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Nippon Paper Industries Co., Ltd.

Annual Report 2018

Securities Code: 3863



Shaping the Future with Trees

Annual Report 2018

For the Fiscal Year Ended March 31, 2018

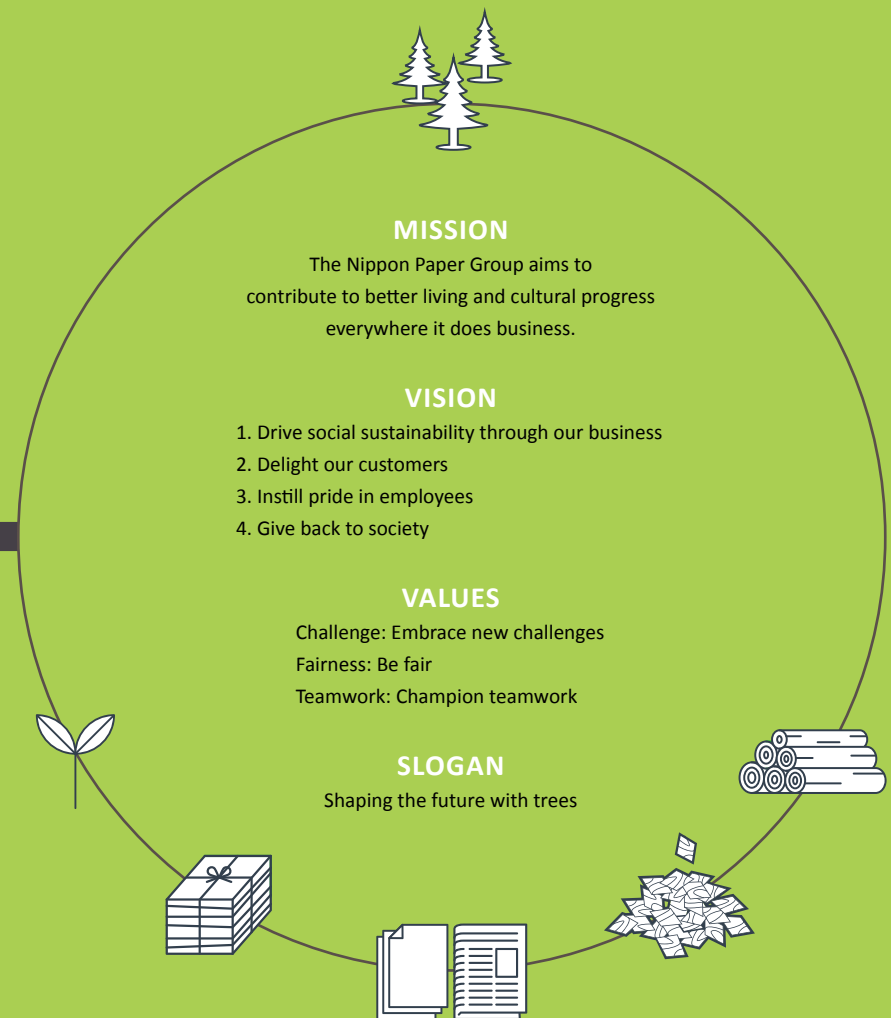
NIPPON PAPER INDUSTRIES CO., LTD.

(Securities Code: 3863)

Shaping the Future with Trees,

The identity of the Nippon Paper Group is “with trees.”

At the heart of our Group Mission is our belief in the possibilities of paper and the consistent contribution we have made to people’s lives and culture throughout our history. By applying our technology and expertise to maximize the value of renewable forest resources, we will continue to contribute to better living and cultural progress around the world.



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Starting with our paper businesses, the Nippon Paper Group's businesses have been closely linked to the development of media such as newspapers and magazines and, viewed over a longer period of time, to the development of culture. Currently, our products and services span a wide range of business domains and contribute to people's lives in various settings. The use of renewable resources is becoming increasingly important to the creation of sustainable societies and, as a comprehensive biomass company, the Nippon Paper Group is creating new sources of value by making full use of woody biomass resources.

Chemicals
Dispersant for mortar/concrete

CHEMICAL
PRODUCTS
Coating materials

ENERGY
Power generation
business

Paperboard
Containerboard, etc.

Housing and
construction materials
Lumber/interior
decoration materials

Chemicals
Raw material for rayon

Chemicals
Raw material for cosmetics

INNOVATIVE
MATERIALS
Cellulose
nanofiber, etc.

HOUSEHOLD PAPER
PRODUCTS AND
HEALTHCARE PRODUCTS
Tissue, diapers, etc.

CHEMICAL
PRODUCTS
Food additives

Agriculture
Tea

PACKAGING
Beverage
containers

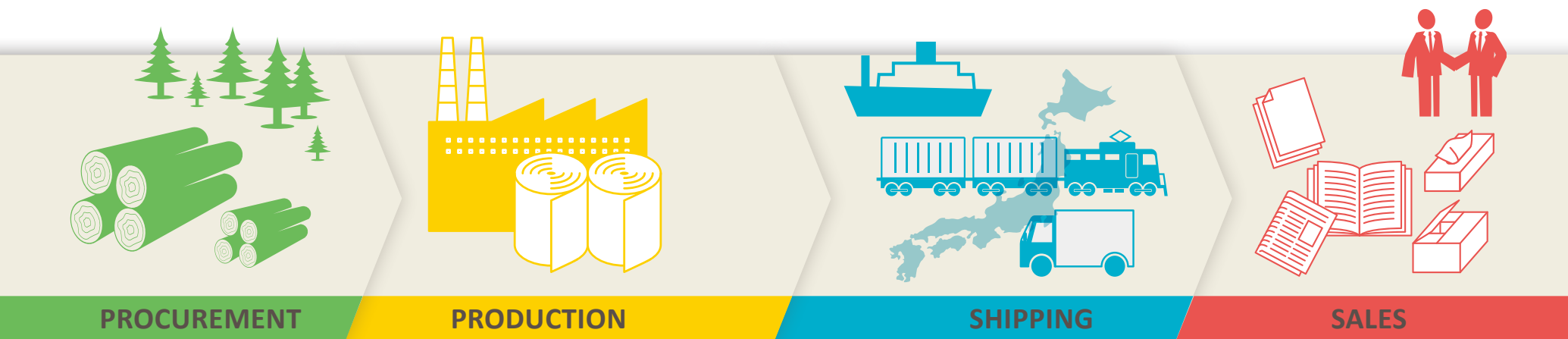
Paper media
Newsprint, printing paper, etc.

CHEMICAL
PRODUCTS
Material for LCDs

Specialty paper
Teabags, etc.

As a Comprehensive Biomass Company

Strengths throughout Our Value Chain



Procurement of sustainable wood resources

Wood resources are the starting point for all of Nippon Paper Group's businesses. The Group not only owns forests in Japan and overseas, where it practices sustainable forest management, but also has a procurement network that covers all of Japan and countries worldwide, ensuring the stable procurement of wood resources. In addition, we aim to ensure sustainable resources through our paper recycling business.

Forests owned
in Japan and overseas

181
thousand hectares

Accumulated technology and production capacity

The technologies developed in order to increase the efficiency and functionality of forest management, to which the Group has dedicated many years in order to secure a stable supply of wood resources, and paper products, the starting point of the Nippon Paper Group, are closely tied to our ability to create new businesses and strengthen competitiveness. We leverage the largest production capacity in Japan to provide a wide range of paper products.

Paper and paperboard products
production capacity

No.1
in Japan

Strategic logistics system

Nippon Paper Logistics Co., Ltd. is charged with the task of developing logistics strategies to handle all of Nippon Paper Group's products. Also, we are working to increase the efficiency of logistics by promoting a modal shift in transportation to improve loading efficiency.

In the household paper business, we are promoting the collaborative use and collection of pallets with our industry peers in order to improve the distribution efficiency in the industry as a whole.

Modal shift rate

89%

Broad customer base and dominant market share

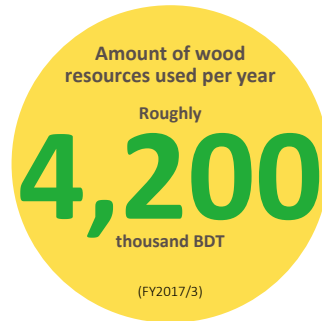
The Nippon Paper Group, which operates a variety of businesses based on the effective use of wood resources, is building a stronger base and planting the seeds of further growth by acquiring customers in a wide range of sectors and responding to their needs while exploring potential applications for wood resources. The Company has a high market share in the areas of paper, paperboard, and household paper.

Paper market share
in Japan

No.1

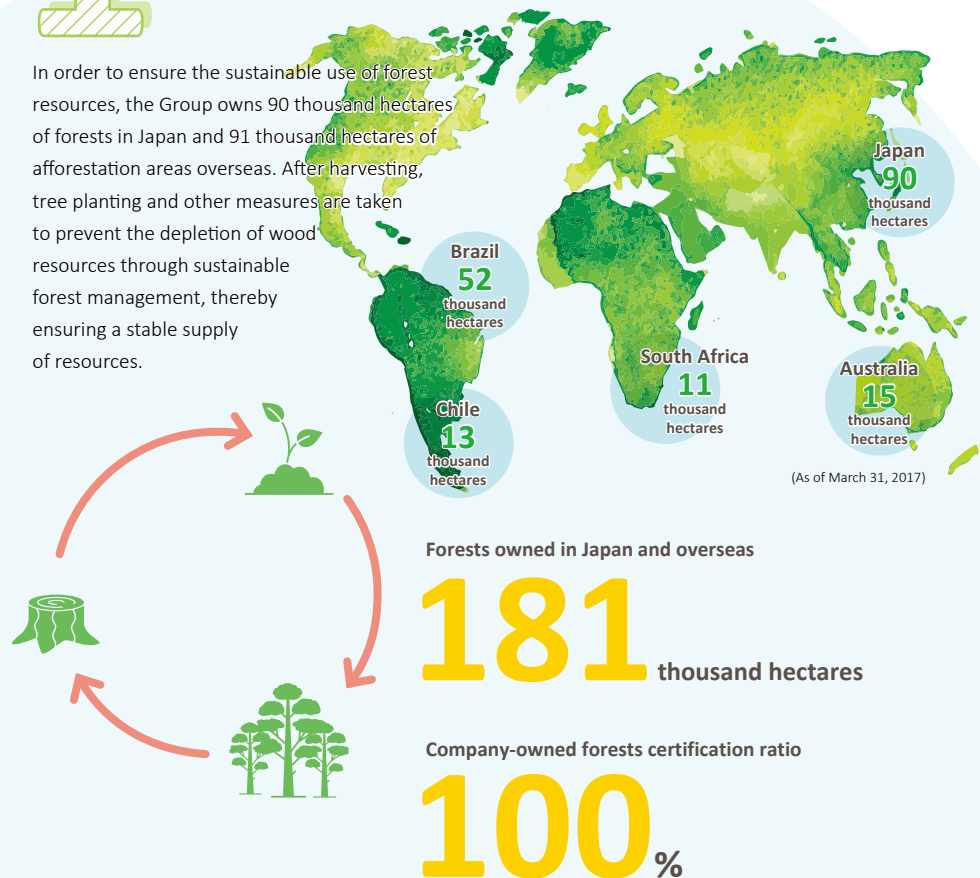
Procurement of sustainable wood resources

Wood resources such as wood chips and wastepaper are the most important management resources for the Nippon Paper Group. The Nippon Paper Group is working with its suppliers to build systems and relationships that facilitate the sustainable and stable procurement of renewable wood resources while taking into consideration forest ecosystems and local societies in production regions as well as occupational safety and health issues.

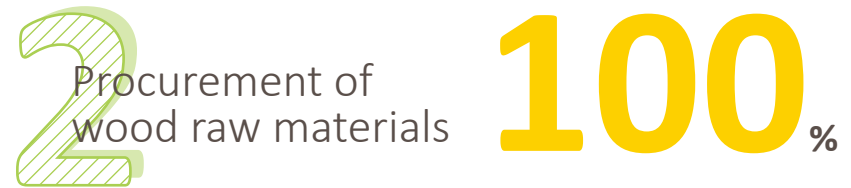


1 Sustainable forest management

In order to ensure the sustainable use of forest resources, the Group owns 90 thousand hectares of forests in Japan and 91 thousand hectares of afforestation areas overseas. After harvesting, tree planting and other measures are taken to prevent the depletion of wood resources through sustainable forest management, thereby ensuring a stable supply of resources.



Wood materials endorsed under forest certification schemes*



Nippon Paper procures wood resources as raw materials for paper and pulp from more than roughly 400 companies in Japan and abroad (including affiliated companies). All wood materials for paper and pulp are endorsed under forest certification schemes,* and we build positive, long-lasting, sustainable relationships with overseas suppliers through questionnaires regarding human rights and working environments. ➡ For details, please see pages 52–53.

* Wood materials produced from forests that have received forest management certification under forest certification systems or wood materials for which risk assessments have been conducted in relation to Chain of Custody certification

Recycled paper utilization rate



Recycled paper is an important management resource for the Nippon Paper Group as it comprises 55.1% of the raw materials used in paper products, a major product for the Group. We promote recycling by working with customers to build systems to recover and reuse wastepaper and developing technologies to reuse paper that is difficult to recycle.

Accumulated technology and production capacity

Since its establishment, the Nippon Paper Group has been developing afforestation and paper production technologies. Based on the overall principle of “maximizing the value of renewable forest resources,” we have created not only paper products but also new materials and products. We will continue to leverage our wood resource technologies and the largest production capacity of any paper producer in Japan to maintain our competitive edge.

1 Wood resource usage technology drives growth

The Nippon Paper Group is making full use of biomass resources. For example, dissolving pulp produced through our proprietary technology is used as raw material for rayon and cellophane. Also, lignin products, which are by-products of the pulp manufacturing process, are used in a variety of fields including construction, agriculture, and apparel.

Environmentally friendly

barrier packaging material

Developed using our coating technology, SHIELDPLUS™ barrier packaging material is an environmentally friendly functional material that incorporates excellent oxygen and odor barrier properties into renewable paper. Today, packaging must not only protect contents, but it must also be eco-friendly to prevent global warming and ocean pollution. Expectations for SHIELDPLUS™, which is made from recyclable paper, are therefore on the rise. We will continue to focus on developing new functional materials based on the concept of “Let paper do what it can do.”



Number of patents held

939

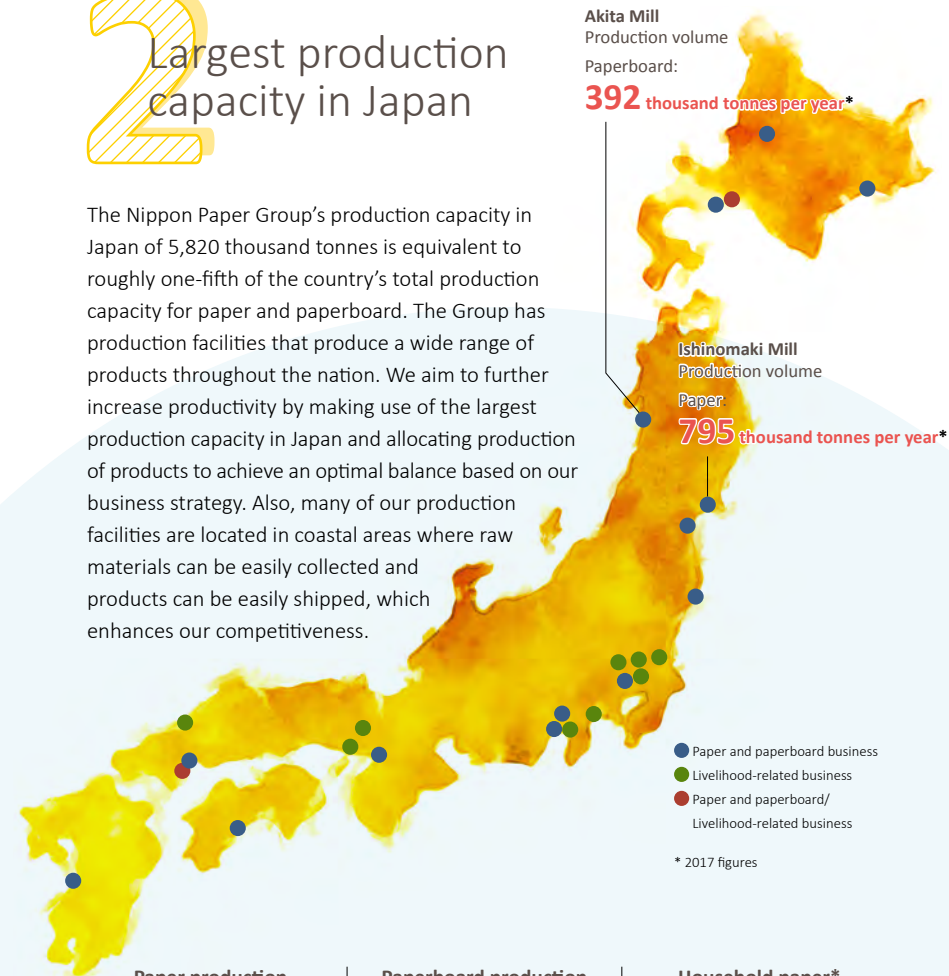
(As of March 31, 2018)

Number of patent applications filed in FY2017

256

2 Largest production capacity in Japan

The Nippon Paper Group’s production capacity in Japan of 5,820 thousand tonnes is equivalent to roughly one-fifth of the country’s total production capacity for paper and paperboard. The Group has production facilities that produce a wide range of products throughout the nation. We aim to further increase productivity by making use of the largest production capacity in Japan and allocating production of products to achieve an optimal balance based on our business strategy. Also, many of our production facilities are located in coastal areas where raw materials can be easily collected and products can be easily shipped, which enhances our competitiveness.



Paper production volume

in Japan
No.1

4,040
thousand tonnes

2017 figures including domestic consolidated subsidiaries

Paperboard production volume

in Japan
No.3

1,780
thousand tonnes

2017 figures including domestic consolidated subsidiaries

Household paper* production volume

in Japan
No.2

* Total for tissue paper and toilet paper roll

Nippon Paper Crecia
210
thousand tonnes

2017 figures

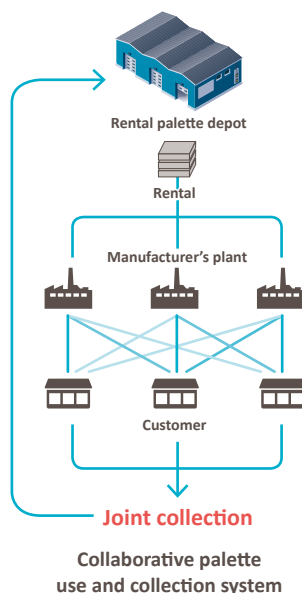
Strategic logistics system

1 Strategic strengthening of logistics system

Nippon Paper Logistics Co., Ltd. is charged with the task of developing logistics strategies to handle all of Nippon Paper Group's products.

In the household paper business, Group company Nippon Paper Crecia will begin collaborative palette logistics with three other household paper producers* in autumn 2018. Through this collaborative palette use and collection system, we aim to reduce the loading and unloading burden on drivers, shorten collection times, and improve logistics in the household paper industry as a whole.

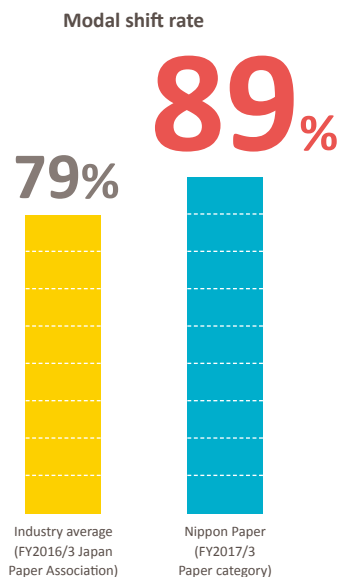
* Oji Nepla Co., Ltd., KAMI SHOJI CO., LTD., and Daio Paper Corporation



2 Working to promote green logistics

As part of our initiative toward green logistics, we are promoting a modal shift in transportation to secure high loading efficiency. With a modal shift rate* of 89%, Nippon Paper Industries remains a top performer in the paper industry in the implementation of this transportation approach. Modal shifting not only helps reduce CO₂ emissions, but also improves loading efficiency and thereby contributes to the solution of problems related to truck transport such as labor shortages and overworked driving.

* The percentage of rail or marine transport in general cargo transported over 500 kilometers.



Broad customer base and dominant market share

1 Strong customer base spanning many business fields

The Nippon Paper Group operates a wide range of businesses based on the effective use of wood resources and therefore has a highly diverse customer base that includes customers from industries such as newspaper, publishing, and printing. This network is the result of the Company's efforts since its establishment to launch new products and is the proof of trust we have earned by continuing to respond appropriately to the needs of customers. Our strength of having an extensive customer base enables us to utilize and develop applications for wood resources in a wide range of sectors, which leads to the achievement of further growth.



2 Dominant market share in paper, paperboard, and household paper

The Nippon Paper Group's core paper business holds a large share of the Japanese market for paper and paperboard and is firmly established as the leading paper company in Japan in terms of production volume, sales volume, and quality. The Group also has a large share of the market for household paper, where demand is expected to grow. The Nippon Paper Group targets further growth by generating profit in growth fields such as the household paper business while positioning its paper and paperboard business as an earnings base.

Paper market share in Japan

No. 1

Paperboard market share in Japan

No. 3

Household paper* market share in Japan

No. 2

* Total for tissue paper and toilet paper roll (value basis)

The Nippon Paper Group at a Glance



Paper and paperboard business



Ratio of Net Sales

70.9%

Main Products and Services

Paper

- Newsprint
- Printing paper
- Business communication paper
- Wrapping paper

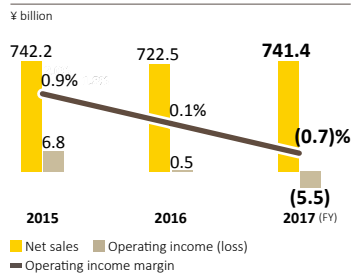
Specialty Paper

- Filter paper
- Thin paper
- Water-soluble paper

Paperboard

- Containerboard
- White paperboard

Net Sales and Operating Income (Loss)



Livelihood-related business



Ratio of Net Sales

18.4%

Main Products and Services

Packaging

- Liquid packaging cartons

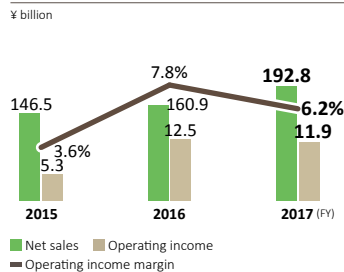
Household paper & healthcare

- Facial tissue
- Toilet paper roll
- Adult diapers

Chemical

- Dissolving pulp
- Lignin products
- Chemical products
- Functional films

Net Sales and Operating Income



Energy business



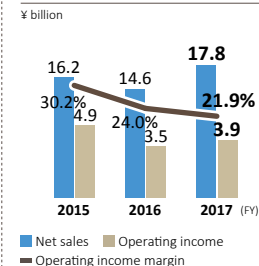
Ratio of Net Sales

1.7%

Main Products and Services

Wholesale electric power sales

Net Sales and Operating Income



Wood products and construction related business



Ratio of Net Sales

6.0%

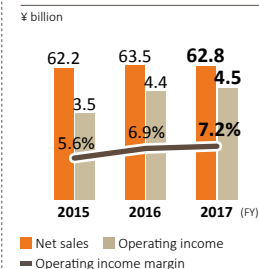
Main Products and Services

Lumber & construction materials

- Logs
- Building materials
- Raw materials and fuel for paper manufacturing

Construction related

Net Sales and Operating Income



Other businesses



Ratio of Net Sales

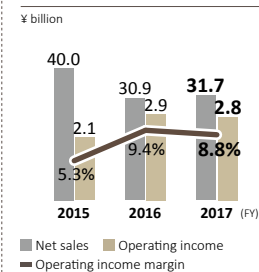
3.0%

Main Products and Services

Warehousing & logistics Leisure facilities operation

- Ski resorts
- Bowling alleys

Net Sales and Operating Income



* Segment sales and operating income from FY2016/3 to FY2018/3 are simplified estimates as segment classification was changed in April 1, 2018.

Editorial Policy

The Nippon Paper Group has published its Annual Report 2018 to allow stakeholders, especially shareholders and investors, to gain a deeper understanding of the Company. This report has been edited in accordance with the International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC) and other guidelines. To enable readers to understand how the Company plans to achieve sustainable growth in the future, the Company has provided substantial information regarding its strengths, operating environment, and corporate social responsibility activities.

SRI Indices Recognizing Nippon Paper



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 not changed substantially from that of Nippon Paper Group, Inc. before the merger. Accordingly, the consolidated financial information in this annual report until the fiscal year ended March 31, 2013 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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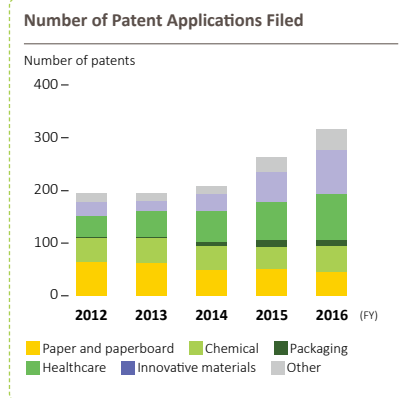
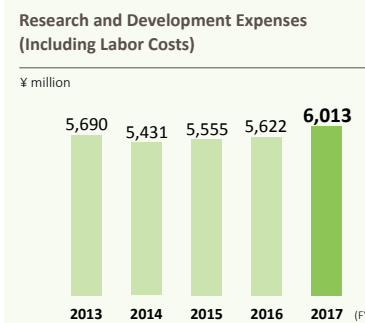
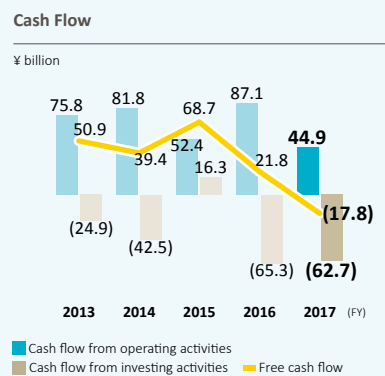
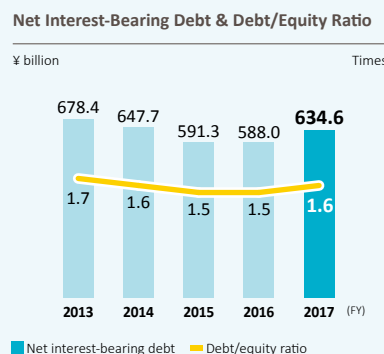
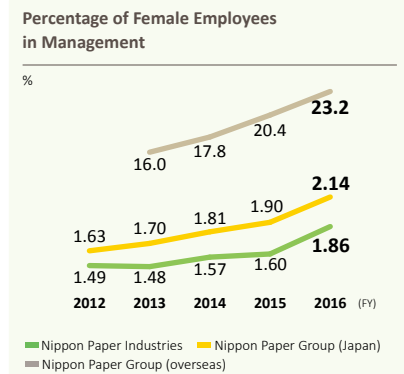
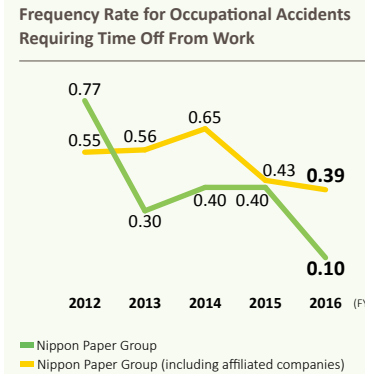
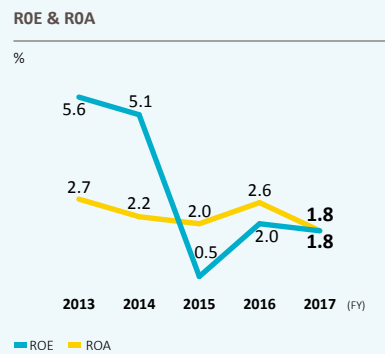
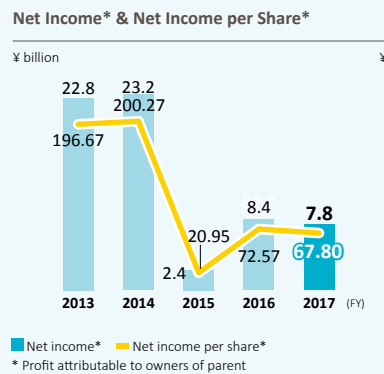
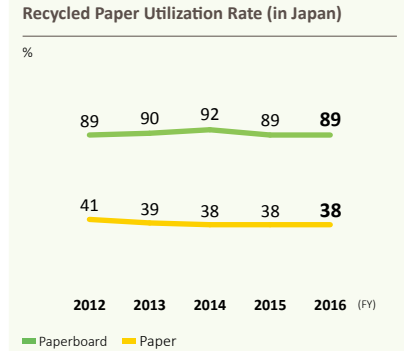
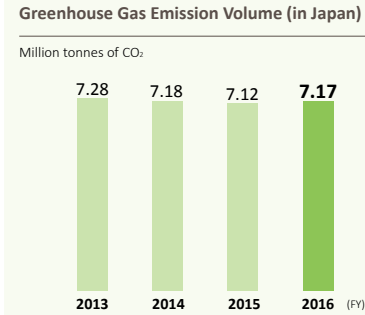
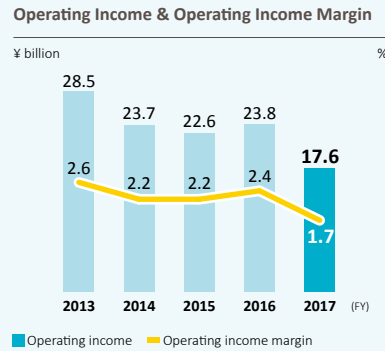
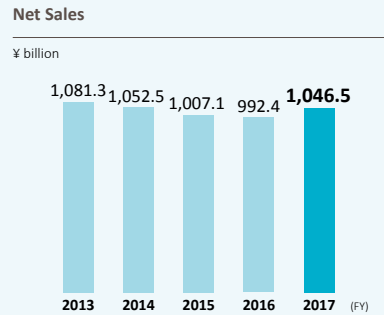
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Financial & Non-Financial Highlights



Message from the President



Fumio Manoshiro

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

While reforming our business portfolio to sustain growth, we will meet society's needs and expectations head-on as a comprehensive biomass company.

01

Review of the Fifth Medium-Term Business Plan

In FY2018/3, the final year covered by the Fifth Medium-Term Business Plan (FY2016/3 to FY2018/3), net sales totaled ¥1,046.5 billion and operating income was ¥17.6 billion. This was a disappointing result, with operating income falling well short of our target of ¥50.0 billion.

The two themes for the Fifth Medium-Term Business Plan were “enhance competitiveness of existing businesses” and “transform our business structure.” A major factor behind the shortfall in earnings was that our efforts to enhance the competitiveness of existing businesses did not move forward according to plan. External factors such as the faster-than-expected decline in demand for newsprint and printing paper, amid the reduced circulation of newspapers and magazines owing to the declining birthrate and digitization; the inability to carry out price revisions for printing paper; and the increase in raw materials prices also contributed to the shortfall in operating income. Moreover, internal factors such as delayed improvements in costs owing to the frequency of operating disruptions at our mills also led to our inability to reach the target.

On the other hand, with regard to transforming our business structure, measures in the packaging business, the household paper products and healthcare products business, the chemical business, and the energy business all moved forward according to plan and profit in these businesses steadily increased.

As the outcomes for the abovementioned two themes were clearly different, the challenges we face going forward are clear. In order to reach the ¥50.0 billion in operating income that we should have achieved under our Fifth Medium-Term Business Plan, the most important issue is to quickly restructure and restore the earnings potential of the paper business.

02

Overview of the Sixth Medium-Term Business Plan

For the newly established Sixth Medium-Term Business Plan (FY2019/3 to FY2021/3), we established the two themes of “reorganize production structure of paper business and make maximum utilization of in-house facilities” and “expand business in growth areas and early commercialization of new businesses.”

The restructuring of our paper and paperboard business will require a painful reorganization of the production system of our paper business. The most important measure in the Sixth Medium-Term Business Plan is the restoration of the earnings potential of our paper business through the reorganization of its production system.

In growth areas, we will target further growth by continuing to steadily invest as planned. The key issue is how to accelerate growth in these businesses.

03

Ensuring Stable Earnings by Restructuring Our Business Portfolio

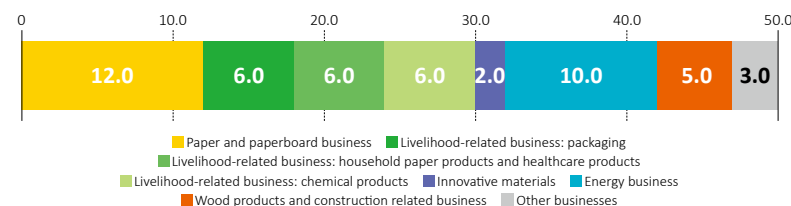
As the market structure is changing more rapidly than expected, in order to reach its goal of ¥50.0 billion in operating income, the Group must restructure its business portfolio to create a business structure that does not hinge on the paper and paperboard business. Our strength comes from expanding the use of our wood resources to make products other than paper and paperboard. We will leverage this strength with the aim of further expanding our products and services. By creating multiple business units that are capable of generating over ¥5.0 billion in operating income, we will be able to generate stable earnings and achieve growth even amid a changing business environment.

In a society that values sustainability as symbolized by the UN’s Sustainable Development Goals (SDGs), operating a business based on a renewable resource such as wood is one way of showing our dedication to directly meeting the demands of society. Our perception of leveraging the Company’s strengths to build a business model that meets the demands of society is connected to the goals set out in the Sixth Medium-Term Business Plan.

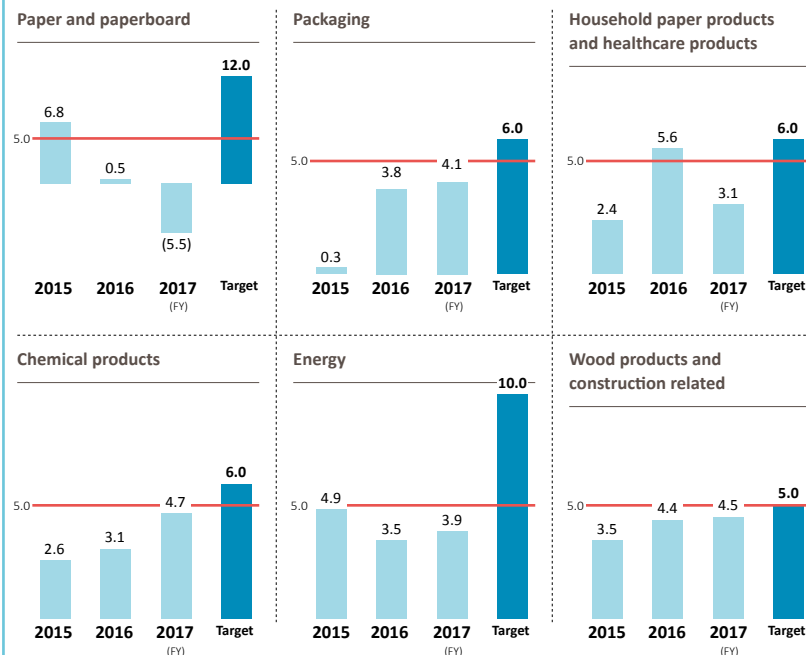
Restructuring Our Business Portfolio to Sustain Growth

By building multiple business units capable of achieving ¥5.0 billion in operating income, we will stabilize earnings and sustain growth.

Operating Income Target (¥ billion)



Operating income (loss) of each business unit (¥ billion)



04

Reorganization of Our Production Structure is of Utmost Importance under the Sixth Medium-Term Business Plan

Amid expectations of a decline in demand for paper, in order to reorganize our production structure, which is our most important challenge, we will successively shut down ten paper production machines and coating machines to achieve a more appropriate supply-demand balance. The Company will shut down all paper production machines at the Hokkaido (Yufutsu) and Fuji (Fuji) Mills, and consider modifying those sites for growth businesses and new business operations.

We can no longer rely on a business structure wherein the paper and paperboard business forms the pillars of profitability for the Group as a whole. However, the paper business, which occupies many of the Company's plant assets, will continue to generate cash. We will invest the cash generated by the paper business in growth areas, thereby accelerating the restructuring of our business portfolio. We are determined to take the necessary steps to create a structure that results in this kind of virtuous cycle.

Major challenges associated with the reorganization of our production structure include gaining the understanding of our customers while moving ahead with the transfer of production and redeploying human resources as a result of the consolidation of production bases. With labor shortages becoming a social issue, one of our greatest strengths is the number of highly skilled workers in the Group. One component of our vision is to "instill pride in employees." In keeping with this, we will deploy workers in growth areas and new businesses and strive to take full advantage of the abilities of our excellent human resources. We believe this will not only result in earnings growth, but it will also ensure the long-term growth of the Group.

05

Accelerating Growth in Growth Areas

We will continue to invest in the livelihood-related and energy businesses, which we have identified as growth areas, and in addition to improving earnings, we will accelerate growth in these businesses. We expect demand growth in the household paper products and healthcare products business to continue as a result of several factors, including an increase in the number of households, changes in lifestyles to reflect the aging society, and an



We will accelerate the development of businesses in growth areas by making highly effective investments, including overseas investments.



increase in the number of hotels to accommodate the increasing number of foreign tourists visiting Japan. We expect further development of the packaging business, including Nippon Dynawave Packaging in the United States, especially in the area of liquid packaging boards, as the global shift to paper products accelerates owing to increased awareness of environmental issues. In the chemical business, despite its relatively small market, demand for profitable products is growing, primarily in Asia. In the energy business, we are mainly investing in projects such as the biomass co-firing power generation facility in the Akita Mill and the biomass electric power generation facility in the Hokkaido (Yufutsu) Mill. In the near future, we expect the energy business to grow to a level capable of generating roughly ¥10.0 billion in operating income. Though requiring a sizable initial investment, we think the energy business will play a large role in the Group as we expect it to generate stable earnings over the long term.

While we have yet to select any projects to be funded by the ¥25.0 billion allocated for strategic investment within the capital investment budget, our main targets will be investments that expand our value chains in growth areas. While supplying materials used to make end products, we will work to increase earnings by not only supplying materials in the upstream part of the value chain, but also through our involvement in the downstream. We will accelerate the development of businesses in growth areas by making highly effective investments, including overseas investments.

We expect cellulose nanofiber (CNF), a new pulp-based material, to achieve growth over the long term. We are currently prioritizing the development of products and the securing of transactions related to replacement demand for industrial materials such as resins and plastics.

In overseas business operations, we are actively moving forward with initiatives in many regions, including development of the liquid packaging board business in North America, sale of healthcare products using CNF in Asia, and development of packaging products to take advantage of the trend away from using plastic containers in India.



06

As a Comprehensive Biomass Company

Our strength is our involvement at all levels of the value chain, including forest management, which makes use of all wood materials. This is what we mean when we call ourselves a comprehensive biomass company. The creation of a cascade-use value chain not only ensures the growth of the Company, but also contributes to the creation of a sustainable society and sustainable industry based on renewable wood resources. Global awareness is growing regarding problems caused by materials derived from petroleum, including the pollution of oceans by microplastics. In response to this, we will spread the word about the advantages of biomass materials as a renewable natural resource, thereby directly addressing the needs of global society.

In order to take full advantage of the strengths of our businesses while further developing them on a global scale, creating a company that instills pride in its employees and wherein every employee understands their role is of utmost importance. We must therefore share our vision and our unique strengths with our employees, who must come to an understanding of their own roles. I believe one of my roles is to create a system that encourages employees to

take pride in their work. Creating a company that instills pride in its employees will eventually lead to maximizing value for all stakeholders, including shareholders and local communities.

The entire Group shares an awareness of what we must do as a comprehensive biomass company and which areas show new promise for the future. I believe the entire Group is moving in the right direction in order to achieve the goals of the Sixth Medium-Term Business Plan.

Over the short term, we view FY2019/3 as a year for shoring up our base to prepare for future growth. In addition to restructuring our business portfolio in line with our vision toward achieving sustainable growth, we will move steadily forward to becoming a Group that can meet expectations over the long term in order to help achieve a sustainable society.

Going forward, the Nippon Paper Group will continue to unite to maintain its core vision as a comprehensive biomass company and it will strive to be a company that directly responds to the values of society. I ask all of our stakeholders, including shareholders and investors, for their continued understanding and support.

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We will move steadily forward to becoming a Group that can meet expectations over the long term in order to help achieve a sustainable society.

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

Review of Fifth Medium-Term Business Plan (FY2015–2017)

Under our Fifth Medium-Term Business Plan, which covers the period from April 2015 through March 2018, we advanced measures to “enhance the competitiveness of existing businesses” and “transform our business structure.” Market conditions remained tough due to lower demand for paper as well as hikes in the prices of fuel, wastepaper, and other raw materials. As a result, we fell significantly short of performance targets. In our growth areas, meanwhile, we steadily took measures and invested to expand businesses in the areas of packaging, household paper products and healthcare products, chemical products, and energy. Thanks to these efforts, our earnings increased in these areas.

Fifth Medium-Term Business Plan—Key Themes

1 Enhance the competitiveness of existing businesses
Maintain stable quality and operation and slash costs

2 Transform our business structure
Expand business in growth areas and create new businesses

Fifth Medium-Term Business Plan—Results

	FY2014 Results	Targets	FY2017 Results
Net sales	¥1,052.5 billion	¥1,110.0 billion	¥1,046.5 billion
Overseas sales ratio	13%	20%	18%
Operating income	¥23.7 billion	¥50.0 billion	¥17.6 billion
Paper and paperboard business	¥8.8 billion	—	¥(5.5) billion
Livelihood-related business	¥6.5 billion	—	¥11.9 billion
Energy business	¥3.9 billion	—	¥3.9 billion
Wood products and construction related business	¥2.1 billion	—	¥4.5 billion
Other businesses	¥2.4 billion	—	¥2.8 billion
ROA	2.2%	3.7%	1.8%

Fifth Medium-Term Business Plan—Achievements and Tasks

Achievements		Tasks
Paper and paperboard business	<ul style="list-style-type: none"> Moved overseas businesses into the black Formed business alliance with Tokushu Tokai Paper Completed containerboard price revision 	<ul style="list-style-type: none"> Counteract increasing raw material and fuel prices Maintain appropriate pricing Stabilize operations
Livelihood-related business	Packaging <ul style="list-style-type: none"> Purchased liquid packaging board business in North America Marketed new-shape carton with closure Consolidated production bases in Japan 	
	Household paper products and healthcare products <ul style="list-style-type: none"> Developed extra-length products (toilet paper rolls, paper towel rolls) Developed products that use cellulose nanofiber (CNF) (paper diapers for adults with mild incontinence) Reinforced healthcare production and sales capabilities (focused investment on the Kyoto Mill) 	<ul style="list-style-type: none"> Counteract increasing pulp prices Adjust household paper prices
	Chemical products <ul style="list-style-type: none"> Heightened competitiveness of the Gotsu Mill (increased dissolving pulp production and renovated turbines) Developed and grew sales of hardcoat film for OLED (organic light-emitting diode) displays 	
Energy business	<ul style="list-style-type: none"> Started up and achieved stable operations of power generation facilities as planned (five facilities, including Ishinomaki Hibarino Power Plant) 	<ul style="list-style-type: none"> Commercialize Akita biomass co-firing power generation project Develop and commercialize new biomass fuel
Wood products and construction related business	<ul style="list-style-type: none"> Increased handling of domestically produced materials steadily 	
Innovative materials	<ul style="list-style-type: none"> Operated CNF production facilities (Ishinomaki, Fuji, Gotsu) Developed materials and containers based on paper and pulp (SHIELDPLUS™, MinerPa™, SPOPS™) 	
Other	<ul style="list-style-type: none"> Replaced assets (Shikoku Coca-Cola Bottling, Lee & Man Paper Manufacturing, North Pacific Paper Company, Nippon Paper Industries USA, Kunimoku House) 	

Sixth Medium-Term Business Plan (FY2018–2020)

The Nippon Paper Group has prepared its Sixth Medium-Term Business Plan, which covers April 2018 through March 2021 and calls for the construction of a business portfolio that stably generates operating income of ¥50.0 billion. While advancing the initiatives of the new plan, we will continue to take measures to “enhance the competitiveness of existing businesses” and “transform our business structure” in accordance with the key themes of the previous plan. Under the new plan, we will strengthen our earnings through initiatives to “reorganize the production structure of the paper business and make maximum utilization of in-house facilities” and to “expand businesses in growth areas and achieve early commercialization of new businesses.”

Sixth Medium-Term Business Plan—Themes and Priority Tasks

Themes

- Reorganize the production structure of the paper business and make maximum utilization of in-house facilities
- expand businesses in growth areas and early commercialization of new businesses

Priority tasks

- Complete reorganization of production structure
- Grow continuously in growth areas
- Achieve EBITDA of ¥100 billion early

Sixth Medium-Term Business Plan—Business Targets

	FY2017 Results	FY2020 Targets
Net sales	¥1,046.5 billion	¥1,115.0 billion
Overseas sales ratio	18%	19%
Operating income	¥17.6 billion	¥47.0 billion
EBITDA*	¥78.1 billion	¥110.0 billion
Debt/equity ratio	1.61 times	1.5 times or less
ROA	1.8%	3.8%
ROE	1.8%	At least 5%

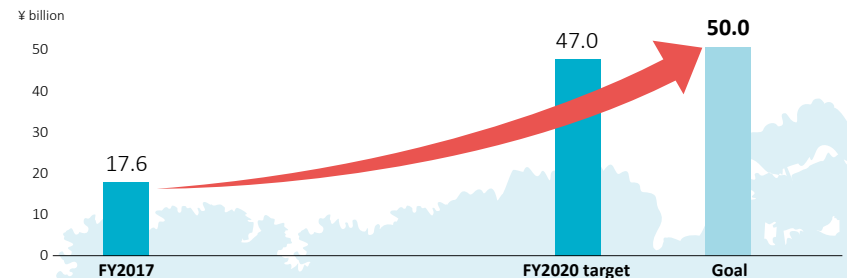
* EBITDA = Operating income + interest income + dividend income + depreciation

FY2020 Operating Income Target

Operating income (loss) by business segment
(¥billion)

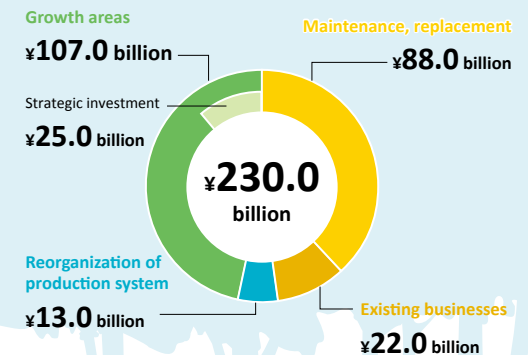
		FY2017	FY2020 Target	Increase/Decrease (FY2020 – FY2017)
Paper and paperboard business		(5.5)	14.0	19.5 ↑
Growth areas	Livelihood-related business	11.9	18.0	6.1 ↑
	Energy business	3.9	7.5	3.6 ↑
Wood products and construction related business		4.5	4.5	0.0 →
Other businesses		2.8	3.0	0.2 ↑
Total from livelihood-related business to other businesses		23.1	33.0	9.9 ↑
Grand total		17.6	47.0	29.4 ↑

Operating income



Capital Investment

Setting our sights on the goals of the Sixth Medium-Term Business Plan, we have earmarked ¥230.0 billion for capital investment over three years. We will invest ¥13.0 billion in reorganizing production—our top priority—and ¥107.0 billion in growth areas, which includes a ¥25.0 billion strategic investment budget.



Reorganization of Production Structure

Given the likelihood of a continued decline in paper demand, under the Sixth Medium-Term Business Plan, we will meet our top priority of reorganizing production to radically improve the profitability of the paper business.

POLICY

- We will rebuild the paper business by consolidating production bases to reduce fixed costs.
- Paper and paperboard business FY2020 operating income target: ¥14.0 billion

MEASURES

- We will reduce annual paper production capacity by 18.0%, or 760 thousand tonnes.
- We will cease paper production at the Hokkaido Mill (Yufutsu) and at the Fuji Mill (Fuji) and shut down the Kushiro Mill's No. 8 paper machine.

BENEFITS

- We will increase earnings of the paper business by approximately ¥11.0 billion.
- This earnings growth will comprise reductions resulting from reorganization and rationalization of ¥0.9 billion in proportional costs, ¥5.6 billion in personnel expenses, and ¥4.5 billion in depreciation and other fixed costs.

Our Vision and Measures of Business Units

Paper and paperboard business

Our vision

- **Paper:** Enhance cost competitiveness of commodity products and advance differentiation through new product development and other measures
- **Paperboard:** Grow sales in step with increasing demand for containerboard in Japan and overseas

Measures

- **Paper:** Reorganize production system to reduce fixed costs and enhance operating rates
- **Paperboard:**
 - Strengthen sales and development capabilities to reflect customer needs
 - Stabilize operations through the use of AI and IoT

Livelihood-related business (packaging)

Our vision

- Achieve top-line growth by boosting sales of new-model paper containers and increasing pulp production

Measures

- Develop and grow sales of new paper containers and filling machines and strengthen cost competitiveness
- Ramp up Nippon Dynawave Packaging's pulp production

Livelihood-related business (household paper products and healthcare products)

Our vision

- **Household paper products:** Increase profitability by growing sales of high-quality, high-value-added products
- **Healthcare products:** Grow sales by capturing increased demand accompanying the aging of society

Measures

- **Household paper products:** Produce low-cost, high-margin products at Crecia-Kasuga
- **Healthcare products:** Install more processing machines to reflect market expansion and add to lineup of products containing CNF

Livelihood-related business (chemical products)

Our vision

- Increase profitability by transitioning to high-value-added products

Measures

- Boost sales of high-value-added products by enhancing dissolving pulp quality
- Heighten overseas sales of functional coating resin products
- Develop new products for OLED displays

Energy business

Our vision

- Generate annual earnings between ¥7.0 billion and ¥8.0 billion by increasing profitability of existing power generation business and stabilizing operations of Nippon Paper Ishinomaki Energy Center

Measures

- Raise biomass co-firing ratio of Nippon Paper Ishinomaki Energy Center
- Commercialize Akita biomass co-firing power generation project

Wood products and construction related business

Our vision

- Achieve differentiation from competitors by increasing handling of domestically produced logs
- Supply biomass fuel inside and outside the Group in earnest

Measures

- Acquire resources and increase sales channels to increase volume of domestically produced logs
- Establish system for supplying biomass fuel externally to customers

Paper Business



Atsushi O'Haru
Executive Officer
General Manager
Printing Paper Sales Division

Our Vision

Continue to pursue value in print media through an extensive product lineup and the technological expertise to create new products that anticipate needs

Our Strengths

- Strong technological capabilities with a track record of creating new products
- Production bases and a sales/distribution network throughout Japan
- A broad product lineup

Our Opportunities

- Increasing prevalence of digital printing, growth in online outsourced printing
- Increasing prevalence of cross-media advertising and publishing
- Use of new materials (development of new products)

Our Challenges

- Increase cost competitiveness of commoditized products
- Adaptation of production and logistics systems to small production lots of a wide range of products
- Price stabilization

FY2018/3 Performance

In FY2018/3, sales volume declined not only for newsprint and printing paper, but also for business communication paper, for which demand had been relatively firm. In addition, we worked to implement price revisions for printing paper in response to rising raw material costs, but were unable to increase these prices by as much as we had hoped.

Amid this environment, we prioritized price maintenance and continued to strengthen competitiveness by focusing on factors not directly related to prices such as service and quality. By following this strategy, we maintained our leading share in the paper market.

In exports, we continued with efforts to increase sales in Asia, which led to a 24.6% year-on-year increase in net sales on a volume basis.

Strategy in the Sixth Medium-Term Business Plan

With demand in the Japanese market declining, we face the issue of oversupply and the possibility of price declines in the future. We will adjust the supply-demand balance by restructuring our production systems, as well as cutting fixed costs.

Particularly in the area of commoditized products, in order to survive in the face of competition from our direct competitors and other types of media, we aim to further reduce costs by streamlining production and logistics. In the area of publishing, we will move forward with our strategy of diversification by focusing on new products. We continue to provide added value in order to better serve customers who continue to choose paper, even within a shrinking market.

We aim to preserve the supply-demand balance in Japan while strategically targeting overseas markets such as education-related demand in other Asian countries.

Paperboard Business



Satoru Muto
President
Nippon Tokai Industrial
Paper Supply Co., Ltd.

Our Vision

Accurately capture users' needs and meet increased demand for containerboard through unique differentiated products

Our Strengths

- Balanced deployment of mills across Japan
- Possession of linerboard machines through in-house manufacture of softwood Kraft pulp
- Substantial research and development capabilities
- Long-standing relationships of trust with containerboard manufacturers and end users
- Sales capabilities to quickly propose solutions

Our Opportunities

- Expected growth in demand for containerboard in Japan
- Exports to high-growth Asian markets
- Development of new products using new materials

Our Challenges

- Price maintenance
- Securing of sales volume
- Reduce cost of sales

FY2018/3 Performance

In FY2018/3, domestic sales of containerboard base paper, our core product, increased year on year owing to growth in sales to end users who have made us their designated supplier. Export sales volume also reached a record-high level on growth in demand driven by the expansion of e-commerce in other Asian countries and a shortage of base paper resulting from restrictions on the import of wastepaper into China.

Despite the surging prices of wastepaper, we were able to increase the prices of paper products in line with our targets and thereby pave the way for earnings growth.

We also furthered our business alliance with Tokushu Tokai Paper Co., Ltd., achieving synergies by further reducing costs at Shin Tokai Paper Co., Ltd. (STP), eliminating inefficient transportation, and conducting joint procurement of raw materials.

Strategy in the Sixth Medium-Term Business Plan

In Japan, we will work to increase sales volume by focusing on fields such as processed foods and fruit, where we expect steady demand, and securing containerboard demand from sources such as the mail-order industry, where we expect growth, while maintaining our prices.

As the largest manufacturer of containerboard in Japan, we leverage our network of mills, which are strategically located around the country to provide a steady supply of containerboard. We will also strengthen our sales and development systems to better respond to the needs of our product users. In our export strategy, we will aggressively pursue sales growth, especially in China and East Asia, where we expect strong demand.

Packaging Business



Yasuhito Obayashi
Executive Officer
General Manager
Paper-Pak Sales Division

Our Vision

Build our liquid packaging business into a world-class business

Our Strengths

- Japan's largest total system supplier for liquid packaging cartons

Our Opportunities

- Increased use of paper cartons for high-value-added beverages such as functional beverages
- Shift from plastic materials to environmentally friendly paper cartons

Our Challenges

- Development of next-generation liquid packaging cartons and filling machines
- Strengthening of infrastructure for production of new containers

FY2018/3 Performance

In FY2018/3, sales volume, especially for fruit and vegetable juice cartons, increased, partly owing to the launch of paper cartons with closures and the securing of new customers. We maintained our leading share in the chilled liquid packaging carton market for Japan.

Earnings also rose year on year as we increased production volume of paper cartons and cut costs by consolidating production (with the closure of the Soka Paper-Pak mill in July 2017). We also established the Egawa Technical Center as a research and development facility.

Nippon Dynawave Packaging Co., which handles liquid packaging boards in North America, leveraged its stable customer base to take advantage of growing global demand for paper beverage containers, thereby steadily increasing its sales volume.

Strategy in the Sixth Medium-Term Business Plan

Under the Sixth Medium-Term Business Plan, we expect fiercer competition in the container market, owing to diversification of consumer demand and the aging society in Japan. In FY2017/3, we began selling paper cartons with closures for soft drinks and fruit juice and in FY2018/3, a major customer in the mainstay milk carton business began using our new cartons.

In FY2021/3, the final year of the Sixth Medium-Term Business Plan, we target top-line growth of 30% compared with FY2018/3, driven by growth in sales of these new cartons. We aim to quickly enter the global market for next-generation containers by leveraging our strengths as a total system supplier providing everything from base paper to processing and filling machines.

Household Paper Products and Healthcare Products Business



Kazufumi Yamasaki
President and
Representative Director
Nippon Paper Crecia Co., Ltd.

Our Vision

Provide valuable products and brands that contribute to healthy and clean lifestyles

Our Strengths

- Beloved and trusted brands
- Highly competitive mills
- Product development capabilities enhanced by Group synergies
- A group of differentiated products, the world's first to use CNF

Our Opportunities

- Inbound demand (overseas tourists visiting Japan for the Tokyo Olympic Games)
- Aging society
- Rapidly growing e-commerce market

Our Challenges

- Sharp rise in pulp prices
- Return of prices of household products to appropriate levels
- Changing logistics environment

FY2018/3 Performance

In FY2018/3, demand for household products, healthcare products, and industrial-use products for hotels was strong and sales rose sharply year on year. In household products, we achieved our desired results with efforts to raise brand recognition of Kleenex products through television commercials. In healthcare products, we made use of television commercials to increase awareness of the odor-eliminating properties of cellulose nanofiber (CNF) and sales of these products increased as a result. Sales of industrial-use products remained strong owing to the impact of inbound demand.

Operating income declined due to the significant impact of rising prices for pulp and other raw materials.

Strategy in the Sixth Medium-Term Business Plan

We believe the healthcare products business will continue to grow. We aim to achieve growth that outpaces the healthcare market as a whole by achieving differentiation from competitors' products by using cellulose nanofiber (CNF) deodorizing sheets in all of our healthcare products and enhancing the quality of our products. To achieve this goal, we have decided to add two pieces of processing equipment to the Kyoto Mill.

In the household paper products business, in order to boost sales to keep pace with rising demand, we began operations at new production facilities at our new company, Crecia-Kasuga Co., Ltd., in May 2018. Based on our proprietary technology, we have developed toilet paper rolls that last three times as long as previous products, thereby reducing the number of times they must be replaced, and we are accelerating development of the market for this product. These extra-length toilet paper rolls improve distribution efficiency and storage.

We will continue to strengthen our brand communication strategies so that we can earn the support of all generations.

Chemical Business



Yozo Igarashi
Executive Officer
General Manager
Chemical Sales Division

Our Vision

Complete use of wood through the proprietary technology of our chemical business

Our Strengths

- Large lineup of wood-based products
- Many unique products with niche markets

Our Opportunities

- Growth in demand from global reevaluation of renewable resources
- Growth of global automobile market

Our Challenges

- Promotion of pulp product exports
- Development of applications for yeast culture products and increasing their sales
- Development of applications for wood-based products

FY2018/3 Performance

In FY2018/3, sales of newly released hardcoat film for OLED displays were robust and earnings in the functional films business recovered. Demand was strong for dissolving pulp (DP), for which we completed construction to increase production capacity, functional coating resins for automobiles, and functional cellulose. Although raw material prices increased, the chemical business successfully increased sales and income on a year-on-year basis.

We also strengthened our business base by increasing DP production capacity at the Gotsu Mill, installing an in-house power generation turbine, and building a new chemical products warehouse, all while keeping to the schedule in the Fifth Medium-Term Business Plan.

Strategy in the Sixth Medium-Term Business Plan

Amid the global trend of using less plastic, one of the strengths of the Nippon Paper Group is its diverse portfolio of recyclable materials that use wood as a raw material.

One of these materials, DP, is used around the world as raw material for rayon fibers. This pulp can also be refined and converted into powdered cellulose, which is used in many products important in daily life such as foods and resin fillers. Lignin, manufactured from the pulp effluent generated in the pulp manufacturing process, is used as a dispersant and binder and the sugars in pulp effluent are used to make yeast culture products used in animal feeds.

We will continue to increase sales of our products overseas and strengthen our production system in line with demand growth.

Energy Business



Shoji Ueda
Director
General Manager
Energy Business Division

Our Vision

Generate stable earnings over the long term by expanding our business with a focus on renewable energy

Our Strengths

- Power generation technology developed through paper manufacturing
- Power generation capacity of 2,000 MW
- Bases in favorable locations throughout Japan
- Global procurement network for wood resources

Our Opportunities

- Feed-in tariff (FIT) fixed-price system to promote renewable energy
- Global CO₂ emission control standards

Our Challenges

- Development of high-biomass-ratio fuel technology
- Make progress on electric power business project currently in development
- Stabilize and strengthen existing electric power generation business

FY2018/3 Performance

In January 2018, operations began at the Group's wind power generation facility in Akita City, Akita Prefecture and in March 2018, operations began at its coal-and-biomass-mixed combustion power generation facility (Ishinomaki Hibarino Power Plant) in Ishinomaki City, Miyagi Prefecture.

The wind power generation facility, the first of its kind for the Group, was built on land adjacent to Nippon Paper Industries' Akita Mill through a joint venture with Venti Japan Inc.

The Ishinomaki Hibarino Power Plant makes use of unused biomass in the Tohoku Region (especially in Miyagi Prefecture) and contributes to the prevention of forest devastation in Japan, an issue that has become increasingly urgent in recent years. We are also collecting wood pellets from North America and other Asian countries with the aim of achieving a high wood biomass blending ratio.

Strategy in the Sixth Medium-Term Business Plan

We will establish a business foundation that generates ¥7.5 billion in annual operating income by strengthening the earning potential of existing electric power generation businesses, establishing high-biomass-ratio fuel technology, and continuing with the stable operation of the Ishinomaki Hibarino Power Plant (149 MW), which began operating in 2018.

In addition, amid rising global expectations regarding renewable energy, we will proactively develop our Akita biomass electric power generation business and our Yufutsu biomass electric power generation business toward our annual operating income target of ¥10.0 billion for the energy business by leveraging our strengths in biomass resource procurement and usage technologies.

Wood Products and Construction Related Business



Our Vision

Increase annual handling volume of domestically sourced logs to one million cubic meters (Nippon Paper Lumber)

Our Strengths

- Ownership of 90 thousand hectares of forestland
- Strong procurement infrastructure for domestic lumber
- Japan's leading procurement network for paper materials

Our Opportunities

- Growth in demand for domestic lumber based on the Forest and Forestry Revitalization Plan
- Growth in demand for biomass boiler fuel due to the impact of the feed-in tariff (FIT) system

Our Challenges

- Securing of domestic lumber and expansion of sales channels in order to increase sales
- Leveraging our procurement infrastructure for domestic lumber to establish procurement network for unused lumber
- Ensuring stable procurement of palm kernel shell (PKS) material through reliable suppliers

FY2018/3 Performance

In FY2018/3, sales volume of lumber and other products in the wood products business rose year on year, despite slightly weak housing starts. Sales volume of wood chips for fuel and procurement volume of PKS also increased amid rising demand for biomass fuel.

However, Brazilian subsidiary Amapá Florestal e Celulose S.A. (AMCEL), consolidated in FY2017/3, continued to face a difficult operating environment owing to the appreciation of the Brazilian real.

Sales declined year on year in the Construction Related business, partly owing to the removal of a housing subsidiary from the scope of consolidation.

Strategy in the Sixth Medium-Term Business Plan

Despite concerns regarding a decline in housing starts, we will strive to secure stable earnings in the wood products and construction related business by taking advantage of rising demand for biomass boiler fuel.

Under the Sixth Medium-Term Business Plan, the Group will work to increase sales of domestic lumber by taking full advantage of its procurement network for domestic materials, as well as boost sales for non-housing fields, such as in packaging applications. In paper-based fuels, we will establish a procurement network for unused wood resources and supply fuel to electric power producers outside the Group. We will also make progress in securing a stable supply of PKS by cultivating overseas suppliers.

Other Businesses

Distribution business

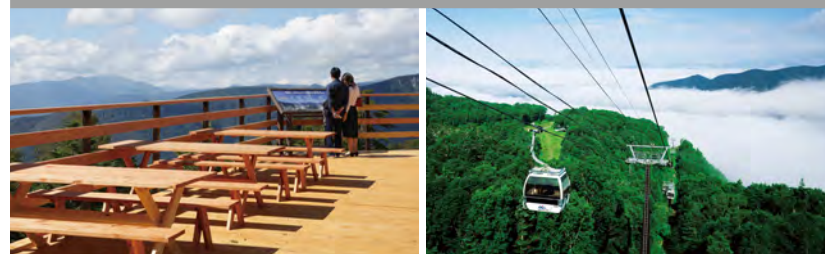


FY2018/3 Performance and Strategy in the Sixth Medium-Term Business Plan

The distribution business, particularly NIPPON PAPER LOGISTICS CO., LTD., Nanko Unyu Co., Ltd., and Kyokushin Transport Corporation, performed well in FY2018/3. In June 2017, we established our intermediate holding company, Nippon Paper Logistics Co., Ltd., and began strengthening collaboration among NIPPON PAPER LOGISTICS CO., LTD., Nanko Unyu Co., Ltd., and Kyokushin Transport Corporation.

Under the Sixth Medium-Term Business Plan, the Group will work to increase sales volume through its handling of non-paper products both inside and outside the Group amid the declining demand for paper. We will also aim to establish a more competitive logistics platform by developing joint logistics programs with other companies in the paper and pulp industry as well as companies from other industries. Despite Japan's declining population, we will also work to secure the services of truck drivers by creating good work environments.

Leisure business



FY2018/3 Performance and Strategy in the Sixth Medium-Term Business Plan

In FY2018/3, the leisure business was impacted temporarily by the inclement weather at Marunuma Kogen Ski Resort in Gunma Prefecture. However, Sun Square (Tokyo), which operates golf driving ranges and bowling alleys, showed strong performance.

Under the Sixth Medium-Term Business Plan, the Group will use new tools such as social networking services to increase customer traffic at leisure facilities. We will enhance the appeal of Marunuma Kogen Ski Resort by continuing to expand facilities. In order to increase earnings, we aim to create new businesses that can generate stable profit without the vulnerability to outside factors such as weather.

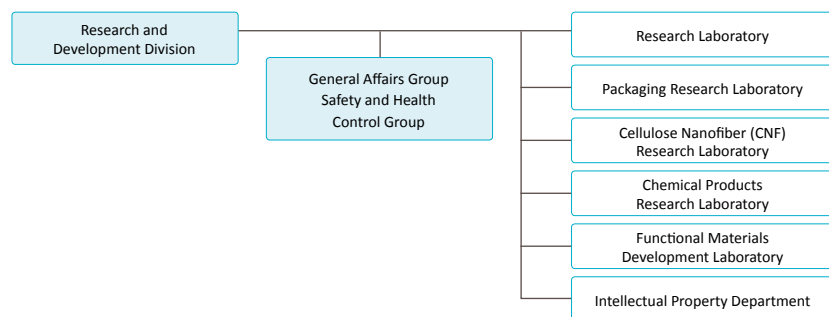
Research and Development

Basic Stance

The Nippon Paper Group, with its abundant wood resources, leverages its strengths to conduct research and development that strengthens the cores of its businesses. We will push ahead with research and development in our core businesses and new businesses, which will drive the transformation of our business structure as a comprehensive biomass company.

Research and Development System

The Research and Development Division consists of the Research Laboratory, Packaging Research Laboratory, Cellulose Nanofiber (CNF) Research Laboratory, Chemical Products Research Laboratory, Functional Materials Development Laboratory, Intellectual Property Department, and other sections that support these (see figure below).



Intellectual Property

The Intellectual Property Department performs all work related to intellectual property within Nippon Paper and major Group companies. To strengthen intellectual property throughout the Nippon Paper Group, the department collaborates with research teams, mills, and sales sections to protect intellectual property related to new technologies and products, and works to manage and utilize them. The department is also in charge of supervising technical agreements.

Acceleration of New Business Development by the New Product Development Committee

The Nippon Paper Group is moving forward with the development of new products and the creation of new businesses in order to expand its operations in growth areas and quickly strengthen new businesses.

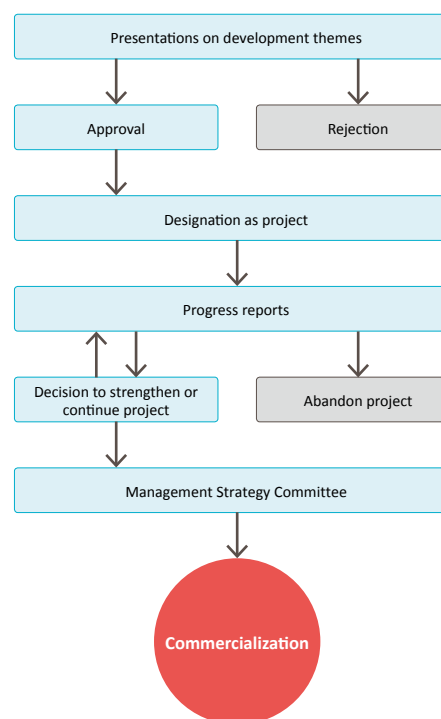
Previously, identification and promotion of new development themes was mainly handled by the Research and Development Division. To accelerate these efforts, in 2015 we established the New Product Development Committee to take up new development themes from a range of different departments and quickly allocate human resources and budgetary resources to promising development themes.

The New Product Development Committee consists of the President and Representative Director, the Vice President and Representative Director, and general managers of head office departments and research departments. Once every three months, employees give presentations to committee members on new development themes.

Themes approved by the committee are designated as projects and “project owners” are selected from among employees in the relevant departments. Project owners report progress to the committee and, after each such report, committee members determine whether development of the theme should be continued, strengthened, or abandoned. Following examination by the New Product Development Committee, a final decision regarding commercialization is made by the Management Strategy Committee.

The New Product Development Committee was established in March 2015 and convened a total of 14 times during the approximately three-year period up to June 2018. Over 20 themes have been approved by the committee and designated as projects, including SHIELDPLUS™, a barrier packaging material made from paper, and MinerPa™, a material that can provide pulp with a wide range of functionalities.

Commercialization Process



SHIELDPLUS



ミネルパ MinerPa

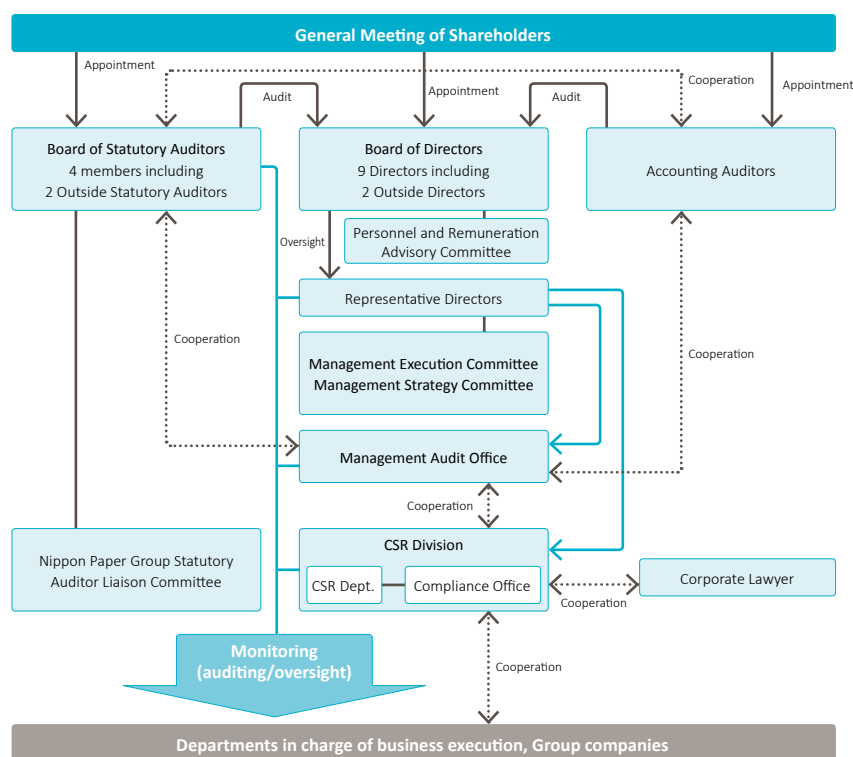
Corporate Governance

Basic Stance

Based on its mission, “The Nippon Paper Group aims to contribute to better living and cultural progress everywhere it does business,” 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 and in addition to clearly delineating responsibilities and jurisdictions and speeding up decision-making, the Company is working to enhance the oversight function of the Board of Directors. In addition, the Company conducts monitoring and promotes growth strategies and compliance as the controller of the Group’s management.

Corporate Governance Structure (As of July 1, 2018)



Corporate Governance Structure

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

In principle, the Management Execution Committee meets once a week to deliberate on important management related matters such as matters under the authority of the President. The Management Strategy Committee meets as necessary to deliberate on management strategies by business segment and other important matters related to the Group.

Statutory Auditors and 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 11 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 comprises the President and Representative Director, the Director and General Manager of Personnel & General Affairs Division, and outside directors, and is chaired by the President and Representative Director. The 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. The committee 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 FY2018/3	Number of meetings: 13 Attendance rate of outside directors: 100% Attendance rate of outside statutory auditors: 100%
Board of Statutory Auditors Meetings in FY2018/3	Number of meetings: 14 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 FY2018/3: ¥360 million
Remuneration, etc. of Statutory Auditors	Total amount of remuneration paid in FY2018/3: ¥56 million
Independent Accounting Auditor	Ernst & Young ShinNihon LLC

* Information is as of July 1, 2018

Independent Officers

By appointing independent officers, the Company aims to strengthen the oversight and supervisory functions of the Board of Directors from a neutral perspective independent from management, thereby enabling it to conduct management with a high degree of transparency. The Company's independent officers fulfill their roles by supervising the Company's directors and managers from an independent perspective based on their specialized knowledge and broad experience and by providing advice as necessary and appropriate.

Outside Directors

Yoshimitsu Aoyama	Mr. Aoyama has served as Vice President of the University of Tokyo and Chairman of the Legislative Council of the Ministry of Justice and has accumulated specialized knowledge and experience as a legal professional. He is expected to supervise and provide advice from an objective perspective on legal compliance and execution of duties of the Company's other directors.
Makoto Fujioka	Mr. Fujioka was Deputy Director-General of the Ministry of International Trade and Industry (currently the Ministry of Economy, Trade and Industry) and Ambassador Extraordinary and Plenipotentiary stationed in the United Arab Emirates. He has also acted as an executive of a private company. He is expected to supervise and provide advice from an objective perspective on the execution of duties of the Company's other directors using his wide knowledge and global insight accumulated through his experience in both the public and private sectors.

Outside Statutory Auditors

Seiichi Fusamura	Mr. Fusamura is expected to utilize his abundant experience and deep knowledge that he has accumulated as a legal professional in a judicial organization to act as an auditor of the Company.
Yoko Hatta	Ms. Hatta is expected to utilize her abundant experience and deep knowledge of the international tax business that she accumulated in an international accounting firm to act as an auditor of the Company.

Evaluation of Effectiveness of the Board of Directors

To continuously strengthen its functions, the Board of Directors has been conducting self-evaluations of its effectiveness since the fiscal year ended March 31, 2016.

Once per year, the Secretariat of the Board of Directors conducts a survey of the directors and statutory auditors regarding management and the discussions held at its meetings. The Board of Directors analyzes and evaluates its effectiveness and works toward improvement based on the results thereof.

Outline of Results of Analysis and Evaluation in the Fiscal Year Ended March 31, 2018

Current Status

As a result of evaluating the current status of its effectiveness from five viewpoints, "composition of the Board of Directors," "agenda items submitted to Board of Directors' Meetings," "conduct of Board of Directors' Meetings," "training of directors and statutory auditors," and "information provision to and support system for outside directors," the Board of Directors determined that efforts based on each principle of the Corporate Governance Code have been progressing favorably and were appropriate on the whole. In particular, "training of directors and statutory auditors," was identified as an area for improvement for fiscal 2017. Efforts were made to improve in this area in fiscal 2017, which included arrangements for directors to attend external seminars in addition to the annual in-house seminars for directors which began in fiscal 2015. The Company has decided that "composition of the Board of Directors" should be designated as an issue to be continuously considered over the medium term, especially from the viewpoint of increasing diversity.

Areas for Improvement

The Board of Directors has highlighted "enhancement of reporting" as an area for improvement for the fiscal year ending March 31, 2019. With regard to the agenda items submitted to the Board of Directors' Meeting, the Board of Directors is currently operating under new regulations after regulations were revised in April 2016 and the Board of Directors conducted deliberations with respect to the progress of the medium-term business plan, the management status of the internal control system, and the verification of strategic holding of stocks. Regarding the reporting of results, which is one of the main agenda items to be submitted to the Board of Directors' Meetings, consideration will be given to the presentation of materials and the method of reporting for the business performance report and efforts will be made to further improve the operating environment in order to enhance the monitoring function of the Board of Directors.

Compensation Paid to Directors

For directors, the Company shall set guidelines for purchasing and holding treasury shares in order to give them an incentive to increase shareholder value by having management with the awareness to increase medium- to long-term corporate value. Directors shall,

based on the said guidelines, apply a certain amount of their monthly compensation to contribute to the Directors' Shareholding Association for acquiring treasury shares. The shares so acquired shall be held throughout their tenure of office.

Regarding a director's monthly compensation, his/her base compensation shall be decided according to his/her job responsibilities in the Company. Of that, 70% shall be fixed and the remaining 30% shall be paid with increases or decreases based on the preceding business year's business performance. Meanwhile, they shall receive neither bonuses nor directors' retirement benefits.

Regarding outside directors and outside statutory auditors, monthly compensation shall be fixed. Meanwhile, in view of their job responsibilities, contributions to the Directors' Shareholding Association shall be left to their discretion.

Remuneration of Directors and Auditors (FY2017)

Type of executive	Total remuneration amount (millions of yen)	Amount of remuneration by type (millions of yen)		Number of executives in each category
		Basic remuneration	Other remuneration	
Directors (excluding outside directors)	336	336	—	8
Statutory auditors (excluding outside statutory auditors)	42	42	—	2
Outside executives	37	37	—	4

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, in principle. Interim dividends are determined by resolution of the Board of Directors and year-end dividends are determined at the general meeting of shareholders.

Legal Compliance

The CSR Division of Nippon Paper Industries coordinates and takes a leadership role in ensuring full awareness of legal compliance.

The entire Group proactively cooperates in the area of legal compliance. For example, each Group company appoints a person to be in charge of compliance within its organization and the Compliance Office of the CSR Division of Nippon Paper Industries regularly holds a Group Compliance Liaison Meeting. At this meeting, in addition to communicating information on important policies and measures to be undertaken, compliance-related information is shared among Group companies and advice regarding education and training is provided in order to ensure that compliance becomes an integral part of the Group's culture.

Comments from Outside Officers



Makoto Fujioka
Outside Director

In fiscal 2018, the Board of Directors will conduct an evaluation of effectiveness for the third time since it began in fiscal 2015. I believe the Group has effectively used the results of these evaluations to steadily strengthen and improve the governance system for which the Board of Directors is responsible. Over the past three years, the functions of the Board of Directors have been strengthened through the establishment of the Personnel and Remuneration Advisory Committee and its actions, as well as the enhancement of deliberations and reporting activities of the Board of Directors. In order to further develop the functions of the Board of Directors, I believe it is necessary to make use of these evaluations in the plan-do-check-act (PDCA) cycle.

As an outside director, I will redouble my efforts to improve the Company's corporate value under strong corporate governance as a comprehensive biomass company and contribute to the development of a sustainable society.



Yoko Hatta
Outside Statutory Auditor

The Board of Directors of Nippon Paper Industries acts appropriately and in accordance with laws and the Articles of Incorporation of the Company. The Board is also making further improvements by conducting annual evaluations in accordance with the Corporate Governance Code.

Based on the results of the fiscal 2017 evaluation, the Board of Directors identified enhancement of reporting as an area for improvement. By enhancing the presentation of business performance reports, we aim to encourage more concrete and lively discussions, thereby enabling the Board of Directors to better perform its roles as monitor and supporter of risk-taking by the management team and improving the effectiveness of the Board's supervisory function. Nippon Paper has also identified the increasing of diversity as an issue to be continuously considered over the medium term. In my opinion, the Board of Directors should not only issue reports on these issues, but should also hold active discussions on them.

I believe there are areas in which I can contribute based on my experience as an outside statutory auditor, and will therefore endeavor even more strongly than ever to help the Board play a meaningful role within Nippon Paper Industries.

Directors and Statutory Auditors (As of June 28, 2018)



Brief History

1949 Born
1974 Joined Jujo Paper Co., Ltd.
2008 Appointed President and Representative Director, Nippon Paper Group, Inc. (NPG)
President and Representative Director, Nippon Paper Industries Co., Ltd. (NPI)
2014 Appointed Chairman and Representative Director, NPI (current position)

Yoshio Haga

Chairman and Representative Director

Number of Company shares held

36,680 shares



Brief History

1953 Born
1975 Joined Jujo Paper Co., Ltd.
2009 Appointed Director, NPG
2013 Appointed Director, NPI
2014 Appointed President and Representative Director, NPI (current position)

Fumio Manoshira

President and Representative Director

Number of Company shares held

23,446 shares



Brief History

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, Ministry of Justice
2013 Appointed Outside Director, NPI (current position)

Yoshimitsu Aoyama

Outside Director

Number of Company shares held

0 shares

Important positions

- Chairman, Automotive Dispute Resolution Center
- Chairman, The Japan International Dispute Resolution Center



Brief History

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, Nippon Light Metal Co., Ltd.
2013 Director, Executive Vice President, Senior Executive Officer, Nippon Light Metal Co., Ltd.
2016 Appointed Outside Director, NPI (current position)

Makoto Fujioka

Outside Director

Number of Company shares held

1,000 shares

Important positions

- Senior Director, Japan Association for Chemical Innovation
- Outside Director, NOK Corporation
- Outside Director, Eagle Industry Co., Ltd.



Brief History

1955 Born
1980 Joined Sanyo-Kokusaku Pulp Co., Ltd.
2012 Appointed Director, NPG
2013 Appointed Director, NPI
2017 Appointed Vice President and Representative Director, NPI (current position)

Kazufumi Yamasaki

Vice President and Representative Director

Number of Company shares held

16,020 shares

Responsibility and important positions

- Executive Vice President
- President, Nippon Paper Crecia Co., Ltd.



Brief History

1956 Born
1979 Joined Jujo Paper Co., Ltd.
2015 Appointed Director, NPI (current position)

Akihiro Utsumi

Director

Number of Company shares held

7,946 shares

Responsibility and important positions

- Managing Executive Officer
- General Manager, Personnel & General Affairs Division
- General Manager, CSR Division



Brief History

1955 Born
1987 Joined Sanyo-Kokusaku Pulp Co., Ltd.
2015 Appointed Director, NPI
2018 Appointed Senior Statutory Auditor, NPI (current position)

Hirofumi Fujimori

Senior Statutory Auditor

Number of Company shares held

7,795 shares

Important positions

- Statutory Auditor, Nippon Paper Crecia Co., Ltd.



Brief History

1954 Born
1978 Joined Sanyo-Kokusaku Pulp Co., Ltd.
2014 Appointed Statutory Auditor, NPI (current position)

Mitsuo Nagoshi

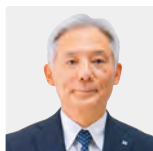
Standing Statutory Auditor

Number of Company shares held

6,702 shares

Important positions

- Statutory Auditor, NP Trading Co., Ltd.



Brief History

1959 Born
1981 Joined Jujo Paper Co., Ltd.
2014 Appointed Director, NPI (current position)

Toru Nozawa

Director

Number of Company shares held

8,305 shares

Responsibility and important positions

- Managing Executive Officer in charge of subsidiaries and affiliated companies
- General Manager, Corporate Planning Division
- General Manager, Financial Division
- Director, Nippon Paper Crecia Co., Ltd.
- Outside Director, Lintec Corporation



Brief History

1957 Born
1981 Joined Jujo Paper Co., Ltd.
2018 Appointed Director, NPI (current position)

Takeo Konno

Director

Number of Company shares held

6,961 shares

Responsibility and important positions

- Executive Officer
- General Manager, Sales Management & Planning Division



Brief History

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 Outside Statutory Auditor, NPI (current position)

Seichi Fusamura

Outside Statutory Auditor

Number of Company shares held

0 shares

Important positions

- Lawyer
- Chairman, Public Security Examination Commission, Ministry of Justice
- Chairman, Labor Relations Commission, Tokyo Metropolitan Government



Brief History

1952 Born
1988 Joined Peat Marwick Main & Co. (currently KPMG LLP New York Office)
2002 Partner, KPMG Peat Marwick Tax Corporation (currently KPMG Tax Corporation)
2016 Appointed Statutory Auditor, NPI (current position)

Yoko Hatta

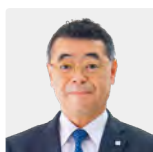
Outside Statutory Auditor

Number of Company shares held

0 shares

Important positions

- Auditor, International Christian University
- Outside Auditor, IHI Corporation
- Outside Statutory Auditor, Kobayashi Pharmaceutical Co., Ltd.



Brief History

1960 Born
1983 Joined Jujo Paper Co., Ltd.
2017 Appointed Director, NPI (current position)

Shoji Ueda

Director

Number of Company shares held

4,666 shares

Responsibility and important positions

- Executive Officer
- General Manager, Technical & Engineering Division
- General Manager, Energy Business Division

* The above "Number of Company shares held" is as of March 31, 2018 and includes shares held by the Nippon Paper Industries Directors' Shareholding Association.

CSR Management

Basic Stance

The Nippon Paper Group, as a comprehensive biomass company shaping the future with trees, aims to contribute to the development of a sustainable society through its business activities. To that end, we are committed to grasping the expectations and demands of our stakeholders, and fulfilling our social responsibilities from the perspectives of business management; forest management and the procurement of raw materials; the environment; customers; human rights, employment, and labor; and local communities. Nippon Paper Industries Co., Ltd. established the CSR Department to oversee the CSR activities of the Group as a whole. The CSR Department promotes CSR activities based on the Nippon Paper Group Action Charter and works closely with the various divisions and departments.

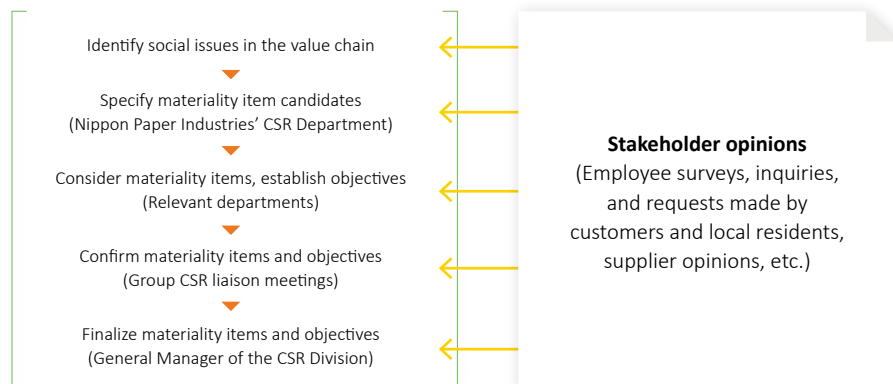
CSR Materiality at the Nippon Paper Group

The Nippon Paper Group addresses social issues through its value chain. Among these social issues, we identified nine materiality items in FY2017/3. These items were determined based on the following processes (as shown in the diagram below), taking into account the views of our stakeholders.

Materiality

- Dialogue with stakeholders
- Sustainable procurement of raw materials
- Climate change initiatives
- Reduction of environmental impacts
- Preserving biodiversity
- Enhancement of product safety
- Providing environmentally and socially conscious products
- Occupational safety and health
- Coexistence with local communities and society at large

Process for Identifying Materiality Items



Environment

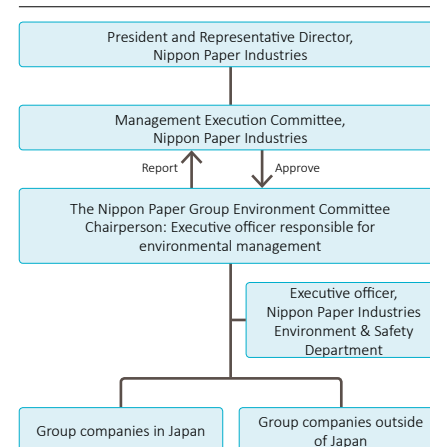
Basic Stance

The Nippon Paper Group, in accordance with the principles and basic stance expressed in the Nippon Paper Group Environmental Charter, has established a Groupwide environmental management system and engages in environmentally conscious corporate activities. To reduce the environmental impact of its production processes, the Nippon Paper Group emphasizes environmental performance with regard to issues such as global warming, exhaustion of natural resources, and air and water pollution when selecting equipment and strives to increase daily operating efficiency.

Environmental Management System

The Management Execution Committee makes decisions on environmental strategy and oversees environmental activities for the entire Group. Chaired by the executive officer responsible for environmental management, the Nippon Paper Group Environment Committee applies the philosophy and basic policies of the Environmental Charter, which underpins the environmental management principles of Group companies, by drawing up and monitoring implementation of the Environmental Action Plan, and submitting progress reports to the Management Execution Committee. By deliberating and approving new initiatives, the Management Execution Committee promotes ongoing improvement in the Group's environmental activities.

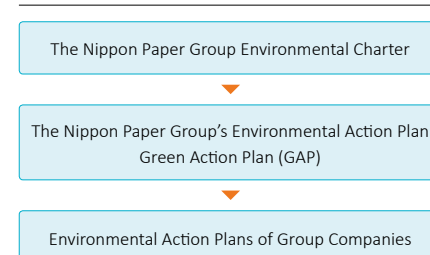
Environmental management promotion structure (as of March 31, 2017)



Environmental Action Plan (Green Action Plan)

The Nippon Paper Group has established its Environmental Action Plan—the Green Action Plan (GAP)—in accordance with the six basic policies expressed in its Environmental Charter. Group companies have each established their own specific environmental action plans to reflect their own individual business circumstances based on the GAP. Their efforts to fulfill these plans are enhancing our ability to accomplish the GAP.

Framework for achieving objectives



Procurement of Raw Materials

Basic Stance

Wood chips and wastepaper are the main raw materials for pulp and paper. These raw materials are procured not only from domestic and overseas suppliers, but also through the cooperation of many people from local communities and government institutions. Based on its relationship with society and the environment, it is important for the Nippon Paper Group to work with suppliers to establish a sustainable supply chain that takes into consideration forest ecosystems, local communities, and occupational health and safety.

The Nippon Paper Group established its Philosophy and Basic Policy Concerning Raw Materials Procurement in fiscal 2005 in order to achieve sustainable procurement of raw materials.

Philosophy and Basic Policy Concerning Raw Materials Procurement

(Formulated on October 5, 2005)

Philosophy

We are committed to establishing a reliable raw materials procurement system through global supply chain management in consideration of the environment and society.

Basic Policy

1. Environmentally friendly raw materials procurement

- (1) We procure wood chips, lumber and pulp from forests under sustainable forest management.
- (2) We use and deal in no illegally logged lumber and we support the eradication of illegal logging.
- (3) We make active use of recycled materials to help build a recycling-oriented society.
- (4) We make appropriate procurement of chemical substances in compliance with relevant laws and regulations.
- (5) We build traceability systems to ensure the above policies are practiced throughout the supply chain.

2. Socially aware raw materials procurement

- (1) We pursue fair deals with suppliers on equal terms.
- (2) We ensure that the entire supply chain has appropriate human rights and labor practices.

3. Promotion of dialogues with stakeholders

- (1) We engage in dialogues with stakeholders to improve the quality of our raw materials procurement in constant consideration of the environment and society.
- (2) We proactively disclose information so that our initiatives are better known.

Sustainable Procurement of Wood Resources

The Nippon Paper Group conducts sustainable procurement of wood resources based on its Philosophy and Basic Policy Concerning Raw Materials Procurement. We established and put into place an action plan that provides a road map incorporating checks on the legality of wood materials, and consideration for human rights, labor, local communities, and the protection of biodiversity, allowing the Group to practice CSR procurement. This action plan helps enhance traceability with respect to wood chips procured from overseas while placing considerable emphasis on trade association certification of the legality of wood chips produced in Japan. Regarding materials procured from overseas, we investigate human rights, labor matters, issues related to harmony with local societies, and the impact on biodiversity through surveys and meetings with suppliers.

In addition to confirming on its own through the action plan that all wood resources are being procured in accordance with its Philosophy and Basic Policy Concerning Raw Materials Procurement, the Company also undergoes third-party audits through annual forest certification inspections.

Nurturing of Sustainable Forest Resources

In addition to confirming the sustainability of the wood resources it procures from outside sources, the Company also owns forestland in Japan and abroad, where it conducts sustainable forest management.

In Japan, the Company owns 90 thousand hectares of forestland in approximately 400 locations, giving it access to domestically sourced materials. Overseas, the Company has a total of 91 thousand hectares of afforested land in Brazil, Australia, etc. operated based on the Tree Farm Initiative, wherein only trees that come to maturity are harvested and used each year.

When conducting forest management, the Company not only takes into consideration economic sustainability, but also places emphasis on social and environmental sustainability. The Company conducts sustainable forest management, taking into consideration local residents, local culture and traditions, and the natural environment and ecosystems, thereby preserving the multiple functions that forests have to offer.

The Company has obtained forest certification for all of its forestland in both Japan and overseas and third-party certification for its sustainable forest management practices.

While forests are an important management resource for the Group, as a company that shapes the future with trees, we are also working to maintain forests by keeping in mind their many other functions.

Company-owned forests in Japan

(as of March 31, 2017)

90

thousand hectares

Afforested land overseas

(as of March 31, 2017)

91

thousand hectares

Brazil: 52 thousand hectares
Australia: 15 thousand hectares
Chile: 13 thousand hectares
South Africa: 11 thousand hectares

Human Resources

Basic Stance

The Nippon Paper Group's themes under its Sixth Medium-Term Business Plan are (1) Reorganize the production structure of the paper business and make maximum utilization of in-house facilities, and (2) Expand business in growth areas and achieve early commercialization of new businesses. We are strengthening the cultivation of leaders who will push for change and striving for optimal deployment of human resources based on Challenge, Fairness, and Teamwork, the values set down by the Company within the Group Mission in 2015.

We aspire to cultivate the type of leaders who are independent enough to decide what must be done and who have a global perspective and can take on new challenges.

Optimal Deployment of Human Resources

In order to accelerate the transformation of our business structure as a comprehensive biomass company, as part of our efforts to reallocate management resources, we are striving for optimal deployment of our human resources. We are deploying more human resources in growth businesses by transferring human resources from mature businesses to businesses such as household paper products and healthcare products to new businesses where new human resources are needed. We regularly conduct surveys on employees' preferences and take into account individuals' desires in order to optimally deploy our human resources.

Cultivating Global Human Resources

For the Nippon Paper Group, which seeks to expand overseas, mainly in Asia, the cultivation of global human resources is an important challenge. We are strengthening efforts to increase awareness and educate all of our regular employees, who are potential future leaders, in order for them to become global leaders. As part of these efforts, we established an overseas corporate internship program in 2016. Participants learn about foreign cultures and lifestyles by working and studying overseas and, in addition to increasing their desire to work overseas, this program aims to cultivate employees who are able to flexibly respond to issues that arise at overseas business sites.

Promoting Diversity

The Nippon Paper Group works to promote diversity in line with its view that the creation of workplaces wherein a wide range of people can express their individuality is essential to the continuous development of a company. We view the promotion of women's participation as an important theme in terms of increasing the dynamism of our organizations and securing human resources as the population of Japan continues to decline. For that reason, in April 2016 we launched our Action Plan based on the Act on Promotion of Women's Participation and Advancement in the Workplace. Under this plan, we are promoting efforts toward creating environments where women can thrive by increasing the number of women hired as management track employees, expanding the range of roles available to women, and providing career training for female employees.

Occupational Safety and Health

Basic Stance

Maintaining a workplace environment that enables employees to work with peace of mind is a basic responsibility for any business. In operating its business, the Nippon Paper Group places great emphasis on its safety and disaster preparedness.

Consistently engaging in sound management while living up to the trust of employees is also important for building a pleasant and comfortable workplace that helps to maintain and improve employees' health. We have created labor safety and health systems and continuously strive to prevent accidents and provide safe, pleasant working environments, based on the Philosophy and Basic Policy on Safety and Health Measures established in FY2004.

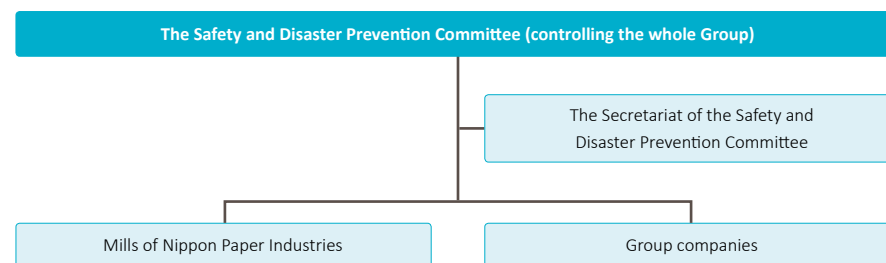
Occupational Safety and Health Assurance System

The persons responsible for occupational safety and health from the head office, mills, and labor union come together once a year to discuss a variety of issues, including the annual occupational safety and health management plan. At each business location, a safety and health committee makes deliberations, decisions, and announcements regarding key management issues and action plans and promotes concrete activities aimed at securing safety and health and achieving disaster preparedness.

Occupational Safety and Health Management System

In 2009, the Group established its own occupational safety and health management system in order to continuously pursue occupational safety and health management activities at the organization level.

The Nippon Paper Group's system to promote occupational safety and health



Product Safety

Basic Stance

The Nippon Paper Group operates many businesses, including healthcare products and chemical products, for which paper products form the basis.

Our core responsibility is to contribute to society by providing products and services that are indispensable to everyday life to a wide range of customers including corporations and individuals.

In order to ensure a level of quality that allows us to maintain the trust of our customers, the Nippon Paper Group has identified improvement of product safety as an important challenge. We have been working to improve safety based on our Philosophy and Basic Policy on Product Safety (established in 2004, revised in 2014).

Product Safety Management System

The Nippon Paper Group Product Safety Committee, chaired by the General Manager of Nippon Paper Industries Co., Ltd.'s Technical & Engineering Division, oversees all activities concerning product safety. The committee deliberates on and determines important matters concerning product safety policies and activities.

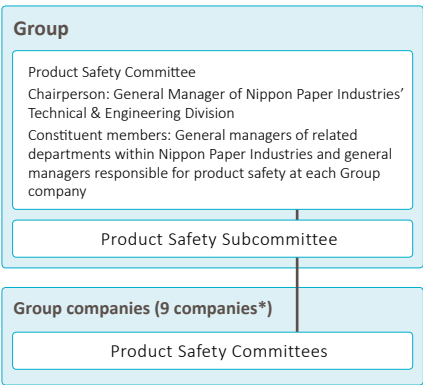
Reporting directly to the committee, the Product Safety Subcommittee monitors and manages activities at each Group company. Drawing on information and the exchange of opinions among Group companies, the subcommittee also deliberates on optimal responses to matters of concern and submits its findings to the Product Safety Committee. Each Group company establishes its own product safety committee and implements measures to promote product safety.

Efforts to Ensure Product Safety

The Nippon Paper Group, acting in compliance with laws, including Japanese laws such as the Act on the Evaluation of Chemical Substances and Regulation of Their Manufacture, PRTR Law, and Food Sanitation Act, works to ensure product safety by employing management approaches adapted to the characteristics of particular operations and products.

The Nippon Paper Group as a whole follows ISO14001 environmental management system standards; the paper business follows product safety management guidelines for paper and paperboard with direct exposure to food products; and the livelihood-related business practices HACCP hygiene management for food-grade containers, food, and beverages, has FSSC22000 food safety certifications, and implements food defense measures.

Product safety management system



* Nippon Paper Industries, Nippon Paper Crecia, Nippon Paper Papylia, Nippon Paper Lumber, Kitakami Paper, Nippon Seitai, NP Trading, Nippon Paper Development, Akita Jujo Chemicals (as of March 31, 2017)

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Six-Year Financial Summary

Nippon Paper Industries Co., Ltd. and Consolidated Subsidiaries*¹
Fiscal Years Ended March 31

	Millions of yen					Thousands of U.S. dollars*2	
	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	
Fiscal year							
Net sales	¥1,025,078	¥1,081,277	¥1,052,491	¥1,007,097	¥992,428	¥1,046,499	\$9,872,632
Cost of sales	796,411	844,603	825,576	800,185	787,464	846,109	7,982,160
Operating income	25,145	28,536	23,656	22,623	23,764	17,613	166,160
Ordinary income	23,081	28,188	23,204	17,123	26,994	18,649	175,934
Profit attributable to owners of parent	10,652	22,770	23,183	2,424	8,399	7,847	74,028
Capital investment	53,323	47,162	48,518	46,899	51,289	72,765	686,462
Depreciation	64,903	63,181	61,374	57,672	55,083	57,892	546,151
Free cash flow	4,212	50,902	39,363	68,689	21,809	(17,787)	(167,802)
End of fiscal year							
Total assets	¥1,497,729	¥1,480,894	¥1,495,622	¥1,390,918	¥1,388,885	¥1,433,036	\$13,519,208
Total current assets	507,335	505,417	484,498	502,912	486,205	496,630	4,685,189
Total property, plant and equipment	747,423	729,179	715,406	669,298	686,813	717,927	6,772,896
Other noncurrent assets	242,970	246,297	295,716	218,707	215,867	218,478	2,061,113
Total liabilities	1,101,269	1,054,309	1,005,881	966,233	953,974	989,638	9,336,208
Total net assets	396,460	426,584	489,740	424,685	434,911	443,398	4,183,000
Interest-bearing debt	830,220	775,597	731,834	703,831	678,504	693,562	6,543,038
Per share data						Yen	U.S. dollars*2
Profit attributable to owners of parent	¥ 92.00	¥ 196.67	¥ 200.27	¥ 20.95	¥ 72.57	¥ 67.80	\$ 0.64
Net assets	3,391.59	3,652.76	4,198.10	3,645.87	3,714.63	3,776.26	35.63
Cash dividends	40.00	40.00	50.00	60.00	60.00	60.00	0.57
Ratios and number of employees						%	
Operating income margin	2.5%	2.6%	2.2%	2.2%	2.4%	1.7%	
Net profit margin	1.0	2.1	2.2	0.2	0.8	0.7	
Equity ratio	26.2	28.6	32.5	30.3	31.0	30.5	
Return on equity (ROE)	2.8	5.6	5.1	0.5	2.0	1.8	
Return on invested capital (ROIC)	2.9	3.3	2.8	2.4	3.2	2.3	
Return on assets (ROA)	2.3	2.7	2.2	2.0	2.6	1.8	
Debt/equity ratio (times)	1.9	1.7	1.6	1.5	1.5	1.6	
Number of employees	13,052	13,107	12,771	11,741	13,057	12,881	

*1 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.

*2 Amounts in U.S. dollars are included solely for convenience and are translated at the rate of ¥106 = US\$1.00, the approximate rate of exchange on March 31, 2018.

• 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 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 the end of FY2017 were ¥1,433.0 billion, an increase of ¥44.1 billion from ¥1,388.8 billion at the end of FY2016. This was mainly due to increases of ¥20.3 billion in notes and accounts receivable—trade, ¥31.1 billion in property, plant and equipment, and ¥7.2 billion in inventories, and a decrease of ¥31.5 billion in cash and deposits.

Total liabilities increased ¥35.6 billion from ¥953.9 billion at the end of FY2016 to ¥989.6 billion, largely due to an increase in interest-bearing debt.

Net assets increased ¥8.4 billion from ¥434.9 billion at the end of FY2016 to ¥443.3 billion. This was mainly due to an increase of ¥5.3 billion in remeasurements of defined benefit plans.

As a result, the equity ratio decreased to 30.5% from 31.0% at the end of FY2016.

Cash Flows

Consolidated cash and cash equivalents (“cash”) decreased ¥31.5 billion compared with the end of FY2016, to ¥59.0 billion at the end of FY2017.

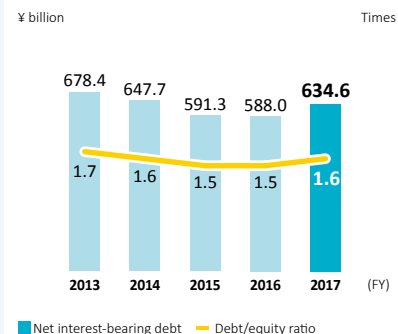
Net cash provided by operating activities decreased ¥42.1 billion from FY2016 to ¥44.9 billion. The main factors were profit before income taxes of ¥18.3 billion, depreciation of ¥57.8 billion, and net cash outflow of ¥13.5 billion due to changes in working capital (total changes in receivables, inventories, and payables).

Net cash used in investing activities decreased ¥2.5 billion from FY2016 to ¥62.7 billion in FY2017. The main factors behind this result were ¥67.9 billion in purchases of noncurrent assets, ¥6.8 billion in payments for business withdrawal, and ¥10.3 billion in proceeds from sales of investment securities.

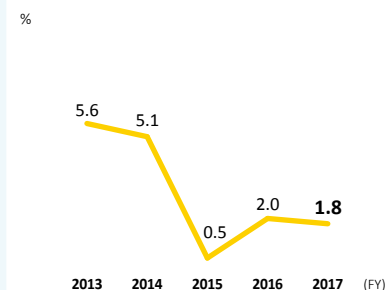
Net cash used in financing activities decreased ¥37.1 billion from FY2016 to ¥12.5 billion, mainly reflecting the repayment of interest-bearing debt.

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

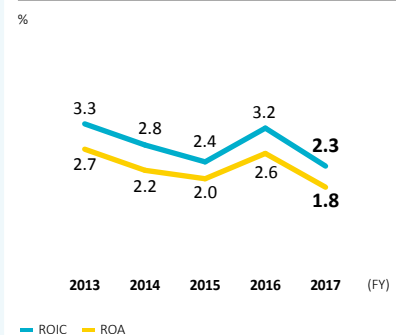
Net Interest-Bearing Debt & Debt/Equity Ratio



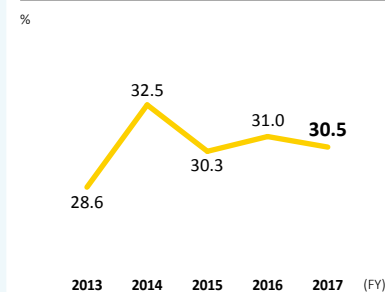
ROE



ROIC / ROA



Equity Ratio



Cash Flow Indicators

	(FY)				
	2013	2014	2015	2016	2017
Equity ratio (%)	28.6	32.5	30.3	31.0	30.5
Equity ratio based on market capitalization (%)	15.2	14.0	16.7	16.7	16.1
Interest-bearing debt/Cash flow (times)	10.2	8.9	13.4	7.8	15.4
Interest coverage ratio (times)	6.4	7.7	5.3	9.5	5.8

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:

Product Demand and Market Conditions

The Nippon Paper Group engages in its mainstay paper and paperboard business, livelihood-related business, energy business, and wood products and construction related business. 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.

Manufacturing Conditions

The 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.

Foreign Exchange

The 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.

Raw Material and Fuel Prices

The Nippon Paper Group purchases raw materials and fuel 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.

Stock Prices

The 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.

Interest Rates

The 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.

Overseas Business

The Nippon Paper Group manufactures pulp and paper and operates forestry plantations and other businesses overseas in North America, South America, Scandinavia, China, Southeast Asia, 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.

Litigation

The 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.

Impairment of Fixed Assets

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

Natural Disasters

In the wake of major natural disasters, including earthquakes, occurring near production and sales sites, the 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.

Credit Risk

The 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.

Other Risks Associated with Changes in Business Conditions, etc.

The 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, 2017 and 2018

		Millions of yen	Thousands of U.S. dollars
	FY2016	FY2017	FY2017
Assets			
Current assets			
Cash and deposits	¥ 90,514	¥ 59,003	\$ 556,632
Notes and accounts receivable—trade	200,440	220,766	2,082,698
Merchandise and finished goods	83,357	82,180	775,283
Work in process	17,890	17,176	162,038
Raw materials and supplies	57,432	66,541	627,745
Deferred tax assets	6,743	6,150	58,019
Other	30,426	45,323	427,575
Allowance for doubtful receivables	(600)	(511)	(4,821)
Total current assets	486,205	496,630	4,685,189
Noncurrent assets			
Property, plant and equipment			
Buildings and structures	489,397	499,132	4,708,792
Accumulated depreciation	(358,767)	(360,867)	(3,404,406)
Buildings and structures, net	130,630	138,264	1,304,377
Machinery, equipment and vehicles	2,191,073	2,224,884	20,989,472
Accumulated depreciation	(1,909,252)	(1,912,493)	(18,042,387)
Machinery, equipment and vehicles, net	281,820	312,390	2,947,075
Land	219,360	218,318	2,059,604
Mountain forests and plantations	29,030	27,508	259,509
Construction in progress	20,461	15,721	148,311
Other	45,613	45,823	432,292
Accumulated depreciation	(40,103)	(40,099)	(378,292)
Other, net	5,509	5,724	54,000
Total property, plant and equipment	686,813	717,927	6,772,896
Intangible assets	15,543	13,868	130,830
Investments and other assets			
Investments in securities	183,591	178,550	1,684,434
Net defined benefit assets	1,618	6,048	57,057
Deferred tax assets	2,217	2,502	23,604
Other	13,449	18,034	170,132
Allowance for doubtful receivables	(553)	(524)	(4,943)
Total investments and other assets	200,323	204,610	1,930,283
Total noncurrent assets	902,680	936,406	8,834,019
Total assets	¥ 1,388,885	¥ 1,433,036	\$13,519,208

		Millions of yen	Thousands of U.S. dollars
	FY2016	FY2017	FY2017
Liabilities			
Current liabilities			
Notes and account payable—trade	¥ 128,926	¥ 142,275	\$ 1,342,217
Short-term loans payable	262,391	288,063	2,717,575
Current portion of bonds	10,000	—	—
Accrued income taxes	5,369	1,968	18,566
Other	87,806	97,409	918,953
Total current liabilities	494,493	529,717	4,997,330
Long-term liabilities			
Bonds payable	50,000	60,000	566,038
Long-term loans payable	354,353	343,334	3,239,000
Deferred tax liability	21,889	32,710	308,585
Allowance for environmental costs	381	314	2,962
Net defined benefit liability	24,371	12,925	121,934
Other	8,484	10,635	100,330
Total long-term liabilities	459,480	459,921	4,338,877
Total liabilities	953,974	989,638	9,336,208
Net assets			
Shareholders' equity			
Common stock	104,873	104,873	989,368
Capital surplus	216,531	216,420	2,041,698
Retained earnings	73,479	73,506	693,453
Treasury stock, at cost	(1,398)	(1,414)	(13,340)
Total shareholders' equity	393,486	393,386	3,711,189
Accumulated other comprehensive income			
Net unrealized holding gain on other securities	22,249	23,243	219,274
Net deferred gain (loss) on hedges	626	(1,566)	(14,774)
Translation adjustments	20,260	23,338	220,170
Remeasurements of defined benefit plans	(6,702)	(1,376)	(12,981)
Total accumulated other comprehensive income	36,434	43,638	411,679
Non-controlling interests	4,990	6,373	60,123
Total net assets	434,911	443,398	4,183,000
Total liabilities and net assets	¥1,388,885	¥1,433,036	\$13,519,208

Consolidated Financial Statements

Consolidated Statements of Operations

Fiscal Years Ended March 31, 2017 and 2018

		Millions of yen	Thousands of U.S. dollars
	FY2016	FY2017	FY2017
Net sales	¥992,428	¥1,046,499	\$9,872,632
Cost of sales	787,464	846,109	7,982,160
Gross profit	204,963	200,390	1,890,472
Selling, general and administrative expenses			
Freightage related expenses	61,910	66,670	628,962
Sales related expenses	56,352	53,429	504,047
Salaries and allowances	36,784	36,232	341,811
Other	26,152	26,444	249,472
Total selling, general and administrative expenses	181,199	182,776	1,724,302
Operating income	23,764	17,613	166,160
Other income			
Interest income	900	528	4,981
Dividend income	1,795	2,055	19,387
Equity in earnings of affiliates	4,623	5,731	54,066
Commissioning electricity sales revenue	—	2,709	25,557
Foreign exchange gains	3,987	—	—
Other	4,896	4,246	40,057
Total other income	16,204	15,271	144,066
Other expenses			
Interest expenses	8,944	7,826	73,830
Commissioning costs	—	2,448	23,094
Other	4,029	3,959	37,349
Total other expenses	12,974	14,235	134,292
Ordinary income	26,994	18,649	175,934
Extraordinary income			
Gain on contribution of securities to retirement benefit trust	—	6,923	65,311
Gain on sales of property, plant and equipment	16,959	2,637	24,877
Gain on sales of investment securities	7,811	2,414	22,774
Gain on transfer of benefit obligation relating to employees' pension fund	6,944	—	—
Other	484	80	755
Total extraordinary income	32,198	12,055	113,726
Extraordinary loss			
Impairment loss	4,997	4,797	45,255
Loss on retirement of noncurrent assets	4,091	2,433	22,953
Loss on valuation of investment securities	148	1,731	16,330
Loss on business withdrawal	23,712	—	—
Other	3,458	3,411	32,179
Total extraordinary loss	36,408	12,373	116,726
Profit before income taxes	22,784	18,332	172,943
Income taxes—current	7,089	1,106	10,434
Income taxes—deferred	7,945	10,430	98,396
Total income taxes	15,035	11,536	108,830
Profit	7,748	6,795	64,104
Loss attributable to non-controlling interests	(650)	(1,051)	(9,915)
Profit attributable to owners of parent	¥ 8,399	¥ 7,847	\$ 74,028

Consolidated Statements of Comprehensive Income

Fiscal Years Ended March 31, 2017 and 2018

		Millions of yen	Thousands of U.S. dollars
	FY2016	FY2017	FY2017
Income before minority interests	¥ 7,748	¥ 6,795	\$ 64,104
Other comprehensive income			
Net unrealized holding gain on other securities	3,170	792	7,472
Net deferred gain (loss) on hedges	1,781	(1,167)	(11,009)
Translation adjustments	1,516	1,734	16,358
Remeasurements of defined benefit plans, net of tax	6,794	5,349	50,462
Share of other comprehensive income of affiliates accounted for using the equity method	4,783	1,781	16,802
Total other comprehensive income	18,047	8,489	80,085
Comprehensive income	¥25,795	¥15,285	\$144,198
(Details)			
Comprehensive income attributable to owners of parent	¥26,469	¥16,255	\$153,349
Comprehensive income attributable to non-controlling interests	(673)	(970)	(9,151)

Consolidated Financial Statements

Consolidated Statements of Changes in Net Assets

Fiscal Years Ended March 31, 2017 and 2018

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 on other securities	Net deferred gain (loss) on hedges	Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at April 1, 2016	116,254,892	¥104,873	¥217,104	¥82,215	¥(1,378)	¥402,814	¥18,974	¥(1,193)	¥15,088	¥(13,683)	¥19,185	¥2,685	¥424,685
Changes of items during the period													
Cash dividends paid		—	—	(6,947)	—	(6,947)	—	—	—	—	—	—	(6,947)
Profit attributable to owners of parent		—	—	8,399	—	8,399	—	—	—	—	—	—	8,399
Purchase of treasury stock		—	—	—	(20)	(20)	—	—	—	—	—	—	(20)
Disposition of treasury stock		—	(0)	—	1	1	—	—	—	—	—	—	1
Changes in scope of consolidation		—	—	(10,188)	—	(10,188)	—	—	—	—	—	—	(10,188)
Change in ownership interest of parent due to transactions with non-controlling interests		—	(572)	—	(0)	(572)	—	—	—	—	—	—	(572)
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		—	—	—	—	—	3,275	1,820	5,172	6,981	17,248	2,305	19,554
Total changes of items during the period		—	(572)	(8,736)	(19)	(9,328)	3,275	1,820	5,172	6,981	17,248	2,305	10,225
Balance at March 31, 2017	116,254,892	¥104,873	¥216,531	¥73,479	¥(1,398)	¥393,486	¥22,249	¥ 626	¥20,260	¥ (6,702)	¥36,434	¥4,990	¥434,911
Balance at April 1, 2017	116,254,892	¥104,873	¥216,531	¥73,479	¥(1,398)	¥393,486	¥22,249	¥ 626	¥20,260	¥ (6,702)	¥36,434	¥4,990	¥434,911
Changes of items during the period													
Cash dividends paid		—	—	(6,946)	—	(6,946)	—	—	—	—	—	—	(6,946)
Profit attributable to owners of parent		—	—	7,847	—	7,847	—	—	—	—	—	—	7,847
Purchase of treasury stock		—	—	—	(18)	(18)	—	—	—	—	—	—	(18)
Disposition of treasury stock		—	(0)	—	1	1	—	—	—	—	—	—	1
Changes in scope of consolidation		—	—	(1,201)	—	(1,201)	—	—	—	—	—	—	(1,201)
Change in scope of equity method		—	—	328	—	328	—	—	—	—	—	—	328
Change in ownership interest of parent due to transactions with non-controlling interests		—	(110)	—	—	(110)	—	—	—	—	—	—	(110)
Changes in items other than shareholders' equity, net		—	—	—	—	—	993	(2,192)	3,077	5,325	7,204	1,382	8,587
Total changes of items during the period		—	(110)	27	(16)	(100)	993	(2,192)	3,077	5,325	7,204	1,382	8,486
Balance at March 31, 2018	116,254,892	¥104,873	¥216,420	¥73,506	¥(1,414)	¥393,386	¥23,243	¥(1,566)	¥23,338	¥ (1,376)	¥43,638	¥6,373	¥443,398

						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 on other securities	Net deferred gain (loss) on hedges	Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at April 1, 2017	\$989,368	\$2,042,745	\$693,198	\$ (13,189)	\$3,712,132	\$209,896	\$ 5,906	\$191,132	\$ (63,226)	\$343,717	\$47,075	\$4,102,934	
Changes of items during the period													
Cash dividends paid	—	—	(65,528)	—	(65,528)	—	—	—	—	—	—	(65,528)	
Profit attributable to owners of parent	—	—	74,028	—	74,028	—	—	—	—	—	—	74,028	
Purchase of treasury stock	—	—	—	(170)	(170)	—	—	—	—	—	—	(170)	
Disposition of treasury stock	—	(0)	—	9	9	—	—	—	—	—	—	9	
Changes in scope of consolidation	—	—	(11,330)	—	(11,330)	—	—	—	—	—	—	(11,330)	
Change in scope of equity method	—	—	3,094	—	3,094	—	—	—	—	—	—	3,094	
Change in ownership interest of parent due to transactions with non-controlling interests	—	(1,038)	—	—	(1,038)	—	—	—	—	—	—	(1,038)	
Changes in items other than shareholders' equity, net	—	—	—	—	—	9,368	(20,679)	29,028	50,236	67,962	13,038	81,009	
Total changes of items during the period	—	(1,038)	255	(151)	(943)	9,368	(20,679)	29,028	50,236	67,962	13,038	80,057	
Balance at March 31, 2018	\$989,368	\$2,041,698	\$693,453	\$ (13,340)	\$3,711,189	\$219,274	\$ (14,774)	\$220,170	\$ (12,981)	\$411,679	\$60,123	\$4,183,000	

Consolidated Financial Statements

Consolidated Statements of Cash Flows

Fiscal Years Ended March 31, 2017 and 2018

		Millions of yen	Thousands of U.S. dollars
	FY2016	FY2017	FY2017
Operating activities			
Profit before income taxes	¥ 22,784	¥ 18,332	\$ 172,943
Depreciation	55,083	57,892	546,151
Amortization of goodwill	2,029	2,049	19,330
Increase (decrease) in allowance for doubtful receivables	34	(143)	(1,349)
Increase (decrease) in net defined benefit liability	(7,356)	(1,822)	(17,189)
Increase (decrease) in allowance for environmental costs	(89)	(66)	(623)
Interest and dividend income	(2,695)	(2,583)	(24,368)
Interest expense	8,944	7,826	73,830
Equity in (earnings) losses of affiliates	(4,623)	(5,731)	(54,066)
Loss (gain) on sales of property, plant and equipment	(16,959)	(2,637)	(24,877)
Loss (gain) on sales of investment securities	(7,811)	(2,414)	(22,774)
Loss (gain) on valuation of investment securities	148	1,731	16,330
Gain on contribution of securities to retirement benefit trust	—	(6,923)	(65,311)
Loss on business withdrawal	23,712	—	—
Impairment loss	4,997	4,797	45,255
Net loss on disposal of noncurrent assets	4,091	2,433	22,953
Decrease (increase) in receivables	(3,319)	(19,641)	(185,292)
Decrease (increase) in inventories	5,884	(6,808)	(64,226)
Increase (decrease) in payables	13,990	12,942	122,094
Other	(2,544)	665	6,274
Subtotal	96,301	59,896	565,057
Interest and dividends received	4,117	4,524	42,679
Interest paid	(9,214)	(7,800)	(73,585)
Payments for supplementary retirement benefits	(178)	—	—
Income taxes paid	(3,938)	(11,677)	(110,160)
Net cash provided by (used in) operating activities	¥ 87,087	¥ 44,944	\$ 424,000

		Millions of yen	Thousands of U.S. dollars
	FY2016	FY2017	FY2017
Investing activities			
Purchases of time deposits	¥ —	¥ (620)	\$ (5,849)
Purchases of noncurrent assets	(49,589)	(67,981)	(641,330)
Proceeds from sales of noncurrent assets	18,882	4,214	39,755
Purchases of investments in other securities	(18,210)	(1,493)	(14,085)
Proceeds from sales of investments securities	15,391	10,319	97,349
Payments for transfer of business	(31,432)	—	—
Payments for business withdrawal	—	(6,890)	(65,000)
Decrease (increase) in short-term loans receivable	203	(150)	(1,415)
Payments of long-term loans receivable	(70)	(96)	(906)
Collection of long-term loans receivable	103	132	1,245
Other	(555)	(165)	(1,557)
Net cash provided by (used in) investing activities	(65,278)	(62,731)	(591,802)
Financing activities			
Increase (decrease) in short-term loans payable	10,746	(778)	(7,340)
Proceeds from long-term loans payable	25,350	53,556	505,245
Repayment of long-term loans payable	(64,920)	(58,396)	(550,906)
Proceeds from issuance of bonds	—	10,000	94,340
Redemption of bonds	(13,000)	(10,000)	(94,340)
Purchase of treasury shares	(20)	(18)	(170)
Proceeds from share issuance to non-controlling shareholders	—	930	8,774
Cash dividends paid	(6,941)	(6,939)	(65,462)
Dividends paid to non-controlling interests	(7)	(0)	(0)
Finance lease principal payments	(901)	(898)	(8,472)
Other	0	(3)	(28)
Net cash provided by (used in) financing activities	(49,694)	(12,548)	(118,377)
Effect of exchange rate changes on cash and cash equivalents	435	(1,305)	(12,311)
Increase (decrease) in cash and cash equivalents	(27,450)	(31,641)	(298,500)
Cash and cash equivalents at beginning of year	112,510	90,514	853,906
Increase due to inclusion of certain subsidiaries in consolidation	5,454	130	1,226
Cash and cash equivalents at end of period	¥ 90,514	¥ 59,003	\$ 556,632

Consolidated Subsidiaries and Equity-Method Affiliates

(As of March 31, 2018)

Consolidated Subsidiaries

Paper and paperboard business	Capital (¥ million)	Location	Share of voting rights (%)
Nippon Paper Papyrus Co., Ltd.	3,949	Japan	100.00
Nippon Tokai Industrial Paper Supply Co., Ltd.	350	Japan	65.00
Paper Australia Pty. Ltd. (and its 7 subsidiaries)	(AUD1,000) 662,280	Australia	100.00
NP Trading Co., Ltd.	1,000	Japan	100.00
Kokuei Paper Co., Ltd.	100	Japan	100.00
SUN-OAK CO., LTD.	75	Japan	100.00
Kitakami Paper Co., Ltd.	300	Japan	99.62
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
Juho Thermal Oy	(EURO1,000) 7,651	Finland	100.00
Siam Nippon Industrial Paper Co., Ltd.	(THB1,000) 1,100,000	Thailand	55.00

Livelihood-related business	Capital (¥ million)	Location	Share of voting rights (%)
Nippon Paper Crecia Co., Ltd.	3,067	Japan	100.00
Nippon Dynawave Packaging Company, LLC	(USD1,000) 200,000	U.S.A.	100.00
Nippon Seitai Corporation	424	Japan	100.00
Kyouei Seitai K.K.	40	Japan	60.19
Flowric Co., Ltd.	172	Japan	100.00

Energy business	Capital (¥ million)	Location	Share of voting rights (%)
Nippon Paper Ishinomaki Energy Center Ltd.	4,900	Japan	70.00

Wood products and construction related business	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
N&E Co., Ltd.	450	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
Amapá Florestal e Celulose S.A. (and its 1 subsidiary)	(BRL1,000) 329,144	Brazil	100.00
Nippon Paper Resources Australia Pty. Ltd.	(AUD1,000) 26,500	Australia	100.00

Other businesses	Capital (¥ million)	Location	Share of voting rights (%)
Nippon Paper Logistics Co., Ltd.	10	Japan	100.00
Nanko Unyu Co., Ltd.	160	Japan	100.00
Kyokushin Transport Corporation	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
Sakurai Co., Ltd.	120	Japan	54.76
GAC CO., LTD.	48	Japan	100.00

Equity-Method Affiliates

	Capital (¥ million)	Location	Share of voting rights (%)
Daishowa-Marubeni International Ltd.	(CAD1,000) 262,000	Canada	50.00
Shin Tokai Paper Co., Ltd.	3,135	Japan	35.00
KYODO PAPER HOLDINGS CO., LTD.	2,381	Japan	31.04
Phoenix Pulp & Paper Public Company Ltd.	(THB1,000) 2,462,811	Thailand	30.00
Nippon Paper Mega Solar Komatsushima, LLC	1	Japan	50.00
Suzukawa Energy Center Ltd.	1,298	Japan	20.00
Daishowa Paper Converting Co., Ltd.	235	Japan	44.68
DIXIE JAPAN LTD.	100	Japan	44.41
Nippon Tokan Package Co., Ltd.	700	Japan	45.00
LINTEC Corporation	23,201	Japan	31.00
CHIYODA SVAC CO., LTD.	200	Japan	32.50

Domestic Network

Major Subsidiaries and Manufacturing Bases

(As of July 1, 2018)



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)
- ③ Akita Mill (Akita)
- ④ Ishinomaki Mill (Miyagi)
- ⑤ Iwanuma Mill (Miyagi)
- ⑥ Nakoso Mill (Fukushima)
- ⑦ Kanto Mill (Tochigi/Saitama)
- ⑧ Fuji Mill (Shizuoka)
- ⑨ Gotsu Mill (Shimane)
- ⑩ Otake Mill (Hiroshima)
- ⑪ Iwakuni Mill (Yamaguchi)
- ⑫ Yatsushiro Mill (Kumamoto)

Nippon Paper Industries Co., Ltd.

Chemical Sales Division

- ⑬ Higashimatsuyama Mill (Saitama)

Nippon Paper Liquid Package Product Co., Ltd.

- ⑭ Ishioka Mill (Ibaraki)
- ⑮ Egawa Mill (Ibaraki)
- ⑯ Miki Mill (Hyogo)

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

- ⑰ Tokyo Mill (Saitama)
- ⑱ Kaisei Mill (Kanagawa)
- ⑲ Koyo Mill (Shizuoka)
- ⑳ Kyoto Mill (Kyoto)

Nippon Paper Papylia Co., Ltd.

4-6, Kanda-Surugadai, Chiyoda-ku, Tokyo

101-0062, Japan

Tel: +81-3-6665-5800 Fax: +81-3-3251-1878

- ㉑ Harada Mill (Shizuoka)
- ㉒ Suita Mill (Osaka)
- ㉓ Kochi Mill (Kochi)

NP Trading Co., Ltd.

4-6, Kanda-Surugadai, Chiyoda-ku, Tokyo

101-0062, Japan

Tel: +81-3-6665-7032

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

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

Major Overseas Subsidiaries and Affiliates (As of July 1, 2018)

Asia



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

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

2 Shanghai Office 3 Beijing Office
Shanghai, China Beijing, China

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

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

6 Paper Products Marketing (Hong Kong) Ltd.
Hong Kong

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

8 NP Trading Co., (H.K.) Ltd.
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

12 Ky Vy Corporation
Ho Chi Minh City, Vietnam

13 Nippon Paper Viet Hoa My JSC
Ho Chi Minh City, Vietnam

14 Nippon Paper Foodpac Pvt. Ltd.
Mumbai, India

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 Nippon Dynawave Packaging Company, LCC
Longview, WA, U.S.A.

2 Daishowa North America Corporation
Vancouver, B.C., Canada

3 Daishowa-Marubeni International Ltd.
Vancouver, B.C., Canada

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

5 Volterra S.A.
Concepción, Chile

6 Amapá Florestal e Celulose S.A.
Santana, Amapá, Brazil

Europe



1 Jujo Thermal Oy
Kauttua, Finland

2 Paper Products Marketing Europe GmbH
Neuss, Germany

Company Profile / Stock Information (As of March 31, 2018)

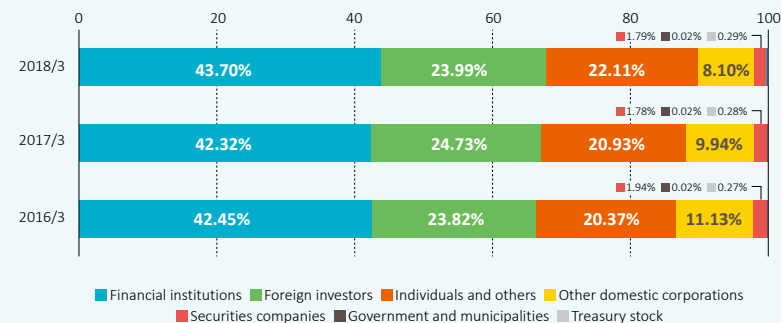
Company name	Nippon Paper Industries Co., Ltd.	
Head office	4-6, Kanda-Surugadai, Chiyoda-ku, Tokyo 101-0062, Japan	
Establishment	August 1, 1949	
Number of employees	4,934 non-consolidated 12,881 consolidated	
Capital	¥104,873 million	
Shares	Number of shares authorized to be issued 300,000,000 shares Number of shares issued 116,254,892 shares (including 336,888 shares of treasury stock) Number of shareholders 91,931	

Major shareholders

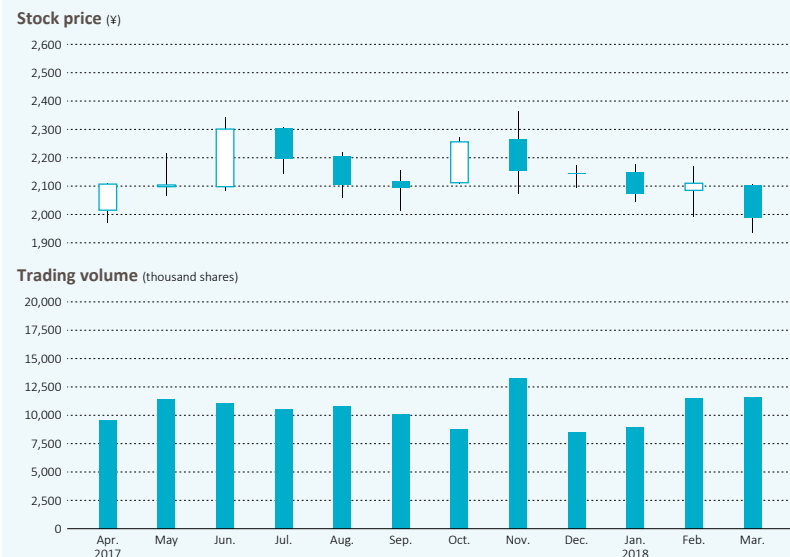
Name	Shares held	Shareholding ratio (%)*
Ichigo Trust Pte. Ltd.	10,978,600	9.47
Japan Trustee Services Bank, Ltd. (Trust Account)	9,017,200	7.78
The Master Trust Bank of Japan, Ltd. (Trust Account)	6,386,100	5.51
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	4,616,801	3.98
Mizuho Bank, Ltd.	4,341,855	3.75
Nippon Paper Industries Co., Ltd. Employee Share Ownership	3,060,729	2.64
Nippon Life Insurance Company	2,473,165	2.13
Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,367,500	2.04
Mitsui Life Insurance Company Limited	2,258,900	1.95
Sumitomo Mitsui Banking Corporation	1,993,846	1.72

* The shareholding ratio was calculated after deducting 336,888 shares of treasury stock.

Percentage of shares held by Shareholder type



Stock price and trading volume trends



Types of Paper Utilized in This Annual Report

- Cover: U-LITE DRY α (157.0 g/m²) produced by Nippon Paper Industries Co., Ltd.
- Contents: b7 Light (97.0 g/m²) produced by Nippon Paper Industries Co., Ltd.