

# FY2005 Financial Review

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NIPPON PAPER  
GROUP

May 11, 2006

Nippon Paper Group, Inc.



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## II. FY2006 Forecast (April 1, 2006 – March 31, 2007)

- (1) Overview
- (2) Operating results
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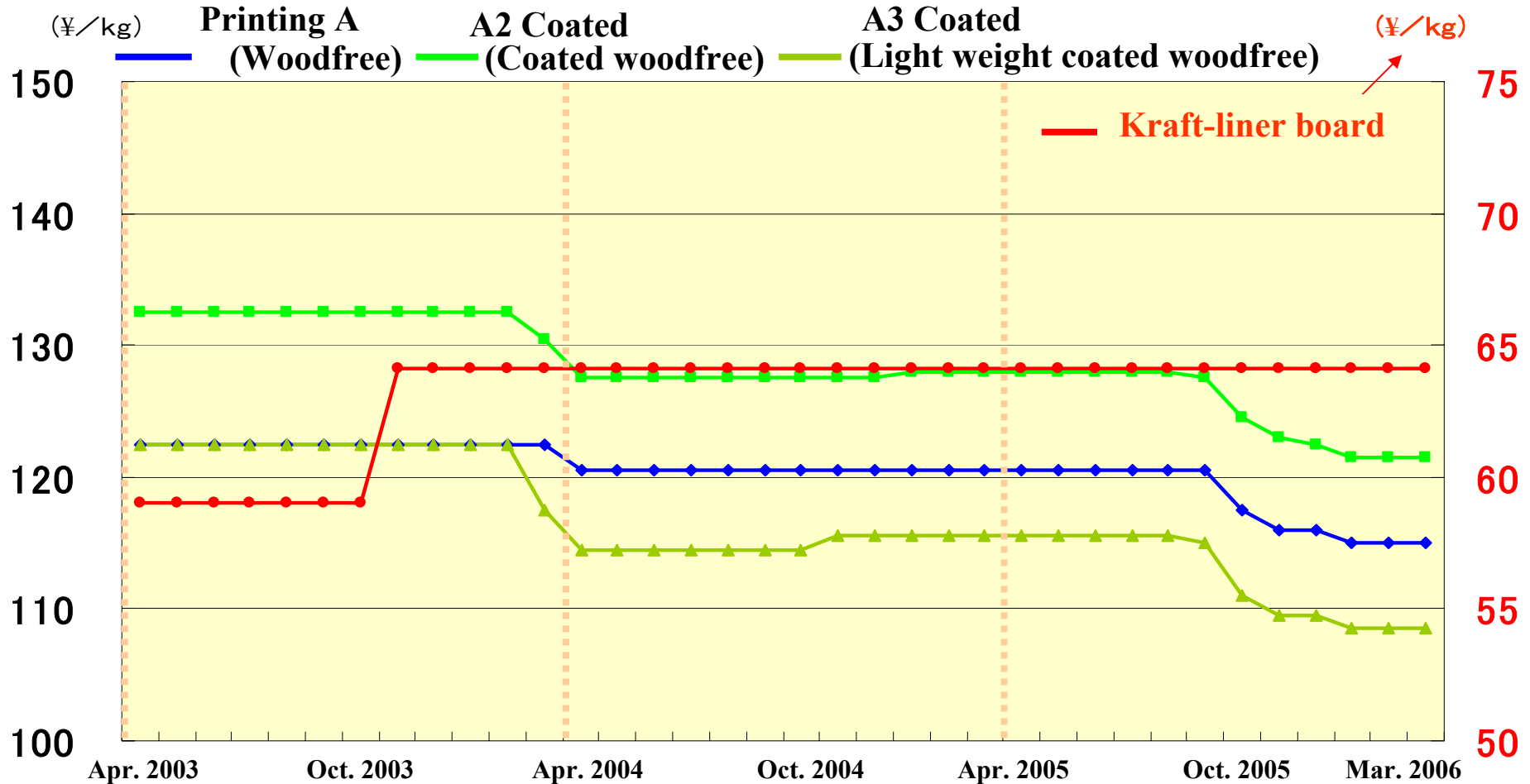
Paper industry

Domestic shipment of paper and paperboard  
FY2005 (April 2005 — March 2006)

	Shipment(1,000 tons)	% change yoy
Newsprint	3,551	2.9%
Uncoated printing paper	2,593	-1.6%
Coated printing paper ※	6,382	2.2%
Business communication paper	1,594	0.8%
Other papers (Packaging paper, sanitary paper, and paper for miscellaneous uses)	4,015	0.4%
Paper total	18,135	1.3%
Paperboard total	11,967	1.1%
Paper and paperboard total	30,102	1.2%

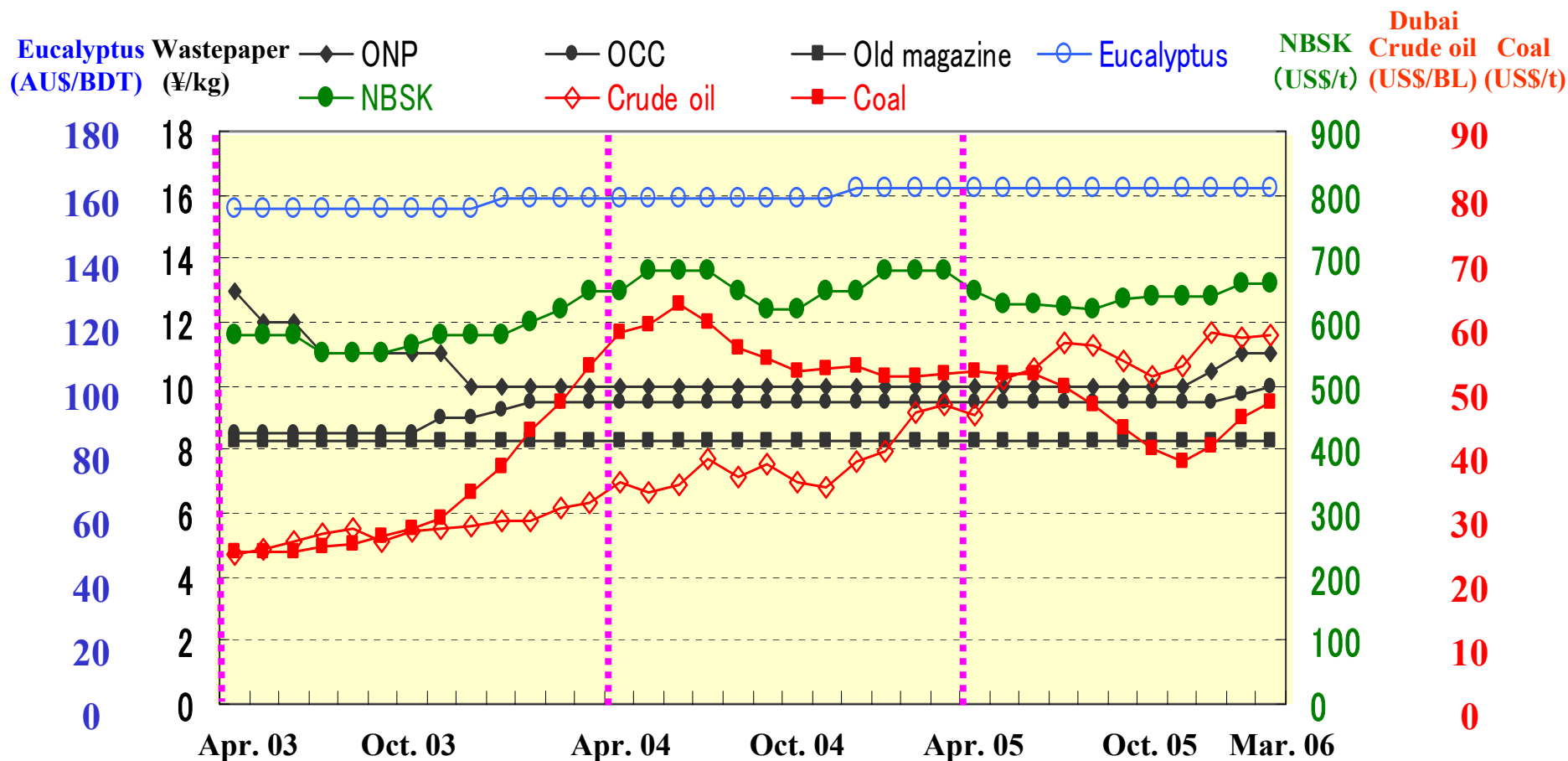
Paper industry

Trend in paper and paperboard prices  
(April 2003 — March 2006)



Paper industry

Trend in fuels and raw materials prices  
(April 2003 – March 2006)



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

## Topics of FY2005

May. 2005 : Announced 'Group vision 2015'

Jun. : New Board took office.

Jul. : Announced market purchase of treasury stock.

(Completion of acquisition on October

Number of shares purchased 30,000 shares

Total purchase price 12.3 billion yen )

Jan. 2006 : Announced power generation plants to be installed.

(Asahikawa, Iwanuma, Tohoku, Yoshinaga)

:Assignment of a vacant lot of the former Nippon Paper Industries' Miyakojima Mill.

Company	Location	Project	Invested amount (¥ billion)	Completion
Nippon Paper Industries	Iwanuma	Installation of H-DIP line	1.8	Apr. 2005
	Kushiro	Measures for producing high quality (neutralized) newsprint	1.3	July. 2005
	Iwanuma	Measures for producing high quality (neutralized) newsprint	1.5	Oct. 2005

Consolidated operating results

(¥ billion)	FY2004	FY2005	Difference
<Net sales>	1,179.7	1,152.2	-27.5
<Operating income>	65.2	48.4	-16.8
<Ordinary income>	62.8	49.4	-13.4
<Net income>	24.4	17.2	-7.2

(Thousand tons)	FY2004 (A)	FY2005 (B)	% change yoy
<b>(Average domestic paper price: ¥/kg) ※</b>	<b>(105.8)</b>	<b>(104.4)</b>	<b>(-1.3%)</b>
Newsprint	1,358	1,362	0.2%
Uncoated paper	771	765	-0.8%
Coated paper	1,930	2,020	4.7%
Business communication paper	668	718	7.5%
Packaging paper and others	616	565	-8.4%
<b>Total domestic sales</b>	<b>5,343</b>	<b>5,430</b>	<b>1.6%</b>
Export (including newsprint)	477	419	-12.1%
<b>Total (paper)</b>	<b>5,820</b>	<b>5,849</b>	<b>0.5%</b>
<b>(Average domestic paperboard price: ¥/kg)</b>	<b>(53.9)</b>	<b>(53.4)</b>	<b>(-0.9%)</b>
Container board	1,398	1,394	-0.3%
Folding box board and others	409	408	-0.3%
<b>Total domestic sales</b>	<b>1,807</b>	<b>1,802</b>	<b>-0.3%</b>
Export	34	30	-13.8%
<b>Total (paperboard)</b>	<b>1,841</b>	<b>1,831</b>	<b>-0.5%</b>
<b>Grand total (paper and paperboard)</b>	<b>7,661</b>	<b>7,680</b>	<b>0.3%</b>

※calculated excluding newsprint.



(¥billion)

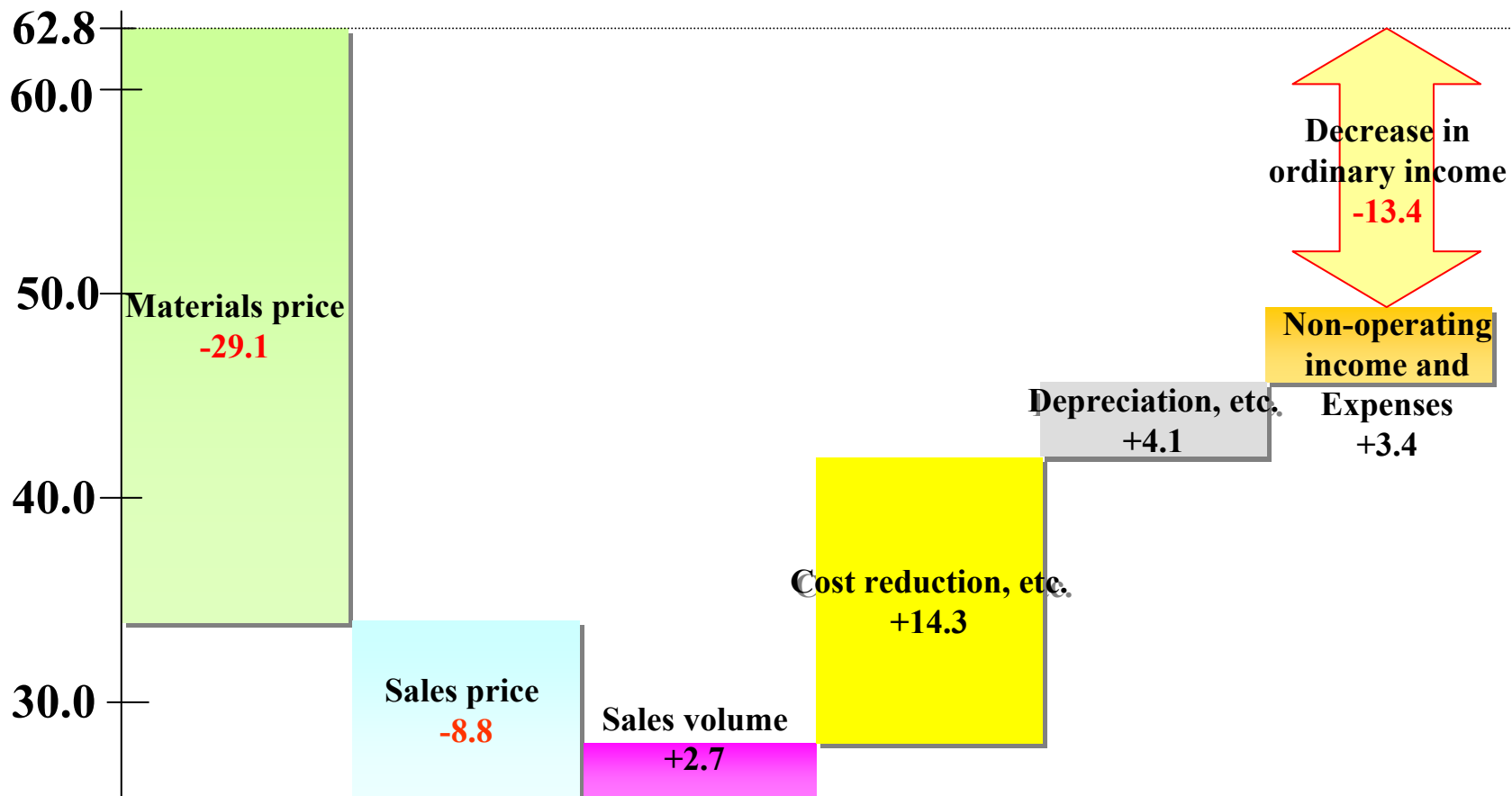
	Sales		Operating income		Comments
	FY2004	FY2005	FY2004	FY2005	
<b>Pulp and Paper Div.</b>	<b>870.4</b>	<b>861.0</b>	<b>47.3</b>	<b>33.2</b>	
Paper etc.	714.7	704.9	42.2	32.8	Negative impact from fuel price hike and sales price depreciation far exceeded the cost reduction effect.
Paperboard	99.4	101.9	7.0	4.0	Profit decreased due to fuel cost hike.
Household tissue	56.3	54.2	▲ 1.9	▲ 3.6	Sales price deteriorated by intensified competition, although sales volume increased.
<b>Paper-related Div. (cartons, chemical products)</b>	<b>126.6</b>	<b>110.4</b>	<b>8.3</b>	<b>6.2</b>	
<b>Housing and Construction Materials Div.</b>	<b>95.2</b>	<b>94.0</b>	<b>2.3</b>	<b>2.6</b>	
<b>Other Div. (beverages, transport)</b>	<b>87.5</b>	<b>86.8</b>	<b>7.3</b>	<b>6.4</b>	
<b>Total</b>	<b>1,179.7</b>	<b>1,152.2</b>	<b>65.2</b>	<b>48.4</b>	

FY2004 vs FY2005

**Decrease in ordinary income ¥-13.4billion (¥62.8 bn → ¥49.4 bn)**

**Decrease in operating income ¥ -16.8 billion (¥65.2 bn → ¥48.4 bn)**

(¥ billion)



	FY2004	FY2005	(¥billion)
Ordinary income	62.8	49.4	
Extraordinary gains	22.1	19.5	
Gain on sale of property, plant and equipment	13.8	14.7	
Gain on sale of securities, etc.	6.3	1.8	
Others	2.0	3.0	
Extraordinary losses	38.1	29.9	
Loss on disposal of property, plant and equipment	7.1	3.6	
Loss on sale of property, plant and equipment	2.4	—	
Impairment accounting	—	10.3	
Provision for doubtful receivables	9.0	2.4	
Extraordinary retirement benefits	6.1	7.7	
Loss on restructuring	5.0	0.9	
Loss on sale of securities, etc.	3.3	—	
Others	5.2	5.0	
Income tax adjustment	-21.0	-21.0	
Minority interests	-1.4	-0.8	
Net income	24.4	17.2	

(¥billion)

Balance sheet	Mar. 31, 2005	Mar. 31, 2006	Difference	Comments
Cash and time deposits	18.3	14.1	-4.2	
Notes and accounts receivable	247.9	218.4	-29.5	
Inventories	131.8	139.2	7.4	
Other current assets	45.1	41.0	-4.1	
Property, plant, equipment, and intangible fixed assets	885.6	848.0	-37.5	Capital investment 69.7bn , Depreciation -70.1bn , Impairment accounting -10.3bn, etc.
Investments and other assets	201.2	231.8	30.5	
<b>Total assets</b>	<b>1,530.0</b>	<b>1,492.4</b>	<b>-37.5</b>	
Interest-bearing debt	766.1	692.1	-74.1	Achieved the 1st MTBP's goal (under 700bn).
Other debt	297.3	337.7	40.4	
Minority interests in consolidated subsidiaries	23.6	22.3	-1.3	
Total shareholders' equity	442.9	440.3	-2.6	Cash dividends -8.6bn, Net income 17.2bn, Purchasing treasury stock -12.5bn, etc.

(¥billion)

Items	FY2004	FY2005	Difference	Comments
Operating activities	108.2	132.1	23.9	
Income before income taxes	46.8	39.0	-7.8	
Depreciation, and amortization of difference between cost and underlying net equity in consolidated subsidiaries	77.0	72.0	-5.0	
Change in net working capital	5.7	25.9	20.2	
Others	-21.3	-4.8	16.4	
Investing activities	-26.1	-40.4	-14.3	
Purchases of property, plant and equipment	-56.7	-62.6	-5.9	
Proceeds from sales of property, plant and equipment	① 17.6	① 22.4	4.8	① Proceeds from sales of Miyakojima mill are included.
Others	13.0	-0.2	-13.3	
Free cash flows	82.1	91.7	9.5	
Financing activities	-86.0	-96.6	-10.5	
Change in net borrowings	② -75.2	② -74.1	1.1	② FCF was applied to repayment for the debt.
Cash dividends paid	-9.1	-9.0	0.1	
Others	-1.8	③ -13.5	-11.7	③ Payments on purchasing of treasury stock, etc.
Effect of exchange rate changes	0.5	0.7	0.2	
Cash and cash equivalents at beginning of period	21.6	18.2	-3.4	
Cash and cash equivalents at end of interim period	18.2	14.0	-4.2	

### Topics of FY2006

Apr. 2006 : Merger of San-Mic Shoji Co., Ltd. and Komine Nissho Co., Ltd.

(Name of the new company : Nippon Paper Trading Co., Ltd.)

: Established Agribio Business Promotion Office.

: Increased equity stake in

Everwealth Paper Industries (Shanghai) Co., Ltd.

(Ups holding to 40% from the previous 23%)

: Announced power generation plants to be installed at Shiraoi mill.

May. : Announced the second medium-term business plan.

Oct. : Start operation of Ishinomaki mill's biomass boiler.(planned)

Company	Location	Project	Invested amount (¥ billion)	Operation start (Forecast)
Nippon Paper Industries	Ishinomaki	Measures for quality improvement (7M/C and 1C/R)	3.4	Sep. 2006
		Installation of new biomass boiler	5.3	Oct. 2006

## Assumptions for FY2006 estimation

### ● Sales forecast(domestic)

**Paper: volume +1.0% up from FY2005**  
**price Several recovery of printing and business communication paper price from May through October ( ¥5-10/kg)**

**paperboard: volume +0.9% up from FY2005**  
**price Recovery of containerboard and white board price (¥3-5/kg)**

### ● Raw materials, fuel price and exchange rate

**Dubai crude oil price:US\$60/BL(FY2005 US\$51/BL)**

**Woodchip:FOB price rises slightly from FY2005, freight cost hike is anticipated.**

**Exchange rate:US\$1=¥116(FY2005 US\$1=¥113)**

**AUS\$1=¥ 86(FY2005 AUS\$1=¥ 85)**

## Forecast of consolidated results

(¥ billion)	FY2005	FY2006 estimation	Difference
<Net sales>	1,152.2	1,200.0	47.8
<Operating income>	48.4	50.0	1.6
<Ordinary income>	49.4	51.0	1.6
<Net income>	17.2	21.0	3.8



## II. FY2006 Forecast (2) Operating results

### (3) Sales volume by product



(Thousand tons)	FY2005 (A)	FY2006 est. (B)	% change yoy
(Average domestic paper price: ¥/kg) ※	(104.4)	(105.5)	(1.1%)
Newsprint	1,362	1,360	-0.2%
Uncoated paper	765	761	-0.5%
Coated paper	2,020	2,074	2.7%
Business communication paper	718	728	1.3%
Packaging paper and others	565	562	-0.6%
<b>Total domestic sales</b>	<b>5,430</b>	<b>5,484</b>	<b>1.0%</b>
Export (including newsprint)	419	481	14.8%
<b>Total (paper)</b>	<b>5,849</b>	<b>5,965</b>	<b>2.0%</b>
(Average domestic paperboard price: ¥/kg)	(53.4)	(56.0)	(5.0%)
Container board	1,394	1,405	0.8%
Folding box board and others	408	413	1.3%
<b>Total domestic sales</b>	<b>1,802</b>	<b>1,818</b>	<b>0.9%</b>
Export	30	25	-14.2%
<b>Total (paperboard)</b>	<b>1,831</b>	<b>1,843</b>	<b>0.6%</b>
<b>Grand total (paper and paperboard)</b>	<b>7,680</b>	<b>7,808</b>	<b>1.7%</b>

※calculated excluding newsprint.

## II. FY2006 Forecast (2) Operating results

### ④ Segment information

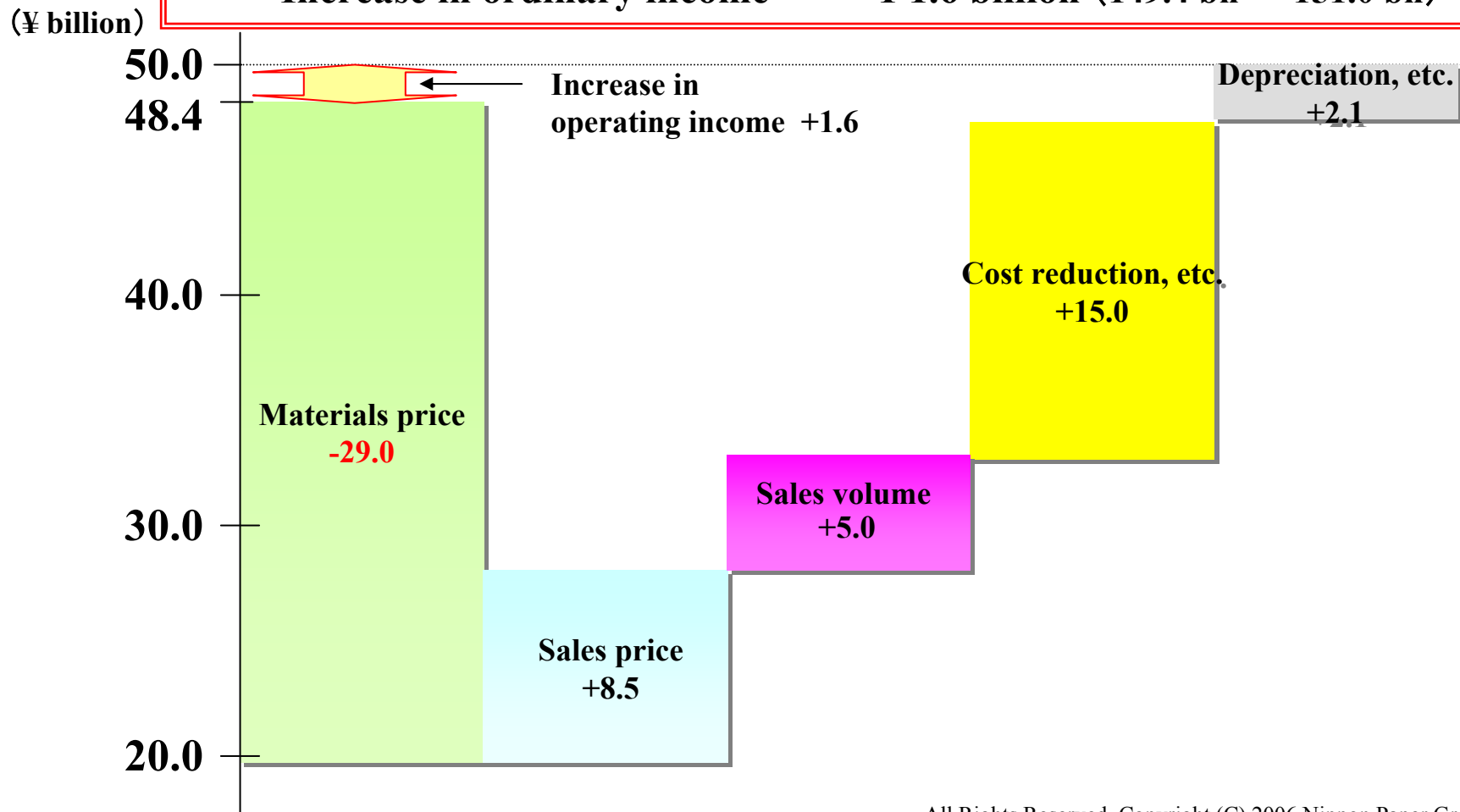


(¥billion)

	Sales		Operating income		Comments
	FY2005	FY2006 estimated	FY2005	FY2006 estimated	
<b>Pulp and Paper Div.</b>	<b>861.0</b>	<b>908.7</b>	<b>33.2</b>	<b>36.8</b>	
Paper etc.	704.9	739.4	32.8	34.0	Cover up raw materials and fuel cost hike by cost reduction and price recovery.
Paperboard	101.9	111.4	4.0	5.4	Profit increases by price recovery.
Household tissue	54.2	57.9	▲ 3.6	▲ 2.6	Secure market share and advance cost reduction.
<b>Paper-related Div. (cartons, chemical products)</b>	<b>110.4</b>	<b>102.4</b>	<b>6.2</b>	<b>4.5</b>	
<b>Housing and Construction Materials Div.</b>	<b>94.0</b>	<b>98.9</b>	<b>2.6</b>	<b>2.3</b>	
<b>Other Div. (beverages, transport)</b>	<b>86.8</b>	<b>90.0</b>	<b>6.4</b>	<b>6.3</b>	
<b>Total</b>	<b>1,152.2</b>	<b>1,200.0</b>	<b>48.4</b>	<b>50.0</b>	

FY2005 vs FY2006 est.

**Increase in operating income ¥1.6 billion (¥48.4 bn → ¥50.0 bn)**  
**Increase in ordinary income ¥ 1.6 billion (¥49.4 bn → ¥51.0 bn)**



## II. FY2006 Forecast (4) Group's important figures



	FY2003	FY2004	FY2005	FY2006 est.
<b>ROE</b>	5.8%	5.6%	3.9%	4.7%
<b>Ordinary margin on sales</b>	4.2%	5.3%	4.3%	4.3%
<b>D/E (times)</b>	x1.9	x1.7	x1.5	x1.6
<b>Operation rate of paper machine(Calendar basis)</b>	87%	91%	92%	93%
<b>Operation rate of paperboard machine(Calendar basis)</b>	85%	87%	86%	87%
<b>Capital investment (¥ billion)</b>	57.4	55.4	69.7	97.4
<b>Depreciation (¥ billion)</b>	81.3	75.0	70.1	67.6
<b>Interest-bearing debt (¥ billion)</b>	842.3	766.1	692.1	744.5
<b>Number of employees</b>	14,987	13,774	12,798	12,725

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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, 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.

**Nippon Paper Group, Inc.**