

Preliminary Report on Midterm Business Results for the Year Ending March 31, 2005 (Consolidated)

Oji Paper Co., Ltd.
Code No. 3861
(URL: <http://www.ojipaper.co.jp/>)
Stock Exchange Listings:
Headquarters Location:
Representative:
Contact:
Telephone:
Date of Board of Directors' Meeting

First sections of Tokyo, Osaka and Nagoya Markets, plus Fukuoka and Sapporo Markets
Tokyo
Shoichiro Suzuki, President & Chief Executive Officer
Kazuhisa Shinoda, Corporate Officer, Corporate Administration Division
03-3563-1111 +81-3-3563-1111 (overseas)
October 29, 2004

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.

1. Midterm Results for the Year Ending March 31, 2005 (April 1, 2004 – September 30, 2004)

(1) Consolidated Business Results

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

	Net sales		Operating profit		Ordinary profit	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
September 2004 Midterm	588,500	1.2	37,386	14.5	36,534	23.6
September 2003 Midterm	581,546	(3.5)	32,654	31.8	29,554	72.1
Year Ended March 2004	1,180,436		73,851		67,789	

	Net income		Net income per share	Diluted net income per share
	Millions of Yen	%	Yen	Yen
September 2004 Midterm	19,295	28.1	18.66	-
September 2003 Midterm	15,063	152.4	14.51	-
Year Ended March 2004	31,271		29.90	-

Notes:

- ① Equity in earnings (losses) of affiliates: Midterm ended September 2004: ¥1,683 million
Midterm ended September 2003: ¥936 million
Year ended March 2004: ¥3,367 million
- ② Average number of outstanding shares for the period (consolidated): Midterm ended September 2004: 1,034,193,995 shares
Midterm ended September 2003: 1,037,849,398 shares
Year ended March 2004: 1,037,178,581 shares
- ③ The accounting method has not been changed.
- ④ Figures shown in percentage under Net sales, Operating profit, Ordinary profit and Net income are increases/decreases ratios compared with the previous period.

(2) Consolidated Financial Condition

	Total assets	Shareholders' equity	Ratio of shareholders' equity to total assets	Shareholders' equity per share
	Millions of Yen	Millions of Yen	%	Yen
September 2004 Midterm	1,634,214	473,530	29.0	461.81
September 2003 Midterm	1,616,920	450,079	27.8	434.20
Year Ended March 2004	1,606,027	472,397	29.4	455.61

Note: Number of outstanding shares at term end (consolidated): Midterm ended September 2004: 1,025,381,079 shares
Midterm ended September 2003: 1,036,565,383 shares
Year ended March 2004: 1,036,272,354 shares

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of period
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
September 2004 Midterm	24,578	(32,579)	10,951	36,006
September 2003 Midterm	33,895	(20,763)	(21,562)	25,479
Year Ended March 2004	102,620	(46,338)	(57,288)	32,609

(4) Scope of Consolidation and Equity Method Application

Number of consolidated subsidiaries: 66
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

Consolidated companies: New: 3 Excluded: 1
Equity method: New: None Excluded: None

2. Forecasts for Year Ending March 2005 (April 1, 2004 – March 31, 2005)

Full Year	Net sales	Ordinary profit	Net income
	Millions of Yen	Millions of Yen	Millions of Yen
	1,194,000	86,000	48,000

Reference: The consolidated net income per share forecast for the full year is ¥46.81.

The above forecasts are based on the forecasts of future economic conditions as of the date of this publication. The actual results may differ from these forecasts due to various factors that may arise in the future.

Reference: Midterm Business Results for the Year Ending March 31, 2005

◎ Consolidated Business Results

(¥100 million)

		September 2004		Year ending March 31, 2005 (forecasts)	
		Midterm	Year on year net increase/decrease		Year on year net increase/decrease
Net Sales	Pulp & paper products	3,499	(22)	7,030	(19)
	Converted paper products	1,724	67	3,450	98
	Wood and tree-planting	246	14	520	8
	Other activities	416	12	940	49
Total		5,885	70	11,940	136
Operating profit		374	48	890	151
Ordinary profit		365	70	860	182
Extraordinary gain(loss)		(60)	(7)	(120)	84
Income taxes, etc		112	20	260	99
Net income		193	43	480	167
Exchange rate (¥/US\$)		109	(10)	110	(4)
Depreciation (¥100 million)		386	(32)	785	(55)
Capital expenditure (¥100 million)		307	47	830	238
			Year on year decrease*		Year on year decrease*
Employees at end of period		18,987	(430)	18,752	(665)
(Employees in Japan)		17,788	(454)	17,549	(693)

*Note: The above figures of year on year decrease are net decreases compared with the results for the year ended March 31 2004.

◎ Consolidated Financial Position

(¥100 million)

	September 30, 2004	
		Year on year increase*
Total assets	16,342	282
Shareholders' equity	4,735	11
Interest-bearing debt (including notes discounted)	7,782	234

*Note: The above figures of year on year increase are net increases compared with the results for the year ended March 31 2004.

◎ Consolidated Cash Flows

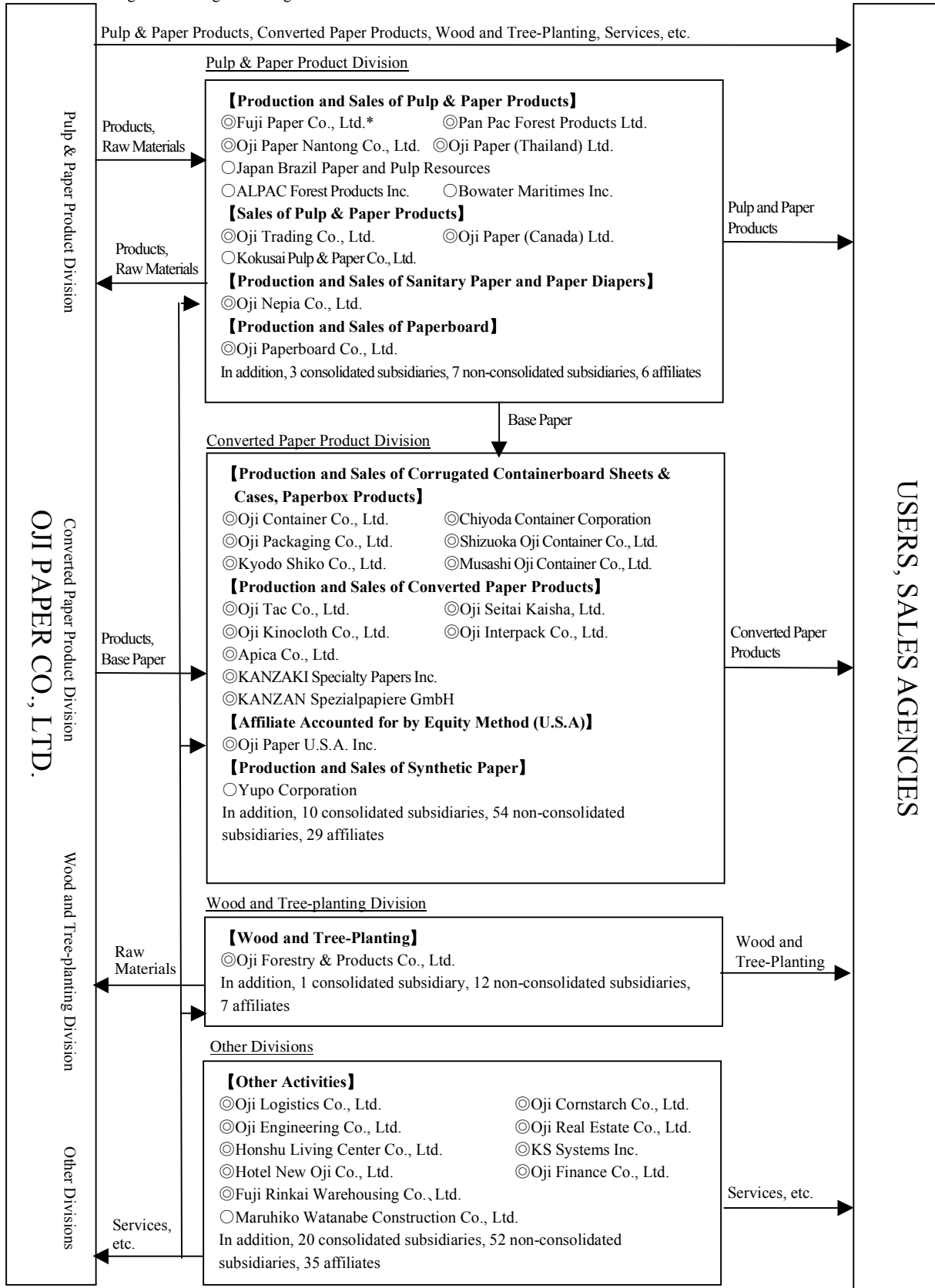
(¥100 million)

	September 30, 2004	
		Year on year increase (decrease)
Cash flows from operating activities	246	(93)
Cash flows from investing activities	(326)	(118)
Cash flows from financing activities	110	326

1. Profile of the Corporate Group

The Oji Paper Group consists of Oji Paper Co., Ltd. along with 191 subsidiaries and 83 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

*Fuji Paper Co., Ltd. was renamed Oji Specialty Paper Co., Ltd. on October 1st, 2004.

2. Management Policy

(1) Basic Management Policy

The corporate philosophy of the Oji Paper Group emphasizes to contribute to protection of the environment and advancement of culture, strive for continuous innovation in a proactive, responsive and determined manner, and build and maintain trust throughout the world. 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 global 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 corporate citizen 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 on Profit Distribution

The Oji Paper 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.

(3) Philosophy and Policy on the Reduction of the Minimum Share Lot

The Oji Paper Group regards the enhancement of corporate value and the attraction of more individual investors as important priorities. It is also determined to stimulate increased trading in its shares. Management will continue to study the reduction of the minimum share lot in the context of a wide range of factors, including the balance between the costs and benefits, and stock market trends.

(4) Target Management Indicators (Consolidated)

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

- Return on equity (ROE): 7% or higher
- Ratio of debt to equity (D/E ratio): 1.5 or lower
- Ordinary profit to net sales: 5% or higher (in all business segments)

(5) Medium/Long-Term Management Strategies

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 corporate citizen 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 2007, Oji Paper plans to invest about ¥65 billion in the construction of a new coated paper plant with annual production capacity of 400,000 tons and to start commercial production. 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) Investment 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 1st, 2004, a simplified spin-off process was 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 operate as Oji Specialty Papers Co., Ltd.

(6) Priorities

The Japanese economy is on a robust recovery trend, and domestic private sector demand is expanding steadily, indicating that this recovery can be expected to continue. The pulp and paper industry is also expected to enjoy moderate positive growth in domestic demand compared with the previous year's level. However, raw material costs are substantially higher, and business conditions for the Oji Paper Group will need to be monitored carefully. Management has identified the following priorities in this environment and is determined to build a high-income structure by working steadily toward the realization of these goals.

① Strengthening Group Management

- Improving the profitability of the general papers business
- Oji Paper will secure its earning capacity by working aggressively to expand sales, especially of new products, while continuing to

implement price maintenance measures.

- **Improving the profitability of the specialty paper business**

The achievement of maximum benefit from the integration of Oji Specialty Paper Co., Ltd. is a priority. In addition to the maintenance of steady income from existing products, efforts will also focus on income expansion through the development of next-generation processed products.

- **Improving the profitability of the communications paper business**

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.

- **Improving the profitability of the household products business**

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.

- **Improving the profitability of the containerboard business**

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.

- **Improving the profitability of the boxboard papers business**

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 boxboard.

- **Improving the profitability of the corrugated containers business**

Oji Paper will work to maximize its competitiveness by combining profit-focused sales strategies with in-depth cost-cutting efforts.

② **Strengthening Cost Competitiveness**

Management will target further cost reductions by fostering renewed awareness of the crucial importance of cost competitiveness to earning power and corporate competitiveness.

- **Reduction of total human resource costs**

The goal of reducing the consolidated work force in Japan to 18,000 people was achieved in the current term. Oji Paper aims to achieve further reductions in total human resource costs and improvements in added value and productivity by further reducing its human resource costs.

- **Maximizing production efficiency**

Oji Paper aims to improve its production systems and maximize production efficiency through measures to minimize factory manufacturing costs and strengthen competitiveness.

- **Advantageous procurement of purchased goods and materials**

Oji Paper will work to reduce costs by procuring raw materials and supplementary materials on the best possible terms. Measures in this area will be implemented without delay to counter the effects of sharp rises in fuel and raw material prices in the current year.

- **Reduction of physical distribution costs**

Inventory costs and physical distribution costs will be reduced through intensive efforts to optimize overall inventory levels and strengthen cooperation with agencies. In addition, new services based on collaboration with physical distribution operations will be developed.

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 by reducing inventories of raw materials and finished products, by liquidating assets, and by keeping capital investment at an appropriate level. It will also work to improve financial efficiency by integrating financing for itself and its consolidated subsidiaries.

⑥ **Development of Business Operations in China**

Oji Paper is developing business operations in China in a number of product areas, including thermal paper, sanitary paper and containerboard. It will work to strengthen the earning potential of these operations while steadily implementing plans for the construction of production facilities for wood-free and coated papers.

⑦ **Emphasis on Environmental Countermeasures**

Oji Paper will continue to work under its Environment Charter to reduce waste emissions to zero and implement afforestation projects, while applying broader global perspectives, including the prevention of global warming, to the maintenance and development of its business activities.

⑧ **Ensuring Compliance**

The Oji Paper Group will fulfill its social responsibilities by complying with the letter and spirit of laws and regulations, by respecting all social standards, including corporate ethics, common sense and conscience, and by developing its business activities fairly and openly.

(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 of 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 ten 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, Harmony with the Environment, Supply of Safe, Useful Products and Services, Communication with Society, Participation in Social Contribution Activities, 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 Situation in Current Term

The Japanese economy remained on a steady recovery trend, and consumer spending also rose gradually. However, the pulp and paper industry continued to face challenging conditions because of sharp increases in raw material and fuel prices. Oji Paper met these challenges by working to reduce costs, energy consumption and labor inputs, and by implementing a range of cost-cutting measures affecting all areas of its business operations. The results for the year were again very encouraging. The consolidated results for the midterm period ended September 2004 were as follows.

Consolidated net sales:	¥588,500 million	(1.2% increase)
Consolidated operating profit:	¥37,386 million	(14.5% increase)
Consolidated ordinary profit:	¥36,534 million	(23.6% increase)
Consolidated net income:	¥19,295 million	(28.1% increase)

(The results are compared with the midterm results for the year ended March 2004.)

Segment results were as follows:

○ Pulp and Paper Product Division

• General Papers

In volume terms, newsprint sales were similar to the previous year's level. There was sustained volume growth in sales of ground wood printing papers, especially publishing papers. Sales of new products helped to drive substantial volume growth in sales of coated papers, especially for use in flyers, catalogs and other commercial printed products. Sales of wood-free and light-weight coated papers remained static in volume terms. Prices tended to weaken in product categories that are subject to market pricing.

• Packaging Papers

Sales of unbleached kraft paper generally remained static in volume terms, but sales of bleached kraft paper were higher because strong demand for paper for processing. Prices tended to weaken in both categories.

• Other Papers

Sales volumes and prices remained basically static. There was a decline in sales of sanitary papers, especially tissue papers. Prices were eroded by deteriorating market trends.

• Paperboard

Demand for containerboard for beverage packaging expanded because of extremely high summer temperatures. However, demand for fruit and vegetable packaging slumped because of the effects of typhoons, and both sales volumes and prices basically marked time in the containerboard category. Boxboard sales declined because of sluggish demand, but the effects of price restoration efforts since last year began to spread through the market. There was sustained growth in sales of high-grade boxboard, especially for use in catalogs and other types of commercial printing. Prices remained basically static. These efforts were reflected in sales growth, and prices remained steady.

These sales trends, combined with cost-cutting efforts by group companies, were reflected in the following results.

Consolidated net sales:	¥349,859 million	(0.6% decline)
Consolidated operating profit:	¥25,444 million	(20.6% increase)

(The results are compared with the midterm results for the year ended March 2004.)

○ Converted Paper Product Division

• Corrugated Containers (Corrugated Sheets and Boxes)

Sales of corrugated containers generally marked time in volume terms, but the effects of price restoration efforts since last year permeated the market.

• Other Converted Paper Products (Paperware, Thermal Papers, Adhesive Papers, Disposable Diapers, etc.)

Sales of thermal paper followed a firm growth trend. There was also an increase in disposable diaper sales, and prices remained steady.

The results for which are summarized below.

Consolidated net sales:	¥172,438 million	(4.0% increase)
Consolidated operating profit:	¥7,627 million	(35.2% increase)

(The results are compared with the midterm results for the year ended March 2004.)

○ Wood and Tree-planting Division

Higher orders for timber products were reflected in sales growth. However, lumber costs also increased. The results for this division were as follows.

Consolidated net sales:	¥24,596 million	(5.8% increase)
Consolidated operating profit:	¥460 million	(38.6% decline)

(The results are compared with the midterm results for the year ended March 2004.)

○ Other Division

Sales were higher because of increased sales of glucose products. However, there was a decline in earnings from real estate activities.

The results for other divisions are as shown below.

Consolidated net sales:	¥41,606 million	(2.9% increase)
Consolidated operating profit:	¥3,853 million	(25.5% decline)

(The results are compared with the midterm results for the year ended March 2004.)

The non-consolidated results for the midterm period ended September 2004 were as follows.

Non-consolidated net sales:	¥309,449 million	(0.9% increase)
Non-consolidated operating profit:	¥18,820 million	(6.3% increase)

Non-consolidated ordinary profit:	¥18,678 million	(14.3% increase)
Non-consolidated net income:	¥8,627 million	(23.0% increase)

(The results are compared with the midterm results for the year ended March 2004.)

② Performance Outlook for the Year Ending March 31, 2005

The recovery in the Japanese economy is expected to continue, thanks to sustained growth in domestic private sector demand. However, conditions are likely to remain difficult for the Oji Paper Group and the pulp and paper industry in general because of rising raw material and fuel prices and other factors. The entire Oji Paper Group will remain focused on its drive to optimize production efficiency, maintain flexible production systems, and minimize costs. The Group will also work to strengthen its marketing potential, especially through the introduction of new products. Priority will also be given to price maintenance and restoration.

Performance estimates for the year to March 2005 include consolidated net sales of ¥1,194,000 million, consolidated ordinary profit of ¥86,000 million, and consolidated net income of ¥48,000 million. These figures are based on an exchange rate of ¥110 to the U.S. dollar.

At the non-consolidated level, Oji Paper is projecting net sales of ¥595,000 million, ordinary profit of ¥38,000 million and net income of ¥19,000 million.

③ Dividend

Initially it was planned to pay an interim dividend of ¥5 per share in the year to March 2005. This has been increased by ¥1 to ¥6 to reflect the Company's financial position, half-yearly results and forecasts for the whole of the current year. The increase is also a response to the support and expectations of shareholders. The final dividend has also been increased from ¥5 to ¥6. This will bring the total dividend for the year to ¥12 per share, an increase of ¥2 over the projected figure.

(2) Financial Position

○ Cash flows from operating activities

Income before income taxes and minority interests increased by ¥6,216 million year-on-year. However, net cash was ¥9,317 million lower at ¥24,578 million. This was mainly attributable to an increase in trade receivables.

○ Cash flows from investing activities

Net cash used in investing activities was ¥11,815 million higher at ¥32,579 million. Reasons included a decline in income resulting from reduced sales of investment securities.

○ Cash flows from financing activities

Net cash provided by financing activities increased by ¥32,514 million year-on-year to ¥10,951 million because of bond issues and other factors.

The balance of interest-bearing liabilities at the end of the current accounting period was ¥23,360 million higher than at the end of the previous accounting period.

Cash and cash equivalents at end of the year amounted to ¥36,006 million, an increase of ¥3,396 million compared with the balance at end of the previous year.

Cash Flow Indicators

Period Ended	March 2002	March 2003	March 2004	September 2003 (Midterm)	September 2004 (Midterm)
Shareholders' equity ratio (%)	26.0	26.3	29.4	27.8	29.0
Shareholders' equity at market price (%)	38.9	30.8	46.7	39.9	39.1
Years to debt retirement (Years)	5.7	6.9	7.4	-	-
Interest coverage ratio	10.8	9.5	9.3	6.1	5.2

Shareholders' equity ratio:

Shareholders' equity at market price:

Years to debt retirement:

Interest coverage ratio:

Shareholders' equity/total assets

Aggregate value/total assets

Interest-bearing debt/operating cash flows

(Years to debt retirement are not shown in the midterm results.)

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 share price at the end of the period by the number of shares issued and outstanding at the end of the period (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, paperboard and sanitary paper 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) Revisions of accounting principles and tax rules.
- 6) Other contingencies

4. Midterm Consolidated Financial Statements

(1) Midterm Consolidated Balance Sheets

Millions of Yen

	Previous midterm (September 30, 2003)	Current midterm (September 30, 2004)	Previous fiscal year (March 31, 2004)
ASSETS			
Current Assets:	497,556	530,000	486,262
Cash and bank deposits	25,823	36,311	32,918
Accounts receivable—trade	266,378	311,560	266,979
Marketable securities	68	50	54
Inventories	151,677	139,225	138,885
Other	54,763	44,344	48,816
Allowance for doubtful accounts	(1,155)	(1,491)	(1,392)
Fixed Assets:	1,119,364	1,104,214	1,119,765
Property, plant and equipment	908,342	876,597	887,726
Buildings and structures	229,657	219,512	222,782
Machinery and automobiles	380,135	358,921	362,861
Land and forests	237,173	235,259	235,169
Other	61,376	62,905	66,914
Intangible assets	11,406	10,988	11,286
Leasehold	2,541	2,538	2,538
Consolidation adjustment accounts	1,124	749	937
Other	7,741	7,700	7,811
Investments and other assets	199,614	216,628	220,751
Investments in securities	169,677	186,774	190,570
Other	31,511	31,565	32,358
Allowance for doubtful accounts	(1,574)	(1,711)	(2,176)
Total assets	1,616,920	1,634,214	1,606,027

Millions of Yen

	Previous midterm (September 30, 2003)	Current midterm (September 30, 2004)	Previous fiscal year (March 31, 2004)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:	688,118	629,984	604,944
Accounts payable-trade	180,563	181,930	176,670
Short-term bank loans	307,390	277,121	279,438
Commercial paper	87,000	76,000	76,000
Current portion of debentures	40,000	20,000	-
Other	73,164	74,932	72,835
Non-Current Liabilities:	472,647	524,606	523,109
Debentures	140,000	160,000	140,000
Long-term bank loans	211,939	244,530	258,047
Accrued retirement benefits	72,964	65,886	68,051
Accrued retirement bonuses to directors	2,089	2,194	2,398
Other	45,654	51,994	54,611
Total liabilities	1,160,766	1,154,590	1,128,054
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES			
Minority Interests in consolidated subsidiaries	6,074	6,092	5,576
SHAREHOLDERS' EQUITY			
Common stock	103,880	103,880	103,880
Capital surplus	110,160	110,176	110,168
Retained earnings	227,161	250,112	237,208
Revaluation of land	4,443	6,466	6,466
Other valuation of securities	20,971	28,705	34,356
Foreign currency translation adjustment	(4,810)	(6,703)	(7,753)
Treasury stock	(11,727)	(19,107)	(11,929)
Total shareholders' equity	450,079	473,530	472,397
Total liabilities, minority interests in consolidated subsidiaries and shareholders' equity	1,616,920	1,634,214	1,606,027

(2) Midterm Consolidated Statements of Income

Millions of Yen

	Previous midterm (April 1, 2003– September 30, 2003)	Current midterm (April 1, 2004– September 30, 2004)	Previous fiscal year (April 1, 2003–March 31, 2004)
Net sales	581,546	588,500	1,180,436
Cost of sales	437,165	436,697	882,897
Gross Profit	144,381	151,803	297,539
Selling, general and administrative expenses	111,726	114,416	223,687
Operating profit	32,654	37,386	73,851
Non-operating income	4,267	5,846	8,544
Interest and dividends income	1,186	1,321	1,842
Equity in earnings of affiliates	936	1,683	3,367
Lease income	481	500	962
Miscellaneous income	1,663	2,340	2,371
Non-operating expenses	7,368	6,698	14,606
Interest expense and discount charges	5,632	4,929	10,771
Miscellaneous losses	1,735	1,769	3,834
Ordinary profit	29,554	36,534	67,789
Extraordinary gain	5,294	228	8,311
Gain on sale of fixed assets	987	228	564
Gain on sale of investments in securities	4,307	0	7,746
Extraordinary losses	10,558	6,255	28,673
Loss on retirement of fixed assets	1,276	2,928	5,130
Special retirement benefits	8,479	1,832	18,940
Loss on natural disaster	157	527	535
Loss on liquidation of subsidiaries	142	492	2,537
Allowance for doubtful accounts	-	381	726
Loss on write-down of investments in securities	484	93	407
Loss on reduction of fixed assets	18	-	395
Income before income taxes and minority interests	24,290	30,507	47,427
Corporate tax, resident taxes and enterprise tax	3,061	3,279	6,218
Deferred taxes	5,949	7,558	9,538
Minority interests in net profit (loss) of consolidated subsidiaries	(215)	(373)	(399)
Net income	15,063	19,295	31,271

(3) Consolidated Statements of Surplus

Millions of Yen

	Previous midterm (April 1, 2003– September 30, 2003)	Current midterm (April 1, 2004– September 30, 2004)	Previous fiscal year (April 1, 2003– March 31, 2004)
CAPITAL SURPLUS			
Balance of capital surplus at beginning of period	110,159	110,168	110,159
Increase in capital surplus	0	8	8
Gain on disposal of treasury stock	0	8	8
Balance of capital surplus at end of period	110,160	110,176	110,168
RETAINED EARNINGS			
Balance of retained earnings at beginning of period	216,669	237,208	216,669
Increase in retained earnings	15,103	19,474	31,322
Net income	15,063	19,295	31,271
Increase in retained earnings due to mergers	40	-	51
Increase in retained earnings due to increase in number of consolidated subsidiaries	-	178	-
Decrease in retained earnings	4,612	6,570	10,784
Dividends	4,180	6,220	8,328
Bonuses to directors	322	265	322
Reversal of land revaluation reserve	15	-	2,038
Decrease due to reduction in number of consolidated subsidiaries	15	84	15
Decrease due to reduction in number of equity method companies	78	-	79
Balance of retained earnings at end of period	227,161	250,112	237,208

(4) Consolidated Statements of Cash Flows

Millions of Yen

	Previous midterm (April 1, 2003– September 30, 2003)	Current midterm (April 1, 2004– September 30, 2004)	Previous fiscal year (April 1, 2003– March 31, 2004)
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	24,290	30,507	47,427
Depreciation and amortization	42,048	38,615	84,454
Increase/decrease in accrued retirement benefits	(9,331)	(2,381)	(13,914)
Interest and dividend income	(1,186)	(1,321)	(1,842)
Interest expenses	5,632	4,929	10,771
Exchange loss	(42)	(275)	(290)
Equity in gains (losses) of affiliates	(936)	(1,683)	(3,367)
Gain (Loss) on sale of investments in securities	(4,307)	0	(7,746)
Loss on write-down of investments in securities	484	93	407
Loss on disposal of fixed assets	1,276	2,928	5,130
Gain (Loss) on sale of fixed assets	(987)	(228)	(564)
Increase/decrease in trade receivables	5,148	(43,776)	4,134
Increase/decrease in inventories	(9,079)	(595)	5,240
Increase/decrease in trade payables	(7,598)	5,442	(10,172)
Other	(2,652)	(184)	(1,348)
T o t a l	42,759	32,069	118,319
Interest and dividends received	1,330	1,522	2,075
Interest paid	(5,555)	(4,736)	(11,035)
Income taxes paid	(4,638)	(4,276)	(6,738)
Net cash provided by operating activities	33,895	24,578	102,620
Cash Flows from Investing Activities:			
Acquisition of property, plant and equipment/intangible assets	(30,598)	(30,329)	(62,300)
Proceeds from sale of property, plant and equipment/intangible assets	3,106	3,413	6,772
Purchase of investments securities	(1,703)	(5,131)	(4,813)
Proceeds from sale of investments securities	9,299	38	14,847
Proceeds from sale of stocks of consolidated subsidiaries	-	-	348
Provision of loans	(1,925)	(968)	(5,241)
Collection of loans	1,326	625	4,375
Other	(267)	(225)	(327)
Net cash used in investing activities	(20,763)	(32,579)	(46,338)
Cash Flows from Financing Activities:			
Net increase in short-term bank loans	(52,801)	(9,633)	(71,497)
Net increase of commercial paper	18,000	-	7,000
Borrowing of long-term bank loans	7,467	17,961	70,538
Repayments of long-term bank loans	(26,277)	(24,340)	(50,951)
Proceeds from issue of debentures	40,000	40,000	40,000
Redemption of debentures	-	-	(40,000)
Cash dividends paid by the Company	(4,180)	(6,220)	(8,328)
Acquisition of treasury stock	(3,771)	(6,835)	(4,000)
Other	1	19	(48)
Net cash used in financing activities	(21,562)	10,951	(57,288)
Effect of foreign currency translation on cash and cash equivalents	(119)	209	(335)
Net decrease in cash and cash equivalents	(8,550)	3,160	(1,341)
Cash and cash equivalents at beginning of period	34,701	32,609	34,701
Increase in cash and cash equivalents due to mergers of consolidate subsidiaries	1	-	10
Increase in cash and cash equivalents due to inclusions of subsidiaries in consolidation	-	275	-
Decrease of cash and cash equivalents due to exclusions of subsidiaries from consolidation	(673)	(38)	(761)
Cash and cash equivalents at end of period	25,479	36,006	32,609

Basis of Presentation of the Midterm Consolidated Financial Statements

1. Scope of Consolidation

Number of consolidated subsidiaries: 66

Main subsidiaries: Oji Paperboard Co., Ltd., Oji Nepia Co., Ltd., Oji Container Co., Ltd., Chiyoda Container Co., Ltd., Oji Tac, Co., Ltd., Oji Packaging Co., Ltd., Oji Logistics Co., Ltd., Oji Engineering Co., Ltd., Oji Forestry & Products Co., Ltd.

Newly included subsidiaries: 3 (Oji Scientific Instruments Co., Ltd. Oji Recycle and Pulp Center Co., Ltd., Kyokusin Sigyo Co., Ltd.)

Newly excluded subsidiaries: 1 (Honshu Tosin Co., Ltd.)

Number of non-consolidated subsidiaries: 125

Non-consolidated subsidiaries are all small companies with negligible total assets, midterm net sales, net income (loss) (equity equivalent) and retained earnings (equity equivalent) compared with the aggregate total assets, midterm net sales and net income (loss) (equity equivalent) and retained earnings (equity equivalent) of consolidated subsidiaries. They also have no significant impact on the midterm consolidated financial statements and are therefore excluded from the consolidation.

2. Equity Method Application

Number of affiliates to which the equity method applies: 15

Main affiliates: JBP (Japan Brazil Paper and Pulp Resources Co., Ltd.), Kokusai Pulp & Paper Co., Ltd., Yupo Corporation

Number of non-consolidated subsidiaries and affiliates to which the equity method does not apply:

Non-consolidated subsidiaries: 125

Affiliates: 68

The combined midterm net sales, net income (loss) and retained earnings (equity equivalent in all cases) of these non-consolidated subsidiaries and affiliates are negligible compared with the aggregate midterm net income (loss) and retained earnings (equity equivalent in all cases) of consolidated subsidiaries and have no significant impact on the midterm financial statements. They are therefore excluded from the scope of the equity method application.

3. Matters Relating to the Midterm Balance Dates, etc., of Consolidated Subsidiaries

There are differences in the midterm balance dates for certain consolidated subsidiaries. June 30 is the midterm balance date for Oji Paper U.S.A. Inc., KANZAKI Specialty Papers Inc., Oji Paper (Thailand) Ltd., KANZAN Spezialpapiere GmbH. and Oji Paper Nantong Co., Ltd. Each company's financial statements as of their respective balance dates were used in compiling these consolidated midterm financial statements. Adjustments are made for any significant transactions occurring between subsidiaries' balance dates the consolidated balance date.

4. Accounting Principles

(1) Standards and methods for valuation of assets

① Securities:

Securities held to maturity: Amortized cost

Other securities

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.)

Other securities without market values: At cost using the moving average method

② Inventories

Valuation of inventories is based mainly on the total average method.

(2) Depreciation method for major assets

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

(3) Accounting standards for major reserves

① Allowance for doubtful accounts: The amount provided to cover possible losses on accounts receivable at the end of the accounting period is calculated using a ratio based on historical losses on general receivables. Where there is concern about specific accounts, provision is made for the amount deemed to be unrecoverable based on individual reviews of recoverability.

② Severance benefits: The amount provided is equivalent to the estimated amount required for employees' severance benefits at the end of each consolidated accounting period, based on severance benefit liabilities and pension assets. Past service liabilities are treated as costs on the basis of straight-line calculations according to 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.

③ Provision for retirement bonuses to directors:

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

④ Reserve for special repairs

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

(4) Treatment of lease contracts

Financial leases other than those that are deemed to transfer ownership of the leased assets to lessees are shown in the accounts using the same method as for ordinary operating leases.

(5) Other Significant Matters Concerning the Preparation of Midterm Financial Statements

Amounts are shown exclusive of consumption taxes.

5. Scope of cash and cash equivalents in the Midterm Consolidated Statement of Cash Flows

Cash and cash equivalents shown in the midterm consolidated statements of cash flows consist of cash, on-call deposits and short-term investments that have a maturity period of three months or less and can readily be withdrawn or converted into cash with a minimal risk of value fluctuations.

Segment Information

① Segment information by business domain

Previous midterm period (April 1, 2003–September 30, 2003)

Millions of Yen

	Pulp and paper product	Converted paper product	Wood and tree-planting	Other	Total	Elimination or corporate	Consolidated total
Sales and Operating Profit/Loss							
Net sales							
(1) Sales to customers	352,123	165,734	23,246	40,442	581,546	-	581,546
(2) In-group sales between segments or transfers	21,197	2,672	14,068	55,702	93,640	(93,640)	-
Total	373,321	168,406	37,314	96,144	675,187	(93,640)	581,546
Operating expenses	352,230	162,763	36,564	90,973	642,532	(93,640)	548,891
Operating profit	21,090	5,643	750	5,170	32,654	(-)	32,654

Current midterm period (April 1, 2004–September 30, 2004)

	Pulp and paper product	Converted paper product	Wood and tree-planting	Other	Total	Elimination or corporate	Consolidated total
Sales and Operating Profit/Loss							
Net sales							
(1) Sales to customers	349,859	172,438	24,596	41,606	588,500	-	588,500
(2) In-group sales between segments or transfers	27,515	2,202	13,312	57,614	100,644	(100,644)	-
Total	377,375	174,640	37,908	99,221	689,145	(100,644)	588,500
Operating expenses	351,930	167,013	37,448	95,367	651,759	(100,644)	551,114
Operating profit	25,444	7,627	460	3,853	37,386	(-)	37,386

Previous fiscal year (April 1, 2003–March 31, 2004)

	Pulp and paper product	Converted paper product	Wood and tree-planting	Other	Total	Elimination or corporate	Consolidated total
Sales and Operating Profit/Loss							
Net sales							
(1) Sales to customers	704,921	335,152	51,249	89,112	1,180,436	-	1,180,436
(2) In-group sales between segments or transfers	45,575	4,907	27,663	114,017	192,163	(192,163)	-
Total	750,496	340,059	78,913	203,129	1,372,599	(192,163)	1,180,436
Operating expenses	701,752	328,013	77,408	191,574	1,298,748	(192,163)	1,106,585
Operating profit	48,744	12,046	1,505	11,555	73,851	(-)	73,851

Notes:

1. Segmentation is based on differences in production methods.

2. The main products of each business segment are as follows.

Pulp and paper product: Newsprint, Printing and writing papers, packaging papers, miscellaneous papers, other papers, containerboard, boxboard, pulp, etc.

Converted paper product: Corrugated containers, paper containers, thermal papers, self-adhesive papers, disposable diapers, paper bag products, etc.

Wood and tree-planting: Timber, afforestation, landscaping

Other: Real estate, cornstarch, machinery, etc.

② Segment information by location

Location-based information has been omitted, since net sales in Japan account for over 90% of net sales in all business segments.

③ Overseas net sales

Total net sales in countries or regions outside of Japan account for less than 10% of consolidated sales and have therefore been omitted.

5. Production, Orders and Sales

(1) Production Results

Business Segment	Item	Previous midterm (April 1, 2003– September 30, 2003)	Current midterm (April 1, 2004– September 30, 2004)	Year on year increase/decrease
Pulp and paper product	Paper	2,215,289 tonnes	2,252,636 tonnes	37,347 tonnes
	Paperboard	1,735,512	1,758,223	22,711
	Total paper and paperboard	3,950,801	4,010,859	60,058
Converted paper product	Corrugated containers	¥51,428 million	¥54,790 million	¥3,362 million
	Other converted product	99,109	95,355	(3,753)
Total		150,537	150,146	(391)

Notes:

1. Production volumes include production for internal use.
2. The amounts stated above are based on selling prices and do not include consumption tax and local consumption taxes.
3. The production amounts for wood and tree-planting and others are negligible and have therefore been omitted.

(2) Orders Received

The Oji Paper Group undertakes contract production in certain business segments, such as real estate. However, these orders are negligible in percentage terms and have therefore been omitted.

(3) Sales

Business Segment	Millions of Yen		
	Previous midterm (April 1, 2003-September 30, 2003)	Current midterm (April 1, 2004-September 30, 2004)	Year on year increase/decrease
Pulp and paper product	352,123	349,859	(2,263)
Converted paper product	165,734	172,438	6,703
Wood and tree-planting	23,246	24,596	1,349
Other	40,442	41,606	1,164
Total	581,546	588,500	6,954

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