

NIPPON PAPER GROUP, INC. ANNUAL REPORT 2010

NIPPON

ANNUAL REPORT 2010 For the Fiscal Year Ended March 31, 2010

PAPER

Setting Sail for Steady Growth

GROUP



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

NIPPON PAPER GROUP, INC.

1-2-2 Hitotsubashi, Chiyoda-ku, Tokyo 100-0003, Japan
Tel: +81-3-6665-1111



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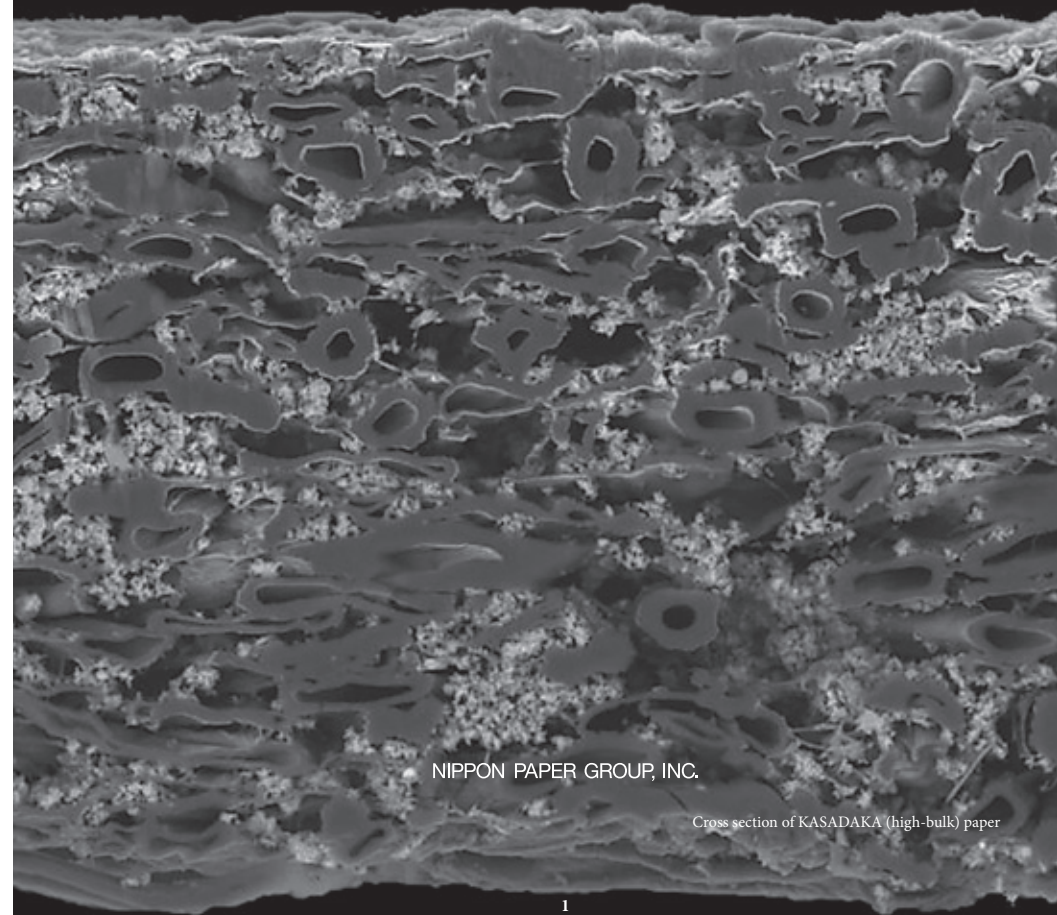
Disclaimer

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.

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NIPPON PAPER GROUP, INC.

Cross section of KASADAKA (high-bulk) paper

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Nippon Paper Group contributes to affluent lifestyles and the global environment by supplying paper, a renewable material used in a variety of applications.

Nippon Paper Group, Inc. is the holding company operating the Nippon Paper Group, which is active in four business segments with the pulp and paper segment at their core. Employing more than 14,000 people at its 45 consolidated subsidiaries in Japan and overseas, the Group manufactured over 6.6 million metric tons (mt) of paper and paperboard and had sales of around ¥1.1 trillion in fiscal 2009, the year to March 31, 2010.

Group Vision 2015

Goals of Nippon Paper Group for 2015

Be one of the top 5 pulp and paper groups worldwide.

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
Operating cash flow	¥150 billion



Cross section of wood pulp

At a Glance

- 6 Consolidated Financial Highlights
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- 12 Corporate Profile

Consolidated Financial Highlights

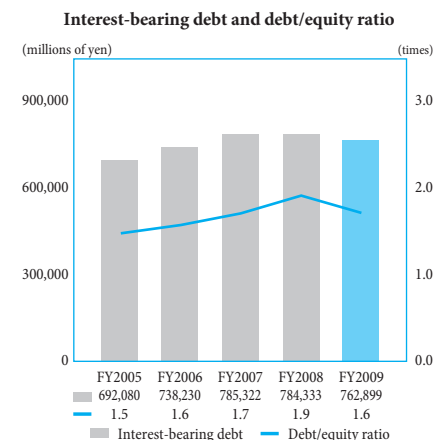
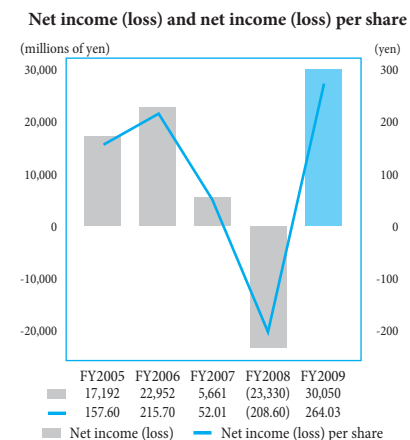
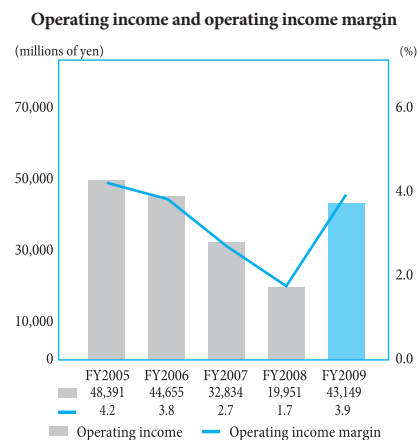
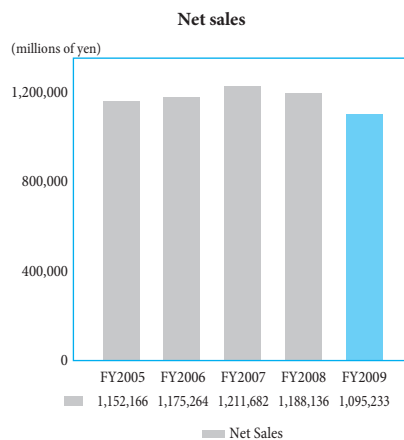
Nippon Paper Group, Inc.

	Millions of yen		Thousands of US dollars ¹	
	Fiscal 2007 April 1, 2007 – March 31, 2008	Fiscal 2008 April 1, 2008 – March 31, 2009	Fiscal 2009 April 1, 2009 – March 31, 2010	Fiscal 2009 April 1, 2009 – March 31, 2010
Net sales	¥ 1,211,682	¥ 1,188,136	¥ 1,095,233	\$ 11,776,699
Operating income	32,834	19,951	43,149	463,968
Ordinary income	32,800	17,944	37,547	403,731
Net income (loss)	5,661	(23,330)	30,050	323,118
Total assets	1,625,571	1,492,027	1,500,246	16,131,677
Net assets	479,758	424,551	459,978	4,946,000
Interest-bearing debt ²	785,322	784,333	762,899	8,203,215
		yen		US dollars
Net income (loss) per share ³	5,200.50	(208.60)	264.03	2.84
Cash dividends per share ³	8,000.00	80.00	80.00	0.86
Operating income margin (%)	2.7	1.7	3.9	
Return on equity (ROE) (%) ⁴	1.3	(5.4)	7.0	
Return on invested capital (ROIC) (%) ⁵	3.4	2.4	3.9	
Equity ratio (%)	28.0	27.0	30.4	
Return on assets (ROA) (%) ⁶	2.7	1.9	3.2	
Number of employees	13,666	13,088	14,210	

Note:

1. Amounts in US dollars are included solely for convenience and are translated at a rate of ¥93=U.S.\$1.00, the approximate rate of exchange on March 31, 2010.
2. Interest-bearing debt = Short-term borrowings + Long-term debt
3. A 100-to-1 stock split was implemented on January 4, 2009.
4. Return on equity (ROE)
= Net income (loss) / Average shareholders' equity and valuation, translation adjustments and other × 100

5. Return on invested capital (ROIC)
= (Ordinary income + Interest expense) / (Shareholders' equity and valuation, translation adjustments and other + Interest-bearing debt) × 100
6. Return on assets (ROA) = (Ordinary income + Interest expense) / Total assets × 100



Adjusted stock split 100 to 1 implemented on Jan. 4, 2009

News Releases

The following is a list of news items relevant to our feature article that were released between April 2009 and March 2010.

* National Agriculture and Food Research Organization

New products and technology development

April 14
Nippon Paper Chemicals
 Develops clear hardcoat film for next-generation LCD panels

September 30
Nippon Paper-Pak
 Releases the world's smallest aseptic brick carton

November 20
Nippon Paper Group, Inc.
 Develops a new tea species, "Sun-Rouge" with NARO(*)

Environment and CSR

June 2, September 8
Nippon Paper Industries
 Holds 7th and 8th environmental workshops at company-owned forests in Gunma Prefecture

October 19
Nippon Paper Industries
 Joins a program to utilize unused logs from thinning work in Shizuoka Prefecture

December 2
Nippon Paper Industries
 Joins a program to utilize unused logs from thinning work in Okayama Prefecture

March 15
Nippon Paper Industries
 Holds 4th environmental workshop at a company-owned forest in Kumamoto Prefecture

April 2009 September October 2010 March

Investment

June 1
Nippon Paper Industries
 Completes acquisition of Australian Paper

June 15
Nippon Paper Group, Inc.
 Announces making Shikoku Coca-Cola Bottling into a wholly owned subsidiary

December 7
Nippon Paper Chemicals
 Decides to install a new pulp machine

January 13
Shikoku Coca-Cola Bottling
 Decides to expand PET bottle beverage filling line

March 30
Nippon Paper Industries
 Invests in containerboard business of Yuen Foong Yu Paper Mfg.

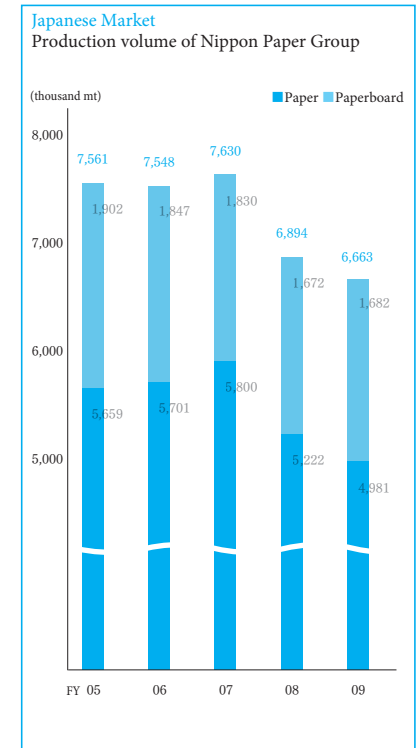
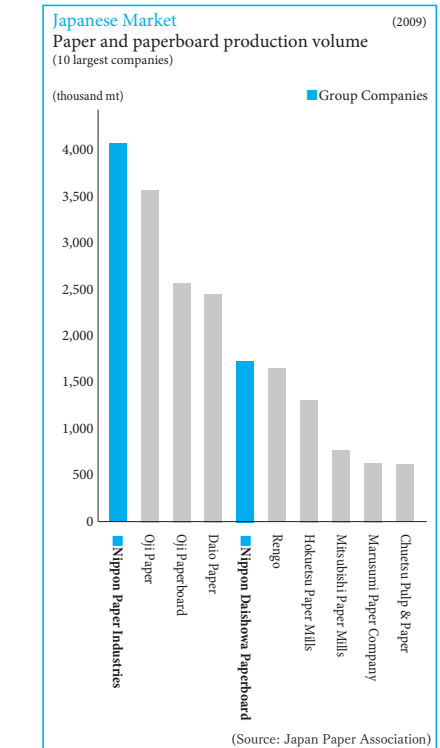
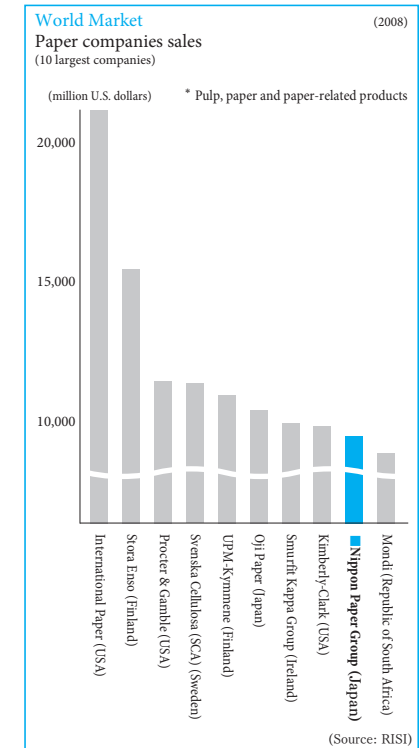
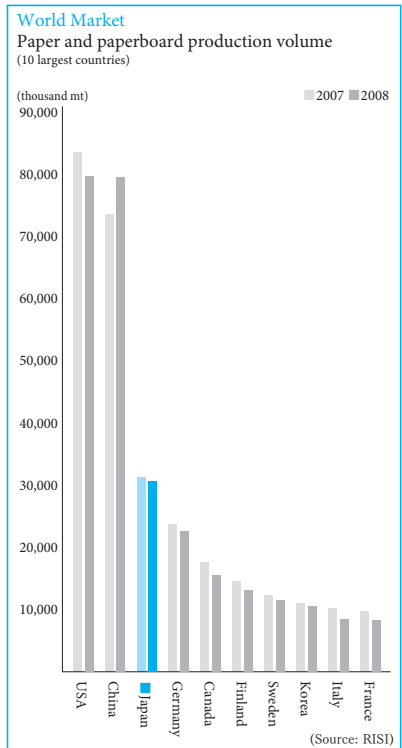
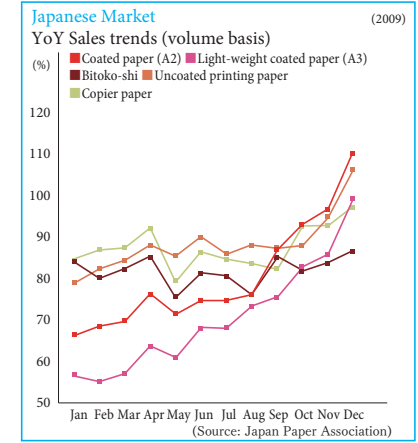
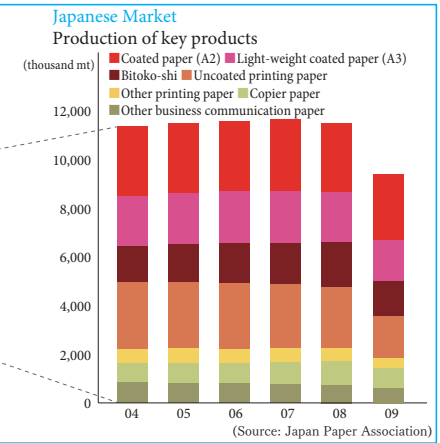
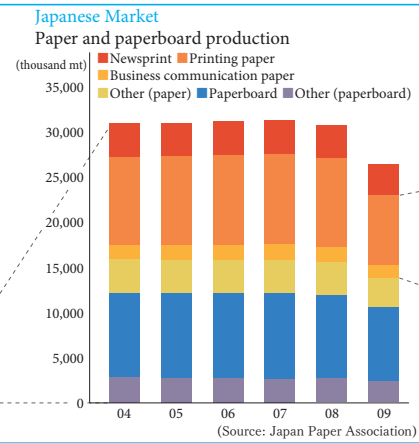
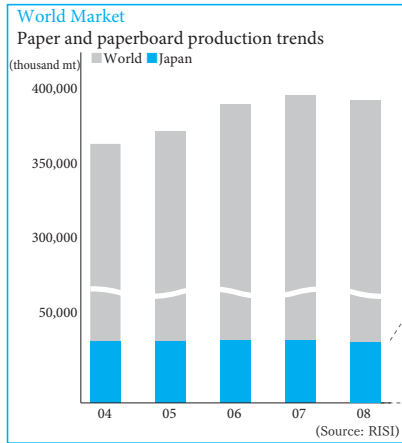
Other

May 22
Nippon Paper Group companies
 Consolidate head offices in the Takebashi headquarters

March 3
Nippon Paper Industries
 Integrates Asahikawa, Yufutsu, and Shiraoi mills into Hokkaido mills

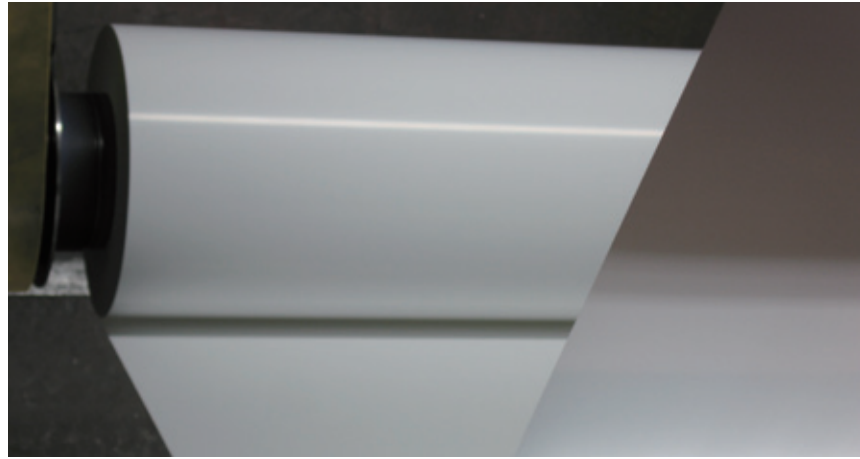
Consolidated subsidiaries and equity-method affiliates are listed on page 48.

Pulp and Paper Industry Overview

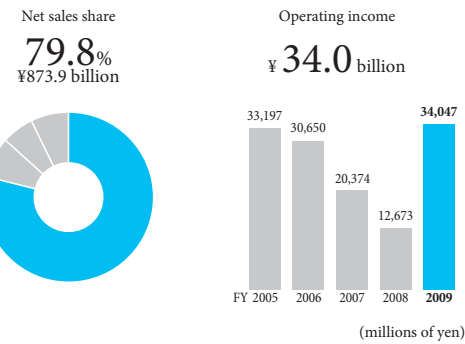


Corporate Profile

Fiscal 2009

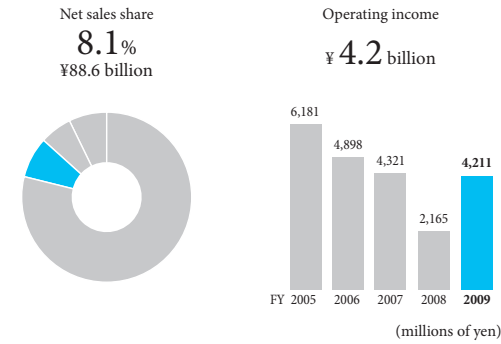


Pulp and Paper Segment page. 34



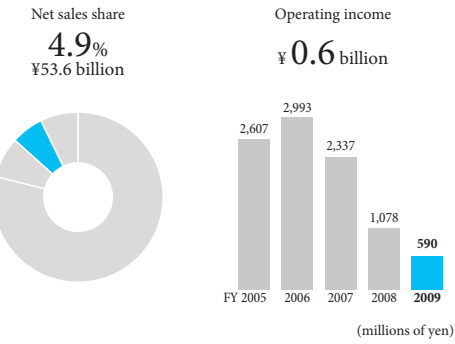
- | | | | |
|--|--|--|--|
| <p>Paper</p> <ul style="list-style-type: none"> Newsprint Printing and publication paper Business communication paper Packaging paper | <p>Paperboard</p> <ul style="list-style-type: none"> Containerboard White lined chipboard Specialty paperboard | <p>Household paper products</p> <ul style="list-style-type: none"> Facial tissue Bathroom tissue Paper towels Diapers | <p>Specialty and high-performance products</p> <ul style="list-style-type: none"> Tea bag filter paper Water soluble paper OPER® |
|--|--|--|--|

Paper-Related Segment page. 41



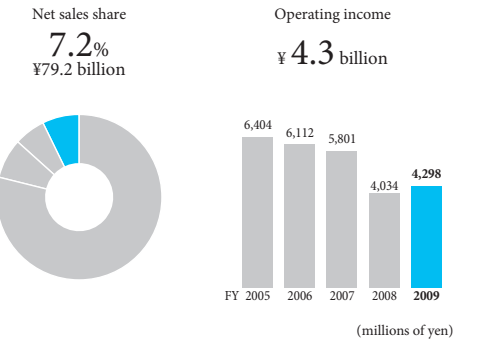
- | | |
|--|---|
| <p>Processed paper products</p> <ul style="list-style-type: none"> Liquid-packaging cartons Filling machines and maintenance services Paper bags Adhesive paper | <p>Chemical products and functional materials</p> <ul style="list-style-type: none"> Dissolving pulp Chemical products Functional films Drafting and copying media |
|--|---|

Housing and Construction Materials Segment page. 44



- Lumber
- Construction materials
- Civil engineering

Other Segment page. 46

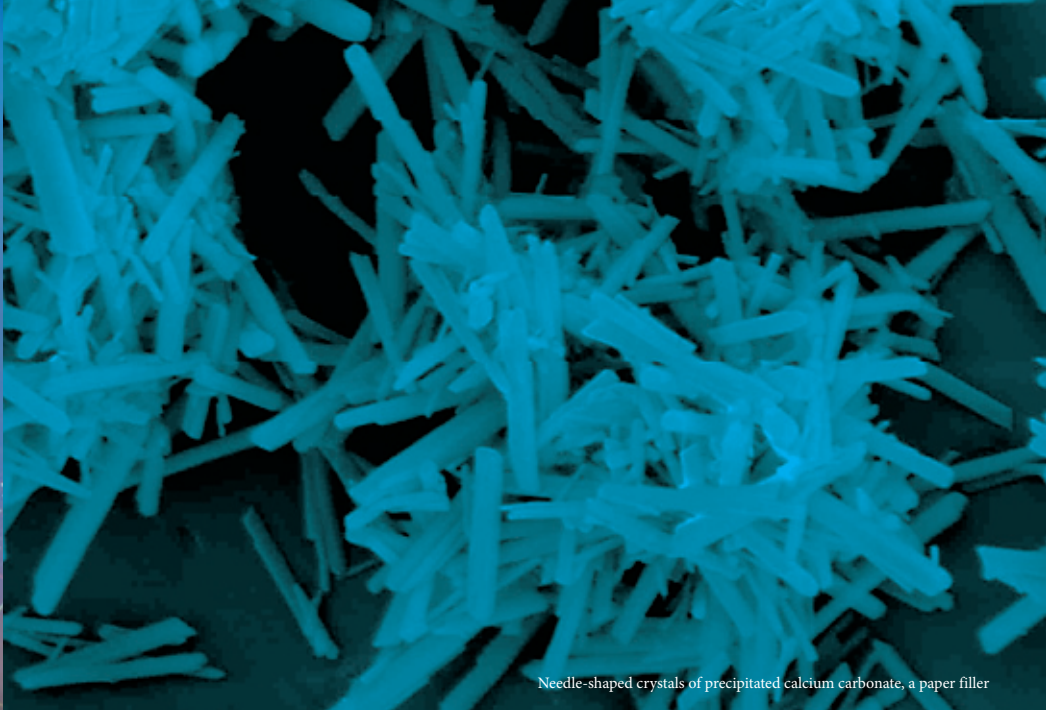


- Beverages
- Warehousing and transportation
- Sports and Leisure
- Power generation

Consolidated subsidiaries and equity-method affiliates are listed on page 48.



The Iwanuma Mill at dusk



Needle-shaped crystals of precipitated calcium carbonate, a paper filler

Message from the President

- 16 To Our Shareholders
- 18 Interview with the President

To Our Shareholders

Nippon Paper Group has made steady advances as a corporate group that contributes to society through the manufacture of paper and paper-related products. However, the economic downturn precipitated by the financial crisis in 2008 has led to dramatic changes in our industry. Domestic printing paper demand has fallen by nearly 20% from its previous peak, resulting in decreases in production and sales at papermakers. Moreover, imported paper has captured a larger portion of the market as a result of the strong yen, causing conditions to deteriorate further. In this environment, we quickly shut down production facilities in an effort to improve the supply/demand gap. This helps to raise our capacity utilization to the 90% level, after having fallen below 70% during the fourth quarter of fiscal 2008. We posted a net profit ¥30.1 billion in fiscal 2009, achieving a rapid recovery from a loss in fiscal 2008.

In fiscal 2010, despite some signs of a modest recovery in domestic demand, we expect earnings to come under pressure from a rise in raw material and fuel costs due to a resumption of resource inflation. Although we are accelerating efforts to reduce costs, including through ongoing emergency measures, we believe it will be necessary to pass further input cost increases through to product prices while gauging supply/demand trends.

In pursuit of the Group Vision 2015, we established our Third Medium-Term Business Plan, which covers FY2009 to FY2011. Now we are working all-out on a restructuring designed to ensure the survival of the Nippon Paper Group. We believe the key factor in sustaining groupwide growth will be how we accelerate efforts to respond to a shrinking domestic market and expand into overseas markets.

In Japan, we need to completely revise the allocation of business resources to create a structure capable of securing stable earnings even with paper demand at 80% of peak levels. In addition to ongoing production restructuring in the pulp and paper segment, we are working to bolster businesses other than pulp and paper, notably the paper-related segment, and to develop new businesses that leverage the group's accumulated technological expertise and R&D capabilities.

Overseas, we acquired Australian Paper in June 2009, which has enjoyed favorable earnings in its first fiscal year. Australian Paper has significant potential, and by infusing the technological capabilities and operational expertise of Nippon Paper Group, we seek to develop it into a core company supporting growth in Oceania. We completed investment in a subsidiary of Yuen Foong Yu Paper Mfg. in May 2010, launching an integrated containerboard business in the fast-growing markets of China, Taiwan, and Vietnam.

On behalf of management, I would like to thank group employees for their contribution to the significant cost reductions that underpinned our higher earnings in fiscal 2009. We expect the business environment to remain challenging in fiscal 2010, making it necessary to

step boldly into the future with a resolute commitment to overcome the current crisis. We are confident in our future and look forward to the unified efforts of all employees.

Nippon Paper Group seeks to become one of the world's top five pulp and paper companies, a prime objective in our Group Vision 2015, while working to support affluent lifestyles and the global environment. We look forward to shareholders' continued understanding and support of our policies as we set sail for steady growth ahead.



Yoshio Haga

Yoshio Haga

President
Nippon Paper Group, Inc.

Interview with the President



Q1. Could you first provide an overview of Nippon Paper Group's operating results in fiscal 2009?

Sales declined by 7.8% to ¥1,095.2 billion as a result of slumping demand and falling prices, but operating income rose a sharp ¥23.2 billion from the previous year to ¥43.1 billion, thanks to significant cost reductions of ¥27.7 billion resulting from emergency measures as well as the benefits of lower raw material and fuel prices.

We recorded more than ¥40 billion in extraordinary losses in fiscal 2008 resulting from business and production reorganizations, impairment charges, and other factors. In fiscal 2009, however, net income rose to ¥30.1 billion thanks to improved earnings at equity method affiliates, including the North American pulp business, and negative goodwill gains on making Shikoku Coca-Cola Bottling a wholly owned subsidiary.

Fiscal year	2008	2009	2010 estimate
Results (¥ billion)			
Sales	¥1,188.1	¥1,095.2	¥1,140.0
Operating income	20.0	43.1	42.0
Net income	(23.3)	30.1	20.0
Sales volume (thousand mt)			
Paper	5,240	4,763	4,832
Paperboard	1,616	1,497	1,516

Q2. What is the outlook for fiscal 2010?

In fiscal 2010, we seek to achieve operating income on par with fiscal 2009 by cutting costs to offset higher input costs.

The Japan Paper Association forecasts domestic paper demand to decline by about 2% year on year in calendar 2010. However, given that advertising demand appears to be improving as the economy recovers, we expect domestic paper demand in fiscal 2010 to remain on par with or increase slightly over that in fiscal 2009.

Domestic paper capacity trends			(thousand mt)
Fiscal year	2008	2009	2010 estimate
NPG	5,766	5,024	5,024
Other companies	14,829	14,202	14,056
Industry total	20,595	19,226	19,080

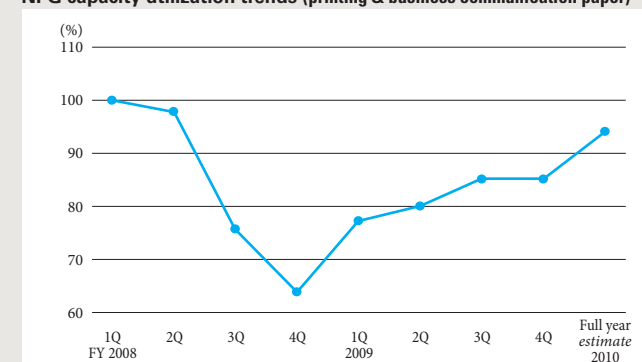
Source: Calculated by NPG, based on JPA released figures.
Note: Fiscal year-end figures.

NPG paper capacity reductions

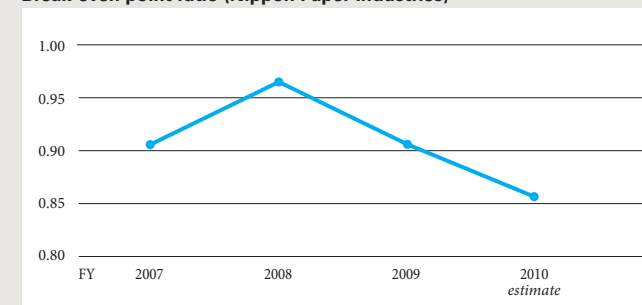
Mill	PM: Paper machine / CR: Coater	Shut down
Hokkaido (Yufutsu)	PM1, CR1	Oct. 2009
Ishinomaki	PM2, PM6	Sept. 2009
Nakoso	PM1	Mar. 2010
Fuji	PM S2, PM S3, PM S4	Mar. 2010
	PM F7	Dec. 2009
Iwakuni	PM3, PM5	Mar. 2010
	CR3	Sept. 2009
Otake	PM7, CR1	Sept. 2009

On the supply side, papermakers have reduced capacity in response to lower demand. Our capacity utilization improves to the 90% level in fiscal 2010, up from 61% in February 2009, as a result of having cut capacity by more than 0.70 million mt. We targeted lowering total (i.e., distributor and warehouse) inventory ratio to 1½ months and were so successful at bringing it down that we reached 1.46 months in March 2010, down from the peak of 2½ months in October 2008, shortly after the collapse of Lehman Brothers in the U.S. Coated paper imports by volume are peaking out and the supply/demand balance is improving here, too. Inventories could tighten if demand recovers ahead of expectations.

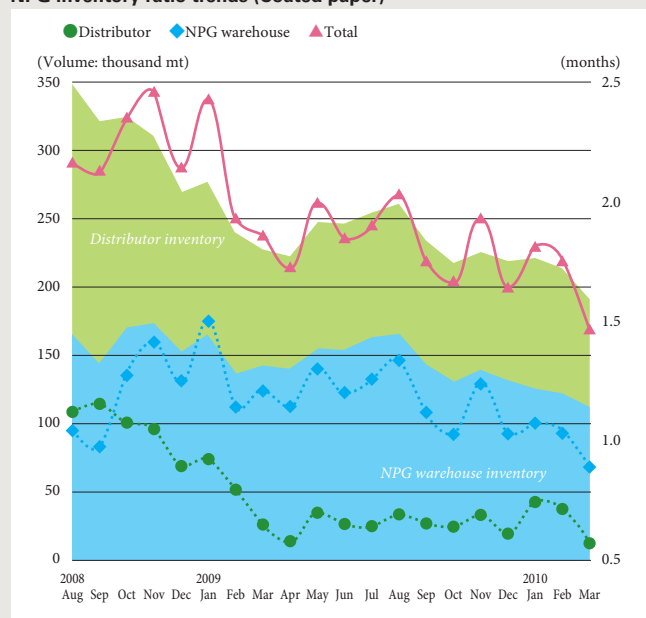
NPG capacity utilization trends (printing & business communication paper)



Break-even point ratio (Nippon Paper Industries)



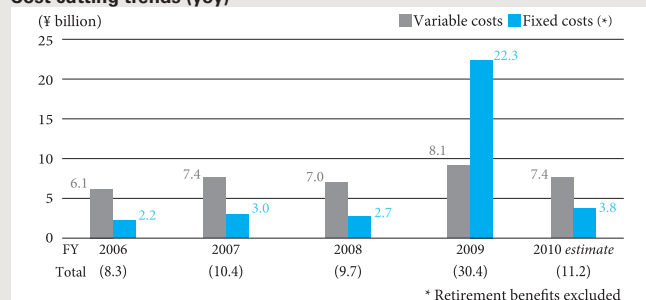
NPG inventory ratio trends (Coated paper)



Paper prices have remained weak, falling at the end of fiscal 2009 to levels prior to our 2008 price hikes. However, we expect prices to hold, remaining generally flat in fiscal 2010 on an improvement in the supply/demand situation.

In terms of costs, prices for raw materials and fuels such as wastepaper and coal, have risen since the beginning of 2010 on a recovery in resource demand in emerging countries, notably China. We expect this to have a negative impact in excess of ¥16 billion on earnings versus fiscal 2009. To minimize the effect on our bottom line, we intend to continue emergency measures in fiscal 2010 and to improve our prime cost situation and otherwise cut costs by ¥12 billion. If the impact of input price increases exceeds our ability to cut costs further, we will nevertheless be forced to pass the increases on to customers by recalibrating prices to sustainable levels.

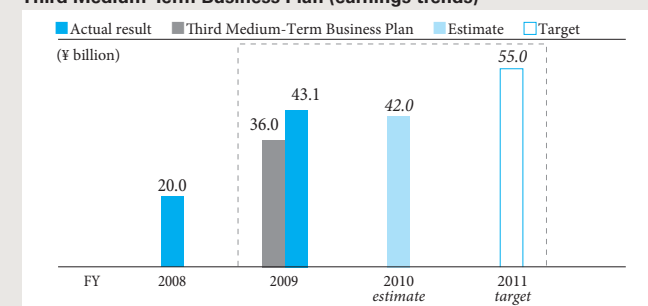
Cost cutting trends (yoy)



Q3. Given that fiscal 2010 is the second year of the Third Medium-Term Business Plan for fiscal 2009–2011, what are your thoughts on the earnings targets announced last year, in light of the outlook for fiscal 2010?

Our Third Medium-Term Business Plan targets operating income of ¥55 billion in the final year of fiscal 2011. We made a strong start in the plan’s initial year, fiscal 2009, posting operating income of ¥43 billion, versus our target of ¥36 billion. We would like to maintain this pace. Resource prices are rising even though the Japanese economy remains locked in a deflationary trend, and we need to pass through to product prices the costs required for sustainability. In addition to steadily improving margins through ongoing cost cutting, we will also work to expand our non-pulp-and-paper businesses and to increase business done overseas, including exports. Our break-even point ratio in the paper business is falling in line with our success at reducing fixed costs via the past few years’ restructuring. Given the modest signs of a recovery in paper demand, we believe we can look forward to growing operating income.

Third Medium-Term Business Plan (earnings trends)



Q4. What is the status of measures outlined in the Third Medium-Term Business Plan?

Our Third Medium-Term Business Plan sets forth five initiatives of: 1) downsize the domestic pulp and paper business to 80% of its former size; 2) grow business in overseas markets; 3) implement a resource procurement strategy; 4) enhance group flexibility and management efficiency; and 5) develop new businesses. All our employees are working together to implement these initiatives with a strong commitment to our being a winner in the pulp and paper industry.

Assuming that domestic paper and paperboard demand will not recover to their levels before the Lehman collapse, Nippon Paper Group seeks to convert to a business structure capable of generating profits with demand at 80% of peak levels. In production, we shut down 15 machines (14 paper machines and one paperboard machine) by the end of fiscal 2009 to optimize capacity for the scale of domestic demand we assumed; this improved capacity utilization. In logistics, we are working to reduce overheads by consolidating warehouses and making greater use of joint shipping. We also seek to enhance the efficiency of indirect departments, following the consolidation of the head offices of main group companies at our new Takebashi headquarters in 2009.

Q5. How are businesses other than pulp and paper performing?

Non-pulp-and-paper businesses are playing an increasingly important role in supplementing the downsized domestic pulp and paper business and ensuring stable group-wide earnings. At Shikoku Coca-Cola Bottling, which became a wholly owned subsidiary in October 2009, we decided in January 2010 to invest in the expansion of PET bottle filling lines. We are also working to improve earnings by streamlining its indirect departments. At Nippon Paper Chemicals, we decided to enter the high-value-added dissolving pulp market by building a new pulp machine in 2011. We intend to develop new revenue streams with non-pulp-and-paper businesses and, as part of our work to move into new fields, we are exploring opportunities in areas that allow us to leverage our accumulated technology and expertise in new ways. The direction of commercialization is outlined in our Third Medium-Term Business Plan.



Agribusiness: Field trials of a new tea bush breed

Q6. How are your overseas businesses doing?

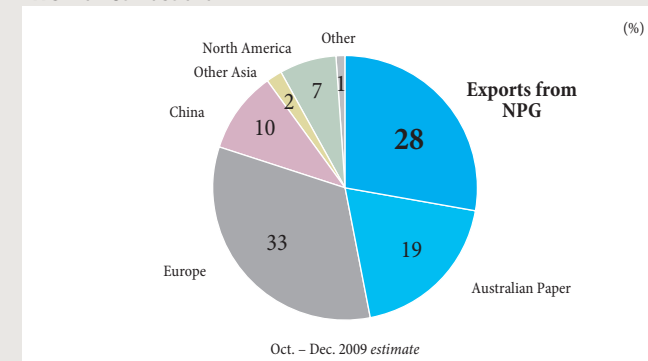
We have sought to shift away from an emphasis on the domestic market and to aggressively expand our business in promising growth markets of the Pacific Rim. In June 2009, we acquired all shares in Australian Paper, Australia’s biggest printing paper manufacturer, and the company has recorded better-than-expected earnings in its first fiscal year. As a resource supplier Australia has recovered quickly from its recession and also offers advantages in raw materials procurement.



Australian Paper’s REFLEX copier paper ready for delivery

Australian Paper is currently working to leverage the expertise of the Nippon Paper Group to enhance production efficiency and bolster its sales structure. We seek to use Australian Paper’s sales network to expand exports from Japan and are also considering expanding its production facilities. We are also working to create a cooperative framework with Yuen Foong Yu Paper Mfg., Taiwan’s largest diversified papermaker and expand our business in the fast growing markets of China and Asia. In this context, in May 2010 we completed the procedures for investing in the integrated containerboard segment at the Yuen Foong Yu Group.

LWC Market: Australia



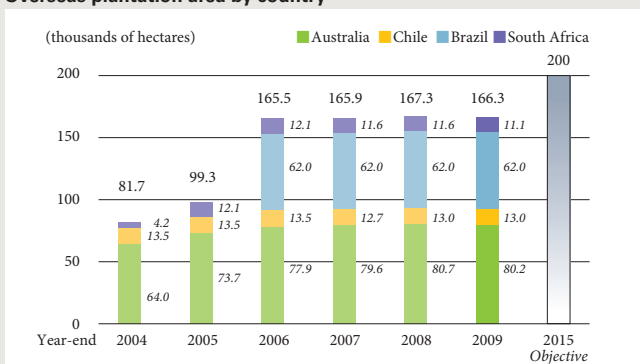
Q7: In an effort to combat climate change, Japan’s government has proposed legislation targeting reductions in greenhouse gas emissions of 25% over 1990 levels by 2020. What does Nippon Paper Group intend to do to help meet this target?

Japan’s papermaking industry has been working for years to address environmental issues, with energy conservation foremost among its efforts. Nippon Paper Group has also steadily reduced its greenhouse gas emissions by actively investing in energy conservation and installing biomass boilers to reduce our dependence on fossil fuels, and now biomass and other non-fossil fuels already account for 40% of our energy consumption. In addition, we contribute to capturing and fixing CO₂ through our expanding presence in afforestation work overseas and effectively managing company-owned forests in Japan. The government is now looking into legislation and several programs to help deal with climate change, but we believe new environmental legislation should be carefully debated from the perspectives of ensuring a level playing field with the global competition and the burden they will place on the public. Our stance is that legislation should have ongoing benefits for both the environment and the economy.



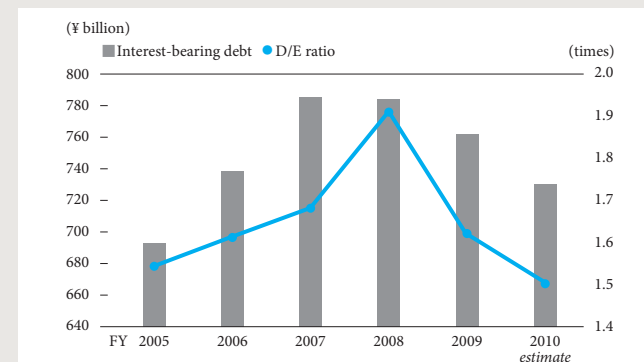
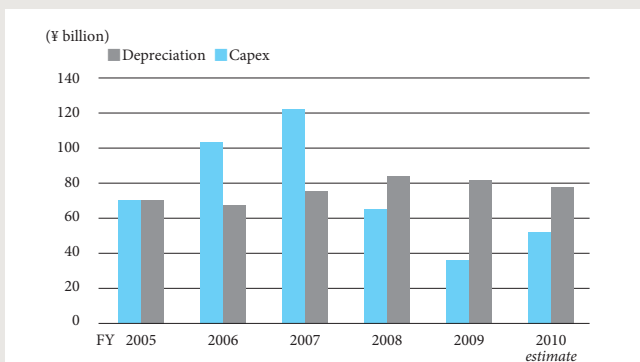
Planting seedlings

Overseas plantation area by country



Q8. What are your thoughts on future investment plans and capital policies?

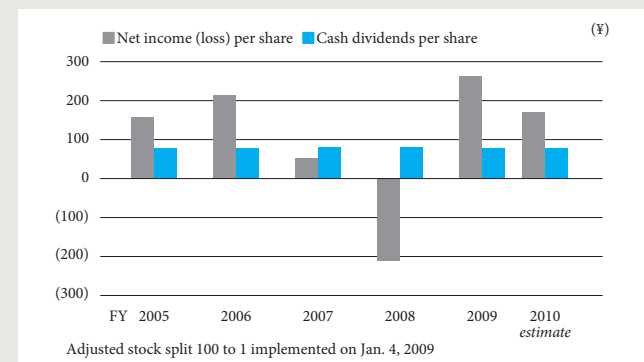
Interest-bearing debt totaled ¥762.9 billion at the end of March 2010, a decrease of ¥21.4 billion from the end of March 2009. However, our Third Medium-Term Business Plan targets a reduction in interest-bearing debt to ¥690 billion by the end of March 2012, lowering our debt/equity ratio to 1.5 times. We are placing priority on allocating cash flow to the repayment of borrowings by holding capital expenditures to the minimum needed to sustain operations, an amount roughly half our annual depreciation of around ¥80 billion. Although we do not need to make any capital investments to augment domestic paper capacity in the near future, we do plan to moderately increase capital investment in streamlining that contributes directly to reducing costs. We will keep other investments and loans within the scope of cash flow. We have no short-term plans to raise new capital from the equity markets; however, we wish to leave the possibility open should we need to invest heavily in order to seize a growth opportunity, including potential mergers or acquisitions.



Q9. With profits up sharply in fiscal 2009, could you explain Nippon Paper Group's policies on returning profits to shareholders?

Earnings in our core pulp and paper business tend to be significantly affected by cyclical factors. It is management's responsibility to stabilize and expand earnings by strengthening our corporate structure and reorganizing our business portfolio to reduce the impact of the economic cycle. However, it is also essential that we pay out stable dividends at a sustainable level. Although earnings rose sharply in fiscal 2009, the absolute level of earnings is still far from the target in our Group Vision 2015, and we need to increase retained earnings further.

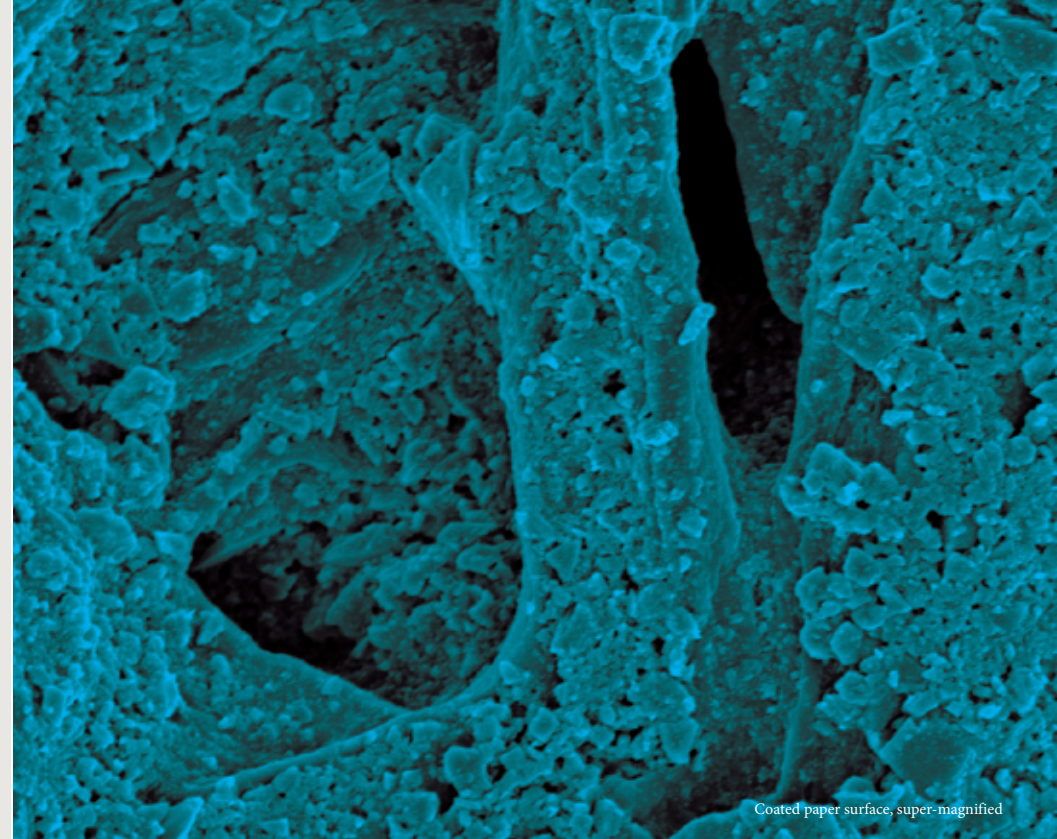
In this context, we have decided to pay a year-end dividend of ¥40 per share, which, when added to our interim dividend, maintains our previous annual dividend of ¥80 per share. We are grateful for our shareholders' support of this policy.





Wrap-up

The economic downturn prompted rapid changes in the demand structure of the pulp and paper sector. Perceived previously as being affected by purely domestic business circumstances, our sector now confronts challenges in world markets, as a result of globalization. In this environment, we are all-the-more resolutely committed to implementing, steadily and swiftly, the initiatives laid out in our Third Medium-Term Business Plan and achieving our Group Vision 2015 targets.



Coated paper surface, super-magnified

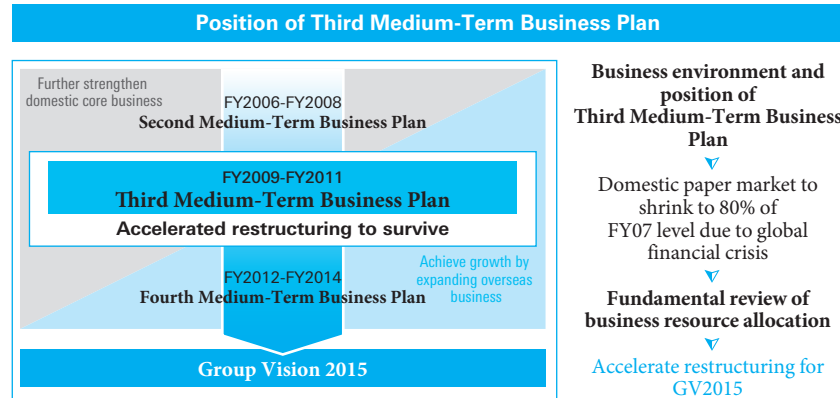
Feature 2010

28 Third Medium-Term Business Plan

30 Investment in Yuen Foong Yu Group's Containerboard Business

Third Medium-Term Business Plan

Accelerating Restructuring for Group Vision 2015



Outline of Third Medium-Term Business Plan

I. Downsize domestic paper business to 80% of former size

Revise business structure to enable stable earnings despite difficult environment

- Ongoing production restructuring
- Reduce logistics and sales costs
- Streamline indirect and head office departments
- Focus on resource-saving and other eco-friendly products

II. Grow business in overseas markets

Shift emphasis from domestic market to growth in overseas markets (Pacific Rim)

- Australian Paper: Maximize NPG's presence in Oceania and neighboring areas
 - Improve operations management using NPG's business resources and expertise and expand market share using each other's sales networks
- Yuen Foong Yu Paper Mfg. (Taiwan): Expand paperboard business in fast-growing Chinese market
 - Invest in Yuen Foong Yu's paperboard business
- SCG Paper (Thailand): Expand business in Southeast Asia
 - Lay groundwork for future business expansion through mutual OEM sales in each market

III. Implement a resource procurement strategy

Establish procurement structure suited to downsized business

- Reorganize woodchip sources
- Reorganize and efficiently operate NPG's woodchip carriers

Ensure forestry resources to support medium to long-term growth

- Expand independent forestry resources
- Use domestic timber

IV. Enhance group flexibility and management efficiency

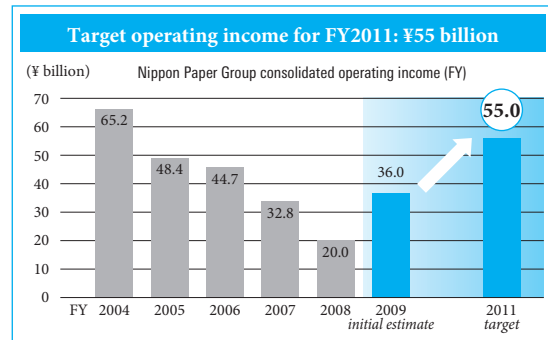
Maximize group synergies by concentrating group companies

Consolidate and enhance the efficiency of head office functions

V. Develop new businesses

Develop new earnings-generating businesses other than paper

Business Targets in Third Medium-Term Business Plan

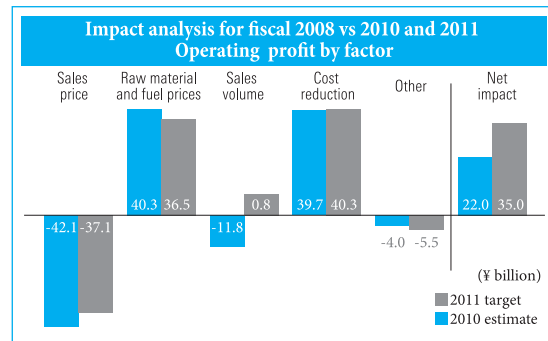


Third Medium-Term Business Plan (FY2011)

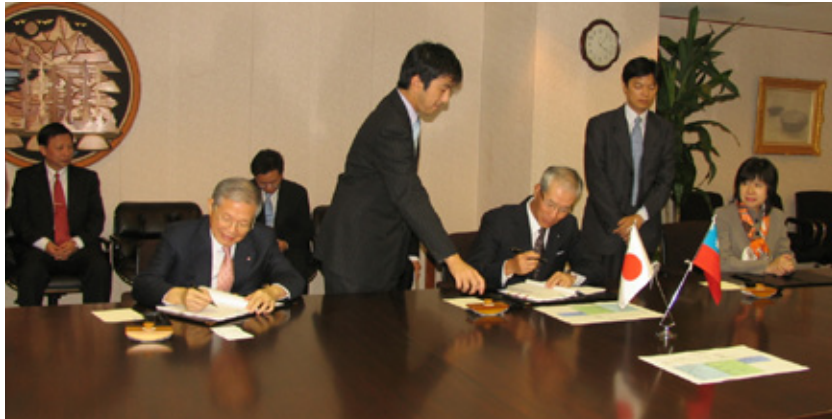
Operating income:
¥55 billion

Interest-bearing debt:
¥690 billion

Debt/equity ratio:
1.5 times



Investment in Yuen Foong Yu Group's Containerboard Business



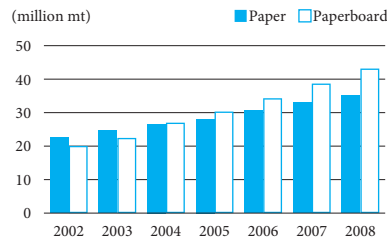
Signing ceremony

Nippon Paper Industries (NPI), a core Nippon Paper Group operating company, decided in March 2010 to participate in the integrated containerboard business of Yuen Foong Yu Paper Manufacturing (YFY Paper) in China, Taiwan, and Vietnam. YFY Paper is Taiwan's largest diversified papermaker. Completing investment procedures in May 2010, NPI took a 20.35% stake in the holding company that controls this business.

Investment overview

Recipient: YFY CAYMAN Co., Ltd.
 FY09 sales: US\$550 million
 Production capacity: Containerboard 1.12 million mt
 Corrugated board 1.4 billion m²
 NPI stake: 20.35%

Paper and paperboard consumption trends: China

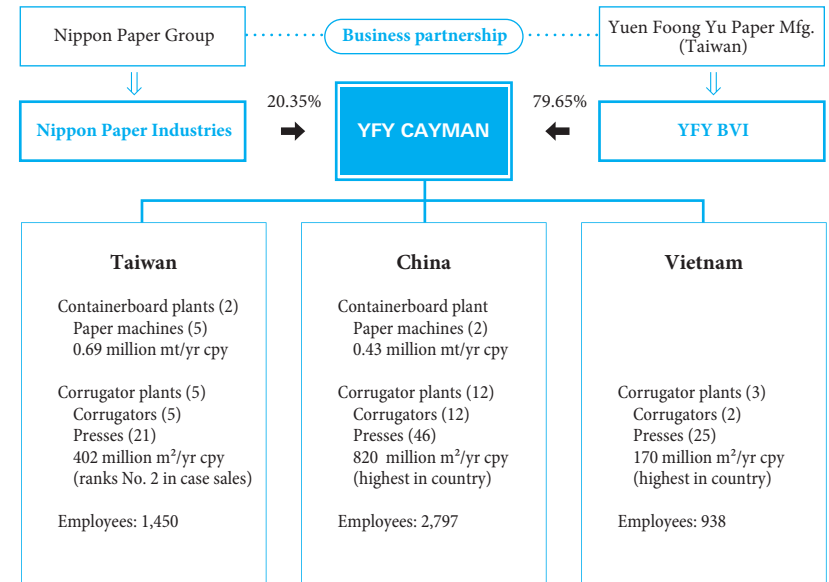


Background

To achieve our Group Vision 2015 objective of sustained growth, we are working to bolster our business primarily in the Pacific Rim region. Advances in the markets for packaging materials such as paperboard and corrugated products have been especially pronounced in the fast-growing markets of China and Asia, and we expect stable growth to continue as living standards rise. To quickly develop our business and reduce risk, our basic strategy when expanding into these regions is to establish joint ventures through partnerships with proven, prominent companies. After searching for suitable partners, we exchanged a memorandum of understanding with YFY Paper covering formation of a strategic business partnership in November 2007, then held repeated negotiations to work out the details of this project.

Investment scheme

YFY Paper first spun off its containerboard business's operating assets in China, Taiwan, and Vietnam, including plants for paperboard and corrugated containers. These were then reorganized under YFY CAYMAN Co., Ltd., a holding company established to control them. NPI then invested in the holding company.



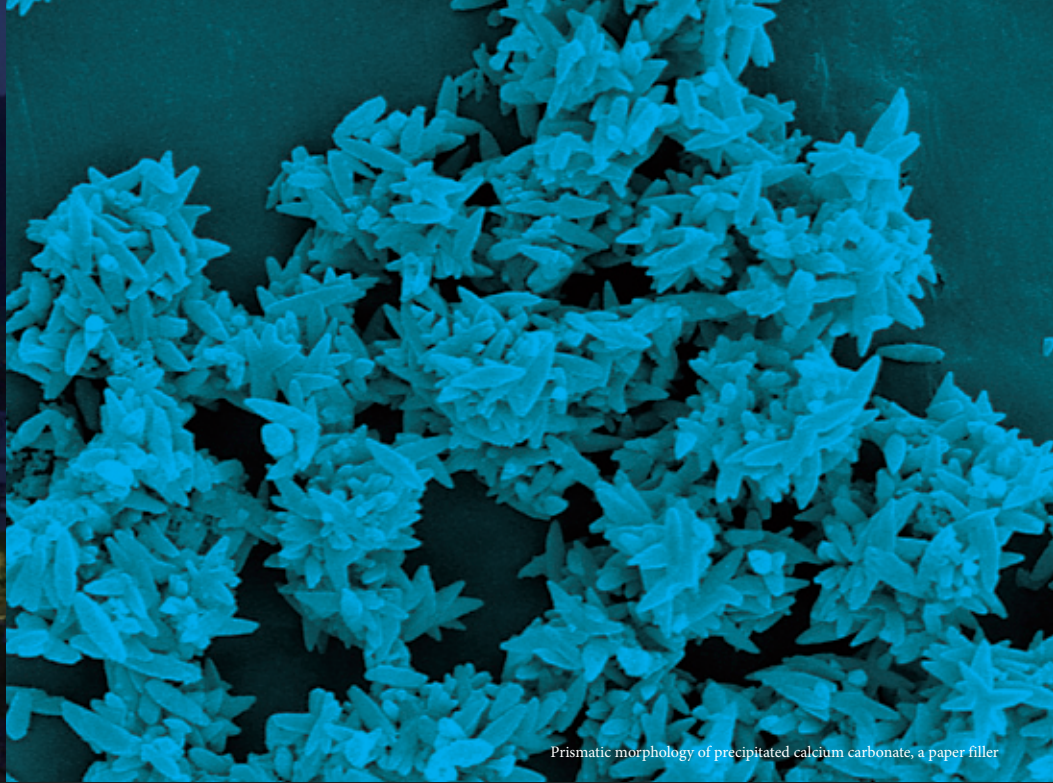
- YFY BVI is the holding company whose portfolio includes YFY Paper's overseas investments
- YFY CAYMAN is a holding company established to reorganize and control YFY Group's paperboard business

Outlook

We seek to expand this business and bolster its competitiveness through investment by NPI and providing containerboard-manufacturing technology. We also hope to deepen cooperation with the Yuen Foong Yu Group in the sale of paper, pulp, linerboard, and other products and to further expand our growth opportunities in Asian markets.



A to-scale perspective of the YFY Yanzhou Plant, Jiangsu Province, PRC



Prismatic morphology of precipitated calcium carbonate, a paper filler

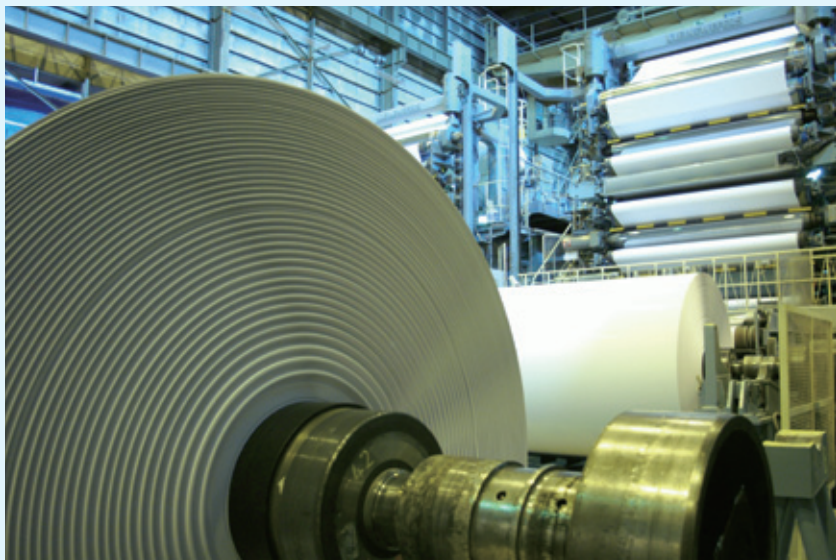


Night view of woodchip yard, Iwanuma Mill

Business Segment Overview

- 34 Pulp and Paper Segment
- 41 Paper-Related Segment
- 44 Housing and Construction Materials Segment
- 46 Other Segment

Pulp and Paper Segment



Supercalendered webs, Ishinomaki Mill

Our pulp and paper segment is the core of Nippon Paper Group's business and accounts for about 80% of group-wide sales. Its diverse paper, paperboard, and household paper products lead the domestic industry in not only production and sales volume, but quality as well. In the mainstay paper business, the financial crisis prompted efforts to reorganize our production structure to respond to a shrinking domestic market. At the same time, we seek to develop overseas growth markets and have achieved steady results by actively expanding exports, especially to the Asia-Pacific region.

Domestic Business overview

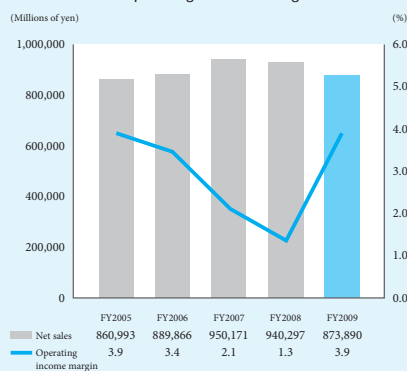
Paper

Nippon Paper Group's paper business has a 30% share of the domestic market. Our lineup of paper products can be broadly

separated into four categories—newsprint, printing and publication paper, business communication paper (e.g., copier paper, thermal paper, carbonless paper, forms paper), and industrial paper (e.g., cup stock paper, wallpaper base, and other converting paper; and kraft paper and other packaging

Pulp and Paper

Net sales and operating income margin



paper). Our main products in these categories enjoy top market shares.

We supply newsprint to almost all newspapers in Japan, selling it directly to customers through our own sales network. Used in publications and advertising literature, including catalogues and advertising leaflets, our printing paper has a wide range of customers. In addition to the printing and publication industries, they include companies in the retail (including mail order) and the real estate industries, government agencies, and educational institutions. More than 95% of our printing paper is sold through distributors and wholesalers.

Our paper products are manufactured in an integrated production process starting with woodchips. Our two mainstay mills are Nippon Paper Industries' Ishinomaki Mill in Miyagi Prefecture and Iwakuni Mill in Yamaguchi Prefecture. These large seafloor mills are among the best in Japan and are highly cost competitive. They, combined with eight other mills, allow us to supply all regions of Japan in a stable and efficient manner. In product development and production technology, we have responded

aggressively to the trend in recent years toward lighter basis-weight papers and have received high praise from our customers.

We also handle a variety of specialty paper products, including thin papers for tobacco rolling and other applications and high-performance papers such as water soluble paper and tea-bag filter paper. The main operating company in this business, Nippon Paper Papylia, was established as part of the group reorganization in April 2008. It draws on the longstanding technological and development capabilities of the former Mishima Paper, an expert in specialty thin paper making, and the former Nippon Daishowa Paperboard's Kochi Mill, a leader in the mechanical production of *washi* (traditional Japanese paper). The company is working to develop even higher value-added products and markets while accommodating demand for small-lot production of a variety of product items.

Paperboard

Paperboard uses wastepaper as a main raw material, making it highly economical and well suited to societies that value resource recycling. Although paperboard



Pulp and Paper Segment

demand was affected by the economic slowdown from autumn 2008, we anticipate firm demand for it as an essential material for product packaging and shipping. Our paperboard business produces mainly containerboard, which accounts for 75% of production volume and 65% of sales. This business also manufactures and sells white lined chipboard and a variety of specialty paperboard products, including gypsum board liner and paper core. The main company in this business is Nippon Daishowa Paperboard, which operates five mills across Japan: three mills located near the Kanto region market, a mega-consuming area, giving it advantages for selling products and procuring wastepaper, a primary input; the other two mills in the Tohoku and Chugoku regions, northeastern and western parts of Honshu, the main island of Japan. They create a production network enabling nationwide sales.

Household paper products

Our main household paper products are tissue paper and toilet paper, manufactured at five mills—Nippon Paper Crexia's four and one at Koyo Paper Mfg. All our mills

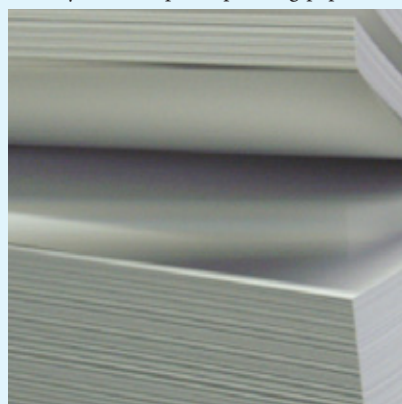


are located with convenient access to major consumer markets, and we supply the global brands Kleenex® and Scottie® throughout Japan. We also handle Poise® healthcare products and Kimwipes® industrial wipes, through a partnership with Kimberly-Clark Corporation of the U.S. Leveraging our accumulated technology and expertise, we offer a wide range of products to meet the needs of our customers and respond to changes in the business environment.

Fiscal 2009 market conditions and review of operating results

Paper

Domestic paper demand has been declining since peaking in fiscal 2006, and shipments by domestic manufacturers decreased by about 10% year on year in fiscal 2009. Although this decline was due mainly to the economic downturn that started in autumn 2008, the combined trends of a shrinking population and rapid spread of the internet and other electronic media have prompted changes in the structure of paper demand as a recording media, notably for newsprint, printing paper, and



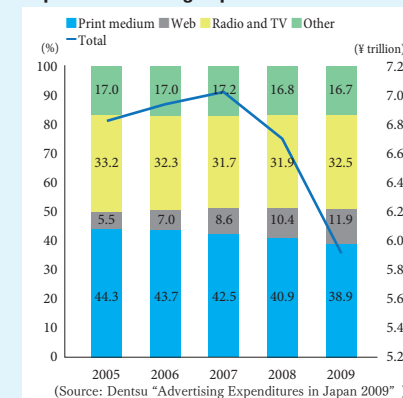
communication paper.

The domestic newsprint market is declining, although not as sharply as that in North America, and it has already fallen below 3.40 million mt, down more than 10% from the peak in 2005. Statistics compiled by a major advertising agency show that domestic internet advertising expenditures surpassed newspaper advertising expenditures in 2009 for the first time. In addition to structural factors, including a tendency among Japan's youth to read less and a shift in advertising toward Web media, the economic downturn also had a major impact, and the newspaper industry saw faster declines in page numbers and circulation. In this environment, the newsprint sales volume of the Nippon Paper Group, which has the top market share in the industry, decreased year on year to 1.23 million mt. However, thanks to the successful efforts of our sales staff to increase customer satisfaction, the decline in our volume was 3.5% year on year, less than the industry average decline.

Printing and business communication paper has been the most affected by the economic downturn, and domestic manufacturer shipments decreased by 11.9% year on year to 8.68 million mt in fiscal 2009, down more than 20% from the peak in fiscal 2007. This partly reflects a rapid rise in imports of low-priced coated paper and copier paper as a result of the strong yen and low pulp prices. Demand seems to have bottomed out since the fiscal second half, but absolute sales volume remains low. Nippon Paper Group's sales volume of printing and business communication paper was 2.77 million mt, declining in line with the industry average.

We reduced paper prices (excluding newsprint) during the fiscal first half to

Japan's advertising expenditures trends



pass lower input prices on to and benefit customers, but market prices have remained soft since the second half as a result of sluggish demand and competition from imported paper.

Despite the negative impact of the foregoing volume and price factors, earnings in our paper business roughly tripled year on year as a result of input prices staying within our assumed range and cost cutting, including emergency measures, surpassing our expectations.

Paperboard

Shipment volume in Japan's paperboard industry declined by 13.1% year on year in the first half of fiscal 2009, but rose by 5.3% in the second half as demand recovered somewhat from the decline caused by the sharp economic downturn since the second half of fiscal 2008. Nippon Paper Group's domestic containerboard shipments decreased by 7.6% year on year to 1.13 million mt, a larger decline than the industry average, due to intensified competition and competitors' vertical integration of their corrugated case manufacturing. We

Pulp and Paper Segment

reduced prices at the beginning of the year to pass through the benefits of a decline in wastepaper prices that began in the second half of fiscal 2008, but we sought to ensure profits by consolidating production to match lower demand, reducing fixed costs through emergency measures, and improving prime costs by operating alternative energy boilers at the Otake Mill. As a result, although paperboard sales decreased year on year, operating income nearly quadrupled.

Household paper products

Despite the recession, domestic manufacturer shipments of household paper products were firm and rose by 0.6% year on year in fiscal 2009. Selling prices softened throughout the year as a result of intensifying competition within the industry amid an ongoing deflationary trend for consumer goods. Raw material and fuel prices stayed low during the fiscal first half, but upward momentum strengthened, especially for main raw material pulp, during the second half, driving up costs significantly.

In this environment, we achieved strong earnings during the first half as a result of releasing anti-influenza products,



A Kleenex® tissue packaging line

staging a number of promotional campaigns (including one to mark Kleenex's 45th anniversary in Japan), and reducing costs. Earnings nevertheless fell sharply during the second half, especially in the fourth quarter, as a result of a rebound in input prices amid a decline in selling prices.

Outlook

Paper

Domestic demand for paper as a recording media is declining as a result of a macro factor—the shrinking population—as well as the trend toward less reading and the rapid spread of Web media. Nevertheless, the sharp decline caused by the economic downturn in wake of the financial crisis is finally bottoming out, and we anticipate some recovery as the domestic economy improves. Although we are adversely affected by rising raw material and fuel prices, the surge in pulp prices appears to curb paper imports. In light of repeated price hikes in Asian markets since last year as a result of higher input prices, we are considering passing through costs in the domestic market as well. To increase sales, we seek to differentiate



Product samples on display at the Takebashi Paper Gallery

our business by offering thinner grades that leverage our technological capabilities. Meanwhile, we are also working to improve margins through rigorous cost cutting (e.g. streamlining logistics and consolidating our brands).

Paperboard

The Japan Paper Association forecasts that domestic paperboard demand will rise by only 0.7% year on year in 2010, conditions that do not allow for expectations of a substantial recovery in volume. Prices of raw materials, particularly wastepaper, and fuel have started to rise again, and we expect the earnings environment to worsen. We are working to shift to a cost structure appropriate for lower demand by continuing to improve variable costs and reduce fixed costs. At the same time, we seek to restore sales volume by enhancing our advantages as a specialized containerboard manufacturer in terms of quality, service, and delivery.

Household paper products

We expect demand for household paper products to remain on par with the previous year, while earnings are under pressure from a sharp rise in pulp prices, a main raw material. Tissue makers have sought to pass higher costs through to prices for high-volume products, such as tissue and toilet paper. However, amid deflationary trends, the retail industry has strongly resisted these efforts, and competition among tissue makers has been intense. This leaves uncertainty about any possible recovery of prices from their depressed level.

Since the household paper product segment is significantly affected by earnings conditions for high volume products, we are working to bolster our earnings foundation

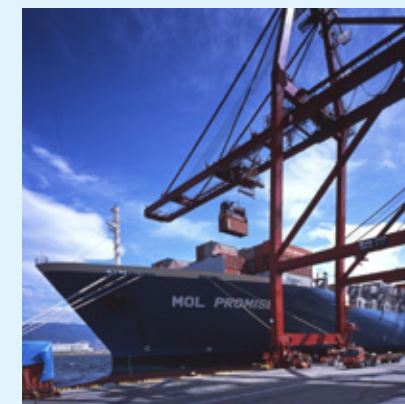
by accelerating the development and release of new high-value-added products and shifting our business resources to healthcare, industrial, and professional use areas.

Exports

Business overview

We are focusing on the export of printing paper to achieve the goal in our Group Vision 2015 of overseas sales accounting for 30% of overall sales. Our overseas sales division sells Nippon Paper Industries-branded products all over the world through not only the group's own sales network but also other domestic and overseas distribution channels.

Overseas sales are becoming more important as domestic demand declines. In our printing paper business, we are working to increase sales volume of mainstay lightweight coated paper products, focusing on Oceanian market as well as the Asian and North American markets. We expanded our sales channels in these regions by acquiring Australian Paper in June 2009 in anticipation of further growth and development.



Pulp and Paper Segment

Fiscal 2009 market conditions and operating results

Exports of our printing paper increased by 10.4% year on year to 0.30 million mt in FY2009. Despite a 30% decline in the fiscal first half, the second half enjoyed a 64% growth rate aided by economic recoveries in Asia and Oceania, reaching an all-time high for a half-year period. More than 80% of our exports went to growth markets in Asia and Oceania.

Export prices rose moderately on an upturn in demand and rise in pulp prices from the fiscal second half. We also sought to improve our margins through several price increases.

Outlook

We seek to increase printing paper exports by at least 20% by volume in fiscal 2010 by expanding supply to Australian Paper.

We position export sales as an upfront investment in building our customer base with a view toward future localization. We place a greater priority on enhancing brand recognition and market share in overseas markets over the medium- to long-term than on short-term profitability and domestic capacity utilization. Nevertheless, the domestic market is affected by stiff competition from imported paper, and bolstering cost competitiveness is an urgent task. To maintain and increase our share in the markets we are active in, we are working to reduce costs and enhance our international competitiveness by improving our export infrastructure and streamlining distribution.

Paper-Related Segment



Press for printing liquid packaging cartons

The paper-related segment consists of two businesses. Our processed paper products business delivers added-value products made of paper, the core product of Nippon Paper Group. The chemical products and functional materials business utilizes technology and expertise available only to papermakers and entailing the advanced use of wood and byproducts generated in the papermaking process.

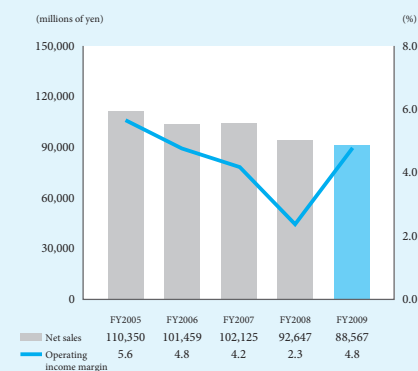
Business overview

Processed paper products

Nippon Paper-Pak is the core company in this segment. It supplies packaging for beverages, foods, and household products. The mainstay liquid packaging business sells beverage-carton blanks and filling machines as integrated systems. It has the top domestic market share, at about 40%, for gable top cartons used mostly for milk packaging, and

it also sells aseptic brick cartons. In addition to its liquid-packaging and folding-carton businesses, the company manufactures and sells One Wrap®-brand plastic wrap, an environmentally friendly stretch film for use in the home.

Paper-Related Net sales and operating income margin



Paper-Related Segment

Chemical products and functional materials

Nippon Paper Chemicals is Japan's sole manufacturer of dissolving pulp, which is used as a raw material in rayon, cellophane, and other products. It has an approximately 40% share of the domestic market. The company also manufactures functional chemical products, including food additives and concrete admixtures using wood-derived components such as cellulose and lignin; nucleic acids and other raw materials for seasonings obtained using bio technology; and stevia and other sweeteners. Nippon Paper Chemicals enjoys the world's top market share for functional coating resins, which are used in automotive plastic components and packaging films. It also manufactures functional films, including LCD optical films, using coating technology developed from the papermaking process.

Review of operating results in fiscal 2009

Processed paper products

Overall beverage consumption was weak as a result of the economic slump. Moreover, increases in retail milk prices, ongoing from



Hardcoat films are used in LCD applications.

the previous year, a long-term downward trend in milk consumption, and lower soft-drink consumption due to unseasonable summer weather all contributed to liquid packaging carton sales declining year on year. The business nevertheless secured profit growth thanks to steady progress in cutting costs and advantageous raw-material and fuel prices due to the strong yen.

Chemical products and functional materials

Dissolving pulp demand gradually recovered during the first half of fiscal 2009, and export sales were strong during the second half. Sales volume of functional films and functional coating resins improved more than expected as a result of recoveries in the automobile and LCD industries, which are main customers for these products. However, concrete admixture sales fell sharply due to a continued decline in public works.



NP-PAK gable-top cartons

Outlook

Processed paper products

We expect domestic demand for liquid packaging cartons to decline as a result of a long-term downward trend in milk consumption combined with the declining birthrate and aging society. In this environment, we are taking several steps to ensure the growth prospects of this business. We are working to develop proprietary containers, one notable example being the Ultraslim, the world's smallest aseptic carton. We are also trying to cultivate demand by encouraging users to replace plastic containers with paper containers for environmental reasons, and to expand into the Chinese market.

Chemical products and functional materials

To bolster the earnings power of the dissolving pulp business, we decided to enter the market for high-value-added cellulose applications by building a new pulp machine at the Gotsu Works, Nippon Paper Chemicals' main plant. The new machine is scheduled for completion in autumn 2011.



Functional coating resin is used on car bodies.

We are working to increase revenues by expanding sales of functional coating resins in anticipation of strong demand in emerging countries, and we are moving to promote uptake of our new functional film products in LCD-TV applications. We assume, however, that demand for concrete admixtures will remain weak due to continuing weakness in the construction and civil engineering sectors.



NS Fuji-pak aseptic carton line-up

Housing and Construction Materials Segment



Lumber products on warehouse shelves

The housing and construction materials segment consists of three businesses. The lumber business started from the procurement of lumber used as a papermaking input. The construction materials business processes lumber to provide value-added products. The civil engineering business developed out of the plant-maintenance units of our paper mills.

Business overview

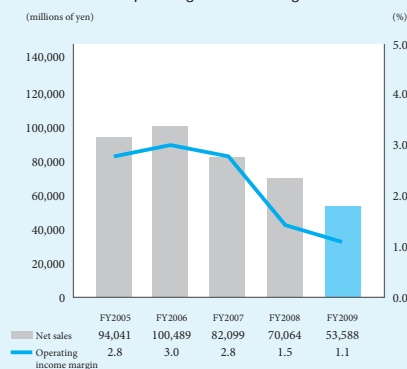
Lumber business

Nippon Paper Lumber buys raw and processed lumber from domestic and overseas sources and sells it to homebuilders, plywood manufacturers, and wholesalers. The business is also involved in a wide range of operations related to lumber, including management of company-owned forests, the procurement of papermaking raw materials, and the treatment of waste materials. This

diversified business is involved in every aspect of the lumber cycle.

Housing and Construction Materials

Net sales and operating income margin



Construction materials business

PAL and its subsidiaries manufacture and sell medium-density fiberboard (MDF) as well as wooden building materials such as flooring, doors, and stairs.

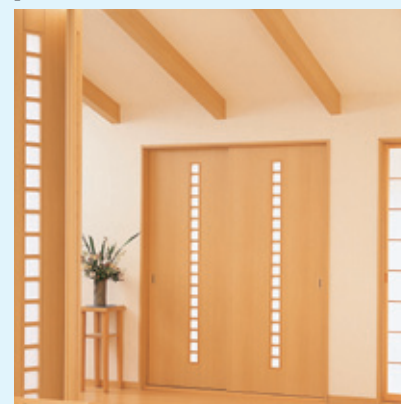
materials business, which continues to face even greater difficulties, we are trying to improve conditions through sweeping restructuring.

Review of operating results in fiscal 2009

New housing starts decreased by about 30% year on year to 788,000 in 2009, a historically large decline to below the 1 million mark for the first time in 42 years. As a result, demand for lumber and construction materials fell sharply, and supply surpluses persisted throughout the year. Our business also struggled as a result of this difficult business environment, and sales volume was down sharply year on year.

Outlook

Although we expect housing starts to recover in fiscal 2010, we do not anticipate major improvement. In the lumber business, we are working to ensure steady profits amid a shrinking market by improving profit margins via stepped-up sales of domestically produced lumber. In the construction



Interior finished with PAL products



NEO Board S -MDF products utilizing logs from thinning work

Other Segment



Komatsu Plant, Shikoku Coca-Cola Products

The other segment includes a variety of businesses that generate synergies with the core businesses of the Nippon Paper Group: the beverages business, a longstanding diversified business with a proven track record; the sports and leisure business, which draws on the group’s real estate assets; the warehousing and transportation businesses, which provide support to the pulp and paper business; and the power generation business.

Business overview

The beverages business and the sports and leisure business are the representative businesses of the Other segment.

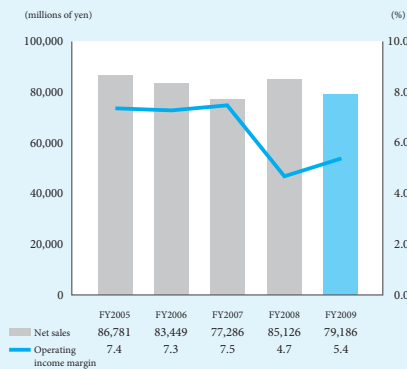
The beverages business is operated by Shikoku Coca-Cola Bottling, which was established in 1963 through investment funded entirely by Nippon Paper Industries’ predecessor Jujo Paper. Shikoku Coca-Cola Bottling manufactures and sells Coca-Cola®

brand beverage products in the Shikoku region. The company was listed on the First Section of the Tokyo Stock Exchange in 2000, but became a wholly owned subsidiary of Nippon Paper Group in October 2009.

The sports and leisure business is operated by Nippon Paper Development,

Other

Net sales and operating income margin



which manages a variety of amusement facilities, including ski resorts that use company-owned forests and driving ranges, bowling alleys, and tennis courts on urban commercial properties.

Review of operating results in fiscal 2009

The beverages business in Shikoku suffered a decline in sales within the region as a result of slumping consumption and unseasonable weather during the peak summer season. The company sought to reduce costs, but because intensifying sales competition led to an increase in promotional costs, especially at mass retailers, profits were even weaker than in the previous fiscal year.

In the sports and leisure business, the overall market slumped down as a result of structural issues (i.e., shrinking and aging population) as well as a decrease in consumer spending due to the economic slowdown and unseasonable weather, and sales decreased.

Outlook

We are working to improve earnings in the beverages business through swifter decision making by turning Shikoku Coca-Cola Bottling into a wholly owned subsidiary, bolstering our sales structure, and pursuing streamlining measures, including reductions in manufacturing and distribution costs. We seek to enhance our competitiveness further through capital investment to expand the PET bottle filling line at the Komatsu Plant, scheduled to come on line in March 2011.

In the sports and leisure business, although we expect the business environment to remain difficult, we are

using our existing properties to maximum effect. We are working to increase profits by attracting more customers through competitive differentiation. We have begun by upgrading services and concentrating business resources on equipment at our Kita-ku, Tokyo home operation.

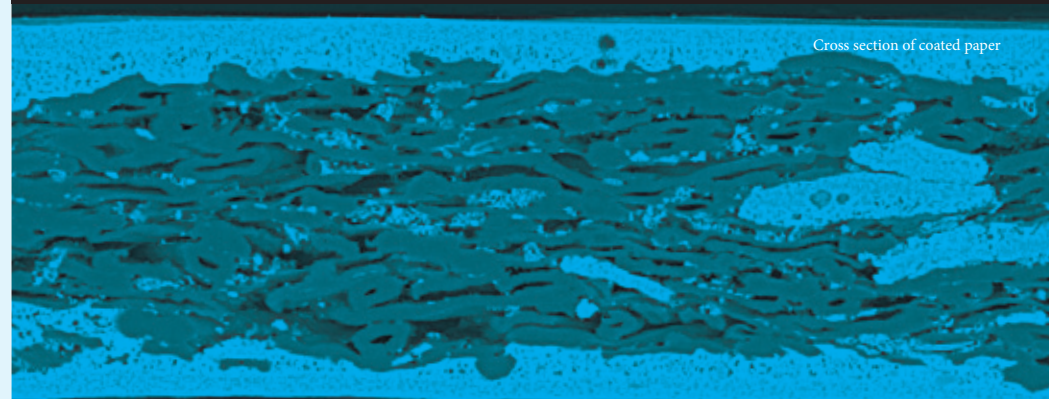


A driving range operated by Nippon Paper Development

Nippon Paper Group Companies

Capital in JPY million unless otherwise indicated, Location and Equity Ownership (%)

Pulp and Paper							
Consolidated Subsidiaries				Paper Australia Pty Ltd	AUD 1,459,000,000	Australia	100.00
Nippon Paper Industries Co., Ltd.	104,873	Japan	100.00	<i>and its 7 subsidiaries</i>			
Nippon Daishow Paperboard Co., Ltd.	10,863	Japan	100.00	Daishowa North America Corporation	CAD 165,800,000	Canada	100.00
Nippon Paper Crecia Co., Ltd.	3,067	Japan	100.00	Nippon Paper Industries USA Co., Ltd.	USD 53,000	USA	100.00
Nippon Paper Papylia Co., Ltd.	3,949	Japan	100.00	Equity-method Affiliates			
NP Trading Co., Ltd.	1,000	Japan	98.35	Kyodo Paper Holdings Co., Ltd.	2,381	Japan	31.04
Koyo Paper Mfg. Co., Ltd.	400	Japan	100.00	North Pacific Paper Corporation	USD 28,000	USA	50.00
Kokuei Paper Co., Ltd.	100	Japan	100.00	Daishowa-Marubeni International Ltd.	CAD 262,000,000	Canada	50.00
Kitakami Paper Co., Ltd.	300	Japan	62.90				
Paper-Related							
Consolidated Subsidiaries				Equity-method Affiliates			
Nippon Paper-Pak Co., Ltd.	4,000	Japan	100.00	Nippon Tokan Package Co., Ltd.	700	Japan	45.00
Nippon Paper Chemicals Co., Ltd.	3,000	Japan	100.00	Lintec Corporation	23,201	Japan	29.58
Nippon Seitai Corporation	424	Japan	100.00	Daishowa Paper Converting Co., Ltd.	235	Japan	44.68
Sakurai Co., Ltd.	120	Japan	54.39	Dixie Japan Co., Ltd.	1,059	Japan	44.44
Flowric Co., Ltd.	172	Japan	100.00				
Housing and Construction Materials							
Consolidated Subsidiaries				Equity-method Affiliates			
Nippon Paper Lumber Co., Ltd.	440	Japan	100.00	Pal Co., Ltd.	4,000	Japan	100.00
Nippon Paper Unitec Co., Ltd.	40	Japan	100.00	Daishowa Uniboard Co., Ltd.	490	Japan	100.00
Kokusaku Kiko Co., Ltd.	60	Japan	100.00	South East Fibre Exports Pty. Ltd.	AUD 7,500,000	Australia	62.50
Nippon Paper Ishinomaki Technology Co., Ltd.	40	Japan	100.00	WA Plantation Resources Pty., Ltd.	AUD 43,771,000	Australia	50.00
Kunimoku House Co., Ltd.	20	Japan	100.00				
N&E Co., Ltd.	3,750	Japan	70.00				
Other							
Consolidated Subsidiaries				Equity-method Affiliates			
Nanko Unyu Co., Ltd.	160	Japan	100.00	Nippon Paper Development Co., Ltd.	710	Japan	100.00
Kyokushin Transport Co., Ltd.	80	Japan	100.00	Graphic Arts Communication	480	Japan	100.00
Nippon Paper Logistics Co., Ltd.	70	Japan	100.00	Equity-method Affiliates			
Hotoku Co., Ltd.	25	Japan	100.00	Resources Co., Ltd.	40	Japan	44.00
Shikoku Coca-Cola Bottling Co., Ltd.	5,576	Japan	100.00				
<i>and its 6 subsidiaries</i>							



Corporate Governance and CSR

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Corporate Governance

Basic Approach

Nippon Paper Group (the Group) places the highest priority on fair management in an effort to make management more transparent to our shareholders and various stakeholders. Serving as a pure holding company for the Group, Nippon Paper Group, Inc. (the Company) separates management functions from business execution. We believe our basic responsibilities in corporate governance are to pursue the growth strategies of individual group companies to increase shareholder value, monitor (audit and supervise) group companies' activities, and remain accountable to stakeholders. We also seek to ensure rigorous compliance through our monitoring of group companies. To practice this governance model, our philosophy is to respect group companies' autonomy and encourage them to act independently while limiting our involvement in the routine execution of their businesses.

Governance Structure

Board of Directors

The Company's Board of Directors comprises 10 internal directors as of March 31, 2010. It is responsible for determining the basic management policies of the Company and Group, deciding on matters pertaining to laws and regulations, the articles of incorporation, and other important management issues, and monitoring business execution by group companies.

Group Management Committee

The Group Management Committee is subordinate to the Board of Directors and comprises all directors and standing

corporate auditors. It is responsible for deliberating on the basic management policies and strategies of the Company and Group and on important matters related to business execution by group companies.

Board of Corporate Auditors

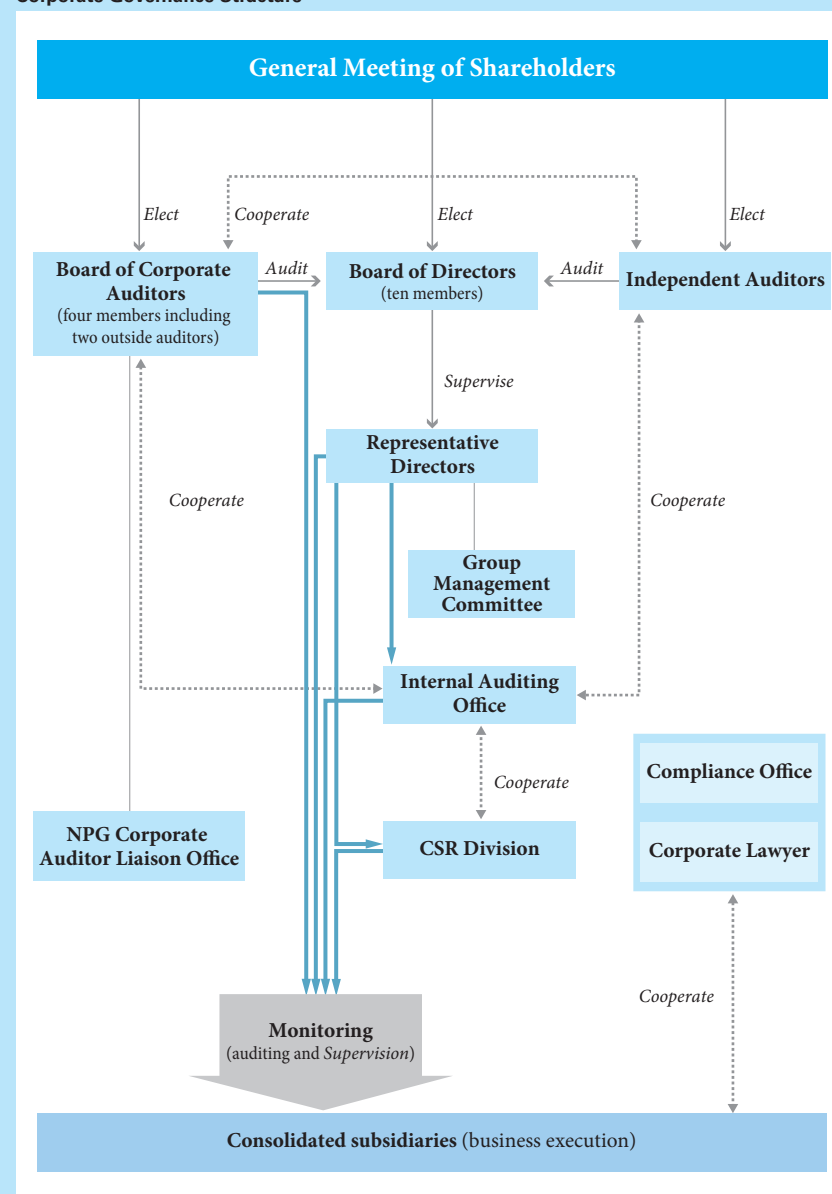
The Company established a Board of Corporate Auditors to monitor its management. Two of the four auditors comprising the board are outside auditors. The two outside auditors provide third-party opinions to the Board of Directors as needed from the specialized standpoints of certified public accountants and attorneys. Outside directors ensure the ability to monitor the business execution of directors and to provide advice from an outsider's perspective.

Internal Auditing Office

The objective of the Internal Auditing Office is to ensure that group companies' management policies are consistent with the Company's policy directives.

Additionally, the Internal Control Group within the Internal Auditing Office runs and evaluates an internal control and reporting system in line with the Financial Products Exchange Law, which has been applied since April 2008.

Corporate Governance Structure



CSR

Nippon Paper Group, based on its management vision to be a world-class company, strives to be a company that steadily generates good earnings, a company that is trusted by its customers, a company that holds the hopes and dreams of its employees, and a company with dignity. We are committed to meeting the expectations of our stakeholders while living up to our corporate ideals, as well as to fulfilling our corporate social responsibilities (CSR). We publish a CSR report annually that details the CSR activities of our group in six areas: management, environment, raw materials procurement, customers, employees, and local communities. This section will discuss our compliance activities and efforts to respond to climate change.

Strengthen compliance

Group companies regrettably had two major compliance lapses in 2007–2008, involving violations of smoke emission standards by mills and improper labeling of the percentage of wastepaper pulp contained in paper products. We take these lapses seriously and are working to strengthen our compliance structure to regain the public trust. We established the CSR Division in June 2008 to lead these efforts. With the goals of establishing a groupwide commitment to preventing misconduct from occurring again and reforming our corporate structure and rebuilding morale, the CSR Division, working through the Group Compliance Liaison Meeting, is making sincere efforts to share compliance information among group companies and conduct compliance training.

To prevent the recurrence of wastepaper pulp content mislabeling, we implemented third-party audits, in addition to internal audits, of our control procedures renewed in fiscal 2008. We then commissioned a

third-party audit at SGS Japan in fiscal 2008, which confirmed that the operating procedures manual stipulating the control system for wastepaper pulp content is being used properly and that products conform to the content percentages guaranteed to our customers. As part of this audit, SGS Japan proposed improvements to create an even more robust control system. We promptly revised our procedures in light of these proposals and have already put them into operation. Additionally, we established a Stakeholder Dialogue Forum to hear outside opinions about our prevention policies and products directly from our customers, raw material suppliers, wastepaper recovery providers, and other concerned parties. This forum held its first meeting in June 2009. We take what we have learned seriously and are working to continuously improve our prevention policies and regain public trust.

Responding to climate change

Japanese government policies and industry response

The countries of the world seek to build an international consensus for a framework to deal with global warming in 2013 and beyond (Post-Kyoto Protocol). In Japan, efforts are underway to enact a basic law on global warming that targets a reduction in greenhouse gas emissions of 25% versus 1990 levels by 2020. However, this would have a considerable impact on industry. Nine major industry trade groups in Japan, including the Japan Paper Association (to which we belong) submitted a public comment on the proposed legislation in February 2010.

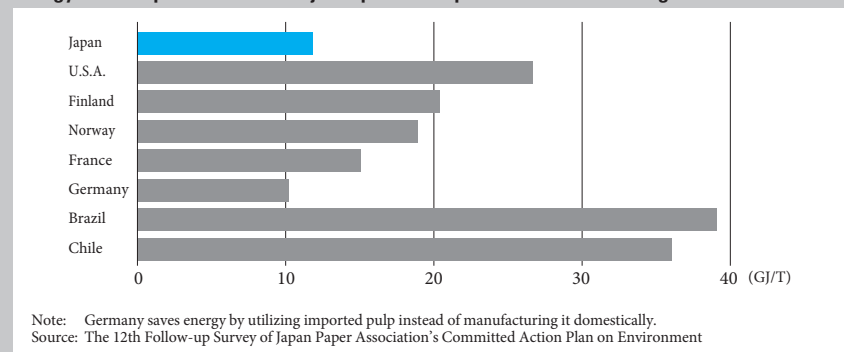
Legislation approved by the cabinet on March 12, 2010, includes: 1) an emissions trading system that allots greenhouse gas emission quotas to companies and allows them to buy and sell any differences in actual emissions; 2) a global warming

(environmental) tax assessed on fossil fuels; and 3) a feed-in tariff program for renewable energy. These initiatives do not reduce greenhouse gases in a practical way, and the implementation of basic reduction targets without any certainty of a level competitive playing field could significantly erode the international competitiveness of Japanese companies, resulting in a loss of employment and the destruction of forests, including those owned by our company. We believe that legislation and various environmental programs—including climate change measures—require more, careful and detailed public debate.

Japan’s papermaking industry, including Nippon Paper Group, has worked since early on to address environmental issues, including the reduction of greenhouse gases. The oil shortages and shocks of the early 1970s prompted the industry to take energy policy very seriously for nearly 40 years now. It has substantially improved energy efficiency through a wide range of activities from installing energy-saving equipment to improving methods of operation. The industry has contributed to reducing emissions of fossil fuel-derived CO₂ since the 1990s by continuing to implement energy-saving measures while working

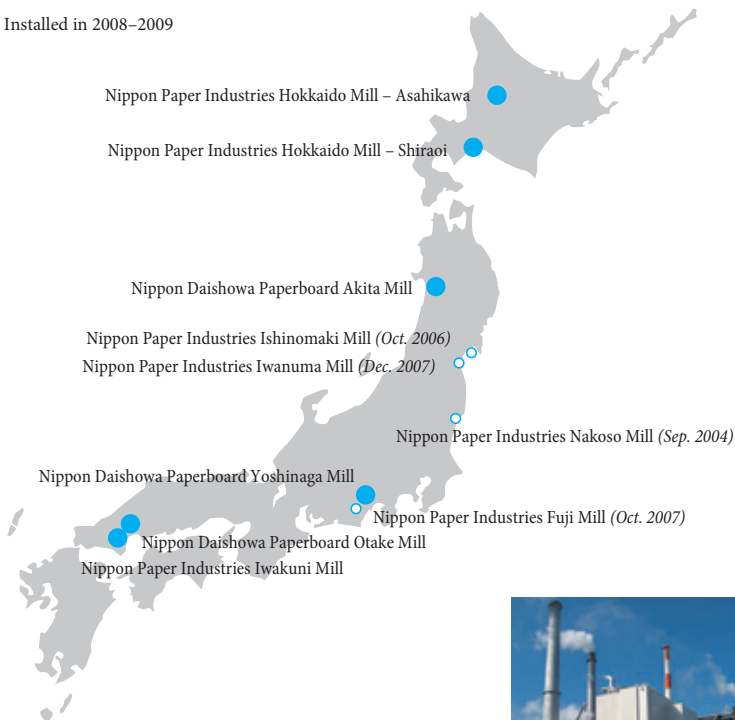
to actively shift its sourcing of energy to wood waste and other forms of biomass, as well as more-traditional alternative sources such as scrap tires, other waste materials, and the long-used black liquor, a liquid waste generated in the course of pulpmaking. These efforts have born fruit, as an international comparison of specific energy consumption in paper and paperboard manufacturing attests: Japan is at the top in efficiency. Japan’s papermaking industry has a fairly limited leeway for further reductions in this area. We do not intend in the slightest to abandon our work to reduce greenhouse gases; however, we are concerned that laws and regulations intended to encourage such activities could make it more difficult to do business for Japan’s papermaking industry, already the world’s most energy efficient, and could have the unintended consequence of leading to an increase in global emissions by encouraging industry players to shift their production to less energy-efficient countries. We believe numerical targets should be set on the basic premise of maintaining a level international playing field, and that legislation should be advanced after giving sufficient consideration to balancing the effects of major policies and the burden they impose on the public.

Energy Consumption Rates of Major Paper and Paperboard Manufacturing Countries



Alternative energy boilers

● Installed in 2008–2009



A biomass boiler at Iwakuni Mill

Examples of biomass and waste fuels



Construction waste



Refuse paper and plastic fuel (RPF)



Waste tires

Nippon Paper Group’s initiatives

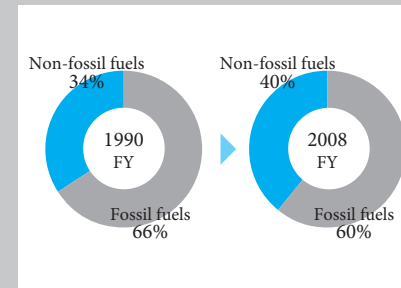
We drafted our Green Action Plan 2010 (adopted March 2007, revised April 2008) to be an environmental action plan based on the philosophy and fundamental policy stated in our Charter on the Environment (adopted March 2001, revised March 2007). To address the important environmental issue of climate change, we have sought to reduce our CO₂ emissions through three main activities—shifting to new fuel sources by installing biomass boilers, sequestering CO₂ through the proper management of company-owned forests, and saving energy in manufacturing and distribution.

Shifting to new fuel sources by installing biomass boilers

We have been working to reduce our use of fossil fuels to help stem global warming, one of the major causes of climate change. We started to install boilers that can use biomass and waste fuels in fiscal 2004, and completed the installation of these boilers at ten plants at the end of fiscal 2009. This has allowed us to reduce fossil fuel-derived CO₂ emissions by about 0.80 million mt annually.

We increased the share of non-fossil fuel consumption (total of biomass and waste fuels) from 34% in fiscal 1990 to 40% in fiscal 2008.

Non-fossil Fuel Consumption Share



Sequestering CO₂ through proper management of company-owned forests

Nippon Paper Group owns the second largest amount of forested land in Japan at 90,000 hectares. Promoting the healthy growth of trees is vital to allowing these precious forest resources to adequately absorb CO₂. All our forests had acquired SGE^C forest certification by October 2007, and by actively maintaining these forests, we are able to sequester approximately 0.35 million mt of CO₂ annually.

Saving energy in manufacturing and distribution processes

As part of our energy-saving efforts, each year we are systematically deploying new technology in manufacturing processes and upgrading facilities to achieve even

Annual domestic CO₂ sequestration in fiscal 2008

Forest type	Area (ha)	Annual sequestration (Mt of CO ₂)
Artificial forests	Softwood	312,623
	Hardwood	7,387
Natural forests	Softwood	20,063
	Hardwood	87,797
Total	86,990	427,870
CO₂ emissions from deforestation		-81,748
Fiscal 2008 CO₂ sequestration		345,122

* SGE^C: Independent Japanese forest certification system for evaluating sustainable forest management in a manner appropriate for the Japanese climate.

greater production efficiency. Additionally, in the transportation of raw materials and products, we are shifting to the use of rail and marine transport, which place a lower burden on the environment. We achieved a modal shift rate of 91% in fiscal 2008, more than 10 percentage points higher than the industry average.

Progress with Green Action Plan 2010

We set the anti-global warming prevention targets shown at right in our Green Action Plan 2010 and are working to save energy while reducing CO₂ emissions by installing energy-saving equipment, improving processes, and actively converting to new fuel sources.

In fiscal 2008, production efficiency, in addition to production volume, was significantly impacted by weak production activity due to the economic slowdown beginning in the fiscal second half. As a result, although our CO₂ emissions for all businesses were 7.73 million mt, a decrease of 15.8% from fiscal 1990, progress toward the two targets in our Green Action Plan 2010 was limited, with reductions versus 1990 levels of 9.3% for fossil energy-derived CO₂ emission units and 14.6% for fossil energy units. Going forward, although we could possibly be affected by economic fluctuations and other factors, the entire

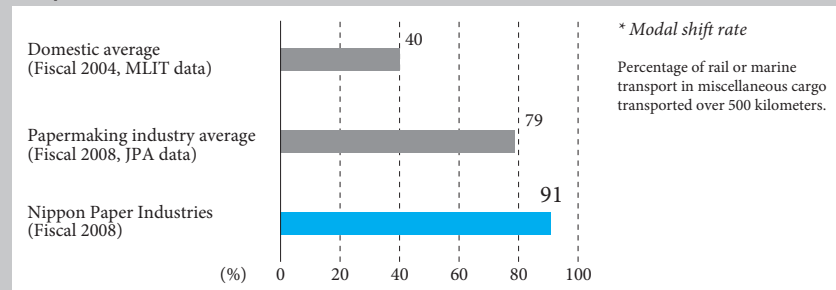
Anti-global warming targets in Green Action Plan 2010 (revised April 28, 2008)

Reduce fossil energy-derived CO₂ emission units per product by 16% from the fiscal 1990 level by fiscal 2010.

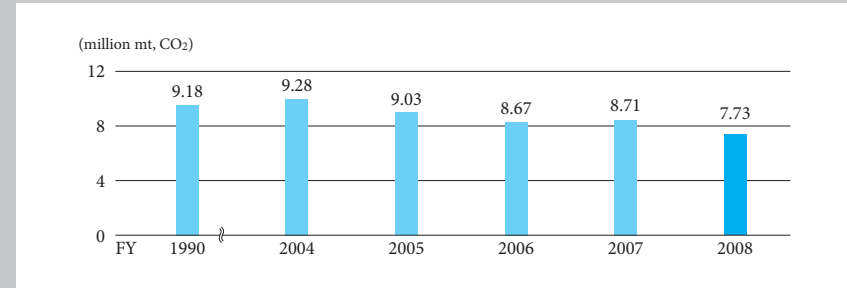
Reduce fossil energy units per product by 20% from the fiscal 1990 level by fiscal 2010.

Nippon Paper Group will make every effort to achieve these targets.

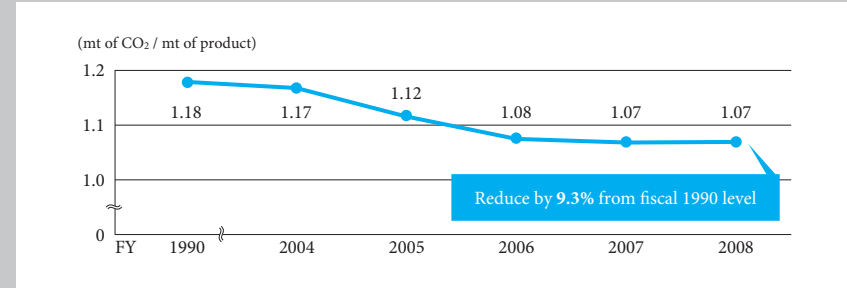
Comparison of modal shift rates



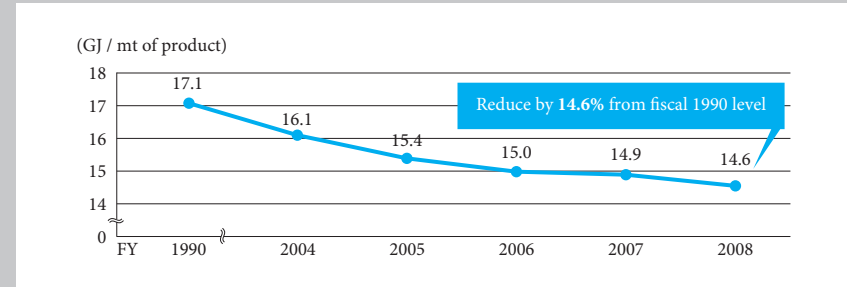
Fossil energy-derived CO₂ emissions in all businesses



Fossil energy-derived CO₂ emission units in the pulp and paper business



Fossil energy units in the pulp and paper business



Board of Directors and Corporate Auditors

(As of June 29, 2010)



Chairman

Masatomo Nakamura

1941 Born
 1963 Joined Jujo Paper Co., Ltd.
 2003 Appointed Director of
 Nippon Paper Group, Inc.
 2005 Appointed President and
 Representative Director of
 Nippon Paper Group, Inc.
 2008 Appointed Chairman of
 Nippon Paper Group, Inc.



President and
 Representative Director

Yoshio Haga

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

1949 Born
 1974 Joined Jujo Paper Co., Ltd.
 2005 Appointed Director of
 Nippon Paper Group, Inc.
 2008 Appointed President and
 Representative Director of
 Nippon Paper Group, Inc.

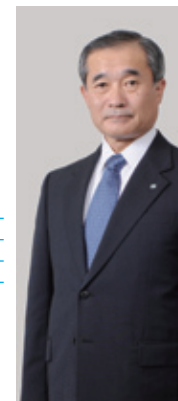


Director

Shuhei Marukawa

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

1951 Born
 1975 Joined Jujo Paper Co., Ltd.
 2008 Appointed Director of
 Nippon Paper Group, Inc.



Director

Hironori Iwase

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

1949 Born
 1974 Joined Jujo Paper Co., Ltd.
 2009 Appointed Director of
 Nippon Paper Group, Inc.



Executive Vice President
 and Representative Director

Tsuyoshi Yamashita

General Manager of CSR Division and
 General Manager of Financial Division,
 concurrently Executive Vice President
 and General Manager of Financial
 Division of
 Nippon Paper Industries Co., Ltd.

1947 Born
 1970 Joined Jujo Paper Co., Ltd.
 2003 Appointed Director of
 Nippon Paper Group, Inc.
 2008 Appointed Executive Vice
 President of
 Nippon Paper Group, Inc.
 (current position)



Executive Vice President
 and Representative Director

Masayuki Hayashi

General Manager of Engineering and Research
 & Development Division, concurrently
 Executive Vice President, General Manager of
 Technical & Engineering Division, in charge of
 Environmental Conservation and in charge of
 Safety & Disaster Prevention of
 Nippon Paper Industries Co., Ltd.

1946 Born
 1969 Joined Daishowa Paper
 Manufacturing Co., Ltd.
 2001 Appointed Director of
 Nippon Paper Group, Inc.
 2010 Appointed Executive Vice
 President of
 Nippon Paper Group, Inc.
 (current position)



Director

Kazuhiro Sakai

Concurrently President and
 Representative Director of
 Nippon Paper Creca Co., Ltd.

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



Director

Masahiro Murakami

Concurrently President and
 Representative Director of
 Nippon Paper Papyrus Co., Ltd.

1944 Born
 1967 Joined Sanyo Pulp Co., Ltd.
 2008 Appointed Director of
 Nippon Paper Group, Inc.



Director

Masaru Motomura

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

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



Director

Fumio Manoshiro

In charge of Raw Material & Purchasing,
 concurrently Senior Managing Director
 and General Manager of Raw Material &
 Purchasing Division of
 Nippon Paper Industries Co., Ltd.

1953 Born
 1975 Joined Jujo Paper Co., Ltd.
 2009 Appointed Director of
 Nippon Paper Group, Inc.

Senior Corporate Auditor

Hirotoishi Ishikawa

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

Corporate Auditor

Akio Uwano

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

Outside Corporate Auditors

Yoshihiro Morikawa

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

Naoki Yanagida

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

A detailed black and white micrograph of a conifer tree stem cross-section, showing a regular grid of polygonal cells with thick, dark cell walls. The cells are arranged in a honeycomb-like pattern, with some larger cells and smaller ones interspersed. The overall texture is highly structured and repetitive.

Financial Section

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71	Consolidated Statements of Changes in Net Assets
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111	Report of Independent Auditors

Consolidated Five-Year Summary

Nippon Paper Group, Inc. and Consolidated Subsidiaries

	Millions of yen					Thousands of US dollars (Note)
	FY2005 April 1, 2005–March 31, 2006	FY2006 April 1, 2006–March 31, 2007	FY2007 April 1, 2007–March 31, 2008	FY2008 April 1, 2008–March 31, 2009	FY2009 April 1, 2009–March 31, 2010	FY2009 April 1, 2009–March 31, 2010
Net sales	¥ 1,152,166	¥ 1,175,264	¥ 1,211,682	¥ 1,188,136	¥ 1,095,233	\$ 11,776,699
Cost of sales	920,819	948,852	969,466	958,464	844,033	9,075,624
Operating income	48,391	44,655	32,834	19,951	43,149	463,968
Ordinary income	49,403	47,088	32,800	17,944	37,547	403,731
Net income (loss)	17,192	22,952	5,661	(23,330)	30,050	323,118
Total assets	1,492,427	1,565,978	1,625,571	1,492,027	1,500,246	16,131,677
Total current assets	412,657	456,620	485,822	436,021	450,529	4,844,398
Property, plant and equipment, net	811,110	841,287	892,012	851,921	837,698	9,007,505
Total investments and other assets	268,659	268,069	247,736	204,083	212,017	2,279,753
Liabilities	1,029,787	1,095,456	1,145,812	1,067,475	1,040,267	11,185,667
Net assets	462,639	470,521	479,758	424,551	459,978	4,946,000
Interest-bearing debt	692,080	738,230	785,322	784,333	762,899	8,203,215
Depreciation	70,106	67,049	74,791	83,294	81,943	881,108
Capital investment	69,687	102,961	121,190	64,940	35,587	382,656
Free cash flow	91,655	(31,668)	(44,491)	18,988	45,974	494,344
Per share data			Yen			U.S. dollars
Net income (loss)						
Basic	15,760.27	21,570.23	5,200.50	(208.60)	264.03	2.84
Diluted	15,123.82	—	—	—	—	—
Net assets	413,525.41	421,626.81	407,492.96	3,601.71	3,940.06	42.37
Cash dividends	8,000.00	8,000.00	8,000.00	80.00	80.00	0.86
Ratios						
Operating income margin (%)	4.2	3.8	2.7	1.7	3.9	
Net income (loss) to net sales (%)	1.5	2.0	0.5	(2.0)	2.7	
Return on equity (ROE) (%)	3.9	5.2	1.3	(5.4)	7.0	
Return on invested capital (ROIC) (%)	5.0	4.6	3.4	2.4	3.9	
Equity ratio (%)	29.5	28.6	28.0	27.0	30.4	
Return on assets (ROA) (%)	3.8	3.5	2.7	1.9	3.2	
Debt/equity ratio (times)	1.5	1.6	1.7	1.9	1.6	
Number of employees	12,798	12,584	13,666	13,088	14,210	

Note: Amounts in US dollars are included solely for convenience and are translated at a rate of ¥ 93/\$, the approximate rate of exchange on March 31, 2010.

- 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 (loss) / Average shareholders' equity and valuation, translation adjustments and other × 100
- Return on invested capital (ROIC) = (Ordinary income + Interest expense) / (Shareholders' equity and valuation, translation adjustments and other + 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) / Shareholders' equity and valuation, translation adjustments and other
- We conducted a split of shares of common stock (a 100-to-1 split) effective as of January 4, 2009

Financial Position

Consolidated assets totaled ¥1,500,246 million at the end of fiscal 2009, increasing by ¥8,218 million from ¥1,492,027 million at the end of fiscal 2008; this includes the ¥73.5 billion impact of making Australian Paper a consolidated subsidiary.

Current assets totaled ¥450,529 million. Despite the ¥26,738 million positive impact of consolidating Australian Paper, current assets increased by only ¥14,508 million year on year, due partly to our reducing inventories in Japan.

Property, plant and equipment totaled ¥837,698 million, decreasing by ¥14,223 million year on year, due partly to our holding capital expenditures to ¥35,587 million, less than half of depreciation at ¥81,943 million.

Investments and other assets totaled ¥212,017 million, increasing by ¥7,933 million year on year, due partly to higher deferred tax assets.

Liabilities totaled ¥1,040,267 million, decreasing by ¥27,208 million year on year, due partly to our keeping capital expenditures under control and paying off debt.

Cash Flows

Consolidated cash and cash equivalents totaled ¥24,041 million at the end of fiscal 2009, increasing by ¥9,140 million compared to the end of fiscal 2008.

Net cash provided by operating activities totaled ¥116,908 million. Depreciation was generally unchanged at ¥81,943 million, but income before income taxes and minority interests in consolidated subsidiaries improved substantially to ¥39,567 million and working capital decreased by ¥15,677 million, due partly to inventory reductions in Japan.

Net cash used in investing activities totaled ¥70,934 million. Purchases of property, plant and equipment totaled ¥41,321 million and purchases of stock in Australian Paper and other companies totaled ¥43,483 million, whereas proceeds from sales of investments in other securities, including the stock of Hokuetsu Kishu Paper, totaled ¥13,775 million.

Resulting positive free cash flow totaled ¥45,974 million. Additionally, net cash used in financing activities totaled ¥38,214 million.



	FY2005	FY2006	FY2007	FY2008	FY2009
Equity ratio (%)	29.5	28.6	28.0	27.0	30.4
Equity ratio based on market capitalization (%)	36.3	28.5	16.2	17.9	18.6
Interest-bearing debt/cash flow (times)	5.2	9.8	10.6	9.3	6.5
Interest coverage ratio (times)	17.8	11.7	8.0	7.8	10.8

- Equity ratio = Total shareholders' equity and valuation, translation adjustments and other / Total assets × 100
- Equity ratio based on market capitalization = Market capitalization / Total assets × 100
- Interest-bearing debt / cash flow (times) = Interest-bearing debt / Operating cash flow
- Interest coverage ratio = Operating cash flow / Interest paid

Note: 1. All indicators are calculated based on consolidated financial figures.
 2. 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.
 3. 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.

Business and Other Risk Factors

The Group has identified the following factors as risks that could affect the Nippon Paper Group's business performance and financial position:

(1) Product demand and market conditions

The Nippon Paper Group engages in the mainstay pulp and paper, paper-related, housing and construction materials, and other businesses. The group is at risk of fluctuations in demand for its products and product prices in the context of economic conditions and other factors.

(2) Manufacturing conditions

The Nippon Paper Group's production activity is based on estimated demand and production capacity of existing facilities. The group carries out regular preventive inspections and other maintenance checks, but is at risk of a reduction in supply capability due to fires, accidents, and other problems occurring at a facilities, and interruptions in procurement as well as delivery of raw materials and fuel.

(3) Foreign exchange

The Nippon Paper Group is at risk of foreign exchange rate fluctuations associated with import and export transactions. Since the group's imports of raw materials and fuel (wood chips, heavy oil, coal, and chemicals) exceed its product exports, yen depreciation against the US dollar and Australian dollar has a negative impact on business performance. The group hedges against this risk by means such as forward contracts.

(4) Raw-material and fuel prices

The Nippon Paper Group purchases raw materials and fuels such as wood chips, waste paper, heavy oil, coal, and chemicals to manufacture and sell products such as paper, pulp, and others. The group is thus at risk of input price fluctuations in domestic and international markets.

(5) Stock prices

The Nippon Paper Group holds marketable shares in partner and affiliated companies and is thus at risk of share price fluctuations. They may also affect retirement benefit expenses because of their impact on pension assets.

(6) Interest rates

The Nippon Paper Group is at risk of interest rate fluctuations affecting its interest expense. They could affect the group's business performance and financial position.

(7) Overseas businesses

The Nippon Paper Group manufactures pulp and paper and operates forestry plantations and other businesses overseas, mainly in North America, Scandinavia, China, and Australia. While the group takes utmost care to minimize overseas business risk, unforeseen circumstances in those locations may affect the group's business performance and financial position.

(8) Litigation

The Nippon Paper Group takes utmost care to comply with laws and regulations in the course of doing business, but is nonetheless at risk of litigation associated with criminal and civil law, antitrust law, product liability law, intellectual property rights, and environmental and labor issues.

(9) Fixed asset impairment

The Nippon Paper Group owns fixed assets such as production facilities and land and is at risk of a fall in the value of these assets.

(10) Natural disasters

The Nippon Paper Group is exposed to the risk of major natural disasters such as earthquakes which, if they occur near its operation bases, may cause damage to facilities and cause it to incur restoration costs and opportunity loss.

(11) Credit Risk

The Nippon Paper Group takes care of the credit risk, but collection of claim cause from aggravation of operating or bankruptcy of customers may affect the group's business performance and financial position.

(12) Other risks associated with changes in business conditions, etc.

The Nippon Paper Group is subject to the risk of changes in business and economic conditions and other similar circumstances arising from contingencies, which may affect the group's business performance and financial position.

Consolidated Balance Sheets

Nippon Paper Group, Inc. and Consolidated Subsidiaries

March 31, 2009 and 2010

Assets	Millions of yen		Thousands of U.S. dollars
	2009	2010	(Note 3)
Current assets:			
Cash and cash equivalents (Note 17)	¥ 14,901	¥ 24,041	\$ 258,505
Receivables:			
Notes and accounts receivable: (Notes 17 and 20)			
Trade	192,419	206,389	2,219,237
Unconsolidated subsidiaries and affiliates	19,927	18,457	198,462
Other	12,360	17,966	193,183
Loans receivable from unconsolidated subsidiaries and affiliates	8,977	10,519	113,108
Allowance for doubtful receivables	(2,838)	(3,285)	(35,323)
Inventories (Note 5)	165,487	153,469	1,650,204
Deferred tax assets (Note 13)	8,381	9,998	107,505
Other current assets (Note 8)	16,403	12,972	139,484
Total current assets	436,021	450,529	4,844,398
Property, plant and equipment:			
Land	228,093	227,405	2,445,215
Buildings and structures	476,412	486,154	5,227,462
Machinery and equipment	2,064,963	2,174,822	23,385,183
Construction in progress	23,471	9,679	104,075
Other	26,653	31,107	334,484
	2,819,594	2,929,169	31,496,441
Less accumulated depreciation	(1,967,672)	(2,091,470)	(22,488,925)
Property, plant and equipment, net (Note 7):	851,921	837,698	9,007,505
Investments and other assets:			
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 17)	92,439	94,793	1,019,280
Investments in securities (Notes 7, 17 and 19)	68,978	65,398	703,204
Deferred tax assets (Note 13)	3,980	11,000	118,280
Goodwill	18,054	19,994	214,989
Other assets	57,866	57,772	621,204
Allowance for doubtful receivables	(37,235)	(36,942)	(397,226)
Total investments and other assets	204,083	212,017	2,279,753
Total assets (Note 21)	¥ 1,492,027	¥ 1,500,246	\$ 16,131,677

See notes to consolidated financial statements.

Liabilities	Millions of yen		Thousands of U.S. dollars
	2009	2010	(Note 3)
Current liabilities:			
Short-term borrowings (Notes 6 and 17):			
Loans payable and commercial paper	¥ 178,808	¥ 162,186	\$ 1,743,935
Unconsolidated subsidiaries and affiliates	2,494	1,537	16,527
Current portion of long-term debt (Notes 6, 7 and 17):			
Bonds and loans payable	73,840	55,650	598,387
Unconsolidated subsidiaries and affiliates	—	30	323
Notes and accounts payable:			
Trade (Notes 6, 7, 17 and 20)	103,104	102,435	1,101,452
Unconsolidated subsidiaries and affiliates (Note 17)	15,960	16,936	182,108
Other	50,472	42,959	461,925
Accrued income taxes	2,648	7,604	81,763
Other current liabilities (Notes 6 and 13)	36,031	33,902	364,538
Total current liabilities	463,360	423,243	4,551,000
Long-term liabilities:			
Long-term debt (Notes 6, 7, 17 and 20):			
Bonds and loans payable	523,569	532,387	5,724,591
Accrued retirement benefits (Note 8)	40,141	33,859	364,075
Deferred tax liabilities (Note 13)	31,937	34,385	369,731
Accrued environmental costs	907	773	8,312
Other long-term liabilities (Note 6)	7,559	15,617	167,925
Total long-term liabilities	604,115	617,023	6,634,656
Contingent liabilities (Note 18)			
Net assets:			
Shareholders' equity (Notes 14 and 25):			
Common stock:			
Authorized – 300,000,000 shares;			
Issued – 116,254,892 shares in 2010 and 112,253,463 shares in 2009	55,730	55,730	599,247
Capital surplus	256,033	266,254	2,862,946
Retained earnings	105,405	128,455	1,381,237
Less treasury stock, at cost:			
432,834.79 shares in 2010 and 426,793.79 shares in 2009	(1,233)	(1,267)	(13,624)
Total shareholders' equity	415,935	449,173	4,829,817
Valuation, translation adjustments and other:			
Net unrealized holding gain (loss) on other securities	(1,568)	2,819	30,312
Net deferred gain on hedges	2,153	336	3,613
Translation adjustments	(13,754)	3,983	42,828
Total valuation, translation adjustments and other	(13,168)	7,138	76,753
Minority interests in consolidated subsidiaries	21,783	3,666	39,419
Total net assets	424,551	459,978	4,946,000
Total liabilities and net assets	¥ 1,492,027	¥ 1,500,246	\$ 16,131,677

See notes to consolidated financial statements.

Consolidated Statements of Operations

Nippon Paper Group, Inc. and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars
	FY2008	FY2009	FY2009
	April 1, 2008–March 31, 2009	April 1, 2009–March 31, 2010	April 1, 2009–March 31, 2010
Net sales (Note 21)	¥ 1,188,136	¥ 1,095,233	\$ 11,776,699
Cost of sales (Notes 21 and 22)	958,464	844,033	9,075,624
Gross profit	229,672	251,199	2,701,065
Selling, general and administrative expenses (Notes 8, 21 and 22)	209,721	208,050	2,237,097
Operating income (Note 21)	19,951	43,149	463,968
Other income (expenses):			
Interest expense	(10,970)	(11,001)	(118,290)
Interest and dividend income	3,230	4,162	44,753
Net gain on sales of investments in securities (Note 19)	464	1,016	10,925
Net loss on sales and disposal of property, plant and equipment	(3,210)	(924)	(9,935)
Loss on valuation of investments in securities (Note 19)	(8,625)	(1,458)	(15,677)
Gain on negative goodwill (Note 4)	—	8,392	90,237
Equity in earnings of affiliates	1,789	1,015	10,914
Insurance income (Note 10)	—	2,898	31,161
Gain on change in equity	337	—	—
Loss on impairment of fixed assets (Notes 9 and 21)	(6,012)	(3,400)	(36,559)
Loss on disaster (Note 10)	—	(3,038)	(32,667)
Loss on restructuring (Notes 9 and 11)	(4,997)	—	—
Losses from the reconfiguration of the production structure (Notes 9 and 12)	(10,820)	—	—
Loss on valuation of inventories	(1,804)	—	—
Other, net	(1,224)	(1,243)	(13,366)
Income (loss) before income taxes and minority interests in consolidated subsidiaries	(21,893)	39,567	425,452
Income taxes (Note 13):			
Current	(6,155)	(7,997)	(85,989)
Deferred	4,621	(1,146)	(12,323)
Total income taxes	(1,534)	(9,144)	(98,323)
Income (loss) before minority interests	(23,428)	30,423	327,129
Minority interests in consolidated subsidiaries	97	(372)	(4,000)
Net income (loss)	¥ (23,330)	¥ 30,050	\$ 323,118
	Yen		U.S. dollars (Note 3)
Amounts per share (Note 24):			
Net income (loss):			
Basic	¥ (208.60)	¥ 264.03	\$ 2.84
Diluted	—	—	—
Cash dividends	80.00	80.00	0.86

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Nippon Paper Group, Inc. and Consolidated Subsidiaries

	Millions of yen						Millions of yen					
	Shareholders' equity						Valuation, translation adjustments and other				Minority interests in consolidated subsidiaries	Total net assets
	Number of shares of issued common stock	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain (loss) on other securities	Net deferred gain (loss) on hedges	Translation adjustments	Total valuation, translation adjustments and other		
Balance at March 31, 2008	1,122,534.63	¥ 55,730	¥ 256,040	¥ 138,135	¥ (1,090)	¥ 448,815	¥ 3,922	¥ (404)	¥ 3,567	¥ 7,084	¥ 23,858	¥ 479,758
Cash dividends paid	—	—	—	(8,952)	—	(8,952)	—	—	—	—	—	(8,952)
Net loss	—	—	—	(23,330)	—	(23,330)	—	—	—	—	—	(23,330)
Purchase of treasury stock	—	—	—	—	(160)	(160)	—	—	—	—	—	(160)
Disposition of treasury stock	—	—	(6)	—	48	41	—	—	—	—	—	41
Changes in the scope of consolidation	—	—	—	(446)	—	(446)	—	—	—	—	—	(446)
Changes in the scope of equity method affiliates	—	—	—	—	(30)	(30)	—	—	—	—	—	(30)
Changes in items other than shareholders' equity, net	—	—	—	—	—	—	(5,490)	2,558	(17,321)	(20,253)	(2,074)	(22,327)
Increase due to share split	111,130,928.37	—	—	—	—	—	—	—	—	—	—	—
Balance at March 31, 2009	112,253,463.00	55,730	256,033	105,405	(1,233)	415,935	(1,568)	2,153	(13,754)	(13,168)	21,783	424,551
Cash dividends paid	—	—	—	(8,949)	—	(8,949)	—	—	—	—	—	(8,949)
Net income	—	—	—	30,050	—	30,050	—	—	—	—	—	30,050
Purchase of treasury stock	—	—	—	—	(40)	(40)	—	—	—	—	—	(40)
Disposition of treasury stock	—	—	(2)	—	11	8	—	—	—	—	—	8
Increase by share exchange	4,001,429.00	—	10,223	—	(3)	10,219	—	—	—	—	—	10,219
Changes in the scope of consolidation	—	—	—	1,949	—	1,949	—	—	—	—	—	1,949
Changes in equity in affiliates accounted for by equity method-treasury stock	—	—	—	—	(0)	(0)	—	—	—	—	—	(0)
Changes in items other than shareholders' equity, net	—	—	—	—	—	—	4,387	(1,817)	17,737	20,306	(18,117)	2,189
Balance at March 31, 2010	116,254,892.00	¥ 55,730	¥ 266,254	¥ 128,455	¥ (1,267)	¥ 449,173	¥ 2,819	¥ 336	¥ 3,983	¥ 7,138	¥ 3,666	¥ 459,978

	Thousands of U.S. dollars (Note 3)					Thousands of U.S. dollars (Note 3)					
	Shareholders' equity					Valuation, translation adjustments and other				Minority interests in consolidated subsidiaries	Total net assets
	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain (loss) on other securities	Net deferred gain (loss) on hedges	Translation adjustments	Total valuation, translation adjustments and other		
Balance at March 31, 2009	\$ 599,247	\$ 2,753,043	\$ 1,133,387	\$ (13,258)	\$ 4,472,419	\$ (16,860)	\$ 23,151	\$ (147,892)	\$ (141,591)	\$ 234,226	\$ 4,565,065
Cash dividends paid	—	—	(96,226)	—	(96,226)	—	—	—	—	—	(96,226)
Net income	—	—	323,118	—	323,118	—	—	—	—	—	323,118
Purchase of treasury stock	—	—	—	(430)	(430)	—	—	—	—	—	(430)
Disposition of treasury stock	—	(22)	—	118	86	—	—	—	—	—	86
Increase by share exchange	—	109,925	—	(32)	109,882	—	—	—	—	—	109,882
Changes in the scope of consolidation	—	—	20,957	—	20,957	—	—	—	—	—	20,957
Changes in equity in affiliates accounted for by equity method-treasury stock	—	—	—	(0)	(0)	—	—	—	—	—	(0)
Changes in items other than shareholders' equity, net	—	—	—	—	—	47,172	(19,538)	190,720	218,344	(194,806)	23,538
Balance at March 31, 2010	\$ 599,247	\$ 2,862,946	\$ 1,381,237	\$ (13,624)	\$ 4,829,817	\$ 30,312	\$ 3,613	\$ 42,828	\$ 76,753	\$ 39,419	\$ 4,946,000

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nippon Paper Group, Inc. and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars
	FY2008	FY2009	FY2009
	April 1, 2008–March 31, 2009	April 1, 2009–March 31, 2010	April 1, 2009–March 31, 2010
Operating activities			
Income (loss) before income taxes and minority interests in consolidated subsidiaries	¥ (21,893)	¥ 39,567	\$ 425,452
Adjustments to reconcile income (loss) before income taxes and minority interests in consolidated subsidiaries to net cash provided by operating activities:			
Depreciation	83,293	81,943	881,108
Amortization of goodwill	827	1,157	12,441
Increase (decrease) in allowance for doubtful receivables	(710)	667	7,172
Decrease in accrued retirement benefits	(4,611)	(6,428)	(69,118)
Decrease in accrued environmental costs	(111)	(134)	(1,441)
Interest and dividend income	(3,230)	(4,162)	(44,753)
Interest expense	10,970	11,001	118,290
Equity in earnings of affiliates	(1,789)	(1,015)	(10,914)
Net gain on sales of investment securities	(464)	(1,016)	(10,925)
Loss on valuation of investment securities	8,625	1,458	15,677
Net loss on sales and disposal of property, plant and equipment	3,210	924	9,935
Loss on impairment of fixed assets	6,012	3,400	36,559
Gain on negative goodwill	—	(8,392)	(90,237)
Insurance income	—	(2,898)	(31,161)
Loss on disaster	—	3,038	32,667
Gain on change in equity	(337)	—	—
Loss on restructuring	4,997	—	—
Losses from the reconfiguration of the production structure	10,820	—	—
Changes in operating assets and liabilities:			
Receivables	51,357	(1,096)	(11,785)
Inventories	(2,171)	27,758	298,473
Payables	(26,161)	(10,983)	(118,097)
Other	(16,214)	(8,934)	(96,065)
	102,421	125,854	1,353,269
Interest and dividends received	3,930	5,099	54,828
Interest paid	(11,132)	(10,936)	(117,591)
Expenditures for restructuring	(2,264)	—	—
Income taxes paid	(8,785)	(5,140)	(55,269)
Proceeds from insurance income	—	2,898	31,161
Payments for loss on disaster	—	(867)	(9,323)
Net cash provided by operating activities	¥ 84,170	¥ 116,908	\$ 1,257,075

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	FY2008	FY2009	FY2009
	April 1, 2008–March 31, 2009	April 1, 2009–March 31, 2010	April 1, 2009–March 31, 2010
Investing activities			
Purchases of time deposits	¥ (217)	¥ (217)	\$ (2,333)
Withdrawals of time deposits	217	217	2,333
Purchases of property, plant and equipment	(83,166)	(41,321)	(444,312)
Proceeds from sales of property, plant and equipment	2,586	2,105	22,634
Purchases of investments in other securities	(3,638)	(3,334)	(35,849)
Proceeds from sales of investments in other securities	11,769	13,775	148,118
Purchase of investments in subsidiaries resulting in change in scope of consolidation	—	(40,148)	(431,699)
(Decrease) increase in short-term loans	5,435	(1,559)	(16,763)
Long-term loans made	(500)	(260)	(2,796)
Collection of long-term loans	1,399	483	5,194
Other, net	933	(674)	(7,247)
Net cash used in investing activities	(65,182)	(70,934)	(762,731)
Financing activities			
Decrease in short-term borrowings	(43,191)	(17,579)	(189,022)
Proceeds from issuance and borrowings of long-term debt	93,000	64,500	693,548
Repayment of long-term debt	(57,013)	(73,840)	(793,978)
Purchases of treasury stock	(160)	(40)	(430)
Proceeds from sales of treasury stock	40	8	86
Cash dividends paid	(9,271)	(8,946)	(96,194)
Finance lease principal payments	(1,831)	(2,074)	(22,301)
Repayment to minority shareholders	(404)	(242)	(2,602)
Net cash provided by financing activities	(18,831)	(38,214)	(410,903)
Effect of exchange rate changes on cash and cash equivalents	(2,345)	1,008	10,839
Increase(decrease) in cash and cash equivalents	(2,188)	8,768	94,280
Cash and cash equivalents at beginning of year	17,724	14,901	160,226
Increase due to inclusion of certain subsidiaries in consolidation	—	371	3,989
Decrease due to exclusion of certain subsidiaries from consolidation	(633)	—	—
Cash and cash equivalents at end of year	¥ 14,901	¥ 24,041	\$ 258,505

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nippon Paper Group, Inc. and Consolidated Subsidiaries

March 31, 2010

1. Summary of Significant Accounting Policies

(a) Basis of Preparation

The accompanying consolidated financial statements of Nippon Paper Group, Inc. (the “Company”) and consolidated subsidiaries (collectively, the “Group”) 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 Financial Instruments and Exchange Law of Japan.

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.

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.

The number of consolidated subsidiaries as of March 31, 2010 and 2009 were 45 and 36, respectively. 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 (loss) includes the Company’s equity in the current net income or loss of such companies after the elimination of unrealized intercompany profits.

The number of affiliates under the equity method was 9 as of March 31, 2010 and 2009. (There were no unconsolidated subsidiaries under the equity method as of March 31, 2010 and 2009.)

The number of unconsolidated subsidiaries and affiliates that do not apply the equity method were 90 and 40 as of March 31, 2010, and 95 and 41 as of March 31, 2009, respectively.

These unconsolidated subsidiaries and affiliates are not accounted for under the equity method, as they are not significant to the consolidated financial statements of the Company.

Goodwill is amortized on a straight-line basis within twenty years based on the specific circumstances at the time of acquisition.

(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 represent only an insignificant risk of any changes in their value.

(d) Securities

Under the Japanese accounting standard for financial instruments, securities are 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, 2010 or 2009;
- (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 net assets.

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 periodic average method. (The amount on the balance sheets is written down based on any decline in profitability.)

(f) Allowance for Doubtful Receivables

Allowance for doubtful receivables is provided for future bad debt losses at an amount estimated based on past bad debt experience of 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. Depreciation of assets leased under finance-leasing agreements (except those entailing transfer of ownership) is calculated using the straight-line method assuming a residual value of zero (or the guaranteed residual value when this is set by agreement) and a useful life equal to the term of the lease. Significant renewals and betterments are capitalized at cost. Maintenance and repairs are charged to income as incurred.

(h) 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 respective balance sheet dates, except for the components of net assets (excluding minority interests) 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 resulting differences in translation are presented as translation adjustments and minority interests in consolidated subsidiaries as components of net assets in the accompanying consolidated financial statements.

(i) 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 primarily amortized commencing the year following the year in which the gain or loss is recognized 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.

In addition, directors and statutory auditors of certain domestic 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 consolidated subsidiaries.

(Additional information)

Certain domestic consolidated subsidiaries decided to terminate retirement benefits to directors and statutory auditors by resolutions of the general meetings of shareholders held in March and June 2009.

In relation to this decision, accrued retirement benefits for these officers are written off, and an amount equivalent to the accrued retirement benefits earned prior to the resolution was recognized in other fixed liabilities.

(j) Accrued Environmental Costs

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

(k) Research and Development Costs

Research and development costs are charged to income as incurred.

(l) 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. Deferral hedge accounting is adopted for derivatives which qualify as hedges, under which unrealized gain or loss is principally deferred as an asset or a liability. Hedging instruments are derivative transactions and hedged items are primarily forecast sales and purchases denominated in foreign currencies, and receivables and payables denominated in foreign currencies.

Hedge effectiveness is not assessed if the substantial terms and conditions of the hedge instruments and the hedged forecasted transactions are the same. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at their corresponding contract rates.

(m) 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 differences between the asset and liability amounts for financial reporting purposes and the corresponding 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.

(n) Appropriation of Retained Earnings

Under the Corporation Law of Japan (“the Law”), the appropriation of retained earnings with respect to a given fiscal period made by resolution of the shareholders at an ordinary general meeting held subsequent to the close of the fiscal period has not been reflected in the accounts for the fiscal year ended March 31, 2010. See Notes 14 and 25.

(o) Amounts per Share

Basic net income (loss) per share is computed based on the net income (loss) attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the fiscal year.

Diluted earnings per share is not disclosed because there were no potentially dilutive securities at March 31, 2010 and 2009.

Cash dividends per share represent the cash dividends declared as applicable to the respective fiscal years. See note 24.

2. Accounting Changes

- (a) “Accounting Standard for Equity Method of Accounting for Investments”(ASBJ Statement No.16, March 10, 2008) and “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method” (PITF No.24, March 10, 2008) can be applied in fiscal years beginning before March 31, 2010. The Company and its consolidated domestic subsidiaries have applied these accounting standards commencing April 1, 2009.

In accordance with this application, the Company made necessary adjustments in preparing the consolidated financial statements. The adoption of this standard did not have a material effect for the fiscal year ended March 31, 2010.

- (b) “Accounting Standard for Business Combinations” (ASBJ Statement No.21, December 26, 2008), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No.22, December 26, 2008), “Partial Amendments to Accounting Standard for Research and Development Costs” (ASBJ Statement No.23, December 26, 2008), “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No.7 (Revised 2008), December 26, 2008), “Revised Accounting Standard for Equity Method of Accounting for Investments” (ASBJ Statement No.16 (Revised 2008), released on December 26, 2008) and “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No.10 (Revised 2008), December 26, 2008) can be applied for the first business combinations and business divestitures conducted in the fiscal year beginning on or after April 1, 2009. The Company and its consolidated domestic subsidiaries have applied these accounting standards and guidance commencing April 1, 2009.

- (c) Effective April 1, 2008, the Company and its consolidated domestic subsidiaries adopted the Accounting Standards Board of Japan (ASBJ) Statement No.9, “Accounting Standard for Measurement of Inventories,” released on July 5, 2006. In conjunction with the adoption of this accounting standard, the Company and its consolidated domestic subsidiaries modified the measurement method for valuing inventories.

As a result, operating income decreased by ¥2,328 million and loss before income taxes and minority interests in consolidated subsidiaries increased by ¥4,132 million for the fiscal year ended March 31, 2009 as compared to the corresponding amounts which would have been recorded under the previous method.

- (d) Commencing in the fiscal year ended March 31, 2009, the Company adopted the Practical Issues Task Force (“PITF”) No.18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements,” issued by the ASBJ on May 17, 2006, and made necessary adjustments in preparing the consolidated financial statements.

The adoption of this standard did not have a material effect on the results of operations and financial position for the fiscal year ended March 31, 2009.

- (e) Effective April 1, 2008, the Company and its consolidated domestic subsidiaries adopted ASBJ Statement No.13 “Accounting Standard for Lease Transactions” and ASBJ Guidance No.16, “Guidance on Accounting Standard for Lease Transactions”, as revised on March 30, 2007. Prior to April 1, 2008, finance leases, other than those that transfer ownership of the assets to the lessee at the end of the lease term, were accounted for as operating leases. Under the revised accounting standards, these leased assets are accounted for as finance leases and depreciated/amortized in accordance with the straight-line method over the periods of the leases, assuming no residual value.

The adoption of these standards did not have a material effect on the results of operations and financial position for the fiscal year ended March 31, 2009.

3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥93=U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2010, 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.

4. Business Combinations

(Business combination through the acquisition)

- (a) Outline of the business combination
- (1) Name of the acquired company, business type

Name of the acquired company:	Paper Australia Pty Ltd (“AP”)
Business type:	Manufacture and sales of paper, pulp and stationary, such as envelopes and notebooks
 - (2) Main objective of the acquisition

To contribute, through expansion and growth of overseas operations, to the Company’s “Group Vision 2015” goal of being one of the top five pulp and paper groups worldwide.
 - (3) Acquisition date

June 1, 2009
 - (4) Legal form of business combination

Stock acquisition for a cash consideration
 - (5) Name of the acquired company after the business combination

There is no change in the name of “AP” after the acquisition.
 - (6) Acquired ratio of voting rights

100%
 - (7) Reasons for determining the acquiring company

Stock acquisition of which consideration is cash by Nippon Paper Industries Co., Ltd. which is the Company’s consolidated subsidiary.

- (b) Period of the acquired company's results included in the consolidated financial statements

From June 1, 2009 to December 31, 2009

- (c) Information on the calculation of acquisition cost

- (1) Breakdown of acquisition cost of the acquired company

Consideration for acquisition:

Acquired company's stock A\$686,296 thousand

Expenses directly attributable to the acquisition:

Advisory fees and others ¥1,008 million (\$10,839 thousand)

- (2) Contents of the condition clause of the acquisition cost under an acquisition agreement and its accounting method hereafter

There is a condition clause for the acquisition cost which is calculated based on earnings after the acquisition. If additional payment based on this clause occurs, the acquisition cost is revised assuming that the additional payment had been made at the time of acquisition and the Company revises the amount of goodwill and the amortization of goodwill.

- (d) Information on the distribution of the acquisition cost

- (1) Assets and liabilities received on the acquisition date

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 26,738	\$ 287,505
Non-current assets	43,901	472,054
Total assets	70,640	759,570
Current liabilities	12,509	134,505
Non-current liabilities	7,951	85,495
Total liabilities	¥ 20,461	\$ 220,011

- (2) Amount of goodwill, reason for recognizing goodwill, amortization method and amortization period

- 1) Amount of goodwill recognized

A\$38,426 thousand

- 2) Reason for recognizing goodwill

As the acquisition cost exceeded the net amount allocated to the assets and liabilities received, the excess amount is recognized as goodwill in the consolidated financial statements.

- 3) Amortization method and period of goodwill

Straight-line method over a period of 10 years

- (e) An approximation of the effect on the consolidated statements of operations in this fiscal year assuming that the acquisition was completed at the beginning of this fiscal year and the calculation method

As "AP" executed a business reconfiguration with PaperlinX Limited at the time of the acquisition by Nippon Paper Industries Co., Ltd., and the calculations are difficult, the amount has not been calculated.

(Business combination under common control)

- (a) Outline of business combination

- (1) Name of the acquired company, business type

Name of the acquired company: Shikoku Coca-Cola Bottling Co., Ltd.

Business type: Manufacture and sale of soft drinks

- (2) Date of combination

October 1, 2009 (Effective date)

- (3) Legal form of business combination

Share exchange making Shikoku Coca-Cola Bottling Co., Ltd. ("Shikoku Coca-Cola") a wholly owned subsidiary of the Company

- (4) Name of the acquired company after the business combination

There is no change for the name of "Shikoku Coca-Cola" after the combination.

- (5) Outline of the deal including business objectives

The Company's objectives in this deal are to 1) enhance the flexibility and responsiveness of group decision-making and strengthen its presence in the food sector and 2) to raise group value by building reliable earnings streams to compensate for a domestic paper business that is likely to continue to operate under tough market conditions for some time.

- (b) Summary of the transaction process

This share exchange is treated as a transactions under common control based on "Accounting Standard for Business Combinations" (ASBJ Statement No.21, December 26, 2008) and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, December 26, 2008).

- (c) Information on the additional acquisition of subsidiary shares

- (1) Acquisition cost and breakdown

Cost of acquisition: The Company's Common stock
¥10,223 million (\$109,925 thousand)

Expenses for acquisition: Advisory expenses
¥ 76 million (\$817 thousand)

Acquisition cost: ¥10,299 million (\$110,742 thousand)

- (2) Share exchange ratio, the basis for determination and number of shares delivered

- (i) Type of shares and share exchange ratio

Common shares

Share exchange ratio

1 share of Nippon Paper Group, Inc. : 0.39 shares of Shikoku Coca-Cola

(ii) Share exchange ratio calculation bases

The Company selected and asked to calculate Daiwa Securities SMBC Co., Ltd. and Shikoku Coca-Cola selected and asked to calculate Deloitte Tohmatsu FAS as third-party appraisal agents. Using the results as reference, the two parties, following discussion and negotiation, agreed that the above share exchange ratio was appropriate for use in concluding their agreement.

Daiwa Securities SMBC Co., Ltd. was later renamed Daiwa Securities Capital Markets Co., Ltd.

(iii) New shares issued for exchange

4,001,429 common shares

(3) Amount of gain on negative goodwill, reason for recognizing negative goodwill

(i) Amount of gain on negative goodwill ¥8,392 million (\$90,237 thousand)

(ii) Reason for recognizing negative goodwill

The acquisition cost of the Shikoku Coca-Cola shares acquired from minority shareholders was less than the amount of decrease in minority interests.

5. Inventories

Inventories at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2009	2010	2010
Merchandise and finished products	¥ 82,813	¥ 83,637	\$ 899,323
Work in process	19,503	18,108	194,710
Raw materials and supplies	63,170	51,723	556,161
	¥ 165,487	¥ 153,469	\$ 1,650,204

6. Short-Term Debt and Long-Term Debt

At March 31, 2010 and 2009, short-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2009	2010	2010
Loans from banks	¥ 164,808	¥ 162,186	\$ 1,743,935
Loans from unconsolidated subsidiaries and affiliates	2,494	1,537	16,527
Commercial paper	14,000	—	—
Others	12,413	1,563	16,806
	¥ 193,716	¥ 165,287	\$ 1,777,280

Loans from banks were unsecured and generally represent 365-day notes. The weighted-average interest rates of the short-term bank loans outstanding at March 31, 2010 and 2009 were 0.64% and 1.00%, respectively.

Long-term debt at March 31, 2010 and 2009 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2009	2010	2010
Loans from banks, insurance companies and others at rates ranging from 3.381% to 0.990% due through 2034:			
With collateral	¥ 5,652	¥ 2,077	\$ 22,333
Without collateral	478,758	492,992	5,300,989
0.81% unsecured corporate bonds in yen due 2010	20,000	20,000	215,054
0.89% unsecured corporate bonds in yen due 2009	30,000	—	—
1.10% unsecured corporate bonds in yen due 2012	20,000	20,000	215,054
1.79% unsecured corporate bonds in yen due 2011	20,000	20,000	215,054
1.97% unsecured corporate bonds in yen due 2017	13,000	13,000	139,785
1.96% unsecured corporate bonds in yen due 2017	10,000	10,000	107,527
1.71% unsecured corporate bonds in yen due 2019	—	10,000	107,527
	597,410	588,069	6,323,323
Less current portion	(73,840)	(55,681)	(598,720)
	¥ 523,569	¥ 532,387	\$ 5,724,591

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2009	2010	2010
Lease obligations	¥ 5,620	¥ 11,106	\$ 119,419
Less current portion	(1,698)	(1,918)	(20,624)
	¥ 3,922	¥ 9,187	\$ 98,785

The maturities of long-term debt subsequent to March 31, 2010 are summarized as follows:

Fiscal year ending March 31:	Millions of yen	Thousands of U.S. dollars
2011	¥ 57,600	\$ 619,355
2012	61,468	660,946
2013	65,342	702,602
2014	63,811	686,140
2015 and thereafter	350,954	3,773,699
	¥ 599,175	\$ 6,442,742

7. Pledged Assets

Assets pledged as collateral for notes and accounts payable – trade of ¥434 million (\$4,667 thousand) and ¥78 million, the current portion of long-term debt of ¥811 million (\$8,720 thousand) and ¥50 million, and long-term debt of ¥1,265 million (\$13,602 thousand) and ¥5,602 million at March 31, 2010 and 2009, respectively were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2009	2010	2010
Property, plant and equipment, at net book value	¥ 300,572	¥ 121,950	\$ 1,311,290
Investments in securities	—	206	2,215
	¥ 300,572	¥ 122,157	\$ 1,313,516

8. Retirement Benefits

(a) Certain consolidated subsidiaries have defined benefit pension 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.

Information on the multi-employer pension plans, contributions to which are reported as retirement benefit expenses, is as follows:

(i) Funded status of pension plans

	Fiscal years ended March 31, 2009			
	Pension fund management group for affiliated companies		Others	
	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
Plan assets	¥ 10,598	\$ 113,957	¥ 142,346	\$ 1,530,602
Retirement benefit obligation	14,626	157,269	224,634	2,415,419
Net balance	¥ (4,028)	\$ (43,312)	¥ (82,288)	\$ (884,817)

	Fiscal years ended March 31, 2008	
	Pension fund management group for affiliated companies	Others
	Millions of yen	Millions of yen
Plan assets	¥ 14,037	¥ 160,589
Retirement benefit obligation	14,156	212,155
Net balance	¥ (119)	¥ (51,565)

(ii) Ratio of number of participating employees of the Company and its subsidiaries over the total number of participants in the plan.

	Fiscal years ended March 31,	
	2008	2009
Pension fund management group for affiliated companies	41.0%	37.4%
Other plans	3.5%	3.3%

(iii) Additional information

The contribution ratio described in (ii) above does not conform to the actual charge ratio.

(b) The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2010 and 2009 for the consolidated subsidiaries' defined benefit pension plans:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2009	2010	2010
Retirement benefit obligation	¥ (189,058)	¥ (189,514)	\$ (2,037,785)
Plan assets at fair value	108,793	123,527	1,328,247
Unfunded retirement benefit obligation	(80,265)	(65,986)	(709,527)
Unrecognized actuarial loss	45,121	35,077	377,172
Unrecognized prior service cost	1,328	1,418	15,247
Net retirement benefit obligation	(33,815)	(29,490)	(317,097)
Prepaid pension cost	5,412	4,368	46,968
Accrued retirement benefits	¥ (39,227)	¥ (33,859)	\$ (364,075)

In addition, accrued retirement benefits for directors and statutory auditors of certain consolidated subsidiaries in the amounts of ¥ 913 million have been included in accrued retirement benefits at March 31, 2009 .

The components of retirement benefit expense for the fiscal years ended March 31, 2010 and 2009 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal years ended March 31,		Fiscal year ended March 31,
	2009	2010	2010
Service cost	¥ 5,745	¥ 5,333	\$ 57,344
Interest cost	4,434	4,616	49,634
Expected return on plan assets	(3,000)	(2,685)	(28,871)
Amortization of unrecognized actuarial loss	2,378	3,888	41,806
Amortization of unrecognized prior service cost	(737)	(185)	(1,989)
Total	¥ 8,819	¥ 10,967	\$ 117,925

In addition, supplementary retirement benefits of ¥501 million (\$5,387 thousand) and ¥2,954 million were recorded for the fiscal years ended March 31, 2010 and 2009, respectively. Supplementary retirement benefits were included in other expenses except for ¥84 million for the fiscal year ended March 31, 2009, which were included in selling, general and administrative expenses.

The following assumptions were used in these calculations.

	Fiscal years ended March 31,	
	2009	2010
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

The Group reviewed its business use assets as of March 31, 2010 and, as a result, recognized an impairment loss. The book value of those assets was written down to the recoverable amount.

To test indicators of impairment of fixed assets, the Group determines cash generating units mainly on mill-basis for business use assets and on an individual basis for rental properties and idle properties.

The recoverable values of idle property are measured based on third-party appraisals if material or based mainly on the net realizable value under Japanese Inheritance Tax Law if immaterial.

Location	Assets	Fiscal year ended March 31, 2010		Notes
		Millions of yen	Thousands of U.S. dollars	
Komatsushima City,	Buildings and structures	¥ 738	\$ 7,935	Business assets [Included in loss on impairment of fixed assets]
Tokushima, etc.	Machinery and equipment	933	10,032	
	Other	22	237	
Subtotal		1,694	18,215	
Takaoka City,	Buildings and structures	195	2,097	Idle properties [Included in loss on impairment of fixed assets]
Toyama, etc.	Machinery and equipment	351	3,774	
	Land	1,035	11,129	
	Construction in progress	4	43	
	Other	118	1,269	
Subtotal		1,705	18,333	
Total		¥ 3,400	\$ 36,559	

For the year ended March 31, 2010.

The Group measures the recoverable value of business assets at their value in use and the discount rate used for the computation of present value of its future cash flow is 4.0%.

Location	Assets	Fiscal year ended March 31, 2009	Notes
		Millions of yen	
Fuji City, Shizuoka	Machinery and equipment	¥ 4,222	Business assets scheduled to be shut down
	Construction in progress	37	
	Other	11	
Ohtake City, Hiroshima	Machinery and equipment	2,718	[Included in losses from the reconfiguration of the production structure]
Soka City, Saitama, etc.	Machinery and equipment	3,390	
	Construction in progress	187	
Subtotal		10,567	
Takaoka City, Toyama, etc.	Machinery and equipment	1,507	Idle property [Included in loss on restructuring]
	Other	9	
Subtotal		1,516	
Iwanuma City, Miyagi, etc.	Machinery and equipment	85	Business assets [Included in loss on impairment of fixed assets]
	Land	2,095	
Nagaokakyo City, Kyoto, etc.	Buildings and structures	90	Leased assets [Included in loss on impairment of fixed assets]
	Land	3,354	
Naniwa City, Osaka, etc.	Buildings and structures	47	Idle property [Included in loss on impairment of fixed assets]
	Machinery and equipment	185	
	Land	152	
	Other	0	
Subtotal		6,012	
Total		¥ 18,097	

For the year ended March 31, 2009.

The recoverable value of rental property was calculated by discounting the estimated future cash flows from the property at 1.7%.

The Company reduced the book values of the assets to be shut down as part of the reconfiguration of the production structure to their respective recoverable value. A ¥10,567 million impairment loss on the assets resulting from this is recorded as “Losses from the reconfiguration of the production structure” under “Other income (expenses)” in the consolidated statements of operations.

At the end of September 2008, the Fushiki mill of Nippon Paper Industries Co., Ltd. and the Waki works of Nippon Daishowa Paperboard Co., Ltd were permanently closed and paper production at the Komatsushima mill of a former company was discontinued as part of the Group’s business restructuring plan. Some of the assets belonging to the above operations were originally scheduled to convert to other operations but were later obliged to be disposed of due to the changes in the economic situation. Those assets were also reduced to their net selling values and the resulting ¥1,516 million impairment loss is included in as “Loss on restructuring.”

10. Loss on Disaster and Insurance Income

Loss on disaster and the related insurance income was caused by accidents such as a fire on a chip conveyer at Iwakuni mill of Nippon Paper Industries Co., Ltd. (one of the Company's consolidated subsidiaries) which occurred on November 1, 2009.

11. Loss on Restructuring

Loss on restructuring consists of ¥4,887 million at the pulp and paper division mainly due to the closing of mills and ¥110 million at the housing and construction materials division in connection with the liquidation of manufacturing subsidiaries for the fiscal year ended March 31, 2009. The loss also includes the supplementary retirement benefits and the expenses incurred in closing down the mills.

12. Losses from the Reconfiguration of the Production Structure

Losses from the reconfiguration of the production structure consist of ¥10,820 million of impairment loss at the pulp and paper division mainly due to the idling of paper and paperboard machines for the fiscal year ended March , 2009.

13. Income Taxes

The Company and its domestic consolidated subsidiaries are subject to 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, 2010 and 2009. The effective tax rate reflected in the accompanying consolidated statements of operations for the fiscal year ended March 31, 2010 differ from the statutory tax rate for the following reasons:

	Fiscal year ended March 31, 2010
Statutory tax rate	40.7%
Effect of:	
Non-deductible items such as entertainment expenses	1.6
Non-taxable dividends received	(1.7)
Equity in earnings of affiliates	(1.0)
Amortization of goodwill	1.2
Inhabitants' per capita taxes	0.8
Increase in valuation allowance	(18.8)
Tax deductions	(0.4)
Gain on negative goodwill	(8.6)
Elimination of gain on sales of subsidiaries and affiliates' stocks	10.9
Other, net	(1.6)
Effective tax rate	23.1%

A reconciliation of the effective tax rate and the statutory tax rate has not been provided for the fiscal year ended March 31, 2009 because a loss before income taxes and minority interests in consolidated subsidiaries was recorded.

The significant components of the deferred tax assets and liabilities held by the Company and its consolidated subsidiaries at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2009	2010	2010
Deferred tax assets:			
Accrued bonuses	¥ 3,407	¥ 3,540	\$ 38,065
Accrued enterprise taxes	364	807	8,677
Allowance for doubtful receivables	11,606	13,752	147,871
Accrued retirement benefits	23,504	22,501	241,946
Accrued officers' retirement benefits	620	—	—
Loss on investment securities	4,610	1,160	12,473
Tax loss carryforwards	15,140	9,542	102,602
Loss on revaluation of land	16,800	16,803	180,677
Loss on impairment of fixed assets	10,874	22,781	244,957
Unrealized profit eliminated in consolidation	1,277	1,348	14,495
Other	9,999	11,861	127,538
Gross deferred tax assets	98,206	104,100	1,119,355
Valuation allowance	(57,968)	(57,431)	(617,538)
Total deferred tax assets	40,238	46,669	501,817
Deferred tax liabilities:			
Tax reserves	(10,822)	(10,480)	(112,688)
Accumulated depreciation	(1,080)	(1,086)	(11,677)
Gain on revaluation of land, etc.	(43,598)	(43,541)	(468,183)
Unrealized holding gain on other securities	(1,018)	(3,042)	(32,710)
Other	(3,292)	(1,907)	(20,505)
Total deferred tax liabilities	(59,812)	(60,057)	(645,774)
Net deferred tax liabilities	¥ (19,574)	¥ (13,388)	\$ (143,957)

Deferred tax liabilities included in other current liabilities at March 31, 2010 and 2009 amounted to ¥1 million (\$11 thousand) and ¥0 million, respectively.

14. Shareholders' Equity

The Corporation Law of Japan provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

The legal reserve amounting to ¥432 million (\$4,645 thousand) and ¥432 million was included in retained earnings at March 31, 2010 and 2009, respectively.

15. Supplemental Cash Flow Information

(a) The following is a presentation of acquisition cost of securities and net payment for acquisition, and a summary of assets and liabilities of Paper Australia Pty Ltd and its subsidiaries (7 companies) as of the acquisition date, June 1, 2009.

	Millions of yen	Thousands of U.S. dollars
	March 31,	
	2010	2010
Current assets	¥ 26,738	\$ 287,505
Non-current assets	43,901	472,054
Goodwill	¥ 2,915	\$ 31,344
Current liabilities	¥ (12,509)	\$ (134,505)
Non-current liabilities	(7,951)	(85,495)
Translation adjustments	(9,551)	(102,699)
Minority interests	(9)	(97)
Acquisition cost of securities	43,533	468,097
Cash and cash equivalents	(3,385)	(36,398)
Net payment for acquisition	¥ 40,148	\$ 431,699

(b) Significant non-cash transactions

Capital surplus for the year ended March 31, 2010 increased by ¥10,223 million (\$109,925 thousand) as a result of the share exchange.

(c) The following is a summary of the assets and liabilities of Haga Kamihan as of April 1, 2008 which was excluded from consolidation during the fiscal year ended March 31, 2009 upon the merger between Haga Kamihan and Kawachiya Paper Co., Ltd.

	Millions of yen
	March 31, 2009
Current assets	¥ 6,845
Non-current assets	783
Total assets	¥ 7,629
Current liabilities	¥ 7,439
Non-current liabilities	68
Total liabilities	¥ 7,507

16. Leases

(a) As Lessee

(i) Future minimum lease payments subsequent to March 31, 2010 for noncancelable operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Fiscal year ending March 31:		
2011	¥ 3,728	\$ 40,086
2012 and thereafter	8,070	86,774
Total	¥ 11,799	\$ 126,871

(ii) Future minimum lease payments subsequent to March 31, 2009 for noncancelable operating leases are summarized as follows:

	Millions of yen
Fiscal year ending March 31:	
2010	¥ 275
2011 and thereafter	160
Total	¥ 436

(b) As Lessor

(i) Future minimum lease income subsequent to March 31, 2010 for noncancelable operating leases is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Fiscal year ending March 31:		
2011	¥ 163	\$ 1,753
2012 and thereafter	1,883	19,710
Total	¥1,996	\$ 21,462

- (ii) Future minimum lease income subsequent to March 31, 2009 for noncancelable operating leases is summarized as follows:

	Millions of yen
Fiscal year ending March 31:	
2010	¥ 199
2011 and thereafter	1,996
Total	¥ 2,196

17. Financial Instruments

For the year ended March 31, 2010

1. Status of financial instruments

(1) Policy for financial instruments

In light of minimizing financing costs, the Group has implemented a Cash Management System “CMS,” which is controlled by the finance department of Nippon Paper Industries Co., Ltd., to manage funds within the Group. The Group manages temporary cash surpluses through low-risk financial assets.

The Group raises funds it requires through bank borrowings, commercial paper and bond issuances based on cash management plans for capital investments. The Group spreads out repayment dates so that it can secure long-term capital continually. Further, the Group diversifies financing resources to maintain liquidity, raising short-term working capital through bank loans, commitment line contracts and liquidation of receivables and notes.

The Group adheres to a policy of using derivatives transactions for the purpose of reducing foreign currency exchange risks and interest rate fluctuation risk and it does not enter into speculative transactions.

(2) Types of financial instruments and related risk

Trade receivables—trade notes and accounts receivable—are exposed to credit risk in relation to buyers. To hedge such risk, the due dates for all receivables and notes should be within one year. In addition, the Group is exposed to foreign currency exchange risk arising from receivables and notes denominated in foreign currencies. In principle, foreign currency exchange risk is hedged by forward foreign exchange contracts while the amounts of such receivables and notes are constantly within that of liabilities denominated in foreign currencies.

Investment securities mainly consist of shares of business partners and affiliates. The Group is exposed to market risk for listed investment securities.

Notes payable and trading payables are due in one year. The payables dominated in foreign currencies are exposed to foreign currency exchange risk, which is hedged by foreign currency forward contracts.

The Group raises funds through short-term borrowings for working capital and raises funds through long-term debt and bonds mainly for capital investments. Some of long-term debt bears variable interest rates and therefore is exposed to interest rate fluctuation risk. To reduce and fix interest expense for long-term debt bearing interest at variable rates, the Group utilizes interest rate swap transactions as a hedging instrument on an individual basis.

Regarding derivatives, the Group enters into forward foreign contracts to reduce the foreign currency exchange risk arising from the receivables and payables denominated in foreign currencies. The Group also enters into interest rate swap transactions to reduce fluctuation risk deriving from interest payable for long-term debt bearing interest at variable rates. Information regarding the method of hedge accounting, hedging instruments and hedged items, hedging policy, and the assessment of the effectiveness of hedging activities is found in Note 1(l).

(3) Risk management for financial instruments

i. Monitoring of credit risk (the risk that buyers or counterparties may default)

The Group’s marketing division and finance division have established a regular screening system to monitor the financial status of clients, which allows them to closely supervise transactions, based on the “Group credit management policy.” The two divisions give each other frequent and detailed reports on the status of credit collections on a daily basis to minimize the risks. The divisions acquire information on clients in financial difficulty to protect related claims.

For all derivative transactions, the Group enters into transactions only with financial institutions that have a sound credit profile to minimize counterparty risk.

ii. Management of market risks (the risks arising from fluctuations in exchange rates, interest rates, and other indicators)

To minimize the foreign exchange risk arising from trade receivables and payables denominated in foreign currencies, the Group identifies the risk deriving from future export and import transactions for each currency every half year.

In order to minimize interest rate fluctuation risk for loans payable and bonds bearing interest at variable rates, the Group regularly monitors the ratio of loans with fixed interest rates and ones with variable interest rates in addition to entering into interest rate swap transactions.

As to investment securities, the Group periodically reviews the fair values of such financial instruments and the financial position of the issuers. In addition, the Group evaluates whether to continue to hold certain securities taking into account their fair values and the relationship with the issuers.

iii. Monitoring of liquidity risk (the risk that the Group may not be able to meet its obligations on scheduled due dates)

In the Group, to minimize liquidity risk, the finance department of Nippon Paper Industries Co., Ltd. prepares cash flow plans every half year, based on monthly cash plans and daily cash plans.

The Group obtains funds in consideration of diversification of raising schemes, lengthens loan periods and staggers maturities to minimize refinancing risk. In addition, to diminish

liquidity risk, the Group enters into commitment line contracts and overdraft arrangements.

(4) Supplementary explanation of items relating to the fair values of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in Note 20 “Derivatives” are not necessarily indicative of the actual market risk involved in derivative transactions.

2. Estimated fair value and other matters related to financial instruments

The table below shows the Company’s financial instruments in terms of book value on the consolidated balance sheet as of March 31, 2010 and of estimated fair value, excluding those of the unlisted equity securities set forth in Note 2.

(*3)	Millions of yen		
	Book value (*1)(*3)	Fair value (*1)	Difference
(1) Cash and deposits	24,258	24,258	—
(2) Notes and accounts receivable-trade	223,736	223,736	—
(3) Investment securities			
Other securities	46,590	46,590	—
Stocks of subsidiaries and affiliates	31,238	41,295	10,057
(4) Notes and accounts payable-trade	(110,837)	(110,837)	—
(5) Short-term loans payable	(199,405)	(199,725)	320
(6) Long-term loans payable	(459,387)	(476,159)	16,772
(7) Derivatives (*2)	890	890	—

(*3)	Thousands of U.S. dollars		
	Book value (*1)(*3)	Fair value (*1)	Difference
(1) Cash and deposits	260,839	260,839	—
(2) Notes and accounts receivable-trade	2,405,763	2,405,763	—
(3) Investment securities			
Other securities	500,968	500,968	—
Stocks of subsidiaries and affiliates	335,892	444,032	108,140
(4) Notes and accounts payable-trade	(1,191,796)	(1,191,796)	—
(5) Short-term loans payable	(2,144,140)	(2,147,581)	3,441
(6) Long-term loans payable	(4,939,645)	(5,119,989)	180,344
(7) Derivatives (*2)	9,570	9,570	—

(*1) Figures in parentheses are liabilities.

(*2) Net assets and liabilities arising from derivative transactions are presented on a net basis.

(*3) Differences between the book value above and that the balance sheet are detailed below:

- 1) Cash and deposits of ¥24,258 million (\$260,839 thousand) in the above table consist of “Cash and cash equivalents” (¥24,041 million (\$258,505 thousand)) and a portion of “Other current assets” (¥217 million (\$2,333 thousand)) on the consolidated balance sheet.
- 2) Notes and accounts receivable-trade of ¥223,736 million (\$2,405,763 thousand) in the above table consist of “Notes and accounts receivable–Trade” (¥206,389 million (\$2,219,237 thousand)) and a portion of “Notes and accounts receivable–Unconsolidated subsidiaries and affiliates” (¥17,347 million (\$186,527 thousand)) on the consolidated balance sheet.
- 3) Other securities of ¥46,590 million (\$500,968 thousand) in the above table are included in “Investments in securities” on the consolidated balance sheet. And stocks of subsidiaries and affiliates of ¥31,238 million (\$335,892 thousand) in the above table are included in “Investments in and advances to unconsolidated subsidiaries and affiliates” on the consolidated balance sheet.
- 4) Notes and accounts payable-trade of ¥110,837 million (\$1,191,796 thousand) in the above table consist of “Notes and accounts payable–Trade” (¥102,435 million (\$1,101,452 thousand)) and a portion of “Notes and accounts payable–Unconsolidated subsidiaries and affiliates” (¥8,402 million (\$90,344 thousand)) on the consolidated balance sheet.
- 5) Short-term loans payable of ¥199,405 million (\$2,144,140 thousand) in the above table consist of “Short-term borrowings” (¥163,723 million (\$1,760,462 thousand)) and a portion of “Current portion of long-term debt” (¥35,681 million (\$383,667 thousand)) on the consolidated balance sheet.
- 6) Long-term loans payable of ¥459,387 million (\$4,939,645 thousand) in the above table are included in “Long-term debt” on the consolidated balance sheet.

Note 1: Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

- 1) Cash and deposits, 2) Notes and accounts receivable-trade
As these items are settled in a short period of time, the book value approximates fair value.
- 3) Investment securities
The fair value of stocks is based on quoted market prices. For information on securities classified by holding purpose, please refer to Note 19 “Securities.”
- 4) Notes and accounts payable
Since these items are settled in a short period of time, their book value approximates fair value.
- 5) Short-term loans payable
Since these items are settled in a short period of time, their book value approximates fair value. The fair value of the current portion of long-term loans payables is calculated by applying a discount rate determined based on the risk-free rate and credit spread.

6) Long-term loans payable

The fair value of the current portion of long-term loans payables is calculated by applying a discount rate determined based on risk-free rate and credit spread.

7) Derivatives

Please refer Note 20 “Derivatives.”

Note 2: Financial instruments for which it is extremely difficult to determine market value

Classification	Book value (Millions yen)	Book value (Thousands of U.S. dollars)
Unlisted equity securities	¥ 80,131	\$ 861,624

Because the fair values of these financial instruments are extremely difficult to determine, given that they do not have market prices and future cash flow cannot be estimated, they are not included in “(3) Investment Securities.”

Unlisted equity securities of ¥80,131 million (\$861,624 thousand) in the above table consist of “Investments in securities” (¥18,808 million (\$202,237 thousand)) and “Investments in and advances to unconsolidated subsidiaries and affiliates” (¥61,322 million (\$659,376 thousand)) on the consolidated balance sheet.

Note 3. Redemption schedule for receivables and securities with maturities at March 31, 2010

	Millions of yen			
	Within one year	Between one and five years	Between five and ten years	Over ten years
Cash and deposits	¥ (*) 23,668	¥ —	¥ —	¥ —
Notes and accounts receivable-trade	223,736	—	—	—
Total	247,404	¥ —	¥ —	¥ —

(*) “Cash and deposits” does not include the amount of cash on hand.

	Thousands of U.S. dollars			
	Within one year	Between one and five years	Between five and ten years	Over ten years
Cash and deposits	\$ (*) 254,495	\$ —	\$ —	\$ —
Notes and accounts receivable-trade	2,405,763	—	—	—
Total	\$ 2,660,258	\$ —	\$ —	\$ —

Note 4. Redemption schedule for long-term debt

	Millions of yen	
	Between one and five years (*)	Over five years
Long-term loans payable	¥ 242,292	¥ 217,095

	Thousands of U.S. dollars	
	Between one and five years (*)	Over five years
Long-term loans payable	\$ 2,605,290	\$ 2,334,355

(*) Planned repayment within five years for long-term loans from banks is included in Note 6.

18. Contingent Liabilities

The Company’s consolidated subsidiaries had the following contingent liabilities at March 31, 2010:

	Millions of yen	Thousands of U.S. dollars
As guarantors of indebtedness of unconsolidated subsidiaries, affiliates and other	¥ 31,716	\$ 341,032

The Company’s consolidated subsidiaries had the following contingent liabilities at March 31, 2009:

	Millions of yen
As guarantors of indebtedness of unconsolidated subsidiaries, affiliates and other	¥ 31,925

19. Securities

(a)(i) Marketable securities classified as other securities at March 31, 2010 are summarized as follows

(*):

	Millions of yen			Thousands of U.S. dollars		
	March 31, 2010			March 31, 2010		
	Book value	Cost	Valuation difference	Book value	Cost	Valuation difference
Securities whose book value exceeds their cost:						
Equity securities	¥ 22,962	¥ 13,008	¥ 9,953	\$ 246,903	\$ 139,871	\$ 107,022
Subtotal	22,962	13,008	9,953	246,903	139,871	107,022
Securities whose cost exceeds their book value:						
Equity securities	¥ 23,514	¥ 29,227	¥ (5,712)	\$ 252,839	\$ 314,269	\$ (61,419)
Other	112	133	(20)	1,204	1,430	(215)
Subtotal	23,627	29,360	(5,732)	254,054	315,699	(61,634)
Total	¥ 46,590	¥ 42,368	¥ 4,221	\$ 500,968	\$ 455,570	\$ 45,387

(*) Because the fair values of unlisted equity securities are extremely difficult to determine, given that they do not have market prices and future cash flow cannot be estimated, they are not included in (a)(i) "other securities".

(ii) Sales of securities classified as other securities amounted to ¥8,746 million (\$94,043 thousand) with an aggregate gain of ¥1,015 million (\$10,914 thousand) and loss of ¥8 million (\$86 thousand) for the fiscal year ended March 31, 2010.

(iii) Impairment of investment securities

The Company recorded an impairment loss on the valuation of investments in securities in the amount of ¥1,458 million (\$15,677 thousand) (securities for which fair values are extremely difficult to determine were included at the amount of ¥1,047 million (\$11,258 thousand)) for the fiscal year ended March 31, 2010.

Impairment losses are recorded for securities whose fair values have declined by 50% or more or for those that have declined in a range of 30% or more but less than 50% if the decline is deemed to be irrecoverable.

(b)(i) Marketable securities classified as other securities at March 31, 2009 are summarized as follows:

Marketable other securities

	Millions of yen		
	March 31, 2009		
	Cost	Book value	Valuation difference
Securities whose book value exceeds their cost:			
Equity securities	¥ 9,344	¥ 15,710	¥ 6,365
Subtotal	9,344	15,710	6,365
Securities whose cost exceeds their book value:			
Equity securities	¥ 39,714	¥ 30,591	¥ (9,122)
Other	97	73	(24)
Subtotal	39,811	30,664	(9,146)
Total	¥ 49,156	¥ 46,375	¥ (2,781)

The Company recorded an impairment loss on the valuation of investments in securities in the amount of ¥8,401 million for the fiscal year ended March 31, 2009.

Impairment losses are recorded for securities whose fair values have declined by 50% or more or for those that have declined in a range of 30% or more but less than 50% if the decline is deemed to be irrecoverable.

(ii) Sales of securities classified as other securities amounted to ¥10,891 million with an aggregate gain of ¥474 million and loss of ¥10 million for the fiscal year ended March 31, 2009.

(iii) The redemption schedule at March 31, 2009 for securities with maturity dates classified as other securities and held-to-maturity debt securities is summarized as follows:

	Millions of yen		
	March 31, 2009		
	Due in one year or less	Due after one year through five years	Due after five years
Bank bonds	¥ —	¥ 37	¥ —
Total	¥ —	¥ 1	¥ —

(iv) Non-marketable securities classified as held-to-maturity debt securities and other securities at March 31, 2009 are summarized as follows:

	Millions of yen
	March 31, 2009
Held-to-maturity debt securities:	
Bank bonds	¥ 37
Subtotal	¥ 37
Other securities:	
Unlisted equity securities	¥ 21,565
Other	999
Subtotal	22,565
Total	¥ 22,602

20. Derivative

For the Year ended March 31, 2010

1. Derivatives not subject to hedge accounting

- (1) Currency-related transactions
None applicable
- (2) Interest-related transactions
None applicable

2. Derivatives instruments subject to hedge accounting

- (1) Currency-related transactions

Hedge accounting method	Derivative type	Principal hedged items	Millions of yen				
			Contract amount	Over one year	Estimated fair value		
Deferral hedge method (*1)	Foreign exchange forward contracts	Notes and accounts receivable-trade	U.S. dollars	¥ 265	¥ —	¥ (6)	
							Sell
	Foreign exchange forward contracts	Notes and accounts payable	U.S. dollars	13,781	—	720	
							Buy
	Foreign exchange forward contracts	Notes and accounts payable	Australian dollars	1,199	—	143	
							Buy
	Foreign exchange forward contracts	Notes and accounts payable	Others	1,016	304	32	
							Buy
	Allocation method	Foreign exchange forward contracts	Notes and accounts receivable-trade	U.S. dollars	113	—	(*2)
Foreign exchange forward contracts		Notes and accounts payable	U.S. dollars	771	—	(*2)	
							Buy
Foreign exchange forward contracts		Others	Others	1	—		
							Buy

Hedge accounting method	Derivative type	Principal hedged items	Thousands of U.S. dollars				
			Contract amount	Over one year	Estimated fair value		
Deferral hedge method (*1)	Foreign exchange forward contracts	Notes and accounts receivable-trade	U.S. dollars	\$ 2,849	\$ —	(\$ 65)	
							Sell
	Foreign exchange forward contracts	Notes and accounts payable	U.S. dollars	148,183	—	7,742	
							Buy
	Foreign exchange forward contracts	Notes and accounts payable	Australian dollars	12,892	—	1,538	
							Buy
	Foreign exchange forward contracts	Notes and accounts payable	Others	10,925	3,269	344	
							Buy
	Allocation method	Foreign exchange forward contracts	Notes and accounts receivable-trade	U.S. dollars	1,215	—	(*2)
Foreign exchange forward contracts		Notes and accounts payable	U.S. dollars	8,290	—	(*2)	
							Buy
Foreign exchange forward contracts		Others	Others	11	—		
							Buy

Note (*1): Based on prices provided by financial institutions making markets in these securities

Note (*2): Derivatives transactions are included in account receivables and payables.

- (2) Interest rate swaps

Hedge accounting method	Derivative type	Principal hedged items	Millions of yen		
			Contract amount	Over one year	Estimated fair value
Interest-rate swaps meeting the specific criteria	Interest-rate swap transaction	Long-term loans payable	¥ 133,500	¥ 113,500	(*3)

Hedge accounting method	Derivative type	Principal hedged items	Thousands of U.S. dollars		
			Contract amount	Over one year	Estimated fair value
Interest-rate swaps meeting the specific criteria	Interest-rate swap transaction	Long-term loans payable	\$ 1,435,484	\$ 1,220,430	(*3)

Note(*3): Interest rate swaps which qualify for hedge accounting and meet specific requirements are accounted and presented in the corresponding long-term loans. Fair values of such transactions are included in those of the loans.

21. 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 segment, paper-related segment and housing and construction materials segment. The results of other businesses are reported in the "Other segment."

The business segment information of the Company and its consolidated subsidiaries for the fiscal years ended March 31, 2010 and 2009 is summarized as follows:

Millions of yen							
Fiscal year ended March 31, 2010							
	Pulp and paper segment	Paper-related segment	Housing and construction materials segment	Other segment	Total	Eliminations or corporate	Consolidated
(i) Sales and operating income:							
Sales to third parties	¥ 873,890	¥ 88,567	¥ 53,588	¥ 79,186	¥ 1,095,233	¥ —	¥ 1,095,233
Intercompany sales and transfers	3,137	7,471	55,053	52,465	118,127	(118,127)	—
Net sales	877,027	96,039	108,642	131,651	1,213,360	(118,127)	1,095,233
Operating expenses	842,979	91,827	108,051	127,352	1,170,211	(118,127)	1,052,083
Operating income	¥ 34,047	¥ 4,211	¥ 590	¥ 4,298	¥ 43,149	¥ —	¥ 43,149
(ii) Total assets, depreciation, loss on impairment of fixed assets and capital expenditures:							
Total assets	¥ 1,192,572	¥ 87,060	¥ 41,873	¥ 91,807	¥ 1,413,313	¥ 86,932	¥ 1,500,246
Depreciation	68,425	6,988	1,240	5,288	81,943	—	81,943
Loss on impairment of fixed assets	2,707	—	546	145	3,400	—	3,400
Capital expenditures	¥ 29,284	¥ 2,733	¥ 668	¥ 2,900	¥ 35,587	¥ —	¥ 35,587

Thousands of U.S. dollars							
Fiscal year ended March 31, 2010							
	Pulp and paper segment	Paper-related segment	Housing and construction materials segment	Other segment	Total	Eliminations or corporate	Consolidated
(i) Sales and operating income:							
Sales to third parties	\$ 9,396,667	\$ 952,333	\$ 576,215	\$ 851,462	\$ 11,776,699	\$ —	\$ 11,776,699
Intercompany sales and transfers	33,731	80,333	591,968	564,140	1,270,183	(1,270,183)	—
Net sales	9,430,398	1,032,677	1,168,194	1,415,602	13,046,882	(1,270,183)	11,776,699
Operating expenses	9,064,290	987,387	1,161,839	1,369,376	12,582,914	(1,270,183)	11,312,720
Operating income	\$ 366,097	\$ 45,280	\$ 6,344	\$ 46,215	\$ 463,968	\$ —	\$ 463,968
(ii) Total assets, depreciation, loss on impairment of fixed assets and capital expenditures:							
Total assets	\$ 12,823,355	\$ 936,129	\$ 450,247	\$ 987,172	\$ 15,196,914	\$ 934,753	\$ 16,131,677
Depreciation	735,753	75,140	13,333	56,860	881,108	—	881,108
Loss on impairment of fixed assets	29,108	—	5,871	1,559	36,559	—	36,559
Capital expenditures	\$ 314,882	\$ 29,387	\$ 7,183	\$ 31,183	\$ 382,656	\$ —	\$ 382,656

Millions of yen							
Fiscal year ended March 31, 2009							
	Pulp and paper segment	Paper-related segment	Housing and construction materials segment	Other segment	Total	Eliminations or corporate	Consolidated
(i) Sales and operating income:							
Sales to third parties	¥ 940,297	¥ 92,647	¥ 70,064	¥ 85,126	¥ 1,188,136	¥ —	¥ 1,188,136
Intercompany sales and transfers	3,015	8,578	62,077	56,778	130,449	(130,449)	—
Net sales	943,312	101,226	132,142	141,904	1,318,586	(130,449)	1,188,136
Operating expenses	930,638	99,061	131,064	137,870	1,298,635	(130,449)	1,168,185
Operating income	¥ 12,673	¥ 2,165	¥ 1,078	¥ 4,034	¥ 19,951	¥ —	¥ 19,951
(ii) Total assets, depreciation, loss on impairment of fixed assets and capital expenditures:							
Total assets	¥ 1,172,221	¥ 93,074	¥ 47,321	¥ 92,586	¥ 1,405,203	¥ 86,823	¥ 1,492,027
Depreciation	69,125	6,816	1,229	6,122	83,293	—	83,293
Loss on impairment of fixed assets	15,842	155	2,095	3	18,097	—	18,097
Capital expenditures	¥ 54,029	¥ 6,117	¥ 1,220	¥ 3,571	¥ 64,939	¥ —	¥ 64,939

As described in Note 2(c), the Company adopted the Accounting Standards Board of Japan (ASBJ) Statement No.9, "Accounting Standard for Measurement of Inventories," released on July 5, 2006. In conjunction with the adoption of this accounting standard, we modified the measurement method for valuing inventories. As a result, operating expenses of the pulp and paper segment, the paper-related segment and the housing and construction materials segment increased by ¥1,921 million, ¥273 million, ¥133 million respectively and operating income decreased by the same amounts for the fiscal year ended March 31, 2009 as compared to the corresponding amounts which would have been recorded under the previous method.

(b) Geographic segments

Since sales recognized by companies located in Japan constituted 90% or more of consolidated sales for the fiscal years ended March 31, 2010 and 2009, geographical segment information has not been presented.

(c) Overseas sales

Since overseas sales represented less than 10% of consolidated sales for the fiscal years ended March 31, 2010 and 2009, no disclosure of overseas sales information has been presented.

22. Research and Development Costs

Included in cost of sales and selling, general and administrative expenses were ¥ 6,985 million (\$75,108 thousand) and ¥6,500 million of research and development costs for the fiscal years ended March 31, 2010 and 2009, respectively.

23. Related Party Transactions

(a) Related party transactions for the year ended March 31, 2010

(i) Transactions of the Company with related parties:

There are no related party transactions to be disclosed.

(ii) Transactions of the Company's consolidated subsidiaries with related parties:

Attribute Affiliated company (including its subsidiaries)

Name of related party	Daishowa-Marubeni International Ltd.
Location	British Columbia/Canada
Capital	CAN\$ 262,000 thousand
Nature of operations	Manufacturing and selling pulp
Equity ownership percentage	Indirectly 50.0%
Description of the business relationship	Combination of offices of director
Nature of transactions	Guarantee for debt
Transaction amount during the year ended March 31, 2010	¥16,826 million (\$ 180,925 thousand)
Accounts	—
Balance at March 31, 2010	—

Note: Guarantee for bank loan, for which the Company's consolidated subsidiary receives no guarantee fee.

(b) Information on the parent company and significant affiliate companies for the year ended March 31, 2010.

(i) Information on the parent company:

None

(ii) Financial statements of other significant affiliate companies:

There are no financial statements to be disclosed.

(c) Related party transactions for the year ended March 31, 2009

(i) Transactions of the Company with related parties:

There are no related party transactions to be disclosed.

(ii) Transactions of the Company's consolidated subsidiaries with related parties:

Attribute Affiliated company (including its subsidiaries)

Name of related party	Daishowa-Marubeni International Ltd.
Location	British Columbia/Canada
Capital	CAN\$ 262,000 thousand
Nature of operations	Manufacturing and selling pulp
Equity ownership percentage	Indirectly 50.0%
Description of the business relationship	Combination of offices of director
Nature of transactions	Guarantee for debt
Transaction amount during the year ended March 31, 2009	¥18,499 million
Accounts	—
Balance at March 31, 2009	—

Note: Guarantee for bank loan, for which the Company's consolidated subsidiary receives no guarantee fee.

(d) Information on the parent company and significant affiliate companies for the year ended March 31, 2009

(i) Information on the parent company:

None

(ii) Financial statements of other significant affiliate companies:

There are no financial statements to be disclosed.

(Additional Information)

From the fiscal year ended March 31, 2009 the Company adopted the Accounting Standard for Related Party Disclosures (ASBJ Statement No.11 on October 17, 2006) and the Guidance on Accounting Standard for Related Party Disclosures (ASBJ Guidance No.13 on October 17, 2006). As a result, transactions between consolidated subsidiaries and affiliates are newly disclosed.

24. Per Share Information

Per share information and the bases of these calculations are as follows.

As of March 31, 2010 and 2009, no potentially dilutive securities were outstanding.

As of or for the fiscal years ended:

	Yen		U.S. dollars
	March 31		March 31
	2009	2010	2010
Net assets per share	¥ 3,601.71	¥ 3,940.06	\$ 42.37
Net income (loss) per share	(208.60)	264.03	2.84

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2009	2010	2010
Net income (loss)	¥ (23,330)	¥ 30,050	\$ 323,118
Net income (loss) to common stockholders	(23,330)	30,050	323,118

	Number of shares	
	2009	2010
Weighted-average number of common shares outstanding	111,847,196.06	113,814,229.72

During the fiscal year ended March 31, 2009, the Company implemented a 100-for-1 stock split. Per share data assuming that the stock split was occurred at the beginning of the fiscal year ended March 31, 2008 are as follows.

	Yen
	2008
As of or for the fiscal year ended March 31,	
Net assets per share	¥ 4,074.93
Net income per share	52.01

25. Subsequent Events

As of March 31, 2010

- (a) The following appropriation of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the fiscal year ended March 31, 2010, was approved at the annual general meeting of shareholders held on June 29, 2010:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends		
(¥40.00 (U.S.\$0.43) per share)	¥ 4,647	\$ 49,968

- (b) Business collaboration with and acquisition of shares in Lee & Man Paper Manufacturing Limited
The Company resolved at a meeting of the Board of Directors on June 22, 2010 to acquire shares of Lee & Man Paper Manufacturing Limited (“L&M”) and to enter into a business collaboration agreement with L&M. The Company signed the sale and purchase agreement and alliance agreement on the same day.

- (1) Objective of collaboration and investment

The Group has set a goal in its “Group Vision 2015” to become one of the top five players in the global pulp and paper industry. Toward the realization of this vision, and to augment the business value through providing managerial resources and thereby realizing synergies in the containerboard business in the rapidly growing Chinese market, the Group has entered into these agreements.

- (2) Name and other information on the counterparty of business collaboration agreement

Name: Lee & Man Paper Manufacturing Limited
Business: Manufacture and sales of linerboards
Size: Consolidated sales 11,099 HK\$ million
Consolidated total assets 19,710 HK\$ million
(Fiscal year ended March 31, 2010)

- (3) Contents of the business collaboration agreement

- 1) Exchange of best practices

Through the secondment of engineers and provision of production know-how, the Group plans to address the reinforcement of production management, the improvement of production efficiency, and cost reductions at L&M, together with the development of high-value added products in the Chinese market.

- 2) Personnel exchanges (dispatch of directors)

To fulfill the purpose of this business collaboration, two persons including a representative director of the Company are expected to be appointed as directors of L&M promptly after concluding this collaboration agreement. Additionally, a secondment of staff to L&M in order to reinforce the personnel relationship between the two companies is planned.

- 3) Cooperation for new products, new business fields, and R&D

The Group plans to jointly discuss trends in the paper industry and its R&D, especially the prospect of future R&D.

- 4) Others

Immediately after the agreement becomes fully effective, a steering group will be established consisting of representatives from the Group and L&M to further elaborate the contents of the business collaboration.

- (4) Counterparty of the sale and purchase agreement of stock

Name: Gold Best Holdings Ltd.

The company above is the largest shareholder of L&M.

- (5) Number of shares to be acquired, acquisition cost, and holding ratios before and after acquisition

1) Number of shares held before the acquisition: None

2) June 30, 2010 (scheduled)

Number of shares to be acquired: 546,153,559

3) Total acquisition cost:

Approximately HK\$3,550 million

Number of shares to be held after the acquisition: 546,153,559

(Holding ratio: 12.00%)

The stock acquisition is scheduled to be implemented through a special-purpose company.

As of March 31, 2009

- (c) The following appropriation of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the fiscal year ended March 31, 2009, was approved at the annual general meeting of shareholders held on June 26, 2009:

	Millions of yen
Year-end cash dividends	
(¥40.00 per share)	¥ 4,487

- (d) Acquisition of shares in Paper Australia Pty Ltd

Nippon Paper Industries Co., Ltd., a wholly owned subsidiary of the Company acquired all outstanding shares in Paper Australia Pty Ltd (“AP”), headquartered in Victoria, Australia, on June 1, 2009.

This fulfilled a February 16, 2009 acquisition agreement with PaperlinX Limited (“PPX”), also headquartered in Victoria.

- (1) Objective of acquisition

To contribute, through expansion and growth of overseas operations, to the Company’s “Group Vision 2015” goal of being one of the top five pulp and paper groups worldwide.

- (2) Counterparty

PaperlinX Limited

- (3) Name, description, and size of acquired company

Name: Paper Australia Pty Ltd

Business: Manufacture and sales of paper, pulp, and stationary, such as envelopes and notebooks

Size (FY 2008 as of June 30)	Sales:	A\$914 million
	Total assets:	A\$1,459 million

(4) Acquisition date June 1, 2009

(5) Number of shares acquired, acquisition cost, and ownership percentage

Shares acquired 3,208,084,653 (all outstanding shares)

Acquisition cost A\$600 million

Note: The acquisition price could change due to 1) the potential contingent consideration based on earnings over the three years following the acquisition and 2) changes to the bases of the acquisition-price calculation.

Ownership percentage 100%

(e) Share Exchange with Shikoku Coca-Cola Bottling Co., Ltd.

The Company and its consolidated subsidiary Shikoku Coca-Cola Bottling Co., Ltd. agreed at special meetings of their respective boards of directors on June 15, 2009 to a share exchange making Shikoku Coca-Cola Bottling Co., Ltd. a wholly owned subsidiary of the Company. The companies entered into an agreement to this effect dated the same day. The Company's objectives in this deal are to 1) enhance the flexibility and responsiveness of group decision-making and strengthen its presence in the food sector and 2) to raise group value by building reliable earnings streams to compensate for a domestic paper business that is likely to continue to operate under tough market conditions for some time.

(1) Description of agreement

The agreement makes Shikoku Coca-Cola Bottling a wholly owned subsidiary of the Company through a share exchange. The share exchange follows simplified procedures under Article 796.3 of Japan's Company Law, and therefore does not require shareholder approval.

(2) Counterparty information

Name Shikoku Coca-Cola Bottling Co. Ltd.

Headquarters 1378 Kasuga-cho, Takamatsu-shi, Kagawa-ken

Representative Takeo Hashimoto, President and Representative Director

Capital ¥5,576 million (December 31, 2008)

Business Manufacture and sale of soft drinks

• Sales and NP for FY12/08 (consolidated)

Sales ¥54,363 million

Net profit ¥145 million

• Assets, liabilities, and net assets as at December 31, 2008 (consolidated)

Assets ¥47,171 million

Liabilities ¥3,673 million

Net assets ¥43,497 million

(3) Share exchange ratio

Share exchange allotments

NPG (Parent company): 1 Shikoku Coca-Cola (Wholly owned subsidiary) : 0.39

(4) New shares issued for the exchange

4,005,368 common shares

Note: The 13,134,000 shares that the Company already held in Shikoku Coca-Cola Bottling are not involved in the allotment. The calculation of the number of new shares to be issued for the exchange is based on the May 31, 2009 values for: the total number of outstanding shares in Shikoku Coca-Cola Bottling (23,907,862), its treasury stock (503,686), and the number of shares the Company had already acquired. These numbers could still be revised based on, for example, Shikoku Coca-Cola Bottling retiring some of its treasury stock.

(5) Share exchange ratio calculation bases

To enhance the fairness and validity of the transaction, each party chose a third-party appraiser to perform share exchange ratio calculations. The Company selected Daiwa Securities SMBC and Shikoku Coca-Cola Bottling selected Deloitte Tohmatsu FAS. Daiwa Securities SMB employed a DCF method to value both companies. Deloitte Tohmatsu FAS used the market price method supplemented with peer comparisons as well as the DCF method to reflect estimated future cash flow from business activities. Using the results as reference, the two parties, following discussion and negotiation, agreed that the above share exchange ratio was appropriate for use in concluding their agreement. The parties may agree to change the share exchange ratio if there are any significant changes to the bases of the calculations.

(6) Effective date

October 1, 2009

The Company expects this transaction to fall under the accounting category of transactions with minority shareholders, a type of common-control transaction. The Company expects to incur negative goodwill from the transaction, but the amount has not been determined.



Ernst & Young ShinNihon LLC
 Hibiya Kokusai Bldg.
 2-2-3, Uchisaiwai-cho,
 Chiyoda-ku, Tokyo, Japan 100-0011

Tel: +81 3 3503 1100
 Fax: +81 3 3503 1197

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, 2010 and 2009, and the related consolidated statements of operations, changes in net assets, 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, 2010 and 2009, 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 2(b), "Accounting Standard for Business Combinations," "Accounting Standard for Consolidated Financial Statements," "Partial Amendments to Accounting Standard for Research and Development Costs," "Revised Accounting Standard for Business Divestitures," "Revised Accounting Standard for Equity Method of Accounting for Investments" and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" can be applied for the first business combinations and business divestitures conducted in the fiscal year beginning on or after April 1, 2009. The Company and its consolidated domestic subsidiaries have applied these accounting standards and guidance commencing April 1, 2009, and have prepared the consolidated financial statements based on these accounting standards and guidance.

As described in Note 2(c), effective April 1, 2008, the Company and its consolidated domestic subsidiaries adopted "Accounting Standard for Measurement of Inventories."

As described in Note 25(d), Nippon Paper Industries Co., Ltd., a wholly owned subsidiary of the Company acquired all the outstanding shares in Paper Australia Pty Ltd on June 1, 2009 under an acquisition agreement with PaperlinX Limited entered into on February 16, 2009.

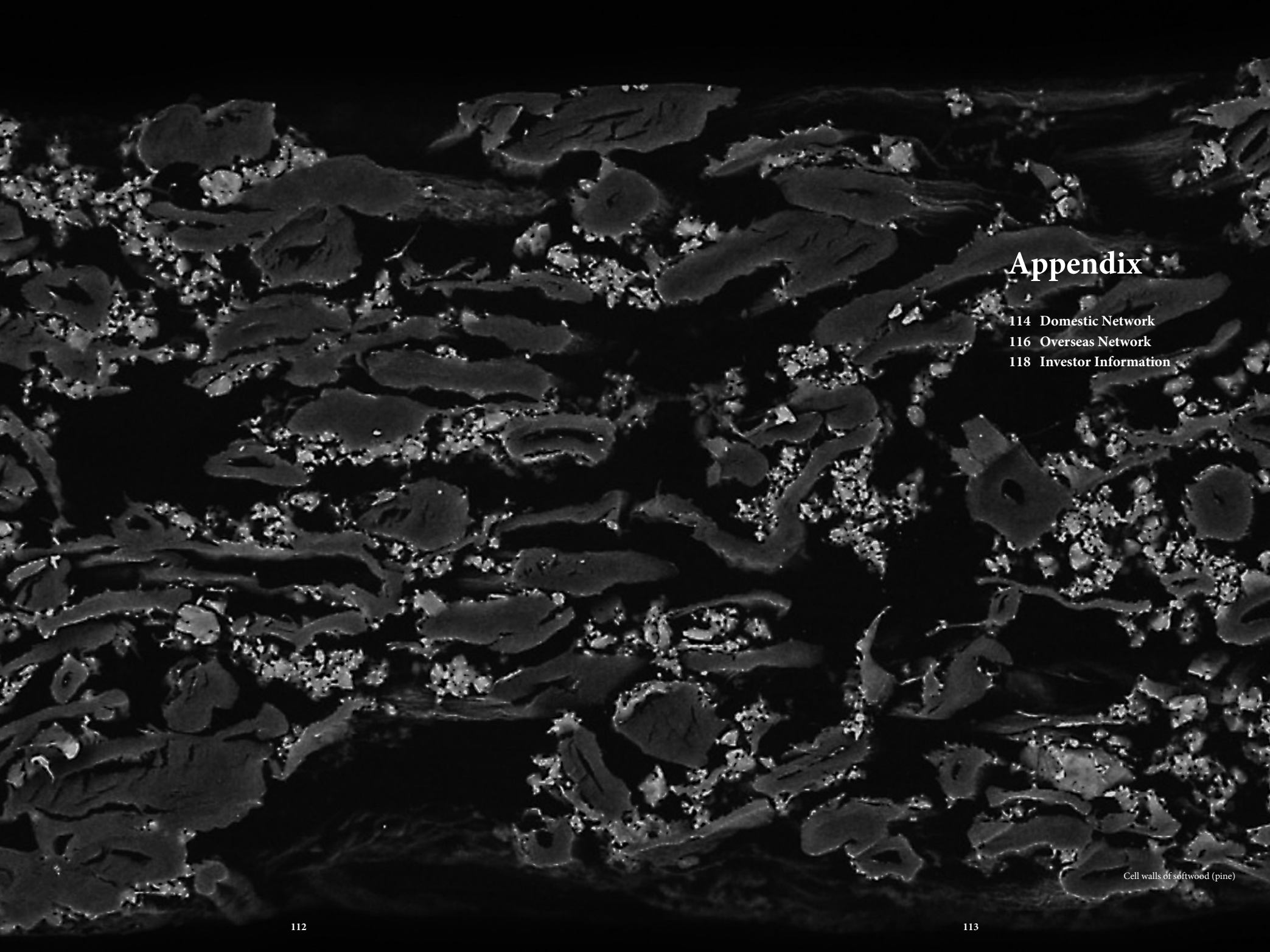
As described in Note 25(e), the Company and its consolidated subsidiary Shikoku Coca-Cola Bottling Co., Ltd. agreed at special meetings of their respective boards of directors on June 15, 2009 to a share exchange making Shikoku Coca-Cola Bottling Co., Ltd. a wholly owned subsidiary of the Company.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 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.

June 29, 2010

Ernst & Young ShinNihon LLC

A member firm of Ernst & Young Global Limited



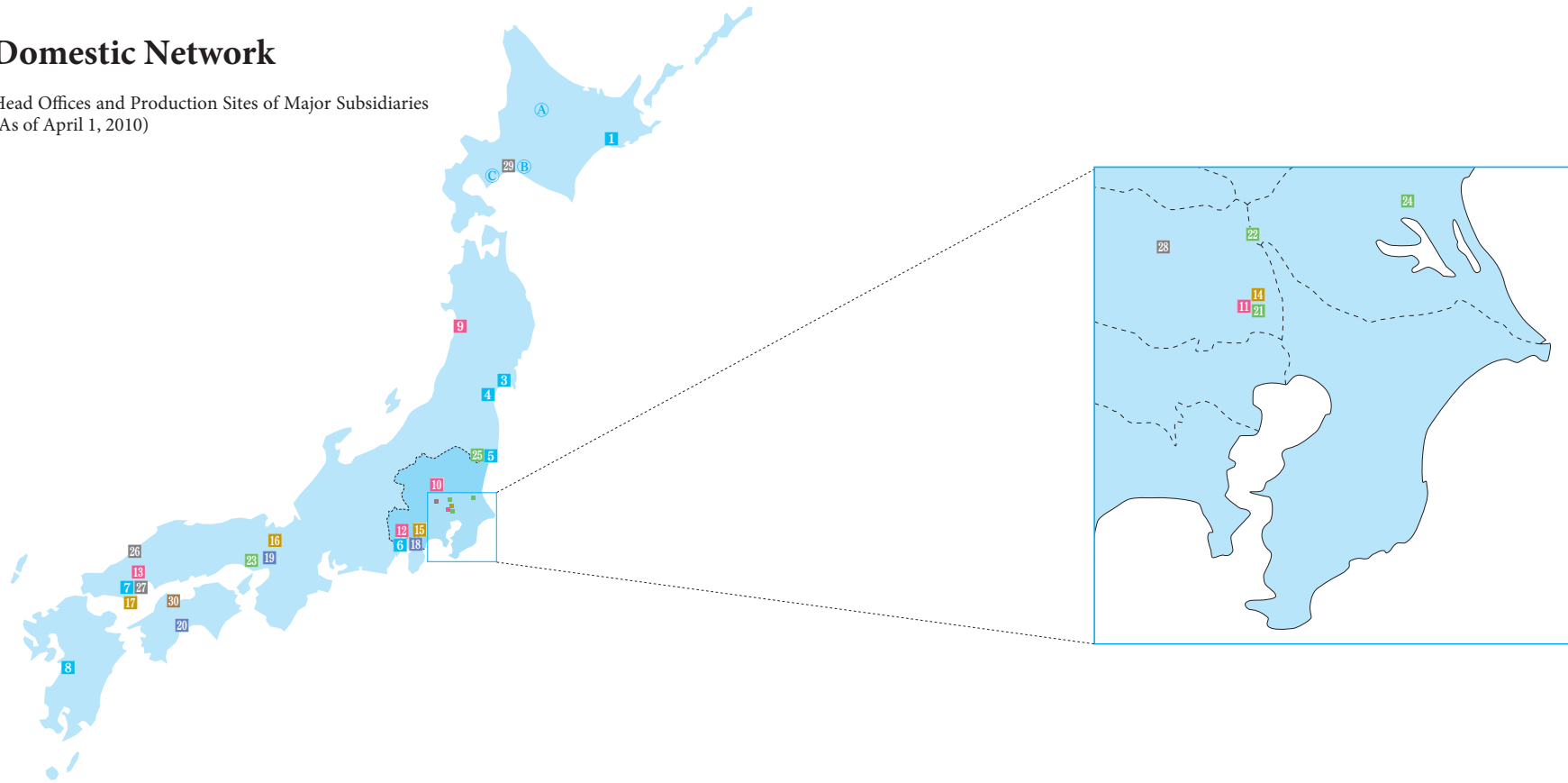
Appendix

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Cell walls of softwood (pine)

Domestic Network

Head Offices and Production Sites of Major Subsidiaries
(As of April 1, 2010)



Pulp and Paper

Nippon Paper Industries Co., Ltd.
1-2-2 Hitotsubashi, Chiyoda-ku, Tokyo 100-0003
TEL: +81-3-6665-1111 FAX: +81-3-3217-3001

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

Nippon Daishowa Paperboard Co., Ltd.
1-2-2 Hitotsubashi, Chiyoda-ku, Tokyo 100-0003
TEL: +81-3-6665-5000 FAX: +81-3-3217-3200

- 11 Tohoku Mill (Akita)
- 12 Ashikaga Mill (Tochigi)
- 13 Soka Mill (Saitama)
- 14 Yoshinaga Mill (Shizuoka)
- 15 Otake Mill (Hiroshima)

Nippon Paper Crecia Co., Ltd.
1-2-2 Hitotsubashi, Chiyoda-ku, Tokyo 100-8156
TEL: +81-3-6665-5300 FAX: +81-3-3212-6000

- 16 Tokyo Mill (Saitama)
- 17 Kaisei Mill (Kanagawa)
- 18 Kyoto Mill (Kyoto)
- 19 Iwakuni Mill (Yamaguchi)

Nippon Paper Papylia Co., Ltd.
1-2-2 Hitotsubashi, Chiyoda-ku, Tokyo 100-0003
TEL: +81-3-6665-5800 FAX: +81-3-3212-0550

- 20 Harada Mill (Shizuoka)
- 21 Suita Mill (Osaka)
- 22 Kochi Mill (Kochi)

NP Trading Co., Ltd.
1-2-2 Hitotsubashi, Chiyoda-ku, Tokyo 100-8158
TEL: +81-3-6665-7032 FAX: +81-3-3217-3221

Paper-Related

NIPPON PAPER-PAK CO., LTD.
1-2-2 Hitotsubashi, Chiyoda-ku, Tokyo 100-0003
TEL: +81-3-6665-5555 FAX: +81-3-3212-0605

- 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.
1-2-2 Hitotsubashi, Chiyoda-ku, Tokyo 100-0003
TEL: +81-3-6665-5900 FAX: +81-3-3217-3280

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

Housing and Construction Materials

Nippon Paper Lumber Co., Ltd.
1-2-2 Hitotsubashi, Chiyoda-ku, Tokyo 100-8157
TEL: +81-3-6665-7500 FAX: +81-3-3217-3270

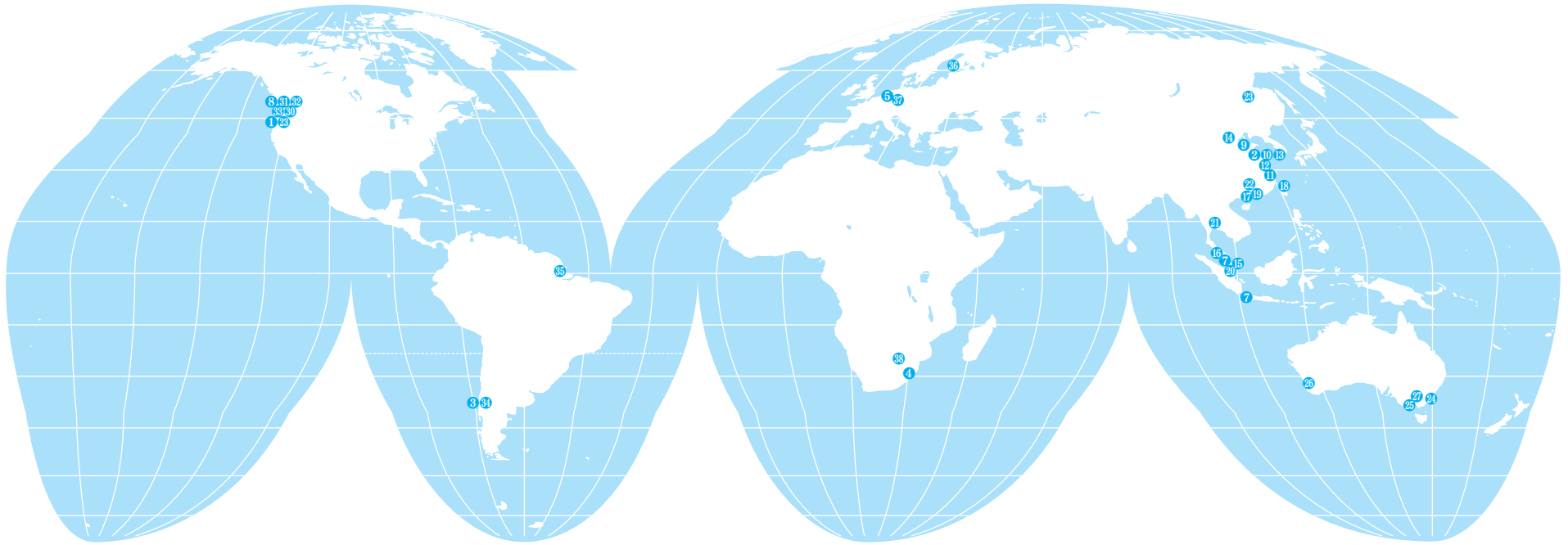
Other

SHIKOKU COCA-COLA BOTTLING CO., LTD.
1378 Kasuga, Takamatsu, Kagawa 761-0197
Tel: +81-(0)87-841-9191 Fax: +81-(0)87-841-5292
Production sites

32 SHIKOKU COCA-COLA PRODUCTS CO., LTD.
(Ehime)

Nippon Paper Development Co., Ltd.
1-9-5 Oji, Kita-ku, Tokyo 114-8555
Tel: +81-(0)3-3914-6161 Fax: +81-(0)3-3914-3706

Overseas Network



Overseas Offices

Pulp and Paper

Nippon Paper Group, Inc.

Longview Office ①

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

Nippon Paper Industries Co., Ltd.

China Office ②

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

Concepción Office ③

Cochrane 361, Concepción, Chile
Tel: +56-41-2-244300 Fax: +56-41-2-259541

Pietermaritzburg Office ④

Suite C1, Regal House,
No.7 Montrose Park Boulevard,
Victoria Country Club Estate, Montrose,
Pietermaritzburg, 3201,
Republic of South Africa
Tel: +27-33-347-0231 Fax: +27-33-347-0231

Europe Office ⑤

Strawinskylaan 707 (WTC-A tower), 1077 XX
Amsterdam Z.O., The 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: +62-21-3193-5434 Fax: +62-21-3193-5572

Malaysia Office ⑦

Unit 4. 1A, 4th Floor, Menara Aik Hua, Changkat Raja
Chulan, 50200 Kuala Lumpur, Malaysia
Tel: +60-3-2070-0693 Fax: +60-3-2070-0695

Housing and Construction Materials

Nippon Paper Lumber Co., Ltd.

Vancouver Office ⑧

c/o Daisyowa North America Corporation
Suite 700-510, Burrard Street, Vancouver, B.C.
V6C 3A8, Canada
Tel: +1-604-801-6146 Fax: +1-604-801-6658



Port Angels Mill, Nippon Paper Industries USA



Maryvale Mill, Australian Paper

Major Overseas Subsidiaries and Affiliates

ASIA

Shouguang Liben Paper Making Co., Ltd. 9
2-4F, Xintiandi Dianqicheng, 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

Paper Products Marketing (Singapore) Pte. Ltd. 15
3 Gul Crescent Jurong, Singapore
Tel: +65-6220-2488 Fax: +65-6226-4483

Paper Products Marketing Pte. Ltd. (Malaysia Branch) 16
No 94A, 1st Flr., Jalan SS14/1 Subang Jaya, Malaysia
Tel: +60-3-5634-1177 Fax: +60-3-5634-1172

Paper Products Marketing (Hong Kong) Ltd. 17
Unit A&B 15/Flr Yue Hing Bldg., 103 Hennessy rd,
Wanchai, Hong Kong
Tel: +852-2528-6113 Fax: +852-2528-6066

Paper Products Marketing (Taiwan) Ltd. 18
8F-5-2, No.51, Sec.2, Keelung Rd, Taipei, Taiwan
Tel: +886-2-2739-8607 Fax: +886-2-2737-2344,
+886-2-2738-1537

San-Mic Trading Co., (H.K.) Ltd. 19
Unit 803, 8th Floor, 68 Yee Wo Street,
Causeway Bay, Hong Kong
Tel: +852-2504-5995 Fax: +852-2504-1953

San-Mic Trading Co., (S) Pte. Ltd. 20
79 Robinson Road #14-03, CPF Building, 068897
Singapore
Tel: +65-6222-0318 Fax: +65-6225-1978

San-Mic Trading (Thailand) Co., Ltd. 21
SG Tower, 161/1 Floor 12, Room 1202, Soi Mahadlek
Luang 3, Rajdamri Road, Lumpini, Pathumwan,
Bangkok, Thailand, 10330
Tel: +66-2651-8091 Fax: +66-2651-9954

San-Mic Trading Co., (Shenzhen), Ltd. 22
Room 3011, News Building 1st, No. 1002
Shennanzhong Rd.,
Futian Area, Shenzhen city 518027, China
Tel: +86-755-2595-1177 Fax: +86-755-2595-1186

N.A.K. Manufacturing (M) Sdn. Bhd. 23
Lot 19-11, Bersatu Industrial Complex, Jalan Satu,
Cheras Jaya Industrial Area, 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. 24
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 Resources Australia Pty. Ltd. 25
Level 5,131 Queen Street, Melbourne, VIC 3000,
Australia
Tel: +61-3-9252-2700 Fax: +61-3-9642-2705

WA Plantation Resources Pty. Ltd. 26
Level 2, 53 Victoria Street, Bunbury, WA 6230,
Australia
Tel: +61-8-9791-0700 Fax: +61-8-9791-9503

Paper Australia Pty Ltd 27
307 Ferntree Gully Road,
Mt Waverley, Victoria, 3149, Australia
Tel: +61-3-8540-2300 Fax: +61-3-8540-2280

Paper Products Marketing Pty. Ltd. 28
307 Ferntree Gully Road,
Mt Waverley, Victoria, 3149, Australia
Tel: +61-3-8540-2391
Fax: +61-3-8540-2292

NORTH AND SOUTH AMERICA

North Pacific Paper Corporation 29
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. 30
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 31
Suite 700-510 Burrard Street, Vancouver, B.C. V6C
3A8, Canada
Tel: +1-604-801-6628 Fax: +1-604-801-6658

Daishowa-Marubeni International Ltd. 32
Suite 700-510 Burrard Street, Vancouver, B.C. V6C
3A8, Canada
Tel: +1-604-684-4326 Fax: +1-604-684-0512

Paper Products Marketing (USA) Inc. 33
Suite 370, 4380 S.W. Macadam Avenue, Portland,
Oregon, 97239, USA
Tel: +1-503-227-6615 Fax: +1-503-222-6417

Volterra S.A. 34
Cochrane 361, Concepción, Chile
Tel: +56-41-2-244300 Fax: +56-41-2-259541

Amapa Florestal e Celulose S.A. 35
Rua Claudio Lucio Monteiro, S/N, 68925-000, Santana
AP, Brazil
Tel: +55-96-3281-8024 Fax: +55-96-3281-8039

EUROPE

Jujo Thermal Oy 36
P.O. Box 92, FI-27501 Kauttua, Finland
Tel: +358-10-303-200 Fax: +358-10-303-2419

Fröhlen-Reddemann GMBH 37
Hellersbergstr.2. 41460 Neuss
Postfach 101247. 41412 Neuss, Germany
Tel: +49-21-31-16-98-0 Fax: +49-21-31-16-98-31

AFRICA

Nippon-SC Tree Farm S.A. (Pty) Ltd. 38
P.O.Box 2253, Parklands 2121, Republic of South Africa
Tel: +27-11-784-9120 Fax: +27-11-784-9122

Investor Information

Company

Nippon Paper Group, Inc.

Company code

3893

Listings

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

Shares issued and outstanding (As of March 31, 2010)

116,254,892

Major Shareholders (10 Largest) (As of March 31, 2010)

Name	Shares held	Shareholding (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	10,639,800	9.2
The Master Trust Bank of Japan, Ltd. (Trust Account)	6,507,500	5.6
Nippon Life Insurance Company	3,810,765	3.3
Rengo Co., Ltd.	3,351,241	2.9
Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,908,800	2.5
Nippon Paper Group, Inc. Employee Share Ownership	2,481,729	2.1
Mitsui Life Insurance Company Limited	2,258,900	1.9
Mizuho Corporate Bank, Ltd.	2,195,124	1.9
Mizuho Bank, Ltd.	2,146,731	1.8
Daio Paper Corporation	2,079,911	1.8

Fiscal year

April 1 to March 31

Ordinary general meeting of shareholders

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

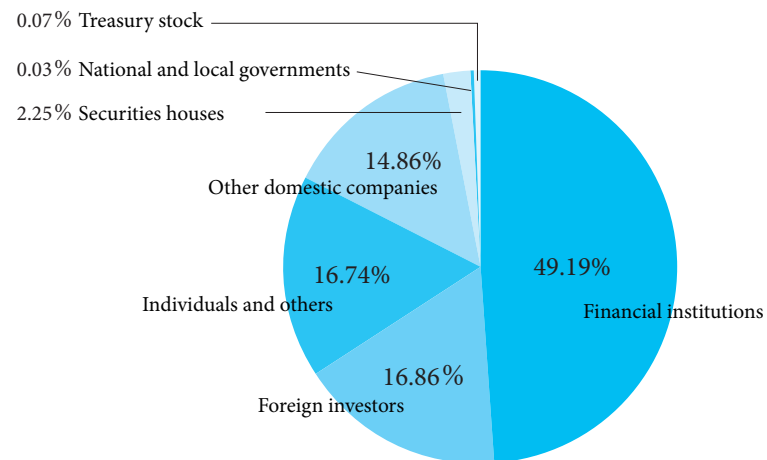
Administration office of register and transfer agent (postal address and telephone numbers)

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)

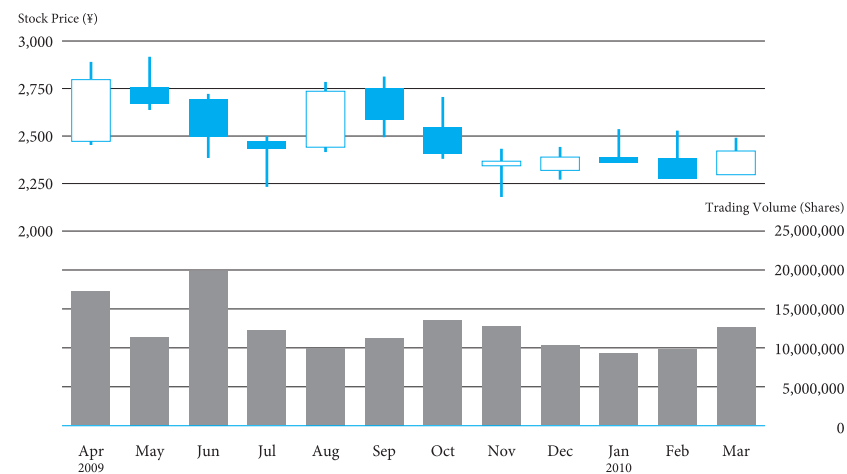
Independent auditor

Ernst & Young ShinNihon LLC

Share Ownership by Shareholder Category (As of March 31, 2010)



Stock Price and Trading Volume Trends





The Nippon Paper Group, Inc. Takebashi headquarters building

We hope the Nippon Paper Group
meets your expectations.

NIPPON PAPER GROUP, INC.

Investor Relations Office

1-2-2 Hitotsubashi, Chiyoda-ku, Tokyo 100-0003, JAPAN

Tel: +81-3-6665-1003

Fax: +81-3-3217-3003

IR Mail

Nippon Paper Group's press releases, financial releases and results, and other communications are available via email notices.

You can subscribe on our E-mail Alerts Service page at our IR website:

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

Sustainability Report

The 2010 issue will be published in September 2010.

Inquiries

CSR Department

Tel: +81-3-6665-1015

Fax: +81-3-3217-3009

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

Papers used in this report

Nippon Daishowa Paperboard Co., Ltd.
Cover: Capital Wrap 120 g/m²

Nippon Paper Industries Co., Ltd.
Text: b7 tra-next 100 g/m²