

# FY2007 Financial Review

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NIPPON PAPER  
GROUP

May 12, 2008

Nippon Paper Group, Inc.



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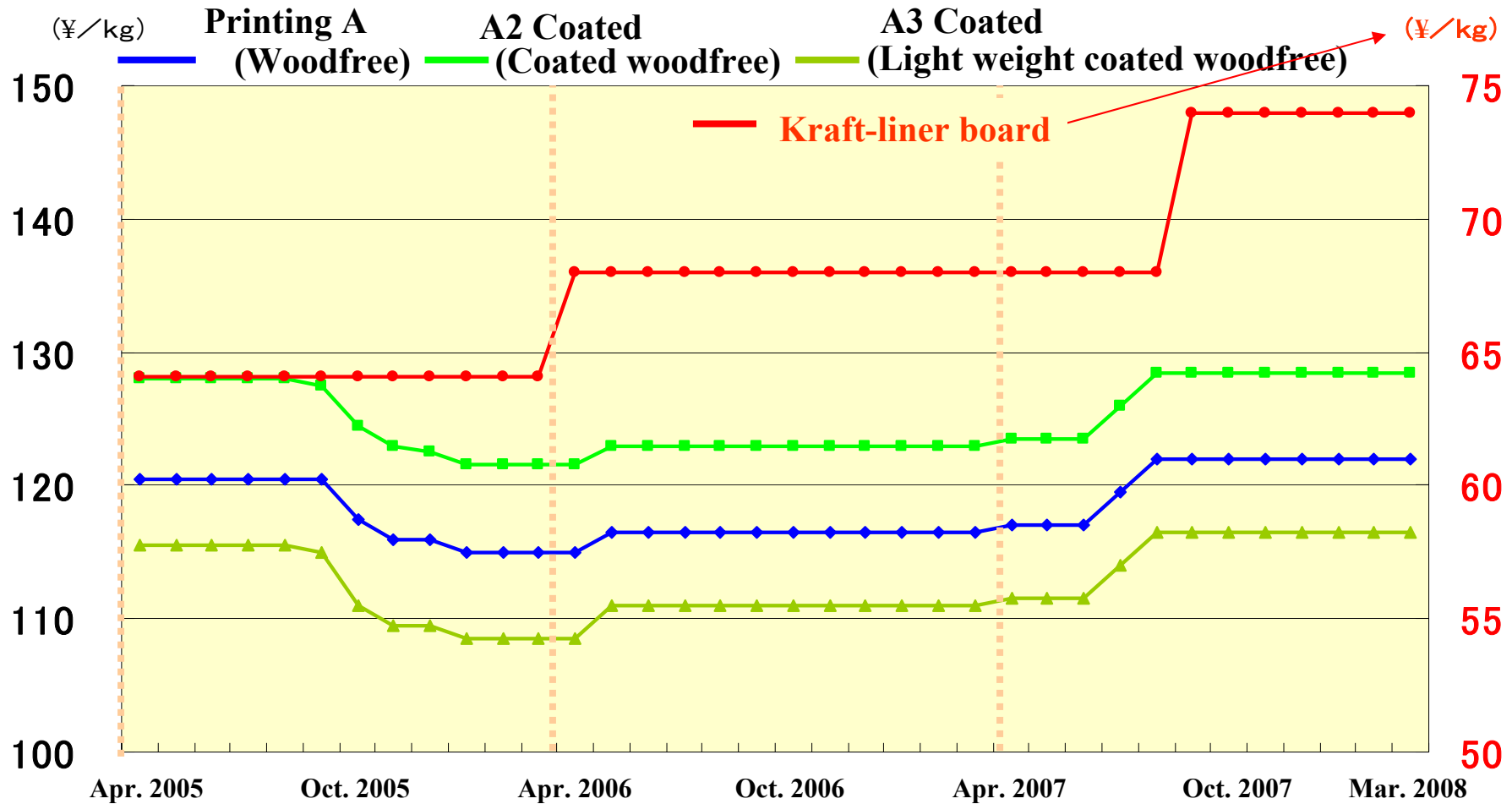
Paper industry

Domestic shipment of paper and paperboard  
FY2007 (April 2007 — March 2008)

	Shipment(1,000 tons)	% change yoy
Newsprint	3,615	0.2%
Uncoated printing paper	2,510	-2.0%
Coated printing paper ※	6,569	0.9%
Business communication paper	1,682	4.9%
Other papers (Packaging paper, sanitary paper, and paper for miscellaneous uses)	4,008	-0.6%
Paper total	18,385	0.4%
Paperboard total	11,863	0.8%
Paper and paperboard total	30,248	0.5%

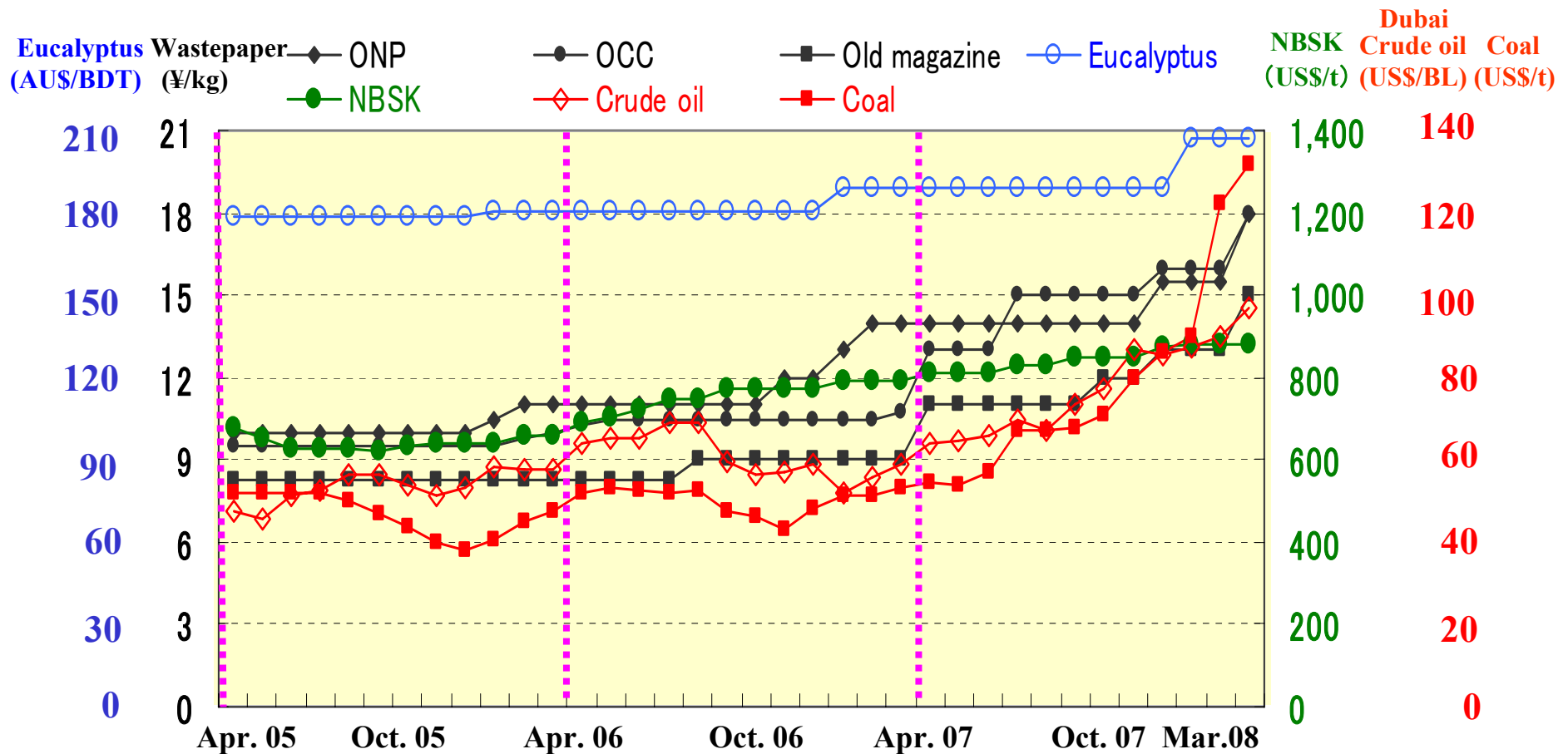
Paper industry

Trend in paper and paperboard prices  
(April 2005 – March 2008)



Paper industry

Trend in fuels and raw materials prices  
(April 2005 – March 2008)



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

## Topics of FY2007

- Jun. 2007 -Adopted a basic policy on the control of the Company and defensive measures against hostile takeover bids.
- Jul. -Announced preventive measures for emission controls at mills after reportedly exceeding the standards of the Air Pollution Control Act.
- Aug. -Divested Asahikawa Grand Hotel to Daiwa Securities SMBCPI.
- Oct. -Completed the merger of NP Trading Co., Ltd. and Mantsune Corporation.  
-Announced the Group Business Realignment.
- Nov. -Started commercial production of Ishinomaki N6 paper machine.  
-Entered into MoU regarding business alliance with Yuen Foong Yu Paper Mfg. Co., Ltd (Taiwan).
- Jan. 2008 -Released results of in-house survey on company's recycled paper products with respect to the de-inked pulp content, followed by:  
-an interim report of additional survey on the de-inked pulp content (Feb),  
-the final report on the de-inked pulp content and the social/environmental contribution plan (Mar).
- Feb. -Entered into MoU regarding business alliance with SCG Paper (Thailand).

Consolidated operating results

(¥ billion)	FY2006	FY2007	Difference
<Net sales>	1,175.3	1,211.7	36.4
<Operating income>	44.7	32.8	-5.3
<Ordinary income>	47.1	32.8	-6.3
<Net income>	23.0	5.7	-17.3

(Thousand tons)	FY2006 (A)	FY2007 (B)	% change yoy
<b>(Average domestic paper price: ¥/kg) ※</b>	<b>(104.4)</b>	<b>(109.6)</b>	<b>(5.0%)</b>
Newsprint	1,333	1,317	-1.2%
Uncoated paper	749	734	-2.0%
Coated paper	2,072	2,101	1.4%
Business communication paper	718	757	5.6%
Packaging paper and others	573	542	-5.5%
<b>Total domestic sales</b>	<b>5,445</b>	<b>5,451</b>	<b>0.1%</b>
Export (including newsprint)	429	492	14.8%
<b>Total (paper)</b>	<b>5,874</b>	<b>5,943</b>	<b>1.2%</b>
<b>(Average domestic paperboard price: ¥/kg)</b>	<b>(56.7)</b>	<b>(60.2)</b>	<b>(6.2%)</b>
Container board	1,342	1,337	-0.4%
Folding box board and others	402	389	-3.1%
<b>Total domestic sales</b>	<b>1,744</b>	<b>1,726</b>	<b>-1.0%</b>
Export	37	44	17.6%
<b>Total (paperboard)</b>	<b>1,781</b>	<b>1,770</b>	<b>-0.6%</b>
<b>Grand total (paper and paperboard)</b>	<b>7,655</b>	<b>7,713</b>	<b>0.8%</b>

※calculated excluding newsprint.

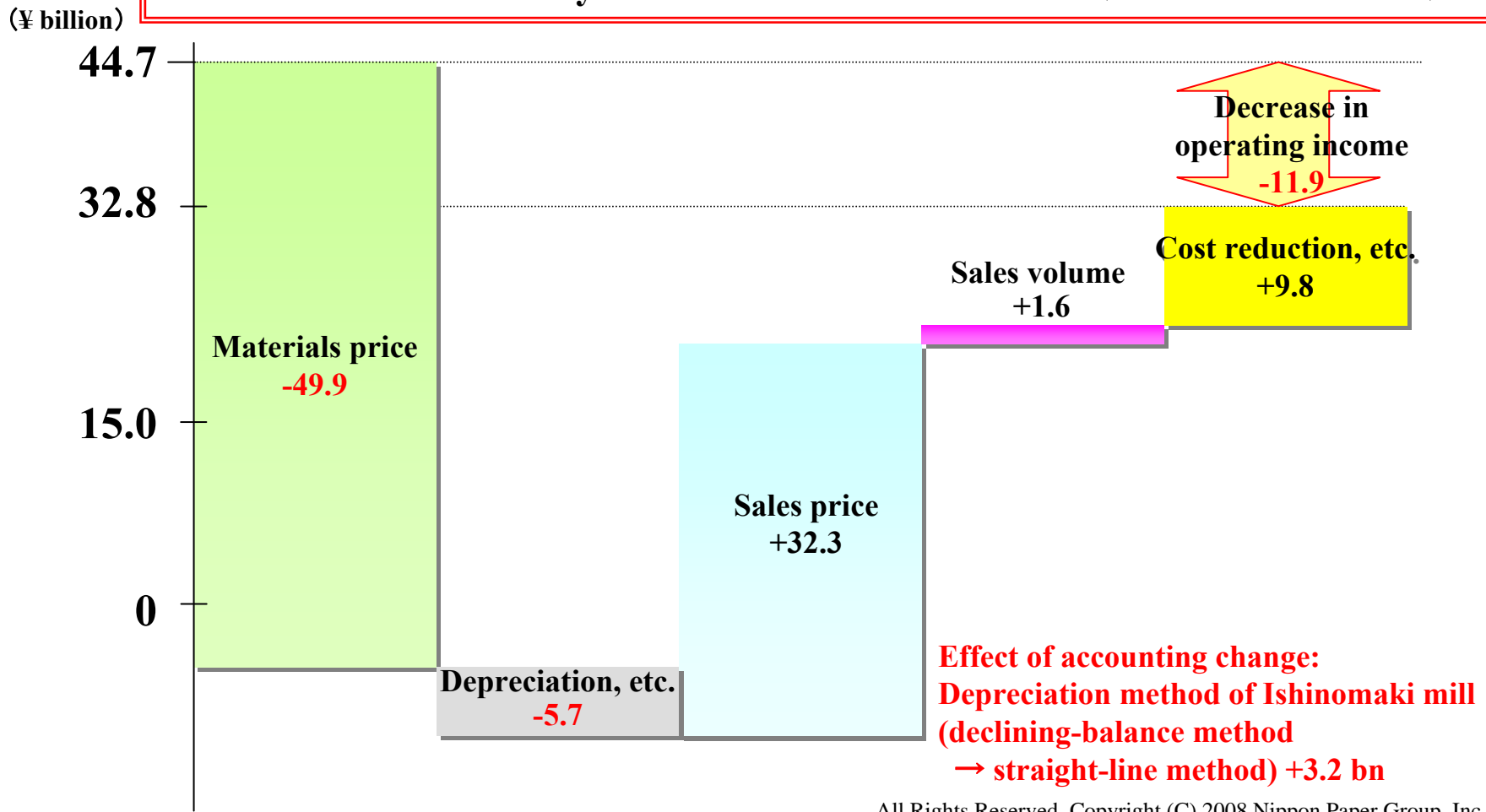


(¥billion)

	Sales			Operating income			Comments
	FY2006	FY2007	Difference	FY2006	FY2007	Difference	
<b>Pulp and Paper Div.</b>	<b>889.9</b>	<b>950.2</b>	<b>60.3</b>	<b>30.7</b>	<b>20.4</b>	<b>▲ 10.3</b>	
Paper etc.	725.4	768.5	43.2	27.1	20.4	▲ 6.7	Profit decreased due to raw materials and fuel cost hike.
Paperboard	109.8	121.1	11.3	6.1	▲ 1.1	▲ 7.2	OCC price hike caused operating loss.
Household tissue	54.7	60.5	5.8	▲ 2.5	1.1	3.6	Returned to profitability.
<b>Paper-related Div. (cartons, chemical products)</b>	<b>101.5</b>	<b>102.1</b>	<b>0.7</b>	<b>4.9</b>	<b>4.3</b>	<b>▲ 0.6</b>	
<b>Housing and Construction Materials Div.</b>	<b>100.5</b>	<b>82.1</b>	<b>▲ 18.4</b>	<b>3.0</b>	<b>2.3</b>	<b>▲ 0.7</b>	
<b>Other Div. (beverages, transport)</b>	<b>83.4</b>	<b>77.3</b>	<b>▲ 6.2</b>	<b>6.1</b>	<b>5.8</b>	<b>▲ 0.3</b>	Six subsidiaries of SHIKOKU COCA-COLA BOTTLING were newly included in consolidation scope.
<b>Total</b>	<b>1,175.3</b>	<b>1,211.7</b>	<b>36.4</b>	<b>44.7</b>	<b>32.8</b>	<b>▲ 11.9</b>	

**FY2006 vs FY2007**

**Decrease in operating income ¥-11.9 billion (¥44.7 bn → ¥32.8 bn)**  
**Decrease in ordinary income ¥ -14.3 billion (¥47.1 bn → ¥32.8 bn)**



	FY2006	FY2007	(¥billion)
Ordinary income	47.1	32.8	
Extraordinary gains	7.8	4.6	
Gain on sale of property, plant and equipment	3.4	2.5	
Gain on sale of securities, etc.	3.9	1.4	
Others	0.5	0.7	
Extraordinary losses	16.7	21.2	
Loss on disposal of property, plant and equipment	4.5	3.1	
Impairment accounting	3.9	0.8	
Loss on restructuring	-	9.8	
Provision for doubtful receivables	2.0	0.7	
Extraordinary retirement benefits	2.5	2.8	
Others	3.8	4.0	
Income tax adjustment	-14.5	-10.0	
Minority interests	-0.7	-0.5	
Net income	23.0	5.7	

**Balance sheet**

(¥billion)

	Mar. 31, 2007	Mar. 31, 2008	Difference	Comments
Cash and time deposits	16.0	17.8	1.7	
Notes and accounts receivable	247.1	262.7	15.6	
Inventories	147.1	165.4	18.3	
Other current assets	46.3	39.9	-6.4	
Property, plant, equipment, and intangible fixed assets	874.1	919.2	45.0	Capital investment 121.2bn , Depreciation -74.8bn , etc.
Investments and other assets	235.2	220.6	-14.7	
<b>Total assets</b>	<b>1,566.0</b>	<b>1,625.6</b>	<b>59.6</b>	
Interest-bearing debt	738.2	785.3	47.1	
Other debt	357.2	360.5	3.3	
Net assets	470.5	479.8	9.2	Cash dividends -8.7bn, Net income 5.7bn, Decrease in treasury stock 17.3bn, Decrease in unrealized holding gain on other securities 12.3bn, etc.

(¥billion)

Items	FY2006	FY2007	Difference	Comments
Operating activities	75.4	74.0	-1.4	
Income before income taxes	38.1	16.2	-22.0	
Depreciation	67.0	74.8	7.7	
Change in net working capital	-21.6	-28.0	-6.3	
Others	-8.2	11.0	19.2	
Investing activities	-107.0	-118.5	-11.5	
Purchases of property, plant and equipment	-94.9	① -120.4	-25.5	① Capital expenditures increased due to strategic investments.
Proceeds from sales of property, plant and equipment	5.7	5.7	0.1	
Others	② -17.8	② -3.8	14.0	② Proceeds/sales of investments in other securities.
Free cash flows	-31.7	-44.5	-12.8	
Financing activities	32.9	43.5	10.6	
Change in net borrowings	42.2	36.7	-5.5	
Cash dividends paid	-8.9	-9.1	-0.2	
Others	-0.4	③ 15.8	16.2	③ Proceeds from sales of treasury stock 15.7bn ,etc.
Effect of exchange rate changes, etc.	0.6	2.8	2.2	
Cash and cash equivalents at beginning of period	14.0	15.9	1.9	
Cash and cash equivalents at end of period	15.9	17.7	1.9	

## Topics of FY2008

### Apr. 2008 – Completed group business realignment

- Nippon Daishowa's 4 operating subsidiaries were incorporated into its parent company.
- Nippon Paper Crecia became a direct subsidiary of the holding company.
- Nippon Paper Papylia, a renewed specialty paper business company was incorporated.

**-Announced 15% price increase for printing and business communication paper applicable from 1 June.**

**Jun. -Top management to be shuffled (Yoshio Haga to succeed Masatomo Nakamura)**

**Sep. -To complete domestic paper production restructuring**

- Fushiki & Komatsushima to be closed and Waki to withdraw from paper-making.

(¥ billion)

<i>List of new boilers</i>			
Operational launch	Company	Mill	Invested amount
2008/5	Nippon Daishowa Paperboard	Yoshinaga	6.7
6	Nippon Daishowa Paperboard	Akita	5.9
8	Nippon Paper Industries	Shiraoi	9.0
9	Nippon Paper Industries	Asahikawa	6.9
9	Nippon Paper Chemicals	Gotsu	5.3

## Assumptions for FY2008 estimation

### ● Domestic Sales (tonnage)

**Paper: 1.3% up from FY2007**

**Paperboard: 2.7% up from FY2007**

### ● Raw Materials and Fuel Prices

**Crude Oil: US\$87.5/BL  
(1Q 95, 2Q 90, 3Q 85, 4Q 80)**

**Woodchip/Coal: FOB price rises from FY2007**

### ● Forex Rate :

**US\$1 =¥105 (FY2007: ¥114.3)**

**AU\$1 =¥100 (FY2007: ¥ 99.1)**

## Forecast of consolidated results

(¥ billion)	FY2007	FY2008 estimation	Difference
<Net sales>	1,211.7	1,290.0	78.3
<Operating income>	32.8	43.0	10.2
<Ordinary income>	32.8	39.0	6.2
<Net income>	5.7	16.0	10.3



II. FY2008 Forecast (2) Operating results  
 (3) Sales volume by product



(Thousand tons)	FY2007 (A)	FY2008 est. (B)	% change yoy
Newsprint ※	1,317	1,319	0.2%
Uncoated paper	734	714	-2.8%
Coated paper	2,101	2,191	4.3%
Business communication paper	757	760	0.4%
Packaging paper and others	542	537	-0.9%
<b>Total domestic sales</b>	<b>5,451</b>	<b>5,520</b>	<b>1.3%</b>
Export (including newsprint)	492	489	-0.8%
<b>Total (paper)</b>	<b>5,943</b>	<b>6,009</b>	<b>1.1%</b>
Container board	1,337	1,365	2.1%
Folding box board and others	389	407	4.7%
<b>Total domestic sales</b>	<b>1,726</b>	<b>1,773</b>	<b>2.7%</b>
Export	44	35	-20.4%
<b>Total (paperboard)</b>	<b>1,770</b>	<b>1,807</b>	<b>2.1%</b>
<b>Grand total (paper and paperboard)</b>	<b>7,713</b>	<b>7,816</b>	<b>1.3%</b>

● II. FY2008 Forecast ● (2) Operating results  
 ④ Segment information

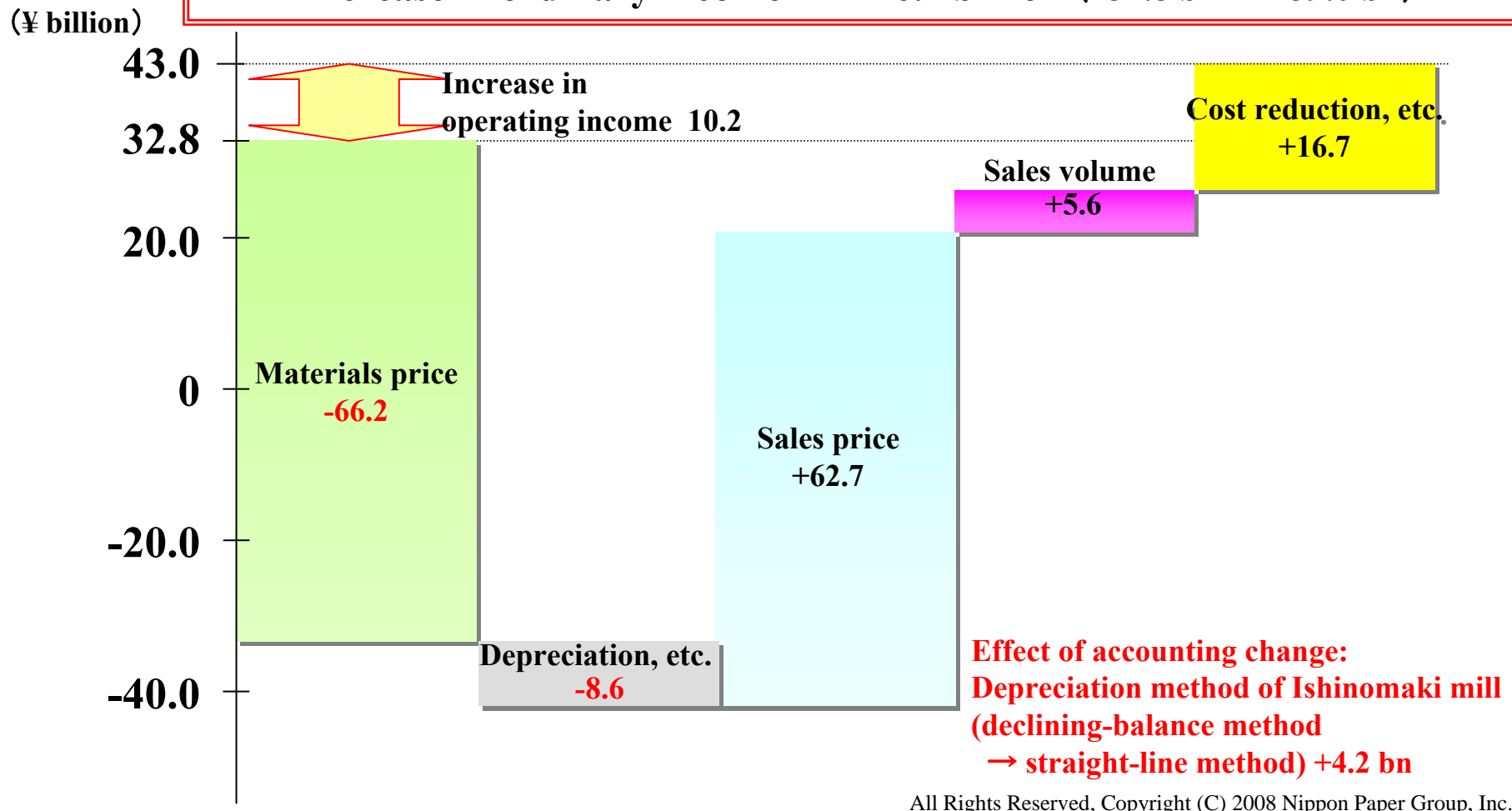


(¥billion)

	Sales			Operating income		
	FY2007	FY2008 estimated	Difference	FY2007	FY2008 estimated	Difference
Pulp and Paper Div.	950.2	1,008.3	58.1	20.4	29.4	9.0
Paper-related Div. (cartons, chemical products)	102.1	107.7	5.6	4.3	6.3	2.0
Housing and Construction Materials Div.	82.1	84.2	2.1	2.3	2.2	▲ 0.1
Other Div. (beverages, transport)	77.3	89.8	12.5	5.8	5.1	▲ 0.7
<b>Total</b>	<b>1,211.7</b>	<b>1,290.0</b>	<b>78.3</b>	<b>32.8</b>	<b>43.0</b>	<b>10.2</b>

FY2007 vs FY2008 est.

**Increase in operating income ¥10.2 billion (¥32.8 bn → ¥43.0 bn)**  
**Increase in ordinary income ¥ 6.2 billion (¥32.8 bn → ¥39.0 bn)**



## II. FY2008 Forecast (4)Key figures and indices



	FY2005	FY2006	FY2007	FY2008 est.
<b>ROE</b>	<b>3.9%</b>	<b>5.2%</b>	<b>1.3%</b>	<b>3.5%</b>
<b>Ordinary margin on sales</b>	<b>4.3%</b>	<b>4.0%</b>	<b>2.7%</b>	<b>3.0%</b>
<b>D/E (times)</b>	<b>x1.5</b>	<b>x1.6</b>	<b>x1.7</b>	<b>x1.7</b>
<b>Operation rate of paper machine(Calendar basis)</b>	<b>92%</b>	<b>93%</b>	<b>92%</b>	<b>91%</b>
<b>Operation rate of paperboard machine(Calendar basis)</b>	<b>86%</b>	<b>82%</b>	<b>81%</b>	<b>82%</b>
<b>Capital investment (¥ billion)</b>	<b>69.7</b>	<b>103.0</b>	<b>121.2</b>	<b>76.3</b>
<b>Depreciation (¥ billion)</b>	<b>70.1</b>	<b>67.1</b>	<b>74.8</b>	<b>82.4</b>
<b>Interest-bearing debt (¥ billion)</b>	<b>692.1</b>	<b>738.2</b>	<b>785.3</b>	<b>806.1</b>
<b>Number of employees</b>	<b>12,798</b>	<b>12,584</b>	<b>13,666</b>	<b>13,200</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.**