

1st 6-month FY2011 Financial Review



November 4, 2011

Nippon Paper Group, Inc.



1st 6-month FY2011 Review (April 1 - September 30, 2011)

1. Business environment
2. Financial results
3. Earnings forecast

1. Business environment – Domestic shipment



1st half of FY2011 domestic shipment volume decreased on a year-on-year basis due to the earthquake

Industry data of domestic shipment
(Apr. – Sep.2011)

	(1,000 tons)	Change yoy
Newsprint	1,558	-4.8%
Printing & Business communication paper	4,075	-4.2%
Coated paper※	2,304	-3.4%
Uncoated & Specialty printing paper	1,085	-5.2%
Business communication paper	686	-5.5%
Other papers (Packaging paper, sanitary paper, and paper for miscellaneous uses)	1,647	-2.9%
Paper Total	7,280	-4.0%
Container board	4,345	0.1%
Folding box board and others	1,162	2.2%
Paperboard Total	5,508	0.6%
Paper and Paperboard Total	12,787	-2.1%

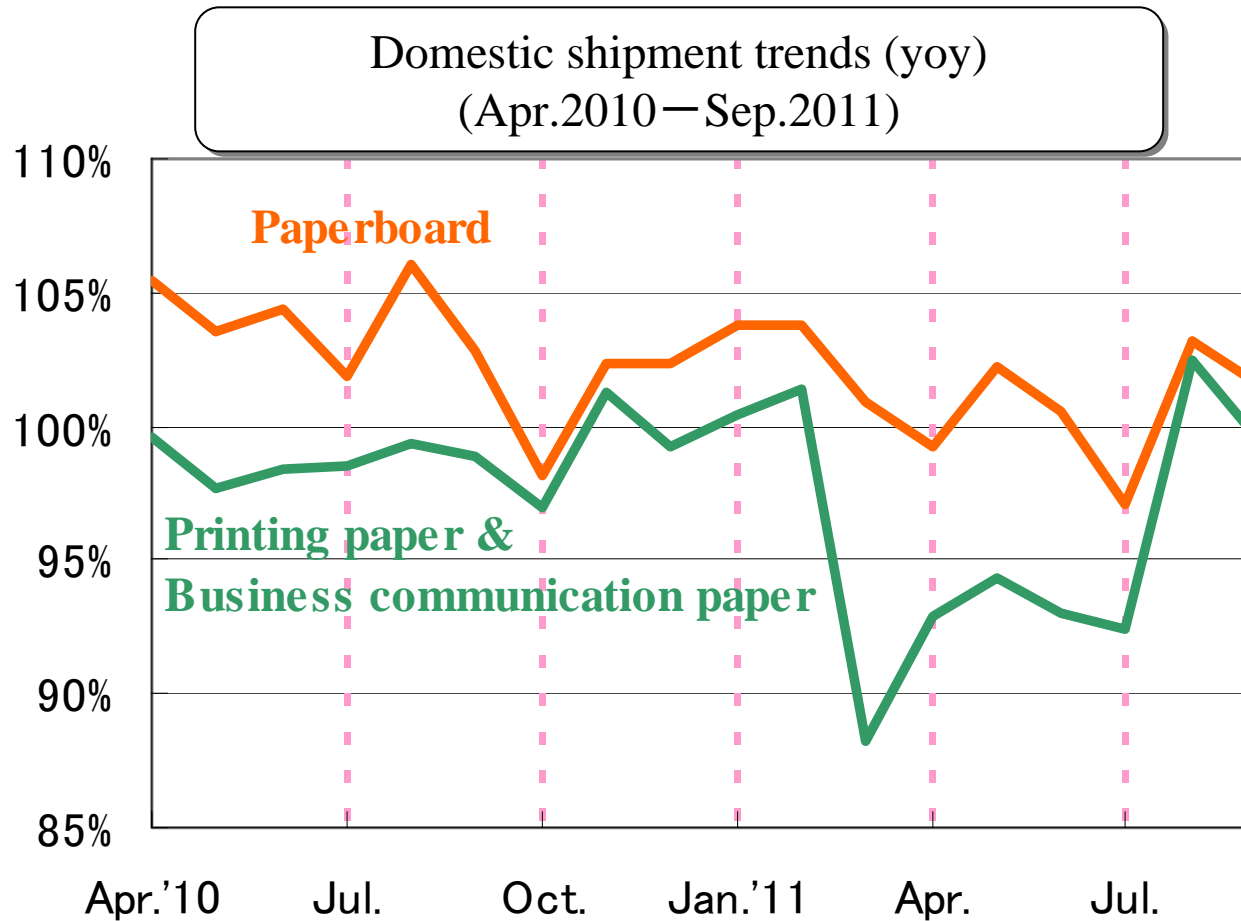
※ “Bitoko-shi” paper is included in coated paper.

Source: Japan Paper Association

1. Business environment – *Domestic shipment*



Since August 2011 domestic paper shipment showed a remarkable recovery

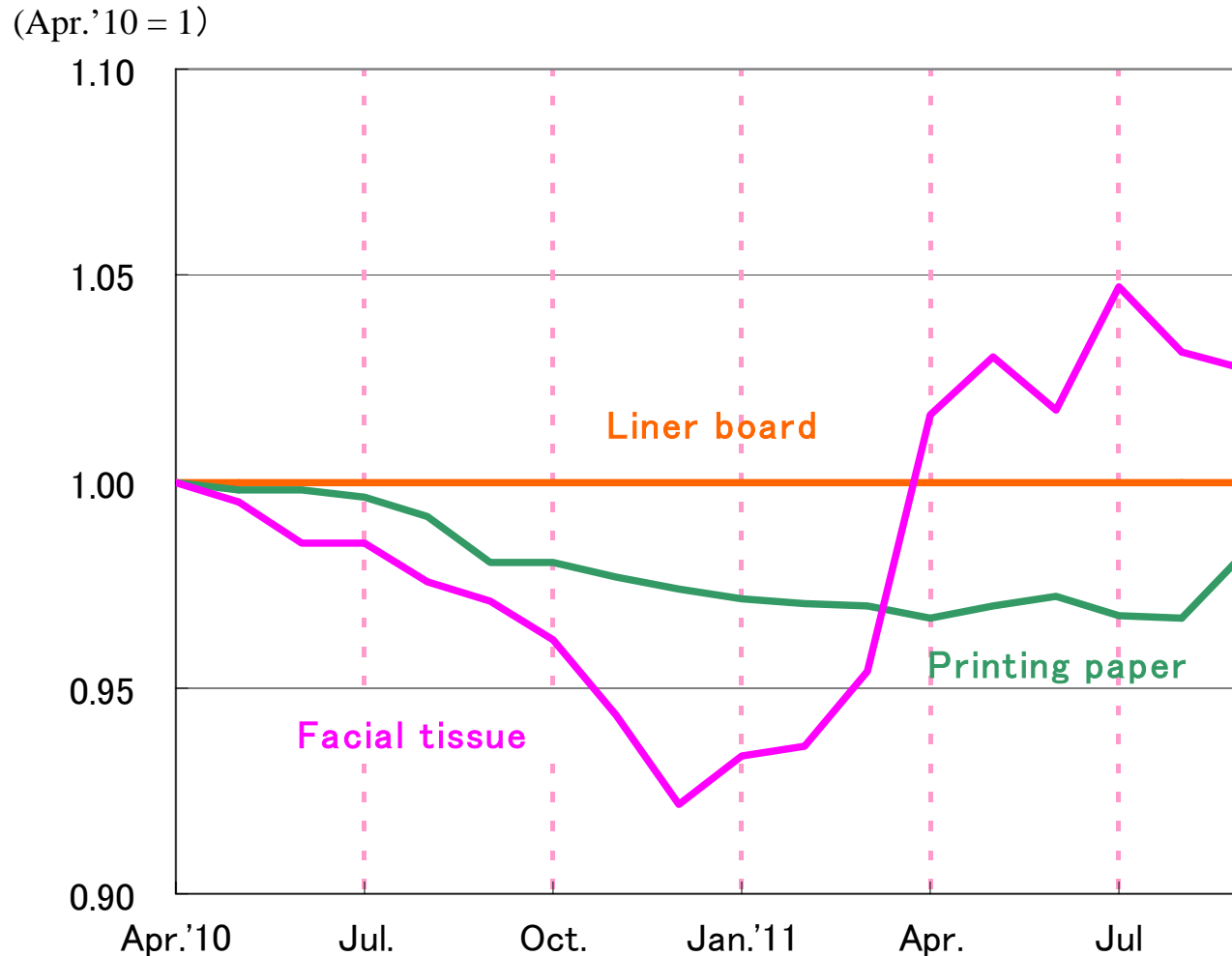


Source: Japan Paper Association

1. Business environment – Domestic Price trends



Printing paper price turned up from a low & flat level

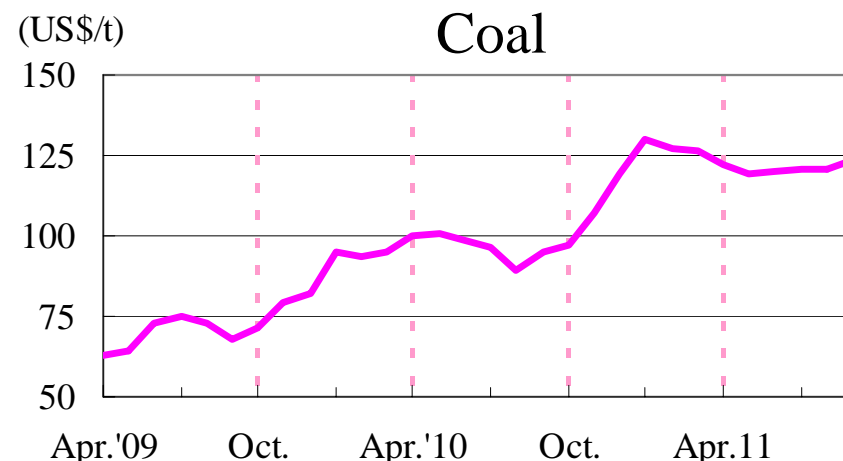
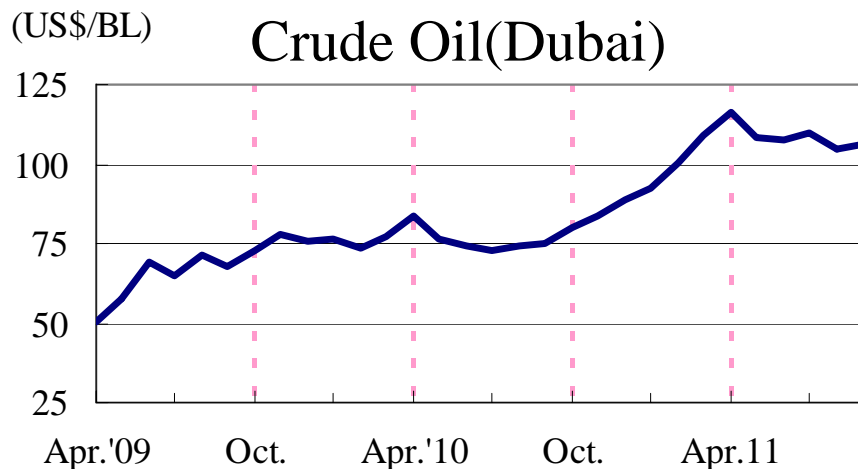
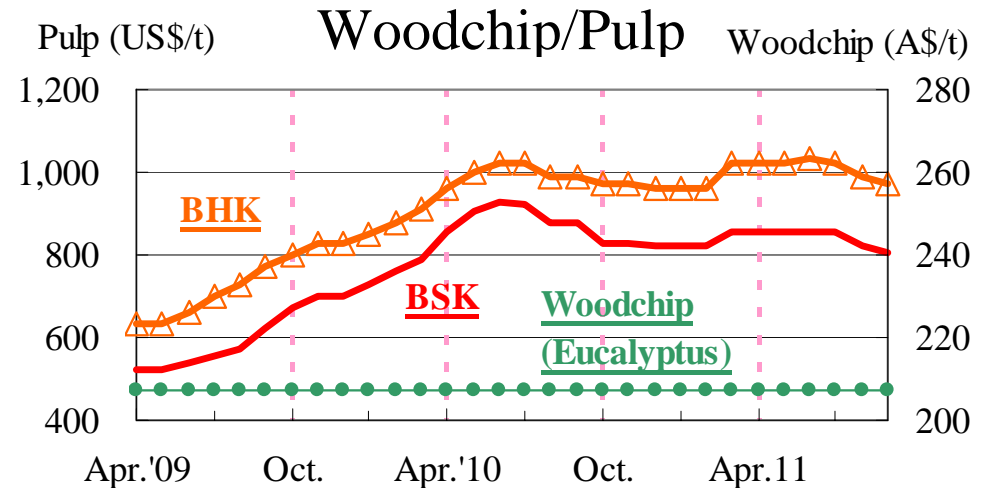
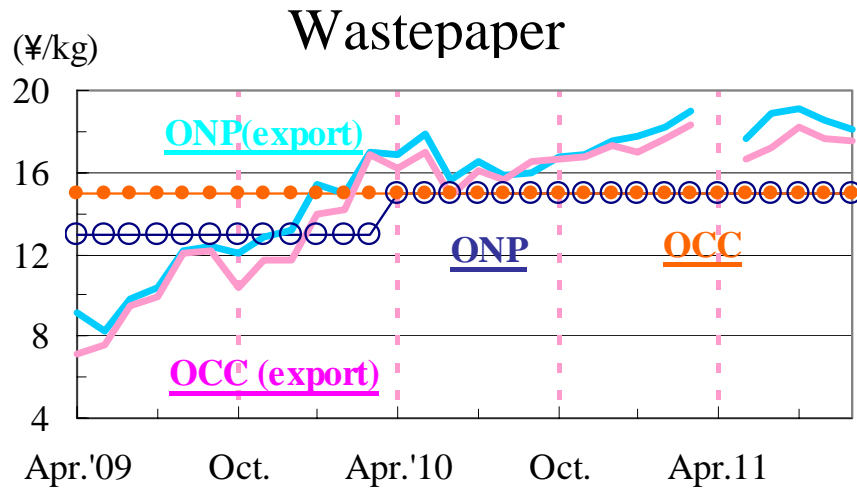


Source: Bank of Japan "Corporate Goods Price Index"

1. Business environment – Major input price trends



Prices of major input material & fuel stayed at a high level



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

2. Financial results - *Highlights*



(¥billion)	FY2011 1 st 6-month	Change from 1H/FY10	Change from 1H/FY11 Target
<Net Sales>	511.5	-39.9	1.5
<Operating Income>	14.4	-2.4	1.4
<Ordinary Income>	-12.5	-26.7	-24.5
<Net Income>	-39.2	-45.5	-26.2

- ❑ Achieved the target of 1H/FY11 at Net Sales & Operating Income, while income decreased from 1H/FY10 due to the earthquake
- ❑ Made Lee&Man an equity-method affiliate and booked ¥25.4b of one-time amortization of the goodwill (equity-method investment loss)
- ❑ Booked ¥29.2b extraordinary loss including ¥8.4b fixed costs of disaster-affected mill and ¥18.4b restructuring costs

2. Financial results - *Segment information*



Other than pulp & paper segment stayed at a good level

(¥billion)

	FY10		FY11	Change yoy
	1st Half	2nd Half	1st Half	
(Upper row: Sales)				
(Lower row: Operating income)				
Pulp and Paper	446.4	433.3	404.1	-42.3
	11.5	11.7	8.9	-2.7
Paper-related	46.7	47.6	48.2	1.4
(packaging, chemical products)	4.0	4.0	4.1	0.1
Wood Products and	26.7	29.9	28.1	1.5
Construction-related	0.5	1.4	0.6	0.1
Other	31.7	37.5	31.1	-0.5
(beverages, logistics)	0.8	1.7	0.7	-0.1
Total	551.5	548.4	511.5	-39.9
	16.8	18.8	14.4	-2.4

2. Financial results - Sales volume by product



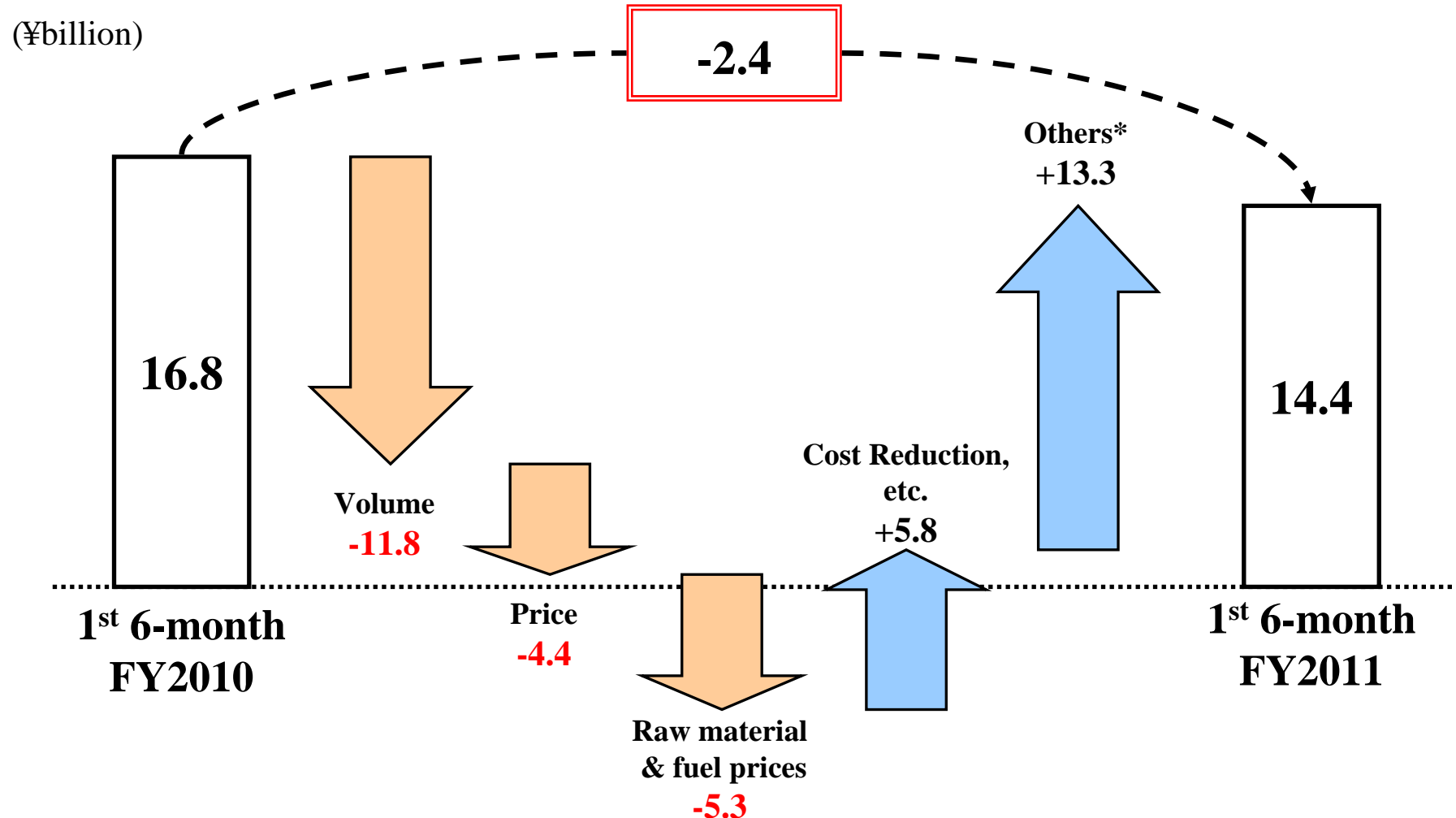
Paper shipment volume decreased sharply due to the tsunami disaster at Ishinomaki mill

(thousand tons)	FY2010 1st 6-month	FY11 1st 6-month	change yoy
Newsprint	595	573	-3.6%
Printing & Business communication paper	1,361	1,172	-13.9%
Coated paper	730	587	-19.6%
Uncoated & Specialty printing paper	314	271	-13.7%
Business communication paper	317	314	-0.9%
Packaging paper and others	188	185	-1.5%
Domestic sales (paper)	2,143	1,930	-9.9%
(Average domestic paper price: ¥/kg)	(117.5)	(116.6)	-0.7%
Export (paper)	238	34	-85.7%
Paper Total	2,381	1,964	-17.5%
Container board	590	609	3.1%
Folding box board and others	176	178	1.3%
Domestic sales (paperboard)	766	787	2.7%
Export (paperboard)	26	28	9.7%
Paperboard Total	792	815	2.9%
Grand total (paper and paperboard)	3,173	2,779	-12.4%

2. Financial results - Variance analysis for operating income



Operating income decreased
mainly due to the earthquake and input cost rise



*Fixed costs transferred to extraordinary loss, depreciation decrease and others

2. Financial results – *Balance sheet*



(¥billion)	Mar. 31, 2011	Sep. 30, 2011	Change
Total Assets	1,560.6	1,508.6	-51.9
Cash and time deposits	104.8	83.6	-21.2
Notes and accounts receivable	210.8	209.8	-1.0
Inventories	141.4	153.0	11.7
Other current assets	58.5	55.3	-3.2
Property, plant, equipment, and intangible fixed assets	824.5	797.3	-27.1
Investments and other assets	220.7	209.6	-11.2
Total Liabilities	1,151.8	1,135.9	-15.9
Interest-bearing liabilities (incl. lease obligations)	832.3	826.1	-6.3
Other liabilities	319.5	309.9	-9.6
Total Net Assets	408.8	372.7	-36.0
Shareholders' equity	415.7	375.2	-40.5

2. Financial results – Cash flow statement



(¥billion)

Items	FY2010 1st 6-month	FY2011 1st 6-month	Change
Operating activities	45.5	17.8	-27.7
Income before income taxes	9.6	-40.9	-50.5
Depreciation	39.0	36.8	-2.2
Change in net working capital	2.3	-12.3	-14.6
Others	-5.4	34.1	39.6
Investing activities	-68.6	-28.9	39.7
Purchases of property, plant and equipment	-18.2	-20.7	-2.5
Proceeds from sales of property, plant and equipment	0.7	0.1	-0.6
Others	-51.1	-8.3	42.8
Free cash flows	-23.0	-11.1	11.9
Financing activities	14.8	-9.8	-24.6
Change in net borrowings	20.5	-0.1	-20.7
Cash dividends paid	-4.6	-2.3	2.3
Others	-1.1	-7.3	-6.2
Foreign currency translation adjustment, etc.	-0.7	-0.4	0.3
Cash and cash equivalents at the beginning of period	24.0	104.7	80.7
Cash and cash equivalents at the end of period	15.2	83.5	68.4

3. Earnings forecast – *Highlights*



(¥billion)	FY2010	FY2011	Change
<Net Sales>	1,099.8	1,055.0	-44.8
<Operating Income>	35.6	35.0	-0.6
<Ordinary Income>	31.6	5.0	-26.6
<Net Income>	-24.2	-44.0	-19.8

- ❑ Executing price hike of printing paper, business communication paper, industry paper, folding box board, and container board

3. Earnings forecast – Assumptions



<u>Domestic Sales</u>	As of Aug. 3
-Sales volume (yoy)	
<i>Paper</i> : -8.7%	-6.1%
<i>Paperboard</i> : +1.7%	+1.0%
-Sales price	
<i>Paper and Paperboard</i> : reflecting price hike	Same as 1Q level
<u>Raw material and fuel prices, Forex</u>	
<i>Crude Oil</i> : US\$110/BL(Dubai)	US\$115/BL
<i>Coal</i> : US\$130/t(Australian Black Coal)	US\$130/t
<i>Wastepaper</i>	
<i>-OCC</i> : + ¥2/kg increase	Stay at current level
<i>-Others</i> : Stay at current level	Stay at current level
<i>Forex</i> : ¥80/US\$1, ¥80/A\$1	¥80/US\$1, ¥85/A\$1

3. Earnings forecast – *Topics*



Execute the revitalization plan on schedule

- | | |
|--------------------|---|
| Nov. 2011 | - Resume the paper machine N4 (PM N4)
& the coating machine 4 (CM4) at Ishinomaki mill |
| Dec. 2011 | - Resume the woodchip intake facility at Ishinomaki Port
- Restart manufacturing kraft pulp at Ishinomaki mill
- Launch a new pulp machine for high-value added cellulose
at Gotsu works
- Launch a new coating machine for liquid crystal display
film at Higashi-matsuyama works |
| Spring 2012 | - Close the below paper machines and coating machines
Iwanuma PM2&CM30, Fuji PM13&CM33,
Iwakuni Cast-coating machine 1,
& Yoshinaga PM N2
- Resume at Ishinomaki mill PM N5 & PM N6 |

3. Earnings forecast - Sales volume by product



2H/FY11 paper shipment volume forecast
decreases on year-on-year basis

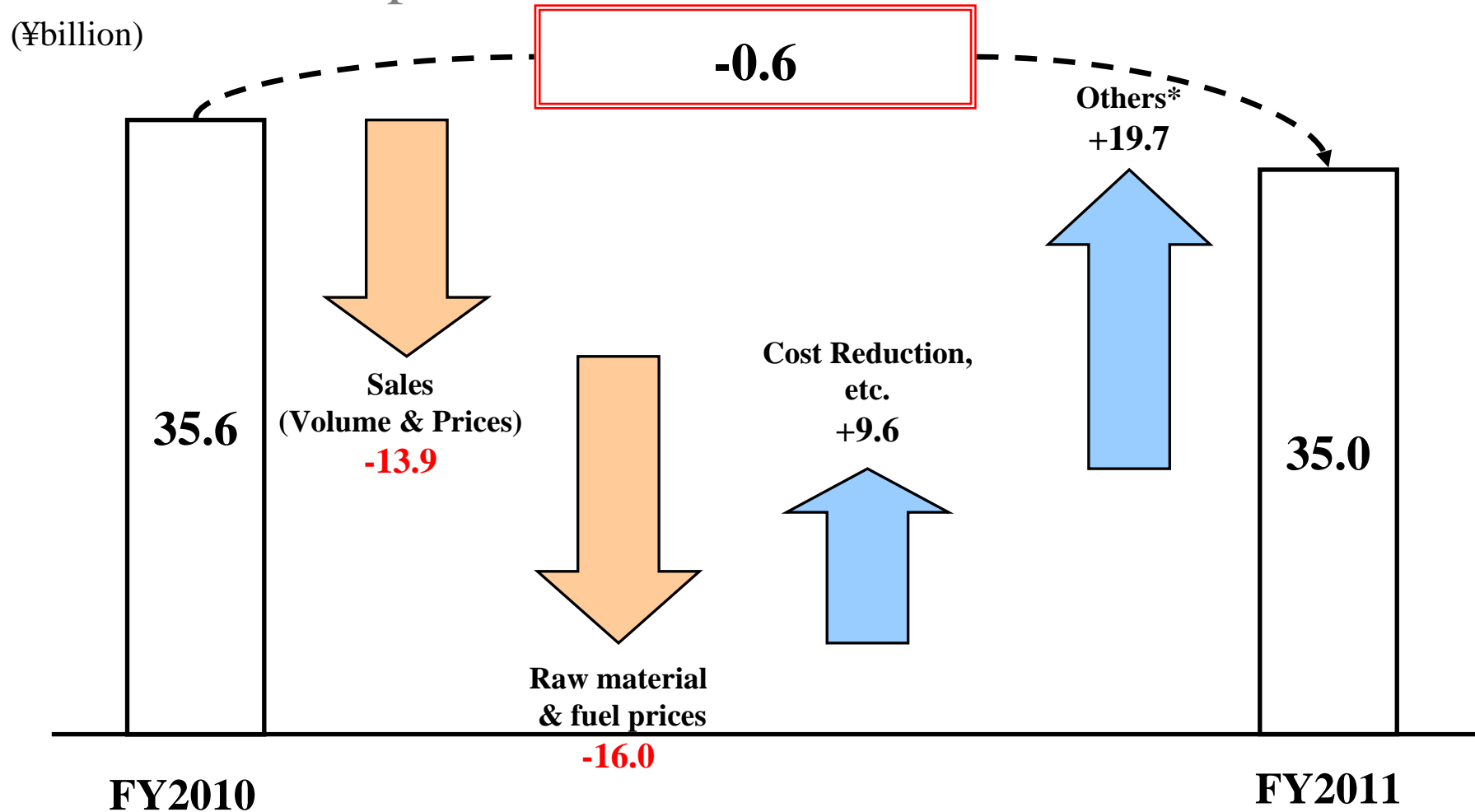
(thousand tons)

	FY2011	change yoy	FY2011 2nd 6-month	change yoy
Newsprint	1,160	-2.1%	587	-0.7%
Printing & Business communication paper	2,360	-12.7%	1,188	-11.5%
Coated paper	1,192	-18.3%	606	-17.1%
Uncoated & Specialty printing paper	553	-9.2%	282	-4.5%
Business communication paper	615	-3.1%	300	-5.3%
Packaging paper and others	373	-0.5%	188	0.6%
Domestic sales (paper)	3,894	-8.7%	1,964	-7.4%
Export (paper)	68	-84.1%	34	-82.1%
Paper Total	3,962	-15.6%	1,997	-13.5%
Container board	1,177	1.9%	569	0.6%
Folding box board and others	362	1.2%	184	1.1%
Domestic sales (paperboard)	1,540	1.7%	753	0.7%
Export (paperboard)	69	19.6%	41	27.5%
Paperboard Total	1,609	2.4%	794	1.8%
Grand total (paper and paperboard)	5,570	-11.1%	2,791	-9.7%

3. Earnings forecast - Variance analysis for operating income



Operating income decrease narrows due to price hike, while input costs of raw material & fuel increase



*Fixed costs transferred to extraordinary loss, depreciation decrease and others

3. Earnings forecast - *Key figures and indices*



	FY09	FY10	FY2011 1st 6-mos	FY2011 est.
Operating margin on sales	3.9%	3.2%	2.8%	3.3%
Ordinary margin on sales	3.4%	2.9%	-2.4%	0.5%
D/E (times)	x1.6	x1.8	x2.0	x2.1
Capital investment (¥ billion)	35.6	46.6	27.0	66.8
Depreciation (¥ billion)	81.9	78.6	36.8	74.8
Interest-bearing debt (¥ billion)	762.9	832.3	826.1	795.0
Number of employees (*)	14,210	13,834	13,688	13,564

* Expected change following the revitalization plan is not included.

Disclaimer

Any statements in this presentation document, other than those of historical fact, are forward-looking statements about the future performance of Nippon Paper Group, Inc. 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 Group, Inc.