

1st 6-month FY2012 Financial Review



November 14, 2012

Nippon Paper Group, Inc.





1st 6-month FY2012 Review (April 1 – September 30, 2012)

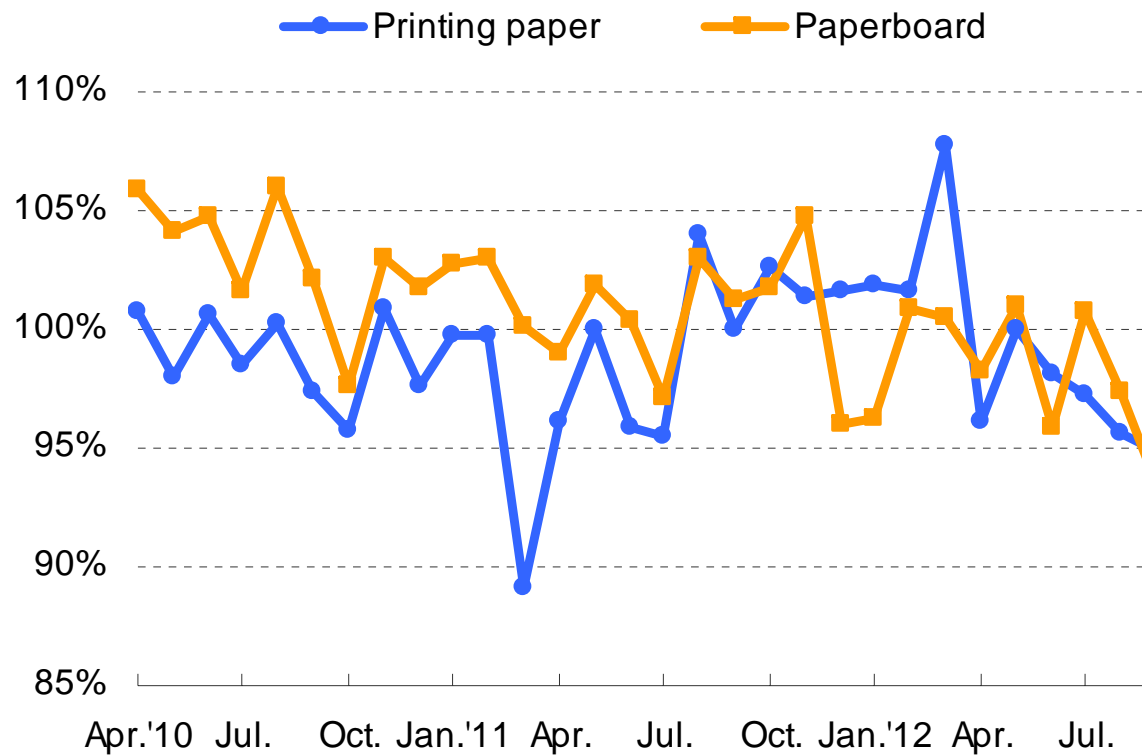
1. Business environment
2. Financial results
3. Topics
4. Earnings forecast

1. Business environment – *Domestic demand*



Domestic demand slowed down

Domestic shipment and imports YoY



Source: Japan Paper Association

1. Business Environment – Domestic shipment



Domestic shipment remained at a low level

Domestic shipment of
Japanese paper industry
(Apr.2012 – Sep. 2012)

	(kt)		Change YoY
	FY2011/1H	FY2012/1H	
Newsprint	1,558	1,601	2.8%
Printing & Business communication paper	4,073	3,805	-6.6%
Coated paper*	2,304	2,153	-6.6%
Uncoated & Specialty printing paper	1,083	1,009	-6.9%
Business communication paper	686	644	-6.2%
Other papers (Packaging paper, sanitary paper, and paper for miscellaneous uses)	1,649	1,619	-1.9%
Paper Total	7,280	7,025	-3.5%
Container board	4,345	4,259	-2.0%
Folding box board and others	1,162	1,097	-5.6%
Paperboard Total	5,508	5,356	-2.8%
Paper and Paperboard Total	12,788	12,381	-3.2%

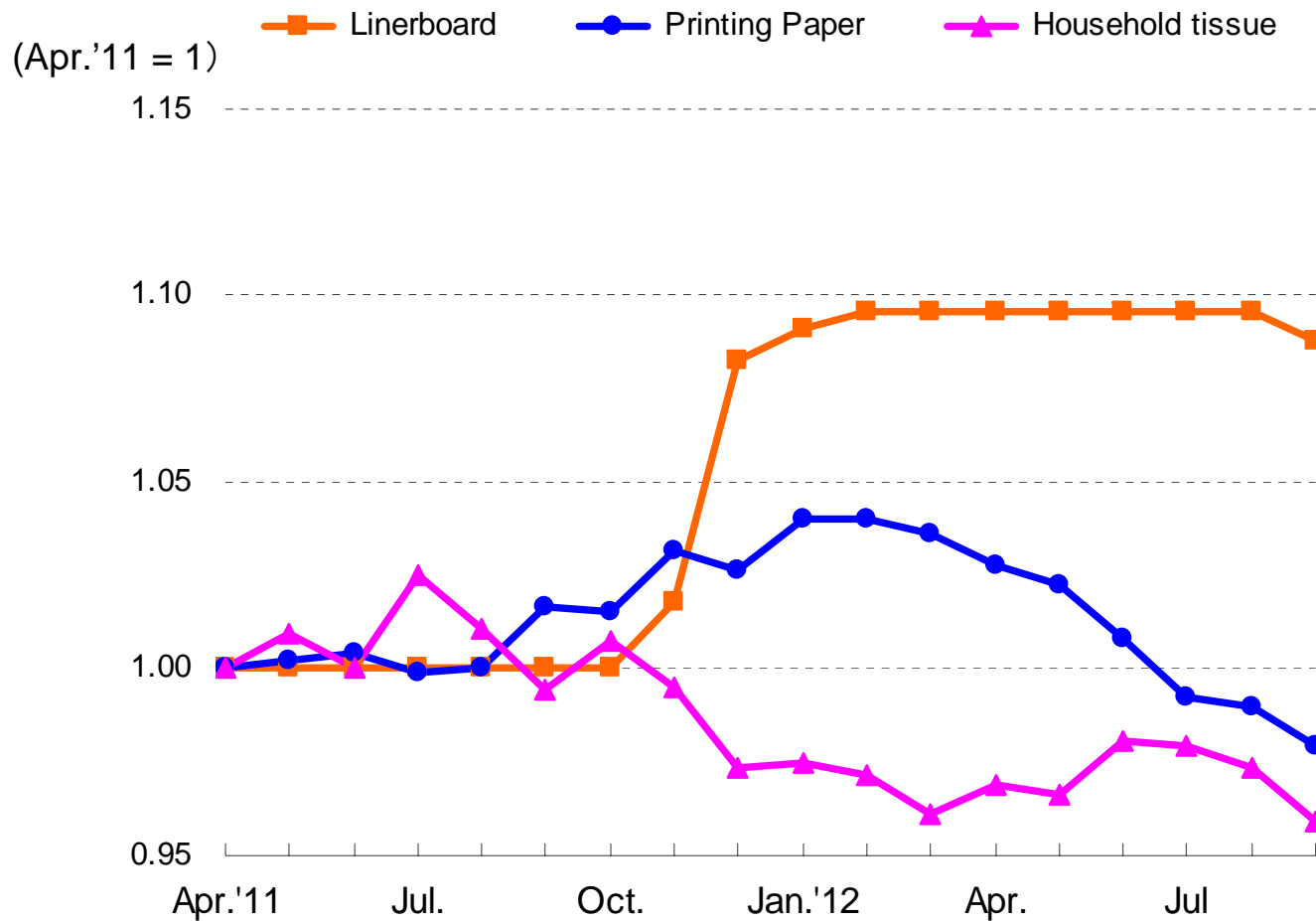
※ “Bitoko-shi” paper is included in coated paper.

Source: Japan Paper Association

1. Business Environment – *Domestic price trends*



Printing paper price weakened



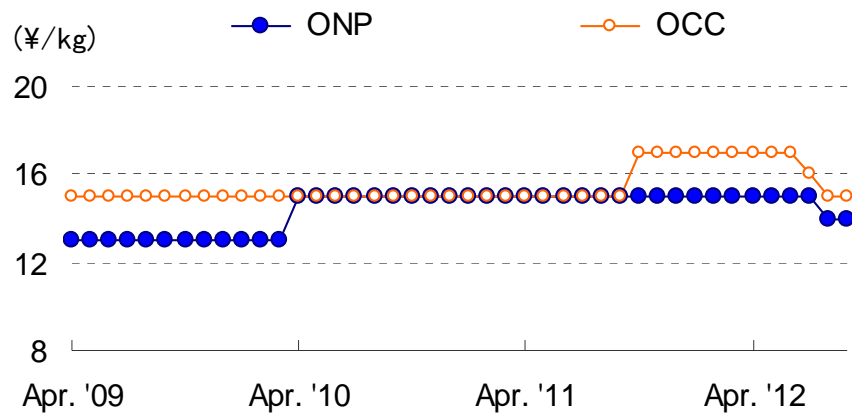
Source: Bank of Japan "Corporate Goods Price Index"

1. Business Environment – Major input price trends

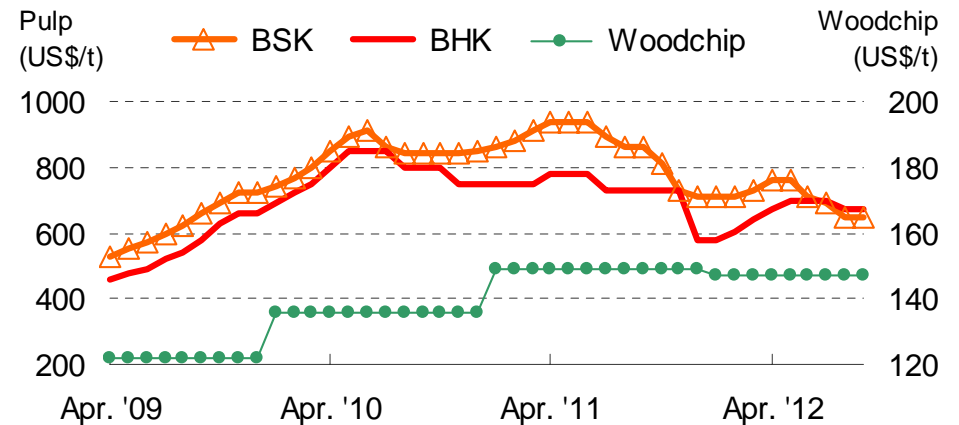


Raw material & fuel prices rising stopped

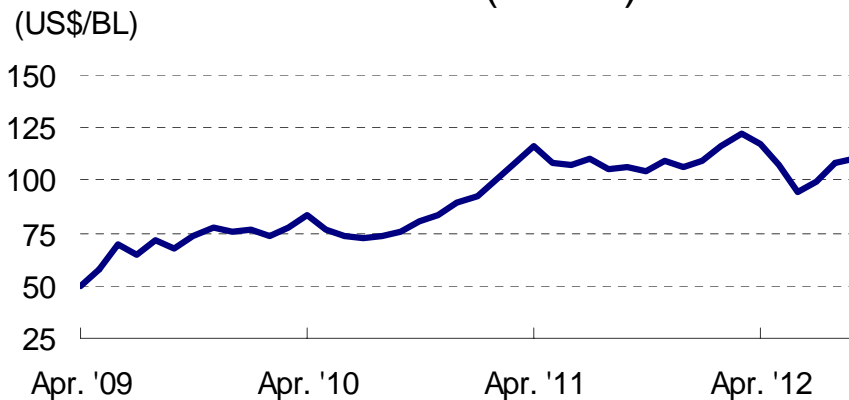
Wastepaper



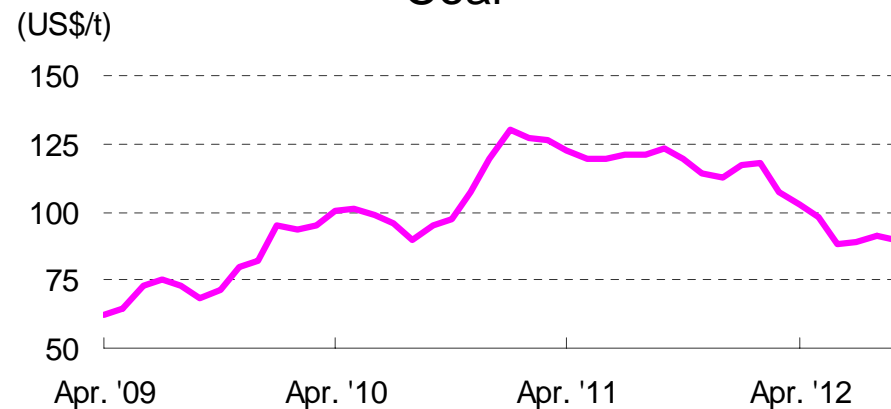
Pulp & woodchip



Crude oil (Dubai)



Coal



2. Financial Results - Highlights



(¥billion)	FY2012 1 st Half	Change (YoY)	Change From the Target
<Net sales>	507.2	-4.3	-22.8
<Operating income>	12.7	-1.7	-2.8
<Ordinary income>	10.2	22.7	-2.8
<Net income>	1.7	40.9	-3.3

-Sales and incomes were below the previous year due to severe business environment.

-Ordinary income and net income jumped up year-on-year due to the rebound of one-time goodwill amortization in Lee & Man share and loss on seismic disaster in FY2011.

-Booked ¥5 billion loss from revaluation of securities.

2. Financial Results – Segment information



Decreased sales and income in pulp & paper due to severe business environment.

	FY2011			FY2012	Change (YoY)
	1H	2H	Full Year	1H	
Upper row: Sales Lower row: Operating income (¥billion)					
Pulp & paper	404.1	413.6	817.7	399.4	-4.8
	8.9	15.3	24.2	7.5	-1.4
Paper related (packaging & chemical products)	48.2	45.3	93.5	48.1	-0.0
	4.1	2.6	6.7	3.4	-0.7
Wood products and construction related	28.1	32.6	60.7	27.8	-0.3
	0.7	1.8	2.5	0.9	0.3
Other (beverages, logistics, etc.)	31.1	39.4	70.6	31.9	0.7
	0.7	2.4	3.1	0.8	0.1
Total	511.5	530.9	1,042.4	507.2	-4.3
	14.4	22.1	36.5	12.7	-1.7

2. Financial Results – Sales volume by product



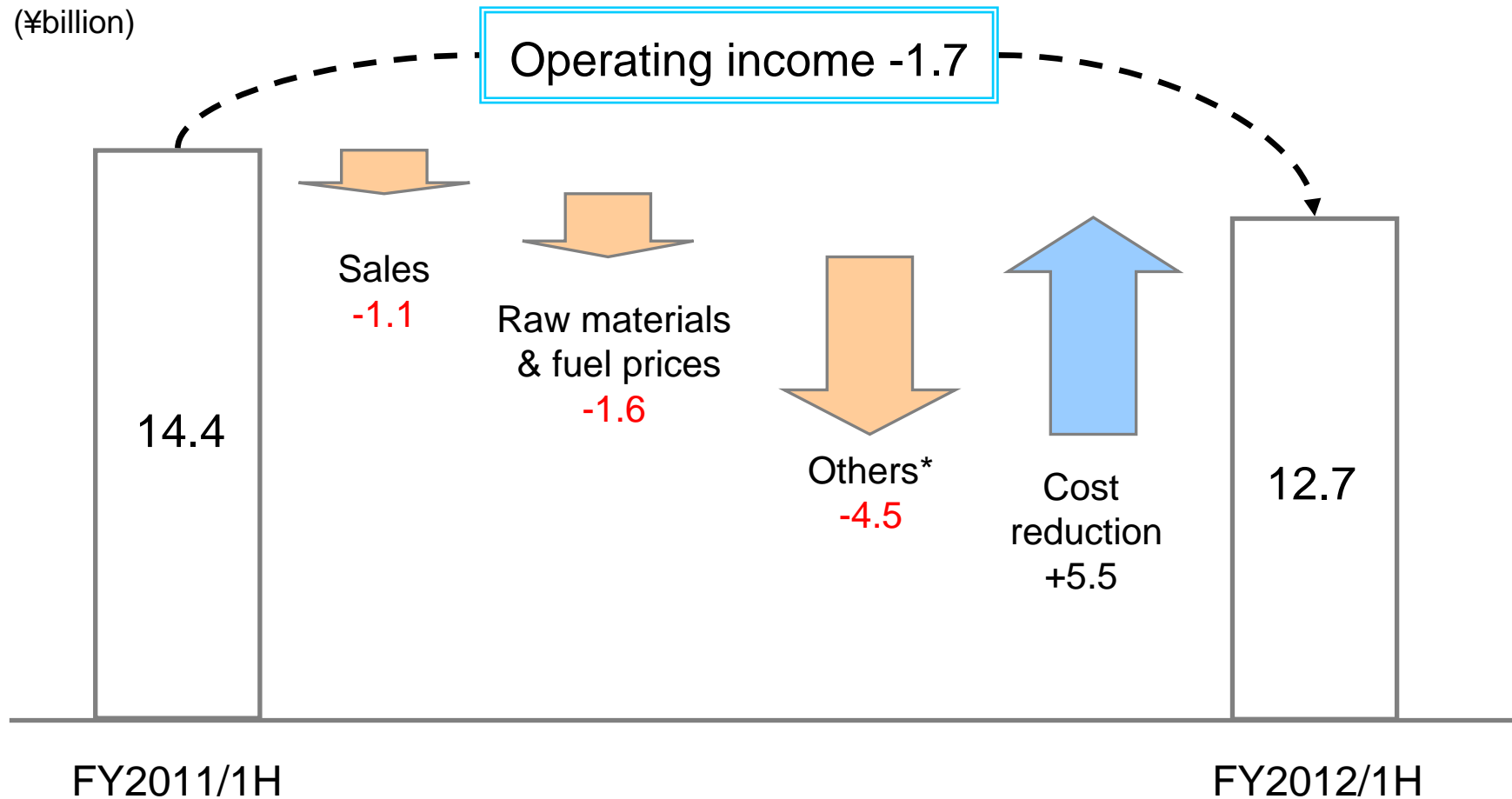
Coated paper sales volume increased due to our capacity restoration from the disaster

(kt)		FY2011/1H	FY2012/1H	change YoY
	Newsprint	573	583	1.7%
	Printing & Business communication paper	1,172	1,155	-1.4%
	Coated paper	587	628	7.1%
	Uncoated & Specialty printing paper	271	257	-5.0%
	Business communication paper	314	270	-14.2%
	Packaging paper and others	185	182	-1.5%
	Domestic sales (paper)	1,930	1,920	-0.5%
	Export (paper)	34	41	20.4%
	Paper total	1,964	1,961	-0.1%
	Container board	609	580	-4.7%
	Folding box board and others	178	171	-4.2%
	Domestic sales (paperboard)	787	751	-4.5%
	Export (paperboard)	28	23	-18.4%
	Paperboard total	815	774	-5.0%
	Grand total (paper and paperboard)	2,779	2,735	-1.6%

2. Financial Results - Variance analysis for operating income



The revitalization plan advanced steadily



* "Others" includes fixed costs on temporary shutdown facilities which were booked as an extraordinary loss in FY2011 (the costs are booked normally as production costs in FY2012) due to the earthquake and decrease on depreciation & amortization costs.

2. Financial Results – *Balance sheet*



(¥billion)	Mar. 31, 2012	Sep. 30, 2012	Change
Total Assets	1,527.6	1,506.1	-21.5
Cash and time deposits	119.4	100.4	-18.9
Notes and accounts receivable	205.2	214.4	9.2
Inventories	154.9	166.8	11.9
Other current assets	66.9	49.3	-17.6
Property, plant, equipment, and intangible fixed assets	776.3	777.3	1.0
Investments and other assets	205.0	198.0	-7.0
Total Liabilities	1,161.0	1,140.1	-20.9
Interest-bearing liabilities (incl. lease obligations)	838.3	837.8	-0.5
Other liabilities	322.7	302.3	-20.4
Total Net Assets	366.7	366.1	-0.6
Shareholders' equity	371.5	373.6	2.1

2. Financial Results – Cash flow statement



(¥billion)

Items	FY2011/1H	FY2012/1H	Change
Operating activities	17.8	12.4	-5.4
Income before income taxes	-40.9	3.6	44.5
Depreciation	36.8	31.9	-4.9
Change in net working capital	-12.3	-27.3	-15.0
Others	34.1	4.2	-30.0
Investing activities	-29.0	-28.4	0.6
Purchases of property, plant and equipment	-20.7	-26.9	-6.2
Proceeds from sales of property, plant and equipment	0.1	0.8	0.7
Others	-8.4	-2.3	6.1
Free cash flows	-11.2	-16.0	-4.8
Financing activities	-9.8	-3.8	6.0
Change in net borrowings	-0.1	-0.7	-0.6
Cash dividends paid	-2.3	-2.3	0.0
Others	-7.3	-0.7	6.6
Effect of exchange rate changes on cash and cash equivalents	-0.3	0.1	0.4
Increase in cash and cash equivalents	-21.2	-19.7	1.6
Cash and cash equivalents at the beginning of period	104.7	119.3	14.5
Increase due to inclusion of certain subsidiaries in consolidation	0.0	0.7	0.7
Cash and cash equivalents at the end of period	83.5	100.3	16.8

3. Topics



- Aug. 22 Established kraft paper production system at Kushiro Mill
- 30 Completed restoration of tsunami-hit Ishinomaki Mill
- 31 Added new lineup to our LWC flagship “Aurora S” brand
- Sep. 19 Completed closure of all production facilities at Nippon Paper Creca’s Iwakuni Mill
- 30 Completed closure of production facilities in Revitalization plan by shutting down all production facilities at Fuji - Suzukawa Mill
- Oct. 1 Four major subsidiaries (Nippon Paper Industries, Nippon Daishowa Paperboard, Nippon Paper-Pak, and Nippon Paper Chemicals) merged
- 10 Decided installation of de-inked pulp facilities in Australian Paper’s Maryvale Mill
- 11 Established dissolving pulp production system at Kushiro Mill

4. Earnings Forecast - *Highlights*



(¥billion)	FY2012 (Estimate)	FY2011	Change (YoY)
<Net Sales>	1,030.0	1,042.4	-12.4
<Operating income>	27.0	36.5	-9.5
<Ordinary income>	20.0	6.1	13.9
<Net income>	6.0	-41.7	47.7

Revised sales forecast mainly in paper & paperboard in a reflection of worsening business sentiment.

4. Earnings Forecast – *Assumptions*



Domestic Sales

- Sales volume (YoY)
 - Paper : +1.6% (vs. FY2010 -4.7%)
 - Paperboard : -2.2%
- Sales price
 - Paper and Paperboard: Current level

Raw materials and fuel prices, FOREX

- Crude oil : US\$105/BL (Dubai)
- Coal : US\$115/t (Australian black coal)
- Wastepaper
 - OCC : Reflecting price reductions in August and October (¥2/kg respectively)
 - Others : Current level
- FOREX : ¥80/US\$1, ¥80/AU\$1

4. Earnings Forecast – Sales volume by product

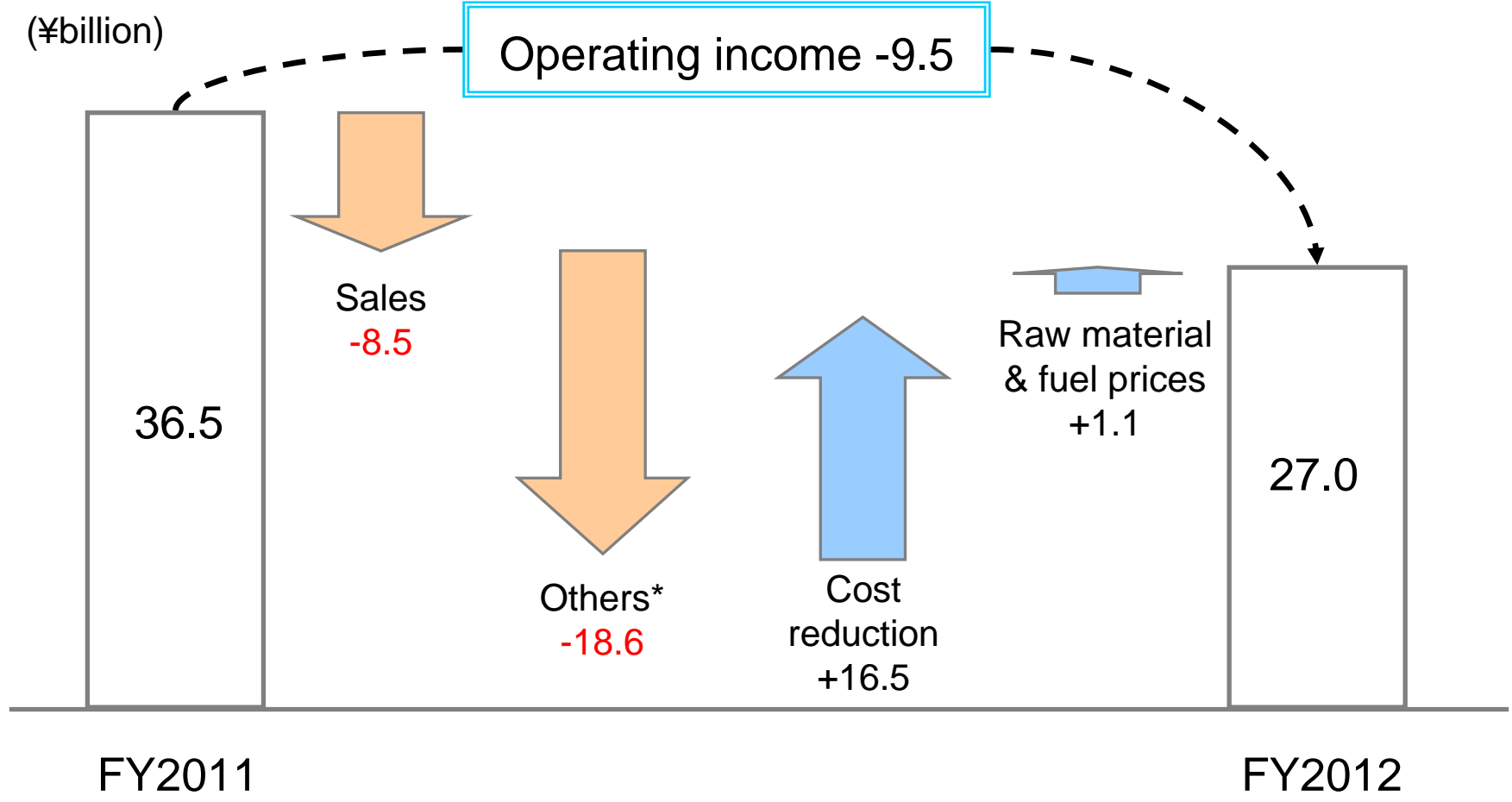


Expect recovery of coated paper sales

(kt)		FY2011	FY2012	change YoY
	Newsprint	1,190	1,171	-1.6%
	Printing & Business communication paper	2,326	2,391	2.8%
	Coated paper	1,172	1,310	11.8%
	Uncoated & Specialty printing paper	549	538	-2.1%
	Business communication paper	605	543	-10.2%
	Packaging paper and others	371	367	-1.1%
	Domestic sales (paper)	3,887	3,929	1.1%
	Export (paper)	61	82	34.7%
	Paper total	3,948	4,011	1.6%
	Container board	1,190	1,162	-2.4%
	Folding box board and others	359	352	-2.1%
	Domestic sales (paperboard)	1,550	1,514	-2.3%
	Export (paperboard)	54	54	-0.0%
	Paperboard total	1,604	1,568	-2.2%
	Grand total (paper and paperboard)	5,552	5,579	0.5%

4. Earnings Forecast - Variance analysis for operating income

Revise sales projection downward,
while cost reduction advances on schedule



* “ Others ” includes fixed costs on temporary shutdown facilities which were booked as an extraordinary loss in FY2011 (the costs are booked normally as production costs in FY2012) due to the earthquake and decrease on depreciation & amortization costs.

4. Earnings Forecast - *Key figures and indices*



	FY2008	FY2009	FY2010	FY2011	FY2012 1H	FY2012 Est.
Operating margin on sales	1.7%	3.9%	3.2%	3.5%	2.5%	2.6%
Ordinary margin on sales	1.5%	3.4%	2.9%	0.6%	2.0%	1.9%
D/E (times)	1.85	1.64	1.75	1.94	1.97	1.98
Capital investment (¥billion)	64.9	35.6	46.6	57.2	31.2	63.3
Depreciation (¥billion)	83.3	81.9	78.6	74.4	31.9	64.7
Net interest-bearing debt (¥billion)	769.2	738.6	727.5	718.9	737.3	740.0
Number of employees*	13,088	14,210	13,834	13,407	13,373	13,193

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



Disclaimer

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Nippon Paper Group, Inc.