

FY2006 Financial Review



NIPPON PAPER
GROUP

May 8, 2007

Nippon Paper Group, Inc.



I. FY2006 Review (April 1, 2006 – March 31, 2007)

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II. FY2007 Forecast (April 1, 2007 – March 31, 2008)

- (1) Overview
- (2) Operating results
- (3) Analysis of profit and loss
- (4) Group's important figures

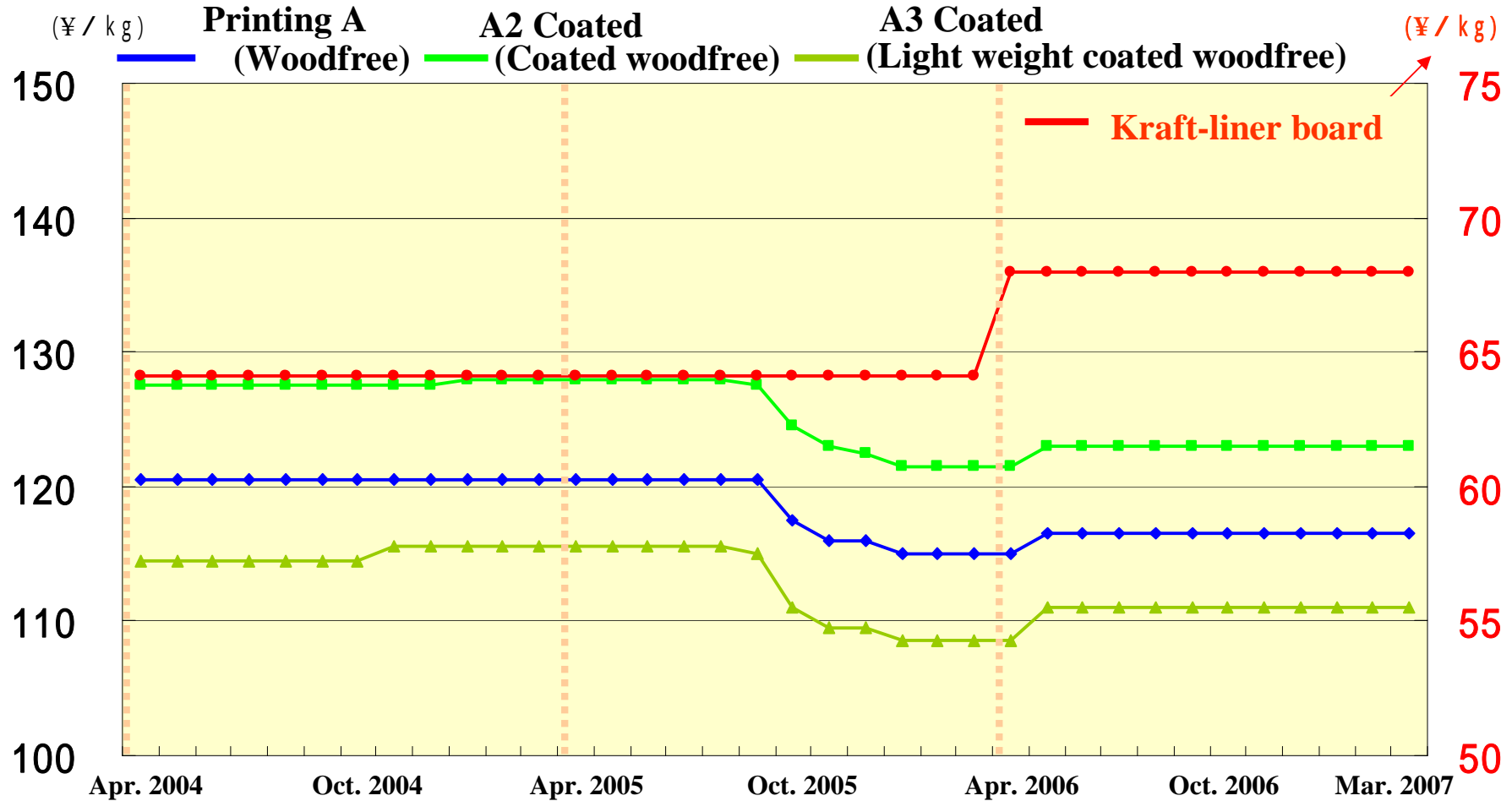
Paper industry

Domestic shipment of paper and paperboard
FY2006 (April 2006 - March 2007)

	Shipment(1,000 tons)	% change yoy
Newsprint	3,606	1.6%
Uncoated printing paper	2,564	-1.2%
Coated printing paper	6,512	2.0%
Business communication paper	1,604	0.6%
Other papers (Packaging paper, sanitary paper, and paper for miscellaneous uses)	4,027	0.2%
Paper total	18,313	0.9%
Paperboard total	11,767	-1.7%
Paper and paperboard total	30,080	-0.1%

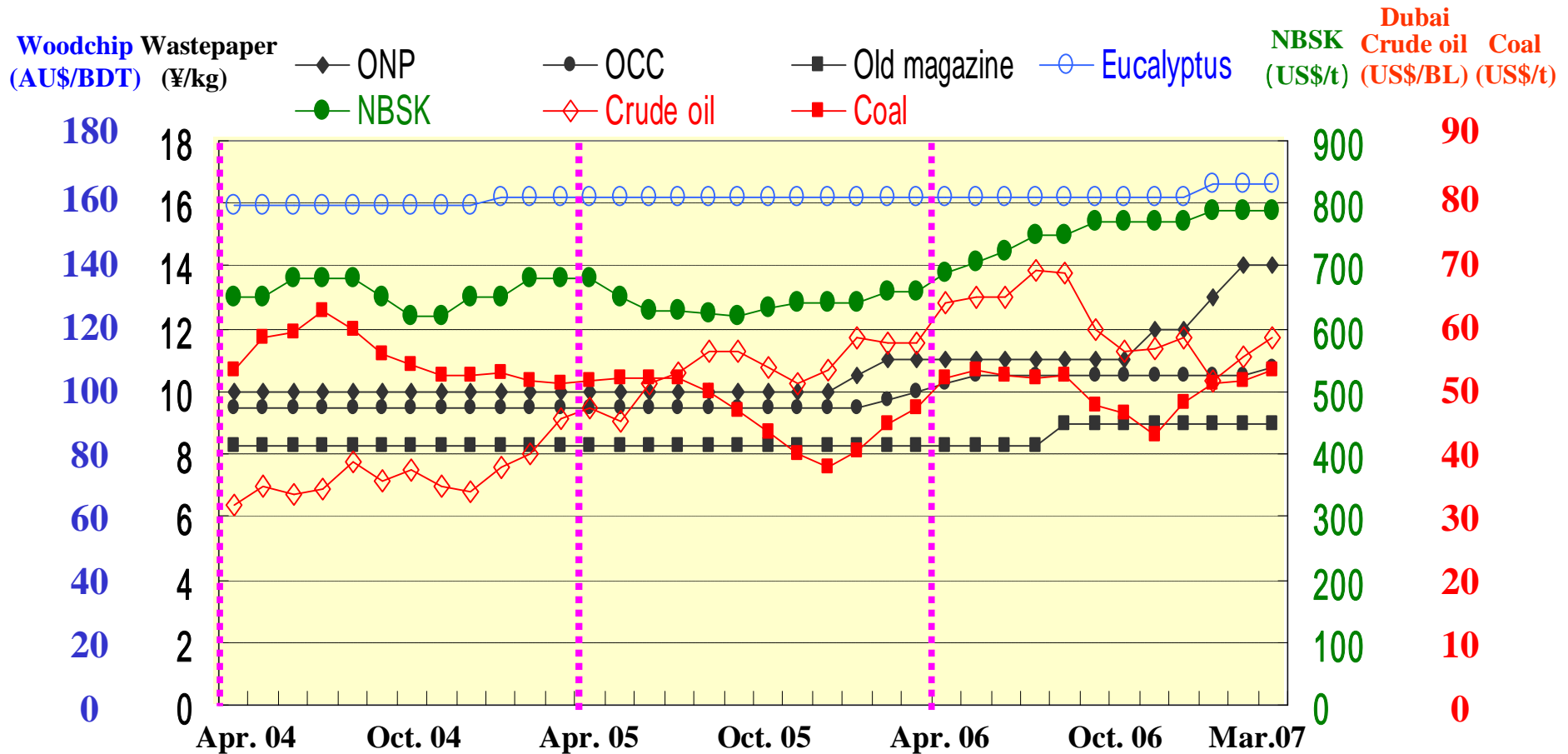
Paper industry

Trend in paper and paperboard prices
(April 2004 - March 2007)



Paper industry

Trend in fuels and raw materials prices
(April 2004 - March 2007)



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

Topics of FY2006

- Apr. 2006 : Merger of San-Mic Shoji Co., Ltd. and Komine Nissho Co., Ltd.
 (Name of the new company : NP Trading Co., Ltd.)
- May. : Launched Second Medium-Term Business Plan.
- Aug. : Acquisition of Shares in Hokuetsu Paper Mills, Ltd.
 (Corresponding percentage of voting rights 8.85%)
- Oct. : Started operation of Ishinomaki mill's biomass boiler.
- Dec. : 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 business of afforestation, woodchips production and biomass fuel export in Brazil. (Joint 50-50 investment with Marubeni)
 : Signed a definitive agreement of the strategic alliance between Hokuetsu Paper Mills, Ltd. and Nippon Paper Industries Co., Ltd.
- Mar. 2007 : Signed strategic alliance agreement with Rengo and Sumitomo Corporation.

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

Consolidated operating results

(¥ billion)	FY2005	FY2006	Difference
<Net sales>	1,152.2	1,175.3	23.1
<Operating income>	48.4	44.7	-3.7
<Ordinary income>	49.4	47.1	-2.3
<Net income>	17.2	23.0	5.8

I. FY2006 Review (2) Operating results

Sales volume by product



(Thousand tons)	FY2005 (A)	FY2006 (B)	% change yoy
(Average domestic paper price : ¥/kg)	(104.4)	(104.4)	(0.0%)
Newsprint	1,362	1,333	-2.1%
Uncoated paper	744	749	0.7%
Coated paper	2,020	2,072	2.6%
Business communication paper	718	718	-0.1%
Packaging paper and others	586	573	-2.2%
Total domestic sales	5,430	5,445	0.3%
Export (including newsprint)	419	429	2.4%
Total (paper)	5,849	5,874	0.4%
(Average domestic paperboard price : ¥/kg)	(53.4)	(56.7)	(6.2%)
Container board	1,394	1,342	-3.7%
Folding box board and others	408	402	-1.5%
Total domestic sales	1,802	1,744	-3.2%
Export	30	37	25.6%
Total (paperboard)	1,831	1,781	-2.8%
Grand total (paper and paperboard)	7,680	7,655	-0.3%

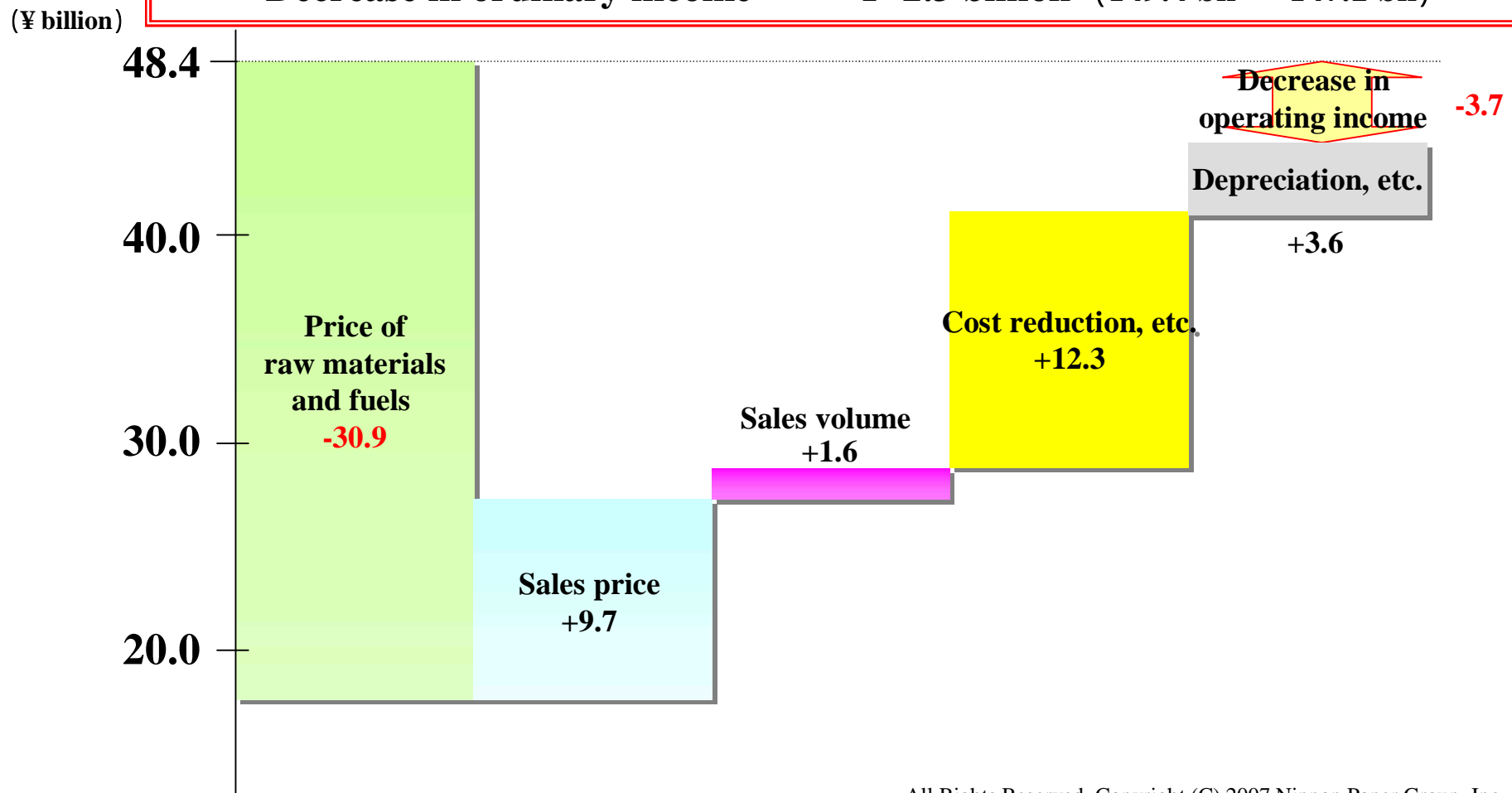
calculated excluding newsprint.

(¥billion)

	Sales			Operating income			Comments
	FY2005	FY2006	Difference	FY2005	FY2006	Difference	
Pulp and Paper Div.	861.0	889.9	28.9	33.2	30.7	▲ 2.5	
Paper etc.	704.9	725.4	20.5	32.8	27.1	▲ 5.7	Negative impact from raw materials and fuel cost hike far exceeded cost reduction and price recovery.
Paperboard	101.9	109.8	7.9	4.0	6.1	2.1	Price recovery contributed to profit.
Household tissue	54.2	54.7	0.4	▲ 3.6	▲ 2.5	1.1	The cost reduction effect contributed to downsizing operating loss.
Paper-related Div. (cartons, chemical products)	110.4	101.5	▲ 8.9	6.2	4.9	▲ 1.3	
Housing and Construction Materials Div.	94.0	100.5	6.4	2.6	3.0	0.4	
Other Div. (beverages, transport)	86.8	83.4	▲ 3.3	6.4	6.1	▲ 0.3	
Total	1,152.2	1,175.3	23.1	48.4	44.7	▲ 3.7	

FY2005 vs FY2006

Decrease in operating income ¥-3.7 billion (¥48.4 bn ¥44.7 bn)
Decrease in ordinary income ¥ -2.3 billion (¥49.4 bn ¥47.1 bn)



	FY2005	FY2006	
Ordinary income	49.4	47.1	(¥billion)
Extraordinary gains	19.5	7.8	
Gain on sale of property, plant and equipment	14.7	3.4	
Gain on sale of securities, etc.	1.8	3.9	
Others	3.0	0.5	
Extraordinary losses	29.9	16.7	
Loss on disposal of property, plant and equipment	3.6	4.5	
Impairment accounting	10.3	3.9	
Provision for doubtful receivables	2.4	2.0	
Extraordinary retirement benefits	7.7	2.5	
Others	5.9	3.8	
Income tax adjustment	-21.0	-14.5	
Minority interests	-0.8	-0.7	
Net income	17.2	23.0	

Balance sheet

(¥billion)

	Mar. 31, 2006	Mar. 31, 2007	Difference	Comments
Cash and time deposits	14.1	16.0	1.9	
Notes and accounts receivable	218.4	247.1	28.8	
Inventories	139.2	147.1	7.9	
Other current assets	41.0	46.3	5.3	
Property, plant, equipment, and intangible fixed assets	848.0	874.1	26.1	Capital investment 103.0bn , Depreciation -67.1bn , etc.
Investments and other assets	231.8	235.2	3.5	
Total assets	1,492.4	1,566.0	73.6	
Interest-bearing debt	692.1	738.2	46.1	
Other debt	337.7	357.2	19.5	
Minority interests in consolidated subsidiaries	22.3	-		
Total shareholders' equity	440.3	-		
Net assets	-	470.5		Cash dividends -8.5bn, Net income 23.0bn, Unrealized gains on other marketable securities -8.2bn , 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 FY2006.

(¥billion)

Items	FY2005	FY2006	Difference	Comments
Operating activities	132.1	75.4	-56.7	
Income before income taxes	39.0	38.1	-0.9	
Depreciation	70.1	67.0	-3.1	
Change in net working capital	25.9	-21.6	-47.5	
Others	-2.9	-8.2	-5.3	
Investing activities	-40.4	-107.0	-66.6	
Purchases of property, plant and equipment	-62.6	-94.9	-32.3	Capital expenditures increased due to strategic investments.
Proceeds from sales of property, plant and equipment	22.4	5.7	-16.8	
Others	-0.2	-17.8	-17.5	Investments in other securities, etc.
Free cash flows	91.7	-31.7	-123.3	
Financing activities	-96.6	32.9	129.5	
Change in net borrowings	-74.1	42.2	116.4	Interest bearing debt increased due to growing capex.
Cash dividends paid	-9.0	-8.9	0.1	
Others	-13.5	-0.4	13.0	
Effect of exchange rate changes, etc.	0.7	0.6	-0.1	
Cash and cash equivalents at beginning of period	18.2	14.0	-4.2	
Cash and cash equivalents at end of period	14.0	15.9	1.9	

Topics of FY2007

Apr. 2007 : Established Overseas Sales Division.

Oct. : Merger of NP Trading Co., Ltd. and Mantsune Corporation.(planned)

: Start operation of Fuji mill's biomass boiler.(planned)

Nov. : Start operation of Ishinomaki mill's N6 M/C(planned)

(Product to manufacture : Lightweight coated paper

Annual capacity : 350,000t)

Jan. 2008 : Start operation of Iwanuma mill's new energy boiler.(planned)

Feb. :Start operation of Iwakuni mill's biomass boiler.(planned)

Company	Location	Project	Invested amount (¥ billion)	Operation start (planned)
Nippon Paper Industries	Fuji	Installation of new biomass boiler	6.9	Oct. 2007
	Ishinomaki	N6 machine (Lightweight coated paper production facilities)	63.0	Nov. 2007
	Iwanuma	Installation of new energy boiler	11.5	Jan. 2008
	Iwakuni	Installation of new biomass boiler	10.7	Feb.2008

Assumptions for FY2007 estimation

Sales forecast(domestic)

Sales volume: paper +1.4% up from FY2006

paperboard +1.5% up from FY2006

Sales price : maintain price levels

Raw materials, fuel price and exchange rate

Crude oil price:US\$60/BL(FY2006 US\$61/BL)

Woodchip: FOB price rises from FY2006

Wastepaper:current price hike is included

Exchange rate:US\$1=¥115.5(FY2006 US\$1=¥117.0)

AU\$1=¥ 90.0(FY2006 AU\$1=¥ 89.5)

Forecast of consolidated results

(¥ billion)	FY2006	FY2007 estimation	Difference
<Net sales>	1,175.3	1,210.0	34.7
<Operating income>	44.7	30.0	-14.7
<Ordinary income>	47.1	29.0	-18.1
<Net income>	23.0	10.0	-13.0

II . FY2007 Forecast (2) Operating results

Sales volume by product



(Thousand tons)	FY2006 (A)	FY2007 est. (B)	% change yoy
(Average domestic paper price : ¥/kg)	(104.4)	(105.7)	(1.3%)
Newsprint	1,333	1,337	0.3%
Uncoated paper	749	739	-1.4%
Coated paper	2,072	2,160	4.2%
Business communication paper	718	745	3.9%
Packaging paper and others	573	539	-6.1%
Total domestic sales	5,445	5,520	1.4%
Export (including newsprint)	429	474	10.6%
Total (paper)	5,874	5,994	2.0%
(Average domestic paperboard price : ¥/kg)	(56.7)	(56.9)	(0.4%)
Container board	1,342	1,360	1.3%
Folding box board and others	402	409	2.0%
Total domestic sales	1,744	1,770	1.5%
Export	37	34	-9.8%
Total (paperboard)	1,781	1,803	1.2%
Grand total (paper and paperboard)	7,655	7,797	1.9%

calculated excluding newsprint.

● II . FY2007 Forecast ● (2) Operating results

Segment information

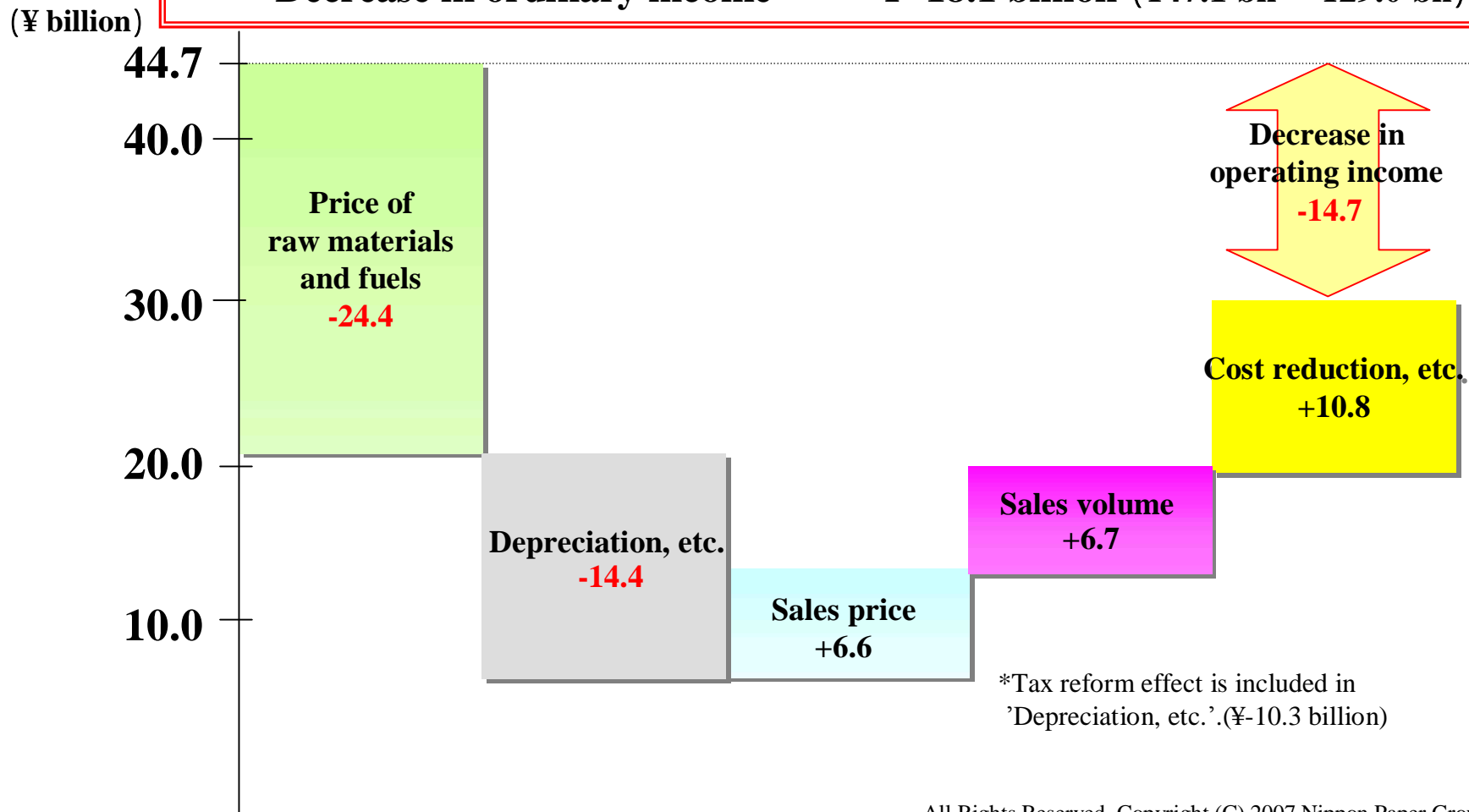


(¥billion)

	Sales			Operating income			Comments
	FY2006	FY2007 estimated	Difference	FY2006	FY2007 estimated	Difference	
Pulp and Paper Div.	889.9	917.4	27.6	30.7	16.7	▲ 13.9	
Paper etc.	725.4	744.7	19.4	27.1	15.9	▲ 11.1	Profit decreases due to raw materials and fuel cost hike and increasing burden on depreciation.
Paperboard	109.8	111.7	1.9	6.1	0.3	▲ 5.8	Wastepaper price hike cause huge negative impact to the profit.
Household tissue	54.7	61.0	6.3	▲ 2.5	0.5	3.0	Carry-over effect of price recovery contributes to improving profitability.
Paper-related Div. (cartons, chemical products)	101.5	106.1	4.6	4.9	5.2	0.3	
Housing and Construction Materials Div.	100.5	103.0	2.5	3.0	3.4	0.4	
Other Div. (beverages, transport)	83.4	83.5	0.0	6.1	4.7	▲ 1.4	
Total	1,175.3	1,210.0	34.7	44.7	30.0	▲ 14.7	

FY2006 vs FY2007 est.

Decrease in operating income ¥-14.7 billion (¥44.7 bn ¥30.0 bn)
Decrease in ordinary income ¥ -18.1 billion (¥47.1 bn ¥29.0 bn)



II . FY2007 Forecast (4)Group's important figures



	FY2004	FY2005	FY2006	FY2007 est.
ROE	5.6%	3.9%	5.2%	2.2%
Ordinary margin on sales	5.3%	4.3%	4.0%	2.4%
D/E (times)	x1.7	x1.5	x1.6	x1.7
Operation rate of paper machine(Calendar basis)	91%	92%	93%	92%
Operation rate of paperboard machine(Calendar basis)	87%	86%	82%	83%
Capital investment (¥ billion)	55.4	69.7	103.0	124.3
Depreciation (¥ billion)	75.0	70.1	67.1	80.2
Interest-bearing debt (¥ billion)	766.1	692.1	738.2	780.0
Number of employees	13,774	12,798	12,584	12,591

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.