

# FY2008 First 6-month Result Financial Review

---



NIPPON PAPER  
GROUP

November 10, 2008

Nippon Paper Group, Inc.



## I. FY2008 First 6-month Review (1 Apr. 2008 – 30 Sep. 2008)

- |                                 |              |
|---------------------------------|--------------|
| (1) Overview                    | <i>3-6pp</i> |
| (2) Operating results           | <i>7-9pp</i> |
| (3) Analysis of profit and loss | <i>10p</i>   |
| (4) Extraordinary items         | <i>11p</i>   |
| (5) Balance sheet               | <i>12p</i>   |

## II. FY2008 Full Year Forecast (1 Apr. 2008 – 31 Mar. 2009)

- |                                 |                |
|---------------------------------|----------------|
| (1) Overview                    | <i>13p</i>     |
| (2) Earnings Forecast           | <i>14-17pp</i> |
| (3) Analysis of profit and loss | <i>18p</i>     |
| (4) Key figures and indices     | <i>19p</i>     |

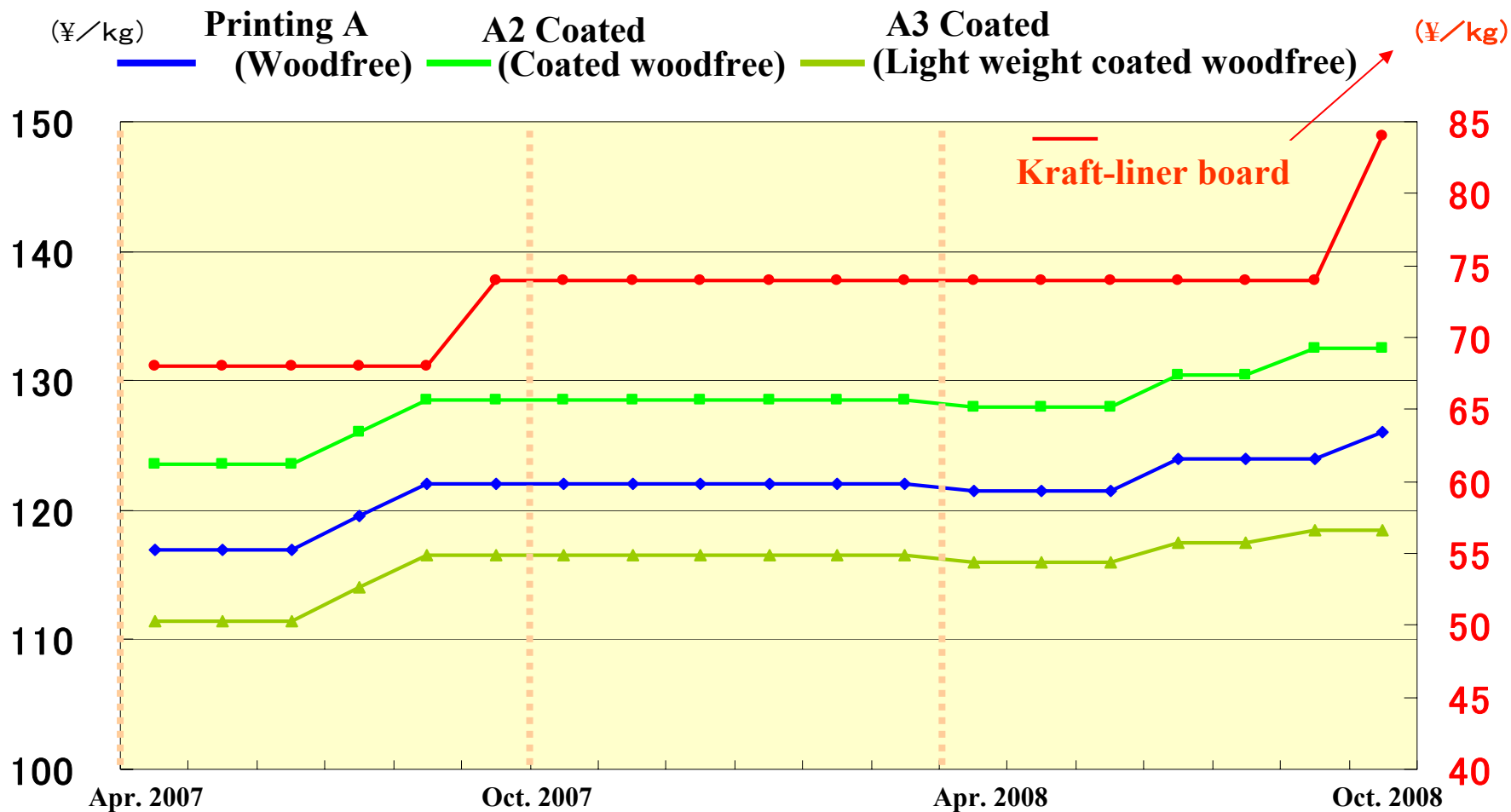
Paper industry

Domestic shipment of paper and paperboard  
FY2008 1<sup>st</sup> 6-month results (Apr.2008 – Sep.2008)

	Shipment(1,000 tons)	% change yoy
Newsprint	1,771	-1.2%
Uncoated printing paper	1,186	-4.1%
Coated printing paper ※	3,228	1.5%
Business communication paper	842	1.9%
Other papers (Packaging paper, sanitary paper, and paper for miscellaneous uses)	1,928	-3.4%
Paper total	8,954	-0.8%
Paperboard total	6,055	1.6%
Paper and paperboard total	15,010	0.1%

Paper industry

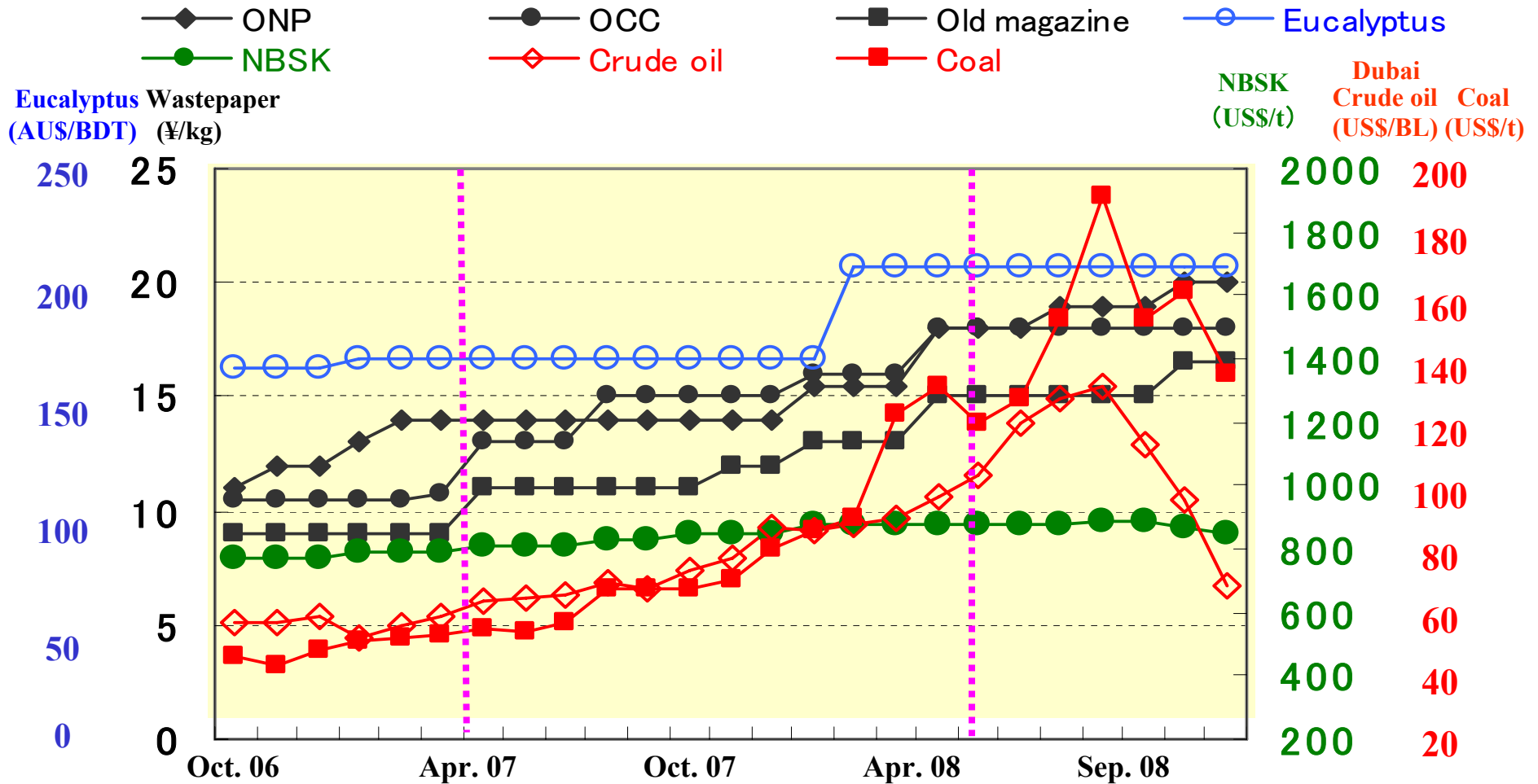
Trend in paper and paperboard prices  
(Apr. 2007 — Oct. 2008)





Paper industry

Trend in fuels and raw materials prices  
(Oct. 2006 – Oct. 2008)



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

## Topics of the 1<sup>st</sup> 6-month

**Apr. 08 -Completed Group business realignment**

**-Announced price increases for printing and business communication paper**

**May. -Announced stock split and switch to unit stock system**

**Jun. -Announced price increase for container board, etc.**

**-Yoshio Haga assumed the president**

**Jul. -Announced price increase for kraft paper**

**Sep. -Decided to cease operation of #N1 paper machine at Yoshinaga**

**-Decided to relocate Headquarters**

**-Completed closure of Fushiki, Komatsushima and Waki mills**

Consolidated operating results

(¥ billion)	FY2007 1 <sup>st</sup> 6-month	FY2008 1 <sup>st</sup> 6-month	Difference
<Net sales>	597.4	<b>629.0</b>	31.6
<Operating income>	14.4	<b>15.6</b>	1.2
<Ordinary income>	13.9	<b>18.7</b>	4.8
<Net income>	4.6	<b>5.3</b>	0.7

I. 1<sup>st</sup> 6-month Review (2) Operating results  
 ② Sales volume by product



(Thous and tons)	FY2007 1st 6 mos	FY2008 1st 6 mos	% change yoy
(Average domestic paper price: ¥/kg) ※	(107.6)	(120.8)	(12.3%)
Newsprint	652	639	-2.0%
Uncoated paper	369	347	-5.9%
Coated paper	1,019	1,039	2.0%
Business communication paper	379	366	-3.5%
Packaging paper and others	288	266	-7.7%
<b>Total domestic sales</b>	<b>2,708</b>	<b>2,657</b>	<b>-1.9%</b>
Export (including newsprint)	235	243	3.7%
<b>Total (paper)</b>	<b>2,942</b>	<b>2,900</b>	<b>-1.4%</b>
(Average domestic paperboard price: ¥/kg)	(57.3)	(63.8)	(11.3%)
Container board	680	668	-1.8%
Folding box board and others	193	192	-0.2%
<b>Total domestic sales</b>	<b>873</b>	<b>860</b>	<b>-1.5%</b>
Export	19	19	-2.3%
<b>Total (paperboard)</b>	<b>893</b>	<b>879</b>	<b>-1.5%</b>
<b>Grand total (paper and paperboard)</b>	<b>3,835</b>	<b>3,780</b>	<b>-1.4%</b>

※excluding newsprint.

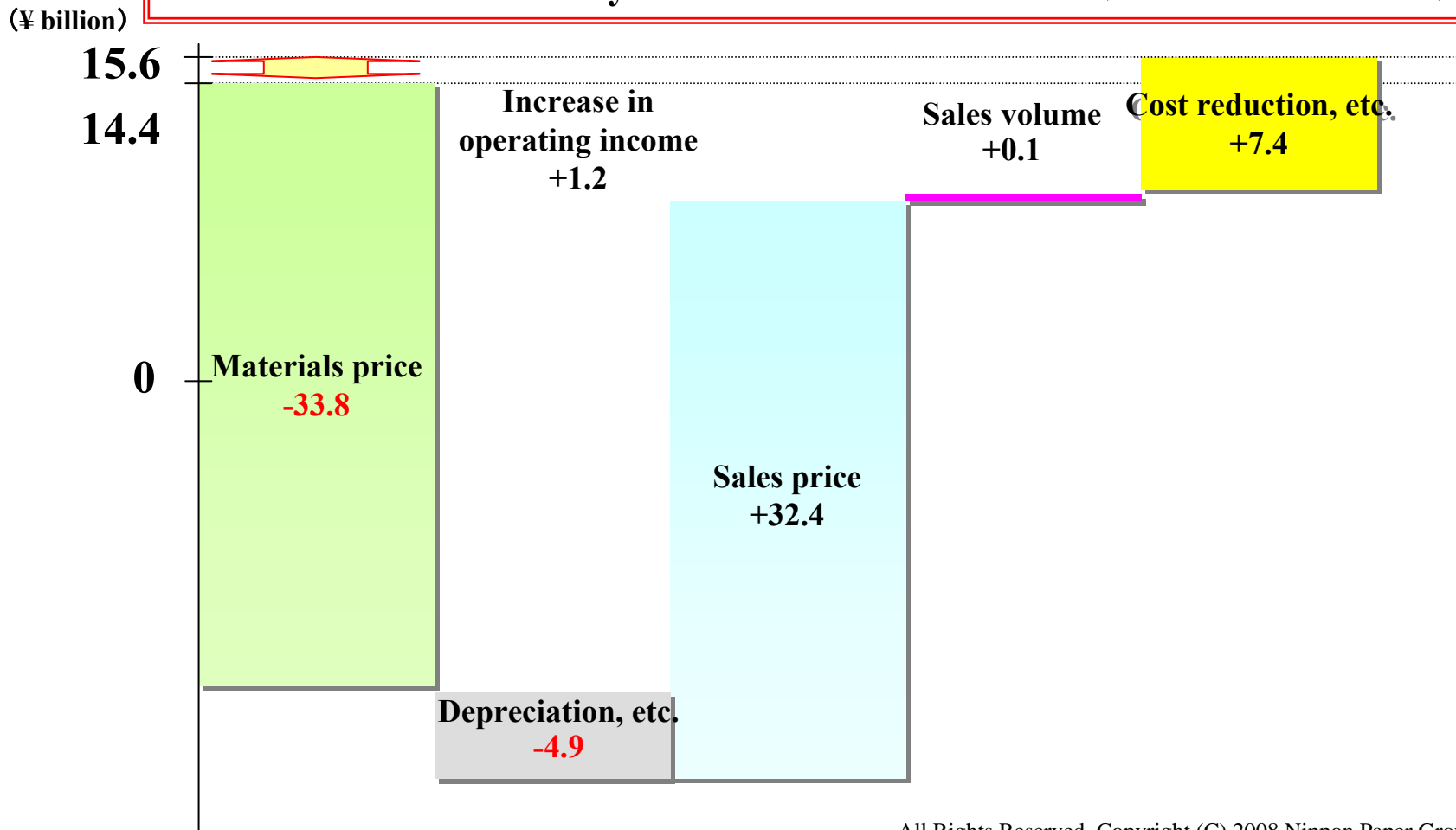


(¥billion)

	Sales			Operating income			Comments
	FY2007 1st 6 mos	FY2008 1st 6 mos	Difference	FY2007 1st 6 mos	FY2008 1st 6 mos	Difference	
<b>Pulp and Paper Div.</b>	<b>455.5</b>	<b>499.6</b>	<b>44.1</b>	<b>7.3</b>	<b>11.2</b>	<b>3.9</b>	
Paper etc.	370.6	402.9	32.3	8.0	11.3	3.3	Input cost increases off-set by sales price hikes, profit increased by cost reductions.
Paperboard	56.2	66.4	10.2	▲ 0.5	▲ 1.4	▲ 0.9	Affected by fuel and raw material cost increases
Household tissue	28.7	30.3	1.6	▲ 0.2	1.3	1.5	Turned a profit since 2nd half FY07
Paper-related Div. (cartons, chemical products)	51.8	51.2	▲ 0.6	2.7	2.5	▲ 0.2	
Housing and Construction Materials Div.	43.6	38.3	▲ 5.3	1.2	0.7	▲ 0.5	
Other Div. (beverages, transport)	46.5	39.9	▲ 6.6	3.2	1.2	▲ 2.0	SHIKOKU COCA-COLA BOTTLING changed accounting period.
<b>Total</b>	<b>597.4</b>	<b>629.0</b>	<b>31.6</b>	<b>14.4</b>	<b>15.6</b>	<b>1.2</b>	

1<sup>st</sup> 6-month: FY2008 vs FY2007

**Increase in operating income ¥1.2 billion (¥14.4 bn → ¥15.6 bn)**  
**Increase in ordinary income ¥4.8 billion (¥13.9 bn → ¥18.7 bn)**



	FY2007 1st 6 mos	FY2008 1st 6 mos	(¥billion)
Ordinary income	13.9	18.7	
<b>Extraordinary gains</b>	<b>1.8</b>	<b>1.1</b>	
Gain on sale of property, plant and equipment	0.7	0.1	
Gain on sale of securities, etc.	0.9	0.4	
Gain on change in equity	—	0.3	
Others	0.2	0.3	
<b>Extraordinary losses</b>	<b>4.7</b>	<b>10.0</b>	
Loss on disposal of property, plant and equipment	1.3	1.8	
Impairment accounting	0.1	1.6	
Loss on restructuring	—	3.0	
Loss on valuation of inventories	—	1.8	
Others	3.3	0.8	
Income tax adjustment	-5.9	-4.6	
Minority interests(-)/loss	-0.5	0.1	
Net income	4.6	5.3	

Balance sheet

(¥billion)

	Mar. 31, 2008	Sep. 30, 2008	Difference	Comments
Cash and time deposits	17.8	14.8	-2.9	
Notes and accounts receivable	262.7	269.6	6.8	
Inventories	165.4	188.7	23.3	
Other current assets	39.9	36.5	-3.4	
Property, plant, equipment, and intangible fixed assets	919.2	914.3	-4.8	Capital investment 36.8, Depreciation -40.6, etc.
Investments and other assets	220.6	208.4	-12.1	
<b>Total assets</b>	<b>1,625.6</b>	<b>1,632.4</b>	<b>6.8</b>	
Interest-bearing debt	785.3	811.3	26.0	
Other debt	360.5	348.5	-12.0	
Net assets	479.8	472.6	-7.1	Dividends paid -4.5, 1st 6-mo net income 5.3, Decrease in unrealized holding gain on other marketable securities -2.7, translation adjustments -4.2, etc.

## Topics of the 2nd half

### ★3<sup>rd</sup> Medium Term Business Plan under development

**Oct. 08 -Exhibited at Frankfurt Book Fair 2008 to promote “KASADAKA”  
in European markets**

**-Renewed product line-up of PPC paper:**

**launching N100 series (made of 100% recycled pulp)**

**-Strategic Alliance with Yueng Foon Yu Paper(YFY), Taiwan:**

**Nippon Paper Industries to invest in YFY’s paperboard business**

**Jan.09 -To split stock and switch to unit stock system**

## Assumptions for FY2008 forecast

### ● Domestic sales volume (yoy)

*Paper:* -5.4%(2<sup>nd</sup> 6 mos) / -3.4% (full-year)

*Paperboard:* -0.8%(2<sup>nd</sup> 6 mos) / -1.1%(full-year)

### ● Raw material and fuel prices (for 2<sup>nd</sup> 6 mos)

*Crude oil:* US\$70/BL(Dubai)

(revised from the original 3Q=US\$85/BL, 4Q=\$80/BL )

*Woodchips &* To stay at the levels of 1<sup>st</sup> 6 mos

*Wastepaper:*

### ● Forex rate (for 2<sup>nd</sup> 6 mos) :

US\$1=¥105 (unchanged from the original)

## FY2008 Earnings Forecast Revised:

(¥ billion)	Original: as of 28 Apr.08	Revised: as of 28 Oct.08	(Reference) FY2007 Results
<Net sales>	1,290.0	<b>1,280.0</b>	1,211.7
<Operating income>	43.0	<b>43.0</b>	32.8
<Ordinary income>	39.0	<b>43.0</b>	32.8
<Net income>	16.0	<b>19.0</b>	5.7

## II. FY2008 Forecast (2) Earnings forecast ③ Sales volume by product



(Thous and tons)	FY2007 (A)	FY2008 est. (B)	% change yoy
(Average domestic paper price: ¥/kg) ※	(109.6)	(123.3)	(12.5%)
Newsprint	1,317	1,290	-2.1%
Uncoated paper	734	695	-5.4%
Coated paper	2,101	2,001	-4.8%
Business communication paper	757	736	-2.9%
Packaging paper and others	542	532	-1.8%
<b>Total domestic sales</b>	<b>5,451</b>	<b>5,252</b>	<b>-3.6%</b>
Export (including newsprint)	492	480	-2.6%
<b>Total (paper)</b>	<b>5,943</b>	<b>5,732</b>	<b>-3.6%</b>
(Average domestic paperboard price: ¥/kg)	(60.2)	(67.7)	(12.4%)
Container board	1,337	1,316	-1.6%
Folding box board and others	389	391	0.4%
<b>Total domestic sales</b>	<b>1,726</b>	<b>1,707</b>	<b>-1.1%</b>
Export	44	40	-8.7%
<b>Total (paperboard)</b>	<b>1,770</b>	<b>1,747</b>	<b>-1.3%</b>
<b>Grand total (paper and paperboard)</b>	<b>7,713</b>	<b>7,479</b>	<b>-3.0%</b>

※excluding newsprint.



## II. FY2008 Forecast (2)Earnings forecast

### ④Segment information



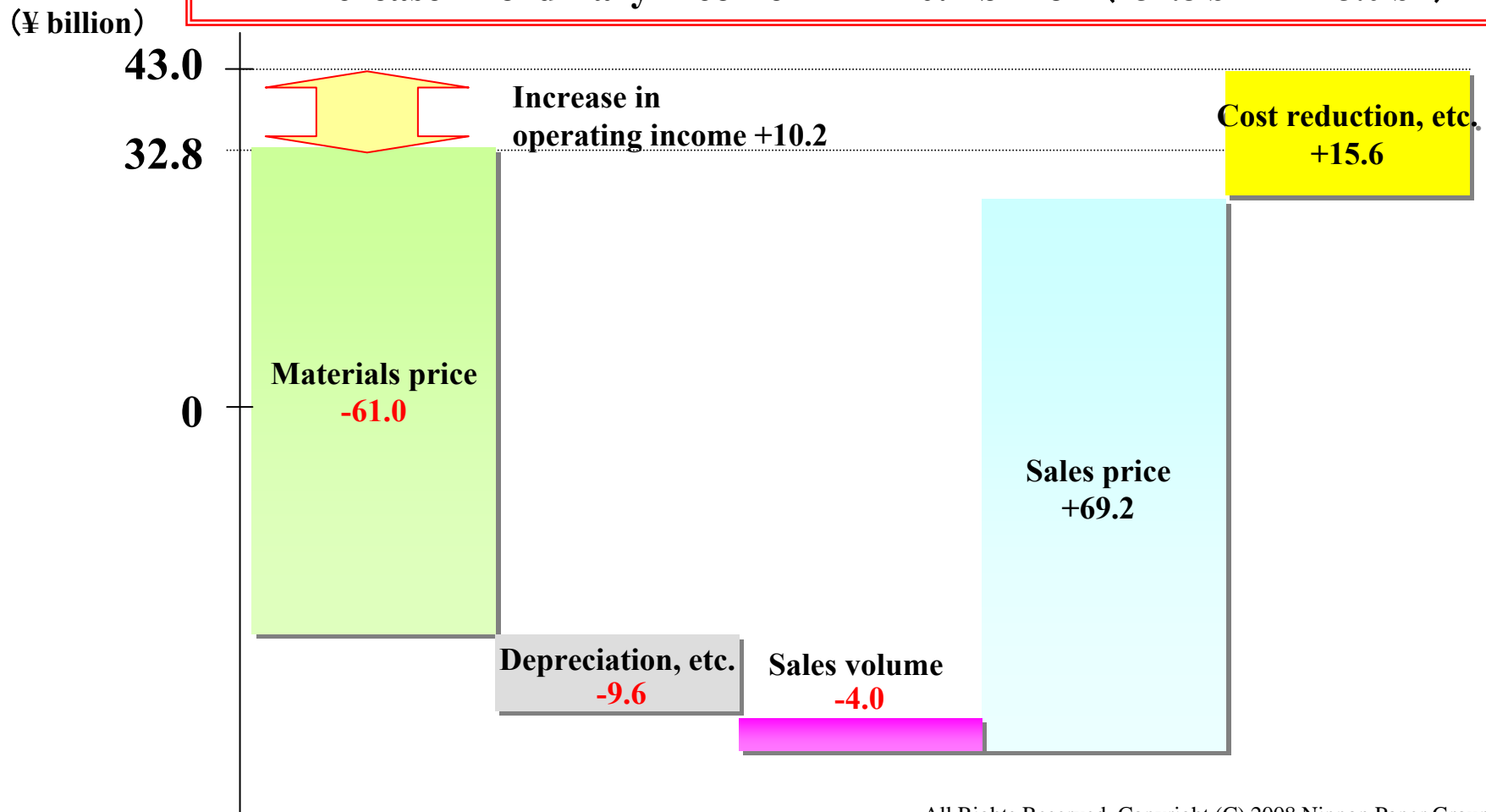
(¥billion)

	Sales			Operating income			Comments
	FY2007	FY2008 estimated	Difference	FY2007	FY2008 estimated	Difference	
<b>Pulp and Paper Div.</b>	<b>950.2</b>	<b>1,011.5</b>	<b>61.3</b>	<b>20.4</b>	<b>32.7</b>	<b>12.3</b>	
Paper etc.	768.6	805.9	37.3	20.4	25.6	5.2	Input cost increases off-set by sales price hikes, profit increased by cost reductions.
Paperboard	121.1	139.2	18.1	▲ 1.1	3.7	4.8	Input cost increases off-set by sales price hikes, profit increased by cost reductions.
Household tissue	60.5	66.4	5.9	1.1	3.4	2.3	
<b>Paper-related Div. (cartons, chemical products)</b>	<b>102.1</b>	<b>103.4</b>	<b>1.3</b>	<b>4.3</b>	<b>4.2</b>	<b>▲ 0.1</b>	
<b>Housing and Construction Materials Div.</b>	<b>82.1</b>	<b>77.3</b>	<b>▲ 4.8</b>	<b>2.3</b>	<b>1.4</b>	<b>▲ 0.9</b>	
<b>Other Div. (beverages, transport)</b>	<b>77.3</b>	<b>87.8</b>	<b>10.5</b>	<b>5.8</b>	<b>4.7</b>	<b>▲ 1.1</b>	SHIKOKU COCA-COLA BOTTLING changed accounting period.
<b>Total</b>	<b>1,211.7</b>	<b>1,280.0</b>	<b>68.3</b>	<b>32.8</b>	<b>43.0</b>	<b>10.2</b>	

FY2008 forecast vs FY2007

**Increase in operating income ¥10.2 billion (¥32.8 bn → ¥43.0 bn)**

**Increase in ordinary income ¥ 10.2 billion (¥32.8 bn → ¥43.0 bn)**



## II. FY2007 Forecast (4)Key figures and indices



	FY2006	FY2007	FY2008 1st 6 mos	FY2008 est.
<b>ROE</b>	5.2%	1.3%	2.3%	4.2%
<b>Ordinary margin on sales</b>	4.0%	2.7%	3.0%	3.4%
<b>D/E (times)</b>	x1.6	x1.7	x1.8	x1.7
<b>Operation rate (Calendar year basis): Paper machines</b>	93%	92%	92%	91%
<b>Operation rate (Calendar year basis): Paperboard machines</b>	82%	81%	78%	78%
<b>Capital investment (¥ billion)</b>	103.0	121.2	36.8	72.0
<b>Depreciation (¥ billion)</b>	67.1	74.8	40.6	81.9
<b>Interest-bearing debt (¥ billion)</b>	738.2	785.3	811.3	808.8
<b>Number of employees</b>	12,584	13,666	13,334	13,187

---

## Disclaimer Regarding Forward-Looking Statements

---

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.**