

# FY2004 Financial Review

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*NIPPON UNIPAC*

May 26, 2004

NIPPON UNIPAC HOLDING

## **I. FY2004 Review** (April 1, 2003 — March 31, 2004)

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- (1) Overview
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- (3) Analysis of profit and loss
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Paper industry

Domestic shipment of paper and paperboard  
 FY2004 (April 2003 — March 2004)

	Shipment (1,000 tons)	% change from FY2003
Newsprint	3,348	1.0%
Uncoated printing paper	2,614	-2.1%
Coated printing paper ※	5,961	-1.0%
Business communication paper	1,632	-0.3%
Other papers (Packaging paper, sanitary paper, and paper for miscellaneous uses)	3,933	-2.2%
Paper total	17,488	-1.0%
Paperboard total	11,888	0.3%
Paper and Paperboard total	29,376	-0.5%

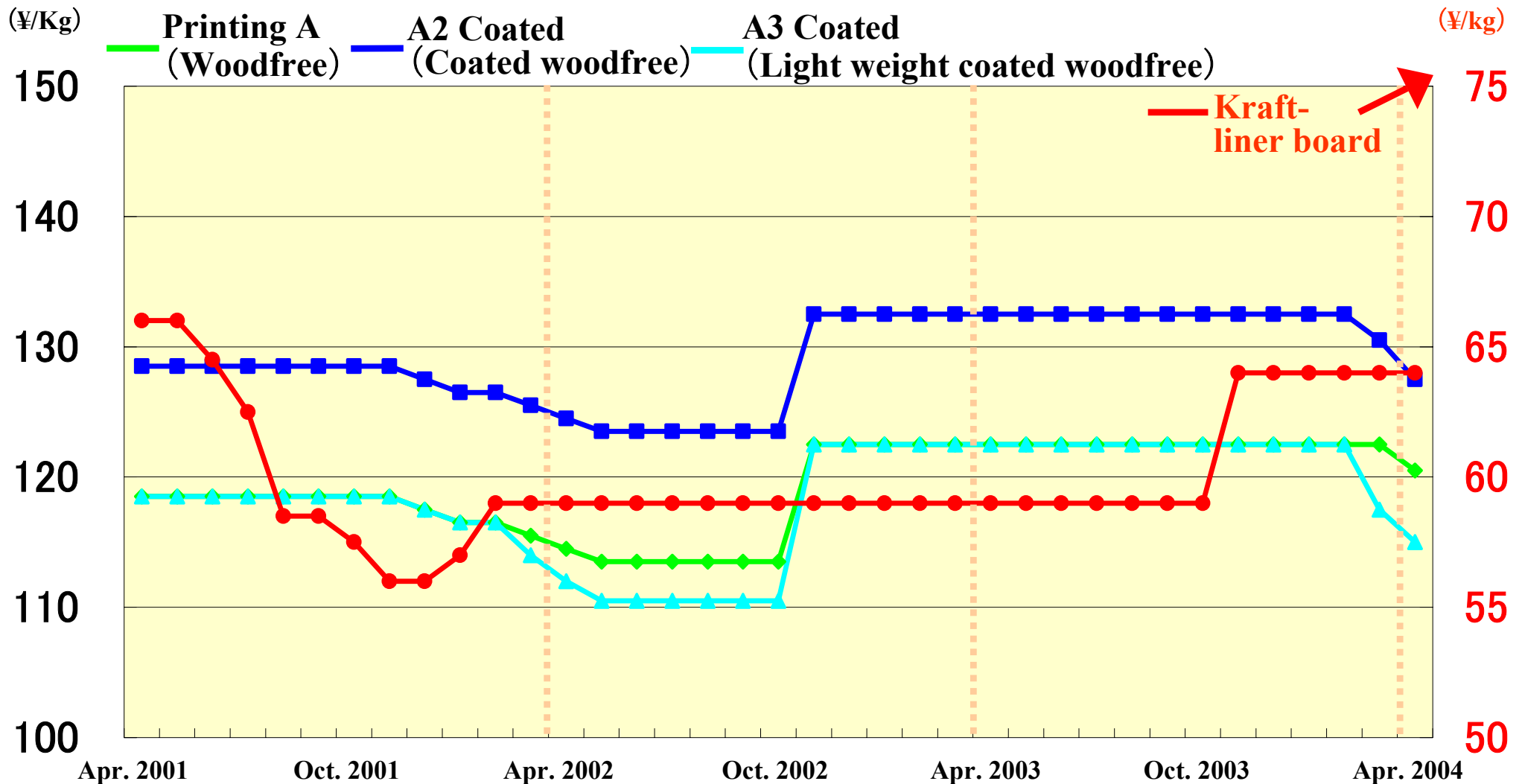
※ “Bitoko-shi” paper is included in coated printing paper.

Source: Japan Paper Association

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Paper industry

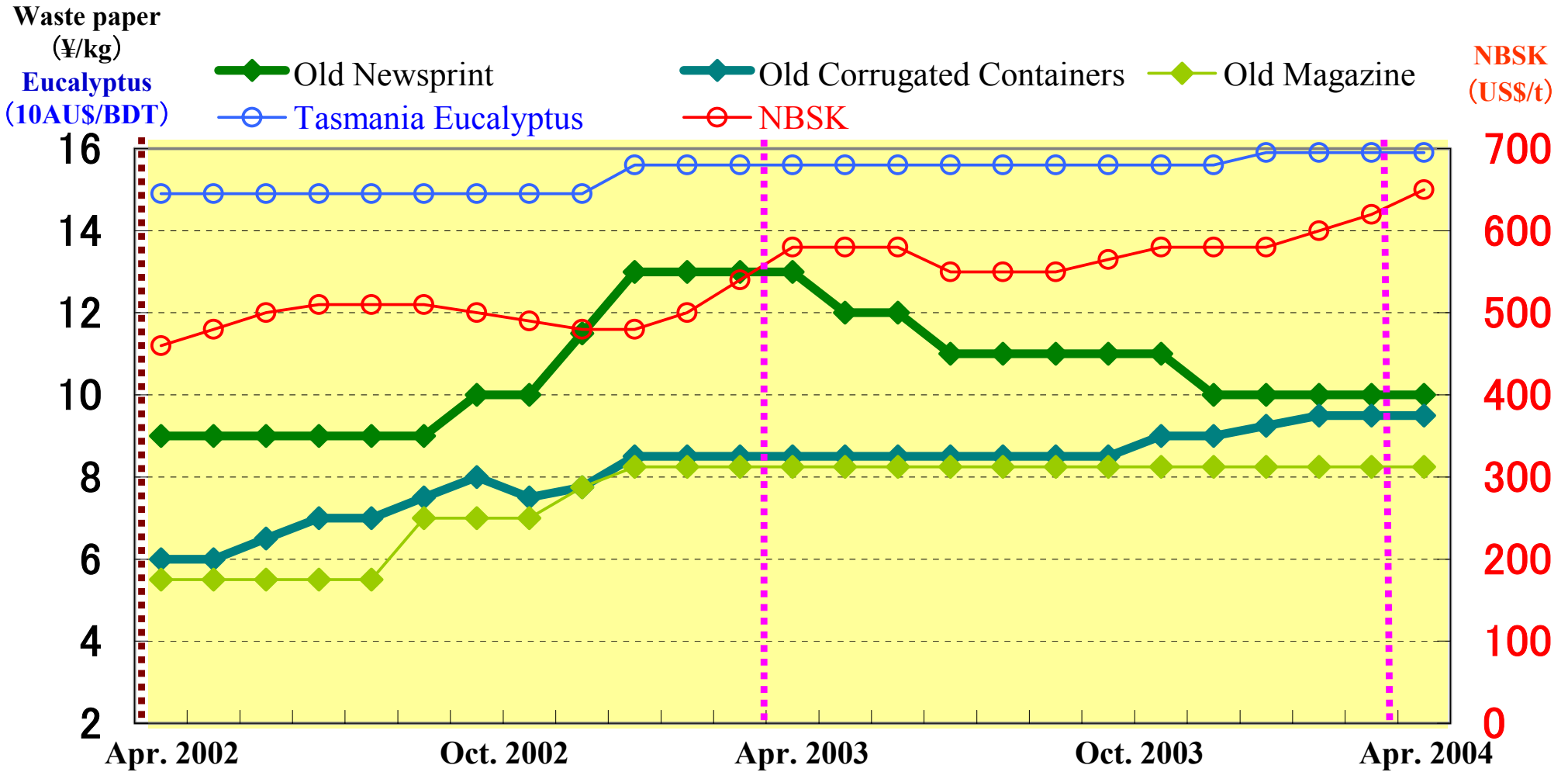
Trend in paper and paperboard prices (April 2001 – April 2004)





# Paper industry

## Trend in wastepaper, wood chip, and pulp prices (April 2002 – April 2004)



## The start of the new organization and promotion of thorough business restructuring

- Apr. 2003 : Beginning of new “Nippon Paper Industries Co., Ltd.” and “Nippon Daishowa Paperboard Co., Ltd.”
  - : Start of the Group’s First Medium-Term Business Plan (FY2004 to 2006)
- Sep. : Establishment of Zhejiang Jingxing Nippon Paper Co., Ltd. (Production of corrugating medium near Shanghai)
  - : Shutdown of three paper machines (Komatsushima #2, Shiraoui #5, and Fushiki #3)
- Oct. : Establishment of Nichiita Package Corrugated Case Corporation (reorganization of corrugated sheet business)
  - : Building the group’s CSR (Corporate Social Responsibility) promotion system
- Dec. : Agreement on joint venture to manufacture beverage cartons in China
  - : Agreement on joint venture with CHENGDE DIXIAN TEXTILE CO., LTD. (Production of printing paper near Beijing)
- Mar. 2004 : Establishment of the Nippon Unipac Holding Group’s Action Charter and Codes of Conduct
  - : Shutdown of three paper machines (Shiraoui #1 and #2, and Fuji #10)

Company	Location	Project	Invested amount (¥ billion)	Completion
Nippon Paper Industries	Yatsushiro	Installation of an elementary chlorine-free bleaching plant	2.9	May 2003
	Iwanuma	Installation of a de-inked pulp line, DIP 3 (+250t/day)	3.2	July 2003
Nippon Daishowa Paperboard	Tohoku	Installation of a paper sludge power generator	4.3	Oct. 2003

## Consolidated operating results

(¥ billion)	FY2003	FY2004	Difference
< Net sales >	1,165.5	1,192.6	27.2
< Operating income >	50.5	55.7	5.2
< Ordinary income >	39.7	50.7	11.0
< Net income >	4.9	24.3	19.4

# I. FY2004 Review (2) Operating results

## ② Sales volume by product

(Thousand tons)	FY2003 (A)	FY2004 (B)	Difference (B)/(A)
(Average domestic paper price: yen/kg) ※	(108.5)	(107.3)	(-1.1%)
Newsprint	1,368	1,361	-0.5%
Uncoated paper	787	756	-4.0%
Coated paper	1,791	1,848	3.2%
Business communication paper	661	669	1.3%
Packaging paper and others	643	650	1.1%
<b>Total domestic sales</b>	<b>5,251</b>	<b>5,284</b>	<b>0.6%</b>
Export (including newsprint)	480	502	4.6%
<b>Total (paper)</b>	<b>5,730</b>	<b>5,786</b>	<b>1.0%</b>
(Average domestic paperboard price: yen/kg)	(50.0)	(52.3)	(4.6%)
Container board	1,490	1,423	-4.5%
Folding box board and others	432	411	-5.0%
<b>Total domestic sales</b>	<b>1,922</b>	<b>1,834</b>	<b>-4.6%</b>
Export	51	41	-19.9%
<b>Total (paperboard)</b>	<b>1,973</b>	<b>1,875</b>	<b>-5.0%</b>
<b>Grand total (paper and paperboard)</b>	<b>7,704</b>	<b>7,661</b>	<b>-0.6%</b>

※calculated excluding newsprint.



(¥ billion)

	Net sales		Operating income		Comments
	FY2003 <sup>※1</sup>	FY2004	FY2003	FY2004	
<b>Pulp and Paper Div.</b>	<b>897.3</b>	<b>896.2</b>	<b>39.9</b>	<b>43.0</b>	
Paper, etc. <sup>※2</sup>	727.4	733.4	36.6	36.1	Fuel cost jumped and hovered. The increase in imported paper influenced the domestic shipment and the price level.
Paperboard <sup>※3</sup>	109.9	99.6	1.3	3.9	Price recovered.
Household tissue	60.1	63.1	2.0	3.0	Sold well in first half. The price level deteriorated in second half.
<b>Paper-Related Div. <sup>※4</sup></b> (cartons, chemical products etc.)	<b>98.2</b>	<b>123.7</b>	<b>4.9</b>	<b>5.0</b>	Cartons for health drinks sold well . Prices were raised in corrugated sheet business (newly consolidated) .
<b>Housing and Construction Materials Div.</b>	<b>90.7</b>	<b>93.5</b>	<b>1.0</b>	<b>2.6</b>	Low formaldehyde building material enjoyed healthy sales. The material wood price rose.
<b>Other Div.</b> (beverages, logistics etc.)	<b>79.2</b>	<b>79.3</b>	<b>4.7</b>	<b>5.1</b>	Logistics div. and leisure div., etc., remained steady.
<b>Total</b>	<b>1,165.5</b>	<b>1,192.6</b>	<b>50.5</b>	<b>55.7</b>	

※1 Figures of FY2003 sales result are modified from those on the brief note, reflecting the influence of the business reorganization.

(Paper etc. +¥18.9 billion, Paperboard -¥18.9 billion, Housing and Construction materials -¥3.3 billion, Others +¥3.3 billion)

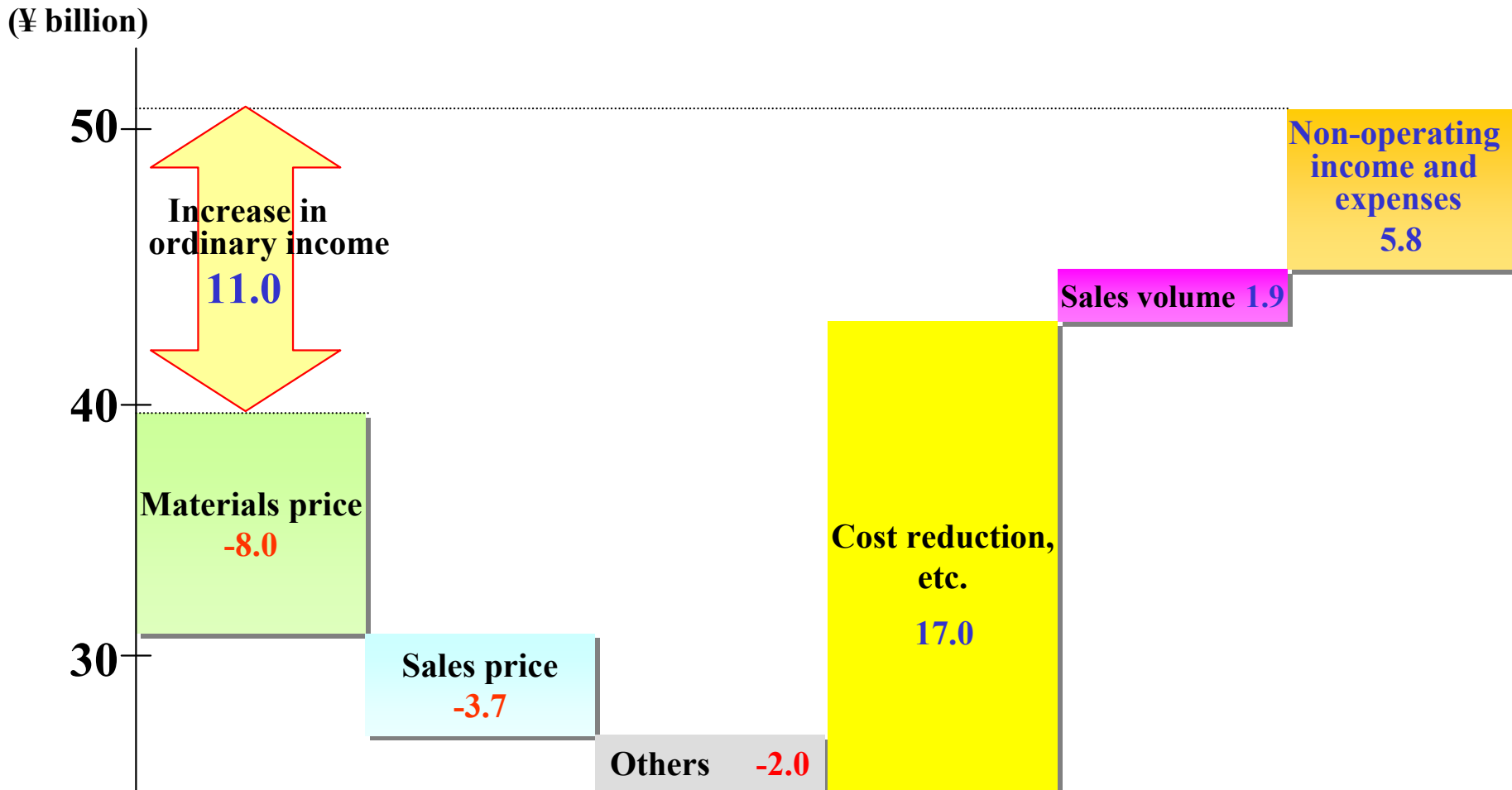
※2 FY2004 sales includes the increase resulting from the change in consolidation base.

※3 FY2004 sales includes the decrease resulting from the increase in internal trade due to the new consolidation base.

※4 FY2004 results newly include corrugated sheet business. (Sales ¥26.2 billion, Operating income -¥0.5 billion)

**FY2003 vs FY2004**

**Increase in ordinary income** ¥11.0 billion (¥39.7 bn → ¥50.7 bn)  
**Increase in Operating income** ¥5.2 billion (¥50.5 bn → ¥55.7 bn)



(¥ billion)	<u>FY2003</u>	<u>FY2004</u>
Ordinary income	39.7	50.7
<b>Extraordinary gains</b>	<b>11.0</b>	<b>10.1</b>
Gain on return of the substitutional portion of the welfare pension fund plan	—	5.4
Gain on sale of property, plant and equipment	8.5	1.4
Others	2.5	3.2
<b>Extraordinary losses</b>	<b>42.6</b>	<b>24.2</b>
Extraordinary retirement benefits	—	7.1
Loss on disposal of property, plant and equipment	9.9	5.1
Provision for doubtful receivables	19.0	1.3
Loss on devaluation of investments in other securities	7.6	0.7
Loss on restructuring and others	6.1	10.0
Income tax adjustment	-0.2	-10.9
Minority interests	-3.0	-1.4
<b>Net income</b>	<b>4.9</b>	<b>24.3</b>

## Balance sheet

(¥ billion)

	Mar. 31, 2003	Mar. 31, 2004	Difference	After adjustments*	Comments
Cash and time deposits	35.5	21.8	-13.7	-14.8	Excess cash reduction (CMS effect)
Notes and accounts receivable	243.3	260.8	17.5	11.4	
Inventories	138.2	134.6	-3.6	-5.4	
Other current assets	38.5	59.4	20.9	21.8	
Property, plant, equipment, and intangible fixed assets	969.3	944.5	-24.8	-35.4	Capital investment 57.4, Depreciation -81.3, etc.
Investments and other assets	205.4	216.2	10.8	9.2	
<b>Total assets</b>	<b>1,630.1</b>	<b>1,637.4</b>	<b>7.3</b>	<b>-13.2</b>	
Interest-bearing debt	851.3	842.3	-9.0	-23.3	Payment term shortened 22.4, Active reduction -46.7
Other debt	344.6	342.9	-1.7	-11.4	
Minority interests in consolidated subsidiaries	26.0	22.6	-3.4	-3.4	
<b>Total shareholders' equity</b>	<b>408.2</b>	<b>429.6</b>	<b>21.4</b>	<b>24.9</b>	

\* Excludes the impact resulting from the changes in consolidation base.

# I. FY2004 Review (6) Cash flow statement

(¥ billion)

Items	FY2003	FY2004	Difference	Comments
<b>Operating activities</b>	<b>128.7</b>	<b>87.1</b>	<b>-41.6</b>	
Income before income taxes	8.1	36.5	① 28.5	① Income before taxes increased.
Depreciation, and amortization of difference between cost and underlying net equity in consolidated subsidiaries	85.7	83.6	-2.1	② Effect of shortening of the payment terms for former Daishowa (-¥22.4 bn) and etc.
Change in net working capital	4.6	-34.8	② -39.4	③ Increase in income tax payment, (FY2003) provision for doubtful receivables, etc.
Others	30.3	1.8	③ -28.5	
<b>Investing activities</b>	<b>-71.9</b>	<b>-72.7</b>	<b>-0.8</b>	
Purchases of property, plant and equipment	-77.2	-66.3	④ 10.9	④ Decrease of capital investment
Proceeds from sales of property, plant and equipment	14.6	2.4	⑤ -12.2	⑤ Gain from sales of Kameari mill of former Japan Paperboard Industries in FY2003
Others	-9.3	-8.8	0.5	
<b>Free cash flows</b>	<b>56.8</b>	<b>14.4</b>	<b>-42.4</b>	
<b>Financing activities</b>	<b>-54.9</b>	<b>-28.8</b>	<b>26.1</b>	
Change in net borrowings	-48.2	-13.9	⑥ 34.3	⑥ FY(2004) IBD decreased by excess cash reduction and etc.
Cash dividends paid	-4.8	-13.5	-8.7	
Others	-1.9	-1.4	0.5	
<b>Effect of exchange rate changes</b>	<b>-0.3</b>	<b>0.8</b>	<b>1.1</b>	
<b>Cash and cash equivalents</b>	<b>35.2</b>	<b>21.6</b>	<b>-13.6</b>	Excess cash reduction (CMS effect, etc.)

## Topics in FY2005


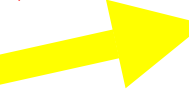
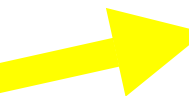
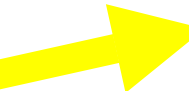

- Apr. 2004 : Transferred shares in OTAKE PAPER MFG. to MISHIMA PAPER  
 : Transferred vacant lot of the former Nippon Paper Industries' Miyakojima Mill
- Jun. : Start commissioned manufacturing of CCP from Fuji Photo Film Co., Ltd.(planned)
- Jul. : Establish Nippon Paper Industries Trading (Shanghai) Co., Ltd. in China (planned)
- Oct. : Change the holding company name to “Nippon Paper Group, Inc.” (planned)  
 : Functional Material Business of Nippon Paper Industries to be spun off and integrated with Nippon Paper Chemicals (planned)  
 : Start electricity wholesale business (IPP business) at Kushiro Mill (planned)  
 : Start operation of corrugating-medium paper machine at Zhejiang Jingxing Nippon Paper Co., Ltd. (planned)

Company	Location	Project	Invested amount (¥ billion)	Operation start (Planned)
Nippon Paper Industries	Nakoso	Production facilities for commissioned CCP (moving coater machine)	2.4	Jun. 2004
		Installation of thermal recycling power generator	3.8	Sep. 2004
	Kushiro	Installation of wholesale power plant	9.8	Oct. 2004
	Shiraoi	Boost the pulp production capacity (3KP)	1.3	Nov. 2004

## 1. Forecast of sales (domestic)

- Paper : ① Volume = No significant change  
② Price = Maintain price levels
- Paperboard: ① Volume = Increase from FY2004  
② Price = Maintain price levels

## 2. Forecast of raw materials and fuel cost price

- Coal :  Significantly up
- Wood chip :  Up
- High sulfur fuel oil :  Up
- Pulp :  Up
- Wastepaper :  No significant change

### Environment

- Domestic demands :  
(Calendar year forecast by Japan Paper Association)  
Paper +0.6%  
Paperboard +0.8%
- Foreign exchange rate:  
US\$1 = ¥110  
AU\$1 = ¥80

## Forecast of consolidated results

(¥ billion)	FY2004	FY2005 Est.	Difference
< Net sales >	1,192.6	1,195.0	2.4
< Operating income >	55.7	70.0	14.3
< Ordinary income >	50.7	65.0	14.3
< Net income >	24.3	28.0	3.7



(Thous and tons)	FY2004 (A)	FY2005 (B)	Difference (B)/(A)
(Average domestic paper price : yen/kg) ※	(107.3)	(107.0)	(-0.3%)
Newsprint	1,361	1,369	0.6%
Uncoated paper	756	733	-3.0%
Coated paper	1,848	1,867	1.0%
Business communication paper	669	680	1.5%
Packaging paper and others	650	637	-2.0%
<b>Total domestic sales</b>	<b>5,284</b>	<b>5,286</b>	<b>0.0%</b>
Export (including newsprint)	502	430	-14.4%
<b>Total (paper)</b>	<b>5,786</b>	<b>5,715</b>	<b>-1.2%</b>
(Average domestic paperboard price : yen/kg)	(52.3)	(53.8)	(2.9%)
Container board	1,423	1,459	2.5%
Folding box board and others	411	418	1.8%
<b>Total domestic sales</b>	<b>1,834</b>	<b>1,877</b>	<b>2.3%</b>
Export	41	39	-5.2%
<b>Total (paperboard)</b>	<b>1,875</b>	<b>1,915</b>	<b>2.2%</b>
<b>Grand total (paper and paperboard)</b>	<b>7,661</b>	<b>7,631</b>	<b>-0.4%</b>

※calculated excluding newsprint.

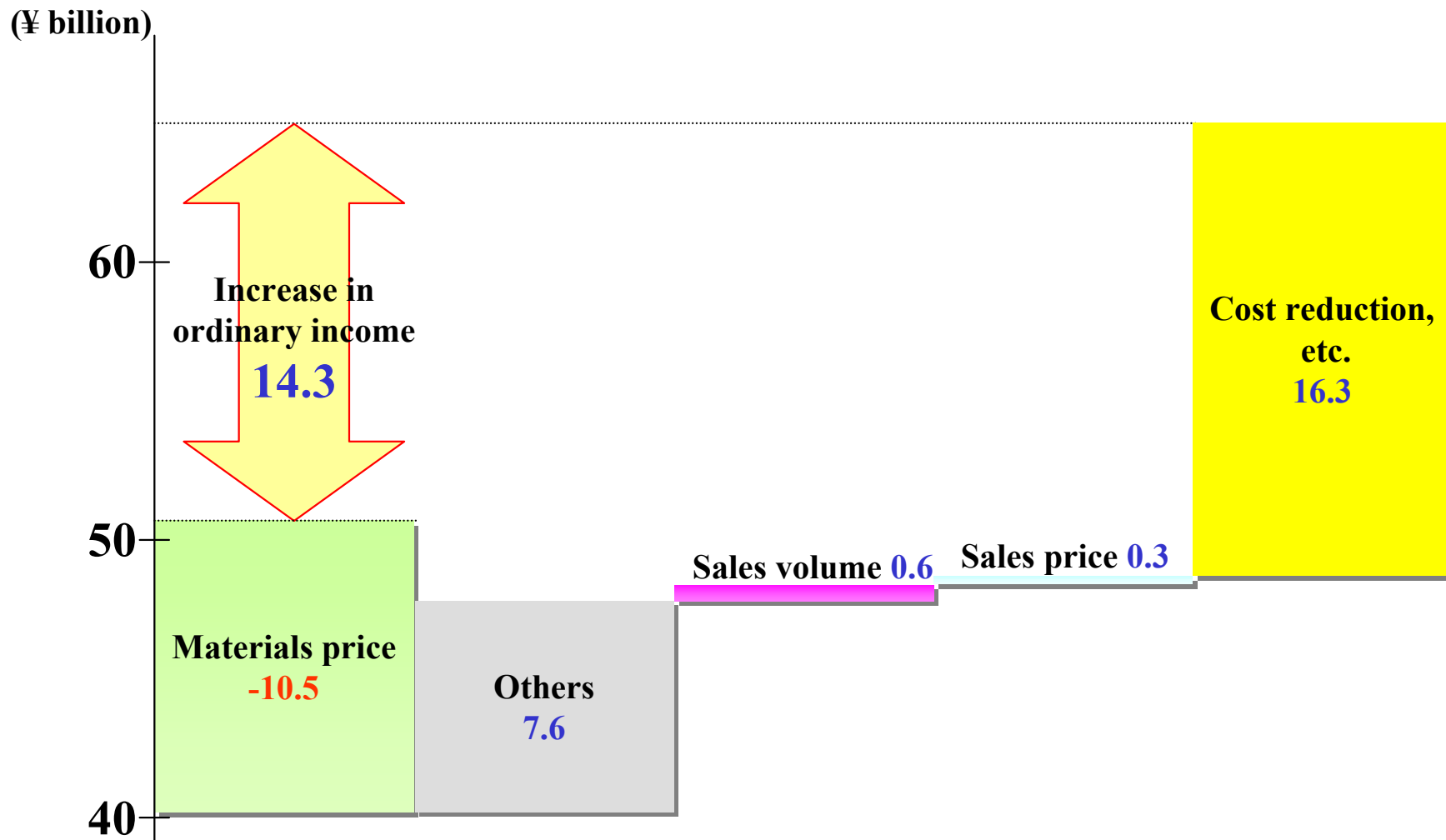
(¥ billion)

	Net sales		Operating income		Comments
	FY2004	FY2005 est.	FY2004	FY2005 est.	
<b>Pulp and Paper Div.</b>	<b>896.2</b>	<b>897.3</b>	<b>43.0</b>	<b>54.1</b>	
Paper, etc. ※	733.4	730.6	36.1	41.2	Fuel costs to rise further. Profits increase with cost cutting.
Paperboard	99.6	101.6	3.9	9.6	Full year effect of the price recovery.
Household tissue	63.1	65.2	3.0	3.3	Launch new products. Promote shifting production to more cost-competitive production bases and staff rationalization.
<b>Paper-Related Div.</b> (cartons, chemical products)	<b>123.7</b>	<b>123.9</b>	<b>5.0</b>	<b>7.6</b>	Sales promotion and cost reduction of cartons and chemical products. Price recovery effect in corrugated sheet business.
<b>Housing and Construction Materials Div.</b>	<b>93.5</b>	<b>98.1</b>	<b>2.6</b>	<b>3.1</b>	Extended tax cut on housing loans to contribute to continual home construction.
<b>Other Div.</b> (beverages, transport)	<b>79.3</b>	<b>75.7</b>	<b>5.1</b>	<b>5.3</b>	Promotion of cost reduction.
<b>Total</b>	<b>1,192.6</b>	<b>1,195.0</b>	<b>55.7</b>	<b>70.0</b>	

※Figures of FY2005 sales includes the increase and decrease resulting from the change in consolidation base.

FY2004 vs FY2005 est.

**Increase in ordinary income** ¥14.3 billion (¥50.7 bn → ¥65.0 bn)  
**Increase in operating income** ¥14.3 billion (¥55.7 bn → ¥70.0 bn)



	FY2002	FY2003	FY2004	FY2005 est.
<b>ROE</b>	-0.2%	1.2%	5.8%	6.4%
<b>Ordinary margin on sales</b>	2.4%	3.4%	4.2%	5.4%
<b>D/E (times)</b>	2.1	2.0	1.9	1.7
<b>Operation rate of paper machine (Calendar basis)</b>	81%	86%	87%	89%
<b>Operation rate of paperboard machine (Calendar basis)</b>	78%	79%	85%	89%
<b>Capital investment (¥ billion)</b>	69.6	76.9	57.4	67.0
<b>Depreciation (¥ billion)</b>	87.1	83.2	81.3	75.4
<b>Interest-bearing debt (¥ billion)</b>	903.3	851.3	842.3	785.0
<b>Number of employees</b>	17,153	15,662	15,241	14,497

※FY2004 IBD includes the ¥36.7 bn increase, resulting from the revision of consolidation base ¥14.3 bn, and of payment condition of former Daishowa ¥22.4 bn.

※The number of employees as of March 2004 includes the 348 increase resulting from the revision of consolidation base.

※The number of employees as of March 2005 includes the 294 decrease resulting from transferring of shares in OTAKE PAPER MFG.

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## Disclaimer Regarding Forward-Looking Statements

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Any statements in this presentation document, other than those of historical fact, are forward-looking statements about the future performance of Nippon Unipac Holding and its group companies, which are based on management's assumptions and beliefs in light of information currently available, and involve risks and uncertainties. Actual results may differ materially from these forecasts.

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