



Business Realignment of the Group



October 29, 2007

Analyst meeting

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Schedule of the business realignment



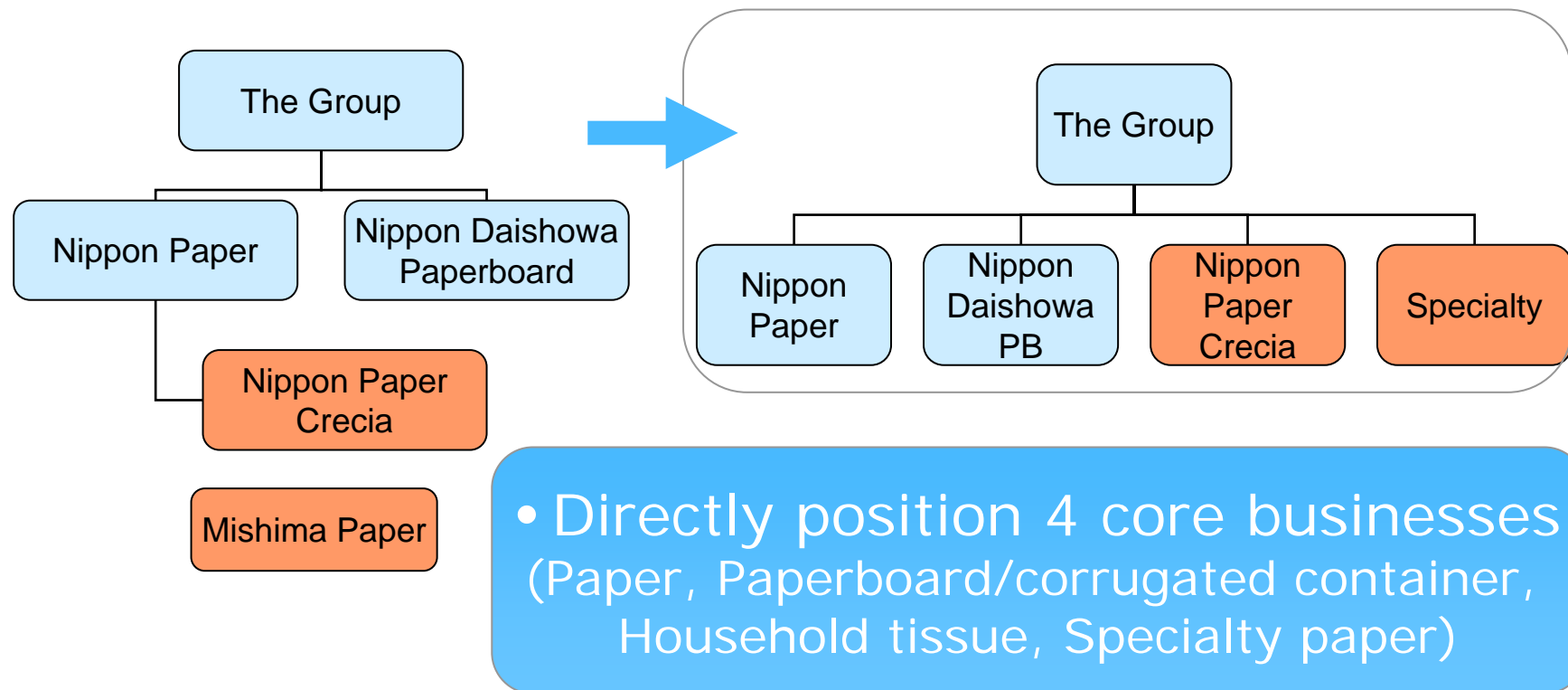
- 2007 ● Oct. 24 Official release
- 2008
- Feb. 1 Mishima Paper to become 100% owned subsidiary.
- Apr. 1 Nippon Paper Crecia to become direct subsidiary.
New specialty paper company to be established
Production subsidiaries of Nippon Daishowa Paperboard
to become mills.
- Sep. 30 Closing Fushiki mill and Waki works.
Withdrawal from paper production at Komatsushima mill.

• New group structure



● Business realignment scheme - 1

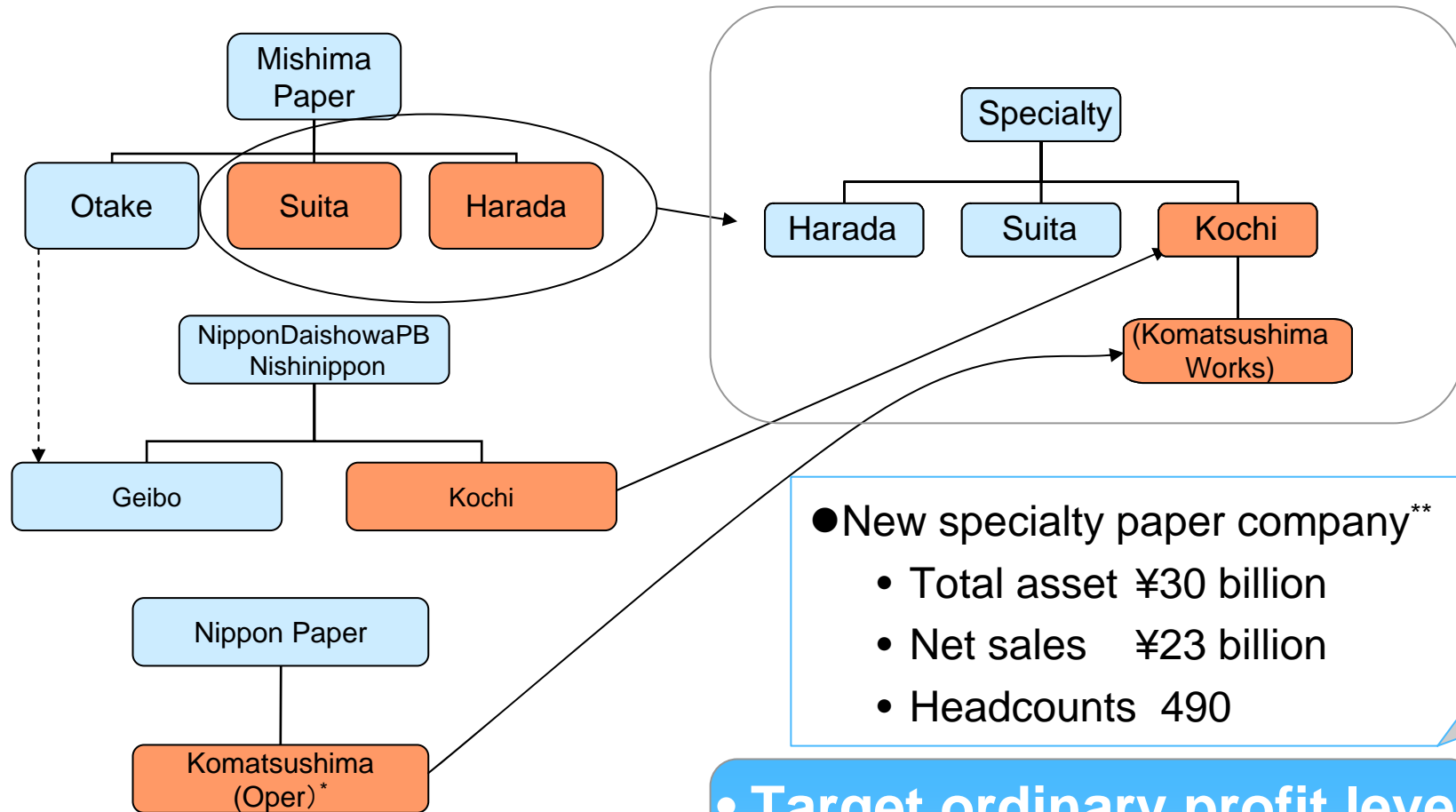
- Feb. 2008 100% ownership of Mishima paper
- Apr. 2008 New specialty paper company launching
Nippon Paper Crecia to be direct subsidiary



Business realignment scheme - 2



- New specialty paper company (name TBD)



- New specialty paper company**
 - Total asset ¥30 billion
 - Net sales ¥23 billion
 - Headcounts 490

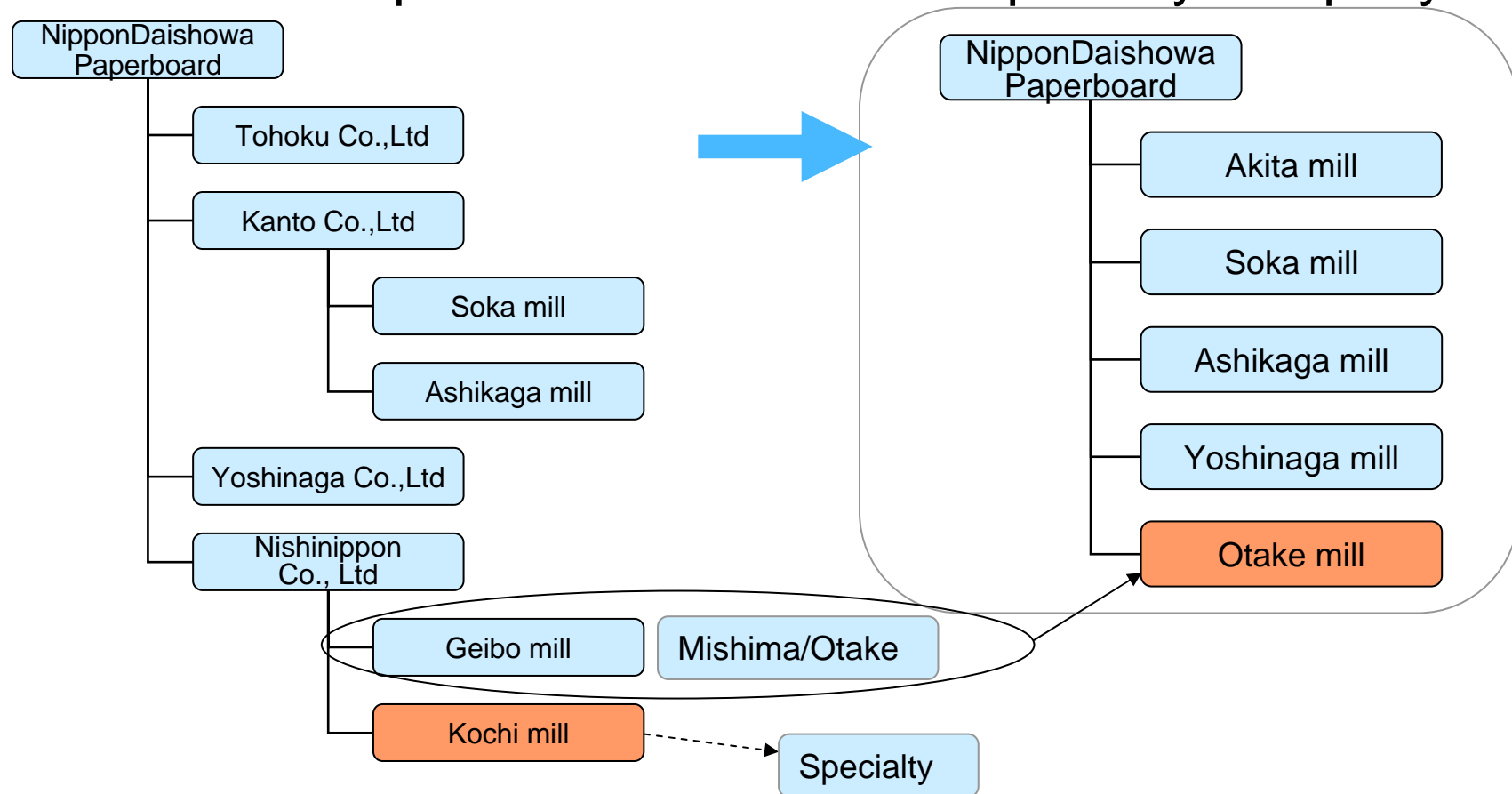
**• Target ordinary profit level
Over ¥1 bn**

*Equipment remains at the site
 **Rough estimation based on FY07 figures

Business realignment scheme - 3



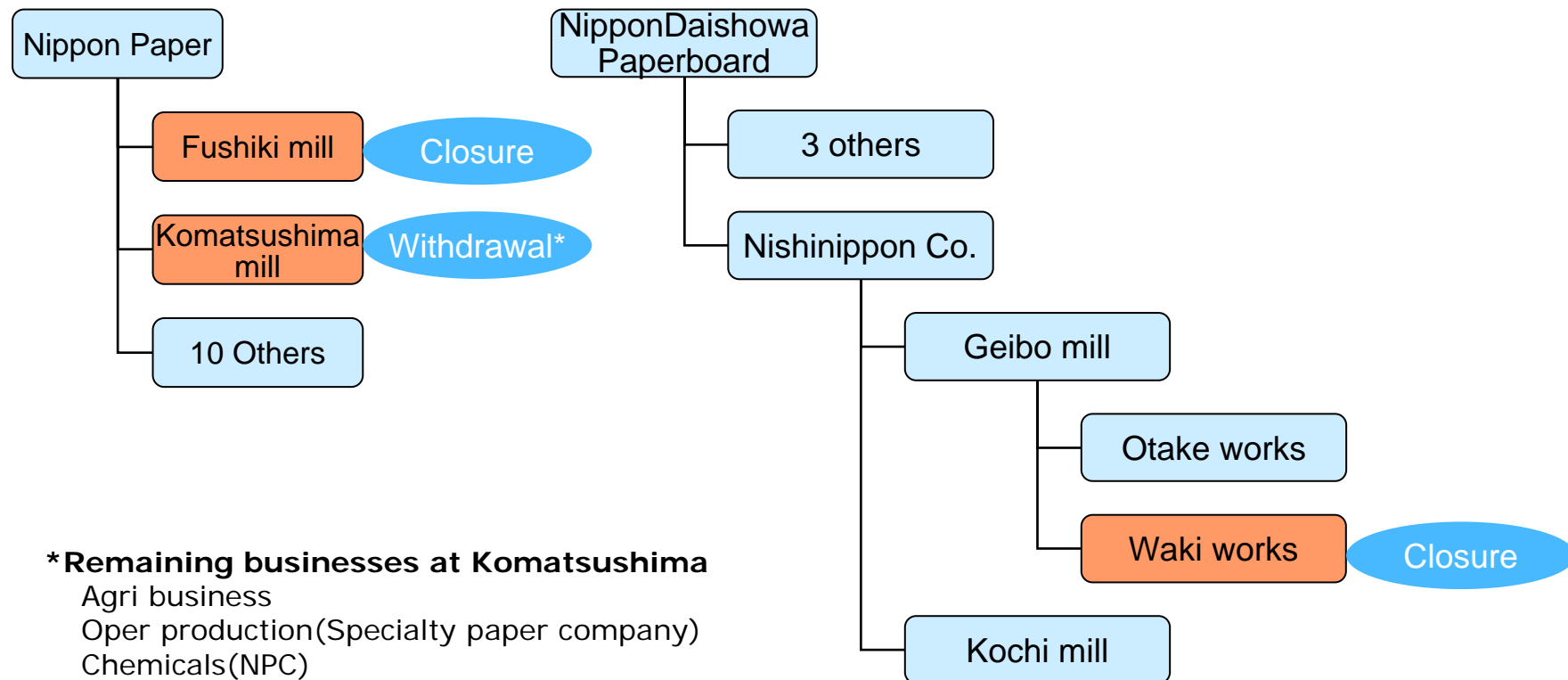
Apr. 2008 Nippon Daishowa Paperboard's production subsidiaries to be repositioned as its mills
Merge Mishima Otake mill
Split off Kochi mill to the specialty company





● Business realignment scheme - 4

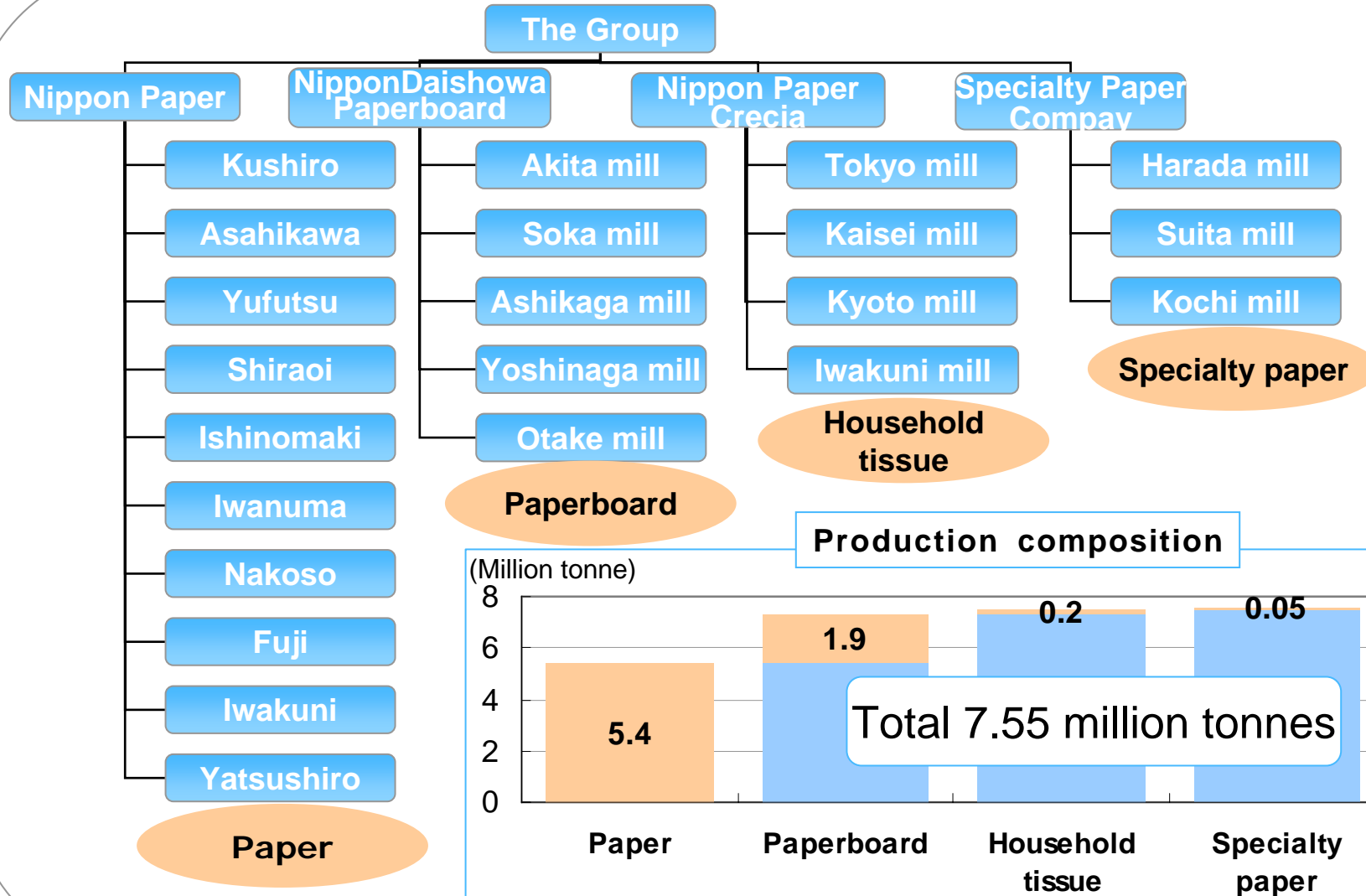
Sep.2008 Closure of Fushiki mill and Waki works
Withdrawal from paper production at
Komatsushima mill



***Remaining businesses at Komatsushima**
Agri business
Oper production(Specialty paper company)
Chemicals(NPC)
Lumber, Building materials(NPL, Pal, Paltec, N&E)
Lintec related service

Business realignment scheme – the “After”

New Paper production structure



Roughly estimated based on data from Japan Pulp and Paper Association



Paper production restructuring - Capacity

PM/Coater	△Capacity	Coating cap.
▪Ishinomaki N6	+ 350	+ 350
▪Ishinomaki 3	- 50	
▪Ishinomaki 5	- 50	
▪FCP 30	- 100	- 100
▪FCP 31	- 70	- 70
▪FCP 32	- 70	- 70
Sub total	+ 10	+ 110
▪Fushiki 4	- 10	
▪Fushiki 5	- 50	
▪Fushiki 6	- 60	- 50
▪Komatsushima	- 60	
▪Waki 3	- 10	
▪Waki 4	- 40	- 20
Sub total	- 230	- 70
Total	- 220	+ 40

- At full operation overall
- OEM to contribute to domestic supply/demand balance
- Strategic shift of product lineup:
 - to growth category
 - to higher margin

Reduction by grade	
▪Newsprint	- 20
▪Uncoated	- 70
▪Coated	- 70
▪PPC	- 40
▪Packaging etc.	- 30
Total	- 230

(in 1,000 tons)



Paper production restructuring - Headcount

Site	Regular	Contract	Total
▪Fushiki	138	129	267
▪Komatsushima	82	128	210
▪Waki	---	137	137
Total	220	394	614

$$\begin{array}{ccc} \text{Regular} & + & \text{On-loan} \\ 220 & & 130 \end{array} = \begin{array}{c} \text{To be relocated} \\ 350 \end{array}$$

- No early retirement but relocation to other mills
- To fill the vacancies when Baby boomers retire

Paper production restructuring – Earnings impact



- Variable costs -¥0.1bn
 - Production efficiency + ¥3.8 bn
 - Output reduction - ¥3.9 bn
- Fixed costs +¥3.8 bn
 - Depreciation + ¥1.6 bn
 - Capex impact - ¥0.4 bn
 - Maintenance, GA etc. + ¥2.6 bn

+¥3.7bn

+

- Labor costs +¥1.9 bn

Cost benefit
+¥5.6 bn

Extraordinary loss

-¥12.6 bn

(to be recorded this fiscal year)

- Disposal of equipment etc.



- Objective of the 2nd Medium-term business plan
 - Reformation to survive in the global market

• **Optimize production through Scrap & Build**

Ishinomaki
PM# N6

• **Boost each mill's basic competitiveness**

Fuel shift

• **Lead markets with accumulated technologies**

KASADAKA



- Harsh environment
 - Continued hikes in input costs
 - Upward pressure on interest rate in long term
 - Declining population (birth rate)



Selection of Business and Focused Allocation
of Management Resources:
Human, Material & Financial



- Business realignment:
 - Approach to the ideal intended in the vision 2015
 - Clarify core businesses and share strategies
 - **Put 4 key operating companies directly under the holding company**
 - Take advantage of the holding company system to enhance management efficiency
 - Build new governance structure



- Production restructuring:
 - Drastic measures based on long term strategy
 - Consolidation of paper production
 - **Create further competitive production structure featuring Ishinomaki PM# N6**
 - **Cease operation at the mills with least future potential**
 - Reposition of paperboard operation subsidiaries to “Mills”
 - **Enable flexible allocation of management resources and enhance efficiency**
 - Establishment of a new specialty paper company
 - **Integrate production of specialty paper and small-lot grades**
 - **Strengthen R&D collaborations across the group, sow the seeds for new businesses**



● Aim of the realignment - 3

- 3 opportunities for profit growth
 - **Scale expansion**
 - **Value creation**
 - **Cost reduction**

	Paper	Paperboard & Container	Household tissue	Specialty paper
Scale	Larger mill, Go overseas	Alliance Overseas		
Added value	KASADAKA PDASH		Premium tissue Health care	Thin paper Japanese paper
Cost cuts	Restructure Cut oil use	Restructure Cut oil use	Consolidate production	Consolidate production

- Develop growth areas in each core business
 - There is still big room for cost cutting



~Group Vision 2015~

Sustainable growth of corporate value through development of each group company

Be one of the top 5 pulp&paper groups worldwide in both name and substance by 2015

<<Targets>>

- Net sales ¥1.5—2 trillion
- Operating margin 8—10 %
- ROE > 8%
- Overseas sales 30%

Appendix Mill location

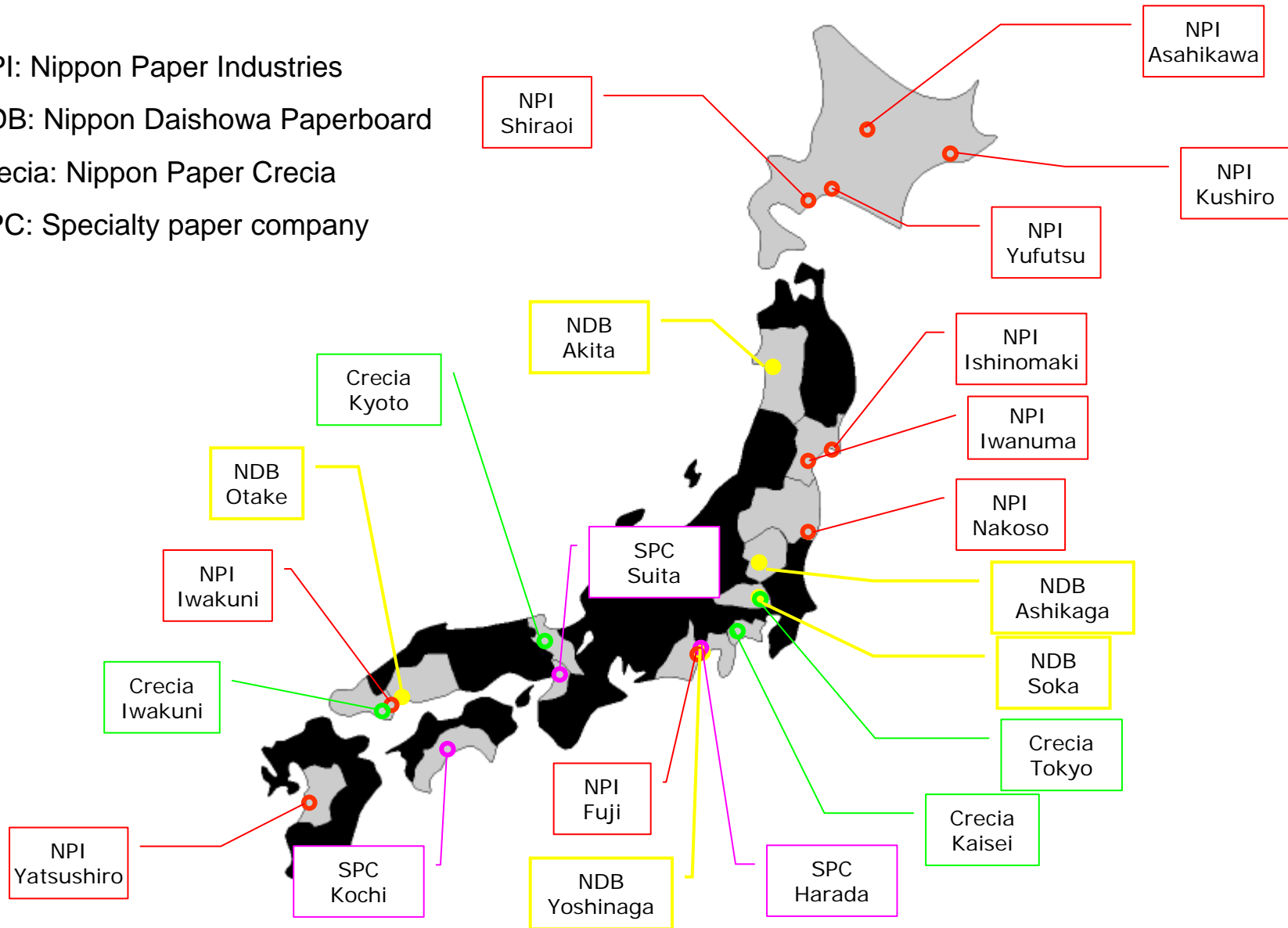


NPI: Nippon Paper Industries

NDB: Nippon Daishowa Paperboard

Crecia: Nippon Paper Crecia

SPC: Specialty paper company



Appendix Fushiki mill information

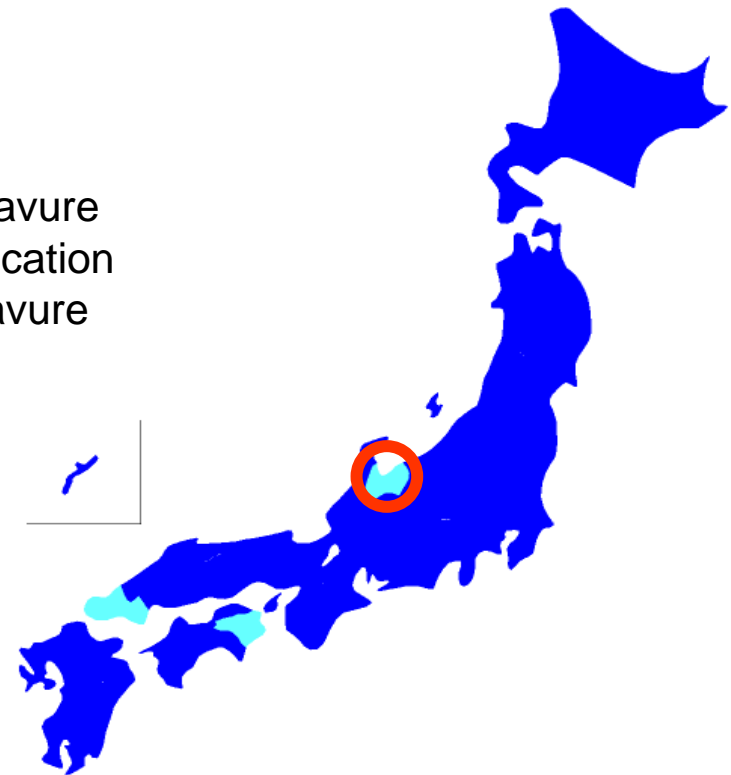
- **Location**
 - Fushiki, Takaoka-city, Toyama pref.
- **Est. 1919**
- **Products (CY2006)**

– Newsprint	19 kt
– Bitokoshi	55
– Ground wood	33
– Other	5
– TOTAL	112 kt
- **Paper machines**

– PM #4	38 tpd	GW, India, Gravure
– PM #5	138	NP, GW, Publication
– PM #6	160	Bitokoshi, Gravure
- **Headcounts**

– Regular employee	138
– Contract worker	129
- **Fixed asset(as of the end of Sep. 2008 est.)**

– Book value	¥ 7.3 bn
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Appendix Komatsushima mill information

- **Location**
 - Toyoura-cho, Komatsushima-city, Tokushima pref.
- **Est. 1968**
- **Products (CY2006)**

– Wood free	1 kt
– PPC/Form	45
– Communication/Industrial	11
– TOTAL	57 kt
- **Paper machines**
 - PM #1 185 tpd (above mentio
- **Headcounts**

– Regular employee	82
– Contract worker	128
- **Fixed asset(as of the end of Sep. 2008 est.)**

– Book value	¥ 3.4 bn
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Appendix Waki works information

- **Location**
 - Seta, Waki-cho, Kuga-dist. Yamaguchi pref.
- **Est. 1906**
- **Products (CY2006)**

– Wood free	3 kt
– Bitokoshi	18
– MG poster	9
– Other uncoated	20
– TOTAL	50 kt
- **Paper machines**

– PM #3	28 tpd	MG poster, LW simili
– PM #4	123	WF, GW, Bitokoshi
- **Headcounts**

– Regular employee	0	(All transferred to Waki-shigyo)
– Contract worker	137	
- **Fixed asset(as of the end of Sep. 2008 est.)**

– Book value	¥ 1.9 bn
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Disclaimer



- These materials include company-related forecasts, plans, and management targets. Forward-looking statements are based on assumptions about the future and trends at the time of producing these materials and contain uncertainties. Actual results could differ significantly from what is presented here.
- These materials do not represent an offer or solicitation of an offer to purchase securities, and the contents do not constitute an agreement or promises of any kind.



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