

Management Presentation

Group Vision 2015/ Back on Track

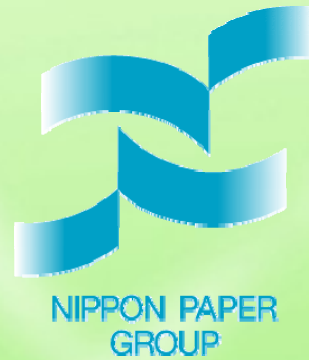


May 8 2007
Nippon Paper Group, Inc.

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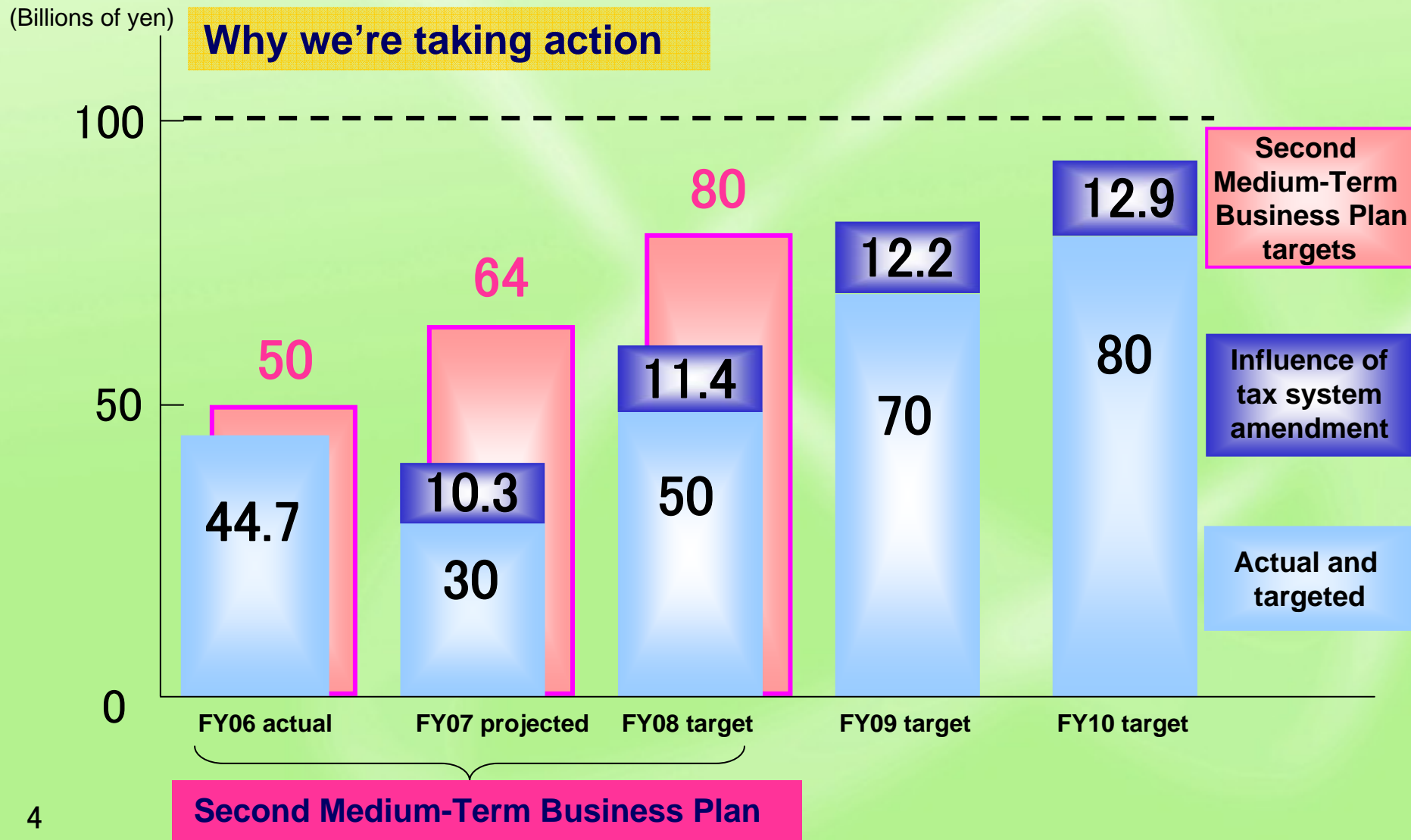


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I . Medium-Term Prospects

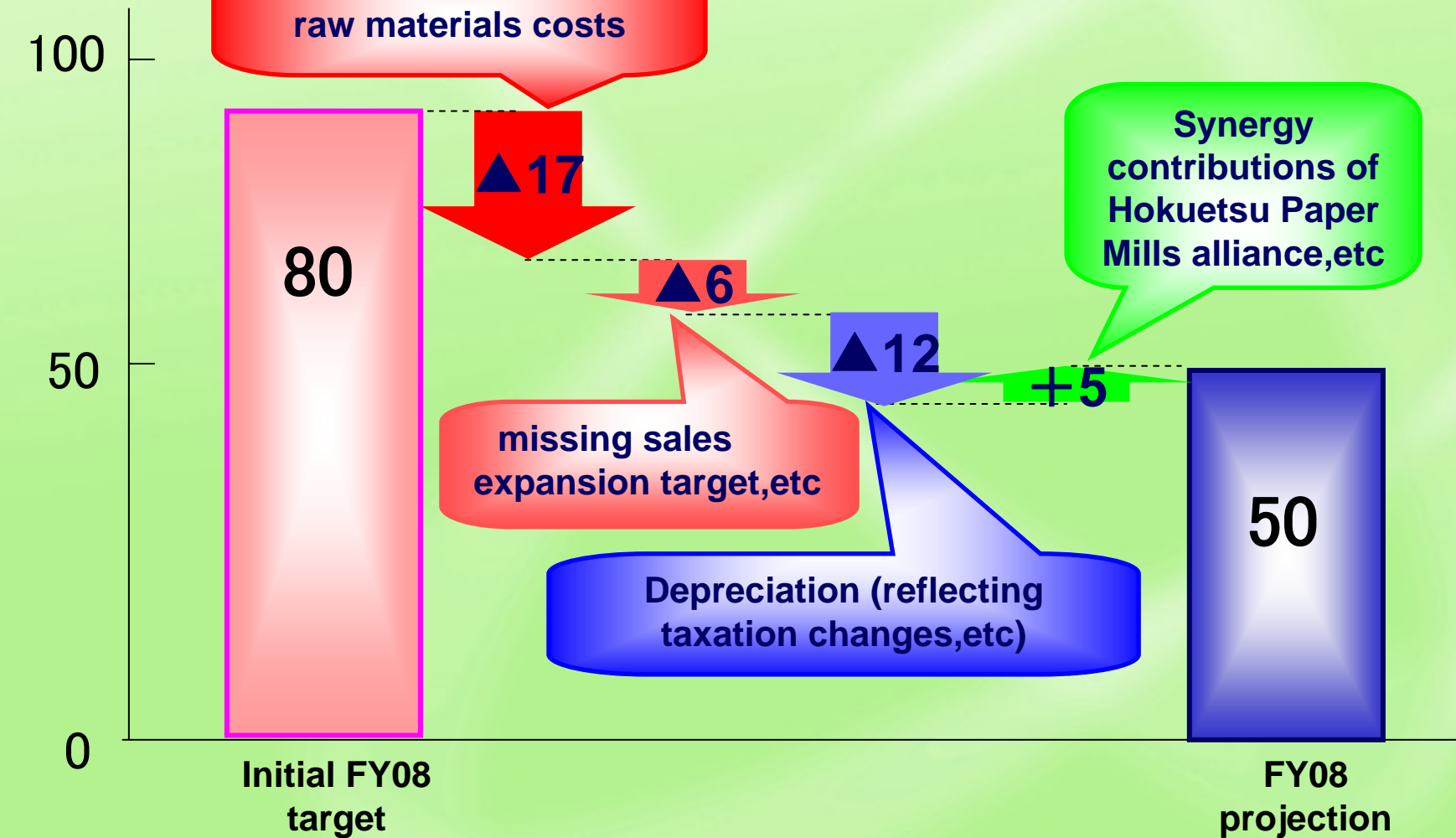
Actual and Targeted Operating Income for Fiscal 2006 through 2010

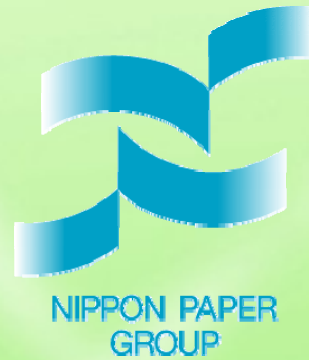


Fiscal 2008 Operating Income Projection and Initial Target



(Billions of yen)





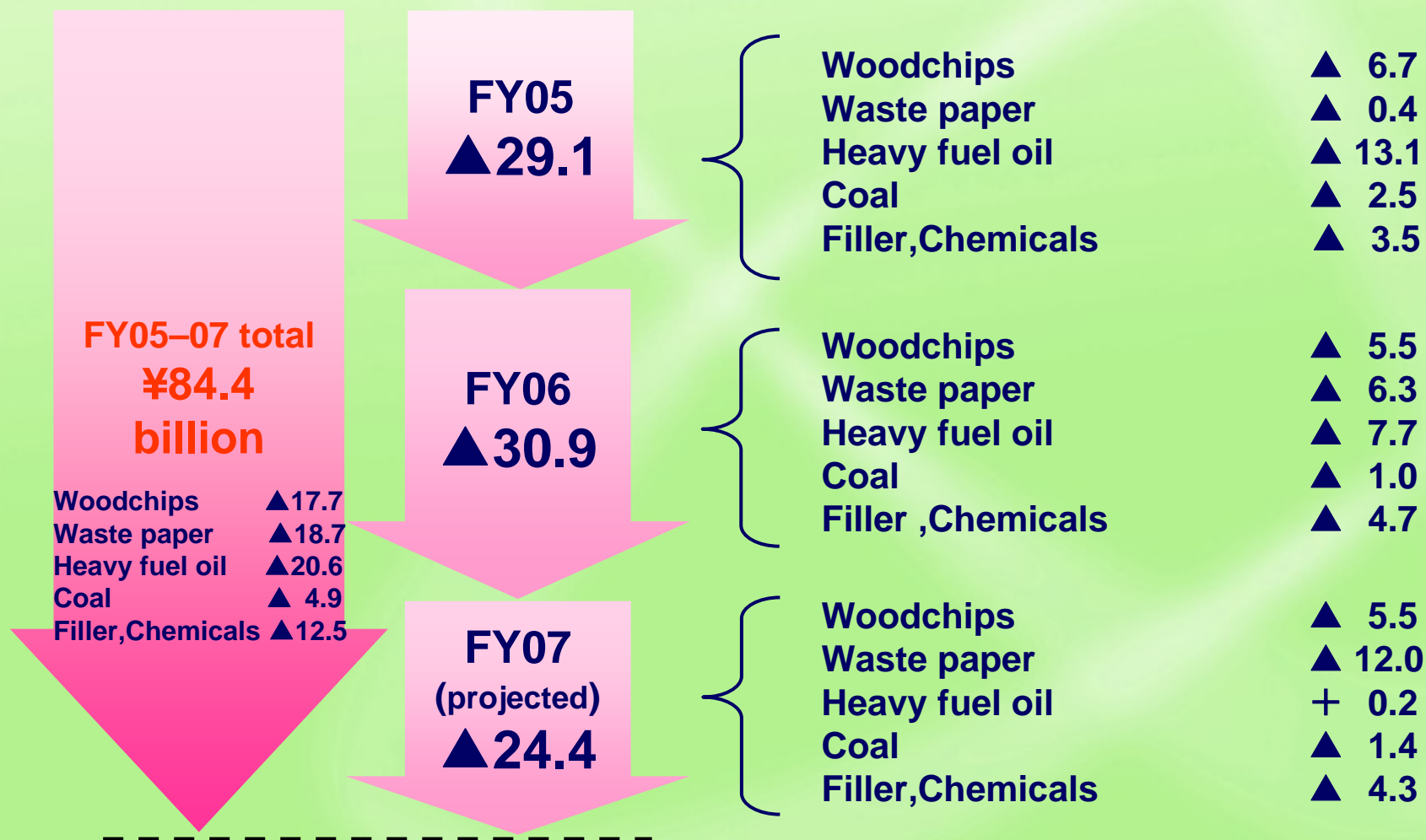
II . Group Operating Environment

Impact of Higher Raw Materials Costs on Paper Business in Fiscal 2005 through 2007



Additional costs

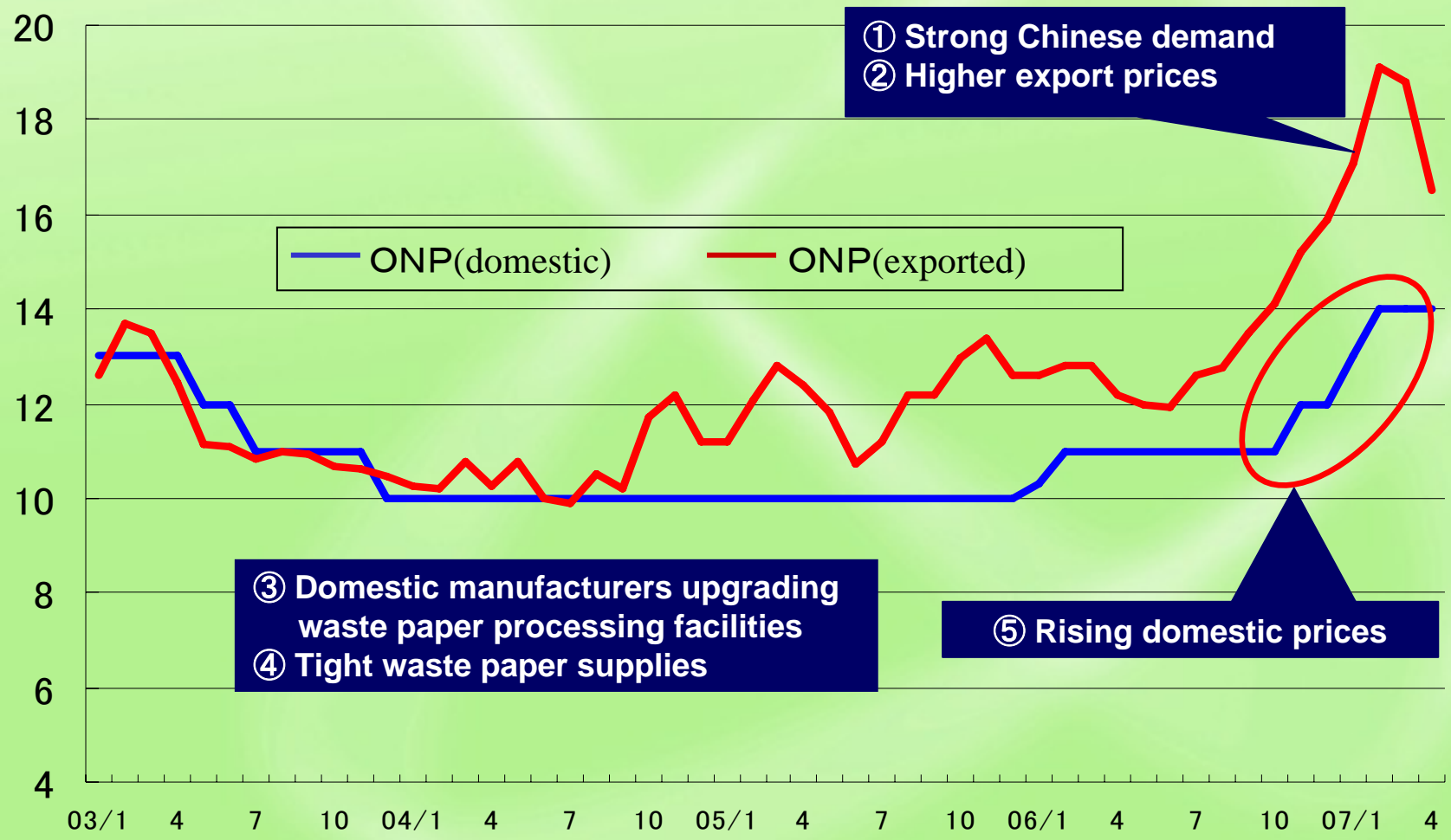
Key factors



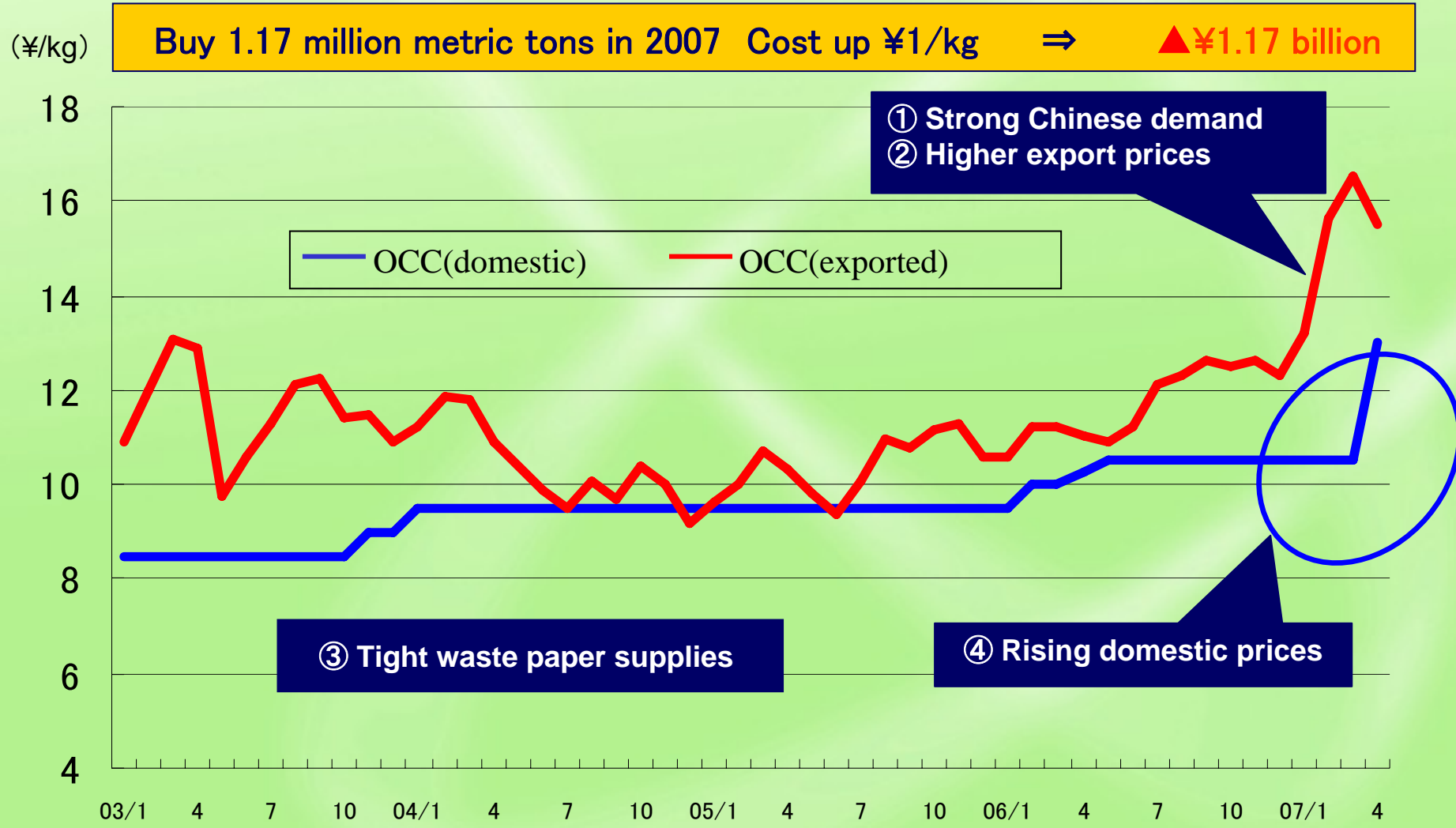
Old Newsprint (ONP)



(¥/kg) Buy 1.5 million metric tons in 2007 Cost up ¥1/kg ⇒ ▲¥1.5 billion



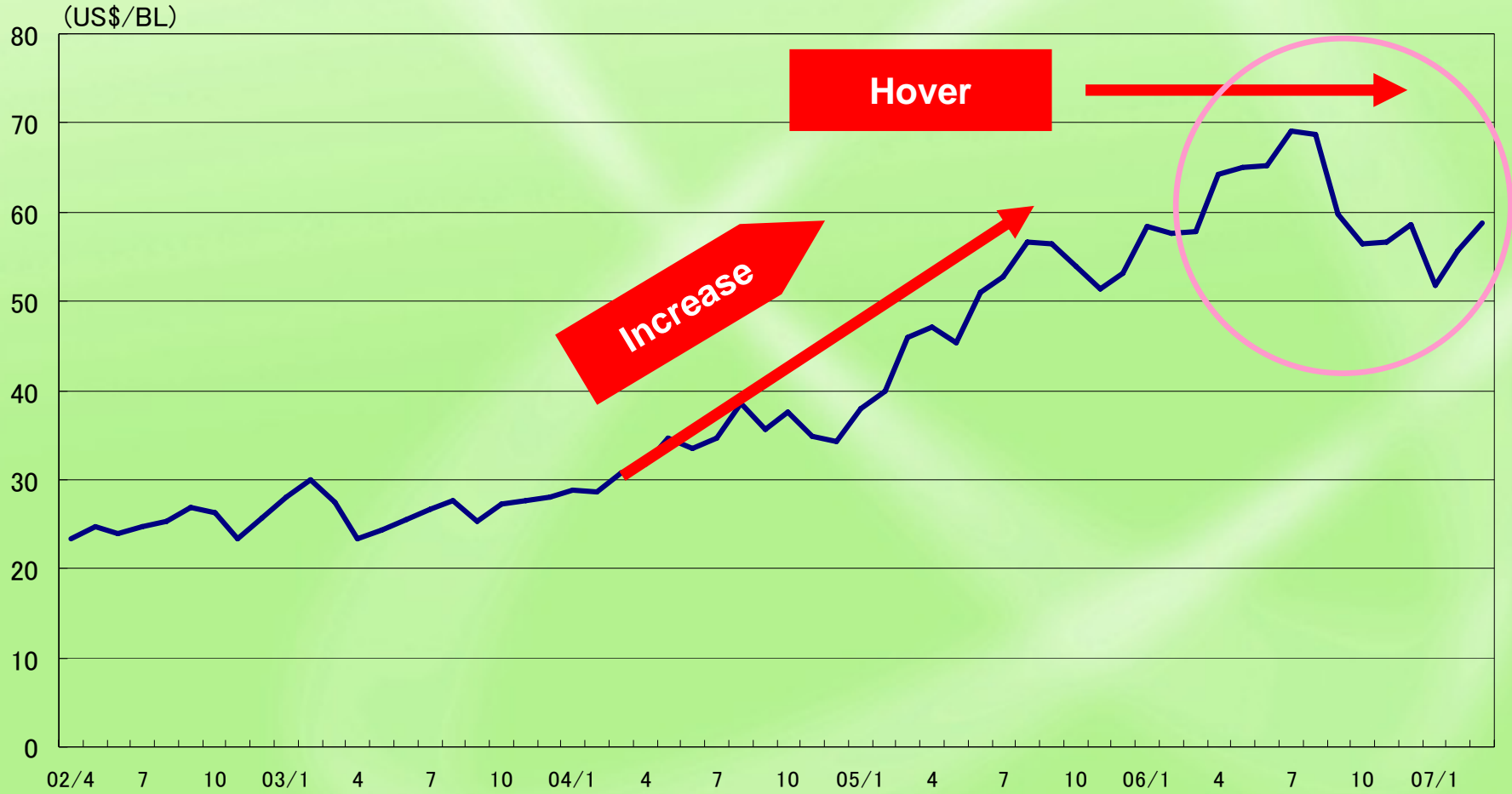
Old Corrugated Containers(OCC)



Oil



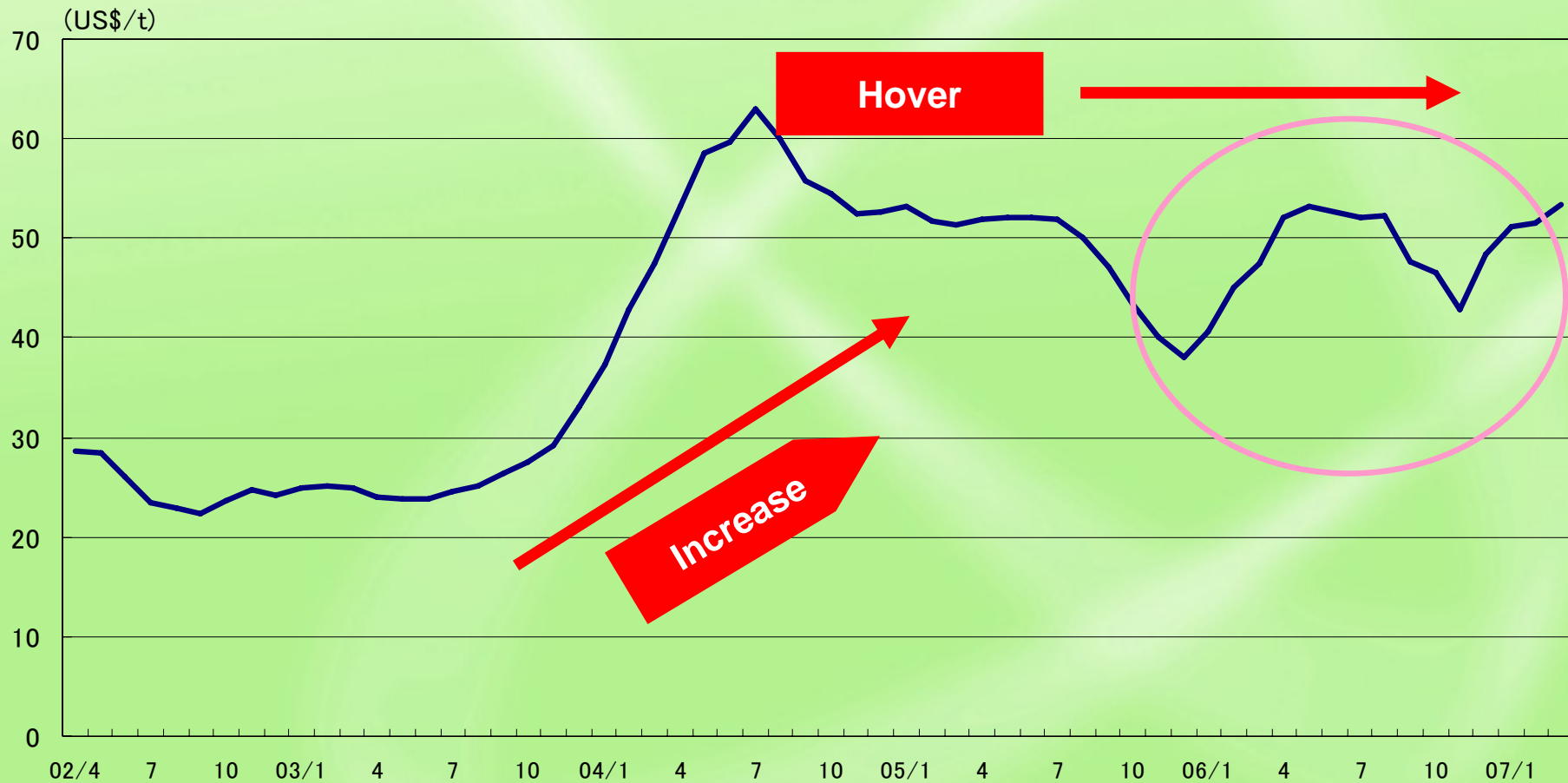
Buy 870,000 kiloliters of class C heavy fuel oil in 2007 Cost up ¥1/liter ⇒ ▲¥870 million



Coal



Buy 2.15 million metric tons in 2007 Cost up ¥1/kg ⇒ ▲¥2.15 billion

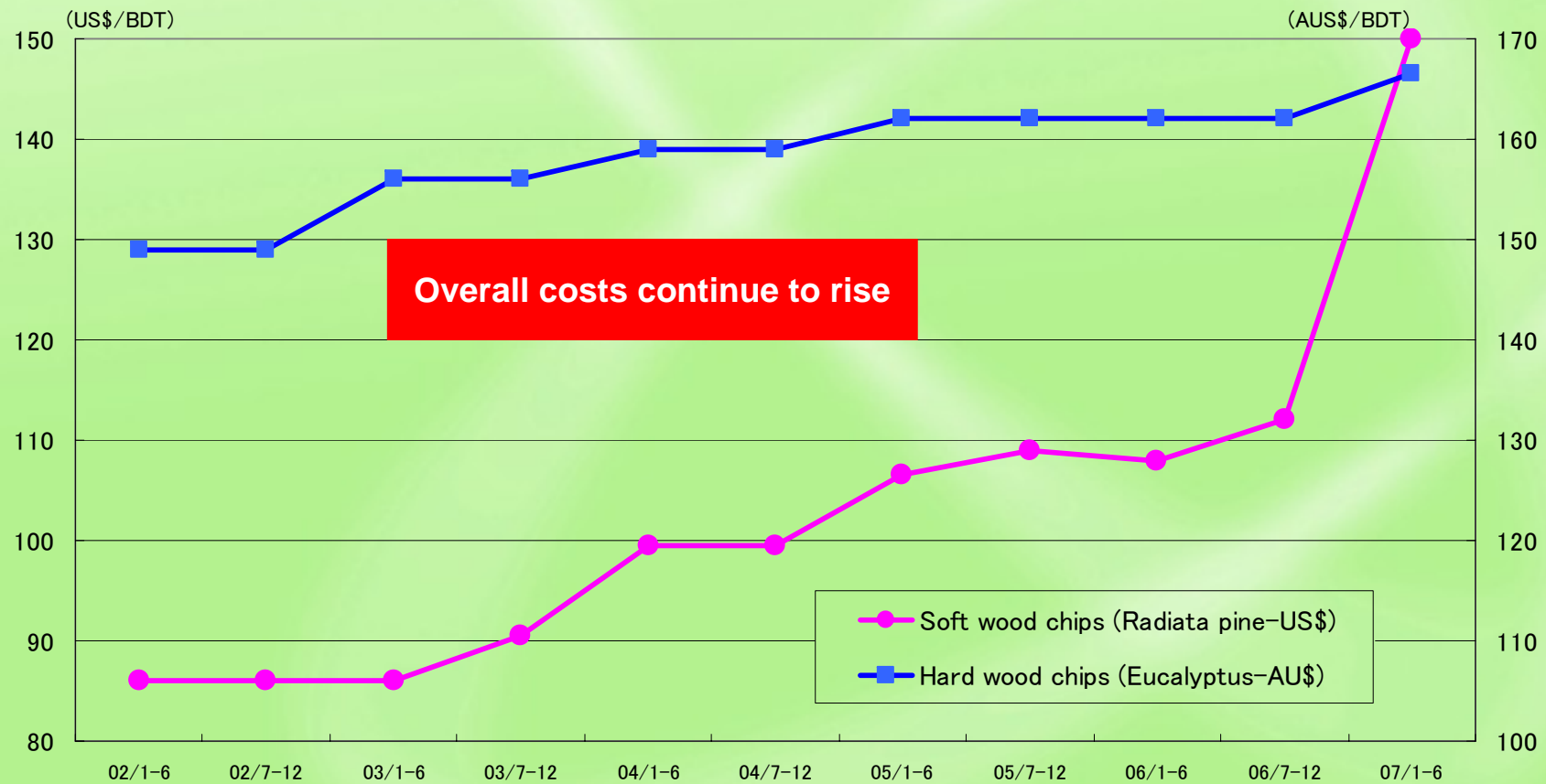


Woodchips



Hard wood: Buy 4.51 million metric tons in 2007 Cost up ¥1/kg ⇒ ▲¥4.51 billion

Soft wood: Buy 1.57 million metric tons in 2007 Cost up ¥1/kg ⇒ ▲¥1.57 billion



Impact of Raw Materials and Mineral fuels cost increase

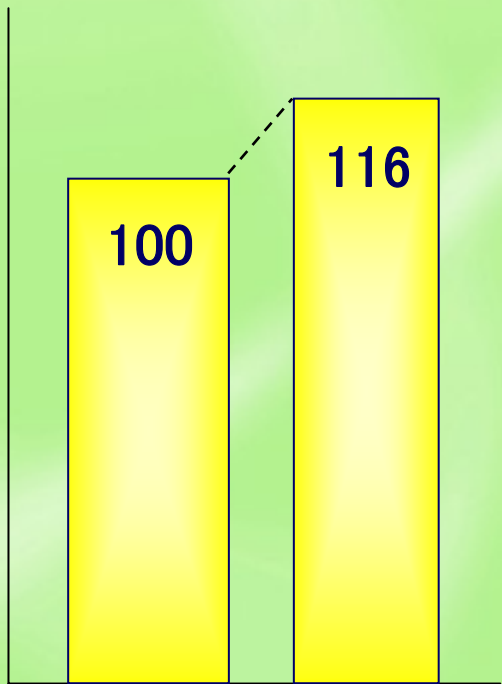
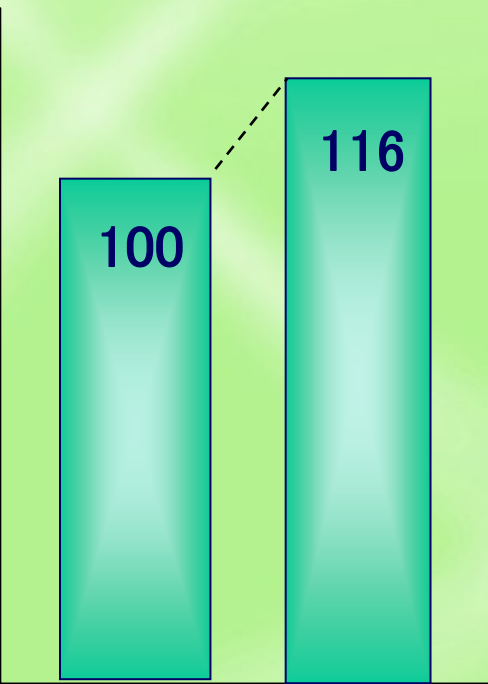
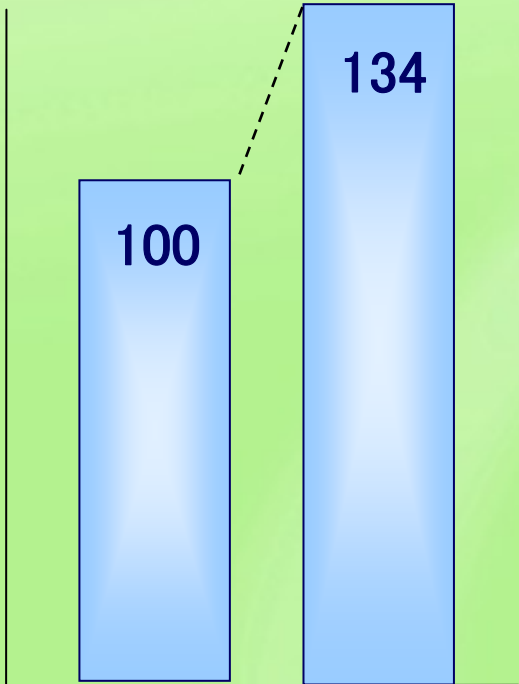


Change in the ratio of raw materials and energy cost to sales price
(FY05=100)

Newsprint

Bitokoshi
(Slightly coated Paper)

Linerboard



FY05 FY07
 projected

FY05 FY07
 projected

FY05 FY07
 projected



Ⅲ. Group Vision 2015/ Back on Track

Ⅲ.Group Vision 2015/ Back on Track



Group Vision 2015/ Back on Track



**Deploy initiatives to propel strong earnings turnarounds
in the short and medium/long terms**

- (1) Near-Term Efforts (contributing to performance in fiscal 2007 and 2008)**
- (2) Medium- and Long-Term Efforts (bearing fruit in fiscal 2009 and beyond)**

Ⅲ.Group Vision 2015/ Back on Track



(1) Near-Term Efforts

(contributing to performance in fiscal 2007 and 2008)

① Further reduce costs

- **Conserve energy (swiftly recoup anticipated returns on investment)**
- **Continue to cut costs**

② Boost paper prices

- **Disciplined production and sales prioritizing profit**

③ Quickly materialize synergies from alliances with Hokuetsu Paper Mills and Rengo

Ⅲ.Group Vision 2015/ Back on Track



(2) Medium-Term Efforts (bearing fruit in fiscal 2009 and beyond)

① Reorganize mills

- Dramatically improve productivity
- Balance medium- and long-term supply and demand

② Pursue mergers and acquisitions

(1) Near-Term Efforts



① Further reduce costs

Continue to cut costs

● Balance customer satisfaction and profitability

Unfair pricing and intense quality-based competition are squeezing profits

-
- Meet customer needs while adjusting quality from over spec to fair
 - Consolidate manufacturing of low-value-added, small-lot offerings to enhance productivity

⇒ **Cut unit costs**

● Bolster mill capabilities to stabilize operations

Automation and intensified quality competition making operational stability more important

⇔ Reach required technical levels and retrench many veteran employees



Growing need to train young employees

⇒ Push ahead with projects to enhance capabilities of “gemba”

(1) Near-Term Efforts



① Further reduce costs

Save energy (with new waste fuel boilers)

Nippon Paper Industries(NPI)
 Nippon Daishowa Paperboard(NDB)
 Nippon Paper Chemicals(NPC)

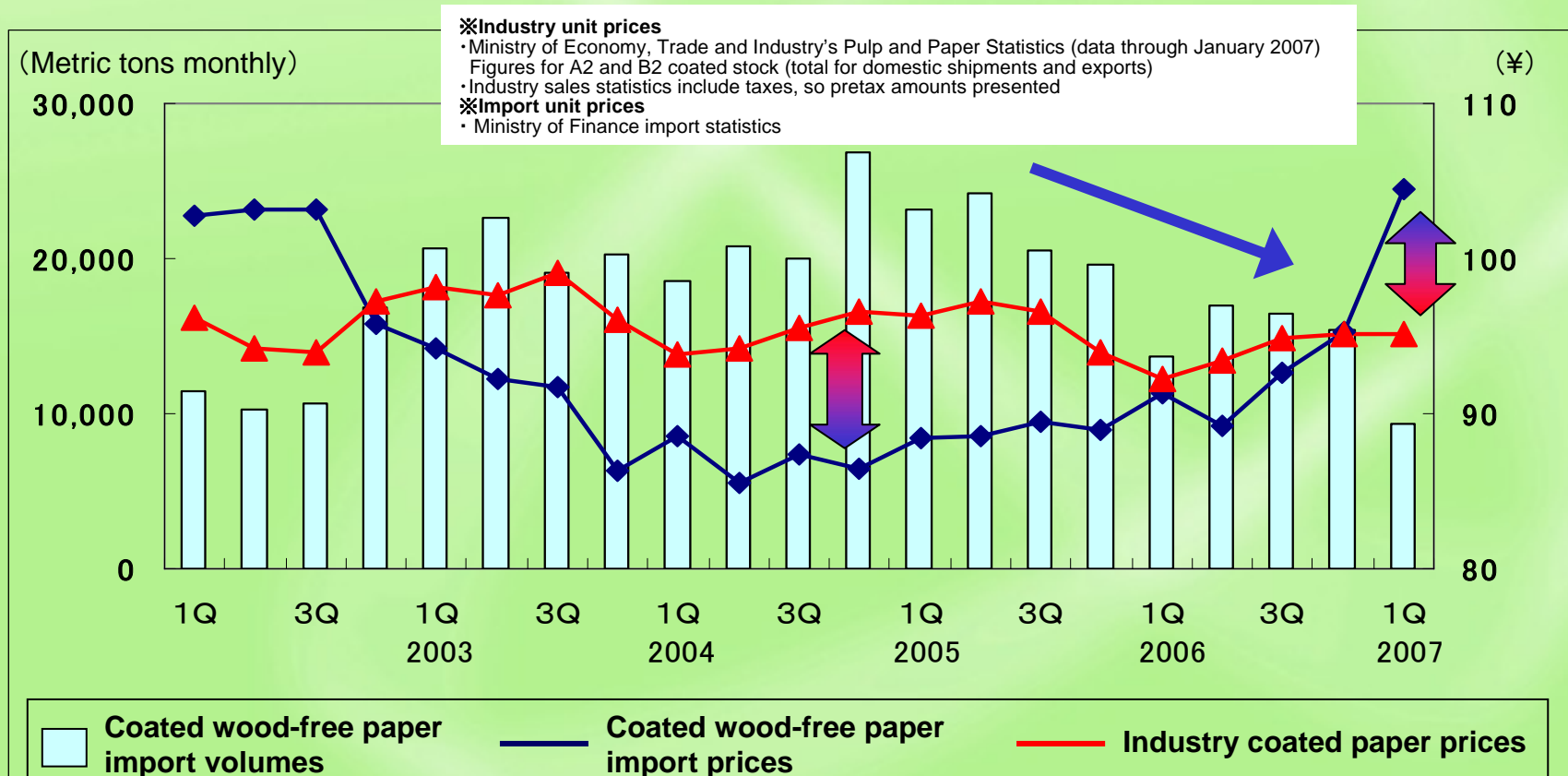
Operational launch		Mill		Energy source	Savings
Year	Month	Company	Mill		Billions of yen
2006	Oct	NPI	Ishinomaki	Biomass	1.6
2007	Oct	NPI	Fuji	Biomass	2.9
2008	Jan	NPI	Iwanuma	Waste fuel	3.4
2008	Feb	NPI	Iwakuni	Biomass	3.1
2008	Apr	NDB Tohoku	(Akita)	Coal	2.4
2008	Apr	NDB Yoshinaga	(Yoshinaga)	Waste fuel	2.1
2008	Aug	NPI	Shiraoi	Waste fuel	2.2
2008	Sep	NPC	Gotsu	Coal	1.2
2008	Oct	NPI	Asahikawa	Biomass	1.0
2009	Jan	NDB Nishinippon	Geibo	Waste fuel	3.1
Total					23.0

(1) Near-Term Efforts



② Boost paper prices

- Several previous price increases have lagged rises in raw materials costs
- High global raw materials and waste paper prices ⇒ Industry has little room to absorb rising costs
- Domestic prices already lower than imports' ⇒ Make it possible to pass on costs in domestic market



(1) Near-Term Efforts

② Boost paper prices

Sales approach after scrapping and building and deploying new facilities as part of top-priority drive to maintain the domestic market

○ Ishinomaki Mill's No. 6 on-machine coater (with an annual capacity of 350,000 metric tons) should not harm the domestic market

● **Scrap facilities in line with No. 6 on-machine coater launch**

allocated to replace 240,000 metric tons retiring coaters at Fuji Coated Paper

Management is considering further volume cuts through production structure reorganization

● **Sell additional output overseas**

Gains in coated paper exports: 60,000 metric tons in fiscal 2007

140,000 metric tons in fiscal 2008

● **A roughly 40,000 metric ton increase in coated paper sales from domestic market growth**

● **With no further scope for internal capacity increases, harness alliance with Hokuetsu Paper Mills to support further sales growth**

(1) Near-Term Efforts

② Boost paper prices

- Pass on surging costs of waste paper, raw materials and fuels to sales prices of all product categories
- Waste paper costs are high, so prioritize revising prices of recycled paper with higher waste paper content, for which there have been delays in passing on costs
- Preparing to announce timing and sizes of increases for specific products

(1) Near-Term Efforts

③ Quickly materialize alliance benefits

○ Fiscal 2007 synergies accrued from alliance with Hokuetsu Paper Mills

<u>Current estimate</u>	<u>¥1.7 billion</u>	} ¥900 million lower than anticipated
Initial projection	¥2.6 billion	

※ No changes to estimated synergies for fiscal 2008 and beyond

【 Factors 】

OEM sales to Hokuetsu Paper Mills down 30,000 metric tons

- Exports rose 30,000 metric tons on favorable overseas demand

(1) Near-Term Efforts

③ Quickly materialize alliance benefits

○ Synergies accrued from alliance with Rengo

Reorganizing production sites and deepen ties

- ① Consolidating linerboard and corrugated medium facilities
- ② Neighboring mills collaborating



Medium- and long-term synergy potential

Aim to concur on specific plans in first half of fiscal 2007

(2) Medium- and Long-Term Efforts



① Reorganize mills (dramatically improve productivity)

Remaining in place:

- 1) Large, internationally competitive mills
- 2) Mills handling small production runs and serving regional markets and high-margin mills with special products



**Planning to finalize reorganization plans for Group mills
(paper and paperboard) during fiscal 2007**

⇒ New setup should help balance supply and demand in
medium and long terms

(2) Medium- and Long-Term Efforts

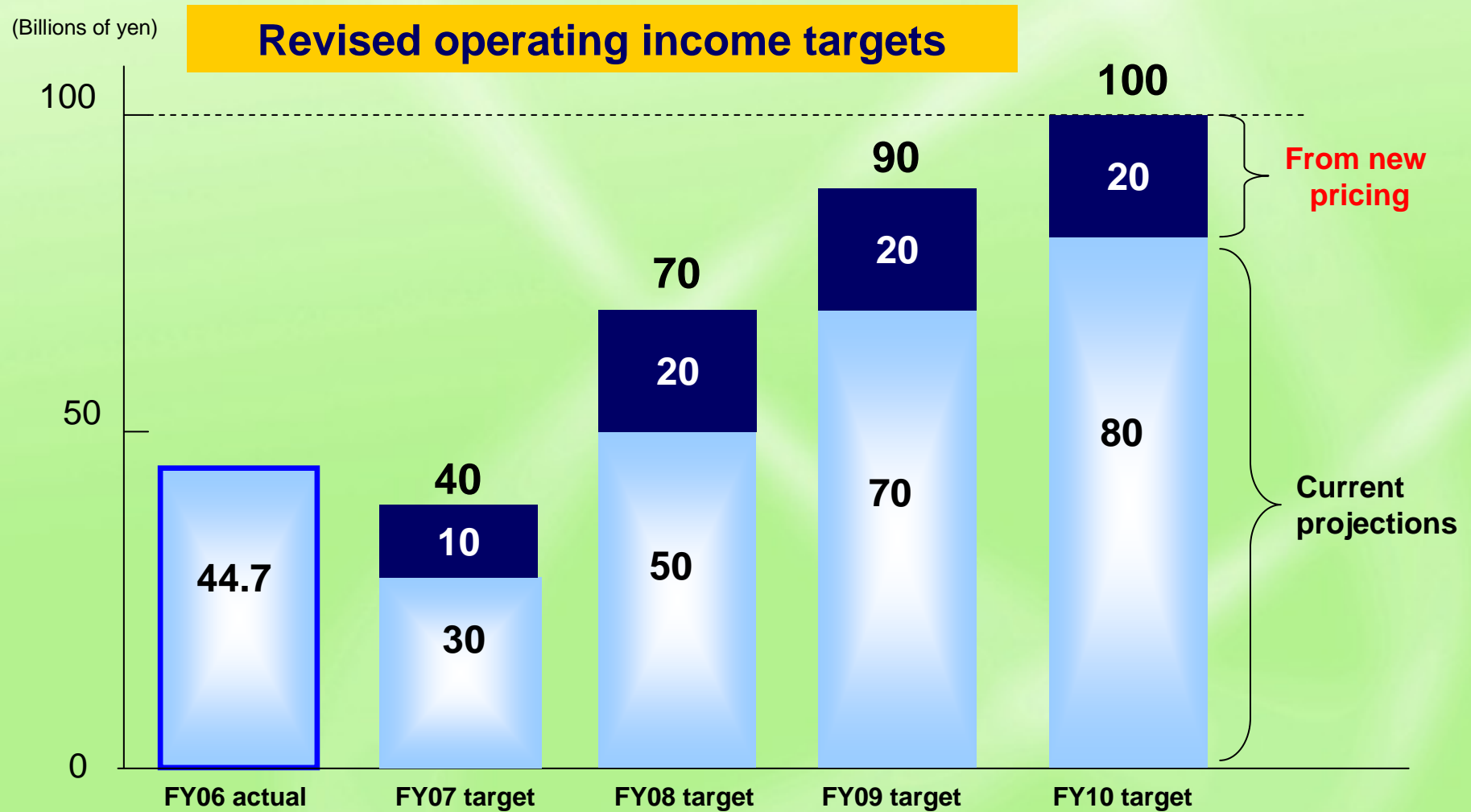


② Pursue M&As

▪ Group's basic stance on mergers and acquisitions

- Acquire companies that can deliver powerful synergies, make economic sense, and share our vision of becoming one of world's top 5 paper groups and Asia's No. 1
- Integrate businesses to generate critical market, product, and regional (domestically and abroad) synergies

(3) Overall Earnings Improvement Initiatives



Second Medium-Term Business Plan

(3) Overall Earnings Improvement Initiatives



Revised operating income targets (30 Billions of yen)

(Billions of yen)

Initiatives	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010
Under existing plans	–	20	40	50
Short-term initiatives		※ Plans already include cost-cutting		
① Cost-cutting ※		(3)	(6)	(9)
② Price revisions	10–15	20–30	20–30	20–30
③ Alliance benefits ※※	(1.7)+α	(4.5)+α	(3.5)+α	(3.5)+α
Medium- and long-term initiatives		※※ Already factored into the plans		
① Mill reorganizations				+α
② M&As			+α	+α
Total targeted improvements	10 +α	40 +α	60 +α	70 +α
Revised operating income targets	40	70	90	100



IV. Other Key Fiscal 2007 Challenges

IV. Other Key Fiscal 2007 Challenges



- **Inaugurate Ishinomaki Mill's No. 6 on-machine coater without hitches in November 2007**

- **Reinforce Group governance**
 - Reassess Group headquarters organization

- **Strengthen commercial distribution and logistics**
 - Integrate Mantsune and NP Trading on October 1, 2007
 - Reorganize Group logistics businesses through Nippon Paper Logistics (under way)

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