

FY2006 1st Quarter Financial Review



NIPPON PAPER
GROUP

July 31, 2006

Nippon Paper Group, Inc.



FY2006 1Q Review

(April 1, 2006 ~ June 30, 2006)

- (1) Overview
- (2) Topics
- (3) Financial results
- (4) Full year forecast

(April 1, 2006 ~ March 31, 2007)

(1) Overview – Business environment



Paper industry

Domestic shipment of paper and paperboard FY2006 1Q (April 2006 – June 2006)

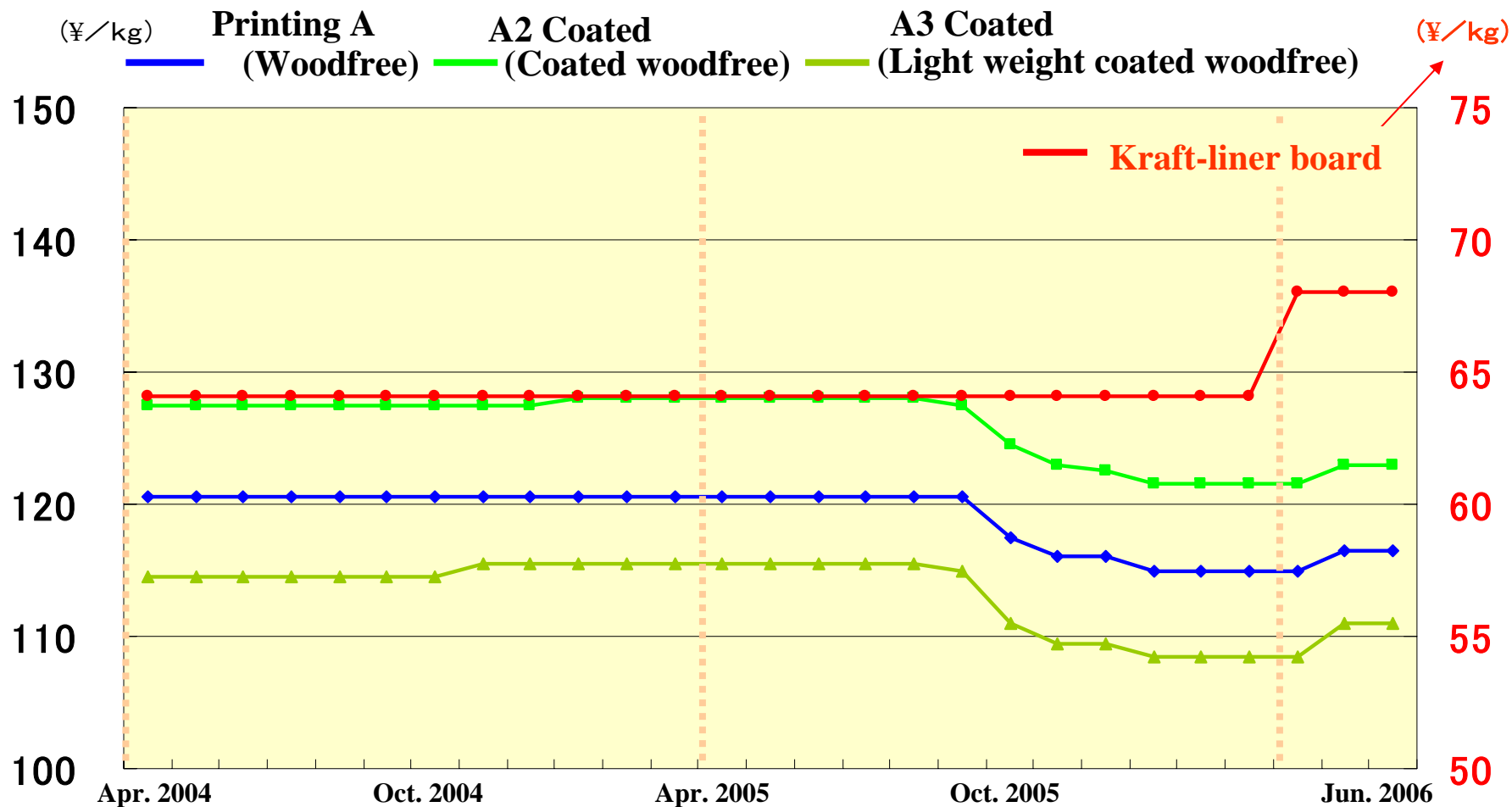
	Shipment(1,000 tons)	% change yoy
Newsprint	904	5.2%
Uncoated printing paper	628	-2.0%
Coated printing paper ※	1,558	2.8%
Business communication paper	400	-0.7%
Other papers (Packaging paper, sanitary paper, and paper for miscellaneous uses)	1,034	4.0%
Paper total	4,524	2.5%
Paperboard total	2,952	-0.6%
Paper and paperboard total	7,476	1.2%

※ “Bitoko-shi” paper is included in coated printing paper. Source: Japan Paper Association

(1) Overview – Business environment

Paper industry

Trend in paper and paperboard prices
(April 2004 – June 2006)

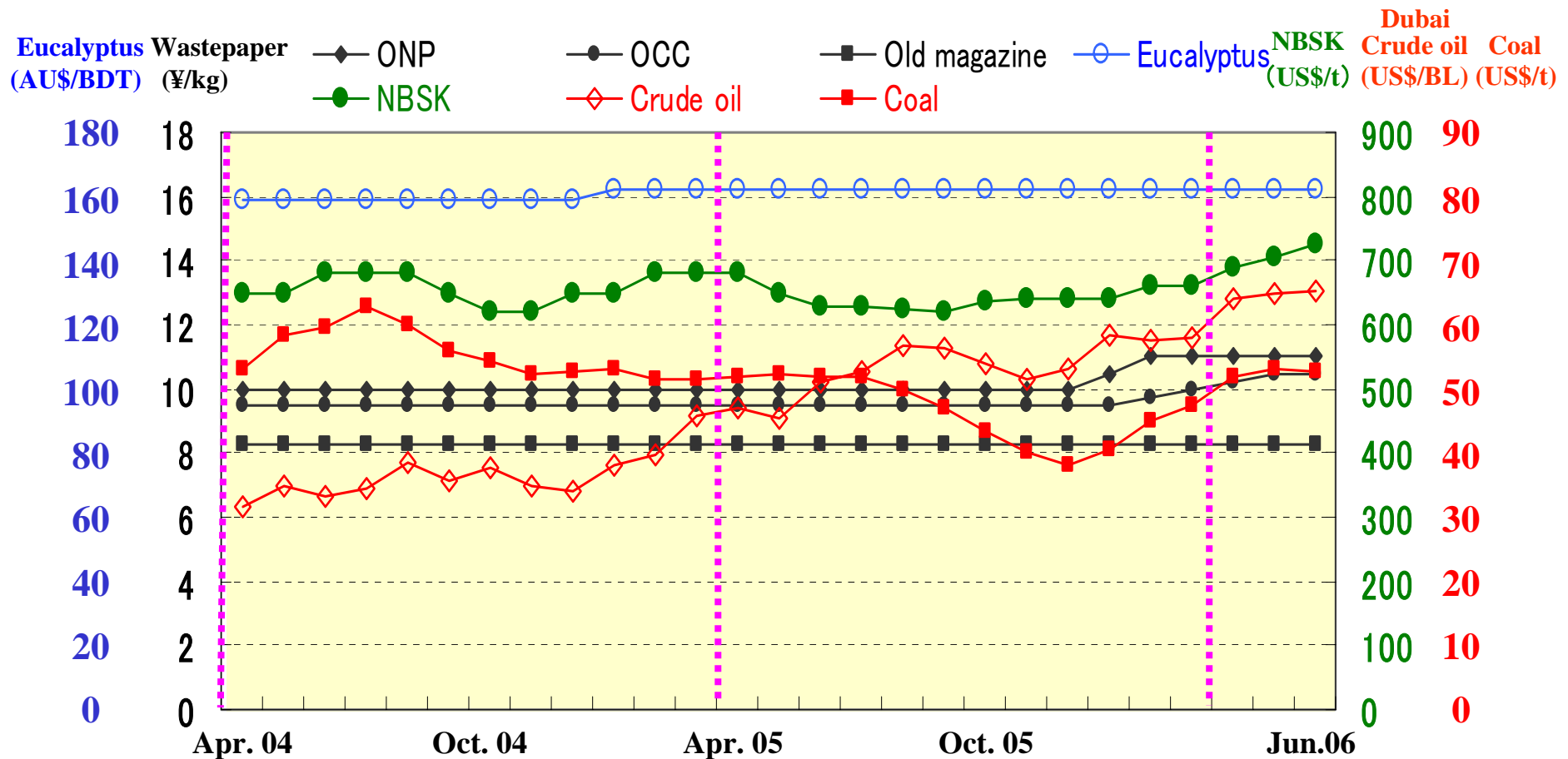


(1) Overview – Business environment



Paper industry

Trend in fuel and raw material prices
(April 2004 – June 2006)



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

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Topics of the 1st Quarter

Apr. 2006 : Merger of San-Mic Shoji Co., Ltd. and Komine Nissho Co., Ltd.
(Name of the new company : Nippon Paper Trading Co., Ltd.)

:Established Agribio Business Promotion Office.

-Received an order for the production of Hachisuka Sakura cherry tree
in June.

:Increased equity stake in

Everwealth Paper Industries (Shanghai) Co., Ltd.

(Ups holding to 40% from the previous 23%)

May. 2006 :Launched Second Medium-Term Business Plan.

:Announced paper production facilities scrap-and-build plan.

-Build thin coated paper production facilities on the premises of
Ishinomaki Mill of Nippon Paper Industries Co., Ltd.

-Scrap two paper machines and three coating machines.

:Announced to raise the prices of household tissue products.

Jun. 2006 :Announced change in trading name of a subsidiary, CRECIA corporation.

-New trading name: Nippon Paper Crecia Co., Ltd. from August 1, 2006

●(3)Financial results ①Outline



Consolidated operating results

(¥ billion)	FY2005 1 st Q	FY2006 1 st Q	Difference
<Net sales>	286.2	288.0	1.8
<Operating income>	15.3	7.8	-7.5
<Ordinary income>	15.8	8.8	-7.0
<Net income>	-1.5	4.6	6.1

●(3)Financial results ②Sales volume by product



(Thousand tons)	FY2005 1Q	FY2006 1Q	% change yoy
Newsprint	333	333	0.2%
Uncoated paper	188	189	0.7%
Coated paper	485	506	4.3%
Business communication paper	181	179	-0.9%
Packaging paper and others	147	138	-5.9%
Total domestic sales	1,333	1,345	1.0%
Export (including newsprint)	106	89	-15.5%
Total (paper)	1,438	1,435	-0.2%
Contaier board	350	352	0.5%
Folding box board and others	101	101	0.1%
Total domestic sales	451	452	0.4%
Export	8	8	-2.4%
Total (paperboard)	459	460	0.3%
Grand total (paper and paperboard)	1,897	1,895	-0.1%

(3) Financial results ③ Segment information



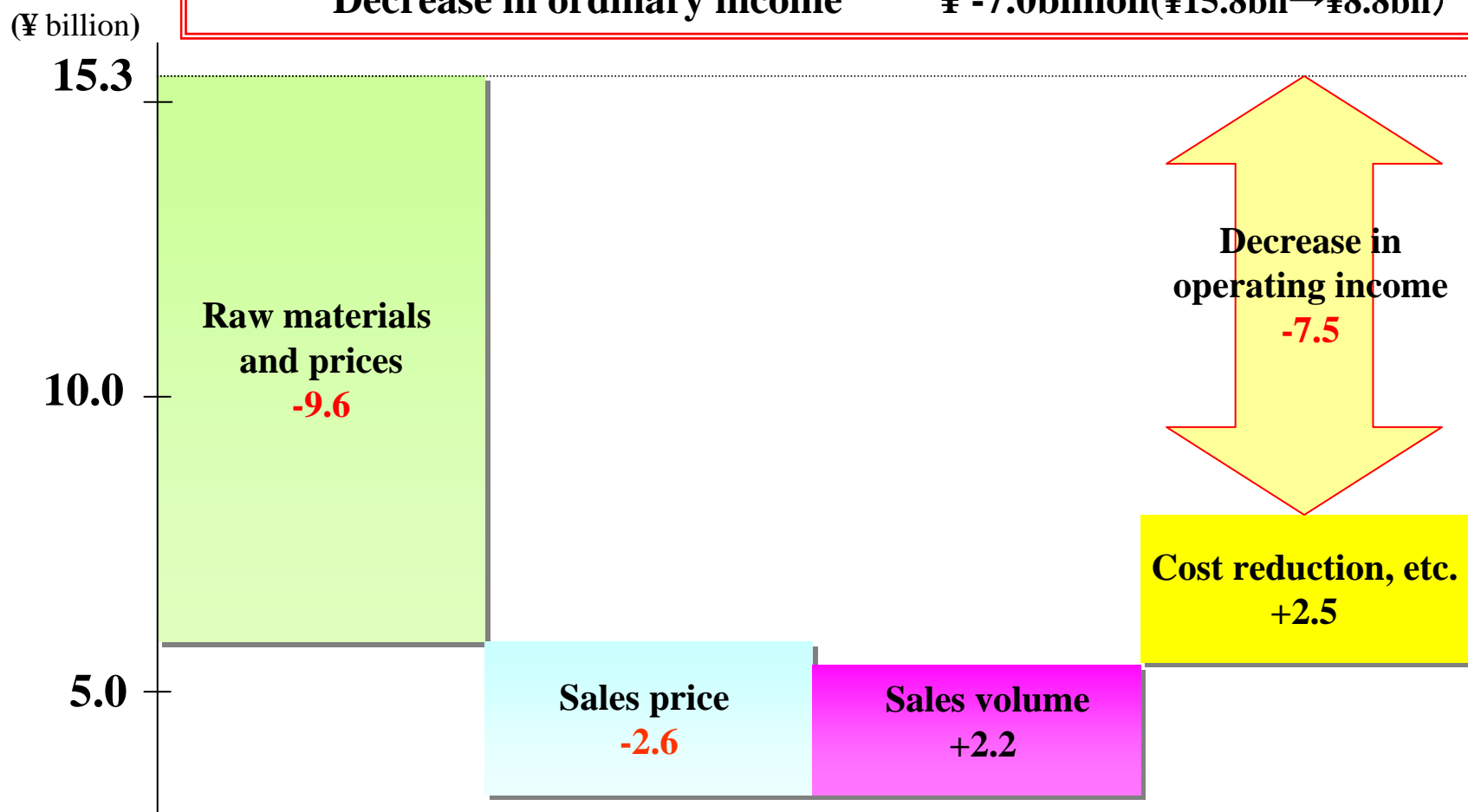
(¥ billion)

	Sales			Operating income			Comments
	FY2005 1Q	FY2006 1Q	Difference	FY2005 1Q	FY2006 1Q	Difference	
Pulp and Paper Div.	212.1	220.1	7.9	11.6	5.1	-6.5	Paper: Heavily affected by raw materials and fuel cost hike. Paperboard: Price recovery contributed to profit. Household tissue: The market price was sluggish although sales volume increased.
Paper-related Div. (cartons, chemical products)	30.8	25.3	-5.5	2.0	1.1	-0.9	Nichiita Package Industries Co., Ltd. merged to form a new company to which the equity method is applied.
Housing and Construction Materials Div.	22.3	22.3	0.1	0.5	0.5	0.0	
Other Div. (beverages, transport)	21.0	20.3	-0.7	1.2	1.1	-0.1	
Total	286.2	288.0	1.8	15.3	7.8	-7.5	

(3) Financial results (4) Analysis of profit and loss

FY2005 1st Q vs FY2006 1st Q

Decrease in operating income ¥-7.5billion(¥15.3bn → ¥7.8bn)
Decrease in ordinary income ¥ -7.0billion(¥15.8bn → ¥8.8bn)



(3) Financial results ⑤ Balance sheet



(¥ billion)

Balance sheet	Mar. 31, 2006	Jun. 30, 2006	Difference	Comments
Cash and time deposits	14.1	14.5	0.4	
Notes and accounts receivable	218.4	257.5	39.2	
Inventories	139.2	144.4	5.2	
Other current assets	41.0	48.3	7.3	
Property, plant, equipment, and intangible fixed assets	848.0	854.2	6.2	Capital investment 15.2bn , Depreciation -16.4bn , etc.
Investments and other assets	231.8	223.7	-8.0	
Total assets	1,492.4	1,542.7	50.3	
Interest-bearing debt	692.1	747.2	55.1	
Other debt	337.7	337.0	-0.7	
Minority interests in consolidated subsidiaries	22.3	—		
Total shareholders' equity	440.3	—		
Net assets	—	458.5		Cash dividends -4.3bn, Net income 4.6bn , etc.

A new description of the net assets section, based on "Accounting Standards for Presentation of Net Assets in the Balance Sheet" issued by the Accounting Standards Board of Japan, is being applied from this period.

(3) Financial results ⑥ Cash flow statement



(¥ billion)

Items	FY2005/1Q	FY2006/1Q	Difference	Comments
Operating activities	-25.9	-28.1	-2.2	
Income before income taxes	2.9	8.2	5.3	
Depreciation, and amortization of difference between cost and underlying net equity in consolidated subsidiaries	17.5	16.4	-1.1	
Change in net working capital	① -30.1	① -46.2	-16.1	① Decrease in liquidation of receivables, etc.
Others	-16.2	-6.5	9.7	
Investing activities	-11.4	-18.3	-6.9	
Purchases of property, plant and equipment	-12.3	② -19.3	-7.0	② Cash expenditure for investment increased.
Proceeds from sales of property, plant and equipment	0.6	0.6	-0.1	
Others	0.3	0.4	0.1	
Free cash flows	-37.3	-46.4	-9.1	
Financing activities	31.0	46.4	15.4	
Change in net borrowings	35.9	51.1	15.1	
Cash dividends paid	-4.5	-4.4	0.2	
Others	-0.4	-0.3	0.1	
Effect of exchange rate changes	0.1	0.4	0.3	
Cash and cash equivalents at beginning of period	18.2	14.0	-4.2	
Cash and cash equivalents at end of interim period	12.0	14.4	2.3	

(4) Full year forecast



The figures of FY2006 estimation are unchanged from the figures announced on April 28, 2006.

(¥ billion)	FY2006 Interim estimation	FY2006 estimation	FY2005 Results
<Net sales>	590.0	1,200.0	1,152.2
<Operating income>	19.0	50.0	48.4
<Ordinary income>	19.0	51.0	49.4
<Net income>	6.0	21.0	17.2

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.