



## Consolidated Five-Year Summary

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

Millions of yen

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

Notes: 1. In 1999, we separated the sales division from "Paper" into "Pulp and Paper" and "Paper-related business."

2. Selling, general and administrative expenses do not include enterprise tax.

3. Amortization and equity in earnings are included in selling, general and administrative expenses and other (expense) income.

4. Property, plant and equipment, net, excludes intangible fixed assets.

5. Total investments and other assets includes intangible fixed assets.

6. Liabilities and others includes minority interests in consolidated subsidiaries.

7. Foreign currency translation adjustment is included in shareholders' equity.

## Consolidated Financial Review for Nippon Paper Industries

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

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

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

was ¥35 million (US\$0.3 million). In fiscal 2001, Nippon Paper Industries issued annual dividends of ¥9.00 (US\$0.073) per share.

### NET SALES

#### *Pulp and Paper*

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

#### *Paper-Related*

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

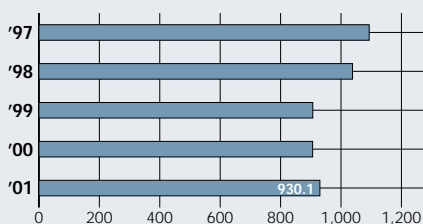
In fiscal 2001, due to the inclusion for the first time of Nippon Seitai in the Group's consolidated accounting and its inclusion in this sector, total paper-related sales increased to ¥106.9 billion (US\$869.4 million), an improvement of 4.5% compared with the previous fiscal year.

#### *Housing and Construction Materials*

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

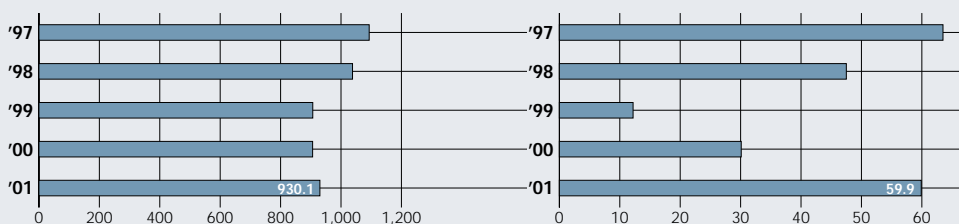
### Sales

(¥ billion)



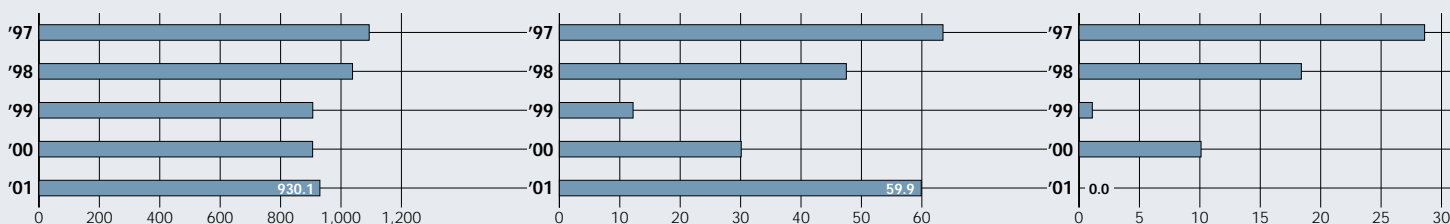
### Operating Income

(¥ billion)



### Net Income

(¥ billion)



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

#### Other

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

### COSTS, EXPENSES, AND EARNINGS

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

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

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

an ¥8.7 billion (US\$70.9 million) loss on devaluation of investments in other securities.

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

### FINANCIAL POSITION

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

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

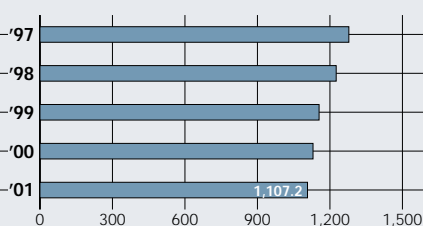
Total current liabilities were up 5.4%, to ¥484.0 billion (US\$3,935.2 million). This is, in part, due to the final day of the fiscal year falling on a holiday.

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

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

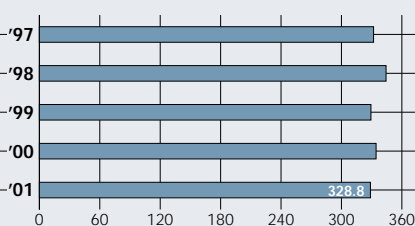
#### Total Assets

(¥ billion)



#### Total Shareholders' Equity

(¥ billion)





## Consolidated Balance Sheets

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

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

See notes to consolidated financial statements.

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



## Consolidated Statements of Income and Retained Earnings

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

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

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

See notes to consolidated financial statements.



## Consolidated Statements of Cash Flows

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

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

See notes to consolidated financial statements.



# Notes to Consolidated Financial Statements

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

## 1. Summary of Significant Accounting Policies

### (a) Basis of Preparation

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

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

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

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

### (b) Consolidation

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

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

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

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

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

### (c) Cash and Cash Equivalents

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

### (d) Marketable Securities

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

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

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

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

### (e) Inventories

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

### (f) Property, Plant and Equipment

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

### (g) Leases

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

### (h) Foreign Currency Translation

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

The balance sheet accounts of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of shareholders' equity, which are translated at their historical exchange rates. Revenue and expense

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

#### (i) Bond Issuance Costs

Bond issuance costs are charged to income as incurred.

#### (j) Retirement Benefits

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

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

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

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

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

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

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

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

#### (k) Research and Development Costs

Research and development costs are charged to operations as incurred.

#### (l) Income Taxes

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

#### (m) Appropriation of Retained Earnings

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

#### (n) Amounts per Share

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

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

### 2. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥123=US\$1, the approximate rate of exchange on March 31, 2001, has been used. The translations should not be construed as representations that yen have been, could have been or could in the future be converted into U.S. dollars at the above or any other rate.

### 3. Inventories

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

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

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

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

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

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

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

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

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

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

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

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

#### 5. Pledged Assets

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

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

#### 6. Retirement Benefits

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

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

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

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

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

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

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

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

Discount rates 3.0~3.5%

Expected return on assets 3.5~4.5%

## 7. Income Taxes

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

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

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

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

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

## 8. Common Stock

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

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

## 9. Leases

### Lessees' Accounting

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

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

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

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

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

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

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

#### Lessors' Accounting

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

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

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

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

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

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

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

#### 10. Contingent Liabilities

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

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

#### 11. Securities

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

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

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

*Marketable held-to-maturity debt securities*

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

*Marketable other securities*

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

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

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

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

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

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

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

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

## 12. Segment Information

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

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

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

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

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

### 13. Derivative Transactions

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

In addition, the Company and some subsidiaries have entered into interest rate swap agreements to reduce their interest expense or reduce their exposure to adverse fluctuations in interest rates relating

to loans and bonds payable. The total notional principal amount of these interest rate swap agreements at March 31, 2001 was ¥7,725 million (\$62,805 thousand), which included the notional principal amounts of ¥7,425 million (\$60,366 thousand) relating to swap positions whose terms extend more than one year after the balance sheet date.

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

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

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

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

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

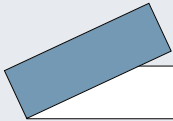
### 14. Research and Development Costs

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

### 15. Subsequent Event

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

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



## Report of Independent Certified Public Accountants

### **Century Ota Showa & Co.**

**Certified Public Accountants**  
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The Board of Directors

Nippon Paper Industries Co., Ltd.

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

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

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

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

*Century Ota Showa & Co.*

June 28, 2001

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