The First Medium-Term Business Plan

April 9, 2003

Nippon Unipac Holding

President Takahiko Miyoshi
Contents of presentation

(1) Outline of Medium-Term Business Plan

(2) Medium-Term Business Plan of Key Consolidated Subsidiaries

(3) In Pursuit of Sustainable Profit Growth
Medium-Term Vision
(Managerial targets for FY2004 through 2006*)

(Released on November 28, 2002)

- **Faster**
  - Accelerated rationalization of production facilities
  - Prompt realization of synergy effects from reorganization of business

- **Higher**
  - Consolidated ordinary income:
    - More than ¥100 billion

- **Stronger**
  - To raise productivity by 10% or more
  - Consolidated interest-bearing debt:
    - Under ¥700 billion
### Accelerated Rationalization of Production Facilities

- **Faster**

<table>
<thead>
<tr>
<th>Product</th>
<th>Number of Shutdown Paper Machines</th>
<th>Capacity Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paper</td>
<td>8</td>
<td>(−370,000 t/a.)</td>
</tr>
<tr>
<td>Paperboard</td>
<td>3</td>
<td>(−260,000 t/a.)</td>
</tr>
<tr>
<td>Household tissue</td>
<td>2</td>
<td>(−40,000 t/a.)</td>
</tr>
</tbody>
</table>

**Total 13 paper machines (−670,000 t/a.)**

#### Shutdown Schedule of Paper Machines

<table>
<thead>
<tr>
<th>March 2003</th>
<th>FY2004</th>
<th>FY2005</th>
<th>FY2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 machines</td>
<td>4</td>
<td>5</td>
<td>2</td>
</tr>
</tbody>
</table>

**Capacity Utilization Rate**

- **9.6% (+8%)**
Consolidated ordinary income: ¥100 billion

Sales remain flat

(¥ billion)

FY2002  |  FY2003 est. | FY2004 planned | FY2005 planned | FY2006 planned
--- | --- | --- | --- | ---
28.6  | 38.0  | 54.0  | 81.0  | 100.0

Move ▲ to 100

- Higher

Sales remain flat

Consolidated ordinary income: ¥100 billion
## Factors causing increase/decrease in profit (FY2003 vs 2006)

### (1) Cost reduction

<table>
<thead>
<tr>
<th></th>
<th>Rationalization</th>
<th>Labor</th>
<th>Manufacturing, distribution cost</th>
<th>Material</th>
<th>Interest and others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>¥ billion</strong></td>
<td>14</td>
<td>12</td>
<td>21</td>
<td>7</td>
<td>6</td>
<td>60</td>
</tr>
</tbody>
</table>

### (2) Other factors

<table>
<thead>
<tr>
<th></th>
<th>Product line-up</th>
<th>Material, market price</th>
<th>Depreciation/amortization</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>¥ billion</strong></td>
<td>10</td>
<td>-14</td>
<td>6</td>
<td>2</td>
</tr>
</tbody>
</table>

### Ordinary income change

(FY2003 est.: ¥38 billion  ∆ FY2006 planned: ¥100 billion) 62

- **Discounting of extraordinary losses**  (Reference)
  - Losses from consolidation of facilities and businesses approx. ¥30 billion/ three years
Raise productivity by 10%

(Number of work force)

- Stronger

Rationalization
1,000

Investment for labor-saving, reduction of administrative staff, and others
1,300

Contract workers
23,800
6,900

Regular employees
16,900
15,200

May 31, 2003
March 31, 2006 planned

Including subsidiaries newly consolidated in FY2004

March 31, 2003

0
5,000
10,000
15,000
20,000
25,000

-2,300
-1,500
-1,000
-500
0

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Consolidated interest-bearing debt:
Under ¥700 billion

<table>
<thead>
<tr>
<th></th>
<th>April 2003 est. (Reference)</th>
<th>March 2006 planned</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>¥1,720 billion</td>
<td>¥1,550 billion</td>
<td>¥670 billion</td>
</tr>
<tr>
<td>Balance of interest-bearing debt</td>
<td>¥890 billion</td>
<td>¥670 billion</td>
<td>¥220 billion</td>
</tr>
<tr>
<td>Total shareholders’ equity</td>
<td>¥400 billion</td>
<td>¥470 billion</td>
<td>¥70 billion</td>
</tr>
<tr>
<td>D / E ratio</td>
<td>2.1</td>
<td>1.3</td>
<td>0.8</td>
</tr>
<tr>
<td>Equity ratio</td>
<td>23.3%</td>
<td>30.3%</td>
<td>+7.0%</td>
</tr>
</tbody>
</table>

- Stronger
### Cash flows for three years (FY2004-2006)

#### Inflow
- Ordinary income: ¥ 235 billion
- Depreciation and amortization: ¥ 240 billion

**Total inflow:** ¥ 475 billion

#### Outflow
- Investment: ¥ 185 billion
- Repayment of debt: ¥ 220 billion
- Tax payment: ¥ 40 billion
- Dividends paid, etc. (Consecutive payments of steady dividends): ¥ 30 billion

**Total outflow:** ¥ 475 billion

*Including tax effects leading to the realization of losses*
## Group financial target

<table>
<thead>
<tr>
<th></th>
<th>FY2003 est.</th>
<th>FY2006 planned</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ordinary income</strong></td>
<td>¥38 billion</td>
<td>¥100 billion</td>
</tr>
<tr>
<td>(Ordinary margin on sales)</td>
<td>3.3%</td>
<td>8%</td>
</tr>
<tr>
<td><strong>ROE</strong></td>
<td>0.9%</td>
<td>11%</td>
</tr>
<tr>
<td><strong>ROI</strong></td>
<td>3.9%</td>
<td>9%</td>
</tr>
<tr>
<td><strong>ROA</strong></td>
<td>3.1%</td>
<td>7%</td>
</tr>
<tr>
<td><strong>Net sales</strong></td>
<td>¥1,160 billion</td>
<td>¥1,200 billion</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td>¥48 billion</td>
<td>¥106 billion</td>
</tr>
</tbody>
</table>

(Reference)
## Ordinary income plan of each subsidiary

- Strengthening of profit basis of subsidiaries under the banner of Nippon Unipac Holding

<table>
<thead>
<tr>
<th>Consolidated subsidiary</th>
<th>FY2006 planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nippon Paper Industries Co., Ltd.</td>
<td>70.0</td>
</tr>
<tr>
<td>Nippon Daishowa Paperboard Co., Ltd.¹</td>
<td>9.5</td>
</tr>
<tr>
<td>CRECIA Corporation</td>
<td>4.5</td>
</tr>
<tr>
<td>NIPPON PAPER-PAK CO., LTD.</td>
<td>4.0</td>
</tr>
<tr>
<td>Nippon Paper Chemicals Co., Ltd.</td>
<td>3.0</td>
</tr>
<tr>
<td>Nippon Paper Lumber Co., Ltd.</td>
<td>1.5</td>
</tr>
<tr>
<td>Other consolidated subsidiaries</td>
<td>7.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

¹ Consolidated basis for Nippon Daishowa Paperboard and stand-alone basis for the rest of the companies
Strengthening of managerial system

- Medium-Term Business Plan to be promoted heavily

Strengthening of group governance functions and separation of executive functions

Nippon Unipac Holding

Functions to be strengthened

- Group governance functions
  - Promotion of Medium-Term Business Plan
  - Drafting of growth strategies
  - Management of performance and audit
  - Centralized management of funds
  - Personnel decisions regarding top-ranking executives of each company and treatment of them

New, downsized organization

President

I R

Business Planning Promotion Dept.

(Utilization of staff at Nippon Paper Industries)

Nippon Paper Industries

Nippon Daishowa Paperboard
Contents of presentation

(1) Outline of Medium-Term Business Plan

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(3) In Pursuit of Sustainable Profit Growth
Medium-Term Business Plan of the New “Nippon Paper Industries”

Ordinary income (Ordinary margin on sales)

FY2006 planned ¥70 billion (10%)

Basic policy:
“Realization of synergy effects from the merger and building of foundation for the next step”

1) Accelerated rationalization of production facilities
2) Realization of synergy effects from the merger
3) Strengthening of sales

Speed
Simple
Synergy
Accelerated rationalization of production facilities (1)

- Thorough measures to shift production to cost-competitive mills
  - Maximum utilization of superior mill locations

**Newsprint**
- Promoting concentrated production at low-cost Iwanuma Mill

**Fine paper**
- PPC, including wastepaper stock: Komatsushima Mill – Suzukawa Mill, etc.
- Form paper: Suzukawa Mill – Iwakuni Mill

**Coated paper**
- Fuji Mill, Iwanuma Mill – Iwakuni Mill, Ishinomaki Mill
Accelerated rationalization of production facilities

**Planned shutdown:**

- **September 2003**
  - #2 paper machine, Komatsushima Mill
    - (fine paper 60,000 t/a.)
  - #5 paper machine, Shiraoi Mill
    - (fine paper 47,000 t/a.)
  - #3 paper machine, Fushiki Mill
    - (gravure paper 17,000 t/a.)

- **March and September 2004**
  - Reduction of production capacity by total 130,000 t/a.

- **FY2006**
  - Additional reduction of production capacity by 120,000 t/a.

Cost merit in FY2006

- **¥8 billion**

- **380,000 t/a.**
Realization of synergy effects from the merger (1)

- **Reduction of material cost**
  - Promotion of Group-wide centralized procurement and selection of suppliers

- **Manufacturing cost**
  - Iwanuma Mill: DIP capacity increase
  - Nakoso Mill: Waste power generator
  - Kushiro Mill: Independent Power Production business
  - Variable cost per production:
    - To be reduced by more than 1% a year
  - Energy cost per production:
    - To be reduced by more than 1.5% a year

- **Reduction of distribution cost**
  - Reorganization of logistical structure based on regional blocs (Hokkaido, Tohoku, Chubu, and Nishi-Nippon districts)
  - Utilization of new sales system,
    Elimination of cross transportation

Cost merit in FY2006

- ¥6 billion
- ¥14 billion
- ¥3 billion
Reduction of labor cost
• Reduction of the number of work force: 1,000 (630 regular employees, 370 contract workers)
• Reduction of work force on production side
• Promotion of substantial rationalization of administrative general departments

(Additional plans under consideration)
- Centralized handling of administrative and managerial duties and operations of all nearby mills
  (‘Yufutsu - Asahikawa - Shiraoi,” “Ishinomaki - Iwanuma,” “Suzukawa - Fuji” )
- Rationalization of head office departments
  (Centralizing of administrative departments:
  “Accounting & Budgeting, Treasurer’s,” ‘Personnel,’ and “Information Systems” )

Interest and others
• Reduction of interest-bearing debt
  (Interest ¥2.6 billion )
• Reduction of general administrative costs

Cost merit in FY2006
¥6 billion
¥3.5 billion
Outlook for paper sales

- Coated paper
- Uncoated paper
- Wrapping paper, etc.
- Newsprint
- Business communication paper

FY2003 est.

Domestic paper sales volume to remain at the same level (0%)

FY2006 planned

Annual average growth rate:
- Coated paper: 1.6%
- Uncoated paper: 0.0%
- Wrapping paper, etc.: 0.5%
- Newsprint: 0.5%
- Business communication paper: -2.8%
**Strengthening of sales**

- **Active sales expansion for products with growth potential**
  - AURORA COAT (coated printing paper), ink-jet printing paper, and thermal paper

- **Promotion of differentiation of products**
  - “Pegasus” series, series of low-density paper, and Oper® (waterproof synthetic paper)

- **Development of new products**
  - New low-density paper, and WAVYWAVY™ (paper with extension properties)

- **Strengthening of customer-oriented sales**
  - More effective anticipation of customer needs and strengthening of sales activities based on proposal approach
Medium-Term Business Plan of Nippon Daishowa Paperboard

Ordinary income
(Ordinary margin on sales)

Basic policy:
“Radical innovations in business structure”

Restructuring of overall businesses
- Containerboard business
- Corrugated sheet business

Thorough pursuit of cost reduction

FY2006 planned
¥9.5 billion (5%)

Demands for next three years to remain at the same level
Restructuring of businesses of Nippon Daishowa Paperboard

Restructuring of containerboard business
- Shutdown of Kameari Mill (200,000 t/a.)
  - Reduction in fixed costs and boosting of capacity utilization rate
- Additional reduction of 50,000 t/a. during the period of Medium-Term Business Plan
  Total 250,000 t/a.

Restructuring of corrugated sheet business
- Eight subsidiaries of corrugated sheet business
  To be merged into one company, Nichiita Package Corrugated Case Corporation
  - Implementation of consolidation of production bases
    “780-employee” work force structure (reduction of 240 work force)
- Operating tie-up with Tokan Kogyo Co., Ltd.
  - OEM production for each region
  - Cost reduction of distribution and material procurement

Cost merit in FY2006
¥5.5billion

Operating subsidiaries of Nippon Daishowa Paperboard

- Nippon Daishowa Paperboard Tohoku
- Nippon Daishowa Paperboard Kanto
- Nippon Daishowa Paperboard Ashikaga
- Nippon Daishowa Paperboard Soka
- Nippon Daishowa Paperboard Kanto
- Kameari Mill (Shut down in March 2003)
Thorough pursuit of cost reduction

**Manufacturing cost • Material cost**
- Installation of waste power generator at Nippon Daishowa Paperboard Tohoku (began operation in July 2003)
- Improvement of pulp mixture at Yoshinaga (to DIP and others)
- Reduction of material costs (Centralization of procurement for the entire Group)
- Reduction of consumption of chemicals
- Reduction of distribution cost (Elimination of cross transportation)

**Labor cost**
- Reduction of work force (Sharp reduction of employees at Tohoku and Geibo Mill)

**Interest and others**
- Reduction of interest-bearing debt
- Reduction of general administrative costs
Medium-Term Business Plan of CRECIA (1)

Ordinary income
(Ordinary margin on sales)

Basic policy:
"Augmentation of brand value/
Strengthening of business foundation"

1. Differentiation of products
   by taking advantage of brand value

2. Design of optimal production structure

FY2006 planned

¥4.5 billion
(7%)

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Medium-Term Business Plan of CRECIA (2)

- Differentiation of products by taking advantage of brand value
  - Maximum utilization of brand value of “Kleenex®”
  - Stepped-up development of premium products and wastepaper products

- Design of optimal production structure
  - Shutdown of two paper machines (by FY2005) (Reduction of capacity: approx. 40,000 t/a.)
  - Introduction of a division-based organizational structure and stronger control over business results
  - Reduction of labor cost (reduction of 100 work force)
Medium-Term Business Plan of NIPPON PAPER-PAK CO., LTD.

- Sales promotion of Fuji system (aseptic filling)
- Establishment of a “1,000-employee” workforce structure (Reduction of 200 workforce)
- Shutdown of Hasuda Packaging Co., Ltd. (in the first half of FY2004)
- Making inroad into new business, new product development

Ordinary Income (Ordinary margin on sales)
FY2006 planned
¥4.0 billion (8%)

Ordinary Income
Ordinary margin on sales
FY2006 planned
¥4.0 billion
(8%)

Fuji system products of NIPPON PAPER-PAK

NP Film Industries
ISHIOKA KAKO
EGAWA PAPER-PAK
SOKA PAPER-PAK
MIKI PAPER-PAK
Hasuda Packaging
Medium-Term Business Plans of Nippon Paper Chemicals and Nippon Paper Lumber

**Nippon Paper Chemicals Co., Ltd.**

- **Plan**
  - Sales expansion for ecological and growth products
  - New businesses (resources, environment, health)
  - Cost reduction in DP and lignin businesses

**Nippon Paper Lumber Co., Ltd.**

- **Plan**
  - Better arrangement of logistical bases
  - Sales promotion of lumber products (for DIY use)
  - Making inroads into resource-recycling business

Ordinary Income
(Ordinary margin on sales)
FY2006 planned

**Nippon Paper Chemicals Co., Ltd.**

- ¥3.0 billion
  - (12%)

**Nippon Paper Lumber Co., Ltd.**

- ¥1.5 billion
  - (2%)
Factors causing increase/decrease in ordinary income of Nippon Unipac Holding Group (FY2003 vs 2006)

- Ordinary income improvement
  +¥62 billion
  - FY2003 est. ¥38 billion
  - FY2006 planned ¥100 billion

- Manufacturing cost
- Distribution cost
- Labor cost
- Material cost
- Product line-up
- Depreciation and amortization
- Interest and others

Rationalization

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Strengthening of R&D capabilities

- Source of competitiveness in a low-growth, global environment

**Strengthening of product development capabilities and development of products for diversified businesses**
- Application of low-density printing paper technology and development of new products in the ink-jet paper field
- New-product development at NIPPON PAPER-PAK and CRECIA

**Improvement of practical cost-cutting technologies**
- Improvement and development of technologies supporting in-house manufacturing of filler
- Development of neutralized newsprint

**Establishment of raw material technologies**
- Cloning and afforestation of Eucalyptus elite trees
Stable supply to be ensured for raw materials
- Global cost advantage

Japan
- Superior procurement of wastepaper materials
- Active utilization of waste-based fuels

Canada (DMI)
- Peace River Pulp Mill
  - NBKP: 100,000 ADT/a.
  - LBKP: 350,000 ADT/a.
- Cariboo Pulp & Paper
  - NBKP: 170,000 ADT/a.

Indonesia
(P.T TEL)
- LBKP: 430,000 ADT/a.

Australia
- 59,000 ha (Eucalyptus)
- Commencement of export in 2006

Chile
- 13,500 ha (Eucalyptus)
- 170,000 BDT/a. in 2003

South Africa
- 4,200 ha (Acacia, etc.)
- 30,000-50,000 BDT/a.
- In the process of exporting lumber on a full-fledged basis
Overseas paper and paperboard production

- Strategies for each area

**Europe**

- Strengthening new product development and making inroads into new markets
  - Promotion of thermal paper business in Europe (JTOY)
  - Expansion of business of technology-leading products (business communication paper, etc.)

**North America**

- Synergy-effects investigation of Port Angels and NORPAC

**Asia**

- Foundation-building in preparation for market expansion and future business development
  - Expansion of local sales capabilities and strengthening of information-gathering structure
  - Expanding paperboard business around Shanghai

Overseas production bases
Medium-Term Business Plan (FY2004 ~ 2006)

- **“Move to the next stage”**
- Ordinary Income (¥ billion)
  - Acceleration of cost reductions and moving forward the target date
  - Growth based on low risk and high return

- Taking off for consistent growth
  - Implementation of scrap-and-build
  - Full-fledged entry into overseas markets (Including M&A and business partnerships)

- Toward a Business Group with Ultimate Quality
  - FY2007

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