



NIPPON PAPER  
GROUP

日本製紙グループ本社

# Management Policy for the Coming Years

May 18, 2009

Analyst Meeting

**NIPPON PAPER GROUP, INC.**

# Agenda



- 1. Business Environment and Our Challenges**
- 2. 2<sup>nd</sup> MTBP Review**
- 3. Management Policy for the Coming 3 Years**

# 1. Business Environment and Our Challenges

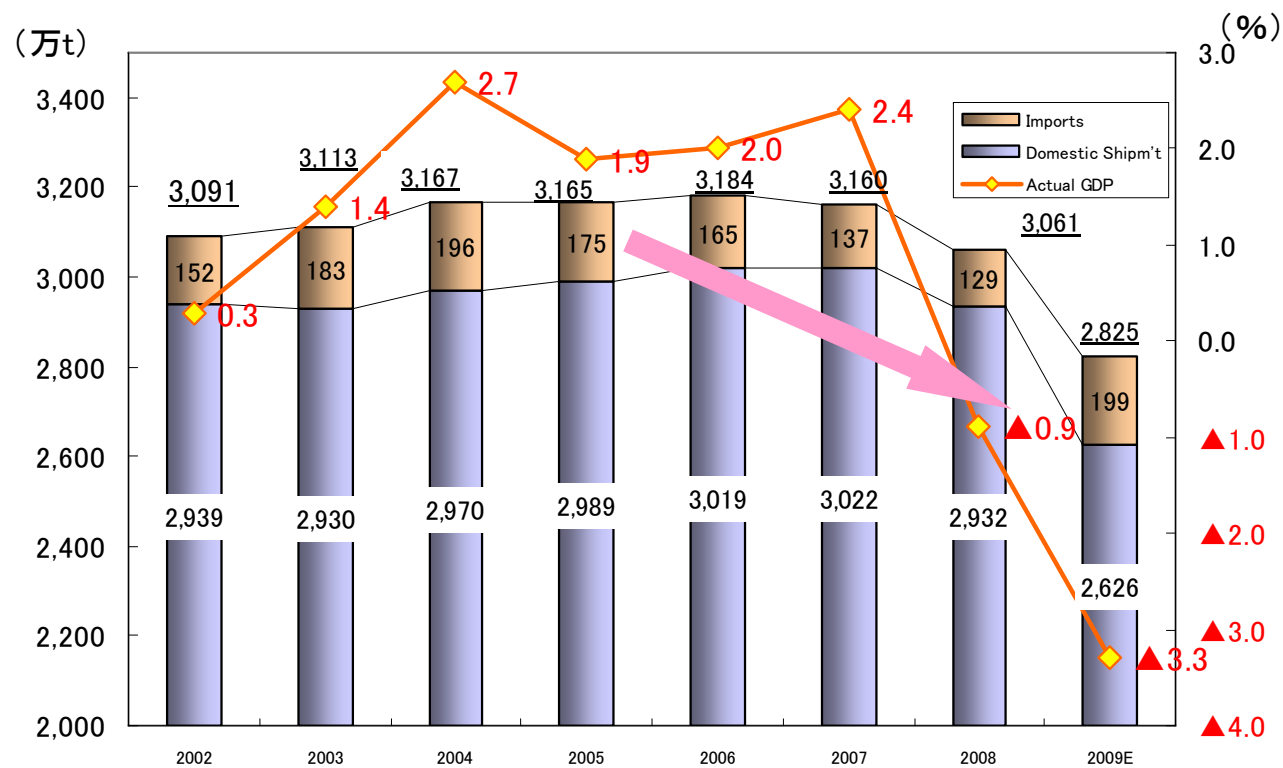
## (1) Domestic Demand



### Domestic Demand Growth Forecast 2009 (calendar yr)

▲8.1% (Paper ▲8.1%、Paperboard ▲8.2%)

〈Japan Paper Association〉



Domestic Shipment: Japan Paper Association (JPA) / Imports: MOF Trade Statistic (2009 estimate by NPGI)



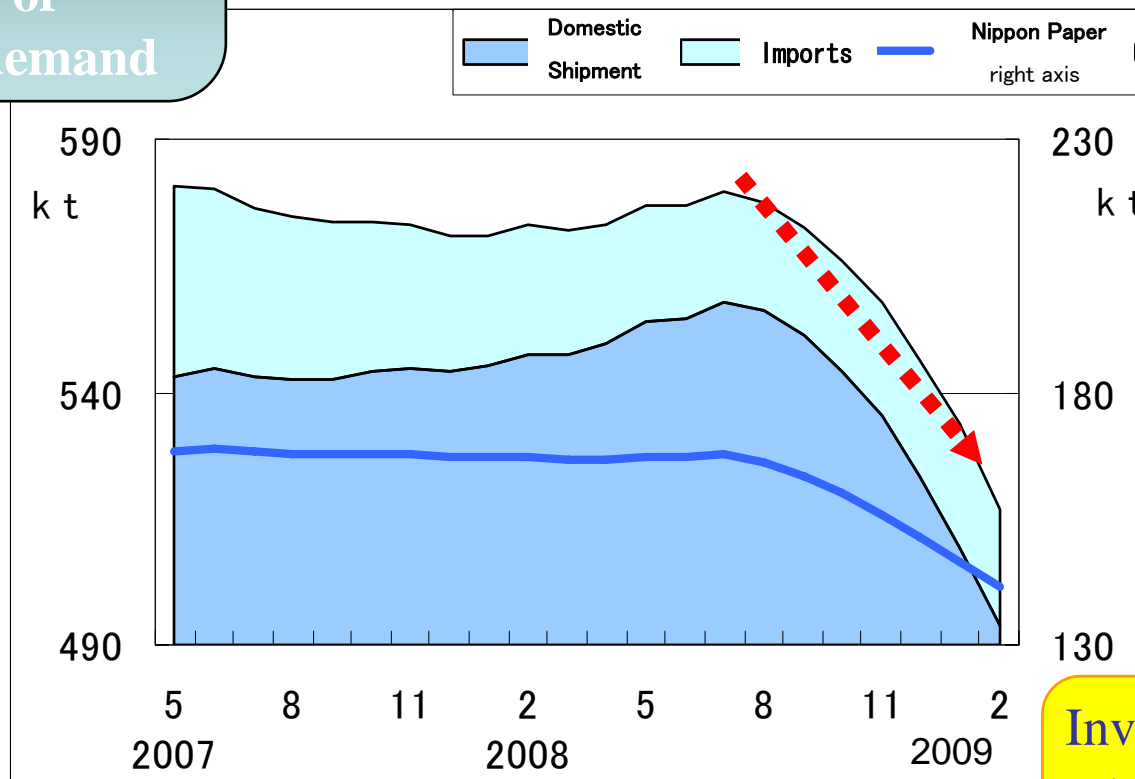
# (2) Domestic Demand – Coated Paper



Demand declined sharply due to recession and backlash of anticipatory demand

## Domestic Demand\* for Coated Paper

(12-mos Moving Avg.)

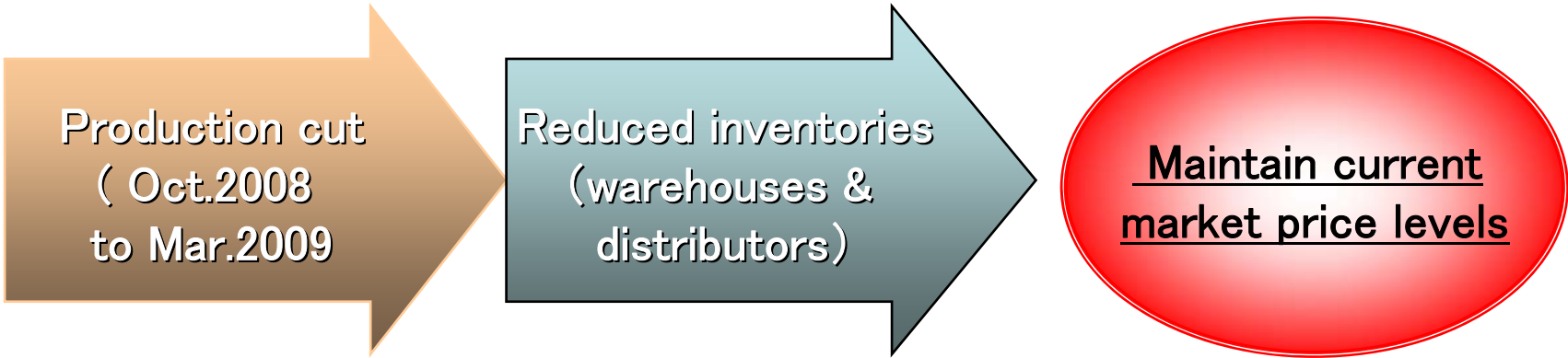


Inventories piled up at warehouses and distributors

\*Domestic demand = Domestic shipment + Imports

# 1. Business Environment and Our Challenges

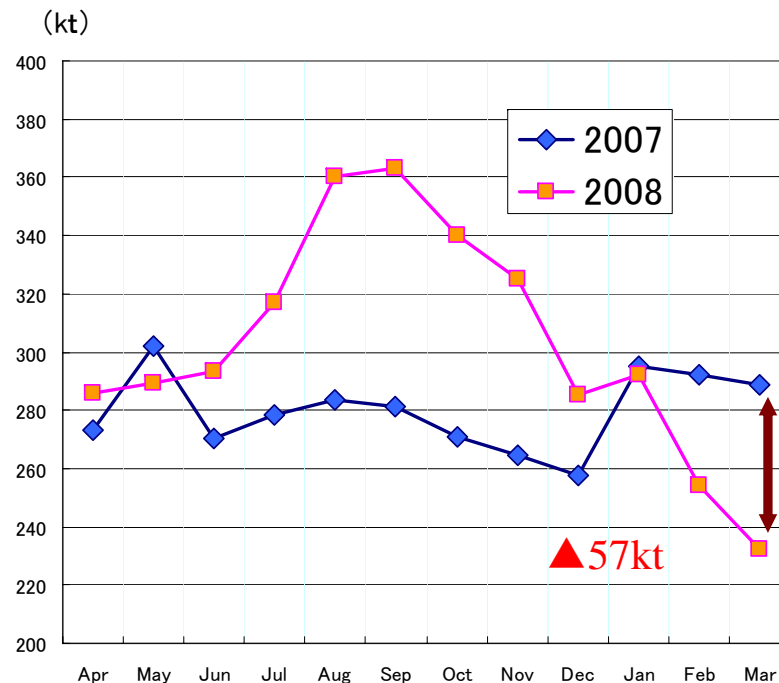
## (3) -1 Production Cut and Inventories



### Curtailment for major 4 grades (kt/yoy)

Grade	Oct-Dec 08	Jan-Mar 09	Total
▪ A 2	▲ 60	▲ 70	▲ 130kt
▪ A 3	▲ 80	▲ 110	▲ 190kt
▪ Bitoko	▲ 20	▲ 40	▲ 60kt
▪ Printing A	▲ 10	▲ 40	▲ 50kt
<b>Total</b>	<b>▲ 170</b>	<b>▲ 260</b>	<b>▲ 430kt</b>

Total inventory declined below the previous year's level ⇒



## ➤ Operation Rate Declined

- Paper machines at 70s%
- Operation below break-even

## ➤ Apparent Supply/Demand Gap

- Hardly dissolved by temporary production cut

# 1. Business Environment and Our Challenges

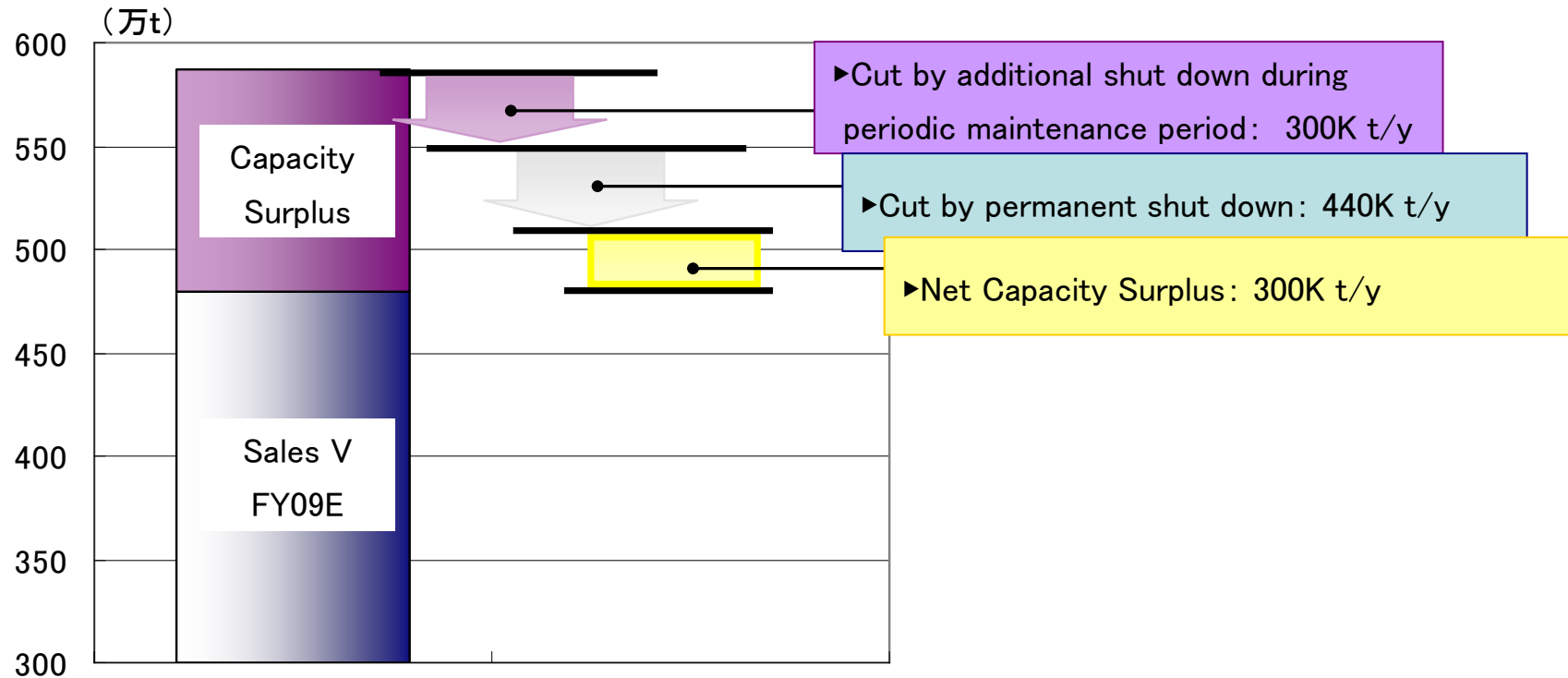
## (4) Our Capacity Curtailment (p.a.)



<b>Paper Machines/Coaters*</b>	<i>Coated</i>	<i>222kt</i>
(14)	<i>Uncoated WF,WC</i>	<i>95kt</i>
	<i>Bus.Comm</i>	<i>70kt</i>
	<u><i>Industrial</i></u>	<u><i>55kt</i></u>
	Sub total	442kt
Additional capacity curtailment by ceasing operation during regular maintenance period of boilers and pulp machines		<u>300kt</u>
	Total Paper	742kt
<u>Paperboard machine*(1)</u>	<u>Container Board</u>	<u>133kt</u>
	Total	875kt

**\*To be completed within 1H/FY2009**

# (5) Our Capacity Curtailment and Surplus (p.a.)



■ Estimated benefit from curtailment

▪ Improved operation rate

▪ Reduced fixed costs: ¥8billion  
Depreciation/Labor/ Maintenance



# (6) Capacity Curtailment: Industry Total (p.a.)



## PAPER

NIPPON	742kt
Oji	287kt
Hokuetsu	30kt
<u>Daio</u>	<u>180kt</u>
Total	1,239kt

## PAPERBOARD

NIPPON	133kt
<u>Rengo</u>	<u>168kt</u>
Total	301kt

## (7) Impairment and Emergency Measures



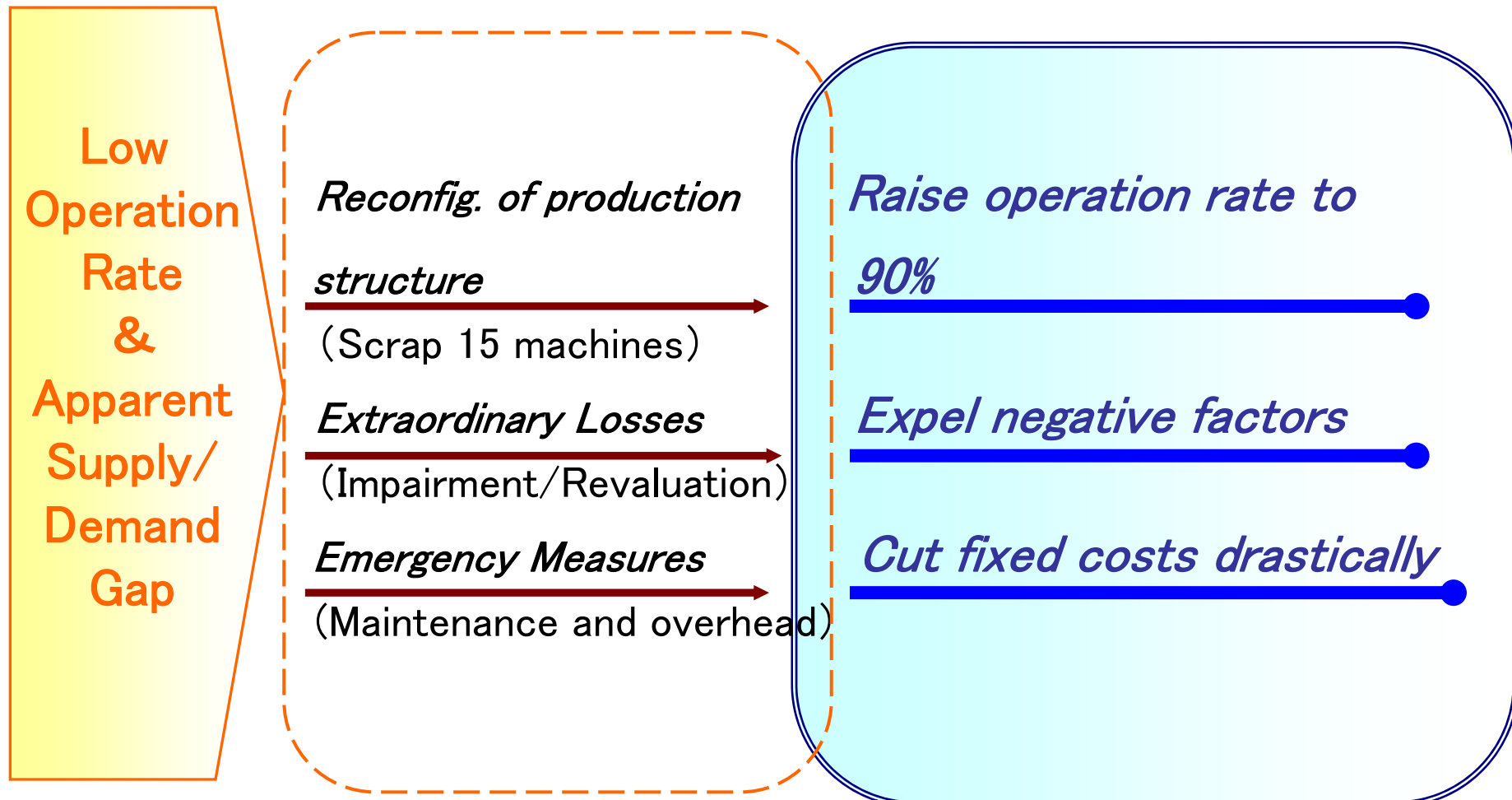
### Impairment — posted as extraordinary losses for FY2008

- Reconfiguration of production structure: ¥9.4bn
- Revaluation of investment securities: ¥7.6bn
- Revaluation of the group fixed asset: ¥5.9bn

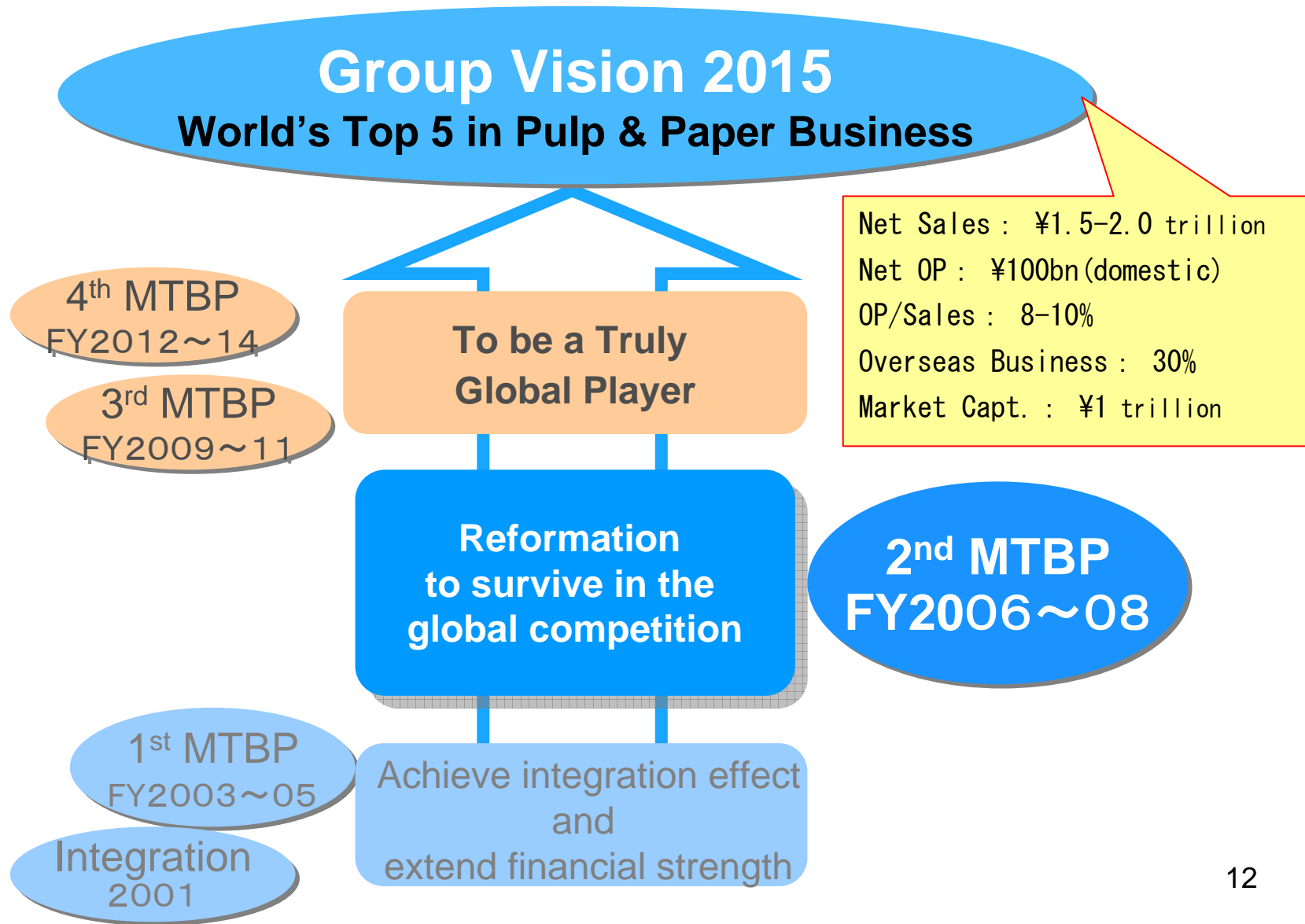
### Emergency measures — FY2009

- To reduce fixed cost: ¥15.0bn  
e.g. maintenance cost, overheads and other expenditures

## Speed and Effectiveness

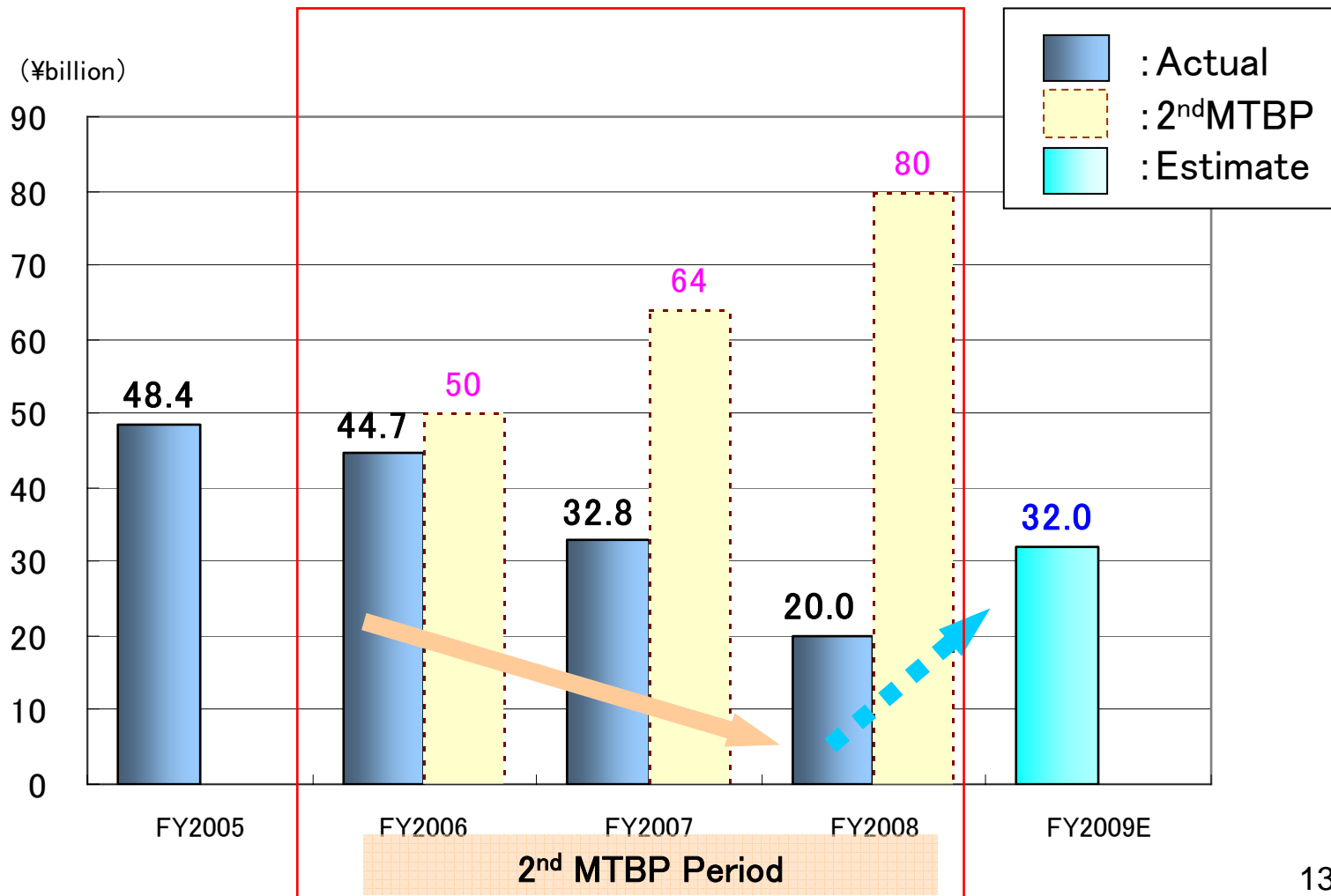


# (1) Group Vision and 2<sup>nd</sup> MTBP





## 2. 2<sup>nd</sup> MTBP Review (2) Operating Income

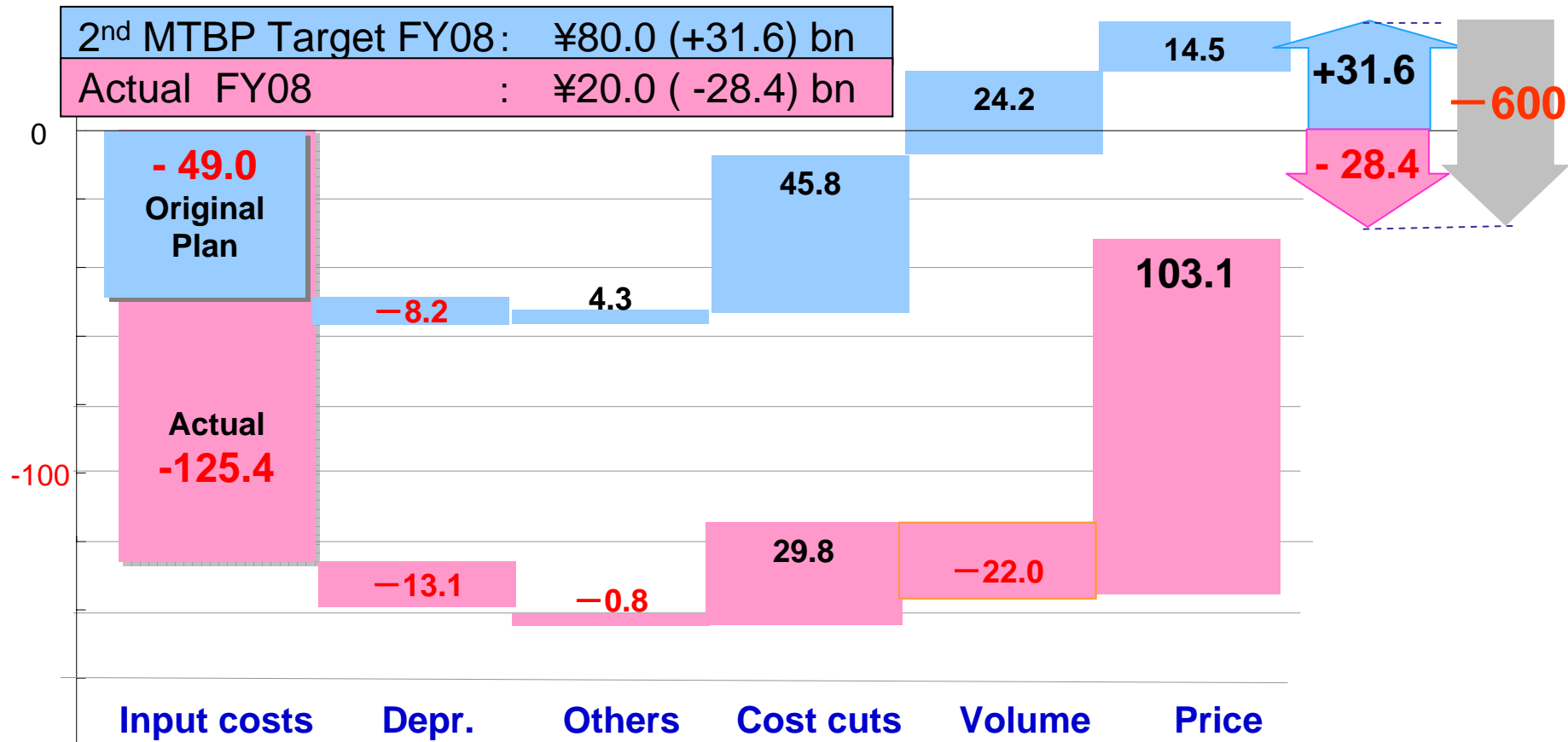


# (3) Factor Analysis – Operating Profit



**Unprecedented input cost inflation, exceeding price increase**

(¥billion)



**Factor Analysis: Operating Profit FY06-08 v.s.FY05 (=¥48.4bn)**

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## Strengthen Domestic Core Business

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◆ **Optimal allocation of management resource and efficient management**

◆ **More Competitiveness by Scrap & Build**

■ 4 Core Operating Companies aligned directly under Nippon Paper Group, Inc.

■ Permanent Closure of 3 Paper Mills

■ Ishinomaki #N6 Paper Machine (Nov.07-)

■ 9 New Energy Boilers

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## Overseas Business Development

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◆ **Resource Strategy (Tree Farm Initiative)**

◆ **M&A and Alliance**

■ Acquired AMCEL => 200,000ha

■ YFY/Taiwan, SCG Paper/Thailand

■ Australian Paper

### 3. Management Policy for the Coming 3 Years

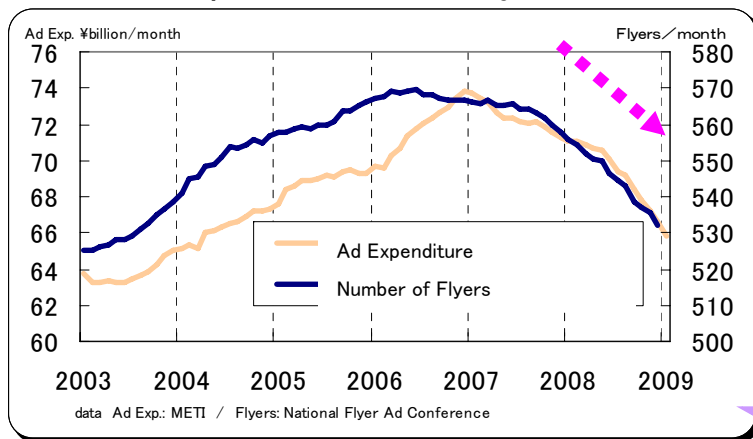
# Changes in Demand Structure



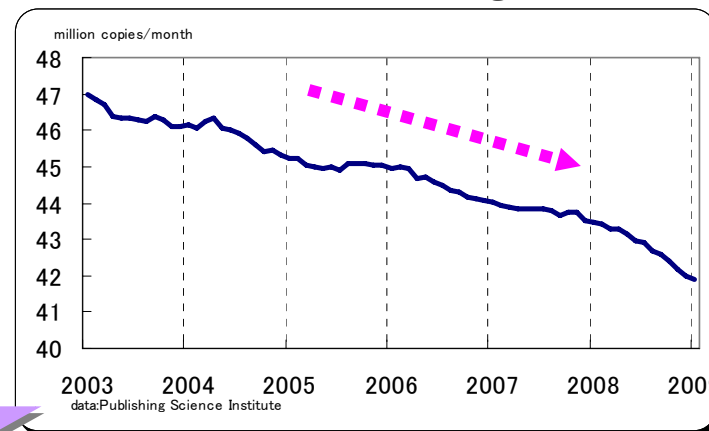
## Fall of print media, which sustained domestic paper demand

- Population Decrease/Low Birthrate
- Shift to IT Media
- Severe cost cut requirement under Recession
- Paperboard demand peaked-out

<Ad expenditure and Flyers>



<Estimated Number of Books & Magazines Issued>



## Shift in demand structure accelerated by the global recession

- Business policy to be updated, assuming no growth in domestic market



### 3. Management Policy for the Coming 3 Years

## Outline of the Policy



- 1) To promote business growth in overseas markets  
(Expand leveraging overseas subsidiaries and alliances)
- 2) To further strengthen domestic business foundation  
(Shift to the structure that enables us to survive)
- 3) To propel resource strategy  
(Secure resources to sustain our mid/long-term growth)
- 4) To improve mobility of the Group and efficiency of group management  
(Maximize group synergy and simplify administrative function of group companies)

# (1) To Promote Business Growth in Overseas Markets



**From domestic market to overseas (**Pan-Pacific**) markets**  
**-Shift seeking for business growth:**

- To achieve synergy with Australian Paper
- To achieve merit of alliance with YFY and SCG Paper
- To improve performance of the existing business units overseas and to develop new bases

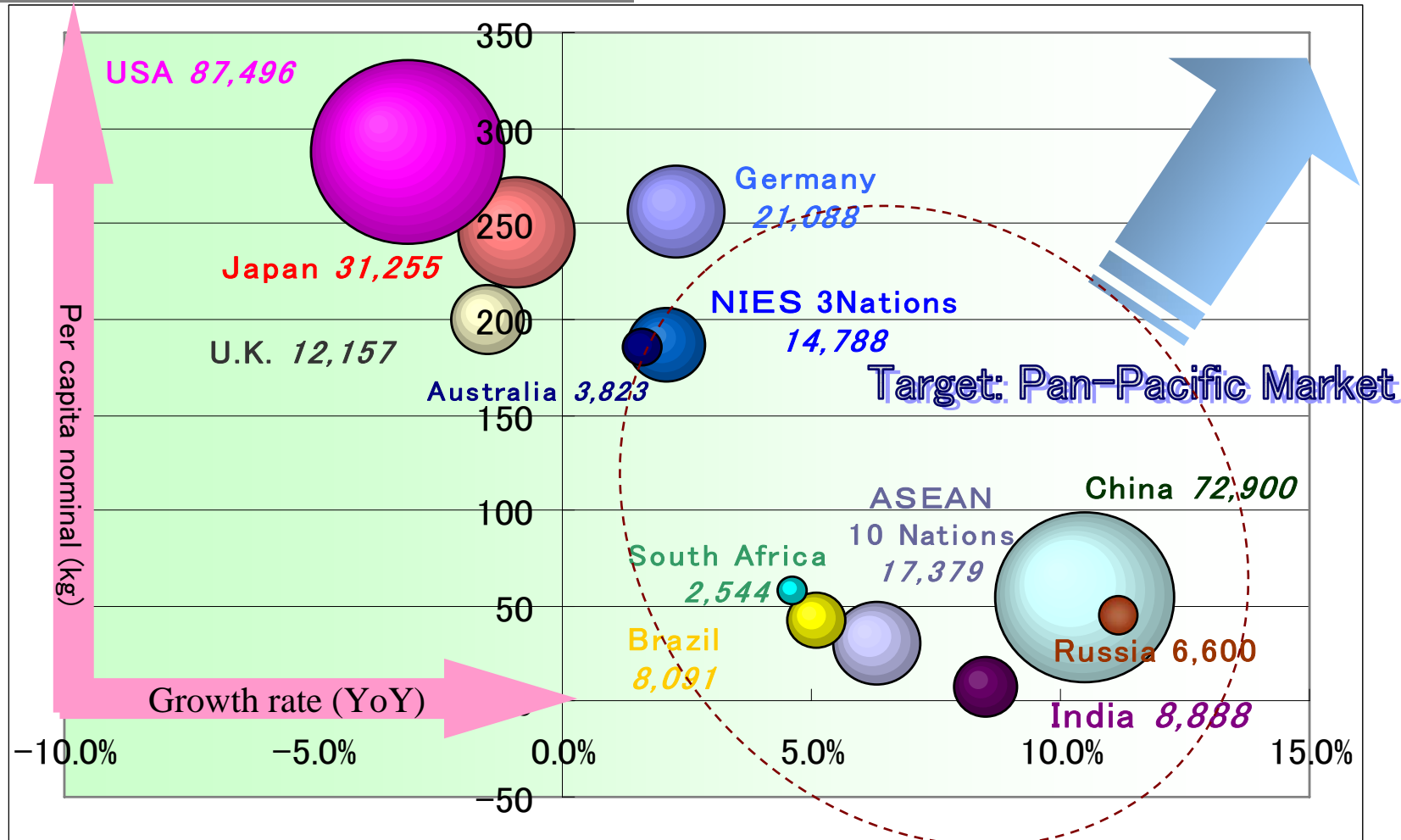
# 3. Management Policy for the Coming 3 Years

## Overseas Market – Paper & Paperboard Consumption



■ 2007

Circle area shows size of consumption



Data from RISI NIES=Korea/Taiwan/Hong Kong,  
 ASEAN=Brunei/Cambodia/Indonesia/Laos/Malaysia/Myammer/Philippins/Thailand/Singapore/Vietnam

## (2) To Further Strengthen Domestic Business Foundation



### **Encourage structural shift for survival and secure stable profit regardless of market situation**

- Continue optimizing overall operation of domestic production:
  - meeting true size of domestic demand
- Strengthen cost competitiveness and sales capability:
  - securing margins of key products in matured domestic market (➤ see next page)
- R&D for engineering / technology



### 3. Management Policy for the Coming 3 Years


# Sales Strategy



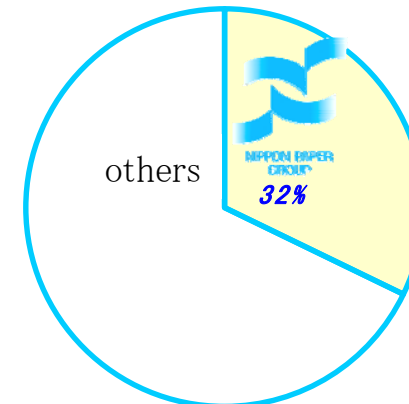
## Paper

- **Exploit Group Strength**
  - **Top share in the market**
  - **Close relationship with customers**

## ■ Printing Paper

- Increasing cost down request from publishers and print houses
  - Required profit margin for core business
- ▼
- Maintain sales by sharing merit from cost cuts:
- Reduce the number of customized products
  - Reduce redundant stocks among maker and distributors
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Coated & Bitoko/LWC grades  
2008 market share  
(production basis)



Data from JPL's Paper&Paperboard Almanac

# 3. Management Policy for the Coming 3 Years

## Sales Strategy



### Newsprint

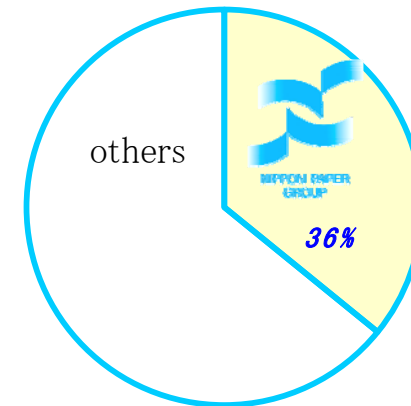
- Newspaper suffer from decline in ads and issue
- Our competitiveness in cost and quality



Cost reduction through cooperation

With customers:

- Increase direct shipment
- Differentiation by quality enhancement



2008 market share (production basis)

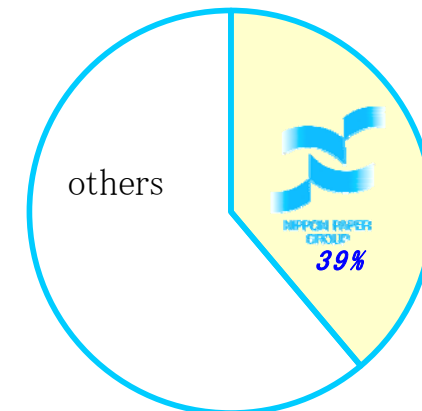
### PPC Paper

- Exceptionally growing in domestic market
- Hardware supplier and mail-order dealers have already promoted imports



To counter the threat of imports:

- OEM supply from SCG Paper
- Appeal Eco-friendly PPC grades



### 3. Management Policy for the Coming 3 Years

# Sales Strategy



## Paperboard

- Compliment weakness and seek for growth opportunities
  - Enhancing cost competitiveness
  - Developing overseas market

- Markets in developing countries: More room to grow

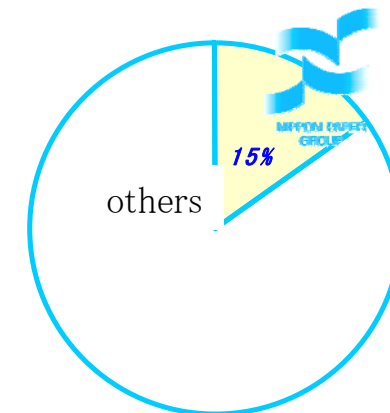


Need to be more profitable as a core operating company:

- Further cost cuts at operation sites
- Expand “keiretsu” among converters
- Overseas expansion by leveraging the alliance with YFY Paper



2008 market share  
(production basis)



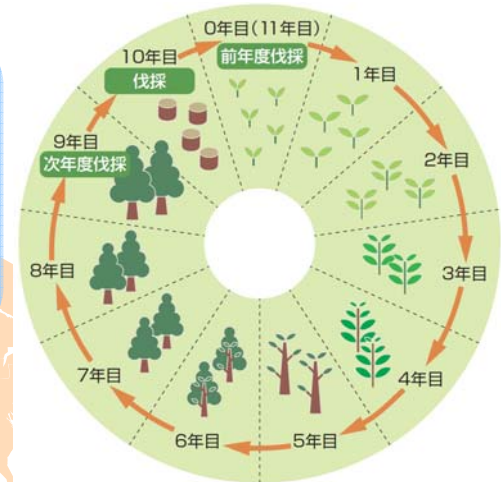
Data from JPL's Paper&Paperboard Almanac

# 3. Management Policy for the Coming 3 Years (3) Propel Resource Strategy

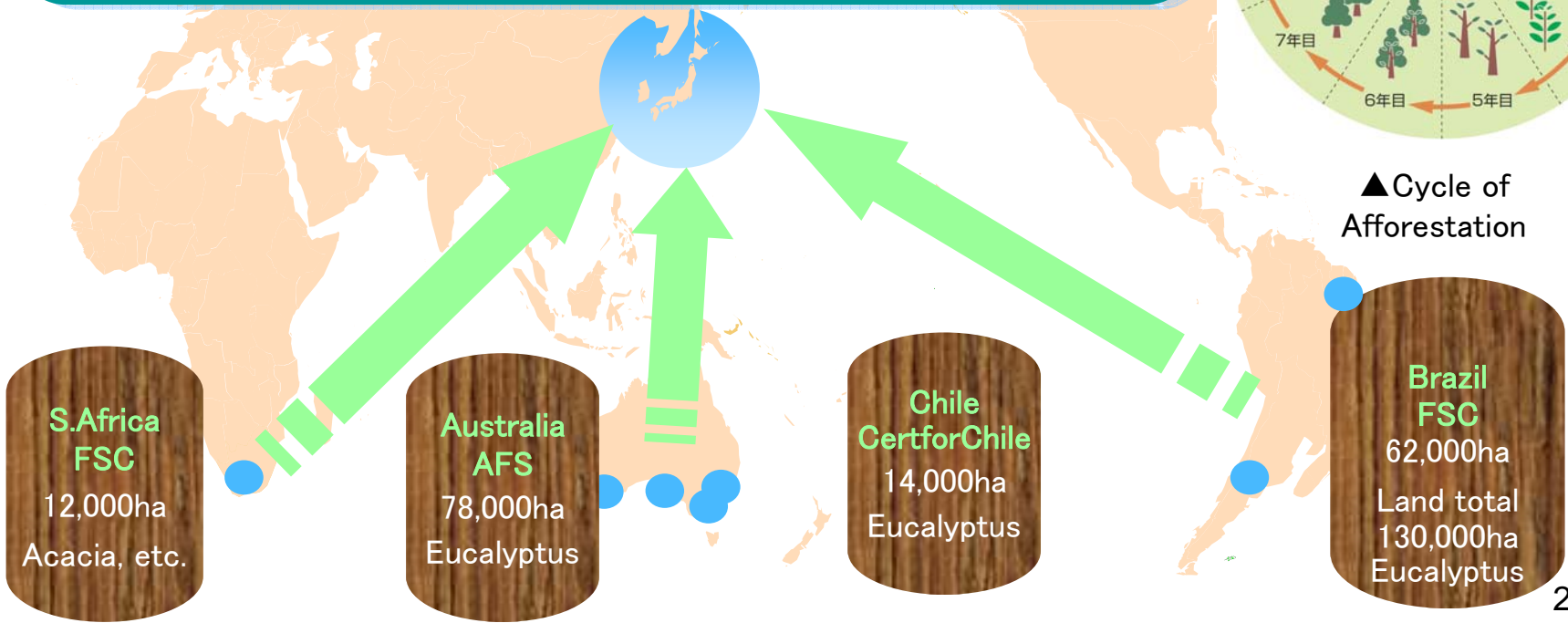


## Secure resources to sustain mid/long-term growth

- TreeFarm Initiative to expand overseas afforestation
- Improve yield by our own clonal maspropagation technology



▲ Cycle of Afforestation



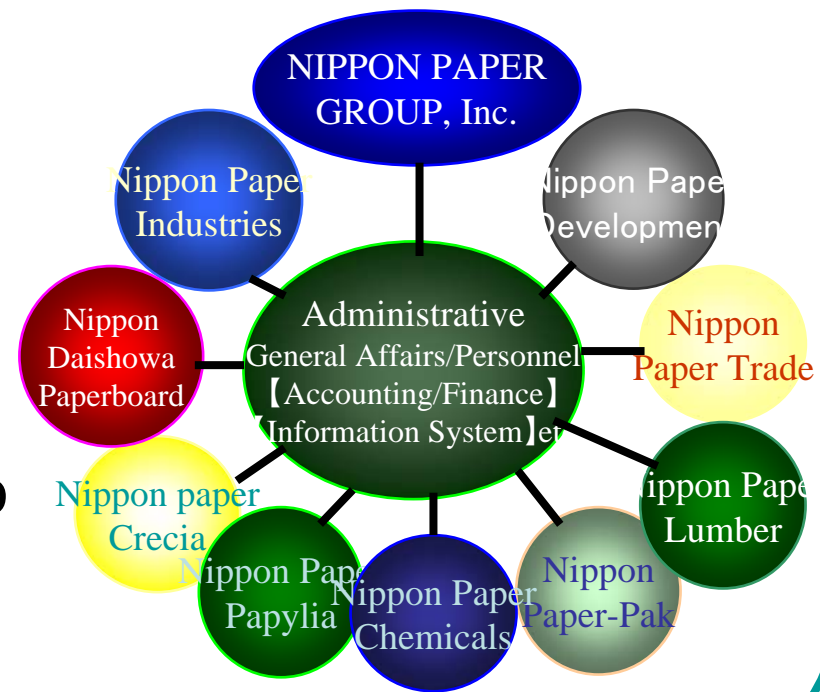


# (4) Improving mobility of the Group and rationalizing administrative section



## Relocating the Group Headquarters ~ *gathering group companies*

- For quicker decision making and powerful group organization
- Simplifying administrative function of Group companies
- Establishing a new system to utilize group human resources



### 3. Management Policy for the Coming 3 Years Summary



- Structure of domestic demand shifting, accelerated by the global recession
- Situation anticipated in GV2015 becoming more apparent and occurring faster
  - ⇒ Decline of domestic demand, requiring overseas business development quickly
- No Change in our Target GV2015
  - ⇒ Speed up!

# 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.
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