



NIPPON PAPER GROUP, INC.

Annual Report 2006

Shifting Our Focus towards Achieving Sustainable Growth

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

Nippon Paper Group, Inc.

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Japanese paper has a long history as an essential material in the lives of Japanese people. In recent years, Japanese paper has attracted international attention as an environmentally-friendly recyclable material.

In this annual report, we use the works of Eriko Horiki, a world-renowned artist, to demonstrate paper's immense appeal as a material.

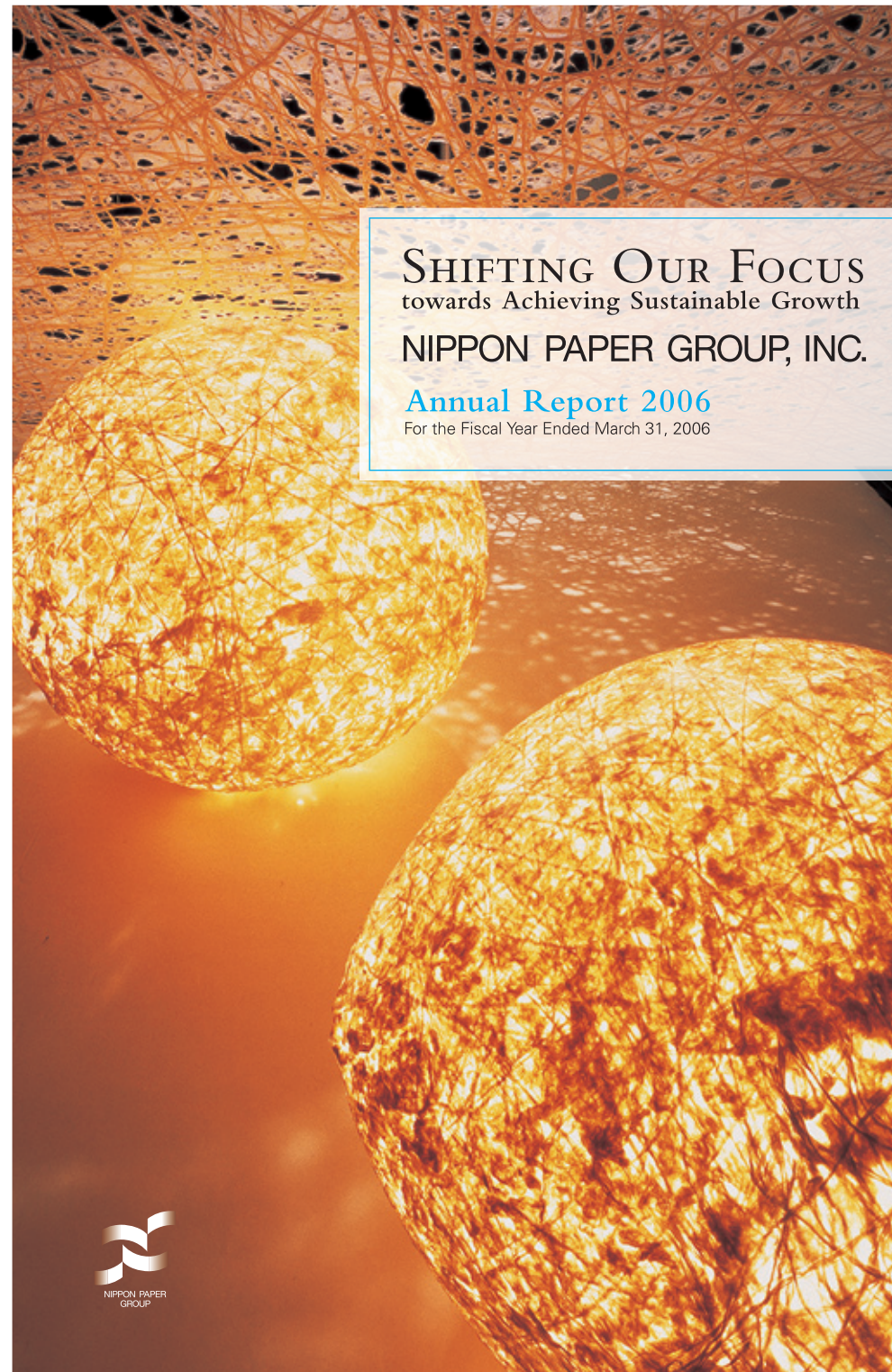
Ms. Horiki continues to create innovative works that transcend traditional concepts and provide fresh ideas on how to use Japanese paper. This approach resonates with the philosophy of Nippon Paper Group as we seek to contribute to society and enrich lives through the manufacture paper products.



Printed in Japan Published September 2006

NIPPON PAPER GROUP, INC. Annual Report 2006

Shifting Our Focus towards Achieving Sustainable Growth



SHIFTING OUR FOCUS
towards Achieving Sustainable Growth
NIPPON PAPER GROUP, INC.

Annual Report 2006

For the Fiscal Year Ended March 31, 2006



ANNUAL REPORT 2006

NIPPON PAPER GROUP, INC.

Shifting Our Focus towards Achieving Sustainable Growth

Nippon Paper Group works to improve its enterprise value on a sustainable basis while taking steps to ensure both growth and stability. We are committed to delivering competitive products that customers want and need by maintaining our focus on our *gemba*-first approach—a management style rooted in workplace realities, by fostering optimum human resources, and by achieving total optimization to maximize synergies within our corporate group. Further, to become one of the world's top five enterprises in pulp and paper, we intend to move from a defensive to an offensive business stance by pursuing an aggressive growth strategy.

Cautionary note regarding forward-looking statements

Statements in this annual report concerning current plans, forecasts, strategies, beliefs, and other forward-looking information related to Nippon Paper Group, Inc. and companies comprising its corporate group, other than those of historical fact, are forecasts of future business performance based on the judgments of management at Nippon Paper Group, Inc. and group companies in light of currently available information. Accordingly, please refrain from making investment decisions based solely on forecasts of business performance in this annual report. Actual business performance may differ significantly from these forecasts due to changes in a variety of factors.

Publisher Nippon Paper Group, Inc. <http://www.np-g.com/e/>
Produced by No Limits, Inc.
Washi as Architecture by ERIKO HORIKI & ASSOCIATES Co., Ltd.

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©MATSUMURA, Yoshiharu p005, p020, p029, p043

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*For Our Shareholders –
A Story of
Further Challenges and Innovations:
The Nippon Paper Group*

NIPPON PAPER GROUP, INC.

Goals of Nippon Paper Group in 2015

Becoming one of the World's top **5** enterprise
in pulp and paper.

Consolidated net sales

¥**1.5–2.0** trillion

Consolidated operating income

Stable domestic operating income of
¥**100** billion,
plus operating income from overseas business

Consolidated operating income to net sales

8%–10%

002 Business portfolio

Domestic business to account for **70%**
and overseas business for **30%**

Pulp and paper business to account for **70%**
and non-pulp and paper business for **30%**

Expand business in
three major markets
of Asia, North America, and Europe

Market capitalization

¥**1** trillion

Free cash flow

¥**150** billion

2015



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At a Glance

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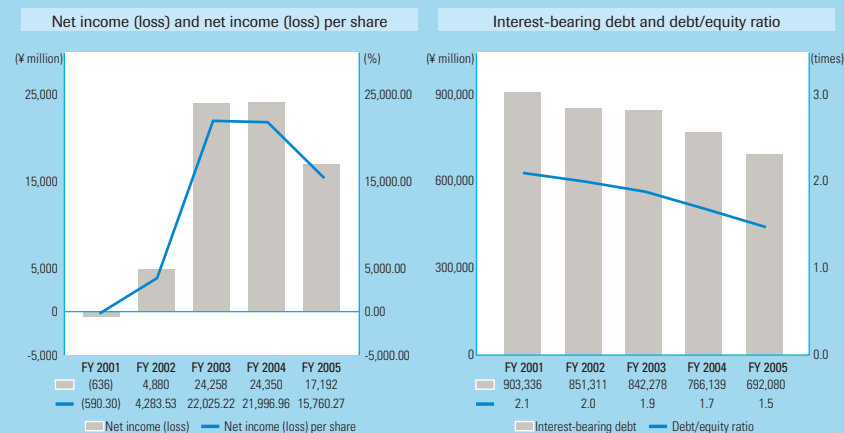
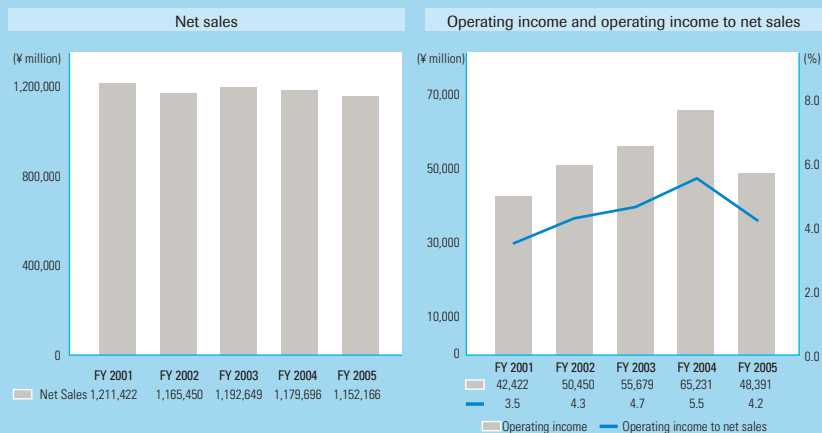
Consolidated Financial Highlights

Nippon Paper Group, Inc.

	Millions of yen		Thousands of US dollars ¹	
	Fiscal 2003 April 1, 2003 – March 31, 2004	Fiscal 2004 April 1, 2004 – March 31, 2005	Fiscal 2005 April 1, 2005 – March 31, 2006	Fiscal 2005 April 1, 2005 – March 31, 2006
Net sales	¥ 1,192,649	¥ 1,179,696	¥ 1,152,166	\$ 9,847,573
Operating income	55,679	65,231	48,391	413,598
Ordinary income	50,665	62,801	49,403	422,248
Net income	24,258	24,350	17,192	146,940
Total assets	1,637,366	1,529,975	1,492,427	12,755,786
Total shareholders' equity	429,621	442,876	440,316	3,763,385
Interest-bearing debt ²	842,278	766,139	692,080	5,915,214
		yen		US dollars
Net income per share	22,025.22	21,996.96	15,760.27	134.70
Cash dividends per share	8,000.00	8,000.00	8,000.00	68.38
Operating income to net sales (%)	4.7	5.5	4.2	
Return on equity (ROE) (%) ³	5.8	5.6	3.9	
Return on invested capital (ROIC) (%) ⁴	4.9	5.9	5.0	
Equity ratio (%)	26.2	28.9	29.5	
Return on assets (ROA) (%) ⁵	3.8	4.7	3.8	
Number of employees	14,987	13,774	12,798	

Notes:

- Amounts in US dollars are included solely for convenience and are translated at a rate of ¥117=U.S.\$1.00, the approximate rate of exchange on March 31, 2006.
- Interest-bearing debt = Short-term borrowings + long-term debt
- Return on equity (ROE) = Net income / average shareholders' equity × 100
- Return on invested capital (ROIC) = (Ordinary income + interest expense) / (total shareholders' equity + interest-bearing debt) × 100
- Return on assets (ROA) = (Ordinary income + interest expense) / total assets × 100



* Full fiscal 2001 represents the combined total of the company's first fiscal period from March 30, 2001 to September 30, 2001 and its second fiscal period from October 1, 2001 to March 31, 2002.

Profile

Nippon Paper Group, Inc.

Nippon Paper Group, Inc. is the pure holding company for the Nippon Paper Group, which comprises Nippon Paper Industries Co., Ltd., Nippon Daishowa Paperboard Co., Ltd., and their 147 subsidiaries and 49 affiliates. The activities of Nippon Paper Group are divided into four business segments: The Pulp and Paper Division manufactures and sells paper, paperboard, household tissue, and pulp. The Paper-Related Division manufactures and sells processed paper products and chemical products. The Housing and Construction Materials Division manufactures, purchases, and sells lumber and construction materials. The Other Division encompasses our logistics business, beverages business, leisure business, and electricity supply business.

The Pulp and Paper Division accounts for a majority of sales and profits and is positioned as the core business of Nippon Paper Group.

Pulp and Paper Division

» page 012

Paper-Related Division

» page 014

Housing and Construction Materials Division

» page 016

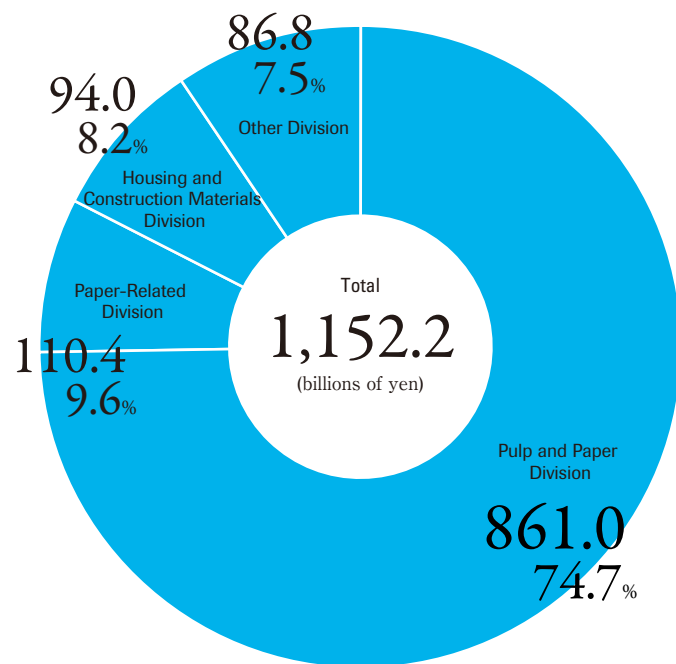
Other Division

» page 018

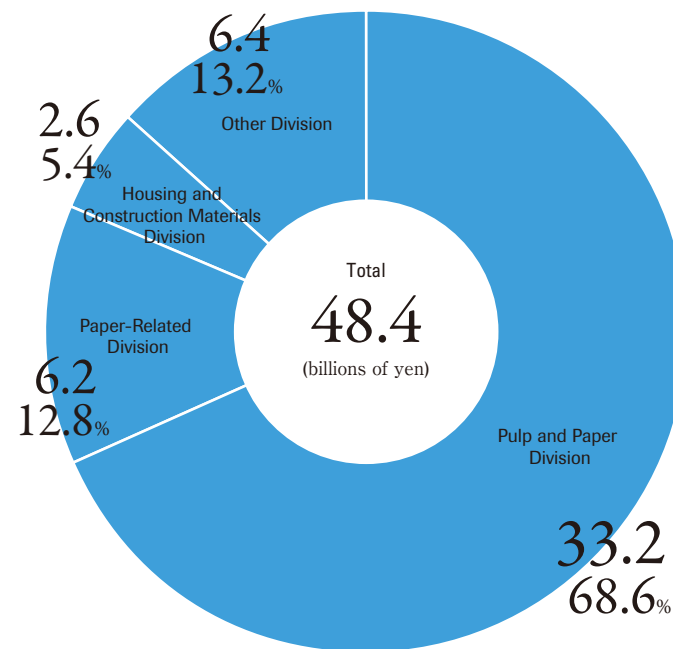


Kushiro Mill of Nippon Paper Industries Co., Ltd.
Wholesale Power Plant

Net Sales and Operating Income by Business Segment



Net sales by business segment in fiscal 2005



Operating income by business segment in fiscal 2005

Pulp and Paper Division



012

Paper

- Newsprint
- Printing and publication paper
- Business communication paper
- Packaging paper
- Paper for miscellaneous uses, etc.



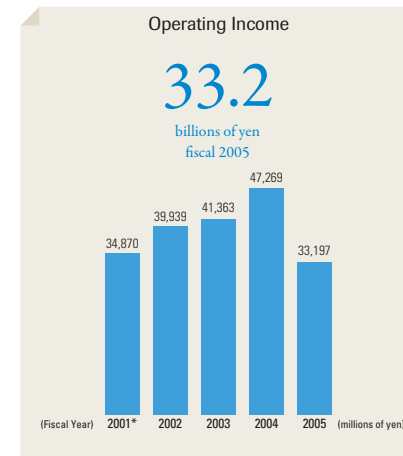
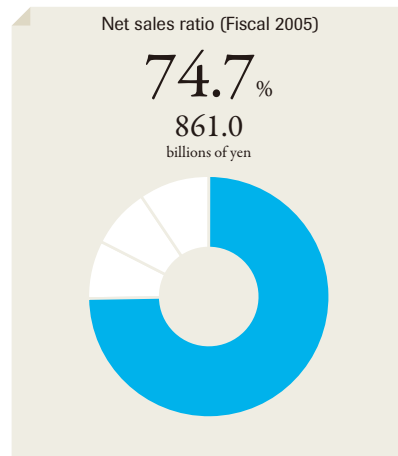
Paperboard

- Containerboard
- White board
- Chip board
- Base stock for building material, etc.



Household paper products

- Facial tissue
- Bathroom tissue
- Paper towels
- Diapers, etc.



* Full fiscal 2001 represents the combined total of the company's first fiscal period from March 30, 2001 to September 30, 2001 and its second fiscal period from October 1, 2001 to March 31, 2002.

** The electricity supply business was included in the Pulp and Paper Division in full fiscal 2001 and fiscal 2002 and in the Other Division in fiscal 2003, fiscal 2004 and fiscal 2005.

Consolidated Subsidiaries and Affiliates Accounted for by Equity-Method

Nippon Paper Industries Co., Ltd. ▶ page 044

Nippon Daishowa Paperboard Co., Ltd. ▶ page 046

Nippon Daishowa Paperboard Tohoku Co., Ltd.

Nippon Daishowa Paperboard Kanto Co., Ltd.

Nippon Daishowa Paperboard Yoshinaga Co., Ltd.

Nippon Daishowa Paperboard Nishinippon Co., Ltd.

Nippon Paper Crecia Co., Ltd.* ▶ page 048

NP Trading Co., Ltd.** ▶ page 050

KOYO PAPER MFG. Co., Ltd.

HAGA Paper Trading Co., Ltd.

Kokuei Paper Co., Ltd.

Kitakami Paper Co., Ltd.

Daishowa North America Corporation

Nippon Paper Industries USA Co., Ltd.

North Pacific Paper Corporation***

Daishowa-Marubeni International Ltd.***

* CRECIA Corporation changed its name to "Nippon Paper Crecia Co., Ltd." on August 1, 2006.

** San-Mic Shoji Co., Ltd. merged with Komine Nissho Co., Ltd. on April 1, 2006, to become NP Trading Co., Ltd.

*** Affiliates accounted for by equity method.

013

Paper-Related Division



014

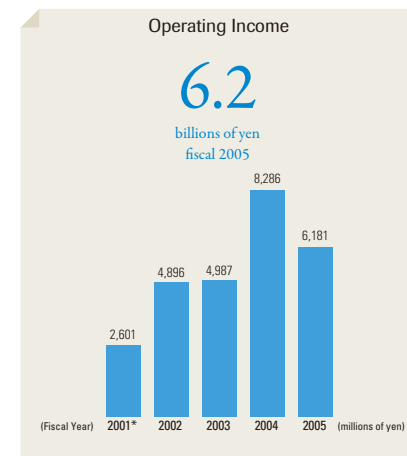
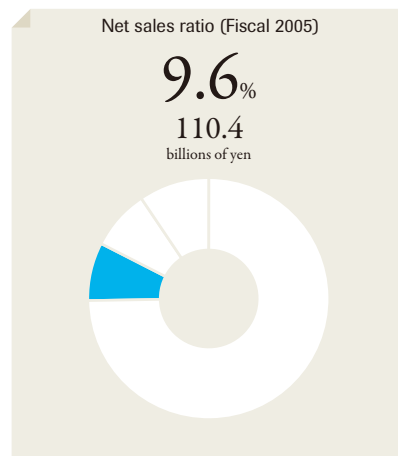
Processed paper products

- Liquid-packaging cartons
- Filling machines and maintenance services
- Corrugated board
- Paper bags
- Adhesive paper, etc.



Chemical products and functional materials

- Dissolving pulp
- Chemical products
- Functional films
- Drafting and copying media, etc.



* Full fiscal 2001 represents the combined total of the company's first fiscal period from March 30, 2001 to September 30, 2001 and its second fiscal period from October 1, 2001 to March 31, 2002.

Consolidated Subsidiaries and Affiliates Accounted for by Equity-Method

NIPPON PAPER-PAK CO., LTD. ▶ page 052

Nippon Paper Chemicals Co., Ltd. ▶ page 054

Sakurai Co., Ltd.

Nippon Seitai Corporation

FLOWRIC CO., LTD.

NIPPON TOKAN PACKAGE CO., LTD.*

LINTEC Corporation*

Daishowa Paper Converting Co., Ltd.*

Dixie Japan Co., Ltd.*

* Affiliates accounted for by equity method.

015

Housing and Construction Materials Division

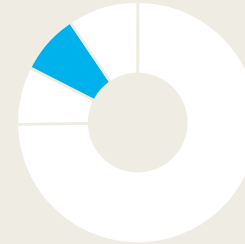


- Lumber
- Construction materials
- Civil engineering business, etc.



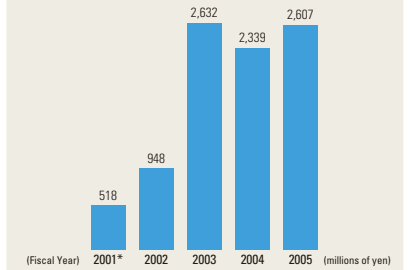
Net sales ratio (Fiscal 2005)

8.2%
94.0
billions of yen



Operating Income

2.6
billions of yen
fiscal 2005



* Full fiscal 2001 represents the combined total of the company's first fiscal period from March 30, 2001 to September 30, 2001 and its second fiscal period from October 1, 2001 to March 31, 2002.

Consolidated Subsidiaries and Affiliates Accounted for by Equity-Method

Nippon Paper Lumber Co., Ltd. ▶ page 056

NIPPON PAPER UNITEC CO., LTD.

Daishowa Unitec Co., Ltd.

Kokusaku Kiko Co., Ltd.

Kunimoku House Co., Ltd.

PAL CO., LTD.

N&E CO., LTD.

Daishowa Uniboard Co., Ltd.

Daishowa Kohrin Co., Ltd.*

Daishowa Housing Co., Ltd.

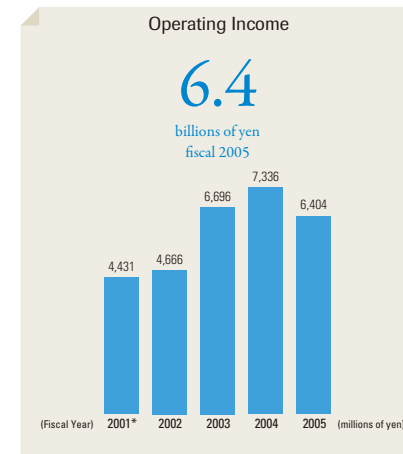
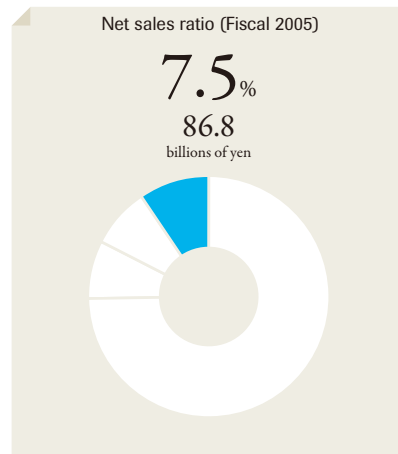
South East Fibre Exports Pty. Ltd.

* Liquidation of Daishowa Kohrin Co., Ltd. was completed on April, 2006.

Other Division



- Beverages business
- Warehousing and transportation businesses
- Leisure business
- Electricity supply business, etc.



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* The electricity supply business was included in the Pulp and Paper Division in full fiscal 2001 and fiscal 2002 and in the Other Division in fiscal 2003, fiscal 2004 and fiscal 2005.

Consolidated Subsidiaries and Affiliates Accounted for by Equity-Method

NANKO UNYU CO., LTD.
 IWAKUNI-KAIUN CO., LTD.
 Kyokushin Transport Co., Ltd.
 NIPPON PAPER LOGISTICS CO., LTD.
 Hotoku Co., Ltd.
 Daishowa Logistics Co., Ltd.
 Daishowa Port Warehousing Co., Ltd.*
 SHIKOKU COCA · COLA BOTTLING CO., LTD.
 Nippon Paper Development Co., Ltd.
 Graphic Arts Communication
 Asahikawa Grand Hotel Co., Ltd.

* Liquidation of Daishowa Port Warehousing Co., Ltd. was completed on June, 2006.



Uenohara Jomon no Mori Pavilion (Kirishima-shi, Kagoshima)

Special Feature 2006

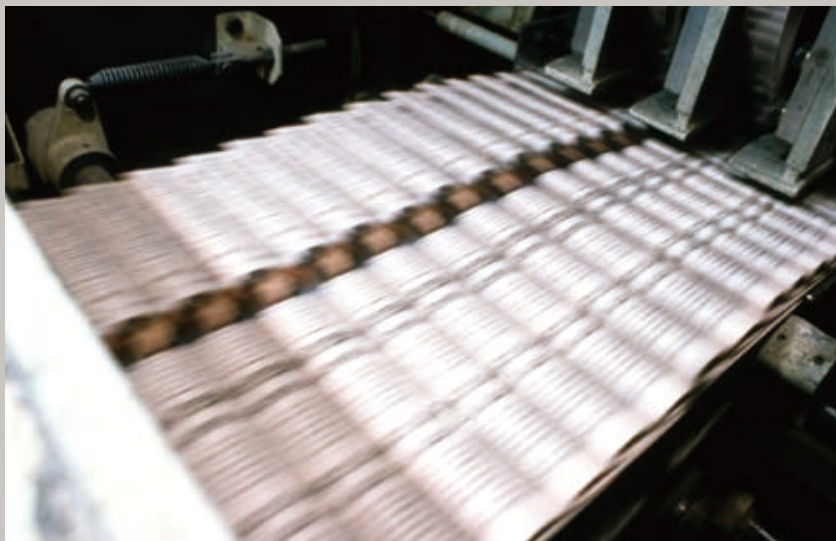
This year's feature presents specific examples to focus on products, the production floor, and technology—the drivers that will keep Nippon Paper Group on a sustainable growth trajectory.

- 022 Products
- 024 Quality
- 026 Technologies
- 028 News Releases



Products

Developing High-quality Newsprint



Printing newspaper

Show-through reduced even with weight reduction and color printing

The evolution of newsprint in Japan has revolved mainly around reducing weight while accommodating occasional innovations in printing technology. Reducing the weight of paper is generally accompanied by a decrease in thickness, which can result in a phenomenon called show-through in which the ink shows through to make printing visible on the back side of the page. With an increase in the amount of color printing in recent years, especially for advertisements, newspaper companies have been seeking newsprint with higher opacity to minimize show-through.

To improve the quality of newsprint, Nippon Paper Industries Co., Ltd. previously increased opacity by mixing in white carbon as one type of filler*. However, too much white carbon creates problems during printing and reduces paper strength. Consequently, the degree of improvement was limited by restrictions in the mix ratio. The need to balance overall newsprint quality made it difficult to significantly reduce show-through using conventional methods.

Switch to neutralized paper

Nippon Paper Industries sought to overcome this barrier by switching its newsprint to neutralized paper. Problems with long-term preservation prompted a switch from acid paper to neutralized paper for printing books and documents, but acid paper was still the norm

for newsprint because long-term preservation was not required. However, because it is easier to achieve high opacity with neutralized paper than with acid paper, we sought to switch to neutralized paper to create newsprint that dramatically reduced show-through.

Nippon Paper Group manufactures newsprint at seven domestic mills of Nippon Paper Industries and at North Pacific Paper Corporation in North America. North Pacific Paper Corporation started switching to neutralized paper in 1997 and domestic mills followed by switching from acid paper to neutralized paper. During the switch, we resolved several issues related to various printing conditions to enable newspaper companies to use neutralized paper without any problems.

We sought to accumulate neutralized newsprint technology and resolve any issues by switching to neutralized paper at multiple plants. As a result, we decided in 2004 to switch completely to neutralized paper for high-quality newsprint that achieves low show-through even with color printing.

Advantages of high-quality newsprint

High-performance calcium carbonate as filler is an important element in high-quality newsprint. We developed calcium carbonate with a specific shape to increase paper opacity, enhance ink absorption, and dramatically reduce show-through. Moreover, unlike white carbon, even high amounts of calcium carbonate are not problematic, which allows us to raise the mix ratio significantly and improve quality. Previously, calcium carbonate could not be used in acid paper due to the possibility of operational problems caused by calcium carbonate reacting with aluminum sulfate to become calcium sulfate. However, we succeeded in using calcium carbonate in neutralized paper that does not contain aluminum sulfate.

Newsprint uses a large amount of wastepaper pulp, for which newspapers are a main raw material. Wastepaper pulp also contains residual calcium carbonate from advertising fliers. Neutralized paper has the advantage of reusing the calcium carbonate contained in wastepaper pulp as a raw material.

We completed the switch to high-quality newsprint at eight domestic and overseas plants as of August 2006. This represents a good example of achieving our goal of integrating mills and our R&D, technology, and sales departments. We are utilizing this experience to encourage cooperation among various departments in developing products well suited to the needs of our customers.

* Filler is a powdered mineral added to paper to enhance opacity, smoothness, and other properties that improve printability.

Quality

Ishinomaki Mill—Aspiring to be the World's Top Mill



Ishinomaki Mill

Competitive core mill

Nippon Paper Industries' Ishinomaki Mill underpins the Nippon Paper Group's pulp and paper business as its core mill. It produces some 950,000 tons of products annually and is one of the leading mills in the world in terms of production capacity for printing paper.

The Ishinomaki Mill is located on the Pacific coast and has a dedicated berth at the neighboring Port of Ishinomaki. This means that procurement costs are lower than those at inland mills because the Ishinomaki Mill can receive large volumes of woodchips, a main raw material, as well as fuel (coal) from large bulk carriers. The mill also benefits from the nearby Kitakami River, which provides abundant water resources, and it owns sufficient water intake rights to accommodate future expansion.

The Ishinomaki Mill enjoys another geographical advantage thanks to its proximity to Tokyo metropolitan area, a major paper consuming region with a high concentration of printing plants. The mill ships over half its production to the Kanto region, particularly the Tokyo metropolitan area, and it uses railways capable of carrying large volumes at a low cost as its primary mode of transport. Moreover, metropolitan Tokyo produces a large amount of wastepaper, a major raw material, and the mill has built a system for collecting it to ensure stable supplies.

The Ishinomaki Mill is capable of independently producing chemical pulp, wastepaper pulp, and mechanical pulp in the quantities needed for manufacturing paper. The mill also has facilities for manufacturing filler* and it supplies high-performance calcium carbonate to

enhance paper quality. It combines superior operations technology with these raw material facilities and 14 papermaking machines and coaters to provide a stable supply of products that respond precisely to the needs of its customers.

Installing the latest equipment

To achieve the goals set forth in our Group Vision 2015**, we emphasize enhancing the profitability of our operations in Japan and are working to create an optimal manufacturing structure and bolster competitiveness, especially in our core pulp and paper business. As part of these efforts, we are making major investment at the Ishinomaki Mill in accordance with our Second Medium-Term Business Plan** launched in April 2006.

The Ishinomaki Mill is currently competitive in both cost and quality, but we need to upgrade its equipment to prevail in international competition moving forward.

The mill will begin using a new energy boiler in October 2006 as part of a conversion from a heavy oil boiler. This will drastically lower the mill's consumption of heavy oil and reduce its rising fuel costs. Additionally, we are building the N6 machine, an on-machine coater with an annual production capacity of 350,000 tons, as well as required wastepaper pulp facilities, with the goal of launching operations in November 2007. We are also planning to shut down the No. 3 and No. 5 machines in an effort to enhance the mill's productivity even further. The N6 machine will manufacture lightweight coated paper, which we position as a strategic product. We will enhance the production capacity in response to demand changes and create an optimal manufacturing structure across the group.

In these ways, we seek to leverage geographical advantages, accumulated technological capabilities, and the latest equipment to make the Ishinomaki Mill the world's top printing paper mill in terms of quality, cost, and operations.

Ishinomaki Mill Profile

Site area	983,510m ²
Employees	788 (as of April 1, 2006)
Pulp equipment	LBKP, NBKP, DIP, GP, TMP Total: 2,400 tons per day
Machines and coaters	10 papermaking machines, 3 coaters, and 1 on-machine coater Total: 2,700 tons per day (excluding base paper machines)
Main products	Newsprint, woodfree paper, mechanical paper, lightweight coated paper, coated paper, and business communication paper

N6 Machine Profile

Scheduled startup	November 2007
Capital investment	¥63 billion (including wastepaper pulp and filler manufacturing facilities)
Products	Lightweight coated paper
Annual capacity	350,000 tons

* See page 023.

** See pages 034–042 for more information about our Group Vision 2015 and Second Medium-Term Business Plan.

Technologies

Agribio Business Initiatives



Hachisuka Sakura

026

Launch new business

Nippon Paper Industries established the Agribio Business Promotion Office within the Corporate Planning Division in April 2006 to facilitate the start and rapid expansion of a cutting plantlet business that utilizes the independent biotechnology developed and accumulated at the Forestry Science Research Laboratory. We have already launched plantlet production at a cutting plantlet facility located at the Komatsushima Mill in Tokushima, Shikoku island (see page 110). This facility is equipped with cultivation rooms, greenhouses, and fields, and it is capable of producing 250,000 plantlets annually. We plan to expand this facility according to customer needs and target annual sales of ¥2 billion by 2015.

Advanced supporting technology

The Forestry Science Research Laboratory has achieved world-class results in developing a variety of technologies, that served as core of plant biotechnologies, for efficiently producing eucalyptus, a raw material in paper. These technologies include an independent photoautotrophic culture technology for maximizing photosynthetic capacity by creating an optimal environment combining light, carbon dioxide, and water, which are all required for plants to grow. We are using this technology to produce plantlets in the cutting plantlet business established in 2006. This production technology features strong root development, rapid growth, space-saving production, and application to a broad range of tree species. It

enables the mass production of consistently high-quality cutting plantlets in a shorter timeframe, even for species that are difficult to grow with conventional cutting technology.

For example, the only method for propagating the Yoshino cherry (*Prunus yedoensis*) was grafting, but the Forestry Science Research Laboratory has achieved a high success rate of 80% in the root development of cuttings. It has also been successful in growing tree species designated as critically endangered, including the *Pittosporum parvifolium*, *Morus boninensis*, and *Claoxylon centenarium*. These efforts are contributing to preserving precious tree species.

Potential for further growth

We anticipate broad application of this technology and have confirmed root development for more than 50 species of trees, including tea trees, fruit trees, and garden trees. Our production technology is especially useful for businesses involved in tea trees used for green tea beverages, a growing market in Japan, and in fruit trees, for which new varieties continue to be developed. Mass producing consistently high-quality plantlets in a short timeframe allows our customers to procure raw materials on a stable basis and to quickly implement a product differentiation strategy based on unique raw materials. We are developing the agribio business with a view to expanding overseas in the future.

The Hachisuka Sakura (page 026)

The Hachisuka Sakura is a 250-year-old blossoming cherry tree in the compound of the Harada buke yashiki, the manor of Harada samurai clan, in Tokushima, Tokushima Prefecture. In 2006, the Hachisuka Sakura to Buke Yashiki no Kai, an organization working to propagate this particular tree, contracted with the Nippon Paper Industries to produce saplings from it. The contract came in recognition of our photoautotrophic culture technology for rooting saplings from cuttings. Culturing of the saplings has already commenced at our Komatsushima Mill, and the saplings are likely to begin producing blossoms as early as spring 2007.

Photoautotrophic culture plantlet production

1. Yoshino cherry (*Prunus yedoensis*) branch

2. Cutting preparation



3. Cutting plantlet



4. Photoautotrophic culture



5. Root development success rate of 80% or higher



6. Seedling cultivation



7. Blossoms three years after planting (photo is six years after planting)

027

News Releases

The following is a list of news items relevant to our feature article that were released between April 2005 and June 2006.

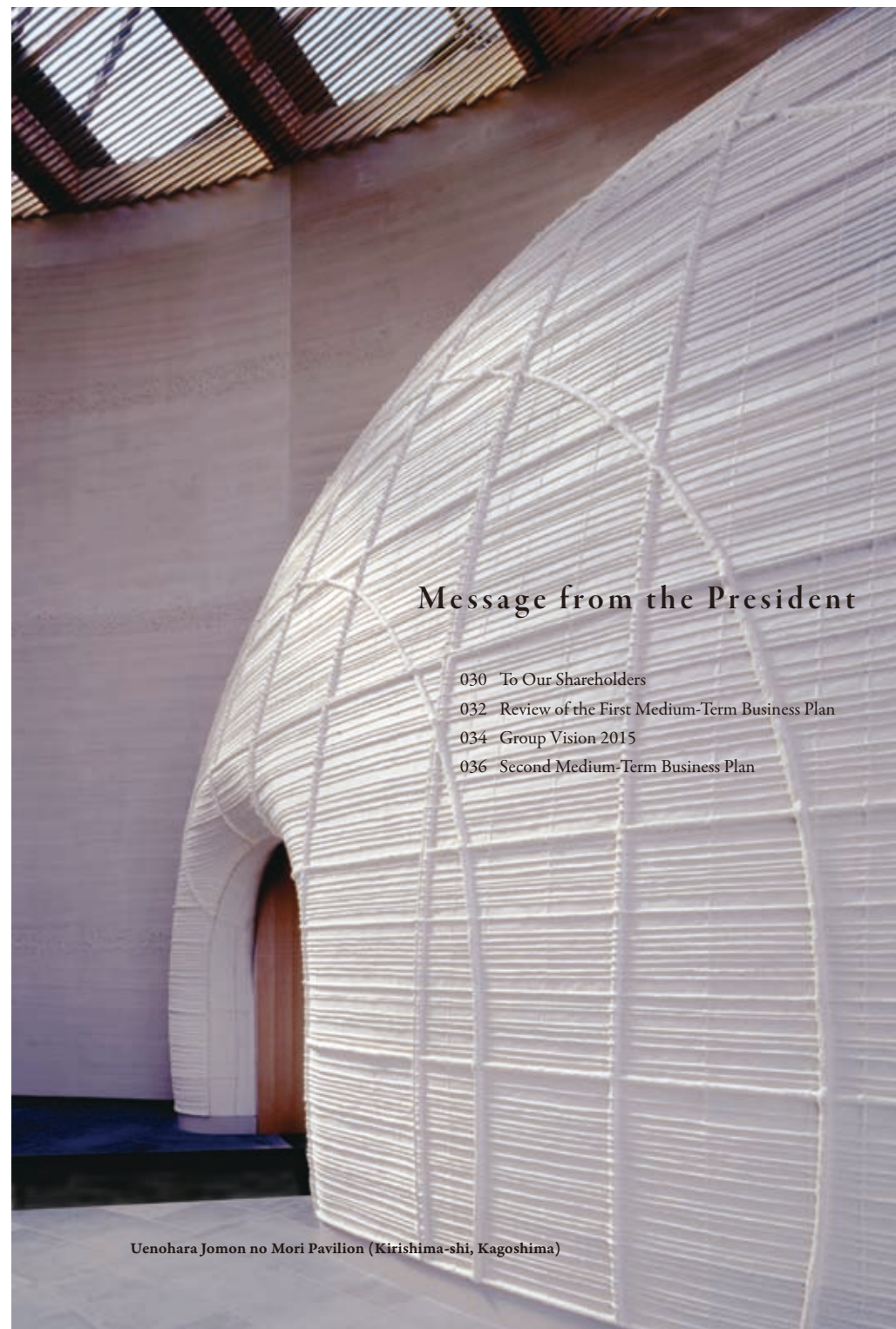
2005

- June 7 Nippon Paper Industries Releases “Pegasus Blanaile”
- July 8 Nippon Paper Industries Releases “Opera Cream Max”, the Lowest Density Woodfree Book Paper
- July 29 Nippon Paper Industries Releases Three New Products in “OPER® MDP” Lineup
- September 28 Nippon Paper Industries Releases “Pegasus U-7”, a Resource Saving Matt
Lightweight Coated Paper Featuring Massive Weight Reduction
- Nippon Paper Industries Releases “U-Itimax Libero”, a Low-density
Lightweight Coated Paper with Pure Brightness
- October 3 Nippon Paper Industries Enters Agribusiness with Bio-Plantlets Produced with Original Botanical Biotechnology
- October 18 Nippon Paper Industries Launches WAVYWAVY® “WVU Series”
- October 19 Nippon Paper Industries Develops Photocatalytic Newsprint Jointly with the Yomiuri Shimbun, Has Air-Cleaning Properties

2006

- January 27 Nippon Paper Industries Releases “HS Series” of Paper for Handy Terminals
- February 17 Nippon Paper Industries Releases “Pleiatere” Woodfree Gloss Coated Paper
- March 14 Nippon Paper Industries Establishes Agribio Business Promotion Office
- May 10 Nippon Paper Group Embarks on Second Medium-Term Business Plan
Paper Production Facilities Scrap-and-Build Plan
- June 8 Nippon Paper Industries Releases “Opera Cream HO”, a Thin Paper for Books
- June 13 Nippon Paper Industries Launches Contract Production of
Hachisuka Sakura Cherry Trees

* Visit our website at <http://www.np-g.com/c/news/index.html> for detailed information on news releases.



Message from the President

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Uenohara Jomon no Mori Pavilion (Kirishima-shi, Kagoshima)

To Our Shareholders



Nippon Paper Group, Inc.
President
MASATOMO NAKAMURA

A handwritten signature in black ink that reads "M. Nakamura". The signature is written in a cursive, flowing style.

Review of performance in fiscal 2005

In fiscal 2005, the final year of our First Medium-Term Business Plan, net sales declined ¥27.5 billion year-on-year, or 2.2%, to ¥1,152.2 billion, operating income fell ¥16.8 billion, or 25.8%, to ¥48.4 billion, ordinary income was down ¥13.4 billion, or 21.3%, at ¥49.4 billion, and net income dropped ¥7.2 billion, or 29.4% to ¥17.2 billion. Profits declined for the first time since the business integration in 2001.

Higher prices for raw materials and fuel, including heavy oil and woodchips, had a ¥29.1 billion negative impact on profits, and despite cost improvement initiatives and efforts to reduce labor and other costs, we were unable to offset this impact.

Additionally, a decrease in prices for household tissue and printing paper also contributed significantly to the decline in profits.

Second Medium-Term Business Plan and future outlook

We expect raw material and fuel prices to rise further or remain at the current high levels. During the three-year period of our Second Medium-Term Business Plan, which starts in fiscal 2006, we must transform the structure of our company to enable profit growth amid a challenging business environment.

We must also take drastic steps in businesses where intensifying competition has made securing profits more difficult, including sweeping measures to enhance our corporate structure to prevail over the competition and concentrated investment of business resources in potentially profitable areas.

The environment affecting our business continues to change rapidly, as evidenced by the increasingly borderless markets of Asia, but we are striving to meet the expectations of our shareholders by appropriately responding to these challenges from a long-term perspective and by increasing our corporate value through ongoing reform.

Review of the First Medium-Term Business Plan

Goals of the First Medium-Term Business Plan

Nippon Paper Group prepared its First Medium-Term Business Plan in 2003. Under the slogan “*faster, higher, stronger,*” we made a concerted effort to achieve our goals of rebuilding our manufacturing structure, **improving productivity by 10%, achieving consolidated ordinary income of ¥100 billion, and reducing interest-bearing debt to ¥700 billion or lower.**



Review of performance

Over the past three years, we reduced surplus production capacity and improved production efficiency by rebuilding our manufacturing structure, and we achieved our numerical targets for raising productivity and reducing interest-bearing debt. These efforts helped us enhance our corporate structure and become more competitive.

Despite these accomplishments, we missed our operating income target of ¥100 billion by a wide margin.

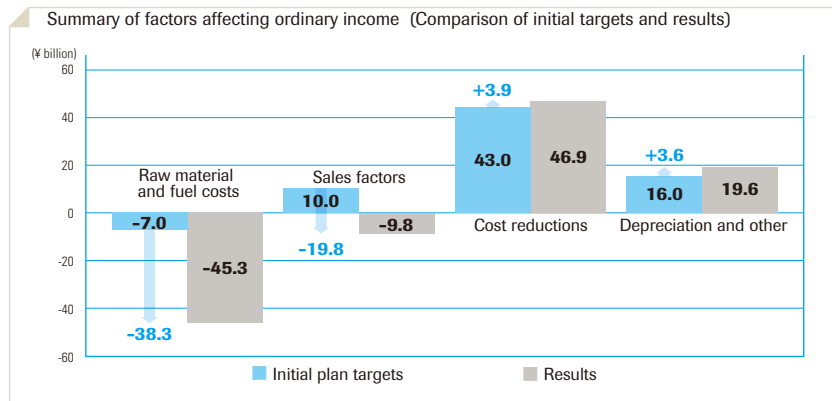
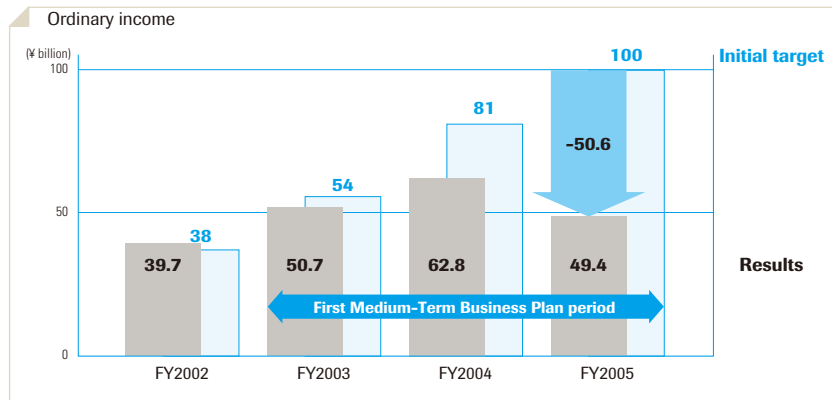
Analysis of our performance reveals that cost reductions and lower depreciation boosted profits by ¥66.5 billion, which is more than initially expected. Highlights include a reduction in variable costs, due partly to integrating raw material procurement, a reduction in fixed costs through the elimination of various redundancies, and improvement in net financial expenses through a reduction in interest-bearing debt.

However, the business environment affecting Nippon Paper Group changed dramatically during this period, and new challenges have emerged. The first is higher raw material and fuel prices. Rapid economic expansion in China and other newly developing countries has contributed to rapid growth in energy demand. Consequently, prices for crude oil, coal, and other fuels have risen at unprecedented speeds, and this has had a significant negative impact on profits at Nippon Paper Group.

Additionally, competition with rivals both in Japan and overseas has grown more intense, and prices for printing paper and household tissue have fallen more than we expected. The decrease in product prices and the aforementioned rises in raw material and fuel prices have had a combined negative impact on profits of ¥55.1 billion.

We are extremely disappointed to achieve only half of our ordinary income target for the final year of our First Medium-Term Business Plan. We must now move forward by accurately gauging the changes in the business environment and taking appropriate steps to address the challenges we face.

032



033

Group Vision 2015

Consolidated net sales

¥1.5–¥2.0 trillion

Consolidated operating income

Stable domestic operating income of
¥100 billion,
plus operating income from overseas business

Consolidated operating income to net sales

8%–10%

Business portfolio

Domestic business to account for 70%
and overseas business for 30%

Pulp and paper business to account for 70%
and non-pulp and paper business for 30%

Expand business in
three major markets
of Asia, North America, and Europe

Market capitalization

¥1 trillion

Free cash flow

¥150 billion

Preparation of Group Vision 2015

Nippon Paper Group prepared its Group Vision 2015 in May 2005 after entering the final year of its First Medium-Term Business Plan.

We created this vision based on a need in pursuing further growth and development to have a shared group-wide long-term vision of the company's future as well as a guideline to help us move forward in the same direction in a manner transcending short-term policies.

The business environment is in constant flux and our policies for addressing current challenges are also subject to change. Nevertheless, establishing final goals and focusing on these goals in our activities helps increase the coherence and consistency of our policies.

Challenges—Strengthen domestic businesses

Enhancing profitability is our primary challenge in domestic operations, and we are working to create an optimal manufacturing structure and bolster competitiveness, especially in the core pulp and paper business.

In the paper business, we position mainstay mills with superior location and other advantages as core mills and enhance their cost competitiveness to prevail in international competition. We position mills capable of responding precisely to the various needs of domestic customers as potential core mills. We invest our business resources according to the purpose of each type of mill.

Additionally, we view the expansion of non-pulp and paper businesses as a growth opportunity, and we seek to increase the ratio of non-pulp and paper sales to 30% of group-wide sales through new business development, M&A, and other means.

Challenges—Strengthen overseas business

We are focusing on expanding the scale of overseas operations and seek to raise the ratio of overseas sales to 30% of group-wide sales by 2015.

In particular, because Asia is an important market for growth, we are working to develop our sales network in the region. We are also planning to expand further our paperboard business, which has launched local production in China, to create an integrated manufacturing structure in the business.

In North America and Europe, we are focusing on existing facilities and developing our business by leveraging the technological capabilities of Nippon Paper Group to provide high-value-added products.

Group position in 2015

Nippon Paper Group aspires to be one of the world's top five pulp and paper firms by 2015.

As indicated by the specific numerical targets listed in left Table, we need to enhance our profitability, size, and global reach to a level deserving recognition as one of the world's top five pulp and paper firms.

The following section provides an explanation about our Second Medium-Term Business Plan, which represents the first step toward achieving this vision.

Second Medium-Term Business Plan

Main Strategies

Road Map to 2015

2006	1st STEP	Strengthen domestic core businesses
2007	Second Medium-Term Business Plan	
2008	Business Plan	
2009	2nd STEP	Growth through expansion of overseas business
2010	Third Medium-Term Business Plan	
2011	Business Plan	
2012	3rd STEP	Growth through expansion of overseas business
2013	Fourth Medium-Term Business Plan	
2014	Business Plan	
2015	Group Vision 2015	

Roadmap to 2015 and position of Second Medium-Term Business Plan

Nippon Paper Group embarked on its Second Medium-Term Business Plan in April 2006. This plan represents the first step toward quickly achieving the domestic operating income target of ¥100 billion established in the Group Vision 2015.

As stated in the Roadmap to 2015, we have decided to devote the first half of the upcoming ten-year period to establishing a robust revenue base by strengthening the core domestic pulp and paper business and then pursue growth in the second half by expanding overseas business.

We position the Second Medium-Term Business Plan as an important starting point for achieving the Group Vision 2015, and our outlook on the business environment and the measures we are pursuing are discussed below.

Business environment affecting Nippon Paper Group

Japan faces the further aging of its society and the advent of a declining population. Consequently, the domestic paper and paperboard market has little prospect for significant volume growth and the overall market will likely remain flat or decline.

Rising raw material and fuel prices, including persistently high crude oil prices and higher woodchip prices, continue to pressure earnings.

Additionally, the business environment affecting Nippon Paper Group has grown more severe, including fierce competition between domestic manufacturers and intensifying international competition from Asian and global manufacturers. These circumstances give little cause for optimism.

Amid these major changes in the external environment, we need to independently reform our business structure to ensure stable earnings.

Primary challenge is independent reforms to compete successfully in Asian markets

Based on this outlook on the business environment, we believe the primary challenge in the Second Medium-Term Business Plan is to pursue independent reforms in terms of size, cost, and technology in order to compete successfully in Asian markets.

To this end, with the stated goal of strengthening the foundation of domestic businesses through a scrap-and-build program and measures to address the cost of raw materials and fuel, we plan to concentrate investment on domestic core mills to fully leverage the group's strengths and create a robust manufacturing structure with the best manufacturing facilities to compete successfully in Asian markets.

Our main policy is to augment and upgrade our domestic manufacturing structure through a rapid scrap-and-build program that centers on the installation of a new paper machine at the Ishinomaki Mill of Nippon Paper Industries.

We will also create a foundation for future growth through a variety of initiatives, including efforts to conserve resources and the installation of new energy boilers as a response to energy-cost hike as well as a means to reduce carbon dioxide emissions.

Specific Measures to Achieve Goals



New energy boiler

1. Strengthen core businesses

In the core paper business, we are installing the world's most advanced paper machine at the Ishinomaki Mill of Nippon Paper Industries with the goal of establishing the most competitive mills in Asia.

The Ishinomaki Mill is currently one of the largest and most cost competitive mills in Japan thanks to its advantageous location along the sea. Installing an advanced paper machine will make it the top printing paper mill not only in Japan, but throughout Asia as well.

We are augmenting production capacity and enhancing international competitiveness for lightweight coated paper, which we position as a strategic product.

As measures to address the cost of raw materials and fuel, we seek to drastically reduce the consumption of heavy oil, which has had a negative impact on profits due to high prices, by installing nine new energy boilers over the next three years. We are also working to conserve resources by expanding wastepaper pulp facilities and to enhance the basic level of competitiveness of each mill.

We lead the market for printing paper utilizing our accumulated technologies, including for lightweight and low density paper, and we are working to bolster our distribution and logistics strategy and strengthen our marketing capabilities.

In our paperboard business, in addition to raising the competitiveness of containerboard operations, we are moving to stabilize overall sales by bringing downstream corrugated board operations within the group. In the household tissue business, where earnings have slumped due to intensifying competition, we are working to improve productivity and expand sales while pursuing streamlining in an effort to strengthen the overall pulp and paper business.

2. Lay groundwork for restructuring business portfolio

We are strengthening the overseas business planning department, setting up business locations in target overseas markets, and actively pursuing M&A to achieve the goal in our Group Vision 2015 of raising the percentage of overseas sales to 30%.

Initiatives already taken include opening offices and pursuing sales activities in the fast-growing Chinese market, establishing the Asian Business Division at Nippon Paper Industries, and creating a foundation for future growth in overseas business.

To achieve our goal of raising the percentage of non-pulp and paper sales to 30%, we are actively utilizing the company's technology and expertise to steadily lay the groundwork for future growth. The new agribio business is one example of these efforts.



Seedling that has taken root through photoautotrophic culturing

3. Strategically allocate personnel at the group level



Employee checking operations

Our First Medium-Term Business Plan sought to significantly reduce labor costs, but, going forward, we seek to rectify any misallocation or duplication of personnel from the standpoint of achieving an optimal group-wide allocation and to actively reassign personnel to strategic and growth businesses.

We are also pursuing measures to pass on the skills of our employees and working to enhance personnel training for our overseas and non-pulp and paper businesses.

4. Capital policies and financing

Our Second Medium-Term Business Plan requires a large amount of capital investment funds to enhance management and operating platforms of domestic core businesses.

We expect to secure a large portion of these funds through operating cash flow, but when financing is required, we seek to effectively use our assets by selling off idle assets, non-performing and low-performing assets, and unprofitable and non-strategic businesses, and to avoid a substantial increase in our reliance on interest-bearing debt and maintain our financial credit rating by procuring funds through a variety of means.

Specific Measures to Achieve Goals



Nippon Paper Group afforestation area

040 **5. Group environmental response program**

We are pursuing an environmental response program focused on our product strategy in accordance with the Nippon Paper Group Charter on the Environment.

This environmental response program is part of our product strategy and involves the integrated management of environment-related factors throughout our supply chain from the procurement of raw materials and fuel to the sale of products. We initially launched this program at Nippon Paper Industries and will expand it to other group companies going forward.

6. Reforms to organization and group governance structure

The holding company is responsible for preparing and implementing a group vision and strategy and for conducting corporate communications. We are currently working to reform its organization and enhance its functions on the basis of our group vision.

Business Targets and Performance Indicators

We are pursuing the various measures outlined above to achieve the business targets listed in Table below in fiscal 2008, the final year of our Second Medium-Term Business Plan.

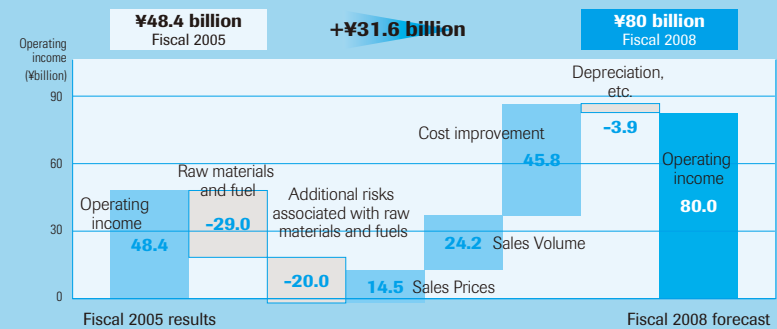
These targets will certainly not be easy to achieve given that we expect the environment affecting Nippon Paper Group to grow more severe.

However, the Second Medium-Term Business Plan is the first step toward our Group Vision 2015; we therefore intend to work hard to achieve our business targets so we can move on to the next stage.

Business targets and performance indicators

Items	Second Medium-Term Business Plan (Fiscal 2008)	Group Vision 2015
Operating income (Operating income to net sales)	¥80 billion or more (6.4%)	Domestic ¥100 billion + overseas operating income (8%–10%)
Operating cash flow	¥120 billion or more	¥150 billion or more

Factors affecting operating income (fiscal 2008 versus fiscal 2005)



041

References

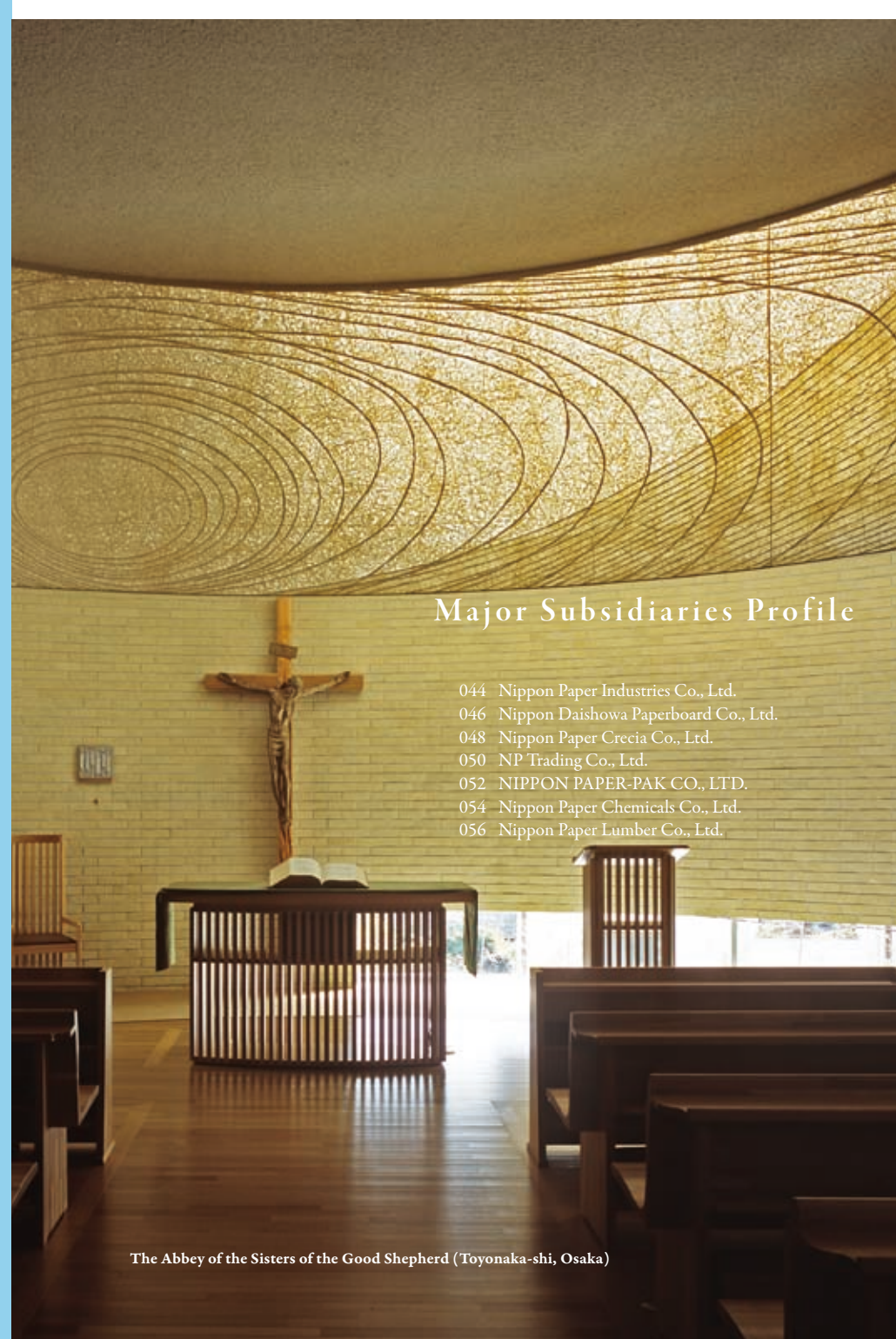
Performance indicators in fiscal 2008

	Second Medium-Term Business Plan (Fiscal 2008)
ROE	8.0%
ROIC	7.0%
Debt-equity ratio	1.4 times
Equity ratio	31.2%
Interest-bearing debt	¥ 700 billion

Cash flow plan during the period of the Second Medium-Term Business Plan

	8	Sale of assets	Dividend payments	(¥ billion)
Interest-bearing debt procurement	6		-27	
Depreciation			-87	
Operating income			-314	
	220			
	194			

042

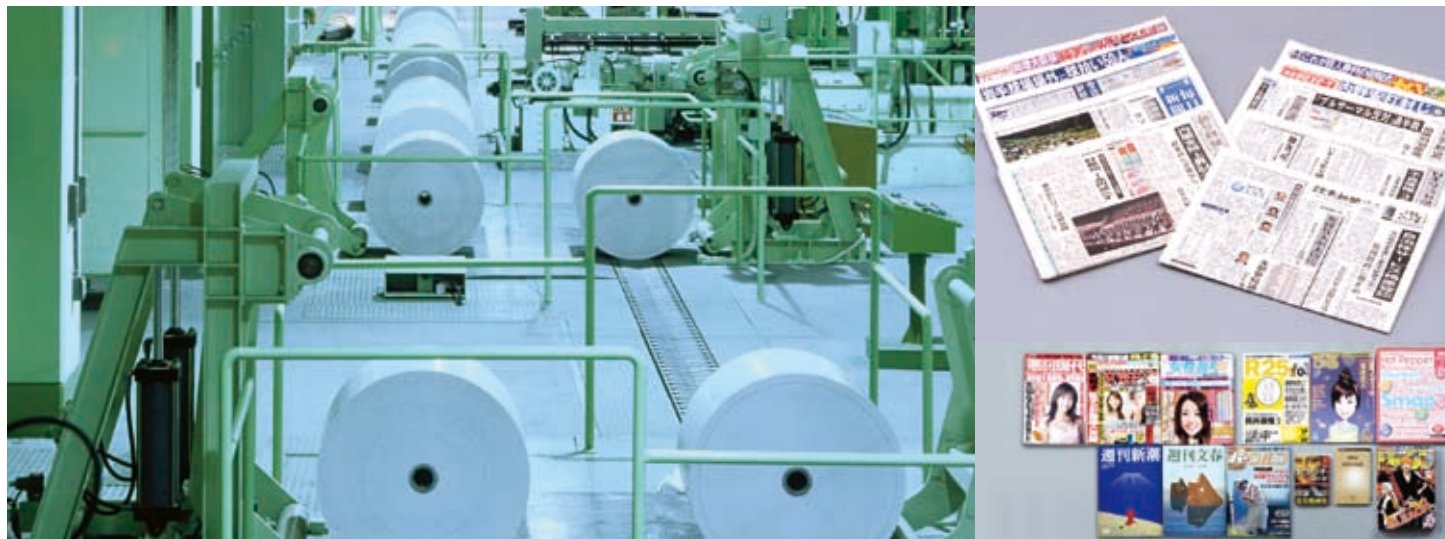


Major Subsidiaries Profile

- 044 Nippon Paper Industries Co., Ltd.
- 046 Nippon Daishowa Paperboard Co., Ltd.
- 048 Nippon Paper Crexia Co., Ltd.
- 050 NP Trading Co., Ltd.
- 052 NIPPON PAPER-PAK CO., LTD.
- 054 Nippon Paper Chemicals Co., Ltd.
- 056 Nippon Paper Lumber Co., Ltd.

The Abbey of the Sisters of the Good Shepherd (Toyonaka-shi, Osaka)

Nippon Paper Industries Co., Ltd.



NIPPON PAPER INDUSTRIES CO., LTD.

Nippon Paper Industries Co., Ltd.

Established	August 1, 1949
Paid-in Capital	¥104,873 million
Web Site	http://www.np-g.com/e/
Representative	President Masatomo Nakamura
Principal Products	Newsprint Printing and publication paper Business communication paper Packaging paper Paper for miscellaneous uses
Fiscal 2005 Net Sales	¥625.3 billion (including intercompany sales)

044



M. Nakamura

Masatomo Nakamura President

Business Environment

Domestic paper shipments were strong in fiscal 2005, due partly to signs of a firm economic recovery. However, the business environment was extremely difficult as a result of rapidly rising heavy oil prices and softening printing paper prices.

Company Strengths

Nippon Paper Industries Co., Ltd.'s core mills are located along the coast, and given that Japan relies heavily on importing raw materials and fuel, this geographical advantage is the source of our high competitiveness.

Moreover, our domestic paper business has the top market share for nearly all products, and as the industry leader, we enjoy a strong brand, high reliability, and top-level technological and product development capabilities.

Performance in Fiscal 2005

Nippon Paper Industries' domestic sales volume increased year-on-year in fiscal 2005 as a result of strong sales of coated paper, which is expected

to continue growing even though the overall paper market is maturing, and paper for plain paper copiers due to a shift away from imported products.

However, higher costs resulting from soaring raw material and fuel prices and softening printing paper prices since early autumn had a major impact, and despite efforts to compensate for these factors by cutting costs, operating income and ordinary income fell sharply year-on-year.

Outlook

In fiscal 2006, despite concerns that raw material and fuel prices will remain high, we seek to increase profits by continuing to pursue cost improvement initiatives and by working to adjust prices for coated paper and other mainstay products.

During the timeframe of our Second Medium-Term Business Plan, we hope to enhance production efficiency by implementing a sweeping scrap-and-build program in conjunction with installing new coated paper manufacturing equipment at the Ishinomaki Mill.

We also plan to convert from heavy oil to alternative fuels by installing new energy boilers and to conserve resources by augmenting wastepaper pulp facilities.

Through these initiatives, we seek to minimize the impact on profits of changes in the external environment and to lead the industry by achieving the level of international competitiveness needed to prevail in the intensely competitive Asian market.

045

Nippon Daishowa Paperboard Co., Ltd.



NIPPON DAISHOWA PAPERBOARD CO., LTD.

Nippon Daishowa Paperboard Co., Ltd.	
Established	August 28, 1913
Paid-in Capital	¥10,864 million
Web Site	http://www.nichidaita.co.jp
Representative	President Nobuyuki Otsuki
Principal Products (applications)	Containerboard (corrugated board) White board (packaging for confectionery and daily commodities, publishing, and catalogs) Other paperboard (gypsum board base paper and paper core) Specialty paper (plug wrap paper, teabag filter paper)
Fiscal 2005 Net Sales	¥153.5 billion (including intercompany sales)

046



N. Otsuki

Nobuyuki Otsuki President

Business Environment

Paperboard is primarily manufactured from wastepaper, which is appropriate for a recycling-oriented society, and it will continue to be an essential wrapping and distribution packaging material. We do not anticipate significant growth in domestic demand, but we do believe the business environment will remain stable.

In fiscal 2005, despite the trend toward using less packaging, the volume of domestic paperboard shipments rose 1.1% year-on-year due to robust shipments for use with tea and functional beverages and to the mail-order and home-delivery industries. Paperboard manufacturers continued their efforts to maintain inventories at appropriate levels and prices were relatively stable.

In terms of costs, however, skyrocketing crude oil prices and a weaker yen placed significant pressure on profits. Crude oil prices will likely remain high, and we expect these difficult circumstances to persist.

Company Strengths

Our mainstay mill is located near the Kanto region, which is a major consumer market, and this gives us advantages in terms of both selling products and procuring wastepaper as a raw material. We also have other mills located in various regions around the country, which facilitates nationwide operations. Moreover, we maintain high capacity utilization and have increased productivity as a result of consolidating facilities as part of previous business reorganization.

Performance in Fiscal 2005

In fiscal 2005, despite ongoing efforts to use low-cost raw materials such as unused wastepaper, enhance yields and efficiency by improving operations, and reduce fixed costs through labor-saving and other means, the high price of raw material and fuel had a major impact, and we missed our business targets. We established Nippon Tokan Package Co., Ltd. in October 2005 by merging corrugated board manufacturing subsidiary Nichiita Package Industries Co., Ltd. with partnering company

Tokan Packaging System Co., Ltd.

Outlook

We are using our combined strength to achieve the goals set forth in the Second Medium-Term Business Plan launched in fiscal 2006. In terms of sales, we are making every effort to maintain current price levels after increasing prices this past spring. For production, we will continue striving to improve profits at mills with a poor cost structure. In particular, we are pursuing additional measures by installing new energy boilers to reduce costs with a view to lessening the impact of high crude oil prices and diversifying our fuel sources.

We also plan to strengthen our partnership with Nippon Tokan Package in an effort to achieve further growth.

047

Nippon Paper Crecia Co., Ltd.



NIPPON PAPER CRECIA CO.,LTD.

Nippon Paper Crecia Co., Ltd.

Established	April 2, 1963
Paid-in Capital	¥4,667 million
Web Site	http://www.crecia.co.jp
Representative	President Kazuhiro Sakai
Principal Products	Facial tissue Bathroom tissue Paper towels Pre-moistened wipes Health-care products Industrial-use wipes

Fiscal 2005 Net Sales ¥54.9 billion (including intercompany sales)

048



Kazuhiro Sakai

Kazuhiro Sakai President

Business Environment

The household tissue industry entered a period of unprecedented price competition as a result of a major competitor changing its sales strategy in early autumn 2004. Competition intensified further in early autumn 2005 and prices temporarily fell to historical lows. Companies have grown weary of competition and momentum toward restoring prices is growing stronger. Small and medium-sized manufacturers have raised prices for bathroom tissue made from wastepaper, and we have also announced price increases for household tissue products.

Shipment volume in the sanitary paper industry grew 4% year-on-year to 1,766,000 tons in 2005, and sales increased a solid 0.9% to ¥303.6 billion.

Company Strengths

Nippon Paper Crecia Co., Ltd. handles the two global brands Kleenex® and Scottie® based on an alliance with Kimberly-Clark Corporation, and we have continued to grow thanks to a high level of technological expertise. We have manufacturing facilities located in the major consumer markets of

metropolitan Tokyo and Kansai, which gives us advantages over our competitors in terms of distribution costs and flexibility.

Performance in Fiscal 2005

During the first half of the fiscal year, our sales activities placed emphasis on restoring prices. However, these efforts did not yield results and our market share actually decreased. During the second half, we altered our strategy in an effort to regain market share. Though we were successful in recapturing market share, a further decline in prices resulted in sales declining 3.3% year-on-year to ¥54.9 billion. We achieved substantial cost reductions as a result of implementing self-help measures to bolster our profit structure, including recruiting employees for an early retirement program and switching to new types of fuel. Despite these efforts, we sustained a sizeable loss.

Outlook

Prices in the household tissue market have fallen to historical lows, and the cost of fuel, notably heavy oil, and other raw materials remains

high.

We have worked hard to reduce costs and streamline operations, but to overcome our current difficulties, we need to restore prices to a sustainable level. As priority issues in the short term, we are working to restore order within the industry and to increase market prices to appropriate levels. Additionally, based on our recently prepared Second Medium-Term Business Plan, we seek to quickly transform into a competitive company through sweeping structural reforms encompassing our business structure, manufacturing structure, and cost structure.

We changed our name from Crecia Corporation to Nippon Paper Crecia Co., Ltd. in August 2006.

049

NP Trading Co., Ltd.



NP TRADING

NP TRADING CO.,LTD.

NP Trading Co., Ltd.

Established July 11, 1979

Paid-in Capital ¥1,000 million

Web Site <http://www.np-t.co.jp/index-e.html>

Representative President Toshio Yamamoto

Principal Commodities Printing and publication paper/Business communication paper/Newsprint/Packaging paper/Specialty paper/Containerboard/Whiteboard/Base paper for decorative laminates/Base paper for copper clad laminates/Cup stock/Various special functional papers/Special functional film/Polyvinyl laminated paper and Saturating paper/Chemicals, Mineral products and Machinery for pulp and paper production/Pulp and Waste paper/CMC, Lignin and Yeast extract/Fuel oil and RPF/Converting machines for resin and film/Housing materials/Various petrochemical products/Various industrial materials

Fiscal 2005 Net Sales ¥177.2 billion (including intercompany sales)

050



Toshio Yamamoto

Toshio Yamamoto President

Business Environment

NP Trading Co., Ltd. was established in April 2006 through the merger of group company San-Mic Shoji Co., Ltd., a trading company specializing in paper, and Komine Nissho Co., Ltd.

The domestic market for paper, which is the main product handled by NP Trading, benefited from a recovery in the Japanese economy and demand is expected to remain strong in 2006 driven by coated paper. Prices have rebounded since entering a period of adjustment in early spring 2006.

Company Strengths

NP Trading handles products manufactured by Nippon Paper Group companies, notably paper, converted paper, and functional paper, but also including chemicals, liquid crystal materials, and construction materials. We sell a variety of products tailored to the needs of our customers while pursuing a shared strategy with other group companies.

NP Trading functions as a general trading company specializing in paper-related products,

and we handle a diverse range of products encompassing pulp, wastepaper, industrial chemicals, and other papermaking raw materials as well as equipment, operating supplies, film, and packaging materials.

Overseas business is growing more important, and we have been expanding our network since establishing our first overseas facility in 1974.

Performance in Fiscal 2005

Net sales grew 1.7% year-on-year and operating income increased 1.8% in fiscal 2005 thanks to favorable growth in sales of printing paper used in advertising leaflets, catalogs, and other products as well as papermaking equipment and industrial chemicals.

Outlook

Fiscal 2006 represents the first year since establishing NP Trading as a new company. We face the short-term challenge of quickly realizing synergies from the merger and we are working to reduce costs, reallocate personnel to growth areas, and improve earnings.

In view of the startup of a new machine at the Ishinomaki Mill of Nippon Paper Industries Co., Ltd. in 2007, we seek to expand our sales organization both in Japan and overseas and to enhance our presence as a core trading company of Nippon Paper Group.

051

NIPPON PAPER-PAK CO., LTD.



NIPPON PAPER-PAK CO., LTD.

NIPPON PAPER-PAK CO., LTD.

Established	March 18, 1965
Paid-in Capital	¥4,000 million
Web Site	http://www.nipponpaper-pak.com
Representative	President Toshihiro Maeda
Principal Products and Services	Liquid-packaging cartons Filling machines and related maintenance services Paper containers Film for food packaging use Film for industrial packaging use
Fiscal 2005 Net Sales	¥45.0 billion (including intercompany sales)

052



Toshihiro Maeda President

Business Environment

Food and beverage consumption is expected to decrease in absolute terms as a result of Japan's aging society and declining population. Moreover, milk consumption is slumping in contrast to a robust market for tea beverages and mineral waters.

At the same time, prices for base paper, plastic resins, and other raw materials have risen across the board since last year, which has placed significant pressure on the company's profits. Competition from other manufacturers and other types of containers, notably PET bottles, is also growing more intense each year.

Additionally, the company faces mounting social demands to increase recycling of paper cartons and to enhance the safety and sanitation of food containers.

Company Strengths

We offer an integrated service encompassing the supply of filling machines and their maintenance as well as PURE-PAK® chilled liquid-packaging cartons and NS-FUJI PAK®

aseptic liquid-packaging cartons. Our products are suitable for either refrigerated or dry distribution.

Performance in Fiscal 2005

Sales volume and value of liquid-packaging cartons decreased compared to fiscal 2004, when the hot summer contributed to robust sales, due to a decline in milk consumption and plateau in the market for soy milk, black vinegar, and other health beverages. For general paper containers, despite a sharp increase in sales volume of tissue boxes to group company Nippon Paper Creca Co., Ltd., sales to the fast-food industry were sluggish as a result of competition from imported products, and overall sales decreased. Film sales increased year-on-year.

Outlook

The business environment is growing more severe in fiscal 2006 as a result of intensifying sales competition and higher prices for raw materials. Nevertheless, the start of production with newly installed equipment, including a second web offset

printing press at Miki Paper-Pak Co., Ltd. and a rotogravure printing press and laminating machine at Egawa Paper-Pak Co., Ltd., should make a major contribution to increasing our competitiveness by raising productivity and improving quality. Moreover, we plan to accelerate our product cost reduction project in fiscal 2006 after achieving significant results in fiscal 2005. In overseas business, we sell NS-FUJI PAK® and are moving forward in our PURE-PAK® joint venture with Elopak AS in China.

053

Nippon Paper Chemicals Co., Ltd.



NIPPON PAPER CHEMICALS CO.,LTD.

Nippon Paper Chemicals Co., Ltd.

Established October 1, 2002

Paid-in Capital ¥3,000 million

Web Site <http://www.npchem.co.jp/english/>

Representative President Toshio Inoue

Principal Products (applications) Dissolving pulp (rayon, cellophane, cellulose derivatives, etc.)/Chlorinated polyolefin, Special polyolefinic resin (paint, ink, adhesives, etc.)/Lignin products (concrete admixture, bonds, etc.)/Carboxymethyl cellulose (CMC) (thickener, stabilizer, etc.)/Powdered cellulose (resin additive, filter auxiliaries, food additives, etc.)/Yeast extract (foods, animal feed, etc.)/Ribonucleic acid (seasonings, culture media, etc.)/Stevia extract, glycyrrhizin (natural sweetener)/Functional films for displays

Fiscal 2005 Net Sales ¥30.2 billion (including intercompany sales)

054



Toshio Inoue

Toshio Inoue President

Business Environment

In the coating resins business, Japanese coating manufacturers are shifting production overseas as a result of slower growth in domestic production at automakers and an increase in overseas automobile production. At the same time, demand for environmentally friendly products is increasing.

In liquid crystal display (LCD) materials, shipments of LCD televisions surpassed shipments of cathode-ray tube televisions for the first time in fiscal 2005. The notebook computer industry seeks greater clarity or lower reflection from surface films to improve video quality.

The food products industry tends to emphasize environmentally friendly products that use natural materials.

Shipments of ready-mixed concrete remain flat due to a decrease in public works projects.

Company Strengths

We have earned the deep trust of our customers based on the following three strengths. First, we operate a flexible customer-oriented business

through collaboration between our manufacturing, sales, and research departments. Second, we employ a flat organizational structure to enable rapid decision-making. Third, our development structure places emphasis on cultivating proprietary technologies.

Performance in Fiscal 2005

In fiscal 2005, the dissolving pulp business enjoyed strong sales during the fiscal first half, but sales decreased in the second half due to a downturn in the export environment. Chlorinated polyolefin used in automobile paint performed well, and in the functional materials business, mainstay optical films used in LCD panels remained strong and contributed to higher sales. However, high raw material and fuel prices had a significant adverse impact, and despite efforts to reduce costs and increase product prices, we were unable to compensate for higher costs.

As a result, operating income dropped 29.9% year-on-year, but non-consolidated sales surpassed ¥30 billion for the first time thanks to a full-year contribution from the functional materials

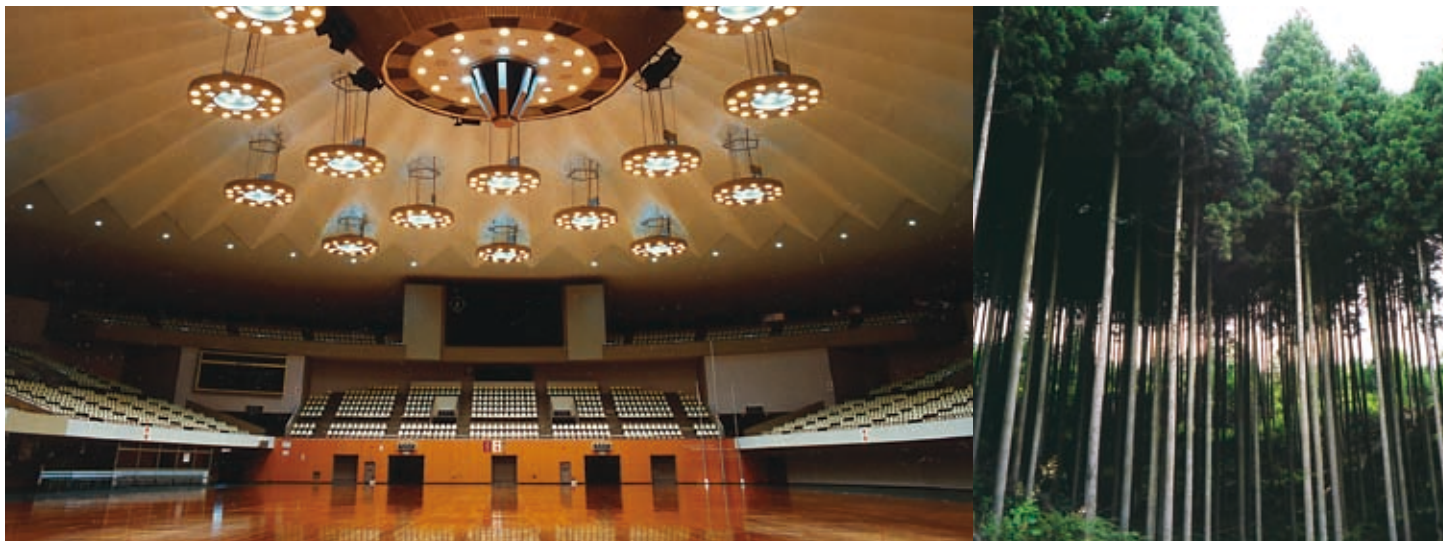
business.

Outlook

Fiscal 2006 marks the first year in our Second Medium-Term Business Plan. The business environment remains difficult, including high raw material and fuel prices, but we are steadily implementing priority measures in an effort to improve earnings. We expect sales to increase in conjunction with growth in the markets for chlorinated polyolefin used in automobile paint and for LCD materials.

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Nippon Paper Lumber Co., Ltd.



NIPPON PAPER LUMBER CO., LTD.

Nippon Paper Lumber Co., Ltd.

Established	September 10, 1970
Paid-in Capital	¥440 million
Web Site	http://www.np-l.co.jp
Representative	President Satoru Tanada
Principal Products and Commodities	Logs (softwood, hardwood) Lumber products, Glued lumber, Plywood Pulpwood Woodchips (for use in papermaking, in board, and as fuel) Wastepaper Insulation materials

Fiscal 2005 Net Sales ¥87.8 billion (including intercompany sales)

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Satoru Tanada President

Business Environment

New housing starts achieved high growth of 4% year-on-year in 2005 due to improvement in the income environment thanks to economic recovery and to rush demand in anticipation of higher interest rates. However, prices for a majority of lumber construction materials slumped amid chronic oversupply, and we were still unable to pass cost increases onto product prices. Going forward, we expect the number of new housing starts to remain on par with last year due to a steady domestic economy, but we also expect profits to be pressured by a continued rise in raw material costs and slump in prices.

Company Strengths

We are maintaining growth as a leading company in the lumber industry by leveraging the reliability, financial strength, and corporate planning capabilities available as part of the Nippon Paper Group. We seek to establish a sustainable lumber business model by handling all aspects of cultivating forests, manufacturing and selling housing materials and papermaking

materials, and disposing of scrap wood. We use the network of Nippon Paper Group to gather a variety of information and proposals from both inside and outside the company, and this provides the basis for expanding our business.

Performance in Fiscal 2005

In fiscal 2005, sales of domestically-produced logs and lumber increased significantly amid growing calls to return to domestically-produced materials. We also achieved higher sales of lumber and construction materials, primarily in metropolitan Tokyo, and increased our market share.

The volume of imported materials fell sharply due to an ongoing shift away from logs, and profit margins decreased as a result of high local prices. As a result of the foregoing, net sales grew 3.9% year-on-year, but ordinary income declined 1.2%.

Outlook

We expect the rapidly changing business environment to remain difficult on account of higher costs for raw materials and supply shortages

in Japan resulting from rising demand in China and elsewhere. In response, we are stepping up efforts to expand sales of housing materials, especially in major metropolitan areas. We also seek to expand our business by increasing sales of pallets and other industrial products not affected by housing demand and by developing an infrastructure for our wastepaper and fuel recycling business.

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NIPPON PAPER GROUP's Social Responsibility

At Nippon Paper Group, we provide broad support to industry, culture, and local communities, giving priority to creating a sound social foundation by conserving the environment, providing safe and healthy workplaces, preventing accidents, and upholding high ethical standards. We are pursuing a variety of corporate social responsibility (CSR) initiatives to achieve the four goals outlined in our corporate vision of achieving superior, stable profits for our shareholders; winning the trust of our customers; having positive, forward-looking employees; and preserving corporate ethics.

As an example of these initiatives, we are moving away from using heavy oil boilers by installing nine new energy boilers during the timeframe of our Second Medium-Term Business Plan, which we launched in fiscal 2006. By drastically reducing our consumption of heavy oil by using wood scrap, refuse paper and plastic, scrap tires, and other new-energy sources, we hope to not only significantly lower our rising energy costs, but also reduce our emissions of the greenhouse gases that cause global warming.

Prepared Philosophy and Basic Policy Concerning Raw Materials Procurement through dialogue with stakeholders

Based on the philosophy outlined in the Nippon Paper Group Charter on the Environment*, we seek to conduct sustainable business activities in harmony with the natural environment, and—with Nippon Paper Industries Co., Ltd. taking the lead—we have played an active role in pushing forward with afforestation projects overseas and in utilizing a forest certification system. In October 2004, we established the Raw Materials Subcommittee under the authority of the CSR Committee with the goal of using sustainable methods to procure papermaking materials on a stable basis while working to preserve the global environment and the culture of local communities.

Since its establishment, the Raw Materials Subcommittee has pursued a variety of initiatives, including holding CSR seminars focusing on raw material procurement and analyzing the current state of procurement, in an effort to create an ideal situation for procuring raw materials throughout the group. Based on the results of these activities, the subcommittee decided to prepare the Philosophy and Basic Policy Concerning Raw Materials Procurement through dialogue with stakeholders and use this as a guideline to create and implement more specific action plans.

We made a draft of the Philosophy and Basic Policies on Raw Material Procurement available to the public on June 17, 2005, and invited a broad range of stakeholders to express their opinions over a period of about one month. During this time, we received invaluable comments from nearly 2,000 individuals and groups located both in Japan and overseas. We sorted through the various comments we received, summarized key points, and held discussions within the company. We found that many of these comments were valuable and revised our draft to reflect them and announced the final version of our Philosophy and Basic Policies on Raw Material Procurement on October 28, 2005.

We are preparing specific action plans based on our Philosophy and Basic Policies on Raw Material Procurement and working to enhance supply chain management that is friendly to the environment and socially aware.

* The Nippon Paper Group Charter on the Environment is available on our Web site at http://www.np-g.com/e/csr/ideology/enviro_commission.html.

Philosophy and Basic Policy Concerning Raw Materials Procurement

Philosophy

We are committed to establishing a reliable raw materials procurement system through global supply chain management in consideration of the environment and society.

Basic Policy

Environmentally friendly raw materials procurement

- ① We procure woodchips, lumber and pulp from forests under sustainable forest management.*
- ② We use and deal with no illegally logged lumber and we support the eradication of illegal logging.
- ③ We make active use of recycled materials to help build a recycling-oriented society.
- ④ We make appropriate procurement of chemical substances in compliance with relevant laws and regulations.
- ⑤ We build traceability systems to ensure the above policies are practiced throughout the supply chain.

Socially aware raw materials procurement

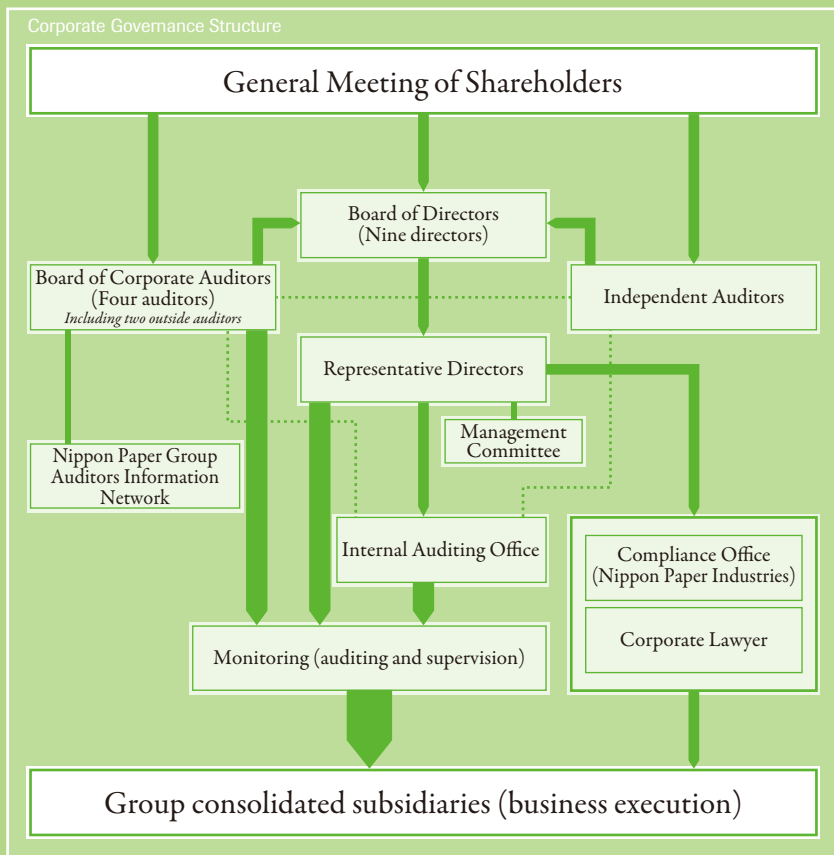
- ① We pursue fair deals with suppliers on equal terms.
- ② We ensure that the entire supply chain has appropriate human rights and labor practices.

Promotion of dialogues with stakeholders

- ① We engage in dialogues with stakeholders to improve the quality of our raw materials procurement in constant consideration of the environment and society.
- ② We proactively disclose information so that our initiatives are better known.

* Sustainable forest management:
Forestry management that not only considers economic rationality, but also environmental and social sustainability. The Nippon Paper Group defines sustainable forest management as follows:
1. Biological diversity is conserved.
2. The productivity and soundness of the green ecosystem is maintained.
3. Soil and water resources are conserved.
4. Diverse social needs are satisfied.

Corporate Governance



Nippon Paper Group, Inc. seeks to enhance management transparency for its various stakeholders, comprising shareholders, investors, customers, suppliers, and local communities, to conduct its business activities fairly, and to achieve sustained growth. As a pure holding company, Nippon Paper Group, Inc. is primarily responsible for managing the corporate group and pursuing the growth strategies and monitoring the activities of group companies. We believe accountability to stakeholders forms the basis of corporate governance. We also seek to ensure compliance by monitoring group companies.

Separating between governance and business execution

Nippon Paper Group has clearly defined its organization and the specific roles within this organization. We maintain a separation between governance by Nippon Paper Group, Inc.

and business execution by group companies. Our governance model is based on the principle of encouraging the freedom, independence, and self-responsibility of group companies while keeping our involvement in business execution to a minimum. We established the Public & Investor Relations Office under the direct authority of the president and are working to convey the opinions of capital markets regarding management directly to upper management.

The articles of incorporation set the number of directors at ten or fewer. We have nine internal directors and no outside directors as of June 2006. The Board of Directors is responsible for determining the basic management policies of Nippon Paper Group, Inc. and group companies, deciding on matters pertaining to laws and regulations, the articles of incorporation, and other important management issues, and monitoring business execution. In addition to the Board of Directors, we convene a Management Committee comprised of all directors and corporate auditors including the chairman. This committee deliberates on important matters related to the basic management policies and strategies of Nippon Paper Group, Inc. and its overall corporate group as well as important matters related to business execution at group companies. This committee also seeks to ensure rigorous compliance.

Auditing system

To fulfill auditing functions, we employ a corporate auditor system based on the Corporate Law and other relevant laws and regulations. We have two internal auditors and two outside auditors as of June 2006. Outside auditors are chosen from outside the corporate group. In principle, the Board of Corporate Auditors convenes once a month prior to the Board of Directors meeting to examine the legality and appropriateness of proposed measures. Corporate auditors rigorously monitor the execution of duties by directors by attending important meetings, including meetings of the Board of Directors, Management Committee, and Meeting of Affiliate Company Presidents, and by expressing opinions and reviewing important documents of these meetings. Corporate auditors also conduct interviews with directors and employees of Nippon Paper Group, Inc. and perform on-site audits at subsidiaries. Corporate auditors provide feedback based on the results of their auditing activities, encourage improvement for matters indicated, and report on important matters to directors.

Internal audits of operating companies are performed by the Internal Auditing Office, which is under the direct authority of the president.

We employ Ernst & Young ShinNihon to perform accounting audits in accordance with the Corporate Law and the Securities and Transaction Law. Neither Ernst & Young ShinNihon nor the employees of Ernst & Young ShinNihon performing audits have any particular interests in Nippon Paper Group, Inc.

Directors and Corporate Auditors (As of June 29, 2006)



Chairman and Representative Director
Takahiko Miyoshi

1939 Born
1961 Joined Jujo Paper Co., Ltd.
2001 Appointed Director at
Nippon Unipac Holding
2002 Appointed President and
Representative Director at
Nippon Unipac Holding
2005 Appointed Chairman and
Representative Director at
Nippon Paper Group, Inc.



President and Representative Director
Masatomo Nakamura

Concurrently President and
Representative Director at
Nippon Paper Industries Co., Ltd.

1941 Born
1963 Joined Jujo Paper Co., Ltd.
2003 Appointed Director at
Nippon Unipac Holding
2005 Appointed President and
Representative Director at
Nippon Paper Group, Inc.



Director
Nobuyuki Otsuki

Concurrently President and
Representative Director at
Nippon Daishowa Paperboard Co., Ltd.

1943 Born
1967 Joined Jujo Paper Co., Ltd.
2004 Appointed Director at
Nippon Unipac Holding
2006 Appointed Director at
Nippon Paper Group, Inc.
(current position)



Director
Toshio Inoue

Concurrently President and
Representative Director at
Nippon Paper Chemicals Co., Ltd.

1944 Born
1969 Joined Sanyo Pulp Co., Ltd.
2005 Appointed Director at
Nippon Paper Group, Inc.



Director
Noboru Hasegawa

CSR Director,
concurrently Executive Vice President
and Representative Director at
Nippon Paper Industries Co., Ltd.

1943 Born
1966 Joined Jujo Paper Co., Ltd.
2006 Appointed Director at
Nippon Paper Group, Inc.



Director
Yukuo Fukunaga

Concurrently Managing Director
and General Manager of
the Financial Division at
Nippon Paper Industries Co., Ltd.

1944 Born
1968 Joined Jujo Paper Co., Ltd.
2006 Appointed Director at
Nippon Paper Group, Inc.



Director
Kazuhiro Sakai

Concurrently President and
Representative Director at
Nippon Paper Crecia Co., Ltd.

1947 Born
1970 Joined Jujo Paper Co., Ltd.
2006 Appointed Director at
Nippon Paper Group, Inc.

Senior Corporate Auditor
Keisuke Ito

Concurrently Senior Corporate Auditor at
Nippon Paper Industries Co., Ltd.

Corporate Auditor
Hirotoishi Ishikawa

Outside Corporate Auditor
Yoshihiro Morikawa

Concurrently Outside Corporate Auditor at
Nippon Paper Industries Co., Ltd.

Outside Corporate Auditor
Naoki Yanagida

Concurrently Outside Corporate Auditor at
Nippon Paper Industries Co., Ltd.



Director
Yoshio Haga

PR and IR Director, concurrently
Managing Director and
General Manager of
the Corporate Planning Division at
Nippon Paper Industries Co., Ltd.

1949 Born
1974 Joined Jujo Paper Co., Ltd.
2005 Appointed Director at
Nippon Paper Group, Inc.



Director
Masaru Motomura

Concurrently Director and
General Manager of the Personnel
& General Affairs Division at
Nippon Paper Industries Co., Ltd.

1950 Born
1974 Joined Jujo Paper Co., Ltd.
2005 Appointed Director at
Nippon Paper Group, Inc.



The Moon in the Art of Japanese Paper and Light exhibition at the NAIS Museum

Financial Section

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Consolidated Five-Year Summary

Nippon Paper Group, Inc. and Consolidated Subsidiaries

	Millions of yen					Thousands of US dollars (Note 2)
	FY2001 (Note 1) March 30, 2001–March 31, 2002	FY2002 April 1, 2002–March 31, 2003	FY2003 April 1, 2003–March 31, 2004	FY2004 April 1, 2004–March 31, 2005	FY2005 April 1, 2005–March 31, 2006	FY2005 April 1, 2005–March 31, 2006
Net sales	¥ 1,211,422	¥ 1,165,450	¥ 1,192,649	¥ 1,179,696	¥ 1,152,166	\$ 9,847,573
Cost of sales	919,859	892,906	919,602	914,384	920,819	7,870,248
Operating income	42,422	50,450	55,679	65,231	48,391	413,598
Ordinary income	28,563	39,671	50,665	62,801	49,403	422,248
Net income (loss)	(636)	4,880	24,258	24,350	17,192	146,940
Total assets	1,721,745	1,630,126	1,637,366	1,529,975	1,492,427	12,755,786
Total current assets	517,698	455,445	476,649	443,177	412,657	3,526,983
Property, plant and equipment, net	941,428	924,597	900,013	843,346	811,110	6,932,564
Total investments and other assets	262,618	250,083	260,703	243,450	268,659	2,296,231
Liabilities and minority interests in consolidated subsidiaries	1,314,376	1,221,923	1,207,744	1,087,097	1,052,110	8,992,393
Total shareholders' equity	407,369	408,202	429,621	442,876	440,316	3,763,385
Interest-bearing debt	903,336	851,311	842,278	766,139	692,080	5,915,214
Depreciation	87,144	83,223	81,259	74,971	70,106	599,197
Capital investment	69,512	76,904	57,423	55,353	69,687	595,615
Free cash flow	13,221	56,804	14,425	82,132	91,655	783,376
Per share data	yen					US dollars
Net income (loss)						
Basic	(590.30)	4,283.53	22,025.22	21,996.96	15,760.27	134.70
Diluted (Note 3)	—	4,137.37	21,132.64	21,107.50	15,123.82	129.26
Total shareholders' equity	377,308.99	374,133.23	392,140.80	404,369.11	413,525.41	3,534.41
Cash dividends	8,000.00	8,000.00	8,000.00	8,000.00	8,000.00	68.38
Ratios						
Operating income to net sales (%)	3.5	4.3	4.7	5.5	4.2	
Net income (loss) to net sales (%)	(0.1)	0.4	2.0	2.1	1.5	
Return on equity (ROE) (%)	(0.2)	1.2	5.8	5.6	3.9	
Return on invested capital (ROIC) (%)	3.4	4.2	4.9	5.9	5.0	
Equity ratio (%)	23.7	25.0	26.2	28.9	29.5	
Return on assets (ROA) (%)	2.6	3.2	3.8	4.7	3.8	
Debt/equity ratio (times)	2.1	2.0	1.9	1.7	1.5	
Number of employees	17,153	15,662	14,987	13,774	12,798	

Notes: 1. Full fiscal 2001 represents the combined total of the company's first fiscal period from March 30, 2001 to September 30, 2001 and its second fiscal period from October 1, 2001 to March 31, 2002.

2. Amounts in US dollars are included solely for convenience and are translated at a rate of ¥117/\$, the approximate rate of exchange on March 31, 2006.

3. Diluted net income per share is not stated in fiscal 2001 because the company incurred a net loss per share.

-Interest-bearing debt = Short-term borrowings + Long-term debt

-Free cash flow = Cash flows from operating activities + Cash flows from investing activities

-Return on equity (ROE) = Net income / Average shareholder's equity × 100

-Return on invested capital (ROIC) = (Ordinary income + Interest expense) / (Total shareholder's equity + Interest-bearing debt) × 100

-Return on assets (ROA) = (Ordinary income + Interest expense) / Total assets × 100

-Debt/Equity ratio = (Interest-bearing debt – Cash and cash equivalents) / Total shareholder's equity

Consolidated Financial Review

Nippon Paper Group, Inc. and consolidated subsidiaries

Summary

The Japanese economy continued a moderate but steady recovery in fiscal 2005 thanks to an increase in capital investment due to robust corporate earnings and higher consumer spending in the wake of improvements in the employment and income situations.

In the paper industry, domestic paper shipments were strong thanks to the economic recovery and demand associated with the Lower House elections and Torino 2006 Olympic Winter Games. The paperboard industry also enjoyed firm domestic shipments as a result of strong containerboard demand from the processed food industry and the mail-order and home-delivery industries.

However, prices of crude oil, woodchips, coal, papermaking chemicals, and other raw materials and fuels increased dramatically in a tight international supply and demand situation, and this placed significant downward pressure on earnings.

Responding to these circumstances, Nippon Paper Group pressed forward with efforts to reduce variable costs by conserving resources and energy by, for example, using wastepaper and filler, as well as by working to reduce labor costs and bolster our marketing structure. In this way we have sought to enhance our corporate structure and improve earnings of the overall group. However, these initiatives were not enough to compensate for the increase in costs resulting from higher raw material and fuel prices.

Net sales, cost of sales, expenses, and profits

In the environment described above, consolidated net sales declined ¥27,529 million, or 2.3%, year-on-year to ¥1,152,166 million.

Cost of sales increased 0.7% year-on-year to ¥920,819 million and the cost of sales ratio was 79.9%. Selling, general, and administrative (SG&A) expenses declined 8.6% to ¥182,955 million and the SG&A expense ratio was 15.9%. Operating income dropped 25.8% to ¥48,391 million and the operating income margin declined 1.3 percentage points to 4.2%.

Other income and expenses had a net expense of ¥9,352 million. The main income item was a net gain on sales and disposal of property, plant, and equipment of ¥11,063 million. Main expense items included interest expense of ¥6,823 million, fixed-asset impairment losses of ¥10,269 million, and supplementary retirement benefits of ¥7,708 million. Interest expenses decreased ¥1,855 million year-on-year thanks to a reduction in interest-bearing debt and refinancing at more favorable interest rates. The net gain on sales and disposal of property, plant, and equipment included a gain on the sale of the site of the former Miyakojima Mill of Nippon Paper Industries Co., Ltd.

Income before income taxes and minority interests in consolidated subsidiaries declined 16.6% year-on-year to ¥39,038 million and net income fell 29.4% to ¥17,192 million.

Net income per share totaled ¥15,760.27, down from ¥21,996.96 in fiscal 2004, and net

income per diluted share was ¥15,123.82, compared to ¥21,107.50 in fiscal 2004. Our basic policy on distributing profits is to meet the long-term expectations of shareholders and investors by bolstering the Group's management and operating platforms, reinvesting retained earnings to enhance our earnings power, and increasing corporate value.

We seek to maintain a stable dividend in light of the Group's business performance and retained earnings, and we paid an annual dividend of ¥8,000 per share in fiscal 2005.

Review of Operations

Pulp and Paper Division

In the paper business, domestic sales volume of newsprint increased year-on-year thanks to firm sales resulting from demand associated with the Lower House elections and Torino 2006 Olympic Winter Games. Domestic sales volume of printing and business communication paper also increased year-on-year, driven by coated paper and business communication paper with support from strong commercial printing demand, including catalogs and pamphlets for the automobile, travel, and digital home electronics industries. However, prices softened in the fiscal second half.

Domestic sales volume of paperboard was generally on par with the previous year.

In the household tissue business, amid an ongoing slump in prices caused by fierce sales competition, we sought to strengthen our profit structure, based mainly on a reduction in labor costs, and to restore our market share by enhancing our sales capabilities.

As a result of the foregoing, net sales in the pulp and paper division declined 1.1% year-on-year to ¥860,993 million and operating income fell 29.8% to ¥33,197 million.

Paper-Related Division

Sales volume of liquid packaging cartons, most notably PURE-PAK®, decreased slightly year-on-year, due to sluggish demand resulting from less favorable weather than in fiscal 2004, which can be partly attributed to the severe winter in fiscal 2005.

In the corrugated board business, to strengthen the foundation of downstream operations, we merged Nichiita Package Industries Co., Ltd., previously a consolidated subsidiary, and Tokan Packaging System Co., Ltd. in October 2005 and made the new company an equity method subsidiary; this resulted in a decline in sales.

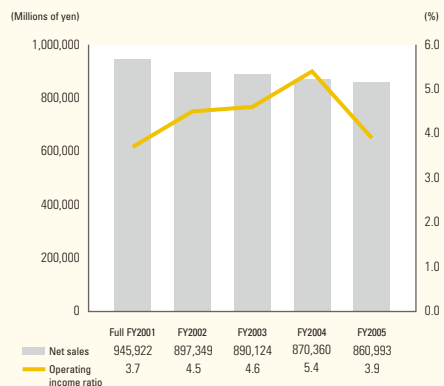
For chemical products, concrete admixtures and powdered cellulose for food products recorded firm sales.

In the functional materials business, optical films for liquid crystal panels sold well, buoyed by robust demand for personal computers.

In this environment, we sought to improve earnings to offset higher costs resulting from rising raw material and fuel prices. Despite our efforts, net sales in the paper-related division fell

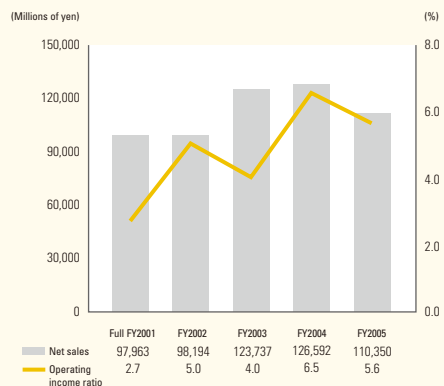
Pulp and Paper Division

Net sales and operating income ratio



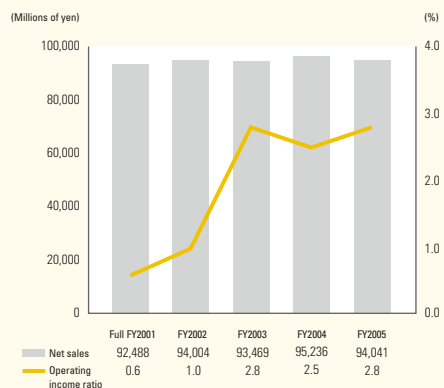
Paper-Related Division

Net sales and operating income ratio



Housing and Construction Materials Division

Net sales and operating income ratio



12.8% year-on-year to ¥110,350 million and operating income dropped 25.4% to ¥6,181 million.

Housing and Construction Materials Division

In the housing and construction materials business, sales decreased due to a slump in prices caused by intensifying competition amid a downturn in new starts of wood homes. However, profits increased as a result of dissolving an unprofitable housing company.

The civil engineering business performed well.

As a result, net sales in the housing and construction materials division declined 1.3% year-on-year to ¥94,041 million, but operating income increased 11.5% to ¥2,607 million.

Other Division

In the beverages business, sales and profits both decreased due to an expansion of discount sales in response to intensifying sales competition and to an increase in sales promotion costs.

The electricity supply business enjoyed growth in both sales and profits, aided by a full-year contribution from wholesale electricity sales at Nippon Paper Industries Co., Ltd., which commenced in October 2004.

The transport, leisure, and other businesses also performed well.

Consequently, net sales in the other division declined 0.8% year-on-year to ¥86,781 million and operating income was down 12.7% at ¥6,404 million.

Financial Position

Consolidated assets totaled ¥1,492,427 million at the end of fiscal 2005, down ¥37,547 million from ¥1,529,975 million at the end of fiscal 2004.

Current assets totaled ¥412,657 million, declining ¥30,520 million year-on-year. The main factor contributing to this decline was a sharp decrease in trade receivables from ¥237,944 million to ¥187,923 million.

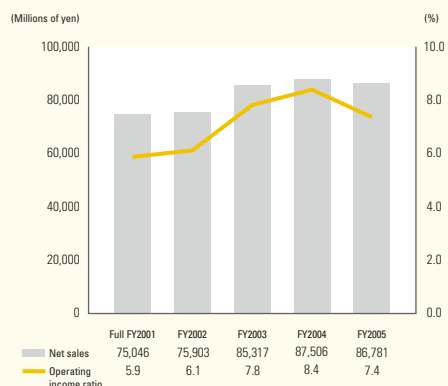
Property, plant, and equipment totaled ¥811,110 million, declining ¥32,236 million year-on-year, due to the introduction of asset impairment accounting and to removing subsidiaries from the scope of consolidation.

Investments and other assets rose ¥25,209 million to ¥268,659 million, due mainly to investments in securities increasing ¥17,504 million as a result of higher stock prices.

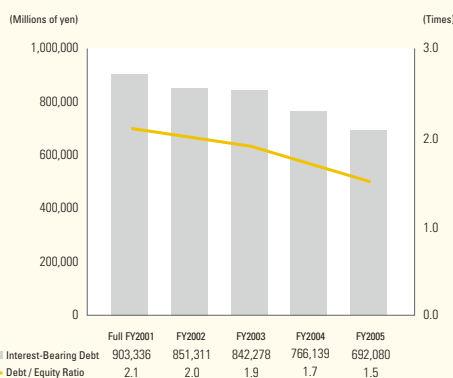
Current and long-term liabilities totaled ¥1,029,787 million, down ¥33,665 million year-on-year. This can be attributed mainly to interest-bearing debt declining to ¥692,080 million as a result of aggressive efforts to reduce interest-bearing debt. We achieved the target in our First Medium-Term Business Plan of reducing interest-bearing debt to below ¥700 billion.

Other Division

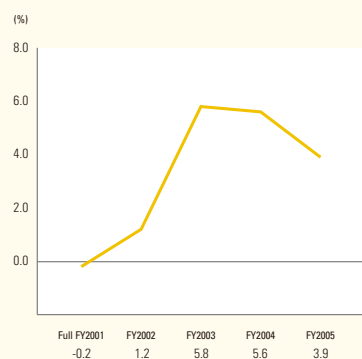
Net sales and operating income ratio



Interest-Bearing Debt and Debt/Equity Ratio



Return on Equity (ROE)



Cash Flows

Consolidated cash and cash equivalents decreased ¥4,217 million year-on-year to ¥13,963 million at the end of fiscal 2005 as a result of using net cash provided by operating activities for capital investment and the repayment of interest-bearing debt.

Cash flows from operating activities

Cash provided by operating activities totaled ¥132,054 million, an increase of ¥23,858 million year-on-year. Main items included income before income taxes and minority interests in consolidated subsidiaries of ¥39,038 million, depreciation of ¥70,106 million, and a decrease in receivables of ¥20,696 million.

Cash flows from investing activities

Cash used in investing activities totaled ¥40,398 million, an increase of ¥14,336 million year-on-year. Main items included payments of ¥62,555 million to purchase property, plant and equipment and proceeds of ¥22,437 million from sales of property, plant and equipment.

Cash flows from financing activities

Cash used in financing activities totaled ¥96,550 million, an increase of ¥10,540 million year-on-year. Main items included payments of ¥75,166 million for the repayment of interest-bearing debt and payments of ¥12,424 million for purchases of treasury stock.

Cash flow indicators for the previous five years are shown in the table below.

	Full FY2001	FY2002	FY2003	FY2004	FY2005
Equity ratio (%)	23.7	25.0	26.2	28.9	29.5
Equity ratio based on market capitalization (%)	39.3	29.6	37.1	35.4	36.3
Debt redemption years (years)	8.5	6.6	9.7	7.1	5.2
Interest coverage ratio (times)	6.7	9.8	8.0	12.6	17.8

-Equity ratio = Total shareholders' equity / Total assets × 100

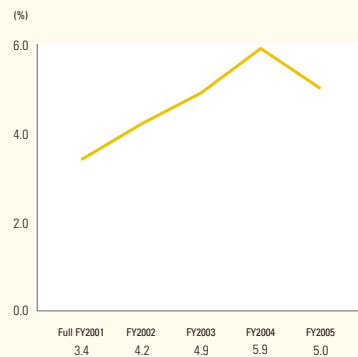
-Equity ratio based on market capitalization = Market capitalization / Total assets × 100

-Debt redemption years = Interest-bearing debt / Operating cash flow

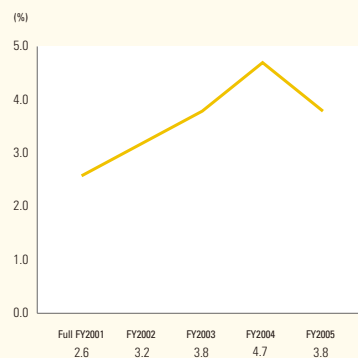
-Interest coverage ratio = Operating cash flow / Interest paid

- Notes:
- All indicators are all calculated based on consolidated financial figures.
 - Market capitalization is calculated by multiplying the closing share price at year end by the number of shares outstanding at year end, not including treasury shares.
 - Calculations that include operating cash flow use cash flow from operating activities as recorded in the consolidated statements of cash flows. Interest-bearing debt includes all liabilities recorded in the consolidated balance sheets on which the company is paying interest. Calculations that include interest paid use interest paid as recorded in the consolidated statements of cash flows.
 - Full Fiscal 2001 comprises the two irregular fiscal periods of March 30, 2001–September 30, 2001 and October 1, 2001–March 31, 2002.

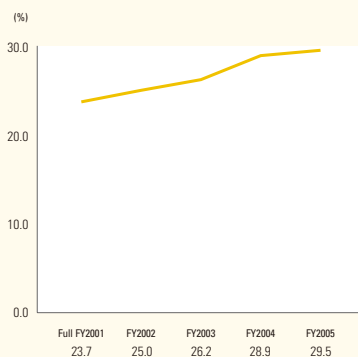
Return on Invested Capital (ROIC)



Return on Assets (ROA)



Equity Ratio



Business Risks

Nippon Paper Group's business performance and financial position could potentially be affected by the following risk factors.

(1) Product demand and market conditions

The activities of Nippon Paper Group are divided into four business divisions—the mainstay pulp and paper division, the paper-related division, the housing and construction materials division, and the other division. Products in these divisions are subject to the risk of fluctuations in demand depending on economic circumstances and the risk of fluctuations in product prices based on market trends. These fluctuations could potentially affect our business performance and financial position.

(2) Manufacturing conditions

Nippon Paper Group manufactures products based on forecasts that account mainly for demand and the production capacity of current facilities. We inspect all equipment on a regular basis to prevent accidents, but we still face the risk of a decrease in our ability to supply products due to a decline in capacity utilization resulting from fire, equipment trouble, or impediments to procuring raw materials and fuels. Such changes in our supply capacity could potentially affect our business performance and financial position.

(3) Foreign exchange

Nippon Paper Group is subject to the risk of foreign exchange fluctuations in relation to import and export operations. Our expenditures to import various raw materials and fuels, including woodchips, heavy oil, coal, and chemicals, are higher than our revenues from exporting products. Accordingly, the yen's depreciation against the US dollar or Australian dollar could have a negative impact on our business performance. We use foreign exchange contracts and other instruments to hedge this risk.

(4) Raw material and fuel prices

Nippon Paper Group purchases various raw materials and fuels, mainly woodchips, wastepaper, heavy oil, coal, and chemicals, to manufacture and sell paper, pulp, and other products. As a result, we are subject to the risk of fluctuations in raw material and fuel prices in international and domestic markets. These fluctuations could potentially affect our business performance and financial position.

(5) Stock prices

Nippon Paper Group owns marketable stocks, primarily in partnering and affiliated companies. Consequently, fluctuations in stock prices could potentially affect our business performance and financial position. Additionally, fluctuations in stock prices could potentially result in fluctuations in pension costs through fluctuations in pension assets.

(6) Interest rates

Nippon Paper Group is subject to the risk of fluctuations in interest rates in relation to interest-bearing debt. Such fluctuations could potentially affect our business performance and financial position.

(7) Overseas business

Nippon Paper Group is involved in the manufacture and sale of paper and pulp products, afforestation, and other businesses in overseas markets, primarily North America, Northern Europe, China, and Australia. Though we are working to prevent risks associated with overseas businesses, unforeseen circumstances could potentially affect our business performance and financial position.

(8) Litigation

Nippon Paper Group strives to conduct its business in compliance with laws and regulations. Nevertheless, in pursuing our business activities both in Japan and overseas, we are subject to the risk of litigation related to criminal matters, civil matters, anti-monopoly laws, product liability laws, intellectual property rights, environmental issues, labor issues, and so forth. Such litigation could potentially affect our business performance and financial position.

(9) Fixed asset impairment

Nippon Paper Group owns fixed assets, including manufacturing facilities and land. A decrease in the value of these fixed assets could potentially affect our business performance and financial position.

(10) Natural disaster

Nippon Paper Group could potentially incur expenses to restore facilities or opportunity losses from production shutdowns in the event that manufacturing or logistics facilities are damaged in an earthquake or major natural disaster occurring near a manufacturing site or sales location. These expenses or opportunity losses could potentially affect our business performance and financial position.

(11) Other changes in the business environment

Nippon Paper Group is subject to the risk of changes in the business environment arising from contingencies other than those mentioned above. Such changes could potentially affect our business performance and financial position.

Consolidated Balance Sheets

Nippon Paper Group, Inc. and Consolidated Subsidiaries

March 31, 2005 and 2006

Assets	Millions of yen		Thousands of U.S. dollars
	2005	2006	(Note 4)
Current assets:			
Cash and cash equivalents	¥ 18,181	¥ 13,963	\$ 119,342
Marketable securities (Note 15)	210	75	641
Receivables:			
Notes and accounts receivable:			
Trade	237,944	187,923	1,606,179
Unconsolidated subsidiaries and affiliates	12,282	33,093	282,846
Other	11,469	11,393	97,376
Loans receivable from unconsolidated subsidiaries and affiliates	12,162	10,430	89,145
Allowance for doubtful receivables	(1,999)	(2,528)	(21,607)
Inventories (Note 5)	131,834	139,187	1,189,632
Deferred tax assets (Note 10)	3,911	4,336	37,060
Other current assets (Note 8)	17,181	14,782	126,342
Total current assets	443,177	412,657	3,526,983
Property, plant and equipment (Note 7):			
Land	244,036	228,997	1,957,239
Buildings and structures	450,839	445,769	3,809,991
Machinery and equipment	1,838,858	1,845,541	15,773,855
Construction in progress	16,912	28,149	240,590
Other	21,042	20,963	179,171
	2,571,689	2,569,421	21,960,863
Less accumulated depreciation	(1,728,343)	(1,758,311)	(15,028,299)
Property, plant and equipment, net	843,346	811,110	6,932,564
Investments and other assets:			
Investments in and advances to unconsolidated subsidiaries and affiliates	87,430	113,437	969,547
Investments in securities (Notes 7 and 15)	85,483	102,987	880,231
Deferred tax assets (Note 10)	11,608	6,455	55,171
Other assets	110,549	92,601	791,462
Allowance for doubtful receivables	(51,621)	(46,822)	(400,188)
Total investments and other assets	243,450	268,659	2,296,231
Total assets (Note 16)	¥ 1,529,975	¥ 1,492,427	\$ 12,755,786

Liabilities and shareholders' equity	Millions of yen		Thousands of U.S. dollars
	2005	2006	(Note 4)
Current liabilities:			
Short-term borrowings (Note 6):			
Loans payable and commercial paper	¥ 318,920	¥ 288,843	\$ 2,468,744
Unconsolidated subsidiaries and affiliates	795	1,317	11,256
Current portion of long-term debt (Notes 6 and 7):			
Bonds and loans payable	154,862	57,742	493,521
Notes and accounts payable:			
Trade (Note 7)	108,584	113,430	969,487
Unconsolidated subsidiaries and affiliates	23,318	27,762	237,282
Other	66,789	67,200	574,359
Accrued income taxes	7,199	3,495	29,872
Other current liabilities (Note 10)	23,016	27,662	236,427
Total current liabilities	703,486	587,455	5,020,983
Long-term liabilities:			
Long-term debt (Notes 6 and 7):			
Bonds and loans payable	291,560	344,176	2,941,675
Accrued retirement benefits (Note 8)	60,038	54,223	463,444
Deferred tax liabilities (Note 10)	5,374	40,016	342,017
Accrued environmental expenditures	—	986	8,427
Other long-term liabilities	2,993	2,929	25,034
Total long-term liabilities	359,966	442,332	3,780,615
Minority interests in consolidated subsidiaries	23,644	22,323	190,795
Contingent liabilities (Note 14)			
Shareholders' equity (Notes 11 and 19):			
Common stock:			
Authorized – 3,000,000 shares;			
Issued – 1,105,235.63 shares in 2006 and 2005	55,730	55,730	476,325
Capital surplus	252,443	252,441	2,157,615
Retained earnings	133,653	125,679	1,074,179
Unrealized holding gain on other securities	13,181	24,352	208,137
Translation adjustments	(6,382)	312	2,667
	448,626	458,516	3,918,940
Less treasury stock, at cost:			
40,967.52 shares in 2006 and 10,669.76 shares in 2005	(5,749)	(18,199)	(155,547)
Total shareholders' equity	442,876	440,316	3,763,385
Total liabilities and shareholders' equity	¥ 1,529,975	¥ 1,492,427	\$ 12,755,786

See notes to consolidated financial statements

Consolidated Statements of Income

Nippon Paper Group, Inc. and Consolidated Subsidiaries

Fiscal years ended March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2005	2006	2006
Net sales (Note 16)	¥ 1,179,696	¥ 1,152,166	\$ 9,847,573
Cost of sales (Notes 16 and 18)	914,384	920,819	7,870,248
Gross profit	265,312	231,347	1,977,325
Selling, general and administrative expenses (Notes 16 and 18)	200,080	182,955	1,563,718
Operating income (Note 16)	65,231	48,391	413,598
Other income (expense):			
Interest expense	(8,679)	(6,823)	(58,316)
Interest and dividend income	2,473	2,507	21,427
Net gain on sales of investments in securities	2,967	1,552	13,265
Net gain on sales and disposal of property, plant and equipment	4,327	11,063	94,556
Equity in earnings of affiliates	1,993	1,696	14,496
Gain due to changes in interests in consolidated subsidiaries	—	2,432	20,786
Loss on devaluation of investments in securities	(941)	(569)	(4,863)
Loss on impairment of fixed assets (Note 9)	—	(10,269)	(87,769)
Provision for environmental expenditures	—	(986)	(8,427)
Provision for doubtful receivables	(8,339)	(2,361)	(20,179)
Loss on restructuring	(4,997)	(885)	(7,564)
Supplementary retirement benefits	(6,134)	(7,708)	(65,880)
Other, net	(1,094)	1,001	8,556
	(18,425)	(9,352)	(79,932)
Income before income taxes and minority interests in consolidated subsidiaries	46,805	39,038	333,658
Income taxes (Note 10):			
Current	8,930	6,124	52,342
Deferred	12,154	14,932	127,624
	21,084	21,056	179,966
Minority interests in consolidated subsidiaries	(1,370)	(790)	(6,752)
Net income	¥ 24,350	¥ 17,192	\$ 146,940
	Yen		U.S. dollars (Note 4)
Amounts per share:			
Net income:			
Basic	¥ 21,996.96	¥ 15,760.27	\$ 134.70
Diluted	21,107.50	15,123.82	129.26
Cash dividends	8,000.00	8,000.00	68.38

See notes to consolidated financial statements

Consolidated Statements of Shareholders' Equity

Nippon Paper Group, Inc. and Consolidated Subsidiaries

	Millions of yen						
	Number of shares of issued common stock	Common stock	Capital surplus	Retained earnings	Unrealized holding gain (loss) on other securities	Translation adjustments	Less treasury stock at cost
Balance at March 31, 2004	1,105,235.63	¥ 55,730	¥ 252,447	¥ 118,044	¥ 15,427	¥ (6,525)	¥ (5,502)
Disposition of treasury stock	—	—	(3)	—	—	—	41
Purchase of treasury stock	—	—	—	—	—	—	(288)
Cash dividends paid	—	—	—	(8,762)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(202)	—	—	—
Net income	—	—	—	24,350	—	—	—
Adjustments for merger of consolidated subsidiary and unconsolidated subsidiary	—	—	—	178	—	—	—
Net change during the year	—	—	—	—	(2,246)	144	—
Adjustments for exclusion of certain subsidiaries from consolidation	—	—	—	44	—	—	—
Balance at March 31, 2005	1,105,235.63	55,730	252,443	133,653	13,181	(6,382)	(5,749)
Disposition of treasury stock	—	—	(2)	—	—	—	25
Purchase of treasury stock	—	—	—	—	—	—	(12,473)
Cash dividends paid	—	—	—	(8,649)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(250)	—	—	—
Adjustment for tax effect accounting applied to a consolidated subsidiary's land revaluation	—	—	—	(16,266)	—	—	—
Net income	—	—	—	17,192	—	—	—
Net change during the year	—	—	—	—	11,171	6,694	—
Balance at March 31, 2006	1,105,235.63	¥ 55,730	¥ 252,441	¥ 125,679	¥ 24,352	¥ 312	¥ (18,199)
		Thousands of U.S. dollars (Note 4)					
		Common stock	Capital surplus	Retained earnings	Unrealized holding gain (loss) on other securities	Translation adjustments	Less treasury stock at cost
Balance at March 31, 2005		\$ 476,325	\$ 2,157,632	\$ 1,142,333	\$ 112,658	\$(54,547)	\$(49,137)
Disposition of treasury stock		—	(17)	—	—	—	214
Purchase of treasury stock		—	—	—	—	—	(106,607)
Cash dividends paid		—	—	(73,923)	—	—	—
Bonuses to directors and statutory auditors		—	—	(2,137)	—	—	—
Adjustment for tax effect accounting applied to a consolidated subsidiary's land revaluation		—	—	(139,026)	—	—	—
Net income		—	—	146,940	—	—	—
Net change during the year		—	—	—	95,479	57,214	—
Balance at March 31, 2006		\$ 476,325	\$ 2,157,615	\$ 1,074,179	\$ 208,137	\$ 2,667	\$(155,547)

See notes to consolidated financial statements

Consolidated Statements of Cash Flows

Nippon Paper Group, Inc. and Consolidated Subsidiaries

Fiscal years ended March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars
	2005	2006	(Note 4)
			2006
Operating activities			
Income before income taxes and minority interests in consolidated subsidiaries	¥ 46,805	¥ 39,038	\$ 333,658
Adjustments to reconcile income before income taxes and minority interests in consolidated subsidiaries to net cash provided by operating activities:			
Depreciation	74,971	70,106	599,197
Amortization of consolidation goodwill	2,028	1,916	16,376
Increase in allowance for doubtful receivables	9,107	1,940	16,581
Decrease in accrued retirement benefits	(10,945)	(4,709)	(40,248)
Increase in accrued environmental expenditures	—	986	8,427
Interest and dividend income	(2,473)	(2,507)	(21,427)
Interest expense	8,679	6,823	58,316
Equity in earnings of affiliates	(1,993)	(1,696)	(14,496)
Net gain on sales of investments in securities	(2,967)	(1,552)	(13,265)
Net gain on sales and disposal of property, plant and equipment	(4,327)	(11,063)	(94,556)
Gain due to changes in interests in consolidated subsidiaries	—	(2,432)	(20,786)
Loss on impairment of fixed assets	—	10,269	87,769
Loss on devaluation of investments in securities	941	569	4,863
Supplementary retirement benefits	6,134	7,708	65,880
Loss on restructuring	4,997	885	7,564
Bonuses paid to directors and statutory auditors	(219)	(270)	(2,308)
Changes in operating assets and liabilities:			
Receivables	13,869	20,696	176,889
Inventories	895	(7,903)	(67,547)
Payables	(9,114)	13,067	111,684
Other	(5,736)	12,118	103,573
	130,655	153,994	1,316,188
Interest and dividends received	2,724	3,202	27,368
Interest paid	(8,601)	(7,433)	(63,530)
Payment of supplementary retirement benefits	(8,321)	(7,782)	(66,513)
Expenditures for restructuring	(2,951)	(520)	(4,444)
Income taxes paid	(5,308)	(9,407)	(80,402)
Net cash provided by operating activities	108,195	132,054	1,128,667

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2005	2006	(Note 4)
			2006
Investing activities			
Purchases of time deposits	¥ (168)	¥ (155)	\$ (1,325)
Withdrawals of time deposits	192	167	1,427
Proceeds from sales of marketable securities	31	210	1,795
Purchases of property, plant and equipment	(56,672)	(62,555)	(534,658)
Proceeds from sales of property, plant and equipment	17,591	22,437	191,769
Purchases of investments in other securities	(1,678)	(4,806)	(41,077)
Proceeds from sales of investments in other securities	10,050	3,150	26,923
Proceeds from sales of a subsidiary's stock resulting in change in scope of consolidation	3,230	—	—
Decrease in short-term loans	4,624	5,595	47,821
Long-term loans made	(6,385)	(3,350)	(28,632)
Collection of long-term loans	1,927	627	5,359
Other, net	1,193	(1,718)	(14,684)
Net cash used in investing activities	(26,062)	(40,398)	(345,282)
Financing activities			
Decrease in short-term borrowings	(42,788)	(30,167)	(257,838)
Proceeds from issuance of long-term debt	75,200	82,059	701,359
Repayment of long-term debt	(107,602)	(125,835)	(1,075,513)
Purchases of treasury stock	(262)	(12,424)	(106,188)
Proceeds from sales of treasury stock	38	23	197
Cash dividends paid	(9,054)	(8,983)	(76,778)
Principal payments under finance lease obligations	(1,540)	(1,223)	(10,453)
Net cash used in financing activities	(86,009)	(96,550)	(825,214)
Effect of exchange rate changes on cash and cash equivalents	113	705	6,026
Decrease in cash and cash equivalents	(3,763)	(4,189)	(35,803)
Cash and cash equivalents at beginning of year	21,624	18,181	155,393
Decrease due to exclusion of certain subsidiaries from consolidation	(82)	(28)	(239)
Increase due to merger of unconsolidated subsidiaries	403	—	—
Cash and cash equivalents at end of year	¥ 18,181	¥ 13,963	\$ 119,342

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nippon Paper Group, Inc. and Consolidated Subsidiaries

March 31, 2006

1. Description of Business

Based on a resolution approved at the ordinary general meeting of shareholders held on June 29, 2004, Nippon Unipac Holding changed its name to Nippon Paper Group, Inc. (the "Company") from October 1, 2004.

The Company was established as a business combination on March 30, 2001 by a transfer of shares of common stock from the shareholders of both Nippon Paper Industries Co., Ltd. (the "former Nippon Paper") and Daishowa Paper Manufacturing Co., Ltd. ("Daishowa Paper") to the Company in accordance with the procedures stipulated in the Commercial Code of Japan. As a result of this stock transfer, the former Nippon Paper and Daishowa Paper became wholly-owned subsidiaries of the Company. In addition, the Company acquired ownership of 100% of the shares of Japan Paperboard Industries Co., Ltd. as a result of an exchange of shares on October 1, 2002.

On April 1, 2003, the new Nippon Paper Industries Co., Ltd. ("Nippon Paper") was established following the merger of the former Nippon Paper and Daishowa Paper, and Japan Paperboard Industries Co., Ltd. changed its name to Nippon Daishowa Paperboard Co., Ltd. Under this business structure, the paper and paperboard businesses, which are our core businesses, were combined, restructured, and launched under a new structural plan. The paper business belonged to Nippon Paper and the paperboard business belonged to Nippon Daishowa Paperboard Co., Ltd.

2. Summary of Significant Accounting Policies

(a) Basis of Preparation

The accompanying consolidated financial statements of the Company and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

The Company has prepared the consolidated statements of shareholders' equity and certain additional information for the purpose of inclusion in this report although such statements and information are not customarily prepared in Japan.

Certain amounts in the financial statements of the fiscal year ended March 31, 2005 have been reclassified to conform to the presentation of the fiscal year ended March 31, 2006.

As permitted, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

(b) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all subsidiaries over which it exerts substantial control either through majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation.

In the consolidation of the former Nippon Paper and Daishowa Paper, the Company comprehensively applied the pooling-of-interest method to the former Nippon Paper and its subsidiaries as the acquiring group, and the purchase method to Daishowa Paper and its subsidiaries as the acquired group, after considering the ratio for the share transfer of each company as well as certain other factors.

Certain foreign subsidiaries are consolidated on the basis of fiscal periods ending December 31, a closing date which differs from that of the Company; however, the necessary adjustments have been made if the effect of the difference is deemed material.

Investments in equity method affiliates (companies over which the Company has the ability to exercise significant influence) are stated at cost plus equity in their undistributed earnings or losses. Consolidated net income includes the Company's equity in the current net income or loss of such companies after the elimination of unrealized intercompany profits.

All assets and liabilities of the consolidated subsidiaries are revaluated at fair value on the date of acquisition, if applicable, and the excess of cost over the underlying net assets is amortized over a period of five years on a straight-line basis if such excess is material, or charged to income when incurred if immaterial.

Goodwill arising from the application of the purchase method is being amortized over a period of twenty years on a straight-line basis. Goodwill is included in other assets in the consolidated balance sheets.

(c) Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, which are readily convertible to known amounts of cash and are so near maturity that they present only an insignificant risk of any changes in their value resulting from interest-rate fluctuation.

(d) Securities

The Company and consolidated subsidiaries have adopted an accounting standard for financial instruments which requires securities to be classified into three categories: trading, held-to-maturity or other securities, as follows:

- (i) trading securities are carried at fair value although the Company and consolidated subsidiaries had no such securities at either March 31, 2006 or 2005;
- (ii) held-to-maturity securities are carried at cost and amortized by the straight-line method; and
- (iii) marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities classified as other securities are carried at cost. Costs of securities sold are determined by the moving average method.

(e) Inventories

Inventories are stated at cost determined principally by the moving average method or the average method.

(f) Allowance for Doubtful Receivables

Allowance for doubtful receivables is provided for future bad debt losses at an amount estimated based on the past bad debt experience for normal receivables plus uncollectible amounts determined by reference to the collectibility of individual receivables.

(g) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is, in general, computed by the declining-balance method over the estimated useful lives of the respective assets, except for new buildings acquired after March 31, 1998 on which depreciation is calculated by the straight-line method. Significant renewals and betterments are capitalized at cost. Maintenance and repairs are charged to income as incurred.

(h) Leases

Noncancelable leases of domestic consolidated subsidiaries are accounted for as operating leases (whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

(i) Foreign Currency Translation

All assets and liabilities denominated in foreign currencies other than those hedged by forward foreign exchange contracts, etc. are translated into yen at the current rates. All revenues and expenses associated with foreign currencies are translated at the rates of exchange prevailing when such transactions were made. Translation gain or loss is credited or charged to income as incurred.

The balance sheet accounts of foreign consolidated subsidiaries and affiliates are translated into yen at the rates of exchange in effect at their balance sheet dates, except for the components of shareholders' equity which are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rate of exchange in effect during the fiscal year. The Company has presented translation adjustments as a component of shareholders' equity and minority interests in consolidated subsidiaries in the accompanying consolidated financial statements.

(j) Retirement Benefits

Accrued retirement benefits for employees have been provided mainly at an amount calculated based on the retirement benefit obligation less the fair value of the pension plan assets as of the balance sheet dates, as adjusted for unrecognized actuarial gain or loss, and unrecognized prior service cost. The retirement benefit obligation is attributed to each fiscal year by the straight-line method over the estimated remaining years of service of the eligible employees.

Actuarial gain or loss is amortized in the years following the year in which the gain or loss is recognized primarily by the straight-line method over periods (10 years through 15 years) which are equal to or shorter than the average estimated remaining years of service of the eligible employees.

Prior service cost is being amortized as incurred by the straight-line method over periods (5 years through 15 years) which are equal to or shorter than the average estimated remaining years of service of the eligible employees.

See Note 8 for the method of accounting for the separation of the substitutional portion of the benefit obligation from the corporate portion of the benefit obligation under the Welfare Pension Fund Plan.

In addition, directors and statutory auditors of the Company and its consolidated subsidiaries are customarily entitled to lump-sum payments under an unfunded retirement benefit plan. Accrued retirement benefits for these officers are accounted for based on the rules of the Company and its consolidated subsidiaries.

(k) Accrued Environmental Costs

Accrued environmental costs are provided at an estimated amount to dispose of PCB (polychlorinated biphenyl) waste under the Law Concerning Special Measures against PCB Waste.

(l) Research and Development Costs

Research and development costs are charged to income as incurred.

(m) Derivatives

Certain consolidated subsidiaries have entered into various derivatives transactions in order to manage certain risks arising from adverse fluctuation in foreign currency exchange rates and interest rates. Unrealized gain or loss is principally deferred as an asset or a liability. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at their corresponding contract rates.

(n) Income Taxes

The Company and consolidated subsidiaries have adopted tax-effect accounting in accordance with an accounting standard which requires recognition of income taxes by the liability method. Under the liability method, deferred tax assets and liabilities are determined based on the difference between the asset and liability amounts for financial reporting purposes and the asset and liability amounts for tax purposes, and are measured using the enacted tax rates and laws which will be in effect when these differences are expected to be reversed.

(o) Appropriation of Retained Earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given fiscal period is made by resolution of an ordinary general meeting of shareholders held subsequent to the close of the fiscal period and, therefore, the accounts for such period do not reflect such appropriations. See Note 19.

The Commercial Code of Japan provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until the sum of the additional paid-in capital and the legal reserve equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders.

(p) Amounts per Share

Basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the fiscal year. Diluted net income per share is computed based on the net income available for distribution to shareholders and the weighted-average number of shares of common stock outstanding during each fiscal year after giving effect to the dilutive potential of shares of common stock to be issued upon the conversion of convertible bonds.

Cash dividends per share represent the cash dividends declared as applicable to the respective fiscal year.

3. Accounting Change

Effective the year ended March 31, 2006, the Company and consolidated subsidiaries have adopted a new accounting standard for the impairment of fixed assets which requires that tangible and intangible fixed assets be carried at cost less depreciation, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Companies would be required to recognize an impairment loss in their statements of income if certain indicators of asset impairment exist and the book value of an asset exceeds the undiscounted sum of future cash flows of the asset. The standard states that impairment losses should be measured as the excess of the book value over the higher of (1) the fair market value of the asset, net of disposition costs and (2) the present value of future cash flows arising from ongoing utilization of the asset and from disposal after asset use. The standard covers land, factories, buildings and other forms of property, plant and equipment as well as intangible assets. Fixed assets will be grouped at the lowest level for which there is identifiable cash flows that are independent of cash flows of other groups of assets.

As a result of the adoption of this new accounting standard, a loss on impairment of fixed assets in the amount of ¥10,269 million (\$87,769 thousand) was recognized and income before income taxes and minority interests decreased by the same amount for the year ended March 31, 2006 as compared with the corresponding amount under the previous method.

Accumulated impairment losses are directly deducted from the respective fixed assets.

4. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥117 = U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2006, has been used. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

5. Inventories

Inventories at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2005	2006	2006
Merchandise and finished products	¥ 73,935	¥ 77,310	\$ 660,769
Work in process	15,326	16,429	140,419
Raw materials and supplies	42,573	45,447	388,436
	¥ 131,834	¥ 139,187	\$ 1,189,632

6. Short-Term Borrowings and Long-Term Debt

At March 31, 2006 and 2005, short-term borrowings consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2005	2006	2006
Loans from banks	¥ 252,920	¥ 205,843	\$ 1,759,342
Loans from unconsolidated subsidiaries and affiliates	795	1,317	11,256
Commercial paper	66,000	83,000	709,402
	¥ 319,716	¥ 290,161	\$ 2,480,009

Loans from banks are unsecured and generally represent 365-day notes. The weighted-average interest rates of the short-term bank loans outstanding at March 31, 2006 and 2005 were 0.54% and 0.53%, respectively.

Long-term debt at March 31, 2006 and 2005 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2005	2006	2006
Loans from banks, insurance companies and others at rates ranging from 5.50% to 0.6045% due through 2034:			
With collateral	¥ 95,876	¥ 62,158	\$ 531,265
Without collateral	194,547	219,760	1,878,291
0.81% unsecured corporate bonds in yen due 2010	20,000	20,000	170,940
0.50% unsecured corporate bonds in yen due 2007	20,000	20,000	170,940
0.91% unsecured corporate bonds in yen due 2008	20,000	20,000	170,940
0.51% unsecured corporate bonds in yen due 2006	10,000	10,000	85,470
0.89% unsecured corporate bonds in yen due 2009	30,000	30,000	256,410
1.10% unsecured corporate bonds in yen due 2012	—	20,000	170,940
2.975% unsecured corporate bonds in yen due 2005 (consolidated subsidiary)	25,000	—	—
0.2% unsecured exchangeable bonds in yen due 2006 (consolidated subsidiary)	31,000	—	—
	446,423	401,919	3,435,205
Less current portion	(154,862)	(57,742)	(493,521)
	¥ 291,560	¥ 344,176	\$ 2,941,675

Long-term debt maturities subsequent to March 31, 2006 are summarized as follows:

Fiscal years ended March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 57,742	\$ 493,521
2008	59,537	508,863
2009	56,056	479,111
2010	73,757	630,402
2011 and thereafter	154,825	1,323,291
	¥ 401,919	\$ 3,435,205

7. Pledged Assets

Assets pledged as collateral for notes and accounts payable – trade of ¥171 million (\$1,462 thousand), the current portion of long-term debt of ¥5,333 million (\$45,581 thousand), and long-term debt of ¥56,825 million (\$485,684 thousand) at March 31, 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2005	2006	2006
Property, plant and equipment, at net book value	¥ 447,939	¥ 435,404	\$ 3,721,402
Investments in securities	470	842	7,197
	¥ 448,409	¥ 436,246	\$ 3,728,598

8. Retirement Benefits

Certain consolidated subsidiaries have defined benefit plans, i.e., corporate pension fund plans, Welfare Pension Fund Plans, tax-qualified pension plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets at March 31, 2006 and 2005 for the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2005	2006	2006
Retirement benefit obligation	¥ (197,253)	¥ (185,212)	\$ (1,583,009)
Plan assets at fair value	127,411	168,282	1,438,308
Unfunded retirement benefit obligation	(69,842)	(16,929)	(144,692)
Unrecognized actuarial loss	26,352	(23,965)	(204,829)
Unrecognized prior service cost	(10,870)	(10,023)	(85,667)
Net retirement benefit obligation	(54,360)	(50,917)	(435,188)
Prepaid pension cost	3,414	1,418	12,120
Accrued retirement benefits	¥ (57,774)	¥ (52,335)	\$ (447,308)

In addition, accrued benefits for directors and statutory auditors of the Company and its consolidated subsidiaries in amounts of ¥1,887 million (\$16,128 thousand) and ¥2,263 million have been included in accrued retirement benefits at March 31, 2006 and 2005, respectively.

The components of retirement benefit expenses for the fiscal years ended March 31, 2006 and 2005 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal years ended March 31,		Fiscal year ended March 31,
	2005	2006	2006
Service cost	¥ 5,983	¥ 5,078	\$ 43,402
Interest cost	5,156	4,704	40,205
Expected return on plan assets	(2,040)	(2,185)	(18,675)
Amortization of unrecognized actuarial loss	2,547	2,579	22,043
Amortization of unrecognized prior service cost	(242)	(821)	(7,017)
Settlement gain on the transfer to a defined contribution pension plan	(334)	—	—
Total	¥ 11,069	¥ 9,354	\$ 79,949

In addition to the above, supplementary retirement benefits of ¥7,772 million (\$66,427 thousand) and ¥6,153 million were recorded for the fiscal years ended March 31, 2006 and 2005, respectively. Supplementary retirement benefits have been included in other expense except for ¥64 million (\$547 thousand) and ¥19 million which have been included in selling, general and administrative expenses for the fiscal years ended March 31, 2006 and 2005, respectively.

In January 2005, Nippon Paper received approval from the Minister of Health, Labor and Welfare with respect to its application for exemption from the obligation for the payment of benefits related to past employee services under the substitutional portion of the Welfare Pension Fund Plan.

In April 2004, a certain consolidated subsidiary converted a portion of its defined benefit pension plan to a defined contribution pension plan and accounted for the transfer as settlement of the pension plan and recognized settlement gain on certain pension plan of ¥334 million pursuant to Financial Accounting Standards Implementation Guidance No. 1, "Accounting for Transfers between Retirement Benefit Plans," issued by the Accounting Standards Board of Japan.

The assumptions used in accounting for the above plans were as follows:

	Fiscal years ended March 31,	
	2005	2006
Discount rate	mainly 2.5%	mainly 2.5%
Expected rate of return on plan assets	mainly 2.0%	mainly 2.0%

9. Loss on Impairment of Fixed Assets

Place	Assets	Millions of yen	
		Impairment loss	Notes
Hitachinaka City, Ibaraki, etc.	Land	¥ 5,865	Idle property
	Buildings and structures, machinery and equipment, intangible assets, etc.	2,858	Idle property
Hasuda City, Saitama, etc.	Land	1,545	Property for rent
Total		¥ 10,269	

To judge whether there is an indicator of impairment of fixed assets, production properties are grouped mainly by mill while rental properties and idle properties are grouped by each asset. Recoverable value of rental property was estimated by discounting future cash flows from the property at 1.7%. Recoverable value of idle property was estimated through third-party appraisal if material and mainly through the net realizable value under Japanese inheritance tax law if not.

As a result, loss on impairment of fixed assets of ¥10,269 million (\$87,769 thousand) was recognized on idle properties with no specific plan for future use and on properties for rent with deteriorated profitability. This amount consists of ¥7,411 million (\$63,342 thousand) on lands, ¥1,135 million (\$9,701 thousand) on buildings and structures, ¥1,163 million (\$9,940 thousand) on machinery and equipment and ¥558 million (\$4,769 thousand) on intangible assets, etc.

10. Income Taxes

The Company and its domestic consolidated subsidiaries are subject to a number of taxes based on earnings, i.e. corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in a statutory tax rate of approximately 40.7% for the fiscal years ended March 31, 2006 and 2005.

The effective tax rates reflected in the consolidated statements of income for the fiscal years ended March 31, 2006 and 2005 differ from the statutory tax rate for the following reasons:

	Fiscal years ended March 31,	
	2005	2006
Statutory tax rate	40.7%	40.7%
Effect of:		
Non-deductible items such as entertainment expenses	2.1	2.2
Non-taxable dividends received	0.9	0.4
Equity in earnings of affiliates	(1.8)	(1.8)

Amortization of consolidation goodwill	1.7	2.0
Inhabitants' per capita taxes	0.6	0.8
Increase in valuation allowance	14.0	12.9
Recognition of devaluation loss for a consolidated subsidiary and affiliates	(12.8)	—
Gain due to changes in interests in consolidated subsidiaries	—	(2.6)
Other, net	(0.4)	(0.7)
Effective tax rates	45.0%	53.9%

The significant components of the deferred tax assets and liabilities held by the Company and its consolidated subsidiaries at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2005	2006	2006
Deferred tax assets:			
Accrued bonuses	¥ 3,999	¥ 3,631	\$ 31,034
Accrued enterprise tax	993	108	923
Allowance for doubtful receivables	10,658	8,894	76,017
Accrued retirement benefits	30,819	30,030	256,667
Accrued officers' retirement benefits	899	746	6,376
Loss on investment securities	2,992	2,143	18,316
Devaluation loss on a consolidated subsidiary and affiliates	7,794	—	—
Tax loss carryforwards	13,851	9,261	79,154
Loss on revaluation of land	—	16,266	139,026
Loss on impairment of fixed assets	—	3,319	28,368
Unrealized profit eliminated in consolidation	2,115	638	5,453
Other	3,083	3,461	29,581
	77,207	78,502	670,957
Valuation allowance	(22,553)	(32,578)	(278,444)
	54,653	45,924	392,513
Deferred tax liabilities:			
Tax reserves	(8,908)	(12,339)	(105,462)
Accumulated depreciation	(1,337)	(1,621)	(13,855)
Gain on revaluation of land, etc.	(24,163)	(43,637)	(372,966)
Unrealized holding gain on other securities	(9,428)	(16,774)	(143,368)
Other	(672)	(777)	(6,641)
	(44,510)	(75,149)	(642,299)
Net deferred tax assets	¥ 10,143	¥ (29,225)	\$ (249,786)

Deferred tax liabilities included in other current liabilities at March 31, 2006 and 2005 amounted to ¥0 million (\$0 thousand) and ¥3 million, respectively.

11. Shareholders' Equity

In accordance with the Commercial Code of Japan (the "Code"), the Company has provided a legal reserve, which is included in retained earnings. The Code provides that an amount equal to at least 10% of the amount to be disbursed as distributions of earnings be appropriated to the legal reserve until the total of such reserve and the capital surplus account equals 25% of the common stock account. The legal reserve amounted to ¥432 million (\$3,692 thousand) at both March 31, 2006 and 2005.

The Code stipulates that neither the capital surplus nor the legal reserve is available for dividends. But if the total amount of the capital surplus and the legal reserve exceeds 25% of the common stock account, the excess may be distributed to shareholders either as a return of capital or as dividends subject to the approval of shareholders.

The Code stipulates that neither the capital surplus nor the legal reserve may be used to reduce or eliminate a deficit without the approval of shareholders or may be transferred to common stock without the approval of the Board of Directors.

12. Supplemental Cash Flow Information

Assets and liabilities excluded from the consolidated balance sheets at March 31, 2006 and 2005 as a result of merger or sale of a certain subsidiary were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2005	2006	2006
Current assets	¥ 3,008	¥ 9,129	\$ 78,026
Non-current assets	13,217	11,251	96,162
Total assets	¥ 16,226	¥ 20,381	\$ 174,197
Current liabilities	¥ 2,971	¥ 4,968	\$ 42,462
Non-current liabilities	1,130	1,386	11,846
Total liabilities	¥ 4,102	¥ 6,354	\$ 54,308

13. Leases

(a) As Lessee

- (i) The following pro forma amounts represent the amounts equivalent to the acquisition costs, accumulated depreciation and net book value of the leased assets at March 31, 2006 and 2005, which would have been reflected in the balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2005	2006	2006
Amount equivalent to acquisition costs:			
Machinery and equipment	¥ 9,264	¥ 7,622	\$ 65,145
Amount equivalent to accumulated depreciation:			
Machinery and equipment	¥ 4,952	¥ 4,354	\$ 37,214
Amount equivalent to net book value:			
Machinery and equipment	¥ 4,312	¥ 3,268	\$ 27,932

Lease expenses relating to finance leases accounted for as operating leases for the fiscal years ended March 31, 2006 and 2005 amounted to ¥1,429 million (\$12,214 thousand) and ¥1,591 million, respectively.

The pro forma depreciation of the finance leases accounted for as operating leases for the fiscal years ended March 31, 2006 and 2005 amounted to ¥1,429 million (\$12,214 thousand) and ¥1,591 million, respectively, and were computed by the straight-line method over the respective lease terms of the assets with no residual value.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2006 for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Fiscal years ending March 31:		
2007	¥ 1,644	\$ 14,051
2008 and thereafter	4,258	36,393
Total	¥ 5,902	\$ 50,444

(ii) Future minimum lease payments subsequent to March 31, 2006 for noncancelable operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Fiscal years ending March 31:		
2007	¥ 776	\$ 6,632
2008 and thereafter	48	410
Total	¥ 825	\$ 7,051

(b) As Lessor

(i) The following amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets relating to finance leases accounted for as operating leases at March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2005	2006	2006
Acquisition costs:			
Machinery and equipment	¥ 5	¥ 5	\$ 43
Accumulated depreciation:			
Machinery and equipment	¥ 3	¥ 4	\$ 34
Net book value:			
Machinery and equipment	¥ 2	¥ 0	\$ 0

Lease income relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements totaled ¥1 million (\$9 thousand) and ¥12 million for the fiscal years ended March 31, 2006 and 2005, respectively. Depreciation of the assets leased under finance leases accounted for as operating leases totaled ¥1 million (\$9 thousand) and ¥12 million for the fiscal years ended March 31, 2006 and 2005, respectively.

Future minimum lease income (including the interest portion thereon) subsequent to March 31, 2006 for finance leases accounted for as operating leases is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Fiscal years ending March 31:		
2007	¥ 49	\$ 419
2008 and thereafter	176	1,504
Total	¥ 225	\$ 1,923

(ii) Future minimum lease income subsequent to March 31, 2006 for noncancelable operating leases is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Fiscal years ending March 31:		
2007	¥ 15	\$ 128
2008 and thereafter	40	342
Total	¥ 56	\$ 479

14. Contingent Liabilities

Consolidated subsidiaries had the following contingent liabilities at March 31, 2006:

	Millions of yen	Thousands of U.S. dollars
As guarantors of indebtedness of unconsolidated subsidiaries, affiliates and others	¥ 35,994	\$ 307,641

15. Securities

(a)(i) Marketable securities classified as held-to-maturity debt securities and other securities at March 31, 2006 are summarized as follows:

Marketable held-to-maturity debt securities

	Millions of yen			Thousands of U.S. dollars		
	March 31, 2006			March 31, 2006		
	Carrying value	Estimated fair value	Unrealized loss	Carrying value	Estimated fair value	Unrealized loss
Securities whose carrying value exceeds their fair value:						
Government bonds	¥ 270	¥ 269	¥ (0)	\$ 2,308	\$ 2,299	\$ (0)
Total	¥ 270	¥ 269	¥ (0)	\$ 2,308	\$ 2,299	\$ (0)

Marketable other securities

	Millions of yen			Thousands of U.S. dollars		
	March 31, 2006			March 31, 2006		
	Cost	Carrying value	Unrealized gain (loss)	Cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their cost:						
Equity securities	¥ 29,324	¥ 69,368	¥ 40,043	\$ 250,632	\$ 592,889	\$ 342,248
Subtotal	29,324	69,368	40,043	250,632	592,889	342,248
Securities whose cost exceeds their carrying value:						
Equity securities	1,032	909	(122)	8,821	7,769	(1,043)
Subtotal	1,032	909	(122)	8,821	7,769	(1,043)
Total	¥ 30,357	¥ 70,277	¥ 39,920	\$ 259,462	\$ 600,658	\$ 341,197

(ii) Sales of securities classified as other securities amounted to ¥3,072 million (\$26,256 thousand) with an aggregate gain of ¥1,597 million (\$13,650 thousand) for the fiscal year ended March 31, 2006.

(iii) The redemption schedule at March 31, 2006 for securities with maturity dates classified as other securities and held-to-maturity debt securities is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	March 31, 2006			March 31, 2006		
	Due in one year or less	Due after one year through five years	Due after five years	Due in one year or less	Due after one year through five years	Due after five years
Government bonds	¥ —	¥ 270	¥ —	\$ —	\$ 2,308	\$ —
Corporate bonds	75	1	—	641	9	—
Total	¥ 75	¥ 271	¥ —	\$ 641	\$ 2,316	\$ —

(iv) Non-marketable securities classified as held-to-maturity debt securities and other securities at March 31, 2006 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	March 31, 2006	March 31, 2006
	Carrying value	
Held-to-maturity debt securities:		
Corporate bonds	¥ 76	\$ 650
Subtotal	76	650
Other securities:		
Unlisted equity securities	31,435	268,675
Other	1,002	8,564
Subtotal	32,438	277,248
Total	¥ 32,514	\$ 277,897

(b)(i) Marketable securities classified as held-to-maturity debt securities and other securities at March 31, 2005 are summarized as follows:

Marketable held-to-maturity debt securities

	Millions of yen		
	Carrying value	Estimated fair value	Unrealized gain (loss)
	March 31, 2005		
Securities whose fair value exceeds their carrying value:			
Government bonds	¥ 270	¥ 270	¥ 0
Corporate bonds	100	100	0
Subtotal	370	371	1
Securities whose carrying value exceeds their fair value:			
Government bonds	10	10	(0)
Subtotal	10	10	(0)
Total	¥ 380	¥ 381	¥ 1

Marketable other securities

	Millions of yen		
	March 31, 2005		
	Cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their cost:			
Equity securities	¥ 25,323	¥ 47,880	¥ 22,556
Subtotal	25,323	47,880	22,556
Securities whose cost exceeds their carrying value:			
Equity securities	4,873	4,024	(848)
Subtotal	4,873	4,024	(848)
Total	¥ 30,196	¥ 51,905	¥ 21,708

(ii) Sales of securities classified as other securities amounted to ¥9,868 million with an aggregate gain of ¥6,293 million and loss of ¥28 million for the fiscal year ended March 31, 2005.

(iii) The redemption schedule at March 31, 2005 for securities with maturity dates classified as other securities and held-to-maturity debt securities is summarized as follows:

	Millions of yen		
	March 31, 2005		
	Due in one year or less	Due after one year through five years	Due after five years
Government bonds	¥ 10	¥ 270	¥ —
Corporate bonds	200	75	—
Total	¥ 210	¥ 345	¥ —

(iv) Non-marketable securities classified as held-to-maturity debt securities and other securities at March 31, 2005 are summarized as follows:

	Millions of yen
	March 31, 2005
	Carrying value
Held-to-maturity debt securities:	
Corporate bonds	¥ 175
Subtotal	175
Other securities:	
Unlisted equity securities	32,229
Other	1,002
Subtotal	33,232
Total	¥ 33,407

16. Segment Information

(a) Business segments

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of products in three major business segments: pulp and paper division, paper related division and housing and construction materials division. The results of other businesses are reported in the "Other division."

The business segment information of the Company and its consolidated subsidiaries for the fiscal years ended March 31, 2006 and 2005 is summarized as follows:

Millions of yen							
Fiscal year ended March 31, 2006							
	Pulp and paper division	Paper related division	Housing and construction materials division	Other division	Total	Eliminations or corporate	Consolidated
(i) Sales and operating income							
Sales to third parties	¥ 860,993	¥ 110,350	¥ 94,041	¥ 86,781	¥ 1,152,166	¥ —	¥ 1,152,166
Intercompany sales and transfers	8,813	8,183	39,769	39,585	96,352	(96,352)	—
Total sales	869,806	118,534	133,811	126,367	1,248,519	(96,352)	1,152,166
Operating expenses	836,609	112,352	131,203	119,962	1,200,128	(96,352)	1,103,775
Operating income	¥ 33,197	¥ 6,181	¥ 2,607	¥ 6,404	¥ 48,391	¥ —	¥ 48,391
(ii) Assets, depreciation, impairment loss and capital expenditures							
Total assets	¥ 1,113,446	¥ 93,276	¥ 61,191	¥ 107,898	¥ 1,375,813	¥ 116,613	¥ 1,492,427
Depreciation	58,116	4,829	1,160	5,999	70,106	—	70,106
Loss on impairment of fixed assets	9,669	374	29	195	10,269	—	10,269
Capital expenditures	55,589	7,804	1,188	5,104	69,687	—	69,687

Thousands of U.S. dollars							
Fiscal year ended March 31, 2006							
	Pulp and paper division	Paper related division	Housing and construction materials division	Other division	Total	Eliminations or corporate	Consolidated
(i) Sales and operating income							
Sales to third parties	\$ 7,358,915	\$ 943,162	\$ 803,769	\$ 741,718	\$ 9,847,573	\$ —	\$ 9,847,573
Intercompany sales and transfers	75,325	69,940	339,906	338,333	823,521	(823,521)	—
Total sales	7,434,239	1,013,111	1,143,684	1,080,060	10,671,103	(823,521)	9,847,573
Operating expenses	7,150,504	960,274	1,121,393	1,025,316	10,257,504	(823,521)	9,433,974
Operating income	\$ 283,735	\$ 52,829	\$ 22,282	\$ 54,735	\$ 413,598	\$ —	\$ 413,598
(ii) Assets, depreciation, impairment loss and capital expenditures							
Total assets	\$ 9,516,632	\$ 797,231	\$ 523,000	\$ 922,205	\$ 11,759,085	\$ 996,692	\$ 12,755,786
Depreciation	496,718	41,274	9,915	51,274	599,197	—	599,197
Loss on impairment of fixed assets	82,641	3,197	248	1,667	87,769	—	87,769
Capital expenditures	475,120	66,701	10,154	43,624	595,615	—	595,615

Millions of yen							
Fiscal year ended March 31, 2005							
	Pulp and paper division	Paper related division	Housing and construction materials division	Other division	Total	Eliminations or corporate	Consolidated
(i) Sales and operating income							
Sales to third parties	¥ 870,360	¥ 126,592	¥ 95,236	¥ 87,506	¥ 1,179,696	¥ —	¥ 1,179,696
Intercompany sales and transfers	12,801	8,954	38,726	38,373	98,855	(98,855)	—
Total sales	883,161	135,547	133,963	125,880	1,278,552	(98,855)	1,179,696
Operating expenses	835,891	127,261	131,624	118,543	1,213,320	(98,855)	1,114,464
Operating income	¥ 47,269	¥ 8,286	¥ 2,339	¥ 7,336	¥ 65,231	¥ —	¥ 65,231
(ii) Assets, depreciation and capital expenditures							
Total assets	¥ 1,118,556	¥ 111,871	¥ 79,862	¥ 103,213	¥ 1,413,502	¥ 116,472	¥ 1,529,975
Depreciation	62,803	5,146	1,275	5,746	74,971	—	74,971
Capital expenditures	40,470	8,264	1,472	5,147	55,353	—	55,353

(b) Geographic segments

Since the sales recognized by companies located in Japan constituted 90% or more of consolidated sales for the fiscal years ended March 31, 2006 and 2005, geographical segment information has not been presented.

(c) Overseas sales

Since overseas sales represented less than 10% of consolidated sales for the years ended March 31, 2006 and 2005, no disclosure of overseas segment information has been presented.

17. Derivatives

Certain subsidiaries have entered into interest-rate swaps to reduce their interest expense or their exposure to adverse fluctuation in interest rates relating to loans and bonds payable.

The amounts presented below exclude the forward foreign exchange contracts entered into to hedge receivables and payables denominated in foreign currencies which have been translated and are reflected at their corresponding contracted rates in the accompanying consolidated balance sheets.

Summarized below are the contract amounts and estimated fair value of consolidated subsidiaries' derivatives positions at March 31, 2006 and 2005:

	Millions of yen				Thousands of U.S. dollars	
	March 31, 2005		March 31, 2006		March 31, 2006	
	Contract amount	Estimated fair value	Contract amount	Estimated fair value	Contract amount	Estimated fair value
Interest-rate swaps:						
Receive / fixed; pay / variable	¥ 3,500	¥ 72	¥ 1,500	¥ 19	\$ 12,821	\$ 162

The following methodologies and assumptions were used by certain consolidated subsidiaries in estimating the fair value of their derivatives positions:

Interest-rate swaps: Estimated fair value as provided by the respective financial institutions

18. Research and Development Costs

Included in cost of sales and selling, general and administrative expenses were ¥7,064 million (\$60,376 thousand) and ¥7,563 million of research and development costs for the

fiscal years ended March 31, 2006 and 2005, respectively.

19. Subsequent Events

- (a) The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the fiscal year ended March 31, 2006, were approved at an ordinary general meeting of shareholders held on June 29, 2006:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends		
(¥4,000.00 = U.S.\$34.188 per share)	¥ 4,258	\$ 36,393
Bonuses to directors	48	410
	¥ 4,306	\$ 36,803

(b) Issuance of bonds

- (1) Based on a resolution approved at the Board of Directors meeting held on April 28, 2006, the Company launched its 7th issue of unsecured corporate bonds of ¥20 billion guaranteed by Nippon Paper Industry Co., Ltd. on May 31, 2006:
- (2) Interest rate: 1.79% per year
- (3) Issue price: ¥100 par value
- (4) Date of issue: May 31, 2006
- (5) Maturity date: May 31, 2011 (these are 5-year bonds)

(c) New facilities

At the Board of Directors meeting held on April 21, 2006, Nippon Paper Industries Co., Ltd., a subsidiary of the Company, passed a resolution to build lightweight coated paper production facilities, etc. for the sake of strengthening international competitiveness. A profile of the new facilities is as follows:

- (1) Place: Ishinomaki Mill of Nippon Paper Industries Co., Ltd.
- (2) Operation start: November 2007
- (3) Capital Investment: ¥63,000 million
- (4) Product type: lightweight coated paper
- (5) Production capacity: 350,000 metric tons annually (1,005 metric tons daily)

Report of Independent Auditors

The Board of Directors Nippon Paper Group, Inc.

We have audited the accompanying consolidated balance sheets of Nippon Paper Group, Inc. and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nippon Paper Group, Inc. and consolidated subsidiaries at March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 3, effective the year ended March 31, 2006, the Company has adopted a new accounting standard for the impairment of fixed assets.

As described in Note 19(b), the Company issued its 7th issue of unsecured bonds on May 31, 2006 based on a resolution of the Board of Directors at a meeting held on April 28, 2006.

As described in Note 19(c), Nippon Paper Industries Co., Ltd., a subsidiary of the Company, passed a resolution to build lightweight coated paper production facilities, etc. at the Board of Directors meeting held on April 21, 2006.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4.

Ernst & Young ShinNihon

June 29, 2006



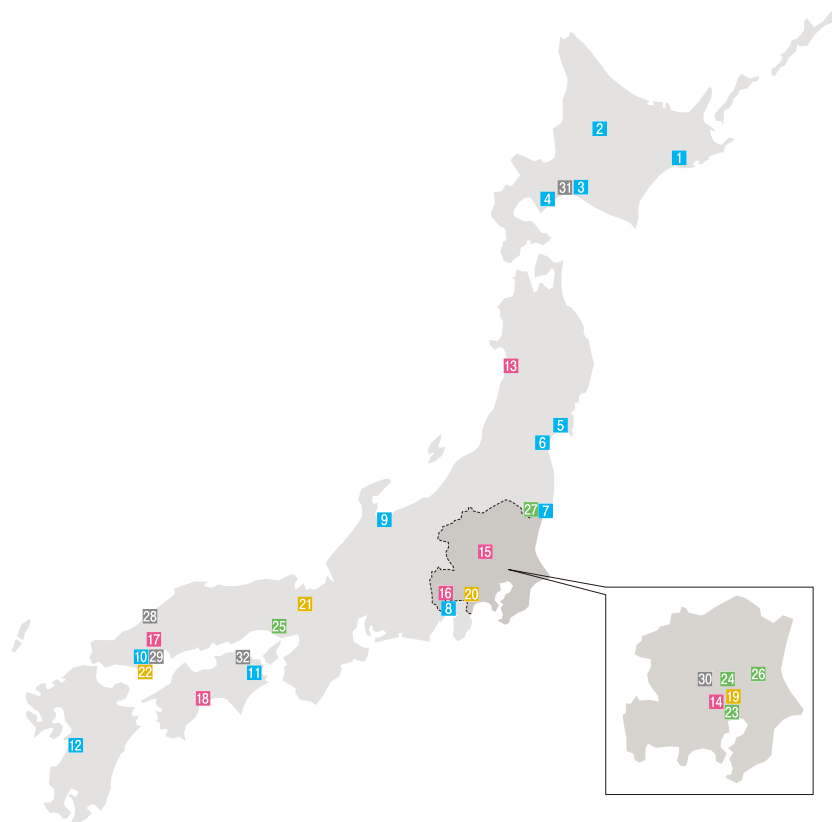
Global Network

110 Domestic Network

112 Overseas Network

Domestic Network

Head Offices and Production Sites of Major Subsidiaries



Pulp and Paper Division

Nippon Paper Industries Co., Ltd.

Shin Yurakucho Building
1-12-1 Yurakucho, Chiyoda-ku, Tokyo 100-0006, Japan
Tel: +81-3-3218-8000 Fax: +81-3-3216-4753

Production Facilities

- 1 Kushiro Mill (Hokkaido)
- 2 Asahikawa Mill (Hokkaido)
- 3 Yufutsu Mill (Hokkaido)
- 4 Shiraoi Mill (Hokkaido)
- 5 Ishinomaki Mill (Miyagi)
- 6 Iwanuma Mill (Miyagi)
- 7 Nakoso Mill (Fukushima)
- 8 Fuji Mill (Shizuoka)
- 9 Fushiki Mill (Toyama)
- 10 Iwakuni Mill (Yamaguchi)
- 11 Komatsushima Mill (Tokushima)
- 12 Yatsushiro Mill (Kumamoto)

Nippon Daishowa Paperboard Co., Ltd.

Nihonbashi Asahi Seimeikan
2-1-3 Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan
Tel: +81-3-3242-7311 Fax: +81-3-3242-7312

- 13 Nippon Daishowa Paperboard Tohoku Co., Ltd. (Akita)
- 14 Nippon Daishowa Paperboard Kanto Co., Ltd. Soka Mill (Saitama)
- 15 Nippon Daishowa Paperboard Kanto Co., Ltd. Ashikaga Mill (Tochigi)
- 16 Nippon Daishowa Paperboard Yoshinaga Co., Ltd. (Shizuoka)
- 17 Nippon Daishowa Paperboard Nishinippon Co., Ltd. Gebo Mill (Hiroshima)
- 18 Nippon Daishowa Paperboard Nishinippon Co., Ltd. Kochi Mill (Kochi)

Nippon Paper Crecia Co., Ltd.

Shinjuku Square Tower
6-22-1 Nishishinjuku, Shinjuku-ku, Tokyo 163-1113, Japan
Tel: +81-3-5323-0260 Fax: +81-3-5323-0263

- 19 Tokyo Mill (Saitama)
- 20 Kaisei Mill (Kanagawa)
- 21 Kyoto Mill (Kyoto)
- 22 Iwakuni Mill (Yamaguchi)

NP Trading Co., Ltd.

Kamakuragashi Building
2-2-1, Uchikanda, Chiyodaku-ku, Tokyo 101-8536, Japan
Tel: +81-3-3252-2852 Fax: +81-3-323-0263

Paper-Related Division

Nippon Paper-Pak Co., Ltd.

Iidabashi Rainbow Building
11 Ichigaya-Funagawaracho, Shinjuku-ku, Tokyo 162-0826, Japan
Tel: +81-3-3269-8631 Fax: +81-3-3267-6587

- 23 Soka Paper-Pak Co., Ltd. (Saitama)
- 24 Egawa Paper-Pak Co., Ltd. (Ibaraki)
- 25 Miki Paper-Pak Co., Ltd. (Hyogo)
- 26 Ishioka Kako Co., Ltd. (Ibaraki)
- 27 Nakoso Film Co., Ltd. (Fukushima)

Nippon Paper Chemicals Co., Ltd.

JS Ichigaya Building
5-1 Gobancho, Chiyoda-ku, Tokyo 102-0076, Japan
Tel: +81-3-5216-9111 Fax: +81-3-5216-8516

- 28 Gotsu Works (Shimane)
- 29 Iwakuni Works (Yamaguchi)
- 30 Higashimatsuyama Works (Saitama)
- 31 Yufutsu Works (Hokkaido)
- 32 Komatsushima Works (Tokushima)

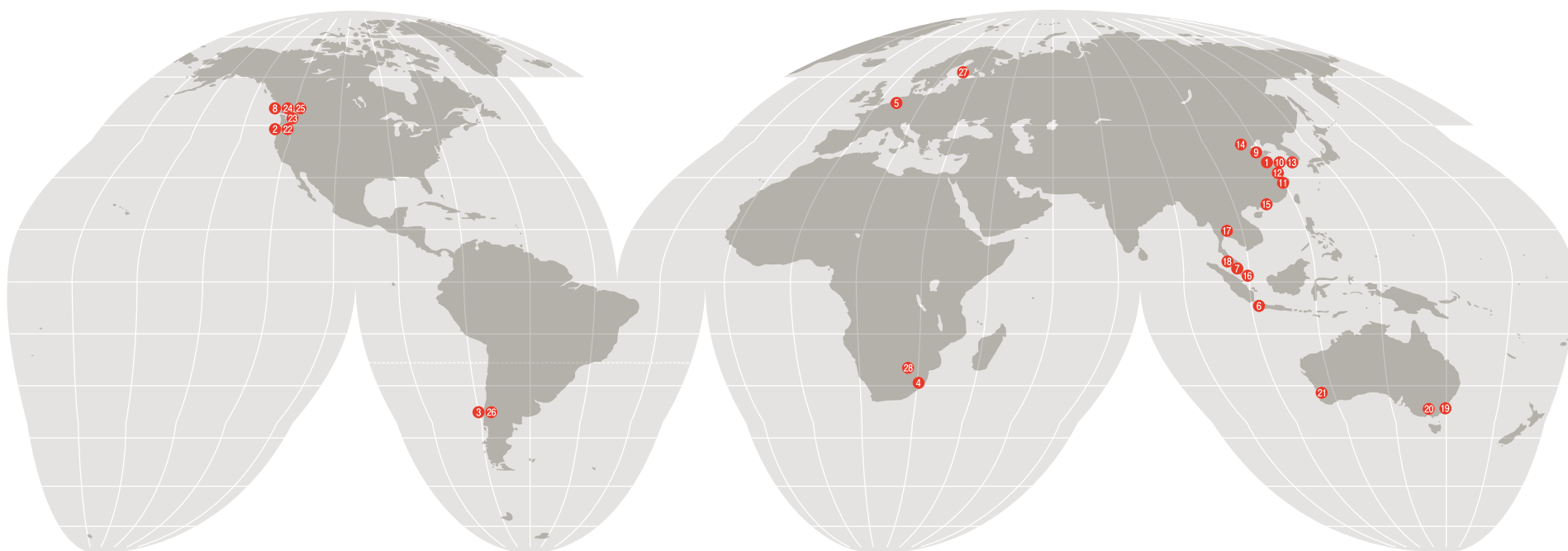
Housing and Construction Materials Division

Nippon Paper Lumber Co., Ltd.

Keitoku Building
1-9-5 Oji, Kita-ku, Tokyo 114-8552, Japan
Tel: +81-3-5390-2011 Fax: +81-3-5390-2020

Overseas Network

Overseas Offices



112

113

Overseas Offices

Pulp and Paper Division

Nippon Paper Industries Co., Ltd.

China Office ①

Room 2708, New Town Center, No. 83, Lou Shan Guan Road, Shanghai, 200336, China
Tel: +86-21-6145-3235 Fax: +86-21-6145-3237

Longview Office ②

P.O.Box 699, 3001 Industrial Way, Longview, WA 98632, U.S.A.
Tel: +1-360-636-7110 Fax: +1-360-423-1514

Concepción Office ③

Cochrane 361, Concepción, Chile
Tel: +56-41-244-300 Fax: +56-41-259-541

Pietermaritzburg Office ④

c/o The Central Timber Co-operative Ltd., 171 Burger Street, Pietermaritzburg 3201, Republic of South Africa
Tel: +27-33-3924-215 Fax: +27-33-3426-410

Europe Office ⑤

World Trade Center, Strawinskylaan 705, 1077 XX Amsterdam Z.O., Netherlands
Tel: +31-20-5711-878 Fax: +31-20-5711-879

NP Trading Co., Ltd.

Jakarta Office ⑥

Nusantara Building 14th Floor, Ji.M.H. Thamrin No.59, Jakarta 10350, Indonesia
Tel: +60-3-2070-0693 Fax: +60-3-2070-0695

Malaysia Office ⑦

Unit 4. 1A, 4th Floor, Menara Aik Hua, Changkat Raja Chulan, 50200 Kuala Lumpur, Malaysia
Tel: +62-21-3193-5434 Fax: +62-21-3193-5572

Housing and Construction Materials Division

Nippon Paper Lumber Co., Ltd.

Vancouver Office ⑧

Suite 1140-1040, West Georgia Street, Vancouver, B.C. V6E 4H1, Canada
Tel: +1-604-873-5358 Fax: +1-604-689-2853

Major Overseas Subsidiaries and Affiliates

Asia

Shouguang Liben Paper Making Co., Ltd. ⑨

595 Shengcheng Road, Shouguang, Shandong,
262700, China
Tel: +86-536-215-8412 Fax: +86-536-215-8417

Shanghai JP Co., Ltd. ⑩

173 Hongcao Road(S), Shanghai, 200233, China
Tel: +86-21-6408-9900 Fax: +86-21-6408-6677

Zhejiang Nippon Paper Co., Ltd. ⑪

Pinghu Zhejiang, 314214, China
Tel: +86-573-597-8658 Fax: +86-573-597-8000

Everwealth Paper Industries (Shanghai) Co., Ltd. ⑫

2 Xinjie Road, Xin Qiao Township Industrial Park,
Song Jiang, Shanghai, 201612, China
Tel: +86-21-5764-5189 Fax: +86-21-5764-5118

Nippon Paper Industries Trading (Shanghai) Co., Ltd.• **Shanghai office** ⑬

Room 2709, New Town Center, No. 83, Lou Shan
Guan Road, Shanghai, 200336, China
Tel: +86-21-6145-3260 Fax: +86-21-6145-3237

• **Beijing office** ⑭

Room 904A, Avic, No. 10B Central Road, East 3rd
Ring Road, Chaoyang District, Beijing, 100022, China
Tel: +86-10-6566-7148 Fax: +86-10-6566-7145

San-Mic Trading Co., (H.K.) Ltd. ⑮

Unit 1901, 19th Floor, Causeway Bay Plaza2, No.463-
483, Lockhart Road, Causeway Bay, Hong Kong
Tel: +852-2504-5995 Fax: +852-2504-1953

San-Mic Trading Co., (S) Pte. Ltd. ⑯

79 Robinson Road #14-03, CPF Building, Singapore
Tel: +65-6222-0318 Fax: +65-6225-1978

San-Mic Trading (Thailand) Co., Ltd. ⑰

SG Tower, 161/1 Floor 12, Room 1202, Soi Mahadlek
Luang 3, Rajdamni Road, Lumpiini, Pathumwan,
Bangkok, Thailand, 10330

N.A.K. Manufacturing (M) Sdn. Bhd. ⑱

Lot 19-11, Bersatu Industrial Complex, Kawasan
Perindustrian Balakong, 43200 Cheras, Selangor
Darul Ehsan, Malaysia
Tel: +60-3-9074-7900 Fax: +60-3-9074-7889

Oceania

South East Fibre Exports Pty. Ltd. ⑲

P.O.Box 189, Jews Head, Edrom Road, Eden, N.S.W.
2551, Australia
Tel: +61-2-6496-0222 Fax: +61-2-6496-1204

Nippon Paper Treefarm Australia Pty. Ltd. ⑳

Level 6,456 Lonsdale Street, Melbourne, VIC 3000,
Australia
Tel: +61-3-9252-2700 Fax: +61-3-9642-2705

WA Plantation Resources Pty. Ltd. ㉑

Level 5, BGC Centre, 28 The Esplanade Perth, WA
6000, Australia
Tel: +61-8-9420-8300 Fax: +61-8-9322-7895

North and South America

North Pacific Paper Corporation ㉒

P.O.Box 2069, 3001 Industrial Way, Longview, WA
98632, U.S.A.
Tel: +1-360-636-6400 Fax: +1-360-423-1514

Nippon Paper Industries USA Co., Ltd. ㉓

P.O.Box 271, 1815 Marine Drive, Port Angeles, WA
98362, U.S.A.
Tel: +1-360-457-4474 Fax: +1-360-452-6576

Daishowa North America Corporation ㉔

Suite 1140-1040, West Georgia Street, Vancouver,
B.C. V6E 4H1, Canada
Tel: +1-604-801-6628 Fax: +1-604-801-6658

Daishowa-Marubeni International Ltd. ㉕

Suite 700-510 Burrard Street, Vancouver, B.C. V6C
3A8, Canada
Tel: +1-604-684-4326 Fax: +1-604-684-0512

Volterra S.A. ㉖

Cochrane 361, Concepción, Chile
Tel: +56-41-244-300 Fax: +56-41-259-541

Europe

Jujo Thermal Oy ㉗

P.O.Box 92, FIN-27501 Kauttua, Finland
Tel: +358-10-303-200 Fax: +358-10-303-2419

Africa

Nippon-SC Tree Farm S.A. (Pty) Ltd. ㉘

JHI House, 11 Cradock Avenue, Rosebank,
Johannesburg 2196, Republic of South Africa
Tel: +27-11-880-4310 Fax: +27-11-788-1435

Investor Information

Company name

Nippon Paper Group, Inc.

Company code

3893

Stock listing

Tokyo Stock Exchange, Osaka Securities Exchange, and Nagoya Stock Exchange

Shares issued and outstanding (As of March 31, 2006)

1,105,235.63

Major Shareholders (10 Largest) (As of March 31, 2006)

Name	Shares held (shares)	Voting stake (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	96,907	9.2
The Master Trust Bank of Japan, Ltd. (Trust Account)	75,093	7.1
Nippon Life Insurance Company	34,956	3.3
Mizuho Corporate Bank, Ltd.	31,314	3.0
Mitsui Life Insurance Company Limited	24,589	2.3
Mizuho Bank, Ltd.	21,467	2.0
Daio Paper Corporation	20,577	2.0
Sumitomo Mitsui Banking Corporation	19,938	1.9
The Norinchukin Bank	17,000	1.6
Marubeni Corporation	15,634	1.5

Notes:

- Nippon Paper Group, Inc. owns 40,590 shares of treasury stock but is not included in the above listing.
- The number of shares held has been rounded down to the nearest share.

Fiscal year-end

From April 1 to March 31

Ordinary general meeting of shareholders

Within three months of the day following the fiscal year-end

Administration office of register and transfer agent (mail address and telephone information)

Stock Transfer Agency Department

The Chuo Mitsui Trust and Banking Company, Limited

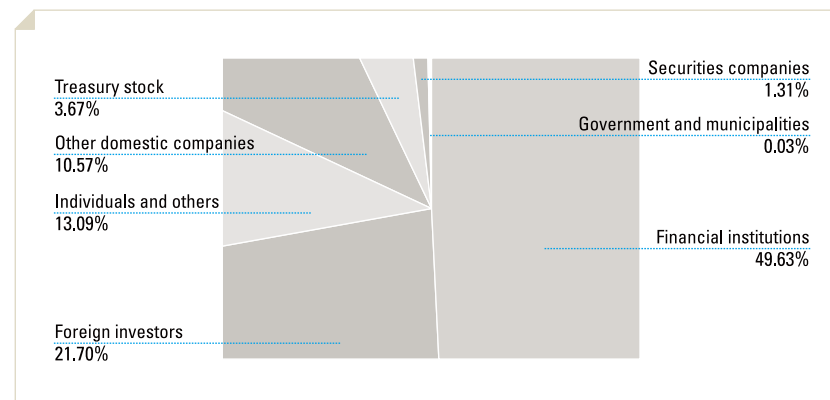
2-8-4 Izumi, Suginami-ku, Tokyo 168-0063

Tel: 0120-78-2031 (Toll free in Japan)

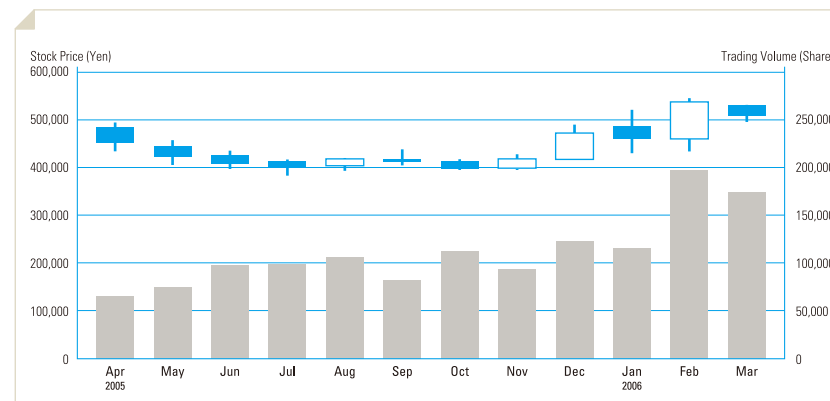
Independent auditor

Ernst & Young ShinNihon

Percentage of Shares Held by Shareholder Type (As of March 31, 2006)



Stock Price and Trading Volume



IR contact

Nippon Paper Group, Inc., Public & Investor Relations Office

Shin-Yuraku-cho building
1-12-1 Yuraku-cho, Chiyoda-ku, Tokyo 100-0006, Japan
Tel: +81-3-3218-9345
Fax: +81-3-3216-5662
URL: <http://www.np-g.com/e/ir/>
E-Mail: kikuyama@np-g.com

IR Mail

Latest information on Nippon Paper Group's press releases, financial releases or results, and other communications are offered through E-mail notices.

Subscribe to NPG's investor news from our IR site.

IR Website

URL: <http://www.np-g.com/e/ir/>

Sustainability Report

Nippon Paper Group plans to publish its Sustainability Report 2006 in September 2006.

Inquiries

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Tel: +81-3-3218-9321 Fax: +81-3-3216-1366

URL: <http://www.np-g.com/e/csr/>

The Paper Used for This Report (Nippon Paper Industries Co., Ltd.)
Cover: Esprit Coat LOTUS 160 g/m²
Text: U-ltimax FUN 100 g/m²
Financial Section: Opera Cream HO 66.3 g/m²



*We hope the future activities of
Nippon Paper Group
will meet your expectations.*

NIPPON PAPER GROUP, INC.

www.np-g.com/e/