

# PHOENIX PLAN

(Mid-Term Revival Plan)

【Fiscal Years 2005 - 2007】

November 2005

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President and CEO  
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# Contents

+

Target of Phoenix Plan  
Current Situation and Countermeasures

+

5 Policies for Revival  
Target Figures  
Ordinary Profit: Approach to the Goal

- +
- Plans
- Turn Around and Stabilize Kitakami Hitec Paper
  - Exit from High Cost Structure
  - Concentrate on Paper Business  
(Strengthen Hachinohe Mill)
  - Strengthen Distribution
  - Improve Financial Structure

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Organizational Structures to Promote Phoenix Plan  
Resolution of the President

# Target of Phoenix Plan



## Transformation to Expansion

- ◆ Become Competitive Printing Paper Manufacturer
- ◆ Expand Specialties and New Products Based on Mitsubishi's Proprietary Technologies

**Growth and Expansion Period**

**Phoenix Plan**  
(Fiscal Years 2005 – 2007)  
**Establishing Solid Company Foundation**

- Reform Cost Structure
- Improve Financial Structure

**Preparation Period**

# Current Situation and Countermeasures



## Current Situation

### External Environment

- Saturated Domestic Market
- Increased Paper Import and Competition
- Raw Material Prices Increase Due to Spike of Oil Price, etc.

### Internal Environment

- Necessity of Profitability Improvement
- Matured Product Portfolio Due to Delay in Shifting to Growing Areas
- Necessity of Stop Bleeding at Kitakami Hitec Paper
- Necessity of Strengthening Sales
- Reestablishment of Trust after Merger Cancellation

**Self Revival**

## Countermeasures

Exit from High Cost Structure

Improve Financial Structure

Concentrate on Paper Business (Strengthen Hachinohe Mill) and Strengthen New Businesses

Turn Around and Stabilize Kitakami Hitec Paper

Strengthen Distribution

# 5 Policies for Revival



## Approach to the Goal

**Exit from High Cost Structure**



- **Cost Structure Reform**
- **5% Total Cost Reduction**

vs. 2005  
8.3 Billion Yen Effect

**Improve Financial Structure**



Reduce Interest Bearing Debt by 20% through Sale of Assets

Reduce Interest Bearing Debts by 40 Billion Yen

**Concentrate on Paper Business (Strengthen Hachinohe Mill) and Strengthen New Businesses**



- Concentrate on Paper Business
- **20 Billion Intensive Investment to Hachinohe Mill**
- Increase New Product Ratio
- Concentrate R&D Resources to **Strengthen New Product Development**

Improve ROI 2.5 Billion Yen  
New Product Ratio Up to 25%  
New Business Growth Rate 50% CAGR

**Turn Around and Stabilize Kitakami Hitec Paper**



- Thorough Rigorous Cost Reductions
- Flexible Production System
- Produce Other than RC Paper

\* Profit Improvement > 5 Billion Yen  
\*vs. KHP 2004

**Strengthen Distribution**



- **Promote Collaboration with Mitsubishi Corporation**
- Advantage of exclusive agent \*

\*vs. Sales subsidiary 2004  
Profit Improvement > 1 Billion Yen

# Target Figures



## Plan (Consolidated Base)

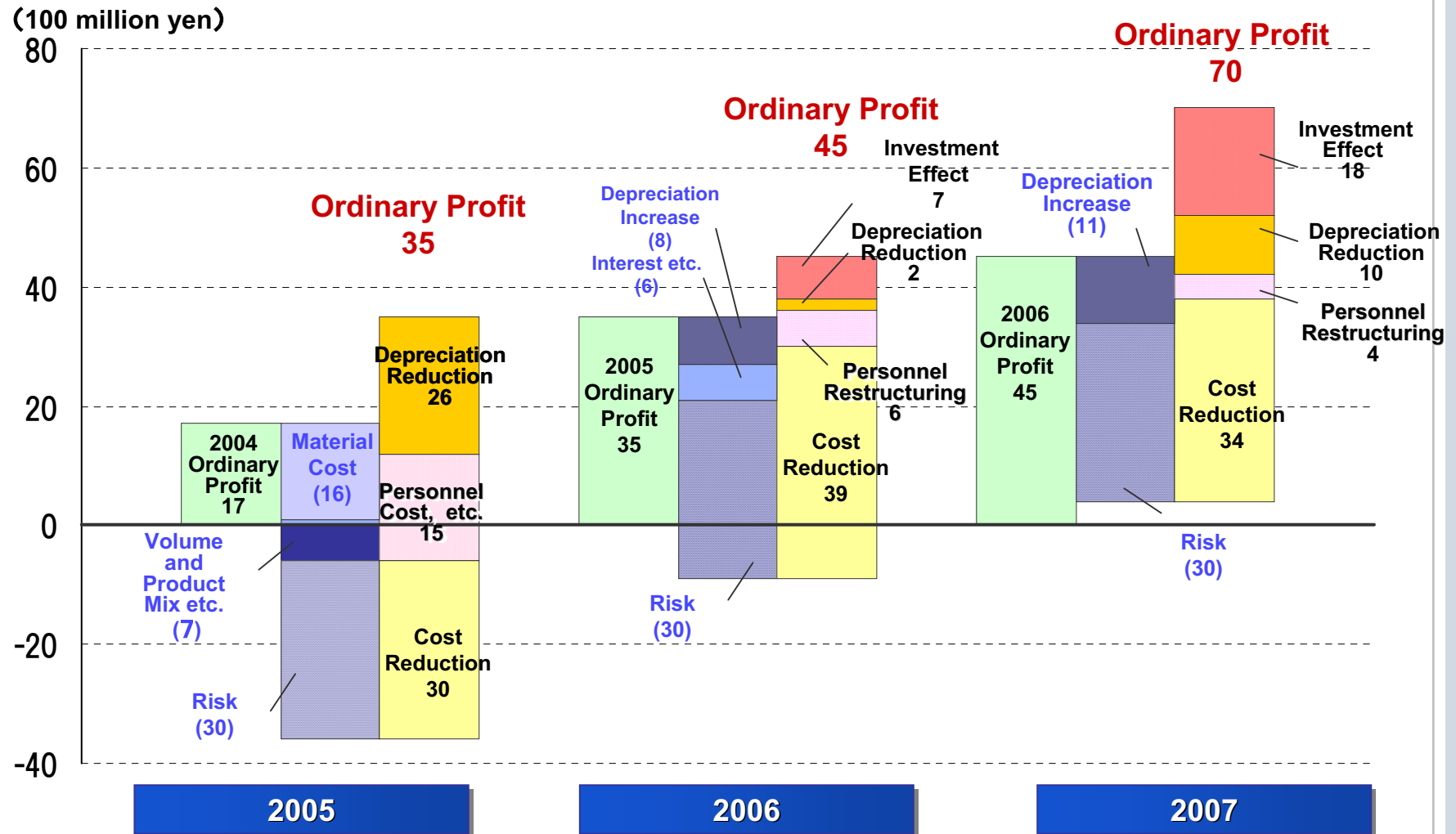
Fiscal Year	(Ref.) 2004	2005	2006	2007
Revenue (Billion Yen)	234.7	230.0	230.0	235.0
Ordinary Profit (Billion Yen)	1.7	3.5	4.5	7.0
Ordinary Profit on Revenue	0.7%	1.5%	2.0%	3.0%
Interest Bearing Debt (Billion Yen)	194.0	174.0	164.0	154.0
D/E Ratio	83%	76%	71%	66%
ROI	0.5%	1.1%	1.5%	2.3%
Equity Ratio	17%	20%	22%	24%
Employees	Year Begin	5,260		
	Year End	4,902	4,800	4,800
			4,800	4,700

【Note】 Including the risk of 3.0 Billion Yen loss on Ordinary Profit in 2006 and 2007, respectively.

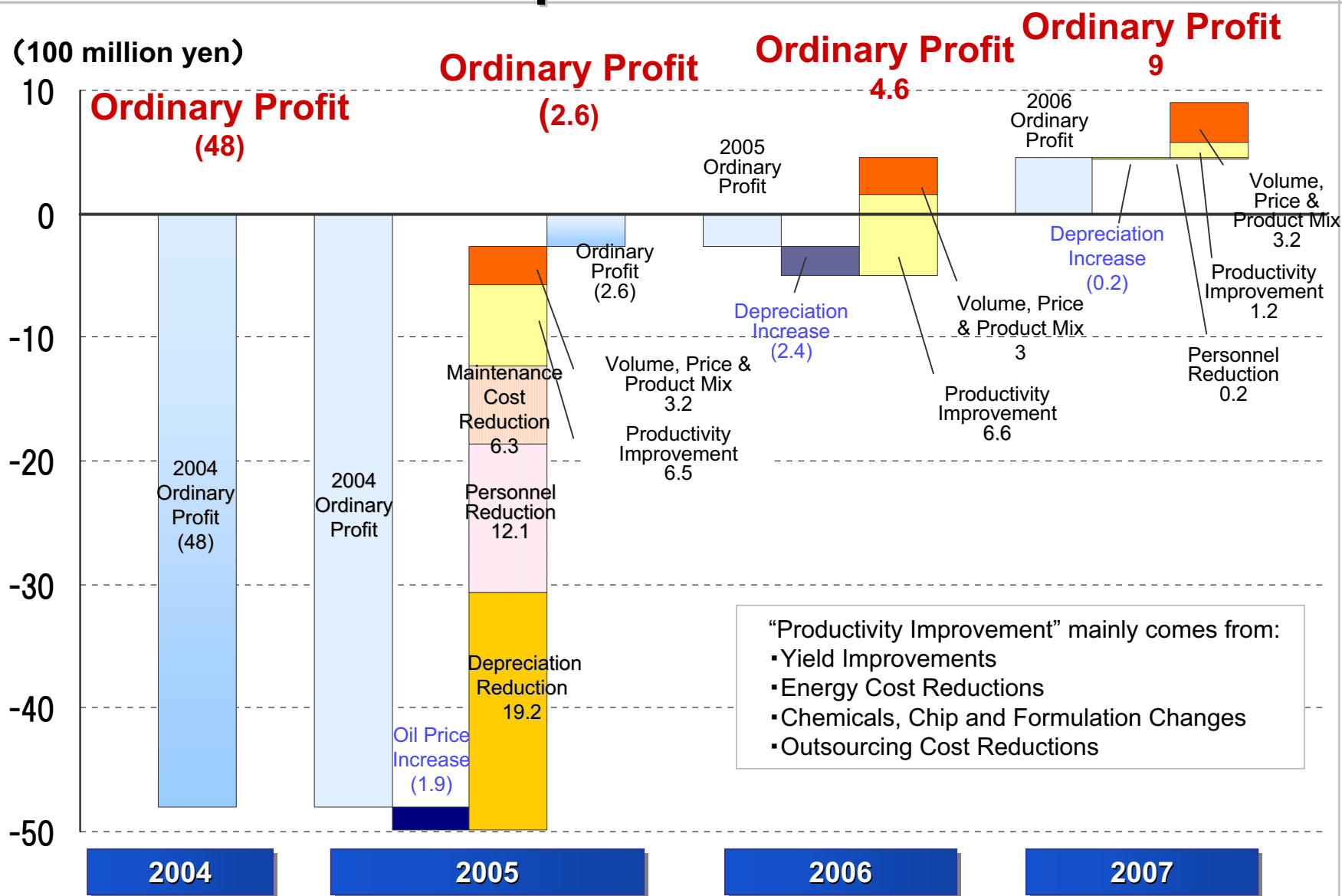
# Ordinary Profit: Approach to the Goal



## Ordinary Profit (Consolidated Base)



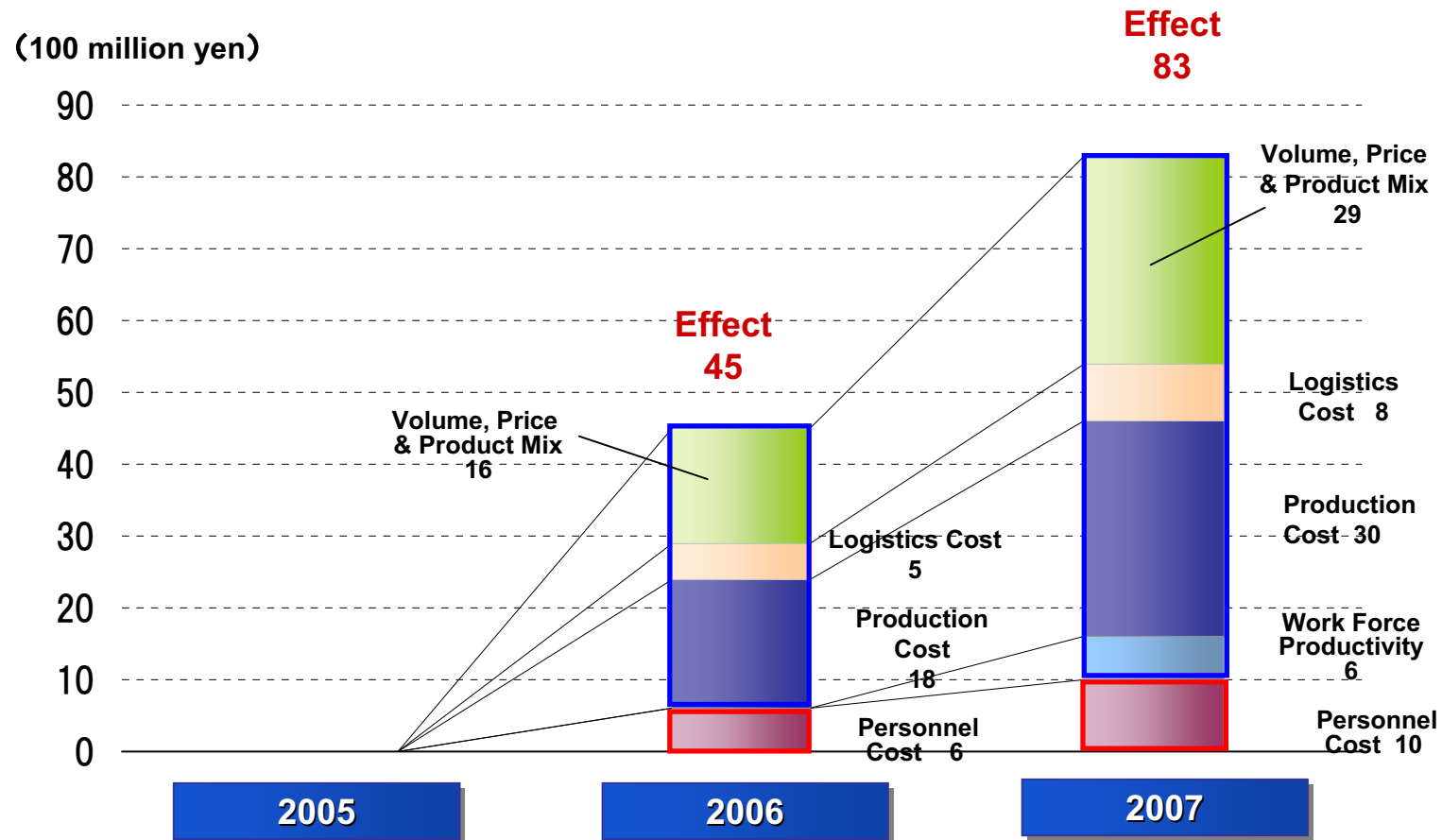
# Turn Around and Stabilize Kitakami Hitec Paper





# Exit from High Cost Structure

## Improvement Compared with 2005



# Concentrate on Paper Business (Strengthen Hachinohe Mill) ①



## Selecting Businesses to Be Strengthened

	Fundamental Plan
Printing Paper	<ul style="list-style-type: none"> <li>▪ Realize Global Competitiveness through Cost Reductions</li> <li>▪ Intensive Investments in Hachinohe Mill</li> <li>▪ Strengthening Non-Price Competitiveness</li> </ul>
Communication & Specialty Paper	<ul style="list-style-type: none"> <li>▪ Increase Production and Sales with Superior Technologies <b>(Inkjet with its top market share, Thermal, RC Paper, etc.)</b></li> <li>▪ Strengthen Product Development</li> </ul>
New Business	<ul style="list-style-type: none"> <li>▪ Concentrate R&amp;D Resources to Realize Customer's Benefits</li> <li>▪ Develop Highly Profitable Products in Growing and Value-Added Markets</li> <li>▪ Strengthen Business Development Organization</li> <li>▪ Focus on Filter, Rewritable Thermal Paper, Non-Woven Fabric, Heat Storage Capsule, Silver-halide Electronic Parts</li> </ul>

# Concentrate on Paper Business (Strengthen Hachinohe Mill) ②



## Effect of Strategic and Intensive Investments

Between 2005 and 2007, 27.5 billion Yen out of 42.5 billion Yen of total investment shall be strategically invested.

(Hundred Million Yen)

Investment	2005	2006	2007	Total
Maintenance	50	50	50	150
Strategic	25	50	200	275
Total	75	100	250	425

	2005	2006	2007	2008
Effect of Investment	-	7	25	39

Investment to be focused on Hachinohe Mill.  
20 billion Yen (73% ) will be invested in Hachinohe Mill to improve its competitiveness in the printing paper market.

(Hundred Million Yen)

Mills	Hachinohe	Others	Total
Strategic Investments 2005 - 2007	200	75	275

# (Reference) Hachinohe Overview



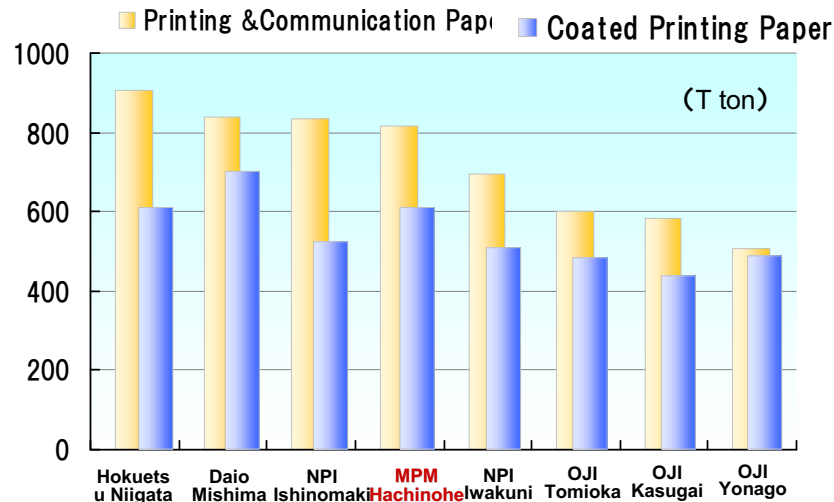
## Strength

1. Private Quay
2. Simple Layout with Expandability
3. Superior Technology in Coated Paper
4. High Speed & Wide Machines
5. First FSC Certificate Awarded Mill in Japan

## Major Products

- ◆ Coated and Other Printing Paper
- ◆ White Paper Board

Capacity of major printing & communication paper mills (Volume in 2004)



## Aggressive marketing of FSC Certified Paper

### Promotion of FSC Certificate System

Many companies started using FSC Paper

#### Global

- Promotion of Sustainable Forest Management
  - Environmental Protection (Ecology)
  - Local Community (Human Rights and Life)
  - Sustainable Economy (Material Recycling)

#### Contribution

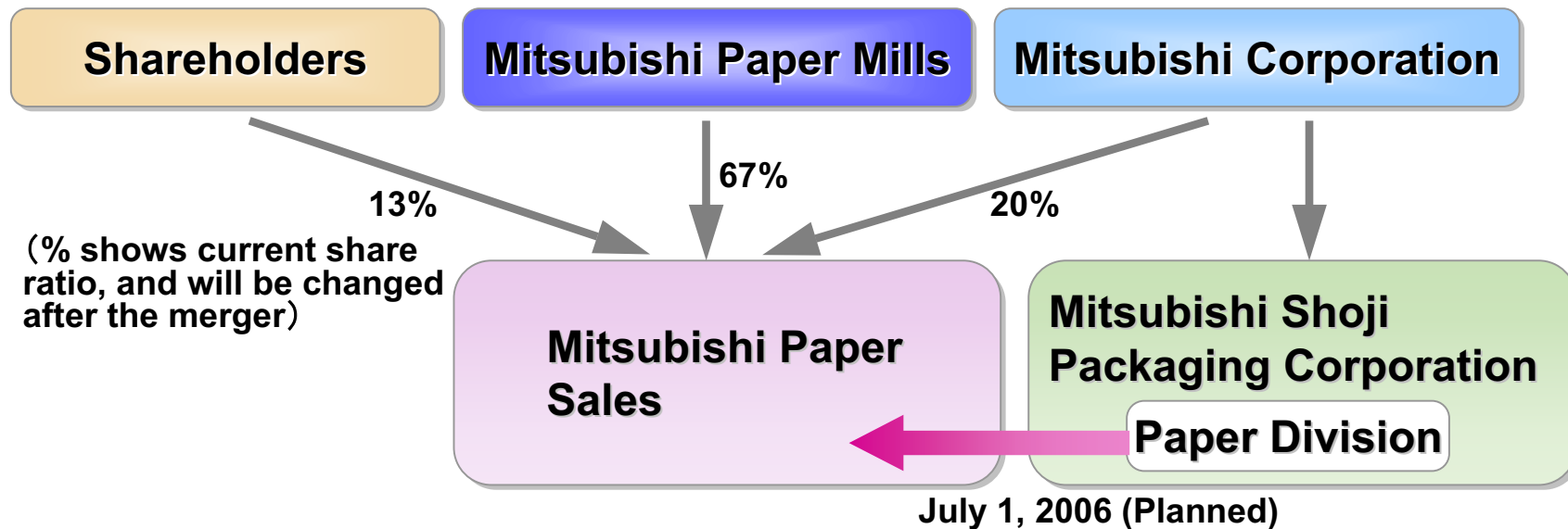
#### Mitsubishi Paper Mills

- Realize non-price competitiveness
- Maintain First-Mover Advantage ⇒ **“FSC = Mitsubishi Paper Mills”**
- All Mitsubishi Paper products are environment friendly

# Strengthen Distribution ①



## Business Expansion of Mitsubishi Paper Sales



- ◆ Agreed to conduct a feasibility study of merger with Paper Division of Mitsubishi Shoji Packaging Corporation
  - ◆ Promote collaboration with Mitsubishi Corporation
- Strengthen proposal sales }  
Expand supply sources } **Seek synergy effects**

~ **Strengthen total sales capabilities with diversified supply sources** ~

# Strengthen Distribution ②



## Materialize Merits of Exclusive Agent, and Improve Profitability through Full Business Restructuring

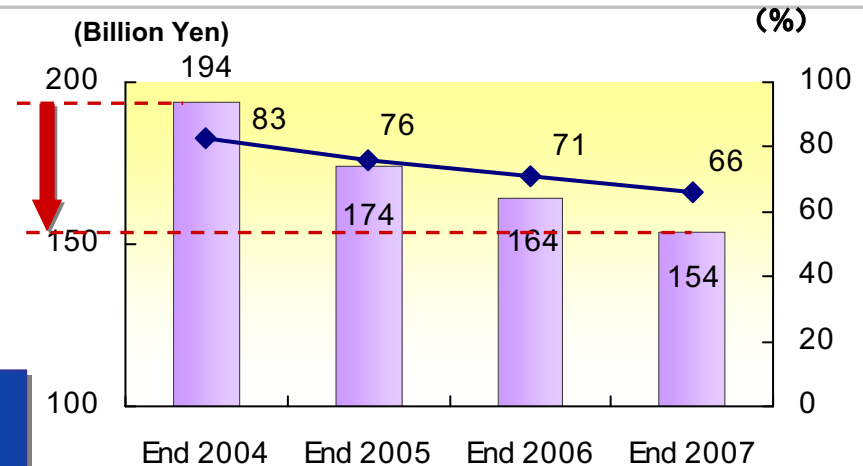
- ◆ Support Ongoing Mitsubishi Paper Sales' Business Restructuring Action Plan
  - Achieve 1% Return on Sales (Ordinary Profit/Sales)
  - Ordinary Profit Target: 1 Billion Yen (Promoting sales of higher margin products and reducing overhead cost)
  
- ◆ Further Business Restructuring through Sharing Sales, Production and Inventory Information among Parent and Sales Subsidiaries
  - ① Efficiency improvement through supply chains
  - ② Realization of optimum customer relationship
    - Strengthen proposal sales
    - Improve logistics efficiency

# Improve Financial Structure



## Interest-Bearing Debt & D/E Ratio

**Reduce 40 Billion Yen**



## Financing and Use

### <Financing >

Periodical Profit	March 2006	3.5 Bill.Yen	<b>15.0 Bill. Yen</b>
	March 2007	4.5 Bill.Yen	
	March 2008	7.0 Bill.Yen	
Depreciation	March 2006	13.0 Bill.Yen	<b>40.0 Bill. Yen</b>
	March 2007	13.5 Bill.Yen	
	March 2008	13.5 Bill.Yen	
Sale of Assets	Marketable Securities		<b>35.0 Bill. Yen</b>
	Real estates		
	Others		

**Total 90.0 Billion Yen**

### <Use >

Reduction of Debt	<b>40.0 Billion Yen</b>
Investments	<b>42.5 Billion Yen</b>
Others	<b>7.5 Billion Yen</b>

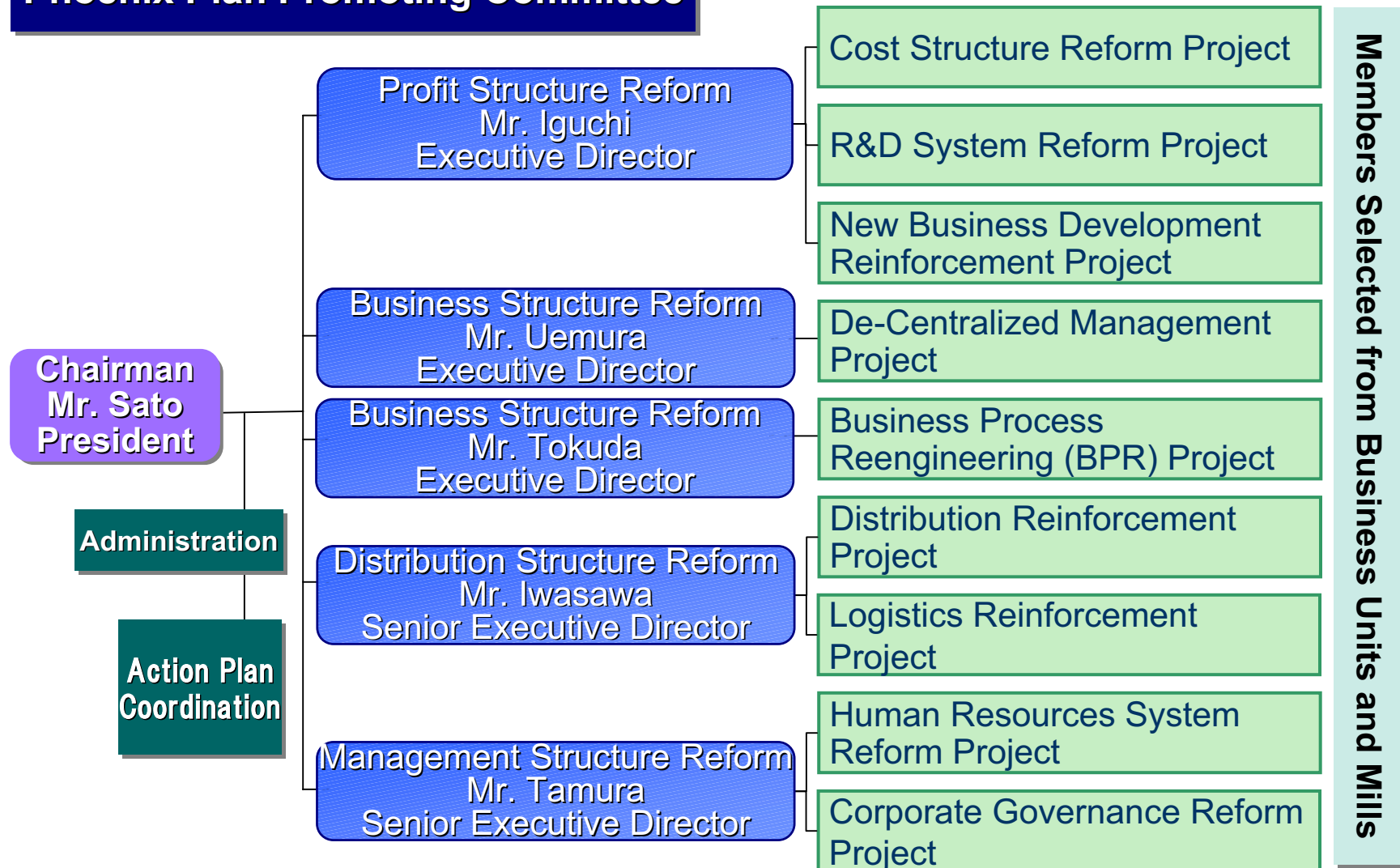
**Total 90.0 Billion Yen**



# Organizational Structure to Promote Phoenix Plan



## Phoenix Plan Promoting Committee





# Key Targets of Projects



PROJECT	Key Targets (Against 2005)
Cost Structure Reform Project	Productivity improvement and cost review ⇒ Total: ¥4.1 Bill./'06 (incl. ¥0.7 Bill. Investment effect) and ¥8.4 Bill./'07 (Incl. ¥2.5 Bill. Investment effect)
R&D System Reform Project	Organization Reform: Consolidate and improve its technologies Review R&D system
New Business Development Reinforcement Project	Establish new organizations: Promote 5 growing businesses ⇒¥5.0 Bill. sales in '07
De-Centralized Management Project	Corporate Spin-offs: Spin off and reorganize all mills
Business Process Re-Engineering (BPR) Project	Business Process Re-Engineering : Reduce volume of work. ⇒ ¥600 Mill. Reduction in '07 by improving working efficiencies
Distribution Reinforcement Project	Profit improvement: Ordinary profit ¥1.0 Bill. Collaboration: Collaboration with Mitsubishi Corporation (improved product portfolio and customer needs recognitions, etc.)
Logistics Reinforcement Project	Establish new organization: New logistics company handles entire MPM logistics ⇒ Logistics cost reduction by ¥800 Mill.in '07 = Total of ¥1,600 Mill reduction including ongoing measures
Human Resources System Reform Project	Introduction of new human resources system: System based on management-by-results and Incentives ⇒ ¥1.0 Billion personnel cost reduction (Total: ¥1.8 Bill.)
Corporate Governance Reform Project	Separate responsibilities between board of directors and executive officers Tighten Corporate Compliance Management, and enrichment of internal audit functions

# Determination to Realize the Plan



**Mitsubishi Paper Mills, since its establishment, has been striving as an R&D focused company, continuously providing new products which meet current market demand.**

**Going forward, we will aim to be a “distinctive paper manufacturer” by utilizing technical development capabilities.**

- 1. Concentrate strategic investments in Hachinohe Mill to become a “competitive printing paper manufacturer in the market.”**
- 2. Make the best use of accumulated technologies and develop further to “expand Mitsubishi’s Specialty Paper business and new business development”.**

**The Phoenix Plan has been established to enable us to realize our above objectives.**

**Through its term, we will establish “firm and solid management foundations”.**

**Board members will take a leadership role and the entire company, as a unified team, will be called upon to unanimously promote the plan.**

**November 2005**

**Chairman of Phoenix Plan Promoting Committee  
Mitsubishi Paper Mills Ltd. President and CEO**

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**Note about forecasts:**

**Forecasts of future performance contained in these statements are based on the current expectations, estimates and assessment of the markets in which it operates.**

**A number of factors, many beyond the Company's control, could cause actual results to differ materially from the forecasts contained in these statements.**