

May 28, 2018

Company name : Nippon Paper Industries Co., Ltd.
Representative : Fumio Manoshiro, President
(Stock code: 3863, First Section, TSE)

Nippon Paper Group Announces Reorganization of Production Structure for its Paper Business

Nippon Paper Industries Co., Ltd. (“the Company”) has announced that, at a meeting of the Board of Directors held today, the Company resolved to reorganize the production structure for its paper business as follows.

1. Background and Purpose of Reorganization

Since the global financial crisis, domestic demand for paper in Japan has been in a state of structural decline due to development of IT. Since 2009, as the top manufacturer of newsprint and printing paper, with the aim of optimizing the balance of supply and demand, the Company has reduced its annual production capacity by approximately 1.7 million tonnes. By carrying out a further reorganization of its production structure on this occasion, the Company will seek to further optimize the balance of supply and demand, and to improve the revenue structure of its paper business by reducing fixed costs and increasing the operation rate. In shutting down the relevant production equipment, the Company will take every possible measure to ensure stable supply and quality for its customers.

By implementing this reorganization of its production structure as part of its Sixth Medium-Term Business Plan (FY2018 - FY2020), the Company will seek to enhance the earning power of its paper business. Moreover, in order to accelerate the growth of the entire business, the Company will work on expansion of its business operation in growth areas (packaging, household tissues, healthcare, chemicals, energy, etc.) and early commercialization of new business.

2. Outline of Reorganization of Paper Business Production Structure

(1)Hokkaido Mill (Yufutsu) is to shut down all paper production machines and related equipment for the production of paper. In addition to continuing its chemical business operations at the mill, moving forward, the Company will also advance considerations for the mill to become a location for establishing new business operations; including biomass power generation.

(2)Fuji Mill (Fuji) is to shut down all paper production machines and related equipment for the production of paper. As of May 2018, the mill commenced operation of Crecia-Kasuga Co., Ltd. (President & CEO: Hirofumi Narita), producing household tissue. Moving forward, the mill will seek to utilize its location in close proximity to a major metropolitan area in order to shift towards becoming a production location for household paper products.

(3)Kushiro Mill is to shut down its No. 8 paper production machine due to a decline in newsprint demand. By doing so, the mill will seek to shrink fixed costs and increase production efficiency and enhance its cost competitiveness as a newsprint production location. It is planned to transfer production of a portion of newsprint currently produced using machine No.8 to machine No. 6 at the same mill. As a result, it is planned to transfer (partial) production of heavy-sack kraft paper, unbleached kraft paper and semibleached wrapping paper currently produced using machine No. 6 to the Company’s Hokkaido Mill (Asahikawa), and to Shin Tokai Paper Co., Ltd.’s Shimada Mill.

Details of paper production machines to be shut down as part of measures (1) to (3) above are as follows.

Production location	Equipment	Annual production capacity (1,000 tonnes)	Main types of products produced	Timing of machine shutdown (planned)
Nippon Paper Industries Co., Ltd. Hokkaido Mill (Yufutsu)	Paper machine No. 2	24	Base paper for paper packages	Jan 2020
	Paper machine No. 4	25	Process paper, etc.	Jan 2020
	Paper machine No. 5	88	Woodfree paper, etc.	Jan 2020
	Paper machine No. 6	116	Newsprint	Jan 2020
Nippon Paper Industries Co., Ltd. Fuji Mill (Fuji)	Paper machine No. 2	17	Woodfree colored paper, etc.	Sep 2019
	Paper machine No. 11	49	Lightweight coated paper, medium-to-low grade mechanical woodpulp paper	Jun 2019
	Paper machine No. 12	69	Recycled PPC (plain paper copier), etc.	Mar 2019
Nippon Paper Industries Co., Ltd. Kushiro Mill	Paper machine No. 8	143	Newsprint	Jul 2019

As announced in a previous press release (“Nippon Paper Industries Reviews the Production Structure of Coated Paper”) dated August 3, 2017, coating machine No. 1 at Akita Mill and coating machine No. 2 at Ishinomaki Mill were both shut down as of May this year. The combined reduction in production capacity of these shutdowns in conjunction with the shutdown of the equipment outlined above is approximately 760,000 tonnes per year (equivalent to 18% of overall capacity).

The Company plans to continue its employment of the approximately 350 employees involved in the operation of equipment the shutdown of which has been determined on this occasion, based on the assumption of transferal, mainly to growth areas and/or new business operations within the Nippon Paper Group.

3. Impact of Reorganization on Paper Business Revenues

(1) Revenue improvement breakdown

(including the effects of shutting down coating machine No. 1 at Akita Mill and coating machine No. 2 at Ishinomaki Mill)

- Reduction in variable cost due to reorganization: ¥0.9 billion
- Labor reduction: ¥5.6 billion
- Reduction in fixed cost, including depreciation: ¥4.5 billion

<Total> Approx. ¥11.0 billion

(2) Estimated Extraordinary Losses

Extraordinary losses of approximately ¥20 billion are expected to arise in the consolidated financial results for the fiscal year ending March 2019, in the form of fixed asset impairment losses, etc.