



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

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

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

Nippon Paper Group, Inc.

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Rebuilding for the Future

NIPPON PAPER GROUP, INC.

Annual Report 2008

For the Fiscal Year Ended March 31, 2008



ANNUAL REPORT 2008

Nippon Paper Group, Inc.

Rebuilding for the Future

Straight! Steady! Speedy!

The Nippon Paper Group aims to be one of the top five pulp and paper groups worldwide.

Cautionary note regarding forward-looking statements

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

Publisher Nippon Paper Group, Inc. <http://www.np-g.com/e/>
Produced by No Limits, Inc.
Washi as Architecture by Eriko Horiki
Photos courtesy of ERIKO HORIKI & ASSOCIATES Co., Ltd.
© Zoom Inc. Satoshi Asakawa
cover, p.2, p.5, p.22-23, p.34, p.39, p.54, p.62, p.109

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*A Story of
Further Challenges and Innovations:
The Nippon Paper Group*

NIPPON PAPER GROUP, INC.



2015

Photo: A work from the ERIKO HORIKI: Prayers through Washi exhibition tour

Goals of Nippon Paper Group for 2015

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

Consolidated net sales

¥1.5–¥2.0 trillion

Consolidated operating income

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

Consolidated operating income to net sales

8%–10%

Business portfolio

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

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

Expand business in
three major markets

of Asia, North America, and Europe

Market capitalization

¥1 trillion

Operating cash flow

¥150 billion

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Photo: A work from the ERIKO HORIKI: Space Created with Two Sheets of Washi exhibition

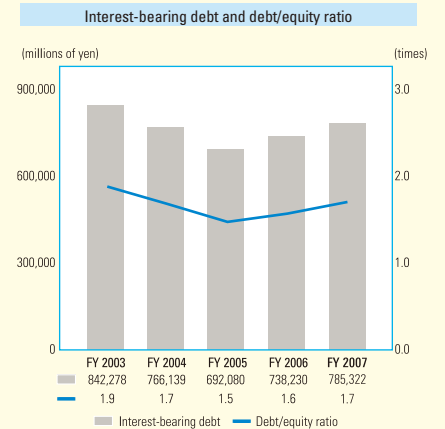
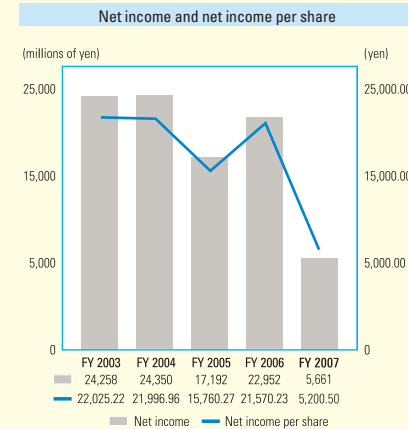
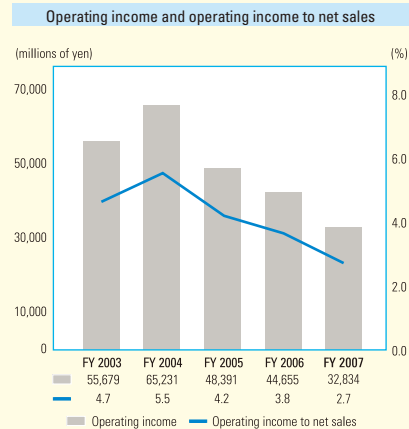
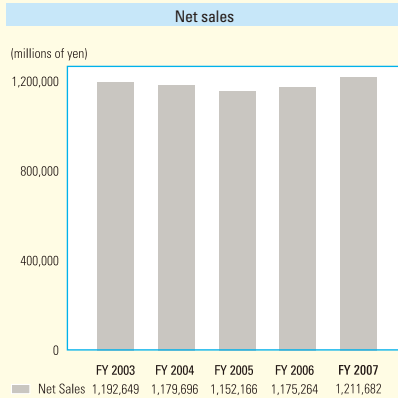
Consolidated Financial Highlights

Nippon Paper Group, Inc.

	Millions of yen		Thousands of US dollars ¹	
	Fiscal 2005 April 1, 2005 – March 31, 2006	Fiscal 2006 April 1, 2006 – March 31, 2007	Fiscal 2007 April 1, 2007 – March 31, 2008	Fiscal 2007 April 1, 2007 – March 31, 2008
Net sales	¥ 1,152,166	¥ 1,175,264	¥ 1,211,682	\$ 12,116,820
Operating income	48,391	44,655	32,834	328,340
Ordinary income	49,403	47,088	32,800	328,000
Net income	17,192	22,952	5,661	56,610
Total assets	1,492,427	1,565,978	1,625,571	16,255,710
Net Assets	462,639	470,521	479,758	4,797,580
Interest-bearing debt ²	692,080	738,230	785,322	7,853,220
		yen		US dollars
Net income per share	15,760.27	21,570.23	5,200.50	52.01
Cash dividends per share	8,000.00	8,000.00	8,000.00	80.00
Operating income to net sales (%)	4.2	3.8	2.7	
Return on equity (ROE) (%) ³	3.9	5.2	1.3	
Return on invested capital (ROIC) (%) ⁴	5.0	4.6	3.4	
Equity ratio (%)	29.5	28.6	28.0	
Return on assets (ROA) (%) ⁵	3.8	3.5	2.7	
Number of employees	12,798	12,584	13,666	

Note:

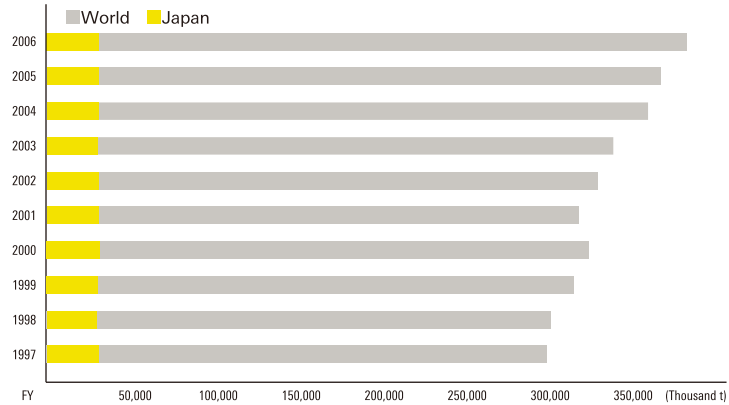
1. Amounts in US dollars are included solely for convenience and are translated at a rate of ¥100=U.S.\$1.00, the approximate rate of exchange on March 31, 2007.
2. Interest-bearing debt = Short-term borrowings + Long-term debt
3. Return on equity (ROE)
= Net income / Average shareholders' equity and valuation, translation adjustments and other × 100
4. Return on invested capital (ROIC)
= (Ordinary income + Interest expense) / (Shareholders' equity and valuation, translation adjustments and other + Interest-bearing debt) × 100
5. Return on assets (ROA) = (Ordinary income + Interest expense) / Total assets × 100



Pulp and Paper Industry Outline

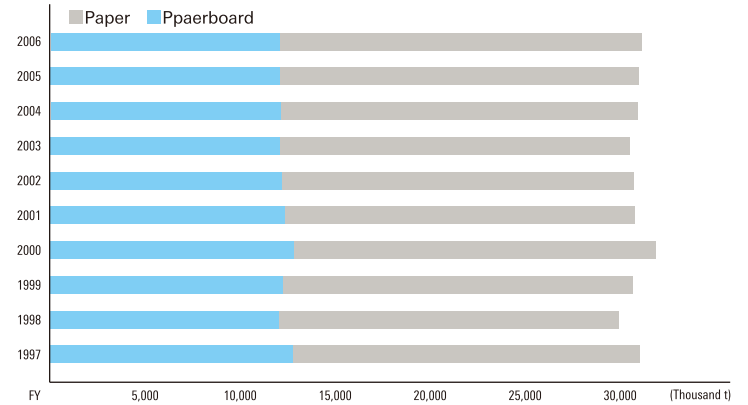
World and Japan Markets Outlines

World and Japan Markets Paper and Paperboard Production Trends



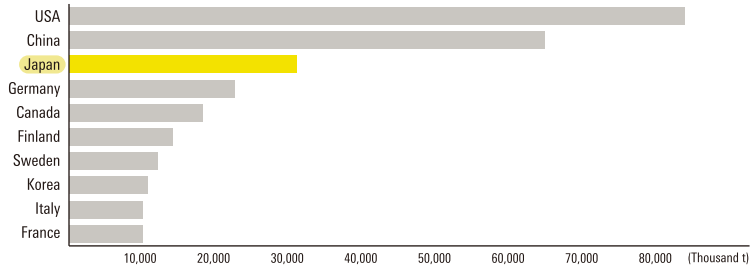
(Source:RIS)

Japanese Market Paper and Paperboard Production Trends



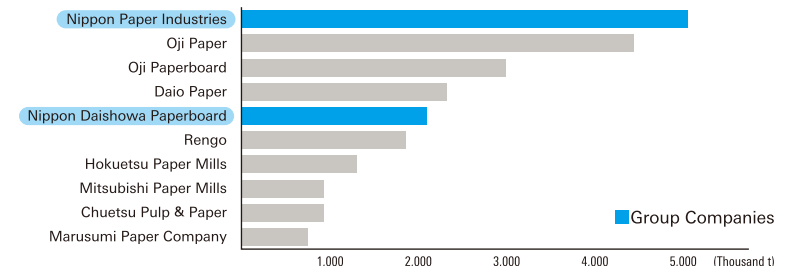
(Source:Ministry of Economy, Trade and Industry)

World Market Paper and Paperboard Production Volume (10 largest countries)



(Source:RIS)

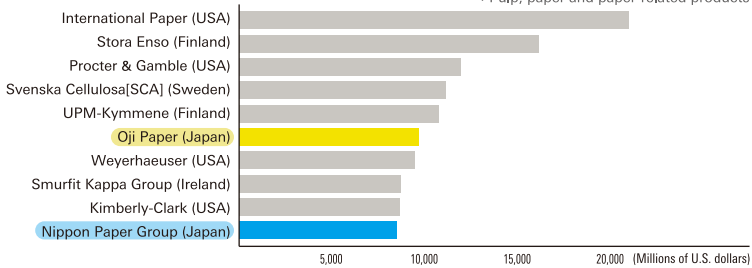
Japanese Market Paper and Paperboard Production Volume (10 largest companies)



(Source:Japan Paper Association)

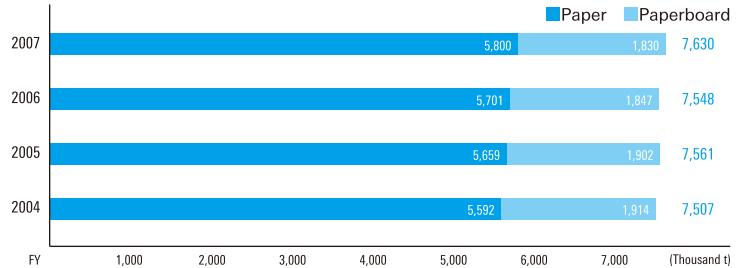
World Market Paper Companies Sales (10 largest companies)

* Pulp, paper and paper-related products



(Source:RIS)

Japanese Market Production Volume of Nippon Paper Group



Profile

Nippon Paper Group, Inc.

Nippon Paper Group is committed to doing business in ways that sustain today's lifestyles as well as the environment

Nippon Paper Group, Inc. is the holding company of the Nippon Paper Group encompassing 145 subsidiaries and 49 affiliates. Nippon Paper Group's businesses fall into one of four segments: The Pulp and Paper division manufactures and sells products such as paper, paperboard, household paper products, and pulp; the Paper-Related division manufactures and sells processed paper products and chemicals; the Housing and Construction Materials division manufactures and trades in lumber and other building materials; the Other division

covers the Group's interests in logistics, beverage bottling, leisure, power generation, and other areas. Of these, the Pulp and Paper division constitutes the Group's core business and accounts for the largest shares of sales and profits.

Nippon Paper Group, Inc. works to maximize on management and business resources to enhance group competitiveness and maintain sustained growth for the benefit of all stakeholders.

Pulp and Paper Division
» page 14

Paper-Related Division
» page 16

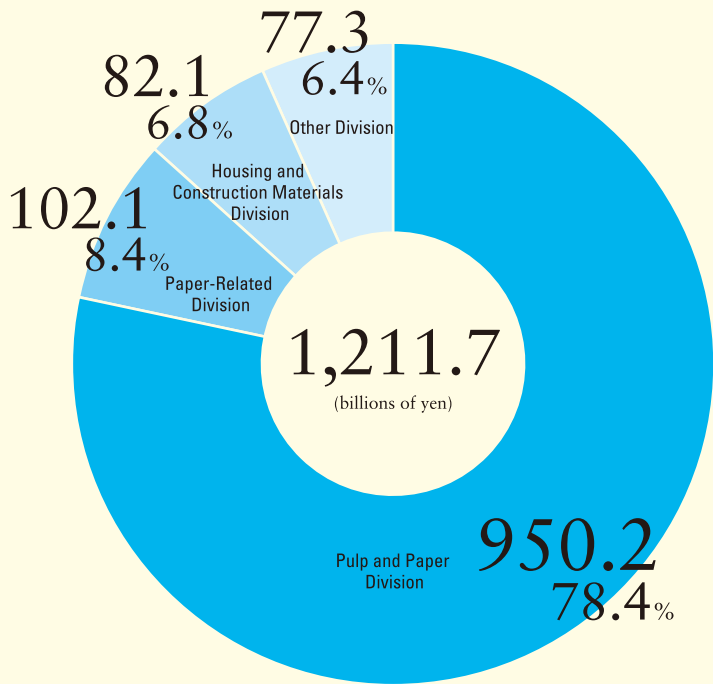
Housing and Construction Materials Division
» page 18

Other Division
» page 20

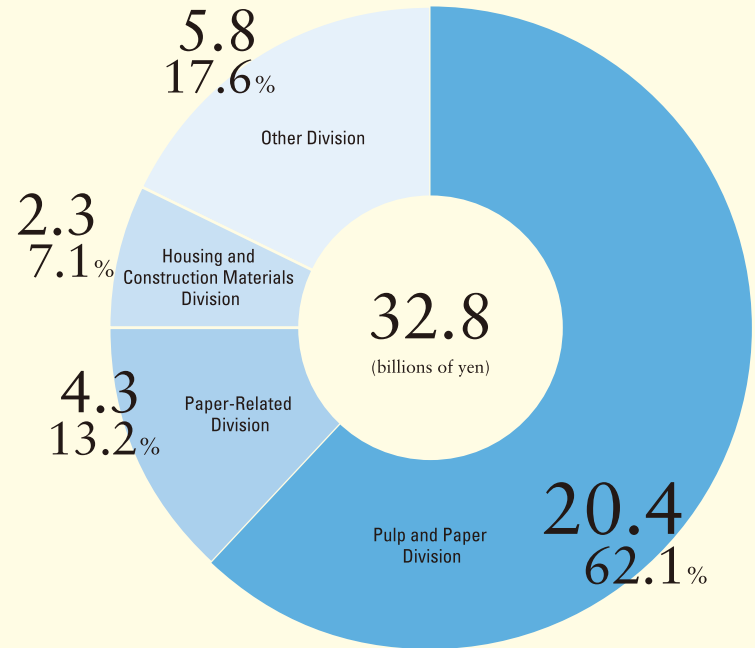


Wholesale power plant at Nippon Paper Industries' Kushiro Mill

Net Sales and Operating Income by Business Segment



Net sales by business segment in fiscal 2007



Operating income by business segment in fiscal 2007

Pulp and Paper Division



Paper

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



Paperboard

- » Containerboard
- » White board
- » Chip board
- » Base stock for building materials



Household paper products

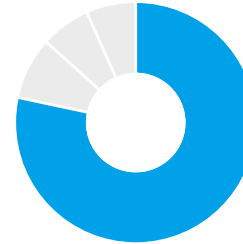
- » Facial tissue
- » Bathroom tissue
- » Paper towels
- » Diapers



Net sales ratio (Fiscal 2007)

78.4%

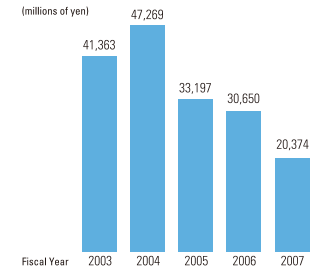
950.2
billions of yen



Operating Income

20.4

billions of yen
fiscal 2007



Consolidated Subsidiaries and Equity-method Affiliates

- Nippon Paper Industries Co., Ltd. » page 40
- Nippon Daishowa Paperboard Co., Ltd.* » page 42
- Nippon Paper Crecia Co., Ltd. » page 44
- Nippon Paper Papylia Co., Ltd.†
- NP Trading Co., Ltd. » page 46
- KOYO PAPER MFG. Co., Ltd.
- Kokuei Paper Co., Ltd.
- Kitakami Paper Co., Ltd.
- Daishowa North America Corporation
- Nippon Paper Industries USA Co., Ltd.
- KYODO PAPER HOLDINGS CO., LTD.‡
- North Pacific Paper Corporation §
- Daishowa-Marubeni International Ltd. §

* Merged and absorbed production subsidiaries Nippon Daishowa Paperboard Tohoku Co., Ltd., Nippon Daishowa Paperboard Kanto Co., Ltd., Nippon Daishowa Paperboard Yoshinaga Co., Ltd., and Nippon Daishowa Paperboard Nishi-Nippon Co., Ltd. on April 1, 2008

† Previously Mishima Paper Co., Ltd.; new trade name as of April 1, 2008

‡ Equity-method company; formed April 1, 2008, with the merger of Haga Kamihan (consolidated subsidiary until March 31, 2008) and Kawachiya Paper Co., Ltd.

§ Equity-method affiliates

Paper-Related Division



Processed paper products

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



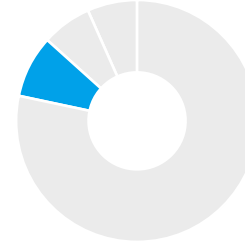
Chemical products and functional materials

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



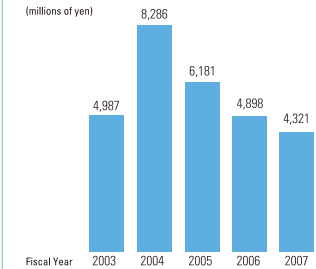
Net sales ratio (Fiscal 2007)

8.4%
102.1
billions of yen



Operating Income

4.3
billions of yen
fiscal 2007



Consolidated Subsidiaries and Equity-method Affiliates

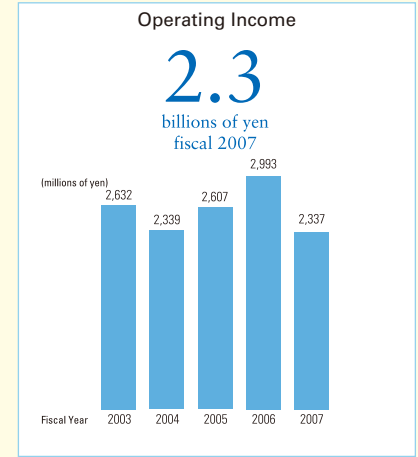
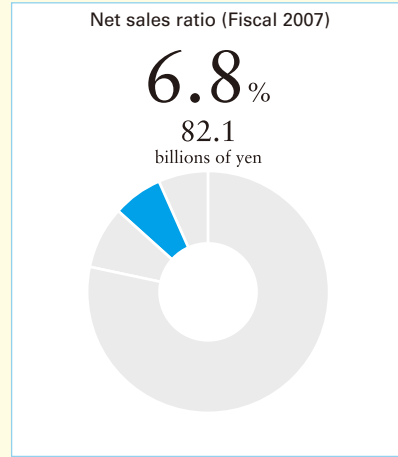
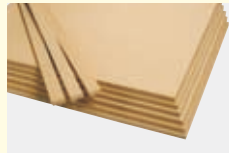
- NIPPON PAPER-PAK CO., LTD. » page 48
- Nippon Paper Chemicals Co., Ltd. » page 50
- Sakurai Co., Ltd.
- Nippon Seitai Corporation
- FLOWRIC CO., LTD.
- NIPPON TOKAN PACKAGE CO., LTD.*
- LINTEC Corporation*
- Daishowa Paper Converting Co., Ltd.*
- Dixie Japan Co., Ltd.*

* Equity-method affiliates

Housing and Construction Materials Division



- » Lumber
- » Construction materials
- » Civil engineering business



Consolidated Subsidiaries and Equity-method Affiliates

- Nippon Paper Lumber Co., Ltd. » page 52
- NIPPON PAPER UNITEC CO., LTD.
- Kokusaku Kiko Co., Ltd.
- Kunimoku House Co., Ltd.
- PAL CO., LTD.
- N&E CO., LTD.
- Daishowa Uniboard Co., Ltd.
- South East Fibre Exports Pty. Ltd.
- WA Plantation Resources Pty., Ltd.*

* Equity-method affiliates

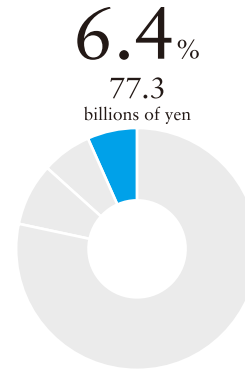
Other Division



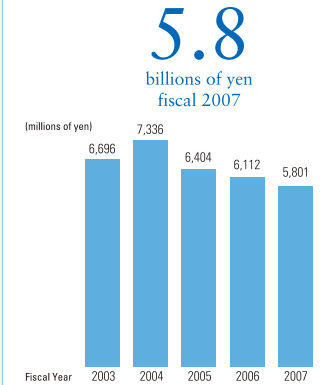
- » Beverages business
- » Warehousing and transportation businesses
- » Leisure business
- » Power generation business



Net sales ratio (Fiscal 2007)



Operating Income



Consolidated Subsidiaries and Equity-method Affiliates

NANKO UNYU CO., LTD.
 Kyokushin Transport Co., Ltd.
 NIPPON PAPER LOGISTICS CO., LTD.*
 Hotoku Co., Ltd.
 SHIKOKU COCA-COLA BOTTLING CO., LTD.
 SHIKOKU SAWAYAKA SERVICE CO., LTD.
 CANTEEN (SHIKOKU) CO., LTD.
 SHIKOKU CUSTOMER-SERVICE CO., LTD.
 DYNAFLOW CO., LTD.
 SHIKOKU COCA-COLA VENDING CO., LTD.
 SHIKOKU COCA-COLA PRODUCTS CO., LTD.
 Nippon Paper Development Co., Ltd.
 Graphic Arts Communication
 RESOURCES CO., LTD.†

* Integrated the operations of Daishowa Logistics Co., Ltd. (consolidated subsidiary until April 30, 2007) and Nihon Itagami Butsuryu Co., Ltd. (then unconsolidated subsidiary) on May 1, 2007 through joint absorption-type split, and Iwakuni-Kaiun Co., Ltd. (consolidated subsidiary until March 31, 2008) on April 1, 2008 through absorption-type split

† Equity-method company



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Photo: Another work from the ERIKO HORIKI: Prayers through Wasbi exhibition tour

To Our Shareholders



Yoshio Haga
President
Nippon Paper Group, Inc.

Fiscal 2007 was a year of severe challenges. Despite our best efforts at cutting costs, profits declined for a third consecutive year as fuel and raw-material prices rose to unprecedented levels. The difficulties were compounded by incidents that dealt a serious blow to public trust: violations of emission standards at some group mills, and discrepancies in wastepaper content in our recycled paper products.

On the positive side, the advanced paper machine N6 went into operation at our Ishinomaki Mill in November 2007. We also announced a group reorganization around the four core businesses of paper, paperboard/corrugated board, household paper products, and specialty paper. Under the outstanding leadership of former President (current Chairman) Masatomo Nakamura, who stressed the importance of speed in management, we made major progress in establishing the necessary business frameworks for achieving our Group Vision 2015 objectives. From a sales and marketing perspective, we resolved to raise prices for printing and business communication paper, and the hikes bore fruit, giving us confidence that the industry will be able to reflect higher input costs in product pricing.

In succeeding former President Nakamura, I assumed my post in a rapidly changing business environment and faced with numerous challenges. Yet we are making progress in converting to alternative energy, resulting in less use of heavy oil. We are steadily implementing other measures as well, including the restructuring of our paper production as exemplified by the Ishinomaki Mill N6 paper machine introduction. My primary task is to carry through with these on-going initiatives and tie them into improved earnings. With regard to the unfortunate actions that occurred at our group companies, I would like to take this opportunity to express my deep apologies, and to assure you that we are committed to preventing any recurrences by establishing the necessary organizational structures and insisting on full compliance while making steady efforts to win back the public trust.

Progress in the above areas will enable us to go on toward our goal of becoming one of the world's top five pulp and paper corporations. I am committed to implementing growth-oriented management, in which we expand the group's business and raise its potential by pursuing all kinds of possibilities and actively taking up opportunities. This management philosophy will be reflected in the upcoming Third Medium-Term Business Plan. With renewed awareness of our proper role as a corporate group that contributes to society through the papermaking craft, we intend to devote ourselves to maximizing our corporate value and thereby meeting the expectations of you, our shareholders.

Strategies and Initiatives

BUSINESS ENVIRONMENT

Surging Demand for Resources

Rapid economic growth in China and other emerging economies has set off a scramble for the world's resources in many fields. We in the paper industry are not spared from this competition.

For example, the global supply of woodchips, our main raw material, has tightened as a result of Russia's implementing a large increase in export taxes on raw timber as a means of promoting its domestic lumber processing industry. Wastepaper prices have risen in the domestic market, influenced by both growing demand in China and increased use among Japanese paper manufacturers. Further, prices for heavy oil and coal have soared to reflect future demand growth, partially as a result of speculation.

Confronted with these rapid rises in resource demand and fuel costs, the pulp and paper industry is facing strong headwinds.

Increasingly Mature Domestic Demand

Japan is the world's third-largest producer and consumer of paper. With the maturing of its economy, however, demand has tapered off, approaching zero growth in recent years.

As a Japanese pulp and paper manufacturer, we still consider the domestic market, with its large scale, to be a major market for our products. However, given the prospect of a future decline in population, we do not anticipate significant further growth here. It is therefore increasingly important that we take steps to deal with changing domestic demand patterns.



AMCEL afforested land

Growing International Competition

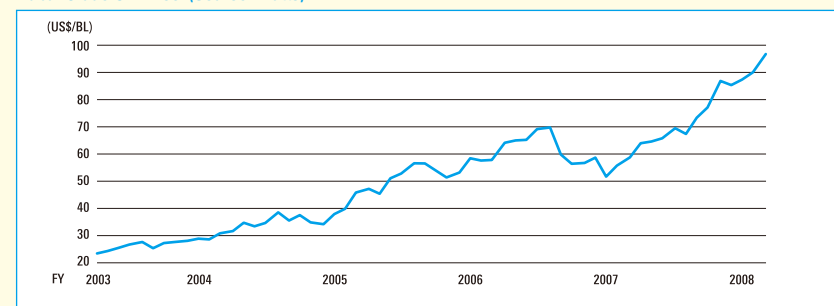
Faced with a maturing domestic market in a domestic demand-oriented industry, Japan's pulp and paper manufacturers are inevitably looking abroad for sources of new growth. Whereas competition was previously mostly between domestic manufacturers, going forward we will have to face off with overseas manufacturers in the competition for business opportunities.

As noted above, the struggle with overseas rivals is already under way in resource procurement. We are now looking ahead to an age of all-out global competition when the challenge extends to sales as well.

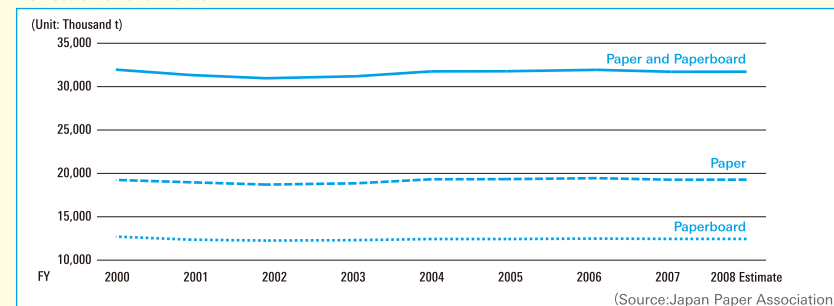
SECOND MEDIUM-TERM BUSINESS PLAN AND STRATEGIC ALLIANCES

The business environment for Japan's pulp and paper industry not only has been growing more difficult year-by-year but the trends show no signs of abating and are even likely to accelerate in the future. Our Second Medium-Term Business Plan is meant to deal with these challenges. It calls for concentrating investment in our core domestic businesses, and in carrying it out we have also been making decisive efforts to build strategic alliances.

Dubai Crude Oil Price (Source: Platts)



Domestic Demand Trends





N6 machine in the Ishinomaki Mill of Nippon Paper Industries

Second Medium-Term Business Plan

a. Scrap-and-build program for paper production facilities

We installed the advanced paper machine N6, with annual capacity of 350,000 tons, in the Ishinomaki Mill of Nippon Paper Industries Co., Ltd. The N6 started operation in November 2007 for commercial production of lightweight and ultra-lightweight coated papers. At the same time, we moved ahead with a large-scale scrapping of inefficient production equipment so as to boost productivity.

b. Moving towards oil-free operations

Over the three years from fiscal 2006 to 2008, we brought nine alternative energy boilers online in our domestic mills. In this way we are dramatically reducing our dependency on heavy oil, whose high cost has been putting pressure on profits, and are shifting to more economical alternative fuels.

These boilers also deliver environmental benefits to go along with the cost savings: They are helping us cut greenhouse gas emissions by reducing our output of fossil fuel-derived CO₂.

c. Working to conserve resources

We have added DIP (deinked pulp) equipment at four of our domestic mills to help us conserve resources by expanding wastepaper use.



Biomass boilers in the Ishinomaki Mill

Two Strategic Alliances

We have signed two strategic alliance agreements, in the paper and the paperboard fields, designed to help make our core businesses more competitive.

a. Paper business

The alliance with Hokuetsu Paper Mills, Ltd., formed in December 2006, will maximize on the potential of our large coastal mills. Collaboration in supplying one another with OEM product allows higher utilization rates of new production lines both companies have installed. The cooperation also extends to joint procurement of raw materials and technical exchanges.

b. Paperboard business

Formed with Rengo Co., Ltd. and Sumitomo Corporation in March 2007, our paperboard alliance brings highly complementary benefits. Whereas our operations remain in production of linerboard and corrugating medium, Rengo leads the packaging business with corrugated products. Encompassing the full range of containerboard products, the alliance promises to help boost profitability in the business areas it covers.

GROUP REORGANIZATION

As already described, we are taking a number of initiatives to strengthen our domestic core businesses. Given the increasingly difficult external business environment, however, we must become even more competitive. In October 2007, we drew up and announced a group reorganization plan focused on reordering of our production sites and clearly identifying the Group's core businesses.

These initiatives are designed to fully exploit our holding-company framework and to develop the Nippon Paper Group into one of the most profitable corporate groups that represents every main segment of the pulp and paper industry—paper, paperboard and corrugated products, household paper products, and specialty papers.

(1) Paper (Nippon Paper Industries Co., Ltd. [NPI])

On September 30, 2008, NPI's Fushiki Mill in Takaoka, Toyama Prefecture, will be closed. At the same time, the NPI Komatsushima Mill in Komatsushima, Tokushima Prefecture, will withdraw from the paper-making business.

(2) Paperboard (Nippon Daishowa Paperboard Co., Ltd. [NDB])

On April 1, 2008, NDB absorbed its four manufacturing subsidiaries (Nippon Daishowa Paperboard Tohoku Co., Ltd.; Nippon Daishowa Paperboard Kanto Co., Ltd.; Nippon Daishowa Paperboard Yoshinaga Co., Ltd.; and Nippon Daishowa Paperboard Nishi-Nippon Co., Ltd.) and repositioned them as mills. At the same time, the Kochi Mill was split off and transferred to Nippon Paper Papylia Co., Ltd.; while that company's Otake Mill was split off and merged with the Geibo Mill of Nippon Daishowa Paperboard Nishi-Nippon. The newly integrated entity then commenced operations as the NDB Otake Mill. Waki Works of this mill will be closed on September 30, 2008.

(3) Household paper products (Nippon Paper Crecia Co., Ltd.)

On April 1, 2008, Nippon Paper Crecia ceased being an NPI subsidiary and instead became a direct subsidiary of the holding company, Nippon Paper Group, Inc.

(4) Specialty papers (Nippon Paper Papylia Co., Ltd.)

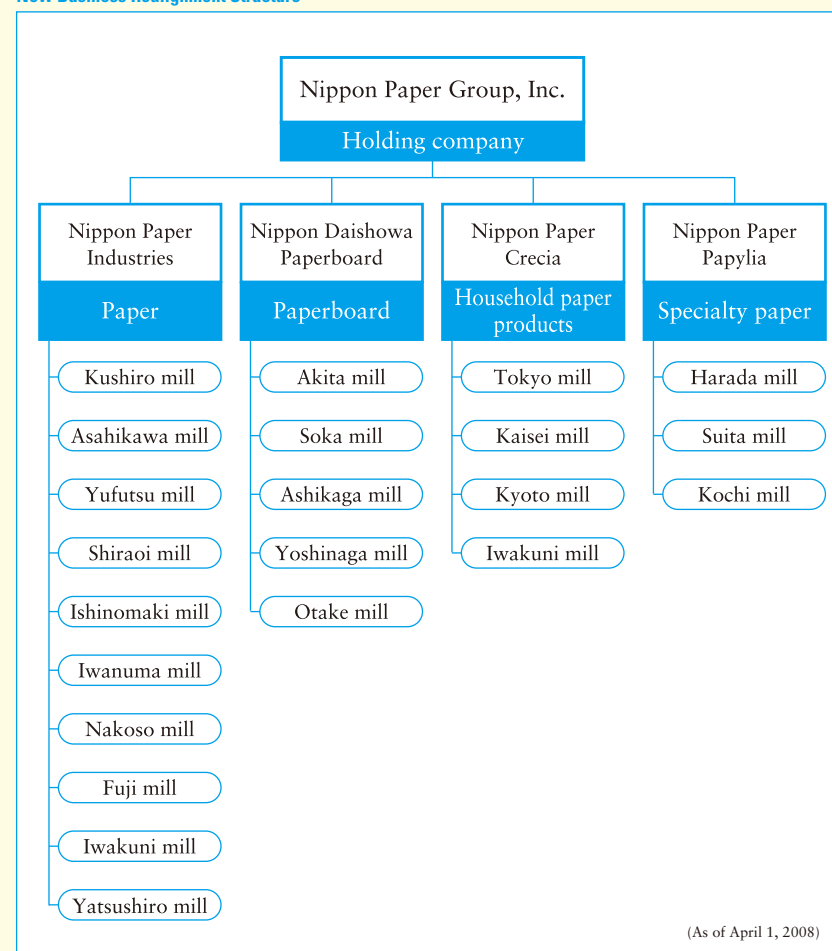
On February 1, 2008, Mishima Paper Co., Ltd. became a wholly owned group subsidiary through a share exchange.

On April 1, 2008, Mishima Paper then absorbed the NDB Kochi Mill, and its Otake Mill was transferred to NDB. Following these changes, Mishima Paper was renamed Nippon Paper Papylia Co., Ltd.

These reorganizational moves forced us to take a ¥9.765 billion restructuring charge for the year to March 2008. This includes ¥8.449 billion in asset impairments and a ¥1.316 billion charge for the closure of manufacturing subsidiaries in the Housing and Construction Materials segment and other factors.

Despite the one-time extraordinary charge, we believe that overall, these measures will improve our competitiveness in core business areas: We forecast a net positive impact of about ¥5.6 billion annually, accounted for by ¥3.9 billion in lower profit due to lost output from plant closings and withdrawal from the paper business, but gains of ¥3.8 billion thanks to improved efficiencies on production transfers to other mills or plants and ¥5.7 billion from savings in depreciation, labor costs, and other fixed costs.

New Business Realignment Structure



Paper production restructuring - Capacity (Unit: Thousands of t)

PM/Coater	Capacity	Coating
Ishinomaki N6	+350	+350
Ishinomaki 3	-50	
Ishinomaki 5	-50	
FCP30	-100	-100
FCP31	-70	-70
FCP32	-70	-70
Subtotal	+10	+110
Fushiki 4	-10	
Fushiki 5	-50	
Fushiki 6	-60	-50
Komatsushima 1	-60	
Waki 3	-10	
Waki 4	-40	-20
Subtotal	-230	-70
Total	-220	+40

- Shift product lineup to:
 - growth category
 - higher margin
- Raise operation rate overall
- Spread impact over the industry

Reduction by grade

Newsprint	-20
Uncoated	-70
Coated	-70
PPC	-40
Packaging etc.	-30
Total	-230

FURTHER ADVANCES ON THE WAY TO GROUP VISION 2015

Alongside the efforts to enhance competitiveness in our domestic core businesses, we have also moved to strengthen our ties with overseas partners who retain solid business bases in Asia, as we take steps toward full-scale involvement in overseas markets.

Alliance with Yuen Foong Yu Paper Manufacturing Co., Ltd. (YFY Paper)

In November 2007, we signed a memorandum of understanding on a business alliance with Taiwan's largest paper manufacturer, YFY Paper.

Discussing cooperation on paper sales, new business ventures, technical exchanges, and other collaborations, the partners will be taking specific measures leveraging their respective strengths. We will also forge focused cooperative relations to give us entry into the Taiwanese market as well as enable both companies to develop business in the Chinese market.

Alliance with SCG Paper PLC.

In February 2008, we concluded another memorandum of understanding on a comprehensive business alliance with SCG Paper, Thailand's largest paper producer.

We will be implementing plans for new business development, technical cooperation, and sales cooperation, aimed at expanding operations in Southeast Asia with its strong growth potential.

SCG Paper is responsible for the pulp and paper business in the Siam Cement Group, one of Thailand's leading business conglomerates. Having paper mills in the Philippines and Vietnam along with its mills in Thailand, the company is also developing a containerboard packaging business throughout Asia.

We intend to exploit these business bases to make a strong push into high-growth Asian markets.

Accomplishing Group Vision 2015

The Nippon Paper Group intends to make these business alliances into footholds for its expansion overseas. We are rolling out the initiatives described above to help us meet our targets for the long-term Group Vision 2015 announced in 2005. The specific targets are detailed in the charts below, with our major goal being to rank among the world's top five pulp and paper groups.

Also part of this vision is our commitment to coexisting with society as a company that practices sustainable manufacturing and contributes to society and culture through the supply of paper, an essential part of daily life.

Group Position in 2015

Consolidated net sales	¥1.5–¥2.0 trillion
Consolidated operating income	Stable domestic operating income of ¥100 billion, plus operating income from overseas business
Consolidated operating income to net sales	8%–10%
Business portfolio	Domestic business to account for 70% and overseas business for 30%
	Pulp and paper business to account for 70% and non-pulp and paper business for 30%
	Expand business in three major markets of Asia, North America, and Europe
Market capitalization	¥1 trillion
Operating cash flow	¥150 billion

Road Map to 2015

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

FEATURE 2008

35 Paper Machine N6 and Moving to Overseas Markets

Photo: A work from the ERIKO HORIKI: Space Created with Two Sheets of Washi exhibition

Paper Machine N6 and Moving to Overseas Markets

From Ishinomaki to the World



Ishinomaki Mill

Built to Compete Internationally

Nippon Paper Industries' Ishinomaki Mill, a key facility underpinning the group's pulp and paper business, is sited in a logistically ideal location and boasts a well-developed operations infrastructure.

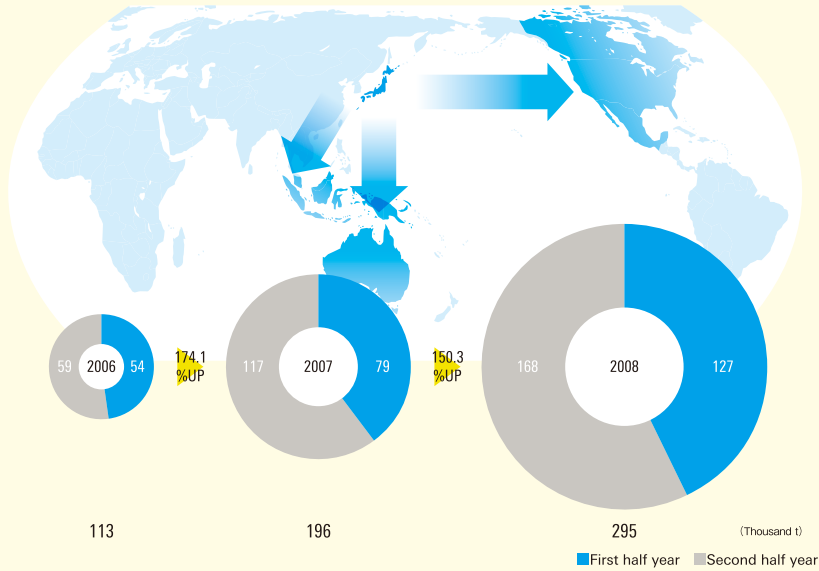
With competition moving to the international stage as called for in the Second Medium-Term Business Plan, we have made a major investment in further upgrading the Ishinomaki Mill. A biomass boiler went into service in October 2006; then in November 2007, the state-of-the-art paper machine N6 started operation, expanding the site's annual capacity to 1.2 million tons. Besides enabling the company to maintain dominance in the domestic market, this facility is an important first step toward realizing our overseas ambitions. It will play a central role as we expand export sales and make a serious push into overseas markets.

Steady Expansion of Export Sales

Coated paper is one of our strategic products. Exports of it have been steadily expanding since we brought the paper machine N6 on stream. For the current fiscal year, we plan to achieve a 50% year-on-year increase to approximately 300,000 tons.

Overseas markets being targeted include Asia, with its strong growth potential, and

Nippon Paper Group Coated Paper Export Trends



the rest of the Pacific Rim, encompassing the North American west coast and Oceania. We plan to establish a footing in these markets and are steadily doing more and more business in them.

Going after Overseas Markets

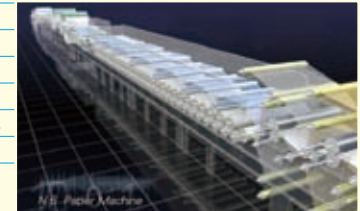
Developing a customer base is essential for expanding business overseas. We recognize the importance to that end of raising awareness of our brand in local markets and of ensuring a stable flow of products to win recognition as a reliable supplier. We therefore see expansion of export sales as only the first step toward making a full-scale overseas push.

Profile of the NPI Paper Machine N6

1. Components and their manufacturers

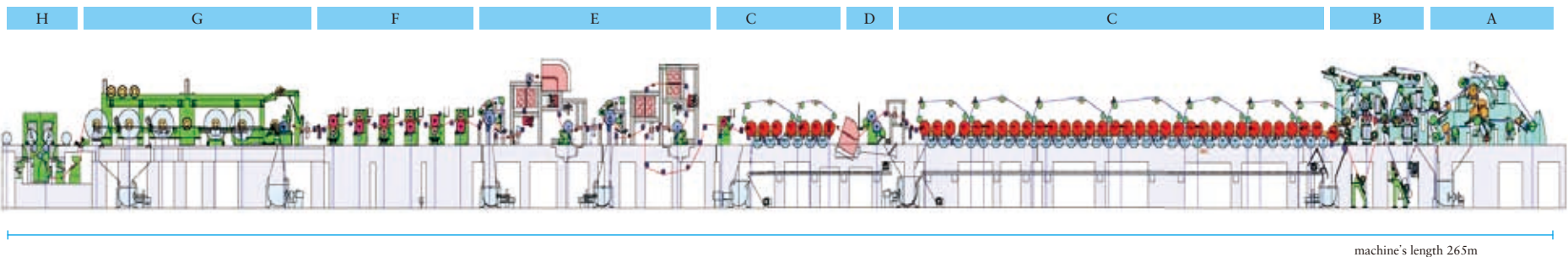
A. Forming section:	Metso Paper	Gap Former
B. Press section:	Voith Paper IHI	Tandem Shoe Press
C. Dryer section:	Metso Paper	All Single Deck Dryer
D. Sizing section:	Metso Paper	Film Coater
E. Coating section:	Voith Paper IHI	VariDwell Coater
F. Calenders:	Yodogawa Steel Works	Hot Soft Nip Calender x6
G. Reel:	Metso Paper	Center Winding Reel
H. Winders:	Metso Paper	Single Drum type x2
I. Automatic Roll Wrapping Machine:	Kawanoe Zoki	Automatic Transport System

- 2. Wire width: 9,450mm
- 3. Design speed: 1,800m/min
- 4. Grade: LWC
- 5. Capacity: 1,005t/24h
- 6. Basis weight: 51.2~79.1g/m²
- 7. Trim width: 8,416mm



N6 Machine

Our first priority will be to aim for a certain market share. Once that has been accomplished, we plan to establish production sites in optimal locations, considering the entire supply chain from raw-material procurement to product consumption, while also taking country risk into account.



News Releases

The following is a list of news items relevant to our feature article that were released between June 2007 and June 2008.

2007

June 21	NPI and RITE jointly develop a method for mass propagation of pine from cuttings
July 10	NPI admits Air Pollution Control Law violations in past fiscal years
July 30	NPG announces allocation of treasury shares to third party
August 13	NP Trading concludes merger agreement with Mantsune Corporation
August 28	NPI concludes share transfer agreement for Asahikawa Grand Hotel
September 10	Nippon Paper Chemicals switches from heavy oil to town gas at Higashimatsuyama Works
October 3	SGEC accredits all NPG-owned forests in Japan (90,000 hectares)
October 24	NPG and Mishima Paper agree to share swap and business reorganization
October 24	NPG announces business realignment
November 21	NPG signs memorandum of understanding on business alliance with Yuen Foong Yu Paper of Taiwan
December 4	NPI launches NEXT-IJ, a new product in its NPi Form line
December 21	NPI acquires naming rights for Miyagi Baseball Stadium, renames it Kleenex Stadium Miyagi

2008

February 4	NPG signs memorandum of understanding on business alliance with SCG Paper of Thailand
March 26	NPI issues report on substandard recycled pulp content, environmental and CSR initiatives
March 26	Nippon Daishowa Paperboard begins recycling confidential documents at Soka Mill
April 7	NPI and Nippon Daishowa Paperboard announce price increases for printing and business communication paper, and high-end paperboard
April 10	Nippon Paper Chemicals starts feasibility study on biomass ethanol production with Cosmo Oil Co., Ltd.
April 28	NPG announces extraordinary loss in conjunction with business realignment
April 30	NPI commits to implementing system for controlling recycled pulp content
May 23	NPG announces stock split, amendment of associated Articles of Incorporation, and switch to unit stock system
May 28	NPG revises upward targets for global warming mitigation program in Green Action Plan 2010
June 17	Nippon Daishowa Paperboard announces price increases for containerboard and coated boxboard

* Visit our website at <http://www.np-g.com/e/news/index.html> to view full news releases.

MAJOR SUBSIDIARY PROFILES

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Nippon Paper Industries Co., Ltd.



Ishinomaki Mill



Yoshio Haga

Yoshio Haga President

Business environment

Domestic paper shipments were mostly unchanged in fiscal 2007, while exports, led by coated paper, showed a large increase. This kept overall trends solidly on the plus side.

Nonetheless, the industry faced an extremely difficult environment: Prices for wastepaper and wood chips, our main raw materials, continued to climb as global supply tightened, and skyrocketing oil prices, in particular, pushed up not only fuel costs but those of chemicals and other inputs as well.

Company strengths

Located in seafront areas, our main mills enjoy competitive advantages in logistics when shipping product and taking delivery of raw material and fuel, which are highly import-dependent.

Most of our products have captured the top domestic market share in their respective categories. As an industry leader,



NIPPON PAPER INDUSTRIES CO.,LTD.

Nippon Paper Industries Co., Ltd.

Established	August 1, 1949
Paid-in Capital	¥ 104,873 million
Web Site	http://www.np-g.com/e/
Representative	President Yoshio Haga
Principal Products	Newsprint Paper for printing and publishing Business communication paper Packaging paper Paper for miscellaneous uses

Fiscal 2007 Net Sales ¥ 663.2 billion (including intercompany sales)

we boast a powerful brand, along with the manufacturing technology and product development capabilities to meet diverse needs.

Review of fiscal 2007

Sales volume increased year-on-year in fiscal 2007, with copier paper strong domestically and coated paper driving exports.

Profits, on the other hand, were heavily impacted by costs. Despite our best efforts to reduce costs, and although we were unprecedentedly successful in raising prices to reflect cost increases, we were unable to keep up with soaring raw material and fuel costs, resulting in year-on-year declines in both operating and net profit.

Outlook

High raw material and fuel costs are likely to continue their downward pressure on profits in fiscal 2008. The outlook for the domestic economy is also fraught with uncertainty. We therefore expect the environment to remain a difficult one for business.

In response to these challenges, we will continue our shift to alternative fuels to further reduce energy costs, revise our production setup (including scrapping facilities as needed), and aggressively institute other cost-cutting measures.

At the same time, we intend to pass further increases in input costs on to customers so as to secure profit margins commensurate to the added value we create.

Nippon Daishowa Paperboard Co., Ltd.



Soka Mill



N. Otsuki

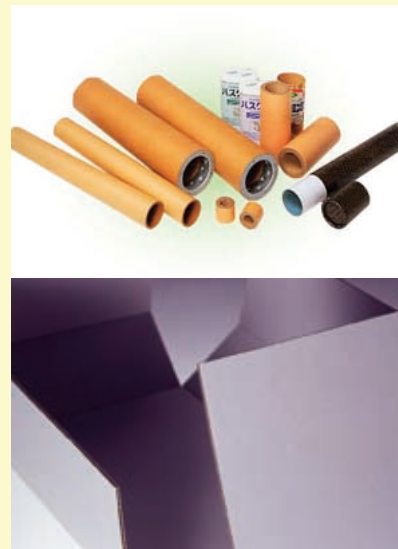
Nobuyuki Otsuki President

Business environment

Paperboard's essential role in wrapping and packaging is likely to continue well into the future. It is made largely from recycled fiber, giving it ideal waste-management and resource-recycling attributes as well. Although we do not anticipate strong demand growth in Japan, we believe overall demand will remain stable.

In fiscal 2007, the general trend toward reduced packaging led to a 0.2% year-on-year overall decline in domestic paperboard shipments despite steady demand for containerboard used for packaging beverages and processed foods and flat-screen televisions.

On the cost side, profits are under considerable pressure from the high prices of wastepaper and fuel oil. These and other input prices are expected to remain high, making for a difficult long-term business environment.



Company strengths

Nippon Daishowa Paperboard sells quality products ranging from containerboard to cartonboard and gypsum board liner manufactured at five production sites nationwide. Of these, three mills have good access to the Kanto region, a mega-consuming area as well as a mega-supply base for wastepaper, our main raw material; the other two mills are located in the northeastern- and the western-most regions of Japan. The location of our mills offers logistical advantages for serving customers throughout the country.

Performance in fiscal 2007

Under pressure from serious cost inflation, we worked hard to raise yields and efficiency by improving operations and accelerating investment in energy- and labor-saving projects. We also raised prices for our main products in September. We were nevertheless unable to keep up with continued input-price increases and posted a pre-tax loss for the fiscal year.



NIPPON DAISHOWA PAPERBOARD CO., LTD.

Nippon Daishowa Paperboard Co., Ltd.

Established	August 28, 1913
Paid-in Capital	¥ 10,864 million
Web Site	http://www.nichidaiita.co.jp
Representative	President Nobuyuki Otsuki
Principal Products (applications)	Containerboard (liner and corrugating medium) Cartonboard (folding boxes, cardstock, and publishing and advertising materials) Other paperboard (gypsum board liner and paper core)

Fiscal 2007 Net Sales ¥ 162.3 billion (including intercompany sales)

Outlook

In line with Nippon Paper Group's business realignment plan, as of April 1, 2008, Nippon Daishowa Paperboard merged its four manufacturing subsidiaries and acquired Nippon Paper Papyrus Co., Ltd.'s Otake Mill; in return, Nippon Paper Papyrus took over Nippon Daishowa Paperboard's Kochi Mill and incorporated it into its operations. We now operate under a more-efficient structure consisting of five production sites across Japan in Akita, Ashikaga, Soka, Yoshinaga, and Otake.

Input costs are expected to remain high indefinitely. To minimize the impact of soaring oil prices, we put new alternative energy boilers into operation at the Akita Mill and the Yoshinaga Mill in spring 2008 and plan to launch another at the Otake Mill by spring 2009. Besides continued efforts to reduce costs at each mill, we intend to raise prices as necessary to pass on higher input costs and return to profitability.

Nippon Paper Crecia Co., Ltd.



NIPPON PAPER CRECIA CO.,LTD.

Nippon Paper Crecia Co., Ltd.	
Established	April 2, 1963
Paid-in Capital	¥ 3,067 million
Web Site	http://www.crecia.co.jp
Representative	President Kazuhiro Sakai
Principal Products	Facial tissue Bathroom tissue Paper towels Pre-moistened wipes Healthcare products Industrial-use wipes Professional safety products
Fiscal 2007 Net Sales	¥ 61.2 billion (including intercompany sales)



Kazuhiro Sakai President

Business environment

Soaring prices for raw materials and fuel worldwide have driven up costs in the household tissue industry. Given the need to pass these higher costs on to consumers, companies have attempted to bring prices into line with actual production costs. Despite such obstacles as price freezes initiated by major volume retailers and the increase in low-price private brand products, appreciation for the necessity of a price correction has steadily gained ground, paving the way for phased price increases.

Although shipments of sanitary paper in 2007 were down 1.1% due to higher prices, the price increases have gradually taken hold, resulting in a 3.2% rise in sales by value.

Company strengths

We handle the two global brands Kleenex® and Scottie® through an alliance with Kimberly-Clark Corporation and have continued to grow by leveraging our high level of technological expertise and product

quality. The alliance was further enhanced in December 2007 when we acquired Japan marketing rights to Kimberly-Clark's technologically advanced products for professional safety.

Our manufacturing sites are located in the major consuming areas of metropolitan Tokyo and Kansai, giving us advantages over our competitors in logistics costs and flexibility.

Performance in fiscal 2007

The company returned to profitability in fiscal 2007 thanks to measures such as the optimization of our production framework from a logistics perspective, major revisions to our distribution system, and reduction in energy costs by shifting to more economical fuels. During the year we raised product prices twice, launched new products, and strengthened the relationship with our distributors by proposing a more environmentally viable logistics system. These actions resulted in net year-on-year revenue

growth of 10.6% on a mere 2.6% rise in sales by volume due to price increases.

To raise our corporate image and boost brand identity, we obtained the naming rights to the Miyagi baseball stadium in Sendai, which we renamed Kleenex Stadium Miyagi in January 2008.

Outlook

With no end in sight to rising fuel and raw-material costs, we are continuing our work to bring prices into line with production realities. Though price corrections are gradually taking hold as noted above, product prices have nevertheless not risen to the desired levels, forcing us to announce additional price increases in spring 2008.

In fiscal 2008, we became a direct subsidiary of the Nippon Paper Group, Inc. As a core operating company of the group, we are committed to improving our fundamentals to achieve stable profitability.

NP Trading Co., Ltd.



Toshio Yamamoto

Toshio Yamamoto President

Business environment

Through recent mergers, with Komine Nissho Co., Ltd. in April 2006 and then with Mantsune Corporation in October 2007, we have expanded into a trading company doing annual business worth some ¥300 billion. With consolidation progressing among other major trading firms as well, an efficient supply chain for paper products is taking shape. The markets have largely accepted the price increases announced by manufacturers in 2007, and further advances in distribution efficiency can be expected as distributors improve in performing their functions.

Company strengths

NP Trading operates in line with group sales strategies, distributing products manufactured by the Nippon Paper Group, notably paper and paperboard and converted and functional paper, along with chemicals, liquid crystal materials, and housing materials.



NP TRADING CO., LTD.

NP Trading Co., Ltd.

Established	July 11, 1979
Paid-in Capital	¥ 1 billion
Web Site	http://www.np-t.co.jp/index-e.html
Representative	President Toshio Yamamoto
Principal Products	Printing and publication paper/ Business communication paper/ Newsprint/ Packaging paper/ Specialty papers/ Containerboard/ Whiteboard/ Base paper for decorative laminates/ Base paper for copper clad laminates/ Cup stock/ Special functional papers/ Special functional films/ Packaging films/ Chemicals, mineral products and machinery for pulp and paper production/ Pulp and waste paper/ CMC, lignin and yeast extract/ Fuel oil and RPF/ Converting machines for resin and films/ Housing materials/ Industrial materials
Fiscal 2007 Net Sales	¥ 277.6 billion (including intercompany sales)

We also operate as a specialty dealer for the whole paper industry, offering a diverse range of products covering pulp, wastepaper, industrial chemicals, packaging film, equipment, and other raw materials and supplies.

Given the growing importance of overseas markets, especially those in Asia, we have been working to enhance our sales network abroad. Augmenting those in Hong Kong, Singapore, Jakarta, Kuala Lumpur, and Bangkok, in 2007 we established a new affiliate in Shenzhen Province, China.

Performance in fiscal 2007

Net sales grew 8.4% and ordinary profit rose 17.9% year-on-year during fiscal 2007 (combined results for merged companies), helped by the business expansion from mergers and by improved operational efficiency.

Outlook

In fiscal 2008, besides continuing to benefit from mergers, we will be thoroughly reviewing our operational functions in search of improved corporate capabilities. NP Trading will do its utmost to further enhance its sales force in a wide range of fields, raising its profile as the core trading company in the Nippon Paper Group.

NIPPON PAPER-PAK CO., LTD.



NIPPON PAPER-PAK CO., LTD.

NIPPON PAPER-PAK CO., LTD.

Established	March 18, 1965
Paid-in Capital	¥ 4 billion
Web Site	http://www.nipponpaper-pak.com
Representative	President Tadasu Fukawa
Principal Products and Services	Liquid-packaging cartons Filling machines and maintenance services Paper containers Film for food packaging Film for industrial packaging

Fiscal 2007 Net Sales ¥ 46.3 billion (including intercompany sales)



T. Fukawa

Tadasu Fukawa President

Business environment

Faced with a low birth rate and an aging population, Japan is set to go through a period of population decline, and overall demand for food and drink products is already falling. Among beverages, mineral water and tea drinks are showing growth; but milk and alcoholic drinks are in the midst of a long-term slump.

In beverage packaging, demand for PET bottles continues to grow while that for cans and glass bottles is falling; paper-carton demand is holding steady.

The price of imported milk carton board has continued to rise since 2005, increasing more than 30% over the past three years to negatively impact profits at beverage carton suppliers.

Company strengths

As the sole distributor in Japan for Shikoku Kakoki Co., Ltd., a food packaging machinery manufacturer boasting world class-technology, we provide full services

to meet beverage-industry needs. We not only sell the filling machines, but also supply carton blanks and other packaging materials, and further maintain the total packaging systems we offer: NP-Pak systems (for chilled distribution) and NS-Fuji Pak® systems (for ambient-temperature distribution).

Performance in fiscal 2007

Soaring board costs have had a strong impact on our liquid-packaging business. We raised product prices, but this resulted in some erosion of our customer base and a year-on-year decline in sales by both volume and value. Profits were also lower as the price increases failed to keep up with the continually rising cost of carton board. In the paper container segment, sales also fell due to a drop in food packaging. Film sales maintained year-on-year growth, helped by an increase in OEM business.

Outlook

Fiscal 2008 looks set to present further cost challenges along with an increasingly difficult environment for sales. By introducing the latest equipment, we will be working to make production more efficient while pushing ahead with the cost-reducing project in effect since fiscal 2005. On the marketing front, we are committed to implementing price increases as well as expanding sales, especially of NS-Fuji Pak® products.

A number of NS-Fuji Pak® filling machines are going on line in China during fiscal 2008. As our name recognition rises in China, we will actively pursue more opportunities in that market.

Nippon Paper Chemicals Co., Ltd.



NIPPON PAPER CHEMICALS CO.,LTD.

Nippon Paper Chemicals Co., Ltd.	
Established	October 1, 2002
Paid-in Capital	¥ 3 billion
Web Site	http://www.npchem.co.jp/english/
Representative	President Toshio Inoue
Principal Products (applications)	Dissolving pulp (used in, e.g., rayon, cellophane, cellulose derivatives)/Functional coating resin (paints, ink, adhesives)/Lignin products (concrete admixtures, bonds)/Carboxymethyl cellulose (CMC) (thickeners, stabilizers)/ Powdered cellulose (filter auxiliaries, food additives)/Yeast extract (foods, animal feed)/Cellobiose (animal feed)/Ribonucleic acid (powdered milk, culture media)/Stevia extract, glycyrrhizin (natural sweeteners)/Functional films for LCDs
Fiscal 2007 Net Sales	¥ 34.0 billion (including intercompany sales)



Toshio Inoue

Toshio Inoue President

Business environment

The tight supply-and-demand situation for dissolving pulp favored suppliers, causing prices to rise on world markets. Sales of functional coating resin products were also strong. Functional films, on the other hand, were affected by intensifying competition in the LCD panel industry where they are used, driving prices down and causing some customers to shift to in-house production. The functional chemicals segment benefited from strong demand for products with distinctive safety and environmental attributes, boosting sales of high-performance concrete admixtures by both the company and subsidiary Flowric Co., Ltd. Other products, such as powdered cellulose, enjoyed growing demand reflecting renewed awareness of their environmental advantages.

Company strengths

Nippon Paper Chemicals boasts several key strengths that have earned

it customer trust and confidence. We operate a flexible, customer-oriented business through close collaboration across our manufacturing, sales, and research divisions. A flat organizational structure enables rapid decision-making, and our product development structure emphasizes cultivation of original technologies, while technical support is rooted in years of accumulated knowledge and experience.

Performance in fiscal 2007

Efforts to offset a rising fuel and raw-materials costs through price increases resulted in a year-on-year sales gain of 3.6%, helped especially by the high price of dissolving pulp. The functional film segment, on the other hand, buffeted by price competition, suffered a year-on-year decline in both quantity and value. Some of our functional chemicals products also saw reduced profits, as we were unable to absorb cost increases fully.

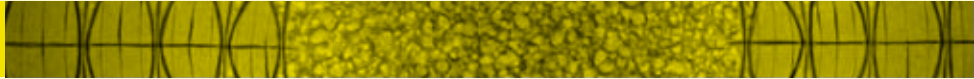
Overall, pre-tax ordinary profit was up

11% from fiscal 2006.

Outlook

Although dissolving pulp demand remains relatively strong, expected production capacity increases in Brazil and South Africa during 2008 are likely to result in a rapid softening of worldwide prices. Lignin product sales are starting to feel the effects of a significant drop in new construction since 2007. Other chemical products are also faced with the prospect of declines, depending on consumption trends. A new boiler is scheduled to start operation at our main plant, the Gotsu Works, in the latter half of 2008; this should contribute to lower costs. While sales of functional coating resin products are expected to remain strong, higher costs seem inevitable given the rising prices of main-input petrochemicals. We will work towards a recovery in demand for functional film by offering more advanced technology.

Nippon Paper Lumber Co., Ltd.



NIPPON PAPER LUMBER CO., LTD.

Nippon Paper Lumber Co., Ltd.	
Established	September 10, 1970
Paid-in Capital	¥ 440 million
Web Site	http://www.np-l.co.jp
Representative	President Masahiro Iwabuchi
Principal Products	Logs (soft- and hardwood) Lumber products, glue-laminated lumber Plywood Pulpwood Woodchips (for use in papermaking and engineered wood, and as fuel) Wastepaper Insulation materials
Fiscal 2007 Net Sales	¥ 93.5 billion (including intercompany sales) unconsolidated



M. Iwabuchi

Masahiro Iwabuchi President

Business environment

In Japan the revised Building Standard Law effective from June 20, 2007, caused significant delays in the authorization process for new construction, and increased uncertainty in the economic outlook had a dampening effect on home buying. Domestic new housing starts in fiscal 2007 were down 19.4% year-on-year to 1,040,000 units.

Demand for homebuilding materials consequently went through a sharp drop, leading to a spate of bankruptcies in related industries. In our business, imported lumber prices have skyrocketed on brisk demand abroad and soaring freight charges, while domestic lumber has attracted interest thanks to an abundant of resources and the benefits of the thinning required for forest maintenance, which will lead to business opportunities.

Company strengths

As a Nippon Paper Group company, Nippon Paper Lumber leads the Japanese

lumber industry, aiming to establish a sustainable business model premised on zero-waste use of wood resources. Entrusted with group forestry holdings, we oversee all aspects of their management including afforestation, production of homebuilding materials, procurement of pulpwood, and the final disposal of scrap wood. And we have the advantage of being able to draw and maximize on information and ideas from the whole Nippon Paper Group network for further expanding our business.

Performance in fiscal 2007

In the face of increased competition in procuring resources domestically, we worked to ensure a stable supply of wood chips, wastepaper, biomass fuel, and other inputs for paper production. In fiscal 2007, we focused on expanding wood-chip sources in the Hokkaido, Tohoku, and Kyushu regions. In the lumber business, the sudden downturn in housing starts left us with excess inventory in the first half of the year,

but we were able to reduce inventories to appropriate levels in the second half amidst growing uncertainty in the credit markets.

As a result, fiscal 2007 performance declined year-on-year with net sales down 9.8% and ordinary profit down 46.2%.

Outlook

Given the risk of recession in light of a possible further decline in new housing starts and worsening situation in the credit markets, it would be unrealistic for our industry to expect a recovery in demand over the near term. In this environment, we will be working to build a firmer business base through three key strategy initiatives: restructuring our existing businesses by identifying and focusing on profitable areas, leveraging forest certification to promote sales of domestic lumber, and further boosting our capacity to procure domestic fiber resources and alternative fuels.

CSR / CORPORATE GOVERNANCE

55 CSR/Corporate Governance

60 Directors and Corporate Auditors

Photo: Another work from the ERIKO HORIKI: Prayers through Washi exhibition tour

CSR / Corporate Governance

Nippon Paper Group's Social Responsibility/Corporate Governance

In July 2007, some of Nippon Paper Industries' mills were found to have exceeded the limit on emissions stipulated in the Air Pollution Control Law and to have falsified the emissions data reported in past fiscal years. In January 2008, it also came to light that group companies had shipped recycled paper products using substantially less than specified levels of wastepaper pulp.

Here we present a report on the latter issue, summarizing the background, results of in-house investigations, and issues that need to be addressed to prevent recurrences.

1. Background

Nippon Paper Industries has extensively used wastepaper pulp in products such as newsprint and wood-containing paper, marketing them even before recycled paper was in vogue: The urgent public need for more recycling aside, we were working to reduce costs. Rather than being concerned about the recycled-fiber content in specific products, we were focused on raising the total volume of wastepaper used in our products overall.

More recently, demand for products containing specified levels of wastepaper pulp content has increased. We were able to offer some grades of product with the mandated deinked pulp content; but in other cases, we fell into the trap of accepting orders for product whose labeled wastepaper-pulp content was incompatible with the demanded quality (i.e., tolerances for dust, dirt, and curl to guarantee the desired runnability, printability, and other processability attributes, especially in comparison to those of virgin-pulp products), counting on future technological breakthroughs to clear these hurdles. In the latter case, to meet quality needs we ended up producing products that did not comply with specified levels of recycled pulp content.

In-house investigations conducted after this issue came into the open revealed discrepancies between the actual and specified wastepaper-pulp content in the case of plain-paper copier (PPC) paper since 1990, recycled high-brightness white postcard paper since 1992, wood-free paper since 1995, and coated paper since 1998.

2. Causes

We have identified the following conspiring factors as being at the root of the discrepancy issue and as reasons that it was left to continue for so long.

- (1) Insufficient compliance awareness
- (2) Failure to establish the necessary management structure
 - a. Lack of mechanisms for internal checking
 - b. Poor communication
 - c. Inadequacies in the order-taking processes
- (3) Quality demands, including brightness, freedom from impurities, and curling

- (4) Eagerness to please customers with a full product lineup
- (5) Emphasis on winning orders
- (6) Insufficient capacity for manufacturing wastepaper pulp to meet growing demand
- (7) Increasing difficulty of procuring good-quality wastepaper

These factors help explain why we were unable to resolve the problems ourselves: No doubt a lack of compliance awareness was at the root, but other major contributing factors were a lack of internal checking due to ambiguity about relevant divisions' scope of responsibility and authority, and a systemic defect that allowed acceptance of orders at the sole discretion of sales managers.

3. Measures to prevent recurrences

Nippon Paper Industries, our main operating company, has instituted the following systemic and compliance measures to ensure against the occurrence of similar issues.

Order placement and production

- (1) Preventing acceptance of orders at the sole discretion of sales
- (2) Mandating documentation of quality specifications to ensure that mandated content levels are maintained
- (3) Ensuring that actual content ratios conform to standard
- (4) Preparing manuals and conducting internal and third-party audits
- (5) Fulfilling our obligations of disclosure and accountability to customers

Compliance measures

- (1) Instituting thoroughgoing compliance training
 - a. Training for employees and directors
 - b. Training for creating and improving the quality of compliance managers
 - c. Tests and surveys on compliance awareness and understanding
- (2) Restructuring the approach to compliance

- a. Strengthening the compliance system

To enable more flexible and dynamic handling of issues, as well as to promote better understanding, we are studying ways to reform and improve the organization. We are also working to make the activities of the Corporate Ethics Subcommittee and Group Compliance Liaison Conference more effective while encouraging information sharing and enhancing issue awareness.

- b. Promoting the Nippon Paper Group Helpline

We are making a more thorough effort to raise awareness of the existing group whistle-blowing mechanism, the Nippon Paper Group Helpline, including its purpose and how it should be used, and thus establishing a framework for communicating such information outside the usual lines of reporting.

- c. Strengthening of internal control and auditing

We have taken steps to achieve closer contact between the Board of Corporate Auditors, the Internal Auditing Office, and the Compliance Office, enhancing cooperation across these organizations for more effective compliance auditing.

At the same time, we have established a CSR Division in Nippon Paper Group, Inc., the group holding company, and in it a CSR Office.

With this improved organization in place, we are implementing stronger functions for checking the operations at each group company and are devoting a full group effort toward preventing a recurrence of compliance problems and establishing a robust framework for ensuring compliance.

4. Environmental and community-service initiatives

In addition to the recurrence-prevention measures, we have devised initiatives for new environmental and community-service initiatives.

(1) Raising wastepaper utilization

Until now, we have been able to raise the amount of wastepaper use each year by enhancing our wastepaper processing facilities. Now we are working to achieve an even higher level than originally targeted.

Currently the Green Action Plan 2010, the environmental action plan of the Nippon Paper Group, calls for Nippon Paper Industries to reach a wastepaper use rate of 40% by fiscal 2008. We are now studying the possibility of raising that level to 42% from fiscal 2009 onward, though this goal is not likely to be an easy one to reach given the wastepaper import/export situation, price fluctuations, and other factors.

(2) Expanding overseas afforested holdings

Our current goal is to expand our overseas afforested holdings from 166,000 hectares at the end of 2006 to 200,000 hectares by 2015, after which we will consider a further expansion to 300,000 hectares.

(3) Preserving domestic forests

With 900,000 hectares of forestland in Japan, we are promoting utilization of domestic lumber, including that from thinning. In fiscal 2007, 29% of Nippon Paper Industries wood chip supply came from domestic sources. Steps are now being taken to raise that proportion to 30% by fiscal 2010.

(4) Contributing to the community

We are studying ways of contributing to the community and society in general through our business activities, for instance through cause-related marketing (CRM) whereby contributions are tied to product sales, and are committed to supporting environmental conservation efforts.

(5) Helping counter global warming

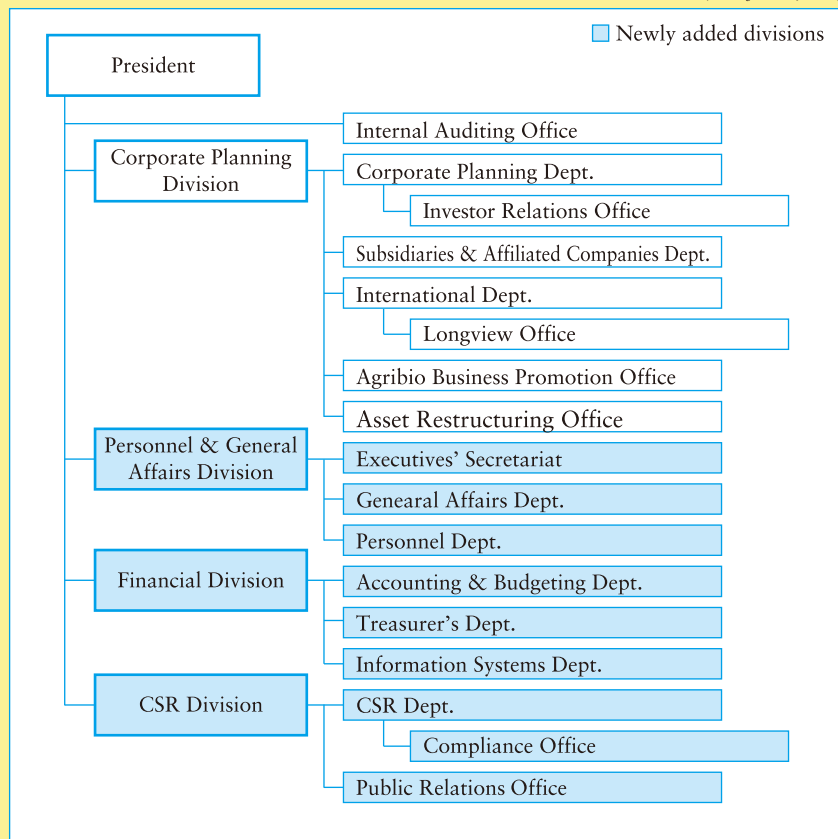
Our goal is to reduce by fiscal 2010 our environmental impact measured as per-product fossil energy-derived CO₂ emission units and per-product fossil-energy input units by 16% and 20%, respectively, from fiscal 1990 levels. We are currently implementing initiatives for reaching these targets.

(6) Maintaining dialog with stakeholders

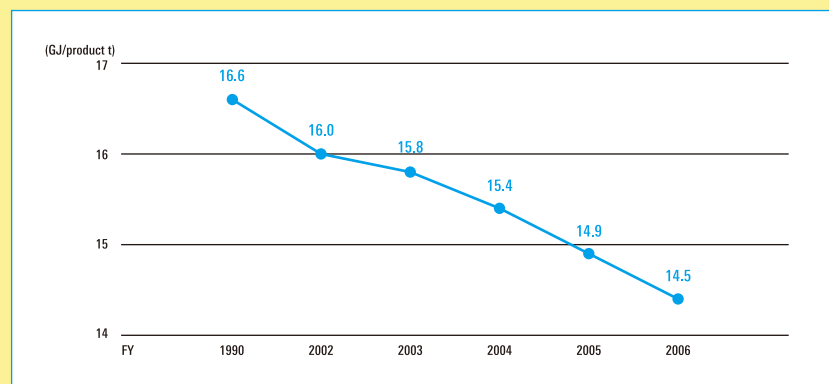
To help bring about a sustainable society, the paper industry must achieve a sustainable paper production cycle. In our quest to help build a sustainable paper production industry, one approach we are considering is to maintain dialog with all our stakeholders to find out where the emphasis should be and what kinds of practices we need to implement.

Group Headquarters Organization

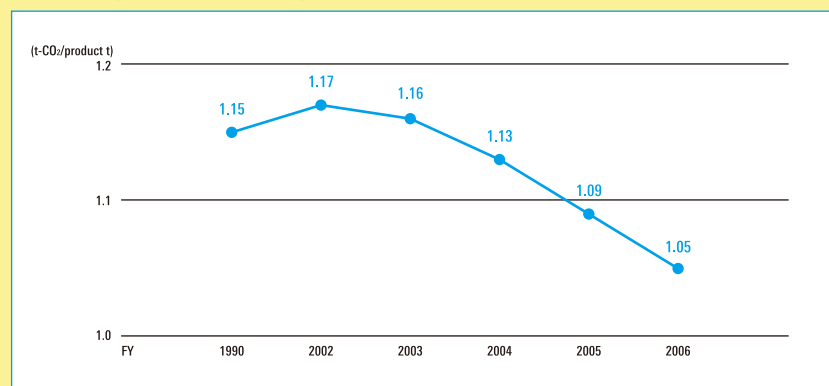
(As of June 27, 2008)



Trends in Per-product Fossil Energy-derived CO₂ Emission Units



Trends in Per-product Fossil-energy Input Units



Board of Directors and Corporate Auditors

(As of June 27, 2008)



Chairman

Masatomo Nakamura

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



President and Representative Director

Yoshio Haga

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

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



Director

Shuhei Marukawa

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

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



Director

Nobuyuki Otsuki

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

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



Executive Vice President and Representative Director

Tsuyoshi Yamashita

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

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



Director

Masayuki Hayashi

In charge of Engineering and Research &
Development, concurrently Senior
Managing Director, General Manager of
Technical & Engineering Division, in charge
of Environmental Conservation and in
charge of Safety & Disaster Prevention at
Nippon Paper Industries Co., Ltd.

1946 Born
1969 Joined Daishowa Paper
Manufacturing Co., Ltd.
2001 Appointed Director of
Nippon Paper Group, Inc.
2008 Appointed Director of
Nippon Paper Group, Inc.
(current position)



Director

Kazuhiro Sakai

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

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



Director

Masahiro Murakami

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

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



Director

Yasushi Kurata

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

1946 Born
1971 Joined Daishowa Paper
Manufacturing Co., Ltd.
2008 Appointed Director of
Nippon Paper Group, Inc.



Director

Masaru Motomura

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

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

Senior Corporate Auditor

Hirotoishi Ishikawa

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

Corporate Auditor

Akio Uwano

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

Outside Corporate Auditors

Yoshihiro Morikawa

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

Naoki Yanagida

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



Photo: Another work from the ERIKO HORIKI: Prayers through Washi exhibition tour

FINANCIAL SECTION

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Consolidated Five-Year Summary

Nippon Paper Group, Inc. and Consolidated Subsidiaries

	Millions of yen				Thousands of US dollars (Note)	
	FY2003 April 1, 2003–March 31, 2004	FY2004 April 1, 2004–March 31, 2005	FY2005 April 1, 2005–March 31, 2006	FY2006 April 1, 2006–March 31, 2007	FY2007 April 1, 2007–March 31, 2008	FY2007 April 1, 2007–March 31, 2008
Net sales	¥ 1,192,649	¥ 1,179,696	¥ 1,152,166	¥ 1,175,264	¥ 1,211,682	\$ 12,116,820
Cost of sales	919,602	914,384	920,819	948,852	969,466	9,694,660
Operating income	55,679	65,231	48,391	44,655	32,834	328,340
Ordinary income	50,665	62,801	49,403	47,088	32,800	328,000
Net income	24,258	24,350	17,192	22,952	5,661	56,610
Total assets	1,637,366	1,529,975	1,492,427	1,565,978	1,625,571	16,255,710
Total current assets	476,649	443,177	412,657	456,620	485,822	4,858,220
Property, plant and equipment, net	900,013	843,346	811,110	841,287	892,012	8,920,120
Total investments and other assets	260,703	243,450	268,659	268,069	247,736	2,477,360
Liabilities	1,185,143	1,063,453	1,029,787	1,095,456	1,145,812	11,458,120
Net assets	452,222	466,521	462,639	470,521	479,758	4,797,580
Interest-bearing debt	842,278	766,139	692,080	738,230	785,322	7,853,220
Depreciation	81,259	74,971	70,106	67,049	74,791	747,910
Capital investment	57,423	55,353	69,687	102,961	121,190	1,211,900
Free cash flow	14,425	82,132	91,655	(31,668)	(44,491)	(444,910)
Per share data						U.S. dollars
Net income	yen					
Basic	22,025.22	21,996.96	15,760.27	21,570.23	5,200.50	52.01
Diluted	21,132.64	21,107.50	15,123.82	—	—	—
Net assets	392,140.80	404,369.11	413,525.41	421,626.81	407,492.96	4,074.93
Cash dividends	8,000.00	8,000.00	8,000.00	8,000.00	8,000.00	80.00
Ratios						
Operating income to net sales (%)	4.7	5.5	4.2	3.8	2.7	
Net income to net sales (%)	2.0	2.1	1.5	2.0	0.5	
Return on equity (ROE) (%)	5.8	5.6	3.9	5.2	1.3	
Return on invested capital (ROIC) (%)	4.9	5.9	5.0	4.6	3.4	
Equity ratio (%)	26.2	28.9	29.5	28.6	28.0	
Return on assets (ROA) (%)	3.8	4.7	3.8	3.5	2.7	
Debt/equity ratio (times)	1.9	1.7	1.5	1.6	1.7	
Number of employees	14,987	13,774	12,798	12,584	13,666	

Note: Amounts in US dollars are included solely for convenience and are translated at a rate of ¥100/\$, the approximate rate of exchange on March 31, 2008.

- Interest-bearing debt = Short-term borrowings + Long-term debt
- Free cash flow = Cash flows from operating activities + Cash flows from investing activities
- Return on equity (ROE) = Net income / Average shareholders' equity and valuation, translation adjustments and other × 100
- Return on invested capital (ROIC) = (Ordinary income + Interest expense) / (Shareholders' equity and valuation, translation adjustments and other + Interest-bearing debt) × 100
- Return on assets (ROA) = (Ordinary income + Interest expense) / Total assets × 100
- Debt / Equity ratio = (Interest-bearing debt – Cash and cash equivalents) / Shareholders' equity and valuation, translation adjustments and other

Consolidated Financial Review

Nippon Paper Group, Inc. and Consolidated Subsidiaries

Summary

In the first half of fiscal 2007, the Japanese economy sustained growth led by private-sector demand underpinned by the brisk earnings of exporters. The economic outlook became increasingly opaque in the second half of the fiscal year as conditions rapidly changed, with the yen appreciating against other major currencies and share prices falling under the influence of rising crude oil prices and the subprime loan crisis.

In the paper business, demand for business communication paper and coated paper for commercial printing remained solid in fiscal 2007. In the paperboard business, there was a slow decline in demand for boxboard amid the shift toward less use of packaging, although containerboard enjoyed sound demand supported by brisk shipments of processed food, electrical appliances and machinery.

The paper industry's earnings came under severe pressure from higher raw material and fuel prices. Price increases for wastepaper, wood chips, heavy oil, and paper-making chemicals accelerated amid tough competition for resources under tightening global supply.

In response to these adverse conditions, the Nippon Paper Group worked to maximize the effectiveness of capital investment in the latest paper-making equipment and alternative energy boilers; implemented cost reduction measures, such as improving unit costs and cutting overheads; and increased product prices and aggressively expanded domestic and export sales. However, the Group was unable to absorb the steep cost increases associated with substantial rises in raw-material and fuel prices.

Divesting itself of inefficient paper mills as part of its group business restructuring, the Company also posted impairment and other losses, which were recorded as a business restructuring losses in the extraordinary profit and loss account.

Net Sales, Cost of Sales, Expenses, and Profits

In these circumstances, consolidated net sales rose by ¥36,417 million (3.1%) year-on-year to ¥1,211,682 million in fiscal 2007.

Cost of sales was ¥969,466 million, accounting for 80.0% of sales. Selling, general and administrative (SG&A) expenses came to ¥209,381 million, comprising 17.3% of sales. Operating income fell 26.5% year-on-year to ¥32,834 million and the operating profit margin declined to 2.7%, down 1.1percentage points from fiscal 2006.

Other income and expenses came to a net expense of ¥16,644 million. The main income item was a net gain from the sale of investment securities of ¥1,425 million, and the main expense items were interest expenses of ¥10,413 million, business restructuring loss of ¥9,765 million, and supplementary retirement benefit of ¥2,827 million. Interest expenses increased by ¥2,573 million due to an increase in interest-bearing debt to finance recent higher capital expenditure.

Income before income taxes and minority interests in consolidated subsidiaries fell 57.6% from fiscal 2006 to ¥16,190 million, and net income also fell 75.3% to ¥5,661 million.

Net income per share was ¥5,200.5, down from ¥21,570.23 in fiscal 2006. The Nippon Paper Group aims to increase corporate value by strengthening the whole group's management base and improve its earnings capability. It is our basic profit distribution policy to pay stable dividends over the long term wherever possible, in light of the group's business performance and retained earnings. The company paid out a dividend of ¥8,000 per share for fiscal 2007.

Review of Operations

Pulp and Paper Division

Volumewise, domestic newsprint sales fell slightly while exports increased. Amid a decline in imports, non-newsprint paper grades saw growth in domestic sales led by sound demand for plain paper copier (PPC) paper and coated paper for commercial printing. Exports also increased, driven by coated paper shipped to markets in Asia and Oceania.

Containerboard (liner and corrugating medium) sales volume was flat, but that of boxboard was down only slightly.

In household paper products, sales volumes of both facial tissue products and toilet rolls increased, underpinned by strengthened sales thanks to differentiated new products.

Although the Group cut costs and raised prices for paper, paperboard, and household paper products, it was unable to offset the cost increases associated with raw-material and fuel price hikes. Sales grew 6.8% year-on-year to ¥950,171 million, but operating profit fell 33.5% to ¥20,374 million.

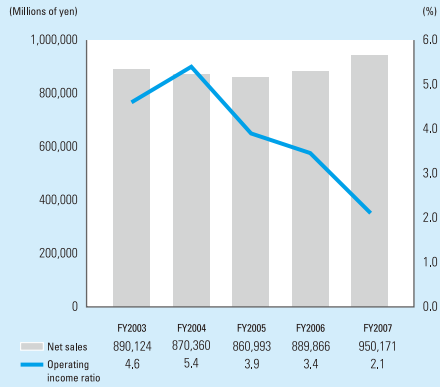
Paper-Related Division

Sales volumes decreased at the liquid packaging carton business in reaction to product-price increases. In the chemical product business, sales of chlorinated polyolefin for paint were brisk. Dissolving pulp (DP) enjoyed an increase in sales volume and benefitted from higher prices amid tight supplies worldwide. In the functional materials business, sales of optical films for LCD panels fell slightly.

Although the Group cut costs and raised product prices to absorb price rises for inputs such as paper and resins, sales grew only 0.7% year-on-year to ¥102,125 million, and operating profit fell 11.8% to ¥4,321 million.

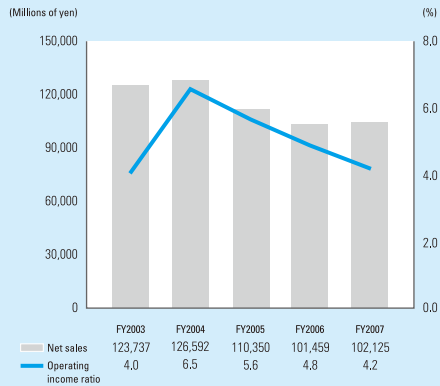
Pulp and Paper Division

Net sales and operating income ratio



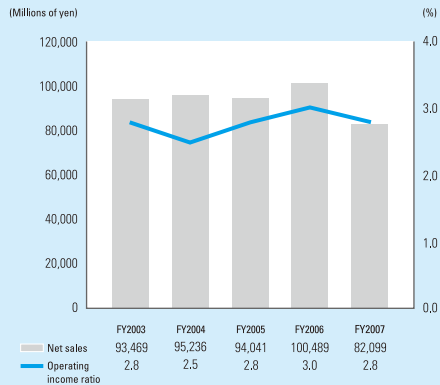
Paper-Related Division

Net sales and operating income ratio



Housing and Construction Materials Division

Net sales and operating income ratio



Housing and Construction Materials Division

The Housing and Construction Materials Division recorded declines in both sales and profits in fiscal 2007, due in part to the slowdown in housing starts after the revised Building Standard Law went into force in June 2007, whereas the civil engineering business showed steady performance. Division sales fell 18.3% year-on-year to ¥82,099 million, as did operating profit by 21.9% to ¥2,337 million.

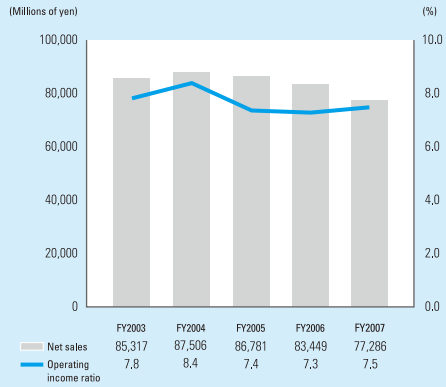
Other Division

The beverages business recorded higher profits on lower sales amid increased sales competition and a slowdown in green tea drink sales after years of sustained growth. Result were also affected by the change of fiscal year-end at Shikoku Coca-Cola Bottling Co., Ltd., and by the addition of six newly consolidated subsidiaries which had been non-consolidated until fiscal 2006. The electric power business posted sales and profit declines due to the expiration of a power supply contract with Nippon Daishowa Paperboard Yoshinaga Co., Ltd. in December 2006. The transport, leisure and other businesses recorded solid earnings.

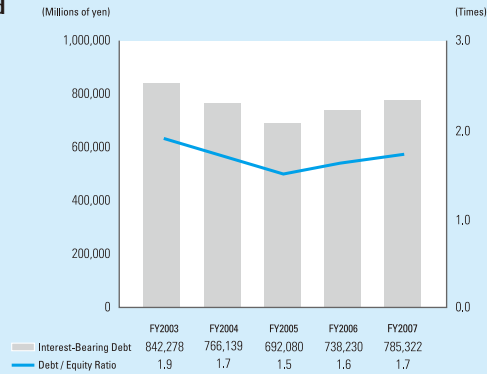
As a result, sales declined 7.4% year-on-year to ¥77,286 million and operating profit decreased 5.1% to ¥5,801 million.

Other Division

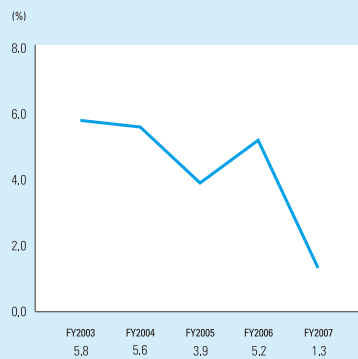
Net sales and operating income ratio



Interest-Bearing Debt and Debt/Equity Ratio



Return on Equity (ROE)



Financial Position

Consolidated total assets at the end of fiscal 2007 increased ¥59,593 million to ¥1,625,571 million from ¥1,565,978 million at the end of fiscal 2006.

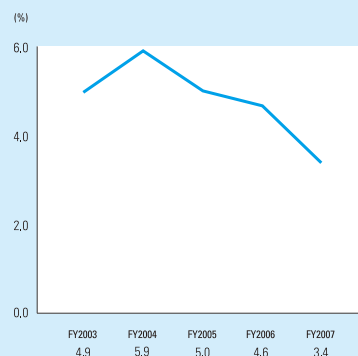
Current assets increased ¥29,201 million year-on-year to ¥485,822 million. The main contributing factor was inventory, which increased from ¥147,136 million to ¥165,427 million.

Tangible fixed assets increased ¥50,724 million to ¥892,012 million, mainly because of an increase in capital expenditure.

Investments and other assets declined ¥20,333 million to ¥247,736 million.

Current liabilities and fixed liabilities increased by ¥50,356 million to ¥1,145,812 million. The main reason for the increase was a rise in interest-bearing debt, which grew from ¥738,230 million to ¥785,322 million at the end of the period and was associated with higher capital expenditure and working capital.

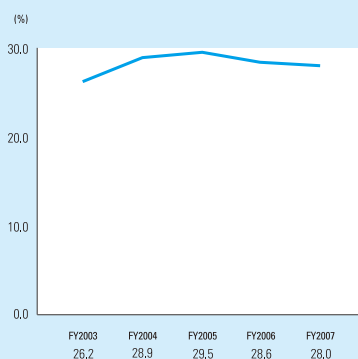
Return on Invested Capital (ROIC)



Return on Assets (ROA)



Equity Ratio



Cash Flows

The group covered an increase in capital expenditure with interest-bearing debt in fiscal 2007. Consolidated cash and cash equivalents (“net cash”) increased ¥1,864 million year-on-year to ¥17,724 million.

Cash flows from operating activities

Net cash from operating activities totaled ¥74,000 million, down ¥1,358 million from fiscal 2006. This mainly broke down into net profit before taxes and minority interests of ¥16,190 million, depreciation of ¥74,791 million, and a ¥11,474 million increase in inventory.

Cash flows from investing activities

Net cash used in investment activities totaled ¥118,492 million, up ¥11,464 million from fiscal 2006. This was mostly spent for acquisition of fixed assets and investment securities of ¥120,397 million and ¥9,337 million, respectively.

Cash flows from financing activities

Net cash from financing activities totaled ¥43,515 million, up ¥10,569 million from the previous fiscal year. Of this, ¥36,736 million came from an increase in interest-bearing debt and ¥15,733 million from the sale of treasury stock.

Trends in cash flow indicators are shown in the table below.

	FY2003	FY2004	FY2005	FY2006	FY2007
Equity ratio (%)	26.2	28.9	29.5	28.6	28.0
Equity ratio based on market capitalization (%)	37.1	35.4	36.3	28.5	16.2
Interest-bearing debt/cash flow (times)	9.7	7.1	5.2	9.8	10.6
Interest coverage ratio (times)	8.0	12.6	17.8	11.7	8.0

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

Note: 1. All indicators are calculated based on consolidated financial figures.
 2. Market capitalization is calculated by multiplying the closing share price at year end by the number of shares outstanding at year end, not including treasury shares.
 3. Calculations that include operating cash flow use cash flow from operating activities as recorded in the consolidated statements of cash flows. Interest-bearing debt includes all liabilities recorded in the consolidated balance sheets on which the company is paying interest. Calculations that include interest paid use interest paid as recorded in the consolidated statements of cash flows.

Business and Other Risk Factors

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

(1) *Product demand and market conditions*

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

(2) *Manufacturing conditions*

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

(3) *Foreign exchange*

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

(4) *Raw-material and fuel prices*

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

(5) *Stock prices*

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

(6) *Interest rates*

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

(7) *Overseas businesses*

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

(8) *Litigation*

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

(9) *Fixed asset impairment*

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

(10) *Natural disasters*

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

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

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

Consolidated Balance Sheets

Nippon Paper Group, Inc. and Consolidated Subsidiaries

March 31, 2007 and 2008

Assets	Millions of yen		Thousands of U.S. dollars
	2007	2008	(Note 3)
Current assets:			
Cash and cash equivalents	¥ 15,859	¥ 17,724	\$ 177,240
Marketable securities (Note 16)	270	23	230
Receivables:			
Notes and accounts receivable:			
Trade	224,808	238,466	2,384,660
Unconsolidated subsidiaries and affiliates	24,007	25,402	254,020
Other	17,703	13,068	130,680
Loans receivable from unconsolidated subsidiaries and affiliates	16,894	13,649	136,490
Allowance for doubtful receivables	(3,402)	(4,694)	(46,940)
Inventories (Note 5)	147,136	165,427	1,654,270
Deferred tax assets (Note 11)	3,666	3,704	37,040
Other current assets (Note 8)	9,676	13,050	130,500
Total current assets	456,620	485,822	4,858,220
Property, plant and equipment:			
Land	229,967	235,257	2,352,570
Buildings and structures	451,574	472,509	4,725,090
Machinery and equipment	1,865,330	2,019,526	20,195,260
Construction in progress	66,439	50,864	508,640
Other	20,939	21,091	210,910
	2,634,252	2,799,249	27,992,490
Less accumulated depreciation	(1,792,964)	(1,907,237)	(19,072,370)
Property, plant and equipment, net (Note 7)	841,287	892,012	8,920,120
Investments and other assets:			
Investments in and advances to unconsolidated subsidiaries and affiliates	111,569	108,509	1,085,090
Investments in securities (Notes 7 and 16)	105,229	93,098	930,980
Deferred tax assets (Note 11)	5,176	6,143	61,430
Other assets	85,048	77,166	771,660
Allowance for doubtful receivables	(38,953)	(37,181)	(371,810)
Total investments and other assets	268,069	247,736	2,477,360
Total assets (Note 17)	¥ 1,565,978	¥ 1,625,571	\$ 16,255,710

See notes to consolidated financial statements.

Liabilities and net assets	Millions of yen		Thousands of U.S. dollars
	2007	2008	(Note 3)
Current liabilities:			
Short-term borrowings (Note 6):			
Loans payable and commercial paper	¥ 255,685	¥ 221,469	\$ 2,214,690
Unconsolidated subsidiaries and affiliates	1,988	2,428	24,280
Current portion of long-term debt (Notes 6 and 7):			
Bonds and loans payable	59,476	57,013	570,130
Notes and accounts payable:			
Trade (Note 7)	126,272	125,097	1,250,970
Unconsolidated subsidiaries and affiliates	28,924	23,937	239,370
Other	81,045	80,622	806,220
Accrued income taxes	4,996	5,702	57,020
Other current liabilities (Note 11)	23,452	39,684	396,840
Total current liabilities	581,841	555,957	5,559,570
Long-term liabilities:			
Long-term debt (Notes 6 and 7):			
Bonds and loans payable	421,079	504,409	5,044,090
Accrued retirement benefits (Note 8)	47,329	45,549	455,490
Deferred tax liabilities (Note 11)	41,071	35,284	352,840
Accrued environmental costs	985	1,019	10,190
Other long-term liabilities	3,148	3,592	35,920
Total long-term liabilities	513,615	589,855	5,898,550
Contingent liabilities (Note 15)			
Net assets:			
Shareholders' equity (Notes 12 and 19):			
Common stock:			
Authorized – 3,000,000 shares;			
Issued – 1,122,534.63 shares in 2008 and			
1,105,235.63 shares in 2007	55,730	55,730	557,300
Capital surplus	252,442	256,040	2,560,400
Retained earnings	139,638	138,135	1,381,350
Less treasury stock, at cost:			
3,742.09 shares in 2008 and 41,345.16 shares in 2007	(18,366)	(1,090)	(10,900)
Total shareholders' equity	429,443	448,815	4,488,150
Valuation, translation adjustments and other:			
Net unrealized holding gain on other securities	16,174	3,922	39,220
Net deferred (loss) gain on hedges	1,864	(404)	(4,040)
Translation adjustments	1,081	3,567	35,670
Total valuation, translation adjustments and other	19,120	7,084	70,840
Minority interests in consolidated subsidiaries	21,956	23,858	238,580
Total net assets	470,521	479,758	4,797,580
Total liabilities and net assets	¥ 1,565,978	¥ 1,625,571	\$ 16,255,710

See notes to consolidated financial statements.

Consolidated Statements of Income

Nippon Paper Group, Inc. and Consolidated Subsidiaries

Fiscal years ended March 31, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2008	2008
Net sales (Note 17)	¥ 1,175,264	¥ 1,211,682	\$ 12,116,820
Cost of sales (Notes 17 and 18)	948,852	969,466	9,694,660
Gross profit	226,412	242,216	2,422,160
Selling, general and administrative expenses (Notes 8, 17 and 18)	181,756	209,381	2,093,810
Operating income (Note 17)	44,655	32,834	328,340
Other income (expenses):			
Interest expense	(7,839)	(10,413)	(104,130)
Interest and dividend income	3,039	3,201	32,010
Net gain on sales of investments in securities (Note 16)	3,851	1,425	14,250
Net loss on sales and disposal of property, plant and equipment	(1,105)	(635)	(6,350)
Equity in earnings of affiliates	2,540	1,863	18,630
Loss on impairment of fixed assets (Notes 9 and 17)	(3,891)	(837)	(8,370)
Provision for doubtful receivables	(1,756)	(429)	(4,290)
Loss on restructuring (Notes 9 and 10)	—	(9,765)	(97,650)
Supplementary retirement benefits (Note 8)	(2,503)	(2,827)	(28,270)
Other, net	1,153	1,773	17,730
	(6,513)	(16,644)	(166,440)
Income before income taxes and minority interests in consolidated subsidiaries	38,142	16,190	161,900
Income taxes (Note 11):			
Current	6,813	7,107	71,070
Deferred	7,643	2,883	28,830
	14,457	9,991	99,910
Minority interests in consolidated subsidiaries	(732)	(537)	(5,370)
Net income	¥ 22,952	¥ 5,661	\$ 56,610
	Yen		U.S. dollars (Note 3)
Amounts per share:			
Net income:			
Basic	¥ 21,570.23	¥ 5,200.50	\$ 52.01
Diluted	—	—	—
Cash dividends	8,000.00	8,000.00	80.00

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Nippon Paper Group, Inc. and Consolidated Subsidiaries

	Millions of yen						Millions of yen					
	Shareholders' equity						Valuation, translation adjustments and other				Minority interests in consolidated subsidiaries	Total net assets
	Number of shares of issued common stock	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on other securities	Net deferred (loss) gain on hedges	Translation adjustments	Total valuation, translation adjustments and other		
Balance at March 31, 2006	1,105,235.63	¥ 55,730	¥ 252,441	¥ 125,679	¥ (18,199)	¥ 415,651	¥ 24,352	¥ —	¥ 312	¥ 24,664	¥ 22,323	¥ 462,639
Cash dividends paid	—	—	—	(8,516)	—	(8,516)	—	—	—	—	—	(8,516)
Bonuses to directors and statutory auditors	—	—	—	(195)	—	(195)	—	—	—	—	—	(195)
Net income	—	—	—	22,952	—	22,952	—	—	—	—	—	22,952
Purchase of treasury stock	—	—	—	—	(183)	(183)	—	—	—	—	—	(183)
Disposition of treasury stock	—	—	0	—	16	16	—	—	—	—	—	16
Adjustments for merger of consolidated subsidiary and unconsolidated subsidiaries	—	—	—	(282)	—	(282)	—	—	—	—	—	(282)
Changes in items other than shareholders' equity, net	—	—	—	—	—	—	(8,177)	1,864	768	(5,543)	(366)	(5,910)
Balance at March 31, 2007	1,105,235.63	55,730	252,442	139,638	(18,366)	429,443	16,174	1,864	1,081	19,120	21,956	470,521
Cash dividends paid	—	—	—	(8,675)	—	(8,675)	—	—	—	—	—	(8,675)
Net income	—	—	—	5,661	—	5,661	—	—	—	—	—	5,661
Purchase of treasury stock	—	—	—	—	(160)	(160)	—	—	—	—	—	(160)
Disposition of treasury stock	—	—	(2,305)	—	18,038	15,733	—	—	—	—	—	15,733
Stock swap	17,299	—	5,903	—	(602)	5,301	—	—	—	—	—	5,301
Changes in the scope of consolidation	—	—	—	727	—	727	—	—	—	—	—	727
Changes in the scope of equity method affiliates	—	—	—	783	—	783	—	—	—	—	—	783
Changes in items other than shareholders' equity, net	—	—	—	—	—	—	(12,252)	(2,269)	2,486	(12,036)	1,901	(10,134)
Balance at March 31, 2008	1,122,534.63	¥ 55,730	¥ 256,040	¥ 138,135	¥ (1,090)	¥ 448,815	¥ 3,922	¥ (404)	¥ 3,567	¥ 7,084	¥ 23,858	¥ 479,758

	Thousands of U.S. dollars (Note 3)					Thousands of U.S. dollars (Note 3)					
	Shareholders' equity					Valuation, translation adjustments and other				Minority interests in consolidated subsidiaries	Total net assets
	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on other securities	Net deferred (loss) gain on hedges	Translation adjustments	Total valuation, translation adjustments and other		
Balance at March 31, 2007	\$ 557,300	\$ 2,524,420	\$ 1,396,380	\$ (183,660)	\$ 4,294,430	\$ 161,740	\$ 18,640	\$ 10,810	\$ 191,200	\$ 219,560	\$ 4,705,210
Cash dividends paid	—	—	(86,750)	—	(86,750)	—	—	—	—	—	(86,750)
Net income	—	—	56,610	—	56,610	—	—	—	—	—	56,610
Purchases of treasury stock	—	—	—	(1,600)	(1,600)	—	—	—	—	—	(1,600)
Disposition of treasury stock	—	(23,050)	—	180,380	157,330	—	—	—	—	—	157,330
Stock swap	—	59,030	—	(6,020)	53,010	—	—	—	—	—	53,010
Changes in the scope of consolidation	—	—	7,270	—	7,270	—	—	—	—	—	7,270
Changes in the scope of equity method affiliates	—	—	7,830	—	7,830	—	—	—	—	—	7,830
Changes in items other than shareholders' equity, net	—	—	—	—	—	(122,520)	(22,690)	24,860	(120,360)	19,010	(101,340)
Balance at March 31, 2008	\$ 557,300	\$ 2,560,400	\$ 1,381,350	\$ (10,900)	\$ 4,488,150	\$ 39,220	\$ (4,040)	\$ 35,670	\$ 70,840	\$ 238,580	\$ 4,797,580

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nippon Paper Group, Inc. and Consolidated Subsidiaries

Fiscal years ended March 31, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars
	2007	2008	(Note 3)
Operating activities			
Income before income taxes and minority interests in consolidated subsidiaries	¥ 38,142	¥ 16,190	\$ 161,900
Adjustments to reconcile income before income taxes and minority interests in consolidated subsidiaries to net cash provided by operating activities:			
Depreciation	67,049	74,791	747,910
Amortization of goodwill	1,946	1,230	12,300
Increase in allowance for doubtful receivables	2,013	433	4,330
Decrease in accrued retirement benefits	(7,367)	(6,184)	(61,840)
Decrease in accrued environmental costs	(1)	(0)	(0)
Interest and dividend income	(3,039)	(3,201)	(32,010)
Interest expense	7,839	10,413	104,130
Equity in earnings of affiliates	(2,540)	(1,863)	(18,630)
Net gain on sales of investments in securities	(3,851)	(1,425)	(14,250)
Net loss on sales and disposal of property, plant and equipment	1,105	635	6,350
Loss on impairment of fixed assets	3,891	837	8,370
Supplementary retirement benefits	2,503	2,827	28,270
Loss on restructuring	—	9,765	97,650
Bonuses paid to directors and statutory auditors	(209)	—	—
Changes in operating assets and liabilities:			
Receivables	(27,182)	(4,144)	(41,440)
Inventories	(5,844)	(11,474)	(114,740)
Payables	11,396	(12,349)	(123,490)
Other	248	13,675	136,750
	86,101	90,155	901,550
Interest and dividends received	3,446	3,817	38,170
Interest paid	(6,437)	(9,762)	(97,620)
Payments of supplementary retirement benefits	(2,764)	(2,805)	(28,050)
Expenditures for restructuring	(22)	—	—
Income taxes paid	(4,964)	(7,404)	(74,040)
Net cash provided by operating activities	¥ 75,359	¥ 74,000	\$ 740,000

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2007	2008	(Note 3)
Investing activities			
Purchases of time deposits	¥ (158)	¥ (170)	\$ (1,700)
Withdrawals of time deposits	148	160	1,600
Proceeds from sales of marketable securities	75	270	2,700
Purchases of property, plant and equipment	(94,902)	(120,397)	(1,203,970)
Proceeds from sales of property, plant and equipment	5,660	5,731	57,310
Purchases of investments in other securities	(22,974)	(9,337)	(93,370)
Proceeds from sales of investments in other securities	3,361	4,580	45,800
Proceeds from sales of a subsidiary's stock resulting in change in the scope of consolidation	—	1,419	14,190
Increase in short-term loans	(69)	(1,967)	(19,670)
Long-term loans made	(655)	(205)	(2,050)
Collection of long-term loans	2,979	693	6,930
Other, net	(493)	730	7,300
Net cash used in investing activities	(107,028)	(118,492)	(1,184,920)
Financing activities			
Decrease in short-term borrowings	(34,846)	(42,670)	(426,700)
Proceeds from issuance of long-term debt	137,000	139,500	1,395,000
Repayment of long-term debt	(59,932)	(60,092)	(600,920)
Purchases of treasury stock	(183)	(160)	(1,600)
Proceeds from sales of treasury stock	16	15,733	157,330
Cash dividends paid	(8,868)	(9,054)	(90,540)
Principal payments under finance lease obligations	(239)	—	—
Capital contribution to a subsidiary by minority shareholders	—	260	2,600
Net cash provided by financing activities	32,945	43,515	435,150
Effect of exchange rate changes on cash and cash equivalents	203	531	5,310
(Decrease) Increase in cash and cash equivalents	1,480	(444)	(4,440)
Cash and cash equivalents at beginning of year	13,963	15,859	158,590
Increase due to inclusion of certain subsidiaries in consolidation	—	1,740	17,400
Decrease due to exclusion of certain subsidiaries from consolidation	—	(2)	(20)
Increase due to merger of unconsolidated subsidiaries	415	570	5,700
Cash and cash equivalents at end of year	¥ 15,859	¥ 17,724	\$ 177,240

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nippon Paper Group, Inc. and Consolidated Subsidiaries

March 31, 2008

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.

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

Goodwill is amortized on a straight-line basis over five or twenty years.

(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 resulting from interest-rate fluctuation.

(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, 2008 or 2007;
- (ii) held-to-maturity securities are carried at cost and amortized by the straight-line method; and
- (iii) marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are carried at cost. Costs of securities sold are determined by the moving average method.

(e) Inventories

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

(f) Allowance for Doubtful Receivables

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

(g) Property, Plant and Equipment

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

(h) Leases

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

(i) Foreign Currency Translation

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

The balance sheet accounts of foreign consolidated subsidiaries and affiliates are translated into yen at the rates of exchange in effect at their 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 amortized commencing the year following the year in which the gain or loss is recognized primarily by the straight-line method over periods (10 years through 15 years) which are equal to or shorter than the average estimated remaining years of service of the eligible employees.

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

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

(k) Accrued Environmental Costs

Accrued environmental costs are provided at an 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. Unrealized gain or loss is principally deferred as an asset or a liability.

Receivables and payables hedged by qualified forward foreign exchange contracts are translated at their corresponding contract rates.

(n) Income Taxes

The Company and consolidated subsidiaries have adopted tax-effect accounting in accordance with an accounting standard which requires recognition of income taxes by the liability method. Under the liability method, deferred tax assets and liabilities are determined based on the 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 is made by resolution of the shareholders at an ordinary general meeting held subsequent to the close of the fiscal period and, therefore, the accounts for such period do not reflect such appropriations. See Notes 12 and 19.

(p) Amounts per Share

Basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the fiscal year.

Diluted earnings per share is not disclosed because there were no potentially dilutive securities at March 31, 2008 and 2007.

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

2. Accounting Changes

- (a) Effective the year ended March 31, 2008, Nippon Paper Industries Co., Ltd., one of the Company’s consolidated subsidiaries, has changed its method of accounting for depreciation of its tangible fixed assets at the Ishinomaki mill, to the straight-line method from the declining-balance method.

This change in method of accounting was made to ensure appropriate matching of cost with revenue in connection with the setting up of PM N6, a state-of-the-art-papermaking line at the Ishinomaki mill in November 2007. It was installed to build up a production system of Nippon Paper Industries Co., Ltd. in view of competition in the Asian market. PM N6 commenced its operations smoothly and it is estimated that the maintenance methods of the machine enable the effect of the investment and its contribution to earnings to be equal in the long-term. In addition, based on an assessment of machinery other than PM N6 at the Ishinomaki mill, it has been confirmed that such other machinery will

operate and contribute to earnings stably over their respective estimated useful lives.

As a result, depreciation expense decreased by ¥3,789 million (\$37,890 thousand), operating income increased by ¥3,212 million (\$32,120 thousand), and income before income taxes and minority interests in consolidated subsidiaries increased by ¥3,240 million (\$32,400 thousand) for the fiscal year ended March 31, 2008 as compared to the corresponding amounts which would have been recorded under the previous method.

In line with the revision to the Corporation Tax Law of Japan, effective the year ended March 31, 2008, domestic consolidated subsidiaries have changed their method of accounting for depreciation of tangible fixed assets acquired on or after April 1, 2007 based on the revised Corporation Tax Law.

As a result, depreciation expense increased by ¥857 million (\$8,570 thousand), operating income decreased by ¥741 million (\$7,410 thousand), and income before income taxes and minority interests in consolidated subsidiaries decreased by ¥755 million (\$7,550 thousand) for the fiscal year ended March 31, 2008 as compared to the corresponding amounts which would have been recorded under the previous method.

The impact on segment information is stated in the applicable sections.

(Additional information)

With respect to tangible fixed assets acquired on or before March 31, 2007, in line with the revision to the Corporation Tax Law, effective the year ended March 31, 2008, domestic consolidated subsidiaries equally depreciate the difference between the residual value and the memorandum price over a period of five years beginning the year following the year in which the assets have been depreciated to their respective residual value and include such depreciation in depreciation expense.

As a result, depreciation expense increased by ¥9,946 million (\$99,460 thousand), operating income decreased by ¥9,244 million (\$92,440 thousand), and income before income taxes and minority interests in consolidated subsidiaries decreased by ¥9,312 million (\$93,120 thousand) for the fiscal year ended March 31, 2008 as compared to the corresponding amounts which would have been recorded under the previous method.

- (b) Effective the year ended March 31, 2007, the Company and its consolidated subsidiaries have adopted “Accounting Standard for Business Combinations” (Business Accounting Council, October 31, 2003) and the related implementation guidance (Accounting Standards Board of Japan Guidance No. 10, December 27, 2005).

3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥100 = U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2008, has been used. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

4. Business Combinations

<Purchase method>

(a). **Outline of the business combination**

- (1) Name and business of acquired company
Mishima Paper Co., Ltd. Manufacture and sale of paper and specialty paper
- (2) Reason for business combination
Increase corporate value as specialized producer of specialty paper
- (3) Date of the business combination
February 1, 2008
- (4) Legal form of business combination
Stock swap
- (5) Name of the acquired company after the business combination
Mishima Paper Co., Ltd. (was renamed Nippon Paper Papyrus Co., Ltd. on April 1, 2008)
- (6) Percentage of share of voting rights the Company has acquired
100%

(b). **The period of the results of operations of the acquired entity included in the consolidated statement of income**

The consolidated statement of income for the year ended March 31, 2008 does not include the results of operations of Mishima Paper Co., Ltd. because the business combination was accounted for assuming it was made on March 31, 2008.

(c). **Acquisition cost and breakdown**

	Millions of yen	Thousands of U.S. dollars
Common stock	¥ 6,067	\$ 60,670
Expenses for acquisition	¥ 30	\$ 300
Acquisition cost	¥ 6,097	\$ 60,970

(d). **Stock swap ratio, its basis for determination, number of shares delivered and their values**

- (1) Type of shares and stock swap ratio
Common stock
1 share of Nippon Paper Group, Inc.: 0.00061 shares of Mishima Paper Co., Ltd.
- (2) Basis for determination of stock swap ratio
To attain fairness and appropriateness in determining the stock swap ratio, Nippon Paper Group, Inc. appointed Nikko Cordial Securities, Inc. as a third party appraiser, and Mishima Paper Co., Ltd. appointed Deloitte Tohmatsu FAS as a third party appraiser, to calculate and evaluate the stock swap ratio. Through negotiations and discussions between Nippon Paper Group, Inc. and Mishima Paper Co., Ltd. by reference to the results of appraisals, the both parties reached agreement and deemed the stock swap ratio stated above to be reasonable.

(3) Number of shares delivered and their value

Common stock 17,699 shares

(Newly-issued 17,299 shares, disposal of treasury stock: 400 shares)

(e). Amount of negative goodwill, reason for recognizing goodwill, amortization method and amortization period

(1) Amount of negative goodwill

¥2,899 million (\$28,990 thousand)

(2) Reason for recognizing negative goodwill

The acquisition cost of the acquired company was less than the fair value of its net assets as of the date of the business combination. This difference was recognized as negative goodwill.

(3) Amortization method and period of goodwill

Straight-line method over a period of 5 years

(f). Assets and liabilities assumed on the date of the business combination and their main components

	Millions of yen	Thousands of U.S. dollars
Assets	¥ 37,528	\$ 375,280
Current assets	¥ 15,777	\$ 157,770
Fixed assets	¥ 21,751	\$ 217,510
Liabilities	¥ 28,531	\$ 285,310
Current liabilities	¥ 25,445	\$ 254,450
Long-term liabilities	¥ 3,086	\$ 30,860

5. Inventories

Inventories at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2007	2008	2008
Merchandise and finished products	¥ 83,259	¥ 91,869	\$ 918,690
Work in process	16,734	19,013	190,130
Raw materials and supplies	47,142	54,544	545,440
	¥ 147,136	¥ 165,427	\$ 1,654,270

6. Short-Term Borrowings and Long-Term Debt

At March 31, 2008 and 2007, short-term borrowings consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2007	2008	2008
Loans from banks	¥ 205,685	¥ 178,969	\$ 1,789,690
Loans from unconsolidated subsidiaries and affiliates	1,988	2,428	24,280
Commercial paper	50,000	42,500	425,000
	¥ 257,674	¥ 223,898	\$ 2,238,980

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, 2008 and 2007 were 1.24% and 1.03%, respectively.

Long-term debt at March 31, 2008 and 2007 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2007	2008	2008
Loans from banks, insurance companies and others at rates ranging from 3.38% to 0.73% due through 2034:			
With collateral	¥ 35,282	¥ 20,474	\$ 204,740
Without collateral	302,273	407,749	4,077,490
0.81% unsecured corporate bonds in yen due 2010	20,000	20,000	200,000
0.50% unsecured corporate bonds in yen due 2007	20,000	—	—
0.91% unsecured corporate bonds in yen due 2008	20,000	20,000	200,000
0.89% unsecured corporate bonds in yen due 2009	30,000	30,000	300,000
1.10% unsecured corporate bonds in yen due 2012	20,000	20,000	200,000
1.79% unsecured corporate bonds in yen due 2011	20,000	20,000	200,000
1.97% unsecured corporate bonds in yen due 2017	13,000	13,000	130,000
1.96% unsecured corporate bonds in yen due 2017	—	10,000	100,000
0.73% unsecured corporate bonds in yen due 2008	—	200	2,000
	480,556	561,423	5,614,230
Less current portion	(59,476)	(57,013)	(570,130)
	¥ 421,079	¥ 504,409	\$ 5,044,090

The maturities of long-term debt maturities subsequent to March 31, 2008 are summarized as follows:

Fiscal year ending March 31:	Millions of yen	Thousands of U.S. dollars
2009	¥ 57,013	\$ 570,130
2010	73,840	738,400
2011	55,669	556,690
2012	50,860	508,600
2013 and thereafter	324,038	3,240,380
	¥ 561,423	\$ 5,614,230

7. Pledged Assets

Assets pledged as collateral for notes and accounts payable – trade of ¥105 million (\$1,050 thousand), the current portion of long-term debt of ¥3,192 million (\$31,920 thousand), and long-term debt of ¥17,282 million (\$172,820 thousand) at March 31, 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2007	2008	2008
Property, plant and equipment, at net book value	¥ 422,331	¥ 433,373	\$ 4,333,730
Investments in securities	—	208	2,080
	¥ 422,331	¥ 433,582	\$ 4,335,820

8. Retirement Benefits

- (a) Certain consolidated subsidiaries have defined benefit pension plans, i.e., corporate pension fund plans, Welfare Pension Fund Plans, tax-qualified pension plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.
- (b) On April 1, 2007, certain subsidiaries changed their pension schemes from tax-qualified retirement pension plans to defined contribution pension plans and defined benefit corporate pension 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 (as of March 31, 2007)

	Pension fund management group for affiliated companies		Other plans	
	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
Plan assets	¥ 16,052	\$ 160,520	¥ 186,743	\$ 1,867,430
Retirement benefit obligation	13,024	130,240	217,406	2,174,060
Net balance	¥ 3,028	\$ 30,280	¥ (30,662)	\$ (306,620)

- (ii) Ratio of number of participating employees of the Company and its subsidiaries over the total number of participants in the plan (as of March 31, 2007)
- | | |
|--|-------|
| Pension fund management group for affiliated companies | 44.2% |
| Other plans | 3.1% |

- (iii) Additional information

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

- (c) 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, 2008 and 2007 for the consolidated subsidiaries' defined benefit pension plans:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2007	2008	2008
Retirement benefit obligation	¥ (183,468)	¥ (188,720)	\$ (1,887,200)
Plan assets at fair value	161,066	137,528	1,375,280
Unfunded retirement benefit obligation	(22,402)	(51,192)	(511,920)
Unrecognized actuarial loss (gain)	(12,112)	21,422	214,220
Unrecognized prior service cost	(9,023)	(8,237)	(82,370)
Net retirement benefit obligation	(43,537)	(38,006)	(380,060)
Prepaid pension cost	2,020	5,563	55,630
Accrued retirement benefits	¥ (45,557)	¥ (43,570)	\$ (435,700)

In addition, accrued retirement benefits for directors and statutory auditors of the Company and its consolidated subsidiaries in the amounts of ¥1,978 million (\$19,780 thousand) and ¥1,771 million have been included in accrued retirement benefits at March 31, 2008 and 2007, respectively.

The components of retirement benefit expense for the fiscal years ended March 31, 2008 and 2007 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal years ended March 31,		Fiscal year ended March 31,
	2007	2008	2008
Service cost	¥ 5,400	¥ 5,891	\$ 58,910
Interest cost	4,457	4,524	45,240
Expected return on plan assets	(2,629)	(3,105)	(31,050)
Amortization of unrecognized actuarial loss (gain)	(602)	180	1,800
Amortization of unrecognized prior service cost	(797)	(797)	(7,970)
Total	¥ 5,828	¥ 6,693	\$ 66,930

In addition to the above, supplementary retirement benefits of ¥2,887 million (\$28,870 thousand) and ¥2,583 million were recorded for the fiscal years ended March 31, 2008 and 2007, respectively. Supplementary retirement benefits have been included in other expenses except for ¥60 million (\$600 thousand) and ¥80 million which have been included in selling, general and administrative expenses for the fiscal years ended March 31, 2008 and 2007, respectively.

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

	Fiscal years ended March 31,	
	2007	2008
Discount rate	mainly 2.5%	mainly 2.5%
Expected rate of return on plan assets	mainly 2.0%	mainly 2.0%

9. Loss on Impairment of Fixed Assets

Place	Assets	Fiscal years ended March 31,		Notes
		Millions of yen	Thousands of U.S. dollars	
Takaoka City, Toyama	Buildings and structures	¥ 842	\$ 8,420	Business assets [Loss on restructuring]
	Machinery and equipment	3,359	33,590	
	Other	35	350	
Komatsushima City, Tokushima	Buildings and structures	639	6,390	
	Machinery and equipment	1,798	17,980	
	Other	10	100	
Waki-cho, Yamaguchi	Buildings and structures	420	4,200	
	Machinery and equipment	1,333	13,330	
	Other	9	90	
Subtotal		8,449	84,490	[Loss on restructuring]
Fuji City, Shizuoka, etc.	Buildings and structures	19	190	Idle property [Loss on impairment of fixed assets]
	Machinery and equipment	588	5,880	
	Land	228	2,280	
Subtotal		837	8,370	[Loss on impairment of fixed assets]
Total		¥ 9,287	\$ 92,870	

Place	Assets	Fiscal years ended March 31, 2007		Notes
		Millions of yen		
Fuji City, Shizuoka, etc.	Land	¥ 1,671		Idle property
	Buildings and structures, machinery and equipment	2,220		
Total		¥ 3,891		

In order to determine whether an indicator of impairment of fixed assets exists, production properties are grouped mainly by mill while rental properties and idle properties are grouped at each asset. The recoverable value of rental property was calculated by discounting the estimated future cash flows from the property at 1.7%. The recoverable value of idle property was estimated based on third-party appraisals if material and mainly based on the net realizable value under Japanese inheritance tax law if immaterial.

Loss on impairment of fixed assets of ¥3,891 million was recognized on idle properties with no specific plan for future use for the fiscal year ended March 31, 2007. This amount consists of ¥1,671 million on land, ¥189 million on buildings and structures, and ¥2,030 million on machinery and equipment.

10. Loss on Restructuring

The Company has determined to close down the Fushiki mill of Nippon Paper Industries, Co., Ltd. and the Waki works of Nippon Daishowa Paperboard Co., Ltd. and to discontinue the paper production business at the Komatsushima mill of Nippon Paper Industries, Co., Ltd. at the end of September 2008 as part of the Group's corporate business restructuring. The Company reduced the book value of the mills' assets to their respective recoverable value. Impairment loss on assets to be disposed of in connection with such restructuring is stated as loss on restructuring in the accompanying consolidated statement of income for the fiscal year ended March 31, 2008.

Loss on restructuring consists of ¥8,449 million (\$84,490 thousand) of impairment loss at the pulp and paper division mainly due to the close-down of mills and ¥1,316 million (\$13,160 thousand) of loss at the housing and construction materials division in connection with the closing down of a manufacturing subsidiary.

11. 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, 2008 and 2007.

The effective tax rates reflected in the accompanying consolidated statements of income for the fiscal years ended March 31, 2008 and 2007 differ from the statutory tax rate for the following reasons:

	Fiscal years ended March 31,	
	2007	2008
Statutory tax rate	40.7%	40.7%
Effect of:		
Non-deductible items such as entertainment expenses	2.0	5.4
Non-taxable dividends received	(0.9)	(1.9)
Equity in earnings of affiliates	(2.7)	(4.6)
Amortization of goodwill	2.0	3.0
Inhabitants' per capita taxes	0.8	1.9
Increase in valuation allowance	5.9	16.6
Devaluation loss on a consolidated subsidiary and affiliates	(9.9)	—
Other, net	0.0	0.6
Effective tax rates	37.9%	61.7%

The significant components of the deferred tax assets and liabilities held by the Company and its consolidated subsidiaries at March 31, 2008 and 2007 were as follows:

	Millions of yen	Thousands of U.S. dollars
	March 31,	March 31,
	2007	2008
Deferred tax assets:		
Accrued bonuses	¥ 3,583	¥ 3,677
Accrued enterprise taxes	522	519
Allowance for doubtful receivables	7,199	7,172
Accrued retirement benefits	26,699	24,742
Accrued officers' retirement benefits	705	820
Loss on investment securities	1,603	1,497
Tax loss carryforwards	13,265	12,684
Loss on revaluation of land	15,699	16,776
Loss on impairment of fixed assets	2,182	6,353
Unrealized profit eliminated in consolidation	853	1,381
Other	6,015	6,364
Gross deferred tax assets	78,330	81,989
Valuation allowance	(38,839)	(44,689)
Total deferred tax assets	39,491	37,300
Deferred tax liabilities:		
Tax reserves	(12,411)	(11,654)
Accumulated depreciation	(1,583)	(1,344)
Gain on revaluation of land, etc.	(43,954)	(44,379)
Unrealized holding gain on other securities	(11,295)	(3,083)
Other	(2,476)	(2,277)
Total deferred tax liabilities	(71,721)	(62,738)
Net deferred tax liabilities	¥ (32,230)	¥ (25,438)

Deferred tax liabilities included in other current liabilities at March 31, 2008 and 2007 amounted to ¥0 million (\$0 thousand) and ¥1 million, respectively.

12. Shareholders' Equity

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

The legal reserve amounting to ¥432 million (\$4,320 thousand) and ¥432 million was included in retained earnings at March 31, 2008 and 2007, respectively.

13. Supplemental Cash Flow Information

(a) The following is a summary of the assets and liabilities of Asahikawa Grand Hotel Co., Ltd. as of September 30, 2007 which was excluded from consolidation during the fiscal year ended March 31, 2008 upon the sale of its stock on September 26, 2007.

	Millions of yen	Thousands of U.S. dollars
	September 30,	
	2007	2007
Current assets	¥ 430	\$ 4,300
Non-current assets	6,771	67,710
Deferred assets	1	10
Total assets	¥ 7,202	\$ 72,020
Current liabilities	¥ 6,211	\$ 62,110
Non-current liabilities	23	230
Total liabilities	¥ 6,235	\$ 62,350
Proceeds from sale of shares of the subsidiary	¥ 1,552	\$ 15,520
Cash and cash equivalents held by the subsidiary	(132)	(1,320)
Net proceeds	¥ 1,419	\$ 14,190

(b) The following is a summary of the assets and liabilities of Mantsune Corporation as of September 30, 2007 which was included in consolidation during the year ended March 31, 2008 upon its merger with NP Trading Co., Ltd. on October 1, 2007.

	Millions of yen	Thousands of U.S. dollars
	September 30,	
	2007	2007
Current assets	¥ 19,105	\$ 191,050
Non-current assets	5,649	56,490
Total assets	¥ 24,755	\$ 247,550
Current liabilities	¥ 19,322	\$ 193,220
Non-current liabilities	1,435	14,350
Total liabilities	¥ 20,758	\$ 207,580

(c) The following is a summary of the assets and liabilities of Mishima Paper Co., Ltd. as of March 31, 2008 which was included in consolidation during the year ended March 31, 2008 upon a stock swap conducted on February 1, 2008.

	Millions of yen	Thousands of U.S. dollars
	March 31,	
	2008	2008
Current assets	¥ 9,999	\$ 99,990
Non-current assets	21,741	217,410
Total assets	¥ 31,741	\$ 317,410
Current liabilities	¥ 5,132	\$ 51,320
Non-current liabilities	2,347	23,470
Total liabilities	¥ 7,480	\$ 74,800

(d) Capital surplus for the year ended March 31, 2008 increased by ¥5,903 million (\$59,030 thousand) as a result of a stock swap.

(e) The following is a summary of the assets and liabilities of Komine Nissho Co., Ltd. as of March 31, 2006 which was included in consolidation during the year ended March 31, 2007 as a result of its merger with San-Mic Shoji Co., Ltd. on April 1, 2006.

	Millions of yen
	March 31,
	2006
Current assets	¥15,981
Non-current assets	4,642
Total assets	¥ 20,624
Current liabilities	¥ 5,970
Non-current liabilities	2,682
Total liabilities	¥ 8,653

14. Leases

(a) As Lessee

- (i) The following *pro forma* amounts represent amounts equivalent to the acquisition costs, accumulated depreciation and net book value of the leased assets at March 31, 2008 and 2007, which would have been reflected in the accompanying consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
Amount equivalent to:	2007	2008	2008
Acquisition costs:			
Machinery and equipment	¥ 7,154	¥ 5,771	\$ 57,710
Accumulated depreciation:			
Machinery and equipment	¥ 4,362	3,604	36,040
Net book value:			
Machinery and equipment	¥ 2,791	¥ 2,167	\$ 21,670

Lease expenses relating to finance leases accounted for as operating leases for the fiscal years ended March 31, 2008 and 2007 amounted to ¥1,099 million (\$10,990 thousand) and ¥1,294 million, respectively.

The *pro forma* depreciation of the finance leases accounted for as operating leases for the fiscal years ended March 31, 2008 and 2007 amounted to ¥1,099 million (\$10,990 thousand) and ¥1,294 million, respectively, and was computed by the straight-line method over the respective lease terms of the assets assuming a nil residual value.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2008 for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Fiscal year ending March 31:		
2009	¥ 1,906	\$ 19,060
2010 and thereafter	4,991	49,910
Total	¥ 6,897	\$ 68,970

- (ii) Future minimum lease payments subsequent to March 31, 2008 for noncancelable operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Fiscal year ending March 31:		
2009	¥ 418	\$ 4,180
2010 and thereafter	509	5,090
Total	¥ 928	\$ 9,280

(b) As Lessor

- (i) The following amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets relating to finance leases accounted for as operating leases at March 31, 2008 and 2007:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2007	2008	2008
Acquisition costs:			
Machinery and equipment	¥ —	¥ —	\$ —
Accumulated depreciation:			
Machinery and equipment	—	—	—
Net book value:			
Machinery and equipment	¥ —	¥ —	\$ —

Lease income relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements totaled nil and ¥0 million for the fiscal years ended March 31, 2008 and 2007, respectively. Depreciation of the assets leased under finance leases accounted for as operating leases totaled nil and ¥0 million for the fiscal years ended March 31, 2008 and 2007, respectively.

Future minimum lease income (including the interest portion thereon) subsequent to March 31, 2008 for finance leases accounted for as operating leases is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Fiscal year ending March 31:		
2009	¥ 86	\$ 860
2010 and thereafter	391	3,910
Total	¥ 477	\$ 4,770

(ii) Future minimum lease income subsequent to March 31, 2007 for noncancelable operating leases is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Fiscal year ending March 31:		
2009	¥ 217	\$ 2,170
2010 and thereafter	2,214	22,140
Total	¥ 2,431	\$ 24,310

15. Contingent Liabilities

The Company's consolidated subsidiaries had the following contingent liabilities at March 31, 2008:

	Millions of yen	Thousands of U.S. dollars
As guarantors of indebtedness of unconsolidated subsidiaries, affiliates and other	¥ 32,192	\$ 321,920

16. Securities

(a)(i) Marketable securities classified as other securities at March 31, 2008 are summarized as follows:

Marketable other securities

	Millions of yen			Thousands of U.S. dollars		
	March 31, 2008			March 31, 2008		
	Cost	Carrying value	Unrealized gain (loss)	Cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their cost:						
Equity securities	¥ 22,731	¥ 39,863	¥ 17,131	\$ 227,310	\$ 398,630	\$ 171,310
Other	99	99	0	990	990	0
Subtotal	22,830	39,962	17,131	228,300	399,620	171,310
Securities whose cost exceeds their carrying value:						
Equity securities	¥ 37,950	¥ 26,343	¥ (11,607)	\$ 379,500	\$ 263,430	\$ (116,070)
Subtotal	37,950	26,343	(11,607)	379,500	263,430	(116,070)
Total	¥ 60,781	¥ 66,306	¥ 5,524	\$ 607,810	\$ 663,060	\$ 55,240

(ii) Sales of securities classified as other securities amounted to ¥715 million (\$7,150 thousand) with an aggregate gain of ¥568 million (\$5,680 thousand) and loss of ¥0 million (\$0 thousand) for the fiscal year ended March 31, 2008.

(iii) The redemption schedule at March 31, 2008 for securities with maturity dates classified as other securities and held-to-maturity debt securities is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	March 31, 2008			March 31, 2008		
	Due in one year or less	Due after one year through five years	Due after five years	Due in one year or less	Due after one year through five years	Due after five years
Bank bonds	¥ 23	¥ —	¥ —	\$ 230	\$ —	\$ —
Corporate bonds	—	1	—	—	10	—
Total	¥ 23	¥ 1	¥ —	\$ 230	\$ 10	\$ —

(iv) Non-marketable securities classified as held-to-maturity debt securities and other securities at March 31, 2008 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	March 31, 2008	March 31, 2008
	Carrying Value	
Held-to-maturity debt securities:		
Bank bonds	¥ 23	\$ 230
Corporate bonds	1	10
Subtotal	¥ 24	\$ 240
Other securities:		
Unlisted equity securities	¥ 25,791	\$ 257,910
Other	1,001	10,010
Subtotal	26,793	267,930
Total	¥ 26,817	\$ 268,170

(b)(i) Marketable securities classified as held-to-maturity debt securities and other securities at March 31, 2007 are summarized as follows:

Marketable held-to-maturity debt securities

	Millions of yen		
	March 31, 2007		
	Carrying value	Estimated fair value	Unrealized loss
Securities whose carrying value exceeds their estimated fair value:			
Government bonds	¥ 270	¥ 269	¥ (0)
Total	¥ 270	¥ 269	¥ (0)

Marketable other securities

	Millions of yen		
	March 31, 2007		
	Cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their cost:			
Equity securities	¥ 31,032	¥ 61,457	¥ 30,424
Subtotal	31,032	61,457	30,424
Securities whose fair value exceeds their carrying value:			
Equity securities	19,076	14,755	(4,321)
Subtotal	19,076	14,755	(4,321)
Total	¥ 50,109	¥ 76,212	¥ 26,103

(ii) Sales of securities classified as other securities amounted to ¥7,067 million with an aggregate gain of ¥3,855 million and loss of ¥4 million for the fiscal year ended March 31, 2007.

(iii) The redemption schedule at March 31, 2007 for securities with maturity dates classified as other securities and held-to-maturity debt securities is summarized as follows:

	Millions of yen		
	March 31, 2007		
	Due in one year or less	Due after one year through five years	Due after five years
Government bonds	¥ 270	¥ —	¥ —
Corporate bonds	—	1	—
Total	¥ 270	¥ 1	¥ —

(iv) Non-marketable securities classified as held-to-maturity debt securities and other securities at March 31, 2007 are summarized as follows:

	Millions of yen
	March 31, 2007
	Carrying value
Held-to-maturity debt securities:	
Corporate bonds	¥ 1
Subtotal	1
Other securities:	
Unlisted equity securities	28,015
Other	999
Subtotal	29,015
Total	¥ 29,016

17. Segment Information

(a) Business segments

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

The business segment information of the Company and its consolidated subsidiaries for the fiscal years ended March 31, 2008 and 2007 is summarized as follows:

	Millions of yen						
	Fiscal year ended March 31, 2008						
	Pulp and paper division	Paper related division	Housing and construction materials division	Other division	Total	Eliminations or corporate	Consolidated
(i) Sales and operating income:							
Sales to third parties	¥ 950,171	¥ 102,125	¥ 82,099	¥ 77,286	¥ 1,211,682	¥ —	¥ 1,211,682
Intercompany sales and transfers	3,352	9,744	61,470	56,289	130,856	(130,856)	—
Net sales	953,523	111,869	143,569	133,576	1,342,539	(130,856)	1,211,682
Operating expenses	933,148	107,548	141,232	127,775	1,309,704	(130,856)	1,178,848
Operating income	¥ 20,374	¥ 4,321	¥ 2,337	¥ 5,801	¥ 32,834	¥ —	¥ 32,834
(ii) Total assets, depreciation, loss on impairment of fixed assets and capital expenditures:							
Total assets	¥ 1,262,874	¥ 98,484	¥ 64,739	¥ 97,069	¥ 1,523,168	¥ 102,403	¥ 1,625,571
Depreciation	62,885	5,363	1,143	5,399	74,791	—	74,791
Loss on impairment of fixed assets	9,136	—	—	150	9,287	—	9,287
Capital expenditures	¥ 108,086	¥ 7,431	¥ 1,461	¥ 4,210	¥ 121,190	¥ —	¥ 121,190

Thousands of U.S. dollars							
Fiscal year ended March 31, 2008							
	Pulp and paper division	Paper related division	Housing and construction materials division	Other division	Total	Eliminations or corporate	Consolidated
(i) Sales and operating income:							
Sales to third parties	\$ 9,501,710	\$ 1,021,250	\$ 820,990	\$ 772,860	\$ 12,116,820	\$ —	\$ 12,116,820
Intercompany sales and transfers	33,520	97,440	614,700	562,890	1,308,560	(1,308,560)	—
Net sales	9,535,230	1,118,690	1,435,690	1,335,760	13,425,390	(1,308,560)	12,116,820
Operating expenses	9,331,480	1,075,480	1,412,320	1,277,750	13,097,040	(1,308,560)	11,788,480
Operating income	\$ 203,740	\$ 43,210	\$ 23,370	\$ 58,010	\$ 328,340	\$ —	\$ 328,340
(ii) Total assets, depreciation, loss on impairment of fixed assets and capital expenditures:							
Total assets	\$ 12,628,740	\$ 984,840	\$ 647,390	\$ 970,690	\$ 15,231,680	\$ 1,024,030	\$ 16,255,710
Depreciation	628,850	53,630	11,430	53,990	747,910	—	747,910
Loss on impairment of fixed assets	91,360	—	—	1,500	92,870	—	92,870
Capital expenditures	\$ 1,080,860	\$ 74,310	\$ 14,610	\$ 42,100	\$ 1,211,900	\$ —	\$ 1,211,900

Millions of yen							
Fiscal year ended March 31, 2007							
	Pulp and paper division	Paper related division	Housing and construction materials division	Other division	Total	Eliminations or corporate	Consolidated
(i) Sales and operating income:							
Sales to third parties	¥ 889,866	¥ 101,459	¥ 100,489	¥ 83,449	¥ 1,175,264	¥ —	¥ 1,175,264
Intercompany sales and transfers	3,370	9,256	54,140	45,679	112,445	(112,445)	—
Net sales	893,236	110,715	154,630	129,128	1,287,710	(112,445)	1,175,264
Operating expenses	862,585	105,817	151,636	123,016	1,243,055	(112,445)	1,130,609
Operating income	¥ 30,650	¥ 4,898	¥ 2,993	¥ 6,112	¥ 44,655	¥ —	¥ 44,655
(ii) Total assets, depreciation, loss on impairment of fixed assets and capital expenditures:							
Total assets	¥ 1,153,653	¥ 120,142	¥ 66,858	¥ 108,950	¥ 1,449,605	¥ 116,372	¥ 1,565,978
Depreciation	55,942	4,638	1,109	5,359	67,049	—	67,049
Loss on impairment of fixed assets	3,215	—	569	107	3,891	—	3,891
Capital expenditures	¥ 89,513	¥ 7,296	¥ 856	¥ 5,295	¥ 102,961	¥ —	¥ 102,961

As described in Note 2(a), effective the year ended March 31, 2008, Nippon Paper Industries Co., Ltd., one of the Company's consolidated subsidiaries, has changed its method of accounting for depreciation of its tangible fixed assets at the Ishinomaki mill, to the straight-line method from the declining-balance method.

This change in method of accounting was made to ensure appropriate matching of cost with revenue in connection with the setting up of PM N6, a state-of-the-art papermaking line at the Ishinomaki mill in November 2007. It was installed to build up a production system of Nippon Paper Industries Co., Ltd. in view of competition in the Asian market. PM N6 commenced its operations smoothly and it is estimated that the maintenance methods of the machine enable the effect of the investment and its contribution to earnings to be equal in the long-term. In addition, based on an assessment of machinery other than PM N6 at the Ishinomaki mill, it has been confirmed that such other machinery will operate and contribute to earnings stably over their respective estimated useful lives.

As a result, depreciation expense of the pulp and paper division decreased by ¥3,212 million (\$32,120 thousand), and operating income of the pulp and paper division increased by the same amount for the fiscal year ended March 31, 2008 as compared to the corresponding amounts which would have been recorded under the previous method.

As described in Note 2(a), in line with the revision to the Corporation Tax Law of Japan, effective the year ended March 31, 2008, domestic consolidated subsidiaries have changed their method of accounting for depreciation of tangible fixed assets acquired on or after April 1, 2007 based on the revised Corporation Tax Law.

As a result, depreciation expense of the pulp and paper division, the paper related division, the housing and construction materials division and the other division increased by ¥459 million (\$4,590 thousand), ¥101 million (\$1,010 thousand), ¥5 million (\$50 thousand) and ¥174 million (\$1,740 thousand), respectively, and operating income of these divisions decreased by the same amounts for the fiscal year ended March 31, 2008 as compared to the corresponding amounts which would have been recorded under the previous method.

As described in Note 2(a), with respect to tangible fixed assets acquired on or before March 31, 2007, in line with the revision to the Corporation Tax Law, effective the year ended March 31, 2008, domestic consolidated subsidiaries equally depreciate the difference between the residual value and the memorandum price over a period of five years beginning the year following the year in which the assets have been depreciated to their respective residual value and include such depreciation in depreciation expense.

As a result, depreciation expense of the pulp and paper division, the paper related division, the housing and construction materials division and the other division increased by ¥8,615 million (\$86,150 thousand), ¥376 million (\$3,760 thousand), ¥32 million (\$320 thousand) and ¥220 million (\$2,200 thousand), respectively, and operating income of these divisions decreased by the same amounts for the fiscal year ended March 31, 2008 as compared to the corresponding amounts which would have been recorded under the previous method.

(b) Geographic segments

Since sales recognized by companies located in Japan constituted 90% or more of consolidated sales for the fiscal years ended March 31, 2008 and 2007, geographical segment information has not been presented.

(c) Overseas sales

Since overseas sales represented less than 10% of consolidated sales for the years ended March 31, 2008 and 2007, no disclosure of overseas sales information has been presented.

18. Research and Development Costs

Included in cost of sales and selling, general and administrative expenses were ¥6,484 million (\$64,840 thousand) and ¥6,803 million of research and development costs for the fiscal years ended March 31, 2008 and 2007, respectively.

19. Subsequent Events

(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, 2008, was approved at the annual general meeting of shareholders held on June 27, 2008:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends	¥ 4,489	\$ 44,890
(¥4,000.00 (U.S.\$40.000) per share)	¥ 4,489	\$ 44,890

(b) Issuance of bonds

A resolution has been approved at the Board of Directors meeting held on April 28, 2008 for the issuance of unsecured corporate bonds under following conditions;

- (1) Amount issued: up to ¥20 billion
- (2) Interest rate: up to 2.0% per year
- (3) Period of issuance: April 30, 2008 to September 30, 2008
- (4) Maturity: 7 to 10 years
- (5) Guarantee: guaranteed by Nippon Paper Industries Co., Ltd.

(c) Stock split and adoption of unit share system

The Company's Board of Directors approved a resolution for the implementation of a stock split and the adoption of a unit share system at a meeting held on May 23, 2008.

(1) Purpose

The electronic share certificate system, which will go into effect in January 2009 once the "Law for Partial Amendment of the Laws related to Transfer of Bonds, etc., to Streamline Settlement with respect to Transactions of Stock, etc" (Law No. 88 of 2004) "(the Stock Settlement Streamlining Law)" goes into effect, does not provide for fractional shares and, accordingly, the Company has determined to implement a stock split and adopt a unit share system in order to cease its fractional share system.

No substantive changes in investment units will take place in conjunction with this stock split and adoption of the unit share system.

(2) Overview of the stock split and the unit share system

Shares of common stocks will be split at a ratio of 100 shares for each share, and the minimum investment unit will comprise of 100 shares of common stocks.

Record date: The date two days prior to the date on which the Stock Settlement Streamlining Law goes into effect.

Effective date: The date immediately preceding the date on which the Stock Settlement Streamlining Law goes into effect.

Report of Independent Auditors

The Board of Directors
Nippon Paper Group, Inc.

We have audited the accompanying consolidated balance sheets of Nippon Paper Group, Inc. and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nippon Paper Group, Inc. and consolidated subsidiaries at March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 2(a), effective the year ended March 31, 2008, a certain consolidated subsidiary has changed its method of accounting for depreciation of tangible fixed assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young Shin Nihon

June 27, 2008



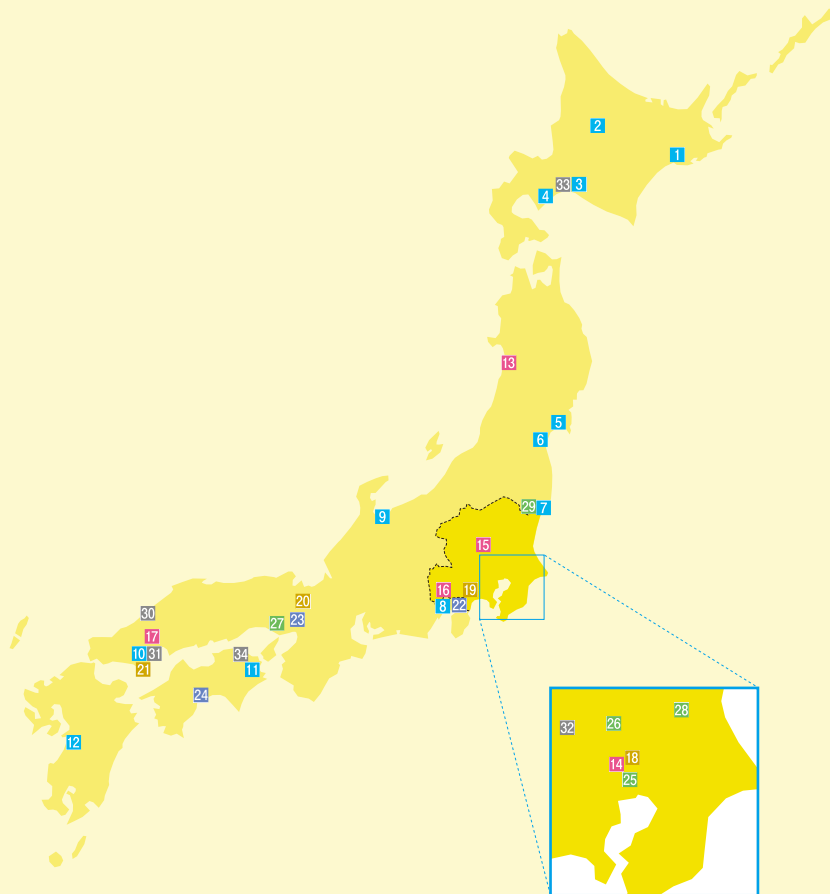
GLOBAL NETWORK

110 Domestic Network

112 Overseas Network

Domestic Network

Head Offices and Production Sites of Major Subsidiaries (As of July 1, 2008)



Pulp and Paper Division

Nippon Paper Industries Co., Ltd.

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

Production Facilities

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

Nippon Daishowa Paperboard Co., Ltd.

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

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

Nippon Paper Crecia Co., Ltd.

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

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

Nippon Paper Papyrus Co., Ltd.

Marutaka Building
6-16-12 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel: +81-3-3542-3151 Fax: +81-3-3545-6492

- 22 Harada Mill (Shizuoka)
- 23 Suita Mill (Osaka)
- 24 Kochi Mill (Kochi)

NP Trading Co., Ltd.

Kamakuragashi Building
2-2-1, Uchikanda, Chiyoda-ku, Tokyo 101-8536, Japan
Tel: +81-3-3252-1654 Fax: +81-3-5256-2086

Paper-Related Division

Nippon Paper-Pak Co., Ltd.

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

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

Nippon Paper Chemicals Co., Ltd.

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

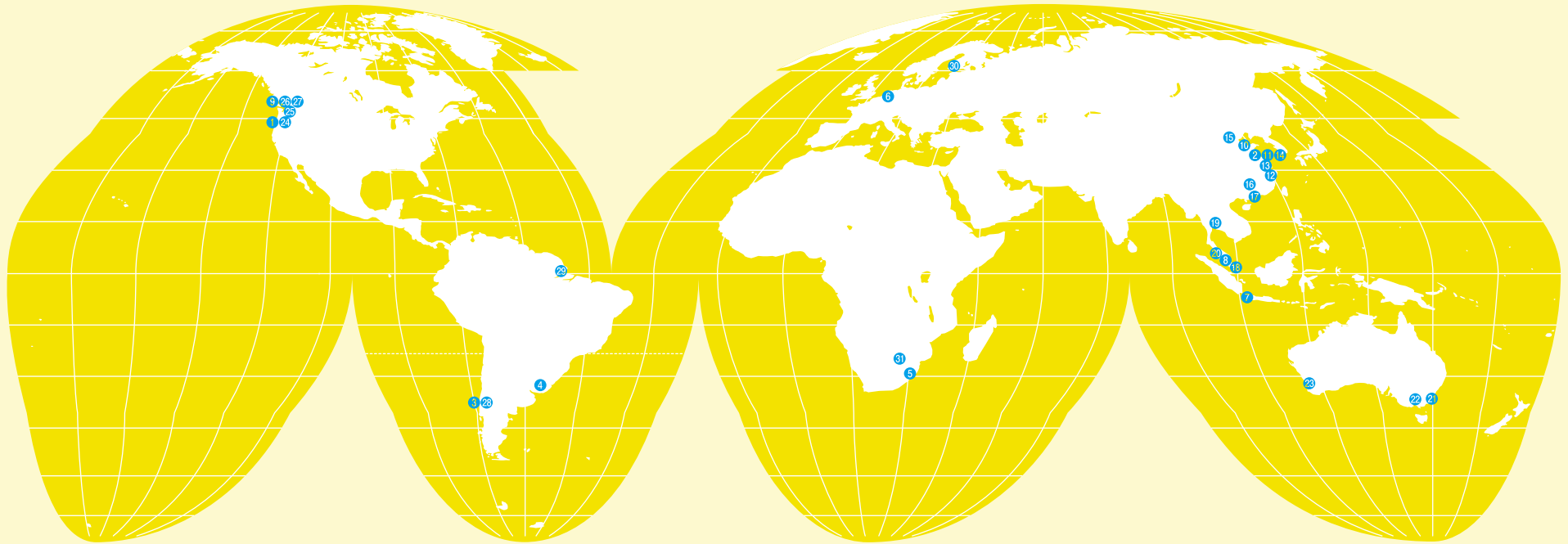
- 30 Gotsu Works (Shimane)
- 31 Iwakuni Works (Yamaguchi)
- 32 Higashimatsuyama Works (Saitama)
- 33 Yufutsu Works (Hokkaido)
- 34 Komatsushima Works (Tokushima)

Housing and Construction Materials Division

Nippon Paper Lumber Co., Ltd.

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

Overseas Network



Overseas Offices

Pulp and Paper Division

Nippon Paper Group, Inc.

Longview Office ①

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

Nippon Paper Industries Co., Ltd.

China Office ②

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

Concepción Office ③

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

Concepción Office (Montevideo) ④

Av.Luis Alberto de Herrera 1248, of.321,
Montevideo, Uruguay
Tel: +598-2-628-6655 (ext.14)
Fax: +598-2-628-6655

Pietermaritzburg Office ⑤

c/o The Central Timber Co-operative Ltd., 171
Burger Street, Pietermaritzburg 3201,
Republic of South Africa
Tel: +27-33-3924-214 Fax: +27-33-3426-410

Europe Office ⑥

Strawinskyiaan 707 (WTC-A tower), 1077 XX
Amsterdam Z.O., The Netherlands
Tel: +31-20-5711-878 Fax: +31-20-5711-879

NP Trading Co., Ltd.

Jakarta Office ⑦

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

Malaysia Office ⑧

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

Housing and Construction Materials Division

Nippon Paper Lumber Co., Ltd.

Vancouver Office ⑨

Suite 700-510, Burrard Street, Vancouver, B.C.
V6C 3A8, Canada
Tel: +1-604-801-6148 Fax: +1-604-801-6658

Major Overseas Subsidiaries and Affiliates

Asia

- Shouguang Liben Paper Making Co., Ltd.** ⑩
595 Shengcheng Road, Shouguang, Shandong,
262700, China
Tel: +86-536-215-8412 Fax: +86-536-215-8417
- Shanghai JP Co., Ltd.** ①
173 Hongcao Road(S), Shanghai, 200233,
China
Tel: +86-21-6408-9900 Fax: +86-21-6408-6677
- Zhejiang Nippon Paper Co., Ltd.** ⑫
Pinghu Zhejiang, 314214, China
Tel: +86-573-597-8658 Fax: +86-573-597-8000
- Everwealth Paper Industries (Shanghai) Co., Ltd.** ⑬
2 Xinjie Road, Xin Qiao Township Industrial
Park, Song Jiang, Shanghai, 201612, China
Tel: +86-21-5764-5189 Fax: +86-21-5764-5118
- Nippon Paper Industries Trading (Shanghai) Co., Ltd.**
• Shanghai office ⑭
Room 2709, New Town Center, No. 83, Lou
Shan Guan Road, Shanghai, 200336, China
Tel: +86-21-6145-3260 Fax: +86-21-6145-3237
- Beijing office ⑮
Room 904A, Avic, No. 10B Central Road, East
3rd Ring Road, Chaoyang District, Beijing,
100022, China
Tel: +86-10-6566-7148 Fax: +86-10-6566-7145

- San-Mic Trading Co., (Shenzhen), Ltd.** ⑯
Room 3011, News Building 1st, NO.1002
Shennanzhong Rd.,
Futian Area, Shenzhen 518027, China
Tel: +86-755-2595-1177 Fax: +86-755-2595-1186
- San-Mic Trading Co., (H.K.) Ltd.** ⑰
Unit 803, 8th Floor, 68 Yee Wo Street,
Causeway Bay, Hong Kong
Tel: +852-2504-5995 Fax: +852-2504-1953
- San-Mic Trading Co., (S) Pte. Ltd.** ⑱
79 Robinson Road #14-03, CPF Building,
Singapore
Tel: +65-6222-0318 Fax: +65-6225-1978
- San-Mic Trading (Thailand) Co., Ltd.** ⑲
SG Tower, 161/1 Floor 12, Room 1202, Soi
Mahadlek Luang 3, Rajdamni Road, Lumpiini,
Pathumwan, Bangkok, Thailand, 10330
- N.A.K. Manufacturing (M) Sdn. Bhd.** ⑳
Lot 19-11, Bersatu Industrial Complex,
Kawasan Perindustrian Balakong, 43200
Cheras, Selangor Darul Ehsan, Malaysia
Tel: +60-3-9074-7900 Fax: +60-3-9074-7889

Oceania

- South East Fibre Exports Pty. Ltd.** ㉑
P.O. Box 189, Jews Head, Edrom Road, Eden,
N.S.W. 2551, Australia
Tel: +61-2-6496-0222 Fax: +61-2-6496-1204
- Nippon Paper Resources Australia Pty. Ltd.** ㉒
Level 6,456 Lonsdale Street, Melbourne, VIC
3000, Australia
Tel: +61-3-9252-2700 Fax: +61-3-9642-2705
- WA Plantation Resources Pty. Ltd.** ㉓
Level 5, BGC Centre, 28 The Esplanade Perth,
WA 6000, Australia
Tel: +61-8-9420-8300 Fax: +61-8-9322-7895
- North and South America**
- North Pacific Paper Corporation** ㉔
P.O. Box 2069, 3001 Industrial Way, Longview,
WA 98632, U.S.A.
Tel: +1-360-636-6400 Fax: +1-360-423-1514
- Nippon Paper Industries USA Co., Ltd.** ㉕
P.O. Box 271, 1815 Marine Drive, Port Angeles,
WA 98362, U.S.A.
Tel: +1-360-457-4474 Fax: +1-360-452-6576
- Daishowa North America Corporation** ㉖
Suite 700-510 Burrard Street, Vancouver, B.C.
V6C 3A8, Canada
Tel: +1-604-801-6628 Fax: +1-604-801-6658

- Daishowa-Marubeni International Ltd.** ㉗
Suite 700-510 Burrard Street, Vancouver, B.C.
V6C 3A8, Canada
Tel: +1-604-684-4326 Fax: +1-604-684-0512
- Volterra S.A.** ㉘
Cochrane 361, Concepción, Chile
Tel: +56-41-2-244300 Fax: +56-41-2-259541
- Amapa Florestal e Celulose S.A.** ㉙
Rua Claudio Lucio Monteiro, S/N, 68925-000,
Santana AP, Brazil
Tel: +55-96-3281-8024 Fax: +55-96-3281-8039

Europe

- Jujo Thermal Oy** ㉚
P.O. Box 92, FIN-27501 Kauttua, Finland
Tel: +358-10-303-200 Fax: +358-10-303-2419

Africa

- Nippon-SC Tree Farm S.A. (Pty) Ltd.** ㉛
P.O. Box 2253, Parklands 2121, Republic of
South Africa
Tel: +27-11-784-9120 Fax: +27-11-784-9122



Investor Information

Company name

Nippon Paper Group, Inc.

Company code

3893

Stock listings

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

Shares issued and outstanding (As of March 31, 2008)

1,122,534.63

Major Shareholders (10 Largest)

(As of March 31, 2008)

Name	Shares held*	Shareholding (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	78,729	7.0
The Master Trust Bank of Japan, Ltd. (Trust Account)	56,715	5.1
Nippon Life Insurance Company	37,617	3.4
Rengo Co., Ltd.	33,203	3.0
Mizuho Corporate Bank, Ltd.	31,951	2.8
Mitsui Life Insurance Company Limited	22,589	2.0
Mizuho Bank, Ltd.	21,467	1.9
Daio Paper Corporation	20,769	1.9
Sumitomo Mitsui Banking Corporation	19,938	1.8
Nippon Paper Group, Inc. Employee Share Ownership	18,394	1.6

Note: *Holdings of less than one share omitted.

Fiscal year

From April 1 to March 31

Ordinary general meeting of shareholders

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

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

Stock Transfer Agency Department

The Chuo Mitsui Trust and Banking Company, Limited

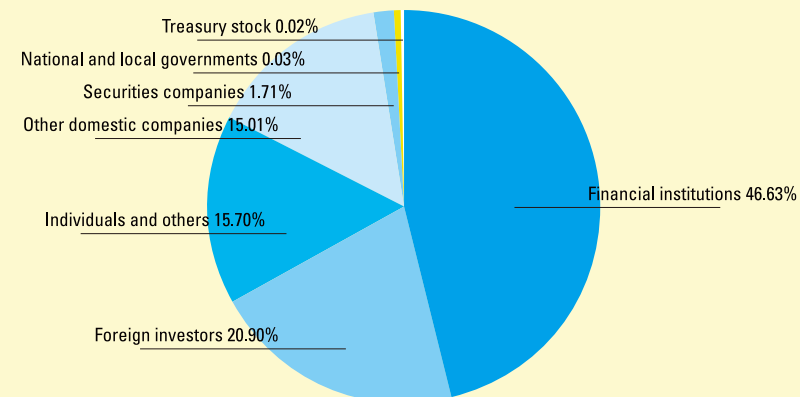
2-8-4 Izumi, Suginami-ku, Tokyo 168-0063

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

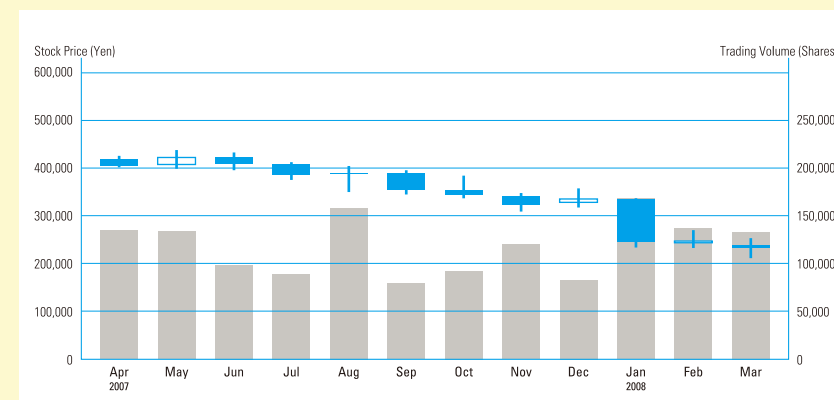
Independent auditor

Ernst & Young ShinNihon

Percentage of Shares Held by Shareholder Category (As of March 31, 2008)



Stock Price and Trading Volume



Investor Information

Nippon Paper Group, Inc., Investor Relations Office

Shin-Yuraku-cho building

1-12-1 Yuraku-cho, Chiyoda-ku, Tokyo 100-0006, Japan

Tel: +81-3-3218-9347

Fax: +81-3-3216-5662

IR Mail

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

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

IR Website

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

Sustainability Report

Nippon Paper Group will publish its Sustainability Report 2008 in September 2008.

Inquiries

Nippon Paper Group, Inc., CSR Department

Tel: +81-3-3218-9321 Fax: +81-3-3215-3784

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

Papers used in this report (Nippon Paper Industries Co., Ltd.)

Cover:	Esprit Coat Lotus	160 g/m ²
Text:	Opera White Zeus	115 g/m ²
Financial Section:	Hyper Pyrenees Tough	60.2 g/m ²

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

NIPPON PAPER GROUP, INC.

www.np-g.com/e/