



# Latest Management Issues *-Challenges and Outlook-*

Analyst Meeting  
May 10, 2010

NIPPON PAPER GROUP, INC.

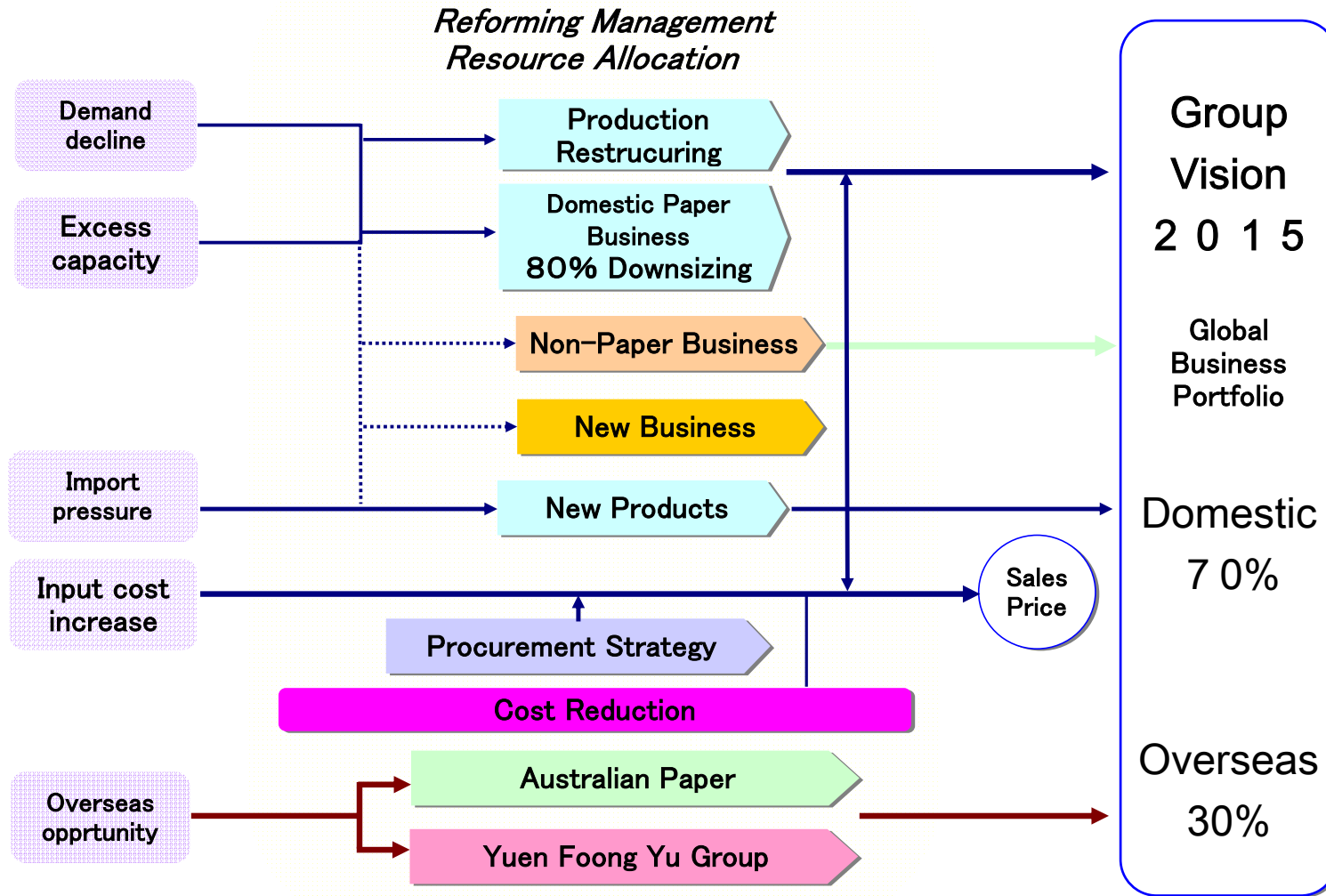
# Contents

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- 1. Our Challenges to Date**
- 2. Progress of Overseas Projects**
- 3. Summary**

# Management Issues and Challenges



# 1. Our Challenges to Date

# 1. Our Challenges to Date (1) Supply Control Capacity Curtailment



## 【Domestic Capacity (Paper Production)】

(,000 t )

	FY2008	FY2009	FY2010e
NIPPON	5,766	5,024	5,024
Others	14,829	14,202	14,056
Total	20,595	19,226	19,080

\*Estimated by NPG based on JPA data

\*Figures as of each fiscal year end

(Break-down by companies) (,000 t )

	FY2009	FY2010e	Total
NIPPON	742	0	742
OJI	417	80	497
DAIO	180	0	180
HOKUETSU	30	0	30
MITSUBISHI	0	66	66
Total	1,369	146	1,515

# 1. Our Challenges to Date (1) Supply Control

## Progress of Machine Shutdown Plan



### Shutdowns completed by the end of FY2009

Mill	Facility (PM = paper machine)	Shutdown Date	FY2009													
			Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
Yufutsu	#1PM, #1Coater	Oct.31, 2009														
Ishinomaki	#2PM	Sep.30, 2009														
	#6PM	//														
Nakoso	#1PM	//														
Fuji	#S2PM	Mar.31, 2010														
	#S3PM	//														
	#S4PM	//														
	#F7PM	Dec.31,2009														
Iwakuni	#3PM	Mar.31, 2010														
	#5PM	//														
	#3Coater	Sep.30, 2009														
Otake*	#7PM, #1Coater	//														

Shutdown News Release

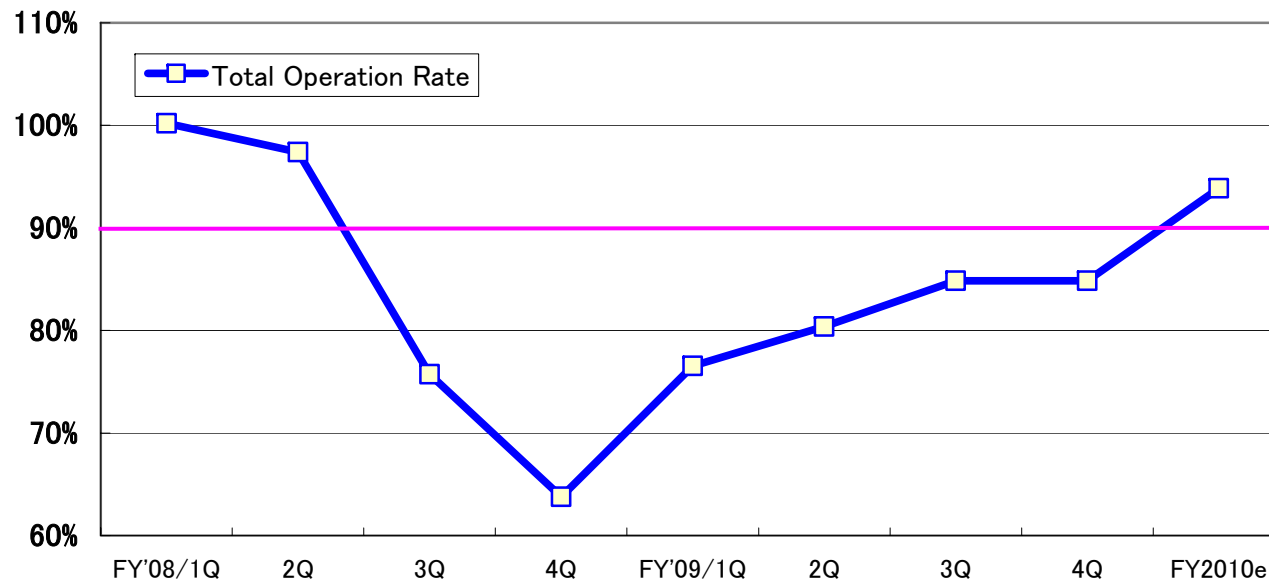
(※) Nippon daishowa Paperboard

# 1. Our Challenges to Date (1) Supply Control Operating Rate



## Operating rate of paper machines recovers to over 90%

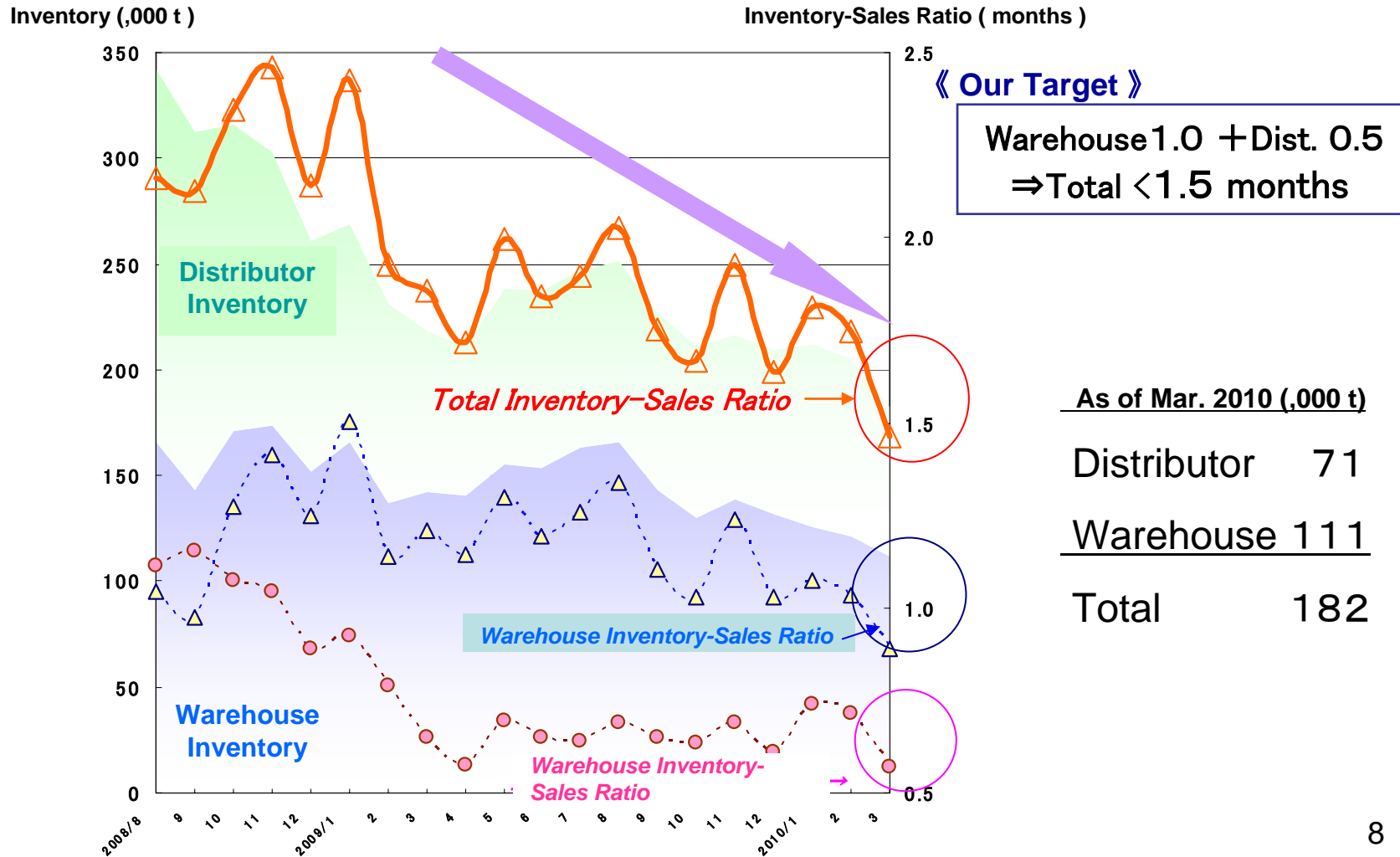
	FY2008				FY2009				FY2010e
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	
<b>Printing Paper Machines</b>	100%	97%	72%	63%	74%	80%	84%	84%	94%
Coated	101%	96%	69%	60%	68%	75%	86%	82%	93%
Uncoated	97%	97%	79%	68%	85%	91%	81%	89%	97%
<b>Biz.Comm Paper Machines</b>	101%	99%	85%	66%	83%	80%	86%	86%	93%
<b>Total Operation Rate</b>	<b>100%</b>	<b>97%</b>	<b>76%</b>	<b>64%</b>	<b>77%</b>	<b>80%</b>	<b>85%</b>	<b>85%</b>	<b>94%</b>



# 1. Our Challenges to Date (1) Supply Control Coated Paper Inventory Trace



## Our Total Inventory-Sales Ratio Reduced to 1.46 months



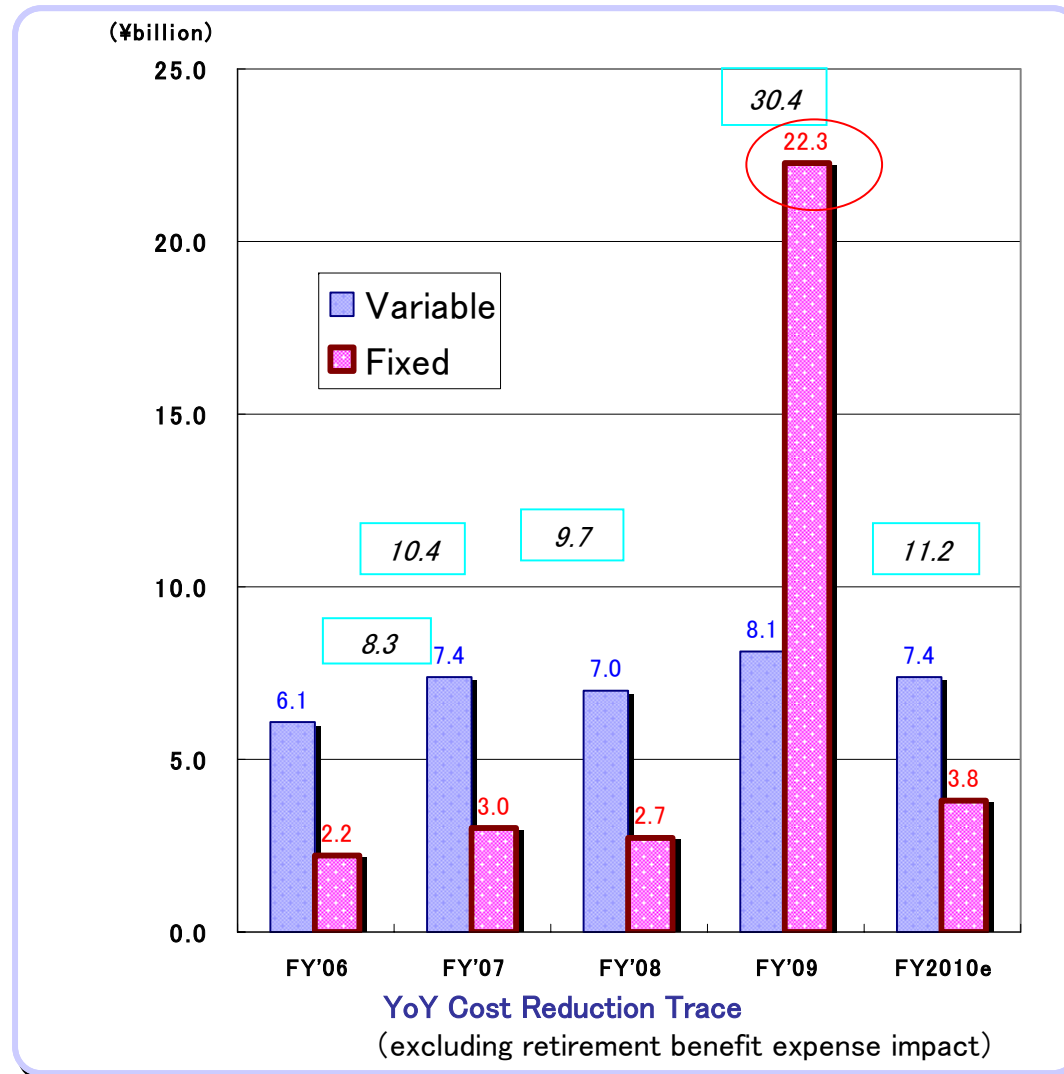


# 1. Our Challenges to Date (2) Cost Reduction

## FY2009 Cost Reduction Achievement



Tripled from previous year ~ including ¥22.3bn of fixed cost



# 1. Our Challenges to Date (2) Cost Reduction

## Benefit from Restructuring Production



### Steady progress in cost cut from restructuring production

¥ billion

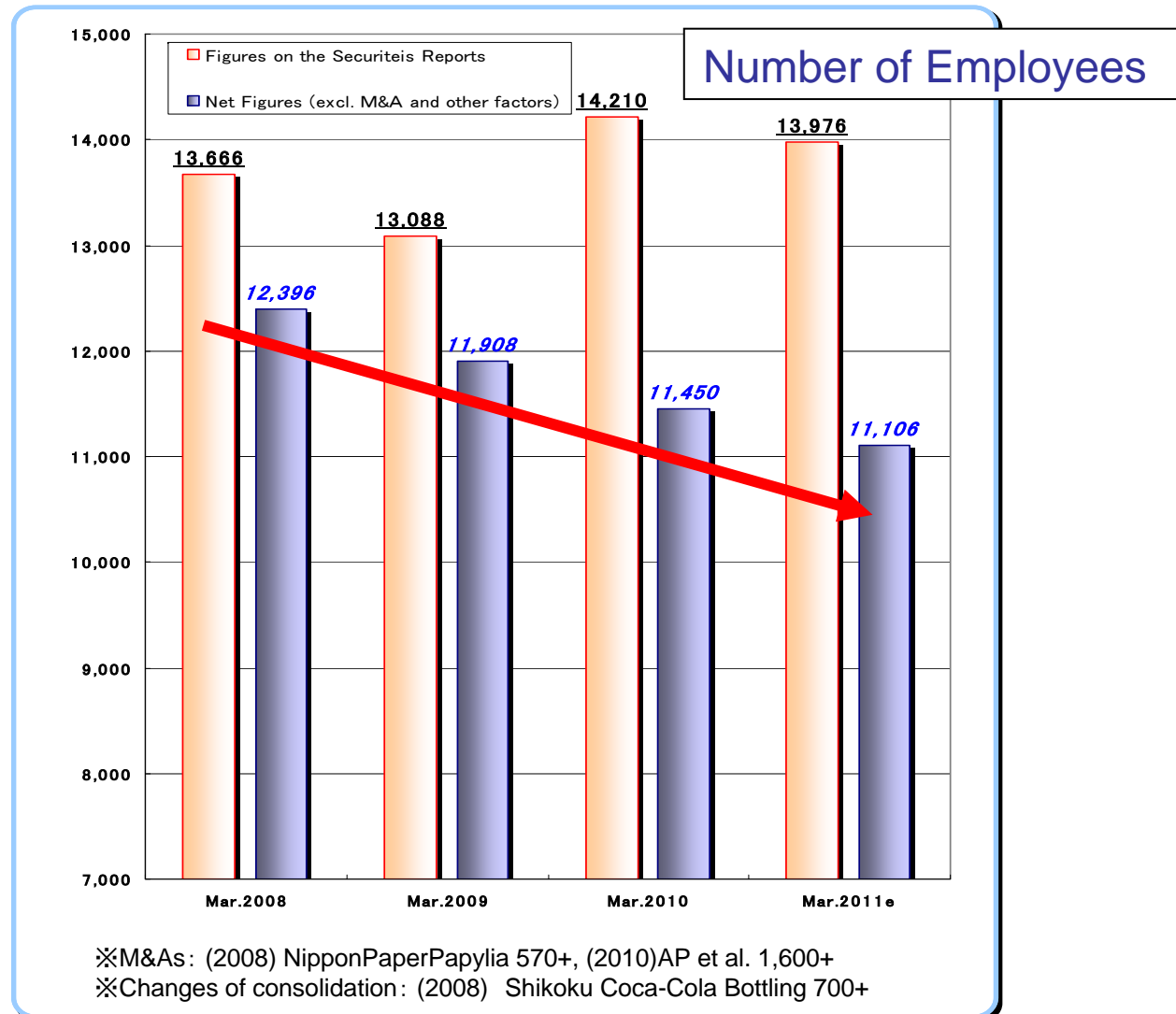
	Target	FY2009	FY2010e
Energy Cost, etc.	1.8	1.0	0.8
Fixed Cost	Depreciation	1.9	1.2
	Maintenance	0.8	0.5
	Labor	3.5	0.5
Total	8.0	3.2	3.4

Labor cost will decrease in following years

# 1. Our Challenges to Date (2) Cost Reduction Headcount Trace



Net headcount (excl. M&A factors) steadily decreasing



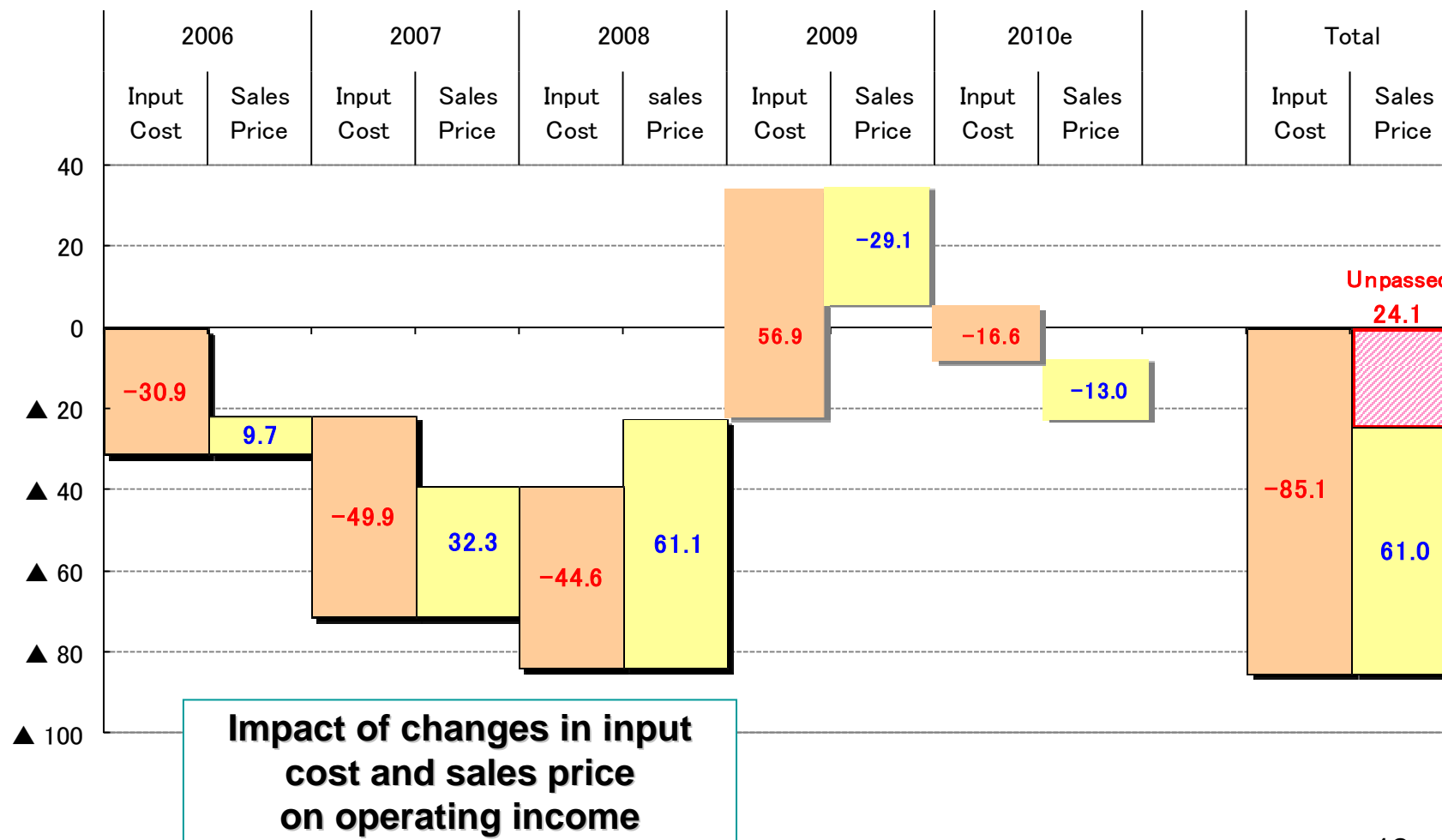
# 1. Our Challenges to Date (2) Cost Reduction

## Input Cost vs. Sales Price



### Changes in input cost to be passed on sales prices

(¥billion)

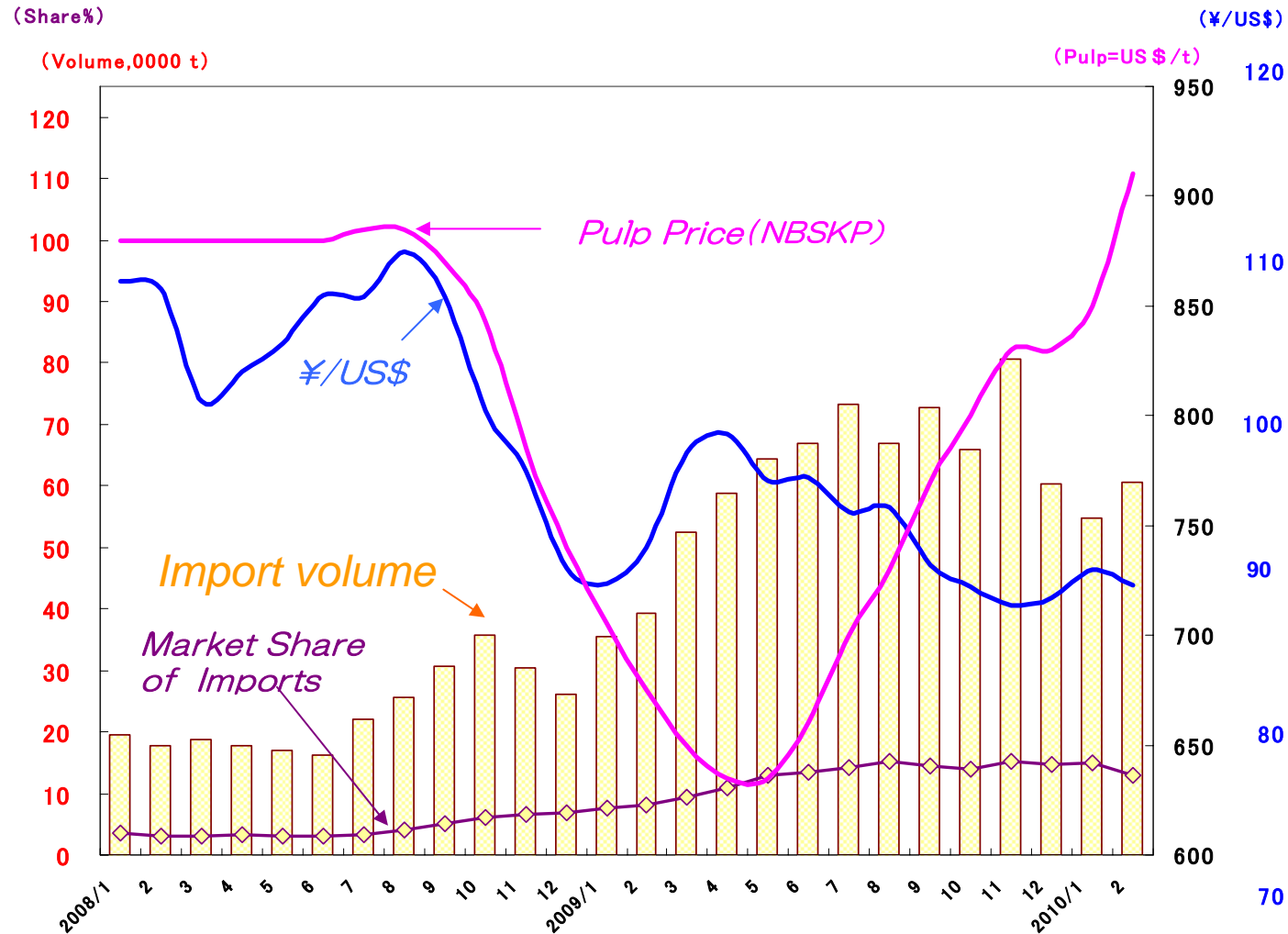


# 1. Our Challenges to Date (3) To Counter Imports

## Imported Paper Trace



### Coated paper imports vs. F/X and pulp prices

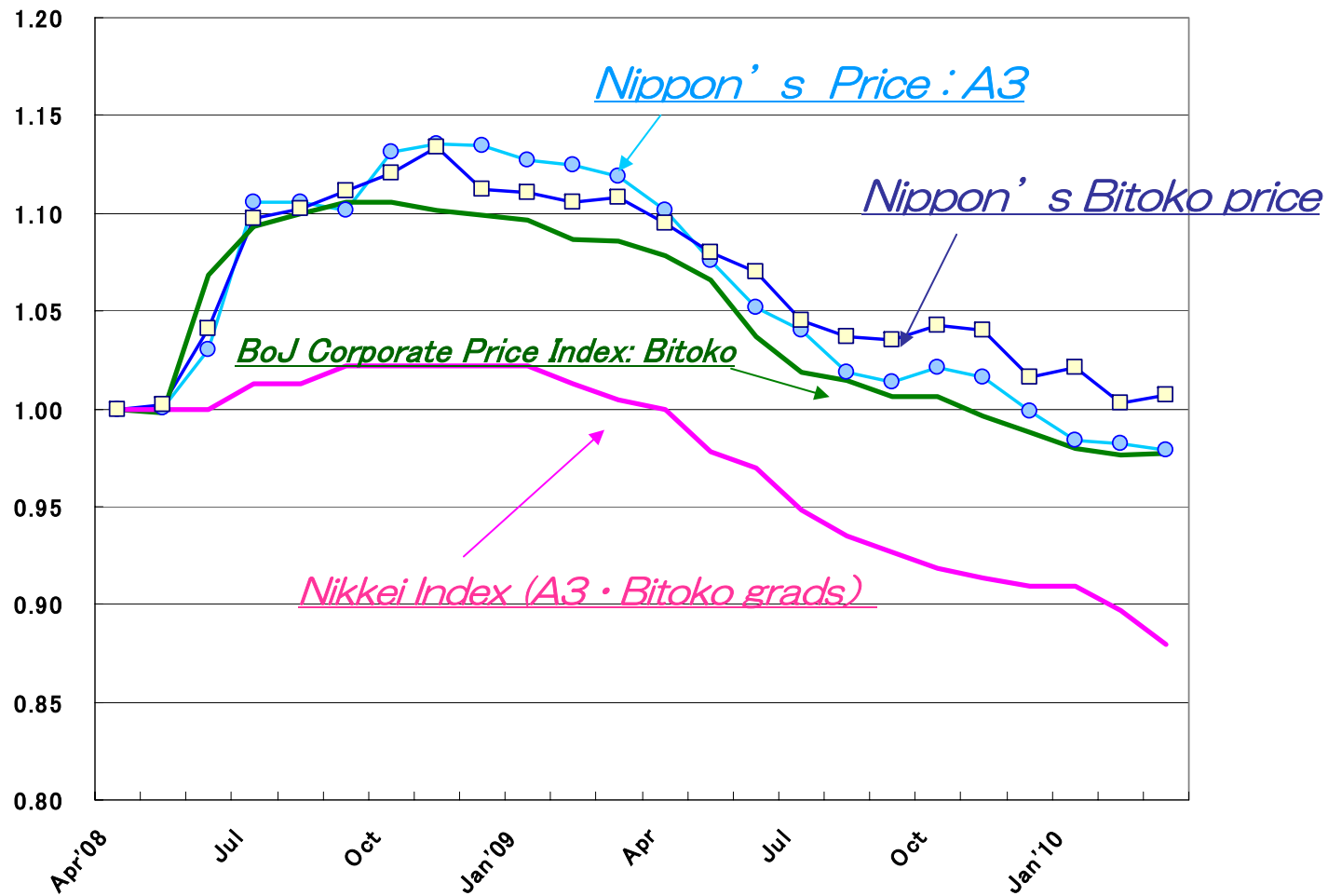


# 1. Our Challenges to Date (3) To Counter Imports

## Domestic Market Trend



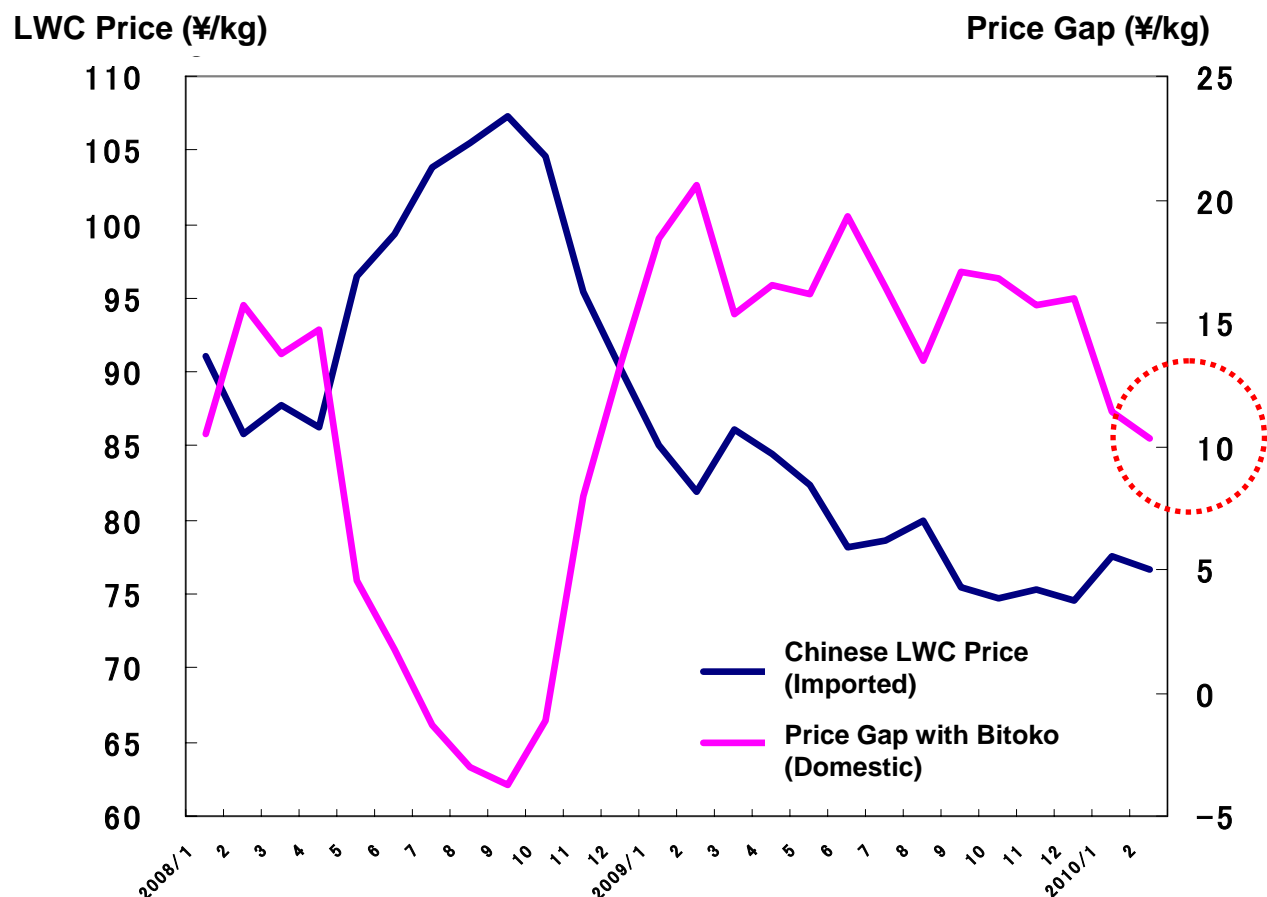
### LWC price – NPG stays above BoJ and Nikkei Indexes\*



\*Indexed: Apr. 2008 = 1.00

# 1. Our Challenges to Date (2) To Counter Imports Price Gap (domestic/imports) Trace

## Price gap (Imports vs. Domestic) declines to ¥10/kg



LWC (Chinese)=Customs Clearance Statistics (MoF Japan)  
Price Gap (with Bitoko grade, Nikkei Index)=Estimates by NPG

## Establishing Competitive Advantage



### Reviewing every stage of the supply chain

#### **【Raw materials】**

- Optimal choice of woodchips, pulp and chemicals
- Promote in-house production of materials used to outsource

#### **【Manufacturing】**

- Product design targeting import users  
(optimizing grammage and quality balance)

#### **【Sales】**

- Cut administration costs => Downsizing to 80%
- Reduce inventory at distributors & concentrate to own warehouse
- Restructure logistics
  - Optimizing warehouse location (mill site vs. consuming area)
  - Encouraging shared logistics (with distributors)



Introducing new products to counter imports



# 1. Our Challenges to Date (4) Considering Environment Differentiation by Resource-Saving



## Realizing differentiation by resource-saving effort

### **Newsprint**

**Lowering grammage by reducing fiber content**



**Developed a new-spec product and started to introduce to newspaper customers  
(A major newspaper has already been replaced)**

### **Printing Paper**

**Thinner, or bulkier (Kasadaka) products  
Fulfilling the green purchase law requirement**

### **PPC Paper**

**Utilizing pulp made from thinning logs and recovered paper**

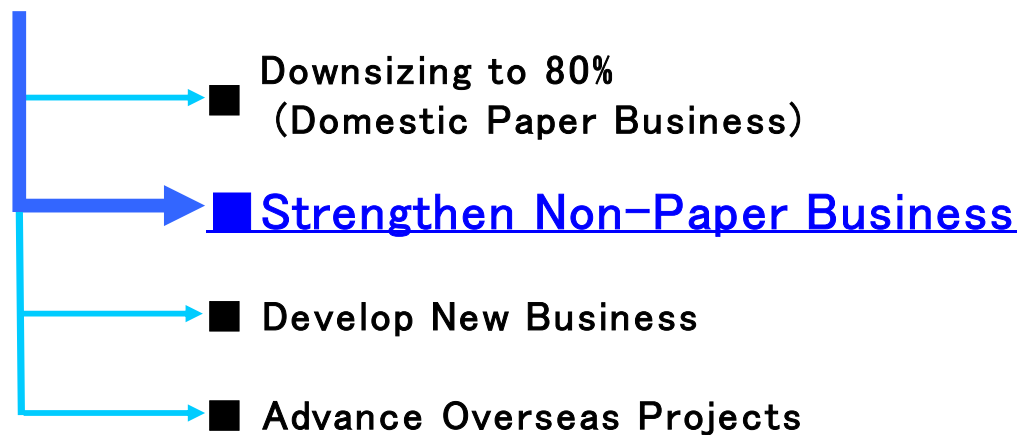
# 1. Our Challenges to Date (4) Non-Paper Business Strengthen Non-Paper Business



Lehman Shock – Recession

Demand Structure Change Accelerated

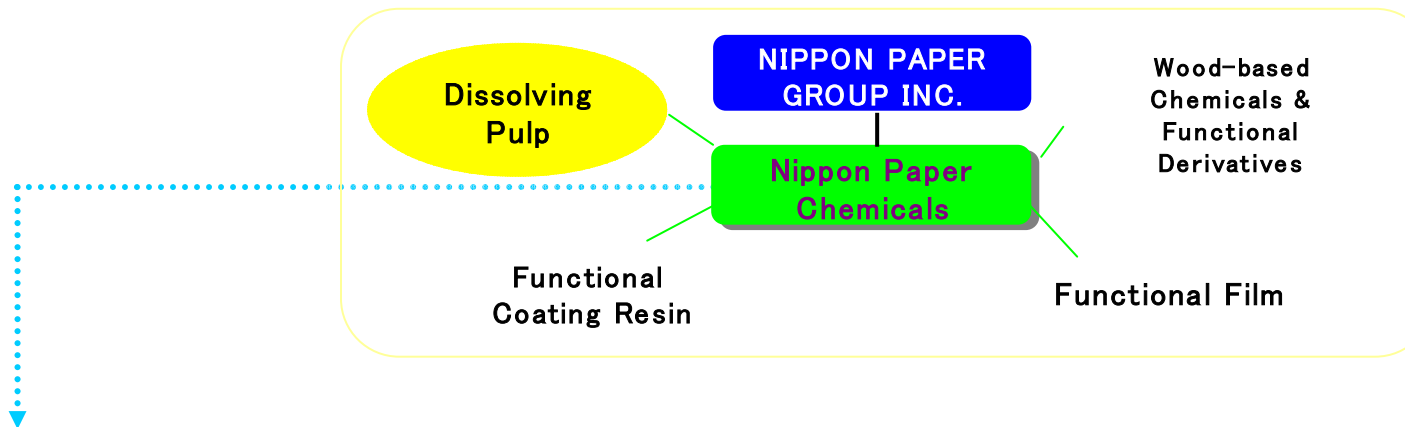
**Expedite Group Business Restructuring**  
*Reform Management Resource Allocation*



# 1. Our Challenges to Date (4) Investment in Non-Paper Business Nippon Paper Chemicals



Leading technology in each field



**Dissolving Pulp Business (Gotsu Mill)**

**■ New pulp machine for high added value cellulose application**

- ◆ Capital expenditure: ¥6.3 billion
- ◆ Come on stream by: Dec. 2011 (Plan)

# 1. Our Challenges to Date (4) Investment in Non-Paper Business

## Shikoku Coca-Cola Bottling



### Brand name and local sales network



### Beverage Business

#### ■ Expansion of PET Bottle filling line (※)

- Aseptic multi filling line
- High-mix small-lot production
- New warehouse to improve logistic efficiency

◆ Capital expenditure: ¥4.7 billion

◆ Come on stream by: Feb. 2011(Plan)

(※) Installed at its subsidiary Shikoku Coca-Cola Products

## **2. Progress of Overseas Projects**

## 2. Progress of Overseas Projects (1) Australian Paper Result of FY2009 and Plan for FY2010



### First year earnings outpaced the forecast

(¥ billion)

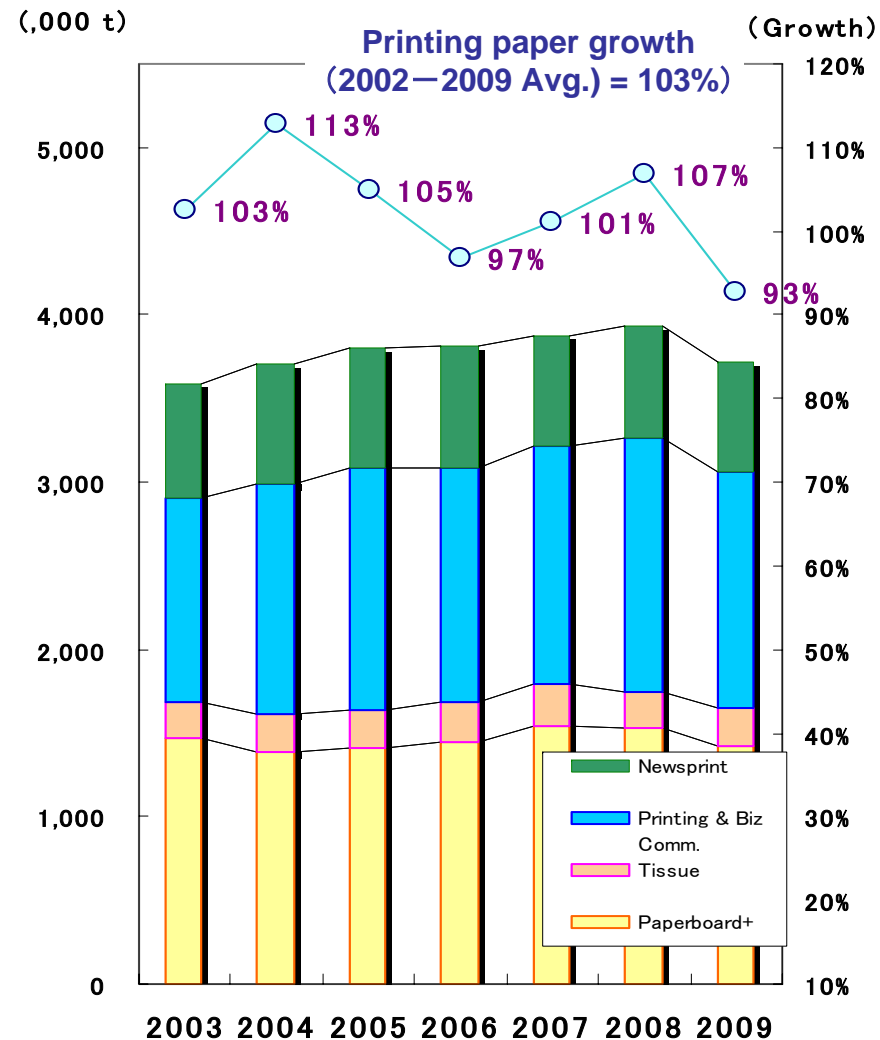
	2009 (※)	2010e (A\$1=¥85)
Sales	46.5	72.8
Operating Income	1.3	1.8
Capex	0.8	2.9
Depreciation	1.0	2.3

(※) 7 months (Jun.-Dec.) only

## 2. Progress of Overseas Projects (1) Australian Paper Market Overview



### Australian market starting recovery in 2<sup>nd</sup> half of 2009

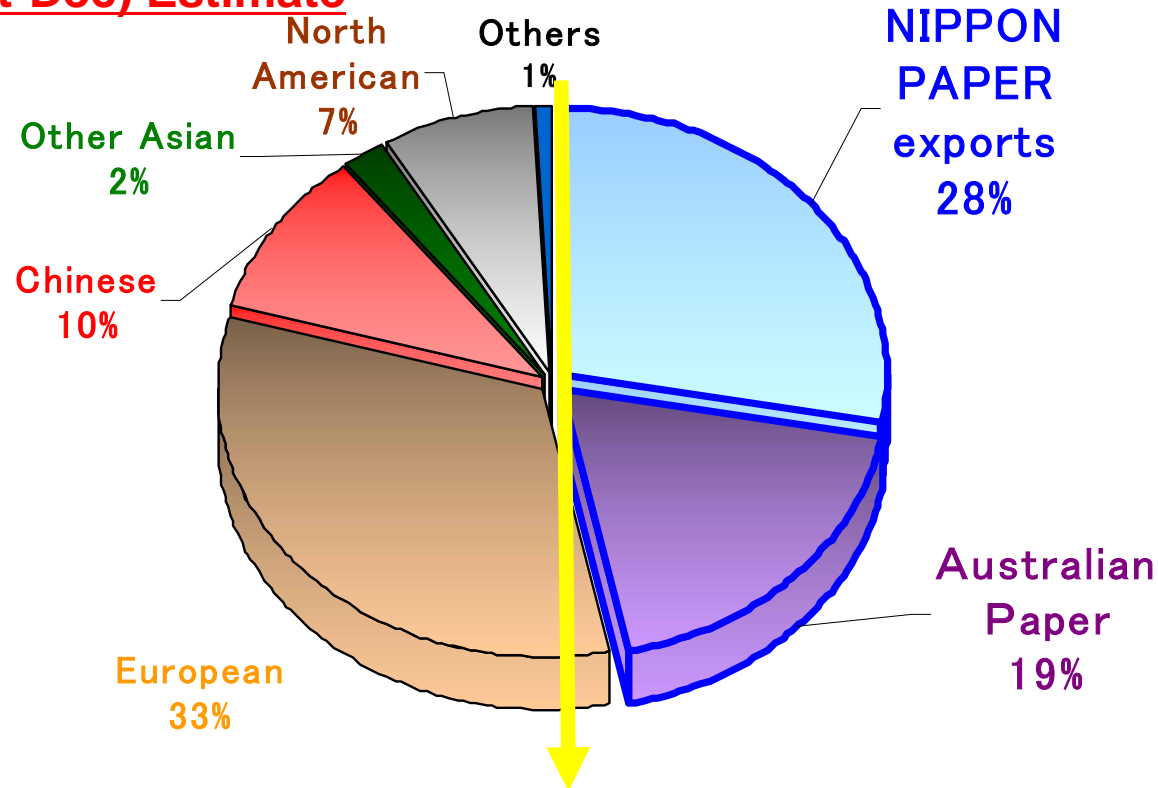


## 2. Progress of Overseas Projects (1) Australian Paper Market Share of Nippon Paper Group



**NPG's LWC market share in Australia**  
AP sales + Export from Nippon Paper = 47%

**4Q/2009(Oct-Dec) Estimate**



Estimates based on 2009/4Q Custom Clearance Statistics



## 2. Progress of Overseas Projects (1) Australian Paper Challenges and Measures



### AP as an Engine to Achieve GROUP VISION2015

- Improve global competitiveness

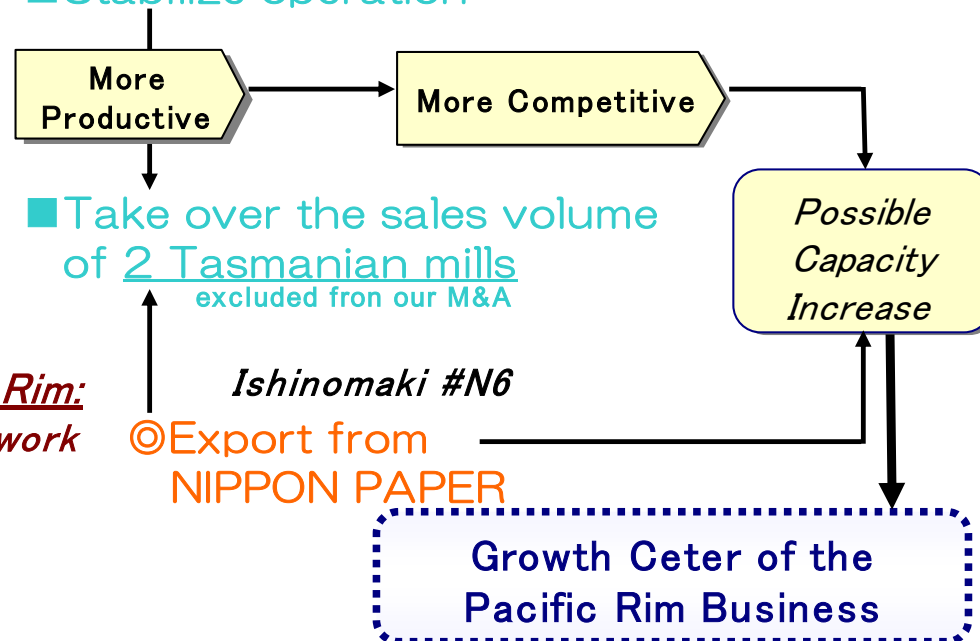
*Engineering support from NPG*

■ Stabilize operation

- Increase sales

*In Australia:  
Keep and expand AP's business*

*Around the Pacific Rim:  
Utilize the sales network of AP & Paperlinx*



## 2. Progress of Overseas Projects (1) YFY Containerboard Business

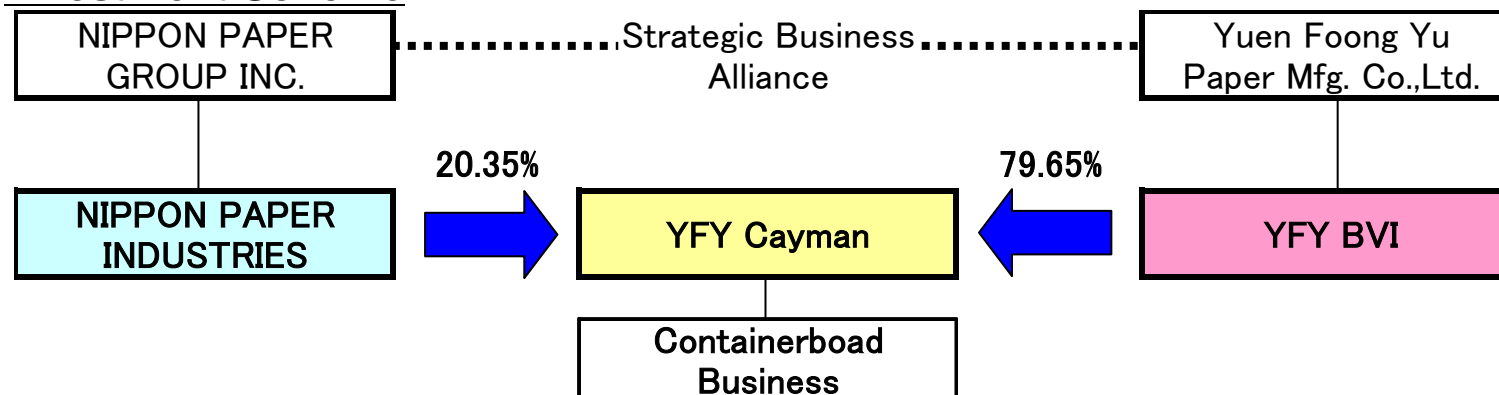
# Outline of Investment



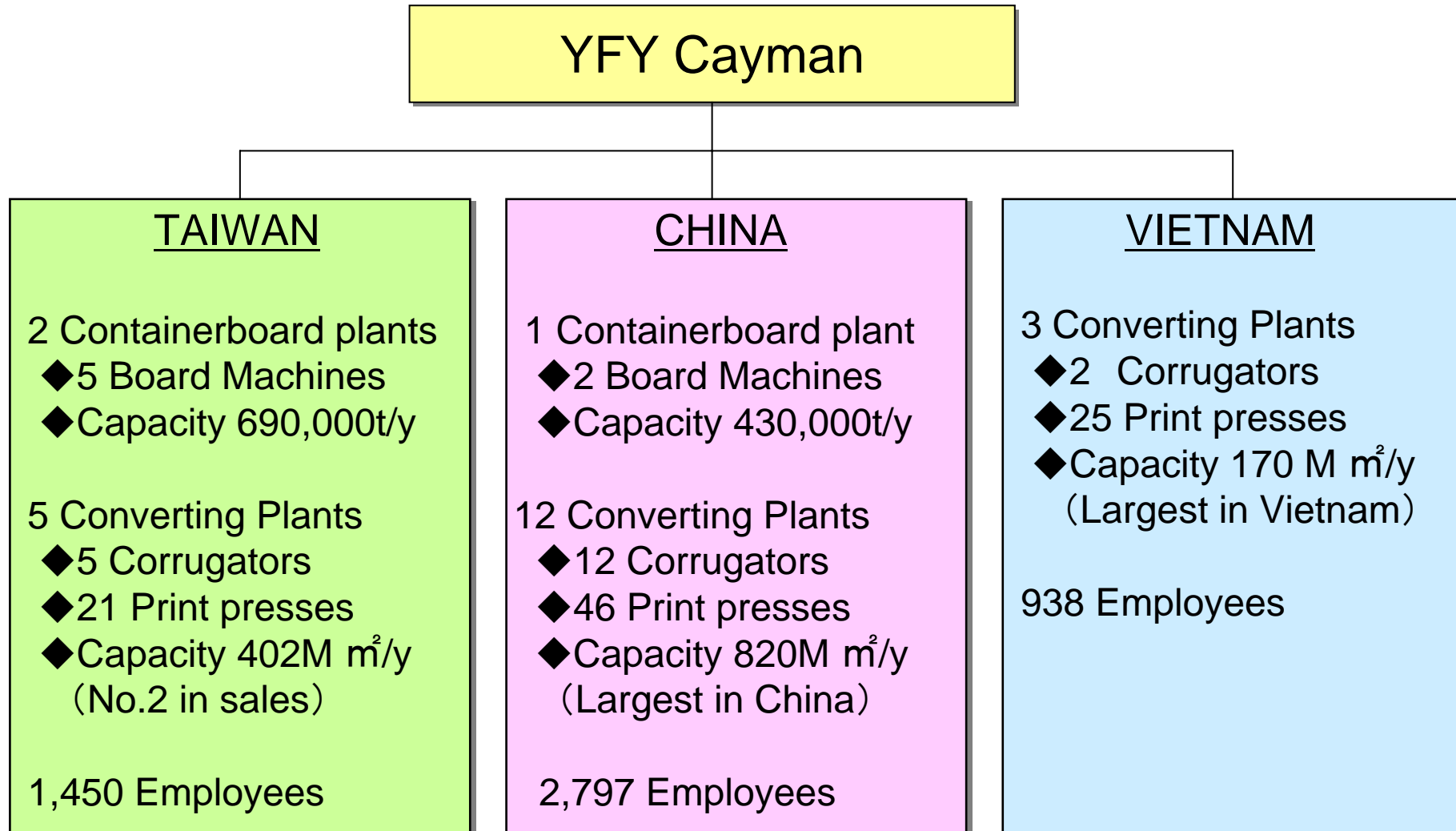
- Investee YFY CAYMAN CO., LTD.
- Sales US\$550 million (Result FY2009)
- Capacity
 

Containerboard	112,000 t/y
Corrugated sheet	1.4 billion m <sup>2</sup> /y
- Investment Amt. US\$110 million
- Share 20.35% (assuming equity method to apply)
- Due date Middle of May 2010 (Plan)

### Investment Scheme

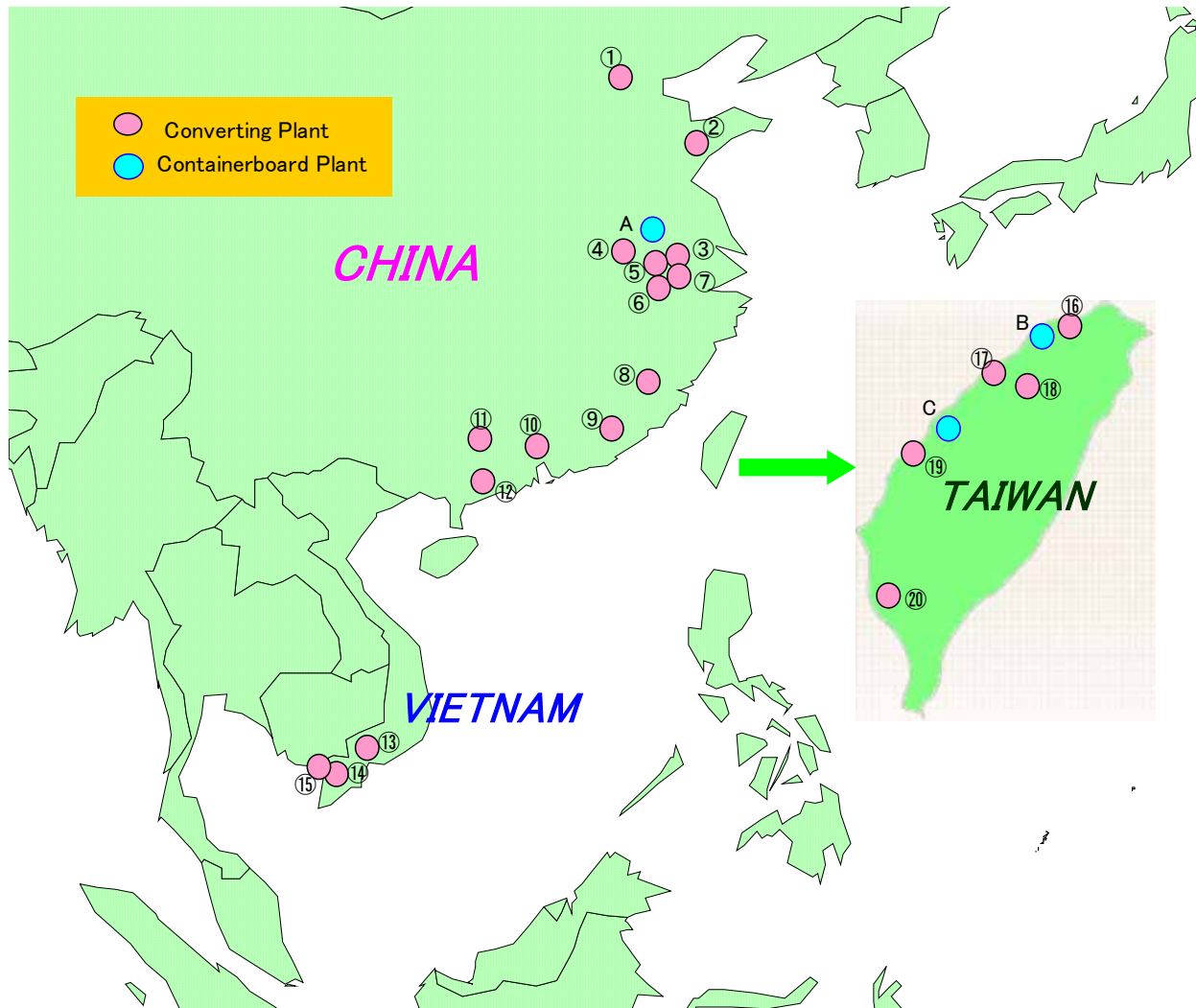


# Outline of Business



## 2. Progress of Overseas Projects (1) YFY Containerboard Business Operation Sites

### Mostly coastal location

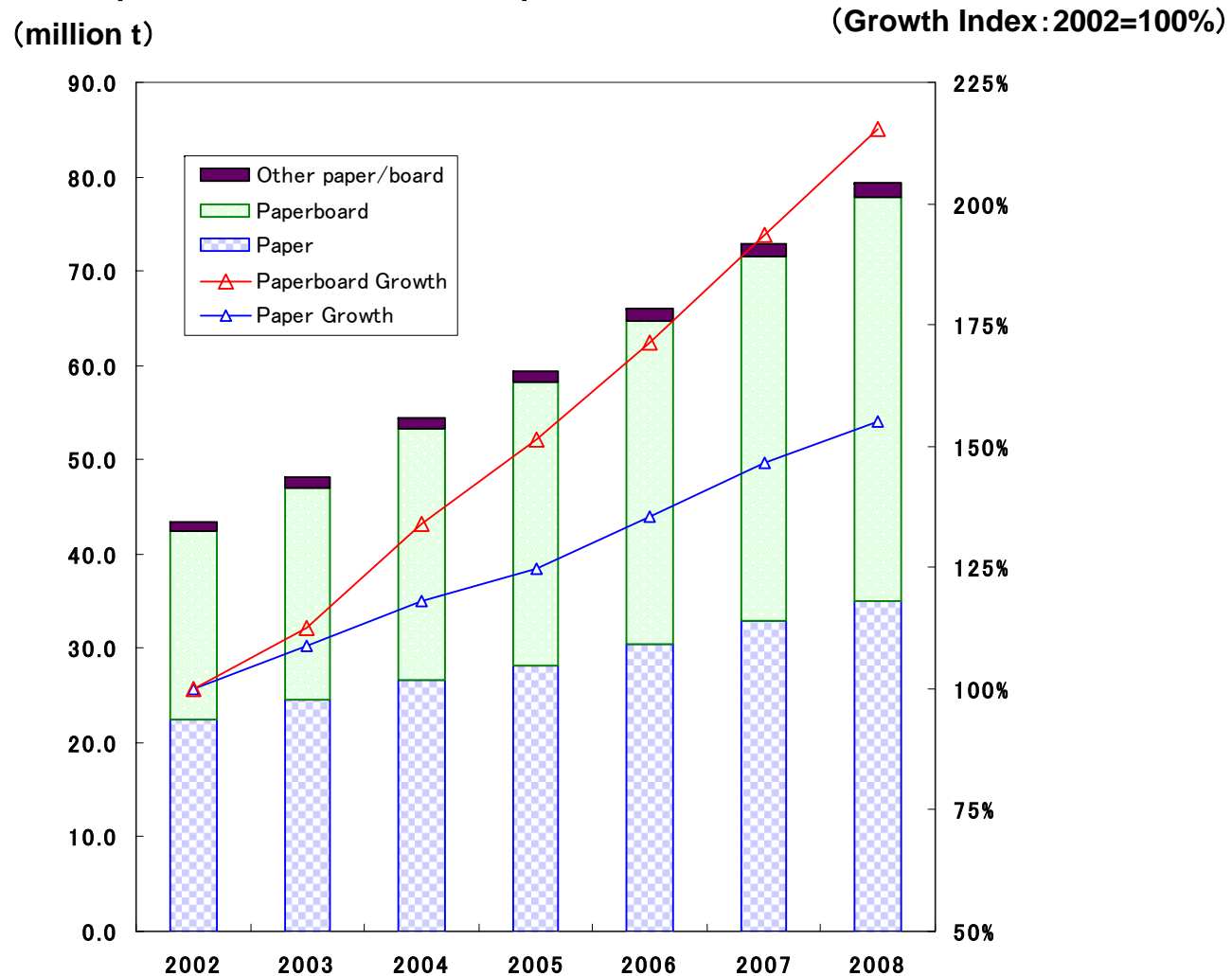


## 2. Progress of Overseas Projects (1) YFY Containerboard Business

# Chinese Market Trend



### Paper and Paperboard Consumption Trace



DATA from Chinese Paper Association

## 2. Progress of Overseas Projects (1) YFY Containerboard Business

# Earnings Result and Plan

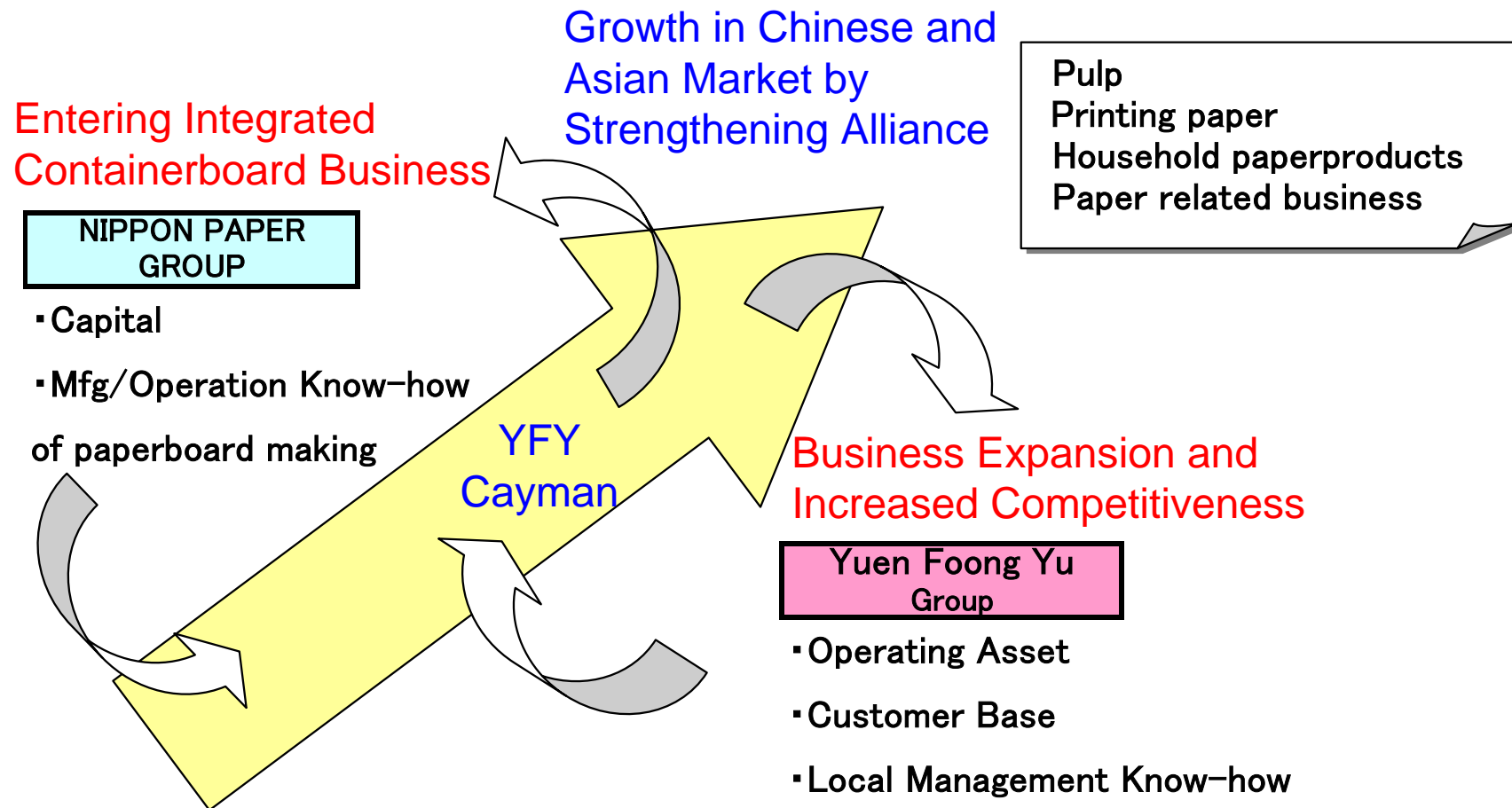


(¥ billion)

	2009	2010e (US\$1=¥95)
Sales	50.4	70.7
Operating Income	2.0	5.0
Capex	0.7	5.0
Depreciation	3.0	3.5

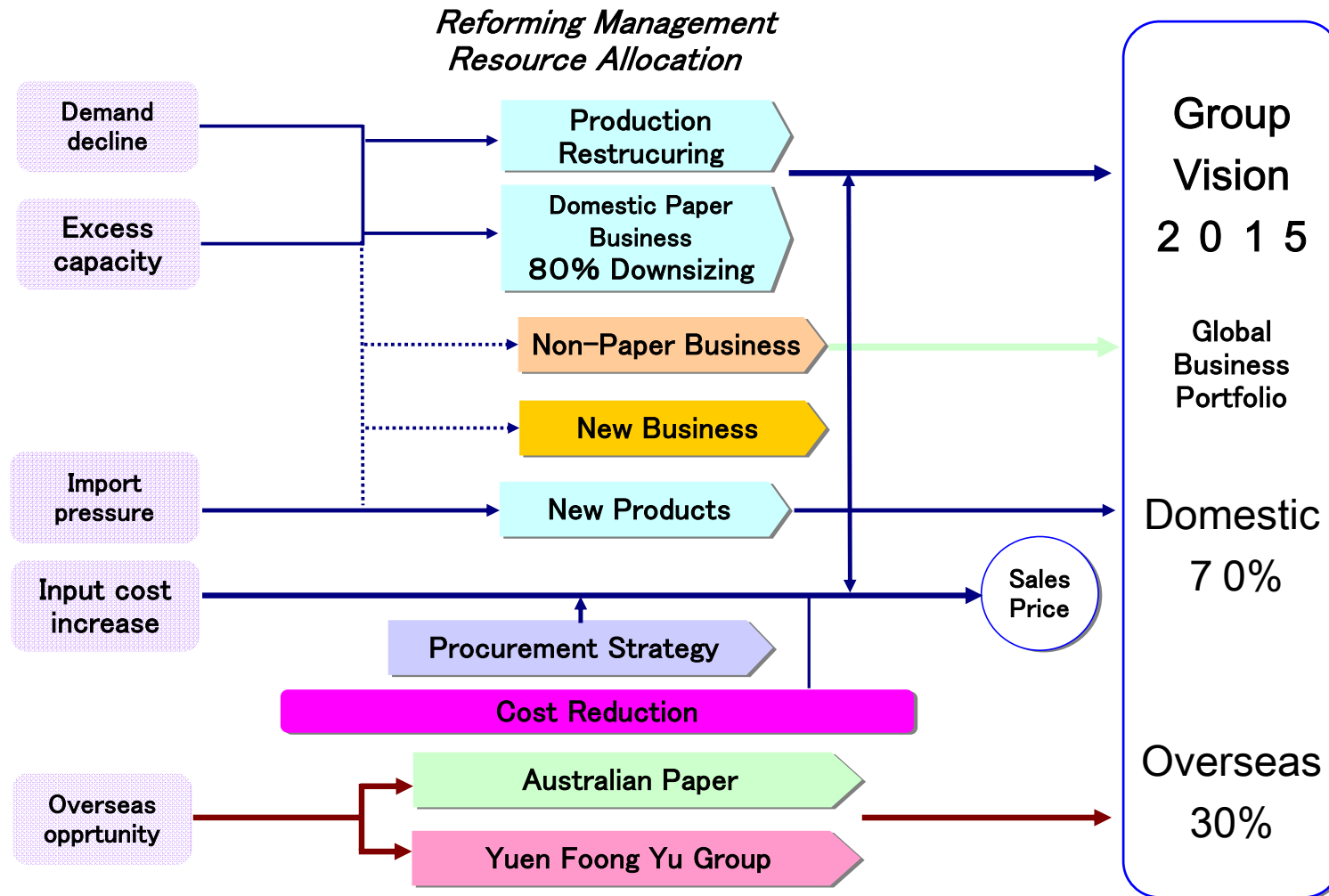
## 2. Progress of Overseas Projects (1) YFY Containerboard Business

# Objectives of Investment



### 3. Summary

# Restructuring Group Business





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