

# 1st Half FY2016/3 Financial Review

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Shaping the Future with Trees

November 5, 2015

Nippon Paper Industries Co., Ltd.

## 1st Half FY2016/3 Review

(April 1, 2015 – September 30, 2015)

1. Business Environment
2. Financial Results

## FY2016/3 Forecast

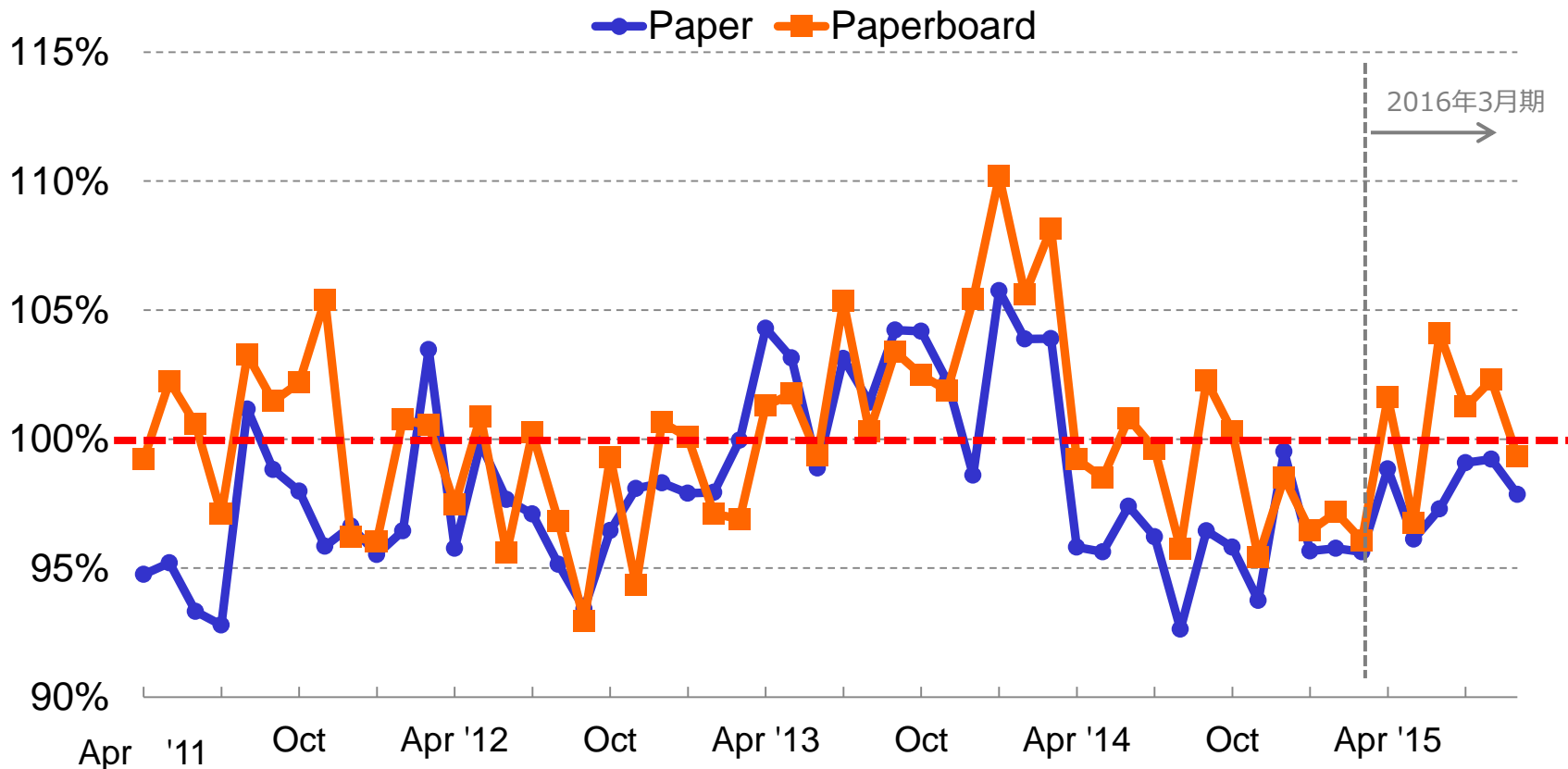
(April 1, 2015 – March 31, 2016)

3. FY2016/3 Earnings Forecast

# 1. Business environment: *Domestic shipment of Japanese paper industry*

Shipment is decreasing  
due to weak personal spending and so on.

Domestic shipment of Japanese paper industry (YOY)



Source: Japan Paper Association

1. Business environment: *Domestic shipment, exports and imports*

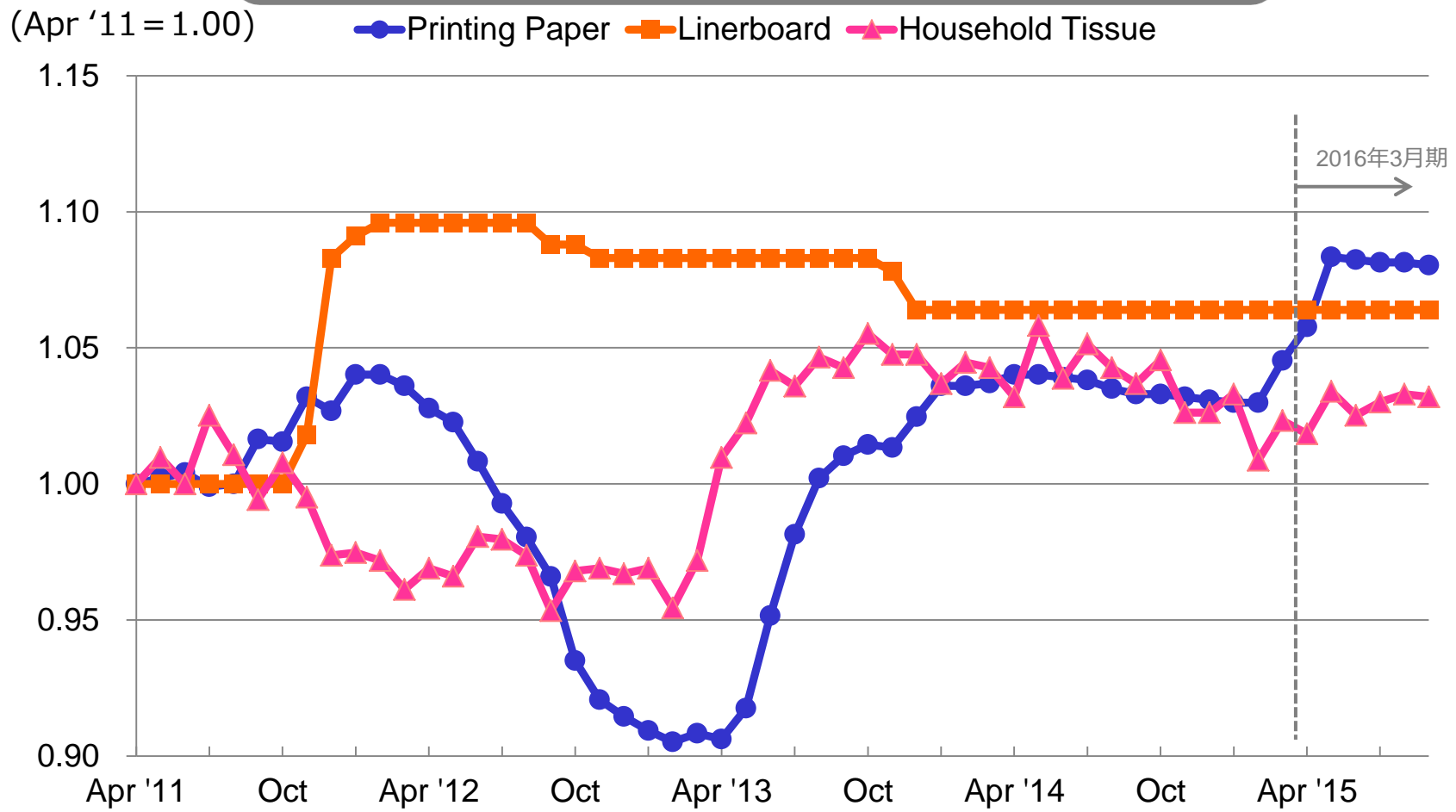
Domestic demand of graphic paper including newsprint is declining.

('000 tonnes)	Apr. '15 - Sep. '15				Apr. '15 - Sep. '15	
	Domestic shipments		Exports		Imports	
	volume ('000 tons)	YOY	volume ('000 tons)	YOY	volume ('000 tons)	YOY
Newsprint	1,479	-3.7%	1	51.1%	24	-8.1%
Printing & business communication paper	3,714	-1.6%	313	9.3%	598	-9.3%
Coated paper *	2,114	-1.0%	253	14.6%	272	-17.7%
Uncoated & specialty printing paper	961	-2.5%	42	-7.0%	70	-18.6%
Business communication paper	639	-2.0%	17	-11.9%	256	5.4%
Other papers (packaging, sanitary and other miscellaneous uses)	1,562	-1.0%	108	-2.6%	19	-9.8%
<b>Paper total</b>	<b>6,755</b>	<b>-1.9%</b>	<b>422</b>	<b>6.0%</b>	<b>641</b>	<b>-9.3%</b>
Container board	4,411	1.9%	154	12.8%	27	-35.4%
Folding box board and others	1,065	-3.1%	13	33.1%	142	2.6%
<b>Paperboard total</b>	<b>5,475</b>	<b>0.9%</b>	<b>167</b>	<b>14.2%</b>	<b>170</b>	<b>-6.3%</b>
<b>Paper and paperboard total</b>	<b>12,230</b>	<b>-0.7%</b>	<b>589</b>	<b>8.2%</b>	<b>811</b>	<b>-8.7%</b>

※ "Bitoko-shi" paper is included in coated paper.

Source: Japan Paper Association

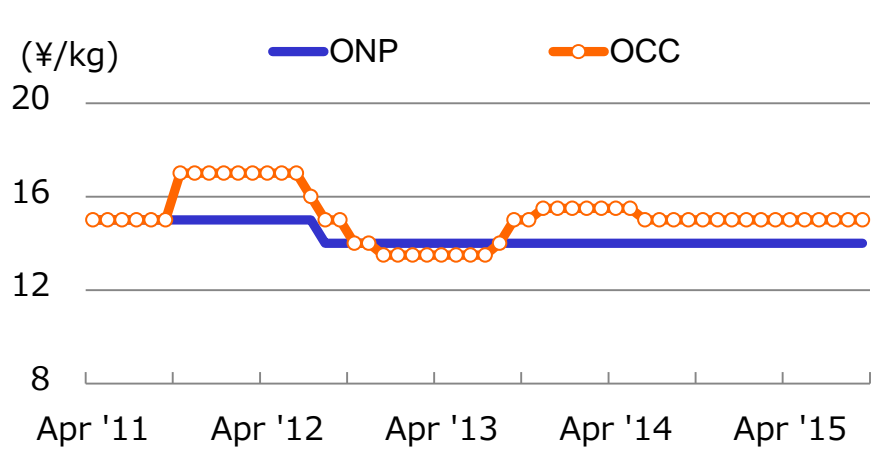
Printing paper price has been maintained after the hike.



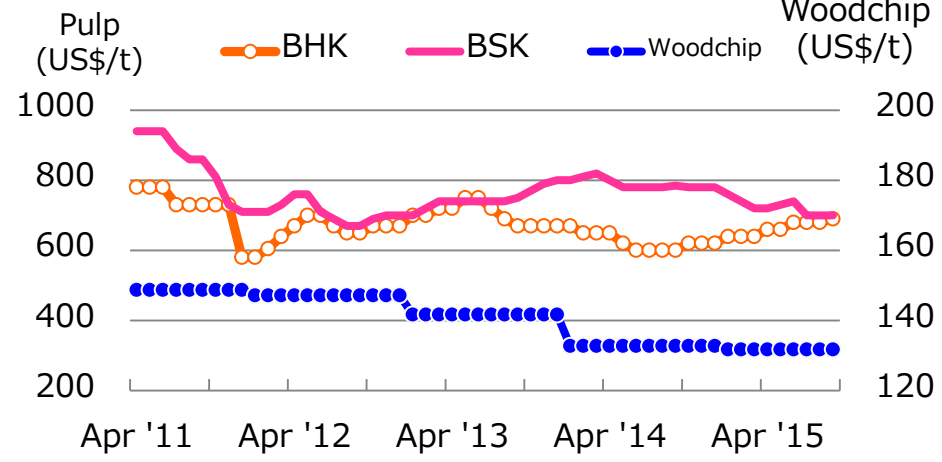
Source: Bank of Japan "Corporate Goods Price Index"

Oil and coal prices show downward trend.  
Waste paper price remains flat.

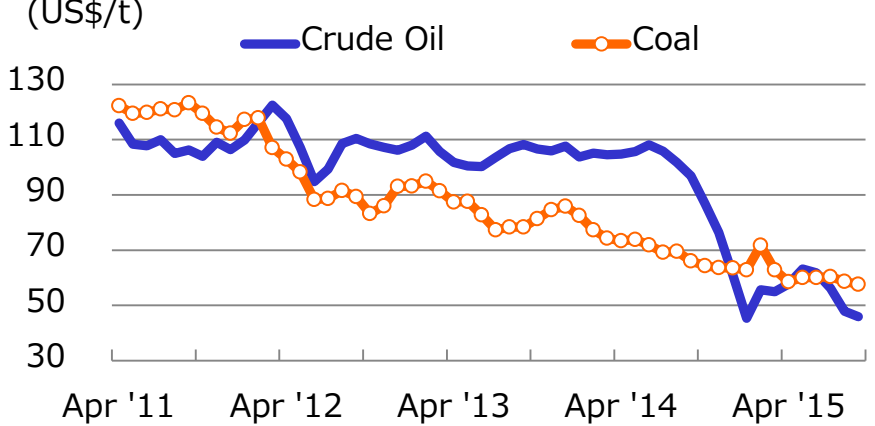
Waste Paper



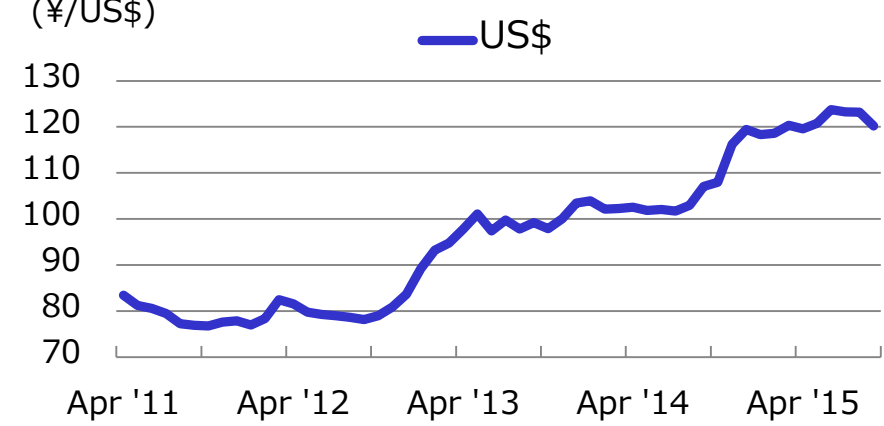
Pulp & Woodchip



Crude oil (Dubai) & Coal



FOREX



Source: Paper Recycling Promotion Center, Pulp&Paper Week, Crude oil= Platts, Coal=Global Coal Index

## 2. Financial Results: *Highlights*

(¥billion)	1H FY2016/3 Result	1H FY2015/3 Result	Variance (YOY)
<Net sales>	499.8	516.0	-16.2
<Operating income>	8.4	12.5	-4.1
<Ordinary income>	16.2	12.7	3.5
<Net income*>	14.3	21.2	-6.9





- ❑ Net sales decreased due to Shikoku Coca-Cola share sale.
- ❑ Booked ¥8.1b FX gain and ¥16.5b sales gain due to Lee & Man share sale, and ¥-16.1b loss due to Shikoku Coca-Cola share sale.

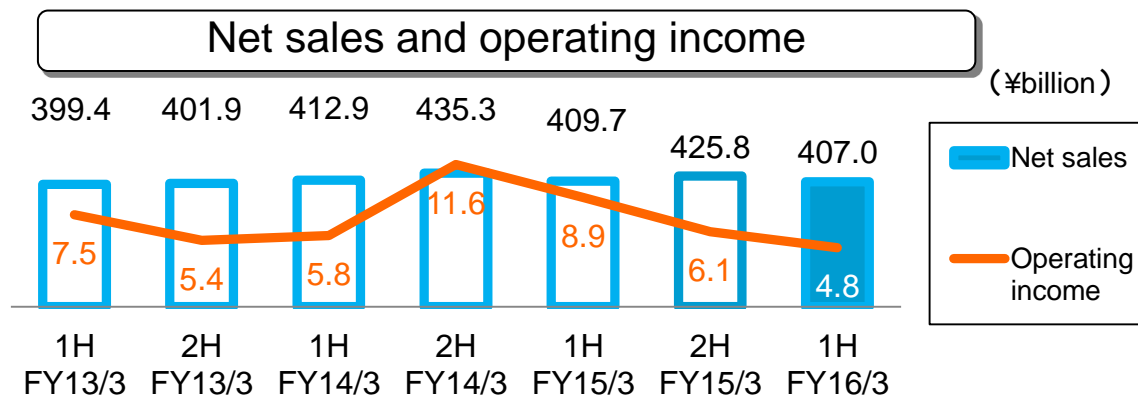
Operating income decreased  
due to lower sales out of pulp and paper segment.

(#billion)	Sales			Operating Income		
	1st Half FY2015/3	1st Half FY2016/3		1st Half FY2015/3	1st Half FY2016/3	
		Variance YOY			Variance YOY	
Pulp and paper	409.7	407.0	-2.7	8.9	4.8	-4.1
Paper related (packaging and chemical products)	46.6	45.2	-1.4	2.3	1.4	-0.9
Wood products and construction related	27.6	29.5	1.9	0.6	1.4	0.8
Other (beverages, logistics, etc.)	32.1	18.1	-14.0	0.7	0.8	0.1
Total	516.0	499.8	-16.2	12.5	8.4	-4.1



## 2. Financial Results: *Pulp & Paper Segment*

<p>Paper</p> 	<ul style="list-style-type: none"> <li>- Shipment -1.7% (domestic -2.3%, exports +7.4% (YOY)) -&gt; Strategically increased exports though domestic demand is not good.</li> <li>- Price increase implemented in this Spring eased the impact of raw materials and fuels cost increase.</li> </ul>
<p>Paperboard</p> 	<ul style="list-style-type: none"> <li>- Shipment -2.7% (domestic -3.0%, exports +1.7% (YOY)) -&gt; Corrugated medium sales was weak.</li> </ul>
<p>Household Tissue</p> 	<ul style="list-style-type: none"> <li>- Steady healthcare business contributed to higher sales volume.</li> <li>- Raw material price increase due to FX decreased operating income against last year.</li> </ul>
<p>Other</p> 	<ul style="list-style-type: none"> <li>- Power sales remains flat.</li> </ul>





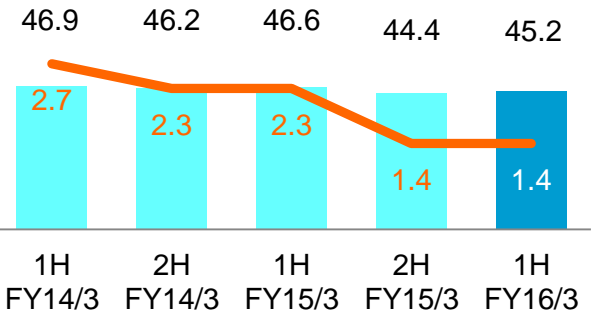

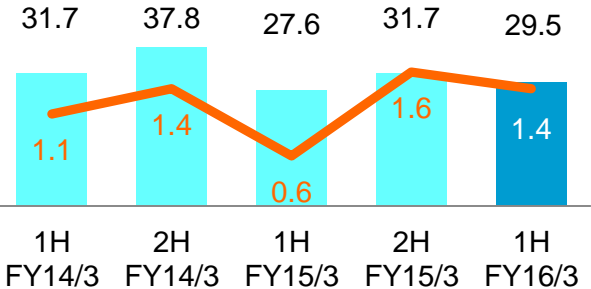

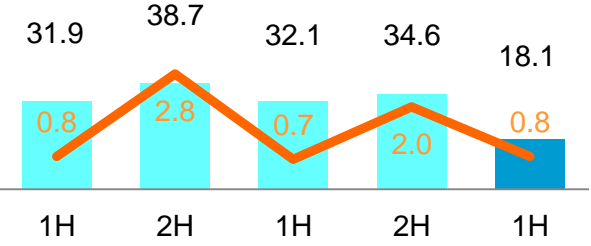
## 2. Financial Results: *Pulp & Paper Segment* - Sales Volume by Product

Both paper and paperboard sales declined in domestic market and export volume was increased.

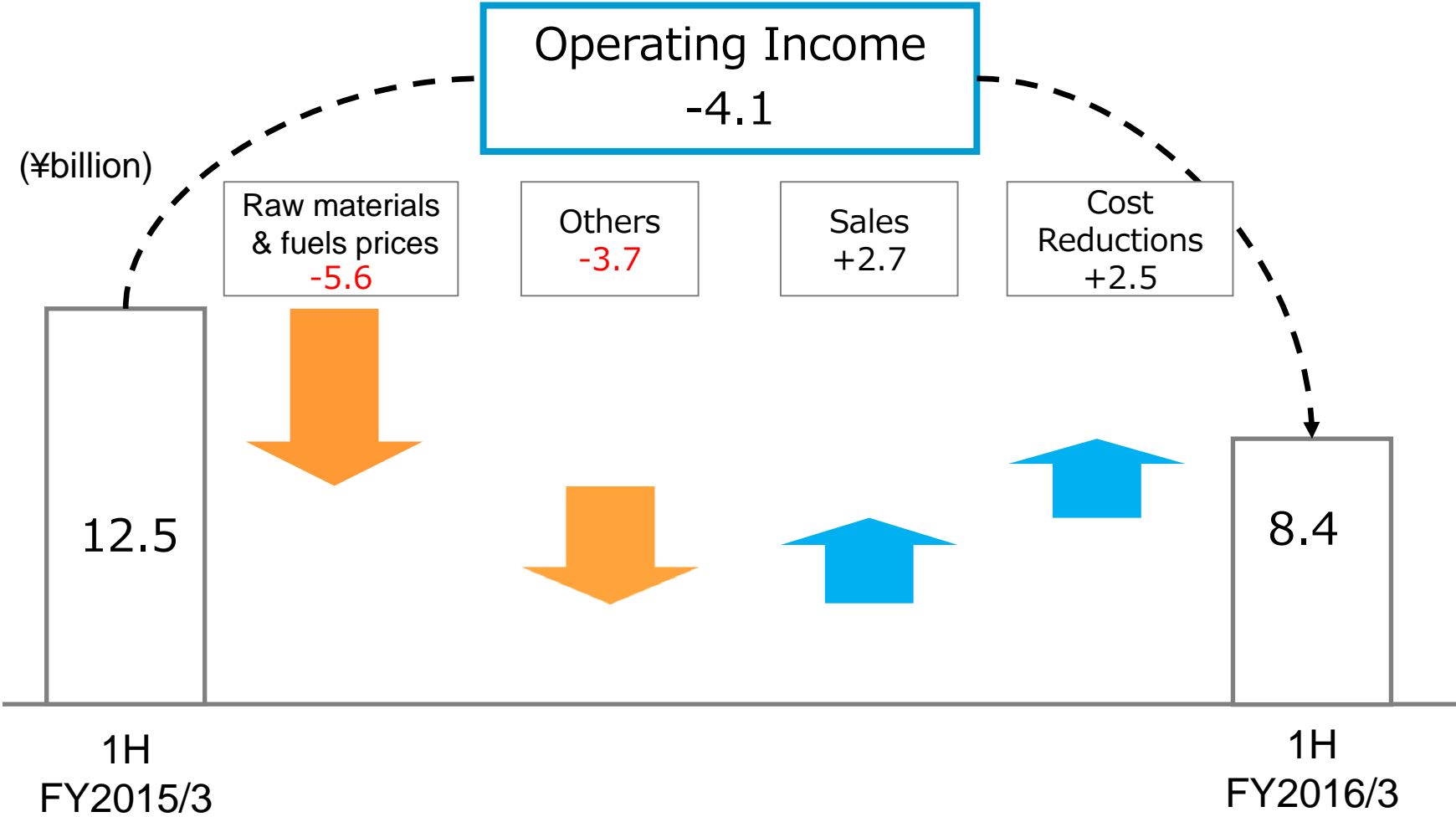
('000 tons)

		1 <sup>st</sup> Half FY2015/3	1 <sup>st</sup> Half FY2016/3	YoY
Paper	Newsprint	549	530	-3.4%
	Printing & Business communication paper	1,174	1,146	-2.3%
	Coated paper	623	621	-0.3%
	Uncoated & Specialty printing paper	271	265	-2.0%
	Business communication paper	280	260	-7.2%
	Packaging paper and others	153	155	1.7%
	Domestic sales (paper)	1,876	1,832	-2.3%
Export (paper)	125	134	7.4%	
<b>Paper total</b>		<b>2,001</b>	<b>1,966</b>	<b>-1.7%</b>
Paperboard	Container board	609	591	-3.1%
	Folding box board and others	182	177	-2.6%
	Domestic sales (paperboard)	791	768	-3.0%
	Export (paperboard)	44	45	1.7%
	<b>Paperboard total</b>	<b>836</b>	<b>813</b>	<b>-2.7%</b>
<b>Grand total (paper and paperboard)</b>		<b>2,836</b>	<b>2,779</b>	<b>-2.0%</b>

## 2. Financial Results: Paper-Related Segment, Wood Products and Construction Related Segment, Other Segment

	Business Overview	Net sales and operating income 																		
<p>Paper-related segment</p> 	<p>&lt;Liquid-packaging cartons (paper-pak) business&gt;</p> <ul style="list-style-type: none"> <li>- Performance was not good due to demand slump of vegetable beverage and base paper cost increase due to weaker JPY.</li> </ul> <p>&lt;Chemical business&gt;</p> <ul style="list-style-type: none"> <li>- Sales was steady in dissolving pulp but functional film business was bad.</li> </ul>	 <table border="1"> <thead> <tr> <th>Period</th> <th>Net sales (¥billion)</th> <th>Operating income (¥billion)</th> </tr> </thead> <tbody> <tr> <td>1H FY14/3</td> <td>46.9</td> <td>2.7</td> </tr> <tr> <td>2H FY14/3</td> <td>46.2</td> <td>2.3</td> </tr> <tr> <td>1H FY15/3</td> <td>46.6</td> <td>2.3</td> </tr> <tr> <td>2H FY15/3</td> <td>44.4</td> <td>1.4</td> </tr> <tr> <td>1H FY16/3</td> <td>45.2</td> <td>1.4</td> </tr> </tbody> </table>	Period	Net sales (¥billion)	Operating income (¥billion)	1H FY14/3	46.9	2.7	2H FY14/3	46.2	2.3	1H FY15/3	46.6	2.3	2H FY15/3	44.4	1.4	1H FY16/3	45.2	1.4
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<p>Wood products and construction related segment</p> 	<ul style="list-style-type: none"> <li>- Sales and operating income increased. Demand is modestly increasing after the impact of consumption tax increase happened in last year.</li> </ul>	 <table border="1"> <thead> <tr> <th>Period</th> <th>Net sales (¥billion)</th> <th>Operating income (¥billion)</th> </tr> </thead> <tbody> <tr> <td>1H FY14/3</td> <td>31.7</td> <td>1.1</td> </tr> <tr> <td>2H FY14/3</td> <td>37.8</td> <td>1.4</td> </tr> <tr> <td>1H FY15/3</td> <td>27.6</td> <td>0.6</td> </tr> <tr> <td>2H FY15/3</td> <td>31.7</td> <td>1.6</td> </tr> <tr> <td>1H FY16/3</td> <td>29.5</td> <td>1.4</td> </tr> </tbody> </table>	Period	Net sales (¥billion)	Operating income (¥billion)	1H FY14/3	31.7	1.1	2H FY14/3	37.8	1.4	1H FY15/3	27.6	0.6	2H FY15/3	31.7	1.6	1H FY16/3	29.5	1.4
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<p>Other segment</p> 	<ul style="list-style-type: none"> <li>- Sales decreased because Shikoku Coca-Cola was sold.</li> </ul> <p>(Note) Shikoku Coca-cola was extracted out of consolidated scope from 2Q.</p>	 <table border="1"> <thead> <tr> <th>Period</th> <th>Net sales (¥billion)</th> <th>Operating income (¥billion)</th> </tr> </thead> <tbody> <tr> <td>1H FY14/3</td> <td>31.9</td> <td>0.8</td> </tr> <tr> <td>2H FY14/3</td> <td>38.7</td> <td>2.8</td> </tr> <tr> <td>1H FY15/3</td> <td>32.1</td> <td>0.7</td> </tr> <tr> <td>2H FY15/3</td> <td>34.6</td> <td>2.0</td> </tr> <tr> <td>1H FY16/3</td> <td>18.1</td> <td>0.8</td> </tr> </tbody> </table>	Period	Net sales (¥billion)	Operating income (¥billion)	1H FY14/3	31.9	0.8	2H FY14/3	38.7	2.8	1H FY15/3	32.1	0.7	2H FY15/3	34.6	2.0	1H FY16/3	18.1	0.8
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Price increase and cost reduction efforts did not fully offset the negative impact of lower sales volume and input cost rising



Promoted better asset utilization  
through Lee & Man share sales and so on.

(¥billion)	Sep.30 2015	Compared to Mar.31 2015
<b>Total assets</b>	<b>1,475.0</b>	<b>-20.5</b>
Cash and time deposits	139.5	55.4
Notes and accounts receivable	184.6	-8.9
Inventories	167.8	4.8
Other current assets	48.5	4.6
Property, plant, equipment and intangible fixed assets	708.6	-25.8
Investments and other assets	226.0	-50.7
<b>Total liabilities</b>	<b>1,001.8</b>	<b>-4.1</b>
Interest-bearing liabilities (incl. lease obligations)	738.7	6.9
Other liabilities	263.1	-10.9
<b>Total net assets</b>	<b>473.2</b>	<b>-16.5</b>
Shareholder's equity	418.2	0.4
<b>Net interest-bearing debt</b>	<b>599.2</b>	<b>-48.5</b>
<b>Net D/E ratio</b>	<b>1.43</b>	<b>-0.1</b>

Item	1H FY2016/3
<b>Operating activities</b>	<b>15.3</b>
Income before income taxes	14.0
Depreciation	29.0
Change in net working capital	-13.3
Other	-14.5
<b>Investing activities</b>	<b>41.6</b>
Purchases of property, plant and equipment	-17.6
Proceeds from sales of property, plant and equipment	0.7
Proceeds from sales of investment securities	46.7
Other	11.9
<b>Free cash flows</b>	<b>56.9</b>
<b>Financing activities</b>	<b>-0.2</b>
Change in net borrowings	3.7
Cash dividends paid	-3.5
Other	-0.5
Effect of exchange rate changes on cash and cash equivalents	-1.2
Cash and cash equivalents at the beginning of period	84.0
Cash and cash equivalents at the end of period	139.5

### 3. FY2016/3 Earnings Forecast: *Highlights*

(¥billion)	FY2016/3 Forecast (As of Nov.5)	FY2016/3 Forecast (As of May.15)	FY2015/3
<Net sales>	1,030.0	1,060.0	1,052.5
<Operating income>	25.0	32.0	23.7
<Ordinary income>	30.0	30.0	23.2
<Net income*>	15.0	15.0	23.2

- ❑ Revised the forecast based on 1H performance.
- ❑ Ordinary income and Net income remain unchanged.
- ❑ Target: net interest-bearing debt ¥620 billion, net D/E around 1.5 times.

Domestic Sales(for full fiscal year)

- Volume (year-on-year)

Paper : -2.6%

Paperboard : -1.8%

- Price

Paper : Remain at current level

Paperboard : Remain at current level

Raw materials and fuel prices, FOREX(for 2<sup>nd</sup> Half)

Crude oil : US\$50/BL (Dubai)

Coal : US\$68/t (Australian black coal)

Wastepaper : Remain at current level

FOREX : ¥120/US\$

Last assumptions  
(on May.15, 2015)

-1.3%

+2.0%

Remain at current level

US\$60/BL

US\$68/t

Remain at current level

¥120

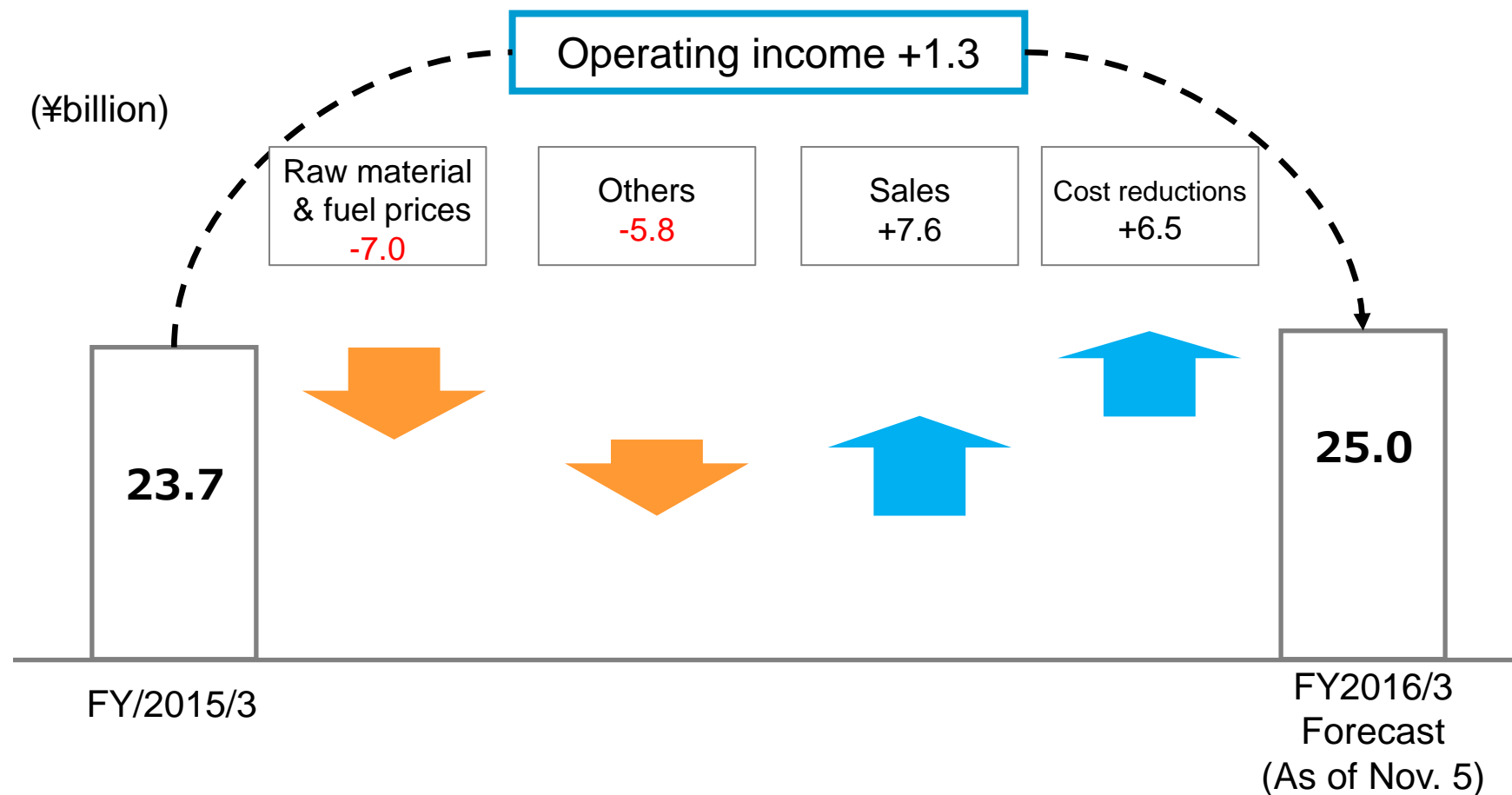
Sales volume forecast is revised mainly in printing and business communication paper and containerboard.

('000 tonnes)		FY2016/3 forecast (As of Nov.5)	YOY	FY2015/3 results	FY2016/3 forecast (As of May.15)
Paper	Newsprint	1,077	-2.7%	1,107	1,084
	Printing & Business communication paper	2,320	-3.1%	2,395	2,367
	Coated paper	1,267	-2.1%	1,295	1,287
	Uncoated & Specialty printing paper	527	-3.0%	544	525
	Business communication paper	525	-5.7%	557	555
	Packaging paper and others	317	1.7%	312	313
	Domestic sales (paper)	3,714	-2.6%	3,815	3,764
	Export (paper)	315	22.0%	258	303
<b>Paper total</b>		<b>4,029</b>	<b>-1.1%</b>	<b>4,072</b>	<b>4,067</b>
Paperboard	Container board	1,199	-1.8%	1,221	1,247
	Folding box board and others	368	-1.8%	375	381
	Domestic sales (paperboard)	1,567	-1.8%	1,595	1,628
	Export (paperboard)	96	7.6%	89	105
<b>Paperboard total</b>		<b>1,663</b>	<b>-1.3%</b>	<b>1,685</b>	<b>1,733</b>
<b>Grand total (paper and paperboard)</b>		<b>5,692</b>	<b>-1.1%</b>	<b>5,757</b>	<b>5,800</b>



### 3. FY2016/3 earnings forecast: *Variance analysis* for operating income

Revised the forecast based on 1H performance.



[Reference]  
Last estimate  
(as of May.15)

Raw material  
& fuel prices  
-9.1

Others  
-4.1

Sales  
+15.8

Cost reductions  
+5.7

32.0

#### 4. FY2016/3 Earnings Forecast : *Key Figures and Indices*

	FY2012/3	FY2013/3	FY2014/3	FY2015/3	FY2016/3	
					1st Half	Full-year forecast
Operating margin on sales	3.5%	2.5%	2.6%	2.2%	1.7%	2.4%
Ordinary margin on sales	0.6%	2.3%	2.6%	2.2%	3.2%	2.9%
Capital expenditure (¥billion)	57.2	53.3	47.2	48.5	22.0	52.8
Depreciation (¥billion)	74.4	64.9	63.2	61.4	29.0	57.5
Net interest-bearing debt (¥billion)	718.9	719.3	678.4	647.7	599.2	620.0
Net D/E (times)	1.94	1.89	1.70	1.55	1.43	Circa 1.5
Number of employees	13,407	13,052	13,107	12,771	11,916	11,727
Earnings per share (¥)	-359.90	92.00	196.67	200.27	123.40	129.58
Dividends per share (¥)	30	40	40	50	30	60
ROA	1.2%	2.3%	2.7%	2.2%	—	(※) 2.7%

※Note: ROA FY2016/3 full year forecast is calculated based on total assets as of 30 September 2015.

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

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## Disclaimer

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Any statements in this presentation document, other than those of historical fact, are forward-looking statements about the future performance of Nippon Paper Industries, Co., Ltd. and its group companies. These statements are based on management's assumptions and beliefs in light of information currently available, and involve risks and uncertainties. Actual results may differ materially from these forecasts.

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