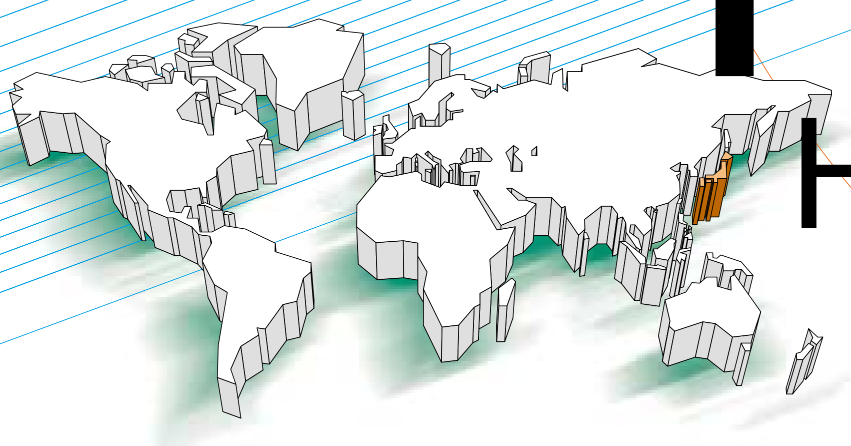
NIPPON UNIPAC

Nippon Unipac Holding

Annual Report 2001

For the Fiscal Year Ended March 31, 2001



Profile

Nippon Unipac Holding was formed on March 30, 2001, as a holding company derived from a transfer of stocks from Nippon Paper Industries Co., Ltd., and Daishowa Paper Manufacturing Co., Ltd. With consolidated net sales exceeding ¥1.2 trillion and a total of 18 thousand Group employees, we are now recognized as the leader in Japan's pulp and paper industry.

Established in a new century with a new management structure, Nippon Unipac Holding will combine the efforts of all of its Group companies to meet the expectations of all our shareholders. We ask for your continued support in our future endeavors.

NIPPON UNIPAC

Contents

Consolidated Financial Highlights

Nippon Unipac Holding

Years ended March 31 (Note 2)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**2001**
For the year:			
Net sales	**¥1,259,413**	¥1,224,322	**$10,239,130**
Gross profit	**305,397**	261,716	**2,482,902**
Operating income	**80,583**	41,301	**655,146**
(Loss) income before income taxes and minority interests	**(41,679)**	25,893	**(338,854)**
Net income	**(28,211)**	11,977	**(229,358)**
At year-end:			
Total assets	**¥1,697,163**	¥1,752,592	**$13,798,073**
Property, plant and equipment, net	**881,625**	935,283	**7,167,683**
Total investments and other assets	**234,515**	200,728	**1,906,634**
Total shareholders' equity	**375,859**	378,859	**3,055,764**

Notes: 1. U.S. dollar amounts here and elsewhere in this annual report are translated, for convenience only, at the rate of ¥123=US$1.
2. The years stated in the text are fiscal years, which begin on April 1 of the previous year and end on March 31 of the year indicated.
3. The above figures represent the simple sum of the consolidated figures of Nippon Paper Industries Co., Ltd. and Daishowa Paper Manufacturing Co., Ltd.

Nippon Paper Industries Co., Ltd. –Consolidated–

Years ended March 31 (Note 2)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**2001**
For the year:			
Net sales	**¥ 930,055**	¥ 906,041	**$7,561,423**
Gross profit	**235,281**	202,258	**1,912,854**
Operating income	**59,907**	30,127	**487,049**
Income before income taxes and minority interests	**4,858**	21,626	**39,496**
Net income	**35**	10,106	**285**
At year-end:			
Total assets	**¥1,107,172**	¥1,122,106	**$9,001,398**
Property, plant and equipment, net	**534,037**	550,185	**4,341,764**
Total investments and other assets	**161,061**	127,838	**1,309,439**
Total shareholders' equity	**328,764**	334,436	**2,672,878**

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2. The years stated in the text are fiscal years, which begin on April 1 of the previous year and end on March 31 of the year indicated.

Daishowa Paper Manufacturing Co., Ltd. –Consolidated–

Years ended March 31 (Note 2)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**2001**
For the year:			
Net sales	**¥329,358**	¥318,281	**$2,677,707**
Gross profit	**70,116**	59,458	**570,049**
Operating income	**20,676**	11,174	**168,098**
(Loss) income before income taxes and minority interests	**(46,537)**	4,267	**(378,350)**
Net (loss) income	**(28,246)**	1,871	**(229,642)**
At year-end:			
Total assets	**¥589,991**	¥630,486	**$4,796,675**
Property, plant and equipment, net	**347,588**	385,098	**2,825,919**
Total investments and other assets	**73,455**	72,890	**597,195**
Total shareholders' equity (Note 3)	**47,095**	44,423	**382,886**

Notes: 1. U.S. dollar amounts here and elsewhere in this annual report are translated, for convenience only, at the rate of ¥123=US$1.
2. The years stated in the text are fiscal years, which begin on April 1 of the previous year and end on March 31 of the year indicated.
3. The foreign currency translation adjustments for the fiscal years 2001 and 2000 are included in shareholders' equity.

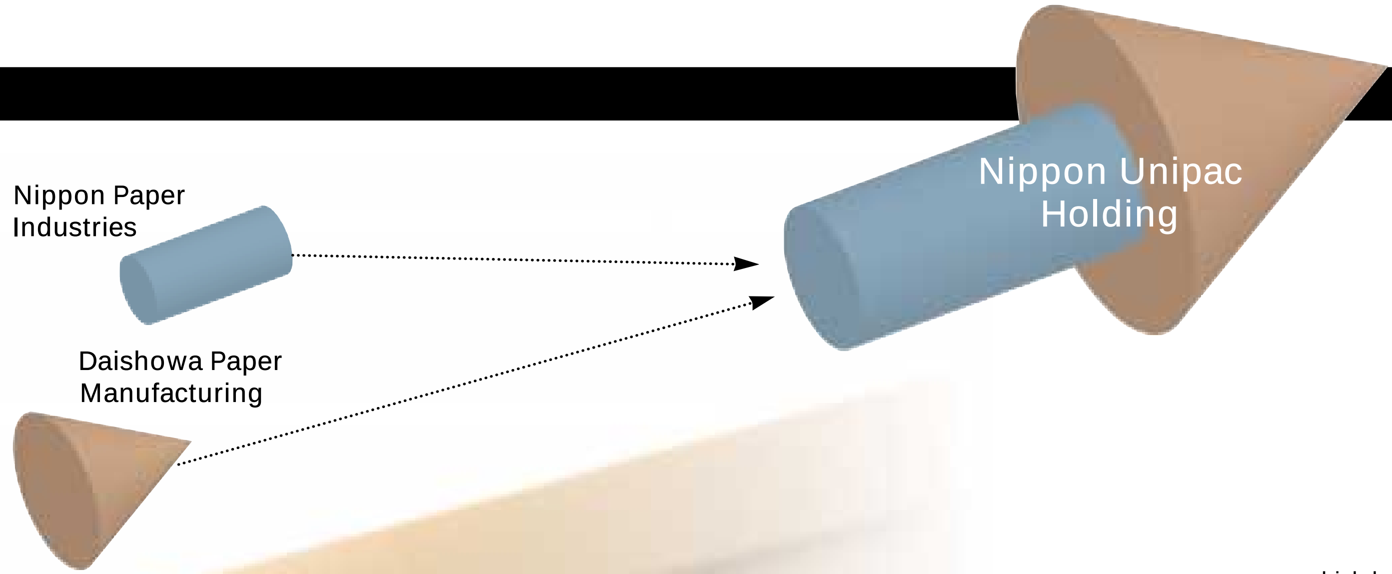
Nippon Unipac Holding—To Our Shareholders—Masao Kobayashi

July 2001

M. Kobayashi

Masao Kobayashi
President, Nippon Unipac Holding

In March 2000, it was announced that Nippon Paper Industries Co., Ltd., and Daishowa Paper Manufacturing Co., Ltd., would integrate their businesses through the establishment of a joint holding company. Nippon Paper Industries and Daishowa Paper Manufacturing were delisted on March 23, and Nippon Unipac Holding was listed on the stock exchanges on March 29 to become the exclusive shareholder for both companies. On March 30, 2001 business activities were commenced as planned.



In fiscal 2001, ended March 31, 2001, Nippon Unipac Holding's consolidated net sales exceeded ¥1.2 trillion, making it the sixth largest pulp and paper company in the world and the top Japanese company in the industry.

The three major challenges facing Nippon Unipac Holding, the core company of the Nippon Unipac Holding Group, are outlined below.

Quickly Reaping the Benefits of Integration

In principle, both Nippon Paper Industries and Daishowa Paper Manufacturing will be independent, self-managed corporations. Nippon Unipac Holding will require Nippon Paper Industries and Daishowa Paper Manufacturing to focus on capital efficiency in their management to increase the corporate value of the whole Group. The benefit of the Group will always be given top priority. The Group feels that the most important issue it currently faces is how to reap the intended benefits of integration as soon as possible.

To increase corporate value to the greatest extent possible, it is necessary to use the Group's management resources in the most effective manner. One of the most effective methods of measuring the results of the Group's operational efforts at improving management efficiency is the Nippon Paper Economic Profit (NEP) index formula—a formula used for economic analysis similar to the Economic Value Added (EVA®) index formula—which has been used by Nippon Paper Industries since 2000. Starting in 2001, it is being applied to the entire Group. This will promote management based on the concept of capital efficiency.

Strategic Plan for Group Growth

The holding company will be responsible for major investment activities and important Group management policies and, with a view toward increasing Group value, will be responsible for planning and decision making regarding the Group as a whole. Such strategic moves as business alliances and M&A will be energetically pursued. In addition, the Group will pursue an overseas investment strategy for business opportunities in China and elsewhere in Asian markets which have the potential for growth. The Company will make the best use of IT, unifying accounting and financial functions, and reevaluate the Group business portfolio.

Communication with Investors

The Group works to provide fair disclosure of information to investors with prompt, accurate, and appropriate information. In addition to providing information for investors, the Group welcomes feedback from investors on management policies.

Nippon Unipac Holding is starting with a very small number of senior management and staff to achieve high-speed planning and implementation. The Nippon Unipac Holding Group hopes to achieve successful results as a pioneering holding company in the manufacturing industry of this country and will strive to exceed the expectations of shareholders.

Could you explain the objectives of the business integration?

In fiscal 2001, Nippon Paper Industries and Daishowa Paper Manufacturing were the second and fourth largest pulp and paper manufacturers in Japan. In order to succeed in the international marketplace, which was to become even more severely competitive, it became necessary to quickly increase competitiveness in the paper sector, the core business of both companies. Both companies were producing a wide range of products and there was some surplus capacity that could be utilized through cooperation. It was decided to proceed with integration from this point of view of fuller utilization of existing facilities. It was seen as the best possible way to streamline production and sales, as well as quickly reap the benefits of synergy.

On a fiscal 2001 net sales base, Nippon Unipac Holding is the largest pulp and paper manufacturer in Japan and the sixth largest in the world.

We want to become a global leading paper manufacturing group with solid international competitiveness at an early stage.

Why was it decided to form a holding company rather than pursue a more traditional merger or alliance?

First of all, as background to this decision, in October of 1999, due to a revision of Japan's Commercial Code, it became possible to form a holding company through a stock transfer.

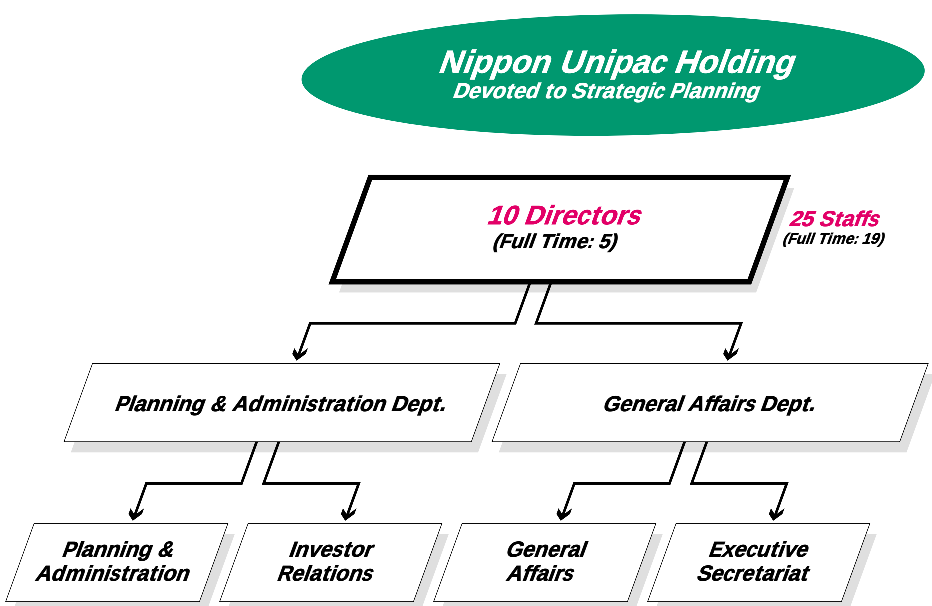
The formation of a holding company was seen as the best way to reap the benefits of synergy in as short a time as possible. In a merger, it is necessary for the companies involved, in order to integrate their systems and cultures, to expend much effort, cost, and time before the benefits are realized. It was also thought that the synergistic benefits of a business alliance would be limited. The formation of a holding company was believed to bring the quickest results.

Are there any special characteristics of Nippon Unipac Holding?

A • Well, one characteristic is that it is made up of a very small, hand-picked group of people. There are 10 directors, 5 of whom are full time. The other five are presidents, an executive vice-president, and directors of Nippon Paper Industries and Daishowa Paper Manufacturing who simultaneously hold two posts in order to maximize the Group profit in the management of Nippon Unipac Holding. The full-time staff is small, with a total of 24 members as of March 30, 2001.

• Because it is managed by a small Board of Directors, Nippon Unipac Holding is flexible enough to respond to the rapidly changing business environment and able to make timely strategic management decisions.

Management under a Streamlined Executive System



(As of March 30, 2001)

How is the Nippon Unipac Holding Group organized?

• Nippon Unipac Holding, which is responsible for overall Group strategy as the parent company of Nippon Paper Industries and Daishowa Paper Manufacturing, is the contact point for shareholders.

• In addition, the paper and paperboard sales departments of Nippon Paper Industries and Daishowa Paper Manufacturing have been integrated, resulting in a true merger of the two companies' sales resources.

• The Group integrated the customer relations points of contact by breaking off the paper sales departments of both companies and combining them into an independent joint sales company, Nippon Paper Sales Co., Ltd., to adopt one sales window, and started business in July 2001.

• The three aims for the establishment of Nippon Paper Sales are as follows.

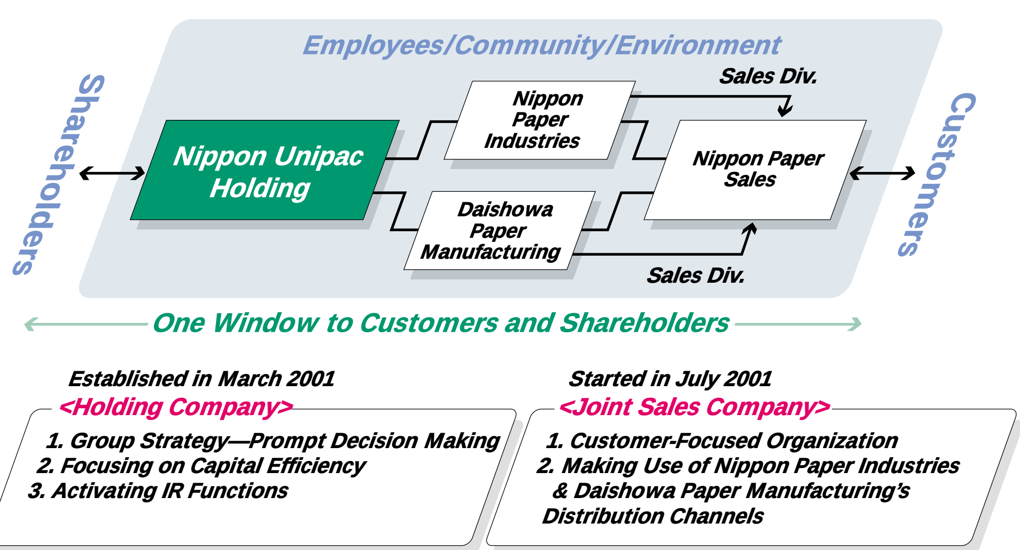
① In April of last year, Nippon Paper Industries completed a major restructuring by reorganizing the departments by client rather than by product. This reorganization has yielded positive results. The sales organizations of both companies have been reorganized and integrated so as to be more customer focused.

② The sales networks of Nippon Paper Industries and Daishowa Paper Manufacturing will be used mutually in order to increase sales and further improve customer service.

③ In the future, products will be consolidated under a single banner promptly to rationalize the production system of the Group as a whole.

• With regard to the paperboard business, Nippon Paperboard Sales Ltd. commenced business activities in July 2001. This company was established through the merger of the paperboard sales departments of Japan Paperboard Industries Co., Ltd., Daishowa Paper Manufacturing, and Tohoku Paper Co., Ltd. In this way, the Group benefits from the favorable results of synergy in the paperboard business.

Outline of Nippon Unipac Holding Group



What is the role of Nippon Unipac Holding within the Group?

(1) Nippon Unipac Holding approves major investment activities and management issues critical to the Group.

(2) It will conduct corporate governance. In other words, Nippon Unipac Holding will play the role of making sure Nippon Paper Industries and Daishowa Paper Manufacturing continue to move in the same direction.

• In the area of management direction, in addition to clearly delineating areas of responsibility and expected results of Nippon Paper Industries and Daishowa Paper Manufacturing, Nippon Unipac Holding will have these two umbrella companies engage in positive competition and conduct balanced management with a view to improving the Group as a whole.

More specifically:

① Nippon Unipac Holding will conduct management which focuses on capital efficiency. As part of the focus on efficiency, the NEP—a formula used for economic analysis similar to the EVA® index formula wherein NEP equals ordinary income before interest payment burden minus capital cost—was introduced to Nippon Paper Industries last year. The NEP was instituted at Daishowa Paper Manufacturing and all consolidated group subsidiaries of Nippon Paper Industries in order to thoroughly implement capital efficiency focused management in April 2001. Group businesses that do not show positive NEP rates will be subject to drastic measures in the next three years.

② Nippon Unipac Holding will conduct planning and decision making regarding Group growth strategies and formulate strategies which include business alliances and M&A with a view to increasing corporate value for the Group as a whole.

③ Nippon Unipac Holding will work enthusiastically to further improve IR. The following are the two IR functions on which the Group will focus.

■ Promoting the understanding of Group activities by investors. In order to achieve this, the disclosure of information will be improved.

■ Enabling top management to get feedback from investors. In this way, management and IR will be intertwined.

How has this business integration affected production share?

For the Group's core business—paper—the Nippon Unipac Holding Group's products are on top in most categories. In calendar 2000, in the three main product categories, newsprint, coated paper, and business communication paper, the Group's domestic market share based on total production was 40% including developmental imports, 34%, and 42%, respectively.

The production share of Nippon Unipac Holding Group in the Paper and Paperboard Business

For Calendar Year 2000 (Unit: 10,000Mt)

Product category	Nippon Paper Industries Group	Daishowa Paper Manufacturing Group	Nippon + Daishowa	Estimated Market Share
Newsprint*	102	51	153	40%
Uncoated Printing	61	34	94	33%
Coated Printing	156	73	229	34%
Special Printing	11	3	15	38%
Business Communication	48	26	74	42%
Printing & Communication	275	136	411	35%
Packaging, Sanitary, Industrial	47	17	64	17%
Paper Total	424	204	628	32%
Containerboard	129	38	168	17%
White Board	14	24	38	21%
Other Paperboard	22	1	23	18%
Paperboard Total	165	63	228	18%
Paper & Paperboard Total	590	267	857	27%

*North Pacific Paper Corporation included

Source: Materials produced in the IR Office of Nippon Unipac Holding are based on materials from the Japan Paper Association, etc.

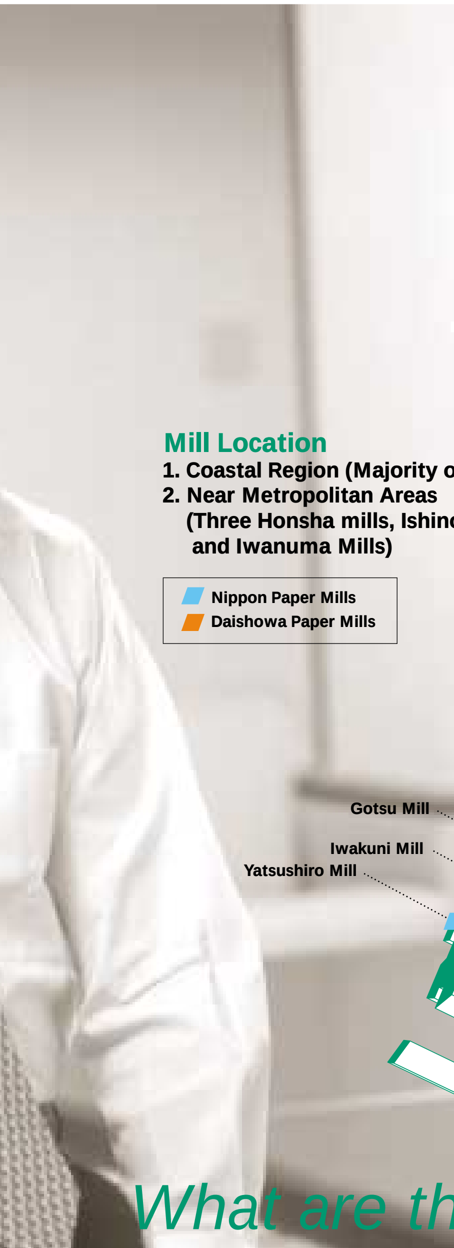
What are the strengths of the Nippon Unipac Holding Group?

• First is the location of the Group's production bases. The geographic distribution of production bases is a particular strength. Three Honsha mills in the Fuji area—Yoshinaga, Suzukawa, and Fuji—as well as Iwanuma Mill and Ishinomaki Mill, are close to metropolitan areas that are major consumer centers. These mills are in excellent locations not only for the transportation of products, but also for the low-cost procurement of recycled fiber, a promising paper resource. In addition, the Group has many large-scale coastal mills such as Iwakuni Mill and Ishinomaki Mill, which add to the Group's competitiveness in the areas of procurement of resources and transportation of products.

• Second is our technology. Nippon Paper Industries Research and Development Division has already been concentrated in Tokyo since April 2000. Paper is a recyclable resource and the Nippon Unipac Holding Group has a variety of cutting-edge recycling technologies. The Group has developed technologies that allow the use of waste

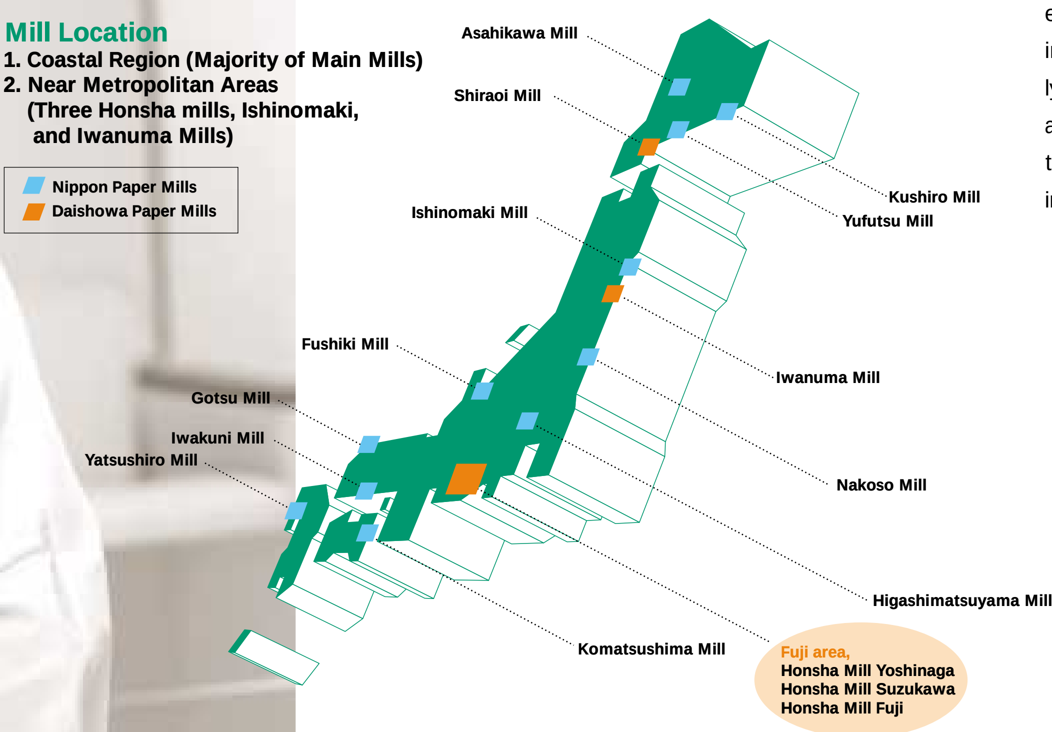
Research and Development Division in Tokyo magazine paper, which has not been widely used in Japan, to manufacture high-quality paper. This technology has also enabled large cost reductions. Overseas, we have employed cutting-edge biotechnology and developed afforestation technologies from which we expect to double pulp yield. Also, noteworthy progress has been made in the area of paper manufacturing technology development, such as our unique technology for making bulky paper and a variety of coating technologies to meet the needs of the marketplace.

• Third is our potential production capacity surplus. The combination of the production power of Nippon Paper Industries and Daishowa Paper Manufacturing is expected to result in a huge production capacity. By putting this to use and increasing efficiency, especially that of Daishowa Paper Manufacturing, the Group will be able to use existing facilities to meet increasing demand without costly capital investment. This will also make it possible to restructure inefficient paper manufacturing machinery.



Mill Location

1. Coastal Region (Majority of Main Mills)
2. Near Metropolitan Areas (Three Honsha mills, Ishinomaki, and Iwanuma Mills)



What are the issues that the Nippon Unipac Holding Group is currently facing?

• Allow me to point out three urgent issues.

① Strengthening Cost-Competitiveness: In order to construct a solid earnings base that is not affected by market fluctuations, it is essential to improve cost-competitiveness. Especially in future competition with overseas competitors, it is imperative that the Group become more cost-competitive.

② Establishment of Marketing Companies: In order to survive in the Japanese domestic market, it was essential to construct a customer-focused marketing system. In July, Nippon Paper Sales and Nippon Paperboard Sales began business activities, and the Group strengthened not only Group sales but also information-gathering capabilities.

③ Co-existence with the Environment: We must constantly consider how to co-exist with the Earth's environment and incorporate this into increasing corporate value as a recycling-conscious industry.

• The issues facing Nippon Paper Industries involve "Selective and Focused Investment." The following are three concrete examples for increasing competitiveness.

① Production Cost-Competitiveness: There is a competitive gap between the five main mills, including Ishinomaki Mill and Iwakuni Mill, and the small to medium-scale mills. A stricter stance must be adopted toward mills with lower productivity.

② Competitiveness as a Diversified Business: A diversified business operates in different industries and markets with different competitors and in different geographical areas than a paper company; so, a structural reorganization such as spinning off the business is being considered. This is necessary not only to increase the speed of decision-making processes, but also to increase competitiveness relative to competitors in each field of business.

③ Competitiveness of Subsidiaries: Particularly in the paperboard business, it is necessary to continually carry out radical reforms, including the reconstruction of production systems.

• The urgent issues facing Daishowa Paper Manufacturing are the reduction of interest-bearing debt and the improvement of the cost structure.

① Reduction of Interest-Bearing Debt: In fiscal 2001, total consolidated interest-bearing debt were ¥391.5 billion. Although the figure was down ¥30.0 billion compared with the previous year-end, the level was still excessive.

② Reduction of Variable Costs: Due to an extended period of low income, capital investment to reduce variable costs by increasing the use of recycled fiber and improving energy efficiency was not carried out. Daishowa Paper Manufacturing will improve its cost structure by making use of the advantageous locations of its mills as well as increasing profitability and reducing interest-bearing debt, thereby improving cost

How much synergy effects will be gained from the integration?

• Over the next three years, comprehensive cost reduction measures are planned.

• Management objectives for the next three years were established based on the medium-term management plan laid out by Nippon Paper Industries and Daishowa Paper Manufacturing at the beginning of the integration on March 30, 2001. Reducing costs is an important element of this plan.

• As for concrete measures, those which can be taken immediately were designated as "Step One," and cost reductions of ¥45 billion are expected from these measures in the three years ending fiscal 2004. This figure is included in the three-year medium-term management plan started April 2001. A breakdown of the cost reductions planned is as follows:

① Production and procurement of raw materials—increasing use of de-inked pulp (DIP), increasing mill productivity

due to technology exchanges, and reduction of unit cost by jointly purchasing of materials—¥27 billion

② Distribution—joint use of warehouses, joint shipping, avoidance of cross shipping, etc.—¥4 billion

③ Personnel—increasing work efficiency, investment in labor saving, reducing labor costs due to increased contracting and outsourcing—¥11 billion

④ Financial structure improvement—¥3 billion

• Cost reductions due to the restructuring of Group production systems and the avoidance of redundant investment resulting from the integration of products and brand names are designated as "Step Two," and the cost reduction figures for these measures are not included in the current medium-term management plan.

• To reap the benefits of integration as soon as possible, on February 22, 2001, the Committee for the Rapid Realization of Synergy Effects was established. This committee will quickly establish and implement a concrete action plan.

What are the management objectives of the Nippon Unipac Holding Group?

• The Nippon Unipac Holding Group's target figures for the three years ending March 31, 2004, are as follows:

① Profit:

■ Ratio of ordinary income to net sales: More than 8.2%, with ordinary income over ¥120 billion

■ ROE: More than 12.3%

■ ROIC: More than 9.4%

② Interest-bearing debt

■ Total interest-bearing debt: Less than ¥740 billion

■ Debt-to-equity ratio: Less than 1.3

■ Regular employees: Fewer than 15,000

Financial Targets

Target Items	*March 31, 2000*	*March 31, 2004 Targets*
<Profit>		
• Ordinary Income/Net Sales	*2.7%*	*More than 8.2% (Ordinary Income over ¥120 billion)*
• Return on Equity	*2.9%*	*More than 12.3%*
• Return on Invested Capital	*4.0%*	*More than 9.4%*
<Liabilities>		
• Interest-Bearing Debt	*¥955.3 billion*	*Under ¥740 billion*
• Debt/Equity Ratio	*2.0*	*Under 1.3*
<Employees>		
• Number of Employees	*18,049*	*Under 15,000*

NIPPON PAPER INDUSTRIES

A Message from the President—Takahiko Miyoshi

July 2001

T. Miyoshi

Takahiko Miyoshi
President, Nippon Paper Industries

The period covered by the second medium-term management plan, begun in April 1998, came to a close in March 2001 with all of the stated goals accomplished. As of April 2001, Nippon Paper Industries began its third medium-term management plan as a member of the Nippon Unipac Holding Group.

Results of the Second Medium-Term Management Plan

Reflecting the favorable business conditions arising from the growing demand from IT-related businesses and increasing exports to Asia, demand for paper in the first half of fiscal 2001 was healthy. However, demand softened during the second half. Amid these conditions, Nippon Paper Industries showed a 7.7% ratio of ordinary profit to net sales, which exceeded the goal of 7% for fiscal 2001. In addition, ROE was 7.4%, excluding the amortization expense for the shortfall resulting from the adoption of a new accounting standard for retirement benefits, and exceeded the goal of 7%. The goal of reducing interest-bearing debt to less than ¥350 billion was achieved beyond expectation by reducing interest-bearing debt to ¥318.1 billion in fiscal 2001.

To achieve these goals, selective and focused investment was made on facilities. In particular, the installation of new de-inked pulp (DIP) facilities in Kushiro Mill and Ishinomaki Mill helped to increase income. In addition, by taking advantage of the fact that the paper materials are supplied in the same area in which it is consumed, the Company has been able to both increase income and respond to the demands of society for environmental preservation.

Building a Global Leading Paper Manufacturing Company with Solid International Competitiveness

As a member of the Nippon Unipac Holding Group, becoming a world-class company is of paramount concern. Therefore, a third medium-term management plan that focuses on capital efficiency has been established.

The principal goal of the plan is to take measures that ensure smooth integration with Daishowa Paper Manufacturing and to realize synergy effects from this integration as soon as possible. Also, it is of the utmost importance for Nippon Paper Sales, which was formed by merging the sales departments of Nippon Paper Industries and Daishowa Paper Manufacturing, to quickly start regular business activities. Nippon Paper Industries will restructure the paper production system by means of modernizing its facilities and improving the cost competitiveness of the key mills and executing selective and focused measures based on a thorough rationalization of the other mills. By minimizing the number of employees in management and indirect departments and adopting management using a streamlined executive structure, the Company will improve labor productivity and revitalize human resources. The Company will divide into units and spin out its diversified business activities to achieve the highest competitiveness in each respective industry. Unprofitable affiliated companies will undergo radical reforms to improve their foundations and profitability. Thus, Group management will be strengthened by the above measures. Nippon Paper Industries will strive to achieve the goals of this third medium-term management plan and restructure itself to meet the demands of the global competition.

During fiscal 2001, some radical business reform was introduced at Nippon Paper Industries. Can you give a quick summary?

A As a means to put into practice the basic concept of the restructuring, which is to make the transition to a customer-focused company, the Company has established a new Marketing Division and is preparing to introduce Supply Chain Management (SCM).

• First, the Company has promoted the business reform to reevaluate its business model as a manufacturer and reorganize itself. As one part of this restructuring, a new Marketing Division was established in April 2000. It handles issues related to customer satisfaction, the management of distribution, and the provision of technical services to customers.

• The next step in this restructuring is the introduction of SCM. Currently, the planning stages are complete and an SCM system is in the process of being set up. This system is scheduled to start operation at the end of 2002.

• In order to pursue the profitability and efficiency of the business in the global economy, the Nippon Paper Economic Profit (NEP) index formula was introduced in fiscal 2001. NEP is a formula used for analysis similar to the Economic Value Added (EVA®) index formula as previously mentioned on pages three and seven.

Do you have any plans for further overseas expansion?

A The Company is implementing overseas strategy in China and elsewhere in Asia as a Nippon Unipac Holding Group member.

• Currently, as regards the production of our subsidiaries: North Pacific Paper Corporation in the United States mainly produces newsprint; Jujo Thermal Oy in Finland produces thermal paper; and Shouguang Liben Paper Making Co., Ltd., in China produces base paper for carbonless copying paper. All of these ventures are proceeding smoothly.

• We are members in the Japanese and Indonesian joint venture company in Sumatra named PT Tanjungenim Lestari Pulp and Paper ("PT TEL") which started commercial production of *Acacia mangium* pulp on May 26, 2000. The Company entered into an agreement of mill management and operation with PT TEL and provides technical and operational assistance by dispatching supervisory staff from Nippon Paper Industries on a long-term basis.

• In the future, the Company will continue to assist with the implementation of the overseas strategy of Nippon Unipac Holding, focusing on the markets of China and Southeast Asia, which have considerable potential for increased demand.

PT TEL pulp mill

What kind of new products have you been developing since fiscal 2000?

A The Company has marketed products that respond to the recent needs of the market, such as ink-jet paper and bulky paper. R&D is being carried out that will enable the Company to respond to rapidly changing and diversifying needs.

• Recently, high-quality ink-jet paper has been the focus of much attention. The Company has recently developed a high-quality ink-jet paper that can achieve photographic quality images through the use either of dyes or pigmented ink.

• In response to demand from the publishing industry for new paper products, the Company has developed a lightly coated mat paper, or "Bitoko," with high brightness and at the same time high opacity called Pegasus Harmony. To satisfy the needs communicated to us by our customers, such as for increased book thickness, lighter weight, and more flexibility, the Company developed two ultra-low density mat-coated papers called U-Light Ultra and U-ltimax.

• The Company is currently in the process of developing two new thermal paper products. The first is thermal paper that is both light- and heat-resistant. The difficulty in achieving this arises from the fact that thermal paper must react to the heat generated by thermal printers, but should not become discolored when exposed to heat from other sources. The other thermal paper product currently in the development stage is designed to replace the two-ply carbonless paper that is now widely used for making duplicate receipts. This new product is also two-ply. The top sheet is thermal paper that has a heat-sensitive surface with an underside coated with thermal transfer carbon that transfers writing to the bottom sheet.

• In response to demand for value-added paper to be used in increasingly popular electronic publishing, the Company is currently developing lighter, non-impact printing paper as well as recycled paper for full-color printing.

• Due to improvements in DIP and paper manufacturing technology, the DIP content of newsprint is approaching as high as 70% on average. In the future, the Company will continue to find applications for waste paper which has not been usable.

Liquid packaging cartons

Newsprint

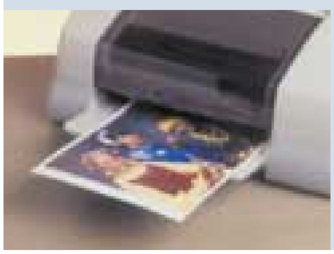
• In the field of chemical products, Nippon Paper Industries has developed two resins that do not include toluene, SUPERCHLON®360T and SUPERCHLON®370M, for use in gravure ink for printing on flexible packaging materials. It is expected that these products will result in increased applications for environment-friendly ink.

• In the area of liquid packaging, the Company is now in the final stage of developing a new aseptic packaging material named Non-Aluminum Fuji, which does not use an aluminum liner, thereby providing better recycling performance. It will be introduced to the market within fiscal 2002.

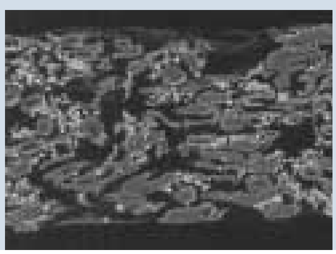
• In terms of film technology, we developed a new protective material. Conventionally, to protect the photomask used in the manufacture of printed wiring boards, extremely thin adhesive film has been used. However, the use of this film often resulted in wrinkling. Our new protective material developed by applying transfer technology used in the Company's functional film business dramatically reduces wrinkling by hardening after exposure to ultraviolet rays. This new protective material can achieve higher productivity with good handling properties.

• In addition to developing new products, the Company, to provide high-quality paper to the market, has developed and installed in paper machines an Online Orientation Measurement Device, which constantly measures the orientation of fibers on the surface of paper.

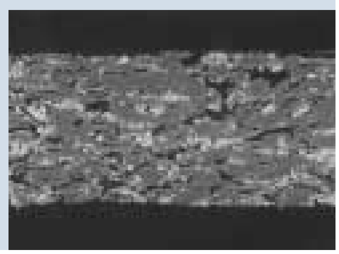
• Nippon Paper Industries has also developed a biodegradable paper pot for use in plant nurseries. It has won praise as an inexpensive pot that needs no disposal after use in planting.



High-quality ink-jet paper



Ultra-low density paper (density 0.60 g/cm³)



Standard wood-free paper (density 0.85 g/cm³)

Q What progress has been made in the field of biotechnology development?

A Nippon Paper Industries has long conducted basic research into biotechnology related to trees and recently has started to apply this technology to raise cloned elite trees and has confirmed improvements in the quality of trees.

• The Forestry Resources Australia Office, established in Western Australia, began operations in June 2000. Cost-effective, efficient test production and afforestation of 50,000 saplings cloned from elite trees selected on-site is being carried out there.

• Through the MAT Vector® system developed by Nippon Paper Industries, the Company has succeeded in introducing genes that control the biosynthesis of lignin into a *Eucalyptus camaldulensis* gene.

Next, Nippon Paper Industries plans to evaluate the

What progress has been made regarding the issues listed in the Nippon Paper Industries' Environmental Charter?

A The Tree Farm Concept, one of the items in the Charter, has led to approximately 35,000ha of trees being planted as of the end of fiscal 2001. Other items are also progressing smoothly.

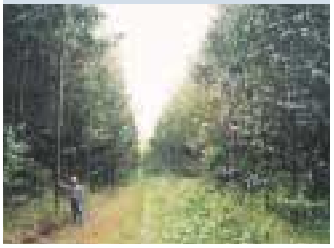
• The Company is undertaking a variety of environmental improvement activities in accord with the Nippon Paper Industries' Environmental Charter, promulgated in 1993 and revised in 2000.

• In the *Environmental Report 2000,* production-related material balance items and specific numerical values for pollutant emissions for each place of business are made public.

• The goal of the Tree Farm Concept is to plant 100,000ha of trees overseas by the end of 2008 and, as mentioned previously, by the end of fiscal 2001, approximately 35,000ha had been planted. These trees have ensured a stable future supply of wood chips.

• Yufutsu Mill of the Company was the first mill in Japan to introduce ozone bleaching to kraft pulp production. By 2004, the switch to elemental chlorine-free bleaching at all mills is scheduled to be completed.

Ozonizer in Yufutsu Mill

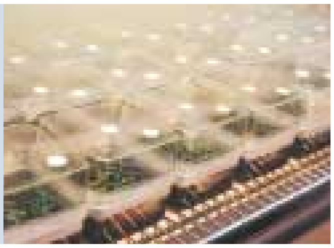


Tree farm

change in the lignin content.

• Another way the Company is using the MAT Vector® system is by participating in the Japanese government's Millennium Project by developing rice with added health benefits. It is hoped that through these activities, the quality of Nippon Paper Industries' biotechnology will become more widely recognized.

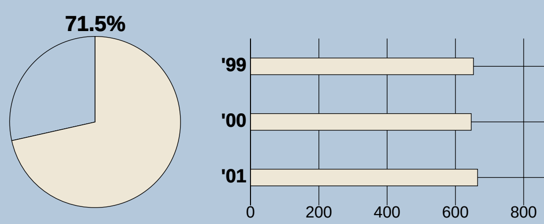
Forestry Resources Australia Office



Clones of elite trees

Pulp and Paper Division

Sales (% of net sales, ¥ billion)



1. Business Structure

• Nippon Paper Industries and Kitagami Paper Co., Ltd., manufacture and sell paper. Tohoku Paper Co., Ltd., OTAKE PAPER MFG. CO., LTD., and Koyo Paper Mfg. Co., Ltd., are engaged in the production of paper for purchase and sale by Nippon Paper Industries.

• Tohoku Paper, Kitagami Paper, Koyo Paper, and Japan Paperboard Industries, manufacture and sell paperboard. CRECIA Corporation manufactures and sells household tissue and sanitary products. Nippon Paper Industries and Tohoku Paper manufacture pulp, which is sold by Nippon Paper Industries.

• San-Mic Chiyoda Corporation, Jujo Shoji Co., Ltd., and Kokuei Paper Co., Ltd., market and trade various products supplied by Nippon Paper Industries Group companies.

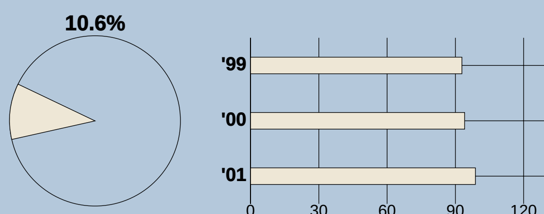
• Overseas, North Pacific Paper Corporation manufactures newsprint and related products that are imported to and sold in Japan by Nippon Paper Industries.

2. Business Performance in Fiscal 2001

• While focusing on restoring paper prices to their former levels by continuing price-focused marketing, Nippon Paper Industries continued working to reduce inventories. The sales volume for paper in fiscal 2001 remained at roughly the same level as last year. Due to the recovery in paper prices in spring 2000, as well as the jump in pulp sales and strong exports, sales to third parties increased to ¥664,872 million, an improvement of 2.9% compared to the previous fiscal year. Operating income for this division was ¥49,741 million.

Paper-Related Division

Sales (% of net sales, ¥ billion)



1. Business Structure

• Jujo Central Co., Ltd., produces and markets cartons, packaging, and wrapping materials. LINTEC Corporation produces and sells adhesive-related materials. Nippon Seitai Corporation manufactures and markets kraft paper. Liquid-packaging cartons are consigned by Jujo Central and purchased and sold by Nippon Paper Industries.

• Sakurai Co., Ltd., markets both paper and film products manufactured by the Nippon Paper Industries Group.

• Chemical products are manufactured by Nippon Paper Industries and are sold by San-Mic Chiyoda and SANFLO CO., LTD.

2. Business Performance in Fiscal 2001

• Due to weak demand, sales of liquid-packaging cartons such as Pure-Pak® and chemical products resulted in a drop in sales for this division. In addition, in the area of functional materials, sales of electronics materials rose due to demand for liquid crystals, but due to weak demand for recordable media, sales in this area fell.

In fiscal 2001, due to the inclusion for the first time of Nippon Seitai in the Group's consolidated accounting and its inclusion in this sector, sales to third parties increased to ¥98,792 million, an improvement of 5.0% compared with the previous fiscal year. Operating income for this division was ¥4,705 million.

Housing and Construction Materials Division

1. Business Structure

• Nippon Paper Industries, JUJO LUMBER CO., LTD., and SHINYO Co., Ltd., purchase and sell wood materials. PAL CO., LTD., sells construction materials.

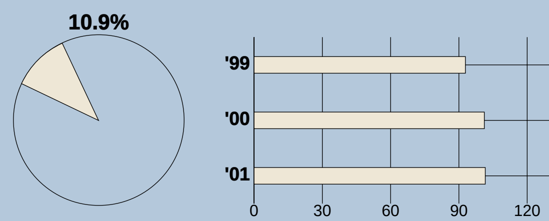
• Nippon Paper Industries, SHINYO, Kunimoku House Co., Ltd., and NP Development Co., Ltd., offer real estate and leasing services.

• Jujo Con-Tech Co., Ltd., and Kokusaku Kiko Co., Ltd., provide services in machinery design, manufacturing, and repair as well as civil engineering and construction planning and implementation services.

2. Business Performance in Fiscal 2001

• Although demand for housing materials was sluggish due to fewer new housing starts compared with the previous fiscal year, and demand for wooden houses was stagnant, Nippon Paper Industries' efforts to increase sales and cut costs, thereby achieving more competitive sale prices, resulted in sales to third parties of housing and construction materials of ¥101,583 million. Operating income for this division was ¥1,294 million.

Sales (% of net sales, ¥ billion)



Other Division

1. Business Structure

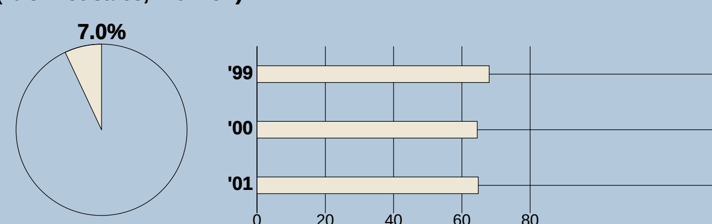
• Nippon Paper Logistics Co., Ltd., NANKO UNYU CO., LTD., IWAKUNI-KAIUN CO., LTD., Kyokushin Transport Co., Ltd., and Hotoku Unyu Co., Ltd., are responsible for the transportation and warehousing of Group products.

• Shikoku Coca-Cola Bottling Co., Ltd., bottles and markets soft drinks and other beverages. NP Development manages leisure facilities. Sanwa Insatsu Co., Ltd., is a printing business.

2. Business Performance in Fiscal 2001

• Sales to third parties for this division amounted to ¥64,806 million. Operating income was ¥4,165 million.

Sales (% of net sales, ¥ billion)



DAISHOWA PAPER MANUFACTURING

A Message from the President—Koshiro Kitaoka

July 2001

Koshiro Kitaoka
President, Daishowa Paper Manufacturing

In fiscal 2001, ended March 31, 2001, although paper prices showed a partial recovery, the rapid rise in the price of such raw materials and fuel as pulp and fuel oil was a limiting factor on income. However, due to extensive Company-wide measures taken to streamline operations and reduce procurement and labor costs, cost competitiveness improved, and Daishowa Paper Manufacturing's sales increased 3.5% from the previous fiscal year-end, reaching ¥329.4 billion, operating income increased 85.0%, to ¥20.7 billion, and ordinary income increased 110.1%, to ¥13.0 billion.

Owing to such losses as the lump-sum payment for the transition obligation resulting from the adoption of a new accounting standard for retirement benefits, the reassessment of shares due to the adoption of a new accounting standard for financial instruments, and the sale of overseas businesses which were shown as extraordinary losses, a current term net loss of ¥28.2 billion was shown.

In March 2001, through a stock transfer, Daishowa Paper Manufacturing became a member of the Nippon Unipac Holding Group. This business integration has not only increased the range of business activities we are able to carry out to a scale we could not achieve as a single corporation, it has greatly expanded our range of options in the area of management strategies as well as our potential for growth.

To turn this potential into reality, in March 2001 Daishowa Paper Manufacturing drew up a medium-term management plan for the three-year period starting April 2001, and began working toward achieving the goals outlined in the basic concept of this plan—Challenge to Revolutionize Cost Structure.

The main focus of this medium-term plan is cost reduction. Through such measures as the enhancement of our cost competitiveness by the increasing of our ratios of self sufficiency in pulp and electricity produced in-house to 90% and 85%, respectively, our goal is to improve the ratio of variable costs to net sales by 5%.

Another goal of the medium-term plan is to modernize our paper mills so that they are able to meet the demands of the 21st century. The Group's three Honsha mills—Yoshinaga, Suzukawa, and Fuji—have a cumulative production of 1.5 million tons per year and are the closest to metropolitan areas of the Nippon Unipac Holding Group's production facilities. These mills will be upgraded to greatly enhance their resource recycling capabilities.

Concrete measures include improving de-inked pulp (DIP) facilities having the advantage of being located near metropolitan areas, using energy generated from paper sludge and refuse paper and plastic fuel (RPF), and the sale of the ash produced by the incineration of these fuels as construction materials to create a more comprehensive resource recycling business system.

By both manufacturing paper products and recycling them, we have created a more complete resource recycling business system that not only improves the environment but also reduces our production costs. We believe that, by improving this system, we will have the model of paper mills for the 21st century.

In addition, Daishowa Paper Manufacturing will make the most of its business integration with Nippon Paper Industries. We are currently working together to rebuild our production systems to rationalize both operations, taking into consideration international competition and future trends in demand. We hope to create a suitable production system to add much more strength to the Nippon Unipac Holding Group.

What concrete cost-cutting measures do you intend to take?

A • In June of 2000, we constructed precipitated calcium carbonate manufacturing facilities in Shiraoi Mill and have switched the majority of production from acidic paper to neutralized paper. Neutralized paper is less susceptible to deterioration than acidic paper and boasts high brightness and opacity. In addition, it is excellent for printing and is bulky. Precipitated calcium carbonate is an essential internal filler for the manufacture of neutralized paper. Because neutralized paper has more bulk, less pulp is necessary for manufacturing. This reduces raw material costs, for a total cost reduction of approximately ¥30 million per month, including the cost of filler.

• Based on the results achieved at Shiraoi Mill, the Company plans to produce chemicals in-house at Iwanuma Mill and Honsha mills, which will further reduce the cost of chemicals.

• At Honsha Mill Fuji, the Company constructed a new DIP manufacturing facility in August 2000 and began production of high-brightness DIP to replace the bleached hardwood kraft pulp (LBKP) that the Company had been purchasing. This enabled the mill to reduce the amount of pulp purchased by 14%, for a savings of ¥80 million per month.

• In connection with the above construction, in April 2000 a sludge incinerator plant and power generator were completed that together generate 11,700kW, thereby producing a savings of ¥20 million per month.

Precipitated calcium carbonate manufacturing facilities
Shiraoi Mill

What are your strategies on overseas business?

• The Company aggressively has pursued the development of overseas business, having started in 1964 with our first direct investment in overseas business activities in North America—a business office for the export of wood chips to Japan. We have also entered into joint ventures overseas in the fields of wood chip and pulp production and, based on the experience gained, we constructed and operated a pulp production mill independently. In the late 1980s, through M&A, we acquired paper production plants in North America, and our overseas businesses have become much more than suppliers of raw materials. We have participated aggressively in North American paper markets and are accumulating a wide range of knowledge and expertise.

• In the European and North American pulp and paper industries, there have been strong trends toward increasing the scale of businesses through M&A. The companies thus created have been developing and controlling the markets. In another area, Southeast Asian companies are emerging as burgeoning powers in the paper industry due to the growing Asian pulp and paper market and the supply of productive forest resources. Global trends in the pulp and paper industry include the rising importance of Asia and the transfer of production and marketing to Southeast Asian bases.

• Regarding overseas businesses, the Company is currently concentrating on examining its businesses being developed in North America to determine their competitive strengths and conducting a revision of overseas businesses by defining which businesses will be the focus of future development. One example of this is a sale of Canadian subsidiaries in and near Quebec City in March 2001. In the future, the Company hopes to make use of the experience it has gained over many years of foreign operations and continue to adapt to the changes faced by the pulp and paper industry as we assist with the implementation of the overseas strategy of Nippon Unipac Holding.

What are some of the products Daishowa Paper Manufacturing has developed?

A • In the newsprint sector, Daishowa has developed an extra light weight paper, XL Newspaper—40g/m^2 basis weight—that is currently used by a major newspaper publisher. In developing this paper, we had to overcome such technical challenges due to the reduced weight as a reduction in paper strength, excessive transparency that makes the print on the reverse side of the page visible, and maintaining uniform thickness of the paper. In the end, Daishowa established special manufacturing technologies and successfully commercialized this new paper.

• In the paperboard sector, Daishowa has developed a bulky white paperboard. Paperboard uses a high ratio of recycled fiber that tends to lose bulkiness—the more recycled fiber used, the more difficult it is to produce light and thick paperboard. We overcame this difficulty and produced light and bulky white board using the highest content of recycled fiber as possible. This white paperboard is called Re-3 (for Reduce, Reuse, Recycle) and is 20% to 25% lighter than previous paperboard of the same thickness. This was achieved by developing recycled pulp and mechanical pulp that can yield bulky paper; technology for paper manufacturing to maintain the stiffness of paper; and specialized chemicals that bring out the bulkiness of paper.

• In the corrugated fiberboard sector, we developed and marketed a corrugated medium used for printing corrugated fiberboard called Microflute. The exterior layer of the Microflute is coated white paperboard. This printing corrugated fiberboard is thinner, lighter, and smoother than that previously used. In addition to being environment-friendly, it is well suited for use as packaging material due to its excellent cushioning, easy die cut processing properties, and high printability.

Application examples of Re-3

What plans do you have for Honsha mills that are located near metropolitan areas?

A • The Company is taking full advantage of the location of its mills and improving recycled pulp manufacturing facilities.

• In August 2000, Honsha Mill Fuji put into operation a newly constructed high-brightness DIP manufacturing facility with a production capacity of 200t per day.

• One of the features of this high-brightness DIP manufacturing facility is that it is able to use all grades of recycled fiber as raw materials. In other words, the facility can use waste office paper and magazines bound with hot melt, which have been a problem in metropolitan areas due to the requirement for their separation. In the future, the Company will be in a position to handle a variety of low-grade waste paper.

• By using high-brightness DIP, it is possible to produce top-quality recycled printing paper and coated paper.

• The Company completed a major improvement of high-opacity recycled pulp manufacturing facilities for newsprint paper with a capacity of 230t per day. Including the improvement that will be completed in September 2001 at Honsha Mill Fuji, pulp self-sufficiency will improve from 33% to 62% and purchased pulp will be reduced from 67% to 38%.

• Due to the smooth operation of these facilities, Honsha Mill Fuji will increase its ratio of recycled fiber use from 31% to 52%. In addition, with the new sludge incinerator that started operation in April of 2000, the ratio of electricity produced in-house jumped from 60% to 71%.

• The Company wishes to turn Honsha Mills into a true recycling plant by simultaneously increasing paper recycling and energy recycling capabilities. We are also working to build an even stronger management base at the metropolitan area mills of the Nippon Unipac Holding Group.

High-brightness DIP facility
Honsha Mill Fuji

What environmental measures has the Company taken?

• Daishowa Paper Manufacturing is working to decrease the burden on the environment and promote a recycling-oriented society through the recycling of resources.

• Daishowa Paper Manufacturing is a resource recycling company that can contribute to the formation of a recycling-oriented society. We have improved our recycled pulp manufacturing facilities and increased our usage of waste paper to the greatest possible extent. In April, a power generator using paper sludge for fuel was installed in Honsha Mill Fuji, and in August the operation of a high-brightness DIP facility commenced. These measures decreased fossil fuel consumption, and promoted the use of waste paper.

• In July 2000, Daishowa Paper Manufacturing published its *Environmental Report 2000,* which included an explanation of the Company's management plan for dealing with environmental issues and the Company's philosophy regarding the environment. Compiling and making public the Company's goals, plans, and results regarding environmental issues helps to continually improve environmental performance.

• The Company formed a plan to revise its Environmental Charter in February 2001 to comply with the national environmental measures for the beginning of the 21st century announced by the Japanese government at the end of 2000. Changes we have instituted include the strengthening of the Company's response to a variety of environmental issues, such as chemical substance concerns, the formation of a recycling-oriented society, the construction of environmental management systems, and the release of environmental information.

• In February 2001, the Company's Environmental Action Plan was also revised, and, with the participation of our employees, the Company began the Zero Emissions Campaign by speeding up efforts to reduce waste. Along with Nippon Paper Industries, our goal is to first reduce the amount of waste disposed of to under 0.10% of the weight of products produced, and eventually to zero. In fiscal 2001, Iwanuma Mill, which has received ISO certification, reduced its waste output by 97% compared with the previous year, and the ratio of the amount of waste disposed of to the weight of products produced there is 0.02%.

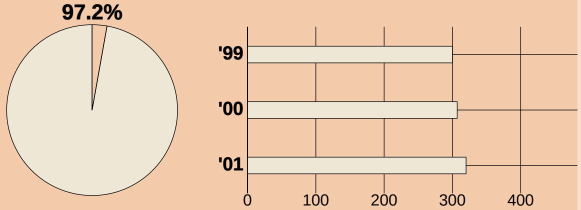
• In September 2000, Honsha Mill Suzukawa received ISO 14001 certification. Honsha Mill Yoshinaga, Honsha Mill Fuji, and Shiraoi Mill began efforts in October to gain ISO certification, and the Company plans to have these mills certified in 2001.

High-brightness DIP facility
Honsha Mill Fuji

The Daishowa Paper Manufacturing Group includes the parent company, Daishowa Paper Manufacturing Co., Ltd., 19 subsidiaries, and 12 affiliated companies. The Group's main business activities and the positioning of each affiliated company are as shown below.

Pulp and Paper Division

Sales (% of net sales, ¥ billion)



Business Structure

• Daishowa Paper Manufacturing, Daishowa America Co., Ltd., Daishowa Canada Co. Ltd. (pulp manufacturing by Quesnel River Pulp Company, a joint venture with West Frazer Timber Co., Ltd.), and Daishowa-Marubeni International Ltd. (pulp manufacturing by itself and Cariboo Pulp & Paper Company, a joint venture with Weldwood of Canada Ltd.) manufacture and sell pulp and paper.

• In Japan, marketing is conducted mainly through distributors and trading companies. In North America, marketing is conducted mainly through Daishowa Sales Limited (U.S.).

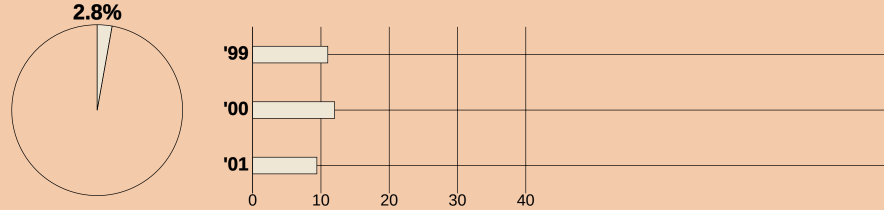
• Daishowa North America Corporation oversees activities in North America.

Business Performance in Fiscal 2001

Due to the recovery of newsprint prices in North America, and the partial recovery of paper prices in Japan, exemplified by the rise in coated paper prices, sales to third parties for this segment reached ¥320.0 billion (an increase of 4.4% from the previous fiscal year), and operating income reached ¥18.5 billion (an increase of 103.7% from the previous fiscal year).

Other Division

Sales (% of net sales, ¥ billion)



Business Structure

• Other business activities are conducted by Daishowa Paper and other Group companies as follows.

The manufacture and sales of particleboard is conducted by Daishowa Paper, and cutting and packaging operations are by Daishowa C.P. companies. Daishowa Kohrin Co., Ltd., is in wood-related businesses in Japan and Harris-Daishowa (Australia) Pty. Ltd. is in similar businesses overseas. Daishowa Housing Co., Ltd., conducts construction- and afforestation-related business activities. Transportation-related business is conducted by Daishowa Port Warehousing Co., Ltd., and others. Mochizuki Nenryoh Co., Ltd., etc., sell fuel and pharmaceuticals, and Daishowa Leasing Co., Ltd., is a leasing company. Obuchi Kaihatsu Co., Ltd., and others are in the real estate management business, and Japan Health Service Co., Ltd., is in the leisure business.

Business Performance in Fiscal 2001

Sales for this segment reached ¥9.4 billion (a decrease of 19.9% from the previous fiscal year), and operating income was ¥0.9 billion (a decrease of 52.0% from the previous fiscal year).

Financial Section

Contents

Consolidated Five-Year Summary

Nippon Paper Industries Co., Ltd. and Consolidated Subsidiaries Years ended March 31

	Millions of yen				
	2001	2000	1999	1998	1997
Pulp and Paper (Note 1)					
Total segment sales	¥ **666,520**	¥ 647,853	¥ 654,486	¥ 851,836	¥ 885,498
Intragroup sales	**(1,647)**	(1,585)	(1,678)	(216)	(254)
Total sales to third parties	**664,872**	646,267	652,808	851,620	885,243
Paper-related (Note 1)					
Total segment sales	**106,935**	102,371	100,405	—	—
Intragroup sales	**(8,143)**	(8,310)	(7,547)	—	—
Total sales to third parties	**98,792**	94,060	92,858	—	—
Housing and Construction Materials					
Total segment sales	**118,936**	114,688	106,519	106,164	138,118
Intragroup sales	**(17,352)**	(13,521)	(13,660)	(5,893)	(4,537)
Total sales to third parties	**101,583**	101,167	92,859	100,270	133,580
Other					
Total segment sales	**82,051**	81,606	83,152	124,371	97,782
Intragroup sales	**(17,244)**	(17,061)	(15,164)	(38,199)	(23,262)
Total sales to third parties	**64,806**	64,544	67,987	86,172	74,519
Total sales					
Total sales	**974,444**	946,519	944,564	1,082,372	1,121,399
Intragroup sales	**(44,388)**	(40,478)	(38,051)	(44,308)	(28,055)
Total sales to third parties	**930,055**	906,041	906,513	1,038,063	1,093,344
Operating income (Note 2)	**59,907**	30,127	12,166	47,517	63,501
Income before income taxes (Notes 2 and 3)	**4,858**	21,626	7,437	38,331	49,074
Net income	**35**	10,106	1,067	18,414	28,628
Total assets	**1,107,172**	1,122,106	1,149,467	1,225,910	1,278,316
Total current assets	**412,073**	444,081	451,645	513,073	568,048
Property, plant and equipment, net (Note 4)	**534,037**	550,185	554,877	564,621	573,534
Total investments and other assets (Note 5)	**161,061**	127,838	142,944	148,215	136,733
Liabilities and others (Note 6)	**778,408**	787,670	820,133	881,569	946,434
Total shareholders' equity (Note 7)	**328,764**	334,436	329,332	344,340	331,881
Amounts per share (yen):					
Net income					
Basic	¥ **0.04**	¥ 10.65	¥ 1.13	¥ 19.41	¥ 30.18
Diluted	**—**	10.61	—	18.62	28.57
Shareholders' equity (Note 7)	**346.53**	352.55	347.20	363.02	349.88
Ratios (%):					
Operating income to net sales (Note 2)	**6.44%**	3.33%	1.34%	4.58%	5.81%
Net income to net sales	**0.00%**	1.12%	0.12%	1.77%	2.62%
Net income to shareholders' equity (Note 7)	**0.01%**	3.02%	0.32%	5.45%	8.92%
Equity ratio (Note 7)	**29.69%**	29.80%	28.65%	28.09%	25.96%

Notes: 1. In 1999, we separated the sales division from "Paper" into "Pulp and Paper" and "Paper-related business."
2. Selling, general and administrative expenses do not include enterprise tax.
3. Amortization and equity in earnings are included in selling, general and administrative expenses and other (expense) income.
4. Property, plant and equipment, net, excludes intangible fixed assets.
5. Total investments and other assets includes intangible fixed assets.
6. Liabilities and others includes minority interests in consolidated subsidiaries.
7. Foreign currency translation adjustment is included in shareholders' equity.

Consolidated Financial Review for Nippon Paper Industries

MANAGEMENT'S DISCUSSION AND ANALYSIS

During the first half of fiscal 2001, ended March 31, 2001, the Japanese economy showed signs of gradual recovery, with rising demand in the IT industry and increasing exports to Asia. However, in the second half of the year, dwindling exports, falling share prices, and sluggish consumer spending caused by economic slowdowns in the United States. and Asia resulted in a stalled recovery.

The paper industry, reflecting the economy as a whole, enjoyed increasing demand in the first half of fiscal 2001. However, demand softened in the latter half of the year due to rising imports of paper to Japan and decreasing exports.

As for market conditions, prices have remained flat following the price increase in spring 2000, which brought prices back to their original levels.

Against this background, on a consolidated basis, net sales increased to ¥930.1 billion (US$7,561.4 million), an improvement of 2.7% compared with the previous fiscal year.

To create a sound corporate structure capable of surviving in any economic environment, Nippon Paper Industries has continued cost-cutting efforts, strengthening the Group through such measures as the streamlining of human resources and a reduction of production, distribution, and raw material costs. In addition, in part due to the recovery in paper prices, operating income for fiscal 2001 showed a large increase, to ¥59.9 billion (US$487.0 million). As a result of the large extraordinary loss on net benefit obligations resulting from a change of the accounting standard for retirement benefits, shown due to the lump-sum amortization of ¥71.4 billion (US$580.3 million), net income was ¥35 million (US$0.3 million). In fiscal 2001, Nippon Paper Industries issued annual dividends of ¥9.00 (US$0.073) per share.

NET SALES

Pulp and Paper

Nippon Paper Industries focused on restoring paper prices to their former levels by continuing price-focused marketing while working to reduce inventories. The sales volume for paper in fiscal 2001 remained at roughly the same level as the year before. Due to the recovery of paper prices in spring 2000, as well as the jump in pulp sales and strong exports, total segment sales increased to ¥666.5 billion (US$5,418.9 million), an improvement of 2.9% compared to the previous fiscal year.

Paper-Related

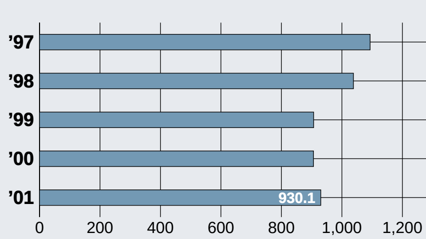
Due to falling demand, sales of liquid packaging cartons and chemical products fell compared with the previous fiscal year. In addition, in the area of functional materials, sales of electronics materials rose in response to demand for liquid crystals but, due to weak demand for recordable media, overall sales of functional materials fell.

In fiscal 2001, due to the inclusion for the first time of Nippon Seitai in the Group's consolidated accounting and its inclusion in this sector, total paper-related sales increased to ¥106.9 billion (US$869.4 million), an improvement of 4.5% compared with the previous fiscal year.

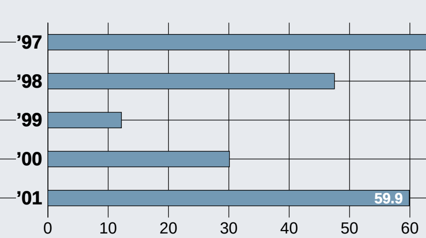
Housing and Construction Materials

Although demand for housing materials was sluggish due to fewer new housing starts compared with the previous fiscal year,

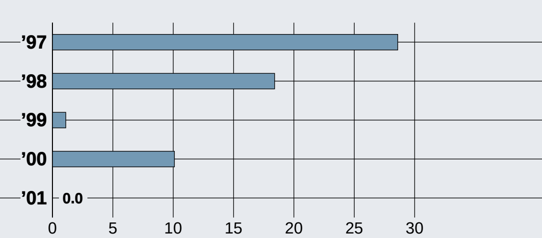
Sales
(¥ billion)



Operating Income
(¥ billion)



Net Income
(¥ billion)



and demand for wooden houses was stagnant, Nippon Paper Industries' efforts to increase sales and cut costs and thereby achieve more competitive sale prices resulted in total segment sales of housing and construction materials of ¥118.9 billion (US$967.0 million) in fiscal 2001.

Other

Net sales in this segment remained at roughly the same level as the previous year, at ¥82.1 billion (US$667.1 million).

COSTS, EXPENSES, AND EARNINGS

The cost of sales declined 1.3%, to ¥694.8 billion (US$5,648.6 million), and cost of sales as a percentage of net sales was down 3.0 percentage points from the previous fiscal year, to 74.7%.

During fiscal 2001, selling, general and administrative (SG&A) expenses rose 1.9%, to ¥175.4 billion (US$1,425.8 million). SG&A expenses as a percentage of net sales decreased 0.1 percentage point from the previous fiscal year, to 18.9%. Operating income was up ¥29.8 billion, to ¥59.9 billion (US$487.0 million), and operating income as a percentage of net sales increased from 3.3% to 6.4%.

Other (expense) income (non-operating income and expenses and extraordinary income and expenses) amounted to a net expense of ¥55.0 billion (US$447.6 million). Major items include a ¥33.6 billion (US$272.8 million) gain from securities contribution to a retirement benefit trust that was countered by an extraordinary loss on a net benefit obligation resulting from change of the accounting standards of ¥71.4 billion (US$580.3 million) incurred from the amortization expense of the transition, and an ¥8.7 billion (US$70.9 million) loss on devaluation of investments in other securities.

Income before income taxes and minority interests decreased ¥16.8 billion, to ¥4.9 billion (US$39.5 million). Net income was ¥35 million (US$0.3 million) and basic net income per share decreased from ¥10.65 to ¥0.04 (US$0.00) per share.

FINANCIAL POSITION

Total assets at March 31, 2001, amounted to ¥1,107.2 billion (US$9,001.4 million), a 1.3% decrease from the previous fiscal year-end. Total current assets fell 7.2%, to ¥412.1 billion (US$3,350.2 million). This decline was primarily due to the reclassification of marketable securities of ¥33.0 billion (US$268.7 million) to investments in other securities in accordance with the new accounting standard for financial instruments.

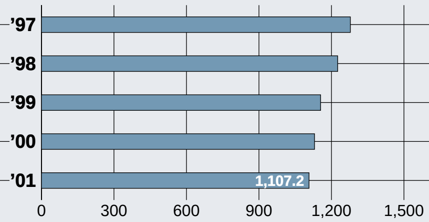
Property, plant and equipment, net, declined 2.9%, to ¥534.0 billion (US$4,341.8 million). Total investments and other assets increased 26.0%, to ¥161.1 billion (US$1,309.4 million), due to the aforementioned reclassification of marketable securities.

Total current liabilities were up 5.4%, to ¥484.0 billion (US$3,935.2 million). This is, in part, due to the final day of the fiscal year falling on a holiday.

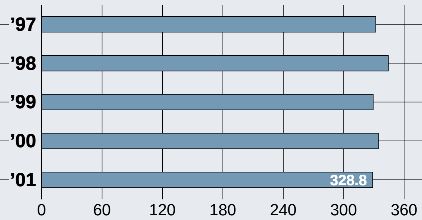
Total long-term liabilities fell 11.1%, to ¥269.1 billion (US$2,187.5 million), with long-term debt falling 16.5%, to ¥231.7 billion (US$1,883.5 million).

Total shareholders' equity decreased 1.7%, to ¥328.8 billion (US$2,672.9 million). This is mainly due to a ¥7.8 billion decrease in retained earnings.

Total Assets
(¥ billion)



Total Shareholders' Equity
(¥ billion)



Consolidated Balance Sheets

Nippon Paper Industries Co., Ltd. and Consolidated Subsidiaries As of March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 2)
ASSETS	**2001**	2000	**2001**
Current assets:			
Cash and cash equivalents	**¥ 24,837**	¥ 24,289	**$ 201,927**
Marketable securities (Notes 1 (d), 5, and 11)	**4,139**	64,118	**33,650**
Receivables:			
Notes and accounts receivable:			
Trade	**216,377**	206,274	**1,759,163**
Unconsolidated subsidiaries and affiliates	**22,636**	13,318	**184,033**
Other	**3,797**	2,900	**30,870**
Loans receivable from unconsolidated subsidiaries and affiliates	**14,685**	15,354	**119,390**
Allowance for doubtful receivables	**(864)**	(1,083)	**(7,024)**
Inventories (Note 3)	**108,274**	105,770	**880,276**
Deferred current tax assets (Note 7)	**5,154**	3,503	**41,902**
Other current assets	**13,036**	9,635	**105,984**
Total current assets	**412,073**	444,081	**3,350,187**
Property, plant and equipment (Notes 1 (f) and 5):			
Land	**98,202**	93,073	**798,390**
Buildings and structures	**281,362**	273,285	**2,287,496**
Machinery and equipment	**1,107,666**	1,085,780	**9,005,415**
Forests and afforestation	**12,466**	12,714	**101,350**
Construction in progress	**15,542**	16,930	**126,358**
	1,515,239	1,481,784	**12,319,016**
Less accumulated depreciation	**(981,202)**	(931,599)	**(7,977,252)**
Property, plant and equipment, net	**534,037**	550,185	**4,341,764**
Investments and other assets:			
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 11)	**57,370**	65,145	**466,423**
Investments in other securities (Notes 5 and 11)	**60,086**	35,126	**488,504**
Deferred tax assets (Note 7)	**16,893**	1,842	**137,341**
Other assets	**27,680**	27,017	**225,041**
Allowance for doubtful receivables	**(969)**	(1,292)	**(7,878)**
Total investments and other assets	**161,061**	127,838	**1,309,439**
Total assets (Note 12)	**¥1,107,172**	¥1,122,106	**$ 9,001,398**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars (Note 2) 2001
Current liabilities:			
Short-term borrowings (Note 4)	**¥ 197,848**	¥ 224,034	**$1,608,520**
Current portion of long-term debt (Note 4)	**59,006**	30,187	**479,724**
Notes and accounts payable:			
Trade	**108,387**	104,647	**881,195**
Unconsolidated subsidiaries and affiliates	**46,525**	34,074	**378,252**
Other	**35,943**	35,210	**292,220**
Accrued income taxes (Note 7)	**16,461**	10,808	**133,829**
Other current liabilities	**19,855**	20,222	**161,423**
Total current liabilities	**484,027**	459,186	**3,935,179**
Long-term liabilities:			
Long-term debt (Note 4):			
Bonds and loans payable	**231,279**	276,996	**1,880,317**
Loans payable to unconsolidated subsidiaries and affiliates	**390**	390	**3,171**
Accrued retirement benefits	**35,838**	23,923	**291,366**
Deferred tax liabilities (Note 7)	**5**	128	**41**
Other long-term liabilities	**1,543**	1,343	**12,545**
Total long-term liabilities	**269,057**	302,780	**2,187,455**
Minority interests in consolidated subsidiaries	**25,323**	25,703	**205,878**
Contingent liabilities (Note 10)			
Shareholders' equity (Notes 8 and 15):			
Common stock	**104,873**	104,846	**852,626**
Capital surplus	**97,402**	97,375	**791,886**
Retained earnings	**132,311**	140,150	**1,075,699**
Translation adjustments	**(5,822)**	(7,931)	**(47,333)**
	328,764	334,441	**2,672,878**
Less treasury common stock, at cost	**—**	(5)	**—**
Total shareholders' equity	**328,764**	334,436	**2,672,878**
Total liabilities and shareholders' equity	**¥1,107,172**	¥1,122,106	**$9,001,398**

Consolidated Statements of Income and Retained Earnings

Nippon Paper Industries Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2001	2000	**2001**
Net sales (Note 12)	**¥930,055**	¥906,041	**$7,561,423**
Cost of sales (Note 12)	**694,774**	703,782	**5,648,569**
Gross profit	**235,281**	202,258	**1,912,854**
Selling, general and administrative expenses	**175,374**	172,131	**1,425,805**
Operating income (Note 12)	**59,907**	30,127	**487,049**
Other (expense) income:			
Interest expense	**(10,696)**	(11,426)	**(86,959)**
Interest and dividend income	**2,293**	2,754	**18,642**
Gain on sales of securities	**—**	5,323	**—**
Gain on sales of investments in other securities	**1,647**	245	**13,390**
Special retirement benefits	**(528)**	(2,704)	**(4,293)**
Gain on sales of property, plant and equipment, net of disposals	**3,044**	1,625	**24,748**
Amortization of difference between cost and underlying net equity in consolidated subsidiaries	**—**	118	**—**
Equity in earnings (losses) of unconsolidated subsidiaries and affiliates	**(5,239)**	567	**(42,593)**
Gains from securities contribution to retirement benefit trust	**33,554**	—	**272,797**
Loss on devaluation of investments in other securities	**(8,724)**	—	**(70,927)**
Loss on devaluation of marketable securities	**—**	(2,615)	**—**
Loss on net benefit obligation resulting from change of the accounting standards	**(71,375)**	—	**(580,285)**
Other, net	**975**	(2,387)	**7,927**
	(55,049)	(8,500)	**(447,553)**
Income before income taxes and minority interests	**4,858**	21,626	**39,496**
Income taxes:			
Current	**(21,673)**	(11,791)	**(176,203)**
Deferred	**16,767**	1,520	**136,317**
	(4,905)	(10,271)	**(39,878)**
Minority interests in earnings (losses) of consolidated subsidiaries	**82**	(1,249)	**667**
Net income	**35**	10,106	**285**
Retained earnings at beginning of year	**140,150**	132,836	**1,139,431**
Adjustments for inclusion or exclusion of certain subsidiaries in the consolidation	**(72)**	790	**(585)**
Adjustments for merger of unconsolidated subsidiaries	**7**	—	**57**
Cumulative effect of adopting deferred tax accounting	**—**	4,206	**—**
Appropriations:			
Cash dividends paid	**(7,589)**	(7,588)	**(61,699)**
Bonuses to directors and corporate auditors	**(220)**	(200)	**(1,789)**
Retained earnings at end of year	**¥132,311**	¥140,150	**$1,075,699**

	Yen		U.S. dollars (Note 2)
Amounts per share:			
Net income:			
Basic	**¥0.04**	¥10.65	**$0.000**
Diluted	**—**	10.61	**—**
Cash dividends	**9.00**	8.00	**0.073**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nippon Paper Industries Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2001	2000	**2001**
Operating activities:			
Income before income taxes and minority interests	**¥ 4,858**	¥ 21,626	**$ 39,496**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation	**59,620**	63,035	**484,715**
Amortization of difference between cost and underlying net equity in consolidated subsidiaries	**12**	(118)	**98**
Decrease in allowance for doubtful receivables	**(554)**	(45)	**(4,504)**
Increase (decrease) in accrued retirement benefits	**11,823**	(467)	**96,122**
Interest and dividend income	**(2,293)**	(2,754)	**(18,642)**
Interest expense	**10,696**	11,426	**86,959**
Equity in losses (earnings) of unconsolidated subsidiaries and affiliates	**5,239**	(567)	**42,593**
Gain on sales of securities	**—**	(5,323)	**—**
Gain from securities contribution to retirement benefit trust	**(33,554)**	—	**(272,797)**
Loss on net retirement benefit obligation resulting from change of the accounting standards	**60,898**	—	**495,106**
Gain on sales of property, plant and equipment, net of disposals	**(3,044)**	(1,625)	**(24,748)**
Loss on devaluation of investments in other securities	**8,724**	—	**70,927**
Loss on devaluation of marketable securities	**—**	2,615	**—**
Gain on sales of investments in other securities	**(1,647)**	(245)	**(13,390)**
Special retirement benefits	**528**	2,704	**4,293**
Appropriation for bonuses to directors and corporate auditors	**(249)**	(220)	**(2,024)**
Changes in operating assets and liabilities:			
Receivables	**(15,973)**	(11,458)	**(129,862)**
Inventories	**(1,458)**	10,733	**(11,854)**
Payables	**14,729**	4,931	**119,748**
Accrued consumption taxes	**(1,923)**	(621)	**(15,634)**
Other current assets	**(4,295)**	7,111	**(34,919)**
Other liabilities	**6,028**	1,317	**49,008**
Other	**(2,417)**	1,360	**(19,650)**
	115,748	103,414	**941,041**
Interest and dividends received	**3,052**	3,055	**24,813**
Interest paid	**(10,704)**	(10,321)	**(87,024)**
Special retirement benefits paid	**(528)**	(2,704)	**(4,293)**
Income taxes paid	**(16,143)**	(3,628)	**(131,244)**
Net cash provided by operating activities	**91,423**	89,815	**743,276**
Investing activities:			
Acquisitions of time deposits	**(5,087)**	(2,663)	**(41,358)**
Withdrawal of time deposits	**4,768**	3,147	**38,764**
Acquisitions of marketable securities	**(3,265)**	(5,624)	**(26,545)**
Proceeds from sale of marketable securities	**6,619**	19,876	**53,813**
Acquisitions of property, plant and equipment	**(46,451)**	(42,674)	**(377,650)**
Proceeds from sale of property, plant and equipment	**5,590**	6,113	**45,447**
Extension of long-term loans	**(2,157)**	(7,074)	**(17,537)**
Collection of long-term loans	**2,112**	8,700	**17,171**
Other, net	**(53)**	1,839	**(431)**
Net cash used in investing activities	**(37,925)**	(18,359)	**(308,333)**
Financing activities:			
Decrease in short-term borrowings	**(28,885)**	(42,065)	**(234,837)**
Proceeds from issuance of long-term debt	**15,630**	27,036	**127,073**
Reduction of long-term debt	**(32,486)**	(42,146)	**(264,114)**
Sales of treasury common stock	**446**	271	**3,626**
Purchases of treasury common stock	**(497)**	(274)	**(4,041)**
Cash dividends paid	**(7,971)**	(7,885)	**(64,805)**
Net cash used in financing activities	**(53,765)**	(65,064)	**(437,114)**
Effect of exchange rate changes on cash and cash equivalents	**185**	(59)	**1,504**
(Decrease) increase in cash and cash equivalents	**(82)**	6,332	**(667)**
Cash and cash equivalents at beginning of year	**24,893**	17,956	**202,382**
Increase due to merger of unconsolidated subsidiaries	**25**	—	**203**
Cash and cash equivalents at end of year	**¥ 24,837**	¥ 24,289	**$201,927**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nippon Paper Industries Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2001 and 2000

1. Summary of Significant Accounting Policies

(a) Basis of Preparation

The accompanying consolidated financial statements have been prepared from the accounts maintained by Nippon Paper Industries Co., Ltd. (the "Company") in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

As permitted, amounts of less than ¥1 million 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

In accordance with the accounting standards for consolidation issued by the Business Accounting Deliberation Council of Japan, effective April 1, 1999, the accompanying consolidated financial statements include the accounts of the Company and all its subsidiaries over which substantial control is exerted through either majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation.

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

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

All assets and liabilities of the subsidiaries are revaluated on acquisition, if applicable, and the excess of cost over underlying net assets at the date of acquisition is amortized over a period of five years on a straight-line basis if such excess is material, or charged to income when incurred if immaterial.

Before the adoption of the new accounting standard, subsidiaries and affiliates included only companies in which the Company held the majority ownership and companies owned 20% to 50% by the Company, respectively.

(c) Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

(d) Marketable Securities

Until the year ended March 31, 2000, marketable securities and investment securities had been valued principally at cost determined by the moving average method.

A new accounting standard for financial instruments, which became effective April 1, 2000, requires that securities be classified into three categories: trading, held-to-maturity or other securities. Under the new standard, trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Securities classified as other securities are carried at cost. The cost of securities sold is determined by the moving average method.

As of April 1, 2000, the Company and its consolidated subsidiaries assessed their intent to hold their investments in securities and classified their investments as held-to-maturity securities or other securities and accounted for the securities at March 31, 2001 in accordance with the new standard referred to above. As a result, marketable securities of ¥33,045 million ($268,659 thousand), which had been included in marketable securities were reclassified to investments in other securities as of April 1, 2000.

There was no material effect in the Company's income before income taxes taxes from the adoption of this new standard for financial instruments.

(e) Inventories

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

(f) Property, Plant and Equipment

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

(g) Leases

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

(h) Foreign Currency Translation

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

The balance sheet accounts of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of shareholders' equity, which are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rate of exchange in effect during the year. A revised accounting standard for foreign currency translation became effective April 1, 2000. The effect of the adoption of the revised standard on the consolidated financial statements was immaterial for the year ended March 31, 2001. Due to a change effective the year ended March 31, 2001 in the regulations relating to the presentation of translation adjustments, the Company has presented translation adjustments as a component of shareholders' equity and minority interests in consolidated subsidiaries (instead of as a component of assets or liabilities) in its consolidated financial statements for the year ended March 31, 2001, and has restated the previously reported consolidated financial statements for the years ended March 31, 2000.

(i) Bond Issuance Costs

Bond issuance costs are charged to income as incurred.

(j) Retirement Benefits

Until the year ended March 31, 2000, accrued retirement benefits were stated at 40 percent (the maximum rate allowable for income tax purposes) of the amount which would be required to be paid if all employees covered by the retirement benefit plans voluntarily terminated their employment as of the balance sheet date.

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

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

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

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

The effect of the adoption of the new standard for retirement benefits was to decrease income before income taxes and minority interests by ¥41,056 million ($333,789 thousand) for the year ended March 31, 2001.

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

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

(k) Research and Development Costs

Research and development costs are charged to operations as incurred.

(l) Income Taxes

Effective April 1, 1999, the Company adopted tax-effect accounting for income taxes in accordance with a new accounting standard issued by the Business Accounting Deliberation Council. This standard requires recognition of income taxes by the liability method. Under the liability method, deferred tax assets and liabilities are determined based on the difference between financial reporting and the tax basis of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse. The cumulative effect of this change is reported as "cumulative effect of adopting deferred tax accounting" in the consolidated statements of income and retained earnings.

(m) Appropriation of Retained Earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period and the accounts for such period; therefore, they do not reflect such appropriations. See Note 15.

(n) Amounts per Share

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

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

2. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥123=US$1, the approximate rate of exchange on March 31, 2001, has been used. The translations should not be construed as representations 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.

3. Inventories

Inventories at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Merchandise and finished products	**¥ 66,961**	¥ 63,512	**$544,398**
Work in process	**11,691**	12,889	**95,049**
Raw materials and supplies	**29,621**	29,367	**240,821**
	¥108,274	¥105,770	**$880,276**

4. Short-Term Borrowings and Long-Term Debt

At March 31, 2001 and 2000, short-term borrowings consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Loans from banks	**¥193,848**	¥203,034	**$1,576,000**
Commercial paper	**4,000**	21,000	**32,520**
	¥197,848	¥224,034	**$1,608,520**

Loans from banks are unsecured and represented generally by 365-day notes. The weighted average interest rates of short-term bank loans outstanding at March 31, 2001 and 2000 were 1.0 percent and 0.8 percent, respectively.

Long-term debt at March 31, 2001 and 2000 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Loans from banks, insurance companies and others at rates ranging from 0.42 percent to 7.2 percent due through 2034:			
With collateral	**¥ 31,983**	¥ 44,329	**$ 260,024**
Without collateral	**94,678**	99,176	**769,740**
2.5 percent unsecured notes in yen due 2003	**30,000**	30,000	**243,902**
2.975 percent unsecured notes in yen due 2005	**25,000**	25,000	**203,252**
2.55 percent unsecured notes in yen due 2003	**25,000**	25,000	**203,252**
1.675 percent unsecured notes in yen due 2002	**15,000**	15,000	**121,951**
2.075 percent unsecured notes in yen due 2004	**15,000**	15,000	**121,951**
2.12 percent unsecured notes in yen due 2004	**20,000**	20,000	**162,602**
1.8 percent unsecured convertible bonds in yen due 2002	**656**	695	**5,333**
2.3 percent convertible mortgage bonds in yen due 2002	**8**	23	**65**
1.8 percent unsecured convertible bonds in yen due 2003	**28,620**	28,620	**232,683**
1.66 percent unsecured notes in yen due 2005 (subsidiary)	**1,500**	1,500	**12,195**
2.40 percent unsecured convertible bonds in yen due 2002 (subsidiary)	**3,230**	3,230	**26,260**
	290,676	307,573	**2,363,220**
Less current portion	**(59,006)**	(30,187)	**(479,724)**
	¥231,670	¥277,386	**$1,883,496**

The following convertible bonds were redeemed on April 23, 2001 based on the resolution of Board of Directors held on February 23, 2001.

1.8 percent convertible bonds due 2002
2.3 percent convertible bonds due 2002
1.8 percent convertible bonds due 2003

Long-term debt maturities subsequent to March 31, 2001 are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2002	¥ 59,006	$ 479,723
2003	46,831	380,740
2004	77,544	630,439
2005	49,373	401,407
2006 and thereafter	57,920	470,894
	¥290,676	$2,363,220

5. Pledged Assets

Assets pledged as collateral for notes and accounts payable: trade of ¥138 million ($1,122 thousand) and ¥54 million, other current liabilities of ¥0 million ($0 thousand) and ¥1,461 million, short-term borrowings of ¥4,532 million ($36,846 thousand) and ¥4,856 million, current portion of long-term debt of ¥3,568 million ($29,008 thousand) and ¥2,358 million and long-term debt of ¥28,423 million ($231,081 thousand) and ¥41,994 million at March 31, 2001 and 2000, respectively, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Property, plant and equipment, at net book value	**¥213,656**	¥246,563	**$1,737,041**
Marketable securities at net book value	**—**	2,378	**—**
Investments in other securities	**4,782**	3,781	**38,878**
Other assets	**883**	533	**7,179**
	¥219,322	¥253,257	**$1,783,106**

6. Retirement Benefits

The Company and its consolidated subsidiaries have defined benefit plans, i.e., welfare pension fund plans, tax-qualified pension plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheet as of March 31, 2001 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen	Thousands of U.S. dollars
Retirement benefit obligation	¥(197,808)	$(1,608,195)
Plan assets at fair value	148,260	1,205,366
Unfunded retirement benefit obligation	(49,547)	(402,821)
Unrecognized net retirement benefit obligation at transition	—	—
Unrecognized actuarial gain or loss	21,239	172,675
Unrecognized prior service cost	(2,288)	(18,602)
Net retirement benefit obligation	(30,596)	(248,748)
Prepaid pension cost	2,134	17,350
Accrued retirement benefits	¥ (32,731)	$ (266,106)

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

The components of retirement benefit expenses for the year ended March 31, 2001 are outlined as follows:

	Millions of yen	Thousands of U.S. dollars
Service cost	¥ 6,840	$ 55,610
Interest cost	6,244	50,764
Expected return on plan assets	(4,305)	(35,000)
Loss on recognition of net retirement benefit obligation at transition	71,375	580,285
Total	¥80,156	$651,675

In addition to the above, the Company paid an extra retirement benefit of ¥528 million ($4,293 thousand) in this year. Also, the Company contributed securities amounting to ¥60,898 million ($495,106 thousand) at market value to establish a trust to be applied to retirement benefit obligation at transition with gains from its contribution of ¥33,554 million ($272,797 thousand).

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

Discount rates 3.0~3.5%

Expected return on assets 3.5~4.5%

7. Income Taxes

The Company and its domestic consolidated subsidiaries are subject to a number of taxes based on earnings, i.e. corporation tax, inhabitants' tax and enterprise tax, which, in the aggregate, resulted in a statutory tax rate of approximately 41.7% for both fiscal 2001 and 2000. The effective tax rates reflected in the accompanying consolidated statements of income and retained earnings differ from the statutory tax rate primarily due to the effect of timing differences in the recognition of certain income and expenses for tax and financial reporting purposes and the effect of permanent non-deductible expenses.

The effective tax rate reflected in the consolidated statement of income and retained earnings for the years ended March 31, 2001 and 2000, respectively, differs from the statutory tax rate for the following reasons:

	2001	2000
Statutory tax rate	**41.7%**	41.7%
Effect of:		
Permanent difference—entertainment expense	**19.1**	4.0
Permanent difference—divided income	**(0.8)**	(1.3)
Equity in earnings of affiliated companies	**45.0**	(1.1)
Provision for valuation allowance	**(11.2)**	3.6
Inhabitants' tax per capita	**4.8**	—
Other, net	**2.4**	0.7
Effective tax rate	**101.0%**	47.5%

Significant components of the deferred tax assets and liabilities held by the Company and its consolidated subsidiaries as of March 31, 2001 and 2000, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Deferred tax assets:			
Accrued bonuses	**¥ 2,252**	¥ 1,570	**$ 18,309**
Accrued enterprise tax	**1,346**	901	**10,943**
Accrued retirement benefits	**18,617**	2,759	**151,358**
Accrued officers' retirement benefits	**1,224**	1,019	**9,951**
Tax loss carryforwards	**5,021**	6,095	**40,821**
Others	**5,240**	4,628	**42,602**
	33,703	16,975	**274,008**
Valuation allowance	**(5,215)**	(6,724)	**(42,398)**
	28,487	10,250	**231,602**
Deferred tax liabilities:			
Tax reserves	**(6,189)**	(4,612)	**(50,317)**
Other	**(255)**	(420)	**(2,073)**
	(6,445)	(5,032)	**(52,398)**
Net deferred tax assets	**¥22,042**	¥ 5,217	**$179,203**

8. Common Stock

During the years ended March 31, 2001 and 2000, the Company issued 101,613 shares and 54,747 shares, respectively, upon the conversion of convertible bonds.

At March 31, 2001, the authorised and issued shares of common stock (¥50 par value) of the Company numbered 2,200,000,000 and 948,744,765 shares, respectively.

9. Leases

Lessees' Accounting

a) The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property as of March 31, 2001 and 2000 which would have been reflected in the balance sheets if finance lease accounting had been applied to the finance lease transactions currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Acquisition costs:			
Machinery and equipment	**¥5,518**	¥5,525	**$44,862**
Accumulated depreciation:			
Machinery and equipment	**3,284**	3,124	**26,699**
Net book value:			
Machinery and equipment	**¥2,233**	¥2,400	**$18,154**

The pro forma depreciation portion of lease payments relating to finance lease transactions accounted for as operating leases for the years ended March 31, 2001 and 2000 amounted to ¥1,133 million ($9,211 thousand) and ¥1,148 million, respectively, which were computed assuming the straight-line method over the respective lease terms of the leased assets.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2001 for finance lease transactions accounted for as operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31:		
2002	¥ 919	$ 7,472
2003 and thereafter	1,313	10,675
Total	¥2,233	$18,154

b) Future minimum lease payments subsequent to March 31, 2001 for noncancelable operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31:		
2002	¥473	$3,846
2003 and thereafter	59	480
Total	¥532	$4,325

Lessors' Accounting

a) The following amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets relating to finance leases accounted for as operating leases at March 31, 2001:

	Millions of yen	Thousands of U.S. dollars
Acquisition costs:		
Machinery and equipment	¥192	$1,561
Accumulated depreciation:		
Machinery and equipment	130	1,057
Net book value:		
Machinery and equipment	¥ 61	$ 496

Lease income relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥30 million ($244 thousand) for the year ended March 31, 2001. Depreciation of the assets leased under finance leases accounted for as operating leases amounted to ¥29 million ($236 thousand) for the year ended March 31, 2001.

Future minimum lease income subsequent to March 31, 2001 for noncancelable operating leases is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31:		
2002	¥29	$236
2003 and thereafter	33	268
Total	¥63	$512

b) Future minimum lease income subsequent to March 31, 2001 for noncancelable operating leases is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31:		
2002	¥ 60	$ 488
2003 and thereafter	101	821
Total	¥161	$1,309

10. Contingent Liabilities

The Company and its consolidated subsidiaries had the following contingent liabilities at March 31, 2001:

	Millions of yen	Thousands of U.S. dollars
As endorsers of trade notes discounted with banks	¥ 2,126	$ 17,285
As guarantors of indebtedness of unconsolidated subsidiaries, affiliates and other companies	45,133	366,935
	¥47,260	$384,228

11. Securities

(1) The book values and related aggregate market values at March 31, 2000 of current and noncurrent marketable securities included in marketable securities, investments in and advances to unconsolidated subsidiaries and affiliates and investments in other securities are summarized as follows:

	Millions of yen	
	Book value	Market value
Marketable securities	¥65,302	¥113,443
Investments in securities, including investments in and advances to unconsolidated subsidiaries and affiliates	¥40,931	¥ 40,687

(2) Information regarding marketable securities classified as held-to-maturity debt securities and other securities as of March 31, 2001 is as follows:

Marketable held-to-maturity debt securities

	Millions of yen			Thousands of U.S. dollars		
March 31, 2001	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value:						
Government bonds	¥ 10	¥ 10	¥—	$ 81	$ 81	$ —
Corporate bonds	1,491	1,554	63	12,122	12,634	512
Subtotal	1,501	1,564	63	12,203	12,715	512
Securities whose carrying value exceeds their fair value:						
Corporate bonds	300	276	(23)	2,439	2,244	(187)
Subtotal	300	276	(23)	2,439	2,244	(187)
Total	¥1,801	¥1,840	¥39	$14,642	$14,959	$317

Marketable other securities

a) Marketable other securities are valued at cost for the year ended March 31, 2001.

b) Sales of securities classified as other securities amounted to ¥2,784 million ($22,634 thousand) with an aggregate gain of ¥1,647 million ($13,390 thousand) for the year ended March 31, 2001.

c) The redemption schedule for securities with maturity dates classified as other securities and held-to-maturity debt securities as of March 31, 2001 is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2001	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due in one year or less	Due after one year through five years	Due after five years through ten years
Corporate bonds	¥530	¥1,297	¥—	$4,309	$10,545	$—
Other debt securities	27	29	—	220	236	—
Total	¥557	¥1,326	¥—	$4,528	$10,780	$—

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

	Millions of yen	Thousands of U.S. dollars
March 31, 2001	Carrying value	
Held-to-maturity debt securities:		
Non-listed	¥ 1	$ 8
Other	45	366
Total	¥ 46	$ 374
Other securities:		
Non-listed equity securities	¥26,095	$212,154
Other than OTC securities		
Money management fund	5,425	44,106
Other	1,010	8,211
Total	¥32,531	$264,480

The net unrealized gain of other securities at March 31, 2001 is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Balance sheet	¥38,627	$314,041
Market price	43,688	355,187
Net unrealized gain	3,186	25,902
Deferred tax	2,071	16,837
Minority interests in consolidated subsidiaries	(197)	(1,602)

12. Segment Information

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sales of products in three major industry segments: pulp and paper, paper-related and housing and construction materials.

Business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2001 and 2000 is as follows:

	Millions of yen						
2001	Pulp and paper	Paper-related	Housing and construction materials	Other	Total	Eliminations or corporate	Consolidated
I. Sales and operating income:							
Sales to third parties	**¥664,872**	**¥ 98,792**	**¥101,583**	**¥64,806**	**¥930,055**	**¥ —**	**¥ 930,055**
Intragroup sales and transfers	**1,647**	**8,143**	**17,352**	**17,244**	**44,388**	**(44,388)**	**—**
Total sales	**666,520**	**106,935**	**118,936**	**82,051**	**974,444**	**(44,388)**	**930,055**
Operating expenses	**616,778**	**102,230**	**117,641**	**77,885**	**914,536**	**(44,388)**	**870,148**
Operating income	**¥ 49,741**	**¥ 4,705**	**¥ 1,294**	**¥ 4,165**	**¥ 59,907**	**¥ —**	**¥ 59,907**
II. Assets, depreciation and capital expenditures:							
Total assets	**¥736,630**	**¥ 94,214**	**¥ 72,234**	**¥72,304**	**¥975,383**	**¥131,789**	**¥1,107,172**
Depreciation	**48,806**	**4,519**	**630**	**5,663**	**59,620**	**—**	**59,620**
Capital expenditures	**33,421**	**3,638**	**573**	**4,520**	**42,154**	**—**	**42,154**

	Thousands of U.S. dollars						
2001	Pulp and paper	Paper-related	Housing and construction materials	Other	Total	Eliminations or corporate	Consolidated
I. Sales and operating income:							
Sales to third parties	**$5,405,463**	**$803,187**	**$825,878**	**$526,878**	**$7,561,423**	**$ —**	**$7,561,423**
Intragroup sales and transfers	**13,390**	**66,203**	**141,073**	**140,195**	**360,878**	**(360,878)**	**—**
Total sales	**5,418,862**	**869,390**	**966,959**	**667,081**	**7,922,309**	**(360,878)**	**7,561,423**
Operating expenses	**5,014,455**	**831,138**	**956,431**	**633,211**	**7,435,252**	**(360,878)**	**7,074,374**
Operating income	**$ 404,398**	**$ 38,252**	**$ 10,520**	**$ 33,862**	**$ 487,049**	**$ —**	**$ 487,049**
II. Assets, depreciation and capital expenditures:							
Total assets	**$5,988,862**	**$765,967**	**$587,268**	**$587,837**	**$7,929,943**	**$1,071,455**	**$9,001,398**
Depreciation	**396,797**	**36,740**	**5,122**	**46,041**	**484,715**	**—**	**484,715**
Capital expenditures	**271,715**	**29,577**	**4,659**	**36,748**	**342,715**	**—**	**342,715**

	Millions of yen						
2000	Pulp and paper	Paper-related	Housing and construction materials	Other	Total	Eliminations or corporate	Consolidated
I. Sales and operating income:							
Sales to third parties	¥646,267	¥ 94,060	¥101,167	¥64,544	¥906,041	¥ —	¥ 906,041
Intragroup sales and transfers	1,585	8,310	13,521	17,061	40,478	(40,478)	—
Total sales	647,853	102,371	114,688	81,606	946,519	(40,478)	906,041
Operating expenses	628,714	96,891	113,708	77,077	916,392	(40,478)	875,913
Operating income	¥ 19,138	¥ 5,480	¥ 980	¥ 4,528	¥ 30,127	¥ —	¥ 30,127
II. Assets, depreciation and capital expenditures:							
Total assets	¥756,679	¥ 79,483	¥ 68,508	¥66,886	¥971,558	¥150,547	¥1,122,106
Depreciation	52,664	4,408	645	5,317	63,035	—	63,035
Capital expenditures	34,084	3,630	370	5,060	43,146	—	43,146

13. Derivative Transactions

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

In addition, the Company and some subsidiaries have entered into interest rate swap agreements to reduce their interest expense or reduce their exposure to adverse fluctuations in interest rates relating to loans and bonds payable. The total notional principal amount of these interest rate swap agreements at March 31, 2001 was ¥7,725 million ($62,805 thousand), which included the notional principal amounts of ¥7,425 million ($60,366 thousand) relating to swap positions whose terms extend more than one year after the balance sheet date.

Summarized below are the contract amounts and estimated fair value of the Company's financial instruments at March 31, 2001 and 2000, respectively.

	Millions of yen				Thousands of U.S. dollars	
	2001		2000		**2001**	
	Contract amount	Estimated fair value	Contract amount	Estimated fair value	Contract amount	Estimated fair value
Forward exchange contracts:						
To buy U.S. dollars	**¥ —**	**¥ —**	¥1,940	¥1,950	**$ —**	**$ —**
To sell U.S. dollars	**—**	**—**	156	156	**—**	**—**
To buy euros	**—**	**—**	12	12	**—**	**—**
Interest rate swaps:						
Receive—variable, pay—fixed	**¥1,925**	**¥ (41)**	¥4,500	¥ (40)	**$15,650**	**$ (333)**
Receive—fixed, pay—variable	**5,000**	**262**	8,500	85	**40,650**	**2,130**
Receive—variable, pay—variable	**800**	**(15)**	2,800	(46)	**6,504**	**(122)**
Receive—fixed, pay—fixed	**—**	**—**	1,725	(23)	**—**	**—**
Interest rate cap:						
To buy	**¥8,000**	**¥ 24**	¥8,000	¥ 169	**$65,041**	**$ 195**

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

Forward exchange contracts:
Forward rates for contracts with similar terms
Coupon and interest rate swaps:
Estimated fair value provided by financial institutions

The above contract amounts of the forward exchange contracts excluded contracts entered into to hedge receivables and payables denominated in foreign currencies which have been translated and reflected at the corresponding contracted rates in the accompanying balance sheets.

14. Research and Development Costs

Included in cost of sales and selling, general and administrative expenses were ¥5,941 million ($48,301 thousand) of research and development costs for the year ended March 31, 2001.

15. Subsequent Event

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2001, were approved at a shareholders' meeting held on June 28, 2001:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥5.5/$0.04 per share)	¥5,217	$42,415
Bonuses to directors	200	1,626
	¥5,417	$44,041

Report of Independent Certified Public Accountants

Century Ota Showa & Co.

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The Board of Directors
Nippon Paper Industries Co., Ltd.

We have audited the consolidated balance sheets of Nippon Paper Industries Co., Ltd. and consolidated subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income and retained earnings, and cash flows for the years ended March 31, 2001 and 2000, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Nippon Paper Industries Co., Ltd. and consolidated subsidiaries at March 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for the years ended March 31, 2001 and 2000 in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 1 to the consolidated financial statements, Nippon Paper Industries Co., Ltd. and consolidated subsidiaries have adopted new accounting standards for retirement and severance benefits of its employees, financial instruments, and translation of foreign currency transactions and financial statements, effective April 1, 2000, and new accounting standards for consolidation and tax-effect accounting, effective April 1, 1999, in the preparation of their consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2001 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

Century Ota Showa & Co.

June 28, 2001

See Note 1 to consolidated financial statements, which explains the basis of preparing the consolidated financial statements of Nippon Paper Industries Co., Ltd. and consolidated subsidiaries under Japanese accounting principles and practices.

Consolidated Five-Year Summary

Daishowa Paper Manufacturing Co., Ltd. and Consolidated Subsidiaries Years ended March 31

	Millions of yen				
	2001	2000	1999	1998	1997
Pulp and Paper (Note 1)					
Total segment sales	**¥320,137**	¥307,659	¥300,054	¥ —	¥ —
Intragroup sales	**(159)**	(1,088)	(146)	—	—
Total sales to third parties	**319,978**	306,571	299,907	—	—
Others (Note 1)					
Total segment sales	**27,603**	24,886	24,179	—	—
Intragroup sales	**(18,222)**	(13,177)	(13,204)	—	—
Total sales to third parties	**9,380**	11,709	10,975	—	—
Total sales					
Total sales	**347,740**	332,546	324,233	—	—
Intragroup sales	**(18,382)**	(14,265)	(13,350)	—	—
Total sales to third parties	**329,358**	318,281	310,882	370,687	380,990
Operating income (Note 2)	**20,676**	11,174	2,530	19,883	32,533
(Loss) income before income taxes (Notes 2 and 3)	**(46,537)**	4,267	(17,616)	7,407	11,118
Net (loss) income	**(28,246)**	1,871	(12,274)	4,061	7,613
Total assets	**589,991**	630,486	561,491	594,038	627,490
Total current assets	**168,947**	138,317	134,516	161,585	169,134
Property, plant and equipment, net (Note 4)	**347,588**	385,098	324,438	333,669	346,025
Total investments and other assets (Note 5)	**73,455**	107,070	102,536	98,784	112,330
Liabilities and others (Note 6)	**542,896**	551,883	526,892	545,872	582,762
Total shareholders' equity (Notes 5 and 7)	**47,095**	78,603	34,599	48,166	44,727
Amounts per share (yen):					
Net income					
Basic	**¥ (130.26)**	¥ 8.62	¥ (55.85)	¥ 18.48	¥ 34.64
Diluted	**—**	—	—	—	—
Shareholders' equity (Note 7)	**214.28**	362.93	157.42	219.15	203.51
Ratios (%):					
Operating income to net sales (Note 2)	**6.28%**	3.51%	0.81%	5.36%	8.54%
Net income to net sales	**(8.58)%**	0.59%	(3.95)%	1.10%	2.00%
Net income to shareholders' equity (Note 7)	**(44.94)%**	3.31%	(29.66)%	8.74%	18.61%
Equity ratio (Note 7)	**7.98%**	12.47%	6.16%	8.11%	7.13%

Notes: 1. From 1999, we separated the sales division into "Pulp and Paper" and "Others."
2. From 1997 to 1998, enterprise tax is included in selling, general and administrative expenses. From 1999, enterprise tax is not included in selling, general and administrative expenses.
3. From 2000, amortization and equity in earnings, which were previously stated in the items between income before income taxes and net income are included in administrative expenses and other (expense) income.
4. Intangible fixed assets is included in investments and other assets.
5. From 2001, foreign currency translation adjustments, which were previously recorded in investments and other assets, are included in shareholders' equity.
6. Liabilities and others includes minority interests in consolidated subsidiaries.
7. Foreign currency translation adjustment is included in shareholders' equity.

Consolidated Financial Review for Daishowa Paper Manufacturing

SUMMARY OF OPERATIONS

Despite reduced public spending during fiscal 2001, ended March 31, 2001, thanks to increased private capital investment in facilities against a background of improved corporate profits and expanding investment in the IT sector, the economy showed signs of recovery. However, individual consumption, which had earlier shown promise, took a turn for the worse, and in the latter half of the fiscal year, reflecting such factors as the slowdown in the growth rate of mining and industrial output, the economy was unable to pull out of its slump. On the other hand, although the North American economy began to show signs of a slowdown, it remained healthy overall.

In the area of pulp and paper, supported by increased demand for paper from the advertising and IT-related industries, domestic shipments, especially those of coated paper, were strong. In addition, in the area of paperboard, due to the increase in sales for containers for processed food products and fruits and vegetables, especially for beverages, demand was relatively healthy. Under these conditions, the market continued to recover due to relatively tight supply and demand. However, during the year the pace of recovery slowed and both demand and market conditions worsened.

Under these conditions, and backed by the partial recovery of domestic paper prices and such management streamlining measures as reduction of production costs, Group consolidated net sales for fiscal 2001 increased 3.5%, to ¥329.4 billion (US$2,677.7 million), compared with the previous fiscal year, and ordinary income increased 110.1%, to ¥13.0 billion (US$105.4 million). However, due to special losses that reflect the adoption of new accounting standards for retirement benefits and financial products, a net loss of ¥28.2 billion (US$229.6 million) was posted for the fiscal year.

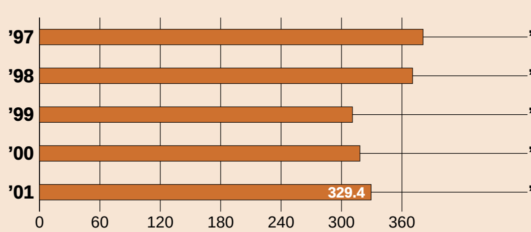
NET SALES

Looking at consolidated performance by business segment, sales of Pulp and Paper increased 4.1%, to ¥320.1 billion (US$2,602.7 million), compared with the previous fiscal year. Factors contributing to this increase include the recovery of the price of newsprint in North America and the partial recovery of domestic paper prices, especially for coated paper. Sales in the Other Division increased 10.9%, to ¥27.6 billion (US$224.4 million), compared with the previous fiscal year.

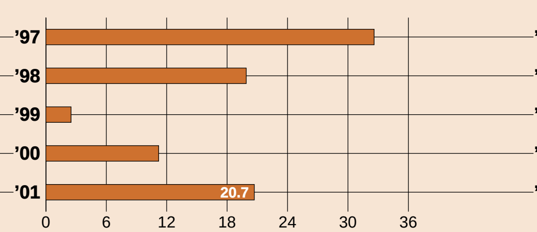
COSTS, EXPENSES, AND EARNINGS

The cost of sales for the fiscal year under review edged up 0.2%, to ¥259.2 billion (US$2,107.7 million), compared with the previous fiscal year. The cost of sales as a percentage of net sales fell 2.6 percentage points compared to the previous fiscal year, to 78.7%.

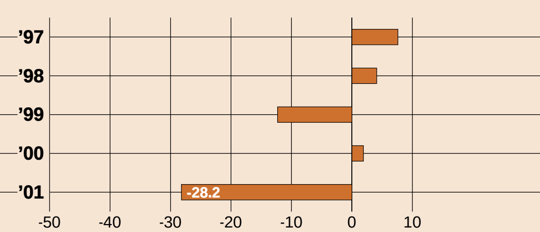
Sales
(¥ billion)



Operating Income
(¥ billion)



Net (Loss) Income
(¥ billion)



During the year under review, selling, general and administrative (SG&A) expenses rose 2.4%, to ¥49.4 billion (US$402.0 million). SG&A expenses as a percentage of net sales decreased 0.2 percentage point compared with the previous fiscal year, to 15.0%. Operating income was up ¥9.5 billion, to ¥20.7 billion (US$168.1 million), and operating income as a percentage of net sales rose by 2.8 percentage points, to 6.3%.

Ordinary income increased 110.1%, to ¥13.0 billion (US$105.4 million).

In addition to the factors mentioned above, during the fiscal year under consolidated review there were several one-time losses calculated as special losses, such as a lump-sum amortization of ¥16.0 billion (US$130.0 million) for a provision for the transition obligation resulting from adoption of a new accounting standard for retirement benefits, an assessment loss of ¥15.3 billion (US$124.4 million) on shares resulting from the adoption of a new accounting standard for financial products, and a loss of ¥13.9 billion (US$113.1 million) from the sales of shares of foreign subsidiaries. As a result, the loss before income taxes and minority interests for the year was ¥46.5 billion (US$378.4 million). In addition, there was a net loss of ¥28.2 billion (US$229.6 million) and a basic loss per share of ¥130.26 (US$1.06).

FINANCIAL POSITION

Total assets at March 31, 2001, amounted to ¥590.0 billion (US$4,796.7 million), a decrease of 6.4% from the previous fiscal year-end. Total current assets increased 22.1%, to ¥168.9 billion (US$1,373.6 million). The main factor contributing to this increase was the temporary increase in cash and time deposits due to proceeds from the sale of shares of foreign subsidiaries.

Property, plant and equipment, net, amounted to ¥347.6 billion (US$2,825.9 million). Total investments and other assets increased 0.8%, to ¥73.5 billion (US$597.2 million).

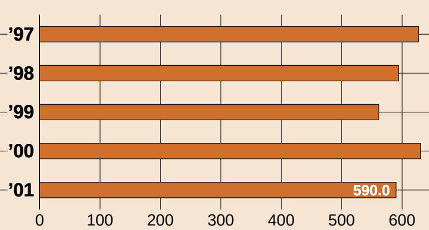
On the other side of the balance sheet, total current liabilities fell 1.8%, to ¥312.0 billion (US$2,536.4 million). Total long-term liabilities decreased 0.4%, to ¥228.6 billion (US$1,858.8 million).

Minority shareholders' equity in consolidated subsidiaries dropped 50.3%, to ¥2.3 billion (US$18.6 million).

Total shareholders' equity dropped 40.1%, to ¥47.1 billion (US$382.9 million), compared with the previous fiscal year-end as a result of the change in reporting procedures regarding the accounting for foreign currency translation adjustments and the net loss for the fiscal year under review. The shareholders' equity ratio fell 4.5 percentage points, to 8.0%, and the current ratio climbed from 0.44 times to 0.54 times.

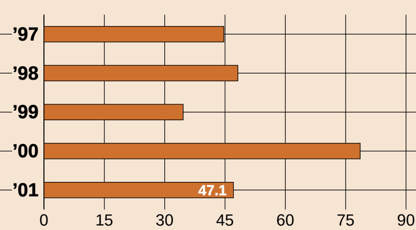
Total Assets

(¥ billion)



Total Shareholders' Equity

(¥ billion)



Consolidated Balance Sheets

Daishowa Paper Manufacturing Co., Ltd. and Consolidated Subsidiaries As of March 31, 2001 and 2000

ASSETS	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars (Note 3) 2001
Current assets:			
Cash and time deposits	**¥ 51,998**	¥ 17,876	**$ 422,748**
Notes and accounts receivable (Note 10):			
Trade	**66,269**	60,229	**538,772**
Unconsolidated subsidiaries and affiliates	**1,309**	11,631	**10,642**
Loans receivable from unconsolidated subsidiaries and affiliates	**3,846**	4,536	**31,268**
Allowance for doubtful receivables	**(100)**	(176)	**(813)**
Inventories (Notes 6 and 10)	**37,827**	40,788	**307,537**
Deferred current tax assets (Note 7)	**387**	215	**3,146**
Other current assets	**7,407**	3,216	**60,220**
Total current assets	**168,947**	138,317	**1,373,553**
Property, plant and equipment (Note 10):			
Land	**144,233**	145,655	**1,172,626**
Buildings and structures	**121,802**	127,549	**990,260**
Machinery and equipment	**585,682**	629,558	**4,761,642**
Forests and afforestation	**9,275**	11,075	**75,407**
Construction in progress	**3,117**	7,867	**25,341**
Accumulated depreciation	**(516,522)**	(536,606)	**(4,199,366)**
Property, plant and equipment, net	**347,588**	385,098	**2,825,919**
Investments and long-term loans:			
Investment securities (Notes 5 and 10):			
Unconsolidated subsidiaries and affiliates	**9,697**	10,378	**78,837**
Parent company	**1,238**	—	**10,065**
Other	**19,802**	29,959	**160,992**
Past due loans and loans in bankruptcy	**38,484**	38,661	**312,878**
Deferred tax assets (Note 7)	**23,471**	5,139	**190,821**
Other	**10,783**	12,700	**87,667**
Allowance for doubtful receivables	**(34,907)**	(30,673)	**(283,797)**
Total investments and long-term loans	**68,570**	66,166	**557,480**
Intangible assets	**4,134**	5,836	**33,610**
Consolidation difference	**750**	886	**6,098**
Foreign currency translation adjustments	**—**	34,179	**—**
Total assets	**¥589,991**	¥630,486	**$4,796,675**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars (Note 3) 2001
Current liabilities:			
Short-term borrowings (Note 10)	**¥163,069**	¥161,343	**$1,325,764**
Current portion of long-term debt (Note 10)	**52,902**	58,225	**430,098**
Notes and accounts payable:			
Trade	**58,006**	59,437	**471,593**
Unconsolidated subsidiaries and affiliates	**2,681**	2,678	**21,797**
Other current liabilities	**35,318**	36,079	**287,138**
Total current liabilities	**311,978**	317,765	**2,536,407**
Long-term liabilities:			
Long-term debt (Note 10)	**141,956**	156,824	**1,154,114**
Total deferred tax liabilities (Note 7)	**1,523**	5,708	**12,382**
Deferred tax liabilities related to land revaluation (Note 8)	**32,023**	31,956	**260,350**
Employees' retirement benefits (Note 11)	**32,354**	16,708	**263,041**
Allowance for losses on guarantees	**8,050**	—	**65,447**
Other long-term liabilities	**12,724**	18,324	**103,447**
Total long-term liabilities	**228,631**	229,521	**1,858,789**
Minority shareholders' equity in consolidated subsidiaries	**2,285**	4,596	**18,577**
Shareholders' equity:			
Common stock par value ¥50 per share:			
Authorized—600,000,000 shares			
Issued: 2000—219,787,846 shares			
2001—219,787,846 shares	**31,784**	31,784	**258,407**
Additional paid-in capital	**22,419**	22,419	**182,268**
Variance of land revaluation (Note 8)	**46,331**	46,234	**376,675**
Retained earnings	**(40,183)**	(18,375)	**(326,691)**
Variance of marketable other securities revaluation	**615**	—	**5,000**
Foreign currency translation adjustments	**(13,871)**	—	**(112,772)**
Treasury stock	**—**	(3,458)	**—**
Total shareholders' equity	**47,095**	78,603	**382,886**
Total liabilities and shareholders' equity	**¥589,991**	¥630,486	**$4,796,675**

Consolidated Statements of Operations and Retained Earnings

Daishowa Paper Manufacturing Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2001	2000	**2001**
Net sales	**¥329,358**	¥318,281	**$2,677,707**
Cost of sales	**259,241**	258,822	**2,107,650**
Gross profit	**70,116**	59,458	**570,049**
Selling, general and administrative expenses	**49,440**	48,284	**401,951**
Operating income	**20,676**	11,174	**168,098**
Other income (expenses):			
Interest expenses	**(9,990)**	(11,669)	**(81,220)**
Interest and dividend income	**930**	671	**7,561**
Equity in earnings of unconsolidated subsidiaries and affiliates	**999**	4,293	**8,122**
Other, net	**353**	1,705	**2,870**
	(7,707)	(4,999)	**(62,659)**
Ordinary income	**12,969**	6,174	**105,439**
Special items:			
Gain on sales and disposals of fixed assets	**1,035**	1,963	**8,415**
Losses on sales and disposals of fixed assets	**(1,077)**	(886)	**(8,756)**
Losses on devaluation of investment securities	**(15,306)**	(356)	**(124,439)**
Gain on sales of investment securities	**—**	3,725	**—**
Losses on sales of investment securities	**(14)**	(2,054)	**(114)**
Provision for doubtful receivables	**(4,220)**	(817)	**(34,309)**
Provision for losses on guarantees	**(8,050)**	—	**(65,447)**
Provision for retirement obligation resulting from change in accounting standard (Note 11)	**(15,965)**	—	**(129,797)**
Losses on overseas business restructuring	**(13,908)**	—	**(113,073)**
Losses on domestic business restructuring	**(1,025)**	(2,282)	**(8,333)**
Other, net	**(976)**	(1,199)	**(7,935)**
	(59,506)	(1,906)	**(483,789)**
(Loss) income before income taxes and minority interests	**(46,537)**	4,267	**(378,350)**
Income taxes:			
Current	**(3,477)**	(2,168)	**(28,268)**
Deferred	**19,793**	(1,057)	**160,919**
Minority interests in loss of consolidated subsidiaries	**1,974**	830	**16,049**
Net (loss) income	**(28,246)**	1,871	**(229,642)**
Retained earnings at beginning of year	**(18,375)**	(19,604)	**(149,390)**
Adjustments for exclusion of subsidiaries in the consolidation	**8,595**	—	**69,878**
Adjustments for inclusion or exclusion of affiliates in the equity method of accounting, net	**(2,059)**	(685)	**(16,740)**
Other	**(97)**	41	**(789)**
Retained earnings at end of year	**¥ (40,183)**	¥ (18,375)	**$ (326,691)**

	Yen		U.S. dollars (Note 3)
Net (loss) income per share	**¥(130.26)**	¥8.62	**$(1.06)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Daishowa Paper Manufacturing Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2001	2000	**2001**
Cash flows from operating activities:			
(Loss) income before income taxes and minority interests	**¥(46,537)**	¥ 4,267	**$(378,350)**
Adjustments to reconcile net income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	**29,507**	29,965	**239,894**
Amortization of consolidated difference	**136**	43	**1,106**
Increase in allowance for doubtful receivables	**4,158**	686	**33,805**
Decrease in employees' retirement benefits	**(319)**	(1,529)	**(2,593)**
Provision for retirement obligation resulting from change in accounting standard	**15,965**	—	**129,797**
Increase in allowance for loss on guarantees	**8,050**	—	**65,447**
Increase (decrease) in accrued bonuses	**390**	(551)	**3,171**
Interest and dividend income	**(931)**	(671)	**(7,569)**
Interest expenses	**9,990**	11,669	**81,220**
Gain on sales and disposals of fixed assets	**(1,023)**	(1,724)	**(8,317)**
Losses on sales and disposals of fixed assets	**1,065**	646	**8,659**
Equity in earnings of unconsolidated subsidiaries and affiliates	**(999)**	(4,293)	**(8,122)**
Losses on devaluation of investment securities	**15,306**	567	**124,439**
Losses on overseas business restructuring	**13,908**	—	**113,073**
Notes and accounts receivable	**1,413**	(4,068)	**11,488**
Inventories	**129**	2,947	**1,049**
Notes and accounts payable	**532**	(1,944)	**4,325**
Accrued consumption taxes	**153**	278	**1,244**
Other, net	**(1,911)**	(1,906)	**(15,537)**
	48,985	34,384	**398,252**
Interest and dividends receivable	**1,525**	671	**12,398**
Interest paid	**(10,088)**	(11,675)	**(82,016)**
Income taxes paid	**(3,216)**	(3,677)	**(26,146)**
Net cash provided by operating activities	**37,207**	19,703	**302,496**
Cash flows from investing activities:			
Acquisitions of time deposits	**(2,441)**	—	**(19,846)**
Withdrawal of time deposits	**3,150**	45	**25,610**
Acquisitions of property, plant and equipment	**(20,322)**	(15,823)	**(165,220)**
Proceeds from sale of property, plant and equipment	**3,026**	3,410	**24,602**
Acquisitions of intangible assets	**(104)**	(1,766)	**(846)**
Acquisitions of investment securities	**(162)**	(3,085)	**(1,317)**
Proceeds from sale of investment securities	**11**	7,770	**89**
Proceeds from subsidiary sale of stock, net of related expenses	**37,055**	—	**301,260**
Increase in investments in advances to unconsolidated subsidiaries and affiliates	**—**	(2,474)	**—**
Increase (net) in short-term loans receivable	**756**	915	**6,146**
Other, net	**(1,010)**	1,160	**(8,211)**
Net cash provided by (used in) investing activities	**19,957**	(9,847)	**162,252**
Cash flows from financing activities:			
Increase (net) in short-term borrowings	**1,726**	362	**14,033**
Proceeds from long-term debt	**46,541**	46,150	**378,382**
Payments of long-term debt	**(60,842)**	(51,694)	**(494,650)**
Payments of cash dividends for minority interests	**(152)**	(666)	**(1,236)**
Lease payments under capital leases	**(7,384)**	(7,647)	**(60,033)**
Net cash used in financing activities	**(20,111)**	(13,494)	**(163,504)**
Effect of exchanges on cash and cash equivalents	**147**	(42)	**1,195**
Net increase (decrease) in cash and cash equivalents	**37,201**	(3,680)	**302,447**
Cash and cash equivalents at beginning of year	**16,401**	18,604	**133,341**
Increase due to inclusion in consolidation	**—**	1,477	**—**
Decrease due to exclusion from consolidation	**(2,370)**	—	**(19,268)**
Cash and cash equivalents at end of year	**¥ 51,232**	¥16,401	**$ 416,520**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Daishowa Paper Manufacturing Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2001 and 2000

1. Basis of Financial Statements

The accompanying consolidated financial statements have been translated from the financial statements that are prepared for Japanese domestic purposes, in accordance with the provisions of the Securities and Exchange Law of Japan and accounting principles generally accepted in Japan.

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

As permitted, amounts of less than ¥1 million have been omitted. As a result, the totals shown in accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of individual amounts.

2. Basis of Consolidation and Accounting for Investments in Affiliates

The consolidated financial statements include the accounts of the parent company and, with minor exceptions, those of its subsidiaries over which substantial control is exerted through either majority ownership of voting stock and/or by other means. All significant intercompany transactions and accounts are eliminated.

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

Investments in affiliates (companies over which the Company has significant influence or ownership of more than 20% but less than or equal to 50%), with minor exceptions, 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.

The excess of the cost of investment over the related net assets of businesses acquired is deferred and amortized on a straight-line basis over a five-year period with the exception of minor amounts, which are charged to income in the year of acquisition.

3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥123=US$1.00, the approximate rate of exchange at March 31, 2001, has been used. The inclusion of such amounts is not intended to imply that yen amounts have been or could be readily converted, realized or settled in U.S. dollars at that or any other rate.

4. Significant Accounting Policies

(a) Allowance for Doubtful Receivables

General reserves for doubtful accounts are provided in accordance with actual write-offs in the past three periods, and specific reserves are provided based on the estimated recoverability of individual claims.

(b) Securities

In the year ended March 31, 2001, the Company changed its method of accounting for the valuation method of securities from the moving-average cost to the new accounting method in accordance with "Practical Guidelines Concerning Accounting for Financial Instruments (Interim Report)" issued by the Business Accounting Deliberation Council of the Japanese Institute of Certified Public Accountants, effective April 1, 2000.

"Opinion on Accounting for Financial Instruments" requires a company to classify its securities in one of four categories:

(a) Marketable securities classified as "trading" securities are stated at fair value, with unrealized gains and losses included in earnings.
(b) Bonds and debentures that are expected to be held to maturity are carried at amortized or accumulated cost.
(c) Investment securities in unconsolidated subsidiaries and affiliates (on which the equity method is not applied) are stated at cost.
(d)-1 Marketable other securities are stated at fair market value, with unrealized gains or losses net of deferred taxes included and accumulated in the shareholders' equity section of the consolidated balance sheet. (d)-2 Nonmarketable other securities are stated at cost.

The Company did not hold any securities classified as (a) at March 31, 2001.

(c) Inventories

Inventories are stated at cost, principally by the moving-average method.

(d) Depreciation and Amortization

Depreciation of property, plant and equipment is principally computed on the straight-line method for the Company and Japanese subsidiaries at rates based on estimated useful lives of the assets, principally, ranging from 3 years up to 75 years for buildings and from 2 years up to 17 years for machinery and equipment.

Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to income as incurred.

Software for Company use is depreciated according to the straight-line method over an estimated useful life of 5 years.

(e) Leases

Noncancelable lease transactions are primarily 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.

(f) Employees' Retirement Benefits and Pension Plan

Through the years ended March 31, 2000, the Company had, in general, provided for this liability to the extent of 40% of the amount which would be required if all employees voluntarily terminated their service at the balance sheet date. Effective April 1, 2000, the Company adopted "Opinion on Accounting for Retirement Obligations" compiled by the Business Accounting Deliberation Council, dated June 16, 1998.

As a result, pension cost, ordinary income and losses before income taxes increased ¥15,402 million, ¥281 million and ¥15,683 million, respectively, compared with the figures using the previous accounting standard.

(g) Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income and retained earnings. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

(h) Foreign Currency Translation

Effective April 1, 2000, the Company adopted "Opinion on the Revision of Accounting for Foreign Currency Denominated Transactions" (compiled by the Business Accounting Deliberation Council, dated October 22, 1999). This change has had a minor effect on the earnings of the Company.

Foreign currency financial statement accounts of overseas consolidated subsidiaries and affiliates are translated into Japanese yen on the basis of the year-end rate for all assets, liabilities, income and expense amounts. Translation adjustments resulting therefrom, which were previously recorded in assets, are included and accumulated in the shareholders' equity section of the consolidated balance sheet in accordance with the revision of "Accounting Standard for Foreign Currency Translation."

(i) Amounts per Share

Net income (loss) per share is computed based on the weighted average number of shares of common stock outstanding during each period.

(j) Definition of Cash and Cash Equivalents in Statement of Cash Flows

Cash and cash equivalents consist of cash in hand, liquid deposits and short-term investment in marketable securities with little price fluctuation risk.

5. Marketable securities and investments

Book value and market value were as shown below:

	Millions of yen		
	For the year ended March 31, 2001		
	Book value	Market value	Unrealized gains (losses)
Current	¥ —	¥ —	¥—
Non-current	30,737	30,737	—
Total	¥30,737	¥30,737	¥—

	Thousands of U.S. dollars		
	For the year ended March 31, 2001		
	Book value	Market value	Unrealized gains (losses)
Current	$ —	$ —	$—
Non-current	249,894	249,894	—
Total	$249,894	$249,894	$—

	Millions of yen		
	For the year ended March 31, 2000		
	Book value	Market value	Unrealized gains (losses)
Current	¥ 15	¥ 53	¥ 38
Non-current	40,338	32,563	(7,775)
Total	¥40,353	¥32,616	¥(7,737)

6. Inventories

Inventories at March 31, 2001 and 2000 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Finished products	**¥20,380**	¥18,778	**$165,691**
Work in process	**3,272**	3,328	**26,602**
Raw materials, purchased components and supplies	**13,407**	15,465	**109,000**
Other	**767**	3,216	**6,236**
	¥37,827	¥40,788	**$307,537**

7. Deferred Income Taxes

The significant components of deferred tax assets and liabilities as of March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Deferred income tax assets:			
Allowance for doubtful receivables	**¥ 5,613**	¥ 5,206	**$ 45,634**
Employees' retirement benefits	**8,049**	1,236	**65,439**
Tax loss carried forward	**15,623**	5,744	**127,016**
Other	**4,798**	646	**39,008**
Total gross deferred tax assets	**34,084**	12,835	**277,106**
Valuation allowance	**(9,766)**	(7,480)	**(79,398)**
Total deferred tax assets	**24,317**	5,355	**197,699**
Excess depreciation			
Deferred income tax liabilities:			
Depreciation	**(1,403)**	(5,652)	**(11,407)**
Other	**(578)**	(55)	**(4,699)**
Total deferred tax liabilities	**(1,982)**	(5,708)	**(16,114)**
Net deferred tax assets (liabilities)	**¥22,335**	¥ (352)	**$181,585**

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considered the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

8. Land Revaluation

In accordance with the Law Concerning the Revaluation of Land enacted on March 31, 1999, the land used for businesses owned by the Company was revalued, and the unrealized gain on the revaluation of land, net of deferred tax, was reported as "Variance of land revaluation" within shareholders' equity, and the relevant deferred tax was included in liabilities as "Deferred tax liabilities related to land revaluation" for the fiscal year ended March 31, 2000.

The method of revaluation is as follows:

Pursuant to Article 2, Subparagraphs 3, 4 and 5 of the Enforcement Ordinance for the Law Concerning the Revaluation of Land, the land price for the revaluation is generally determined based on the method established and published by the Director General of the National Tax Agency in order to calculate the land value for a basis of determining the taxable amount subject to land value tax prescribed by Article 16 of the Land Value Tax Law, reflecting appropriate adjustments for timing of the assessment.

	Millions of yen	Thousands of U.S. dollars
As at March 31, 2000:		
Book value of land before revaluation	¥ 62,563	$ 508,642
Book value of land after revaluation	140,754	1,144,341

Pursuant to the Article 10 of the law, the difference between the revalued carrying amount and the fair value of land revalued as at March 31, 2001 is ¥10,551 million ($85,780 thousand).

9. Research and Development Expenses

Research and development expenses included in cost of sales and selling, general and administrative expenses for the years ended March 31, 2000 and 2001 were ¥263 million and ¥260 million ($ 2,114 thousand), respectively.

10. Short-Term Borrowings and Long-Term Debt

Short-term borrowings, principally to banks, are unsecured with a weighted-average interest rate of 1.7% per annum, as at March 31, 2001.

Long-term debt at March 31, 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Loans from banks and other financial institutions due from 2033 with a weighted-average interest rate of 2.6% per annum:			
Secured	**¥193,350**	¥215,042	**$1,571,951**
Unsecured	**1,508**	7	**12,260**
	194,858	215,049	**1,584,211**
Less—portion due within one year	**52,902**	58,225	**430,098**
	¥141,956	¥156,824	**$1,154,114**

The following assets are pledged as collateral for short-term and long-term debt as of March 31, 2001 and 2000:

	Millions of yen		Thousands of U.S. dollars
March 31	**2001**	2000	**2001**
Notes and accounts receivable	**¥ 2,145**	¥ 4,716	**$ 17,439**
Inventories	**1,916**	7,645	**15,577**
Buildings and structures	**53,414**	58,459	**434,260**
Machinery and equipment	**107,711**	129,315	**875,699**
Land	**137,081**	138,129	**1,114,480**
Investment securities	**18,460**	22,635	**150,081**
Others	**4,460**	5,344	**36,260**
	¥325,191	¥366,247	**$2,643,829**

The maturities of long-term debt at March 31, 2001 are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2002	¥ 52,902	$ 430,098
2003	39,040	317,398
2004	35,413	287,911
2005	24,749	201,211
2006	18,014	146,455
2007 and thereafter	24,740	201,138
	¥194,858	$1,584,211

11. Employees' Retirement Benefits and Pension Plan

Employees who terminate their service with the Company are entitled to lump-sum severance payments determined by reference to the current basic rate of pay, length of service and conditions under which the termination occurs.

In addition, the Company and most of its subsidiaries in Japan adopted a non-contributory pension plan on April 1, 1989, the funds of which are entrusted to private insurance companies and trust banks. The funds cover 10% of the amount which would be paid if all employees who are eligible retired at the mandatory retirement age.

The components of retirement obligations at March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars
(1) Retirement obligations	¥(34,384)	$(279,545)
(2) Fair value of plan assets	2,045	16,626
(3) (1)+(2)	(32,339)	(262,919)
(4) Unrecognized retirement obligation resulting from change in accounting standard	—	—
(5) Unrecognized prior service cost	—	—
(6) Unrecognized actuarial gains and losses	(15)	(122)
(7) (3)+(4)+(5)+(6)	(32,354)	(263,041)
(8) Prepaid pension cost	—	—
(9) Employees' retirement benefits	¥(32,354)	$(263,041)

The components of net pension and severance costs for the year ended March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars
(1) Service cost	¥ 1,301	$ 10,577
(2) Interest cost	1,196	9,724
(3) Expected return on plan assets	(31)	(252)
(4) Recognition of retirement obligation resulting from change in accounting standard	15,965	129,797
(5) Recognized actuarial loss	—	—
(6) Amortization of prior service cost	—	—
(7) Net periodic benefit cost	¥18,431	$149,846

Assumptions used as of March 31, 2001 were as follows:
(1) Discount rate: 3.5%
(2) Expected return on plan assets: 1.5%
(3) Unrecognized actuarial gains and losses are being amortized on a straight-line basis over 10 years from next period.
(4) A ¥15,965 million shortfall was recognized at the time of the change in the method of pension accounting and fully amortized for the year ended March 31, 2001.

12. Derivative Financial Instruments

Derivative financial instruments, which include foreign exchange forward contracts, currency swap agreements and interest rate swap agreements, are used in the Company's risk management of foreign currency and interest rate risk exposures of its financial assets and liabilities.

The aforementioned instruments contain an element of risk in the event the counterparties are unable to meet the terms of the agreements. However, the Company minimizes the risk exposure by limiting the counterparties to major international banks and financial institutions meeting established credit guidelines. Management does not expect any counterparty to default on its obligations and, therefore, does not expect to incur any losses due to counterparty default.

(1) Foreign Exchange Forward Contracts and Currency Swap Agreements:
The Company enters into foreign exchange forward contracts and currency swap agreements primarily to limit exposure, effected by changes in foreign currency exchange rates, on inter-company accounts payable and cash flows generated from anticipated transactions denominated in foreign currencies.

Foreign exchange forward contracts and currency swap agreements are marked to market and included as an offset to foreign exchange gains or losses recorded on the existing assets and liabilities.

(2) Interest Rate Swap Agreements and Interest Rate:
The Company enters into interest rate swap agreements to reduce its exposure resulting from adverse fluctuations in interest rates on underlying debt instruments.

The differential to be paid or received on interest rate swap agreements is recognized over the life of the agreement as an adjustment to interest expense.

After an underlying hedged transaction is settled or ceases to exist, all changes in the fair value of related derivatives which have not been settled are recognized in gains or losses. And derivative financial instruments that do not meet the criteria for hedge accounting are marked to market, with unrealized gains and losses included in earnings. Those transactions that do not qualify for hedge accounting at March 31, 2001 were as follows:

	Millions of yen		
Interest-related transactions	Notional amounts	Fair value	Realized gain (loss)
Interest rate swap agreements			
Receive/floating and pay/fixed	**¥2,000**	**¥(17)**	**¥(17)**

	Thousands of U.S. dollars		
Interest-related transactions	Notional amounts	Fair value	Realized gain (loss)
Interest rate swap agreements:			
Receive/floating and pay/fixed	**$16,260**	**$(138)**	**$(138)**

13. Lease Transactions

As a Lessee
The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2001 and 2000, which would have been reflected in the consolidated balance sheet if capitalized:

	Millions of yen		
	For the year ended March 31, 2001		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	**¥2,761**	**¥1,012**	**¥1,748**
Other	**1,032**	**680**	**352**
Total	**¥3,794**	**¥1,693**	**¥2,101**

	Thousands of U.S. dollars		
	For the year ended March 31, 2001		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	**$22,447**	**$ 8,228**	**$14,211**
Other	**8,390**	**5,528**	**2,862**
Total	**$30,846**	**$13,764**	**$17,081**

	Millions of yen		
	For the year ended March 31, 2000		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	¥2,186	¥ 704	¥1,482
Other	1,173	643	530
Total	¥3,360	¥1,348	¥2,012

The pro forma depreciation portion of lease payments relating to finance lease transactions accounted for as operating leases for the years ended March 31, 2001 and 2000 amounted to ¥559 million ($4,548 thousand) and ¥637 million, respectively. Depreciation of the leased assets is computed by the straight-line method over the respective lease terms of leased assets.

Future lease payments (including the interest portion thereon) subsequent to March 31, 2001 are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2002	¥ 493	$ 4,008
2003 and thereafter	1,607	13,065
	¥2,101	$17,081

14. Contingent Liabilities

Contingent liabilities at March 31, 2001 were as follows:

March 31, 2001	Millions of yen	Thousands of U.S. dollars
Contingent liabilities for guarantees and similar activities of bank loans of affiliates and other companies	¥30,393	$247,098
As endorser of notes endorsed	110	894

15. Segment Information

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sales of products in the pulp and paper segment.

(1) The business segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2001 and 2000 is as follows:

	Millions of yen				
	For the year ended March 31, 2001				
	Pulp and paper	Other	Total	Eliminations and other	Consolidated
Sales to third parties	**¥319,978**	**¥ 9,380**	**¥329,358**	**—**	**¥329,358**
Intragroup sales and transfers	**159**	**18,222**	**18,382**	**¥(18,382)**	**—**
Total sales	**320,137**	**27,603**	**347,740**	**(18,382)**	**329,358**
Operating expenses	**301,609**	**26,709**	**328,318**	**(19,636)**	**308,682**
Operating income	**¥ 18,527**	**¥ 894**	**¥ 19,421**	**¥ 1,254**	**¥ 20,676**
Total assets	**¥536,866**	**¥33,131**	**¥569,998**	**¥ 19,992**	**¥589,991**
Depreciation	**29,162**	**344**	**29,507**	**—**	**29,507**
Capital expenditures	**17,685**	**511**	**18,196**	**—**	**18,196**

	Thousands of U.S. dollars				
	For the year ended March 31, 2001				
	Pulp and paper	Other	Total	Eliminations and other	Consolidated
Sales to third parties	**$2,601,447**	**$ 76,260**	**$2,677,707**	**$ —**	**$2,677,707**
Intragroup sales and transfers	**1,293**	**148,146**	**149,447**	**(149,447)**	**—**
Total sales	**2,602,740**	**224,415**	**2,827,154**	**(149,447)**	**2,677,707**
Operating expenses	**2,452,106**	**217,146**	**2,669,252**	**(159,642)**	**2,509,610**
Operating income	**$ 150,626**	**$ 7,268**	**$ 157,894**	**$ 10,195**	**$ 168,098**
Total assets	**$4,364,764**	**$269,358**	**$4,634,130**	**$ 162,537**	**$4,796,675**
Depreciation	**237,089**	**2,797**	**239,894**	**—**	**239,894**
Capital expenditures	**143,780**	**4,154**	**147,935**	**—**	**147,935**

	Millions of yen				
	For the year ended March 31, 2000				
	Pulp and paper	Other	Total	Eliminations and other	Consolidated
Sales to third parties	¥306,571	¥11,709	¥318,281	—	¥318,281
Intragroup sales and transfers	1,088	13,177	14,265	¥(14,265)	—
Total sales	307,659	24,886	332,546	(14,265)	318,281
Operating expenses	298,564	23,022	321,587	(14,480)	307,106
Operating income	¥ 9,095	¥ 1,864	¥ 10,959	¥ 214	¥ 11,174
Total assets	¥526,787	¥42,757	¥569,545	¥60,941	¥630,486
Depreciation	29,665	299	29,965	—	29,965
Capital expenditures	18,629	377	19,007	—	19,007

Foreign currency translation adjustments, which were previously recorded in assets, are now included and accumulated in the shareholders' equity section of the consolidated balance sheet. As a result of the reclassification, total assets at March 31, 2001 decreased by ¥13,871 million (US$112,772 thousand).

(2) The geographical segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2001 and 2000 is as follows:

	Millions of yen					
	For the year ended March 31, 2001					
	Japan	North America	Other foreign countries	Total	Eliminations and other	Consolidated
Sales to third parties	**¥284,830**	**¥44,387**	**¥ 140**	**¥329,358**	**¥ —**	**¥329,358**
Intra-area sales and transfers	**—**	**7,028**	**3,274**	**10,302**	**(10,302)**	**—**
Total sales	**284,830**	**51,415**	**3,414**	**339,661**	**(10,302)**	**329,358**
Operating expenses	**271,512**	**45,323**	**2,886**	**319,722**	**(11,040)**	**308,682**
Operating income	**¥ 13,318**	**¥ 6,091**	**¥ 528**	**¥ 19,938**	**¥ 737**	**¥ 20,676**
Total assets	**¥537,614**	**¥63,183**	**¥2,296**	**¥603,094**	**¥(13,103)**	**¥589,991**

	Thousands of U.S. dollars					
	For the year ended March 31, 2001					
	Japan	North America	Other foreign countries	Total	Eliminations and other	Consolidated
Sales to third parties	**$2,315,691**	**$360,870**	**$ 1,138**	**$2,677,707**	**$ —**	**$2,677,707**
Intra-area sales and transfers	**—**	**57,138**	**26,618**	**83,756**	**(83,756)**	**—**
Total sales	**2,315,691**	**418,008**	**27,756**	**2,761,472**	**(83,756)**	**2,677,707**
Operating expenses	**2,207,415**	**368,480**	**23,463**	**2,599,366**	**(89,756)**	**2,509,610**
Operating income	**$ 108,276**	**$ 49,520**	**$ 4,293**	**$ 162,098**	**$ 5,992**	**$ 168,098**
Total assets	**$4,370,846**	**$513,683**	**$18,667**	**$4,903,203**	**$(106,528)**	**$4,796,675**

	Millions of yen					
	For the year ended March 31, 2000					
	Japan	North America	Other foreign countries	Total	Eliminations and other	Consolidated
Sales to third parties	¥277,374	¥40,906	¥ —	¥318,281	¥ —	¥318,281
Intra-area sales and transfers	—	11,332	—	11,332	(11,332)	—
Total sales	277,374	52,239	—	329,613	(11,332)	318,281
Operating expenses	271,566	47,816	—	319,382	(12,276)	307,106
Operating income	¥ 5,807	¥ 4,423	—	¥ 10,230	¥ 943	¥ 11,174
Total assets	¥496,892	¥62,468	¥2,208	¥561,569	¥68,916	¥630,486

(3) Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the foreign consolidated subsidiaries, for the years ended March 31, 2001 and 2000 are summarized below:

	Millions of yen		
	For the year ended March 31, 2001		
	North America	Other foreign countries	Total
Overseas sales	**¥42,072**	**¥6,524**	**¥ 48,596**
Consolidated net sales			**329,358**

	Thousands of U.S. dollars		
	For the year ended March 31, 2001		
	North America	Other foreign countries	Total
Overseas sales	**$342,049**	**$53,041**	**$ 395,089**
Consolidated net sales			**2,677,707**
Overseas sales as a percentage of consolidated net sales	**12.8%**	**2.0%**	**14.8%**

	Millions of yen		
	For the year ended March 31, 2000		
	North America	Other foreign countries	Total
Overseas sales	¥37,440	¥6,341	¥ 43,781
Consolidated net sales			318,281
Overseas sales as a percentage of consolidated net sales	11.8%	2.0%	13.8%

Report of Independent Certified Public Accountants

The Board of Directors
Daishowa Paper Manufacturing Co., Ltd.

We have audited the consolidated balance sheets of Daishowa Paper Manufacturing Co., Ltd. and consolidated subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income and retained earnings and consolidated statements of cash flows for the years then ended, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Daishowa Paper Manufacturing Co., Ltd. and consolidated subsidiaries at March 31, 2001 and 2000, and the consolidated results of their operations and cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 4 (f) to the consolidated financial statements, Daishowa Paper Manufacturing Co., Ltd. and consolidated subsidiaries have adopted new accounting standards for retirement obligations in the preparation of their consolidated financial statements for the year ended March 31, 2001.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2001 are presented solely for convenience. Our examinations also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Masatoshi Yoshino   Otemon Audit Corporation

Tokyo, Japan   Certified Public Accountants

June 28, 2001

See Note 1 to consolidated financial statements, which explains the basis of preparing the consolidated financial statements of Daishowa Paper Manufacturing Co., Ltd. under Japanese accounting principles and practices.

Corporate Data

NIPPON UNIPAC HOLDING

(As of March 30, 2001)

HEADQUARTERS
Shin Yurakucho Building, 1-12-1 Yurakucho, Chiyoda-ku,
Tokyo 100-0006, Japan
Phone: +81-(0)3-3218-9300 Fax: +81-(0)3-3216-5330

DATE OF ESTABLISHMENT
March 30, 2001

PAID-IN CAPITAL
¥55,730 million

COMMON STOCK
Issued and outstanding: 1,080,670.23 shares

NUMBER OF SHAREHOLDERS
67,001

MAJOR SHAREHOLDERS

The Industrial Bank of Japan, Ltd.	4.1%
Nippon Life Insurance Company	3.7%
The Sakura Bank, Ltd.	3.6%
The Fuji Bank, Ltd.	2.7%
Mitsui Mutual Life Insurance Co.	2.7%
Japan Trustee Service Bank, Ltd.	2.7%
The Mitsubishi Trust and Banking Corporation	2.1%
The Dai-Ichi Mutual Life Insurance Company	1.9%
Daio Paper Corporation	1.8%
The Norinchukin Bank	1.7%

NUMBER OF EMPLOYEES
19 (Full time)

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

AUDITOR
Century Ota Showa & Co.

NIPPON PAPER INDUSTRIES CO., LTD.

(As of March 31, 2001)

HEADQUARTERS
Shin Yurakucho Building, 1-12-1 Yurakucho, Chiyoda-ku,
Tokyo 100-0006, Japan
Phone: +81-(0)3-3218-8000 Fax: +81-(0)3-3216-4753

DATE OF ESTABLISHMENT
August 1, 1949 (Jujo Paper Co., Ltd.)

PAID-IN CAPITAL
¥104,873 million

NUMBER OF EMPLOYEES
12,017 (Consolidated)

AUDITOR
Century Ota Showa & Co.

DAISHOWA PAPER MANUFACTURING CO., LTD.

(As of March 31, 2001)

HEADQUARTERS
4-1-1 Imai, Fuji, Shizuoka 417-8610, Japan
Phone: +81-(0)545-30-3000 Fax: +81-(0)545-30-3111

DATE OF ESTABLISHMENT
September 23, 1938

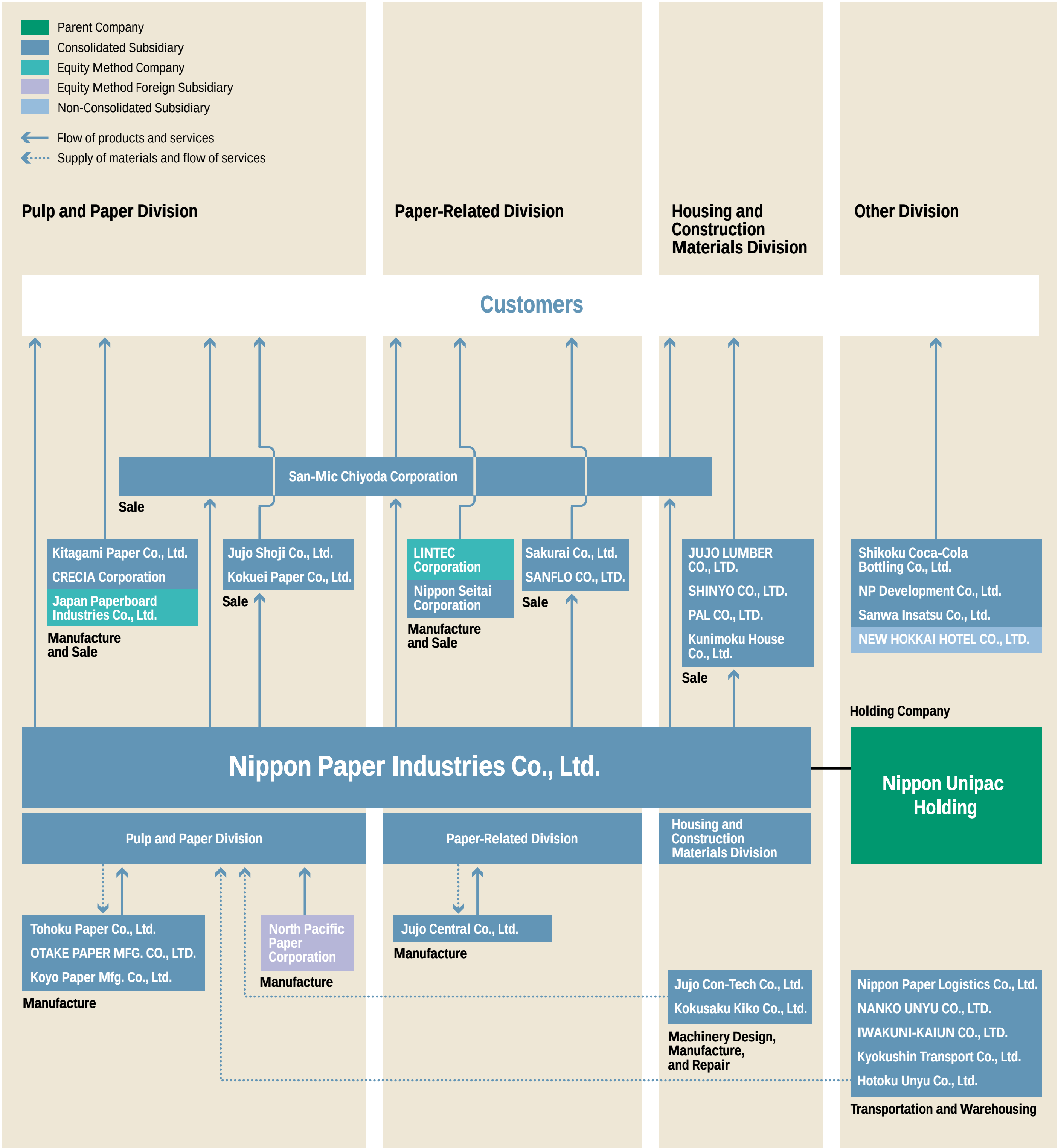
PAID-IN CAPITAL
¥31,784 million

NUMBER OF EMPLOYEES
4,336 (Consolidated)

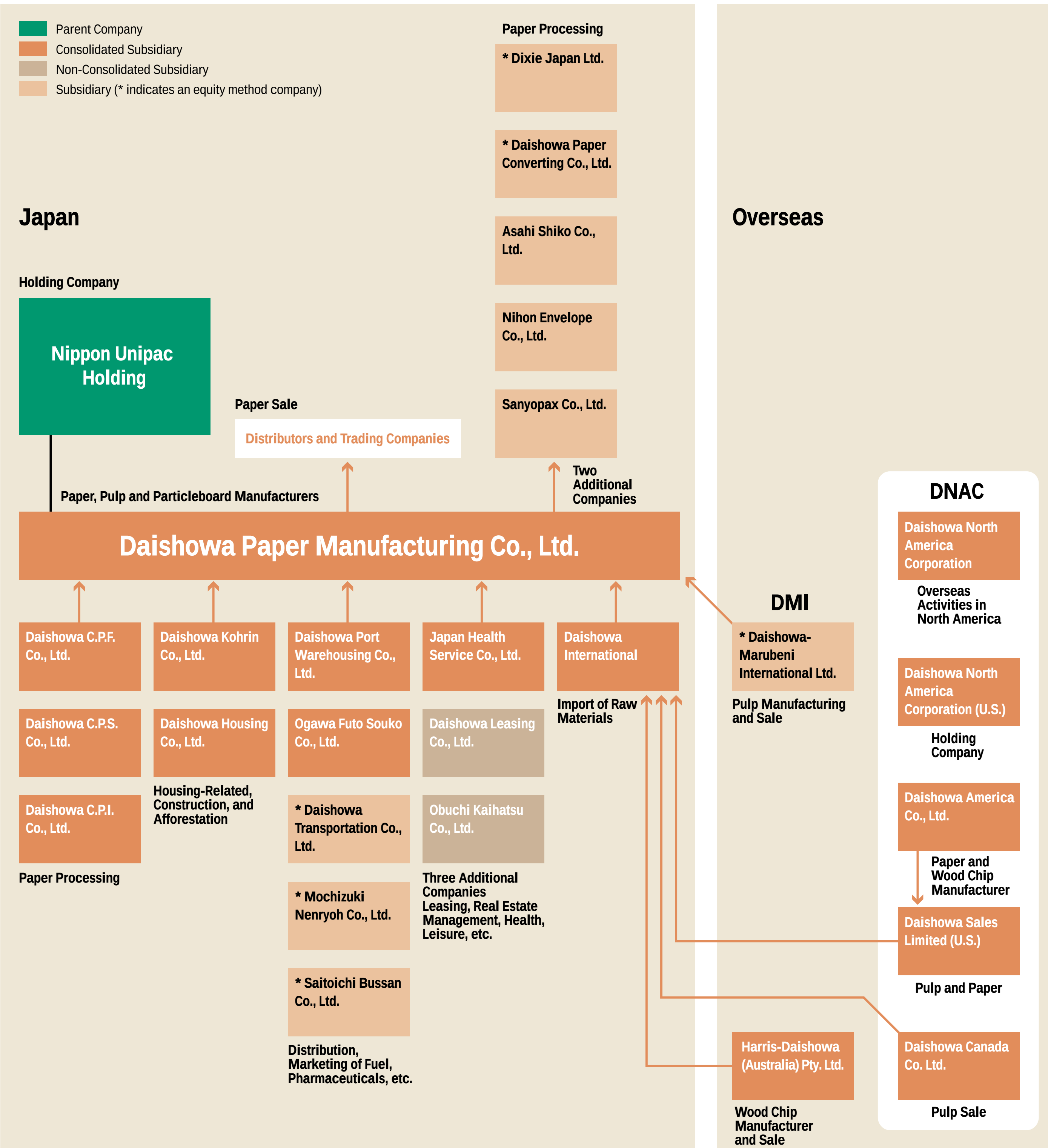
AUDITOR
Otemon Audit Corporation

Organization Chart

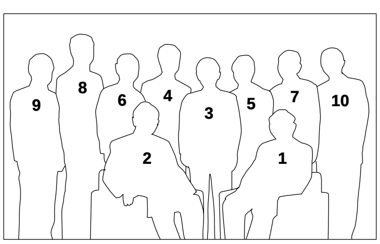
NIPPON PAPER INDUSTRIES CO., LTD.



DAISHOWA PAPER MANUFACTURING CO., LTD.



Board of Directors



1 Kazumoto Sogo
2 Masao Kobayashi
3 Yasuhiko Kurosawa
4 Takahiko Miyoshi
5 Koshiro Kitaoka
6 Iwao Nakajima
7 Ikuo Kuwajima
8 Masayuki Hayashi
9 Toshiro Sato
10 Hirotoshi Ishikawa

NIPPON UNIPAC HOLDING

(As of March 30, 2001)

CHAIRMAN
Kazumoto Sogo

PRESIDENT
Masao Kobayashi

EXECUTIVE VICE-PRESIDENT
Yasuhiko Kurosawa

DIRECTORS
Takahiko Miyoshi
Koshiro Kitaoka
Iwao Nakajima
Ikuo Kuwajima
Masayuki Hayashi
Toshiro Sato
Hirotoshi Ishikawa

CORPORATE AUDITORS
Kiichiro Sakai
Noriyuki Torai
Hidetoshi Goto

NIPPON PAPER INDUSTRIES CO., LTD.

(As of June 28, 2001)

PRESIDENT
Takahiko Miyoshi

EXECUTIVE VICE-PRESIDENTS
Souji Ban
Iwao Nakajima

SENIOR MANAGING DIRECTORS
Akira Machihara
Ikuo Kuwajima
Akira Yokoyama
Katsuo Kobayashi

MANAGING DIRECTORS
Yoshinari Inoue
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Keisuke Ito

CORPORATE AUDITORS
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Hideo Yamada

DAISHOWA PAPER MANUFACTURING CO., LTD.

(As of July 1, 2001)

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SENIOR MANAGING DIRECTOR
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MANAGING DIRECTORS
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Yoshiro Ito
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Seattle Office (International Dept.)
Two Union Square, 601 Union Street
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Phone: +1-206-622-8724

Atlanta Branch
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