

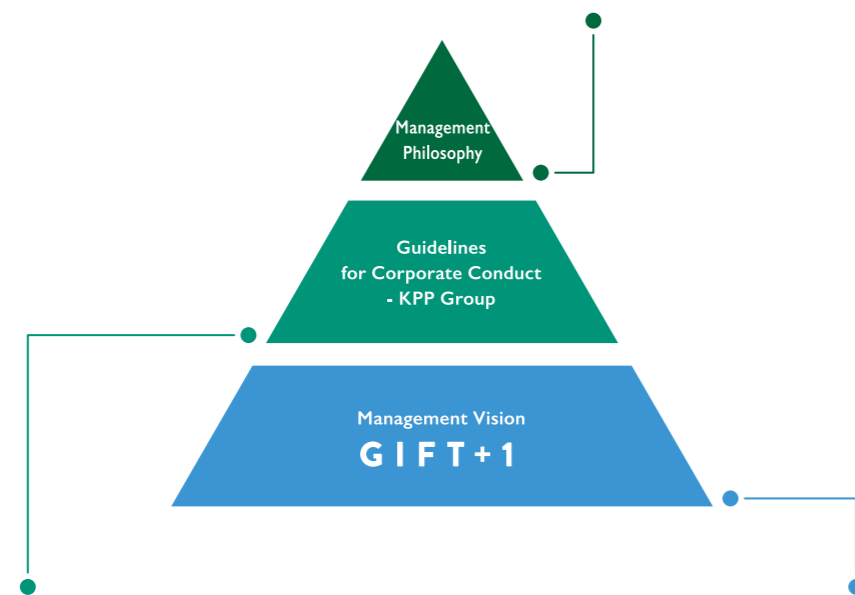
Integrated Report 2019



KPP GROUP WAY

The meaning of our existence/our mission

- Targeting the enhancement of global management and achieving sustainable growth
- Pursuing the happiness of the employees and their families and aiming to become a company that is trusted by shareholders, customers, suppliers, and communities
- Realizing a recycling-oriented society and widely contributing to the promotion of education, culture, and industry



Guidelines for corporate conduct to fulfill our CSR

- Compliance with Laws and Regulations
- Fair, Free and Transparent Business Activities
- Winning Confidence of Society, Suppliers and Customers
- Promoting Social Contribution Activities
- Active Disclosure of Company Information
- Coexistence with International Society
- Enhancement of Workplace Environment
- Harmony with Natural Environment
- Severing Relations with Antisocial Forces

Our management vision GIFT+1

- Globalization**
Expanding our business on a global scale
- Innovation**
Pioneering new future of paper with imagination and creativity
- Function**
Creating added value by utilizing our abilities to plan and propose
- Trust**
Responding to the trust our stakeholders place in us
- +1 (Plus One)** By adding environmental initiatives to each element of this management vision, KPP Group endeavors to build a recycling-oriented society through proposals for environmentally friendly products, the collection of recovered paper, and the recycling of resources.

Editorial Policy

The KPP Group publishes the Integrated Report to help stakeholders in and outside of Japan to understand its business model and initiatives to achieve sustainable value. This Integrated Report is also posted on our website so that it can be used as a tool to communicate with investors.

This 2019 Report is based on the KPP Group's basic philosophy and accumulated experience and incorporates current trends, with a focus on "Guidance for Collaborative Value Creation." In order to build good relationships with all stakeholders, we will continue to strive to make our Integrated Report even better.



Scope and Period of Report

The main items in this Report describe the conditions of the Group in the fiscal year ended March 31, 2019 (the period from April 1, 2018 to March 31, 2019). The Report also partially covers the Group's conditions in the period starting from April 2019.

Date of Issue

This issue: November 2019
Next scheduled issue: November 2020

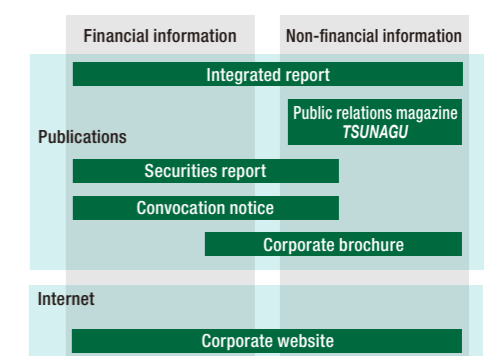
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Communication Tools	
	Integrated Report Kokusai Pulp & Paper Co., Ltd. ("the Company") began publishing the Integrated Report in 2016 to communicate financial and non-financial information regarding its corporate activities in a comprehensive manner. (Published annually)
	Public Relations Magazine TSUNAGU The KPP Group distributes a public relations magazine called TSUNAGU as a communication 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)
	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 other items featured in the TSUNAGU magazine are on display for viewing. It is appreciated by many of our business partners and members of the local community.
	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.

Communication Tool Chart



Cover Design

The Group aims to help build a recycling-oriented society by advocating a totally recycling-oriented business model that includes a mechanism for circulating paper produced by forests as a precious resource. This idea was visually incorporated in the cover design.

The circle expresses the image of both material recycling, wherein paper that has fulfilled its function is collected as recovered paper and then transformed into paper again, and thermal recycling, in which resources such as waste and unused material generate energy as fuel for biomass power generation. In addition, the gradation of flow from the periphery toward the center expresses that resources, such as paper and biomass fuel collected from every field of life, are incorporated in the circulation structure.

Creating Values Leading Us Toward the Future

Established in 1924, Kokusai Pulp & Paper Co., Ltd. has carefully studied the needs of the times, helping 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.

1924

Daido Yoshiten Ltd. is founded in Osaka with ¥2 million (JPY) in capital. Branch offices: Kyoto, Nagoya, 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 follows.



1924
Opening Reception

1926

Kyushu Branch Office opened

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.

1954

Capital of ¥100 million (JPY)



1935
Prewar Shanghai Local Office (Closed at the end of war)

1968

Head Office relocated to Tokyo

1971

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

1973

Merges with Oji Group Trading Co., Ltd., renamed DaiEi Papers Ltd. Strengthens the Oji Group's product and raw material importing and exporting functions. Capital increased to ¥800 million (JPY)



1968
Tokyo Head Office

1975

DaiEi Papers merges with Taisei Papers Ltd. Strengthens business foundations to overcome the recession that follows the oil crisis. Capital increased to ¥1,320 million (JPY)

1976

DaiEi Papers sets up a local subsidiary in Hong Kong.

1979

Net sales for DaiEi Papers surpasses ¥200,000 million (JPY) 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

As a pioneer in the restructuring of the paper distribution industry, DaiEi Papers merges with Nichia Co., Ltd. and changes its name to Kokusai Pulp & Paper Co., Ltd. (commonly known as KPP). Capital increased to ¥2,678 million (JPY)



1999
Inauguration of Kokusai Pulp & Paper Co., Ltd.

2000

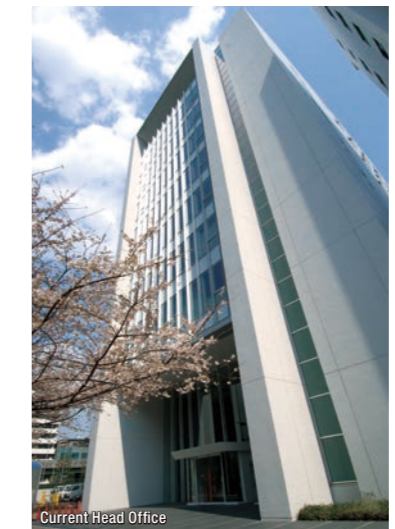
Net sales for KPP surpasses ¥300,000 million (JPY) in the fiscal year ended March 31, 2001.

2006

KPP merges with Hattori Paper & Board Ltd. to improve distribution functions and solidify its business foundation. Capital increased to ¥3,192.78 million (JPY)

2007

KPP merges with Kashiwai Shigyo Co., Ltd. to raise sales capabilities and expand its revenue. Net sales and ordinary income for KPP reach a record high of ¥423,000 million (JPY) and ¥4,500 million (JPY), respectively, in the fiscal year ended March 31, 2008. Capital increased to ¥3,442.78 million (JPY)



Current Head Office

2013

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

2015

KPP sets up KPP ASIA-PACIFIC PTE. LTD. in Singapore. The new company is 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 totally recycling-oriented enterprise. Completes installation of "ecomo," a recovered paper recycling point system, in 400 stores.

2017

Hokan Tokyo Business Service Co., Ltd. established

2018

Listed in the First Section of the Tokyo Stock Exchange. Capital increased to ¥4,723.53 million (JPY)



2019

Acquired major Australian paper distributor Spicers Limited as subsidiary



Foundation period

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

Growth period

Expanded businesses in sync with the trends during the period of rapid growth

Vibrant period

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

Second period of expansion

Moving forward with the reform of our business structures and expansion of our domains with an eye on our centenary.



Events in Society

Stock market crashes in the United States.
Great Depression begins (1929)
World War II ends (1945)
Constitution of Japan promulgated (1946)
Constitution of Japan effectuated (1947)

The San Francisco Peace Treaty and the Japan-U.S. Security Treaty are signed (1951)
Tokyo Tower is completed (1958)

Tokaido Shinkansen line opened (1964)
Tokyo Olympics (1964)
The Izanagi economic boom (1965 to 1970)
Osaka Expo (1970)
Sapporo Winter Olympics (1972)
First Oil Crisis (1973)

Treaty of Peace and Friendship between Japan and China is signed (1978)
Second Oil Crisis (1979)
Tsukuba Science Expo (1985)
The Plaza Accord (1985)
The Equal Employment Act comes into force in Japan (1986)
The Bubble Economy era in Japan (1986 to 1991)
The reunification of Germany (1990)
Kansai International Airport opens (1994)
Great Hanshin-Awaji Earthquake (1995)
Nagano Winter Olympics (1998)

The September 11 terrorist attacks in the United States (2001)
FIFA World Cup Korea/Japan (2002)
The Iraq War begins (2003)
Chubu Centrair International Airport opened (2005)
Aichi Expo (2005)
The Livedoor scandal in Japan (2006)
Postal services are privatized in Japan (2007)
The Lehman Brothers collapse (2008)

Great East Japan Earthquake (2011)
Tokyo Skytree® opens (2012)
The consumption tax rate is increased to 8% in Japan (2014)
The Social Security and Tax Number System is launched in Japan (2015)
Voting age lowered to 18 in Japan (2016)
The name of the imperial era changes from *Hesei* to *Reiwa* in Japan (2019)
Tokyo 2020 Olympic and Paralympic Games (2020)

Kokusai Pulp & Paper's Value Creation Process

The KPP Group will continue to provide new value by solving social problems through its totally recycling-oriented business model based on the KPP Group Way, which consists of its management philosophy, Guidelines for Corporate Conduct, and the GIFT+1 management vision.

External Environment and Social Issues

External environment

World

- Worsening environmental problems
- Changes in world population
- Continuing urbanization
- Shift in the center of gravity of the world economy
- Technological progress
- Depletion of resources
- Emergence of the sharing economy

Japan

- Advent of a super-aging society
- Dwindling birthrates and labor shortages
- Declining economic status
- Shrinking regional economies
- Long-term deflation

Focal issues

Capture economic growth in emerging countries

Japan's declining birthrate and aging population

Forest conservation

Waste reduction and reuse

Prevention of marine plastic pollution

Growth of e-commerce

Development of clean energy

Provision of quality education

Reduction of food loss

Business Process

KPP GROUP WAY

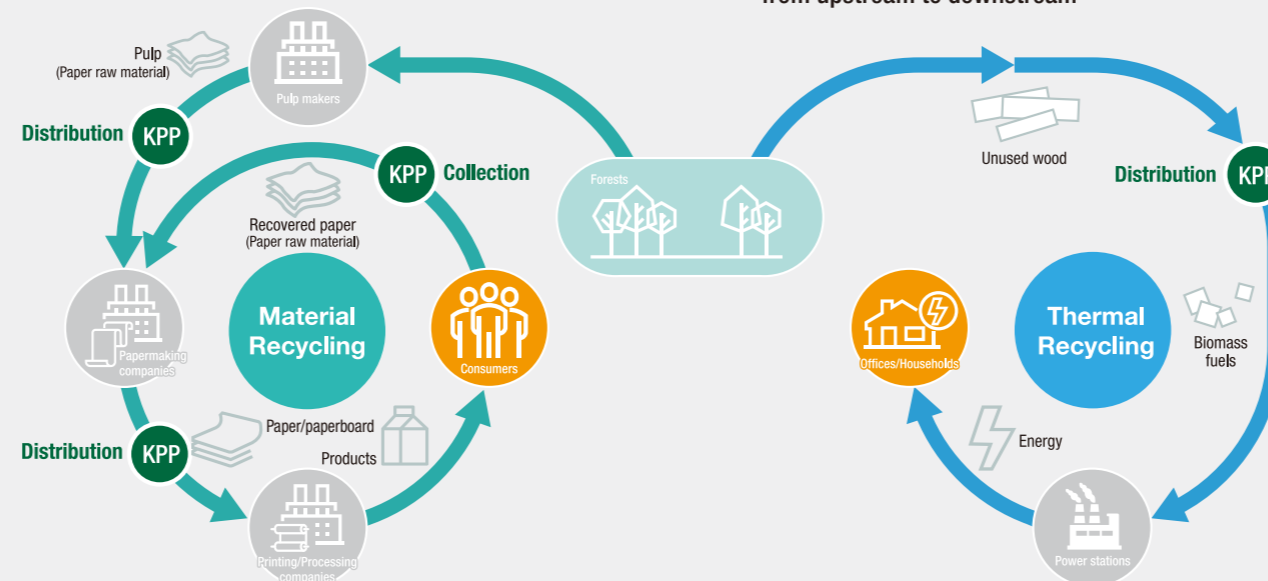
Management Philosophy
Guidelines for Corporate Conduct-KPP Group
Management Vision GIFT+1

Second medium-term management plan

- (1) Accelerate business expansion in the Asia-Pacific region
- (2) Promote M&A strategies
- (3) Globally expand the pulp business
- (4) Promote the solutions business

Source of value creation

- (1) Recycling-oriented business model for both material and thermal
- (2) Strong supplier and customer network in Japan and overseas
- (3) Unrivaled global information capabilities from upstream to downstream



Corporate Governance

Providing Value to Society



Contribute to the realization of a recycling-oriented society

Material recycling/Thermal recycling
Recycling solutions



Solve the problem of marine plastic pollution

Provide paper solutions
Development and distribution of biodegradable plastic products



Total package solutions

Address changes in package demand in the Asia-Pacific region



Promote education and culture

Preserve paper-related and book culture



田邊 剛

Madoka Tanabe
Director of the Board
President & CEO

“The KPP Group is capturing global market growth while building a system for the recycling of paper products—biomass resources. Our aim is to achieve sustainable growth to mark the 100th anniversary of our founding in 2024, and for the next century.”

Kokusai Pulp & Paper Co., Ltd., founded in 1924, is a company with a rich history. Since the beginning, we have continued to respond to changing business conditions and contribute to society. In 2018, the Company was listed on the first section of the Tokyo Stock Exchange (TSE), entering a new phase. We will continue to create new value and respond to societal demands.

External Environment and Results for the Fiscal Year Ended March 31, 2019

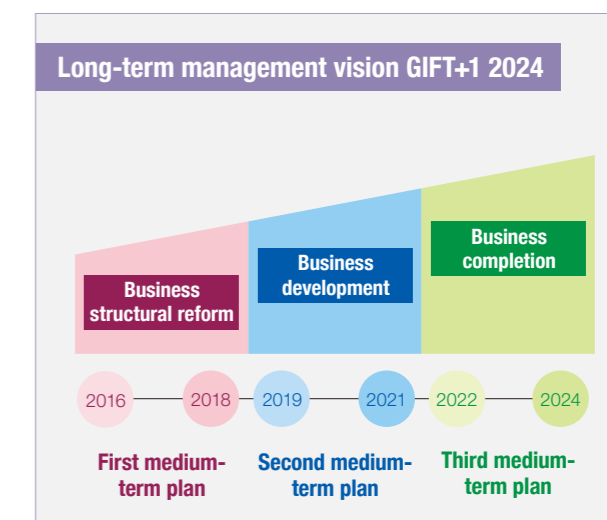
Since Donald Trump became President of the United States in 2017, the trade imbalance issue has taken center stage, and safeguards were invoked in 2018, for the first time in 16 years. In 2019, friction between the U.S. and China intensified as both countries increased the number of products subject to tariffs, and they are still unable to find common ground. This political and economic dispute has even affected the science and technology related to the next-generation 5G telecommunication standard, and the global economic collaborative framework is fraying. Even the pulp and paper industry has been substantially impacted by these world events.

China, which boasts the world's largest paper and paperboard market, experienced a significant slowdown in 2018, with production down 6.2% year on year, and consumption down 4.2%. Furthermore, China's tightening environmental regulations have restricted imports of solid waste, and since December 2018, recovered paper cannot be exported to China and is thus in surplus as prices continue to fall. The Group's Paper Raw Material Sales Division has also been affected by the declining performance of both pulp and recovered paper.

On the other hand, the domestic paper and paperboard business was relatively strong. With the decline of graphic paper sales in Europe and the United States, shifts toward producing paperboard and household paper in paper machines, and toward paper disposal, are progressing, and Japan is finally addressing structural reforms. Furthermore, there was an immediate tightening of Japan's supply and demand, as some paper manufacturers were victimized by heavy rainfall in the Chugoku region in July 2018. This led to a shortage of paper supply caused by continued machine trouble. However, we were able

to raise the price for container board twice, and the paper and paperboard market in Japan is on the road to improvement.

Given this backdrop, the Group's consolidated net sales increased 1.9% year on year to 384,900 million yen, operating income decreased 3.5% to 2,200 million yen, ordinary income declined 18.4% to 2,500 million yen, and net income increased 2.6% to 2,400 million yen. Not only did sales and profits increase in the domestic segment, one that we shall continue to focus on, but the overseas segment also contributed to earnings on a consolidated basis due to the results of structural reforms and other factors. This positions us to take a great leap forward toward achieving the long-term management vision GIFT+1 2024.



Review of the First Medium-Term Management Plan

The Group has established the long-term management vision GIFT+1 2024 to mark the 100th anniversary of its founding and has positioned the first medium-term management plan, which began in fiscal 2016, as the period for business structural reform. During this period, the Company restructured its overseas business, reformed its personnel system, and worked to introduce a new core system. The Company solidified its business foundation centered on these four factors and capped it all off with a public listing. Thanks to the efforts of all employees, we achieved our goal of listing on the first section of the Tokyo Stock Exchange. Accordingly, the challenges we tackled under the first medium-term management plan have largely been met, and we are now prepared for the next stage.

Important Trends in the Pulp and Paper Industry

There are three important trends in the pulp and paper industry. First, with the evolution of IT technology, a digital society has emerged and paper demand is changing from graphic paper—newspaper publishing and commercial printing applications—to packaging paper and packaging material applications. Second, there is a shift from petroleum-based products to biomass-based products. Marine plastic pollution is now being recognized as a global problem, and since petroleum-based products are being increasingly condemned, biomass-based paper resources will continue to attract even more attention in terms of sustainable growth.

Third is the post-China global market. The Chinese economy has been growing rapidly for 20 years, which has boosted the size of the global pulp and paper market. However, factors such as the end of the period of rapid economic growth and trade disputes between the U.S. and China are leading to a market shift toward production and demand in Southeast Asia. As I mentioned above, China's paper production and consumption substantially decreased in 2018. This is the first time since the start of Chinese economic reform that China's pulp and paper industry has performed poorly compared to our previous fiscal year. We will shift our target to the Southeast Asian market, but its size and growth potential is limited, so we will continue to shift to India and Africa, taking a long-term

view. To summarize, the shift in demand from graphic to packaging paper, the shift from petroleum-based plastic to biomass-based paper, and the shift in production and consumption to post-China markets are the three key trends in the pulp and paper industry.

Demographic Changes and the Pulp and Paper Industry

The pulp and paper market is said to have a relatively high correlation with macro indicators such as total population and per capita GDP, but grouping the world's countries and regions based on GDP and population factors, and then looking at the consumption of paper and paperboard, shows that there are substantial differences across regions. Although the world's population was just over 7.6 billion in 2017, world paper consumption was about 420 million tons, about 55 kilograms per capita. The population of developed countries, including Europe and the United States, was about 1.2 billion, but 200 million tons of paper was consumed, or about 150 kilograms per capita. Next, China, with a population of about 1.4 billion, consumed more than 110 million tons, or about 80 kilograms per capita. India, with about 1.3 billion people, the second largest population after China, and the continent of Africa, with about 1.2 billion people, represent about 2.5 billion people. India's consumption is only about 10 kilograms per capita. Certain countries in Africa, such as the Republic of South Africa, have relatively developed economies, but the average for the entire continent of Africa is approximately 10 kilograms per capita, like India.

If we group world regions on the basis of paper consumption in this way, we can generally see that there is a 150-kilogram group, an 80-kilogram group, and a 10-kilogram group. At present, it is possible to imagine that the per capita paper consumption of countries in the 10-kilogram group will increase up to nearly 50 kilograms, the same level as the world average. As seen from the above, from a global and long-term perspective, the outlook for the global pulp and paper market is by no means gloomy, but rather positive. Furthermore, demand for packaging due to the expansion of the e-commerce market and demand for household paper in developing countries are also increasing. The Group's long-term strategy is to stay in step with the growth of specific products in particular regions of the world, to acquire paper distributors strong in those regions, and thereby remake the map of the industry.

Regions to Focus on for Global Expansion

Over the past 20 years, China has grown nearly fivefold on a GDP basis; we are also looking into whether other countries could achieve similar economic growth. China is reaching the end of its period of rapid economic growth, but it will be some time before we see India or African nations emerge as the next center of consumption, and meanwhile the world economy is about to plateau. ASEAN countries are likely to be the next market to blossom. For now, the Group will focus on China and ASEAN while also developing the Indian market. As the next stage, we can also expect the African market to develop. To enter the African market, we are considering having a base in Europe that would be turned into a beachhead.

Impact of E-Commerce Market Expansion on the Pulp and Paper Industry

New technologies such as IoT and AI are changing the structure of society around the world, but above all, the emergence of the e-commerce giant Amazon has led to the collapse of the so-called "category killer" in the retail business. Brick-and-mortar stores were hit hard by the development of e-commerce in the B-to-C¹ market, but if we only look at its impact on the pulp and paper industry, there were also positive aspects. In other words, with e-commerce, books and clothing that had been sold in large quantities via retail outlets are now delivered directly to homes without passing through stores. As a result, the demand for packaging materials such as cardboard and packaging paper is growing rapidly which, in turn, has been highly advantageous to the pulp and paper industry.

¹ Acronym for "Business-to-Consumer," referring to transactions between businesses and consumers.

Solving Marine Plastic Pollution and Other Environmental Problems

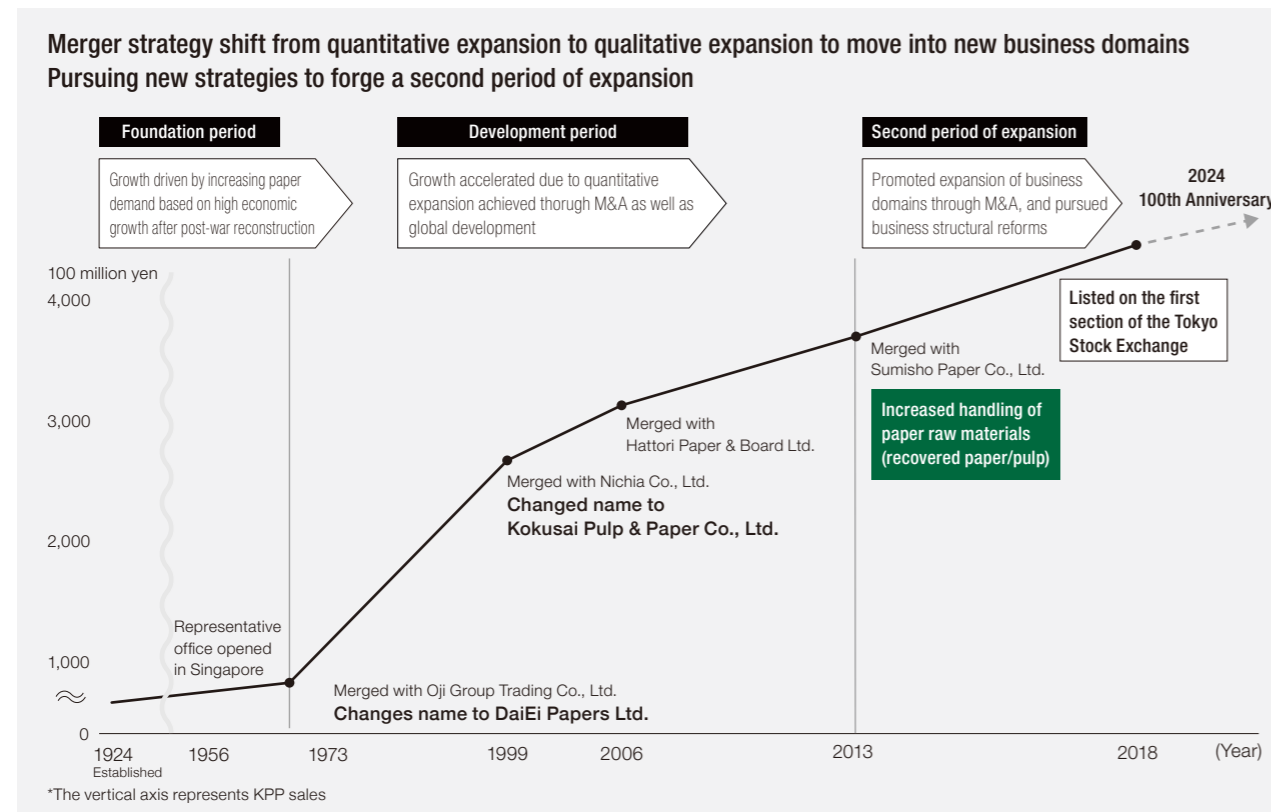
As environmental, social and governance (ESG) performance and the Sustainable Development Goals (SDGs) receive increasing global attention, the problem of marine plastic pollution was taken up at the G20 Summit held in Osaka, Japan in June 2019. In my view, the global trend of environmental concern is not going to



slow down. The use of plastic straws and bags is beginning to be regulated worldwide. The development of paper products and biodegradable plastics is progressing as an alternative to conventional plastic products, but the Group aspires not only to sell paper and film mother rolls, but also to venture into product development in collaboration with manufacturers. However, not all of the functions of plastic, such as strength and durability, can be replaced with paper materials, so I also want our firm to contribute to the closed-loop recycling of plastic products.

For example, we have been continuously collecting about 60% of the products we sell using various methods, including the "ecom" series, our proprietary recovered paper recycling system. However, leveraging this knowledge, we will also put plastic products on the Group's recycling platform.

In addition, oil-based gravure printing is commonly used in Japan for printing on plastic films such as flexible and light packaging. However, this method generates organic chemicals called VOCs and creates air pollution problems. Hoping to popularize water-based gravure printing, an environmentally friendly printing method, the Group is also considering a partnership with a company that is a pioneer in this area, and transferring know-how to machine printing plants in Chengdu, China in which the Company is investing.



ESG Initiatives

In recent years, ESG performance has been gaining prominence as a required component for the sustainable growth of companies. Responding to two laws in Japan, the Law for the Promotion of Utilization of Recyclable Resources² and the Fundamental Plan for Establishing a Sound Material-Cycle Society³, the Group has long been committed to contributing to the environment through its business and has created a recycling-oriented business model of selling paper and paperboard and collecting used paper, making ours one of the largest such operations in Japan. This initiative has grown to become the Group's mainstay business and is consistent with current world trends.

The process of selling raw paper, collecting the used paper and paperboard as recovered paper, and returning it to its raw material state is called material recycling. The Group is also working on biomass power generation—thermal recycling—in which thinned or unused wood is turned into a heat source. We want to continue to contribute to reducing environmental impact by making full use of the benefits that forests provide via both material

and thermal recycling, and by further developing our recycling business model.

2. Law for the Promotion of Utilization of Recyclable Resources, enforced in 2001
3. Recyclable Resources and the Fundamental Plan for Establishing a Sound Material-Cycle Society, enforced in 2001

Second Medium-Term Management Plan Started in Fiscal 2019

The second medium-term management plan contains three key strategies. The first is a global strategy focused on the Asia-Pacific region. Up to now, the Group's overseas business has grown based on the business of trade. However, the expansion of the global paper industry calls for a transformation of business that is locally rooted. With a "glocal" approach, which means to think globally and act locally, the Group will strive to localize its overseas business, including mergers and acquisitions, while monitoring trends in the global pulp and paper industry. As part of that, we finalized the acquisition of Spicers Limited. in Australia this July. This is the Group's first cross-border M&A move, and we will move forward carefully with the post-merger integration.

The second strategy of the second medium-term management plan is the development of biomass power plant operation support systems, which we have positioned as a driver of our solution business. The Group has also invested in the biomass power generation business, but it also analyzes data obtained from that business and has developed a system that will help optimize combustion efficiency. We hope to expand our horizons to overseas markets so that we can sell this system not only in Japan, but also in ASEAN countries and India, where the biomass power generation business is advancing.

The third strategy under the plan addresses the pulp business. In the future, we expect that pulp, a fiber derived from biomass, will be used not only in papermaking, but also in the practical application of rayon used in clothing and cellulose nanofiber, a new material. In addition, the market for sanitary paper towels and diapers, sanitary products, toilet paper, tissue paper, and other products is also expanding. As a global pulp supplier, we want to capture this latent demand.

Our M&A Approach

In today's rapidly changing world, it is not easy for a single company to capture the global market. We are in an age in which an ecosystem that includes collaboration with other companies is used to solve issues of new market development, logistics reform, and new service creation. Further, on top of organic growth, which is based on existing management resources, we will add inorganic growth through M&A, and through these two methods, we will achieve continuous expansion. Listing on the stock exchange in 2018 has increased the Group's stability, so we want to focus on inorganic growth, which has not been a strength so far, and invest in management resources. M&A strategy is the most common way to do this.

As previously stated, in the first medium-term management plan, we improved the balance sheet and created a solid business foundation. In the second medium-term management plan, the point is to improve our profitability, which is to say, increase our earning power. To increase our earning power, we must secure business profits by investing in growth markets, but the question of how to balance debt and equity under our capital policy is a major management challenge.

Conclusion

The KPP Group was founded in 1924 and boasts a 94-year history. Considering its history and size, the Group was a late-bloomer in listing on the first section of the TSE. Investors often asked me why we chose to list the KPP Group, given our stable management. But when I consider the business environment in the pulp and paper industry, it is entirely clear to me that, if we had stayed where we were, we would not have been able to see a path to the future. To maintain our growth as we head toward our 100th anniversary in 2024 and for the century beyond that, we had to move to the next stage with a public listing. The Group has gained a number of new options as a result of the listing, but one thing has not changed: our determination to keep providing value to society based on our core business. This we will do by building a recycling system that circulates various materials, focused mainly on paper resources, and by distributing paper materials one of the solutions for global environmental conservation and today's phenomena of information overload. As expressed in our management philosophy, we will continue to meet societal demands by contributing to the realization of a recycling-oriented society and promoting education, culture, and industry. In closing, let me ask for the continued support of our shareholders, investors, and all of our other valued stakeholders.

Sales Volume (Consolidated)

Paper/paperboard

2.742 million tons

1.858 million tons of paper, 0.884 million tons of paperboard

Pulp/recovered paper

1.414 million tons

Recovered Paper Collection (Non-Consolidated)

Recovered paper

1.204 million tons

Ratio to sales volume (non-consolidated)

56.4%

Circulation rate based on paper/paperboard sales volume (non-consolidated) of 2.135 million tons

Number of Suppliers

About **1,200**

Number of Customers

About **2,500**

Number of Items Offered

More than **6,000** items

Number of Business Locations

Domestic

8

Overseas

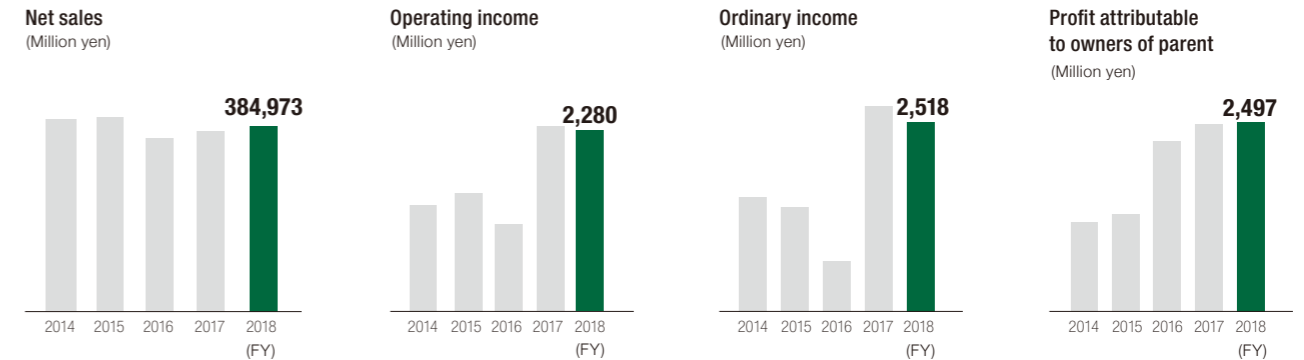
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(As of September 30, 2019)

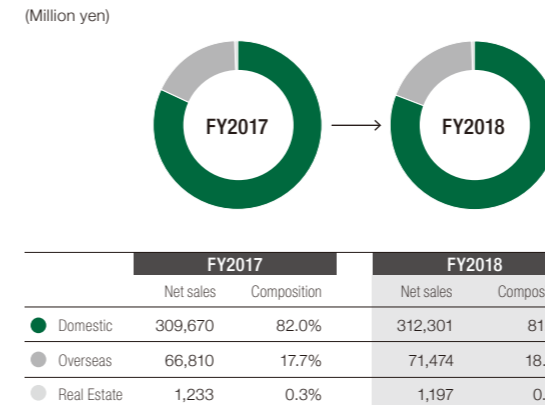
Business Overview

During the fiscal year ended March 31, 2019, the Group achieved net sales of 384,973 million yen, an increase of 1.9% year on year, operating income of 2,280 million yen, a decrease of 3.5%, ordinary income of 2,518 million yen, a decrease of 18.4%, and profit attributable to owners of parent of 2,497 million yen, an increase of 2.6%.

Consolidated Financial Results by Fiscal Year



Net Sales by Segment (Consolidated)



Domestic Locations

Wholesale Pulp and Paper

(Sales Year on Year)
 Net sales: 312,301 million yen
 Operating income: 4,567 million yen **100.8%**

In this segment, we mainly engage 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. We will strengthen the packaging, film and chemical products businesses, and the recovered paper and pulp business, and also pursue new businesses.

Overseas Locations

Wholesale Pulp and Paper

(Sales Year on Year)
 Net sales: 71,474 million yen
 Operating income: 30 million yen **107.0%**

In this segment, we engage mainly in the sales of paper, paperboard, pulp, recovered paper and other related materials in overseas markets. We operate this business at 12 locations outside Japan ¹ and are aggressively working to expand overseas.

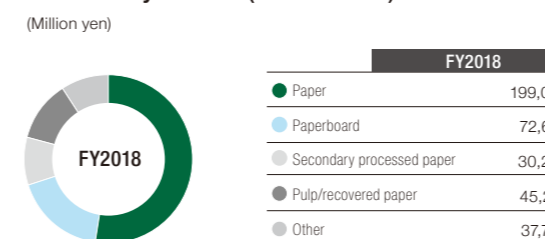
1. As of September 30, 2019

Real Estate Leasing

(Sales Year on Year)
 Net sales: 1,197 million yen
 Operating income: 599 million yen **97.1%**

In this segment, we engage in the leasing business of buildings, warehouses and other facilities, including the KPP Yaesu Building in Tokyo.

Net Sales by Product (Consolidated)



Message from Overall Sales & Marketing Head

Domestic Wholesale Pulp and Paper, Domestic Locations

We will preserve the eternal art of paper, respond to market needs, develop the domestic business, and seek stable growth.



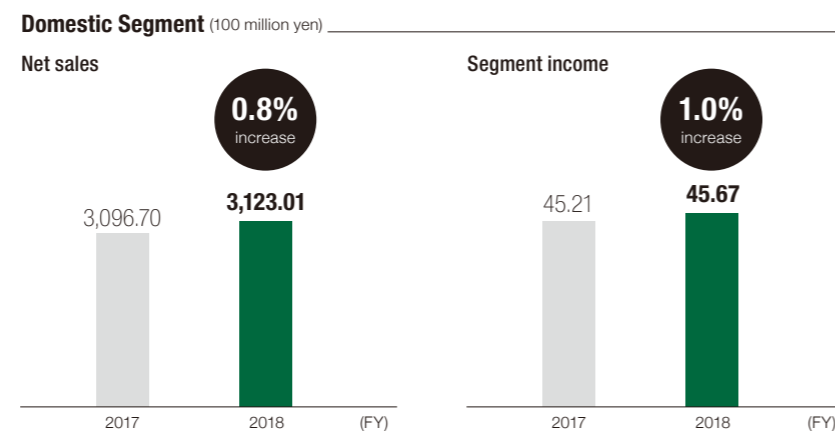
Tadashi Kurihara

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

In the fiscal year ended March 31, 2019, net sales in the wholesale pulp and paper, domestic locations came to 312,301 million yen (up 0.8% year on year) and segment income was 4,567 million yen (up 1.0% year on year). In the second medium-term management plan, taking into account the decline in demand for printing and communication paper, the core of our existing business, we will increase our market share by demonstrating the power of imagination and creativity. In the paperboard market, where demand is expected to grow, we want to gain an accurate understanding of end-user needs and leverage our trading company capabilities to increase our presence.

The trend that the Group needs to pay attention to over the medium- to

long-term is the problem of marine plastic pollution. In recent years, the move toward deplasticization has become a global trend, but we have launched a companywide project to offer solutions from both paper products and biodegradable plastic use perspectives. In the field of paper raw materials, we will increase the amount of recovered paper and pulp we handle, and further expand the totally recycling-oriented business model. Meanwhile, we are also working on new solutions, such as the development of an operation support system for biomass power plants. In the shrinking domestic pulp and paper market, we seek to achieve sustainable growth by focusing on solving social issues.



Overseas Wholesale Pulp and Paper, Overseas Locations

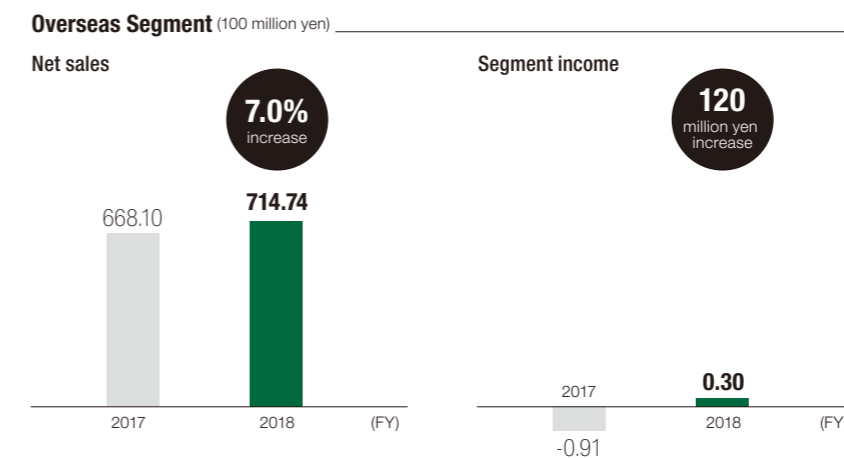
With the goal of taking on the expanding global market and becoming Asia's No.1 paper wholesale company, we will seek high growth by expanding business in each country.

In the fiscal year ended March 31, 2019, net sales in the wholesale pulp and paper, overseas locations were 71,474 million yen (up 7.0% year on year), and segment income was 30 million yen (compared with a segment loss of 91 million yen in the corresponding period of the previous year). In the second medium-term management plan, we will continue to focus on the Asia-Pacific region, especially East Asia, Southeast Asia, South Asia and Oceania, where high demand is expected. Spicers Limited, whose strengths are in the labeling, packaging, and sign and display businesses, mainly in Oceania, became a wholly owned subsidiary in July 2019, and further expand our market share.

In areas with high potential demand, such as Vietnam, the

Philippines, Indonesia, Myanmar, Bangladesh, and India, we are also looking at recovered paper sales and M&A in downstream fields. At the same time, we will transform our overseas business model from an indent* business based on exports from Japan, to a profit-generating business based on localized overseas subsidiaries, and our global business will take a giant leap forward in both quality and quantity.

* This mainly refers to sales commissions.



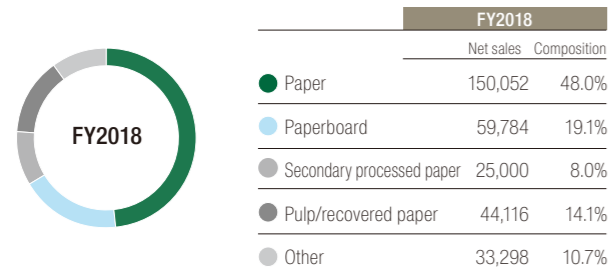
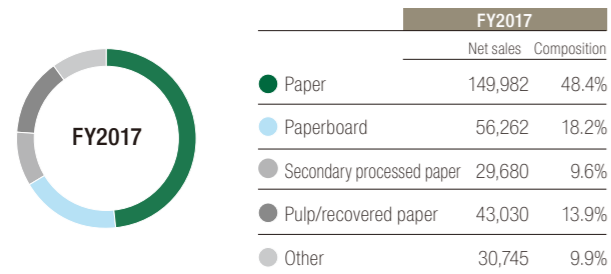
Business Overview

Wholesale Pulp and Paper, Domestic Locations

For the fiscal year ended March 31, 2019, the Wholesale Pulp and Paper, domestic locations achieved consolidated net sales of 312,301 million yen, up 0.8% year on year. This segment includes KPP and its eight domestic subsidiaries.

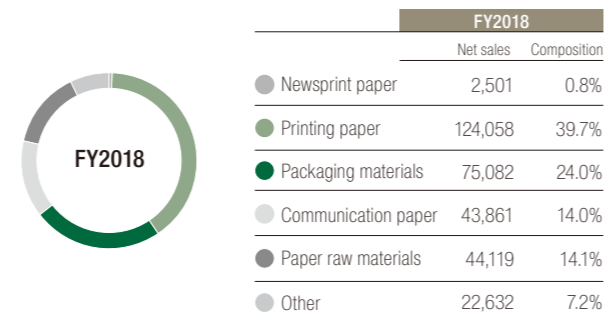
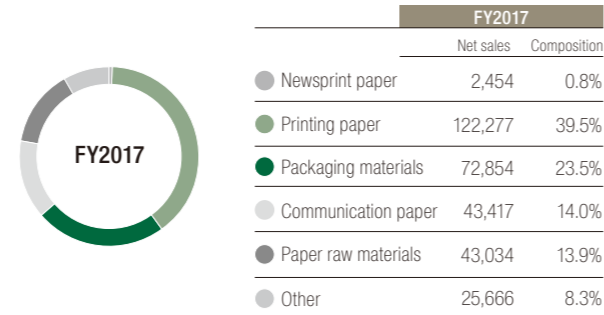
Sales Performance and Composition by Product Type

(Million yen)



Sales Performance and Composition by Application

(Million yen)



* KPP uses its own internal standards to classify applications.

	Net sales	(Million yen)
Paper	150,052 ±0.0%	Despite the continuing impact of the shift to paper-free operations caused by the spread of electronic media, declining advertising costs for paper media due to cost reductions at companies, and slumping newspaper and publishing markets, sales remained steady due to higher exports and the addition of the newly established Kikyoya Kami-shoji Co., Ltd. to the Group.
Paperboard	59,784 +6.3%	With the continuing expansion of the e-commerce market, sales increased due to higher exports, sales of container board to end-users, and rising unit sales prices.
Secondary processed paper	25,000 -15.8%	While sales of thermal paper increased, net sales decreased on declining sales for label and seal applications.
Pulp/recovered paper	44,116 +2.5%	Sales of recovered paper decreased due to higher inventories in Japan accompanying China's import restrictions, and a decline in prices. Pulp sales increased on high prices and strong sales, mainly for imported products.
Other	33,298 +8.3%	Net sales increased due to higher machine sales as well as an increase in the volume of biomass materials handled by the biomass power generation business, in which we have an equity stake.

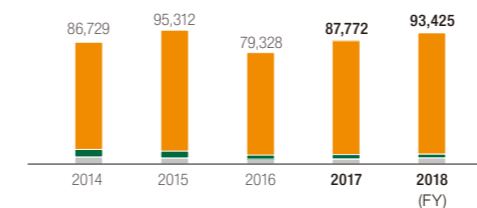
Wholesale Pulp and Paper, Overseas Locations

For the fiscal year ended March 31, 2019, the Wholesale Pulp and Paper, overseas locations achieved consolidated net sales of 71,474 million yen, up 7.0% year on year.

Sales Performance by Region

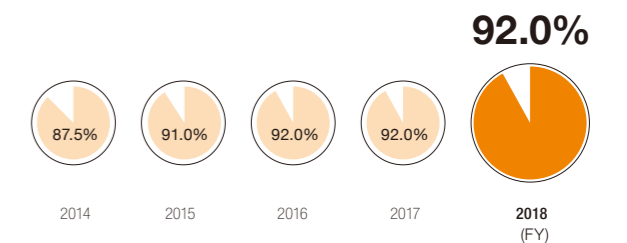
(Million yen)

Asia Americas Other



*Sales performance by region is categorized based on customer location.

Share of Asia Sales



SPOTLIGHT

Aiming to Improve Profitability by Leveraging Synergies between the KPP Group and Spicers

In July 2019, KPP acquired a 100% stake in Spicers Limited, a paper distributor dealing in paper, paperboard and other packaging materials in Australia and New Zealand. This took place under our second medium-term management plan, "Business Development Period," which started in April 2019 and accelerated business expansion and M&A in the Asia-Pacific region. Thus, the acquisition of Spicers is the first step in executing our strategy.

Spicers operates eight branches in Australia and four in New Zealand, and is a leading wholesale company in the field of commercial printing. The firm operates in diverse other fields such as labels, signs & displays, and architecture. It also has efficient employees who have expert knowledge and high technical capability in their respective fields.

Meanwhile, Spicers has entered the potentially expanding sign & display market, while focusing on wrapping and packaging products. It also has a strong position in the wine label and copying paper industries.

David Martin, CEO and Director of Spicers, had this to say about joining the KPP Group: "Spicers is a solution-oriented company founded in 1896 and has advocated Accountability, Integrity, Collaboration, and Dynamism as our Company values. All of our staff have helped each other to achieve our goals. I think Spicers and the KPP Group share a common sense of value and commitment to our customers in our drive to succeed. From now and on, Spicers will work as a member of the KPP Group, which shares our ideas and aims to improve profitability."

David Martin
CEO and Director
Spicers Limited

Company Overview

Company name: Spicers Limited
Headquarters: Victoria, Australia
Address: 155 Logis Boulevard, Dandenong South, Victoria 3175, Australia
Establishment: 2000 (founded 1896)
Number of employees: 306 (Australia and New Zealand)
Number of locations: 12
Businesses: Wholesale of commercial print paper, digital media, label & packaging materials, industrial packaging supplies and sign & display consumables, architecture and interior design.

Real Estate Leasing

Fiscal 2018 Net Sales: 1,197 Million Yen (Down 2.9% year on year)

The office building market in major cities in Japan is seeing the average vacancy rate decreasing after strong demand for office space 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.



KPP Group's ESG Initiatives

Paper is produced using the resources provided by forests. The KPP Group deals in paper and paper-related materials and has always shown concern not only for its business activities, but also for the environmental conservation and social contribution activities. The "T" in the Group's GIFT+1 management vision stands for "Trust," meaning that we strive to be worthy of the trust of our stakeholders. We are reinforcing our various initiatives for sustainable growth so that all stakeholders recognize the KPP Group as a company that can be trusted.

In recent years, we have been pursuing initiatives to solve social problems. To help build a sustainable world, it is essential that companies create social value on an ongoing basis as they grow.

The Group will become a socially sustainable enterprise and increase its corporate value by proactively addressing social issues that can be solved through its business. Therefore, it has pursued initiatives that incorporate

environmental, social, and governance (ESG) perspectives, such as promoting a totally recycling-oriented business to realize a recycling-oriented society, one of its management philosophies.

The Group will achieve sustainable growth and increase its corporate value over the medium- to long-term by aggressively and actively addressing important ESG issues.

Creating Value for the Future to Realize a Sustainable Society



Initiatives for the Sustainable Development Goals (SDGs*)

Since fiscal 2018, the Group has consulted the Sustainable Development Goals (SDGs) and identified those goals that are highly relevant to its core business and has worked to achieved them.

* The Sustainable Development Goals were adopted at the United Nations Summit in September 2015 as a set of internationally agreed goals with a target year of 2030.



Group Initiatives

	Issues	SDGs	Goals	Initiatives
Environment	<ul style="list-style-type: none"> • Forest preservation • Measures to prevent global warming • Prevention of marine plastic pollution • Contributions to renewable energy development • Reduction of waste and recycle 		<p>Help solve global environmental issues through a totally recycling-oriented business model based on both material and thermal recycling.</p>	<ul style="list-style-type: none"> • Introduction of an environmental management system • Initiatives to reduce environmental impact • Effective use of recovered paper as a paper raw material • Provision of renewable energy from biomass power generation and support for power plant operation
Society	<ul style="list-style-type: none"> • Respect for human rights • Aging population and declining birthrate • Provision of high-quality education • Fostering economic growth in emerging countries • Contribution to local communities 		<p>Actively engage in community-based activities to fulfill the duty our Group has as a good corporate citizen.</p> <p>Considering that human resources are our greatest management resource as a trading company, we seek to build an environment where each employee can play an active role.</p>	<ul style="list-style-type: none"> • Ensuring occupational safety and health • Promoting female career advancement • Promoting diversity • Promoting work-life balance • Strengthening human resource development • Opening up to the local community by holding various events
Governance	<ul style="list-style-type: none"> • Strengthening of the business foundation (corporate governance) • Strengthening of risk management • Rigorous enforcement of compliance 		<p>Achieve sustainable growth and increase the medium- to long-term value of the Group by responding to the mandate of stakeholders, including shareholders, customers, suppliers, the local community, and employees.</p>	<ul style="list-style-type: none"> • Introduction of a performance-linked stock-based compensation plan • Appointment of independent outside directors • Analysis and evaluation of the effectiveness of the Board of Directors

Environment



In order to address the challenge of climate change and help build a sustainable world, the KPP Group pursues initiatives to preserve the environment by, for example, conducting a totally recycling-oriented business to promote the effective use of limited resources. As a trading company that specializes in paper, in order to operate businesses that help create a bright future for the global environment, we have expanded our recycling business as a leading company in the resource recycling business.

Introduction of Environmental Management System

We have constructed an environmental management system in accordance with international standard ISO 14001 in order to produce results, such as improving the environmental performance of the Group's business activities, meeting compliance obligations, and achieving established environmental targets.

We routinely evaluate our business and environmental activity results, revise our environmental policies and targets as necessary, and work to improve the effectiveness of our efforts.

Fiscal 2018 Environmental Targets and Performance

Environmentally friendly paper

Expansion of sales of (recycled paper, forest-certified paper, paper made from thinned wood, etc.) ⇒ **Target achievement rate: 129.4%**
 Expansion of sales of biomass power generation fuel ⇒ **Target achievement rate: 150.0%**

In addition to the above, 6 of the 7 quantitative targets were achieved.

Scope of Certification Application

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

Participation in Environmental Groups

Joined the Japan Clean Ocean Material Alliance

Recently, there have been calls for global efforts to solve the problem of marine plastic waste, an emerging global issue. The Clean Ocean Material Alliance (CLOMA*) was founded to address this issue, and KPP joined this alliance.

In solving the problem of marine plastic waste, it is important that we contribute to SDGs achievement without disparaging the benefits that plastic bestows to people's lives. CLOMA Principles have been established as ideals to be shared and we are reviewing and implementing the five key actions CLOMA has set.

As a trading company that specializes in paper, the KPP Group will leverage the business network it has developed over the years and pursue initiatives to achieve clean oceans.



* CLOMA was founded on January 18, 2019 to promote the sustainable use of plastic and develop and introduce alternative materials, and accelerate innovation through public-private partnerships with the aim of solving the problem of marine plastic pollution. According to the CLOMA website, 250 companies and organizations had joined CLOMA as of August 9, 2019.

Participated in the Plastics Smart Forum

Plastic that flows into the sea through rivers in large volume and is not recovered remains in the sea for long periods, so there are concerns about environmental pollution on a global scale. In order to solve this problem, the Ministry of the Environment of Japan has been conducting the "Plastics Smart" campaign since October 2018 to support and broaden the efforts that various bodies including individuals, companies, organizations, and governments can take from their respective positions.

In accordance with the campaign's purpose, the Group participated in the forum. Further, at the "2nd Promotional Goods Expo (Spring)," we displayed environmentally friendly promotional products and materials and recorded examples of environmentally friendly promotional activities. These activities are also presented on the Ministry of the Environment's special website.



"Plastics Smart" campaign logo

Participated in Environment-Related Exhibitions and Held Exhibitions

Kyushu Print Information Industry Exhibition

- 2018 Kyushu Print Information Industry Exhibition was held June 1–2, 2018 at the Fukuoka Convention Center.
- The KPP Group introduced its multifunctional printer and office ecomo, confidential document recycling system.

EcoPro

- EcoPro 2018 was held December 6–8, 2018 at Tokyo Big Sight.
- Under a theme emphasizing that the future of the environment starts with trees, the KPP Group displayed the flow of the biomass power generation business in connection with achieving a recycling-oriented society utilizing the flow of raw materials and product materials, and unused materials such as thinned wood.

Promotional Goods Expo

- The 2nd Promotional Goods Expo (Spring) was held January 30–February 1, 2019 at Makuhari Messe.
- Under an earth-friendly people-friendly theme, the Group exhibited products that help reduce environmental impact and improve work efficiency. With attention focused on de-plasticization and a return to paper, we introduced paper straws,

paper file sleeves, and other products.

YUPO® Exhibition

- The Yupo general exhibition Tsukiji Yupo Market was held on February 18–19, 2019 at the 1st floor entrance area of our head office with the cooperation of Yupo Corporation.
- Exhibited were examples of the use of paper in the categories of publishing and commercial printing, packaging and labels, specialty, and the environment. In addition to printing samples of Yupo Green biomass resin compound, we also exhibited biodegradable synthetic paper, and Yupo prototypes recycled from items recovered from the market.

Chubu Branch Products Exhibition

- The Present and Future of Packaging exhibition was held February 25–26, 2019 at KPP's Chubu Branch.
- Under a theme emphasizing how solutions lead to customer sales, our exhibit linked environmental friendliness to business opportunities that included lectures on biodegradable plastics, exhibits of new and interesting materials and environmental solution products related to de-plasticization, the introduction of BM ecomo, and rooms built using only paper materials.

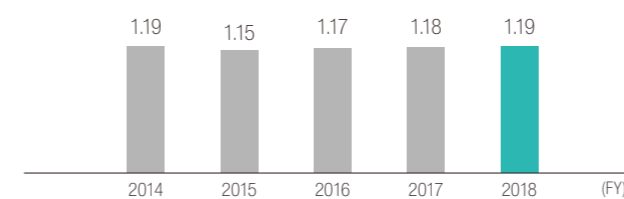
Initiatives to Reduce Environmental Impact

As a business operator using energy beyond a certain level prescribed in Japan's Act on Rationalizing Energy Use, the Group falls under the scope of specified business operators and specified consigners that must seek to reduce the environmental impact of their operations in a substantial manner.

Logistics Initiatives

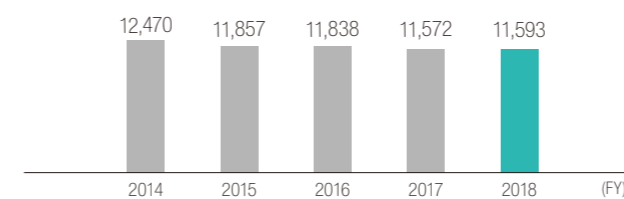
As a specified consigner based on Japan's Act on Rationalizing Energy Use, to reduce the environmental impact associated with logistics, the Group has worked to optimize its inventory locations in order to consolidate inventory and shipping locations and shorten the transportation distance to customers. For fiscal 2018, the Company's energy consumption per basic unit increased by 0.8% year on year, while overall CO₂ emission from transport rose 0.2% year on year. The annual reduction rate in energy consumption per basic unit averaged 0.3% in the past five years.

Logistics Initiatives (Per Basic Unit for Energy)



* Calculation method: Crude oil equivalent (kiloliters) / annual sales volume (thousand tons)

CO₂ Emissions Based on the Ton-Kilometer Method (t-CO₂)



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

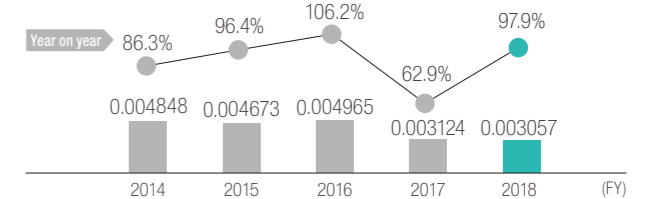
* See our website for environmental data. <http://www.kppc.co.jp/ja/csr/action/reduction.html>

Initiatives as a Business Operator

We have been taking initiatives aimed at lowering energy consumption of electricity and other energy per basic unit by 1% on an annual average basis. For fiscal 2018, the Company's energy consumption per basic unit dropped by 2.1% year on year, and overall CO₂ emissions also fell by 4.6% year on year.

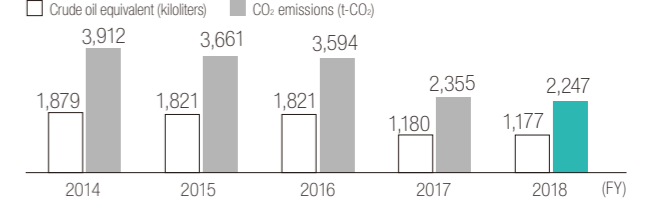
The specified conditions for a designated specified business are energy consumption of 1,500 kiloliters or more in crude oil equivalents. The Group has been below this standard since fiscal 2017, but will continue to promote the effective use of energy.

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



* Calculation method: crude oil equivalent (kiloliters) / net sales

Energy Consumption and CO₂ Emissions by Business Operators



* The above figures are based on the crude oil equivalents in kiloliters of the sums of electricity, city gas, LP gas and kerosene used annually in buildings the Company owns, 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 (million yen).

* We adopt coefficients updated by the respective electric power companies each year as emission factors used as the bases for calculating CO₂ emissions.

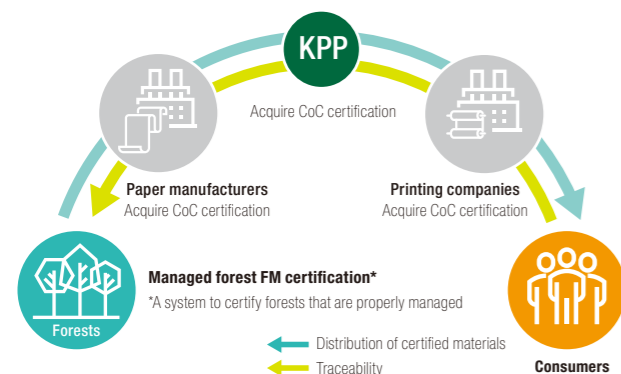
Aiming to Become a Totally Recycling-Oriented Enterprise

The KPP Group's basic stance is to make an environmental contribution appropriate for its business. We promote sales of products from materials that are confirmed compliant, and we work to expand business with material recycling and thermal recycling with a view to evolving into a totally recycling-oriented enterprise. We regard all these actions as environmental contributions that help build a better future for the planet.

Contributing to Sustainable Forest Management

Along with increasing environmental awareness comes greater demand for forest-certified paper produced from properly managed forests.

Forest certification schemes encourage consumers to buy environmentally friendly products by facilitating the proper management and labeling of forests and forest materials at the production, processing, and distribution stages. We have acquired FSC® and PEFC certification to go with our Chain-of-Custody (CoC) certification for the separating and managing of forest-certified paper so that it is not mixed with other paper during the processing and distribution stages.



FSC Forest Certification
(CoC Certification)
Acquired on January 5, 2004
Valid until December 21, 2023
Certificate No. SGSJK-COC-001603

PEFC Forest Certification
(CoC Certification)
Acquired on October 1, 2007
Valid until December 21, 2023
Certificate No. SGSJP-PCOC-0213



- Point 1**
- Global network with pulp supplier
- Point 2**
- Network of 2,500 customers
 - Capabilities include distribution, inventory, credit management, information provision, and solution development
- Point 3**
- Japan's leading recovered paper collection network
 - "ecom series," KPP's proprietary recovered paper recycling system
 - Ichihara Confidential Document Processing Center, a confidential document processing facility

- Point 4**
- Development of biomass power plant operation support system
 - Network for collecting unused wood and thinned wood

Material Recycling: Paper Raw Materials

Paper consumed in various products including newspapers, magazines, copy paper, and wrapping paper is collected, then it is de-inked and bleached, thus becoming a raw material that is transformed into paper again. Using recovered paper not only saves valuable forest resources, but also helps reduce waste. Paper recycling is an environmentally friendly societal mechanism.

We collect recovered paper through our nationwide network and supply recovered paper as a recycled material to paper manufacturers, and the quantity is top class in Japan.

Material Recycling: ecomo

Achieving a recycling-oriented society is stated in the Group's management philosophy. ecomo is an exemplary business for achieving this. ecomo means "eco" and "to bring" (*mottekuru* in Japanese) and expresses the idea of "eco + model" (in other words, a new eco model).

Town ecomo is a system for collecting and recycling used paper from households. Special collection boxes are installed at local supermarkets, retail stores, and other locations. Consumers bring old newspapers and magazines with them when they go shopping and put them in these boxes, and KPP collects them. Some stores give points that can be used at the stores in exchange for the used paper based on its weight. Town ecomo recycling boxes have been installed in 436 stores in Japan as of July 31, 2019.

Office ecomo safely and securely collects confidential documents for disposal at corporate offices in special

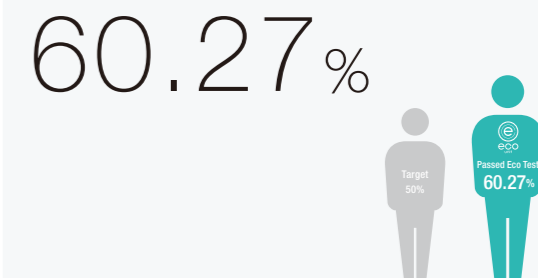
TOPICS

Environmental Education

The KPP Group conducts new employee and departmental training to raise employees' environmental awareness and provide them with necessary experience.

As part of this, employees are encouraged to take the Certification Test for Environmental Specialists (Eco Test) organized by the Tokyo Chamber of Commerce and Industry. The goal of the Eco People 50 Plan, under which 50% of employees passed the Eco Test, was achieved in fiscal 2015, and the percentage of employees who passed the Eco Test in fiscal 2018 was 60.27%.

Percentage of Employees Certified via the Eco Test
*As of March 31, 2019



boxes. After shredding the paper at its confidential document processing facility, water and electric heat are used to erase information and reduce volume, and the paper is then recycled. The confidential document processing system is secure and environmentally friendly.

Thermal Recycling

In addition to recycling paper, the Group is working on supplying biomass fuel such as scrap wood and unused wood as well as developing an operation support system using plant IoT technology for biomass power plants. In September 2016, we invested in Biomass Power Technologies Inc., a company operating a biomass power generation business based in the city of Matsusaka in Mie Prefecture. Through these efforts, we seek to achieve a recycling-oriented society that utilizes unused resources and revitalizes local industry.

Society



Based on the KPP Group's management 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"—we have created an environment where employees can perform to their full potential. Further, to build positive relationships with various stakeholders, we will keep striving to ensure that employees and their families can work and live with security, with the goal of being a company trusted by society.

A Company Open to the Community

We will fulfill our role as a good corporate citizen by proactively engaging in locally based activities.

Support for the C.W. Nicol Afan Woodland Trust

Since 2015, the Group has endorsed the Great East Japan Earthquake reconstruction project promoted by the C.W. Nicol Afan Woodland Trust. As part of this, the Trust supports the cultivation and harvesting of raw materials for Japanese paper and Japanese papermaking lessons at the Miyanomori Elementary School.

The Japanese papermaking experience class, started in 2016, was held for the third time in 2018. Mr. Rogier Uitenboogaar, an artist of handmade Japanese paper, was invited as an instructor for third graders. In the class, each student created their own original Japanese paper made with plants and seaweed from Higashi-Matsushima City, Miyagi Prefecture. The students collected *kozo* (paper mulberry) and *mitsumata* (Oriental paper bush) planted in the forest at the back of the school building three years ago and used them as the raw materials for the Japanese paper. The children learned about the appeal of Japanese paper and the environment they live in through the making of the paper.



TSUNAGU GALLERY

At the entrance on the first floor of our head office, works of art and paper products featured in our public relations magazine *TSUNAGU* are displayed, providing a space for communication that visiting business partners and local residents can freely enjoy.

In fiscal 2018, we exhibited the Japanese paper artwork of Mr. Rogier Uitenboogaart, an artist of Japanese handmade paper. In addition, Mr. Uitenboogaart has created original handmade paper using *kozo* and *mitsumata* planted on the roof garden of our head office building. In 2019, we marked the fifth year of his Japanese papermaking exhibition and we will continue this handmade Japanese papermaking to mark the 100th anniversary of our founding in 2024.



Support for the Environment Athletes Organization

We have been supporting the Environment Athletes Organization's objective of offering environmental education and realizing its social contribution with sports as its focus. The Organization is dispatching athletes to elementary schools in each area to provide extracurricular lessons about the importance of clean water, air, and the earth while enjoying sports.

In fiscal 2018, the athletes held classes on baseball and running for elementary school children in Setagaya-ku, Tokyo. At subsequent environmental classes, the children learned that an environment blessed with clean air and water is indispensable for playing sports. As part of its contribution to the local community, the Group will continue to support the Organization and communicate the importance of the natural environment to children, who represent the future.



Participation in a Rooftop Greening Project in Ginza

In 2010, the Group planted greenery on the roof of KPP's head office as part of its CSR activities. Employee volunteers are using this garden to grow vegetables and fruits throughout the year. The Ginza Honey Bee Project, the initiative of an NPO that we've participated in since 2015, is promoting rooftop greening, in which sweet potatoes cultivated on rooftops are used as part of the ingredients for brewing *shochu* distilled liquor. Sweet potatoes grown on the rooftops were harvested and provided to this project in fiscal 2018 as well.



Support for the Japan Rugby Football Union

KPP endorses the Scrum Japan Program sponsored by the Japan Rugby Football Union (JRFU), and has supported it since 2015. The Union seeks to train 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 the Rugby World Cup 2019 in Japan.



Working with Local Kindergartens

Every year, KPP subsidiary Narumiya Kami-shoji Co., Ltd. which produces Sendai's Tanabata decorations, displays them at the entrance of our head office as an opportunity for local residents to actually see its activities.

In 2018, the local Pocket Land Akashicho Nursery School and the Akashi Kindergarten visited our head office and viewed the Tanabata bamboo and the pieces of paper tied to it, on which people's wishes are written. During Halloween, kindergarten children in costumes came to the office and our employees treated them to Halloween candy. Thus, the opportunities for interaction are gradually increasing.



Cooperating with Employees

The Company is convinced that human resources are the most important asset for a trading company. We have created workplaces where individual employees can display their capabilities and carry out their duties in high spirits.

Diversity Promotion and Initiatives

Under its Diversity Promotion Policies, the Group respects the gender, age, nationality, race, ethnicity, religion, and social status of each employee, and has established a system that permits all employees to play active roles.

To secure diverse human resources, we are strengthening recruitment from overseas universities and external recruitment of mid-career executives at overseas bases.

Diversity Promotion Policies

We aim to carry out global management and sustain the Group's growth. We seek to build an environment that empowers employees, who we see as the most important asset for a trading company, and we believe that working enthusiastically and successfully is the foundation of sustainable management.

- Improvement of the Work-Life Balance
- Promotion of Diversity
- Diversification of Employment

VOICE



Hoang Tuan Linh

(born in Vietnam)

Trade Section, East Japan Sales Department, Global Business Paper Raw Material Sales Division, Global Business Headquarters

I'm working in an environment where every day I'm treated kindly by those around me. At first, there were many things I didn't know about working in Japan, but since I work and live with Japanese people on a daily basis, I'm getting used to it. In today's diverse world, it's important that everyone work without preconceptions about nationality and understand that we are all citizens of one planet.

General Employers Action Plan

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

- Target 1: Reduce overtime working hours and eliminate unpaid overtime work
- Target 2: Ensure that the child and nursing care leave programs are well-known companywide, and help employees on leave to return smoothly to work
- Target 3: Organize office tours for family members to promote work-life balance

Promoting Women's Career Advancement

In the three-year period from 2016 to 2018, we have addressed the issues raised in the Plan of Action for Promoting Women's Career Advancement, but in fiscal 2018, the percentage of women in the workforce and the percentage of women in management positions remained low at 37.2% and 2.8%, respectively (both figures are for non-consolidated).

In 2019, we formulated a new Plan of Action for Promoting Women's Career Advancement. We will take steps to provide a work environment in which women can play active roles.

Plan of Action for Promoting Women's Career Advancement

We have not yet achieved our plan of action for the period from April 1, 2016 to March 31, 2019, except for some targets, since the percentage of women on the main career track remains low. In the plan of action that extends from April 1, 2019 to March 31, 2022, we have made an issue of this point and have set a target for improvement.

• Challenges Facing the Company

Because of the low percentage of women on the main career track, there is a low percentage of women in managerial positions

Target 1: Maintain the percentage of women among new main career track hires at 20% or more.

Target 2: Increase the percentage of women on the main career track to over 11%.

Office Tours for Family Members

Tours are conducted to deepen the mutual understanding and support between Group employees' families and the KPP Group. We will continue to create a workplace environment where employees can work in comfort by improving not only employee satisfaction, but also the satisfaction of their families, increasing employee fulfillment, and promoting work-life balance.

Please see our website for details.

Diversity Promotion Policies

<http://www.kppc.co.jp/ja/csr/society/policy.html>

General Employers Action Plan

<http://www.kppc.co.jp/ja/csr/society/plan.html>

Plan of Action for Promoting Women's Career Advancement

<http://www.kppc.co.jp/ja/csr/society/woman.html>

Promoting 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. We have established a No Overtime Day in each department and are working to raise labor productivity by reducing long working hours and promoting work-life balance.

In addition, the saved leave system was partially revised. In the past, saved leave was a special paid leave that could be saved for up to 10 days out of annual paid leave that will be terminated at the end of the fiscal year, and can only be used when an employee suffers personal injury or illness. In order to achieve a balance between family and employee health support, and childcare and nursing care as part of our work style reforms, in May 2018, we expanded the scope to include the employee and their spouse, parents, and children. It can now be used for medical nursing and nursing care (including assistance and escort during hospital visits) as well. We will continue to create an environment where employees can work with peace of mind while balancing work and family life.

In addition, we have introduced a job return system as part of our efforts to revitalize human resource utilization and support for work-life balance.

VOICE



Daisuke Nagashima

Direct Sales Section III, Direct Sales Department, Direct Sales Division, National Sales Headquarters

I have used staggered work hours since last spring so I could take my child to daycare. My child was often already asleep by the time I returned home from work, but thanks to the staggered work hours, I now have the opportunity to interact with my child on weekdays. This valuable system allows me to participate actively in childcare as a father. I'm very grateful for the understanding and cooperation I have received from people on my team while using this system.

	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018
Number of childcare leave system users ¹	6	8	12	10
Percentage of employees who return to work after taking childcare leave	100%	100%	85.7%	100%
Number of childcare shortened work-hour system users ²	3	6	6	10
Number of staggered work hours users	10	15	14	14

1. The figures are the number of users and their percentage as of March 31 of the relevant fiscal year.
2. Number of employees who started using the system during the relevant fiscal year.

Staff Recruitment and Development

We are enhancing our training system for the internal and external training of each class of employee, including training for new employees, on-the-job training from longer-serving colleagues in the workplace, training for employees who have been promoted, and training for section, general, and headquarter managers.

To assist the independent career planning of employees, the Company has introduced a personnel system that provides multiple career paths according to positions and duties. In addition, we support MBA study and believe that each employee is the driving force for corporate growth. Further, we are actively developing human resources, and have introduced e-learning to enable employees to take classes from home for self-study.

		Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018
[Consolidated]	Number of employees	1,011	976	956	1,005
	Men	460	449	423	413
[Non-consolidated]	Number of employees	244	250	242	245
	Women	244	250	242	245
	Total	704	699	665	658
Men and women in management positions	Men	96.0%	95.7%	96.3%	97.2%
	Women	4.0%	4.3%	3.7%	2.8%
Average length of continuous service (years)		17.4	17.7	18.3	18.2
Persons with disabilities employed		2.06%	1.94%	2.27%	2.68%
Continued employment system users		14	20	25	26

Corporate Governance

KPP Group has constructed a corporate governance system to ensure that decision-making is conducted in a transparent, fair, expeditious, and decisive manner with a balance between management supervision and business execution.

Officer Compensation

■ Basic Policy Regarding Compensation for Directors, etc.

1. The structure of compensation for directors, etc., takes into account not only their short term business achievements but also their contributions to increasing corporate value. The value they have provided will also be shared with shareholders.
2. The amounts of compensation for directors, etc., are determined in consideration of a balance of various factors such as their achievements and industry trends.
3. The amount of compensation is determined by the board of directors, with pertinent participation and advice from independent outside directors, within the scope of total remuneration determined at General Shareholders' Meetings.

■ Compensation Structure

1. Compensation for directors (not including outside directors, or directors who are members of the Audit and Supervisory Committee) consists of three categories: the "Basic Portion," "Bonuses" and "Performance-Linked Stock-Based Compensation."
2. Compensation for outside directors and directors who are members of the Audit and Supervisory Committee, however, consists of the "Basic Portion" only.

Based on compensation limits for directors (not including those who are members of the Audit and Supervisory Committee) and directors who are members of the Audit and Supervisory Committee that were voted on at the 144th Ordinary General Shareholders' Meeting held on June 28, 2018, KPP has established the following compensation totals for each category of officer, compensation totals by category, and number of applicable officers during fiscal 2018.

Officer Classifications	Compensation Totals ¹	Compensation Totals by Category				Number of Applicable Officers
		Basic Compensation	Bonuses	Performance-Linked Stock-Based Compensation ³	Retirement Allowances ³	
Directors² Audit and Supervisory Committee members and Outside Directors excluded	239	176	37	22	3	8
Audit and Supervisory Committee members Outside directors excluded	39	38	-	-	0	2
Outside Directors	20	19	-	-	0	3

(Note) 1. The officer salary portions of compensation for employee-directors are not included in total amount of compensation. Unit: Million yen Unit: Person
 2. Three directors who retired during fiscal 2018 are included in the number of directors. Also, the amounts of compensation for these three directors, for the time they held their positions during fiscal 2018, are included in the amount of compensation.
 3. At the conclusion of the 144th Ordinary General Shareholders' Meeting held on June 28, 2018, we abolished the retirement allowance system and introduced a new performance-linked stock-based compensation.

Outside Directors

KPP considers securing managerial independence to be of great importance for the protection of general shareholders. Accordingly, we have formulated our own Criteria for Assessing the Independence of Outside Directors.

At present, we have appointed four independent outside directors.



■ Roles of Independent Outside Directors

KPP's independent outside directors have several primary roles. One is to provide as-needed verification and evaluation of management performance and the status of activities undertaken by the management team with reference to the management strategy and management plan determined by the Board of Directors. They also judge the propriety of entrusting management of KPP to the current management team from a viewpoint considering shareholders' common interests. Finally, they announce their findings.

The names and reasons for appointment for independent outside directors are shown below.

Name	Reason for Appointment
Tatsushi Yano Outside Director	Along with experience in overseas business for many years at operating companies (trading companies and manufacturers), Mr. Yano has held officer positions. We deemed him to be well-qualified as an outside director whose advice on KPP's management and supervision of our business execution demonstrated promise due to his abundant experience with M&A (mergers and acquisitions), PMI (post-merger integration), business reorganization, and restructuring.
Mari Sagiya Outside Director	Along with experience in the business sector at the forefront of the IT industry, Ms. Sagiya has held officer positions. We deemed her to be well-qualified as an outside director whose advice on KPP's management and supervision of our business execution demonstrated promise due to her specialized perspective in promoting and expanding the introduction of IT, like digital transformation.
Toshiro Kobayashi Outside Director and Member of the Audit and Supervisory Committee	Mr. Kobayashi is a certified public accountant and tax accountant, and he possesses considerable knowledge of finance, taxation and accounting. We deemed him to be well-qualified as an outside director and member of the Audit and Supervisory Committee on the basis of his abundant business experience and achievements.
Yoshinari Nagashima Outside Director and Member of the Audit and Supervisory Committee	Mr. Nagashima is qualified as a lawyer, possessing considerable knowledge of corporate law and other subjects. We deemed him to be well-qualified as an outside director and member of the Audit and Supervisory Committee on the basis of his abundant business experience and achievements.

Analysis and Evaluation of the Board of Directors' Efficiency

KPP has analyzed and evaluated the Board of Directors' efficiency, as described below, in order to improve the functioning of the Board of Directors.

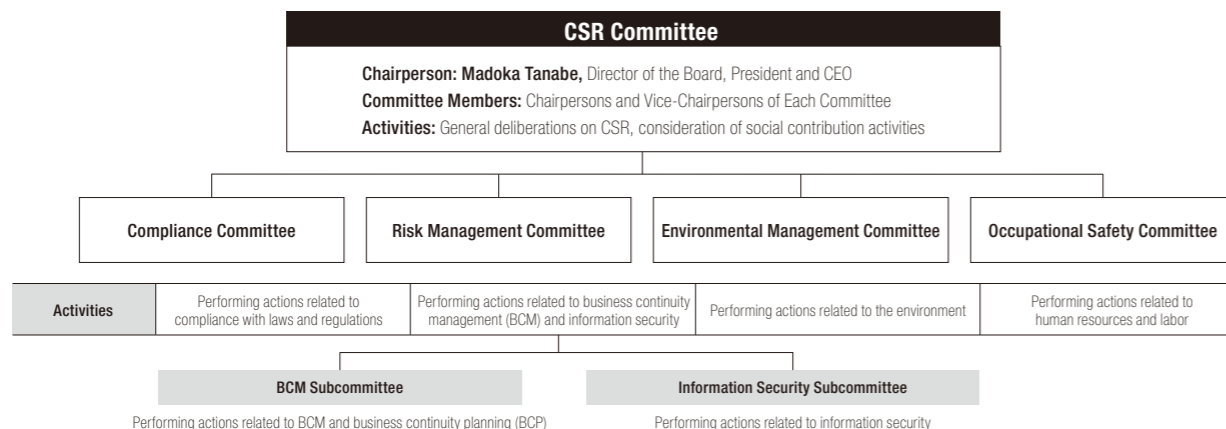
In order to analyze and evaluate the Board of Directors' efficiency, KPP Group cooperated with an outside organization to survey all directors, and then deliberated on the findings, having shared the results with the Board of Directors. As a result, the evaluation was made that, on the whole, the Board of Directors' efficiency was being ensured to satisfaction.

Still, as a future issue, in order to further demonstrate the Board of Directors' monitoring and supervisory functions, opinions were raised regarding the need to consider establishing topics to be discussed by the Board to ensure time to deliberate on topics of greater importance. Going forward, we will improve on the necessary considerations and strive to ensure higher efficiency.

CSR Committee

KPP Group established a CSR Committee in 2013. It is chaired by the President and has as members the chairpersons and vice-chairpersons of its subcommittees. The CSR Committee receives annual reports and information on the status of activities by its subcommittees—the Compliance Committee, Risk Management Committee, Environmental Management Committee, and Occupational Safety Committee—and considers topics for improvement on an as-needed basis, working to improve and energize CSR activities comprehensively. In the event that a serious situation were to occur regarding compliance with laws and regulations, the President would himself undertake appropriate disclosure of information to society and demonstrate accountability by working to promptly resolve the issue. Also striving to identify the cause and prevent recurrence of the issue, he would clarify where authority and responsibility lies, and respond rigorously without excepting himself.

CSR Organizational Structure



■ Compliance Committee

Themes for the fiscal year under review: Continue to comply with laws, regulations, and company rules (working toward widespread recognition of the importance of compliance)

Activities in the fiscal year under review: In addition to providing ongoing training for employees to raise their awareness of compliance, including education on the prevention of insider trading, in order to ensure that business management places a premium on earning trust, we have established a Compliance Committee, and worked to improve its structure as well as to maintain and enhance its effectiveness. Also, the committee revised the manual that provides guidelines on compliance with a diverse range of business-related laws, regulations, company rules, etc., and ongoing compliance training was provided for all employees.

We have also set up an internal reporting counter in order to promote the early discovery and expeditious response to actions that may violate laws, regulations, or business ethics. Those who file reports will not suffer detrimental treatment due to reports or consultations made through this counter.

■ Risk Management Committee

Themes for the fiscal year under review: Continuation and maintenance of company-wide BCP and identification, analysis, and evaluation of risks

Activities in the fiscal year under review: Maintained the business continuity plan (revised BCP manuals and so on for each location, and conducted employee safety confirmation tests for disaster scenarios); conducted evacuation drills envisioning disaster scenarios at various locations, coordinating with the BCM Subcommittee; coordinated ongoing awareness-building activities on information security and bolstered security measures with the Information Security Subcommittee, linking these efforts with improvement activities.

■ Environmental Management Committee

Themes for the fiscal year under review: Maintaining ISO 14001-based environmental activities, along with business-aligned environmental activities.

Activities in the fiscal year under review: Worked toward the improvement and maintenance of our environmental management system and invigorated environment-related communication.

■ Occupational Safety Committee

Themes for the fiscal year under review: Implementation and consideration of actions to ensure the safety and enrichment of the workplace environment.

Activities in the fiscal year under review: Continued to hold periodic meetings of the Safety and Health Committee, based on the frameworks ensuring safety and health at each location, and implemented measures to manage overtime labor and eliminate unpaid overtime.

Messages from Independent Outside Directors

We asked our outside directors about future challenges to raising corporate value.

Toshiro Kobayashi

Director of the Board*

Member of the Audit and Supervisory Committee

2005 Outside Corporate Auditor
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)
*Independent outside director



Changes in KPP Group Governance

I have been involved in the management of the KPP Group as an auditor for about ten years, since 2005, and as an outside director for about four years, since 2015. When the Company formed an audit and supervisory committee in 2015, outside directors exercised voting rights at board of directors' meetings, and three changes in governance occurred. The first change was that board of directors' discussions were revitalized. With the participation of outside directors in discussions, the awareness of all directors changed. Second, in order to deepen outside directors' understanding of the agenda, the person in charge provides an opportunity to explain before discussing important matters. Third, when it is difficult to obtain a collective opinion, we can now deliberate continuously without rushing to a conclusion, ensuring there is time for a thorough review. In this way, discussions at the board of directors meeting are now conducted carefully, which has helped strengthen the governance of the KPP Group.

Future Role of Outside Directors

Outside directors are expected to provide audit and supervisory functions over executive officers, and to provide management advice. Now, under our system, there are four outside directors, two of whom are Audit and Supervisory Committee members, and two of whom are not. The newly appointed outside directors

will conduct their work in such a manner as to enhance the corporate value of the KPP Group by both fulfilling their management functions and, with the Audit and Supervisory Committee members, performing the audit functions.

Aiming to Increase Corporate Value

There are short-term and medium- to long-term challenges for the KPP Group in order for it to increase its corporate value. The short-term challenge is to ensure that the post-merger integration of Spicers Limited (Spicers), the largest-ever investment by the KPP Group, is conducted reliably. Since Spicers can contribute to the bottom line as a member of the KPP Group, we believe the market's evaluation of KPP will rise even higher. Next, a medium- to long-term challenge is to steadily execute our management plan based on GIFT+1 2024, our long-term management vision.

Although GIFT+1 2024 divides the period through 2024 into three stages, the second medium-term management plan, which is positioned as a business development period, began this year. We seek to aggressively develop business during the business development period but, as Directors of the Board and Members of the Audit and Supervisory Committee, we want to determine in a level-headed manner whether such a plan is feasible and sustainable.



Tatsushi Yano

Director of the Board*

*Independent outside director

1974 Joined Tomen Corporation
2003 Executive Officer, General Manager of North America, Tomen Corporation
2006 Director, Sanyo Chemical Industries, Ltd.
2006 Director and Executive Officer, Sanyo Chemical Industries, Ltd.
2010 Director and Managing Executive Officer, Sanyo Chemical Industries, Ltd.
2012 Director and Senior Managing Executive Officer, Sanyo Chemical Industries, Ltd.
2016 Company Advisor, Sanyo Chemical Industries, Ltd.
2018 Retired from Sanyo Chemical Industries, Ltd.
2019 Director of the Board* (to present)

(As of June 30, 2019)

For 32 years I worked in the chemical division of a general trading company, and 12 years in a chemical manufacturing company. During this time, I gained experience not only in trading businesses but also in establishing, operating and managing overseas manufacturing business companies and sales companies. I hope to use this experience to proactively express my views to the executive management from the standpoint of an outside director, based on my viewpoint and analysis. The KPP Group has entered its second medium-term management plan, which is the business development period of the long-term management vision GIFT+1 2024 for the year 2024. The Group is taking on new challenges and is at a crossroads of major changes and developments. During that process, establishing compliance, ensuring transparency, reforming work styles, enhancing internal controls, and sharing the interests of stakeholders has become important. I will provide advice that contributes to the continuous growth of the KPP Group, as well as management oversight of execution, so that governance can be managed.



Mari Sagiya

Director of the Board*

*Independent outside director

1985 Joined IBM Japan, Ltd.
2002 Director of IBM Japan, Ltd.
2005 Executive Officer of IBM Japan, Ltd.
2014 Retired from IBM Japan, Ltd.
2014 Managing Executive Officer, SAP Japan Co., Ltd.
2015 Retired from SAP Japan Co., Ltd.
2016 Managing Executive Officer, Salesforce.com, Inc.
2019 Outside Director of IBJ Leasing Company, Limited (to present)
2019 Director of the Board* (to present)

(As of June 30, 2019)

One of the roles expected of outside directors is to provide advice from the standpoint of promoting the sustainable growth of the Company and raising corporate value over the medium- to long-term, based on their insight into management policies and management improvement. For more than 30 years, I have worked in the field of sales and marketing at a foreign-affiliated IT company, and I have seen numerous examples of companies transforming their businesses through the strategic use of IT. From early on, I worked to promote diversity and work-style reform. While taking advantage of this experience, as an outside director, I would like to contribute to the management team's decision-making by posing frank questions, communicating necessary but unpleasant information as well as approval, as the situation warrants. As part of its growth strategy, the Group is working to strengthen overseas business through mergers and acquisitions. Regarding the status of strategic measures for future growth, the communication with stakeholders will become even more important in the future.

Yuji Nakagawa

Director of the Board
Member of the Audit and Supervisory Committee

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

Kunitoshi Nishimura

Director of the Board
Managing Executive Officer
Deputy General Manager, Corporate Administration Headquarters
(In charge of general management)

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

Makoto Ikuta

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

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

Toshiro Kobayashi

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

- 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)

Yoshinari Nagashima

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

- 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)



Ichiro Akamatsu

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

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

Madoka Tanabe

Director of the Board
President & CEO

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

Tadashi Kurihara

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

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

Mari Sagiya

Director of the Board*

- 2016 Managing Executive Officer,
Salesforce.com Inc.
- 2019 Outside Director of IBJ Leasing
Company, Limited (to present)
- 2019 Director of the Board* (to present)

Tatsushi Yano

Director of the Board*

- 2016 Company Advisor,
Sanyo Chemical Industries, Ltd.
- 2019 Director of the Board* (to present)

*Independent outside director

(As of June 30, 2019)

While ensuring financial soundness, we will continue to invest in future growth and increase corporate value.



Ichiro Akamatsu

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

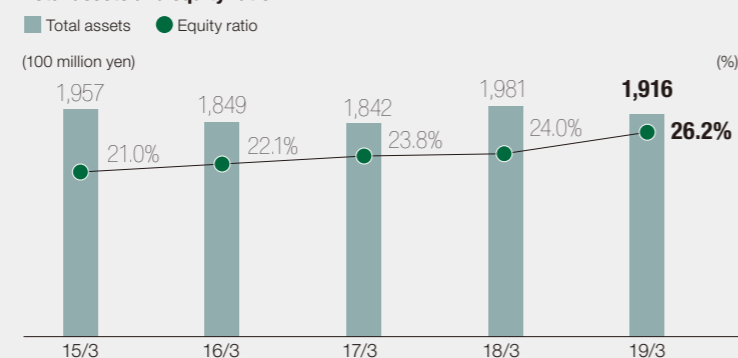
In the fiscal year ended March 31, 2019, the Group's business results in the final year of the first medium-term management plan were sales of 384,973 million yen (up 1.9% year on year), operating income was 2,280 million yen (down 3.5% year on year) ordinary income was 2,518 million yen (down 18.4% year on year), and profit attributable to owners of the parent was 2,497 million yen (up 2.6% year on year). The equity ratio was 26.2%, surpassing our immediate target of 25%.

In the second medium-term management plan, the expansion of our M&A strategy is one of the pillars of our growth strategy. We will achieve earning power by leveraging our financial base,

which was made stronger by the first medium-term management plan, and using it in our investment strategy. On the other hand, under its basic capital policy, the Group strives to increase corporate value and deliver stable returns to shareholders. To stabilize its financial standing, the Group will work to maintain an equity ratio of 25%.

The Group was listed on the first section of the Tokyo Stock Exchange in 2018 and has further accelerated its growth. Looking ahead, we will increase long-term corporate value by striking a balance among investments in global growth strategies, including M&A, financial soundness, and the stable distribution of dividends.

Total assets and equity ratio



Consolidated Financial Data: Five-Year Financial Summary

Unit: Million yen

	2015/3	2016/3	2017/3	2018/3	2019/3	
Balance sheet	Current assets	147,548	136,377	137,577	141,961	137,757
	Fixed assets	48,240	48,550	46,668	56,205	53,853
	Current liabilities	133,826	127,290	128,615	134,589	126,484
	Fixed liabilities	20,680	16,668	11,586	15,881	14,900
	Interest-bearing liabilities	54,345	50,817	43,596	49,693	41,357
	Amount of net assets	41,163	40,870	43,927	47,546	50,117
	ROE	2.84%	2.96%	5.22%	5.32%	5.12%
	Amount of total assets	195,788	184,927	184,245	198,166	191,610
	ROA	0.60%	0.64%	1.20%	1.27%	1.28%
	Capital adequacy ratio	21.0%	22.1%	23.8%	24.0%	26.2%
Profit and loss statement	Net sales	387,594	389,678	366,777	377,714	384,973
	Gross profit	22,374	21,377	21,115	22,008	22,064
	(Percentage of sales)	5.77%	5.49%	5.76%	5.83%	5.73%
	Operating income	1,370	1,516	1,031	2,362	2,280
	(Percentage of sales)	0.35%	0.39%	0.28%	0.63%	0.59%
	Ordinary income	1,957	1,853	1,114	3,086	2,518
	(Percentage of sales)	0.50%	0.48%	0.30%	0.82%	0.65%
	Profit attributable to owners of parent	1,126	1,215	2,215	2,433	2,497
	(Percentage of sales attributable to owners of parent)	0.29%	0.31%	0.60%	0.64%	0.65%
Statement of cash flows	Operating cash flow	-2,087	5,378	1,114	4,019	4,217
	Investment cash flow	-497	-1,249	5,596	-7,920	1,130
	Financial cash flow	2,950	-3,960	-6,791	5,760	-6,623
	Ending balance of cash and cash-equivalents	2,546	2,502	2,291	4,135	2,838
Per-share data	Net profits per share (JPY)	16.92	18.25	33.27	36.55	34.74
	Net assets per share (JPY)	618.16	613.78	659.69	714.05	685.21
	Annual dividend per share (JPY)	8.00	8.00	8.00	8.00	10.00
Other indices	Total asset turnover	198.0%	210.7%	199.1%	190.6%	200.9%
	Dividend payout ratio	47.3%	43.8%	24.0%	21.9%	28.8%
	Debt ratio	132.0%	124.3%	99.2%	104.5%	82.5%
	Current ratio	110.3%	107.1%	107.0%	105.5%	108.9%

*1. Net assets reflects a total from which non-controlling stockholders' interests have been deducted.

*2. Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018) have been applied from the beginning of the fiscal year ended March 31, 2019 term. Indices for the fiscal year ended March 31, 2018 reflect the retroactive application of these accounting standards.

*3. ROE is calculated based on an average of the amount of net assets in the current period and in the preceding period.
ROE (return on equity) = profit attributable to owners of parent / amount of net assets

*4. ROA is calculated based on an average of the amount of total assets in the current period and in the preceding period.
ROA (return on assets) = profit attributable to owners of parent / amount of total assets

Business Environment and Performance Overview

Overview of the circumstances of operating results, etc.

The following provides an overview of the circumstances of the financial position, operating results and cash flow ("operating results, etc." hereinafter) of the KPP Group (KPP, consolidated subsidiaries and affiliated companies accounted for by the equity method) in the consolidated fiscal year under review.

I. Financial condition and operating results

With Japan's economy being pulled along by the robust US economy in the term under review, corporate earnings reached the highest level to date. Among factors contributing to a boost in plant and equipment investment were consumer spending levels, encouraged by a favorable employment environment, efforts to make technological innovations, and labor-saving investment efforts made in response to an increased sense of labor shortage. On the whole, the trend was of steady growth with underlying strength.

To take a look at the world economy, in the US there was a steady rise in consumer spending due to the major increase in corporate earnings from sweeping tax cuts and the higher employment rate from the favorable employment environment. With the unemployment rate remaining low at around 3%, the Federal Reserve Board (FRB) raised interest rates four times during the year. In China, there was a downturn in the economic growth rate influenced by the enactment of deleveraging begun in earnest and trade conflicts between China and the US. In Europe, while there has been concern about political disorder among European governments with the UK's Brexit (withdrawal from the EU), Italy's economic issues and so on, against the backdrop of the favorable environment regarding employment and income, consumer spending and government consumption expenditure contributed to a positive outcome. In developing nations, India experienced a decline in the real GDP growth rate for three consecutive quarters with the curbing of government expenditures and decelerated consumer spending, yet still maintained a high rate of growth at the mid-6% level; others such as Brazil and Russia trended low.

In the domestic Japanese pulp and paper industry, with the further acceleration of the rate of digitization seen in the IT and advertising sectors, demand for, chiefly, magazines, flyers, and catalogues has been stagnant, and the consumption of paper has continued to fall from one year to the next. With paperboard, however, a trend to use simple or minimal packaging in conjunction with corporate cost-cutting was observed, although there was an increase in the demand for cardboard in conjunction with the expansion of the e-commerce market, and there was growth in comparison with the previous year.

Under such circumstances, in the term under review the KPP Group achieved consolidated sales of ¥384.973 billion (up 1.9% year on year), operating income of ¥2.280 billion (down 3.5% year on year), ordinary income of ¥2.518 billion (down 18.4% year on year) and ¥2.497 billion in profit attributable to owners of parent (up 2.6% year on year).

Performance by segment was as follows.

Wholesale pulp and paper, domestic locations

In the paper sector, in conjunction with changes in the structure of demand, publications were subject to decreased demand, but due to an increase in exports, sales remained steady. In the paperboard sector, a rise in unit sales prices along with sales promotions targeting end users contributed to increased sales. In the paper raw materials sector, due to the weakening of prices caused by the increase in recovered paper inventory within Japan, in conjunction with import restrictions enacted by China, a decrease was seen in both volume and revenue. For pulp, prices remained high and sales trended favorably, particularly of imports, which led to an increase in both volume and revenue.

As a result, sales in wholesale pulp and paper, domestic locations, reached ¥312.301 billion (up 0.8% year on year) with a segment margin of ¥4.567 billion (up 1.0% year on year).

Wholesale pulp and paper, overseas locations

In the US, as a result of a favorable trend in sales of imported coated papers, sales on the whole increased. In Southeast Asia, sales were sluggish due to decreased demand for paper media intended for advertising purposes, stronger restrictions on recovered paper imports, and a drop in competitive advantage in conjunction with falling prices for recovered paper from Europe and the Americas. In East Asia, sales to principal clients were favorable, with a considerable increase in sales totals for both coated papers and paperboard, particularly in Hong Kong. In China, however, with trade restrictions on recovered paper

being enacted due to trade conflicts between China and the US, sales on the whole remained roughly flat despite considerably increased sales of container board. In Australia, while pre-established business was sluggish, sales remained roughly level due to the acquisition of new business revolving around functional paper.

As a result, sales in wholesale pulp and paper, overseas locations, reached ¥71.474 billion (up 7.0% year on year) with a segment margin of ¥30 million (compared with a segment loss of ¥91 million in the corresponding period of the previous year).

Real estate rental business

In the market for office buildings in major cities throughout Japan, there was a downward trend in average vacancy rates due to a tendency for office expansion that was observed, including relocating for the purpose of expansion, internal floorspace expansion and opening detached sub-offices. Furthermore, against the backdrop of the decrease in vacancies, average rental costs also trended upward.

Amid such circumstances, the KPP Group maintained a high occupancy rate, particularly on the basis of a key holding, the KPP Yaesu Building. However, rental revenue decreased due to the sell-off of partially-owned real estate to increase asset efficiency.

As a result, sales in the real estate rental business reached ¥1.197 billion (down 2.9% year on year), with a segment margin of ¥599 million (up 6.9% year on year).

II. Cash flows

There were ¥2.838 billion in cash and cash equivalents (hereinafter, "funds") at the end of the consolidated fiscal year under review, down ¥1.296 billion in comparison with the end of the previous consolidated fiscal year. This was primarily due to net income before taxes and other adjustments, revenue from the issuance of shares, and funds provided by through the period-end decrease in inventories, etc., being allocated to the net decrease in both short-term loans and commercial paper. The circumstances of each of the different cash flows in the term under review, along with related factors, are as follows.

Cash flow from business activities

Funds provided by through business activities totaled ¥4.217 billion (compared with ¥4.019 billion in the previous fiscal year) due primarily to factors such as a reduction of inventories and the acquisition of net income before taxes and other adjustments.

Cash flow from investment activities

Funds provided by through investment activities totaled ¥1.130 billion (compared with ¥7.920 billion used in the previous fiscal year). This is primarily due to revenue from the sales of tangible and intangible fixed assets.

Cash flow from financing activities

Funds used in financing activities totaled ¥6.623 billion (compared with ¥5.760 billion provided by in the previous fiscal year). This is due to the allocation of revenue from the issuance of shares, etc., being allocated to short-term loans taken out for working capital, etc., and the repayment of commercial paper.

Financial Condition and Operating Results

Details of recognition, analysis and investigation from managers' perspectives

The details of recognition, analysis and investigation from managers' perspectives with regard to the circumstances of the Groups' operating results are as described below.

Items regarding the future contained here were determined as of the end of the consolidated fiscal year under review.

I. Principal accounting policies and estimates

The KPP Group's consolidated financial statements have been drawn up in accordance with standards of accounting generally accepted as fair and valid in Japan. With regard to items for which accounting estimates were needed in drawing up these consolidated financial statements, estimates were made according to past results or other reasonable methods. However, due to the uncertainties that characterize estimates, actual results may vary.

It is the consideration of the KPP Group that the principal accounting policies listed below considerably affect the Group's principal determinations and estimates in drawing up the consolidated financial statements.

(a) Allowances for bad debts

In order to provide for losses on uncollectible receivables, the KPP Group records allowances for bad debts regarding estimated uncollectible amounts, taking into consideration collectability with regard to specific debts, such as doubtful accounts receivable on an individual basis, on the basis of the historical bad debt ratio with regard to general accounts receivable.

(b) Impairment of investment securities

In order to maintain and strengthen favorable business relations with business partners, the KPP Group holds business partners' shares. With regard to securities that have market value, impairment is recorded in the event that the investment value drops by over 30% and this is determined not to be temporary. Furthermore, with regard to securities that are not appraised at market value, impairment is recorded in the event that the net assets per share of the company's stock drops below the book value by 50% or more and has no possibility of recovering its performance.

(c) Impairment of goodwill

In the event it has been determined that there are indications of impairment with regard to goodwill, the KPP Group makes determinations on the recognition of impairment. In the event there have been changes in the circumstances of the business acquired in the transaction for which goodwill was recognized, it may be necessary to record an impairment loss.

(d) Deferred tax assets

The KPP Group makes rational estimates of future taxable income. In the event that deferred tax assets are determined to be unrecoverable in the future in part of in full, reversal of deferred tax assets may cause fluctuation in earnings.

II. Details of recognition, analysis and investigation regarding the circumstances of operating results, etc. in the current consolidated fiscal year

(a) Analysis of operating results

(Sales)

Sales in the consolidated fiscal year under review were ¥7.258 billion higher than the previous consolidated fiscal year, at ¥384.973 billion (up 1.9% year on year). Details of sales by segment are listed in the following section of Annual Securities Report:

#2. Business conditions 3. Analysis of the financial condition, operating results and cash flows by managers (1) Outline of the circumstances of operating results, etc. I. Circumstances of the financial condition and operating results

(Gross profit)

Gross profit in the term under review increased ¥56 million over the previous consolidated fiscal year, at ¥22.064 billion (up 0.3% year on year). Also, the ratio of gross profit to net sales decreased 0.10 points from the previous fiscal year at 5.7% due to reduced profit margins primarily on paperboard, pulp and film.

(Operating income)

Selling, general and administrative expenses in the term under review increased ¥138 million year on year to ¥19.783 billion (up 0.7%). This was due to the fact that, although cutting retirement benefit expenses and logistics expenses reduced sales-related expenses, investment costs for research and development, overseas mergers and acquisitions, etc., rose.

As a result of the above, operating income in the current consolidated fiscal year was down ¥82 million year on year to ¥2.280 billion (down 3.5%).

(Ordinary income)

Due to the fact that the foreign exchange gain recorded in the previous consolidated fiscal year became a loss in the term under review, non-operating income in the term under review decreased ¥104 million in comparison with the previous consolidated fiscal year, at ¥1.259 billion (down 7.6%). Due to factors such as the recording of a foreign exchange loss as well as increased loan interest and equity-method investment losses at overseas consolidated subsidiaries, non-operating expenses increased ¥381 million year on year to ¥1.021 billion (up 59.6%).

As a result of the above, ordinary income in the term under review decreased ¥567 million year on year to ¥2.518 billion (down 18.4%).

(Net income before taxes and other adjustments)

Due to selling off the former site of the Kyushu Branch Office as well as investment securities, extraordinary gains in the term under review increased ¥1.001 billion year on year to ¥1.625 billion (up 160.6%).

Due to recording impairment of goodwill and appraised losses in investment securities, extraordinary losses increased ¥115 million year on year to ¥186 million (up 162.0%).

As a result of the above, net income before taxes and other adjustments in the current consolidated fiscal year increased ¥318 million year on year to ¥3.957 billion (up 8.7%).

(b) Analysis of the financial condition

(Assets)

Total assets stood at ¥191.610 billion at the end of the current consolidated fiscal year, ¥6.555 billion below the end of the previous fiscal year. This was primarily due to the fact that a number of decreases exceeded the increase in plant and equipment investment such as software that was undertaken in the current consolidated fiscal year. These included a decrease in inventories due to reduction of inventories on consignment, a decrease in cash and deposits in conjunction with the repayment of loans, and a decrease in investment securities in conjunction with a decline in stock prices of listed shares.

(Liabilities)

Liabilities stood at ¥141.384 billion, down ¥9.086 billion year on year. This was primarily due to a reduction in interest-bearing liabilities, such as loans and commercial paper.

(Net assets)

Net assets stood at ¥50.225 billion, up ¥2.530 billion year on year. The capital adequacy ratio was 26.2%, up 2.2 points year on year. This was primarily due to an increase in capital and capital reserves in conjunction with an increase in capital through public offering and third-party allocation of shares along with an increase in earned surplus in conjunction with the posting of a profit.

(c) Regarding the liquidity of the Group's capital resources and funds

Chief among the Group's working capital demands are operating expenses such as current working capital and selling, general and administrative expenses. Investing activities such as research and development, mergers and acquisitions, purchases of software, etc., are also being carried out in the current consolidated fiscal year.

The fundamental policy of the Group is to make stable securement of the liquidity and funding sources necessary for business operations. For short-term working capital, equity capital along with short-term loans and commercial paper from financial institutions form the basis, and for funds procurement for the purpose of investing, long-term loans from financial institutions.

On June 26, 2018, KPP's stock was listed in the First Section of the Tokyo Stock Exchange. With regard to the proceeds of ¥2.561 billion gained from the issuance of new shares, KPP has engaged in plant and equipment investment related to the company's internal core system and plans to continue further with investments. Furthermore, the remainder of procured funds are to be allocated to repaying loans from financial institutions.

The remainder of loans and commercial paper at the end of the fiscal year under review totaled ¥41.357 billion. Also, the remainder of cash and cash equivalents at the end of the term under review totaled ¥2.838 billion.

(d) Regarding objective criteria for the purpose of determining the status of achievement for management objectives

The KPP Group places an emphasis on ROA and ROE as management indicators and is making efforts to achieve efficient management. In the consolidated fiscal year under review, KPP achieved ROA of 1.3% and ROE of 5.1%.

Capital Policy

KPP's fundamental policy with regard to capital policy is to seek to improve corporate value on a medium- to long-term basis and provide stable returns to shareholders. KPP strives to achieve a 25% capital adequacy ratio at an early stage in order to improve external ratings with the aim of stabilization of the financial foundation. At the same time, KPP will realize an optimal capital structure by striving to increase asset efficiency with ROA as a vital management indicator. KPP also aims for the ROE to exceed the cost of shareholders' equity as well as for a dividend payout of 30%.

Risks in Business, etc.

The following describe examples of risks in business that could possibly impact the Group's operating results and financial condition.

Items pertaining to the future contained herein reflect determinations made by the KPP Group as of June 27, 2019. They do not encompass all possible future risks.

(1) Dependence on chief clients

Group companies Oji Holdings Corporation and Nippon Paper Industries Co., Ltd., KPP's principal shareholders, are the primary suppliers of the Group's principal products, paper and paperboard. The purchase amount of supplies provided by these two companies in the current consolidated fiscal year totaled 46.2% of all supply purchases made.

KPP is presently entered into a basic exclusivity contract with both companies, and it is the KPP Group's policy to continually expand its business with them. However, if the supply of products from the two-company group to KPP were to be severely impeded by a natural disaster or other occurrence, the KPP Group's development of business, financial condition and operating results could be impacted.

(2) Influence of commodity markets

Purchase prices for products such as paper and paperboard, the KPP Group's principal products, are influenced by the global demand for raw materials such as pulp, woodchips, and recovered paper, as well as trends in prices for fuel such as crude oil. Accordingly, if there were to be a major rise in these prices, it would impact the supply prices for such products. In order to ensure reasonable profits, the KPP Group continuously carries out price negotiations with customers. However, depending upon the circumstances of higher costs influencing selling prices, the Group's financial condition and operating results could be impacted.

(3) Distributional restructuring in the pulp and paper industries

The market for pulp and paper is greatly influenced by economic trends, consumer spending trends. Also, further shrinkage of the domestic market is projected in Japan due to factors such as the declining population and the paperless trend. In conjunction with this, there is a possibility that distribution companies will undergo further restructuring. It has been the policy of the KPP Group to respond to industry restructuring (due to factors such as mergers and acquisitions) with flexibility. However, if the market environment were to undergo unanticipated changes, or if mergers and acquisitions were to fail to meet the level of effectiveness anticipated by the Group, the Group's financial condition and operating results could be impacted.

(4) Makers' trend toward direct sales

In the midst of a challenging economic environment, there is an increasing tendency for companies using paper products to proactively pursue cost-cutting measures. In response, the KPP Group has likewise enacted corporate efforts such as cutting distribution costs while striving to maintain business relations. However, in recent years there has been a trend by various paper manufacturers to pursue direct sales. This tendency has become particularly strong in sectors handling industrial-use papers and functional materials. In such situations, users who are the Group's customers may choose to transact directly with manufacturers. If these transactions were to increase beyond the level anticipated by the Group, its financial condition and operating results could be impacted.

(5) Foreign exchange rate fluctuation

The KPP Group makes sales in countries throughout the world, with a focus on Asia and the US, in the wholesale pulp and paper, overseas locations, the Group's business classification. Sales in the overseas-based wholesaling of paper, pulp, etc. in the current consolidated fiscal year made up 18.6% of consolidated sales.

The Group also makes export sales of paper, paperboard, recovered paper, etc. from Japan, and the price competitiveness these products have overseas is influenced by fluctuations in foreign exchange rates.

In the preparation of consolidated financial statements, when sales, totals, expenses, etc. are in various countries' local currency denominations, they are converted into Japanese yen (JPY) for calculation; as such, they are influenced by the foreign exchange rate at the time the conversions are made. The KPP Group strives to keep the impact of fluctuations to a minimum by means of forward exchange

transactions, etc. However, if an unanticipated level of fluctuation in foreign exchange rates were to occur, the Group's financial condition and operating results could be impacted.

(6) Interest rate fluctuation

The KPP Group procures working capital chiefly through loans from financial institutions and the issuance of commercial paper. The KPP Group strives to keep the impact of interest rate fluctuations to a minimum by procuring long-term (fixed-rate) loans, incorporating interest rate swaps, etc. However, if an unanticipated level of fluctuation in interest rates were to occur, the Group's financial condition and operating results could be impacted. The balance of loans and commercial paper at the end of the current consolidated fiscal year came to ¥41.357 billion. This corresponds to 21.6% of total assets.

(7) Country trends

The KPP Group makes sales in countries throughout the world, with a focus on Asia and the US, with sales in the wholesale pulp and paper, overseas locations, in the current consolidated fiscal year making up 18.6% of consolidated sales. Yet in these various countries, factors such as legal changes, surges in labor costs and diplomatic issues can inhibit business activities. The market for pulp and paper is also greatly influenced by economic trends, consumer spending trends, and so on, in countries or regions where business development is carried out. The KPP Group strives to keep these risks to a minimum via insurance for accounts receivable in overseas business, conducting thorough research regarding relevant countries, etc., but if these risks were to occur, the Group's financial condition and operating results could be impacted.

In the 142nd consolidated fiscal year, as well as the 143rd, large allowances were recorded for bad debts, mainly from clients in China and Hong Kong, and these were recorded as segmental losses. In KPP's business in China, liquidation proceedings are being pursued for KOKUSAI PULP & PAPER (CHINA) Co., Ltd., whose financial condition had deteriorated, with allowances for bad debts having been one of the primary factors. If an unanticipated loss were to occur in the liquidation process, however, the Group's financial condition and operating results could be impacted.

(8) Client credit

In the KPP Group's sales transactions, a growing number of clients are adopting the practices of credit sales and note collection. Also, current circumstances are such that in the KPP Group's wholesale pulp and paper, overseas locations, the "Asia" region represents a large percentage. In light of such circumstances, the KPP Group strives to avoid credit risk by holding credit review meetings on a regular basis for all overseas-based locations, holding annual meetings with personnel in charge of management at overseas locations, and implementing thorough individual client management. However, if clients' credit standings were to deteriorate and unrecoverable receivables were to increase beyond the anticipated level, the Group's financial condition and operating results could be impacted. Accounts receivable to the Group at the end of the current consolidated fiscal year for the Hong Kong Stock Exchange-listed Samson Paper Holdings Ltd. ("Samson Paper Holdings Group" hereinafter), which is the KPP Group's principal customer in the "Asia" district, totaled ¥15.988 billion.

(9) Retirement benefit obligations

The KPP Group utilizes defined benefit, lump-sum retirement allowance, and defined-contribution pension systems. The retirement benefit expenses and retirement benefit obligations that arise in conjunction with this are calculated on the basis of preconditions established through actuarial calculations such as the discount rate and the expected long-term rate of return on pension assets. The Group also employs stock trust for a portion of pension assets. Accordingly, if the discount rate were to fall, investment returns deteriorate, or the market value of entrusted stock fall, the Group's financial condition and operating results could be impacted.

(10) Market value fluctuations in stock held

Of stock held by the KPP Group, more than half comprises stock in firms with which the Group has close business ties, such as supplier firms, customer firms, and financial institutions. However, if the prices of relevant stock were to fluctuate due to factors such as stock market trends or relevant firms' performance, the Group's financial condition and operating results could be impacted.

(11) New business investment

In order to expand business opportunities, bolster existing business, and so on, the KPP Group makes investments in the establishment of new companies, the acquisition of existing companies, etc. In April 2017, the Group invested ¥190 million in Hokan Tokyo Business Service Co., Ltd., which provides support for home-visit nursing service business startup and operation. This investment bears certain risks, such as additional losses being incurred if invested funds were to become unrecoverable or be withdrawn, or projected earnings were to fail to materialize. There is also the possibility that funds appropriated to research and development activities could be unrecoverable due to a change in circumstances.

To manage these risks, the KPP Group is taking the following measures: operating an investment committee, carrying out sufficient deliberations regarding the profitability of investments, making verifications on a regular basis of places of investments' operating conditions, monitoring the progress of projections, etc., and making reports to the Board of Directors. However, it is difficult to completely avoid the risk of additional losses as well as the risk that profit will not increase as planned. In conjunction with changes in the business environment, withdrawals from the projects, and so on, these risks could impact the Group's financial condition and operating results.

(12) Chinese investments

The KPP Group has two equity-method manufacturing affiliates in China. Investments in the Mission Sky Group Limited Group, which deals with the production and sales of container board, in an equity-method merger with the Samson Paper Holdings Group, totaled ¥3.622 billion at the end of the current consolidated fiscal year, including goodwill totaling ¥1.178 billion. With regard to business projects involving Chinese investment, management reports are produced internally, and the progress of operating results and investment projections are monitored quarterly by responsible departments. If losses were to be incurred by equity-method affiliates and these losses diverged significantly from business projections due to unanticipated changes in circumstances (factors such as sudden changes in the business environment), they would be recorded in the consolidated financial statements in accordance with KPP's equity ratio, and this could impact the Group's financial condition and operating results.

(13) Influence of the real estate market, etc.

The KPP Group is engaged in a real estate rental business utilizing owned properties, with stabilization of the revenue base as the objective. However, if the real estate market were to incur fluctuations and the prices or rental rates of real estate owned by the Group were to fall, this could impact the Group's financial condition and operating results. Rental real estate accounted for 8.3% of total assets at the end of the current consolidated fiscal year.

(14) Relations with major shareholders

Through a March 1979 merger between Oji Paper Co., Ltd. and Nippon Pulp Industry Co., Ltd., both of which had been major shareholders, 24.3% of shareholder voting rights in KPP went to Oji Paper Co., Ltd. (the surviving company). Oji Holdings Corporation (a change in trade name from Oji Paper Co., Ltd. when the holding company structure was adopted) is no longer an affiliated company as a result of an increase in the total number of issued shares due to a public offering conducted on June 26, 2018. As a result of the decrease in the company's equity ratio, it was then no longer considered an "other affiliated company."

At the end of the current consolidated fiscal year, the company held 17% of shareholder voting rights (inclusive of indirect ownership). While KPP has continuously conducted business with the company and its group companies ("Oji Group" hereinafter) since its establishment in 1924, it now conducts business with the Oji Group under the same conditions as other paper manufacturers who are KPP suppliers.

Furthermore, the KPP Group and Oji Group share no common officers or employees, and do not receive one another's seconded employees. In addition, the KPP Group conducts independent management; no matters in management decision-making require the Oji Group's prior approval. However, if the Oji Group's management policy or strategies were to be revised in the future, the KPP Group's business activities could be impacted.

(15) Application of funds

Regarding the application of funds procured by means of an increase in capital through public offering implemented by KPP in the current consolidated fiscal year and the third-party allocation of shares, such funds were allocated to plant and equipment investment that is related to the company's internal core system and to the repayment of loans. However, if this investment were to fail to produce the anticipated results, or unanticipated increased costs were to be incurred due to delays in the plant and equipment investment, etc., the Group's financial condition and operating results could be impacted. Increased expenses, including depreciation burden, are expected subsequent to the completion of plant and equipment investment related to the company's internal core system.

Management Environment and Challenges

The KPP Group is addressing issues including: promoting overseas business, expanding packaging material business, establishing and developing new business, and enhancing corporate governance.

(i) Promotion of overseas business

From its "GIFT+1 2024" vision for long-term management, the Group places particular emphasis on "Globalization." While domestically in Japan demand for printing paper and communication paper in particular continues to be stagnant, globally levels of paper and paperboard consumption continue to rise. In the Asia-Pacific region market in particular, characterized by a high degree of potential demand, the Group aims to work in an integrated manner with regional locations to stimulate demand and to diversify revenue streams. In the 2019 fiscal year, KPP acquired 100% of the issued shares of the Spicers Limited, a firm listed on the Australian Stock Exchange which engages in wholesaling of paper, packaging materials, paper-related products, etc., and plans, making it a wholly-owned subsidiary. In addition to enhancing its sign display business, the company is devoting energy to labels and packaging products, and possesses strength in markets for wine labels and copying paper.

(ii) Expansion of packaging material business

While demand for printing and writing paper is decreasing, demand for packaging-type paper and paperboard is trending favorably in conjunction with the expansion of e-commerce and inbound demand. Also, with the trend toward deplasticization spreading globally in response to the problem of marine plastics pollution, major fast fashion retailers are switching to paper shopping bags and so on, providing evidence of a tangible global switch-over to paper. Under such circumstances, the KPP Group will strengthen efforts to meet demands related to deplasticization and share information with international organizations, research organizations, manufacturers and users through the Group's participation in the Ministry of Economy, Trade and Industry-sponsored Japan Clean Ocean Material Alliance and the Ministry of the Environment-sponsored Plastics Smart Forum.

(iii) Establishment and development of a new business

The KPP Group regards the Solutions Business, a new business undertaking for the Group, to be a sector that will play a role in future sustainable development, expanding opportunities for business by making proposals to solve issues. KPP has become a biomass fuel supplier, and the biomass power plant operational support system KPP is working to develop is expected to lead to improved operating efficiency. In the solutions business, KPP looks to coordinate with existing business in sales of paper, raw and peripheral materials, and is advancing its business activities in response to environmental issues and as social contributions. Furthermore, in order to build IT infrastructure appropriate for this age of digital transformation that can change people's lives in a positive way, KPP will engage in framework construction.

(iv) Strengthening of corporate governance

Having been listed on the First Section of the Tokyo Stock Exchange on June 26, 2018, KPP is moving forward with efforts to strengthen corporate governance in compliance with Japan's Corporate Governance Code, seeking to earn still higher levels of confidence and valuation from stakeholders. The KPP Group plans to facilitate a deeper understanding of KPP through the proper disclosure of information to stakeholders by way of IR activities and so on, improving corporate value through ESG management and making social contributions.

Consolidated Financial Statements

I. Consolidated balance sheet

Unit: ¥ million (JPY)

	Previous consolidated fiscal year (March 31, 2018)	Consolidated fiscal year under review (March 31, 2019)
Assets		
Current assets		
Cash and deposits	4,177	2,841
Notes and accounts receivable	105,692	105,767
Electronically recorded receivables	13,208	12,172
Products	17,511	15,543
Other	3,509	2,898
Allowances for bad debts	-2,139	-1,466
Total current assets	141,961	137,757
Fixed assets		
Tangible fixed assets		
Buildings and structures (Net)	6,339	6,063
Machinery, equipment and vehicles (Net)	52	47
Tools, furniture and fixtures (Net)	137	127
Land	18,197	18,053
Lease assets (Net)	151	185
Construction in progress	—	7
Total tangible fixed assets	24,878	24,484
Intangible fixed assets		
Goodwill	727	543
Software	2,453	2,735
Other	16	11
Total intangible fixed assets	3,196	3,290
Assets and other investments		
Investment securities	26,250	24,422
Long-term loans receivable	35	26
Deferred tax assets	38	12
Assets for retirement benefits	411	405
Other	2,255	2,000
Allowances for bad debts	-861	-788
Total investments and other assets	28,129	26,078
Total fixed assets	56,205	53,853
Total assets	198,166	191,610

Unit: ¥ million (JPY)

	Previous consolidated fiscal year (March 31, 2018)	Consolidated fiscal year under review (March 31, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable	84,158	83,318
Electronically recorded receivables	3,909	4,301
Short-term loans payable	32,608	30,192
Commercial paper	8,000	3,000
Lease obligations	49	57
Asset retirement obligations	—	40
Accrued income taxes, etc.	510	645
Allowances for employee bonuses	892	932
Allowances for director bonuses	26	26
Allowances for point card certificates	32	32
Other	4,401	3,938
Total current liabilities	134,589	126,484
Fixed liabilities		
Long-term loans payable	9,084	8,164
Lease obligations	112	132
Deferred tax liabilities	4,851	4,730
Allowances for directors' retirement benefits	225	19
Allowances for directors' stock benefits	—	50
Retirement benefit liabilities	148	142
Asset retirement obligations	71	31
Other	1,387	1,628
Total fixed liabilities	15,881	14,900
Total liabilities	150,471	141,384
Net assets		
Shareholders' equity		
Capital	3,442	4,723
Capital surplus	7,670	8,952
Earned surplus	28,549	30,554
Treasury stock	-153	-721
Total shareholders' equity	39,509	43,508
Accumulated other comprehensive income		
Other valuation difference on available-for-sale securities	6,389	5,461
Deferred gains or losses on hedges	8	13
Foreign currency translation adjustments	1,070	713
Cumulative adjustments to retirement benefits	569	420
Total accumulated other comprehensive income	8,037	6,608
Non-controlling shareholders' interest	148	107
Total net assets	47,694	50,225
Total liabilities and net assets	198,166	191,610

II. Consolidated profit and loss statement and consolidated statement of comprehensive income

Consolidated profit and loss statement

Unit: ¥ million (JPY)

	Previous consolidated fiscal year (April 1, 2017 to March 31, 2018)	Consolidated fiscal year under review (April 1, 2018 to March 31, 2019)
Sales	377,714	384,973
Cost of goods sold	355,706	362,909
Gross profit	22,008	22,064
Selling, general and administrative expenses		
Selling expenses	5,524	5,359
Employee salaries and allowances	6,000	6,073
Provision of allowance for employee bonuses	887	921
Provision of allowance for director bonuses	26	26
Retirement benefit expenses	302	83
Provision of allowance for bad debts	43	17
Provision of allowance for directors' retirement benefits	57	6
Provision of allowance for directors' stock benefits	—	50
Other	6,803	7,245
Total selling, general and administrative expenses	19,645	19,783
Operating income	2,362	2,280
Non-operating income		
Interest income	469	556
Dividend income	413	426
Foreign exchange profit	93	—
Other	386	277
Total non-operating income	1,363	1,259
Non-operating expenses		
Interest expense	443	555
Loss on sale of accounts receivable	27	31
Foreign exchange loss	—	130
Investment loss through the equity method	81	142
Other	87	161
Total non-operating expenses	640	1,021
Ordinary income	3,086	2,518
Extraordinary gains		
Gain on sale of fixed assets	619	1,518
Gain on sale of investment securities	3	106
Other	0	—
Total extraordinary gains	623	1,625
Extraordinary losses		
Loss on sale of fixed assets	—	39
Loss on disposal of fixed assets	13	6
Impairment loss	—	69
Appraised losses in investment securities	14	70
Other	43	0
Total extraordinary losses	71	186
Net income before taxes and other adjustments	3,639	3,957
Corporate, inhabitant and enterprise taxes	888	1,143
Adjustments for corporate taxes, etc.	298	310
Total corporate taxes, etc.	1,187	1,453
Net profits	2,452	2,503
Profit attributable to non-controlling shareholders	18	5
Profit attributable to owners of parent	2,433	2,497

Consolidated statement of comprehensive income

Unit: ¥ million (JPY)

	Previous consolidated fiscal year (April 1, 2017 to March 31, 2018)	Consolidated fiscal year under review (April 1, 2018 to March 31, 2019)
Net profits	2,452	2,503
Other comprehensive income		
Other valuation difference on available-for-sale securities	1,052	-927
Deferred gains or losses on hedges	-2	5
Foreign currency translation adjustments	11	-113
Adjustments to retirement benefits	574	-148
Equity equivalents for affiliated companies accounted for by the equity method	84	-246
Total other comprehensive income	1,719	-1,431
Comprehensive income	4,171	1,072
Breakdown		
Comprehensive income attributable to owners of parent	4,152	1,069
Comprehensive income attributable to non-controlling shareholders	19	2

III. Consolidated statement of changes in shareholders' equity

Previous consolidated fiscal year (April 1, 2017 to March 31, 2018)

Unit: ¥ million (JPY)

	Shareholders' equity					Total shareholders' equity
	Capital	Capital surplus	Earned surplus	Treasury stock		
Balance at beginning of term under review	3,442	7,670	26,648	-153		37,608
Amount of change in term under review						
Dividends of surplus			-532			-532
Profit attributable to owners of parent			2,433			2,433
Acquisition of treasury stock				-0		-0
Amount of change in term under review for items other than shareholder's equity (Net)			1,901	-0		1,900
Total amount of change in term under review	—	—	1,901	-0		1,900
Balance at end of term under review	3,442	7,670	28,549	-153		39,509

	Accumulated other comprehensive income				Non-controlling shareholders' interest	Total net assets
	Other valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Cumulative adjustments to retirement benefits		
Balance at beginning of term under review	5,337	10	976	-4	116	44,044
Amount of change in term under review						
Dividends of surplus						-532
Profit attributable to owners of parent						2,433
Acquisition of treasury stock						-0
Amount of change in term under review for items other than shareholder's equity (Net)	1,052	-2	94	574	31	1,749
Total amount of change in term under review	1,052	-2	94	574	31	3,650
Balance at end of term under review	6,389	8	1,070	569	148	47,694

Consolidated fiscal year under review (April 1, 2018 to March 31, 2019)

Unit: ¥ million (JPY)

	Shareholders' equity					Total shareholders' equity
	Capital	Capital surplus	Earned surplus	Treasury stock		
Balance at beginning of term under review	3,442	7,670	28,549	-153		39,509
Amount of change in term under review						
New issue of shares	1,280	1,280				2,561
Dividends of surplus			-532			-532
Profit attributable to owners of parent			2,497			2,497
Acquisition of treasury stock				-570		-570
Disposition of treasury stock				2		2
Change in parent company's equity concerning transactions with non-controlling shareholders			1			1
Change of scope of consolidation						40
Amount of change in term under review for items other than shareholder's equity (Net)	1,280	1,281	2,005	-568		3,999
Total amount of change in term under review	1,280	1,281	2,005	-568		3,999
Balance at end of term under review	4,723	8,952	30,554	-721		43,508

	Accumulated other comprehensive income				Non-controlling shareholders' interest	Total net assets
	Other valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Cumulative adjustments to retirement benefits		
Balance at beginning of term under review	6,389	8	1,070	569	148	47,694
Amount of change in term under review						
New issue of shares						2,561
Dividends of surplus						-532
Profit attributable to owners of parent						2,497
Acquisition of treasury stock						-570
Disposition of treasury stock						2
Change in parent company's equity concerning transactions with non-controlling shareholders						1
Change of scope of consolidation						40
Amount of change in term under review for items other than shareholder's equity (Net)	-927	5	-357	-148	-40	-1,468
Total amount of change in term under review	-927	5	-357	-148	-40	2,530
Balance at end of term under review	5,461	13	713	420	107	50,225

IV. Consolidated statement of cash flows

Unit: ¥ million (JPY)

	Previous consolidated fiscal year (April 1, 2017 to March 31, 2018)	Consolidated fiscal year under review (April 1, 2018 to March 31, 2019)
Cash flows from business activities		
Net income before taxes and other adjustments	3,639	3,957
Depreciation cost	433	525
Impairment loss	—	69
Amortization of goodwill	114	114
Investment gains and losses through the equity method (-: Gain)	81	142
Appraised gains and losses in investment securities (-: Gain)	14	70
Increase or decrease in retirement benefit liabilities (-: Decrease)	-16	-142
Increase or decrease in allowances for directors' retirement benefits (-: Decrease)	-3	-205
Increase or decrease in allowances for directors' stock benefits (-: Decrease)	—	50
Increase or decrease in allowances for employee bonuses (-: Decrease)	-30	30
Increase or decrease in allowances for director bonuses (-: Decrease)	4	-0
Increase or decrease in allowances for bad debts (-: Decrease)	-466	-503
Increase or decrease in allowances for point card certificates (-: Decrease)	2	-0
Interest and dividend income	-883	-982
Interest expense	443	555
Gain or loss on sale, disposal or impairment of fixed assets (-: Gain)	-606	-1,472
Gain or loss on sale of investment securities (-: Gain)	-3	-106
Increase or decrease in accounts receivable (-: Increase)	-522	-40
Increase or decrease in inventories (-: Increase)	-1,762	2,006
Increase or decrease in other assets (-: Increase)	-323	721
Increase or decrease in accounts payable (-: Decrease)	3,972	260
Increase or decrease in other liabilities (-: Decrease)	384	-235
Other	57	-26
Subtotal	4,530	4,789
Amount of interest and dividend income	889	990
Amount paid in interest	-456	-556
Amount paid in corporate taxes, etc.	-944	-1,006
Cash flows from operating activities	4,019	4,217
Cash flows from investing activities		
Expenditures for payments into time deposits	-2	—
Proceeds from withdrawal of time deposits	20	41
Expenditures for acquisitions of tangible and intangible fixed assets	-8,583	-546
Proceeds from sales of tangible and intangible fixed assets	759	1,640
Expenditures for acquisitions of investment securities	-211	-94
Proceeds from sales of investment securities	8	198
Expenditures for payment of investments in capital	—	-19
Proceeds from recovery of investments in capital	—	70
Expenditures for transfer of business	—	-92
Expenditures for payments of loan receivables	-83	-1,146
Proceeds from collection of loans receivable	50	1,055
Proceeds from collection of lease deposits	114	—
Other	7	22
Cash flows from investing activities	-7,920	1,130
Cash flows from financing activities		
Net increase or decrease in short-term loans payable (-: Decrease)	1,328	-2,556
Net increase or decrease in commercial paper (-: Decrease)	4,000	-5,000
Proceeds from long-term loans payable	7,000	2,030
Expenditures for repayment of long-term loans payable	-6,004	-2,465
Proceeds from issuance of shares	—	2,561
Change in parent company's equity concerning transactions with non-controlling shareholders	10	—
Expenditures for acquisitions of treasury stock	-0	-570
Proceeds from sales of treasury stock	—	2
Amount paid in dividends	-532	-532
Other	-40	-91
Cash flows from financing activities	5,760	-6,623
Translation differences regarding cash and cash equivalents	-15	-149
Increase or decrease in cash and cash equivalents (-: Decrease)	1,843	-1,425
Balance of cash and cash equivalents at beginning of term under review	2,291	4,135
Increase or decrease in cash and cash equivalents in conjunction with change of scope of consolidation (-: Decrease)	—	128
Balance of cash and cash equivalents at beginning of term under review	4,135	2,838

Corporate Profile

Trade name

KOKUSAI PULP&PAPER CO., LTD.

Date of establishment

November 27, 1924

Representative

Director of the Board, President & CEO

Madoka Tanabe

Capital

¥4,723.53 million (JPY)

Annual sales

¥384.9 billion (JPY)

(as of the year ended in March of 2019) *Consolidated

Number of employees

1,005 (as of March 31, 2019) *Consolidated

Business objectives

- Purchase, sales, import and export of paper and paper processed goods
- Purchase, sales, import and export of pulp and recovered paper
- Purchase, sales, import and export of chemical products, industrial chemicals, horticultural chemicals, paper-related machinery, packaging equipment, industrial electrical equipment, transportation equipment, electrical components, office equipment, construction materials, packing and packaging materials, printing-related supplies, miscellaneous daily necessities, sanitary and medical materials, fuel for paper mill boilers, industrial products for the manufacture of paper/paper products, and biomass fuels
- Buying and selling business of used materials and articles
- Collection, transport and processing/disposal of industrial and general waste
- Wholesaling, brokerage, agency service, leasing and processing related to the previously enumerated categories
- Processing, purchase, sales, import and export of food items
- Holding, leasing, purchase, sales, management and brokerage of real estate
- Contracting of construction work
- Supervision of construction and design of architectural structures
- Warehousing
- Agency service related to property insurance
- Owning of and investments in securities
- Any and all businesses ancillary to the previously enumerated categories

Shareholdings

Total number of authorized shares

267,500,000

Total number of issued shares

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

Affiliated companies

Domestic (Japan)

● Narumiya Kami-shoji Co., Ltd.

● Daidou Paper Trading Co., Ltd.

● Kikyoya Kami-shoji Co., Ltd.

● Okayama Kami-shoji Co., Ltd.

● Kyushu Kami-shoji Co., Ltd.

● Musashino Paper Recycling Co., Ltd.

● Green Sanai Co., Ltd.

● KPP Logistics Co., Ltd.

Overseas

● KOKUSAI PULP & PAPER (CHINA) CO., Ltd.

● DAIEI AUSTRALASIA PTY LTD

● DaiEi Papers (H.K.) Limited

● DaiEi Papers (USA) Corp.

● DAIEI PAPERS (S) PTE LTD

● Keishin Papers Trade (Shanghai) Co., LTD.

● DAIEI PAPERS (THAILAND) CO., LTD.

● DAIEI PAPERS (M) SDN. BHD.

● KPP ASIA-PACIFIC PTE. LTD.

● DaiEi Papers Korea Company Limited

● DAIEI PAPERS TRADING INDIA PRIVATE LTD

● Spicers Limited



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* Printing process that contributes to reducing the environmental load is used.