For that reason, the paperboard business will play a central role in enhancing the competitiveness of existing businesses.

## Pulp and Paper



### Household Paper Products

Our strong brands and focus on added value will support solid earnings.

#### Yasunori Nanri

President and Representative Director of Nippon Paper Crecia Co., Ltd.

### ▶▶ FY2016/3 Performance

In FY2016/3, we achieved year-on-year growth in profits with record sales after overcoming high raw material prices in the first half of the period. A major factor behind this success is that with low-priced imported paper appearing in the market, we defended our brand equity with a focus on added value. Sales of commercial-use products for hotels grew steadily, boosted by the increase in foreign tourists visiting Japan.

In new products, a new toilet paper that uses our unique compression technology to achieve three times the length in a compact roll became an instant hit after it went on the market. In October 2015, we also launched the Hada Care Acty series of adult diapers, which use functional cellulose nanofibers (CNF). This product received a positive response for its deodorizing properties. Sales of our healthcare products have been growing much faster than the market as a whole.

### ▶▶ Progress of the Fifth Medium-Term Business Plan

In April 2016, we introduced Poise® Hada Care Pad, a light incontinence pad made with a functional CNF compound. To achieve our medium-term sales target of ¥20 billion for healthcare products, we are concentrating investment to make the Kyoto Mill our main production facility and refining our efficient production technologies. We plan to use the Kyoto Mill as a base to offer a variety of new and high-value-added products to the market.

As for sales operations, we will put efforts into online sales as well as sales at stores. We are also focusing on our communication strategy, including TV advertisements, to further boost our competitiveness and brand value, which are backed by the superior quality of our products.

### Energy Business

By steadily expanding our businesses, we will generate stable earnings over the long term.

#### Yoichi Horikawa

General Manager of Energy Business Division

### ▶▶ FY2016/3 Performance

Nippon Paper has on-site power generation facilities at many of its production bases, and has acquired a high level of expertise in operating them. We are drawing on our extensive experience and track record, our fuel procurement capabilities and our power transmission equipment to commercialize power generated from solar, biomass and wind. The Komatsushima Solar Power Plant (generation capacity 21MW), which came on line in February 2015, achieved power output greater than planned. The biomass power generation facility at the Yatsushiro Mill (5.8MW), which runs entirely on domestic unused materials, has continued to operate steadily since June 2015.

### ▶▶ Progress of the Fifth Medium-Term Business Plan

An expansion of the Komatsushima Solar Power Plant (13MW) and a coal-fired power plant (112MW) in Fuji City, Shizuoka Prefecture, will begin operation in September 2016. Construction has begun on a mixed-fuel coal and biomass power generation project at the Ishinomaki Mill (149MW) and a wind power generation project at the Akita Mill (7.5MW), both of which are scheduled to go into operation in 2018. We are also conducting a feasibility study for a mixed-fuel coal and biomass power generation business at the Akita Mill, and we can see our way to quickly scaling up business to sales of ¥50 billion. By expanding these power generation projects, we want to produce stable earnings over the long term and contribute steadily to overall results.

The decision has also been made to do trial production in Thailand in spring 2017 for a new woody biomass fuel in pellet form that can be used in coal-fired power plants. Woody biomass fuel is creating high expectations globally as a renewable energy source that can help to reduce CO<sub>2</sub> emissions. We aim to commercialize this product by making full use of our expertise in wood resources.

## Paper-Related

### Paper-Pak Business

Our goal is to be a world-class business with “total system supplier” capabilities.

**Yasuhito Obayashi**

Executive Officer  
General Manager of Paper-Pak Division



#### 》》 FY2016/3 Performance

The beverage market in FY2016/3 was essentially unchanged from the previous fiscal year, as was the performance of this business. Challenging conditions, including declining demand in the domestic market due to the low birth rate and aging population, and the shift to PET bottles, are likely to continue.

In response, we will cut costs further, and will exit the business of Nakoso Film Co., Ltd., which is unprofitable (production will cease at the end of September 2016).

#### 》》 Progress of the Fifth Medium-Term Business Plan

We hold the largest share in the market for liquid packaging cartons for refrigerated beverages, but the form and function of these cartons has changed little in the last 50 years. During the Fifth Medium-Term Business Plan, we will launch new packaging products featuring attractive designs and excellent functionality.

In March 2016, we concluded a licensing agreement with Elopak AS of Norway. Elopak's innovative cartons are expected to appear in stores in Japan in FY2017/3.

We are also building relationships with strong partners in Japan and internationally. For example, we concluded a business alliance agreement with filling machine manufacturer Shikoku Kakoki Co., Ltd. We are planning to develop and launch our own new container in FY2018/3. Overseas, we will use the Bangkok Representative Office opened in 2015 as a base to expand sales of products that apply our technologies, primarily in the Pacific Rim market.

Our recent acquisition of the liquid packaging board business of Weyerhaeuser Company will allow us to conduct integrated operations from base paper to filling machines and packaging as a “total system supplier.” While carrying out these new initiatives, we will work to transform into a world-class business and further deepen the strong ties we have built with our customers.

### Chemical Business

We will accelerate growth by offering highly original products.

**Masahiko Ota**

Managing Executive Officer  
General Manager of Chemicals Division



#### 》》 FY2016/3 Performance

Sales of functional films for liquid crystal displays were weak in FY2016/3, reflecting a worldwide decline in demand for laptop computers and tablets. Sales of other products were generally strong, notably functional coating resins for automobiles, but the Chemicals business overall recorded year-on-year decreases in sales and income.

On the other hand, we launched a new cellulose powder that offers high added value with even higher purity than the cellulose powder we had sold previously. We anticipate sales expansion for applications such as nutritional supplement tablets.

#### 》》 Progress of the Fifth Medium-Term Business Plan

Global demand for dissolving pulp (DP) and lignin is strong. At the Gotsu Mill, we have begun work on a capacity expansion for DP (completion scheduled at the end of FY2017/3) and renovation of turbines for in-house power generation (completion scheduled at the end of FY2018/3), and are also considering ways to improve the chip yard. With these and other measures, we will solidify the foundation of the Gotsu Mill as our main domestic mill. In addition, we are expanding capacity for functional coating resins and conducting new product development at the Iwakuni Mill.

To achieve the objectives of the Fifth Medium-Term Business Plan, one of our strategies is to make up for the drop in sales of functional films with other products. While expanding sales of existing products, we will also work to find new needs for various products and aim to develop high-value-added products.

Our policy for mergers and acquisitions is to seek growth opportunities mainly for specialty chemical products.

To realize a business structure appropriate for a comprehensive biomass company, the Chemicals business will continue its efforts to develop further with highly original products.

## Wood Products and Construction Related/Other

### Wood Products and Construction Related

In FY2016/3, the number of new housing starts was up compared to the previous year, and sales of wood chips for fuel increased with growth in construction of biomass boilers. As a result, sales and profits in this business both increased. In FY2017/3, we will further promote measures already in progress to expand our handling of domestic lumber and wood chips for fuel.

### Other

Sales in the distribution business and leisure business were solid. However, Shikoku Coca-Cola Bottling Co., Ltd. in the beverages business was excluded from consolidation after we sold its shares to Coca-Cola West Co., Ltd. As a result, overall sales and profits from Other businesses declined.

### New Developments – 3: Energy

#### Installation of Demonstration Production Facilities for Woody Biomass Fuel in Thailand

Nippon Paper is studying the feasibility of a business to produce and supply fuel that can co-fire in existing coal boilers using technology for carbonizing woody biomass at relatively low temperatures, a process called torrefaction. In April 2016, Nippon Paper signed an agreement with PPPC, a core company in the fibrous business chain of SCG Packaging in Thailand, to install demonstration facilities with annual production on the scale of 8,000 tonnes in PPPC’s mill in northeastern Thailand.

Production is due to begin in spring 2017. The plan is to assess the potential for commercialization (with annual production capacity on the scale of 80,000 tonnes) around the end of December the same year after a mixed combustion experiment with a pulverized coal boiler at the Kushiro Mill.

With demand increasing worldwide for woody biomass as a form of renewable energy, Nippon Paper will quickly establish operational technology and expand the scope of its energy business.



Torrefied pellets

# Management Section



Directors and Statutory Auditors .....	38
Corporate Governance .....	40
Comments from Outside Officers.....	45

## Directors and Statutory Auditors (As of June 29, 2016)

	Chairman and Representative Director <b>Yoshio Haga</b>  Number of the Company's shares held: 29,515 shares	<b>Brief History</b> 1949 Born 1974 Joined Jujo Paper Co., Ltd. 2008 Appointed President and Representative Director of Nippon Paper Group, Inc. (NPG) President and Representative Director of Nippon Paper Industries Co., Ltd. (NPI) 2014 Appointed Chairman and Representative Director of NPI (current position)	
	President and Representative Director <b>Fumio Manoshiro</b>  Number of the Company's shares held: 16,854 shares	<b>Brief History</b> 1953 Born 1975 Joined Jujo Paper Co., Ltd. 2009 Appointed Director of NPG 2013 Appointed Director of NPI 2014 Appointed President and Representative Director of NPI (current position)	<b>Responsibility and important positions:</b> • Chief Executive Officer
	Vice President and Representative Director <b>Shuhei Marukawa</b>  Number of the Company's shares held: 13,315 shares	<b>Brief History</b> 1951 Born 1975 Joined Jujo Paper Co., Ltd. 2008 Appointed Director of NPG 2013 Appointed Director of NPI 2015 Appointed Vice President and Representative Director (current position)	<b>Responsibility and important positions:</b> • Executive Vice President and Executive Officer • General Manager of CSR Division • In charge of Personnel & General Affairs Division
	Director <b>Kazufumi Yamasaki</b>  Number of the Company's shares held: 11,505 shares	<b>Brief History</b> 1955 Born 1980 Joined Sanyo-Kokusaku Pulp Co., Ltd. 2012 Appointed Director of NPG 2013 Appointed Director of NPI (current position)	<b>Responsibility and important positions:</b> • Managing Executive Officer • General Manager of Research & Development Division • In charge of Technical & Engineering Division and Energy Business Division • Director of Nippon Paper Papyrus Co., Ltd.
	Director <b>Akihiro Utsumi</b>  Number of the Company's shares held: 5,348 shares	<b>Brief History</b> 1956 Born 1979 Joined Jujo Paper Co., Ltd. 2015 Appointed Director of NPI (current position)	<b>Responsibility and important positions:</b> • Executive Officer • General Manager of Personnel & General Affairs Division
	Director <b>Toru Nozawa</b>  Number of the Company's shares held: 5,722 shares	<b>Brief History</b> 1959 Born 1981 Joined Jujo Paper Co., Ltd. 2014 Appointed Director of NPI (current position)	<b>Responsibility and important positions:</b> • Executive Officer • General Manager of Corporate Planning Division and in charge of Subsidiaries and Affiliated Companies • Director of Nippon Paper Crecia Co., Ltd. • Director of Paper Australia Pty Ltd • Outside Director of Lintec Corporation

	Director <b>Hirofumi Fujimori</b>  Number of the Company's shares held: 3,088 shares	<b>Brief History</b> 1955 Born 1987 Joined Sanyo-Kokusaku Pulp Co., Ltd. 2015 Appointed Director of NPI (current position)	<b>Responsibility and important positions:</b> • Executive Officer • General Manager of Financial Division
	Outside Director <b>Yoshimitsu Aoyama</b>  Number of the Company's shares held: 0 shares	<b>Brief History</b> 1939 Born 1977 Professor, Faculty of Law, The University of Tokyo 1999 Vice President, The University of Tokyo 2001 Professor Emeritus, The University of Tokyo 2007 Chairman, Legislative Council of the Ministry of Justice	2013 Appointed Director of NPI (current position) <b>Responsibility and important positions:</b> • Chairman, Automotive Dispute Resolution Center • Head Director of Shinano Tsuzoku Daigaku-Kai
	Outside Director <b>Makoto Fujioka</b>  Number of the Company's shares held: 0 shares	<b>Brief History</b> 1950 Born 1996 Deputy Director-General for Trade and Economy, Ministry of Economy, Trade and Industry (then the Ministry of International Trade and Industry) 2001 Ambassador extraordinary and plenipotentiary to the United Arab Emirates	2004 Director, Senior Executive Officer of Nippon Light Metal Co., Ltd. 2013 Director, Executive Vice President, Senior Executive Officer of Nippon Light Metal Co., Ltd. 2016 Appointed Director of NPI (current position) <b>Responsibility and important positions:</b> • Senior Director of Japan Association for Chemical Innovation
	Senior Statutory Auditor <b>Hiroshi Matsuo</b>  Number of the Company's shares held: 2,427 shares	<b>Brief History</b> 1952 Born 1970 Joined Kokusaku Pulp Co., Ltd. 2014 Appointed Statutory Auditor of NPI (current position)	
	Standing Statutory Auditor <b>Mitsuo Nagoshi</b>  Number of the Company's shares held: 4,232 shares	<b>Brief History</b> 1954 Born 1978 Joined Sanyo-Kokusaku Pulp Co., Ltd. 2014 Appointed Statutory Auditor of NPI (current position)	
	Outside Statutory Auditor <b>Seiichi Fusamura</b>  Number of the Company's shares held: 0 shares	<b>Brief History</b> 1947 Born 1971 Assistant Judge, Kyoto District Court 2006 President, Saitama District Court 2009 Chief Justice, Sendai High Court 2011 Chief Justice, Nagoya High Court 2012 Appointed Statutory Auditor of NPI (current position)	<b>Responsibility and important positions:</b> • Lawyer • Chairman, Public Security Examination Commission of the Ministry of Justice • Chairman of the Labor Relations Commission, Tokyo Metropolitan Government
	Outside Statutory Auditor <b>Yoko Hatta</b>  Number of the Company's shares held: 0 shares	<b>Brief History</b> 1952 Born 1988 Joined Peat Marwick Main & Co. (currently KPMG LLP New York Office) 2002 Partner of KPMG Peat Marwick Tax Corporation (Currently KPMG Tax Corporation) 2016 Appointed Statutory Auditor of NPI (current position)	<b>Responsibility and important positions:</b> • Auditor, International Christian University • Outside Statutory Auditor, Kobayashi Pharmaceutical Co., Ltd.

Note: The above "Number of the Company's shares held" is the number as of March 31, 2016.

# Corporate Governance

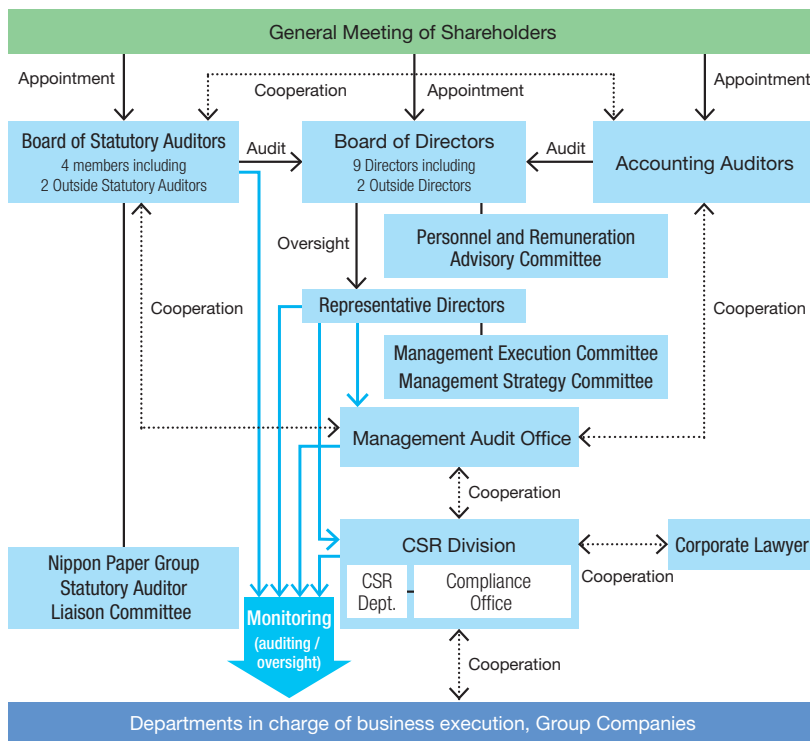
## Basic Structure for Corporate Governance

The Company instituted its Corporate Governance Policy in November 2015 to support the sustainable growth of the Group and realize medium-to-long-term improvement in corporate value.

The Company prioritizes fair management with enhanced transparency toward shareholders and other stakeholders. To separate business execution and management oversight functions, the Company has adopted the executive officer system. The Company promotes growth strategies and conducts monitoring (auditing and oversight) and compliance as the controller of the Group's management. In June 2016, the Company increased the number of outside directors to two in order to further enhance the management oversight function.

Through these measures, the Company will work to further strengthen corporate governance.

**Corporate Governance Structure** (As of July 1, 2016)



## Board of Directors

The Board of Directors determines basic policies for the management of the Company and the Nippon Paper Group, matters related to stipulations in laws, regulations and the Articles of Incorporation of the Company and other important managerial matters. The board also supervises the business execution of the Group.

## Management Execution Committee and Management Strategy Committee

The Management Execution Committee meets once a week to assist the business execution of the President and deliberate on important business execution matters. The Management Strategy Committee meets as necessary to deliberate on management strategies by business segment and other important matters related to the Group.

## Board of Statutory Auditors

Statutory auditors attend important meetings such as meetings of the Board of Directors, the Management Execution Committee and the Management Strategy Committee, strictly supervise directors' business execution and strictly audit the Company's overall business activities to ensure their legality and fairness.

The Board of Statutory Auditors presides over the Nippon Paper Group Statutory Auditor Liaison Committee and holds meetings regularly to discuss audit policies and methods and exchange information with corporate auditors at each Group company to reinforce the alliance and audit functions of the Group.

## Management Audit Office

The Management Audit Office, which is directly under the President's control and consists of 13 members, conducts an internal audit of the Company and each company of the Group and a comprehensive evaluation of the internal control reporting system regarding financial reporting. The internal audits are conducted in terms of legality and appropriateness from fair and independent perspectives.

## Personnel and Remuneration Advisory Committee

The Personnel and Remuneration Advisory Committee receives inquiries from the Board of Directors on matters such as the selection process, qualifications and reasons for nomination of director and statutory auditor candidates, the criteria for determining the independence of independent outside officers, and the remuneration system for directors and statutory auditors. It replies to those inquiries after considering their appropriateness and also taking into account its assessment of the Company's business performance and other factors.

## Corporate Governance Summary

Type of Organization	Company with a Board of Statutory Auditors
Chairman of Board of Directors	Yoshio Haga
Number of Directors*	9 (including 2 outside directors)
Number of Statutory Auditors*	4 (including 2 outside statutory auditors)
Appointment of Independent Officers*	4 (2 outside directors and 2 outside statutory auditors)
Board of Directors Meetings in FY2016/3	Number of meetings: 16 Attendance rate of outside directors: 100% Attendance rate of outside statutory auditors: 97%
Board of Statutory Auditors Meetings in FY2016/3	Number of meetings: 13 Attendance rate of outside statutory auditors: 100%
Remuneration, etc. of Directors	Base remuneration is set according to responsibilities, with 70% paid in a fixed amount and 30% increasing or decreasing according to the previous year's results. Total amount of remuneration paid in FY2016/3: ¥401 million
Remuneration, etc. of Statutory Auditors	Total amount of remuneration paid in FY2016/3: ¥61 million
Independent Accounting Auditor	Ernst & Young ShinNihon LLC

\*Information is as of July 1, 2016

## Basic Policy Concerning the Control of a Company

Although the Company believes that the persons who control the decisions on the financial and business policies of the Company should be the ones who contribute to ensuring and improving the Company's corporate value and the common interests of shareholders, the final decision on the ideal persons to control a company should be left to the shareholders.

However, among large-scale purchases and offers to purchase the stock of the Company, there are cases that could harm the common interests of shareholders. Some are clearly harmful to our corporate value and the common interests of shareholders in light of their purposes and post-acquisition management policies.

Some entail the risk of shareholders actually being forced to sell their stock. Some do not provide enough time and/or information for shareholders to check and assess the purchase conditions and/or the Board of Directors of Company to present an alternative proposal to shareholders. Some require negotiation with the purchaser to make the proposed purchase conditions more favorable.

The Company judges such persons who try to conduct a harmful acquisition to be inappropriate to control the decisions on the financial and business policies of the Company.

As a measure to prevent control of decisions on the financial and business policies of the Company by persons judged to be inappropriate in light of the

policies described above, the Company introduced a countermeasure policy (anti-takeover measures) for large-scale purchases of the Company's stock to secure the time and information necessary for shareholders to properly judge whether to accept a large-scale acquisition by a purchaser or for the Board of Directors of the Company to present an alternative proposal to shareholders.

## IR Activities

The Company promotes IR activities, aiming for fair and timely information disclosure to shareholders and other investors. Through such opportunities as shareholders' meetings, briefings and one-on-one meetings, we explain the current status of management and operations directly to shareholders and investors, listen to their opinions and requests and reflect them in our management in line with the Nippon Paper Group Action Charter.

With the exception of quiet periods, the Company responds positively to requests for individual meetings with institutional investors and analysts throughout the year, being cognizant of maintaining fairness in the provision of information.

### Activities during FY2016/3

Operating results presentation	1
Operating results conference calls	3
One-on-one meetings	219

## Socially Responsible Investment (SRI)

Based on evaluation of the Group's social contribution by external entities, the Company has been selected for inclusion in SRI by investment trusts.

Since July 2013, the Company has been selected as a member of the Ethibel EXCELLENCE Investment Register, which is the investment universe of Forum ETHIBEL. Since December 2014, the Company has also been selected as a part of Euronext Vigeo World 120 index by Euronext and Vigeo Eiris. The Company was evaluated and recognized as performing above average in the global pulp and paper industry.

The Nippon Paper Group makes efforts to hire and develop diverse human resources to approach various fields with a global perspective and to develop its business sustainably. Based on the recognition of the increasing importance of promoting an active role for women, the Company is aiming to double the number of women in management-track positions by FY2021/3.

## General Meeting of Shareholders

The Company holds its annual general meeting of shareholders at Keidanren Kaikan in the Otemachi district of Tokyo. We facilitate the execution of voting rights for shareholders by sending a convocation notice in English and establishing a service that allows shareholders to exercise their rights online. We also hold regular briefings for institutional investors and analysts to explain the outline of operating results and medium- to long-term management strategies.

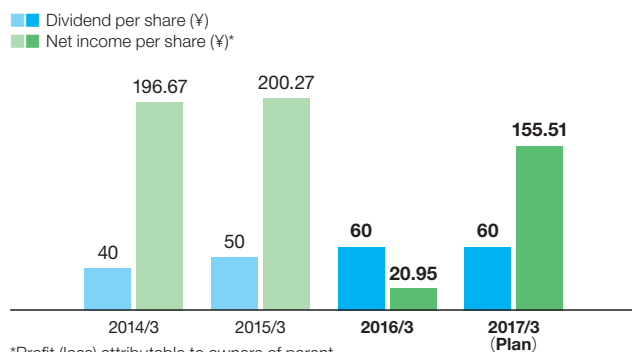
### 92nd Ordinary General Meeting of Shareholders (Held on June 29, 2016)

Number of shareholders who exercised voting rights		26,895	
Percentage of voting rights exercised		82.0%	
Proposals	Proposal 1	Appropriation of surplus	Approved
	Proposal 2	Election of nine directors	Approved
	Proposal 3	Election of two statutory auditors	Approved
	Proposal 4	Election of one substitute statutory auditor	Approved

## Basic Policy for Profit Distribution to Shareholders

The Company strives to reinforce its management base, improve profitability and secure the sustainable growth of its corporate value to fulfill the expectations of shareholders.

Our basic dividend distribution policy is to provide steady cash dividend payments when possible based on a comprehensive assessment of the Group's performance while ensuring retained earnings and pay interim and year-end dividends, in principle. Interim dividends are determined by resolution of the Board of Directors and yearend dividends are determined at the general meeting of shareholders.



## Comments from Outside Officers

### Drawing on diverse experience to provide objective advice



Makoto Fujioka  
Outside Director

When I was a government administrator, I worked on various issues related to Japan's economy and industry, including industrial policy and energy policy. After that, I was involved in corporate management as an executive at a private-sector company for more than ten years. During this time, I was assigned overseas for nearly ten years in total, which gave me the opportunity to work in diverse cultures and societies.

With the introduction of the Corporate Governance Code in Japan, the board of directors shoulders a more important role and more responsibility than ever in conducting effective oversight while setting the strategic direction for management.

My role is to provide candid opinions and advice from an objective standpoint, drawing on my diverse experience in the public and private sectors. In this way, I will help to ensure that Nippon Paper is managed with fairness and a high degree of transparency for the benefit of shareholders and all other stakeholders.

I am committed to making a solid contribution as an outside director to enable Nippon Paper to achieve sustained development and increase its corporate value by making the most of its potential as a comprehensive biomass company.

### Ensuring sound management with a global perspective

As a member of the tax unit of an accounting firm that has a global network, I was engaged in tax advisory services, primarily for Japanese companies. I started off in the United States, where I specialized in U.S. tax issues. After returning to Japan, I provided tax-related support with a focus on transfer pricing for Japanese companies developing business overseas. Because of that, I spent a lot of time outside Japan on business trips – nearly a third of the year in some years – so I have been exposed to the cultures and corporate management realities of various countries. I have seen cases in which Japanese companies that tried to do business overseas failed because they brought Japanese business practices with them instead of adopting local business customs and approaches. I want to use that experience to convey the objective awareness of an outsider with a global perspective. As an outside statutory auditor, my job is to conduct audits that ensure sound management and corporate governance based on common sense in addition to laws and the Company's articles of incorporation.



Yoko Hatta  
Outside Statutory Auditor



# Sustainability Section



Promotion of CSR Activities.....	47
Environmental Initiatives .....	48
Initiatives for Communities and Society....	49
Human Rights, Employment and Labor Initiatives .....	50

For further details, see Sustainability Report 2015.  
<http://www.nipponpapergroup.com/english/csr/download/>

## Promotion of Corporate Social Responsibility (CSR) Activities

### Basic Stance

By aiming for sustainable growth as a comprehensive biomass company, the Nippon Paper Group works to meet the expectations and requirements of stakeholders and fulfill CSR from a variety of perspectives.

### Management Framework for Promotion of CSR Activities

Nippon Paper established the CSR Department to oversee the CSR activities of the Group as a whole. The CSR Department works closely with the various divisions and departments in promoting CSR activities based on the shared values embodied in the Action Charter.

### Meeting Social Responsibilities through Business Activities



### Participation in the United Nations Global Compact

Taking a broad view of the various issues posing increasingly serious challenges at the global level, detecting changes in those issues, and working with other companies, international organizations, governmental institutions, labor organizations, and NGOs in countries around the world to find solutions are critical. That is why in November 2004 Nippon Paper announced its support for the United Nations Global Compact, which sets out 10 Principles with respect to human rights, labor, the environment, and anti-corruption.



## Environmental Initiatives

### Basic Stance

The Nippon Paper Group makes effective use of wood as a renewable resource to supply a range of products to the world. Large amounts of energy and water are used in the manufacturing process for these products, so one of our important social responsibilities is to reduce the environmental impact of our business activities.

We conduct our business activities based on our Environmental Charter and are committed to increasing the efficiency of equipment and operations at every stage of the value chain. To achieve the targets set in our Environmental Action Plan, we are addressing wider environmental issues including global warming, resource depletion, and air and water pollution.



Suganuma, a Nippon Paper-owned forest (Mount Nikko Shirane)

### The Nippon Paper Group's Initiatives

#### Procurement of Sustainable Wood Resources

Woodchips and wastepaper, as recycled material, are the main raw materials for pulp and paper. Procurement of these materials entails the support not only of suppliers in and outside of Japan, but also the communities and government authorities of local production areas. Taking into consideration relationships with the environment and society, the Nippon Paper Group recognizes the importance of working closely with suppliers to establish a sustainable supply chain that incorporates the production area forest ecosystem, local communities, occupational safety and health as well as other concerns.

Accordingly, we are endeavoring to build a structure and framework that will allow us to sustainably procure renewable wood resources.

#### Climate Change Initiatives

As a part of our efforts to prevent global warming across every stage of our business activities, we are (1) converting to non-fossil energy by employing boilers that use biomass and waste fuels, (2) conserving energy in each of our production and transportation processes, and (3) managing proprietary forests properly to ensure CO<sub>2</sub> absorption/sequestration.

Furthermore, in accordance with the first item in our Environmental Charter, which calls for the advancement of measures to fight global warming, we have established targets for fighting global warming in the Nippon Paper Group's Green Action Plan 2020.

In Green Action Plan 2015, our previous environmental action plan, we reduced CO<sub>2</sub> emissions from fossil energy by 29% and reduced the use of fossil energy by 38% in fiscal 2014 versus fiscal 1990 levels, exceeding our targets.

## Initiatives for Communities and Society

### Basic Stance

As one of its members, the Nippon Paper Group aims to contribute to society as a whole. While continuing to provide needed products, we would like to play a useful role in protection of the global environment and in the advancement of culture and local communities. We are confident that building a consistent track record along those lines will earn the trust of society and allow us to continue our business activities in coexistence with local communities.

The initiatives we engage in, both inside and outside Japan, include cleanups of the areas around our mills and plants, support for vocational training in plantation areas, and other locally focused activities; and operation of the School of Friendship for Forests and Paper, mill tours, and other activities making use of forests and other Group resources.

### The Nippon Paper Group's Initiatives

#### Protection of the Japanese Crane

The Nippon Paper Cranes ice hockey team helps to protect the environment of the Kushiro-shitsugen (Kushiro marsh) and contribute to the local community by participating in an annual event the Wild Bird Society of Japan holds to create a feeding ground for Japanese cranes. Once threatened with extinction, Japanese cranes are now increasing in number year by year with the help of protection efforts. The Nippon Paper Cranes intend to continue helping to protect the birds for which the team is named.



Clearing underbrush

#### School of Friendship for Forests and Paper

The School of Friendship for Forests and Paper is a hands-on course on the natural environment utilizing forests owned by Nippon Paper in Japan. It is planned and operated by making use of the knowledge and experience of the company's employees. The initiative was first launched in the Suganuma forest of Gunma Prefecture in 2006 with the aim of introducing participants to the beauty and abundance of forests owned by the company and providing an opportunity to experience the connection between forests and paper. The course has been held a total of 20 times to date.



Walk in a Nippon Paper-owned forest

## Human Rights, Employment and Labor Initiatives

### Basic Stance

The Nippon Paper Group respects human rights in every aspect of its business activities and aims to develop a working environment that makes the most of a diverse range of human resources. In utilizing a diverse workforce, a partner in securing mutual growth, the Group places considerable weight on building a fair evaluation and compensation system as well as education and training programs that help employees reach their full potential.

While the Group's production sites use heavy machinery and engage in inherently dangerous operations, every effort is made to maintain and enhance safe working environments and to take all appropriate safety and anti-disaster measures.

### The Nippon Paper Group's Initiatives

#### Safety Initiatives

We have always endeavored to ensure workplace safety with the intention of eliminating personal injury to any and all people working within our mill premises.

We have accordingly implemented safety patrols and education in collaboration with subcontractors. Safety patrols involve designated personnel patrolling work premises to identify areas of potential safety concern as well as risky employee behavior.

#### Promoting Work-Life Balance

The Nippon Paper Group has put in place an action plan and strives to support its employees in maintaining work and child-care balance in accordance with Japan's Act on Advancement of Measures to Support Raising Next Generation Children.

In June 2016, Nippon Paper was recognized as a company that supports child care based on the aforementioned law, and received the "Kurumin" mark certification from the Tokyo Labor Bureau of the Ministry of Health, Labour and Welfare.



Kurumin mark

#### Initiatives for Development of Human Resources

In reinforcing its mechanism for human resource development, the Nippon Paper Group focuses its attention on the following five areas: (1) support for self-development and voluntary career planning; (2) assignment of the right people to the right positions; (3) development of human resources capable of acting on a global stage; (4) reinforcement of production frontline capabilities; and (5) support for the development of lifelong as well as career plans.

# Financial Section



Consolidated Six-Year Summary .....	52
Financial Overview .....	54
Business and Other Risk Factors .....	56
Consolidated Financial Statements .....	58

## Consolidated Six-Year Summary

Nippon Paper Industries Co., Ltd., and Consolidated Subsidiaries (Note 1)  
(Fiscal Year Ended March 31, 2011 to Fiscal Year Ended March 31, 2016)

	Millions of yen						Thousands of U.S. dollars (Note 2)	
	2011/3	2012/3	2013/3	2014/3	2015/3	2016/3	2016/3	
<b>Fiscal year</b>								
Net sales .....	¥1,099,817	¥1,042,436	¥1,025,078	¥1,081,277	¥1,052,491	<b>¥1,007,097</b>	<b>\$ 8,912,363</b>	
Cost of sales .....	854,238	803,653	796,411	844,603	825,576	<b>800,185</b>	<b>7,081,283</b>	
Operating income .....	35,608	36,524	25,145	28,536	23,656	<b>22,623</b>	<b>200,204</b>	
Ordinary income .....	31,599	6,057	23,081	28,188	23,204	<b>17,123</b>	<b>151,531</b>	
Profit (loss) attributable to owners of parent .....	(24,172)	(41,675)	10,652	22,770	23,183	<b>2,424</b>	<b>21,451</b>	
Capital investment .....	46,591	57,172	53,323	47,162	48,518	<b>46,899</b>	<b>415,035</b>	
Depreciation .....	78,639	74,352	64,903	63,181	61,374	<b>57,672</b>	<b>510,372</b>	
Free cash flow .....	21,987	13,488	4,212	50,902	39,363	<b>68,689</b>	<b>607,867</b>	
<b>End of fiscal year</b>								
Total assets .....	¥1,560,592	¥1,527,635	¥1,497,729	¥1,480,894	¥1,495,622	<b>¥1,390,918</b>	<b>\$12,309,009</b>	
Total current assets .....	515,392	546,344	507,335	505,417	484,498	<b>502,912</b>	<b>4,450,549</b>	
Total property, plant and equipment .....	798,482	752,501	747,423	729,179	715,406	<b>669,298</b>	<b>5,922,991</b>	
Other noncurrent assets .....	246,718	228,789	242,970	246,297	295,716	<b>218,707</b>	<b>1,935,460</b>	
Total liabilities .....	1,151,829	1,160,983	1,101,269	1,054,309	1,005,881	<b>966,233</b>	<b>8,550,735</b>	
Total net assets .....	408,762	366,652	396,460	426,584	489,740	<b>424,685</b>	<b>3,758,274</b>	
Interest-bearing debt .....	832,347	838,285	830,220	775,597	731,834	<b>703,831</b>	<b>6,228,593</b>	
<b>Per share data</b>								
	Yen						U.S. dollars	
Profit (loss) attributable to owners of parent .....	¥ (208.73)	¥ (359.90)	¥ 92.00	¥ 196.67	¥ 200.27	<b>¥ 20.95</b>	<b>\$ 0.19</b>	
Net assets .....	3,496.49	3,135.48	3,391.59	3,652.76	4,198.10	<b>3,645.87</b>	<b>32.26</b>	
Cash dividends .....	60.00	30.00	40.00	40.00	50.00	<b>60.00</b>	<b>0.53</b>	
<b>Ratios</b>								
	%							
Operating income margin .....	3.2%	3.5%	2.5%	2.6%	2.2%	<b>2.2%</b>		
Net profit margin .....	(2.2)	(4.0)	1.0	2.1	2.2	<b>0.2</b>		
Equity ratio .....	25.9	23.8	26.2	28.6	32.5	<b>30.3</b>		
Return on equity (ROE) .....	(5.6)	(10.9)	2.8	5.6	5.1	<b>0.5</b>		
Return on invested capital (ROIC) .....	3.5	1.5	2.9	3.3	2.8	<b>2.4</b>		
Return on assets (ROA) .....	2.7	1.2	2.3	2.7	2.2	<b>2.0</b>		
Debt/equity ratio (times) .....	1.8	1.9	1.9	1.7	1.6	<b>1.5</b>		
Number of employees .....	13,834	13,407	13,052	13,107	12,771	<b>11,741</b>		

### Notes:

- Nippon Paper Group, Inc. and Nippon Paper Industries Co., Ltd. (hereinafter the "Company"), conducted an absorption-type merger and the Company was listed on the Tokyo Stock Exchange on April 1, 2013. Therefore, the business results of the Nippon Paper Group up to the fiscal year ended March 31, 2013 appearing in this report represent those of Nippon Paper Group, Inc.
- Amounts in US dollars are included solely for convenience and are translated at a rate of ¥113 = US\$1.00, the approximate rate of exchange on March 31, 2016.

- Interest-bearing debt = Short-term borrowings + Long-term debt
- Free cash flow = Cash flows from operating activities + Cash flows from investing activities
- Return on equity (ROE) = Profit (loss) attributable to owners of parent / [Average of beginning and end of year (Shareholders' equity + Accumulated other comprehensive income)] × 100
- Return on invested capital (ROIC) = (Ordinary income + Interest expense) / (Year-end shareholders' equity + Year-end accumulated other comprehensive income + Year-end balance of interest-bearing debt) × 100
- Return on assets (ROA) = (Ordinary income + Interest expense) / Total assets × 100
- Debt/equity ratio = (Interest-bearing debt - Cash and deposits) / Shareholders' equity

## Financial Overview

### Financial Position

Consolidated total assets at March 31, 2016 were ¥1,390,918 million, a decrease of ¥104,704 million from ¥1,495,622 million at March 31, 2015. The decrease was mainly due to decreases of ¥71,297 million in investments in securities and ¥46,108 million in property, plant and equipment, partially offset by an increase of ¥28,410 million in cash and deposits.

Total liabilities decreased ¥39,648 million from ¥1,005,881 million a year earlier to ¥966,233 million, largely due to the repayment of interest-bearing debt.

Net assets decreased ¥65,055 million from ¥489,740 million a year earlier to ¥424,685 million. This was mainly due to decreases of ¥14,957 million in retained earnings, ¥22,020 million in translation adjustments and ¥18,088 million in remeasurements of defined benefit plans.

As a result, the equity ratio decreased to 30.3 percent from 32.5 percent at the end of the previous fiscal year.

### Cash Flows

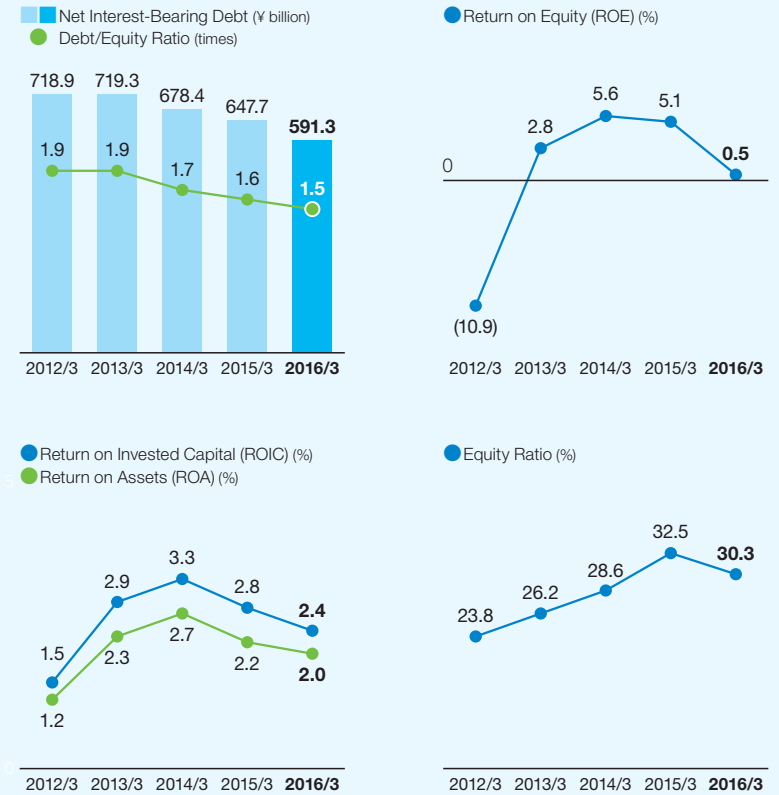
Consolidated cash and cash equivalents (“cash”) increased ¥28,508 million from March 31, 2015 to ¥112,510 million at March 31, 2016.

Net cash provided by operating activities decreased ¥29,427 million from the previous fiscal year to ¥52,419 million. The main factors were profit before income taxes of ¥4,662 million, depreciation of ¥57,672 million and net cash outflow of ¥15,228 million due to changes in working capital (total changes in receivables, inventories and payables).

Investing activities used cash of ¥42,483 million in FY2015/3, but provided cash of ¥16,270 million in FY2016/3. The main factors were ¥53,296 million in proceeds from sales of investments in other securities, ¥10,111 million in proceeds from sales of shares of subsidiaries, and ¥44,511 million in purchases of noncurrent assets.

Net cash used in financing activities decreased ¥13,575 million from the previous fiscal year to ¥39,168 million, mainly reflecting repayment of interest-bearing debt.

Trends in Nippon Paper Group’s cash flow indicators are presented at right.



	2012/3	2013/3	2014/3	2015/3	2016/3
Equity ratio (%)	23.8	26.2	28.6	32.5	<b>30.3</b>
Equity ratio based on market capitalization (%)	13.1	11.3	15.2	14.0	<b>16.7</b>
Interest-bearing debt/cash flow (times)	13.9	12.6	10.2	8.9	<b>13.4</b>
Interest coverage ratio (times)	5.1	5.4	6.4	7.7	<b>5.3</b>

#### Notes:

- All indicators are calculated based on consolidated financial figures.
- Market capitalization is calculated by multiplying the closing share price at year-end by the number of shares outstanding at year-end, not including treasury shares.
- Calculations that include operating cash flow use cash flow from operating activities as recorded in the consolidated statements of cash flows. Interest-bearing debt includes all liabilities recorded in the consolidated balance sheets on which the Company is paying interest. Calculations that include interest paid use interest expense as recorded in the consolidated statements of cash flows.

- Equity ratio = (Year-end shareholders' equity + Year-end accumulated other comprehensive income) / Year-end total assets × 100
- Equity ratio based on market capitalization = Market capitalization / Year-end total assets × 100
- Interest-bearing debt/Cash flow = Interest-bearing debt / Operating cash flow
- Interest coverage ratio = Operating cash flow / Interest paid

## Business and Other Risk Factors

The Group has identified the following factors as risks that could affect Nippon Paper Group's business performance and financial position:

### (1) Product demand and market conditions

Nippon Paper Group engages in the mainstay pulp and paper, paper-related, wood products and construction related, and other businesses. The Group is at risk of fluctuations in demand for its products and product prices in the context of economic conditions and other factors. Such fluctuations could affect the Group's business performance and financial position.

### (2) Manufacturing conditions

Nippon Paper Group's production activity is based on the estimated demand and production capacity of existing facilities. The Group carries out regular preventive inspections and other maintenance checks, but is at risk of a reduction in supply capability due to fires, accidents and other problems occurring at facilities, and interruptions in procurement, as well as the delivery of raw materials and fuel. Such fluctuations could affect the Group's business performance and financial position.

### (3) Foreign exchange

Nippon Paper Group is at risk of foreign exchange rate fluctuations associated with import and export transactions. Because the Group's imports of raw materials and fuel (wood chips, heavy oil, coal and chemicals) exceed its product exports, yen depreciation against the U.S. dollar has a negative impact on business performance. The Group hedges against this risk by means such as forward contracts.

### (4) Raw material and fuel prices

Nippon Paper Group purchases raw materials and fuels such as wood chips, waste paper, heavy oil, coal and chemicals to manufacture and sell products such as paper, pulp and others. The Group is thus at risk of input price fluctuations in domestic and international markets. Such fluctuations could affect the Group's business performance and financial position.

### (5) Stock prices

Nippon Paper Group holds marketable shares in partner and affiliated companies and is thus at risk of share price fluctuations that could affect the Group's business performance and financial position. Such fluctuations could also affect retirement benefit expenses because of their impact on pension assets.

### (6) Interest rates

Nippon Paper Group is at risk of interest rate fluctuations affecting its interest expense regarding interest-bearing debt, etc. Such fluctuations could affect the Group's business performance and financial position.

### (7) Overseas business

Nippon Paper Group manufactures pulp and paper and operates forestry plantations and other businesses overseas in North America, South America, Scandinavia, China, Southeast Asia and Australia, etc. Although the Group takes the utmost care to minimize overseas business risk, unforeseen circumstances in those locations could affect the Group's business performance and financial position.

### (8) Litigation

Nippon Paper Group takes the utmost care to comply with laws and regulations in the course of doing business, but is nonetheless at risk of litigation associated with criminal or civil affairs, taxation, antitrust law, product liability law, intellectual property rights and environmental and labor issues. As a result, such litigation could affect the Group's business performance and financial position.

### (9) Impairment of fixed assets

Nippon Paper Group owns fixed assets such as production facilities and land and is at risk of a fall in the value of these assets, which could affect the Group's business performance and financial position.

### (10) Natural disasters

In the wake of major natural disasters, including earthquakes, occurring near production and sales sites, Nippon Paper Group's performance and financial position could be negatively affected by unanticipated costs associated with repairing damage to production equipment or facilities and distribution infrastructure, as well as opportunity losses from production shutdowns and damage to products, merchandise and raw materials.

### (11) Credit risk

Nippon Paper Group takes care to limit its credit risk, but tardy or uncollectible receivables due to deterioration in the financial condition or bankruptcy of customers could affect the Group's business performance and financial position.

### (12) Other risks associated with changes in business conditions, etc.

Nippon Paper Group is subject to the risk of changes in business and economic conditions and other similar circumstances arising from contingencies, which could affect the Group's business performance and financial position.

# Consolidated Financial Statements

## Consolidated Balance Sheets

As of March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars
	2015/3	2016/3	2016/3
<b>Assets</b>			
<b>Current assets</b>			
Cash and deposits.....	¥ 84,100	¥ 112,510	\$ 995,664
Notes and accounts receivable–trade .....	193,481	192,941	1,707,442
Merchandise and finished goods .....	86,898	79,529	703,796
Work in process.....	18,204	18,299	161,938
Raw materials and supplies .....	57,952	60,244	533,133
Deferred tax assets.....	12,650	9,324	82,513
Other .....	31,626	30,609	270,876
Allowance for doubtful receivables .....	(416)	(547)	(4,841)
<b>Total current assets</b> .....	484,498	502,912	4,450,549
<b>Noncurrent assets</b>			
<b>Property, plant and equipment</b>			
Buildings and structures.....	492,409	485,784	4,298,973
Accumulated depreciation.....	(354,000)	(353,073)	(3,124,540)
Buildings and structures, net.....	138,409	132,711	1,174,434
Machinery, equipment and vehicles.....	2,176,031	2,161,323	19,126,752
Accumulated depreciation.....	(1,875,709)	(1,879,807)	(16,635,460)
Machinery, equipment and vehicles, net .....	300,322	281,515	2,491,283
Land .....	223,696	215,084	1,903,398
Mountain forests and plantations .....	20,951	20,046	177,398
Construction in progress .....	21,221	14,101	124,788
Other .....	69,309	45,051	398,681
Accumulated depreciation.....	(58,504)	(39,213)	(347,018)
Other, net.....	10,805	5,838	51,664
<b>Total property, plant and equipment</b> .....	715,406	669,298	5,922,991
<b>Intangible assets</b> .....	18,992	15,291	135,319
<b>Investments and other assets</b>			
Investments in securities .....	252,079	180,782	1,599,841
Net defined benefit asset .....	4,643	1,750	15,487
Deferred tax assets.....	8,928	10,730	94,956
Other .....	11,915	10,743	95,071
Allowance for doubtful receivables .....	(842)	(590)	(5,221)
<b>Total investments and other assets</b> .....	276,724	203,416	1,800,142
<b>Total noncurrent assets</b> .....	1,011,123	888,006	7,858,460
<b>Total assets</b> .....	¥ 1,495,622	¥ 1,390,918	\$ 12,309,009

	Millions of yen		Thousands of U.S. dollars
	2015/3	2016/3	2016/3
<b>Liabilities</b>			
<b>Liabilities</b>			
Notes and account payable–trade .....	¥ 127,856	¥ 113,354	\$ 1,003,133
Short-term loans payable.....	264,898	243,366	2,153,681
Current portion of bonds.....	—	13,000	115,044
Accrued income taxes .....	3,141	4,147	36,699
Other .....	79,936	76,043	672,947
<b>Total current liabilities</b> .....	475,832	449,912	3,981,522
<b>Long-term liabilities</b>			
Bonds payable.....	63,000	60,000	530,973
Long-term loans payable .....	401,799	385,725	3,413,496
Deferred tax liability.....	33,961	18,877	167,053
Accrued environmental costs.....	539	470	4,159
Net defined benefit liability.....	21,154	42,210	373,540
Other .....	9,594	9,036	79,965
<b>Total long-term liabilities</b> .....	530,049	516,320	4,569,204
<b>Total liabilities</b> .....	1,005,881	966,233	8,550,735
<b>Net assets</b>			
<b>Shareholders' equity</b>			
Common stock.....	104,873	104,873	928,080
Capital surplus.....	217,104	217,104	1,921,274
Retained earnings.....	97,172	82,215	727,566
Treasury stock, at cost.....	(1,356)	(1,378)	(12,195)
<b>Total shareholders' equity</b> .....	417,794	402,814	3,564,726
<b>Accumulated other comprehensive income</b>			
Net unrealized holding gain on other securities .....	24,345	18,974	167,912
Net deferred gain on hedges.....	2,314	(1,193)	(10,558)
Translation adjustments .....	37,108	15,088	133,522
Remeasurements of defined benefit plans .....	4,405	(13,683)	(121,088)
<b>Total accumulated other comprehensive income</b> .....	68,173	19,185	169,779
<b>Non-controlling interests</b> .....	3,771	2,685	23,761
<b>Total net assets</b> .....	489,740	424,685	3,758,274
<b>Total liabilities and net assets</b> .....	¥ 1,495,622	¥ 1,390,918	\$ 12,309,009

## Consolidated Financial Statements

## Consolidated Statements of Operations

Fiscal Years Ended March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars
	2015/3	2016/3	2016/3
Net sales .....	¥1,052,491	<b>¥1,007,097</b>	<b>\$8,912,363</b>
Cost of sales .....	825,576	<b>800,185</b>	<b>7,081,283</b>
Gross profit .....	226,915	<b>206,912</b>	<b>1,831,080</b>
<b>Selling, general and administrative expenses</b>			
Freightage related expenses .....	62,796	<b>60,913</b>	<b>539,053</b>
Sales related expenses .....	64,179	<b>58,605</b>	<b>518,628</b>
Salaries and allowances .....	43,174	<b>38,006</b>	<b>336,336</b>
Other .....	33,108	<b>26,763</b>	<b>236,841</b>
<b>Total selling, general and administrative expenses</b> .....	<b>203,259</b>	<b>184,289</b>	<b>1,630,876</b>
Operating income .....	23,656	<b>22,623</b>	<b>200,204</b>
<b>Other income</b>			
Interest income .....	324	<b>307</b>	<b>2,717</b>
Dividend income .....	1,761	<b>2,472</b>	<b>21,876</b>
Foreign exchange gains .....	1,873	<b>7,628</b>	<b>67,504</b>
Equity in earnings of affiliates .....	4,583	—	—
Other .....	4,176	<b>4,109</b>	<b>36,363</b>
<b>Total other income</b> .....	<b>12,719</b>	<b>14,518</b>	<b>128,478</b>
<b>Other expenses</b>			
Interest expense .....	10,292	<b>10,002</b>	<b>88,513</b>
Equity in losses of affiliates .....	—	<b>7,500</b>	<b>66,372</b>
Other .....	2,879	<b>2,514</b>	<b>22,248</b>
<b>Total other expenses</b> .....	<b>13,171</b>	<b>20,017</b>	<b>177,142</b>
Ordinary income .....	23,204	<b>17,123</b>	<b>151,531</b>
<b>Extraordinary income</b>			
Gain on sales of investment securities .....	151	<b>20,821</b>	<b>184,257</b>
Other .....	19,946	<b>803</b>	<b>7,106</b>
<b>Total extraordinary income</b> .....	<b>20,097</b>	<b>21,625</b>	<b>191,372</b>
<b>Extraordinary loss</b>			
Loss on sales of shares of subsidiaries .....	—	<b>16,510</b>	<b>146,106</b>
Impairment loss .....	1,096	<b>9,925</b>	<b>87,832</b>
Business restructuring expenses .....	1,438	<b>3,701</b>	<b>32,752</b>
Loss on retirement of noncurrent assets .....	2,166	<b>2,172</b>	<b>19,221</b>
Other .....	1,675	<b>1,776</b>	<b>15,717</b>
<b>Total extraordinary loss</b> .....	<b>6,375</b>	<b>34,086</b>	<b>301,646</b>
Profit before income taxes .....	36,925	<b>4,662</b>	<b>41,257</b>
Income taxes—current .....	4,207	<b>5,048</b>	<b>44,673</b>
Income taxes—deferred .....	9,465	<b>(2,486)</b>	<b>(22,000)</b>
<b>Total income taxes</b> .....	<b>13,673</b>	<b>2,562</b>	<b>22,673</b>
Profit .....	23,252	<b>2,100</b>	<b>18,584</b>
Profit (loss) attributable to non-controlling interests .....	68	<b>(324)</b>	<b>(2,867)</b>
Profit attributable to owners of parent .....	¥ 23,183	<b>¥ 2,424</b>	<b>\$ 21,451</b>

## Consolidated Statements of Comprehensive Income

Fiscal Years Ended March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars
	2015/3	2016/3	2016/3
Income before minority interests .....	¥23,252	<b>¥ 2,100</b>	<b>\$ 18,584</b>
<b>Other comprehensive income</b>			
Net unrealized holding gain (loss) on other securities .....	16,264	<b>(5,376)</b>	<b>(47,575)</b>
Net deferred gain (loss) on hedges .....	893	<b>(1,880)</b>	<b>(16,637)</b>
Translation adjustments .....	5,198	<b>(4,679)</b>	<b>(41,407)</b>
Remeasurements of defined benefit plans, net of tax .....	10,222	<b>(17,114)</b>	<b>(151,451)</b>
Share of other comprehensive income of affiliates accounted for using the equity method .....	11,464	<b>(4,871)</b>	<b>(43,106)</b>
<b>Total other comprehensive income</b> .....	<b>44,042</b>	<b>(33,922)</b>	<b>(300,195)</b>
Comprehensive income .....	¥67,295	<b>¥(31,821)</b>	<b>\$(281,602)</b>
(Details)			
Comprehensive income attributable to owners of parent .....	¥67,112	<b>¥(31,283)</b>	<b>\$(276,841)</b>
Comprehensive income attributable to non-controlling interests .....	182	<b>(538)</b>	<b>(4,761)</b>



## Consolidated Financial Statements

## Consolidated Statements of Changes in Net Assets

Fiscal Years Ended March 31, 2015 and 2016

Millions of yen													
	Number of shares of issued common stock (Shares)	Shareholders' equity					Accumulated other comprehensive income					Non-controlling interests	Total net assets
		Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain (loss) on other securities	Net deferred gain (loss) on hedges	Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
<b>Balance at April 1, 2014</b>	116,254,892	¥104,873	¥217,105	¥ 77,994	¥(1,336)	¥398,636	¥ 7,814	¥ 1,325	¥ 21,567	¥ (6,463)	¥ 24,244	¥ 3,703	¥426,584
Cumulative effects of changes in accounting policies		—	—	1,784	—	1,784	—	—	—	—	—	5	1,790
Restated balance		104,873	217,105	79,779	(1,336)	400,421	7,814	1,325	21,567	(6,463)	24,244	3,708	428,375
Changes of items during the period													
Cash dividends paid		—	—	(5,790)	—	(5,790)	—	—	—	—	—	—	(5,790)
Profit attributable to owners of parent		—	—	23,183	—	23,183	—	—	—	—	—	—	23,183
Purchase of treasury stock		—	—	—	(23)	(23)	—	—	—	—	—	—	(23)
Disposition of treasury stock		—	(0)	—	4	3	—	—	—	—	—	—	3
Change in treasury stock due to changes in equity in affiliates accounted for by equity method		—	—	—	(0)	(0)	—	—	—	—	—	—	(0)
Changes in items other than shareholders' equity, net		—	—	—	—	—	16,530	988	15,540	10,868	43,929	63	43,992
Total changes of items during the period		—	(0)	17,392	(19)	17,373	16,530	988	15,540	10,868	43,929	63	61,365
<b>Balance at March 31, 2015</b>	116,254,892	¥104,873	¥217,104	¥ 97,172	¥(1,356)	¥417,794	¥24,345	¥ 2,314	¥ 37,108	¥ 4,405	¥ 68,173	¥ 3,771	¥489,740
<b>Balance at April 1, 2015</b>	<b>116,254,892</b>	<b>¥104,873</b>	<b>¥217,104</b>	<b>¥ 97,172</b>	<b>¥(1,356)</b>	<b>¥417,794</b>	<b>¥24,345</b>	<b>¥ 2,314</b>	<b>¥ 37,108</b>	<b>¥ 4,405</b>	<b>¥ 68,173</b>	<b>¥ 3,771</b>	<b>¥489,740</b>
Changes of items during the period													
Cash dividends paid		—	—	(6,948)	—	(6,948)	—	—	—	—	—	—	(6,948)
Profit attributable to owners of parent		—	—	2,424	—	2,424	—	—	—	—	—	—	2,424
Purchase of treasury stock		—	—	—	(27)	(27)	—	—	—	—	—	—	(27)
Disposition of treasury stock		—	(0)	—	1	1	—	—	—	—	—	—	1
Changes in scope of consolidation		—	—	(313)	—	(313)	—	—	—	—	—	—	(313)
Change in scope of equity method		—	—	(10,120)	3	(10,116)	—	—	—	—	—	—	(10,116)
Change in treasury stock due to changes in equity in affiliates accounted for by equity method		—	—	—	(0)	(0)	—	—	—	—	—	—	(0)
Changes in items other than shareholders' equity, net		—	—	—	—	—	(5,371)	(3,508)	(22,019)	(18,088)	(48,988)	(1,086)	(50,074)
Total changes of items during the period		—	(0)	(14,957)	(22)	(14,979)	(5,371)	(3,508)	(22,019)	(18,088)	(48,988)	(1,086)	(65,054)
<b>Balance at March 31, 2016</b>	<b>116,254,892</b>	<b>¥104,873</b>	<b>¥217,104</b>	<b>¥ 82,215</b>	<b>¥(1,378)</b>	<b>¥402,814</b>	<b>¥18,974</b>	<b>¥(1,193)</b>	<b>¥ 15,088</b>	<b>¥(13,683)</b>	<b>¥ 19,185</b>	<b>¥ 2,685</b>	<b>¥424,685</b>

Thousands of U.S. dollars													
		Shareholders' equity					Accumulated other comprehensive income					Non-controlling interests	Total net assets
		Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain (loss) on other securities	Net deferred gain (loss) on hedges	Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
<b>Balance at April 1, 2015</b>		\$928,080	\$1,921,274	\$ 859,929	\$(12,000)	\$3,697,292	\$215,442	\$ 20,478	\$ 328,389	\$ 38,982	\$ 603,301	\$33,372	\$4,333,982
Changes of items during the period													
Cash dividends paid		—	—	(61,487)	—	(61,487)	—	—	—	—	—	—	(61,487)
Profit attributable to owners of parent		—	—	21,451	—	21,451	—	—	—	—	—	—	21,451
Purchase of treasury stock		—	—	—	(239)	(239)	—	—	—	—	—	—	(239)
Disposition of treasury stock		—	(0)	—	9	9	—	—	—	—	—	—	9
Changes in scope of consolidation		—	—	(2,770)	—	(2,770)	—	—	—	—	—	—	(2,770)
Change in scope of equity method		—	—	(89,558)	27	(89,522)	—	—	—	—	—	—	(89,522)
Change in treasury stock due to changes in equity in affiliates accounted for by equity method		—	—	—	(0)	(0)	—	—	—	—	—	—	(0)
Changes in items other than shareholders' equity, net		—	—	—	—	—	(47,531)	(31,044)	(194,858)	(160,071)	(433,522)	(9,611)	(443,133)
Total changes of items during the period		—	(0)	(132,363)	(195)	(132,558)	(47,531)	(31,044)	(194,858)	(160,071)	(433,522)	(9,611)	(575,699)
<b>Balance at March 31, 2016</b>		<b>\$928,080</b>	<b>\$1,921,274</b>	<b>\$ 727,566</b>	<b>\$(12,195)</b>	<b>\$3,564,726</b>	<b>\$167,912</b>	<b>\$(10,558)</b>	<b>\$ 133,522</b>	<b>\$(121,088)</b>	<b>\$ 169,779</b>	<b>\$23,761</b>	<b>\$3,758,274</b>

## Consolidated Financial Statements

## Consolidated Statements of Cash Flows

Fiscal Years Ended March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars
	2015/3	2016/3	2016/3
<b>Operating activities</b>			
Profit before income taxes .....	¥ 36,925	¥ 4,662	\$ 41,257
Depreciation .....	61,374	57,672	510,372
Amortization of goodwill .....	2,352	2,071	18,327
Profit before income taxes .....	136	(53)	(469)
Increase (decrease) in net defined benefit liability .....	(2,628)	(911)	(8,062)
Increase (decrease) in accrued environmental costs .....	(244)	(68)	(602)
Interest and dividend income .....	(2,086)	(2,780)	(24,602)
Interest expense .....	10,292	10,002	88,513
Equity in (earnings) losses of affiliates .....	(4,583)	7,500	66,372
Foreign exchange losses (gains) .....	282	(7,155)	(63,319)
Loss (gain) on sales of investment securities .....	(151)	(20,821)	(184,257)
Loss (gain) on sales of shares of subsidiaries .....	—	16,510	146,106
Impairment loss .....	1,096	9,925	87,832
Business restructuring expenses .....	1,438	3,701	32,752
Net loss on disposal of noncurrent assets .....	2,166	2,172	19,221
Decrease (increase) in receivables .....	8,853	(2,439)	(21,584)
Decrease (increase) in inventories .....	(10,443)	(1,188)	(10,513)
Increase (decrease) in payables .....	(3,911)	(11,600)	(102,655)
Other .....	(5,657)	(4,009)	(35,478)
<b>Subtotal .....</b>	<b>95,211</b>	<b>63,189</b>	<b>559,195</b>
Interest and dividends received .....	4,808	5,799	51,319
Interest paid .....	(10,624)	(9,981)	(88,327)
Payments for supplementary retirement benefits .....	(1,262)	(1,374)	(12,159)
Income taxes paid .....	(6,285)	(5,213)	(46,133)
<b>Net cash provided by (used in) operating activities .....</b>	<b>¥ 81,846</b>	<b>¥ 52,419</b>	<b>\$ 463,885</b>

	Millions of yen		Thousands of U.S. dollars
	2015/3	2016/3	2016/3
<b>Investing activities</b>			
Purchases of time deposits .....	¥ (100)	¥ (3)	\$ (27)
Withdrawals of time deposits .....	100	3	27
Purchases of noncurrent assets .....	(48,692)	(44,511)	(393,903)
Proceeds from sales of noncurrent assets .....	19,346	1,177	10,416
Purchases of investments in other securities .....	(12,972)	(6,933)	(61,354)
Proceeds from sales of investments in other securities .....	558	53,296	471,646
Proceeds from redemption of investments in securities .....	—	3,000	26,549
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation .....	—	10,111	89,478
Decrease (increase) in short-term loans receivable .....	(275)	(250)	(2,212)
Payments of long-term loans receivable .....	(187)	(58)	(513)
Collection of long-term loans receivable .....	337	309	2,735
Other .....	(598)	129	1,142
<b>Net cash provided by (used in) investing activities .....</b>	<b>(42,483)</b>	<b>16,270</b>	<b>143,982</b>
<b>Financing activities</b>			
Increase (decrease) in short-term loans payable .....	9,714	(8,835)	(78,186)
Proceeds from long-term loans payable .....	35,577	39,095	345,973
Repayment of long-term loans payable .....	(106,116)	(69,846)	(618,106)
Proceeds from issuance of bonds .....	15,000	10,000	88,496
Purchases of treasury stock .....	(23)	(27)	(239)
Proceeds from sales of treasury stock .....	1	1	9
Cash dividends paid .....	(5,797)	(6,953)	(61,531)
Repayment to non-controlling interests .....	(83)	(1,607)	(14,221)
Finance lease principal payments .....	(1,015)	(994)	(8,796)
<b>Net cash provided by (used in) financing activities .....</b>	<b>(52,744)</b>	<b>(39,168)</b>	<b>(346,619)</b>
<b>Effect of exchange rate changes on cash and cash equivalents .....</b>	<b>233</b>	<b>(1,046)</b>	<b>(9,257)</b>
<b>Increase (decrease) in cash and cash equivalents .....</b>	<b>(13,146)</b>	<b>28,475</b>	<b>251,991</b>
<b>Cash and cash equivalents at beginning of year .....</b>	<b>97,149</b>	<b>84,002</b>	<b>743,381</b>
<b>Increase due to inclusion of certain subsidiaries in consolidation .....</b>	<b>—</b>	<b>32</b>	<b>283</b>
<b>Cash and cash equivalents at end of year .....</b>	<b>¥ 84,002</b>	<b>¥112,510</b>	<b>\$ 995,664</b>

## Consolidated Subsidiaries and Equity-Method Affiliates (As of March 31, 2016)

### Pulp & Paper

Consolidated Subsidiaries	Capital (¥ million)	Location	Share of Voting Rights (%)
Nippon Paper Crecia Co., Ltd.	3,067	Japan	100.00
Nippon Paper Papyrus Co., Ltd.	3,949	Japan	100.00
Paper Australia Pty Ltd. (and its 7 subsidiaries)	AUD1,000 662,280	Australia	100.00
NP Trading Co., Ltd.	1,000	Japan	98.35
Kokuei Paper Co., Ltd.	100	Japan	100.00
SUN OAK CO., LTD.	75	Japan	100.00
Kitakami Paper Co., Ltd.	300	Japan	62.90
Daishowa North America Corporation	CAD1,000 165,800	Canada	100.00
Nippon Paper Industries USA Co., Ltd.	USD1,000 53	U.S.A.	100.00
Dyna Wave Holding Asia	HKD1,000 1	The British Cayman Islands	100.00
Jujo Thermal Oy	EURO1,000 7,651	Finland	100.00
Siam Nippon Industrial Paper Co., Ltd.	THB1,000 1,100,000	Thailand	55.00
<b>Equity-method Affiliates</b>			
North Pacific Paper Corporation	USD1,000 28	U.S.A.	50.00
Daishowa-Marubeni International Ltd.	CAD1,000 262,000	Canada	50.00
Kyodo Paper Holdings Co., Ltd.	2,381	Japan	31.05
Phoenix Pulp and Paper Plc.	THB1,000 2,206,337	Thailand	23.08

### Paper-Related

Consolidated Subsidiaries	Capital (¥ million)	Location	Share of Voting Rights (%)
Sakurai Co., Ltd.	120	Japan	54.49
Nippon Seitai Corporation	424	Japan	100.00
Flowric Co., Ltd.	172	Japan	100.00
<b>Equity-method Affiliates</b>			
Daishowa Paper Converting Co., Ltd.	235	Japan	44.68
Dixie Japan Co., Ltd.	100	Japan	44.41
Nippon Tokan Package Co., Ltd.	700	Japan	45.00
Lintec Corporation	23,201	Japan	31.00

### Wood Products and Construction Related

Consolidated Subsidiaries	Capital (¥ million)	Location	Share of Voting Rights (%)
Nippon Paper Lumber Co., Ltd.	440	Japan	100.00
Nippon Paper Unitec Co., Ltd.	40	Japan	100.00
Kokusaku Kiko Co., Ltd.	60	Japan	100.00
Nippon Paper Ishinomaki Technology Co., Ltd.	40	Japan	100.00
Kunimoku House Co., Ltd.	20	Japan	100.00
N&E Co., Ltd.	3,750	Japan	70.00
Daishowa Uniboard Co., Ltd.	490	Japan	100.00
Nanei Co., Ltd.	30	Japan	100.00
Nichimoku Fancy Materials Co., Ltd.	50	Japan	100.00
Nippon Paper Resources Australia Pty. Ltd.	AUD1,000 26,500	Australia	100.00

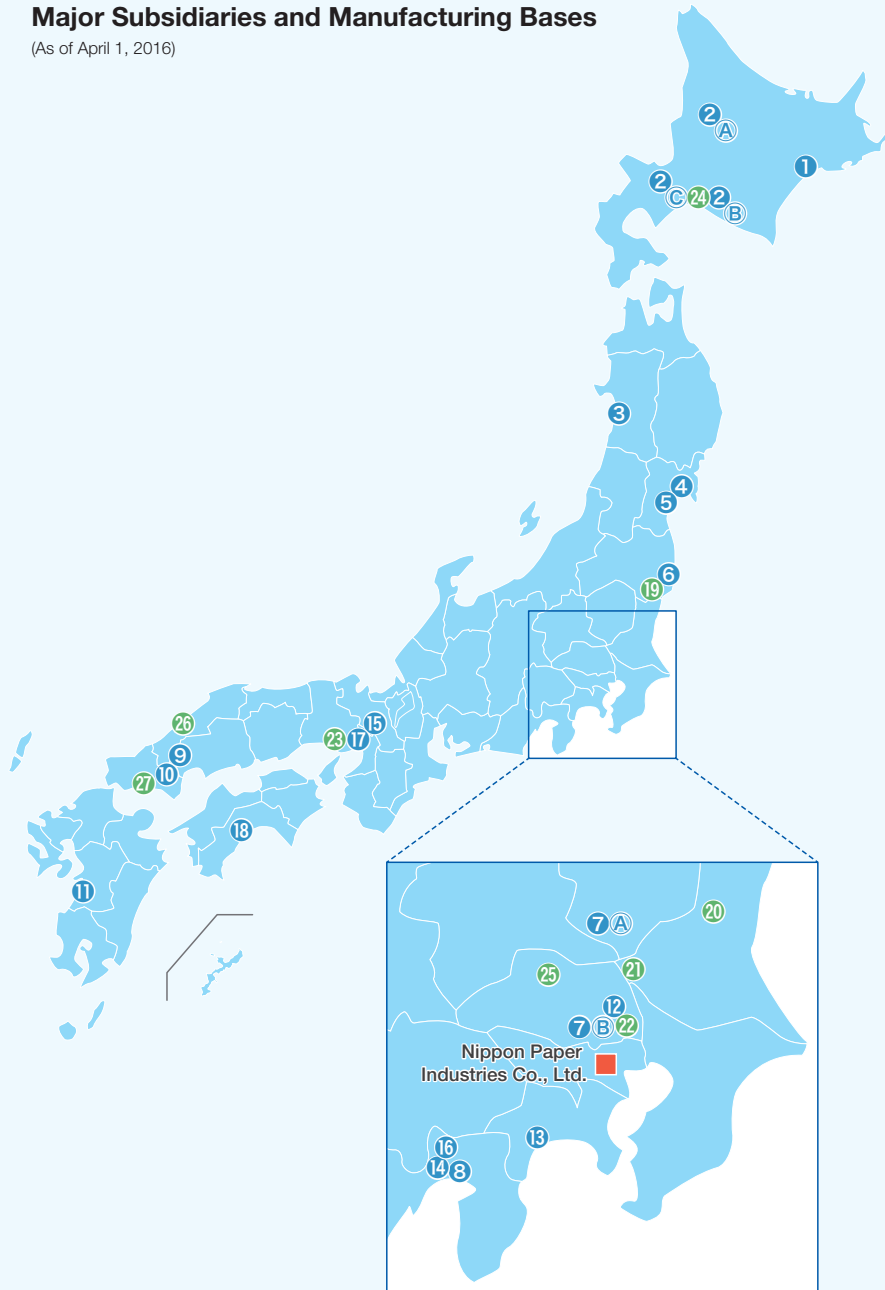
### Other

Consolidated Subsidiaries	Capital (¥ million)	Location	Share of Voting Rights (%)
Nanko Unyu Co., Ltd.	160	Japan	100.00
Kyokushin Transport Co., Ltd.	80	Japan	100.00
Nippon Paper Logistics Co., Ltd.	70	Japan	100.00
Hotoku Co., Ltd.	25	Japan	100.00
Nippon Paper Development Co., Ltd.	710	Japan	100.00
GAC CO., LTD.	480	Japan	100.00
<b>Equity-method Affiliates</b>			
Chiyoda SVAC CO., LTD.	200	Japan	32.50
Nippon Paper Mega Solar Komatsushima Limited Liability Company	1	Japan	50.00

## Domestic Network

### Major Subsidiaries and Manufacturing Bases

(As of April 1, 2016)



#### Pulp and Paper

##### Nippon Paper Industries Co., Ltd.

4-6, Kanda-Surugadai, Chiyoda-ku, Tokyo  
101-0062, Japan  
Tel: +81-3-6665-1111  
Fax: +81-3-6665-0300

- ① Kushiro Mill (Hokkaido)
- ② Hokkaido Mill (Hokkaido)
- Ⓐ Asahikawa
- Ⓑ Yufutsu
- Ⓒ Shiraoi
- ③ Akita Mill (Akita)
- ④ Ishinomaki Mill (Miyagi)
- ⑤ Iwanuma Mill (Miyagi)
- ⑥ Nakoso Mill (Fukushima)
- ⑦ Kanto Mill (Tochigi/Saitama)
- Ⓐ Ashikaga
- Ⓑ Soka
- ⑧ Fuji Mill (Shizuoka)
- ⑨ Otake Mill (Hiroshima)
- ⑩ Iwakuni Mill (Yamaguchi)
- ⑪ Yatsushiro Mill (Kumamoto)

##### Nippon Paper Crecia Co., Ltd.

4-6, Kanda-Surugadai, Chiyoda-ku, Tokyo  
101-0062, Japan  
Tel: +81-3-6665-5300 Fax: +81-3-6665-0370

- ⑫ Tokyo Mill (Saitama)
- ⑬ Kaisei Mill (Kanagawa)
- ⑭ Koyo Mill (Shizuoka)
- ⑮ Kyoto Mill (Kyoto)

##### Nippon Paper Papyrus Co., Ltd.

4-6, Kanda-Surugadai, Chiyoda-ku, Tokyo  
101-0062, Japan  
Tel: +81-3-6665-5800 Fax: +81-3-3251-1878

- ⑯ Harada Mill (Shizuoka)
- ⑰ Suita Mill (Osaka)
- ⑱ Kochi Mill (Kochi)

##### NP Trading Co., Ltd.

4-6, Kanda-Surugadai, Chiyoda-ku, Tokyo  
101-0062, Japan  
Tel: +81-3-6665-7032

#### Paper-Related

##### Paper-Pak Business Subsidiaries

- ⑲ NAKOSO FILM CO., LTD. (Fukushima)
- ⑳ ISHIOKA KAKO CO., LTD. (Ibaraki)
- ㉑ EGAWA PAPER-PAK CO., LTD. (Ibaraki)
- ㉒ SOKA PAPER-PAK CO., LTD. (Saitama)
- ㉓ MIKI PAPER-PAK CO., LTD. (Hyogo)

##### Chemical Division, Nippon Paper Industries Co., Ltd.

- ㉔ Yufutsu Mill (Hokkaido)
- ㉕ Higashimatsuyama Mill (Saitama)
- ㉖ Gotsu Mill (Shimane)
- ㉗ Iwakuni Mill (Yamaguchi)

#### Wood Products and Construction Related

##### Nippon Paper Lumber Co., Ltd.

4-6, Kanda-Surugadai, Chiyoda-ku, Tokyo  
101-0062, Japan  
Tel: +81-3-6665-7500 Fax: +81-3-6665-0390

#### Other

##### Nippon Paper Development Co., Ltd.

1-1-9, Horifune, Kita-ku, Tokyo  
114-8555, Japan  
Tel: +81-3-3914-6161 Fax: +81-3-3914-3706

## Overseas Network

### Overseas Branches and Offices

(As of April 1, 2016)



#### Pulp and Paper

##### Nippon Paper Industries Co., Ltd.

- |   |   |
|---|---|
| <p><b>1 Longview Office</b><br/>Longview, WA, U.S.A.</p>                    | <p><b>5 Concepción Office</b><br/>Concepción, Chile</p> |
| <p><b>2 Bangkok Representative Office</b><br/>Bangkok, Thailand</p>         | <p><b>6 Europe Office</b><br/>Neuss, Germany</p>        |
| <p><b>3 Vietnam Representative Office</b><br/>Ho Chi Minh City, Vietnam</p> |   |
| <p><b>4 China Office</b><br/>Shanghai, China</p>                            |   |

##### NP Trading Co., Ltd.

- |  |
|--|
| <p><b>7 Jakarta Office</b><br/>Jakarta, Indonesia</p>          |
| <p><b>8 Malaysia Office</b><br/>Selangor, Malaysia</p>         |
| <p><b>9 Hochiminh Office</b><br/>Ho Chi Minh City, Vietnam</p> |
| <p><b>10 Taiwan Office</b><br/>Tainan, Taiwan</p>              |

## Major Overseas Subsidiaries and Affiliates (As of April 1, 2016)

### ASIA



**1** Everwealth Paper Industries (Shanghai) Co., Ltd.  
Shanghai, China

**Nippon Paper Industries Trading (Shanghai) Co., Ltd.**

**2** Shanghai Office  
Shanghai, China

**3** Beijing Office  
Beijing, China

**4** Paper Products Marketing (Singapore) Pte. Ltd.  
Singapore

**5** Paper Products Marketing Pte. Ltd. (Malaysia Branch)  
Selangor, Malaysia

**6** Paper Products Marketing (Hong Kong) Ltd.  
Wanchai, Hong Kong

**7** Paper Products Marketing (Taiwan) Ltd.  
Taipei, Taiwan

**8** NP Trading Co., (H.K.) Ltd.  
Wanchai, Hong Kong

**9** NP Trading (Bangkok) Co., Ltd.  
Bangkok, Thailand

**10** NP INTERNATIONAL (S) PTE. LTD.  
Singapore

**11** Siam Nippon Industrial Paper Co., Ltd.  
Ban Pong, Thailand

### OCEANIA

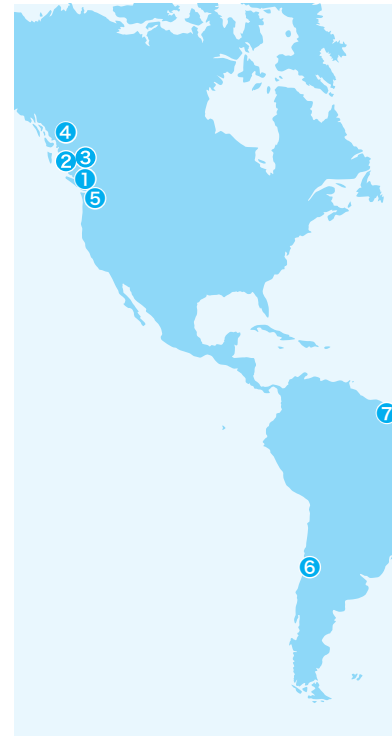


**1** Nippon Paper Resources Australia Pty. Ltd.  
Mt Waverley, Victoria, Australia

**2** Paper Australia Pty. Ltd.  
Mt Waverley, Victoria, Australia

**3** Paper Products Marketing Pty. Ltd.  
Mt Waverley, Victoria, Australia

### NORTH AND SOUTH AMERICA



**1** North Pacific Paper Corporation  
Longview, WA, U.S.A.

**2** Nippon Paper Industries USA Co., Ltd.  
Port Angeles, WA, U.S.A.

**3** Daishowa North America Corporation  
Port Angeles, WA, U.S.A.

**4** Daishowa-Marubeni International Ltd.  
Vancouver, B.C., Canada

**5** Paper Products Marketing (USA) Inc.  
Portland, OR, U.S.A.

**6** Volterra S.A.  
Concepción, Chile

**7** Amapa Florestal e Celulose S.A.  
Santana, AP, Brazil

### EUROPE



**1** Jujo Thermal Oy  
Kauttua, Finland

**2** Paper Products Marketing Europe GmbH  
Neuss, Germany

### AFRICA



**1** Nippon-SC Tree Farm S.A. (Pty) Ltd.  
Parklands, Republic of South Africa

## Company Profile (As of March 31, 2016)

Company name	Nippon Paper Industries Co., Ltd.
Head office	4-6, Kanda-Surugadai, Chiyoda-ku, Tokyo 101-0062, Japan
Establishment	August 1, 1949
Number of employees	5,036 non-consolidated 11,741 consolidated
Capital	¥104,873 million

### Corporate history

February 1873	Established Shoshi Kaisha
November 1893	Shoshi Kaisha changed its trade name to Oji Paper Company
June 1938	Established Kokusaku Pulp Co., Ltd.
September 1938	Daishowa Paper Manufacturing Co., Ltd., started operation.
November 1946	Established Sanyo Pulp Co., Ltd.
August 1949	Established Jujo Paper Co., Ltd., due to dissolution of Oji Paper
March 1972	Sanyo Pulp merged with Kokusaku Pulp to become Sanyo-Kokusaku Pulp Co., Ltd.
April 1993	Jujo Paper merged with Sanyo-Kokusaku Pulp to become Nippon Paper Industries Co., Ltd.
March 2001	Nippon Paper Industries and Daishowa Paper Manufacturing integrated management and established Nippon Unipac Holding
October 2004	Nippon Unipac Holding changed its trade name to Nippon Paper Group, Inc.
April 2013	Nippon Paper Group, Inc. merged with Nippon Paper Industries and started operation as Nippon Paper Industries

## Stock Information (As of March 31, 2016)

### Shares

Number of shares authorized to be issued	300,000,000 shares
Number of shares issued	116,254,892 shares <small>(Including 318,560 shares of treasury stock)</small>
Number of shareholders	81,042

### Major shareholders

Name	Shares held	Shareholding ratio (%)*
Ichigo Trust Pte. Ltd.	10,550,700	9.10
Japan Trustee Services Bank, Ltd. (Trust Account)	7,919,800	6.83
The Master Trust Bank of Japan, Ltd. (Trust Account)	5,150,500	4.44
Mizuho Bank, Ltd	4,341,855	3.75
CHASE MANHATTAN BANK GTS. CLIENTS ACCOUNT ESCROW	4,254,703	3.67
Rengo Co., Ltd.	3,351,241	2.89
Nippon Paper Industries Co., Ltd. Employee Share Ownership	3,105,029	2.68
Nippon Life Insurance Company	3,091,365	2.67
Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,669,500	2.30
Mitsui Life Insurance Company Limited	2,258,900	1.95

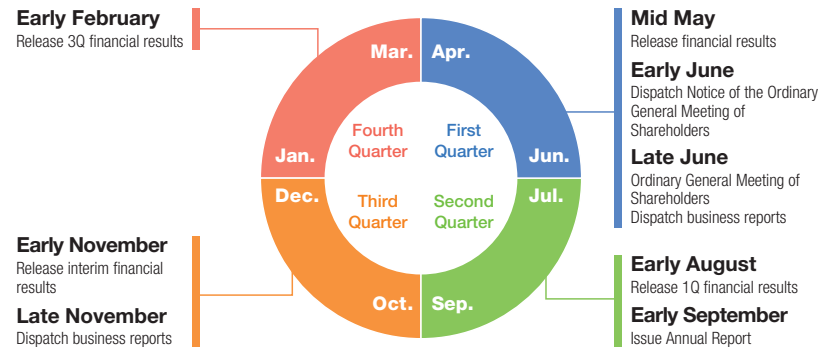
\*The shareholding ratio was calculated after deducting 318,560 shares of treasury stock.

## Investor Information

Company name	Nippon Paper Industries Co., Ltd.
Securities code	3863
Listings	Tokyo Stock Exchange
Fiscal year	April 1 to March 31
Ordinary General Meeting of Shareholders	Within three months of the day following the fiscal year-end
Register and transfer agent	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo, Japan
Contact for inquiry and mailing address	Stock Transfer Agency Department Sumitomo Mitsui Trust Bank, Limited  2-8-4, Izumi, Suginami-ku, Tokyo 168-0063, Japan Phone: 0120-78-2031 (Toll free in Japan)
Independent accounting auditor	Ernst & Young ShinNihon LLC

## IR Calendar

Note: The schedule may change without notice.

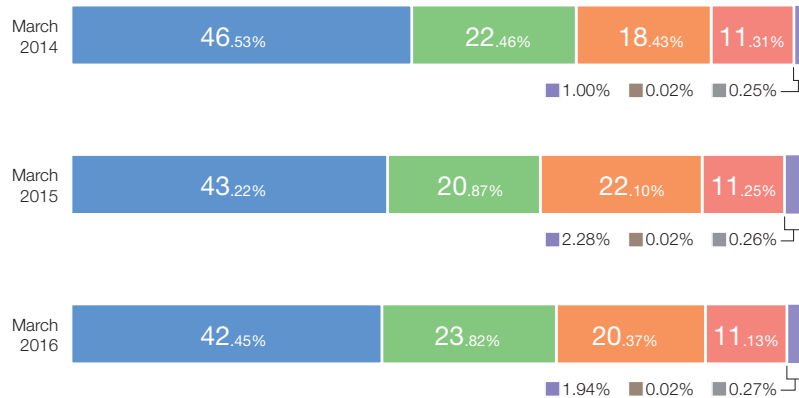


### Types of Paper Utilized in This Annual Report

- Cover: U-LITE DRY (157.0 g/m<sup>2</sup>) produced by Nippon Paper Industries Co., Ltd.
- Contents: b7 Bulky (95.0 g/m<sup>2</sup>) produced by Nippon Paper Industries Co., Ltd.

## Share ownership by shareholder category

■ Financial institutions ■ Foreign investors ■ Individuals and others ■ Other domestic corporations  
■ Securities companies ■ Government and municipalities ■ Treasury stock



## Stock price and trading volume trends

