Harnessing Two Strategic Alliances to Drive Our Vision

December 7, 2006

Nippon Paper Group, Inc.

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Ⅰ. Nippon Paper Group's Vision

【1】Group Vision 2015

Drive to become a top-five player in all aspects in the global pulp and paper sector

＜ Financial Goals＞

Consolidated net sales of ¥1.5 to ¥2 trillion

Consolidated operating margin of 8%-10%

Current Position of Paper Industry

Paper industry has global growth potential

2000-2005 Average paper and paperboard consumption growth

Asia	+5.9% (-0.3% in Japan and +9.8% in China)
North America	-0.7%
Europe	+1.1%
World total	+2.4%

Solid domestic demand has driven the expansion of Japan's paper industry over the years. But now that market is mature, so entering fast-growth areas around Asia will be the key to growth.

【2】The importance of a Global Top 5 ranking

Scale, regional consolidation, and structural changes are transforming the global pulp and paper industry

Region	Business Climate	Corporate Developments	Market Size (million metric tons)
Europe	Market maturation and EU integration	Consolidation into two large Northern European manufacturers	100
North America	Market quickly maturing	International Paper, Weyerhauser, and other large companies restructuring	100
Asia (including Japan)	Japanese market maturing, international market consolidating, and Asian market booming	Reorganizations and consolidation accelerating	140

Drive to become a top-five player in the global pulp and paper sector

Judging by the experience of other industries,
we expect consolidation into a few major players in each market

Group Vision 2015 seeks to make the Nippon Paper Group
a major Asian presence in the global market

Drive to become one of the world's top-five pulp and paper groups

Ⅱ. Addressing the Challenges Facing Japan’s Paper Industry

Addressing the Challenges Facing Japan's Paper Industry

Japan

- World's third-biggest paper producer
- Market is beginning to plateau
- Declining exports and rising imports

Overseas

- Demand surging in Asia, particularly in China
- Market globalization intensifying price competition

Japanese paper industry must further stabilize domestic market and maintain profitably while overcoming intensifying competition in international marketplace to survive and grow

Nippon Paper Group's Current Position

Current Initiatives

Paper

Maintain domestic lead and strengthen international competitiveness

- Deploy large scale production facilities
- Bolster fundamentals through alliances

Paperboard and packaging products

Eliminate weaknesses and reinforce fundamentals

Restructure through alliances, acquisitions, and mergers

Fuel and raw materials strategies

- Purchase plantations to secure wood chip supply
- Switch to alternative fuels from heavy oil
- Conserve energy and resources

Industry Outlook

Industry-wide reorganization will enhance competitiveness and stabilize operations, providing the strength and scale companies need to do business internationally

Companies will need to be reorganized through various means

Alliances | Mergers | Acquisitions | Integrations

Nippon Paper Group will be a key driver in consolidations

Why Form Alliances?

Alliances

Prioritize speed in realizing synergies

・Build flexible collaborative structures
・Amass strengths
・Complementary capabilities

Address changes in business environment and corporate strategies

・Hard to fully realize benefits
・Strategic mismatches
・Instability

M&As

Entail time, effort, and expense, and constrain competition

・Realignment of businesses
・Market share issues
・Labor agreements

Ultimately:
・Realize full benefits
・Pursue common strategies
・Stabilize corporate fundamentals

Ⅲ. Two Strategic Alliances

Two Strategic Alliances

Alliance between Hokuetsu Paper → Secure world-class domestic production network and strengthen competitiveness of international product lineup

Alliance between Rengo and Sumitomo Corporation → Complement strengths in paperboard and corrugated product areas (Reinforce areas of weakness)

【1】Strategic Alliance between Hokuetsu Paper Mills and Nippon Paper Industries

Most profitable in the domestic industry

NIPPON PAPER INDUSTRIES

Leading papermaker of Japan

Significance of the alliance

Swiftly realize synergies, while respecting management autonomy

Strengthen world-class network of large seaboard mills (Ishinomaki, Iwakuni,and Niigata)

Strategic focus on LWC to target overseas markets

- **Cultivate healthy domestic market**
- **Improve customer service**
- **Strengthen international competitiveness**

Share expertise in core competence of coated paper products

Major on-machine coaters for A3 and lightweight coated products

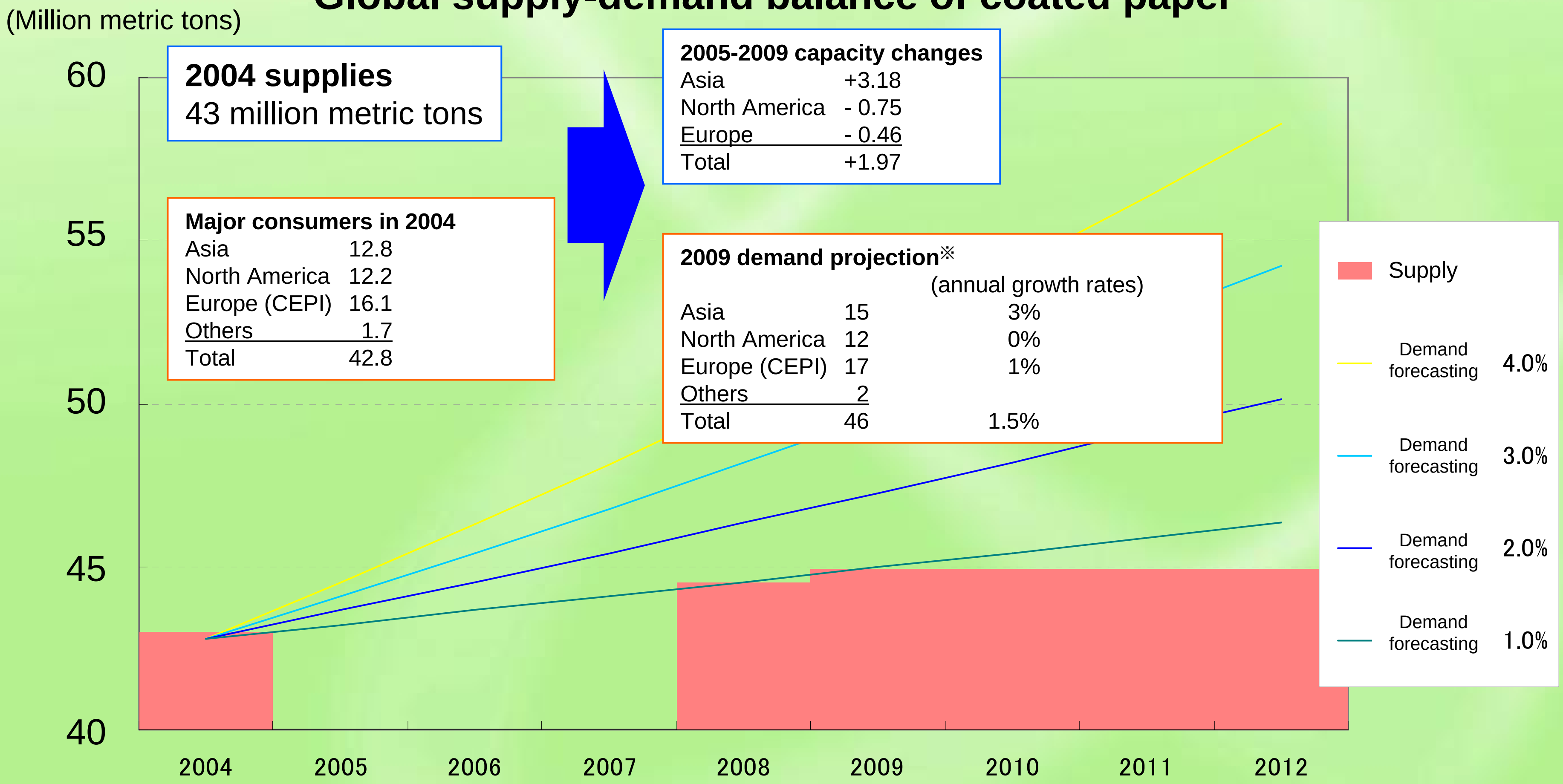
Company	Mill	Machine No.	Daily production (metric tons)	Main products
Nippon Paper	Asahikawa	1	352	LWC
	Ishinomaki	N5	570	LWC
		N6	1,000	A3, LWC
	Iwakuni	9	706	A3, LWC
	Subtotal	4	2,628	
Hokuetsu	Niigata	6	358	A3
		7	448	A2, A3
		8	695	A2, A3
		N9	1,000	A2, A3
	Subtotal	4	2,500	
Total		8	5,128	

Create the strongest production network and bolster export competitiveness

A2 coated: woodfree coated, A3 coated: light-weight woodfree coated

Focus on Growth Potential of Coated Paper

Global supply-demand balance of coated paper



Source: Based on data from Resource Information Systems, Inc.
※ Sample demand projection

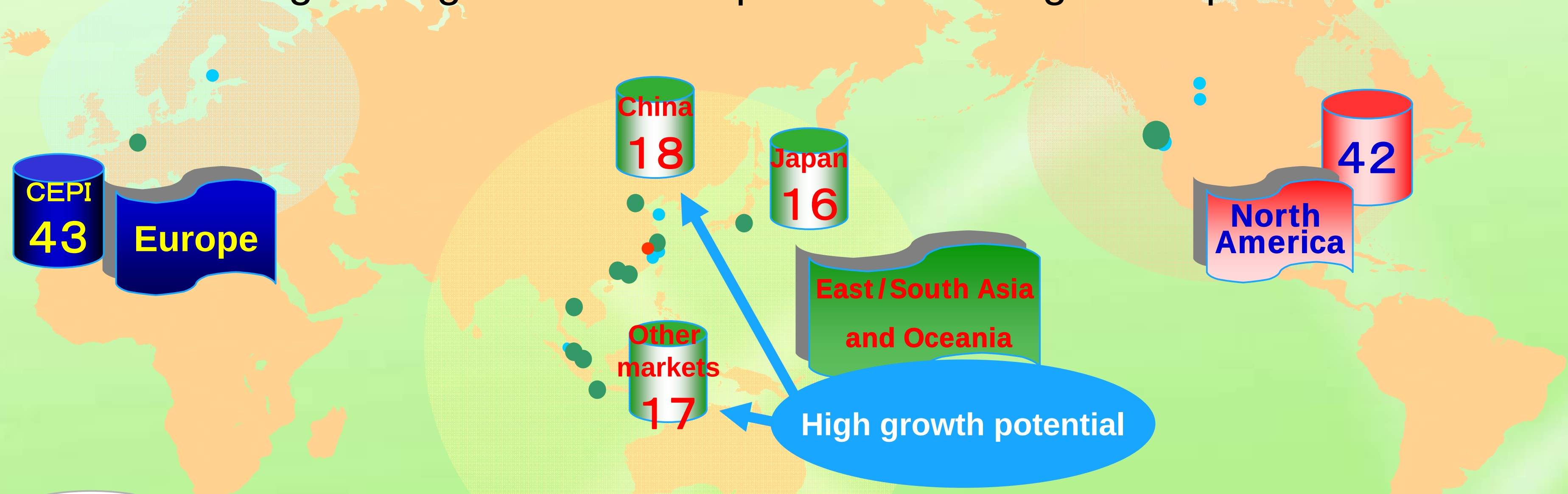
Platform for Expanding Overseas Sales

Nippon Paper Group's sales network
Nippon Paper,
NP Trading, and San-Mic Trading

Trading houses' sales networks

Overseas market

Strengthening Overseas Paper Sales through Group Network



Printing paper market size (including for newsprint) (Million metric tons)

Sales sites

Production sites

Sites under establishment

Region	Staff	Company	Office	Location	No of Staff
Asia・Oceania	55	Nippon Paper Industries	Asian Business Div.	Tokyo	16
			China Office	Shanghai	6
			China Office (Guangzhou Branch Office)	Guangzhou	3
		Nippon Paper Industries Trading (Shanghai)		Shanghai	13
			Beijing Office	Beijing	5
		NP Trading	Jakarta Office	Jakarta	3
			Kuala Lumpur Office	Kuala Lumpur	2
		San-Mic Trading (Hong Kong)			4
		San-Mic Trading (S)		Singapore	3
		San-Mic Trading (Thailand)	(3 staff from Singapore Office)	Bangkok	
North America	2	Nippon Paper Industries USA		Port Angeles	2
Europe	2	Nippon Paper	Europe Office	Amsterdam	2
General	20	Nippon Paper Industries	Export Group, Mktg&Sales Mgmt Dept. Paper Sales Div.	Tokyo	10
		NP Trading	Paper Trading Dept., Overseas Div.	Tokyo	10

Key Areas

Draw on combined management expertise of alliance partners to optimize synergies

① Production and logistics	② Raw materials procurement	③Technology

Mitsubishi Corporation will work together alongside with Hokuetsu and Nippon Paper from a global standpoint

Partners may broaden alliance scope as needed

Synergies

An aggregate of ¥30 billion accruing to both partners from FY2007 through FY2011

Synergies

Initial ¥3.5 billion

Ongoing ¥26.5 billion

Benefits for Nippon Paper Group

Initial ¥1.9 billion

Ongoing ¥15.7 billion

Production and Logistics

Synergies → **¥13.7 billion cost benefit over 5 years** (FY07～FY11)
(Initial cost benefit of ¥3.5 billion plus ¥10.2 billion of ongoing benefits)

Benefits for Nippon Paper Group → **¥9.6 billion cost benefit over 5 years** (FY07～FY11)
(Initial cost benefit of ¥1.9 billion plus ¥7.7billion of ongoing benefits)

① **Facilitate the smooth launch of operations at new state-of-the-art manufacturing facilities (N6 on-machine coater at Nippon Paper's Ishinomaki Mill and the N9 facility at Hokuetsu's Niigata Mill)**

② **Consign production between the two partners on an original equipment manufacturer basis**

③ **Work together to cultivate international markets**

④ **Share shipping and distribution networks**

Raw Materials Procurement

Synergies	**¥12.9 billion cost benefit over 5 years** (FY2007～FY2011)
Benefits for Nippon Paper Group	**¥5.5 billion cost benefit over 5 years** (FY2007～FY2011)

① Secure stable supply of raw materials through co-development and joint procurement

② Cut procurement expenses by working together to strengthen logistics networks and boost operational efficiency while sharing technological expertise to switch to lower-cost raw materials

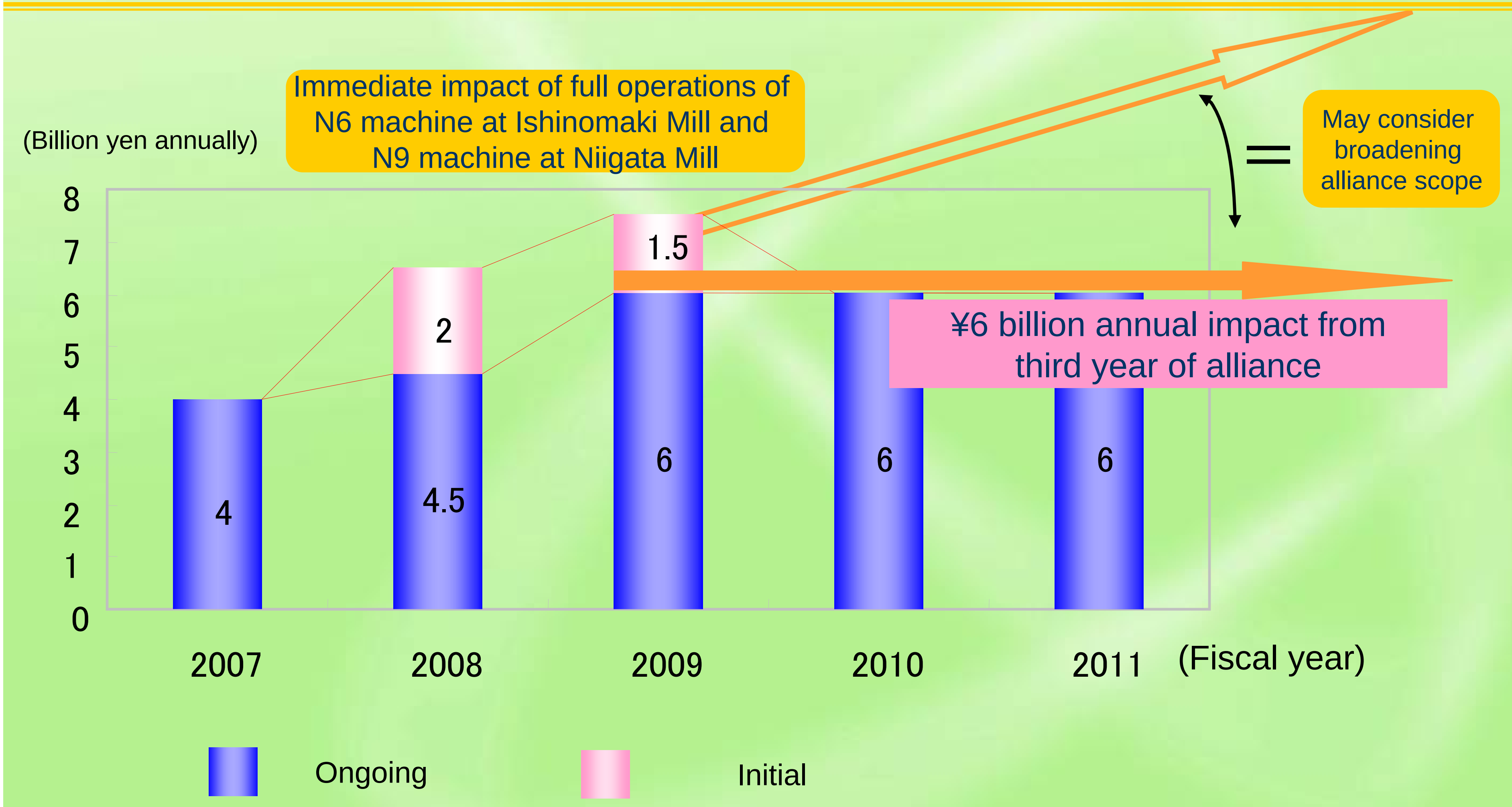
Technology

Synergies	**¥3.4 billion cost benefit over 5 years** (FY2007～FY2011)
Benefits for Nippon Paper Group	**¥2.5 billion cost benefit over 5 years** (FY2007～FY2011)

① Improve efficiency by sharing manufacturing and operations technology

② Consider launching joint initiatives to address common technological issues in areas such as quality control, maintenance, and the environment

Synergies over Five Years
(FY2007～FY2011)



【2】The three-company strategic alliance of Rengo, Nippon Paper Group, and Sumitomo Corporation

Leader in paperboard, corrugated products, and other packaging products

Leading papermaker of Japan

Strong raw materials sourcing capabilities and global network

Strategic Alliance Goals

RENGO

NIPPON PAPER GROUP

Sumitomo Corporation

Strategic Alliance

Foundations of paperboard and corrugated products business
Create leading group in Asian market

- Swiftly realize synergies
- Strengthen supply chain network
- Penetrate overseas markets

Optimal Combination of Synergies

RENGO

- Paperboard leader
  (No. 2 in 2005 in domestic production volume)
- Upstream through downstream capabilities
- Focused on corrugated products

- No. 1 in corrugated products
- No. 2 in containerboard

- Corrugating medium accounts for high proportion of containerboard

- No. 4 in liners
- No. 1 in corrugating medium

NIPPON PAPER GROUP

- Operations centered on Nippon Daishowa Paperboard
  (No. 3 in domestic paperboard production in 2005)
- Integrated materials sourcing with paper business
- Only containerboard included in consolidation

- No. 4 in corrugated products (through Nippon Tokan Package)
- No. 3 in containerboard

- Liners account for high proportion of containerboard

- No. 2 in liners
- No. 4 in corrugating medium

Creates the strongest alliance in Japan's paperboard sector
No. 1 in containerboard
No. 1 in corrugated products

Scope of the strategic alliance

Paperboard business

Packaging business

Joint Sourcing of Raw Materials

Specific areas for joint consideration

①Formulate comprehensive strategy to restructure and strengthen Nippon Paper Group's packaging business

②Expand the scope of the Firms' joint supply network and work together to cut logistics costs

③ Leverage Sumitomo's domestic and overseas networks

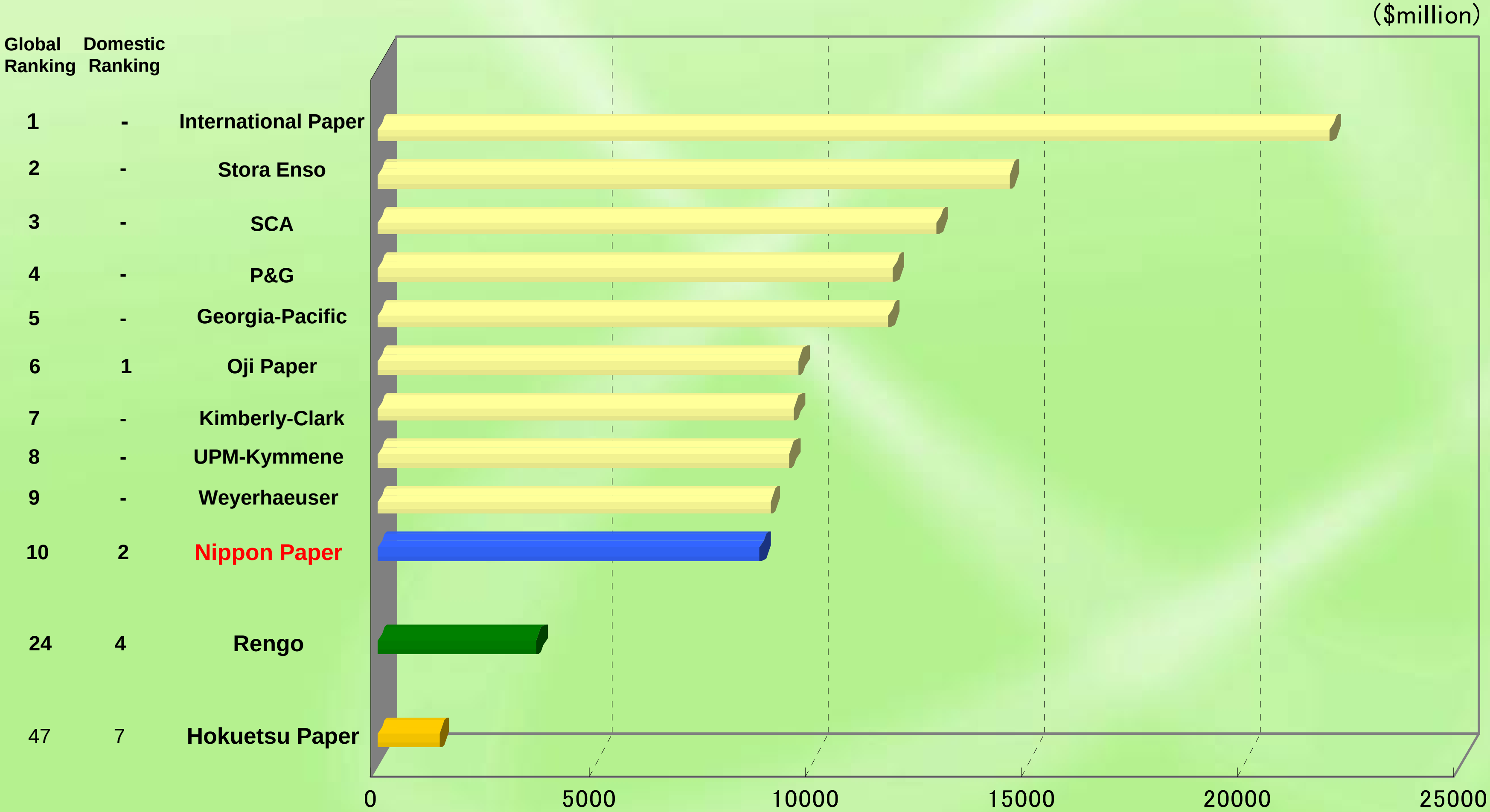
④ Jointly scrap and build containerboard facilities

⑤Share technological and human resources in paperboard and packaging businesses

⑥Identify and cultivate new growth areas in packaging

⑦ Other mutually agreed initiatives

Global Paper Company Rankings in 2005

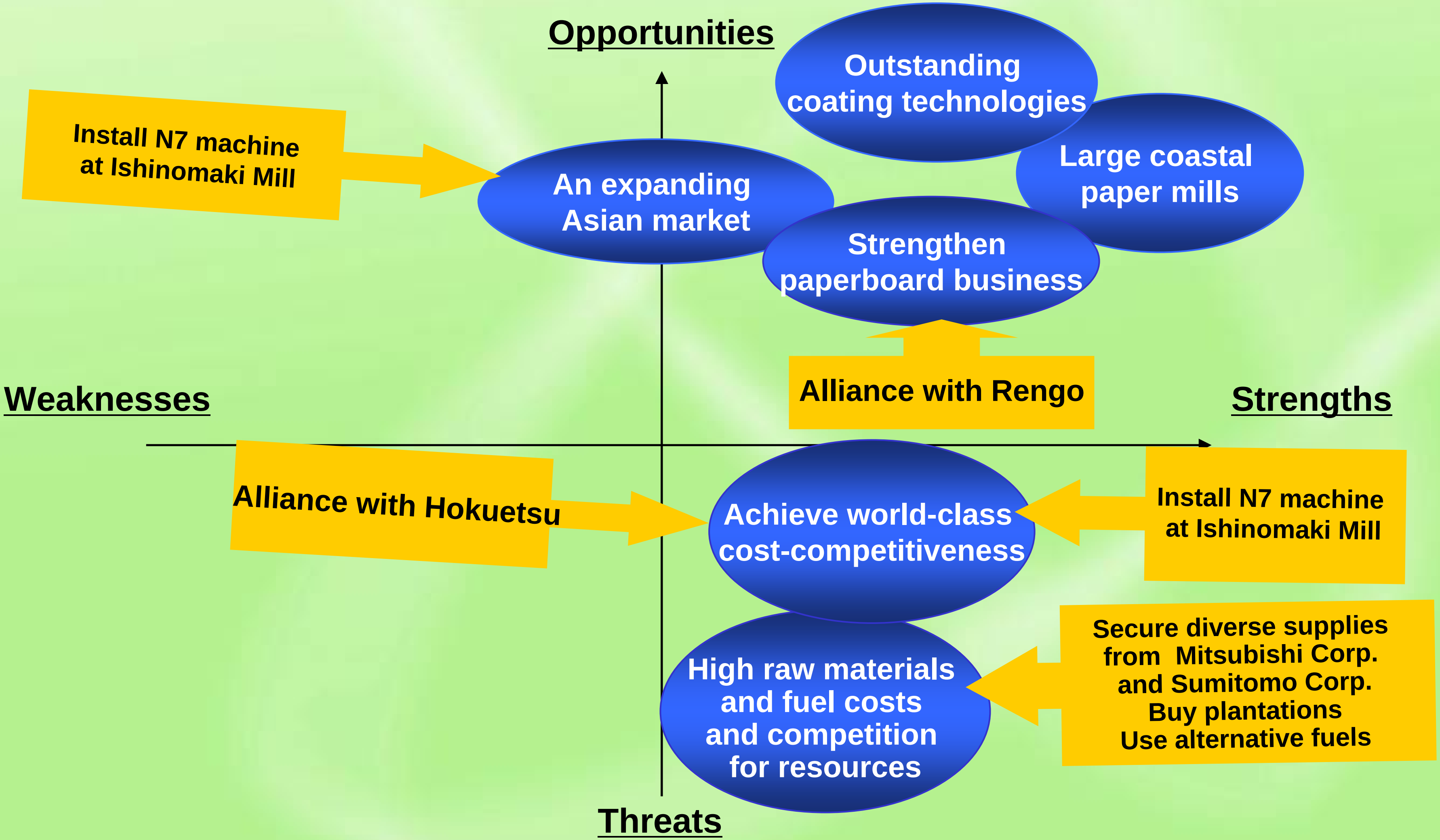


source：PPI

Ⅳ. Toward the Group Vision 2015

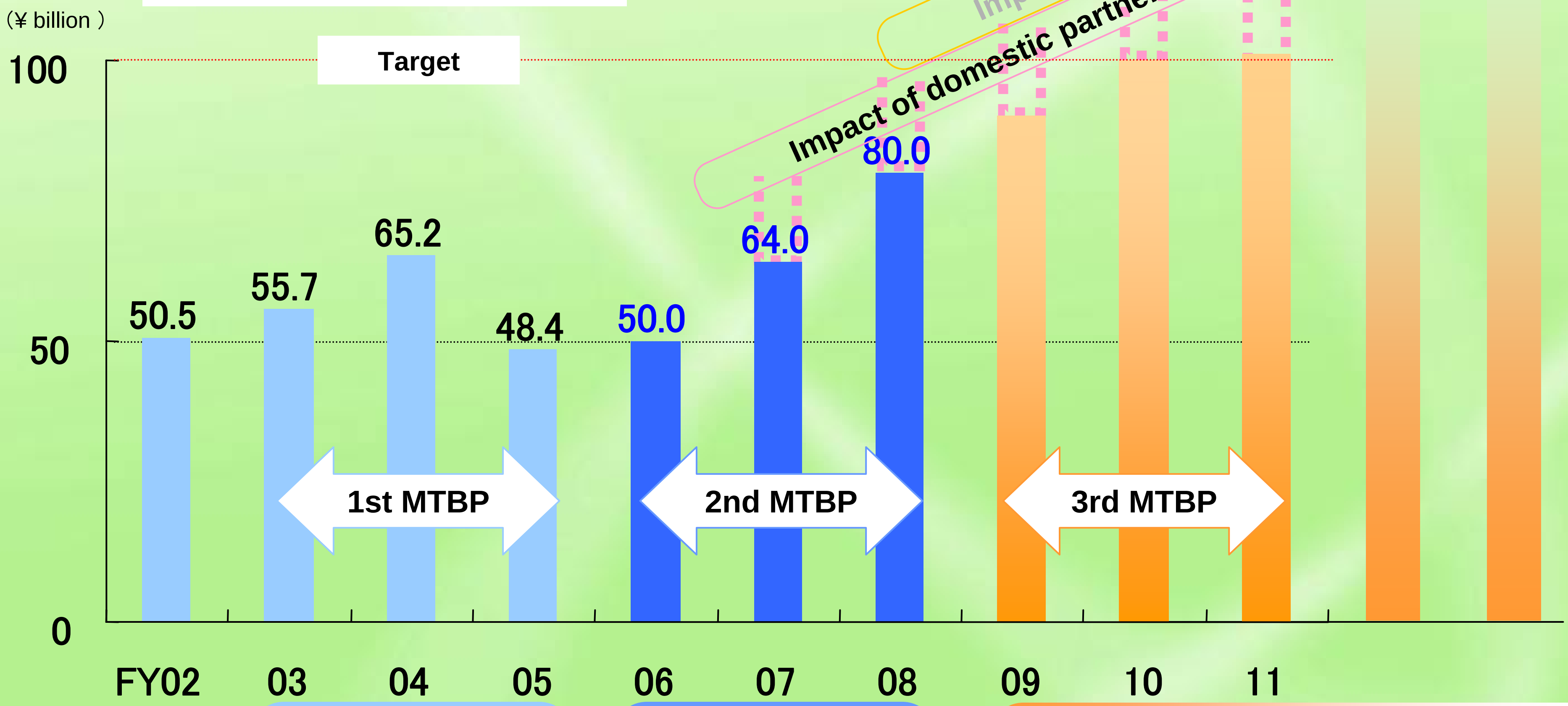
Current situation and strategies

Nippon Paper Group’s Goals



Medium-Term Business Plans and Alliance Impact

Operating income



Achieve integration effects and stabilize financial base

・Reform manufacturing structure
・Reduce interest-bearing debt
・Improve productivity

Strengthen foundation of domestic core businesses

・Reduce oil consumption
・Conserve resources
・Large-scale scrap and build

Domestic Alliance Strategy

Expand in overseas markets

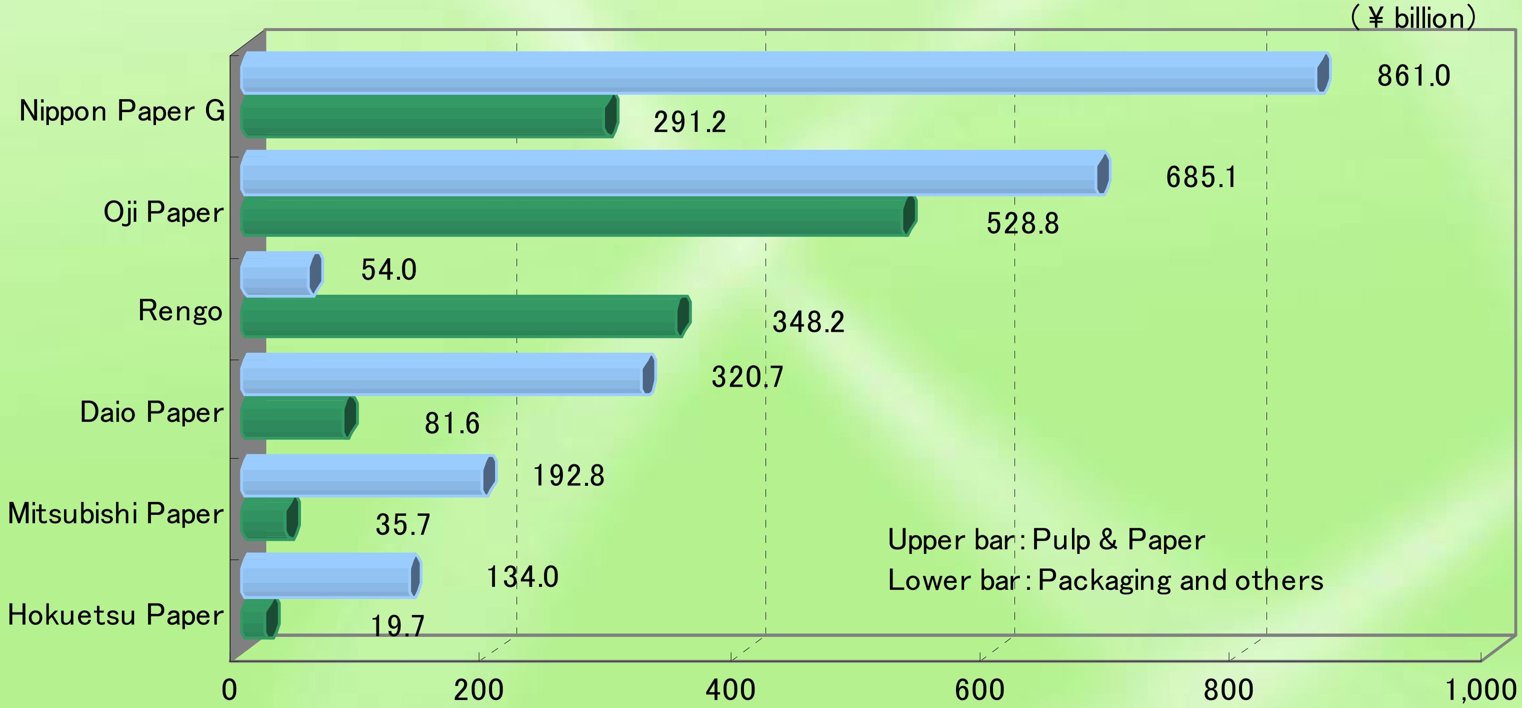
・Augment state-of-the-art paper machine
・Expand overseas business

Overseas Alliance Strategy

※MTBP=Medium-Term Business Plan

Ⅴ. Reference Materials

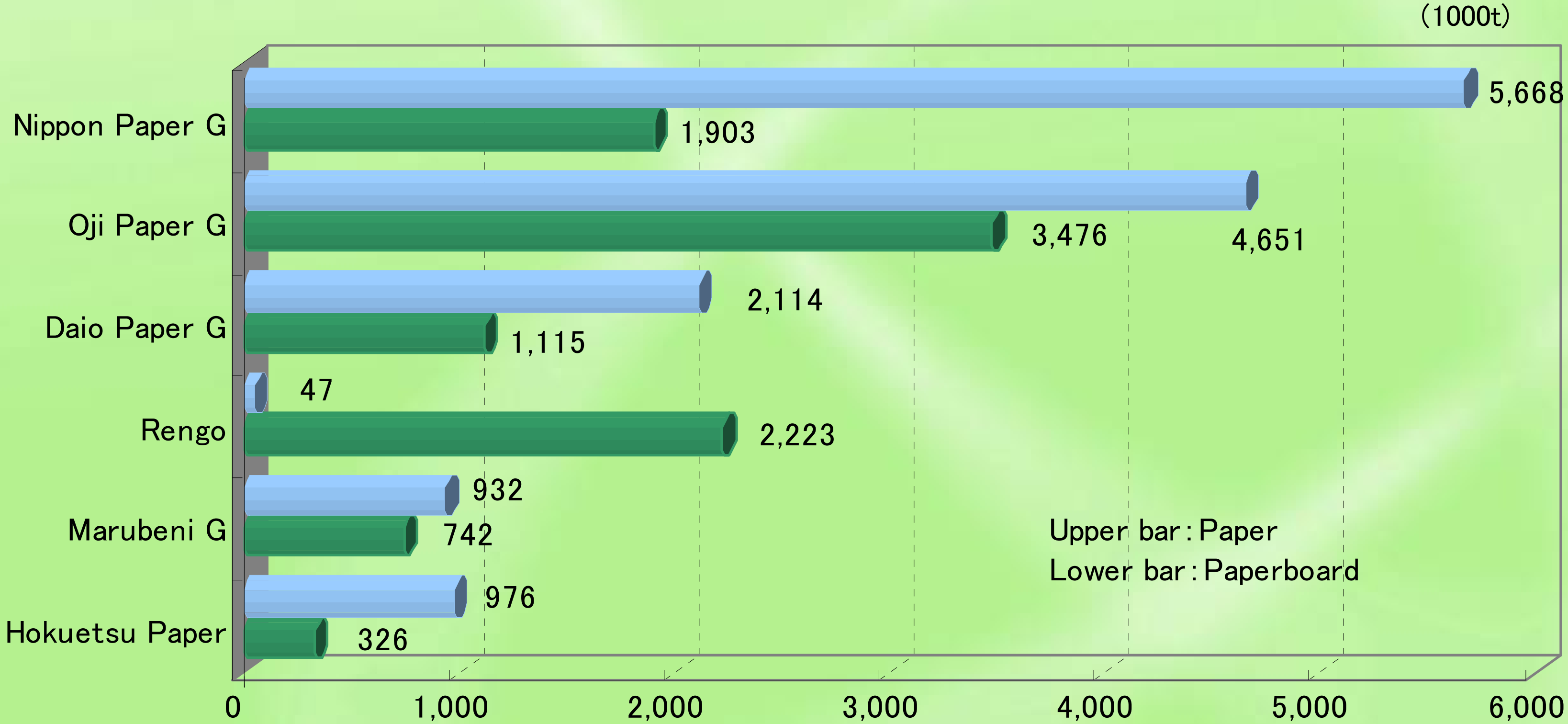
Business Segment Sales in 2005



Source:Company Financial and Annual Reports

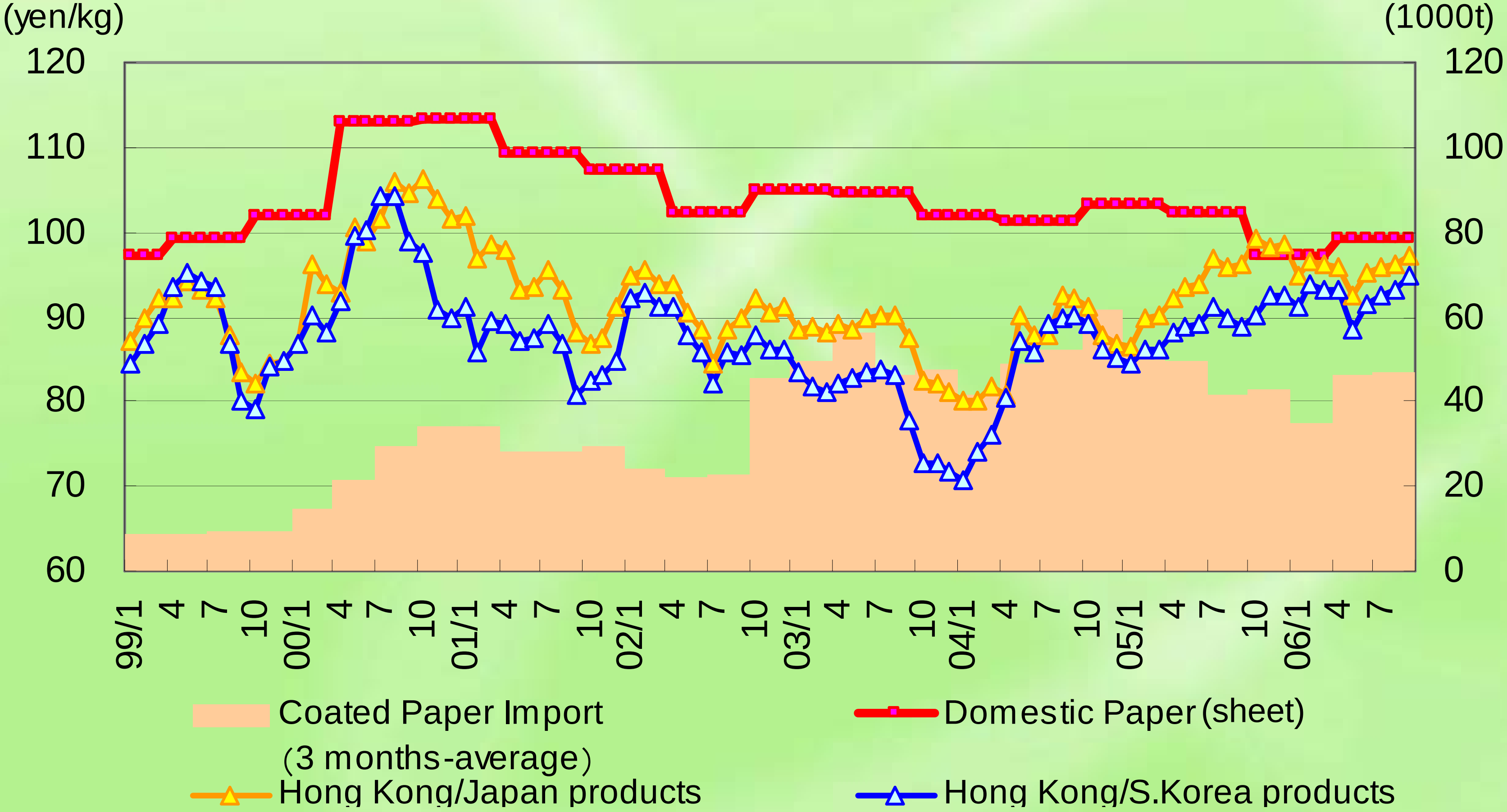
Paper and Paperboard Production Volume in 2005

(Companies with annual production exceeding 1 million metric tons)



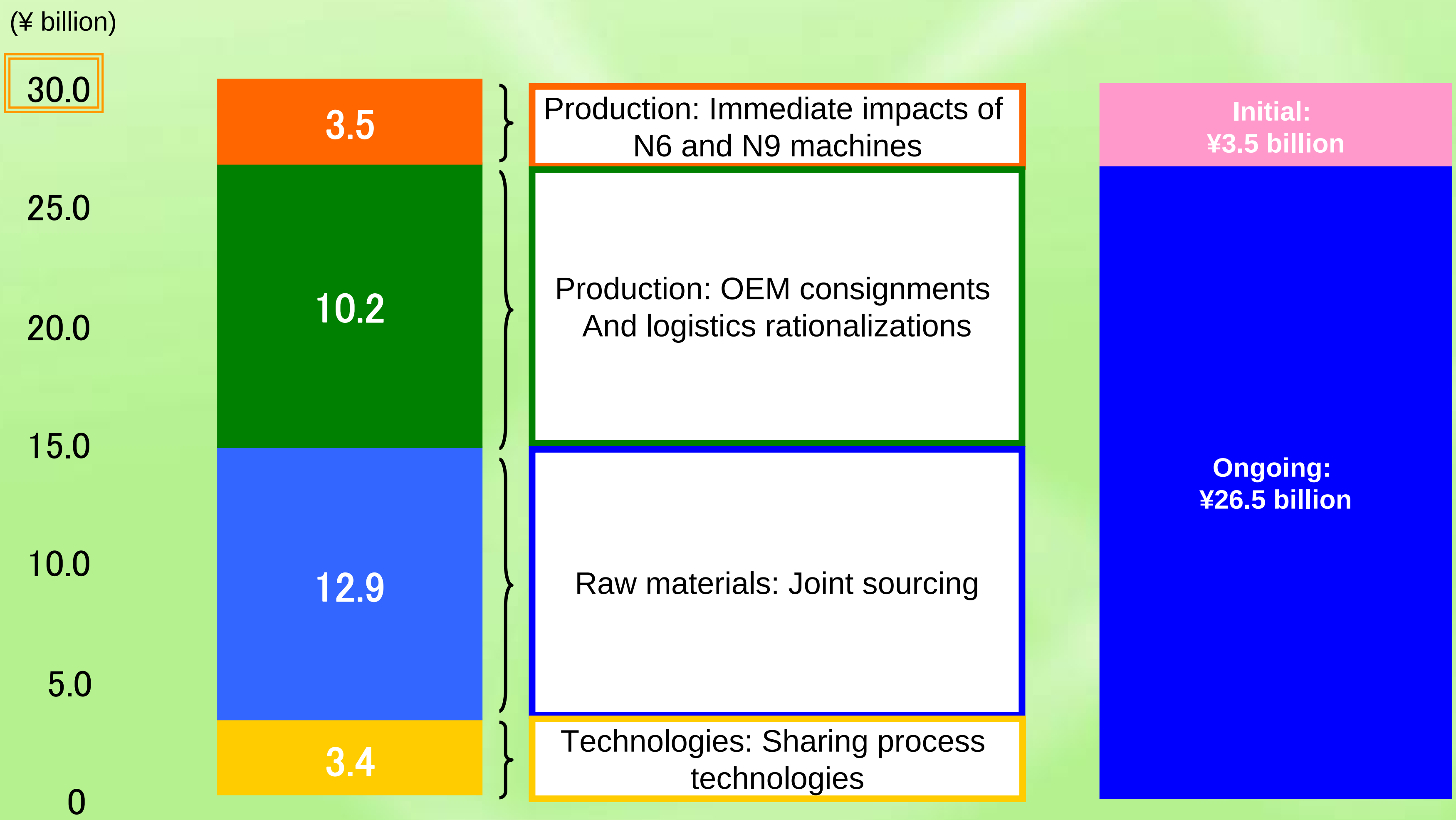
Source:Japan Paper Association

Price Convergence between Japan & International Markets



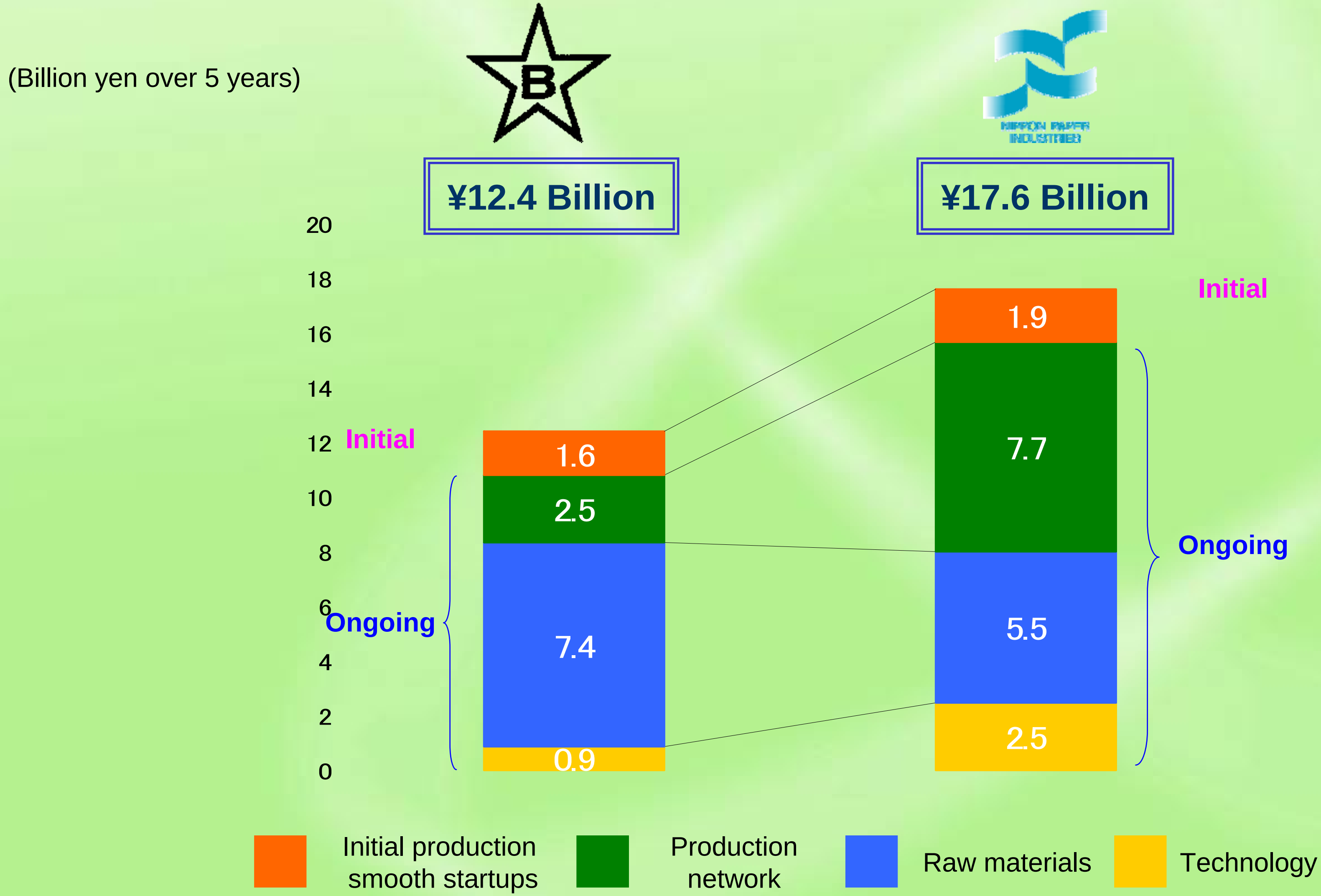
Strategic Alliance between Hokuetsu Paper Mills and Nippon Paper Industries

Total Synergies over 5 Years(FY2007～FY2011)

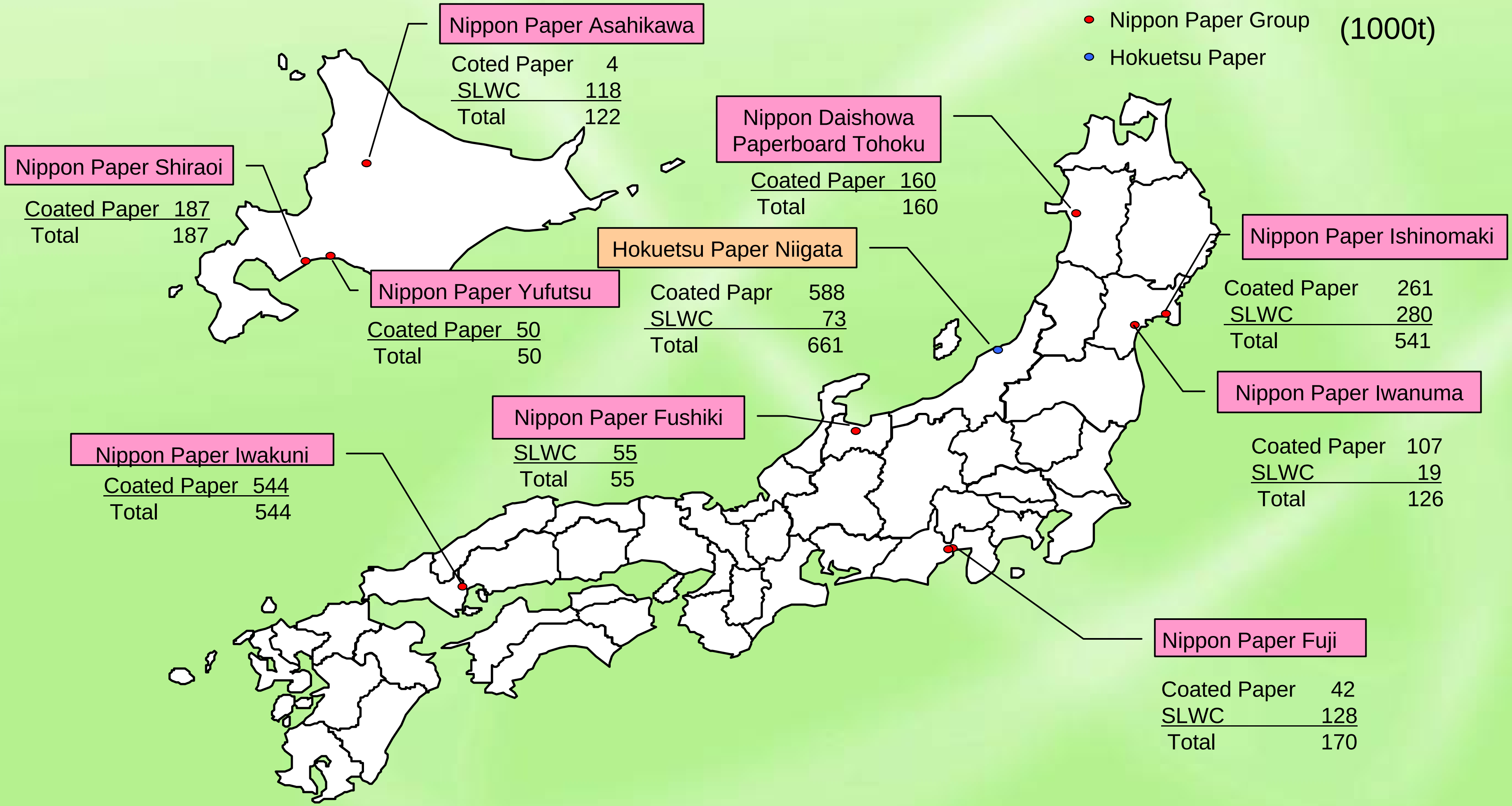


Synergies for Each Partner

(Totals for FY2007—FY2011)



Nippon Paper and Hokuetsu Paper
Coated Paper Production Bases



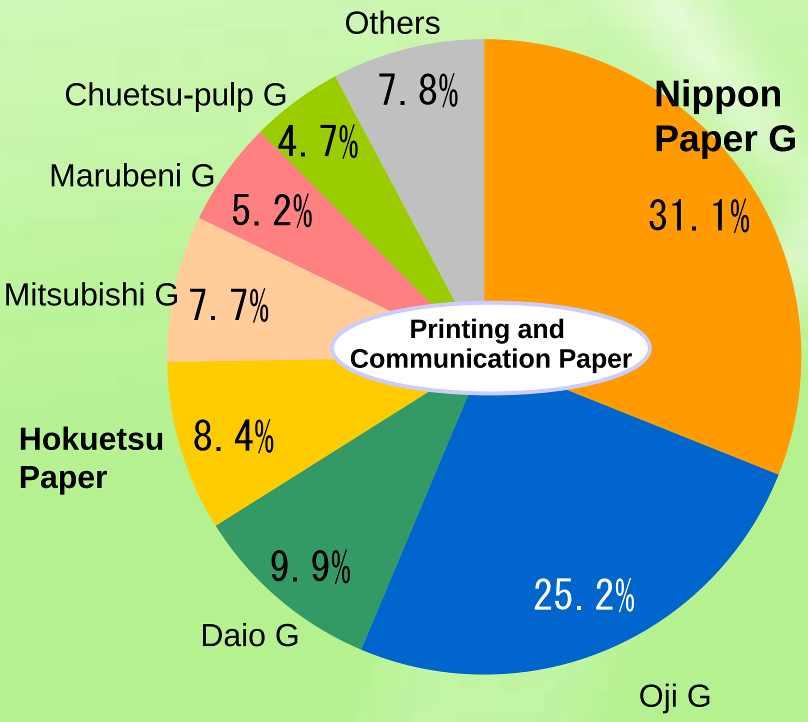
※Source: Japan Paper Association 2005 annual report

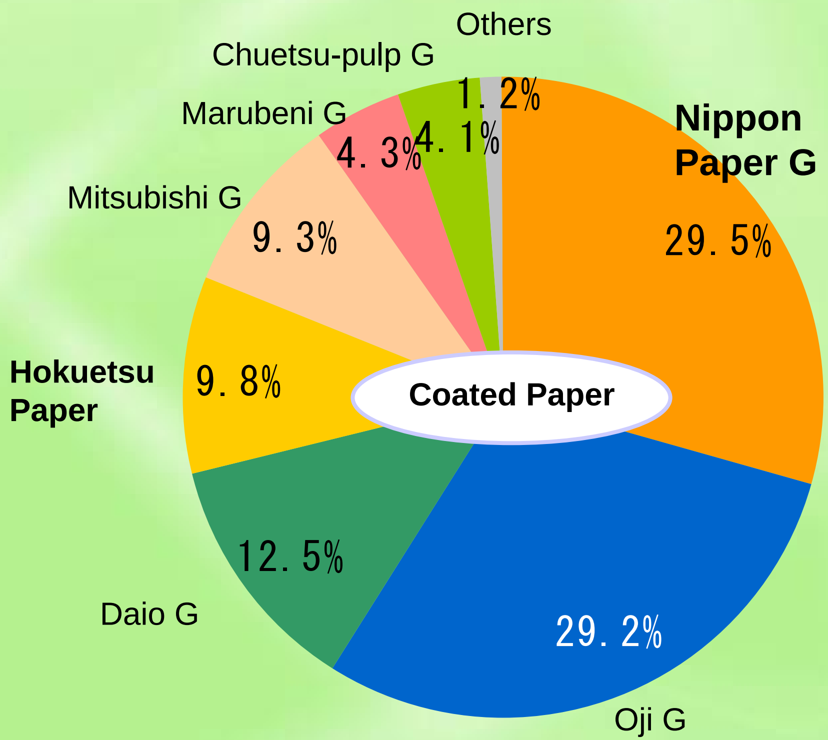
SLWC:Super Light-weight coated or Bitokoshi paper

Domestic demand for Printing and Communication Paper in Past Five Years

Source: Japan Paper Association

Market Share
Printing and Communication Paper, Coated Paper (2005)

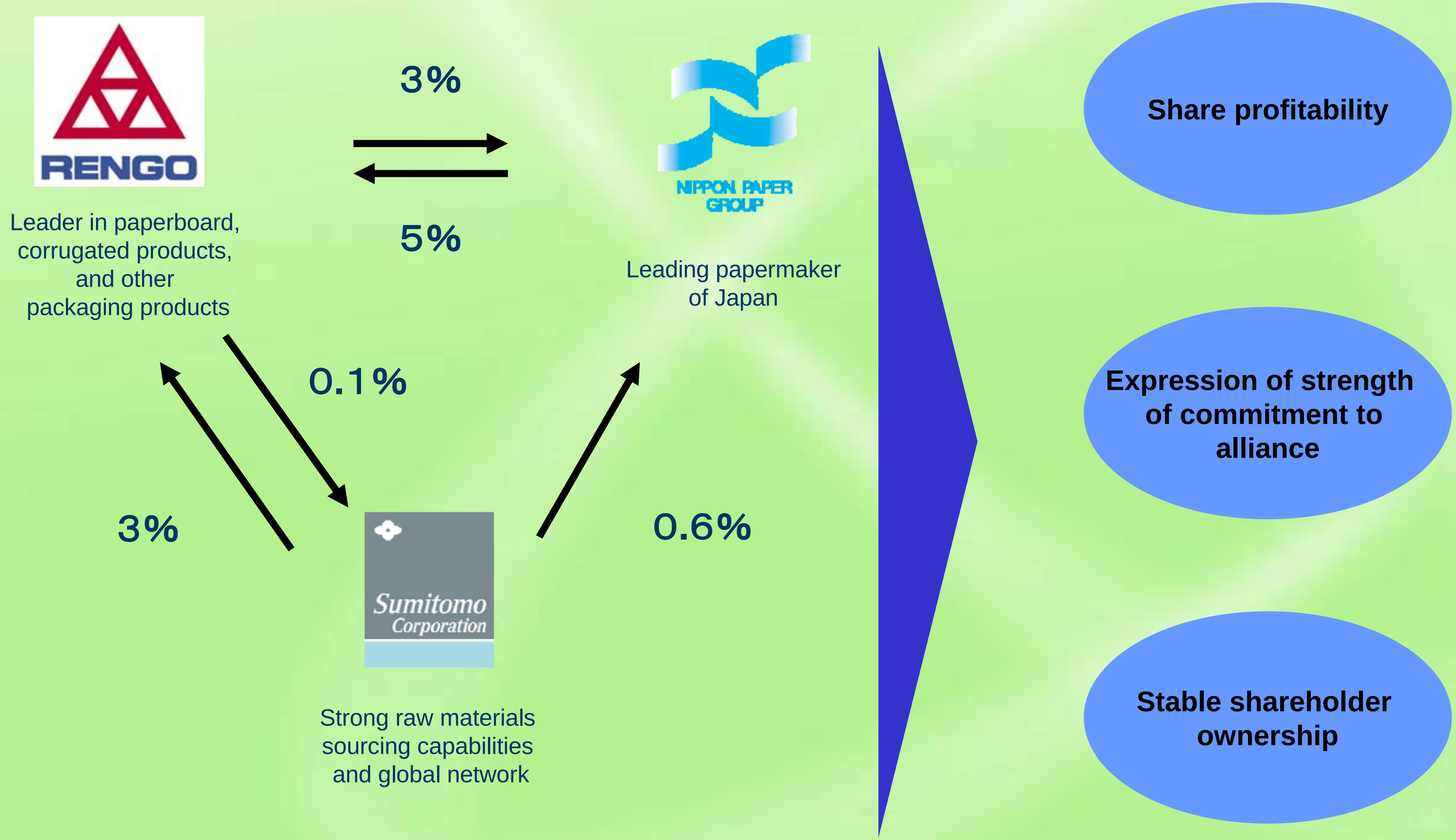




Source: Japan Paper Association

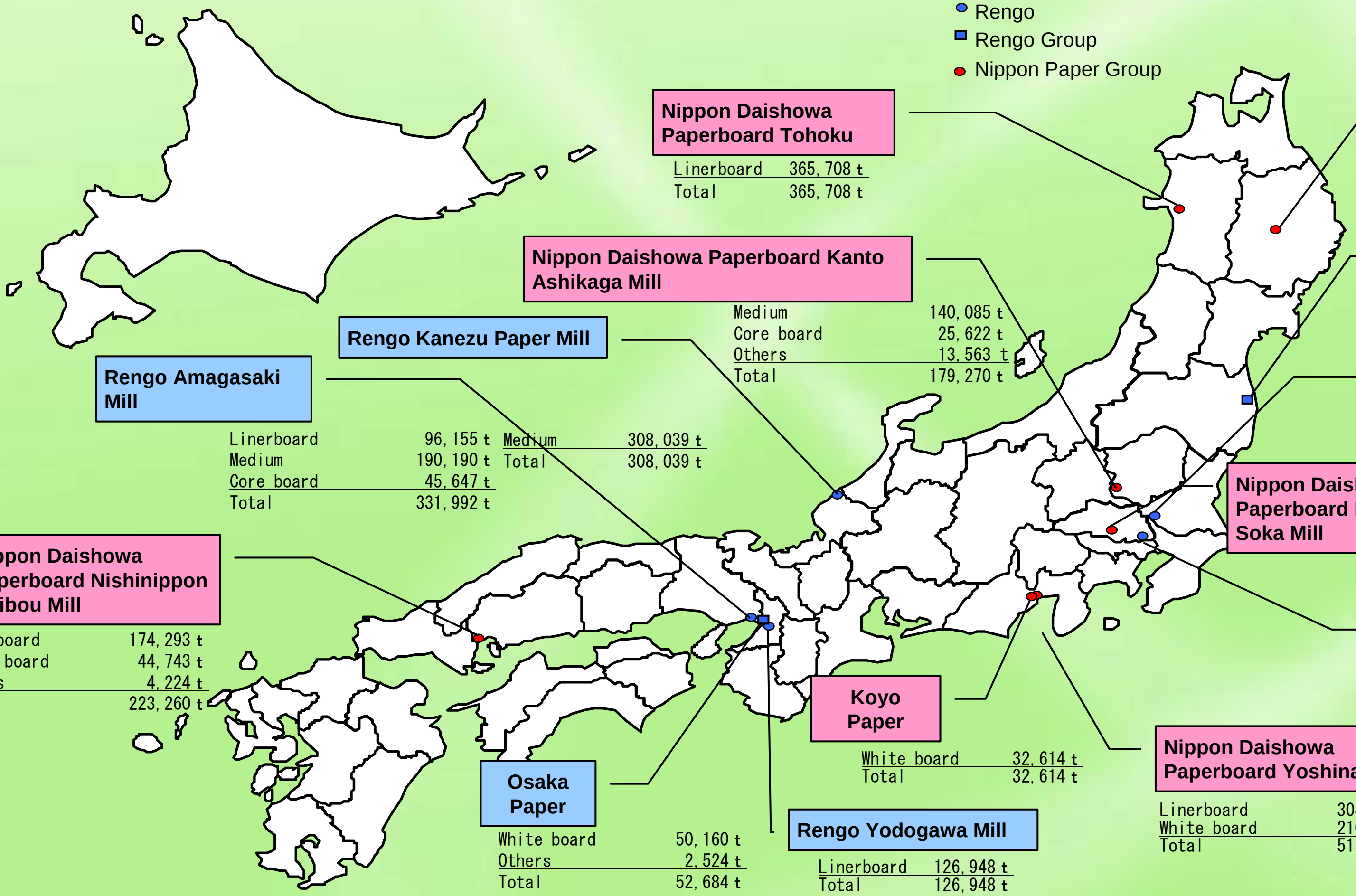
The three-company strategic alliance of Rengo, Nippon Paper Group, and Sumitomo Corporation

Cement Alliance through Share Ownership



(Complete by March 31, 2008)

Rengo and Nippon Paper Group Domestic Paperboard Production Bases



Nippon Daishowa Paperboard Tohoku

Linerboard	365,708 t
Total	365,708 t

Kitakami Paper

Linerboard	84,035 t
Others	15,779 t
Total	99,814 t

Nippon Daishowa Paperboard Kanto Ashikaga Mill

Medium	140,085 t
Core board	25,622 t
Others	13,563 t
Total	179,270 t

Marusan Paper

Linerboard	107,920 t
Medium	166,382 t
Core board	6,568 t
Total	280,870 t

Rengo Kanezu Paper Mill

Medium	308,039 t
Total	308,039 t

Rengo Amagasaki Mill

Linerboard	96,155 t
Medium	190,190 t
Core board	45,647 t
Total	331,992 t

Rengo Tonegawa Paper Mill

Linerboard	231,222 t
White board	101,725 t
Others	11,281 t
Total	344,228 t

Nippon Daishowa Paperboard Kanto Soka Mill

Linerboard	185,328 t
Medium	213,667 t
Others	79,158 t
Total	478,153 t

Nippon Daishowa Paperboard Nishinippon Geibou Mill

Linerboard	174,293 t
White board	44,743 t
Others	4,224 t
Total	223,260 t

Rengo Yashio Mill

Linerboard	264,003 t
Medium	467,977 t
Core board	25,917 t
Others	20,027 t
Total	777,924 t

Koyo Paper

White board	32,614 t
Total	32,614 t

Osaka Paper

White board	50,160 t
Others	2,524 t
Total	52,684 t

Rengo Yodogawa Mill

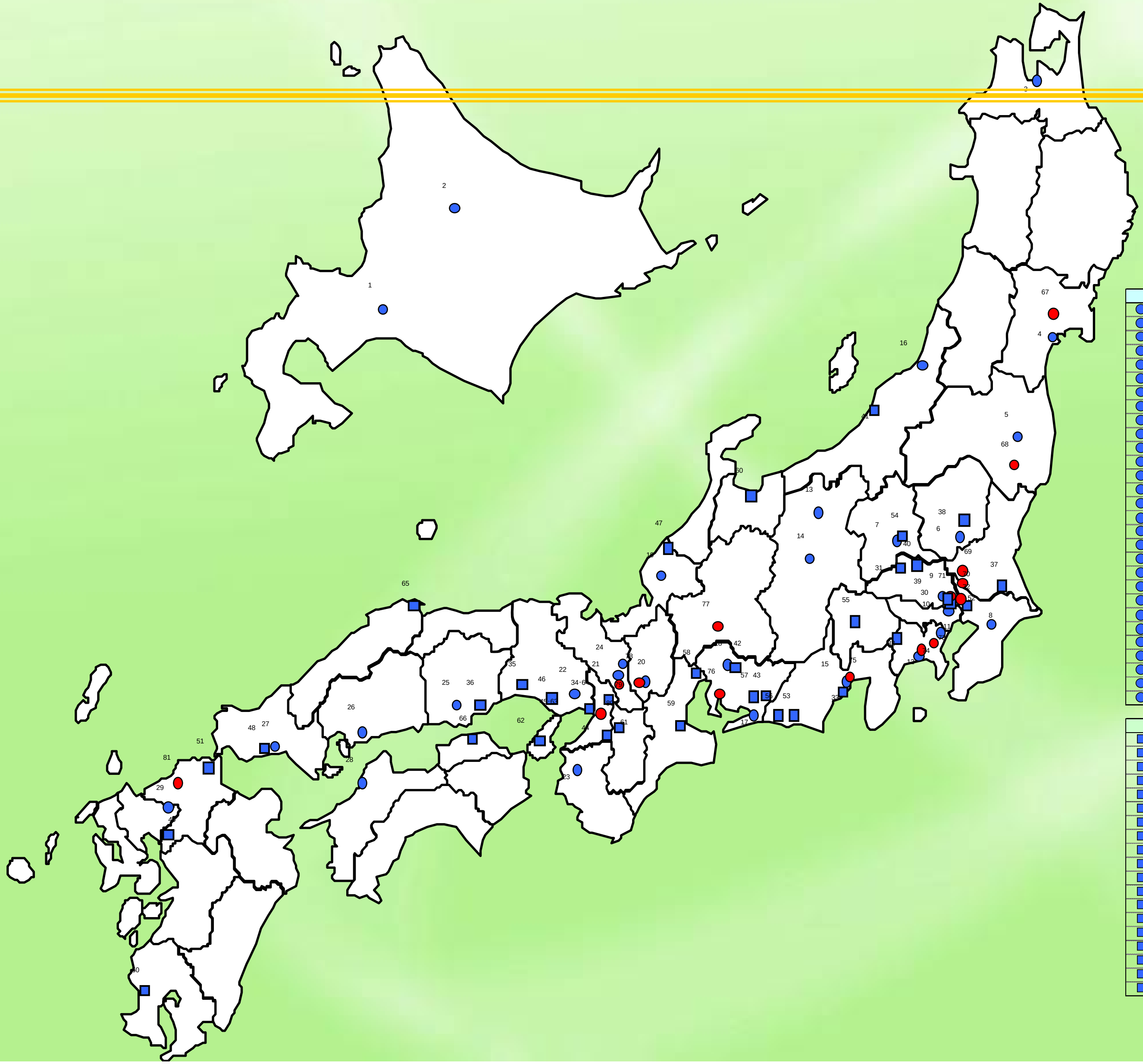
Linerboard	126,948 t
Total	126,948 t

Nippon Daishowa Paperboard Yoshinaga

Linerboard	304,758 t
White board	210,746 t
Total	515,504 t

Source: Japan Paper Association 2005 annual report
"Others" includes Yellow Paperboard Chip Ball, Color Paperboard, Waterproofing core base paper,Plaster board core base paper, Wanpu and others.

Rengo and Nippon Paper Group
Domestic Corrugated Cardboard Production Bases

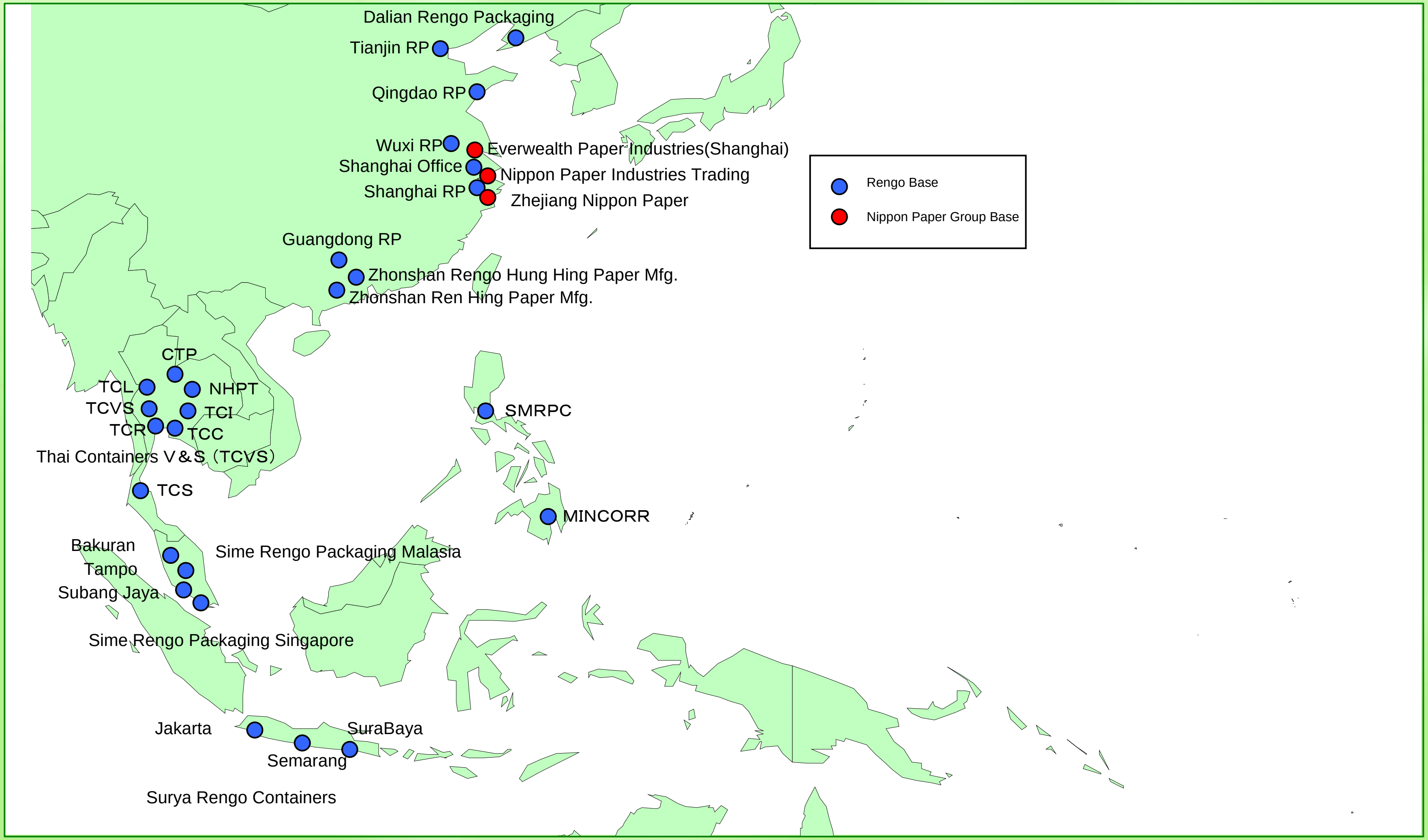


● Rengo
■ Rengo Group
● Nippon Tokan Package

Rengo		Nippon Tokan Package	
1	Ena Plant	67	Sendai Plant
2	Asahikawa Plant	68	Fukushima Plant
3	Aomori Plant	69	Furukawa Plant
4	Sendai Plant	70	Ibaraki Plant
5	Koriyama Plant	71	Saitama Plant
6	Oyama Plant	72	Chiba Plant
7	Maebashi Plant	73	Yokohama Plant
8	Chiba Plant	74	Atsugi Plant
9	Tokyo Plant	75	Fuji Plant
10	Katsushika Plant	76	Aichi Plant
11	Kawasaki Plant	77	Gifu Plant
12	Shonan Plant	78	Shiga Plant
13	Nagano Plant	79	Kyoto Plant
14	Matsumoto Plant	80	Osaka Plant
15	Shimizu Plant	81	Fukuoka Plant
16	Nigata Plant		
17	Toyohashi Plant		
18	Nagoya Plant		
19	Fukui Plant		
20	Shiga Plant		
21	Kyoto Plant		
22	Sanda Plant		
23	Wakayama Plant		
24	Katsura Plant		
25	Okayama Plant		
26	Hiroshima Plant		
27	Hofu Plant		
28	Matsuyama Plant		
29	Tosu Plant		

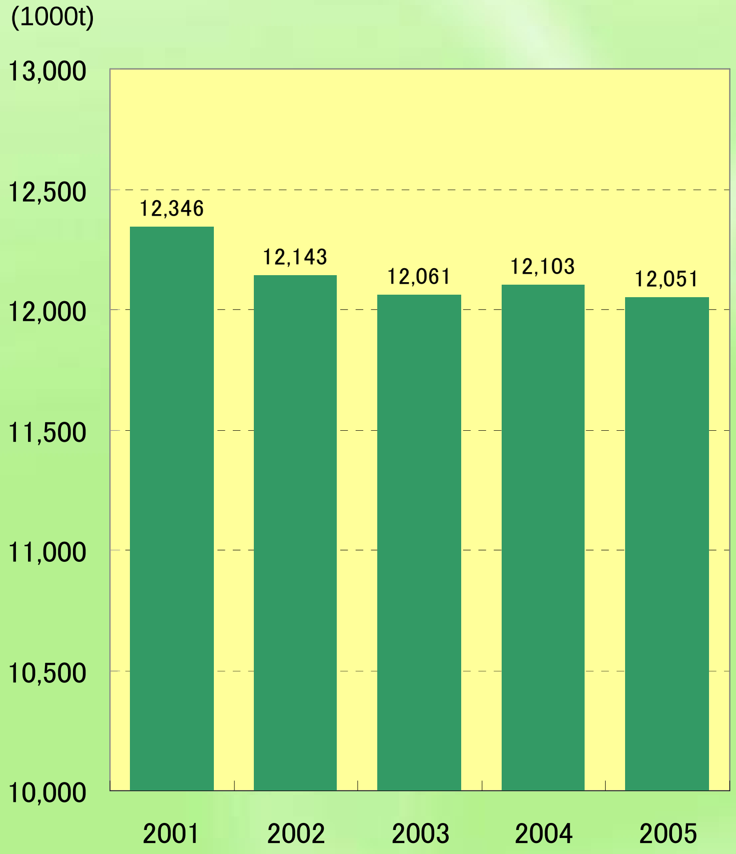
Rengo Group			
30	Yamato Shiki Kawaguchi Plant	49	Hinode Shiki Fukuoka Plant
31	Yamato Shiki Saitama Plant	50	Hinode Shiki Head Plant
32	Yamato Shiki Kanagawa Plant	51	Hinode Shiki Ogura Plant
33	Yamato Shiki Shizuoka Plant	52	Edogawa corrugated board NodaPlant
34	Yamato Shiki Osaka Plant	53	Ihara Shiki Head Plant
35	Yamato Shiki Himeji Plant	54	Saito Shiki
36	Yamato Shiki Okayama Plant	55	Koufu Daiichi Jitsugyo
37	Settsu Carton Tsukuba Plant	56	Tokai Shiki Hamamatsu Plant
38	Settsu Carton Utsunomiya Plant	57	Tokai Shiki Okazaki Plant
39	Settsu Carton Tokyo Plant	58	Tokai Shiki Yokkaichi Plant
40	Settsu Carton Kumagaya Plant	59	Tokai Shiki Isshi Plant
41	Settsu Carton Nigata Plant	60	Hokuriku Shiki
42	Settsu Carton Komaki Plant	61	Nitto Shiki Kogyo
43	Settsu Carton Shinshiro Plant	62	Awaji Shiko
44	Settsu Carton Higashi Osaka Plant	63	Yamatoya
45	Settsu Carton Itami Plant	64	Daiichi Package Head Plant
46	Settsu Carton Ono Plant	65	Sakaiminato corrugated board
47	Settsu Carton Echizen Plant	66	Asahi corrugated board
48	Settsu Carton Yamaguchi Plant		

Rengo and Nippon Paper Group Overseas Paperboard and Corrugated Cardboard Production Bases

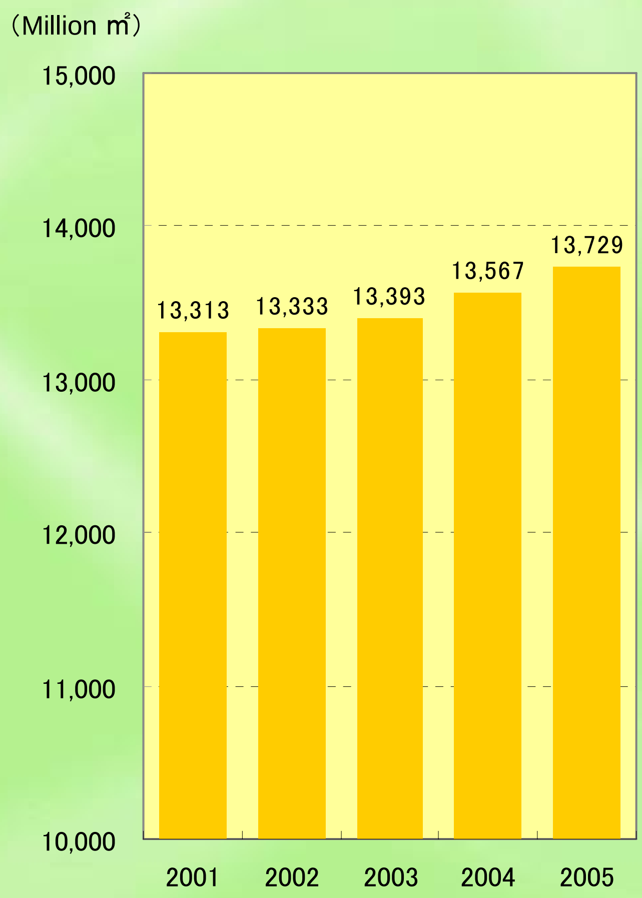


Domestic Paperboard and Corrugated Cardboard Production Volumes 2001 to 2005

Paperboard

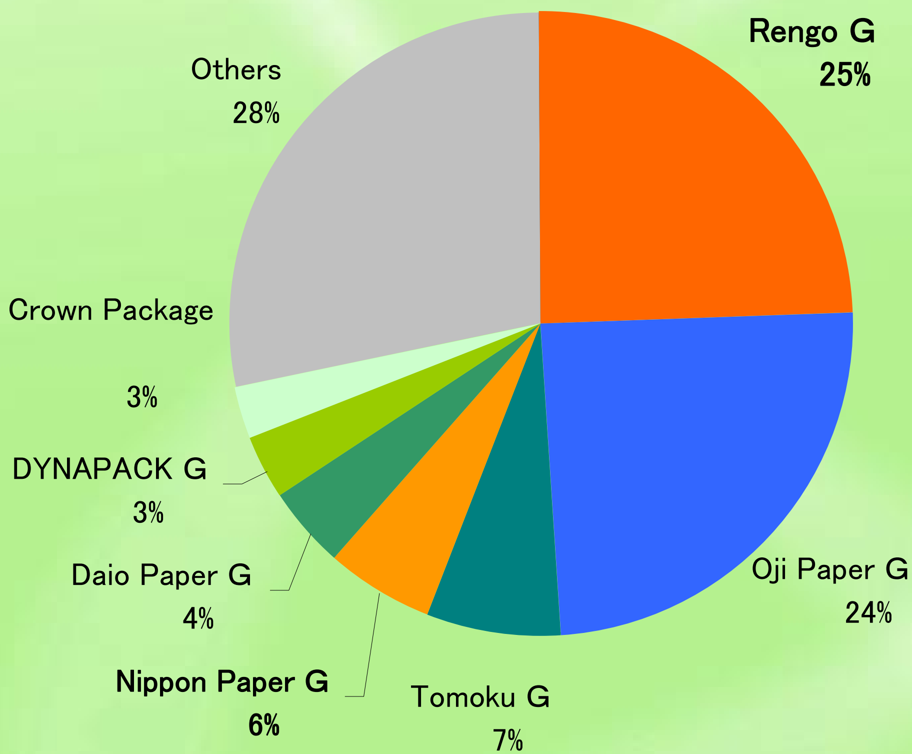


Corrugated Products



From Paper and Pulp Statistics 2005 of Japan Paper Association

Market Share
Corrugated Cardboard (2005)



Estimates from Rengo and Nippon Paper Group

Management indices

Group Vision 2015 targets

	Fiscal 2005	Fiscal 2008	Group Vision 2015
Operating income	¥ 48.4 billion	¥ 80.0 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

※Real cash flow, excluding year-end adjustments

Other targets

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

● These materials include company-related forecasts, plans, and management targets. Forward-looking statements are based on assumptions about the future and trends at the time of producing these materials and contain uncertainties. Actual results could differ significantly from what is presented here.

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