

# 1<sup>st</sup> Quarter FY2011 Financial Review

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August 8, 2011

Nippon Paper Group, Inc.



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## 1st Quarter FY2011 Review (April 1 - June 30, 2011)

1. Highlights
2. Financial Results
3. FY2011 Earning Forecasts
4. Appendix

# 1. Highlights



## Achieved ¥1.6 billion net income despite the impact of the Great East Japan Earthquake

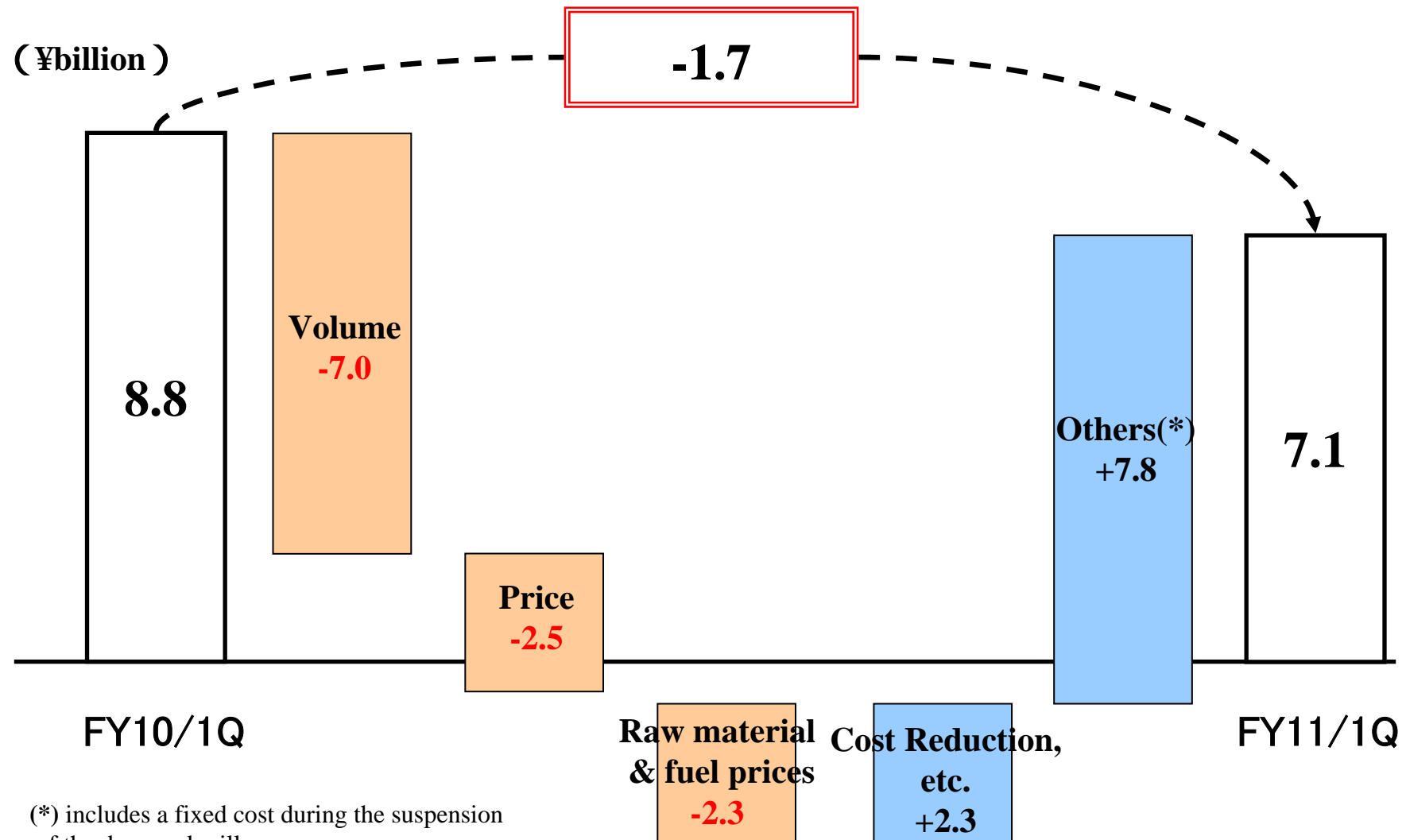
( ¥billion )	FY10/1Q	FY11/1Q	Change
<Net Sales>	273.0	250.2	-22.8
<Operating Income>	8.8	7.1	-1.7
<Ordinary Income>	7.7	7.0	-0.7
<Net Income>	3.8	1.6	-2.2

- ❑ Iwanuma and Nakoso mill were fully resumed by May 11
- ❑ Paper-related segment achieved steady performance
- ❑ Recorded a ¥4.6 billion loss as a fixed cost during the suspension of the damaged mills

## 2. Financial results - Variance analysis for operating income



Sales volume decreased for the impact of the earthquake



## [Reference]



FY10/1Q vs. FY11/1Q

( ¥billion )

Sales (volume & prices)	<b>-9.5</b>	Volume -7.0、 Price -2.5
Raw material & fuel prices	<b>-2.3</b>	Wastepaper -0.5、 Pulp 0.1、 Oil -0.9、 Coal -0.6 LNG -0.1、 Others -0.3 (price -5.1、 forex 2.8)
Cost reduction	<b>2.3</b>	Manufacturing 1.3、 Logistics 0.2、 Labor 0.8
Others	<b>7.8</b>	Depreciation 1.1、 Fixed costs transferred to extraordinary loss account 6.7
Operating income	<b>-1.7</b>	7.1(FY11) ⇐ 8.8(FY10)
Non-operating income	<b>1.0</b>	Net financial cost -0.2、 Equity in earnings of affiliate 0.6、 Others 0.6
Ordinary income	<b>-0.7</b>	7.0(FY11) ⇐ 7.7(FY10)

## 2. Financial results - Segment information



### Paper-related segment achieved steady performance

(¥billion)

(Upside:Sales) (Downside:Operating income)	FY10				FY11	Change yoy
	1Q	2Q	3Q	4Q	1Q	
Pulp and Paper	222.2	223.6	225.0	208.3	198.3	-23.9
	6.5	5.0	5.4	6.3	4.6	-1.9
Paper-related (packaging, chemical products)	22.7	24.0	22.5	25.1	23.6	0.9
	1.9	2.1	2.0	2.0	2.4	0.5
Wood Products and Construction-related	12.8	13.9	14.8	15.1	14.9	2.1
	0.3	0.2	0.8	0.6	0.3	0.0
Other (beverages, logistics)	14.7	17.0	20.7	16.7	13.4	-1.3
	0.1	0.7	1.4	0.2	-0.3	-0.4
<b>Total</b>	272.4	278.5	283.0	265.3	250.2	-22.2
	8.8	8.0	9.6	9.2	7.1	-1.7

## 2. Financial results - Sales volume by product



### Domestic paper sales decreased 10.6% yoy

(thousand tons)		FY10/1Q	FY11/1Q	change yoy
	<b>Newsprint</b>	297	277	-6.8%
	<b>Printing &amp; Business communication paper</b>	681	588	-13.7%
	<b>Packaging paper and others</b>	97	97	-0.4%
	<b>Domestic sales (paper)</b>	<b>1,076</b>	<b>962</b>	<b>-10.6%</b>
	<b>Export (paper)</b>	<b>124</b>	<b>18</b>	<b>-85.5%</b>
	<b>Container board</b>	294	309	5.0%
	<b>Folding box board and others</b>	88	90	2.6%
	<b>Domestic sales (paperboard)</b>	<b>382</b>	<b>399</b>	<b>4.5%</b>
	<b>Export (paperboard)</b>	<b>11</b>	<b>12</b>	<b>2.0%</b>
	<b>Grand total (paper and paperboard)</b>	<b>1,593</b>	<b>1,391</b>	<b>-12.7%</b>

### 3. Earnings Forecast



(¥ billion)	FY10	FY11	Change
<Net sales>	1,099.8	1,050.0	-49.8
<Operating income>	35.6	30.0	-5.6
<Ordinary income>	31.6	26.0	-5.6
<Net income>	-24.2	-12.0	12.2

- ❑ The operation of Ishinomaki mill will partly restart from September
- ❑ Estimated extraordinary losses
  - ¥13.4 billion - fixed costs during the suspension of the damaged mills
  - ¥26.0 billion - business restructuring expenses
- ❑ Announced dividend projection (mid-year ¥10/share, year-end ¥20/share)



### 3. Earnings forecast - Assumptions



#### Domestic Sales

##### -Sales volume (yoy)

*Paper* : -6.1%

*Paperboard* : +1.0%

##### -Sales price

*Paper and Paperboard* : Same level as 1Q results

- Announced price increase (from Sep.'11) is not included

#### Raw material and fuel prices, Forex

*Crude Oil* : US\$115/BL(Dubai)

*Coal* : US\$130/t(Australian Black Coal)

*Wastepaper* : Stay at current level

*Forex* : ¥80/US\$1

¥85/A\$1

### 3. Earnings forecast - Sales volume by product



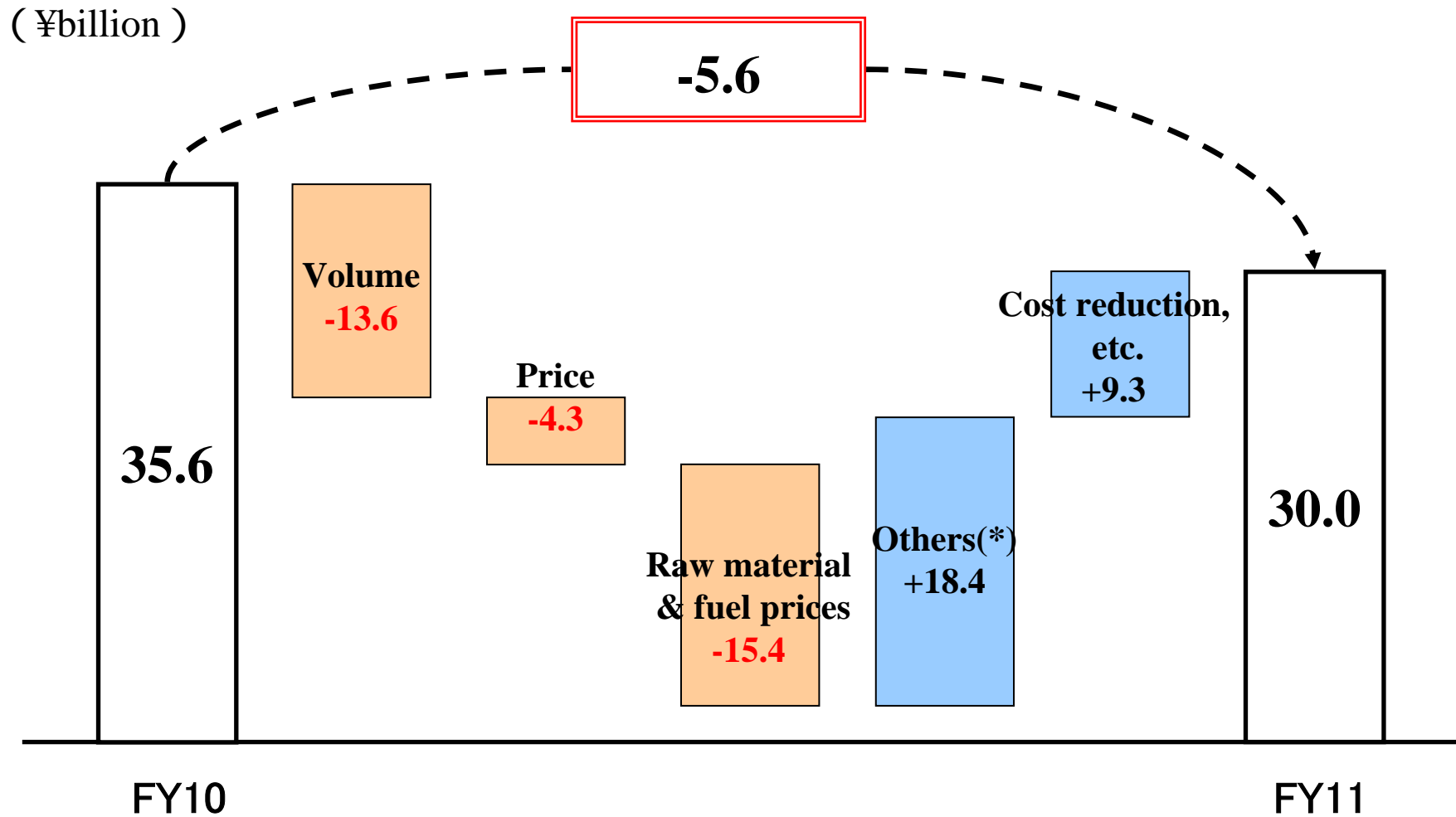
#### Estimate recovery in domestic paper sales from 2<sup>nd</sup> Half

(thousand tons)		FY10	FY11	change yoy
	<b>Newsprint</b>	<b>1,186</b>	1,142	<b>-3.7%</b>
	<b>Printing &amp; Business communication paper</b>	<b>2,704</b>	2,479	<b>-8.3%</b>
	<b>Packaging paper and others</b>	<b>375</b>	384	2.3%
	<b>Domestic sales (paper)</b>	<b>4,265</b>	<b>4,004</b>	<b>-6.1%</b>
	<b>Export (paper)</b>	<b>427</b>	<b>61</b>	<b>-85.8%</b>
	<b>Container board</b>	<b>1,156</b>	1,166	0.9%
	<b>Folding box board and others</b>	<b>358</b>	362	1.2%
	<b>Domestic sales (paperboard)</b>	<b>1,514</b>	<b>1,528</b>	<b>1.0%</b>
	<b>Export (paperboard)</b>	<b>58</b>	<b>71</b>	<b>23.1%</b>
	<b>Grand total (paper and paperboard)</b>	<b>6,263</b>	<b>5,664</b>	<b>-9.6%</b>

### 3. Earnings forecast - Variance analysis for operating income



Operating income decrease due to high input costs



(\*) includes a fixed cost during the suspension of the damaged mills

## [Reference 2]



FY10 vs. FY11 est.

( ¥billion )

Sales (volume & prices)	<b>-17.9</b>	Volume -13.6, Price -4.3
Raw material & fuel prices	<b>-15.4</b>	Woodchips -1.5, Wastepaper -2.0, Pulp 0.2 Oil -5.0, Coal -3.5, LNG -0.6, Others -3.0 [price -20.6, forex 5.2]
Cost reduction	<b>9.3</b>	Manufacturing 5.6, Logistics 1.2, Labor 2.5
Others	<b>18.4</b>	Depreciation 3.0, Fixed costs transferred to extraordinary loss account 15.4
Operating income	<b>-5.6</b>	<b>30.0(FY11) ⇐ 35.6(FY10)</b>
Non-operating income	<b>0</b>	Net financial cost -1.3, Equity in earnings of affiliate 0.7, Others 0.6
Ordinary income	<b>-5.6</b>	<b>26.0(FY11) ⇐ 31.6(FY10)</b>

### 3. Earnings forecast - *Key figures and indices*

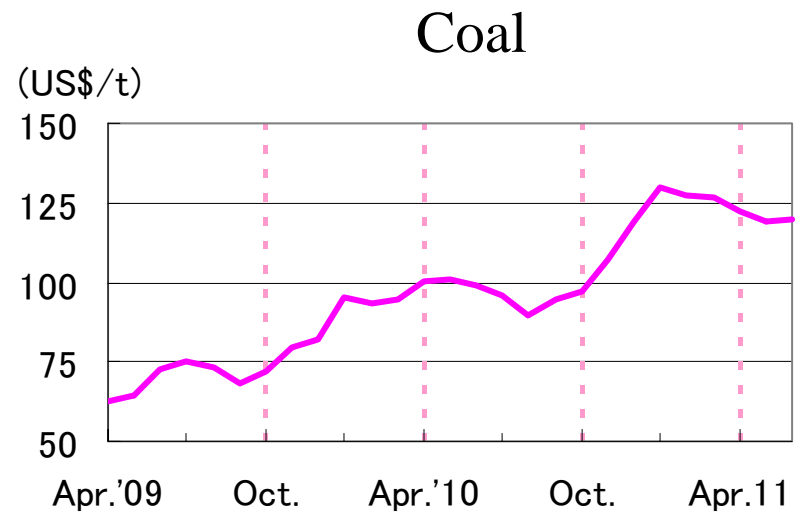
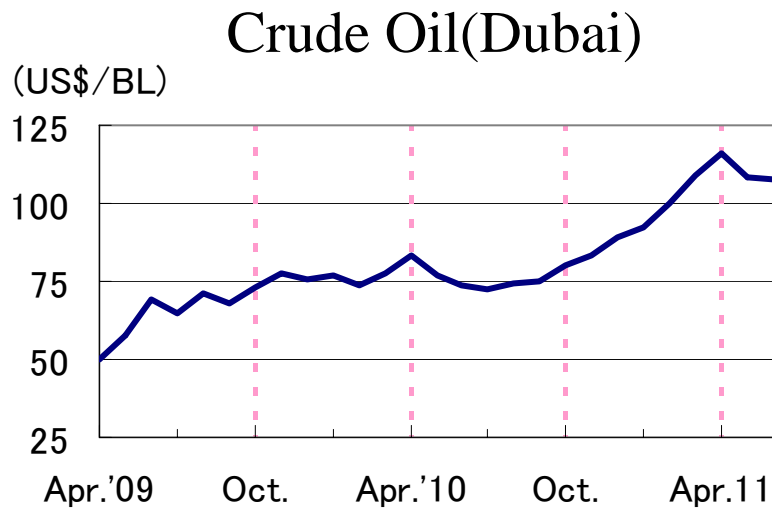
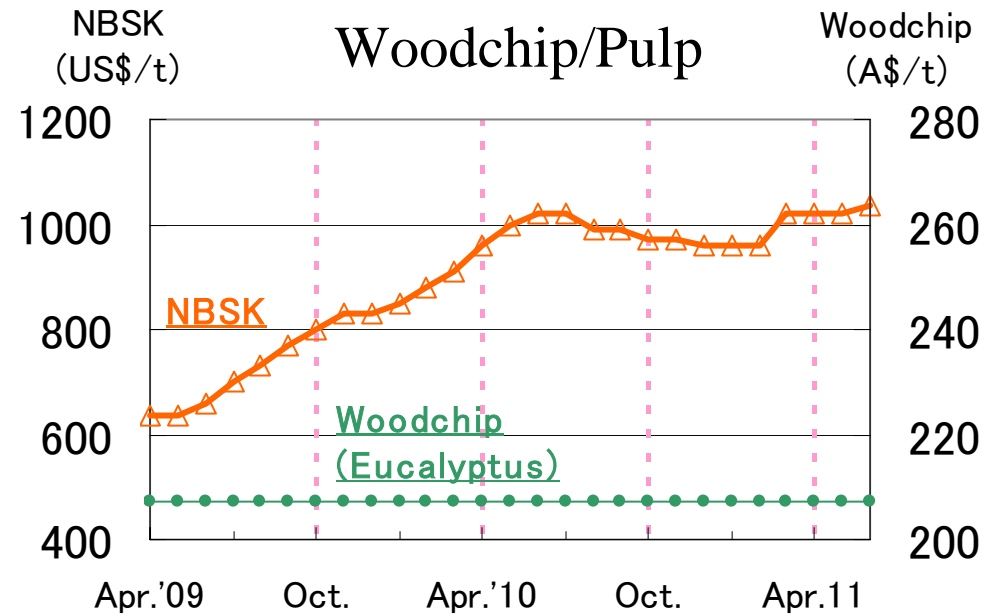
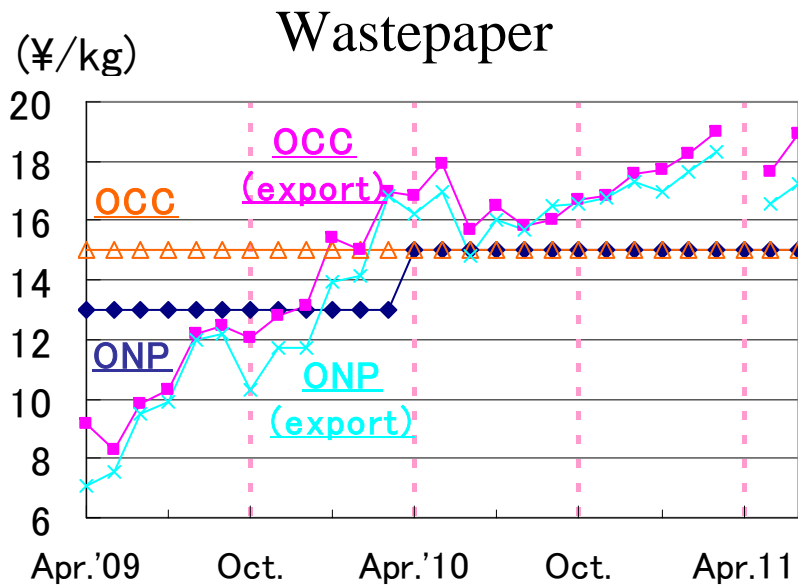


	<b>FY09</b>	<b>FY10</b>	<b>FY11 est.</b>
<b>ROE</b>	<b>7.0%</b>	<b>-5.6%</b>	<b>-3.0%</b>
<b>Operating margin on sales</b>	<b>3.9%</b>	<b>3.2%</b>	<b>2.9%</b>
<b>Ordinary margin on sales</b>	<b>3.4%</b>	<b>2.9%</b>	<b>2.5%</b>
<b>D/E (times)</b>	<b>x1.6</b>	<b>x1.8</b>	<b>x1.9</b>
<b>Capital investment (¥ billion)</b>	<b>35.6</b>	<b>46.6</b>	<b>63.9</b>
<b>Depreciation (¥ billion)</b>	<b>81.9</b>	<b>78.6</b>	<b>75.6</b>
<b>Interest-bearing debt (¥ billion)</b>	<b>762.9</b>	<b>832.3</b>	<b>795.0</b>
<b>Number of employees (*)</b>	<b>14,210</b>	<b>13,834</b>	<b>13,624</b>

(\*) Restructuring plan is not included

# Appendix

# Appendix - Major input price trends



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

## Appendix - Domestic shipment



### Paper & paperboard (FY11/1Q)

	(1,000 tons)	change yoy
Newsprint	763	-6.6%
Printing & Business communication paper	1,995	-6.5%
Coated ※	1,110	-6.3%
Uncoated & Specialty printing	535	-7.6%
Business communication	349	-5.6%
Other papers (Packaging paper, sanitary paper, and paper for miscellaneous uses)	835	-2.5%
Paper total	3,593	-5.6%
Paperboard total	2,760	+0.6%
Paper and paperboard total	6,354	-3.0%

※ “Bitoko-shi” paper is included in coated printing paper. Source: Japan Paper Association



# Appendix – Domestic shipment trends (yoy)

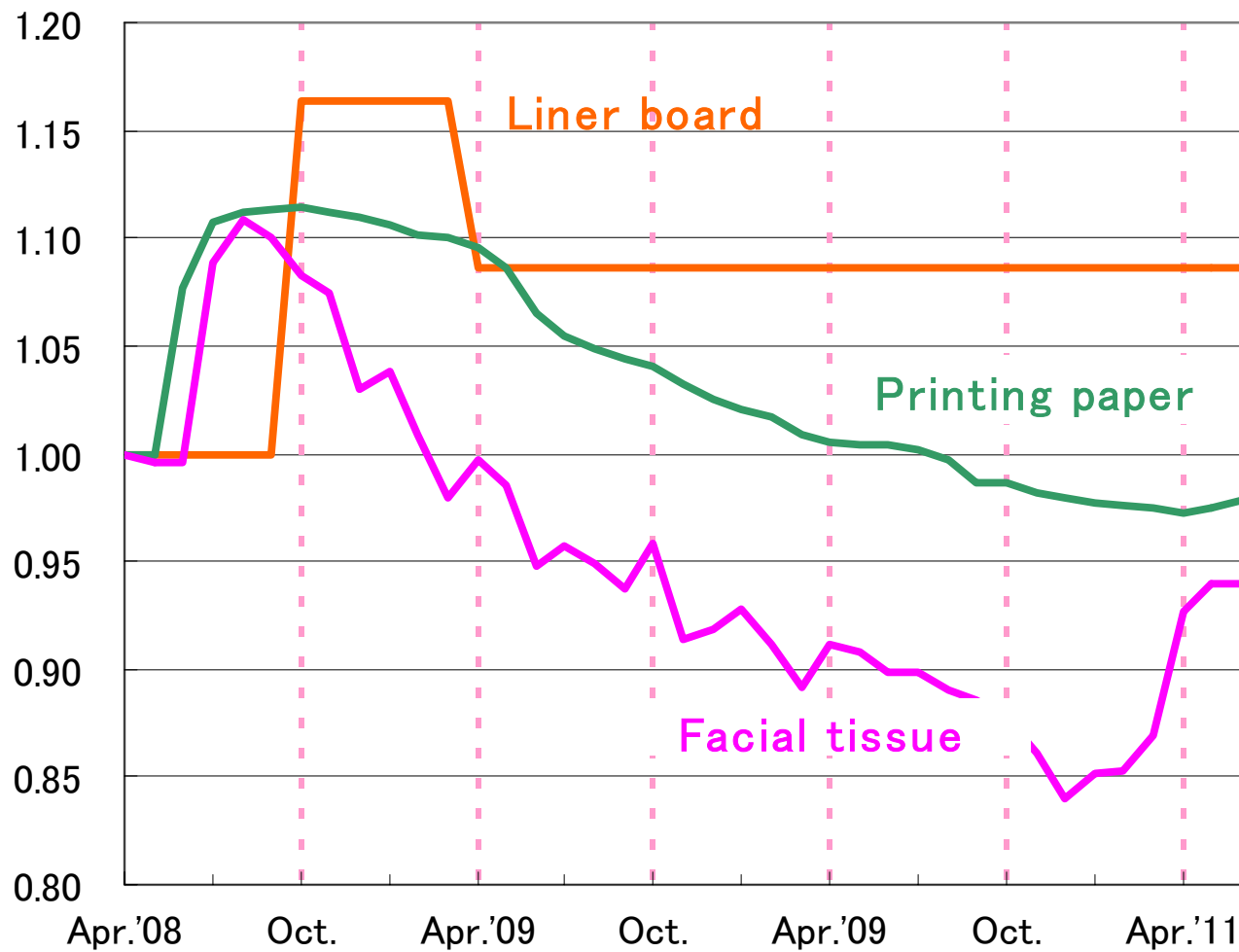


Source: Japan Paper Association

# Appendix - Domestic market price trends



(Apr.'08 = 1)



Source: Bank of Japan "Corporate Goods Price Index"

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## Disclaimer

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**Nippon Paper Group, Inc.**