

Japan Pulp and Paper Company Limited

2015

Annual Review





Message from the President

Paper, and beyond



President **Kenzo Noguchi**

In April 2014, the Japan Pulp and Paper Group started to implement the JP Group Mid-term Business Plan 2016. The plan's aim is to maintain the top share in our key paper and paperboard distribution business in Japan, while further developing the new businesses with future potential we have been working on, including the non-Japan wholesaling, household paper, and resources & environmental businesses, and thus to maximize the Group's value by leveraging synergies between traditional and new business activities.

This fiscal year, which is the second year of the JP Group Mid-term Business Plan 2016, will be critical for the establishment of the business format we envision for the Japan Pulp and Paper Group and to realize our ordinary

income target of ¥10 billion in the final fiscal year of the Plan. Facilities that will be leading drivers of the new businesses we have been working on, such as the new household paper mill in Shizuoka and the solar-power generation plant in Hokkaido, started operations in the first half of the fiscal year. We believe this will be a period of major acceleration for the Japan Pulp and Paper Group as we move to the next level.

We are always surrounded by paper in our daily lives, and I am convinced paper is a material with great potential. Japan Pulp and Paper Company Limited and its group companies will continue to contribute to society through a business focused on our key product, paper, while exploring the infinite possibilities of paper and what lies beyond it.

Overview of the Japan Pulp and Paper Group



Foundation Year
1845



Operating Income
(consolidated)
US\$54 million

¥6.5
billion



Group Employees
3,164



Subsidiaries & Affiliates
99
56 domestic / 43 overseas



Overseas Network

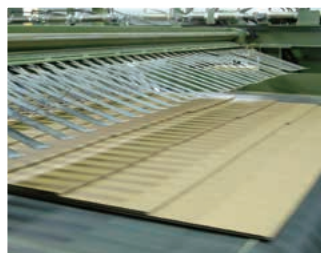
66

21 countries, 51 cities



Net Sales
(consolidated)
US\$4.4 billion

¥530.2
billion



Ordinary Income
(consolidated)
US\$52.9 million

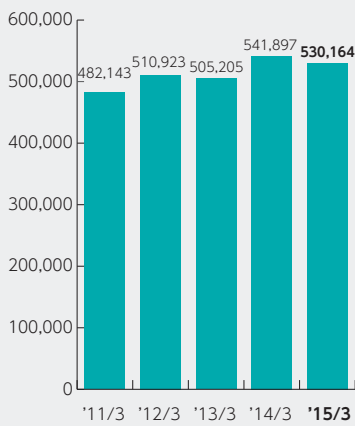
¥6.4
billion



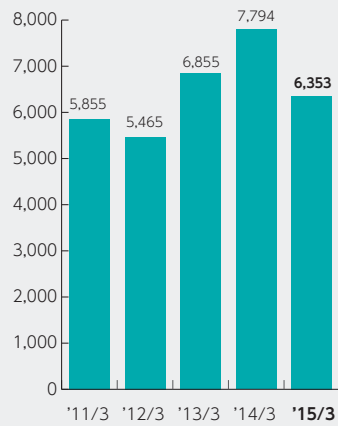
As of March 31, 2015; Currency rate: US\$1 = ¥120.17

Consolidated Financial Highlights

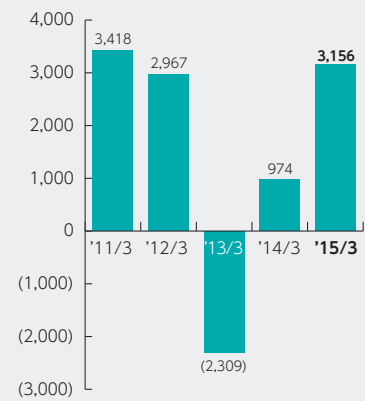
Net Sales
(Millions of yen)



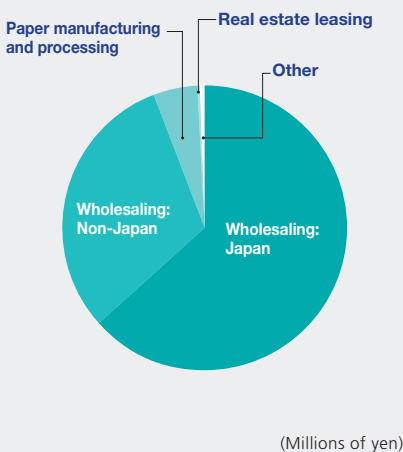
Ordinary Income
(Millions of yen)



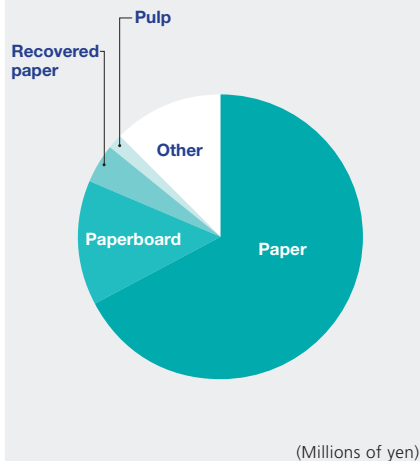
Net Income
(Millions of yen)



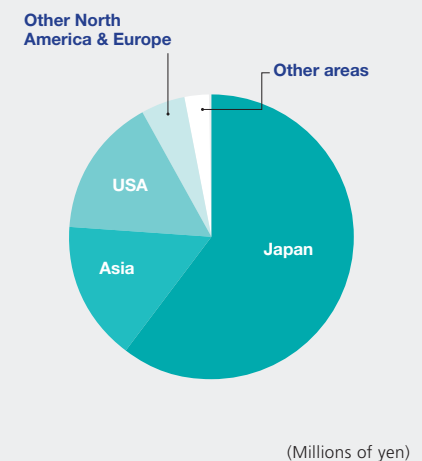
Sales by Industry Segment
2015/3



Sales by Product Segment
2015/3



Sales by Geographic Segment
2015/3



Wholesaling: Japan 336,280 (63.4%)	Real estate leasing 2,301 (0.4%)
Wholesaling: Non-Japan 164,027 (30.9%)	Other 2,070 (0.4%)
Paper manufacturing and processing 25,487 (4.8%)	

Paper 357,572 (67.4%)	Pulp 9,185 (1.7%)
Paperboard 74,278 (14.0%)	Other 65,602 (12.4%)
Recovered paper 23,527 (4.4%)	

Japan 321,042 (60.6%)	Other North America & Europe 26,843 (5.1%)
Asia 83,664 (15.8%)	Other areas 15,391 (2.9%)
USA 83,224 (15.7%)	

* Wholesaling is segmented as Japan or Non-Japan in accordance with the location of the business base.

* Segments are based on the location of customers.



Consolidated Financial Highlights

	2011/3	2012/3	2013/3	2014/3	2015/3
Net sales (Millions of yen/Millions of U.S. dollars)	¥482,143	¥510,923	¥505,205	¥541,897	¥530,164 \$4,412
Operating income (Millions of yen/Millions of U.S. dollars)	—	5,456	6,718	7,844	6,491 \$54
Ordinary income (Millions of yen/Millions of U.S. dollars)	5,855	5,465	6,855	7,794	6,353 \$53
Net income (Millions of yen/Millions of U.S. dollars)	3,418	2,967	(2,309)	974	3,156 \$26
Comprehensive income (Millions of yen/Millions of U.S. dollars)	1,887	1,996	2,637	6,137	8,999 \$75
Net assets (Millions of yen/Millions of U.S. dollars)	68,164	68,573	69,011	74,717	82,523 \$687
Total assets (Millions of yen/Millions of U.S. dollars)	260,205	282,899	276,891	292,686	310,058 \$2,580
Net assets per share (Yen/U.S. dollars)	451.52	453.71	460.35	498.02	543.36 \$4.52
Net income per share (Yen/U.S. dollars)	23.36	20.28	(15.88)	6.78	21.96 \$0.18
Diluted net income per share (Yen/U.S. dollars)	—	20.25	—	6.75	21.84 \$0.18
Cash dividends per share (Yen/U.S. dollars)	10	10	10	10	10 \$0.08
Payout ratio (%)	42.8	49.3	—	147.5	45.5
Equity ratio (%)	25.4	23.5	23.9	24.5	25.2
Return on equity (%)	5.2	4.5	(3.5)	1.4	4.2
Price/Earnings ratio (PER) (Times)	13.4	14.6	—	51.6	14.8
Net cash provided by (used in) operating activities (Millions of yen/Millions of U.S. dollars)	3,460	(1,609)	16,410	7,559	7,545 \$63
Net cash provided by (used in) investing activities (Millions of yen/Millions of U.S. dollars)	(3,823)	221	(2,686)	(10,762)	(18,517) \$(154)
Net cash provided by (used in) financing activities (Millions of yen/Millions of U.S. dollars)	515	1,223	(12,789)	2,707	11,004 \$92
Cash and cash equivalents at end of period (Millions of yen/Millions of U.S. dollars)	3,888	3,645	4,751	4,863	5,569 \$46
Number of employees	2,486	2,985	3,135	3,146	3,164

Notes:

- 1) This financial information is presented based on generally accepted accounting principles in Japan.
- 2) Consumption tax has not been included in net sales.
- 3) In April 2012, the Company made a system change that readjusted the method for stating costs due to a change to the Company's organization. Therefore, the figures for operating income for 2012/3 (the fiscal year ended March 31, 2012) are recalculated. Figures prior to this are not listed.
- 4) Regarding net income for the fiscal year ended March 31, 2013, the Company recorded a net loss of ¥2,309 million due to a ¥5,986 million write-down of investment securities.
- 5) Net income for the fiscal year ended March 31, 2014 was ¥974 million after the recording of an extraordinary loss of ¥3,139 million due to the occurrence of uncollectable or overdue receivables in both China and Europe.
- 6) The price/earnings ratio (PER) for the fiscal year ended March 31, 2013 has not been stated since the Company recorded a net loss.
- 7) All U.S. dollar amounts are presented solely for the readers' convenience and are converted at the exchange rate (TTM) of 120.17 yen to the dollar as of March 31, 2015.

Consolidated Balance Sheets

Japan Pulp and Paper Company Limited and Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

ASSETS	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Current assets:			
Cash and deposits	¥ 5,588	¥ 4,881	\$ 46,499
Notes and accounts receivable-trade	134,974	142,047	1,123,191
Inventories	29,349	26,288	244,226
Deferred tax assets	1,584	2,032	13,182
Other	5,275	4,795	43,895
Allowance for doubtful accounts	(1,240)	(3,263)	(10,316)
Total current assets	175,530	176,779	1,460,679
Property, plant and equipment:			
Buildings and structures, net	30,066	28,613	250,194
Machinery, equipment and vehicles, net	10,119	10,286	84,206
Tools, furniture and fixtures, net	768	707	6,388
Land	25,563	26,246	212,720
Lease assets, net	122	107	1,016
Construction in progress	22,790	9,452	189,651
Total property, plant and equipment	89,428	75,411	744,177
Intangible assets			
Goodwill	1,017	1,250	8,465
Other	1,233	1,163	10,264
Total intangible assets	2,251	2,412	18,729
Investments and other assets:			
Investment securities	37,723	33,948	313,913
Deferred tax assets	1,481	1,677	12,328
Net defined benefit assets	18	4	145
Other	7,517	3,665	62,557
Allowance for doubtful accounts	(3,994)	(1,229)	(33,233)
Total investments and other assets	42,746	38,065	355,710
Total non-current assets	134,424	115,888	1,118,617
Deferred assets	103	19	861
Total assets	¥310,058	¥292,686	\$2,580,157

Notes: Unless otherwise specified, all dollar figures in this annual review refer to U.S. currency.

All U.S. dollar amounts are presented solely for the readers' convenience and are converted at the exchange rate (TTM) of 120.17 yen to the dollar as of March 31, 2015.

Consolidated Balance Sheets

Japan Pulp and Paper Company Limited and Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Current liabilities:			
Notes and accounts payable-trade	¥ 95,804	¥102,796	\$ 797,234
Short-term loans payable	49,328	46,235	410,485
Current portion of long-term loans payable	1,154	2,541	9,603
Commercial papers	4,500	14,000	37,446
Current portion of bonds	15,050	80	125,239
Lease obligations	56	54	466
Income taxes payable	1,568	1,141	13,049
Reserve for bonuses	1,506	1,552	12,533
Reserve for directors' bonuses	116	122	965
Reserve for loss on dissolution of employees' pension fund	—	749	—
Other	7,893	7,350	65,679
Total current liabilities	176,975	176,620	1,472,703
Non-current liabilities:			
Bonds payable	20,025	15,075	166,638
Long-term loans payable	21,309	16,133	177,320
Lease obligations	117	101	970
Deferred tax liabilities	3,315	2,208	27,581
Reserve for directors' retirement benefits	112	179	935
Net defined benefit liability	724	2,445	6,027
Other	4,959	5,208	41,263
Total non-current liabilities	50,560	41,349	420,738
Total liabilities	227,535	217,968	1,893,442
Net assets:			
Shareholders' equity			
Capital stock	16,649	16,649	138,544
Capital surplus	15,249	15,247	126,899
Retained earnings	37,656	35,977	313,352
Treasury stock	(2,142)	(2,146)	(17,822)
Total shareholders' equity	67,412	65,727	560,974
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	7,764	5,122	64,609
Deferred gains or losses on hedges	0	(3)	2
Foreign currency translation adjustments	1,413	570	11,761
Remeasurements of defined benefit plans	1,505	157	12,527
Total accumulated other comprehensive income	10,683	5,846	88,901
Subscription rights to shares	218	166	1,817
Minority interests	4,209	2,978	35,023
Total net assets	82,523	74,717	686,715
Total liabilities and net assets	¥310,058	¥292,686	\$2,580,157

Consolidated Statements of Income

Japan Pulp and Paper Company Limited and Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Net sales	¥530,164	¥541,897	\$4,411,786
Cost of sales	479,462	491,541	3,989,860
Gross profit	50,703	50,355	421,926
Selling, general and administrative expenses	44,212	42,512	367,910
Operating income	6,491	7,844	54,015
Non-operating income:			
Interest income	48	56	398
Dividend income	704	600	5,854
Equity in earnings of affiliates	173	62	1,443
Foreign exchange gains	—	206	—
Other	529	546	4,400
Total	1,454	1,469	12,097
Non-operating expenses:			
Interest expenses	1,324	1,327	11,020
Other	268	192	2,227
Total	1,592	1,519	13,247
Ordinary income	6,353	7,794	52,865
Extraordinary income:			
Reversal of reserve for loss on dissolution of employees' pension fund	749	—	6,229
Insurance income	483	—	4,022
Gain on sales of investment securities	184	116	1,534
Gain on sales of non-current assets	80	86	665
Subsidy income	24	30	199
Gain on bargain purchase	—	14	—
Other	—	19	—
Total	1,520	265	12,651
Extraordinary loss:			
Loss by fire	299	—	2,491
Impairment losses	252	—	2,093
Loss on disposal of noncurrent assets	85	597	707
Loss on valuation of investment securities	83	—	690
Provision of allowance for doubtful accounts	—	2,575	—
Provision of reserve for loss on dissolution of employee's pension fund	—	768	—
Bad debts written off	—	565	—
Other	32	73	267
Total	751	4,577	6,250
Income before income taxes	7,122	3,481	59,266
Income taxes—current	2,645	2,188	22,010
Income taxes—deferred	477	249	3,968
Income before minority interests	4,000	1,045	33,287
Minority interests in income	844	71	7,021
Net income	¥ 3,156	¥ 974	\$ 26,265
		Yen	U.S. dollars
Per share data:			
Net income	¥ 21.96	¥ 6.78	\$ 0.18
Cash dividends	10.00	10.00	0.08

Consolidated Statements of Comprehensive Income

Japan Pulp and Paper Company Limited and Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Income before minority interests	¥4,000	¥1,045	\$33,287
Other comprehensive income			
Valuation difference on available-for-sale securities	2,651	3,511	22,063
Deferred gains or losses on hedges	4	1	30
Foreign currency translation adjustment	940	1,479	7,818
Remeasurements of defined benefit plans	1,348	—	11,217
Share of other comprehensive income of associates accounted for using equity method	56	102	465
Total other comprehensive income	4,999	5,092	41,596
Comprehensive income	8,999	6,137	74,883
Comprehensive income attributable to			
Comprehensive income attributable to owners of the parent	7,994	5,950	66,519
Comprehensive income attributable to minority interests	1,005	187	8,364

Consolidated Statements of Changes in Net Assets

Japan Pulp and Paper Company Limited and Consolidated Subsidiaries
Years ended March 31, 2015

	Millions of yen												
	Shareholders' equity					Accumulated other comprehensive income							
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
Balance at April 1, 2014	¥16,649	¥15,247	¥35,977	¥(2,146)	¥65,727	¥5,122	¥(3)	¥570	¥157	¥5,846	¥166	¥2,978	¥74,717
Changes of items during the period													
Dividends from surplus			(1,439)		(1,439)								(1,439)
Net income			3,156		3,156								3,156
Purchase of treasury stock				(5)	(5)								(5)
Disposal of treasury stock		(3)		9	6								6
Change in the scope of consolidation			(36)		(36)								(36)
Transfer to capital surplus from retained earnings		3	(3)		—								—
Purchase of shares of consolidated subsidiaries		2			2								2
Net changes of items other than shareholders' equity						2,642	4	844	1,348	4,837	53	1,231	6,120
Total changes of items during the period	—	2	1,678	4	1,685	2,642	4	844	1,348	4,837	53	1,231	7,805
Balance at March 31, 2015	¥16,649	¥15,249	¥37,656	¥(2,142)	¥67,412	¥7,764	¥0	¥1,413	¥1,505	¥10,683	¥218	¥4,209	¥82,523

	Thousands of U.S. dollars												
	Shareholders' equity					Accumulated other comprehensive income							
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
Balance at April 1, 2014	\$138,544	\$126,881	\$299,385	\$(17,857)	\$546,953	\$42,623	\$(27)	\$4,741	\$1,310	\$48,647	\$1,379	\$24,782	\$621,763
Changes of items during the period													
Dividends from surplus			(11,978)		(11,978)								(11,978)
Net income			26,265		26,265								26,265
Purchase of treasury stock				(41)	(41)								(41)
Disposal of treasury stock		(22)		76	53								53
Change in the scope of consolidation			(296)		(296)								(296)
Transfer to capital surplus from retained earnings		22	(22)		—								—
Purchase of shares of consolidated subsidiaries		17			17								17
Net changes of items other than shareholders' equity						21,985	30	7,020	11,217	40,253	437	10,240	50,931
Total changes of items during the period	—	17	13,967	35	14,020	21,985	30	7,020	11,217	40,253	437	10,240	64,951
Balance at March 31, 2015	\$138,544	\$126,899	\$313,352	\$(17,822)	\$560,974	\$64,609	\$2	\$11,761	\$12,527	\$88,901	\$1,817	\$35,023	\$686,715

Consolidated Statements of Cash Flows

Japan Pulp and Paper Company Limited and Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Net cash provided by (used in) operating activities:			
Income before income taxes	¥ 7,122	¥ 3,481	\$ 59,266
Depreciation and amortization	4,156	4,011	34,582
Amortization of goodwill	576	423	4,789
Impairment losses	252	—	2,093
Increase (decrease) in net defined benefit liability	232	352	1,931
Increase (decrease) in allowance for doubtful accounts	457	1,883	3,806
Increase (decrease) in reserve for bonus	(50)	48	(412)
Increase (decrease) in other reserves	(820)	890	(6,826)
Interest and dividend income	(752)	(655)	(6,253)
Interest expenses	1,324	1,327	11,020
Insurance income	(483)	—	(4,022)
Equity in losses (gains) of affiliates	(173)	(62)	(1,443)
Loss (gain) on sale of property, plants or equipment	(77)	39	(643)
Loss (gain) on valuation of investment securities	83	—	690
(Gain) loss on sales of investment securities	(171)	(110)	(1,421)
Recognized gain on negative goodwill	—	(14)	—
Decrease (increase) in notes and accounts receivable-trade	8,995	5,326	74,848
Decrease (increase) in inventories	(1,316)	(2,607)	(10,954)
Increase (decrease) in notes and accounts payable-trade	(9,300)	(3,303)	(77,393)
Decrease (increase) in other current assets	883	(20)	7,350
Increase (decrease) in other current liabilities	(1,134)	(641)	(9,439)
Others, net	(136)	(210)	(1,135)
Subtotal	9,666	10,157	80,433
Interest and dividend income received	998	684	8,301
Interest paid	(1,338)	(1,366)	(11,133)
Income taxes paid	(2,264)	(1,916)	(18,837)
Proceeds from insurance income	483	—	4,022
Net cash provided by (used in) operating activities	7,545	7,559	62,787

Consolidated Statements of Cash Flows

Japan Pulp and Paper Company Limited and Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Net cash provided by (used in) investing activities:			
Purchase of property, plant and equipment	(17,504)	(10,936)	(145,659)
Proceeds from sales of property, plant and equipments	674	802	5,607
Purchase of intangible assets	(274)	(53)	(2,279)
Purchase of investment securities	(512)	(1,344)	(4,260)
Proceeds from sales of investment securities	325	301	2,701
Payments of long-term loans receivable	(756)	(4)	(6,290)
Collection of long-term loans receivable	76	55	634
Payments for acquisition of shares of subsidiaries resulting in change in scope of consolidation	(172)	—	(1,430)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	—	138	—
Proceeds from transfer of business	(138)	—	(1,148)
Others, net	(236)	280	(1,962)
Net cash provided by (used in) investing activities	(18,517)	(10,762)	(154,087)
Net cash provided by (used in) financing activities:			
Net increase (decrease) in short-term loans payable	(1,686)	2,076	(14,026)
Increase (decrease) in commercial papers	(9,500)	1,000	(79,054)
Proceeds from long-term loans payable	6,295	11,062	52,383
Repayment of long-term loans payable	(2,656)	(9,735)	(22,105)
Proceeds from issuance of bonds	19,898	—	165,581
Redemption of bonds	(80)	(180)	(665)
Purchase of treasury stock	(5)	(7)	(41)
Cash dividends paid	(1,439)	(1,439)	(11,978)
Proceeds from stock issuance to minority shareholders	300	—	2,496
Cash dividends paid to minority shareholders	(64)	(48)	(533)
Others, net	(58)	(22)	(483)
Net cash provided by (used in) financing activities	11,004	2,707	91,571
Effects of exchange rate change on cash and cash equivalents	673	606	5,603
Net increase (decrease) in cash and cash equivalents	706	111	5,875
Cash and cash equivalents at beginning of period	4,863	4,751	40,466
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	0	1	0
Cash and cash equivalents at end of period	¥ 5,569	¥ 4,863	\$ 46,342

New Shin-Ei Paper Mfg Mill Began Operation

In June 2015, a new household paper mill began operating at a site recently redeveloped by the Corelex Group, which is a major player in the Japanese recycled household paper sector.

The operation of this new mill is expected to increase efficiency and reduce warehousing and delivery costs

by consolidating the Corelex Group's production sites. It is also expected to result in enhanced product quality and a reduced environmental burden due to the introduction of highly energy efficient state-of-the-art facilities.



Exterior view of the new mill (Photograph: May 2015)



State-of-the-art household paper manufacturing machine

Renewable Energy Initiatives Two New Power Generation Plants Began Operations in 2015

The Japan Pulp and Paper Group is developing its resource and environment-related businesses in collaboration with other companies, including existing customers, as well as with local governments.

In the field of renewable energy, a wood-based biomass power generation plant in Shimane prefecture began operations in April as a joint project with

Nakabayashi Co., Ltd., and Eco Power JP Co., Ltd. also began operation of a new solar-power generation plant in Hokkaido in July. In addition, Noda Bio Power JP Co., Ltd. is currently constructing a wood-based biomass power generation plant in the Tohoku Region, with operations at the plant scheduled to commence in April 2016.



The solar-power generation plant built on an expansive hillside in Kushiro City, Hokkaido



Construction is progressing on a wood-based biomass power plant in Noda Village, Iwate prefecture (Photograph: May 2015)



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