

# KPP INTEGRATED REPORT

2018

## Management Philosophies

1

Targeting the enhancement of global management and achieving sustainable growth

2

Pursuing the happiness of the employees and their families and aiming to become a company that is trusted by its shareholders, customers, suppliers, and communities

3

Realizing a recycling-oriented society and widely contributing to the promotion of education, culture, and industry

### Management Vision GIFT+1

Our Group has selected four words that represent our vision toward value creation through business, and GIFT consists of the initial letters of these words: Globalization (expanding our business on a global scale), Innovation (pioneering the new future of the paper with the imagination and the creativity), Function (creating added value by utilizing our abilities to plan and propose) and Trust (responding to the trust our stakeholders place in us). The suffix of “+1” suggests that we will proceed with the four actions mentioned above in consideration of their respective environmental aspects.

### Management Vision GIFT+1



**Globalization Innovation Function Trust**

Expanding our business on a global scale

Pioneering the new future of the paper with the imagination and the creativity

Creating added value by utilizing our abilities to plan and propose

Responding to the trust our stakeholders place in us



By adding environmental initiatives to each element of this management vision, our Group endeavors to build a recycling-oriented society through tree-planting efforts, proposals for environmentally friendly products, the collection of recovered paper, and the recycling of resources.

### About This Report

We have been publishing *Integrated Reports* since fiscal 2016. They are aimed at comprehensively reporting financial information, such as financial results and business strategies, as well as non-financial information.

### Scope and Period of Report

The main items stated in this Report describe the conditions of the Group in the fiscal year ended March 31, 2018 (the period from April 1, 2017 to March 31, 2018). The Report also partially covers the Group's conditions in the period from April 2018.

### Date of issue

This issue: October 2018  
Next scheduled issue: September 2019

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## COMMUNICATION TOOL



### Integrated Report

The Company began publishing Integrated Reports in 2016 to communicate financial and non-financial information from its corporate activities in a comprehensive manner.  
(Published annually)



### Public relations magazine TSUNAGU

We distribute a public relations magazine called TSUNAGU as a communications tool that acts as a bridge between stakeholders and KPP. This magazine offers the latest information about the Company, and also highlights the attractive qualities of paper. (Published quarterly)



### Corporate website

This is the official KPP website. We distribute information, such as corporate information and investor relations information, in a timely manner on this website.  
It has a section called “What is KPP?” that is designed to provide the general public with an easy-to-understand look at our operations.



### TSUNAGU GALLERY

We have established a gallery on the first floor of our head office. It is a space where different works, paper products and others featured in the *TSUNAGU* magazine are on display for viewing. It is visited by customers and members of the local community.

# Creating Values That Lead Us to the Future

Established in 1924, Kokusai Pulp & Paper Co., Ltd. has carefully studied the needs of the times and helped to develop culture in different forms through the sale of paper products. We will continue pursuing various possibilities in an effort to develop new businesses in the years to come.

## Initial period

Daido Yoshiten Ltd., the predecessor of KPP, was established during the early days of modern paper manufacturing.

## Growth period

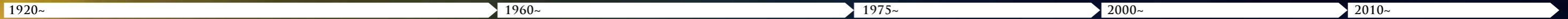
We expanded businesses in sync with trends during the period of rapid growth.

## Vibrant period

We enhanced operations through mergers and promoted global development as a key player in the industry realignment.

## Period of the second foundation

We are moving forward with the reform of our business structures and expansion of our domains with an eye to our centenary.



**1924**  
Daido Yoshiten Ltd. is founded in Osaka with 2 million yen in capital. The company sets up branches in Kyoto, Nagoya, and Tokyo.

**1925**  
Daido Yoshiten sets up its first overseas branch in Shanghai. The company opens branches in China in quick succession in the period that followed.

**1926**  
Daido Yoshiten sets up the Kyushu branch.

**1931**  
Daido Yoshiten becomes the first Japanese company to export paper to the United States. The company succeeds in exporting newsprint to the United States through a joint project with Karafuto Kogyo.

**1935**  
Daido Yoshiten increases its capital to 100 million yen.



Founding party in 1924



Shanghai branch in 1935

**1968**  
Daido Yoshiten moves its head office to Tokyo.

**1971**  
Daido Yoshiten sets up in Australia, its first overseas subsidiary.

**1973**  
Daido Yoshiten merges with Oji Group Trading Co., Ltd., and changes its name to DaiEi Papers Ltd. and increases its capital to 800 million yen. The capital increase strengthens its functions for exporting and importing.

**1975**  
DaiEi Papers merges with Taisei Papers Ltd. to strengthen business foundations for breaking through a recession that followed an oil crisis.

**1976**  
DaiEi Papers sets up a local subsidiary in Hong Kong.

**1979**  
Net sales for DaiEi Papers surpass 200,000 million yen in the fiscal year ended March 31, 1980.

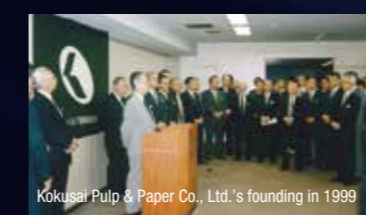
**1982**  
DaiEi Papers sets up a local subsidiary in the United States.

**1997**  
DaiEi Papers sets up a local subsidiary in Singapore.

**1999**  
DaiEi Papers changes its name to Kokusai Pulp & Paper Co., Ltd. (commonly known as KPP) and increases its capital to 2,678 million yen through its merger with Nichia Co., Ltd., taking the initiative in the restructuring of the paper distribution industry.



Tokyo head office in 1968



Kokusai Pulp & Paper Co., Ltd.'s founding in 1999

**2000**  
Net sales for KPP surpass 300,000 million yen in the fiscal year ended March 31, 2001.

**2006**  
KPP merges with Hattori Paper & Board Ltd. to improve distribution functions and solidify its business foundation.

**2007**  
KPP merges with Kashiwai Shigyo Co., Ltd. to raise sales capabilities and expand its revenue base. Net sales and ordinary income for KPP reach the record highs of 423,000 million yen 4,500 million yen, respectively, in the fiscal year ended March 31, 2008. KPP increases its capital to 3,442.78 million yen through the merger.



Current head office building

**2013**  
KPP merges with Sumisho Paper Co., Ltd. to strengthen the paper raw material division and packaging material section.

**2015**  
KPP sets up KPP ASIA-PACIFIC PTE. LTD. in Singapore in effort to expand business through the subsidiary. The new company was established to control business planning and management functions in the ASEAN region, India, and Oceania.

**2016**  
KPP expands into the thermal recycling business to sell biomass fuel for power generation with the goal of creating a comprehensive recycling-oriented company. Completes installation of the eco, a recovered paper recycling point system, in 400 stores.

**2017**  
KPP sets up HOKAN TOKYO BUSINESS SERVICE CO., LTD.

**2018**  
KPP is listed on the First Section of the Tokyo Stock Exchange.



## Events in society

Stock market crashes in the United States and the Great Depression begins (1929).  
The Pacific War ends (1945).  
The Constitution of Japan is promulgated (1946).  
The Constitution of Japan comes into force (1947).

The San Francisco Peace Treaty and the Japan-U.S. Security Treaty are signed (1951).  
Tokyo Tower is completed (1958).  
The Tokaido Shinkansen Line begins operation (1964).  
The Summer Olympics in Tokyo (1964).  
The Izanagi boom (1965 to 1970).

The Japan World Exposition in Osaka (1970).  
The Winter Olympics in Sapporo (1972).  
The first oil crisis (1973).  
The Japan-China Peace and Friendship Treaty is signed (1978).  
The second oil crisis (1979).

The International Exposition in Tsukuba (1985).  
The Plaza Accord (1985).  
The Act on Securing, Etc. of Equal Opportunity and Treatment between Men and Women in Employment comes in to force (1986).  
The Bubble Economy era (1986 to 1991).  
The reunification of Germany (1990).  
Kansai International Airport opens (1994).  
The Great Hanshin and Awaji Earthquake (1995).  
The Winter Olympics in Nagano (1998).

The September 11 terrorist attacks in the United States (2001).  
Digital terrestrial broad casting begins (2003).  
The Central Japan International Airport opens (2005).  
The World Exposition in Aichi (2005).  
Postal services are privatized (2007).  
The Lehman Brothers collapse (2008).

The Great East Japan Earthquake (2011).  
The Tokyo Skytree opens (2012).  
The consumption tax rate is increased to 8% (2014).  
The Social Security and Tax Number System is launched (2015).  
Voting age lowered to 18 (2016).



As a newly listed company  
we promote business operations with a long-term  
outlook to realize a sustainable society.

田辺 岡

Madoka Tanabe  
Director of the Board  
President and Chief Executive Officer

### To All Stakeholders

On June 26, 2018, Kokusai Pulp & Paper Co., Ltd. (KPP) was listed on the First Section of the Tokyo Stock Exchange. We would like to express our sincere gratitude to our customers, business partners, shareholders and all other stakeholders for their support. Since the company was founded in 1924, KPP has continued to grow by developing its business with a focus on paper and peripheral materials. At present, the group company has eighteen consolidated subsidiaries, twelve affiliated companies, and around one thousand employees. Of course, we do not consider the stock market listing our goal; rather, it is the starting point for the next stage. To respond to the expectations of a larger circle of stakeholders, we aim to create new value through our business operations and to contribute to building the affluent society of the future. We hope to continue to benefit from the constant support and understanding of shareholders and investors as well as all other stakeholders.

### Results for FY ending March 31, 2018

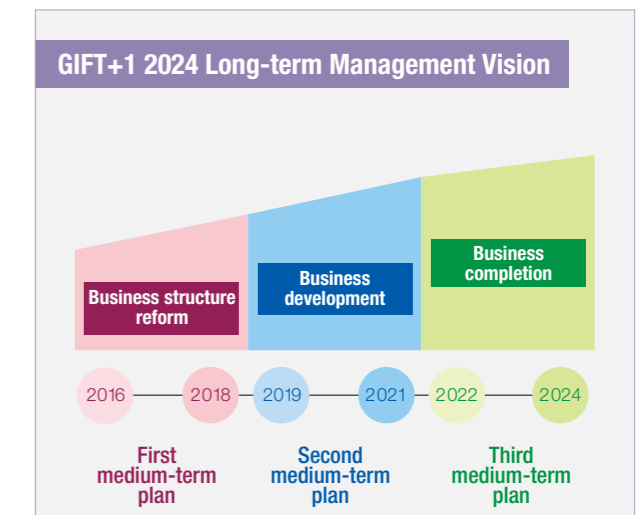
In 2017, the domestic economy continued to expand against the backdrop of a worldwide economic boom and the depreciation of the yen. It was a year when robust steps were taken toward a recovery from deflation with real GDP registering its eighth consecutive quarter of positive growth in December 2017. Meanwhile, despite geopolitical risks including the issues with North Korea and Iran, the world economy showed a trend toward genuine economic recovery for the first time since the Lehman Brothers bankruptcy. The consolidated results for Kokusai Pulp & Paper Group as of the end of March 2018 saw a rise in both income and profit with net sales of 377,700 million yen, operating income of 2,300 million yen—a year-on-year increase of 29.2%—and profits of 3000 million yen, up 77.0% year on year. Final net income for the year was 2,400 million yen. We reached the first stage of business restructuring at overseas bases with results improving after bottoming out in 2016. In the future, we plan to further strengthen the corporate culture and to create new value that is unique to the company.

### Toward the GIFT+1 2024 Long-term Management Vision

The hundredth anniversary in fiscal 2024 is a milestone on the path toward sustainable development outlined in the long-term management vision for the KPP Group launched in fiscal 2016. Aiming to strengthen the foundations of the domestic business and to establish a comprehensive recycling-oriented corporation, we have identified three terms with a medium to long-term

perspective as steps toward developing the business with a focus on the booming Asian market. The first term, which covers the three years from fiscal 2016 to fiscal 2018, is the period for business structure reforms when we strengthen the foundations of our business by rearranging the business portfolio. As well as introducing specific responses to stronger corporate governance, core systems innovation, and personnel systems reform, we have realized the long-awaited dream of a stock market listing, expanded our sphere of operations, and taken the first steps on the path to diversifying revenue sources. The following three-year term from fiscal 2019 to fiscal 2021 is the period for business development when we aim to strengthen the paper, paperboard, and pulp business as well as the packaging materials business, promote the comprehensive recycling business, and establish a solutions business. This is the term for developing priority strategies on a platform strengthened through structural reform.

The three-year term from fiscal 2022 to fiscal 2024 is the business completion period when we complete operations ahead of the company milestone, i.e., the one hundredth anniversary of the company (2024), and when we build the KPP Group that will continue to operate for another one hundred years.



### Current Situation and KPP Group Strategy

#### Existing Businesses in Japan

In Japan, the decline in graphic paper continues. The demand for cardboard and paper container packaging held firm, but even so, the overall demand for paper and paperboard in Japan is sluggish. In terms of the quantities of paper and paperboard handled in Japan, we are among the best. We strive to maintain diversity in supply sources, which is a forte of KPP, sales routes including wholesalers specializing in detailed small lot sales (secondary wholesalers), other organizations and functions, as well as transaction volumes revolving around a broad customer base including clients who

are major users. Believing in the potential of paper and aggregating information inside and outside the company, we harness what we refer to as the power of imagination and creativity to present proposals to customers. We are convinced that improving the imagination and creativity of each employee is the engine that will strengthen our business in the future. We intend to closely guard the existing domestic businesses and to boost our revenue base by continuing to streamline logistics.

### Furthering the Overseas Business

Meanwhile, in the rest of the world, paper and paperboard consumption has grown for seven consecutive years even after the Lehman Brothers bankruptcy. The driving force is the Asian market. Growth is focused on paperboard and household paper with corrugated board increasing at record levels following the explosive growth in e-commerce. For example, in Japan the annual consumption of paper per capita is approximately 210 kilograms, whereas it is about 13 kilograms in India. In the Asia-Pacific region where potential demand is high, we plan to carefully uncover locally integrated demand and to stimulate the markets.

### Boosting Total Package Solutions

While the demand for graphic paper is decreasing, there is a steady demand for paper and paperboard used for packaging and transportation. There are many different types of packaging including cardboard boxes for outer packaging to transport merchandise, paperboard for inner packaging, wrapping paper and film for packaging merchandise, and labels for transportation information or to enhance the brand value of merchandise. All of these are a part of packaging. In conventional transactions, suppliers provide either outer or inner packaging, but with our abundant sources of paper and peripheral materials, we are creating total package solutions to facilitate a one-stop shop that can accommodate the wishes of brand owners. Total package solutions are an important theme for overseas expansion. In cooperation with The New Hope Group, the largest foodstuffs group in China, we have built a film printing and processing plant in Chengdu, Sichuan province, using the most advanced environmental technologies from Japan to make packaging for sausages consumed in China. In Shandong province, our operating company has also invested in a manufacturer of corrugated board, which is expanding production on the back of the explosive growth in e-commerce.

### Aiming for the Recycling-Oriented Society

At KPP our strengths include a robust network of procurement, clients, and wholesalers in Japan and overseas. In our capacity as dealers for paper manufacturers we can also provide an abundance of information, but our particular forte is the recycling-oriented business model promoted by KPP.

One of the management philosophies of KPP is to realize a recycling-oriented society and to widely contribute to the promotion of education, culture, and industry. The recycling-oriented society contributes to environmental conservation by reusing and making effective use of limited resources. The raw material for paper is pulp from forests under appropriate management (for example, by replanting). The paper is processed and delivered to the consumer in the form of books, bags, boxes and other familiar products that are essential to daily life. It is possible to collect end-of-life paper products to recycle the raw materials for reuse. The greater the flow of recyclable material into the product life cycle, the more we save on precious resources. It is our aim at KPP to operate a business that will realize such a recycling-oriented society.

KPP is an industry leader with sales of approximately 2.13 million tons of paper and paperboard in Japan on a non-consolidated basis. On the other hand, we are also industry leaders in recovery as we collect approximately 1.31 million tons of paper and paperboard in circulation. In short, KPP collects approximately 60% of its product sales for recycling. In that sense, KPP plays a part in paper recycling in Japan. As a company looking to expand recycling, we also promote the ecomodel for used paper recycling.

In addition to paper recycling, we have launched a business for reusing thermal energy generated when burning waste. In this business model, we provide biomass power stations with waste material to use as fuel such as scrap wood and untapped wood, or palm kernel shells and walnut shells generated overseas. The recycling of paper is part of material recycling while providing biomass fuel is part of thermal recycling. In the future, we plan to expand both material recycling and thermal recycling.



### The Solutions Business

The solutions business expands business opportunities by proposing solutions to issues. It is a business area that will form part of sustainable development at KPP in the future.

As I already mentioned, KPP is a supplier of biomass fuel, but in 2016, we also invested in a power company where we accumulate combustion data to develop software that will optimize combustion controls using AI. As the caloric value of biomass fuel varies depending on the type, the expectation is that safe and stable combustion control will result in more efficient power generation.

Aiming to resolve issues with the rapidly aging population in urban settings, KPP also supports comprehensive care systems in the community. At present, the average number of hospital inpatient days per capita in Japan is nearly four times as high as overseas. The government is strengthening policies to expand systems for providing healthcare in the home. In April 2017, KPP established HOKAN TOKYO BUSINESS SERVICE CO., LTD. to systematize and back up administrative work at visiting nurse stations, which are indispensable to home healthcare.

We are promoting these solutions businesses as our contribution to society and as a means of addressing environmental issues with a view to collaboration with our existing business of selling paper, peripheral materials, and raw materials.

### A Valued and Trusted Corporation

Newly listed on the stock market, KPP is now at a stage where we make every effort to ensure high value and to obtain the trust of all stakeholders. We are particularly aware of the importance of improving corporate governance, compliance, risk management and other management tasks that are at the heart of trust. After the introduction of a system of executive officers to strengthen internal controls and optimize operations, we made the shift to a company with an audit committee in June 2015 to improve agility and to realize a higher degree of transparency in management. As well as striving to boost corporate value by means of ESG management, KPP aims to contribute to society as a corporate citizen. We believe it is necessary to achieve a deeper understanding of the company through the appropriate disclosure of information to shareholders and other stakeholders through IR activities.

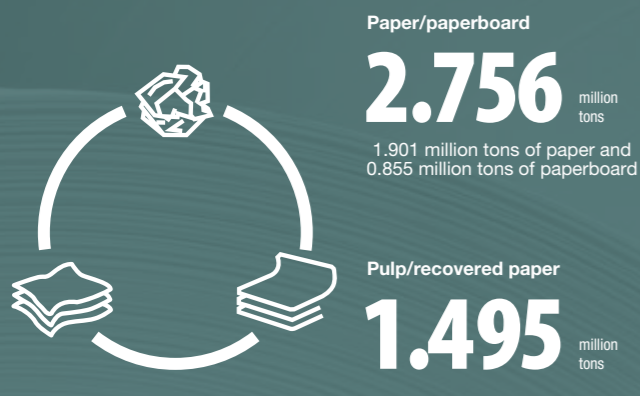
### Aiming to Create New Value Together with Society

For sustainable growth, I believe it is important for the corporation to foster and promote businesses, and to ascertain next-generation primary revenue sources from a long-term perspective. It is also necessary to take prompt measures to accurately understand the shifts in the turning points of the worldwide economy and social structures.

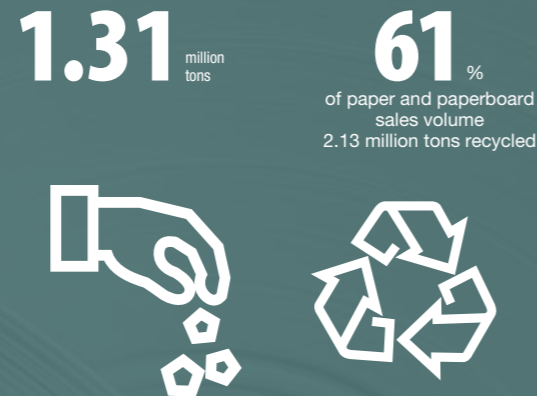
In Japan, paper has traditionally had an important role in the culture. From the internationally renowned *washi* to Western paper, which has expanded in step with the modern paper manufacturing industry since the Meiji period, paper has served as a medium for information. With the expansion of e-commerce, growth continues in the packaging field, which includes cardboard and paper containers. Sanitary paper also continues to expand due to inbound demand. Ocean pollution has focused attention on controls on plastic straws and containers, and paper products are now subject to reconsideration. I believe that paper has an important role to play and that its potential for expansion is boundless. As a corporation dealing in paper and peripheral materials, we would like more people to be aware of the good qualities of paper. I believe it is also necessary to develop understanding of the business at KPP.

# KPP IN FIGURES

## Sales volume (consolidated)



## Recovered paper collection (non-consolidated)



## Number of business bases

Domestic 7  
Overseas 19  
(As of July 31, 2018)

## Number of eco collection boxes

441  
(As of July 31, 2018)

## Net sales

377,714 million yen

## Number of items dealt with

Around 6,000 or more

## Number of suppliers

Around 1,200

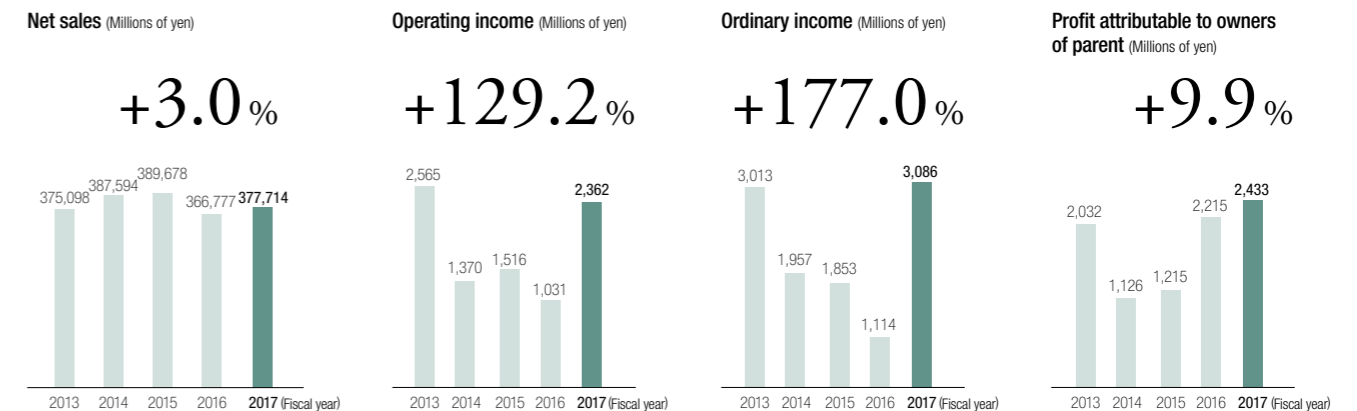
## Number of customers

Around 2,500

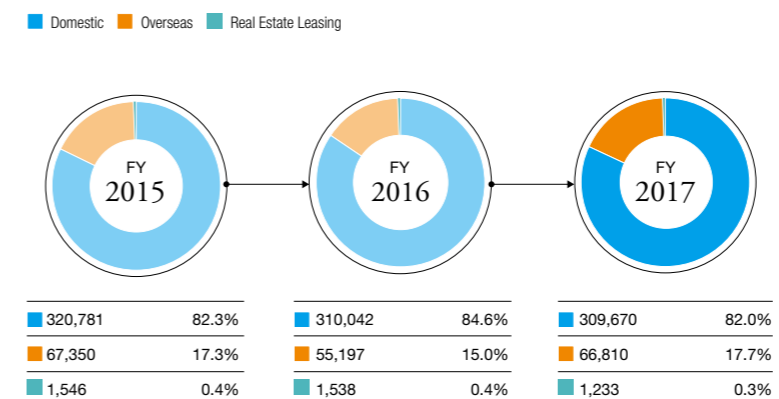
## Business Overview

During the fiscal year ended March 31, 2018, the Group achieved net sales of 377,714 million yen, an increase of 3.0% year on year, operating income of 2,362 million yen, an increase of 129.2% year on year, ordinary income of 3,086 million yen, an increase of 177.0% year on year, and profit attributable to owners of parent of 2,433 million yen, an increase of 9.9% year on year. All the above figures are on a consolidated basis.

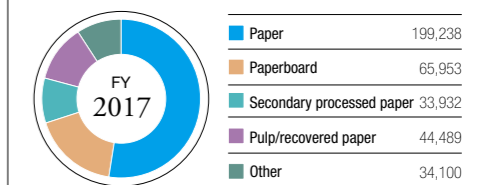
## Consolidated Financial Results by Fiscal Year



## Consolidated Net Sales (Millions of yen)



## Net Sales by Product (Millions of yen)



## Domestic Bases

### Wholesale Pulp and Paper

Net sales: 309,670 million yen  
Operating income: 4,521 million yen **82.0%**

The Domestic Bases Wholesale Pulp and Paper segment mainly engages in the sale of paper, paperboard, pulp, and other related materials, the collection and sale of recovered paper, and the processing and sale of paper products. The Group will strengthen the packaging, film and chemical products, and recovered paper and pulp businesses and promote new businesses. [P12](#)

## Overseas Bases

### Wholesale Pulp and Paper

Net sales: 66,810 million yen  
Operating income: -91 million yen **17.7%**

This segment engages mainly in the sales of paper, paperboard, pulp, recovered paper and other related materials in overseas markets. While operating this business at 19 bases outside Japan, our Group has also established the Global Business Headquarters in Japan to work positively on overseas expansion. [P14](#)

### Real Estate Leasing

Net sales: 1,233 million yen  
Operating income: 561 million yen **0.3%**

The Real Estate Leasing segment engages in the leasing business of buildings, warehouses and other facilities, including the KPP Yaesu Building in Tokyo. [P15](#)

## Business Overview

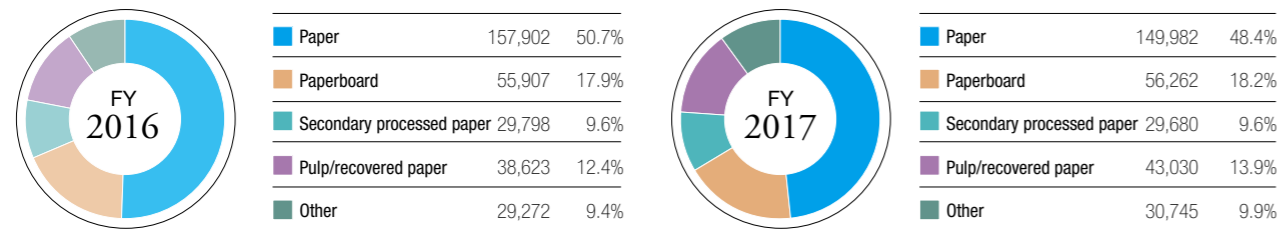
### Domestic Bases Wholesale Pulp and Paper

For the fiscal year ended March 31, 2018, the Domestic Bases Wholesale Pulp and Paper segment achieved consolidated net sales of 309,670 million yen, down 0.1% year on year.



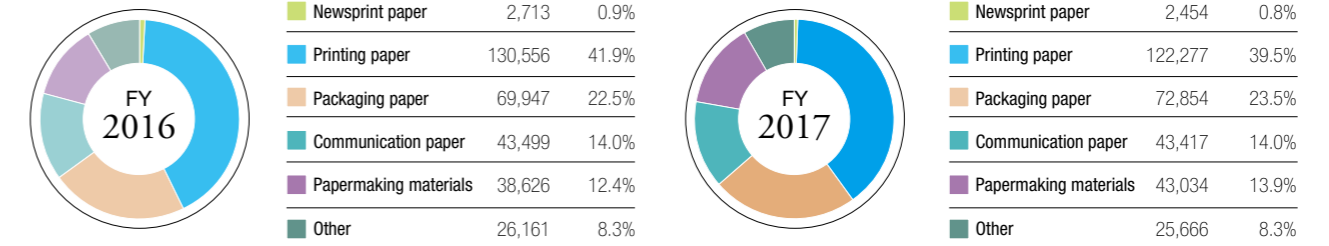
#### Sales Performance and Composition by Product Type

(Millions of yen)



#### Sales Performance and Composition by Application

(Millions of yen)



(Millions of yen)

<b>Paper</b>		Net sales <b>149,982</b> -5.0%	There are many different types of paper, including newsprint, printing and communication paper and packaging paper. Paper is widely used for media, including books, newspapers, advertisements, and flyers, and for packaging materials, including paper bags and wrapping paper. For the fiscal year under review, a change in the demand structure led to the contraction of the publication printing market and a shift of advertising to electronic media. Consequently, sales tumbled from the previous fiscal year.
<b>Paperboard</b>		Net sales <b>56,262</b> +0.6%	Paperboard consists mainly of cardboard base paper and paperboard for paper containers. Cardboard is indispensable for carrying of a range of goods. Used for the outer boxes of confectionery and cosmetics, Duplex Board and Art Card are also included. For the fiscal year under review, sales rose from the previous fiscal year after the strong growth of cardboard base paper for food applications and an increase in sales channels.
<b>Secondary processed paper</b>		Net sales <b>29,680</b> -0.4%	Secondary processed paper includes secondary processed communication paper and secondary processed self-adhesive tack paper with adhesive on the reverse side of the paper. More specifically, thermal paper for receipts and fax paper, which produces color when heat is applied, tack paper with adhesive on the back side that is used as labels and stickers, and carbonless paper for duplicate slips come under this category. For the fiscal year under review, sales were almost unchanged from the preceding fiscal year.
<b>Pulp/recovered paper</b>		Net sales <b>43,030</b> +11.4%	Pulp is a papermaking material made from fibers extracted mainly from wood. Recovered paper primarily consists of used newspapers, cardboard, and magazines. Fibers can be extracted from them for use as papermaking materials. For the fiscal year under review, sales surged from the previous fiscal year. This was due to brisk sales of recovered paper in Japan, growing demand for pulp, particularly for imported pulp, and an increase in the unit price.
<b>Other</b>		Net sales <b>30,745</b> +5.0%	Other products include chemical products, machinery and materials, functional paper, and other related products, etc. More specifically, they are a variety of materials and products for daily living, including packaging films and trays for food, synthetic paper that hardly tears and is resistant to water and is used mainly for posters and ballot paper, and base paper for paper packages for beverages. For the fiscal year under review, sales rose from the preceding fiscal year as a result of increased sales of base paper for paper packages for beverages.

#### TOPICS

At present, our Group mainly operates two solutions businesses.

##### Community Comprehensive Care System Solutions Business

##### HOKAN TOKYO BUSINESS SERVICE CO., LTD

This business is defined as a business for social contribution based on the measures of the Ministry of Health, Labour and Welfare for encouraging the construction of community comprehensive care systems to address Japan's aging population problem. It provides support for the launch of home visit nursing businesses and for operation after the launch in a bid to bolster the business of selling related sanitary and other products.



##### Biomass Power Generation Optimization Solutions Business

##### Matsusaka Wood Biomass Power Plant

This power plant makes effective use of unused forestry resources, chiefly from Mie Prefecture, to contribute to the local production of electricity for local consumption. It has a special boiler that is compatible with fuel chips made from bark, roots and other poorly combustible materials and operates a business model with a focus on such materials.



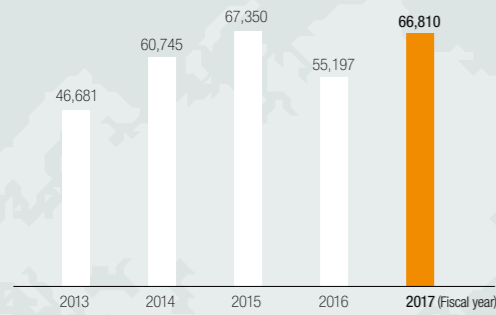
## Business Overview

### Overseas Bases Wholesale Pulp and Paper

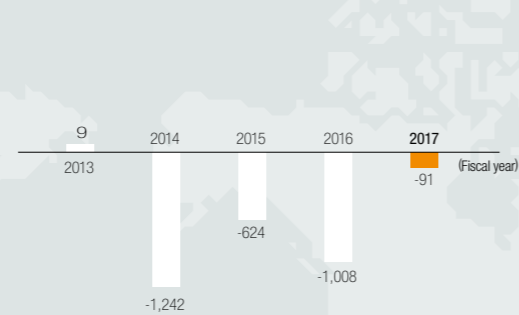
For the fiscal year ended March 31, 2018, the Overseas Bases Wholesale Pulp and Paper segment achieved consolidated net sales of 66,810 million yen, up 21.0% year on year.

#### Trend of overseas financial indicators

Net sales (Millions of yen)

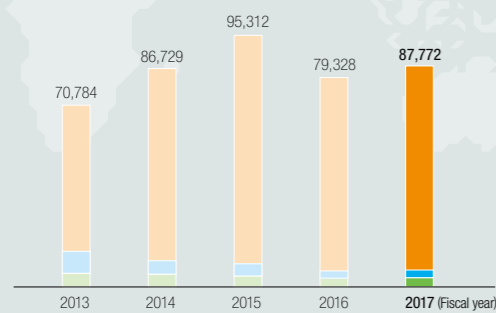


Operating income (Millions of yen)



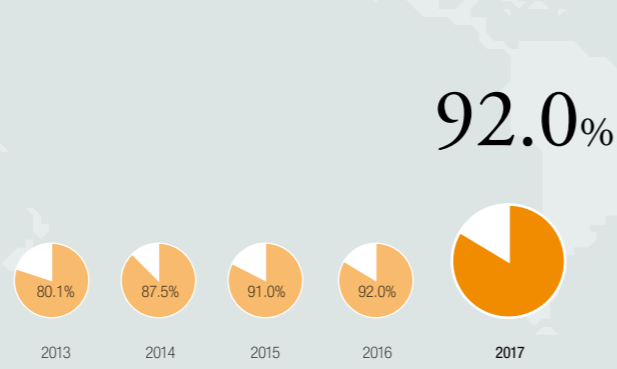
Sales Performance by Region (Millions of yen)\*

Asia Americas Other



\*Sales performance is classified into sales in different regions on the basis of the locations of individual customers.

Trend in share of Asia sales



92.0%



TOPICS  
1

Chengdu Xinguofu Packaging Material Co., Ltd.

### Production of shrink barrier nylon film for casing

A film printing plant of Chengdu Xinguofu Packaging Material Co., Ltd., a joint venture of KPP, Fuji Tokushu Shigyo Co., Ltd. and New Hope Liuhe Food Holdings Limited in Sichuan, China, has been completed. The joint venture is a flexible packaging manufacturer that makes the most of KPP's global sourcing channels, good customers of New Hope Liuhe Food Holdings in China, and the environmentally-friendly technology of Fuji Tokushu Shigyo. The joint venture will provide eco-friendly, high value-added products, such as shrink barrier nylon film for casing, thus accelerating the development of the flexible packaging business. Providing products in China as well as neighboring countries, including rapidly growing ASEAN countries, is being considered.



TOPICS  
2

Paperboard plant in the Shandong province in China

### Growing paperboard-related transactions in the Asian market

While the considerable recovery of domestic demand is unlikely, it will be important in the future to further step up the overseas business. One of the actions for doing so is an investment in Universal Pulp & Paper (Shandong) Co., Ltd. (UPP-SD). It is an equity-method affiliate operating a paperboard plant in the Chinese province of Shandong. We anticipate the growth of paperboard related transactions in the Asian market through sales of UPP-SD products in China, the delivery of recovered paper as material to the plant and a function as an export agency for the products.



### Real Estate Leasing

The office building market in major cities in Japan is seeing the average vacancy rate decreasing after strong demand for office spaces in terms of floor expansion in buildings and relocation to attain larger spaces. The average rent is on a slight upward trend. Under these circumstances, our Group maintains a high operation rate of its buildings for lease, including the mainstay KPP Yaesu Building. However, rental income was down after some of the real estate properties owned were sold off.





# Environment



## Basic Philosophy

The Company's basic philosophy regarding the environment is to carry out businesses that help create a bright future for the global environment. We always conduct our activities in constant consideration of the corporate contribution to global environmental conservation through, for instance, the implementation of a comprehensive recycling-oriented business aimed at achieving a recycling-oriented society for efficient use of limited resources.

## Environmental Management

We construct, manage, operate and improve our system in accordance with the ISO 14001 environmental management standard. On the basis of the Environmental Policy, which is a commitment made by our management team, we have established an environmental management system in a bid to enhance environmental performance in line with business through the examination and evaluation of activities and results in separate departments. Whether the system is effective is checked in our annual internal audits as well as in the annual examination performed by an outside organization. Since acquiring ISO 14001 certification in 2002, we have been keeping ourselves certified in line with its updates.

### Scope of Certification Application

Registration Number: JP18/071544 Audit Organization: SGS Japan Inc. Scope of Application: Sales for paper, pulp, recovered paper, films, their peripheral materials and related machines  
Bases under the Scope of Application: Tokyo Head Office, Kansai Branch, Kyoto Sales Department of Kansai Branch, Chubu Branch, Kyushu Branch, Sendai Sales Department of Kita Nihon Branch and Sapporo Sales Department of Kita Nihon Branch

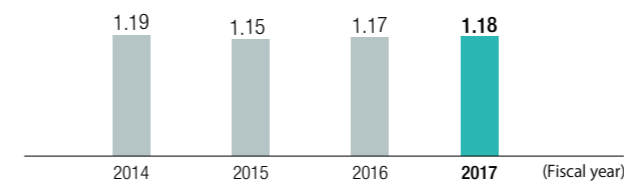
## Initiatives to Reduce the Environmental Impact

As a business operator using energy beyond a certain level prescribed in the Act on Rationalizing Energy Use, we fall under the scope of specified business operators and special consigners. We are aiming to reduce the environmental impact of our operations in a sustained manner.

### Logistics Initiatives

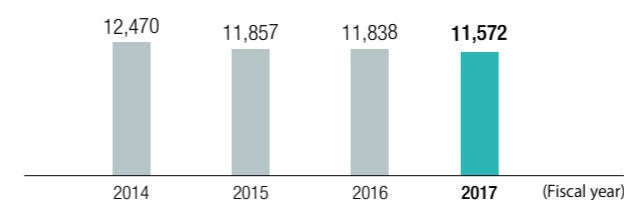
KPP is designated as a specified cosigner, a business with a high annual volume of freight transportation consigned in association with its business activities. We take measures and monitor the results regarding the reduction of energy consumption per basic unit by at least 1% on an annual average basis as requested by the Japanese national government with a view to the continuous reduction of the environmental impact of logistical operations. We continued implementing major priority measures including improving the ratio of direct transport, integrating stock and distribution facilities, and optimizing stock locations for reducing transport distances to delivery destinations. For fiscal 2017, our energy consumption per basic unit increased by 0.8% year on year, while our overall CO<sub>2</sub> emissions from transport fell by 2.2% year on year. The annual reduction rate in energy consumption per basic unit averaged 2.4% in the past five years.

### Logistics Initiatives (Per Basic Unit for Energy)



\* Calculation method: crude oil equivalent (kiloliters) / annual sales volume (thousand tons) = Per basic unit for energy

### CO<sub>2</sub> Emissions Based on the Ton-Kilometer Method (t-CO<sub>2</sub>)

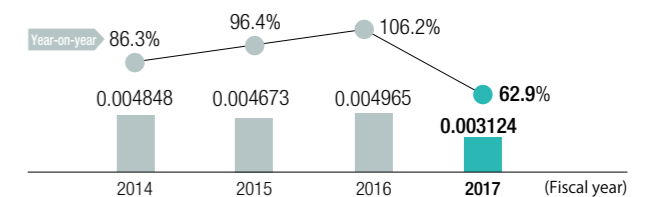


\* The above figures are figures we report to the Ministry of Economy, Trade and Industry on a non-consolidated basis in cases where the energy we have consumed for freight carriage as a cosigner amounts to 30 million ton-kilometers or more. Ton-kilometer is a unit for values obtained by multiplying the weight of each freight carriage (tons) by the distance traveled (kilometers). We adopt figures calculated by dividing the crude oil equivalent (kiloliters) by the annual sales volume (thousand tons) as our figures per basic unit.

### Initiatives as a Business Operator

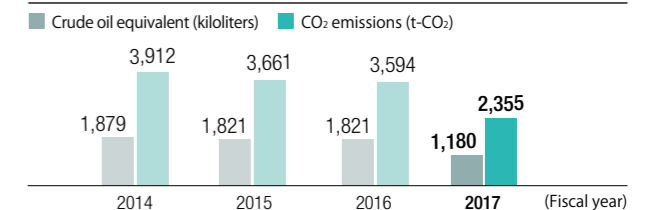
KPP is designated as a specified business, which refers to a business operator whose total annual electricity and other energy consumption is 1,500 kiloliters or more in crude oil equivalents. We have been taking initiatives aimed at lowering energy consumption per basic unit by 1% on an annual average basis since 2013. For fiscal 2017, our energy consumption per basic unit dropped by 37.1% year on year, and our overall CO<sub>2</sub> emissions also fell by 34.5% year on year. This was possibly due to the sale of some of the properties we owned. The annual reduction rate in energy consumption per basic unit averaged 13.6% in the past five years.

### Initiatives as a Business Operator (Per Basic Unit for Energy)



\* Calculation method: crude oil equivalent (kiloliters) / net sales = Per basic unit for energy

### Energy consumption and CO<sub>2</sub> emissions by business operators



\* The above figures are based on the crude oil equivalents (kiloliters) of the sums of electricity, city gas, LP gas and kerosene used annually in buildings we own (on a non-consolidated basis), which we report to the Ministry of Economy, Trade and Industry. The figures per basic unit are values obtained by dividing the crude oil equivalent (kiloliters) by annual net sales (millions of yen).

\* We adopt coefficients updated by the respective electric power companies each year as emission factors used as the bases for calculating CO<sub>2</sub> emissions.

Solving Environmental Issues through its Businesses

Aiming to Become a Comprehensive Recycling-Oriented Company

The Company's basic stance is to make an environmental contribution in line with its business. We promote sales of products from materials that are confirmed as being compliant, and we work to expand business with material recycling and thermal recycling with a view to evolving into a comprehensive recycling-oriented company. We regard all these actions as environmental contributions that lead to the future of our planet.

Responsible Use of Wood Resources

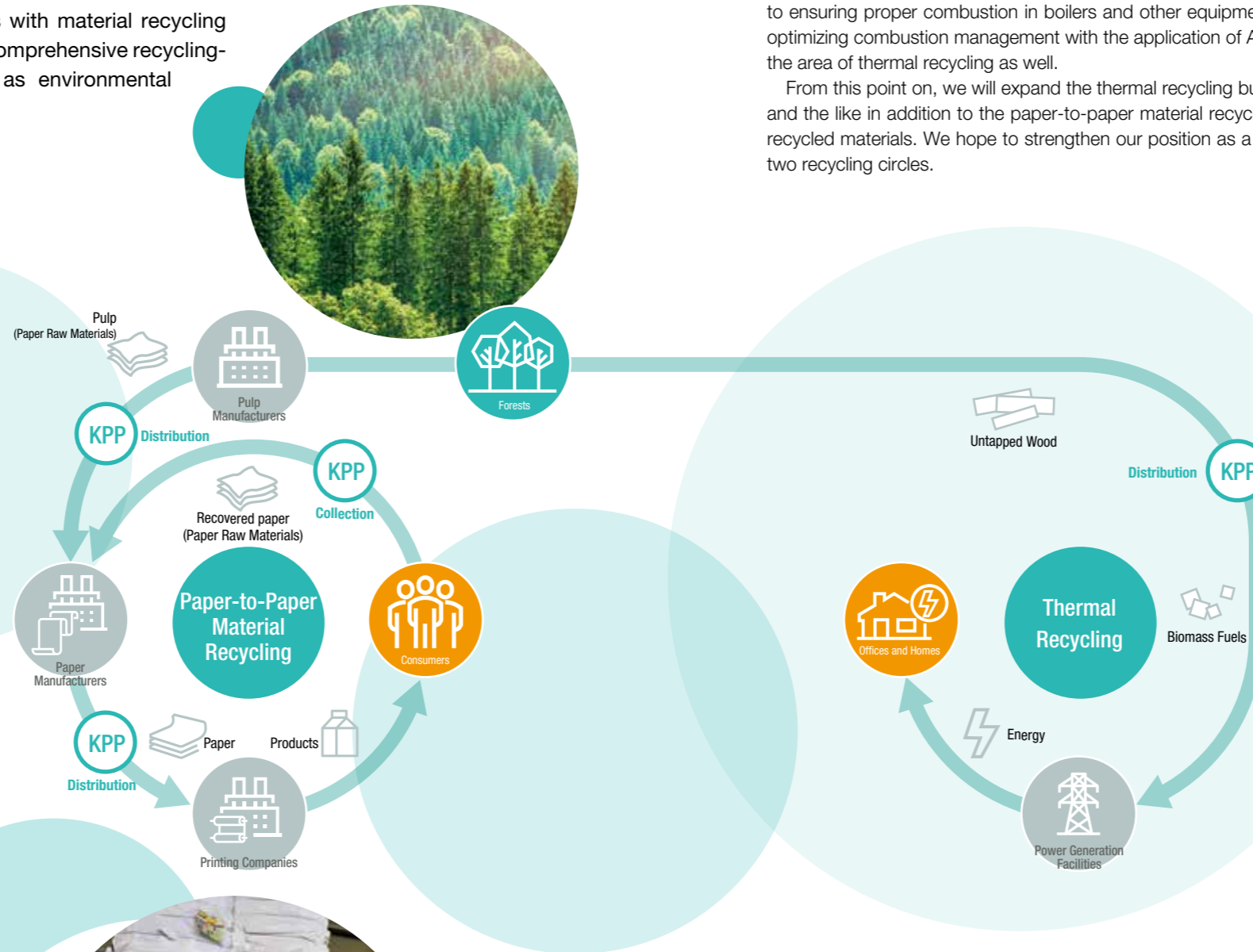
Checking the compliance of raw materials is vital for sales of paper materials as well as paper products. Connected to the supply chain, we aspire to supply products made of materials that are confirmed as being compliant from both an environmental and a social perspective, and to provide customers with greater reassurance. Forest certification programs encourage the continuous operation of forests around the world by combining appropriate forest management with the management of raw materials and products in the entire supply chain, from processing to distribution. We have acquired Chain of Custody certification, which accredits processing and distribution, from two leading forest certification authorities, namely the Forest Stewardship Council (FSC®) and the Programme for the Endorsement of Forest Certification (PEFC), and we are positively promoting sales of forest certified pulp and paper.



Paper Raw Material Business

Processes through which goods manufactured with forest resources as base materials reach consumers correspond to arteries when we liken them to the flow of blood. The processes through which consumed recovered paper is collected, transported and recycled into paper raw materials correspond to veins. We must ensure that goods circulate actively through these arteries and veins without stagnation in order to sustain a sound society through the conservation of resources and the reduction of waste. We play the role of the heart that governs the flows through arteries and veins. We sell approximately 2,130 thousand tons\* of paper and paperboard and collect and sell around 1,310 thousand tons\* of recovered paper each year. These figures are among the highest in Japan.

\* KPP's non-consolidated operating results for fiscal 2017



With a view to increasing thermal recycling

We are pushing ahead with the business of selling woodchips, pellets and other fuels for biomass power generation. For this purpose, we have invested in Biomass Power Technologies Inc., a company operating a biomass power generation business based in the city of Matsusaka in Mie Prefecture in September 2016. From the standpoint of a supplier, we are accumulating expertise in the renewable energy business and combustion data together with this power generating company. With a view to ensuring proper combustion in boilers and other equipment, we will concurrently undertake development efforts aimed at optimizing combustion management with the application of AI technologies. As a result, we will make a greater contribution in the area of thermal recycling as well.

From this point on, we will expand the thermal recycling business through which we supply fuels based on wood resources and the like in addition to the paper-to-paper material recycling business through which we offer recovered paper and other recycled materials. We hope to strengthen our position as a comprehensive recycling-oriented company by expanding these two recycling circles.

Ecom Business to Expand the Recycling Circle

The name of our business model, ecom, reflects the concept of bringing (mottekuru in Japanese) eco. Ecom is one of our businesses aimed at promoting the effective use of renewable resources. Town ecom, one of our ecom projects, is a system that enables users to bring old newspapers and magazines to recovered paper collection boxes installed in locations such as Supermarket etc. when they go shopping there, and receive shopping points that can be used at the stores in exchange for the waste based on its weight. Town ecom makes recovered paper collection less burdensome for local governments. In addition, it is attracting attention as a new system that connects recovered paper, which has previously been incinerated because of the inability of community-based waste collection services to deal with it, with the circle of recycling. Town ecom recycling boxes have been installed in 441 stores throughout Japan as of July 31, 2018. They contribute to local residents' care for the environment. We also collect confidential documents in offices through special recycling boxes installed there, and shred these documents and reduce their volume with consideration given to security aspects through office ecom, another of our ecom programs aimed at recycling these documents safely and reliably.



Environmental Education

To raise the environmental awareness of our employees, we began encouraging them to take the semiannual Certification Test for Environmental Specialists (Eco Test) organized by the Tokyo Chamber of Commerce and Industry in fiscal 2011. We increased the ratio of employees certified through this Test to our total workforce to 50% in fiscal 2015, one year ahead of the target of fiscal 2016 set in the Eco People 50 Plan.

We will work continuously on environmental education for our employees.



# Social



## Basic Philosophy

“Pursuing the happiness of the employees and their families and aiming to become a company that is trusted by its shareholders, customers, suppliers, and communities.” In accordance with this management philosophy, the Company places top priority on relationships with all stakeholders in conducting social contribution activities. We will also strive to ensure that we provide our employees with comfortable workplaces.



## With local communities

The Company will engage actively in locally based activities to fulfill our duties as a corporate citizen.

### Joint organization of a Japanese papermaking lesson with the C.W. Nicol Afan Woodland Trust

We have been providing support to the C.W. Nicol Afan Woodland Trust since 2015. On February 27, 2018, we jointly organized a Japanese papermaking lesson with the trust at Miyanomori Elementary School in the city of Higashimatsushima in Miyagi Prefecture. Mr. Rogier Uitenboogaer, an artist of Japanese paper craft, was invited to give a lecture. During the lesson, the children made Japanese paper mixed with fallen leaves from the forest and local seaweed from *kozo* and *mitsumata* trees planted in the forest at the back of the school building in March 2016. The lesson provided them with an opportunity to learn about the importance of the natural environment as well as the fun of papermaking.



### TSUNAGU GALLERY

At the entrance on the first floor of our head office, there is a gallery that is open for viewing to business partners and the public. It serves as a space for exchanges, displaying artworks and paper products featured in the *TSUNAGU* magazine. In fiscal 2017, it held a total of four exhibitions, including one featuring 3D artworks produced from newsprint paper by Ms. Chie Hitotsuyama.





### Participation in a Rooftop Greening Project in Ginza

There is a vegetable garden on the roof of KPP's head office, which was greened in 2010. Volunteers among employees are using this garden as a place for communication, growing vegetables and fruits all year around. Since 2015, KPP has also been taking part in a rooftop greening project advanced by an NPO called the Ginza Honey Bee Project, in which sweet potatoes cultivated on the rooftops of buildings around the Ginza area are used as part of the ingredients for brewing *shochu* distilled liquor. Sweet potatoes grown on the rooftops were provided to this project in 2017 as well.



### Support for the Environment Athletes Organization

Since our founding, we have been supporting the Environment Athletes Organization, endorsing its objective of offering environmental education and realizing a social contribution with sports as a focus. The Organization is dispatching athletes to elementary schools in each area to give extracurricular lessons on the environment where participating children can learn the importance of clean water, air and the earth from nature with athletic activities as a medium.



### Support for the Japan Rugby Football Union

KPP has been supporting the Scrum Japan Program sponsored by the Japan Rugby Football Union (JRFU) since 2015. This Program is aimed at training the next generation of capable individuals through rugby. Its objectives are to popularize rugby among young people and beginners, assist extracurricular activities at elementary, junior high and senior high schools, and link those activities with the training of individuals able to work successfully in various fields in the future. We hope to contribute to the development of a healthy and vibrant society through sports in the period through the Rugby World Cup scheduled to take place in Japan.



### With neighboring kindergartens and nursery schools

We are working to build ties with local kindergartens and nursery schools. In fiscal 2017, we cooperated in a Halloween-inspired event at Pocket Land Akashicho Nursery School. When its children attended in masquerade costumes, our employees treated them to candy. At the *Tanabata* star festival season, preschoolers from the aforementioned nursery school and also from Chuo Ward Municipal Akashi Kindergarten visited our office. They viewed the *Tanabata* bamboo and tied pieces of paper to it on which they had written their wishes.

## With employees

The Company is convinced that staff are the greatest asset of trading companies. We have created workplaces where individual employees can display their capabilities and carry out their duties in high spirits.

### Diversity Promotion Policies

**We aim to manage ourselves globally and sustain our growth. We consider an environment that enables employees, the most important asset for a trading company, to work enthusiastically and successfully to be the basis of its sustainable management. We expect all employees to work more energetically toward sustainable management under the diversity promotion policies it has established.**

#### Improving the Work-Life Balance

We establish an environment that permits employees to take on more challenging jobs that while maintaining employment by balancing their work with their personal commitments, such as childcare and nursing care.

#### Promotion of Diversity

We offer opportunities for our employees to develop their potential, encouraging independent efforts irrespective of sex, age, official duties, disabilities, nationalities and other attributes. We establish an environment that permits all employees to work energetically to the best of their abilities.

#### Diversification of Employees

We continue to appoint women to executive positions and to hire students from other countries and ready workers in mid-career. We are striving to enhance our value as a global company by advancing its efforts to diversify its workforce.

### Plan of Action for General Employers

**KPP has formulated the plan of action set out below for the purpose of developing a worry-free working environment that helps employees to display their skills and attain work-life balance, and ensuring that they can work while raising children.**

#### Period

From April 1, 2017 to March 31, 2020

#### Details

##### Target 1: Reduce overtime working hours and eliminate unpaid overtime work

Actions to be commenced in April 2017

- Continue to specify one or two days per week when overtime work is not permitted.
- Monitor employees' attendance status with the attendance management system to take actions to address the situation concerning overtime work.
- Provide education on the strict management of subordinates' overtime work, the elimination of unpaid overtime work and the risks of labor accidents arising from long working hours in the training for newly-appointed section managers.

##### Target 2: Ensure that the childcare and nursing care leave program is well known and help employees on leave to return smoothly to work.

Actions to be commenced in April 2017

- Encourage good communications between employees on leave and their superiors or the human resources department.
- Organize training sessions on the childcare and nursing care leave program for newly appointed section managers in a bid to improve their understanding.

##### Target 3: Organize office tours for family members with a view to achieving work-life balance

Actions to be commenced in April 2017

- Since fiscal 2011, we have been holding office tours for family members with a view to achieving work-life balance and communication between households and the company. We regard them as opportunities for linking the company with families for employees who are working while raising children, and for other employees as opportunities for deepening their understanding of colleagues with dependent family members by learning about these colleagues. We will continue to organize these tours.

## Plan of Action for Promoting Female Career Advancement

**KPP has formulated the plan of action set out below for the purpose of making preparations for promoting female career advancement in the workplace.**

### Period

From April 1, 2016 to March 31, 2019

### Problems facing the Company

**(1) Low percentage of women on the main career track**   **(2) Uneven assignment of female employees**  
**(3) Low percentage of women among those in managerial positions**

**Target 1:** Recruit at least one woman per year for the main career track.

**Target 2:** Increase the number of women in sales teams to double the current level or more.

**Target 3:** Increase the number of women in managerial positions to at least 1.5 times the fiscal 2015 level by fiscal 2020.

### Specific Actions and Timing

#### Actions ①

**Continuously recruit women for the main career track with an eye toward their future promotion to managerial positions.**

From April 2016: Consider policies and targets for increasing the ratio of women recruited.

From April 2017: Carry out recruitment to meet the target considered.

#### Actions ②

**Positively assign female employees on the main career track to positions to which few such personnel were formerly assigned.**

From April 2016: Carry out interviews with female employees in sales teams.

From October 2016: Analyze the problems involved in assigning women to sales teams.

From April 2017: Consider constantly assigning more than one female employee per year to sales teams.

From April 2018: Put this assignment into practice and perform follow-up reviews on a regular basis.

#### Actions ③

**Help female employees to remain and build their careers for development into managerial roles**

From April 2016: Carry out surveys and interviews of female employees to clarify their training needs.

From October 2016: Consider a training program on the basis of the survey and interview findings.

From April 2017: Provide training to help with career development.

From April 2017: Provide training to raise the awareness of those in managerial positions so that they formulate plans for the development of their female subordinates.

From April 2017: Carry out interviews with those in managerial positions and provide training for helping with career development in which work styles during pregnancy, pre- and post-childbirth leave and after returning from childcare leave are discussed.

## Staff development and promotion

With many different staff members playing active roles, we have introduced a personnel management system that provides multiple career paths according to positions and duties. Our training includes training for those newly joining us, on-the-job training from longer-serving colleagues in

the workplace and internal level-specific training. We also operate a program that provides support for qualification acquisition. In addition, we have introduced e-learning to help develop flexible skills for adapting to new business environments.

## Promotion of Diversity

KPP has developed Diversity Promotion Policies and is striving to create an environment where employees, as our greatest asset as a trading company, can play active roles with a positive outlook. Because we operate all over the world, we are working to recruit new graduates from overseas universities and mid-career personnel for executive positions at overseas bases. Since fiscal 2016, we have been drawing up a Plan of Action for Promotion of Female Career Advancement. In accordance with this plan, we recruit women for the main career track with an eye toward their future promotion to managerial positions and assign female employees on the main career track to positions to which few such personnel were formerly assigned.

## Improvement in Work-Life Balance

We offer programs that permit many different work styles that match a range of circumstances and wishes of individual employees, including those for a leave of absence and shorter working hours for childcare and nursing care purposes, in an effort to create a reassuring working environment that helps employees balance their work with family life. To address long working hours, which are detrimental to productivity enhancement and health, we endeavor to implement proper time management and address the situation by monitoring the actual state of overtime work. Since fiscal 2009, we have been strongly enforcing a ban on overtime work on one or two days per week.

## Non-financial information

### Personnel Data

	Fiscal 2015	Fiscal 2016	Fiscal 2017	
Number of employees (figures on a consolidated basis)*1	1,011	976	956	
Number of employees (figures on a non-consolidated basis)*1 *Excluding fixed-term employees and post-retirement workers	Men	460	449	423
	Women	244	250	242
	Total	704	699	665
Ratio of men and women in administrative positions*1	Men	96.0%	95.7%	96.3%
	Women	4.0%	4.3%	3.7%
Average length of continuous service (figures on a non-consolidated basis)*1	17.4	17.7	18.3	
Changes in the ratio of persons with disabilities employed	2.06%	1.94%	2.27%	

Number childcare leave system users*2	6	8	12
Percentage of employees who return to work after taking childcare leave	100%	100%	85.7%
Number of childcare time (shortened work-hour) system users*2	3	6	6
Number of continued employment system users	14	20	25

\*1: The figures are the number of such employees and their ratio as of March 31 of the relevant fiscal year.

\*2: Number of employees who started using the system during this fiscal year

### Environmental Data

		Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017	
Amount of electricity consumed*1 [Unit: kWh]	Head office and branches in Japan	1,294,806	1,306,053	1,315,895	1,334,353	
Amount of waste discharged	Head office and branches in Japan	Amount of waste discharged (Unit: kg)	137,986	143,583	132,557	128,724
		Ratio of waste recycled (Unit: %)	70.6	68.6	70.4	69.8
Amount of water used*2 [Unit: m <sup>3</sup> ]	Head office and branches in Japan	17,529	19,206	18,114	11,291	

[Period covered] April 1 to March 31 of each fiscal year

[Scope of aggregation] The scope of aggregation for all items, excluding the amount of energy used as a business operator, equals the scope to which KPP's environmental management system is applied (its head office and branches in Japan).

\*1: The amount of electricity consumed at the head office and branches occupied by sales departments under the control of branches in Japan

\*2: The amount of water used at the head office and branches occupied by sales departments under the control of branches in Japan

# Corporate Governance



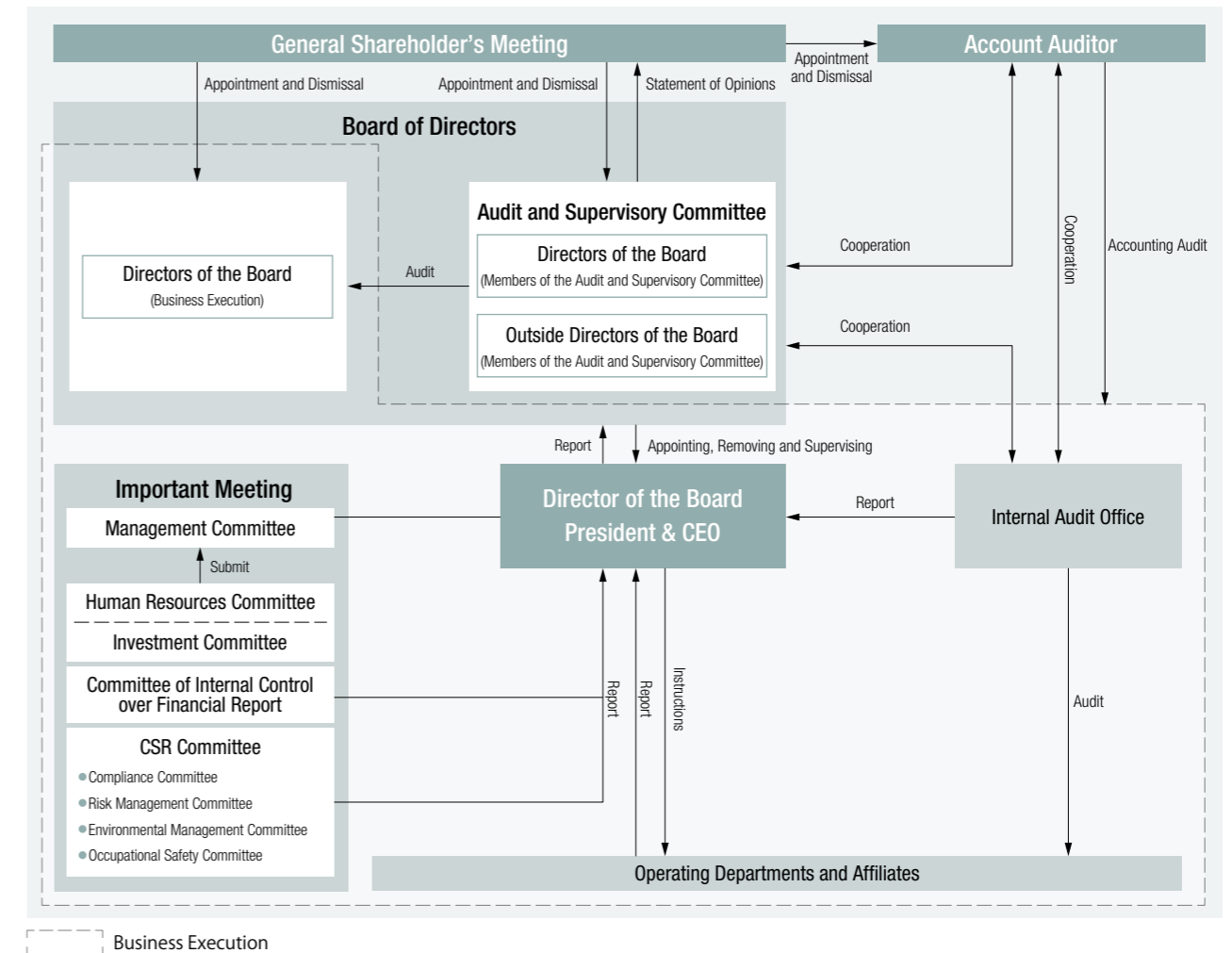
## Basic Philosophy

KOKUSAI PULP & PAPER CO., LTD. views the establishment of corporate governance and its sustained improvement as important business challenges for responding to the mandate of stakeholders, including shareholders, customers, business acquaintances, local community members and employees, and for achieving sustainable growth and enhancing the corporate value in the medium- and long-term.

To make its management more transparent and agile, we made the change to a company with an audit and supervisory committee in June 2015. The Audit and Supervisory Committee, in which Outside Directors of the Board make up the majority, audits and supervises the legality and appropriateness of the way in which we conduct business. In addition, we adopted an executive officer system under which Directors of the Board, who make up the Board of Directors, handle the decision-making and supervisory functions, and Executive Officers perform business execution functions. Through these reforms, we clarified where decision-making and supervisory functions and business execution functions lie within our management organization.



Figure Showing Our Corporate Governance Structure



### Board of Directors

The Board of Directors consists of 10 members, including three Outside Directors of the Board, makes decisions on important management matters, and oversees business execution by the Company. It works to make appropriate decisions and realize management control for making contributions to the Company's sustainable growth and enhancing its corporate value in the medium- and long-term, taking advantage of the practical and specialized viewpoints of the Outside Directors of the Board, in addition to the abundant business experience of Directors of the Board.

Number of meetings held in fiscal 2017

18

### Management Committee

The Company has set up the Management Committee, which is made up of the Directors of the Board in charge of business execution, Managing Executive Officers and higher-ranked Officers, to discuss business challenges more promptly and in greater detail. The role of the Management Committee is to support the Board of Directors.

Number of meetings held in fiscal 2017

39

### CSR Committee

The Company has set up the CSR Committee for improving transparency and trust in its corporate activities. Four committees—the Compliance Committee, the Risk Management Committee, the Environmental Management Committee, and the Occupational Safety Committee—serve as subordinate organizations of the CSR Committee, studying the issues the Company faces and proposing ideas for improvement.

### Audit and Supervisory Committee

Five members, including three Outside Directors of the Board with voting rights, confirm the proper form of governance and the state of governance administration. The members of the Audit and Supervisory Committee also work to ensure function improvement and optimization of the Board of Directors. In addition, the members of this committee also attend important meetings, and audit and oversee business execution by Directors of the Board through their actions, including the statement of opinions on business administration in general and specific matters from a fair and impartial position. Members of the Audit and Supervisory Committee hold briefing sessions on a regular basis with the Internal Audit Office, which is an internal audit department, and provide instructions as the occasion demands in response to internal control assessment reports in connection with internal audits and financial reports. In regards to cooperation with the external accounting auditor, members also actively exchange opinions and information based on reports on the progress of implemented audits with the external accounting auditor on a regular basis and when needed.

Number of meetings held in fiscal 2017

14

### Business execution structure

The Company has introduced an executive officer system to strengthen the decision making and supervisory functions of the Board of Directors, and increase the efficiency and speed of business execution. Executive Officers perform the duties they are assigned under the command and supervision of the President and the Chief Executive Officer (CEO).

## Appointment and Independence of Outside Directors of the Board

### Policy Regarding the Appointment of Outside Directors of the Board

The Company strengthens its management oversight functions, applying the input and suggestions on business administration the Outside Directors of the Board provide. The Company has criteria for independence set by the Board of Directors.

#### Outside Directors of the Board and Reasons for Their Appointment

##### Toshiro Kobayashi

Chief, Toshiro Kobayashi Certified Public Accountant Office  
Appointed to apply his high-level knowledge and experience in the fields of financial affairs, tax affairs and accounting as a certified public accountant and licensed tax accountant to the auditing and supervision of the Company

##### Yoshinari Nagashima

Chief, Nagashima Yoshinari Law Office  
Appointed to apply his high-level knowledge of and experience in fields such as corporate legal affairs and as a lawyer to the auditing and supervision of the Company

##### Shigeharu Yoshii

President and CEO, IP Bridge, Inc.  
President, Printable Sensor Code Development Association  
Director, Environment Athletes Organization  
Appointed to apply his high-level knowledge of and experience as a business manager to the auditing and supervision of the Company

### Policy of compensation for Directors

The Company comprehensively calculates compensation for Directors of the Board, taking into account the details of the Company's management and other factors after deciding their basic portion based on the posts and ranks prescribed in internal rules for their compensation resolved by the Board of Directors.

### Details of compensation paid to Directors of the Board in the fiscal year ended March 31, 2018

Post	Number	Compensation (million yen)
Directors of the Board (excluding members of the Audit and Supervisory Committee)	10	290
Directors of the Board (members of the Audit and Supervisory Committee)	6	58

\* Two Directors of the Board (excluding members of the Audit and Supervisory Committee) and one Director of the Board (member of the Audit and Supervisory Committee), who retired during the fiscal year under review, are included.

## Development of a CSR Promotion System

Trust is vital for constant corporate development. It is fostered little by little over a long period of time. We are working to construct a CSR system and conduct CSR activities that will serve as a basis for solidifying trust in us and for earning high marks from everyone, and to carry out the appropriate disclosure of corporate activities. We have published the Kokusai Pulp & Paper Group Guidelines for Corporate Conduct as the basis of our corporate activities. We have also established the Kokusai Pulp & Paper Group Employee Rules of Conduct as a standard for the actions of all our officers and employees, and we are ensuring that they are understood by all personnel.

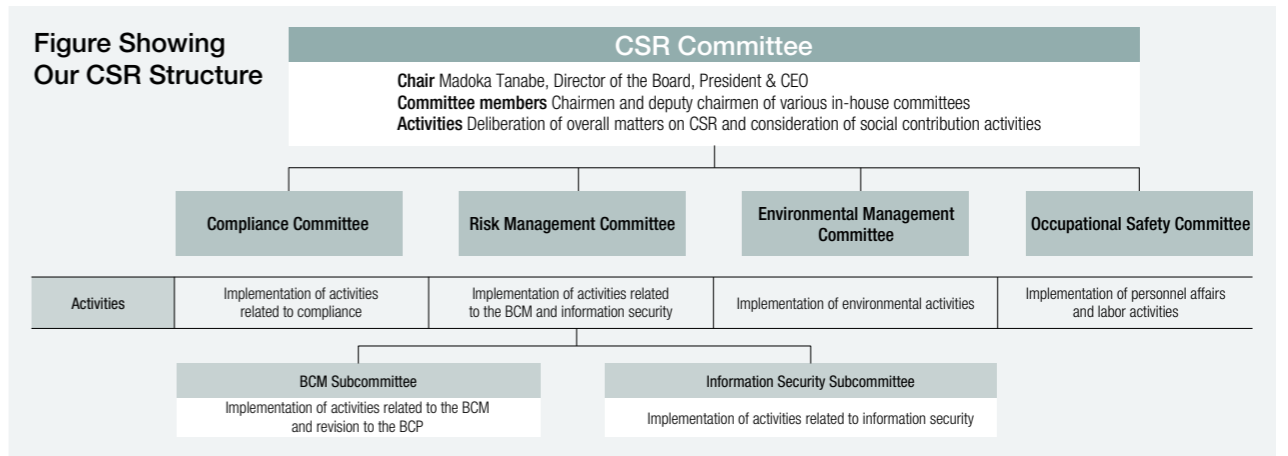
#### Guidelines for Corporate Conduct — Kokusai Pulp & Paper Group

- 1. Compliance with Laws and Regulations**  
The Group companies are committed to conduct company management in compliance with domestic and global laws, regulations and rules, as well as their spirit, and respect social norms.
- 2. Fair, Free and Transparent Business Activities**  
The Group companies are committed to undertake transparent and fair business activities based on just, fair and free competition. The Group companies shall maintain sound and normal relations with politics and administration.
- 3. Winning Confidence of Society, Suppliers and Users**  
The Group companies are committed to act faithfully to enhance the confidence of suppliers and users by supplying useful products and services that widely contribute to the development of society and by thoroughly protecting personal and customer information.
- 4. Promoting Social Contribution Activities**  
The Group companies are committed to widely contribute to communities and society by striving to return profits to them through corporate activities.
- 5. Active Disclosure of Company Information**  
The Group companies are committed to appropriately disclose company information to all stakeholders including the stockholders and to strive to have good and active communication with society.
- 6. Coexistence with International Society**  
The Group companies are committed to respect international codes of conduct and to make a contribution to the development of communities through their business activities as a member of international society.
- 7. Enhancement of Workplace Environment**  
The Group companies are committed to realize the comfort and affluence of their employees by ensuring a workplace environment that is healthy and in which the personalities and individualities of their employees are respected.
- 8. Harmony with Natural Environment**  
The Group companies are committed to contribute to building a society in which an affluent future can be shared through symbiosis and harmony with the natural environment, and
- 9. Severing Relations with Antisocial Forces**  
The Group companies are committed to sever any relations with antisocial forces by maintaining close cooperation with police and other organizations concerned while the Group companies unite as one.

Established on March 27, 2007 Revised on June 25, 2013  
Kokusai Pulp & Paper Co., Ltd.  
Madoka Tanabe  
Director of the Board  
President & CEO

## CSR Committee

The Company set up the CSR Committee in 2013. Chaired by the President, the members of the CSR Committee consist of the chairmen and deputy chairmen of various in-house committees. Subordinate organizations—namely the Compliance Committee, the Risk Management Committee, the Environmental Management Committee, and the Occupational Safety Committee—report the progress of their activities and submit annual reports to the CSR Committee at these meetings. In response to these reports, the CSR Committee discusses what actions should be taken for improvement as required in order to improve and provide momentum to all CSR activities.



## Actions toward the Sustainable Development Goals (SDGs)\*

Since fiscal 2018, the Company has been referring to the SDGs in an effort to identify goals in a close relationship with its business, and to fulfill these goals.



\* The SDGs are the goals adopted by the United Nations summit in September 2015 that the whole world should endeavor to meet by 2030.

### Compliance Committee

**Themes for the fiscal year under review:** Sustained compliance with laws, internal regulations (to ensure full awareness of the importance of compliance)

**Activities in the fiscal year under review:** The Compliance Committee has been established for two purposes. One is to continuously provide education to prevent insider trading and other training to raise employees' compliance awareness. The other is to ensure corporate management with a focus on trust. It is working to improve the structure and to maintain and upgrade its effectiveness. It also updates manuals for complying with a wide range of business-related laws and ordinances and with internal regulations, and provides regular compliance training to all employees.

We have set up a whistleblowing hotline to encourage personnel to promptly report any actions that may violate laws, regulations or corporate ethics so that prompt response action may be taken. Those who contact or submit a report through this hotline will not be subjected to disadvantageous treatment.

Should any serious situation related to compliance emerge, the CEO will work to solve problems promptly in person and fulfill the responsibility to properly disclose information and provide explanations to the public. While striving to find the causes and prevent recurrence, the CEO will clarify the authorities and responsibilities and take strict action against those responsible for it, including him- or herself.

### Figure showing the compliance structure



### Risk Management Committee

**Themes for the fiscal year under review:** Identification, analysis and assessment of risks

**Activities in the fiscal year under review:** The Committee has maintained the business continuity plan by updating the BCP manuals and equivalent for individual bases and conducting tests on employees' safety conformation in the event of a disaster. It organized disaster drills at separate bases and work with the BCM Subcommittee. In collaboration with the Information Security Subcommittee, it continued to conduct activities for raising awareness of information security and discussed the actions to be taken against cyber attacks to incorporate the findings into improvement activities.

### Environmental Management Committee

**Themes for the fiscal year under review:** Promotion of environmental activities based on ISO 14001 and environmental activities in line with business

**Activities in the fiscal year under review:** The Committee worked to improve and maintain the environmental management system to ensure that it remains compliant with the amended standard and to step up communications related to the environment.

### Occupational Safety Committee

**Themes for the fiscal year under review:** The execution and the verification of actions aimed at ensuring safety and improving the status in a workplace environment

**Activities in the fiscal year under review:** The Committee maintained the regular organization of Safety and Hygiene Committee meetings based on the safety and hygiene promotion systems at individual bases and took actions aimed at cutting overtime work and eliminating unpaid overtime work.

# Member of the Board of Directors

Director of the Board  
Member of the Audit and  
Supervisory Committee

## Yuji Nakagawa

2015  
Advisor  
2017  
Director of the Board  
Member of the Audit and Supervisory  
Committee (to present)

Director of the Board  
Member of the Audit and  
Supervisory Committee

## Toshinori Kametani

2014  
Corporate Auditor  
2015  
Director of the Board  
Member of the Audit and Supervisory  
Committee (to present)

Director of the Board  
Managing Executive Officer  
Deputy General Manager, Corporate Administration  
Headquarters (in charge of the Corporate Planning  
Division and the System Supervisory Division)

## Kunitoshi Nishimura

2016  
Director of the Board  
Senior Executive Officer  
2018  
Director of the Board  
Managing Executive Officer (to present)

Director of the Board  
Managing Executive Officer  
Head of the Global Business  
Headquarters

## Makoto Ikuta

2017  
Director of the Board  
Senior Executive Officer  
2018  
Director of the Board  
Managing Executive Officer (to present)

\*Director of the Board  
Member of the Audit and  
Supervisory Committee

## Toshiro Kobayashi

2010  
Establishes and becomes Member of Toshiro Kobayashi  
Certified Public Accountant Office (to present)  
2015  
\*Director of the Board  
Member of the Audit and Supervisory Committee  
(to present)

\*Director of the Board  
Member of the Audit and  
Supervisory Committee

## Yoshinari Nagashima

1990  
Establishes and becomes member of  
Nagashima Yoshinari Law Office (to present)  
2015  
\*Director of the Board  
Member of the Audit and Supervisory  
Committee (to present)

\*Director of the Board  
Member of the Audit and  
Supervisory Committee

## Shigeharu Yoshii

2013  
President & CEO, IP Bridge, Inc. (to present)  
2015  
\*Director of the Board  
Member of the Audit and Supervisory  
Committee (to present)



Director of the Board  
Senior Managing Executive Officer  
Head of Corporate Administration  
Headquarters

## Ichiro Akamatsu

2015  
Director of the Board  
Managing Executive Officer  
2018  
Director of the Board  
Senior Managing Executive Officer (to present)

Director of the Board  
President & Chief Executive Officer

## Madoka Tanabe

2013  
President & Chief Executive Officer  
2015  
Director of the Board  
President & Chief Executive Officer (to present)

Director of the Board  
Senior Managing Executive Officer  
Overall Sales & Marketing,  
Head of the National Sales Headquarters

## Tadashi Kurihara

2016  
Director of the Board  
Managing Executive Officer  
2017  
Director of the Board  
Senior Managing Executive Officer (to present)

\* Independent outside director



## Consolidated Financial Summary for Eleven Years

Millions of yen

	2008/3	2009/3	2010/3	2011/3	2012/3	2013/3	2014/3	2015/3	2016/3	2017/3	2018/3	
<b>Balance Sheet</b>	Current assets	151,778	136,590	130,718	130,052	131,420	132,365	136,776	147,548	136,377	137,577	142,438
	Non-current assets	48,484	43,410	44,454	42,326	46,239	43,759	45,754	48,240	48,550	46,668	56,193
	Current liabilities	149,311	134,473	127,636	123,136	128,527	121,378	123,887	133,826	127,290	128,615	134,589
	Non-current liabilities	17,301	15,624	17,043	19,848	18,558	20,614	20,343	20,680	16,668	11,586	16,347
	Interest bearing liabilities	44,871	54,202	47,990	49,052	51,660	47,003	48,563	54,345	50,817	43,596	49,693
	Net assets <sup>*1</sup>	33,465	29,798	30,403	29,306	30,474	33,979	38,136	41,163	40,870	43,927	47,546
	ROE <sup>*2</sup>	10.11%	2.39%	1.41%	2.55%	4.56%	0.02%	5.64%	2.84%	2.96%	5.22%	5.32%
	Total assets	200,262	180,001	175,173	172,378	177,659	176,125	182,530	195,788	184,927	184,245	198,632
	ROA <sup>*3</sup>	1.63%	0.40%	0.24%	0.44%	0.78%	0.00%	1.13%	0.60%	0.64%	1.20%	1.27%
	Equity ratio	16.7%	16.6%	17.4%	17.0%	17.2%	19.3%	20.9%	21.0%	22.1%	23.8%	23.9%
<b>Income Statement</b>	Net sales	423,077	404,602	356,242	351,981	340,503	327,512	375,098	387,594	389,678	366,777	377,714
	Gross profit	26,699	24,000	21,176	19,761	19,400	19,844	23,077	22,374	21,377	21,115	22,008
	(Ratio to net sales)	6.31%	5.93%	5.94%	5.61%	5.70%	6.06%	6.15%	5.77%	5.49%	5.76%	5.83%
	Operating income	4,902	3,108	2,130	2,118	1,812	1,793	2,565	1,370	1,516	1,031	2,362
	(Ratio to net sales)	1.16%	0.77%	0.60%	0.60%	0.53%	0.55%	0.68%	0.35%	0.39%	0.28%	0.63%
	Ordinary income	4,537	2,847	2,166	2,456	2,152	2,147	3,013	1,957	1,853	1,114	3,086
	(Ratio to net sales)	1.07%	0.70%	0.61%	0.70%	0.63%	0.66%	0.80%	0.50%	0.48%	0.30%	0.82%
	Profit attributable to owners of parent	3,229	760	425	763	1,368	5	2,032	1,126	1,215	2,215	2,433
	(Ratio to net sales)	0.76%	0.19%	0.12%	0.22%	0.40%	0.00%	0.54%	0.29%	0.31%	0.60%	0.64%
<b>Statement of Cash Flows</b>	Cash flows from operating activities	3,996	(4,992)	7,099	(460)	575	9,555	66	(2,087)	5,378	1,114	4,019
	Cash flows from investing activities	606	(1,999)	(1,544)	(235)	(3,289)	6,041	(276)	(497)	(1,249)	5,596	(7,920)
	Cash flows from financing activities	(4,638)	9,486	(6,956)	1,376	1,166	(15,388)	(479)	2,950	(3,960)	(6,791)	5,760
	Cash and cash equivalents at end of period	2,199	4,433	3,068	3,661	2,157	2,534	2,046	2,546	2,502	2,291	4,135
<b>Information per Share</b>	Net income/Share (in yen)	49.76	11.46	6.55	11.74	21.05	0.08	30.51	16.92	18.25	33.27	36.55
	Net assets/Share (in yen)	499.56	458.01	467.32	450.79	468.77	510.17	572.67	618.16	613.78	659.69	714.05
	Annual dividend per share (in yen)	8.00	8.00	6.00	6.00	6.00	6.00	8.00	8.00	8.00	8.00	8.00
<b>Other Indicators</b>	Total assets turnover	211.3%	224.8%	203.4%	204.2%	191.7%	186.0%	205.5%	198.0%	210.7%	199.1%	190.2%
	Payout ratio	16.1%	69.8%	91.6%	51.1%	28.5%	7500.0%	26.2%	47.3%	43.8%	24.0%	21.9%
	Debt ratio	134.1%	181.9%	157.8%	167.4%	169.5%	138.3%	127.3%	132.0%	124.3%	99.2%	104.5%
	Current ratio	101.7%	101.6%	102.4%	105.6%	102.3%	109.1%	110.4%	110.3%	107.1%	107.0%	105.8%

\* 1. The net assets represent the value after the deduction of non-controlling interests.

\* 2. ROE is calculated from the average value of net assets for the fiscal year concerned and for the preceding one.  
ROE (return on equity) = profit attributable to owners of parent / net assets

\* 3. ROA is calculated from the average value of net assets for the fiscal year concerned and for the preceding one.  
ROA (return on assets) = profit attributable to owners of parent / total assets

## Summary of Business Circumstances and Financial Results

### Summary of Status of Business Performance, Etc.

The summary of the status of financial standing, business performance and cash flows (hereinafter referred to as "business performance, etc.") of the Group (KPP and its consolidated subsidiaries and equity-method affiliates) for the consolidated fiscal year under review is as follows.

#### (1) Status of financial standing and business performance

For the consolidated fiscal year under review, Japan enjoyed continued economic expansion driven by exports against the backdrop of the booming global economy and the underlying trend of the weak yen, and continued to make sure-footed progress toward an exit from deflation, given positive growth in real GDP for the eighth consecutive quarter up to December 2017. In January 2018, the unemployment rate also fell to 2.4% for the first time in 24 years and nine months, and the employment situation improved continuously. However, industries such as accommodation and food services and transport and postal mail faced a serious labor shortage. The fourth Abe Cabinet, which was inaugurated in November 2017, announced that the government would fully mobilize policies including taxes and budgets, with "human resources development revolution" and "productivity revolution" as two wheels of a cart. Of them, the productivity revolution has set the reforms of the industrial structure through IoT, big data and artificial intelligence as key initiatives, and the creation of new business opportunities is therefore expected.

Meanwhile, the global economy is facing geopolitical risks such as the North Korean and Syrian issues, but it experienced a full-fledged economic recovery for the first time after the financial crisis in 2007 - 2008. In the United States, while the impact of the protectionist trade policy was a concern, the growth rate of real GDP remained high, reaching 2.6% (the term from October to December in 2017). In addition, because the Trump administration decided on the largest-ever tax cut of 1.5 trillion dollars at the end of last year, domestic investments and the employment situation improved further. With the global economic recovery including Europe, China and emerging countries as a backdrop, the Japanese economy remained firm, particularly in the export sector.

In the domestic paper and pulp industry, paper consumption continued to fall below the preceding year's level due to structural changes following the contraction and aging of the population and a decline in the birth rate, along with a shift of publications and advertisements to electronic media. However, the expansion of the e-commerce market was a driving force behind demand for cardboard, and the consumption of paperboard increased from the preceding year. Demand for sanitary paper also remained relatively firm by capturing inbound demand and others, in addition to solid demand as daily necessities. It is also a concern in the domestic paper and pulp industry that the labor shortage will have an impact on corporate earnings through higher freight charges.

Under these circumstances, the Group's financial results for the consolidated fiscal year under review were as follows. Net sales stood at 377,714 million yen, representing a 3.0% increase year on year; operating income was 2,362 million yen, representing a 129.2% rise year on year; ordinary income was 3,086 million yen, enjoying a 177.0% increase year on year; and profit attributable to owners of parent was 2,433 million yen, representing a 9.9% rise year on year.

Financial results by business segment are as follows.

#### <Domestic Bases Wholesale Pulp and Paper>

In the paper sector, both sales value and volume declined year on year due to factors such as the contraction of the publication and printing market, reflecting changes in the demand structure, and a shift of advertisements to electronic media. In the paperboard sector, sales value increased thanks to solid growth in food applications and the expansion of sales channels. In the papermaking material sector, domestic sales of recovered paper remained firm, and sales value increased year on year. Pulp saw a year-on-year increase in both sales value and volume due to the contribution of rising prices, in addition to growth in demand for imported pulp.

As a result, net sales in the Domestic Bases Wholesale Pulp and Paper segment came to 309,670 million yen (down 0.1% year on year), and segment income stood at 4,521 million yen (up 14.1% year on year).

#### <Overseas Bases Wholesale Pulp and Paper>

In the Overseas Bases Wholesale Pulp and Paper segment, net sales remained low because sales of coated paper and copying paper as well

as special paper for Brazil were stagnant due to reasons such as a price problem and difficulty in securing the volume at suppliers, while exports of corrugated board increased in the United States. In Southeast Asia, the performance of trade items of some Japanese manufacturers was strong, but sales grew at a sluggish pace due to an unsuccessful bid on pulp because we did not come to terms with the price, in addition to slower growth. In East Asia, sales to major customers were strong, and sales of products in general, including coated paper and paperboard, increased in Hong Kong. In China, sales of high-quality paper, coated paper and paperboard also rose. In Australia, sales increased due to a rise in the trade of high-quality paper and copying paper.

As a result, net sales in the Overseas Bases Wholesale Pulp and Paper segment rose to 66,810 million yen (up 21.0% year on year), and there was a segment loss of 91 million yen (compared with a segment loss of 108 million yen in the previous fiscal year).

#### <Real Estate Leasing>

In the office building market in major cities across Japan, the average vacancy rate was on a downward trend against the backdrop of solid demand for offices, including the expansion of floor space inside buildings and relocations for extensions. The average rent also remained on a moderate upward trend.

Under these circumstances, the Group maintained high occupancy in tenant buildings including its mainstay property "KPP Yaesu Building," but rent income declined due to the sale of certain properties owned.

As a result, net sales in the Real Estate Leasing segment amounted to 1,233 million yen (down 19.8% year on year), and segment income came to 561 million yen (down 17.8% year on year).

#### (2) Cash flow status

As of the end of the consolidated fiscal year under review, cash and cash equivalents (hereinafter collectively referred to as "cash") increased 1,843 million yen from a year earlier, to 4,135 million yen, due to increases in profit before income taxes and notes and accounts payable - trade and a net increase in commercial papers, which offset the purchase of property, plant and equipment and intangible assets.

The following describes the status of the individual cash flows for the consolidated fiscal year under review and the underlying factors.

#### <Cash flows from operating activities>

Net cash provided by operating activities amounted to 4,019 million yen (net cash provided of 1,114 million yen in the previous fiscal year). This was mainly attributable to cash provided by increases in notes and accounts payable - trade and profit before income taxes, which offset cash used for an increase in inventories at domestic bases.

#### <Cash flows from investing activities>

Net cash used in investing activities totaled 7,920 million yen (net cash provided of 5,596 million yen in the previous fiscal year). This was mainly attributable to cash used for the acquisition of the KPP Head Office to reduce expenses, the acquisition of Toda Butsuryu Center based on our logistics strategy and investment in internal mission-critical systems.

#### <Cash flows from financing activities>

Net cash provided by financing activities was 5,760 million yen (net cash used of 6,791 million yen in the previous fiscal year). This was mainly attributable to financing using short-term loans payable and commercial papers after taking into account financing through capital increase in the following consolidated fiscal year in order to cover net cash used in investing activities.

## Financial Standing and Business Performance Details of recognition, analysis and review from the manager's perspective

Details of recognition, analysis and review of the status of business performance of the Group from the manager's perspective are as follows. Forward-looking statements in the text are our judgments as of the end of the consolidated fiscal year under review.

#### (1) Significant Accounting Policies and Estimation

The Group prepares its consolidated financial statements in accordance with the accounting standards that are generally regarded as fair and appropriate in Japan. Matters requiring accounting estimates in the preparation of the consolidated financial statements are estimated on the basis of actual past data and by employing other reasonable methods. However, estimates involve uncertainties specific to the data

and methods used, and thus the actual results may differ from the estimates. The Group understands that the important accounting policies specified below have a significant impact on key judgments and estimates made in the preparation of the financial statements.

#### (a) Allowance for doubtful accounts

In preparation for possible losses due to the inability to collect receivables, the Group posts an estimated amount of uncollectible receivables as an allowance for doubtful accounts, taking into consideration the collectability of individual specific receivables, with concern given to the failure to collect in accordance with the rate of actually uncollectible general receivables in the past.

#### (b) Impairment of investment securities

The Group holds shares of certain customers to maintain and strengthen good business relationships with them. For securities with market value, impairment processing is conducted for those with a non-temporary decline in investment value by more than 30%. For securities without market value, impairment processing is conducted for those for which net assets per share of the company concerned contracted by at least 50% of their book value, based on the assumption that its financial results are unlikely to recover.

#### (c) Impairment of goodwill

If it is determined that there are signs of impairment of goodwill, the Group will determine whether the impairment should be recognized. If there is a change in the situation of business that the Group has acquired in a transaction in which goodwill was recognized, an impairment loss may be required to be recorded.

#### (d) Deferred tax assets

The Group rationally estimates its future taxable income. If it judges that it will be unable to collect all or part of the deferred tax assets, the income figures may change due to the accrual of deferred tax assets.

## (2) Details of recognition, analysis and review of the status of business performance in the consolidated fiscal year under review

#### (a) Analysis of business performance

(Net sales)

Net sales in the consolidated fiscal year under review increased 10,936 million yen from the previous consolidated fiscal year, to 377,714 million yen (up 3.0% year on year). Net sales by segment are stated in "Summary of Status of Business Performance, Etc." (1) Status of financial standing and business performance."

(Gross profit)

Gross profit in the consolidated fiscal year under review increased 893 million yen from the previous consolidated fiscal year, to 22,008 million yen (up 4.2% year on year). The gross profit margin also rose 0.07 percentage point from the previous consolidated fiscal year, to 5.8%, mainly due to the contribution of a rise in the profit margin of pulp and recovered paper.

(Operating income)

Selling, general and administrative expenses declined 438 million yen from the previous consolidated fiscal year, to 19,645 million yen (down 2.2% year on year), due to a fall in the provision of an allowance for doubtful accounts in the Overseas Bases Wholesale Pulp and Paper segment, despite increases in selling expenses and employees' salaries and allowances.

As a result, operating income in the consolidated fiscal year under review increased 1,331 million yen from the previous consolidated fiscal year, to 2,362 million yen (up 129.2% year on year).

(Ordinary income)

Non-operating income in the consolidated fiscal year under review increased 318 million yen from the previous consolidated fiscal year, to 1,363 million yen (up 30.4% year on year), mainly due to the recording of foreign exchange gains reflecting the appreciation of the yen and the reversal of an allowance for doubtful accounts.

Non-operating expenses declined 322 million yen from the previous consolidated fiscal year, to 640 million yen (down 33.5% year on year), mainly due to the turning of foreign exchange losses recorded in the previous consolidated fiscal year into foreign exchange gains and a fall in the share of loss of entities accounted for using the equity method.

As a result, ordinary income in the consolidated fiscal year under review increased 1,972 million yen from the previous consolidated fiscal year, to 3,086 million yen (up 177.0% year on year).

(Profit before income taxes)

Extraordinary income in the consolidated fiscal year under review decreased 2,634 million yen from the previous consolidated fiscal year, to 623 million yen (down 80.9% year on year), mainly due to the recording of a 2,773 million yen gain on sales of non-current assets and a 483 million yen gain on sales of investment securities in the previous consolidated fiscal year, despite the sale of Kasugai Souko based on our logistics strategy.

Extraordinary losses declined 803 million yen from the previous consolidated fiscal year, to 71 million yen (down 91.9% year on year), due to the recording of a 588 million yen loss on sales of non-current assets in the previous consolidated fiscal year.

As a result, profit before income taxes in the consolidated fiscal year under review rose 141 million yen from the previous consolidated fiscal year, to 3,639 million yen (up 4.0% year on year).

#### (b) Analysis of financial standing

(Assets)

Total assets at the end of the consolidated fiscal year under review stood at 198,632 million yen, an increase of 14,386 million yen from the end of the previous consolidated fiscal year. This was mainly attributable to an increase in property, plant and equipment as a result of acquiring the KPP Head Office to reduce expenses and Toda Butsuryu Center based on our logistics strategy and an increase in intangible assets due to investments in internal mission-critical systems.

(Liabilities)

Total liabilities came to 150,937 million yen, an increase of 10,736 million yen from the end of the previous consolidated fiscal year. This was chiefly due to an increase in interest-bearing debt resulting from loans payable and commercial papers, as well as an increase in notes and accounts payable - trade.

(Net assets)

Net assets were 47,694 million yen, up 3,650 million yen from the end of the previous consolidated fiscal year, and the equity ratio was 23.9%, rising 0.1 percentage point from the end of the previous consolidated fiscal year. This was mainly attributable to an increase in retained earnings, a rise in valuation difference on available-for-sale securities reflecting rising share prices, and an increase in remeasurements of defined benefits plans resulting from a rise in the market value of pension assets.

#### (c) Financial resources for capital and liquidity of funds of the Group

The major components of demand for operating funds of the Group are recurring operating funds and operating expenses such as selling, general and administrative expenses. Capital needs for investment are derived mainly from the purchase of non-current assets and investments in software. The basic policy of the Group is to stably secure liquidity and the source of funds necessary for business operation. Short-term operating funds are basically financed by shareholders' equity, short-term loans from financial institutions and commercial papers, and funds for investment are basically financed by long-term loans from financial institutions.

The Company's shares were listed on the First Section of the Tokyo Stock Exchange on June 26, 2018. Of the proceeds of 2,212 million yen from the issuance of new shares, 851 million yen is to be used for capital investment related to internal mission-critical systems, while the remaining amount is to be appropriated for the repayment of loans from financial institutions.

The balance of loans payable and commercial papers at the end of the consolidated fiscal year under review was 49,693 million yen. The balance of cash and cash equivalents at the end of the consolidated fiscal year under review was 4,135 million yen.

#### (d) Objective indicators to determine the achievement status of management policies, management strategies and management targets

Placing emphasis on ROA and ROE as management indicators, the Group is working to realize efficient management. In the consolidated fiscal year under review, ROA and ROE were 1.3% and 5.3%, respectively.

#### Capital Policy

Under its basic capital policy, the Group strives to achieve a medium-term increase in corporate value and deliver stable returns to shareholders. To improve its outside ratings and stabilize its financial standing, the Group will endeavor to attain an equity rate of 25% at an early

stage. Meanwhile, it will define ROA as a key management indicator, and achieve the optimal capital portfolio by boosting asset efficiency. The Company will also aim to increase ROE to a level higher than the cost of shareholders' equity and ensure a payout ratio of 30%.

### Business Risks and Other Risks

The following describes examples of business and other risks that may affect the Group's financial results and standing.

It should be noted that the matters relating to the future in the descriptions here reflect judgments of the Group as of the date of June 28, 2018. They do not include all the risks that may arise in the future.

#### (1) Dependency on principal business partners

Oji Holdings Corporation and Nippon Paper Industries Co., Ltd. are among the Company's major shareholders and among the principal suppliers of paper and paper boards, which are the Group's mainstay products. The total amount of purchases from these two groups for the consolidated fiscal year made up 47.1% of the Group's total purchases. At this time, the Company has basic agreements with these companies under which they are designated dealers, and plans to continuously expand transactions with them. However, if any significant problem should arise in supplying goods from their groups to the Company for some reason, it may affect the Group's business expansion, financial standing, and financial results.

#### (2) Impact of commodity market conditions

The purchase prices of the Group's mainstay products such as paper and paper boards are subject to the influence of worldwide demand for their raw materials, such as pulp, chips, and recovered paper, and to trends in crude oil and other fuel prices. A significant rise in these prices will affect the purchase prices of products. The Group constantly conducts price negotiations with suppliers in an attempt to ensure appropriate profits, but its financial standing and results may be affected depending on whether or to what extent the selling prices take into consideration the changes in material prices.

#### (3) Reorganization of distribution in the paper and pulp industry

The paper industry is heavily susceptible to economic trends and consumer trends. In view of the shrinking population and shift towards paper-free operations, the domestic market is expected to contract even further. For this reason, there is a possibility that further reorganization of distributors may occur. The Group has already been responding to the industry reorganization by means of mergers and acquisitions and other methods. While it will continue to adopt a flexible approach in the future, changes in market circumstances that exceed the Group's assumptions or any merger or acquisition that fails to produce the effect expected by the Group may affect its financial standing and results.

#### (4) Manufacturers' orientation towards direct sales

Faced with harsh economic circumstances, an increasing number of corporate users of paper products are actively working to cost cuts. The Group is also making efforts to reduce distribution costs and other costs to maintain its business relationships with corporate users. However, in recent years, paper manufacturers are becoming more and more oriented towards direct sales. This trend is especially evident in the area of industrial paper. In this environment, it is possible that users to which the Group sells products may shift to doing direct transactions with manufacturers. The financial position and results of the Group could be affected if the increase in these cases occurs at a pace faster than what it expects.

#### (5) Foreign exchange rate fluctuation risks

The paper and public wholesale business at overseas bases, which is one of the business segments of the Group, sells products in many different countries, particularly in Asia and the Americas. Net sales of the Overseas Bases Wholesale Pulp and Paper segment in the consolidated fiscal year under review made up 17.7% of consolidated net sales. The Group also sells papers and paperboard, recovered papers exported from Japan. The price competition of these products overseas has been affected by currency exchange rate. The process of preparing consolidated financial statements involves converting the sales and expenses in the local currencies of different countries into the yen so that they can be posted in the statements. During this process, the figures are affected by the foreign exchange rates at the time they are converted into the Japanese currency. The Group employs various means to minimize the impact of exchange rate fluctuations, such as bringing foreign exchange

forward. However, fluctuations in exchange rates that are greater than the Group expects may affect its financial standing and results.

#### (6) Interest rate fluctuation risks

The Group procures its operating funds chiefly by borrowing from financial institutions and by issuing commercial paper. It endeavors to minimize the impact of interest rate fluctuations by procuring funds through the introduction of long-term loans at fixed interest rates and interest rate swapping. However, fluctuations in interest rates that are greater than what the Group expects may affect its financial standing and results. For reference, the balance of loans payable and commercial paper amounted to 49,693 million yen as of the end of the consolidated fiscal year under review, accounting for 25.0% of all assets.

#### (7) Country risks

The Group engages in sales in many different countries around the world, particularly in Asia and the Americas. The pulp and paper wholesale business at overseas bases contributed to 17.7% of consolidated net sales for the consolidated fiscal year under review. In these countries, business activities may be constrained by legislative amendments, rapidly rising personnel costs, diplomatic issues, and other factors. The pulp and paper market is heavily reliant on economic trends, consumption trends and other factors in the countries and regions where the business is operated. The Group has taken out an insurance policy for trade accounts receivable in its overseas business, and it works tirelessly to collect information on the countries in which it operates in order to minimize these risks. Should these risks become more noticeable, however, they could affect its financial position and results.

In the 142nd and 143rd consolidated fiscal years, business partners in China, Hong Kong and elsewhere recorded very large provisions for allowances for doubtful accounts, and Overseas Bases Wholesale Pulp and Paper ultimately posted a segment loss. In the China business, the procedures for liquidation of Kokusai Pulp & Paper (China) Co., Ltd., the financial position of which deteriorated mainly because of the provisions for allowances for doubtful accounts mentioned above, are underway. If any unexpected loss occurs in the process of liquidation, it may affect the Group's financial standing and results.

#### (8) Credit risks concerning customers

In the Group's sales transactions, many of our customers are adopting the practice of credit sales and bill collection. Asia accounts for a large percentage in the Overseas Bases Wholesale Pulp and Paper segment. In light of these circumstances, the Group holds regular credit review meetings for all overseas bases and holds a meeting for the managers of overseas bases once a year to thoroughly manage individual customers. In addition, the Group works to avert credit risks by formulating regulations and manuals to prevent uncollectible receivables from arising, and regularly examines these risks in accordance with the regulations, etc. Even so, the Group's financial standing and results may be affected, provided that uncollectible receivables exceed the level it anticipated as a result of the deterioration in the credit status of some customers. The Group's major customer in Asia is Samson Paper Holdings Ltd. (hereinafter referred to as "Samson Paper Holdings Group"), which is listed on the Stock Exchange of Hong Kong Limited, and the balance of accounts receivable-trade from the Samson Paper Holdings Group at the end of the consolidated fiscal year under review was 14,639 million yen.

#### (9) Liabilities for retirement grants

The Group employs a defined benefits pension plan, a retirement lump-sum grants program, and a defined contribution pension plan. The expenses and liabilities for retirement grants under these plans are calculated in accordance with the discount rate and other preconditions defined in actuarial calculation and the expected long-term management gains ratio for pension assets. In addition, a stock trust is adopted as part of the pension assets. Therefore, the Group's financial standing and results may be affected in the event of a decline in the discount rate, a deteriorating investment yield, and a decline in the market price of shares included in the trust.

#### (10) Risk of fluctuations in the market prices of shares owned

Most of the shares owned by the Group are those of suppliers, corporate customers, financial institutions with which it does business, and other companies with which it enjoys close business relationships. The Group's financial position and results may be affected if the price of any of these shares changes due to stock market conditions and the financial results of the company concerned.

#### (11) Risks of new business investments

The Group makes investments, including the establishment of a new company and the acquisition of existing companies, to expand business opportunities and strengthen its existing businesses. In April 2017, the Group invested 190 million yen in Hokan Tokyo Business Service Co., Ltd., which supports the start-up and operation of the home-visit nursing care business. In this investment, the Group bears the risk of not being able to collect the invested funds, the risk of generating an additional loss if the Group withdraws from the business, and the risk of not generating income as planned.

To manage these risks, the Group has decided to fully discuss the profitability of investments at the Investment Committee and regularly checks the management status of investees and progress in the plan and makes a report to the Board of Directors. However, it is difficult to completely avoid the risk of generating an additional loss and the risk of not making a profit as planned, and there is a possibility that the financial standing and business performance of the Group will be affected by changes in the operating environment and withdrawal from a project.

#### (12) Risks related to investments in China

The Company has two manufacturing companies in China to which the equity method is applied. The amount of investment to be accounted for using the equity method in the MISSION SKY GROUP LIMITED Group, which manufactures and sells corrugated board through a joint venture with the Samson Paper Holdings Group, was 3,992 million yen at the end of the consolidated fiscal year under review, of which the amount of goodwill was 1,441 million yen. With respect to the investment business in China, an in-house management reporting line has been created, and the department in charge monitors the progress of business performance and the investment plan on a quarterly basis. If a significant deviation from the business plan arises due to an unexpected change in the situation due to a sudden change in the operating environment, and if a loss arises in an equity-method affiliate, it will be recorded in the consolidated financial statements of the Company according to its ownership ratio. This could have an impact on the financial standing and business performance of the Group.

#### (13) Impact of real estate market conditions and other factors

In order to stabilize its revenue base, the Group engages in the real estate leasing business using the real estate it owns. However, the Group's financial standing and results may be affected if the value or rent of the real estate it owns declines as a result of changes in the real estate market conditions. For reference, the ratio of real estate leased to total assets was 8.2% as of the end of the consolidated fiscal year under review.

#### (14) Relationship with major shareholder

In March 1979, Oji Paper Co., Ltd. and Nippon Pulp Industry Co., Ltd., both of which held shares in the Company, merged. As a result, Oji Paper as the surviving company held 24.3% of the voting rights in the Company. As of the date of June 28, 2018, Oji Holdings, which shifted to a holding company structure and changed its company name to Oji Holdings Corporation, owns 18.7% of the voting rights in the Company, including an indirect ownership component. Since the Company was established in 1924, Oji Holdings and its group companies (hereinafter referred to as "the Oji Group") have been its principal supply destinations and have been dealing continuously with the Company under the same terms and conditions as those applicable to other paper manufacturers which the Company's supplies.

As of the date of June 28, 2018, there are no officers or employees serving both the Oji Group and the Group, and the two Groups have no personnel on loan from each other. In addition, there are no items requiring prior approval from the Oji Group in the Group's managerial decision-making. The Group's management is therefore independent. If the Oji Group changes its management policy or strategy in the future, however, it may affect the Group's business activities.

#### (15) Use of funds

With regard to the use of funds raised by capital increase through public stock offering conducted on June 26, 2018, we plan to appropriate them for capital investment related to internal mission-critical systems and the repayment of loans. However, there is a possibility that the expected investment effect will not be obtained even if the funds raised are used as planned. In addition, there is also a possibility that an unexpected increase in expenses due to a delay in capital investment will have an impact on the financial standing and business performance of the Group

if such an increase arises. The Group anticipates an increase in expenses including the burdens of amortization and depreciation after the completion of capital investment related to internal mission-critical systems.

### Business environment and issues to be addressed

The issues the Group has set out to tackle are stepping up its overseas expansion, reforming its business portfolio through the launch of new businesses, achieving a high level of transparency in governance, and securing and nurturing staff members. It will make active efforts to address each of these issues.

#### (1) Stepping up overseas expansion

The Group places particular emphasis on globalization in its long-term management plan "GIFT+1 2024." Because domestic demand for printing and communication paper, the Group's mainstay products, still remains sluggish, the Group is stepping up its overseas expansion to diversify profit opportunities.

Above all, the Group regards expansion in growth markets such as China, Southeast Asia and India as a challenge, and is currently promoting localization and the expansion of operations. In particular, given that solid demand for packaging-related products is expected along with economic growth, the Group is focusing on the area of total packages, including chemical and other products in addition to paper and paperboard. In China, the Group has already invested in the flexible packaging and printing business to increase its competitiveness by introducing advanced technologies of Japan that satisfy the environmental regulations in China. In India, the Group is also preparing for the establishment of a new company for the purpose of rebuilding business there. To continuously seek investment opportunities in Asia, the Group has reorganized its structure by establishing the Global Business Administration Division in the Global Business Headquarters in June 2017 so that the sales and administrative functions will be able to act in a mobilized and integrated manner.

#### (2) Launching new businesses

In June 2017, the Investments for the Future Strategy 2017 that aims to realize "Society 5.0" was approved by the Japanese Cabinet. To become a company that will keep creating value even in the forthcoming new society by leveraging AI, IoT and robots, the Group is currently moving ahead with three projects by advancing into the area of the soft service industry based on system development as the next growth strategy. The first one is the "Thermal Management Logistics Solutions Project," which aims to develop a temperature sensor that can be printed on labels. The second one is the "Biomass Power Generation Optimization System Solutions Project," which aims to develop software that will optimize combustion efficiency and lead to sales. The third one is the "Community Comprehensive Care Solutions Project," which started in April 2017. Through these solutions projects, the Group will contribute to the realization of "Society 5.0."

#### (3) Achieving a high level of transparency in governance

Placing emphasis on the Corporate Governance Code for the sustainable growth of the Company and the medium- to long-term enhancement of its corporate value, the Group is preparing to introduce new systems to further enhance governance. The Group is also strengthening its governance overseas by restructuring DAIEI AUSTRALASIA PTY LTD and DAIEI PAPERS (S) PTE LTD under the control of KPP ASIA-PACIFIC PTE. LTD., the Asia regional headquarters, and placing DAIEI PAPERS BRAZIL LTDA. under the direct control of the KPP Head Office. In addition, the Group is bolstering the management system of overseas corporations by continuously holding global credit meetings for overseas subsidiaries and providing workshops for local managers.

#### (4) Nurturing and securing staff members

To further promote diversity, the Group is continuously striving to diversify human resources and is working on the mid-career employment of global human resources in Japan and overseas and the employment of female managerial workers with a view to appointing them to management posts in the future. The Group is also promoting operational efficiency that will lead to work style reform in the internal reform project that commenced in April 2017. In addition, the Group is cultivating T-type human resources with a high level of expertise based on broad knowledge that are able to respond to the new environment called "Society 5.0" by making active use of e-learning.

## Consolidated Financial Statement

### (1) Consolidated Balance Sheet

Millions of yen

	Preceding Consolidated Fiscal Year (March 31, 2017)	Consolidated Fiscal Year Concerned (March 31, 2018)
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	2,352	4,177
Notes and accounts receivable - trade	105,066	105,692
Electronically recorded monetary claims - operating	13,290	13,208
Inventories	15,728	17,511
Deferred tax assets	558	477
Other	2,872	3,509
Allowance for doubtful accounts	(2,291)	(2,139)
<b>Total current assets</b>	<b>137,577</b>	<b>142,438</b>
<b>Non-current assets</b>		
<b>Property, plant and equipment</b>		
Buildings and structures, net	4,506	6,339
Machinery, equipment and vehicles, net	26	52
Tools, furniture and fixtures, net	127	137
Land	12,569	18,197
Leased assets, net	121	151
<b>Total property, plant and equipment</b>	<b>17,353</b>	<b>24,878</b>
<b>Intangible assets</b>		
Goodwill	842	727
Software	1,898	2,453
Other	26	16
<b>Total intangible assets</b>	<b>2,767</b>	<b>3,196</b>
<b>Investments and other assets</b>		
Investment securities	24,703	26,250
Long-term loans receivable	9	35
Deferred tax assets	55	27
Net defined benefit asset	147	411
Other	2,598	2,255
Allowance for doubtful accounts	(966)	(861)
<b>Total investments and other assets</b>	<b>26,547</b>	<b>28,118</b>
<b>Total non-current assets</b>	<b>46,668</b>	<b>56,193</b>
<b>Total assets</b>	<b>184,245</b>	<b>198,632</b>

Millions of yen

	Preceding Consolidated Fiscal Year (March 31, 2017)	Consolidated Fiscal Year Concerned (March 31, 2018)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Notes and accounts payable - trade	80,904	84,158
Electronically recorded obligations - operating	2,892	3,909
Short-term loans payable	35,071	32,608
Commercial papers	4,000	8,000
Lease obligations	41	49
Income taxes payable	598	510
Provision for bonuses	923	892
Provision for directors' bonuses	21	26
Provision for point card certificates	30	32
Provision for loss on business	79	-
Other	4,051	4,401
<b>Total current liabilities</b>	<b>128,615</b>	<b>134,589</b>
<b>Non-current liabilities</b>		
Long-term loans payable	4,524	9,084
Lease obligations	94	112
Deferred tax liabilities	4,453	5,318
Provision for directors' retirement benefits	228	225
Net defined benefit liability	732	148
Asset retirement obligations	70	71
Other	1,481	1,387
<b>Total non-current liabilities</b>	<b>11,586</b>	<b>16,347</b>
<b>Total liabilities</b>	<b>140,201</b>	<b>150,937</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	3,442	3,442
Capital surplus	7,670	7,670
Retained earnings	26,648	28,549
Treasury shares	(153)	(153)
<b>Total shareholders' equity</b>	<b>37,608</b>	<b>39,509</b>
<b>Total other accumulated comprehensive income</b>		
Valuation difference on available-for-sale securities	5,337	6,389
Deferred gains or losses on hedges	10	8
Foreign currency translation adjustment	976	1,070
Remeasurements of defined benefit plans	(4)	569
<b>Other accumulated comprehensive income</b>	<b>6,319</b>	<b>8,037</b>
<b>Non-controlling interests</b>	<b>116</b>	<b>148</b>
<b>Total net assets</b>	<b>44,044</b>	<b>47,694</b>
<b>Total liabilities and net assets</b>	<b>184,245</b>	<b>198,632</b>

## (2) Consolidated Income Statement/Consolidated Statements of Comprehensive Income

### Consolidated Income Statement

Millions of yen

	Preceding Consolidated Fiscal Year (April 1, 2016 to March 31, 2017)	Consolidated Fiscal Year Concerned (April 1, 2017 to March 31, 2018)
Net sales	366,777	377,714
Cost of sales	345,662	355,706
<b>Gross profit</b>	<b>21,115</b>	<b>22,008</b>
<b>Selling, general and administrative expenses</b>		
Selling expenses	5,400	5,524
Employees' salaries and allowances	5,838	6,000
Provision for bonuses	916	887
Provision for directors' bonuses	21	26
Retirement benefit expenses	304	302
Provision of allowance for doubtful accounts	1,025	43
Provision for directors' retirement benefits	62	57
Other	6,513	6,803
<b>Total selling, general and administrative expenses</b>	<b>20,084</b>	<b>19,645</b>
<b>Operating income</b>	<b>1,031</b>	<b>2,362</b>
<b>Non-operating income</b>		
Interest income	423	469
Dividend income	391	413
Foreign exchange gains	-	93
Reversal of allowance for doubtful accounts	32	174
Other	197	212
<b>Total non-operating income</b>	<b>1,045</b>	<b>1,363</b>
<b>Non-operating expenses</b>		
Interest expenses	459	443
Loss on sales of accounts receivable	28	27
Foreign exchange losses	272	-
Share of loss of entities accounted for using equity method	135	81
Other	68	87
<b>Total non-operating expenses</b>	<b>962</b>	<b>640</b>
<b>Ordinary income</b>	<b>1,114</b>	<b>3,086</b>
<b>Extraordinary income</b>		
Gain on sales of non-current assets	2,773	619
Gain on sales of investment securities	483	3
Other	0	0
<b>Total extraordinary income</b>	<b>3,257</b>	<b>623</b>
<b>Extraordinary losses</b>		
Loss on sales of non-current assets	588	-
Loss on retirement of non-current assets	1	13
Impairment loss	77	-
Loss on valuation of investment securities	93	14
Provision for loss on business	79	-
Loss on cancellation of leases	-	39
Other	33	3
<b>Total extraordinary losses</b>	<b>874</b>	<b>71</b>
<b>Profit before income taxes</b>	<b>3,497</b>	<b>3,639</b>
<b>Income taxes-current</b>	<b>947</b>	<b>888</b>
<b>Income taxes-deferred</b>	<b>316</b>	<b>298</b>
<b>Total income taxes</b>	<b>1,264</b>	<b>1,187</b>
<b>Profit</b>	<b>2,232</b>	<b>2,452</b>
<b>Profit attributable to non-controlling interests</b>	<b>17</b>	<b>18</b>
<b>Profit attributable to owners of parent</b>	<b>2,215</b>	<b>2,433</b>

### Consolidated Statements of Comprehensive Income

Millions of yen

	Preceding Consolidated Fiscal Year (April 1, 2016 to March 31, 2017)	Consolidated Fiscal Year Concerned (April 1, 2017 to March 31, 2018)
<b>Profit</b>	<b>2,232</b>	<b>2,452</b>
<b>Other comprehensive income</b>		
Valuation difference on available-for-sale securities	1,700	1,052
Deferred gains or losses on hedges	52	(2)
Foreign currency translation adjustment	(85)	11
Remeasurements of defined benefit plans, net of tax	28	574
Share of other comprehensive income of entities accounted for using equity	(323)	84
<b>Total other comprehensive income</b>	<b>1,372</b>	<b>1,719</b>
<b>Comprehensive income</b>	<b>3,605</b>	<b>4,171</b>
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,589	4,152
Comprehensive income attributable to non-controlling interests	15	19

## (3) Statement of Changes in Equity

### Preceding Consolidated Fiscal Year (April 1, 2016 to March 31, 2017)

Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	3,442	7,670	24,966	(153)	35,925
Changes of items during period					
Dividends of surplus			(532)		(532)
Profit attributable to owners of parent			2,215		2,215
Purchase of treasury shares				(0)	(0)
Net changes of items other than shareholders' equity					
<b>Total changes of items during period</b>	<b>-</b>	<b>-</b>	<b>1,682</b>	<b>(0)</b>	<b>1,682</b>
Balance at end of current period	3,442	7,670	26,648	(153)	37,608

	Other accumulated comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans		
Balance at beginning of current period	3,636	(42)	1,383	(33)	98	40,969
Changes of items during period						
Dividends of surplus						(532)
Profit attributable to owners of parent						2,215
Purchase of treasury shares						(0)
Net changes of items other than shareholders' equity	1,700	52	(407)	28	18	1,392
<b>Total changes of items during period</b>	<b>1,700</b>	<b>52</b>	<b>(407)</b>	<b>28</b>	<b>18</b>	<b>3,075</b>
Balance at end of current period	5,337	10	976	(4)	116	44,044

### Consolidated Fiscal Year Concerned (April 1, 2017 to March 31, 2018)

Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	3,442	7,670	26,648	(153)	37,608
Changes of items during period					
Dividends of surplus			(532)		(532)
Profit attributable to owners of parent			2,433		2,433
Purchase of treasury shares				(0)	(0)
Net changes of items other than shareholders' equity					
<b>Total changes of items during period</b>	<b>-</b>	<b>-</b>	<b>1,901</b>	<b>(0)</b>	<b>1,900</b>
Balance at end of current period	3,442	7,670	28,549	(153)	39,509

	Other accumulated comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans		
Balance at beginning of current period	5,337	10	976	(4)	116	44,044
Changes of items during period						
Dividends of surplus						(532)
Profit attributable to owners of parent						2,433
Purchase of treasury shares						(0)
Net changes of items other than shareholders' equity	1,052	(2)	94	574	31	1,749
<b>Total changes of items during period</b>	<b>1,052</b>	<b>(2)</b>	<b>94</b>	<b>574</b>	<b>31</b>	<b>3,650</b>
Balance at end of current period	6,389	8	1,070	569	148	47,694

#### (4) Consolidated Statement of Cash Flows

Millions of yen

	Preceding Consolidated Fiscal Year (April 1, 2016 to March 31, 2017)	Consolidated Fiscal Year Concerned (April 1, 2017 to March 31, 2018)
<b>Cash flows from operating activities</b>		
Profit before income taxes	3,497	3,639
Depreciation	523	433
Impairment loss	77	-
Amortization of goodwill	114	114
Share of (profit) loss of entities accounted for using equity method	135	81
Loss (gain) on valuation of investment securities	93	14
Increase (decrease) in net defined benefit liability	(1)	(16)
Increase (decrease) in provision for directors' retirement benefits	(10)	(3)
Increase (decrease) in provision for bonuses	160	(30)
Increase (decrease) in provision for directors' bonuses	(0)	4
Increase (decrease) in allowance for doubtful accounts	777	(466)
Increase (decrease) in provision for point card certificates	(6)	2
Increase (decrease) in provision for loss on business	79	-
Interest and dividend income	(815)	(883)
Interest expenses	459	443
Loss (gain) on sales and retirement of non-current assets	(2,183)	(606)
Loss (gain) on sales of investment securities	(477)	(3)
Decrease (increase) in notes and accounts receivable - trade	(3,351)	(522)
Decrease (increase) in inventories	(142)	(1,762)
Decrease (increase) in other assets	(57)	(323)
Increase (decrease) in notes and accounts payable - trade	2,875	3,972
Increase (decrease) in other liabilities	(113)	384
Other	(39)	57
<b>Subtotal</b>	<b>1,594</b>	<b>4,530</b>
Interest and dividend income received	820	889
Interest expenses paid	(461)	(456)
Income taxes paid	(839)	(944)
<b>Net cash provided by (used in) operating activities</b>	<b>1,114</b>	<b>4,019</b>
<b>Cash flows from investing activities</b>		
Payments into time deposits	(76)	(2)
Proceeds from withdrawal of time deposits	21	20
Purchase of property, plant and equipment and intangible assets	(1,511)	(8,583)
Proceeds from sales of property, plant and equipment and intangible assets	6,818	759
Purchase of investment securities	(675)	(211)
Proceeds from sales of investment securities	1,042	8
Payments of loans receivable	(101)	(83)
Collection of loans receivable	79	50
Collection of lease deposits	-	114
Other	-	7
<b>Net cash provided by (used in) investing activities</b>	<b>5,596</b>	<b>(7,920)</b>
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term loans payable	(3,041)	1,328
Net increase (decrease) in commercial papers	1,000	4,000
Proceeds from long-term loans payable	400	7,000
Repayments of long-term loans payable	(4,565)	(6,004)
Proceeds from share issuance to non-controlling shareholders	-	10
Purchase of treasury shares	(0)	(0)
Cash dividends paid	(532)	(532)
Other	(51)	(40)
<b>Net cash provided by (used in) financing activities</b>	<b>(6,791)</b>	<b>5,760</b>
<b>Effect of exchange rate change on cash and cash equivalents</b>	<b>(130)</b>	<b>(15)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(210)</b>	<b>1,843</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>2,502</b>	<b>2,291</b>
<b>Cash and cash equivalents at end of period</b>	<b>2,291</b>	<b>4,135</b>

#### Company Profile

##### Company Name

KOKUSAI PULP&PAPER CO., LTD.

##### Establishment

November 27, 1924

##### Business Purposes

- Buying, selling, import and export of paper and products produced by processing paper.
- Buying, selling, import and export of pulp and recovered paper.
- Buying, selling, import and export of chemical products, industrial chemicals, horticultural chemicals, machines related to paper, packing and packaging machines, industrial electrical equipment, transportation equipment, electronic components and parts, office machines and equipment, building and construction materials, packing and packaging materials, materials related to printing, daily necessities, sundry goods, sanitary materials, medical materials, fuels for papermaking boilers, industrial products for papermaking and manufacture of paper products and biomass fuels.
- Buying and selling business of used materials and articles.
- Collection, transport, treatment and disposal of industrial waste and municipal waste.
- Wholesaling, brokerage and agency businesses, leasing business, and processing business related to each of the above.
- Food processing. Buying, selling, import and export of food.
- Owning, leasing, renting, buying, selling, custodial management, and brokerage of real estate.
- Construction works contracting business.
- Designing and supervision of construction of buildings.
- Warehouse business.
- Agency business related to nonlife insurance.
- Owning of and investments in securities.
- All businesses incidental to each of the foregoing above.

##### Status of Shares

##### Total Number of Authorized Shares

267,500,000

##### Total Number of Issued Shares (as of July 2018)

75,077,000

##### Shareholders

Oji Holdings Corporation  
Nippon Paper Industries Co., Ltd.  
Mizuho Bank, Ltd.  
MUFG Bank, Ltd.  
Sumitomo Mitsui Banking Corporation  
The Norinchukin Bank  
KPP Employee Stock Ownership

##### Main Banks

Mizuho Bank, Ltd.  
MUFG Bank, Ltd.  
Sumitomo Mitsui Banking Corporation  
The Norinchukin Bank.

##### Capital

JPY 4.7 billion (as of July 2018)

##### Sales

JPY 377.7 billion (year ending in March of 2018)  
on a consolidated basis

##### Number of Employees

956 employees on a consolidated basis  
(as of March 31, 2018)

#### Major Related Corporations

##### Domestic

- Narumiya Kamishoji Co., Ltd.
- Daidou Paper Trading Co., Ltd.
- Kyushu Kami Shouji Co., Ltd.
- Okayama kami-shoji Co., Ltd.
- Musashino Paper Recycling Co., Ltd.
- Green San-ai Co., Ltd.
- KPP Logistics Co., Ltd.
- HOKAN TOKYO BUSINESS SERVICE CO., LTD.

##### Overseas

- KOKUSAI PULP&PAPER (CHINA) CO., LTD.
- DAI EI AUSTRALASIA PTY LTD
- Dai Ei Papers (H.K.) Limited
- Dai Ei Papers (USA) Corp.
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- \* Materials that contribute to the conservation of resources and the environment and to realizing a recycling-oriented society are used, to achieve the objectives of the Company.
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