

**Preliminary Report on the Business Results for the Year Ended March 31, 2004 (Consolidated)**

Oji Paper Co., Ltd.

Code No. 3861

Stock Exchange Listings:

(http://www.ojipaper.co.jp/)

Representative:

Headquarters Address:

Contact:

Telephone:

Date of Board of Directors' Meeting:

The consolidated financial statements are not intended to present the consolidated financial position, results of operation and cash flows in accordance with the American Accounting Standards.

First Sections of the Tokyo, Osaka and Nagoya Markets, plus Fukuoka and Sapporo Markets

Shoichiro Suzuki, President and Chief Executive Officer

Tokyo

Kazuhisa Shinoda, Executive Officer, Corporate Administration Division

03-3563-1111; +81-3-3563-1111 (overseas)

May 13, 2004

**1. Results for the Year Ended March 2004 (April 1, 2003 – March 31, 2004)****(1) Consolidated Business Results**

All yen figures are rounded down to the nearest one million yen.

| Year ended | Net sales       |       | Operating profit |      | Ordinary profit |       |
|------------|-----------------|-------|------------------|------|-----------------|-------|
|            | Millions of Yen | %     | Millions of Yen  | %    | Millions of Yen | %     |
| March 2004 | 1,180,436       | (2.7) | 78,851           | 30.7 | 67,789          | 41.4  |
| March 2003 | 1,213,173       | 0.8   | 56,490           | 55.5 | 47,941          | 138.6 |

| Year ended | Net income      |       | Net income per share | Diluted net income per share | Return on equity | Return on total assets | Ordinary profit margin |
|------------|-----------------|-------|----------------------|------------------------------|------------------|------------------------|------------------------|
|            | Millions of Yen | %     | Yen                  | Yen                          | %                | %                      | %                      |
| March 2004 | 31,271          | 156.9 | 29.90                | -                            | 7.0              | 4.2                    | 5.7                    |
| March 2003 | 12,170          | -     | 11.23                | -                            | 2.9              | 2.9                    | 4.0                    |

Notes:

- Equity in earnings (loss) of affiliates by equity method: Year ended March 2004: 3,367 million yen  
Year ended March 2003: 3,139 million yen
- Average number of outstanding shares during term: Year ended March 2004: 1,037,178,581 shares  
Year ended March 2003: 1,054,421,702 shares
- The Accounting method has been revised.
- Figures shown in parentheses under Net sales, Operating profit, Ordinary profit and Net income are increase/decrease ratios compared with previous year.

**(2) Consolidated Financial Position**

| Year ended | Total assets    | Shareholders' equity | Shareholders' equity ratio | Shareholders' equity per share |
|------------|-----------------|----------------------|----------------------------|--------------------------------|
|            | Millions of Yen | Millions of Yen      | %                          | Yen                            |
| March 2003 | 1,606,027       | 472,397              | 29.4                       | 455.61                         |
| March 2002 | 1,621,095       | 425,861              | 26.3                       | 407.30                         |

(Note)

Number of outstanding shares issued at fiscal year end: Year ended March 2004: 1,036,272,354 shares  
Year ended March 2003: 1,044,763,975 shares**(3) Consolidated Cash Flows**

Millions of Yen

| Year ended | Cash flows from operating activities | Cash flows from investing activities | Cash flows from financing activities | Cash and cash equivalents at the end of year |
|------------|--------------------------------------|--------------------------------------|--------------------------------------|--|
| March 2004 | 102,620                              | (46,338)                             | (57,288)                             | 32,609                                       |
| March 2003 | 115,318                              | (77,237)                             | (39,988)                             | 34,701                                       |

**(4) Scope of Consolidation and Equity Method Application**

Number of consolidated subsidiaries: 64  
Number of non-consolidated subsidiaries to which the equity method applies: None  
Number of affiliated companies to which the equity method applies: 15

**(5) Changes in scope of consolidation and equity method application**

New: 1 company Excluded: 6  
Equity method  
New: - Excluded: 1

**2. Result Forecast for the Year Ending March 2005 (April 1, 2004 – March 31, 2005)**

Millions of Yen

| Year ended | Net sales | Ordinary profit | Net income |
|------------|-----------|-----------------|------------|
| Interim    | 580,000   | 36,000          | 20,000     |
| Full Year  | 1,200,000 | 90,000          | 50,000     |

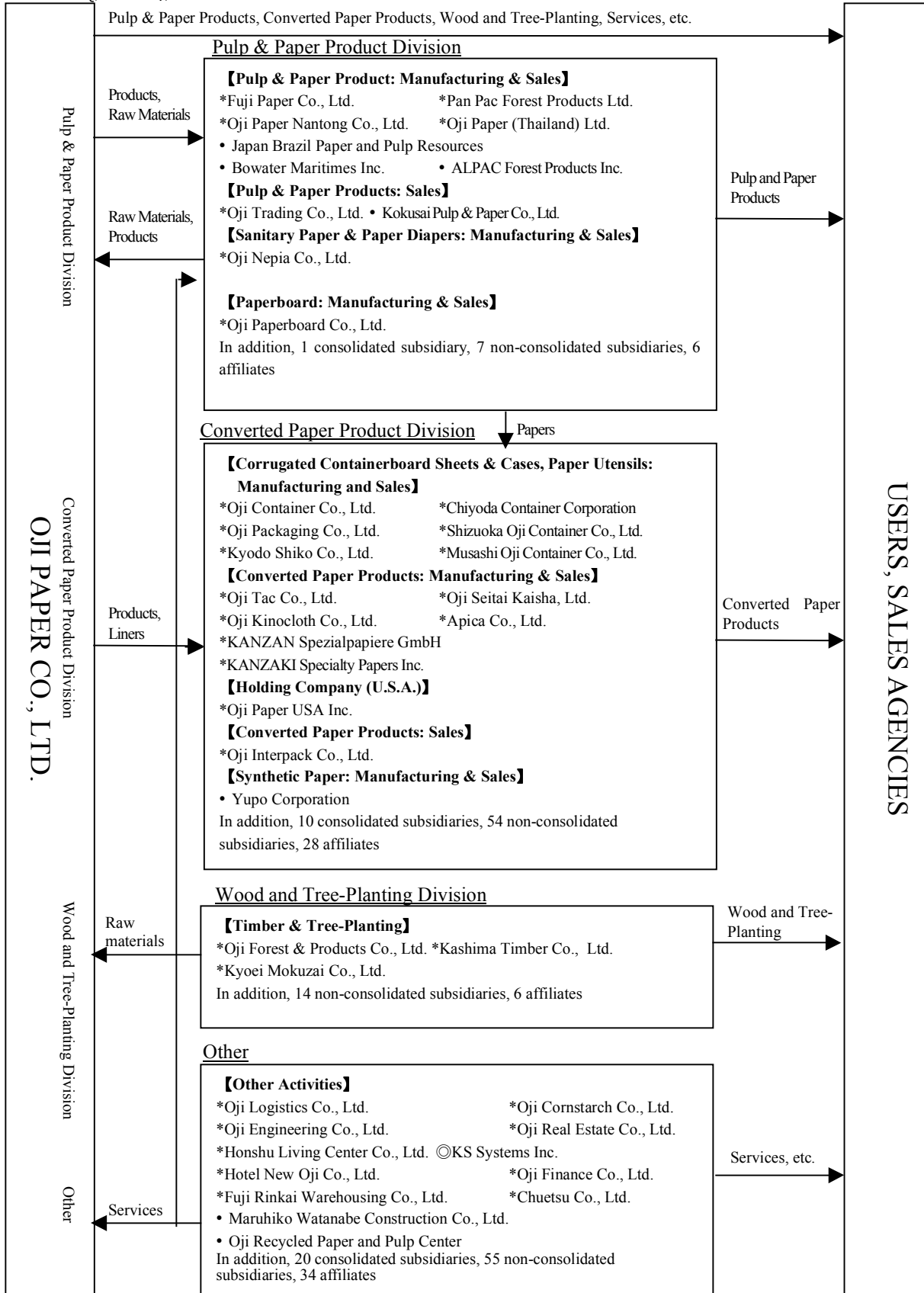
(Reference) Projected net income per share (full year): ¥48.25

The above forecasts were prepared on the basis of forecasts about future economic conditions at the time when this document was released. Actual results may differ from these forecasts because of various factors.

# 1. Profile of the Corporate Group

The Oji Paper Group consists of Oji Paper Co., Ltd. along with 195 subsidiaries and 81 affiliates. These companies are active in a wide range of business fields, including pulp and paper products, converted paper products, wood and tree-planting and other activities such as real estate and transportation.

The following chart shows the positions of these companies within the overall structure of the Oji Paper Group, together with interaction among business segment categories.



\*Consolidated subsidiaries

• Equity method subsidiaries

Companies involved in multiple areas of business are listed under their main activities

## 2. Management Policy

### (1) Basic Management Policy

The corporate philosophy of the Oji Paper Group emphasizes contribution to environmental protection and the advancement of culture, a commitment to innovation and rapid progress, and the establishment and maintenance of a global reputation for reliability.

The Group is working under this philosophy to realize the full potential of paper and to justify the trust placed in it by customers, by maintaining comprehensive product supply systems for its products, including paper, paperboard and converted paper products. At the same time, the Group is also laying the foundations for future growth by building a corporate structure capable of survival and success in fiercely competitive domestic and overseas markets.

The Oji Paper Group has responded to the maturation of the Japanese market by focusing on the future potential of Asian markets. Its aim is to overcome international competition from highly globally manufacturers in Europe, North America and Southeast Asia and achieve dynamic growth in the 21st century by expanding into Asian markets, especially the growing Chinese market, as an Asian corporation domiciled in Japan.

As an enterprise group dedicated to protection of the global environment through recycling, the Oji Paper Group continues to work under the Oji Paper Environment Charter to promote forest recycling and paper recycling. Through these activities, the Group is making a sustained contribution to the formation of a recycling society. The Oji Paper Group is also determined to maintain and base its corporate activities on broader global perspectives, including a contribution to the prevention of global warming through increased energy conservation efforts, leading to further reductions in fossil fuel consumption.

### (2) Basic Policy with Respect to Profit Distribution

The Group's basic policy on profit distribution is to provide shareholders with the greatest possible dividend stability while strengthening its financial fundamentals through the accumulation of internal reserves. Dividend decisions need to be based on a comprehensive range of factors, including business performance. While the business environment is still challenging, the entire Oji Group has worked to maximize earnings, and steady income growth is predicted for the current term and next term. This improvement will be passed on to shareholders through a ¥2 increase in the final dividend, which will rise to ¥6 per share. Together with the interim dividend of ¥4, this brings the total dividend for the year to ¥10 per share.

### (3) Policy on the Reduction of the Minimum Share Lot

The Oji Paper Group recognizes the effectiveness of reductions in minimum share lots as a way of energizing share trading and diversifying the investor base.

However since it costs the company, the company will make further consideration on it.

### (4) Targets for Financial Indicators (Consolidated)

The targets for financial indicators under the Oji Paper Group's medium/long-term management plan are as follows.

Ordinary profit to net sales: 5% or higher (in all business segments)

Interest-bearing debt to net sales: 50% or lower

ROE: 10% or higher

EBITDA/Invested Capital: 15% or higher

Shareholders' equity ratio: 40% or higher

### (5) Medium/Long-Term Management Strategies and Priorities

The Oji Paper Group is working to achieve further growth and success as one of the world's leading integrated pulp & paper manufacturers by targeting flexibility and optimal efficiency in its production operations, and price maintenance and restoration and sales expansion in its marketing activities. The Group is also working to maintain steady income flows in the mature domestic market by developing new technologies, new products and new services, while building a future role for itself as an Asian enterprise domiciled in Japan.

As part of this strategy, Oji Paper is preparing for the establishment of full-scale business operations in China. Last year, it negotiated a basic agreement with the Nantong Economic and Technological Development Zone Administration Committee concerning the acquisition of a site in Nantong City, Jiangsu Province, China. By the end of 2006, Oji Paper plans to invest about ¥70 billion in the construction of a new coated paper plant with annual production capacity of 600,000 tons. There are also plans for the construction of an integrated pulp and paper plant to produce 1.2 million tons of high-grade paper and coated papers annually. It is estimated that the total investment will amount to ¥220 billion.

In June 2003, Oji Paper established the China Business Division to provide coordination and support for the development of its business activities in China. In September 2003, it established a Chinese subsidiary, Oji Paper Nantong Co., Ltd. Oji Paper also plans to establish Oji Paper (China) Co., Ltd. (provisional name) as the hub for its activities in China. The new company will coordinate business operations in China, including existing operations.

In October 2004, a simplified spin-off process will be used to turn the Specialty Papers Business Division of the Specialty Papers Company, together with the Ebetsu Mill, Iwabuchi Mill, Nakatsu Mill, and Shiga Mill, into a new company. This company will then be absorbed by Fuji Paper Co., Ltd., a wholly owned Oji Paper subsidiary that manufactures and sells specialty papers and white boxboard. This move will allow the Oji Paper Group to link production and sales of specialty papers and films and expand its product line-up in this area. Closer integration of production and sales will contribute to the growth and development of the Oji Paper Group through cost savings, and through an improved ability to respond quickly and appropriately to increasingly diverse market needs. The new company will operate as Oji Specialty Papers Co., Ltd.

## (6) Priorities

The Japanese economy has finally bottomed out and appears to be moving toward a gradual recovery. Economic forecasts are starting to show signs of optimism again.

The pulp and paper industry is expected to achieve positive year-on-year growth. However, the outlook for the industry's business environment is not entirely optimistic, since the reversal of the deflationary trend that has affected Japan in recent years is likely to bring sharp increases in the prices of fuel and raw materials. The Oji Paper Group is determined to build a structure capable of generating high earnings in this environment by identifying and steadily implementing the following priority measures.

### 1. Strengthening Group Marketing and Sales Systems

- Strengthening earning capacity — printing and writing papers

Oji Paper will secure its earning capacity by working aggressively to expand sales, especially of new products, while continuing to implement price maintenance measures.

- Strengthening earning capacity — specialty papers

While maintaining stable revenue flows from existing products, Oji Paper will work to expand its earning power by developing next-generation converted paper products.

- Strengthening earning capacity — information papers

Oji Paper will actively develop new products in close collaboration with the IT equipment industry. It will also work to ensure consistent quality, expand sales and reduce costs.

- Strengthening earning capacity — household paper products

Oji Paper will strengthen its income base in the sanitary products category by maintaining appropriate prices and establishing product and marketing strategies centering on premium products. In the disposable diaper category, the focus will be on sales expansion and cost reductions in the area of infant diapers, and on business expansion in the area of adult diapers.

- Strengthening earning capacity — containerboard liners

Earning capacity in this area has recovered as a result of last year's price restoration efforts. Oji Paper will continue to focus on cost reductions. Other priorities relating to the reinforcement of the income base include price maintenance, the improvement of technology, facility improvement, and changes to the production structure. Three machines will be shut down and one restarted at the Matsumoto Mill, the Sobue Mill and the Ena Mill.

- Strengthening earning capacity — paperboard

Oji Paper will work to maintain prices at the levels achieved through last year's price restoration efforts. It will also target cost savings while aggressively expanding sales, especially in the area of high-grade paperboard.

- Strengthening earning capacity — containerboard

Oji Paper will work to maximize its competitiveness by combining profit-focused sales strategies with in-depth cost-cutting efforts. It will also build a business structure designed to maximize group-level competitiveness through changes to its production structure, especially in the Kanto region. Those changes will include the merger of two group companies, Oji Container Co., Ltd. and Takasaki Sanko Co., Ltd., and the expansion of production capacity at existing Oji Group plants in the Kanto region.

### 2. Strengthening Cost Competitiveness

- Reduction of total human resource costs

Oji Paper aims to improve added value and productivity by reducing its consolidated work force in Japan to 18,000 people, and by making further reductions in its total human resource costs.

- Maximizing production efficiency and reducing costs

Oji Paper will strive to improve its production structure and maximize production efficiency by minimizing factory production costs. It will also work to strengthen its competitiveness.

- Advantageous procurement of purchased goods and materials

Oji Paper will devise, formulate and promptly implement all possible measures to counter the effects of steep increases in the prices of raw materials and fuel. It will seek to procure raw materials and supplementary materials on the best possible terms and at the lowest possible costs.

- Reduction of physical distribution costs

Oji Paper will target the early realization of benefits from projects designed to reduce physical distribution costs and normalize total inventory levels, including inventories held by sales agencies. All possible steps will be taken to reduce inventory and distribution costs. Oji Paper will also target the development of new services linked with distribution.

### 3. Enhancing competitiveness through new products, technologies and services

Oji Paper aims to strengthen its non-price competitiveness and enter a new growth phase by working to identify customer needs in all segments, and by developing and commercializing new products, technologies and services based on new concepts.

### 4. Improving Quality Competitiveness

Oji Paper will target further improvements in customer confidence in its products by ensuring that it has a quality advantage, and by responding promptly to customer needs. It will use its quality advantage to counter pressure from domestic and overseas competitors.

### 5. Reinforcing the Financial Structure

Oji Paper will work to expand its cash flows through efforts on various levels, including continuing inventory reductions, the liquidation of inactive assets and businesses, and appropriate investment in plant and facilities. It will also work to maximize the benefits of group financing for itself and consolidated group companies in order to improve financial efficiency and financial structures.

### 6. Business Development in China

Oji Paper will work to enhance the earning performance of the business operations that is currently developing in China in a number of areas, including thermal recording papers, sanitary paper products, and containerboard. It will also strive to optimize plans for the key aspects of the Nantong project, including capital investment, funding and profitability, while carefully monitoring trends in the Chinese market.

### 7. Implementing Environmental Countermeasures

Oji Paper will continue to work under its Environmental Charter to reduce emission to zero and responding afforestation projects. It will also work to reduce fossil fuel use through further energy conservation efforts, and to apply broader global perspectives, including the prevention of global warming, in the maintenance and development of its corporate activities.

### 8. Ensuring Compliance

The behavior of Oji Paper Group will be based on the highest business ethics, including full compliance with laws and regulations.

### (7) Basic Thinking and Measures Relating to Corporate Governance

Oji Paper's basic stance on corporate governance calls for active group integration and restructuring and the improvement of the corporate value of all group companies, through efforts to improve cost competitiveness, marketing systems and financial structures. The reinforcement of corporate governance is seen as one the most important management priorities.

### Specific Measures

1. Oji Paper introduced a corporate officer system and internal company system in 1999 as part of its efforts to speed up decision-making processes. These changes have allowed it to respond rapidly when change is required, including business restructuring and changes to production structures in Japan and overseas. The current management organization consists of nine directors, four auditors (two internal, two external) and 30 corporate officers. There is also a Group Management Council, which meets monthly. Its role is to ensure the full implementation of management policies and corporate ethics throughout the Oji Paper Group, and to provide a forum for unified group-level decision-making.
2. In June 2002, the term of office for directors was reduced from two years to one year. The purpose of this move was established clearer chains of accountability.
3. Oji Paper has strengthened the ability of its Audit Board to maintain sound management practices by appointing two external auditors, and by allowing auditors to attend not only Board meetings, but also other important meetings to monitor the performance of corporate operations. There are no business relationships between Oji Paper and the two external auditors.
4. In June 2003 Oji Paper further strengthened its risk management systems by establishing a Corporate Compliance Office. Its role is to ensure that all group companies comply with laws and regulations and behave in accordance with business ethics. Under the Oji Paper Group Corporate Behavior Charter, which was adopted in January 2004, Oji Paper will promote high ethical standards by fostering awareness among senior managers, executives and individual employees of the need to reconcile profit with business ethics, and of the need for the entire Oji Paper Group to behave in accordance with high business ethics commensurate with its public reputation as a corporate citizen. The Charter identifies eight key aspects of business behavior: compliance with laws and regulations, harmony with the environment, the supply of safe, useful products and services, communication with the public, social contribution activities, harmonious coexistence with the international community, contribution through manufacturing, and achievement of employee satisfaction.

5. Oji Paper is building a group management structure. The Oji Paper Group as a whole now has a flatter structure following the completion of its transition to new group organization in June 2003. Under the new structure, Oji Paper Corporation is responsible for overall Coordination of the Group as its headquarters. The business divisions that previously existed within the headquarters have been abolished, and their functions have been reallocated to the Corporate Planning Division, which is responsible for strategic business planning for the entire Oji Paper Group, and the Corporate Administration Division, which provides group companies with management support. Oji Paper will work under this new structure to enhance the overall potential and corporate value of the Oji Paper Group.

### 3. Business Results and Financial Position

#### (1) Business Results

##### 1. Overview of the Year Ended March 2004

There were indications that Japan's economic performance had started to bottom out. However, the deflationary trend continued, and consumer spending trends fell short of a full-scale recovery. Oji Paper gave priority to the maintenance of selling prices in its marketing activities. Although sales declined in both volume and value terms, performance in the current term benefited significantly from determined efforts to reduce costs in all operations through reductions in operating expenses, energy consumption and labor inputs. The Oji Paper Group's results for the year ended March 2004 were as follows.

|                                |  |
|--------------------------------|--|
| Consolidated net sales:        | ¥1,180,436 million (2.7% decline year-on-year) |
| Consolidated operating profit: | ¥78,851 million (30.7% increase year-on-year)  |
| Consolidated ordinary profit:  | ¥67,789 million (41.4% increase year-on-year)  |
| Consolidated net income:       | ¥31,271 million (156.9% increase year-on-year) |

#### Segment Results

##### Pulp and Paper Product Division

- Printing and Writing Papers

There were signs of a recovery in the newsprint market in the second half of the year. However, sales declined because of factors that included reduced print runs and slow advertising sales. In the area of high-grade papers, including high-quality printing paper, copier paper and form paper, Oji Paper achieved pleasing sales trends in all categories except copier paper. There was a sharp fall in sales of coated papers, including light-weight coated papers, especially for use in commercial printing of catalogs, pamphlets and other items. However, sales of ground wood printing paper and low-grade paper for use in publishing and commercial printing remained strong. Prices for market-priced products weakened in the second half of the year, but Oji Paper worked to maintain prices at the levels to which they were restored in the second half of the year ended March 2002.

- Packaging Papers

Sales of unbleached kraft paper were higher because of strong demand for bags and other products. However, sales of bleached kraft paper stagnated. Prices tended to weaken.

- Other Papers

Both sales and prices remained basically static. Sales of carbonless paper weakened, and prices also softened. Stagnant demand caused a decline in sales of sanitary paper products, and prices began to weaken in 2004. Oji Paper worked to maintain prices at the levels to which they were restored in the second half of the year ended March 2002.

- Paperboard

Sales of containerboard declined because of adverse factors, including low summer temperatures. However, Oji Paper achieved some success in its efforts to restore prices. Sales of paperboard and high-grade paperboard increased, in part because of the start-up of N-2 machine at Oji Paper's Fuji Mill. Efforts to restore prices brought some success in the second half.

In addition to these sales trends, cost-cutting efforts by all group companies also contributed to business performance.

The results for the Pulp and Paper Product Division were as follows.

|                                |   |
|--------------------------------|---|
| Consolidated net sales:        | ¥704,921 million (4.0% year-on-year decline)  |
| Consolidated operating profit: | ¥48,744 million (14.1% year-on-year increase) |

##### Converted Paper Product

- Corrugated Containerboard (Sheets and Boxes)

Sales of corrugated containerboard remained close to the previous year's level. Oji Paper sought to restore prices to reflect higher prices for liners, and the new price levels were generally accepted by the market.

- Other Converted Paper Products (Paper Utensils, Thermal Paper, Adhesive Papers, Disposable Diapers, etc.)

Sales of thermal recording paper declined, but total sales of thermal recording products increased because of an increase in the percentage contribution from thermal recording film, which has higher added value. Sales of disposable diapers increased, and prices remained static.

In addition to these sales trends, performance in this area also benefited from cost-cutting measures.

The results for the Converted Paper Product Division were as follows.

|                                |  |
|--------------------------------|--|
| Consolidated net sales:        | ¥335,152 million (0.9% year-on-year increase)  |
| Consolidated operating profit: | ¥12,046 million (129.9% year-on-year increase) |

## Wood and Tree-Planting

Marketing efforts resulted in increased sales of commercial timber and processed timber products. Cost-cutting efforts also contributed to the following divisional results.

Consolidated net sales: ¥51,249 million (6.8% year-on-year increase)  
 Consolidated operating profit: ¥1,505 million (13.3% year-on-year increase)

## Others

Sales of real estate declined in the absence of major property sales. However, cost-cutting efforts contributed to business performance. The results were as follows.

Consolidated net sales: ¥89,112 million (9.8% year-on-year decline)  
 Consolidated operating profit: ¥11,555 million (60.4% year-on-year increase)

The non-consolidated results for Oji Paper Co., Ltd. in the year ended March 31, 2004 were as follows.

Net sales: ¥615,884 million (11.5% year-on-year decline)  
 Operating profit: ¥37,637 million (11.3% year-on-year decline)  
 Ordinary profit: ¥33,639 million (9.3% year-on-year decline)  
 Net income: ¥17,755 million (36.8% year-on-year increase)

The final dividend has been increased by ¥2 to ¥6. This brings the annual dividend, including the interim dividend to ¥10 yen, an increase of ¥2 over the previous year's figure.

## Ç Outlook for the Year Ending March 31, 2005

The outlook for the Japanese economy still warrants caution because of continuing uncertainty about exchange rate movements and consumer spending trends. Conditions in the pulp and paper industry are expected to remain difficult, in part because of rising fuel and raw materials costs.

All companies in the Oji Paper Group will continue their concerted efforts to maintain flexible production structures, optimize efficiency and minimize costs. They will also strengthen their marketing efforts, including the launch of new products, while at the same time giving top priority to the maintenance and restoration of price levels.

Consolidated performance targets for the year ending March 31, 2005 include consolidated net sales of ¥1,200,000 million, consolidated ordinary profit of ¥90,000 million, and consolidated net income of ¥50,000 million. Plans for the coming year are based on an exchange rate of ¥110 to the U.S. dollar, which is the main foreign currency used.

Oji Paper's non-consolidated targets are net sales of ¥595,000 million, ordinary profit of ¥39,000 million and net income of ¥20,000 million.

## (2) Financial Position

### Net cash provided by operating activities

Income before income taxes and minority interests increased by ¥24,249 million year-on-year. Despite this, net cash declined by 11.0% to ¥102,620 million. Reasons for this included an increase in payment for retirement benefits.

### Net cash used in investing activities

Net cash used in investing activities declined by 22.9% to ¥77,237 million. Reasons for this included an increase in proceeds from sales of investment in securities and other means, reduced of loans receivable made.

### Net cash used in financing activities

Net cash used in financing activities increased by 43.3% to ¥57,288 million due to reducing interest-bearing debt.

The balance of interest-bearing liabilities at the end of current accounting period was ¥46,507 million lower than the end of the previous accounting period.

Cash and cash equivalents at end of the year amounted to ¥32,609 million, a reduction of ¥2,092 million from the balance at end of the previous year.

### Cash Flow Indicators

|  | Years Ended |            |            |            |            |
|--|-------------|------------|------------|------------|------------|
|  | March 2000  | March 2001 | March 2002 | March 2003 | March 2004 |
| Shareholders' equity ratio (%)           | 25.6        | 25.6       | 26.0       | 26.3       | 29.4       |
| Shareholders' equity at market price (%) | 43.2        | 32.4       | 38.9       | 30.8       | 46.7       |
| Years to debt retirement (Years)         | 7.8         | 5.2        | 5.7        | 6.9        | 7.4        |
| Interest coverage ratio                  | 7.4         | 11.2       | 10.8       | 9.5        | 9.3        |

Shareholders' equity ratio (%)

Shareholders' equity at market price (%)

Years to debt retirement (Years)

Interest coverage ratio

Shareholders' equity/total assets

Aggregate value/total assets

Interest-bearing debt/operating cash flows

Operating cash flows/interest payments

All of the above financial indicators were calculated on a consolidated basis.

Aggregate value is calculated by multiplying the closing price at the end of the year by the number of shares issued and outstanding at the end of the year (excluding treasury stock).

Operating cash flows are based on cash flows from operating activities as stated in the Consolidated Statements of Cash Flows.

Interest-bearing debt consists of all liabilities stated in the Consolidated Balance Sheets on which interest is paid.

Interest payments are based on the interest payment amounts stated in the Consolidated Statements of Cash Flows.

## Important Information

The forecasts stated in this document with regard to the plans, strategies and business performance of Oji Paper Co., Ltd. and its consolidated subsidiaries are predictions of future performance based on management's assumptions and judgments using information that is currently available. Excessive reliance on these forecasts, etc., should be avoided, since actual business results and other outcomes may differ substantially from the figures stated here because of various risks and uncertainties.

Factors that could have a significant influence on business performance, etc., include but are not limited to the following. It is impossible to predict either the occurrence or effect of any of these factors.

- 1) Fluctuations in demand and market prices for key products, including paper and paperboard, which are significantly influenced by economic conditions and other factors
- 2) Fluctuations in purchase prices for key raw materials, such as chips and fuel oil, which are significantly influenced by international market trends
- 3) Exchange rate fluctuations, especially movements in the value of the yen relative to the U.S. dollar and Australian dollar, which have a major influence on raw material prices
- 4) Changes in political and economic conditions in the overseas locations of major projects
- 5) Other contingencies



# Basis for Presentation for Consolidated Financial Statements

## (1) Scope of Consolidation

|                                      |  |
|--------------------------------------|--|
| Number of consolidated subsidiaries: | 64 (69 in previous accounting period)  |
| Main companies:                      | Oji Container Co., Ltd., Chiyoda Container Corporation, Oji Tac Co., Ltd., Oji Packaging Co., Ltd., Oji Logistics Co., Ltd., Oji Cornstarch Co., Ltd., Oji Paperboard Co., Ltd., Nepia Co., Ltd. |
| Added (1):                           | Oji Paper Nantong Co., Ltd.  |
| Excluded (6):                        | Oji Timber Co., Ltd. Oji Service Center Co., Ltd. Hoxo CO., Ltd. Japan New Zealand Co., Ltd. Honsyu Yuka Co., Ltd. Jant Ltd.   |

Non-consolidated subsidiaries: 131

All non-consolidated subsidiaries are small in scale, and their total assets, sales, net income (equity equivalent) and retained earnings (equity equivalent) have a minimal impact on total consolidated assets, sales, net income (equity equivalent) and retained earnings (equity equivalent). They also have a minimal impact on the Consolidated Balance Sheets. For these reasons, they have been excluded from the consolidation.

## (2) Items Relating to Equity Method Application

|  |   |
|--|---|
| Number of equity method non-consolidated subsidiaries: | None  |
| Number of equity method associated companies:          | 15 (16 in the previous accounting period)   |
| Main companies:  | Japan Brazil Paper and Pulp Resources Development Co., Ltd., Kokusai Pulp & Paper Co., Ltd., Yupo Corporation |
| Excluded (1):  | San-in Maruwa Ringyo Co., Ltd.  |

From the current accounting period, the results for Japan Brazil Paper and Pulp Resources Development Co., Ltd. include the profit and loss of its wholly owned Brazil-based subsidiary, Cellulose Nipo-Brasileira S.A.

Equity method non-consolidated subsidiaries and associated companies

|                                |     |
|--------------------------------|-----|
| Non-consolidated subsidiaries: | 131 |
| Associated companies:          | 66  |

These non-consolidated subsidiaries and associated companies are small in scale, and their total net income (offset for minority interests) and retained earnings (offset for minority interests) have a minimal impact on total consolidated net income (offset for minority interests) and retained earnings (offset for minority interests). They also have a minimal impact on the Consolidated Balance Sheets. For these reasons, they have been excluded from the scope of equity method application.

## (3) Matters Relating to the Business Years, etc., of Consolidated Subsidiaries

December 31 is the balance date for Oji Paper U.S.A. Inc., KANZAKI Specialty Papers Inc., Jant Ltd., Oji Paper (Thailand) Ltd., and KANZAN Spezialpapiere GmbH., while Nihon Seika Hoso Co., Ltd. closes its accounts at the end of February. Each company's financial statements as of their respective balance dates were used in compiling these consolidated financial statements. Adjustments are made for any major business transactions occurring between subsidiaries' balance dates the consolidated balance date.

## (4) Accounting Principles

### 1. Standard and method for valuation of significant assets

#### Securities

|                                      |   |
|--------------------------------------|---|
| Securities held to maturity:         | Amortized cost  |
| Other securities with market values: | At market, based on market prices, etc., on the last day of the accounting period. (Valuation gains and losses are added directly to shareholders' equity. The cost of sales is calculated according to the moving average method.) |
| Securities without market values:    | Mostly using the total average method   |

#### Inventories

Inventories are valued mainly according to the total average method.

### 2. Depreciation method for major assets

The declining balance method is used, except for buildings (apart from annexed facilities) acquired after April 1, 1998, and assets owned by some consolidated subsidiaries, for which the straight-line method is used.

### 3. Accounting standards for major reserves

#### Allowance for doubtful accounts:

To provide for possible losses on accounts receivable at the end of the accounting period, an amount calculated using a ratio based on historical losses on general receivables is provided. Where there is concern about specific accounts, provision is made for the amount deemed to be unrecoverable based on reviews of the recoverability of individual accounts.

#### Severance benefits:

An amount equivalent to the estimated amount required for employees' severance benefits at the end of each consolidated accounting period is provided on the basis of severance benefit liabilities and pension assets.

Past service liabilities are treated as costs according to straight-line calculations based on the average remaining years of service of employees when liabilities are incurred.

Actuarial differences are treated as costs in the following consolidated accounting period, based on straight-line amortization over the average remaining service period of employees at time of occurrence.

#### Provision for retirement bonuses to directors:

The amount payable at the end of the accounting period according to corporate regulations is shown in the accounts provide for retirement benefits to directors.

#### Reserve for special repairs

Estimating future expenditures and charging for future repairs to oil tank is provided to income in equal annual amounts.

#### 4. Accounting for significant lease transactions

Financial lease contracts other than those that are deemed to transfer ownership of the leased assets to lessees are treated according to the accounting method that is used for ordinary operating leases.

#### 5. Accounting for significant hedge transactions

##### Method of hedge accounting

Deferral hedge accounting is adopted mainly.

Regarding foreign currency denominated assets or liabilities with specific forward or futures transactions on foreign exchange for specific hedging purposes for them, an accrued portion of the spreads are allocated for the income (loss) calculation.

“Special procedure for interest swaps” is applied for interest rate swaps if they fulfill the conditions of “special procedure.”

#### Hedging instruments and items

##### Hedging instruments

Currency forward transaction

Interest rate swap transaction

##### Hedging items

Foreign currency denominated monetary assets or liabilities

Loans or loans receivable

#### Policy on hedging

The Group companies engage in hedging of currency forward transactions with the aim of managing the risk of fluctuation in future exchange rates under its risk management policies.

#### Method of evaluating the efficacy of hedging

Regarding hedging instruments and items, the companies evaluate hedge effectiveness at each consolidated accounting period in every contract on a case-by-case basis.

The companies omit the evaluation of hedged instruments and items for assets or liabilities, if the important conditions of the means including the principal and the interest rate period are the same.

#### 6. Other significant policies concerning the preparation of the consolidated financial statements

Accounting for consumption tax including local consumption tax: Amounts are shown exclusive of tax.

#### (5) Matters Concerning the Valuation of Assets and Liabilities of Consolidated Subsidiaries

All assets and liabilities are stated at market values.

#### (6) Amortization of Consolidation Adjustment Account

The account is amortized in equal amounts over five years. If the amount is small, it will be amortized in the accounting period in which it is incurred.

#### (7) Matters Concerning the Appropriation of Income, etc.

The appropriation methods for income and losses in the consolidated income statement and the consolidated statement of retained earnings are based on the standards used by consolidated subsidiaries whose accounts have been finalized before the end of the current consolidated accounting period.

## (8) Scope of Funds Included in Consolidated Cash Flow Statement

Cash and cash equivalents in the consolidated cash flow statement consist of on-hand cash, deposits that can be withdrawn at any time, and short-term investments that can readily be converted into cash, involve minimal exposure to price fluctuation risk, and will mature within three months.

### Notes

#### Consolidated Balance Sheet

|  | Current consolidated accounting period<br>(March 31, 2004) | Previous consolidated accounting period<br>(March 31, 2003) | (Millions of yen) |
|--|--|---|-------------------|
| 1. Accumulated depreciation of tangible fixed assets | 1,679,764  | 1,635,829   |                   |
| 2. Trade notes receivable discounted                 | 1,398  | 1,950   |                   |
| 3. Trade notes receivable transfer endorsements      | —  | 483   |                   |
| 4. Contingent liabilities and guarantee obligations  | 51,627   | 52,717  |                   |

#### Consolidated Statements of Income

|   | Current consolidated accounting period<br>(from April 1, 2003 to March 31, 2004) | Previous consolidated accounting period<br>(from April 1, 2002 to March 31, 2003) | (Millions of yen) |
|---|--|---|-------------------|
| 1. R&D expenditure included in selling, general and administrative expenses and manufacturing costs in the current period | 12,016   | 12,831  |                   |

#### Consolidated Statements of Cash Flows

|   | Current consolidated accounting period<br>(from April 1, 2003 to March 31, 2004) | Previous consolidated accounting period<br>(from April 1, 2002 to March 31, 2003) | (Millions of yen) |
|---|--|---|-------------------|
| Relationship between year-end balance of cash and cash equivalents and amounts stated in the Consolidated Balance Sheet |  |   |                   |
| Cash and deposits   | 32,918   | 35,036  |                   |
| Time deposits over 3 months   | (308)  | (334)   |                   |
| Cash and cash equivalents   | 32,609   | 34,701  |                   |

## 5. Production, Orders and Sales

### (1) Production

| Business Segment        | Item                       | Current accounting period<br>(April 1, 2003 - March 31, 2004) | Previous accounting period<br>(April 1, 2002 - March 31, 2003) |
|-------------------------|----------------------------|---|--|
| Pulp and paper product  | Paper                      | 4,421,612 tonnes  | 4,620,970 tonnes   |
|                         | Paperboard                 | 3,478,292   | 3,548,802  |
|                         | Total paper and paperboard | 7,899,904   | 8,169,772  |
| Converted paper product | Corrugated containers      | ¥104,106 million  | ¥101,365 million   |
|                         | Other converted products   | 192,341   | 198,415  |
|                         | Total                      | 296,448   | 299,781  |

Notes:

1. Production volumes include production for in-house use.
2. Amounts are based on sales prices and do not include consumption tax and local consumption taxes.
3. Production figures for pulp, wood and tree-planting and other have been omitted because of the small amounts involved.

### (2) Orders

The Oji Paper Group undertakes production to order in some areas, such as real estate. The amounts are small and have been omitted.

### (3) Sales

Millions of Yen

| Business Segment                 | Current accounting period<br>(April 1, 2003 - March 31, 2004) | Previous accounting period<br>(April 1, 2002 - March 31, 2003) |
|----------------------------------|---|--|
| Pulp and paper product division  | 704,921   | 734,312  |
| Converted paper product division | 335,152   | 332,105  |
| Wood and tree-planting division  | 51,249  | 47,977   |
| Other                            | 89,112  | 98,778   |
| Total                            | 1,180,436   | 1,213,173  |

Note: The above amounts do not include consumption tax and local consumption taxes.