

FY2005 Interim Financial Review



NIPPON PAPER
GROUP

November 9, 2005

Nippon Paper Group, Inc.



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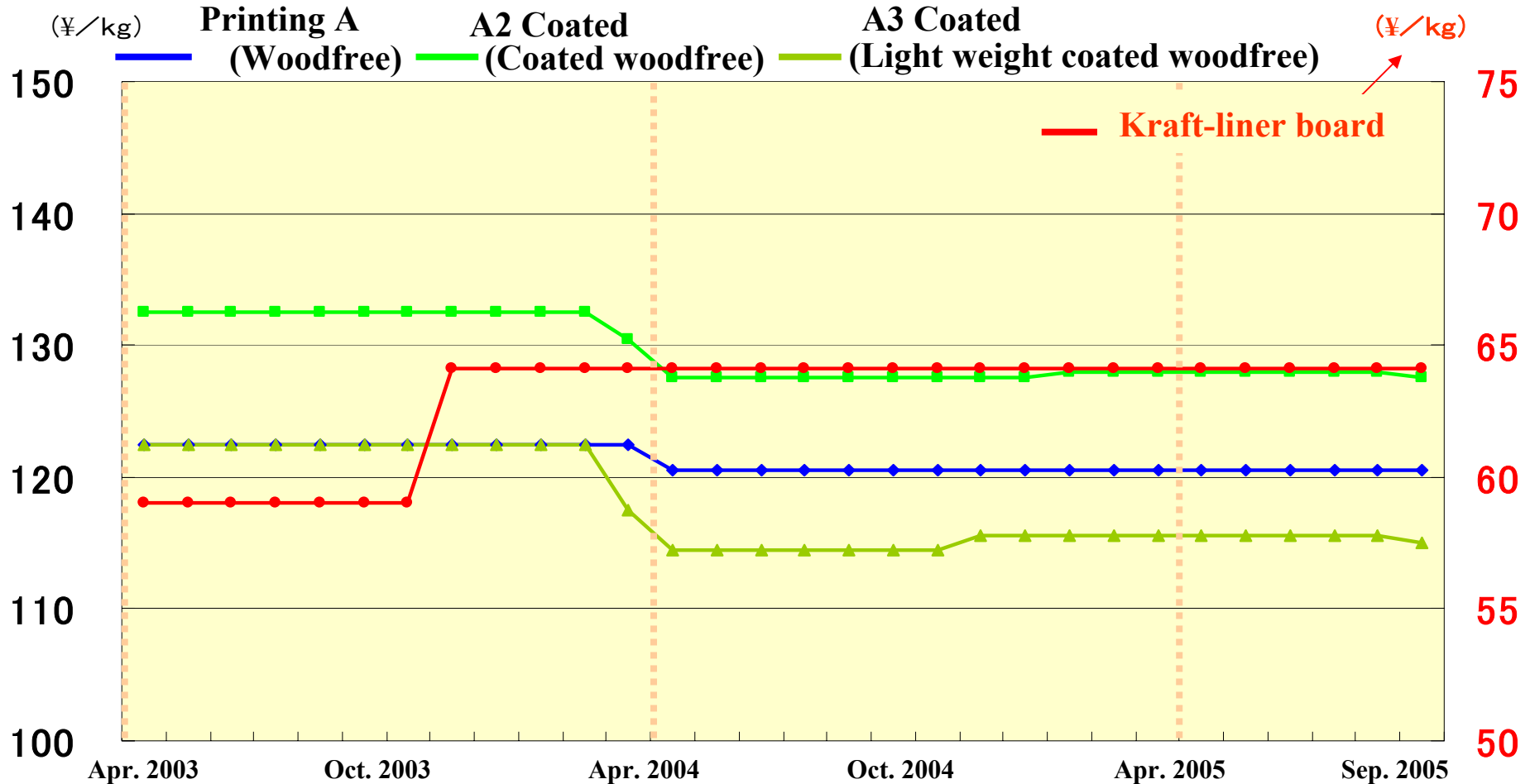
Paper industry

Domestic shipment of paper and paperboard
FY2005 Interim (April 2005 — September 2005)

	Shipment(1,000 tons)	% change yoy
Newsprint	1,741	1.9%
Uncoated printing paper	1,285	-2.9%
Coated printing paper ※	3,116	1.6%
Business communication paper	788	1.1%
Other papers (Packaging paper, sanitary paper, and paper for miscellaneous uses)	1,971	-0.7%
Paper total	8,901	0.4%
Paperboard total	5,937	0.0%
Paper and paperboard total	14,838	0.3%

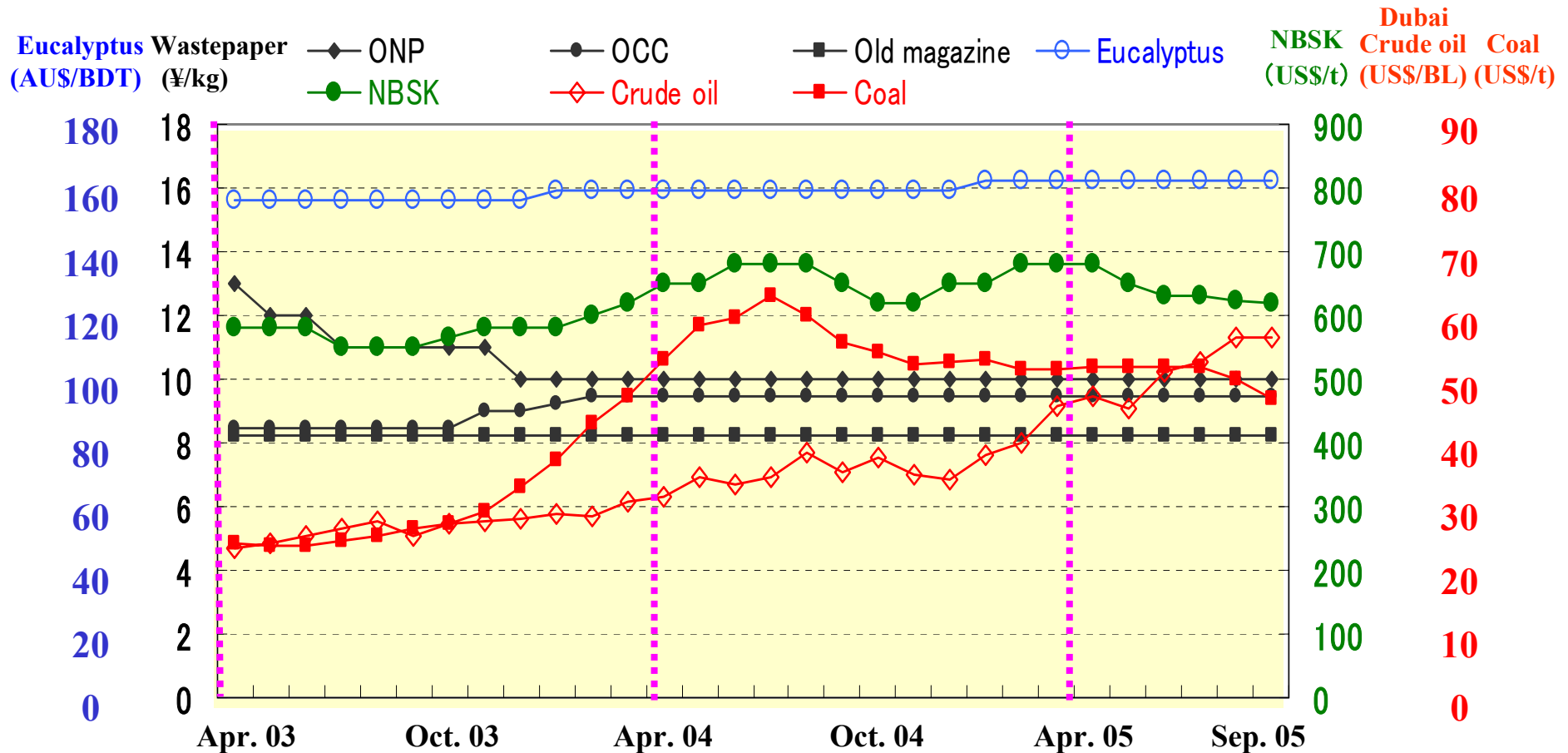
Paper industry

Trend in paper and paperboard prices
(April 2003 — September 2005)



Paper industry

Trend in fuel and raw material prices
(April 2003 — September 2005)



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

Topics of the 1st half

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

(The new integrated mill is called
Nippon Paper Industries Co., Ltd. Fuji Mill)

May. : Announced ‘Group vision 2015’

Jun. : New Board of Directors started.

Jul. : Nippon Paper Industries’ European office to open.

: Announced market purchase of treasury stock.

(Completion of acquisition on October

Number of shares purchased 30,000 shares

Total purchase price 12.3 billion yen)

Sep. : CRECIA’s new Board of Directors started.

Company	Location	Project	Invested amount (¥ billion)	Completion
Nippon Paper Industries	Iwanuma	Installation of H-DIP line	1.8	Apr. 2005
	Kushiro	Measures for producing high quality (neutralized) newsprint	1.3	July. 2005

Consolidated operating results

(¥ billion)	FY2004 Interim	FY2005 Interim	Difference
<Net sales>	597.8	578.2	-19.6
<Operating income>	34.4	30.6	-3.8
<Ordinary income>	32.7	31.2	-1.5
<Interim net income>	10.4	3.5	-6.9

(Thousand tons)	FY2004 Interim	FY2005 Interim	% change yoy
(Average domestic paper price: ¥/kg) ※	(105.5)	(105.5)	(0.0%)
Newsprint	675	673	-0.4%
Uncoated paper	380	374	-1.5%
Coated paper	956	986	3.1%
Business communication paper	325	357	9.9%
Packaging paper and others	330	293	-11.0%
Total domestic sales	2,665	2,682	0.7%
Export (including newsprint)	245	216	-11.5%
Total (paper)	2,910	2,899	-0.4%
(Average domestic paperboard price: ¥/kg)	(53.9)	(53.5)	(-0.7%)
Container board	709	708	-0.2%
Folding box board and others	205	203	-0.8%
Total domestic sales	914	911	-0.3%
Export	18	15	-15.5%
Total (paperboard)	932	926	-0.6%
Grand total (paper and paperboard)	3,842	3,825	-0.4%

※calculated excluding newsprint.

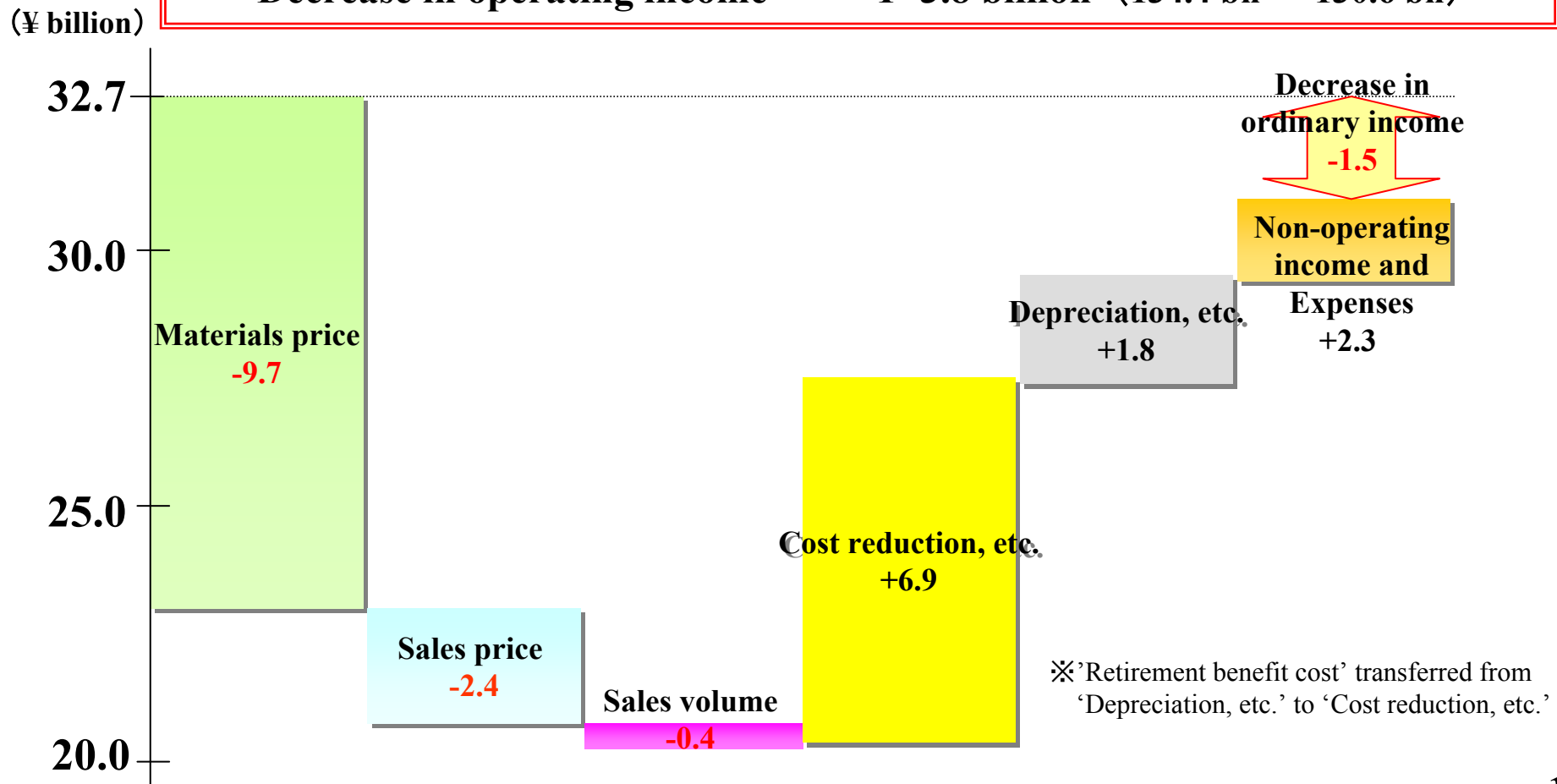
(¥billion)

	Sales		Operating income		Comments
	FY2004 Interim	FY2005 Interim	FY2004 Interim	FY2005 Interim	
Pulp and Paper Div.	440.8	424.6	24.4	22.3	
Paper etc.	362.3	349.7	20.8	21.3	Profit increased with healthy demand of coated paper, notwithstanding fuel cost pressure.
Paperboard	50.4	49.4	3.7	2.5	Keeping sales volume, but fuel cost hiked.
Household tissue	28.1	25.4	▲ 0.1	▲ 1.5	Severe competition continued.
Paper-related Div. (cartons, chemical products)	64.4	63.0	4.8	4.0	Liquid-packaging carton sold well in FY2004 due to the summertime heat wave.
Housing and Construction Materials Div.	48.3	45.4	1.1	1.0	
Other Div. (beverages, transport)	44.1	45.2	4.0	3.4	
Total	597.8	578.2	34.4	30.6	

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

FY2004 Interim vs FY2005 Interim

Decrease in ordinary income ¥-1.5 billion (¥32.7 bn → ¥31.2 bn)
Decrease in operating income ¥ -3.8 billion (¥34.4 bn → ¥30.6 bn)



	FY2004 Interim	FY2005 Interim	(¥billion)
Ordinary income	32.7	31.2	
Extraordinary gains	12.6	1.7	
Gain on sale of property, plant and equipment	11.3	0.8	
Gain on sale of securities, etc.	0.2	0.5	
Others	1.1	0.4	
Extraordinary losses	21.2	19.5	
Loss on disposal of property, plant and equipment	2.5	2.2	
Impairment accounting	—	8.8	
Provision for doubtful receivables	4.4	0.1	
Extraordinary retirement benefits	5.1	5.6	
Loss on restructuring	3.7	—	
Loss on sale of securities, etc.	3.3	—	
Others	2.1	2.8	
Income tax adjustment	-12.6	-9.3	
Minority interests	-1.1	-0.6	
Net income	10.4	3.5	

Balance sheet

(¥billion)

	Mar. 31, 2005	Sep. 30, 2005	Difference	Comments
Cash and time deposits	18.3	15.4	-3.0	
Notes and accounts receivable	247.9	240.2	-7.6	
Inventories	131.8	140.1	8.2	
Other current assets	45.1	41.4	-3.7	
Property, plant, equipment, and intangible fixed assets	885.6	865.5	-20.1	Capital investment 30.4bn , Depreciation -34.9bn , Impairment accounting -8.8bn, etc.
Investments and other assets	201.2	205.9	4.7	
Total assets	1,530.0	1,508.5	-21.5	
Interest-bearing debt	766.1	743.6	-22.5	
Other debt	297.3	305.1	7.8	
Minority interests in consolidated subsidiaries	23.6	22.8	-0.8	
Total shareholders' equity	442.9	436.9	-5.9	Cash dividends -4.4bn, Interim net income 3.5bn, Purchasing treasury stock -11.3bn, etc.

(¥billion)

Items	FY2004 Interim	FY2005 Interim	Difference	Comments
Operating activities	44.0	55.3	11.3	
Income before income taxes	24.1	13.4	① -10.7	① Income before taxes decreased due to impairment accounting.
Depreciation, and amortization of difference between cost and underlying net equity in consolidated subsidiaries	37.6	35.9	-1.7	
Change in net working capital	-11.1	3.0	14.1	
Others	-6.7	2.9	9.7	
Investing activities	-9.2	-19.3	-10.1	
Purchases of property, plant and equipment	-27.6	② -24.8	2.8	② Hold down expenditure by selected investment.
Proceeds from sales of property, plant and equipment	③ 14.4	3.5	-11.0	③ Proceeds from sales of Miyakojima mill are included in FY2004 Interim
Others	4.0	2.0	-2.0	
Free cash flows	34.8	36.0	1.2	
Financing activities	-41.8	-39.2	2.6	
Change in net borrowings	-36.4	-22.5	13.9	
Cash dividends paid	-4.4	-4.4	-0.0	
Others	-1.0	④ -12.3	-11.3	④ Payments on purchasing of treasury stock, etc.
Effect of exchange rate changes	0.1	0.3	0.1	
Cash and cash equivalents at beginning of period	21.6	18.2	-3.4	
Cash and cash equivalents at end of interim period	14.8	15.2	0.5	

Topics of the 2nd half

Oct. 2005 : Merger of Nichiita Package Industries Co., Ltd. and Tokan Packaging System Co., Ltd.

(subsidiary of Tokan Kogyo Co., Ltd.)

: Announced CRECIA's subdivision and reorganizing of the company.

: Announced Nippon Paper Industries' commencing agribusiness.

Nov. : San-mic Shoji Co., Ltd. and Komine Nissho Co., Ltd. reached a basic agreement of merger. (planned date of merger: April 1, 2006)

In the early of FY2006

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

Company	Location	Project	Invested amount (¥ billion)	Operation start (Forecast)
Nippon Paper Industries	Iwanuma	Measures for producing high quality (neutralized) newsprint	1.5	Oct. 2005
	Shiraoi	Installation of a new DIP line (Line No.3)	1.5	Nov. 2005
	Iwakuni	Installation of a new DIP line (Line No.3, No.5)	2.5	Jan. 2006

Assumptions for FY2005 estimation

● Sales forecast(domestic)

Paper: Expansion of sales volume mainly by coated paper

(Sales volume:+1.5% up from FY2004)

Paperboard: Maintain price levels

(Sales volume:+0.9% up from FY2004)

● Raw materials, fuel price and exchange rate(2nd half of FY2005)

Crude oil price:US\$56/BL(former estimation US\$51/BL)

Woodchip:FOB price has no significant change from the 1st half of FY2005, distribution cost hike is anticipated.

Wastepaper:No significant change from the 1st half of FY2005

Exchange rate:US\$1=¥115(former estimation US\$1=¥110)

AUS\$1=¥ 86(former estimation AUS\$1=¥ 84)

Forecast of consolidated results

(¥ billion)	FY2005 Former estimation	FY2005 Current estimation	FY2004 Results
<Net sales>	1,180.0	1,165.0	1,179.7
<Operating income>	65.0	53.0	65.2
<Ordinary income>	64.0	53.0	62.8
<Net income>	17.0	17.0	24.4

II. FY2006 Forecast (2) Operating results

(3) Sales volume by product



(Thousand tons)	FY2005 (A)	FY2006 (B)	% change yoy
(Average domestic paper price: ¥/kg) ※	(105.8)	(105.3)	(-0.5%)
Newsprint	1,358	1,355	-0.3%
Uncoated paper	760	754	-0.8%
Coated paper	1,922	2,007	4.4%
Business communication paper	671	722	7.7%
Packaging paper and others	632	586	-7.4%
Total domestic sales	5,343	5,424	1.5%
Export (including newsprint)	477	464	-2.7%
Total (paper)	5,820	5,888	1.2%
(Average domestic paperboard price: ¥/kg)	(53.9)	(53.5)	(-0.6%)
Container board	1,398	1,412	1.0%
Folding box board and others	409	411	0.4%
Total domestic sales	1,807	1,822	0.9%
Export	34	30	-12.9%
Total (paperboard)	1,841	1,852	0.6%
Grand total (paper and paperboard)	7,661	7,740	1.0%

※calculated excluding newsprint.

● II. FY2005 Forecast ● (2) Operating results
 ④ Segment information



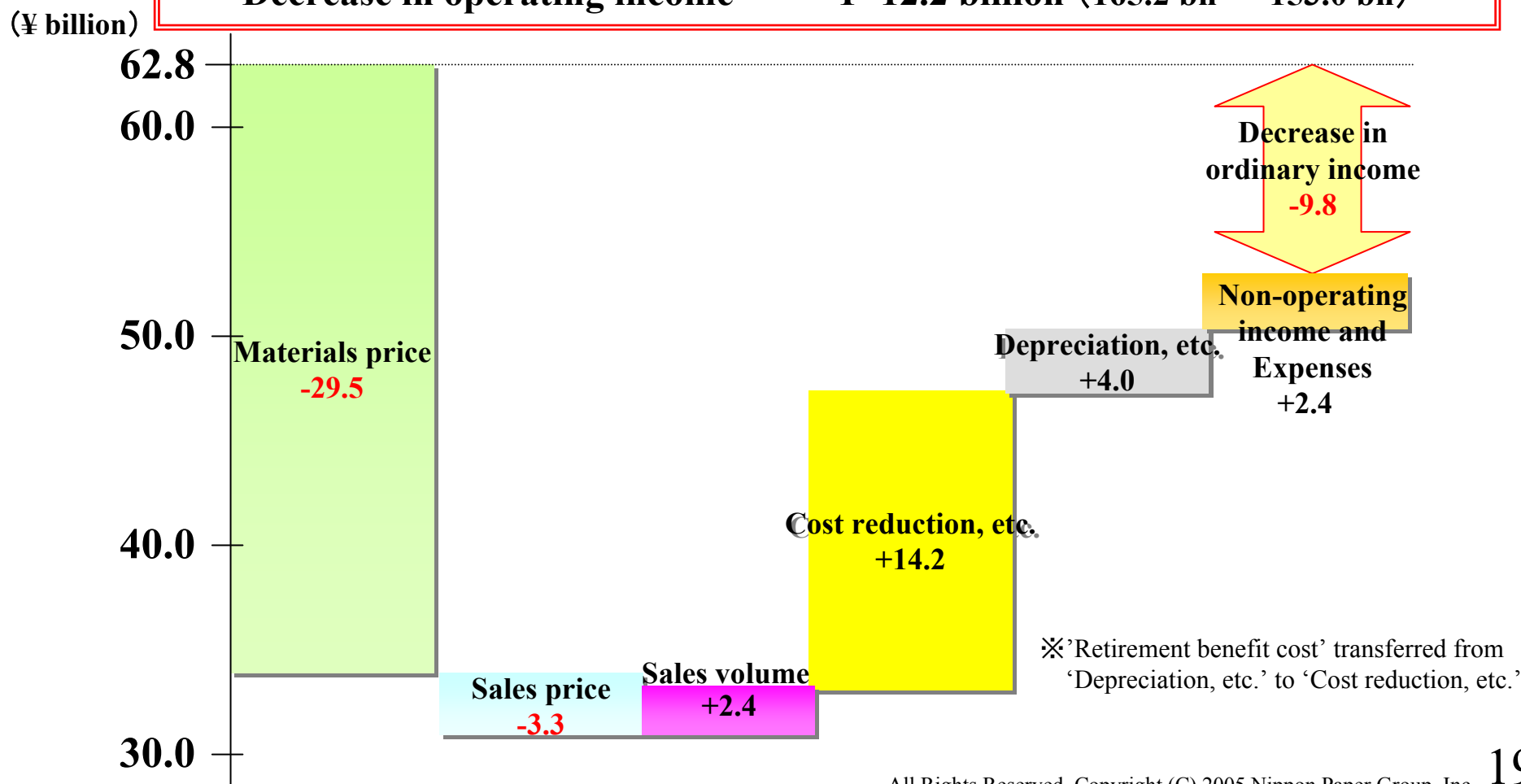
(¥billion)

	Sales		Operating income		Comments
	FY2004	FY2005 estimated	FY2004	FY2005 estimated	
Pulp and Paper Div.	870.4	872.9	47.3	37.8	
Paper etc.	714.7	712.4	42.2	36.3	Cover up raw materials and fuel cost hike by cost reduction and expansion of sales volume.
Paperboard	99.4	103.6	7.0	4.5	Profit decreases due to fuel cost hike despite cost reduction.
Household tissue	56.3	57.0	▲ 1.9	▲ 3.0	Promote plans to strengthen profitability.
Paper-related Div. (cartons, chemical products)	126.6	113.2	8.3	6.4	Corrugated board business is transferred to equity method in the 2nd half of FY2005.
Housing and Construction Materials Div.	95.2	93.4	2.3	2.3	
Other Div. (beverages, transport)	87.5	85.5	7.3	6.5	
Total	1,179.7	1,165.0	65.2	53.0	

● II. FY2005 Forecast ● (3) Analysis of profit and loss

FY2004 vs FY2005 est.

Decrease in ordinary income ¥-9.8 billion (¥62.8 bn → ¥53.0 bn)
Decrease in operating income ¥ -12.2 billion (¥65.2 bn → ¥53.0 bn)



II. FY2005 Forecast (4) Group's important figures



	FY2003	FY2004	FY2005 interim	FY2005 est.
ROE	5.8%	5.6%	1.6%	3.8%
Ordinary margin on sales	4.2%	5.3%	5.4%	4.5%
D/E (times)	x1.9	x1.7	x1.7	x1.5
Operation rate of paper machine(Calendar basis)	87%	91%	91%	92%
Operation rate of paperboard machine(Calendar basis)	85%	87%	87%	87%
Capital investment (¥ billion)	57.4	55.4	30.4	65.2
Depreciation (¥ billion)	81.3	75.0	34.9	69.9
Interest-bearing debt (¥ billion)	842.3	766.1	743.6	700.0
Number of employees	14,987	13,774	13,522	12,632

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.