



NIPPON UNIPAC HOLDING

Annual Report 2002

For the Fiscal Year Ended March 31, 2002

Profile



Nippon Unipac Holding was formed on March 30, 2001, as a pure holding company derived from a transfer of stocks from Nippon Paper Industries Co., Ltd. and Daishowa Paper Manufacturing Co., Ltd.

With net sales of more than ¥1.2 trillion, the Nippon Unipac Holding Group ranks as the largest pulp and paper company in Japan and the sixth largest in the world. Nippon Unipac Holding commands the top share of the Japanese market in the categories of newsprint, printing paper, and business communication paper.

The Nippon Unipac Holding Group is committed to drawing upon the combined strengths of its Group companies and reaping the synergies of their business integration to meet the expectations of shareholders, customers, the communities they serve, and employees.

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Disclaimer Regarding Forward-Looking Statements

Statements contained in this annual report regarding current plans, outlook, strategies, expected results, future performance, and the beliefs and future activities of Nippon Unipac Holding, other than those of historical fact, are forward-looking statements or forecasts based on management's assumptions in light of currently available information. The Company's actual future performance and results may be affected by changes in a number of factors and thus may differ materially from those described herein. Accordingly, one should refrain from making any investment decision based solely on the statements and forecasts contained in this annual report.

Consolidated Financial Highlights

Years ended March 31 (Note 2)

	Millions of yen, except where noted		Thousands of U.S. dollars (Note 1), except where noted
	2002	2001	2002
For the year:			
Net Sales	¥1,211,422	¥1,259,413	\$ 9,108,436
Pulp and Paper Division.....	945,922	984,850	7,112,195
Paper-Related Division	97,963	98,792	736,564
Housing and Construction Materials Division	92,488	109,591	695,398
Other Division.....	75,046	66,179	564,256
Gross profit.....	291,561	305,397	2,192,188
Operating income.....	42,422	80,583	318,962
Pulp and Paper Division.....	34,870	69,517	262,180
Paper-Related Division	2,601	4,705	19,556
Housing and Construction Materials Division	518	2,043	3,895
Other Division.....	4,431	4,316	33,316
Income (loss) before income taxes and minority interests.....	3,781	(41,679)	28,429
Net loss	(636)	(28,211)	(4,782)
At year-end:			
Total assets	¥1,721,745	¥1,697,163	\$12,945,451
Property, plant and equipment, net.....	941,428	881,625	7,078,406
Total investments and other assets.....	262,618	234,515	1,974,571
Total shareholders' equity	407,369	375,859	3,062,925
Interest-bearing debt.....	903,336	882,122	6,792,000
Debt/equity (D/E) ratio (times).....	2.13	2.15	
Ordinary margin on sales (%)	2.36	4.83	
Return on equity (ROE) (%).....	—	—	
Return on invested capital (ROIC) (%).....	3.37	6.48	
Number of employees (persons).....	17,153	16,353	

Notes: 1. U.S. dollar amounts here and elsewhere in this annual report are translated, for convenience only, at the rate of ¥133=US\$1.

2. The fiscal year ended March 31, 2002 (fiscal 2002) indicates the period between March 30, 2001 and March 31, 2002 and is divided into the first term and the second term, which denote the first accounting period and the second accounting period, respectively. The fiscal year ended March 31, 2001 (fiscal 2001) indicates the period between April 1, 2000 and March 31, 2001.

3. The data for the fiscal year ended March 31, 2001 (fiscal 2001) are computed on a consolidated basis by combining the consolidated results for Nippon Paper Industries Co., Ltd. and Daishowa Paper Manufacturing Co., Ltd.

Mathematical Formulas Used to Derive Performance Indicators

Debt/equity ratio = (Interest-bearing debt – Cash and deposits)/Total shareholders' equity

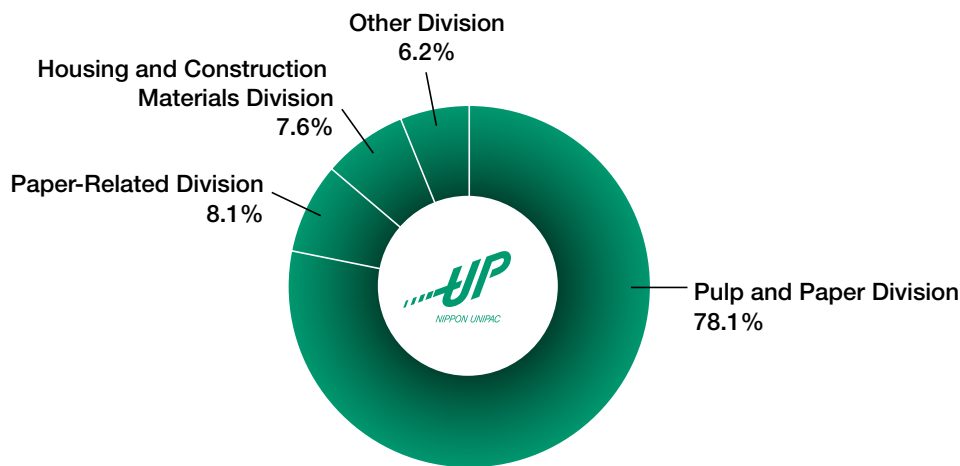
Ordinary margin on sales = Ordinary income/Net sales

Return on equity = Net income/Total shareholders' equity

Return on invested capital = (Ordinary income + Interest expense)/(Interest-bearing debt + Total shareholders' equity)

Nippon Unipac Holding at a Glance

Overview of the Four Divisions (As of March 31, 2002)



Percentage Share of Total Sales
(Annual Basis)

The Nippon Unipac Holding Group consists of Nippon Paper Industries Co., Ltd. and Daishowa Paper Manufacturing Co., Ltd., along with their 178 subsidiary companies and 57 affiliated companies. The Group is mainly engaged in the manufacture and sale of pulp and paper as well as in paper-related businesses, housing and construction materials, logistics, bottling and sale of soft drinks and other beverages, and management of leisure facilities.

Pulp and Paper Division

Manufacturing Companies

- Nippon Paper Industries Co., Ltd.
- Daishowa Paper Manufacturing Co., Ltd.
- Tohoku Paper Co., Ltd.
- Japan Paperboard Industries Co., Ltd.
- CRECIA Corporation
- OTAKE. PAPER MFG. CO., LTD.
- Fuji Coated Paper Co., Ltd.
- Daishowa North America Corporation
- Daishowa America Co., Ltd.
- Daishowa Canada Co., Ltd.
- North Pacific Paper Corporation*
- Daishowa-Marubeni International Ltd.*

And 5 other companies

Sales Companies

- Nippon Paper Sales Co., Ltd.
- Nippon Paperboard Sales Ltd.
- SAN-MIC CHIYODA CORPORATION

And 3 other companies

The Pulp and Paper Division manufactures and sells paper, paperboard, household tissue, pulp, and related products.

Nippon Paper Industries Co., Ltd., Daishowa Paper Manufacturing Co., Ltd., Tohoku Paper Co., Ltd., and OTAKE. PAPER MFG. CO., LTD. manufacture paper, which is sold by Nippon Paper Sales Co., Ltd. and SAN-MIC CHIYODA CORPORATION. Fuji Coated Paper Co., Ltd. also processes and sells paper. North Pacific Paper Corporation, an overseas affiliate, manufactures newsprint. The newsprint for the Japanese market is imported by Nippon Paper Industries Co., Ltd. and sold by Nippon Paper Sales Co., Ltd. Daishowa North America Corporation oversees various companies in North America such as Daishowa America Co., Ltd. and is involved in sales mainly in the North American market.

●Daishowa Paper Manufacturing Co., Ltd., Japan Paperboard Industries Co., Ltd., and Tohoku Paper Co., Ltd. manufacture paperboard, which is sold by Nippon Paperboard Sales Ltd.

●CRECIA Corporation manufactures and sells household tissue.

●Nippon Paper Industries Co., Ltd., Tohoku Paper Co., Ltd., Daishowa Canada Co., Ltd., and Daishowa-Marubeni International Ltd. manufacture and sell pulp.

Only consolidated subsidiaries and affiliated companies to which the equity method applies are indicated.

* Indicates an affiliated company to which the equity method applies.

Paper-Related Division

The Paper-Related Division manufactures and sells chemical products and industrial processed paper.

- For industrial processed paper, Dixie Japan Co., Ltd. manufactures and sells paper cartons, and JUJO CENTRAL CO., LTD. produces liquid-packaging cartons for purchase and sale by Nippon Paper Industries Co., Ltd. LINTEC Corporation manufactures and sells adhesive-related materials.
- Nippon Paper Industries Co., Ltd. manufactures chemical products, which are sold by SAN-MIC CHIYODA CORPORATION.

Paper Cartons

- Nippon Paper Industries Co., Ltd.
- JUJO CENTRAL CO., LTD.
- Dixie Japan Co., Ltd.*

And 2 other companies

Adhesive-Related Materials

- LINTEC Corporation*

And 1 other company

Chemical Products

- Nippon Paper Industries Co., Ltd.
- SAN-MIC CHIYODA CORPORATION

And 1 other company

Housing and Construction Materials Division

Nippon Paper Industries Co., Ltd. and Daishowa Kohrin Co., Ltd. sell wood materials, PAL CO., LTD. and SAN-MIC CHIYODA CORPORATION purchase and sell construction materials, and Daishowa Paper Manufacturing Co., Ltd. and N&E CO., LTD. manufacture and sell construction materials. NP Development Co., Ltd. provides construction-related services.

The division previously responsible for the manufacture and sale of particleboard at Daishowa Paper Manufacturing Co., Ltd. is transferred from the latter and transformed into a new company, named Daishowa Uniboard Co., Ltd., effective April 1, 2002.

Wood Materials

- Nippon Paper Industries Co., Ltd.
- Daishowa Kohrin Co., Ltd.

And 3 other companies

Construction Materials

- Daishowa Paper Manufacturing Co., Ltd.
- PAL CO., LTD.
- SAN-MIC CHIYODA CORPORATION
- N&E CO., LTD.

And 2 other companies

Construction

- NP Development Co., Ltd.

And 4 other companies

Other Division

NIPPON PAPER LOGISTICS CO., LTD. and Daishowa Transportation Co., Ltd. engage in the logistics business.

SHIKOKU COCA-COLA BOTTLING CO., LTD. bottles and markets soft drinks and other beverages, and NP Development Co., Ltd. manages leisure facilities.

Logistics

- NIPPON PAPER LOGISTICS CO., LTD.
- Daishowa Transportation Co., Ltd.*

And 7 other companies

Soft Drinks and Other Beverages

- SHIKOKU COCA-COLA BOTTLING CO., LTD.

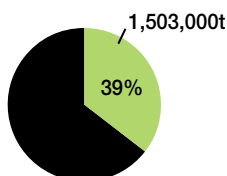
Leisure, etc.

- NP Development Co., Ltd.

And 5 other companies

Newsprint

Production Share in Japan*

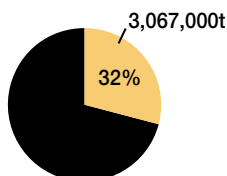


The Group's eight production bases in Japan and one in the United States ensure a steady, timely supply of newsprint to domestic and overseas newspaper publishers. We are now focusing energetic efforts on making inroads into China and Southeast Asia, which offer explosive growth potential. Our newsprint exports were 56,000t in fiscal 2001 and jumped to 92,000t in fiscal 2002.

The quality of our newsprint is among the best in the world and has helped our products earn the complete trust of customers. Advanced technologies—another strength of the Nippon Unipac Holding Group—led to our developing extra lightweight newsprint with base weight of 40g/m². Our sophisticated recycling technologies led to our developing paper products with high contents of waste newspapers and magazines.

Printing Paper

Production Share in Japan*

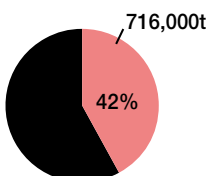


The Group offers a wide range of paper for printing. Our product lines include book paper, paper for magazines, textbooks, and other types of publications; paper for commercial printing, such as inserts and catalogues; postcard paper; paper for telephone directories; woodfree colored paper; and thin paper. Our product lines are also highly acclaimed by customers for their unique new products such as paper with high

recycled contents, which better address environmental concerns, and low-density printing paper that meets today's customer needs. We reorganized our sales structure so that each section now focuses on the specific requirements of customers in a single business category, in an effort to deliver optimal solutions to each customer by providing the most suitable products from our extensive lineup. On the overseas front, Group companies now serve customers in approximately 30 countries, mainly in North America, China, Southeast Asia, the Middle East, and Australia. Our reliable, long-term service and superior product quality have helped us earn the same high level of trust from overseas customers that we enjoy with domestic customers.

Business Communication Paper

Production Share in Japan*



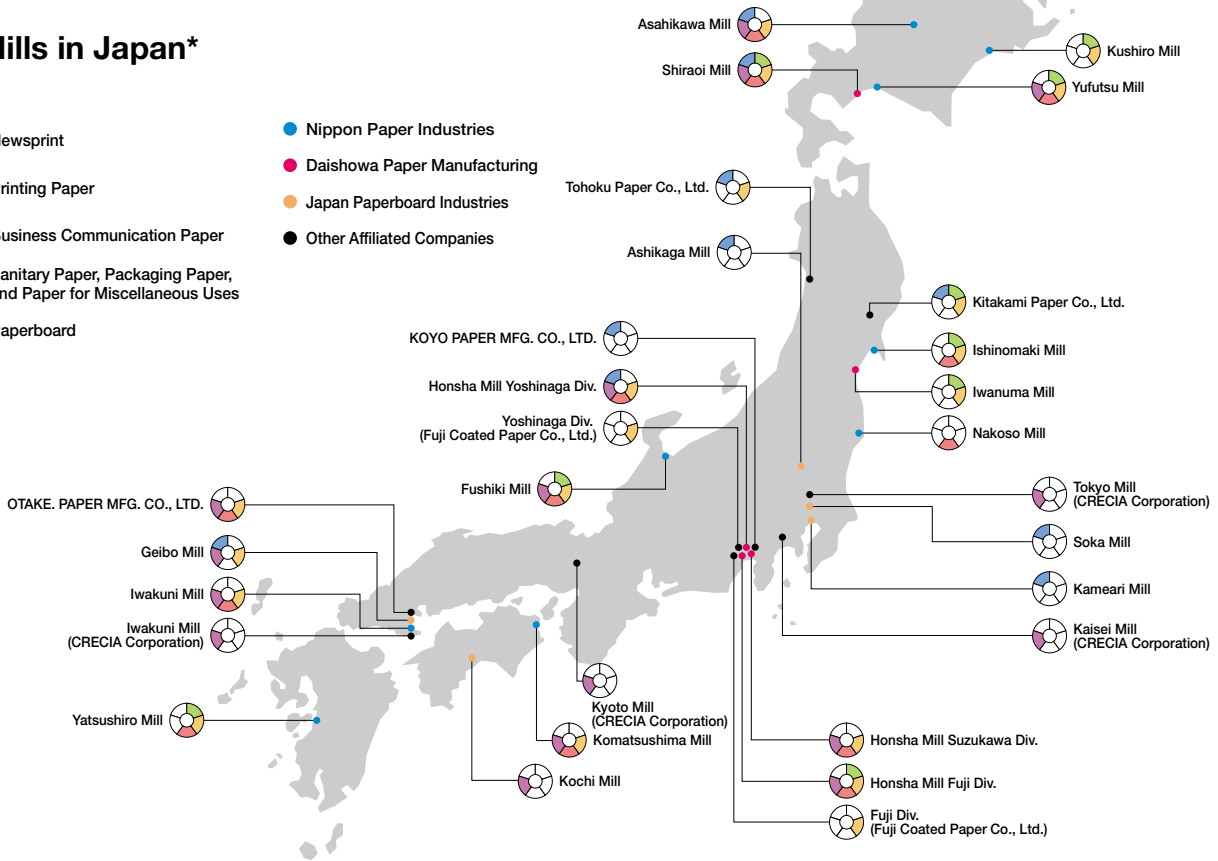
The Group manufactures and sells a wide variety of business communication paper and base stock for them. Our product lines extend to paper for business form paper, including carbonless copying paper (CCP); paper for photocopying and printing, including paper for plain paper copier (PPC)[†], thermal paper, and ink-jet paper[†]; paper and film for release products; and Oper^{®†}.

We are working hard to create new products that respond to both intensifying global competition and the world's increasing concern for the environment, as shown in initiatives such as the Law on Promoting Green Purchasing. One example of our successful efforts in this area is our recent development of PPC paper containing a higher percentage of waste paper.

* Calculated by Nippon Unipac Holding's Investor Relations, Corporate Planning Division, based on data as of 2001 from the Japan Paper Association.

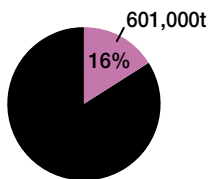
† Please refer to the Glossary on pages 52 and 53 for details.

Major Mills in Japan*



Sanitary Paper, Packaging Paper, and Paper for Miscellaneous Uses

Production Share in Japan*



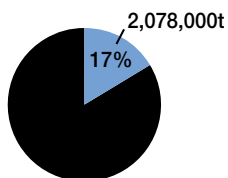
Our CRECIA Corporation, one of Japan's leaders in the sanitary paper business, carries two major internationally respected brands—Kleenex®, widely recognized for its outstanding quality, and Scottie®, a brand that includes a wide range of products. CRECIA is committed to continuing to refine its product strategies to better meet the needs of target customers.

In the packaging paper business, the Group offers a number of products that are considered among Japan's representative products. These include heavy-duty sack kraft paper for the packaging of chemicals (cement), grains and fertilizers, and semi-bleached kraft paper for envelopes.

In the area of paper for other industrial use, our extensive lineup of base stock provides quality solutions in a wide range of applications. We offer base stock for adhesive paper as well as cups and cartons; wallpaper base; and bleached kraft paper for copper-clad laminates.

Paperboard

Production Share in Japan*



Our paperboard is mainly produced by Japan Paperboard Industries Co., Ltd., Daishowa Paper Manufacturing Co., Ltd., and Tohoku Paper Co., Ltd. The main mills of these companies are located close to metropolitan areas, where consumption of these products is the highest and which allows more efficient collection of waste paper as raw material.

Examples of the paperboard products we carry include base stock for containerboard, such as kraft-linerboard, jute-linerboard, white-linerboard; corrugating medium; and also folding box board, such as white board and chipboard. In addition, we offer base stock for gypsum board, core board, and other processed products. Our white board product line includes JET STAR, a leader in the Japanese market, and our product line in the high-end white board with double-sided coating category includes F-1 CARD and F-1 IVORY. An eco-friendly bulky white board called Re-3 (for Reduce, Reuse, Recycle), which we introduced in 2000, has continued to grow in popularity.

To Our Shareholders



Takahiko Miyoshi
President, Nippon Unipac Holding

On the occasion of my appointment as president of Nippon Unipac Holding, I would like to take this opportunity to extend warm greetings to our shareholders and to share with you our business management strategies that look toward the future.

Nippon Unipac Holding was founded in March 2001 as a holding company in conjunction with the business integration of Nippon Paper Industries Co., Ltd. and Daishowa Paper Manufacturing Co., Ltd., for whom Nippon Unipac Holding acts purely as the listed parent. Both Nippon Paper Industries and Daishowa Paper Manufacturing now function as operating companies. Since our inception, Nippon Unipac Holding, along with Nippon Paper Industries and Daishowa Paper Manufacturing, has made every effort to cultivate and realize the synergy effects of this business integration, in the timeliest manner possible.

Some of these efforts are short-term measures designed to yield positive results relatively quickly. Among others, these include negotiating more favorable terms for procuring materials and engaging in technical exchange. Other efforts are medium-term measures that will yield positive results over time. These include further rationalization of our production facilities and undertaking strategic business structural reforms. In general, we have given a higher priority to the short-term measures designed to quickly stimulate the synergy of the business integration.

For our short-term measures, we set a goal of reducing costs by ¥52 billion in the three years following business integration (from fiscal 2002 through fiscal 2004), while the measures are in effect. We are striving to achieve this goal as quickly as possible. The first year is already behind us, and we are happy to report that we have had considerable success in slashing costs across a wide range of areas, including materials, sales and distribution, labor, and financing. The cost-savings achieved to this point allow us to confidently predict that we will reach our goal of ¥52 billion one year ahead of our original target.

Unfortunately, while we are already seeing some short-term benefits of the business integration, we have also seen a sharp drop in operating income on a year-on-year basis. This adverse result is due to a worse-than-expected deterioration in several external circumstances, including a slump in demand as a consequence of the domestic economy's prolonged and continued downturn. Our business performance in fiscal 2002, ended March 31, 2002, was further hampered by losses on devaluation of investments in other securities, a consequence of declining stock prices and other extraordinary losses. These factors were partly responsible for the disappointing financial results for that year.

We cannot afford to loosen our grip on the reins, lest our profitability—an absolutely vital element in corporate survival—falls into jeopardy. With an eye toward building a stronger corporate group structure, we have decided to speed up implementation of our Step Two plans to gain additional synergy effects.

Step Two entails thoroughly reforming our business structure, including restructuring the Paper Division and paperboard business and transferring diversified businesses to newly created subsidiaries. These reforms will be aimed at building the strongest managerial foundation possible for our Group.

Some of the goals we hope to accomplish in our restructuring efforts, in terms of our individual business segments, are outlined below.

1. Restructuring of the Paper Division

The Paper Division, one of Nippon Unipac Holding's mainstay operations, will be restructured through the consolidation of three companies: Nippon Paper Industries Co., Ltd., Daishowa Paper Manufacturing Co., Ltd., and Nippon Paper Sales Co., Ltd. The merger, due to take place on April 1, 2003, will allow rationalization of production facilities more quickly and effectively than is possible within the present corporate framework. The Company believes this move will dramatically improve its cost-competitiveness. We also believe that our efforts to integrate production and sales

and our commitment to developing a stronger R&D structure will instill further confidence in our customers and expedite our restructuring efforts. In turn, this will help us establish an unassailable position as the No. 1 paper manufacturer in Japan.

2. Restructuring of the Paperboard Business

The paperboard business faces conditions even more severe than those confronting the Paper Division. An excessive supply of products has combined with softening prices to significantly erode earnings. However, the combined share of production capacities of the three leading corporate groups has reached 60% as a result of progress made in the industry-wide restructuring over the past year or two, and each group is increasingly poised to quickly resolve over-capacity problems by undertaking its own structural improvements. This is creating a somewhat brighter outlook for this business segment.

Effective April 1, 2003, the Nippon Unipac Holding Group plans to relegate all responsibilities for directing the paperboard business to Nippon Daishowa Paperboard Co., Ltd. The Group will also place manufacturing subsidiaries under the control of Nippon Daishowa Paperboard. These moves will help create an integrated structure for the Group's paperboard business, laying the foundation for a subsequent sweeping business restructuring aimed at streamlining the entire paperboard business while promoting

customer-oriented sales and establishing a production structure that minimizes costs. We will emerge from these changes as a trim, flexible, customer-oriented company with a solid business foundation for producing consistent returns.

3. Transfer of Diversified Businesses to Newly Created Subsidiaries

At the Nippon Unipac Holding Group, we have diversified into a variety of areas beyond the scope of paper and paperboard. Our roster of business lines includes the uniboard business, which became independent in April 2002; the paper cartons, chemical products, and foreign lumber trading businesses, scheduled to be spun off in October 2002; a household tissue business run by CRECIA Corporation, now a consolidated subsidiary; SHIKOKU COCA-COLA BOTTLING CO., LTD., an exchange-listed company that bottles and sells soft drinks; and LINTEC Corporation, which deals with adhesive-related materials. Each of these diverse companies has established a solid foothold in its field. As a Group, we will encourage the senior management team of each company to take aggressive steps to improve management efficiency and strengthen its competitiveness within the industry. Together, these efforts will help accelerate the recovery of the entire Nippon Unipac Holding Group toward robust profitability.

To summarize, the objective of our restructuring is to encourage the closing-down and downsizing of unprofitable business segments, while concentrating our managerial resources and energies on business areas with solid growth potential. The synergy-increasing efforts to be undertaken as part of Step Two are targeted for completion in fiscal 2006.

By the end of 2002, we will formulate a new medium-term vision (fiscal 2004–2006) that communicates the Group's aims and objectives, for both internal and external parties, and that sets a direction to guide Group management.

The Nippon Unipac Holding Group will continue to strive, with a unified effort, to enhance the corporate value of each member company in our Group. I look forward to your continued support as we face the challenges ahead.

June 25, 2002



Takahiko Miyoshi
President, Nippon Unipac Holding

An Interview with the President



Takahiko Miyoshi
President, Nippon Unipac Holding

Q

Has the Company derived any benefits yet from the business integration that took place one year ago?

A

In the year since integration took place we have faced an extremely unfavorable business environment. However, we have set in place a series of cost-cutting measures that will be in effect for an initial two years, through the end of fiscal 2003. We have confidence that we can slash annual costs by ¥53 billion—a level exceeding our original target—one year ahead of schedule.

The primary driver behind our reaping benefits from the business integration is the Synergy Effects Promoting Committee, which was established in February 2001 and includes members from both Nippon Paper Industries Co., Ltd. and Daishowa Paper Manufacturing Co., Ltd., along with seven subcommittees under it. The Synergy Effects Promoting Committee is charged with determining specific cost-reduction targets to pursue, and with formulating and implementing action plans for each subcommittee. The following is an outline of the major cost-cutting measures the Company is taking and the savings we expect them to yield during the two-year period ending in fiscal 2003.

(1) Materials cost

We anticipate saving ¥19 billion by collectively procuring wood chips and other materials to achieve adjustment of materials prices and by shifting to low-cost materials such as old magazine paper.

(2) Other variable cost

We are targeting savings of around ¥5 billion by investing in de-inked pulp (DIP)[†] and other facilities designed to yield cost savings, and an additional ¥7 billion through measures that require no investment in plants or equipment, such as reducing the amount of chemical addition and changing the chemical composition and furnish blend.

(3) Sales, distribution cost

We expect to save ¥9 billion by reducing transportation and warehousing costs and by shifting production to our more cost-competitive manufacturing bases.

(4) Financing cost

We anticipate saving ¥4 billion by obtaining lower interest rates on borrowings for Daishowa Paper Manufacturing and reducing its interest-bearing debt.

(5) Labor cost

We aim to save ¥9 billion by downsizing our work force. We will eliminate a total of 1,234 positions, including both permanent and contract positions, through minimizing hiring and implementing savings in the work force.

Realization of the Synergy Effects of the Integration

	(¥ billion)			
	Fiscal 2004	Fiscal 2002	Fiscal 2003	Fiscal 2002 and Fiscal 2003
	(Original Target)	(Actual)	(Projected)	(Full Fiscal-Year Total)
Area of Cost Reduction				
Materials Cost	¥15	¥12	¥ 7	¥19
Other Variable Cost	11	6	6	12
Sales, Distribution Cost	8	4	5	9
Financing Cost	3	3	1	4
Labor Cost	10	5	4	9
Cost Benefits from the Rationalization of Production Facilities	5	0	0	0
Total	¥52	¥30	¥23	¥53

Note: Labor cost reductions are estimates based on the size of the work force at the end of each term.

We expect to save an additional ¥5 billion through rationalization of production facilities in fiscal 2004 and thereafter. With these and additional cost-cutting measures the Company plans to take, we project that by March 2004 we will achieve overall annual cost savings of more than ¥60 billion compared with fiscal 2001.

[†] Please refer to the Glossary on pages 52 and 53 for details.

Q

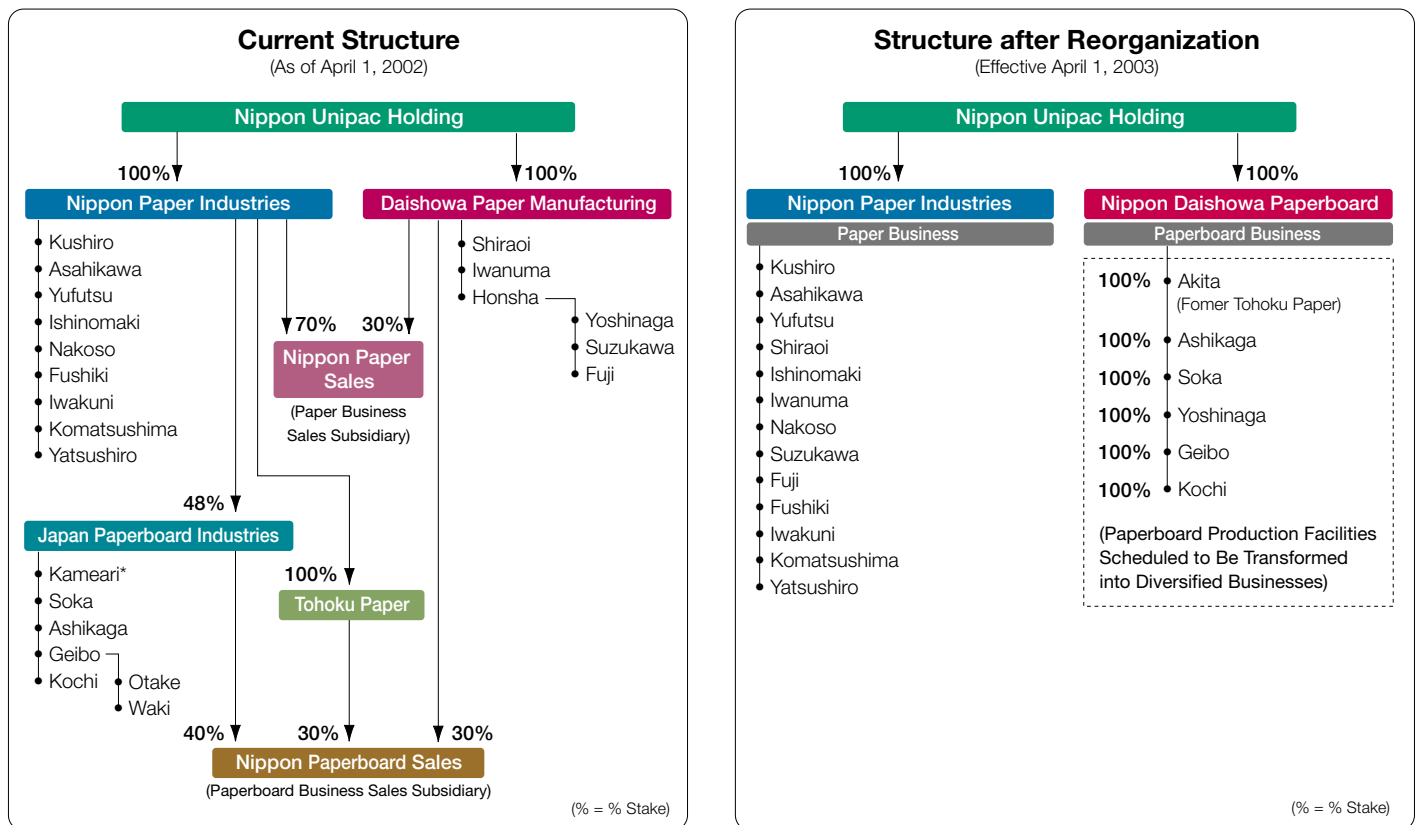
What reorganization moves are planned in the Group's paperboard business to cope with the difficult business environment?

A

With conditions in the paperboard business remaining unstable, we believe that strengthening the profit basis of our paperboard operations is the most pressing issue. We plan to reduce operating costs by ¥10 billion in the three years beginning fiscal 2004 by reorganizing the business and undertaking thorough reform of the cost structure.

We have already made significant moves as part of a Group-wide restructuring of the paperboard business. In western Japan, we closed Japan Paperboard Industries Co., Ltd.'s Osaka Mill at the end of December 2000 and concentrated production at the Geibo Mill. In eastern Japan, we currently operate three mills (Kameari, Soka, and Ashikaga) in the Kanto region. The Kameari Mill will be closed at the end of March 2003, six months ahead of the original schedule, and the site will be put up for sale.

Reorganization of the Paper and Paperboard Businesses from April 1, 2003



*The Kameari Mill will be closed down on March 31, 2003.

In April 2003, the Group's four major paperboard operating companies—Daishowa Paper Manufacturing, Japan Paperboard Industries, Tohoku Paper Co., Ltd. and Nippon Paperboard Sales—will be merged into Nippon Daishowa Paperboard Co., Ltd., a wholly owned subsidiary of Nippon Unipac Holding. The six paperboard production mills will be placed under the control of Nippon Daishowa Paperboard (see the charts on the previous page) as wholly owned subsidiaries specializing in production.

This thorough reorganization of the paperboard business is aimed at reducing excess capacity, enhancing competitiveness at key mills, reducing labor costs, and avoiding cross-transportation at the fastest possible speed. We expect these moves to achieve a total of ¥10 billion in cost reductions over the three-year period ending in fiscal 2006, including savings of ¥6 billion total in fiscal 2004 and 2005 and an additional ¥4 billion in fiscal 2006. (The ¥10 billion in cost reductions is not included in the ¥53 billion in synergy effects of integration mentioned previously.)



Q

What is the purpose of transferring the Company's diversified businesses to newly created subsidiaries, and what are the strengths of each diversified business?

A

Our objective behind the transfer of diversified businesses is to develop them into top-tier companies in their respective fields. Based on the principles of independence, autonomy, and clearly defined accountability, we are creating energetic new companies that have the flexibility and quick decision-making needed to take advantage of new business opportunities. Employees of the newly created subsidiaries become closer to management and more able and willing to participate in managerial matters. This leads them to form a shared sense of purpose, which in turn boosts motivation.

Characteristics and Strengths

(1) Lumber Trading Business

The Foreign Lumber Trading Division of Nippon Paper Industries will be transformed into a subsidiary. In October 2002, after the division's scheduled merger with JUJO LUMBER CO., LTD. and SHINYO CO., LTD., the subsidiary will be in operation as a new subsidiary named Nippon Paper Lumber Co., Ltd., with anticipated annual sales of ¥60 billion. The new company, which will be Japan's only log and lumber wholesaler with a nationwide presence, is poised to take advantage of its large size, strong business foundations, and superior credit standing to expand its business.



(2) Liquid-Packaging Business

The Pure-Pak Division of Nippon Paper Industries will become a subsidiary. After the division merges with JUJO CENTRAL CO., LTD., a new subsidiary company named NIPPON PAPER-PAK CO., LTD. will be created. This new subsidiary will begin operations in October 2002 with anticipated sales of ¥50 billion. The current Pure-Pak Division markets two well-known product brands—PURE-PAK®† and FUJIPAK®†—and is recognized as a domestic leader in the liquid packaging business. Transforming the division into a newly created subsidiary company will position it for further growth. Production and sales will be integrated to improve efficiency, and to maximize management flexibility.

(3) DP & Chemical Products Business

The DP (Dissolving Pulp) & Chemical Products Division will be detached from Nippon Paper Industries and transformed into a new company called Nippon Paper Chemicals Co., Ltd. The company will be established in October 2002, with anticipated sales of ¥25 billion. The DP & Chemical Products Division commands a sizable market share with a wide product line that ranges from DP and lignin to Stevia extract and chlorinated polyolefins†. Looking ahead, the new company plans to boost profitability by capitalizing on its powerful product line and focusing on areas with high growth and earnings potential.

(4) Uniboard Business

In April 2002, the Uniboard Division of Daishowa Paper Manufacturing Co., Ltd. was transferred to become a new independent entity called Daishowa Uniboard Co., Ltd. The new company, which was established with anticipated sales of ¥4 billion, produces and sells low-pressure melamin laminated particleboards for a wide range of applications, including kitchen and office use. It plans to solidify its earnings base by undertaking a series of cost-reduction measures and focusing on products with high added value.



Q

What are your main overseas business strategies?

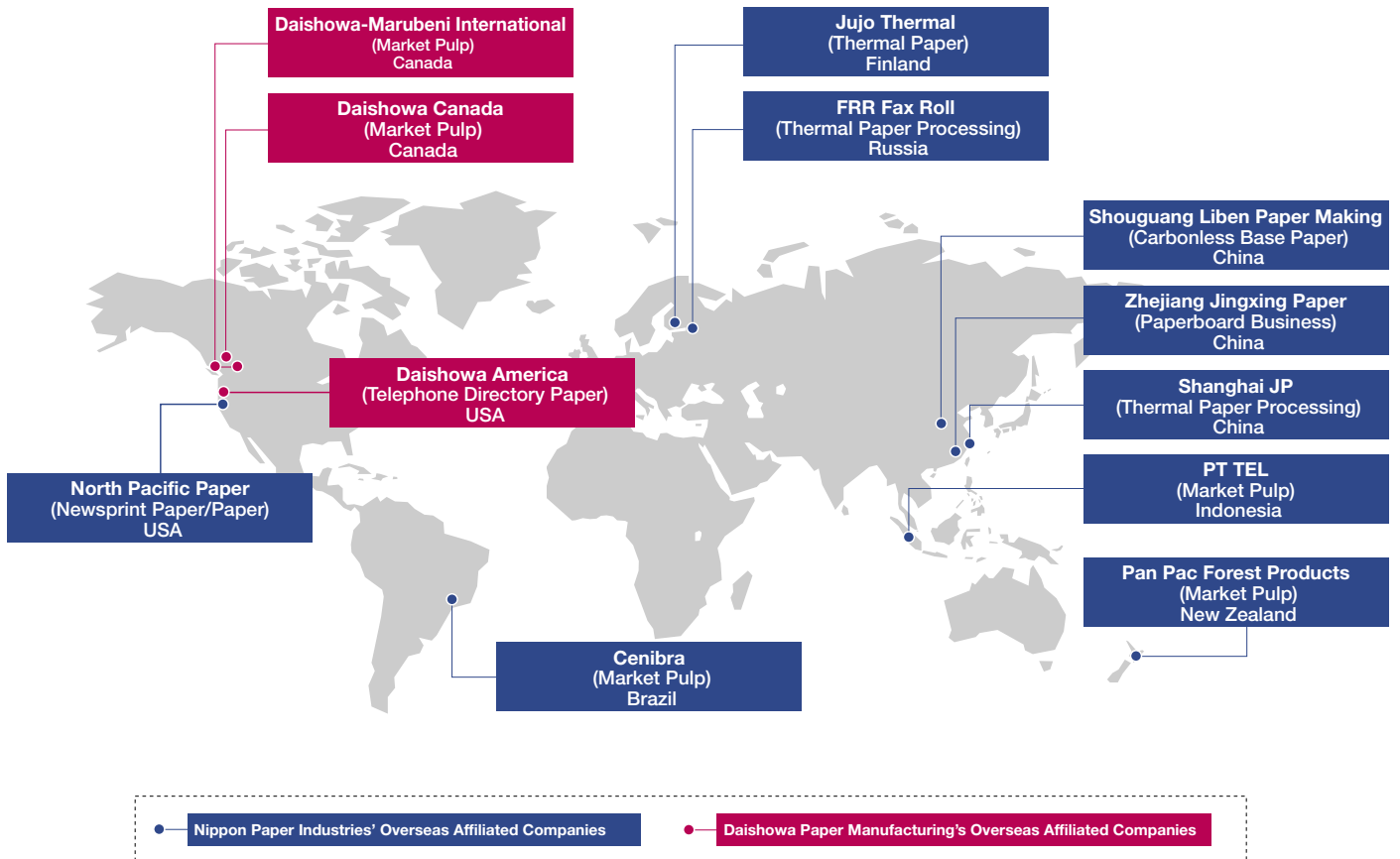
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Our strategies call for restructuring some of our existing operations and taking steps to solidify our profit base. We will also review and push forward with initiatives to make deeper inroads into markets that offer high-growth potential, such as China, Southeast Asia, and Central and Eastern Europe.

In terms of the overseas pulp and paper business, Nippon Paper Industries and Daishowa Paper Manufacturing currently operate a total of 12 businesses in eight countries (see the chart below). We will carry out some restructuring of these businesses—taking into account all options, including sale of the business—and implement other measures to enhance their profitability. We will design these actions according to the role and function



Overseas Pulp and Paper Businesses of Nippon Unipac Holding



This chart does not include businesses related to afforestation and chip.

that each business has relative to the entire Nippon Unipac Holding Group, while also considering its earning potential and the obstacles it faces.

With respect to developing new business, in June 2001 Japan Paperboard Industries, a Group company, joined with Japan Pulp and Paper Co., Ltd. to form an alliance with Shanghai Matsuoka Co., Ltd. These companies jointly acquired equity positions in Zhejiang Jingxing Paper Joint Stock Co., Ltd., marking a successful entry into the Chinese paperboard market. We consider China and several other Asian markets to be very attractive destinations because of their explosive growth potential, and are continually monitoring market conditions, analyzing trends, and assessing business risks. When we judge that positive opportunities exist in a market, we are ready to take bold action to capitalize on those opportunities.

Q

What plans do you have to upgrade the data processing systems used to strengthen Group management?

A

We are currently conducting a thorough review of our data processing systems, particularly those used to support management and sales. The systems now in place at each Group company were purchased and developed individually and are not necessarily compatible across the Group. We plan to set up systems that are uniform and compatible on a Group-wide basis to improve management efficiency and better support our sales efforts.

Managerial Systems

Beginning in October 2002, we will shift to a new group accounting system called SAP R/3®*. The objectives of introducing the system are as follows:

(1) Centralized processing of administrative system

- Minimizing administrative costs
- Standardizing managerial functions across the Group, and develop personnel with specialized skills and capabilities.
- Reducing maintenance costs associated with information systems.



(2) Enhancing the quality and sharing of management information

- Using the same accounting system across the Group will allow staff to perform consolidation tasks more quickly and efficiently, which in turn will make more consolidated information available for access. From fiscal 2004, quarterly closing of group accounts will be made available.

(3) Groupwide centralizing of cash management, enabling subsequent savings in financing costs

- Centralizing funding and payment based on the cash management system (CMS).

Sales Support Systems

In January 2003, we are implementing a new system named PRIME (Process Reform for Innovative Marketing and Easy operation) to strengthen the sales of the Paper Division of all Group companies. Based on the supply chain management (SCM) concept, the PRIME system will support our efforts to restructure the flow of production and sales management—a series of moves that encompasses production, sales, and inventory functions across all related divisions. In addition, PRIME will help us respond more quickly and effectively to customer needs, reduce inventory by improving production efficiency, and cutting transportation costs by increasing direct delivery.

In October 2003, the PRIME system will also be implemented at subsidiaries in the paperboard business, which is scheduled to be reorganized, to support Group-wide production and sales management.

Financial Section

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Consolidated Summary

	(Millions of yen, except where noted)		
	First Half of the Fiscal Year March 30, 2001 to September 30, 2001	Second Half of the Fiscal Year October 1, 2001 to March 31, 2002	Full Fiscal Year March 30, 2001 to March 31, 2002
Pulp and paper			
Total segment sales	¥ 480,324	¥ 466,892	¥ 947,216
Intergroup sales and transfers	(535)	(758)	(1,293)
Sales to third parties	479,788	466,134	945,922
Paper-related			
Total segment sales	54,408	51,303	105,711
Intergroup sales and transfers	(3,663)	(4,083)	(7,746)
Sales to third parties	50,744	47,219	97,963
Housing and construction materials			
Total segment sales	61,679	64,944	126,623
Intergroup sales and transfers	(17,067)	(17,068)	(34,135)
Sales to third parties	44,612	47,876	92,488
Other			
Total segment sales	48,395	42,805	91,200
Intergroup sales and transfers	(8,356)	(7,798)	(16,154)
Sales to third parties	40,039	35,007	75,046
Total sales			
Total sales	644,807	625,946	1,270,753
Intergroup sales and transfers	(29,622)	(29,708)	(59,330)
Sales to third parties	615,185	596,237	1,211,422
Operating income	20,257	22,165	42,422
Income (loss) before income taxes and minority interests	5,724	(1,943)	3,781
Net income (loss)	2,813	(3,449)	(636)
Total assets	1,778,440	1,721,745	1,721,745
Total current assets	563,370	517,698	517,698
Property, plant and equipment, net	956,633	941,428	941,428
Total investments and other assets	258,436	262,618	262,618
Liabilities and others	1,367,673	1,314,376	1,314,376
Total shareholders' equity	410,766	407,369	407,369
Interest-bearing debt	931,498	903,336	903,336
Debt/equity ratio (times)	2.16	2.13	2.13
Amounts per share (yen):			
Net income (loss)			
Basic	¥ 2,611.51	¥(3,200.59)	¥ (590.30)
Diluted	2,516.83	—	—
Shareholders' equity	381,128.83	377,308.99	377,308.99
Ratios (%):			
Operating income to net sales	3.29%	3.72 %	3.50 %
Net income (loss) to net sales	0.46%	(0.58)%	(0.05)%
Net income (loss) to shareholders' equity	0.68%	(0.85)%	(0.16)%
Return on invested capital	1.54%	1.80 %	3.37 %
Equity ratio	23.10%	23.66 %	23.66 %

Consolidated Five-Year Summary

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

	Millions of yen, except where noted				
	2001	2000	1999	1998	1997
Pulp and paper (Note 1)					
Total segment sales	¥ 666,520	¥ 647,853	¥ 654,486	¥ 851,836	¥ 885,498
Intergroup sales and transfers	(1,647)	(1,585)	(1,678)	(216)	(254)
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	—	—
Intergroup sales and transfers	(8,143)	(8,310)	(7,547)	—	—
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
Intergroup sales and transfers	(17,352)	(13,521)	(13,660)	(5,893)	(4,537)
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
Intergroup sales and transfers	(17,244)	(17,061)	(15,164)	(38,199)	(23,262)
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
Intergroup sales and transfers	(44,388)	(40,478)	(38,051)	(44,308)	(28,055)
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	334,435	329,332	344,340	331,881
Interest-bearing debt	490,647	533,961	587,657	605,306	638,462
Debt/equity ratio (times)	1.43	1.53	1.73	1.69	1.88
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%
Return on invested capital (Note 7)	7.14%	4.38%	2.45%	5.62%	6.43%
Equity ratio (Note 7)	29.69%	29.80%	28.65%	28.09%	25.96%

Notes: 1. In 1999, the "Paper" segment was separated into the "Pulp and paper" and "Paper-related" segments.

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 Five-Year Summary

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

	Millions of yen, except where noted				
	2001	2000	1999	1998	1997
Pulp and paper (Note 1)					
Total segment sales	¥320,137	¥307,659	¥300,054	¥ —	¥ —
Intergroup sales and transfers	(159)	(1,088)	(146)	—	—
Sales to third parties	319,978	306,571	299,907	—	—
Other (Note 1)					
Total segment sales	27,603	24,886	24,179	—	—
Intergroup sales and transfers	(18,222)	(13,177)	(13,204)	—	—
Sales to third parties	9,380	11,709	10,975	—	—
Total sales					
Total sales	347,740	332,546	324,233	—	—
Intergroup sales and transfers	(18,382)	(14,265)	(13,350)	—	—
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
Income (loss) before income taxes (Notes 2 and 3)					
	(46,537)	4,267	(17,616)	7,407	11,118
Net income (loss)	(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
Interest-bearing debt	391,475	421,429	431,248	430,223	466,068
Debt/equity ratio (times)	7.21	5.13	11.88	8.47	9.97
Amounts per share (yen):					
Net income (loss)					
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 (loss) to net sales	(8.58)%	0.59%	(3.95)%	1.10%	2.00%
Net income (loss) to shareholders' equity (Note 7)	(44.94)%	3.31%	(29.66)%	8.74%	18.61%
Return on invested capital (Note 7)	5.28 %	3.57%	0.89 %	5.45%	7.13%
Equity ratio (Note 7)	7.98 %	12.47%	6.16 %	8.11%	7.13%

Notes: 1. From 1999, sales were separated into the "Pulp and paper" and "Other" segments.

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

Fiscal 2002, the year ended March 31, 2002, was the first year of operation as Nippon Unipac Holding and both accounting periods of the fiscal year under review—March 30 to September 30, 2001 and October 1, 2001 to March 31, 2002—were irregular. As a consequence of this, this financial review combines data from the first and the second accounting periods and presents a review of operations for the full fiscal year, from March 30, 2001 to March 31, 2002. Accounts, including net sales and operating income, are simple totals of the two half-year periods. Comparisons with prior-year figures are not presented for the reasons cited above.

SUMMARY OF OPERATIONS

In the fiscal period under review (March 30, 2001 to March 31, 2002, comprising the first accounting period and the second accounting period), the Japanese economy faced an extremely difficult environment defined by sluggish personal consumption and capital investment, a bleak employment picture, and plummeting stock prices, all of which were compounded by a slowing global economy. Nippon Unipac Holding's core operations in the pulp and paper business were affected by declining demand due to subdued activity in all industrial sectors. Domestic paper shipments ran below the previous year's levels, production and sales slowed, and price setbacks occurred in certain paper categories.

The Nippon Unipac Holding Group focused on cost reduction centered on cutting raw materials procurement costs and lowering other variable costs, to ensure the earliest possible benefits from integration.

Operating income in the consolidated period under review was ¥42.4 billion (US\$318.9 million) on net sales of ¥1,211.4 billion (US\$9,108.4 million). The Company recorded a net loss of ¥636 million (US\$4.7 million).

REVIEW OF OPERATIONS

Pulp and Paper Division

With regard to paper, the sales volume decreased, mainly in paper used for printing and business communication purposes, due to the fall in demand for paper caused by a drastic drop in mining and industrial output

and cut-backs in advertising expenditure due to declining corporate earnings. We therefore adjusted production in line with the trend in demand and trade inventories, and put priority on price. As a result, prices were firm.

With regard to paperboard, demand for containerboard, which is the main product in the division, is closely linked to the state of the economy, a drop in sales volume and prices became increasingly pronounced as the recession intensified. However, in this challenging situation, Nippon Unipac Holding concentrated on bringing down inventories to adequate levels. Despite the sluggish demand situation, these initiatives helped to partially restore prices.

Although we worked to restore prices for household tissues and sanitary products, both sales volume and prices remained stagnant because of increasingly severe price competition among companies.

As a result, net sales were ¥945.9 billion (US\$7,112.1 million) and operating income was ¥34.8 billion (US\$262.1 million).

Paper-Related Division

With regard to liquid-packaging cartons, such as Pure-Pak®, both sales volume and prices remained favorable following our efforts to expand the sales volume corresponding to consumers' needs, supported by the demand for tea-based beverages. The sales volume and prices of chemical products were largely unchanged, but in the functional materials sector, sales volume and prices suffered setbacks due to weaker demand in the LCD sector.

As a result, net sales were ¥97.9 billion (US\$736.5 million) and operating income was ¥2.6 billion (US\$19.5 million).

Housing and Construction Materials Division

With regard to the Housing and Construction Materials Division, new housing starts, particularly those for wooden houses, decreased due to stagnant personal consumption and the worsening employment situation. Business conditions remained severe: net sales were ¥92.4 billion (US\$695.3 million) and operating income was ¥518 million (US\$3.8 million).

Other Division

We worked to meet consumers' needs and expand sales volume in the soft drink and other beverage business, but demand in other businesses such as leisure remained weak due to the economic slump, resulting in net sales of ¥75.0 billion (US\$564.2 million) and operating income of ¥4.4 billion (US\$33.3 million).

COSTS, EXPENSES, AND EARNINGS

The cost of sales for the fiscal period under review was ¥919.8 billion (US\$6,916.2 million). The cost of sales as a percentage of net sales was 75.9%. Selling, general and administrative (SG&A) expenses totaled ¥249.1 billion (US\$1,873.2 million), or 20.6% as a percentage of net sales. Operating income was ¥42.4 billion (US\$318.9 million). Operating income as a percentage of net sales was 3.5%. In the category of other income (expenses), there was a net expense of ¥38.6 billion (US\$290.5 million). Principal expenses in this account were ¥15.6 billion (US\$117.6 million) in interest expense, ¥9.7 billion (US\$73.5 million) in losses on devaluation of stock held in other companies, and a one-time charge of ¥5.8 billion (US\$44.3 million) for net retirement benefit obligation resulting from a change in accounting standards.

As a result, income before income taxes and minority interests for the fiscal period was ¥3.7 billion (US\$28.4 million). The net loss was ¥636 million (US\$4.7 million). Our basic policy toward redistribution of profit to shareholders is to ensure a stable dividend backed by business performance while building sufficient reserves to strengthen the Company's financial position. We declared cash dividends of ¥8,000 (US\$60.15) per common share applicable to the fiscal period under review.

FINANCIAL POSITION

As of March 31, 2002, total assets amounted to ¥1,721.7 billion (US\$12,945.4 million). Total current assets were ¥517.6 billion (US\$3,892.4 million). Net property, plant and equipment amounted to ¥941.4 billion (US\$7,078.4 million). Total investments and other assets stood at ¥262.6 billion (US\$1,974.5 million).

Total current liabilities were ¥796.4 billion (US\$5,988.2 million). Total long-term liabilities amounted to ¥487.4 billion (US\$3,665.0 million).

Total shareholders' equity stood at ¥407.3 billion (US\$3,062.9 million).

CASH FLOWS

Consolidated cash and cash equivalents (hereinafter referred to as "cash") increased ¥7.5 billion (US\$56.4 million) from the beginning of period to ¥33.6 billion (US\$252.6 million). The principal items contributing to cash flows were as follows.

Cash Flows from Operating Activities

Net cash provided by operating activities totaled ¥105.8 billion (US\$795.5 million). The principal sources of cash flows from operating activities were depreciation of ¥87.1 billion (US\$655.2 million) and an increase in cash of ¥46.6 billion (US\$351.0 million) resulting from a decrease in receivables.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥92.5 billion (US\$696.1 million). This included ¥76.7 billion (US\$576.9 million) for payment for acquisitions of property, plant and equipment and ¥7.8 billion (US\$58.6 million) for acquisitions of investments in other securities.

Cash Flows from Financing Activities

Net cash used in financing activities amounted to ¥57.4 billion (US\$431.5 million). This included a decrease of ¥24.8 billion (US\$186.5 million) in short-term borrowings, proceeds of ¥101.3 billion (US\$762.2 million) from issuance of long-term debt and repayment of ¥119.7 billion (US\$900.5 million) in long-term debt.

Consolidated Balance Sheets

Nippon Unipac Holding and Consolidated Subsidiaries As of March 31, 2002 and September 30, 2001

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31, 2002	September 30, 2001	March 31, 2002
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 33,609	¥ 47,508	\$ 252,699
Marketable securities (Note 12)	2,188	4,362	16,451
Receivables:			
Notes and accounts receivable:			
Trade (Note 6)	268,958	296,352	2,022,241
Unconsolidated subsidiaries and affiliates	13,804	16,547	103,789
Other	14,640	5,363	110,075
Loans receivable from unconsolidated subsidiaries and affiliates	14,261	12,051	107,226
Allowance for doubtful receivables	(2,520)	(972)	(18,947)
Inventories (Note 4)	143,489	154,130	1,078,865
Deferred tax assets (Note 8)	8,250	7,063	62,030
Other current assets (Note 7)	21,015	20,964	158,008
Total current assets	517,698	563,370	3,892,466
Property, plant and equipment (Note 6):			
Land	243,652	243,011	1,831,970
Buildings and structures	455,306	456,194	3,423,353
Machinery and equipment	1,857,520	1,843,473	13,966,316
Construction in progress	25,492	25,057	191,669
Other	21,579	21,937	162,248
	2,603,551	2,589,674	19,575,571
Less accumulated depreciation	(1,662,123)	(1,633,040)	(12,497,165)
Property, plant and equipment, net	941,428	956,633	7,078,406
Investments and other assets:			
Investments in and advances to unconsolidated subsidiaries and affiliates	77,138	77,069	579,985
Investments in other securities (Notes 6 and 12)	76,506	76,762	575,233
Deferred tax assets (Note 8)	20,033	23,399	150,624
Other assets	134,948	118,192	1,014,647
Allowance for doubtful receivables	(46,008)	(36,988)	(345,925)
Total investments and other assets	262,618	258,436	1,974,571
Total assets (Note 13)	¥1,721,745	¥1,778,440	\$12,945,451

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31, 2002	September 30, 2001	March 31, 2002
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings (Note 5)	¥ 408,584	¥ 433,140	\$ 3,072,060
Current portion of long-term debt (Note 5)	96,693	95,793	727,015
Notes and accounts payable:			
Trade	160,969	171,300	1,210,293
Unconsolidated subsidiaries and affiliates.....	31,972	34,029	240,391
Other.....	56,216	67,983	422,677
Accrued income taxes (Note 8)	3,416	4,835	25,684
Other current liabilities	38,586	34,182	290,120
Total current liabilities	796,439	841,266	5,988,263
Long-term liabilities:			
Long-term debt (Note 5):			
Bonds and loans payable.....	389,424	390,482	2,928,000
Loans payable to unconsolidated subsidiaries and affiliates	540	390	4,060
Accrued retirement benefits (Note 7)	78,324	75,988	588,902
Allowance for losses on guarantees	425	8,856	3,195
Deferred tax liabilities (Note 8)	7,631	5,676	57,376
Other long-term liabilities	11,110	12,124	83,534
Total long-term liabilities	487,456	493,518	3,665,083
Minority interests	30,480	32,888	229,173
Contingent liabilities (Note 11)			
Shareholders' equity (Notes 9 and 16):			
Common stock	55,730	55,730	419,023
Capital surplus	236,532	236,532	1,778,436
Retained earnings.....	114,675	122,436	862,218
Unrealized holding gain on other securities	1,262	138	9,489
Translation adjustments	(416)	(2,491)	(3,128)
	407,784	412,345	3,066,045
Less treasury common stock, at cost	(415)	(1,578)	(3,120)
Total shareholders' equity.....	407,369	410,766	3,062,925
Total liabilities and shareholders' equity	¥1,721,745	¥1,778,440	\$12,945,451

See notes to consolidated financial statements.

Consolidated Statements of Operations and Retained Earnings

Nippon Unipac Holding and Consolidated Subsidiaries For the periods ended March 31, 2002 and September 30, 2001

	Millions of yen		Thousands of U.S. dollars (Note 3)
	Period from October 1, 2001 to March 31, 2002	Period from March 30, 2001 to September 30, 2001	Period from October 1, 2001 to March 31, 2002
Net sales (Note 13).....	¥596,237	¥615,185	\$4,482,985
Cost of sales (Note 13).....	449,102	470,757	3,376,707
Gross profit	147,134	144,427	1,106,271
Selling, general and administrative expenses (Note 13).....	124,969	124,170	939,617
Operating income (Note 13).....	22,165	20,257	166,654
Other income (expense):			
Interest expense.....	(7,218)	(8,424)	(54,271)
Interest and dividend income.....	1,131	1,738	8,504
Gain on sales of investments in other securities.....	754	1,779	5,669
(Losses) gains on sales of property, plant and equipment, net of disposal.....	(6,571)	2,049	(49,406)
Equity in losses of unconsolidated subsidiaries and affiliates.....	(918)	(104)	(6,902)
Loss on devaluation of investments in other securities.....	(4,726)	(5,056)	(35,534)
Loss on net retirement benefit obligation resulting from change in accounting standard.....	(2,947)	(2,947)	(22,158)
Foreign currency exchange gain.....	699	215	5,256
Provision for doubtful receivables.....	(2,484)	(116)	(18,677)
Other, net.....	(1,826)	(3,468)	(13,729)
	(24,109)	(14,533)	(181,271)
(Loss) income before income taxes and minority interests	(1,943)	5,724	(14,609)
Income taxes:			
Current.....	(647)	(4,907)	(4,865)
Deferred.....	(2,804)	907	(21,083)
	(3,451)	(4,000)	(25,947)
Minority interests in losses of consolidated subsidiaries	1,945	1,089	14,624
Net (loss) income	(3,449)	2,813	(25,932)
Retained earnings at beginning of period	122,436	132,311	920,571
Adjustments for inclusion or exclusion of certain subsidiaries in consolidation	—	(12,431)	—
Appropriations:			
Cash dividends paid.....	(4,310)	—	(32,406)
Bonuses to directors and statutory auditors.....	—	(258)	—
Retained earnings at end of period	¥114,675	¥122,436	\$ 862,218

	Yen		U.S. dollars (Note 3)
Amounts per share:			
Net (loss) income:			
Basic.....	¥3,200.59	¥2,611.51	\$24.065
Diluted.....	—	2,516.83	—
Cash dividends.....	4,000.00	4,000.00	30.075

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nippon Unipac Holding and Consolidated Subsidiaries For the periods ended March 31, 2002 and September 30, 2001

	Millions of yen		Thousands of U.S. dollars (Note 3)
	Period from October 1, 2001 to March 31, 2002	Period from March 30, 2001 to September 30, 2001	Period from October 1, 2001 to March 31, 2002
Operating activities			
(Loss) income before income taxes and minority interests	¥ (1,943)	¥ 5,724	\$ (14,609)
Adjustments to reconcile (loss) income before income taxes, minority interests to net cash provided by operating activities:			
Depreciation	44,172	42,972	332,120
Amortization of difference between cost and underlying net equity in consolidated subsidiaries	909	672	6,835
Increase in allowance for doubtful receivables	10,550	99	79,323
Increase in accrued retirement benefits	2,247	1,090	16,895
Decrease in allowance for losses on guarantees	(8,902)	—	(66,932)
Interest and dividend income	(1,131)	(1,738)	(8,504)
Interest expense	7,218	8,424	54,271
Equity in losses of unconsolidated subsidiaries and affiliates	918	104	6,902
Gain on sales of investments in other securities	(754)	(1,779)	(5,669)
Loss (gain) on sales of property, plant and equipment, net of disposal	6,571	(2,049)	49,406
Loss on devaluation of investments in other securities	4,726	5,056	35,534
Bonuses paid to directors and statutory auditors	—	(292)	—
Changes in operating assets and liabilities:			
Receivables	30,579	16,104	229,917
Inventories	11,268	2,174	84,722
Payables	(13,035)	(23,148)	(98,008)
Other	(11,826)	1,560	(88,917)
	81,570	54,975	613,308
Interest and dividends received	1,997	2,079	15,015
Interest paid	(7,352)	(8,351)	(55,278)
Income taxes paid	(2,069)	(17,035)	(15,556)
Net cash provided by operating activities	74,145	31,667	557,481
Investing activities			
Acquisitions of time deposits	(342)	(567)	(2,571)
Withdrawals of time deposits	749	2,997	5,632
Acquisitions of marketable securities	—	(589)	—
Proceeds from sales of marketable securities	2,338	600	17,579
Acquisitions of property, plant and equipment	(36,711)	(40,023)	(276,023)
Proceeds from sales of property, plant and equipment	4,031	3,192	30,308
Acquisitions of investments in other securities	(4,930)	(2,870)	(37,068)
Proceeds from sales of investments in other securities	1,198	3,403	9,008
Increase in short-term loans	(1,948)	(1,241)	(14,647)
Extensions of long-term loans	(755)	(1,387)	(5,677)
Collection of long-term loans	1,369	1,090	10,293
Payment for guarantee obligations	(13,305)	—	(100,038)
Other, net	(8,727)	(162)	(65,617)
Net cash used in investing activities	(57,033)	(35,558)	(428,820)
Financing activities			
Decrease in short-term borrowings	(24,699)	(111)	(185,707)
Proceeds from issuance of long-term debt	47,672	53,705	358,436
Repayment of long-term debt	(47,863)	(71,905)	(359,872)
Payment for transfer of shares of subsidiaries	—	(4,254)	—
Cash dividends paid	(4,558)	(257)	(34,271)
Payment of finance lease obligations	(3,220)	(3,685)	(24,211)
Other, net	1,735	42	13,045
Net cash used in financing activities	(30,934)	(26,467)	(232,586)
Effect of exchange rate changes on cash and cash equivalents	(77)	321	(579)
Decrease in cash and cash equivalents	(13,899)	(30,036)	(104,504)
Cash and cash equivalents at beginning of period	47,508	26,098	357,203
Increase due to transfer of shares of subsidiaries	—	51,232	—
Increase due to merger of unconsolidated subsidiaries	—	214	—
Cash and cash equivalents at end of period	¥33,609	¥47,508	\$252,699

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nippon Unipac Holding and Consolidated Subsidiaries
For the periods ended March 31, 2002 and September 30, 2001

1. Description of Business

Nippon Unipac Holding (the "Company") was established on March 30, 2001 as a business combination by a stock transfer from shareholders of both Nippon Paper Industries Co., Ltd. ("Nippon") and Daishowa Paper Manufacturing Co., Ltd. ("Daishowa") to the Company through procedures stipulated in the Commercial Code of Japan. As a result of this stock transfer, both Nippon and Daishowa became wholly-owned subsidiaries of the Company. Both subsidiaries are principally engaged in manufacturing and selling pulp and paper.

2. Summary of Significant Accounting Policies

(a) Basis of Preparation

The accompanying consolidated financial statements have been prepared from the accounts maintained by Nippon Unipac Holding in accordance with the provisions set forth in the Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which may differ in certain 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 one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

(b) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all subsidiaries over which it exerts substantial control either through majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation.

In the consolidation of Nippon and Daishowa, the Company has comprehensively applied the pooling-of-interest method to Nippon and its subsidiaries as the acquiring group, and has applied the purchase method to Daishowa and its subsidiaries as the acquired group, after considering the ratio of the stock transfer of each company as well as certain other factors.

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 deemed 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 (loss) 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.

The goodwill arising from the application of the purchase method is being amortized over a period of twenty years on a straight-line basis. Goodwill is included in other assets in the consolidated balance sheets.

(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 only an insignificant risk of any changes in their value because of fluctuations in interest rates.

(d) Securities

Nippon Unipac Holding and consolidated subsidiaries have adopted a revised accounting standard for financial instruments which requires securities to be classified into three categories: trading, held-to-maturity or other securities, as follows:

- (i) trading securities are carried at fair value although Nippon Unipac Holding and consolidated subsidiaries had no such securities as of March 31, 2002 or September 30, 2001;
- (ii) held-to-maturity securities are carried at amortized cost; and
- (iii) marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities classified as other securities are carried at cost.

(e) Inventories

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

(f) Property, Plant and Equipment

Property, plant and equipment is stated at cost. Depreciation is, in general, computed by the declining-balance method over the estimated useful lives of the respective assets, except for new buildings acquired after March 31, 1998 on which depreciation is 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 leases of the domestic consolidated subsidiaries are accounted for as operating leases (whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

(h) Foreign Currency Translation

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

The balance sheet accounts of the foreign consolidated subsidiaries and affiliates are translated into yen at the rates of exchange in effect at their balance sheet dates, 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 period. The Company has presented translation adjustments as a component of shareholders' equity and minority interests in the accompanying consolidated financial statements.

(i) Retirement Benefits

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, 2002 have been provided mainly at an amount calculated based on the retirement benefit obligation less the fair value of the pension plan assets as of March 31, 2002, as adjusted for the 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 remaining years of service of the eligible employees. The net retirement benefit obligation at transition is being amortized over one year.

Actuarial gain and loss 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 eligible 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 eligible employees.

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

In addition, directors and statutory 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.

(j) Research and Development Costs

Research and development costs are charged to income as incurred.

(k) Derivative financial instruments

The Company and certain consolidated subsidiaries have entered into various derivatives transactions in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates and interest rates. Unrealized gain or loss is principally deferred as an asset or a liability. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at their corresponding contract rates.

(l) Income Taxes

The Company has adopted tax-effect accounting in accordance with a revised accounting standard which requires recognition of income taxes by the liability method. Under the liability method, deferred tax assets and liabilities are determined based on the difference between the amounts for financial reporting purposes and the tax bases 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.

(m) Appropriation of Retained Earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given 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, do not reflect such appropriations. See Note 16.

The Commercial Code of Japan provides that an amount equal to 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until the legal reserve and additional paid-in capital equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders.

(n) Amounts per Share

The computation of basic net (loss) 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.

3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥133 = U.S.\$1.00, the approximate rate of exchange on March 31, 2002, has been used. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

4. Inventories

Inventories at March 31, 2002 and September 30, 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Merchandise and finished products.....	¥ 86,983	¥ 93,203	\$ 654,008
Work in process.....	15,814	16,480	118,902
Raw materials and supplies.....	40,692	44,446	305,955
	¥143,489	¥154,130	\$1,078,865

5. Short-Term Borrowings and Long-Term Debt

At March 31, 2002 and September 30, 2001, short-term borrowings consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Loans from banks.....	¥371,584	¥426,140	\$2,793,865
Commercial paper.....	37,000	7,000	278,195
	¥408,584	¥433,140	\$3,072,060

Loans from banks are unsecured and generally represent 365-day notes. The weighted average interest rates of the short-term bank loans outstanding at March 31, 2002 and September 30, 2001 were 0.82% and 0.74%, respectively.

Long-term debt at March 31, 2002 and September 30, 2001 is summarised as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Loans from banks, insurance companies and others at rates ranging from 0.395% to 5.1% due through 2034:			
With collateral.....	¥199,376	¥208,645	\$1,499,068
Without collateral.....	124,782	112,290	938,211
2.5% unsecured notes in yen due 2003 (subsidiary).....	30,000	30,000	225,564
2.975% unsecured notes in yen due 2005 (subsidiary).....	25,000	25,000	187,970
2.55% unsecured notes in yen due 2003 (subsidiary).....	25,000	25,000	187,970
1.675% unsecured notes in yen due 2002 (subsidiary).....	15,000	15,000	112,782
2.075% unsecured notes in yen due 2004 (subsidiary).....	15,000	15,000	112,782
2.12% unsecured notes in yen due 2004 (subsidiary).....	20,000	20,000	150,376
0.2% unsecured exchangeable bonds in yen due 2006 (subsidiary).....	31,000	31,000	233,083
1.66% unsecured notes in yen due 2005 (subsidiary).....	1,500	1,500	11,278
2.40% unsecured convertible bonds in yen due 2002 (subsidiary).....	—	3,230	—
	486,658	486,666	3,659,083
Less current portion.....	(96,693)	(95,793)	(727,015)
	¥389,964	¥390,873	\$2,932,060

Exchangeable bonds issued by a consolidated subsidiary, unless previously redeemed, are convertible into shares of common stock of the Company as follows:

	Current exchangeable price per share	Exchangeable period (up to and including)
0.2% exchangeable bonds due 2006.....	¥645,000	March 30, 2006

At March 31, 2002, if all the outstanding convertible bonds had been converted, approximately 48 thousand new shares of the Company would have been issuable.

Under the provisions of these issues, the conversion prices are subject to adjustment in certain cases which include stock splits.

Long-term debt maturities subsequent to March 31, 2002 are summarised as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2003.....	¥ 96,693	\$ 727,015
2004.....	127,086	955,534
2005.....	90,097	677,421
2006.....	117,239	881,496
2007 and thereafter.....	55,541	417,602
	¥486,658	\$3,659,083

6. Pledged Assets

Assets pledged as collateral for notes and accounts payable—trade of ¥213 million (\$1,602 thousand), short-term borrowings of ¥7,152 million (\$53,774 thousand), the current portion of long-term debt of ¥44,467 million (\$334,338 thousand), and long-term debt of ¥154,908 million (\$1,164,722 thousand) March 31, 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Notes and accounts receivable—trade.....	¥ 5,073	¥ 1,265	\$ 38,143
Property, plant and equipment, at net book value.....	472,382	535,126	3,551,744
Investments in other securities.....	17,500	14,457	131,579
Other assets.....	8,596	13,186	64,632
	¥503,552	¥564,035	\$3,786,105

7. 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 at March 31, 2002 and September 30, 2001 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Retirement benefit obligation ...	¥(266,077)	¥(248,366)	\$(2,000,579)
Plan assets at fair value.....	137,555	155,525	1,034,248
Unfunded retirement benefit obligation	(128,521)	(92,841)	(966,323)
Unrecognized net retirement benefit obligation at transition	—	2,947	—
Unrecognized actuarial gain or loss	57,875	21,104	435,150
Unrecognized prior service cost.....	(1,753)	(2,255)	(13,180)
Net retirement benefit obligation	(72,399)	(71,044)	(544,353)
Prepaid pension cost	3,332	2,836	25,053
Accrued retirement benefits....	¥ (75,732)	¥ (73,880)	\$ (569,414)

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, 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 recent amendments to the Welfare Pension Insurance Law of Japan made in September 2000. As a result, prior service cost was incurred.

The components of retirement benefit expenses for the period ended March 31, 2002 and September 30, 2001 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Service cost	¥ 4,715	¥4,043	\$35,451
Interest cost	4,428	4,062	33,293
Expected return on plan assets....	(2,474)	(2,306)	(18,602)
Amortization of net retirement benefit obligation at transition....	2,947	2,947	22,158
Amortization actuarial gain or loss.....	736	747	5,534
Amortization prior service cost	(34)	(80)	(256)
Total	¥10,319	¥9,413	\$77,586

In addition to the above, the Company paid the extra retirement benefit of ¥350 million (\$2,632 thousand) in this year.

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

	2002	2001
Discount rate.....	mainly 3.0%	mainly 3.5%
Expected rate of return on plan assets.....	mainly 4.0%	mainly 4.5%

8. Income Taxes

The Company and its domestic consolidated subsidiaries are subject to a number of taxes based on earnings, i.e. corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in a statutory tax rate of approximately 42.1% for 2001. The effective tax rates reflected in the accompanying consolidated statements of operations 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 operations for the period ended September 30, 2001, differs from the statutory tax rate for the following reasons:

	2001
Statutory tax rate.....	42.1%
Effect of:	
Permanent difference—entertainment expenses	10.0
Provision for valuation allowance	24.2
Different tax rates applied to foreign subsidiaries	(6.8)
Other, net	0.4
Effective tax rate	69.9%

For the period ended March 31, 2002, a reconciliation between the statutory tax rate and the effective tax rate has not been presented as a loss before income taxes was recorded.

Significant components of the deferred tax assets and liabilities held by the Company and its consolidated subsidiaries at March 31, 2002 and September 30, 2001, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Deferred tax assets:			
Accrued bonuses.....	¥ 3,122	¥ 3,471	\$ 23,474
Accrued enterprise tax	237	551	1,782
Accrued allowance for doubtful receivables.....	7,260	5,739	54,586
Accrued retirement benefits	32,175	31,318	241,917
Accrued officers' retirement benefits.....	1,047	1,146	7,872
Accrued allowance for losses on guarantees	—	3,619	—
Accrual for losses on investment securities.....	3,896	2,886	29,293
Tax loss carryforwards.....	24,914	25,016	187,323
Unrealized profit eliminated in consolidation	6,086	6,433	45,759
Other	5,283	4,423	39,722
	84,024	84,606	631,759
Valuation allowance	(23,448)	(20,810)	(176,301)
	60,576	63,796	455,459
Deferred tax liabilities:			
Tax reserves.....	(8,077)	(7,766)	(60,729)
Accumulated depreciation.....	(1,354)	(1,512)	(10,180)
Valuation differences on land, etc.	(29,603)	(28,868)	(222,579)
Other	(887)	(867)	(6,669)
	(39,923)	(39,015)	(300,173)
Net deferred tax assets	¥20,652	¥24,781	\$155,278

9. Common Stock

During the periods ended September 30, 2001 and March 31, 2002, the Company issued no shares as there was no conversion of convertible bonds.

At March 31, 2002, the authorized and issued shares of common stock of the Company numbered 3,000,000 and 1,080,670.23, respectively.

10. Leases

Lessees' Accounting

a) The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property at March 31, 2002 and September 30, 2001, which would have been reflected in the balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Acquisition costs:			
Machinery and equipment.....	¥10,326	¥10,431	\$77,639
Accumulated depreciation:			
Machinery and equipment.....	¥ 4,921	¥ 5,063	\$37,000
Net book value:			
Machinery and equipment.....	¥ 5,404	¥ 5,368	\$40,632

The pro forma depreciation portion of the lease payments relating to finance leases accounted for as operating leases for the periods ended March 31, 2002 and September 30, 2001 amounted to ¥1,046 million (\$7,865 thousand) and ¥943 million and were computed by the straight-line method over the respective lease terms of the assets.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2002 for finance lease transactions accounted for as operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	Year ending March 31:	
2003	¥1,650	\$12,406
2004 and thereafter.....	3,754	28,226
Total	¥5,404	\$40,632

b) Future minimum lease payments subsequent to March 31, 2002 for noncancelable operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	Year ending March 31:	
2003	¥111	\$ 835
2004 and thereafter.....	107	805
Total	¥218	\$1,639

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, 2002 and September 30, 2001:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Acquisition costs:			
Machinery and equipment.....	¥123	¥168	\$925
Accumulated depreciation:			
Machinery and equipment.....	¥ 88	¥121	\$662
Net book value:			
Machinery and equipment.....	¥ 34	¥ 47	\$256

Lease income relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥11 million (\$83 thousand) and ¥12 million, for the periods ended March 31, 2002 and September 30, 2001. Depreciation of the assets leased under finance leases accounted for as operating leases amounted to ¥11 million (\$83 thousand) and ¥11 million, for the periods ended March 31, 2002 and September 30, 2001.

Future minimum lease income subsequent to March 31, 2002 for noncancelable operating leases is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	Year ending March 31:	
2003	¥14	\$105
2004 and thereafter.....	20	150
Total	¥35	\$263

b) Future minimum lease income subsequent to March 31, 2002 for noncancelable operating leases is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	Year ending March 31:	
2003	¥ 32	\$ 241
2004 and thereafter.....	101	759
Total	¥134	\$1,008

11. Contingent Liabilities

The consolidated subsidiaries had the following contingent liabilities at March 31, 2002:

	Millions of yen	Thousands of U.S. dollars
	As endorsers of trade notes discounted	
with banks	¥ 1,649	\$ 12,398
As guarantors of indebtedness of unconsolidated subsidiaries, affiliates and other companies	50,211	377,526

The Company has entered into an agreement to sell a consolidated subsidiary in North America under which the Company will compensate the buyer for losses on environmental claims at the maximum amount of U.S.\$50,000 thousand (¥6,597 million) which were incurred during the three-and-one-half-year period after the sale.

12. Securities

(1) a) Marketable securities classified as held-to-maturity debt securities and other securities at March 31, 2002 were as follows:

Marketable held-to-maturity debt securities

	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
March 31, 2002						
Securities whose fair value exceeds their carrying value:						
Government bonds	¥ 106	¥ 106	¥—	\$ 797	\$ 797	\$—
Corporate bonds.....	999	1,011	12	7,511	7,602	90
Subtotal.....	1,105	1,118	12	8,308	8,406	90
Securities whose carrying value exceeds their fair value:						
Corporate bonds.....	100	90	(9)	752	677	(68)
Subtotal.....	100	90	(9)	752	677	(68)
Total	¥1,205	¥1,208	¥ 3	\$9,060	\$9,083	\$23

Marketable other securities

	Millions of yen			Thousands of U.S. dollars		
	Cost	Carrying value	Unrealized gain (loss)	Cost	Carrying value	Unrealized gain (loss)
March 31, 2002						
Securities whose carrying value exceeds their cost:						
Equity securities.....	¥21,036	¥28,586	¥7,550	\$158,165	\$214,932	\$56,767
Debt securities.....	1,956	2,086	129	14,707	15,684	970
Other	1,050	1,063	13	7,895	7,992	98
Subtotal.....	24,042	31,736	7,693	180,767	238,617	57,842
Securities whose cost exceeds their carrying value:						
Equity securities.....	26,028	20,134	(5,893)	195,699	151,383	(44,308)
Other	16	12	(4)	120	90	(30)
Subtotal.....	26,044	20,146	(5,897)	195,820	151,474	(44,338)
Total	¥50,087	¥51,882	¥1,795	\$376,594	\$390,090	\$13,496

b) Sales of securities classified as other securities amounted to ¥973 million (\$7,316 thousand) with an aggregate gain of ¥654 million (\$4,917 thousand) for the period ended March 31, 2002.

c) The redemption schedule for securities with maturity dates classified as other securities and held-to-maturity debt securities at March 31, 2002 is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	Due in one year or less	Due after one year through five years	Due after five years	Due in one year or less	Due after one year through five years	Due after five years
March 31, 2002						
Corporate bonds	¥2,162	¥100	¥ —	\$16,256	\$ 752	\$ —
Other debt securities.....	72	109	1,000	541	820	7,519
Total	¥2,235	¥209	¥1,000	\$16,805	\$1,571	\$7,519

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

	Millions of yen	Thousands of U.S. dollars
	Carrying value	
March 31, 2002		
Held-to-maturity debt securities:		
Unlisted	¥ 1,000	\$ 7,519
Other	56	421
Total.....	¥ 1,056	\$ 7,940
Other securities:		
Unlisted equity securities.....	¥25,543	\$192,053
Other	1,153	8,669
Total	¥26,697	\$200,729

(2) a) Marketable securities classified as held-to-maturity debt securities and other securities at September 30, 2001 were as follows:

Marketable held-to-maturity debt securities

	Millions of yen		
	Carrying value	Estimated fair value	Unrealized gain (loss)
September 30, 2001			
Securities whose fair value exceeds their carrying value:			
Government bonds.....	¥ 120	¥ 120	¥ 0
Corporate bonds	1,066	1,101	34
Subtotal	1,187	1,222	34
Securities whose carrying value exceeds their fair value:			
Corporate bonds	299	201	(98)
Subtotal	299	201	(98)
Total	¥1,487	¥1,423	¥(64)

Marketable other securities

September 30, 2001	Millions of yen		
	Cost	Carrying Value	Unrealized gain (loss)
Securities whose carrying value exceeds their cost:			
Equity securities	¥19,123	¥26,254	¥7,130
Debt securities.....	1,955	2,148	192
Other	4,703	4,731	28
Subtotal	25,782	33,134	7,352
Securities whose cost exceeds their carrying value:			
Equity securities	30,597	23,234	(7,362)
Other	12	7	(4)
Subtotal	30,609	23,241	(7,367)
Total	¥56,391	¥56,376	¥ (15)

b) Sales of securities classified as other securities amounted to ¥949 million with an aggregate gain of ¥412 million for the period ended September 30, 2001.

c) The redemption schedule for securities with maturity dates classified as other securities and held-to-maturity debt securities at September 30, 2001 is summarized as follows:

September 30, 2001	Millions of yen		
	Due in one year or less	Due after one year through five years	Due after five years
Corporate bonds.....	¥ 930	¥ 658	¥—
Other debt securities	1,566	1,109	10
Total	¥2,496	¥1,767	¥10

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

September 30, 2001	Millions of yen Carrying value
Held-to-maturity debt securities:	
Unlisted.....	¥ 1,000
Commercial paper	1,498
Other	57
Total.....	¥ 2,556
Other securities:	
Unlisted equity securities.....	¥24,293
Money management fund.....	3,628
Other	1,379
Total.....	¥29,301

13. 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. Other businesses' results are reported in the "Other" segment.

Business segment information of the Company and its consolidated subsidiaries for the periods ended March 31, 2002 and September 30, 2001 is as follows:

2002	Millions of yen						
	Pulp and paper	Paper-related	Housing and construction materials	Other	Total	Eliminations or corporate	Consolidated
I. Sales and operating income							
Sales to third parties.....	¥ 466,134	¥ 47,219	¥47,876	¥35,007	¥ 596,237	¥ —	¥ 596,237
Intergroup sales and transfers	758	4,083	17,068	7,798	29,708	(29,708)	—
Total sales	466,892	51,303	64,944	42,805	625,946	(29,708)	596,237
Operating expenses	447,929	50,026	64,545	41,279	603,781	(29,708)	574,072
Operating income.....	¥ 18,963	¥ 1,276	¥ 399	¥ 1,526	¥ 22,165	¥ —	¥ 22,165
II. Assets, depreciation and capital expenditures							
Total assets	¥1,250,405	¥100,871	¥94,410	¥90,842	¥1,536,530	¥185,215	¥1,721,745
Depreciation	37,407	2,818	767	3,179	44,172	—	44,172
Capital expenditures	29,264	2,677	554	1,469	33,965	—	33,965

2002	Thousands of U.S. dollars						
	Pulp and paper	Paper-related	Housing and construction materials	Other	Total	Eliminations or corporate	Consolidated
I. Sales and operating income							
Sales to third parties	\$3,504,767	\$355,030	\$359,970	\$263,211	\$ 4,482,985	\$ —	\$ 4,482,985
Intergroup sales and transfers	5,699	30,699	128,331	58,632	223,368	(223,368)	—
Total sales.....	3,510,466	385,737	488,301	321,842	4,706,361	(223,368)	4,482,985
Operating expenses	3,367,887	376,135	485,301	310,368	4,539,707	(223,368)	4,316,331
Operating income	\$ 142,579	\$ 9,594	\$ 3,000	\$ 11,474	\$ 166,654	\$ —	\$ 166,654
II. Assets, depreciation and capital expenditures							
Total assets	\$9,401,541	\$758,429	\$709,850	\$683,023	\$11,552,857	\$1,392,594	\$12,945,451
Depreciation.....	281,256	21,188	5,767	23,902	332,120	—	332,120
Capital expenditures	220,030	20,128	4,165	11,045	255,376	—	255,376

2001	Millions of yen						
	Pulp and paper	Paper-related	Housing and construction materials	Other	Total	Eliminations or corporate	Consolidated
I. Sales and operating income							
Sales to third parties	¥ 479,788	¥ 50,744	¥ 44,612	¥40,039	¥ 615,185	¥ —	¥ 615,185
Intergroup sales and transfers	535	3,663	17,067	8,356	29,622	(29,622)	—
Total sales	480,324	54,408	61,679	48,395	644,807	(29,622)	615,185
Operating expenses	464,416	53,082	61,560	45,490	624,550	(29,622)	594,927
Operating income	¥ 15,907	¥ 1,325	¥ 119	¥ 2,905	¥ 20,257	¥ —	¥ 20,257
II. Assets, depreciation and capital expenditures							
Total assets	¥1,313,125	¥101,184	¥101,651	¥98,103	¥1,614,065	¥164,374	¥1,778,440
Depreciation	36,867	2,348	725	3,031	42,972	—	42,972
Capital expenditures	30,131	1,974	1,335	2,105	35,547	—	35,547

14. Derivatives

The Company and certain subsidiaries have entered into forward 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 certain subsidiaries have entered into interest-rate swap agreements to reduce interest expense or exposure to adverse fluctuations in interest rates relating to loans and

bonds payable. The notional principal amounts of these interest-rate swap agreements at March 31, 2002 totaled ¥8,875 million (\$66,729 thousand), which includes notional principal amounts of ¥6,325 million (\$47,556 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 derivatives positions at March 31, 2002 and September 30, 2001:

	Millions of yen				Thousands of U.S. dollars	
	2002		2001		2002	
	Contract amount	Estimated fair value	Contract amount	Estimated fair value	Contract amount	Estimated fair value
Interest-rate swaps:						
Receive-variable; pay-fixed	¥2,275	¥ (34)	¥2,275	¥ (49)	\$17,105	\$ (256)
Receive-fixed; pay-variable	5,000	252	5,000	274	37,594	1,895
Receive-variable; pay-variable	1,600	(5)	1,600	(11)	12,030	(38)
Interest-rate caps:						
To buy	¥8,000	¥ 3	¥8,000	¥ 8	\$60,150	\$ 23

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

Coupon and interest-rate swaps:

Estimated fair value as provided by the related financial institutions

15. Research and Development Costs

Included in cost of sales and selling, general and administrative expenses were ¥3,708 million (\$27,880 thousand) and ¥3,462 million of research and development costs for the periods ended March 31, 2002 and September 30, 2001, respectively.

16. Subsequent Events

a. The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the period ended March 31, 2002, were approved at a shareholders' meeting held on June 25, 2002:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥4,000.00 = \$30.075 per share)	¥4,322	\$32,496
Bonuses to directors	44	331
	¥4,366	\$32,827

b. Restructuring of paper and paperboard businesses

The Company restructured its paper business and paperboard business on April 23, 2002 in order to strengthen the management basis of Nippon Unipac Holding and to become an excellent company worldwide. The restructuring is summarized as follows:

(1) Restructuring of paper business

Effective April 1, 2003, Nippon Paper Industries Co., Ltd.

("Nippon") and Daishowa Paper Manufacturing Co., Ltd.

("Daishowa") and Nippon Paper Sales Co., Ltd. will be combined to form a new company, Nippon Paper Industries Co., Ltd.

(2) Restructuring of paperboard business

Japan Paperboard Industries Co., Ltd. will become a wholly-owned subsidiary of the Company by an exchange of shares of common stock scheduled for October 1, 2002.

This exchange is outlined as follows:

① Method

Japan Paperboard Industries Co., Ltd. will become a wholly-owned subsidiary of the Company by a simple exchange of shares of common stock as stipulated in Article 358 of the Commercial Code of Japan.

② Date

October 1, 2002

- ③ Ratio
 - The Company will issue new shares in the ratio of 0.00028 shares for 1 share of common stock of Japan Paperboard Industries.
- ④ Number of shares to be issued
 - 24,565.40 shares of common stock
- ⑤ Increase in capital and capital surplus
 - (i) Additional capital
 - No capital increase will result from this exchange of shares.
 - (ii) Additional capital surplus
 - Capital surplus will increase by the amount of the net assets of Japan Paperboard Industries multiplied the ratio of the number of shares transferred to the Company to the total number of outstanding shares of Japan Paperboard Industries as of October 1, 2002.
- c. Sale of the land of Kameari Mill
 - Japan Paperboard Industries, a consolidated subsidiary, at a meeting of the Board of Directors held on May 14, 2002, decided to close its Kameari Mill on March 31, 2003 and sell the land.
 - ① Details of assets to be sold
 - Kameari 3-chome, Katsushika-ku, Tokyo and other land (74,503.33 m²)
 - ② Selling price
 - ¥16,711 million
 - ③ Profit on sale
 - Approximately ¥8,700 million (This will be presented as “extraordinary gain” at March 31, 2003)
- d. Bankruptcy of NIPPON KAKOH SEISHI CO., LTD. and Nippon's guarantee
 - NIPPON KAKOH SEISHI CO., LTD. was declared bankrupt by the Tokyo District Court on May 29, 2002. Nippon, a consolidated subsidiary, held a guarantee amounting to ¥4,000 million on behalf of NIPPON KAKOH SEISHI CO., LTD. which it fulfilled on June 5, 2002. At this moment it is uncertain how much Nippon will recover by exercising the rights granted by way of securities.
- e. Bankruptcy of Daishowa Transportation Co., Ltd. and Daishowa's guarantee
 - Daishowa Transportation Co., Ltd., an affiliated company of Daishowa which is a consolidated subsidiary of the Company, was declared bankrupt by the Shizuoka District Court on June 21, 2002. Daishowa had guaranteed approximately ¥5,500 million on behalf of Daishowa Transportation Co., Ltd. It is uncertain how much Daishowa will recover by exercising the rights granted by way of securities in fulfilling its obligations under this guarantee.

Report of Independent Certified Public Accountants

The Board of Directors
Nippon Unipac Holding

We have audited the consolidated balance sheets of Nippon Unipac Holding and consolidated subsidiaries as of March 31, 2002 and September 30, 2001, and the related consolidated statements of operations and retained earnings, and cash flows for the period from October 1, 2001 to March 31, 2002 and the period from March 30, 2001 (the date of inception) to September 30, 2001, 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 Unipac Holding and consolidated subsidiaries at March 31, 2002 and September 30, 2001, and the consolidated results of their operations and their cash flows for the period from October 1, 2001 to March 31, 2002 and the period from March 30, 2001 (the date of inception) to September 30, 2001 in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the period ended March 31, 2002 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Akin Nixon & Co.

June 25, 2002

See Note 2 which explains the basis of preparation of the consolidated financial statements of Nippon Unipac Holding and consolidated subsidiaries under Japanese accounting principles and practices.

Business Scope



What progress has been made in raw material technologies, and what are the prospects of putting these technologies to practical use?

Nippon Paper Industries Co., Ltd., a member of the Nippon Unipac Holding Group, is engaged in a series of R&D projects to ensure a stable supply system of high-quality raw materials. The project areas include genetic engineering[†], which aims at the development of trees genetically suited for paper production, cloning technologies[†] to facilitate the mass production of trees on a commercial basis, and afforestation technologies for use at overseas sites.

Nippon Paper Industries is a leader in tree-related biotechnology. Last year, it made a particularly significant biotechnological breakthrough that was the first of its kind in the world. *Eucalyptus globulus* is known as a tree offering promise as a potential material for use in paper production, due to the superior quality of its pulp fibers and high pulp yield. It was viewed, however, as an extremely difficult tree to work with from the genetic engineering standpoint. The company overcame this difficulty by developing an improved version of the MAT Vector[®] System[†], a marker-free gene transfer technology it had previously developed. This new technology succeeded in dramatically raising the gene transfer efficiency rate in *Eucalyptus globulus*. This technology also found other applications, one of which led to a project to develop a tree with superior salt-tolerant properties. This eventually resulted in the successful introduction of salt-tolerant genes to *Eucalyptus camaldulensis*.



Salt-tolerant Eucalyptus



Cloned sapling field

Progress is also being made in the area of cloning technologies that will promote the mass production of quality pulpwood on a commercial basis. Trees are cloned from naturally grown elite trees[†]. In 2001, 30,000 such cloned seedlings were planted at a 30ha site in Australia, and they are growing well. In 2002, 120,000 saplings were cloned. In a parallel move, efforts are being made to improve operational efficiency through increased mechanization in an attempt to reduce production costs incurred in conjunction with the propagation of trees and development of seedlings.

With regard to forestation, Nippon Paper Industries has launched the “Tree Farm Concept,” an overseas tree-planting project calling for the afforestation of 100,000ha of land by the end of 2008. In line with this basic plan, the company has purchased an equity

position in WA Plantation Resources (WAPRES), the largest Eucalyptus grower in Western Australia. WAPRES is engaged in an entire spectrum of forestry-related businesses, ranging from Eucalyptus afforestation to chip exports. This investment has moved Nippon Paper Industries a great deal closer to achieving its afforestation target, and it now expects to plant approximately 110,000ha of trees by 2008, easily meeting the goal set forth in the “Tree Farm Concept.”

The Nippon Unipac Holding Group decided to concentrate investment in manufacturing facilities for de-inked pulp (DIP) on three grounds: the world’s most advanced waste paper utilization technologies are available for application; there is an increasing need for recycled paper from customers; and the geographical advantages of its mills can be maximized. As a result of the decision, the Group’s production of recycled paper is expanding.

Waste paper may trace its origin back to us, as we are the source of the paper products that are used and eventually

discarded by consumers when they no longer need them. However, waste paper has an advantage over many types of waste in that it can be recycled as a cost-competitive raw material for papermaking. The collection rate of waste paper is extremely high in Japan, and this is crucial if we wish to produce recycled paper to build a sustainable business base to benefit society and ourselves.

The major sources of waste paper are large urban areas, which are noted for their mass consumption of paper. The metropolitan Tokyo area, in particular, produces the largest volume of waste paper in Japan. The three Honsha Mill Divisions of Daishowa Paper Manufacturing are all located in close proximity to Tokyo, and are well positioned to acquire inexpensive and stable supplies of waste paper in bulk quantities and are thus capable of producing cost-competitive recycled paper. As a Group, we expect to enjoy even further cost advantages by concentrating facilities for DIP manufacturing in this geographical area and by replacing expensive purchased pulp with DIP. Facilities with an annual production capacity of about 70,000t were completed at the Honsha Mill Fuji Division in August 2000. Next in line is the



DIP facility completed at the Honsha Mill Fuji Division in August 2000

Honsha Mill Yoshinaga Division, with an annual production capacity of about 70,000t scheduled to be completed by October 2002. The facilities at Yoshinaga and Fuji will manufacture super de-inked pulp (SDIP), a high-grade DIP offering high quality and superior brightness. Because its brightness exceeds the 75% level, SDIP will find wider applications in the manufacturing of printing paper and business communication paper than other DIP varieties with lower brightness ratings, which are considered less suitable for the production of such paper.

We have also developed outstanding production technologies in the area of DIP manufacturing. Inexpensive old magazine paper (OMG) has rarely been used as a raw material in the manufacture of recycled paper, because of the large quantities of foreign substances such as adhesives in magazines' spines in the pulp. At Nippon Paper Industries, a sophisticated technology for recycling OMG for use as pulp was developed, and new facilities capable of manufacturing pulp out of 100% OMG were built at the Yufutsu Mill with an annual output capacity of about 39,000t. Moreover, the annual manufacturing capacity of DIP at the Yatsushiro Mill and at the Iwanuma and Shiraoi Mills of Daishowa Paper Manufacturing, all of which manufacture newsprint, has been boosted further by a total of over 100,000t. This allows a higher DIP ratio in newsprint, thus contributing to further cost reductions.

Filler[†] such as white carbon[†] and calcium carbonate[†] is a crucial secondary ingredient that has a direct impact on the quality of the paper produced. Efforts are also being made in this area to achieve cost reductions and to develop relevant technologies.

At Daishowa Paper Manufacturing's Iwanuma Mill, facilities capable of making improved **white carbon** with a monthly production capacity of 750t were put into full production in May 2002. The use of white carbon as paper filling has the effect of improving

the opacity rating of the paper and enhancing its ink absorbing capability. The new production facilities, developed by Nippon Paper Industries, are capable of producing particles that are finer and more porous than those produced using conventional manufacturing techniques, and the advantages conferred by these new facilities have increased markedly. The use of this filler has gained popularity in recent years thanks to the increasing demand from users for lighter newsprint and paper with higher DIP ratios.

Neutralized paper is noted for its long shelf life, as well as for higher whiteness and opacity ratings. Therefore, an industry-wide shift is being made from acidic paper to neutralized paper. In response to the accelerated shift toward the use of neutralized paper and in an effort to slash manufacturing costs, we decided to begin manufacturing **calcium carbonate**, which is used as a filling in neutralized paper. In August 2001, calcium carbonate production facilities with a monthly production capacity of 2,500t went into operation at the Yatsushiro Mill, and this has prompted the mill to shift its entire production to neutralized paper. In addition, calcium carbonate manufacturing facilities with a monthly production capacity of 5,000t will begin operation at the Honsha Mill Fuji Division in September 2002, and will also supply calcium carbonate to the Honsha Mill Yoshinaga and Suzukawa Divisions on an ongoing basis.



What specific environmental measures and initiatives have been implemented by Nippon Unipac Holding as a Group?

Environmental symbiosis is a management philosophy shared by the entire Nippon Unipac Holding Group. We always make a conscious effort to take into account environmental symbiosis on a global scale when managerial decisions are made.

In March 2001, Nippon Unipac Holding unveiled its Environmental Charter at the same time that it announced its own establishment as a company. The Charter describes the

philosophy and principles that underlie all of the Group’s environmental initiatives. Each Group company actively pursues its corporate activities in line with the Charter’s philosophy and principles and promotes environmental conservation and efficient, sustainable management that minimizes the burden placed on the environment.

Nippon Paper Industries and Daishowa Paper Manufacturing have decided that between them they will invest ¥30 billion by



Nippon Unipac Holding’s Charter on the Environment

Established March 30, 2001

Basic Philosophy

Nippon Unipac Holding and its Group companies regard coexistence with the natural environment as the basis for their sustainable corporate activities.

Based on this recognition, the Group will strive to achieve a recycling-oriented society and to protect the natural environment on a global scale over the long term.

Basic Policy

Forest Resource Protection

The Group shall promote tree-farming operations for securing sustainable resources and utilize wood resources efficiently.

Efficient Use of Resources

The Group shall promote energy savings, the utilization of recycled paper, and the recycling of containers and packaging.

Reduction of Environmental Impact

The Group shall enhance the management of substances that may affect the environment and promote the reduction of the usage of such substances as well as the enhancement of waste reduction.

Consistency of Technological Development and Environmental Protection

The Group shall engage in the R&D of new products and manufacturing technologies that are consistent with environmental protection.

Advanced Disclosure of Environmental Information

The Group shall actively disclose environmental information and promote internal and external communications.

Action Guidelines

Each Group company shall establish its own specific action guidelines that are in compliance with the basic philosophy and policy.

the end of fiscal 2006 in environmentally related projects. This will allow them to shift the kraft pulp (KP)[†] manufacturing facilities in all of their mills to the elementary chlorine-free (ECF)[†] bleaching method, and will also help to increase their utilization of under-exploited energy resources through, for example, new construction of boilers for waste power generation[†] that use paper sludge[†], refuse paper and plastic fuel (RPF)[†], lumber and other building rubble and miscellaneous waste as fuel.

At the Honsha Mill Yoshinaga Division, a boiler for waste power generation with a generation capacity of 10,000kWh will be completed in November 2002. The boiler, which requires no heavy oil or other fossil fuels, will contribute to the overall reduction of heavy oil consumption by 6,800kl per year. It will also reduce the amount of electric power that needs to be purchased from outside sources by 44,000MWh per year. In addition, the Honsha Mill Yoshinaga Division modernization project has been recognized by the Minister of the Ministry of Economy, Trade and Industry (METI) as a Project Encouraging the Use of New Energy Resources[†], thus qualifying for state assistance.

Nippon Paper Industries and Daishowa Paper Manufacturing have published their respective *Environmental Report 2001*. A great deal of detailed information is disclosed in these environmental reports, reflecting a policy of proactive disclosure of environmentally related information. The reports include information about the storage and use of devices containing polychlorinated biphenyl (PCB), as well as about new measures such as material balance and the level of emissions of chemical substances subject to Pollutant Release and Transfer Register (PRTR)[†].

All mills belonging to the principal Group companies have obtained ISO 14001[†] certification.

All mills belonging to Nippon Paper Industries obtained ISO 14001 certification before fiscal 2000, while its Research & Development Division became ISO certified in fiscal 2002. At Daishowa Paper Manufacturing, all mills obtained ISO certification by fiscal 2002. Furthermore, every mill belonging to Japan Paperboard Industries Co., Ltd., a consolidated subsidiary of Nippon Paper Industries, obtained ISO certification by fiscal 2001.

Both Nippon Paper Industries and Daishowa Paper Manufacturing have made an all-out effort to minimize waste and to maximize recycling. As a result, both companies successfully met their waste reduction targets by reducing the volume of waste generated—which is defined as the final volume disposed of as waste—to a level at or below 0.1% of their respective product outputs for fiscal 2001 and 2002. The two companies are now working toward a new goal of reducing the final volume of waste to be disposed of to a level lower than 0.01% of their outputs, or virtually to the zero level. At the same time, attempts are being made to reduce the waste of raw materials and energy at mill manufacturing sites, which enables further cost reduction.

In the area of sales activities, particular emphasis is placed on initiatives that are likely to gain the support of customers. These include the development of new, environmentally conscious products and the establishment of “environmental labeling.”

Nippon Paper Industries and Daishowa Paper Manufacturing, as part of their commitment to the creation of environmentally conscious products, participate in the “Telephone Directory

Closed-Loop Recycle” scheme, a recycling-system in which new telephone directories are recreated out of old ones.

Nippon Paper Sales Co., Ltd., a Group company specializing in paper sales, came up with an “environmental labeling” system for the paper products it sells. The labels, which will display seven environmental characteristics including the ratio of waste paper

(in products) and the utilization rate of trees grown in reforestation projects, will appear in its product catalogues and sample books as they become ready. Through the use of these labels, the company hopes to communicate the environmental characteristics of each product in an easy-to-understand format. It also hopes to take advantage of this type of environmental communication to accelerate its marketing activities.

Environmental Labels

 <p>古紙</p>	<p>Waste Paper Content</p> <p>The label indicates waste paper content ratios of 30% or more. The number shown is the waste paper ratio.</p>
 <p>植林・認証森林</p>	<p>Afforestation Projects and Certified Forests</p> <p>The label is for the products whose utilization ratios of trees grown in afforestation projects and certified forests exceed 30% of the total materials used.</p>
 <p>無塩素漂白利用</p>	<p>Use of the Chlorine-Free Bleaching Method</p> <p>This label is for the products whose utilization rates of kraft pulp bleached by a chlorine-free method such as ECF are 50% or more of the entire kraft pulp.</p>
 <p>バイオエネルギー利用</p>	<p>Use of Bio-Energy</p> <p>The label is for the products manufactured by the mills that derive 35% or more of their energy requirements for their production from bio-energy.</p>
 <p>廃棄物エネルギー利用</p>	<p>Utilization of Waste as an Energy Source</p> <p>The label is awarded to the products manufactured by the mills that derive 10% or more of their energy requirements for production from energy generated by waste materials.</p>
 <p>環境ISO取得工場</p>	<p>Mills with ISO Certification for Environmental Management</p> <p>The label is for the products made by the mills with ISO 14001 certification.</p>
 <p>ゴミゼロ工場</p>	<p>Zero-Waste Mills</p> <p>The label is for the products made by the mills that produce waste (the final volume to be disposed of), whose volume is equivalent to only 0.1% or less of their respective production output.</p>



What are some examples of technologies and products the Company has developed during the last year? And what products and/or unique technologies have been given a special boost?

The Group's technological standards are among the highest in the world. This is especially true in a number of product areas noted for their high growth potential, such as photo-quality glossy ink-jet paper, and low-density paper[†], which has become extremely popular in recent years for being soft and supple despite its extra thickness.

In the area of business communication paper, demand for ink-jet paper is rising sharply in line with the remarkable progress made in the popularization of printer technologies in recent years. A wide range of ink-jet paper geared to different purposes is now available. Coated ink-jet paper can be classified as glossy, matt coated, or non-coated type. The glossy paper produced by Nippon Paper Industries is among the best in the world, with a resolution rivaling that of photo-printing paper. It is designed for use with high-end color printers. In response to rising demand

for glossy ink-jet paper, a ¥3 billion top-of-the-line cast coating machine with an annual production capacity of 5,000t was installed at the Iwakuni Mill and is scheduled to commence operation in July 2002.

In the area of printing paper, the unique bulking technology of Nippon Paper Industries has won an excellent reputation among customers in publishing and other businesses. Group-wide sales of new low-density paper products, which fulfill the need for a "lighter paper with proper bulk," jumped from about 3,000t in fiscal 1999 to over 60,000t in fiscal 2002. Further, the company has developed a super low-density, lightweight coated paper named Pegasus Hyper Eight, which weighs only 0.60g/cm³. This extremely low-density paper is noted for being "supple despite its bulk," qualities which in the past would have been considered mutually exclusive. One of its distinguishing characteristics is that, when bound into a book, it allows the reader to turn the pages with remarkable ease. It is being sold primarily for use in magazines, books, and study guides.

In the category of paperboard, Japan Paperboard Industries has introduced SIKRA PAK[®], an ultra waterproof paperboard that it has developed. When immersed in water for 24 hours, this paperboard gains only 5% to 6% of its original weight while retaining its strength and water resistance. The product generates no toxic substances when incinerated and can be recycled as waste paper. Its superb water resistance makes it an ideal substitute for the wooden crates and plastic and polystyrene boxes that are in common use as containers for fish and processed marine products, vegetables and fruits, and frozen foods. It has also found further applications in bulletin boards



Cast coater at the Iwakuni Mill



SIKRA PAK®

where the posters of candidates running for public office are displayed as well as in construction materials.

Printing paper for on-demand publishing is another product with high growth potential, thanks to the increasing popularity of on-demand printing. This technology requires no plate or ink and uses letters and images stored digitally in computers to generate printed output. This technique is well suited to diversified and small-lot printing needs. Nippon Paper Industries has developed NPi-ODP, a printing paper specifically designed for on-demand publishing. This product boasts a high opacity rating along with high resolution, and its characteristic heat-resistance makes it an ideal paper for high-speed printing. It has also overcome the problems previously associated with electrostatically induced multiple feeds. This paper has been recommended by International Business Machines Corp. (IBM) for use in its machines, and the high reputation it enjoys among major users is a testimony to its superb product quality. It remains unmatched by the competition.

The Group's technological strengths are also evident in the area of specialty printing needs, where a synthetic paper has been developed that can use general-purpose ink in place of specially dedicated ink.

In the field of synthetic paper products, Nippon Paper Industries has developed a new product for its Oper® brand line, named THE POSTER (GLOSS), high-glossy synthetic paper for poster use, which requires no special ink when printing. Until now, only a very limited number of printing companies across the nation could handle printing on synthetic paper, as synthetic paper ordinarily requires special ink for printing. With this new synthetic paper product, however, many printing companies can now produce high-gloss posters using ordinary ink, just as they would with conventional coated paper. As an added advantage, the new product also dries faster, reducing the amount of time needed for printing from two days to just one.

In the area of business communication paper, Nippon Paper Industries has developed a product named IR Thermal to be used specifically in a new type of laser-sensitive thermal paper for dry plotter developed by Matsushita Graphic Printing, Inc. This optically recordable thermal paper for laser printing is coated with a heat-sensitive material that reacts to the heat generated by infrared laser beams. It allows the recording of minute details that are difficult to reproduce with conventional thermal paper products. It achieves a resolution of 2,400dpi (dots per inch), which is four times more than conventional products, and rivals that of photo-printing paper.

In the area of specialty paper, Japan Paperboard Industries manufactures products including air filtration paper for vacuum cleaners, tea bag filter paper, and the source paper for adhesive tapes, among others. One product has even found its way into the Nishijin style of weaving, a traditional industry based in Kyoto, where specialty paper produced by the Company is used in the gold and silver threads woven into Nishijin textiles.

In the diversified business area, the Group's unique technologies are always a step ahead of the competition.

In the area of chemical products, marketing activities have already begun for AUROREN®, a chlorine-free polyolefin adhesion promoter for use with plastic and other hard-to-coat materials. Conventional non-chlorinated polyolefins rarely achieve satisfactory performance levels, and therefore the ordinary practice has been to use chlorinated polyolefins for polypropylene. The newly developed AUROREN®, however, although based on non-chlorinated polyolefin ingredients, boasts a performance far superior to that of conventional non-chlorine products. It adheres well to polypropylene and polyethylene, among others, while it also works well with aluminum and polyester. Moreover, it can be used as an ingredient in primer coating for polypropylene casts, additives for ink, and adhesives for polypropylene. An additional benefit is that the threat of dioxins[†] generated by incineration has now been eliminated.

In the area of liquid packaging, Nippon Paper Industries and ROKKO BUTTER CO., LTD., the maker of Q•B•B CHEESE, have jointly developed a brand-new type of specially designed container using the Unifill system[†]. The packaging material that Nippon Paper Industries uses for this newly developed cheese container is a "stretchable (molded) paper," which can be freely molded into any shape and design. Compared to films and

aluminum materials, this eco-friendly packaging material is noted for ease of disposal and recycling. Armed with this array of outstanding packaging technologies, the Company is now expanding its sales efforts to include non-food applications.

The Group is involved not only in the development of products and secondary materials but also in the development of automatic roll-cleaning robots used in the coating process.

During the coating and processing stage, paper has to travel through a number of rolls. During this process, some of the coating chemicals and other substances adhere to the surface of the rolls. When this buildup forms a layer of a few millimeters in thickness, the machine must be turned off and workers need to clean the rolls by hand. In addition to being very labor-intensive, this task exposes the workers to the risk of being caught in the rolls. In an attempt to mechanize this complicated task, the Iwakuni Mill, in joint collaboration with MAROL CO., LTD. of Kobe, designed an automatic cleaning robot, the "Automatic Sanding and Cleaning Machine," capable of removing this buildup from the rolls of the coating machines. These robots have been installed at several mills and their performance is proving highly satisfactory. The robots scrape off the buildup, even while the machine is running. Moreover, they do so very evenly and without causing any damage to the rolls, thus contributing to significantly improved manufacturing efficiency.



As one of the leading corporate groups of Japan, in what ways does Nippon Unipac Holding Group contribute to society as a whole?

We are involved in a number of public service activities such as the Daishowa MUSEUM CONCERT.

The Daishowa MUSEUM CONCERT, initiated in 1991, is a public service activity sponsored by the *Shizuoka Shimbun* newspaper and Shizuoka Broadcasting System and supported by Daishowa Paper Manufacturing. This concert is part of our

effort to contribute to the cultural advancement of the regional community through the use of music. Four concerts are held each year, with one scheduled for each season. The program, which will celebrate its 12th year in 2002, attracts applications from a wide spectrum of people representing diverse age groups.



The second Daishowa MUSEUM CONCERT of 2002 (photo courtesy of the Shizuoka Shimbun)

Japan Paperboard Industries initiated a social service project in 1998 when it began producing original calendars filled with artwork created by physically challenged persons registered at the Disabled People's ART-BANK (currently known as Artbility).

Tours and other activities are organized by the mills to familiarize the public with papermaking activities and to help them gain a better understanding of the Nippon Unipac Holding Group.

Nippon Paper Industries' 11 domestic mills welcome visitors interested in taking an on-site tour. The company strives to make itself more accessible to the public and tries to contribute to the local community by providing social studies activities for schoolchildren and educational opportunities for the public.

At the Ishinomaki Mill, an exhibit room named the *Public Square of Paper* was created for the general public in July 2001. The square offers grade school students opportunities to "see, touch and make (paper)" and to learn the importance of recycling through their exposure to the concept of environmentally conscious papermaking efforts. Similarly, the Asahikawa Mill constructed a facility named Recycle Plaza Shiyukan next to its mill. In fiscal 2002, the number of visitors to Shiyukan reached 8,753, and about 20,000 visitors have come to the plaza in the two and a half years since it opened its doors to the public.

Each mill is redoubling its efforts to contribute to the local community.

In November 2001, the Shiraoi Mill of Daishowa Paper Manufacturing was approached by the HOKKAIDO GOVERNMENT, which requested that the mill agree to incinerate meat-and-bone meal that was the suspected source of Bovine Spongi-form Encephalopathy (BSE), commonly known as mad cow disease. The mill is presently working in close cooperation with the HOKKAIDO GOVERNMENT and Shiraoi Town to incinerate the said meat-and-bone meal.

The mills belonging to Nippon Paper Industries, Daishowa Paper Manufacturing and Japan Paperboard Industries conduct a variety of clean-up and beautification projects. We all work closely with our local communities, and we will continue to strive to build better neighborhoods and improve our local environment.



Seaside cleanup project at the Komatsushima Mill

Organization Chart (As of March 31, 2002)

Pulp and Paper Division

Manufacturing Companies

- Nippon Paper Industries Co., Ltd.
- Daishowa Paper Manufacturing Co., Ltd.
- Tohoku Paper Co., Ltd.
- Japan Paperboard Industries Co., Ltd.
- CRECIA Corporation
- OTAKE. PAPER MFG. CO., LTD.
- Fuji Coated Paper Co., Ltd.
- Daishowa North America Corporation
- Daishowa America Co., Ltd.
- Daishowa Canada Co., Ltd.
- North Pacific Paper Corporation*
- Daishowa-Marubeni International Ltd.*

And 5 other companies

Sales Companies

- Nippon Paper Sales Co., Ltd.
- Nippon Paperboard Sales Ltd.
- SAN-MIC CHIYODA CORPORATION

And 3 other companies

Paper-Related Division

Paper Cartons

- Nippon Paper Industries Co., Ltd.
- JUJO CENTRAL CO., LTD.
- Dixie Japan Co., Ltd.*

And 2 other companies

Adhesive-Related Materials

- LINTEC Corporation*

And 1 other company

Chemical Products

- Nippon Paper Industries Co., Ltd.
- SAN-MIC CHIYODA CORPORATION

And 1 other company

Housing and Construction Materials Division

Wood Materials

- Nippon Paper Industries Co., Ltd.
- Daishowa Kohrin Co., Ltd.

And 3 other companies

Construction Materials

- Daishowa Paper Manufacturing Co., Ltd.
- PAL CO., LTD.
- SAN-MIC CHIYODA CORPORATION
- N&E CO., LTD.

And 2 other companies

Construction

- NP Development Co., Ltd.

And 4 other companies

Other Division

Logistics

- NIPPON PAPER LOGISTICS CO., LTD.
- Daishowa Transportation Co., Ltd.*

And 7 other companies

Soft Drinks and Other Beverages

- SHIKOKU COCA-COLA BOTTLING CO., LTD.

Leisure, etc.

- NP Development Co., Ltd.

And 5 other companies

Only consolidated subsidiaries and affiliated companies to which the equity method applies are indicated.

* Indicates an affiliated company to which the equity method applies.

Consolidated Subsidiaries and Affiliates Accounted for by the Equity Method

(As of March 31, 2002)

Company Name	Capital or Investment (Millions of Yen, Except Where Noted)	Equity Ownership Percentage (%)
■Consolidated Subsidiaries		
Nippon Paper Industries Co., Ltd.	104,873	100.00
Daishowa Paper Manufacturing Co., Ltd.	31,784	100.00
Nippon Paper Sales Co., Ltd.	310	(100.00)
Nippon Paperboard Sales Ltd.	310	(100.00)
Japan Paperboard Industries Co., Ltd.	10,863	(48.01)
SAN-MIC CHIYODA CORPORATION	3,948	(52.02)
CRECIA Corporation	4,667	(92.89)
Tohoku Paper Co., Ltd.	20,000	(100.00)
KOYO PAPER MFG. CO., LTD.	400	(99.77)
Jujo Shoji Co., Ltd.	50	(100.00)
Kokuei Paper Co., Ltd.	100	(92.50)
OTAKE. PAPER MFG. CO., LTD.	2,100	(80.00)
Kitakami Paper Co., Ltd.	300	(49.92)
Sakurai Co., Ltd.	120	(53.17)
JUJO CENTRAL CO., LTD.	1,000	(100.00)
Nippon Seitai Corporation	424	(94.81)
SANFLO PARIC Co., Ltd.	172	(66.00)
NP Development Co., Ltd.	710	(100.00)
JUJO LUMBER CO., LTD.	440	(100.00)
SHINYO CO., LTD.	123	(100.00)
NIPPON PAPER UNITEC CO., LTD.	40	(100.00)
Kokusaku Kiko Co., Ltd.	60	(100.00)
Kunimoku House Co., Ltd.	20	(100.00)
PAL CO., LTD.	4,000	(100.00)
N&E CO., LTD.	3,000	(70.00)
NANKO UNYU CO., LTD.	160	(88.75)
IWAKUNI-KAIUN CO., LTD.	69	(100.00)
Kyokushin Transport Co., Ltd.	20	(65.50)
SHIKOKU COCA-COLA BOTTLING CO., LTD.	5,576	(54.94)
NIPPON PAPER LOGISTICS CO., LTD.	70	(100.00)
Hotoku Unyu Co., Ltd.	15	(66.67)
Sanwa Insatsu Co., Ltd.	50	(100.00)
Graphic Arts Communication	480	(100.00)
NEW HOKKAI HOTEL CO., LTD.	247	(97.36)
Fuji Coated Paper Co., Ltd.	490	(100.00)
Daishowa C.P.F. Co., Ltd.	50	(100.00)
Daishowa C.P.S. Co., Ltd.	30	(100.00)
Daishowa C.P.I. Co., Ltd.	20	(100.00)
Daishowa International	7,150	(54.55)
Daishowa North America Corporation	234,000 (thousands of Canadian dollars)	(100.00)
Daishowa Canada Co., Ltd.	144,801 (thousands of Canadian dollars)	(100.00)
Daishowa America Co., Ltd.	53 (thousands of U.S. dollars)	(100.00)
Daishowa Kohrin Co., Ltd.	476	(100.00)
Daishowa Housing Co., Ltd.	490	(94.90)
Harris-Daishowa (Australia) Pty. Ltd.	7,500 (thousands of Australian dollars)	(62.50)
Japan Health Service Co., Ltd.	450	(99.17)
Daishowa Port Warehousing Co., Ltd.	499	(87.22)
Ogawa Futo Souko Co., Ltd.	50	(100.00)
Daishowa Unitec Co., Ltd.	30	(100.00)
Daisho Paper Transportation Co., Ltd.	10	(100.00)
■Affiliates Accounted for by the Equity Method		
North Pacific Paper Corporation	332,268 (thousands of U.S. dollars)	(50.00)
LINTEC Corporation	19,699	(29.27)
Daishowa-Marubeni International Ltd.	262,000 (thousands of Canadian dollars)	(50.00)
Daishowa Paper Converting Co., Ltd.	235	(44.68)
Dixie Japan Co., Ltd.	1,059	(44.44)
Greenport Co., Ltd.	50	(20.00)
Daishowa Transportation Co., Ltd.	40	(25.00)
Mochizuki Nenryoh Co., Ltd.	44	(20.00)

Numbers in parentheses that appear in the column for the rate of ownership of voting rights represent the rate of indirect ownership of voting rights, which is not included in the computation of the rate of ownership of voting rights.

Network

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Volterra S.A.

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FRR Fax Roll

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Shouguang Liben Paper Making Co., Ltd.

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Phone: +86-536-523-6112

Shanghai JP Co., Ltd.

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Shanghai, China
Phone: +86-21-6408-9900

WA Plantation Resources Pty. Ltd.

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Honsha Mill Yoshinaga Div.

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Honsha Mill Fuji Div.

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Ashikaga Mill

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Kochi Mill

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Glossary

Boiler for Waste Power Generation

A boiler whose reliance on industrial waste for fuel to generate power is 60% or more. The types of industrial waste that may be used as fuel for such boilers include paper sludge, waste plastic, and other solid fuels.

Calcium Carbonate

When used as filler for paper, calcium carbonate can improve the smoothness of the paper surface and suitability for printing (i.e., receptivity to ink), enhance whiteness and opacity, and boost paper quality.

Chlorinated Polyolefin

This is a chlorinated version of polyolefin, a polymer substance. It adheres well to polypropylene and other materials and can be used as an ingredient in paints.

Cloning Technology

In cloning technology, an elite tree noted for its superior characteristics is selected and multiplied by asexual means into a number of trees whose shape and features are identical to those of the elite tree. Nippon Paper Industries has developed methods for the mass cloning of samplings that take advantage of technological developments such as a mass-multiplication technology based on tissue cultures, a photo-autotrophic culture system (a method designed to promote rooting and growth of plants *in vitro* by using carbon dioxide instead of sugar to boost the photosynthetic action of plants), as well as cold storage technology. The above cloning technology's rate of adaptability is several times higher than that of the cutting technique.

De-Inked Pulp (DIP)

DIP is a type of recycled pulp that is manufactured by defibering, de-inking, and bleaching fibers from waste paper such as newspapers and magazines.

Dioxin

Dioxin is a general term for polychlorinated dibenzo-p-dioxin and polychlorinated dibenzofuran. Noted for its high toxicity, dioxin is an undesirable by-product of waste incineration and forest fires.

Elementary Chlorine-Free (ECF)

ECF is a method of bleaching whereby kraft pulp (KP) is bleached without the use of gaseous chlorine, a potential cause of dioxin.

Elite Tree

Nippon Paper Industries selects elite trees from among millions of *Eucalyptus globulus* trees on the basis of morphological and quality characteristics including growth potential, density, and suitability for use as raw material in pulp production.

Filler

Filler is a clay mineral that is blended into paper. The addition of filler improves the optical and physical properties of a paper, which in turn increase the paper's suitability for printing as measured by opacity rating, smoothness, and receptivity to ink.

FUJIPAK®

The FUJIPAK® line of products consists of paper cartons with an aluminum lining. Beverages that are aseptically processed and packed in a tightly sealed, sterilized FUJIPAK® carton have an extended shelf life.

Genetic Engineering

The blueprint that determines the unique features of a living organism is stored as hereditary information (DNA sequencing). Genetic engineering is performed by isolating a desirable gene from the DNA sequence of one organism and inserting it into the DNA sequence of another organism, in the hope that the latter will gain a new characteristic as its hereditary information is "overwritten" by the gene transfer.

Groundwood Pulp (GP)

This is a type of pulp produced by tritulating logs using a grinder while spraying water over them.

Ink-Jet Paper

This is a type of paper that allows printing on a non-contact basis using ejected ink particles.

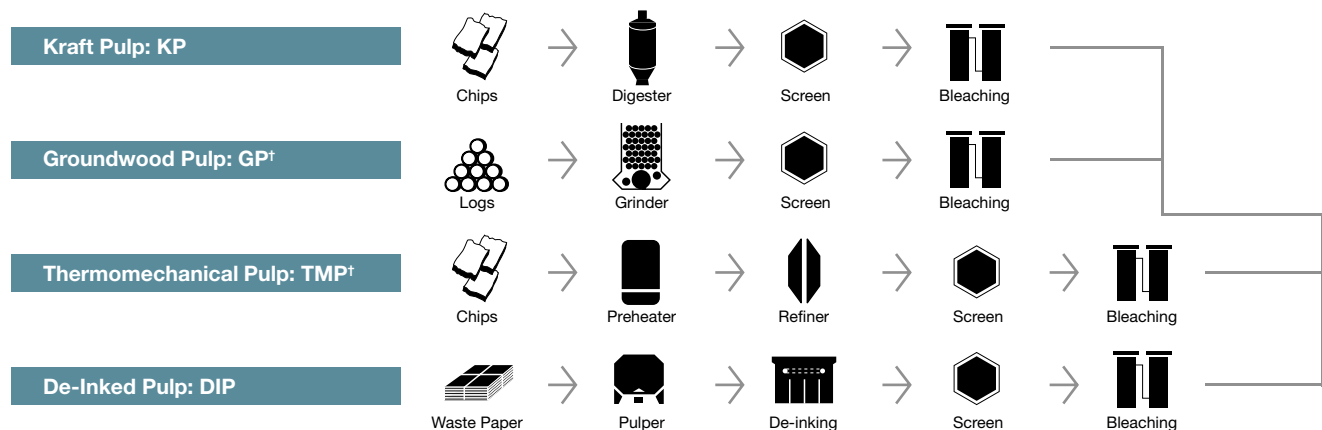
ISO 14001

This is a standardized environmental management system set up by the International Organization for Standardization (ISO). Its objective is to reduce environmental impact on a continuing basis by implementing measures within the framework of a management cycle consisting of planning (Plan), implementation and operation (Do), checking and corrective action (Check), and management review (Action).

Kraft Pulp (KP)

This is a type of pulp that is produced by digesting wood chips using a chemical solution whose primary ingredients are sodium hydroxide and sodium sulfide.

A Flow Chart Depicting the Manufacturing Process of the Paper



Low-Density Paper

Low-density paper is a specially designed paper. It is an ideal product for use in publications, as books and magazines made of this paper look very presentable. Thus, the product is well positioned to meet the increasing needs of the publishing sector for lighter paper. The paper boasting the lowest density in Japan is produced by Nippon Paper Industries.

MAT Vector® System

MAT stands for multi-auto-transformation. This cutting-edge technology for the transfer of genes was developed by Nippon Paper Industries. Conventional techniques leave a marker gene in the recipient organism during a gene transfer. To eliminate this, the MAT Vector® System allows, in addition to the insertion of the "desired" gene, the insertion of another gene that removes the marker gene after the successful transfer of the desired gene, ensuring that no marker gene will be left behind in the recipient. This increases the safety of the technology. The system also enables genetic engineering to be performed repeatedly on the same plant. Moreover, compared with other gene transfer methods, the gene transfer efficiency rate of the MAT Vector® System is extremely high.

Oper®

Oper® is a synthetic paper product in which base paper is laminated with a polyolefin-based resin material that has superior waterproofing characteristics and offers excellent printability.

Paper Sludge

This is a type of sludge made by dehydrating the ultra-fine pulp and filler residues found in the water drained after the pulp manufacturing and papermaking processes.

Plain Paper Copier (PPC) Paper

This is a plain, non-coated copier paper. It offers a full range of paper characteristics ideally suited for copier use. These include special features to prevent the paper from getting caught inside the copier and measures to minimize the problem of electrostatically induced multiple feeds.

Pollutant Release and Transfer Register (PRTR)

PRTR is a system that assesses, discloses, and monitors locations where emissions of chemical substances that may be hazardous to the environment take place, as well as the volume of such emissions. In Japan, this system was legally instituted in 2001, and the disclosure of environmental data became mandatory beginning in fiscal 2002. Nippon Paper Industries and Daishowa Paper Manufacturing began their disclosure efforts ahead of the governmentally prescribed schedule, as can be seen in their respective versions of *Environmental Report 2001*, which list data for fiscal 2001.

Project Encouraging the Use of New Energy Resources

These are projects based on the Law concerning Promotion of the Use of New Energy. Thirteen such projects dealing with various types of new energy sources, including power generation utilizing solar energy, wind, and waste, have been designated by the government as qualified projects.

PURE-PAK®

This is the brand name of paper cartons noted for their triangular "gable-roof" shape. The PURE-PAK® brand of paper cartons has been in continuous production since 1964, when Jujo Paper Co., Ltd. concluded a technological tie-up agreement with the present ELOPAK a.s.

Refuse Paper and Plastic Fuel (RPF)

RPF is a solid fuel that is made by blending waste plastic and refuse paper that cannot be recycled to make pulp. Grinding, compression, and dehydration processes are used to produce RPF. It serves as an alternative to fossil fuels.

Thermomechanical Pulp (TMP)

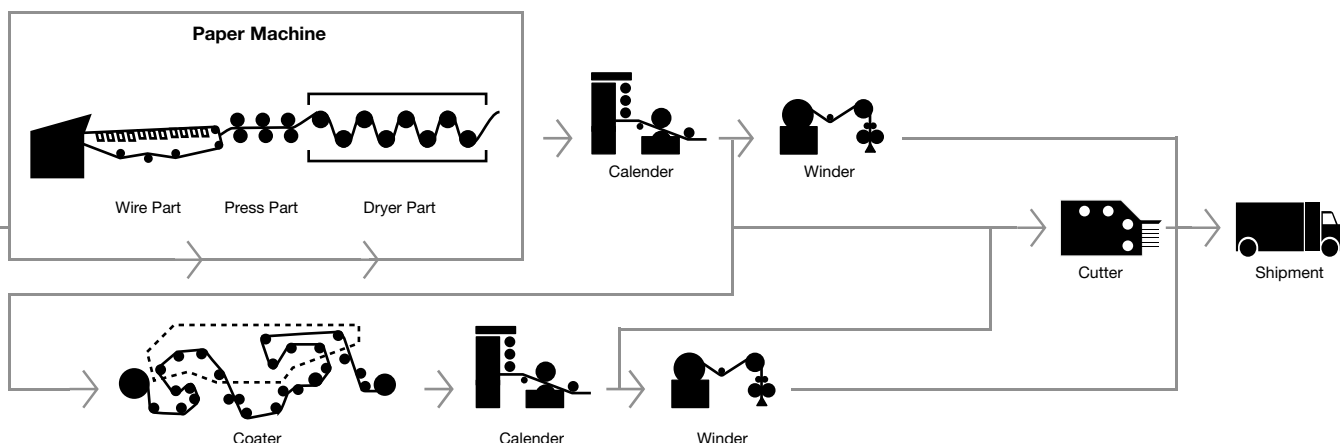
TMP is manufactured by first heating wood chips with steam, and then tritulating them using a refiner.

Unifill System

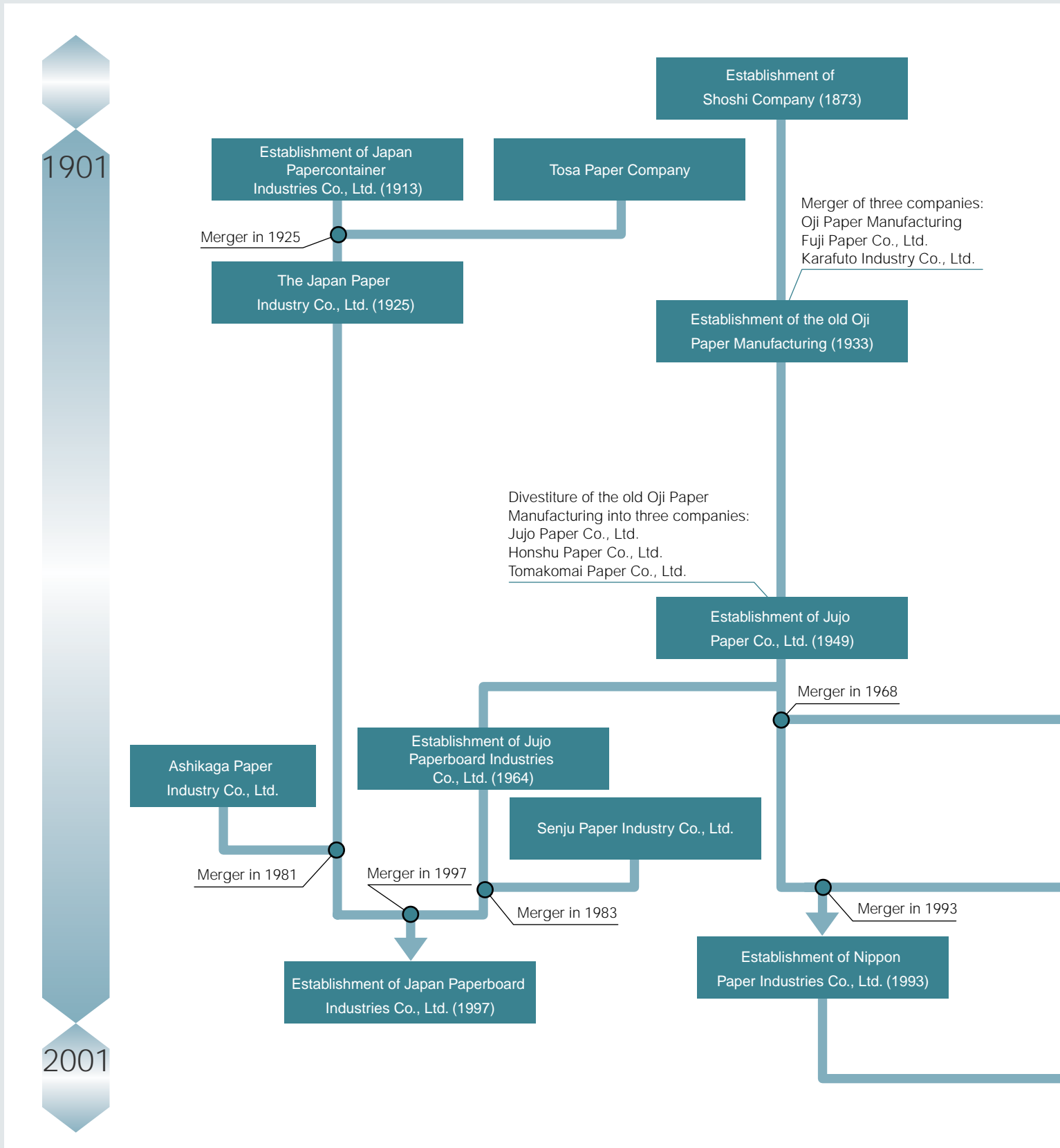
This mechanical system has been made available to the Japanese market by Nippon Paper Industries, which concluded a cooperative business agreement with UNIFILL S.P.A., a subsidiary of ELOPAK a.s. This highly acclaimed system has produced a number of packaging products, one of which has won a package design award in Italy.

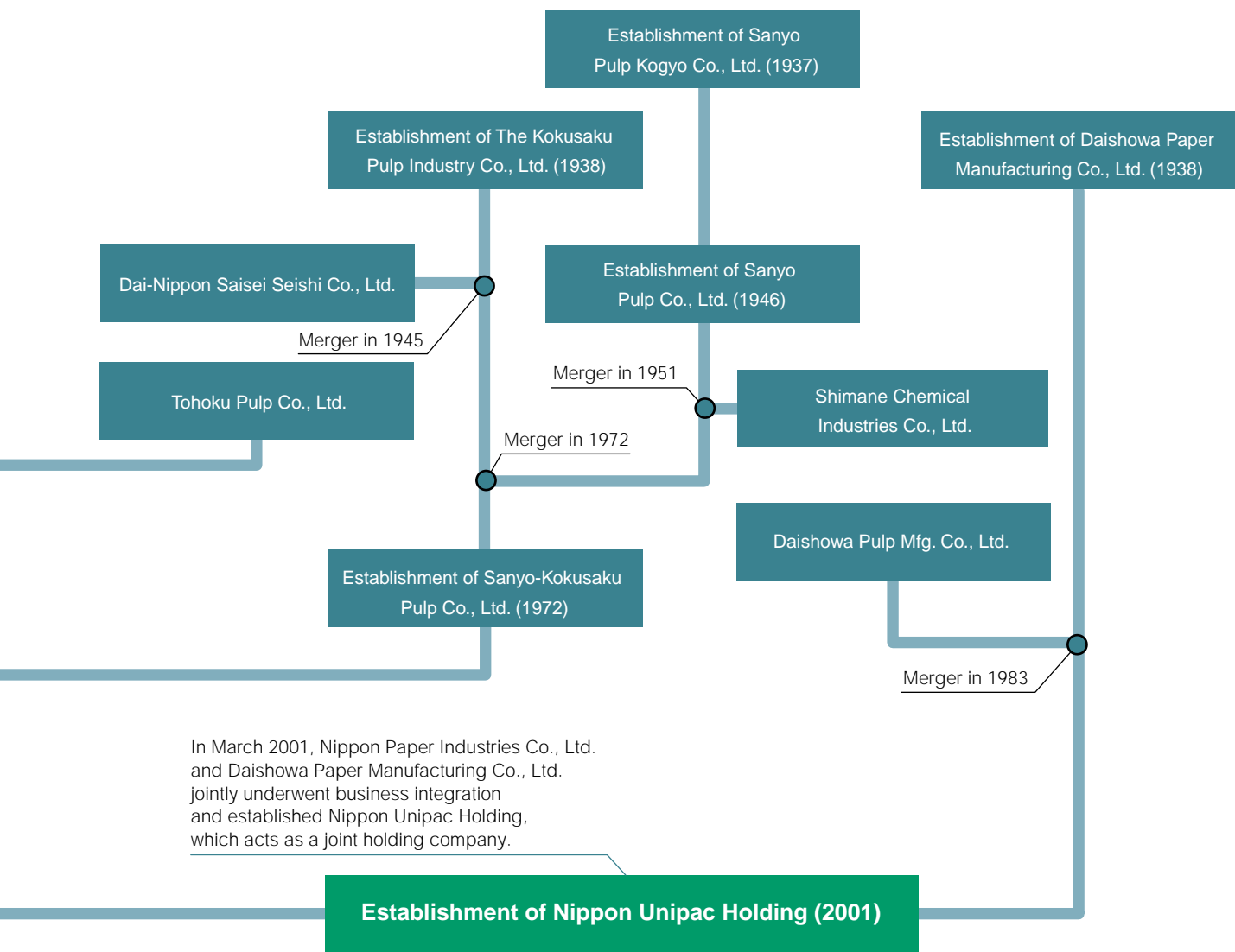
White Carbon

White carbon, a kind of filler, comprises ultra-fine silica particles. When used in paper, white carbon can improve paper opacity and ink absorption. In Japan, white carbon is often used in making lightweight newsprint, which began to surge in popularity beginning in 1982.



Corporate History of Nippon Unipac Holding





Board of Directors (As of June 25, 2002)



(From left):

Sitting: Souji Ban, Masao Kobayashi, Takahiko Miyoshi, and Kazumoto Sogo

Standing: Toshiro Sato, Ikuo Kuwajima, Koshiro Kitaoka, Iwao Nakajima, Masayuki Hayashi, and Hirotooshi Ishikawa

CHAIRMAN

Masao Kobayashi

PRESIDENT

Takahiko Miyoshi

EXECUTIVE VICE-PRESIDENT

Souji Ban

DIRECTORS

Kazumoto Sogo

Koshiro Kitaoka

Iwao Nakajima

Ikuo Kuwajima

Masayuki Hayashi

Toshiro Sato

Hirotooshi Ishikawa

CORPORATE AUDITORS

Kiichiro Sakai

Noriyuki Torai

Hidetoshi Goto

Corporate Data (As of March 31, 2002)

NAME

Nippon Unipac Holding

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

NUMBER OF EMPLOYEES

19 (Full-Time)

Stock Information (As of March 31, 2002)

AUTHORIZED COMMON STOCK

3,000,000 shares

COMMON STOCK—ISSUED AND OUTSTANDING

1,080,670.23 shares

NUMBER OF SHAREHOLDERS

63,060

SECURITIES TRADED

Tokyo Stock Exchange, Osaka Securities Exchange and Nagoya Stock Exchange (Code No. 3893)

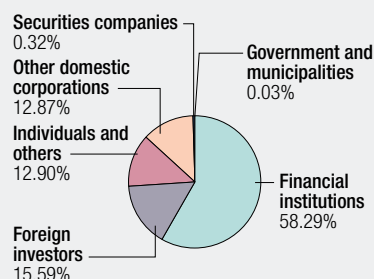
INDEPENDENT ACCOUNTANT

Shin Nihon & Co.

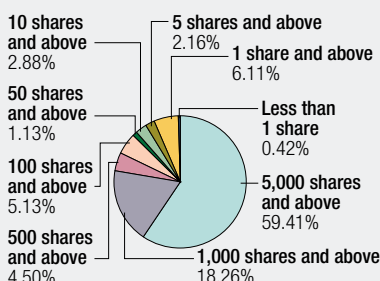
MAJOR SHAREHOLDERS

Major Shareholders (10 Largest)	Number of Shares Held (Shares)	Percentage of Total Shares Outstanding (%)
The Mitsubishi Trust and Banking Corporation (Trust Account)	61,110	5.7
The Industrial Bank of Japan, Ltd.	44,180	4.1
Sumitomo Mitsui Banking Corporation	39,876	3.7
Nippon Life Insurance Company	36,236	3.4
Japan Trustee Service Bank, Ltd. (Trust Account)	33,089	3.1
UFJ Trust Bank Limited (Trust Account A)	30,069	2.8
The Fuji Bank, Ltd.	26,887	2.5
Mitsui Mutual Life Insurance Company	22,561	2.1
Daio Paper Corporation	20,226	1.9
The Chuo Mitsui Trust and Banking Company, Limited	18,805	1.7

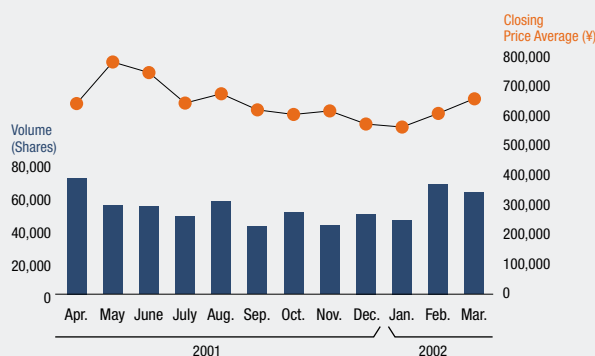
PERCENTAGE OF SHARES HELD BY SHAREHOLDER TYPE



PERCENTAGE OF SHARES HELD BY SIZE OF HOLDINGS



STOCK PRICE MOVEMENT AND TRADING VOLUME



Investor Information

FISCAL YEAR-END

March 31

ORDINARY GENERAL MEETING OF SHAREHOLDERS

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

REFERENCE DATES

March 31 for matters relating to the general meeting of shareholders. Reference dates for other matters shall be determined individually and announced in advance.

TRANSFER AGENT

The Chuo Mitsui Trust and Banking Company, Limited
3-33-1, Shiba, Minato-ku,
Tokyo 105-8574, Japan

ADMINISTRATIVE OFFICE OF TRANSFER AGENT

(MAILING ADDRESS AND TELEPHONE NUMBER FOR INQUIRIES)

Stock Transfer Agency Department
The Chuo Mitsui Trust and Banking Company, Limited
2-8-4, Izumi, Suginami-ku,
Tokyo 168-0063, Japan
Phone: +81-(0)3-3323-7111

INTERMEDIARY LOCATIONS

All domestic branches of the Chuo Mitsui Trust and Banking Company, Limited. Head office and all domestic branches of Japan Securities Agents, Ltd.

PLACES WHERE REQUEST FOR APPRAISAL AND BUY-BACK OF FRACTIONAL SHARES ARE MADE

The transfer agent listed above, its administrative office and its intermediary locations. Nominal shareholders should make the above request through participating banks and securities companies or Japan Securities Depository Center, Inc.

NEWSPAPER WHERE ANNOUNCEMENTS ARE PUBLISHED

The *Nihon Keizai Shimbun*



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*For details on the environmental labels pictured above, please refer to the table on page 43 of this annual report.

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