

To Our Shareholders

The Nippon Unipac Holding Group Enters a New Stage of Growth

On April 1, 2003, Nippon Unipac Holding consolidated and reorganized Group companies along the lines of the paper and paperboard businesses. The restructuring, two years after the business integration of Nippon Paper Industries Co., Ltd. and Daishowa Paper Manufacturing Co., Ltd., marked a fresh start for the Nippon Unipac Holding Group. We now hold Nippon Paper Industries Co., Ltd. and Nippon Daishowa Paperboard Co., Ltd. under our umbrella.

At the start of the 2001 business integration, Nippon Paper Industries Co., Ltd. and Daishowa Paper Manufacturing Co., Ltd. committed to reducing costs by ¥52.0 billion (US\$433 million) in the three years following integration. Exhaustive efforts have been made toward this goal. With the support of our shareholders and business partners, we have secured favorable terms for procuring materials, reduced costs through technical exchange, and improved sales efficiency. As a result, we achieved cost reductions of ¥30.0 billion (US\$250 million) in fiscal 2002 and ¥26.5 billion (US\$220 million) in fiscal 2003—or ¥56.5 billion (US\$470 million) in just two years. We not only reached our goal, we exceeded it—and did so a year ahead of schedule. Fiscal 2003 brought harsh business conditions, with weak demand for paper due to the economy's prolonged slump. This was compounded by a rise in the price of key raw materials, including wastepaper and fuel oil. Despite these conditions, the Group's operating income, ordinary income, and net income all improved, as the synergy effects of our business integration helped boost profitability.

Looking ahead, we will continue to capitalize on these synergy effects while undertaking measures that yield positive results in the medium and long term, including rationalizing our production facilities and centralizing operations of nearby mills.

Realization of the Synergy Effects of the Integration

Area of Cost Reduction	Billions of yen		
	Full Fiscal 2002 (Actual)	Fiscal 2003 (Actual)	Full Fiscal 2002 and Fiscal 2003 (Accumulated effects by Fiscal 2003)
Materials cost	12.0	9.0	21.0
Other variable cost	6.0	6.5	12.5
Sales, distribution cost	4.0	5.0	9.0
Financing cost	3.0	1.0	4.0
Fixed cost	5.0	4.0	9.0
Rationalization of production facilities	0	1.0	1.0
Total	30.0	26.5	56.5

Note: The amounts of effect for fixed cost are theoretical figures calculated based on the number of employees at each fiscal year-end.

Our Underlying Principle

The Nippon Unipac Holding Group adheres to the same basic principle that Nippon Paper Industries Co., Ltd. has followed since its inception in

Group Financial Index

	Fiscal 2006 (planned)
Ordinary income (ordinary margin on sales)	¥100 billion (8%)
ROE	11%
ROIC	9%
ROA	7%
[Reference]	
Net sales	¥1,200 billion
Operating income	¥106 billion



Takahiko Miyoshi
President, Nippon Unipac Holding

1993: "Becoming a Business Group with Unmatched Quality." This calls for our continued efforts to cultivate the four ideals that distinguish truly outstanding corporations.

- (1) "Achieving stable and excellent financial performance"
- (2) "Maintaining reliability for customers"
- (3) "Meeting employees' expectations and ensuring that employees can capitalize on opportunities"
- (4) "Preserving corporate ethics"

Our foremost goal is to consistently secure excellent returns and to maximize corporate value for our shareholders. In pursuing this goal, we strive to be a company that continually delivers true value to customers, employees, local communities, and society as a whole.

A Turning Point in Japan's Pulp and Paper Industry

The continuous expansion of Japan's giant paper market—which accounts for about 10% of the world market—fueled steady growth in the domestic pulp and paper industry. There is already evidence, however, that the demand is peaking out due to structural changes in Japan's economy, such as the declining number of working-age people accompanied by the rapid graying of society. The problem is further exacerbated by the emergence of paper companies in Asia, which is intensifying competition in the Japanese market. The business environment is expected to continue evolving at an even faster rate, and I believe that only corporations that can adapt to changes will survive and move forward to the new era.

Our Strategy for the New Era

1. Promoting the First Medium-Term Business Plan (Move UP to 100)

Along with our new organizational structure, in April 2003 we launched our "First Medium-Term Business Plan (Move UP to 100)." Covering fiscal 2004 to 2006, the plan was designed to produce tangible results in conjunction with the keywords discussed in our Medium-Term Vision: Faster, Higher, and Stronger. The plan aims to strengthen our profit basis, improve our financial position, and create a solid management foundation.

Objectives to Achieve by 2006

- Faster** Rationalization of production facilities and prompt realization of effects from business reorganization.
- Higher** Consolidated ordinary income: over ¥100 billion (US\$833 million).
- Stronger** Consolidated interest-bearing debt: under ¥700 billion (US\$5,833 million). To raise productivity by 10% or more.

To reach our target of ¥100 billion (US\$833 million) in ordinary income, the following major Group companies (segments) are committed to making progress toward goals specified in the First Medium-Term Business Plan and to undertaking additional measures to improve efficiency and maximize corporate value:

- Nippon Paper Industries Co., Ltd. (paper)
- Nippon Daishowa Paperboard Co., Ltd. (paperboard)
- CRECIA Corporation (household tissue)
- NIPPON PAPER-PAK CO., LTD. (liquid-packaging cartons)
- Nippon Paper Chemicals Co., Ltd. (chemical products)
- Nippon Paper Lumber Co., Ltd. (lumber-related products)

2. Reinforced Functions of the Holding Company

Simultaneously with the April 2003 reorganization, Nippon Unipac Holding's functions were reviewed and its Group governance functions were strengthened. These include promoting the First Medium-Term Business Plan, mapping out Group-wide growth strategies, performance management & auditing, centralizing management of funds, and personnel decisions concerning top-ranking executives of each company. As "commander-in-chief" of the Group, Nippon Unipac Holding will separate execution from management, and implement closer monitoring (including auditing and supervising) of Group companies. These efforts will make management more transparent, improve accountability vis-à-vis shareholders, and accelerate growth.

On a more basic level, Nippon Unipac Holding will make use of the staff of Nippon Paper Industries Co., Ltd. in an effort to downsize itself.

3. Implementation of Socially Responsible Management (Developing a Group Corporate Social Responsibility [CSR] Structure*)

In line with its commitment to co-existing with the environment, the Nippon Unipac Holding Group has implemented one of the industry's most advanced environmental management systems. In October 2003, we will take another step in socially responsible environmental management by establishing a Group CSR Committee whose aim is to enhance our contributions to communities and society. Particular attention will be focused on continuing to increase corporate value well balanced in our economic, environmental, and social performance—traits that distinguish us as a Business Group with Unmatched Quality.

Becoming a Business Group with Unmatched Quality

The Nippon Unipac Holding Group must develop the "unmatched quality" necessary to forge ahead in this era of global competition. Toward this end, we will build on the consistent returns and solid financial position secured by our First Medium-Term Business Plan to push ahead in accordance with a new growth strategy.

Details of the strategy will be examined as we implement the First Medium-Term Business Plan and will be announced in stages as they become finalized. The fundamental concepts behind the new strategy are summarized below.

1. Paper and Paperboard: Core Business Areas

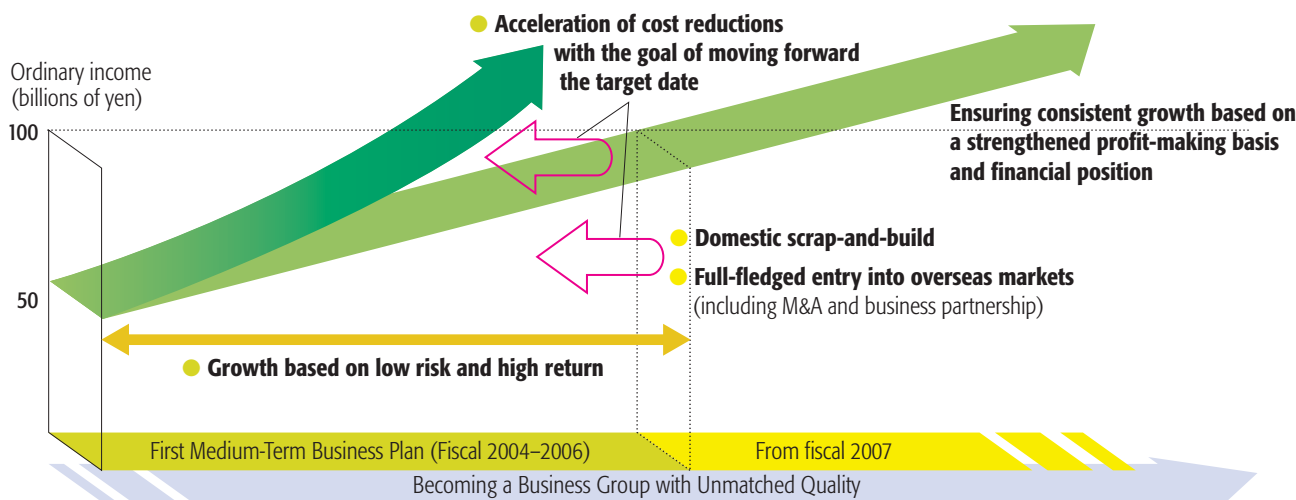
In the Japanese market, competition from both domestic and foreign companies is expected to intensify. However, by formulating product strategies that respond quickly to changes in demand and by reducing production costs, we will fight to strengthen our position as No. 1 in the industry and improve profitability and growth.

Strengthening of Managerial System



* Please refer to page 29.

"Move UP" to the next stage



Overseas, we will make a full-scale entry into China. Our North American operations, which originally served as a supply base for the Japanese market, will be transformed into a highly profitable operation serving the local market. We are considering creating another production base in Europe for business communication paper and other products that have high potential for growth. The Nippon Unipac Holding Group also will increase its involvement in afforestation projects around the world to secure raw materials for paper to serve the market, and we will work to develop genetically superior trees and mass production techniques based on genetic technology.

The paper and paperboard business is still a growing industry in some regions at various development stages. The Group's expertise in areas such as operation, quality control, production management, and environmental conservation may prove to be a vital business resource, and we will take the fullest advantage of it.

2. Diversified Businesses

We expect that strengthening the partnership with KIMBERLY-CLARK Corp. of the United States will promote moves toward higher-value-added products and new product launches, which will significantly expand the profitability of the household tissue business. In the liquid-packaging carton business, we will boost growth by finding new applications for our products. We will also consider entering overseas markets, including China. In the chemical product business, we will strive to maintain the current high profitability by taking advantage of our strong shares in niche market segments and expand by aggressively developing new products.

In this way, we will strengthen our diversified businesses to complement our core businesses and contribute to stabilizing the profitability and growth of the entire Group.

We are committed to putting our new structure on track as quickly as possible in an all-out effort to achieve the goals set out in the First Medium-Term Business Plan, while also undertaking measures that address long-term goals. On behalf of the entire Nippon Unipac Holding Group, I thank you for your cooperation and ask for your continued support.

September 2003

T. Miyoshi
Takahiko Miyoshi
President, Nippon Unipac Holding