



NIPPON PAPER
GROUP

Second Medium-Term Business Plan

Fiscal 2006 — Fiscal 2008

President Masatomo Nakamura

Nippon Paper Group, Inc.

May 2006

<http://www.np-g.com/>

Copyright © 2006 Nippon Paper Group, Inc. All rights reserved.

The 1st Step towards **Group Vision 2015**

Shifting Our Focus towards Achieving Sustainable Growth

Contents: Overview of Today's Presentation



section **A** **First Medium-Term Business Plan Review**

section **B** **Second Medium-Term Business Plan Management Issues and Main Policies**

■ Business Environment

■ Management Issues

■ Main Policies ① Reduce Oil Consumption

② Conserve Resources

③ Scrap and Build Paper Manufacturing Facilities

④ Overseas Business

section **C** **Second Medium-Term Business Plan Summary**

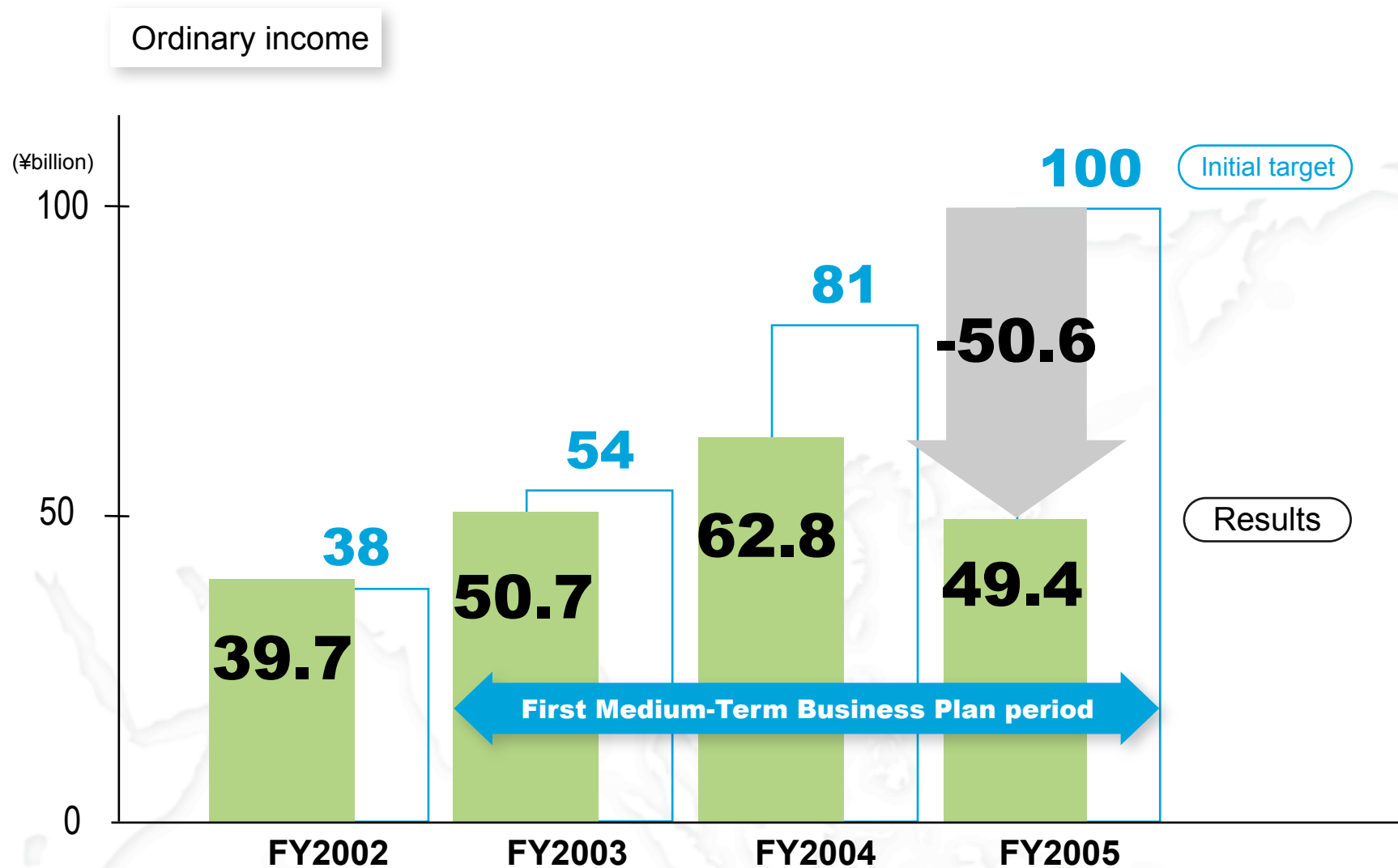
section

A

First Medium-Term Business Plan Review

Fiscal 2003 – Fiscal 2005

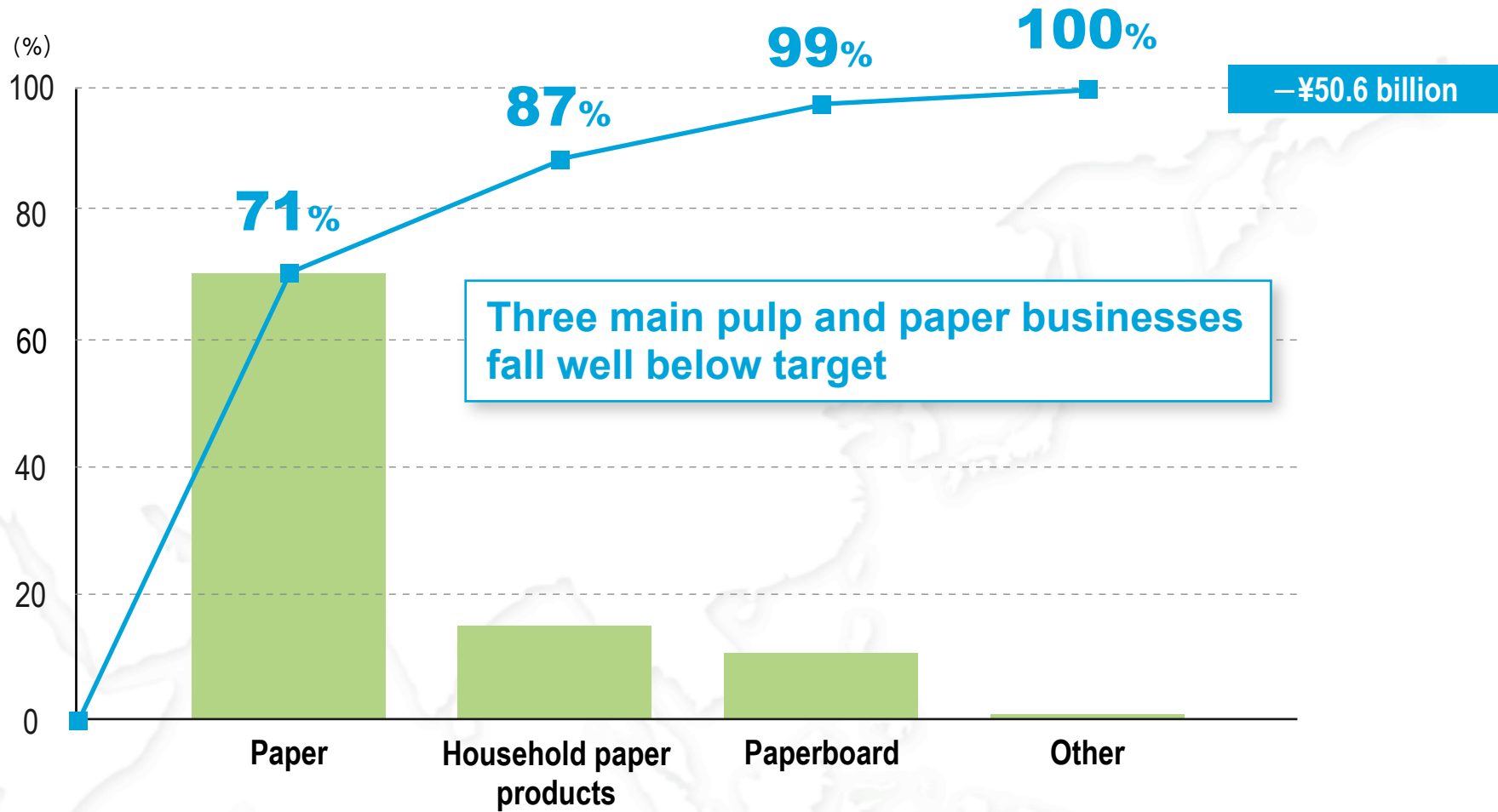
A. First Medium-Term Business Plan Review



A. First Medium-Term Business Plan Review



Ordinary income target shortfalls, by business segment

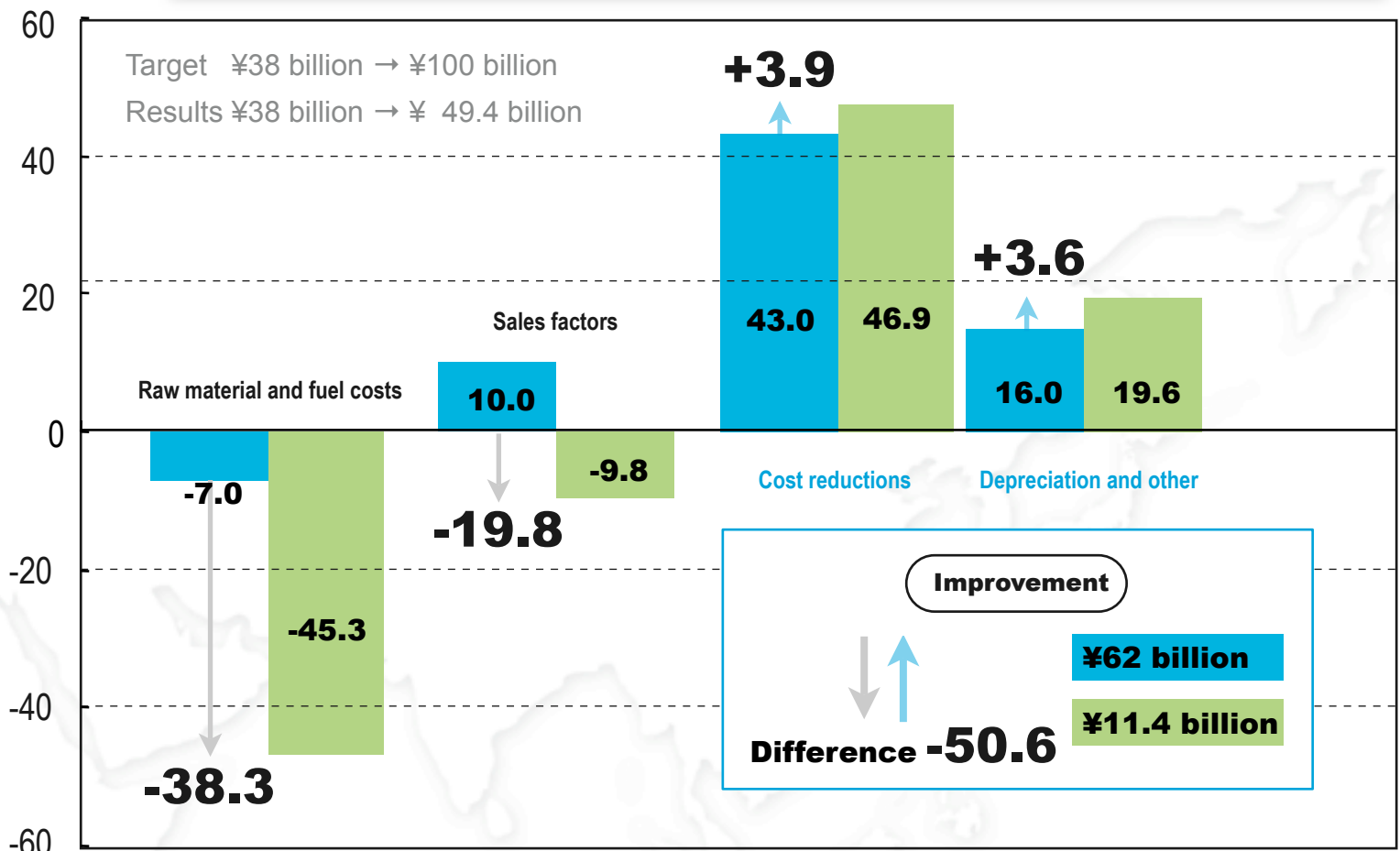


Note: Uses ordinary income of main operating companies—
paper: Nippon Paper Industries; household paper products: CRECIA; paperboard: Nippon Daishowa Paperboard

A. First Medium-Term Business Plan Review



Summary of factors affecting ordinary income Comparison of initial targets and results



Note: The analysis of factors affecting ordinary income compares both targets and results with the forecasted ordinary income of ¥38 billion in fiscal 2002.

■ Initial plan targets ■ Results

section

B

Second Medium-Term Business Plan

Fiscal 2006 – Fiscal 2008

- **Rising raw material and fuel prices**
- **Maturation of domestic market**
Advent of an aging society and declining population
- **Intensifying international competition**
Formation of East Asian markets
Convergence on international prices

Aggressive management to enhance corporate value

- **Minimize impact of external environment**
 - Reduce heavy oil consumption = New energy boilers, Increase wastepaper usage
- **International competitiveness to succeed in Asian markets**
 - Concentrate investment on core domestic mills
- **Utilization of accumulated advanced technologies**
 - Actively expand low-density paper and resource-saving paper, launch agribio business in April 2006
- **Structural enhancement**
 - Strategically reallocate human resources
 - Pass on skills, enhance gemba* capabilities, and train personnel for overseas businesses
 - Develop holding company structure and strengthen governance

* On-the-floor or field

B. Main Policies



■ Strategic Investments

① Reduce oil consumption

→ New boilers

¥60 billion

② Conserve resources

→ Measures to increase use of de-inked pulp

¥15 billion

③ Pursue international competitiveness

→ Scrap and build paper manufacturing facilities **¥63 billion***

* Including ¥7.7 billion of augmenting Ishinomaki mill DIP facility

Invest ¥300 billion over three years

**Concentrate investment
in core pulp and paper businesses,
strengthen domestic business foundation**

B. Main Policies:

① Reduce Oil Consumption



Installation of biomass and waste fuel boilers

Second Medium-Term Business Plan period

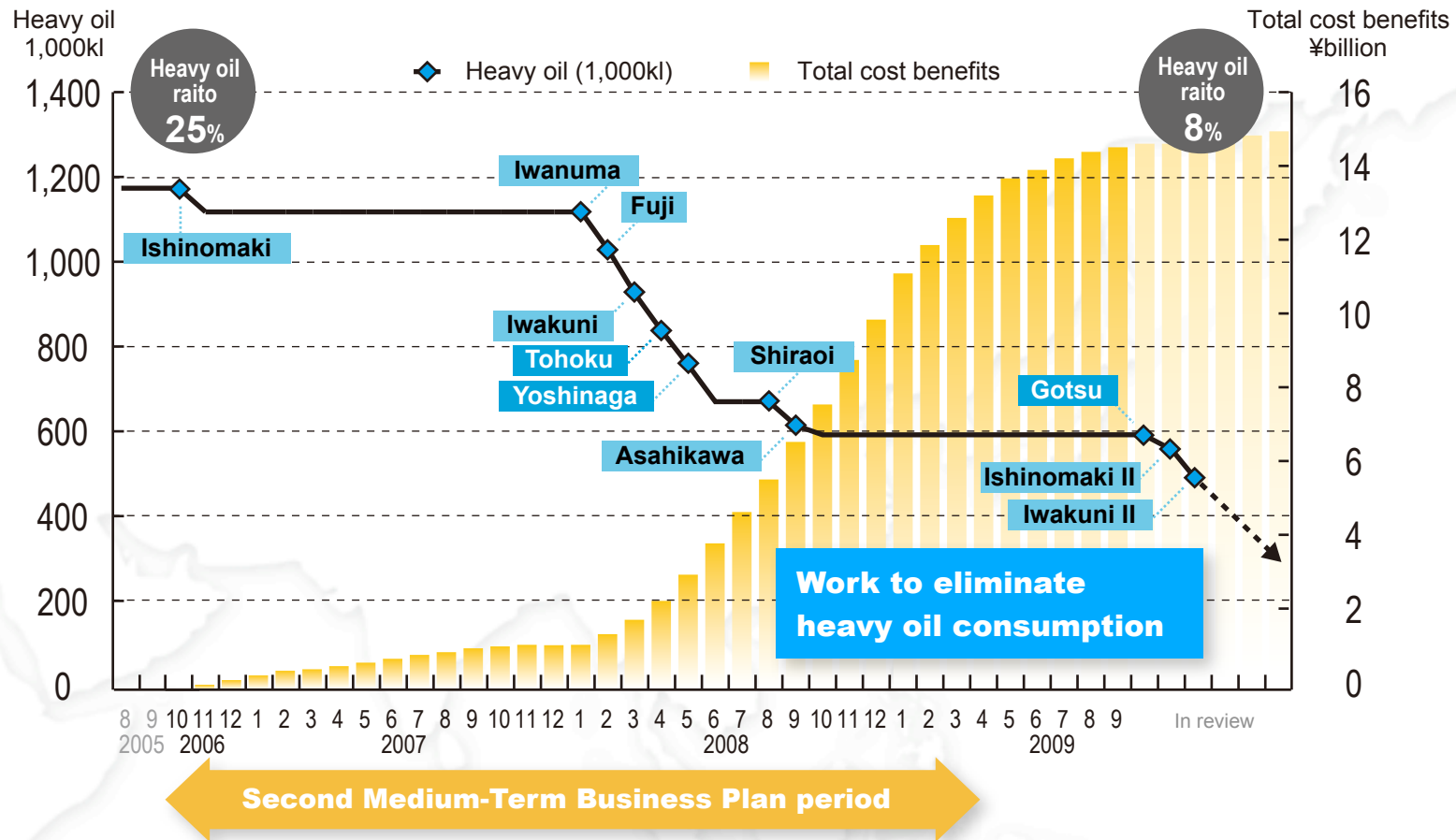
Startup		Mill		Type	Steam flow	Heavy oil reduction	Investment	Cost benefits
Year / Month	Company	Mill	t/h		1,000kl	¥billion	¥billion	
2006	Oct.	Nippon Paper Industries	Ishinomaki	Biomass	180	55	5.3	1.1
2008	Jan.	Nippon Paper Industries	Iwanuma	New energy	230	87	11.5	3.2
2008	Feb.	Nippon Paper Industries	Fuji	Biomass	230	103	6.4	1.3
2008	Mar.	Nippon Paper Industries	Iwakuni	Biomass	180	86	9.0	1.6
2008	Apr.	Nippon Daishowa Paperboard	Tohoku	Coal	180	76	5.9	2.0
2008	May	Nippon Daishowa Paperboard	Yoshinaga	New energy	180	89	6.7	2.2
2008	Aug.	Nippon Paper Industries	Shiraoi	New energy	280	55	9.0	2.2
2008	Sept.	Nippon Paper Industries	Asahikawa	Biomass	170	5	6.9	0.9
Second Medium-Term Business Plan period total						557	60.6	14.5
In review		Nippon Paper Chemicals	Gotsu	New energy		50		
		Nippon Paper Industries	Ishinomaki II	New energy		70		
		Nippon Paper Industries	Iwakuni II	New energy		70		
Total						747		

Cost benefit figures are based on initial announcements

B. Main Policies:

① Reduce Oil Consumption

Forecast of heavy oil consumption following boiler installation



B. Main Policies: **② Conserve Resources**



Promote use of wastepaper as an industry leader

- (1) Increase the amount used in products**
- (2) Augment de-inked pulp equipment**



Goal of the Japan Paper Association

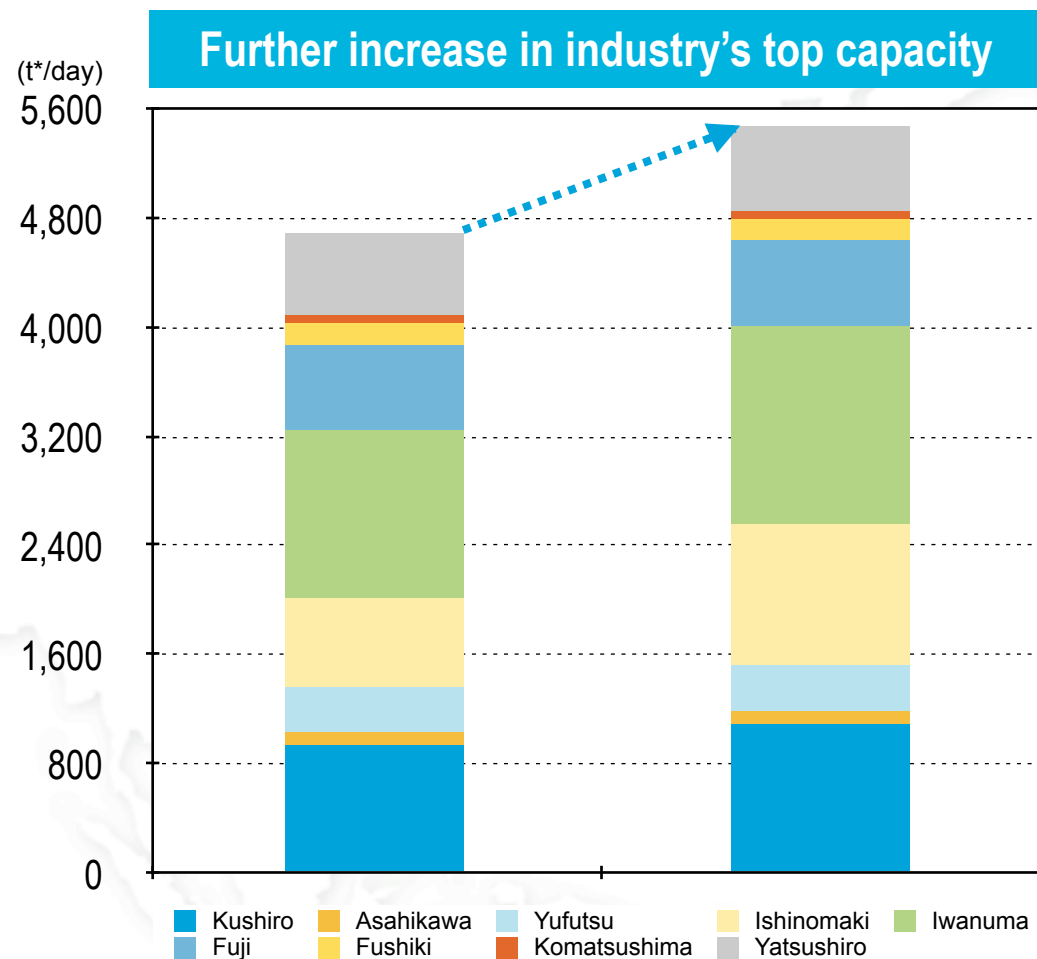
Raise wastepaper utilization rate from 60% to 62% by end of fiscal 2010

B. Main Policies: ② Conserve Resources

Deinked pulp capacity of Nippon Paper Industries

Currently	(t/day)
Kushiro	920
Asahikawa	100
Yufutsu	340
Ishinomaki	640
Iwanuma	1,230
Fuji	630
Fushiki	155
Komatsushima	60
Yatsushiro	600
Total	4,675
Planned increases	(t/day)
Iwanuma	800
Yatsushiro	
Ishinomaki	
Kushiro	

* metric tonnes



B. Main Policies:
③ Scrap and Build Paper Manufacturing Facilities



**Create a robust manufacturing structure with the best
manufacturing facilities**

**Large and efficient
manufacturing facilities**
to compete successfully in Asian markets



Major investment through **scrap and build program**

B. Main Policies:

③ Scrap and Build Paper Manufacturing Facilities



■ Overview of Ishinomaki No. 6 machine

- ① Planned startup : November 2007
- ② Capital investment : ¥63 billion
- ③ Product to manufacture : Lightweight coated paper
- ④ Annual capacity : 350,000 t* (daily capacity of 1,005 t)
- ⑤ Machine type : High-speed on-machine coater
- ⑥ Wire width : 9,450mm
- ⑦ Operating speed : 1,500m/min (designed speed: 1,800m/min)
- ⑧ Operating personnel : 8 persons/shift (planned)
- ⑨ Other equipment : Augment de-inked pulp equipment
400 t/day
Augment in-house filler
(calcium carbonate) equipment 100 t/day

World's fastest*

* On-machine coaters with blade coater and multistep calendar.

B. Main Policies:

③ Scrap and Build Paper Manufacturing Facilities



■ Manufacturing equipment to shut down

Name	Annual capacity
(1)Nippon Paper Industries Ishinomaki Mill No. 3 machine	50,000 t
(2)Nippon Paper Industries Ishinomaki Mill No. 5 machine	50,000 t
(3)Fuji Coated Paper Yoshinaga Plant No. 30 coater	100,000 t
(4)Fuji Coated Paper Fuji Plant No. 31 coater	70,000 t
(5)Fuji Coated Paper Fuji Plant No. 32 coater	70,000 t
Total	340,000 t

B. Main Policies: ③ Scrap and Build Paper Manufacturing Facilities



Advantages of high-speed on-machine coaters

■ Comparison of productivity

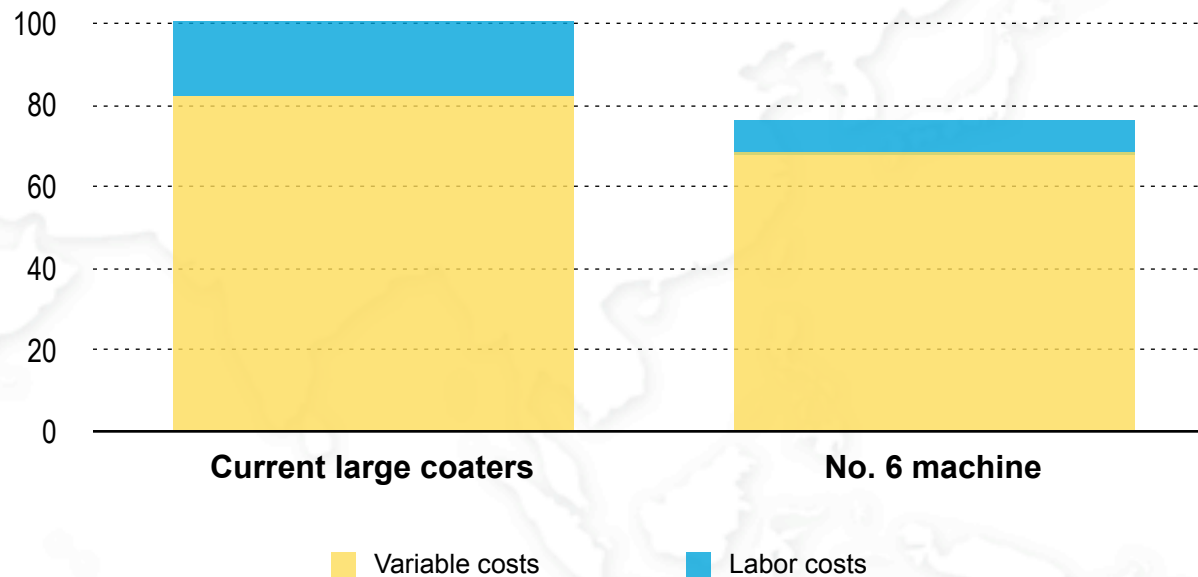
Ishinomaki No. 6 machine

Operating employees: 44
8,000 t/year/employee

Five shut down machines

Operating employees: 163
2,000 t/year/employee

■ Comparison of manufacturing costs



B. Main Policies:

④ Overseas Business



Europe :Increase thermal paper production from 36,000 to 66,000 t/year and expand sales

Startup operations in October 2006

North America: Expand local sales of North Pacific Papers Corporation's printing and publication paper

Pursue business restructuring

Asia :Establish Asian Business Division

China: •Establish local office in South China (Guangzhou)

•Expand corrugated board business

→Increase equity stake in Everwealth Paper Industries (Shanghai)

→Boost production capacity

30 million m²/year → 50 million m²/year (2007) → 100 million m²/year (2010)

•Consider expanding containerboard business

Other: Consider business in Malaysia, Thailand, India, and elsewhere

Strategic paper machines to supply Asian market

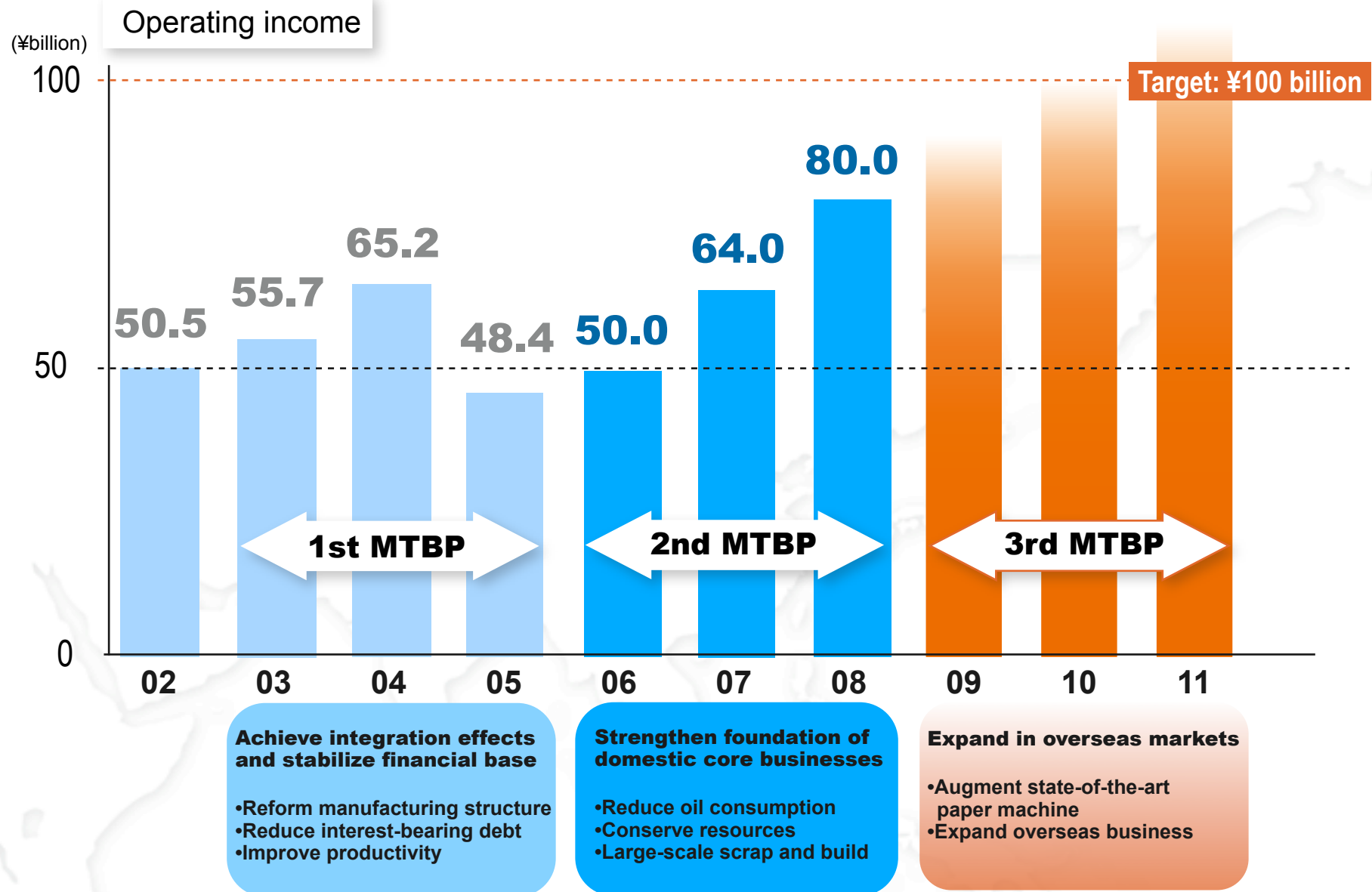
section

C

Second Medium-Term Business Plan Summary

Fiscal 2006 – Fiscal 2008

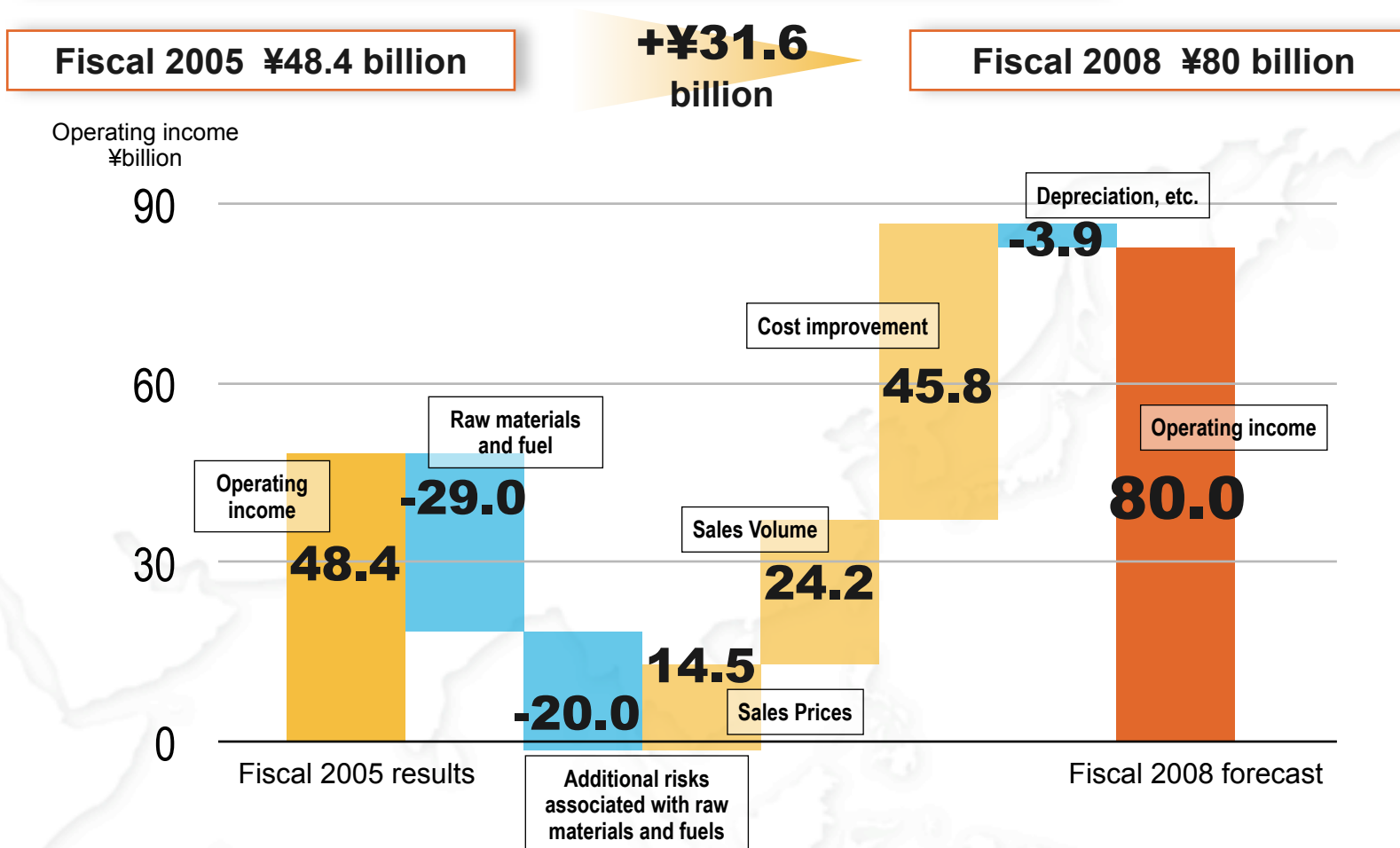
C. Second Medium-Term Business Plan Summary



C. Second Medium-Term Business Plan Summary



Factors affecting operating income (fiscal 2008 versus fiscal 2005)

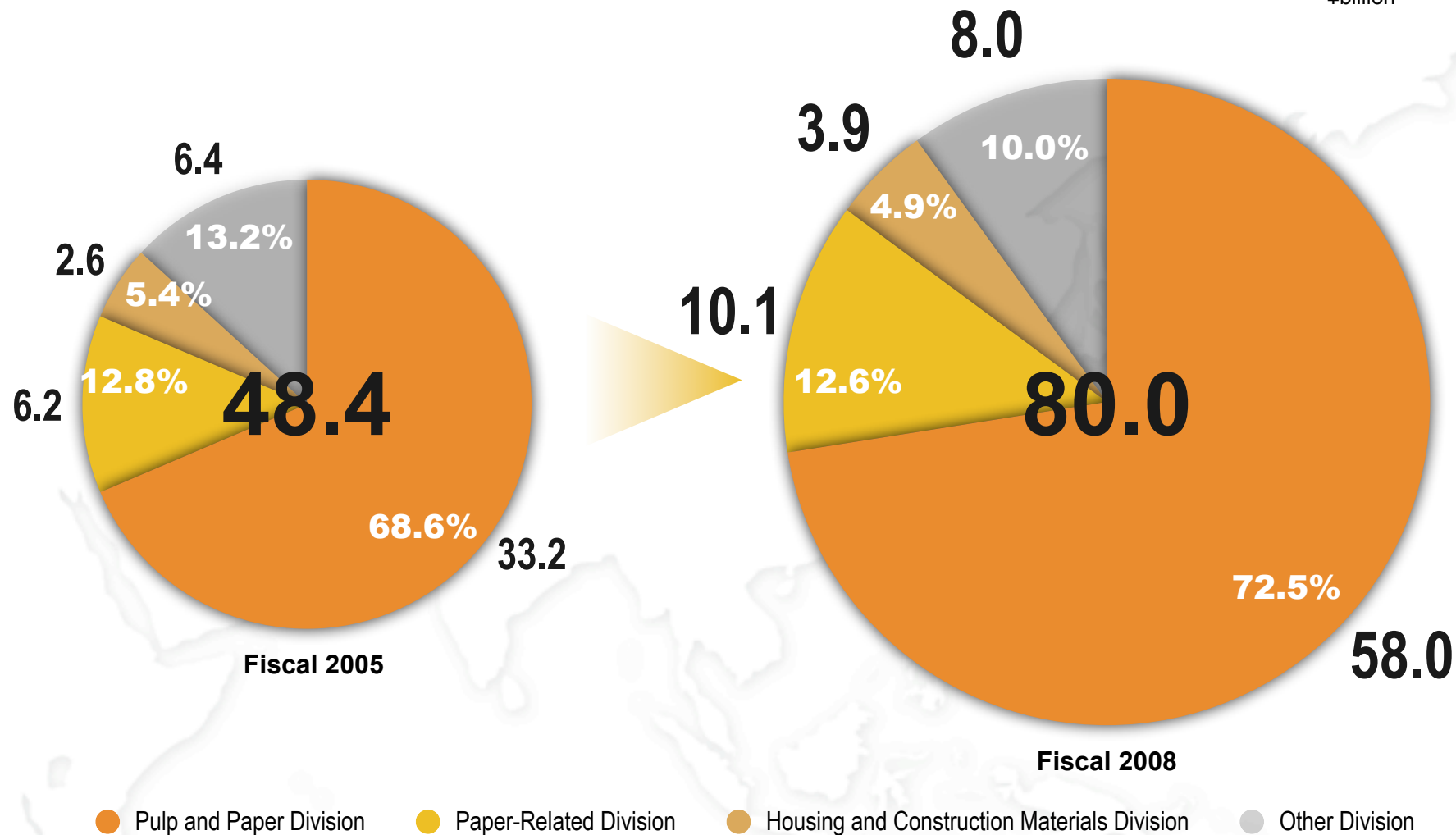


C. Second Medium-Term Business Plan Summary



Fiscal 2008 operating income targets by business segment

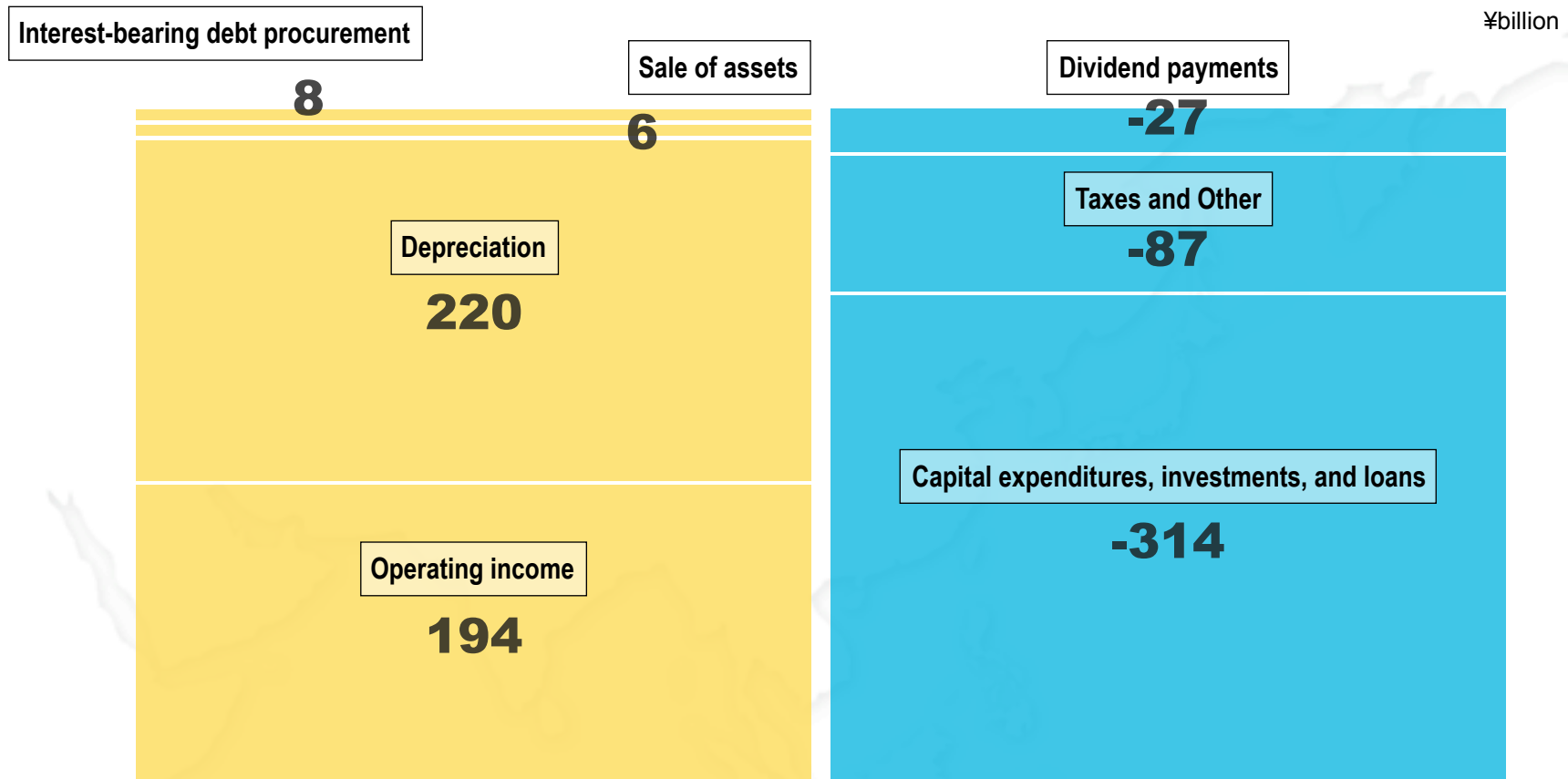
Operating income
¥billion



C. Second Medium-Term Business Plan Summary



Three-year cash flow (2006–2008)



C. Second Medium-Term Business Plan Summary: Management indices



Group Vision 2015 targets

	Fiscal 2005	Fiscal 2008	Group Vision 2015
Operating income	¥48.4 billion	¥80 billion	Domestic ¥100 billion + overseas
Operating income to net sales	4.2%	6.4%	8~10%
Operating cash flow *	¥95 billion	¥120 billion	¥150 billion

Other targets

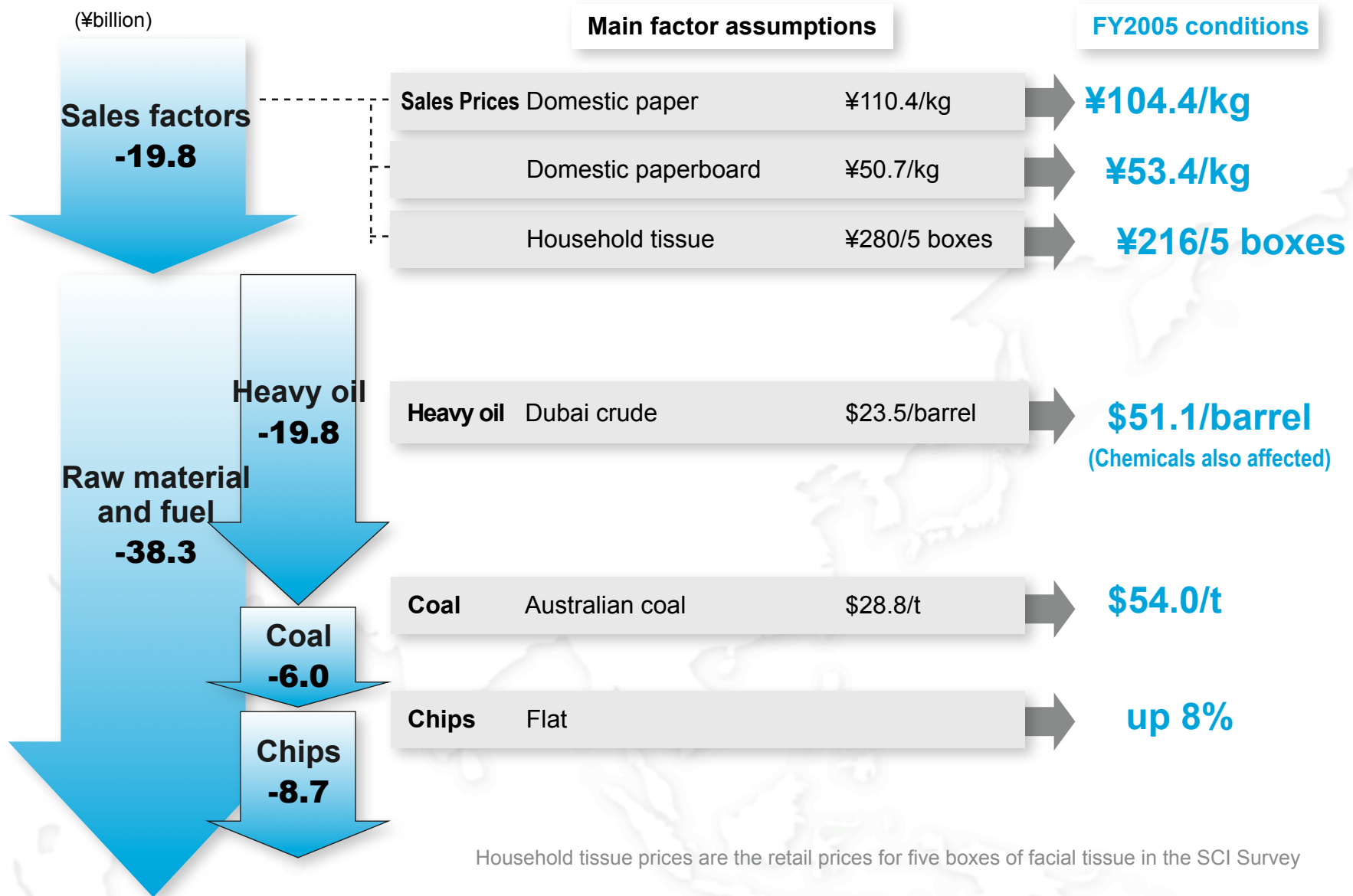
* Real cash flow, excluding year-end adjustments

ROE	3.9%	8.0%
ROIC	5.0%	7.0%
Equity ratio	29.5%	31.2%
Interest-bearing debt	¥692.1 billion	¥700 billion
Debt-equity ratio	1.5 times	1.4 times
Number of employees	12,798	12,000

DATA

A p p e n d i x

DATA. First Medium-Term Business Plan Review: Factor Analysis



DATA. Second Medium-Term Business Plan Assumptions



		FY2006	FY2007	FY2008
GDP		Annual growth of about 2%		
Domestic market Paper and paperboard		Flat		
Raw materials and fuel	Dubai crude	\$60/barrel	Risk of total raw material and fuel costs rising ¥10 billion year-on-year	
	Coal (Australian)	\$50/t		
Exchange rates	US \$	(¥117 first half)	¥115	
	AU \$		¥86	
Sales prices	Paper and paperboard	Price revisions	Maintain fiscal 2006 prices	
	Household paper products		Flat	



NIPPON PAPER GROUP

- Forward looking statement

Any statements in this presentation document, other than those of historical fact, are forward-looking statements 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.

- Financial information

Financial information presented in this presentation material is prepared based on the Japanese Accounting Standard, if for no additional statements specifying the calculating method.

- Copyright statement

Unauthorized use or reproduction of this material in part or in whole is strictly prohibited.11