

# FY2007 Interim Financial Review

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NIPPON PAPER  
GROUP

October 29, 2007

Nippon Paper Group, Inc.



## I. FY2007 Interim Review (April 1, 2007 – September 30, 2007)

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Paper industry

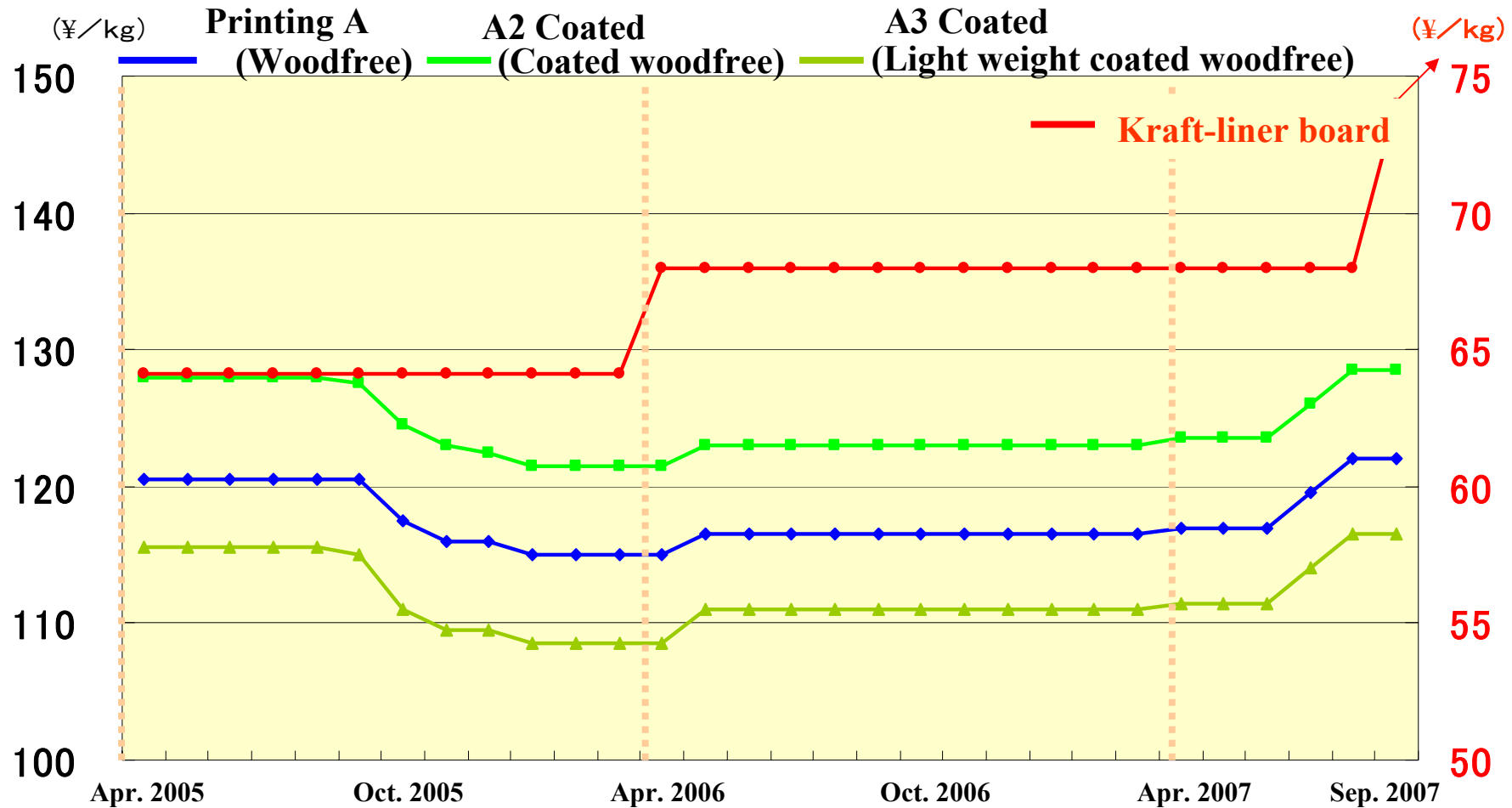
Domestic shipment of paper and paperboard  
FY2007 Interim (April 2007 — September 2007)

	Shipment(1,000 tons)	% change yoy
Newsprint	1,792	-0.2%
Uncoated printing paper	1,240	-2.3%
Coated printing paper ※	3,180	-0.1%
Business communication paper	827	5.3%
Other papers (Packaging paper, sanitary paper, and paper for miscellaneous uses)	1,996	-1.0%
Paper total	9,034	-0.2%
Paperboard total	5,961	1.3%
Paper and paperboard total	14,995	0.4%

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

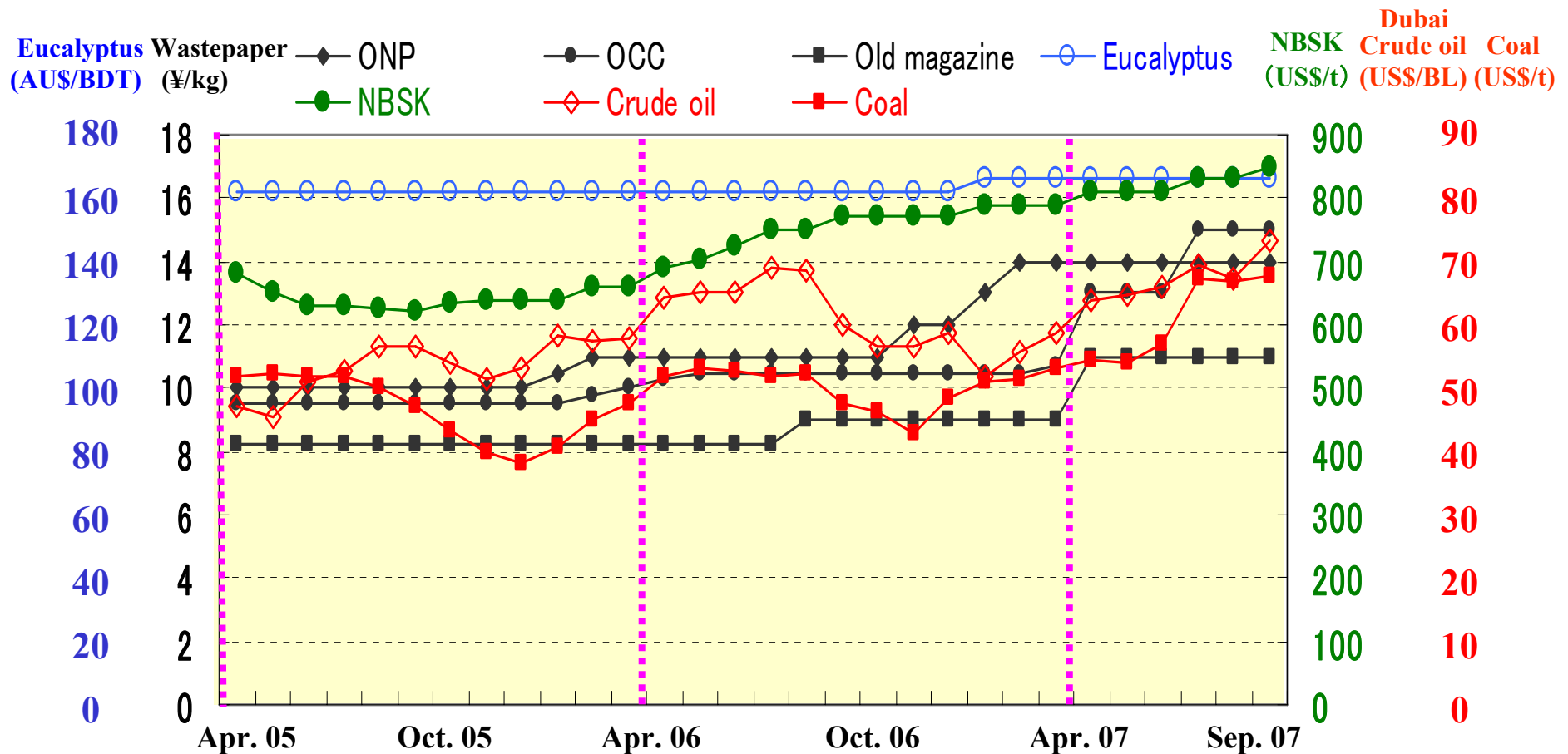
Paper industry

Trend in paper and paperboard prices  
(April 2005 — September 2007)



Paper industry

Trend in fuels and raw materials prices  
(April 2005 – September 2007)



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

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

- Apr. 2007 -Reorganization of the recycled paper lineup and discontinuation of 100% recycled paper.
- May. -Renewal of copy paper lineup reflecting the Green Proportion™ environmental concept.  
-Establishment of hospitality program for shareholders.  
-Price increase announcement for all printing paper grades
- Jun. -Price increase announcement for business communication paper grades.  
-Technology for mass proliferation of plantlets from pine cuttings jointly developed with RITE (*Research Institute of Innovative Technology for the Earth*).  
-Adoption of a basic policy on the persons to control the "Company" and introduction of Takeover Defense Measures.
- Jul. -Announced preventive measures concerning emission controls at mills after reportedly exceeding the standards of the Air Pollution Control Act.  
-Price increase announcement for container board and white board, etc.  
-Notice of sale of treasury shares through private placement.
- Aug. -Concluded merger agreement of NP Trading Co., Ltd. and Mantsune Corporation.  
-Concluded share transfer agreement for Asahikawa Grand Hotel.

Consolidated operating results

(¥ billion)	FY2006 Interim	FY2007 Interim	Difference
<Net sales>	581.1	597.4	16.3
<Operating income>	19.7	14.4	-5.3
<Ordinary income>	20.2	13.9	-6.3
<Interim net income>	6.9	4.6	-2.3

(Thous and tons)	FY2006 Interim	FY2007 Interim	% change yoy
(Average domestic paper price: ¥/kg) ※	(103.9)	(107.6)	(3.6%)
Newsprint	662	652	-1.5%
Uncoated paper	374	369	-1.4%
Coated paper	1,024	1,019	-0.5%
Business communication paper	352	379	7.7%
Packaging paper and others	285	288	1.2%
<b>Total domestic sales</b>	<b>2,697</b>	<b>2,708</b>	<b>0.4%</b>
Export (including newsprint)	197	235	19.0%
<b>Total (paper)</b>	<b>2,894</b>	<b>2,942</b>	<b>1.7%</b>
(Average domestic paperboard price: ¥/kg)	(56.0)	(57.3)	(2.3%)
Container board	690	680	-1.4%
Folding box board and others	199	193	-3.3%
<b>Total domestic sales</b>	<b>890</b>	<b>873</b>	<b>-1.9%</b>
Export	17	19	13.5%
<b>Total (paperboard)</b>	<b>907</b>	<b>893</b>	<b>-1.6%</b>
<b>Grand total (paper and paperboard)</b>	<b>3,800</b>	<b>3,835</b>	<b>0.9%</b>

※excluding newsprint.



(¥billion)

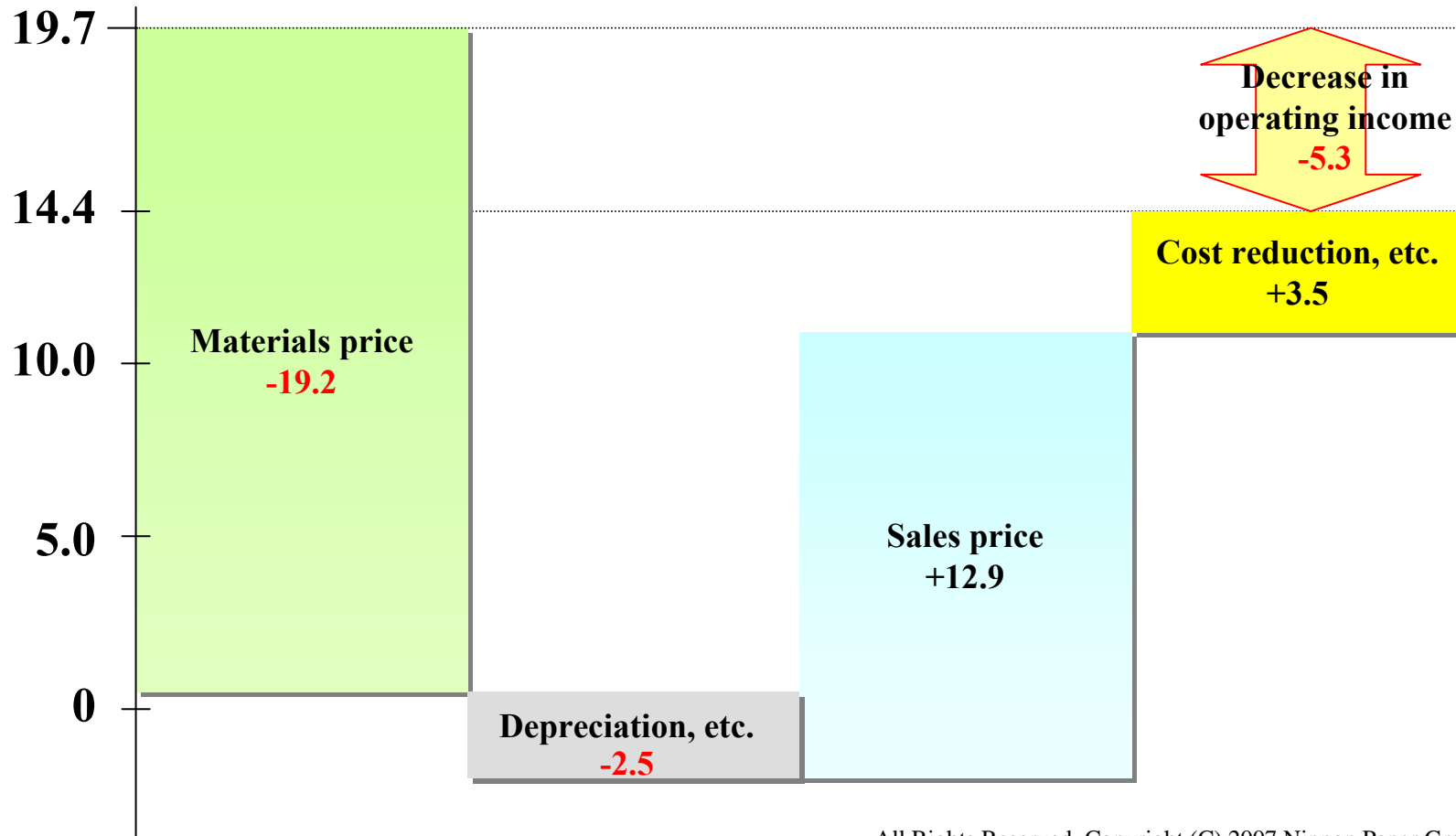
	Sales			Operating income			Comments
	FY2006 Interim	FY2007 Interim	Difference	FY2006 Interim	FY2007 Interim	Difference	
<b>Pulp and Paper Div.</b>	<b>438.3</b>	<b>455.5</b>	<b>17.3</b>	<b>12.8</b>	<b>7.3</b>	<b>▲ 5.5</b>	
Paper etc.	356.1	370.7	14.6	11.3	8.0	▲ 3.3	Profit decreased due to raw materials and fuel cost hike.
Paperboard	55.3	56.2	0.9	3.4	▲ 0.5	▲ 3.9	OCC price hike caused operating loss.
Household tissue	26.9	28.7	1.8	▲ 1.9	▲ 0.2	1.8	Price recovery contributed to downsizing operating loss.
Paper-related Div. (cartons, chemical products)	51.9	51.8	▲ 0.1	2.6	2.7	0.1	
Housing and Construction Materials Div.	47.4	43.6	▲ 3.8	1.3	1.2	▲ 0.1	
Other Div. (beverages, transport)	43.5	46.5	3.0	3.0	3.2	0.1	Six subsidiaries of SHIKOKU COCA-COLA BOTTLING were newly included in consolidation scope.
<b>Total</b>	<b>581.1</b>	<b>597.4</b>	<b>16.3</b>	<b>19.7</b>	<b>14.4</b>	<b>▲ 5.3</b>	

FY2006 Interim vs FY2007 Interim

**Decrease in operating income ¥-5.3billion (¥19.7 bn → ¥14.4 bn)**

**Decrease in ordinary income ¥ -6.3 billion (¥20.2 bn → ¥13.9 bn)**

(¥ billion)



	FY2006 Interim	FY2007 Interim	(¥billion)
Ordinary income	20.2	13.9	
Extraordinary gains	1.0	1.8	
Gain on sale of property, plant and equipment	0.7	0.7	
Gain on sale of securities, etc.	0.0	0.9	
Others	0.2	0.2	
Extraordinary losses	8.0	4.7	
Loss on disposal of property, plant and equipment	2.1	1.3	
Impairment accounting	3.2	0.1	
Extraordinary retirement benefits	1.2	1.5	
Loss on devaluation of amount invested	-	1.0	
Others	1.5	0.8	
Income tax adjustment	-5.8	-5.9	
Minority interests	-0.5	-0.5	
Interim net income	6.9	4.6	

Balance sheet	(¥billion)			
	Mar. 31, 2007	Sep. 30, 2007	Difference	Comments
Cash and time deposits	16.0	21.1	5.1	
Notes and accounts receivable	247.1	252.2	5.0	
Inventories	147.1	155.9	8.8	
Other current assets	46.3	45.9	-0.4	
Property, plant, equipment, and intangible fixed assets	874.1	889.7	15.6	Capital investment 60.4bn , Depreciation -37.7bn , etc.
Investments and other assets	235.2	244.0	8.8	
<b>Total assets</b>	<b>1,566.0</b>	<b>1,608.8</b>	<b>42.9</b>	
Interest-bearing debt	738.2	735.6	-2.6	
Other debt	357.2	379.9	22.7	
<b>Net assets</b>	<b>470.5</b>	<b>493.3</b>	<b>22.8</b>	Cash dividends -4.3bn, Interim net income 4.6bn, Decrease in treasury stock 17.9bn, Minority interest in consolidated subsidiaries 1.7bn, etc.

(¥billion)

Items	FY2006 Interim	FY2007 Interim	Difference	Comments
Operating activities	30.6	32.5	1.9	
Income before income taxes	13.1	11.0	-2.2	
Depreciation	32.8	① 37.7	4.9	① Tax reform effect (5.0bn) is included.
Change in net working capital	-20.8	-13.1	7.7	
Others	5.4	-3.1	-8.5	
Investing activities	-51.6	-38.2	13.4	
Purchases of property, plant and equipment	-39.0	-43.3	-4.3	
Proceeds from sales of property, plant and equipment	1.3	1.6	0.3	
Others	-13.9	② 3.5	17.4	② Proceeds from sales of investments in other securities.
Free cash flows	-21.0	-5.7	15.3	
Financing activities	23.6	8.5	-15.1	
Change in net borrowings	28.3	-2.7	-31.0	
Cash dividends paid	-4.3	-4.3	0.0	
Others	-0.5	③ 15.4	15.9	③ Proceeds from sales of treasury stock 15.7bn ,etc.
Effect of exchange rate changes, etc.	0.4	2.2	1.8	
Cash and cash equivalents at beginning of period	14.0	15.9	1.9	
Cash and cash equivalents at end of period	17.0	20.9	3.9	

## Topics of the 2nd half

**Oct. 2007 -All company forests -approx.90,000 hectares- certified by SGEC.**

(SGEC : Sustainable Green Ecosystem Council)

**-Merger of NP Trading Co., Ltd. and Mantsune Corporation.**

**-Announced group business realignment**

Paper -Fushiki Mill and Komatsushim mill to be closed.

Paperboard -Waki office to be closed.

Four subsidiaries to be absorbed into Nippon Daishowa Paperboard.

Household tissue -To be direct subsidiaries of holding company.

Specialty paper -Mishima Paper Co., Ltd. to become a wholly owned subsidiary.

**Nov. -N6 paper machine at Ishinomaki mill to start commercial production**

**Annual capacity: 350,000t**

**Main Grade: Lightweight coated paper**

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)

**Paper:**            volume    0.2% up from FY2006  
                         price        ¥108.9/kg (1<sup>st</sup> hf. ¥107.6/kg; 2<sup>nd</sup> hf. ¥110.2/kg)

**Paperboard:** volume    0.1% down from FY2006  
                         price        ¥ 59.5/kg (1<sup>st</sup> hf. ¥ 57.3/kg; 2<sup>nd</sup> hf. ¥ 61.8/kg)

### ● Raw materials and Fuel price

**Crude oil:**                    US\$70/BL(former estimation US\$58/BL)

**Woodchip(FOB):**        Stay at the level of 1<sup>st</sup> hf. FY2007

### ● Forex rate (2<sup>nd</sup> hf.) :

**US\$1=¥115 (originally US\$1=¥113)**

**AUS\$1=¥100 (originally AUS\$1=¥ 90)**

Revised on October 24, 2007

(¥ billion)	FY2007 Former est.	FY2007 Current est.	(Reference) FY2006 Results
<Net sales>	1,210.0	1,220.0	1,175.3
<Operating income>	30.0	30.0	44.7
<Ordinary income>	29.0	30.0	47.1
<Net income>	10.0	5.0	23.0



## II. FY2007 Forecast (2) Operating results

### (3) Sales volume by product



(Thous and tons)	FY2006 (A)	FY2007 est. (B)	% change yoy
(Average domestic paper price: ¥/kg) ※	(104.4)	(108.9)	(4.3%)
Newsprint	1,333	1,320	-1.0%
Uncoated paper	749	728	-2.9%
Coated paper	2,072	2,117	2.1%
Business communication paper	718	752	4.8%
Packaging paper and others	573	539	-6.1%
<b>Total domestic sales</b>	<b>5,445</b>	<b>5,455</b>	<b>0.2%</b>
Export (including newsprint)	429	492	14.6%
<b>Total (paper)</b>	<b>5,874</b>	<b>5,946</b>	<b>1.2%</b>
(Average domestic paperboard price: ¥/kg)	(56.7)	(59.5)	(5.1%)
Container board	1,342	1,347	0.3%
Folding box board and others	402	396	-1.4%
<b>Total domestic sales</b>	<b>1,744</b>	<b>1,743</b>	<b>-0.1%</b>
Export	37	39	5.0%
<b>Total (paperboard)</b>	<b>1,781</b>	<b>1,782</b>	<b>0.0%</b>
<b>Grand total (paper and paperboard)</b>	<b>7,655</b>	<b>7,728</b>	<b>1.0%</b>

※excluding newsprint.

## II. FY2007 Forecast (2) Operating results

### ④ Segment information

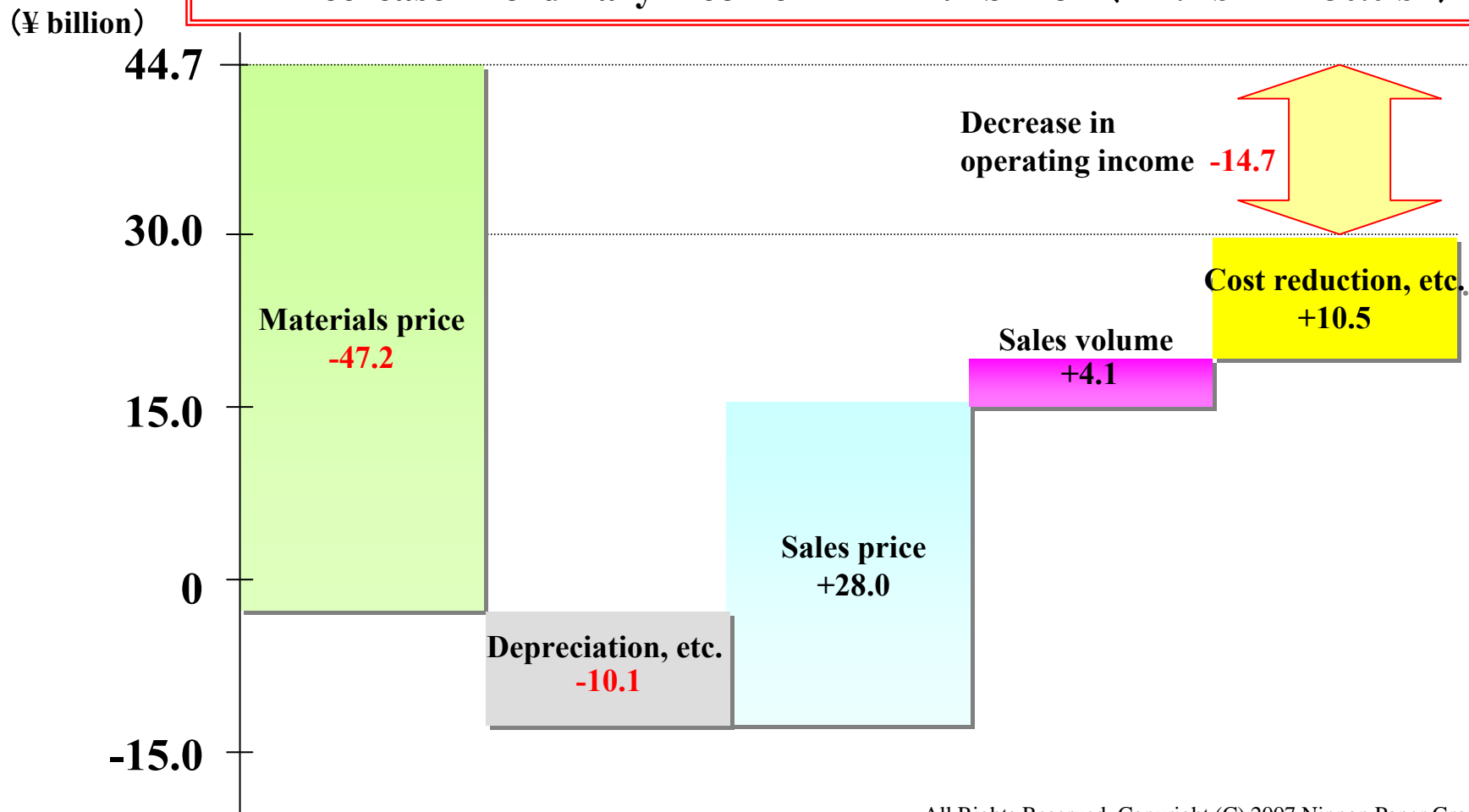


(¥billion)

	Sales			Operating income			Comments
	FY2006	FY2007 estimated	Difference	FY2006	FY2007 estimated	Difference	
<b>Pulp and Paper Div.</b>	<b>889.9</b>	<b>947.8</b>	<b>57.9</b>	<b>30.7</b>	<b>17.5</b>	<b>▲ 13.2</b>	
Paper etc.	725.4	764.3	38.9	27.1	16.3	▲ 10.8	Profit decreases due to raw materials and fuel cost hike and increasing burden on depreciation.
Paperboard	109.8	121.4	11.6	6.1	▲ 0.2	▲ 6.3	OCC price hike cause huge negative impact to the profit.
Household tissue	54.7	62.0	7.4	▲ 2.5	1.4	3.9	Seeking a return to profitability due to price recovery.
<b>Paper-related Div. (cartons, chemical products)</b>	<b>101.5</b>	<b>103.8</b>	<b>2.3</b>	<b>4.9</b>	<b>5.0</b>	<b>0.1</b>	
<b>Housing and Construction Materials Div.</b>	<b>100.5</b>	<b>91.2</b>	<b>▲ 9.3</b>	<b>3.0</b>	<b>2.8</b>	<b>▲ 0.2</b>	
<b>Other Div. (beverages, transport)</b>	<b>83.4</b>	<b>77.3</b>	<b>▲ 6.2</b>	<b>6.1</b>	<b>4.7</b>	<b>▲ 1.4</b>	
<b>Total</b>	<b>1,175.3</b>	<b>1,220.0</b>	<b>44.7</b>	<b>44.7</b>	<b>30.0</b>	<b>▲ 14.7</b>	

FY2006 vs FY2007 est.

**Decrease in operating income ¥14.7 billion (¥44.7 bn → ¥30.0 bn)**  
**Decrease in ordinary income ¥ 17.1 billion (¥47.1 bn → ¥30.0 bn)**



## II. FY2007 Forecast (4)Key figures and indices



	FY2005	FY2006	FY2007 Interim	FY2007 est.
<b>ROE</b>	<b>3.9%</b>	<b>5.2%</b>	<b>2.0%</b>	<b>1.1%</b>
<b>Ordinary margin on sales</b>	<b>4.3%</b>	<b>4.0%</b>	<b>2.3%</b>	<b>2.5%</b>
<b>D/E (times)</b>	<b>x1.5</b>	<b>x1.6</b>	<b>x1.5</b>	<b>x1.7</b>
<b>Operation rate (Calendar year basis): Paper machines</b>	<b>92%</b>	<b>93%</b>	<b>91%</b>	<b>92%</b>
<b>Operation rate (Calendar year basis): Paperboard machines</b>	<b>86%</b>	<b>82%</b>	<b>82%</b>	<b>81%</b>
<b>Capital investment (¥ billion)</b>	<b>69.7</b>	<b>103.0</b>	<b>60.4</b>	<b>123.3</b>
<b>Depreciation (¥ billion)</b>	<b>70.1</b>	<b>67.1</b>	<b>37.7</b>	<b>78.9</b>
<b>Interest-bearing debt (¥ billion)</b>	<b>692.1</b>	<b>738.2</b>	<b>735.6</b>	<b>800.0</b>
<b>Number of employees</b>	<b>12,798</b>	<b>12,584</b>	<b>13,230</b>	<b>13,161</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. These statements 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.**