

# Financial Section

## Note concerning the Consolidated Financial Statements of Nippon Unipac Holding and Its Consolidated Subsidiaries

Nippon Unipac Holding conducted its third regular settlement of accounts in fiscal 2003, which covered the period from April 1, 2002 through March 31, 2003. The previous two account settlement periods were irregular, covering the periods from March 30, 2001 through September 30, 2001, and October 1, 2001 through March 31, 2002, respectively.

The independent auditor report attached to the present Annual Report covers the second and the third account settlement periods. For the convenience of year-on-year comparison in the consolidated statements of operations and consolidated statements of cash flows of this Annual Report, the sums of the figures reported in the first and second account settlement periods are shown as the values for fiscal 2002. Although these total values for fiscal 2002 are not covered by the present Auditor's Report, the consolidated financial statements for the first settlement period, which were used in calculating these overall totals for fiscal 2002, had previously been audited by an independent auditor who confirmed that the financial status, business results and cash flow status reported were accurate in all essential respects.

For financial indexes such as return on assets (ROA) and return on invested capital (ROIC), the Annual Report employs "full fiscal 2002" for the convenience of year-on-year comparison.

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# Board of Directors

(As of June 27, 2003)



(From left)

Standing: Hirotohi Ishikawa, Keisuke Ito, Iwao Nakajima, Masatomo Nakamura, Toshiro Sato, Tsuyoshi Yamashita

Sitting: Koshiro Kitaoka, Masao Kobayashi, Takahiko Miyoshi, Souji Ban

## Chairman

Masao Kobayashi

## President

Takahiko Miyoshi

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

## Executive Vice-Presidents

Koshiro Kitaoka

Assistant to the President

Souji Ban

Assistant to the President  
Specializing in Business Planning  
Promotion Dept.

## 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

Keisuke Ito

### Specializing in Finance

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

Toshiro Sato

Hirotohi Ishikawa

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

## Corporate Auditors

Yoshinari Inoue

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

Noriyuki Torai

Hidetoshi Goto

# Consolidated Financial Review

The accounting period of the third fiscal year of Nippon Unipac Holding is from April 1, 2002 to March 31, 2003. Please note that the previous fiscal year was an irregular year consisting of two accounting periods: the first period (from March 30, 2001 to September 30, 2001) and the second period (from October 1, 2001 to March 31, 2002). The term "full fiscal 2002" refers to this irregular year, and numbers given for full fiscal 2002 were derived by simply aggregating the numbers posted in the two periods in that irregular year. The comparison with the previous fiscal year is based on full fiscal 2002.

## Summary of Operations

During the fiscal year under review, the Japanese economy, unable to map out plans for a full-fledged recovery, remained lethargic, while capital investment and personal consumption continued to sag. At the fiscal year-end, the Nikkei Stock Average slipped further to mark a post-"bubble" record low. This situation seriously impacted the corporate business results.

The Pulp and Paper Division, which is the core business of the Group, continued to be challenged by the difficult business environment. Reflecting the lingering economic slowdown, the volume for paper shipped to the domestic markets was virtually unchanged from the previous year when it had fallen reflecting the markets' significant contraction, while the prices of wastepaper and heavy fuel oil rose.

In this environment, the Group placed top priority on maintaining the market price of paper, and as a result of efforts to preserve the supply-demand balance by adjusting production levels, the prices of printing and business communication paper, for which prices were revised upward in September 2002, have been restored to a certain extent. Additionally, measures to reduce the cost of purchasing raw materials and other supplies and to improve the logistics and other costs were carried out in an attempt to yield business integration benefits.

As a result, the consolidated settlement of accounts for the accounting period of fiscal 2003 showed net sales of ¥1,165.5 billion (US\$9,712 million), a decrease of 3.8% from full fiscal 2002. Ordinary income increased 38.9% to ¥39.7 billion (US\$331 million), and net income was ¥4.9 billion (US\$41 million).

The results in individual business segments are as follows.

## Review of Operations

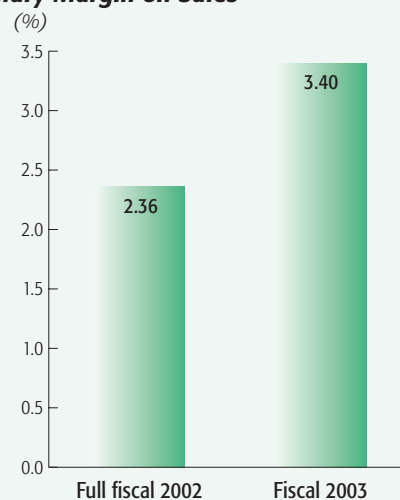
### [ Pulp and Paper Division ]

The domestic sales volume for paper, though there was a temporary increase induced by the FIFA World Cup held in June 2002, generally remained lackluster reflecting the overall weakness of the economy. The market price level recovered in the second half of the fiscal year, but the average price for the entire fiscal year was slightly below the level in full fiscal 2002.

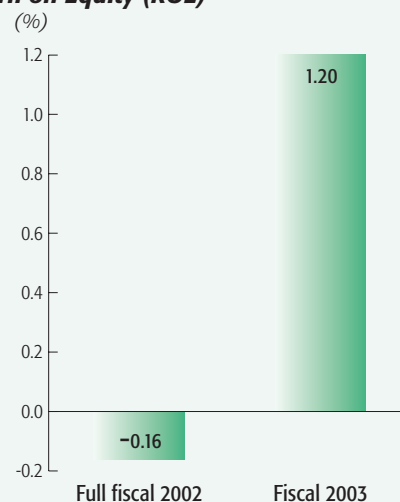
In the paperboard segment, sales volume for containerboard, the mainstay product, dropped somewhat compared with full fiscal 2002 as a result of sagging demand, but sales during the term showed an increase attributable primarily to a rise in the price level beginning from the latter part of the second half of the fiscal year. This, along with cost reductions and better productivity, contributed to increased profit.

Sales revenue of household tissue (sanitary paper) declined due to sluggish consumption, but profits rose as efforts were made to improve

### Ordinary Margin on Sales



### Return on Equity (ROE)



the quality of tissue, the mainstay product, and conduct sales activities focusing more on price than sales volume.

As a result, net sales decreased 5.1% from full fiscal 2002, to ¥897.3 billion (US\$7,478 million), but operating income rose 14.5%, to ¥39.9 billion (US\$333 million).

#### [ Paper-Related Division ]

With regard to liquid-packaging cartons, such as PURE-PAK®[\*4], sales both in terms of volume and monetary amount remained healthy as concentrated efforts were made to expand sales to meet increasing demand for beverages such as tea-based ones and drinks with health benefits.

On the other hand, chemical products suffered a slight decline in sales, as in the Southeast Asian market for highly chlorinated polyolefin[\*3] products, and competition intensified mainly due to an influx of cheaply priced products from China. In the functional materials sector, liquid crystal-related business was brisk as demand grew for liquid crystal display TVs and cellular phones with a built-in camera.

As a result, net sales grew 0.2% from full fiscal 2002, to ¥98.2 billion (US\$818 million), while operating income jumped 88.2% to ¥4.9 billion (US\$41 million).

#### [ Housing and Construction Materials Division ]

Despite the widespread move to hold off the purchase of residential property amid the deteriorating employment and income outlook, as symbolized by negative growth of housing starts compared to the previous year for two consecutive years, the Housing and Construction Materials Division managed to post net sales of ¥94.0 billion (US\$783 million), up 1.6% from full fiscal 2002, while operating income surged 83.0% to ¥948 million (US\$8 million), through rationalization efforts, among other measures.

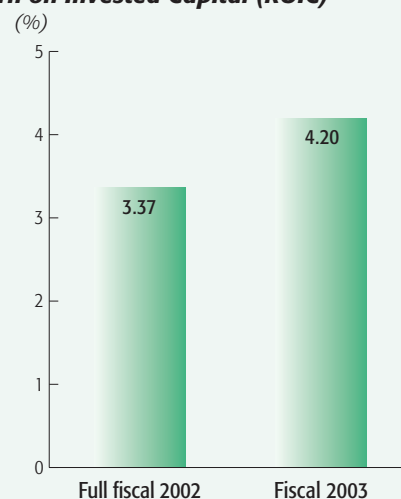
#### [ Other Division ]

In the soft drink and other beverage business, efforts were made to boost sales by better meeting consumers' needs. Leisure and other businesses suffered from lackluster demand caused by the weak economy, resulting in net sales of ¥75.9 billion (US\$633 million), up 1.1% from full fiscal 2002, and a 5.3% increase of operating income to ¥4.7 billion (US\$39 million).

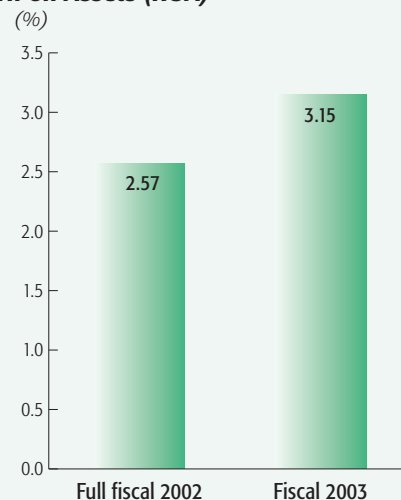
### Costs, Expenses and Earnings

The cost of sales for the fiscal year under review was ¥892.9 billion (US\$7,441 million), down 2.9% from full fiscal 2002. The cost of sales as a percentage of net sales was 76.6%. Selling, general and administrative expenses totaled ¥222.1 billion (US\$1,851 million), a decrease of 10.9%, or 19.1% as a percentage of net sales, because of the effect of cost reductions. Operating income increased 18.9% to ¥50.5 billion (US\$420 million). Operating income as a percentage of net sales was 4.3%. In the category of other income (expenses), including extraordinary items, there was a net expense of ¥42.4 billion (US\$353 million). Principal expenses in this account were ¥13.2 billion (US\$110 million) in interest expense, ¥8.5 billion (US\$71 million) in gains on sales of property, plant and equipment, ¥9.9 billion (US\$83 million) in losses on disposal of property, plant and equipment, ¥7.6 billion (US\$63 million) in loss on devaluation of investments in other securities, and ¥19.0 billion (US\$159 million) in provision for doubtful receivables.

### Return on Invested Capital (ROIC)



### Return on Assets (ROA)



Return on assets = Ordinary income before interest / Interim averaged assets

\* Please refer to the Glossary on pages 60 and 61 for details.

As a result, income before income taxes and minority interests for the fiscal year under review was up 113.0% to ¥8.1 billion (US\$67 million), and net income was ¥4.9 billion (US\$41 million).

Our basic policy on 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 the corporate value of companies throughout the Nippon Unipac Holding Group. We declared cash dividends of ¥8,000 (US\$67) per common share applicable to the fiscal year under review.

### Financial Position

As of March 31, 2003, total assets amounted to ¥1,630.1 billion (US\$13,584 million), down 5.3% from full fiscal 2002. Major assets included ¥455.4 billion (US\$3,795 million) in current assets, ¥924.6 billion (US\$7,705 million) in property, plant and equipment and ¥250.1 billion (US\$2,084 million) in investments and other assets. The principal sources of liabilities were ¥760.9 billion (US\$6,341 million) in current liabilities and ¥435.0 billion (US\$3,625 million) in long-term liabilities. Minority interests in consolidated subsidiaries stood at ¥26.0 billion (US\$217 million), and total shareholders' equity amounted to ¥408.2 billion (US\$3,402 million).

### Cash Flows

On a consolidated basis, cash and cash equivalents (hereafter called "cash") at the end of the fiscal year under review were up ¥1.6 billion (US\$13 million) from the beginning of the term, to ¥35.2 billion (US\$293 million). This increase resulted from setting off the increase in cash gained from operating activities against the decrease by undertaking capital investments and paying down interest-bearing debt.

The cash flows in individual areas and factors affecting changes in these flows are outlined below.

#### [ Cash Flows from Operating Activities ]

Cash provided by operating activities totaled ¥128.7 billion (US\$1,073 million), up 21.6% from full fiscal 2002. This was mainly due to depreciation expenses of ¥83.2 billion (US\$694 million) (down 4.5%) and an increase in cash amounting to ¥36.5 billion (US\$305 million) (down 21.7%) arising mainly from a decrease in trade receivables.

#### [ Cash Flows from Investing Activities ]

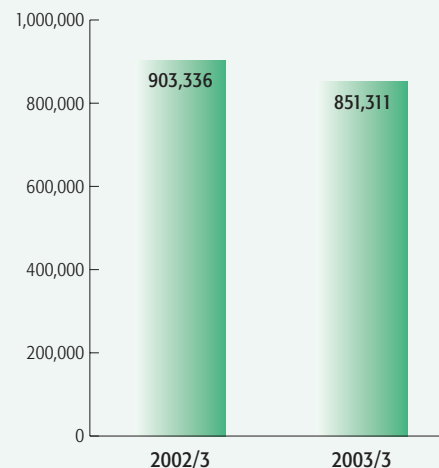
Cash used in investing activities totaled ¥71.9 billion (US\$599 million), down 22.4%. This was primarily the result of expenditure of ¥77.2 billion (US\$644 million) for purchases of property, plant and equipment (up 0.6%), of ¥9.5 billion (US\$79 million) for payments on guarantee obligation (down 28.4%), and of ¥7.7 billion (US\$64 million) for purchases of investments in other securities (down 0.9%).

#### [ Cash Flows from Financing Activities ]

Cash used in financing activities totaled ¥54.9 billion (US\$458 million), down 4.3%. This was mainly due to a decrease of ¥48.2 billion (US\$402 million) by paying back interest-bearing debt and ¥4.8 billion (US\$40 million) in cash dividends paid.

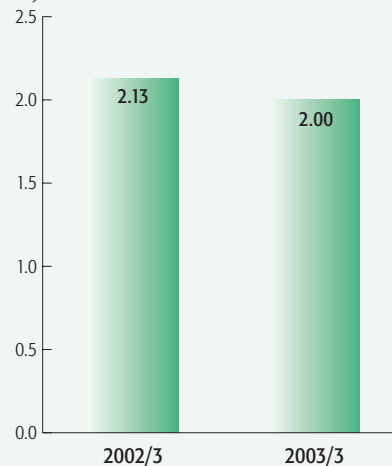
### Interest-Bearing Debt

(millions of yen)



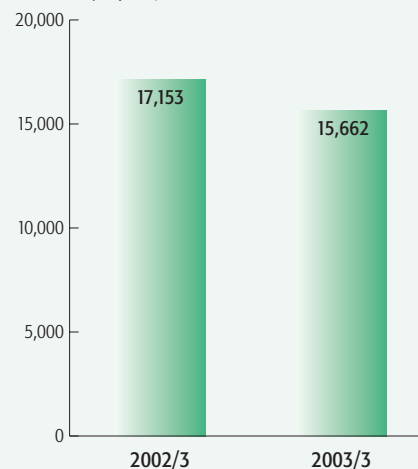
### Debt/Equity (D/E) Ratio

(times)



### Regular Employees

(number of employees)



Note: In the graphs on this page, "2002/3" refers to March 31, 2002 and "2003/3" refers to March 31, 2003.

# Consolidated Summary

Nippon Unipac Holding and Consolidated Subsidiaries

(Millions of yen, except where noted)

	April 1, 2002 to March 31, 2003	March 30, 2001 to March 31, 2002	October 1, 2001 to March 31, 2002	March 30, 2001 to September 30, 2001
<b>Sales by Segment</b>				
Pulp and paper				
Total segment sales .....	¥ 899,808	¥ 947,216	¥ 466,892	¥ 480,324
Intergroup sales and transfers .....	(2,458)	(1,293)	(758)	(535)
Sales to third parties .....	897,349	945,922	466,134	479,788
Paper-related				
Total segment sales .....	108,344	105,711	51,303	54,408
Intergroup sales and transfers .....	(10,149)	(7,746)	(4,083)	(3,663)
Sales to third parties .....	98,194	97,963	47,219	50,744
Housing and construction materials				
Total segment sales .....	133,307	126,623	64,944	61,679
Intergroup sales and transfers .....	(39,303)	(34,135)	(17,068)	(17,067)
Sales to third parties .....	94,004	92,488	47,876	44,612
Other				
Total segment sales .....	102,619	91,200	42,805	48,395
Intergroup sales and transfers .....	(26,716)	(16,154)	(7,798)	(8,356)
Sales to third parties .....	75,903	75,046	35,007	40,039
<b>Total sales</b>				
Total sales .....	1,244,079	1,270,753	625,946	644,807
Intergroup sales and transfers .....	(78,628)	(59,330)	(29,708)	(29,622)
Sales to third parties .....	1,165,450	1,211,422	596,237	615,185
Operating income .....	50,450	42,422	22,165	20,257
Ordinary income .....	39,671	28,563	16,315	12,248
Income (loss) before income taxes and minority interests .....	8,055	3,781	(1,943)	5,724
Net income (loss) .....	4,880	(636)	(3,449)	2,813
Total assets .....	1,630,126	1,721,745	1,721,745	1,778,440
Total current assets .....	455,445	517,698	517,698	563,370
Property, plant and equipment, net .....	924,597	941,428	941,428	956,633
Total investments and other assets (Note 1) .....	250,083	262,618	262,618	258,436
Liabilities and others .....	1,221,923	1,314,376	1,314,376	1,367,673
Total shareholders' equity .....	408,202	407,369	407,369	410,766
Interest-bearing debt .....	851,311	903,336	903,336	931,498
Debt/equity ratio (times) .....	2.00	2.13	2.13	2.16
<b>Amounts per share (yen):</b>				
Net income (loss)				
Basic .....	¥ 4,283.53	¥ (590.30)	¥(3,200.59)	¥ 2,611.51
Diluted (Note 2) .....	4,137.37	—	—	2,516.83
Shareholders' equity .....	374,133.23	377,308.99	377,308.99	381,128.83
<b>Ratios (%):</b>				
Operating income to net sales .....	4.33%	3.50 %	3.72 %	3.29%
Net income (loss) to net sales .....	0.42%	(0.05)%	(0.58)%	0.46%
Net income (loss) to shareholders' equity .....	1.20%	(0.16)%	(0.85)%	0.68%
Return on invested capital .....	4.20%	3.37 %	1.80 %	1.54%
Equity ratio .....	25.04%	23.66 %	23.66 %	23.10%

Notes: 1. Intangible assets and deferred charges were included in total investments and other assets.

2. Net income per share after residual security adjustment in the second period is not stated because of net loss.

At a Glance

Core Competence

To Our Shareholders

Medium-Term Business Plan

Sustainable Growth

Financial Section

Basic Information

# Consolidated Five-Year Summary

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

Millions of yen, except where noted

	2001	2000	1999	1998	1997
<b>Sales by Segment</b>					
Pulp and paper (Note 1)					
Total segment sales.....	¥ 666,520	¥ 647,853	¥ 654,486	¥ 851,836	¥ 885,498
Intergroup sales and transfers.....	(1,647)	(1,585)	(1,678)	(216)	(254)
Sales to third parties.....	664,872	646,267	652,808	851,620	885,243
Paper-related (Note 1)					
Total segment sales.....	106,935	102,371	100,405	—	—
Intergroup sales and transfers.....	(8,143)	(8,310)	(7,547)	—	—
Sales to third parties.....	98,792	94,060	92,858	—	—
Housing and construction materials					
Total segment sales.....	118,936	114,688	106,519	106,164	138,118
Intergroup sales and transfers.....	(17,352)	(13,521)	(13,660)	(5,893)	(4,537)
Sales to third parties.....	101,583	101,167	92,859	100,270	133,580
Other					
Total segment sales.....	82,051	81,606	83,152	124,371	97,782
Intergroup sales and transfers.....	(17,244)	(17,061)	(15,164)	(38,199)	(23,262)
Sales to third parties.....	64,806	64,544	67,987	86,172	74,519
<b>Total sales</b>					
Total sales.....	974,444	946,519	944,564	1,082,372	1,121,399
Intergroup sales and transfers.....	(44,388)	(40,478)	(38,051)	(44,308)	(28,055)
Sales to third parties.....	930,055	906,041	906,513	1,038,063	1,093,344
<b>Operating income (Note 2)</b>					
Operating income.....	59,907	30,127	12,166	47,517	63,501
Ordinary income.....	47,911	26,721	9,034	37,958	46,448
Income before income taxes.....	4,858	21,626	7,437	38,331	49,074
Net income.....	35	10,106	1,067	18,414	28,628
<b>Total assets</b>					
Total assets.....	1,107,172	1,122,106	1,149,467	1,225,910	1,278,316
Total current assets.....	412,073	444,081	451,645	513,073	568,048
Property, plant and equipment, net.....	534,037	550,185	554,877	564,621	573,534
Total investments and other assets (Notes 3 and 5).....	161,061	127,838	142,944	148,215	136,733
Liabilities and others (Note 4).....	778,408	787,670	820,133	881,569	946,434
Total shareholders' equity (Notes 6 and 7).....	328,764	334,435	329,332	344,340	331,881
Interest-bearing debt.....	490,647	533,961	587,657	605,306	638,462
Debt/equity ratio (times).....	1.43	1.53	1.73	1.69	1.88
<b>Amounts per share (yen):</b>					
Net income					
Basic.....	¥ 0.04	¥ 10.65	¥ 1.13	¥ 19.41	¥ 30.18
Diluted (Note 8).....	—	10.61	—	18.62	28.57
Shareholders' equity (Notes 6 and 7).....	346.53	352.55	347.20	363.02	349.88
<b>Ratios (%):</b>					
Operating income to net sales (Note 2).....	6.44%	3.33%	1.34%	4.58%	5.81%
Net income to net sales.....	0.00%	1.12%	0.12%	1.77%	2.62%
Net income to shareholders' equity (Notes 6 and 7).....	0.01%	3.02%	0.32%	5.45%	8.92%
Return on invested capital (Notes 6 and 7).....	7.14%	4.38%	2.45%	5.62%	6.43%
Equity ratio (Notes 6 and 7).....	29.69%	29.80%	28.65%	28.09%	25.96%

- Notes: 1. Due to the change of segment categorization from fiscal 2000, the categorization in fiscal 1999 has also been modified.  
2. Operating income: until fiscal 1998, selling, general and administrative expenses included enterprise tax.  
3. From fiscal 2000, software was moved from the category of long-term prepaid expenses to intangible assets.  
4. Liabilities and others includes minority interest in consolidated subsidiaries.  
5. Intangible assets and deferred charges were included in total investments and other assets.  
6. From fiscal 2001, foreign currency translation adjustment was moved under deduction of shareholders' equity, following amendment of the Rules for Consolidated Financial Statements.  
7. Foreign currency translation adjustment until fiscal 2000 was also transferred in deduction of shareholders equity accordingly.  
8. In fiscal 2001 and fiscal 1999, diluted net income per share is not stated because it was not changed after residual security adjustment.

# Consolidated Five-Year Summary

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

Millions of yen, except where noted

	2001	2000	1999	1998	1997
<b>Sales by Segment</b>					
Pulp and paper (Note 1)					
Total segment sales.....	¥320,137	¥307,659	¥300,054	¥ —	¥ —
Intergroup sales and transfers.....	(159)	(1,088)	(146)	—	—
Sales to third parties.....	319,978	306,571	299,907	—	—
<b>Other (Note 1)</b>					
Total segment sales.....	27,603	24,886	24,179	—	—
Intergroup sales and transfers.....	(18,222)	(13,177)	(13,204)	—	—
Sales to third parties.....	9,380	11,709	10,975	—	—
<b>Total sales</b>					
Total sales.....	347,740	332,546	324,233	—	—
Intergroup sales and transfers.....	(18,382)	(14,265)	(13,350)	—	—
Sales to third parties.....	329,358	318,281	310,882	370,687	380,990
<b>Operating income (Note 2)</b>					
Operating income (Note 2).....	20,676	11,174	2,530	19,883	32,533
Ordinary income (loss).....	12,969	6,174	(7,893)	12,487	20,990
<b>Income (loss) before income taxes (Note 3)</b>					
Income (loss) before income taxes (Note 3).....	(46,537)	4,267	(17,616)	7,407	11,118
Net income (loss).....	(28,246)	1,871	(12,274)	4,061	7,613
<b>Total assets</b>					
Total assets.....	589,991	630,486	561,491	594,038	627,490
Total current assets.....	168,947	138,317	134,516	161,585	169,134
Property, plant and equipment, net (Note 4).....	347,588	385,098	324,438	333,669	346,025
Total investments and other assets (Notes 5 and 7) ...	73,455	107,070	102,536	98,784	112,330
Liabilities and others (Note 6).....	542,896	551,883	526,892	545,872	582,762
Total shareholders' equity (Notes 4, 8 and 9).....	47,095	78,603	34,599	48,166	44,727
Interest-bearing debt.....	391,475	421,429	431,248	430,223	466,068
Debt/equity ratio (times).....	7.21	5.13	11.88	8.47	9.97
<b>Amounts per share (yen):</b>					
<b>Net income (loss)</b>					
Basic.....	¥(130.26)	¥ 8.62	¥ (55.85)	¥ 18.48	¥ 34.64
Diluted (Note 10).....	—	—	—	—	—
Shareholders' equity (Notes 8 and 9).....	214.28	362.93	157.42	219.15	203.51
<b>Ratios (%):</b>					
Operating income to net sales (Note 2).....	6.28 %	3.51%	0.81 %	5.36%	8.54%
Net income (loss) to net sales.....	(8.58)%	0.59%	(3.95)%	1.10%	2.00%
Net income (loss) to shareholders' equity (Notes 8 and 9).....	(44.94)%	3.31%	(29.66)%	8.74%	18.61%
Return on invested capital (Notes 8 and 9).....	5.28 %	3.57%	0.89 %	5.45%	7.13%
Equity ratio (Notes 8 and 9).....	7.98 %	12.47%	6.16 %	8.11%	7.13%

- Notes: 1. The segment categorization is modified from fiscal 1999, to reflect the contribution of the Other Division.  
2. Operating income: until fiscal 1998, selling, general and administrative expenses included enterprise tax.  
3. From fiscal 1999, tax effect accounting is applied.  
4. Land for business purpose is revaluated in fiscal 2000.  
5. From fiscal 2000, software was moved from long-term prepaid expenses to intangible assets.  
6. Liabilities and others includes minority interest in consolidated subsidiaries.  
7. Intangible assets and deferred charges were included in total investments and other assets.  
8. From fiscal 2001, foreign currency translation adjustment was moved under deduction of shareholders' equity, following amendment of the Rules for Consolidated Financial Statements.  
9. Foreign currency translation adjustment until fiscal 2000 was also transferred in deduction of shareholders' equity accordingly.  
10. In fiscal 2001 and fiscal 1999, diluted net income per share is not stated because it was not changed after residual security adjustment.

# Consolidated Balance Sheets

Nippon Unipac Holding and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31, 2003	March 31, 2002	March 31, 2003
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents .....	¥ 35,187	¥ 33,609	\$ 293,225
Marketable securities (Note 12) .....	173	2,188	1,442
Receivables:			
Notes and accounts receivable:			
Trade (Note 6) .....	232,922	268,958	1,941,017
Unconsolidated subsidiaries and affiliates .....	13,548	13,804	112,900
Other .....	5,764	14,640	48,033
Loans receivable from unconsolidated subsidiaries and affiliates .....	11,787	14,261	98,225
Allowance for doubtful receivables .....	(4,050)	(2,520)	(33,750)
Inventories (Note 4) .....	138,174	143,489	1,151,450
Deferred tax assets (Note 8) .....	7,767	8,250	64,725
Other current assets (Note 7) .....	14,170	21,015	118,083
<b>Total current assets .....</b>	<b>455,445</b>	<b>517,698</b>	<b>3,795,375</b>
<b>Property, plant and equipment (Note 6):</b>			
Land .....	249,859	243,652	2,082,158
Buildings and structures .....	457,288	455,306	3,810,733
Machinery and equipment .....	1,848,067	1,857,520	15,400,558
Construction in progress .....	26,535	25,492	221,125
Other .....	21,285	21,579	177,375
	<b>2,603,036</b>	<b>2,603,551</b>	<b>21,691,967</b>
Less accumulated depreciation .....	<b>(1,678,438)</b>	<b>(1,662,123)</b>	<b>(13,986,983)</b>
<b>Property, plant and equipment, net .....</b>	<b>924,597</b>	<b>941,428</b>	<b>7,704,975</b>
<b>Investments and other assets:</b>			
Investments in and advances to unconsolidated subsidiaries and affiliates .....	72,873	77,138	607,275
Investments in other securities (Notes 6 and 12) .....	65,102	76,506	542,517
Deferred tax assets (Note 8) .....	28,603	20,033	238,358
Other assets .....	135,252	134,948	1,127,100
Allowance for doubtful receivables .....	(51,748)	(46,008)	(431,233)
<b>Total investments and other assets .....</b>	<b>250,083</b>	<b>262,618</b>	<b>2,084,025</b>
<b>Total assets (Note 13) .....</b>	<b>¥1,630,126</b>	<b>¥1,721,745</b>	<b>\$13,584,383</b>

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31, 2003	March 31, 2002	March 31, 2003
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Short-term borrowings (Note 5):			
Loans payable and commercial paper.....	¥ 366,099	¥ 408,584	\$ 3,050,825
Unconsolidated subsidiaries and affiliates.....	140	—	1,167
Current portion of long-term debt (Note 5):			
Bonds and loans payable .....	132,496	96,693	1,104,133
Unconsolidated subsidiaries and affiliates.....	200	—	1,667
Notes and accounts payable:			
Trade .....	138,494	160,969	1,154,117
Unconsolidated subsidiaries and affiliates.....	18,103	31,972	150,858
Other .....	70,587	56,216	588,225
Accrued income taxes (Note 8) .....	8,361	3,416	69,675
Other current liabilities.....	26,451	38,586	220,425
Total current liabilities.....	760,934	796,439	6,341,117
<b>Long-term liabilities:</b>			
Long-term debt (Note 5):			
Bonds and loans payable .....	347,652	389,424	2,897,100
Loans payable to unconsolidated subsidiaries and affiliates.....	—	540	—
Accrued retirement benefits (Note 7).....	74,926	78,324	624,383
Allowance for losses on guarantees.....	522	425	4,350
Deferred tax liabilities (Note 8).....	3,972	7,631	33,100
Other long-term liabilities .....	7,915	11,110	65,958
Total long-term liabilities.....	434,989	487,456	3,624,908
Minority interests .....	26,000	30,480	216,667
<b>Contingent liabilities</b> (Note 11)			
<b>Shareholders' equity</b> (Notes 9 and 16):			
Common stock:			
Authorized—3,000,000 shares;			
Issued —1,105,235.63 shares in 2003 and 1,080,670.23 shares in 2002 .....	55,730	55,730	464,417
Capital surplus .....	252,964	236,532	2,108,033
Retained earnings.....	112,668	114,675	938,900
Unrealized holding (loss) gain on other securities .....	(743)	1,262	(6,192)
Translation adjustments.....	(4,391)	(416)	(36,592)
	416,228	407,784	3,468,567
Less treasury stock, at cost:			
14,751.24 shares in 2003 and 1,000.19 shares in 2002.....	(8,025)	(415)	(66,875)
Total shareholders' equity.....	408,202	407,369	3,401,683
<b>Total liabilities and shareholders' equity</b> .....	<b>¥1,630,126</b>	<b>¥1,721,745</b>	<b>\$13,584,383</b>

See notes to consolidated financial statements.

# Consolidated Statements of Operations

Nippon Unipac Holding and Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars (Note 3)
	Year ended March 31, 2003	Period from October 1, 2001 to March 31, 2002	Supplemental information (unaudited)	Year ended March 31, 2003
			Period from March 30, 2001 to March 31, 2002	
<b>Net sales</b> (Note 13).....	<b>¥1,165,450</b>	¥ 596,237	¥1,211,422	<b>\$9,712,083</b>
<b>Cost of sales</b> (Note 13).....	<b>892,906</b>	449,102	919,859	<b>7,440,883</b>
<b>Gross profit</b> .....	<b>272,543</b>	147,134	291,561	<b>2,271,192</b>
<b>Selling, general and administrative expenses</b> (Note 13).....	<b>222,093</b>	124,969	249,139	<b>1,850,775</b>
<b>Operating income</b> (Note 13).....	<b>50,450</b>	22,165	42,422	<b>420,417</b>
<b>Other income (expense):</b>				
Interest expense.....	<b>(13,215)</b>	(7,218)	(15,642)	<b>(110,125)</b>
Interest and dividend income.....	<b>2,495</b>	1,131	2,869	<b>20,792</b>
Gain on sales of investments in other securities.....	<b>729</b>	754	2,533	<b>6,075</b>
Loss on sales of property, plant and equipment, net of disposal.....	<b>(1,455)</b>	(6,571)	(4,522)	<b>(12,125)</b>
Equity in losses of affiliates.....	<b>(699)</b>	(918)	(1,022)	<b>(5,825)</b>
Loss on devaluation of investments in other securities.....	<b>(7,567)</b>	(4,726)	(9,782)	<b>(63,058)</b>
Amortization of net retirement benefit obligation at transition.....	—	(2,947)	(5,894)	—
Foreign currency exchange gain.....	—	699	914	—
Provision for doubtful receivables.....	<b>(19,044)</b>	(2,484)	(2,600)	<b>(158,700)</b>
Gain on subsidy.....	<b>1,742</b>	—	—	<b>14,517</b>
Other, net.....	<b>(5,379)</b>	(1,826)	(5,294)	<b>(44,825)</b>
	<b>(42,395)</b>	(24,109)	(38,642)	<b>(353,292)</b>
<b>Income (loss) before income taxes and minority interests</b> .....	<b>8,055</b>	(1,943)	3,781	<b>67,125</b>
<b>Income taxes:</b>				
Current.....	<b>9,883</b>	647	5,554	<b>82,358</b>
Deferred.....	<b>(9,684)</b>	2,804	1,897	<b>(80,700)</b>
	<b>199</b>	3,451	7,451	<b>1,658</b>
<b>Minority interests</b> .....	<b>(2,975)</b>	1,945	3,034	<b>(24,792)</b>
<b>Net income (loss)</b> .....	<b>¥ 4,880</b>	¥ (3,449)	¥ (636)	<b>\$ 40,667</b>
		Yen		U.S. dollars (Note 3)
<b>Amounts per share:</b>				
Net income (loss):				
Basic.....	<b>¥4,283.53</b>	¥(3,200.59)	¥ (590.30)	<b>\$35.696</b>
Diluted.....	<b>4,137.37</b>	—	—	<b>34.478</b>
Cash dividends.....	<b>8,000.00</b>	4,000.00	8,000.00	<b>66.667</b>

See notes to consolidated financial statements.

# Consolidated Statements of Shareholders' Equity

Nippon Unipac Holding and Consolidated Subsidiaries

	Number of shares of common stock	Millions of yen					
		Common stock	Capital surplus	Retained earnings	Unrealized gain (loss) on securities	Translation adjustments	Treasury stock at cost
Balance at September 30, 2001 .....	1,080,670.23	¥55,730	¥236,532	¥122,436	¥ 138	¥(2,491)	¥(1,578)
Cash dividends paid .....	—	—	—	(4,310)	—	—	—
Net loss .....	—	—	—	(3,449)	—	—	—
Net change during the period .....	—	—	—	—	1,124	2,075	1,162
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	—	—	—	—
Redemption 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)	—	—	—
<b>Balance at March 31, 2003 .....</b>	<b>1,105,235.63</b>	<b>¥55,730</b>	<b>¥252,964</b>	<b>¥112,668</b>	<b>¥ (743)</b>	<b>¥(4,391)</b>	<b>¥(8,025)</b>

	Thousands of U.S. dollars (Note 3)					
	Common stock	Capital surplus	Retained earnings	Unrealized loss on securities	Translation adjustments	Treasury stock at cost
Balance at March 31, 2002 .....	\$464,417	\$1,971,100	\$955,625	\$10,517	\$ (3,467)	\$ (3,458)
Adjustments for exchange of shares of common stock .....	—	162,033	—	—	—	—
Redemption of treasury stock .....	—	(25,100)	—	—	—	—
Cash dividends paid .....	—	—	(36,017)	—	—	—
Bonuses to directors and statutory auditors .....	—	—	(1,767)	—	—	—
Net income .....	—	—	40,667	—	—	—
Net change during the year .....	—	—	—	(16,708)	(33,125)	(63,417)
Effects of adoption of new accounting standards at foreign subsidiaries .....	—	—	(19,608)	—	—	—
<b>Balance at March 31, 2003 .....</b>	<b>\$464,417</b>	<b>\$2,108,033</b>	<b>\$938,900</b>	<b>\$ (6,192)</b>	<b>\$(36,592)</b>	<b>\$(66,875)</b>

See notes to consolidated financial statements.

At a Glance

Core Competence

To Our Shareholders

Medium-Term Business Plan

Sustainable Growth

Financial Section

Basic Information

# Consolidated Statements of Cash Flows

Nippon Unipac Holding and Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars (Note 3)
	Year ended March 31, 2003	Period from October 1, 2001 to March 31, 2002	Supplemental information (unaudited)	
			Period from March 30, 2001 to March 31, 2002	Year ended March 31, 2003
<b>Operating activities</b>				
Income (loss) before income taxes and minority interests	¥ 8,055	¥ (1,943)	¥ 3,781	\$ 67,125
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:				
Depreciation	83,223	44,172	87,144	693,525
Amortization of difference between cost and underlying net equity in consolidated subsidiaries	2,456	909	1,581	20,467
Increase in allowance for doubtful receivables	17,881	10,550	10,649	149,008
(Decrease) increase in accrued retirement benefits	(2,685)	2,247	3,337	(22,375)
Increase (decrease) in allowance for losses on guarantees	97	(8,902)	(8,902)	808
Interest and dividend income	(2,495)	(1,131)	(2,869)	(20,792)
Interest expense	13,191	7,218	15,642	109,925
Equity in losses of affiliates	699	918	1,022	5,825
Gain on sales of investments in other securities	(729)	(754)	(2,533)	(6,075)
Loss on sales of property, plant and equipment, net of disposal	1,455	6,571	4,522	12,125
Loss on devaluation of investments in other securities	7,567	4,726	9,782	63,058
Bonuses paid to directors and statutory auditors	(238)	—	(292)	(1,983)
Changes in operating assets and liabilities:				
Receivables	36,535	30,579	46,683	304,458
Inventories	4,672	11,268	13,442	38,933
Payables	(36,558)	(13,035)	(36,183)	(304,650)
Other	2,765	(11,826)	(10,266)	23,042
	135,892	81,570	136,545	1,132,433
Interest and dividends received	2,738	1,997	4,076	22,817
Interest paid	(13,181)	(7,352)	(15,703)	(109,842)
Income taxes refunded (paid)	3,246	(2,069)	(19,104)	27,050
Net cash provided by operating activities	128,695	74,145	105,812	1,072,458
<b>Investing activities</b>				
Purchases of time deposits	(995)	¥ (342)	(909)	(8,292)
Withdrawals of time deposits	1,656	749	3,746	13,800
Acquisitions of marketable securities	—	—	(589)	—
Proceeds from sales of marketable securities	2,147	2,338	2,938	17,892
Purchases of property, plant and equipment	(77,223)	(36,711)	(76,734)	(643,525)
Proceeds from sales of property, plant and equipment	14,627	4,031	7,223	121,892
Purchases of investments in other securities	(7,733)	(4,930)	(7,800)	(64,442)
Proceeds from sales of investments in other securities	4,461	1,198	4,601	37,175
Decrease (increase) in short-term loans	2,149	(1,948)	(3,189)	17,908
Extension of long-term loans	(1,142)	(755)	(2,142)	(9,517)
Collection of long-term loans	1,410	1,369	2,459	11,750
Payments on guarantee obligations	(9,520)	(13,305)	(13,305)	(79,333)
Other, net	(1,727)	(8,727)	(8,889)	(14,392)
Net cash used in investing activities	(71,891)	(57,033)	(92,591)	(599,092)
<b>Financing activities</b>				
Decrease in short-term borrowings	(42,318)	(24,699)	(24,810)	(352,650)
Proceeds from issuance of long-term debt	109,637	47,672	101,377	913,642
Payment for transfer of shares of subsidiaries	—	—	(4,254)	—
Repayment of long-term debt	(115,510)	(47,863)	(119,768)	(962,583)
Purchases of treasury stock	(7,546)	—	—	(62,883)
Proceeds from sales of treasury stock	6,826	—	—	56,883
Cash dividends paid	(4,756)	(4,558)	(4,815)	(39,633)
Payments on finance lease obligations	(1,720)	(3,220)	(6,905)	(14,333)
Other, net	450	1,735	1,777	3,750
Net cash used in financing activities	(54,938)	(30,934)	(57,401)	(457,817)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(288)	(77)	244	(2,400)
<b>Increase (decrease) in cash and cash equivalents</b>	1,578	(13,899)	(43,935)	13,150
<b>Cash and cash equivalents at beginning of year</b>	33,609	47,508	26,098	280,075
<b>Increase due to transfer of shares of subsidiaries</b>	—	—	51,232	—
<b>Increase due to merger of unconsolidated subsidiaries</b>	—	—	214	—
<b>Cash and cash equivalents at end of year</b>	¥ 35,187	¥ 33,609	¥ 33,609	\$ 293,225

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Nippon Unipac Holding and Consolidated Subsidiaries  
March 31, 2003

## 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. ("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, Nippon and Daishowa became wholly-owned subsidiaries of the Company. Both subsidiaries are principally engaged in manufacturing and selling pulp and paper.

## 2. Summary of Significant Accounting Policies

### (a) Basis of Preparation

The accompanying consolidated financial statements have been prepared from the accounts prepared by the Company in accordance with the provisions set forth in the Commercial Code and in conformity with accounting principles and practices generally accepted and applied in Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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

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

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

### (b) Consolidation

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

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

Certain foreign subsidiaries are consolidated on the basis of fiscal periods ending December 31, 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 (loss) 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, 2003 or 2002;
- (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 mainly 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 period or 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, 2003 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, 2003, as adjusted for the net unrecognized retirement benefit obligation at transition, unrecognized actuarial gain or loss, and unrecognized prior service cost. The retirement benefit obligation is attributed to each period or the 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 10 years through 15 years) which are shorter than the average remaining years of service of the eligible employees.

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

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

**(j) Research and Development Costs**

Research and development costs are charged to income as incurred.

**(k) Derivative Financial Instruments**

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 period or year.

**(o) Treasury Stock and Reduction of Legal Reserves**

Effective April 1, 2002 the Company and consolidated subsidiaries adopted a new accounting standard for treasury stock and reduction of legal reserves. The adoption of this new accounting standard increased income before income taxes for the year ended March 31, 2003 by ¥5,164 million (\$43,033 thousand) over the amount which would have been recorded under the former standard.

### 3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥120 = U.S.\$1.00, the approximate rate of exchange on March 31, 2003, 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, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Merchandise and finished products.....	¥ 83,218	¥ 86,983	\$ 693,483
Work in process.....	15,943	15,814	132,858
Raw materials and supplies.....	39,012	40,692	325,100
	¥138,174	¥143,489	\$1,151,450

### 5. Short-Term Borrowings and Long-Term Debt

At March 31, 2003 and 2002, short-term borrowings consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Loans from banks.....	¥295,099	¥371,584	\$2,459,158
Loans from unconsolidated subsidiaries and affiliates.....	140	—	1,167
Commercial paper.....	71,000	37,000	591,667
	¥366,239	¥408,584	\$3,051,992

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, 2003 and 2002 were 0.70% and 0.82%, respectively.

Long-term debt at March 31, 2003 and 2002 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Loans from banks, insurance companies and others at rates ranging from 0.395% to 7.2% due through 2034:			
With collateral.....	¥178,203	¥199,376	\$1,485,025
Without collateral.....	154,645	124,782	1,288,708
2.5% unsecured notes in yen due 2003 (subsidiary).....	30,000	30,000	250,000
2.975% unsecured notes in yen due 2005 (subsidiary).....	25,000	25,000	208,333
2.55% unsecured notes in yen due 2003 (subsidiary).....	25,000	25,000	208,333
1.675% unsecured notes in yen due 2002 (subsidiary).....	—	15,000	—
2.075% unsecured notes in yen due 2004 (subsidiary).....	15,000	15,000	125,000
2.12% unsecured notes in yen due 2004 (subsidiary).....	20,000	20,000	166,667
0.2% unsecured exchangeable bonds in yen due 2006 (subsidiary).....	31,000	31,000	258,333
1.66% unsecured notes in yen due 2005 (subsidiary).....	1,500	1,500	12,500
	480,349	486,658	4,002,908
Less current portion.....	(132,696)	(96,693)	(1,105,800)
	¥347,652	¥389,964	\$2,897,100

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, 2003, 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, 2003 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2004.....	¥132,696	\$1,105,800
2005.....	105,275	877,292
2006.....	126,153	1,051,275
2007.....	38,014	316,783
2008 and thereafter.....	78,209	651,742
	¥480,349	\$4,002,908

## 6. Pledged Assets

Assets pledged as collateral for notes and accounts payable-trade of ¥73 million (\$608 thousand), short-term borrowings of ¥7,595 million (\$63,292 thousand), the current portion of long-term debt of ¥44,913 million (\$374,275 thousand), and long-term debt of ¥133,290 million (\$1,110,750 thousand) at March 31, 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Notes and accounts receivable-trade.....	¥ 3,919	¥ 5,073	\$ 32,658
Property, plant and equipment, at net book value .....	503,831	472,382	4,198,592
Investments in other securities.....	12,124	17,500	101,033
Other assets.....	4,122	8,596	34,350
	<b>¥523,997</b>	<b>¥503,552</b>	<b>\$4,366,642</b>

## 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, 2003 and 2002 for the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Retirement benefit obligation .....	¥(268,171)	¥(266,077)	\$(2,234,758)
Plan assets at fair value .....	114,211	137,555	951,758
Unfunded retirement benefit obligation .....	(153,960)	(128,521)	(1,283,000)
Unrecognized actuarial gain or loss.....	84,594	57,875	704,950
Unrecognized prior service cost .....	(907)	(1,753)	(7,558)
Net retirement benefit obligation.....	(70,273)	(72,399)	(585,608)
Prepaid pension cost.....	2,224	3,332	18,533
Accrued retirement benefits.....	¥ (72,498)	¥ (75,732)	\$ (604,150)

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

The components of retirement benefit expenses for the year ended March 31, 2003 and the period ended March 31, 2002 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Service cost.....	¥ 8,663	¥ 4,715	\$ 72,192
Interest cost .....	7,806	4,428	65,050
Expected return on plan assets.....	(4,245)	(2,474)	(35,375)
Amortization of net retirement benefit obligation at transition .....	—	2,947	—
Amortization of actuarial gain or loss.....	4,238	736	35,317
Amortization of prior service cost .....	(58)	(34)	(483)
Total.....	<b>¥16,403</b>	<b>¥10,319</b>	<b>\$136,692</b>

In addition to the above, the extra retirement benefits of ¥1,107 million (\$9,225 thousand) and ¥350 million (\$2,917 thousand) were paid for the year and the period ended March 31, 2003 and 2002, respectively.

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

	2003	2002
Discount rate.....	mainly 3.0%	mainly 3.0%
Expected rate of return on plan assets.....	mainly 4.0%	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 year ended March 31, 2003 and the period ended March 31, 2002. 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.

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

The effective tax rate reflected in the consolidated statement of operations for the year ended March 31, 2003 differs from the statutory tax rate for the following reasons:

	2003
Statutory tax rate.....	42.1%
Effect of:	
Permanent difference—entertainment expenses.....	13.1
Non-taxable dividends received.....	(5.5)
Equity in losses of unconsolidated subsidiaries and affiliates.....	3.7
Amortization of the excess of cost over underlying net equity in consolidated subsidiaries.....	12.8
Inhabitants' per capita taxes.....	3.6
Provision for valuation allowance.....	(71.6)
Difference in tax rates applied to subsidiaries.....	(3.3)
Change in statutory tax rate.....	8.1
Other, net.....	(0.5)
Effective tax rate.....	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 (\$5,342 thousand) at March 31, 2003 and to increase income taxes—deferred by ¥654 million (\$5,450 thousand) 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, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Deferred tax assets:			
Accrued bonuses.....	¥ 3,578	¥ 3,122	\$ 29,817
Accrued enterprise tax.....	730	237	6,083
Accrued allowance for doubtful receivables.....	13,306	7,260	110,883
Accrued retirement benefits.....	33,257	32,175	277,142
Accrued officers' retirement benefits.....	949	1,047	7,908
Accrual for loss on investment securities.....	2,630	3,896	21,917
Tax loss carryforwards.....	22,511	24,914	187,592
Unrealized profit eliminated in consolidation.....	5,994	6,086	49,950
Other.....	4,864	5,284	40,533
	<b>87,822</b>	84,024	<b>731,850</b>
Valuation allowance.....	<b>(15,294)</b>	(23,448)	<b>(127,450)</b>
	<b>72,528</b>	60,576	<b>604,400</b>
Deferred tax liabilities:			
Tax reserves.....	<b>(8,418)</b>	(8,077)	<b>(70,150)</b>
Accumulated depreciation.....	<b>(1,365)</b>	(1,354)	<b>(11,375)</b>
Valuation differences on land, etc.....	<b>(28,068)</b>	(29,603)	<b>(233,900)</b>
Investments in other securities.....	<b>(1,701)</b>	—	<b>(14,175)</b>
Other.....	<b>(586)</b>	(887)	<b>(4,883)</b>
	<b>(40,140)</b>	(39,923)	<b>(334,500)</b>
Net deferred tax assets.....	<b>¥32,388</b>	¥20,652	<b>\$269,900</b>

## 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 (\$3,600 thousand) at both March 31, 2003 and 2002.

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, 2003 and 2002, 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
	2003	2002	2003
Acquisition costs:			
Machinery and equipment.....	<b>¥10,187</b>	¥10,326	<b>\$84,892</b>
Accumulated depreciation:			
Machinery and equipment.....	<b>¥ 4,975</b>	¥ 4,921	<b>\$41,458</b>
Net book value:			
Machinery and equipment.....	<b>¥ 5,211</b>	¥ 5,404	<b>\$43,425</b>

The pro forma depreciation portion of the lease payments relating to finance leases accounted for as operating leases for the year ended March 31, 2003 and the period ended March 31, 2002 amounted to ¥1,759 million (\$14,658 thousand) and ¥1,046 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, 2003 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
2004 .....	¥1,621	\$13,508
2005 and thereafter.....	3,590	29,917
Total.....	¥5,211	\$43,425

- b) Future minimum lease payments subsequent to March 31, 2003 for noncancelable operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2004 .....	¥ 616	\$ 5,133
2005 and thereafter.....	783	6,525
Total.....	¥1,400	\$11,667

### 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, 2003 and 2002:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Acquisition costs:			
Machinery and equipment.....	<b>¥144</b>	¥123	<b>\$1,200</b>
Accumulated depreciation:			
Machinery and equipment.....	<b>¥ 93</b>	¥ 88	<b>\$ 775</b>
Net book value:			
Machinery and equipment.....	<b>¥ 51</b>	¥ 34	<b>\$ 425</b>

Lease income relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥19 million (\$158 thousand) and ¥11 million, for the year ended March 31, 2003 and the period ended March 31, 2002. Depreciation of the assets leased under finance leases accounted for as operating leases amounted to ¥19 million (\$158 thousand) and ¥11 million, for the year and the period ended March 31, 2003 and 2002, respectively.

Future minimum lease income subsequent to March 31, 2003 for noncancelable operating leases is summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2004 .....	¥20	\$167
2005 and thereafter .....	29	242
Total .....	¥49	\$408

- b) Future minimum lease income subsequent to March 31, 2003 for noncancelable operating leases is summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2004 .....	¥12	\$100
2005 and thereafter .....	76	633
Total .....	¥88	\$733

## 11. Contingent Liabilities

The consolidated subsidiaries had the following contingent liabilities at March 31, 2003:

	Millions of yen	Thousands of U.S. dollars
As guarantors of indebtedness of unconsolidated subsidiaries, affiliates and others.....	¥39,794	\$331,617

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 U.S.\$10,000 thousand (¥1,212 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.

## 12. Securities

(1) 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			Thousands of U.S. dollars		
	March 31, 2003			March 31, 2003		
	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value:						
Corporate bonds .....	¥100	¥100	¥0	\$ 833	\$ 833	\$0
Other .....	26	26	0	217	217	0
Subtotal.....	126	127	0	1,050	1,058	0
Securities whose carrying value exceeds their fair value:						
Government bonds.....	280	280	0	2,333	2,333	0
Other .....	99	99	0	825	825	0
Subtotal.....	380	380	0	3,167	3,167	0
Total.....	¥506	¥507	¥0	\$4,217	\$4,225	\$0

### Marketable other securities

	Millions of yen			Thousands of U.S. dollars		
	March 31, 2003			March 31, 2003		
	Cost	Carrying value	Unrealized gain (loss)	Cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their cost:						
Equity securities.....	¥ 8,718	¥14,579	¥ 5,861	\$ 72,650	\$121,492	\$ 48,842
Debt securities .....	1,858	2,053	195	15,483	17,108	1,625
Other .....	0	0	0	0	0	0
Subtotal.....	10,577	16,633	6,056	88,142	138,608	50,467
Securities whose cost exceeds their carrying value:						
Equity securities.....	28,886	21,393	(7,492)	240,717	178,275	(62,433)
Other .....	19	14	(5)	158	117	(42)
Subtotal.....	28,906	21,408	(7,497)	240,883	178,400	(62,475)
Total.....	¥39,483	¥38,042	¥(1,441)	\$329,025	\$317,017	\$(12,008)

b) Sales of securities classified as other securities amounted to ¥3,048 million (\$25,400 thousand) with an aggregate gain of ¥189 million (\$1,575 thousand) and loss of ¥295 million (\$2,458 thousand) 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			Thousands of U.S. dollars		
	March 31, 2003			March 31, 2003		
	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	¥-	\$ -	\$2,333	\$-
Corporate bonds.....	100	-	-	833	-	-
Other debt.....	219	41	-	1,825	342	-
Total.....	¥319	¥322	¥-	\$2,658	\$2,683	\$-

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	Thousands of U.S. dollars
	March 31, 2003	March 31, 2003
	Carrying value	Carrying value
Other securities:		
Unlisted equity securities .....	¥27,904	\$232,533
Other.....	1,010	8,417
Total.....	¥28,914	\$240,950

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

**Marketable held-to-maturity debt securities**

	Millions of yen		
	March 31, 2002		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value:			
Government bonds .....	¥ 106	¥ 106	¥ -
Corporate bonds .....	999	1,011	12
Subtotal .....	1,105	1,118	12
Securities whose carrying value exceeds their fair value:			
Corporate bonds .....	100	90	(9)
Subtotal .....	100	90	(9)
Total .....	¥1,205	¥1,208	¥ 3

**Marketable other securities**

	Millions of yen		
	March 31, 2002		
	Cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their cost:			
Equity securities .....	¥21,036	¥28,586	¥ 7,550
Debt securities .....	1,956	2,086	129
Other .....	1,050	1,063	13
Subtotal .....	24,042	31,736	7,693
Securities whose cost exceeds their carrying value:			
Equity securities .....	26,028	20,134	(5,893)
Other .....	16	12	(4)
Subtotal .....	26,044	20,146	(5,897)
Total .....	¥50,087	¥51,882	¥ 1,795

- b) Sales of securities classified as other securities amounted to ¥973 million with an aggregate gain of ¥654 million for the period ended March 31, 2002.
- c) The redemption schedule for securities with maturity dates classified as other securities and held-to-maturity debt securities at March 31, 2002 is summarized as follows:

	Millions of yen		
	March 31, 2002		
	Due in one year or less	Due after one year through five years	Due after five years
Corporate bonds .....	¥2,162	¥100	¥ -
Other debt securities .....	72	109	1,000
Total .....	¥2,235	¥209	¥1,000

- d) Non-marketable securities classified as held-to-maturity debt securities and other securities at March 31, 2002 are summarized as follows:

	Millions of yen
	March 31, 2002
	Carrying value
Held-to-maturity debt securities:	
Unlisted .....	¥ 1,000
Other .....	56
Total .....	¥ 1,056
Other securities:	
Unlisted equity securities .....	¥25,543
Other .....	1,153
Total .....	¥26,697

# 13. Segment Information

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sales of products in three major industry segments: pulp and paper, paper-related and housing and construction materials. The results of their other businesses are reported in the "Other" segment.

Business segment information of the Company and its consolidated subsidiaries for the year ended March 31, 2003 and the period ended March 31, 2002 is as follows:

Millions of yen							
2003							
	Pulp and paper	Paper-related	Housing and construction materials	Other	Total	Eliminations or corporate	Consolidated
<b>I. Sales and operating income</b>							
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
<b>II. Assets, depreciation and capital expenditures</b>							
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
Thousands of U.S. dollars							
2003							
	Pulp and paper	Paper-related	Housing and construction materials	Other	Total	Eliminations or corporate	Consolidated
<b>I. Sales and operating income</b>							
Sales to third parties.....	\$ 7,477,908	\$818,283	\$ 783,367	\$632,525	\$ 9,712,083	\$ -	\$ 9,712,083
Intergroup sales and transfers.....	20,483	84,575	327,525	222,633	655,233	(655,233)	-
Total sales.....	7,498,400	902,867	1,110,892	855,158	10,367,325	(655,233)	9,712,083
Operating expenses.....	7,165,567	862,058	1,102,983	816,275	9,946,900	(655,233)	9,291,667
Operating income.....	\$ 332,825	\$ 40,800	\$ 7,900	\$ 38,883	\$ 420,417	\$ -	\$ 420,417
<b>II. Assets, depreciation and capital expenditures</b>							
Total assets.....	\$10,248,600	\$793,333	\$762,658	\$772,342	\$12,576,950	\$1,007,433	\$13,584,383
Depreciation.....	600,900	31,950	11,842	48,825	693,525	-	693,525
Capital expenditures.....	571,658	26,875	10,525	31,800	640,867	-	640,867
Millions of yen							
2002							
	Pulp and paper	Paper-related	Housing and construction materials	Other	Total	Eliminations or corporate	Consolidated
<b>I. Sales and operating income</b>							
Sales to third parties.....	¥ 466,134	¥ 47,219	¥ 47,876	¥35,007	¥ 596,237	¥ -	¥ 596,237
Intergroup sales and transfers.....	758	4,083	17,068	7,798	29,708	(29,708)	-
Total sales.....	466,892	51,303	64,944	42,805	625,946	(29,708)	596,237
Operating expenses.....	447,929	50,026	64,545	41,279	603,781	(29,708)	574,072
Operating income.....	¥ 18,963	¥ 1,276	¥ 399	¥ 1,526	¥ 22,165	¥ -	¥ 22,165
<b>II. Assets, depreciation and capital expenditures</b>							
Total assets.....	¥1,250,405	¥100,871	¥94,410	¥90,842	¥1,536,530	¥185,215	¥1,721,745
Depreciation.....	37,407	2,818	767	3,179	44,172	-	44,172
Capital expenditures.....	29,264	2,677	554	1,469	33,965	-	33,965

## Geographic segments

Since sales in Japan were 90% or more of consolidated sales for the year ended March 31, 2003 and the period ended March 31, 2002, geographical segment information has not been presented.

## Overseas segment

Since overseas sales were less than 10% of consolidated sales for the year ended March 31, 2003 and the period ended March 31, 2002, 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 and currency swaps 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, 2003 and 2002:

	Millions of yen				Thousands of U.S. dollars	
	2003		2002		2003	
	Contract amount	Estimated fair value	Contract amount	Estimated fair value	Contract amount	Estimated fair value
Interest-rate swaps:						
Receive-variable; pay-fixed .....	<b>¥1,325</b>	<b>¥ (8)</b>	¥2,275	¥ (34)	<b>\$11,042</b>	<b>\$ (67)</b>
Receive-fixed; pay-variable .....	<b>5,000</b>	<b>211</b>	5,000	252	<b>41,667</b>	<b>1,758</b>
Receive-variable; pay-variable .....	—	—	1,600	(5)	—	—
Interest-rate caps:						
To buy .....	<b>¥8,000</b>	<b>¥ 0</b>	¥8,000	¥ 3	<b>\$66,667</b>	<b>\$ 0</b>

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 ¥6,726 million (\$56,050 thousand) and ¥3,708 million of research and development costs for the year ended March 31, 2003 and the period ended March 31, 2002.

(supplemental information : ¥7,170 million for full fiscal 2002 (unaudited))

## 16. Subsequent Events

a. The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2003, were approved at a shareholders' meeting held on June 27, 2003:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥8,000.00 = \$66.667 per share) .....	¥8,729	\$72,742
Bonuses to directors .....	35	292
	¥8,764	\$73,033

b. Restructuring of paper business

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

### *Restructuring of paper business*

Effective April 1, 2003, Nippon Paper Industries Co., Ltd. ("Nippon") and Daishowa Paper Manufacturing Co., Ltd. ("Daishowa") and Nippon Paper Sales Co., Ltd. were combined to form a new company, Nippon Paper Industries Co., Ltd.

c. Centralization of financing operations

Effective April 1, 2003, the Company will raise the funds necessary for its group companies by borrowing money from various financial institutions and issuing bonds and commercial paper. The funds raised by the Company will be loaned to Nippon, a consolidated subsidiary, and will also be supplied to group companies through the Cash Management Service of Nippon. As of May 31, 2003, the Company had borrowings from financial institutions which amounted to ¥114,400 million (\$953,333 thousand), had issued commercial paper of ¥36,000 million (\$300,000 thousand) and had issued bonds of ¥40,000 million (\$333,333 thousand).

# Report of Independent Auditors



## Certified Public Accountants

Hibiya Kokusai Bldg.  
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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, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year ended March 31, 2003 and the period from October 1, 2001 (the date of inception) to March 31, 2002, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices 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, 2003 and 2002, and the consolidated results of their operations and their cash flows for the year ended March 31, 2003 and the period from October 1, 2001 (the date of inception) to March 31, 2002 in conformity with accounting principles and practices generally accepted in Japan.

As described in Note 2 to the consolidated financial statements, Nippon Unipac Holding and consolidated subsidiaries have adopted a new accounting standard for treasury stock and reduction of legal reserves effective the year ended March 31, 2003 in the preparation of their consolidated financial statements. In addition, as described in Note 16, Nippon Unipac Holding, effective April 1, 2003, has centralized its financing operations in order to raise the funds necessary for its group companies.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2003 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 to the consolidated financial statements.

*Shin Nihon & Co.*

June 27, 2003

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