



Revitalize the Paper Business

“ Advance to the next stage “

August 8th 2011

Nippon Paper Group

Strengthen the cost competitiveness

1. Recover from the Earthquake

2. Revitalize the Paper business

(1) Market outlook

(2) Capacity reduction

(3) Measures to strengthen the cost competitiveness

Mid-term outlook

3. Strengthen the overseas businesses

(1) Development strategy

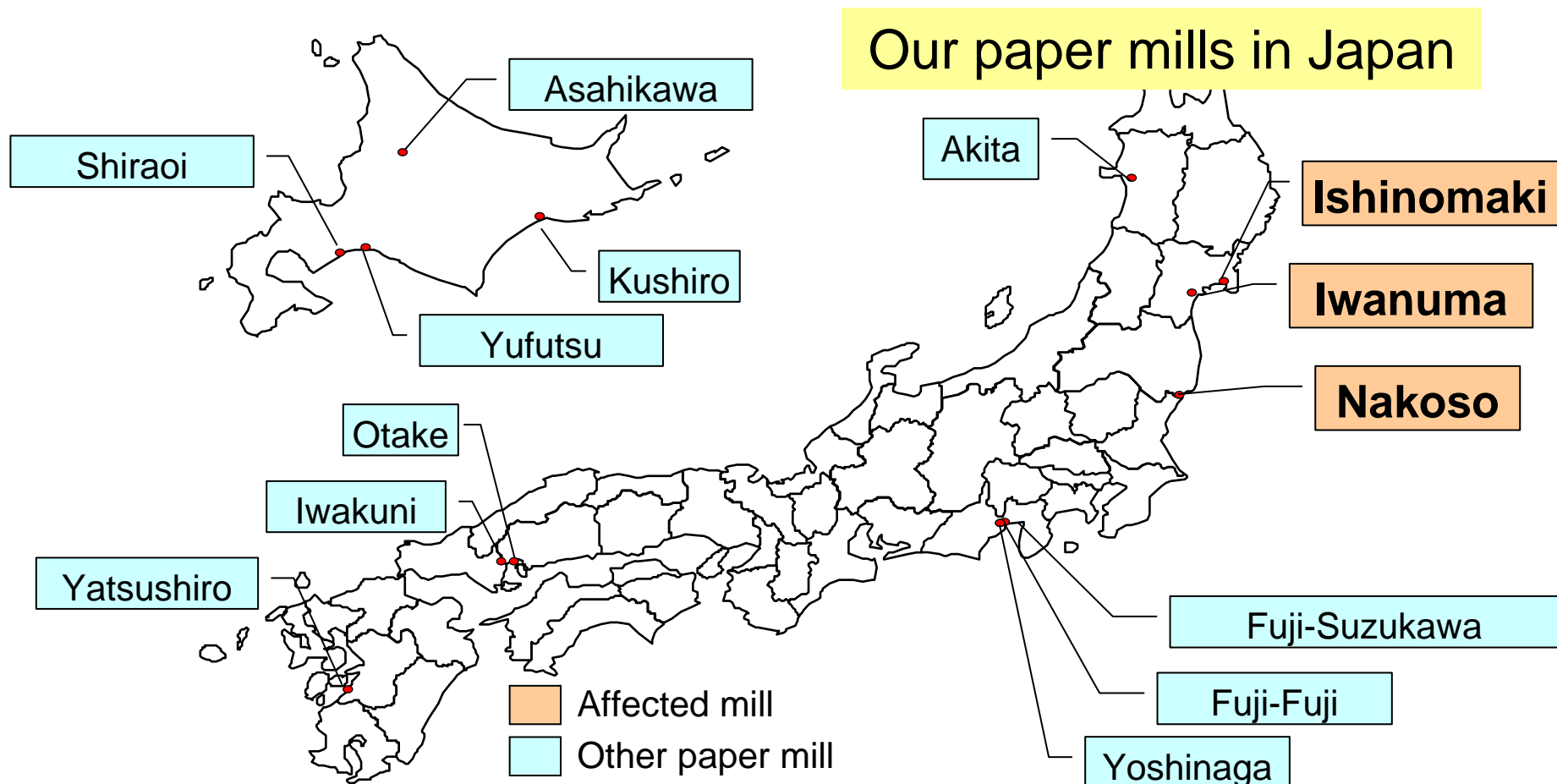
(2) Growing paperboard businesses in China

4. Mid-term financial outlook

(1). Three mills were hit by the Earthquake



Mitigated the negative impacts by supplying from the other mills both in Japan and abroad



1. Recover from the Earthquake

(2). Rise for the restoration



Quick actions and our Group-wide supports

< Restore the mills >

- Mar 12 Setup the Disaster Response Office
- 14 Started aid deliveries
- 15 Started dispatching our staffs
- 17 Setup the Disaster Recovery Division

< Contribution to the affected region >

- Mar 16 Started aid deliveries to the communities around the mill
- 20 Decision of Total ¥100 million donation to the local governments where 3 affected mills exist
- Jun 23 Announced the electric power supplies to fulfill the needs of power companies (95 MW supply from our mills)



1. Recover from the Earthquake

(3). Restore Nakoso & Iwanuma mill

Completely restored within 2 months

Nakoso mill

Apr 5, CMs stopped due to the afterquake

Apr 30, CM No.5 restarted

May 10, All CMs restarted



Iwanuma mill

Apr 11, PM3 restarted

Apr 23, PM4 restarted

May 7, PM2&CM30 restarted

May 11, PM1 restarted

(all machines restarted)

Photos soon after the quake



(PM: paper machine, CM: coating machine)

1. Recover from the Earthquake (4). Restore Ishinomaki mill

Quickly recovering from the Tsunami disaster

Main Gate

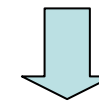
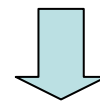
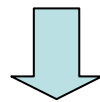


Soon after
the Tsunami

In the Mill



Ground floor
of PM8 House



As of July



1. Recover from the Earthquake

(4). Restore Ishinomaki mill



No major damages to the paper machines themselves
contrary to the incidental equipments downstairs

PM photos after the quake (as of April)



Paper Machine 8



Paper Machine N6

1. Recover from the Earthquake

(5). Resumption plan for Ishinomaki mill



The timing for the resumption of production and volumes will be decided based on market conditions

Permanent shutdown PM4, PM N3, and CM1

Minimize capex by utilizing unused equipments from other mills and machines to be shutdown

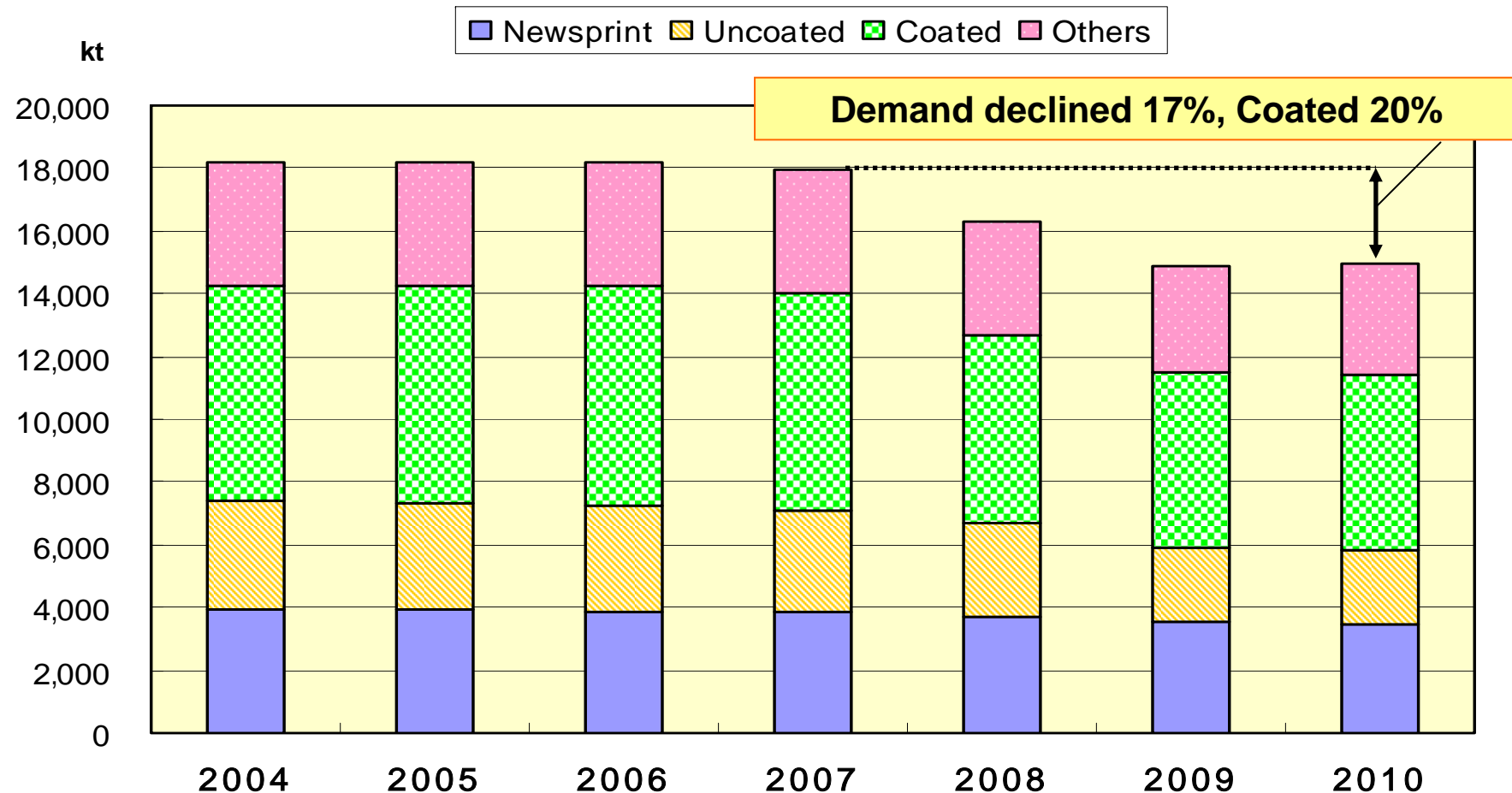
	<u>Restart</u>	<u>Capacity (kt/y)</u>	<u>Paper Grade</u>
PM 8	Sep 2011	112	Groundwood
PM N4 & CM4	Nov 2011	125	Coated
PM N5	2ndH FY2011	150	Coated
PM N6	2ndH FY2011	272	Coated
PM 7	1st H FY2012	108	Copy paper
PM N2 & CM2	1st H FY2012	89	Coated

2. Revitalize the Paper business

(1). Market outlook (a) Paper demands in Japan



No bounceback from the steep demand decline after the Global Financial Crisis in 2008



Domestic demands = Domestic shipments + imports

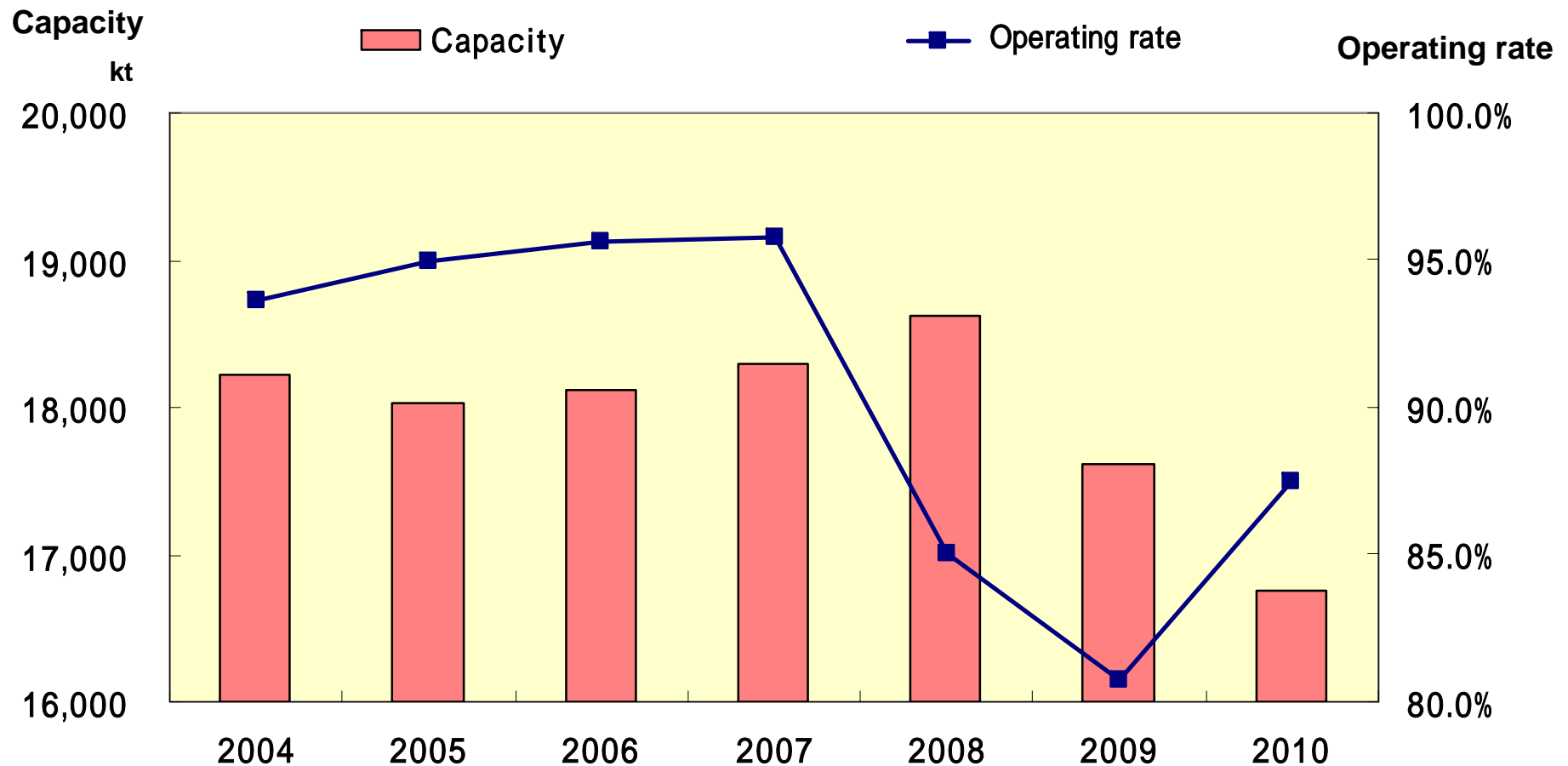
Source: Japan Paper Association

2. Revitalize the Paper business

(1). Market outlook (b) Capacity utilization in Japan



Despite the major capacity reduction in 2009 & 2010, improvement of operating rate is limited due to declined demand.



Source: Japan Paper Association

2. Revitalize the Paper business

(1). Market outlook (c) Demand forecasts by grades



Demand declines gradually in mid. to long term

In short term, expect a comeback from the interim decline after the quake

Newsprint

- Decrease of pages stopped, but the population drop continues and the reader rate expected to decline.
- Compared with the US, risks of steep demand drop is low (The number of pages of Japanese newspaper is originally smaller. In addition, its revenue dependence on advertising is relatively low).

Growth rate outlook
(annual)

- 1.0 ~ - 1.5%

Printing paper

- Electronic media grows in publishing, but usage for textbook and others are relatively stable.
- Usage for printing will decrease slowly.

- 1.5 ~ - 2.5%

Business communication paper

- Copy paper demand will be stable. Users' trends for savings brings the demand down, but the number of printout increases. Copy paper continues to substitute other paper (e.g. business form, carbonless).
- Business form and carbonless will decrease gradually at 2 to 3% p.a..
- Thermal paper grows moderately.

0.0 ~ - 1.0%

2. Revitalize the Paper business

(2). Targets for the revitalization plan



(a) Realize the ideal capacity operating rate based on slowing demand

Reduction of the production capacity is needed regardless of the Earthquake

	Sales Volume (kt)			Operating rate (divided by 2010 capacity)	
	2010 Act.	2013 Est.	2013E -2010A	2010 Act.	2013 Est.
Paper Total	4,580	4,160	- 420	89%	81%
Coated	1,800	1,500	- 300	91%	76%
Others *	2,780	2,660	- 120	87%	83%

*:Newsprint, uncoated and others (excluding paperboard and some of specialty papers)

2. Revitalize the Paper business

(2). Targets for the revitalization plan



(b) Strengthen the cost competitiveness

Minimize the production costs, especially at Ishinomaki & Iwakuni mill

- Intensify the production at the cost competitive facilities
- Achieve the “Zero Oil Consumption ” at mills
(Ishinomaki, Iwakuni, and Yoshinaga mill)
- Seek the best balance of raw materials production/usage
(Ishinomaki, Iwakuni, and Otake mill)
- Exit from unprofitable products
- Cost reduction by consolidating product grades

2. Revitalize the Paper business

(3). Revitalization plan (a) Machine shutdown



15% reduction of the paper production capacity

(5,160 kt 4,360 kt)

Shutdown 12 machines (8 Paper Machines and 4 Coating Machines)

All the shutdowns will be completed by the end of Sep. 2012

Mill	PM	CM	Capacity
Ishinomaki	2	1	- 240 kt
Iwanuma	1	1	- 100 kt
Fuji	4	1	- 430 kt
Iwakuni		1	- 10 kt
Yoshinaga	1		- 90 kt
(increase by products' shift)			+ 70 kt
Total	8	4	- 800 kt

All machines at Fuji-Suzukawa will be shutdown

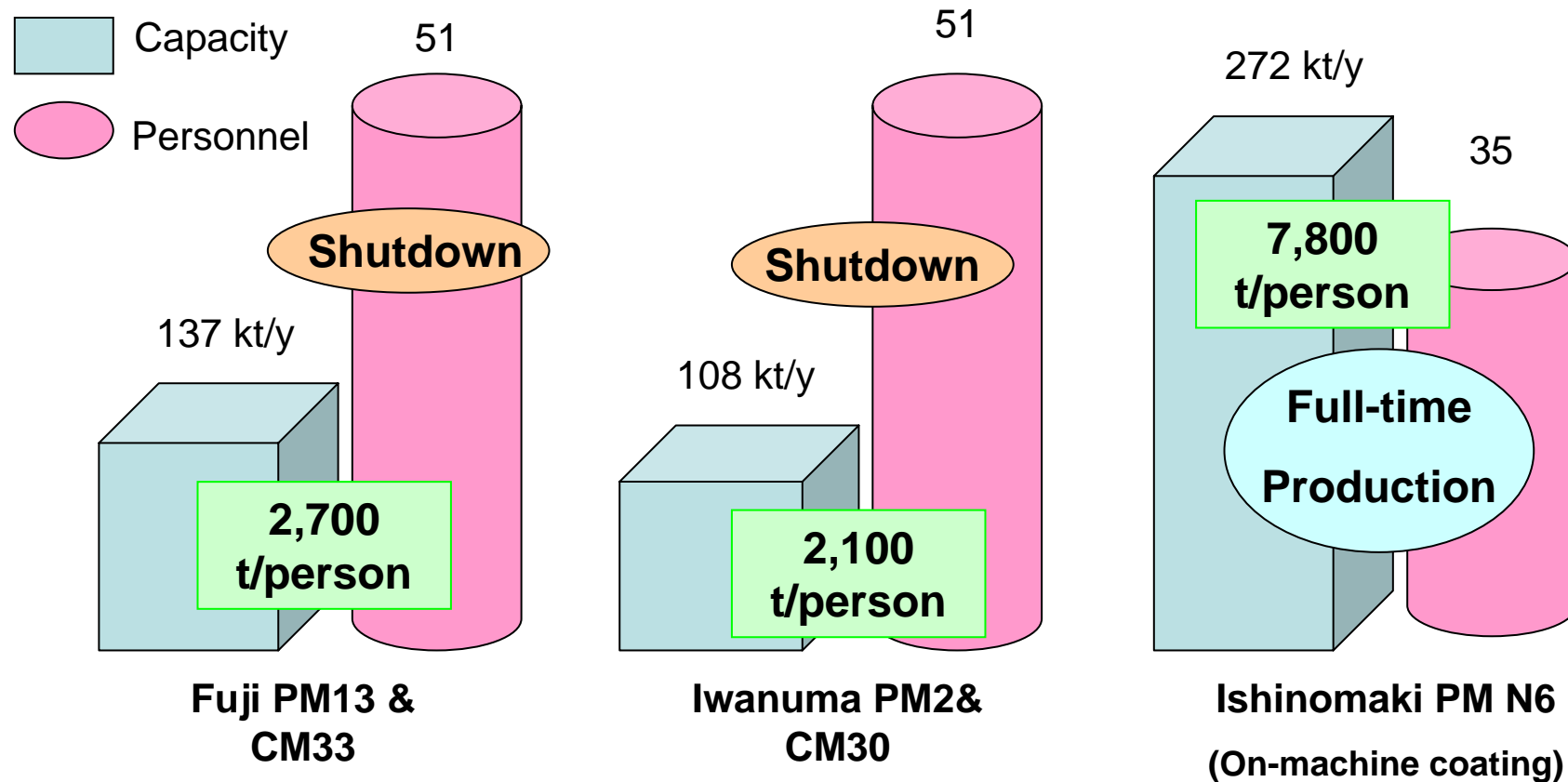
2. Revitalize the Paper business

(3). Revitalization plan (b) Production transfer



Intensify the production at the cost competitive facilities

Productivity comparison among our Coating Machines



2. Revitalize the Paper business

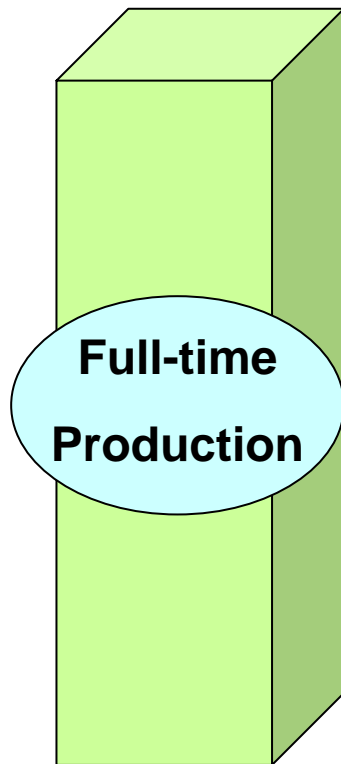
(3). Revitalization plan (c) Improve pulp production efficiency



Reduce costs by improving pulp production efficiency

Capacity

650 kt/y



Iwakuni mill, Kraft Pulp production facility

Ishinomaki mill:

- Increase self-production rate of pulp (96% to 100%) by shutting down PM4 and PM N3

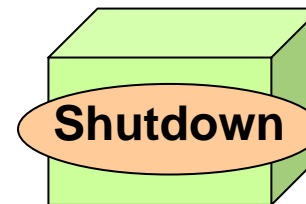
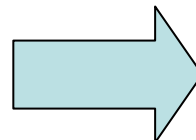
Iwakuni mill & Otake mill:

-Shutdown the Kraft pulp production facility at Otake mill and supply from Iwakuni mill with much better productivity (The operating rate of Iwakuni's facility rises from 87% to 100%)

Capacity

130 kt/y

Pulp supply



Otake mill, Kraft Pulp production facility

2. Revitalize the Paper business

(3). Revitalization plan (d) Energy cost reduction



Ishinomaki mill: Achieve “Zero Oil Consumption*”

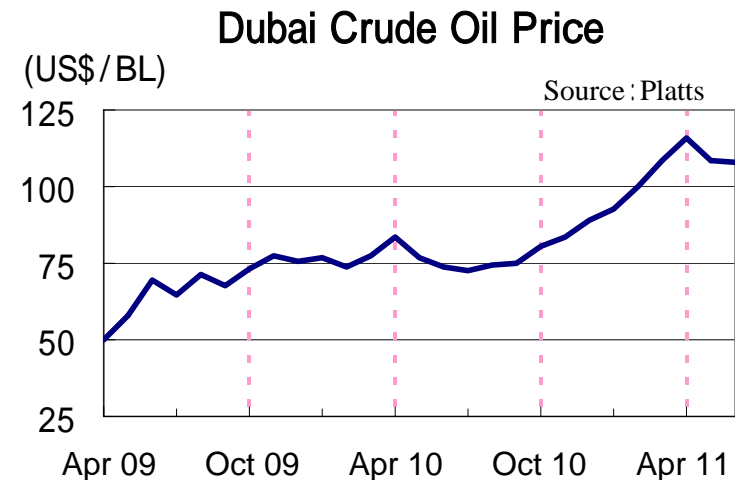
An oil boiler stops together with PM4 and PM N3

Iwakuni mill:

Biomass fuel (black liquor) usage increases by full-time Kraft pulp production

Yoshinaga mill:

An oil boiler stops together with PM N2



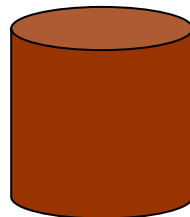
Reduction of oil usage by mills

Ishinomaki



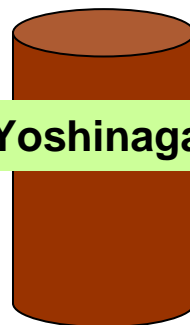
- 12ML

Iwakuni



- 32ML

Yoshinaga



- 50ML

Fuji-Suzukawa



- 56ML

=

43% reduction of oil usage at Nippon Paper and Nippon Daishowa Paperboard mills

- 150ML/y

*No oil usage in normal paper production process

2. Revitalize the Paper business

(3). Revitalization plan (e) Other cost reduction measures



Sales related measures

Exit from unprofitable products (e.g. exports, glossy inkjet paper)

Consolidate product grades

(improving production efficiency by reducing 20% of product grades)

Reduction in workforce

Approx. reduction of 1,300 workers

(Approx. 850 regular and 450 contract employees – 15% of the workforce for the entire paper business)

Consider non-filling retiree positions, transferring to other Group companies, and outplacement assistance

2. Revitalize the Paper business

(4). Summary of the plan (a) Operating rate



Realize the ideal capacity operating rate

	FY2010 Act.		FY2013 Est.	Ref: In case of no-reduction
Operating rate - Paper total (capacity)	89% (5,160 kt)	➡ (- 800 kt)	95% (4,360 kt)	81% (5,160 kt)
Operating rate - Coated paper) (capacity)	91% (1,970 kt)	➡ (- 430 kt)	98% (1,540 kt)	76% (1,970 kt)

2. Revitalize the Paper business

(4). Summary of the plan (b) Impacts on profit



- Variable costs reduction
+ ¥ 5.0 billion
- Fixed costs reduction
+ ¥ 8.5 billion
- Reduction in workforce
+ ¥10.0 billion
- Power supply and others
+ ¥ 1.5 billion

Gain
¥25.0b/y

Extraordinary losses
¥26.0b

**Fixed assets impairment,
retirement bonus**

3. Strengthen the overseas businesses

(1). Development strategy

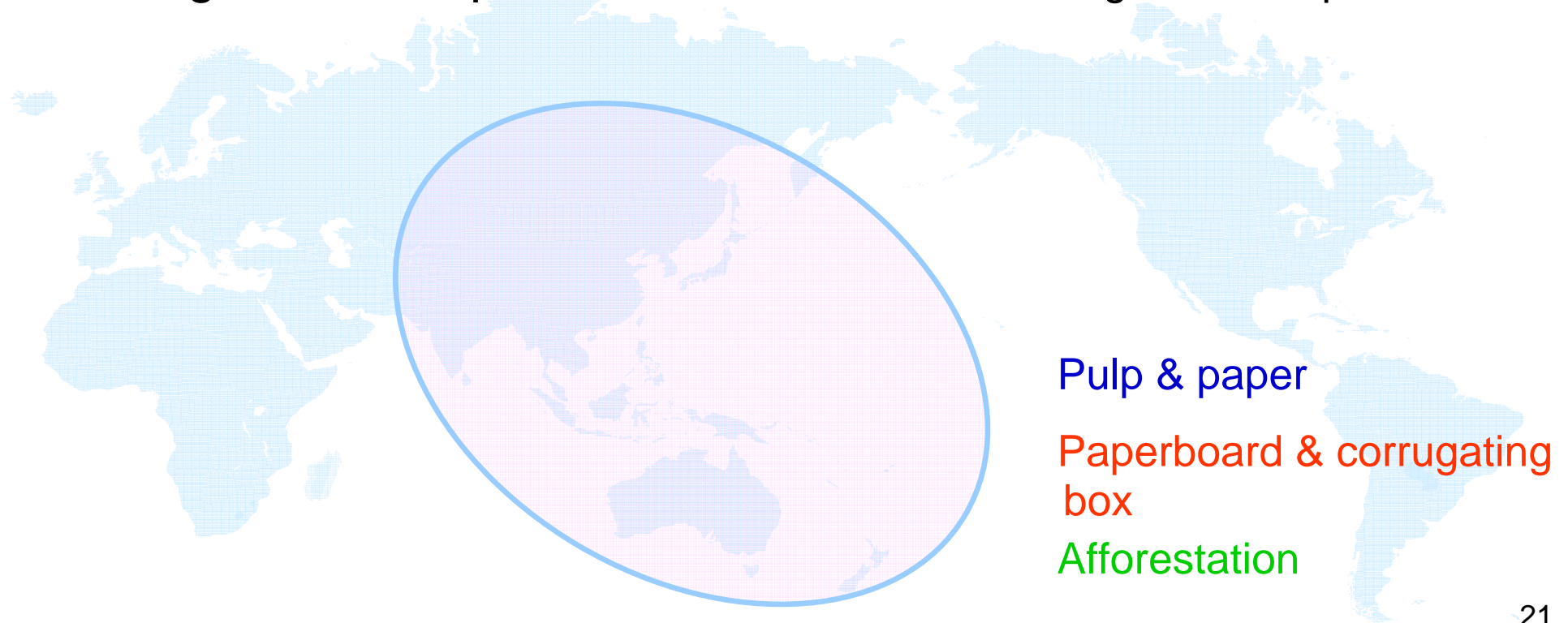


Focus on growing Asian and Oceanian market

Paperboard business in China - to penetrate into emerging market

Alliance with reliable partners - to decrease country risk

Strengthen wood procurement - to enhance long-term competitiveness

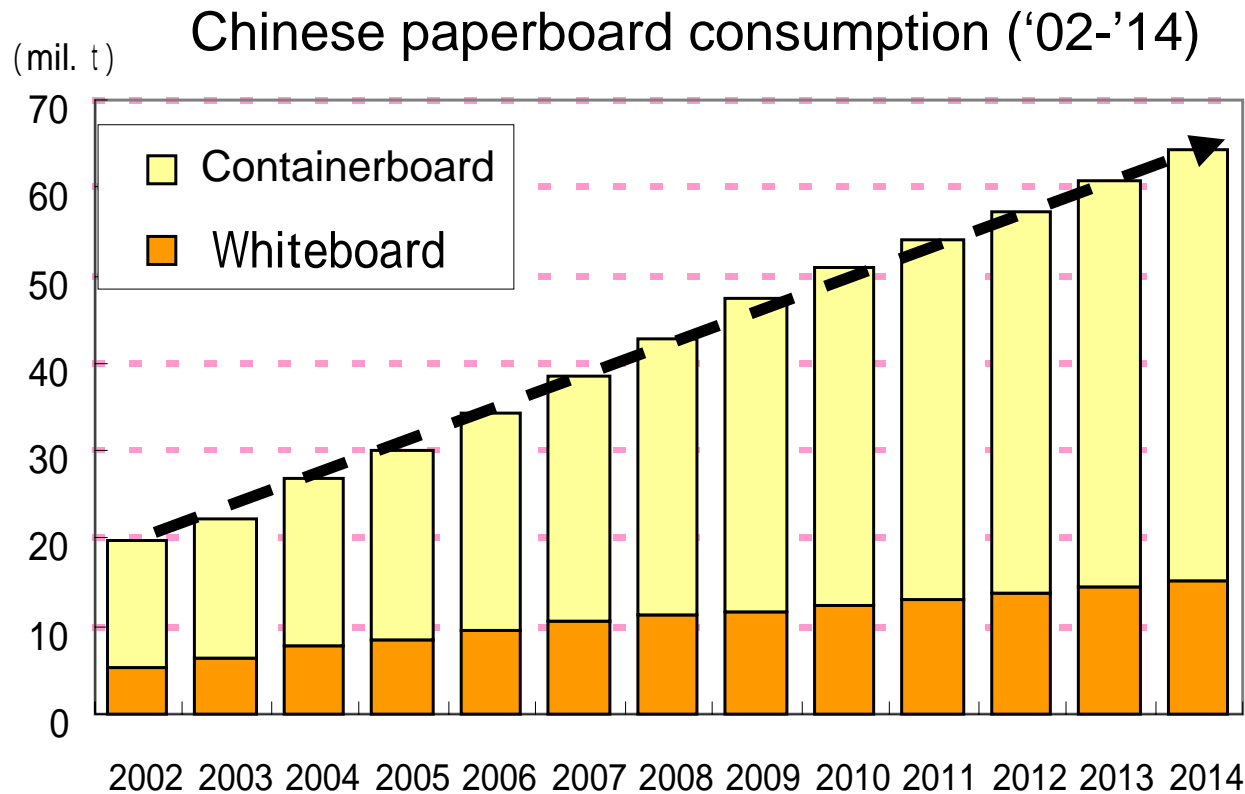


3. Strengthen the overseas businesses

(2) Paperboard in China (a) Market analysis



Demand growth has been over 10%/y, and is expected to be strong



CAGR

	'02 - '10	'11 -
Container-board	12.9%	6.4%
Whiteboard	11.2%	5.2%

Source: China Paper Association (2002-2010),
RISI (2011-2014)

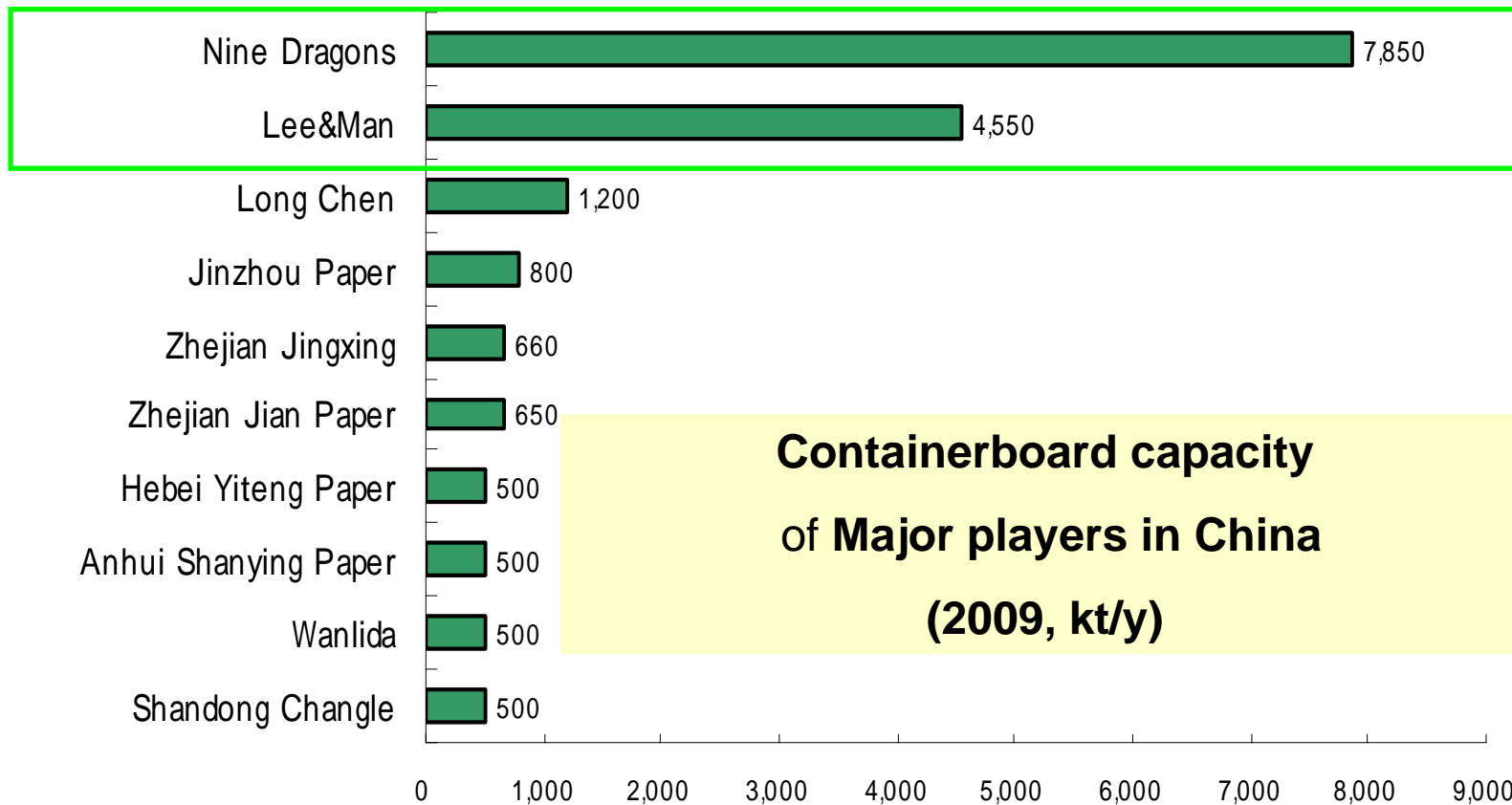
3. Strengthen the overseas businesses

(2). Paperboard in China (a) Market analysis



Two giants have already established strong position

The market requires capacity increase, but only a few strong players can manage it



**Containerboard capacity
of Major players in China
(2009, kt/y)**

Source: "ALMANAC OF CHINA PAPER INDUSTRY 2010"
(edited by China Technical Association of Paper Industry)

3. Strengthen the overseas businesses

(2). Paperboard in China (b) About Lee & Man



Highly competitive in paperboard market

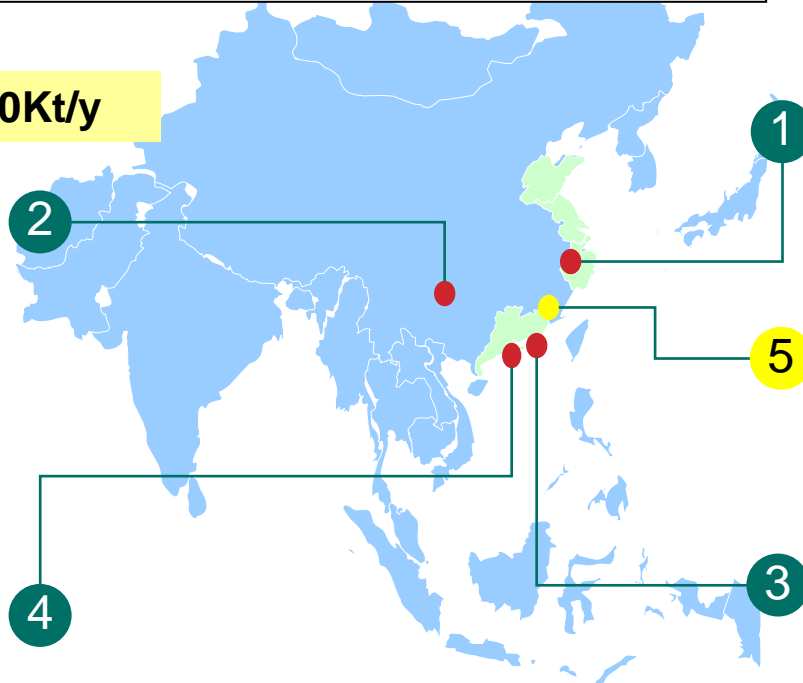
Sales: HK\$14b, Net profit: HK\$1.8b (FY2010)
Strong financial balance: D/E 0.55 (Mar.31 '2011)
Good productivity with large-scale machines
Low logistics costs due to its own dock at each plant



Capacity : 4,550 6,550Kt/y

Chongqing Lee & Man
(Chongqing Plant)
Capacity: 400 800kt/y
Machine: 1 2

Donguang Lee & Man
(Donguang Huangyong Plant)
Capacity: 730kt/y
Machine: 4



Jiangsu Lee & Man
(Changshu Plant)
Capacity: 1,570kt/y
Machine: 4

Jiangxi Lee & Man
(under construction)
Capacity: 0 500kt/y
Machine: 0 1

Guangdong Lee & Man
(Donguang Hongmei Plant)
Capacity: 1,850 2,950kt/y
Machine: 4 6

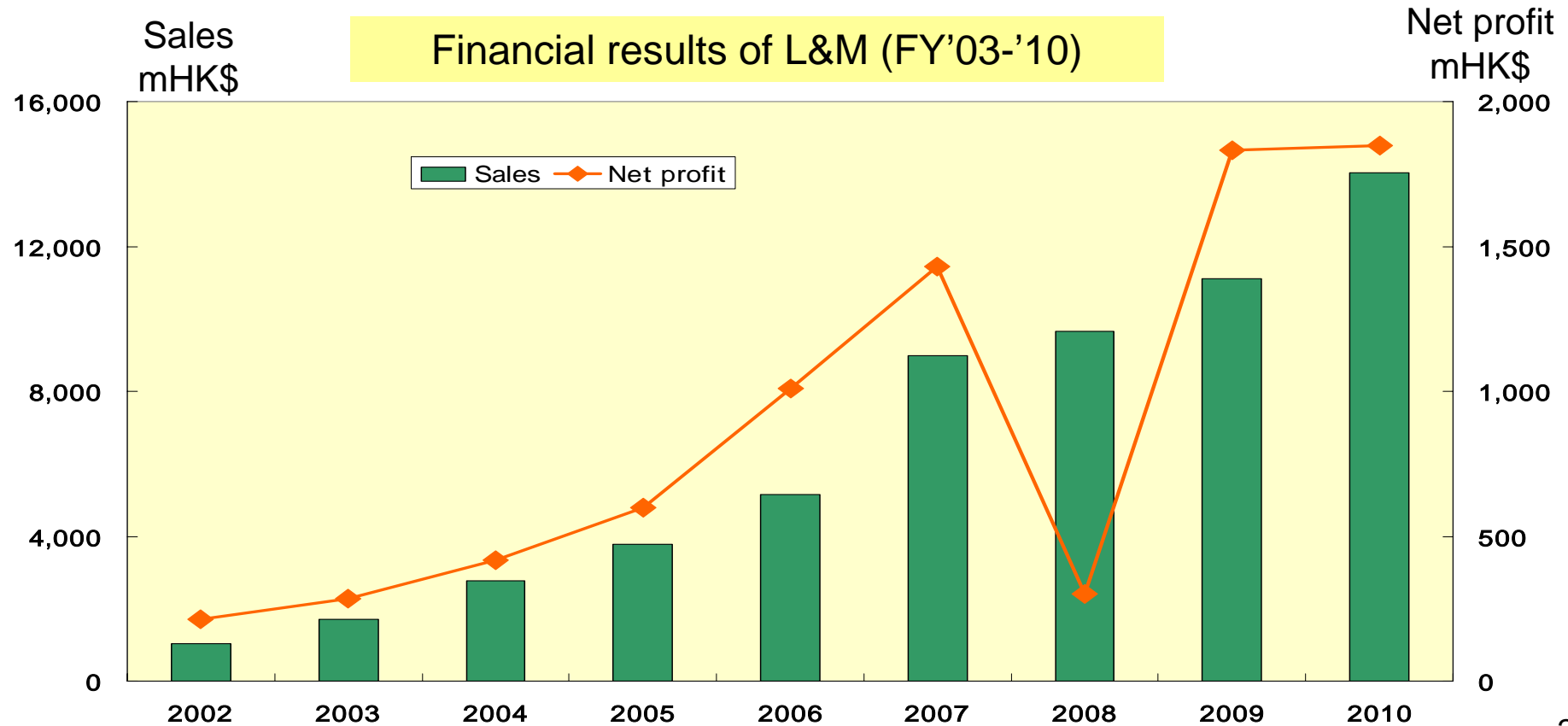
3. Strengthen the overseas businesses

(2). Paperboard in China (c) Alliance with Lee & Man



NPG makes Lee & Man an equity method affiliate

Acquired a 3.67% stake (August 5, approx. HK\$ 937million)
- our shareholding in L&M increased to 15.32%



3. Strengthen the overseas businesses

(2). Paperboard in China (d) Co-operation with Lee & Man



Building strong partnership

Technical tie-up

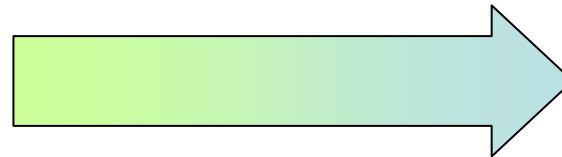
Support new whiteboard machine start-up (600kt/y, Donguang Hongmei plant)

Lee & Man

← 2 directors
12 engineers
+10 to be dispatched for new machine start-up

Operation management
Cost reduction
High-value-added products development

Experiences of state-of-the-art facilities
Access to Chinese paperboard market



NPG

Sales tie-up

Sale L&M products through NPG's global sales network

Joint project

Pursue new project making the best use of both advantages

Partnership with L&M is a key to penetrate into the growing market

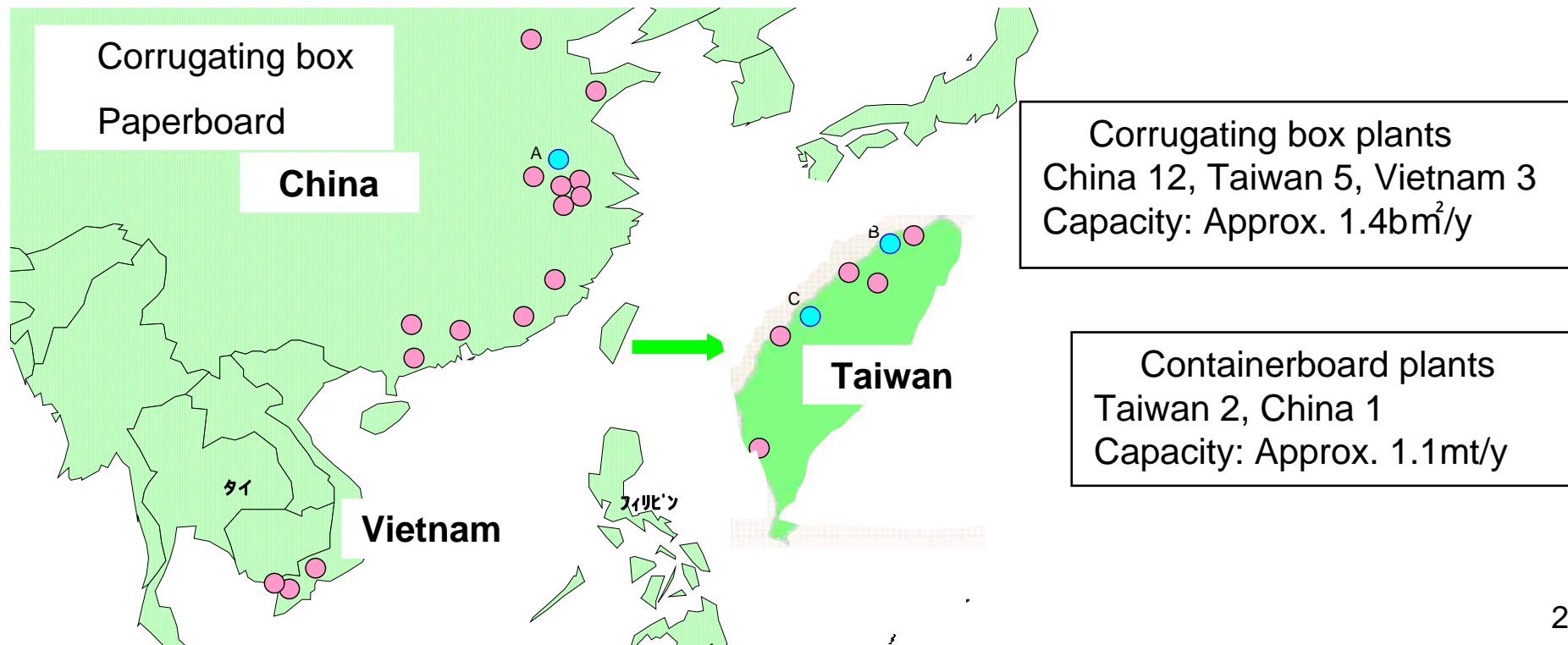
3. Strengthen the overseas businesses

(2). Paperboard in China (e) Investment in YFY Cayman



YFY Cayman – the 2nd biggest corrugating box converter in China

- Split off from YFY (the biggest paper manufacturer in Taiwan)
- NPG acquired 20.35% of YFY Cayman's shares (May 2010)
- Its plants are adjacent to large consumption areas in China, Taiwan and Vietnam

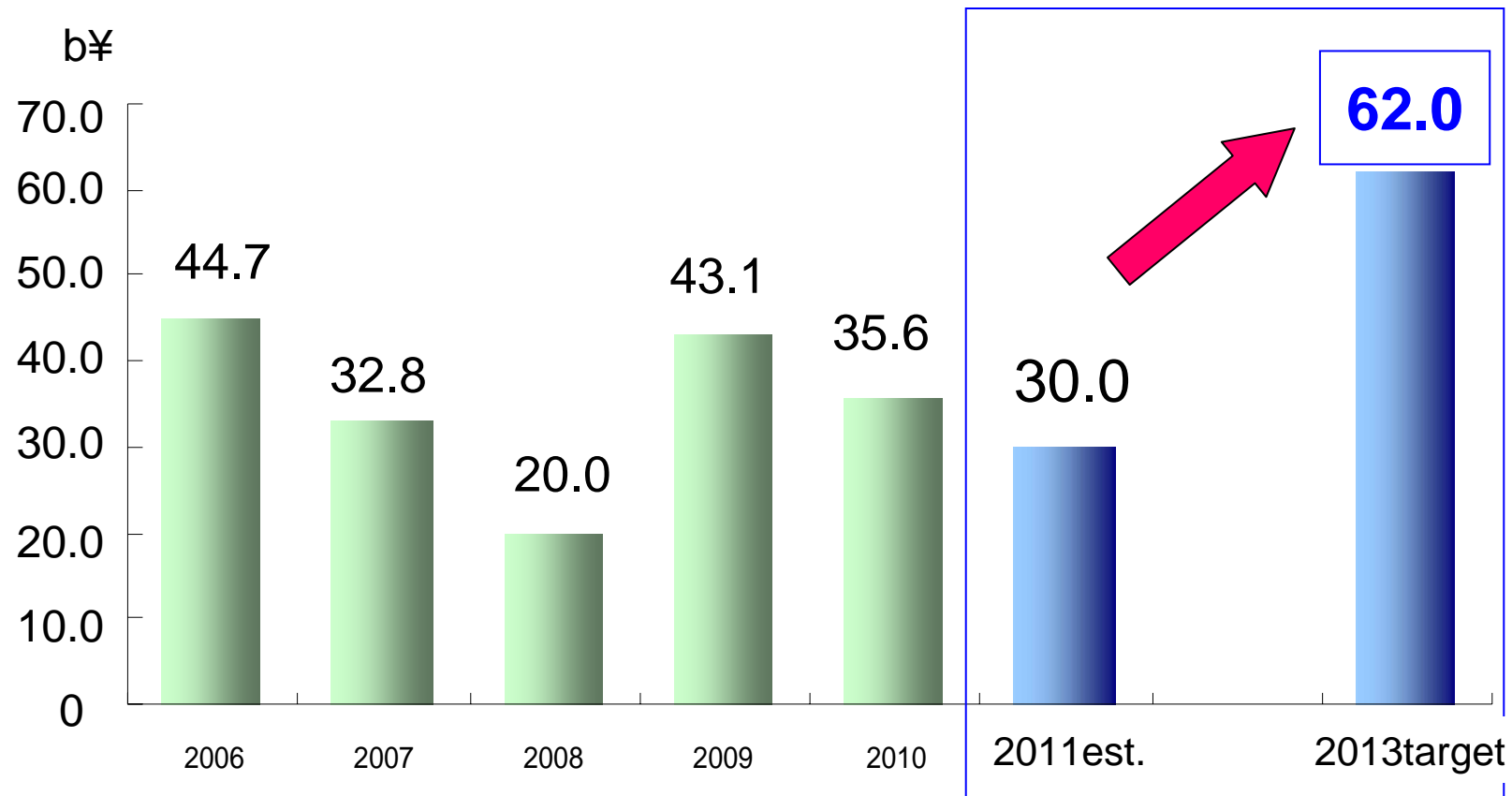


5. Mid-term financial outlook (1). Operating income



FY2013 Operating Income target: ¥62.0 billion

Historical Trend

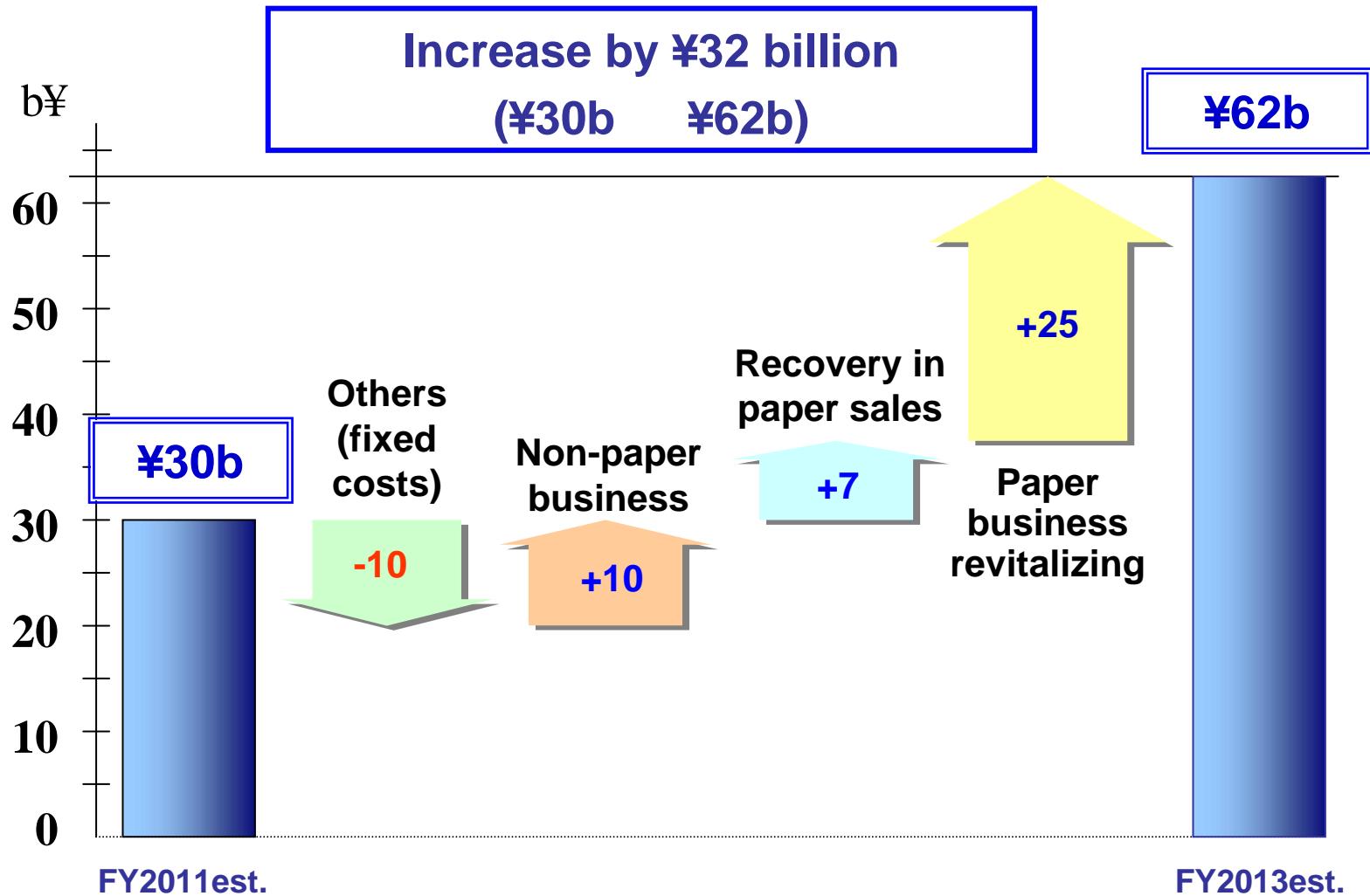


5. Mid-term financial outlook

(2). Variance analysis for operating income



FY2011 est. vs. FY2013 target



5. Mid-term financial outlook

(3). Depreciation, Capex and Debt



Depreciation (FY2012-2013 total)

¥ 135b

Capex (FY2012-2013 total)

¥ 95b

Interest bearing Debt (cut by ¥90b)

31.Mar 2014 target

¥ 705b

(31.Mar 2012est.)

¥ 795b

D/E Ratio

31.Mar 2014 target

x 1.5

(31.Mar 2012est.)

x 1.9

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