Matters Disclosed on the Internet
Re.

The Notice of the Ordinary General Meeting of Shareholders

Of

# Nippon Paper Industries Co., Ltd.

For

94th Term
(From April 1, 2017 through March 31, 2018)


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Pursuant to laws and ordinances and Article 16 of the Company's Articles of Incorporation, the items in this document are disclosed to the shareholders through posting on the Company's website (http://www.nipponpapergroup.com/). Further, the items in this document are only part of the subject matter audited by the Accounting Auditor, the Statutory Auditors and the Board of Statutory Auditors in preparation of the Audit Report.

# Basic Policy on Control of the Stock Company in the Business Report

## (1) About the Basic Policy

The Company believes that persons who control decision-making over the financial and business policies of the Company must be able to ensure and enhance the corporate value of the Company and ultimately, the common interests of its shareholders.

Meanwhile, as the shares of the Company are listed and traded freely in the market, the Company also believes that the way of person who control of the Company should ultimately rest on the will of the shareholders as a whole, and that the final decision as to whether or not to accept a purchase offer for shares that involves a change of control of the Company should also be ultimately made based upon the will of the shareholders as a whole. Nonetheless, among those large-scale purchases or offers to purchase the Company's shares, etc., there may be cases that would harm the common interests of the shareholders such as: those with a purpose of acquisition or intended management policies after the acquisition that would obviously harm the corporate value and, subsequently, the common interests of shareholders; those with a potential to substantially coerce shareholders into selling their shares; those not providing sufficient time or information for the shareholders to consider the conditions, etc., of the acquisition, or for the Board of Directors of the Company to make an alternative proposal; and those requiring negotiation with the purchaser in order to procure more favorable terms than those presented by the purchaser, etc.

The Company considers such person who makes or offers such large-scale purchases are exceptionally not suitable as a person to have control over the financial and business policies of the Company.

## (2) Efforts to Realize the Basic Policy

### 1) Medium-Term Business Plan

The Company Group is practicing corporate activities which seek to balance the affluent human life with the global environment through utilization of renewable wood resources.

In order to ensure this sustainable growth continues, we formulate and promote the Medium-Term Business Plan every three years. Under the Fifth Medium-Term Business Plan promoted for three years since April 2015, we strived to strengthen competitiveness of the existing business and worked on transformation of our business structure as a comprehensive biomass corporation by prioritizing management resource allocation in the growing fields such as packaging, healthcare, chemical, energy, etc.

We have been promoting the Sixth Medium-Term Business Plan (three years) since April 2018. We will secure more stable profits from the existing business by reorganizing our production structure and will support the transformation of business structure.

Meanwhile, we will accelerate the transformation of our business structure by making further investment for expanding the growing fields and strengthening competitive power of new businesses.

We will contribute to human life and culture through sound material-cycle business based on forest resources and will work to ensure and enhance the corporate value and the common interest of its shareholders.

2) Efforts for Corporate Governance

The Company places highest priority on realizing a fair management through further improvement of management transparency to our stakeholders including shareholders. We introduced the Corporate Officer System to ensure segregation of execution of business from supervision of management and will continue to strive to strengthen the function for supervision of the Board of Directors. The Company, as a commanding office for group management, will promote growth strategies, monitor affiliated business and promote compliance.

With such efforts, the Company will work on further reinforcement of corporate governance.

## (3) The Plan for Large-Scale Purchases of Shares, etc. of the Company (Take-Over Defense Measure)

① Outline of the Plan

The Company set the “Plan for Large-Scale Purchases of Shares, etc., of the Company (Take-Over Defense Measure)” (hereinafter referred to as the “Plan”) as a measure to prevent any party deemed inappropriate in light of the Basic Policy stated in (1) above from controlling the decision making regarding the financial and business policies of the Company.

The effective period of the Plan ends at the conclusion of the Ordinary General Meeting of Shareholders for the fiscal year ending March 2018. The outline of the Plan is as follows:

(a) Establishment of the Large-Scale Purchase Rule

In order to ensure and enhance the corporate value of the Company Group and, ultimately, the common interests of its shareholders, the Plan sets out procedures, in the event that a Large-Scale Purchase of the Company’s shares, etc. is attempted. Such procedures (i) require the party intending a Large-Scale Purchase (hereinafter, referred to as the “Large-Scale Purchaser”) to provide necessary and sufficient information concerning the Large-Scale Purchase, in advance, (ii) secure sufficient time to gather information with respect to the Large-Scale Purchase and to provide full consideration, etc. thereafter, and (iii) to present an alternative proposal, etc. by the management of the Company to the shareholders, and to negotiate with the Large-Scale Purchaser.

(b) Use of an Allotment of Share Acquisition Rights without Contribution (*Shinkabu Yoyakuken Mushou Wariate*)

In the case where there is deemed to be a risk of damage to the corporate value of the Company and the common interests of its shareholders, such a case as, in which the a Large-Scale Purchaser carries out a Large-Scale Purchase without following the procedures set out in the Plan, etc., the Company will allot share acquisition rights (hereinafter, referred to as the “Share Acquisition Rights”) having a condition for exercise that does not allow the Large-Scale Purchaser to exercise its rights and a condition for acquisition to the effect that the Company may acquire the Share Acquisition Rights from parties other than the Large-Scale Purchaser in exchange for shares in the Company, to all shareholders of the Company at such time in the manner of the Allotment of Share Acquisition Rights without Contribution (stipulated in Article 277 et. seq. of the Companies Act).

(c) Use of an Independent Committee to Eliminate Arbitrary Decisions by the Board of Directors of the Company

In order to eliminate arbitrary decisions by the Board of Directors of the Company regarding the implementation or non-implementation of the Allotment of Share Acquisition Rights without Contribution or the acquisition of the Share Acquisition Rights as a countermeasure against a Large-Scale Purchases, the Plan requires the Board of Directors to obtain a judgment from the Independent Committee, consisting of only outside members who are highly independent from the Company’s management, in accordance with the Independent Committee Rules. In addition, on the occasion of implementation of the Allotment of Share Acquisition Rights without Contribution, if the Independent Committee recommends that the Company confirm the shareholders’ will regarding the implementation of the Allotment of Share Acquisition Rights without Contribution, in principle, the Board of Directors of the Company will call a General Meeting of Shareholders for confirmation of the shareholders’ will. Furthermore, in the course of such procedures, the Company will ensure its transparency by disclosing information about the process to shareholders in a timely manner.

The Independent Committee under the Plan is composed of two (2) outside directors and two (2) outside Audit & Supervisory Board Members of the Company and one (1) outside expert.

(d) Exercise of the Share Acquisition Rights and Acquisition of the Share Acquisition Rights by the Company

In the case where the Allotment of Share Acquisition Rights without Contribution takes place in accordance with the Plan and either the shareholders other than the

Large-Scale Purchaser exercise the Share Acquisition Rights or the shareholders other than the Large-Scale Purchaser receive shares of the Company in exchange for the acquisition of the Share Acquisition Rights by the Company, then it would be possible for the voting rights ratio of the shares in the Company held by the Large-Scale Purchaser to be diluted by up to 50% compared to before such exercise or acquisition.

② Outline of the Impact, etc. of the Plan on the Shareholders and Investors

(a) Impact of the Large-Scale Purchase Rule

The Large-Scale Purchase Rule aims to provide the shareholders with the information necessary to make a decision regarding whether or not to accept an offer for a Large-Scale Purchase and with the opinion of the Board of Directors of the Company that currently manages the Company, and to assure the shareholders an opportunity for an alternative proposal to be presented. The Company believes that this will enable the shareholders to make an appropriate decision with respect to whether or not to accept an offer of the Large-Scale Purchase with sufficient information and will protect the corporate value of the Company and, ultimately, the common interests of its shareholders. Therefore, the Company believes that establishment of the Large-Scale Purchase Rule will be the foundation for making an appropriate decision on investment by the shareholders and investors, and will benefit the shareholders and investors.

(b) Impact at the Time of the Allotment of Share Acquisition Rights without Contribution

In the case where the Board of Directors of the Company resolves implementation of the Allotment of Share Acquisition Rights without Contribution, one Share Acquisition Right shall be allotted, at no cost, for each share held by the shareholders on the record as of the allotment date, which will be separately determined in the resolution for the Allotment of Share Acquisition Rights without Contribution. If a shareholder does not take the procedures for exercising the Share Acquisition Rights within the period for exercising the Share Acquisition Rights, its own shares in the Company shall be diluted by exercise of the Share Acquisition Rights held by other shareholders.

However, the Company may acquire the Share Acquisition Rights of all shareholders other than the unqualified parties and, in exchange, deliver shares in the Company. If the Company carries out such acquisitions, all shareholders other than the unqualified parties will receive shares in the Company without exercising their Share Acquisition Rights nor paying in the sum of cash equivalent to the exercise price, and no dilution of the aggregate shares in the Company held will result; rather, only dilution of the value per share in the Company held will result.

③Rationality of the Plan

The fairness and objectivity of the Plan are ensured for the following reasons: the Plan fully satisfies the three principles stipulated in the “Guidelines for Takeover Defense Measures to Ensure or Enhance the Corporate Values/Common Interests of Shareholders,” released by the Ministry of Economy, Trade and Industry and the Ministry of Justice on May 27, 2005; the Plan was updated upon approval by the shareholders at the 91st Ordinary General Meeting of Shareholders of the Company held on June 26, 2015; in certain cases, the shareholders’ will regarding whether or not to implement the Allotment of Share Acquisition Rights without Contribution will be confirmed at a General Meeting of Shareholders for Confirmation of the Shareholders’ will; the Plan is designed in a way not to be triggered unless its substance fulfills reasonable and detailed objective requirements; that the Independent Committee, composed of highly independent outside members, was set up for the operation of the Plan, and any resolution by the Company’s Board of Directors will be made upon giving maximum respect to the judgment of the Independent Committee regarding whether or not to implement the Allotment of Share Acquisition Rights without Contribution; the Independent Committee may obtain advice from the independent third parties at the Company’s expenses; the Plan can be abolished by resolution of the General Meeting of Shareholders of the Company or the Board of Directors of the Company even before the expiration of the effective period of the Plan; the Plan is designed in a way that it may be abolished by the Directors who are designated by the party that purchased a large number of shares in the Company and elected at a General Meeting of Shareholders of the Company (not a Dead Hand Takeover Defense Measure), etc.

Please refer to the Company’s website on the Internet for the details of the Plan. (http://www.nipponpapergroup.com/news/mt_pdf/20150515.pdf)

(Reference)

Regarding the expiration of the Plan at the conclusion of the Ordinary General Meeting of Shareholders to be held on June 28, 2018, the Board of Directors meeting held on May 15, 2018 decided to abolish the Plan and not to extend it, after thorough and careful consideration based on opinions from our shareholders including institutional investors in Japan and overseas and changes in external environment such as recent trend concerning anti-takeover measures.

Even after abolishment of the Plan, the Company will continue to make efforts to enhance the corporate value of the Company and ultimately, the interests of all shareholders. In addition, in the case that a Large-Scale Purchases of shares, etc., of the Company is carried out, the

Company will request a Large-Scale Purchaser to provide necessary and sufficient information so that shareholders can make a proper judgment about appropriateness of those Large-Scale Purchases and disclose opinions of the Board of Directors of the Company or implement other appropriate measures, based on Financial Instruments and Exchange Act, Companies Act, and other applicable laws and regulations.

## Consolidated Statement of Changes in Shareholders' Equity, etc.

(From April 1, 2017 through March 31, 2018)

(Unit: million yen)

| | Shareholders' Equity | | | | |
|---|---|---|---|---|---|
| | Capital | Capital Surplus | Retained Earnings | Treasury Stocks | Total Shareholders' Equity |
| Beginning balance | 104,873 | 216,531 | 73,479 | △1,398 | 393,486 |
| Changes during consolidated fiscal year | | | | | |
| Dividend of retained earnings | | | △6,946 | | △6,946 |
| Net income attributable to owners of the parent | | | 7,847 | | 7,847 |
| Acquisition of treasury stocks | | | | △18 | △18 |
| Disposition of treasury stocks | | △0 | | 1 | 1 |
| Change in the scope of consolidation | | | △1,201 | | △1,201 |
| Change of scope of equity method | | | 328 | | 328 |
| Change in ownership interest of parent due to transactions with non-controlling interests | | △110 | | | △110 |
| Amount of changes in items other than shareholders' equity during the consolidated fiscal term (net amount) | | | | | |
| Total amount of changes during the consolidated fiscal year | — | △110 | 27 | △16 | △100 |
| Balance at end of the current term | 104,873 | 216,420 | 73,506 | △1,414 | 393,386 |

| | Accumulated amount of other comprehensive income | | | | | Non-controlling interests | Total net assets |
|---|---|---|---|---|---|---|---|
| | Amount of valuation difference on other securities | Deferred gains or losses on hedges | Account for adjustment of currency translation | Accumulated amount of adjustment to retirement benefits | Total accumulated amount of other comprehensive income | | |
| Beginning balance | 22,249 | 626 | 20,260 | △6,702 | 36,434 | 4,990 | 434,911 |
| Changes during consolidated fiscal year | | | | | | | |
| Dividend of retained earnings | | | | | | | △6,946 |
| Net income attributable to owners of the parent | | | | | | | 7,847 |
| Acquisition of treasury stocks | | | | | | | △18 |
| Disposition of treasury stocks | | | | | | | 1 |
| Change in the scope of consolidation | | | | | | | △1,201 |
| Change of scope of equity method | | | | | | | 328 |
| Change in ownership interest of parent due to transactions with non-controlling interests | | | | | | | △110 |
| Amount of changes in items other than shareholders' equity during the consolidated fiscal term (net amount) | 993 | △2,192 | 3,077 | 5,325 | 7,204 | 1,382 | 8,587 |
| Total amount of changes during the consolidated fiscal year | 993 | △2,192 | 3,077 | 5,325 | 7,204 | 1,382 | 8,486 |
| Balance at end of the current term | 23,243 | △1,566 | 23,338 | △1,376 | 43,638 | 6,373 | 443,398 |

## Notes to the Consolidated Financial Statement

Figures are rounded down to the nearest million yen.

# 1. Notes, etc., to the significant basis for preparation of the Consolidated Financial Statement

### (1) Scope of Consolidation

① Number of consolidated subsidiaries and names of primary consolidated subsidiaries

Number of consolidated subsidiaries: 44 companies

Names of primary consolidated subsidiaries:

Nippon Paper Crecia Co., Ltd., Nippon Paper Papylia Co., Ltd., Paper Australia Pty Ltd, Nippon Dynawave Packaging Co., NP Trading Co., Ltd., Nippon Tokai Industrial Paper Supply Co., Ltd., Nippon Paper Lumber Co., Ltd., Nippon Paper Logistics Co., Ltd.

During the current consolidated fiscal year, there were the following changes due to change in importance, establishment or sales.

(New) 3 companies

Change in importance

Nippon Paper Ishinomaki Energy Center Ltd.

Kyouei Seitai K.K.

Establishment

Nippon Paper Logistics Co., Ltd.

(Excluded) 1 company

Sales

Kunimoku House Co., Ltd.

② Names, etc. of primary non-consolidated subsidiaries

Name of the primary non-consolidated subsidiary:

Douou Kohatsu Co., Ltd.

Reason for exclusion from the scope of consolidated subsidiaries:

Respective non-consolidated subsidiaries are small in scale, and have no material impact on the consolidated financial statements, in terms of their total assets, sales revenue, net income or loss of the current term (amount corresponding to the equity interest), and retained earnings (amount corresponding to the equity interest), etc.

### (2) Application of the equity method

① Number of equity method non-consolidated subsidiaries and affiliated companies, and names of primary companies thereof, etc.

Number of equity method non-consolidated subsidiaries None

Number of equity method affiliated companies 11 companies

Name of principal equity method companies

LINTEC Corporation, Shin Tokai Paper Co., Ltd., Daishowa-Marubeni International Ltd., Nippon Tokan Package Co., Ltd., Phoenix Pulp & Paper Public Co., Ltd.

During the current consolidated fiscal year, there were the following changes due to change in importance.

(New) 1 company

Suzukawa Energy Center

② Number of non-consolidated subsidiaries and affiliated companies not under the equity method, and names, etc. of primary companies thereof.

Number of non-consolidated subsidiaries not under the equity method

71 companies

Number of affiliated companies not under the equity method:

27 companies

Names of primary companies

(Non-consolidated subsidiary) Douou Kohatsu Co., Ltd.

(Affiliated company) JPT Logistic Co., Ltd.

Reason for non-application of equity method:

The non-consolidated subsidiaries and affiliated companies were excluded from the scope of equity method because such exclusion have minor impact on the consolidated financial statements in terms of respective net income or loss (amount corresponding to equity interest) and retained earnings (amount corresponding to equity interest), etc. of the current consolidated fiscal year, and have no materiality as a whole.

③ Special notes regarding the procedures for application of the equity method

Among the equity method companies, as to those with different settlement date from the consolidated settlement date, the financial statements for the respective fiscal years of such companies are reflected.

### (3) Fiscal year, etc. of consolidated subsidiaries

Among the consolidated subsidiaries, respective settlement date of Paper Australia Pty Ltd.

and its 7 subsidiaries, Daishowa North America Corporation, Nippon Paper Industries USA Co. Ltd., Jujo Thermal Ltd., Siam Nippon Industrial Paper Co., Ltd., Nippon Dynawave Packaging Co., Amapa Florestal e Celulose S.A. and its 1 subsidiary, and Nippon Paper Resources Australia Pty, Ltd. is December 31.

In preparation of the consolidated financial statements, each financial statement as of such date is used, and as to material transactions which occurred between such date and the consolidated settlement date, adjustments necessary for consolidation are made to them.

### (4) Accounting policies

① Evaluation standard and method for evaluation of securities

Other securities:

| | |
|---|---|
| Securities with market value: | The market value method based on the market price, etc. as of the settlement date is used (all of the evaluation variance is directly charged or credited to net assets and the cost of securities sold is computed by the moving-average method). |
| Securities without market value: | The cost method based on the moving-average method is used. |

② Evaluation standard for derivatives:

The market value method is used.

③ Evaluation standard and method for measurement of inventory assets:

The cost method based primarily on the moving-average method and the periodic average method (as to the amount in the balance sheet, the method of writing down the book value based on declined profitability) is applied.

④ Accounting for depreciation of fixed assets:

(i) Tangible fixed assets (excluding leased assets):

The declining balance method is used. (Some part of the Company and some of the consolidated subsidiaries adopt the straight-line method)

However, for depreciation of buildings (excluding auxiliary facilities) acquired on or after April 1, 1998 and of auxiliary facilities attached to buildings and structures acquired on or after April 1, 2016, the straight-line method is adopted.

Primary useful lives in years are as follows:

Buildings and structures: 10-50 years

Machinery, equipment and vehicles: 7-15 years

(ii) Intangible assets (excluding leased assets):

The straight-line method is used.

However, software for in-house use is amortized by the straight-line method over its estimated internally usable period (5 years).

(iii) Leased assets:

As to the leased assets by financial lease transaction without transfer of title, depreciation is amortized by using the straight-line method over the durable life equal to the lease period and with no residual value (when a guaranteed residual value is agreed, the guaranteed residual value).

⑤ Accounting standards for the allowance for doubtful accounts

To prepare for loss from bad debts such as trade account receivables, etc., the estimated uncollectable amounts are stated based on historical rate of losses from bad debts for the general accounts of receivables, and based on individual collectability assessments for such certain doubtful account of receivables, etc.

⑥ Accounting standards for allowance for environmental measure

To prepare for the expenses for disposal of PCB wastes in accordance with the "Act on Special Measures concerning the Proper Treatment of Polychlorinated Biphenyl Wastes," an estimated amount for disposal is allocated.

⑦ Accounting method for the retirement benefits liabilities

To prepare for payment of employees' retirement benefits, the amount equal to the amount of retirement benefit liabilities after deduction of the amount of pension assets based on estimated amounts at the end of the current consolidated fiscal year is stated as the retirement benefits liabilities. Further, when the amount of pension assets exceeds the amount of retirement benefit liabilities, it is stated as assets relating the retirement benefits.

In calculation of retirement benefit liabilities, the method for the estimated amount of retirement benefits to be attributed to the consolidated financial statement for the current term is on the benefit formula basis.

The past service costs are recorded as expenses by using the straight-line method amortized over a certain period (5-15 years), which is less than the average remaining length of employees' service at the time when such liabilities are incurred.

Actuarial difference is recorded as expenses mainly by the straight-line method amortized over a certain period (10-15 years), which is less than the average remaining length of employees' service at the time of its occurrence in each consolidated fiscal year, and such recording of expenses is commenced in the following consolidated fiscal year of respective occurrence.

Unrecognized actuarial difference and unrecognized past service costs are recorded within the accumulated adjustment of retirement benefits under the accumulated other comprehensive income in the Net Assets section upon tax effects adjustment.

⑧ Standards for translation of important assets and liabilities denominated in foreign currency into Japanese currency base

Monetary receivables or payables denominated in foreign currency are translated into Japanese currency at the spot exchange rate on the consolidated settlement date, and resulting differences from translation are recorded as profits or losses. Further, the assets and liabilities of overseas subsidiaries, etc., are translated into Japanese yen at the spot exchange rate on respective settlement date of the overseas subsidiaries, etc., and revenue and expenses are translated into Japanese yen at the average exchange rate in effect during the applicable fiscal year. The difference arising out of such translation is included in the currency translation adjustment account and non-controlling interests in the Net Assets section.

⑨ Hedge accounting method

(i) Hedge accounting method

The deferred hedge accounting is applied.

However, among the monetary receivables or payables, etc., denominated in foreign currency with forward exchange contract, etc., the appropriation accounting (*Furiate-shori*) is applied to those that satisfy the requirements for appropriation accounting. And the exceptional accounting (*Tokurei-shori*) is applied to interest rate swaps that satisfy the requirements for the exceptional accounting. The integrated accounting (*Furiate-shori, Tokurei-shori*) is applied to the interest rate and currency swaps that satisfy the requirements for the integrated accounting.

(ii) Hedge instruments and hedge items

a. • Hedge instrument: Forward exchange contract

• Hedge items: Receivables denominated in foreign currency through export of products, etc., payables denominated in foreign currency for import of raw materials and fuel, etc., and future transactions denominated in foreign currency.

b. • Hedge instrument: An interest rate swap
   • Hedge items: Borrowings
c. • Hedge instrument: An interest rate and currency swap
   • Hedge items: Borrowings denominated in foreign currency
d. • Hedge instrument: Crude oil swap
   • Hedge items: Future purchase transactions of fuel

(iii) Hedge policies

The purpose of derivative transactions is mainly to hedge risk of fluctuations of currency exchange rates, interest rates and prices.

(iv) Method for assessment of the hedge effectiveness

Hedge effectiveness is assessed by comparing the accumulated total of cash flow fluctuation or market fluctuation of the hedged item with the accumulated total of cash flow fluctuation or market fluctuation of the hedge instrument in every six-month period, and based on the amount, etc., of such fluctuations of them both.

Assessment of the effectiveness on the consolidated settlement date, for the interest rate swaps which satisfy the requirements for the exceptional accounting and the interest rate and currency swaps which satisfy the requirement for the integrated accounting (*Furiate-shori*, *Tokurei-shori*) is omitted.

Among the hedged items with forward exchange contracts, for those the forward exchange contracts is appropriated in U.S. dollars, etc., respectively, with the same amount and same date, at the time of execution in accordance with risk management policies, assessment of the effectiveness on the consolidated settlement date is omitted, because the correlation with the subsequent fluctuation of exchange rate is entirely secured.

⑩ Accounting of consumption tax, etc.

The tax exclusion method is used.

⑪ Adoption of the consolidated taxation system

The Company and some of the consolidated subsidiaries adopted the consolidated taxation system from the current consolidated fiscal year.

## (5) Changes in Presentation

(Changes in the Consolidated Profit and Loss Statement)

"Loss on valuation of investment securities" (148 million yen in the preceding consolidated fiscal term), which was included in "Others" of Extraordinary losses in the preceding consolidated fiscal term, is posted in a separate account for the current consolidated fiscal term due to increase of its monetary materiality.

## 2. Notes to the Consolidated Balance Sheet

### (1) Collateralized assets and secured liabilities

The following assets are pledged as collateral for the following amounts

(i) Collateralized assets

| | |
|---|---|
| Investment securities | 2,949 million yen |
| Other tangible fixed assets | 2,430 million yen |
| Total | 5,380 million yen |

(ii) Secured liabilities

| | |
|---|---|
| Short-term loan payable | 410 million yen |
| Long-term loan payable (including those payable within a year) | 2,342 million yen |
| Total | 2,752 million yen |

### (2) Accumulated depreciation on tangible fixed assets 2,313,460 million yen

### (3) Guarantee liabilities

Guarantee for borrowings, etc. of the companies other than the consolidated affiliated companies from financial institutions, etc. is provided.

| | |
|---|---|
| Guarantee liabilities | 11,344 million yen |

## 3. Notes to the Consolidated Statement of Changes in Shareholders' Equity, etc.

### (1) Type and total number of issued shares at the end of the current consolidated fiscal term

Common shares: 116,254,892 shares

### (2) Dividends

① Amount of dividends paid

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

② Among the dividends of which record date is within the current consolidated fiscal term, the dividends of which effective date to be in the following term:

| Resolution | Type of shares | Dividend resource | Total amount of dividends (million yen) | Dividend per share (yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| June 28, 2018 Ordinary General Meeting of Shareholders | Common shares | Retained earnings | 3,477 | 30 | March 31, 2018 | June 29, 2018 |

# 4. Notes to the Status of Financial Instruments

## (1) Status of Financial Instruments

The Company Group introduced a cash management system (CMS) and manages funding in the group in an integrated fashion. Management of funds is limited to safe and secure bank deposits, etc. Fund procurement is conducted through borrowing from financial institutions, issuance of bonds payable, etc., based on predicted funding of the group in whole.

Credit risks of the customers pertaining to the trade receivables are mitigated in accordance with the rules for credit controls common to the group. Investment securities are mainly listed stocks and stocks of affiliates companies, and the market value of the listed stocks are checked in a timely manner.

The due dates of trade payables are within one (1) year. Though loan payables are exposed to fluctuation risks of interest rate, the rate of interest payable of some long-term loan payables with fluctuation risk of interest rate is fixed by using the interest rate swap transactions and the interest rate and currency swap transaction.

Though monetary receivables and payables denominated in foreign currency are exposed to currency exchange fluctuation risks, such risks are hedged by the forward exchange contract and the interest rate and currency swap transaction.

The fuel price of some fuel purchase transactions with price fluctuation risk is fixed by using the crude oil swap transactions.

In addition, though trade payables and loan payables are exposed to liquidity risks, such risks are managed by making a financial budget and updating it on a daily and monthly basis, and by preparing cash management plan.

## (2) Fair value, etc. of financial instruments

The amount posted in the consolidated balance sheet, the fair value, and the amount of difference between them as of March 31, 2018 (the end of the current consolidated fiscal term), are as follows:

(Unit: million yen)

| | Consolidated balance sheet amount | Fair value | Amount of difference |
|---|---|---|---|
| (1) Cash and deposits | 59,003 | 59,003 | – |
| (2) Notes receivable/and accounts receivable-trade | 220,766 | 220,766 | – |
| (3) Investment securities, | | | |
| Other securities | 57,252 | 57,252 | – |
| Stocks in affiliates | 47,695 | 69,933 | 22,237 |
| Total assets | 384,717 | 406,955 | 22,237 |
| (4) Notes payable and accounts payable-trade | 142,275 | 142,275 | – |
| (5) Short-term loan payable | 288,063 | 288,696 | 633 |
| (6) Long-term loan payable | 343,334 | 352,645 | 9,310 |
| Total liabilities | 773,673 | 783,617 | 9,943 |
| (7) Derivative transactions* | 3,089 | 3,089 | – |

(*) The net amounts of the credit and debt actually accrued from derivative transactions are stated. In case the total of such amounts results in net debt, such amounts are posted in parentheses.

(Note 1) Computation method of the fair value of financial instruments, and matters relating to securities and derivative transactions

(1) Cash and deposits and

(2) Notes receivable and accounts receivable-trade

Since these are settled in a short period, these current values are approximately equal to the book values. Accordingly, the current values are relevant book values.

(3) Investment securities

The fair values are based on the prices on the stock exchanges.

(4) Notes payable and accounts payable-trade

Since these are settled in a short period, the current values are approximately equal to the book values. Accordingly, the fair values are relevant book values.

(5) Short-term loan payable

As to the fair value of short-term loan payable, these are settled in a short period and the fair values are approximately equal to the book values. Accordingly, the fair values are relevant book values. As to the long-term loan payable within one (1) year, it is calculated by the current value of the future cash flows discounted at interest rate of which risk-free rate adjusted by credit spread.

(6) Long-term loan payable

The long-term loan payable is, after sorted its total amount of principal and interest by certain period of time, calculated by the current value of the future cash flow discounted at interest rate of which a risk-free rate adjusted by credit spread. Further, the long-term loan payables with variable interest rate are qualified for the exceptional accounting of interest rate swap or the integrated accounting of interest rate and currency swap (see (7) below) and calculated by way of the total amount of principal and interest which was treated as a part of relevant interest rate swap or interest rate and currency swap, discounted in the same manner of the above.

(7) Derivative transactions

Since those, to which the exceptional accounting for interest rate swap and the integrated accounting for interest rate and currency swap were applied, are treated as a part of the hedged long-term loan payable, the fair value of them are included in the fair value of relevant long-term loan payable (see (6) above).

Since those, to which the appropriation method was applied, such as the forward exchange contracts, etc., were treated as a part of hedged accounts receivable-trade, notes payable and accounts payable-trade, their fair values are included in the fair values of accounts receivable-trade, notes payable, and accounts payable-trade.

(Note 2) Since the un-listed stocks (73,601 million yen in the consolidated balance sheet), have no market price and not able to estimate the future cash flow, it is quite difficult to recognize the fair value. Accordingly, those are not included in “(3) Investment Securities.”

## 5. Notes to Per Share Information

Net assets per share: 3,776.26 yen

Basic earnings per share: 67.80 yen

## 6. Other Notes

### Matters related to the Consolidated Profit and Loss Statement

Impairment losses

The Company Group posted impairment losses (4,797 million yen) from the following assets for the current consolidated fiscal year.

(Unit: million yen)

| Location | Type | Impairment Loss | Remarks |
|---|---|---|---|
| Ichinoseki-shi, Iwate | Machinery, equipment and vehicles | 405 | Assets scheduled to be retired |
| | Building and structures | 300 | |
| | Land | 159 | |
| | Other | 1,546 | |
| | | Total 2,411 | |

| | | | |
|---|---|---|---|
| Akita-shi, Akita | Machinery, equipment and vehicles<br>Other | 1,227<br>206<br>Total 1,433 | Assets scheduled to be retired |
| Ishinomaki-shi, Miyagi | Machinery, equipment and vehicles<br>Other | 638<br>110<br>Total 749 | |
| Komatsushima-shi, Tokushima, etc. | Building and structures<br>Machinery, equipment and vehicles<br>Land<br>Other | 97<br>65<br>35<br>4<br>Total 202 | Business assets, etc. |
| Total | | 4,797 | |

For determination of the sign of impairment losses, the Company groups the business assets mainly by each business segment which is a cash flow generating unit, and the assets scheduled to be retired by individual property unit.

As to the business assets of which profitability declined significantly, the book value was reduced to the recoverable amount and such reduced amount was posted as an impairment loss in the Extraordinary losses.

Further, the recoverable value of business assets is measured in terms of its value in use, but is evaluated as zero because cash flows cannot be anticipated.

The recoverable value of assets scheduled to be retired is measured by net sales price or their value in use and computed. Net sales prices are computed based on appraised value by a third party or equivalent to such measure. Concerning the value in use, future cash flows are not discounted because the period for computation is within one year.

# Statement of Changes in Shareholders' Equity, etc.

(From April 1, 2017 through March 31, 2018)

(Unit: million yen)

| | Shareholders' Equity | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Capital Surplus | | | Retained earnings | | | | | | | |
| | | | | | | Other retained earnings | | | | | | |
| | Capital | Legal capital surplus | Other capital surplus | Total capital surplus | Legal retained earnings | Reserve for prevention of specific disaster | Reserve for reduction entry of fixed assets | Reserve for reduction entry of special account | Retained earnings carried forward | Total retained earnings | Treasury stocks | Total share-holders' equity |
| Beginning balance | 104,873 | 83,552 | 46,677 | 130,230 | 432 | 111 | 3,631 | 6,248 | 58,453 | 68,877 | △1,084 | 302,895 |
| Changes during the fiscal year | | | | | | | | | | | | |
| Dividend of retained earnings | | | | | | | | | △6,955 | △6,955 | | △6,955 |
| Net loss of the current term | | | | | | | | | 19,063 | 19,063 | | 19,063 |
| Acquisition of treasury stocks | | | | | | | | | | | △18 | △18 |
| Disposition of treasury stocks | | | △0 | △0 | | | | | | | 1 | 0 |
| Reserves for prevention of specific disaster | | | | | | 7 | | | △7 | — | | — |
| Reversal for reduction entry of special account | | | | | | | | △6,248 | 6,248 | — | | — |
| Reversal of reserve for revaluation of land | | | | | | | | | 103 | 103 | | 103 |
| Changes in item other than shareholders' equity during the fiscal year (net amount) | | | | | | | | | | | | |
| Total of changes during the fiscal year | — | — | △0 | △0 | — | 7 | — | △6,248 | 18,453 | 12,212 | △16 | 12,195 |
| Balance at the end of current term | 104,873 | 83,552 | 46,677 | 130,229 | 432 | 118 | 3,631 | — | 76,906 | 81,089 | △1,101 | 315,090 |

| | Valuation and Translation Adjustment, etc. | | | | Total amount of net assets |
|---|---|---|---|---|---|
| | Valuation difference on other securities | Deferred gains or losses on hedges | Revaluation reserve for land | Total of valuation and translation adjustment, etc. | |
| Beginning balance | 18,957 | 419 | 22,161 | 41,538 | 344,434 |
| Changes during the fiscal year | | | | | |
| Dividend of retained earnings | | | | | △6,955 |
| Net loss of the current term | | | | | 19,063 |
| Acquisition of treasury stocks | | | | | △18 |
| Disposition of treasury stocks | | | | | 0 |
| Reserves for prevention of specific disaster | | | | | — |
| Reversal for reduction entry of special account | | | | | — |
| Reversal of reserve for revaluation of land | | | | | 103 |
| Changes in item other than shareholders' equity during the fiscal year (net amount) | 456 | △1,481 | △103 | △1,128 | △1,128 |
| Total of changes during the fiscal year | 456 | △1,481 | △103 | △1,128 | 11,066 |
| Balance at the end of current term | 19,413 | △1,061 | 22,057 | 40,410 | 355,501 |

# Notes to the Non-Consolidated Financial Statement

Figures rounded down to nearest million yen.

## 1. Notes to the significant accounting policies

(1) Evaluation standards and methods for evaluation of securities

| | |
|---|---|
| Stocks in subsidiaries and affiliates | Cost method based on moving-average method |
| Other securities | |
| Securities with market value: | Market value method based on the market price, etc., as of the settlement date (all of the valuation differences are directly charged or credited to the net assets and the cost of securities sold is computed by moving-average method) |
| Securities without market value | Cost method based on moving-average method |

(2) Evaluation standards for derivatives

The market value method is used.

(3) Evaluation standards and method for inventory assets:

The cost method based on the moving-average method (as to the amount in the balance sheet, the method of writing down the book value based on declined profitability) is used.

However, for a part of goods (such as filling machine, etc.), the cost method based on the specific identification method (as to the amount in the balance sheet, the method of writing down the book value based on declined profitability) is applied.

(4) Method for depreciation of fixed assets:

① Tangible fixed assets (excluding leased assets):

The declining balance method

However, the straight-line method is applied to the tangible fixed assets in Shiraoi Works of Hokkaido Mill, Ishinomaki Mill, Iwanuma Mill and Fuji Mill, etc., the buildings (excluding auxiliary facilities) acquired on or after April 1, 1998, and auxiliary facilities attached to buildings and structures acquired on or after April 1, 2016.

Primary useful lives in years are as follows:

| | |
|---|---|
| Buildings and structures: | 10-50 years |
| Machinery and equipment: | 7-15 years |

② Intangible assets (excluding leased assets):

The straight-line method

However, software for in-house use is amortized by the straight-line method over its estimated internally usable period (5 years).

③ Leased assets:

As to the leased assets by financial lease transaction without transfer of title, depreciation is amortized by using the straight-line method over the durable life equal to the lease period and with no residual value (when a guaranteed residual value is agreed, the guaranteed residual value).

## (5) Accounting standards for allowances

① Accounting standards for allowance for doubtful accounts

To prepare for loss from bad debts such as trade account receivables, etc., estimated uncollectable amounts are stated based on the actual historical rate of losses for general accounts receivables, and based on individual collectability assessments of such certain doubtful accounts of receivables, etc.

② Accounting standards for allowance for accrued retirement benefits

To prepare for payment of employees' retirement benefits, the amount based on the estimated amounts of retirement benefit liabilities and pension assets as of the end of current fiscal year, is stated. When the amount of pension assets exceeds the amount of retirement benefit liabilities excluding actuarial differences, the excess amount is recorded as prepaid pension cost.

In calculation of retirement benefit liabilities, the method for the estimated amount of retirement benefits to be attributed to the financial statement for the period until the end of the current term is on the benefit formula basis.

The past service costs are recorded as expenses by using the straight-line method amortized over a certain period (7-15 years), which is within the average remaining length of employees' service at the time when such liabilities are incurred.

Actual difference is recorded as expenses by the straight-line method amortized over a certain period (13-15 years), which is within the average remaining length of employees' service at the time of such liabilities are incurred in each fiscal year, and such recording of expenses is commenced in the following fiscal year of respective occurrence.

③ Accounting standards for allowance for environmental measures

To prepare for the expenses of disposal of PCB wastes in accordance with the "Act on Special Measures Concerning the Proper Treatment of Polychlorinated Biphenyl

Waste," an estimated amount for disposal is allocated.

(6) Standards for translation of assets and liabilities denominated in foreign currency into Japanese currency base

Monetary receivables or payables denominated in foreign currency are translated into Japanese currency at the spot exchange rate on the settlement date, and the resulting translation adjustment is recorded as a profits or losses.

(7) Hedge accounting method

① Hedge accounting method

The deferred hedge accounting is applied.

However, among the monetary receivables or payables, etc., denominated in foreign currency with forward exchange contract, etc., the appropriation accounting (*Furiate-shori*) is applied to those satisfy the requirements for appropriation accounting. And the exceptional accounting (*Tokurei-shori*) is applied to interest rate swaps that satisfy the requirements for the exceptional accounting. The integrated accounting (*Furiate-shori, Tokurei-shori*) is applied to the interest rate and currency swaps that satisfy the requirements for the integrated accounting.

② Hedge instruments and hedge item

| | | |
|---|---|---|
| (i) | • Hedge instrument: | Forward exchange contract |
| | • Hedged item: | Liabilities denominated in foreign currency through the import of raw materials and fuel, etc., and anticipated transactions denominated in foreign currency. |
| (ii) | • Hedge instrument: | Interest rate swap |
| | • Hedged item: | Borrowings |
| (iii) | • Hedge instrument: | An interest rate and currency swap |
| | • Hedged item: | Borrowings denominated in foreign currency |
| (iv) | • Hedge instrument: | Crude oil swap |
| | • Hedged item: | Future purchase transactions of fuel |

③ Hedge policies

The purpose of derivatives transactions of the Company is to hedge risks of fluctuations of currency exchange rates, interest rates and prices.

④ Method for assessment of the hedge effectiveness

Hedge effectiveness is assessed by comparing the accumulated total of cash flow fluctuation or market fluctuation of the hedged item with the accumulated total of cash flow fluctuation or market fluctuation of the hedge instrument in every six-month period, and based on the amount, etc., of such fluctuations of the both.

Assessment of the effectiveness on the settlement date, for the interest rate swaps, which satisfy the requirements for exceptional accounting and the interest rate and currency swaps which satisfy the requirements for the integrated accounting (*Furiate-shori, Tokurei-shori*) is omitted.

Among the hedged items with forward exchange contracts, for those the forward exchange contracts is appropriated in U.S. dollars, etc., respectively, with the same amount and same date, at the time of execution in accordance with risk management policies, assessment of the effectiveness on the settlement date is omitted, because the correlation with the subsequent fluctuation of exchange rate is entirely secured.

### (8) Accounting of consumption tax, etc.

The tax exclusion system is used.

### (9) Adoption of the consolidated taxation system

The consolidated taxation system is applied from the current fiscal year.

### (10) Other significant bases for preparation of the Financial Statements

(Accounting of retirement benefits)

Accounting method for the unrecognized actuarial differences and the unrecognized past service costs in the retirement benefits differs from the accounting method applied to the Consolidated Financial Statements.

### (11) Changes in Presentation

(Changes in the Profit and Loss Statement)

“Loss on sales of shares in affiliates” (6 million yen in the current fiscal term), which was posted in a separate account in the preceding fiscal term, is included in “Other” of “Extraordinary losses” for the current fiscal term due to its insignificant monetary value.

“Provision for allowance for doubtful accounts” (158 million yen in the preceding fiscal term), which was included in “Others” of “Extraordinary losses” in the preceding fiscal term, is posted in a separate account for the current fiscal term due to the increase of its monetary materiality.

## 2. Notes to the Balance Sheet

(1) Collateralized assets and secured liabilities

The following assets are pledged as collateral for the following amounts

(i) Collateralized assets

Investment securities 2,949 million yen

(ii) Secured liabilities

Long-term loan payable (including those payable within a year) 1,384 million yen

(2) Accumulated depreciation on tangible fixed asset 2,014,376 million yen

(3) Guarantee liabilities

Guarantees for borrowings, etc., of affiliated companies, etc., from financial institutions, etc., are provided.

Guarantee liabilities 105,008 million yen

(4) The amounts of monetary receivable from or payable to affiliated companies

| | |
|---|---|
| Short-term monetary receivable from affiliated companies | 152,863 million yen |
| Short-term monetary payable to affiliated companies | 59,896 million yen |

(5) Revaluation of land

The Company took over the land for business which was revaluated in accordance with the "Act on Revaluation of Land" (Law No. 34, promulgated on March 31, 1998, Law No. 19 of Final Amendment, March 31, 2001) through the merger, and the amount corresponding to taxes on the amount of the relevant land revaluation difference is included in "Deferred tax liabilities for revaluation" as a part of the Liabilities, and the remaining amount is included in "Revaluation difference on land" as a part of the Net Assets.

・ Method of revaluation ・・・Computed by adding a reasonable adjustment to the appraised value stipulated in the Article 2, Item 3, 4, and 5 of the "Order for Enforcement of the Act on Revaluation of Land" (Cabinet Order No. 119 promulgated on March 31, 1998, Cabinet Order No. 125 of Final Amendment, March 31, 1999).

・ Date of revaluation: March 31, 2000

・ The amount of difference between the market value as of the end of current fiscal year and the book value after such revaluation, of the revaluated land

△46,915 million yen

## 3. Notes to the Statement of Profit and Loss

Trading volume with affiliated companies

| | |
|---|---|
| Trading volume through commercial transactions | |
| Sales revenue | 227,079 million yen |
| Operating expenses | 190,242 million yen |
| Trading volume other than commercial transaction | 48,844 million yen |

## 4. Notes to the Statement of Changes in Shareholders' Equity, etc.

Type and number of treasury shares at the end of the current fiscal year

| | |
|---|---|
| Common shares: | 336,888 shares |

.

## 5. Notes to Tax Effect Accounting

(1) Breakdown of major causes for deferred tax assets and deferred tax liabilities

| | |
|---|---|
| Deferred tax assets | |
| Accrued Bonus | 1,312 million yen |
| Allowance for doubtful account | 2,956 million yen |
| Allowance for retirement benefits | 5,627 million yen |
| Loss on valuation of securities | 22,197 million yen |
| Impairment losses | 9,985 million yen |
| Loss carried forward | 17,959 million yen |
| Others | 3,761 million yen |
| Deferred tax assets; Sub-total | 63,797 million yen |
| Valuation allowance | △51,979 million yen |
| Deferred tax assets: Total | 11,818 million yen |
| | |
| Deferred tax liabilities | |
| Reserves for deduction entry of fixed assets | △2,005 million yen |
| Valuation differences on other securities | △7,935 million yen |
| Others | △93 million yen |
| Deferred tax liabilities: Total | △10,033 million yen |
| | |
| Net amount of deferred tax assets | 1,785 million yen |

## 6. Notes to the transactions with related parties

Subsidiaries, etc.

| Type | Name of Company, etc. | Percentage of voting rights held (%) | Detail of Relation | | Detail of transaction | Amount of transaction (million yen) | Item | Balance at end of term (million yen) |
|---|---|---|---|---|---|---|---|---|
| | | | Concurrently serving officer, etc. | Business relation | | | | |
| Subsidiaries | NP Trading Co., Ltd. | Direct 100.00 | The Company's Officer concurrently serving | Sales of the Company's products. Sales of raw materials to the Company, etc. | Lending & collection of short-term funds (Note 1, 2) | 24,686 | Short-term loan receivable | 27,725 |
| | | | | | Receiving & assignment of notes receivables (Note 3) | 33,815 | Account payable | 8,957 |
| | | | | | Sales of products (Note 4) | 114,898 | Accounts receivable —trade | 32,882 |
| | | | | | Purchase of raw materials, etc. (Note 4) | 48,290 | Accounts payable —trade | 17,565 |
| | Nippon Tokai Industrial Paper Supply Co., Ltd. (Note 8) | Direct 65.00 | The Company's Officer concurrently serving | Sales of the Company's products | Sales of products (Note 4) | 70,781 | Accounts receivable —trade | 31,839 |
| | Nippon Paper Lumber Co., Ltd. | Direct 100.00 | The Company's employee concurrently serving | Sales of raw materials to the Company | Receiving & assignment of notes receivables (Note 3) | 12,108 | Account payable | 2,986 |
| | Nippon Paper Ishinomaki Energy Center Ltd. | Direct 70.00 | The Company's employee concurrently serving | Debt Guarantee | Debt guarantee (Note 5) | 30,926 | — | — |
| | Paper Australia Pty Ltd. | Direct 100.00 | The Company's Officer concurrently serving | Sales of the Company's products | Debt guarantee (Note 5) | 18,989 | — | — |
| | Amapa Florestal e Celulose S.A. | Direct 100.00 | The Company's employee concurrently serving | Sales of raw materials to the Company | Debt guarantee (Note 5) | 13,020 | — | — |
| | Nippon Paper Industries USA Co., Ltd. | Direct 100.00 | The Company's employee concurrently serving | Investment | Investment in kind (Note 6) | 22,390 | — | — |

(Terms of transaction and policies, etc., for decision-making on transaction terms)

(Note 1) As to lending funds, the rate of interest receivable is determined reasonably upon consideration for commercial interest rate.

(Note 2) Since the transactions of lending and collection of funds are conducted in a repetitive fashion, the amounts above in the amount of transaction are average amounts of balance during the effective term.

(Note 3) The Company cashes out the assigned notes receivable in the market.

(Note 4) The prices and other terms of transactions are determined upon consideration for the prevailing market status after price negotiation.

(Note 5) Guarantee for borrowings, etc., from financial institutions, etc., is provided, for which the Company receives guarantee fees from Nippon Paper Ishinomaki

Energy Center Ltd., Paper Australia Pty Ltd., and Amapa Florestal e Celulose S.A. The amounts of such transactions are the balance of the debt guarantee as of the end of the current fiscal year.

(Note 6) Transaction amount of investment in kind represents investment in kind of shares of Nippon Dynawave Packaging Co. the Company holds.

## 7. Notes to Per Share Information

| | |
|---|---|
| Net assets per share: | 3,066.83 yen |
| Basic earnings per share: | 164.46 yen |