

Japan Pulp and Paper Company Limited

2016

Annual Review



Paper, and beyond



President **Kenzo Noguchi**

The Japan Pulp and Paper Group is currently expanding into new fields of business in line with its Mid-term Business Plan 2016. Following investment in our recycled household paper business, our new paper mill in Shizuoka Prefecture started operations during the previous fiscal year, as did the Group's third large-scale solar power generation plant, this time in Hokkaido. In the United States, meanwhile, we further bolstered our non-Japan wholesaling business by converting group company Gould Paper Corporation into a wholly owned subsidiary. The Group's third biomass power generation plant is also due to come on line in Iwate Prefecture during the current fiscal year.

Thus, stage one of the Japan Pulp and Paper Group's expansion into new business fields is largely complete. We now move on to the second stage, which requires us to further enhance efficiency in our key Japan wholesaling

business, while focusing on making the most of our four new business mainstays, comprising non-Japan wholesaling, paper manufacturing and processing (centered on household papers), resources and environmental business, and real estate leasing. We will make these five businesses into reliable earnings drivers for the Group, aiming to rapidly achieve our current target of ¥10 billion in ordinary income, and thereafter to attain our next target, the business metric of 8% in ROE.

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.

Japan Pulp and Paper Group in Numbers



Foundation
1845



Operating Income
(consolidated)
US\$56.6 million

¥6.4
billion



Group Employees
3,110



Subsidiaries & Affiliates
98
55 domestic / 43 overseas



Overseas Network

63

22 countries, 50 cities



Net Sales
(consolidated)
US\$4.5 billion

¥506.6
billion



Ordinary Income
(consolidated)
US\$62.2 million

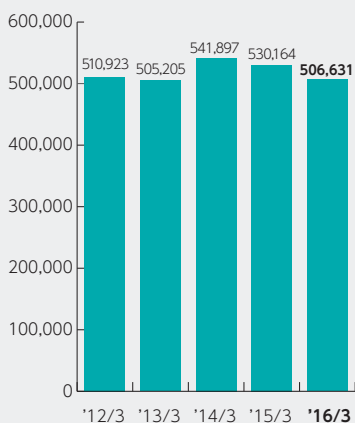
¥7.0
billion



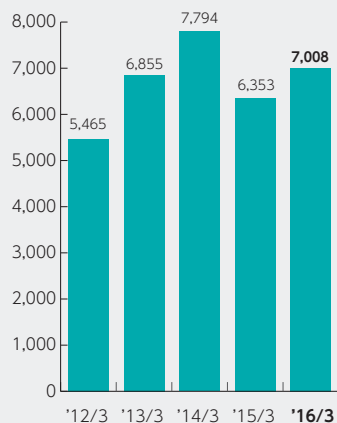
As of March 31, 2016; Currency rate: US\$1 = ¥112.68

Consolidated Financial Highlights

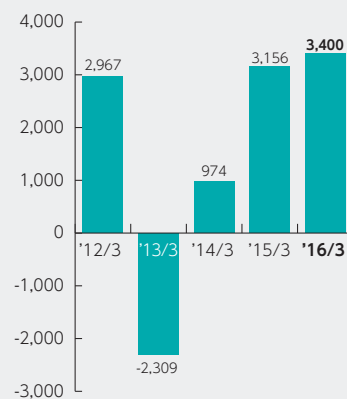
Net Sales
(Millions of yen)



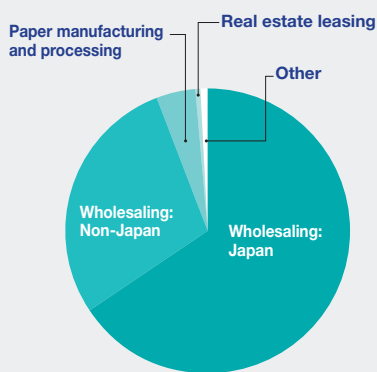
Ordinary Income
(Millions of yen)



Profit Attributable to Owners of Parent
(Millions of yen)



Sales by Business Segment
2016/3

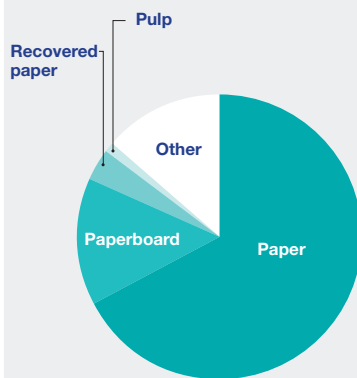


(Millions of yen)

Wholesaling: Japan 332,939 (65.7%)	Real estate leasing 2,594 (0.5%)
Wholesaling: Non-Japan 145,515 (28.7%)	Other 3,325 (0.7%)
Paper manufacturing and processing 22,258 (4.4%)	

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

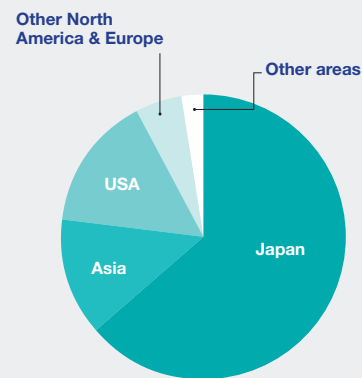
Sales by Product Segment
2016/3



(Millions of yen)

Paper 341,286 (67.4%)	Pulp 6,628 (1.3%)
Paperboard 72,676 (14.3%)	Other 67,799 (13.4%)
Recovered paper 18,242 (3.6%)	

Sales by Geographic Segment
2016/3



(Millions of yen)

Japan 323,246 (63.8%)	Other North America & Europe 26,189 (5.2%)
Asia 67,394 (13.3%)	Other areas 12,350 (2.4%)
USA 77,452 (15.3%)	

* Segments are based on the location of customers.

Consolidated Financial Highlights

	2012/3	2013/3	2014/3	2015/3	2016/3
Net sales (Millions of yen/Millions of U.S. dollars)	¥510,923	¥505,205	¥541,897	¥530,164	¥506,631 \$4,496
Operating income (Millions of yen/Millions of U.S. dollars)	5,456	6,718	7,844	6,491	6,380 \$57
Ordinary income (Millions of yen/Millions of U.S. dollars)	5,465	6,855	7,794	6,353	7,008 \$62
Profit attributable to owners of parent (Millions of yen/Millions of U.S. dollars)	2,967	(2,309)	974	3,156	3,400 \$30
Comprehensive income (Millions of yen/Millions of U.S. dollars)	1,996	2,637	6,137	8,999	(1,417) \$(13)
Net assets (Millions of yen/Millions of U.S. dollars)	68,573	69,011	74,717	82,523	76,705 \$681
Total assets (Millions of yen/Millions of U.S. dollars)	282,899	276,891	292,686	310,058	297,493 \$2,640
Net assets per share (Yen/U.S. dollars)	453.71	460.35	498.02	543.36	524.09 \$4.65
Net income per share (Yen/U.S. dollars)	20.28	(15.88)	6.78	21.96	24.44 \$0.22
Diluted net income per share (Yen/U.S. dollars)	20.25	—	6.75	21.84	24.30 \$0.22
Cash dividends per share (Yen/U.S. dollars)	10	10	10	10	10 \$0.09
Payout ratio (%)	49.3	—	147.5	45.5	40.9
Equity ratio (%)	23.5	23.9	24.5	25.2	24.3
Return on equity (%)	4.5	(3.5)	1.4	4.2	4.5
Price/Earnings ratio (PER) (Times)	14.6	—	51.6	14.8	13.2
Net cash provided by (used in) operating activities (Millions of yen/Millions of U.S. dollars)	(1,609)	16,410	7,559	7,545	12,929 \$115
Net cash provided by (used in) investing activities (Millions of yen/Millions of U.S. dollars)	221	(2,686)	(10,762)	(18,517)	(7,817) \$(69)
Net cash provided by (used in) financing activities (Millions of yen/Millions of U.S. dollars)	1,223	(12,789)	2,707	11,004	(5,448) \$(48)
Cash and cash equivalents at end of period (Millions of yen/Millions of U.S. dollars)	3,645	4,751	4,863	5,569	5,328 \$47
Number of employees	2,985	3,135	3,146	3,164	3,110

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.
- 4) Regarding profit attributable to owners of parent for the fiscal year ended March 31, 2013, the Company recorded a loss attributable to owners of parent of ¥2,309 million due to a ¥5,986 million write-down of investment securities.
- 5) Profit attributable to owners of parent 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 loss attributable to owners of parent.
- 7) All U.S. dollar amounts are presented solely for the readers' convenience and are converted at the exchange rate (TTM) of 112.68 yen to the dollar as of March 31, 2016.

Consolidated Balance Sheets

Japan Pulp and Paper Company Limited and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

ASSETS	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Current assets:			
Cash and deposits	¥ 5,346	¥ 5,588	\$ 47,440
Notes and accounts receivable-trade	127,270	134,974	1,129,481
Inventories	26,304	29,349	233,443
Deferred tax assets	1,510	1,584	13,402
Other	6,486	5,275	57,560
Allowance for doubtful accounts	(1,593)	(1,240)	(14,134)
Total current assets	165,323	175,530	1,467,193
Property, plant and equipment:			
Buildings and structures, net	33,580	30,066	298,014
Machinery, equipment and vehicles, net	23,015	10,119	204,248
Tools, furniture and fixtures, net	695	768	6,169
Land	25,502	25,563	226,325
Lease assets, net	126	122	1,121
Construction in progress	6,639	22,790	58,920
Total property, plant and equipment	89,558	89,428	794,801
Intangible assets			
Goodwill	474	1,017	4,205
Other	1,969	1,233	17,473
Total intangible assets	2,443	2,251	21,678
Investments and other assets:			
Investment securities	34,061	37,723	302,284
Deferred tax assets	1,847	1,481	16,392
Net defined benefit assets	19	18	167
Other	7,409	7,517	65,753
Allowance for doubtful accounts	(3,253)	(3,994)	(28,873)
Total investments and other assets	40,083	42,746	355,724
Total non-current assets	132,084	134,424	1,172,204
Deferred assets	86	103	761
Total assets	¥297,493	¥310,058	\$ 2,640,159

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 112.68 yen to the dollar as of March 31, 2016.

Consolidated Balance Sheets

Japan Pulp and Paper Company Limited and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Current liabilities:			
Notes and accounts payable-trade	¥ 88,710	¥ 95,804	\$ 787,275
Short-term loans payable	44,469	49,328	394,652
Current portion of long-term loans payable	2,947	1,154	26,150
Commercial papers	18,000	4,500	159,744
Current portion of bonds	25	15,050	221
Lease obligations	54	56	482
Income taxes payable	1,247	1,568	11,068
Provision for bonuses	1,558	1,506	13,828
Reserve for directors' bonuses	117	116	1,039
Other	7,358	7,893	65,296
Total current liabilities	164,486	176,975	1,459,759
Non-current liabilities:			
Bonds payable	20,000	20,025	177,493
Long-term loans payable	27,729	21,309	246,086
Lease obligations	104	117	920
Deferred tax liabilities	1,698	3,315	15,066
Reserve or directors' retirement benefits	108	112	960
Net defined benefit liability	4,514	724	40,062
Other	2,150	4,959	19,077
Total non-current liabilities	56,303	50,560	499,669
Total liabilities	220,788	227,535	1,959,428
Net assets:			
Shareholders' equity			
Capital stock	16,649	16,649	147,754
Capital surplus	14,674	15,249	130,227
Retained earnings	39,673	37,656	352,086
Treasury stock	(4,036)	(2,142)	(35,817)
Total shareholders' equity	66,960	67,412	594,250
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	5,375	7,764	47,705
Deferred gains or losses on hedges	(6)	0	(53)
Foreign currency translation adjustments	1,212	1,413	10,754
Remeasurements of defined benefit plans	(1,152)	1,505	(10,227)
Total accumulated other comprehensive income	5,429	10,683	48,178
Subscription rights to shares	229	218	2,035
Non-controlling interests	4,086	4,209	36,266
Total net assets	76,705	82,523	680,731
Total liabilities and net assets	¥ 297,493	¥ 310,058	\$2,640,159

Consolidated Statements of Income

Japan Pulp and Paper Company Limited and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Net sales	¥ 506,631	¥ 530,164	\$ 4,496,193
Cost of sales	457,337	479,462	4,058,720
Gross profit	49,294	50,703	437,473
Selling, general and administrative expenses	42,914	44,212	380,850
Operating income	6,380	6,491	56,622
Non-operating income:			
Interest income	55	48	488
Dividend income	1,353	704	12,005
Equity in earnings of affiliates	293	173	2,599
Other	500	529	4,433
Total	2,200	1,454	19,527
Non-operating expenses:			
Interest expenses	1,297	1,324	11,511
Other	276	268	2,445
Total	1,573	1,592	13,957
Ordinary income	7,008	6,353	62,192
Extraordinary income:			
Gain on sales of investment securities	1,289	184	11,437
Gain on sales of non-current assets	62	80	547
Reversal of provision for loss on dissolution of employees' pension fund	—	749	—
Insurance income	—	483	—
Subsidy income	—	24	—
Other	40	—	355
Total	1,391	1,520	12,340
Extraordinary loss:			
Loss on disposal of noncurrent assets	1,908	85	16,936
Loss on valuation of investment securities	118	83	1,050
Impairment losses	79	252	699
Loss by fire	—	299	—
Other	142	32	1,258
Total	2,247	751	19,944
Profit before income taxes	6,151	7,122	54,588
Income taxes—current	2,145	2,645	19,040
Income taxes—deferred	99	477	882
Profit	3,906	4,000	34,665
Profit attributable to non-controlling interests	507	844	4,495
Profit attributable to owners of parent	¥ 3,400	¥ 3,156	\$ 30,170
		Yen	U.S. dollars
Per share data:			
Net income	¥ 24.44	¥ 21.96	\$ 0.22
Cash dividends	10.00	10.00	0.09

Consolidated Statements of Comprehensive Income

Japan Pulp and Paper Company Limited and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Profit	¥3,906	¥4,000	\$34,665
Other comprehensive income			
Valuation difference on available-for-sale securities	(2,331)	2,651	(20,682)
Deferred gains or losses on hedges	(6)	4	(56)
Foreign currency translation adjustment	(218)	940	(1,937)
Remeasurements of defined benefit plans, net of tax	(2,631)	1,348	(23,345)
Share of other comprehensive income of associates accounted for using equity method	(138)	56	(1,221)
Total other comprehensive income	(5,323)	4,999	(47,243)
Comprehensive income	(1,417)	8,999	(12,578)
Comprehensive income attributable to			
Comprehensive income attributable to owners of the parent	(1,830)	7,994	(16,236)
Comprehensive income attributable to non-controlling interests	412	1,005	3,658

Consolidated Statements of Changes in Net Assets

Japan Pulp and Paper Company Limited and Consolidated Subsidiaries
Years ended March 31, 2016

	Millions of yen												
	Shareholders' equity					Accumulated other comprehensive income							Total net assets
	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	Non-controlling interests	
Balance at April 1, 2015	¥16,649	¥15,249	¥37,656	¥(2,142)	¥67,412	¥7,764	—	¥1,413	¥1,505	¥10,683	¥218	¥4,209	¥82,523
Cumulative effects of changes in accounting policies										(25)	(25)	(6)	(32)
Restated balance	16,649	15,249	37,656	(2,142)	67,412	7,764	—	1,413	1,480	10,658	218	4,202	82,491
Changes of items during the period													
Dividends from surplus			(1,412)		(1,412)								(1,412)
Profit attributable to owners of parent			3,400		3,400								3,400
Purchase of treasury stock				(1,967)	(1,967)								(1,967)
Disposal of treasury stock		(19)		72	53								53
Change in the scope of consolidation			49		49								49
Transfer to capital surplus from retained earnings		19	(19)		—								—
Purchase of shares of consolidated subsidiaries		(575)			(575)								(575)
Net changes of items other than shareholders' equity						(2,389)	(6)	(202)	(2,633)	(5,229)	11	(116)	(5,334)
Total changes of items during the period	—	(575)	2,018	(1,894)	(452)	(2,389)	(6)	(202)	(2,633)	(5,229)	11	(116)	(5,786)
Balance at March 31, 2016	¥ 16,649	¥14,674	¥ 39,673	¥(4,036)	¥66,960	¥ 5,375	¥(6)	¥1,212	¥ (1,152)	¥5,429	¥ 229	¥4,086	¥76,705

	Thousands of U.S. dollars												
	Shareholders' equity					Accumulated other comprehensive income							Total net assets
	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	Non-controlling interests	
Balance at April 1, 2015	\$147,754	\$135,334	\$334,181	\$(19,006)	\$598,262	\$68,903	—	\$12,543	\$13,360	\$94,810	\$1,937	\$37,351	\$732,362
Cumulative effects of changes in accounting policies										(224)	(224)	(56)	(280)
Restated balance	147,754	135,334	334,181	(19,006)	598,262	68,903	—	12,543	13,135	94,585	1,937	37,294	732,081
Changes of items during the period													
Dividends from surplus			(12,528)		(12,528)								(12,528)
Profit attributable to owners of parent			30,170		30,170								30,170
Purchase of treasury stock				(17,452)	(17,452)								(17,452)
Disposal of treasury stock		(168)		642	473								473
Change in the scope of consolidation			431		431								431
Transfer to capital surplus from retained earnings		168	(168)		—								—
Purchase of shares of consolidated subsidiaries		(5,106)			(5,106)								(5,106)
Net changes of items other than shareholders' equity						(21,198)	(56)	(1,788)	(23,363)	(46,406)	97	(1,028)	(47,338)
Total changes of items during the period	—	(5,106)	17,905	(16,810)	(4,012)	(21,198)	(56)	(1,788)	(23,363)	(46,406)	97	(1,028)	(51,350)
Balance at March 31, 2016	\$147,754	\$130,227	\$352,086	\$(35,817)	\$594,250	\$47,705	\$(53)	\$10,754	\$(10,227)	\$48,178	\$2,035	\$36,266	\$680,731

Consolidated Statements of Cash Flows

Japan Pulp and Paper Company Limited and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Net cash provided by (used in) operating activities:			
Profit before income taxes	¥6,151	¥7,122	\$54,588
Depreciation and amortization	4,922	4,156	43,679
Amortization of goodwill	529	576	4,691
Impairment losses	79	252	699
Increase (decrease) in net defined benefit liability	(72)	232	(640)
Increase (decrease) in allowance for doubtful accounts	350	457	3,105
Increase (decrease) in reserve for bonus	53	(50)	473
Increase (decrease) in other provisions	(3)	(820)	(27)
Interest and dividend income	(1,408)	(752)	(12,493)
Interest expenses	1,297	1,324	11,511
Insurance income	—	(483)	—
Equity in losses (gains) of affiliates	(293)	(173)	(2,599)
Loss (gain) on sale of property, plants or equipment	(5)	(77)	(43)
Loss (gain) on valuation of investment securities	118	83	1,050
Loss (gain) on sales of investment securities	(1,286)	(171)	(11,412)
Loss on retirement of property, plant and equipment	942	39	8,359
Decrease (increase) in notes and accounts receivable-trade	8,432	8,995	74,829
Decrease (increase) in inventories	3,037	(1,316)	26,949
Increase (decrease) in notes and accounts payable-trade	(7,288)	(9,300)	(64,679)
Decrease (increase) in other current assets	605	883	5,370
Increase (decrease) in other current liabilities	(1,018)	(1,134)	(9,034)
Others, net	144	(175)	(1,274)
Subtotal	15,285	9,666	135,652
Interest and dividend income received	1,445	998	12,823
Interest expenses paid	(1,323)	(1,338)	(11,739)
Income taxes (paid) refund	(2,479)	(2,264)	(21,999)
Proceeds from insurance income	—	483	—
Net cash provided by (used in) operating activities	12,929	7,545	114,737

Consolidated Statements of Cash Flows

Japan Pulp and Paper Company Limited and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Net cash provided by (used in) investing activities:			
Purchase of property, plant and equipment	(9,125)	(17,504)	(80,980)
Proceeds from sales of property, plant and equipments	303	674	2,692
Purchase of intangible assets	(121)	(274)	(1,077)
Purchase of investment securities	(427)	(512)	(3,788)
Proceeds from sales of investment securities	2,243	325	19,907
Payments of long-term loans receivable	(605)	(756)	(5,366)
Collection of long-term loans receivable	47	76	420
Proceeds from subsidy income	622	—	5,516
Payments for acquisition of shares of subsidiaries resulting in change in scope of consolidation	—	(172)	—
Payments for transfer of business	—	(138)	—
Others, net	(755)	(236)	(6,701)
Net cash provided by (used in) investing activities	(7,817)	(18,517)	(69,376)
Net cash provided by (used in) financing activities:			
Net increase (decrease) in short-term loans payable	(4,721)	(1,686)	(41,900)
Increase (decrease) in commercial papers	13,500	(9,500)	119,808
Proceeds from long-term loans payable	9,867	6,295	87,568
Repayment of long-term loans payable	(1,654)	(2,656)	(14,681)
Proceeds from issuance of bonds	—	19,898	—
Redemption of bonds	(15,050)	(80)	(133,564)
Payments of long-term accounts payable - other	(3,062)	—	(27,176)
Purchase of treasury stock	(1,971)	(5)	(17,492)
Cash dividends paid	(1,412)	(1,439)	(12,528)
Proceeds from stock issuance to non-controlling shareholders	203	300	1,799
Cash dividends paid to non-controlling shareholders	(104)	(64)	(919)
Purchase of shares of subsidiaries without change in scope of consolidation	(1,128)	—	(10,013)
Others, net	84	(58)	749
Net cash provided by (used in) financing activities	(5,448)	11,004	(48,351)
Effects of exchange rate change on cash and cash equivalents	(34)	673	(298)
Net increase (decrease) in cash and cash equivalents	(371)	706	(3,288)
Cash and cash equivalents at beginning of period	5,569	4,863	49,423
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	129	—	1,146
Cash and cash equivalents at end of period	¥ 5,328	¥ 5,569	\$ 47,281

Strengthening Businesses in the United States and Europe

In the United States, one of the Japan Pulp and Paper Group's principal business regions in its non-Japan wholesaling business segment, the remaining shares of major U.S. paper merchant Gould Paper were acquired to make the company a wholly owned subsidiary in 2015.

With the aim to reinforce its overseas business activities, one of its current focus areas, Japan Pulp and Paper is working to expand its purchasing and sales bases on a global scale, and as a part of these efforts,

had acquired 51% of Gould Paper's shares through Japan Pulp & Paper (U.S.A.) Corp. in 2010.

By making Gould Paper a wholly owned subsidiary, Japan Pulp and Paper is working to leverage its abundant bases, human resources and know-how to strengthen its businesses in the European and U.S. markets, which are considered to be important markets in its overseas business strategy, as well as striving to further harness synergies within the Group to promote further growth of its overseas business activities.



Logistics base located in New Jersey, U.S.A.



Business bases in the United States and Europe

JRS Resources, Inc. Opens Phoenix Plant

JRS Resources, Inc., a consolidated subsidiary of Japan Pulp and Paper located in California, opened its new Phoenix Plant wastepaper recycling site in Phoenix, Arizona.

Phoenix serves as a logistics base connecting the West Coast and the Central United States, and in recent years has been experiencing continuous population growth. The Phoenix Plant was opened to

bolster the Group's wastepaper procurement capabilities centered on old corrugated cardboard, which is anticipated to increase in line with the increase in population.

Positioning the wastepaper recycling business as one of the pillars of the Group's businesses, Japan Pulp and Paper will work to further develop the business both in and outside Japan.



Phoenix Plant of JRS Resources



Wastepaper recycling business bases of the Japan Pulp and Paper Group in the United States



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