

# FY2005 Interim Financial Review

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NIPPON PAPER  
GROUP

November 15, 2004

Nippon Paper Group, Inc.

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- (2) Operating results
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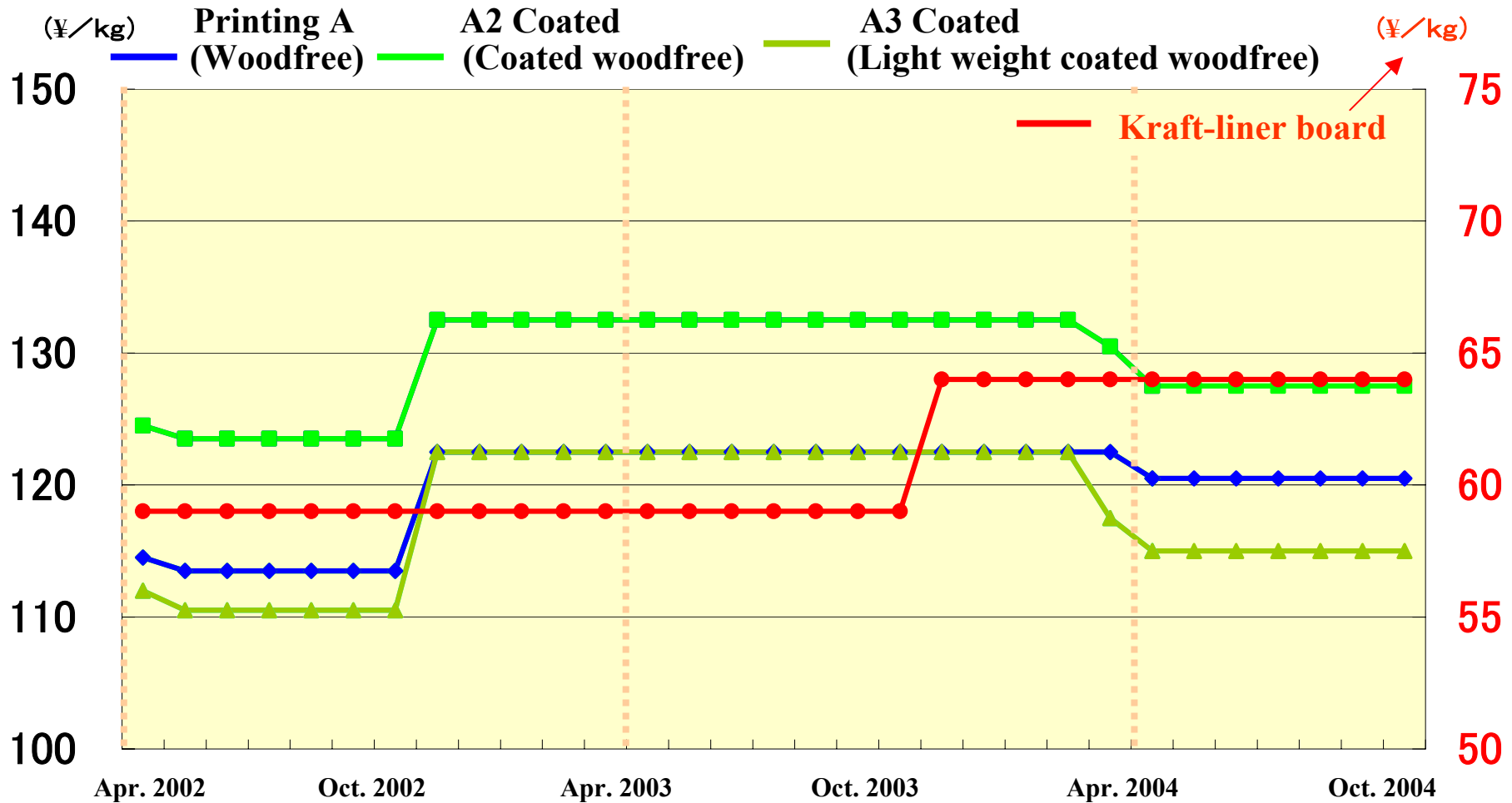
Paper industry

Domestic shipment of paper and paperboard  
FY2005 Interim(April 2004 — September 2004)

	Shipment(1,000 tons)	% change from FY2004 Interim
Newsprint	1,709	4.1%
Uncoated printing paper	1,325	2.0%
Coated printing paper ※	3,066	5.5%
Business communication paper	780	-3.7%
Other papers (Packaging paper, sanitary paper, and paper for miscellaneous uses)	1,978	1.2%
Paper total	8,858	2.9%
Paperboard total	5,942	-0.4%
Paper and paperboard total	14,800	1.5%

Paper industry

Trend in paper and paperboard prices  
(April 2002 – October 2004)

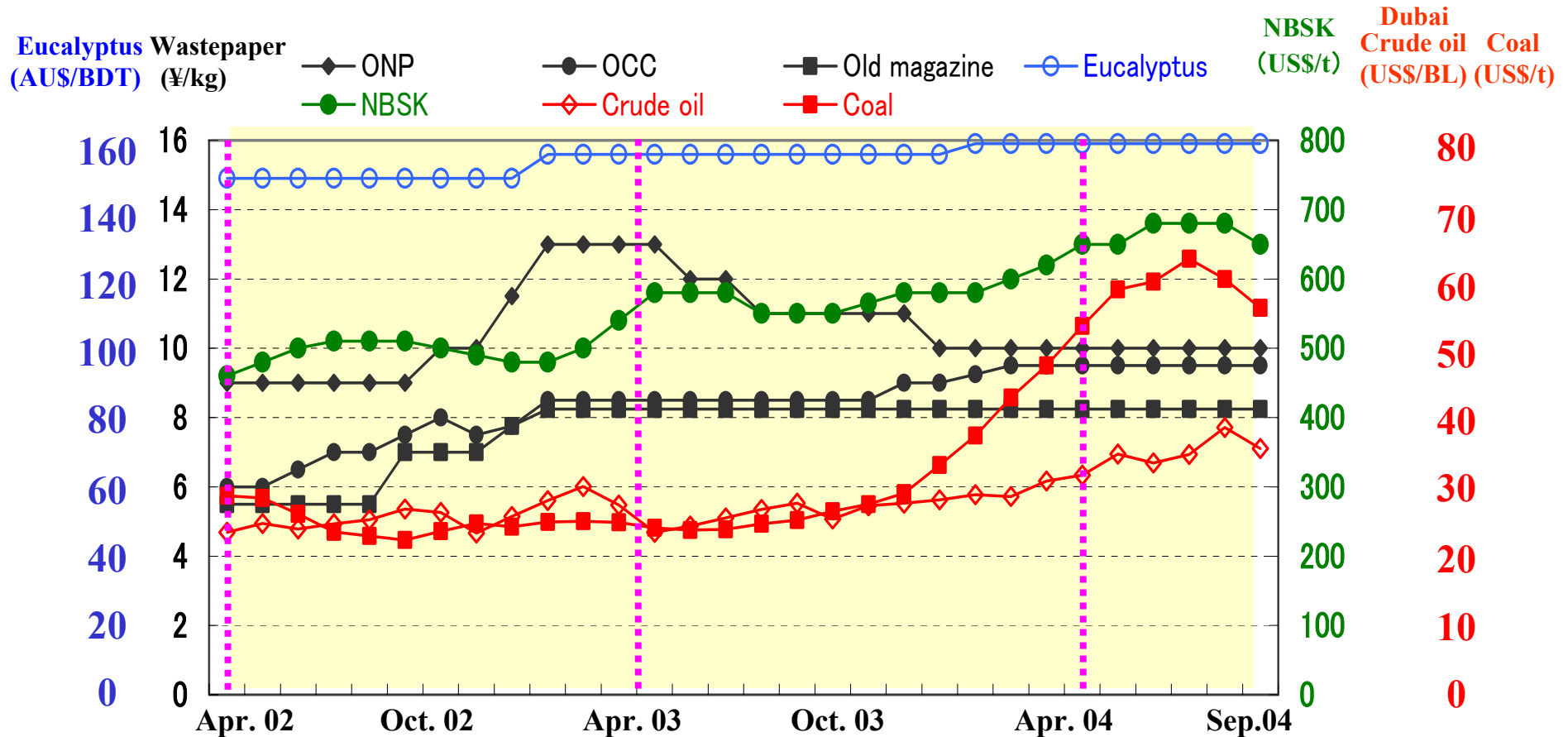


# I. Interim Review (1) Overview ① Business environment



Paper industry

Trend in fuel and raw material prices  
(April 2002 — September 2004)



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

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## Topics of the 1st half

Apr.2004 : Transferred shares in OTAKE PAPER MFG. CO., LTD.  
to Mishima Paper Co., Ltd.

: Established San-mic Shoji Co., Ltd. through merger of  
San-Mic Chiyoda Corporation and Jujo Shoji Co., Ltd.

: Transferred vacant lot of the former Nippon Paper Industries'  
Miyakojima Mill

Jun. : Established Nippon Paper Industries Trading (Shanghai) Co.,Ltd. in China

Sep. : Released “Esprit Coat LOTUS”, the world’s first low-density  
cast coated paper.

: Announced a full changeover to next generation newsprint  
(neutralized paper) (planned to complete by 2006)

Company	Location	Project	Invested amount (¥ billion)	Completion
Nippon Paper Industries	Nakoso	Production facilities for commissioned CCP (moving coater machine)	2.4	Jun. 2004
		Installation of thermal recycling power generator	3.8	Sep. 2004

## Consolidated operating results

(¥ billion)	FY2004 Interim	FY2005 Interim	Difference
<Net sales>	594.5	597.8	3.3
<Operating income>	25.0	34.4	9.4
<Ordinary income>	21.5	32.7	11.2
<Interim net income>	8.5	10.4	1.9

(Thousand tons)	FY2004 Interim	FY2005 Interim	Growth yoy
(Average domestic paper price:yen/kg)	(108.2)*	(105.5)	(-2.5%)
Newsprint	667	675	1.2%
Uncoated printing	378	380	0.4%
Coated printing	895	956	6.8%
Business communication paper	330	325	-1.6%
Packaging paper and others	332	330	-0.7%
<b>Total domestic sales</b>	<b>2,602</b>	<b>2,665</b>	<b>2.4%</b>
Export (including newsprint)	246	245	-0.7%
<b>Total (paper)</b>	<b>2,848</b>	<b>2,910</b>	<b>2.2%</b>
(Average domestic paperboard price:yen/kg)	(50.6)	(53.9)	(6.4%)
Container board	723	709	-1.9%
Folding box board and others	206	205	-0.4%
<b>Total domestic sales</b>	<b>929</b>	<b>914</b>	<b>-1.6%</b>
Export	20	18	-10.0%
<b>Total (paperboard)</b>	<b>949</b>	<b>932</b>	<b>-1.7%</b>
<b>Grand total (paper and paperboard)</b>	<b>3,797</b>	<b>3,842</b>	<b>1.2%</b>

\* calculated excluding newsprint.

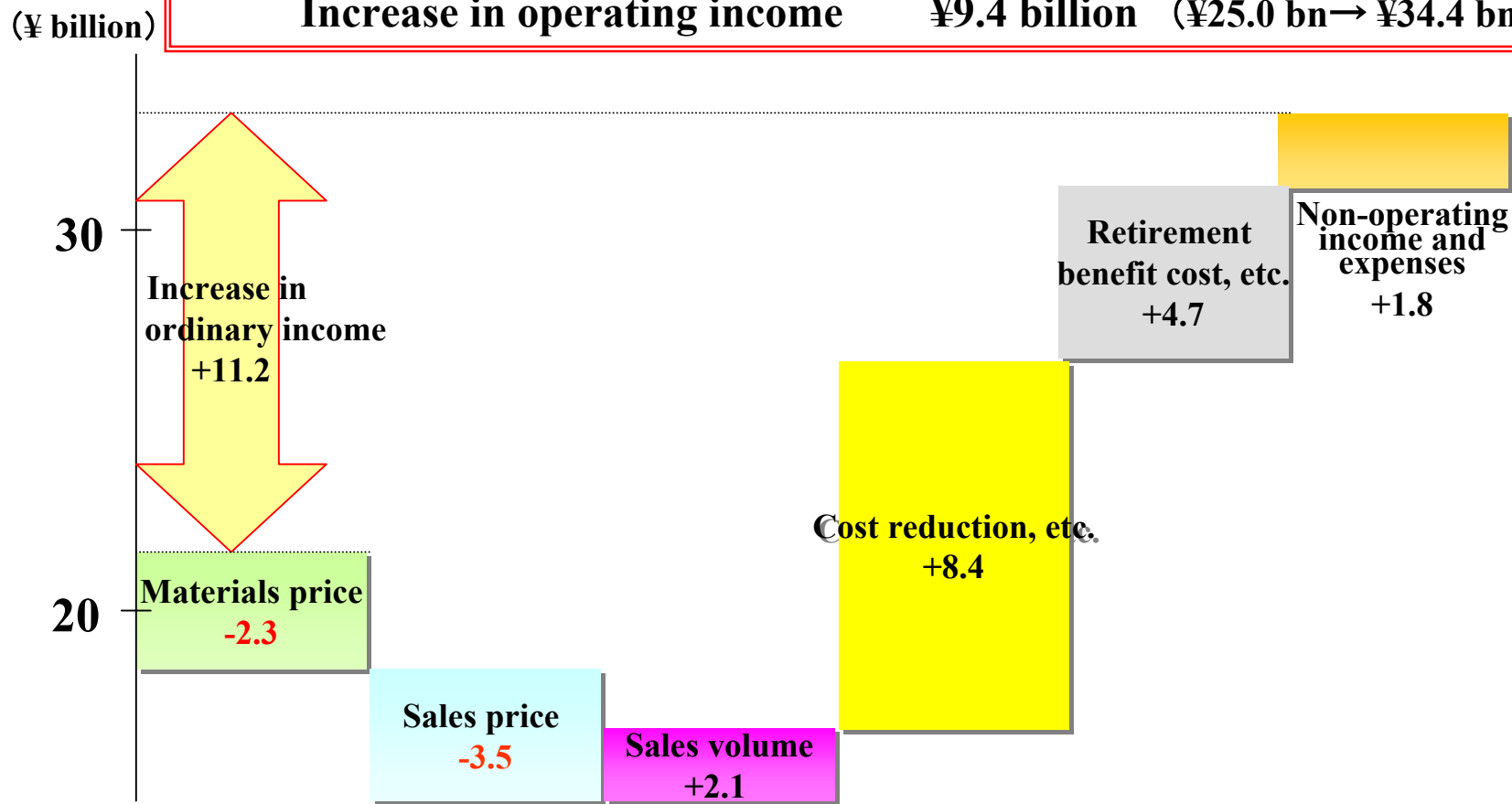


(¥ billion)

	Net sales		Operating income		Comments
	FY2004 Interim	FY2005 Interim	FY2004 Interim	FY2005 Interim	
<b>Pulp and Paper Div.</b>	<b>446.1</b>	<b>443.8</b>	<b>18.5</b>	<b>25.2</b>	
Paper, etc.	364.8	365.3	15.4	21.6	As fuel costs rose, profit increased with healthy demand and cost reduction.
Paperboard	49.1	50.4	0.8	3.7	Remained steady after price recovery last autumn. Cost reduction also contributes to profit.
Household tissue	32.2	28.1	2.3	-0.1	Sales volume decreased and price deteriorated by intensified competition.
<b>Paper-Related Div.</b> (cartons, chemical products)	<b>61.5</b>	<b>64.4</b>	<b>2.8</b>	<b>4.8</b>	Sales and profits of liquid-packaging carton business increased with good weather effect. Corrugated board business also remained steady by cost reduction.
<b>Housing and Construction Materials Div.</b>	<b>45.3</b>	<b>48.3</b>	<b>1.1</b>	<b>1.1</b>	Strong sales of construction materials driven by steady home construction.
<b>Other Div.</b> (beverages, logistics)	<b>41.6</b>	<b>41.2</b>	<b>2.5</b>	<b>3.3</b>	Soft drinks sold well.
<b>Total</b>	<b>594.5</b>	<b>597.8</b>	<b>25.0</b>	<b>34.4</b>	

**FY2004 Interim vs FY2005 Interim**

**Increase in ordinary income ¥11.2 billion (¥21.5 bn → ¥32.7 bn)**  
**Increase in operating income ¥9.4 billion (¥25.0 bn → ¥34.4 bn)**



(¥ billion)	FY2004 Interim	FY2005 Interim
Ordinary income	21.5	32.7
Extraordinary gains	1.9	12.6
Gain on sale of property, plant and equipment	1.2	11.3
Others	0.7	1.3
Extraordinary losses	4.9	21.2
Loss on disposal of property, plant and equipment	1.5	2.5
Extraordinary retirement benefits	—	5.1
Provision for doubtful receivables	1.2	4.4
Losses on restructuring	—	3.7
Loss on sale of securities, etc.	—	3.3
Others	2.2	2.1
Income tax adjustment	-9.2	-12.6
Minority interests	-0.8	-1.1
Net income	8.5	10.4

(¥ billion)

**Balance sheet**

	Mar. 31, 2004	Sep. 30, 2004	Difference	Consolidation adjustment*	Comments
Cash and time deposits	21.8	14.9	-6.9	-7.9	Cash reduction (CMS effect)
Notes and accounts receivable	260.8	265.9	5.1	2.6	
Inventories	134.6	137.3	2.7	4.7	
Other current assets	59.4	58.3	-1.1	-9.6	
Property, plant, equipment, and intangible fixed assets	944.5	913.1	-31.4	-13.1	
Investments and other assets	216.2	206.3	-9.9	-13.2	
<b>Total assets</b>	<b>1,637.4</b>	<b>1,595.8</b>	<b>-41.5</b>	<b>-36.5</b>	
Interest-bearing debt	842.3	804.9	-37.4	-36.4	Sep. 2003 871.0 bn → Sep. 2004 804.9 bn
Other debt	342.9	334.8	-8.1	-7.2	
Minority interests in consolidated subsidiaries	22.6	23.3	0.7	0.7	
<b>Total shareholders' equity</b>	<b>429.6</b>	<b>432.8</b>	<b>3.2</b>	<b>6.4</b>	

\*Excludes the impact resulting from the changes in consolidation scope.

(¥ billion)

Items	FY2004 Interim	FY2005 Interim	Difference	Comments
Operating activities	29.2	44.0	14.7	
Income before income taxes	18.5	24.1	5.6	① Income before taxes 30.6% increased.
Depreciation, and amortization of difference between cost and underlying net equity in consolidated subsidiaries	41.8	37.6	-4.1	
Change in net working capital	-35.1	-11.1	24.0	② Sept.2003:Effect of shortening of the payment terms for former Daishowa
Others	4.1	-6.7	-10.8	
Investing activities	-44.4	-9.2	35.2	
Purchases of property, plant and equipment	-37.5	-27.6	9.9	③ Hold down expenditure by selected investment.
Proceeds from sales of property, plant and equipment	1.9	14.4	12.5	④ Proceeds from sales of Miyakojima mill vacant lot of Nippon Paper Industries
Others	-8.8	4.0	12.8	
Free cash flows	-15.1	34.8	49.9	
Financing activities	2.3	-41.8	-44.1	
Change in net borrowings	12.2	-36.4	-48.5	⑤ Promoted repayment of debt through sales of property and excess cash reduction.
Cash dividends paid	-8.7	-4.4	4.3	
Others	-1.2	-1.0	0.1	
Effect of exchange rate changes	1.1	0.1	-1.0	
Cash and cash equivalents	23.5	14.8	-8.7	⑥ Excess cash reduction(CMS effect, etc.)

## Topics of the 2nd half

- Oct. 2004 : Changed the holding company name to “Nippon Paper Group, Inc.”  
 : Integrated functional material business of Nippon Paper Industries Co., Ltd.  
 into Nippon Paper Chemicals Co., Ltd.  
 : Start electricity wholesale business (IPP business) at Kushiro Mill.
- Nov. : Announced an agreement on merger of Nichiita Package Industries Co., Ltd.  
 and Tokan Packaging System Co., Ltd. (subsidiary of Tokan Kogyo Co., Ltd.)  
 (scheduled for Oct. 2005)
- Dec. : Start test run of corrugating-medium paper machine at Zhejiang Jingxing  
 Nippon Paper Co., Ltd. (planned)

Company	Location	Project	Invested amount (¥ billion)	Operation start (Forecast)
Nippon Paper Industries	Kushiro	Installation of wholesale power plant	9.8	Oct. 2004
	Shiraoi	Boost the pulp production capacity (3KP)	1.3	Nov. 2004

## ● II. FY2005 forecast ● (2) Operating results

### ① Business environment for the 2nd half



#### 1. Sales forecast for the 2nd half

- Paper: ① Volume= No significant change from 2nd half FY2004  
② Price=Recover price
- Paperboard: ① Volume= +2.8% up from 2nd half FY2004  
② Price=Maintain price levels

#### 2. Forecast of raw materials and fuel price compared to 1st half FY2005

- Coal : No significant change
- Wood chip : No significant change
- High sulfur fuel oil : Up
- Pulp : No significant change
- Wastepaper : No significant change

#### Environment

- Exchange rate(2nd half)  
:US\$1=¥110  
:AU\$1=¥ 80
- 1st half average:US\$1=¥110  
AU\$1=¥ 78

## Forecast of consolidated results

(¥ billion)	FY2004	FY2005 Est.	Difference
<Net sales>	1,192.6	1,190.0	-2.6
<Operating income>	55.7	69.0	13.3
<Ordinary income>	50.7	65.0	14.3
<Net income>	24.3	26.0	1.7



(Thousand tons)	FY2004	FY2005	Growth yoy
(Average domestic paper price: yen/kg)	(107.3)*	(106.3)	(-1.0%)
Newsprint	1,361	1,362	0.1%
Uncoated printing	756	750	-0.8%
Coated printing	1,848	1,914	3.6%
Business communication paper	669	672	0.4%
Packaging paper and others	650	638	-1.9%
<b>Total domestic sales</b>	<b>5,284</b>	<b>5,335</b>	<b>1.0%</b>
Export (including newsprint)	502	480	-4.3%
<b>Total (paper)</b>	<b>5,786</b>	<b>5,816</b>	<b>0.5%</b>
(Average domestic paperboard price: yen/kg)	(52.3)	(53.8)	(2.9%)
Container board	1,423	1,431	0.6%
Folding box board and others	411	414	0.7%
<b>Total domestic sales</b>	<b>1,834</b>	<b>1,845</b>	<b>0.6%</b>
Export	41	41	-0.3%
<b>Total (paperboard)</b>	<b>1,875</b>	<b>1,885</b>	<b>0.6%</b>
<b>Grand total (paper and paperboard)</b>	<b>7,661</b>	<b>7,701</b>	<b>0.5%</b>

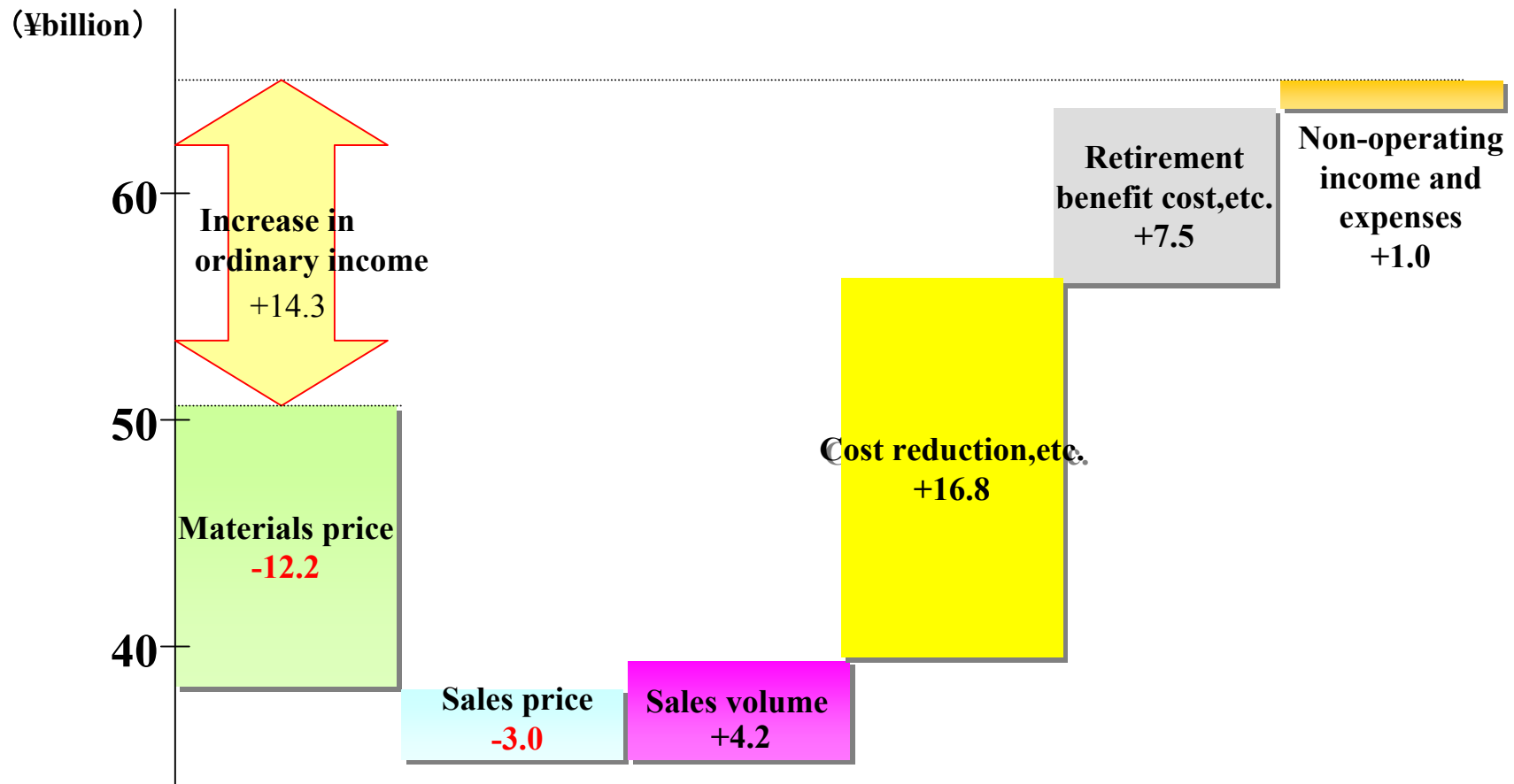
\* calculated excluding newsprint.

(¥ billion)

	Sales		Operating income		Comments
	FY2004 actual	FY2005 estimated	FY2004 actual	FY2005 estimated	
<b>Pulp and Paper Div.</b>	<b>896.2</b>	<b>882.3</b>	<b>43.0</b>	<b>52.8</b>	
Paper, etc.	733.4	719.8	36.1	45.8	Profits increase with cost reduction and healthy sales.
Paperboard	99.6	101.9	3.9	7.6	Full year effect of the price recovery.
Household tissue	63.1	60.5	3.0	-0.5	Promotion of cost reduction. Competition intensifies.
<b>Paper-related Div.</b> (cartons, chemical products)	<b>123.7</b>	<b>128.5</b>	<b>5.0</b>	<b>8.0</b>	Sales promotion of cartons and cost reduction in corrugated board business.
<b>Housing and Construction Materials Div.</b>	<b>93.5</b>	<b>99.2</b>	<b>2.6</b>	<b>2.5</b>	Steady home construction remains.
<b>Other Div.</b> (beverages, transport)	<b>79.3</b>	<b>80.0</b>	<b>5.1</b>	<b>5.7</b>	New IPP plant contributes to profit.
<b>Total</b>	<b>1,192.6</b>	<b>1,190.0</b>	<b>55.7</b>	<b>69.0</b>	

FY2004 vs FY2005 est.

**Increase in ordinary income ¥14.3 billion (¥50.7 bn → ¥65.0 bn)**  
**Increase in operating income ¥13.3 billion (¥55.7 bn → ¥69.0 bn)**



	FY2003	FY2004	FY2005 interim	FY2005 est.
<b>ROE</b>	1.2%	5.8%	4.8%	6.0%
<b>Ordinary margin on sales</b>	3.4%	4.2%	5.5%	5.5%
<b>D/E (times)</b>	2.0	1.9	1.8	1.7
<b>Operation rate of paper machine(Calendar basis)</b>	86%	87%	90%	90%
<b>Operation rate of paperboard machine(Calendar basis)</b>	79%	85%	88%	89%
<b>Capital investment (¥ billion)</b>	76.9	57.4	33.6	68.9
<b>Depreciation (¥ billion)</b>	83.2	81.3	36.6	75.3
<b>Interest-bearing debt (¥ billion)</b>	851.3	842.3	804.9	790.1
<b>Number of employees</b>	15,662	14,987	14,154	13,878

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## Disclaimer Regarding Forward-Looking Statements

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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, which 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.**