[Notes to consolidated financial statements of Nippon Paper Industries Co., Ltd. (“the Company”) and its subsidiaries (collectively, “the Group”)]

(Significant Matters Providing the Basis for the Preparation of the Consolidated Financial Statements)

1. The scope of consolidation

(1) Number of consolidated subsidiaries: 44

The names of major consolidated subsidiaries are omitted.

Nippon Paper Ishinomaki Energy Center Ltd. and Kyouei Seitai K.K., which were unconsolidated subsidiaries in the fiscal year ended March 31, 2017, have been consolidated effective from the fiscal year ended March 31, 2018, because the significance of the effects of its total assets, net sales, profit or loss (corresponding to the equity ratio owned by the Company) and retained earnings (corresponding to the equity ratio owned by the Company) on the Company's consolidated financial statements increased.

In the fiscal year ended March 31, 2018, the Company newly established Nippon Paper Logistics Co., Ltd., which became a consolidated subsidiary.

In the fiscal year ended March 31, 2018, the Company sold all of the shares of Kunimoku House Co., Ltd. and excluded it from consolidation.

(2) Names, etc., of major unconsolidated subsidiaries

Major unconsolidated subsidiary: Douoh Kouhatsu Ltd.

(Reason for exclusion from the scope of consolidation)

All unconsolidated subsidiaries are excluded from the scope of consolidation because the scale of their operations is small and their total amounts in terms of total assets, net sales, profit or loss (corresponding to the equity ratio owned by the Company) and retained earnings (corresponding to the equity ratio owned by the Company) do not have a significant effect on the Company's consolidated financial statements.

2. Application of the equity method

(1) Number of unconsolidated subsidiaries accounted for by the equity method: 0

(2) Number of affiliates accounted for by the equity method: 11

Names, etc., of major affiliates accounted for by the equity method

Lintec Corporation, Shin Tokai Paper Co., Ltd., Daishowa-Marubeni International Ltd., Nippon Tokan Package Co., Ltd., and Phoenix Pulp & Paper Public Company Limited

Suzukawa Energy Center Ltd., which was previously an affiliate not accounted for by the equity method for the fiscal year ended March 31, 2017, has been included in the scope of affiliates accounted for by the equity method because the significance of the effect on the Company's consolidated financial statements increased.

(3) Unconsolidated subsidiaries (Douoh Kouhatsu Ltd. and 70 other companies) and affiliates (JPT LOGISTICS CO., LTD. and 26 other companies) not accounted for by the equity method are excluded from the scope of the equity method because their total amounts in terms of profit or loss (corresponding to the equity ratio owned by the Company) and retained earnings (corresponding to the equity ratio owned by the Company) are not significant, with insignificant effects on the Company's consolidated financial statements when excluded from the scope of the equity method.

(4) For the affiliates accounted for by the equity method that close their accounts at different dates than the Company's balance sheet date, the financial statements as of their respective balance sheet dates are used for the preparation of the consolidated financial statements.

3. Accounting period of consolidated subsidiaries

The balance sheet date is December 31 for Paper Australia Pty. Ltd. and its seven subsidiaries, Daishowa North America Corporation, Nippon Paper Industries USA Co., Ltd., Jujo Thermal Oy, Siam Nippon Industrial Paper Co., Ltd., Nippon Dynawave Packaging Co., Amapa Florestal e Celulose S.A. and its subsidiary, and Nippon Paper Resources Australia Pty. Ltd.

In preparing the consolidated financial statements, the financial statements as of the said balance sheet date are used for these companies, with necessary adjustments being made for consolidation purposes with regard to material transactions between December 31 and the Company's balance sheet date.

4. Significant accounting policies

(1) Evaluation basis and methods for significant assets

① Securities

Other securities:

Securities with market quotations:

Carried at fair value at the end of the fiscal year

Unrealized gains or losses, net of the applicable income taxes, are included directly in net assets. Costs of securities sold are determined by the moving-average method.

Securities without market quotations:

Carried at cost by the moving-average method

② Derivatives

Fair value method

③ Inventories

Stated at cost, determined principally by the moving-average or periodic-average method. (The balance sheet amount is written down based on any decline in profitability.)

(2) Depreciation methods for significant assets

① Property, plant and equipment (excluding lease assets)

The declining-balance method is used, except that the straight-line method is employed for some assets of the Company and its consolidated subsidiaries.

However, buildings (excluding building fixtures) acquired on or after April 1, 1998, and building fixtures and structures acquired on or after April 1, 2016, are depreciated by the straight-line method.

The useful lives of assets are principally as follows:

Buildings and structures:	10 to 50 years
Machinery, equipment and vehicles:	7 to 15 years

② Intangible assets (excluding lease assets)

The straight-line method is used.

Software for internal use is amortized over an estimated useful life of 5 years on a straight-line basis.

③ Leased assets

Depreciation of leased assets under finance-leasing agreements that do not transfer ownership is calculated using the straight-line method assuming a residual value of zero (or the guaranteed residual value when it is set by the agreement) and a useful life equal to the term of the lease.

(3) Basis for significant allowances and provisions

① Allowance for doubtful receivables

To cover a loss from uncollectible receivables, allowances for bad debts are provided at the amount determined based on the historical experience of bad debts for ordinary receivables. For specific doubtful receivables, the collectability is considered on an individual basis.

② Allowance for environmental costs

To cover future expenditures for disposing of PCB waste in accordance with the Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes, an allowance is provided at the estimated amount of disposal costs.

(4) Accounting policies for retirement benefits

① Method for allocating projected retirement benefits

In calculating retirement benefit obligations, the benefit formula method is applied to allocate projected retirement benefits to the periods until the end of the fiscal year.

② Amortization of actuarial differences and prior service cost

Prior service cost is amortized evenly using the straight-line method over the determined years (5 to 15 years) that are no longer than the average remaining service years of the employees at the time of occurrence.

Actuarial differences are primarily amortized evenly using the straight-line method over the determined years (10 to 15 years) that are no longer than the average remaining service years of employees, beginning from the fiscal year following the time of occurrence.

(5) Accounting policies for translation of significant assets and liabilities denominated in foreign currencies into Japanese yen

Receivables and payables denominated in foreign currencies are translated into Japanese yen, using the spot exchange rates on the balance sheet date, and the resulting translation gains and losses are recognized as income and losses. Assets and liabilities of overseas subsidiaries, etc., are translated into Japanese yen at the spot exchange rates on their balance sheet date, whereas income and expenses are translated into Japanese yen at the average exchange rates. The resulting translation gains and losses are recorded as translation adjustments and non-controlling interests under the net assets section.

(6) Significant hedge accounting methods

① Hedge accounting methods

Deferral hedge accounting is principally adopted.

Receivables and payables denominated in foreign currencies hedged by qualified forward foreign exchange contracts are translated at their corresponding contract rates (the allocation method "*Furiate-shori*").

The exceptional accounting method is adopted for the interest rate swaps that meet special matching criteria ("*Tokurei-shori*"). The integral accounting method is adopted for currency and interest rate swaps that meet the requirements for integral accounting ("*Ittai-shori*").

② Hedging instruments and hedged items

a. Hedging instrument: Forward foreign exchange contracts
Hedged items: Receivables denominated in foreign currencies arisen from exports of products, payables denominated in foreign currencies arisen from imports of raw materials and fuel, and forecast transactions denominated in foreign currencies

b. Hedging instrument: Interest rate swaps
Hedged items: Loans payable

c. Hedging instrument: Interest rate swap and currency and interest rate swap
Hedged items: Loans payable denominated in foreign currencies

d. Hedging instrument: Crude oil swaps
Hedged items: Forecast fuel purchases

③ Hedging policy

The Company uses derivative transactions to primarily hedge fluctuation risks of foreign currencies, interest rates and prices.

④ Method for evaluating hedge effectiveness

The Company evaluates hedge effectiveness based on semiannual comparisons of changes in cash flows or the fair value of hedged items and hedging instruments.

For interest rate swaps that meet the requirements for exceptional accounting method and currency and interest rate swaps that meet the requirements of integral accounting method, the Company omits to evaluate hedge effectiveness as of the balance sheet date.

Evaluation of hedge effectiveness as of the balance sheet date is also omitted if forward foreign exchange contracts with the same amount denominated in U.S. dollars, etc., and the same timing are allocated when the contracts are concluded in accordance with the risk management policies, because they guarantee a correlation due to subsequent exchange rate movements.

(7) Method and period of amortization of goodwill

Goodwill is amortized by the straight-line method over an appropriate period of within 20 years that is determined based on the actual situations of subsidiaries.

(8) Cash and cash equivalents in the consolidated statements of cash flows

Cash and cash equivalents in the consolidated statements of cash flows include cash on hand, demand deposits at banks and highly liquid short-term investments with negligible risk of fluctuation in value and maturities of not exceeding three months.

(9) Other significant accounting policies for the preparation of the consolidated financial statements

① Accounting method for the consumption tax

Transactions subject to the consumption tax are recorded at an amount exclusive of the consumption tax.

② Application of the consolidated taxation system

The Company and certain consolidated subsidiaries have applied the consolidated taxation system from the fiscal year ended March 31, 2018.

(Accounting Standards Issued but Not Yet Applied)

1. "Implementation Guidance on Tax Effect Accounting"

   "Implementation Guidance on Tax Effect Accounting" (the Accounting Standards Board of Japan ("ASBJ") Guidance No. 28, February 16, 2018) and "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, February 16, 2018)

   (1) Overview

   The amendment was made to the accounting treatment of future taxable temporary differences in connection with subsidiaries' shares on non-consolidated financial statements. In addition, it clarifies how to determine the recoverability of deferred tax assets for companies falling under "Classification 1."

   (2) Scheduled date of application

   The Company plans to apply the aforementioned guidance from the beginning of the fiscal year ending March 31, 2019.

   (3) Effect of application

   The effect of application of the aforementioned guidance on the Company's consolidated financial statements is not material.

2. "Accounting Standard for Revenue Recognition"

   "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018)

   (1) Overview

   They are comprehensive accounting standard and guidance with regard to revenue recognition. Revenues are recognized using the following five-step model.

   Step 1: Identify the contract with a customer
   Step 2: Identify performance obligations in the contract
   Step 3: Determine the transaction price
   Step 4: Allocate the transaction price to the performance obligations in the contract
   Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

   (2) Scheduled date of application

   The Company expects to apply the aforementioned standard and guidance from the beginning of the fiscal year ending March 31, 2022.

   (3) Effect of application

   The effect of application of the aforementioned standard and guidance on the Company's consolidated financial statements is currently under evaluation.

(Changes in Presentation)

Consolidated statements of operations

"Loss on valuation of investment securities" was included in "Other" under "Extraordinary loss" in the prior fiscal year. For the fiscal year ended March 31, 2018, however, its materiality increased and it is therefore listed as a separate item. To reflect this change in presentation, the consolidated financial statements for the fiscal year ended March 31, 2017 have been reclassified.

As a result, ¥3,606 million that had been presented in "Other" under "Extraordinary loss" in the consolidated statement of operations for the prior fiscal year is reclassified as ¥148 million in "Loss on valuation of investment securities" and ¥3,458 million in "Other."

Consolidated statements of cash flows

"Loss on valuation of investment securities" was included in "Other" under "Operating activities" in the prior fiscal year. For the fiscal year ended March 31, 2018, however, its materiality increased and it is therefore listed as a separate item. In addition, "Foreign exchange losses (gains)" was separately listed as an item in "Operating activities" in the prior fiscal year. For the fiscal year ended March 31, 2018, however, its materiality decreased and it is therefore included in "Other." To reflect these changes in presentation, the consolidated financial statements for the fiscal year ended March 31, 2017 have been reclassified.

As a result, ¥(3,972) million that had been presented in "Foreign exchange losses (gains)" and ¥1,576 million that had been presented in "Other" under "Operating activities" in the consolidated statements of cash flows for the prior fiscal year are reclassified into ¥148 million as “Loss on valuation of investment securities” and ¥(2,544) million as “Other.”

“Proceeds from sales of treasury stock” was separately listed as an item in “Financing activities” in the prior fiscal year. For the fiscal year ended March 31, 2018, however, it is included in “Other,” considering its monetary impact. To reflect this change in presentation, the consolidated financial statements for the fiscal year ended March 31, 2017 have been reclassified. As a result, ¥0 million that had been presented in “Proceeds from sales of treasury stock” under “Financing activities” in the consolidated statements of cash flows for the prior fiscal year is reclassified to “Other.”

(Notes to Consolidated Balance Sheets)

1. Pledged assets

The following assets are pledged as collateral to secure the financial obligations shown below.

(Millions of yen)

	As of March 31, 2018	As of March 31, 2017
Machinery, equipment and vehicles	**22**	32
Land	**2,407**	141
Investment securities	**2,949**	2,744
Total	**5,380**	2,918

	As of March 31, 2018	As of March 31, 2017
Short-term loans payable	**410**	440
Long-term loans payable (including current portion)	**2,342**	1,554
Total	**2,752**	1,994

2. Accounts related to unconsolidated subsidiaries and affiliates

Major accounts related to unconsolidated subsidiaries and affiliates are as follows:

(Millions of yen)

	As of March 31, 2018	As of March 31, 2017
Investment securities (equity securities)	**112,624**	111,109
Other investments in unconsolidated subsidiaries and affiliates	**2,163**	2,361

3. Guarantee obligations

The Company guarantees the following obligations, including loans payable to financial institutions, etc., of companies other than consolidated subsidiaries.

(Millions of yen)

	As of March 31, 2018	As of March 31, 2017
Daishowa-Marubeni International Ltd.	**6,431**	8,149
Employees (housing loans)	**2,784**	3,227
Nippon Paper Ishinomaki Energy Center Ltd.	**—**	19,681
Other	**2,128**	1,726
Total	**11,344**	32,783

Note: In the fiscal year ended March 31, 2018, the Company made Nippon Paper Ishinomaki Energy Center Ltd. its consolidated subsidiary.

4. Loan commitment agreements (as lender)

The Company maintains loan commitment contracts with unconsolidated subsidiaries. The unexercised portion of facilities based on these contracts is as follows:

(Millions of yen)

	As of March 31, 2018	As of March 31, 2017
Amount of loan commitment contracts	**8,477**	8,527
Amount of lending	**7,354**	7,203
Net	**1,122**	1,323

5. Loan commitment agreements (as borrower)

For efficient procurement of working capital, the Company maintains loan commitment contracts with its banks. The unexercised portion of facilities based on these contracts is as follows:

(Millions of yen)

	As of March 31, 2018	As of March 31, 2017
Amount of loan commitment contracts	**50,000**	50,000
Amount of borrowing	**—**	—
Net	**50,000**	50,000

6. Notes matured as of the end of the fiscal year are settled on the date of their clearing. The following notes matured as of the end of the fiscal year are included in the ending balance because the end of the current fiscal year fell on a holiday of financial institutions.

(Millions of yen)

	As of March 31, 2018	As of March 31, 2017
Notes receivable	**2,390**	—
Notes payable	**6,831**	—

(Notes to Consolidated Statements of Operations)

1. The Company reduced the book value of inventory for which profitability had decreased. Cost of sales includes the following gain (loss) on valuation of inventory.

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
Gain (loss) on valuation of inventory	**758**	(216)

2. Research-and-development costs included in general and administrative expenses and manufacturing costs are as follows:

(Millions of yen)

Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
6,013	5,622

3. Retirement benefit expenses included in general and administrative expenses are as follows:

(Millions of yen)

Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
818	2,156

4. Depreciation expenses included in general and administrative expenses are as follows:

(Millions of yen)

Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
2,480	1,809

5. Gain on sales of property, plant and equipment

Fiscal year ended March 31, 2018
The amount consisted of a gain of ¥2,451 million on sales of land and other items.

Fiscal year ended March 31, 2017
The amount consisted of a gain of ¥15,732 million on sales of land and other items.

6. Gain on transfer of benefit obligation relating to employees' pension fund

Fiscal year ended March 31, 2017
The amount resulted from the transfer of substitutional portion of benefit obligation relating to the Employees' Pension Fund for Nippon Paper Subsidiaries and Affiliates by consolidated subsidiaries of the Company.

7. Impairment loss

Fiscal year ended March 31, 2018
The Group recorded the impairment loss of ¥4,797 million on the following assets.

(Millions of yen)

Location	Assets	Impairment loss	Notes
Ichinoseki-shi, Iwate Prefecture	Machinery, equipment and vehicles	**405**	Assets to be retired
	Buildings and structures	**300**	
	Land	**159**	
	Other	**1,546**	
	Subtotal	**2,411**	
Akita-shi, Akita Prefecture	Machinery, equipment and vehicles	**1,227**	Assets to be retired
	Other	**206**	
	Subtotal	**1,433**	
Ishinomaki-shi, Miyagi Prefecture	Machinery, equipment and vehicles	**638**	
	Other	**110**	
	Subtotal	**749**	
Komatsushima-shi, Tokushima Prefecture, and others	Buildings and structures	**97**	Business-use assets, and others
	Machinery, equipment and vehicles	**65**	
	Land	**35**	
	Other	**4**	
	Subtotal	**202**	
Total		**4,797**	

To test indicators of the impairment of noncurrent assets, the Group groups assets mainly on a cash-generating unit basis for business-use assets and on an individual property basis for assets to be retired.
Book value was written down to recoverable value for business-use assets for which profitability had deteriorated significantly, with the difference reported as "Impairment loss" in "Extraordinary loss."
The recoverable value of business-use assets was measured as the value in use, and evaluated as zero since future cash flows were not expected.
The recoverable value of assets to be retired was measured based on those assets' net sale value or value in use.
The net sale value was estimated based on a third-party appraisal value, in principle, or by any equivalent means. Because the period of estimation for the value in use is less than one year, the future cash flows are not discounted.

Fiscal year ended March 31, 2017
The Group recorded the impairment loss of ¥10,924 million on the following assets.

(Millions of yen)

Location	Assets	Impairment loss	Notes
Ichinoseki-shi, Iwate Prefecture, and others	Machinery, equipment and vehicles	1,400	Business-use assets "Impairment loss" in Extraordinary loss
	Land	44	
	Subtotal	1,444	
Fuji-shi, Shizuoka Prefecture, and others	Buildings and structures	147	Idle assets "Impairment loss" in Extraordinary loss
	Land	1,588	
	Subtotal	1,736	
Soka-shi, Saitama Prefecture, and others	Machinery, equipment and vehicles	323	Assets to be retired "Impairment loss" in Extraordinary loss
	Other	33	
	Subtotal	357	
Fuji-shi, Shizuoka Prefecture	Buildings and structures	1	
	Machinery, equipment and vehicles	338	
	Other	0	
	Subtotal	340	
Kita-ku, Tokyo, and others	Buildings and structures	817	Assets to be disposed "Impairment loss" in Extraordinary loss
	Machinery, equipment and vehicles	1	
	Other	0	
	Subtotal	819	
Iwakuni-shi, Yamaguchi Prefecture	Land	300	
	Subtotal	300	
Washington State, U.S.A.	Buildings and structures	1,363	Business-use assets "Loss on business withdrawal" in Extraordinary loss
	Machinery, equipment and vehicles	4,195	
	Land	188	
	Other	178	
	Subtotal	5,926	
Total		10,924	

To test indicators of the impairment of noncurrent assets, the Group groups assets mainly on a cash-generating unit basis for business-use assets and on an individual property basis for idle assets, assets to be retired and assets to be disposed.

Book value was written down to recoverable value for business-use assets for which profitability had deteriorated significantly, with the difference reported as “Impairment loss” and “Loss on business withdrawal” in “Extraordinary loss.” The recoverable value of business-use assets was measured as the value in use, which was calculated by discounting future cash flows using a rate of 3.0% for the assets with expected future cash flows. For other assets, the book value is recorded as “Impairment loss” and “Loss on business withdrawal.”

The recoverable value of idle assets, assets to be retired and assets to be disposed was measured based on those assets’ net sale value or value in use.

The net sale value was estimated based on a third-party appraisal value, in principle, or by any equivalent means. Because the period of estimation for the value in use is less than one year, the future cash flows are not discounted.

8. Loss on retirement of noncurrent assets

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
Machinery, equipment and vehicles	**709**	352
Removal cost	**1,559**	3,475
Other	**165**	263
Total	**2,433**	4,091

9. Loss on business withdrawal

Fiscal year ended March 31, 2017

Loss on business withdrawal is a loss accompanying withdrawal from the printing and publishing paper business in North America. This mainly consists of loss on sale of the Company’s equity interest in North Pacific Paper Company, LLC and loss expected to be incurred in connection with withdrawal from the business of Nippon Paper Industries USA Co., Ltd.

(Notes to Consolidated Statements of Comprehensive Income)

Reclassification adjustments and income tax effects on components of other comprehensive income are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
Net unrealized holding gain on other securities:		
Amount recognized during the year	**2,995**	10,691
Reclassification adjustments	**(1,307)**	(7,669)
Before income tax effect adjustment	**1,687**	3,021
Income tax effect	**(894)**	149
Net unrealized holding gain on other securities	**792**	3,170
Net deferred gain (loss) on hedges:		
Amount recognized during the year	**(1,879)**	2,368
Reclassification adjustments	**(615)**	64
Before income tax effect adjustment	**(2,495)**	2,432
Income tax effect	**1,327**	(651)
Net deferred gain (loss) on hedges	**(1,167)**	1,781
Translation adjustments:		
Amount recognized during the year	**1,734**	1,516
Remeasurements of defined benefit plans, net of tax		
Amount recognized during the year	**7,446**	8,395
Reclassification adjustments	**(555)**	2,072
Before income tax effect adjustment	**6,890**	10,468
Income tax effect	**(1,541)**	(3,673)
Remeasurements of defined benefit plans, net of tax	**5,349**	6,794
Share of other comprehensive income of affiliates accounted for using the equity method:		
Amount recognized during the year	**1,555**	120
Reclassification adjustments	**225**	4,663
Share of other comprehensive income of affiliates accounted for using the equity method	**1,781**	4,783
Total other comprehensive income	**8,489**	18,047

(Notes to Consolidated Statements of Changes in Net Assets)

Fiscal year ended March 31, 2018

1. Matters related to outstanding shares

(Shares)

Type of shares	As of April 1, 2017	Increase	Decrease	**As of March 31, 2018**
Common stock	116,254,892	—	—	**116,254,892**

2. Matters related to treasury stock

(Shares)

Type of shares	As of April 1, 2017	Increase	Decrease	**As of March 31, 2018**
Common stock	517,900.03	8,464.00	1,053.20	**525,310.83**

Reasons for the change:
The increase in treasury stock primarily resulted from the purchase of shares of less than one unit.
The decrease in treasury stock primarily resulted from the sale of shares of less than one unit.

3. Matters related to stock acquisition rights, etc.
None applicable.

4. Matters related to dividends

(1) Dividends paid

Resolution	Type of shares	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 29, 2017	Common stock	**3,477**	**30**	March 31, 2017	June 30, 2017
Meeting of Board of Directors held on November 8, 2017	Common stock	**3,477**	**30**	September 30, 2017	December 1, 2017

(2) Dividends for which the record date falls in the fiscal year ended March 31, 2018, but for which the effective date comes after March 31, 2018

Resolution	Type of shares	Source of funds for dividends	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 28, 2018	Common stock	Retained earnings	**3,477**	**30**	March 31, 2018	June 29, 2018

Fiscal year ended March 31, 2017

1. Matters related to outstanding shares

(Shares)

Type of shares	As of April 1, 2016	Increase	Decrease	As of March 31, 2017
Common stock	116,254,892	—	—	116,254,892

2. Matters related to treasury stock

(Shares)

Type of shares	As of April 1, 2016	Increase	Decrease	As of March 31, 2017
Common stock	507,381.85	10,918.18	400.00	517,900.03

Reasons for the change:
The increase in treasury stock primarily resulted from the purchase of shares of less than one unit.
The decrease in treasury stock primarily resulted from the sale of shares of less than one unit.

3. Matters related to stock acquisition rights, etc.
None applicable.

4. Matters related to dividends

(1) Dividends paid

Resolution	Type of shares	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 29, 2016	Common stock	3,478	30	March 31, 2016	June 30, 2016
Meeting of Board of Directors held on November 2, 2016	Common stock	3,477	30	September 30, 2016	December 1, 2016

(2) Dividends for which the record date falls in the fiscal year ended March 31, 2017, but for which the effective date comes after March 31, 2017

Resolution	Type of shares	Source of funds for dividends	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 29, 2017	Common stock	Retained earnings	3,477	30	March 31, 2017	June 30, 2017

(Notes to Consolidated Statement of Cash Flows)

1. Cash and cash equivalents at year-end are reconciled to the amounts reported in the consolidated balance sheets as follows:

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
Cash and deposits	**59,003**	90,514
Cash and cash equivalents	**59,003**	90,514

2. Principal assets and liabilities pertaining to the acquisition of businesses in consideration for cash and cash equivalents

Fiscal year ended March 31, 2017

Assets and liabilities taken over by Nippon Dynawave Packaging Co., a consolidated subsidiary, business purchase price, and expenditures due to acquisition of businesses are as follows:

	(Millions of yen)
Current assets	8,194
Noncurrent assets	27,451
Current liabilities	(3,260)
Long-term liabilities	(953)
Business purchase price	31,432
Expenditures due to acquisition of businesses	31,432

(Leases)

Operating lease transactions

As lessee:

Future minimum lease payments for noncancelable operating leases are summarized as follows:

(Millions of yen)

	As of March 31, 2018	As of March 31, 2017
Due within one year	**2,362**	2,666
Due after one year	**10,199**	40
Total	**12,562**	2,706

As lessor:

Future minimum lease income for noncancelable operating leases are summarized as follows:

(Millions of yen)

	As of March 31, 2018	As of March 31, 2017
Due within one year	**215**	215
Due after one year	**1,506**	1,722
Total	**1,722**	1,938

(Financial Instruments)

1. Status of financial instruments

(1) Policy for financial instruments

The Group has implemented a Cash Management System (CMS), which is controlled by the finance department of the Company, to manage funds within the Group. The Group manages temporary cash surpluses through low-risk financial assets.

The Group raises funds it requires through bank borrowings, commercial paper and bond issuances based on projected cash demand according to the Group's capital investment plans. The Group spreads out repayment dates so that it can secure long-term capital continually. Furthermore, the Group diversifies financing resources to maintain liquidity, raising short-term working capital through bank loans, commitment line contracts and securitization of receivables and notes.

The Group adheres to a policy of using derivative transactions for the purpose of reducing interest rate fluctuation risk, foreign currency exchange risk and price fluctuation risk, and it does not enter into speculative transactions.

(2) Types of financial instruments and related risk

Trade receivables—trade notes and accounts receivable—are exposed to credit risk in relation to buyers. The due dates for all receivables and notes should be within one year. In addition, the Group is exposed to foreign currency exchange risk arising from receivables and notes denominated in foreign currencies. In principle, foreign currency exchange risk is hedged by forward foreign exchange contracts while the amounts of such receivables and notes are continually within that of liabilities denominated in foreign currencies.

Investments in securities mainly consist of shares of business partners and affiliates. The Group is exposed to market risk for listed securities.

Trade payables—trade notes and accounts payable—are due within one year. The payables denominated in foreign currencies are exposed to foreign currency exchange risk, which is hedged by foreign currency forward contracts.

The Group raises funds through short-term borrowings for working capital and raises funds through long-term loans payable and bonds mainly for capital investments. Some long-term loans payable bears variable interest rates and therefore is exposed to interest rate fluctuation risk. To reduce and fix interest expense for long-term loans payable bearing interest at variable rates, the Group utilizes interest rate swap and currency and interest rate swap transactions as a hedging instrument on an individual basis.

Regarding derivatives, the Group enters into forward foreign contracts to reduce the foreign currency exchange risk arising from the receivables and payables denominated in foreign currencies. The Group also enters into interest rate swap transactions to reduce fluctuation risk for interest payable for long-term loans payable bearing interest at variable rates. The Group also enters into currency and interest rate swap transactions to reduce exchange and interest rate fluctuation risk for foreign currency-denominated loans payable, and crude oil swap transactions to reduce price fluctuation risk on certain fuel purchase transactions.

For information regarding the method of hedge accounting, such as hedging instruments, hedged items, hedging policy and the assessment of the effectiveness of hedging activities, please refer to "Significant matters providing the basis for the preparation of the consolidated financial statements, 4. Significant accounting policies, (6) Significant hedge accounting methods."

(3) Risk management for financial instruments

① Monitoring of credit risk (the risk that buyers or counterparties may default)

The Group's marketing division and finance division have established a regular screening system to monitor the financial status of clients, which allows them to closely supervise transactions, in accordance with the credit management rules prepared by the Company and its respective consolidated subsidiaries based on the "Group credit management policy." The two divisions give each other frequent and detailed reports on the status of credit collections on a daily basis to minimize risks. The divisions acquire information on clients in financial difficulty to protect related claims.

For all derivative transactions, the Group enters into transactions only with financial institutions that have a sound credit profile to minimize counterparty risk.

② Management of market risks (the risks arising from fluctuations in exchange rates, interest rates and other indicators)

To minimize the foreign exchange risk arising from trade receivables and payables denominated in foreign currencies, the Group identifies the risk deriving from future export and import transactions for each currency twice each year and enters into foreign currency forward contracts to hedge such risk.

The Group enters into interest rate swap transactions to minimize interest rate fluctuation risk for loans payable and bonds bearing interest at variable rates, and enters into currency and interest rate swap transactions to minimize exchange and interest rate fluctuation risk for foreign currency denominated loans payable. The Group also regularly monitors the ratio of loans with fixed interest rates and ones with variable interest rates, and optimizes such ratio according to interest rate movements.

The Group uses crude oil swap transactions to reduce the risk of price fluctuations on certain fuel purchases.

As to investments in securities, the Group periodically reviews the fair values of such financial instruments and the financial position of the issuers. In addition, the Group periodically evaluates whether to continue to hold certain securities taking into account the relationship with the issuers.

③ Monitoring of liquidity risk (the risk that the Group might not be able to meet its obligations on scheduled due dates)

In the Group, to minimize liquidity risk, the finance department of the Company prepares a cash flow plan every half year, which is updated on monthly and daily basis.

The Group obtains funds in consideration of diversification of fund-raising schemes, lengthens loan periods and staggers maturities to minimize refinancing risk. In addition, to diminish liquidity risk, the Group enters into commitment line contracts and overdraft arrangements with financial institutions.

(4) Supplementary explanation of items relating to the fair values of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Because various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in a different fair value. In addition, the contract amounts of derivatives provided in "Derivatives" are not necessarily indicative of the actual market risk involved in derivative transactions.

2. Estimated fair value and other matters related to financial instruments

The book value of financial instruments on the consolidated balance sheets and their estimated fair value, as well as the difference between these values, are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value. (Please refer to Note 2.)

As of March 31, 2018

(Millions of yen)

	Book value[1]	Fair value[1]	Difference
(1) Cash and deposits	**59,003**	**59,003**	—
(2) Notes and accounts receivable-trade	**220,766**	**220,766**	—
(3) Investments in securities			
Other securities	**57,252**	**57,252**	—
Stocks of subsidiaries and affiliates	**47,695**	**69,933**	**22,237**
Total Assets	**384,717**	**406,955**	**22,237**
(4) Notes and accounts payable-trade	**142,275**	**142,275**	—
(5) Short-term loans payable	**288,063**	**288,696**	**633**
(6) Long-term loans payable	**343,334**	**352,645**	**9,310**
Total liabilities	**773,673**	**783,617**	**9,943**
(7) Derivatives[1]	**(3,089)**	**(3,089)**	—

1. Net assets and liabilities arising from derivative transactions are presented on a net basis, and net liabilities in total are presented in parentheses.

As of March 31, 2017

(Millions of yen)

	Book value[1]	Fair value[1]	Difference
(1) Cash and deposits	90,514	90,514	—
(2) Notes and accounts receivable-trade	200,440	200,440	—
(3) Investments in securities			
Other securities	62,990	62,990	—
Stocks of subsidiaries and affiliates	44,499	53,798	9,298
Total Assets	398,445	407,744	9,298
(4) Notes and accounts payable-trade	128,926	128,926	—
(5) Short-term loans payable	262,391	263,080	689
(6) Long-term loans payable	354,353	365,378	11,024
Total liabilities	745,671	757,385	11,713
(7) Derivatives[1]	1,164	1,164	—

1. Net assets and liabilities arising from derivative transactions are presented on a net basis, and net liabilities in total are presented in parentheses.

Notes:

1. Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions
   (1) Cash and deposits, (2) Notes and accounts receivable-trade
   As these items are settled in a short period of time, their book value approximates the fair value.

   (3) Investments in securities
   The fair value of stocks is based on quoted market prices. For information on other securities, please refer to "Securities."
   (4) Notes and accounts payable-trade
   Because these items are settled in a short period of time, their book value approximates the fair value.
   (5) Short-term loans payable
   As these items are settled in a short period of time, their book value approximates the fair value. The fair value of the current portion of long-term loans payable is calculated by applying a discount rate determined based on the risk-free rate and the credit spread.
   (6) Long-term loans payable
   The fair value of long-term loans payable is calculated by classifying the total amount of principal and interest by remaining period and discounting its future cash flow at a rate determined based on the risk-free rate, the credit spread and the remaining period. Long-term loans payable with variable interest rates are covered by interest rate swap transactions that meet special accounting criteria and currency and interest rate swaps that meet integral accounting criteria (see "Derivatives") and are accounted for together with the corresponding interest rate swaps and currency and interest rate swaps. The fair value of such loans is calculated by discounting the total amount of principal and interest of the loans thus accounted for at a rate determined as stated above.
   (7) Derivatives
   Please refer to "Derivatives" on page 16.

2. Financial instruments for which it is extremely difficult to determine the fair value

(Millions of yen)

Classification	**As of March 31, 2018**	As of March 31, 2017
Unlisted equity securities	**73,601**	76,101

Because the fair values of these financial instruments are extremely difficult to determine, given that they do not have market prices, they are not included in "(3) Investments in securities."

3. Redemption schedule for receivables after the consolidated balance sheet date

As of March 31, 2018

(Millions of yen)

	Within one year	Over 1 but within 5 years	Over 5 but within 10 years	Over 10 years
Cash and deposits (*)	**58,899**	—	—	—
Notes and accounts receivable-trade	**220,766**	—	—	—
Total	**279,666**	—	—	—

*"Cash and deposits" does not include the amount of cash on hand.

As of March 31, 2017

(Millions of yen)

	Within one year	Over 1 but within 5 years	Over 5 but within 10 years	Over 10 years
Cash and deposits (*)	90,428	—	—	—
Notes and accounts receivable-trade	200,440	—	—	—
Total	290,869	—	—	—

*“Cash and deposits” does not include the amount of cash on hand.

4. Redemption schedule for long-term loans payable and other interest-bearing debt after the consolidated balance sheet date

As of March 31, 2018

(Millions of yen)

	Within one year	Over 1 but within 2 years	Over 2 but within 3 years	Over 3 but within 4 years	Over 4 but within 5 years	Over 5 years
Short-term loans payable	**219,201**	—	—	—	—	—
Long-term loans payable	**68,861**	**66,337**	**58,846**	**51,996**	**34,661**	**131,492**
Total	**288,063**	**66,337**	**58,846**	**51,996**	**34,661**	**131,492**

As of March 31, 2017

(Millions of yen)

	Within one year	Over 1 but within 2 years	Over 2 but within 3 years	Over 3 but within 4 years	Over 4 but within 5 years	Over 5 years
Short-term loans payable	200,359	—	—	—	—	—
Long-term loans payable	62,031	68,174	62,799	52,695	44,340	126,343
Total	262,391	68,174	62,799	52,695	44,340	126,343

(Securities)

1. Other securities

As of March 31, 2018

(Millions of yen)

	Book value	Cost	Valuation difference
Securities for which the book value exceeds their cost:			
Equity securities	**49,296**	**17,221**	**32,074**
Subtotal	**49,296**	**17,221**	**32,074**
Securities for which the book value does not exceed their cost:			
Equity securities	**7,955**	**9,228**	**(1,273)**
Subtotal	**7,955**	**9,228**	**(1,273)**
Total	**57,252**	**26,450**	**30,801**

Note: Because the fair value of unlisted equity securities as of March 31, 2018 (¥8,673 million on the consolidated balance sheet) is extremely difficult to determine, given that those securities do not have market prices, they are not included in “other securities” above.

As of March 31, 2017

(Millions of yen)

	Book value	Cost	Valuation difference
Securities for which the book value exceeds their cost:			
Equity securities	45,437	14,310	31,126
Subtotal	45,437	14,310	31,126
Securities for which the book value does not exceed their cost:			
Equity securities	17,553	19,538	(1,985)
Subtotal	17,553	19,538	(1,985)
Total	62,990	33,848	29,141

Note: Because the fair value of unlisted equity securities as of March 31, 2017 (¥9,491 million on the consolidated balance sheet) is extremely difficult to determine, given that those securities do not have market prices, they are not included in “other securities” above.

2. Sales of other securities

Fiscal year ended March 31, 2018

(Millions of yen)

	Sales	Aggregate gain	Aggregate loss
Equity securities	**8,770**	**1,641**	**(2)**

Fiscal year ended March 31, 2017

(Millions of yen)

	Sales	Aggregate gain	Aggregate loss
Equity securities	9,794	7,671	(2)

3. Impairment of securities

For the fiscal year ended March 31, 2018, the Company recorded a loss on impairment of securities in the amount of ¥1,731 million (including ¥1,399 million of equity securities for which fair values are extremely difficult to determine). For the fiscal year ended March 31, 2017, the Company recorded a loss on impairment of securities in the amount of ¥148 million (including ¥148 million of equity securities for which fair values are extremely difficult to determine).

Loss on impairment of securities are recorded for all securities for which the fair values at year-end have declined by 50% or more, compared with their acquisition costs. The impairment of securities for which the rate of decline in fair value is between 30% and 50% depends on how significant the amount of the decline is, how the decline is recoverable and other factors.

(Derivatives)

1. Derivative instruments not subject to hedge accounting

(1) Currency-related transactions

None applicable.

(2) Interest-related transactions

As of March 31, 2018

(Millions of yen)

	Hedging instrument	Contract amount	More than 1 year	Fair value	Valuation gain/loss
Off-market transactions	Interest rate swap transactions Pay/fixed and receive/floating	**3,138**	**2,354**	**(99)**	**(99)**

Notes:

1. Calculation method for the fair value
   The fair value is estimated based on prices provided by financial institutions.
2. Hedge accounting was not applied for certain derivative transactions since they no longer met the criteria for hedge accounting.

As of March 31, 2017

(Millions of yen)

	Hedging instrument	Contract amount	More than 1 year	Fair value	Valuation gain/loss
Off-market transactions	Interest rate swap transactions Pay/fixed and receive/floating	3,754	3,003	173	173

Notes:

1. Calculation method for the fair value
   The fair value is estimated based on prices provided by financial institutions.
2. Hedge accounting was not applied for certain derivative transactions since they no longer met the criteria for hedge accounting.

2. Derivative instruments subject to hedge accounting

(1) Currency-related transactions

As of March 31, 2018

(Millions of yen)

Hedge accounting method	Hedging instrument	Principal hedged items	Contract amount	More than 1 year	Fair value (Note)
Deferral hedge method	Foreign exchange forward contracts				
	Sell	Accounts receivable-trade			
	U.S. dollars		**7,780**	**1,372**	**590**
	Other		**2,864**	**1,668**	**(37)**
	Buy	Notes and accounts payable-trade			
	U.S. dollars		**29,288**	**7,222**	**(838)**
	Other		**6,603**	**4,689**	**(161)**

Note: The fair value is estimated based on prices provided by financial institutions.

(Millions of yen)

Hedge accounting method	Hedging instrument	Principal hedged items	Contract amount	More than 1 year	Fair value
Allocation method *(Furiate-shori)*	Foreign exchange forward contracts				
	Sell	Accounts receivable-trade			
	U.S. dollars		**136**	—	
	Other		**27**	—	(Note)
	Buy	Notes and accounts payable-trade			
	U.S. dollars		**2,105**	—	
	Other		**0**	—	

Note: Foreign exchange forward contracts subject to the allocation method are recognized together with hedged items (i.e., accounts receivable-trade, notes and accounts payable-trade). The fair values of such transactions are included in those of the relevant hedged items. The fair value is estimated based on forward exchange rates.

As of March 31, 2017

(Millions of yen)

Hedge accounting method	Hedging instrument	Principal hedged items	Contract amount	More than 1 year	Fair value (Note)
Deferral hedge method	Foreign exchange forward contracts				
	Sell	Accounts receivable-trade			
	U.S. dollars		13,235	4,974	589
	Other		620	—	8
	Buy	Notes and accounts payable-trade			
	U.S. dollars		6,540	—	563
	Other		1,094	—	(44)

Note: The fair value is estimated based on prices provided by financial institutions.

(Millions of yen)

Hedge accounting method	Hedging instrument	Principal hedged items	Contract amount	More than 1 year	Fair value
Allocation method *(Furiate-shori)*	Foreign exchange forward contracts Sell U.S. dollars Other Buy U.S. dollars	 Accounts receivable-trade Notes and accounts payable-trade	 120 1 811	 — — —	(Note)

Note: Foreign exchange forward contracts subject to the allocation method are recognized together with hedged items (i.e., accounts receivable-trade, notes and accounts payable-trade). The fair values of such transactions are included in those of the relevant hedged items. The fair value is estimated based on forward exchange rates.

(2) Interest rate-related transactions

As of March 31, 2018

(Millions of yen)

Hedge accounting method	Hedging instrument	Principal hedged items	Contract amount	More than 1 year	Fair value
Deferral hedge method	Interest rate swap transaction Pay/fixed and receive/floating	Long-term loans payable	**96,763**	**95,000**	**(3,297)**
Exceptional accounting method (*Tokurei-shori*)	Interest rate swap transaction Pay/fixed and receive/floating	Long-term loans payable	**73,200**	**62,200**	(Note)

Note: Interest-rate swaps that qualify for the exceptional accounting method are recognized together with the corresponding long-term loans payable. The fair values of such transactions are included in those of the loans.

As of March 31, 2017

(Millions of yen)

Hedge accounting method	Hedging instrument	Principal hedged items	Contract amount	More than 1 year	Fair value
Exceptional accounting method (*Tokurei-shori*)	Interest rate swap transaction Pay/fixed and receive/floating	Long-term loans payable	85,200	72,200	(Note)

Note: Interest-rate swaps that qualify for the exceptional accounting method are recognized together with the corresponding long-term loans payable. The fair values of such transactions are included in those of the loans.

(3) Currency and interest rate-related transactions

As of March 31, 2018

(Millions of yen)

Hedge accounting method	Hedging instrument	Principal hedged items	Contract amount	More than 1 year	Fair value
Integral accounting method (*Ittai-shori*)	Currency and interest rate swap transaction Pay/fixed and receive/floating Pay/JPY and receive/USD	Long-term loans payable	**10,122**	**10,122**	(Note)

Note: Currency and interest rate swaps that qualify for the integral accounting method are recognized together with the corresponding long-term loans payable. The fair values of such transactions are included in those of the loans.

As of March 31, 2017

(Millions of yen)

Hedge accounting method	Hedging instrument	Principal hedged items	Contract amount	More than 1 year	Fair value
Integral accounting method (*Ittai-shori*)	Currency and interest rate swap transaction Pay/fixed and receive/floating Pay/JPY and receive/USD	Long-term loans payable	10,122	10,122	(Note)

Note: Currency and interest rate swaps that qualify for the integral accounting method are recognized together with the corresponding long-term loans payable. The fair values of such transactions are included in those of the loans.

(4) Commodities-related transactions

As of March 31, 2018

(Millions of yen)

Hedge accounting method	Hedging instrument	Principal hedged items	Contract amount	More than 1 year	Fair value (Note)
Deferral hedge method	Commodity swaps Pay/fixed and receive/floating	Marine fuel	**1,000**	**—**	**144**
Deferral hedge method	Commodity swaps Pay/fixed and receive/floating	Brent crude	**4,891**	**3,012**	**610**

Note: The fair value is estimated based in prices provided by financial institutions.

As of March 31, 2017

(Millions of yen)

Hedge accounting method	Hedging instrument	Principal hedged items	Contract amount	More than 1 year	Fair value (Note)
Deferral hedge method	Commodity swaps Pay/fixed and receive/floating	Marine fuel	1,127	—	45

Note: The fair value is estimated based in prices provided by financial institutions.

(Retirement benefits)

1. Overview of retirement benefit plans

The Company and its consolidated subsidiaries adopt funded and unfunded types of defined-benefit plans and defined-contribution plans.

Defined-benefit corporate pension plans offer lump-sum or pension payments mainly according to the employee’s salary and period of service.

Employee retirement benefit trusts are set up for some defined-benefit corporate pension plans. Lump-sum payment plans – which are basically unfunded, although the creation of retirement benefit trusts has resulted in some plans becoming funded – offer lump-sum payments as retirement benefits according to the employee’s salary and period of service.

Defined-benefit corporate pension plans and lump-sum payment plans adopted by some consolidated subsidiaries use a simplified method to calculate net defined benefit liability and retirement benefit expenses.

2. Defined-benefit plans

(1) Reconciliation between the beginning and ending balances of retirement benefit obligations (excluding plans using a simplified method)

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
Retirement benefit obligations at the beginning of year	**152,418**	167,415
Service cost	**3,216**	3,174
Interest cost	**877**	1,266
Actuarial differences generated	**(1,611)**	176
Past service costs generated	**—**	(1,194)
Retirement benefits paid	**(15,169)**	(11,504)
Increase or decrease due to change in the scope of consolidation	**—**	829
Decrease due to transfer of benefit obligation relating to employees' pension fund	**—**	(7,374)
Other	**(176)**	(369)
Retirement benefit obligations at the end of year	**139,556**	152,418

(2) Reconciliation between the beginning and ending balances of plan assets (excluding plans using a simplified method)

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
Plan assets at the beginning of year	**132,179**	129,637
Expected return on plan assets	**2,605**	3,213
Actuarial differences generated	**5,819**	6,893
Contribution from employers	**8,509**	1,560
Retirement benefits paid	**(13,923)**	(8,692)
Other	**(4)**	(432)
Plan assets at the end of year	**135,184**	132,179

(3) Reconciliation between the beginning and ending balances of net defined benefit liability for plans using a simplified method

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
Net defined benefit liability at the beginning of year	**2,513**	2,682
Retirement benefit expenses	**861**	647
Retirement benefits paid	**(558)**	(483)
Contribution to plans	**(356)**	(398)
Other	**45**	65
Net defined benefit liability at the end of year	**2,506**	2,513

(4) Reconciliation between the ending balances of retirement benefit obligations and plan assets and the net defined benefit liability and net defined benefit asset reported on the consolidated balance sheets

(Millions of yen)

	As of March 31, 2018	As of March 31, 2017
Retirement benefit obligations for funded plans	**142,043**	154,723
Plan assets	**(140,283)**	(137,077)
	1,760	17,646
Retirement benefit obligations for unfunded plans	**5,117**	5,107
Net asset or liability reported on the consolidated balance sheets	**6,877**	22,753
Net defined benefit liability	**12,925**	24,371
Net defined benefit asset	**(6,048)**	(1,618)
Net asset or liability reported on the consolidated balance sheets	**6,877**	22,753

Note: Plans using a simplified method are included.

(5) Breakdown of retirement benefit expenses

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
Service cost	**3,216**	3,174
Interest cost	**877**	1,266
Expected return on plan assets	**(2,605)**	(3,213)
Amortization of unrecognized actuarial differences	**260**	2,748
Amortization of unrecognized prior service cost	**(815)**	(763)
Retirement benefit expenses calculated by a simplified method	**861**	647
Retirement benefit expenses for defined benefit plans	**1,795**	3,859
Gain on contribution of securities to retirement benefit trust (Note)	**(6,923)**	—
Gain (loss) on transfer of benefit obligation relating to employees' pension fund (Note)	—	(6,944)

Note: Accounted for in Extraordinary Income.

(6) Remeasurements of defined benefit plans

Remeasurements of defined benefit plans in other comprehensive income consist of the following (before tax effect).

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
Past service costs	**(815)**	149
Actuarial differences	**7,706**	10,319
Total	**6,890**	10,469

In the fiscal year ended March 31, 2017, past service costs and actuarial differences include reclassification adjustments due to the transfer of benefit obligation relating to employees' pension fund (¥(344) million in past service costs and ¥775 million in actuarial differences).

(7) Remeasurements of defined benefit plans

Remeasurements of defined benefit plans in accumulated other comprehensive income consist of the following (before tax effect).

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
Unrecognized past service costs	**(5,120)**	(5,936)
Unrecognized net actuarial differences	**5,093**	12,799
Total	**(27)**	6,863

(8) Matters regarding plan assets

① Major components of plan assets

Plan assets mainly consist of the following:

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
Stocks	**53%**	49%
Bonds	**21%**	22%
General account	**8%**	11%
Cash and deposits	**11%**	10%
Other	**7%**	8%
Total	**100%**	100%

Note: Total plan assets for the fiscal years ended March 31, 2018 and March 31, 2017 include securities contributed to the retirement benefit trust (26% and 19%) created for corporate pension plans, respectively.

② Method for determining the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, the current and expected portfolio of plan assets and the current and future expected long-term profitability of the various plan assets are considered.

(9) Assumptions used in actuarial calculations

Major assumptions used in actuarial calculations are as follows:

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
Discount rates	**Mainly 0.5%**	Mainly 0.5%
Long-term expected rates of return on plan assets	**Mainly 2.0%**	Mainly 2.0%

Note: Expected rate of salary increase is not presented because the Company and its consolidated subsidiaries do not generally use it in actuarial calculations for their retirement benefit plans.

3. Defined-contribution plans

The required amount of contribution to the defined-contribution plans was ¥1,286 million for the fiscal year ended March 31, 2018 and ¥1,424 million for the fiscal year ended March 31, 2017.

(Tax-effect accounting)

1. Significant components of deferred tax assets and liabilities

(Millions of yen)

	As of March 31, 2018	As of March 31, 2017
Deferred tax assets:		
Accrued enterprise taxes	**474**	546
Accrued bonuses	**2,492**	2,520
Net defined benefit liability	**9,271**	14,622
Impairment loss	**18,223**	20,073
Loss on valuation of investment securities	**3,661**	1,555
Unrealized profit eliminated in consolidation	**1,128**	929
Tax loss carryforwards	**38,567**	37,613
Loss on revaluation of land	**12,584**	12,592
Other	**9,236**	8,092
Gross deferred tax assets	**95,641**	98,546
Valuation allowance	**(71,976)**	(62,359)
Total deferred tax assets	**23,665**	36,187
Deferred tax liabilities:		
Reserve for advanced depreciation of noncurrent assets	**(2,171)**	(2,192)
Reserve for special account for advanced depreciation	**—**	(2,767)
Unrealized holding gain on other securities	**(8,472)**	(7,607)
Gain on revaluation of land, etc.	**(31,612)**	(31,594)
Other	**(5,466)**	(4,954)
Total deferred tax liabilities	**(47,722)**	(49,116)
Net deferred tax assets	**(24,056)**	(12,929)

Note: Net deferred tax assets and liabilities as of March 31, 2018 and 2017, are reflected in the following accounts in the consolidated balance sheets.

(Millions of yen)

	As of March 31, 2018	As of March 31, 2017
Current assets – deferred tax assets	**6,150**	6,743
Noncurrent assets – deferred tax assets	**2,502**	2,217
Long-term liabilities – deferred tax liabilities	**(32,710)**	(21,889)

2. Reconciliation of the effective tax rate and the statutory tax rate

	As of March 31, 2018	As of March 31, 2017
Statutory tax rate	**30.9%**	30.9%
(Adjustments)		
Entertainment expenses not qualifying for deduction	**1.2**	1.4
Dividend income excluded from gross revenue	**(1.2)**	(0.8)
Inhabitant tax per capita, etc.	**1.3**	1.0
Tax credit	**(4.1)**	(0.4)
Increase or decrease in valuation allowance	**42.2**	31.3
Amortization of goodwill	**3.5**	2.8
Equity in gain and loss of affiliates	**(9.7)**	(6.3)
Other	**(1.0)**	6.2
Effective tax rate after adoption of tax-effect accounting	**62.9%**	66.0%

(Business combinations)

Business divestiture

On March 2, 2017, the Company agreed with McKinley Paper Company (hereinafter “McKinley”) to sell certain business assets owned and operated by Nippon Paper Industries U.S.A. Co., Ltd. (hereinafter “NPIUSA”), a consolidated subsidiary of the Company to McKinley. McKinley is a U.S. subsidiary of Bio Pappel S. A. B de C. V. (hereinafter “Bio-Pappel”), the leading paper manufacturing company in Mexico.

(1) Outline of the business divestiture

① Name of the company to which the business is divested
McKinley Paper Company

② Detail of business divested
Manufacture and sale of light weight and high quality paper products including telephone directory paper and generation and sale of renewable energy

③ Main reason for executing the business divestiture
While products of NPIUSA had been sold well over many years mainly in the North American market, it has recently been facing a severe business environment due to diminishing demand for its products. Under such circumstances, after conducting a strategic review as stated in “Transform our business structure” of the Fifth Mid-Term Business Plan (April 2015 to March 2018), the Company announced its decision to withdraw the printing and paper manufacturing business in North America, and sold its business assets of NPIUSA.

④ Date of business divestiture
March 31, 2017 (local time)

⑤ Matters regarding outline of transaction, including legal form
Consideration received in the form of cash only

(2) Outline of accounting treatment

① Amount of profit or loss transferred
Loss on business withdrawal ¥14,963 million

② Fair book value of assets and liabilities of business sold and their breakdown

Current assets	¥497 million
Total assets	¥497 million
Current liabilities	¥78 million
Total liabilities	¥78 million

③ Accounting treatment
For the fiscal year ended March 31, 2017, the Company recorded loss on business withdrawal in Extraordinary loss for the amount of difference between consideration to be received and the amount equivalent to shareholders’ equity for the business sold and the amount of liabilities assumed based on the agreement.

(3) Name of reportable segment which the business divested belonged to

Pulp and paper segment

(4) Approximate amount of profit and loss from the business divested reported on the consolidated statement of operations for the fiscal year ended March 31, 2018

	Cumulative
Net sales	¥1,163 million
Operating loss	¥(928) million

(Asset retirement obligations)

Due to its low significance, detailed information regarding asset retirement obligations is not provided, although the Group reports asset retirement obligations.

(Investment and rental property)

Due to its low significance, detailed information regarding investment and rental property is not provided, although the Group has rental property and idle land and buildings.

(Segment information)

[Segment information]

1. Overview of reportable segments

The reportable segments of the Company are defined as individual units, for which independent financial information is available and which are subject to regular review to evaluate their results and decide the allocation of management resources by the Board of Directors of the Company.

The Company recognizes its consolidated subsidiaries as the units that define its business segments because those are used as the main basis to evaluate results. The reportable segments are defined by integrating business segments that exhibit similarities in terms of economic characteristics, markets for products and services, or customers.

The principal products and services of each reportable segment are as follows:

Pulp and paper segment:
Manufacturing and marketing of paper, paperboard, household tissue, pulp and materials for paper making

Paper-related segment:
Manufacturing and marketing of processed paper goods and chemical products

Wood products and construction-related segment:
Stocking, manufacturing and marketing of lumber and building materials, as well as civil engineering and construction

2. Method used to calculate net sales, income or loss, assets and other items by reportable segments

Accounting methods applied for the reportable segments are the same as those described under “Significant matters providing the basis for the preparation of the consolidated financial statements.”

Income for each reportable segment denotes operating income, and intersegment sales and transfers are based on market prices in general.

3. Net sales, income or loss, assets and other items by reportable segment

Fiscal year ended March 31, 2018

(Millions of yen)

	Reportable segments				Other[1]	Total	Adjustment[2]	Consolidated[3]
	Pulp and paper	Paper related	Wood products and construction related	Subtotal				
Net sales								
Sales to third parties	**868,487**	**94,666**	**62,777**	**1,025,931**	**20,567**	**1,046,499**	**—**	**1,046,499**
Intersegment sales and transfers	**10,663**	**1,777**	**68,835**	**81,275**	**44,683**	**125,959**	**(125,959)**	**—**
Total	**879,150**	**96,443**	**131,613**	**1,107,207**	**65,251**	**1,172,458**	**(125,959)**	**1,046,499**
Segment income	**3,254**	**7,087**	**4,481**	**14,823**	**2,790**	**17,613**	**—**	**17,613**
Segment assets	**1,069,739**	**105,083**	**69,413**	**1,244,236**	**30,806**	**1,275,043**	**157,993**	**1,433,036**
Other items:								
Depreciation	**50,413**	**5,410**	**942**	**56,766**	**1,126**	**57,892**	**—**	**57,892**
Amortization of goodwill	**2,049**	**—**	**—**	**2,049**	**—**	**2,049**	**—**	**2,049**
Increase in property, plant and equipment and intangible assets	**61,240**	**8,479**	**1,110**	**70,831**	**1,934**	**72,765**	**—**	**72,765**

Notes: 1. The “Other” category is a business segment that includes the logistics businesses, leisure and other, and is not a reportable segment.

2. The segment assets adjustment of ¥157,993 million includes ¥(43,381) million of inter-segment eliminations for receivables and payables and ¥201,375 million of corporate assets that are not allocated to reportable segments. The corporate assets mainly consist of “cash and deposits” for the management of surplus funds, “investments in securities” for long-term investment and “deferred tax assets,” which are not allocatable to reportable segments.

3. Total segment income agrees with the operating income in the Consolidated Statements of Operations.

Fiscal year ended March 31, 2017

(Millions of yen)

	Reportable segments				Other[1]	Total	Adjustment[2]	Consolidated[3]
	Pulp and paper	Paper related	Wood products and construction related	Subtotal				
Net sales								
Sales to third parties	820,047	89,229	63,530	972,807	19,621	992,428	—	992,428
Intersegment sales and transfers	6,172	3,231	63,233	72,637	44,551	117,188	(117,188)	—
Total	826,220	92,460	126,764	1,045,444	64,172	1,109,617	(117,188)	992,428
Segment income	10,847	5,244	4,760	20,852	2,912	23,764	—	23,764
Segment assets	1,008,956	88,219	76,286	1,173,461	36,183	1,209,645	179,240	1,388,885
Other items:								
Depreciation	47,952	5,089	943	53,984	1,098	55,083	—	55,083
Amortization of goodwill	2,029	—	—	2,029	—	2,029	—	2,029
Increase in property, plant and equipment and intangible assets	41,736	6,229	1,061	49,027	2,262	51,289	—	51,289

Notes: 1. The “Other” category is a business segment that includes the logistics businesses, leisure and other, and is not a reportable segment.

2. The segment assets adjustment of ¥179,240 million includes ¥(54,647) million of inter-segment eliminations for receivables and payables and ¥233,887 million of corporate assets that are not allocated to reportable segments. The corporate assets mainly consist of “cash and deposits” for the management of surplus funds, “investments in securities” for long-term investment and “deferred tax assets,” which are not allocatable to reportable segments.

3. Total segment income agrees with the operating income in the Consolidated Statements of Operations.

[Related information]

Fiscal year ended March 31, 2018

1. Information by product and service

Information by product and service approximates the information provided in “Segment information” and is therefore not provided here.

2. Information by geographical area

(1) Net sales

(Millions of yen)

Japan	Oceania	Asia	North America	Others	Total
868,931	**48,891**	**79,169**	**27,394**	**22,113**	**1,046,499**

Note: Net sales information is based on the geographical location of customers and categorized by country or region.

(2) Property, plant and equipment

(Millions of yen)

Japan	Oceania	Asia	North America	Others	Total
623,331	**49,358**	**5,924**	**25,075**	**14,237**	**717,927**

3. Information by customer

Information by customer is omitted because no single external customer accounts for 10% or more of net sales in the consolidated statement of operations.

Fiscal year ended March 31, 2017

1. Information by product and service

Information by product and service approximates the information provided in “Segment information” and is therefore not provided here.

2. Information by geographical area

(1) Net sales

(Millions of yen)

Japan	Oceania	Asia	North America	Others	Total
850,442	44,360	54,970	19,509	23,145	992,428

Note: Net sales information is based on the geographical location of customers and categorized by country or region.

(2) Property, plant and equipment

(Millions of yen)

Japan	Oceania	Asia	North America	Others	Total
592,869	46,440	5,840	26,223	15,439	686,813

3. Information by customer

Information by customer is omitted because no single external customer accounts for 10% or more of net sales in the consolidated statement of operations.

[Impairment loss by reportable segment]

Fiscal year ended March 31, 2018

(Millions of yen)

	Pulp and paper	Paper related	Wood products and construction related	Other	Total	Adjustment	Consolidated
Impairment loss on noncurrent assets	**4,797**	—	—	—	**4,797**	—	**4,797**

Fiscal year ended March 31, 2017

(Millions of yen)

	Pulp and paper	Paper related	Wood products and construction related	Other	Total	Adjustment	Consolidated
Impairment loss on noncurrent assets	10,430	477	16	—	10,924	—	10,924

Note: A loss on impairment recorded in connection with the sale of a business of a U.S. consolidated subsidiary is included in “Loss on business withdrawal” in Extraordinary loss.

[Amortization of goodwill and balance of unamortized goodwill by reportable segment]

Fiscal year ended March 31, 2018

(Millions of yen)

	Pulp and paper	Paper related	Wood products and construction related	Other	Total	Adjustment	Total
Amortization of goodwill	**2,049**	—	—	—	**2,049**	—	**2,049**
Balance of unamortized goodwill at year-end	**5,635**	—	—	—	**5,635**	—	**5,635**

Fiscal year ended March 31, 2017

(Millions of yen)

	Pulp and paper	Paper related	Wood products and construction related	Other	Total	Adjustment	Total
Amortization of goodwill	2,029	—	—	—	2,029	—	2,029
Balance of unamortized goodwill at year-end	7,727	—	—	—	7,727	—	7,727

[Gain on negative goodwill by reportable segment]

Fiscal year ended March 31, 2018
None applicable.

Fiscal year ended March 31, 2017
None applicable.

[Related party transactions]

1. Transactions with related parties

(1) Transactions of the Company with related parties

The Company's unconsolidated subsidiaries and affiliates, etc.

Fiscal year ended March 31, 2018

None applicable.

Fiscal year ended March 31, 2017

Attribute	Unconsolidated subsidiary
Name of related party	Nippon Paper Ishinomaki Energy Center Ltd.
Location	Ishinomaki-shi, Miyagi Prefecture
Capital	¥3,350 million
Nature of operations	Operation, maintenance and management of electric power generation facility and wholesale supply and sale of electricity
Equity ownership percentage	Directly 70.0%
Description of the business relationship	Guarantee for debt
Nature of transactions	Guarantee for debt
Transaction amount	¥19,681 million
Accounts	—
Balance at year-end	—

Note: Guarantee for bank loans, for which the Company receives a guarantee fee.

Transactions of the Company's consolidated subsidiaries with related parties

None applicable.

2. Information on the parent company and significant affiliates

(1) Information on the parent company

None applicable.

(2) Financial statements of significant affiliates

Fiscal year ended March 31, 2018

Significant affiliates in the fiscal year ended March 31, 2018 are Lintec Corporation and Daishowa-Marubeni International Ltd. Summarized aggregate financial statement data of the two companies are as follows:

	(Millions of yen)
Total current assets	**131,582**
Total noncurrent assets	**177,089**
Total current liabilities	**80,859**
Total long-term liabilities	**61,459**
Total net assets	**166,353**
Net sales	**209,829**
Profit before income taxes	**19,241**
Profit	**15,395**

Fiscal year ended March 31, 2017

Significant affiliates in the fiscal year ended March 31, 2017 are Lintec Corporation and Daishowa-Marubeni International Ltd. Summarized aggregate financial statement data of the two companies are as follows:

	(Millions of yen)
Total current assets	113,329
Total noncurrent assets	178,533
Total current liabilities	72,053
Total long-term liabilities	64,594
Total net assets	155,215
Net sales	202,542
Profit before income taxes	16,914
Profit	14,087

(Per share information)

(Yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
Net assets per share	**3,776.26**	3,714.63
Profit per share	**67.80**	72.57

Notes: 1. Diluted profit per share is not stated because no potentially dilutive securities were outstanding.
2. The basis for calculation of profit per share is as follows:

(Millions of yen unless otherwise stated)

Item	**Fiscal year ended March 31, 2018**	Fiscal year ended March 31, 2017
Profit attributable to owners of parent	**7,847**	8,399
Profit attributable to owners of parent related to common shares	**7,847**	8,399
Weighted-average number of common shares outstanding (shares)	**115,733,309.46**	115,742,808.36

(Significant subsequent events)

1. Reorganization of production structure for paper business

At the meeting of the Board of Directors held on May 28, 2018, the Company resolved to reorganize the production structure for its paper business.

(1) Background and purpose of reorganization

Due to development of IT, demand for papers in Japan has been in a state of structural decline after the global financial crisis. By carrying out a reorganization of its production structure, the Company will seek to further optimize the balance of supply and demand, and to improve the revenue structure of its paper business by reducing fixed costs and increasing operation rate.

(2) Details of paper production machine to be shut down

Production location	Equipment	Annual production capacity (1,000 tonnes)	Main types of products produced	Timing of machine shutdown (planned)
Nippon Paper Industries Co., Ltd. Hokkaido Mill (Yufutsu)	Paper machine No. 2	24	Base paper for paper packages	January, 2020
	Paper machine No. 4	25	Process paper, etc.	January, 2020
	Paper machine No. 5	88	Woodfree paper, etc.	January, 2020
	Paper machine No. 6	116	Newsprint	January, 2020
Nippon Paper Industries Co., Ltd. Fuji Mill (Fuji)	Paper machine No. 2	17	Woodfree colored paper, etc.	September, 2019
	Paper machine No. 11	49	Lightweight coated paper, medium- to low-grade paper	June, 2019
	Paper machine No. 12	69	Recycled PPC (plain paper copier), etc.	March, 2019
Nippon Paper Industries Co., Ltd. Kushiro Mill	Paper machine No. 8	143	Newsprint	July, 2019

(3) Impact of reorganization on revenues

The Company assumes approximately ¥20 billion of impairment loss on noncurrent assets in “Extraordinary loss” for the fiscal year ending March 31, 2019. Details are under examination.

2. Change in segment classification

For the fiscal year ended March 31, 2018, the Company’s reportable segment was classified as “Pulp and paper,” “Paper-related,” and “Wood products and construction-related.” However, from the fiscal year ending March 31, 2019, the Company will change the classification of reportable segment as follows: “Pulp and paperboard,” “Life-related,” “Energy” and “Wood products and construction-related.”

Information regarding the amounts of net sales, profit or loss and other items after the change in segment classification for the fiscal year ended March 31, 2018 is under calculation.

Consolidated supplemental schedules

[Schedule of bonds]

Company name	Description	Date of issuance	Beginning balance (Millions of yen)	Ending balance (Millions of yen)	Interest rate (%)	Collateral	Maturity
Nippon Paper Group, Inc.	9th unsecured corporate bonds	May 25, 2007	10,000	—	1.960	None	May 25, 2017
Nippon Paper Group, Inc.	10th unsecured corporate bonds	December 21, 2009	10,000	10,000	1.710	None	December 20, 2019
Nippon Paper Group, Inc.	11th unsecured corporate bonds	December 9, 2010	15,000	15,000	1.495	None	December 9, 2020
Nippon Paper Industries Co., Ltd.	12th unsecured corporate bonds	Jun 19, 2014	15,000	15,000	0.970	None	June 19, 2024
Nippon Paper Industries Co., Ltd.	13th unsecured corporate bonds	Jun 19, 2015	10,000	10,000	0.962	None	June 19, 2025
Nippon Paper Industries Co., Ltd.	14th unsecured corporate bonds	July 24, 2017	—	10,000	0.490	None	July 23, 2027
Total	—	—	60,000	60,000	—	—	—

Note: The redemption schedule of bonds for five years subsequent to March 31, 2018, is summarized as follows:

(Millions of yen)

Within 1 year	Over 1 but within 2 years	Over 2 but within 3 years	Over 3 but within 4 years	Over 4 but within 5 years
—	10,000	15,000	—	—

[Schedule of loans payable]

Category	Beginning balance (Millions of yen)	Ending balance (Millions of yen)	Average interest rate (%)	Maturity
Short-term loans payable	200,359	219,201	0.537	—
Current portion of long-term loans payable	62,031	68,861	1.270	—
Current portion of lease obligations	619	611	—	—
Long-term loans payable (excluding current portion)	354,353	343,334	1.295	From 2019 to 2032
Lease obligations (excluding current portion)	1,140	1,553	—	From 2019 to 2027
Other interest-bearing debt (import usance bills)	856	617	2.517	—
Total	619,360	634,180	—	—

Notes:
1. "Average interest rate" mainly represents the weighted-average interest rate for the ending balance of loans payable.
2. The redemption schedule of long-term loans payable and lease obligations (excluding current portion) for the five years subsequent to March 31, 2018, is summarized as follows:

(Millions of yen)

Category	Over 1 but within 2 years	Over 2 but within 3 years	Over 3 but within 4 years	Over 4 but within 5 years
Long-term loans payable	66,337	58,846	51,996	34,661
Lease obligations	501	386	303	215

3. "Average interest rate" for lease obligations is not shown because the amount of lease obligations is recorded in the consolidated balance sheets at an amount before the interest equivalent amount included in the entire lease fee is deducted.
4. Import usance bills are included in "Notes and accounts payable–trade" in the consolidated balance sheets.

[Schedule of asset retirement obligations]

The schedule of asset retirement obligations is not disclosed because the amounts of asset retirement obligations were not larger than 1% of total liabilities and net assets at the beginning and end of the fiscal year ended March 31, 2018.

[Other]

Quarterly information for the fiscal year ended March 31, 2018

(Millions of yen)

(Cumulative periods)	Three months ended June 30, 2017	Six months ended Sept. 30, 2017	Nine months ended Dec. 31, 2017	Fiscal year ended March 31, 2018
Net sales	255,639	513,882	782,602	1,046,499
Profit before income taxes	6,316	4,725	8.599	18,332
Profit attributable to owners of parent	5,585	5,105	7,686	7,847
Profit per share (yen)	48.26	44.12	66.41	67.80

(Accounting periods)	Q1	Q2	Q3	Q4
Profit per share (yen)	48.26	(4.15)	22.30	1.39