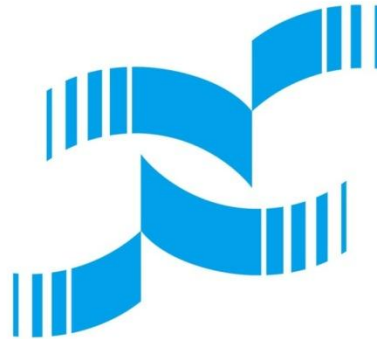


# The Fifth Medium-Term Business Plan

(April 2015 – March 2018)

Shaping the Future with Trees



Nippon Paper Group

**May 26, 2015**

**Nippon Paper Industries Co., Ltd.**

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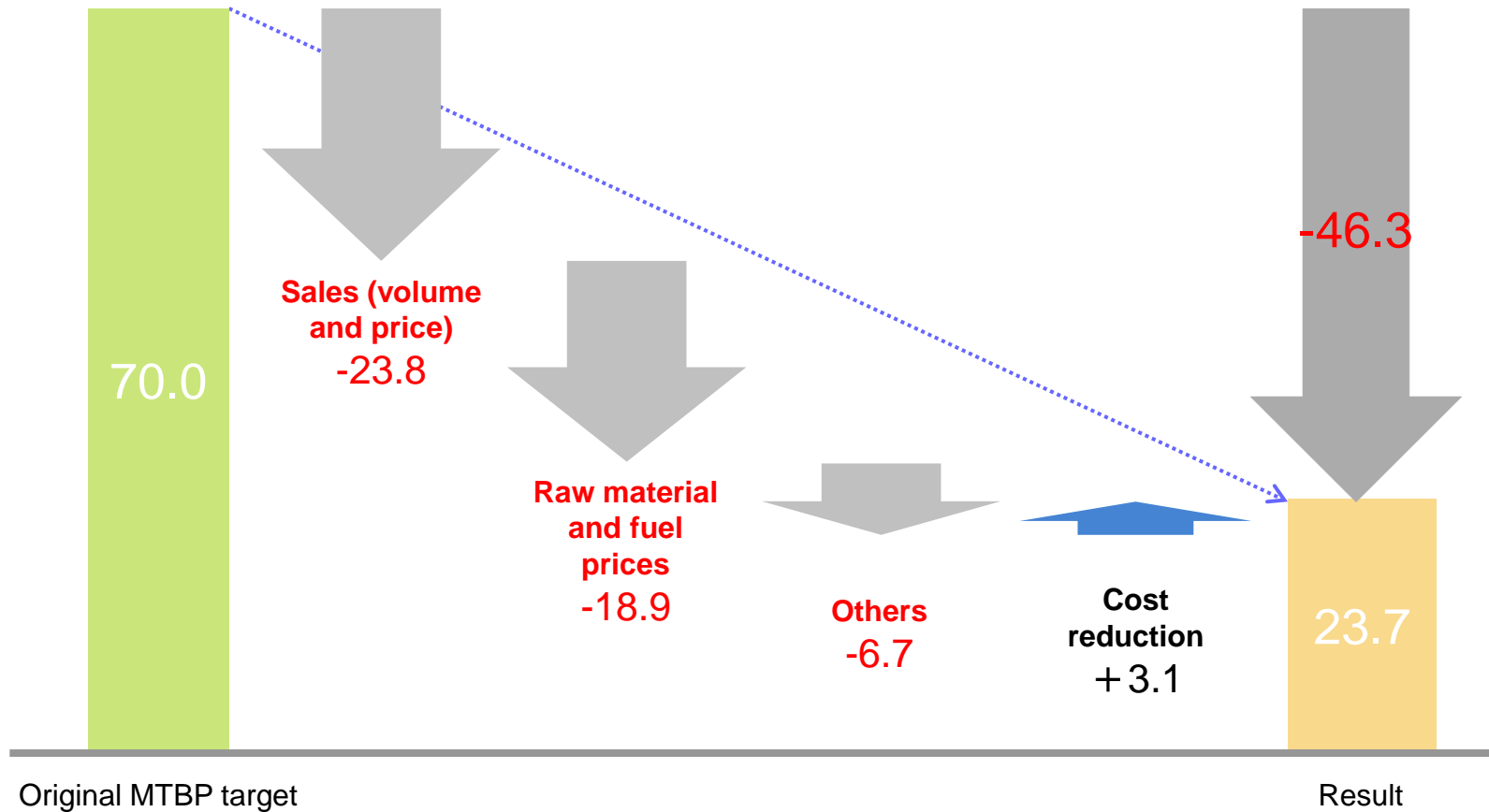
**The Fifth Medium-Term Business Plan**



Enhancing marketing competitiveness and addressing rising raw material costs are imperative

● FY15/3 operating income: Variance analysis of targets and results

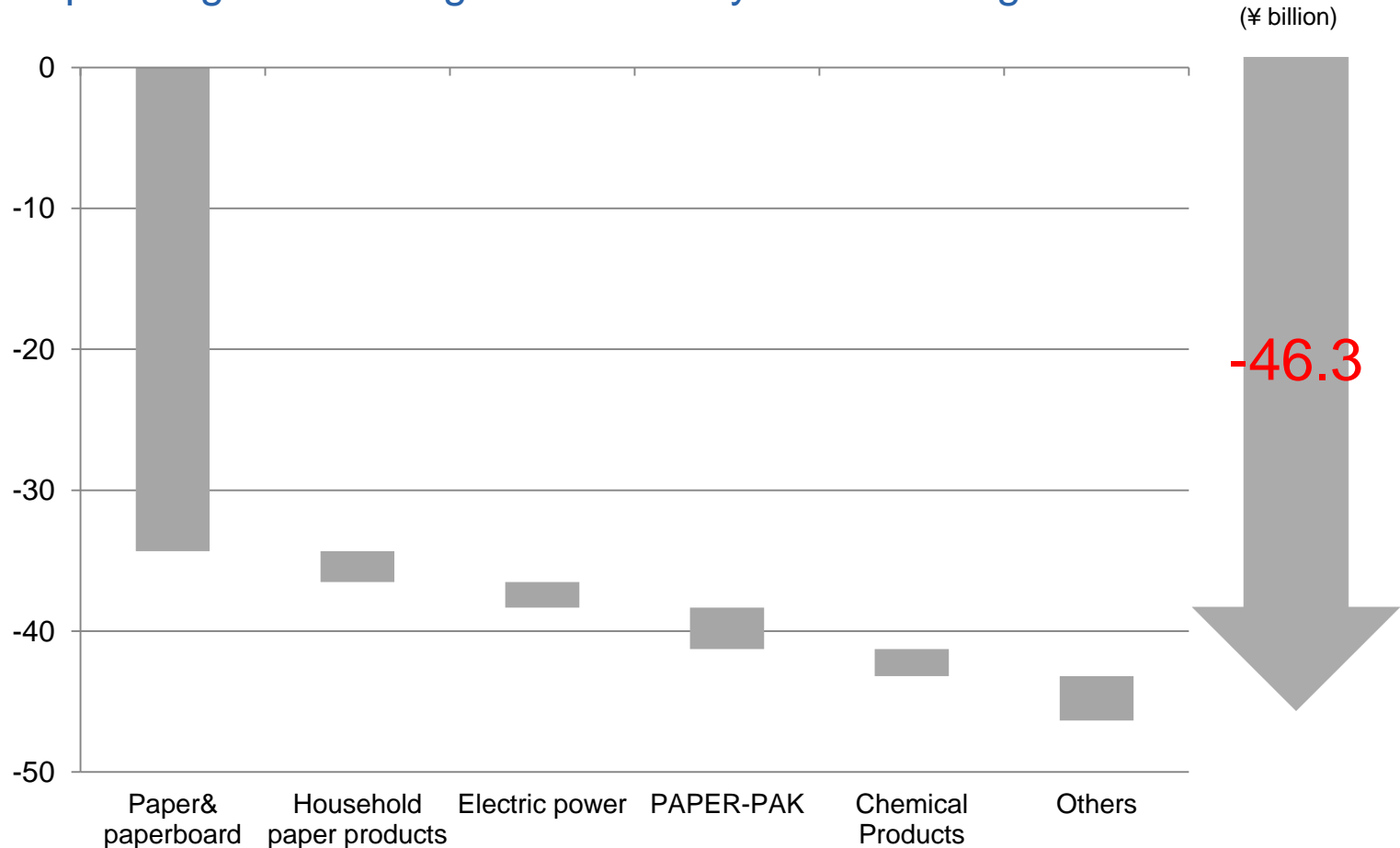
(Billion yen)





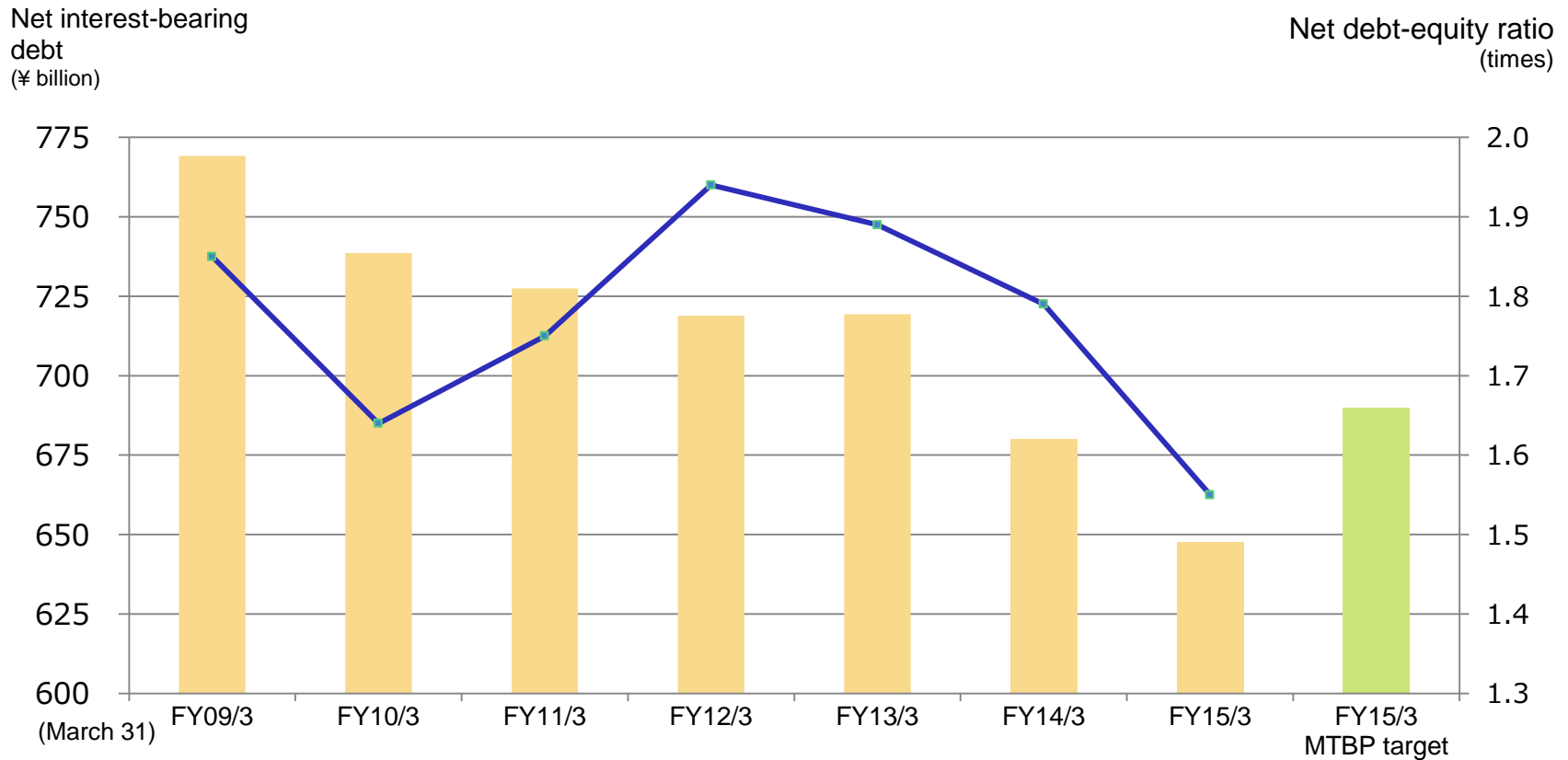
Need to improve profitability in the paper and paperboard businesses

● Operating income target shortfalls by business segment





Net interest-bearing debt was reduced to the target level







Results at March 31, 2015

Net interest-bearing debt    Net debt-equity ratio

**¥647.7 billion**

**1.55 times**



Evaluation	Implementation of Major Themes
	<p><b>Improving the earning power of the paper business</b></p> <ul style="list-style-type: none"> <li>◎ Completed the revitalization plan</li> <li>△ Despite cost reductions, a downturn in market conditions and a decline in sales volume in the last year had a significant impact.</li> </ul>
	<p><b>Reinforcing efforts to transform the business structure</b></p> <ul style="list-style-type: none"> <li>◎ Reorganized operating companies</li> <li>◎ Expanded sales and increased production in the healthcare business and chemical business</li> <li>◎ Implemented power generation project and established CNF demonstration facilities and promotion structure</li> </ul>
	<p><b>Strengthening the earning power of overseas businesses</b></p> <ul style="list-style-type: none"> <li>× At Australian Paper, sales declined due to the strong Australian dollar and increased competition, and the startup of a de-inked pulp plant was delayed.</li> <li>△ NPI USA was impacted by declining telephone directory demand, and decommissioned one paper machine</li> <li>◎ Started business collaboration projects with Siam Cement Group (SCG)</li> </ul>
	<p><b>Improving the financial position</b></p> <ul style="list-style-type: none"> <li>◎ Reduced net interest-bearing debt to below ¥650.0 billion</li> <li>◎ Debt-equity ratio improved to 1.55 times</li> </ul>



We created a written corporate mission to guide our long-term growth.

## Mission

**The Nippon Paper Group aims to contribute to better living and cultural progress everywhere it does business .**

## Vision

1. Drive social sustainability through our business
2. Delight our customers
3. Instill pride in employees
4. Give back to society

## Values

Challenge : *Embrace new challenges*  
Fairness : *Be fair*  
Teamwork : *Champion teamwork*

Creating new value as a comprehensive biomass company  
shaping the future with trees

# NOTES





## ● Key Themes of 5th MTBP

1. Enhance competitiveness in existing businesses  
Maintain stable quality and operation and slash costs
2. Transform our business structure  
Expand business in growth areas and create new businesses

**FY16/3**

**FY17/3**

**FY18/3**

**Business structure  
transformation**

Expansion in growth areas + Launch of new businesses

**Reallocate management resources  
(people, materials, money and information)**

**Enhance competitiveness of existing businesses**  
Support earnings



## FY18/3 Target Figures

• Net sales	¥1,110.0 billion
Overseas sales ratio	20%
(FY15/3 figure)	¥1,052.5 billion
	13%
• Operating income	¥50.0 billion
(FY15/3 figure)	23.7 billion

Assumptions
US\$
¥120
Dubai crude (\$/BL)
\$60→\$70→\$80

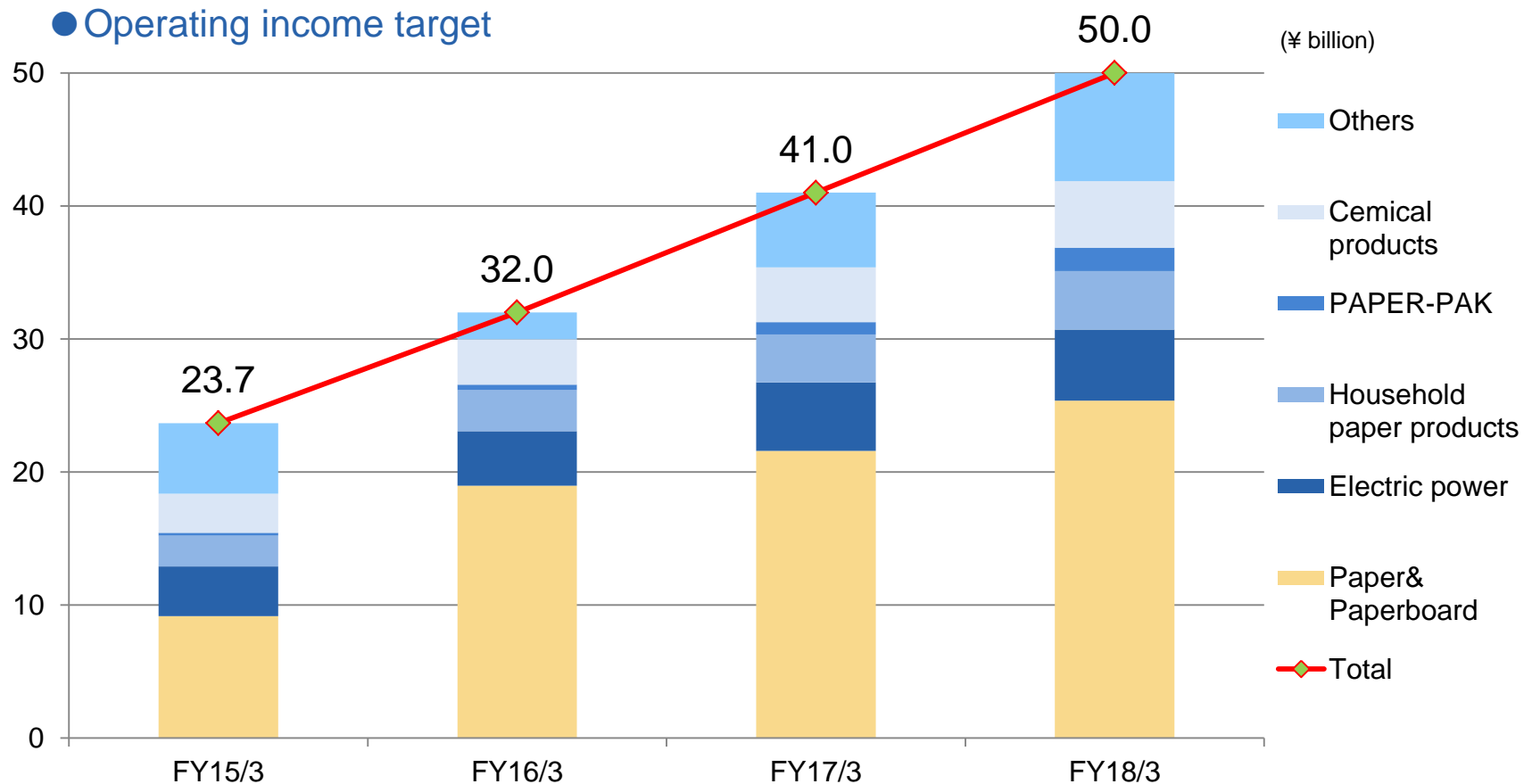
## ROA\* Target

• Medium-term target	5.0%
• FY18/3	3.7%
(FY15/3 figure)	2.2%

\*ROA = (Ordinary income + Interest expenses)/Total assets



Secure stable earnings in the paper and paperboard businesses  
and expand other businesses



**Fifth Medium-Term Business Plan**

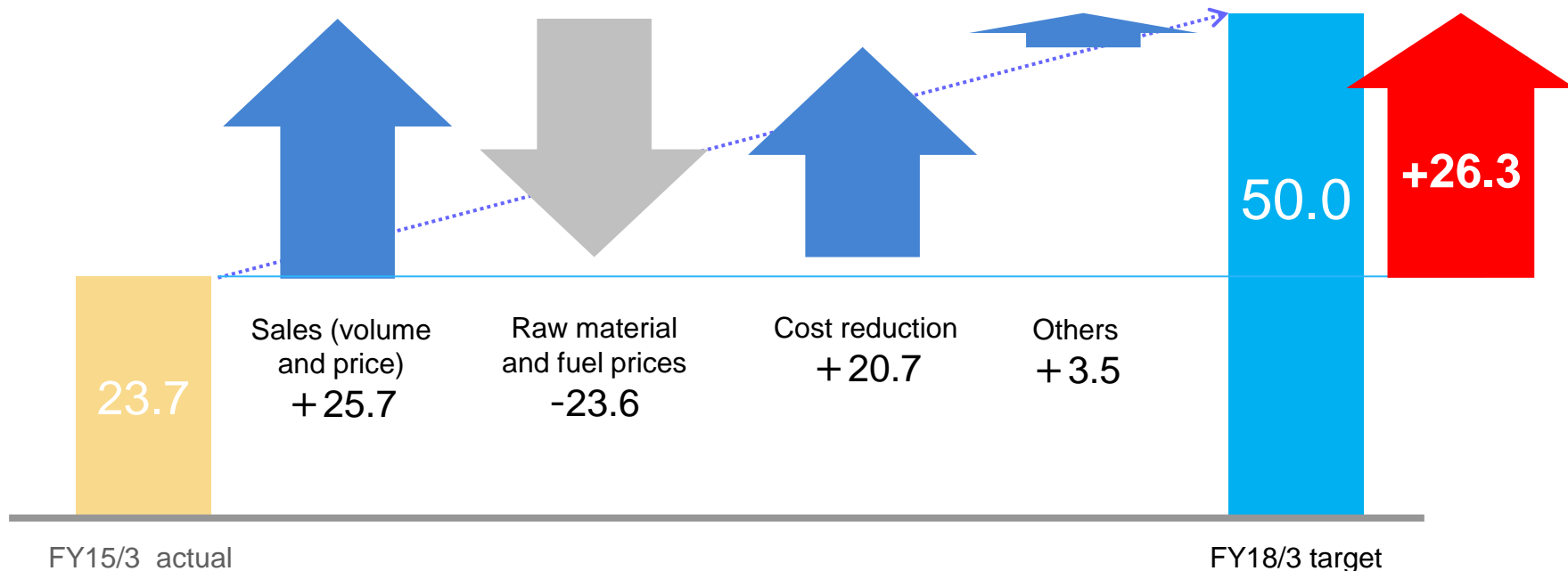


Maintain effect of price increases in first year, reduce costs and expand sales in growth businesses

● Factors affecting operating income

FY15/3	FY18/3 target	Difference
23.7	50.0	+26.3

(¥ billion)

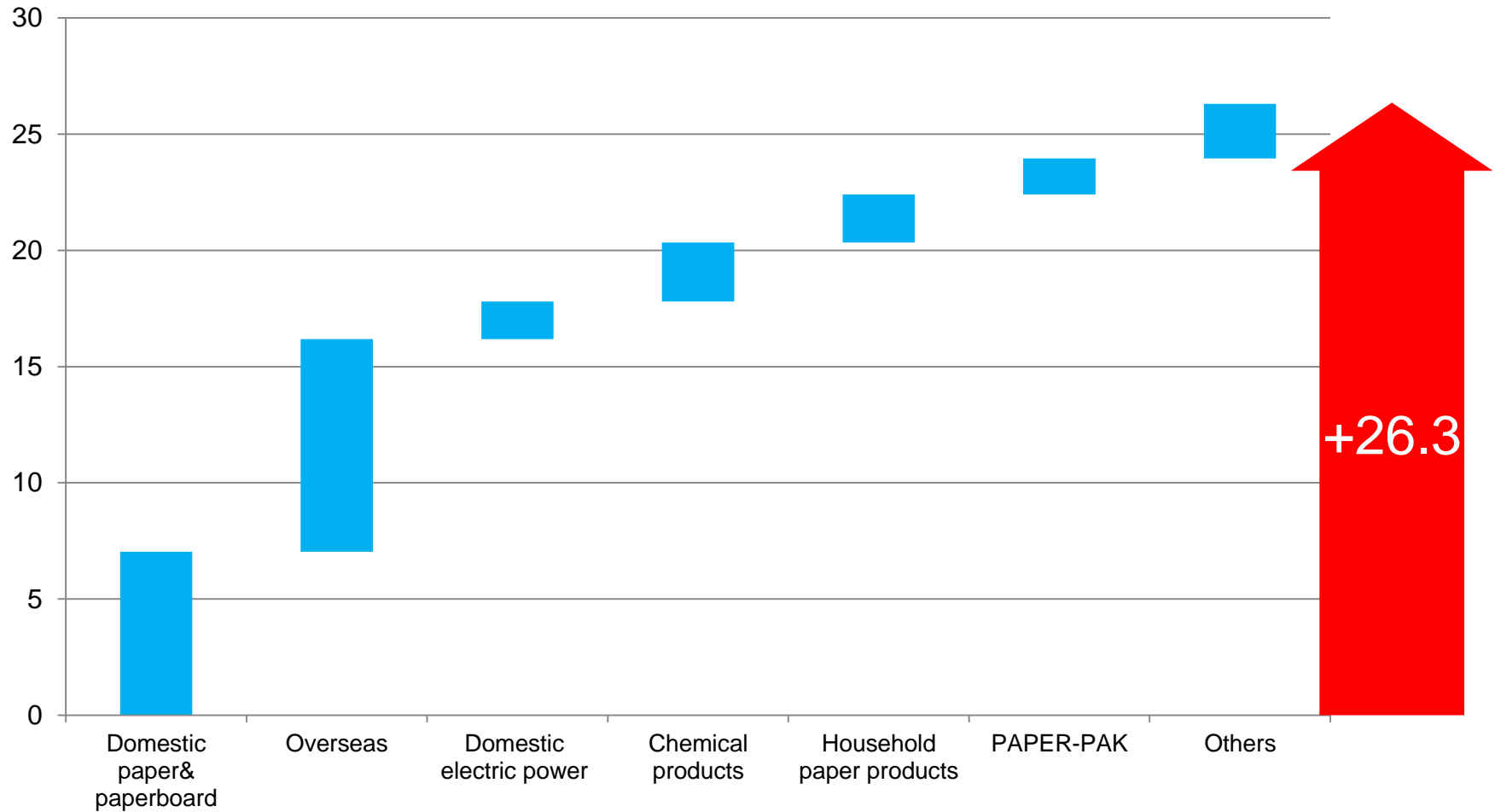




Improve income in domestic/overseas paper and paperboard businesses and support growth businesses

● Operating income targets by business

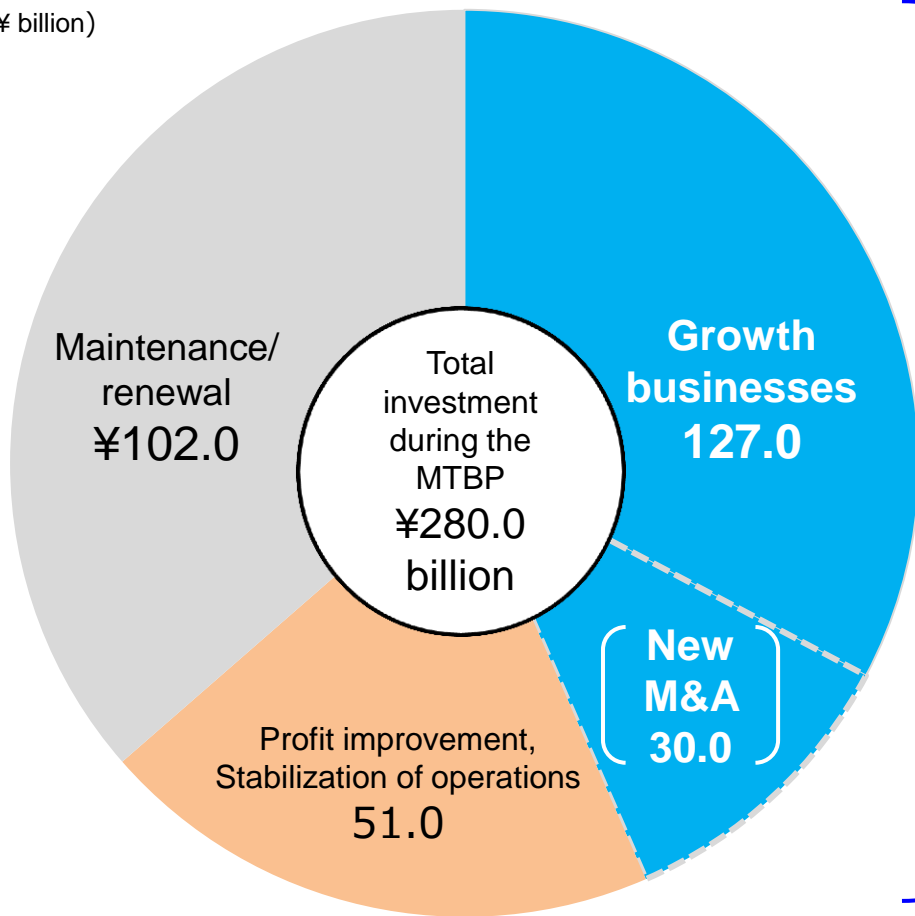
(¥ billion)





Invest aggressively to transform the business structure

(¥ billion)



**Invest ¥127.0 billion to expand and create growth businesses**

- Energy
- Chemicals
- Healthcare
- Packaging etc.



### ● Operating environment & basic strategies

Product/Business	Market/Opportunities/Threats	Strategies
Newsprint, printing paper and business communication paper	Demand will continue to decline about 2% for newsprint and 3% for printing paper	Maintain prices and share, cut costs, maintain operating rates (expand exports, convert machines)
Industrial paper, cup stock & wrapping paper	Domestic and overseas demand firm or expanding	Expand sales, promote synergy with downstream businesses, sanitary measures

### ● Key tasks and measures

Key Tasks	Key Measures
<b>1. Maintain top share of newsprint and printing paper</b>	<ul style="list-style-type: none"> <li>● Quality design to meet user needs</li> <li>● Strengthen sales organization               <ul style="list-style-type: none"> <li>Reinforce technical sales engineers</li> <li>Strengthen cooperation between production and sales, and train younger sales people</li> <li>Introduce product management system</li> </ul> </li> </ul>
<b>2. Strengthen sales of industrial paper and containerboard</b>	<ul style="list-style-type: none"> <li>● Strengthen linkage with downstream businesses</li> <li>● Implement sanitary measures for food applications</li> <li>● Expand exports and reinforce global sales structure</li> </ul>



Key Tasks	Key Measures
<b>3. Improve the distribution system</b>	<ul style="list-style-type: none"> <li>● Direct delivery, minimize inventories in consumption areas</li> <li>● Optimize distribution bases</li> </ul>
<b>4. Increase cost competitiveness</b>	<ul style="list-style-type: none"> <li>● Variable costs               <ul style="list-style-type: none"> <li>Stabilize operations and design special investment plan to improve earnings</li> <li>Fuel conversion (from heavy oil to coal and oil cokes)</li> <li>Procure low-cost raw materials (domestic materials, waste paper, biomass fuel)</li> </ul> </li> <li>● Fixed costs               <ul style="list-style-type: none"> <li>Promote collaboration between mills (Soka⇔Ashikaga, Iwakuni⇔Otake, Fuji area)</li> <li>Streamline operations and allocate personnel to growth areas</li> </ul> </li> </ul>

Major Investments	Mills/Departments	Investment amount (Billion yen)
Special investment for profit improvement and operation stabilization	Paper and paperboard mills	10.0
Energy & fuel conversion	Paper and paperboard mills	14.3
Product management system	Head office, mills	3.9
Product and waste paper distribution measures	Head office, Nippon Paper Lumber	0.7





● Operating environment & basic strategies

Product /Business	Market/Opportunities/Threats	Strategies
Electricity, fuel	Business opportunities from stable demand for power sources, deregulation and FIT	Quickly launch power generation facilities, and procure and develop fuel in cooperation with outside partners

● Key tasks and measures

Key Tasks	Key Measures
<b>1. Steadily execute projects now under way</b>	<ul style="list-style-type: none"> <li>● Ensure optimal utilization and stable operation, and establish business operation frameworks</li> <li>● Steadily collect biomass fuels</li> <li>● Continue cooperation with partners and local communities</li> </ul>
<b>2. Start commercial operation of Ishinomaki thermal power generation facility</b>	<ul style="list-style-type: none"> <li>● Carry out construction and startup according to schedule</li> <li>● Establish stable collection system for biomass fuels</li> <li>● Cooperation with partners</li> </ul>
<b>3. Quickly work out specifics of plans currently under consideration</b>	<ul style="list-style-type: none"> <li>● Develop concrete plan for commercialization of Akita thermal power generation facility and other projects</li> <li>● Study business development strategies for PPS and other businesses</li> </ul>
<b>4. Develop biomass fuels</b>	<ul style="list-style-type: none"> <li>● Establish torrefaction and other technologies</li> <li>● Develop concrete commercialization plan</li> </ul>



Accelerate efforts to quickly scale up business to sales of ¥50.0 billion

•Key Projects and Startup Schedules

Site	Energy source	Output (MW)	FY15/3	FY16/3	FY17/3	FY18/3	FY19/3 and onward
Komatsushima	Solar	21	2015/2	In operation			
Yatsushiro	Biomass	5	2015/6				
Suzukawa	Coal	102	2016/5				
Ishinomaki	Coal & biomass	135	2018/3				
Akita	Coal & biomass	112	Plan under review	Establishment/construction/commissioning			FY19/3
New project			Plan under review				



### ● Operating environment & basic strategies

Product /Business	Market/Opportunities/Threats	Strategies
Dissolving pulp	Stable market for high-quality products Shrinking domestic market, increasing competition	Increase production of high-value-added products Improve cost competitiveness
Chemical products	Demand for highly durable infrastructure Expanding LiB market Higher quality needs	Increase production and shift to high-value-added products
Coating resins	Expanding global automobile market Saturation of domestic market	Increase production and meet quality needs
Films	Expanding FPD market Increasing competition	Develop new fields and renovate production facilities

### ● Key tasks and measures

Key Tasks	Key Measures
<b>1. Boost competitiveness of Gotsu works</b> <b>Build foundation as a core mill</b>	<ul style="list-style-type: none"> <li>● Improve power generation efficiency</li> <li>● Improve chip yard</li> <li>● Renew warehouse</li> </ul>



Key Tasks	Key Measures
<b>2. Expand sales and increase production</b>	<ul style="list-style-type: none"> <li>● Increase black liquor treatment capacity at Gotsu Works</li> <li>● Expand production facilities for all product varieties</li> <li>● Expand exports</li> </ul>
<b>3. Expand sales of high-value-added products</b>	<ul style="list-style-type: none"> <li>● Expand sales of high-grade dissolving pulp</li> <li>● Develop chemical products with new functions</li> <li>● Develop films with new functions</li> </ul>
<b>4. Seek out M&amp;A opportunities</b>	<ul style="list-style-type: none"> <li>● Promote alliances with other companies</li> <li>● Develop business outside Japan</li> </ul>

Major Investments	Mill	Investment (¥ billion)
Strengthen competitiveness of Gotsu Works	Gotsu	5.5

Build business toward net sales of ¥50.0 billion and operating income of ¥5.0 billion



## ● Operating environment & basic strategies

Product/Business	Market/Opportunities/Threats	Strategies
Healthcare	Aging society, expanding market	Reinforce production and sales, enhance product development
Household paper products	Stable demand, rising paper imports	Strengthen cost competitiveness, expand sales of premium products
Professional & industrial products	Hygiene awareness, inbound demand	Enhance product lineup

## ● Key tasks and measures

Key Tasks	Key Measures
1. Reinforce Healthcare production and sales	<ul style="list-style-type: none"> <li>● Focus investment on the Kyoto Mill as our core mill</li> <li>● Increase sales personnel and expand sales routes</li> <li>● Increase product development personnel and expand lineup</li> <li>● Develop overseas business and promote exports</li> </ul>

Major Investments	Mill	Investment (¥ billion)
Increase Healthcare production capacity	Kyoto	5.0

Upgrade production and sales to support increase in Healthcare sales to ¥20.0 billion



## ● Operating environment & basic strategies

Product/Business	Market/Opportunities/Threats	Strategies
<b>Liquid-packaging cartons</b>	Decreasing milk demand, demand for plastic alternatives Safety and hygiene awareness, packaging for aging society	Enhance cost-competitiveness of commodity type products Develop original products

## ● Key tasks and measures

Key Tasks	Key Measures
<b>1. Enhance cost-competitiveness of commodity type products</b>	<ul style="list-style-type: none"> <li>● Increase production efficiency</li> <li>● Promote the use of the Group's own base paper</li> </ul>
<b>2. Expand sales</b>	<ul style="list-style-type: none"> <li>● Realign organization, review region-based organization</li> <li>● Upgrade overseas sales organization, develop sales channels</li> </ul>
<b>3. Strengthen product development</b>	<ul style="list-style-type: none"> <li>● Strengthen Product Development Dept. (Package Research Lab)</li> <li>● External collaboration</li> </ul>

Major Investments	Mills	Investment (¥ billion)
Increase PAPER-PAK production capacity	Egawa, Miki	2.1
Automate finishing lines	Egawa, Miki	0.8

**Target sales of approximately ¥45.0 billion by upgrading production and sales**



### ● Operating environment & basic strategies

Product/Business	Market/Opportunities/Threats	Strategies
Printing and business communication paper	Decreasing demand, increasing competition	Significantly strengthen cost competitiveness Shift to high-value-added and new products

### ● Key tasks and measures

Key Tasks	Key Measures
1. Stabilize operations through total rationalization and cost reductions	<ul style="list-style-type: none"> <li>● Decommission paper machines, close mills</li> <li>● Switch to low-cost raw materials, produce in-house DIP</li> <li>● Renew aging facilities</li> </ul>
2. Change product lineup and promote new businesses	<ul style="list-style-type: none"> <li>● Upgrade production organization for high-value-added products</li> <li>● Shift to profitable product lineup</li> <li>● Stabilize the electric power sales business</li> <li>● Promote the collaboration with SCG (MG paper, semi-glassine)</li> </ul>

Key Investments	Mill	Investment (¥ billion)
Improve earnings and stabilize operations	AP	3.9
Improve earnings and stabilize operations	JTOY	1.0
New product manufacturing	NPIUSA	2.4
Additional investment in SCG Fibrous chain		5.5

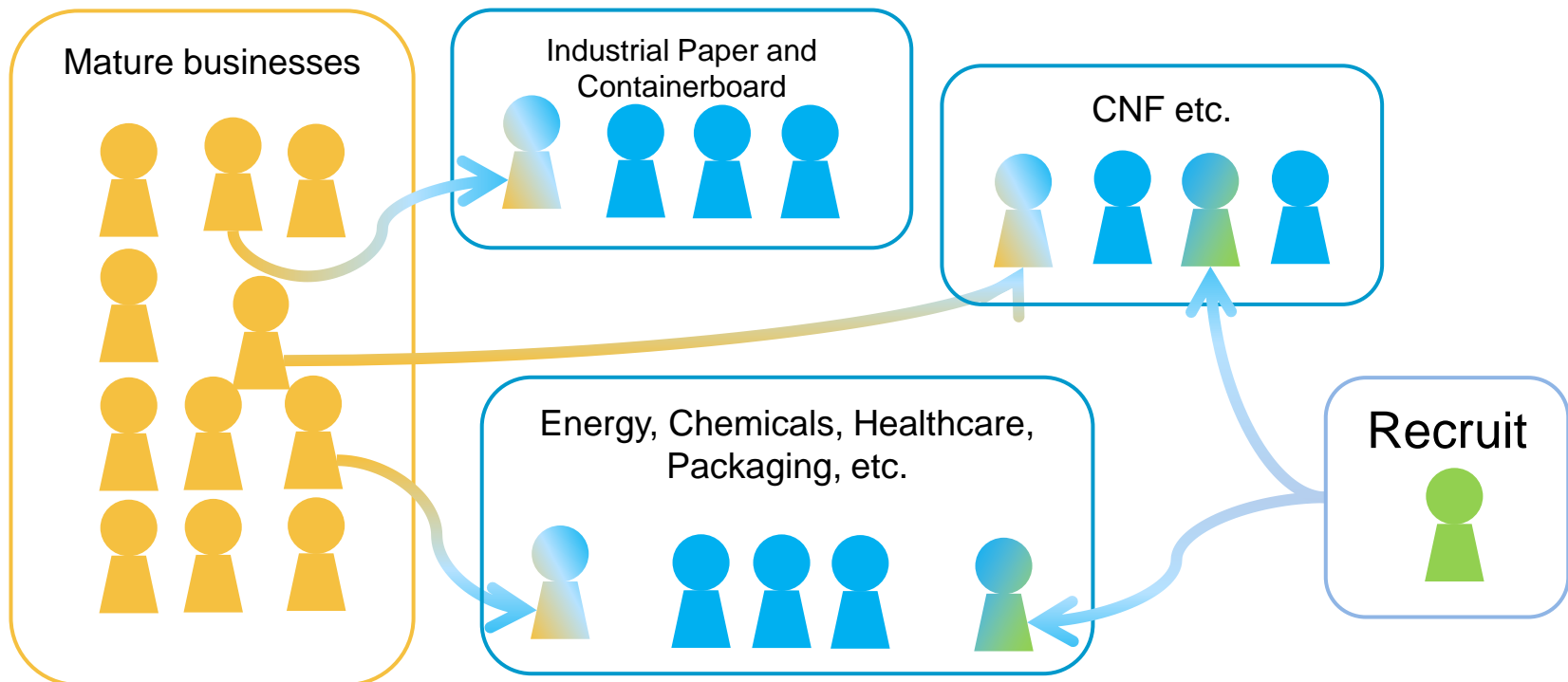
**Invest capital to strengthen operating fundamentals and for growth**



Focus on allocating more personnel to growth businesses

● Regular Employees

Business/Company	March 31, 2015	March 31, 2018	Change
<b>Total</b>	<b>12,839</b>	<b>11,851</b>	<b>-988</b>
Shikoku Coca-Cola	1,052	0	-1,052



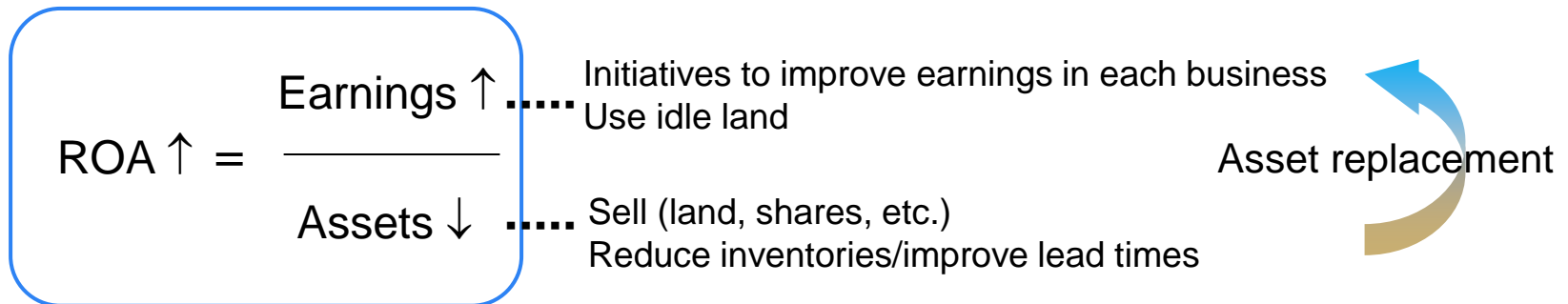




Examine all assets in light of our corporate philosophy and strategy  
Fully use, sell or replace assets

## Key Performance Indicator: ROA

FY2014	FY2017 Target	Medium-Term Target
2.2%	3.7%	5.0%



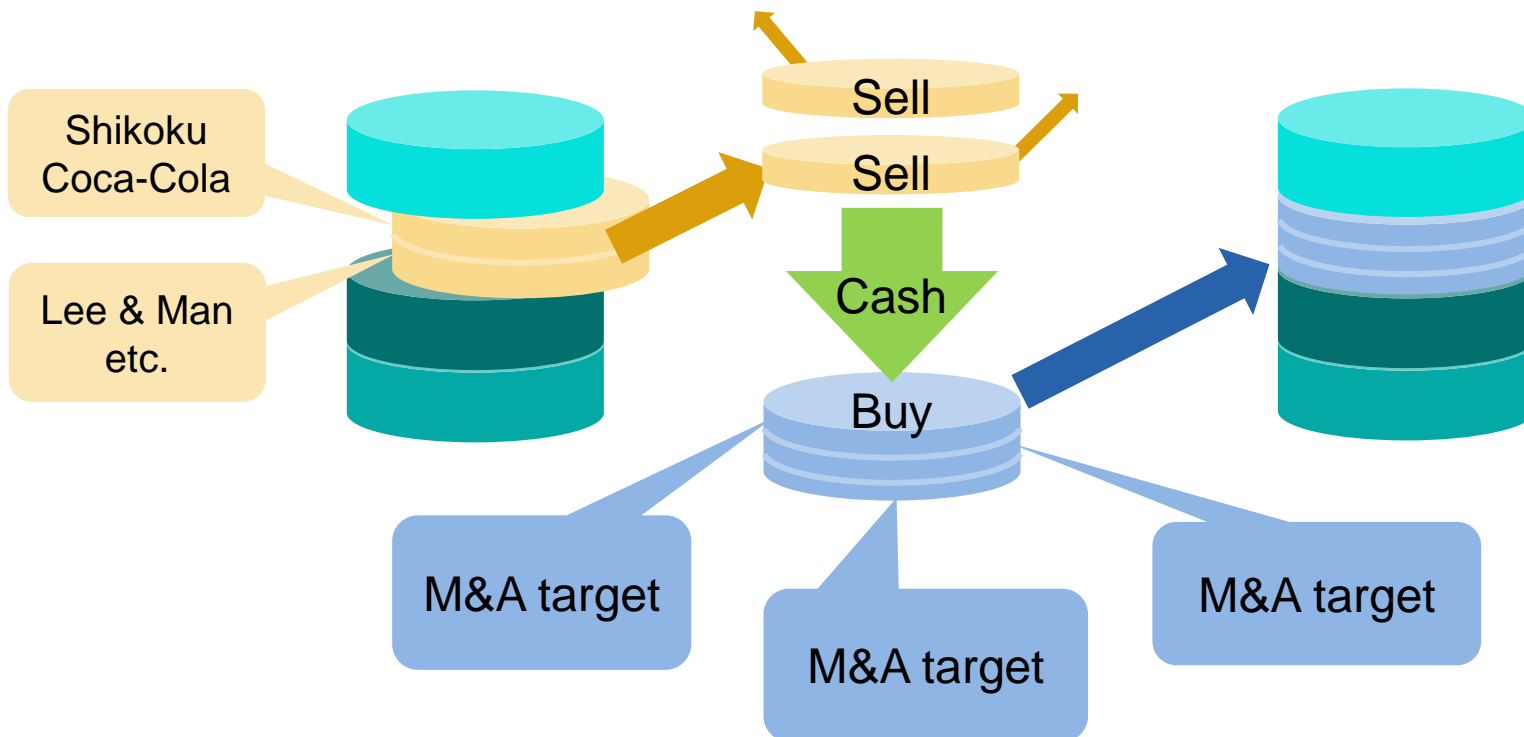


Deploy cash from divestitures in new M&A in Japan and overseas  
Accelerate transformation of business structure

Review assets

Asset replacement

New asset structure

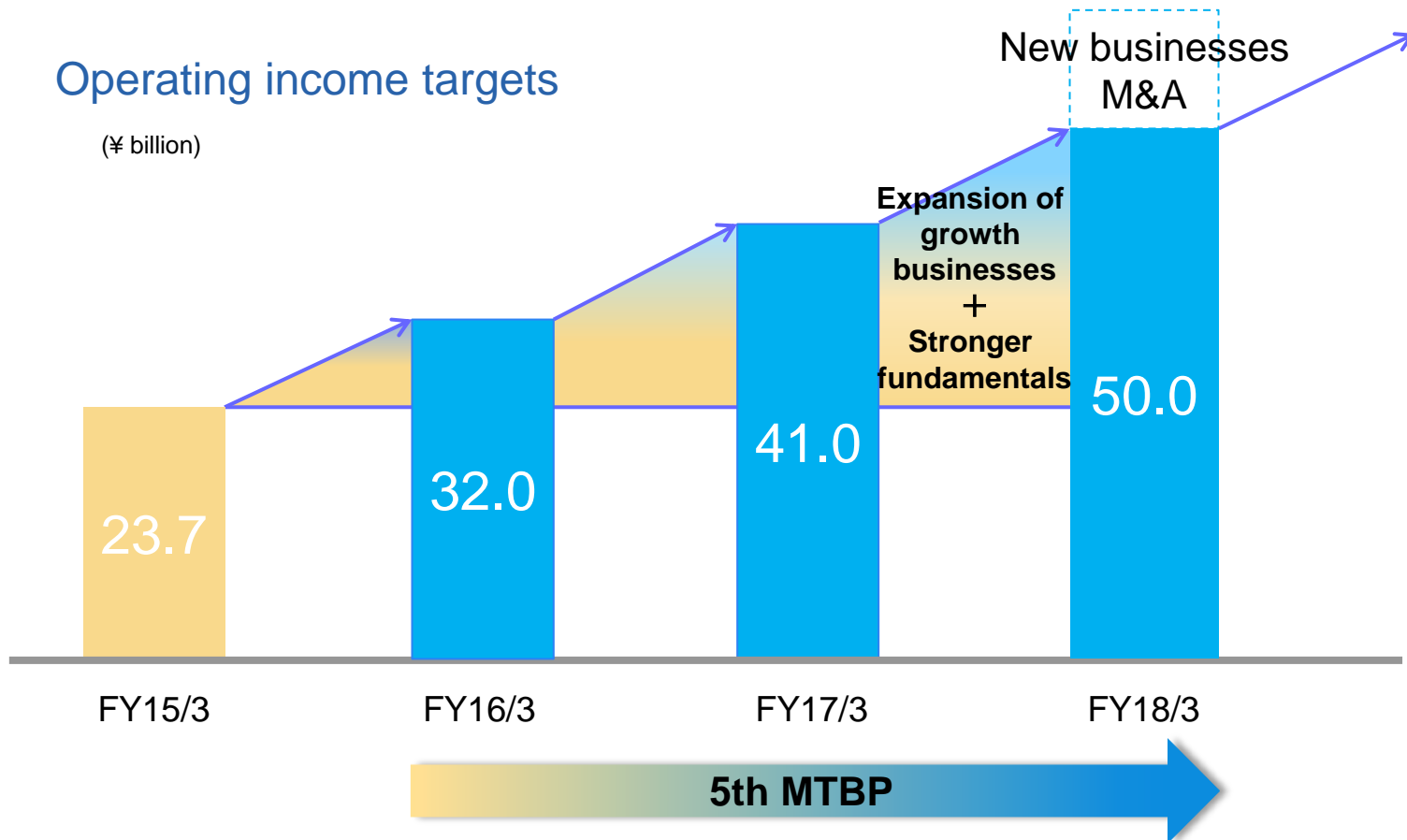




Committed to targets with  
stronger fundamentals + expansion of growth businesses  
and additional M&A and new business growth

### Operating income targets

(¥ billion)



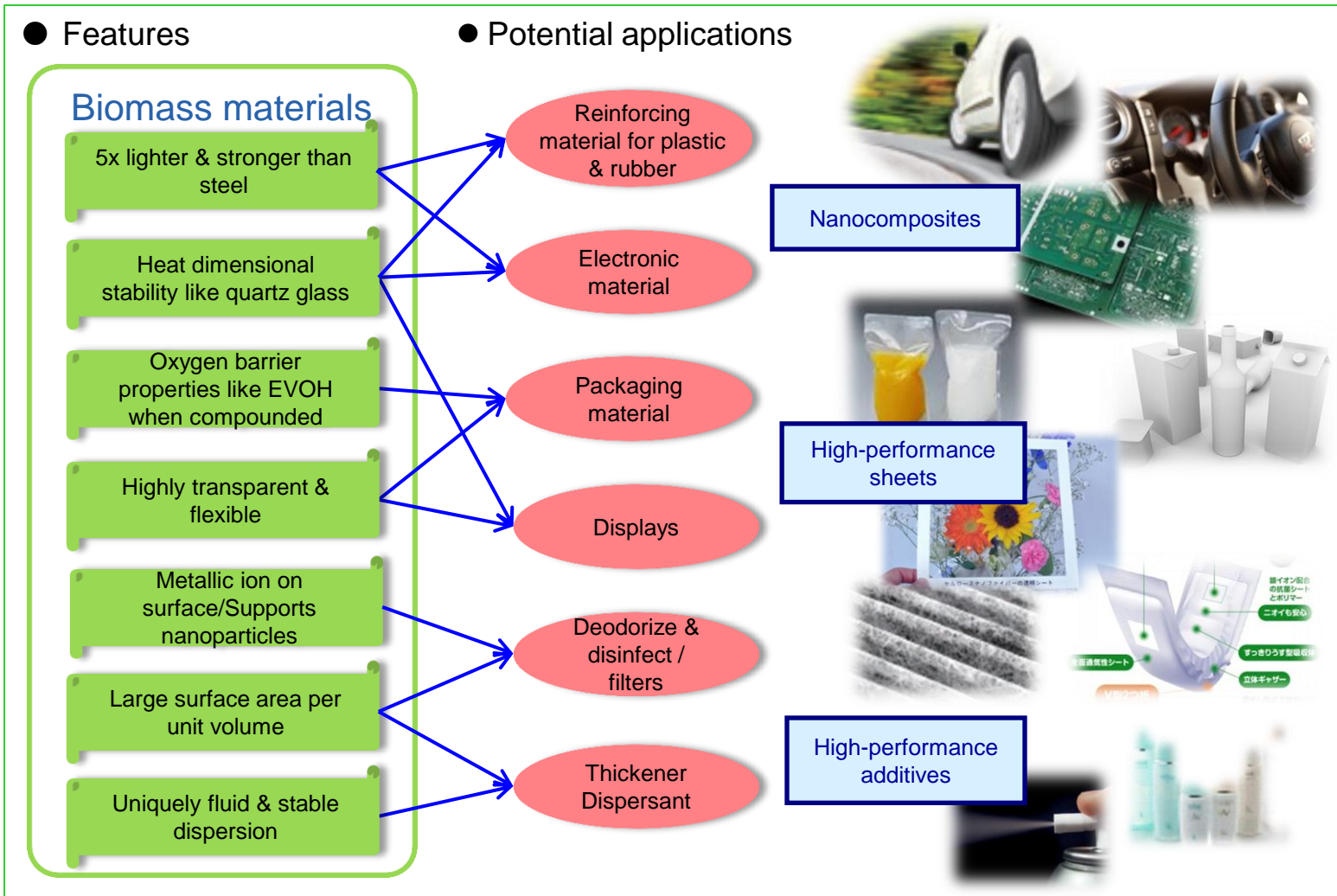


Assumptions		
USD	JPY/USD	JPY 120
Dubai crude oil	USD/BL	USD 60→USD 70→USD 80
Australian coal	USD/MT	USD 68→USD 80→USD 85
Australian eucalyptus	USD/BDT	Same as in FY2015
Newsprint	JPY/kg	Same as in FY2015
Printing paper	JPY/kg	Same as in FY2015
Containerboard	JPY/kg	Same as in FY2015



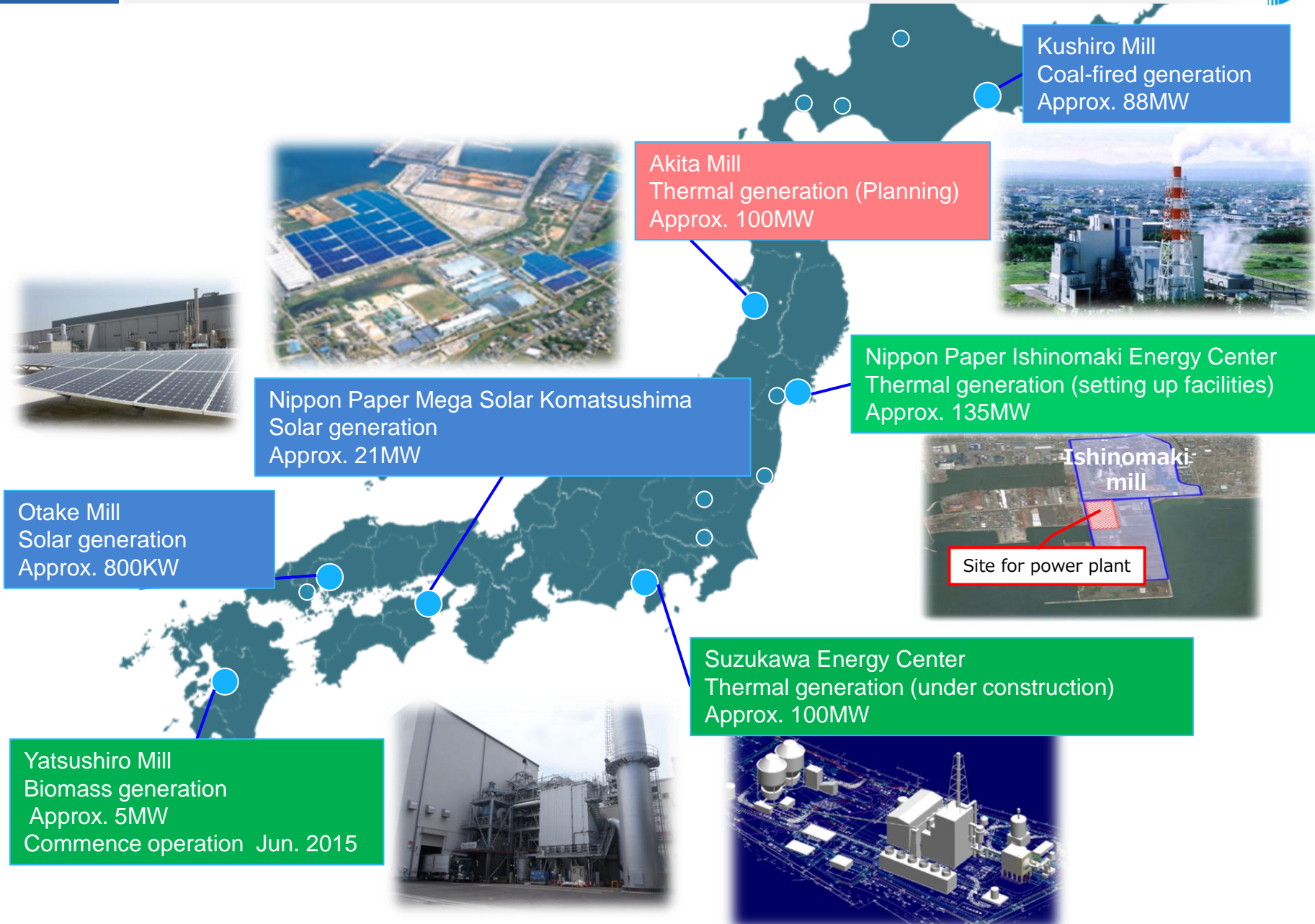
## 2) Move toward Practical Use of Cellulose Nanofiber

- Move toward practical use for deodorant sheet in adult diapers (launch planned for fall 2015)
- Increase employees and accelerate practical use in various applications





### 3) Energy Business: Generation Resources



## **Precautions about forward-looking statements, etc.**

**This presentation document contains statements on the forecasts concerning Nippon Paper Group, Inc., and its future plans and management targets. These forward-looking statements are based on the management's assumptions about future events and trends in light of the information currently available, although these assumptions may be incorrect. In addition, various factors could cause actual results of the Group's operations to differ materially from the statements contained herein.**

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