



NIPPON PAPER GROUP, INC.

Annual Report 2004

For the Fiscal Year Ended March 31, 2004

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Looking for Sustainable Growth



Profile

Nippon Paper Group, Inc.* is a pure holding company for Nippon Paper Industries Co., Ltd. and Nippon Daishowa Paperboard Co., Ltd. Nippon Paper Group engages in the pulp and paper business, which produces and sells paper, paperboard, and household tissue; the paper-related business, which handles paper cartons and chemical products; and other businesses, such as logs and lumber, construction materials and logistics. The pulp and paper business is the main business pillar, accounting for nearly 80% of total sales and profits. Our diverse range of other operations is developed closely alongside the pulp and paper business.

*Nippon Paper Group, Inc. is the new name for Nippon Unipac Holding, as of October 1, 2004.

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Disclaimer Regarding Forward-Looking Statements

Statements contained in this annual report regarding current plans, outlooks, strategies and beliefs of Nippon Paper Group, Inc., other than those of historical fact, are forward-looking statements or forecasts based on the management assumptions of the Nippon Paper Group, Inc. in light of currently available information. Accordingly, one should refrain from making any investment decision based solely on the statements and forecasts contained in this annual report. 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 therein.

CONSOLIDATED FINANCIAL HIGHLIGHTS

(Millions of yen)

	2002 (Note 1) 2001.3.30 – 2002.3.31	2003 2002.4.1 – 2003.3.31	2004 2003.4.1 – 2004.3.31
Net sales	¥1,211,422	¥1,165,450	¥1,192,649
Operating income	42,422	50,450	55,679
Net income (loss)	(636)	4,880	24,258
Total assets	1,721,745	1,630,126	1,637,366
Current assets	517,698	455,445	476,649
Property, plant and equipment, net	941,428	924,597	900,013
Total investments and other assets (Note 2)	262,618	250,083	260,703
Liabilities and others	1,314,376	1,221,923	1,207,744
Total shareholders' equity	407,369	408,202	429,621
Interest-bearing debt	903,336	851,311	842,278
Debt/Equity ratio (times)	2.1	2.0	1.9
(Per share: yen)			
Net income (loss)	(590.30)	4,283.53	22,025.22
Total shareholders' equity	377,308.99	374,133.23	392,140.80
Dividends	8,000	8,000	8,000
(Principal financial indicators)			
Operating income to net sales	3.5%	4.3%	4.7%
Net income (loss) to net sales	(0.1)%	0.4%	2.0%
Return on equity (ROE) (Note 3)	(0.2)%	1.2%	5.8%
Return on invested capital (ROIC) (Note 4)	3.4%	4.2%	4.9%
Equity ratio	23.7%	25.0%	26.2%
Return on assets (ROA) (Note 5)	2.6%	3.2%	3.8%
Capital expenditure	69,511	76,904	57,423
Depreciation	87,144	83,223	81,259
Free cash flow	13,221	56,804	14,425

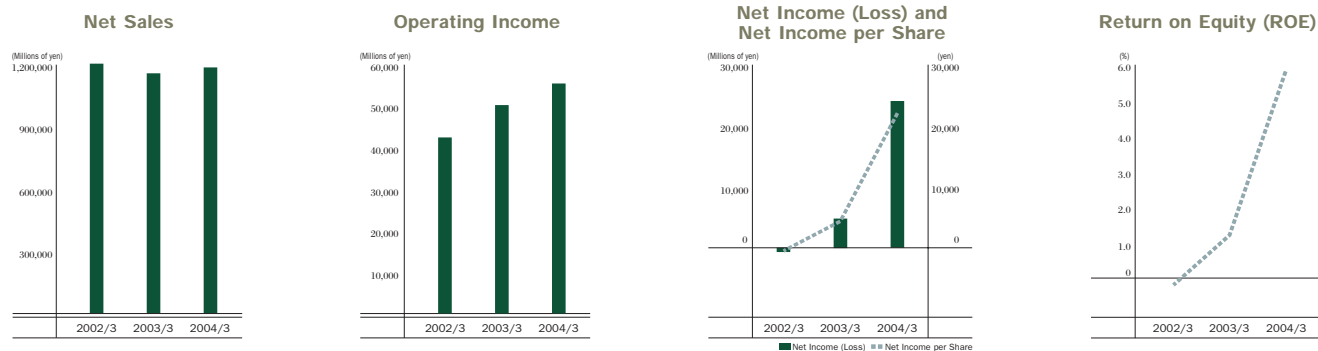
Notes: 1. Fiscal 2002 (from March 30, 2001 to March 31, 2002) is the total of the 1st accounting period (from March 30, 2001 to September 30, 2001) and the 2nd accounting period (from October 1, 2001 to March 31, 2002).

2. Intangible assets and deferred charges are included in total investments and other assets.

3. Return on equity (ROE) = Net income/Total shareholders' equity

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

5. Return on assets (ROA) = Ordinary income before interest/Interim averaged assets





On October 1, 2004, Nippon Unipac Holding changed its name to **Nippon Paper Group, Inc.** In renaming the holding company in sync with the widely recognized **Nippon Paper** brand, we aim to improve corporate value by further establishing our corporate brand as a leading company in the domestic pulp and paper industry.

On April 1, 2003, we reorganized Group companies, placing the paper business in the hands of Nippon Paper Industries Co., Ltd. and the paperboard business under the management of Nippon Daishowa Paperboard Co., Ltd., and launched the First Medium-Term Business Plan (hereinafter referred to as “the Plan”) under the new structure. The Plan’s initial targets call for:

- **Higher** (Consolidated ordinary income over ¥100 billion)
- **Faster** (Rationalization of production facilities)
- **Stronger** (Reducing consolidated interest-bearing debt to under ¥700 billion and raising productivity to over 10%.)

These targets place Nippon Paper Group on firm ground toward achieving its aim of becoming a world-class company.

Reflecting on fiscal 2004, ended March 31, 2004, the first year of the Plan, we continued to make steady progress on reducing costs, resulting in a stronger consolidated performance than in the previous fiscal year. Net sales increased 2.3%, or ¥27.2 billion, to ¥1,192.6 billion, operating income advanced 10.4%, or ¥5.2 billion, to ¥55.7 billion, ordinary income climbed 27.7%, or ¥11.0 billion, to ¥50.7 billion and net income soared 397.0%, or ¥19.4 billion, to ¥24.3 billion. Profits have grown steadily since the business integration in 2001. In particular, the paperboard business, one of the Group’s core businesses, achieved a marked recovery in performance as a result of efficiently deploying management resources after business reorganization.

However, the paper business fell short of targets in the Plan owing to a rise in material and fuel prices as well as softer market prices, undermining the overall performance of the Nippon Paper Group. Moreover, we expect prices for woodchips, coal and crude oil to significantly increase in fiscal 2005 and fiscal 2006. Despite efforts by management, it was impossible to compensate for all these negative factors. As a result, we downwardly revised our original ordinary income target of ¥100 billion in fiscal 2006.

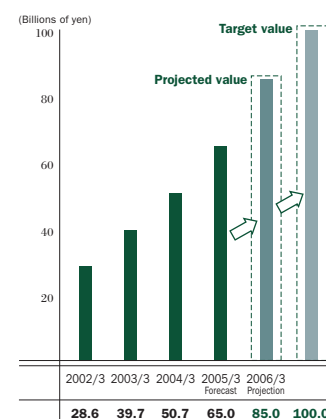
In May 2004, we formulated measures to reinforce the Plan, and in fiscal 2005 and 2006 we are promoting further cost reductions and paper sales reinforcement. Through these reinforcement measures, we plan to achieve our revised ordinary income target of ¥85 billion in fiscal 2006 by maximizing profitability. In addition, we are striving to achieve our initial target for ordinary income of more than ¥100 billion as soon as possible to create a robust corporate foundation able to sustain growth in any operating environment.

Nippon Paper Group has three areas of strength for achieving long-term profit growth. Our leading share of the domestic paper market is our first area of strength, backed by a solid customer base of major newspa-

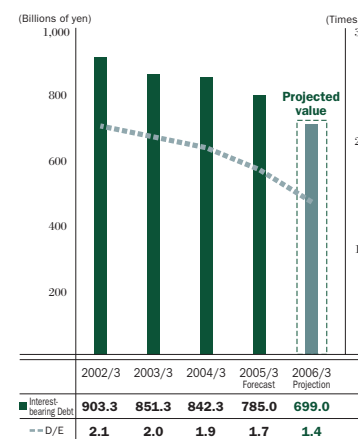
Three-year Performance Trends Following Management/Business Integration

	(Billions of yen)		
	2002/3	2003/3	2004/3
Net sales	1,211.4	1,165.5	1,192.6
Operating income	42.4	50.5	55.7
Ordinary income	28.6	39.7	50.7
Net income (loss)	(0.6)	4.9	24.3

Projected Ordinary Income



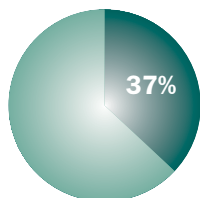
Interest-bearing Debt Reduction Plan



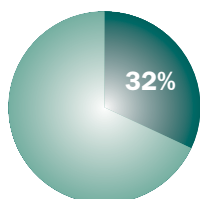
**2003 Company's Share of Paper Production
in the Japanese Market**

	Production amounts (thousands of tons)	Estimated share	Ranking
Newsprint	1,332	37%	1
Uncoated printing paper	840	30%	1
Coated printing paper	1,897	30%	1
Special printing paper	117	36%	1
Business communication paper	720	42%	1
Printing and business communication paper	3,573	32%	1
Packaging, sanitary and other paper	744	20%	1
Paper total	5,649	31%	1
Containerboard	1,510	16%	3
White board	285	16%	3
Other paperboard	151	14%	2
Paperboard total	1,946	16%	3
Paper/paperboard total	7,595	25%	2

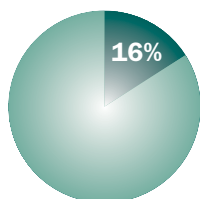
Newsprint



Printing and business communication paper



Paperboard



(Source: Compiled by Nippon Paper Group, Inc. Investor Relations,
based on data supplied by Japan Paper Association and other sources)

per and publishing companies in the Japanese market, which is considerably large compared with other markets around the world. In recent years, growth in market scale has tapered off somewhat, but we expect stable revenue expansion in the domestic market in the future as we continue to respond to changing markets and growing demand for high-value-added products especially in publishing paper and business communication paper.

Our second area of strength is the superior location of our mills. Most of our main paper mills are located along the coast, and since most of the materials and fuel in the Japanese pulp and paper industry are imported from overseas, we enjoy significant cost advantages. In addition, compared with our competitors, our main mills for newsprint and containerboard are located near the Tokyo metropolitan area, making it easier to reuse wastepaper generated in cities.

Our third area of strength is our presence in a diverse range of unique businesses that create synergies with the pulp and paper business. In the liquid-packaging cartons business, which uses environmentally friendly paper materials, NIPPON PAPER-PAK CO., LTD. is one of the largest producers in Japan, with an approximately 34% share of the domestic market. Nippon Paper Chemicals Co., Ltd. manufactures and sells various products that use compounds extracted from lumber, and boasts the highest share of the world market in low-chlorinated polyolefins. Nippon Paper Lumber Co., Ltd. is building a solid position as a top company in the domestic lumber distribution industry.

To ensure future growth, we are concentrating efforts on strengthening R&D, developing unique products, and using biotechnology in afforestation to ensure a stable and efficient supply of raw materials.

One of the most important management issues is how to achieve growth while avoiding risks, whereas the domestic paper and paperboard market is not expected to grow significantly. In tandem with bolstering its business foundation in Japan, Nippon Paper Group considers overseas markets, especially China, as crucial to future growth, and is promoting the launch of overseas operations as early as possible with low risk exposure.

Amid a rapidly changing operating environment, Nippon Paper Group intends to maximize its strengths in pursuing sustainable growth. We ask for your continued support of Nippon Paper Group.

J. Miyoshi

TAKAHIKO MIYOSHI
President, Nippon Paper Group, Inc.



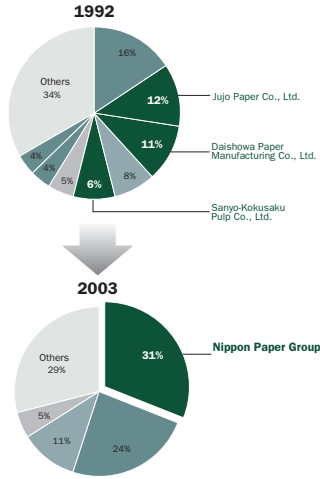
Challenge

The establishment of Nippon Unipac Holding (currently the Nippon Paper Group) in 2001 changed the face of the pulp and paper industry in Japan. In 2003, the top two companies in the industry, which included Nippon Paper Group, together commanded a 55% share of paper production, forming a new order in the industry. However, the operating environment for the paper industry presents the challenge of rising raw material and fuel prices, which directly affect the Group's earnings.

Under these circumstances, we formulated a Medium-Term Business Plan that targets consolidated ordinary income of at least ¥100 billion, productivity improvement of more than 10% and consolidated interest-bearing debt of less than ¥700 billion. Guided by the Medium-Term Business Plan, we are strengthening our profit base and financial position.

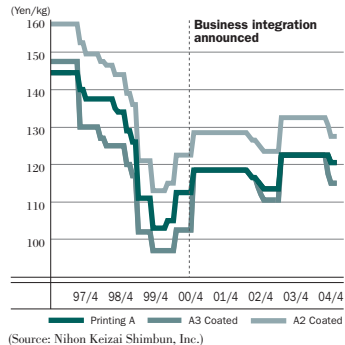
In this section, we discuss our analysis of the operating environment and concrete measures and our philosophy regarding efforts to reinforce our First Medium-Term Business Plan.

Changes in Paper Production Share from Market Reorganization



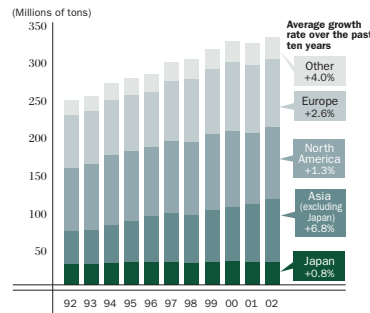
(Source: Compiled by Nippon Paper Group, Inc. Investor Relations, based on data supplied by Japan Paper Association and other sources)

Paper Price Trends



(Source: Nihon Keizai Shinbun, Inc.)

Paper and Paperboard Consumption by Geographical Region



(Source: Pulp & Paper International)

Changes in the Operating Environment for Japan's Pulp and Paper Industry

Restructuring in the Domestic Pulp and Paper Industry

Despite favorable conditions with demand growth in the Japanese pulp and paper industry, excess numbers of mid-sized manufacturers have brought instability in the market, leading to an inevitable decline in the earnings of pulp and paper companies for years. These companies have repeatedly made aggressive capital investments in anticipation of future demand growth during favorable market conditions, creating excessive supply capacity that triggers declines in market prices and deterioration in the operating environment.

However, after a series of mergers since 1993, Nippon Unipac Holding (currently Nippon Paper Group, Inc.) was established in 2001, creating a two-company structure, which includes our company, in the paper industry. In 1992, the top two companies in the industry only had a 28% share of the market, competing for market share with other companies. This figure increased significantly to 55% by 2003. This share of the domestic market is extremely high even compared with the pulp and paper industries in North America and Europe.

As a result of increasing our market share and making inventory management possible through production adjustments, paper prices have been stable since the announcement of business integration between Nippon Paper Industries Co., Ltd. and Daishowa Paper Manufacturing Co., Ltd. in March 2000. Since 2001, amid weakness in the Japanese economy, prices were relatively stable as a result of the new two-company structure in the paper industry.

Global and Domestic Consumption of Paper and Paperboard

Consumption of paper and paperboard around the world is steadily increasing. In some advanced countries in North America and Europe, economic weakness over the past few years has caused negative growth, but globally consumption of paper and paperboard is increasing in most regions and countries around the world.

Today, Japan's paper and paperboard market accounts for approximately 10% of global consumption, or more than 30 million metric tons per year. Japan is the third largest market for paper and paperboard in the world after the United States and China. The rate of growth in consumption in Japan has tapered off due to the deceleration of growth in Japan's GDP since the 1990s.

Although Japan's GDP is unlikely to grow substantially as in other advanced nations, we believe sustainable growth is possible in paper and paperboard consumption.

Growth in Consumption of Paper and Paperboard in China

Consumption of paper and paperboard in Asia (excluding Japan) has grown at an average of 6.8% annually over the past decade. We expect strong growth to continue in China due to its massive population. Per capita consumption of paper and paperboard in 2002 was 33kg in China, still a low level compared with 314kg in

the United States and 241kg in Japan. According to the Almanac of China's Paper Industry, consumption of paper and paperboard in China will soar by the amount compared to that in Japan within 10 years.

Economic development in Asian countries such as China offers Nippon Paper Group significant business opportunities. We believe an issue of increasing importance is enhancing our international competitiveness through further cost reductions and stronger research and development capabilities, as raw material and fuel prices are rising along with growth in their consumption.

Three Factors Affecting Earnings

(1) GDP and Domestic Production Volume of Paper and Paperboard

The Japanese materials market appears to have peaked in terms of volume for steel, metals, cement and other materials. However, production volume of paper and paperboard, our core business, has continued to grow stably.

Domestic production of many other materials did not grow due to competition with imports, but production of paper and paperboard has grown steadily along with growth in GDP. Paper in particular has shown an elasticity of 1.0 versus real GDP over the past 10 years, an extremely high correlation.

Some of the reasons for this are that paper materials are suitable for conveying a lot of information, which can be easily glanced through, it is possible to distribute large volumes at low cost (as with flyers), and paper offers superior potential as a long-term storage medium. Even though the advent of a paperless society has been stated on countless occasions, and even with the emergence of the Internet, we expect demand for paper to remain on a stable growth path as the absolute volume of information continues to increase.

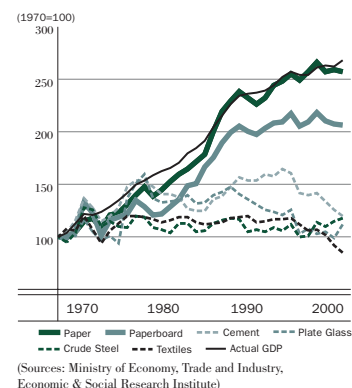
(2) Exports and Imports of Paper

Although imports of copier paper and other types of paper account for a certain share of the market, most types of paper made in Japan are competitive in terms of quality, cost and service, so we believe that the impact of imports will be limited over the long term. The ratio of exports to imports of paper in Japan roughly counteract each other, with paper exports reaching 4.7% of domestic production and imports accounting for 6.6% of domestic consumption in 2003.

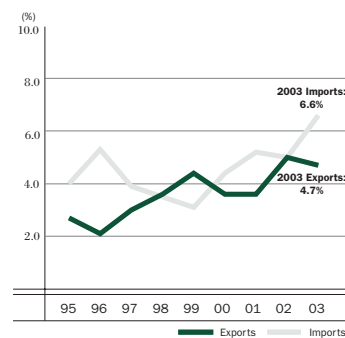
In 2003, the ratio of imported paper increased for mainly coated paper as a result of some customers proactively using imported paper due to an increase in paper prices in Japan in autumn 2002.

In the future, we expect about the same volume of paper imports as in 2003. At the same time, we are fully aware of the need to pay attention to fluctuations in exchange rates and the possibility of a deterioration in the worldwide supply/demand balance for pulp and paper from significant changes in regions such as China.

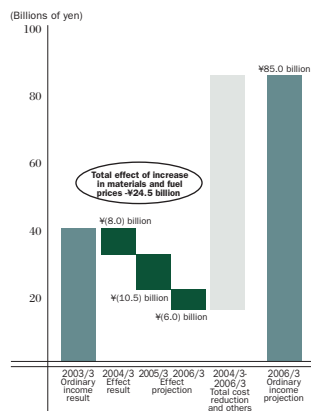
Growth Trends by Material



Comparative Trends in Paper Imports/Exports



Effects of Raw Materials and Fuel Price Increases—Actual Results and Forecasts



(3) Raw Material and Fuel Prices

The economies of Asian countries, in particular China, have come to exert considerable influence on world prices for raw materials and fuel. Wastepaper exports from Japan to China have increased substantially from the second half of fiscal 2003, tightening the supply/demand balance for wastepaper prices in Japan and spurring a significant rise in prices. In addition, prices for primary materials and fuels, such as coal, crude oil, pulp and woodchips, have increased across the board from the second half of fiscal 2004. As a result, Nippon Paper Group expects increased costs from higher prices to total ¥24.5 billion over the three years spanning from fiscal 2004 to fiscal 2006.

Our Strategy

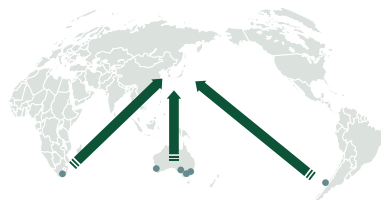
With rising raw material and fuel prices, the operating environment surrounding Nippon Paper Group is not conducive to an optimistic outlook. Nippon Paper Group aims to compensate for these higher cost factors by rationalizing its production facilities ahead of schedule and redoubling efforts to reduce expenses such as variable costs. To compete with imported paper and maintain market prices, Nippon Paper Group aims to reinforce its marketing structure and slash distribution costs while continuing to aggressively develop new and unique products toward attaining a firm lead in terms of quality and service.

In order to secure a stable source of raw materials and fuel, Nippon Paper Group is aggressively promoting its Tree Farm Initiative for overseas afforestation. Using our strength in biotechnology, we plan on developing high-yield timber adaptable to various climates and using these technologies in afforestation. In the area of domestic resources, we also aim to proactively use low-grade wastepaper, which had been difficult to recycle and reuse as paper until now. Moreover, Nippon Paper Group aims to reduce costs with the installment of a boiler and turbine that use waste such as paper sludge, used cut tires and construction scrap materials as an alternative to fossil fuels.

In order to expand corporate scale, Nippon Paper Group is seeking growth in Asian countries including China amid a slowdown in growth in demand for paper and paperboard in Japan. By transplanting machinery that has been suspended from use from restructuring in Japan to China, we are able to minimize cash outflow and increase the potential for establishing a position in the market there from an early stage. We plan to start a corrugating medium board business in the Shanghai region by the end of 2004 and an uncoated paper business in the Huabei region by the end of the first half of fiscal 2006.

Tree Farm Initiative

More than 100,000 hectares of afforested area by 2008



(Overseas Afforestation Area)

Australia	61,600ha
Chile	13,500ha
South Africa	4,200ha
At the end March 2004	79,300ha

Aiming for Corporate Growth: From Business Integration to Full Merger

1st Stage: Realize Business Integration Effects (Fiscal 2002 - Fiscal 2003)

During the two years after Nippon Unipac Holding (currently Nippon Paper Group, Inc.) was established in March 2001, our first priority was to realize benefits from business integration between Nippon Paper Industries Co., Ltd. and Daishowa Paper Manufacturing Co., Ltd.

Through integration, we realized ¥56.5 billion in benefits during fiscal 2002 full year and fiscal 2003, mainly with cost reductions in materials procurement, production, distribution and financing. As a result of being able to control inventories through production adjustments after integration, we have succeeded in stabilizing paper prices, which has been a long-standing concern, despite weak demand after the collapse of the IT bubble in 2000.

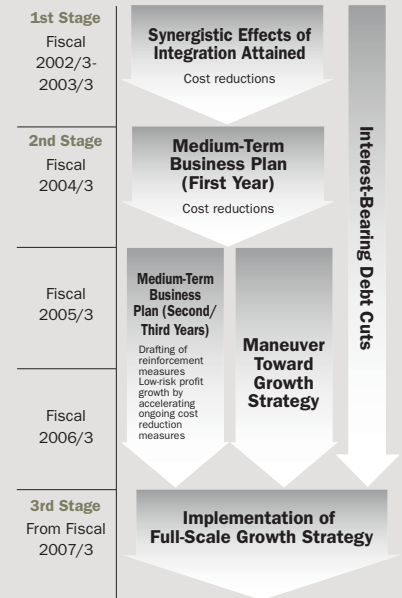
The early realization of integration effects during those two years and the stabilization of market prices has built our confidence and helped bring together the corporate cultures of the two predecessor companies. Accordingly, we believe that the merger and business reorganization in April 2003 was a success that produced tangible results.

2nd Stage (Part 1): Launch First Medium-Term Business Plan (Fiscal 2004)

In April 2003, we launched our First Medium-Term Business Plan to cover fiscal 2004 through fiscal 2006.

Under the First Medium-Term Business Plan, based on the slogan of “higher, faster and stronger,” Nippon Paper Group is promoting rationalization of production facilities and implementing measures to quickly realize synergy effects from business reorganization. The original goals of the plan were for consolidated ordinary income of ¥100 billion or more in fiscal 2006, along with a decrease in interest-bearing debt to ¥700 billion or less, and an increase in productivity of 10% or more. To achieve these targets, the Group foresaw the need to reduce costs by ¥60 billion by rationalizing production facilities, lowering material costs, improving manufacturing costs, improving financial balance and reducing labor costs.

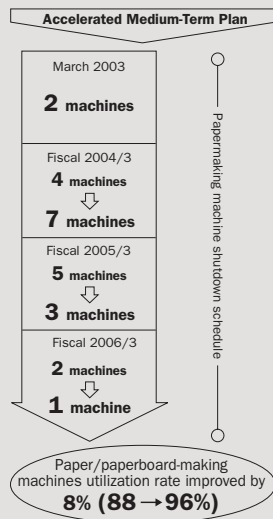
In rationalizing production facilities, Nippon Paper Group planned to shut down 13 low-efficiency papermaking machines and reduce labor costs, variable costs and depreciation. Moreover, the Group planned to promote unified raw materials and resource procurement to reduce procurement costs. At the same time, in improving manufacturing costs, we aimed to make capital investments that would reduce costs of raw materials and fuels, improve production efficiency and reorganize the distribution structure that would lower distribution costs. To improve its financial balance, the Group aimed to keep interest-bearing debt below ¥700 billion through stricter screening of capital investment. To reduce labor costs, the plan called for improved labor productivity through reductions in the number of group employees by approximately 2,300.



Cost Reductions from Medium-Term Business Plan

Cost reduction by rationalizing production facilities	¥14.0 billion
<ul style="list-style-type: none"> Associated with the shutting down of 13 papermaking machines and equipment reduction of depreciation, labor and variable costs 	
Acceleration of material procurement integration	¥7.0 billion
Cost improvements	¥17.0 billion
<ul style="list-style-type: none"> Installation of more de-inked pulp lines Installation of generators that run on waste material Emergence of independent power production business Improvements in operational efficiency, yields, etc. 	
Distribution costs	¥4.0 billion
<ul style="list-style-type: none"> Elimination of cross transportation through distribution system reorganization, etc. 	
Labor costs	¥12.0 billion
<ul style="list-style-type: none"> Increase productivity by more than 10% 	
Result of reducing interest payment burden	¥6.0 billion
<ul style="list-style-type: none"> Interest-bearing debt below ¥700 billion Rate cut 	
Total	¥60.0 billion

Accelerated Rationalization of Production Facilities



Effects of Reinforcement Measures

(Billions of yen)

	Fiscal 2005/3	Fiscal 2006/3	Fiscal 2005/3-2006/3 Total
Variable costs reduction	2.5	2.5	5.0
Labor cost reduction	2.0	3.0	5.0
Sales reinforcement (Distribution and logistics cost reduction)		3.0	3.0
Reinforcement measures total	4.5	8.5	13.0

2nd Stage (Part 2): Operating Environment Changes and Reinforcement Measures under the Medium-Term Business Plan (Fiscal 2005 - Fiscal 2006)

In fiscal 2004, the first year of the Medium-Term Business Plan, the operating environment surrounding Nippon Paper Group underwent substantial change. One factor was rising prices for primary raw materials and fuels, which drove up costs by ¥8 billion in the first year of the plan. We expect price increases to add ¥16.5 billion in costs for fiscal 2005 and fiscal 2006.

As for sales, domestic market prices for paper slightly softened due to an increase in imports of coated printing paper and other factors, having a negative impact on the Group's earnings in fiscal 2004. In fiscal 2005, we are passing part of soaring material and fuel costs onto product prices and expect an improvement in operating conditions. However, it is impossible to absorb all negative factors.

In order to overcome these negative factors and further strengthen our international competitiveness, we announced reinforcement measures under the Medium-Term Business Plan in May 2004.

New measures for fiscal 2005 and fiscal 2006 are to reduce variable costs, lower overall labor costs, and to reinforce paper sales. Since we accelerated the rationalization of production facilities, we are capable of raising our targets for lowering variable costs and overall labor costs.

For reducing variable costs, our primary measures are to improve material composition by increasing the composition of de-inked pulp and reducing usage of market pulp. We expect cost reduction effects of ¥5 billion overall from reductions in chemical costs, improvements in yields and energy conservation, etc.

In an effort to reduce overall labor costs, we implemented special incentives for early retirement, and are increasing our labor reduction target from the initial 2,300 employees to 2,580 employees over the three years of the plan. Combined with the introduction of an early transfer system and the promotion of work contracts, we expect an additional ¥5 billion in cost reductions over the final two years of the plan.

To reinforce our paper sales, in July 2004 we implemented measures to rebuild Nippon Paper Industries Co., Ltd.'s paper sales organization and reinforce its functions. In particular, we integrated functions into two departments, one for commodity marketing for large-volume markets and the another for direct customer marketing for specialized products tailored to customer needs. We will promote information sharing among departments and greater authority for section managers to create a paper sales structure with vitality.

We are beginning to reorganize our sales channels. While it is difficult to change long-held sales practices over a short period of time, we aim to streamline our sales channels based on economical rationality.

We plan for an additional ¥3 billion in cost reductions by fiscal 2006 through reductions in distribution costs.

With the addition of these three cost reduction measures, namely lowering variable costs, reducing overall labor costs and reinforcing paper sales, we plan to reduce costs by an additional ¥13 billion over the final two years of the plan.

By the stepping up of cost reductions, we are now aiming for ordinary income of ¥85 billion and operating income of ¥90 billion in fiscal 2006, supported by the additional cost reduction measures in the Medium-Term Business Plan. Nippon Paper Group is continuing efforts to boost profitability in order to quickly attain the plan's original ordinary income target of ¥100 billion.

The First Medium-Term Business Plan is a running start toward creating a solid corporate foundation through cost reductions. We believe that most of the earnings improvements under the Medium-Term Business Plan are achievable through our own efforts. Even in a slow-growth operating environment, we believe significant profit growth is possible through selective investments and the efficient deployment of Group assets.

3rd Stage: Stepping-Stone to a Growth Strategy

The Japanese market is in a stable growth stage, and to achieve further expansion in profit and corporate value, we believe it is necessary to implement differentiation strategies for the domestic market and engage in full-scale business development overseas.

At our domestic facilities, we are steadily implementing the necessary measures to focus on main mills. After the First Medium-Term Business Plan ends, we aim to improve overall profitability by further concentrating production on our most competitive mills.

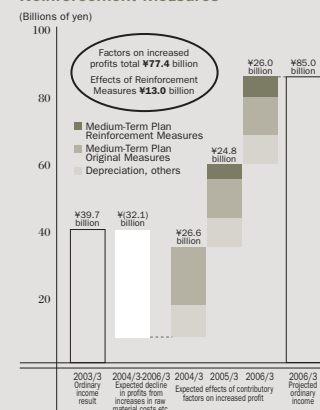
In addition, Nippon Paper Group aims to reinforce R&D activities to develop unique products through integrated efforts at mills, in research and marketing, and introduce products to market in a timely fashion.

To expand corporate scale, we are looking to enter overseas markets, especially the Chinese market. We aim to aggressively develop operations in China as the central focus of efforts to build a foundation there for future business development.

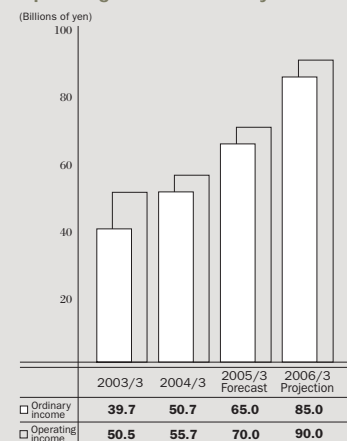
However, there are various risks, such as recovering invested capital, that accompany operations in China. While minimizing these risks, we believe an early entry into the market is a necessary first step in our Chinese business strategy. Our approach is to use existing facilities and sales networks through joint operations with local companies. We are aware of the significance of this approach and the urgency in quickly launching facilities in China, and to minimize cash outflow by transferring facilities to China that were made redundant by the rationalization of production facilities in Japan.

In the paper business, Nippon Paper Group established Nippon Paper Industries Chengde Co., Ltd. in Hebei Province, China, and plans to start paper production in the first half of fiscal 2006. We plan on making an investment in kind by transferring three paper machines with a total annual production capacity of 150,000 metric tons from the Shiraoi Mill of Nippon Paper Industries Co., Ltd. In 2005 production capacity for coated printing paper is expected to increase in the Shanghai area. Nippon Paper Group plans to fulfill a wide range of local needs while avoiding the risk of excessive competition by producing various uncoated paper such as, wood-free paper and groundwood paper in Hebei Province near Beijing.

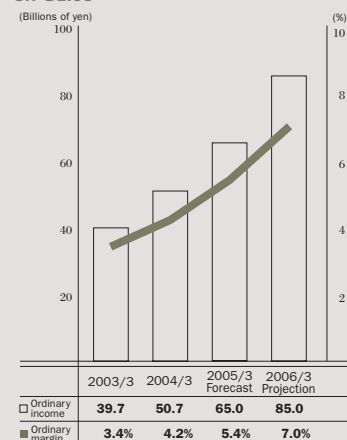
Effects of Contributory Factors on Increase Profits over Three Years and Reinforcement Measures



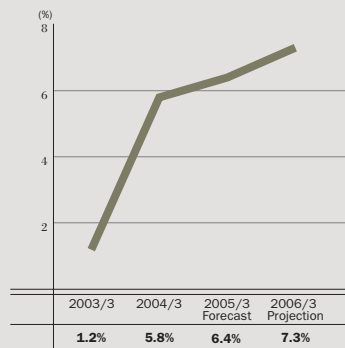
Operating Income/Ordinary Income



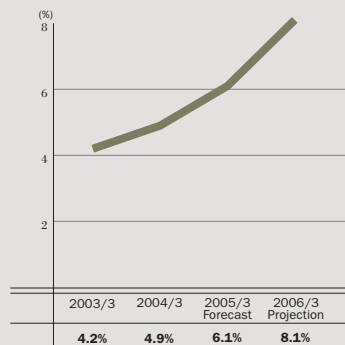
Ordinary Income/Ordinary Margin on Sales



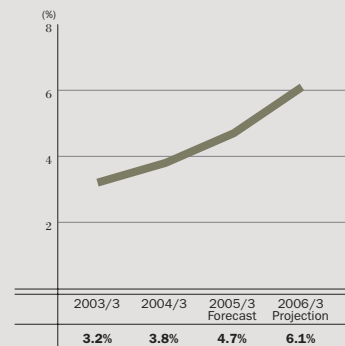
ROE



ROIC



ROA

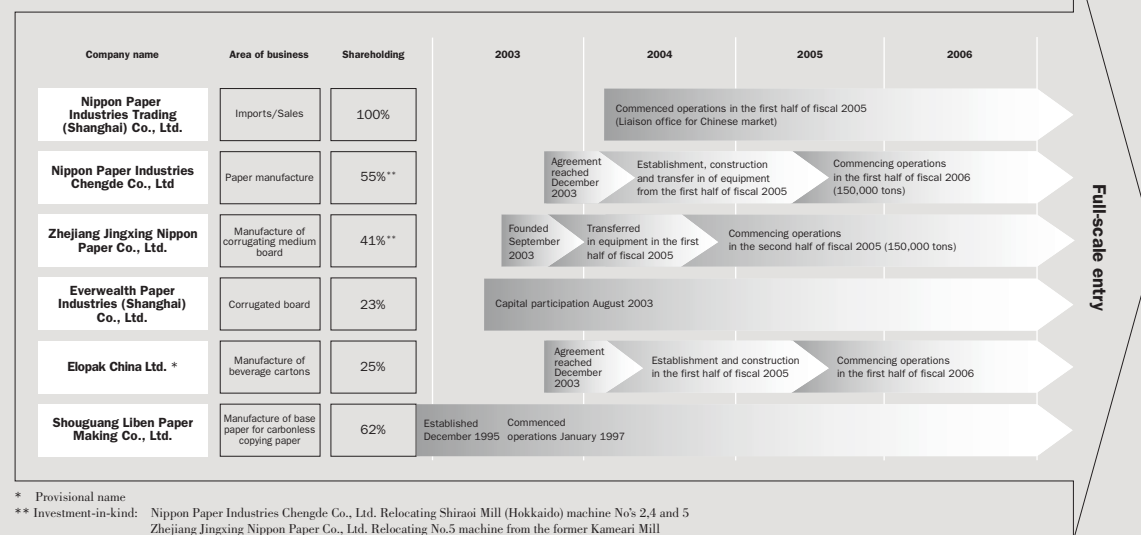


In the paperboard business, we are focusing on the strong growth in demand for corrugated board in Shanghai, and plan to produce and sell reinforced corrugating medium board, for which we expect latent demand. We aim to launch operations with a minimum of risk by transferring equipment from the former Japan Paperboard Industries' Kameari Mill with plans calling for the start of commercial operations by the end of 2004.

In addition, backed by its strengths in corrugated board manufacturing and liquid-packaging cartons, Nippon Paper Group aims to rapidly enter growth in these areas.

Although China is new territory for Nippon Paper Group, we aim to begin building a network of contacts in the country by sending our young employees there to accumulate experience and gather information in preparation for our full-scale growth strategy under the second Medium-Term Business Plan and beyond.

Chinese Market / Low-risk Early Entry



World-Class Technological Development Capabilities

Our research and development efforts are directed at biotechnology for efficiently and stably growing trees, which are the main resource for paper, as well as technologies for effectively utilizing wastepaper, and elementary chlorine free (ECF) bleaching technologies. Cutting-edge technologies are also applied in the development of new products.

Combining the strengths of Group companies, our world-class technological development capabilities are focused on improving international competitiveness, developing products that anticipate customer needs, strengthening quality and cost competitiveness, and considering global environmental preservation.

Anticipating Customer Needs

Based on fundamental technologies related to paper and paperboard, Nippon Paper Group applies the latest technologies to develop products in anticipation of customer needs.

Two Coated "SILK" Paper Products and Low-Density Printing Paper Lineup

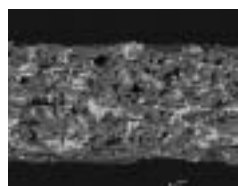
- Taking on the challenge of realizing reproducibility in photo printing and legibility, we released on the market two types of coated paper, U-Itimax SILK and PRO!GRACE SILK.
- We strengthened our lineup of low-density printing paper developed ahead of the competition. Please see page 14 for an introduction.

Cast Coating Technology

- We established new cast-coated paper production technology offering a smoother paper surface than previous ones.

Development of Business Communication Paper

- We developed paper in line with future user demands in the fast-growing ink-jet paper and handy terminal thermal paper fields (Refer to page 14 for further information).



Low-density paper



Standard paper

Strengthening Quality and Cost Competitiveness

Through cutting-edge production technology as well as cloning and other biotechnologies, we aim to ensure superior quality and cost advantages while securing stable sources of raw materials.

Expanded Use of Unused Wastepaper

- We have developed technologies to utilize office wastepaper that was not suitable for papermaking, and strive to achieve superior quality and cost advantages while expanding the use of wastepaper.
- We are increasing quality and reducing costs by internalizing production of fillers used in papermaking.

Stable Supply of Raw Materials

- We promote the screening and cloning of elite trees with roughly double the pulp yield of trees raised from seeds. (See picture below.)
- Our proprietary gene transfer technologies, such as Multi-Auto Transformation Vector System (MAT Vector® System), safely imbue multiple properties into trees, such as higher pulp yields, salt tolerance and dryness tolerance. Moreover, these technologies may become treatments for diabetes and hay fever.



Clone seedlings

Preserving the Global Environment

In our activities to preserve the global environment, we proactively promote the use of bleaching technology that does not use chlorine, and strive to develop products that are alternatives to plastic.

Bleaching without Chlorine

- Based on basic research into pulp bleaching, we promote the ECF bleaching process, which does not use chlorine, at Kraft pulp producing mills. The completion of facilities currently under construction at the Iwakuni Mill will increase the Group's adoption rate of the ECF process to 75%. (See picture below.)

Paper Products as Plastic Substitutes

- We are developing paper products with plastic-like properties, including OPER® (plastic substitute) compatible with color laser printers and WAVY WAVY stretchable paper, which can be used for molding items (plastic substitute). In this way, we provide earth-friendly materials. (Refer to page 14 for further information.)

Low-Density Paper

- Low-density paper preserves natural resources. Higher use of low-density paper effectively conserves natural resources.



Research into chlorine-free bleaching

Low-Density Printing Paper

—delivering lighter weight while maintaining volume



Nippon Paper Industries Co., Ltd.

Nippon Paper Industries led the industry in the development of low-density printing paper. Sales are growing as we have expanded our product lineup.

New Product Development

Paper is an ideal recyclable material made from trees, a biomass resource that we are very familiar with.

By pursuing the potential of paper, we help create a bountiful lifestyle for people.

Nippon Paper Group's new product lineup is presented here.

MAM ECO BOARD N Recyclable Frames for Concrete Molds



Nippon Daishowa Paperboard Co., Ltd.

We succeeded in creating a recyclable paperboard-based frame to replace wood frames for concrete molds.

Handy Terminal Thermal Paper Helps in Energy-Saving



Nippon Paper Industries Co., Ltd.

Our new thermal paper features high sensitivity and image quality, and helps conserve battery life even in cold regions.

WAVYWAVY Stretchable Paper for Molding Items and POP Printing



Nippon Paper Industries Co., Ltd.

WAVYWAVY paper is used in POP printing and as a plastic substitute container as molding paper.

500g Paper Containers to Replace Plastic Containers



NIPPON PAPER-PAK CO., LTD.

Our paper containers can be used instead of plastic containers for yogurt, ice cream and other foods.

OPER[®]MDP for Color Laser Printers



Nippon Paper Industries Co., Ltd.

OPER[®]MDP water-resistant paper can be used in color laser printers. It is ideal for price cards, inventory tags, store handouts and posters.

Kleenex[®] Aroma Tissues with Lotion



CRECIA Corporation

Kleenex[®] Aroma tissues keep skin soft with moisturizing lotion, and refresh spirits with a gentle citrus aroma.

Auroren Special Polyolefinic Resin (Non-Chlorine)



Nippon Paper Chemicals Co., Ltd.

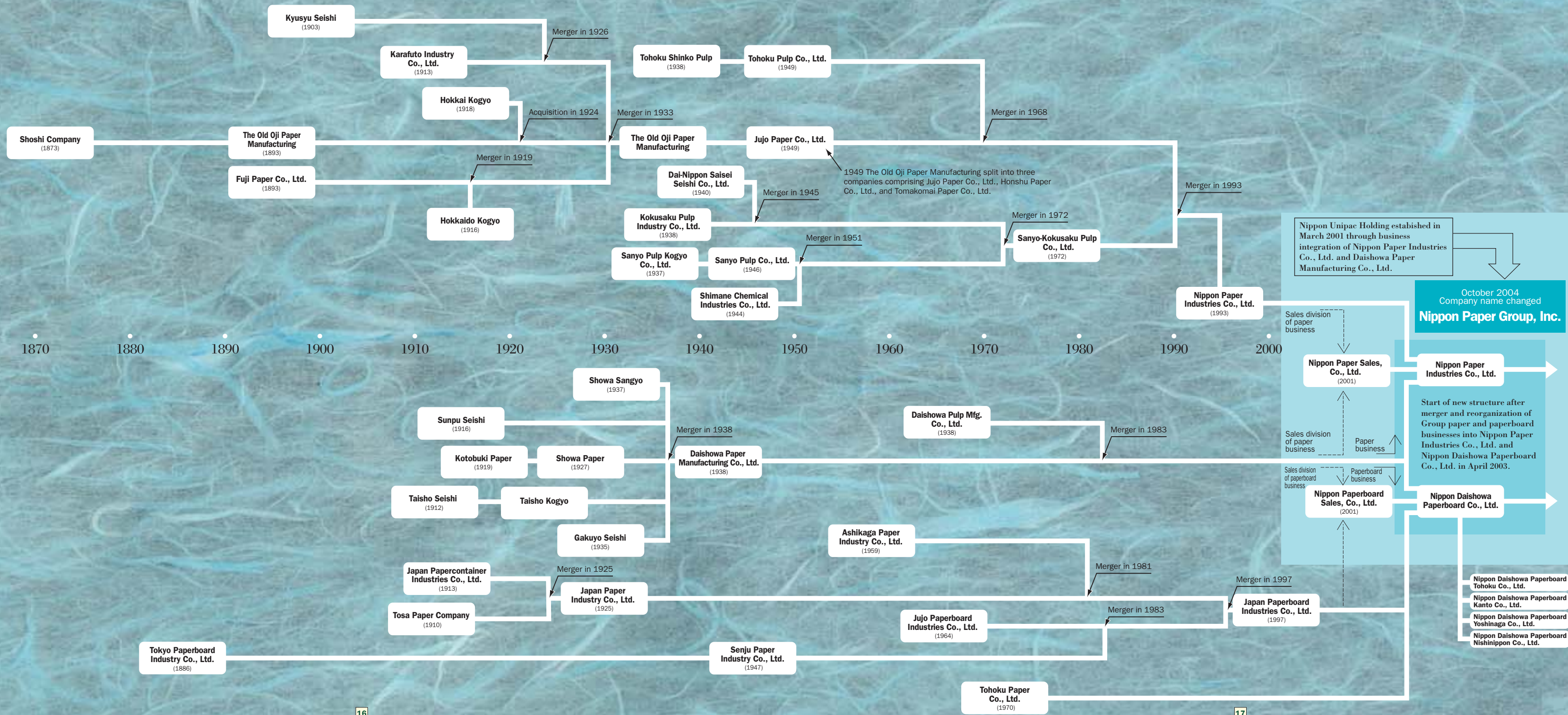
Painting on adhesive unfriendly materials is made possible by mixing Auroren in paint.



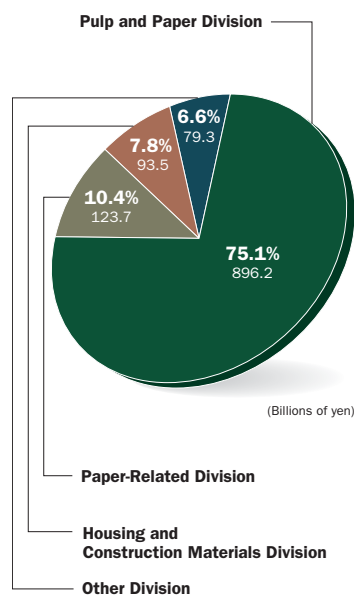
The planned development of Nippon Paper Group's business has come as a result of technical expertise acquired throughout its long history and the network that has arisen from it. Today, the Group supplies high-quality manufactured products—everything from paper to chemical products and construction materials. In this section, we would like to provide more information about the history behind Nippon Paper Group, its current business domains and principal companies.

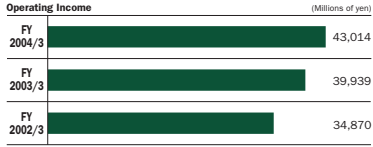






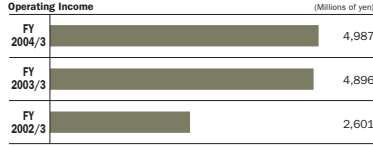




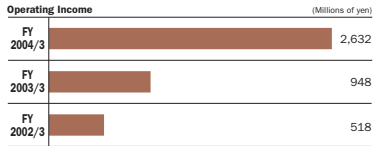


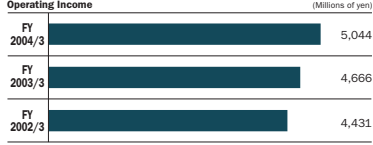

Harmony

HISTORY OF NIPPON PAPER GROUP, INC.



Sales Composure by Segment
(2004/3)



SEGMENT	MAJOR PRODUCT/SERVICE	BUSINESS OUTLINE	CORE COMPANY
PULP AND PAPER DIVISION 	Paper  <ul style="list-style-type: none"> • Newsprint • Printing and publication paper • Business communication paper • Packaging paper • Base stock for converted paper 	Paper is one of the Nippon Paper Group's core businesses. Leading our operations in this area is Nippon Paper Industries Co., Ltd., which was reorganized in April 2003. The division commands the largest share of the domestic market in three mainstay categories: newsprint, printing and publishing paper, and business communication paper. Backed by advanced technologies, our paper products are sought by customers and are an essential element of Japan's culture.	Nippon Paper Industries Co., Ltd. 
	Paperboard  <ul style="list-style-type: none"> • Containerboard • Folding box board • Base stock for building materials • Core base stock 	We designed the optimal production structure for paperboard operations, and established Nippon Daishowa Paperboard Co., Ltd. in April 2003. The division produces SIKRA PAK®, which is known for its superior waterproofing, and core paper as well as products for general use, such as containerboard and folding box board. The high quality of these products has helped the division earn the solid trust of its customers.	Nippon Daishowa Paperboard Co., Ltd. 
	Household Tissue  <ul style="list-style-type: none"> • Facial tissue • Bathroom tissue • Paper towels • Adult care products 	In Japan, the two largest and best-known brand names of household tissue, Kleenex® and Scottie®, are manufactured and sold by CRECIA Corporation. This company handles a range of products from household use to institutional use, such as facial tissues, toilet tissue and paper towels, including adult care products such as adult diapers and professional products such as industrial-use wipes.	CRECIA Corporation 
PAPER-RELATED DIVISION 	Processed Paper Products  <ul style="list-style-type: none"> • Liquid-packaging cartons • Filling machines and maintenance services • Corrugated board • Paper bags • Adhesive paper 	NIPPON PAPER-PAK CO., LTD. boasts a leading share of the domestic market in liquid-packaging cartons, such as the familiar one-liter milk cartons. The company provides these cartons in a comprehensive deal that also includes filling machines and maintenance services. Nichiita Package Industries Co., Ltd., launched in a restructuring of Group corrugated board subsidiaries in October 2003, mainly engages in sheet and case processing while advancing development of special products such as photocatalytic deodorizing filters.	NIPPON PAPER-PAK CO., LTD. 
	Chemical Products and Functional Materials  <ul style="list-style-type: none"> • Dissolving pulp • Chemical products • Functional films • Media for drafting or copying 	Nippon Paper Chemicals Co., Ltd. manufactures chemical products that utilize wood components. Products in this category have earned significant shares in their markets. They find applications in a variety of products, including paint, ink, dispersing agents, flavor enhancers, animal feed, sweeteners, and pharmaceutical products. The functional materials category produces hard-coated film for liquid crystal displays and other functional films with special characteristics.	Nippon Paper Chemicals Co., Ltd. 
HOUSING AND CONSTRUCTION MATERIALS DIVISION 	 <ul style="list-style-type: none"> • Lumber • Construction materials • Civil engineering business 	Nippon Paper Lumber Co., Ltd., as one of Japan's largest lumber distributors, operates a worldwide network that allows it to search overseas for lumber that is low in cost yet high in quality and to offer lumber products that meet a customer's specific needs. Daishowa Uniboard Co., Ltd. and PAL CO., LTD. aim at enhancing living and society by providing lumber construction materials that are environment-friendly and good for the human body.	Nippon Paper Lumber Co., Ltd. 
OTHER DIVISION 	 <ul style="list-style-type: none"> • Beverages • Transportation and logistics • Management of sports and amusement facilities 	Nippon Paper Group is engaged in a number of other business activities in an effort to maximize profitability for the entire Group. In the logistics business, we are working to develop regional structures designed to minimize the Group's aggregate distribution costs. Nippon Paper Development Co., Ltd. engages in afforestation projects in desertification areas in China along with Nippon Paper Industries Co., Ltd.	



Takahiko Miyoshi
President



Nippon Paper Industries Co., Ltd.

Established:

August 1, 1949

Paid-in Capital:

¥104,873 million

URL:

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

Representative:

President Takahiko Miyoshi

Main Products:

Newsprint

Printing and publication
paper

Business communication
paper

Packaging paper

Base stock for converted
paper

Sales in Fiscal 2004

(including intergroup sales) totaled:

¥648.3 billion

>> **Operating Environment** In fiscal 2004, domestic demand for paper remained weak, despite signs of a mild economic recovery in Japan led by exports and capital investment. Partly because of a rise in imported paper, shipments by domestic papermakers declined 1.0% compared with the previous fiscal year.

Material and fuel prices rose, mainly for wastepaper and crude oil, for which there was an increase in demand from China.

>> **Company Strengths** Most of Nippon Paper Industries' main mills are located along the coastline, offering substantial advantages in terms of cost competitiveness in Japan, which relies on imports for a majority of its raw material and fuel needs, such as woodchips and coal.

Our domestic paper business boasts a top share of the market in most product categories, and we expect gentle growth in line with expansion of the Japanese economy.

Nippon Paper Industries is well regarded for its product development capabilities. Our low-density paper used in books has brilliant characteristics, such as feeling light while having volume and legibility. Its sales volume has grown annually.

>> **Performance in Fiscal 2004** In fiscal 2004, there was a steep decline in sales of uncoated paper such as woodfree paper, while sales were favorable for new low-density paper products for publishers, "bitoko-shi" paper for mail order catalogs and fliers, and PPC. As a result, domestic sales volume of paper rose 0.6%, a slight but positive increase.

Prices for paper in Japan continued to soften slightly, decreasing 1.1% year on year due in part to an increase in imported paper. Wastepaper and crude oil costs rose across the industry, weighing down on profits.

On the other hand, profits were buoyed by efforts to reduce production costs, such as through a new de-inked pulp line at the Iwanuma Mill and the promotion of energy conservation. We also made significant reductions in labor and distribution costs.

>> **Outlook** In fiscal 2005, we expect costs to increase as prices rise for materials and fuel, including coal, crude oil and woodchips. Nippon Paper Industries aims to improve earnings through variable cost reductions, total labor cost reductions and paper sales reinforcement in line with reinforcing the First Medium-Term Business Plan.

As a part of our future growth strategy, we established Nippon Paper Industries Changde Co., Ltd. in Hebei Province, China in June 2004. In the first half of fiscal 2006, we plan to start production of uncoated paper, including woodfree paper as well as groundwood paper, after transferring idle facilities from Japan in a rationalization of production facilities.



Tetsuji Horikawa
President



Nippon Daishowa Paperboard Co., Ltd.

Established:

August 28, 1913

Paid-in Capital:

¥10,864 million

URL:

<http://www.nichidaiita.co.jp>

Representative:

President Tetsuji Horikawa

Main Products (Applications):

Linerboard and corrugating medium (*Corrugated board*)

White board (*Packages for confectionery, daily commodities, etc., publishing, catalogs*)

Other types of board (*Gypsum board base paper, paper core, etc.*)

Specialty paper (*plug wrap paper, teabag filter paper, etc.*)

Sales in Fiscal 2004

(including intergroup sales) totaled:

¥153.0 billion

>> **Operating Environment** There were two major changes in the operating environment for paperboard in fiscal 2004. The first change was an increase in the price of wastepaper, mainly due to higher production of paper in China, which pushed up export prices from Japan. Although conditions settled from the second half of the fiscal year, price trends for wastepaper warrant attention. The second change was a restoration of product prices. Each company in the industry, including Nippon Daishowa Paperboard put efforts to raise prices in order to maintain appropriate profit levels.

Paperboard is a material with low environmental impact, as it uses wastepaper as its main raw material. Paperboard will be in demand as long as products and distribution exist. Owing to the economic recovery, shipments of paperboard are on an uptrend, and with minor pressure from imports given the current price levels, we expect a stable operating environment to continue for some time.

>> **Company Strengths** Nippon Daishowa Paperboard's primary mills are located near the Kanto region, a major area of consumption, facilitating sales and procurement of wastepaper. Nippon Daishowa Paperboard has mills throughout Japan, making it easier to market products. The company maintains high capacity utilization in production, reflecting the closure of the Kameari Mill and the shutting down of facilities at Nippon Paper Industries' Shiraoi Mill.

>> **Performance in Fiscal 2004** Beginning operations under its new structure in fiscal 2004, Nippon Daishowa Paperboard got off to a good start as a result of efforts launched in October 2003 to steadily reduce costs and restore appropriate prices for such products as coated duplex board, linerboard and corrugating medium. Substantial cost reduction effects were realized from greater usage of wastepaper, improvement in distribution costs, lower energy costs from sludge boilers, and reductions in personnel. To reinforce the foundation of the downstream corrugated board business, we integrated eight corrugated board companies and launched Nichiita Package Industries Co., Ltd.

>> **Outlook** In fiscal 2005, we plan to continue taking measures to achieve profits over the targets in the business plan. Prioritizing sales at appropriate price levels, we are strengthening marketing by reviewing production and sales structures while upgrading operations after the merger. To further reduce costs, we are continuously making efforts to efficiently use facilities, reduce personnel and lower interest-bearing debt through selective investment. By securing earnings and strengthening the financial structure through these measures, we aim to satisfy the expectations of Nippon Paper Group shareholders in the future while building a robust corporate foundation.



Akihiko Hada
President



CRECIA Corporation

Established:

April 2, 1963

Paid-in Capital:

¥4,667 million

URL:

<http://www.crecia.co.jp>

Representative:

President Akihiko Hada

Main Products:

Facial tissue
Bathroom tissue
Paper towels
Pre-moistened wipes
Adult care products
Industrial-use wipes

Sales in Fiscal 2004

(including intergroup sales) totaled:
¥63.6 billion

>> **Operating Environment** We succeeded in improving prices in October 2002, resulting in 2003 the first year-on-year increase in sales value of sanitary paper since 1999. However, prices began to soften again from the summer of 2003. Prices weakened for facial tissue as a result of capacity expansion at second-tier manufacturers and the release of low-priced products by major manufacturers. Prices declined for bathroom tissue as major wastepaper product manufacturers expanded facilities, competition intensified from an increase in imported products, and the wastepaper product market expanded.

>> **Company Strengths** CRECIA Corporation has sustained growth as a result of its strong technological capabilities and its alliance with Kimberly-Clark Corporation in the two major global tissue brands, Kleenex® and Scottie®. The location of our four production bases, near major regions of consumption stretching from the Tokyo metropolitan area to western Japan, are a strength unrivaled by other companies.

>> **Performance in Fiscal 2004** In the first half of fiscal 2004, sales of Scottie® flower tissue were favorable, but intense competition from the summer onward put downward pressure on prices. We worked to strengthen our brand image based on the concepts of emphasizing price levels and not quantity in an aggressive campaign of TV commercials from October. As a result, ordinary income reached a new record high. Among measures implemented under our Medium-Term Business Plan, we halted operations of our #2 machine at our Kaisei mill in June, and to enhance management efficiency, we reorganized in October with the introduction of a three business sector structure comprising Family Care, Adult Care and Professional Care.

>> **Outlook** We expect challenging conditions to persist from the impact of including consumption taxes in prices from April 2004 and trends at major wastepaper product manufacturers and in imported products. We aim to be a stable, highly profitable company that bolsters prices through the continued introduction of new high-value-added products. Under our Medium-Term Business Plan, we aim to further bolster sales capabilities and improve productivity by establishing an optimal production structure among mills and by reviewing marketing strategies.



Masayuki Usui
President



NIPPON PAPER-PAK CO., LTD.

Established:

March 18, 1965

Paid-in Capital:

¥4,000 million

URL:

<http://www.nipponpaper-pak.com>

Representative:

President Masayuki Usui

Main Products and Services:

- Liquid-packaging cartons
- Filling machines and related maintenance services
- Paper containers
- Film for food packaging use
- Film for industrial packaging use

Sales in Fiscal 2004

(including intergroup sales) **totalled:**

¥44.1 billion

>> **Operating Environment** As special emphasis is placed on the management of safety and sanitation in the food services industry, NIPPON PAPER-PAK has made concerted efforts to upgrade the historical information on the products delivered to customers for better traceability while also reviewing packing materials with the aim of providing safe and secure packaging containers. As the beverage market matures competition is heating up, however, paper materials are expected to appeal more to users and consumers due to their superior environmental characteristics.

>> **Company Strengths** NIPPON PAPER-PAK sells a broad range of packaging products made of “paper” as an environmentally friendly material, from PURE-PAK® chilled liquid-packaging cartons to NS-FUJI PAK® aseptic packaging cartons. In addition, the Company supplies these cartons as part of an integrated system that includes special filling machines and related maintenance services, thereby proactively fulfilling all customer needs.

>> **Performance in Fiscal 2004** Despite decreased demand due to cool summer weather and a drop in milk production volume, our marketing efforts successfully expanded the sales volume of liquid-packaging cartons beyond that of the previous fiscal year and brought ¥44.1 billion in sales. On the other hand, we strove to reorganize NIPPON PAPER-PAK group companies in fiscal 2004, closing down Hasuda Packaging Co., Ltd., integrating production facilities, and outsourcing logistics operations. In addition, we made steady progress in streamlining the headcount toward establishing a 1,000-employee structure by the end of fiscal 2006.

>> **Outlook** Despite the continuing adverse business conditions, our sales in fiscal 2005 are expected to see marginal growth while our operating income is expected to increase slightly compared to the previous fiscal year through reductions in fixed costs and reduced production costs realized by improvements in production efficiency. Besides integrating and modernizing our production facilities, we initiated the first steps toward a sweeping reform of the film business. In China, a joint venture plant with Elopak AS for the PURE-PAK® business in China is scheduled to start operations in fiscal 2006. At the same time, we are promoting development of the NS-FUJI PAK® business there.



The Company's chlorinated polyolefin product range is used in paints and primers for automobile external components (bumpers, hubcaps).



To increase the durability and workability of concrete, the Company also develops and manufactures essential concrete admixture, which has a large share of the market.



Akira Machihara
President



Nippon Paper Chemicals Co., Ltd.

Established:
October 1, 2002

Paid-in Capital:
¥3,000 million

URL:
<http://www.npchem.co.jp>

Representative:
President Akira Machihara

Main Products (Applications):

Dissolving pulp (*rayon, cellophane, cellulose derivatives, etc.*)

Chlorinated polyolefin, special polyolefinic resin (*paint, ink, adhesives, etc.*)

Lignin products (*concrete admixture, bonds, etc.*)

Carboxymethyl cellulose (CMC) (*thickener, stabilizer, etc.*)

Powdered cellulose (*resin additive, filter auxiliaries, food additives, etc.*)

Yeast extract (*foods, animal feed, etc.*)

Ribonucleic acid (*seasonings, culture media, etc.*)

Stevia extract, glycyrrhizin (*natural sweetener*)

Sales in Fiscal 2004
(including intergroup sales) **totaled:**
¥22.9 billion

>> Operating Environment The operating environment continued to be favorable for products sold by Nippon Paper Chemicals, supported by stronger customer needs for high-quality, high-performance products and market expansion spurred by growth in the Chinese economy. Performance was strong in the dissolving pulp business, as international prices rose amid a tightening in the supply/demand balance, and in the chlorinated polyolefin business, with robust demand for automobile paint around the world. On the other hand, the environment is becoming severe on the cost front as raw material prices have been increasing, including crude oil prices reflecting the tightening balance between supply and demand and the unstable international situation.

>> Company Strengths Nippon Paper Chemicals has gained the long-lasting trust of its customers based on three strengths. The first strength is its flexible and integrated business development structure that promotes synergetic cooperation in production, sales and R&D from the customers' perspective. The second strength is its flat organizational structure, which enables rapid decision-making. The third is its development structure that emphasizes the cultivation of proprietary technologies.

>> Performance in Fiscal 2004 Fiscal 2004 marked the first year of our Medium-Term Business Plan. Although net sales were behind target by 4%, we achieved an ordinary income margin of 9.2% and return on equity of 10.9% as a result of efforts to improve costs and reduce selling, general and administrative expenses. Capital investment was mainly allocated for construction work related to business expansion and security measures and the like to contribute to future earnings and security measure, which were completed ahead of schedule under the Medium-Term Business Plan.

>> Outlook In October 2004, Nippon Paper Chemicals integrated the functional materials business of Nippon Paper Industries in an aim to further expand operations. Although input costs are expected to rise in existing businesses due to raw material price inflation, we aim to attain profit targets through businesses buoyed by favorable sales environments. Moreover, we will continue aggressive efforts in investment with the aim of reducing costs.



Shin-ichiro Matsumura
President



Making full use of recycled paper, the Company's insulation materials is also used in the Makomanai sports arena (Sapporo Winter Olympics venue).



Nippon Paper Lumber Co., Ltd.

Established:

September 10, 1970

Paid-in Capital:

¥440 million

URL:

<http://www.np-l.co.jp>

Representative:

President Shin-ichiro Matsumura

Main Products:

Imported logs (*softwood, hardwood*)

Lumber products

Glued lumber

Plywood

Pulpwood, woodchips

Wastepaper

Insulation materials

Sales in Fiscal 2004

(including intergroup sales) **totalled:**

¥74.0 billion

>> Operating Environment For fiscal 2004, the number of new housing starts showed a year-on-year increase for the first time in three years, owing to a demand rush prior to the expiration of housing loan tax breaks. As a result, demand recovered for lumber and housing materials. We expect demand to remain largely unchanged in fiscal 2005 due to the government's decision to extend housing loan tax breaks. Nevertheless, we believe the operating environment for the lumber industry is uncertain due to several negative factors that include rising materials prices around the world and higher freight charges.

>> Company Strengths After integrating the Nippon Paper Group's logs and lumber operations, Nippon Paper Lumber is leveraging its creditability and capital position as a member of the Nippon Paper Group to achieve further growth as the top company in the log and lumber distribution industry. More than 170 lumber professionals handle a wide range of log and lumber products, directly importing from countries around the world and meeting end user needs through a national network of marketing bases. We aim to expand the recycling business by planting forests as well as by collecting, shipping and selling scrap wood chips and wastepaper.

>> Performance in Fiscal 2004 As a result of making every effort to realize synergy effects, Nippon Paper Lumber recorded a significant boost in sales and profits in fiscal 2004. Sales of existing products increased, especially in the paper raw material division in accordance with the consolidation of the domestic chip collecting business from the Nippon Paper Group, which contributed to the Group overall. Nippon Paper Lumber also focused efforts on expanding sales of lumber products, a primary objective in the Medium-Term Business Plan.

>> Outlook Pre-cut lumber is fast becoming mainstream in the industry. This trend is particularly pronounced in major cities in Japan. To meet this demand, Nippon Paper Lumber is making concerted efforts to reorganize its lumber distribution centers in the Tokyo metropolitan area and to bolster marketing in the lumber product and building material division. We intend to lead the market in our own way by revaluing domestic lumber and strengthening the recycling business. Combining Group-wide efforts, we aim to attain the targets of the Medium-Term Business Plan and realize further synergy effects.

VISION

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

Ideals for Our group

1. Achieving superior, stable profits for our shareholders
2. Winning the trust of our customers
3. Having positive, forward-looking employees
4. Preserving corporate ethics

Vision

Nippon Paper Group will strive to become a world-class company through its diverse business activities and has formulated the four ideals on the left for fulfilling its vision.

Corporate Governance

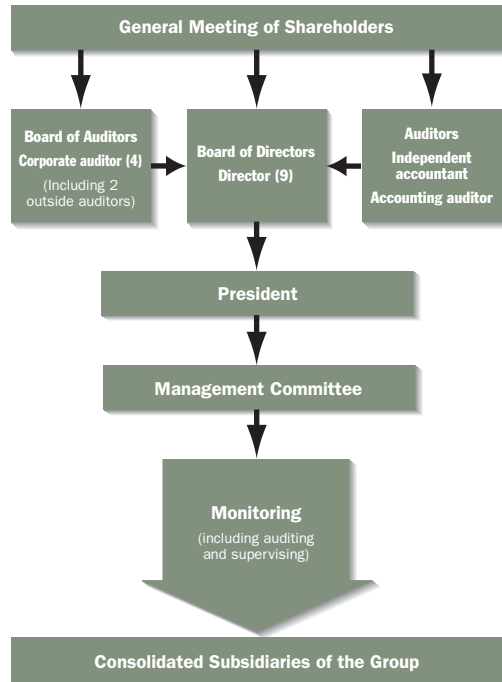
Nippon Paper Group, Inc. considers fair management as an important issue for increasing transparency of management for shareholders. As a pure holding company, Nippon Paper Group, Inc. is underpinned by the basic concept of corporate governance, which separates management and business execution, promotes growth strategies for each Group company to enhance shareholder value, monitors and audits Group companies as the control center for Group management, and fulfills its disclosure responsibilities to shareholders. We aim to thoroughly instill compliance by monitoring and auditing each Group company.

Corporate Governance Structure

Nippon Paper Group has clearly defined the organization and roles within it, separating Group governance and business execution at each Group company. In enforcing governance, we take a minimal approach to influencing the business execution of Group companies, and in principle promote freedom, independence and self-responsibility at Group companies.

The Board of Directors determines matters pertaining to the basic policies, rules and articles of incorporation for Nippon Paper Group, Inc. and Group management, as well as other important management-related matters. At the same time, the Board of Directors is positioned as the institution for monitoring business execution. Under the Board of Directors, the Management Committee, comprised of all directors and auditors including the chairman, deliberates on important matters related to the business execution of Group companies, including basic policies and strategies related to the management of Nippon Paper Group, Inc. and Group companies. The Management Committee also makes efforts to thoroughly instill compliance. The Board of Directors comprises nine directors.

For auditing functions, Nippon Paper Group, Inc., has in place corporate auditors as well as a board of auditors composed of corporate auditors in line with statutory regulations related to commercial law. Auditors participate in important meetings such as the Management Committee and the Board of Directors to closely observe the business execution activities of directors, and monitor the legality and appropriateness of companywide operations. Auditors comprise two corporate auditors and two outside auditors. The Auditors Information Network is set up for auditors from each Group company to periodically deliberate and share information on auditing principles and methods as well as to strengthen ties among members.



CSR Promotion Structure

We established the CSR Committee on October 1, 2003 to promote corporate social responsibility (CSR). The CSR Committee is chaired by the vice president who is the director in charge of CSR, and the CSR Office is under the direct control of the president to support committee activities. Nippon Paper Group, Inc. promotes unified efforts at management to fulfill its comprehensive social responsibilities from the perspective of economic activities, environmental efforts and social fairness.

Compliance

Under the CSR Committee, the Corporate Ethics Subcommittee prepared for the formulation of the Group's Action Charter and Codes of Conduct. On April 1, 2004, the committee formulated the Action Charter as a basis for fulfilling our corporate social responsibility, and the Codes of Conduct based on the Action Charter. We are working to reinforce the Group's compliance structure to enforce the strict observance of social norms and ethics.

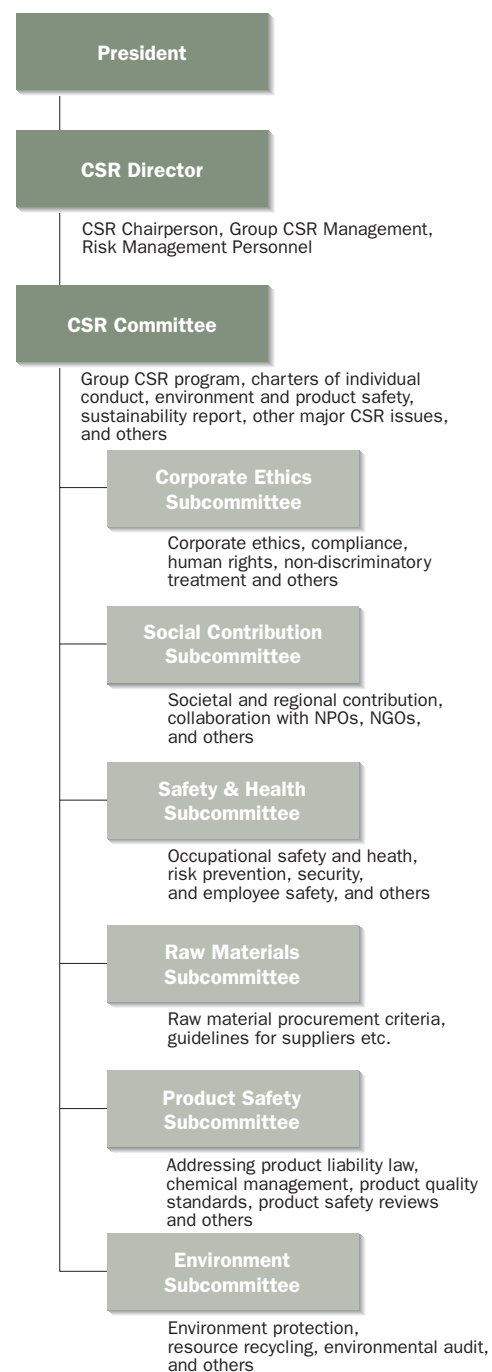
Action Charter

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

Helpline

We set up a helpline on April 1, 2004, as a way for Group employees, temporary staff and contract employees to confer or report on compliance issues. In addition to an internal office, we also have an external office for reaching attorneys and independent third-party institutions. The Compliance Office in the General Affairs Department of Nippon Paper Industries Co., Ltd. is in charge of administrating the helpline system, and works to quickly resolve issues brought up by employees while protecting their privacy and carefully managing information.

Nippon Paper Group's CSR Promotion Structure



BOARD OF DIRECTORS

(As of June 29, 2004)



(Front row, from left to right) Masao Kobayashi, Takahiko Miyoshi, Koshiro Kitaoka

(Back row, from left to right) Nobuyuki Otsuki, Keisuke Ito, Iwao Nakajima, Masatomo Nakamura, Tsuyoshi Yamashita, Tetsuji Horikawa

Chairman

Masao Kobayashi

President

Takahiko Miyoshi

President of Nippon Paper Industries Co., Ltd. as an additional post

Executive Vice-President

Koshiro Kitaoka

Assistant to the president, Specializing in CSR

Directors

Iwao Nakajima

Specializing in Personnel
Executive Vice President of Nippon Paper Industries Co., Ltd. as an additional post

Masatomo Nakamura

Specializing in Corporate Planning and Investor Relations

Senior Managing Director and General Manager of the Corporate Planning Div. of Nippon Paper Industries Co., Ltd. as an additional post

Nobuyuki Otsuki

Specializing in Technology

Senior Managing Director and General Manager of Technical & Engineering Div. of Nippon Paper Industries Co., Ltd. as an additional post

Keisuke Ito

Specializing in Finance

Director and General Manager of the Financial Div. of Nippon Paper Industries Co., Ltd. as an additional post

Tsuyoshi Yamashita

Specializing in General Affairs

Director and General Manager of the Personnel & General Affairs Div. of Nippon Paper Industries Co., Ltd. as an additional post

Tetsuji Horikawa

President of Nippon Daishowa Paperboard Co., Ltd. as an additional post

Permanent Auditor

Yoshinari Inoue

Permanent Auditor of Nippon Paper Industries Co., Ltd. as an additional post

Auditor

Hirotoishi Ishikawa

Outside Auditors

Takashi Kawahara

Outside Auditor of Nippon Paper Industries Co., Ltd. as an additional post

Naoki Yanagida

Outside Auditor of Nippon Paper Industries Co., Ltd. as an additional post



Analysis

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CONSOLIDATED 3-YEAR SUMMARY

Nippon Unipac Holding and Consolidated Subsidiaries

(Millions of yen)

FOR THE YEAR:	2004 2003.4.1-2004.3.31	2003 2002.4.1-2003.3.31	2002 2001.3.30-2002.3.31
Net sales	¥1,192,649	¥1,165,450	¥1,211,422
Cost of sales	919,602	892,906	919,859
Operating income	55,679	50,450	42,422
Net income (loss)	24,258	4,880	(636)
Depreciation	81,259	83,223	87,144
Capital expenditure	57,423	76,904	69,511
Free cash flow	14,425	56,804	13,221
PER SHARE DATA (Yen):			
Net income (loss)	22,025.22	4,283.53	(590.30)
Dividends	8,000	8,000	8,000
Total shareholders' equity	392,140.80	374,133.23	377,308.99
AT THE YEAR-END:			
Total assets	1,637,366	1,630,126	1,721,745
Current assets	476,649	455,445	517,698
Property, plant and equipment, net	900,013	924,597	941,428
Total investments and other assets	260,703	250,083	262,618
Liabilities and minority interests	1,207,744	1,221,923	1,314,376
Total shareholders' equity	429,621	408,202	407,369
Interest-bearing debt	842,278	851,311	903,336
RATIOS (%):			
ROA (Note 1)	3.8	3.2	2.6
ROE (Note 2)	5.8	1.2	(0.2)
ROIC (Note 3)	4.9	4.2	3.4
Debt/Equity (times)	1.9	2.0	2.1
Equity Ratio	26.2	25.0	23.7

Notes: 1. Ordinary income before interest / Interim averaged assets

2. Net income / Total shareholders' equity

3. (Ordinary income + Interest expense) / (Interest-bearing debt + Total shareholders' equity)

Summary of Operations

During fiscal 2004, ended March 31, 2004, the Japanese economy embarked on a gentle recovery led by exports and capital investment, driven by firm growth in the U.S. and Chinese economies in the second half, despite a lull in the first half stemming from economic uncertainties.

In the paper industry, domestic demand for paper in calendar 2003 edged up 0.5% year on year, the first increase in three years. However, domestic shipments declined 1.0% due to an increase in imported paper. In the paperboard industry, domestic demand and shipments rose 0.5% due to firm demand for mainly food- and beverage-related applications. Meanwhile, prices for coal and wood chips climbed as supply and demand conditions tightened internationally, and prices for wastepaper and heavy fuel oil also rose, making for a difficult operating environment overall.

Under these conditions, the Nippon Unipac Holding Group launched a new organizational structure for its paper and paperboard operations in fiscal 2003, the first year of its First Medium-Term Business Plan. To establish a stable high-profit business structure, the Group strove to improve its financial position by restructuring production and reducing costs, including efforts to improve prices and slash procurement costs.

As a result, consolidated net sales grew 2.3%, or ¥27,198 million, compared with the previous fiscal year, to ¥1,192,649 million (US\$11,358.6 million). Ordinary income advanced 27.7%, or ¥10,993 million, to ¥50,665 million (US\$482.5 million), operating income increased 10.4%, or ¥5,228 million, to ¥55,679 million (US\$530.3 million) and net income soared 397.0%, or ¥19,378 million, to ¥24,258 million (US\$231.0 million).

Review of Operations

Pulp and Paper Division

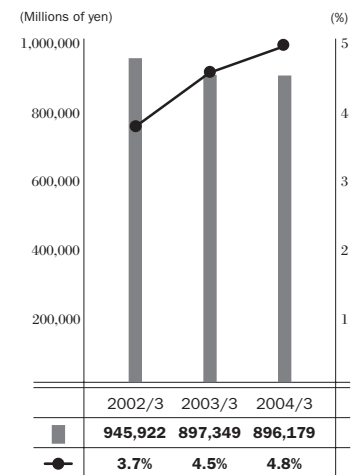
In the paper business, newsprint sales declined in reaction to a surge in demand related to the FIFA World Cup in 2003, but advertising picked up along with the economy from the second half of the fiscal year under review, resulting in roughly the same sales volume in Japan as in the previous fiscal year.

Domestic sales volume for other paper edged up from the previous fiscal year, reflecting solid demand for coated and “bitoko-shi” paper for flyers and catalogs as well as PPC paper. Sales prices were weakened by imported paper.

Sales volume of paperboard decreased due to the closure of our Kameari Mill in 2003 and ongoing reductions to production volume to support market prices. On the other hand, sales prices staged a recovery, primarily for containerboard, and remained steady from October 2003 onward.

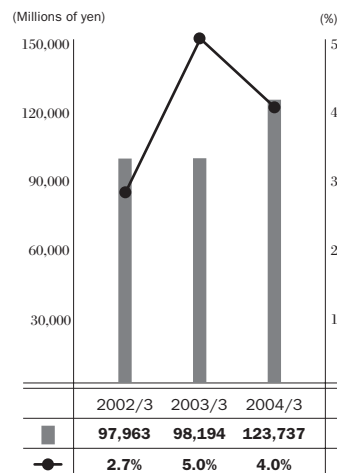
Pulp and Paper Division

Net sales and operating income ratio



Paper-Related Division

Net sales and operating income ratio



In the household tissue business, sales volume increased compared with the previous fiscal year, buoyed by firm sales of new products released in February 2003. Sales prices remained weak from the end of 2003 onward.

As a result, net sales of pulp and paper slipped 0.1% compared with the previous fiscal year to ¥896,179 million (US\$8,535.0 million), while operating income rose 7.7% to ¥43,014 million (US\$409.7 million).

Paper-Related Division

With regard to PURE-PAK[®] and other liquid-packaging cartons, sales volume was favorable for mainly healthy drinks.

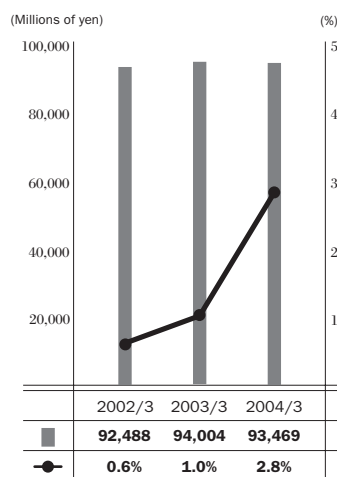
Sales volume in the corrugated board business declined due to lackluster consumption. Sales prices, however, increased in some categories from December 2003 to reflect the rising cost of containerboard. The corrugated board business was added to the scope of consolidation during the fiscal year under review.

In chemical products, although demand was robust for chlorinated polyolefin for paint applications, demand was weak for carboxymethyl cellulose (CMC) for civil engineering applications.

As a result, net sales of the Paper-Related Division grew 26.0% compared with the previous fiscal year to ¥123,737 million (US\$1,178.4 million), and operating income rose 1.9% to ¥4,987 million (US\$47.5 million).

Housing and Construction Materials Division

Net sales and operating income ratio



Housing and Construction Materials Division

In the Housing and Construction Materials Division, sales of low-formaldehyde building materials were favorable as housing starts increased year on year for the first time in three years. Net sales declined 0.6% to ¥93,469 million (US\$890.2 million). Operating income rose 177.6% to ¥2,632 million (US\$25.1 million).

Other Division

In the soft drinks and other beverages business, we focused efforts on sales in line with diversifying consumer needs, despite the influence of record-setting cool weather during the summer. In logistics, leisure and other businesses, performance was strong. As a result, net sales in this segment totaled ¥79,262 million (US\$754.9 million), an increase of 4.4% compared with the previous fiscal year. Operating income rose 8.1% to ¥5,044 million (US\$48.0 million).

Costs, Expenses and Earnings

The cost of sales for the fiscal year under review was ¥919,602 million (US\$8,758.1 million), an increase of 3.0% compared with the previous fiscal year. Cost of sales as a percentage of net sales was 77.1%, an increase of 0.5 percentage point. This increase was due mainly to weakened prices on some paper products and exports, as well as a significant rise in prices of wastepaper and heavy fuel oil due to tightening supply-demand conditions as a result of economic growth in China.

Selling, general and administrative (SG&A) expenses shrank 2.1% to ¥217,367 million (US\$2,070.2 million), owing to lower labor costs due to personnel reductions. As a percentage of net sales, SG&A expenses were 18.2%. Operating income advanced 10.4% to ¥55,679 million (US\$530.3 million), representing 4.7% of net sales, an improvement of 0.4 percentage point compared with the previous fiscal year. Despite weak prices on some products, and rising material and fuel prices, we were able to secure an increase in profits as a result of aggressive efforts to reduce costs, including business reorganization, rationalization of production facilities, improvements in yields in manufacturing, energy conservation and lower distribution costs.

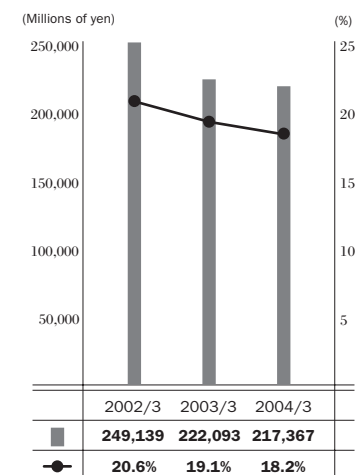
In the category of other income (expenses), including extraordinary items, there was a net expense of ¥19,161 million (US\$182.5 million). Major items comprised ¥11,112 million (US\$105.8 million) in interest expense, ¥5,433 million (US\$51.7 million) in gain on return of the substitutional portion of the Welfare Pension Fund Plan, ¥7,120 million (US\$67.8 million) in supplementary retirement benefits, and ¥6,054 million (US\$57.7 million) in loss on restructuring. Interest expense declined ¥2,103 million compared with the previous fiscal year, as the Group pared down interest-bearing debt and borrowed on more favorable interest rate terms. The gain on return of the substitutional portion of the Welfare Pension Fund Plan was recorded as Nippon Paper Industries Co., Ltd. received permission to be exempted from future payments on the substitutional portion of the Welfare Pension Fund Plan in accordance with the Defined Benefit Corporate Pension Law. The loss on restructuring was due to the restructuring of hotel operations at a subsidiary, etc.

As a result, income before income taxes and minority interests soared 353.3% to ¥36,517 million (US\$347.8 million), and net income climbed 397.0% to ¥24,258 million (US\$231.0 million).

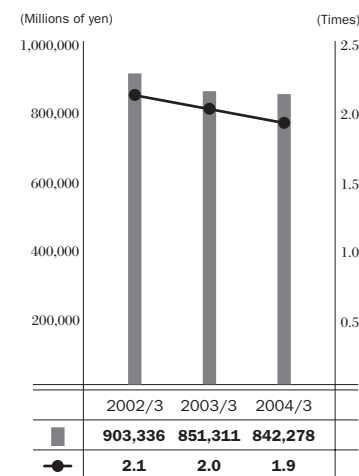
Basic net income per share totaled ¥22,025.22, compared with ¥4,283.53 for the previous fiscal year. Diluted net income per share was ¥21,132.64, compared with ¥4,137.37 a year earlier.

Our basic policy on the distribution of profits to shareholders and investors is to meet their expectations by strengthening our management base, boosting our profit-earning capacity, and working to increase corporate value. After due consideration of the Group's performance and internal reserves, we declared cash dividends of ¥8,000.00 (US\$76.20) per common share applicable to the fiscal year under review, in line with our policy of maintaining stable dividends as much as possible.

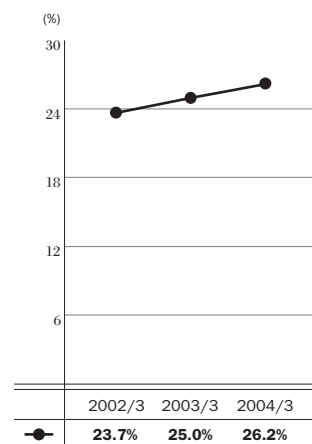
Selling, General and Administrative Expenses and Proportion to Net Sales



Interest-Bearing Debt and Debt/Equity Ratio



Shareholders' Equity Ratio



Financial Position

As of March 31, 2004, total assets amounted to ¥1,637,366 million (US\$15,594.0 million), an increase of 0.4% from the end of the previous fiscal year.

Current assets increased ¥21,203 million to ¥476,649 million (US\$4,539.5 million). This reflects a decrease of ¥13,563 million in cash and cash equivalents to ¥21,624 million (US\$205.9 million), owing to the integration of capital procurement across the Group and efforts to reduce cash on hand, as well as an increase of ¥14,367 million in notes and accounts receivable—trade to ¥247,289 million (US\$2,355.1 million), as a result of adding corrugated board subsidiaries, etc. to the scope of consolidation.

Net property, plant and equipment edged down ¥24,584 million, compared with the previous fiscal year, to ¥900,013 million (US\$8,571.6 million), as capital investment was kept within depreciation.

Total investments and other assets grew ¥10,620 million to ¥260,703 million (US\$2,482.9 million). Investments in other securities rose to ¥92,835 million (US\$884.1 million), reflecting a recovery in share prices, etc., while deferred tax assets fell ¥12,626 million to ¥15,977 million (US\$152.2 million).

Total current liabilities and long-term liabilities fell ¥10,780 million to ¥1,185,143 million (US\$11,287.1 million). It's owing to a decrease of ¥30,140 million in notes and accounts payable—trade to ¥108,354 million (US\$1,031.9 million) by integrating payable terms and conditions on the merger of Nippon Paper Industries Co., Ltd. and Daishowa Paper Manufacturing Co., Ltd. in April 2003, and an increase of ¥9,449 million in deferred tax liabilities to ¥13,422 million (US\$127.8 million) due to an increase in gains from mark-to-market valuations on securities.

The balance of interest-bearing debt as of March 31, 2004 was ¥842,278 million (US\$8,021.7 million), a decrease of ¥9,032 million from a year earlier, despite the addition of newly consolidated subsidiaries. Financing for operating capital and capital investment was procured through corporate bonds, borrowings from financial institutions and commercial paper etc. The Group's basic policy on procurement is to take advantage of the most beneficial conditions at the time. As a result, the interest coverage ratio improved from 9.8x to 8.0x.

Minority interests decreased ¥3,399 million to ¥22,601 million (US\$215.2 million), owing primarily to the Group turning SAN-MIC CHIYODA CORPORATION into a wholly owned subsidiary through an equity swap.

Shareholders' equity totaled ¥429,621 million (US\$4,091.6 million), an increase of ¥21,418 million from the end of the previous fiscal year. Retained earnings grew ¥5,375 million to ¥118,044 million (US\$1,124.2 million), reflecting the increase in net income and dividend payments. Unrealized holding gain on other securities amounted to ¥15,427 million (US\$146.9 million) by a recovery in share prices.

As a result, the shareholders' equity ratio increased from 25.0% to 26.2%. The shareholders' equity ratio in terms of market capitalization rose from 29.6% to 37.1% at the end of the fiscal year under review.

Cash Flows

On a consolidated basis, cash and cash equivalents at the end of the fiscal year dropped 38.5%, or ¥13,563 million, to ¥21,624 million (US\$205.9 million), as net cash provided by operating activities was allocated to capital investment and others, and the integration of Group financing led to a reduction in cash on hand.

Cash Flows from Operating Activities

Net cash provided by operating activities fell 32.3%, or ¥41,606 million, compared with the previous fiscal year, to ¥87,089 million (US\$829.4 million). The main use of cash was payables of ¥32,582 million (US\$310.3 million) for integrating payable terms and conditions on the merger of Nippon Paper Industries Co., Ltd. and Daishowa Paper Manufacturing Co., Ltd. in April 2003.

In the fiscal year ended March 31, 2003, receivables of ¥36,535 million and payables of ¥36,558 million were recorded as a result of March 31, 2002 being a holiday.

Cash Flows from Investing Activities

Net cash used in investing activities rose 1.1%, or ¥773 million, to ¥72,664 million (US\$692.0 million). The main use of cash was for purchases of property, plant and equipment in the amount of ¥66,321 million (US\$631.6 million), a 14.1% decrease compared with the previous fiscal year.

Cash Flows from Financing Activities

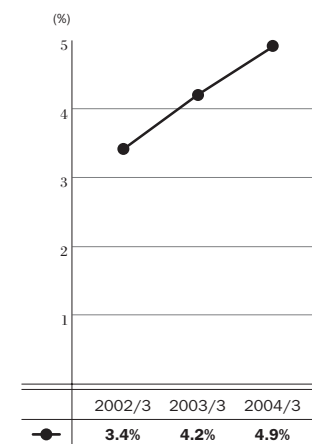
Net cash used in financing activities fell 47.5%, or ¥26,108 million, to ¥28,830 million (US\$274.6 million), reflecting cash dividends paid of ¥13,544 million (US\$129.0 million), an increase of 184.7% compared with the previous fiscal year, and a decrease in short-term borrowings of ¥9,095 million (US\$86.6 million), compared with ¥42,318 million in the previous fiscal year.

Free Cash Flow

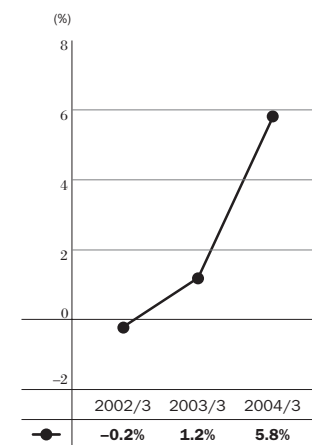
	Full fiscal year 2002	Fiscal year ended March 31, 2003	Fiscal year ended March 31, 2004
Depreciation	87,144	83,223	81,259
Capital expenditures	69,511	76,904	57,423
Free cash flow	13,221	56,804	14,425

(Millions of yen)

Return on Invested Capital (ROIC)



Return on Equity (ROE)



CONSOLIDATED BALANCE SHEETS

Nippon Unipac Holding and Consolidated Subsidiaries

Millions of yen

Thousands of U.S. dollars
(Note 3)

ASSETS

CURRENT ASSETS:

	March 31, 2004	March 31, 2003	March 31, 2004
Cash and cash equivalents	¥ 21,624	¥ 35,187	\$ 205,943
Marketable securities (Note 12)	42	173	400
Receivables:			
Notes and accounts receivable:			
Trade (Note 6)	247,289	232,922	2,355,133
Unconsolidated subsidiaries and affiliates	16,072	13,548	153,067
Other	13,635	5,764	129,857
Loans receivable from unconsolidated subsidiaries and affiliates	13,489	11,787	128,467
Allowance for doubtful receivables	(2,048)	(4,050)	(19,505)
Inventories (Note 4)	134,616	138,174	1,282,057
Deferred tax assets (Note 8)	17,900	7,767	170,476
Other current assets (Note 7)	14,027	14,170	133,590
Total current assets	476,649	455,445	4,539,514

PROPERTY, PLANT AND EQUIPMENT (Note 6):

Land	254,684	249,859	2,425,562
Buildings and structures	464,934	457,288	4,427,943
Machinery and equipment	1,872,601	1,848,067	17,834,295
Construction in progress	23,969	26,535	228,276
Other	21,218	21,285	202,076
	2,637,409	2,603,036	25,118,181
Less accumulated depreciation	(1,737,395)	(1,678,438)	(16,546,619)
Property, plant and equipment, net	900,013	924,597	8,571,552

INVESTMENTS AND OTHER ASSETS:

Investments in and advances to unconsolidated subsidiaries and affiliates	87,246	72,873	830,914
Investments in other securities (Notes 6 and 12)	92,835	65,102	884,143
Deferred tax assets (Note 8)	15,977	28,603	152,162
Other assets	114,191	135,252	1,087,533
Allowance for doubtful receivables	(49,547)	(51,748)	(471,876)
Total investments and other assets	260,703	250,083	2,482,886

TOTAL ASSETS (Note 13)

¥ 1,637,366	¥ 1,630,126	\$ 15,593,962
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See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31, 2004	March 31, 2003	March 31, 2004
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings (Note 5):			
Loans payable and commercial paper	¥ 362,933	¥ 366,099	\$ 3,456,505
Unconsolidated subsidiaries and affiliates	876	140	8,343
Current portion of long-term debt (Note 5):			
Bonds and loans payable	111,518	132,496	1,062,076
Unconsolidated subsidiaries and affiliates	—	200	—
Notes and accounts payable:			
Trade	108,354	138,494	1,031,943
Unconsolidated subsidiaries and affiliates	27,211	18,103	259,152
Other	78,315	70,587	745,857
Accrued income taxes (Note 8)	6,992	8,361	66,590
Other current liabilities	30,216	26,451	287,771
Total current liabilities	726,418	760,934	6,918,267
LONG-TERM LIABILITIES:			
Long-term debt (Note 5):			
Bonds and loans payable	366,950	347,652	3,494,762
Accrued retirement benefits (Note 7)	72,064	74,926	686,324
Allowance for losses on guarantees	—	522	—
Deferred tax liabilities (Note 8)	13,422	3,972	127,829
Other long-term liabilities	6,287	7,915	59,876
Total long-term liabilities	458,724	434,989	4,368,800
MINORITY INTERESTS	22,601	26,000	215,248
CONTINGENT LIABILITIES (Note 11)			
SHAREHOLDERS' EQUITY (Notes 9 and 16):			
Common stock:			
Authorized—3,000,000 shares;			
Issued —1,105,235.63 shares in 2004 and 2003	55,730	55,730	530,762
Capital surplus	252,447	252,964	2,404,257
Retained earnings	118,044	112,668	1,124,229
Unrealized holding gain (loss) on other securities	15,427	(743)	146,924
Translation adjustments	(6,525)	(4,391)	(62,143)
	435,123	416,228	4,144,029
Less treasury stock, at cost:			
10,163.81 shares in 2004 and 14,751.24 shares in 2003	(5,502)	(8,025)	(52,400)
Total shareholders' equity	429,621	408,202	4,091,629
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	¥1,637,366	¥1,630,126	\$15,593,962

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

Nippon Unipac Holding and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 3)
	Years ended March 31,		
	2004	2003	2004
NET SALES (Note 13)	¥1,192,649	¥1,165,450	\$11,358,562
COST OF SALES (Note 13)	919,602	892,906	8,758,114
GROSS PROFIT	273,047	272,543	2,600,448
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 13)	217,367	222,093	2,070,162
OPERATING INCOME (Note 13)	55,679	50,450	530,276
OTHER INCOME (Expense):			
Interest expense	(11,112)	(13,215)	(105,829)
Interest and dividend income	2,561	2,495	24,390
Gain on sales of investments in other securities	1,003	729	9,552
Loss on sales of property, plant and equipment, net of disposal	(3,698)	(1,455)	(35,219)
Equity in earnings (losses) of affiliates	3,207	(699)	30,543
Loss on devaluation of investments in other securities	(725)	(7,567)	(6,905)
Provision for doubtful receivables	(260)	(19,044)	(2,476)
Gain on subsidy	680	1,742	6,476
Gain on return of the substitutional portion of the welfare pension fund plan	5,433	—	51,743
Loss on restructuring	(6,054)	—	(57,657)
Supplementary retirement benefits	(7,120)	(1,107)	(67,810)
Other, net	(3,076)	(4,272)	(29,295)
	(19,161)	(42,395)	(182,486)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	36,517	8,055	347,781
INCOME TAXES:			
Current	9,564	9,883	91,086
Deferred	1,334	(9,684)	12,705
	10,898	199	103,790
MINORITY INTERESTS	(1,359)	(2,975)	(12,943)
NET INCOME	¥ 24,258	¥ 4,880	\$ 231,029
	Yen		U.S. dollars (Note 3)
AMOUNTS PER SHARE:			
Net income:			
Basic	¥22,025.22	¥ 4,283.53	\$ 209.76
Diluted	21,132.64	4,137.37	201.26
Cash dividends	8,000.00	8,000.00	76.20

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Nippon Unipac Holding and Consolidated Subsidiaries

Millions of yen

	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Unrealized gain (loss) on securities	Translation adjustments	Treasury stock at cost
Balance at March 31, 2002	1,080,670.23	¥55,730	¥236,532	¥114,675	¥ 1,262	¥ (416)	¥ (415)
Adjustments for exchange of shares of common stock	24,565.40	—	19,444	—	—	—	—
Disposal of treasury stock	—	—	(3,012)	—	—	—	—
Cash dividends paid	—	—	—	(4,322)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(212)	—	—	—
Net income	—	—	—	4,880	—	—	—
Net change during the year	—	—	—	—	(2,005)	(3,975)	(7,610)
Effects of adoption of new accounting standards at foreign subsidiaries	—	—	—	(2,353)	—	—	—
Balance at March 31, 2003	1,105,235.63	¥55,730	¥252,964	¥112,668	¥ (743)	¥(4,391)	¥(8,025)
Disposal of treasury stock	—	—	(517)	—	—	—	—
Cash dividends paid	—	—	—	(13,094)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(198)	—	—	—
Net income	—	—	—	24,258	—	—	—
Net change during the year	—	—	—	—	16,170	(2,134)	2,523
Adjustments for inclusion or exclusion of certain subsidiaries in consolidation	—	—	—	(5,591)	—	—	—
Balance at March 31, 2004	1,105,235.63	¥55,730	¥252,447	¥118,044	¥15,427	¥(6,525)	¥(5,502)

Thousands of U.S. dollars (Note 3)

	Common stock	Capital surplus	Retained earnings	Unrealized gain (loss) on securities	Translation adjustments	Treasury stock at cost
Balance at March 31, 2003	\$530,762	\$2,409,181	\$1,073,029	\$ (7,076)	\$(41,819)	\$(76,429)
Disposal of treasury stock	—	(4,924)	—	—	—	—
Cash dividends paid	—	—	(124,705)	—	—	—
Bonuses to directors and statutory auditors	—	—	(1,886)	—	—	—
Net income	—	—	231,029	—	—	—
Net change during the year	—	—	—	154,000	(20,324)	24,029
Adjustments for inclusion or exclusion of certain subsidiaries in consolidation	—	—	(53,248)	—	—	—
Balance at March 31, 2004	\$530,762	\$2,404,257	\$1,124,229	\$146,924	\$(62,143)	\$(52,400)

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Nippon Unipac Holding and Consolidated Subsidiaries

Millions of yen

Thousands of U.S. dollars
(Note 3)

Years ended March 31,

	2004	2003	2004
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 36,517	¥ 8,055	\$ 347,781
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation	81,259	83,223	773,895
Amortization of difference between cost and underlying net equity in consolidated subsidiaries	2,299	2,456	21,895
(Decrease) increase in allowance for doubtful receivables	(212)	17,881	(2,019)
Decrease in accrued retirement benefits	(1,438)	(2,685)	(13,695)
(Decrease) increase in allowance for losses on guarantees	(522)	97	(4,971)
Interest and dividend income	(2,561)	(2,495)	(24,390)
Interest expense	11,098	13,191	105,695
Equity in (earnings) losses of affiliates	(3,207)	699	(30,543)
Gain on sales of investments in other securities	(1,003)	(729)	(9,552)
Loss on sales of property, plant and equipment, net of disposal	3,698	1,455	35,219
Loss on devaluation of investments in other securities	725	7,567	6,905
Gain on return of the substitutional portion of the welfare pension fund plan	(5,433)	—	(51,743)
Extra retirement benefit	7,120	1,107	67,810
Loss on restructuring	6,054	—	57,657
Bonuses paid to directors	(223)	(238)	(2,124)
Changes in operating assets and liabilities:			
Receivables	(7,169)	36,535	(68,276)
Inventories	4,939	4,672	47,038
Payables	(32,582)	(36,558)	(310,305)
Other	14,165	2,765	134,905
	113,526	136,999	1,081,200
Interest and dividends received	2,786	2,738	26,533
Interest paid	(10,915)	(13,181)	(103,952)
Payment of extra retirement benefit	(4,755)	(1,107)	(45,286)
Expenditures for restructuring	(2,587)	—	(24,638)
Income taxes (paid) refunded	(10,965)	3,246	(104,429)
Net cash provided by operating activities	¥ 87,089	¥128,695	\$ 829,419

	Millions of yen		Thousands of U.S. dollars (Note 3)
	Years ended March 31,		
	2004	2003	2004
INVESTING ACTIVITIES:			
Purchases of time deposits	¥ (294)	¥ (995)	\$ (2,800)
Withdrawals of time deposits	651	1,656	6,200
Proceeds from sales of marketable securities	173	2,147	1,648
Purchases of property, plant and equipment	(66,321)	(77,223)	(631,629)
Proceeds from sales of property, plant and equipment	2,350	14,627	22,381
Purchases of investments in other securities	(7,044)	(7,733)	(67,086)
Proceeds from sales of investments in other securities	3,146	4,461	29,962
Proceeds from sales of a subsidiary's stock resulting in charge in the scope of consolidated	323	—	3,076
Decrease (increase) in short-term loans	(5,599)	2,149	(53,324)
Long-term loans made	(2,924)	(1,142)	(27,848)
Collection of long-term loans	1,756	1,410	16,724
Payments on guarantee obligations	—	(9,520)	—
Other, net	1,118	(1,727)	10,648
Net cash used in investing activities	(72,664)	(71,891)	(692,038)
FINANCING ACTIVITIES:			
Decrease in short-term borrowings	(9,095)	(42,318)	(86,619)
Proceeds from issuance of long-term debt	134,277	109,637	1,278,829
Repayment of long-term debt	(139,082)	(115,510)	(1,324,590)
Purchases of treasury stock	(77)	(7,546)	(733)
Proceeds from sales of treasury stock	413	6,826	3,933
Cash dividends paid	(13,544)	(4,756)	(128,990)
Payments on finance lease obligations	(1,720)	(1,720)	(16,381)
Other, net	—	450	—
Net cash used in financing activities	(28,830)	(54,938)	(274,571)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	244	(288)	2,324
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(14,160)	1,578	(134,857)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	35,187	33,609	335,114
INCREASE DUE TO INCLUSION OR EXCLUSION OF CERTAIN SUBSIDIARIES IN CONSOLIDATION	597	—	5,686
CASH AND CASH EQUIVALENTS AT END OF YEAR	¥ 21,624	¥ 35,187	\$ 205,943

See notes to consolidated financial statements.

1. Description of Business

Nippon Unipac Holding (the "Company") was established on March 30, 2001 as a business combination by a stock transfer from the shareholders of both Nippon Paper Industries Co., Ltd. ("former Nippon") and Daishowa Paper Manufacturing Co., Ltd. ("Daishowa") to the Company in accordance with the procedures stipulated in the Commercial Code of Japan. As a result of this stock transfer, former Nippon and Daishowa became wholly-owned subsidiaries of the Company. In addition, the Company owned 100% shares of Nippon Paperboard Industries Co., Ltd. by stock exchanges on October 1, 2002.

On April 1, 2003, new Nippon Paper Industries Co., Ltd. ("Nippon") was established by merger of former Nippon and Daishowa and Nippon Paperboard Industries CO., Ltd. changed its name to Nippon Daishowa Paperboard Co., Ltd.

Under this business structure, paper and paperboard businesses, which are the core businesses, were combined and restructured, and were launched under new structural plan, and therefore now paper business belongs to Nippon and paper board business belongs to Nippon Daishowa Paperboard Co., Ltd.

2. Summary of Significant Accounting Policies

(a) Basis of Preparation

The accompanying consolidated financial statements of the Company and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of 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 former Nippon and former Daishowa, the Company comprehensively applied the pooling-of-interest method to former Nippon and its subsidiaries as the acquiring group and the purchase method to former

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, a closing date which differs from that of the Company; however, the necessary adjustments have been made if the effect of the difference is deemed material.

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

All assets and liabilities of the subsidiaries are revaluated on acquisition, if applicable, and the excess of cost over the 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, which are readily convertible to known amounts of cash and are so near maturity that they present only an insignificant risk of any changes in value because of fluctuation in interest rates.

(d) Securities

The Company and consolidated subsidiaries have adopted an 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 the Company and consolidated subsidiaries had no such securities at either March 31, 2004 or 2003;
- (ii) held-to-maturity securities are carried at amortized cost by the straight-line method; and
- (iii) marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in 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 gain or loss is 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 year. 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.

Accrued retirement benefits for employees at March 31, 2004 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, 2004, as adjusted for the unrecognized actuarial gain or loss, and unrecognized prior service cost. The retirement benefit obligation is attributed to each year by the straight-line method over the estimated remaining years of service of the eligible employees.

Actuarial gain or loss is 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 7 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.

See Note 7 for the method of accounting for the separation of the substitutional portion of the obligation from the corporate portion of the benefit obligation under Welfare Pension Fund Plan ("WFPF").

In addition, directors and statutory auditors of the Company and its consolidated subsidiaries 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

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

(l) Income Taxes

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

Until the period ended March 31, 2002, basic net income per share was computed based on the net income reported in the consolidated statements of operations and the weighted average number of shares of common stock outstanding during each year, and diluted net income per share was computed based on the net income reported and the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the conversion of convertible bonds.

In accordance with a new accounting standard for earnings per share which became effective April 1, 2002, basic net income per share was computed based on the net income available for distribution to shareholders of common

stock and the weighted average number of shares of common stock outstanding during the year, and diluted net income per share was computed based on the net income available for distribution to the shareholders and the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the conversion of convertible bonds for the year ended March 31, 2003.

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

3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥105 = US\$1.00, the approximate rate of exchange on March 31, 2004, has been used. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

4. Inventories

Inventories at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Merchandise and finished products	¥ 77,337	¥ 83,218	\$ 736,543
Work in process	15,568	15,943	148,267
Raw materials and supplies	41,709	39,012	397,229
	¥134,616	¥138,174	\$1,282,057

5. Short-Term Borrowings and Long-Term Debt

At March 31, 2004 and 2003, short-term borrowings consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Loans from banks	¥283,933	¥295,099	\$2,704,124
Loans from unconsolidated subsidiaries and affiliates	876	140	8,343
Commercial paper	79,000	71,000	752,381
	¥363,809	¥366,239	\$3,464,848

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, 2004 and 2003 were 0.56% and 0.70%, respectively.

Long-term debt at March 31, 2004 and 2003 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Loans from banks, insurance companies and others at rates ranging from 3.40% to 0.284% due through 2034:			
With collateral	¥ 146,954	¥ 178,203	\$ 1,399,562
Without collateral	169,014	154,645	1,609,657
0.81% unsecured notes in yen due 2010	20,000	—	190,476
0.50% unsecured notes in yen due 2007	20,000	—	190,476
0.91% unsecured notes in yen due 2008	20,000	—	190,476
0.51% unsecured notes in yen due 2006	10,000	—	95,238
2.5% unsecured notes in yen due 2003 (subsidiary)	—	30,000	—
2.975% unsecured notes in yen due 2005 (subsidiary)	25,000	25,000	238,095
2.55% unsecured notes in yen due 2003 (subsidiary)	—	25,000	—
2.075% unsecured notes in yen due 2004 (subsidiary)	15,000	15,000	142,857
2.12% unsecured notes in yen due 2004 (subsidiary)	20,000	20,000	190,476
0.2% unsecured exchangeable bonds in yen due 2006 (subsidiary)	31,000	31,000	295,238
1.66% unsecured notes in yen due 2005 (subsidiary)	1,500	1,500	14,286
	478,468	480,348	4,556,838
Less current portion	(111,518)	(132,696)	(1,062,076)
	¥ 366,950	¥ 347,652	\$ 3,494,762

Exchangeable bonds issued by a consolidated subsidiary, unless previously redeemed, are exchangeable 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, 2004, if all the outstanding exchangeable bonds had been exchanged, approximately 48 thousand new shares of the Company would have been issuable.

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

Long-term debt maturities subsequent to March 31, 2004 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥111,518	\$1,062,076
2006	116,370	1,108,286
2007	53,767	512,067
2008	48,944	466,133
2009 and thereafter	147,869	1,408,276
	¥478,468	\$4,556,838

6. Pledged Assets

Assets pledged as collateral for notes and accounts payable—trade of ¥76 million (\$724 thousand), short-term borrowings of ¥1,030 million (\$9,810 thousand), the current portion of long-term debt of ¥9,247 million (\$88,067 thousand), and long-term debt of ¥137,707 million (\$1,311,495 thousand) at March 31, 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Notes and accounts receivable—trade	¥ —	¥ 3,919	\$ —
Property, plant and equipment, at net book value	472,319	503,831	4,498,276
Investments in other securities	15,836	12,124	150,819
Other assets	254	4,122	2,419
	¥488,409	¥523,997	\$4,651,514

7. Retirement Benefits

Certain 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 sheets at March 31, 2004 and 2003 for the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Retirement benefit obligation	¥(217,628)	¥(268,171)	\$(2,072,648)
Plan assets at fair value	124,191	114,211	1,182,771
Unfunded retirement benefit obligation	(93,437)	(153,960)	(889,876)
Unrecognized actuarial gain or loss	29,094	84,594	277,086
Unrecognized prior service cost	(673)	(907)	(6,410)
Net retirement benefit obligation	(65,016)	(70,273)	(619,200)
Prepaid pension cost	4,838	2,224	46,076
Accrued retirement benefits	¥ (69,854)	¥ (72,498)	\$ (665,276)

The government-sponsored portion of the benefits under the Welfare Pension Fund Plans has been included in the amounts presented in the above table.

In addition, accrued benefits for directors and statutory auditors of the Company and its consolidated subsidiaries were included in accrued retirement benefits of ¥2,209 million (\$21,038 thousand) and ¥2,428 million at March 31, 2004 and 2003, respectively.

The components of retirement benefit expenses for the years ended March 31, 2004 and 2003 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service cost	¥ 7,552	¥ 8,663	\$ 71,924
Interest cost	6,920	7,806	65,905
Expected return on plan assets	(1,924)	(4,245)	(18,324)
Amortization of actuarial gain or loss	5,643	4,238	53,743
Amortization of prior service cost	3	(58)	29
Gain on return of the substitutional portion of the welfare pension fund plan	(5,433)	—	(51,743)
Total	¥12,761	¥16,403	\$121,533

In addition to the above, the extra retirement benefits of ¥7,157 million (\$68,162 thousand) and ¥1,107 million were recorded for the years ended March 31, 2004 and 2003, respectively.

Nippon received approval from the Minister of Health, Labor and Welfare in the year ended March 31, 2004 with respect to its application for exemption from the obligation for benefits related to future employee services under the substitutional portion of the Welfare Pension Fund Plan (WFPF). In accordance with the transitional provision stipulated in "Practical Guidelines for Accounting for Retirement Benefits," Nippon accounted for the separation of the substitutional portion of the benefit obligation from the corporate portion of the benefit obligation under their WFPF as of the date of approval for the exemption assuming that the transfer to the Japanese government of the substitutional portion of the benefit obligation and related pension plan assets had been completed as of the date. As a result, Nippon recognized a gain of ¥5,433 million for the year ended March 31, 2004. The pension assets to be transferred were calculated at ¥33,729 million (\$321,229 thousand) for the Nippon at March 31, 2004.

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

	2004	2003
Discount rate	mainly 2.5%	mainly 3.0%
Expected rate of return on plan assets	mainly 2.0%	mainly 4.0%

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 the years ended March 31, 2004 and 2003. The effective tax rate reflected in the accompanying consolidated statements of operations differs from the statutory tax rate primarily due to the effect of timing differences in the recognition of certain income and expenses for tax and financial reporting purposes and the effect of permanent non-deductible expenses.

The effective tax rate reflected in the consolidated statement of income for the years ended March 31, 2004 and 2003 differs from the statutory tax rate for the following reasons:

	2004	2003
Statutory tax rate	42.1%	42.1%
Effect of:		
Permanent difference—entertainment expenses	2.7	13.1
Non-taxable dividends received	1.1	(5.5)
Equity in (earnings) losses of affiliates	(3.7)	3.7
Amortization of the excess of cost over underlying net equity in consolidated subsidiaries	2.6	12.8
Inhabitants' per capita taxes	1.9	3.6
Provision for valuation allowance	3.8	(71.6)
Difference in tax rates applied to subsidiaries	—	(3.3)
Change in statutory tax rate	—	8.1
Recognition of devaluation loss for a consolidated subsidiary	(20.3)	—
Other, net	(0.4)	(0.5)
Effective tax rate	29.8%	2.5%

New legislation was enacted in March 2003 which will change the aggregate statutory tax rate from 42.1% to 40.5% effective for fiscal years beginning after March 31, 2004. The effect of this change was to decrease deferred tax assets (net of deferred tax liabilities) by ¥641 million at March 31, 2003 and to increase income taxes—deferred by ¥654 million for the year ended March 31, 2003.

Significant components of the deferred tax assets and liabilities held by the Company and its consolidated subsidiaries at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax assets:			
Accrued bonuses	¥ 4,075	¥ 3,578	\$ 38,810
Accrued enterprise tax	570	730	5,429
Accrued allowance for doubtful receivables	11,850	13,306	112,857
Accrued retirement benefits	34,755	33,257	331,000
Accrued officers' retirement benefits	582	949	5,543
Accrual for loss on investment securities	1,970	2,630	18,762
Tax loss carryforwards	21,148	22,511	201,410
Unrealized profit eliminated in consolidation	4,971	5,994	47,343
Other	5,661	4,864	53,914
	85,586	87,822	815,105
Valuation allowance	(16,024)	(15,294)	(152,610)
	69,561	72,528	662,486
Deferred tax liabilities:			
Tax reserves	(8,166)	(8,418)	(77,771)
Accumulated depreciation	(1,191)	(1,365)	(11,343)
Valuation differences on land, etc.	(27,919)	(28,068)	(265,895)
Investments in other securities	(11,280)	(1,701)	(107,429)
Other	(550)	(586)	(5,238)
	(49,108)	(40,140)	(467,695)
Net deferred tax assets	¥ 20,453	¥ 32,388	\$ 194,790

9. Shareholders' Equity

In accordance with the Commercial Code of Japan (the "Code"), the Company has provided a legal reserve, which is included in retained earnings. The Code provides that an amount equal to at least 10% of the amount to be disbursed as distributions of earnings be appropriated to the legal reserve until the total of such reserve and the capital surplus account equals 25% of the common stock account. The legal reserve amounted to ¥432 million (\$4,114 thousand) at both March 31, 2004 and 2003.

The Code provides that neither capital surplus nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. On October 1, 2001, an amendment (the "Amendment") to the Code became effective. The Amendment provides that if the total amount of capital surplus and the legal reserve exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders. In addition, the Amendment eliminates the stated par value of the Company's outstanding shares, which resulted in all outstanding shares having no par value as of October 1, 2001. The Amendment also provides that all share issuances after September 30, 2001 will be of shares without par value.

10. Leases

Lessee's Accounting

a) The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property at March 31, 2004 and 2003, 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
	2004	2003	2004
Acquisition costs:			
Machinery and equipment and other	¥9,888	¥10,187	\$94,171
Accumulated depreciation:			
Machinery and equipment and other	¥5,101	¥ 4,975	\$48,581
Net book value:			
Machinery and equipment and other	¥4,786	¥ 5,211	\$45,581

The pro forma depreciation portion of the lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2004 and 2003 amounted to ¥1,783 million (\$16,981 thousand) and ¥1,759 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, 2004 for finance lease transactions accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥1,447	\$13,781
2006 and thereafter	3,378	32,171
Total	¥4,826	\$45,962

b) Future minimum lease payments subsequent to March 31, 2004 for non-cancelable operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥ 768	\$ 7,314
2006 and thereafter	558	5,314
Total	¥1,326	\$12,629

Lessor's 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, 2004 and 2003:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Acquisition costs:			
Machinery and equipment	¥127	¥144	\$1,210
Accumulated depreciation:			
Machinery and equipment	¥113	¥ 93	\$1,076
Net book value:			
Machinery and equipment	¥ 14	¥ 51	\$ 133

Lease income relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥19 million (\$181 thousand) and ¥19 million, for the years ended March 31, 2004 and 2003. Depreciation of the assets leased under finance leases accounted for as operating leases amounted to ¥19 million (\$181 thousand) and ¥19 million, for the years ended March 31, 2004 and 2003, respectively.

12. Securities

(1) a) Marketable securities classified as held-to-maturity debt securities and other securities at March 31, 2004 are summarized as follows:

Marketable held-to-maturity debt securities

	Millions of yen			Thousands of U.S. dollars		
	March 31, 2004			March 31, 2004		
	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value:						
Government bonds	¥ 10	¥ 10	¥ 0	\$ 95	\$ 95	\$ 0
Corporate bonds	100	100	0	952	952	0
Other	0	0	0	0	0	0
Subtotal	110	110	0	1,048	1,048	0
Securities whose carrying value exceeds their fair value:						
Government bonds	270	269	(0)	2,571	2,562	(0)
Other	42	42	-	400	400	-
Subtotal	312	311	(0)	2,971	2,962	(0)
Total	¥423	¥422	¥(0)	\$4,029	\$4,019	\$(0)

Future minimum lease income (including the interest portion thereon) subsequent to March 31, 2004 for finance lease transactions accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥16	\$152
2006 and thereafter	39	371
Total	¥55	\$524

b) Future minimum lease income subsequent to March 31, 2004 for noncancelable operating leases is summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥ 39	\$371
2006 and thereafter	63	600
Total	¥103	\$981

11. Contingent Liabilities

The consolidated subsidiaries had the following contingent liabilities at March 31, 2004:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
As guarantors of indebtedness of unconsolidated subsidiaries, affiliates and others	¥31,439	\$299,419

A consolidated subsidiary has entered into an agreement to sell its subsidiary in North America under which the subsidiary will compensate the buyer at a maximum amount of US\$10,000 thousand (¥1,056 million) for losses on environmental claims which are as yet to be incurred over the three-and-one-half-year period after the sale in April 2002.

Marketable other securities

	Millions of yen			Thousands of U.S. dollars		
	March 31, 2004			March 31, 2004		
	Cost	Carrying value	Unrealized gain (loss)	Cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their cost:						
Equity securities	¥24,312	¥51,602	¥27,290	\$231,543	\$491,448	\$259,905
Debt securities	1,858	3,223	1,365	17,695	30,695	13,000
Subtotal	26,170	54,825	28,655	249,238	522,143	272,905
Securities whose cost exceeds their carrying value:						
Equity securities	10,219	8,729	(1,490)	97,324	83,133	(14,190)
Subtotal	10,219	8,729	(1,490)	97,324	83,133	(14,190)
Total	¥36,389	¥63,555	¥27,165	\$346,562	\$605,286	\$258,714

b) Sales of securities classified as other securities amounted to ¥3,057 million (\$29,114 thousand) with an aggregate gain of ¥729 million (\$6,943 thousand) and loss of ¥28 million (\$267 thousand) for the year ended March 31, 2004.

c) The redemption schedule for securities with maturity dates classified as other securities and held-to-maturity debt securities at March 31, 2004 is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	March 31, 2004			March 31, 2004		
	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
Government bonds	¥—	¥280	¥—	\$ —	\$2,667	\$—
Corporate bonds	—	100	—	—	952	—
Other debt	42	—	—	400	—	—
Total	¥42	¥380	¥—	\$400	\$3,619	\$—

d) Non-marketable securities classified as held-to-maturity debt securities and other securities at March 31, 2004 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2004	2004
	Carrying value	
Other securities:		
Unlisted equity securities	¥29,754	\$283,371
Other	1,002	9,543
Total	¥30,757	\$292,924

(2) a) Marketable securities classified as held-to-maturity debt securities and other securities at March 31, 2003 are summarized as follows:

Marketable held-to-maturity debt securities

	Millions of yen		
	March 31, 2003		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value:			
Corporate bonds	¥100	¥100	¥0
Other	26	26	0
Subtotal	126	127	0
Securities whose carrying value exceeds their fair value:			
Government bonds	280	280	0
Other	99	99	0
Subtotal	380	380	0
Total	¥506	¥507	¥0

Marketable other securities

	Millions of yen		
	March 31, 2003		
	Cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their cost:			
Equity securities	¥ 8,718	¥14,579	¥ 5,861
Debt securities	1,858	2,053	195
Other	0	0	0
Subtotal	10,577	16,633	6,056
Securities whose cost exceeds their carrying value:			
Equity securities	28,886	21,393	(7,492)
Other	19	14	(5)
Subtotal	28,906	21,408	(7,497)
Total	¥39,483	¥38,042	¥(1,441)

b) Sales of securities classified as other securities amounted to ¥3,048 million with an aggregate gain of ¥189 million and loss of ¥295 million for the year ended March 31, 2003.

c) The redemption schedule for securities with maturity dates classified as other securities and held-to-maturity debt securities at March 31, 2003 is summarized as follows:

	Millions of yen		
	March 31, 2003		
	Due in one year or less	Due after one year through five years	Due after five years
Government bonds	¥ —	¥280	¥—
Corporate bonds	100	—	—
Other debt	219	41	—
Total	¥319	¥322	¥—

d) Non-marketable securities classified as held-to-maturity debt securities and other securities at March 31, 2003 are summarized as follows:

	Millions of yen	
	March 31, 2003	
	Carrying value	
Other securities:		
Unlisted equity securities		¥27,904
Other		1,010
Total		¥28,914

13. Segment Information

Business segments

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. The results of their other businesses are reported in the “Other” segment.

Business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2004 and 2003 is as follows:

	Millions of yen						
	2004						
	Pulp and paper	Paper-related	Housing and construction materials	Other	Total	Eliminations or corporate	Consolidated
I. Sales and operating income							
Sales to third parties	¥ 896,179	¥123,737	¥ 93,469	¥ 79,262	¥1,192,649	¥ —	¥1,192,649
Intergroup sales and transfers	12,189	10,913	38,043	37,102	98,249	(98,249)	—
Total sales	908,368	134,651	131,513	116,365	1,290,899	(98,249)	1,192,649
Operating expenses	865,353	129,663	128,881	111,320	1,235,219	(98,249)	1,136,970
Operating income	¥ 43,014	¥ 4,987	¥ 2,632	¥ 5,044	¥ 55,679	¥ —	¥ 55,679
II. Assets, depreciation and capital expenditures							
Total assets	¥1,252,010	¥116,874	¥ 81,777	¥ 95,138	¥1,545,800	¥ 91,565	¥1,637,366
Depreciation	68,893	5,332	1,379	5,654	81,259	—	81,259
Capital expenditures	44,805	6,091	1,277	5,248	57,423	—	57,423

Thousands of U.S. dollars							
2004							
	Pulp and paper	Paper -related	Housing and construction materials	Other	Total	Eliminations or corporate	Consolidated
I. Sales and operating income							
Sales to third parties	\$ 8,535,038	\$1,178,448	\$ 890,181	\$ 754,876	\$11,358,562	\$ —	\$11,358,562
Intergroup sales and transfers	116,086	103,933	362,314	353,352	935,705	(935,705)	—
Total sales	8,651,124	1,282,390	1,252,505	1,108,238	12,294,276	(935,705)	11,358,562
Operating expenses	8,241,457	1,234,886	1,227,438	1,060,190	11,763,990	(935,705)	10,828,286
Operating income	\$ 409,657	\$ 47,495	\$ 25,067	\$ 48,038	\$ 530,276	\$ —	\$ 530,276
II. Assets, depreciation and capital expenditures							
Total assets	\$11,923,905	\$1,113,086	\$ 778,829	\$ 906,076	\$14,721,905	\$ 872,048	\$15,593,962
Depreciation	656,124	50,781	13,133	53,848	773,895	—	773,895
Capital expenditures	426,714	58,010	12,162	49,981	546,886	—	546,886

Millions of yen							
2003							
	Pulp and paper	Paper -related	Housing and construction materials	Other	Total	Eliminations or corporate	Consolidated
I. Sales and operating income							
Sales to third parties	¥ 897,349	¥ 98,194	¥ 94,004	¥ 75,903	¥1,165,450	¥ —	¥1,165,450
Intergroup sales and transfers	2,458	10,149	39,303	26,716	78,628	(78,628)	—
Total sales	899,808	108,344	133,307	102,619	1,244,079	(78,628)	1,165,450
Operating expenses	859,868	103,447	132,358	97,953	1,193,628	(78,628)	1,115,000
Operating income	¥ 39,939	¥ 4,896	¥ 948	¥ 4,666	¥ 50,450	¥ —	¥ 50,450
II. Assets, depreciation and capital expenditures							
Total assets	¥1,229,832	¥ 95,200	¥ 91,519	¥ 92,681	¥1,509,234	¥120,892	¥1,630,126
Depreciation	72,108	3,834	1,421	5,859	83,223	—	83,223
Capital expenditures	68,599	3,225	1,263	3,816	76,904	—	76,904

Geographic segments

Since sales in Japan were 90% or more of consolidated sales for the years ended March 31, 2004 and 2003, geographical segment information has not been presented.

Overseas segment

Since overseas sales were less than 10% of consolidated sales for the years ended March 31, 2004 and 2003, no disclosure of overseas segment information has been presented.

14. Derivatives

Certain subsidiaries have entered into interest-rate swap and interest-rate cap agreements to reduce their interest expense or exposure to adverse fluctuation in interest rates relating to loans and bonds payable.

The notional amounts of the forward foreign exchange contracts presented below exclude those entered into to hedge receivables and payables denominated in foreign currencies which have been translated and are reflected at their corresponding contracted rates in the accompanying consolidated balance sheets.

Summarized below are the contract amounts and estimated fair value of the subsidiaries' derivatives positions at March 31, 2004 and 2003:

	Millions of yen				Thousands of U.S. dollars	
	2004		2003		2004	
	Contract amount	Estimated fair value	Contract amount	Estimated fair value	Contract amount	Estimated fair value
Interest-rate swaps:						
Receive-variable; pay-fixed	¥ 50	¥ (0)	¥1,325	¥ (8)	\$ 476	\$ (0)
Receive-fixed; pay-variable	5,000	138	5,000	211	47,619	1,314
Interest-rate caps:						
To buy	¥8,000	¥ 0	¥8,000	¥ 0	\$76,190	\$ 0

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

Interest-rate swaps and interest-rate caps:

Estimated fair value as provided by the respective financial institutions

15. Research and Development Costs

Included in cost of sales and selling, general and administrative expenses were ¥7,121 million (\$67,819 thousand) and ¥6,726 million of research and development costs for the years ended March 31, 2004 and 2003.

16. Subsequent Events

- The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2004, were approved at a shareholders' meeting held on June 29, 2004:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥4,000.00 = \$38.095 per share)	¥4,381	\$41,724
Bonuses to directors	55	524
	¥4,437	\$42,257

- Issuance of bonds

- Based on the resolution at the board of directors meeting held on March 29, 2004, the Company have issued ¥30 billion of the 5th unsecured corporate debenture with guaranteed by Nippon on May 14, 2004.
- Amount issued: ¥30 billion
- Interest rate: 0.89% per year
- Issued price: ¥100 par value
- Issued date: May 14, 2004
- Date of maturity: May 14, 2009 (5-year bond)

- Sale of the shares of OTAKE PAPER MFG. CO., LTD. ("OTAKE") by Nippon
Nippon sold all of outstanding shares of its consolidated subsidiary, OTAKE to Mishima Paper Co., Ltd. as of April 1, 2004. Brief summary is as follows:

- Business description of OTAKE: OTAKE was mainly manufacturing products of coated paper, wood-free paper and packaging paper as goods consigned from Nippon and sold these products to Nippon.
- Number of shares sold and sales price
Number of shares sold: 22,000,000 shares
Sales price: ¥3.9 billion
- Reason of the sale
Based on the suggestion from Fair Trade Commission of Japan at combining former Nippon and Daishowa in April 2003, Nippon has determined as its discretionary action the sale of all outstanding shares of OTAKE within 3 years from the combination date, and have been selecting a coordinate of buyers, and finally, on April 1, 2004, the Company has sold the outstanding shares to Mishima Paper Co., Ltd.
- Effect of this sale to the consolidated profit and loss
Based on the situation given above, we will record approximately ¥3.3 billion of other loss, which will decrease income before income taxes by the same amount.
- Sale of a part of the former mill site of Nippon
Nippon sold a part of former mill site on April 9, 2004 as follows:
 - Address of land sold
2-21-1 Zengenji-cho, Miyakojima-ku, Osaka-shi, Osaka-fu (43,418m²)
 - Sales price: ¥11,063 million
 - Anticipated gain on sale: approximately ¥10,200 million
Gain on the sale will be recognized for the year ended March 31, 2005.
 - Names of the acquiring companies of the land
Hankyu Realty Co., Ltd., EISEN REALTY CO., LTD., HASEKO Corporation and other (5 entities).



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The Board of Directors
Nippon Unipac Holding

We have audited the accompanying consolidated balance sheets of Nippon Unipac Holding and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nippon Unipac Holding and consolidated subsidiaries at March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 16, the Company has issued its fifth issue of unsecured bonds on May 14, 2004 based on a resolution of the Board of Directors at a meeting held on March 29, 2004. Nippon Paper Industries Co., Ltd., which is a consolidated subsidiary of the Company, sold its entire shareholding of OTAKE PAPER MFG. CO., LTD., its consolidated subsidiary, on April 1, 2004. Nippon Paper Industries Co., Ltd. sold a portion of the site of the former Miyakojima Mill on April 9, 2004.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 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.

June 29, 2004

Shin Nihon & Co.

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PRODUCTION SITES**Pulp and Paper Division**

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Asahikawa Mill (Hokkaido)
Yufutsu Mill (Hokkaido)
Shiraoi Mill (Hokkaido)
Ishinomaki Mill (Miyagi)
Iwanuma Mill (Miyagi)
Nakoso Mill (Fukushima)
Suzukawa Mill (Shizuoka)
Fuji Mill (Shizuoka)
Fushiki Mill (Toyama)
Iwakuni Mill (Yamaguchi)
Komatsushima Mill (Tokushima)
Yatsushiro Mill (Kumamoto)

Nippon Daishowa Paperboard Co., Ltd.

Nippon Daishowa Paperboard Tohoku Co., Ltd.
(Akita)

Nippon Daishowa Paperboard Kanto Co., Ltd.
(Saitama/Tochigi)

Nippon Daishowa Paperboard Yoshinaga Co., Ltd.
(Shizuoka)

Nippon Daishowa Paperboard Nishinippon Co., Ltd.
(Hiroshima/Yamaguchi/Kochi)

CRECIA Corporation

Tokyo Mill (Saitama)
Kaisei Mill (Kanagawa)
Kyoto Mill (Kyoto)
Iwakuni Mill (Yamaguchi)

Paper-Related Division

NIPPON PAPER-PAK CO., LTD.

SOKA PAPER-PAK CO., LTD. (Saitama)
EGAWA PAPER-PAK CO., LTD. (Ibaraki)
MIKI PAPER-PAK CO., LTD. (Hyogo)
ISHIOKA KAKO CO., LTD. (Ibaraki)
Nakoso Film Co., Ltd. (Fukushima)

Nippon Paper Chemicals Co., Ltd.

Gotsu Works (Shimane)
Iwakuni Works (Yamaguchi)
Yufutsu Works (Hokkaido)
Komatsushima Works (Tokushima)
Higashimatsuyama Works (Saitama)

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Tel. +27-33-3924-215
Fax. +27-33-3426-410

Concepción Office

Ejército 399, Concepción, Chile
Tel. +56-41-244-300
Fax. +56-41-259-541

Housing and Construction Materials Division

Nippon Paper Lumber Co., Ltd.

Vancouver Office

Suite #820-999, West Broadway
Vancouver, B.C. V5Z 1K5, Canada
Tel. +1-604-873-5358
Fax. +1-604-689-2853

Asia and Oceania

■ China

Shouguang Liben Paper Making Co., Ltd.
595 Shengcheng Road
Shouguang, Shandong 262700 China
Tel. +86-536-5236112
Fax. +86-536-5234432

Shanghai JP Co., Ltd.
173 Hongcao Road (S), Shanghai, 200233 China
Tel. +86-21-64089900
Fax. +86-21-64086677

Zhejiang Jingxing Paper Joint Stock Co., Ltd.
Pinghu Zhejiang, 314214 China
Tel. +86-573-5960111
Fax. +86-573-5966983

Zhejiang Jingxing Nippon Paper Co., Ltd.
Pinghu Zhejiang, 314214 China
Tel. +86-573-5961717
Fax. +86-573-5960888

Everwealth Paper Industries (Shanghai) Co., Ltd.
2 Xinjie Rd. Xin Qiao Township Industrial Park
Song Jiang, Shanghai, 201612 China
Tel. +86-21-57645189
Fax. +86-21-57645118

Nippon Paper Industries Chengde Co., Ltd.
Xiaban Town, Chengde Country, Hebei Province,
067400 China

Nippon Paper Industries Trading (Shanghai) Co., Ltd.

• **Shanghai office**
Room B1607 C Seats, Orient International Plaza,
No. 85 Lou Shan Guan Road, Shanghai, 200336 China
Tel. +86-21-62093972
Fax. +86-21-62089476

• **Beijing office**
Room 1003, Avic Building, No. 2 Dong Huan Nan
Road, Chao Yang Qu, Beijing, 100022 China

■ Australia

South East Fibre Exports Pty. Ltd.
P.O. Box 189, Jews Head, Edrom Road, Eden,
N.S.W. 2551 Australia
Tel. +61-2-6496-0222
Fax. +61-2-6496-1204

Nippon Paper Treefarm Australia Pty. Ltd.
Level 6,456 Lonsdale Street
Melbourne, VIC 3000 Australia
Tel. +61-3-9252-2700
Fax. +61-3-9642-2705

WA Plantation Resources Pty. Ltd.
Level 5, BGC Centre
28 The Esplanade Perth WA 6000 Australia
Tel. +61-8-9420-8300
Fax. +61-8-9322-7895

■ New Zealand

Pan Pac Forest Products Ltd.
Private Bag 6203, 1161 SH2, Wairoa Road, Napier
New Zealand
Tel. +64-6-831-0100
Fax. +64-6-836-6443

■ Malaysia

N.A.K. Manufacturing (Malaysia) SDN BHD
Lot 19-11, Bersatsu Industrial Complex, Jalan Satu,
Cheras Jaya Industrial Area, Kawasan Perindustrian
Balakong 43200 Cheras, Selangor Malaysia
Tel. +60-3-9074-7896

■ Indonesia

PT Tanjungenim Lestari Pulp & Paper
WISMA BARITO PACIFIC, Tower A, 4th Floor,
Jl. LetJend. S. Parman Kav 62-63, Slipi, Jakarta 11410
Indonesia
Tel. +62-21-535-8450
Fax. +62-21-534-7088

North and South America

■ U.S.A.

North Pacific Paper Corporation
3001 Industrial Way Longview,
WA 98632 (P.O. Box 2069) U.S.A.
Tel. +1-360-636-6400
Fax. +1-360-423-1514

Nippon Paper Industries USA Co., Ltd.
1815 Marine Drive, (P.O. Box 271)
Port Angeles, WA 98362 U.S.A.
Tel. +1-360-457-4474
Fax. +1-360-452-6576

■ Canada

Daishowa North America Corporation
1140-1040 West Georgia St.
Vancouver, B.C. V6E 4H1 Canada
Tel. +1-604-801-6628
Fax. +1-604-801-6658

Daishowa-Marubeni International Ltd.
Suite 700-510 Burrard Street,
Vancouver, B.C. V6C 3A8 Canada
Tel. +1-604-684-4326
Fax. +1-604-684-0512

■ Chile

Volterra S.A.
Ejército 399, Concepción Chile
Tel. +56-41-244-300
Fax. +56-41-259-541

Europe

■ Finland

Jujo Thermal Oy
P.O. Box 92, FIN-27501 Kauttua Finland
Tel. +358-2-8393-2900
Fax. +358-2-8393-2419

Corporate Data (As of October 1, 2004)

Name	Nippon Paper Group, Inc.
Headquarters	Shin-Yuraku-cho building 1-12-1 Yurakucho Chiyoda-ku, Tokyo 100-0006, Japan Tel: +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	4

Investor Information

Code No.	3893
Fiscal Year-End	March 31 (The date shareholders who shall receive dividends are decided)
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 Ordinary General Meeting of Shareholders. Reference dates for other matters, if necessary, shall be determined individually and announced in advance.

Newspaper Where Public Notice Shall Be Made

Nihon Keizai Shimbun

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

* Please refer to the Transfer Agent at the following telephone number or website for the forms required for change of shareholder's address, purchase of broken lot shares, transfer of shares and designation of bank account to which dividend is to be remitted.

Toll-free : 0120-87-2031

URL : http://www.chuomitsui.co.jp/person/p_06.html

Stock Information (As of March 31, 2004)

Total Number of Stocks Authorized to Be Issued	3,000,000
Total Number of Outstanding Stocks Issued	1,105,235.63
Number of Shareholders	64,658
Securities Traded	Tokyo Stock Exchange, Osaka Securities Exchange and Nagoya Stock Exchange
Independent Accountant	Shin Nihon & Co.

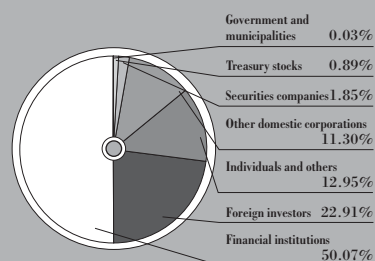
Major Shareholders (10 Largest)

	Number of Shares Held (Shares)	Voting Stake (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	85,816	7.9
The Master Trust Bank of Japan, Ltd. (Trust Account)	70,757	6.5
Mizuho Corporate Bank, Ltd.	42,314	3.9
Nippon Life Insurance Company	34,956	3.2
Sumitomo Mitsui Banking Corporation	23,876	2.2
Mitsui Mutual Life Insurance Company	22,589	2.1
Mizuho Bank, Ltd.	21,467	2.0
The Chuo Mitsui Trust and Banking Company, Limited	20,242	1.9
Daio Paper Corporation	20,241	1.9
The Chase Manhattan Bank, N.A. London	19,096	1.8

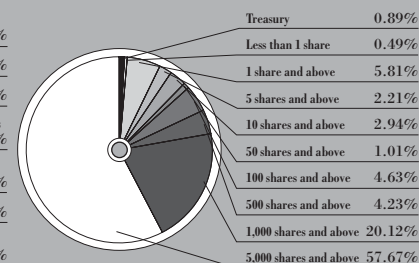
1. Shares held less than one share have been omitted

2. Mitsui Mutual Life Insurance Company became Mitsui Life Insurance Co., Ltd. on April 1, 2004

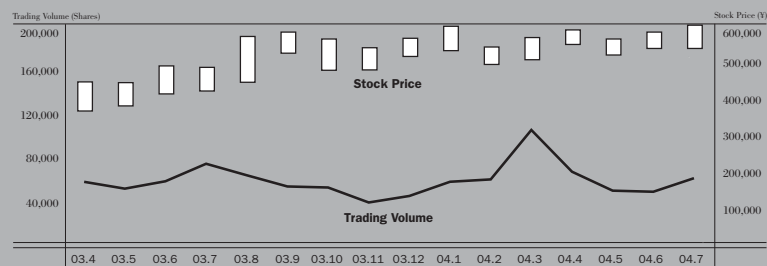
Percentage of Shares Held by Shareholder Type



Percentage of Shares Held by Size of Holdings



Stock Price and Trading Volume





NIPPON PAPER
GROUP

NIPPON PAPER GROUP, INC.

INVESTOR RELATIONS

Shin-Yuraku-cho building
1-12-1 Yurakucho, Chiyoda-ku, Tokyo 100-0006, Japan
TEL +81-(0)3-3218-9347 FAX +81-(0)-3216-5662 <http://www.np-g.com>