



Nippon Paper Group, Inc.

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NIPPON PAPER GROUP, INC. ANNUAL REPORT 2012

ANNUAL REPORT 2012

For the Fiscal Year Ended March 31, 2012

2012
Renewing our path
toward the future

Securities Code: 3893



Nippon Paper Group, Inc.

(Securities Code 3893)

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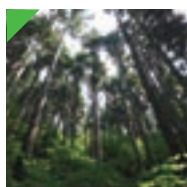
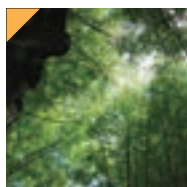
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About Nippon Paper Group

Creating the Future with Forests

Nippon Paper Group has 48 consolidated subsidiaries that are active in four business segments with the pulp and paper segment at their core, and engages in business activities that contribute to people's lives and the global environment by utilizing wood, a renewable resource used in a variety of applications.

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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Beyond the Post-Disaster Recovery, Strengthening the Paper Business' Earning Power



Ishinomaki Mill immediately after the disaster



Ishinomaki Mill N6 paper machine as of July 2012

4.10 Million Metric Tons

Due to the prompt recovery efforts after the Great East Japan Earthquake, the Nakoso and Iwanuma mills achieved a full-scale restoration within two months after the earthquake. The main Ishinomaki Mill will complete its recovery in August 2012. Under the Fourth Medium-Term Business Plan, we aim to complete cost reductions amounting to ¥25.0 billion by FY2013 and restore our domestic sales volume to 4.10 million metric tons by pursuing the medium-term revitalization plan. Beyond the restoration from the disaster, we are strengthening the earning power of our paper business.

For details, please see pages 15 to 17 of the "To Our Stakeholders" section.

Expanding Network Aimed at Growth Markets



39 Locations in 14 Countries

Nippon Paper Group's overseas network now includes 14 countries and continues to expand. While conducting afforestation and other projects to reinforce the network for procuring wood-based biomass resources, we are making focused investments in Asia—including China, which is enjoying continuously strong paper demand against a backdrop of high growth—and Oceania. We regard these regions as strategic areas to solidify as a firm base for generating earnings overseas.

For details, please see page 24 of the "To Our Stakeholders" section.

Cultivating Renewable Forest Resources

255,000 hectares

Nippon Paper Group owns 90,000 hectares of forests in Japan and 165,000 hectares of overseas afforestation areas. As these figures show, Nippon Paper Group engages in the cultivation of forests in vast areas at home and abroad. These forest resources not only are used as raw materials for paper and construction materials but also produce wood-based biomass with new potential being developed through R&D efforts. The forest resources assume an important role in contributing to future sustainable growth.

For details, please see page 30 of the "Feature: The Possibilities of 'Trees' Open up the Future" section.

Wood Biomass Contributes to a Sustainable Future

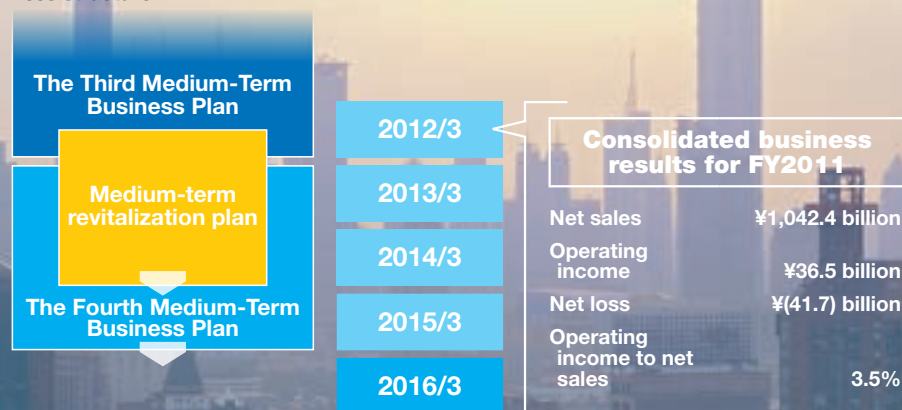
1.70 Million Kilowatts

Nippon Paper Group has a generating capacity of around 1.70 million kilowatts—the largest capacity in Japan other than the power companies. The Group is committed to developing new businesses by taking full advantage of this capacity and utilizing the expertise in facility management and biomass procurement it has accumulated to date.

For details, please see page 34 of the "Feature: The Possibilities of 'Trees' Open up the Future" section.

Aiming for the Sustainable Development of Corporate Value

To realize its Group Vision 2015 goal of being one of the top five players in the global pulp and paper industry by FY2015, Nippon Paper Group is implementing a medium-term revitalization plan aimed at improving the earning power of the domestic paper business and the Fourth Medium-Term Business Plan, which includes initiatives for transforming the business structure.



Group Vision 2015

Nippon Paper Group aims to be
**one of the top five players
in the global pulp and paper industry**

in 2015 through the business expansion of Group companies, thereby achieving the sustainable development of its corporate value.

Goals of Nippon Paper Group for FY2015 (Year Ending March 2016)

Consolidated net sales	¥1.5–2.0 trillion
Consolidated operating income	Stable domestic operating income of ¥100.0 billion, plus operating income from overseas business
Consolidated operating income to net sales	8–10%
Business portfolio	Domestic 70% and overseas 30% Pulp and paper 70% and non-pulp and paper business 30% Expand business in the three major markets of Asia, North America and Europe
Market capitalization	¥1 trillion
Operating cash flow	¥150.0 billion

NIPPON PAPER GROUP in 2011

At a Glance



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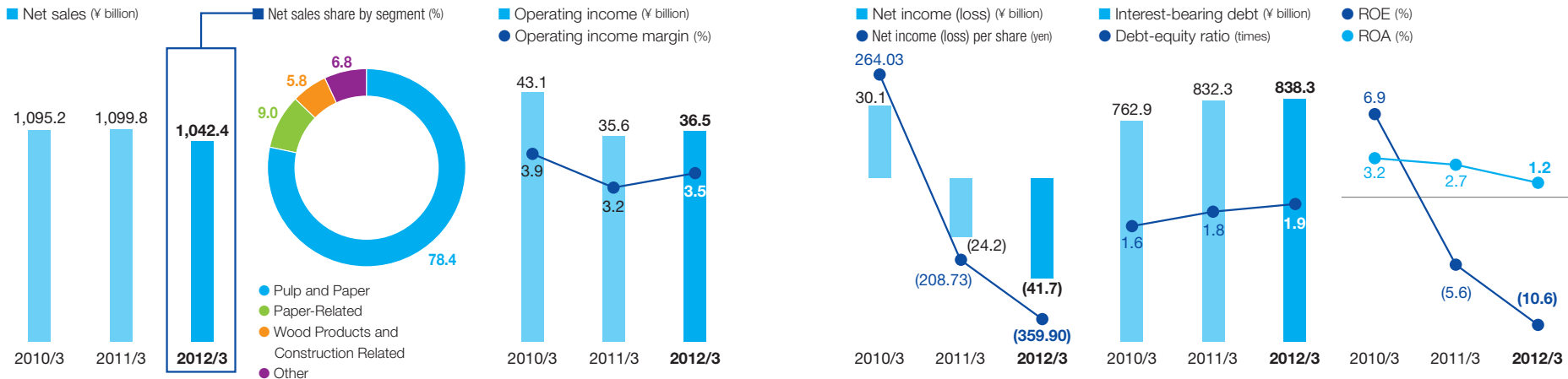
Consolidated Financial Highlights

			(Billions of yen)	Change	(Millions of U.S. dollars ¹)
	2010/3	2011/3	2012/3	2012/3 / 2011/3	2012/3
For the fiscal year:					
Net sales	¥ 1,095.2	¥ 1,099.8	¥ 1,042.4	(5.2)%	\$ 12,713
Operating income	43.1	35.6	36.5	2.6	445
Ordinary income	37.5	31.6	6.1	(80.8)	74
Net income (loss)	30.1	(24.2)	(41.7)	-	(508)
Capital investment	35.6	46.6	57.2		697
Depreciation	81.9	78.6	74.4		907
Free cash flow	46.0	22.0	13.5		164
At the fiscal year-end:					
Total assets	¥ 1,500.2	¥ 1,560.6	¥ 1,527.6		\$ 18,630
Net assets	460.0	408.8	366.7		4,471
Interest-bearing debt ²	762.9	832.3	838.3		10,223
			(Yen)		(U.S. dollars)
Per share data:					
Net income (loss)	¥ 264.03	¥ (208.73)	¥ (359.90)		\$ (4.39)
Net assets	3,940.06	3,496.49	3,135.48		38.24
Dividends	80.00	60.00	30.00		0.37
			(%)		
Principal financial data:					
Operating income margin	3.9%	3.2%	3.5%		
Return on equity (ROE) ³	6.9	(5.6)	(10.6)		
Return on invested capital (ROIC) ⁴	4.0	3.5	1.5		
Equity ratio	30.4	25.9	23.8		
Return on assets (ROA) ⁵	3.2	2.7	1.2		
Debt-equity ratio (times) ⁶	1.6	1.8	1.9		
Number of employees	14,210	13,834	13,407		

Notes:

- Amounts in U.S. dollars are included solely for convenience and are translated at a rate of ¥82 = US\$1.00, the approximate rate of exchange on March 31, 2012.
- Interest-bearing debt = Short-term borrowings + Long-term debt
- Return on equity (ROE) = Net income (loss) / Average shareholders' equity × 100

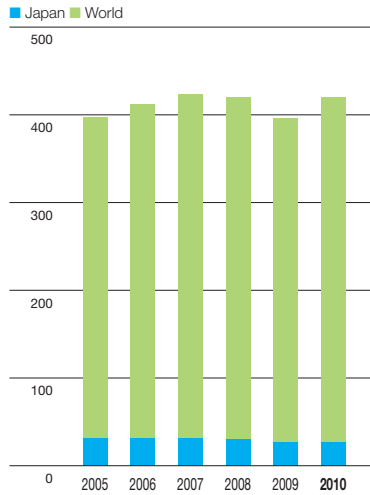
- Return on invested capital (ROIC) = (Ordinary income + Interest expense) / (Shareholders' equity and valuation, translation adjustments and other + Interest-bearing debt) × 100
- Return on assets (ROA) = (Ordinary income + Interest expense) / Total assets × 100
- Debt-equity ratio = (Interest-bearing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



Pulp and Paper Industry Overview

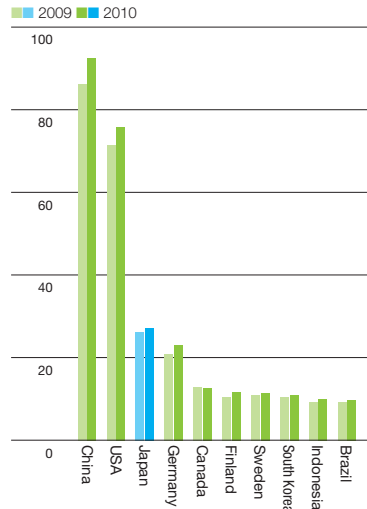
World

Production of paper and paperboard (millions of metric tons)



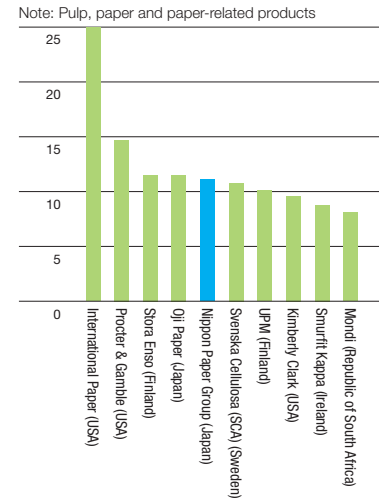
(Source: RISI)

Production of paper and paperboard in the top 10 countries (millions of metric tons)



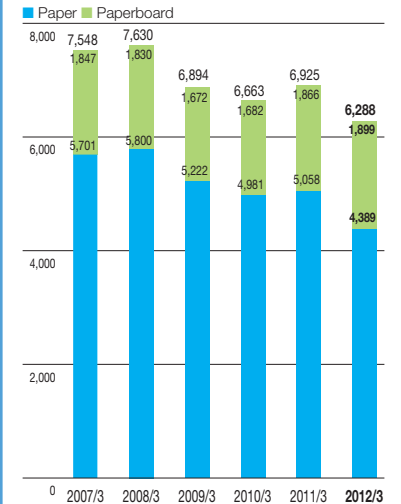
(Source: RISI)

Sales of the world's top 10 paper companies (2010) (Billions of U.S. dollars)



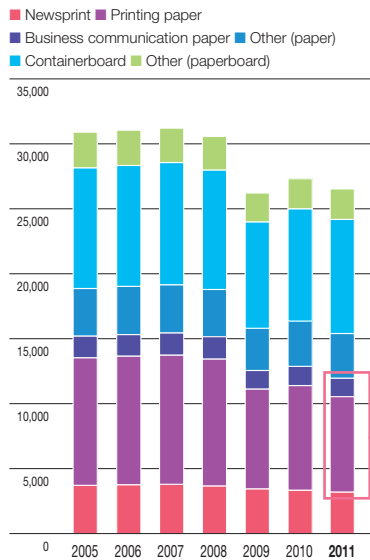
(Source: RISI)

Production of Nippon Paper Group (kt)



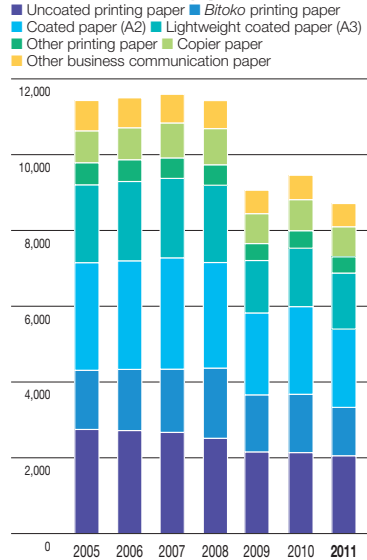
Japan

Production of paper and paperboard (kt)



(Source: Japan Paper Association)

Production of key products (kt)



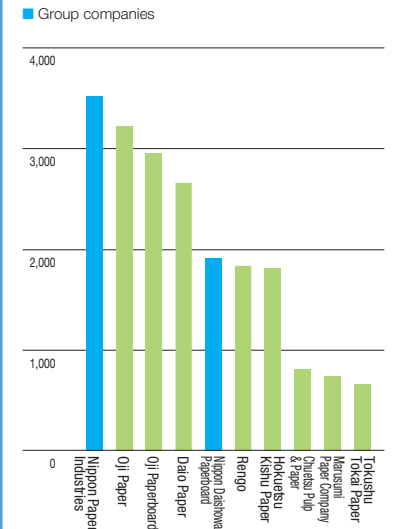
(Source: Japan Paper Association)

Year-on-year rates of key product sales (2011) (%)



(Source: Japan Paper Association)

Production of Japan's top 10 paper companies (2011) (kt)



(Source: Japan Paper Association)

2011

- May** ■ **Nippon Paper Industries Co., Ltd.**
The Great East Japan Earthquake-affected Iwanuma and Nakoso mills completely restored operations.
- June** ■ **Nippon Paper Group, Inc.**
Through the full use of its in-house generation facilities, NPG supplies 95,000 kilowatts of power to Tokyo Electric Power Co., Inc., and Tohoku Electric Power Co., Inc.
- July** ■ **Nippon Paper Industries Co., Ltd./Nippon Daishowa Paperboard Co., Ltd.**
NPI and NDP announced a price revision of printing paper and other products to accommodate a rise in raw material and fuel prices.
- August** ■ **Nippon Paper Group, Inc.**
NPG additionally acquired shares in Lee & Man Paper Manufacturing Limited.
■ **Nippon Paper Group, Inc.**
NPG announced the medium-term revitalization plan for its paper business for the period until FY2013 (year ending March 2014).
■ **Nippon Paper Industries Co., Ltd.**
NPI started to receive wood debris caused by the earthquake disaster to use as a fuel for power generation at the Ishinomaki Mill, where the power systems had been restored.
- September** ■ **Nippon Paper Industries Co., Ltd.**
NPI resumed operation of the paper machine 8 at the Ishinomaki Mill.
- October** ■ **Nippon Daishowa Paperboard Co., Ltd.**
NDP announced a price revision for containerboard and specialty paperboard products to accommodate a rise in raw material and fuel prices.
- November** ■ **Nippon Paper Group, Inc.**
NPG set up the Energy Business Promotion Office to promote its energy businesses, including the supply of electricity.
- December** ■ **Nippon Paper Chemicals Co., Ltd.**
The construction of the No. 3 dissolving pulp machine at the Gotsu Works and the No. 6 coater for LDP optical films at the Higashimatsuyama Works was completed.
■ **Nippon Paper Industries Co., Ltd.**
NPI decided to produce dissolving pulp at the Kushiro Mill to respond to the growing rayon demand overseas.

2012

- January** ■ **Nippon Paper Crecia Co., Ltd.**
To reduce fixed costs and improve production efficiency, Crecia decided to suspend the operation of the Iwakuni Mill, which accounted for 15% of the total production capacity of Crecia.
■ **Nippon Paper Group, Inc.**
NPG's Sustainability Report 2011 received the Outstanding Achievement Award for green reporting.
- March** ■ **Nippon Paper Industries Co., Ltd.**
NPI resumed operation of the paper machine N6 at the Ishinomaki Mill.

To Our Stakeholders

Transforming Our Business Structure. Beyond the Post-Disaster Recovery, We Will Seek Sustainable Growth.

Yoshio Haga



Japan's paper demand has been undergoing structural changes since the worldwide recession. The Great East Japan Earthquake caused considerable damage to our mainstay mills. Along with intensive efforts to achieve prompt restoration of the affected facilities, Nippon Paper Group is working on extensive measures to bolster the earning power of its paper business. Beginning with FY2012 (year ending March 2013), we will employ the Fourth Medium-Term Business Plan aimed at "Completing the Paper Business Revitalization Plan and Transforming the Business Structure" to seek sustainable growth.

Yoshio Haga

President,
Nippon Paper Group, Inc.

FY2011 (Year Ended March 2012) Market Environment and the Group's Current Status

FY2011 was a year of harsh business surroundings for Nippon Paper Group. However, we were able to improve profitability by reducing costs and revising product prices, which has led me to reaffirm our resolve to put the Group back on a growth track.

Let me briefly discuss the business environment in FY2011. Japan's pulp and paper industry had experienced a sluggish recovery from the falloff in demand following the worldwide recession, when the Great East Japan Earthquake struck an additional blow to the Group last year. Moreover, the industry faced a steep rise of raw material and fuel prices and stiffer competition from imported paper products and these severe business environments continued throughout the year.

In this environment, **we effected price revisions** to accommodate the increase in costs that was not absorbable by ourselves. The price revisions were accepted by our customers owing to the relationship of trust we have built with them over many years.

As a result, partly due to persistent **cost-reduction efforts, the Group's consolidated operating income increased year on year to ¥36.5 billion**, despite a decrease in net sales. However, the non-operating expense for the one-time amortization of goodwill following a fall in the stock price of Lee & Man Paper Manufacturing Limited and the fixed cost during the temporary shutdown of disaster-afflicted paper mills—recorded as an extraordinary loss—resulted in a net loss of ¥41.7 billion for FY2011.

The Group faced more than one adverse factor, but **I believe we have the ability to overcome these difficulties. My responsibility is to show a new direction to which this ability should be used to put us back on a growth track. That is the resolve that I reaffirmed through our experiences this past year.**

FY2011 consolidated financial highlights

(¥ billion)

Net sales	1,042.4 (5.2% year-on-year decrease)
Operating income	36.5 (2.6% year-on-year increase)
Ordinary income	6.1 (80.8% year-on-year decrease)
Net loss	(41.7) (—)

The disaster-stricken mills have resumed operation one after another. The Ishinomaki Mill, a leading paper plant of the Group, is also expected to achieve a full-scale recovery by August 2012 as previously scheduled.

Knowing that the Great East Japan Earthquake and tsunami in March 2011 caused significant damage to Nippon Paper Industries' Ishinomaki Mill, I was concerned about the safety of the employees working at the mill, and at the same time, this question occurred to me: How should we reconstruct the Ishinomaki Mill, which is the heart of the Group's paper production?

I could easily imagine that the recovery process would require significant time and energy because the process was as if a factory would be built from scratch. However, **the employees made concerted efforts to overcome the difficulties, realizing the restart of production lines by the target period.**

Due to intensive efforts to restart the affected mills as early as possible, **the Iwanuma and Nakoso mills achieved a complete recovery** in May 2011. **At the most severely damaged Ishinomaki Mill, the phased operation of affected facilities commenced** in September 2011 and **Japan's largest and newest papermaking machine finally started operation in March 2012. The complete recovery of the Ishinomaki Mill is expected in August 2012.**

The biggest influence of the disaster was that **the loss of production capacity discontinued the product supply to our customers.** Owing to the relationship of trust that we had built with our customers, however, the customers responded by waiting patiently and providing warm support. Although the situation was severe, this kind of support helped to keep employee morale high and accomplish the recovery processes through concerted efforts Group-wide. This experience bolstered the self-confidence of each employee, as well as my own.



“Lights of Recovery” Photo by Tomezo Suganomata

This photo was awarded the Nippon Paper Award at “the 1st Photo Contest of Recovery from the Great East Japan Earthquake by Ishinomaki-kahoku” hosted by Sanriku Kahoku Shimpo Co. The trails of vapor strongly rising from the chimneys of the boilers at the Ishinomaki Mill symbolize the recovery of the Ishinomaki area.

Under the Third Medium-Term Business Plan, we promoted the downsizing of domestic production capacity and the establishment of business foundations for international growth. In addition, the medium-term revitalization plan was conducted to improve the profitability of our paper business.

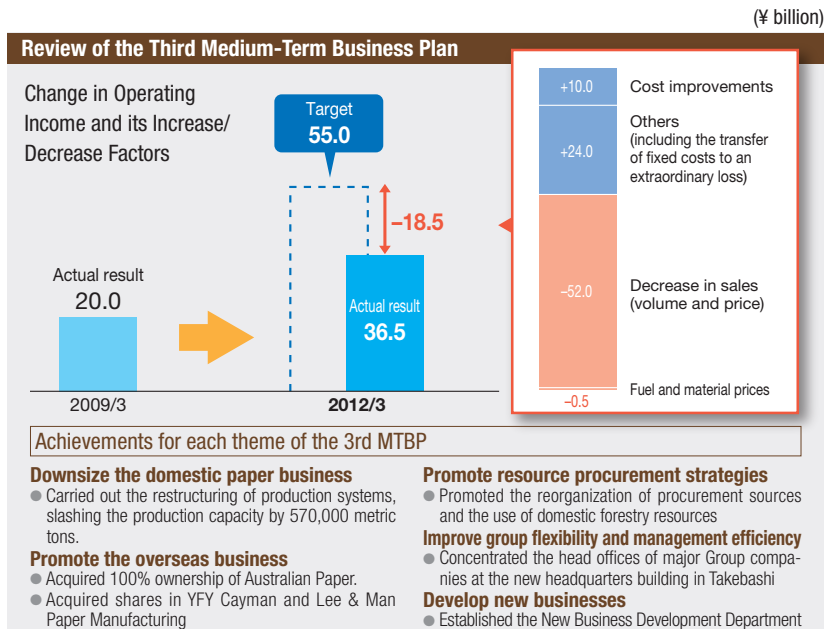
As domestic paper demand underwent a drastic transformation following the global financial crisis since 2008, we promoted the restructuring of paper production systems and the expansion of overseas operations under the **Third Medium-Term Business Plan from FY2009 to FY2011**.

As a result, we achieved a **fixed cost reduction through the downsizing of the domestic paper business** and **established new business bases in Asia and Oceania—the strategic areas for our overseas expansion**—by acquiring 100% ownership of Australian Paper and shares in Lee & Man Paper Manufacturing Limited.

However, **we were not able to achieve the plan's operating income target of ¥55.0 billion, as the sales decrease due to the earthquake, tsunami disaster, and other factors shrank operating income for FY2011 to ¥36.5 billion.**

While proceeding with the Third Medium-Term Business Plan, we started looking for the next move to overcome the harsh business situations, including the shrinking domestic paper demand, around a half year prior to the earthquake disaster.

In the wake of the disaster, **we made a careful review of our business strategies**, including a decision on whether to restore the affected facilities, before finalizing **a new plan for revitalizing the paper business.**

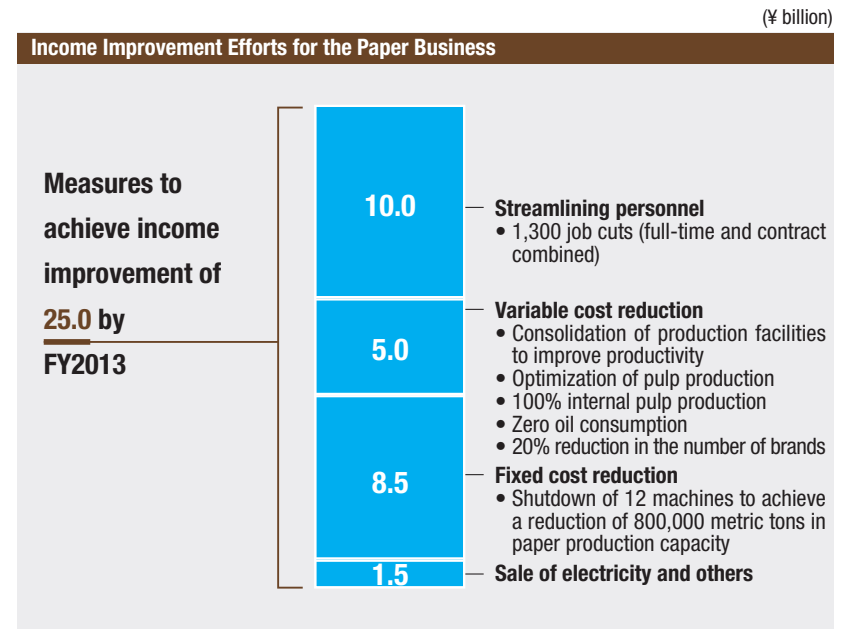


This is how **we launched the medium-term revitalization plan aimed at achieving income improvement of ¥25.0 billion for the paper business by FY2013 (fiscal year ending March 2014).**

Under the revitalization plan, we will **overhaul the structure of our paper production systems** by shutting down 12 machines to slash the Group's domestic paper production capacity by 15%, or 800,000 metric tons per year. This move is expected to achieve **income improvement of ¥8.5 billion**, and we had already shut down nine machines by the end of March 2012. The plan also sets out a target for **variable cost reduction of ¥5.0 billion**. To achieve this, we have engaged in efforts to minimize manufacturing costs, such as consolidating production facilities to improve productivity, increasing the ratio of internal pulp production, eliminating the use of oil in the papermaking process and reducing the number of brands by 20%. Furthermore, we intend to achieve **income improvement of ¥10.0 billion by streamlining the paper business workforce, specifically cutting 1,300 jobs**, of which 550 jobs had already been cut by the end of FY2011.

To effectively use the power generation capacity that had become redundant due to declining paper production, we started selling electricity generated using biomass fuel at the Fuji Mill to power companies in January 2012. This, combined with the launch of dissolving pulp production at the Kushiro Mill, is expected to generate **income improvement of ¥1.5 billion** for the business.

These initiatives are incorporated in the Fourth Medium-Term Business Plan, which started in April 2012, to guide our efforts to improve profitability.



The Fourth Medium-Term Business Plan

Toward the target of ¥70.0 billion in operating income, we have launched the Fourth Medium-Term Business Plan for “Completing the Paper Business Revitalization Plan and Transforming the Business Structure.”

To realize the plan's goal, we need a strong will to **overcome any difficulty no matter how serious it is and realize sustainable growth**, although the same is true with the paper business revitalization plan described earlier. This strong will has been materialized into the initiatives set forth in the **Fourth Medium-Term (FY2012–FY2014) Business Plan**. Designed to complete the paper business revitalization plan and **promote the transformation of the business structure to reinforce the growth fields of business, the new plan went into action** in April 2012.

The plan consists of four major themes: **strengthening the earning power of the paper business, reinforcing efforts to transform the business structure, boosting the earning power of overseas businesses and improving the financial position**. The plan sets a target of ¥70.0 billion in operating income by FY2014, which is about double the result for FY2011. This estimate for an operating income increase is based on the negative factors including material and fuel prices rising and the expected income improvement of ¥25.0 billion through the paper business revitalization plan, as well as the accumulation of income stemming from cost reductions and expected sales increases in the growth fields of business.

While solidifying a robust earnings platform mainly through the paper business, we will also seek promising business fields for which wood resources can be utilized effectively, such as businesses concerning packaging, processed paper products and lumber and chemical products, on a Group-wide basis, and pursue efforts to put such businesses into operation as early as possible within the plan period, with an eye for laying a foundation for sustainable growth in the future.



The Fourth Medium-Term Business Plan

“Completing the Paper Business Revitalization Plan and Transforming the Business Structure”

- Major Themes**
 - Strengthening the earning power of the paper business**
 - Complete the revitalization plan (to achieve a ¥25.0 billion improvement in earnings)
 - Enhance competitiveness in marketing and manufacturing
 - Reinforcing efforts to transform the business structure**

<Reorganizing operating companies>

 - Reinforce the businesses concerning packaging, processed paper products, lumber and chemical products
 - Reinforce our involvement in energy and new businesses
 - Boosting the earning power of overseas businesses**
 - Increase the competitiveness of Australian Paper
 - Reinforce synergies with Lee & Man Paper Manufacturing Limited
 - Improving the financial position**
 - Achieve a debt-equity ratio of 1.5 times or less as soon as possible

- FY2014 Target Figures**
*FY2011 actual in parentheses
- Net sales**
¥1,120.0 billion
(¥1,042.4 billion)
- Operating income**
¥70.0 billion
(¥36.5 billion)
- Debt-equity ratio**
1.5 times or less
(1.9 times)
- Return on equity (ROE)**
8% or more

Assumptions
 U.S. dollar : ¥80 per dollar
 Australian dollar : ¥85 per dollar
 Fuel and material prices : Slight increase

Operating Income Trends (¥ billion)

Period	Operating Income (¥ billion)
2010/3	43.1
2011/3	35.6
2012/3	36.5
2013/3	41.0
2014/3	62.0
2015/3	70.0

Factors of Increase / Decrease in Operating Income (¥ billion)

Factor	Change (¥ billion)
Operating income (2012/3)	36.5
Fuel and material prices	-11.0
Others (including the reversal of fixed costs transferred to an extraordinary loss)	-24.5
Decrease in depreciation expense	+8.0
Revitalization plan	+25.0
Increase in sales (volume and price)	+23.0
Cost improvements	+13.0
Operating income (2015/3)	70.0

Operating income +¥33.5 billion

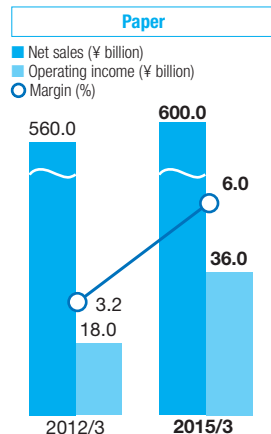
We will seek the recovery of the paper business' domestic sales volume to 4.10 million metric tons to ensure stable income and highly efficient production systems that qualify the paper business as the core business of the Group with greater competitive strength.

One of the four major themes of the Fourth Medium-Term Business Plan is **“strengthening the earning power of the paper business.”** To build a stronger business foundation appropriate for the paper business as a leading profit earner, it is necessary to achieve the income improvement target of ¥25.0 billion set forth in the paper business revitalization plan.

As a managerial issue to be addressed for the paper business, we cite the additional enhancement of cost competitiveness. Specific cost-cutting measures would include the in-house production of the chemicals to be used for paper making and the curtailment of logistics costs by increasing the ratio of direct delivery to customers and reducing inventory.

Another managerial issue to be tackled for the paper business is the **recovery of sales volume.** Due to the earthquake and tsunami disaster and yen appreciation, the share of imported paper in the domestic paper market exceeds 10%, and it is more than 20% in the coated paper market. To counter these trends, we must make active product proposals to fulfill customer expectations, while developing lightweight products with an optimal quality-cost balance that are differentiated from imported paper, and other attractive products that would be manufactured by the optimal use of our respective papermaking machines and raw materials.

By steadily carrying out these measures, we aim to increase the domestic sales volume of the Group's paper business **from 3.89 million metric tons in FY2011 to 4.10 million metric tons by the end of FY2014, which is an increase of 5.4%.** This would enable the operation of our paper production lines at almost full capacity—the highest efficiency ever attained by our production systems.

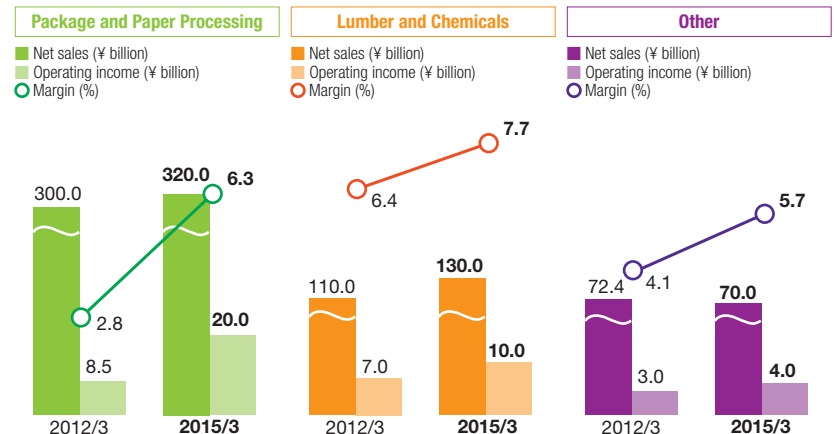


Consolidate dispersed resources. By executing a drastic reorganization of the Group, we will achieve a dynamic transformation toward becoming a “comprehensive player of biomass businesses.”

Top management must not leave even a tiny market change unnoticed but rather looks one step ahead to prepare for them. I have noticed for a long time that the downsizing of our paper business is unavoidable but, on the other hand, I have regarded **the transformation of the Group's entire business structure as necessary to ensure its sustainable growth.** Enhancing the Group's business efficiency to make it leaner is indispensable for survival. At the same time, creating new businesses that would enable continued growth is also essential. I think it is important to keep an optimal balance between these two engines in operating businesses.

For the Nippon Paper Group, the paper business has long been the largest source of income. However, we can no longer rely solely on the paper business. Fortunately, we engage in various businesses based on forest resources—the basic material for the paper business. They include the package and paper processing businesses, which have derived from the paper business; the biochemicals business, which attracts attention for the use of materials originating from renewable resources; and the energy business, the value of which is beginning to be appreciated after the earthquake and tsunami disaster. These businesses hold numerous possibilities to be developed, to which we must allocate appropriate management resources to grow them into additional pillar businesses for the Group.

Specifically, we seek to reinforce the sales strengths and cost competitiveness for the three areas of **the package and paper processing businesses:** paperboard, paper cartons and household paper products. For paperboard, we will promote sales of the products that meet market demand, such as thinner products, while developing higher-quality and environment-friendlier products. At the same time, we will endeavor to curtail production costs by reducing the use of heavy oil and enabling higher content of wastepaper in white paperboard. For paper cartons, we will promote sales of new lines of liquid-packaging cartons, while seeking cost reduction by ensuring the advantageous procurement of base paper. As regards household paper products, we have raised the sales target for



healthcare products by 50% to ¥10.0 billion, as they are undergoing remarkable market growth. We will also reinforce sales of premium product lines of tissue paper and toilet paper and commercial products for the medical and food industries. In addition, we will strengthen our partnership with Kimberly-Clark Corporation in new product development.

In **the lumber and chemicals businesses**, we will focus on business expansion in growth fields. As specific measures for chemical products, we will continue to increase the production of cellulose powder, which is expected to grow even further. For dissolving pulp, which enjoys growing demand chiefly in Asia, we will seek business expansion and profitability enhancement by increasing its production using the existing equipment at the Kushiro Mill and producing high-value-added lines of dissolving pulp at the Gotsu Works. We will also strengthen the capacity to collect wood resources, for which greater demand is expected in chemical and fuel applications. In particular, we will reinforce the ability to collect biomass fuel, for which we are already the top collector in Japan, and seek the position of Japan's No. 1 dealer for domestic lumber as well, with a target for annual transactions of one million cubic meters, which is double the current volume. For construction materials, we will increase the production and sales of thinner and waterproof medium-density fiberboards (MDFs) and products with the certification of sustainable forest management.

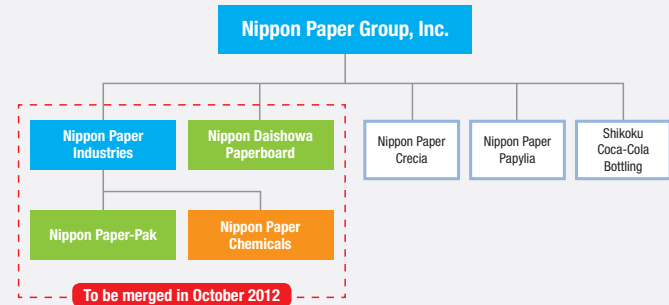
For **the other business**, we will raise the earning strength of the beverage business.

While carrying out these measures, **we will reorganize the Group's operating companies** in October 2012. Specifically, we will merge four operating companies—Nippon Paper Industries, Nippon Daishowa Paperboard, Nippon Paper-Pak and Nippon Paper Chemicals—with Nippon Paper Industries as the surviving company. Additionally, we will merge Nippon Paper Industries and Nippon Paper Group in April 2013 with Nippon Paper Industries as the surviving company and shift to an operating holding company. Through this merger, we intend to further streamline the business operations to survive the harsh business surroundings and will **step forward to be a “comprehensive player of biomass businesses”** aimed at promoting the advanced utilization of wood resources—the basic material for paper making—by consolidating the management resources that have been dispersed among the operating companies to be merged.

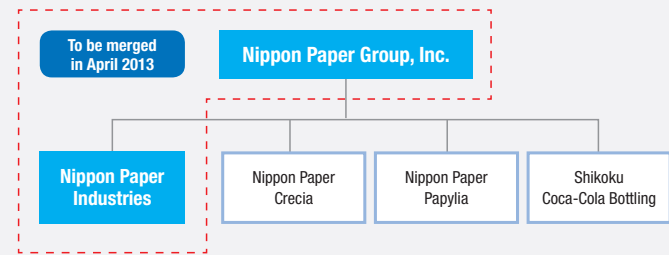
Through this reorganization, we will ensure the prompt allocation of management resources to the growth fields of the aforementioned businesses. In addition, we are considering measures to streamline the back-office functions and promote marketing by leveraging synergies between the businesses, as well as the introduction of the executive officer system and a business-group-based organizational structure to reinforce the Group governance.

Before the start of the new organization, we plan to move our head office in March 2013. At the new head office, we will provide the “places” that can encourage people with different skills and knowledge to exchange their opinions and collaborate with each other. We expect these opportunities for the cross-sectional connection of highly professional people in diverse fields to generate unconventional ideas and **dynamic changes to renovate Nippon Paper Group**.

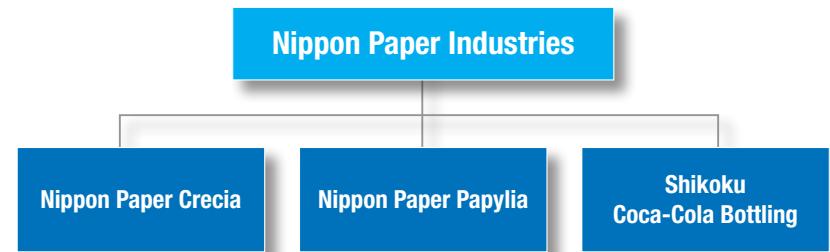
Organization as of April 2012



New organization effective from October 1, 2012



New organization effective from April 1, 2013



- Consolidate and reinforce the growth field businesses
- Strengthen the marketing and manufacturing teams
- Ensure the swift allocation of management resources
- Streamline the back-office functions

We will strengthen our business foundations for continued overseas expansion by strategically investing in the Asia and Oceania regions, which have strong demand, and promoting alliances with established local companies.

Turning your eyes overseas away from the severe domestic business circumstances, you will find that the population keeps growing in Asia and Oceania, where the demand for paperboard and industrial paper is expected to continue to see high growth rates. To win over these growing overseas markets, the Fourth Medium-Term Business Plan sets out measures to **strengthen the earning power of overseas businesses**, mainly those in which we invested under the Third Medium-Term Business Plan.

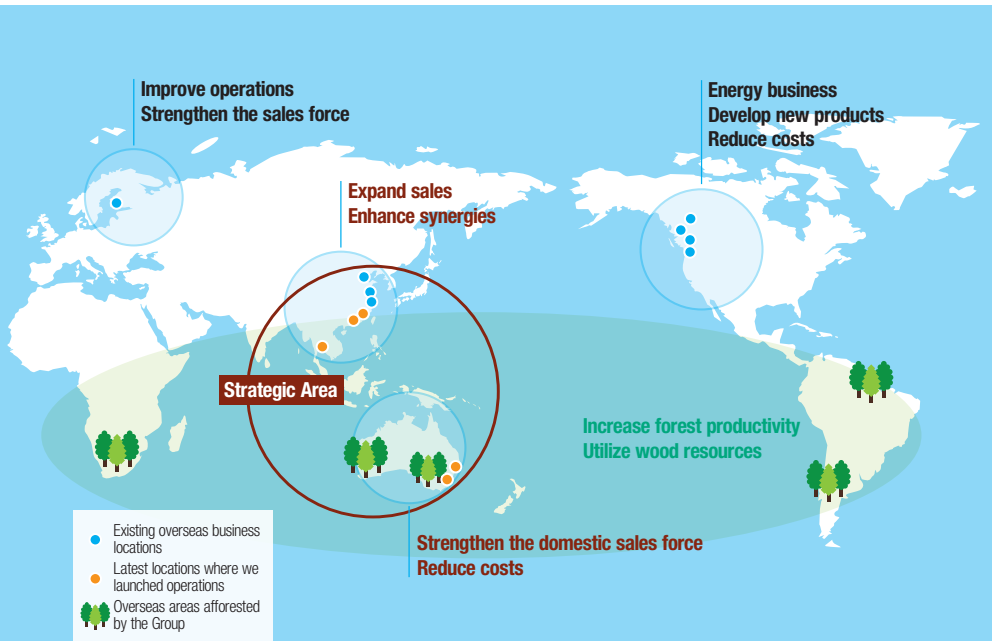
First, **Australian Paper**—Australia’s only manufacturer of printing and business communication paper, which we acquired in 2009—has been raising its production efficiency remarkably by introducing methods for operation control, cost reduction and factory management from Nippon Paper Group. Without being complacent as Australia’s only manufacturer of printing and business communication paper, we will continue to enhance Australian Paper’s competitiveness, particularly by promoting sales of environment-conscious products to address the environment-oriented nationalities.

Next, China’s second-largest containerboard manufacturer, **Lee & Man Paper Manufacturing Limited**, is a company with which we established a business alliance in 2010 and made it into an equity-method affiliate in August 2011 by acquiring an additional stake in the company. To help start up the company’s first white paperboard facility, which began operations in July 2012, we provided

manpower support and education for local employees, and played a significant role in product development. About half of the facility’s products of white paperboard amounting to 600,000 metric tons per year is aimed to be sold through the Group’s distribution network.

In June 2012, we concluded a joint venture agreement with **SCG Paper Public Company Limited** in Thailand, with which we have had an alliance since 2008, to introduce a new facility in Thailand for machine glazed paper for various applications, including food and medical wrapping and furniture covering, and produce and sell 43,000 metric tons of them annually.

In the Asia and Oceania regions where paper demand growth is expected to continue, Nippon Paper Group needs to fulfill a significant role for these companies in which it invested. **By deepening the alliances to encourage their further growth, we will accelerate our efforts to solidify the business foundations for continued overseas expansion.**



Active Involvement in the Strategic Area

Australia ▶ Australian Paper

Improve profitability by reinforcing the sales force and cost competitiveness

The Australian business environment is supported by steady domestic demand, whereas the high appreciation of the Australian dollar is reducing export prices and intensifying competition from imported paper. Meanwhile, the nation’s growing awareness of environmental protection is expected to promote appreciation of environment-conscious products.

At Australian Paper, we will focus on environmentally-friendly brands to reinforce its domestic sales force. We will engage in active promotion of recycled paper, carbon-neutral products and products with sustainable forest management certification, while seeking to raise cost competitiveness and improve profitability. Efforts will also go into increasing production efficiency, for which the target is set at 1% per year, increasing the utilization of recycled pulp and curtailing fixed and repair expenses.



Maryvale Mill (Victoria, Australia)
Production capacity: about 600,000 metric tons per year



Australian Paper’s flagship brand REFLEX®

China ▶ Lee & Man Paper Manufacturing Limited

Lee & Man has introduced its first white paperboard machine, for which Nippon Paper Group has provided development support and will continue support as to facility operation and selling the products.

Despite the slowing growth rates of China, the promising business fields, such as white paperboard, are likely to continue expansion. Following the 2010 business alliance concluded between Nippon Paper Group and Lee & Man, Nippon Paper Industries started the development of white paperboard products for Lee & Man. As pre-production samples achieved a favorable evaluation by a Chinese printer in 2011, Lee & Man started the operation of a white paperboard machine in July 2012 with an annual production capacity of 600,000 metric tons. Lee & Man also plans to start operation of a new containerboard facility in 2013 with an annual production capacity of 500,000 metric tons. These initiatives by Lee & Man will be supported by Nippon Paper Group.



Five paperboard manufacturing locations in China
Production capacity: 6.05 million metric tons per year



White paperboard machine at Hongmei Plant



Plants of Lee & Man in China

Thailand ▶ SCG Paper Public Company Limited

The new joint venture will introduce a facility for machine glazed paper with an eye to the growing Southeast Asian market.

To seek a presence in the growing high-end industrial paper market of Southeast Asia, SCG Paper and Nippon Paper Group have agreed to establish a joint venture in June 2012 as follows.

Joint venture name	Siam Nippon Industrial Paper Co., Ltd.
Total investment	¥5.5 billion
Equity stake	Nippon Paper Group 55%, Thai Paper Co., Ltd.* 45%

*A fully-owned subsidiary of SCG Paper

According to the agreement, a manufacturing facility with annual capacity of 43,000 metric tons will be introduced within the existing plant of Thai Paper, whereas Nippon Paper Group will provide its production technologies and overseas sales network. Combining the strengths of both parties, it is planned to supply high-quality and cost-competitive industrial paper products to the Southeast Asian market, beginning in the first quarter of FY2014. With this joint venture as a foothold, the Group will seek further business expansion in Southeast Asia.

By faithfully implementing the Fourth Medium-Term Business Plan, we will improve our financial position. While making future-oriented investments, we aim to enhance our financial strength.

To achieve sustainable growth, it is an important managerial task to secure a strong financial position. Partly due to the need for post-disaster recovery, the fiscal year ended March 2012 saw an increase in the Group's interest-bearing debt. However, we will strive to reduce it as early as possible to achieve a strong financial position.

In addition to consistent efforts to maintain fair product prices and secure fair profits, we will better stabilize our business foundations by improving profitability through various measures under the Fourth Medium-Term Business Plan.

During the period of said Plan, **we plan to make investments totaling ¥250.0 billion, including a strategic investment of ¥70.0 billion; a revitalization plan investment of ¥40.0 billion, which already had been accounted for by the end of FY2011; and the usual capital expenditures, including those for cost reduction, of ¥140.0 billion.** Areas to allocate the strategic investment need further consideration, but we are certain to use it to encourage continued growth in the future.

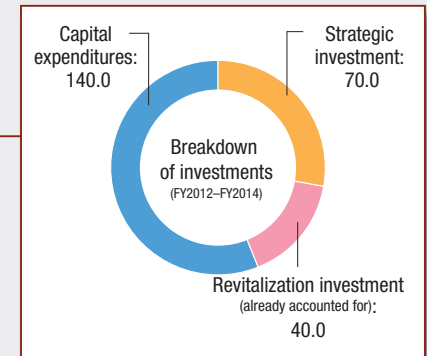
While securing these investments, **we seek to improve our debt-equity ratio to 1.5 times or less by reducing the interest-bearing debt from ¥838.3 billion as of March 31, 2012, to ¥710.0 billion by March 31, 2015,** thereby enhancing our financial position.

(¥ billion)

Improving the Financial Position

● **FY2012–FY2014**

Investment: **-250.0**
Depreciation: **+200.0**
Net income: **+100.0**



● **FY2014 Targets (Year Ending March 31, 2015)**

Balance of interest-bearing debt: **¥710.0 billion (Balance as of March 31, 2012: ¥838.3 billion)**
Debt-equity ratio: **1.5 times or less (Ratio as of March 31, 2012: 1.9 times)**

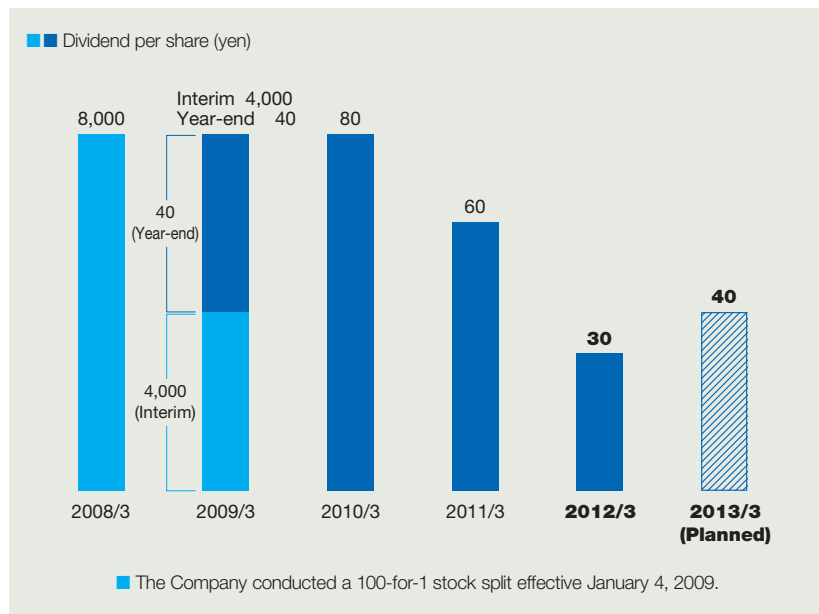
To Our Stakeholders

We will meet the expectations of our stakeholders by realizing the sustainable growth as a “comprehensive player of biomass businesses” and enhancing the corporate value.

As I have described so far, Nippon Paper Group will continue its concerted efforts to carry out the various measures set forth in the Fourth Medium-Term Business Plan. By improving the profitability of its core paper business and ensuring the transformation of its entire business structure, **Nippon Paper Group will renovate itself to be a “comprehensive player of biomass businesses” for achieving sustainable growth. This will surely lead to higher corporate value to fulfill the expectations of our stakeholders.**

Regarding dividends, Nippon Paper Group makes it a basic policy to ensure the stable payment of dividends to its shareholders. However, for the fiscal year ended March 31, 2012, when we were subject to the aftermath of the earthquake and tsunami disaster, we had to reduce the annual dividend to ¥30 per share, consisting of ¥10 interim and ¥20 year-end dividends. As to the dividends for the fiscal year ending March 31, 2013, we plan to pay an annual dividend of ¥40 per share, consisting of ¥10 interim and ¥30 year-end dividends. **We will restore the pre-disaster level of dividend payments at the earliest possible time** by implementing measures to improve profitability and enhance our financial position.

By promoting the use of renewable biomass resources, Nippon Paper Group will not only achieve its own growth but also assume a role in building the recycling-oriented society, which will contribute to the sustainable growth of society for years to come. I would appreciate the continued support and understanding of our valued stakeholders.



SPECIAL FEATURE

The Possibilities of “Trees” Open up the Future

The Fourth Medium-Term Business Plan (FY2012–FY2014), which started in April 2012, advocates “Completing the Paper Business Revitalization Plan and Transforming the Business Structure.” We envision a new future without being limited to the paper business by taking advantage of paper making-based technologies and extending the possibilities for trees.



Feature: The Possibilities of “Trees” Open up the Future

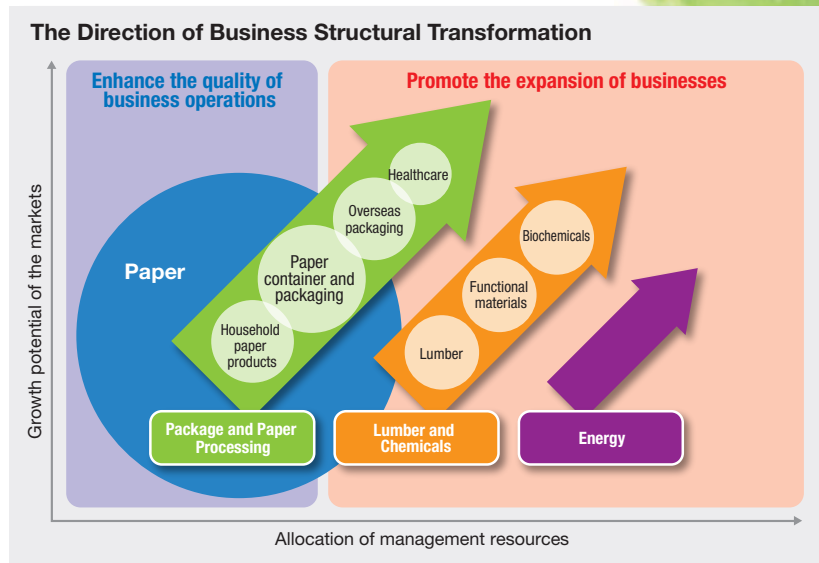
Aiming to Be a Comprehensive Player in Biomass Businesses

Demonstrate accumulated strengths by cultivating forests and utilizing wood

The overall pulp and paper industry has a large reserve capacity for growth with a central focus on emerging countries in Asia. In addition, several promising signs extending from the existing business framework of the Nippon Paper Group are apparent not only overseas but also in the Japanese market.

Although our targeted fields are diversified from the paper and packaging business, which derived from the paper business, and the biochemicals business, which stemmed from the lumber and chemicals businesses, to the energy business, the common theme is “trees,” which are a renewable resource, and the technologies to effectively utilize them. The Group’s strength is its extensive knowledge of trees, having developed and accumulated technologies in all the processes of cultivating and managing forests totaling 255,000 hectares including company-owned forests in Japan. We intend to utilize this strength to create a pillar of new revenues through the expansion of existing businesses and new business initiatives by proactively investing management resources in every field where our know-how in utilizing wood resources can be demonstrated. In April 2012, we set up the New Business Development Department as a dedicated entity to address the development of new businesses and lay out a development framework in anticipation of the reorganization of operating companies.

We will pursue growth as a “comprehensive player in biomass businesses” that produces a variety of products that support peoples’ lives and society by expanding the possibilities of trees as a renewable resource, cultivating forests and comprehensively utilizing trees while making paper.



Interview

The New Business Development Department Creates a Pillar of New Revenues by Combining Tree-Versant Technical Capabilities and Social Needs.



Yasunori Nanri,
Director and General Manager,
Research & Development Division,
Nippon Paper Industries Co., Ltd.
Doctor of Agriculture

Respond to the needs of society and propose the seedlings of new businesses

In April 2012, the **New Business Development Department was established** under the Technology, Research & Development Division of the Nippon Paper Group. In our previous new business development, we focused on continuously sowing the seeds of new possibilities. However, to promote the earlier commercialization of new businesses, **a dedicated business unit was needed to anticipate actual needs and propose the development of**

seedlings to address those needs. The New Business Development Department was established as a responsible entity that assumes the role of cultivating such seedlings.

The department consists of researchers mainly engaged in research and product development and employees with sales experience. As the sales team accounts for about half of the staff, the department is capable of getting quality feedback from dialogues with customers. For example, if an interesting and innovative product is realized through our development and its intended application differs from that of our conventional products, **we will have to decide, according to the division's original marketing function,** how to sell it or whether to leave its treatment to an experienced existing business unit.

"What will be the mission for those of us in such a role?" It's to start up a new business that could replace paper in the future. It is important to ask, "What is our strength?" **The answer is that the Group is intimately familiar with the characteristics of trees.**



The Research & Development Division of the Nippon Paper Industries supports the development of new technologies that may lead to new businesses.

The 21st century will be a wood biomass era. We have the technologies available.

Unlike the 20th century, which might be called a fossil-based resource era, the **21st century could be the wood biomass era.** Wood biomass resources generated from trees are not only renewable but also contribute to a circular system, according to which, even if a tree is burned, the emitted CO₂ is taken back into other trees. That is to say, such resources are carbon-neutral. In addition, "cascade utilization" is possible for trees. Cascade refers to multiple stages: lumber is first taken by cutting off branches and barking, followed by the production of forest products such as construction materials and plywood and chips used for paper and various chemical materials. The remaining waste is used as a biomass fuel for energy. Thus, the entirety of a tree can be used. We have effectively grown a large number of trees for papermaking and have **accumulated sophisticated technologies at the utilization stage.** We have vast areas of forests to produce wood resources and **well-balanced business groups equipped with the technologies** to develop a variety of paper-related fields, processed paper products, biochemicals and food. We will promote the early commercialization of new businesses by drawing on our strengths.

Cultivate new seedlings that replace the paper business under the task theme of wood biomass

I believe that paper is still valuable. There are several ways in which paper has supported the livelihood and cultures of people. **Paper has three roles: Write, Wipe and Wrap.** Although the "write and read" functions of printing and publication paper are in decline, the demand for the "wipe and absorb" functions of household paper such as tissue paper and **the "wrap" function of packaging materials and containerboard is vigorous.** First, we will pursue the possibility of growing a new business in the areas that replaces printing paper.

The immediate tasks involve linking social needs to the "seeds" of our R&D activities and speedily incorporating those needs in our actual businesses. We received good feedback on **four themes** through the utilization of biomass resources. These themes include the supply of electricity and biomass fuel related to **"energy"**; cellulose nanofiber and bioethanol related to **"biochemicals"**; and packaging containers, barrier packaging materials and functional sheets related to **"industrial materials."** Although fossil-based resources prevail currently, we intend to promote their replacement in the future with renewable wood biomass-originated products. The realization of a sustainable recycling-oriented society is a social requirement, and our business will advance with full recognition of this trend. As for the final theme of **"agricultural and food materials,"** we are hopeful for advancements in plant factory in which our planting technologies nourished by our affluent experiences of afforestation would be installed, functional plants and materials for medicine.

Through the commercialization of these themes, the Group will address the advanced utilization of environmentally-friendly and renewable wood biomass resources and the **transformation of the business structure toward the comprehensive player in biomass businesses.**

Energy

Proactively develop an energy business that contributes to the stable supply of power and heat

The Group has Japan's leading in-house power generation capacity (about 1.70 million kW), aside from power companies, and has already started external sales of surplus electricity and supplied power in response to requests from power companies following the Great East Japan Earthquake. We recently established the Energy Business Department given 1) such past achievements, 2) the increased transmission of electricity outside the Group as a result of the excess power generated from a decrease in production at the Group's papermaking plants, and 3) changes in the external environment (e.g., the reduction of CO₂ emissions and the introduction of the fixed-price purchase for renewable energies). We aim to expand this business early by taking advantage of our expertise in equipment operation at diversified power generating plants and Japan's leading ability to procure wood biomass through both domestic and overseas networks.



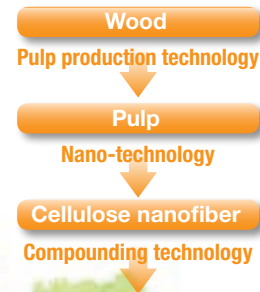
Biomass boiler No. 3 at Fuji Mill of Nippon Paper Industries

In the future, we will consider the construction of a new biomass-fired thermal power generation plant and the implementation of photovoltaic and wind power generation plants while actively selling electricity generated by our existing facilities. In addition, strong demand for the new biomass-derived fuel, which was developed by the Company, is expected because it has excellent features compared with existing fuels and its contribution to mixed combustion can be expected at coal-fired power generation plants.

*See the Column in page 36.

Biochemicals

Develop cellulose nanofiber, which is available in a variety of fields



We are shifting wood biomass to new applications as biochemical materials in the pursuit of new possibilities. For example, as cellulose nanofiber, for which nano-technology has been applied to cellulose, is light like paper but has the same strength as steel, its application as an armor material for automobiles and other products can be expected. In addition, we anticipate diverse applications for compound technology in a variety of industrial materials including uses for food packaging. We aim to reinforce our development in this field, as well as joint development with universities or other companies to promote the earlier commercialization of new businesses.

Various industrial materials



Cellulose film



Resin reinforcement materials



Viscosity improvers

Developing the Diverse Possibilities of Utilizing

Trees toward Commercialization Is Under Way

Agricultural and Food Materials

Enter into the functional food materials market based on the Group's agri-bio technologies



Sunrouge tea farm (in Tokunoshima)

The Japanese market for functional food materials exceeds ¥100.0 billion and the global market has reached about ¥2 trillion, reflecting the trends of the aging population and people's growing health consciousness. The Group has succeeded in producing high-functional tea using the Company's original photoautotrophic cultivation technology, which has been nurtured through the management and cultivation of overseas areas afforded by the Group. We will reinforce the tea seedling business (for high-value-added seedlings), including the business expansion of Sunrouge, a tea cultivar that features high anthocyanin content, which helps reduce eyestrain. Furthermore, we are promoting initiatives for the commercialization of materials for applications such as pharmaceuticals, health foods and cosmetics.



Production of seedlings by the photoautotrophic cultivation technology

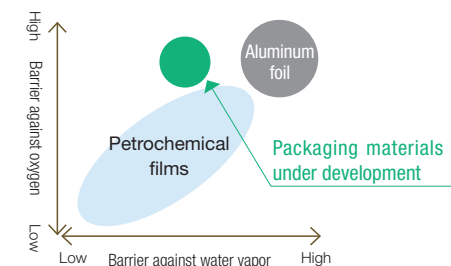
Industrial Materials

Develop paper-based barrier packaging materials with lower environmental load

The Group is developing new materials that could replace conventional food packaging films by applying its existing base paper production and coating technologies. The special coating on paper generates high gas barrier performance. We intend to disseminate wood biomass-originated materials by proposing to replace petrochemical films, which are often used for food packaging.



Barrier packaging materials



Introduction of the Energy Business Department, which aims for early commercialization



Listening to the Representatives of the Energy Business Department

We will accelerate establishing new businesses by aggressively taking advantage of the Group's capabilities in terms of technology, facilities and resource procurement.

(From the front side)

Energy Business Department, Engineering and Research & Development Division, Nippon Paper Group, Inc.

Hiroyasu Ebinuma, Deputy General Manager, Doctor of Agriculture

Haruhi Nomura, General Manager

Tetsuo Matsumoto, Senior Manager

Q: What is the mission of the Energy Business Department?

Nomura: The Group had an important problem in how to effectively utilize its excess electricity that resulted from the contraction of the paper market. In view of the recent favorable market conditions for the sale of electricity, we established the Energy Business Promotion Office in December 2011 to promote the early commercialization of energy businesses. With the mission of early commercialization, the Energy Business Promotion Office was reorganized as the Energy Business Department after reviewing the anticipated tasks for about a half year. Starting with two dedicated staffers, the staffing was increased to seven as of July 2012.

Q: What aspects of commercialization take advantage of your strengths?

Nomura: The keys to the success of biomass power generation would be the operation of facilities and the procurement of resources. The Group has in-house power generation facilities throughout the country and has recorded boiler operating performance compliant with diversified fuels including black liquor as pulp byproducts, coal, biomass and other new energy resources. I believe that we already have a competitive edge in conducting the power business as we have sufficient operating know-how including that for fluidized-bed combustion boilers, of which stable operation is generally considered difficult, and close collaboration among the Group companies.

Matsumoto: The papermaking industry mostly uses lumber in Japan. Nippon Paper is Japan's largest class biomass consumption enterprise as a single corporate group. We have established a stable procurement system taking advantage of domestic and overseas afforested areas and the Group's networks to cover enormous demand. Japan's leading ability to procure wood biomass, which has been nurtured in our long history, is one of our advantages. The domestic production of lumber as a fuel is forecast to be promoted by the government as part of its forestry renaissance policy. In this regard, we are confident that the Group can address this trend by fully drawing on the flexibility of our existing networks.

Q: How about your energy-related research and development?

Ebinuma: We are promoting the practical use of semi-charring technology. Although mixed biomass combustion is encouraged as a means to reduce CO₂ emissions at coal boilers, the core equipment of coal-fired power generation plants, ordinary biomass fuel with much moisture content is inefficient. Semi-charred wood fuel has high heat generating efficiency and can be mixed with coal at a higher ratio than previous methods. The fact that mixed biomass combustion has been demonstrated with our existing facilities is an incomparable strength apart from our technological excellence.

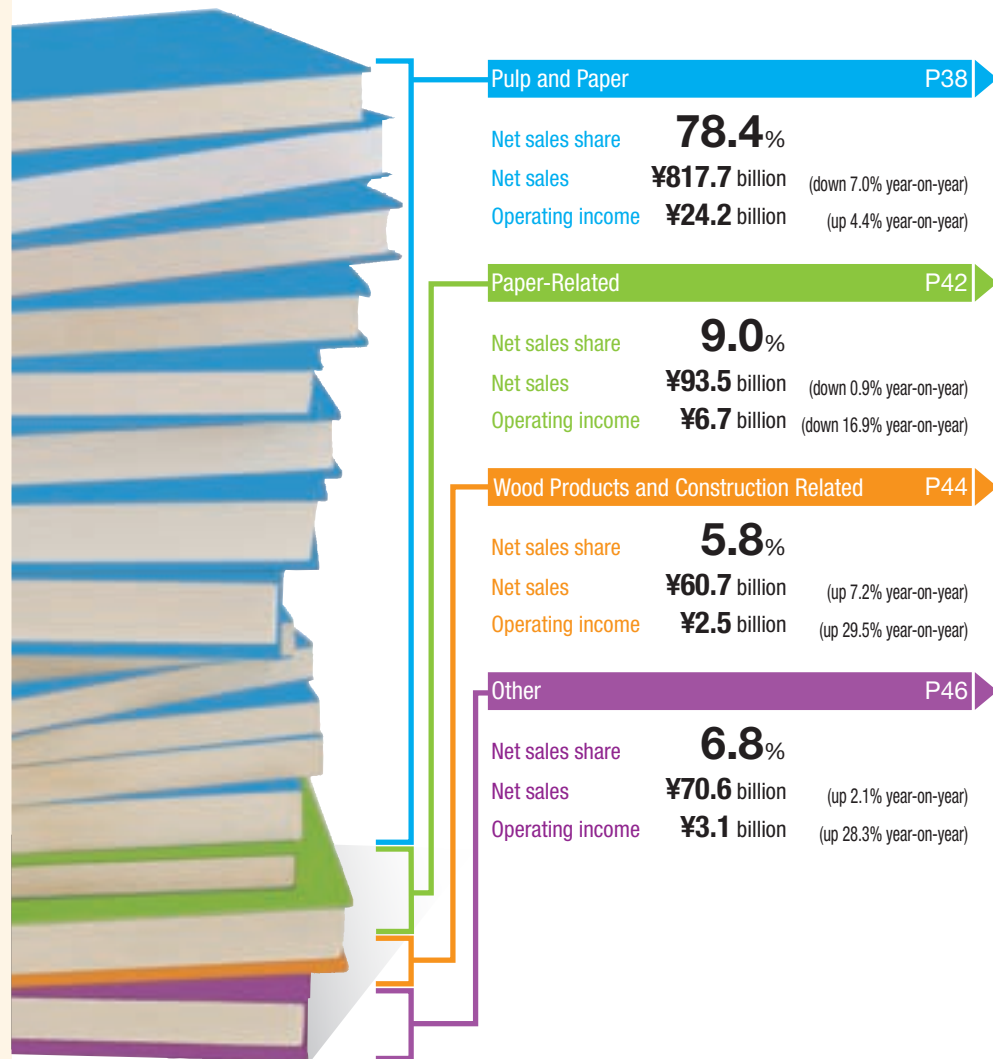
Q: Please explain your view on the future direction of the business and your ambition.

Nomura: We are probing several possible directions for the supply of electricity. As an investment that could lead to short-term advantage, we will utilize the reserve capacity of our existing facilities. In parallel, we are increasing the supply capacity via the new installation of biomass boilers despite the higher investment cost. We have already decided on commercialization projects for three operating bases in Japan and overseas and are continuing to study similar installations at other operating bases. We are also considering the implementation of photovoltaic and wind power generation plants on idle company-owned properties. Meanwhile, we expect early commercialization of the semi-charring technology to address the social need of reducing CO₂ emissions.

As previously mentioned, while monitoring market trends, we will proactively promote early commercialization under the policy of selection and focus by concentrating efforts on fields where the Group's strength can be demonstrated.

Business Overview

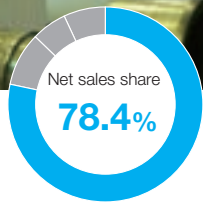
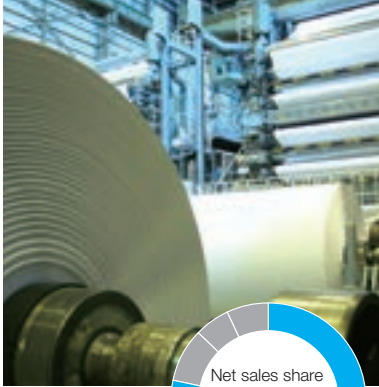
Business Segment Overview



Pulp and Paper

Description of Business

Our pulp & paper segment is the core of the 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, we are working to reorganize our production structure in accordance with the medium-term revitalization plan. At the same time, we are proactively developing overseas growth markets especially in Asia and Oceania.



Consolidated Subsidiaries	Capital (¥ million)	Location	Ratio of voting rights (%)
Nippon Paper Industries Co., Ltd.	104,873	Japan	100.00
Nippon Daishowa Paperboard Co., Ltd.	10,863	Japan	100.00
Nippon Paper Crecia Co., Ltd.	3,067	Japan	100.00
Nippon Paper Papyrus Co., Ltd.	3,949	Japan	100.00
Paper Australia Pty Ltd.(and its 7 subsidiaries)	AUD 1,000,000 662	Australia	100.00
NP Trading Co., Ltd.	1,000	Japan	98.35
Koyo Paper Mfg. Co., Ltd.	400	Japan	100.00
Kokuei Paper Co., Ltd.	100	Japan	100.00
SUN OAK CO.,LTD	75	Japan	100.00
Kitakami Paper Co., Ltd.	300	Japan	62.90
Daishowa North America Corporation	CAD 1,000 165,800	Canada	100.00
Nippon Paper Industries USA Co., Ltd.	USD 1,000 53	U.S.A.	100.00
Dyna Wave Holding Asia	HKD 1,493	The British Cay- man Islands	100.00
Equity-method Affiliates			
North Pacific Paper Corporation	USD 1,000 28	U.S.A.	50.00
Daishowa-Marubeni International Ltd.	CAD 1,000 262,000	Canada	50.00
Kyodo Paper Holdings Co., Ltd.	2,381	Japan	31.04
Lee & Man Paper Manufacturing Limited	HKD 1,000 117,240	The British Cay- man Islands	15.32
YFY Cayman	USD 1,000 309,918	The British Cay- man Islands	20.35

Main Products

Paper

- Newsprint •Printing and publication paper •Business communication paper
- Packaging paper •Paper for miscellaneous uses

Paperboard

- Containerboard •White board •Chipboard •Base paper for building materials

Household paper products

- Facial tissue •Bathroom tissue •Paper towels •Diapers

Specialty and high-performance products

- Tea bag paper •Filter paper •Water soluble paper •OPER®

Business Overview

Paper

The Nippon Paper Group's paper business has a 30% share of the domestic market. Our main products enjoy top market shares in four categories—newsprint, printing and publication paper, business communication paper and industrial paper—and we are the largest supplier of newsprint in Japan. The Group's newsprint, a high-quality product with significant public utility, and almost all kinds of printing and publication paper are provided to a wide range of customers such as newspaper companies, publishing companies and governmental agencies. In addition, Nippon Paper Papyrus, our main operating company in the specialty paper business, produces and sells specialty and high-functional paper that meets diverse market needs. The Group's high cost-competitive paper products are manufactured in an integrated production process starting with woodchips, and customers have lauded our sophisticated production technology.



Paperboard

Wastepaper is the principal input of paperboard, making it highly economical and well-suited to societies that value resource recycling. Our paperboard business produces mainly containerboard, which accounts for about 75% of production volume. The business also manufactures and sells such products as white board, gypsum board base paper and core base paper. The main company in this business is Nippon Daishowa Paperboard, which operates five mills across Japan. Three are located near the Kanto region market, and 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

In the household paper products business, the main operating company is Nippon Paper Crecia, which has mills located with convenient access to major consumer markets, and our main household paper products are tissue paper and toilet paper. We produce and supply the global Kleenex® and Scottie® brands, as well as Poise® healthcare products, of which sales growth has been remarkable in recent years, to offer a wide range of products.



Pulp and Paper

FY 2011 Market Conditions and Review of Operating Results

Market conditions

Paper

- Although domestic paper demand declined due to the impact of the Great East Japan Earthquake, a recovery in demand occurred after the summer of 2011.
- The domestic newspaper demand decreased year-on-year, whereas domestic printing paper demand increased year-on-year due to a rally in the second half of the year under review.
- Affected by the hike of material and fuel prices, prices of printing and publication paper have increased from the third quarter of the year.

Paperboard

- The shipment volume in Japan's paperboard industry grew slightly year-on-year. Demand for paperboard for packing and packaging was steady, and prices of containerboard increased from December 2011.

Household paper products

- The shipment volume of household paper products was almost the same as the previous fiscal year. Sales prices remained weak due to the fallen prices of pulp, our main raw material, and the intensified competition.

Review of operating results

■ **Net sales** **¥817.7 billion**
(down 7.0% year-on-year)

■ **Operating income** **¥24.2 billion**
(up 4.4% year-on-year)

Paper

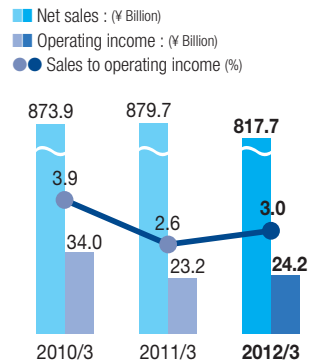
- Although our newsprint sales volume was down year-on-year in the first half partly due to the aftereffects of the earthquake, full-year sales volume was 0.3% higher than the previous fiscal year partly due to the signs of recovery in the second half such as the bottoming of advertising demand.
- The sales volumes of printing and publication paper were considerably lower than the previous fiscal year mainly due to the shortage of supply capacity damaged by the earthquake disaster and an increase of imported paper.

Paperboard

- The sales volumes of containerboard and white lined chipboard increased year-on-year, partly due to continuing demand for transporting assistance goods to disaster-stricken areas, as well as steady shipments for packaging processed foods due to the continued trends of cooking at home.

Household paper products

- The sales volume of household paper products was lower than the previous fiscal year as a result of the price-first sales policy.



Future Business Strategy

Summary of Business Strategy

Paper ▶

- Complete the revitalization plan
- Develop and promote sales of differentiated products
- Promote further cost reduction

Paperboard ▶

- Develop and promote sales of higher-quality and environment-friendly products
- Improve the variable cost by reducing the consumption of heavy oil and enabling higher-rate composition of wastepaper.

Household paper products ▶

- Increase the proportion of premium product lines
- Reinforce healthcare products and the industrial-and business-use products fields
- Establish a production system compatible with demand

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 the spread of Web media. Although signs of recovery were seen in advertising demand in the second half of fiscal 2011, the sales volume of paper is expected to decline 1.0%–1.5% annually over the medium to long term. Given hikes in fuel and raw material prices, price adjustments aimed at improving profitability have worked well and are contributing to better performance. We seek to differentiate our business by offering thinner paper products and improve margins through rigorous cost-cutting to ensure stable earnings.

Paperboard

Although domestic paperboard demand will not reach levels seen before the financial crisis, steady demand for paperboard related to processed foods and beverages is expected to remain stable. Meanwhile, we are concerned about the adverse effects of the price hikes of wastepaper, fuel and raw materials including crude oil. However, we seek to ensure earnings via cost improvement and the shift to product prices.

Household paper products

Although demand for household paper products such as tissue paper and toilet paper is stable, the business environment has become increasingly harsh partly due to the increase of imported paper. The demand for healthcare products has been expanding at a pace higher than 7% annually, reflecting such factors as the increasing number of persons in nursing care. We plan to review our production system and increase the composition ratio of premium products so that we can record sustainable earnings over the long term. In addition, we will address the reinforcement of healthcare products as a top priority to achieve high market shares in growth markets.

Paper-Related

Description of Business

The paper-related segment encompasses two businesses. Our paper processing business delivers value-added products made of paper, the core product of the 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.



Consolidated Subsidiaries	Capital (¥ million)	Location	Ratio of voting rights (%)
Sakurai Co., Ltd.	120	Japan	54.49
Nippon Paper-Pak Co., Ltd.	4,000	Japan	100.00
Nippon Paper Chemicals Co., Ltd.	3,000	Japan	100.00
Nippon Seitai Corporation	424	Japan	100.00
Flowric Co., Ltd.	172	Japan	100.00
Equity-method Affiliates			
Daishowa Paper Converting Co., Ltd.	235	Japan	44.68
Dixie Japan Co., Ltd.	1,059	Japan	44.44
Nippon Tokan Package Co., Ltd.	700	Japan	45.00
Lintec Corporation	23,201	Japan	29.93

Main Products

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

Business Overview

Processed paper products

Nippon Paper-Pak is our core company in this segment. It supplies packaging for beverages, foods and household products. In addition to gable top cartons used mostly for milk packaging, for which the company has the top domestic market share at about 40%, the company sells plastic wrap, an environmentally friendly stretch film for use in the home, and so on.

Chemical products and functional materials

Nippon Paper Chemicals, which is Japan's sole manufacturer of dissolving pulp, an input used in manufacturing rayon, and other like products, and whose share of the domestic market is about 40%, is our main operating company in this business. The company also manufactures and sells functional chemical products, including food additives and concrete admixtures using wood-derived components such as cellulose and lignin, and other raw materials for seasonings obtained using biotechnology. 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 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.

FY 2011 Market Conditions and Review of Operating Results

Market conditions

Processed paper products

- Demand for overall processed paper products declined as represented by the decline in the consumption of milk, one of the major applications of those products, due to the impact of the Great East Japan Earthquake and bad weather.

Chemical products and functional materials

- Prices of dissolving pulp reached a record high level in the first quarter of the year under review due to vigorous demand for rayon in China. Yet, the price significantly dropped in the second quarter and later, affected by the currency crisis in Europe and the business slowdown due to a money squeeze in China. As for functional film, demand for television and PC applications bound for emerging nations remained steady although demand in Western countries decreased due to deteriorated economic conditions and overall demand remained sluggish. Meanwhile, demand for smartphones expanded.

Review of operating results

Net sales **¥93.5 billion**
(down 0.9% year-on-year)

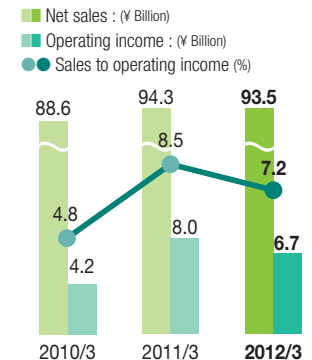
Operating income **¥6.7 billion**
(down 16.9% year-on-year)

Processed paper products

- The sales volume of liquid-packaging cartons such as paper packs was lower compared with the previous fiscal year affected by such factors as bad weather and the fact that several plant facilities of beverage makers were affected by the earthquake disaster in the Kanto and Tohoku regions.

Chemical products and functional materials

- Sales in the chemical products business increased due to the sales expansion of LC materials for optical films despite a decline in export prices of dissolving pulp.



Future Business Strategy

Summary of Business Strategy

Processed paper products ▶

- Create new added value via the development of original containers

Chemical products and functional materials ▶

- Strengthen the earning power by developing high-value-added products

Processed paper products

- We will develop and promote sales of new lines of liquid-packaging cartons, promote further cost reduction and ensure the stable and advantageous procurement of base paper.

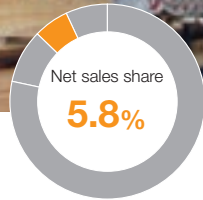
Chemical products and functional materials

- For dissolving pulp, we intend to enter the field of high-value-added cellulose applications, which is hardly susceptible to market conditions, and start production at the Kushiro Mill to ensure stable earnings and expand the business. In the functional films business, we will strengthen our earning power by fully operating the new facility at the Higashimatsuyama Works of Nippon Paper Chemicals.

Wood Products and Construction Related

Description of Business

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 and construction business originated from the plant-maintenance units of our paper mills.



Consolidated Subsidiaries	Capital (¥ million)	Location	Ratio of voting rights (%)
Nippon Paper Lumber Co., Ltd.	440	Japan	100.00
Nippon Paper Unitec Co., Ltd.	40	Japan	100.00
Kokusaku Kiko Co., Ltd.	60	Japan	100.00
Nippon Paper Ishinomaki Technology Co., Ltd.	40	Japan	100.00
Kunimoku House Co., Ltd.	20	Japan	100.00
PAL Wood Material	4,000	Japan	100.00
PAL Co., Ltd.	50	Japan	100.00
N&E Co., Ltd.	3,750	Japan	70.00
Daishowa Uniboard Co., Ltd.	490	Japan	100.00
South East Fibre Exports Pty. Ltd.	AUD 1,000 7,500	Australia	62.50
Equity-method Affiliate			
WA Plantation Resources Pty., Ltd.	AUD 1,000 43,771	Australia	50.00

Main Products

Wood Products and Construction Related

- Lumber
- construction materials
- civil engineering

Business Overview

Lumber business

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 therefore involved in every aspect of the lumber cycle.

Construction materials

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

FY 2011 Market Conditions and Review of Operating Results

Market conditions

Wood Products and Construction Related

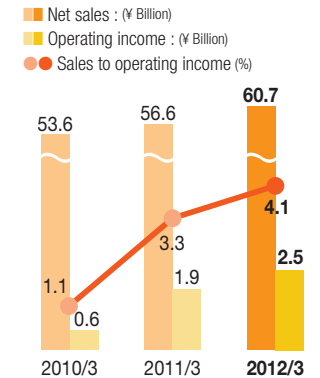
- Although new housing starts remained stagnant, special procurement demand for reconstruction-related works from the Great East Japan Earthquake was seen.

Review of operating results

- ▣ **Net sales ¥60.7 billion** (up 7.2% year-on-year)
- ▣ **Operating income ¥2.5 billion** (up 29.5% year-on-year)

Wood Products and Construction Related

- Despite the decrease in sales volumes due to the effect of the earthquake disaster, sales in the civil engineering sector increased and sales and profits overall increased in this segment.



Future Business Strategy

Summary of Business Strategy

Lumber ▶

- Expand domestic lumber transactions
- Strengthen the capacity to collect wood biomass resources

Construction materials ▶

- Increase the production of thinner and waterproof medium-density fiberboard (MDF) and products with sustainable forest management certification
- Promote sales

Lumber

- Although housing starts are unlikely to improve considerably, we intend to increase sales via enhanced marketing efforts against the backdrop of a rising trend to utilize domestic lumber including unused lumber for biomass fuel.

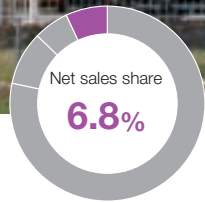
Construction materials

- We plan to strengthen our manufacturing and sales of thinner and waterproof MDF in response to the rising needs of the wooden construction materials based on people's orientation to nature.

Other

Description of Business

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.



Consolidated Subsidiaries	Capital (¥ million)	Location	Ratio of voting rights (%)
Nanko Unyu Co., Ltd.	160	Japan	100.00
Kyokushin Transport Co., Ltd.	80	Japan	100.00
Nippon Paper Logistics Co., Ltd.	70	Japan	100.00
Hotoku Co., Ltd.	25	Japan	100.00
Shikoku Coca-Cola Bottling Co., Ltd. (and its 6 subsidiaries)	5,576	Japan	100.00
Nippon Paper Development Co., Ltd.	710	Japan	100.00
GAC CO., LTD.	480	Japan	100.00
Equity-method Affiliates			
Resources Co., Ltd.	40	Japan	44.00
Chiyoda SVAC CO., LTD.	200	Japan	32.50

Main Products

- Beverages •Transportation •Sports and leisure

Business Overview

Beverages business

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

Sports and leisure business

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.

FY 2011 Market Conditions and Review of Operating Results

Market conditions

Beverages

- In fiscal 2011, sales in the soft drink market increased slightly year-on-year, supported by special demand for mineral water after the Great East Japan Earthquake despite the supply shortage of goods caused by the occurrence of the earthquake and a reactionary downturn following previous year's severe heat.

Sports and leisure

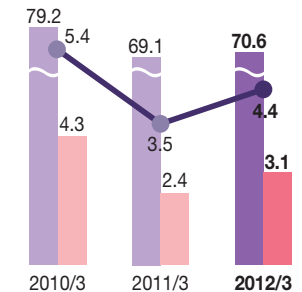
- Following the earthquake disaster, there was a voluntary restraint in consumer demand. However, the business climate gradually improved, especially regarding our business, and sales from some relevant activities even exceeded the previous corresponding period.

Review of operating results

Net sales **¥70.6 billion** (up 2.1% year-on-year)

Operating income **¥3.1 billion** (up 28.3% year-on-year)

■ Net sales : (¥ Billion)
■ Operating income : (¥ Billion)
● Sales to operating income (%)



Beverages

- Profits increased mainly due to the investment effect on the PET bottle filling line at the Komatsu Plant that started operation in February 2011 and enhanced logistics efficiency.

Sports and leisure

- Although the business environment remained difficult due to the aftereffects of the earthquake and a stagnant domestic economy, we minimized the sales decline and achieved an increase in operating income through cost-cutting efforts.

Future Business Strategy

Summary of Business Strategy

- Beverages** ▶ • Bolster vending machine sales
- Sports and leisure** ▶ • Renovate facilities and develop marketing plans to expand the customer base

Beverages

- We will implement the "Local production for local consumption" campaign for products at the Komatsu Plant and bolster our vending machine sales.

Sports and leisure

- Under the basic concept of "Create health and sound spirit," we will renovate facilities and develop marketing plans to expand the customer base and increase revenues by differentiating our services from those of competitors.

Sustainability



For more detailed CSR information, visit:

**Our Corporate Social
Responsibility (CSR)**

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

Environmental Efforts	50
Social Responsibility	52
Corporate Governance	54
Directors and Corporate Auditors	60

Environmental Efforts

Basic policy for Environmental Management

The Nippon Paper Group, under its Charter on the Environment, established an across-the-Group environmental management system, thereby implementing environmentally-friendly corporate activities.

Aiming for Sustainable Future Development

Through the effective use of wood, a renewable resource, the Nippon Paper Group (the “Group”) delivers a wide spectrum of products to broader society. In its business activities, the Group formulated its Charter on the Environment, aiming for sustainable future development. Based on the philosophy and Basic policy of the Charter on the Environment, we strive to conserve natural resources and energy and reduce waste to minimize the environmental impact associated with business activities throughout our value chain from the procurement of raw materials and production to delivery to customers.

Nippon Paper Group's Charter on the Environment

(Established on March 30, 2001, and revised on March 30, 2007)

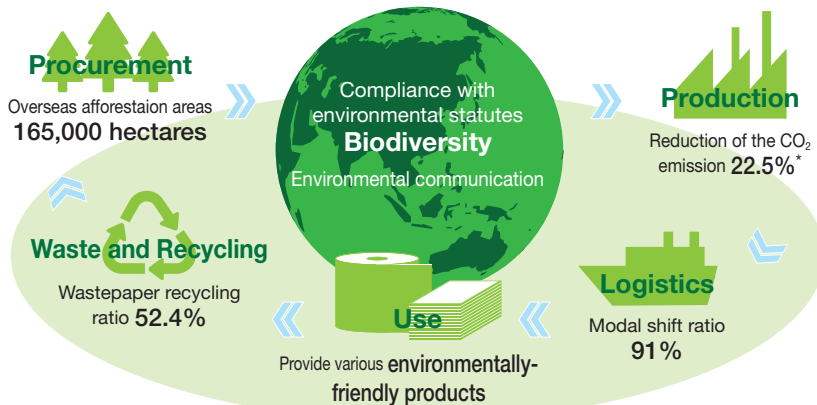
Philosophy

The Nippon Paper Group is committed to helping preserve the global environment over the long term and contributing to the development of a recycling-based society by carrying out its corporate activities in recognition of the importance of biodiversity.

Basic Policy

1. Act to counter global warming
2. Protect and develop forest resources
3. Increase use of recycled resources
4. Comply with environmental statutes and work to minimize our environmental impact
5. Develop environmentally friendly technologies and products
6. Engage in active environmental communication

The Nippon Paper Group's environmental efforts throughout its value chain



*Compared with fiscal 1990

The Group formulated the Green Action Plan 2015, a plan that outlines our environmental activities.

Under the Basic Policy of our Charter on the Environment, we formulated a plan for our environmental activities with concrete goals, thereby promoting highly valid environmental measures. The Green Action Plan 2015, which was formulated in 2011 as the Green Action Plan 2010 came to a close, includes new perspectives such as “value chain” and “traceability” and promotes environmental management to address a wide range of stakeholders with high environmental awareness.

Essence of the Green Action Plan 2015

Action to counter global warming	Set goals for total CO ₂ emission and energy-use reduction volumes
Protection and development of forest resources	Clearly state the importance of full traceability
Use of recycled resources	Promote the recycling of waste as a resource
Compliance with environmental laws	Strengthen environmental management from the perspective of a preventive approach
Development of environment-friendly technologies and products	Promote development from the perspective of life-cycle assessment
Environmental communication	Aim for communication that focuses on the disclosure of information and dialogue
Biodiversity commitments	Facilitate company-wide biodiversity commitments

*The entire content of the Green Action Plan 2015
<http://www.np-g.com/e/news/news11121401.html>

Protection and development of forest resources

Sustainable procurement of raw materials

Although wood is a renewable resource, we need to use forests sensibly. Without appropriate management, forests could be destroyed.

For the sustainable procurement of raw materials, the Group attempts to protect and develop forest resources. Under the Green Action Plan 2015, we aim to expand overseas areas afforested by the Group to 200,000 hectares. and the project is entitled the “Tree Farm Initiative.” All domestic and overseas forests owned by the Group have acquired forest certifications, which are objectively evaluated and accredited by a third party with regard to sustainable forest management. Also, as part of supply chain management, we reinforce traceability in our raw materials procurement.

Social Responsibility

Responsibility toward Stakeholders

To respond to expectations from stakeholders, we implement corporate social responsibility measures.

The Group fulfills its corporate social responsibility under its management vision.

Under our management vision to become a world-class company through our diverse business activities (refer to page 59), the Ideals for Our Group are “Achieving superior, stable profits for our share holders,” “Winning the trust of our customers,” “Having positive and forward-looking employees” and “Preserving corporate ethics.” By pursuing this vision, while striving for thorough compliance, we respond to the expectations of many stakeholders such as customers, shareholders, investors, employees and communities and address corporate social responsibility (CSR) from various perspectives.



Major Measures to Address for Stakeholders

Responsibility to Customers

We strive to win the trust of our customers.

The Group regards the stable supply of paper and various products as a basic responsibility to respond to customers' trust in us and contribute to society. We also strive to ensure the high quality and safety of our products and services and promote environmentally-friendly products, thereby providing safe products and services that satisfy customers.

As an action initiative to continue to win the trust of our customers, as stated in our Group Vision, the Group established the “Philosophy and Basic Policy on Product Safety.” Under this philosophy, we pledge to work to improve safety at every stage of the life cycle of our products and to provide products and services that the public can trust, thereby promoting our measures to ensure product safety.

“Philosophy and Basic Policy on Product Safety”

(Established on October 1, 2004)

Philosophy

We pledge to work to improve safety at every stage of the life cycle of our products, from design to manufacture, supply and disposal, and to provide products and services that the public can trust.

Basic Policy

1. To provide safe products and services in response to the continued trust of our customers
2. To respect related laws and standards in order to guarantee the safety of our products and services
3. To provide customers with precise information on the safety, features and correct usage of our products
4. To set up a product and service safety management structure and ensure that all Group employees have a thorough awareness of the importance of product safety

Responsibility on Human Rights, Employment and Labor

We respect human rights and fulfill our responsibilities related to employment and labor.

The Group strives to raise the awareness of its respect for human rights throughout its corporate activities including value chains. Also, as a corporation, its employees are partners who strive to grow together. We ensure adequate labor conditions for employees and focus on fair evaluation and treatment, as well as human resource development, so that individual employees can optimize their capabilities.

In promotion of such measures, we established a “Philosophy and Basic Policy on Human Rights, Employment and Labor.” Under this philosophy, respecting fundamental human rights at all times and making the most of the individuality and capabilities of a diverse range of human resources, we aim to create a company overflowing with dreams and hope, thereby fulfilling our responsibilities relative to human rights, employment and labor.



Short course on traffic safety

“Philosophy and Basic Policy on Human Rights, Employment and Labor”

(Established on October 1, 2004)

Philosophy

Respecting fundamental human rights at all times and making the most of the individuality and capabilities of a diverse range of human resources, we aim to create a company overflowing with dreams and hope.

Basic Policy

1. Respect for human rights
2. Prohibition of forced and child labor
3. Promotion of personnel training and skill development

For the entire content, visit: <http://www.np-g.com/e/csr/HumanRights-Policy.html>

Responsibilities related to the development of the overall society

As a member of society, we shall proudly promote activities that contribute to social development.

The Nippon Paper Group emphasizes CSR management, fulfills comprehensive social responsibility and aggressively engages in social contribution activities rooted in local communities as a member of society.

Under the Philosophy and Principles for Social Contribution Activities, drawing on the Group's businesses, specialties and scale, we engage in various activities. We held environmental education events such as “*Mori to Kami no Nakayoshi Gakko* (Woodland school to teach interesting uses of paper)” using the company-owned 90,000 hectares of forests nationwide, participated in cleaning activities and festivals nationwide and accepted guests on our plant tours. In addition, we recently designated part of the Group-owned forest as a protected habitat of Blakiston's fish owl, or *Ketupa blakistoni*, in cooperation with the Wild Bird Society of Japan.



Research on current state of bird life

Philosophy and Principles for Social Contribution Activities

(Formulated on April 1, 2004)

Philosophy

As a member of society, we shall proudly promote activities that contribute to social development.

Principles

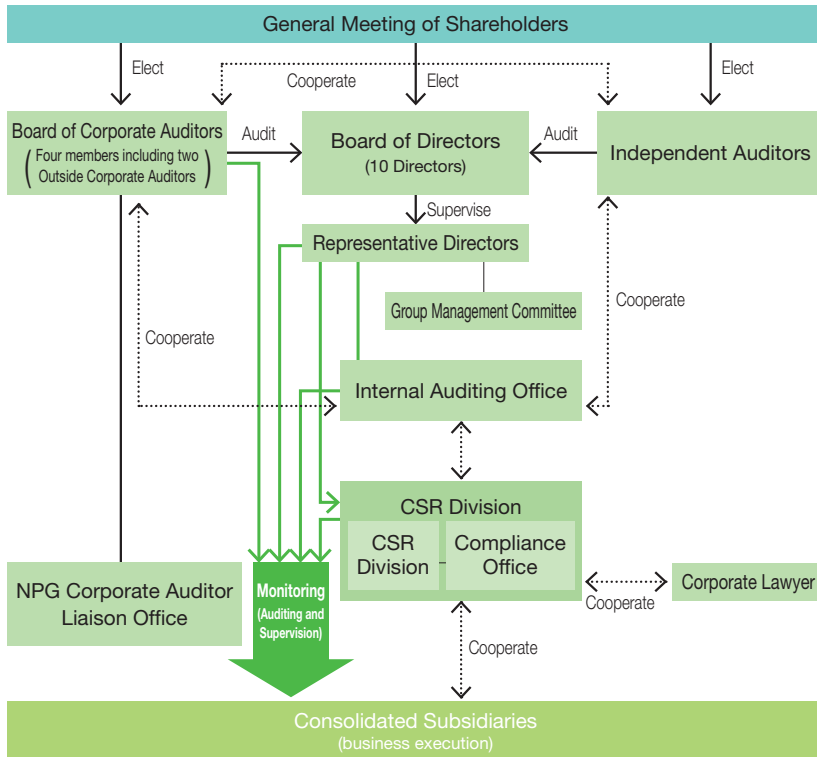
1. We shall pursue activities that contribute to cultural heritage and development.
2. We shall pursue activities that contribute to conservation and improvement of the environment.
3. We shall pursue activities that contribute to the development of communities.

Basic Structure for Corporate Governance

Monitor and supervise the business execution of each Group company and realize highly transparent management

Nippon Paper Group, Inc. (the “Company”), prioritizes fair management with enhanced transparency toward shareholders and other stakeholders. The Company, as a pure holding company, promotes the growth strategies of each Group company to enhance shareholder value. To quickly allocate management resources to growth fields according to changes in the external environment, as of April 1, 2013, the Company will merge with Nippon Paper Industries Co., Ltd., a core operating company of the Group, and shift to a management structure that makes Nippon Paper Industries Co., Ltd., the operating holding company of the Group. After the merger, Nippon Paper Industries Co., Ltd., will monitor—audit and supervise—group companies’ activities and continue to be accountable to stakeholders. Nippon Paper Industries Co., Ltd., intends to introduce a new group management structure that separates management functions from business execution, thereby continuing to strengthen corporate governance.

Corporate Governance Structure (As of April 1, 2012)



Roles of Each Office and Division

● Board of Directors

The Company's Board of Directors consists of 10 internal Directors (as of March 31, 2012). The Board of Directors determines basic policies for the management of the Company and the Nippon Paper Group, matters related to stipulations in laws, regulations and the Articles of Incorporation of the Company and other important managerial matters. The board also supervises the business execution of operating companies of the Group.

Activities during FY 2011	
Meetings of Board of Directors	14 times

● Group Management Committee

Under the Board of Directors is the Group Management Committee, which consists of the Chairman and all the Directors and Standing Corporate Auditors. The Group Management Committee is responsible for deliberating on the basic management policies and strategies of the Company and Group and on important matters in conjunction with the business execution by each company of the Group.

Activities during FY 2011	
Group Management Meetings	36 times

● Board of Corporate Auditors

As a managerial monitoring function, the Company has the Board of Corporate Auditors. Of the four Corporate Auditors that constitute the Board of Corporate Auditors, two of them, or half, are Outside Corporate Auditors. At the Board of Directors, the two Outside Corporate Auditors express opinions as necessary from an external and professional perspective as a Certified Public Accountant or a lawyer. Outside Corporate Auditors ensure the functions to monitor the business execution of Directors and provide advice from an external perspective.

NPG Corporate Auditor Liaison Office

The NPG Corporate Auditor Liaison Office, which consists of the standing auditors of the 15 major Group companies, meets three times a year, where all members are informed of the basic policies of the Board of Corporate Auditors of the Company and priority issues and the corporate auditors at each Group company report important issues, for which necessary measures are discussed.

● Internal Auditing Office

The Internal Auditing Office conducts an internal audit of each company of the Group and a comprehensive evaluation of the internal control reporting system regarding financial reporting. Through the internal audit, each Group company's activities are inspected and evaluated in terms of legality and fairness from fair and independent perspectives, and advice and recommendations are given.

Corporate Governance

Enhancement of the Transparency of Management

Executive Compensation

The standard amounts of compensation for Directors are determined according to their duties in the Group. Fixed compensation accounts for 70% of such amounts and variable compensation based on the previous year's earnings performance, in principle, accounts for 30%. For directors who concurrently serve for directly controlled subsidiaries as director, each company determines compensation based on similar policies, and this amount is added to the compensation paid by the Company.

Compensation for Corporate Auditors is determined by negotiations with the auditors at each company based on their responsibilities, not linked to earnings performance.

The payment of compensation to Directors and Corporate 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
Directors:	¥360 million per year
Corporate Auditors:	¥90 million per year

Basic Policy Concerning the Control of a Company

The Company considers that the final decision on the ideal persons to control a company should be left to the shareholders. However, among the actions to acquire large-scale shares of the Company and such proposals, some could significantly harm our corporate value and the common interests of shareholders in light of their purposes and after-acquisition management policies.

The Company judges such persons who try to conduct a harmful acquisition to be inappropriate to control the Company. As a preventive system, we formulated a countermeasure policy to ensure the time and information that are necessary for shareholders to appropriately judge whether to accept a large-scale acquisition by a purchaser or for the Board of Directors of the Company to present an alternative proposal to shareholders.

Information Disclosure

To disclose the status of the Company's management and activities widely to stakeholders is an important responsibility of a company. The Group discloses its corporate information pursuant to the Group's Action Charter, thereby enhancing the soundness and transparency of management. As our guideline, we formulated the Nippon Paper Group Disclosure Policy ("Disclosure Policy") in October 2005.

Following the guidelines of this basic policy, we comply with the provisions of the Financial Instruments and Exchange Act of Japan and other relevant laws and regulations. We also adhere to the prompt disclosure rules stipulated by securities exchanges and disclose information in a timely manner, standing on the principles of transparency, fairness and continuity. Furthermore, we disclose information that may not be required under applicable laws, regulations or prompt disclosure rules as quickly and accurately as possible if deemed to be of interest to our stakeholders and other members of society.

Information Disclosure Policy ► <http://www.np-g.com/e/ir/policy.html>

IR Activities

The Company promotes IR activities, aiming for fair and timely information disclosure to shareholders. Through such opportunities as shareholders' meetings, various briefings and press conferences, we explain the current status of management and operations directly to shareholders and investors, listen to their opinions and requests and reflect them in our management.



Activities during FY 2011

● Shareholders' meetings

To ensure attendance by as many shareholders as possible, Nippon Paper Group, Inc., has held its annual general meeting of shareholders at Tosho Hall in Marunouchi, Tokyo, since the Company's inception in fiscal 2001. Due to easy access, this venue has been chosen for the convenience of shareholders. For the benefit of overseas investors, Nippon Paper Group, Inc., has contracted the services of specialist companies to prepare an English-language convocation notice. In addition to the exercise of voting rights in writing, the Company has established a service that allows shareholders to exercise their rights online. Through these and other measures, we are endeavoring to promote the exercise of voting rights by shareholders both in Japan and overseas.

● Operating results and management briefings

Regular operating results and management briefings are held for institutional investors and analysts. Each briefing, which was attended by roughly 200 people, we provided an outline of operating results and explained the current business environments, management issues and medium- to long-term management strategies.

Activities during FY 2011

One operating results and management briefing
Two conference calls

● Meetings with management

In addition to the regular aforementioned briefings of financial results, Nippon Paper Group, Inc., convenes meetings attended by the Company's management. These meetings not only provide a forum for direct dialog but also help deepen the understanding of institutional investors about the Company's strategies and management stance while providing management with the opportunity to listen to the comments and concerns of the market.

Activities during FY 2011

41 meetings

● Individual interviews

With the exception of quiet or closed periods, the Company responds positively to requests for interviews from institutional investors and analysts throughout the year. Cognizant of maintaining fairness in the provision of information, we tried to provide details of the Company's operating results, performance forecasts and management initiatives in a candid and precise manner.

Activities during FY 2011

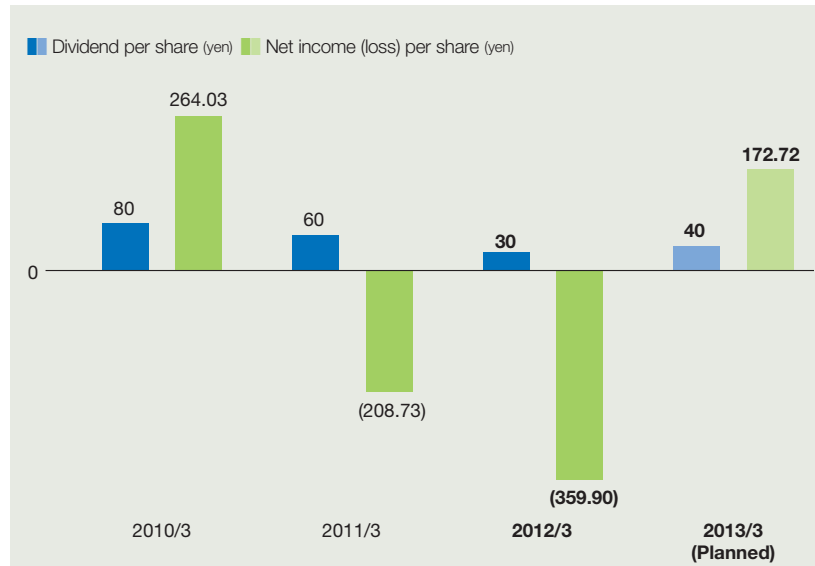
285 individual interviews

Corporate Governance

Basic Policy for Profit Distribution to Shareholders

Nippon Paper Group, Inc., strives to reinforce its management base, improve profitability and secure the sustainable growth of its corporate value to fulfill the expectations of shareholders.

Our basic dividend distribution policy is to provide steady cash dividend payments when possible based on a comprehensive assessment of the Group's performance while ensuring retained earnings. The Company pays interim and year-end dividends, in principle.



Debt ratings

Listed below are the major debt ratings of Nippon Paper Group, Inc.

The status of major debt ratings (As of March 31, 2012)

Rating Agency	Rating
Rating and Investment Information, Inc. (R&I)	Long-term bonds: A-
Japan Credit Rating Agency, Ltd. (JCR)	Long-term bonds: A+

CSR Management

Basic Stance and Management Structure

While maintaining strict compliance, the Group works to achieve the management vision and the four Ideals for Our Group under the vision, thereby striving to meet the expectations of stakeholders and fulfill our corporate social responsibility (CSR).

To promote CSR, Nippon Paper Group, Inc., as the holding company for the Group, established the CSR Division to oversee the CSR activities of the entire Group. The CSR Division is composed of the CSR Department and the Public Relations Office. Inside the CSR Department is the Compliance Office. We promote Group-wide CSR activities and work closely with the various divisions and departments responsible for operations related to the environment, raw material procurement and product safety, as well as occupational safety and health.

Group Vision

Nippon Paper Group will strive to become a world-class company through our diverse business activities

Ideals for Our Group

- Achieving superior, stable profits for our shareholders
- Winning the trust of our customers
- Having positive and forward-looking employees
- Preserving corporate ethics

Action Charter

1. We shall pursue sustainable future growth to contribute to society through our business activities.
2. We shall abide by the letter and the spirit of laws and regulations, and comply with the highest ethical standards and social codes of conduct, both in Japan and abroad.
3. We shall conduct our business in a fair, transparent and liberal manner.
4. We shall win the trust of customers through the development and provision of socially useful and safe products and services.
5. We shall disclose corporate information positively and fairly to all stakeholders of the Group.
6. We shall actively address environmental issues and shall endeavor to conserve and enhance the environmental state of our planet.
7. We shall maintain consistency between corporate development and the personal contentment of individual employees and create a company full of dreams and hope.

Dissemination of Compliance

In addition to being constituents of the Group, our employees are consumers and members of society. In this regard, each employee should reflect on his/her own actions and ensure that his/her mindset is consistent with societal norms. Nippon Paper Group, Inc., provides compliance training to further enhance the awareness and understanding of compliance among employees of the Group (at all domestic consolidated subsidiaries and manufacturing subsidiaries of the Company).

Directors and Corporate Auditors (As of July 1, 2012)



Chairman
Masatomo Nakamura

Term of service as Director to date:
9 years

Number of the Company's shares held:
14,805 shares

Brief History

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. (current position)



President and Representative Director
Yoshio Haga

Term of service as Director to date:
7 years

Number of the Company's shares held:
12,852 shares

Brief History

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. (current position)

Responsibility and important positions concurrently held in other corporations:

- President and Representative Director of Nippon Paper Industries Co., Ltd.
- Director of Lee & Man Paper Manufacturing Limited
- Chairman of Japan Paper Association



Director
Kazufumi Yamasaki

Term of service as Director to date:
0 years

Number of the Company's shares held:
3,820 shares

Brief History

1955 Born
1980 Joined Sanyo-Kokusaku Pulp Co., Ltd.
2012 Appointed Director of Nippon Paper Group, Inc. (current position)

Responsibility and important positions concurrently held in other corporations:

- General Manager of Engineering and Research & Development Division
- Director and General Manager of Technical & Engineering Division of Nippon Paper Industries Co., Ltd.



Director
Hironori Iwase

Term of service as Director to date:
3 years

Number of the Company's shares held:
9,665 shares

Brief History

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

Responsibility and important positions concurrently held in other corporations:

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



Executive Vice President and Representative Director
Tsuyoshi Yamashita

Term of service as Director to date:
9 years

Number of the Company's shares held:
6,141 shares

Brief History

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)

Responsibility and important positions concurrently held in other corporations:

- General Manager of CSR Division
- Executive Vice President of Nippon Paper Industries Co., Ltd.
- Director of NIPPON DAISHOWA PAPERBOARD Co., Ltd.



Director
Masaru Motomura

Term of service as Director to date:
7 years

Number of the Company's shares held:
9,233 shares

Brief History

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

Responsibility and important positions concurrently held in other corporations:

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



Director
Kazuhiro Sakai

Term of service as Director to date:
6 years

Number of the Company's shares held:
5,792 shares

Brief History

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

Responsibility and important positions concurrently held in other corporations:

- President and Representative Director of Nippon Paper Crecia Co., Ltd.



Director
Masahiro Hirakawa

Term of service as Director to date:
1 year

Number of the Company's shares held:
6,417 shares

Brief History

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

Responsibility and important positions concurrently held in other corporations:

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



Director
Fumio Manoshiro

Term of service as Director to date:
3 years

Number of the Company's shares held:
6,793 shares

Brief History

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

Responsibility and important positions concurrently held in other corporations:

- General Manager of Corporate Planning Division and General Manager of Lee & Man Paper Project Promotion Office
- In charge of Raw Materials & Purchasing
- Managing Director and General Manager of Corporate Planning Division of Nippon Paper Industries Co., Ltd.
- Director of Nippon Paper Crecia Co., Ltd.
- Director of Paper Australia Pty Ltd



Director
Shuhei Marukawa

Term of service as Director to date:
4 years

Number of the Company's shares held:
6,604 shares

Brief History

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

Responsibility and important positions concurrently held in other corporations:

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

Directors and Corporate Auditors (As of July 1, 2012)



**Akito
Hamashima**

Term of service as Corporate Auditor to date:
0 years

Number of the Company's shares held:
1,400 shares

Brief History

1949 Born
1972 Joined Jujo Paper Co., Ltd.
2012 Appointed Corporate Auditor of Nippon Paper Group, Inc. (current position)

Responsibility and important positions concurrently held in other corporations:

- Senior Corporate Auditor, Nippon Paper Industries Co., Ltd.
- Senior Corporate Auditor, Nippon Paper Creca Co., Ltd.



Standing
Corporate auditor
**Makoto
Terao**

Term of service as Corporate Auditor to date:
1 year

Number of the Company's shares held:
3,857 shares

Brief History

1952 Born
1974 Joined Daishowa Paper Manufacturing Co., Ltd.
2011 Appointed Corporate Auditor of Nippon Paper Group, Inc. (current position)

Responsibility and important positions concurrently held in other corporations:

- Standing Corporate Auditor of Nippon Paper Industries Co., Ltd.



Outside Corporate
Auditors
**Seiichi
Fusamura**

Term of service as Corporate Auditor to date:
0 years

Number of the Company's shares held:
0 shares

Brief History

1947 Born
1970 Assistant Judge, Kyoto District Court
2006 President, Saitama District Court
2009 Chief Justice, Sendai High Court
2011 Chief Justice, Nagoya High Court
2012 Appointed Corporate Auditor of Nippon Paper Group, Inc. (current position)

Responsibility and important positions concurrently held in other corporations:

- Outside Corporate Auditor, Nippon Paper Industries Co., Ltd.
- Public member of the Labor Relations Commission, Tokyo Metropolitan Government (Deputy Chairman)



Outside Corporate
Auditor
**Kunio
Sakamoto**

Term of service as Corporate Auditor to date:
0 years

Number of the Company's shares held:
0 shares

Brief History

1948 Born
1994 Registered as Certified Public Accountant and started practicing
2005 Partner, Ernst & Young Japan (currently Ernst & Young ShinNihon LLC)
2010 Senior Partner, Ernst & Young ShinNihon LLC
2012 Appointed Corporate Auditor of Nippon Paper Group, Inc. (current position)

Responsibility and important positions concurrently held in other corporations:

- Outside Corporate Auditor, Nippon Paper Industries Co., Ltd.

Financial Section



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For more detailed financial information, see the Annual Report 2012 (website version) under "INVESTORS" on the website of NIPPON PAPER GROUP.



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

Consolidated Six-Year Summary

Nippon Paper Group, Inc. and Consolidated Subsidiaries

	Millions of yen					Thousands of U.S. dollars	
	2007/3	2008/3	2009/3	2010/3	2011/3	2012/3	2012/3
Fiscal year							
Net sales	¥ 1,175,264	¥ 1,211,682	¥ 1,188,136	¥ 1,095,233	¥ 1,099,817	¥ 1,042,436	\$ 12,712,634
Cost of sales	948,852	969,466	958,464	844,033	854,238	803,653	9,800,646
Operating income	44,655	32,834	19,951	43,149	35,608	36,524	445,415
Ordinary income	47,088	32,800	17,944	37,547	31,599	6,057	73,866
Net income (loss)	22,952	5,661	(23,330)	30,050	(24,172)	(41,675)	(508,232)
Capital investment	102,961	121,190	64,940	35,587	46,591	57,172	697,220
Depreciation	67,049	74,791	83,294	81,943	78,639	74,352	906,732
Free cash flow	(31,668)	(44,491)	18,988	45,974	21,987	13,488	164,488
End of fiscal year							
Total assets	¥ 1,565,978	¥ 1,625,571	¥ 1,492,027	¥ 1,500,246	¥ 1,560,592	¥ 1,527,635	\$ 18,629,695
Total current assets	456,620	485,822	436,021	450,529	515,392	546,344	6,662,732
Property, plant and equipment, net	841,287	892,012	851,921	837,698	798,482	752,501	9,176,841
Total investments and other assets	268,069	247,736	204,083	212,017	246,718	228,789	2,790,110
Liabilities	1,095,456	1,145,812	1,067,475	1,040,267	1,151,829	1,160,983	14,158,329
Net assets	470,521	479,758	424,551	459,978	408,762	366,652	4,471,366
Interest-bearing debt	738,230	785,322	784,333	762,899	832,347	838,285	10,222,988
Per share data							
						Yen	U.S. dollars
Net income (loss)	¥ 21,570.23	¥ 5,200.50	¥ (208.60)	¥ 264.03	¥ (208.73)	¥ (359.90)	\$ (4.39)
Net assets	421,626.81	407,492.96	3,601.71	3,940.06	3,496.49	3,135.48	38.24
Cash dividends	8,000.00	8,000.00	80.00	80.00	60.00	30.00	0.37
Ratios							
						%	
Operating income margin	3.8%	2.7%	1.7%	3.9%	3.2%	3.5%	
Net income (loss) to net sales	2.0	0.5	(2.0)	2.7	(2.2)	(4.0)	
Equity ratio	28.6	28.0	27.0	30.4	25.9	23.8	
Return on equity (ROE)	5.2	1.3	(5.4)	6.9	(5.6)	(10.6)	
Return on invested capital (ROIC)	4.6	3.4	2.4	4.0	3.5	1.5	
Return on assets (ROA)	3.5	2.7	1.9	3.2	2.7	1.2	
Debt/equity ratio (times)	1.6	1.7	1.9	1.6	1.8	1.9	
Dividend on equity ratio	1.9	1.9	2.1	2.1	1.6	0.9	
Dividend payout ratio	37.1	153.8	—	30.3	—	—	
Number of employees	12,584	13,666	13,088	14,210	13,834	13,407	

Note: Amounts in US dollars are included solely for convenience and are translated at a rate of ¥ 82/\$, the approximate rate of exchange on March 31, 2012.

- 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 × 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
- We conducted a split of shares of common stock (a 100-to-1 split) effective as of January 4, 2009

Financial Overview

Financial Position

Consolidated assets decreased ¥32,956 million from ¥1,560,592 million at the end of fiscal 2010 to ¥1,527,635 million at the end of fiscal 2011. This was mainly due to a decrease in property, plant and equipment.

Current assets increased ¥30,952 million year-on-year to ¥546,344 million. This was mainly due to an increase in inventories of ¥13,541 million in association with the restoration of the Ishinomaki Mill, in addition to an increase in funds.

Property, plant and equipment decreased ¥45,980 million to ¥752,501 million, affected by the shutdown of 12 domestic paper production facilities as a result of carrying out the Paper Business Revitalization Plan, which was announced in August 2011.

Investments and other assets decreased ¥17,929 million year-on-year to ¥228,789 million. This was partly due to the one-time amortization of goodwill in relation to the conversion of Lee & Man Paper Manufacturing into an equity-method affiliate.

Current and long-term liabilities increased ¥9,153 million year-on-year to ¥1,160,983 million, partly due to an increase in borrowings to increase funds.

Net assets were down ¥42,110 million year-on-year to ¥366,652 million. This was mainly because retained earnings declined as a result of posting a net loss of ¥41,675 million.

As a result, the equity ratio declined 2.1 percentage points from 25.9% to 23.8%.

Cash Flows

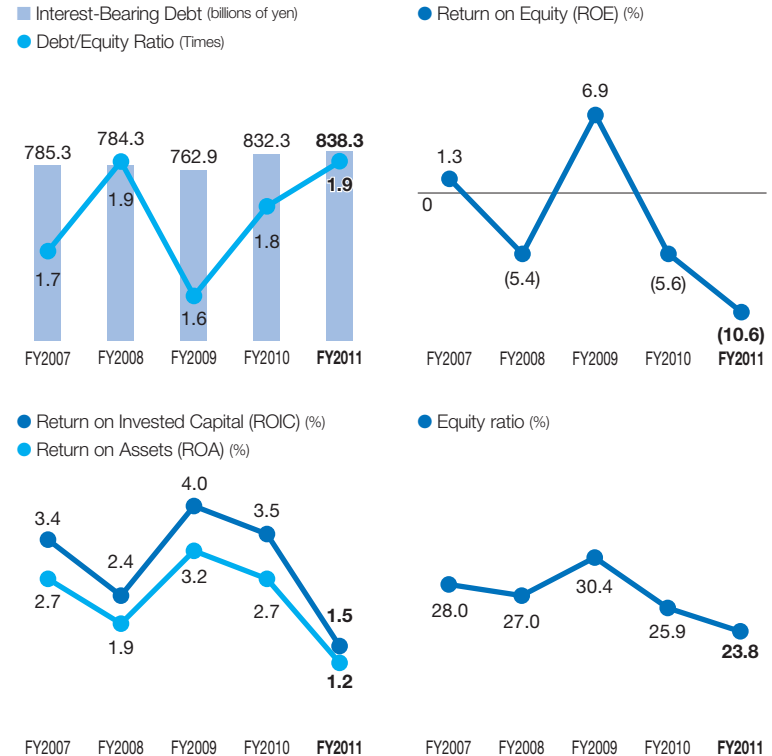
Consolidated cash and cash equivalents rose ¥14,526 million from the end of fiscal 2010 to ¥119,265 million at the end of fiscal 2011.

Net cash provided by operating activities decreased ¥55,339 million year-on-year to ¥60,114 million, mainly due to a loss before income taxes and minority interests in consolidated subsidiaries of ¥41,086 million, depreciation of ¥74,352 million and decrease in allowance for loss on seismic disaster of ¥36,018 million.

Net cash used in investing activities decreased ¥46,840 million year-on-year to ¥46,626 million. Major details of investing activities are purchases of property, plant and equipment of ¥46,236 million.

Net cash provided by financing activities decreased ¥57,401 million year-on-year to ¥1,652 million. Major detail of financing activities is an increase in interest-bearing debt.

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



	FY2007	FY2008	FY2009	FY2010	FY2011
Equity ratio (%)	28.0	27.0	30.4	25.9	23.8
Equity ratio based on market capitalization (%)	16.2	17.9	18.6	13.1	13.1
Interest-bearing debt/cash flow (times)	10.6	9.3	6.5	7.2	13.9
Interest coverage ratio (times)	8.0	7.8	10.8	10.2	5.1

- 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 = Interest-bearing debt / Operating cash flow
- Interest coverage ratio = Operating cash flow / Interest paid

Notes:

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 Nippon Paper Group's business performance and financial position:

(1) Product demand and market conditions	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. Such fluctuations could affect the Group's business performance and financial position.
(2) Manufacturing conditions	Nippon Paper Group's production activity is based on the 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 facilities, and interruptions in procurement, as well as the delivery of raw materials and fuel. Such fluctuations could affect the Group's business performance and financial position.
(3) Foreign exchange	Nippon Paper Group is at risk of foreign exchange rate fluctuations associated with import and export transactions. Because the Group's imports of raw materials and fuel (wood chips, heavy oil, coal and chemicals) exceed its product exports, yen depreciation against the U.S. dollar and the 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	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. Such fluctuations could affect the Group's business performance and financial position.
(5) Stock prices	Nippon Paper Group holds marketable shares in partner and affiliated companies and is thus at risk of share price fluctuations that could affect the Group's business performance and financial position. Such fluctuations could also affect retirement benefit expenses because of their impact on pension assets.

(6) Interest rates	Nippon Paper Group is at risk of interest rate fluctuations affecting its interest expense regarding interest-bearing debt, etc. Such fluctuations could affect the Group's business performance and financial position.
(7) Overseas businesses	Nippon Paper Group manufactures pulp and paper and operates forestry plantations and other businesses overseas, mainly in North America, Scandinavia, China and Australia. Although the Group takes the utmost care to minimize overseas business risk, unforeseen circumstances in those locations could affect the Group's business performance and financial position.
(8) Litigation	Nippon Paper Group takes the utmost care to comply with laws and regulations in the course of doing business, but is nonetheless at risk of litigation associated with criminal or civil affairs, taxation, antitrust law, product liability law, intellectual property rights and environmental and labor issues. As a result, such litigation could affect the Group's business performance and financial position.
(9) Impairment of fixed assets	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, which could affect the Group's business performance and financial position.
(10) Natural disasters	In the wake of major natural disasters, including earthquakes, occurring near production and sales sites, Nippon Paper Group's performance and financial position could be negatively affected by unanticipated costs associated with repairing damage to production equipment or facilities and distribution infrastructure, as well as opportunity losses from production shutdowns and damage to products, merchandise and raw materials.
(11) Credit risk	Nippon Paper Group takes care to limit its credit risk, but tardy or uncollectible receivables from the operating deficiencies or bankruptcy of customers could affect the Group's business performance and financial position.
(12) Other risks associated with changes in business conditions, etc.	Nippon Paper Group is subject to the risk of changes in business and economic conditions and other similar circumstances arising from contingencies, which could affect the Group's business performance and financial position.

Consolidated Financial Statements

Consolidated Balance Sheets

As of March 31, 2011 and 2012

	Millions of yen		Thousands of
			U.S. dollars (Note 3)
	March 31,	March 31,	March 31,
	2011	2012	2012
Assets			
Current assets:			
Cash and cash equivalents (Note 17)	¥ 104,739	¥ 119,265	\$ 1,454,451
Receivables:			
Notes and accounts receivable: (Notes 8, 17 and 20)			
Trade	192,597	186,963	2,280,037
Unconsolidated subsidiaries and affiliates	19,305	19,153	233,573
Other	13,420	22,204	270,780
Loans receivable from unconsolidated subsidiaries and affiliates	7,621	6,535	79,695
Allowance for doubtful receivables	(774)	(765)	(9,329)
Inventories (Note 4)	141,358	154,898	1,889,000
Deferred tax assets (Note 14)	26,112	24,958	304,366
Other current assets (Note 7)	11,011	13,131	160,134
Total current assets	515,392	546,344	6,662,732
Property, plant and equipment:			
Land	226,156	224,301	2,735,378
Buildings and structures	482,832	478,844	5,839,561
Machinery and equipment	2,155,223	2,147,713	26,191,622
Construction in progress	17,529	27,721	338,061
Other	31,443	26,807	326,915
	2,913,185	2,905,389	35,431,573
Less accumulated depreciation	(2,114,703)	(2,152,887)	(26,254,720)
Property, plant and equipment, net: (Note 6)	798,482	752,501	9,176,841
Investments and other assets:			
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 17)	105,340	126,616	1,544,098
Investments in securities (Notes 6, 17 and 19)	90,460	59,457	725,085
Deferred tax assets (Note 14)	11,178	7,571	92,329
Goodwill	18,635	17,094	208,463
Other assets	22,664	19,555	238,476
Allowance for doubtful receivables	(1,562)	(1,505)	(18,354)
Total investments and other assets	246,718	228,789	2,790,110
Total assets (Note 21)	¥ 1,560,592	¥ 1,527,635	\$ 18,629,695

	Millions of yen		Thousands of
			U.S. dollars (Note 3)
	March 31,	March 31,	March 31,
	2011	2012	2012
Liabilities			
Current liabilities:			
Short-term borrowings: (Notes 5 and 17)			
Loans payable	¥ 230,657	¥ 165,381	\$ 2,016,841
Unconsolidated subsidiaries and affiliates	1,885	1,932	23,561
Current portion of long-term debt: (Notes 5, 6 and 17)			
Bonds and loans payable	59,894	64,567	787,402
Unconsolidated subsidiaries and affiliates	350	350	4,268
Notes and accounts payable: (Note 17)			
Trade (Notes 5, 6, 8 and 20)	100,974	117,740	1,435,854
Unconsolidated subsidiaries and affiliates	19,428	23,198	282,902
Other	42,154	76,026	927,146
Accrued income taxes	5,610	5,799	70,720
Allowance for loss on seismic disaster	46,044	10,026	122,268
Other current liabilities (Notes 5 and 14)	43,285	32,754	399,439
Total current liabilities	550,285	497,777	6,070,451
Long-term liabilities:			
Long-term debt: (Notes 5, 6, 17 and 20)			
Bonds and loans payable	529,923	603,724	7,362,488
Accrued retirement benefits (Note 7)	31,237	29,274	357,000
Deferred tax liabilities (Note 14)	30,741	20,336	248,000
Accrued environmental costs	601	599	7,305
Other long-term liabilities (Note 5)	9,040	9,270	113,049
Total long-term liabilities	601,544	663,205	8,087,866
Contingent liabilities (Note 18)			
Net assets:			
Shareholders' equity: (Notes 15 and 25)			
Common stock:			
Authorized-300,000,000 shares;			
Issued -116,254,892 shares in 2012 and			
-116,254,892 shares in 2011	55,730	55,730	679,634
Capital surplus	266,254	266,252	3,246,976
Retained earnings	95,014	50,849	620,110
Less treasury stock, at cost:			
461,905.64 shares in 2012 and			
455,150.58 shares in 2011	(1,296)	(1,307)	(15,939)
Total shareholders' equity	415,701	371,524	4,530,780
Accumulated other comprehensive income:			
Net unrealized holding gain (loss) on other securities	(6,873)	1,866	22,756
Net deferred gain (loss) on hedges	(84)	376	4,585
Translation adjustments	(3,851)	(10,700)	(130,488)
Total accumulated other comprehensive income	(10,808)	(8,458)	(103,146)
Minority interests in consolidated subsidiaries	3,870	3,586	43,732
Total net assets	408,762	366,652	4,471,366
Total liabilities and net assets	¥ 1,560,592	¥ 1,527,635	\$ 18,629,695

See notes to consolidated financial statements.

Consolidated Financial Statements

Consolidated Statements of Operations

Fiscal Years ended March 31, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 3)
	FY2010	FY2011	FY2011
Net sales (Note 21)	¥ 1,099,817	¥ 1,042,436	\$ 12,712,634
Cost of sales (Notes 21 and 22)	854,238	803,653	9,800,646
Gross profit	245,579	238,783	2,911,988
Selling, general and administrative expenses (Notes 7, 21 and 22)	209,970	202,259	2,466,573
Operating income (Note 21)	35,608	36,524	445,415
Other income (expenses):			
Interest expense	(11,308)	(11,968)	(145,951)
Interest and dividend income	2,809	2,445	29,817
Net gain on sales of investments in securities (Note 19)	861	500	6,098
Net gain (loss) on sales and disposal of property, plant and equipment	(1,281)	2,963	36,134
Loss on valuation of investments in securities	(2,312)	(348)	(4,244)
Equity in earnings (losses) of affiliates (Note 9)	5,002	(21,919)	(267,305)
Loss on impairment of fixed assets (Notes 10 and 11)	(83)	(779)	(9,500)
Loss on seismic disaster (Note 12)	(62,752)	(19,329)	(235,720)
Business restructuring expenses (Note 10)	—	(29,201)	(356,110)
Other, net	(5,057)	26	317
Loss before income taxes and minority interests in consolidated subsidiaries	(38,513)	(41,086)	(501,049)
Income taxes: (Note 14)			
Current	(3,865)	(6,853)	(83,573)
Deferred	18,466	6,205	75,671
Total income taxes	14,600	(647)	(7,890)
Loss before minority interests	(23,913)	(41,733)	(508,939)
Minority interests in consolidated subsidiaries	(258)	58	707
Net loss	¥ (24,172)	¥ (41,675)	\$ (508,232)
	Yen		U.S. dollars
Amounts per share: (Note 24)			
Net loss:			
Basic	¥ (208.73)	¥ (359.90)	\$ (4.39)
Diluted	—	—	—
Cash dividends	60.00	30.00	0.37

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Fiscal Years ended March 31, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 3)
	FY2010	FY2011	FY2011
Loss before minority interests	¥ (23,913)	¥ (41,733)	\$ (508,939)
Other comprehensive income :			
Net unrealized holding gain (loss) on other securities	(9,738)	8,713	106,256
Net deferred gain (loss) on hedges	(271)	346	4,220
Translation adjustments	(4,858)	(7,053)	(86,012)
Share of other comprehensive income of affiliates accounted for using the equity method	(3,058)	249	3,037
Total other comprehensive income (Note 13)	(17,926)	2,255	27,500
Comprehensive income	¥ (41,839)	¥ (39,477)	\$ (481,427)
(Details)			
Comprehensive income attributable to shareholders	¥ (42,119)	¥ (39,321)	\$ (479,524)
Comprehensive income attributable to minority interests	279	(156)	(1,902)

See notes to consolidated financial statements.

Consolidated Financial Statements

Consolidated Statements of Changes in Net Assets

Fiscal Years ended March 31, 2011 and 2012

	Millions of yen				
	Number of shares of issued common stock	Shareholders' equity			
		Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost
Balance at April 1, 2010	116,254,892	¥ 55,730	¥ 266,254	¥ 128,455	¥ (1,267)
Cash dividends paid	—	—	—	(9,269)	—
Net loss	—	—	—	(24,172)	—
Purchase of treasury stock	—	—	—	—	(34)
Disposition of treasury stock	—	—	(0)	—	4
Changes in treasury stock due to changes in equity in affiliates accounted for by equity method	—	—	—	—	(0)
Changes in items other than shareholders' equity, net	—	—	—	—	—
Balance at March 31, 2011	116,254,892	55,730	266,254	95,014	(1,296)
Balance at April 1, 2011	116,254,892	55,730	266,254	95,014	(1,296)
Cash dividends paid	—	—	—	(3,475)	—
Net loss	—	—	—	(41,675)	—
Purchase of treasury stock	—	—	—	—	(12)
Disposition of treasury stock	—	—	(1)	—	6
Changes in scope of consolidation	—	—	—	193	(3)
Changes in scope of equity method application	—	—	—	792	(0)
Changes in treasury stock due to changes in equity in affiliates accounted for by equity method	—	—	—	—	(0)
Changes in items other than shareholders' equity, net	—	—	—	—	—
Balance at March 31, 2012	116,254,892	¥ 55,730	¥ 266,252	¥ 50,849	¥ (1,307)

	Thousands of U.S. dollars (Note 3)			
	Shareholders' equity			
	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost
Balance at April 1, 2011	\$ 679,634	\$ 3,247,000	\$ 1,158,707	\$ (15,805)
Cash dividends paid	—	—	(42,378)	—
Net loss	—	—	(508,232)	—
Purchase of treasury stock	—	—	—	(146)
Disposition of treasury stock	—	(12)	—	73
Changes in scope of consolidation	—	—	2,354	(37)
Changes in scope of equity method application	—	—	9,659	(0)
Changes in treasury stock due to changes in equity in affiliates accounted for by equity method	—	—	—	(0)
Changes in items other than shareholders' equity, net	—	—	—	—
Balance at March 31, 2012	\$ 679,634	\$ 3,246,976	\$ 620,110	\$ (15,939)

	Millions of yen						
	Total shareholders' equity	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		
	¥ 449,173	¥ 2,819	¥ 336	¥ 3,983	¥ 7,138	¥ 3,666	¥ 459,978
	(9,269)	—	—	—	—	—	(9,269)
	(24,172)	—	—	—	—	—	(24,172)
	(34)	—	—	—	—	—	(34)
	3	—	—	—	—	—	3
	(0)	—	—	—	—	—	(0)
	—	(9,692)	(421)	(7,834)	(17,947)	203	(17,743)
	415,701	(6,873)	(84)	(3,851)	(10,808)	3,870	408,762
	415,701	(6,873)	(84)	(3,851)	(10,808)	3,870	408,762
	(3,475)	—	—	—	—	—	(3,475)
	(41,675)	—	—	—	—	—	(41,675)
	(12)	—	—	—	—	—	(12)
	4	—	—	—	—	—	4
	189	—	—	—	—	—	189
	791	—	—	—	—	—	791
	(0)	—	—	—	—	—	(0)
	—	8,739	461	(6,849)	2,350	(283)	2,066
	¥ 371,524	¥ 1,866	¥ 376	¥ (10,700)	¥ (8,458)	¥ 3,586	¥ 366,652

	Thousands of U.S. dollars (Note 3)						
	Total shareholders' equity	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		
	\$ 5,069,524	\$ (83,817)	\$ (1,024)	\$ (46,963)	\$ (131,805)	\$ 47,195	\$ 4,984,902
	(42,378)	—	—	—	—	—	(42,378)
	(508,232)	—	—	—	—	—	(508,232)
	(146)	—	—	—	—	—	(146)
	49	—	—	—	—	—	49
	2,305	—	—	—	—	—	2,305
	9,646	—	—	—	—	—	9,646
	(0)	—	—	—	—	—	(0)
	—	106,573	5,622	(83,524)	28,659	(3,451)	25,195
	\$ 4,530,780	\$ 22,756	\$ 4,585	\$ (130,488)	\$ (103,146)	\$ 43,732	\$ 4,471,366

See notes to consolidated financial statements.

Consolidated Financial Statements

Consolidated Statements of Cash Flows

Fiscal years ended March 31, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 3)
	FY2010	FY2011	FY2011
Operating activities			
Loss before income taxes and minority interests in consolidated subsidiaries	¥ (38,513)	¥ (41,086)	\$ (501,049)
Adjustments to reconcile loss before income taxes and minority interests in consolidated subsidiaries to net cash provided by operating activities:			
Depreciation	78,639	74,352	906,732
Amortization of goodwill	1,413	1,433	17,476
Increase (decrease) in allowance for doubtful receivables	(351)	113	1,378
Increase (decrease) in allowance for loss on seismic disaster	46,044	(36,018)	(439,244)
Decrease in accrued retirement benefits	(2,327)	(1,688)	(20,585)
Decrease in accrued environmental costs	(171)	(2)	(24)
Interest and dividend income	(2,809)	(2,445)	(29,817)
Interest expense	11,308	11,968	145,951
Equity in (earnings) losses of affiliates	(5,002)	21,919	267,305
Net gain on sales of investments in securities	(861)	(613)	(7,476)
Net (gain) loss on sales and disposal of property, plant and equipment	1,281	(2,963)	(36,134)
Business restructuring expenses	—	29,201	356,110
Changes in operating assets and liabilities:			
Receivables	11,868	6,580	80,244
Inventories	12,175	(14,144)	(172,488)
Payables	(676)	17,040	207,805
Other	22,299	8,159	99,500
	134,317	71,806	875,683
Interest and dividends received	3,610	3,906	47,634
Interest paid	(11,369)	(11,753)	(143,329)
Income taxes paid	(9,794)	(1,461)	(17,817)
Payments for loss on disaster	(1,163)	(38)	(463)
Payments for supplementary retirement benefits	(146)	(2,346)	(28,610)
Net cash provided by operating activities	¥ 115,454	¥ 60,114	\$ 733,098

	Millions of yen		Thousands of U.S. dollars (Note 3)
	FY2010	FY2011	FY2011
Investing activities			
Purchases of time deposits	¥ (167)	¥ (99)	\$ (1,207)
Withdrawals of time deposits	297	89	1,085
Purchases of property, plant and equipment	(44,341)	(46,236)	(563,854)
Proceeds from sales of property, plant and equipment	1,844	5,479	66,817
Purchases of investments in other securities	(52,140)	(9,527)	(116,183)
Proceeds from sales and redemption of investments in other securities	1,063	1,662	20,268
Decrease in short-term loans	403	507	6,183
Long-term loans made	(204)	(1,079)	(13,159)
Collection of long-term loans	234	224	2,732
Other, net	(456)	2,351	28,671
Net cash used in investing activities	(93,467)	(46,626)	(568,610)
Financing activities			
Increase (decrease) in short-term borrowings	68,834	(65,503)	(798,817)
Proceeds from issuance and borrowings of long-term debt	57,350	138,597	1,690,207
Repayment of long-term debt	(55,724)	(59,853)	(729,915)
Purchases of treasury stock	(34)	(12)	(146)
Proceeds from sales of treasury stock	3	2	24
Cash dividends paid	(9,268)	(3,492)	(42,585)
Finance lease principal payments	(2,025)	(7,959)	(97,061)
Repayment to minority shareholders	(82)	(126)	(1,537)
Net cash provided by financing activities	59,053	1,652	20,146
Effect of exchange rate changes on cash and cash equivalents	(342)	(619)	(7,549)
Increase in cash and cash equivalents	80,697	14,520	177,073
Cash and cash equivalents at beginning of year	24,041	104,739	1,277,305
Increase due to inclusion of certain subsidiaries in consolidation	—	6	73
Cash and cash equivalents at end of year	¥ 104,739	¥ 119,265	\$ 1,454,451

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nippon Paper Group, Inc. and Consolidated Subsidiaries

March 31, 2012

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, 2012 and 2011 were 48 and 47, 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, 2012 and 2011 were 12 and 10, respectively. There were no unconsolidated subsidiaries under the equity method as of March 31, 2012 and 2011.

The number of unconsolidated subsidiaries and affiliates that do not apply the equity method were 91 and 36 as of March 31, 2012, and 89 and 40 as of March 31, 2011, 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, 2012 or 2011;
- (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, 2012 or 2011; 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 the balance sheet date.

(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. are translated into yen at the current rates. All revenues and expenses associated with foreign currencies are translated at the rates of exchange prevailing when such transactions were made. Translation gain or loss is credited or charged to income as incurred.

The balance sheet accounts of foreign consolidated subsidiaries and affiliates are translated into yen at the rates of exchange in effect at their respective balance sheet dates, except for the components of net assets (excluding minority interests) which are translated at their historical exchange rates.

Revenue and expense accounts are translated at the average rate of exchange in effect during the fiscal year. The resulting differences in translation are presented as translation adjustments and minority interests in consolidated subsidiaries as components of net assets in the accompanying consolidated financial statements.

(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.

(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, 2012. See Notes 15 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, 2012 and 2011.

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

2. Accounting Changes

- (a) For reversal of loss on valuation of investments in securities at the end of a quarter, the Company had conventionally adopted the quarterly reversal method. But, effective July 1, 2011, the Company adopted the quarterly cost or market method for reversal of loss on revaluation of investments in subsidiaries and affiliates at the end of a quarter. This is because the Company acquired additional shares of a foreign listed company in the second quarter of the fiscal year ended March 31, 2012 and newly included it as an important equity method affiliate.

As a result, in accordance with “Practical Guidelines on Accounting Standard for Investments Using Equity Method” (Accounting Practice Committee Statement No.9 of the Japanese Institute of Certified Public Accountants (JICPA), January 12, 2011) and “Practical Guidelines on Accounting Standard for Capital Consolidation Procedures in Preparing Consolidated Financial Statements” (JICPA Accounting Practice Committee Statement No.7, January 12, 2011), the Company judged that this change can help to mitigate the impact of stock price changes and also it can report its financial condition and operating results more appropriately through this change of accounting policies.

This change of accounting policy is applied retrospectively, but compared with before the revision, there is no effect on retained earnings at the end of the previous year on the consolidated statements of changes in net assets.

- (b) Effective April 1, 2011, the Company has adopted “Accounting Standard for Accounting Changes and Error Corrections” (Accounting Standards Board of Japan (ASBJ) Statement No.24 of December 4, 2009) and “Guidance on Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Guidance No.24 of December 4, 2009), for accounting changes and corrections of prior period errors.

3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥82=U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2012, 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. Inventories

Inventories at March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2011	2012	2012
Merchandise and finished products	¥ 75,484	¥ 84,875	\$ 1,035,061
Work in process	16,906	18,935	230,915
Raw materials and supplies	48,966	51,087	623,012
	¥ 141,358	¥ 154,898	\$ 1,889,000

5. Short-Term Debt and Long-Term Debt

At March 31, 2012 and 2011, short-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2011	2012	2012
Loans from banks	¥ 230,657	¥ 165,381	\$ 2,016,841
Loans from unconsolidated subsidiaries and affiliates	1,885	1,932	23,561
Others	1,773	1,423	17,353
	¥ 234,316	¥ 168,736	\$ 2,057,756

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, 2012 and 2011 were 0.61% and 0.60%, respectively.

Long-term debt at March 31, 2012 and 2011 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2011	2012	2012
Loans from banks, insurance companies and others at rates ranging from 3.800% to 0.400% due through 2034:			
With collateral	¥ 1,261	¥ 921	\$ 11,232
Without collateral	500,907	599,720	7,313,659
1.100% unsecured corporate bonds in yen due 2012	20,000	20,000	243,902
1.790% unsecured corporate bonds in yen due 2011	20,000	—	—
1.970% unsecured corporate bonds in yen due 2017	13,000	13,000	158,537
1.960% unsecured corporate bonds in yen due 2017	10,000	10,000	121,951
1.710% unsecured corporate bonds in yen due 2019	10,000	10,000	121,951
1.495% unsecured corporate bonds in yen due 2020	15,000	15,000	182,927
	590,168	668,642	8,154,171
Less current portion	(60,244)	(64,917)	(791,671)
	¥ 529,923	¥ 603,724	\$ 7,362,488

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2011	2012	2012
Lease obligations	¥ 9,635	¥ 2,330	\$ 28,415
Less current portion	(7,762)	(1,125)	(13,720)
	¥ 1,872	¥ 1,205	\$ 14,695

The maturities of long-term debt subsequent to March 31, 2012 are summarized as follows:

Fiscal year ending March 31:	Millions of yen	Thousands of U.S. dollars
	2013	¥ 66,043
2014	67,819	827,060
2015	103,474	1,261,878
2016	66,178	807,048
2017 and thereafter	367,457	4,481,182
	¥ 670,972	\$ 8,182,585

6. Pledged Assets

The following tables present pledged as collateral and the corresponding financial liabilities as of March 31, 2012 and 2011.

Assets pledged as collateral	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2011	2012	2012
Property, plant and equipment, at net book value	¥ 60,586	¥ 56,469	\$ 688,646
Investments in securities	169	—	—
	¥ 60,756	¥ 56,469	\$ 688,646

Financial liabilities for which assets were pledged as collateral	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2011	2012	2012
Note and accounts payable - trade	¥ 431	¥ —	\$ —
Current portion of long-term debt	339	84	1,024
Long-term debt	¥ 921	¥ 837	\$ 10,207

7. Retirement Benefits

(a) Certain consolidated subsidiaries have defined benefit pension plans, i.e., corporate pension fund plans, Welfare Pension Fund 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.

Certain consolidated subsidiaries have changed over from tax-qualified pension plans, as defined benefit pension plans, to defined benefit corporate pension fund plans.

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, 2011			
	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	¥ 12,218	\$ 149,000	¥ 147,523	\$ 1,799,060
Retirement benefit obligation	14,611	178,182	202,176	2,465,560
Net balance	¥ (2,393)	\$ (29,182)	¥ (54,653)	\$ (666,500)

	Fiscal year ended March 31, 2010	
	Pension fund management group for affiliated companies	Others
	Millions of yen	Millions of yen
Plan assets	¥ 12,284	¥ 155,907
Retirement benefit obligation	14,221	209,851
Net balance	¥ (1,937)	¥ (53,944)

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

	Fiscal years ended March 31	
	2010	2011
Pension fund management group for affiliated companies	36.6%	37.8%
Others	3.2%	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, 2012 and 2011 for the consolidated subsidiaries' defined benefit pension plans:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2011	2012	2012
Retirement benefit obligation	¥ (180,604)	¥ (180,315)	\$ (2,198,963)
Plan assets at fair value	113,691	111,386	1,358,365
Unfunded retirement benefit obligation	(66,913)	(68,928)	(840,585)
Unrecognized actuarial loss	38,440	44,851	546,963
Unrecognized prior service cost	(1,523)	(4,470)	(54,512)
Net retirement benefit obligation	(29,996)	(28,546)	(348,121)
Prepaid pension cost	1,240	727	8,865
Accrued retirement benefits	¥ (31,237)	¥ (29,274)	\$ (357,000)

The components of retirement benefit expense for the fiscal years ended March 31, 2012 and 2011 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal years ended March 31,		Fiscal year ended March 31,
	2011	2012	2012
Service cost	¥ 5,441	¥ 5,110	\$ 62,317
Interest cost	4,381	4,084	49,804
Expected return on plan assets	(2,952)	(2,810)	(34,268)
Amortization of unrecognized actuarial loss	4,014	5,143	62,719
Amortization of unrecognized prior service cost	(306)	(572)	(6,975)
Total	¥ 10,578	¥ 10,955	\$ 133,597

In addition, supplementary retirement benefits of ¥5,199 million (\$63,402 thousand) and ¥431 million were recorded for the fiscal years ended March 31, 2012 and 2011, respectively.

The following assumptions were used in these calculations.

	Fiscal years ended March 31,	
	2011	2012
Discount rate	mainly 2.5%	mainly 1.8%
Expected rate of return on plan assets	mainly 2.0%	mainly 2.0%

8. Notes Receivable and Payable

Settlement of notes receivable and payable occurs on the date of bank clearance. As March 31, 2012 was a bank holiday, the following notes were included in the respective balances in the consolidated balance sheet and were settled on the next business day.

	Millions of yen	Thousands of U.S. dollars
	Notes receivable	¥ 475
Notes payable	¥ 981	\$ 11,963

9. Equity in Losses of Affiliates

Fiscal year ended March 31, 2012

Equity in losses of affiliates includes amortization of goodwill of ¥25,565 million (\$311,768 thousand), in accordance with "Practical Guidelines on Accounting Standard for Investments Using Equity Method" (JICPA Accounting Practice Committee Statement No.9, January 12, 2011) and "Practical Guidelines on Accounting Standard for Capital Consolidation Procedures in Preparing Consolidated Financial Statements" (JICPA Accounting Practice Committee Statement No.7, January 12, 2011).

10. Business Restructuring Expenses

The Company announced its paper business restructuring plan, titled the “Revitalization Plan” and booked ¥29,201 million (\$356,110 thousand) of restructuring costs as business restructuring expenses for the fiscal year ended March 31, 2012. This mainly consists of ¥21,624 million (\$263,707 thousand) of impairment loss on machines and other and payments for supplementary retirement benefits.

11. Loss on Impairment of Fixed Assets

The Group reviewed its business use assets as of March 31, 2012 and, as a result, recognized an impairment loss.

To test indicators of impairment of fixed assets, the Group determines cash generating units mainly on a business-basis for business use assets.

For fixed assets that were retired or to be retired in line with the “Revitalization Plan,” impairment loss is determined by estimating the recoverable amount based on value in use.

Location	Assets	Fiscal year ended March 31, 2012		Notes
		Millions of yen	Thousands of U.S. dollars	
Fuji city, Shizuoka	Buildings and structures	¥ 1,019	\$ 12,427	Fixed assets, that were retired or to be retired. Impairment loss was included in “Business restructuring expenses” in the consolidated statement of operations.
	Machinery and equipment	12,008	146,439	
	Land	1,675	20,427	
	Other	512	6,244	
	Subtotal	15,216	185,561	
Otake city, Hiroshima	Buildings and structures	82	1,000	
	Machinery and equipment	2,194	26,756	
	Subtotal	2,276	27,756	
Ishinomaki city, Miyagi	Buildings and structures	126	1,537	
	Machinery and equipment	1,964	23,951	
	Other	150	1,829	
	Subtotal	2,240	27,317	
Iwakuni city, Yamaguchi	Buildings and structures	148	1,805	
	Machinery and equipment	839	10,232	
	Other	5	61	
	Subtotal	993	12,110	
Iwanuma city, Miyagi, etc.	Buildings and structures	867	10,573	
	Other	29	354	
	Subtotal	897	10,939	
Chiyoda-ku, Tokyo, etc.	Buildings and structures	334	4,073	Impaired assets were mainly fixed assets to be disposed. Impairment loss was included in “Loss on impairment of fixed assets.”
	Machinery and equipment	339	4,134	
	Other	105	1,280	
	Subtotal	779	9,500	
Total		¥ 22,404	\$ 273,220	

12. Loss on Seismic Disaster

Fiscal year ended March 31, 2012

Loss on seismic disaster caused by the Great East Japan Earthquake on March 11, 2011 consists of fixed costs related to a mill that has suspended operations due to the disaster amounting to ¥14,474 million (\$176,512 thousand), restoration costs of fixed assets and other losses.

Fiscal year ended March 31, 2011

Loss on seismic disaster caused by the Great East Japan Earthquake on March 11, 2011 consists of mainly ¥45,275 million of expenses to restore fixed assets, ¥11,612 million of loss of inventories, and other losses. These losses include the allowance for loss on seismic disaster in the amount of ¥46,044 million.

13. Other Comprehensive Income

Reclassification adjustments and income tax effects on components of other comprehensive income for the fiscal year ended March 31, 2012 are as follows.

	Millions of yen	Thousands of U.S. dollars
Net unrealized holding gain on other securities:		
Amount recognized during the year	¥ 8,745	\$ 106,646
Reclassification adjustments included in net loss	218	2,659
Before income tax effect adjustment	8,963	109,305
Income tax effect	(250)	(3,049)
Net unrealized holding gain on other securities	8,713	106,256
Net deferred gain on hedges:		
Amount recognized during the year	533	6,500
Reclassification adjustments included in net loss	—	—
Before income tax effect adjustment	533	6,500
Income tax effect	(186)	(2,268)
Net deferred gain on hedges	346	4,220
Translation adjustments:		
Amount recognized during the year	(7,053)	(86,012)
Translation adjustments	(7,053)	(86,012)
Share of other comprehensive income of affiliates accounted for using the equity method		
Amount recognized during the year	10	122
Reclassification adjustments included in net loss	239	2,915
Share of other comprehensive income of affiliates accounted for using the equity method	249	3,037
Total other comprehensive income	¥ 2,255	\$ 27,500

14. 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, 2012 and 2011.

A reconciliation of the effective tax rate and the statutory tax rate has not been provided for the fiscal years ended March 31, 2012 and 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, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2011	2012	March 31, 2012
Deferred tax assets:			
Accrued bonuses	¥ 3,376	¥ 3,087	\$ 37,646
Accrued enterprise taxes	442	675	8,231
Allowance for doubtful receivables	8,321	7,612	92,829
Accrued retirement benefits	21,968	18,700	228,048
Loss on investments in securities	1,141	871	10,621
Unrealized holding loss on other securities	4,404	788	9,609
Tax loss carryforwards	20,987	23,126	282,024
Loss on revaluation of land	16,795	14,729	179,621
Loss on seismic disaster	17,953	16,286	198,609
Loss on impairment of fixed assets	16,959	22,605	275,670
Unrealized profit eliminated in consolidation	1,226	1,373	16,743
Loss on valuation of stocks of subsidiaries and affiliates	4,562	14,950	182,317
Other	7,851	9,343	113,939
Gross deferred tax assets	125,991	134,150	1,635,975
Valuation allowance	(59,975)	(70,663)	(861,743)
Total deferred tax assets	66,016	63,486	774,219
Deferred tax liabilities:			
Tax reserves	(9,699)	(8,078)	(98,512)
Accumulated depreciation	(1,007)	(1,006)	(12,268)
Gain on revaluation of land, etc.	(43,533)	(37,570)	(458,170)
Unrealized holding gain on other securities	(1,674)	(1,532)	(18,682)
Other	(3,553)	(3,106)	(37,878)
Total deferred tax liabilities	(59,468)	(51,294)	(625,536)
Net deferred tax liabilities	¥ 6,548	¥ 12,192	\$ 148,682

Deferred tax liabilities included in other current liabilities at March 31, 2012 and 2011 amounted to ¥0 million (\$4 thousand) and ¥1 million, respectively.

Note:

On December 2, 2011, the Japanese government enacted the "Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures" (Act No.114 of 2011) and the "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No.117 of 2011). Under these newly promulgated laws, the corporate income tax rates applicable for fiscal years beginning on or after April 1, 2012 will be changed.

Accompanying these changes, the effective statutory tax rate applicable to the calculation of deferred tax assets and deferred tax liabilities will be changed as follows according to when the temporary differences will be realized or settled:

From the fiscal year beginning April 1, 2012 through the year ending March 31, 2015: 38.0%

From the fiscal year beginning April 1, 2015 and in subsequent years: 35.6%

As a result of these changes, net deferred tax assets increased ¥812 million (\$9,902 thousand), deferred income taxes increased ¥689 million (\$8,402 thousand), unrealized holding gain on other securities increased ¥97 million (\$1,183 thousand) and net deferred gain on hedges increased ¥25 million (\$305 thousand) as of and for the fiscal year ended March 31, 2012.

15. 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 (\$5,268 thousand) and ¥432 million were included in retained earnings at March 31, 2012 and 2011, respectively.

16. Leases

(a) As Lessee

- (i) Future minimum lease payments subsequent to March 31, 2012 for noncancelable operating leases are summarized as follows:

Fiscal year ending March 31:	Millions of yen	Thousands of U.S. dollars
2013	¥ 4,062	\$ 49,536
2014 and thereafter	47	573
Total	¥ 4,110	\$ 50,121

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

Fiscal year ending March 31:	Millions of yen
2012	¥ 4,065
2013 and thereafter	4,100
Total	¥ 8,165

(b) As Lessor

- (i) Future minimum lease income subsequent to March 31, 2012 for noncancelable operating leases is summarized as follows:

Fiscal year ending March 31:	Millions of yen	Thousands of U.S. dollars
2013	¥ 211	\$ 2,573
2014 and thereafter	2,366	28,853
Total	¥ 2,577	\$ 31,426

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

Fiscal year ending March 31:	Millions of yen
2012	¥ 163
2013 and thereafter	1,669
Total	¥ 1,833

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.

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

Notes payable and trade payables are due in one year. The payables denominated 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 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 investments in 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, 2012 and 2011 (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, 2012

(*3)	Millions of yen		
	Book value (*1)(*3)	Fair value (*1)	Difference
(1) Cash and deposits	¥ 119,363	¥ 119,363	¥ –
(2) Notes and accounts receivable-trade	205,182	205,182	–
(3) Investments in securities			
Other securities	40,712	40,712	–
Stocks of subsidiaries and affiliates	55,860	65,418	9,558
(4) Notes and accounts payable-trade	(127,975)	(127,975)	–
(5) Short-term loans payable	(212,231)	(212,422)	191
(6) Accounts payable-other	(88,610)	(88,610)	–
(7) Long-term loans payable	(555,724)	(580,456)	24,732
(8) Derivatives (*2)	972	972	–

(*3)	Thousands of U.S. dollars		
	Book value (*1)(*3)	Fair value (*1)	Difference
(1) Cash and deposits	\$ 1,455,646	\$ 1,455,646	\$ –
(2) Notes and accounts receivable-trade	2,502,219	2,502,219	–
(3) Investments in securities			
Other securities	496,487	496,487	–
Stocks of subsidiaries and affiliates	681,219	797,780	116,560
(4) Notes and accounts payable-trade	(1,560,670)	(1,560,670)	–
(5) Short-term loans payable	(2,588,182)	(2,590,512)	2,329
(6) Accounts payable-other	(1,080,609)	(1,080,609)	–
(7) Long-term loans payable	(6,777,121)	(7,078,731)	301,609
(8) Derivatives (*2)	11,853	11,853	–

(*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 ¥119,363 million (\$1,455,646 thousand) in the above table consist of "Cash and cash equivalents" (¥119,265 million (\$1,454,451 thousand)) and a portion of "Other current assets" (¥97 million (\$1,182 thousand)) on the consolidated balance sheet.
- Notes and accounts receivable-trade of ¥205,182 million (\$2,502,219 thousand) in the above table consist of "Notes and accounts receivable-Trade" (¥186,963 million (\$2,280,037 thousand)) and a portion of "Notes and accounts receivable-Unconsolidated subsidiaries and affiliates" (¥18,219 million (\$222,182 thousand)) on the consolidated balance sheet.
- Other securities of ¥40,712 million (\$496,487 thousand) in the above table are included in "Investments in securities" on the consolidated balance sheet. And stocks of subsidiaries and affiliates of ¥55,860 million (\$681,219 thousand) in

the above table are included in “Investments in and advances to unconsolidated subsidiaries and affiliates” on the consolidated balance sheet.

- 4) Notes and accounts payable-trade of ¥127,975 million (\$1,560,670 thousand) in the above table consist of “Notes and accounts payable-Trade” (¥117,740 million (\$1,435,854 thousand)) and a portion of “Notes and accounts payable-Unconsolidated subsidiaries and affiliates” (¥10,234 million (\$124,804 thousand)) on the consolidated balance sheet.
- 5) Short-term loans payable of ¥212,231 million (\$2,588,182 thousand) in the above table consist of “Short-term borrowings” (¥167,313 million (\$2,040,402 thousand)) and a portion of “Current portion of long-term debt” (¥44,917 million (\$547,768 thousand)) on the consolidated balance sheet.
- 6) Accounts payable-other of ¥88,610 million (\$1,080,609 thousand) in the above table consist of a portion of “Notes and accounts payable-Unconsolidated subsidiaries and affiliates” (¥12,963 million (\$158,085 thousand)) and a portion of “Notes and accounts payable-Other” (¥75,646 million (\$922,512 thousand)) on the consolidated balance sheet.
- 7) Long-term loans payable of ¥555,724 million (\$6,777,121 thousand) in the above table are included in “Long-term debt” on the consolidated balance sheet.

- 2) Notes and accounts receivable-trade of ¥210,750 million in the above table consist of “Notes and accounts receivable-Trade” (¥192,597 million) and a portion of “Notes and accounts receivable-Unconsolidated subsidiaries and affiliates” (¥18,153 million) on the consolidated balance sheet.
- 3) Other securities of ¥71,778 million 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 in the above table are included in “Investments in and advances to unconsolidated subsidiaries and affiliates” on the consolidated balance sheet.
- 4) Notes and accounts payable-trade of ¥110,078 million in the above table consist of “Notes and accounts payable-Trade” (¥100,974 million) and a portion of “Notes and accounts payable-Unconsolidated subsidiaries and affiliates” (¥9,104 million) on the consolidated balance sheet.
- 5) Short-term loans payable of ¥272,788 million in the above table consist of “Short-term borrowings” (¥232,542 million) and a portion of “Current portion of long-term debt” (¥40,246 million) on the consolidated balance sheet.
- 6) Accounts payable-other of ¥52,232 million in the above table consist of a portion of “Notes and accounts payable-Unconsolidated subsidiaries and affiliates” (¥10,324 million) and a portion of “Notes and accounts payable-Other” (¥41,908 million) on the consolidated balance sheet.
- 7) Long-term loans payable of ¥461,923 million in the above table are included in “Long-term debt” on the consolidated balance sheet.

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) Investments in 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) Accounts payable-other	(52,232)	(52,232)	–
(7) Long-term loans payable	(461,923)	(480,761)	18,837
(8) Derivatives (*2)	439	439	–

(*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:

- 1) Cash and deposits of ¥104,826 million in the above table consist of “Cash and cash equivalents” (¥104,739 million) and a portion of “Other current assets” (¥87 million) on the consolidated balance sheet.

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

- 1) Cash and deposits, 2) Notes and accounts receivable-trade
As these items are settled in a short period of time, the book value approximates fair value.
- 3) Investments in 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, 6) Accounts payable-other
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.
- 7) 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.

8) Derivatives

Please refer Note 20 “Derivatives.”

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, 2011	March 31, 2012	March 31, 2012
Unlisted equity securities	¥ 89,230	¥ 87,785	\$ 1,070,548

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) Investments in Securities.”

For the year ended March 31, 2012, unlisted equity securities of ¥87,785 million (\$1,070,548 thousand) in the above table consist of “Investments in securities” (¥18,745 million (\$228,598 thousand)) and “Investments in and advances to unconsolidated subsidiaries and affiliates” (¥69,040 million (\$841,951 thousand)) on the consolidated balance sheet.

For the year ended March 31, 2011, unlisted equity securities of ¥89,230 million in the above table consist of “Investments in securities” (¥18,681 million) and “Investments in and advances to unconsolidated subsidiaries and affiliates” (¥70,549 million) on the consolidated balance sheet.

Note 3. Redemption schedule for receivables and securities with maturities at March 31, 2012 and March 31, 2011 is as follows:

As of March 31, 2012

	Millions of yen			
	Within one year	Between one and five years	Between five and ten years	Over ten years
Cash and deposits	¥ (*) 118,784	¥ –	¥ –	¥ –
Notes and accounts receivable-trade	205,182	–	–	–
Total	¥ 323,967	¥ –	¥ –	¥ –

(*) “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 cash deposits	\$ (*) 1,448,585	\$ –	\$ –	\$ –
Notes and accounts receivable-trade	2,502,219	–	–	–
Total	\$ 3,950,817	\$ –	\$ –	\$ –

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.

Note 4. Redemption schedule for long-term debt at March 31, 2012 and March 31, 2011 is as follows:

As of March 31, 2012

	Millions of yen	
	Between one and five years (*)	Over five years
Long-term loans payable	¥ 289,374	¥ 266,349

	Thousands of U.S. dollars	
	Between one and five years (*)	Over five years
Long-term loans payable	\$ 3,528,951	\$ 3,248,158

(*) Planned repayment within five years for long-term loans from banks is included in Note 5.

As of March 31, 2011

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

18. Contingent Liabilities

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

As of March 31, 2012

	Millions of yen	Thousands of U.S. dollars
As guarantors of indebtedness of unconsolidated subsidiaries, affiliates and other	¥ 26,107	\$ 318,378

As of March 31, 2011

	Millions of yen
As guarantors of indebtedness of unconsolidated subsidiaries, affiliates and other	¥ 26,956

19. Securities

(a) (i) Marketable securities classified as other securities at March 31, 2012 are summarized as follows (*):

	Millions of yen			Thousands of U.S. dollars		
	March 31, 2012			March 31, 2012		
	Book value	Cost	Valuation difference	Book value	Cost	Valuation difference
Securities whose book value exceeds their cost:						
Equity securities	¥ 19,417	¥ 10,737	¥ 8,679	\$ 236,792	\$ 130,939	\$ 105,841
Other	37	31	5	451	378	60
Subtotal	19,455	10,769	8,685	237,256	131,329	105,914
Securities whose cost exceeds their book value:						
Equity securities	21,190	27,345	(6,154)	258,414	333,475	(75,048)
Other	66	89	(23)	804	1,085	(280)
Subtotal	21,257	27,435	(6,177)	259,231	334,573	(75,329)
Total	¥ 40,712	¥ 38,204	¥ 2,508	\$ 496,487	\$ 465,902	\$ 30,585

(*) Because the fair values of unlisted equity securities as of March 31, 2012 (¥18,745 million (\$228,597 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 ¥746 million (\$9,097 thousand) with an aggregate gain of ¥168 million (\$2,048 thousand) and loss of ¥111 million (\$1,353 thousand) for the fiscal year ended March 31, 2012.

(iii) Impairment of investments in securities

The Company recorded an impairment loss on the valuation of investments in securities in the amount of ¥348 million (\$4,243 thousand) (securities for which fair values are extremely difficult to determine were included in the amount of ¥72 million (\$878 thousand)) for the fiscal year ended March 31, 2012.

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, 2011 are summarized as follows (*):

	Millions of yen		
	March 31, 2011		
	Book value	Cost	Valuation difference
Securities whose book value exceeds their cost:			
Equity securities	¥ 18,964	¥ 10,606	¥ 8,358
Other	37	31	5
Subtotal	19,001	10,637	8,363
Securities whose cost exceeds their book value:			
Equity securities	52,701	67,934	(15,232)
Other	75	92	(17)
Subtotal	52,776	68,027	(15,250)
Total	¥ 71,778	¥ 78,665	¥ (6,886)

(*) Because the fair values of unlisted equity securities as of March 31, 2011 (¥18,681 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 ¥907 million with an aggregate gain of ¥782 million for the fiscal year ended March 31, 2011.

(iii) Impairment of investments in securities

The Company recorded an impairment loss on the valuation of investments in securities in the amount of ¥2,312 million (securities for which fair values are extremely difficult to determine were included at the amount of ¥74 million) 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.

20. Derivatives

Fiscal year ended March 31, 2012

1. Derivative instruments not subject to hedge accounting

(1) Currency-related transactions

None applicable

(2) Interest-related transactions

None applicable

2. Derivative instruments subject to hedge accounting

(1) Currency-related transactions

Hedge accounting method	Hedging instrument	Principal hedged items	Millions of yen		
			Contract amount	Over one year	Estimated fair value
Deferral hedge method (*1)	Foreign exchange forward contracts Sell	Notes and accounts receivable-trade			
			U.S. dollars	¥ 232	¥ –
	Foreign exchange forward contracts Buy	Notes and accounts payable			
			U.S. dollars	22,549	–
Australian dollars		3,260	–	160	
	Others		¥ 387	¥ –	¥ 8
Allocation method	Foreign exchange forward contracts Sell	Notes and accounts receivable-trade			
			U.S. dollars	¥ 61	¥ –
	Foreign exchange forward contracts Buy	Notes and accounts payable			
			U.S. dollars	¥ 406	¥ –

Hedge accounting method	Hedging instrument	Principal hedged items	Thousands of U.S. dollars		
			Contract amount	Over one year	Estimated fair value
Deferral hedge method (*1)	Foreign exchange forward contracts Sell	Notes and accounts receivable-trade			
			U.S. dollars	\$ 2,829	\$ –
	Foreign exchange forward contracts Buy	Notes and accounts payable			
			U.S. dollars	274,987	–
Australian dollars		39,756	–	1,951	
	Others		\$ 4,719	\$ –	\$ 97
Allocation method	Foreign exchange forward contracts Sell	Notes and accounts receivable-trade			
			U.S. dollars	\$ 743	\$ –
	Foreign exchange forward contracts Buy	Notes and accounts payable			
			U.S. dollars	\$ 4,951	\$ –

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

Note (*2): Derivatives transactions are included in the accounts receivable and payable.

(2) Interest-rate swaps

Hedge accounting method	Hedging instrument	Principal hedged items	Millions of yen		
			Contract amount	Over one year	Estimated fair value
Interest-rate swaps meeting specific criteria	Interest-rate swap transaction	Long-term loans payable			
	Pay/fixed and receive/floating		¥ 151,000	¥ 148,500	(*3)

Hedge accounting method	Hedging instrument	Principal hedged items	Thousands of U.S. dollars		
			Contract amount	Over one year	Estimated fair value
Interest-rate swaps meeting specific criteria	Interest-rate swap transaction	Long-term loans payable			
	Pay/fixed and receive/floating		\$ 1,841,463	\$ 1,810,975	(*3)

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

Fiscal year ended March 31, 2011

1. Derivative instruments not subject to hedge accounting

(1) Currency-related transactions

None applicable

(2) Interest-related transactions

None applicable

2. Derivative instruments subject to hedge accounting

(1) Currency-related transactions

Hedge accounting method	Hedging instrument	Principal hedged items	Millions of yen		
			Contract amount	Over one year	Estimated fair value
Deferral hedge method(*1)	Foreign exchange forward contracts Sell	Notes and accounts receivable-trade			
			U.S. dollars	¥ 174	¥ –
	Foreign exchange forward contracts Buy	Notes and accounts payable			
			U.S. dollars	¥ 12,032	¥ –
Australian dollars		4,118	–	372	
	Others		¥ 1,377	¥ –	¥ 71

Hedge accounting method	Hedging instrument	Principal hedged items	Millions of yen		
			Contract amount	Over one year	Estimated fair value
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)

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

Note (*2): Derivatives transactions are included in the accounts receivable and payable.

(2) Interest-rate swaps

Hedge accounting method	Hedging instrument	Principal hedged items	Millions of yen		
			Contract amount	Over one year	Estimated fair value
Interest-rate swaps meeting specific criteria	Interest-rate swap transaction	Long-term loans payable			
	Pay/fixed and receive/floating				
			¥ 115,000	¥ 106,000	(*3)

Note (*3): Interest-rate swaps which qualify for hedge accounting and meet specific criteria are accounted for and presented together with 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						Consolidated
	Fiscal year ended March 31, 2012						
	Pulp and paper division	Paper related division	Wood products and construction related division	Other division (*1)	Total	Adjustment (*2)	
Net sales:							
Sales to third parties	¥ 817,726	¥ 93,469	¥ 60,675	¥ 70,564	¥ 1,042,436	¥ —	¥ 1,042,436
Intersegment sales and transfers	3,803	5,130	63,726	46,620	119,280	(119,280)	—
Total	821,530	98,600	124,402	117,184	1,161,717	(119,280)	1,042,436
Segment income	24,235	6,684	2,490	3,113	36,524	—	36,524
Segment assets	1,112,899	92,571	48,210	78,434	1,332,115	195,520	1,527,635
Other items:							
Depreciation	64,006	5,951	993	3,400	74,352	—	74,352
Amortization of goodwill	2,076	—	—	12	2,088	—	2,088
Increased amount of tangible and intangible fixed assets	¥ 40,290	¥ 8,600	¥ 826	¥ 7,454	¥ 57,172	¥ —	¥ 57,172

Thousands of U.S. dollars							
Fiscal year ended March 31, 2012							
	Pulp and paper division	Paper related division	Wood products and construction related division	Other division (*1)	Total	Adjustment (*2)	Consolidated
Net sales:							
Sales to third parties	\$ 9,972,268	\$ 1,139,865	\$ 739,939	\$ 860,536	\$ 12,712,634	\$ —	\$ 12,712,634
Intersegment sales and transfers	46,378	62,560	777,146	568,536	1,454,634	(1,454,634)	—
Total	10,018,658	1,202,439	1,517,097	1,429,073	14,167,280	(1,454,634)	12,712,634
Segment income	295,548	81,512	30,365	37,963	445,414	—	445,414
Segment assets	13,571,939	1,128,914	587,926	956,512	16,245,304	2,384,390	18,629,695
Other items:							
Depreciation	780,560	72,573	12,109	41,463	906,731	—	906,731
Amortization of goodwill	25,317	—	—	146	25,463	—	25,463
Increased amount of tangible and intangible fixed assets	\$ 491,341	\$ 104,878	\$ 10,073	\$ 90,902	\$ 697,219	\$ —	\$ 697,219

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
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

*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, 2012, the segment assets adjustment of ¥195,520 million (\$2,384,390 thousand) includes ¥243,085 million (\$2,964,451 thousand) of corporate assets, which are not allocated to reportable segments, and ¥(47,564) million (\$580,048) 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, 2011, the segment assets adjustment of ¥176,455 million includes ¥220,749 million of corporate assets, which are not allocated to reportable segments, and ¥(44,294) million of inter-segment eliminations. Company assets mainly consist of “cash and cash equivalents,” “investments in securities” and “deferred tax assets.”

4. Related information

(a) Information of net sales by geographical area Fiscal year ended March 31, 2012

Millions of yen					
Japan	Oceania	Asia	North America	Others	Total
937,088	50,955	34,194	13,038	7,160	1,042,436

Thousands of U.S. dollars					
Japan	Oceania	Asia	North America	Others	Total
11,427,902	621,402	417,000	159,000	87,317	12,712,634

Fiscal year ended 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

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

(b) Impairment loss of fixed assets by reportable segments

For the fiscal year ended March 31, 2012

Millions of yen							
	Pulp and paper division	Paper related division	Wood products and construction related division	Other division	Total	Adjustment	Consolidated
Loss on impairment of fixed assets	¥ 22,092	¥ 104	¥ 207	¥ —	¥ 22,404	¥ —	¥ 22,404

	Thousands of U.S. dollars						
	Pulp and paper division	Paper related division	Wood products and construction related division	Other division	Total	Adjustment	Consolidated
Loss on impairment of fixed assets	\$ 269,414	\$ 1,268	\$ 2,524	\$ —	\$ 273,219	\$ —	\$ 273,219

Fiscal year ended March 31, 2011

There is no significant impairment loss.

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

Fiscal year ended March 31, 2012

	Millions of yen					
	Pulp and paper division	Paper related division	Wood products and construction related division	Other division (*)	Adjustment	Total
Amortization of goodwill	¥ 2,076	¥ —	¥ —	¥ 12	¥ —	¥ 2,088
Balance of unamortized goodwill as of March 31, 2012	¥ 17,743	¥ —	¥ —	¥ 32	¥ —	¥ 17,775

	Thousands of U.S. dollars					
	Pulp and paper division	Paper related division	Wood products and construction related division	Other division (*)	Adjustment	Total
Amortization of goodwill	\$ 25,317	\$ —	\$ —	\$ 146	\$ —	\$ 25,463
Balance of unamortized goodwill as of March 31, 2012	\$ 216,378	\$ —	\$ —	\$ 390	\$ —	\$ 216,768

Fiscal year ended March 31, 2011

	Millions of yen					
	Pulp and paper division	Paper related division	Wood products and construction related division	Other division (*)	Adjustment	Total
Amortization of goodwill	¥ 2,221	¥ —	¥ —	¥ 13	¥ —	¥ 2,235
Balance of unamortized goodwill as of March 31, 2011	¥ 19,936	¥ —	¥ —	¥ 34	¥ —	¥ 19,971

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:

Fiscal year ended March 31, 2012

	Millions of yen					
	Pulp and paper division	Paper related division	Wood products and construction related division	Other division	Adjustment	Total
Amortization of negative goodwill	¥ 654	¥ —	¥ —	¥ —	¥ —	¥ 654
Balance of unamortized negative goodwill as of March 31, 2012	¥ 680	¥ —	¥ —	¥ —	¥ —	¥ 680

	Thousands of U.S. dollars					
	Pulp and paper division	Paper related division	Wood products and construction related division	Other division	Adjustment	Total
Amortization of negative goodwill	\$ 7,975	\$ —	\$ —	\$ —	\$ —	\$ 7,975
Balance of unamortized negative goodwill as of March 31, 2012	\$ 8,292	\$ —	\$ —	\$ —	\$ —	\$ 8,292

Fiscal year ended March 31, 2011

	Millions of yen					
	Pulp and paper division	Paper related division	Wood products and construction related division	Other division	Adjustment	Total
Amortization of negative goodwill	¥ 821	¥ —	¥ —	¥ —	¥ —	¥ 821
Balance of unamortized negative goodwill as of March 31, 2011	¥ 1,335	¥ —	¥ —	¥ —	¥ —	¥ 1,335

22. Research and Development Costs

Included in cost of sales and selling, general and administrative expenses were ¥6,484 million (\$79,073 thousand) and ¥6,855 million of research and development costs for the fiscal years ended March 31, 2012 and 2011, respectively.

23. Related Party Transactions

(a) Related party transactions for the fiscal year ended March 31, 2012

- (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 fiscal year ended March 31, 2012	¥12,060 million (\$147,073 thousand)
Accounts	—
Balance at March 31, 2012	—

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 fiscal year ended March 31, 2012

- (i) Information on the parent company:
None
- (ii) Financial statements of significant affiliate companies:
Significant affiliate companies in the fiscal year ended March 31, 2012 are Lintec Corporation, Daishowa-Marubeni International Ltd. and Lee & Man Paper Manufacturing Ltd. Summarized aggregate financial statement data of the three companies are as follows:
- | | |
|-----------------------------------|---|
| Total current assets | ¥302,019 million (\$3,683,158 thousand) |
| Total fixed assets | ¥227,626 million (\$2,775,926 thousand) |
| Total current liabilities | ¥141,213 million (\$1,722,109 thousand) |
| Total long-term liabilities | ¥115,874 million (\$1,413,097 thousand) |
| Total net assets | ¥272,557 million (\$3,323,865 thousand) |
| Net sales | ¥271,585 million (\$3,312,012 thousand) |
| Income before income taxes | ¥19,414 million (\$236,756 thousand) |
| Net income..... | ¥14,626 million (\$178,365 thousand) |

(c) Related party transactions for the fiscal 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 fiscal year ended March 31, 2011	¥11,967 million
Accounts	—
Balance at March 31, 2011	—

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

24. Per Share Information

Per share information and the bases of these calculations as of or for the fiscal years ended March 31, 2012 and 2011 are as follows.

Diluted net income per share has not been disclosed because no potentially dilutive securities were outstanding at March 31, 2012 and 2011, and because a net loss was recorded for the fiscal years ended March 31, 2012 and 2011.

As of or for the fiscal years ended March 31,

	Yen		U.S. dollars
	2011	2012	2012
Net assets per share	¥ 3,496.49	¥ 3,135.48	\$ 38.24
Net loss per share	(208.73)	(359.9)	(4.39)
	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Net loss	¥ (24,172)	¥ (41,675)	\$ (508,232)
Net loss attributable to common stockholders	(24,172)	(41,675)	(508,232)
	Number of shares		
Weighted-average number of common shares outstanding	115,807,535.56		115,795,726.95

25. Subsequent Events

As of March 31, 2012

- (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, 2012, was approved at the annual general meeting of shareholders held on June 28, 2012:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends		
(¥20.00 (U.S.\$0.24) per share)	¥ 2,323	\$ 28,329

- (b) Merger agreement between the Company and its wholly owned subsidiary Nippon Paper Industries Co., Ltd.

At the meeting of the Board of Directors of the Company held on April 25, 2012, the Board passed a resolution approving the terms of a merger agreement whereby the Company will merge with the Company's wholly owned subsidiary, Nippon Paper Industries Co., Ltd. ("Nippon Paper Industries"), with Nippon Paper Industries being the surviving company.

(1) Objective of the merger

The Company was established as a holding company of Nippon Paper Industries and Daishowa Paper Co., Ltd. in March 2001. In April 2003, the Company organized its subsidiaries' businesses into the paper business and the paperboard business segments and reorganized its subsidiaries in accordance with such business segments, and the Company has until now worked to increase its corporate value as a holding company.

Regarding Nippon Daishowa Paperboard Co., Ltd. ("Nippon Daishowa Paperboard"), Nippon Paper-Pak Co., Ltd. ("Nippon Paper-Pak") and Nippon Paper Chemicals Co., Ltd. ("Nippon Paper Chemicals"), which are to merge with Nippon Paper Industries, each company has expanded its business in its respective industry and contributed profits to the entire Group. The importance of each company's business continues to increase. On the other hand, since the business environment surrounding the Group has changed rapidly (for example, due to the diversification of customer needs), there has been an increase in the overlapping business fields, customers and products, etc. among these companies, and as a result, it is becoming difficult under the current business framework for each company to respond to such changes promptly.

In addition, with respect to Nippon Paper Industries, which is responsible for the domestic paper business, as the core business of the Group, since there has been a decrease in domestic demand in the paper business that is expected to continue into the future, the Group faces the urgent need to expand in the areas where its businesses are growing, such as the packaging materials business, paper cartons business and biochemical business.

In light of the situation described above, the Company believes that it

should reconsider the current holding company system and merge the above-mentioned consolidated subsidiaries, the result of which will allow the resources of the entire Group to be allocated more promptly and efficiently than ever and the growth areas of the Group's businesses can be developed into the core businesses of the Group along with the domestic paper business.

The Group will rebuild the operational structure of its businesses promptly through the measures taken at this time and work to further increase its corporate value.

(2) Outline of the merger and the name of the merged company

Outline of the merger	An absorption-type merger with Nippon Paper Industries as the surviving company and the Company extinguished by dissolution
Merged company's name	Nippon Paper Industries Co., Ltd.

(3) Share allocation in the merger

1. Share allocation ratio

One common share of Nippon Paper Industries will be allotted and delivered in exchange for one common share of Nippon Paper Group.

2. Basis and background of calculation

With ensuring fairness and legitimacy as its first priority, the Company asked Mizuho Securities Co., Ltd. ("Mizuho Securities"), a third party institution, to analyze the impacts that the merger might have on the Company and outstanding common shares of the Company held by its shareholders, and it has received the results, etc. of such analysis. Taking the results of the analysis from Mizuho Securities fully into account, the Company and Nippon Paper Industries established the merger ratio shown above.

3. Shares of Nippon Paper Industries held by the Company

Shares of Nippon Paper Industries held by the Company will be shares of treasury stock held by Nippon Paper Industries at the effective time of the merger. As part of the merger, Nippon Paper Industries will allot and deliver all of such shares to Nippon Paper Group's shareholders (excluding Nippon Paper Group itself) in place of newly issued shares.

(4) Outline of merged company

Business Name	Nippon Paper Industries Co., Ltd. (Acquiring company)
Head office	1-4-1 Oji, Kita-ku, Tokyo
Name and title of representative director	Director and President Yoshio Haga
Main business	Manufacture and sales of paper such as newsprint, printing and writing paper, business communication paper, industrial paper and pulp
Capital (*1)	¥104,873 million (\$1,278,939 thousand)
Established	August 1, 1949
Total issued shares (*2)	116,254,892
Sales (*3)	¥467,342 million (\$5,699,293 thousand)
Net loss (*3)	¥46,945 million (\$572,500 thousand)
Net assets (*1)	¥216,533 million (\$2,640,646 thousand)
Total assets (*1)	¥1,270,034 million (\$15,488,220 thousand)
Accounting period	March 31

*1 As of March 31, 2012

*2 This number represents the number of shares after the consolidation of shares by Nippon Paper Industries as of April 24, 2012.

*3 As of the fiscal year ended March 31, 2012

(5) Merger date

April 1, 2013 (planned)

(6) Summary of accounting procedures

The merger falls under the category of a transaction under common control described in the “Accounting Standard for Business Combinations” (ASBJ Statement No.21, issued December 26, 2008) and “Guidance for Accounting Standard for Business Combinations” (ASBJ Guidance No.10, issued December 26, 2008).

(c) Merger agreement of Nippon Paper Industries, Nippon Daishowa Paperboard, Nippon Paper-Pak and Nippon Paper Chemicals.

At the meeting of the Board of Directors of Nippon Paper Industries held on April 25, 2012, the Board passed a resolution approving the terms of a merger agreement whereby Nippon Paper Industries will merge with the Company's wholly owned subsidiary Nippon Daishowa Paperboard Co., Ltd. (“Nippon Daishowa Paperboard”) and Nippon Paper Industries' wholly owned subsidiaries, Nippon Paper Pak Co., Ltd. (“Nippon Paper-Pak”) and Nippon Paper Chemicals Co., Ltd. (“Nippon Paper Chemicals”), with Nippon Paper Industries being the surviving company.

(1) Objective of the merger

The Company was established as a holding company of Nippon Paper Industries and Daishowa Paper Co., Ltd. in March 2001. In April 2003, the Company organized its subsidiaries' businesses into the paper business and the paperboard business segments and reorganized its subsidiaries in accordance with such business segments, and the Company has until now worked to increase its corporate value as a holding company.

Regarding Nippon Daishowa Paperboard, Nippon Paper-Pak and Nippon Paper Chemicals, which are to merge with Nippon Paper Industries, each company has expanded its business in its respective industry and contributed profits to the entire Group. The importance of each company's business continues to increase. On the other hand, since the business environment surrounding the Group has changed rapidly (for example, due to the diversification of customer needs), there has been an increase in the overlapping business fields, customers and products, etc. among these companies, and as a result, it is becoming difficult under the current business framework for each company to respond to such changes promptly.

In addition, with respect to Nippon Paper Industries, which is responsible for the domestic paper business, as the core business of the Group, since there has been a decrease in domestic demand in the paper business that is expected to continue into the future, the Group faces the urgent need to expand in the areas where its businesses are growing, such as the packaging materials business, paper cartons business and biochemical business.

In light of the situation described above, the Company believes that it should reconsider the current holding company system and merge the above-mentioned consolidated subsidiaries, the result of which will allow the resources of the entire Group to be allocated more promptly and efficiently than ever and the growth areas of the Group's businesses can be developed into the core businesses of the Group along with the domestic paper business.

The Group will rebuild the operational structure of its businesses promptly through the measures taken at this time and work to further increase its corporate value.

(2) Outline of the merger and the name of the merged company

Outline of the merger	An absorption-type merger method with Nippon Paper Industries as the surviving company, and each of Nippon Daishowa Paperboard, Nippon Paper-Pak and Nippon Paper Chemicals being extinguished by dissolution
Merged company's name	Nippon Paper Industries Co., Ltd.

(3) Share allocation in the merger

The surviving company, Nippon Paper Industries, and the absorbed company, Nippon Daishowa Paperboard, will be wholly owned subsidiaries of the Company immediately prior to the merger, and Nippon Paper-Pak and Nippon Paper Chemicals, absorbed companies, will be wholly owned subsidiaries of Nippon Paper Industries immediately prior to the merger. Thus, no share or other consideration will be delivered as part of the merger.

(4) Outline of merging companies

Business Name	Nippon Daishowa Paperboard Co., Ltd. (Acquired company)	Nippon Paper-Pak Co., Ltd. (Acquired company)	Nippon Paper Chemicals Co., Ltd. (Acquired company)
Head office	1-3 Kanda Sudacho, Chiyoda-ku, Tokyo	1-2-2 Hitotsubashi Chiyoda-ku, Tokyo	1-2-2 Hitotsubashi Chiyoda-ku, Tokyo
Name and title of representative director	Director and President Hironori Iwase	Director and President Tadasu Fukawa	Director and President Masami Yamaki
Main business	Manufacture and sales of containerboard, manila board, duplex board, other paperboard, base stock for building material, core base stock and paper	Manufacture and sales of liquid-packaging cartons, folding cartons, processed plastic products, filling machines and wrapping machines Purchase and sales of household products	Manufacture and sales of functional coating resins, functional film, dissolving pulp, functional chemical products
Capital (*1)	¥10,863 million (\$132,476 thousand)	¥4,000 million (\$48,780 thousand)	¥3,000 million (\$36,585 thousand)
Established	August 28, 1913	March 18, 1965	October 1, 2002
Total issued shares (*1)	179,483,599	8,000,000	60,001
Sales (*2)	¥144,539 million (\$1,762,671 thousand)	¥39,247 million (\$478,622 thousand)	¥35,364 million (\$431,268 thousand)
Net income (loss) (*2)	¥(1,526) million (\$18,610 thousand)	¥1,063 million (\$12,963 thousand)	¥2,825 million (\$34,451 thousand)
Net assets (*1)	¥36,750 million (\$448,171 thousand)	¥16,363 million (\$199,549 thousand)	¥19,700 million (\$240,244 thousand)
Total assets (*1)	¥200,088 million (\$2,440,098 thousand)	¥37,046 million (\$451,780 thousand)	¥39,151 million (\$477,451 thousand)
Accounting period	March 31	March 31	March 31

*1 As of March 31, 2012

*2 As of the fiscal year ended March 31, 2012

(5) Merger date

October 1, 2012 (planned)

(6) Summary of accounting procedures

The merger falls under the category of a transaction under common control described in the "Accounting Standard for Business Combinations" (ASBJ Statement No.21, issued December 26, 2008) and "Guidance for Accounting Standard for Business Combinations" (ASBJ Guidance No.10, issued December 26, 2008).

(d) Decrease in amount of capital reserve

At a meeting of the Board of Directors of Nippon Paper Group, Inc. held on May 15, 2012, the Board passed a resolution approving the submission of a proposal, concerning a decrease in the amount of capital reserve and transferring the amount of the decrease in capital reserve to other capital surplus, to the ordinary general meeting of shareholders scheduled for June 28, 2012. A resolution on the proposal was subsequently approved as follows.

(1) Purpose of decrease in the amount of capital reserve

The Company will reduce the amount of capital reserve under the provisions of paragraph 1 of Article 448 of the Companies Act and transfer the amount of decrease in capital reserve to other capital surplus with the aim of realizing a flexible and agile future capital policy.

(2) Outline of decrease in the amount of capital reserve

The Company's capital reserve of ¥328,962 million (\$4,011,732 thousand) as of March 31, 2012 will be reduced by ¥315,462 million (\$3,847,098 thousand) to ¥13,500 million (\$164,634 thousand). The amount of the decrease in capital reserve of ¥315,462 million (\$3,847,098 thousand) is planned to be transferred to other capital surplus.

(3) Schedule for the reduction of the amount of capital reserve

Date of resolution by the Board of Directors	May 15, 2012
Date of resolution by the general meeting of shareholders	June 28, 2012
Public notice on creditors' statement of an objection	July 18, 2012 (plan)
Deadline for creditors' statement of an objection	August 20, 2012 (plan)
Effective date of a decrease in capital reserve	August 21, 2012 (plan)

As of March 31, 2011

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	
Year-end cash dividends	
(¥20.00 per share)	¥ 2,323



Ernst & Young ShinNihon LLC
 Hibiya Kokusai Bldg.
 2-2-3 Uchisaiwai-cho
 Chiyoda-ku, Tokyo, Japan 100-0011
 Tel : +81 3 3503 1100
 Fax: +81 3 3503 1197

Independent Auditor's Report

The Board of Directors
 Nippon Paper Group, Inc.

We have audited the accompanying consolidated financial statements of Nippon Paper Group, Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2012, and the consolidated statements of operations, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nippon Paper Group, Inc. and its consolidated subsidiaries as at March 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matters

1. As described in Note 25 (b), at a meeting of the Board of Directors of Nippon Paper Group, Inc. held on April 25, 2012, the Board passed a resolution on a merger agreement whereby the Company will merge with the Company's wholly owned subsidiary, Nippon Paper Industries Co., Ltd., with Nippon Paper Industries Co., Ltd. being the surviving company.
2. As described in Note 25 (d), at a meeting of the Board of Directors of Nippon Paper Group, Inc. held on May 15, 2012, the Board passed a resolution approving the submission of a proposal for the decrease in the amount of the capital reserve and the transfer of the amount of the decrease in the capital reserve to other capital surplus to the ordinary general meeting of shareholders scheduled for June 28, 2012. The proposal was subsequently approved at said meeting.

Our opinion is not qualified in respect of these matters.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

June 28, 2012
 Tokyo, Japan

Ernst & Young ShinNihon LLC

Corporate Data



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Corporate Profile (As of March 31, 2012)

Company name:	Nippon Paper Group, Inc.
Head Office:	2-2, Hitotsubashi 1-chome, Chiyoda-ku, Tokyo 100-0003, Japan
Establishment:	March 30, 2001
Number of employees:	142 (non-consolidated) 13,407 (consolidated)
Capital:	¥55,730 million

Corporate history:

February 1873	Established Shoshi Kaisha
November 1893	Shoshi Kaisha changed its trade name to Oji Paper Company
June 1938	Established Kokusaku Pulp Co., Ltd.
September 1938	Daishowa Paper Manufacturing Co., Ltd., started operation.
November 1946	Established Sanyo Pulp Co., Ltd.
August 1949	Established Jujo Paper Co., Ltd., due to dissolution of Oji Paper
March 1972	Sanyo Pulp Co., Ltd., merged with Kokusaku Pulp Co., Ltd., into Sanyo-Kokusaku Pulp Co., Ltd.
April 1993	Jujo Paper Co., Ltd., merged with Sanyo-Kokusaku Pulp Co., Ltd., into Nippon Paper Industries Co., Ltd.
March 2001	Nippon Paper Industries Co., Ltd., and Daishowa Paper Manufacturing Co., Ltd., integrated management and established Nippon Unipac Holding
October 2004	Nippon Unipac Holding changed its trade name to Nippon Paper Group, Inc.

Domestic Network

Major Subsidiaries and Manufacturing Bases (As of April 1, 2012)



Pulp and Paper

Nippon Paper Industries Co., Ltd.

2-2, Hitotsubashi 1-chome, Chiyoda-ku, Tokyo
100-0003, Japan
Phone: +81-3-6665-1111, Fax: +81-3-3217-3001

Nippon Daishowa Paperboard Co., Ltd.

2-2, Hitotsubashi 1-chome, Chiyoda-ku, Tokyo
100-0003, Japan
Phone: +81-3-6665-5000, Fax: +81-3-3217-3200

Nippon Paper Crecia Co., Ltd.

2-2, Hitotsubashi 1-chome, Chiyoda-ku, Tokyo
100-8156, Japan
Phone: +81-3-6665-5300, Fax: +81-3-3212-6000

Nippon Paper Papylia Co., Ltd.

2-2, Hitotsubashi 1-chome, Chiyoda-ku, Tokyo
100-0003, Japan
Phone: +81-3-6665-5800, Fax: +81-3-3212-0550

NP Trading Co., Ltd.

2-2, Hitotsubashi 1-chome, Chiyoda-ku, Tokyo
100-8158, Japan
Phone: +81-3-6665-7032, Fax: +81-3-3217-3221

Paper-Related

NIPPON PAPER-PAK CO., LTD.

2-2, Hitotsubashi 1-chome, Chiyoda-ku, Tokyo
100-0003, Japan
Phone: +81-3-6665-5555, Fax: +81-3-3212-0605

Nippon Paper Chemicals Co., Ltd.

2-2, Hitotsubashi 1-chome, Chiyoda-ku, Tokyo
100-0003, Japan
Phone: +81-3-6665-5900, Fax: +81-3-3217-3280

Wood Products and Construction Related Other

Nippon Paper Lumber Co., Ltd.

2-2, Hitotsubashi 1-chome, Chiyoda-ku, Tokyo
100-8157, Japan
Phone: +81-3-6665-7500, Fax: +81-3-3217-3270

- 1 Kushiro Mill (Hokkaido)
- 2 Hokkaido Mill (Hokkaido)
- A Ashikawa B Yutotsu C Shirazi
- 3 Ishinomaki Mill (Miyagi)
- 4 Iwanuma Mill (Miyagi)
- 5 Nakoso Mill (Fukushima)
- 6 Fuji Mill (Shizuoka)
- 7 Iwakuni Mill (Yamaguchi)
- 8 Yatsushiro Mill (Kumamoto)

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

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

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

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

- 26 Yufutsu Works (Hokkaido)
- 27 Higashimatsuyama Works (Saitama)
- 28 Gotsu Works (Shimane)
- 29 Iwakuni Works (Yamaguchi)

SHIKOKU COCA-COLA BOTTLING CO., LTD.

1378 Kasuga-cho, Takamatsu, Kagawa
761-0197, Japan
Phone: +81-87-841-9191, Fax: +81-87-841-5292

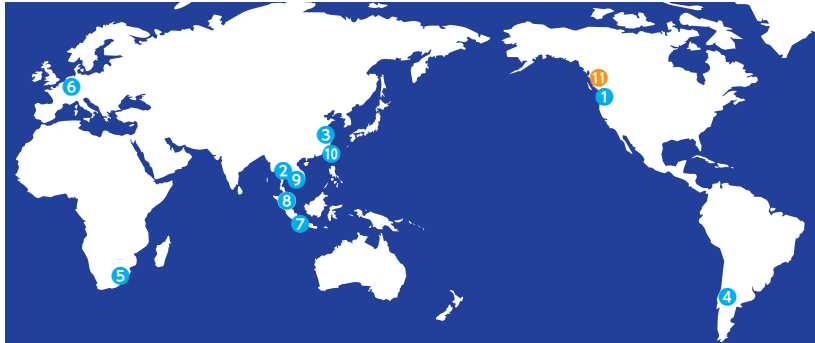
30 SHIKOKU COCA-COLA PRODUCTS CO., LTD. (Ehime)

Nippon Paper Development Co., Ltd.

9-5, Oji 1-chome, Kita-ku, Tokyo 114-8555,
Japan
Phone: +81-3-3914-6161, Fax: +81-3-3914-3706

Overseas Network

Overseas Branches and Offices (As of April 1, 2012)



Pulp and Paper

Nippon Paper Group, Inc.

1 Longview Office

P.O.Box 699, 3001 Industrial Way, Longview, WA 98632, U.S.A.

Tel : +1-360-636-6400

Fax : +1-360-423-1514

2 Bangkok Representative Office

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.

3 China Office

Room 2708, New Town Center, No. 83, Lou Shan Guan Road, Shanghai, 200336, China

Tel : +86-21-6145-3235

Fax : +86-21-6145-3237

4 Concepción Office

Cochrane 361, Concepción, Chile

Tel : +56-41-2-244300

Fax : +56-41-2-259541

5 Pietermaritzburg Office

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

6 Europe Office

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.

7 Jakarta Office

Nusantara Building 14th Floor, Ji.M.H. Thamrin No.59, Jakarta 10350, Indonesia

Tel : +62-21-3193-5434

Fax : +62-21-3193-5572

8 Malaysia Office

B-3A-26, Jalan Tropicana Selatan 1, Merchant Square, Petaling Jaya (Selangor) 47410, Malaysia

Tel : +60-3-7885-8990

Fax : +60-3-7880-8229

9 Hochiminh Office

Hochiminh Representative Office Unit 1001, 10Th Floor, ZEN PLAZA, 54-56 Nguyen Trai Street, District 1, Ho Chi Minh City VIETNAM

Tel : +84-8-3926-0358

Fax : +84-8-3926-0359

10 Taiwan Office

Taiwan Representative Office(Unified Business No.53014714)#2.10F No.77 Sec.2 Chunghua E.RD.Tainan Taiwan R.O.C

Tel : +886-6-335-0318

Fax : +886-6-290-6475

Wood Products and Construction Related

Nippon Paper Lumber Co., Ltd.

11 Vancouver Office

c/o Daishowa North America Corporation Suite 700-510, Burrard Street, Vancouver, B.C. V6C 3A8, Canada

Tel : +1-604-801-6146

Fax : +1-604-801-6658

Major Overseas Subsidiaries and Affiliates (As of April 1, 2012)



ASIA

1 Shanghai JP Co., Ltd.

173 Hongcao Road(S), Shanghai, 200233, China

Tel : +86-21-6408-9900

Fax : +86-21-6408-6677

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

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.

3 Shanghai office

Room 2709, New Town Center, No.83, Lou Shan Guan Road, Shanghai, 200336, China

Tel : +86-21-6145-3260

Fax : +86-21-6145-3237

4 Beijing office

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

5 Paper Products Marketing (Singapore) Pte. Ltd.

237 Alexandra Road #04-05 The Alexcier, Singapore 159929

Tel : +65-6220-2488

Fax : +65-6226-4483

6 Paper Products Marketing Pte. Ltd. (Malaysia Branch)

B-3A-26, Merchant Square, Jalan Tropicana Selatan 1, 47410 Petaling Jaya, Selangor, Malaysia

Tel : +60-3-7885-0583

Fax : +60-3-7885-0587

7 Paper Products Marketing (Hong Kong) Ltd.

Unit A&B 15/F Yue Hing Bldg., 103 Hennessy Rd, Wanchai, Hong Kong

Tel : +852-2528-6113

Fax : +852-2528-6066

8 Paper Products Marketing (Taiwan) Ltd.

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

9 San-Mic Trading Co., (H.K.) Ltd.

13/F, Yue Hing Building, 103 Hennessy Road, Wanchai, Hong Kong

Tel : +852-2504-5995

Fax : +852-2504-1953

10 San-Mic Trading Co., (S) Pte. Ltd.

#04-04/05 The Alexcier NO.237 Alexandra 159929, Singapore

Tel : +65-6222-0318

Fax : +65-6225-1978

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

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

12 San-Mic Trading Co., (Shenzhen) , Ltd.

Room 2811, 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

13 N.A.K. Manufacturing (M) Sdn. Bhd.

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

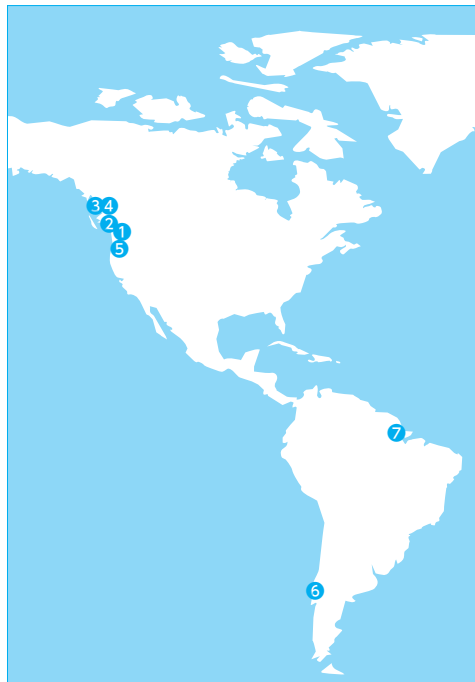
Fax : +60-3-9074-7889

Overseas Network



OCEANIA

- 1 South East Fibre Exports Pty. Ltd.**
P.O.Box 189, Jews Head, Edrom Road, Eden, N.S.W.
2551, Australia
Tel : +61-2-6496-0222
Fax : +61-2-6496-1204
- 2 Nippon Paper Resources Australia Pty. Ltd.**
Level 5,131 Queen Street, Melbourne,
VIC 3000,Australia
Tel : +61-3-9252-2700
Fax : +61-3-9642-2705
- 3 WA Plantation Resources Pty. Ltd.**
Level 2, 53 Victoria Street, Bunbury,
WA 6230,Australia
Tel : +61-8-9791-0700
Fax : +61-8-9791-9503
- 4 Paper Australia Pty. Ltd.**
307 Ferntree Gully Road, Mt Waverley, Victoria, 3149,
Australia
Tel : +61-3-8540-2300
Fax : +61-3-8540-2280
- 5 Paper Products Marketing Pty. Ltd.**
307 Ferntree Gully Road, Mt Waverley, Victoria, 3149,
Australia
Tel : +61-3-8540-2391
Fax : +61-3-8540-2292



NORTH AND SOUTH AMERICA

- 1 North Pacific Paper Corporation**
3001 Industrial Way, Longview,
WA 98632, U.S.A.
Tel : +1-360-636-6400
Fax : +1-360-423-1514
- 2 Nippon Paper Industries USA Co., Ltd.**
1815 Marine Drive, Port Angeles,
WA 98363, U.S.A.
Tel : +1-360-457-4474
Fax : +1-360-452-6576
- 3 Daishowa North America Corporation**
Suite 700-510 Burrard Street, Vancouver, B.C. V6C
3A8, Canada
Tel : +1-604-801-6628
Fax : +1-604-801-6658
- 4 Daishowa-Marubeni International Ltd.**
Suite 700-510 Burrard Street, Vancouver, B.C. V6C
3A8, Canada
Tel : +1-604-684-4326
Fax : +1-604-684-0512
- 5 Paper Products Marketing (USA) Inc.**
Suite 370, 4380 S.W. Macadam Avenue, Portland,
Oregon, 97239, USA
Tel : +1-503-227-6615
Fax : +1-503-222-6417
- 6 Volterra S.A.**
Cochrane 361, Concepción, Chile
Tel : +56-41-2-244300
Fax : +56-41-2-259541
- 7 Amapa Florestal e Celulose S.A.**
Rua Claudio Lucio Monteiro, S/N,
68925-000, Santana AP, Brazil
Tel : +55-96-3281-8024
Fax : +55-96-3281-8039



EUROPE

- 1 Jujo Thermal Oy**
P.O. Box 92, FI-27501 Kauttua, Finland
Tel : +358-10-303-200
Fax : +358-10-303-2419
- 2 Fröhlen-Reddemann GMBH**
Hellersbergstr.2. 41460 Neuss
Postfach 101247. 41412 Neuss, Germany
Tel : +49-21-31-16-98-0
Fax : +49-21-31-16-98-31



AFRICA

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

Stock Information (As of March 31, 2012)

Shares

Number of shares authorized to be issued: 300,000,000 shares

Number of shares issued: 116,254,892 shares
(Including 94,869 shares of treasury stock)

Number of shareholders: 69,290

Major Shareholders

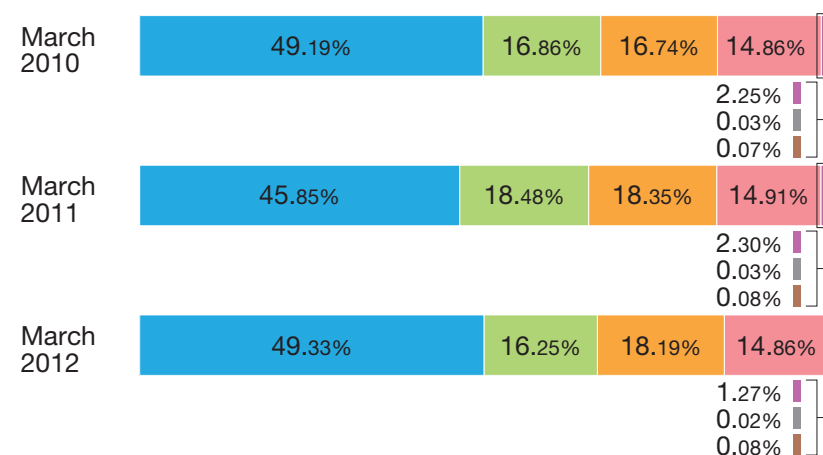
Name	Shares held (Thousand shares) ¹	Shareholding ratio (%) ²
Japan Trustee Services Bank, Ltd. (Trust Account)	12,027	10.35
The Master Trust Bank of Japan, Ltd. (Trust Account)	7,160	6.16
Nippon Life Insurance Company	3,434	2.96
Rengo Co., Ltd.	3,351	2.89
SSBT OD05 OMNIBUS ACCOUNT - TREATY CLIENTS	3,183	2.74
Nippon Paper Group, Inc., Employee Share Ownership	2,923	2.52
Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,697	2.32
Mitsui Life Insurance Company Limited	2,258	1.94
Mizuho Corporate Bank, Ltd.	2,195	1.89
Mizuho Bank, Ltd.	2,146	1.85

1. Amounts less than a thousand shares held are truncated.

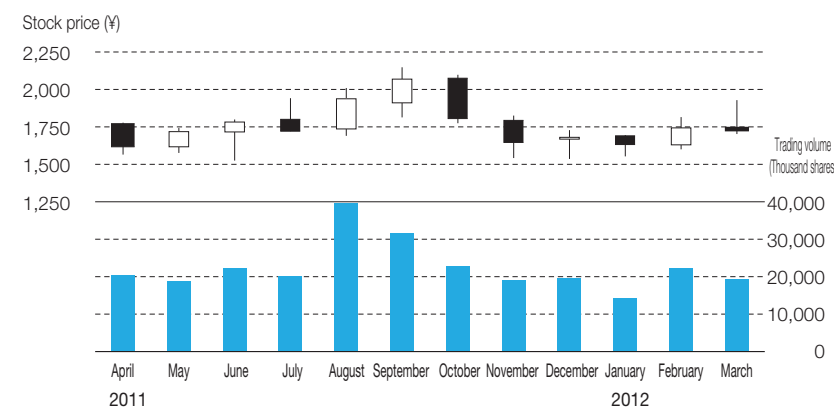
2. The shareholding ratio was calculated deducting treasury stock of 94,869 shares.

Share ownership by shareholder category

■ Financial institutions ■ Foreign investors ■ Individuals and others
■ Other domestic companies ■ Securities houses
■ National and local governments ■ Treasury stock



Stock price and trading volume trends

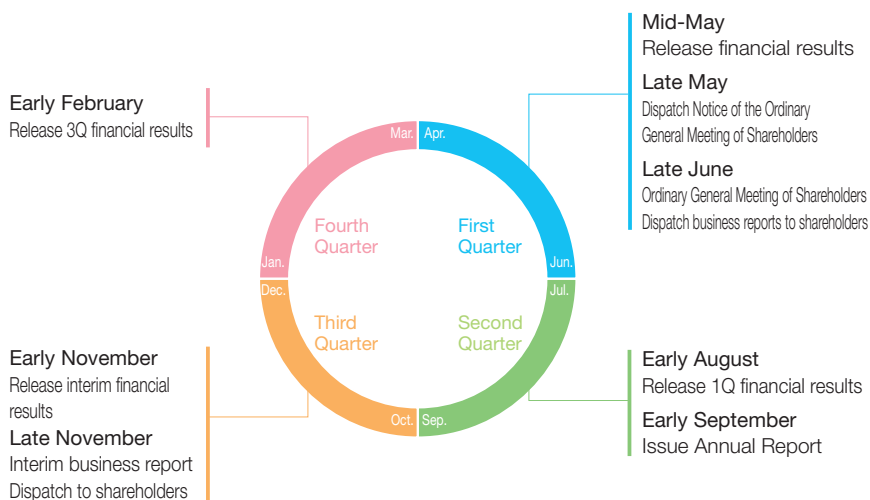


Investor Information

Company name	Nippon Paper Group, Inc.
Company code	3893
Listings	Tokyo Stock Exchange, Osaka Securities Exchange, and Nagoya Stock Exchange
Fiscal year	April 1 to March 31
Ordinary General Meeting of Shareholders Season of the meeting	Within three months of the day following the fiscal year-end
Register and transfer agent	Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan
Contact for inquiry and mailing address	Stock Transfer Agency Department Sumitomo Mitsui Trust Bank, Limited 8-4, Izumi 2-chome, Suginami-ku, Tokyo 168-0063, Japan Phone: 0120-78-2031 (Toll free in Japan)
Independent auditor	Ernst & Young ShinNihon LLC

IR calendar

*These schedules may change without notice.



IR Website

The Investor Information page of our Website includes various types of information that are useful for investment-related judgments such as the latest IR information and an archive of past releases. Visit:

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



IR Mail

Nippon Paper Group's latest press releases and Website updates are available via e-mail notices. You may subscribe to the e-mail notices by registering on our Investor Information page at our IR Website:

Registration:



Members to support restoration of the Nippon Paper Group Ishinomaki Mill

Commemorative ceremony for resumption of operation of the Ishinomaki N8 paper machine (September 16, 2011)

Banner: "We All Have Only One Wish. Move on at full charge, Nippon Paper Group Ishinomaki Mill!"

Cover: Esprit C Bulky W

160.0g/m²

Text: b7 Bulky 95.0g/m²

(Nippon Paper Industries Co., Ltd.)

The b7 Bulky used in the text pages of the Annual Report was developed and manufactured at the Ishinomaki Mill of Nippon Paper Industries Co., Ltd. That was the first paper produced following the damage from the Great East Japan Earthquake using the paper machine 8, the operation of which was first resumed at the Mill.

Corporate Planning Division, The Nippon Paper Group, Inc.

2-2, Hitotsubashi 1-chome, Chiyoda-ku, Tokyo 100-0003, Japan

Phone: +81-3-6665-1003, Fax: +81-3-3217-3003