

FY2005 Financial Review



NIPPON PAPER
GROUP

May 12, 2005

Nippon Paper Group, Inc.



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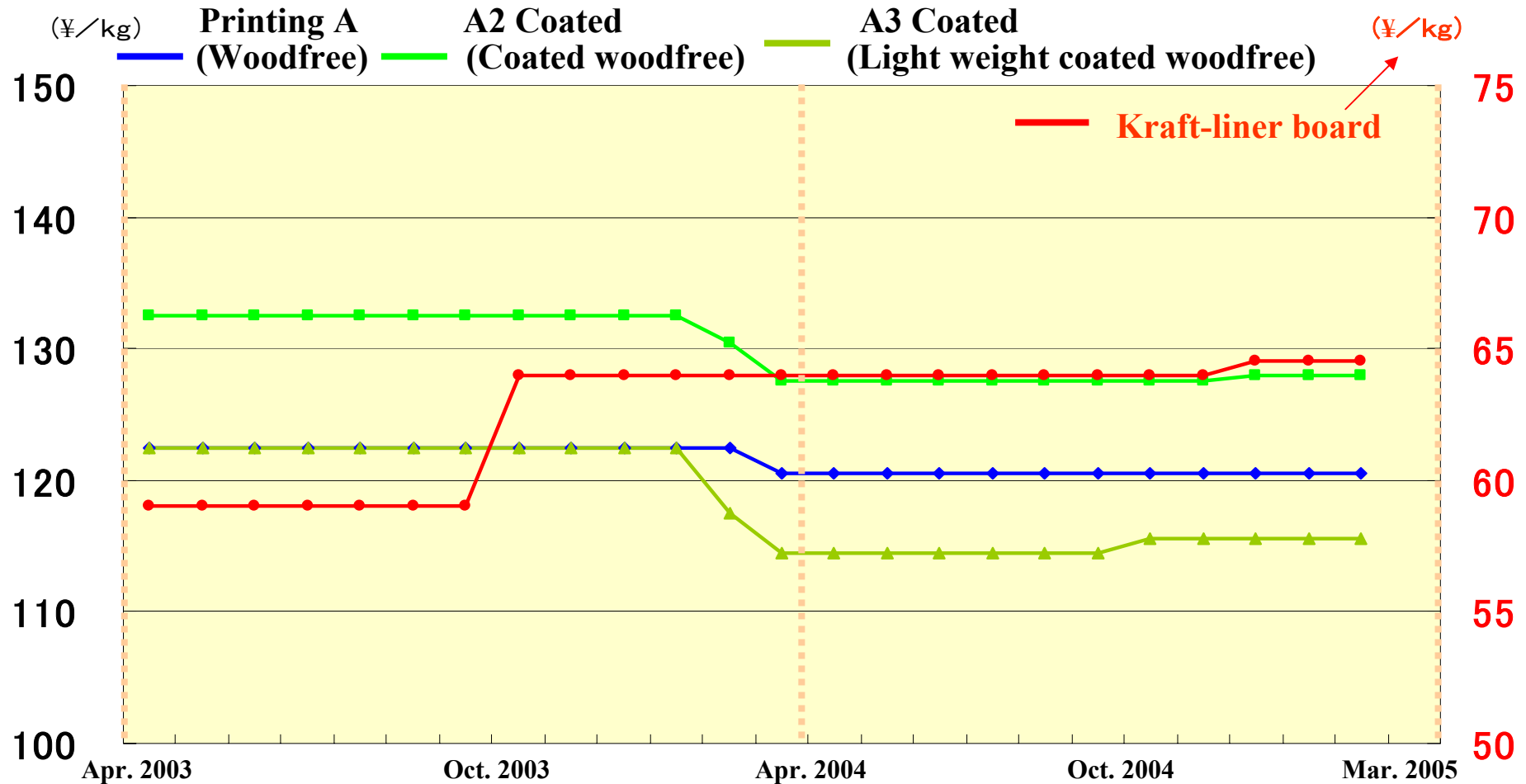
Paper industry

Domestic shipment of paper and paperboard
FY2005(April 2004 — March 2005)

	Shipment(1,000 tons)	% change yoy
Newsprint	3,449	3.0%
Uncoated printing paper	2,638	0.9%
Coated printing paper ※	6,244	4.7%
Business communication paper	1,581	-3.1%
Other papers (Packaging paper, sanitary paper, and paper for miscellaneous uses)	3,995	1.0%
Paper total	17,907	2.3%
Paperboard total	11,838	-0.4%
Paper and paperboard total	29,746	1.2%

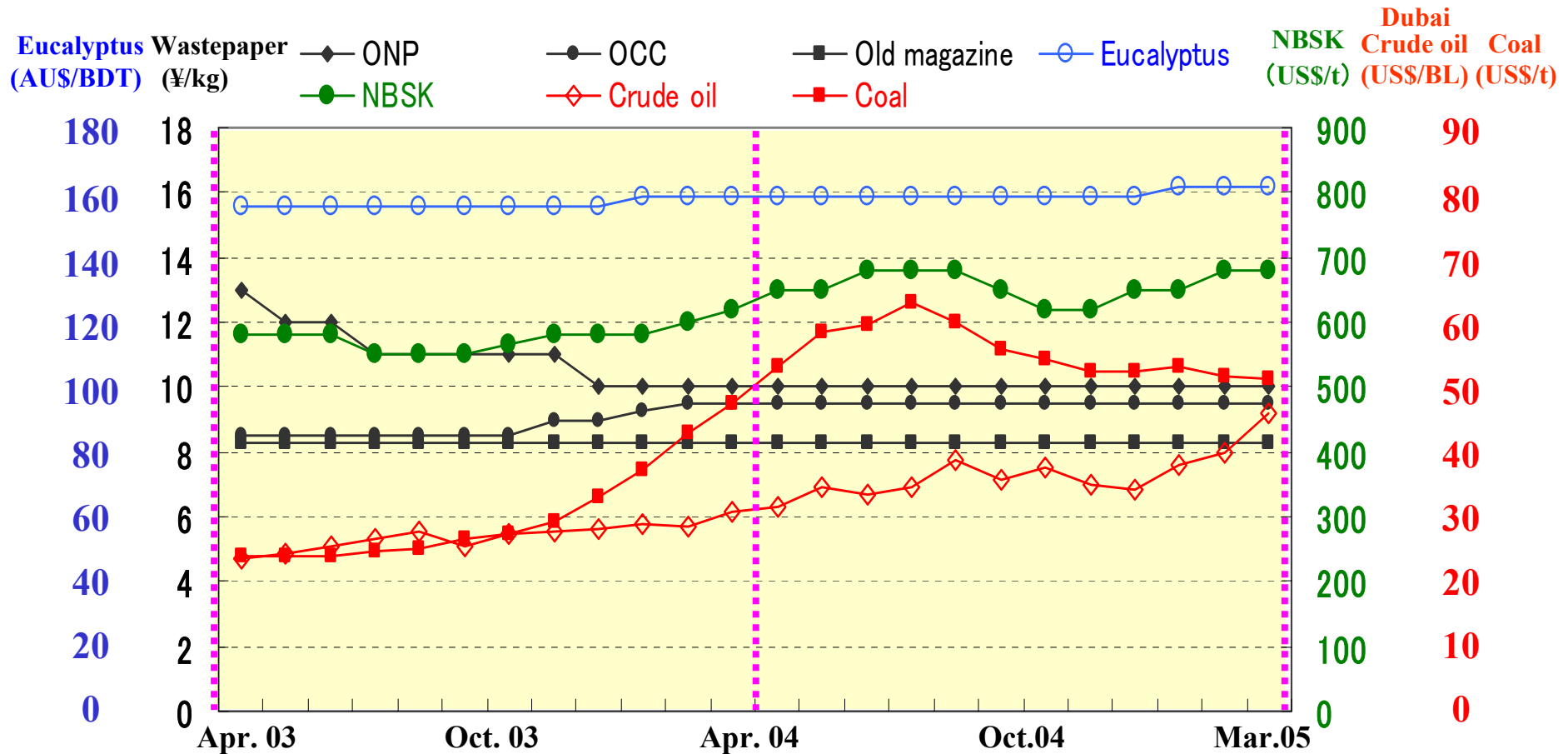
Paper industry

Trend in paper and paperboard prices
(April 2003 – March 2004)



Paper industry

Trend in fuel and raw material prices
(April 2003 – March 2005)



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

Topics of FY2005

- 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.
- Oct. : 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.
- : Started electricity wholesale business(IPP business) at Kushiro Mill.
- Jan.2005 : Started operation of corrugating-medium paper machine at Zhejiang Jingxing Nippon Paper Co., Ltd.
- : Jujo Thermal Ltd. decided to double its coating capacity.(planned)

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
	Kushiro	Installation of wholesale power plant	9.8	Oct. 2004

Consolidated operating results

(¥ billion)	FY2004	FY2005	Difference
<Net sales>	1,192.6	1,179.7	-12.9
<Operating income>	55.7	65.2	9.5
<Ordinary income>	50.7	62.8	12.1
<Interim net income>	24.3	24.4	0.1

(Thousand tons)	FY2004 (A)	FY2005 (B)	% change yoy
(Average domestic paper price: ¥/kg)	※ (107.3)	(105.8)	(-1.4%)
Newsprint	1,361	1,358	-0.2%
Uncoated paper	759	760	0.1%
Coated paper	1,845	1,922	4.2%
Business communication paper	669	671	0.2%
Packaging paper and others	650	632	-2.7%
Total domestic sales	5,284	5,343	1.1%
Export (including newsprint)	503	477	-5.2%
Total (paper)	5,787	5,820	0.6%
(Average domestic paperboard price: ¥/kg)	(52.3)	(53.9)	(3.1%)
Container board	1,423	1,398	-1.8%
Folding box board and others	409	409	-0.1%
Total domestic sales	1,832	1,807	-1.4%
Export	43	34	-19.5%
Total (paperboard)	1,875	1,841	-1.8%
Grand total (paper and paperboard)	7,661	7,661	-0.0%

※calculated excluding newsprint.

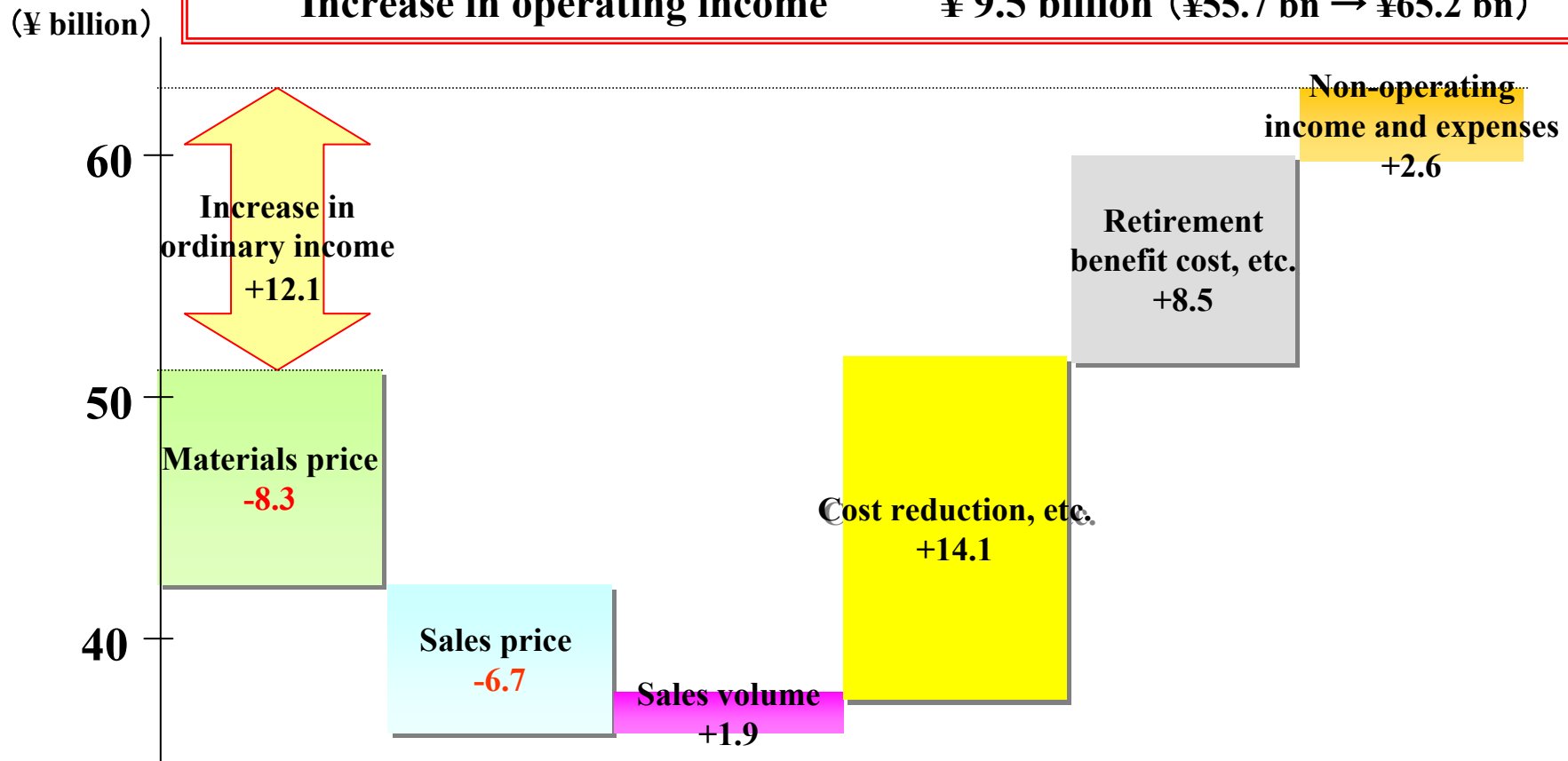
(¥ billion)

	Sales		Operating income		Comments
	FY2004	FY2005	FY2004	FY2005	
Pulp and Paper Div.	890.1	870.4	41.4	47.3	
Paper etc.	727.4	714.7	34.5	42.2	Cost reduction and increase in sales volume.
Paperboard	99.6	99.4	3.9	7.0	Full year effect of the price recovery.
Household tissue	63.1	56.3	3.0	▲ 1.9	Price deteriorated by intensified competition.
Paper-related Div. (cartons, chemical products)	123.7	126.6	5.0	8.3	Sales and profits of liquid-packaging carton business increased with good weather effect. Corrugated board business also remained steady by cost reduction.
Housing and Construction Materials Div.	93.5	95.2	2.6	2.3	
Other Div. (beverages, transport)	85.3	87.5	6.7	7.3	IPP plant started. Soft drinks sold well.
Total	1,192.6	1,179.7	55.7	65.2	

※Electricity wholesale business transferred from Paper etc. to Other Div..

FY2004 vs FY2005

Increase in ordinary income ¥12.1 billion (¥50.7 bn → ¥62.8 bn)
Increase in operating income ¥ 9.5 billion (¥55.7 bn → ¥65.2 bn)



(¥ billion)	FY2004	FY2005
Ordinary income	50.7	62.8
Extraordinary gains	10.1	22.1
Gain on sale of property, plant and equipment	1.4	13.8
Gain on sale of securities, etc.	1.0	6.3
Others	7.7	2.0
Extraordinary losses	24.2	38.1
Loss on disposal of property, plant and equipment	5.1	7.1
Loss on sale of property, plant and equipment	—	2.4
Provision for doubtful receivables	1.3	9.0
Extraordinary retirement benefits	7.1	6.1
Loss on restructuring	6.1	5.0
Loss on sale of securities, etc.	—	3.3
Others	4.6	5.2
Income tax adjustment	-10.9	-21.0
Minority interests	-1.4	-1.4
Net income	24.3	24.4

(¥ billion)

Balance sheet	Mar. 31, 2004	Mar. 31, 2005	Difference	Comments
Cash and time deposits	21.8	18.3	-3.5	
Notes and accounts receivable	260.8	247.9	-12.9	
Inventories	134.6	131.8	-2.8	
Other current assets	59.4	45.1	-14.3	
Property, plant, equipment, and intangible fixed assets	944.5	885.6	-58.9	Capital investment 55.4 , Depreciation -75.0, etc.
Investments and other assets	216.2	201.2	-15.0	
Total assets	1,637.4	1,530.0	-107.4	
Interest-bearing debt	842.3	766.1	-76.1	Mar. '06(planned) 696.5 bn
Other debt	342.9	297.3	-45.6	
Minority interests in consolidated subsidiaries	22.6	23.6	1.0	
Total shareholders' equity	429.6	442.9	13.3	

(¥ billion)

Items	FY2004	FY2005	Difference	Comments
Operating activities	87.1	108.2	21.1	
Income before income taxes	36.5	46.8	① 10.3	① Income before taxes 28% increased.
Depreciation, and amortization of difference between cost and underlying net equity in consolidated subsidiaries	83.6	77.0	-6.6	
Change in net working capital	② -34.8	5.7	40.5	② Mar. '04 : Effect of shortening of the payment terms for former Daishowa.
Others	1.8	-21.3	-23.1	
Investing activities	-72.7	-26.1	46.6	
Purchases of property, plant and equipment	-66.3	③ -56.7	9.6	③ Hold down expenditure by selected investment.
Proceeds from sales of property, plant and equipment	2.4	④ 17.6	15.2	④ Proceeds from sales of Miyakojima mill vacant lot of Nippon Paper Industries Co., Ltd. ,etc.
Others	-8.7	13.0	21.7	
Free cash flows	14.4	82.1	67.7	
Financing activities	-28.8	-86.0	-57.2	
Change in net borrowings	-13.9	⑤ -75.2	-61.3	⑤ Promoted repayment of debt.
Cash dividends paid	-13.5	-9.1	4.5	
Others	-1.4	-1.8	-0.4	
Effect of exchange rate changes	0.8	0.5	-0.3	
Cash and cash equivalents	21.6	18.2	-3.4	

Topics of FY2006

Apr. 2005 : Suzukawa Mill and Fuji Mill to integrate.

(The new integrated mill is called Nippon Paper Industries Co., Ltd. Fuji Mill)
 : Nippon Paper Industries Co., Ltd. decided to withdraw from
 paper joint venture in northern China.

Oct. : Merger of Nichiita Package Industries Co., Ltd. and
 Tokan Packaging System Co., Ltd. (subsidiary of Tokan Kogyo Co., Ltd.)
 (planned)

In the early FY2007 Announce the second medium-term business plan.(planned)






Company	Location	Project	Invested amount (¥ billion)	Operation start (Forecast)
Nippon Paper Industries	Iwanuma	Installation of H-DIP line	1.8	Apr. 2005
		Measures for producing high quality (neutralize) newsprint	1.5	Sep. 2005
	Ishinomaki	Measures for producing low-density paper and quality improvement (N5 machine)	3.6	Sep. 2005

● II. FY2006 forecast ● (2) Operating results
 ① Business environment for FY2006

1. Sales forecast for FY2006

- Paper: ① Volume= Increase as domestic demands increase
 ② Price=Maintain price levels
- Paperboard: ① Volume= Increase as domestic demands increase
 ② Price=Maintain price levels

2. Forecast of raw materials and fuel price

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

Environment

- Domestic demands:
 (Calendar year forecast by Japan Paper Association)
 :Paper +0.5%
 Paperboard +0.3%
- Exchange rate :US\$1=¥107
 AU\$1=¥ 82

Forecast of consolidated results

(¥ billion)	FY2005	FY2006 Est.	Difference
<Net sales>	1,179.7	1,180.0	0.3
<Operating income>	65.2	71.0	5.8
<Ordinary income>	62.8	70.0	7.2
<Net income>	24.4	21.0	-3.4

(Thousand tons)	FY2005 (A)	FY2006 (B)	% change yoy
(Average domestic paper price: ¥/kg)	※ (105.8)	(106.7)	(0.9%)
Newsprint	1,358	1,370	0.8%
Uncoated paper	760	747	-1.7%
Coated paper	1,922	1,968	2.4%
Business communication paper	671	694	3.5%
Packaging paper and others	632	599	-5.3%
Total domestic sales	5,343	5,377	0.6%
Export (including newsprint)	477	474	-0.5%
Total (paper)	5,820	5,851	0.5%
(Average domestic paperboard price: ¥/kg)	(53.9)	(53.8)	-(0.2%)
Container board	1,398	1,410	0.9%
Folding box board and others	409	412	0.8%
Total domestic sales	1,807	1,822	0.9%
Export	34	37	7.0%
Total (paperboard)	1,841	1,859	1.0%
Grand total (paper and paperboard)	7,661	7,710	0.6%

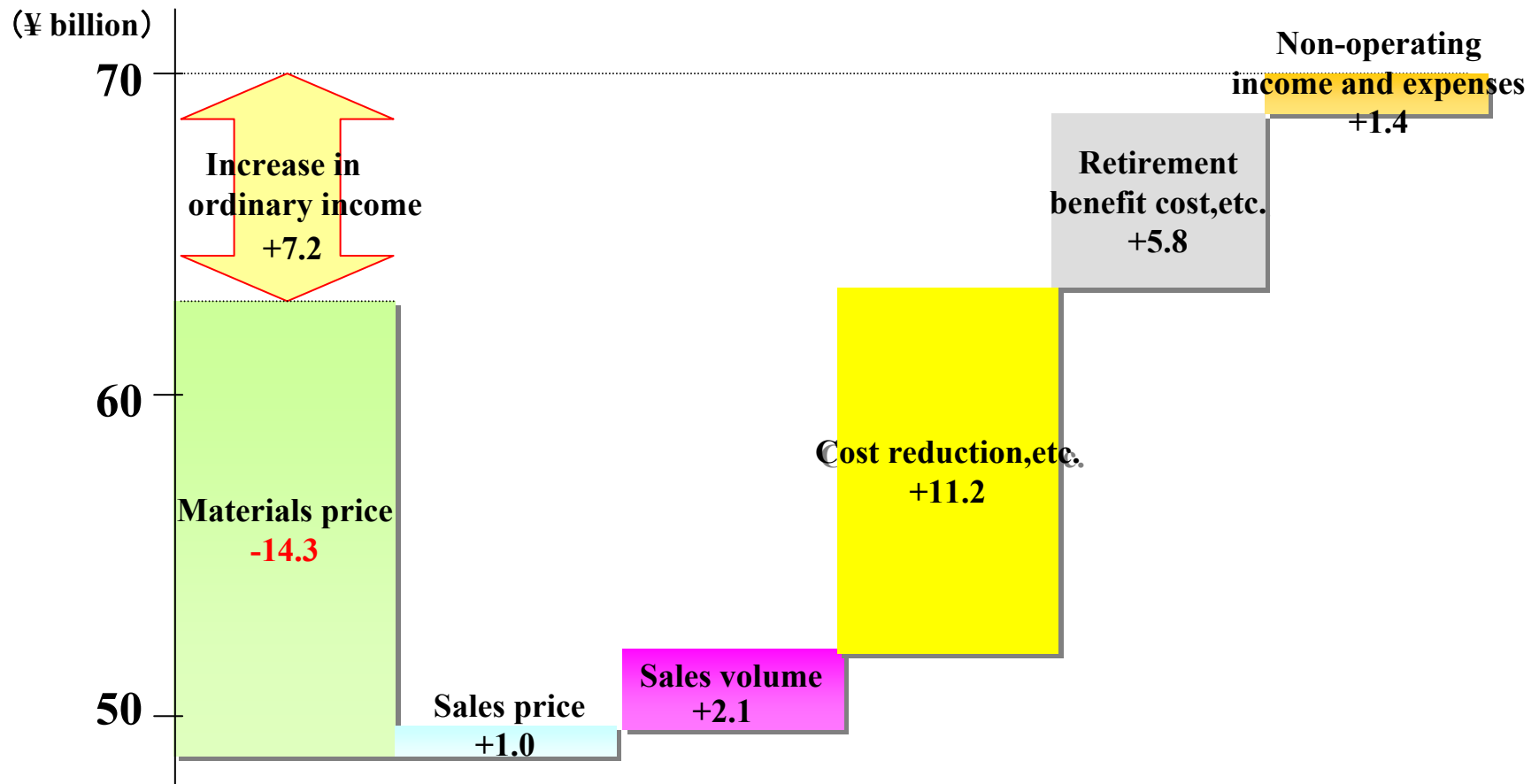
※calculated excluding newsprint.

(¥ billion)

	Sales		Operating income		Comments
	Mar.2005 actual	Mar.2006 estimated	Mar.2005 actual	Mar.2006 estimated	
Pulp and Paper Div.	870.4	877.7	47.3	52.5	
Paper etc.	714.7	720.4	42.2	45.4	Profits increase with cost reduction and increase in sales volume.
Paperboard	99.4	100.1	7.0	7.8	Keeping current price level , cost reduction contributes to profit.
Household tissue	56.3	57.2	▲ 1.9	▲ 0.7	Promotion of cost reduction.
Paper-related Div. (cartons, chemical products)	126.6	117.7	8.3	8.4	
Housing and Construction Materials Div.	95.2	97.0	2.3	2.9	
Other Div. (beverages, transport)	87.5	87.6	7.3	7.2	
Total	1,179.7	1,180.0	65.2	71.0	

FY2005 vs FY2006 est.

Increase in ordinary income ¥ 7.2 billion (¥62.8 bn → ¥70.0 bn)
Increase in operating income ¥ 5.8 billion (¥65.2 bn → ¥71.0 bn)



	FY2003	FY2004	FY2005	FY2006 est.
ROE	1.2%	5.8%	5.6%	4.7%
Ordinary margin on sales	3.4%	4.2%	5.3%	5.9%
D/E (times)	x2.0	x1.9	x1.7	x1.5
Operation rate of paper machine(Calendar basis)	86%	87%	91%	91%
Operation rate of paperboard machine(Calendar basis)	79%	85%	87%	88%
Capital investment (¥ billion)	76.9	57.4	55.4	58.3
Depreciation (¥ billion)	83.2	81.3	75.0	71.3
Interest-bearing debt (¥ billion)	851.3	842.3	766.1	696.5
Number of employees	15,662	14,987	13,774	12,998

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, 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.