

# New Medium-Term Management Plan (FY2017 – FY2019)

## V-DRIVE

---

May 23, 2017

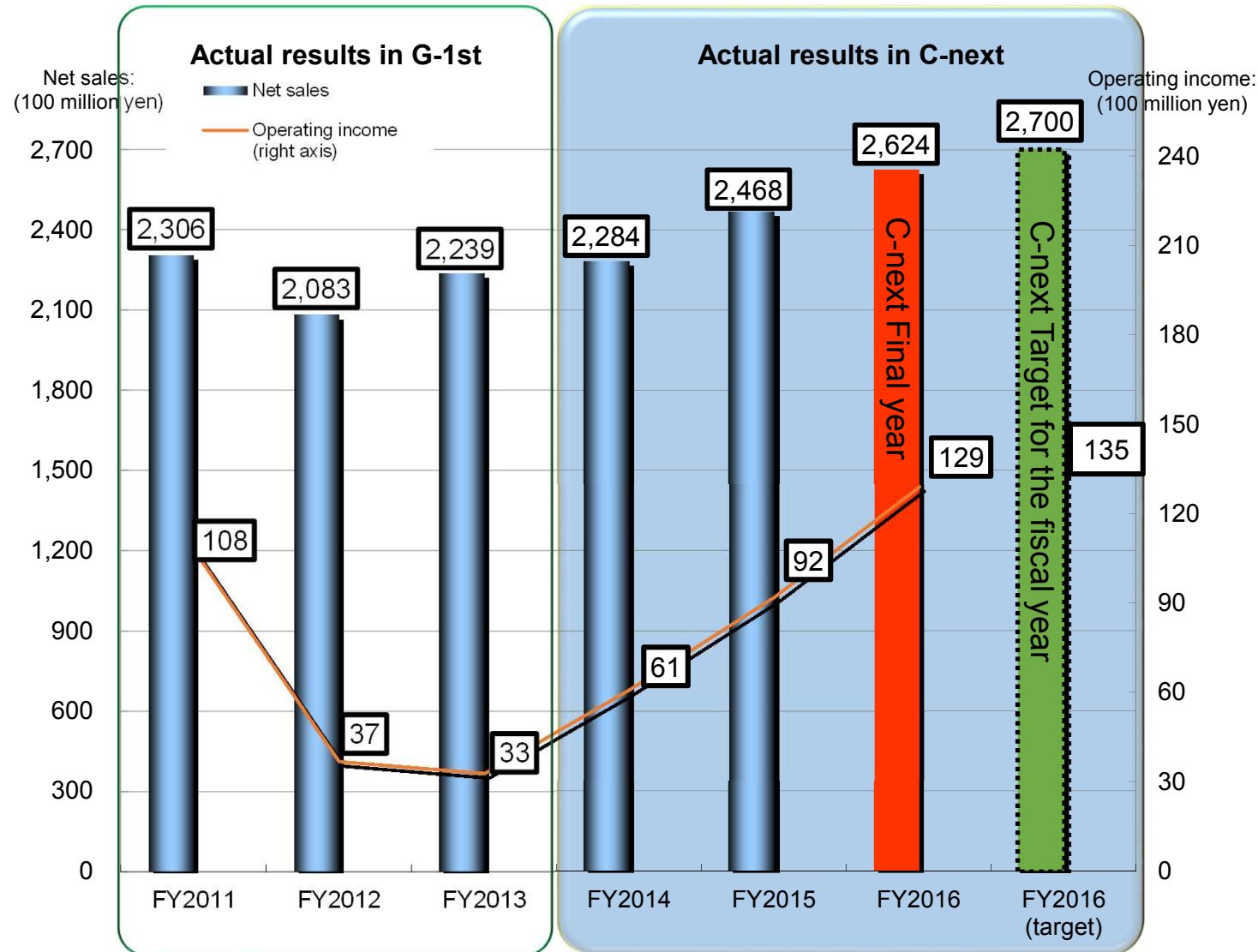


**HOKUETSU KISHU PAPER CO., LTD.**

# 1. Review of the Previous Medium-Term Management Plan “C-next” (1)



- Comparison of consolidated management targets and actual results in the previous medium-term management plan “C-next”



Consolidated targets for FY2016	
Net sales	¥270.0 billion
Operating income	¥13.5 billion
Ratio of operating income to net sales	5% or more
EBITDA	¥33.0 billion



Consolidated results for FY2016	
Net sales	¥262.4 billion
Operating income	¥12.9 billion
Ratio of operating income to net sales	4.9%
EBITDA	¥33.9 billion

## 2. Review of the Previous Medium-Term Management Plan “C-next” (2)



### ■ Efforts and actual results in “C-next”

Achieved most of the targets of “C-next” as a result of seeking to create new fields that are responsive to change while reforming the business structure for growth, based on strengthening the earnings base and deepening environmental measures.

#### Strengthening of the earnings base

Raising prices in the domestic paper business.  
Subsequently announced a further price revision due to the worsened conditions of exchange rates, etc.

Expanded operations and earnings in the specialty paper business including the overseas business (Dumas\*1).  
\*1 Bernard Dumas S.A.S.

#### Deepening of environmental measures

Further improved CO<sub>2</sub> emission intensity.  
Reduced it by 12% in 2015 compared with 2013.

Increased FSC-certified product items.

Acquired ISO14001 at Jiangmen Xinghui Paper Mill Co., Ltd. in China.

Acquired the food safety management system FSSC22000 at BF & Package Co., Ltd.

#### Creation of new fields Reform of business structure

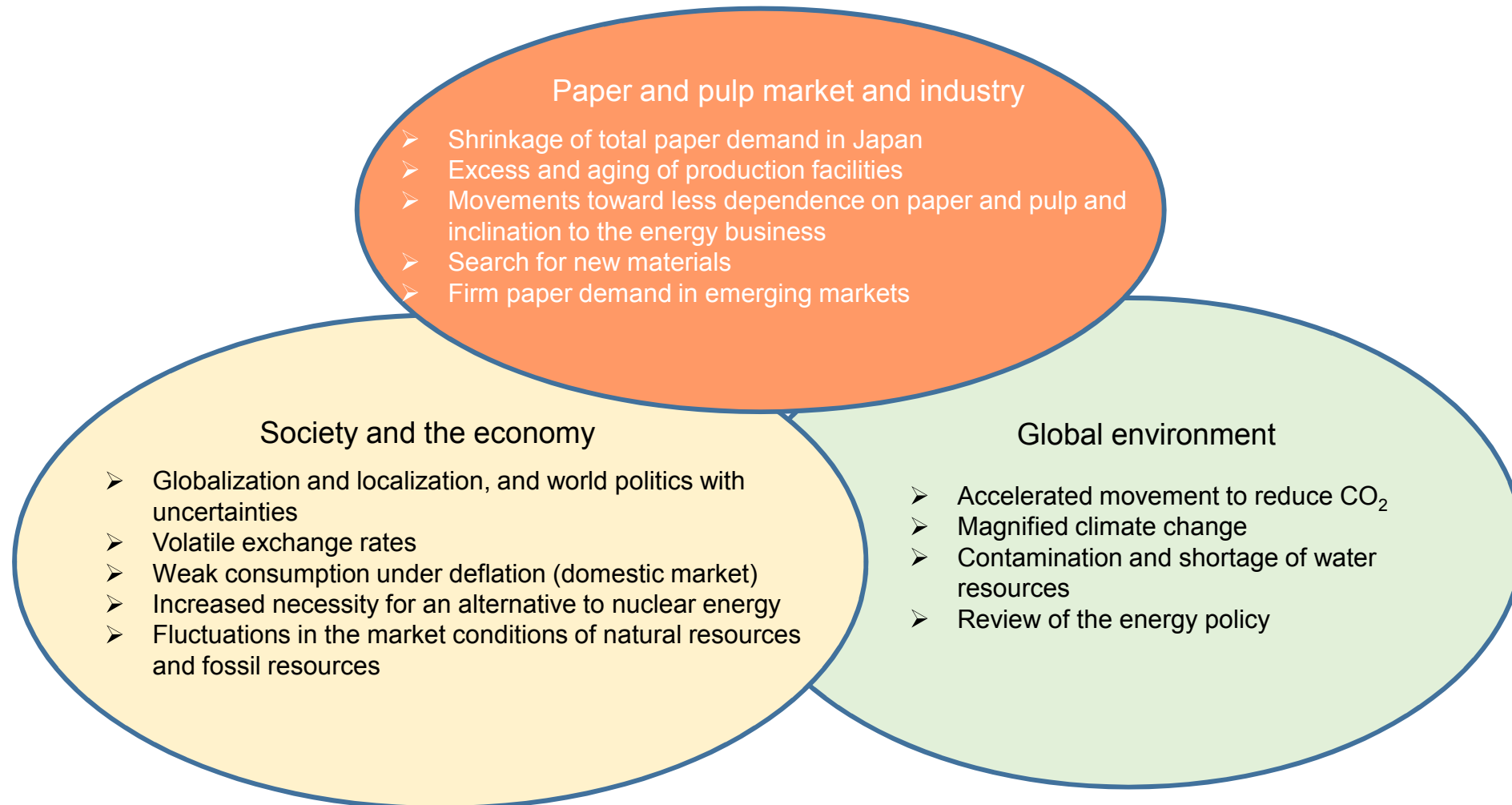
There was hope for the restoration of profitability in the white paperboard business in China (Jiangmen Xinghui Paper Mill Co., Ltd.).

Acquired the pulp business (Alpac\*2) in Canada.  
\*2 Alberta-Pacific Forest Industries Inc.

Reduced the sales ratio of the paper business to 45%.  
Overseas sales ratio: 12% → 28%

### 3. Recognition of Business Environment

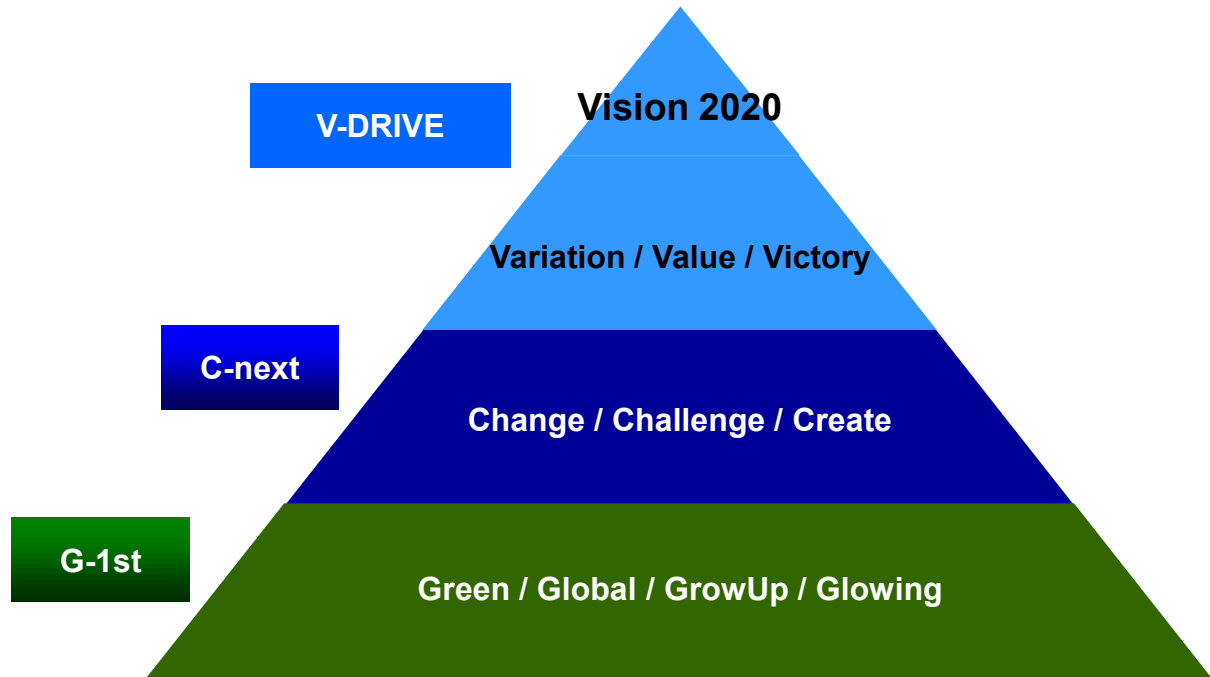
- The business environment in Japan became more severe, reflecting the shrinkage of total demand, stagnant sales prices and rising prices of raw materials.



# 4. Positioning of the New Medium-Term Management Plan

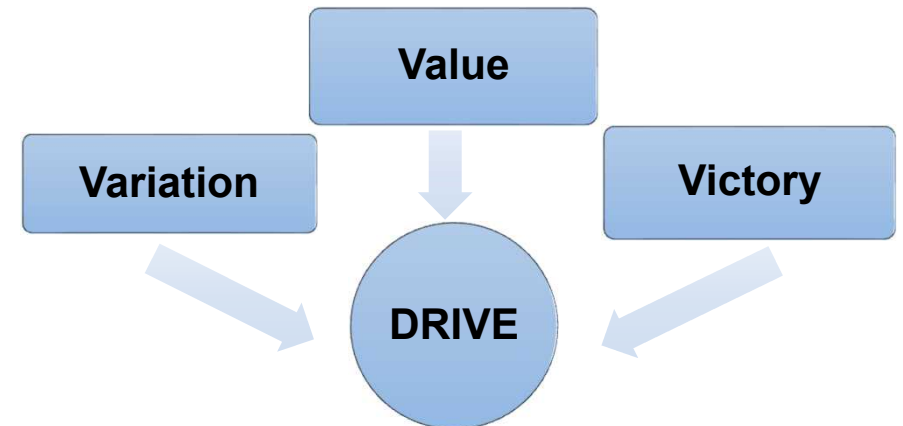


- Vision 2020 (published in April 2011)
- Be environmentally conscious in all corporate activities and [promote environmental management](#).
  - Offer [attractive products](#) with excellent quality and competitiveness using advanced technology.
  - Work with passion and seek steady [growth and ever greater challenges](#).
  - [Sales target: ¥300 billion or more](#) (overseas sales ratio: 25%)



Name of the new medium-term management plan

**V-DRIVE**



[V-DRIVE]  
Promote the creation of new fields and the reform of business structure (Variation), enhance the corporate value (Value) and ride to victory by achieving Vision 2020 (Victory). Accelerate corporate activities for these three “V”s (DRIVE).

# 5. Basic Policies and Strategies of the New Medium-Term Management Plan “V-DRIVE”



Basic policies

Expand the overseas business

Refortify the competitiveness of mills

Strengthen the base of the consolidated management system

Strategies

Aggressively develop businesses horizontally by using overseas subsidiaries.

Promote overseas strategies in the white paperboard business.

Promote overseas strategies in the specialty paper business.

Strengthen cost competitiveness in the paper business.

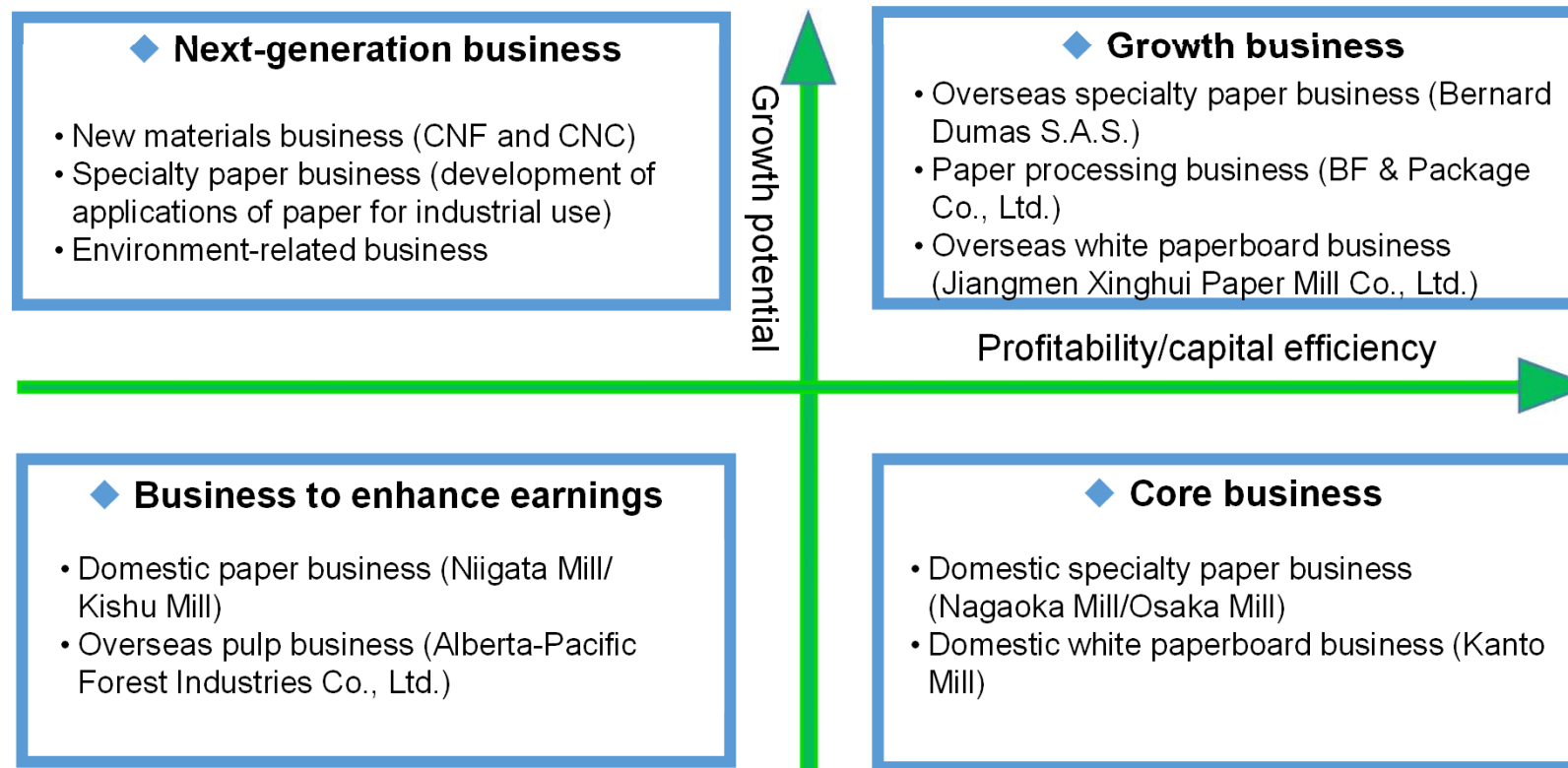
Make continuous efforts for environmental management.

Strengthen the global consolidated management system.

## 6. Strengthening of Portfolio Management

### ■ Business portfolio

Focus on allocating management resources to next-generation business and growth business, including M&A. Seek to expand the earnings of the domestic paper business and the overseas pulp business by increasing their cost competitiveness and efficiency.



## 7. Consolidated Management Targets (FY2019)



### ■ Overview of the plan

#### Plan period

April 1, 2017 – March 31, 2020 (3 years)

#### Financial indicators (FY2019)

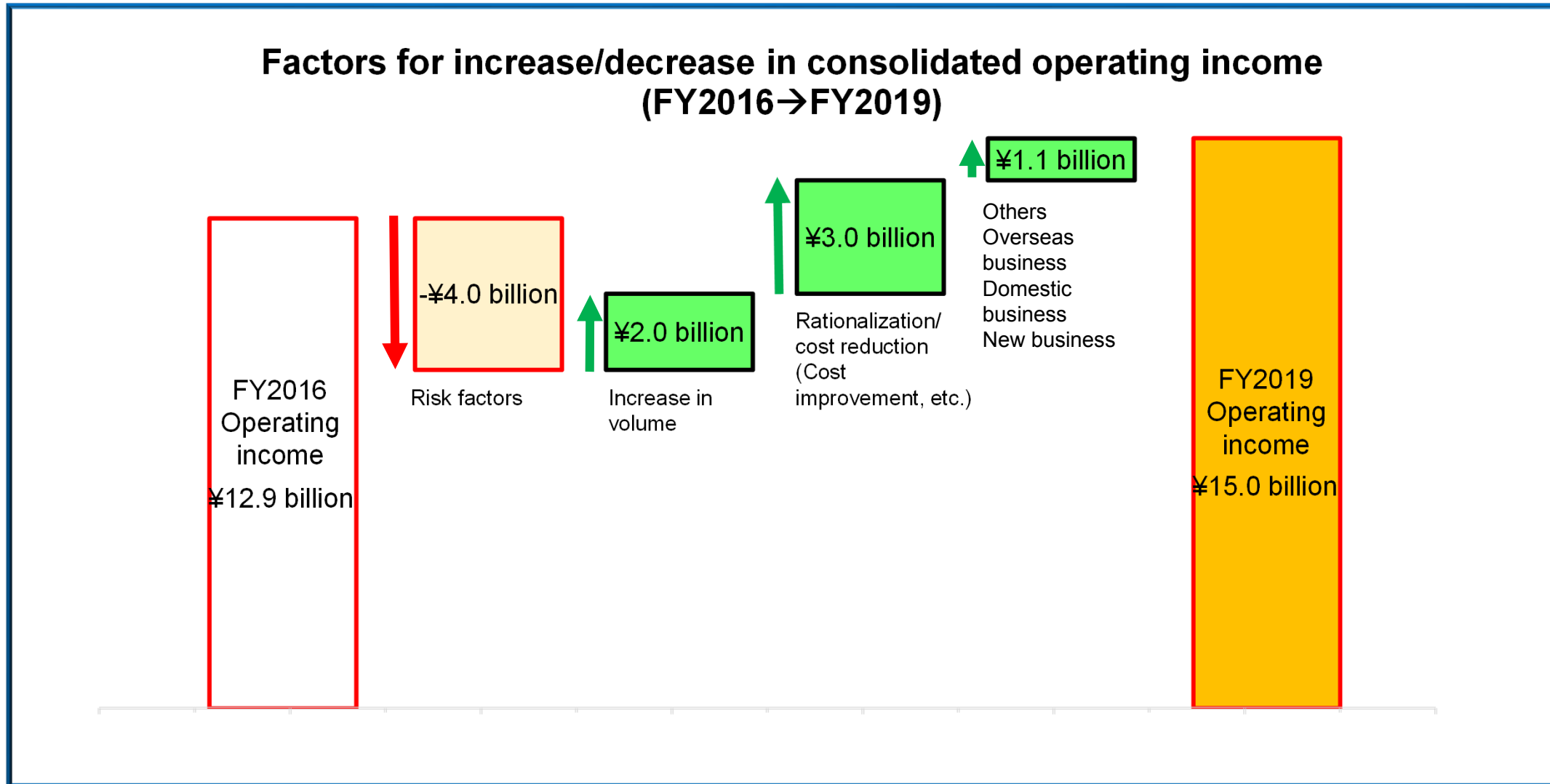
Net sales	¥300.0 billion
Operating income	¥15.0 billion
Operating income ratio	5.0%
ROE	6.0%
EBITDA	¥40.0 billion
Net D/E ratio	0.6 or less

#### [Assumptions]

Exchange rate: ¥115/US\$  
DUB crude oil: US\$55.0/bbl



# 8. Factors for Increase/Decrease in Consolidated Operating Income in FY2019



# 9. Investment Plan



- Total amount: ¥90.0 billion
- Strategic investment: New investment including M&A and R&D investment
- Capital expenditures: Capital expenditures for the purpose of strengthening competitiveness

Allocation of investment	Strategic investment	¥50.0 billion
	Capital expenditures	¥40.0 billion
	( Japan     ¥30.0 billion Overseas  ¥10.0 billion )	



Niigata Mill



Kishu Mill

## ■ Policies

- Maintain sales of coated paper, wood-free paper and colored wood-free paper, and the paper export scale of 300,000 tons a year.
- Promote the development of specialty paper and increase sales of processing base paper.
- Fully enforce optimum production and cost reduction at both Niigata Mill and Kishu Mill.
- Strengthen the price maintenance function by building a sales system coupled with Hokuetsu Kishu Sales Co., Ltd.

## ■ Key strategies

- ▶ Strengthen the logistics strategy utilizing the locational conditions of Niigata Mill.
- ▶ Maintain the market share and the development of applications for coated paper, wood-free paper and colored wood-free paper.
- ▶ Increase sales of PPC paper and processing base paper.
- ▶ Expand export sales areas.

# 11. Strategies in the White Paperboard Business



**Kanto Mill Ichikawa**

## ■ Policies

- Develop new products and increase customer satisfaction by rapidly responding to customer needs for quality.
- Capture growth in demand for primary containers.

## ■ Key strategies

- ▶ Develop demand mainly from major customers in greater depth.
- ▶ Strengthen the competitiveness of the Group in collaboration with Hokuetsu Kishu Sales Co., Ltd. and BF & Package Co., Ltd..
- ▶ Diversify fuels of biomass boilers at Kanto Mill Katsuta.
- ▶ Enhance technical synergies between Jiangmen Xinghui Paper Mill Co., Ltd. and Kanto Mill.



**Kanto Mill Katsuta**



**Jiangmen Xinghui Paper Mill Co., Ltd.**

## 12. Strategies in the Specialty Paper Business



**Nagaoka Mill**



**Osaka Mill**



**Bernard Dumas S.A.S.**

### ■ Policies

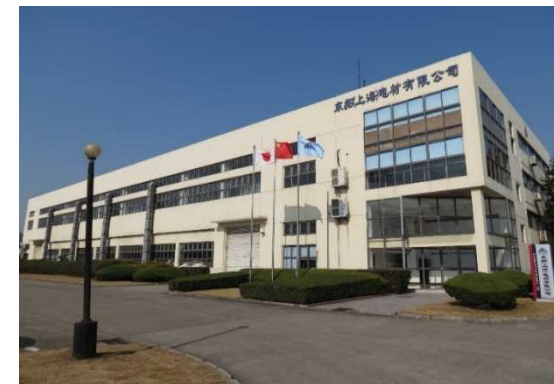
- Further enhance domestic sales and actively promote business development on a global scale in cooperation with subsidiaries in Japan and overseas.

### ■ Key strategies

- ▶ Develop new products and commence their commercial production.
- ▶ Rebuild optimum production and sales systems on a global scale.
- ▶ Ensure a system for boosting the production capacity of profitable products and strengthen their sales capabilities.



**Hokuetsu Toyo Fibre Co., Ltd.**



**Shanghai Toh Tech Co., Ltd.**

# 13. Strategies in the Paper Processing Business



BF & Package Co., Ltd., Kanto Mill

## ■ Policies

- Enhance business development in the paper processing field, which is expected to grow, by demonstrating strength based on the integrated production of the Group ranging from the development of processed paper and materials for paper ware to processed products.

## ■ Key strategies

- ▶ Expand the share of the market for paper ware for beverages.
- ▶ Expand sales of paper ware for food and confectionery.
- ▶ Strengthen competitiveness based on the integrated production of processed paper.
- ▶ Enhance the solutions capability of printing and data processing services.

# 14. Global Strategies

## ■ Policies and strategies

- Maintain the paper export scale of 300,000 tons per year, mainly to Asia and North America.
- Further promote overseas development in the specialty paper and white paperboard business.
- Strengthen the competitiveness of Alberta-Pacific Forest Industries Co., Ltd. by promoting new business including the manufacturing of CNC and by seeking M&A.
- Expand the afforestation business overseas.

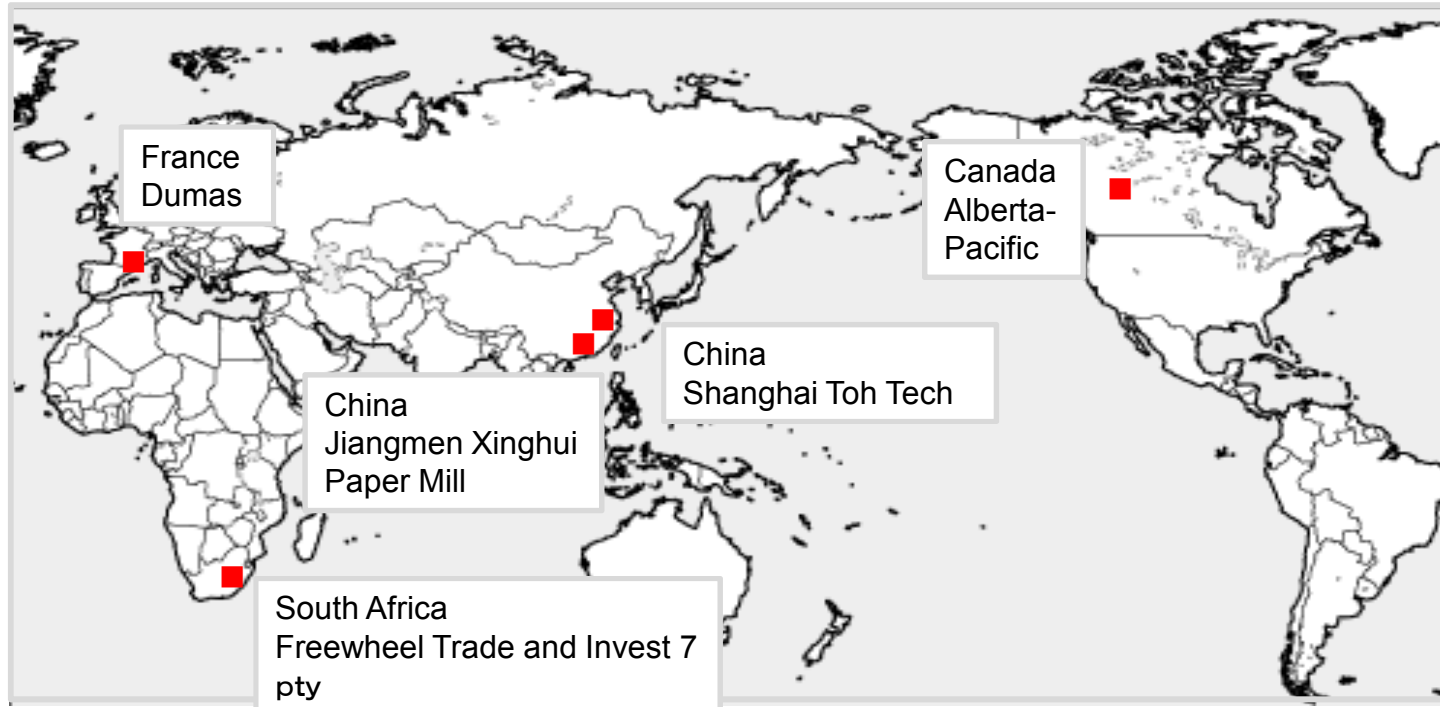
## Worldwide business development



**Bernard Dumas S.A.S.**



**Jiangmen Xinghui Paper Mill Co., Ltd.**



**Alberta-Pacific Forest Industries Co., Ltd.**



**Shanghai Toh Tech Co., Ltd.**

# 15. Research and Development

- Strengthened the system for research and development by establishing the Novel Materials Development Office in April 2017.
  - Development of novel materials, etc.
  - Research on practical applications of CNF, etc.
  - Use of novel materials for existing products
  - Development of new paper products and processed paper products



Central Research Laboratory  
(Nagaoka)

## The Group's efforts for novel materials and specialty materials

The Group has been actively and continuously working on the practical applications and commercialization of novel materials, etc. beyond the boundaries of paper and paperboards.

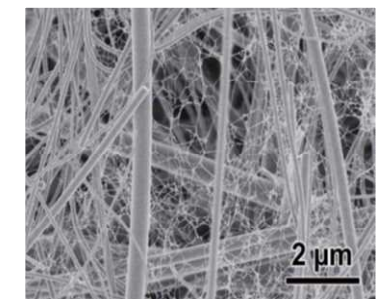
- Vulcanized fiber
- Specialty fiber boards
- Ultra-high performance air filters
- Chip carrier tapes
- Battery separators
- CNF (cellulose nano fiber)
- CNC (cellulose nano crystal), etc.



Chip carrier tapes



Battery separators



CNF ultra-high performance  
air filters



# 16. Environmental Strategies

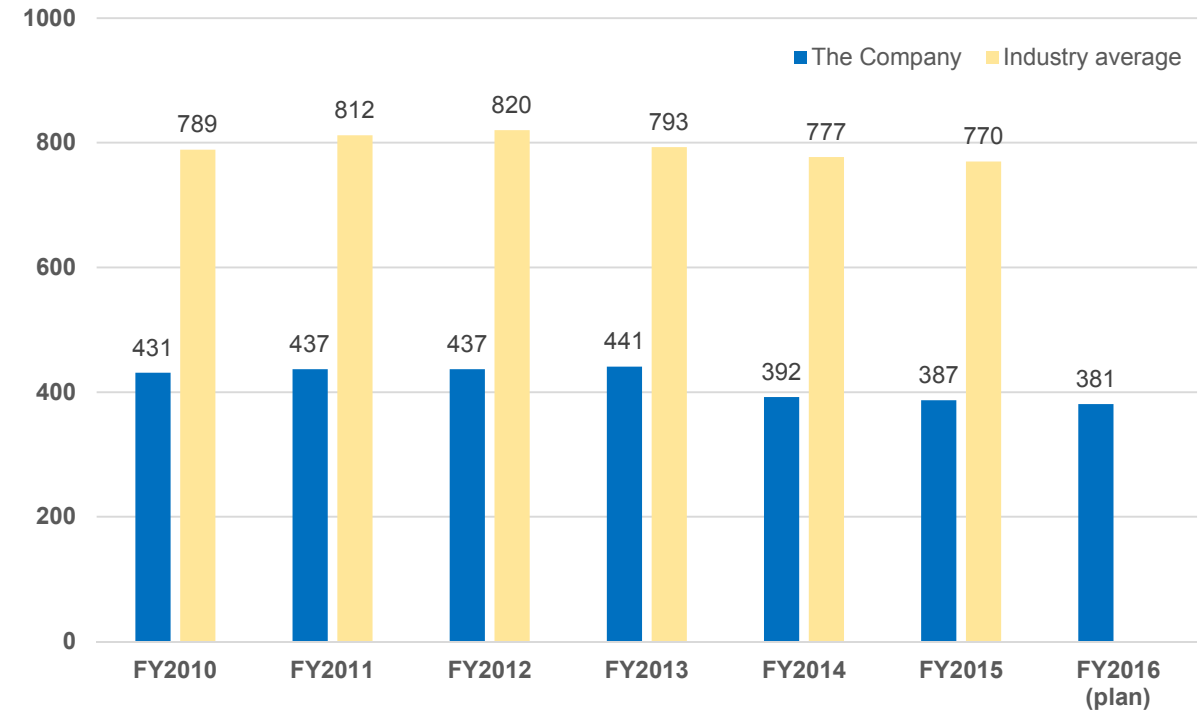


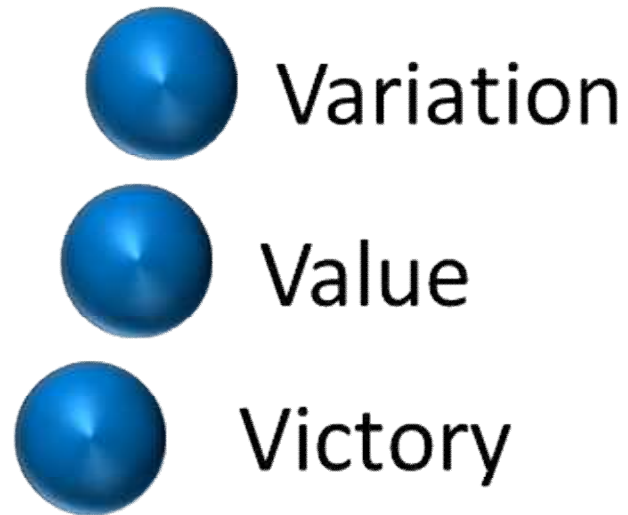
## Environment-focused strategies in V-DRIVE

- Deepen and strengthen environmental strategies.
- Maintain the industry-leading position in the Corporate Environmental Management Ranking (Nikkei Inc.).
- Expand the handling of FSC-certified products tailored to user needs.
- Further reduce fossil energy-derived CO<sub>2</sub> emission intensity (Our target for 2016 is 381 kg-CO<sub>2</sub>/ ton of paper) ... Chart on the right

### Changes in CO<sub>2</sub> Emission Intensity

(Unit: Kg-CO<sub>2</sub>/ton of paper)





[Note]

Descriptions of targets, etc. contained in this material are based on various assumptions at the time of formulating plans, and the future target values and measures may differ from those presented in this material due to various factors.

Contact for inquiries about this material:

Hokuetsu Kishu Paper Co., Ltd., Corporate Planning Department  
+81-3-3245-4579