

JCR Affirmed A+p/Stable Rating on Senior Debts of Oji Paper

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit rating.

Rationale

- (1) Oji Paper Co., Ltd. is Japan's largest paper manufacturer in terms of the total volume of paper and paperboards produced by the entire Oji Paper Group. The Company is engaged in the comprehensive production of paper, paperboards and household paper and takes a lead in the industry in its vertical integration of the paperboard and corrugated boxes businesses. It also focuses on functional materials, including thermal paper and film products, and the resource and environmental business utilizing domestic company forests and forest plantations.
- (2) While the domestic demand for paperboards has been relatively steady for the industry as a whole, that for paper remains sluggish partly due to structural factors such as a shift toward electronic media. Although the fact that the price increase announced by the Company and other major paper manufacturers for paper and paperboards in the summer of 2011 has penetrated to some extent deserves recognition, the domestic demand for paper will still likely shrink even over the medium term. Under these circumstances, the Company has been striving to expand the business scale for paperboards, corrugated boards, and functional materials overseas, particularly in China and Southeast Asia, while pursuing paper production restructuring in Japan. In fact, it is engaging in overseas M&As more actively, including the acquisition of a majority of shares of a major manufacturer of corrugated boxes in Malaysia in August 2011 and the subsequent acquisition of a thermal and carbonless paper mill in Brazil in September.
- (3) Although higher prices of raw materials and fuels led to an increase in the cost, the fiscal year ending March 31, 2012 is expected to see a larger operating profit thanks to the progress in cost-cutting efforts and the effect of the price increase for paper and paperboards to a certain extent. Further, such effect of the price increase is expected to last throughout the year in the fiscal year ending March 31, 2013, and JCR projects that the Company's earnings will remain steady.
- (4) Its efforts to improve the financial structure is making slightly slow progress, as shown by the net DER still standing at 1.8 times at the end of September 2011. The Company plans to make future investment on the condition of maintaining the balance of interest-bearing debt at 800 billion yen, and thus the gradual improvement of the financial structure can be expected.
- (5) In light of the shrinking domestic demand for paper and the increasing volume of paper imported from overseas due to the stronger yen, the business environment is severe. In addition, on the back of the oversupply of printing and communication paper in China, there is a concern about the earnings deterioration at the Nantong Mill, which started commercial production in Nantong, China at the end of 2010. Despite this, however, given that the paperboard and corrugated board businesses, as well as the functional materials business, will likely support the earnings, JCR considers that the Company can maintain the adequate earnings and cash flow. Going forward, JCR will keep a close watch on the progress in the expansion of the overseas business through M&As and changes in overseas earnings, including those for the Nantong Mill.

Rating

Issuer: Oji Paper Co., Ltd. (security code: 3861)

<Affirmation>

Senior debts: A+p Outlook: Stable

Outline of the method for the determination of the credit rating is posted as "Rating Methodology (Corporate)" on JCR's home page (<http://www.jcr.co.jp>). The rating methodology is subject to additions and changes. In such cases, however, these additions and changes are shown in chronological order. Please check the release date of this press release against that of the rating methodology (i.e., the date when such methodology became effective) and then refer to the rating methodology above.



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