

*First Half of Year-Ended March 31, 2014*

# Business Report

Part-1: Financial Review, FY2013 First Half

Part-2: Mid-term Management Plan (Phase 2 Rolling Plan)

November 20, 2013  
Mitsubishi Paper Mills Ltd.

## **Financial Review for the First Half of The Fiscal Year-ended March 31. 2014**

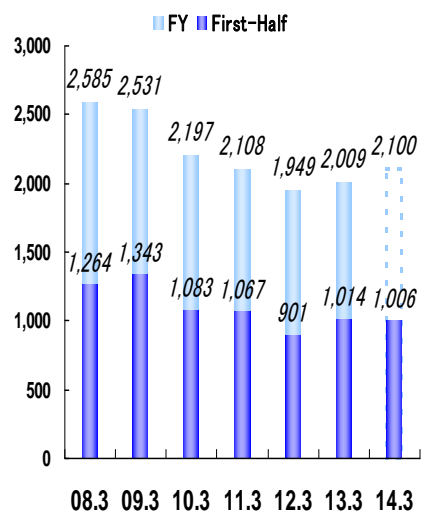
# Key Figures <Consolidated>



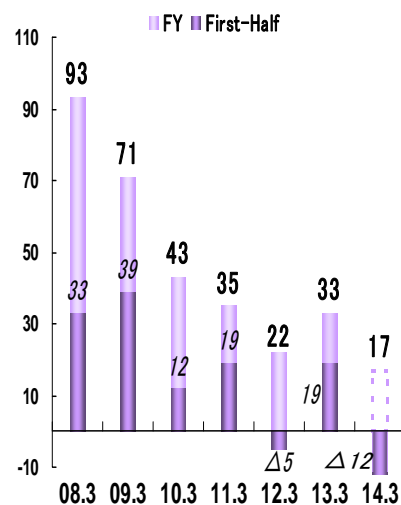
(unit:100million yen)

	FY2012First-Half		FY2013First-Half		Increment	
	Amount	Sales Ratio (%)	Amount	Sales Ratio (%)	Amount	%
<b>Net Sales</b>	<b>1,014</b>	<b>—</b>	<b>1,006</b>	<b>—</b>	<b>▲8</b>	<b>▲0.8</b>
<b>Operating Income</b>	<b>19</b>	<b>1.8</b>	<b>▲12</b>	<b>▲1.2</b>	<b>▲31</b>	<b>—</b>
<b>Ordinary Income</b>	<b>13</b>	<b>1.3</b>	<b>▲13</b>	<b>▲1.3</b>	<b>▲26</b>	<b>—</b>
<b>Net Income</b>	<b>6</b>	<b>0.5</b>	<b>▲6</b>	<b>▲0.6</b>	<b>▲12</b>	<b>—</b>

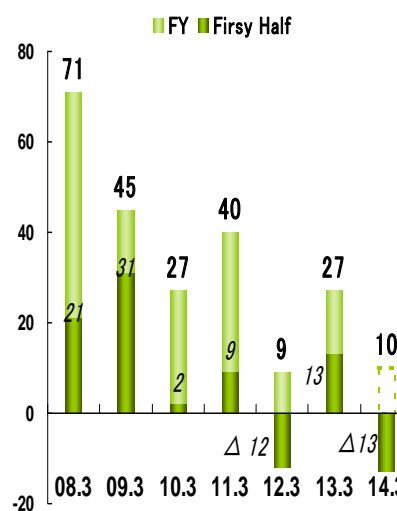
**Sales**



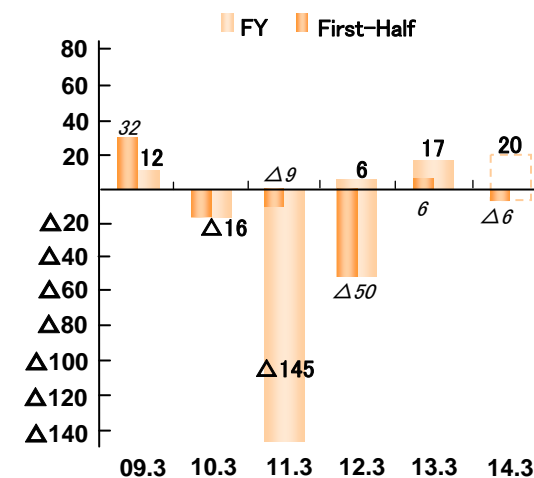
**Operating Income**



**Ordinary Income**



**Net income**



# Segment Information by Product <Consolidated>



(Unit: 100 million yen/%)

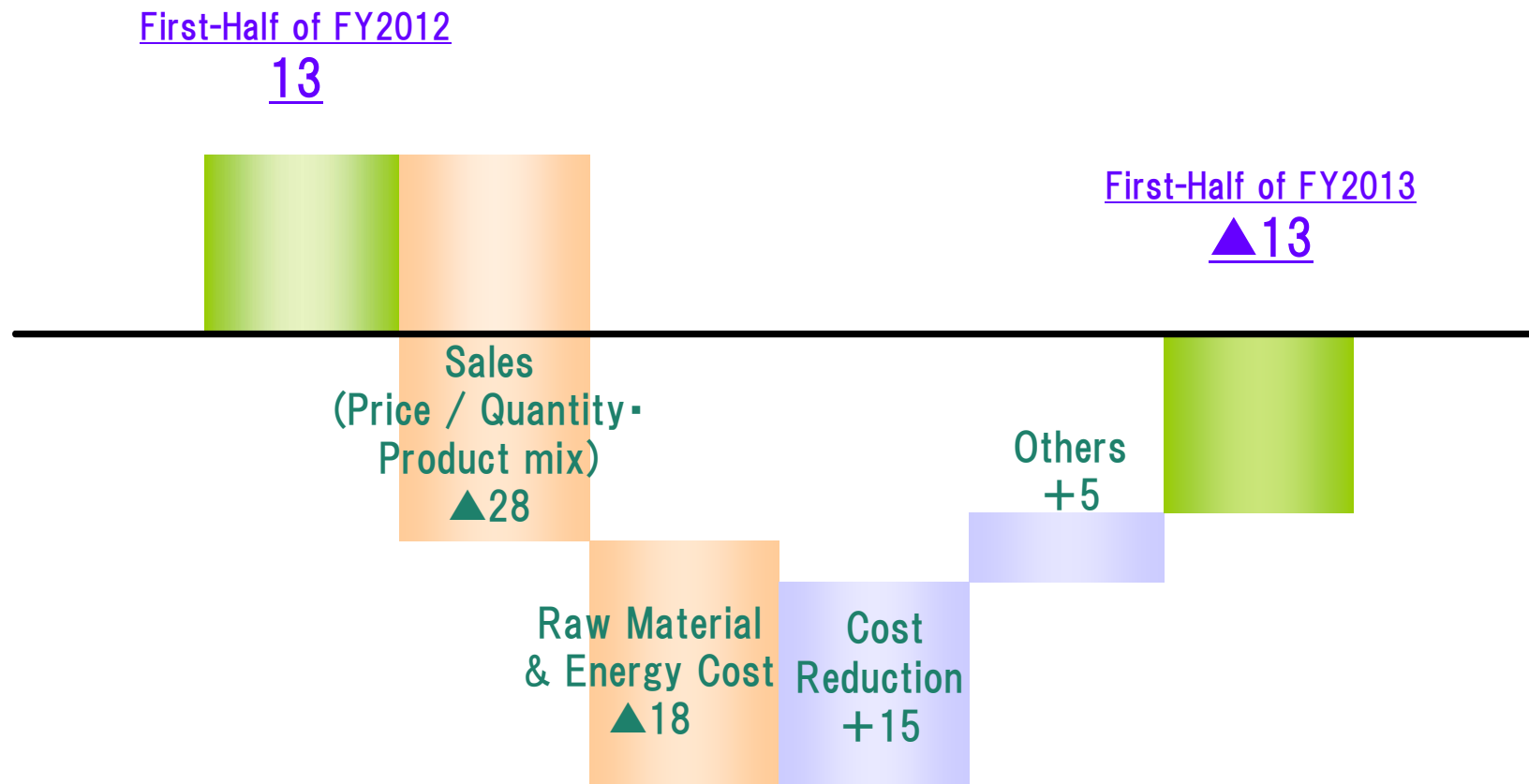
		FY2012First-Half	FY2013First-Half	Increment	%
Sales	Pulp&Paper	804	777	▲27	▲3.3
	Imaging Media	202	209	7	3.4
	Speciality Materials	67	76	9	13.4
	Others	86	81	▲5	▲6.5
	Internal Transfer	▲145	▲137	8	—
	<b>Total</b>	<b>1,014</b>	<b>1,006</b>	<b>▲8</b>	<b>▲0.8</b>
Operating Income	Pulp&Paper	16	▲18	▲34	—
	Imaging Media	0	4	4	874.2
	Speciality Materials	1	0	▲1	▲90.8
	Others	2	2	0	▲5.8
	Internal Transfer	0	0	0	—
	<b>Total</b>	<b>19</b>	<b>▲12</b>	<b>▲31</b>	<b>—</b>

# Breakdown of Increase/Decrease of Consolidated Ordinary Income



(Unit: 100 million yen)

## First-Half of FY2013



# Balance Sheet <Consolidated>



(unit:100million yen)

	End of March 2013		End of September 2013		Increment
	Amount	%	Amount	%	Amount
<b>Assets</b>	<b>2,652</b>	<b>100.0</b>	<b>2,597</b>	<b>100.0</b>	<b>▲55</b>
Current Assets	1,093	41.2	1,066	41.0	▲27
Fixed Assets	1,559	58.8	1,531	59.0	▲28
Tangibles	1,261	47.5	1,255	48.3	▲6
Intangibles	5	0.2	4	0.2	▲1
Investment and Others	293	11.1	272	10.5	▲21
<b>Liabilities</b>	<b>2,098</b>	<b>79.1</b>	<b>2,044</b>	<b>78.7</b>	<b>▲54</b>
Current Liabilities	1,169	44.1	1,207	46.5	38
Long-Term Liabilities	929	35.0	837	32.2	▲92
<b>Net Assets</b>	<b>554</b>	<b>20.9</b>	<b>553</b>	<b>21.3</b>	<b>▲1</b>
<b>Interest-Bearing Debt</b>	<b>1,553</b>	<b>—</b>	<b>1,512</b>	<b>—</b>	<b>▲41</b>

# Statement of Cash Flow <Consolidated>



(Unit: 100 million yen)

	FY2012	FY2013	Increment
	First-Half	First-Half	
	Amount	Amount	Amount
<b>Cash Flow from Operating Activities</b>	<b>33</b>	<b>38</b>	<b>5</b>
<b>Cash Flow from Investing Activities</b>	<b>▲107</b>	<b>22</b>	<b>129</b>
<b>Cash Flow from Financing Activities</b>	<b>64</b>	<b>▲55</b>	<b>▲119</b>
<b>Effect of Exchange Rate Fluctuation on Cash &amp; Cash Equivalents</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net Increase/Decrease in Cash and Cash Equivalents</b>	<b>▲10</b>	<b>5</b>	<b>15</b>
<b>Cash and Cash Equivalents at the Beginning of the Year</b>	<b>131</b>	<b>52</b>	<b>▲79</b>
<b>Cash and Cash Equivalents at the End of the Year</b>	<b>121</b>	<b>57</b>	<b>▲64</b>

# Forecast for FY2013



# Forecast < Increase/Decrease Factors >



(unit:100million yen)

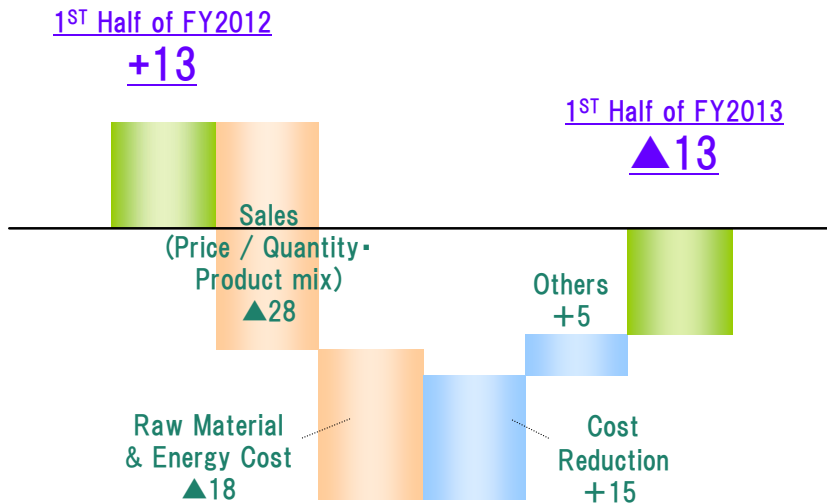
	FY2012			Forecast of FY2013			Increment					
	1ST Half	2nd Half	FY2012	1ST Half (Actual)	2nd Half (Forecast)	FY2013 (Forecast)	1ST Half		2nd Half (Forecast)		FY (Forecast)	
							Amt	%	Amt	%	Amt	%
<b>Sales</b>	<b>1,014</b>	<b>995</b>	<b>2,009</b>	<b>1,006</b>	<b>1,094</b>	<b>2,100</b>	<b>▲8</b>	<b>▲0.8</b>	<b>99</b>	<b>10.0</b>	<b>91</b>	<b>4.6</b>
Pulp&Paper	804	770	1,574	777	843	1,620	▲27	▲3.3	73	9.4	46	2.9
Imaging Media	202	196	398	209	221	430	7	3.4	25	12.6	32	8.0
Speciality Materials	67	75	142	76	89	165	9	13.4	14	18.3	23	16.0
Others	86	79	165	81	79	160	▲5	▲6.5	0	0.9	▲5	▲3.0
Internal Transfer	▲145	▲125	▲270	▲137	▲138	▲275	8	—	▲13	—	▲5	—
<b>Operating Income</b>	<b>19</b>	<b>14</b>	<b>33</b>	<b>▲12</b>	<b>29</b>	<b>17</b>	<b>▲31</b>	<b>—</b>	<b>15</b>	<b>96.7</b>	<b>▲16</b>	<b>▲49.0</b>
<b>Ordinary Income</b>	<b>13</b>	<b>14</b>	<b>27</b>	<b>▲13</b>	<b>23</b>	<b>10</b>	<b>▲26</b>	<b>—</b>	<b>9</b>	<b>63.5</b>	<b>▲17</b>	<b>▲62.5</b>
<b>Net Income</b>	<b>6</b>	<b>11</b>	<b>17</b>	<b>▲6</b>	<b>26</b>	<b>20</b>	<b>▲12</b>	<b>—</b>	<b>15</b>	<b>129.4</b>	<b>3</b>	<b>17.0</b>

Forecast of the 2<sup>nd</sup> Half: ¥100/\$, Dubai crude oil \$108/barrel

# Breakdown of Increase/Decrease of Consolidated Ordinary Income

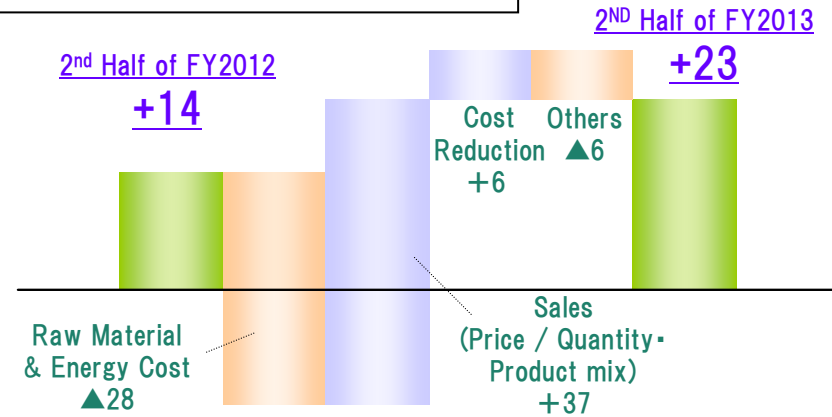


Comparison of the 1<sup>ST</sup> Half (Actual)

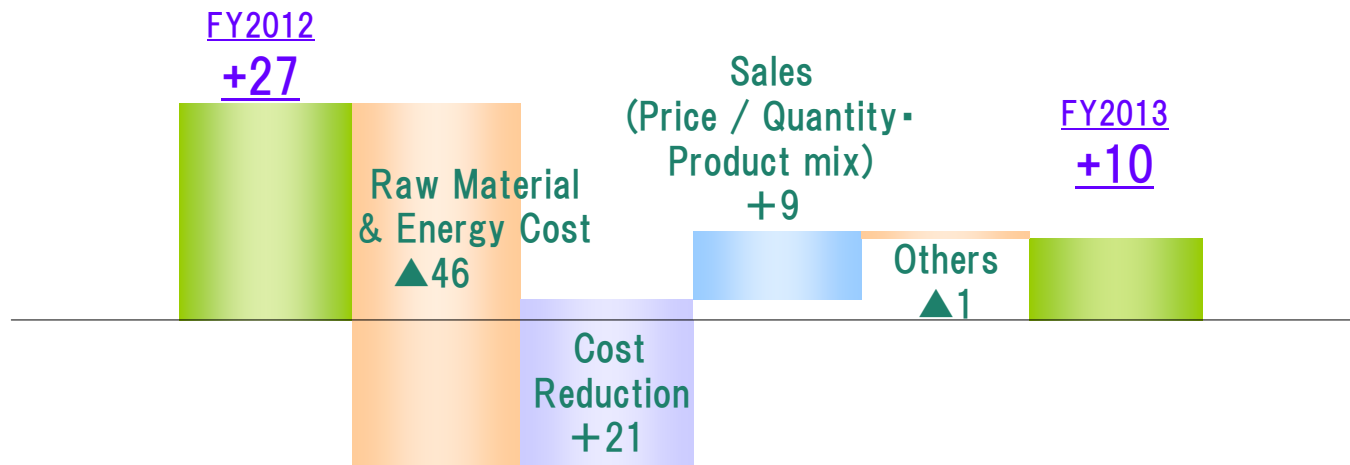


Comparison of the 2<sup>ND</sup> Half (Forecast)

(Unit: 100 million yen)



Comparison of FY2012 and FY2013(Forecast)



# Key Indices <Consolidated>



(unit:100million yen)

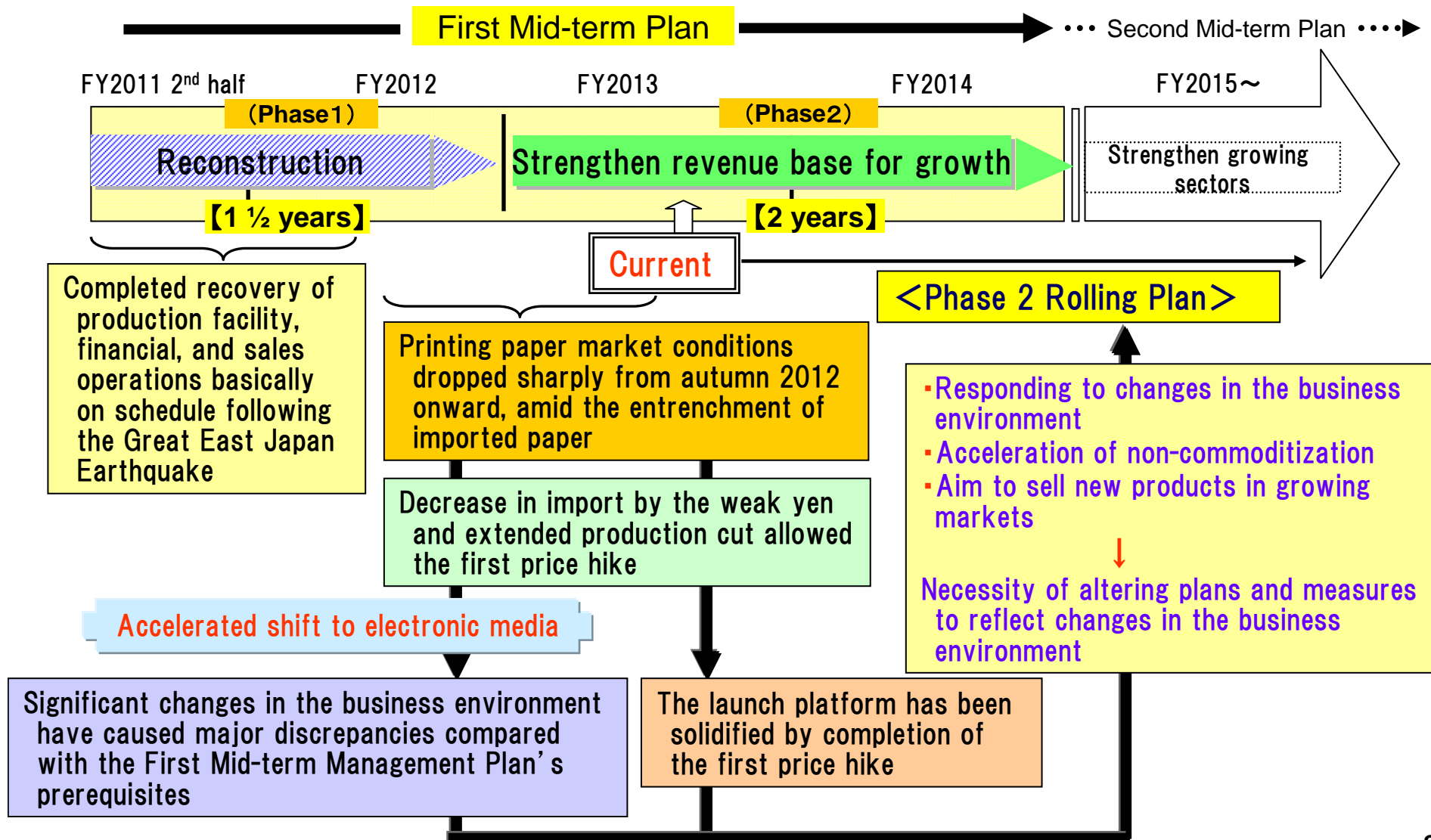
	FY2012 First-Half	<b>FY2013 First-Half</b>	FY2013(Forecast)
Interest Bearing Debts	1,635	<b>1,512</b>	1,500
Depreciation	55	<b>56</b>	112
Investment	39	<b>39</b>	60
Number of Employees	4,235	<b>4,061</b>	4,040

## Mid-term Management Plan (Phase 2 Rolling Plan)

# Background to the Revision of First Mid-term Management Plan Target



Schedule of the First Mid-term Management Plan, announced on August 26, 2011



## &lt;Domestic market trends\_&gt;

GDP growth rate		2011	2012	2013	2014
Japan	Assumptions set for the mid-term plan	-1.1%	4.0%	—	—
	Results/Forecasts	-0.8%	2.0%	1.8%	1.9%

## &lt; Assumptions during the mid-term plan &gt;

The growth rate owing to disaster recovery-related demand increased in 2012 and peaked afterward



## &lt;Current&gt;

Following the forecasted reduction of disaster recovery-related demand in 2012, the GDP growth rate remained steady from 2013 onward due to the effect of “Abenomics”

※ Previously, increases in paper demand were proportional to the GDP growth rate, but this rule is no longer valid due to structural changes mainly accompanying the digitization of media.

# Prerequisite Discrepancy Causal Analysis 2



## < Global economic trends >

GDP growth rate		2011	2012	2013
U.S.A.	Mid-tem Plan	2.8%	3.2%	—
	Results/ Forecasts	1.8%	2.8%	1.9%
Europe	Mid-tem Plan	1.6%	1.7%	—
	Results/ Forecasts	1.5%	-0.6%	-0.5%
China	Mid-tem Plan	9.6%	9.9%	—
	Results/ Forecasts	9.2%	7.8%	7.4%
India	Mid-tem Plan	8.0%	8.5%	—
	Results/ Forecasts	6.5%	5.0%	5.4%
ASEAN	Mid-tem Plan	5.4%	5.8%	—
	Results/ Forecasts	4.6%	6.3%	5.5%

## < Assumptions during the mid-term plan >

Forecast prolonged economic recession in Europe and North America due to sovereign risk

The age of India and ASEAN is dawning, and China is maintaining a high level of growth



## < Current >

The U.S. economy remained firm; Europe evaded sovereign risk of Southern Europe and gradually coming back

China and developing countries experience slower growth. Higher diplomatic friction in fall 2012

## The impact on Mitsubishi Paper Mills

Paper Div. → Higher influx of imported paper due to slower growth in China

Imaging Media Div. → Intensifying competition over photosensitive materials, yet higher export profits accompanying the weak yen

Speciality Materials Div. → Lower sales caused by poor performance of key customers and diplomatic friction

## First Mid-term Management Plan prerequisites

- Printing paper demand in 2011 decreased by 3.5 to 5% due to the earthquake disaster. In 2012, demand increased 2%. In the long term, demand is forecast to decrease mainly because of the digitization of information media and the shrinking population. In the mid-term, demand is forecast to remain unchanged amid anticipated economic growth.

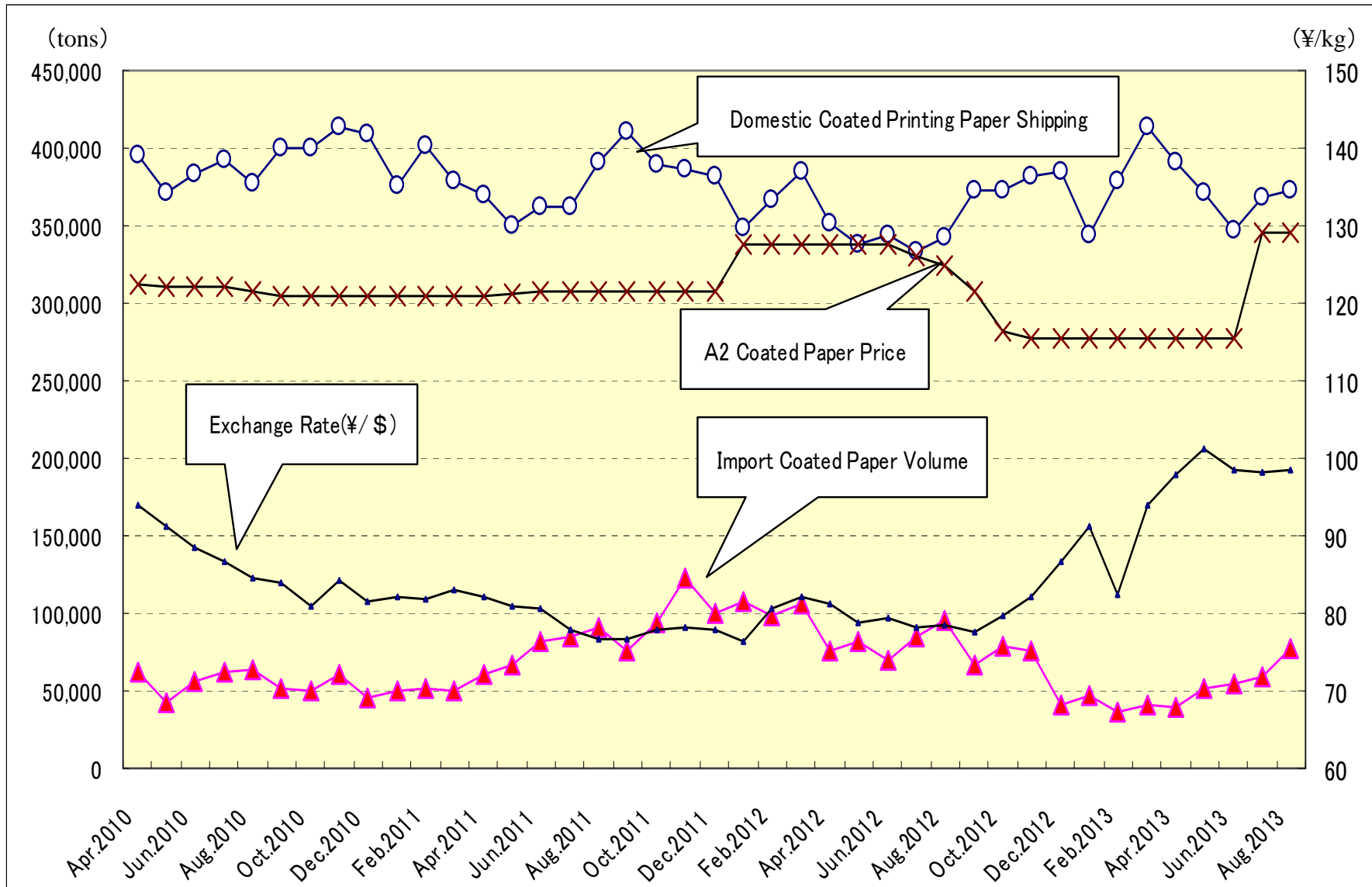


E-book market      2010 ¥65 billion → 2015 ¥200 billion  
2010-2012 Enhanced contents/upgraded environment  
Growth period expected from 2013 onward

- The impact of imported paper, particularly Chinese products, on the Company has been minimal as its major products, A2 coated printing paper cut sheets, does not compete in the market
- The market share of existing brands has recovered to pre-disaster levels → Hachinohe Mill full-scale production (gradual decrease due to reduced thickness)/maintained prices
- Resumed pre-disaster sales system; boosted sales of printing and communication paper
- Shifted to new high-value-added products; leveraged brand and product power(FSC/NVM)



# (Reference) Coated Printing Paper Shipment/Import Volume, Price, Exchange Rate



# Causal Analysis by Business —Paper Div. —2



## Review

	Before the Great East Japan Earthquake Oct.2010	First Mid-term Management Plan Aug.2011	Nov.2012	Aug.2013
Domestic Coated Printing Paper Shipping Volume(t/month)	400,436	391,365	382,252	372,684
Import Coated Paper Volume (t/month)	49,625	91,256	75,412	76,984
Import Coated Paper Ratio (%)	11.0	18.9	16.5	17.1
A2 Coated Paper Price(¥/kg)	121.0	121.5	115.0	129.0
Exchange Rate(¥/\$)	80.89	76.74	82.12	98.36

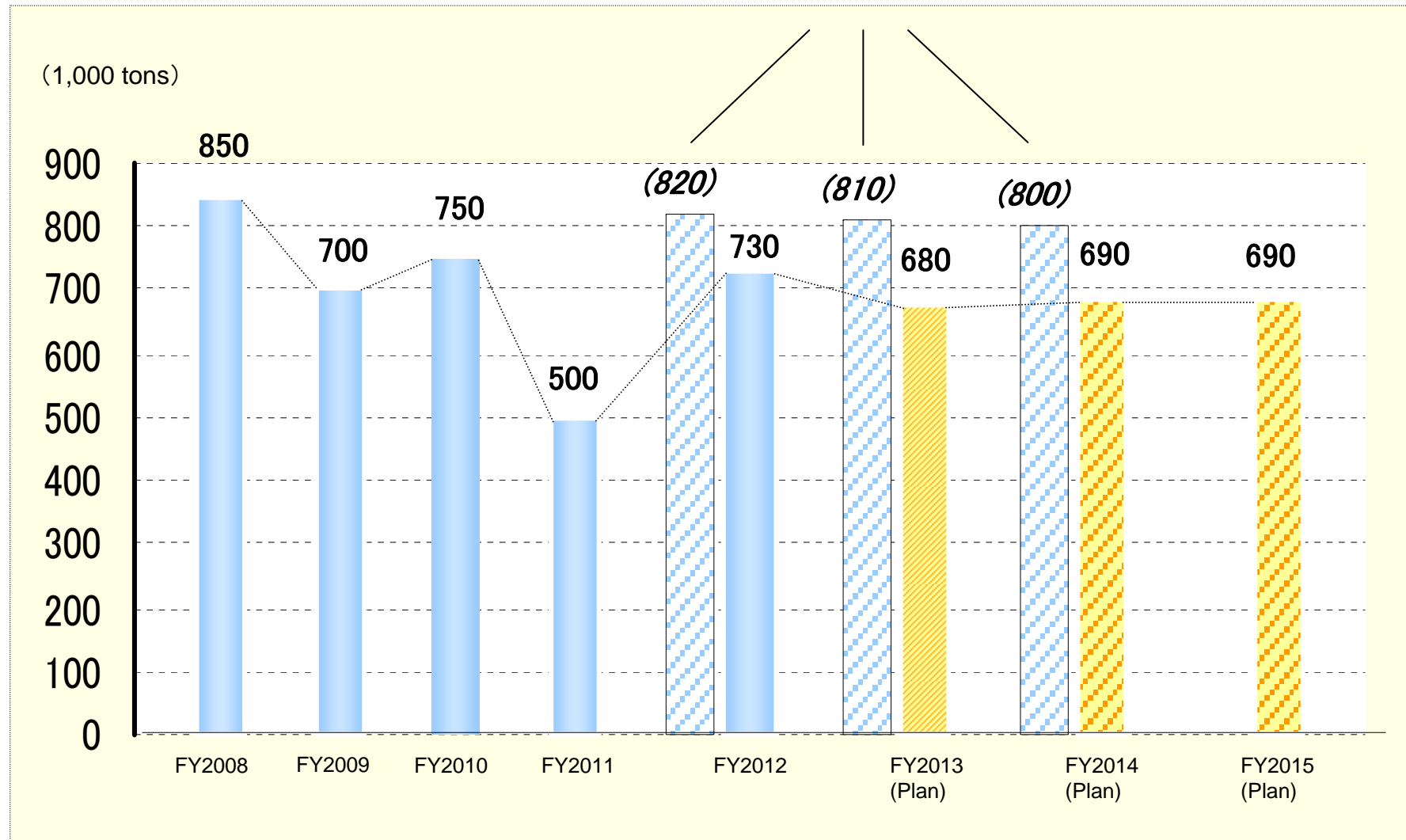
### ◎Autumn 2012 to now

Dec. 2012	<u>Suspended operation of No. 3 Paper Machine</u> ; reduced production output (10,000t/month) in line with market demands.
Jan. 2013.~	Lower paper imports/higher domestic paper sales following the weak yen but price remained low. Raw material and energy prices increased further.
Mar. 2013	Lower production caused by facility accidents.
Apr.2013	Each paper manufacturer announced printing paper prices increase, and realized it by the summer. The Company's negotiating stance : "not for volume but for price" → <u>Lost sales.</u>
Jun.-Aug.2013	Series of facility accidents <u>limited production.</u>
Oct.2013~	Second price improvement due to higher raw material and energy prices is on progress.

# (Reference) Hachinohe Mill Production Output



## First Mid-term Management Plan



## First Mid-term Management Plan prerequisites

- Decline trend of photo-sensitive materials markets. Specifically, photo paper decreasing by 6-9% per annum.
- Rise in silver halide raw material prices due to increases in gold and silver prices, raw material and energy prices
- Stagnant exports caused by the strong yen
- Find way to develop markets of emerging countries (India, Southeast Asia, Middle East, China) where expansion of demands is expected



## Review

- Amid declining demand in developed countries, profits improved for all imaging products due to the successful hard work of cost-cutting measures and improved export earnings by the yen weakening (¥80→¥100/\$) from the end of 2012 onward
- Successful market developments of photosensitive materials and inkjet paper in emerging countries
- Get ready to step into the new businesses such as functional film



Due to the tendency of weak yen, profits in existing operations is improving, and new products having expected future growth was developed

## First Mid-term Management Plan prerequisites

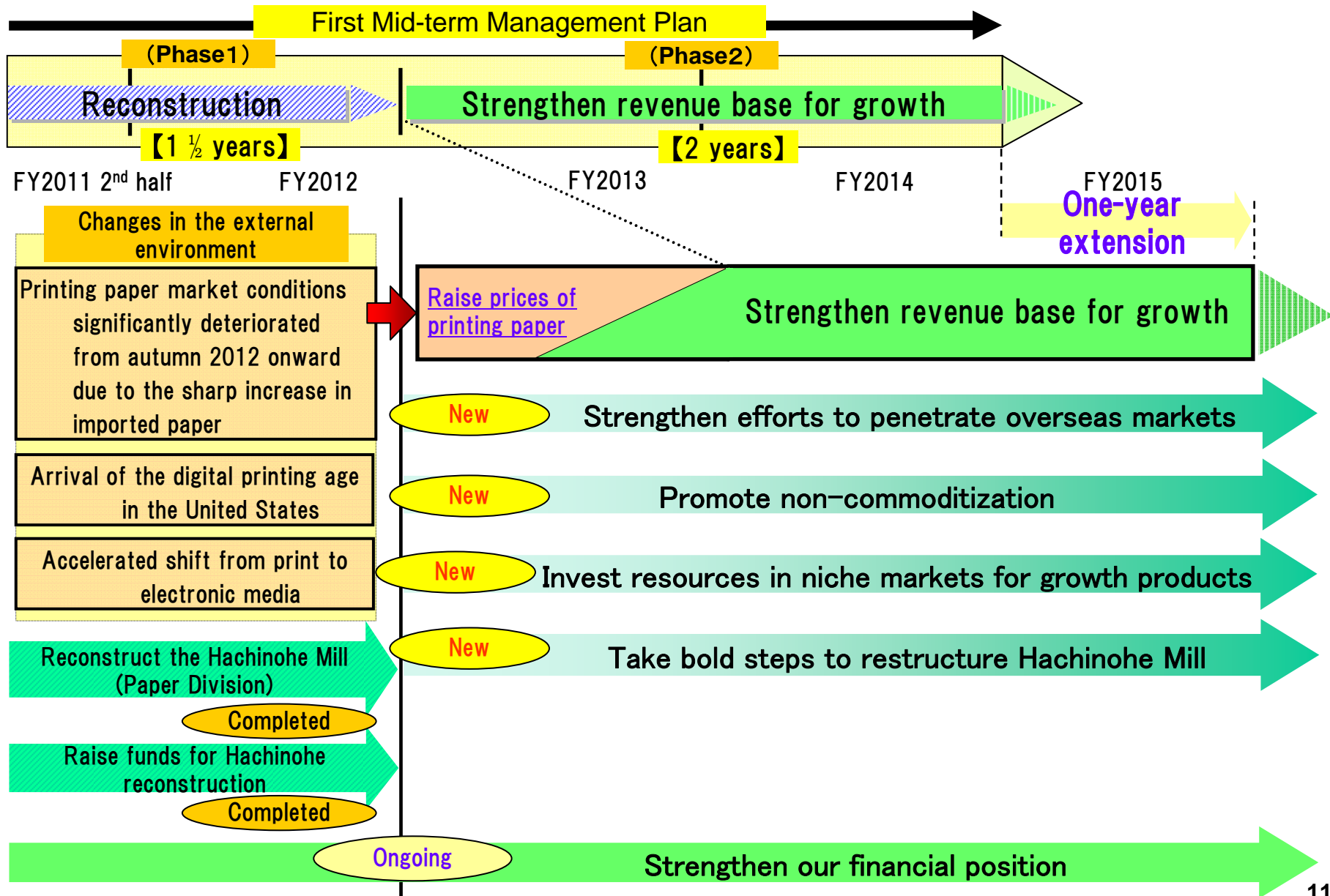
- RO membrane substrate/battery separator(BS)/filter market expansion primarily in emerging countries
- Early startup of new machine at Takasago mill
- New product/new market development
- Synergy with KJ Specialty Paper



## Review

- Recovery from a temporary sales slump from early 2013 caused by international tension starting in autumn 2012
- Completed the production transfer at Takasago Mill by establishing the qualities of RO membrane substrate, BS and others on new machine
- Establish a cross-border production/sales system for automotive-use cabin air filters
- KJ Specialty Paper maintains stable earnings, and promotes personnel exchanges with Mitsubishi Paper Mills in the area of sales and production

# First Mid-term Management Plan Revision Overview and Themes



# First Mid-term Management Plan Revision Themes 1



**Strengthen efforts to penetrate overseas markets**



**Overseas sales ratio target 35%**

Make a full-scale entry into the U.S. digital printing market  
(industrial inkjet paper/U.S. sales firms, etc./International Sales Department)

Cultivate new customers by enhancing product lineups for offset printing markets in Japan and Europe (Diamic Ltd. / German sales firms)

Retain the No. 3 position in the promising global thermal paper market (generating synergy between Germany and Japan)

**Promote non-commoditization**

Increase ratio of printing paper cut sheets/promote the shift to communication paper

**Invest resources in niche markets for growth products (China-Korea-Taiwan-Mexico etc.)**

Leverage new products (films for touch panels, etc.) to make a full-scale entry into the functional films sector

Establish a cross-border production/sales system for automotive-use cabin air filters

Establish a mass production system for water treatment membrane substrate/expand lithium-ion battery separator sales globally

# First Mid-term Management Plan Revision Themes 2



Take bold steps to restructure Hachinohe Mill



Monetary Impact

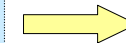
5.5 (billion yen per annum)

(of which, amounts included in FY2015 of revised mid-term management plan

1.7 billion yen per annum)

Convert Hachinohe Mill to a separate subsidiary

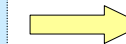
(0.4 billion yen)



2.4 billion yen

Energy-related businesses

(0.3 billion yen)

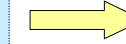


1.7 billion yen

Energy conservation

Improve product composition and others

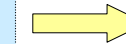
(0.8 billion yen)



1.1 billion yen

Improve logistics cost-effectiveness

(0.2 billion yen)



0.3 billion yen



(Reference)

## Energy Business under Feasibility Study



### Hachinohe Mill — FIT Business

Feasibility study under way jointly with Mitsubishi Heavy Industries, Ltd

Consultations underway with Aomori Prefecture to achieve commercialization



- Scale of power generation : 75,000kW
- Net sales : About 9 billion yen per annum

# Basic Targets (Revised Targets)



(unit:100million yen)

	FY2011	FY2012	FY2013	FY2014	FY2015
	Plan	Plan	Plan	Final Target	Revisions
	Result	Result	Forecast	Revisions	Final Target
Net Sales	2,000	2,300	2,350	2,400	2,300
	1,949	2,009	2,100	2,200	
Operating Income	30	75	80	100	85
	22	33	17	57	
Ordinary Income	10	45	50	70	60
	09	27	10	35	
Interest-bearing debt	1,700	1,700	1,600	1,500	1,400
	1,580	1,553	1,500	1,450	
D/E ratio	3.7 times	3.4 times	3.0 times	2.6 times	2.3 times
	3.2 times	2.9 times	2.8 times	2.6 times	

First Mid-term Management Plan prerequisites	Exchange Rates	US \$	¥80/\$
		euro	¥115/€
		Australia \$	¥85/A\$
	Crude Oil	Dubai	\$110/BBL

First Mid-term Revised Management Plan prerequisites	Exchange Rates	US \$	¥100/\$
		euro	¥125/€
		Australia \$	¥93/A\$
	Crude Oil	Dubai	\$108/BBL

# Indicators by Business



(unit:100million yen)

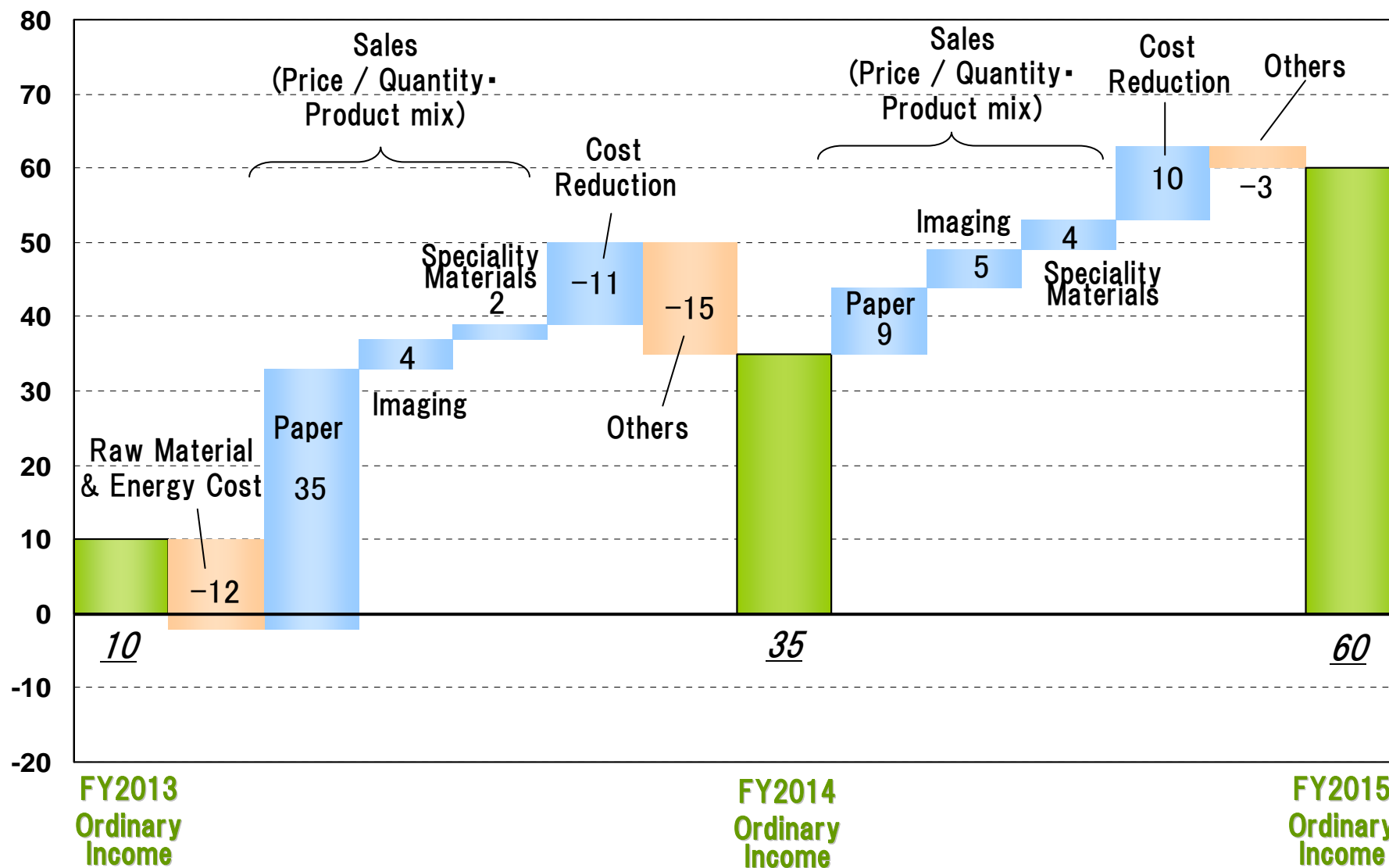
		FY2008	FY2012	FY2015 (Forecast)	vs FY2008	vs FY2012
Sales	Paper Div.	2,098	1,574	1,770	84%	112%
	Imaging Div.	502	398	430	86%	108%
	Speciality Materials Div.	51	142	185	363%	130%
	Others	208	165	155	75%	94%
	Internal Transfer	▲328	▲270	▲240	—	—
	Total	2,531	2,009	2,300	91%	114%
Operating Income	Paper Div.	57	22	48	84%	218%
	Imaging Div.	3	5	23	767%	460%
	Speciality Materials Div.	5	3	10	200%	333%
	Others	5	4	4	80%	100%
	Internal Transfer	1	▲1	0	-	-
	Total	71	33	85	120%	258%

FY2015 Overseas sales ratio target 35% (FY2012 29.5%)

# Ordinary Income Forecast



(Unit: 100 million yen)



# Strategy by Business Segment of revisions

## - Paper Division -



Paper Div. Operating Income Target ⇒ FY2015 **4.8 billion yen**

- ★ Secure earnings by raising product prices (implement the second price improvement)
- ★ Take bold steps to restructure Hachinohe Mill
  - Convert Hachinohe Mill to a separate subsidiary  
/ Reduce labor expenses through subsidiary reorganization
  - Promote energy conservation
  - Reduce logistics costs (increase direct shipment ratio, streamline warehouses)
- ★ Established International Sales Department in October 2013 to create and implement global strategies
  - Expand exports of communication paper (FY2015 4,000 ton/month)  
→ Promote penetration and expansion of U.S. and other markets
- ★ Promote non-commoditization
  - Install new sheet cutter/Realizing the efficiency of PPC finishing line
  - Increase sales of FSC products, white paperboard for food use, book paper, premium paper for catalogs, etc.
- ★ Reinforce competitiveness of German business
  - Use as a global strategic base (increase sales to the Americas, the Middle East and other non-euro-zone regions)

# Strategy by Business Segment of revisions

## - Imaging Media Division -



Imaging Media Div. Operating Income Target ⇒ FY2015 2.3 billion yen

- ★ Build a stronger business base using the alliance with Fuji Film
- ★ Penetrate growing sectors using imaging technology
  - Enter the functional film and other growing sectors
  - Aggressive sales of process paper produced by the unique production line specialized for photo paper
- ★ Further enhance existing paper products, which are progressively maturing
  - Full-scale entry into the IJ minilab market, which is expanding rapidly in major U.S. retail chains
  - Cultivate new customers through enriching product lineups of printing plate materials

# Strategy by Business Segment of revisions

## - Speciality Materials Division -



Speciality Materials Div. Operating Income Target ⇒ FY2015 1 billion yen

- ★ Cross-border production/sales system of functional filter products
  - Concentrate resources on a trilateral production system in Japan, China, and Mexico for automotive-use cabin air filters
  - Expand production/sales of air filters (remove PM 2.5) mainly in East Asia
- ★ Establish a mass production system for water treatment membrane substrate/expand sales globally
  - Accelerate sales of RO membrane substrate in China, Europe, the United States, and South Korea
- ★ Establish a mass production system and expand sales of secondary battery separators
  - Establish a foothold in the lithium-ion battery and electric double-layer capacitor markets
- ★ Increase sales of ThermoRewrite in Asia
  - Focus sales to meet Chinese public sector (travel and living permits) and private sector (point cards, airline tickets) demand
- ★ Facilitate exports using key KJ Specialty Paper brands
  - Take advantage of the weak yen to promote overseas sales of decor paper; increase sales of superior-quality tape backing paper in Europe

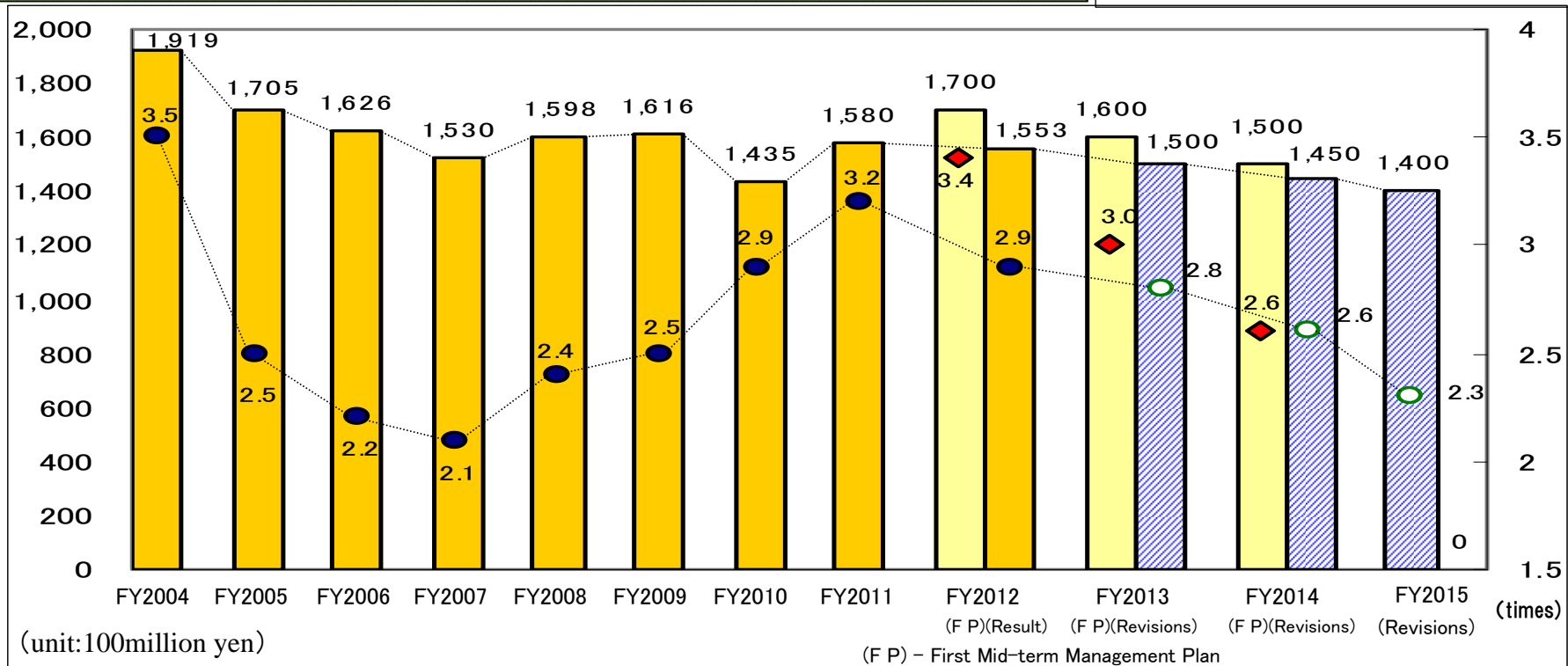
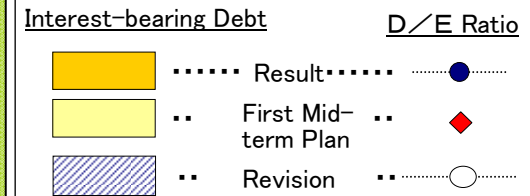


# Interest-Bearing Debt / D/E Ratio



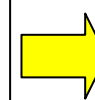
(unit:100million yen)

	First Mid-term Management Plan Target (end of FY2014)	Revision Target (end of FY2014)	Revision Target (end of FY2015)
Interest-bearing Debt	1,500	⇒ 1,450	⇒ 1,400
D/E Ratio	2.6 times	⇒ 2.6 times	⇒ 2.3 times



## Actions

- Reduce interest burden by procuring low-interest reconstruction loans
- Reduce assets
- Enhance capital efficiency, including subsidiaries



Achieve mid-term plan targets



**These slides contain forward-looking statements with respect to future results, performance and achievements that are subject to risks and uncertainties, and reflect management's views and assumptions formed based on available information. All data other than historical facts are data that could be considered forward-looking data. Should one or more of these risks or uncertainties materialize or should underlying assumptions prove incorrect, actual results may vary materially from those described herein. Mitsubishi Paper Mills does not intend or assume any obligation to update this forward-looking data.**