



# FY2011 Financial Review

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NIPPON PAPER  
GROUP

May 23, 2012

Nippon Paper Group, Inc.



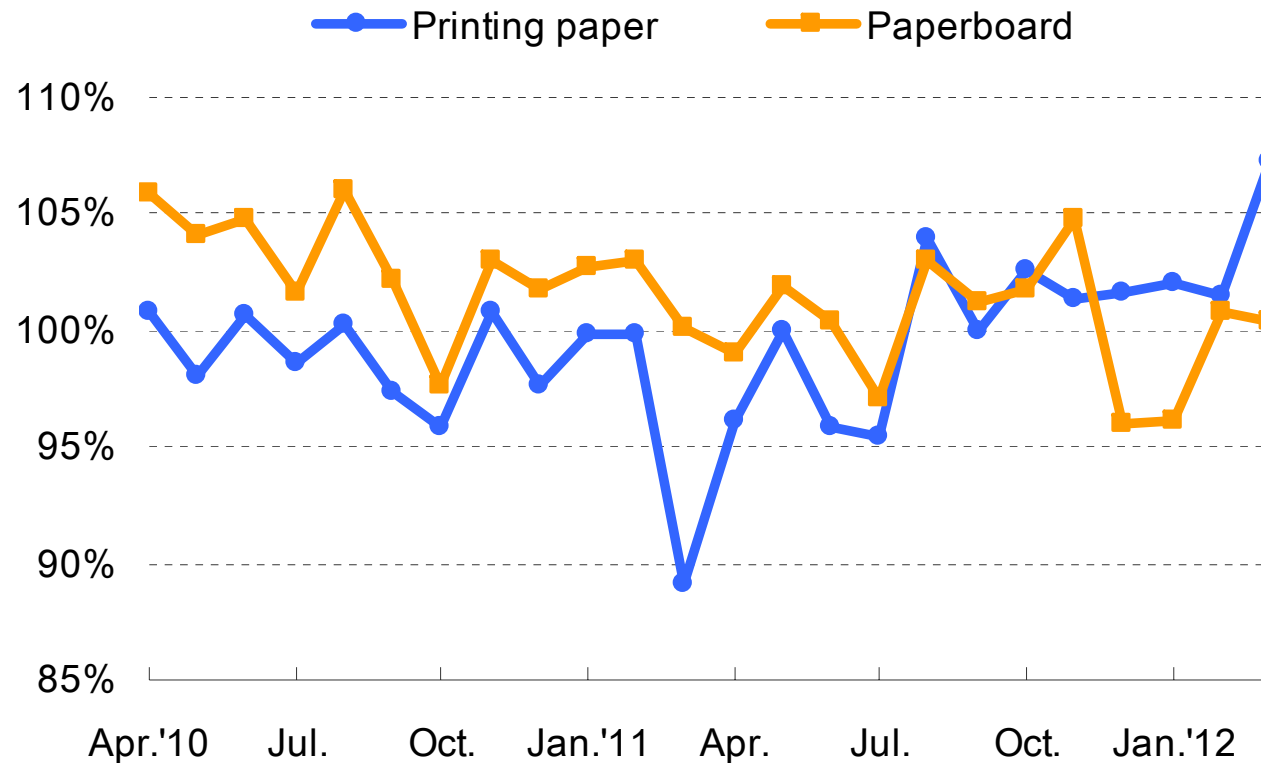
1. Business Environment
2. Financial Results
3. Earnings Forecast

# 1. Business Environment – *Domestic demand*



Steady domestic demand for paper & paperboard since last summer

Domestic demand (domestic shipment and imports) yoy



Source: Japan Paper Association

# 1. Business Environment – Domestic shipment



Domestic shipment declined  
due to the earthquake and increased imports

Domestic shipment of  
Japanese paper industry  
(Apr.2011 - Mar.2012)

(thousand tons)

	FY2010	FY2011	Change yoy
Newsprint	3,264	3,217	-1.4%
Printing & Business communication paper	8,534	8,213	-3.8%
Coated paper※	4,826	4,629	-4.1%
Uncoated & Specialty printing paper	2,261	2,197	-2.9%
Business communication paper	1,447	1,387	-4.2%
Other papers (Packaging paper, sanitary paper, and paper for miscellaneous uses)	3,412	3,295	-3.4%
<b>Paper Total</b>	<b>15,210</b>	<b>14,725</b>	<b>-3.2%</b>
Container board	8,644	8,688	0.5%
Folding box board and others	2,295	2,300	0.2%
<b>Paperboard Total</b>	<b>10,939</b>	<b>10,987</b>	<b>0.4%</b>
<b>Paper and Paperboard Total</b>	<b>26,149</b>	<b>25,712</b>	<b>-1.7%</b>

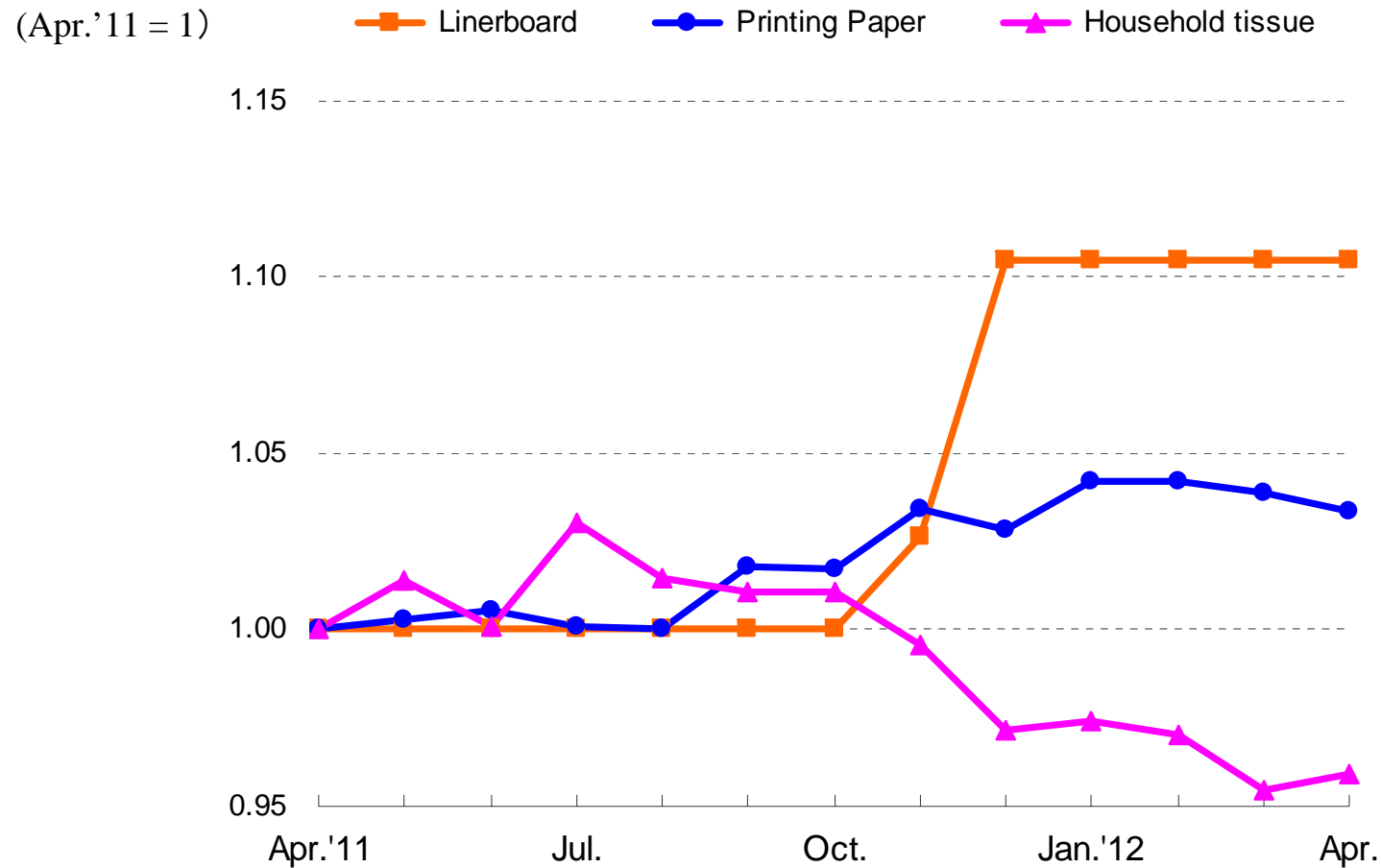
※ “Bitoko-shi” paper is included in coated paper.

Source: Japan Paper Association

# 1. Business Environment – Domestic price trends



## Prices of printing paper & paperboard improved



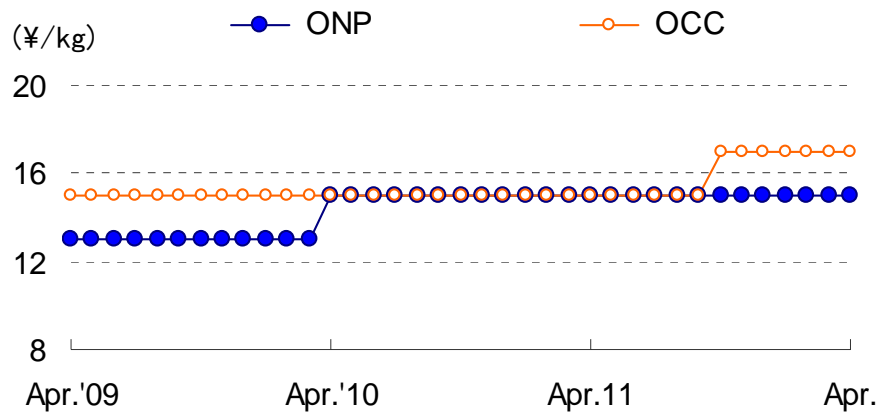
Source: Japan Paper Association

# 1. Business Environment – Major input price trends

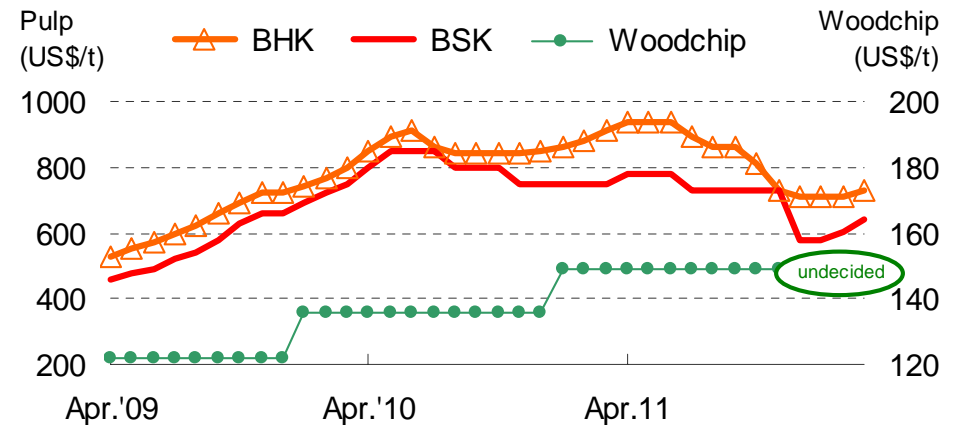


Raw materials & fuel prices remain high

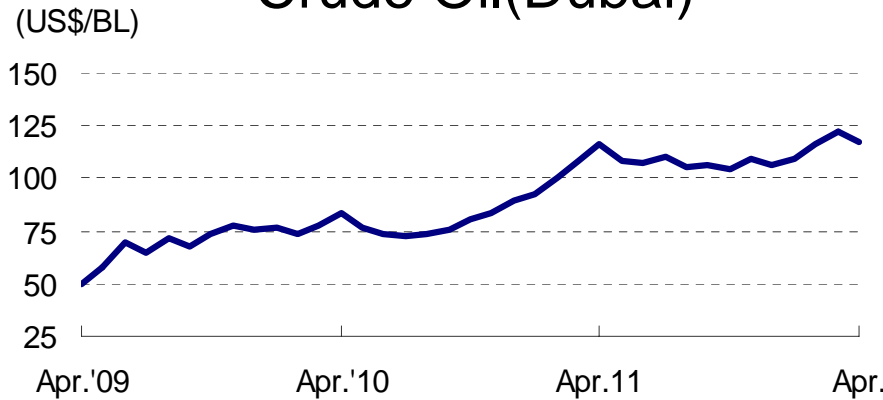
### Wastepaper



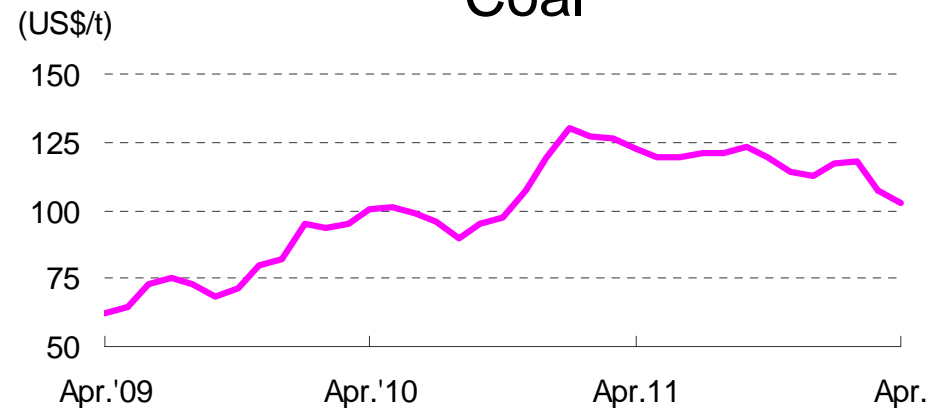
### Woodchip/Pulp



### Crude Oil(Dubai)



### Coal



Source: Paper Recycling Promotion Center, Trade statistics of Japan, Crude oil= Platts, Coal=Global Coal Index

## 2. Financial Results - *Highlights*



( ¥billion )	FY2011	Change (against plan)	Change (yoy)
<Net Sales>	1,042.4	-12.6	-57.4
<Operating Income>	36.5	1.5	0.9
<Ordinary Income>	6.1	1.1	-25.5
<Net Income>	-41.7	2.3	-17.5

- ❑ Achieved planned operating & ordinary income
- ❑ One-time amortized ¥25.6 b goodwill on acquiring shares of Lee & Man as non-operating loss
- ❑ Booked ¥ 53.2 b extraordinary loss including ¥29.2 b restructuring costs and ¥14.5 b fixed costs of disaster-affected mill

## 2. Financial Results - Segment information



Pulp & paper segment profitability improved due to price rise

	FY2010			FY2011			Change yoy
	1H	2H	Full year	1H	2H	Full year	
Upper row: Sales Lower row: Operating income (¥billion)							
Pulp and Paper	446.4	433.3	879.7	404.1	413.6	817.7	-62.0
	11.5	11.7	23.2	8.9	15.3	24.2	1.0
Paper-related (packaging, chemical products)	46.7	47.6	94.3	48.2	45.3	93.5	-0.9
	4.0	4.0	8.0	4.1	2.6	6.7	-1.4
Wood products and construction related	26.7	29.9	56.6	28.1	32.6	60.7	4.1
	0.5	1.4	1.9	0.7	1.8	2.5	0.6
Other (beverages, logistics, etc.)	31.6	37.5	69.1	31.1	39.4	70.6	1.4
	0.8	1.7	2.4	0.7	2.4	3.1	0.7
Total	551.4	548.3	1,099.8	511.5	530.9	1,042.4	-57.4
	16.8	18.8	35.6	14.4	22.1	36.5	0.9



## 2. Financial Results - Sales volume by product



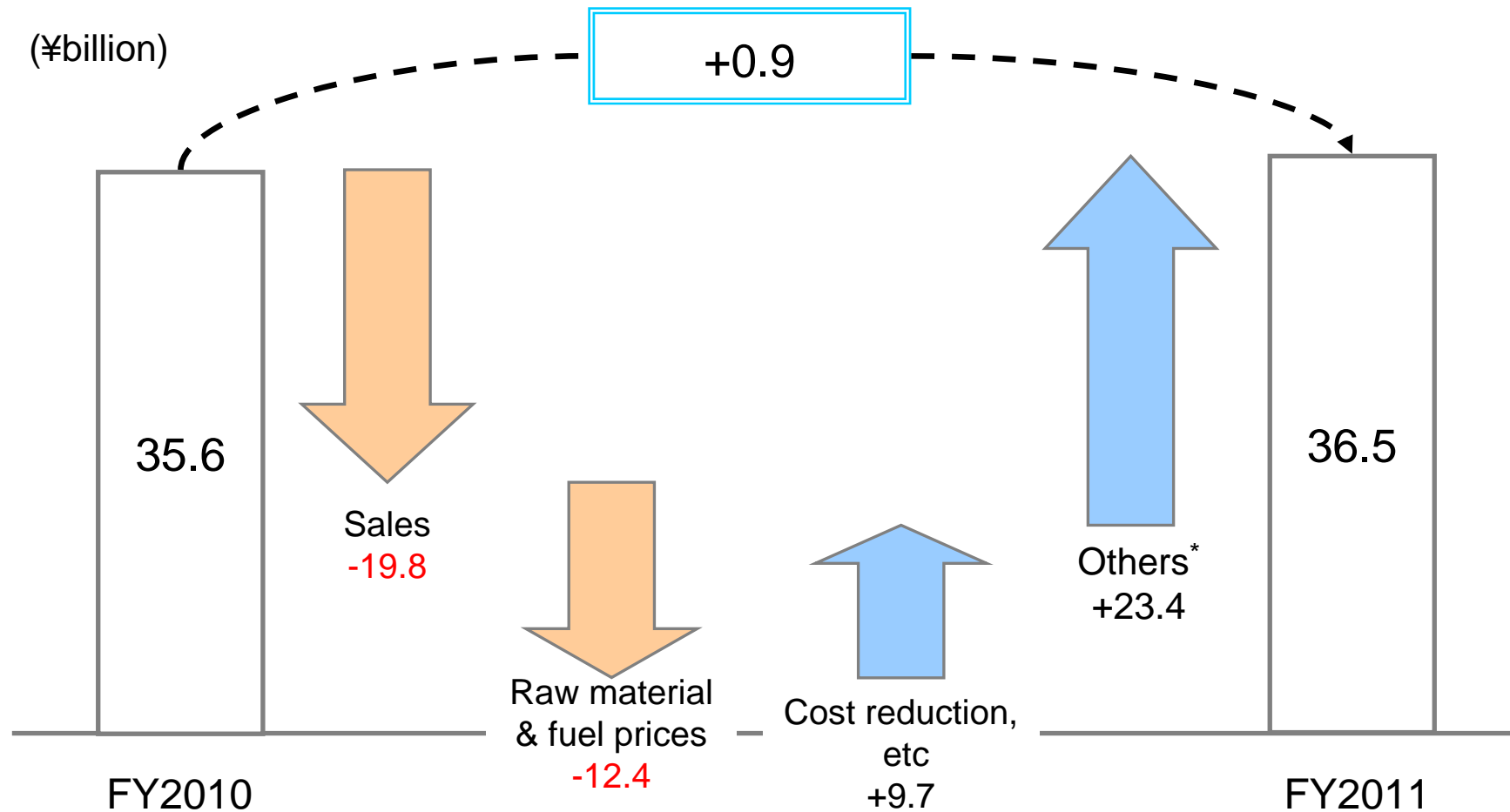
### Sales volume declined due to constrained production

(thousand tons)		FY2010	FY2011	change yoy
Paper	Newsprint	1,186	1,190	0.3%
	Printing & Business communication paper	2,704	2,326	-14.0%
	Coated paper	1,460	1,172	-19.7%
	Uncoated & Specialty printing paper	609	549	-9.9%
	Business communication paper	634	605	-4.7%
	Packaging paper and others	375	371	-1.0%
	Domestic sales (paper)	4,265	3,887	-8.9%
Export (paper)	427	64	-84.9%	
<b>Paper total</b>		<b>4,692</b>	<b>3,952</b>	<b>-15.8%</b>
Paperboard	Container board	1,156	1,190	3.0%
	Folding box board and others	358	359	0.4%
	Domestic sales (paperboard)	1,514	1,550	2.4%
	Export (paperboard)	58	54	-6.0%
<b>Paperboard total</b>		<b>1,571</b>	<b>1,604</b>	<b>2.1%</b>
<b>Grand total (paper and paperboard)</b>		<b>6,263</b>	<b>5,555</b>	<b>-11.3%</b>

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



Operating income improved under severe circumstances



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

## [Reference]



### FY2011 vs. FY2010 Variances

(¥billion)

Sales	-19.8	Volume -18.8, Prices -1.0
Raw materials and fuel prices	-12.4	Woodchips -1.3, Wastepaper -2.0, Pulp 1.4 Oil -3.7, Coal -2.7, LNG -1.3, Chemicals & others -2.8 [price -19.9, forex 7.5]
Cost reduction, etc	9.7	Manufacturing 6.1, Labor 3.3, Logistics 0.3
Others	23.4	Depreciation 4.1, Fixed costs transferred to extraordinary loss acct and others 19.3
Operating income	0.9	FY11 36.5 / FY10 35.6
Non-operating income	-26.4	Net financial cost -1.1, Equity in earnings of affiliates -26.9, Others 1.6
Ordinary income	-25.5	FY11 6.1 / FY10 31.6

## 2. Financial Results – Balance sheet



(¥billion)

	Mar. 31, 2011	Mar. 30, 2012	Change
<b>Total Assets</b>	<b>1,560.6</b>	<b>1,527.6</b>	<b>-33.0</b>
Cash and time deposits	104.8	119.4	14.5
Notes and accounts receivable	210.8	205.2	-5.6
Inventories	141.4	154.9	13.5
Other current assets	58.5	66.9	8.4
Property, plant, equipment, and intangible fixed assets	824.5	776.3	-48.2
Investments and other assets	220.7	205.0	-15.7
<b>Total Liabilities</b>	<b>1,151.8</b>	<b>1,161.0</b>	<b>9.2</b>
Interest-bearing liabilities (incl. lease obligations)	832.3	838.3	5.9
Other liabilities	319.5	322.7	3.2
<b>Total Net Assets</b>	<b>408.8</b>	<b>366.7</b>	<b>-42.1</b>
Shareholders' equity	415.7	371.5	-44.2

## 2. Financial Results – Cash flow statement



(¥billion)

Items	FY2010	FY2011	Change
<b>Operating activities</b>	<b>115.5</b>	<b>60.1</b>	<b>-55.3</b>
Income before income taxes	-38.5	-41.1	-2.6
Depreciation	78.6	74.4	-4.3
Change in net working capital	23.4	9.5	-13.9
Others	52.0	17.4	-34.6
<b>Investing activities</b>	<b>-93.5</b>	<b>-46.6</b>	<b>46.8</b>
Purchases of property, plant and equipment	-44.3	-46.2	-1.9
Proceeds from sales of property, plant and equipment	1.8	5.5	3.6
Others	-51.0	-5.9	45.1
<b>Free cash flows</b>	<b>22.0</b>	<b>13.5</b>	<b>-8.5</b>
<b>Financing activities</b>	<b>59.1</b>	<b>1.7</b>	<b>-57.4</b>
Change in net borrowings	68.4	5.3	-63.2
Cash dividends paid	-9.3	-3.5	5.8
Others	-0.1	-0.1	0.0
<b>Foreign currency translation adjustment, etc.</b>	<b>-0.3</b>	<b>-0.6</b>	<b>-0.3</b>
Cash and cash equivalents at the beginning of period	24.0	104.7	80.7
Cash and cash equivalents at the end of period	104.7	119.3	14.5

### 3. Earnings Forecast – *Highlights*



(¥billion)	FY2012 (estimate)	FY2011 (result)	Change (yoy)
<Net Sales>	1,080.0	1,042.4	37.6
<Operating Income>	41.0	36.5	4.5
<Ordinary Income>	38.0	6.1	31.9
<Net Income>	20.0	-41.7	61.7

- ❑ Projecting improvement in operating income by implementing the revitalization plan (cost reduction), sales price and volume recovery.
- ❑ Significant improvements in both ordinary and net income are anticipated due to loss incurred in FY2011 by equity method investment and extraordinary loss

### 3. Earnings Forecast – Assumptions

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## Domestic Sales

-Sales volume (yoy)

*Paper* : +6.0% (vs FY2010 -3.3%)

*Paperboard* : +1.0%

-Sales price

*Paper and Paperboard* : reflecting last year's price hike

## Raw material and fuel prices, Forex

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

*Coal* : US\$115/t (Australian Black Coal)

*Wastepaper*

-OCC : + ¥2/kg increase

-Others : Stay at current level

*Forex* : ¥80/US\$1, ¥85/A\$1

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



Projecting recovery from the earthquake

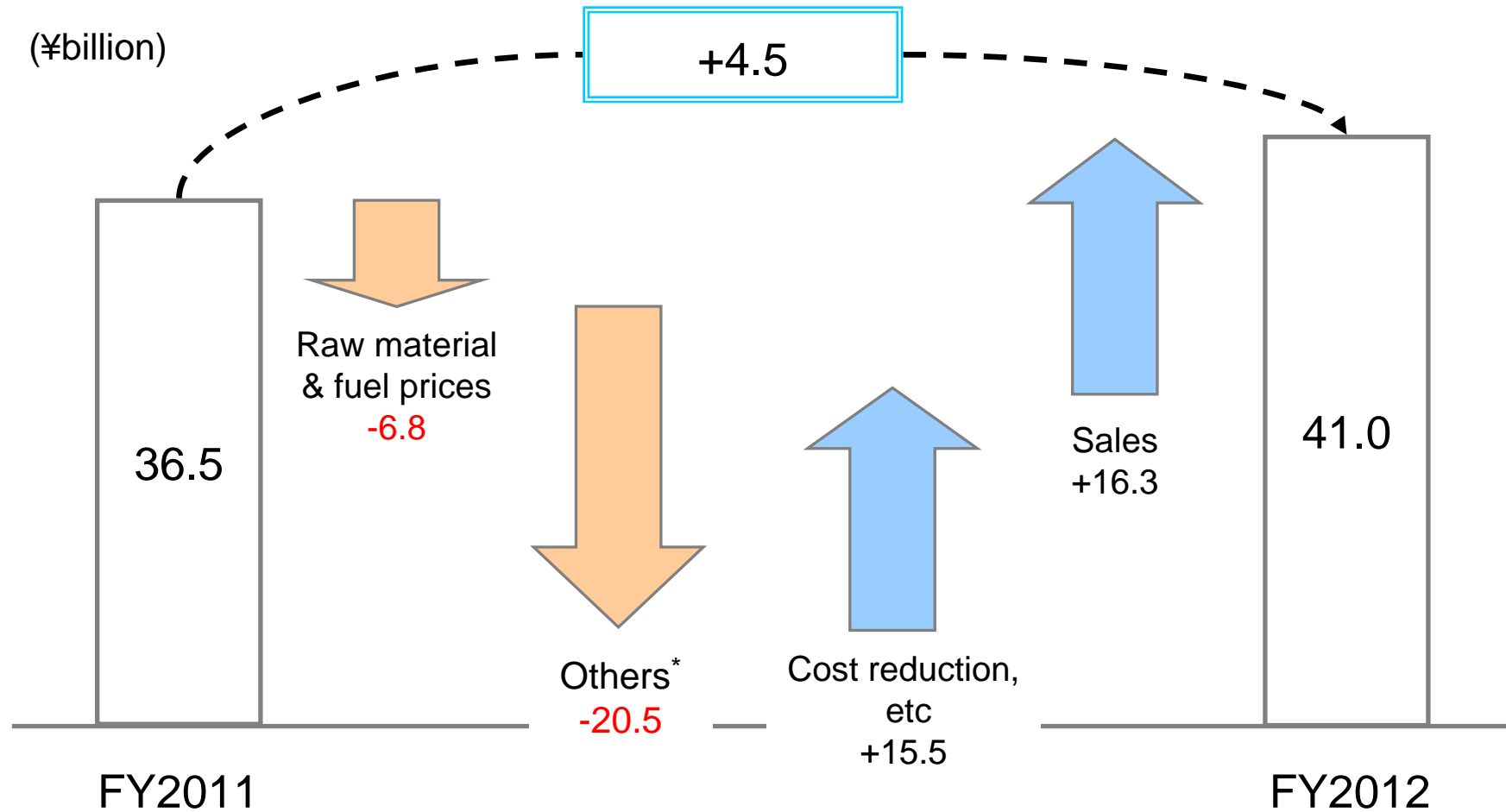
(thousand tons)		FY2011	FY2012	change yoy
Paper	Newsprint	1,190	1,164	-2.1%
	Printing & Business communication paper	2,326	2,585	11.1%
	Coated paper	1,172	1,418	21.0%
	Uncoated & Specialty printing paper	549	582	6.1%
	Business communication paper	605	585	-3.3%
	Packaging paper and others	371	372	0.3%
	Domestic sales (paper)	3,887	4,122	6.0%
	Export (paper)	64	61	-5.1%
<b>Paper total</b>		<b>3,952</b>	<b>4,183</b>	<b>5.9%</b>
Paperboard	Container board	1,190	1,199	0.7%
	Folding box board and others	359	367	2.1%
	Domestic sales (paperboard)	1,550	1,566	1.0%
	Export (paperboard)	54	62	15.1%
	<b>Paperboard total</b>		<b>1,604</b>	<b>1,628</b>
<b>Grand total (paper and paperboard)</b>		<b>5,555</b>	<b>5,812</b>	<b>4.6%</b>



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



Steadily promote the revitalization plan to achieve cost-cutting



\*The reversal of FY2011 fixed costs of disaster-affected mill transferred to extraordinary loss account (ref. p.10), depreciation decrease and others

## [Reference]



### FY2012 vs. FY2011 Variances

(¥billion)

Sales	16.3	
Raw materials and fuel prices	-6.8	Woodchips -0.1, Wastepaper -2.0, Pulp 0.9, Oil -1.4 Coal -0.3, LNG -0.8, Electricity -1.3, Others -1.8 [price -5.5, forex -1.3]
Cost reduction, etc	15.5	Manufacturing 3.1, Labor 6.2, Logistics 0.3 Fixed costs of decommissioned facilities 5.9
Others	-20.5	Depreciation 5.2, Fixed costs transferred to extraordinary loss acct and others -25.7
Operating income	4.5	FY12 41.0 / FY11 36.5
Non-operating income	27.4	Net financial cost -0.3, Equity in earnings of affiliates 28.1, Others -0.4
Ordinary income	31.9	FY12 38.0 / FY11 6.1

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



	FY2008	FY2009	FY2010	FY2011	FY2012 est.
Operating margin on sales	1.7%	3.9%	3.2%	3.5%	3.8%
Ordinary margin on sales	1.5%	3.4%	2.9%	0.6%	3.5%
D/E (times)	x1.8	x1.6	x1.8	x1.9	x1.9
Capital Investment (¥ billion)	64.9	35.6	46.6	57.2	64.4
Depreciation (¥ billion)	83.3	81.9	78.6	74.5	65.9
Interest-bearing debt (¥ billion)	784.3	762.9	832.3	838.3	820.0
Number of employees*	13,088	14,210	13,834	13,407	13,363

\*Newly consolidate 3 companies (Nanei, Nichimoku Fancy Materials and Nippon Paper Resources Australia) from FY2012

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## Disclaimer

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