Consolidated Financial Statements

Nippon Unipac Holding and Consolidated Subsidiaries

Period from March 30, 2001 (date of inception)
to September 30, 2001

Shin Nihon & Co.

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The Board of Directors
Nippon Unipac Holding

We have audited the consolidated balance sheets of Nippon Unipac Holding and consolidated subsidiaries as of September 30, 2001, and the related consolidated statements of income and retained earnings, and cash flows for the period from March 30, 2001 (date of inception) to September 30, 2001, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Nippon Unipac Holding and consolidated subsidiaries at September 30, 2001, and the consolidated results of their operations and their cash flows for the period from March 30, 2001 (date of inception) to September 30, 2001 in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the period ended September 30, 2001 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 3 to the consolidated financial statements.

Shin Nihon & Co.

December 14, 2001

See Note 2 to the consolidated financial statements which explains the basis of preparing the consolidated financial statements of Nippon Unipac Holding and consolidated subsidiaries under Japanese accounting principles and practices.

Nippon Unipac Holding and Consolidated Subsidiaries

Consolidated Balance Sheets

	September 30, 2001	
	(Millions of yen)	*(Thousands of U.S. dollars) (Note 3)*
Assets		
Current assets:		
Cash and cash equivalents	¥ 47,508	$ 399,227
Marketable securities *(Notes 6 and 12)*	4,362	36,655
Receivables:		
Notes and accounts receivable:		
Trade	296,352	2,490,353
Unconsolidated subsidiaries and affiliates	16,547	139,050
Other	5,363	45,067
Loans receivable from unconsolidated subsidiaries and affiliates	12,051	101,269
Allowance for doubtful receivables	(972)	(8,168)
Inventories *(Note 4)*	154,130	1,295,210
Deferred tax assets *(Note 8)*	7,063	59,353
Other current assets	20,964	176,168
Total current assets	563,370	4,734,202
Property, plant and equipment *(Note 6)*:		
Land	243,011	2,042,109
Buildings and structures	456,194	3,833,563
Machinery and equipment	1,843,473	15,491,370
Construction in progress	25,057	210,563
Other	21,937	184,345
	2,589,674	21,761,966
Less accumulated depreciation	(1,633,040)	(13,723,025)
Property, plant and equipment, net	956,633	8,038,933
Investments and other assets:		
Investments in and advances to unconsolidated subsidiaries and affiliates *(Note 12)*	77,069	647,639
Investments in other securities *(Notes 6 and 12)*	76,762	645,059
Deferred tax assets *(Note 8)*	23,399	196,630
Other assets	118,192	993,210
Allowance for doubtful receivables	(36,988)	(310,824)
Total investments and other assets	258,436	2,171,731
Total assets *(Note 13)*	¥ 1,778,440	$ 14,944,874

	September 30, 2001	
	(Millions of yen)	*(Thousands of U.S. dollars) (Note 3)*
Liabilities and shareholders' equity		
Current liabilities:		
Short-term borrowings *(Note 5)*	¥433,140	$3,639,832
Current portion of long-term debt *(Note 5)*	95,793	804,983
Notes and accounts payable:		
Trade	171,300	1,439,496
Unconsolidated subsidiaries and affiliates	34,029	285,958
Other	67,983	571,286
Accrued income taxes *(Note 8)*	4,835	40,630
Other current liabilities	34,182	287,244
Total current liabilities	841,266	7,069,462
Long-term liabilities:		
Long-term debt *(Note 5)*:		
Bonds and loans payable	390,482	3,281,361
Loans payable to unconsolidated subsidiaries and affiliates	390	3,277
Accrued retirement benefits	75,988	638,555
Allowance for losses on guarantees	8,856	74,420
Deferred tax liabilities *(Note 8)*	5,676	47,697
Other long-term liabilities	12,124	101,882
Total long-term liabilities	493,518	4,147,210
Minority interests	32,888	276,370
Contingent liabilities *(Note 11)*		
Shareholders' equity *(Notes 9 and 16)*:		
Common stock	55,730	468,319
Capital surplus	236,532	1,987,664
Retained earnings	122,436	1,028,874
Unrealized holding gain on other securities	138	1,160
Translation adjustments	(2,491)	(20,933)
	412,345	3,465,084
Less treasury common stock, at cost	(1,578)	(13,261)
Total shareholders' equity	410,766	3,451,815
Total liabilities and shareholders' equity	¥1,778,440	$14,944,874

See notes to consolidated financial statements.

Nippon Unipac Holding and Consolidated Subsidiaries

Consolidated Statements of Income and Retained Earnings

	Period from March 30, 2001 to September 30, 2001	
	(Millions of yen)	*(Thousands of U.S. dollars) (Note 3)*
Net sales *(Note 13)*	¥615,185	$5,169,622
Cost of sales *(Note 13)*	470,757	3,955,941
Gross profit	144,427	1,213,672
Selling, general and administrative expenses *(Note 13)*	124,170	1,043,445
Operating income *(Note 13)*	20,257	170,227
Other income (expense):		
Interest expense	(8,424)	(70,790)
Interest and dividend income	1,738	14,605
Gain on sales of investments in other securities	1,779	14,950
Gain on sales of property, plant and equipment, net of disposal	2,049	17,218
Equity in losses of unconsolidated subsidiaries and affiliates	(104)	(874)
Loss on devaluation of investments in other securities	(5,056)	(42,487)
Loss on net retirement benefit obligation resulting from change in accounting standard	(2,947)	(24,765)
Other, net	(3,567)	(29,975)
	(14,533)	(122,126)
Income before income taxes and minority interests	5,724	48,101
Income taxes:		
Current	(4,907)	(41,235)
Deferred	907	7,622
	(4,000)	(33,613)
Minority interests in losses of consolidated subsidiaries	1,089	9,151
Net income	2,813	23,639
Retained earnings at beginning of period	132,311	1,111,857
Adjustments for inclusion or exclusion of certain subsidiaries in consolidation	(12,431)	(104,462)
Appropriations:		
Bonuses to directors and statutory auditors	(258)	(2,168)
Retained earnings at end of period	¥122,436	$1,028,874

	(Yen)	*(U.S. dollars) (Note 3)*
Amounts per share:		
Net income:		
Basic	¥2,611.51	$21.945
Diluted	2,516.83	21.150
Cash dividends	4,000.00	33.613

See notes to consolidated financial statements.

Nippon Unipac Holding and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

	Period from March 30, 2001 to September 30, 2001	
	(Millions of yen)	*(Thousands of U.S. dollars) (Note 3)*
Operating activities		
Income before income taxes and minority interests	¥ 5,724	$ 48,101
Adjustments to reconcile income before income taxes, minority interests to net cash provided by operating activities:		
Depreciation	42,972	361,109
Amortisation of difference between cost and underlying net equity in consolidated subsidiaries	672	5,647
Increase in allowance for doubtful receivables	99	832
Increase in accrued retirement benefits	1,090	9,160
Interest and dividend income	(1,738)	(14,605)
Interest expense	8,424	70,790
Equity in losses of unconsolidated subsidiaries and affiliates	104	874
Gain on sales of investments in other securities	(1,779)	(14,950)
Gain on sales of property, plant and equipment, net of disposal	(2,049)	(17,218)
Loss on devaluation of investments in other securities	5,056	42,487
Bonuses paid to directors and statutory auditors	(292)	(2,454)
Changes in operating assets and liabilities:		
Receivables	16,104	135,328
Inventories	2,174	18,269
Payables	(23,148)	(194,521)
Other	1,560	13,109
	54,975	461,975
Interest and dividends received	2,079	17,471
Interest paid	(8,351)	(70,176)
Income taxes paid	(17,035)	(143,151)
Net cash provided by operating activities	31,667	266,109

Nippon Unipac Holding and Consolidated Subsidiaries

Consolidated Statement of Cash Flows (continued)

	Period from March 30, 2001 to September 30, 2001	
	(Millions of yen)	*(Thousands of U.S. dollars) (Note 3)*
Investing activities		
Acquisitions of time deposits	¥ (567)	$ (4,765)
Withdrawals of time deposits	2,997	25,185
Acquisitions of marketable securities	(589)	(4,950)
Proceeds from sales of marketable securities	600	5,047
Acquisitions of property, plant and equipment	(40,023)	(336,328)
Proceeds from sales of property, plant and equipment	3,192	26,824
Acquisitions of investments in other securities	(2,870)	(24,118)
Proceeds from sales of investments in other securities	3,403	28,597
Increase in short-term loans	(1,241)	(10,429)
Extensions of long-term loans	(1,387)	(11,655)
Collection of long-term loans	1,090	9,160
Other, net	(162)	(1,361)
Net cash used in investing activities	(35,558)	(298,807)
Financing activities		
Decrease in short-term borrowings	(111)	(933)
Proceeds from issuance of long-term debt	53,705	451,303
Reduction of long-term debt	(71,905)	(604,244)
Payment for transfer of shares of subsidiaries	(4,254)	(35,748)
Cash dividends paid	(257)	(2,160)
Payment of finance lease obligations	(3,685)	(30,966)
Others, net	42	353
Net cash used in financing activities	(26,467)	(222,412)
Effect of exchange rate changes on cash and cash equivalents	321	2,697
Decrease in cash and cash equivalents	(30,036)	(252,403)
Cash and cash equivalents at beginning of period	26,098	219,311
Increase due to transfer of shares of subsidiaries	51,232	430,521
Increase due to merger of unconsolidated subsidiaries	214	1,798
Cash and cash equivalents at end of period	¥ 47,508	$ 399,227

See notes to consolidated financial statements.

Nippon Unipac Holding and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2001

1. Description of Business

Nippon Unipac Holding (the "Company") was established as a business combination by a stock transfer from shareholders of both Nippon Paper Industries Co., Ltd. ("Nippon"), and Daishowa Paper Manufacturing Co., Ltd. ("Daishowa") to the Company through procedures stipulated in the Commercial Code of Japan on March 30, 2001. As a result of this stock transfer, both Nippon Paper Industries Co., Ltd. ("Nippon"), and Daishowa Paper Manufacturing Co., Ltd. ("Daishowa") became wholly-owned subsidiaries of the Company. Both subsidiaries are principally engaged in manufacturing and selling pulp and paper.

2. Summary of Significant Accounting Policies

(a) Basis of Preparation

The accompanying consolidated financial statements have been prepared from the accounts maintained by Nippon Unipac Holding in accordance with the provisions set forth in the Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

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 its subsidiaries over which substantial control is exerted through either 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 Nippon and Daishowa, the Company comprehensively applied the pooling-of-interest method to Nippon and its subsidiaries as the acquiring group, and applied the purchase method to Daishowa and its subsidiaries as the acquired group after considering the ratio of the stock transfer of each company and other factors.

2. Summary of Significant Accounting Policies

(b) Consolidation (continued)

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

Investments in 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 subsidiaries are revaluated on acquisition, if applicable, and the excess of cost over underlying net assets at the date of acquisition 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.

The goodwill arising from the application of the purchase method is being amortized over a period of twenty years on a straight-line basis. The goodwill is included in other assets on 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, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of fluctuations in interest rates.

(d) Securities

Nippon Unipac Holding and consolidated subsidiaries have adopted a revised 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 Nippon Unipac Holding and consolidated subsidiaries had no such securities as of September 30, 2001;

(ii) held-to-maturity securities are carried at amortized cost; 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 shareholder's equity. Non-marketable securities classified as other securities are carried at cost.

(e) Inventories

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

2. Summary of Significant Accounting Policies (continued)

(f) Property, Plant and Equipment

Property, plant and equipment is stated at cost. Depreciation is generally 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 computed by the straight-line method. Significant renewals and betterments are capitalised at cost. Maintenance and repairs are charged to income as incurred.

(g) Leases

Noncancelable leases of the 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.

(h) Foreign Currency Translation

All assets and liabilities denominated in foreign currencies other than those hedged by forward foreign exchange contracts 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 gains and losses are credited or charged to income currently.

The balance sheet accounts of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, 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 period. The Company has presented translation adjustments as a component of shareholders' equity and minority interests in its consolidated financial statements for the period.

(i) Retirement Benefits

Costs with respect to the Nippon Paper Welfare Pension Fund, which covers a certain portion of the benefits under the severance indemnities plan, are funded as accrued at an amount determined actuarially. Prior service cost at the inception of the plan is being funded over a period of 20 years.

In accordance with a new accounting standard for retirement benefits which became effective April 1, 2000, accrued retirement benefits for employees at September 30, 2001 have been provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of March 31, 2002, as adjusted for the unrecognized net retirement benefit obligation at transition, unrecognized actuarial gain or loss, and unrecognized prior service cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated remaining years of service of the eligible employees. The net retirement benefit obligation at transition is being amortized over one year.

2. Summary of Significant Accounting Policies (continued)

(i) Retirement Benefits (continued)

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

Prior service cost is being amortized as incurred by the straight-line method over periods (principally 10 years through 15 years) which are shorter than the average remaining years of service of the eligible employees.

The consolidated subsidiaries also have similar severance indemnities plans and/or pension plans which cover substantially all their employees.

In addition, directors and statutory auditors of the Company are customarily entitled to lump-sum payments under an unfunded retirement plan. Provisions for retirement allowances for these officers are made at estimated amounts.

(j) Research and Development Costs

Research and development costs are charged to income as incurred.

(k) Derivative financial instruments

The Company and certain consolidated subsidiaries have entered into various derivative transactions in order to manage certain risks arising from adverse fluctuations 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.

(l) Income Taxes

The Company has adopted tax-effect accounting for income taxes in accordance with the revised 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 financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(m) Appropriation of Retained Earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period and the accounts for such period, therefore, do not reflect such appropriations. See Note 16.

2. Summary of Significant Accounting Policies (continued)

(n) Amounts per Share

The computation of basic net income per share is based on the weighted average number of shares of common stock outstanding during each year. Diluted net income per share is computed based on the weighted average number of shares of common stock outstanding each year after giving effect to the dilutive potential of common shares to be issued upon the conversion of convertible bonds.

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

3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥119 = U.S.$1.00, the approximate rate of exchange on September 30, 2001, has been used. The 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.

4. Inventories

Inventories at September 30, 2001 consisted of the following:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Merchandise and finished products	¥ 93,203	$ 783,218
Work in process	16,480	138,487
Raw materials and supplies	44,446	373,496
	¥154,130	$1,295,210

5. Short-Term Borrowings and Long-Term Debt

At September 30, 2001, short-term borrowings consisted of the following:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Loans from banks	¥426,140	$3,581,008
Commercial paper	7,000	58,824
	¥433,140	$3,639,832

5. Short-Term Borrowings and Long-Term Debt (continued)

Loans from banks are unsecured and generally represent 365-day notes. The weighted average interest rates of the short-term bank loans outstanding at September 30, 2001 were 0.74 per cent.

Long-term debt at September 30, 2001 is summarised as follows:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Loans from banks, insurance companies and others at rates ranging from 0.395 per cent. to 5.1 per cent. due through 2034:		
With collateral	¥208,645	$1,753,319
Without collateral	112,290	943,613
2.5 per cent. unsecured notes in yen due 2003 (subsidiary)	30,000	252,101
2.975 per cent. unsecured notes in yen due 2005 (subsidiary)	25,000	210,084
2.55 per cent. unsecured notes in yen due 2003 (subsidiary)	25,000	210,084
1.675 per cent. unsecured notes in yen due 2002 (subsidiary)	15,000	126,050
2.075 per cent. unsecured notes in yen due 2004 (subsidiary)	15,000	126,050
2.12 per cent. unsecured notes in yen due 2004 (subsidiary)	20,000	168,067
0.2 per cent. unsecured exchangeable bonds in yen due 2006 (subsidiary)	31,000	260,504
1.66 per cent. unsecured notes in yen due 2005 (subsidiary)	1,500	12,605
2.40 per cent. unsecured convertible bonds in yen due 2002 (subsidiary)	3,230	27,143
	486,666	4,089,630
Less current portion	(95,793)	(804,983)
	¥390,873	$3,284,647

Exchangeable bonds issued by a consolidated subsidiary, unless previously redeemed, are convertible into shares of common stock of the Company as follows:

	Current exchangeable price per share	Exchangeable period (up to and including)
0.2 per cent. exchangeable bonds due 2006	¥645,000	March 30, 2006

At September 30, 2001, if all the outstanding convertible bonds had been converted, approximately 48 thousand new shares of the Company would have been issuable.

Under the provisions of these issues, the conversion prices are subject to adjustment in certain cases which include stock splits.

Long-term debt maturities subsequent to September 30, 2001 are summarised as follows:

Year ending September 30,	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2002	¥ 95,793	$ 804,983
2003	96,165	808,109
2004	131,820	1,107,731
2005	72,377	608,210
2006 and thereafter	90,510	760,588
	¥486,666	$4,089,630

6. Pledged Assets

At September 30, 2001, assets pledged as collateral for notes and accounts payable - trade of ¥43 million ($361 thousand), short-term borrowings of ¥3,915 million ($32,899 thousand), the current portion of long-term debt of ¥51,171 million ($430,008 thousand), and long-term debt of ¥157,473 million ($1,323,303 thousand) were as follows:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Notes and accounts receivable - trade	¥ 1,265	$ 10,630
Property, plant and equipment, at net book value	535,126	4,496,857
Investments in other securities	14,457	121,487
Other assets	13,186	110,807
	¥564,035	$4,739,790

7. Retirement Benefits

The Company and its consolidated subsidiaries have defined benefit plans, i.e., 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 sheet at September 30, 2001 for the Company's and the consolidated subsidiaries' defined benefit plans:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Retirement benefit obligation	¥(248,366)	$(2,087,109)
Plan assets at fair value	155,525	1,306,933
Unfunded retirement benefit obligation	(92,841)	(780,176)
Unrecognized net retirement benefit obligation at transition	2,947	24,765
Unrecognized actuarial gain or loss	21,104	177,345
Unrecognized prior service cost	(2,255)	(18,950)
Net retirement benefit obligation	(71,044)	(597,008)
Prepaid pension cost	2,836	23,832
Accrued retirement benefits	¥ (73,880)	$ (620,840)

The government-sponsored portion of the benefits under the welfare pension fund plans has been included in the amounts shown in the above table. In the year ended March 31, 2001, certain consolidated subsidiaries made amendments to their welfare pension fund plans with respect to the age of eligibility for annuity payments for the government-sponsored portion of the benefits in accordance with recent amendments to the Welfare Pension Insurance Law of Japan made in September 2000. As a result, prior service cost was incurred.

7. Retirement Benefits (continued)

The components of retirement benefit expenses for the period ended September 30, 2001 are outlined as follows:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Service cost	¥ 4,043	$ 33,975
Interest cost	4,062	34,134
Expected return on plan assets	(2,306)	(19,378)
Amortization of net retirement benefit obligation at transition	2,947	24,765
Amortization actuarial gain or loss	747	6,277
Amortization prior service cost	(80)	(672)
Total	¥ 9,413	$ 79,101

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

Discount rate	mainly 3.5%
Expected rate of return on plan assets	mainly 4.5%

8. 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 42.1 per cent. for 2001, respectively. The effective tax rates reflected in the accompanying consolidated statements of income and retained earnings differ from the statutory tax rate primarily due to the effect of timing differences in the recognition of certain income and expenses for tax and financial reporting purposes and the effect of permanent non-deductible expenses.

The effective tax rate reflected in the consolidated statement of income for the period ended September 30, 2001, respectively, differs from the statutory tax rate for the following reasons:

	2001
Statutory tax rate	42.1%
Effect of:	
Permanent difference – entertainment expenses	10.0
Provision for valuation allowance	24.2
Different tax rates applied to foreign subsidiaries	(6.8)
Other, net	0.4
Effective tax rate	69.9%

8. Income Taxes (continued)

Significant components of the deferred tax assets and liabilities held by the Company and its consolidated subsidiaries at September 30, 2001, respectively, were as follows:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Deferred tax assets:		
Accrued bonuses	¥ 3,471	$ 29,168
Accrued enterprise tax	551	4,630
Accrued allowance for doubtful receivables	5,739	48,227
Accrued retirement benefits	31,318	263,176
Accrued officers' retirement benefits	1,146	9,630
Accrued allowance for losses on guarantees	3,619	30,412
Accrual for losses on investment securities	2,886	24,252
Tax loss carryforwards	25,016	210,218
Unrealized profit eliminated in consolidation	6,433	54,059
Other	4,423	37,168
	84,606	710,975
Valuation allowance	(20,810)	(174,874)
	63,796	536,101
Deferred tax liabilities:		
Tax reserves	7,766	(65,261)
Accumulated depreciation	(1,512)	(12,706)
Valuation differences on land, etc.	(28,868)	(242,588)
Other	(867)	(7,286)
	(39,015)	(327,857)
Net deferred tax assets	¥ 24,781	$ 208,244

9. Common Stock

During the period ended September 30, 2001, the Company issued no shares as there was no conversion of convertible bonds.

At September 30, 2001, the authorized and issued shares of common stock (with a ¥50,000 par value) of the Company numbered 3,000,000 and 1,080,670.23, respectively.

10. Leases

Lessee's Accounting

a) The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property at September 30, 2001, which would have been reflected in the balance sheet 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)*
Acquisition costs:		
Machinery and equipment	¥10,431	$87,655
Accumulated depreciation:		
Machinery and equipment	¥ 5,063	$42,546
Net book value:		
Machinery and equipment	¥ 5,368	$45,109

The pro forma depreciation portion of the lease payments relating to finance leases accounted for as operating leases for the period ended September 30, 2001 amounted to ¥943 million ($7,924 thousand) and were computed by the straight-line method over the respective lease terms of the assets.

Future minimum lease payments (including the interest portion thereon) subsequent to September 30, 2001 for finance lease transactions accounted for as operating leases are summarised as follows:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Year ending September 30:		
2002	¥1,658	$13,933
2003 and thereafter	3,709	31,168
Total	¥5,368	$45,109

b) Future minimum lease payments subsequent to September 30, 2001 for noncancelable operating leases are summarised as follows:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Year ending September 30:		
2002	¥241	$2,025
2003 and thereafter	44	370
Total	¥285	$2,395

10. Leases (continued)

Lessor's Accounting

a) 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 September 30, 2001:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Acquisition costs:		
Machinery and equipment	¥168	$1,412
Accumulated depreciation:		
Machinery and equipment	¥121	$1,017
Net book value:		
Machinery and equipment	¥ 47	$ 395

Lease income relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥12 million ($101 thousand), for the period ended September 30, 2001. Depreciation of the assets leased under finance leases accounted for as operating leases amounted to ¥11 million ($92 thousand), for the period ended September 30, 2001.

Future minimum lease income subsequent to September 30, 2001 for noncancelable operating leases are summarised as follows:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Year ending September 30:		
2002	¥21	$176
2003 and thereafter	28	235
Total	¥50	$420

b) Future minimum lease income subsequent to September 30, 2001 for noncancelable operating leases are summarised as follows:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Year ending September 30:		
2002	¥ 41	$ 345
2003 and thereafter	94	790
Total	¥136	$1,143

11. Contingent Liabilities

The Company and its consolidated subsidiaries had the following contingent liabilities at September 30, 2001:

	(Millions of yen)	*(Thousands of U.S. dollars)*
As endorsers of trade notes discounted with banks	¥2,030	$17,059
As guarantors of indebtedness of unconsolidated subsidiaries, affiliates and other companies	56,507	474,849

The Company has entered into an agreement to sell a consolidated subsidiary in North America under which the Company will compensate the buyer for losses on environmental claims at the maximum amount of U.S.$50,000 thousand (¥6,017 million) which were incurred during the period of three and half years after the sale.

12. Securities

(1) a) Information regarding marketable securities classified as held-to-maturity debt securities and other securities as of September 30, 2001 is as follows:

Marketable held-to-maturity debt securities

	September 30, 2001					
	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
	(Millions of yen)			*(Thousands of U.S. dollars)*		
Securities whose fair value exceeds their carrying value:						
Government bonds	¥ 120	¥ 120	¥ 0	$ 1,008	$ 1,008	$ 0
Corporate bonds	1,066	1,101	34	8,958	9,252	286
Subtotal	1,187	1,222	34	9,975	10,269	286
Securities whose carrying value exceeds their fair value:						
Corporate bonds	299	201	(98)	2,513	1,689	(824)
Subtotal	299	201	(98)	2,513	1,689	(824)
Total	¥1,487	¥1,423	¥(64)	$12,496	$11,958	$(538)

12. Securities (continued)

Marketable other securities

	September 30, 2001					
	Cost	Carrying value	Unrealized gain (loss)	Cost	Carrying value	Unrealized gain (loss)
	(Millions of yen)			*(Thousands of U.S. dollars)*		
Securities whose carrying value exceeds their cost:						
Equity securities	¥19,123	¥26,254	¥ 7,130	$160,697	$220,622	$ 59,916
Debt securities	1,955	2,148	192	16,429	18,050	1,613
Other	4,703	4,731	28	39,521	39,756	235
Subtotal	25,782	33,134	7,352	216,655	278,437	61,782
Securities whose cost exceeds their carrying value:						
Equity securities	30,597	23,234	(7,362)	257,118	195,244	(61,866)
Other	12	7	(4)	101	59	(34)
Subtotal	30,609	23,241	(7,367)	257,218	195,303	(61,908)
Total	¥56,391	¥56,376	¥ (15)	$473,874	$473,748	$ (126)

b) Sales of securities classified as other securities amounted to ¥949 million ($7,975 thousand) with an aggregate gain of ¥412 million ($3,462 thousand) for the period ended September 30, 2001.

c) The redemption schedule for securities with maturity dates classified as other securities and held-to-maturity debt securities at September 30, 2001 is summarized as follows:

	September 30, 2001					
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due in one year or less	Due after one year through five years	Due after five years through ten years
	(Millions of yen)			*(Thousands of U.S. dollars)*		
Corporate bonds	¥ 930	¥ 658	¥ –	$ 7,815	$ 5,529	$ –
Other debt securities	1,566	1,109	10	13,160	9,319	84
Total	¥2,496	¥1,767	¥10	$20,975	$14,849	$84

12. Securities (continued)

d) Information regarding marketable securities (except for marketable held-to-maturity debt security) which are not carried at fair value is as follows:

	September 30, 2001	
	Carrying value	
	(Millions of yen)	*(Thousands of U.S. dollars)*
Held-to-maturity debt securities:		
Unlisted	¥ 1,000	$ 8,403
Commercial paper	1,498	12,588
Other	57	479
Total	¥ 2,556	$ 21,479
Other securities:		
Unlisted equity securities	¥24,293	$204,143
Money management fund	3,628	30,487
Other	1,379	11,588
Total	¥29,301	$246,227

13. Segment Information

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sales of products in two major industry segments: pulp and paper and building materials.

Business segment information of the Company and its consolidated subsidiaries for the period ended September 30, 2001 is as follows:

	2001						
	Pulp and paper	Paper perip herals	Building ma terials	Other	Total	Eliminations or corporate	Consoli-dated
	(Millions of yen)						
I. Sales and operating income							
Sales to third parties	¥ 479,788	¥ 50,744	¥ 44,612	¥40,039	¥ 615,185	¥ –	¥ 615,185
Intergroup sales and transfers	535	3,663	17,067	8,356	29,622	(29,622)	–
Total sales	480,324	54,408	61,679	48,395	644,807	(29,622)	615,185
Operating expenses	464,416	53,082	61,560	45,490	624,550	(29,622)	594,927
Operating income	¥ 15,907	¥ 1,325	¥ 119	¥ 2,905	¥ 20,257	¥ –	¥ 20,257
II. Assets, depreciation and capital expenditures							
Total assets	¥1,313,125	¥101,184	¥101,651	¥98,103	¥1,614,065	¥164,374	¥1,778,440
Depreciation	36,867	2,348	725	3,031	42,972	–	42,972
Capital expenditures	30,131	1,974	1,335	2,105	35,547	–	35,547

13. Segment Information (continued)

	2001						
	Pulp and paper	Paper periph erals	Building ma terials	Other	Total	Eliminations or corporate	Consoli-dated
	(Thousands of U.S. dollars)						
I. Sales and operating income							
Sales to third parties	$ 4,031,832	$426,420	$374,891	$336,462	$ 5,169,622	$ –	$ 5,169,622
Intergroup sales and transfers	4,496	30,782	143,420	70,218	248,924	(248,924)	–
Total sales	4,036,336	457,210	518,311	406,681	5,418,546	(248,924)	5,169,622
Operating expenses	3,902,655	446,067	517,311	382,269	5,248,319	(248,924)	4,999,387
Operating income	$ 133,672	$ 11,134	$ 1,000	$ 24,412	$ 170,227	$ –	$ 170,227
II. Assets, depreciation and capital expenditures							
Total assets	$11,034,664	$850,286	$854,210	$824,395	$13,563,571	$1,381,294	$14,944,874
Depreciation	309,807	19,731	6,092	25,471	361,109	–	361,109
Capital expenditures	253,202	16,588	11,218	17,689	298,714	–	298,714

14. Derivative Transactions

The Company and certain subsidiaries have entered into forward foreign exchange contracts to reduce its exposure to adverse fluctuations in foreign exchange rates relating to receivables and payables denominated in foreign currencies.

In addition, the Company and certain subsidiaries have entered into interest-rate swap agreements to reduce interest expense or exposure to adverse fluctuations in interest rates relating to loans and bonds payable. The notional principal amounts of these interest-rate swap agreements at September 30, 2001 totaled ¥8,875 million ($74,580 thousand), which includes the notional principal amounts of ¥6,975 million ($58,613 thousand) relating to swap positions whose terms extend more than one year after the balance sheet date.

Summarized below are the contract amounts and estimated fair value of the Company's derivative positions at September 30, 2001.

	Contract am ount	Estimated fa ir value	Contract am ount	Estimated fa ir value
	(Millions of yen)		*(Thousands of U.S. dollars)*	
Interest-rate swaps:				
Receive-variable; pay-fixed	¥2,275	¥ (49)	$19,118	$ (412)
Receive-fixed; pay-variable	5,000	274	42,017	2,303
Receive-variable; pay-variable	1,600	(11)	13,445	92
Interest-rate caps:				
To buy	¥8,000	¥ 8	$67,227	$67

14. Derivative Transactions (continued)

The following methodologies and assumptions were used by the Company in estimating the fair value of its derivative financial instruments:

Coupon and interest-rate swaps:

Estimated fair value as provided by the financial institutions

15. Research and Development Costs

Included in cost of sales and selling, general and administrative expenses were ¥3,462 million ($29,092 thousand) of research and development costs for the period ended September 30, 2001.

16. Subsequent Event

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the period ended September 30, 2001, were approved at a shareholders' meeting held on December 14, 2001:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Year-end cash dividends (¥4,000.00 = $33.613 per share)	¥4,322	$36,319