

NIPPON PAPER GROUP, INC. ANNUAL REPORT 2011

NIPPON

ANNUAL REPORT 2011 For the Fiscal Year Ended March 31, 2011

PAPER

Rising to the Challenge

GROUP



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

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2011

Rising to the Challenge

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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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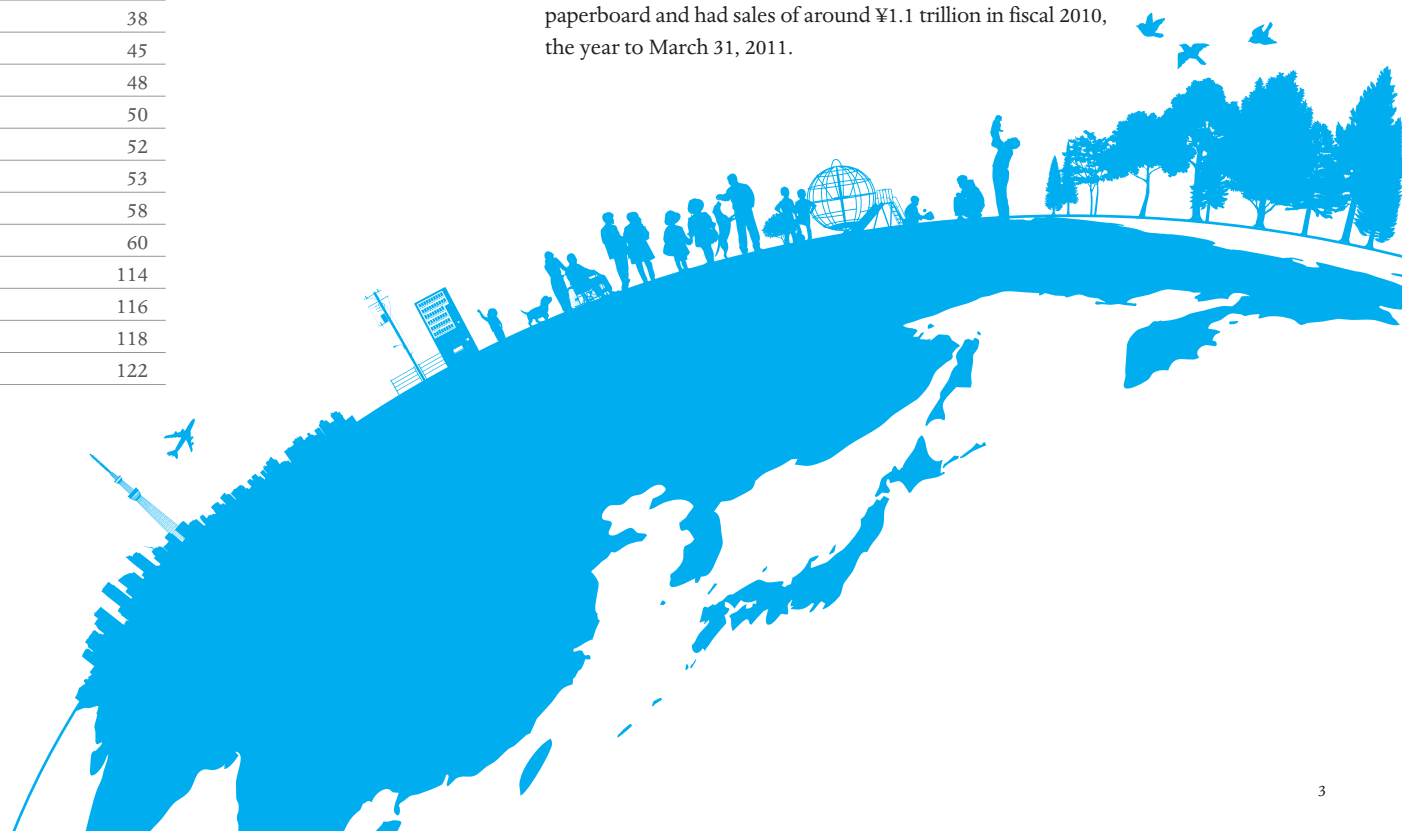
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Nippon Paper Group contributes to people's lives and the global environment by utilizing wood, a renewable resource used in a variety of applications, many of them also recyclable again and again.

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 47 consolidated subsidiaries in Japan and overseas, the Group manufactured over 7 million t (metric tons) of paper and paperboard and had sales of around ¥1.1 trillion in fiscal 2010, the year to March 31, 2011.



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

At a Glance

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Consolidated Financial Highlights

Nippon Paper Group, Inc.

	Millions of yen		Thousands of US dollars ¹	
	Fiscal 2008 April 1, 2008 – March 31, 2009	Fiscal 2009 April 1, 2009 – March 31, 2010	Fiscal 2010 April 1, 2010 – March 31, 2011	Fiscal 2010 April 1, 2010 – March 31, 2011
Net sales	¥ 1,188,136	¥ 1,095,233	¥ 1,099,817	\$ 13,250,807
Operating income	19,951	43,149	35,608	429,012
Ordinary income	17,944	37,547	31,599	380,711
Net income (loss)	(23,330)	30,050	(24,172)	(291,229)
Total assets	1,492,027	1,500,246	1,560,592	18,802,313
Net assets	424,551	459,978	408,762	4,924,843
Interest-bearing debt ²	796,747	764,463	834,120	10,049,639
	yen			US dollars
Net income (loss) per share ³	(208.60)	264.03	(208.73)	(2.51)
Cash dividends per share ³	80.00	80.00	60.00	0.72
Operating income margin (%)	1.7	3.9	3.2	
Return on equity (ROE) (%) ⁴	(5.4)	7.0	(5.6)	
Return on invested capital (ROIC) (%) ⁵	2.4	4.0	3.5	
Equity ratio (%)	27.0	30.4	25.9	
Return on assets (ROA) (%) ⁶	1.9	3.2	2.7	
Number of employees	13,088	14,210	13,834	

Note:

1. Amounts in US dollars are included solely for convenience and are translated at a rate of ¥83=U.S.\$1.00, the approximate rate of exchange on March 31, 2011.

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

3. A 100-to-1 stock split was implemented on January 4, 2009.

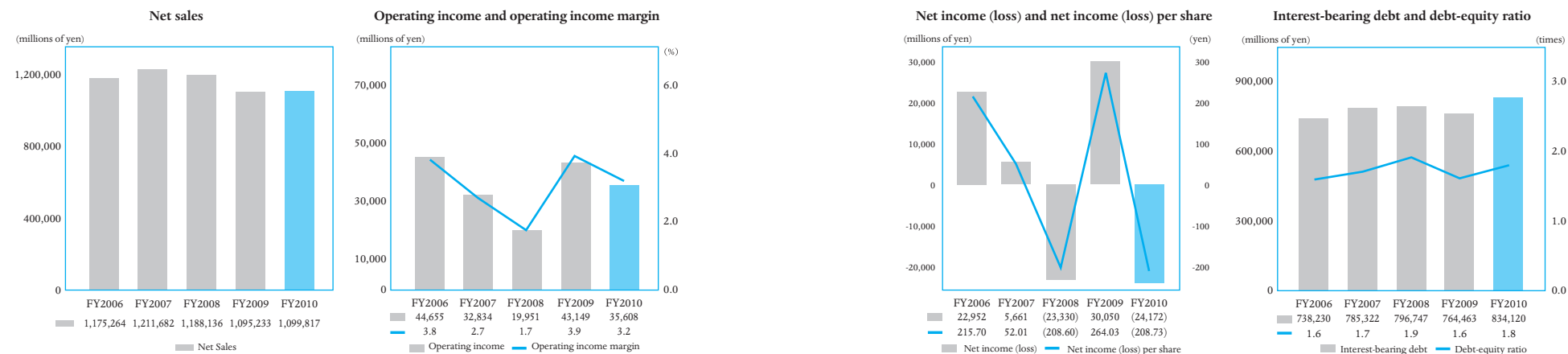
4. Return on equity (ROE)

= 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

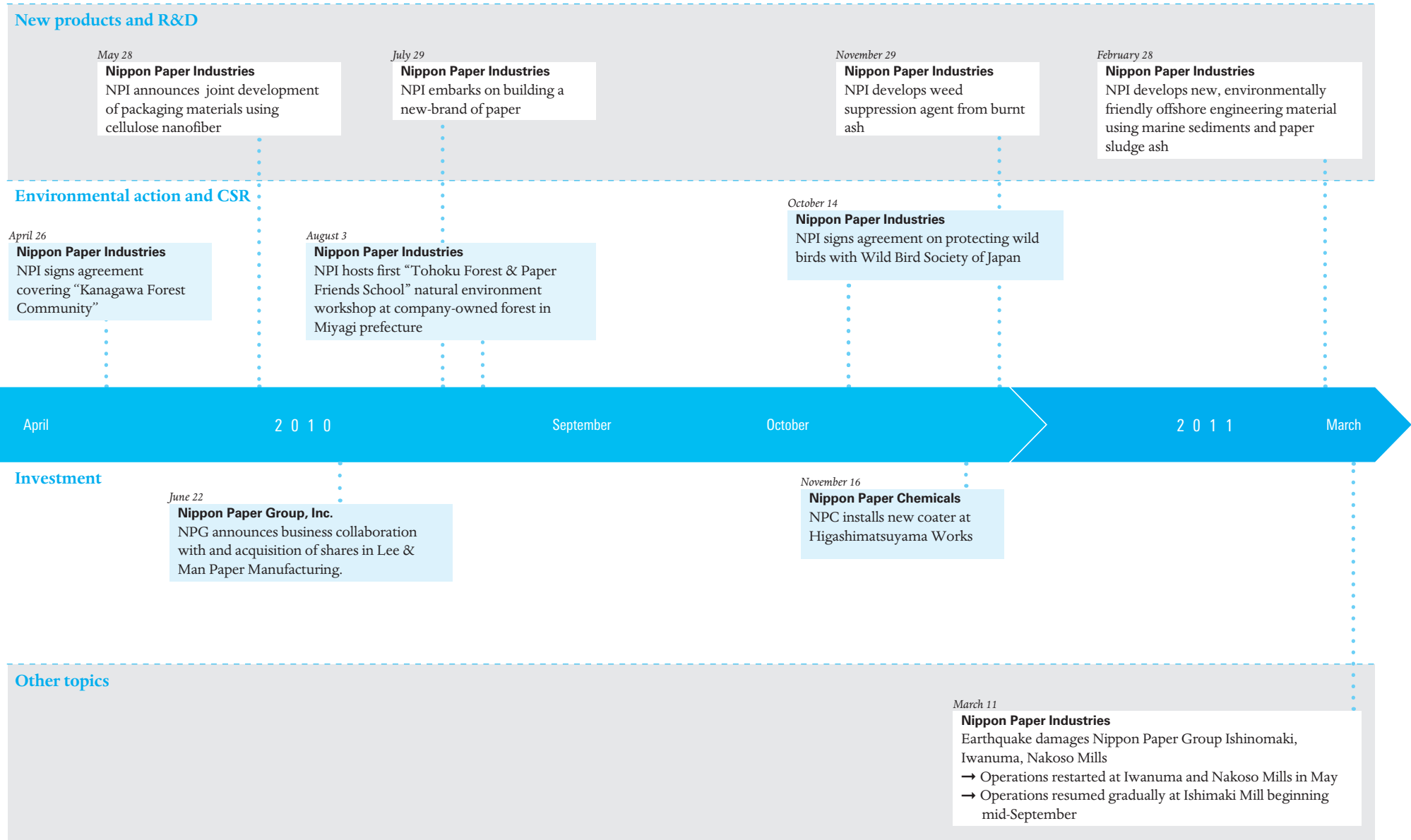
6. Return on assets (ROA) = (Ordinary income + Interest expense) / Total assets × 100



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

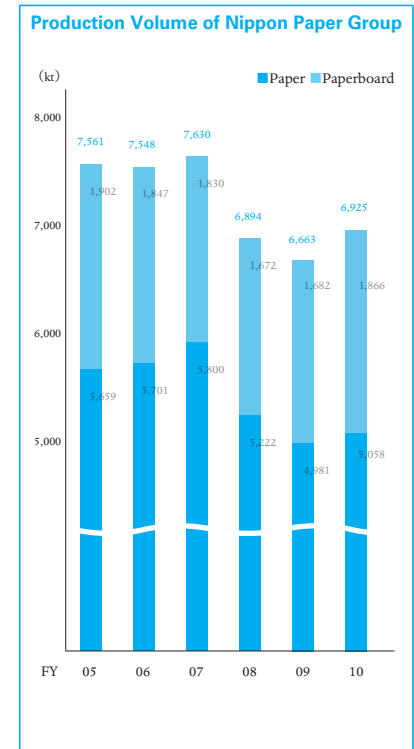
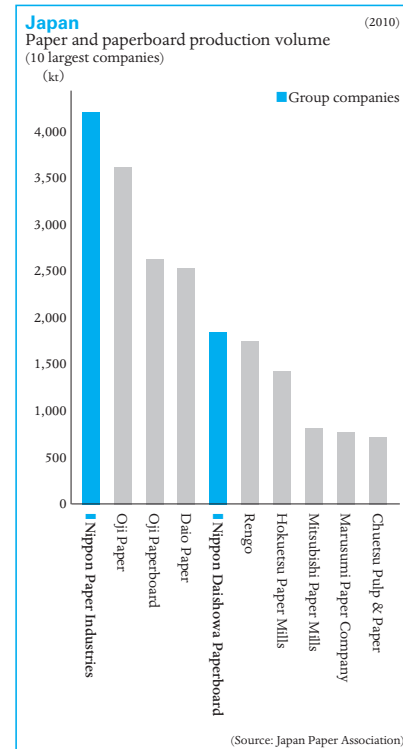
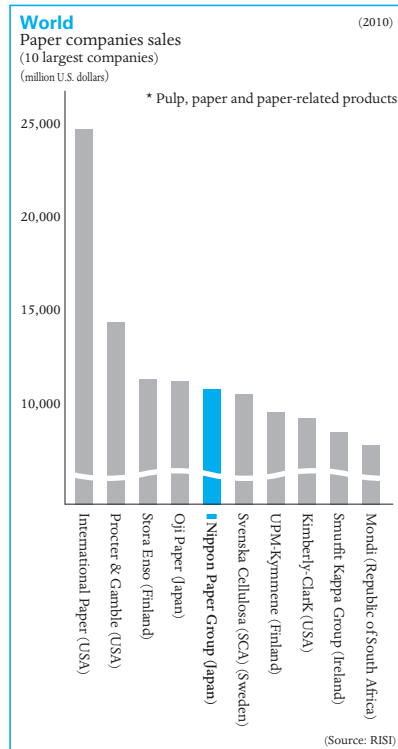
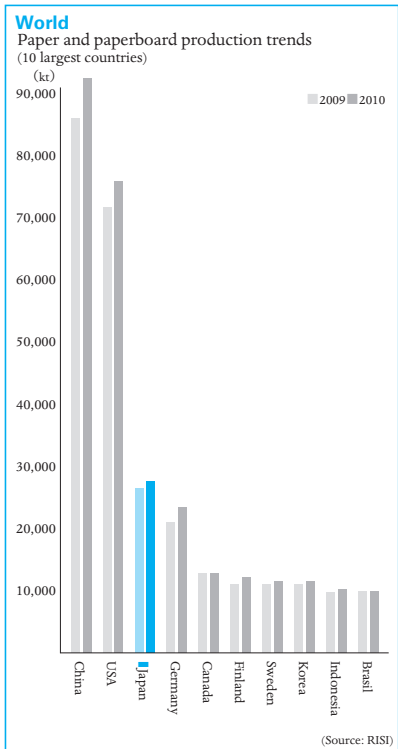
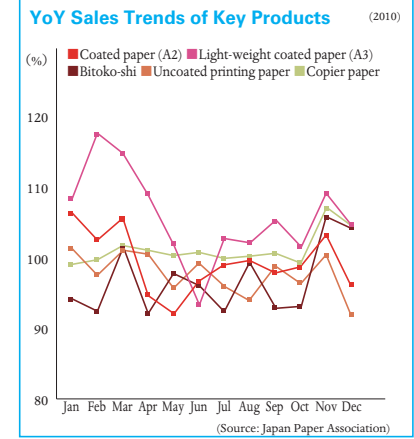
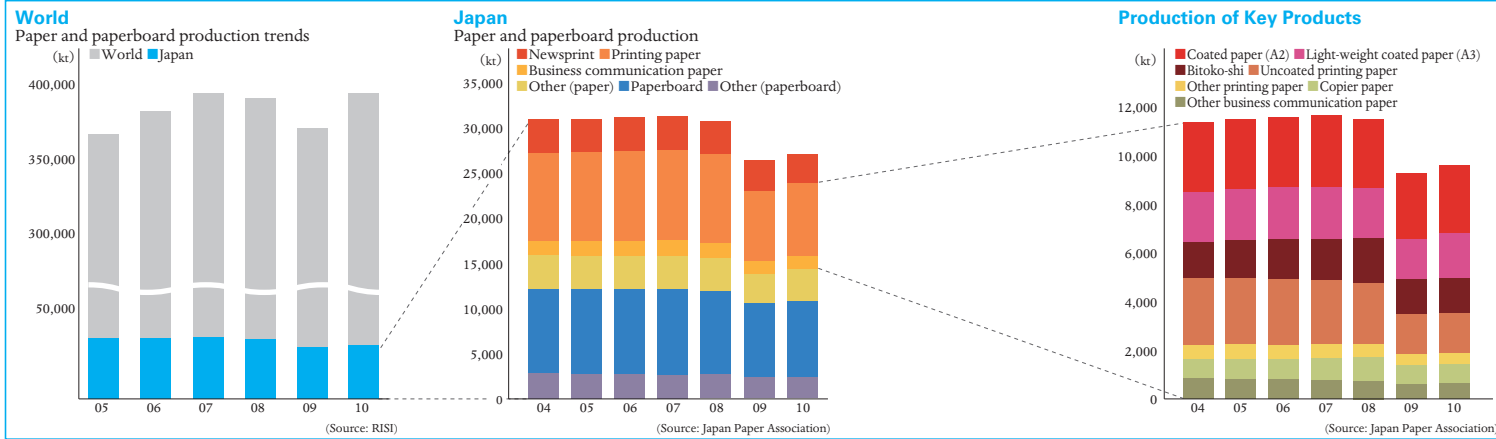
News Releases

The following are news items relevant to our feature articles that were released between April 2010 and March 2011.



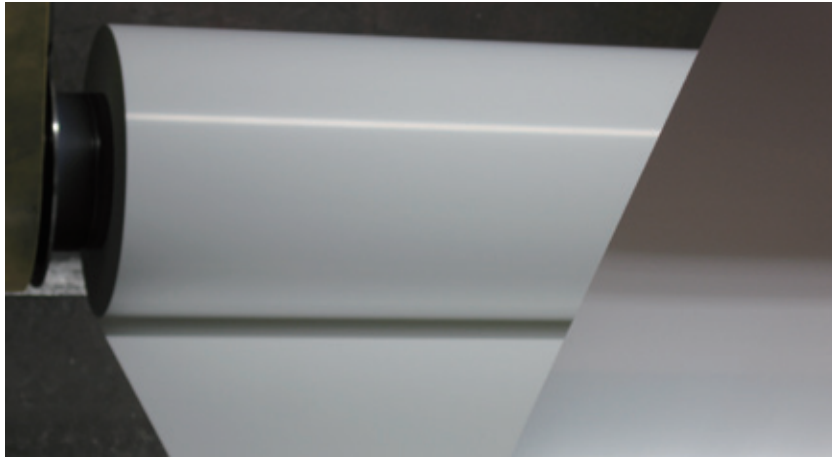
[Consolidated subsidiaries and equity-method affiliates are listed on page 52.](#)

Pulp and Paper Industry Overview



Corporate Profile

Fiscal 2010

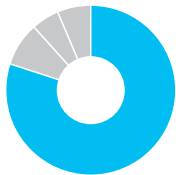


Pulp and Paper Segment

page. 38

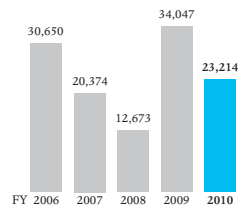
Net sales share

80.0%
¥879.7 billion



Operating income

¥23.2 billion



(millions of yen)

Paper

- Newsprint
- Printing and publication paper
- Business communication paper
- Packaging paper

Paperboard

- Containerboard
- White lined chipboard
- Specialty paperboard

Household paper products

- Facial tissue
- Bathroom tissue
- Paper towels
- Diapers

Specialty and high-performance products

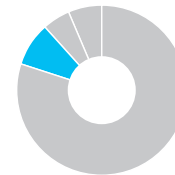
- Tea bag filter paper
- Water soluble paper
- OPER®

Paper-Related Segment

page. 45

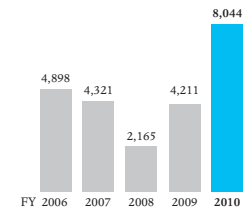
Net sales share

8.6%
¥94.3 billion



Operating income

¥8.0 billion



(millions of yen)

Processed paper products

- Liquid-packaging cartons
- Filling machines and maintenance services
- Paper bags
- Adhesive paper

Chemical products and functional materials

- Dissolving pulp
- Chemical products
- Functional films
- Drafting and copying media

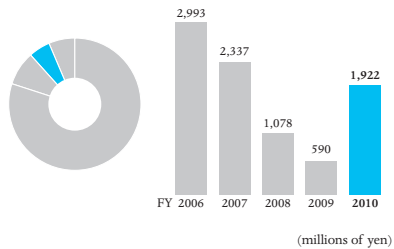
Corporate Profile



Housing and Construction Materials Segment page. 48

Net sales share
5.1%
¥56.6 billion

Operating income
¥ 1.9 billion

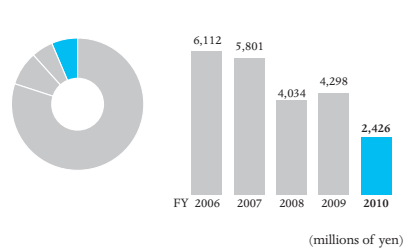


- Lumber
- Construction materials
- Civil engineering

Other Segment page. 50

Net sales share
6.3%
¥69.1 billion

Operating income
¥ 2.4 billion



- Beverages
- Warehousing and transportation
- Sports and Leisure

Message from the President

16 To Our Shareholders

18 Interview with the President

Consolidated subsidiaries and equity-method affiliates are listed on page 52.

To Our Shareholders

Rising to the Challenge

Nippon Paper Group achieved operating income of ¥35.6 billion in fiscal 2010. Though this was in excess of target, at the end of the year we recorded a net loss of ¥24.2 billion in the wake of a ¥62.8 billion extraordinary loss arising from the earthquake and tsunami disaster of March 11, 2011.

Important issues facing management in 2011 are recovering rapidly from the disaster, streamlining to cope with a shrinking domestic paper market, and accelerating overseas business expansion.

Nippon Paper Industries' Ishinomaki, Iwanuma, and Nakoso Mills suffered particularly heavy damage. Thanks to concerted effort across the Group, recovery work progressed quickly, and we completely resumed operations at the Iwanuma and the Nakoso Mills in May and started operations at the Ishinomaki Mill in September.

The domestic paper market finally showed signs of bottoming in 2010, but the business environment remains very challenging. We responded to a falloff in demand following the 2008 financial crisis by reducing costs substantially, a process that included shutting down 12 papermaking machines. Profitability in the printing paper business nevertheless remained under downward pressure due to falling demand, rising input prices, stiffening competition from imported paper, and slumping prices.

On the positive side, strong performance

at the non-pulp and paper businesses, including the paper-related business, underpinned Group earnings. At our overseas businesses, we made progress in improving profitability at Australian Paper, a 2009 acquisition. We also invested in a containerboard subsidiary of Chinese business partner Yuen Foong Yu Paper Manufacturing and acquired shares and concluded a business partnership agreement with Lee & Man Paper Manufacturing, China's second largest containerboard maker. These initiatives have put in place a foundation for growth in our paperboard and corrugated board business in the Chinese market.

Nippon Paper Group prepared and began implementing a medium-term revitalization plan in August 2011. Its highest priority is turning around the domestic paper business by developing an optimal Group-wide production structure. At the same time, the plan seeks to promote overseas business growth. Although we plan to record ¥26 billion in extraordinary losses in fiscal 2011, due partly to impairment write-downs for equipment and facilities, we expect to improve earnings by ¥25 billion per year via the revitalization process. We hope shareholders will focus on the results of these efforts.

We feel compelled to thank all Nippon Paper Group employees for the hard work in quickly restoring operations in the face of an unprecedented, earthquake-induced crisis.

We also benefitted from kind support were received from a variety of sources and were greatly helped by the hopes of residents near damaged plants for our company to recover.

Nippon Paper Group resolves to overcome the earthquake crisis and transform itself into an even stronger corporate group. We aspire to become one of the world's top five pulp and paper companies, a prime objective of our Group Vision 2015, while working to provide for people's lives and the global environment. In this context, we look forward to shareholders' continued appreciation and support for our work.



Yoshio Haga

President
Nippon Paper Group, Inc.



Interview with the President

Rising to the Challenge



Q1 Could you first provide an overview of Nippon Paper Group's operating results in fiscal 2010?

We unfortunately incurred a net loss of ¥24.2 billion after recording ¥62.8 billion in extraordinary losses stemming from the Great East Japan Earthquake in March. Operating income totaled ¥35.6 billion, surpassing our forecast, but declining by ¥7.5 billion from the previous year because of lower prices for paper and household paper products, lower sales volume, and higher raw material and fuel costs. Earnings were underpinned by our non-pulp and paper businesses, including record high earnings at Nippon Paper Chemicals on strong sales of dissolving pulp.

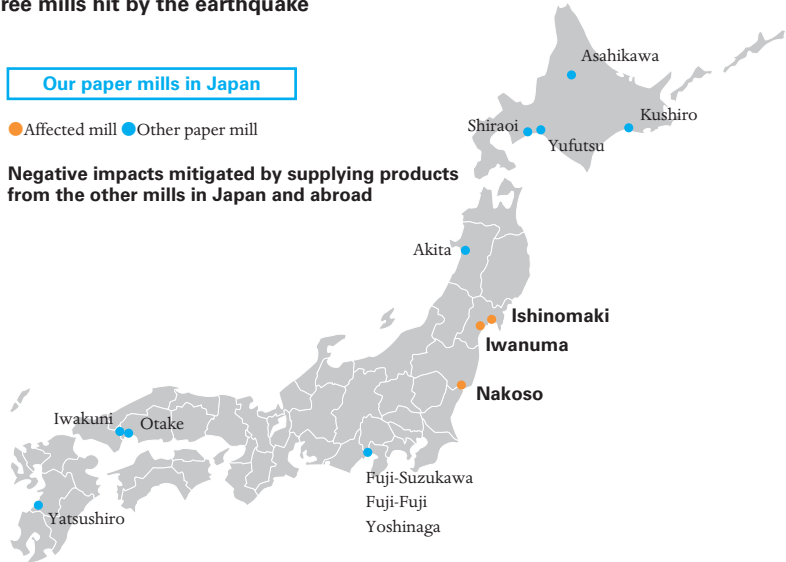
Fiscal year	2009	2010	2011 estimate
Results (¥ billion)			
Sales	¥1,095.2	¥1,099.8	¥1,050.0
Operating income	43.1	35.6	30.0
Net income	30.1	(24.2)	(12.0)
Sales volume (kt)			
Paper	4,763	4,692	4,065
Paperboard	1,497	1,571	1,599

Q2 How extensive was the earthquake damage and what did you do to restore operations?

We were forced to halt operations at the Ishinomaki Mill, the Iwanuma Mill, and the Nakoso Mill because the damage to them was especially severe. I immediately issued an emergency declaration to group employees and I then convened an emergency committee to lead the repair and restoration work. In the disaster area, damage to the Ishinomaki Mill was most severe because it was hit directly by the tsunami, and with much debris scattered throughout the site. On seeing the catastrophe first hand in late March, I was stunned for a moment; but seeing that our advanced N6 machine was sitting unhurt, I quickly regained confidence that the Ishinomaki Mill could be put back into operation.

Employee morale was extremely high despite the disaster, and through the efforts of the entire group, we had completely repaired the Nakoso and the Iwanuma Mills by May. At the Ishinomaki Mill, which is our largest facility for making printing paper, the supply of electricity resumed in June, our own generating equipment was back in service in August, and we started to ramp up production in September. We were able to resume operations earlier than expected thanks to the hard work of employees throughout the group and to the cooperation and support of a variety of people. I would like to extend my heartfelt thanks to everyone involved.

Three mills hit by the earthquake



N6 paper machine right after the earthquake



Paper machine on the 2nd floor (almost remained safe)



N6 packing machine on the 1st floor (heavily damaged)

Ishinomaki mill recovering from the earthquake

After the earthquake



Main gate

4 months later



After the earthquake



Coated paper finishing room

4 months later



North gate



Water supply No1 street



N2 street



Stock preparation No2



Q3 Given the weak domestic demand for printing and other types of paper, what initiatives will you take to increase profits going forward?

We have to first turn the domestic paper business around. Our main mills were damaged by the earthquake in March, but structural changes in a shrinking domestic paper market continue unabated. We prepared and launched a medium-term revitalization plan in August 2011 that includes production restructuring and personnel reductions. The restructuring will create an optimal groupwide production structure in terms of product demand, profitability, raw materials, and energy consumption, while focusing on future trends in paper demand.

The second initiative is to review how the group's business resources are allocated and to develop new businesses. In our Third Medium-Term Business Plan, we moved forward with preparations to develop new and profitable businesses outside the paper and pulp segment. The group has an array of non-paper businesses that use wood resources. We seek to strengthen and expand them and transform ourselves into a corporate group that uses wood resources in diverse businesses. We are also developing functional materials by utilizing our papermaking technologies.

We expect these initiatives to raise operating profit to ¥62 billion in FY 2013.

Revitalization plan: Machine shutdown

15% reduction of paper production capacity
(5,160 kt → 4,360 kt)

Shutdown 12 machines (8 Paper Machines and 4 Coating Machines)

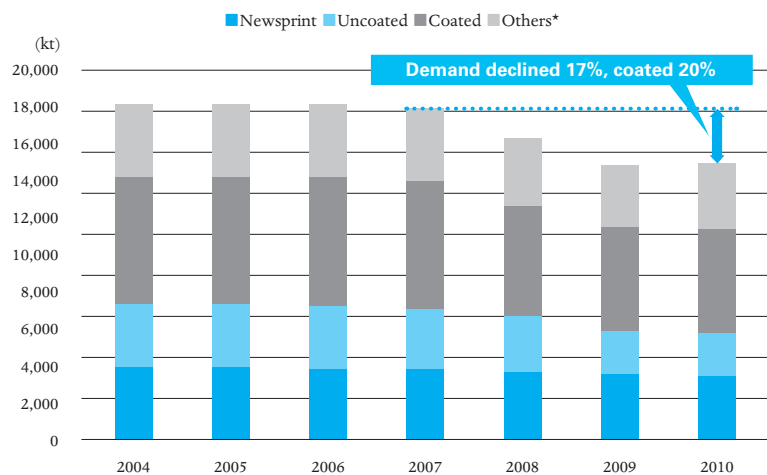
Shutdowns to be completed by the end of Sept. 2012

Mill	PM	CM	Capacity
Ishinomaki	2	1	(240) kt
Iwanuma	1	1	(100) kt
Fuji	4	1	(430) kt
Iwakuni	—	1	(10) kt
Yoshinaga	1	—	(90) kt
(increase by products' shift)			70 kt
Total	8	4	(800) kt

All machines at Fuji-Suzukawa will be shutdown

Market trends: Paper demands in Japan

No bounceback from the steep demand decline after the Global Financial Crisis in 2008

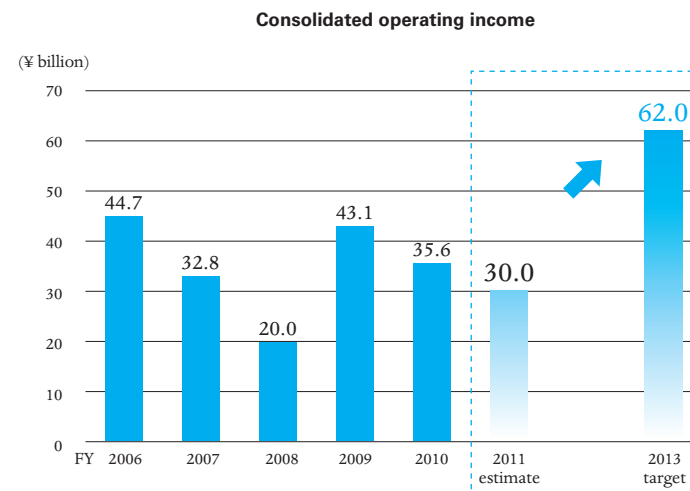


* Domestic demand = Domestic shipments + imports

(Source: Japan Paper Association)

Medium-term earnings outlook: Operating income

FY2013 operating income target:
¥62 billion



Q4 How are your overseas businesses doing? Has the earthquake prompted any changes?

Our direction in the overseas businesses remains unchanged. To reach our Group Vision 2015 goal of being one of the top five pulp and paper groups worldwide, we need to secure stable earnings in domestic businesses and achieve substantial growth in our overseas businesses. Higher earnings at Australian Paper, stronger partnerships with Yuen Foong Yu Paper Manufacturing and Lee & Man Paper Manufacturing, and growth in Asia and Oceania as a principal production and consumption region all contribute to profit growth at Nippon Paper Group.

Overseas businesses

Lee & Man

Paperboard mill: China 4
Capacity: 4,550kt/yr



YFY Cayman

Corrugating box plants: China 12, Taiwan 5, Vietnam 3
Capacity: 1.4bm²/yr
Paperboard mill: China 1, Taiwan 2
Capacity: 1,100kt/yr



Australian Paper

Paper & Paperboard mill: Australia 2
Capacity: 590 kt/yr



Q5 What are your thoughts on the Group Vision 2015 and how does it correlate with the Third Medium-Term Business Plan and medium-term revitalization plan?

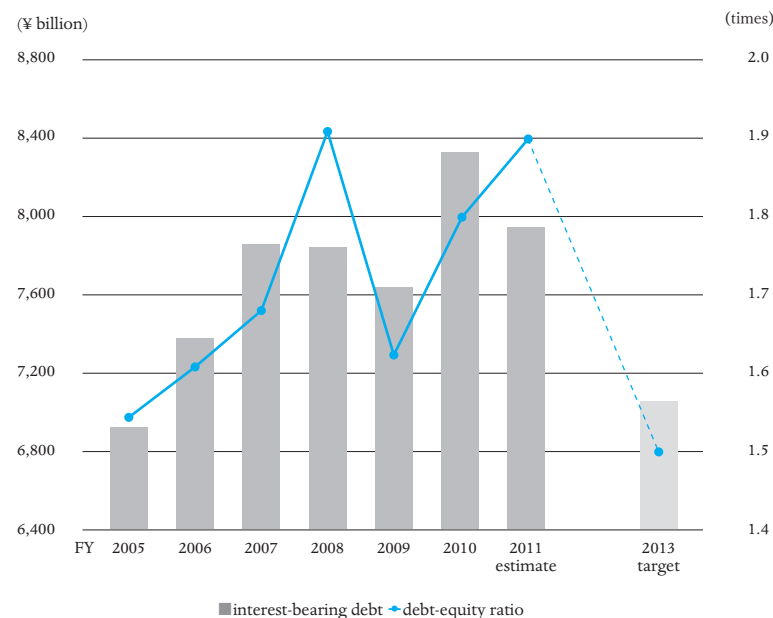
The targets cited in our Group Vision 2015 are unchanged. Our Third Medium-Term Business Plan targets operating income of ¥55 billion in fiscal 2011, and although this will unfortunately be difficult to achieve, we have taken steps to achieve our Group Vision in the five areas of downsizing the domestic paper business to 80% of its former size, growing business in overseas markets, implementing a resource procurement strategy, enhancing group flexibility and management efficiency, and developing new businesses. The medium-term revitalization plan makes necessary adjustments in the direction of our domestic paper business.

Q6 What are your thoughts on future capital policies?

Interest-bearing debt totaled ¥834.1 billion at the end of March 2011, an increase of ¥69.7 billion from the end of March 2010, due to our need to quickly secure cash and cash equivalents to prepare for demand once post-earthquake recovery gets under way. This caused our debt-equity ratio to rise to 1.8 times.

Going forward, we will basically work to improve our balance sheet by prioritizing the allocation of cash flow to the repayment of loans. Our Third Medium-Term Business Plan targets a debt-equity ratio of 1.5 times, and we seek to achieve this level by the end of fiscal 2013.

Interest-bearing debt and debt-equity ratio



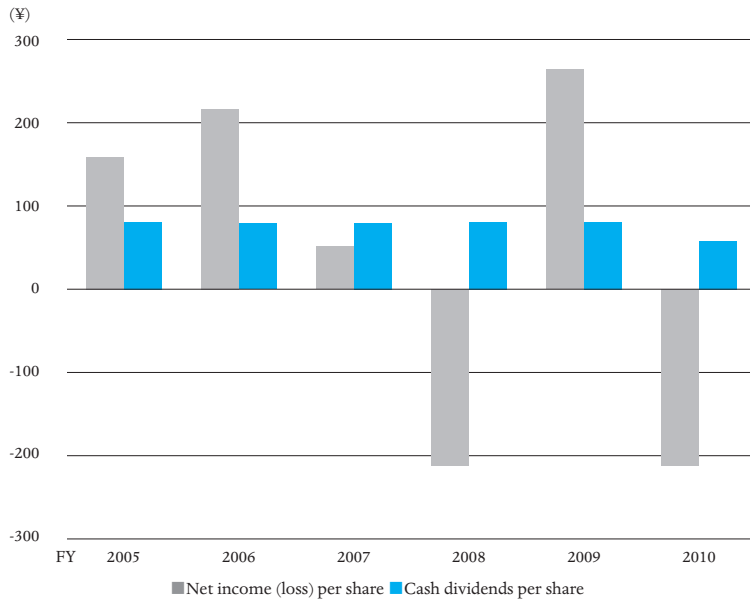


Q7 Considering that the year-end dividend was reduced from ¥40 to ¥20 as a result of the earthquake, could you explain the group's future policies on returning profits to shareholders?

Earnings in our core pulp and paper business tend to be significantly affected by cyclical factors, but with regard to shareholder returns, our basic policy is to maintain stable dividends at a sustainable level. We once considered not paying a year-end dividend in the wake of the large losses caused by the earthquake, but as we believe it is important to maintain stable dividends, we decided to pay a year-end dividend of ¥20*. While maintaining our stable dividend policy, we intend to base our decision on comprehensive consideration of the group's performance, level of retained earnings, and other similar factors. We again ask for shareholders patience in this regard.

* The annual dividend was ¥60: the ¥40 interim dividend plus the ¥20 year-end dividend.

Net income (loss) per share and cash dividends per share



We sustained major damage from the unprecedented disaster caused by the earthquake, but to thrive amid increasingly rigorous international competition, the Nippon Paper Group is committed to implementing its Paper Business Revitalization Plan and grow overseas business.



2011 Features

28 Feature 1 Paper Business Revitalization Plan

33 Feature 2 Acquisition of Shares in Lee & Man Paper Manufacturing Limited



Feature 1

Paper Business Revitalization Plan

The Nippon Paper Group prepared a plan to revitalize the group's paper business. It is designed not only to achieve recovery at mills affected by the March 11 earthquake but also to strengthen our position in the increasingly competitive domestic paper market. The plan has five major themes:

- 1**
 Establish a production structure commensurate to demand
- 2**
 Centralize production at highly productive machines
- 3**
 Reduce costs by optimizing pulp production
- 4**
 Reduce energy costs (progress toward a zero oil consumption policy)
- 5**
 Other (reduce number of unprofitable product items and optimize the work force)

1 Establish a production structure commensurate to demand

We expect the domestic paper market to contract by 1.5% per year and estimate that our group paper sales volume in 2013 will be down 420,000 t from 2010. Despite demand slowly declining, our capacity utilization rates will improve substantially to 95% for the paper business as a whole and 98% for coated paper by making around 15% (800,000 t) cut in the group's paper production capacity so that we are essentially operating at full capacity.

Establish production structure commensurate with demand

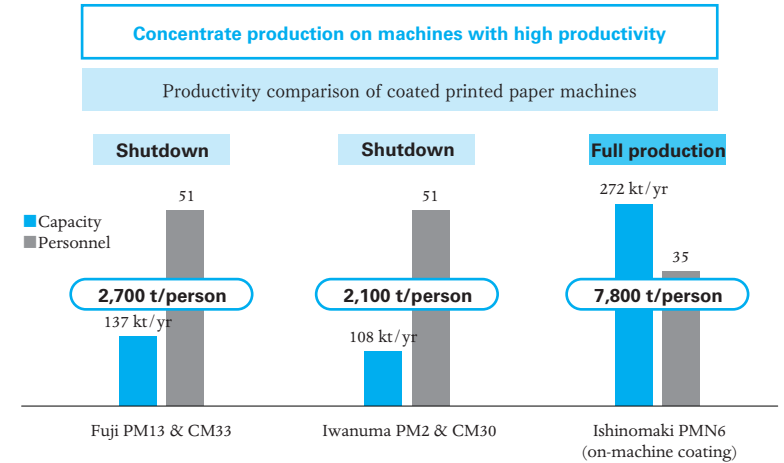
Shut down 12 machines (8 paper machines, 4 coating machines)

Complete shutdown by end of September 2012

	FY2010		FY2013 forecast	Without capacity reduction
Paper capacity utilization	89%	➔	95%	81%
Production capacity	5,160 kt	(800) kt	(4,360) kt	5,160 kt
(Sales volume)	(4,580) kt	(420) kt	(4,160) kt	(4,160) kt

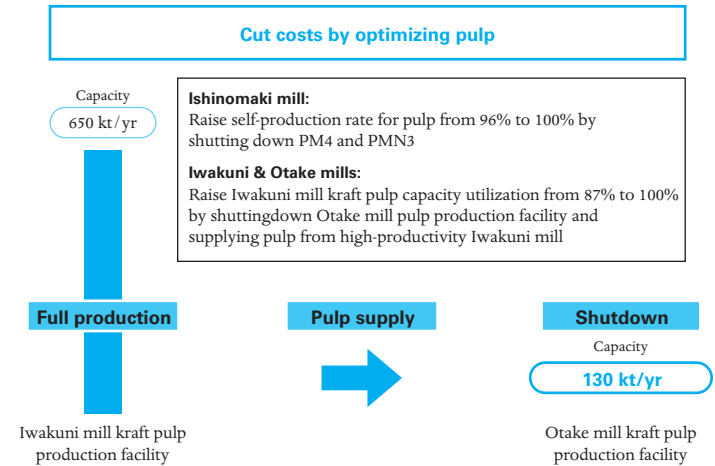
2 Centralize production at highly productive machines

We plan to cut costs by centralizing production at highly productive paper machines. Production volume per employee is 7,800 t at the Ishinomaki N6 paper machine at which we are centralizing production versus under 3,000 t at the coated paper production facilities that we are shutting down.



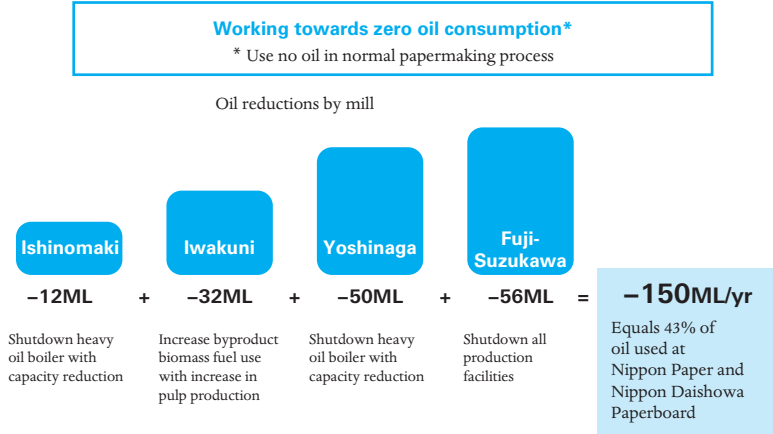
3 Reduce costs by optimizing pulp production

We are able to reduce raw material costs by maximizing pulp production capacity at our mainstay pulp facility. We plan to become 100% self-sufficient in pulp by reducing production capacity at the Ishinomaki Mill. We are also shutting down the pulp facility at the Otake Mill and will centralize pulp production at the Iwakuni Mill, which has a highly competitive pulp production facility, to lower overall costs.



4 Reduce energy costs (progress toward zero oil consumption)

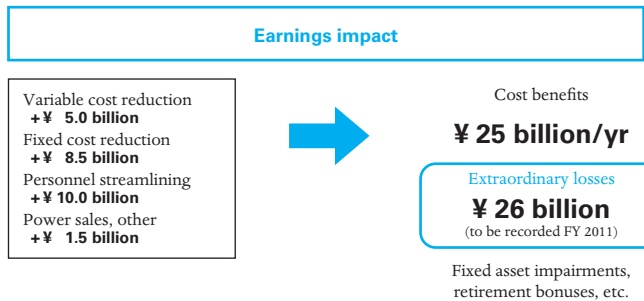
We are shutting down heavy oil boilers at our Ishinomaki, Iwakuni, and Yoshinaga mills. We will also stop using heavy oil at the Fuji-Suzukawa Mill in conjunction with the closure of all production facilities there. As a result, we are reducing heavy oil consumption by 150,000 kL per year, which accounts for 43% of the total oil consumption at Nippon Paper Industries and Nippon Daishowa Paperboard.



5 Other (reduce number of unprofitable product items and optimize the work force)

We are withdrawing from unprofitable products such as some export items and glossy inkjet paper and cutting costs by improving productivity with a smaller number of brands. We also plan 1,300 job cuts (approximately 15% of our work force, including administrative positions) in keeping with a 15% reduction in paper production capacity.

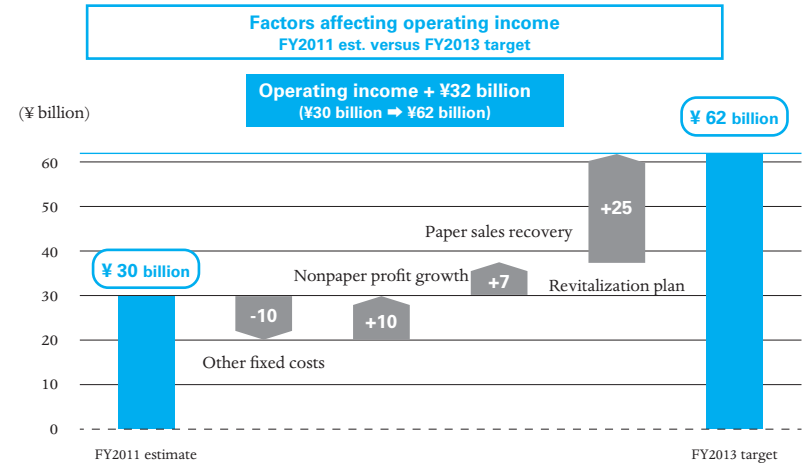
By putting this plan into action, we expect a full earnings improvement effect of ¥25 billion per year in 2013 at the latest, breaking down into ¥5.0 billion in lower variable costs, ¥8.5 billion in lower fixed costs, ¥10 billion in reduced labor costs, and ¥1.5 billion in revenues from selling surplus electricity that will result from production capacity cuts and other moves. We also plan to take a one-time charge of ¥26 billion to cover extraordinary expenses including fixed asset impairment losses and costs associated with special retirement benefits.



Our consolidated medium-term earnings forecast targets operating income in fiscal 2013 of ¥62 billion versus our fiscal 2011 operating income forecast of ¥30 billion.

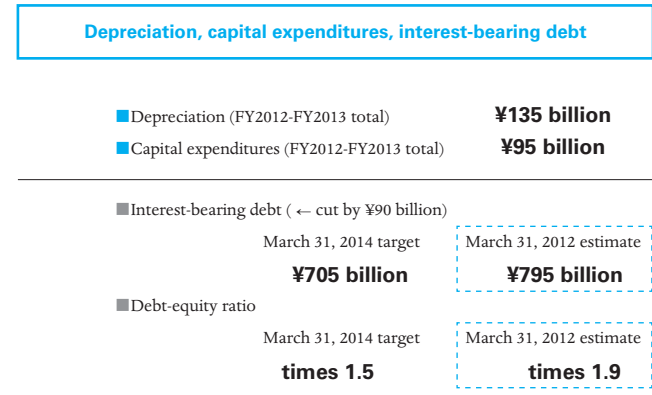
A negative factor for profits is an estimated ¥10 billion in fixed expenses of the earthquake-damaged mill booked as an extraordinary loss in fiscal 2011 to be recorded as a manufacturing cost.

We estimate positive factors for profits totaling ¥42 billion, breaking down into ¥10 billion in operating income growth in our non-paper businesses, ¥7 billion from a recovery in paper sales volumes, and ¥25 billion from the revitalization plan.



We estimate depreciation over two years at ¥135 billion and capital expenditure totaling ¥95 billion.

We plan to reduce interest-bearing debt by ¥90 billion over two years and to improve the debt-equity ratio to 1.5 by the end of March 2014.





2011 Features

28 Feature 1 Paper Business Revitalization Plan

33 Feature 2 Acquisition of Shares in Lee & Man Paper Manufacturing Limited



Feature 2

Acquisition of Shares in Lee & Man Paper Manufacturing Limited

In August 2011, Nippon Paper Group, Inc. announced the acquisition of a 3.67% stake in China's second-largest containerboard manufacturer Lee & Man Paper Manufacturing Limited (Lee & Man Paper). Combined with the shares acquired in June 2010, this gives Nippon Paper Group a 15.32% stake in the company, which we plan to make an equity-method affiliate.

Background

China's paperboard market continues to record robust growth even when benchmarked to the country's paper market. We forecast stable demand in the coming years as the standard of living in China continues to improve. There are two main suppliers in China's containerboard industry, since only companies of substantial size and competitiveness can satisfy such fast-increasing demand.

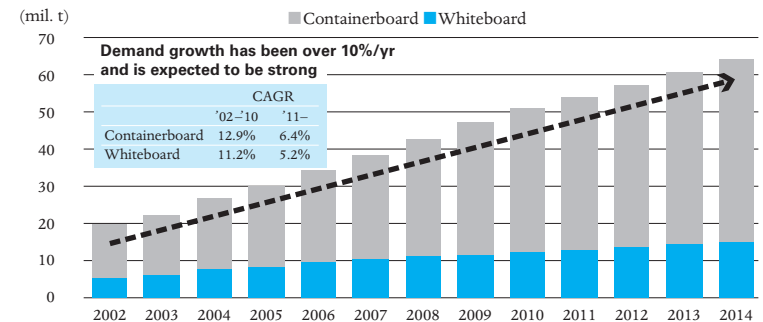
Lee & Man Paper is one of the big two containerboard companies in China. It has highly productive mills close to where the products are consumed and has a competitive edge in infrastructure as well, since all of its mills have their own wharfs. As a listed company, Lee & Man Paper has a solid balance sheet and excellent corporate governance structure.

Nippon Paper Group's basic strategy for doing business in China is collaborating with established major companies, because we can grow the business more quickly as well as reduce the risk. We believe Lee & Man Paper is an excellent partner in this respect.

We thus concluded a business alliance agreement with Lee & Man Paper Manufacturing and acquired a stake in the company in June 2010. Under the terms of the agreement we assigned two directors to the company and have run human resource and technological exchange programs to help start up its new white paperboard facility.

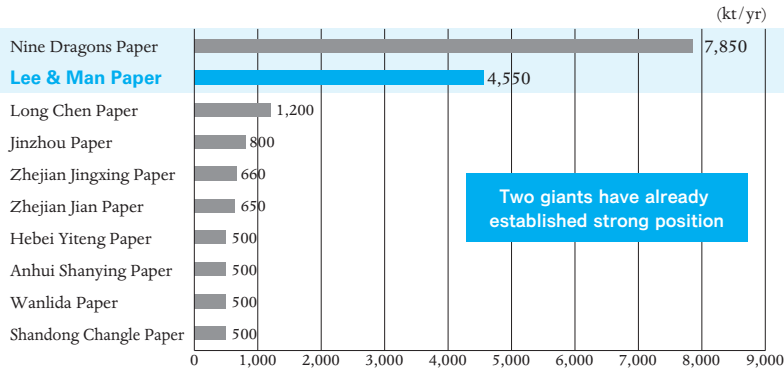
We decided to acquire additional shares in Lee & Man Paper to accelerate business growth for both companies in the Chinese market.

Chinese paperboard consumption (2002-2014)



Source: China Paper Association (2002-2010), RISI(2011-2014)

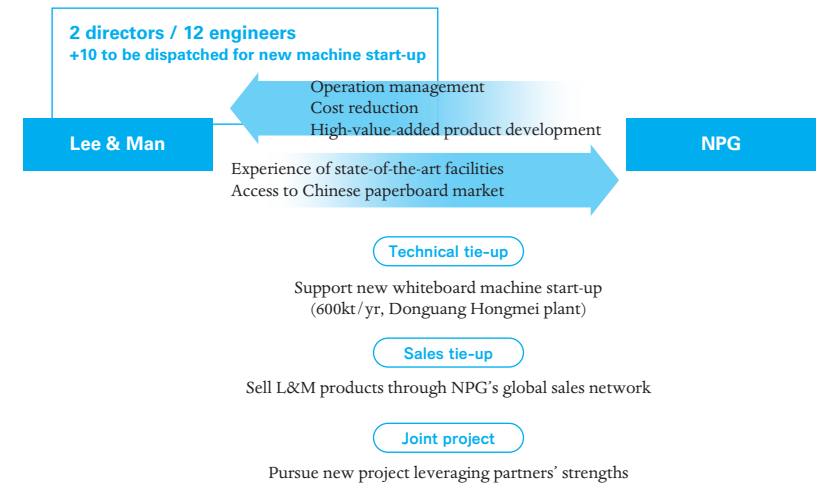
Containerboard capacity of major players in China
(2009, kt/yr)



Two giants have already established strong position

Source: "ALMANAC OF CHINA PAPER INDUSTRY 2010" (edited by China Technical Association of Paper Industry)

Partnership with L&M is a key to penetrating into the growing markets



Profile

Name: Lee & Man Paper Manufacturing Limited
Fiscal 2010 earnings: Sales HK\$14 billion; net income HK\$1.8 billion
Production capacity: 4.55 million t/yr of containerboard (to be increased to 6.55 million t/yr)
Nippon Paper Group's shareholding: 15.32%

About Lee & Man Paper

Highly competitive in paperboard business

- Sales: HK\$14b, Net profit: HK\$1.8b (FY2010)
- Strong financial position: debt-equity ratio 0.55 (Mar.31, 2011)
- High productivity with large-scale machines
- Low logistics costs due to its own wharf at each plant

Capacity : 4,550 → 6,550kt/yr

- Jiangsu Lee & Man** (Changshu Plant)
Capacity: 1,570kt/yr Machine: 4
- Chongqing Lee & Man** (Chongqing Plant)
Capacity: 400 → 800kt/yr Machine: 1 → 2
- Guangdong Lee & Man** (Donguang Hongmei Plant)
Capacity: 1,850 → 2,950kt/yr Machine: 4 → 6
- Donguang Lee & Man** (Donguang Huangyong Plant)
Capacity: 730kt/yr Machine: 4
- Jiangxi Lee & Man** (under construction)
Capacity: 0 → 500kt/yr Machine: 0 → 1

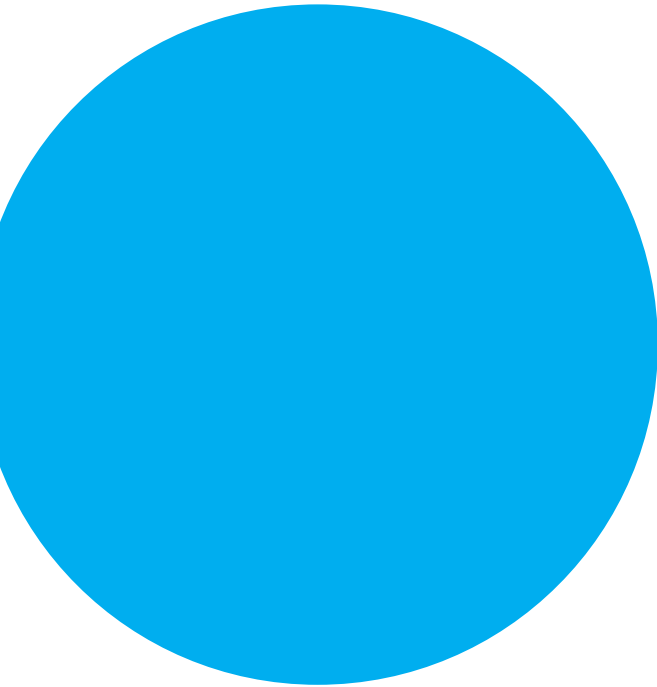


Outlook

We plan to maximize the effects of the alliance at an early stage and improve the earnings of both companies.

We are providing technical support in areas of operation control, cost reduction, and development of high value-added products. We have assigned 10 more engineers to the company to support the startup of a white paperboard machine with annual production capacity of 600,000 t/year. We see various advantages to this arrangement, such as gaining knowledge and experience of a state-of-the-art facility and selling Lee & Man Manufacturing products through our overseas sales network.

Going forward we plan to strengthen our collaboration with the company with new projects in areas outside the paperboard business as well.

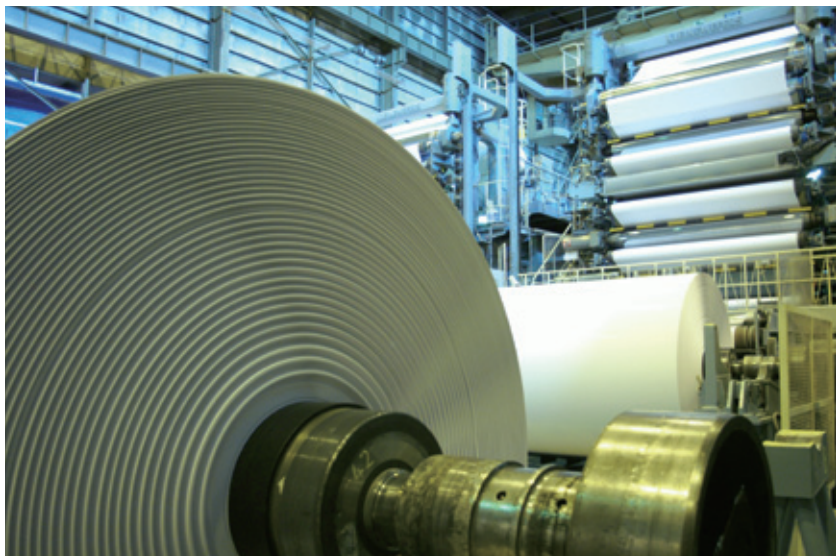


Business Segment Overview

- 38 Pulp and Paper Segment
- 45 Paper Related Segment
- 48 Housing and Construction Materials Segment
- 50 Other Segment



Pulp and Paper Segment



Supercalendered webs, Ishinomaki Mill

Our pulp & paper segment is the core of Nippon Paper Group's business and accounts for about 80% of group-wide sales. Its paper, paperboard, and household paper products lead the domestic industry in not only production and sales volumes, 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 are developing overseas growth markets and have achieved steady results, especially in Asia and Oceania.

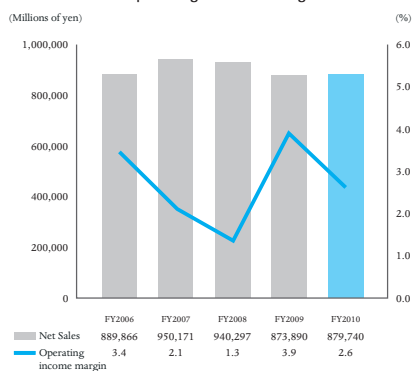
Domestic Business overview

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 (copier, thermal, carbonless, and forms paper), and industrial paper (cup stock, wallpaper base, and other converting paper; kraft paper, and other packaging paper). Our main products in these categories enjoy top market shares.

Pulp and Paper Net sales and operating income margin



We are the largest supplier of newsprint in Japan, selling directly to publishers through our own sales network. Newsprint is used for a limited time every day and, like electricity and water, is a product with a large public utility aspect. Nippon Paper Group's newsprint business focuses on providing stable supplies and maintaining consistent quality as the basics, while working to develop more lightweight products and make further quality improvements as well.

Our printing paper finds application in publications and advertising literature, including catalogs and advertising leaflets, and is used by a range of customers. In addition to the printing and publishing industries, they include companies in the retail (including mail order) and real estate industries, government agencies, and educational institutions. More than 95% of our printing paper is sold through distributors and wholesalers.

Nippon Paper Group also has large market shares in business communication paper and industrial paper—over 60% in cup stock paper, 50% in forms paper, and 30% in PPC and thermal paper. Ours is a leading brand enjoying a high degree of customer confidence in product quality.



Our highly cost-competitive paper products are manufactured in an integrated production process starting with woodchips. In product development and production technology, customers have lauded our active response to the trend of recent years toward lighter basis-weight papers.

We also deal in 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 oilproof 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 manufactures a broad range of specialty paper products such as tobacco-related paper products, paper for dictionaries, stencil paper, glassine, teabag filter paper, and water-soluble paper at its Harada (Shizuoka Prefecture), Suita (Osaka Prefecture), and Kochi (Kochi Prefecture) mills.



Pulp and Paper Segment

Paperboard

Wastepaper is the principal input of paperboard, making it highly economical and well-suited to societies that value resource recycling. We anticipate firm demand for paperboard as an essential material for product packaging and shipping. Our paperboard business produces mainly containerboard, which accounts for 77% of production volume and 63% of sales. The business also manufactures and sells white lined chipboard and a variety of specialty paperboard products, including gypsum board liner and paper core base. The main company in this business is Nippon Daishowa Paperboard, which operates five mills across Japan. Three are located near the Kanto region market, a major consuming area, giving it advantages for selling products and procuring wastepaper, the primary input. The other two are in the Tohoku and Chugoku regions (the northeastern and western parts of Honshu, the main island of Japan). Together they form a production network enabling nationwide sales coverage.



Household Paper Products

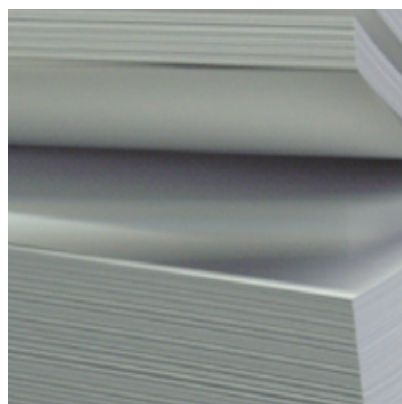
Our main household paper products are tissue paper and toilet paper. We supply the global Kleenex® and Scottie® brands throughout Japan. We also handle Poise® healthcare products and Kimwipes® industrial wipes through a partnership with Kimberly-Clark Corporation of the U.S. Leveraging our accumulated 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. The main operating company in this business is Nippon Paper Crecia, which supplies product throughout Japan from its five mills located with convenient access to major consumer markets.

Fiscal 2010 market conditions and review of operating results

Paper

Domestic paper demand declined 1.9% year-on-year in fiscal 2010 because of the Great East Japan Earthquake.

The rate of decline in domestic newsprint demand was relatively small in fiscal 2010 because of a boost from the FIFA Soccer



World Cup and Diet Upper House elections. Domestic demand was down 2.9% year-on-year, an improvement on the 3.6% year on year decline estimated by Nihon Shimbun Kyokai (the Japan Newspaper Publishers & Editors Association).

Our newsprint sales were relatively strong because of a recovery in sales among leading newspaper publishers (our main users) and efforts to expand sales, but sales were down to 2.6% year-on-year because of decline in volume immediately following the March 11 earthquake.

Domestic printing paper demand has not recovered since the sharp decline in the second half of fiscal 2008. Demand contracted by a further 2%, to 80% of the fiscal 2007 peak. Advertising spending gradually recovered because of the FIFA World Cup and economic stimulus measures such as the Eco-Point Program, but demand came under pressure from the shift toward online advertising.

Imports of coated paper, whose increase had been a cause for concern amid yen appreciation, declined 19% year-on-year due to a drop in domestic prices and higher costs because of a rise in pulp prices. Imported printing paper was down 16% year-on-year, accounting for less than 11% domestic market share, which itself shrank 3%.

Domestic manufacturer shipments decreased by 1% year-on-year in fiscal 2010, finally showing signs of bottoming out.

Our printing papers sales fell 1% year-on-year to 2,106,000 t in fiscal 2010. Sales showed a recovery in the second half, although total sales volume was weak. Sales volume continued to decline for non-coated paper, down 5% year-on-year, but was unchanged for coated paper. Domestic prices continued to fall, dropping to the level in the first half of fiscal 2008 before the price hike.



Demand for business communication paper and industrial paper continues to decline because of the economic downturn. Overall demand was up year-on-year only for copier paper and thermal paper in the business communication paper business, and wallpaper base in the industrial paper business.

Nippon Paper Group's volume of business communication paper fell 1.2% year-on-year, although copier paper and thermal paper sales were brisk, up 1.3% and 2.9% year-on-year, respectively. We expect further growth of these items.

Sales volume of industrial paper was weak, down 3.2% year-on-year. Demand slumped because of the industry slowdown, although shipping sack kraft paper sales alone grew a brisk 11.2% year-on-year.

Paperboard

Shipment volume in Japan's paperboard industry grew 2.9% year-on-year in fiscal 2010, showing a steady recovery from the demand slump stemming from the economic downturn. Although shipment volume is still down 7.8% from fiscal 2007 and yet to recover to levels common before the financial crisis that began in September 2008, trends in

Pulp and Paper Segment

fiscal 2010 can be seen as having reaffirmed solid demand for paperboard for packing and packaging. Demand was brisk from the consumer-electronics, electrical-machinery, and beverage industries thanks to a record heat wave and government attempts to stimulate the economy, such as the Eco Car subsidy program and Eco-Point System for household electrical goods.

Nippon Paper Group's domestic paperboard shipments grew 2.7% year-on-year to 1,514,000 t, down 12.3% from fiscal 2007. Raw material and fuel prices increased amid robust demand in emerging economies such as China. We posted lower sales and profits despite ongoing efforts to reduce fixed and variable expenses in an attempt to secure stable earnings, because cost savings were not enough to offset the increases in input costs.

Household paper products

Domestic manufacturer shipments of household paper products grew 2.3% year-on-year in fiscal 2010. A sharp increase in the pollen count from the previous year led to higher tissue paper shipments in the second half. The price of pulp was a factor behind a big rise in raw material and fuel costs. Sales



A Kleenex® tissue packaging line

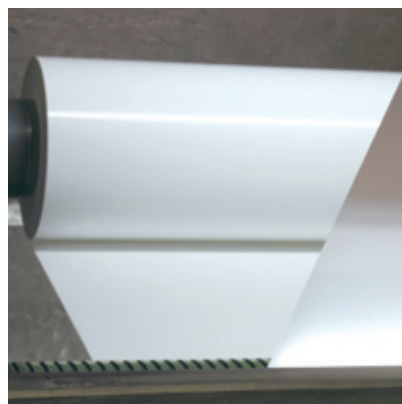
prices declined throughout the year amid a deflationary environment for consumer goods and increased competition in the industry.

Sales volume rose 3.8% year-on-year at Nippon Paper Crecia, exceeding the industry average. The company raised prices to avoid an earnings downturn due to higher raw material and fuel prices, which had some effect, but in the end posted sales and profit declines because the repercussions of earlier price declines was greater.

Outlook

Paper

Domestic demand for paper as a recording medium is declining as a result of a macroeconomic factor—the shrinking population—as well as the trend toward less reading and rapid spread of Web media. The March 2011 earthquake struck just as we were seeing signs of a domestic economic recovery in fiscal 2010. The quake's negative impact on domestic demand caused by the sudden slump in advertising demand was evident through the first half of fiscal 2011. Shipments of imported paper increased in the first half due to a decline in domestic supply capacity,



but we think shipments will be flat in the second half and beyond.

Price hikes are being proposed overseas amid another rise in fuel and raw material prices. In Japan, business communication paper prices bottomed after trending down. Paper companies have announced price hikes from the fall onward, because they need to pass higher costs onto prices to improve earnings.

To increase sales, we seek to differentiate our business by offering thinner grades that leverage our technological capabilities. We are also working to improve margins through rigorous cost cutting, including streamlining logistics and consolidating our brands. We plan to overcome earthquake damage and rebuild a production structure in keeping with demand to strengthen our competitiveness further.

Paperboard

The Japan Paper Association forecasts that domestic paperboard demand will rise 0.7% year-on-year in 2011. While this figure represents stable demand in some ways, considering last year's heat wave and the reactionary decline to economic stimulus packages, it is nowhere near peak demand levels. 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 increase sales volume by restoring our advantages as a specialized containerboard manufacturer in terms of quality, service, and delivery.

Household paper products

Although demand for household paper products is stable, the economy—which had been recovering before the earthquake—may turn down again, leading to consumer preference for low-priced products.

In these severe competitive conditions we are working to restore prices as a priority so we can record sustainable earnings over the longer term. We also plan to differentiate our products in terms of quality, launch new healthcare products, and revamp our Poise® range.

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.



Product samples on display at the Takebashi Paper Gallery

Pulp and Paper Segment

Exports

Business overview

Exports grew 8% year-on-year to 427,000 t in fiscal 2010.

Paper demand was brisk in the first half of 2010, and our paper exports increased 42% by volume year-on-year. Although demand remained solid, the tight supply situation eased in the second half, and with the additional factor of yen appreciation, our sales focused on price adjustment and profitability. We also made further efforts to reduce production and distribution costs and enhance our sales competitiveness.

Outlook

We have made it a priority to supply the more profitable domestic market following damage to the Nippon Paper Group's core production location in the March 11 earthquake. We expect large cuts in export volume with the exception of some specialty product items because our capacity to supply product will be reduced even after production is restored.



Paper-Related Segment



Press for printing liquid packaging cartons

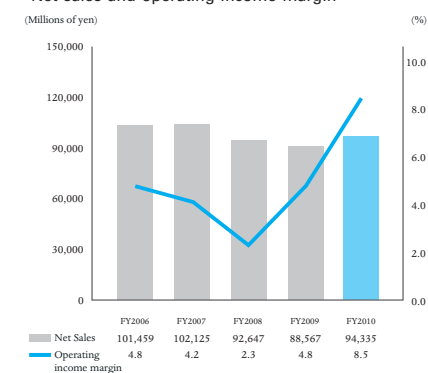
The paper-related segment encompasses two businesses. Our processed paper products business delivers value-added products made of paper, the core product of Nippon Paper Group. The chemical products and functional materials business utilizes technology and expertise available only to papermakers and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

Processed paper products Business overview

Nippon Paper-Pak is our 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. The company 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

Review of operating results in fiscal 2010

Severe summer heat pushed up sales of packaging for tea beverages and other soft drinks, but the Great East Japan Earthquake depressed sales in March and consumption of milk, a main application of the segment's product, continued a downward trend. As a result overall sales in this business fell 1.9% year-on-year; profits, however, improved thanks to steady cost cutting.

Outlook

Domestic demand for liquid packaging cartons has continued to decline due to a long-term downward trend in milk consumption in conjunction with a declining birthrate associated with the aging of Japanese society. Damage to dairy producers caused by the March 11 earthquake and a decline in consumer sentiment could place further downward pressure on demand.

Prices for carton base paper, the major input, have risen since January 2011, and prices for crude oil, resins, and other materials are also increasing.

We are taking several steps to maintain



NP-PAK gable-top cartons

earnings in this environment. We are working to establish a business infrastructure commensurate with the scale of our business, achieve additional cost reductions, and procure steady supplies of carton base paper. We are also trying to cultivate new demand by developing proprietary containers, as typified by our Ultraslim product, the world's smallest aseptic carton.

Chemical products and functional materials Business overview

Nippon Paper Chemicals is Japan's sole manufacturer of dissolving pulp, an input used in manufacturing rayon, cellophane, and other like products. The company's share of the domestic market is about 40%. It 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, used in plastic car parts and packaging films. It also manufactures



NS Fuji-pak aseptic carton line-up

functional films, including LCD optical films, using precision coating technology developed from the papermaking process, and has a top market share for films used in notebook PCs.

Review of operating results in fiscal 2010

Sales and profits increased over the previous year as all businesses performed well. Segment profits ascended to an all-time high. Export sales of dissolving pulp remained strong throughout the year, contributing significantly to profits. Overseas prices rose sharply on higher demand in emerging countries and greater substitute demand amid a sharp rise in prices for cotton, a main rayon input. Functional film sales and profits increased on growth in overseas sales and the release of new products. Other businesses also performed well.

Outlook

We expect dissolving pulp demand to continue rising, but future prices are uncertain because cotton prices are likely to calm down and there have been several announcements about the construction of



Functional coating resin is used on car bodies.

new facilities and resumption of operations at idle facilities overseas. We are building a new pulp machine at the Gotsu Works of Nippon Paper Chemicals, an initiative we hope will contribute to our efforts to develop a stable earnings structure. The machine is scheduled for completion in autumn 2011, and we plan to leverage it by joining the price-resistant market for high-value-added cellulose applications.

In the functional films business, we will be completing a new facility at the Higashimatsuyama Works of Nippon Paper Chemicals at the end of 2011. We intend to use it to expand sales of new and potentially high-volume LCD TV films. We are also working to the bolster earnings power of existing facilities by expanding high-value-added mobile phone films and leveraging our high-tech capabilities.



Hardcoat films are used in LCD applications.

Housing and Construction Materials Segment



Lumber products on warehouse shelves

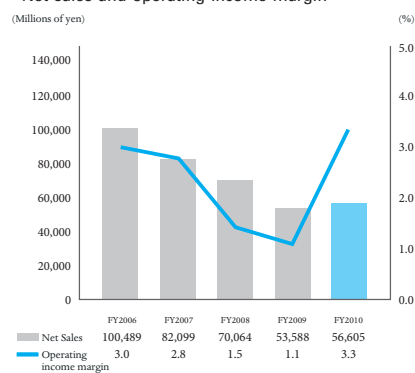
The housing and construction materials segment consists of three businesses. The lumber business developed out of our efforts to procure lumber for papermaking. The construction materials business works lumber into value-added products. And the civil engineering business originated in the plant-maintenance units of our paper mills.

Business overview

The lumber business mainly buys raw and processed lumber from domestic and overseas sources and sells it to building material suppliers, plywood manufacturers, and wholesalers. The business is also involved in a range of operations ancillary to lumber, including management of company-owned forests, procurement of papermaking inputs, and waste-product treatment. This diversified business is involved in every aspect of the lumber cycle. The construction materials

business manufactures and sells medium-density fiberboard (MDF) as well as wooden building materials such as flooring, walls, doors, and stairs.

Housing and Construction Materials Net sales and operating income margin



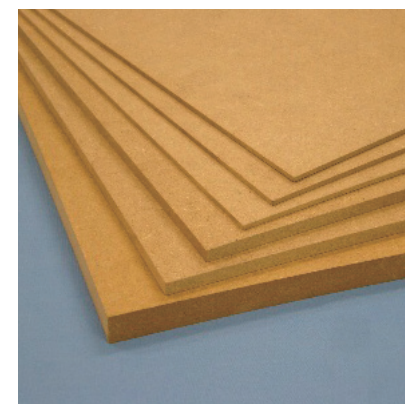
Interior finished with PAL products

Review of operating results in fiscal 2010

New housing starts increased by 3% year-on-year to 813,000 in 2010, as trends bottomed and then improved after a sharp fall in 2009. This drove up demand for lumber and construction materials, and as earnings in the construction materials business improved considerably as a result of sweeping restructuring, sales and profits in this segment increased.

Outlook

Although housing starts are recovering, we do not anticipate any major improvement over the short term. Moreover, we expect the Great East Japan Earthquake to put a short-term damper on spending. In the lumber business, we are working to ensure steady profits amid a shrinking market by improving margins via stepped-up sales of domestically produced lumber.



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. First among these is our beverages business, followed by the sports and leisure business, which draws on the group's real estate assets, and the warehousing and transportation businesses, which provide support to the pulp and paper business.

Beverages business Business overview

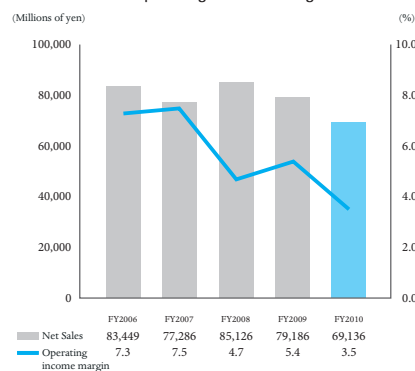
The beverages business is operated by Shikoku Coca-Cola Bottling, established in 1963 through investment funded entirely by Nippon Paper Industries' predecessor Jujo Paper. Shikoku Coca-Cola Bottling manufactures and sells Coca-Cola® brand beverage products in the Shikoku region.

Review of operating results in fiscal 2010

The soft drink market is contracting as a result of weak consumer spending amid an economic downturn, but demand increased in fiscal 2010 thanks to record heat. However, selling prices continued to

Other

Net sales and operating income margin



decline as competition among beverage makers intensified. Although Shikoku Coca-Cola Bottling's sales declined slightly in this environment, profits improved thanks to cost cutting.

Outlook

In the fiscal 2011 soft drink market, we expect competition among beverage makers to intensify further, due partly to a reactionary downturn following last year's severe heat. To secure profits in this environment, we built a new PET bottle filling line at the Komatsu Plant and launched it in February 2011. We will be working to reduce costs by raising the share of tea and water products produced in-house. We are also moving to further enhance competitiveness by bolstering our vending machine sales infrastructure and doing more streamlining, which includes reducing distribution costs.

Sports and leisure business Business overview

The sports and leisure business is operated by Nippon Paper Development, which operates ski resorts that use company-owned forests, an urban real estate business, and a variety of amusement facilities, including driving ranges, bowling alleys, and tennis courts.

Review of operating results in fiscal 2010

The leisure population is shrinking in line with the rapid aging of Japanese society. Per-person leisure expenditures also appear to be falling as consumers tighten their belts further amid the economic downturn. Nippon Paper Development's Malnuma Kougen Resort

had fewer visitors, resulting in lower sales and profits, but rigorous cost cutting kept operations in the black.

Outlook

Although we expect the business environment to remain challenging, we will work to maintain and improve business stability and earnings power by maximizing the use of existing business assets, securing new tenants, and continuing to cut costs. We are also working to enhance employee training and differentiate ourselves from the competition by offering better service.



A driving range operated by Nippon Paper Development

Nippon Paper Group Companies

Capital in ¥ million unless otherwise indicated, location, and equity share (%)

Pulp and Paper						
Consolidated Subsidiaries				Paper Australia Pty Ltd		
Nippon Paper Industries Co., Ltd.	104,873	Japan	100.00		AUD 1,459,000,000	Australia 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	YFY Cayman Co., Ltd.	USD 309,918,000	Cayman 20.35
Dyna Wave Holding Asia	HKD 1,187	Cayman	100.00			

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	54.49	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	Kunimoku House Co., Ltd.	20	Japan 100.00
Nippon Paper Unitec Co., Ltd.	40	Japan	100.00	N&E Co., Ltd.	3,750	Japan 70.00
Kokusaku Kiko Co., Ltd.	60	Japan	100.00	Daishowa Uniboard Co., Ltd.	490	Japan 100.00
Nippon Paper Ishinomaki Technology Co., Ltd.	40	Japan	100.00	South East Fibre Exports Pty. Ltd.	AUD 7,500,000	Australia 62.50
PAL Wood Material	4,000	Japan	100.00	WA Plantation Resources Pty., Ltd.	AUD 43,771,000	Australia 50.00
PAL Co., Ltd.	50	Japan	100.00			

Other						
Consolidated Subsidiaries				Equity-method Affiliates		
Nanko Unyu Co., Ltd.	160	Japan	100.00	Shikoku Coca-Cola Bottling Co., Ltd.	5,576	Japan 100.00
Kyokushin Transport Co., Ltd.	80	Japan	100.00	<i>and its 6 subsidiaries</i>		
Nippon Paper Logistics Co., Ltd.	70	Japan	100.00	Graphic Arts Communication	480	Japan 100.00
Hotoku Co., Ltd.	25	Japan	100.00	Resources Co., Ltd.	40	Japan 44.00
Nippon Paper Development Co., Ltd.	710	Japan	100.00			



Corporate Governance / CSR

54 Corporate Governance

56 CSR

58 Board of Directors and Corporate Auditors



Corporate Governance

Basic Approach

Nippon Paper Group (the Group) places highest priority on fair management in an effort to make management more transparent to our shareholders and stakeholders. Serving as the 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.

The Group’s governance structure features clearly defined organizations and roles, and we separate Group governance by the Company from business execution by 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 is made up of 10 internal directors as of March 31, 2011. 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, as well as monitoring business execution by group companies.

Group Management Committee

The Group Management Committee is subordinate to the Board of Directors. All directors and standing corporate auditors are members. It is responsible for deliberating on the basic management policies and strategies of the Company and Group and on important matters in conjunction with business execution by group companies. The presidents of major group companies report monthly to the committee on the status of business execution in an effort to promote the growth strategies of group companies and ensure rigorous management and compliance.

Board of Corporate Auditors

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

Internal Auditing Office

The Internal Auditing Office conducts internal audits of group companies and evaluates internal control and reporting systems related to financial reporting. Internal audits examine and evaluate the activities of group companies from a fair and independent perspective and provide them with advice and recommendations.

Executive Compensation

We determine base compensation for directors according to their responsibilities within the Group. Fixed compensation

accounts for 70% of this amount and variable compensation based on the previous year’s earnings performance accounts for 30%. For directors who serve concurrently at directly controlled subsidiaries, each company determines compensation based on similar policies, and this amount is added to the compensation paid by the Company.

We determine and pay compensation for standing auditors based on their responsibilities and negotiations with auditors at each company. This compensation is not linked to earnings performance.

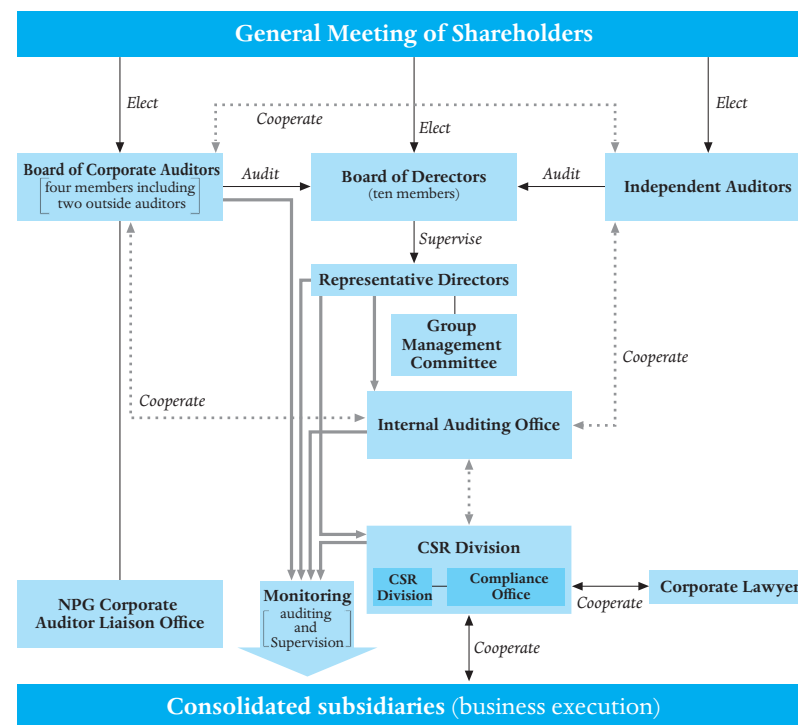
The payment of compensation to

directors and standing auditors is held within a total compensation limit approved by the General Meetings of Shareholders of each company.

Executive compensation limits

Executive category	Compensation limit
Director	¥360 million per year
Standing auditor	¥90 million per year

Corporate Governance Structure



CSR

In the course of doing business, companies come into contact with a variety of stakeholders and their operations have an impact on the economy, society, and the environment. Companies therefore need to conduct themselves in a manner conscious of the effects of their actions. Moreover, amid greater globalization not only of economic activity, but also various environmental and social issues, companies need to base their decisions on a better understanding of future opportunities and risks.

Nippon Paper Group's core business is manufacturing and supplying a product that is essential to people's lives and contributes to cultural development. As such, our primary input is wood, an excellent resource that can be put to work in a wide range of applications and, unlike fossil resources, be used almost indefinitely with sustainable management.

We therefore believe that it is important to address climate change and other environmental issues. And it means that the business challenges we face are closely related to issues of broad public interest. In this context, we of Nippon Paper Group are committed to contributing to society through serious CSR initiatives embedded in our business.

Sustainable raw materials procurement

Sustainable forest management

Forests are a resource that cannot be exploited efficiently without appropriate human care, and deterioration in forest ecosystems can lead to declines in their regenerative capacities.

Nippon Paper Group focuses on forest management to enable the semi-permanent procurement of resources. All our forests, whether in Japan and overseas, have been certified based on objective, third-party evaluations of sustainable forest management

practices. This guarantees sustainable forest management while allowing for healthy biodiversity.

Country	Certification Program	Certified
Australia	AFS	Oct. 2006
Chile	CERTFORCHILE	Dec. 2007
South Africa	FSC	Apr. 2003
Brazil	FSC	Dec. 2008
Japan	SGEC	Oct. 2007

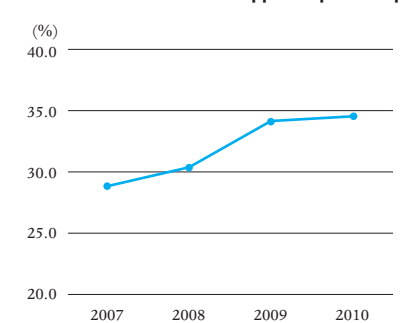
Additionally, we confirm through supply chain management that wood resources procured from outside the group have not been logged illegally, and that they were harvested using methods that are at once environmentally sound and socially conscious, including with respect to human rights and labor conditions.

Active use of Japanese forests

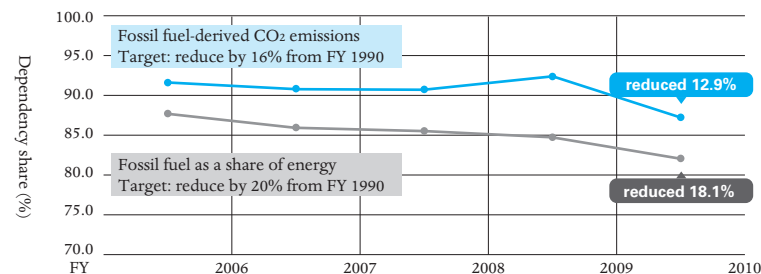
The Japanese forestry industry has had difficulty as a result of slumping lumber prices. This has led to a greater number of unmanaged forests and concerns about their degradation. The Japanese government announced the Forest and Forestry Revitalization Plan in December 2009. This sets targets intended to increase domestic lumber self-sufficiency from 24% to 50% over 10 years.

In the course of doing business activities,

Domestic lumber share of Nippon Paper Group



Green Action Plan 2010 results



Nippon Paper Group works to address the domestic public issue of revitalizing domestic forests and the forestry industry. We also actively use lumber sourced in Japan to help maintain stable supplies of quality wood resources at reasonable prices.

Climate change initiatives

Climate change is an important environmental issue. Nippon Paper Group has reduced its CO₂ emissions by 22.5% from 1990 to 7.12 million t in fiscal 2010 by shifting to biomass and waste for fuel, conserving energy in manufacturing and distribution processes, and contributing to carbon sequestration (CO₂ absorption) through appropriate management of company forests. We also installed 10 boilers by fiscal 2009 and actively sought to use biomass and waste fuels. This cut our dependency on fossil fuels as a share of energy usage from 67% in fiscal 1990 to 56% in fiscal 2010, helping to reduce both CO₂ emissions and fossil fuel consumption.

We have set targets to help counter global warming as part of our Green Action Plan 2010¹, an environmental action plan in line with the philosophy and fundamental policy set forth in our Charter on the Environment². But despite group-wide efforts to achieve these targets, we were unable to achieve them due mainly to a decrease in black liquor, a carbon-neutral biomass fuel, due to lower production than initially forecasted as a result of economic volatility.

At present, we face an ever greater need to substantially reduce CO₂ emissions as a means of countering climate change. Going forward, we will work to address the issue

further by improving efficiency based on our medium-term Paper Business Revitalization Plan, reducing CO₂ emissions in all our business activities, and sequestering carbon through proper management of our forests.

Rigorous compliance

Nippon Paper Group established the CSR Division in June 2008 and has bolstered its compliance structure. We actively cooperate with group companies through the Group Compliance Liaison Meeting and work to promote compliance throughout the entire group.

Our compliance training in fiscal 2010 focused on the Antimonopoly Act to build awareness of the act's amended version coming into force. We sought to provide the sales and purchasing departments of group companies with an overview of the act and amendment details with the goal of preventing any violations.

We also launched a second round of general compliance training. The program, implemented at all domestic consolidated subsidiaries, actively used group discussion to master a basic scheme for enhancing the ability to discern and respond to compliance risks in the workplace.

Going forward, we will be working to convey the importance of compliance and increase employee awareness through ongoing regular training.

For details, see our Sustainability Report to be published in February 2012.

1: Adopted in March 2007 and amended in April 2008

2: Adopted in March 2001 and amended in March 2007

Board of Directors and Corporate Auditors

(As of June 29, 2011)



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.



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 and
 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

Masaru Motomura

General Manager of Corporate
 Planning Division, and General
 Manager of Lee & Man Paper Project
 Office, 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.

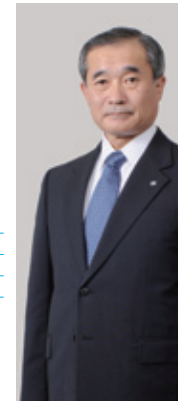


Director

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.



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 Hirakawa

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

1947 Born
 1971 Joined Jujo Paper Co., Ltd.
 2011 Appointed Director of
 Nippon Paper Group, Inc.

Senior Corporate Auditor

Hirotoishi Ishikawa

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

Corporate Auditor

Makoto Terao

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.

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Consolidated Five-Year Summary

Nippon Paper Group, Inc. and Consolidated Subsidiaries

	Millions of yen				Thousands of US dollars	
	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	FY2010 April 1, 2010–March 31, 2011	FY2010 April 1, 2010–March 31, 2011
Net sales	¥ 1,175,264	¥ 1,211,682	¥ 1,188,136	¥ 1,095,233	¥ 1,099,817	\$ 13,250,807
Cost of sales	948,852	969,466	958,464	844,033	854,238	10,292,024
Operating income	44,655	32,834	19,951	43,149	35,608	429,012
Ordinary income	47,088	32,800	17,944	37,547	31,599	380,711
Net income (loss)	22,952	5,661	(23,330)	30,050	(24,172)	(291,229)
Total assets	1,565,978	1,625,571	1,492,027	1,500,246	1,560,592	18,802,313
Total current assets	456,620	485,822	436,021	450,529	515,392	6,209,542
Property, plant and equipment, net	841,287	892,012	851,921	837,698	798,482	9,620,265
Total investments and other assets	268,069	247,736	204,083	212,017	246,718	2,972,506
Liabilities	1,095,456	1,145,812	1,067,475	1,040,267	1,151,829	13,877,458
Net assets	470,521	479,758	424,551	459,978	408,762	4,924,843
Interest-bearing debt	738,230	785,322	796,747	764,463	834,120	10,049,639
Depreciation	67,049	74,791	83,294	81,943	78,639	947,458
Capital investment	102,961	121,190	64,940	35,587	46,591	561,337
Free cash flow	(31,668)	(44,491)	18,988	45,974	21,987	264,904
Per share data			Yen			U.S. dollars
Net income (loss)						
Basic	21,570.23	5,200.50	(208.60)	264.03	(208.73)	(2.51)
Diluted	—	—	—	—	—	—
Net assets	421,626.81	407,492.96	3,601.71	3,940.06	3,496.49	42.13
Cash dividends	8,000.00	8,000.00	80.00	80.00	60.00	0.72
Ratios						
Operating income margin (%)	3.8	2.7	1.7	3.9	3.2	
Net income (loss) to net sales (%)	2.0	0.5	(2.0)	2.7	(2.2)	
Return on equity (ROE) (%)	5.2	1.3	(5.4)	7.0	(5.6)	
Return on invested capital (ROIC) (%)	4.6	3.4	2.4	4.0	3.5	
Equity ratio (%)	28.6	28.0	27.0	30.4	25.9	
Return on assets (ROA) (%)	3.5	2.7	1.9	3.2	2.7	
Debt/equity ratio (times)	1.6	1.7	1.9	1.6	1.8	
Number of employees	12,584	13,666	13,088	14,210	13,834	

Note: Amounts in US dollars are included solely for convenience and are translated at a rate of ¥ 83/\$, the approximate rate of exchange on March 31, 2011.

- 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 increased ¥60,346 million from ¥1,500,246 million at the end of fiscal 2009 to ¥1,560,592 million at the end of fiscal 2010. This was due mainly to an increase in funds and to investments in securities.

Current assets increased ¥64,863 million year-on-year to ¥515,392 million. This was due mainly to cash and cash equivalents rising by ¥80,698 million on an increase in funds.

Property, plant, and equipment decreased ¥39,216 million year-on-year to ¥798,482 million. This was due to our holding capital expenditures to ¥46,591 million, versus depreciation of ¥78,639 million.

Investments and other assets increased ¥34,701 million year-on-year to ¥246,718 million. This was due partly to our purchase of Lee & Man Paper stock.

Current and long-term liabilities increased ¥111,562 million year-on-year to ¥1,151,829 million. This was due to an increase in interest-bearing debt, including an increase in borrowings to increase funds.

Net assets were down ¥51,216 million year-on-year to ¥408,762 million. This was mainly because retained earnings declined by ¥33,441 million, net unrealized holding gains (losses) on other securities declined by ¥9,692 million, and translation adjustments shrank by ¥7,834 million.

Cash Flows

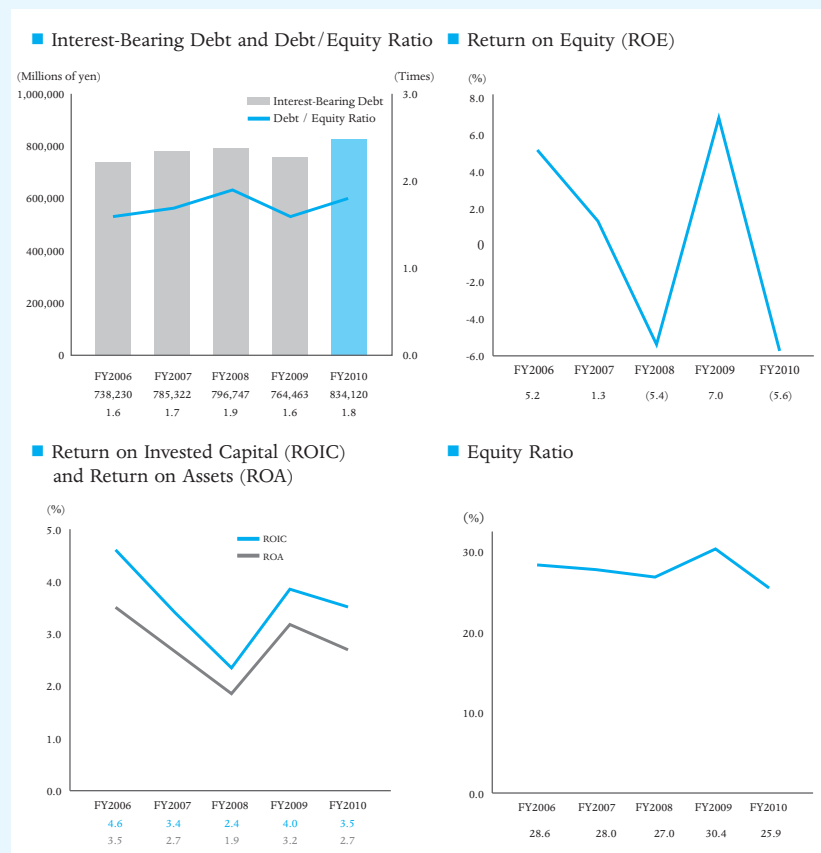
Consolidated cash and cash equivalents rose ¥80,698 million from the end of fiscal 2009 to ¥104,739 million at the end of fiscal 2010.

Net cash provided by operating activities decreased ¥1,454 million year-on-year to ¥115,454 million, due mainly to a loss before income taxes and minority interests in consolidated subsidiaries of ¥38,513 million, depreciation of ¥78,639 million, and earthquake loss reserves of ¥46,044 million.

Net cash used in investing activities increasing ¥22,533 million year-on-year to ¥93,467 million, due mainly to purchases of investments in securities of ¥52,140 million, including stock in Lee & Man Paper, and purchases of property, plant and equipment of ¥44,341 million.

Net cash provided by financing activities increasing by ¥97,267 million to ¥59,053 million, due mainly to short-term borrowings rising by ¥68,834 million.

Trends in Nippon Paper Group's cash flow indicators are presented below.



	FY2006	FY2007	FY2008	FY2009	FY2010
Equity ratio (%)	28.6	28.0	27.0	30.4	25.9
Equity ratio based on market capitalization (%)	28.5	16.2	17.9	18.6	13.1
Interest-bearing debt / cash flow (times)	9.8	10.6	9.5	6.5	7.2
Interest coverage ratio (times)	11.7	8.0	7.8	10.8	10.2

- 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, tax, 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

In the wake of major natural disasters, the Nippon Paper Group's performance and financial position could be negatively impacted by unanticipated costs associated with repairing damage to production, distribution, and sales locations as well as opportunity losses from production shutdowns and damage to product and inputs.

(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, 2010 and 2011

Assets	Millions of yen		(Note 3) Thousands of U.S. dollars
	2010	2011	2011
Current assets:			
Cash and cash equivalents (Note 17)	¥ 24,041	¥ 104,739	\$ 1,261,916
Receivables:			
Notes and accounts receivable: (Notes 17 and 20)			
Trade	206,389	192,597	2,320,446
Unconsolidated subsidiaries and affiliates	18,457	19,305	232,590
Other	17,966	13,420	161,687
Loans receivable from unconsolidated subsidiaries and affiliates	10,519	7,621	91,819
Allowance for doubtful receivables	(3,285)	(774)	(9,325)
Inventories (Note 5)	153,469	141,358	1,703,108
Deferred tax assets (Note 13)	9,998	26,112	314,602
Other current assets (Note 8)	12,972	11,011	132,663
Total current assets	450,529	515,392	6,209,542
Property, plant and equipment:			
Land	227,405	226,156	2,724,771
Buildings and structures	486,154	482,832	5,817,253
Machinery and equipment	2,174,822	2,155,223	25,966,542
Construction in progress	9,679	17,529	211,193
Other	31,107	31,443	378,831
	2,929,169	2,913,185	35,098,614
Less accumulated depreciation	(2,091,470)	(2,114,703)	(25,478,349)
Property, plant and equipment, net: (Note 7)	837,698	798,482	9,620,265
Investments and other assets:			
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 17)	94,793	105,340	1,269,157
Investments in securities (Notes 7, 17 and 19)	65,398	90,460	1,089,880
Deferred tax assets (Note 13)	11,000	11,178	134,675
Goodwill	19,994	18,635	224,518
Other assets	57,772	22,664	273,060
Allowance for doubtful receivables	(36,942)	(1,562)	(18,819)
Total investments and other assets	212,017	246,718	2,972,506
Total assets (Note 21)	¥ 1,500,246	¥ 1,560,592	\$ 18,802,313

Liabilities	Millions of yen		(Note 3) Thousands of U.S. dollars
	2010	2011	2011
Current liabilities:			
Short-term borrowings: (Notes 6 and 17)			
Loans payable	¥ 162,186	¥ 230,657	\$ 2,779,000
Unconsolidated subsidiaries and affiliates	1,537	1,885	22,711
Current portion of long-term debt: (Notes 6, 7 and 17)			
Bonds and loans payable	55,650	59,894	721,614
Unconsolidated subsidiaries and affiliates	30	350	4,217
Notes and accounts payable:			
Trade (Notes 6, 7, 17 and 20)	102,435	100,974	1,216,554
Unconsolidated subsidiaries and affiliates (Note 17)	16,936	19,428	234,072
Other	42,959	42,154	507,880
Accrued income taxes	7,604	5,610	67,590
Allowance for loss on seismic disaster	—	46,044	554,747
Other current liabilities (Notes 6 and 13)	33,902	43,285	521,506
Total current liabilities	423,243	550,285	6,629,940
Long-term liabilities:			
Long-term debt: (Notes 6, 7, 17 and 20)			
Bonds and loans payable	532,387	529,923	6,384,614
Accrued retirement benefits (Note 8)	33,859	31,237	376,349
Deferred tax liabilities (Note 13)	34,385	30,741	370,373
Accrued environmental costs	773	601	7,241
Other long-term liabilities (Note 6)	15,617	9,040	108,916
Total long-term liabilities	617,023	601,544	7,247,518
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 2011 and – 116,254,892 shares in 2010	55,730	55,730	671,446
Capital surplus	266,254	266,254	3,207,880
Retained earnings	128,455	95,014	1,144,747
Less treasury stock, at cost:			
455,150.58 shares in 2011 and 441,257.82 shares in 2010	(1,267)	(1,296)	(15,614)
Total shareholders' equity	449,173	415,701	5,008,446
Accumulated other comprehensive income			
Net unrealized holding gain (loss) on other securities	2,819	(6,873)	(82,807)
Net deferred gain (loss) on hedges	336	(84)	(1,012)
Translation adjustments	3,983	(3,851)	(46,398)
Total accumulated other comprehensive income	7,138	(10,808)	(130,217)
Minority interests in consolidated subsidiaries	3,666	3,870	46,627
Total net assets	459,978	408,762	4,924,843
Total liabilities and net assets	¥ 1,500,246	¥ 1,560,592	\$ 18,802,313

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
	2010	2011	2011
Net sales (Note 21)	¥ 1,095,233	¥ 1,099,817	\$ 13,250,807
Cost of sales (Notes 21 and 22)	844,033	854,238	10,292,024
Gross profit	251,199	245,579	2,958,783
Selling, general and administrative expenses (Notes 8, 21 and 22)	208,050	209,970	2,529,759
Operating income (Note 21)	43,149	35,608	429,012
Other income (expenses):			
Interest expense	(11,001)	(11,308)	(136,241)
Interest and dividend income	4,162	2,809	33,843
Net gain on sales of investments in securities (Note 19)	1,016	861	10,373
Net loss on sales and disposal of property, plant and equipment	(924)	(1,281)	(15,434)
Loss on valuation of investments in securities (Note 19)	(1,458)	(2,312)	(27,855)
Gain on negative goodwill (Note 4)	8,392	—	—
Equity in earnings of affiliates	1,015	5,002	60,265
Insurance income (Note 10)	2,898	—	—
Loss on impairment of fixed assets (Note 9)	(3,400)	(83)	(1,000)
Loss on disaster (Note 10)	(3,038)	—	—
Loss on seismic disaster (Note 11)	—	(62,752)	(756,048)
Other, net	(1,243)	(5,057)	(60,928)
Income (loss) before income taxes and minority interests in consolidated subsidiaries	39,567	(38,513)	(464,012)
Income taxes: (Note 13)			
Current	(7,997)	(3,865)	(46,566)
Deferred	(1,146)	18,466	222,482
Total income taxes	(9,144)	14,600	175,904
Income (loss) before minority interests	30,423	(23,913)	(288,108)
Minority interests in consolidated subsidiaries	(372)	(258)	(3,108)
Net income (loss)	¥ 30,050	¥ (24,172)	\$ (291,229)
	Yen		U.S. dollars
Amounts per share: (Note 24)			
Net income (loss):			
Basic	¥ 264.03	¥ (208.73)	\$ (2.51)
Diluted	—	—	—
Cash dividends	80.00	60.00	0.72

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Nippon Paper Group, Inc. and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars
	2011	2011	2011
Loss before minority interests	¥ (23,913)		\$ (288,108)
Other comprehensive income :			
Net unrealized holding loss on other securities	(9,738)		(117,325)
Net deferred loss on hedges	(271)		(3,265)
Translation adjustments	(4,858)		(58,530)
Share of other comprehensive income of affiliates accounted for using the equity method	(3,058)		(36,843)
Total other comprehensive income (Notes 12 *2)	(17,926)		(215,976)
Comprehensive income (Notes 12 *1)	¥ (41,839)		\$ (504,084)
(Detail)			
Comprehensive income attributable to shareholders	¥ (42,119)		\$ (507,458)
Comprehensive income attributable to minority interests	279		3,361

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Nippon Paper Group, Inc. and Consolidated Subsidiaries

	Millions of yen					
	Shareholders' equity					
	Number of shares of issued common stock	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity
Balance at March 31, 2009	112,253,463.00	¥ 55,730	¥ 256,033	¥ 105,405	¥ (1,233)	¥ 415,935
Cash dividends paid	—	—	—	(8,949)	—	(8,949)
Net income	—	—	—	30,050	—	30,050
Purchase of treasury stock	—	—	—	—	(40)	(40)
Disposition of treasury stock	—	—	(2)	—	11	8
Increase by share exchange	4,001,429.00	—	10,223	—	(3)	10,219
Changes in the scope of consolidation	—	—	—	1,949	—	1,949
Changes in equity in affiliates accounted for by equity method-treasury stock	—	—	—	—	(0)	(0)
Changes in items other than shareholders' equity, net	—	—	—	—	—	—
Balance at March 31, 2010	116,254,892.00	55,730	266,254	128,455	(1,267)	449,173
Cash dividends paid	—	—	—	(9,269)	—	(9,269)
Net loss	—	—	—	(24,172)	—	(24,172)
Purchase of treasury stock	—	—	—	—	(34)	(34)
Disposition of treasury stock	—	—	(0)	—	4	3
Changes in equity in affiliates accounted for by equity method-treasury stock	—	—	—	—	(0)	(0)
Changes in items other than shareholders' equity, net	—	—	—	—	—	—
Balance at March 31, 2011	116,254,892.00	¥ 55,730	¥ 266,254	¥ 95,014	¥ (1,296)	¥ 415,701

	Thousands of U.S. dollars (Note 3)					
	Shareholders' equity					
	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity	
Balance at March 31, 2010	\$ 671,446	\$ 3,207,880	\$ 1,547,651	\$ (15,265)	\$ 5,411,723	
Cash dividends paid	—	—	(111,675)	—	(111,675)	
Net loss	—	—	(291,229)	—	(291,229)	
Purchase of treasury stock	—	—	—	(410)	(410)	
Disposition of treasury stock	—	(0)	—	48	36	
Changes in equity in affiliates accounted for by equity method-treasury stock	—	—	—	(0)	(0)	
Changes in items other than shareholders' equity, net	—	—	—	—	—	
Balance at March 31, 2011	\$ 671,446	\$ 3,207,880	\$ 1,144,747	\$ (15,614)	\$ 5,008,446	

	Millions of yen					
	Accumulated other comprehensive income				Minority interests in consolidated subsidiaries	Total net assets
	Net unrealized holding gain (loss) on other securities	Net deferred gain (loss) on hedges	Translation adjustments	Total accumulated other comprehensive income		
Balance at March 31, 2009	¥ (1,568)	¥ 2,153	¥ (13,754)	¥ (13,168)	¥ 21,783	¥ 424,551
Cash dividends paid	—	—	—	—	—	(8,949)
Net income	—	—	—	—	—	30,050
Purchase of treasury stock	—	—	—	—	—	(40)
Disposition of treasury stock	—	—	—	—	—	8
Increase by share exchange	—	—	—	—	—	10,219
Changes in the scope of consolidation	—	—	—	—	—	1,949
Changes in equity in affiliates accounted for by equity method-treasury stock	—	—	—	—	—	(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	2,819	336	3,983	7,138	3,666	459,978
Cash dividends paid	—	—	—	—	—	(9,269)
Net loss	—	—	—	—	—	(24,172)
Purchase of treasury stock	—	—	—	—	—	(34)
Disposition of treasury stock	—	—	—	—	—	3
Changes in equity in affiliates accounted for by equity method-treasury stock	—	—	—	—	—	(0)
Changes in items other than shareholders' equity, net	(9,692)	(421)	(7,834)	(17,947)	203	(17,743)
Balance at March 31, 2011	¥ (6,873)	¥ (84)	¥ (3,851)	¥ (10,808)	¥ 3,870	¥ 408,762

	Thousands of U.S. dollars (Note 3)					
	Accumulated other comprehensive income				Minority interests in consolidated subsidiaries	Total net assets
	Net unrealized holding gain (loss) on other securities	Net deferred gain (loss) on hedges	Translation adjustments	Total accumulated other comprehensive income		
Balance at March 31, 2010	\$ 33,964	\$ 4,048	\$ 47,988	\$ 86,000	\$ 44,169	\$ 5,541,904
Cash dividends paid	—	—	—	—	—	(111,675)
Net loss	—	—	—	—	—	(291,229)
Purchase of treasury stock	—	—	—	—	—	(410)
Disposition of treasury stock	—	—	—	—	—	36
Changes in equity in affiliates accounted for by equity method-treasury stock	—	—	—	—	—	(0)
Changes in items other than shareholders' equity, net	(116,771)	(5,072)	(94,386)	(216,229)	2,446	(213,771)
Balance at March 31, 2011	\$ (82,807)	\$ (1,012)	\$ (46,398)	\$ (130,217)	\$ 46,627	\$ 4,924,843

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nippon Paper Group, Inc. and Consolidated Subsidiaries

Fiscal years ended March 31, 2010 and 2011

	(Note 3) Millions of yen		(Note 3) Thousands of U.S. dollars
	2010	2011	2011
Operating activities			
Income (loss) before income taxes and minority interests in consolidated subsidiaries	¥ 39,567	¥ (38,513)	\$ (464,012)
Adjustments to reconcile income (loss) before income taxes and minority interests in consolidated subsidiaries to net cash provided by operating activities:			
Depreciation	81,943	78,639	947,458
Amortization of goodwill	1,157	1,413	17,024
Increase (decrease) in allowance for doubtful receivables	667	(351)	(4,229)
Increase in allowance for loss on seismic disaster	—	46,044	554,747
Decrease in accrued retirement benefits	(6,428)	(2,327)	(28,036)
Decrease in accrued environmental costs	(134)	(171)	(2,060)
Interest and dividend income	(4,162)	(2,809)	(33,843)
Interest expense	11,001	11,308	136,241
Equity in earnings of affiliates	(1,015)	(5,002)	(60,265)
Net gain on sales of investment securities	(1,016)	(861)	(10,373)
Loss on valuation of investment securities	1,458	—	—
Net loss on sales and disposal of property, plant and equipment	924	1,281	15,434
Loss on impairment of fixed assets	3,400	—	—
Gain on negative goodwill	(8,392)	—	—
Insurance income	(2,898)	—	—
Loss on disaster	3,038	—	—
Changes in operating assets and liabilities:			
Receivables	(1,096)	11,868	142,988
Inventories	27,758	12,175	146,687
Payables	(10,983)	(676)	(8,145)
Other	(8,934)	22,152	266,892
	125,854	134,170	1,616,508
Interest and dividends received	5,099	3,610	43,494
Interest paid	(10,936)	(11,369)	(136,976)
Income taxes paid	(5,140)	(9,794)	(118,000)
Proceeds from insurance income	2,898	—	—
Payments for loss on disaster	(867)	(1,163)	(14,012)
Net cash provided by operating activities	¥ 116,908	¥ 115,454	\$ 1,391,012

	(Note 3) Millions of yen		(Note 3) Thousands of U.S. dollars
	2010	2011	2011
Investing activities			
Purchases of time deposits	¥ (217)	¥ (167)	\$ (2,012)
Withdrawals of time deposits	217	297	3,578
Purchases of property, plant and equipment	(41,321)	(44,341)	(534,229)
Proceeds from sales of property, plant and equipment	2,105	1,844	22,217
Purchases of investments in other securities	(3,334)	(52,140)	(628,193)
Proceeds from sales of investments in other securities	13,775	1,063	12,807
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(40,148)	—	—
(Increase) decrease in short-term loans	(1,559)	403	4,855
Long-term loans made	(260)	(204)	(2,458)
Collection of long-term loans	483	234	2,819
Other, net	(674)	(456)	(5,494)
Net cash used in investing activities	(70,934)	(93,467)	(1,126,108)
Financing activities			
Increase (decrease) in short-term borrowings	(17,579)	68,834	829,325
Proceeds from issuance and borrowings of long-term debt	64,500	57,350	690,964
Repayment of long-term debt	(73,840)	(55,724)	(671,373)
Purchases of treasury stock	(40)	(34)	(410)
Proceeds from sales of treasury stock	8	3	36
Cash dividends paid	(8,946)	(9,268)	(111,663)
Finance lease principal payments	(2,074)	(2,025)	(24,398)
Repayment to minority shareholders	(242)	(82)	(988)
Net cash (used in) provided by financing activities	(38,214)	59,053	711,482
Effect of exchange rate changes on cash and cash equivalents	1,008	(342)	(4,120)
Increase in cash and cash equivalents	8,768	80,697	972,253
Cash and cash equivalents at beginning of year	14,901	24,041	289,651
Increase due to inclusion of certain subsidiaries in consolidation	371	—	—
Cash and cash equivalents at end of year	¥ 24,041	¥ 104,739	\$ 1,261,916

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nippon Paper Group, Inc. and Consolidated Subsidiaries

March 31, 2011

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, 2011 and 2010 were 47 and 45, 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 as of March 31, 2011 and 2010 were 10 and 9, respectively. There were no unconsolidated subsidiaries under the equity method as of March 31, 2011 and 2010.

The number of unconsolidated subsidiaries and affiliates that do not apply the equity method were 89 and 40 as of March 31, 2011, and 90 and 40 as of March 31, 2010, 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, 2011 or 2010;
- (ii) Held-to-maturity securities are carried at cost and amortized by the straight-line method although the Company and consolidated subsidiaries had no such securities at either March 31, 2011 or 2010; 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 collectability of individual receivables.

(g) Allowance for Loss on Seismic Disaster

Allowance for loss on seismic disaster is provided for expenses necessary to restore fixed assets damaged by the Great East Japan Earthquake at an amount estimated as of March 31, 2011.

(h) 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.

(i) Foreign Currency Translation

All assets and liabilities denominated in foreign currencies other than those hedged by forward foreign exchange contracts, etc. is 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.

(j) Retirement Benefits

Accrued retirement benefits for employees have been provided mainly at an amount calculated based on the retirement benefit obligation less the fair value of the pension plan assets as of the balance sheet dates, as adjusted for unrecognized actuarial gain or loss, and unrecognized prior service cost.

The retirement benefit obligation is attributed to each fiscal year by the straight-line method over the estimated remaining years of service of the eligible employees.

Actuarial gain or loss is 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.

(Additional information)

Certain domestic consolidated subsidiaries decided to terminate retirement benefits to directors and statutory auditors by resolutions of 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.

(k) 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.

(l) Research and Development Costs

Research and development costs are charged to income as incurred.

(m) Derivatives

Certain consolidated subsidiaries have entered into various derivatives transactions in order to manage certain risks arising from adverse fluctuation in foreign currency exchange rates and interest rates. 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.

(n) Income Taxes

The Company and consolidated subsidiaries have adopted tax-effect accounting in accordance with an accounting standard which requires recognition of income taxes by the liability method. Under the liability method, deferred tax assets and liabilities are determined based on the 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.

(o) 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, 2011. See Notes 14 and 25.

(p) 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 are not disclosed because there were no potentially dilutive securities at March 31, 2011 and 2010.

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

2. Accounting Changes

- (a) Effective from April 1, 2010, the Company and its consolidated domestic subsidiaries adopted “Accounting Standard for Asset Retirement Obligations” (Accounting Standards Board of Japan (ASBJ) Statement No.18, March 31, 2008) and “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No.21, March 31, 2008).

As a result, operating income decreased ¥43 million (\$518 thousand) and loss before income taxes and minority interests in the consolidated financial statements increased ¥2,101 million (\$25,313 thousand) for the fiscal year ended March 31, 2011.

- (b) “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” (Practical Issues Task Force (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.

- (c) “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.

3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥83=U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2011, 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

Current fiscal year (from April 1, 2010 to March 31, 2011)

Not applicable

Previous fiscal year (from April 1, 2009 to March 31, 2010)

(Business combination through the acquisition)

- (1) 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.
- (2) Period of the acquired company’s results included in the consolidated financial statements
- From June 1, 2009 to December 31, 2009
- (3) Information on the calculation of acquisition cost
- 1) Breakdown of acquisition cost of the acquired company
 - Consideration for acquisition:
 - Acquired company’s stock AS\$686,296 thousand
 - Expenses directly attributable to the acquisition:
 - Advisory fees and others ¥1,008 million
 - 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.

(4) Information on the distribution of the acquisition cost

1) Assets and liabilities received on the acquisition date

	Millions of yen
Current assets	¥ 26,738
Non-current assets	43,901
Total assets	70,640
Current liabilities	12,509
Non-current liabilities	7,951
Total liabilities	¥ 20,461

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

(5) 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)

(1) Outline of business combination

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

Date of combination

October 1, 2009 (Effective date)

Legal form of business combination

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

Name of the acquired company after the business combination

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

Outline of the deal including business objective

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.

(2) Summary of the transaction process

This share exchange is treated as a transaction 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).

(3) Information on the additional acquisition of subsidiary shares

1) Acquisition cost and breakdown

Cost of acquisition: The Company's common stock ¥10,223 million

Expenses for acquisition: Advisory expenses ¥76 million

Acquisition cost: ¥10,299 million

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 the 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

(ii) Reason for recognizing negative goodwill

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

5. Inventories

Inventories at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2010	2011	2011
Merchandise and finished products	¥ 83,637	¥ 75,484	\$ 909,446
Work in process	18,108	16,906	203,687
Raw materials and supplies	51,723	48,966	589,952
	¥ 153,469	¥ 141,358	\$ 1,703,108

6. Short-Term Debt and Long-Term Debt

At March 31, 2011 and 2010, short-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2010	2011	2011
Loans from banks	¥ 162,186	¥ 230,657	\$ 2,779,000
Loans from unconsolidated subsidiaries and affiliates	1,537	1,885	22,711
Others	1,563	1,773	21,361
	¥ 165,287	¥ 234,316	\$ 2,823,084

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, 2011 and 2010 were 0.60% and 0.64%, respectively.

Long-term debt at March 31, 2011 and 2010 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2010	2011	2011
Loans from banks, insurance companies and others at rates ranging from 3.800% to 0.700% due through 2034:			
With collateral	¥ 2,077	¥ 1,261	\$ 15,193
Without collateral	492,992	500,907	6,035,024
0.810% unsecured corporate bonds in yen due 2010	20,000	—	—
1.100% unsecured corporate bonds in yen due 2012	20,000	20,000	240,964
1.790% unsecured corporate bonds in yen due 2011	20,000	20,000	240,964
1.970% unsecured corporate bonds in yen due 2017	13,000	13,000	156,627
1.960% unsecured corporate bonds in yen due 2017	10,000	10,000	120,482
1.710% unsecured corporate bonds in yen due 2019	10,000	10,000	120,482
1.495% unsecured corporate bonds in yen due 2020	—	15,000	180,723
	588,069	590,168	7,110,458
Less current portion	(55,681)	(60,244)	(725,831)
	¥ 532,387	¥ 529,923	\$ 6,384,614

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2010	2011	2011
Lease obligations	¥ 11,106	¥ 9,635	\$ 116,084
Less current portion	(1,918)	(7,762)	(93,518)
	¥ 9,187	¥ 1,872	\$ 22,554

The maturities of long-term debt subsequent to March 31, 2011 are summarized as follows:

Fiscal year ending March 31:	Millions of yen	Thousands of U.S. dollars
2012	¥ 68,007	\$ 819,361
2013	65,270	786,386
2014	63,637	766,711
2015	95,419	1,149,627
2016 and thereafter	307,471	3,704,470
	¥ 599,804	\$ 7,226,554

7. Pledged Assets

Assets pledged as collateral for notes and accounts payable – trade of ¥431 million (\$5,193 thousand) and ¥434 million, the current portion of long-term debt of ¥339 million (\$4,084 thousand) and ¥811 million, and long-term debt of ¥921 million (\$11,096 thousand) and ¥1,265 million at March 31, 2011 and 2010, respectively were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		
	2010	2011	2011
Property, plant and equipment, at net book value	¥ 121,950	¥ 60,586	\$ 729,952
Investments in securities	206	169	2,036
	¥ 122,157	¥ 60,756	\$ 732,000

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 year ended March 31, 2010			
	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	¥ 12,284	\$ 148,000	¥ 155,907	\$ 1,878,398
Retirement benefit obligation	14,221	171,337	209,851	2,528,325
Net balance	¥ (1,937)	\$ (23,337)	¥ (53,944)	\$ (649,928)

	Fiscal year ended March 31, 2009	
	Pension fund management group for affiliated companies	Others
	Millions of yen	Millions of yen
Plan assets	¥ 10,598	¥ 142,346
Retirement benefit obligation	14,626	224,634
Net balance	¥ (4,028)	¥ (82,288)

(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,	
	2009	2010
Pension fund management group for affiliated companies	37.4%	36.6%
Others	3.3%	3.2%

(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, 2011 and 2010 for the consolidated subsidiaries' defined benefit pension plans:

	Millions of yen		Thousands of U.S. dollars
	March 31,		
	2010	2011	2011
Retirement benefit obligation	¥ (189,514)	¥ (180,604)	\$ (2,175,952)
Plan assets at fair value	123,527	113,691	1,369,771
Unfunded retirement benefit obligation	(65,986)	(66,913)	(806,181)
Unrecognized actuarial loss	35,077	38,440	463,133
Unrecognized prior service cost	1,418	(1,523)	(18,349)
Net retirement benefit obligation	(29,490)	(29,996)	(361,398)
Prepaid pension cost	4,368	1,240	14,940
Accrued retirement benefits	¥ (33,859)	¥ (31,237)	\$ (376,349)

The components of retirement benefit expense for the fiscal years ended March 31, 2011 and 2010 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal years ended March 31,		
	2010	2011	2011
Service cost	¥ 5,333	¥ 5,441	65,554
Interest cost	4,616	4,381	52,783
Expected return on plan assets	(2,685)	(2,952)	(35,566)
Amortization of unrecognized actuarial loss	3,888	4,014	48,361
Amortization of unrecognized prior service cost	(185)	(306)	(3,687)
Total	¥ 10,967	¥ 10,578	\$ 127,446

In addition, supplementary retirement benefits of ¥431 million (\$5,193 thousand) and ¥501 million were recorded for the fiscal years ended March 31, 2011 and 2010, respectively.

The following assumptions were used in these calculations.

	Fiscal years ended March 31,	
	2010	2011
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	
		Millions of yen	Notes
Komatsushima City,	Buildings and structures	¥ 738	Business assets (Included in loss on impairment of fixed assets)
Tokushima, etc.	Machinery and equipment	933	
	Other	22	
Subtotal		1,694	
Takaoka City,	Buildings and structures	195	Idle properties (Included in loss on impairment of fixed assets)
Toyama, etc.	Machinery and equipment	351	
	Land	1,035	
	Construction in progress	4	
	Other	118	
Subtotal		1,705	
Total		¥ 3,400	

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%.

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 Seismic Disaster

Loss on seismic disaster caused by the Great East Japan Earthquake on March 11, 2011 consists of mainly ¥45,275 million (\$545,482 thousand) of expenses to restore fixed assets, ¥11,612 million (\$139,904 thousand) of loss of inventories, and other losses. These losses include the allowance for loss on seismic disaster in the amount of ¥46,044 million (\$554,747 thousand).

(Additional Information)

"Loss on seismic disaster" was recorded on the consolidated statements of operations for the fiscal year ended March 31, 2011 because some consolidated subsidiaries including Nippon Paper Industries Co., Ltd. suffered heavy damages from the Great East Japan Earthquake, which occurred on March 11, 2011. The Company investigated the conditions of damaged mills and recorded the estimated restoration cost as "Allowance for loss on seismic disaster."

12. Consolidated Statements of Comprehensive Income

Fiscal Year (April 1, 2009 – March 31, 2010)

*1 Comprehensive income for the fiscal year ended March 31, 2010	Millions of yen
Comprehensive income attributable to shareholders	¥ 50,357
Comprehensive income attributable to minority interests	831
Total	¥ 51,189
*2 Other comprehensive income for the fiscal year ended March 31, 2010	Millions of yen
Net unrealized holding gain on other securities	¥ 4,228
Net deferred loss on hedges	(2,202)
Translation adjustments	16,673
Share of other comprehensive income of affiliates accounted for using the equity method	2,066
Total	¥ 20,766

(Additional Information)

Effective April 1, 2010, the Company and its consolidated domestic subsidiaries adopted "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No.25, June 30, 2010). "Accumulated other comprehensive income" and "Total accumulated other comprehensive income" newly presented from the fiscal year ended March 31, 2011, correspond to "Valuation, translation adjustments and other" and "Total valuation, translation adjustments and other," respectively, of the previous fiscal year.

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, 2011 and 2010. The effective tax rate reflected in the accompanying consolidated statements of operations for the fiscal year ended March 31, 2010 differs 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, 2011 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, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2010	2011	2011
Deferred tax assets:			
Accrued bonuses	¥ 3,540	¥ 3,376	\$ 40,675
Accrued enterprise taxes	807	442	5,325
Allowance for doubtful receivables	13,752	8,321	100,253
Accrued retirement benefits	22,501	21,968	264,675
Loss on investment securities	1,160	1,141	13,747
Unrealized holding loss on other securities	—	4,404	53,060
Tax loss carryforwards	9,542	20,987	252,855
Loss on revaluation of land	16,803	16,795	202,349
Loss on seismic disaster	—	17,953	216,301
Loss on impairment of fixed assets	22,781	16,959	204,325
Unrealized profit eliminated in consolidation	1,348	1,226	14,771
Other	11,861	12,413	149,554
Gross deferred tax assets	104,100	125,991	1,517,964
Valuation allowance	(57,431)	(59,975)	(722,590)
Total deferred tax assets	46,669	66,016	795,373
Deferred tax liabilities:			
Tax reserves	(10,480)	(9,699)	(116,855)
Accumulated depreciation	(1,086)	(1,007)	(12,133)
Gain on revaluation of land, etc.	(43,541)	(43,533)	(524,494)
Unrealized holding gain on other securities	(3,042)	(1,674)	(20,169)
Other	(1,907)	(3,553)	(42,807)
Total deferred tax liabilities	(60,057)	(59,468)	(716,482)
Net deferred tax liabilities	¥ (13,388)	¥ 6,548	\$ 78,892

Deferred tax liabilities included in other current liabilities at March 31, 2011 and 2010 amounted to ¥1 million (\$12 thousand) and ¥1 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 (\$5,205 thousand) and ¥432 million was included in retained earnings at March 31, 2011 and 2010, respectively.

15. Supplemental Cash Flow Information

Current fiscal year (from April 1, 2010 to March 31, 2011)

Not applicable

Previous fiscal year (from April 1, 2009 to March 31, 2010)

- (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
Current assets	26,738
Non-current assets	43,901
Goodwill	2,915
Current liabilities	(12,509)
Non-current liabilities	(7,951)
Translation adjustments	(9,551)
Minority interests	(9)
Acquisition cost of securities	43,533
Cash and cash equivalents	(3,385)
Net payment for acquisition	40,148

- (b) Significant non-cash transactions

Capital surplus for the year ended March 31, 2010 increased by ¥10,223 million as a result of the share exchange.

16. Leases

- (a) As Lessee

- (i) Future minimum lease payments subsequent to March 31, 2011 for noncancelable operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Fiscal year ending March 31:		
2012	¥ 4,065	\$ 48,976
2013 and thereafter	4,100	49,398
Total	¥ 8,165	\$ 98,373

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

	Millions of yen
Fiscal year ending March 31:	
2011	¥ 3,728
2012 and thereafter	8,070
Total	¥ 11,799

- (b) As Lessor

- (i) Future minimum lease income subsequent to March 31, 2011 for noncancelable operating leases is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Fiscal year ending March 31:		
2012	¥ 163	\$ 1,964
2013 and thereafter	1,669	20,108
Total	¥ 1,833	\$ 22,084

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

	Millions of yen
Fiscal year ending March 31:	
2011	¥ 163
2012 and thereafter	1,833
Total	¥ 1,996

17. Financial Instruments

1. Status of financial instruments

- (1) Policy for financial instruments

In light of minimizing financing costs, the Company and its subsidiaries “the Group” have 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(m).

(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 once each 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

Book value on the consolidated balance sheets as of March 31, 2011 and 2010 (the closing date of the consolidated accounts) and estimated fair value are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value (Please refer to Note 2).

As of March 31, 2011

(*3)	Millions of yen		
	Book value (*1)(*3)	Fair value (*1)	Difference
(1) Cash and deposits	104,826	104,826	—
(2) Notes and accounts receivable-trade	210,750	210,750	—
(3) Investment securities			
Other securities	71,778	71,778	—
Stocks of subsidiaries and affiliates	32,686	53,227	20,540
(4) Notes and accounts payable-trade	(110,078)	(110,078)	—
(5) Short-term loans payable	(272,788)	(273,135)	347
(6) Long-term loans payable	(461,923)	(480,761)	18,837
(7) Derivatives (*2)	439	439	—

Thousands of U.S. dollars

(*3)	Book value (*1)(*3)	Fair value (*1)	Difference
(1) Cash and deposits	1,262,964	1,262,964	—
(2) Notes and accounts receivable-trade	2,539,157	2,539,157	—
(3) Investment securities			
Other securities	864,795	864,795	—
Stocks of subsidiaries and affiliates	393,807	641,289	247,470
(4) Notes and accounts payable-trade	(1,326,241)	(1,326,241)	—
(5) Short-term loans payable	(3,286,602)	(3,290,783)	4,181
(6) Long-term loans payable	(5,565,337)	(5,792,301)	226,952
(7) Derivatives (*2)	5,289	5,289	—

(*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 the balance sheet are detailed below:

- Cash and deposits of ¥104,826 million (\$1,262,964 thousand) in the above table consist of “Cash and cash equivalents” (¥104,739 million (\$1,261,916 thousand)) and a portion of “Other current assets” (¥87 million (\$1,048 thousand)) on the consolidated balance sheet.
- Notes and accounts receivable-trade of ¥210,750 million (\$2,539,157 thousand) in the above table consist of “Notes and accounts receivable-Trade” (¥192,597 million (\$2,320,446 thousand)) and a portion of “Notes and accounts receivable-Unconsolidated subsidiaries and affiliates” (¥18,153 million (\$218,711 thousand)) on the consolidated balance sheet.
- Other securities of ¥71,778 million (\$864,795 thousand) in the above table are included in “Investments in securities” on the consolidated balance sheet. And stocks of subsidiaries and affiliates of ¥32,686 million (\$393,807 thousand) in the above table are included in “Investments in and advances to unconsolidated subsidiaries and affiliates” on the consolidated balance sheet.
- Notes and accounts payable-trade of ¥110,078 million (\$1,326,241 thousand) in the above table consist of “Notes and accounts payable-Trade” (¥100,974 million (\$1,216,554 thousand)) and a portion of “Notes and accounts payable-Unconsolidated subsidiaries and affiliates” (¥9,104 million (\$109,686 thousand)) on the consolidated balance sheet.
- Short-term loans payable of ¥272,788 million (\$3,286,602 thousand) in the above table consist of “Short-term borrowings” (¥232,542 million (\$2,801,711 thousand)) and a portion of “Current portion of long-term debt” (¥40,246 million (\$484,891 thousand)) on the consolidated balance sheet.
- Long-term loans payable of ¥461,923 million (\$5,565,337 thousand) in the above table are included in “Long-term debt” on the consolidated balance sheet.

As of March 31, 2010

Millions of yen

(*3)	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	—

(*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 the balance sheet are detailed below:

- Cash and deposits of ¥24,258 million in the above table consist of “Cash and cash equivalents” (¥24,041 million) and a portion of “Other current assets” (¥217 million) on the consolidated balance sheet.
- Notes and accounts receivable-trade of ¥223,736 million in the above table consist of “Notes and accounts receivable-Trade” (¥206,389 million) and a portion of “Notes and accounts receivable-Unconsolidated subsidiaries and affiliates” (¥17,347 million) on the consolidated balance sheet.
- Other securities of ¥46,590 million 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 in the above table are included in “Investments in and advances to unconsolidated subsidiaries and affiliates” on the consolidated balance sheet.
- Notes and accounts payable-trade of ¥110,837 million in the above table consist of “Notes and accounts payable-Trade” (¥102,435 million) and a portion of “Notes and accounts payable-Unconsolidated subsidiaries and affiliates” (¥8,402 million) on the consolidated balance sheet.
- Short-term loans payable of ¥199,405 million in the above table consist of “Short-term borrowings” (¥163,723 million) and a portion of “Current portion of long-term debt” (¥35,681 million) on the consolidated balance sheet.
- Long-term loans payable of ¥459,387 million 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

- 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 payable is calculated by applying a discount rate determined based on risk-free rate and credit spread.

7) Derivatives

Please refer Note 20 "Derivatives."

As of March 31, 2011

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

Classification	Book value (Millions of yen)		Book value (Thousands of U.S. dollars)
	March 31, 2010	March 31, 2011	March 31, 2011
Unlisted equity securities	¥ 80,131	¥ 89,230	\$ 1,075,060

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."

For the year ended March 31, 2011, unlisted equity securities of ¥89,230 million (\$1,075,060 thousand) in the above table consist of "Investments in securities" (¥18,681 million (\$225,072 thousand)) and "Investments in and advances to unconsolidated subsidiaries and affiliates" (¥70,549 million (\$849,988 thousand)) on the consolidated balance sheet.

For the year ended March 31, 2010, unlisted equity securities of ¥80,131 million in the above table consist of "Investments in securities" (¥18,808 million) and "Investments in and advances to unconsolidated subsidiaries and affiliates" (¥61,322 million) on the consolidated balance sheet.

Note 3: Redemption schedule for receivables and securities with maturities at March 31, 2011 and March 31, 2010 are as follows:

As of March 31, 2011

	Millions of yen			
	Within one year	Between one and five years	Between five and ten years	Over ten years
Cash and deposits	¥ (*) 104,252	¥ —	¥ —	¥ —
Notes and accounts receivable-trade	210,750	—	—	—
Total	315,003	¥ —	¥ —	¥ —

(*) "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	\$ (*) 1,256,048	\$ —	\$ —	\$ —
Notes and accounts receivable-trade	2,539,157	—	—	—
Total	\$ 3,795,217	\$ —	\$ —	\$ —

As of 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.

Note 4. Redemption schedule for long-term debt at March 31, 2011 and March 31, 2010 is as follows:

As of March 31, 2011

	Millions of yen	
	Between one and five years (*)	Over five years
Long-term loans payable	¥ 263,338	¥ 198,585

	Thousands of U.S. dollars	
	Between one and five years (*)	Over five years
Long-term loans payable	\$ 3,172,747	\$ 2,392,590

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

As of March 31, 2010

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

18. Contingent Liabilities

The Company's consolidated subsidiaries had the following contingent liabilities:

As of March 31, 2011

	Millions of yen	Thousands of U.S. dollars
As guarantors of indebtedness of unconsolidated subsidiaries, affiliates and other	¥ 26,956	\$ 324,771

As of March 31, 2010

	Millions of yen
As guarantors of indebtedness of unconsolidated subsidiaries, affiliates and other	¥ 31,716

19. Securities

(a)(i) Marketable securities classified as other securities at March 31, 2011 are summarized as follows (*):

	Millions of yen			Thousands of U.S. dollars		
	March 31, 2011			March 31, 2011		
	Book value	Cost	Valuation difference	Book value	Cost	Valuation difference
Securities whose book value exceeds their cost:						
Equity securities	¥ 18,964	¥ 10,606	¥ 8,358	\$ 228,482	\$ 127,783	\$ 100,699
Other	37	31	5	446	373	60
Subtotal	19,001	10,637	8,363	228,928	128,157	100,759
Securities whose cost exceeds their book value:						
Equity securities	52,701	67,934	¥ (15,232)	\$ 634,952	\$ 818,482	\$ (183,518)
Other	75	92	(17)	904	1,108	(205)
Subtotal	52,776	68,027	(15,250)	635,855	819,602	(183,735)
Total	¥ 71,778	¥ 78,665	¥ (6,886)	\$ 864,795	\$ 947,771	\$ (82,964)

(*) Because the fair values of unlisted equity securities (¥18,681 million (\$225,072 thousand) on the consolidated balance sheet) 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 ¥907 million (\$10,928 thousand) with an aggregate gain of ¥782 million (\$9,422 thousand) for the fiscal year ended March 31, 2011.

(iii) Impairment of investment securities

The Company recorded an impairment loss on the valuation of investments in securities in the amount of ¥2,312 million (\$27,855 thousand) (securities for which fair values are extremely difficult to determine were included at the amount of ¥74 million (\$892 thousand)) for the fiscal year ended March 31, 2011.

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, 2010 are summarized as follows (*):

	Millions of yen		
	March 31, 2010		
	Book value	Cost	Valuation difference
Securities whose book value exceeds their cost:			
Equity securities	¥ 22,962	¥ 13,008	¥ 9,953
Subtotal	22,962	13,008	9,953
Securities whose cost exceeds their book value:			
Equity securities	¥ 23,514	¥ 29,227	¥ (5,712)
Other	112	133	(20)
Subtotal	23,627	29,360	(5,732)
Total	¥ 46,590	¥ 42,368	¥ 4,221

(*) Because the fair values of unlisted equity securities (¥18,808 million on the consolidated balance sheet) 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 (b)(i) "other securities."

(ii) Sales of securities classified as other securities amounted to ¥8,746 million with an aggregate gain of ¥1,015 million and loss of ¥8 million 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 securities for which fair values are extremely difficult to determine were included at the amount of ¥1,047 million 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.

20. Derivatives

For the year ended March 31, 2011

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			
	Sell				
	U.S. dollars	¥ 174	¥ —	¥ (3)	
	Foreign exchange forward contracts	Notes and accounts payable			
	Buy				
U.S. dollars	12,032	—	(1)		
Australian dollars	4,118	—	372		
Others	¥ 1,377	¥ —	¥ 71		
Allocation method	Foreign exchange forward contracts	Notes and accounts receivable-trade			
	Sell				
	U.S. dollars	¥ 39	¥ —	(*2)	
	Foreign exchange forward contracts	Notes and accounts payable			
	Buy				
	U.S. dollars	¥ 847	¥ —	(*2)	

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			
	Sell				
	U.S. dollars	\$ 2,096	\$ —	\$(36)	
	Foreign exchange forward contracts	Notes and accounts payable			
	Buy				
U.S. dollars	144,964	—	(12)		
Australian dollars	49,614	—	4,482		
Others	\$ 16,590	\$ —	\$ 855		
Allocation method	Foreign exchange forward contracts	Notes and accounts receivable-trade			
	Sell				
	U.S. dollars	\$ 470	\$ —	(*2)	
	Foreign exchange forward contracts	Notes and accounts payable			
	Buy				
	U.S. dollars	\$ 10,205	\$ —	(*2)	

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			
	Pay/fixed and receive/floating		¥ 115,000	¥ 106,000	(*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			
	Pay/fixed and receive/floating		\$ 1,385,542	\$ 1,277,108	(*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.

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			
			Sell		
	U.S. dollars	¥ 265	¥ —	¥ (6)	
	Foreign exchange forward contracts	Notes and accounts payable			
			Buy		
	U.S. dollars	13,781	—	720	
Australian dollars	1,199	—	143		
Others	¥ 1,016	¥ 304	¥ 32		
Allocation method	Foreign exchange forward contracts	Notes and accounts receivable-trade			
			Sell		
	U.S. dollars	¥ 113	¥ —	(*2)	
	Foreign exchange forward contracts	Notes and accounts payable			
			Buy		
	U.S. dollars	771	—	(*2)	
Others	¥ 1	¥ —	(*2)		

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			
			Pay/fixed and receive/floating	¥ 133,500	¥ 113,500

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

1. Overview of reportable segments

The reportable segments of the Company are defined as individual units, for which independent financial information is available and which are subject to regular review to evaluate their results and decide the allocation of management resources by the board of directors of the Company.

The Company recognizes its consolidated subsidiaries as the units that define its business segments, because those are used as the main basis to evaluate results. The reportable segments are defined by integrating business segments that exhibit similarities in terms of economic characteristics, markets for products and services, or customers.

The principal products and services of each segment are as follows.

Pulp and paper division	Manufacturing and marketing of paper, paperboard, household tissue, pulp, and materials for paper making
Paper related division	Manufacturing and marketing of processed paper goods and chemical products
Wood products and construction related division	Stocking, manufacturing and marketing of lumber, construction materials as well as serving construction

2. Method used to calculate net sales, income or loss, assets and other items by reportable segments

Accounting methods applied for the reportable segments are the same as that described under "1. Summary of Significant Accounting Policies."

Income for each reportable segment denotes operating income, and intersegment sales and transfers are based on market prices in general.

3. Net sales, income or loss, assets and other items by reportable segments

	Millions of yen						
	Fiscal year ended March 31, 2011						
	Pulp and paper division	Paper related division	Wood products and construction related division	Other division (*1)	Total	Adjustment (*2)	Consolidated (*3)
Net sales:							
Sales to third parties	¥ 879,740	¥ 94,335	¥ 56,605	¥ 69,136	¥ 1,099,817	¥ —	¥ 1,099,817
Intersegment sales and transfers	3,587	5,535	59,516	49,706	118,345	(118,345)	—
Total	883,327	99,870	116,121	118,843	1,218,163	(118,345)	1,099,817
Segment income	23,214	8,044	1,922	2,426	35,608	—	35,608
Segment assets	1,179,175	86,292	42,831	75,838	1,384,137	176,455	1,560,592
Other items:							
Depreciation	67,470	6,265	921	3,981	78,639	—	78,639
Amortization of goodwill	2,221	—	—	13	2,235	—	2,235
Increased amount of tangible and intangible fixed assets	¥ 36,269	¥ 5,409	¥ 793	¥ 4,118	¥ 46,591	¥ —	¥ 46,591

Thousands of U.S. dollars

Thousands of U.S. dollars							
Fiscal year ended March 31, 2011							
	Pulp and paper division	Paper related division	Wood products and construction related division	Other division (*1)	Total	Adjustment (*2)	Consolidated (*3)
Net sales:							
Sales to third parties	\$ 10,599,277	\$ 1,136,566	\$ 681,988	\$ 832,964	\$ 13,250,807	\$ —	\$ 13,250,807
Intersegment sales and transfers	43,217	66,687	717,060	598,867	1,425,843	(1,425,843)	—
Total	10,642,494	1,203,253	1,399,048	1,431,843	14,676,663	(1,425,843)	13,250,807
Segment income	279,687	96,916	23,157	29,229	429,012	—	429,012
Segment assets	14,206,928	1,039,663	516,036	913,711	16,676,349	2,125,964	18,802,313
Other items:							
Depreciation	812,892	75,482	11,096	47,964	947,458	—	947,458
Amortization of goodwill	26,759	—	—	157	26,928	—	26,928
Increased amount of tangible and intangible fixed assets	\$ 436,976	\$ 65,169	\$ 9,554	\$ 49,614	\$ 561,337	\$ —	\$ 561,337

Millions of yen

Millions of yen							
Fiscal year ended March 31, 2010							
	Pulp and paper division	Paper related division	Wood products and construction related division	Other division (*1)	Total	Adjustment (*2)	Consolidated (*3)
Net sales:							
Sales to third parties	¥ 880,328	¥ 91,047	¥ 52,192	¥ 71,664	¥ 1,095,233	¥ —	¥ 1,095,233
Intersegment sales and transfers	3,616	5,115	55,040	51,927	115,701	(115,701)	—
Total	883,945	96,163	107,233	123,592	1,210,934	(115,701)	1,095,233
Segment income	35,811	4,335	583	2,418	43,149	—	43,149
Segment assets	1,199,940	87,060	41,553	84,954	1,413,509	86,736	1,500,246
Other items:							
Depreciation	69,291	6,988	1,239	4,423	81,943	—	81,943
Amortization of goodwill	2,092	—	—	6	2,098	—	2,098
Increased amount of tangible and intangible fixed assets	¥ 29,340	¥ 2,733	¥ 668	¥ 2,844	¥ 35,587	¥ —	¥ 35,587

*1 Other division which includes businesses of beverage, transportation, leisure and other, is not a reportable segment.

*2 For the fiscal year ended March 31, 2011, an adjustment amount of positive ¥176,455 million (\$2,125,964 thousand) includes ¥220,749 million (\$2,659,627 thousand) of corporate assets, which are not allocated to reportable segments, and negative ¥44,294 million (\$533,663 thousand) of inter-segment eliminations. Company assets mainly consist of “cash and cash equivalents,” “investments in securities” and “deferred tax assets.”

For the fiscal year ended March 31, 2010, an adjustment amount of positive ¥86,736 million includes ¥137,307 million of corporate assets, which are not allocated to reportable segments, and negative

¥50,570 million of inter-segment eliminations. Company assets mainly consist of “cash and cash equivalents,” “investments in securities” and “deferred tax assets.”

*3 The sum of segment income agrees with operating income of consolidated statements of operations.

(Additional information)

Effective from the fiscal year ended March 31, 2011, the Company has adopted “Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Statement No.17 issued on March 27, 2009) and “Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Guidance No.20 issued on March 21, 2008).

2. Related information

(a) Information of net sales by geographical area

(Fiscal year ended in March 31, 2011)

Millions of yen					
Japan	Oceania	Asia	North America	Others	Total
967,287	56,303	43,286	20,180	12,760	1,099,817
Thousands of U.S. dollars					
Japan	Oceania	Asia	North America	Others	Total
11,654,060	678,349	521,518	243,133	153,735	13,250,807

Note: Sales information is based on the geographical location of customers and classified by region.

(b) Amortization of goodwill and balance of unamortized goodwill by reportable segments

(As of or for the fiscal year ended March 31, 2011)

Millions of yen						
	Pulp and paper division	Paper related division	Wood products and construction related division	Other division (*1)	Adjustment	Total
Amortization of goodwill	¥ 2,221	—	—	¥ 13	—	¥ 2,235
Balance of unamortized goodwill	¥ 19,936	—	—	¥ 34	—	¥ 19,971

Thousands of U.S. dollars

Thousands of U.S. dollars						
	Pulp and paper division	Paper related division	Wood products and construction related division	Other division (*1)	Adjustment	Total
Amortization of goodwill	\$ 26,759	—	—	\$ 157	—	\$ 26,928
Balance of unamortized goodwill	\$ 240,193	—	—	\$ 410	—	\$ 240,614

Note: Amortization and balance of unamortized goodwill in “Other division” are about the businesses of beverage and transportation.

In addition, amortization and balance of unamortized negative goodwill resulted from business combinations of subsidiaries before April 1, 2009 are as follows:

(As of or for the fiscal year ended March 31, 2011)

	Millions of yen					Total
	Pulp and paper division	Paper related division	Wood products and construction related division	Other division	Adjustment	
Amortization of negative goodwill	¥ 821	—	—	—	—	¥ 821
Balance of unamortized negative goodwill	¥ 1,335	—	—	—	—	¥ 1,335

	Thousands of U.S. dollars					Total
	Pulp and paper division	Paper related division	Wood products and construction related division	Other division	Adjustment	
Amortization of negative goodwill	\$ 9,892	—	—	—	—	\$ 9,892
Balance of unamortized negative goodwill	\$ 16,084	—	—	—	—	\$ 16,084

22. Research and Development Costs

Included in cost of sales and selling, general and administrative expenses were ¥6,855 million (\$82,590 thousand) and ¥6,985 million of research and development costs for the fiscal years ended March 31, 2011 and 2010, respectively.

23. Related Party Transactions

(a) Related party transactions for the year ended March 31, 2011

(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, 2011	¥11,967 million (\$144,181 thousand)
Accounts	—
Balance at March 31, 2011	—

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, 2011.

(i) Information on the parent company:

None

(ii) Financial statements of significant affiliate companies:

Significant affiliate companies in the fiscal year ended March 31, 2011 are Lintec Corporation and Daishowa-Marubeni International Ltd. Summarized financial statement data of the two companies are as follows:

Total current assets	¥118,095 million (\$1,422,831 thousand)
Total fixed assets	¥123,117 million (\$1,483,337 thousand)
Total current liabilities	¥64,331 million (\$775,072 thousand)
Total long-term liabilities	¥51,630 million (\$622,048 thousand)
Total net assets	¥125,251 million (\$1,509,048 thousand)
Net sales	¥217,422 million (\$2,619,542 thousand)
Income before income taxes	¥17,622 million (\$212,313 thousand)
Net income	¥12,142 million (\$146,289 thousand)

(c) 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
Accounts	—
Balance at March 31, 2010	—

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, 2010

(i) Information on the parent company:

None

(ii) Financial statements of significant affiliate companies:

There are no financial statements to be disclosed.

24. Per Share Information

Per share information and the bases of these calculations as of or for the fiscal years ended March 31, 2011 and 2010 are as follows.

Diluted net income per share has not been disclosed because no potentially dilutive securities were outstanding at March 31, 2011 and 2010, and because a net loss was recorded for the year ended March 31, 2011.

As of or for the fiscal years ended March 31,

	Yen		U.S. dollars
	March 31		March 31
	2010	2011	2011
Net assets per share	¥ 3,940.06	¥ 3,496.49	\$ 42.13
Net income (loss) per share	264.03	(208.73)	(2.51)

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2010	2011	2011
Net income (loss)	¥ 30,050	¥ (24,172)	\$ (291,229)
Net income (loss) to common stockholders	30,050	(24,172)	(291,229)

	Number of shares	
Weighted-average number of common shares outstanding	113,814,229.72	115,807,535.56

25. Subsequent Events

As of March 31, 2011

(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, 2011, was approved at the annual general meeting of shareholders held on June 29, 2011:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends		
(¥20.00 (U.S.\$0.24) per share)	¥ 2,323	\$ 27,988

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
Year-end cash dividends	
(¥40.00 per share)	¥ 4,647

(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


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

(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.



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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, 2011 and 2010, the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the consolidated statement of comprehensive income for the year ended March 31, 2011, 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, 2011 and 2010, 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 11, some consolidated subsidiaries, including Nippon Paper Industries Co., Ltd., recorded "Loss on seismic disaster" on the consolidated statement of operations as a result of damages suffered due to the Great East Japan Earthquake on March 11, 2011.

As described in Note 2(c), "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 business combinations and business divestitures conducted in the fiscal year beginning on or after April 1, 2009. The Company and its consolidated domestic subsidiaries applied these accounting standards and guidance commencing April 1, 2009, and prepare the consolidated financial statements based on these accounting standards and guidance.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 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.

Ernst & Young Shin Nihon LLC

June 29, 2011

A member firm of Ernst & Young Global Limited

Appendix

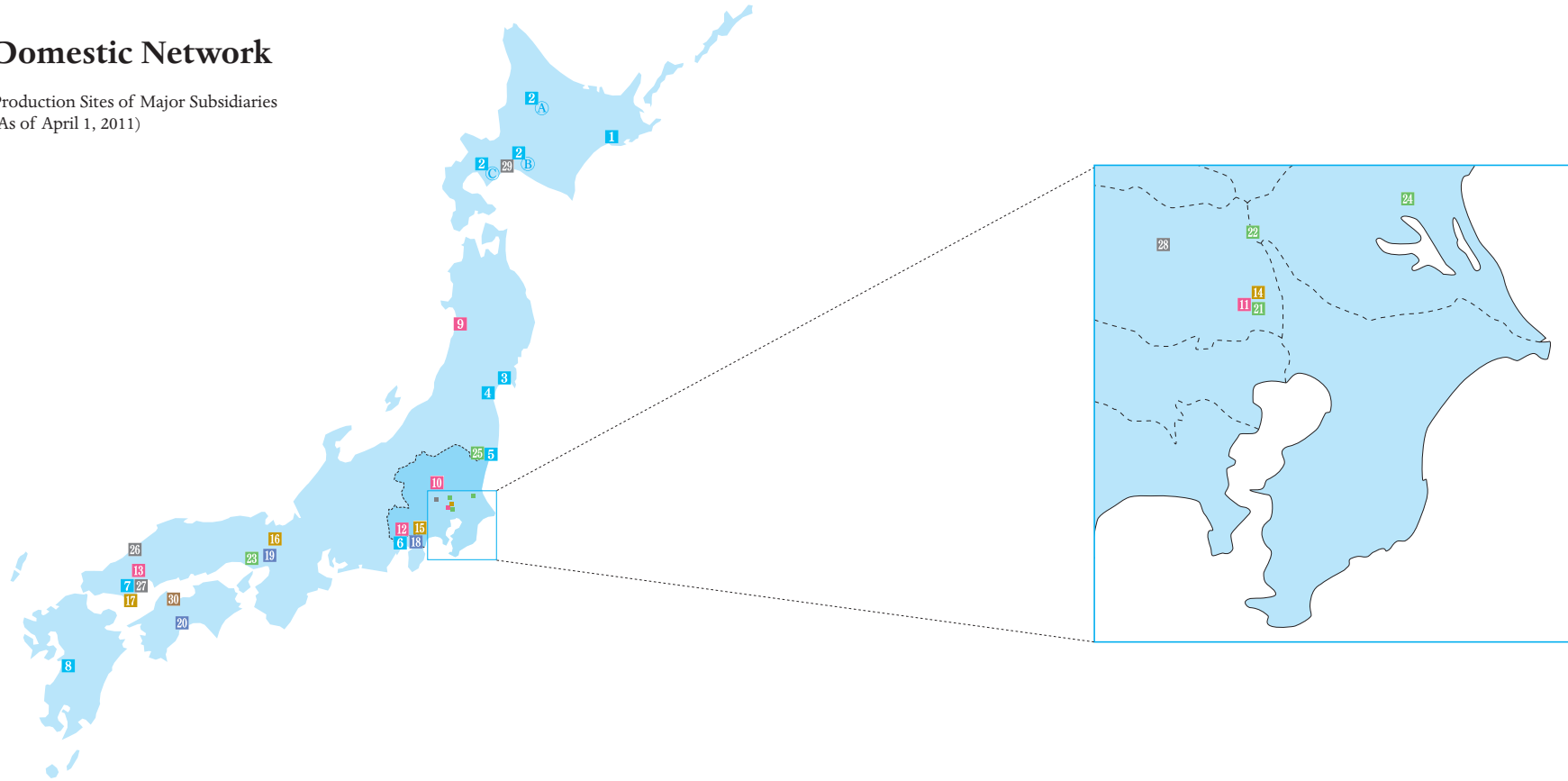
116 Domestic Network

118 Overseas Network

122 Investors Information

Domestic Network

Production Sites of Major Subsidiaries
(As of April 1, 2011)



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) | 4 Iwanuma Mill (Miyagi) |
| 2 Hokkaido Mill (Hokkaido) | 5 Nakoso Mill (Fukushima) |
| A Asahikawa | 6 Fuji Mill (Shizuoka) |
| B Yufutsu | 7 Iwakuni Mill (Yamaguchi) |
| C Shiraoi | 8 Yatsushiro Mill (Kumamoto) |
| 3 Ishinomaki Mill (Miyagi) | |

Nippon Daishowa Paperboard Co., Ltd.

1-2-2 Hitotsubashi, Chiyoda-ku, Tokyo 100-0003
TEL: +81-3-6665-5000 FAX: +81-3-3217-3200

- | | |
|----------------------------|------------------------------|
| 9 Tohoku Mill (Akita) | 12 Yoshinaga Mill (Shizuoka) |
| 10 Ashikaga Mill (Tochigi) | 18 Otake Mill (Hiroshima) |
| 11 Soka Mill (Saitama) | |

Nippon Paper Crecia Co., Ltd.

1-2-2 Hitotsubashi, Chiyoda-ku, Tokyo 100-8156
TEL: +81-3-6665-5300 FAX: +81-3-3212-6000

- | | |
|---------------------------|-----------------------------|
| 14 Tokyo Mill (Saitama) | 16 Kyoto Mill (Kyoto) |
| 15 Kaisei Mill (Kanagawa) | 17 Iwakuni Mill (Yamaguchi) |

Nippon Paper Papyrus Co., Ltd.

1-2-2 Hitotsubashi, Chiyoda-ku, Tokyo 100-0003
TEL: +81-3-6665-5800 FAX: +81-3-3212-0550

- | |
|---------------------------|
| 18 Harada Mill (Shizuoka) |
| 19 Suita Mill (Osaka) |
| 20 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

- | |
|--|
| 21 SOKA PAPER-PAK CO., LTD. (Saitama) |
| 22 EGAWA PAPER-PAK CO., LTD. (Ibaraki) |
| 23 MIKI PAPER-PAK CO., LTD. (Hyogo) |
| 24 ISHIOKA KAKO CO., LTD. (Ibaraki) |
| 25 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

- | |
|-------------------------------------|
| 26 Gotsu Works (Shimane) |
| 27 Iwakuni Works (Yamaguchi) |
| 28 Higashimatsuyama Works (Saitama) |
| 29 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.

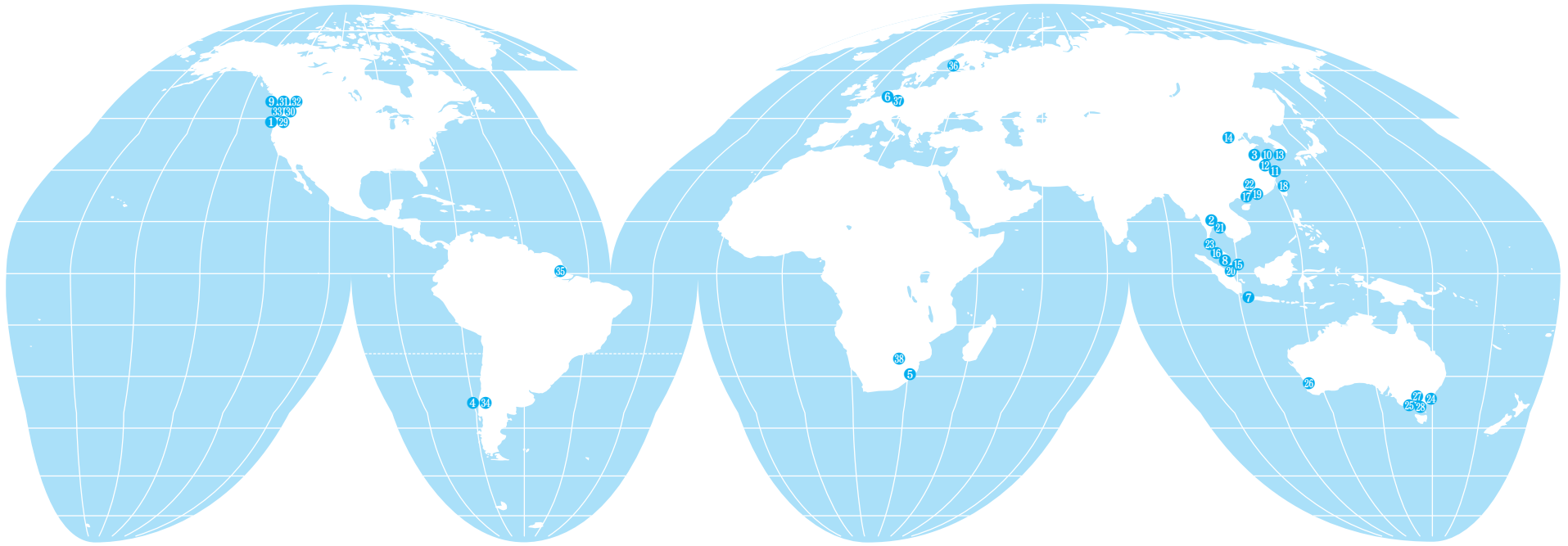
1378 Kasuga, Takamatsu, Kagawa 761-0197
Tel: +81-(0)87-841-9191 Fax: +81-(0)87-841-5292
Production sites

- 80 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: +1-360-636-6400 Fax: +1-360-423-1514

Bangkok Representative Office ②

161/1 SG, Tower 12th Fl., #1202, Soi Mahadlek Luang
3, Rajdamri Rd., Lumpini, Pathumwan, Bangkok,
10330, Thailand
Tel: +66-0-2651-8093 Fax: +66-0-2651-9954

Nippon Paper Industries Co., Ltd.

China Office ③

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 ④

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

Pietermaritzburg Office ⑤

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 ⑥

Hellersbergstr.2.41460 Neuss
Postfach 101247.41412 Neuss, Germany
Tel: +49-21-31-16-98-0 Fax: +49-21-31-16-98-31

NP Trading Co., Ltd.

Jakarta Office ⑦

Nusantara Building 14th Floor, Jl.M.H.
Thamrin No.59, Jakarta 10350, Indonesia
Tel: +62-21-3193-5434 Fax: +62-21-3193-5572

Malaysia Office ⑧

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 ⑨

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

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

B-3A-26, Merchant Square, Jalan Tropicana Selatan 1, 47410 Petaling Jaya, Selangor Darul Ehsan, Malaysia
Tel: +60-3-7885-0583 Fax: +60-3-7885-0587

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 P.R.O., 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

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

1815 Marine Drive, Port Angeles, WA 98363, 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

Juho 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, 2011)

116,254,892

Major Shareholders (10 Largest) (As of March 31, 2011)

Name	Shares held	Shareholding (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	10,564,600	9.1
The Master Trust Bank of Japan, Ltd. (Trust Account)	5,802,900	5.0
Nippon Life Insurance Company	3,434,765	3.0
Rengo Co., Ltd.	3,351,541	2.9
SSBT OD05 OMNIBUS ACCOUNT - TREATY CLIENTS	2,874,542	2.5
Nippon Paper Group, Inc. Employee Share Ownership	2,677,129	2.3
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	1.9
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

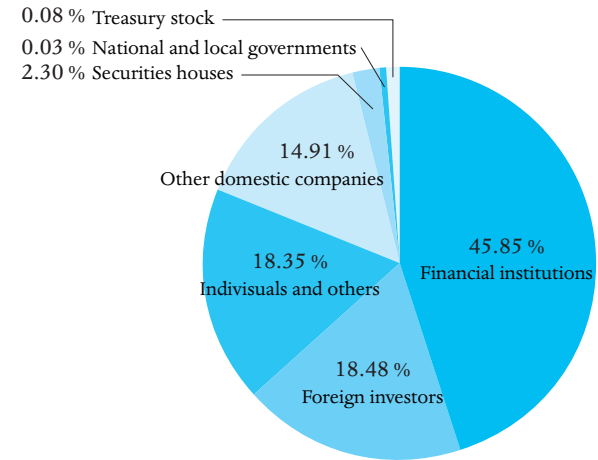
2-8-4 Izumi, Sugunami-ku, Tokyo 168-0063

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

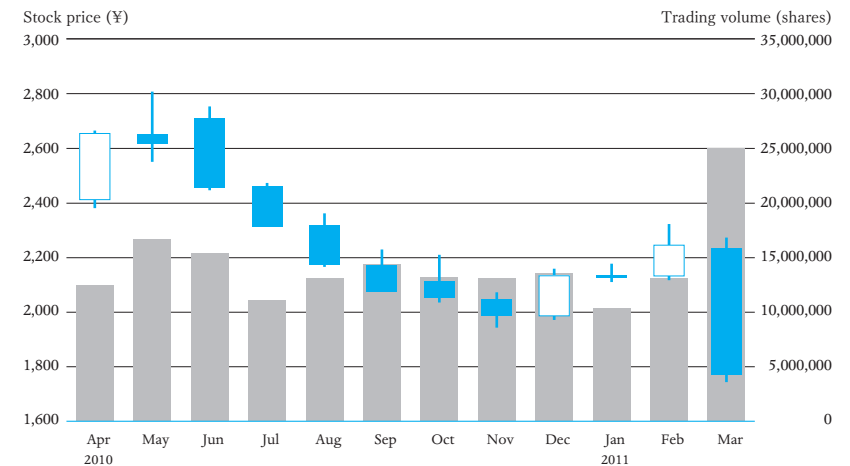
Independent auditor

Ernst & Young ShinNihon LLC

Share ownership by shareholder category (As of March 31, 2011)



Stock price and trading volume trends





The Nippon Paper Group, Inc. Takebashi headquarters building

We hope the Nippon Paper Group
will meet your expectations.

Investor Relations

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 2011 issue will be published in January 2012.

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

NIPPON PAPER GROUP, INC.

Papers used in this report

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