

# FY2006 Interim Financial Review

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NIPPON PAPER  
GROUP

October 31, 2006

Nippon Paper Group, Inc.



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## II. FY2006 Full Year Forecast (April 1, 2006 – March 31, 2007)

- (1) Overview
- (2) Operating results
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Paper industry

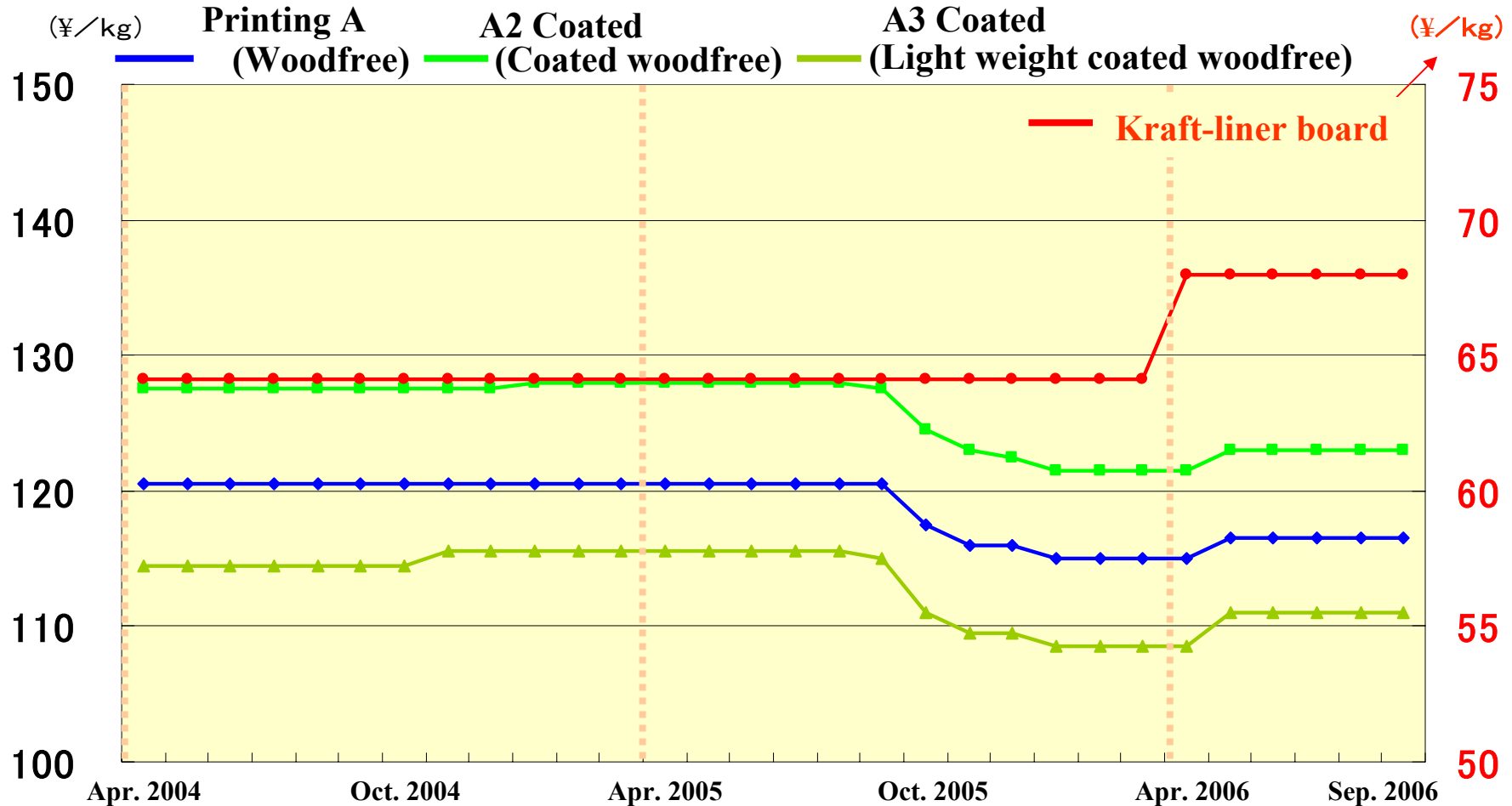
Domestic shipment of paper and paperboard  
FY2006 Interim (April 2006 — September 2006)

	Shipment(1,000 tons)	% change yoy
Newsprint	1,795	3.1%
Uncoated printing paper	1,270	-1.3%
Coated printing paper ※	3,182	2.1%
Business communication paper	785	-0.4%
Other papers (Packaging paper, sanitary paper, and paper for miscellaneous uses)	2,006	1.8%
Paper total	9,038	1.5%
Paperboard total	5,882	-0.9%
Paper and paperboard total	14,920	0.6%

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

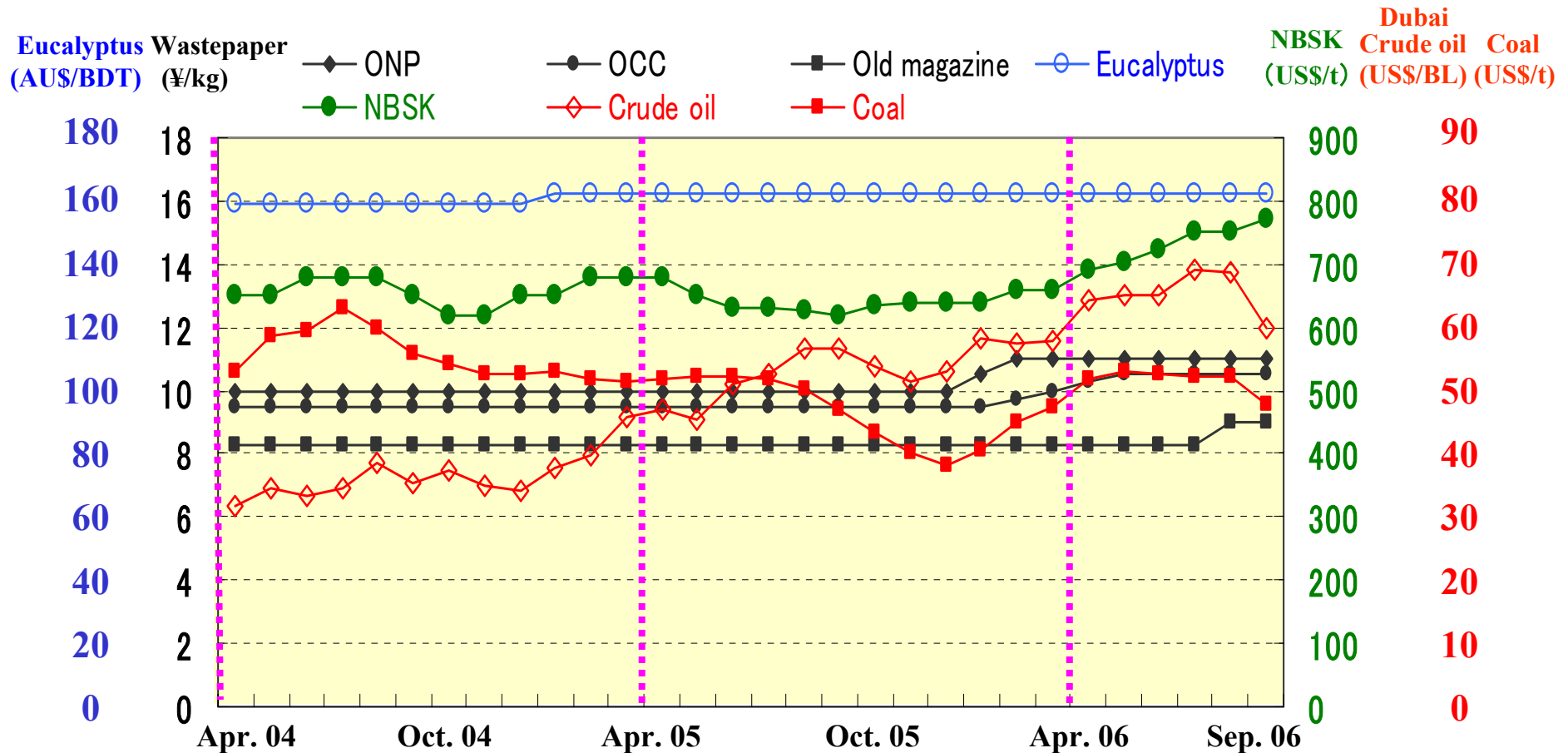
Paper industry

Trend in paper and paperboard prices  
(April 2004 — September 2006)



Paper industry

Trend in fuels and raw materials prices  
(April 2004 – September 2006)



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

## Topics of the 1<sup>st</sup> half

Apr. 2006 : Merger of San-Mic Shoji Co., Ltd. and Komine Nissho Co., Ltd.

(Name of the new company : Nippon Paper Trading Co., Ltd.)

: Announced a new boiler to be installed. (NPI's Shiraoui)

May. : Launched Second Medium-Term Business Plan.

: Announced paper production facilities S&B plan.

Jul. : Announced a new boiler to be installed. (NP Chemical's Gotsu)

Aug. : Acquisition of Shares in Hokuetsu Paper Mills, Ltd.

(Total acquisition cost ¥15.2 bn

Corresponding percentage of voting rights 8.85%)

Sep. : Announced a new boiler to be installed. (NDB Nishinippon's Geibo)

: Started discussions regarding the strategic alliance between Hokuetsu Paper Mills, Ltd. and Nippon Paper Industries Co., Ltd.

Company	Location	Project	Invested amount (¥ billion)	Completion
NIPPON PAPER-PAK	Egawa	Capacity increase of NS-FUJI®	3.3	Jun. 2006
Nippon Paper Industries	Ishinomaki	Measures for quality improvement (7M/C and 1C/R)	3.4	Sep. 2006

Consolidated operating results

(¥ billion)	FY2005 Interim	FY2006 Interim	Difference
<Net sales>	578.2	581.1	2.9
<Operating income>	30.6	19.7	-10.9
<Ordinary income>	31.2	20.2	-11.0
<Interim net income>	3.5	6.9	3.4

(Thousand tons)	FY2005 Interim	FY2006 Interim	% change yoy
(Average domestic paper price: ¥/kg) ※	(105.5)	(103.9)	(-1.5%)
Newsprint	673	662	-1.5%
Uncoated paper	380	384	1.1%
Coated paper	989	1,024	3.5%
Business communication paper	356	352	-1.1%
Packaging paper and others	286	275	-3.7%
<b>Total domestic sales</b>	<b>2,682</b>	<b>2,697</b>	<b>0.5%</b>
Export (including newsprint)	216	197	-9.0%
<b>Total (paper)</b>	<b>2,899</b>	<b>2,894</b>	<b>-0.2%</b>
(Average domestic paperboard price: ¥/kg)	(53.5)	(56.0)	(4.7%)
Container board	708	690	-2.5%
Folding box board and others	203	199	-2.0%
<b>Total domestic sales</b>	<b>911</b>	<b>890</b>	<b>-2.3%</b>
Export	15	17	11.2%
<b>Total (paperboard)</b>	<b>926</b>	<b>907</b>	<b>-2.1%</b>
<b>Grand total (paper and paperboard)</b>	<b>3,825</b>	<b>3,800</b>	<b>-0.6%</b>

※calculated excluding newsprint.



(¥billion)

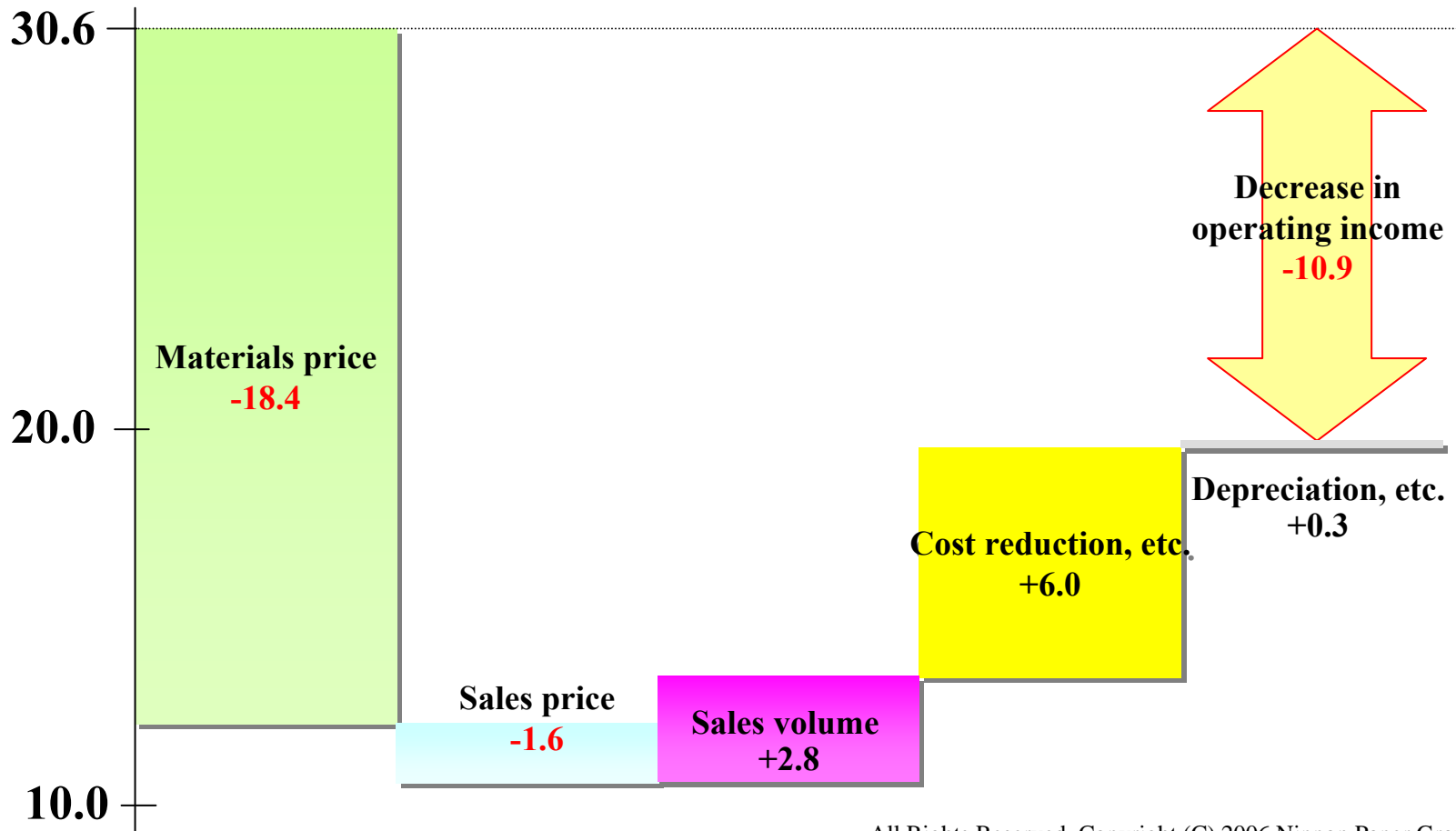
	Sales			Operating income			Comments
	FY2005 Interim	FY2006 Interim	Difference	FY2005 Interim	FY2006 Interim	Difference	
<b>Pulp and Paper Div.</b>	<b>424.6</b>	<b>438.3</b>	<b>13.7</b>	<b>22.3</b>	<b>12.8</b>	<b>▲ 9.5</b>	
Paper etc.	349.7	356.1	6.4	21.3	11.3	▲ 9.9	Profit decreased due to raw materials and fuel cost hike.
Paperboard	49.4	55.3	5.9	2.5	3.4	0.9	Price recovery contributed to profit.
Household tissue	25.4	26.9	1.5	▲ 1.5	▲ 1.9	▲ 0.4	The market price was sluggish although sales volume increased.
Paper-related Div. (cartons, chemical products)	63.0	51.9	▲ 11.1	4.0	2.6	▲ 1.4	Corrugated board business is transferred to equity method in the 2nd half of FY2005.
Housing and Construction Materials Div.	45.4	47.4	2.0	1.0	1.3	0.4	
Other Div. (beverages, transport)	45.2	43.5	▲ 1.7	3.4	3.0	▲ 0.4	
<b>Total</b>	<b>578.2</b>	<b>581.1</b>	<b>2.9</b>	<b>30.6</b>	<b>19.7</b>	<b>▲ 10.9</b>	

FY2005 Interim vs FY2006 Interim

**Decrease in operating income ¥-10.9billion (¥30.6 bn → ¥19.7 bn)**

**Decrease in ordinary income ¥ -11.0 billion (¥31.2 bn → ¥20.2 bn)**

(¥ billion)



	FY2005 Interim	FY2006 Interim	(¥billion)
Ordinary income	31.2	20.2	
Extraordinary gains	1.7	1.0	
Gain on sale of property, plant and equipment	0.8	0.7	
Gain on sale of securities, etc.	0.5	0.0	
Others	0.4	0.2	
Extraordinary losses	19.5	8.0	
Loss on disposal of property, plant and equipment	2.2	2.1	
Impairment accounting	8.8	3.2	
Provision for doubtful receivables	0.1	0.0	
Extraordinary retirement benefits	5.6	1.2	
Loss on devaluation of securities, etc.	0.5	0.0	
Others	2.2	1.5	
Income tax adjustment	-9.3	-5.8	
Minority interests	-0.6	-0.5	
Interim net income	3.5	6.9	

Balance sheet

(¥billion)

	Mar. 31, 2006	Jun. 30, 2006	Difference	Comments
Cash and time deposits	14.1	17.2	3.1	
Notes and accounts receivable	218.4	245.5	27.2	
Inventories	139.2	148.4	9.2	
Other current assets	41.0	39.9	-1.1	
Property, plant, equipment, and intangible fixed assets	848.0	858.3	10.3	Capital investment 45.2bn , Depreciation -32.8bn , etc.
Investments and other assets	231.8	236.8	5.1	
<b>Total assets</b>	<b>1,492.4</b>	<b>1,546.1</b>	<b>53.7</b>	
Interest-bearing debt	692.1	724.5	32.4	
Other debt	337.7	361.9	24.2	
Minority interests in consolidated subsidiaries	22.3	—		
Total shareholders' equity	440.3	—		
Net assets	—	459.7		Cash dividends -4.3bn, Interim net income 6.9bn , 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.

(¥billion)

Items	FY2005 Interim	FY2006 Interim	Difference	Comments
Operating activities	55.3	30.6	-24.7	
Income before income taxes	13.4	13.1	-0.2	
Depreciation, and amortization of difference between cost and underlying net equity in consolidated subsidiaries	34.9	32.8	-2.1	
Change in net working capital	3.0	① -20.8	-23.8	① Carry over due to holiday.
Others	4.0	5.4	1.5	
Investing activities	-19.3	-51.6	-32.3	
Purchases of property, plant and equipment	-24.8	② -39.0	-14.2	
Proceeds from sales of property, plant and equipment	3.5	1.3	-2.2	
Others	2.0	-13.9	-15.9	
Free cash flows	36.0	-21.0	-57.0	
Financing activities	-39.2	23.6	62.8	
Change in net borrowings	-22.5	② 28.3	50.9	② Interest bearing debt increased due to growing capex.
Cash dividends paid	-4.4	-4.3	0.1	
Others	③ -12.3	-0.5	11.8	③ Payments on purchasing of treasury stock, etc.
Effect of exchange rate changes	0.3	0.4	0.1	
Cash and cash equivalents at beginning of period	18.2	14.0	-4.2	
Cash and cash equivalents at end of interim period	15.2	17.0	1.8	

## Topics of the 2nd half

Oct. 2006 : Started operation of Ishinomaki mill's biomass boiler.

: Announced the achievement of afforestation of 100,000 hectare.

Nov. : Planned to sign a definitive agreement of the strategic alliance between Hokuetsu Paper Mills, Ltd. and Nippon Paper Industries Co., Ltd.

==Scope of the alliance==

- Cooperation for the early realization of the benefits of the new paper production facilities.
- Cooperation for the procurement of raw materials.
- Cooperation for the production system, rationalization in distribution.

Jan. 2007 : Planned to commence the cultivation of research samples of transgenic rice plants for the treatment of Japanese cedar pollen allergy.

Company	Location	Project	Invested amount (¥ billion)	Operation start
Nippon Paper Industries	Ishinomaki	Installation of new biomass boiler	5.3	Oct. 2006

## Assumptions for FY2006 estimation

**● Sales forecast(domestic)**

**Paper: volume +1.0% up from FY2005**  
**price Recovery of printing and business communication paper price in the early 2<sup>nd</sup> half**

**paperboard: volume -0.8% down from FY2005**  
**price Maintain price levels**

**● Raw materials, fuel price and exchange rate(2<sup>nd</sup> half of FY2006)**

**Crude oil price:US\$60/BL(former estimation US\$60/BL)**

**Woodchip: FOB price has no significant change from the 1<sup>st</sup> half of FY2006**

**Exchange rate:US\$1=¥117(former estimation US\$1=¥115)**

**AUS\$1=¥ 88(former estimation AUS\$1=¥ 86)**

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

(¥ billion)	FY2006 Estimation	(Reference) FY2005 Results
<Net sales>	1,200.0	1,152.2
<Operating income>	50.0	48.4
<Ordinary income>	51.0	49.4
<Net income>	21.0	17.2



## II. FY2006 Forecast (2) Operating results

### (3) Sales volume by product



(Thousand tons)	FY2005 (A)	FY2006 est. (B)	% change yoy
<b>(Average domestic paper price: ¥/kg) ※</b>	<b>(104.4)</b>	<b>(104.7)</b>	<b>(0.4%)</b>
Newsprint	1,362	1,345	-1.2%
Uncoated paper	765	763	-0.3%
Coated paper	2,020	2,105	4.2%
Business communication paper	718	714	-0.5%
Packaging paper and others	565	556	-1.6%
<b>Total domestic sales</b>	<b>5,430</b>	<b>5,483</b>	<b>1.0%</b>
Export (including newsprint)	419	432	3.2%
<b>Total (paper)</b>	<b>5,849</b>	<b>5,915</b>	<b>1.1%</b>
<b>(Average domestic paperboard price: ¥/kg)</b>	<b>(53.4)</b>	<b>(56.6)</b>	<b>(6.0%)</b>
Container board	1,394	1,378	-1.2%
Folding box board and others	408	410	0.5%
<b>Total domestic sales</b>	<b>1,802</b>	<b>1,788</b>	<b>-0.8%</b>
Export	30	29	-1.8%
<b>Total (paperboard)</b>	<b>1,831</b>	<b>1,817</b>	<b>-0.8%</b>
<b>Grand total (paper and paperboard)</b>	<b>7,680</b>	<b>7,732</b>	<b>0.7%</b>

※calculated excluding newsprint.

## II. FY2006 Forecast (2) Operating results

### ④ Segment information

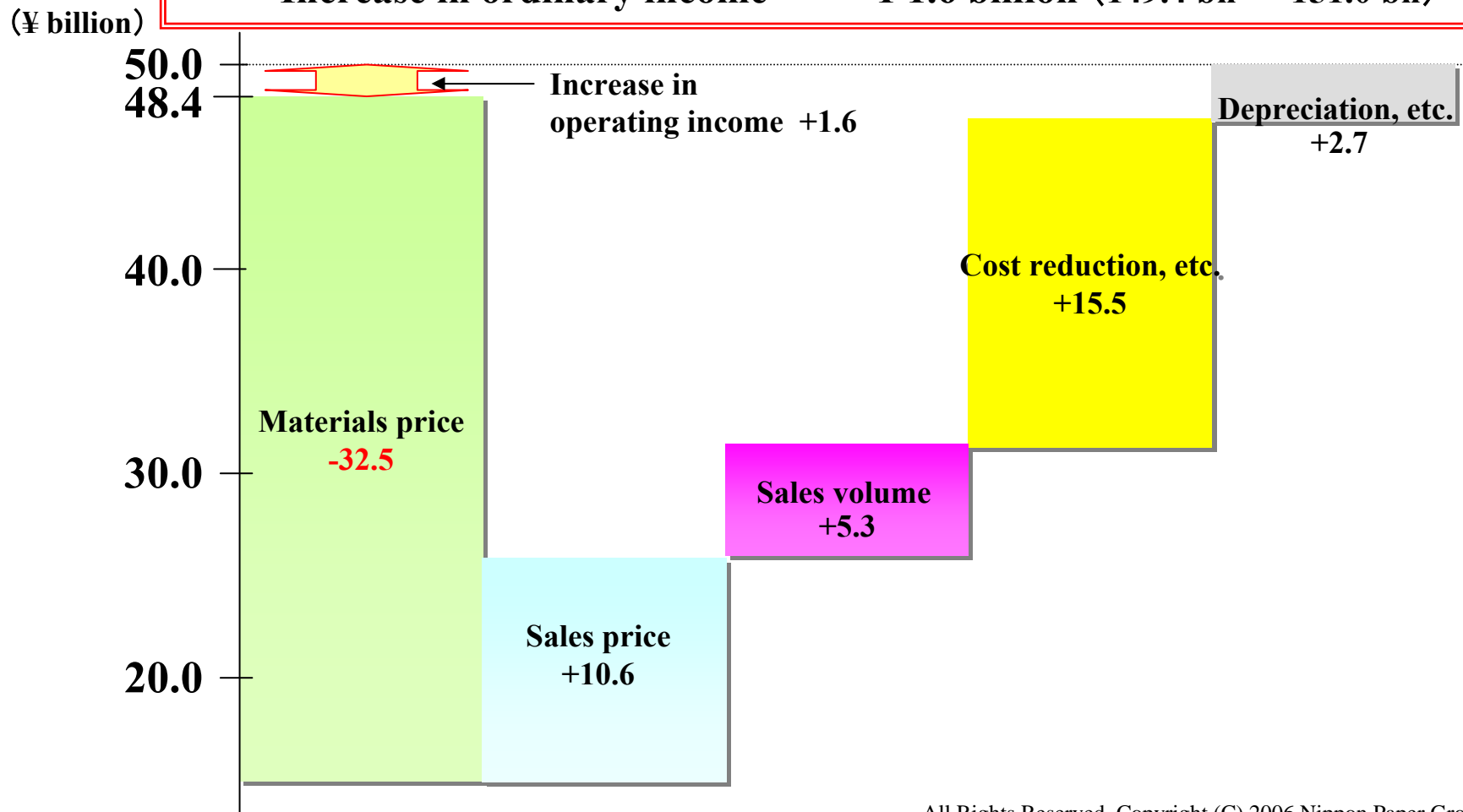


(¥billion)

	Sales			Operating income			Comments
	FY2005	FY2006 estimated	Difference	FY2005	FY2006 estimated	Difference	
<b>Pulp and Paper Div.</b>	<b>861.0</b>	<b>916.8</b>	<b>55.8</b>	<b>33.2</b>	<b>36.9</b>	<b>3.7</b>	
Paper etc.	704.9	745.7	40.8	32.8	31.3	▲ 1.6	Raw materials and fuel cost hike although cost reduction and price recovery.
Paperboard	101.9	112.1	10.2	4.0	7.4	3.4	Price recovery contributes to profit.
Household tissue	54.2	59.0	4.8	▲ 3.6	▲ 1.8	1.9	Plan to improve earnings by price recovery.
<b>Paper-related Div.</b> (cartons, chemical products)	<b>110.4</b>	<b>103.6</b>	<b>▲ 6.8</b>	<b>6.2</b>	<b>4.7</b>	<b>▲ 1.5</b>	Corrugated board business is transferred to equity method in the 2nd half of FY2005.
<b>Housing and Construction Materials Div.</b>	<b>94.0</b>	<b>95.6</b>	<b>1.6</b>	<b>2.6</b>	<b>2.6</b>	<b>0.0</b>	
<b>Other Div.</b> (beverages, transport)	<b>86.8</b>	<b>84.0</b>	<b>▲ 2.7</b>	<b>6.4</b>	<b>5.8</b>	<b>▲ 0.6</b>	
<b>Total</b>	<b>1,152.2</b>	<b>1,200.0</b>	<b>47.8</b>	<b>48.4</b>	<b>50.0</b>	<b>1.6</b>	

FY2005 vs FY2006 est.

**Increase in operating income ¥1.6 billion (¥48.4 bn → ¥50.0 bn)**  
**Increase in ordinary income ¥ 1.6 billion (¥49.4 bn → ¥51.0 bn)**



## II. FY2006 Forecast (4)Group's important figures



	FY2004	FY2005	FY2006 Interim	FY2006 est.
<b>ROE</b>	<b>5.6%</b>	<b>3.9%</b>	<b>3.1%</b>	<b>4.7%</b>
<b>Ordinary margin on sales</b>	<b>5.3%</b>	<b>4.3%</b>	<b>3.5%</b>	<b>4.3%</b>
<b>D/E (times)</b>	<b>x1.7</b>	<b>x1.5</b>	<b>x1.6</b>	<b>x1.6</b>
<b>Operation rate of paper machine(Calendar basis)</b>	<b>91%</b>	<b>92%</b>	<b>92%</b>	<b>93%</b>
<b>Operation rate of paperboard machine(Calendar basis)</b>	<b>87%</b>	<b>86%</b>	<b>83%</b>	<b>84%</b>
<b>Capital investment (¥ billion)</b>	<b>55.4</b>	<b>69.7</b>	<b>45.2</b>	<b>110.8</b>
<b>Depreciation (¥ billion)</b>	<b>75.0</b>	<b>70.1</b>	<b>32.8</b>	<b>66.3</b>
<b>Interest-bearing debt (¥ billion)</b>	<b>766.1</b>	<b>692.1</b>	<b>724.5</b>	<b>755.3</b>
<b>Number of employees</b>	<b>13,774</b>	<b>12,798</b>	<b>12,838</b>	<b>12,640</b>

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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.**