



# 130

**Our Numbers Tell the Story**

**Oji Paper in Perspective, 2003**

Year Ended March 31, 2003

# Trajectory of 130 years

**1873** Ei-ichi Shibusawa creates Japan's modern paper-manufacturing industry with the establishment of *Shosbi Kaisha*.

**1890** Fuji Mill begins operation.

**1908** Nakatsu Mill begins operation.

**1908** Ebetsu Mill begins operation.

**1922** Edogawa Mill begins operation.

**1933** Oji Paper merges with Fuji Paper and Karafuto Industries, gaining an 80 percent share of paper production in Japan.

1880

1890

1900

1910

1920

1930

1940

**1875** A mill is completed in Oji, Tokyo and commences production of paper from waste cloth.

**1893** The company is renamed Oji Paper, after its founding location.

**1918** Iwabuchi Mill begins operation.

**1910** Tomakomai Mill begins operation.

**1937** Nichinan Mill begins operation.



**1873** *Shosbi Kaisha* is established.



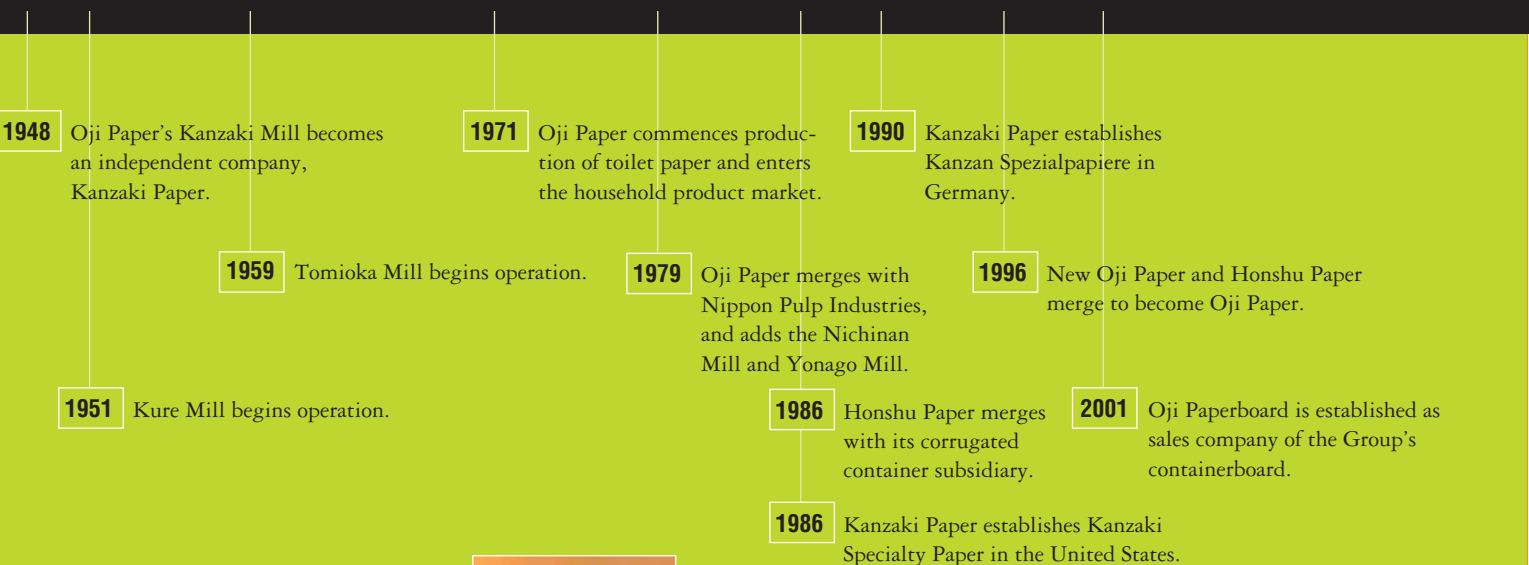
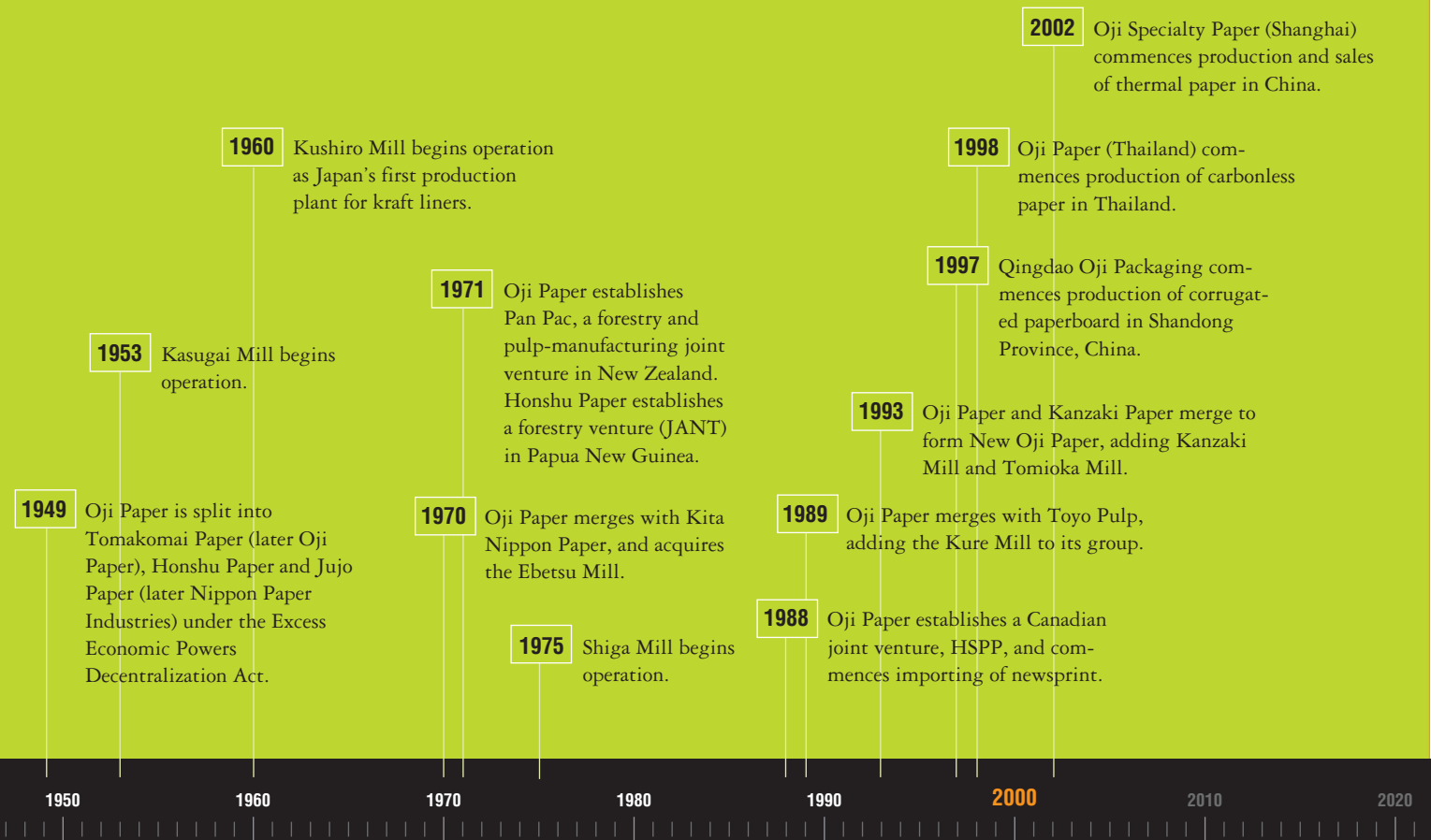
**1893** Renamed Oji Paper.



**1910** Tomakomai Mill begins operation.



**1953** Kasugai Mill begins operation.



**1971** JANT established in Papua New Guinea.



**1971** The Company enters the household product market.



**1988** HSPP established in Canada.



**2002** Oji Specialty Paper (Shanghai) commences operation.



- 1: Tomakomai Mill at present
- 2: *Shoshi Kaisha* from Asuka Mountain, circa 1880
- 3: Employees of Tomakomai Mill
- 4: Tomakomai Mill during the initial phase of operation



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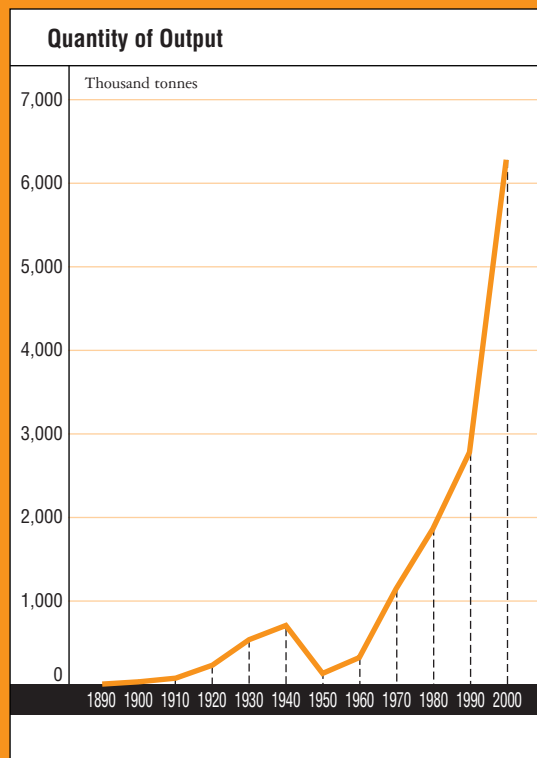
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# 130 years

## Oji Paper has been advancing for 130 years, in step with the Japanese paper-manufacturing industry

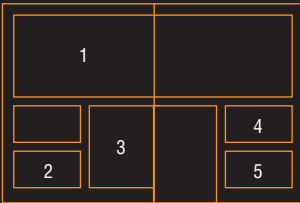
Paper has been associated with Japan since ancient times. In the 7th century, when paper reached Japan from the Asian continent, Japanese began using indigenous raw materials and devising their own methods to create a unique paper known as *washi* or “Japanese paper.” In 1873, Ei-ichi Shibusawa, a leading figure in the modernization of Japan, established *Shoshi Kaisha*. This company was the first to supplant traditional handcrafting of single sheets of paper with mass production techniques in Japan.



Oldest

# Oldest

*Shoshi Kaisha*, Japan's first paper manufacturer, was the seed that has since become Oji Paper Company. *Shoshi Kaisha* was renamed Oji Paper Co., Ltd., in 1893. Through a series of mergers, it has continued as Japan's top company in the paper-manufacturing industry for 130 years.



- 1: Signing ceremony in Nantong City
- 2,3: Nantong City
- 4: Management of Oji Paper and mayor of Nantong City
- 5: Members of the China Business Division

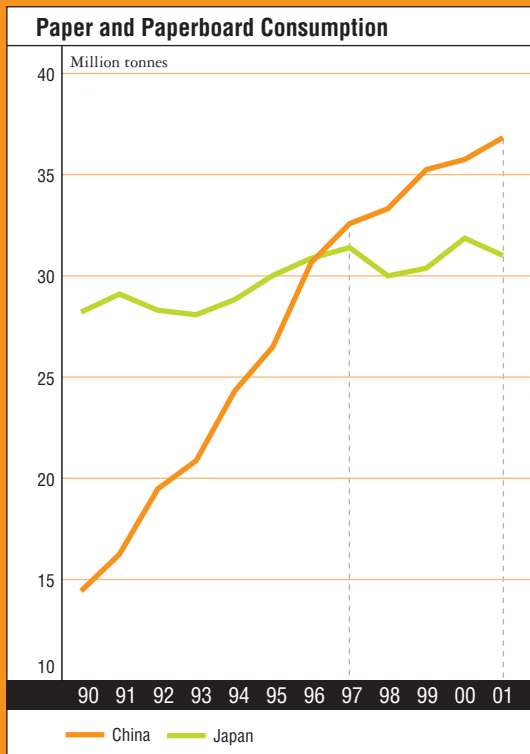




# 200 billion yen

## Large-scale investment plan for constructing a fully integrated pulp and paper mill in China

The Oji Paper Group has considered various possibilities for full-scale business development in Asia, aiming to grow in the 21st century as an "Asian corporate citizen domiciled in Japan." As a result, in June 2003, the Oji Paper Group announced its decision to establish coated and uncoated paper manufacturing and sales operations in China. The plan consists of a large-scale project to construct an integrated pulp and paper mill with annual production capacity of 1,200,000 tonnes in an economic development zone in the city of Nantong, Jiangsu Province. The total investment will reach ¥200 billion.



**Jun Kajita**  
Deputy General Manager  
China Business Division

**Yoichi Okumura**  
General Manager  
China Business Division

**Tadashi Watanabe**  
Deputy General Manager  
China Business Division

Oji Paper established the China Business Division in order to enter the Chinese market in full swing.

1997

# 1997

**The Chinese economy continues to grow vigorously at an average annual rate of 7%. Paper consumption increases in step with economic development, and the growth in consumption in China has been remarkable: in 1997, China surpassed Japan to become the world's second largest paper consuming nation, and continued growth in demand is anticipated.**



1		
2	3	4
		5

1: Kasugai Mill's coater  
2: Tomakomai Mill's newsprint machine  
3: Fuji Mill's boxboard machine  
4: Fuji Mill's control room  
5: Tomioka Mill's coater



# 1,213 billion yen

## Ensuring sales levels befitting the leading company in Japan's huge paper products market

Japan is a giant in world paper consumption, using more than 30 million tonnes of paper and paperboard annually, and is topped only by the United States and China. And, in Japan, the largest paper manufacturer is Oji Paper. Propelled by dynamic management and sales policies, group sales exceeded ¥1,200 billion for the fifth consecutive year in fiscal 2002. We are currently aiming to improve our earnings, setting an income target of ¥100 billion in ordinary profit on a consolidated basis for fiscal 2004.

### Ranking of World's Pulp and Paper-manufacturing Companies

Ranking	Net sales (\$ billions)	Company	Major Operating Country
1	20.9	International Paper	U.S., etc.
2	18.0	Georgia-Pacific	U.S.
3	12.0	Procter & Gamble	U.S.
4	10.7	Stora Enso	Europe, etc.
5	9.0	Kimberly-Clark	U.S.
<b>6</b>	<b>8.9</b>	<b>Oji Paper</b>	<b>Japan</b>
7	8.4	Smurfit-Stone Container	U.S.
8	8.3	Nippon Unipac Holding	Japan
9	8.0	SCA	Europe
10	7.6	UPM-Kymmene	Europe

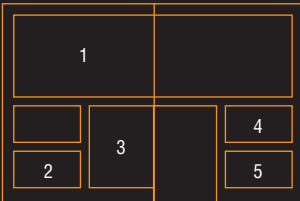
Ranking by sales of pulp and paper products  
 Japanese companies: reported net sales in FY2002  
 Overseas companies: net sales in FY2001 (PPI Sept. 2002)



6th

# 6th

Paper companies have been restructuring vigorously in recent years, and we are no exception. Oji Paper was formed in the 1996 merger of New Oji Paper and Honshu Paper. This merger raised our competitiveness and propelled us to sixth position among global paper manufacturers.



- 1, 2: Kasugai Mill's recycled pulp-manufacturing facility
- 3: Tomakomai Mill's used-paper recycling facility
- 4: Edogawa Mill's recycled pulp-manufacturing facility
- 5: Nichinan Mill's recycled pulp-manufacturing facility

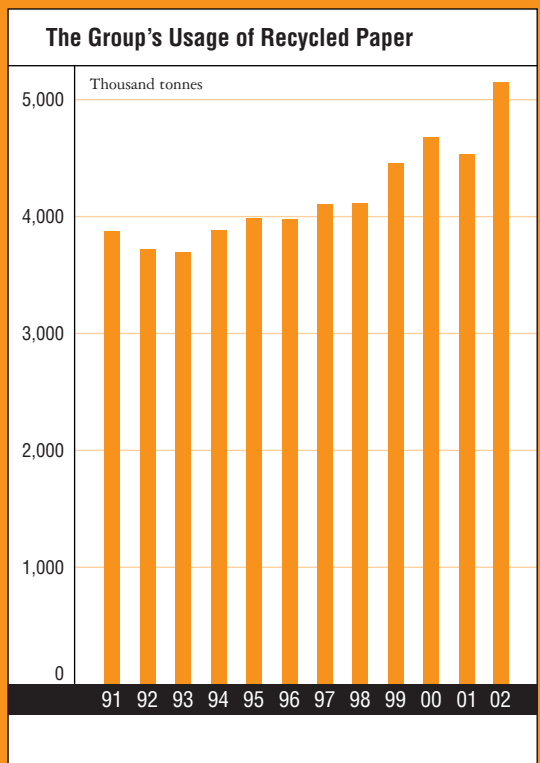




# 5,138 thousand tonnes

## Oji Paper is also a leading company in the recycling society

Recycling of waste paper generated in homes and offices for use as raw material in paper manufacturing is an important step in realizing a “recycling society” that conserves natural resources. Internationally, Japan ranks high in the reuse of paper and currently obtains 58% of its raw materials from recycled paper. Naturally, Oji Paper recognizes paper recycling as a core mission and is aggressively promoting its growth. In 2002, the entire Oji Paper Group recycled 5,138 thousand tonnes of paper.



60%

# 60%

As an industry leader, Oji Paper actively promotes the recycling of paper. Utilization of recycled paper by the entire Oji Paper Group reached 60.3% in fiscal 2002, surpassing the national average and achieving its goal of 60% by fiscal 2005.



- 1: Afforestation area and facilities of CENIBRA
- 2: APFL's afforestation area in Australia
- 3: CPFL's afforestation area in China
- 4: GPFL's afforestation area in Australia
- 5: Tree nursery

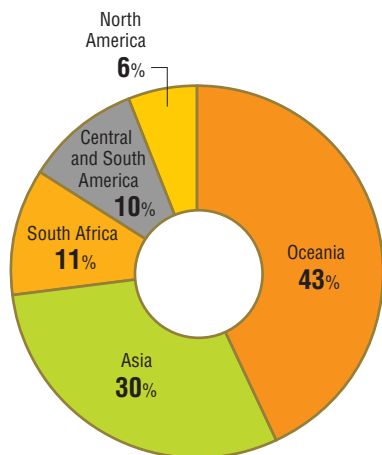


# 143 Thousand Hectares

## Oji Paper is cultivating forests overseas, equivalent to an area twice the size of Tokyo's 23 wards

Planting trees and cultivating forests ensure a stable supply of raw materials for paper manufacturing and, at the same time, help control global warming. Oji Paper has long supported "planting trees that can be recycled." However, in view of today's environmental challenges, we have adopted "Forest Recycling" as one of our environmental measures, and we actively promote overseas afforestation, with 142,676 hectares in overseas plantations at the end of March 2003.

Imported Woodchips by Region (Fiscal 2002)



Total imported woodchips **3,593** thousand BD tonnes



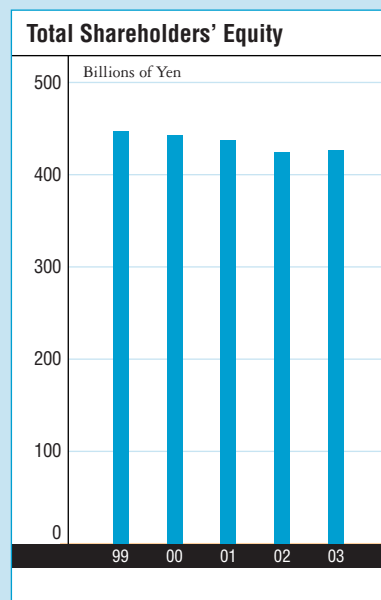
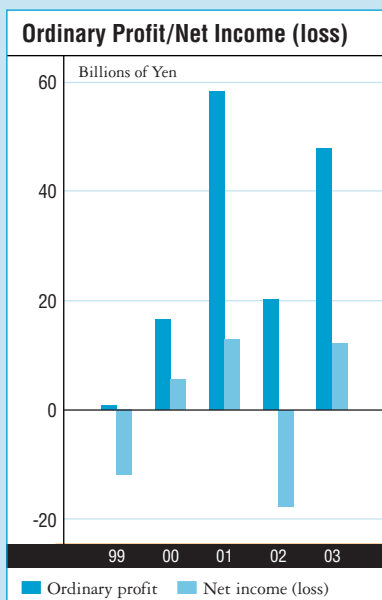
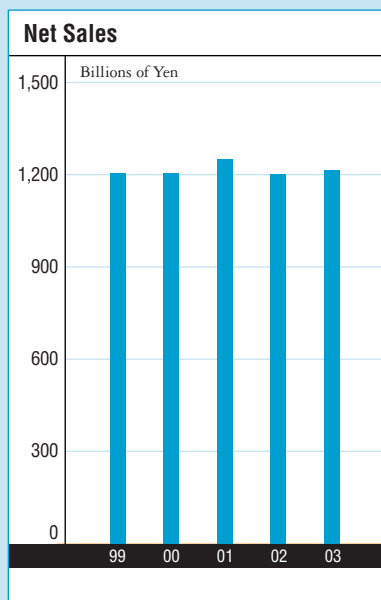
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The Oji Paper Group promotes the use of recycled paper, and these days, wood pulp accounts for only 40% of our raw material use. Furthermore, all woodchips imported from Asia-Oceania come from plantation-grown trees. And we use no natural timber from rain forests anywhere in the world.

# Financial Highlights

Years ended March 31,	Billions of Yen				
	1999	2000	2001	2002	2003
Net sales	¥1,206.2	¥1,205.5	¥1,252.9	¥1,203.8	<b>¥1,213.2</b>
Ordinary profit	0.6	16.3	58.2	20.1	<b>47.9</b>
Net income (loss)	-12.4	5.6	12.8	-17.7	<b>12.2</b>
Per share data (in yen):					
Net income (loss) per share	-12.00	5.45	12.37	-17.13	<b>11.23</b>
Cash dividends per share	8.00	8.00	8.00	8.00	<b>8.00</b>
As of March 31					
Total assets	1,757.2	1,723.4	1,704.3	1,632.1	<b>1,621.1</b>
Total shareholders' equity	446.6	442.1	436.6	424.3	<b>425.9</b>
Common stock	103.9	103.9	103.9	103.9	<b>103.9</b>
Number of shareholders	86,559	85,416	89,171	82,859	<b>101,000</b>



**Forward-looking Statements:** Statements contained in this report with respect to Oji Paper's plans, strategies, beliefs and expectations that are not historical facts are forward-looking statements. These forward-looking statements involve uncertainties that should be considered and which could cause actual performance results to differ from those discussed in the forward-looking statements. This report aims to supply information, not to solicit investment.





**Amid continuing adverse business conditions in fiscal 2002, the Oji Paper Group achieved a sharp increase in profits through initiatives to reduce costs. We seek to parlay these results into greater success ahead and will spare no effort in achieving the targets in the Medium/Long-Term Management Plan.**

**Left: Masahiko Ohkuni**  
Chairman

**Right: Shoichiro Suzuki**  
President & CEO

## Business Results for Fiscal 2002

### Profits Surge in Year under Review

Fiscal 2002 (the year ended March 31, 2003) brought no sign of improvement in Japan's economy, and adverse conditions continued in the pulp and paper industry, including falling demand and selling prices. In these circumstances, every employee felt a strong sense of crisis. We decided the harsh business environment was no excuse for weak performance, and resolved to reach a successful future through our own efforts. Accordingly, during the year, we engaged in various cost-cutting initiatives and more aggressive selling. The outcome of those efforts on a consolidated basis was an increase of 0.8% in net sales to ¥1,213.2 billion, a sharp increase of 55.5% in operating profit to ¥56.5 billion, and a 138.6% surge in ordinary profit to ¥47.9 billion. The Oji Paper Group recorded a net profit of ¥12.2 billion, a substantial improvement after the net loss of ¥17.7 billion the previous term, even after booking an extraordinary loss due to a write-down of investments in securities.

### Profit Improvement in Japan and an Aggressive Push in Asia

The sharp increase in profits during the year under review resulted from a combination of activities. Expansion of sales volume, cost reductions and personnel vitalization delivered particularly significant results that nearly compensated for lower sales due to falling prices. A profit improvement of ¥13.1 billion from increased sales volume, ¥10.9 billion from cost reductions and ¥9.6 billion from personnel vitalization contributed to consolidated ordinary profit of ¥47.9 billion, which exceeded the target of ¥42.0 billion for the year.

Seeking a further profit rise, the Oji Paper Group will move to construct a more efficient and flexible production system, reduce costs further, aggressively introduce new products and maintain price levels. In June 2003, we adopted a new organizational structure that will enable us to achieve our objectives groupwide.

We also announced in June the construction of a coated and uncoated paper mill in China, a big step toward becoming an “Asian corporate citizen domiciled in Japan.”

### Progress with the Medium/Long-Term Management Plan

#### Promoting the Plan Steadily to Achieve Ordinary Profit of ¥100 Billion

The Oji Paper Group is implementing a Medium/Long-Term Management Plan that sets forth the goal of achieving ¥100 billion in consolidated ordinary profit in fiscal 2004. Although regrettably we were unable to achieve the target for the previous term, that harsh reality renewed awareness of the adverse business environment in which the Oji Paper Group operates. The heightened awareness motivated us to exceed our annual objective for the year under review.

The Medium/Long-Term Management Plan has progressed satisfactorily. We exceeded the year's target for consolidated ordinary profit, and went ahead of plan in personnel vitalization: early retirements and other factors reduced the group domestic workforce to 19,600, compared to the target of 20,200. We anticipate reaching the target of 18,000 in fiscal 2004, a year ahead of schedule.

#### Positioning Oji Paper for Robust Growth in the 21st Century

The cost reductions and personnel vitalization measures that are now delivering major results will eventually reach the limit of their effectiveness. As the Oji Paper Group continues these efforts, it is at the same time pursuing other cost reduction initiatives based on new approaches. For instance, by augmenting our recycled paper processing facilities and installing refuse paper and plastic fuel (RPF) boilers that use waste for fuel, we plan to realize cost reductions of ¥1.4 billion in fiscal 2003 and ¥6.2 billion in fiscal 2004. We are also pouring efforts into profit improvement at group companies, and aim to deliver results of ¥4.6 billion in fiscal 2004.

In June 2003, we announced the results of a review of the Medium/Long-Term Management Plan based on the assumption that the adverse business environment will continue. The revised plan calls for ¥25.1 billion in profit improvements in fiscal 2003 and a further ¥27.0 billion in profit improvements and achievement of ordinary profit of ¥100 billion in fiscal 2004. We regard achievement of the Medium/Long-Term Management Plan as an especially important first step toward becoming an Oji Paper that grows robustly in the 21st century.

September 2003

Masahiko Ohkuni  
*Chairman*



Shoichiro Suzuki  
*President & CEO*





**Shoichiro Suzuki**  
President & CEO

**Q: First, please provide your thoughts about fiscal 2002, a year of higher revenue and earnings for the Oji Paper Group.**

I feel a great sense of achievement that Oji Paper Group delivered ¥47.9 billion in ordinary profit, a result that exceeded the target of ¥42.0 billion. This is especially so when I recall that fiscal 2001 (the year ended March 31, 2002) marked a new start in an extraordinarily difficult operating environment, even as prices continued to slide. In spite of all that, we were able to overcome the negative factors and exceed our targets. This success was the outcome of outstanding zeal and efforts to reduce costs and increase sales on the part of all our employees and has given me confidence that we can reach the Medium/Long-Term Management Plan target of ¥100 billion in ordinary profit for fiscal 2004.

**Q: What future developments, including selling price trends, do you foresee for the paper industry?**

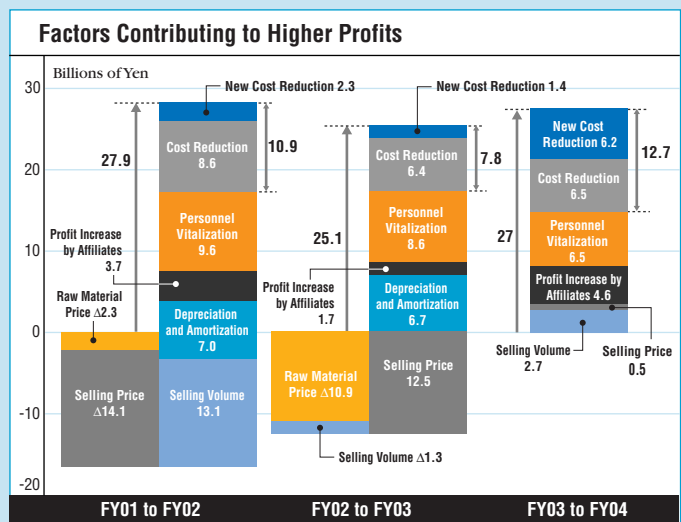
Demand for paper in Japan has nearly reached the saturation point, and the economy is in a slump. I take the view that the domestic market will undergo no major expansion in the coming years. A return to former selling prices began in September 2002, and prices have returned to about the average for fiscal 2001. Although slight fluctuations may occur, on the whole I do not anticipate that selling prices will decline from current levels.

At a time when increases in domestic sales volumes or selling prices are unlikely, we drew up the current Medium/Long-Term Management Plan after discussing how to increase profitability by means of cost cutting and efficiency improvement and leverage the increased profitability to generate growth.

**Q: In June, you announced the fiscal 2003 version of the Medium/Long-Term Management Plan, which is revised each year. What are the points of the revised plan?**

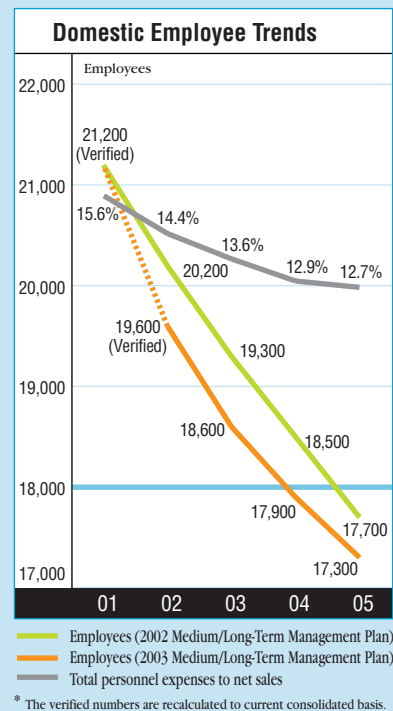
We are moving forward with the most important objective in the current plan, achievement of consolidated ordinary profit of ¥100 billion. No change has been made in this strategic direction. During the year under review, we achieved the fiscal year's target, a key milestone in the process. In this year's revision, we analyzed business performance and future plans more deeply and indicated the form efforts must take to achieve profit increases.

Successfully putting in place a framework for achieving ordinary profit of ¥100 billion and a 5% ratio of ordinary profit to net sales will bring strong cash flows and enable aggressive business investment. We aim to invest these funds in operations in Japan and Chinese and Southeast Asian markets, which are expected to grow in the future, and develop as an "Asian corporate citizen domiciled in Japan."



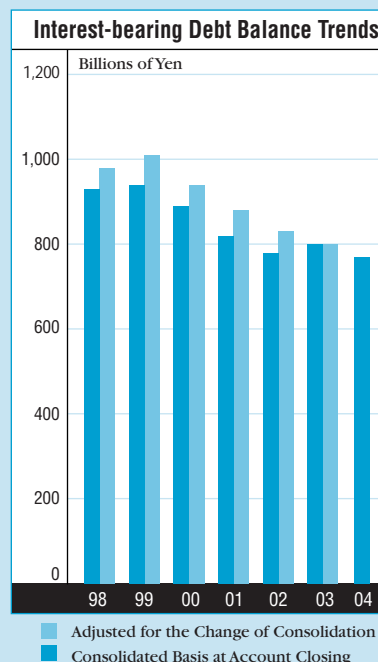
**Q: What were some of the major factors that contributed to the increased profits?**

During the year under review, we were able to compensate for the adverse impact of the fall in selling prices by such means as cost reductions and vitalization of personnel. These developments resulted in ordinary profit of ¥47.9 billion. Although we expect an increase in the price of raw materials, mainly recycled paper, in fiscal 2003, a recovery in product prices should make up for this. In fiscal 2002, we realigned our containerboard operations around Oji Paperboard, and in fiscal 2003, we will move forward with specific measures to increase operating efficiency in these operations. We have also exceeded the planned pace for vitalization of personnel and are poised to bring forward our objective of a group domestic workforce of 18,000 by one year to fiscal 2004.



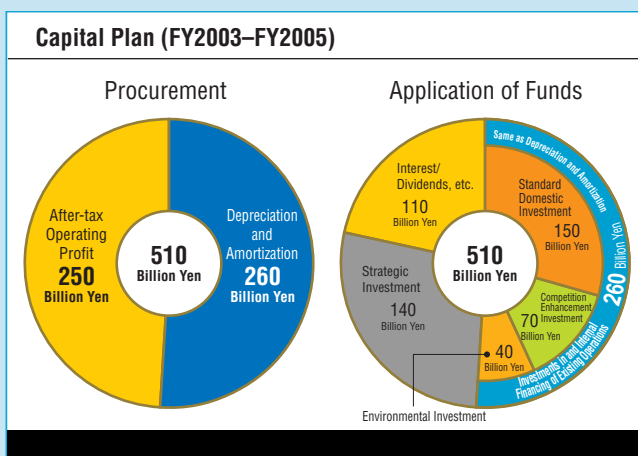
**Q: If profit improvement proceeds according to plan, the capital surplus will increase. Will you apply the additional capital to retiring interest-bearing debt?**

I aim to maintain interest-bearing debt at the level of ¥800 billion. Although this is below the objective set forth in the Medium/Long-Term Management Plan of holding the ratio of interest-bearing debt to net sales at 50% or less, having considered current low interest rates and the business environment, I chose to apply surplus funds to forward-looking investments in Japan and overseas rather than retire debt. The pulp and paper industry is a capital-intensive industry, and future growth and development would be difficult without strengthening our facilities at mills. Although interest-bearing debt increased during the year under review, we should bear in mind that the increase was due to a change in the scope of consolidation.



**Q: What specific investments do you refer to when you say forward-looking investment?**

During the three-year period to FY2005, we plan to raise a total of about ¥510 billion in capital, nearly 80% of which we plan to apply to investment and lending. We intend to pour ¥260 billion derived from depreciation of domestic mills back into the improvement and strengthening of domestic facilities and to apply ¥60 billion of the funds earmarked for investment to boost competitiveness to a scrap and build program for aging facilities. Although specific plans have not yet been drawn up, this amount is sufficient to renovate two paper machine lines. Most of the amount earmarked for strategic investment is for investments in overseas operations, and this includes investments in China that were announced recently. Because the amount of investment for Phase One of the Chinese operation is ¥60 billion, ¥80 billion in strategic investment funds will remain available. We will use this money effectively according to the circumstances.



**Q: In June 2003, Oji Paper announced it would launch a full-scale business operation in China. Please explain your reasons for deciding on China.**



We have long indicated our intention to engage in business in the Asia region, and having considered a great many possible projects, we at last reached the stage where we could make a public announcement. The main reason we decided to build an integrated pulp and paper mill in China is the tremendous potential of the Chinese market. The Chinese economy is growing at a 7% clip each year, the Beijing Olympics will be held in 2008, and it has been decided to hold a World Exposition in Shanghai in 2010. Considering the size of the population, China's economic growth rate can be expected to exceed that of Japan during its high-growth period. We feel we have been cautious in our projections, but even so, our forecasts indicate a supply shortage of fully 3.65 million tonnes of high-quality coated and uncoated paper in China in 2010.

**Q: The business operation in China is highly significant for the future of the Oji Paper Group. Please provide an overview of the project.**

The project we have announced involves obtaining an industrial site of 2,000,000 m<sup>2</sup> in an economic development zone in the city of Nantong, Jiangsu Province, located close to Shanghai, nearly midway along China's coast. On the site, we will build a mill capable of fully integrated production, from pulp to paper. Phase One, which we aim to have operational in fiscal 2006, involves investing ¥60 billion to construct a mill for producing high-quality coated and uncoated paper from purchased pulp. In Phase Two, we will make an additional investment of ¥140 billion to complete construction of a pulp-manufacturing facility in 2010. This will take the mill to fully integrated production.

Production capacity will be 600,000 tonnes in Phase One and 1,200,000 tonnes at the end of Phase Two. Considering the remarkable rate of growth of the Chinese economy, I think this is a conservative project.

#### Overview of Chinese Project

Location	Nantong City, Jiangsu Province 2,000,000 m <sup>2</sup> (land located along the Yangzi River)
Production	High-quality Coated and Uncoated Paper --- 1.2 Million Tonnes per Year (coated paper production basis) Integrated Pulp and Paper Mill ----- Total Investment: ¥200 Billion Phase One ----- Start-up Target by the End of 2006 600 Thousand Tonnes of High-quality Coated and Uncoated Paper per Year (coated paper production basis) ¥60 Billion Investment
Framework	Japan ----- Establishment of "China Business Division," effective June 27, 2003. China ----- Planning to establish a holding company "Oji Paper (China)" within 2003

**Q: What persuaded you to decide to locate the mill in Nantong?**

Nantong is situated nearby an enormous market, Shanghai. It is located midway along the Chinese coast and superbly situated for transporting products to Beijing and other destinations to the north and south.

Moreover, the site is ideal with regard to the supply of water, always an issue for a paper mill. In Nantong, it is possible to draw water for use in production from the Yangzi River. With regard to wastewater, the Nantong development zone includes a plan to lay a pipeline 80 kilometers long to carry treated water to the sea. It is very difficult to find a site where it is possible both to draw water without concern about back flow of seawater and to discharge water into the sea, and this site meets both concerns.

**The Plant Site Relative to Markets****Q: How will you fund the ¥200 billion investment in China? Are you concerned about an increase in borrowings?**

As I explained when I spoke about the capital plan, we will finance the investment in China out of our own funds. Provided we achieve ordinary profit of ¥100 billion in fiscal 2004, funds available for the strategic investment budget will be ¥90 billion, and the ¥60 billion Phase One investment in China will be well within this amount.

Furthermore, we have prepared a capital forecast for the period up to fiscal 2010 based on the assumption of sustained ordinary profit of ¥100 billion, which will enable us to earmark ¥390 billion for strategic investment during that period. Looking at it another way, if we earn at least ¥50 billion in ordinary profit, we will be able to finance the investment in China out of our own funds.

**Q: Are the chances for success overseas good?**

We have full confidence in our ability to manufacture products on a global level. We are in no way inferior to any company anywhere in the world in our ability to build efficient mills and supply inexpensive, high-quality products. With regard to procuring raw materials, our affiliate, Japan Brazil Paper and Pulp Resources Development, has made Celulose Nipo-Brazileira S.A. (CENIBRA) a wholly owned subsidiary, securing our line of supply. We actively engage in afforestation operations to produce our own woodchips and also enjoy world-class purchasing power for woodchips. All that remains is selling power, and even in a market as vast as China, Oji Paper's brand power and our signaling of our intent to engage in full-scale operations have brought offers of cooperation from many of China's leading sales companies.

**Q: The tasks of establishing profitability in Japan and carrying out major investment in China mean that group management will become increasingly important.**

I have long maintained that the coming of the era of consolidated management not only involves a change in accounting standards, but also necessitates a change in the fundamental nature of management. I think that bold delegation of authority and the simultaneous strengthening of cohesiveness are necessary to truly increase the power of group companies. In March 2003, we completely changed the group management framework and organized the operations of Oji Paper and those of Oji Paperboard, Oji Nepia, and other group companies horizontally. We also divided the Oji Paper Group into cost centers responsible for production and profit centers responsible for sales, and established the Group Headquarters and a shared services unit to engage in business support functions. In addition, we have newly established a China Business Division and are putting in place a framework for group management.



**Q: As group management and global management progress, compliance takes on greater importance.**

A source of pride for the Oji Paper Group is a succession of chief executives who established high moral standards and put those standards into practice. From the time of its foundation, the Company has regarded “social prosperity” as the mission of the paper-manufacturing industry and has placed equal importance on observing morals and achieving profits. I am confident that today’s Oji Paper has inherited those genes. Although we have high moral standards, the Company has grown in size, and it becomes difficult to promote compliance and risk management thoroughly. Because of that, we recently established the Corporate Compliance Office. This unit will take the lead in supervising groupwide compliance education and compliance with laws and regulations. At the same time, we will strengthen the corporate audit function and increase discipline throughout the Group.



**Q: Finally, please provide a message for the shareholders and investors.**

Ever since assuming the office of president, I have expressed my desire that the Oji Paper Group be a corporate group that continues to grow robustly in the 21st century. To that end, success in China and Southeast Asia is essential. If we devoted efforts merely to being Japan’s leading paper-manufacturing company, we might attain stability for a time, but we couldn’t hope for robust growth. With the recent announcement of the China operation, the Oji Paper Group took a major step toward business growth and development in Asia. We aim to take advantage of the wisdom and experience we have gained over the years and demonstrate courage tempered by discretion to develop and grow as an “Asian corporate citizen domiciled in Japan.” I invite our shareholders and investors to look forward to future breakthroughs and successes and to continue to support our endeavors.

**The Global Pulp and Paper Industry**

North America, Europe and East Asia are the three core regions for the pulp and paper industry. Until now, internationalization of production and sales has been regional. Now, the industry is consolidating across regions in true globalization, and the pulp and paper industry rides an even greater wave of realignment.

**Regional Overview of the Pulp and Paper Industry**

**North America—The United States is the world leader in both consumption and production.**

The United States is the world's largest paper consumer, with triple the demand of Japan. Although the U.S. also leads the world in production volume, domestic production alone is insufficient to meet demand, and the country imports high volumes of paper and paperboard from Canada. For this reason, Canada ranks fourth in world production. Because both countries have abundant forest resources, recycled paper usage is lower than in Japan, and North America exports some of its recycled paper to China and Korea.

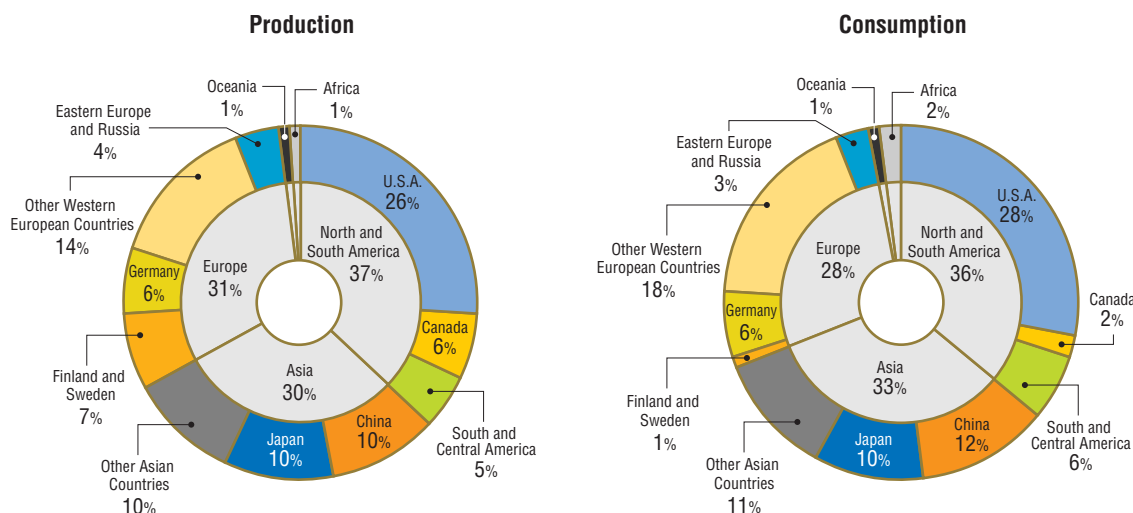
**Europe—Industry consolidation progresses, and investment in North America and Asia is on the rise.**

In Europe, abundant forest resources and water have concentrated the leading pulp and paper companies in Finland and Sweden. In Western and Southern Europe, reliance on kraft pulp is low, and newsprint, paperboard, and low-grade and medium-grade paper mills are prevalent. Many companies favor capital investment and tend to install state-of-the-art, large-scale paper machines. Industry consolidation is progressing, and in recent years, companies have stepped up investment in North America and Asia.

**China—Imported pulp and recycled paper underpin production that ranks second in the world.**

China surpassed Japan in consumption of paper and paperboard in 1997 and in production in 2001, and now ranks second in the world in both. Although production in China is growing between one and two million tonnes annually, this is insufficient to keep up with demand growth. Consequently, the country

**Worldwide Paper and Paperboard Production and Consumption (2001)**



imports large volumes of these products. China has extraordinarily few pulp mills, and there is little domestic recycled paper. For this reason, the country obtains these resources chiefly through importing.

#### Japan—Two major groups supply the majority of demand.

Japan is third in world production and consumption of paper and paperboard. Pulp imports have plummeted, and most mills fully integrate production or use recycled paper. Less than 3% of total production is exported.

Today, two business groups, the Oji Paper Group and the Nippon Unipac Holding Group, satisfy most paper and paperboard demand in Japan. However, domestic paper consumption has been flattening out, and future growth in demand cannot be expected. To increase profits, Japan's pulp and paper industry must further reduce costs or aggressively expand into overseas markets.

### The Business Environment for Oji Paper

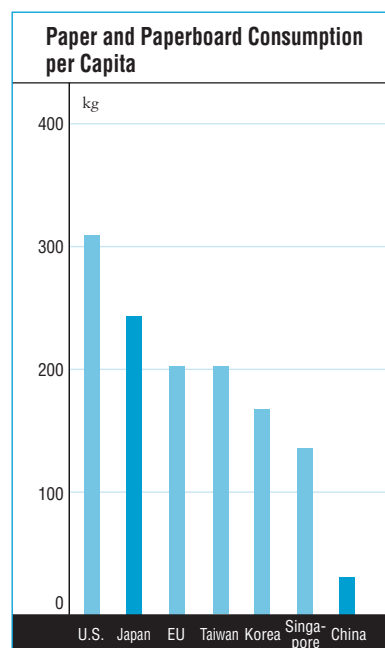
#### Oji Paper Group's International Position

The Oji Paper Group produces 8.2 million tonnes of paper and paperboard annually—26% of domestic production. Oji Paper ranks with Nippon Unipac Holding as a leading Japanese corporate group. It is also one of the top ten paper-manufacturing groups in the world.

#### Oji Paper's Advantages

As an integrated pulp and paper manufacturer, the Oji Paper Group has broad product coverage. This breadth allows the the Oji Paper Group to mitigate the impact of market price fluctuations.

The Oji Paper Group optimizes production in its mills throughout Japan: large-lot items are produced at major mills, while small mills are used for specialty products. Transportation costs are a substantial part of the price of paperboard, which is made from recycled paper. The Oji Paper Group minimizes those costs by distributing its mills throughout Japan to facilitate the collection of recycled paper and reduce transportation costs.





**Kentaro Nagaoka**  
Executive Vice President

**Atsuo Shioiri**  
Executive Vice President

**Toshiyuki Egawa**  
Executive Vice President

**Masahiko Ohkuni**  
Chairman

**Shoichiro Suzuki**  
President and Chief  
Executive Officer

**Board of Directors**

**Masahiko Ohkuni**  
Chairman

\* **Shoichiro Suzuki**  
President and Chief Executive Officer

\* **Kentaro Nagaoka**  
Executive Vice President

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Executive Vice President

\* **Noritoshi Watanabe**  
Executive Director

\* **Shozo Watanabe**  
Executive Director

\* **Shigeru Ikemoto**  
Executive Director

\* **Hideki Yamamoto**  
Executive Director

\* Concurrently Serving as Corporate  
Officer

**Corporate Auditors**

**Tadashi Yoshida**  
Senior Corporate Auditor

**Shogo Sakurai**  
Corporate Auditor

**Yoh Takeuchi**  
Corporate Auditor

**Tokugoro Murayama**  
Corporate Auditor

**Corporate Officers**

**Masaaki Masuda**  
Executive Officer

**Makoto Ando**  
Executive Officer

**Yoshihisa Nakano**  
Executive Officer

**Naotoshi Sekiguchi**  
Executive Officer

**Norimasa Kiyota**  
Executive Officer

**Yoshihiro Kanamaru**  
Executive Officer

**Kazuhisa Shinoda**  
Executive Officer

**Kazuya Jinno**  
Officer

**Hideyuki Usui**  
Officer

**Nobuyoshi Yamamoto**  
Officer

**Setsuo Saeki**  
Officer

**Yasuhiro Terashima**  
Officer

**Tohru Inoue**  
Officer

**Hiroyuki Hatouchi**  
Officer

**Shunsuke Okushima**  
Officer

**Jun Kajita**  
Officer

**Iwahiro Uchimoto**  
Officer

**Sadao Mizushima**  
Officer

**Akira Hashimoto**  
Officer

**Jiro Harada**  
Officer

**Yutaka Sekiguchi**  
Officer

**Shinichiro Kondo**  
Officer

**Hideaki Hayashi**  
Officer

**Motoji Saito**  
Officer

**Jyunta Watanabe**  
Officer

**Tsuneo Hashimoto**  
Officer

**Koji Hayashi**  
Officer

**Kenji Kanda**  
Officer

**Takashi Ishida**  
Officer

**Tadashi Watanabe**  
Officer

# Financial Information

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## Profile of the Corporate Group

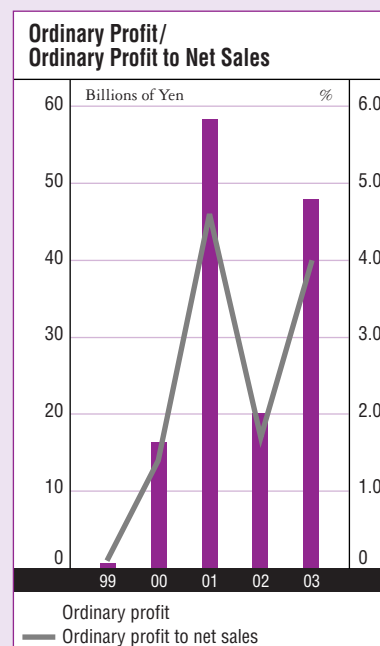
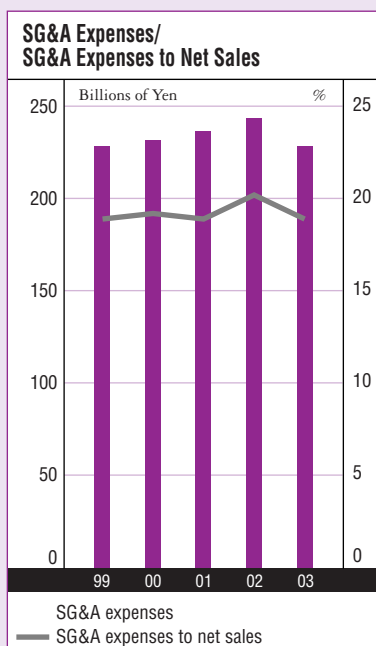
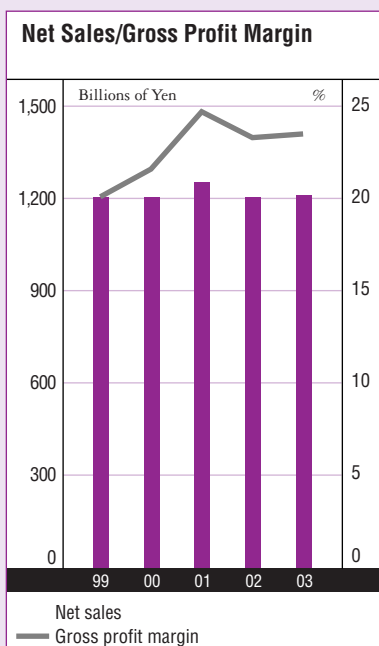
As of March 31, 2003, the Oji Paper Group consisted of 292 companies (the parent company, 208 subsidiaries and 83 affiliated companies). The number of consolidated subsidiaries was 69, down from 74 at the end of the previous year. Four companies, including Chuetsu, became consolidated subsidiaries during fiscal year 2002 (the year ended March 31, 2003). With the integration of the containerboard business production and sales, TAKASAKI SANKO, Chuo Paperboard, Hokuyo Paper, and others, were merged with Oji Paperboard, and Ei-Sho-Gen was sold last year. In all, nine companies were removed from the list of consolidated subsidiaries.

The number of affiliated companies to which the equity method is applied decreased from 19 to 16. Two of those (one of them being Chuetsu) were removed from the list because they have become consolidated subsidiaries. Japan Brazil Paper and Pulp Development, an equity-method affiliated company, began to include in its statement of income the profit and losses of Celulose Nipo-Brazileira, its affiliated company.

## Net Sales and Income

In the year ended March 31, 2003 (fiscal year 2002), the sense of stagnation in the world economy became stronger as geopolitical risk grew due to such developments as the tension in Iraq. In Japan, corporate profits evidenced a modest recovery, but, because of prevailing anxiety about the future, no signs were seen of an upturn in capital investment. Consumer spending was stagnant, and there was uneasiness about the nation's financial system. The prospects for the Japanese economy remained clouded throughout the year.

In such a business climate, we reduced inventories, avoided a price war, and placed top priority on recovering and maintaining adequate product margins through our sales activities. The market price of printing paper began to decline at the end of fiscal 2001, but we adhered to a policy of producing only as much as had been sold. As a result, the market price recovered. We also reduced personnel costs by implementing an early retirement plan and reduced distribution costs by shipping from mills located near the places of consumption. We vigorously pursued other means to cut overhead, such as measures to save energy and labor, and again secured significant results in the year under review.



Net Sales in fiscal year 2002 were ¥1,213.2 billion, an increase of ¥9.4 billion, or 0.8%, from the previous year. Selling, General and Administrative (SG&A) Expenses came to ¥228.8 billion, a decrease of ¥14.9 billion, or 6.1% from the previous year. The rate of SG&A expenses to net sales improved from 20.2% to 18.9%. Operating Profit was ¥56.5 billion, registering a satisfying 55.5% increase as it rose by ¥20.2 billion. The rate of operating profit to net sales was 4.7%, an improvement of 1.7 percentage points over the previous year.

An investment profit of ¥3.1 billion was stated as Non-operating Income, based on the equity method. Celulose Nipo-Brazileira showed good results as the international pulp market picked up, and contribution came from the increased profits registered by Japan Brazil Paper and Pulp Development, the holding company for Celulose Nipo-Brazileira.

Ordinary Profit for the year was ¥47.9 billion. It showed a large gain of ¥27.8 billion, or 138.6%, over the previous year. The rate of ordinary profit to net sales was 4.0%, an increase of 2.3 percentage points from the 1.7% in the previous year.

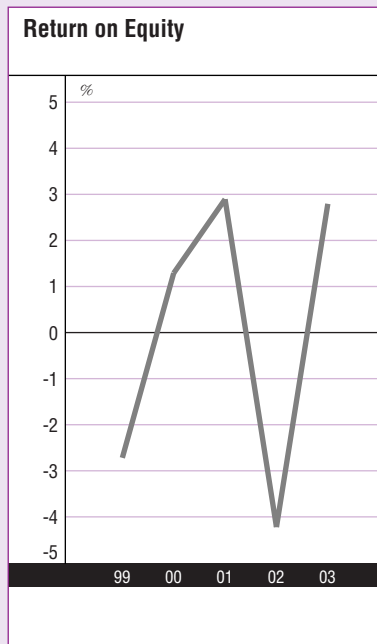
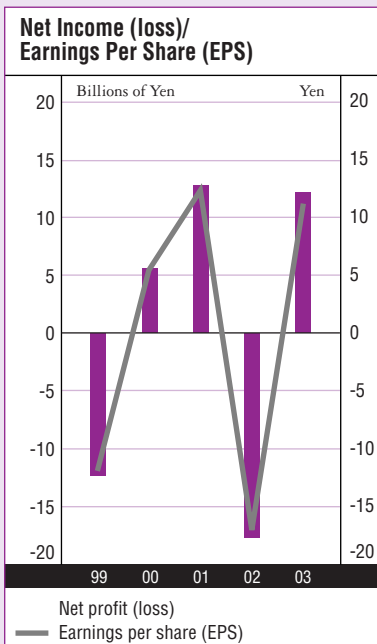
We registered as an Extraordinary gain ¥16.7 billion of income from refund of subrogated portions of welfare pensions. As Extraordinary Losses, we registered a paper loss of ¥29.4 billion on the write-down of investments in securities and a loss of ¥10.6 billion on retirement of fixed assets, and we paid special retirement benefits totaling ¥5.7 billion associated with an employee early retirement plan.

Income before Income Taxes and Minority Interests was ¥23.2 billion, an increase of ¥50.9 billion over the previous year. Net Income was ¥12.2 billion, a dramatic increase from the minus ¥17.7 billion in the previous year. Earnings per share was ¥11.23, a welcome improvement from minus ¥17.13 in the previous year. The rate of return on equity was 2.9%, an improvement of 7 percentage points from the minus 4.1% of a year earlier.

**Segment Performance**

**Pulp and Paper Product Division**

In the year under review, domestic demand for pulp and paper decreased for the third straight year. However, our sales of paper and paperboard increased in terms of quantity because the sales volume of printing paper increased.



The market prices of many pulp and paper products declined at the beginning of fiscal year 2002, and remained low throughout the year. Prices of general-purpose paper, including printing paper, picked up during the second half of fiscal year 2002, but not enough to recover the decline in the first half of the year. Regarding tissue paper, we endeavored to develop unique products in order to halt the decline in retail prices due to a price war, and the product prices rose. The prices of boxboard and high-quality boxboard exhibited a weak undertone. However, we succeeded in shoring up the prices of container-board to normal levels by the end of 2001, and prices remained at that level throughout fiscal year 2002.

In addition to the above measures, we made TAKASAKI SANKO, to which the equity method was applied (it merged with Oji Paperboard in October 2002), a wholly owned subsidiary. This resulted in increasing our net sales further. Net sales of pulp and paper products came to ¥734.3 billion, an increase of ¥34.9 billion, or 5.0%, over the previous year's results. Operating profit rose ¥16.2 billion to ¥42.7 billion, for a large, 61.2% increase.

### Converted Paper Product Division

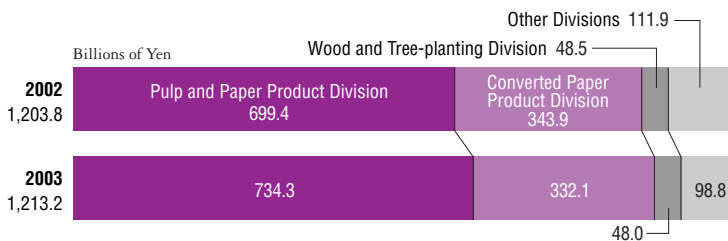
Corrugated paperboard products (corrugated containers) are the main products of this division. Sales were strong to food processing companies. We endeavored to have their prices reflect the increased costs of raw materials but were unable to achieve this goal with all products. Domestic sales of thermal paper were stable, led by high-quality varieties, but their exports trended lower in the face of increased competition from European and South Korean manufacturers in the Chinese and Southeast Asian markets. Sales of paper diapers decreased, but their prices returned to normal.

In all, net sales of converted paper products declined ¥11.8 billion, or 3.4%, to ¥332.1 billion compared with the previous year. Nevertheless, operating profit rose ¥2.1 billion, or 68.9%, to ¥5.2 billion, partly because of the success of various measures to cut overhead.

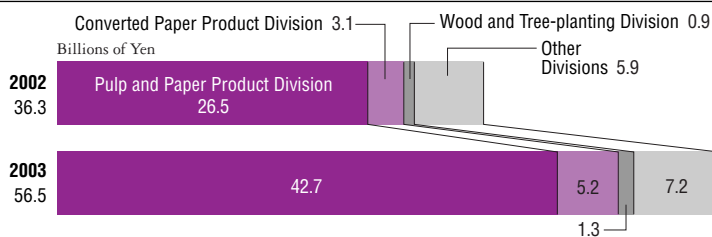
### Wood and Tree-planting Division

Our afforestation business was generally stagnant, with net sales at ¥48.0 billion, down 1.1% from the previous year. However, operating profit increased 50.7% to ¥1.3 billion as we reduced operating expenses.

#### Net Sales by Segment



#### Operating Profit by Segment





## Other Divisions

Net sales of this segment came to ¥98.8 billion, a decrease of ¥13.2 billion, or 11.8%. This is because sales of real estate decreased and Ei Sho Gen, a consolidated subsidiary, had been sold. However, operating profit rose ¥1.3 billion, or 22.9%, to ¥7.2 billion, as a result of operational streamlining.

## Research and Development Activities

Research and development activities by the Oji Paper Group are mainly undertaken by the Research and Development Division, which consists of four institutes: the R & D Laboratories Headquarters, the R & D Management Department, the Intellectual Property Department and the Forestry Research Institute.

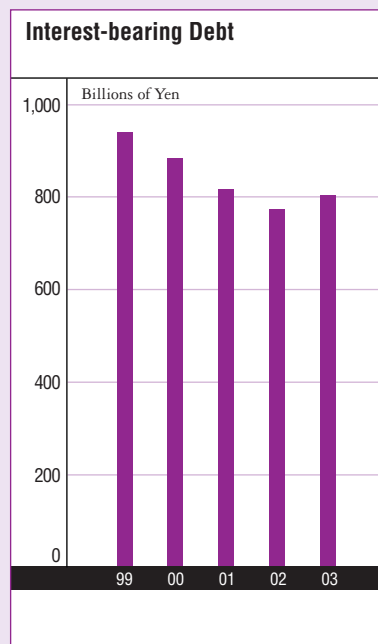
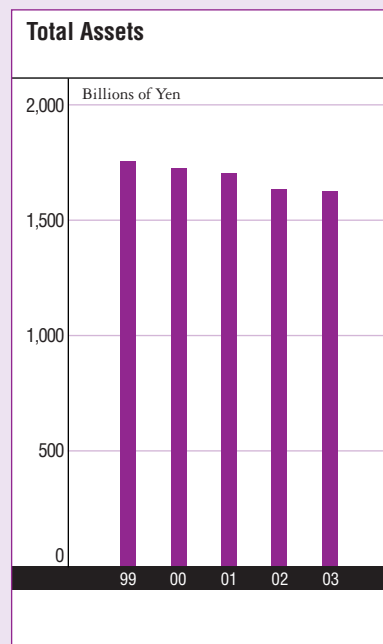
During the year under review, the Shinonome Research Center underwent remodeling and expansion to increase research and development flexibility. Research and development expenditures during the year totaled ¥12.8 billion. By division, R & D expenditures for the pulp and paper products division were ¥8.4 billion, centering on environment-friendly technologies and products; those for the converted paper product division were ¥3.9 billion, with a focus on the improvement of quality and manufacturing techniques for thermal film used for medical diagnoses; those for the wood and tree-planting division totaled ¥0.4 billion; and those for other divisions came to ¥0.1 billion.

At the end of the year, Oji Paper held 1,377 domestic intellectual property rights and 648 foreign intellectual property rights.

## Financial Condition

As of March 31, 2003, our Consolidated Total Assets were ¥1,621.1 billion, a decrease of ¥11.0 billion from a year earlier. By item, Current Assets centering on Accounts receivable—trade and Inventories decreased ¥13.0 billion. Among Fixed Assets, Property, plant and equipment increased ¥31.0 billion and Intangible Assets rose ¥2.6 billion as a result of a change in the scope of consolidation.

Regarding Liabilities, Current Liabilities increased by ¥33.3 billion as a result of the issuance of Commercial paper, but Total non-current liabilities decreased by ¥42.1 billion because of the redemption of Debentures and other factors. As a result,



Total Liabilities were down ¥8.7 billion. Interest-bearing debt, including bills discounted, rose ¥25.9 billion, from ¥775.4 billion to ¥801.3 billion. As a result of the change in the scope of consolidation, this debt increased ¥54.1 billion. If this effect is excluded, interest-bearing debt decreased by ¥28.2 billion.

Total Shareholders' Equity increased by ¥1.6 billion to ¥425.9 billion, as a result of an increase in the capital surplus. The Shareholders' Equity Ratio at the end of the year stood at 26.3%, an increase of 0.3 percentage point over the end of the previous year. Book value per share was ¥407.30, a decrease of ¥3.35 from ¥410.65 at the end of the previous year. The decrease was due to an increase in the number of shares issued and outstanding.

### Conditions of Cash Flow

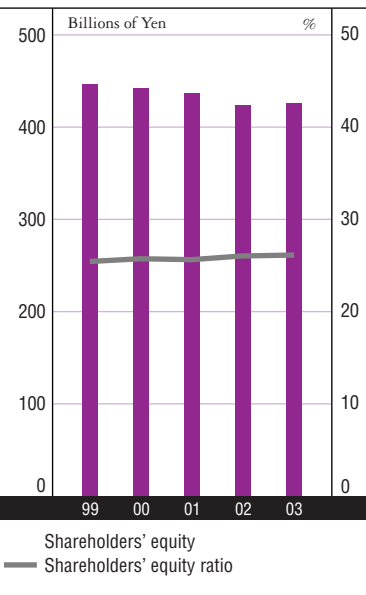
Net Cash Provided by Operating Activities in the year totaled ¥115.3 billion, a decrease of ¥19.6 billion from the previous year despite an increase of ¥50.9 billion in Income before Income Taxes and Minority Interests. The decrease was due to a fall in accrued retirement benefits, which increased during the previous year, and a smaller decrease in current assets. Depreciation and amortization during the year totaled ¥92.8 billion, an increase of ¥0.8 billion over the previous year.

The Net Cash Used in Investing Activities amounted to ¥77.2 billion, a decrease of 22.9% from the previous year. Capital investment totaled ¥65.2 billion, a decrease of ¥11.8 billion.

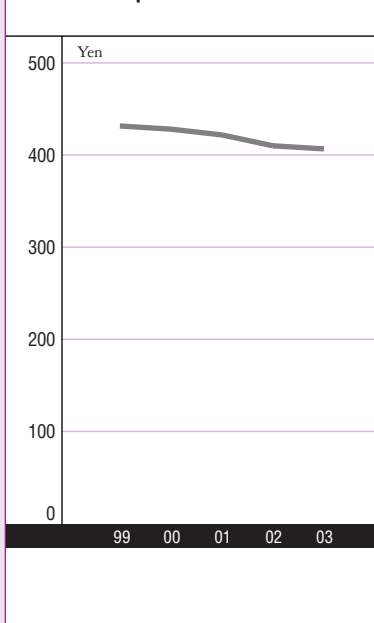
Net Cash Used in Financing Activities amounted to ¥40.0 billion. Oji Paper's commercial paper increased by ¥26.0 billion with the enforcement of group financing, but short-term bank loans, mainly for affiliates, decreased by ¥29.4 billion. The balance of debentures issued and outstanding at the end of the year dropped ¥20.0 billion. Moreover, Oji Paper acquired ¥7.6 billion of its own shares to be held as treasury stock.

All told, the balance of Cash and Cash Equivalents at the end of the year was ¥34.7 billion, a decrease of ¥0.4 billion from the end of the year before.

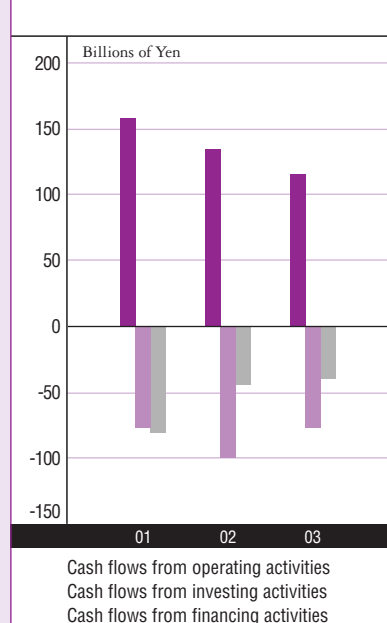
**Shareholders' Equity/  
Shareholders' Equity Ratio**



**Book-value per Share**



**Cash Flows**



### Policy for the Future

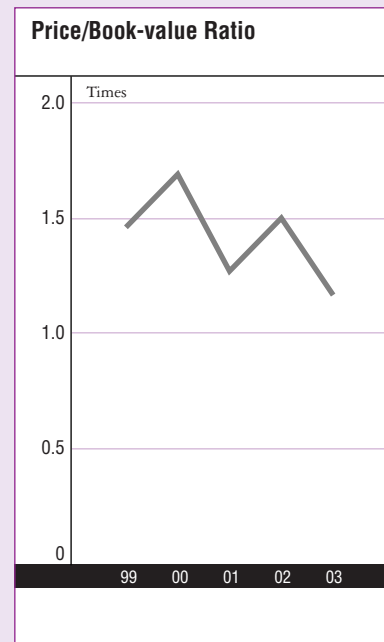
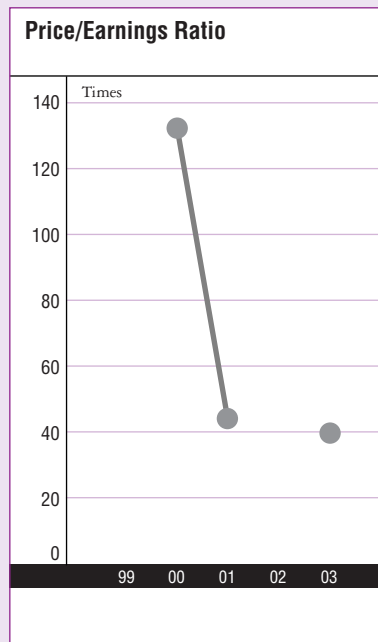
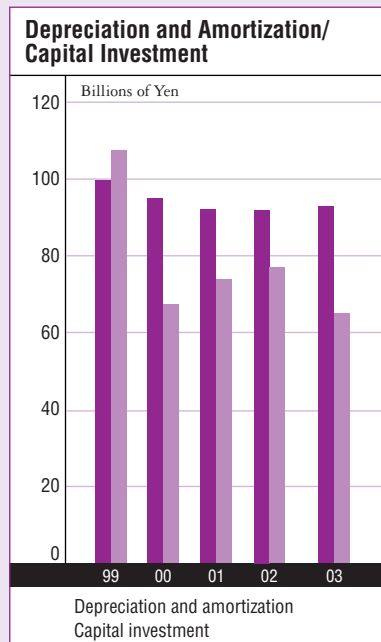
The growth rate of the Japanese economy in the year ending March 31, 2004 (fiscal year 2003) is expected to be even lower than in fiscal 2002. The prospects for the economy are still opaque. The pulp and paper industry will endure stagnant demand for some more time. Moreover, the price of recycled paper, the main raw material for paper production, is trending upward, so the business climate for the Oji Paper Group will worsen further.

Under these circumstances, the Oji Paper Group will endeavor to sell products at fair prices, complete the most efficient and flexible production system possible, strengthen cost competitiveness by significantly reducing costs, and attain the goal of the Medium/Long-Term Management Plan, which targets an ordinary profit of ¥100.0 billion in fiscal 2004.

### Non-consolidated Results of Operations

Non-consolidated Net Sales in the year under review decreased by 6.5%, to ¥695.8 billion, despite an increase in paper sales volume, mainly because of the stagnant market price of packaging paper. The Company's Operating Profit, however, increased by ¥17.5 billion, or 70.2%, to ¥42.4 billion as a result of reductions in the Cost of Sales and Selling, General and Administrative (SG&A) expenses. Ordinary Profit was ¥37.1 billion, reflecting a large gain of 124.6%. Net Income for the year came to ¥13.0 billion, recovering from the net loss of ¥16.5 billion in the previous year, as the Company registered, as an extraordinary gain, the profit that resulted from refunding of subrogated portions of welfare pension funds to the Ministry of Health, Labor and Welfare.

Regarding dividends for the interim period, ¥4 per share will be paid as an ordinary dividend, as in the previous year. Consequently, the full-year dividend will be ¥8 per share as in the previous year. The payout ratio is 66.1%, and the ratio of dividends to shareholders' equity is 2.1%.



# Consolidated Balance Sheets

Billions of Yen

As of March 31,

	1999	2000	2001	2002	2003
<b>Assets</b>					
<b>Current Assets</b>					
Cash and bank deposits	50.5	42.9	42.0	35.5	35.0
Accounts receivable—trade	291.1	312.6	324.1	289.0	271.1
Marketable securities	16.6	13.8	4.0	0.1	0.1
Inventories	171.2	145.4	164.1	145.0	142.1
Advances	0.5	0.2	1.4	0.6	1.0
Short-term loans	4.5	3.7	3.2	3.6	13.5
Accounts receivable—other	11.5	10.2	8.6	9.5	7.1
Deferred income taxes	10.7	19.1	18.9	25.6	25.5
Other	4.2	3.6	4.3	2.8	2.9
Allowance for doubtful accounts	-2.5	-2.8	-1.7	-1.2	-1.0
Total current assets	558.3	548.7	569.0	510.4	497.4
<b>Fixed Assets</b>					
Property, plant and equipment	942.7	928.9	906.7	895.0	926.1
Intangible assets	3.8	8.3	8.8	8.8	11.4
Investments and other assets	243.3	223.9	219.7	217.9	186.2
Total fixed assets	1,189.8	1,161.1	1,135.2	1,121.7	1,123.7
Foreign Currency Translation Adjustment	9.1	13.6	—	—	—
Total Assets	1,757.2	1,723.4	1,704.3	1,632.1	1,621.1
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Accounts payable—trade	198.5	209.9	235.4	206.6	189.7
Short-term bank loans	452.7	432.3	353.0	356.6	368.8
Commercial paper	28.0	8.0	68.0	43.0	69.0
Current portion of debentures	—	69.2	—	20.0	40.0
Accounts payable—other	14.5	13.1	18.3	17.2	12.6
Accrued expenses	45.7	45.0	52.7	49.9	48.9
Income taxes payable, etc.	2.2	3.3	5.3	2.5	4.6
Deferred income taxes	—	0.2	0.2	0.1	0.1
Other	15.2	14.0	15.5	12.8	8.2
Total current liabilities	756.8	795.1	748.3	708.6	741.9
<b>Non-current Liabilities</b>					
Debentures	189.2	120.0	160.0	140.0	100.0
Long-term bank loans	261.5	249.4	229.7	212.4	221.6
Deferred income taxes	2.1	15.7	17.1	17.4	19.1
Deferred tax liabilities on unrealized gain on land	—	—	—	3.1	6.5
Accrued retirement benefits *	75.0	76.1	89.4	103.5	84.3
Reserve for special repairs	0.1	0.1	0.1	0.1	0.2
Long-term deposits	13.2	12.6	13.0	12.5	14.2
Long-term notes payable for property, plant and equipment	1.8	0.9	—	—	0.9
Other	0.6	0.8	0.5	0.5	0.6
Total non-current liabilities	543.4	475.7	509.8	489.6	447.5
Total Liabilities	1,300.2	1,270.7	1,258.1	1,198.2	1,189.4
<b>Minority Interest in Consolidated Subsidiaries</b>					
Minority Interest in Consolidated Subsidiaries	10.4	10.6	9.5	9.6	5.8
<b>Shareholders' Equity</b>					
Common stock	103.9	103.9	103.9	103.9	103.9
Additional paid-in capital	98.7	98.7	98.7	98.7	—
Capital surplus	—	—	—	—	110.2
Revaluation of land	0.0	1.7	1.7	6.0	4.4
Retained earnings	244.0	237.8	241.7	215.0	—
Earned surplus reserve	—	—	—	—	216.7
Unrealized gain on available-for-sale securities	—	—	—	6.8	4.8
Foreign currency translation adjustment	—	—	-9.4	-6.0	-6.1
Treasury stock	0.0	0.0	0.0	-0.1	-8.0
Total Shareholders' Equity	446.6	442.1	436.6	424.3	425.9
Total Liabilities, Minority Interests in Consolidated Subsidiaries and Shareholders' Equity	1,757.2	1,723.4	1,704.3	1,632.1	1,621.1

\* In and before FY1999 the figures were shown as "accrued pension and severance costs."

# Consolidated Statements of Income

Billions of Yen

Year ended March 31,	1999	2000	2001	2002	2003
Net Sales	1,206.2	1,205.5	1,252.9	1,203.8	1,213.2
Cost of sales	963.3	944.8	943.6	923.7	927.9
Gross profit	242.9	260.6	309.4	280.0	285.3
Selling, General and Administrative Expenses	228.1	231.9	236.8	243.7	228.8
Operating Profit	14.8	28.7	72.5	36.3	56.5
Non-operating Income					
Interest and dividend income	2.9	3.1	2.7	2.2	2.1
Equity in earnings of affiliates	–	1.1	4.1	–	3.1
Miscellaneous income	11.7	11.0	4.1	5.7	4.7
	14.6	15.2	11.0	7.9	10.0
Non-operating Expenses					
Interest expenses and discount charges	17.6	15.3	14.3	12.3	12.1
Equity in loss of affiliates	2.2	–	–	0.6	–
Miscellaneous losses	9.0	12.3	11.0	11.2	6.4
	28.8	27.6	25.3	24.1	18.6
Ordinary Profit	0.6	16.3	58.2	20.1	47.9
Extraordinary Gain					
Gain on sale of investments in securities	–	1.2	0.0	1.3	3.3
Gain on securities contribution to employee retirement benefit trust	–	–	25.3	–	–
Refund of subrogated portions of welfare pensions	–	–	–	–	16.7
Gain on sale of fixed assets	1.8	4.0	3.5	1.3	3.9
Gain on sale of business divisions	–	–	4.5	–	–
	1.8	5.2	33.3	2.7	23.9
Extraordinary Losses					
Loss on retirement of fixed assets due to reorganization of production operations	–	–	3.8	3.2	–
Loss on retirement of fixed assets	–	–	–	–	10.6
Loss on sale of investments in securities	–	–	16.1	–	–
Loss on write-down of investments in securities	22.9	3.1	2.5	30.3	29.4
Loss on liquidation of subsidiaries	–	–	–	–	0.6
Amortization of transition amount derived from accrued retirement benefits	–	–	45.8	16.7	–
Provision for retirement benefits	8.4	2.9	–	–	–
Loss on natural disaster	–	–	0.8	–	–
Loss on shutdown of operation	1.1	–	–	–	–
Special retirement benefits	–	2.5	0.6	–	5.7
Exchange loss	0.9	–	–	–	–
Loss on reduction of fixed asset's cost	0.1	0.1	0.0	0.3	2.3
	33.4	8.6	69.6	50.5	48.6
Income (loss) before Income Taxes and Minority Interests	-31.0	12.8	21.9	-27.8	23.2
Corporation tax, resident tax and enterprise tax	3.5	4.6	6.7	4.4	6.2
Deferred taxes	-21.9	3.3	2.7	-14.3	4.5
Minority interest in net profit of consolidated subsidiaries	-0.2	-0.7	-0.4	-0.1	0.3
Net Income (loss)	-12.4	5.6	12.8	-17.7	12.2

# Consolidated Statements of Cash Flows

Billions of Yen

Year ended March 31,

	2000	2001	2002	2003
<b>Cash Flows from Operating Activities</b>				
Income (loss) before income taxes and minority interests	12.8	21.9	-27.8	23.2
Depreciation and amortization	94.5	91.7	92.0	92.8
Increase/decrease in accrued retirement benefits	0.6	17.0	14.1	-23.0
Interest and dividends income	12.2	11.6	10.1	10.0
Gain (loss) on write-down or sale of marketable securities	-3.4	18.2	29.0	26.1
Gain (loss) on retirement or sale of fixed assets	2.1	5.1	6.3	6.7
Increase/decrease in accounts receivables and payables—trade	-6.5	18.8	8.1	-6.5
Increase/decrease in inventories	21.9	-16.7	20.1	5.9
Other	-5.6	5.6	-0.1	-6.9
<b>Total</b>	<b>128.7</b>	<b>173.1</b>	<b>151.6</b>	<b>128.1</b>
Interest and dividends received	3.6	3.1	2.9	3.5
Interest paid	-15.4	-14.1	-12.4	-12.1
Income taxes paid	-3.4	-4.4	-7.2	-4.1
<b>Net Cash Provided by Operating Activities</b>	<b>113.5</b>	<b>157.8</b>	<b>134.9</b>	<b>115.3</b>
<b>Cash Flows from Investing Activities</b>				
Changes in Balance of:				
Marketable securities *	8.6	0.1	0.0	0.1
Property, plant and equipment/intangible assets *	-64.3	-67.4	-77.0	-61.2
Investments in securities *	-2.1	-6.4	-19.6	-10.7
Acquisition of stocks of consolidated subsidiaries due to change in the scope of consolidation	-6.1	-3.4	—	5.2
Loans and collections	5.0	-0.3	-3.7	-10.6
Other	0.8	0.3	0.1	-0.1
<b>Net Cash Used in Investing Activities</b>	<b>-58.3</b>	<b>-77.1</b>	<b>-100.2</b>	<b>-77.2</b>
<b>Cash Flows from Financing Activities</b>				
Net increase/decrease in short-term bank loans	-44.1	-81.3	5.2	-29.4
Net increase/decrease of commercial paper	-20.0	60.0	-25.0	26.0
Borrowing of long-term bank loans	44.2	13.4	18.3	50.2
Repayments of long-term bank loans	-33.9	-35.1	-34.5	-50.6
Proceeds from issue of debentures	—	40.0	—	—
Redemption of debentures	—	-69.2	—	-20.0
Cash dividends paid by the Company	-8.3	-8.3	-8.3	-8.4
Acquisition of treasury stock	—	—	—	-7.6
Other	0.4	-0.1	0.0	-0.1
<b>Net Cash Used in Financing Activities</b>	<b>-61.8</b>	<b>-80.6</b>	<b>-44.3</b>	<b>-40.0</b>
Effect of Foreign Currency Translation on Cash and Cash Equivalents	-0.9	0.5	0.6	-0.3
<b>Net Increase/Decrease in Cash and Cash Equivalents</b>	<b>-7.4</b>	<b>0.6</b>	<b>-8.9</b>	<b>-2.2</b>
Cash and Cash Equivalents at Beginning of Year	52.5	44.4	45.0	35.1
Increase in Cash and Cash Equivalents Due to Merging or including Consolidated Subsidiaries	0.1	0.1	0.0	1.9
Decrease in Cash and Cash Equivalents Due to Excluding Consolidated Subsidiaries	-0.8	-0.1	-1.0	-0.1
<b>Cash and Cash Equivalents at End of Year</b>	<b>44.4</b>	<b>45.0</b>	<b>35.1</b>	<b>34.7</b>

\* Figures for previous years have been recalculated to reflect the current statement.

## Non-consolidated Balance Sheets

Billions of Yen

As of March 31,	1999	2000	2001	2002	2003
<b>Assets</b>					
Current Assets	344.9	340.8	351.5	293.5	345.7
Fixed Assets	991.1	961.0	936.8	915.3	843.1
Property, plant and equipment	712.7	673.6	650.1	614.4	539.1
Intangible assets	1.4	5.4	5.4	5.2	2.8
Investments and other assets	277.0	282.0	281.2	295.7	301.2
<b>Total Assets</b>	<b>1,335.9</b>	<b>1,301.8</b>	<b>1,288.2</b>	<b>1,208.8</b>	<b>1,188.8</b>
<b>Liabilities</b>					
Current Liabilities	483.2	531.1	477.2	433.6	463.4
Non-current Liabilities	422.1	343.9	385.5	368.7	315.8
<b>Total Liabilities</b>	<b>905.2</b>	<b>875.0</b>	<b>862.8</b>	<b>802.3</b>	<b>779.2</b>
<b>Minority Interests in Consolidated Subsidiaries</b>					
Total Shareholders' Equity	430.7	426.8	425.4	406.5	409.6
<b>Total Liabilities and Shareholders' Equity</b>	<b>1,335.9</b>	<b>1,301.8</b>	<b>1,288.2</b>	<b>1,208.8</b>	<b>1,188.8</b>

## Non-consolidated Statements of Income

Billions of Yen

Year ended March 31,	1999	2000	2001	2002	2003
Net Sales	844.3	804.3	816.7	744.0	695.8
Cost of sales	697.4	647.2	616.4	568.0	521.6
Gross profit	146.9	157.1	200.3	176.0	174.2
Selling, General and Administrative Expenses	140.0	138.7	146.4	151.1	131.8
Operating Profit	6.9	18.4	53.9	24.9	42.4
Non-operating Income	15.6	14.3	10.6	9.3	9.0
Non-operating Expenses	18.2	16.9	17.0	17.7	14.4
Ordinary Profit	4.3	15.8	47.4	16.5	37.1
Extraordinary Gain	2.6	1.3	27.2	5.8	25.2
Extraordinary Losses	59.0	9.7	63.3	51.3	39.5
Income (loss) before Income Taxes	-52.1	7.4	11.3	-29.0	22.8
Corporation Tax, Resident Tax and Enterprise Tax	0.1	0.1	0.1	0.3	0.2
Deferred Taxes	-22.2	3.0	4.2	-12.9	9.6
<b>Net Income (loss)</b>	<b>-30.0</b>	<b>4.3</b>	<b>7.1</b>	<b>-16.5</b>	<b>13.0</b>

**Shares of Common Stock**

Authorized	2,400,000,000 shares
Issued	1,064,381,817 shares Increase of 30,999,697 shares from the previous year-end
Number of Shareholders	101,000 Increase of 18,141 shareholders from the previous year-end

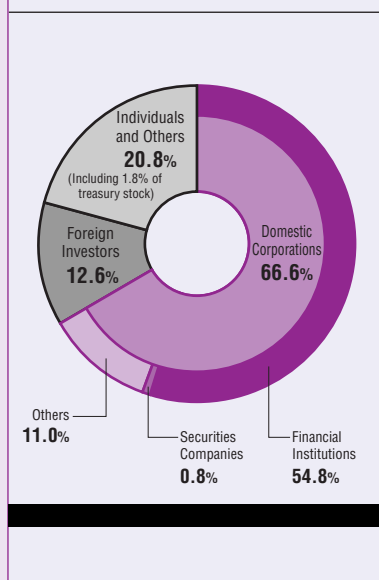
Note: On April 1, 2002, Oji Paper swapped shares with its affiliates; Hokuyo Paper Co., Ltd. and O. I. R Co., Ltd., and subsidiaries; Chuo Paperboard Co., Ltd., TAKASAKI SANKO Co., Ltd. and Chuetsu Co., Ltd., which became wholly owned subsidiaries. This resulted in the number of shares issued increasing by 30,999,697 shares to 1,064,381,817 shares.

**Major Shareholders (Top 10)**

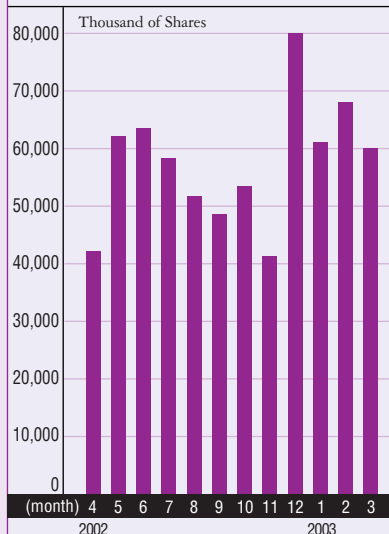
	Shares Held (Thousands)	Voting Rights (%)
Japan Trustee Services Bank, Ltd. (Trust account)	89,774	8.8
The Master Trust Bank of Japan, Ltd. (Trust account)	69,827	6.8
Sumitomo Mitsui Banking Corporation	31,668	3.1
Mizuho Corporate Bank, Ltd.	31,636	3.1
Shinsei Bank, Limited	30,371	3.0
The Norinchukin Bank	29,654	2.9
Nippon Life Insurance Company	29,345	2.9
Oji Paper Employee Stock-holding Association	21,681	2.1
Japan Pulp And Paper Company Limited	17,216	1.7
UFJ Trust Bank Limited (Trust A account)	16,781	1.6

Notes: Oji Paper holds treasury stock of 19,219 thousand shares, which is excluded from the list.  
Numbers less than one thousand are rounded down.

**Distribution of Shareholders**



**Volume of Shares Traded (Tokyo Stock Exchange)**



**Common Stock Price Range (Tokyo Stock Exchange)**





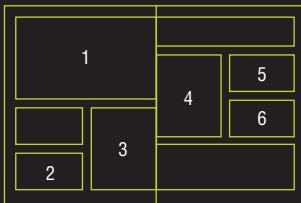
# Corporate Overview

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# Value through Teamwork



- 1: The Forest Research Institute
- 2: AFPI in Canada
- 3: Yonago Mill's enzyme production facility
- 4: Tokyo International Packaging Exhibition (Tokyo Pac 2002)
- 5: JANT in Papua New Guinea
- 6: Imaging Media Development Laboratory



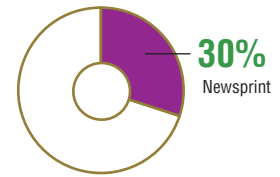
The Oji Paper Group is moving ahead with a number of innovations aimed at establishing an appropriate management framework for the era of consolidated management. In June 2003, management changed the group structure to a flat organization, putting in place an organizational framework that will bring to bear the true power of the Oji Paper Group.



As of March 31, 2003, the Oji Paper Group consisted of a total of 292 companies: the parent company, 208 subsidiaries and 83 affiliated companies. In recent years, management has made strengthening group management capabilities a high-priority management task and aggressively increased competitiveness through the realignment of group companies. In June 2003, management implemented a sweeping restructuring and changed to a new group organizational framework.

In restructuring the Oji Paper Group, management abolished the Affiliated Companies Administration Division within the head office and transferred their operations to the Corporate Planning Department, newly established to be responsible for groupwide business strategy, and the Business Administration Department, established to provide management support. With regard to the management conference structure, management converted the Group Management Conference for key subsidiaries begun the previous term into the Group Presidents' Conference. Expansion of the scope of the conference furthers sharing of group management policy and groupwide initiatives to increase profits. We have also established the Corporate Compliance Office to lead and supervise groupwide compliance with the law and are implementing measures to strengthen risk management.

Newsprint accounts for nearly 20% of the overall paper demand in Japan, and Oji Paper produces approximately 30% of Japan's newsprint. In recent years, the newsprint industry has introduced high-speed rotary presses and increased use of multicolor printing. To meet these high-level needs, we have been supplying thin, strong paper with the capacity to produce beautiful, vivid printed colors.

Oji Paper Group's  
Market Share in Japan

#### Products Lighter, stronger newsprint—High quality and superior color

Today, newsprint is generally supplied as an order-made product to meet the specific requirements of newspaper publishers' printing equipment. Users require increasingly sophisticated product characteristics. For example, paper must be thin, but not transparent, and strong. Oji Paper has the advanced technology needed to meet these requirements.



#### Topics "Ultra-light Newsprint"—Newsprint developed by leading-edge technologies

Oji Paper has succeeded in developing "Ultra-light Newsprint," which is the lightest newsprint marketed in Japan, with the weight of only 40g per square meter, 7%, or 3g lighter than conventional newsprint. Through a careful review of coating materials and additives, this product overcame the general problems caused by weight savings, such as lower strength and opacity, while retaining the benefits of conventional newsprint. Moreover, this product has earned a strong reputation in energy and material savings, with a recycled-paper content equal to that of conventional newsprint.

#### Strategies Introducing the latest systems aimed at streamlining distribution

To ensure stable, high-volume supplies of newsprint, efficiency and safety must be integral to the paper-manufacturing system, from production to distribution. In 1999, a container transport system using a custom truck chassis and specialized high-speed vessels was introduced at the Tomakomai Mill for cost effectiveness and reduced shipping times.



Berth at Tomakomai Port

#### Facilities Tomakomai Mill—The world's largest newsprint production plant

The Tomakomai Mill is Oji Paper's main newsprint production facility. This plant employs integrated production of pulp and paper. Advanced N-6 machines and other cutting-edge equipment enable intense, large-scale newsprint production. The latest distribution system allows us to supply newsprint reliably to every corner of Japan.

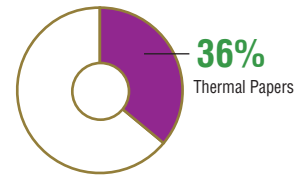


Newsprint at Tomakomai Mill

# Communications Papers, Specialty Papers

**Demand for communications papers for electronic equipment has expanded greatly with the advances in information technology (IT). The Oji Paper Group is a leading manufacturer of thermal paper in Japan. It also produces a wide range of communications papers, including magnetic recording papers. The Oji Paper Group is also a respected manufacturer of other high-quality specialty papers.**

Oji Paper Group's  
Market Share in Japan



## **Products Thermal paper—Oji Paper holds the top share in the world market**

Oji Paper is a leading manufacturer of thermal paper, which is ideal for printing receipts, ATM statements and many other printing applications. We supply thermal paper to meet the various needs of domestic and international customers. We are also recognized for our high-resolution products optimized for color printers.



## **Topics “Metal ‘suki-suki’ tag” debuts—A new IC tag compatible with metal**

Non-contact IC tags are marked for use in next-generation information management systems that will replace bar codes. Conventional IC tags produce magnetic interference and cannot be used with metal products. However, Oji Paper solved this problem with a new non-contact-type IC tag called the “Metal ‘suki-suki’ tag,” first marketed in September 2002.



Metal 'suki-suki' tag

## **Strategies Integration strengthens competitiveness in specialty paper**

Oji Paper is currently restructuring operations and production to strengthen its earning power for specialty paper. Two affiliates—Shin Fuji Paper Co., Ltd. and Abekawa Paper Co., Ltd.—merged and adopted the name “Fuji Paper” in 2003. We are also focusing on other product categories that have growth potential.

## **Facilities Kanzaki Mill—A specialty mill, leveraging advanced technological capabilities to attain competitive advantage**

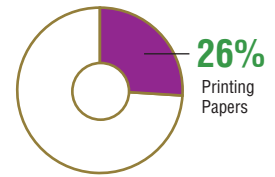
The Kanzaki Mill is known for its advanced technological capabilities. An example of a product from this plant is “Yupo” thermal paper for ultrasonic diagnostic imaging equipment: no other paper comes close to the 96% glossiness that enables sharper reproduction of the affected area.



Kanzaki Mill's coater

**Oji Paper supplies printing papers for books, magazines and many other publications, including catalogs, brochures and manuals. It also supplies copy paper. Paper qualities are dictated by the printed material and the characteristics of the printing press. Oji Paper's wide selection of printing papers has won high acclaim from customers.**

Oji Paper Group's  
Market Share in Japan



#### **Products** A variety of product groups geared at conserving environmental resources

Oji Paper produces both coated and uncoated publication and printing papers. Coated papers improve printing effects, while uncoated papers are excellent for handwriting. We offer many product groups to meet diversified needs. We are also developing environment-friendly products such as the "Green 100 series," made from high-percentage recycled paper, as well as products using woodchips from Oji Paper's overseas forest plantations.

In office papers, Oji Paper produces PPC paper for copiers, along with major specialty computer papers, including highly functional carbon-free and OCR papers.



#### **Topics** "OK Trinity"—Superb balance among whiteness, glossiness and opacity

The world of art books and pictorial magazines, where visuals are increasingly complex and sophisticated, has long awaited the arrival of paper that offers unprecedented print reproducibility and a high-quality look and feel. To meet this need, Oji Paper has accomplished a difficult feat: we have developed a technology for creating paper that offers superb balance of whiteness, glossiness, and opacity. In 2002, we introduced "OK Trinity," the first product to incorporate this technology. Following this success, in 2003, we launched "OK Trinity Navi," paper that offers even greater text legibility. The improved product has been well received in the market.



OK Trinity

#### **Topics** "OK Kasao"—Thick, yet lightweight printing paper that provides beautiful results

The printing industry has recently called for paper stock that imparts a sense of volume to documents with few pages, is lightweight, and offers excellent printing characteristics. To meet this need, Oji Paper launched "OK Kasao." This product's low density provides bulk, while at the same time maintaining the basic characteristic of matte coated paper by avoiding coarsening during printing. Oji Paper has drawn high praise for this application of advanced technology to simultaneously satisfy the conflicting elements of bulk, lightness and a high-quality look and feel.



OK Kasao

**Topics** Oji Paper first in Japan to sell copy paper with FSC certification

Forests are essential to the earth's environment, yet their loss is accelerating. To combat this, the FSC (Forest Stewardship Council), a global NGO dedicated to sustaining forest management, grants certification for good management of forest or wood plantations, or for products made from materials from such plantation areas. Oji Paper has obtained FSC's "CoC" (Chain of Custody) certification at Ebetsu Mill, granted for processing and distribution management, and became the first to sell copy paper with CoC certification in Japan in July 2002. This certification was granted for copy paper from the Ebetsu Mill, which produces paper from certified chips imported from Chile. Oji Paper plans to obtain certification for other mills and extend the range of certified products.



**Strategies** Improve competitiveness by actively reevaluating facilities

In recent years, Oji Paper has been restructuring its production facilities in various fields. In the publication, printing and office papers field, we shut down aging paper machines with low productivity at Kasugai Mill and Nichinan Mill. Removing less-productive paper machinery in this manner improves our productivity at other facilities and increases our competitiveness.

**Facilities** Kasugai Mill—The "paper department store" produces a variety of printing papers

The Kasugai Mill, dubbed the "paper department store," engages in the all-round manufacture of an extensive range of printing papers that offer a variety of product characteristics. The mill takes advantage of production systems that readily convert from one item to another to flexibly respond to market demand. The plant has kraft pulping facilities and high-volume recycled paper pulping facilities, and engages in fully integrated production from pulp on fully automated production lines.



Kasugai Mill's No. 10 machine

**Facilities** Tomioka Mill—Japan's largest seaside coated paper mill produces high-grade printing papers

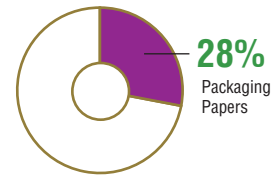
Located on the sea at Anan City in Tokushima Prefecture, this highly functional mill uses a dedicated pier to ship products. A new chip yard situated nearby the plant has increased the efficiency of chip transport and led to reductions in raw materials procurement costs. Tomioka Mill produces mainly high-grade printing papers and is one of Japan's largest coated-paper mills.



Tomioka Mill's coater

The merits of using paper for packaging materials are receiving renewed recognition from an environmental and recycling perspective. Package materials not only protect goods and make it easy to carry them, they also serve as an advertising tool for promoting various stores and merchandise. Oji Paper provides a wide range of packaging papers in attractive designs to meet the various needs of our customers.

Oji Paper Group's  
Market Share in Japan



### Products Products for every use

One of the best-known packaging papers is kraft paper, found in products ranging from cement sacks to shopping bags and envelopes. Depending on the intended use, the paper may be required to possess different characteristics, such as strength, feel or attractiveness when printed. The Oji Paper Group supplies a wide range of packaging papers.



### Topics "Greenwrap"—Moisture-proof paper recyclable and suitable for a wide range of uses

Until now moisture-sensitive products have generally been wrapped in polyethylene-laminated paper. However, the use of plastics makes the paper unsuitable for recycling. Wax-coated papers can be recycled, but they have other drawbacks, including slipperiness and weakness when folded. These problems were solved with the development of Greenwrap in 1998. Oji Paper is now aggressively marketing this new moisture-proof paper and is using it for all of its own products.



Greenwrap

### Strategies Continuing as Japan's leading manufacturer of packaging papers

Oji Paper is Japan's leading packaging paper manufacturer, with a market share of nearly 30%. The Oji Paper Group aims to defend its position as the market leader in this sector, to expand share, and to increase profitability through measures to enhance production efficiency and strengthen selling power.



Kure Mill's No. 1 machine

### Facilities Kure Mill—Highly functional coastal paper mill boasts high competitive advantage

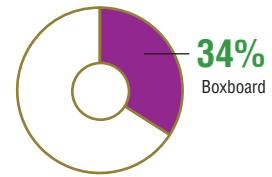
The powerful combination of a seaside location and multiple facilities upgrades has given the Kure Mill a tremendous competitive advantage. The mill has constructed a fully integrated, pulp-to-processing production system and mainly produces packaging papers, including kraft paper, and high-quality printing paper. The woodchips used as raw material are unloaded at a dedicated pier next to the plant, leading to efficient production and cost savings.



# Boxboard

Even for packaging and cushioning materials, the use of environment-friendly paper materials is on the rise. Fuji Mill, which has the world's largest boxboard production machine, is Oji Paper's main plant for producing boxboard, with a daily capacity of 650 tonnes and a top speed of 800 meters per minute. Oji Paper supplies about 30% of all boxboard in Japan, occupying the top market share.

Oji Paper Group's  
Market Share in Japan



## Products Introduction of leading-edge machine boosts productivity

Strengthening price competitiveness is a recent imperative in the boxboard business. For that reason, the Oji Paper Group is actively promoting efficient production. At Fuji Mill, the world's fastest paper machine, with a boxboard production capacity of 650 tonnes per day and speed of 800 meters per minute, commenced operation. This machine replaces the production of aging paper machines scrapped by the Oji Paper Group. Fuji Mill productivity has soared significantly.



## Topics High-quality boxboard utilizing 100% recycled pulp

Oji Paper recently started selling "S Card Green 100," a high-quality boxboard card with double-sided coating that uses 100% recycled pulp. Made with the world's most advanced boxboard machine, the N-2, this product offers unprecedented quality for printing and processing and has attained the Eco mark certification.



Fuji Mill's N-2 machine

## Strategies Efficient operations at mills with clearly defined specialties nationwide

Containerboard production bases are distributed throughout Japan at mills with clearly defined roles and highly efficient operations. Oji Paper's Fuji Mill and Edogawa Mill supply products manufactured in high volumes on large-scale paper-manufacturing machines for the Tokyo metropolitan area, Japan's largest consuming region. By contrast, Oji Paperboard's Sobue Mill uses multiple paper-manufacturing machines to efficiently produce a wide variety of products. Oji Paperboard's Oita Mill produces products for its surrounding regions, and the Yonago Mill specializes in products of the highest grade.

## Facilities Edogawa Mill—Boxboard from recycled paper in metropolitan areas

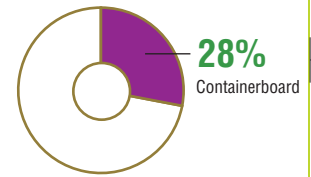
Edogawa Mill produces high-quality boxboard from paper recovered in cities by the Tokyo branch of Oji-Saito Recycling Resources. Some of its output is made into boxes at Oji Packaging's Tokyo branch, which is next door—integrating organization from used-paper recovery to products.



Recycled paper yard at Edogawa Mill

**Corrugated containers account for one-quarter of the Japanese market for packaging materials. The basic material used for these corrugated containers is containerboard. Oji Paper's four containerboard-producing companies' sales divisions merged to form Oji Paperboard. In 2002, the companies' paper manufacturing divisions also merged to form an integrated production-sales organization.**

Oji Paper Group's  
Market Share in Japan



## Products Functional, attractive containerboard

Corrugated board is made from liners, which make up the outer surfaces, and fluting material, which is sandwiched between the liner layers. Because the printing on corrugated containers acts as advertisements, the Oji Paper Group offers a wide range of liners that combine strength with excellent printing characteristics.



## Topics Integrating production and sales, with Oji Paperboard as the hub

In recent years, Oji Paper has restructured its containerboard business. In 2002, three companies—Takasaki-Sanko, Chuo Paperboard and Hokuyo Paper—were merged with Oji Paperboard. At the same time, Oji Paper's four containerboard mills were spun off into Oji Paperboard to form a complete, integrated production-sales organization. Oji Paperboard has emerged as a leading containerboard producer.



Kushiro Mill's L-1 machine

## Strategies Finding an appropriate operating level by curtailing capacity

Profitability is hurt by low utilization caused by weak domestic demand. With restructuring of operations around Oji Paperboard, the Oji Paper Group halted or suspended operation of containerboard production at three mills in Japan. This move reduced containerboard production by about 10%, or 3.1 million tonnes, reaching the targeted operating level.

## Facilities The Oji Paperboard Oita Mill—Producing diversified containerboard for use in a wide range of applications

Oita Mill mainly produces liners for outer surfaces of corrugated containers. In fiscal 2002, it increased the usage of recycled paper and closed the kraft pulp (KP) plant. This move reduced costs significantly. From 2004, we believe all energy needs can be met by refuse-derived fuel.



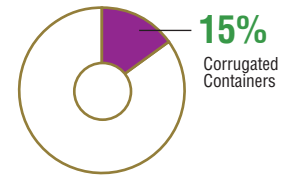
Oita Mill's No. 1 machine

# Corrugated Containers

OJI PAPER  
PACKAGING SYSTEM  
slotted container  
Pulp mold

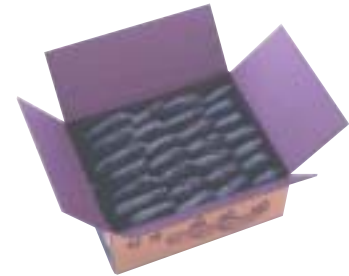
Corrugated containers play an important role in transportation by protecting goods and keeping them together. Served by an integrated network throughout Japan, the Oji Paper Group, including associated companies, swiftly and flexibly meets customers' needs in the field of corrugated containers, from the raw materials development stage through the planning, design and processing stages.

Oji Paper Group's  
Market Share in Japan



## Products Using advanced technology to produce complex shapes and forms

The Oji Paper Group produces many specialized corrugated container-board products, including varieties with water resistance. The corrugated containers which we see in use on a daily basis are paper products made from liners which make up the outer surfaces, and fluting material which is sandwiched between the liner layers to provide increased strength and shock-absorbing properties. In recent years, the demand for surface beauty has risen. The Oji Paper Group supports the use of advanced technology to develop colorful printing capability to meet with this demand.



DPC—Vapor-proof, recyclable corrugated container

## Topics "Saruchu"—The case with insecticide properties to protect merchandise from insects

Merchandise often incurs damage from harmful insects during transport and storage. Because corrugated containers are used directly for transporting and storing merchandise, Oji Paper came up with the idea of incorporating an insecticide function inside the containerboard. As a result, we developed the "Saruchu" corrugated container with insecticide properties and began marketing it in 2002.



"Saruchu"—Insect-proof, corrugated container

## Strategies Establishing Oji Container to improve management efficiency

As corrugated containers are used for goods transport, it is necessary to have a network of facilities to serve areas of demand, as well for integrated management efficiency. To meet both of these needs, the Oji Paper Group is restructuring the corrugated container division under the management of Oji Container Co., Ltd.

## Facilities Merging group companies into Oji Container

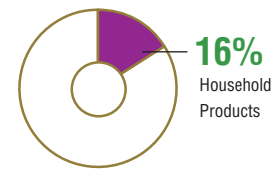
In 2001, the corrugated container division of Oji Paper's packaging company and seven corrugated container subsidiaries became Oji Container. Two corrugated container companies in Shizuoka Prefecture also merged to form Shizuoka Oji Container in an ongoing effort to improve efficiency.



Oji Container's Nagano Mill

**Nepia was Japan's first domestic facial tissue brand, and Hoxy is Japan's leading recycled-paper toilet roll brand. Now, these powerful brands have been merged to form Oji Nepia. The Oji Paper Group, taking advantage of the strengths of each brand, flexibly uses four domestic mills, and provides a stable supply of high-quality, and safe household products that meet the needs of customers.**

Oji Paper Group's  
Market Share in Japan



**Products A wide range of household products bearing two major brands:  
Nepia and Hoxy**

The Oji Paper Group markets high-value-added products under the Nepia brand: these products include compact, high-quality and moist tissues, toilet rolls, kitchen towels, and paper diapers for infants and adults. Under the Hoxy brand, the Oji Paper Group mainly offers environment-friendly toilet rolls made of 100% recycled paper.



Doremi—Paper diapers for children

**Nepia The innovative brand—The first facial tissues made using Japanese technology**

Nepia was born in 1971 as Japan's first domestic facial tissue brand. Since that time, the Oji Paper Group has never lost that pioneering spirit: in developing Japan's facial tissue industry, we have introduced one innovative new product after another. Recently, we launched a number of products that have made a great impact on the market: for instance, five-box packs of slim boxes of facial tissue that hold more tissue than a traditional tissue box, "Funwari Slim" tissues that are sheer yet feel softer to the skin, moist tissues for hay fever sufferers, and flushable tissues.



Nepia—Funwari Slim

**Hoxy The highly familiar, market-leading brand of toilet rolls made from recycled paper**

The Hoxy brand has its roots in the early decades of the 20th century and has long been a symbol of household products closely related to the lives of the Japanese people. In recent years, Hoxy has earned the reputation of being the first major brand of toilet rolls made from environment-friendly recycled paper and has become the production volume leader in Japan. Environmental protection does not stop with the product itself; we pursue environmental protection in many ways, including conversion of the packaging used at the time of shipment to paper-saving kraft paper.



Hoxy—Filmless box

**Topics New Nepia toilet rolls are gentler than ever**

Nepia toilet rolls were reformulated in April 2003 to be softer and gentler than ever. What customers are most particular about when buying toilet rolls is the softness of the paper. Nepia has responded to these needs with advanced technological capabilities developed over the years. Applying the new SMS production method used for “Nepia Funwari Slim” facial tissues, we have achieved a soft, gentle feel by using more of the “slim pulp” used in facial tissue. Concurrent with the product reformulation, the Nepia toilet roll package has been revised to project a new image.



Nepia Toilet Roll

**Strategies Differentiation from competitors through increased product power**

Price competition for boxed tissues and toilet rolls has been intense, and the business has been only marginally profitable for manufacturers. To achieve a competitive breakthrough, in recent years the Oji Paper Group has devoted efforts to increasing the product power of our household products. We have distanced ourselves from lock-step price competition and succeeded in shifting to a profitable business structure, scoring hits with “Funwari Tissue” and other products that emphasize high quality.



Oji Paper Nepia (Suzhou)

**Strategies Acquisition of a P&G mill opens the way for full-scale household product operations in China**

In November 2002, Oji Paper acquired from Procter & Gamble (P&G) a paper mill in Suzhou, China, and launched full-scale household product operations in China. In 2001, we paved the way for full-scale operations by establishing the Nepia Shanghai Office, starting marketing activities, and selling tissue through the trading company route. Consequently, Nepia is widely known in China as a high-quality brand.

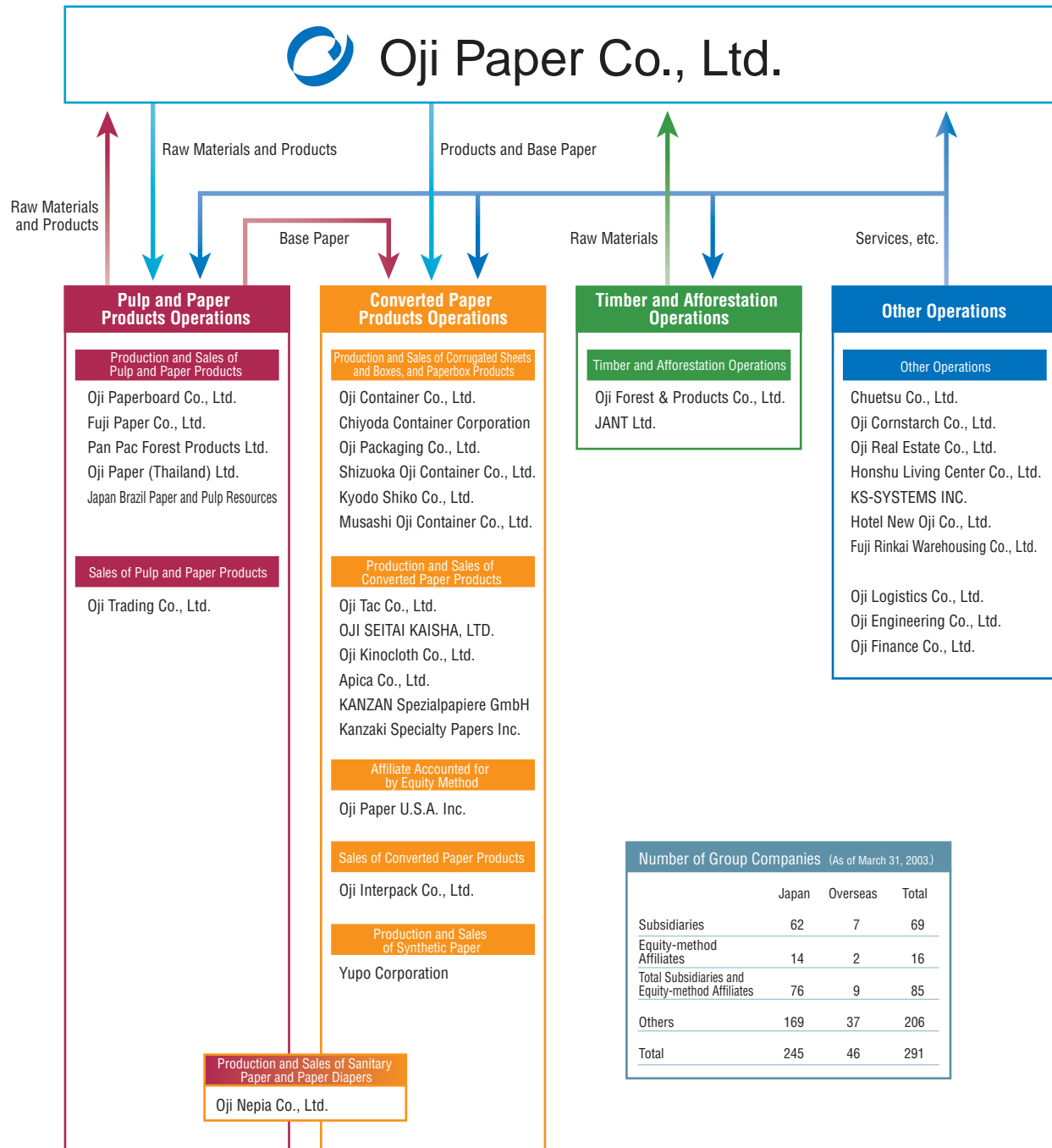


The disposable diaper-manufacturing machine at the Nagoya Mill

**Facilities Nagoya Mill—A highly efficient household products mill combined with publishing and printing paper operations**

Situated on the same site as Oji Paper’s Kasugai Mill, which manufactures publishing and printing papers, Oji Nepia’s Nagoya Mill is a highly efficient production base that procures and uses pulp and energy jointly with its sister plant. This plant features thoroughly sanitary, fully automated lines for every stage of production, from product processing to packaging, for a wide range of household products, including Nepia tissue, toilet rolls, kitchen paper and paper diapers.

Overview of the Oji Paper Group (As of July 1, 2003)



Throughout the history of Oji Paper, the Company has nurtured a number of affiliated group companies. In today's era of group management, it is important that the Group Companies have a synergy effect on each other and mutually increase corporate value. The Oji Paper Group is striving to increase its competitiveness by amalgamating its affiliates and concentrating on core business.

### Increasing the competitiveness of affiliates by integrating companies and new businesses

#### **Oji Forest & Products Co., Ltd. Integrating two companies: Oji Forestry & Landscaping Co., Ltd. and Oji Timber Co., Ltd.**

Oji Forestry & Landscaping Co., Ltd. (which manages forests and carries out afforestation) and Oji Timber Co., Ltd. (which mainly engages in domestic procurement of timber and raw materials) merged on April 1, 2003, and Oji Forest & Products Co., Ltd. was born. Working from the corporate infrastructure of the previous companies, the new company is undertaking streamlining activities with the goal of strengthening the corporation and management and enabling future expansion.

#### **Oji Fiber Co., Ltd. "Fiber," a business born as an offspring of paper**

Oji Paper has been conducting joint research with KS SYSTEMS INC. for three years on a fiber that is derived from paper, "OJO+." As a result of this research, we established Oji Fiber Co., Ltd. in October 2002, which handles our fiber-related businesses. "OJO+" is a thread derived from paper made from Manila hemp. The major characteristics of this thread is its lightness, gentleness to the touch and high moisture absorbency. Oji Fiber aims at reaching sales totals of ¥1 billion with this product in five years.

#### **One's World Entering the digital print market**

Accompanying the rapid proliferation of digital cameras, the demand for digital photo print shops is increasing. In response to this, Oji Paper established Digital Print Station/One's World for the purpose of increasing public awareness of premium-quality digital photo systems and to develop a new style of photo shops. Following the opening of a prototype shop in December 2002, it established One's World Co., Ltd. in April 2003 to promote business on a full-scale basis.

### Restructuring aimed at concentrating on core businesses

#### **Oji Service Center Co., Ltd. Transferring store business management**

Oji Service Center Co., Ltd. turned over operation of its five supermarkets in the Tomakomai area in Hokkaido to Maxvalu Hokkaido Co., Ltd. in April 2003, and it merged with Hotel New Oji Co., Ltd. in July 2003.

#### **Chuetsu Co., Ltd. Closing down the Kizu Mill due to aging of facilities**

In March 2003, Chuetsu Co., Ltd. closed down the Kizu Mill, which produced coated papers, etc., for nearly a half century, due to the aging of its production facilities. With this move, Chuetsu Co., Ltd. has left the paper-manufacturing business and is concentrating on the printing business, its major business since its foundation, with the aim of future growth.



### Oji Paper's thoughts and actions on the global environment

Preservation of the global environment is a matter for every citizen, as well as government and industry, to address fully. To learn of Oji Paper's commitment, simply retrace the steps we have taken up until now.

The pulp and paper industry is an excellent model of environmental preservation based on the concept that "the recycling of raw materials can be accomplished by planting trees." Afforestation enhances CO<sub>2</sub> absorption and fixation to combat CO<sub>2</sub> emissions, the main cause of global warming.

Oji Paper has long managed forests on the principle of "planting trees as a renewable resource." Today, Oji Paper owns the largest area of private forest land in Japan. As a member of the Japanese pulp and paper industry, which is praised internationally for paper recycling, Oji Paper has established itself as a leader by aggressively recycling both "forests" and "paper."

To enhance its recycling activities further, the Company laid down the Oji Paper Environmental Charter, whose eight action guidelines focus on "Forest and Paper Recycling," and also specified numerical targets for environmental conservation in the Environmental Action Plan 21. Thus, since its founding, Oji Paper has advanced conservation of the global environment with every forward step.

### "Forest Recycling"

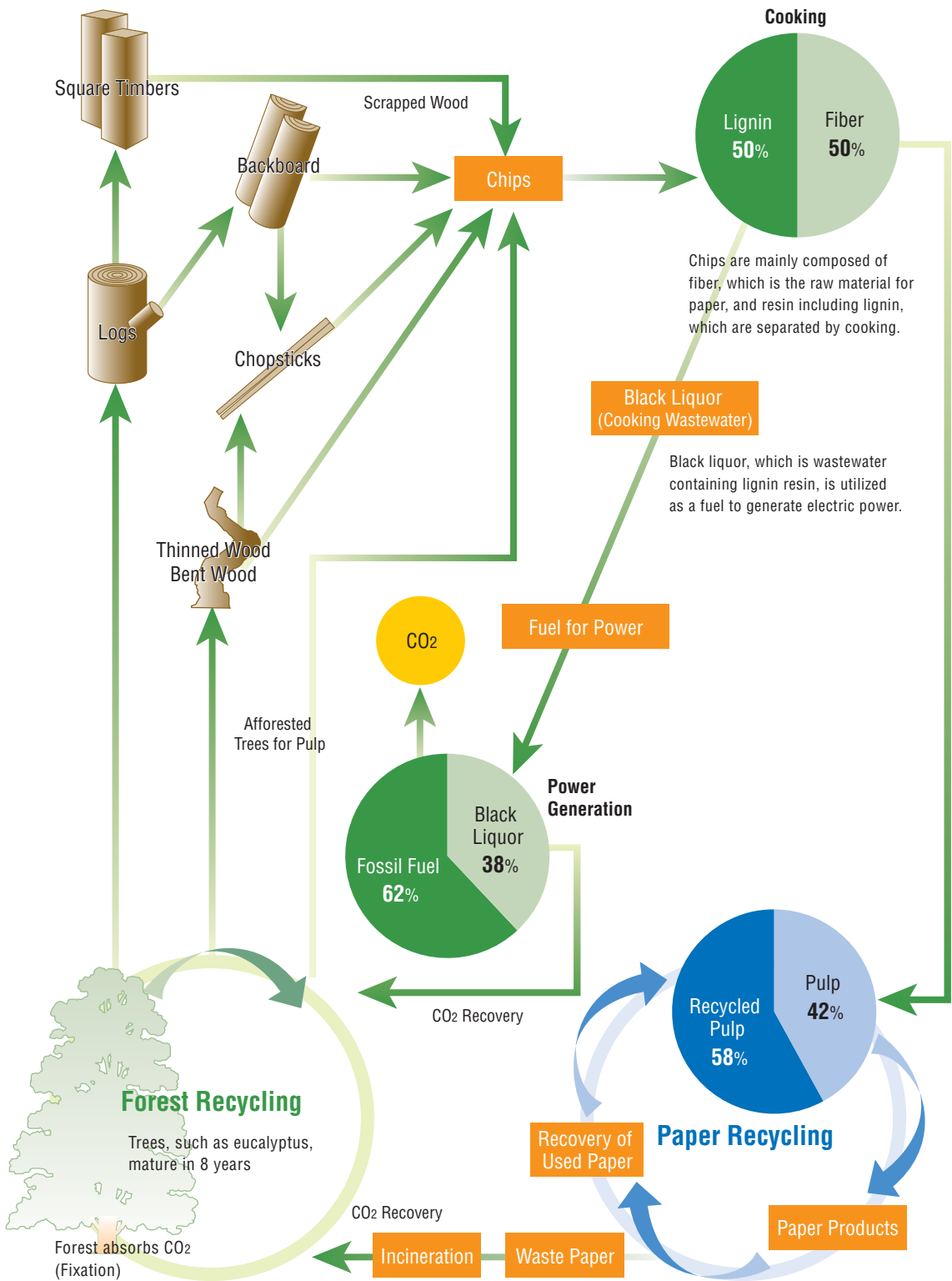
Oji Paper has made "Forest Recycling" one of the pillars of its environmental protection policy. We plant trees and grow them to produce the raw materials for pulp and paper; then we plant new trees to replace those harvested. By continuously repeating this cycle, we conserve forestry resources and contribute to combating global warming along the way.

Today we own approximately 190,000 hectares of forest plantation area in Japan. In addition, at the end of fiscal 2002, we had planted approximately 140,000 hectares of forest overseas. We plan to expand the overseas plantation area to 200,000 hectares by 2010.

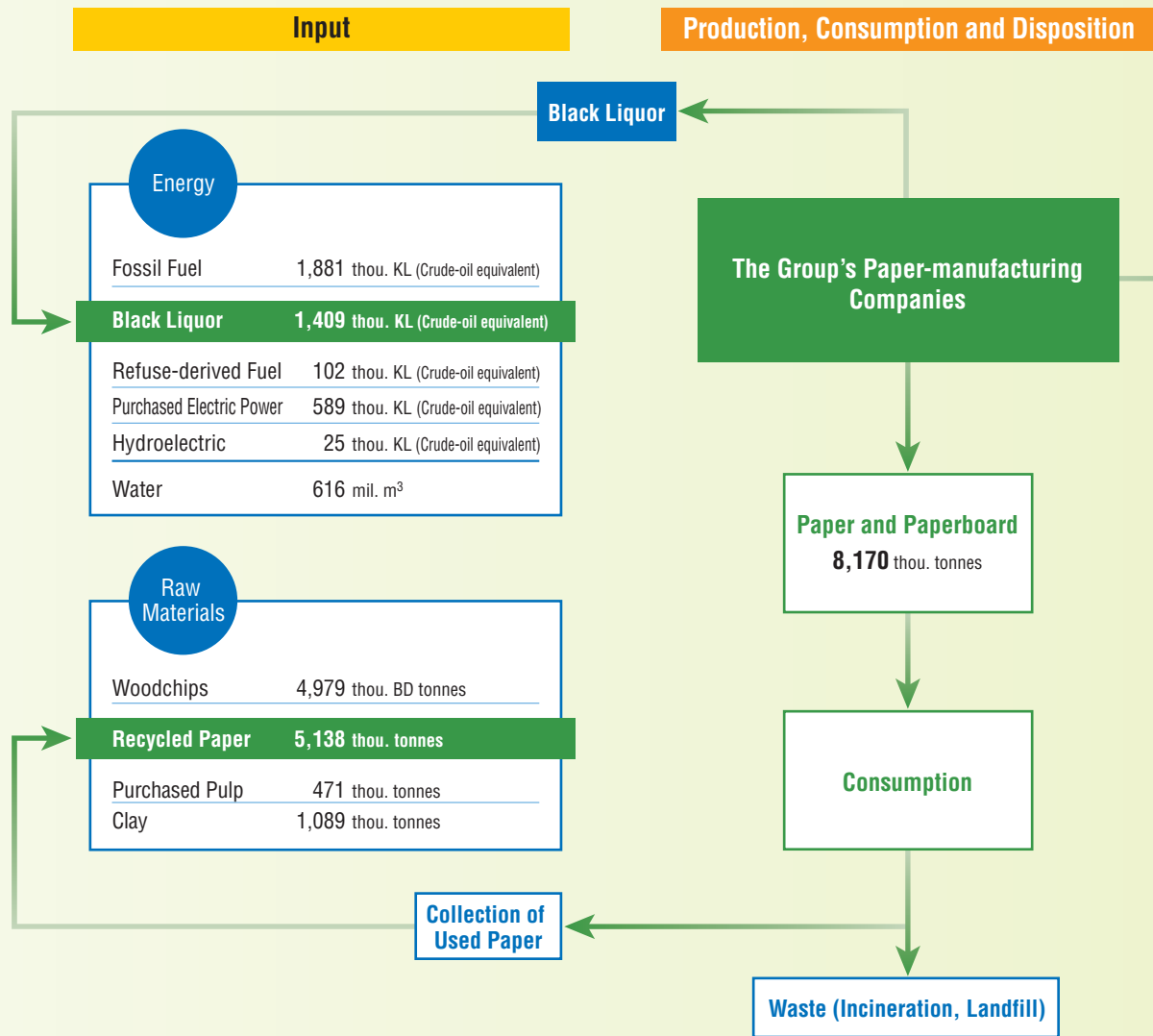
### "Paper Recycling"

Japan is among the most advanced nations in paper recycling. Roughly 58% of raw materials for paper products in Japan are now made from recycled paper. Oji Paper aggressively promotes "Paper Recycling" by collecting used paper and recycling it as the raw material for paper products. As of 2002, our ratio of recycled paper usage for paper and paperboard products was 60.3%, which is higher than the national average.





Domestic paper-manufacturing companies (4 companies and 31 mills) in the Group consume and dispose of major natural resources as shown below. Paper and paperboard are manufactured by absorbing raw materials and energy. Through the manufacturing process, gas, water and waste are discharged.

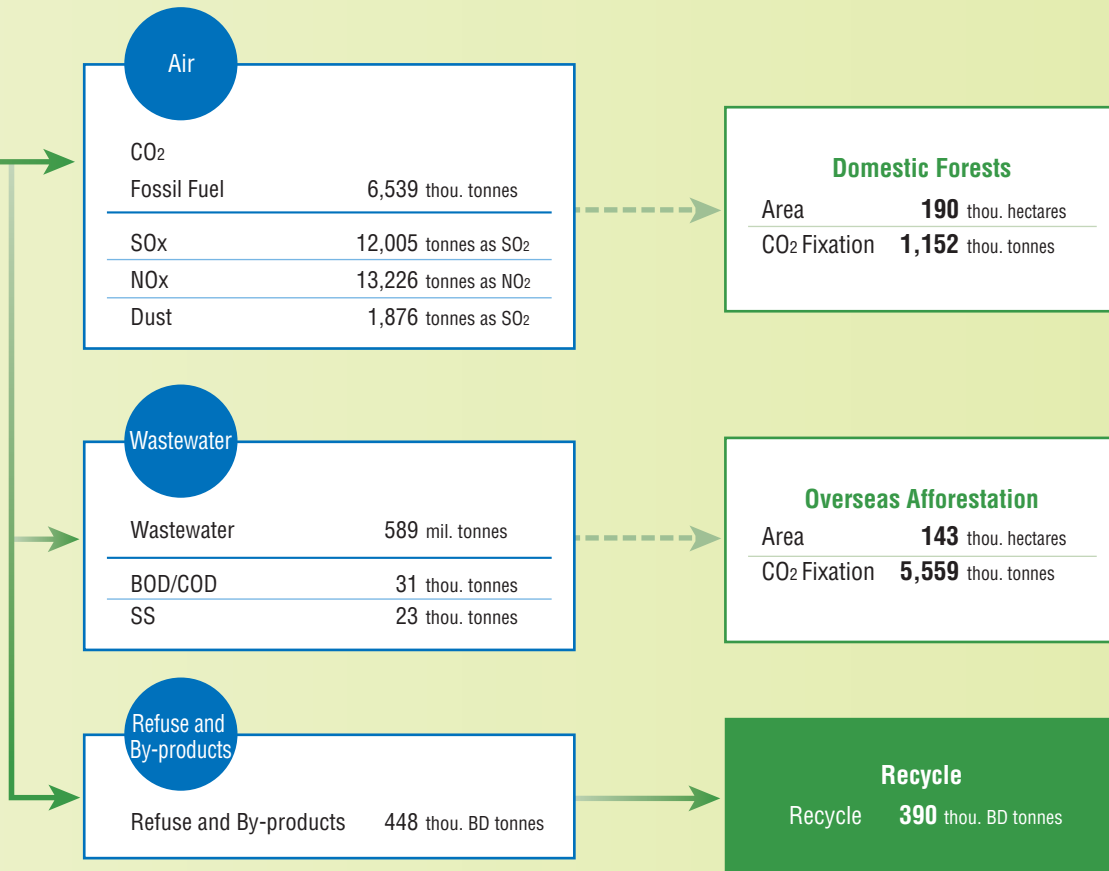


**Input**

It requires a lot of raw materials, energy and water to manufacture paper. An important feature of the paper-manufacturing industry is that shipped products are collected and recycled as a raw material, and black liquor (the wastewater from cooking) is reused as energy. These contribute significant energy to their respective processes.

## Output

## CO<sub>2</sub> Fixation



### Output

Recycling vigorously and reducing landfill waste are important challenges, because the materials industries, including pulp and paper, inevitably create waste. They also consume considerable energy and discharge CO<sub>2</sub>. To combat these challenges, the Group has been planting trees abroad and maintaining forests in Japan to absorb and fix CO<sub>2</sub>, as well as save energy.

Since its foundation, the Oji Paper Group has been planting trees in Japan and pursuing afforestation activities overseas to save natural resources, and at the same time, procure raw materials. And now, under “Forest Recycling,” as one of our action guidelines, we pursue forward-looking forest management to maintain a recycling-oriented industry.

**Forest Holdings** Forests contribute to prevention of global warming

Oji Paper Group’s forests in Japan cover 190,000 hectares. Oji Paper Group will use Japanese timber for purposes with higher added value than pulp production, such as construction, and many years will pass before the trees are all sufficiently mature. In the meantime, the forests will contribute to public environmental functions, including prevention of global warming through absorption and fixation of CO<sub>2</sub>, and are providing habitats for various wildlife.



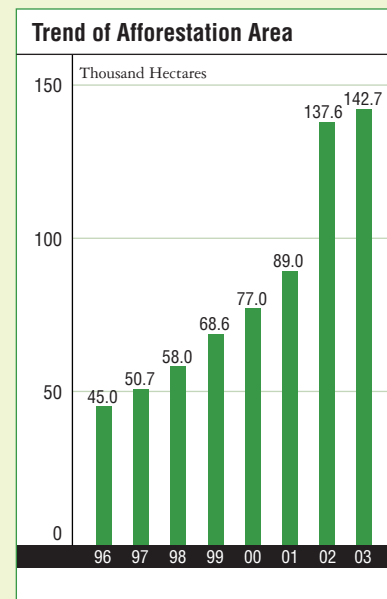
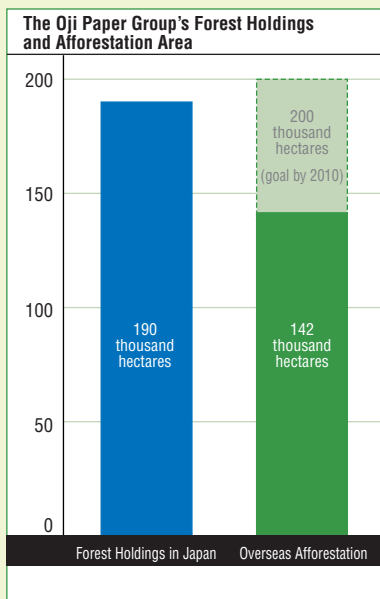
Japan's Niseko Forest

**Overseas Afforestation Activities** Import wood chips from forest-planting areas

The Oji Paper Group manages 10 forest plantations in six countries. In 2002, we imported 270,000 BD tonnes of woodchips from JANT in Papua New Guinea, Pan Pac in New Zealand, Plantation Forest Company of Australia (APFL) and QPFL in Vietnam. We plan to increase overseas forest-planting areas to 200,000 hectares by 2010. When this plan is completed, the forests will supply 1,700,000 BD tonnes annually, about one-third of Oji Paper Group’s need for woodchips.



Pan Pac, in New Zealand



The Oji Paper Group has been producing and selling pulp and papers, such as newsprint and printing paper, in North and South America, Europe and Asia, as it seeks to be internationally competitive. Now, the Oji Paper Group has grown to become an influential paper-manufacturing company throughout the world, a fact which underscores our drive not only to be Japan's top paper-manufacturing company, but also a world leader.

**Overseas Procurement of Raw Materials**

In an age when most of the raw material for manufactured paper is recycled paper, Oji Paper consumes most of the Oji Paper Group's woodchips to produce high-grade paper. Oji Paper used 4,940,000 tonnes of woodchips, 70% from overseas, in fiscal year 2002. Only 20% of the woodchips were natural wood, as most of them were from thinned trees.

**CENIBRA A Brazilian pulp producer using plantation lumber**

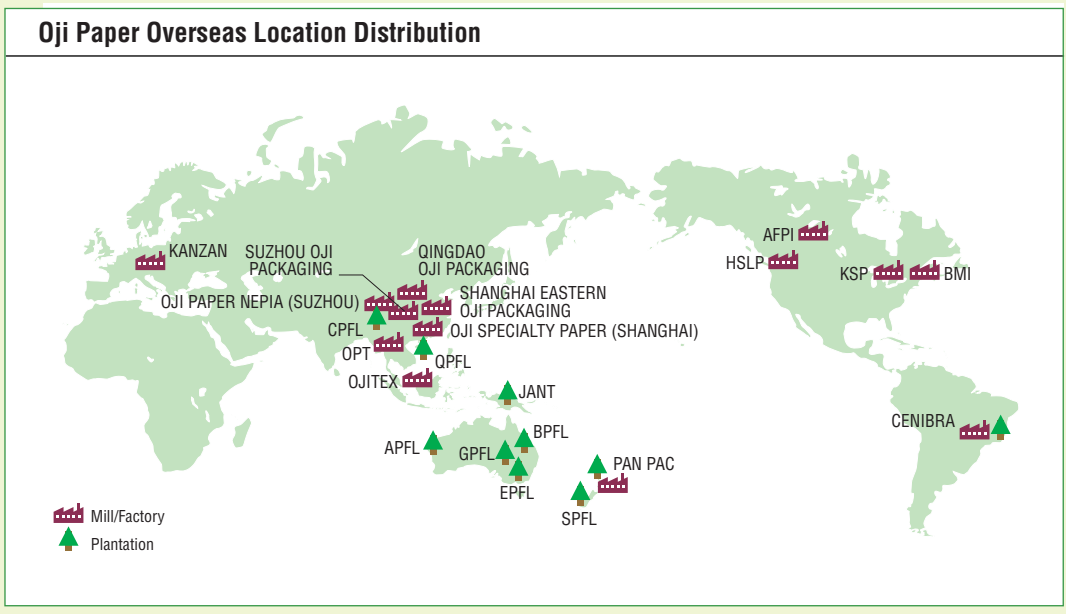
Celulose Nipo-Brazileira S.A. (CENIBRA) is involved in production and sales of pulp and is a wholly owned subsidiary of Japan Brazil Paper and Pulp Resources Development Co., Ltd. (JBP), in which the Oji Paper Group made a 39.8% investment. CENIBRA uses plantation lumber for most of the woodchips, which matches the concept of "Forest Recycling" and contributes to strengthening our pulp procurement capabilities.



CENIBRA, in Brazil



CENIBRA's pulp manufacturing facility



## Paper Conversion

The Oji Paper Group's extensive progress in paper conversion, raw material procurement and production has made it the world's leader in thermal paper sales, with a global and domestic reputation for overall quality.

### Thermal Paper Operations Share growth with four-part global operations

Holding the world's top market share in thermal paper (25%), the Oji Paper Group has an extensive network supported by four operating companies: Oji Paper in Japan, Kanzaki Specialty Papers (KSP) in North America, KANZAN Spezialpapiere in Europe and Oji Specialty Paper (Shanghai) in China. Highly competitive thermal paper promises to increase group profits. The Oji Paper Group is utilizing its global network for market-share expansion.

#### Thermal Paper Conversion Companies

Oji Paper
Kanzaki Specialty Papers
KANZAN Spezialpapiere
Oji Specialty Paper (Shanghai)

### Packaging Paper Operations Dynamic expansion in China and Vietnam

Oji Paper has rapidly expanded its packaging paper and corrugated container business in Asia since the second half of the 1990s. In 1995, it established Shanghai Eastern Oji Packaging to manufacture and sell packaging papers for the Chinese market, which was affected at the time by a serious shortage of small paper bags for flour, salt and other commodities. Oji Paper has also expanded its corrugated container business in China in step with the growing presence of Japanese businesses in China. In 1997, it established Qingdao Oji Packaging, which specializes mainly in the manufacture of corrugated containers for use in the food industry. Suzhou Oji Packaging, which was established in 2002, supplies corrugated containers for use with heavy products, such as machinery. With the creation of OJITEX (Vietnam) in 1998, Oji Paper became the first Japanese company to establish a corrugated container operation in Vietnam.

#### Packaging Paper Conversion Companies

Oji Interpack
OJITEX (Vietnam)
Shanghai Eastern Oji Packaging
Qingdao Oji Packaging
Suzhou Oji Packaging

### Other Operations Nepia Products in China, Carbonless Papers in Thailand

We began selling Nepia tissues in China in 2001. Growth has been faster than planned as Nepia earned an image of high quality. In 2002, we bought the P&G Suzhou Plant as a base for local production. Technologies and expertise from Japan will continue the growth of Nepia as a high-quality brand.

Since its launch in 1996, Oji Paper (Thailand) has earned a growing reputation as a producer of quality carbonless papers, and it has started to sell its products in neighboring countries.

#### Other Conversion Companies

Oji Paper (Thailand)
Oji Paper Nepia (Suzhou)

## New Investment

The Oji Paper Group is accelerating business penetration to China and Southeast Asia, aiming to become an “Asian corporate citizen domiciled in Japan.” Engagement in business in Asia has finally gained momentum with the announcement of our plan to establish a paper-manufacturing mill in Nantong City, Jiangsu Province, in China in June 2003.

### Chinese Project One of the largest investments in China for a Japanese company

China has been growing at unprecedented speed, 7% annually. The world sees China not only as a production site, but also as a sales market. The pulp and paper industry is no exception. The world’s leading pulp and paper manufacturers have approached the Chinese market rapidly. The Oji Paper Group has decided to obtain an industrial site of 2,000,000 m<sup>2</sup> in the Nantong Economic & Technological Development Area in Nantong City, Jiangsu Province. A mill capable of fully integrated production, from pulp to paper, with an uncoated and coated paper production capacity of 1,200,000 tonnes annually, will be built on the site. The manufactured products will be marketed in China where the demand-and-supply balance will probably worsen.

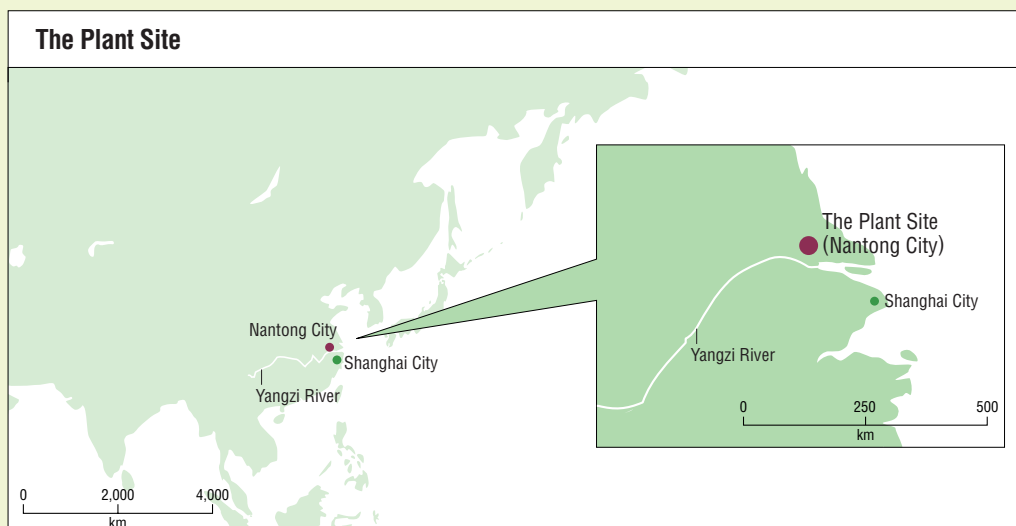
Phase One of the project involves establishing a mill capable of 600,000 tonnes of coated paper production by the end of 2006. Total investment will reach ¥200 billion, including the Phase One investment of ¥60 billion. The investment will be one of the largest investments for a Japanese company in China.



Meeting with the Vice Governor of Jiangsu Province (June 10, 2003)



Projected plant site (Nantong City, Jiangsu Province)





### Research and Development Framework

The Oji Paper Group's research activities are comprised of the R & D Laboratories Headquarters, the Forestry Research Institute, the R & D Management Department and the Intellectual Property Department, and they fall under the main responsibility of the Research and Development Division. The R & D Laboratories Headquarters consists of four laboratories and one center: the Pulp and Paper Research Laboratory develops core pulp and paper technologies, new cost-reduction measures and new products; the Advanced Technology Research Laboratory develops new materials, technologies and systems, and promotes biotechnology applications for communications and specialty paper fields; the Imaging Media Development Laboratory develops new products for the rapidly advancing high-speed information age; and the Specialty Papers Development Laboratory develops cross-category new products and materials. The Material Analysis Center is involved in analysis and development of valuation technologies and analytical support for all laboratories, mills and group companies as a whole. The laboratories belonging to the R & D Laboratories Headquarters, Material Analysis Center and Intellectual Property Department are consolidated in the Shinonome and Amagasaki Research Centers, allowing for a flexible organizational structure for each research and development topic. The Forestry Research Institute specializes in promoting efficiency of afforestation abroad.

In addition, each mill has its own Research Technology Division and Research Technology Lab, and is involved in improvement of product quality and development of new products relating to existing products.

### Topics First in the world to succeed in analysis of the eucalyptus genome

Oji Paper's Forest Research Institute succeeded in genetic analysis of DNA taken from eucalyptus for the first time. Eucalyptus grows so fast that it can be cut eight years after planting and is the most frequently used plant in our overseas afforestation projects. Oji Paper has already been exploring the possibilities of "eucalyptus for dry stress resistance" or "new technologies for cloning eucalyptus cuttings." Our success in analyzing the eucalyptus genome is expected to remarkably increase the efficiency of development of new product types and greatly improve the productivity of plantation projects.

### Topics Development of Thermal Film for Medical Diagnosis

The Oji Paper Group's Imaging Media Development Laboratory has combined thermal recording and precision coating technologies to develop a transparent thermal film for use with Sony Corporation's 14 x 17 inch Medical Diagnosis Image Printer. This method, on top of resolving some of the problems encountered with conventional silver salt film systems, such as developing fluid maintenance and disposal, is also low cost and compact in design. It is expected to become a high-demand item as hospital equipment.



As the leading corporate group in the Japanese pulp and paper industry, the Oji Paper Group actively supports a variety of cultural activities and amateur sports as a way of contributing to society and enhancing the quality of life. The Oji Paper Group has earned an excellent public reputation through its efforts to share the benefits of its long involvement in forest protection and development.

### Philanthropic Activities

#### Oji's Forests

Oji Paper provides public access to some of its forest holdings in Japan. They provide people with an opportunity to enjoy and treasure the beauty of forests. Three public access areas have been established in Hokkaido. One of them, the Kuriyama area, has a barrier-free track for disabled visitors.



Oji Paper Forest Museum

#### Oji Paper Forest Museum

The museum, which is located in Kuriyama, Hokkaido, was opened in 2000, using the site of a former forest research center. Visitors can learn about Oji Paper's efforts over many years to develop forest planting methods, environmental technology and improved tree varieties. Living samples of this work are displayed over a 27-hectare field.

#### Oji Hall

This popular concert hall is located in Oji Paper's head office building in Tokyo's Ginza district. Its compact size and excellent acoustics make it the ideal venue for a variety of community events, such as school music competitions.



Oji Hall

#### Sponsored Attraction at Universal Studios Japan™

Under a partnership agreement with Universal Studios Japan™, Oji Paper is the sole sponsor of the "Animation Celebration®" attraction. It also supplies household products, printing papers, boxboard and other materials to Universal Studios Japan™ and recycles these materials.

Animation Celebration®, Universal Studios Universal Studios Japan™, Universal Studios

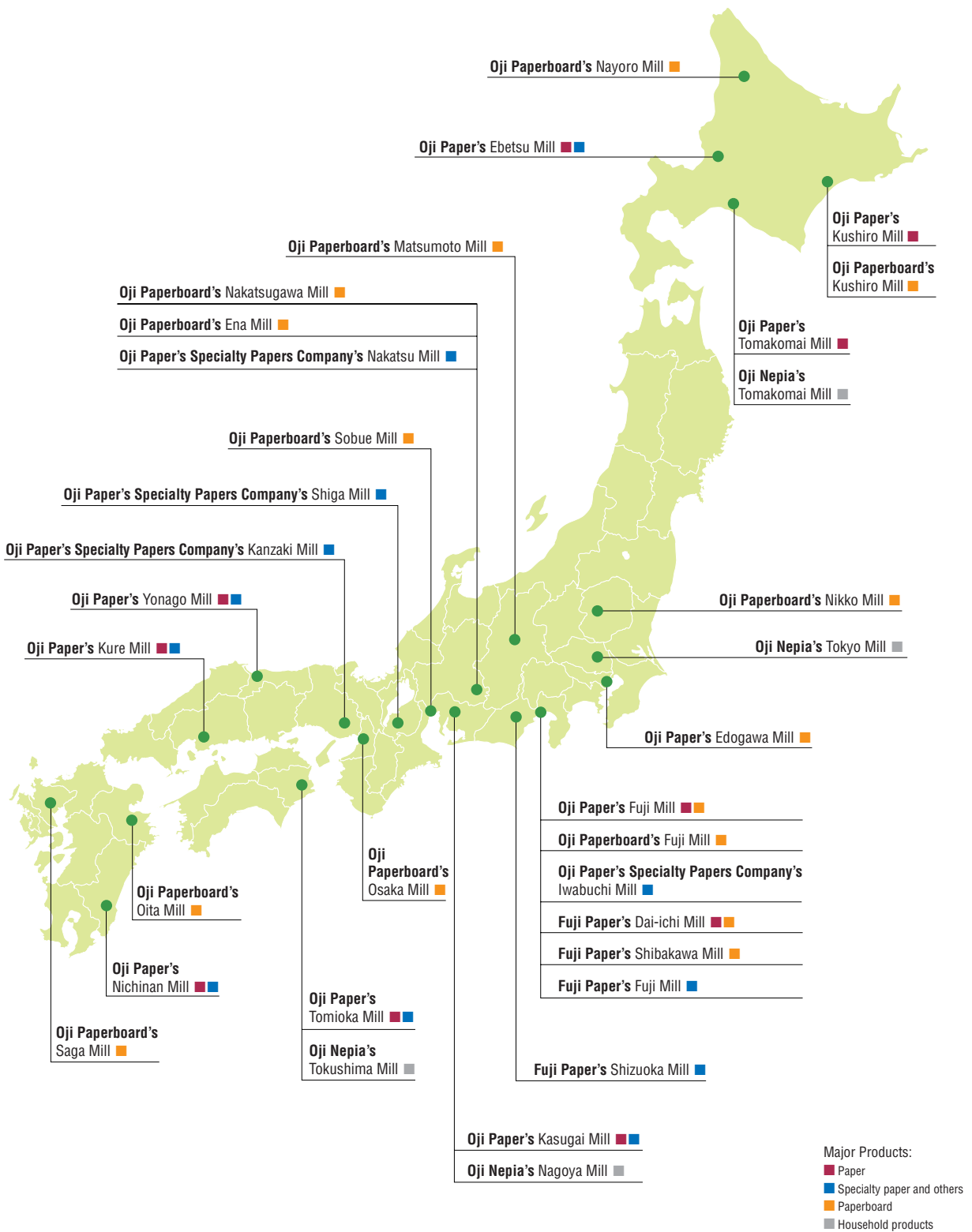
### Sports Programs

#### Ice Hockey and Baseball

Oji Paper is a strong supporter of amateur sports. Its highly successful ice hockey team has won the All-Japan Championship 31 times and the Japan League Championship 13 times. As for baseball, our team is a regular competitor in inter-city tournaments. Many professional baseball players got their start on our team.



Ice Hockey club



## Corporate Data

<b>Company Name</b>	Oji Paper Co., Ltd.
<b>Headquarters</b>	Ginza 4-7-5, Chuo-ku, Tokyo, JAPAN 104-0061 Phone: 03-3563-1111 Fax: 03-3563-1135
<b>Founded</b>	February 12, 1873
<b>Established</b>	August 1, 1949
<b>Paid-in Capital</b>	¥103,880 billion (March 2003)
<b>Number of Employees</b>	20,719 (March 2003, consolidated)
<b>Major Business Lines</b>	Production, conversion/processing and sales of printing, writing and related papers; packaging and wrapping papers; carbonless papers; household products; containerboard and boxboard. Production and sales of end-use products such as corrugated board and boxboard containers; paperboard containers; plastics; thermal paper; self-adhesive paper and disposable paper diapers. Production and sales of chemicals for paper manufacturing and packaging equipment. Leasing of Company's land and property. Afforestation in Japan and overseas; maintenance of Company-owned forests.



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