

# FY2006 3<sup>rd</sup> Quarter Financial Review

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NIPPON PAPER  
GROUP

*January 29, 2007*

Nippon Paper Group, Inc.



## FY2006 3Q Review

**(October 1, 2006 ~ December 31, 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 3Q (October 2006 – December 2006)

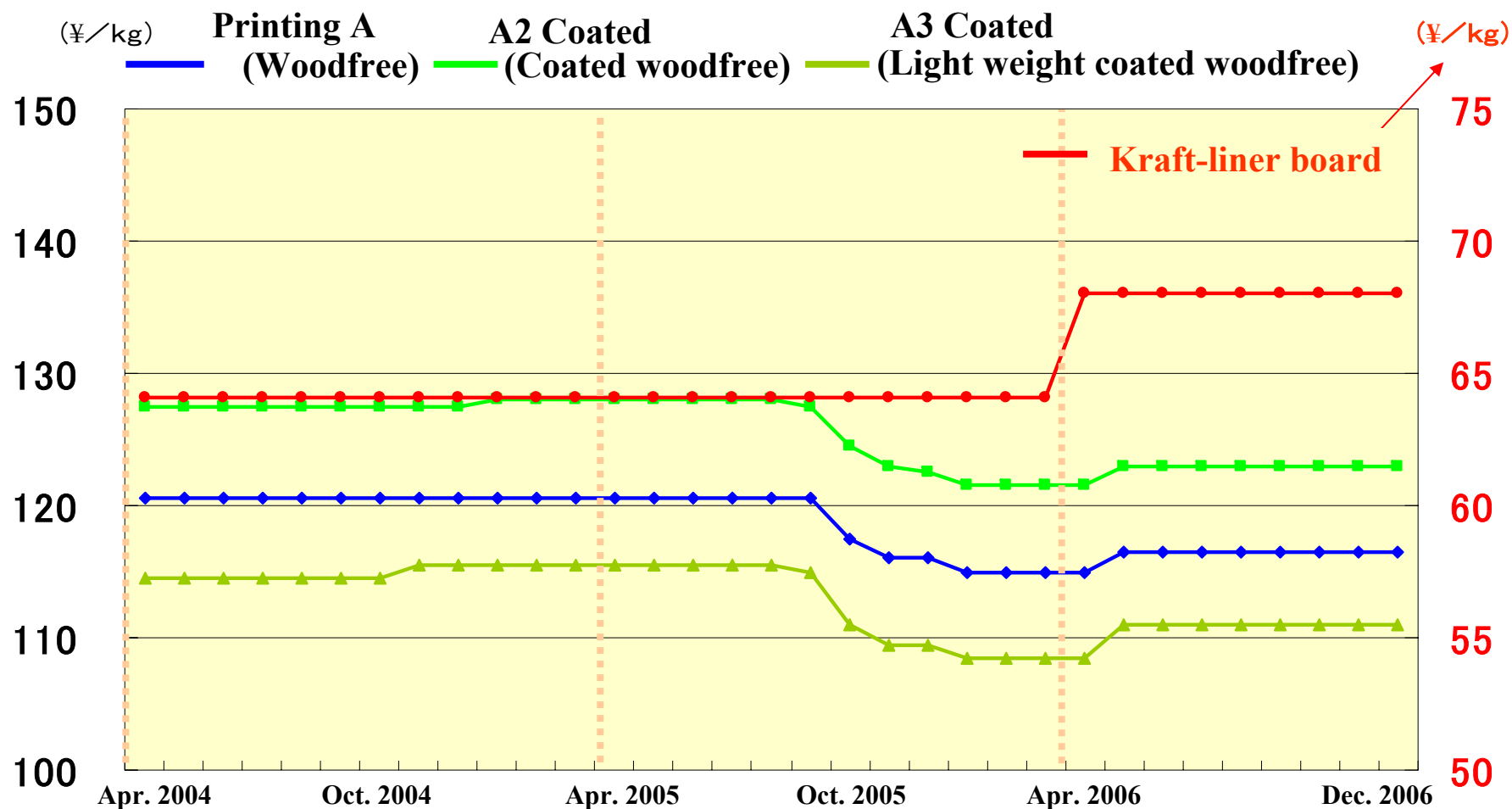
	Shipment(1,000 tons)	% change yoy
Newsprint	916	1.1%
Uncoated printing paper	646	-1.1%
Coated printing paper ※	1,677	1.6%
Business communication paper	397	0.5%
Other papers (Packaging paper, sanitary paper, and paper for miscellaneous uses)	1,022	-2.2%
Paper total	4,657	0.2%
Paperboard total	3,101	-0.9%
Paper and paperboard total	7,759	-0.2%

※ “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 – December 2006)

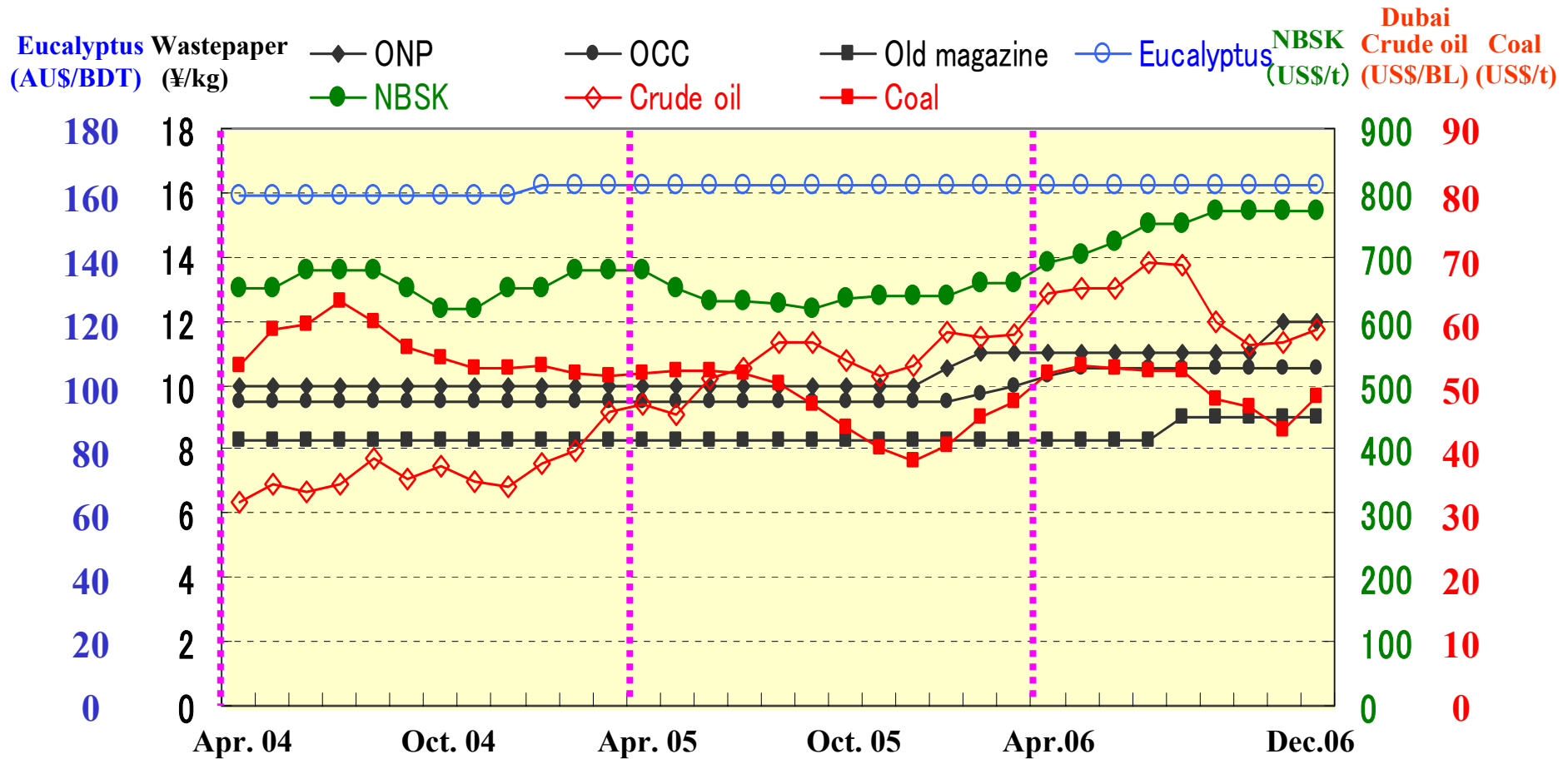


# (1) Overview – Business environment



Paper industry

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



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

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## Topics of the 3<sup>rd</sup> Quarter

- Oct. 2006 : Started operation of Ishinomaki mill's biomass boiler.  
: Announced the achievement of afforestation of 100,000 hectare.
- Nov. : Agreed to work towards a basic contract to form a strategic operational and capital alliance with Rengo Co., Ltd. and Sumitomo Corporation.  
(Aim to sign a final agreement by February 28, 2007.)  
: Announced to reach a basic agreement with IP for acquisition of its subsidiaries, Amapa Florestal e Celulose S.A. and two other corporations, which conduct the businesses of afforestation, woodchips production and biomass fuel export in Brazil.  
(Joint 50-50 investment with Marubeni Corporation)
- Dec. : Signed a definitive agreement of the strategic alliance between Hokuetsu Paper Mills, Ltd. and Nippon Paper Industries Co., Ltd.

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

## ●(3)Financial results ①Outline



### Consolidated operating results

(¥ billion)	FY2005 3 <sup>rd</sup> Q	FY2006 3 <sup>rd</sup> Q	FY2006 Accum. (Apr. 2006-Dec. 2006)
<Net sales>	292.3	301.8	882.9
<Operating income>	10.8	12.5	32.3
<Ordinary income>	10.4	12.4	32.6
<Net income>	6.7	6.2	13.1

## ●(3)Financial results ②Sales volume by product



(Thousand tons)	FY2005 3Q	FY2006 3Q	% change yoy
Newsprint	348	342	-1.7%
Uncoated paper	192	192	-0.2%
Coated paper	518	520	0.4%
Business communication paper	178	178	-0.1%
Packaging paper and others	143	139	-2.8%
<b>Total domestic sales</b>	<b>1,380</b>	<b>1,371</b>	<b>-0.6%</b>
Export (including newsprint)	98	105	6.7%
<b>Total (paper)</b>	<b>1,478</b>	<b>1,476</b>	<b>-0.1%</b>
Container board	359	346	-3.8%
Folding box board and others	104	104	-0.0%
<b>Total domestic sales</b>	<b>463</b>	<b>450</b>	<b>-2.9%</b>
Export	7	9	35.7%
<b>Total (paperboard)</b>	<b>470</b>	<b>459</b>	<b>-2.4%</b>
<b>Grand total (paper and paperboard)</b>	<b>1,948</b>	<b>1,935</b>	<b>-0.7%</b>



## (3) Financial results ③ Segment information

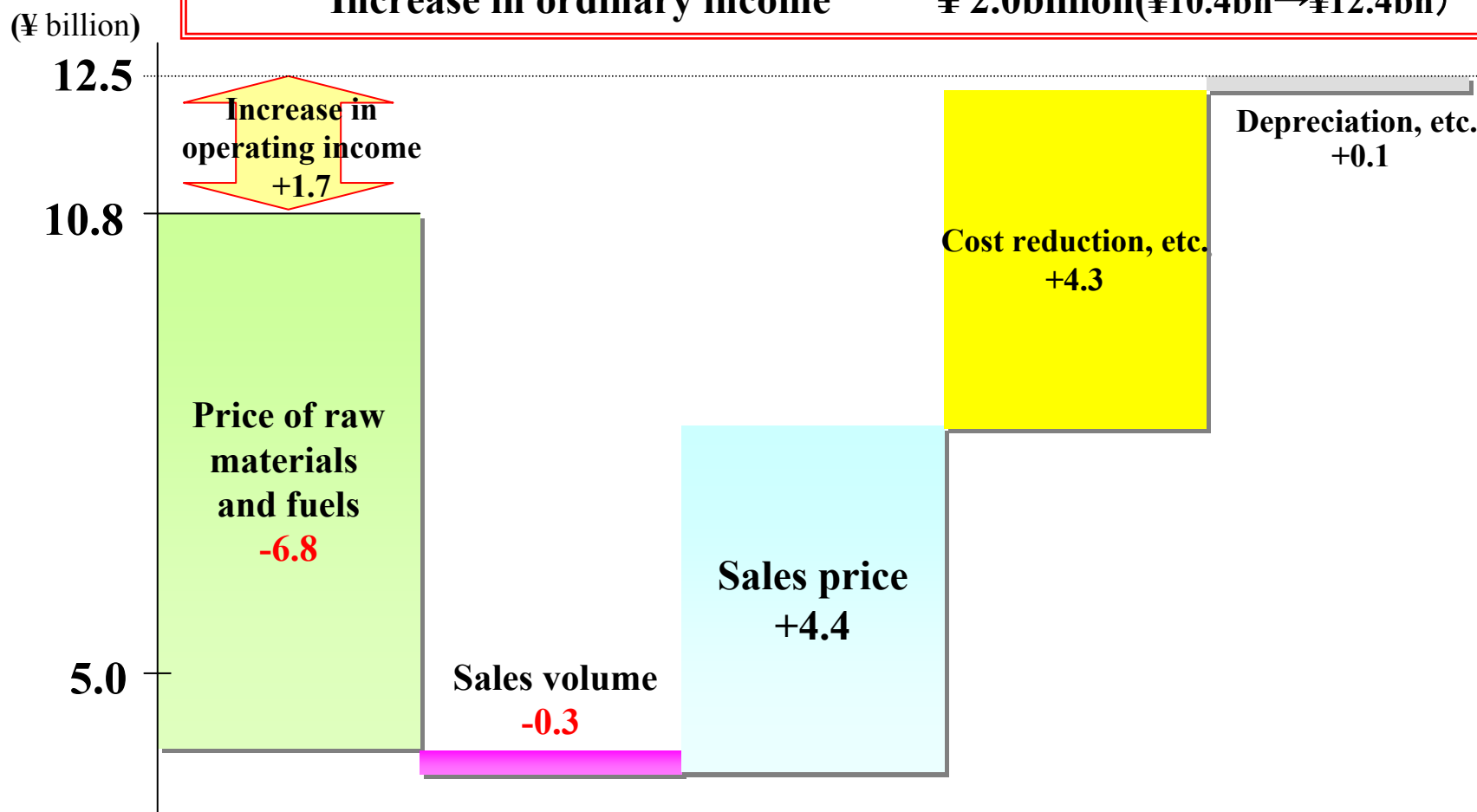
( ¥ billion)

	Sales			Operating income			Comments
	FY2005 3Q	FY2006 3Q	Difference	FY2005 3Q	FY2006 3Q	Difference	
Pulp and Paper Div.	222.1	228.2	6.0	6.7	8.4	1.6	Paper: Cost reduction and price recovery partially off set raw materials and fuel cost hike impact. Paperboard: Price recovery contributed to profit. Household tissue: The operating loss was smaller compared to the last year due to price recovery and cost reduction.
Paper-related Div. (cartons, chemical products)	24.4	25.6	1.2	1.8	1.5	-0.2	
Housing and Construction Materials Div.	24.3	27.0	2.7	0.9	1.0	0.1	
Other Div. (beverages, transport)	21.5	21.0	-0.4	1.4	1.7	0.3	
<b>Total</b>	<b>292.3</b>	<b>301.8</b>	<b>9.5</b>	<b>10.8</b>	<b>12.5</b>	<b>1.7</b>	

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

## FY2005 3<sup>rd</sup> Q vs FY2006 3<sup>rd</sup> Q

**Increase in operating income** ¥1.7billion(¥10.8bn →¥12.5bn)  
**Increase in ordinary income** ¥ 2.0billion(¥10.4bn→¥12.4bn)



## (3) Financial results ⑤ Balance sheet

( ¥ billion)

Balance sheet	Mar. 31, 2006	Dec. 31, 2006	Difference	Comments
Cash and time deposits	14.1	17.6	3.5	
Notes and accounts receivable	218.4	281.0	62.7	
Inventories	139.2	146.7	7.5	
Other current assets	41.0	59.4	18.4	
Property, plant, equipment, and intangible fixed assets	848.0	867.1	19.1	Capital investment 73.6bn , Depreciation -49.7bn , etc.
Investments and other assets	231.8	240.2	8.5	
<b>Total assets</b>	<b>1,492.4</b>	<b>1,612.0</b>	<b>119.6</b>	
Interest-bearing debt	692.1	788.2	96.1	
Other debt	337.7	361.5	23.8	
Minority interests in consolidated subsidiaries	22.3	—		
Total shareholders' equity	440.3	—		
Net assets	—	462.3		Cash dividends -8.5bn, Net income 13.1bn, Unrealized gains on other marketable securities -6.7bn , 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 fiscal year.

## (3) Financial results ⑥ Cash flow statement



( ¥ billion)

Items	FY2005/3Q	FY2006/3Q	Difference	Comments
Operating activities	9.1	-30.5	-39.6	
Income before income taxes	12.2	11.6	-0.6	
Depreciation	17.5	16.9	-0.6	
Change in net working capital	-12.2	① -33.1	-20.9	① Decrease in liquidation of receivables, etc.
Others	-8.4	-25.9	-17.5	
Investing activities	-9.8	-28.5	-18.7	
Purchases of property, plant and equipment	-12.1	② -26.5	-14.4	② Capital expenditures increased due to strategic investments.
Proceeds from sales of property, plant and equipment	1.4	0.8	-0.6	
Others	0.9	-2.8	-3.7	
Free cash flows	-0.7	-59.0	-58.3	
Financing activities	1.6	59.3	57.6	
Change in net borrowings	7.3	① 63.7	56.3	
Cash dividends paid	-4.3	-4.5	-0.2	
Others	-1.3	0.1	1.4	
Effect of exchange rate changes, etc.	0.2	0.2	-0.0	
Cash and cash equivalents at beginning of period	15.2	17.0	1.8	
Cash and cash equivalents at end of period	16.4	17.5	1.1	

## ● (4) Full year forecast

Considering 3Q result and recent business environment,  
we revise FY2006's estimation.

(¥ billion)	FY2006 Former estimation	FY2006 Current estimation	(Reference) FY2005 Results
<Net sales>	1,200.0	1,180.0	1,152.2
<Operating income>	50.0	46.0	48.4
<Ordinary income>	51.0	47.0	49.4
<Net income>	21.0	21.0	17.2

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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.**