

Management Objectives and Strategies

Contribute to protection of the environment and advancement of culture.
Strive for continuous innovation in a proactive, responsive and determined manner.
Build and maintain trust throughout the world.



Business Environment

Awareness of Business Environment and Management Strategy	1
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Achievement and Maintenance of ¥100 Billion Ordinary Profit

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[Domestic]

- Domestic demand peaking
- Paper imports increasing

Forming a stable earnings base

- Strengthening cost competitiveness
- New technology, new products, new services (Strengthening non-price competitiveness)

Reorganizing the existing production capacity

- Increased cash flow

[Asia]

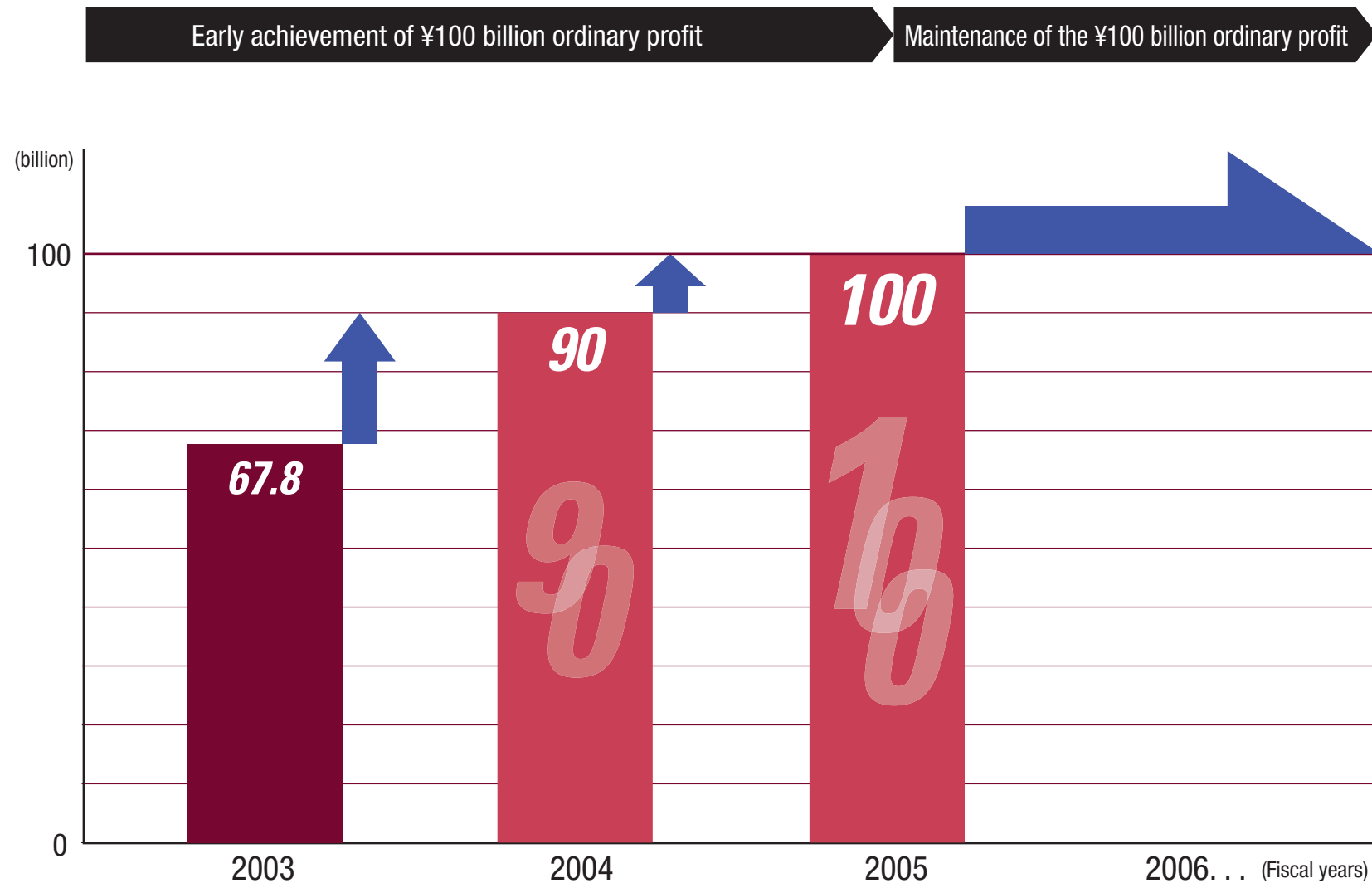
- Fast-growing market

Pursuing growth as a company

- Launching new businesses in high-growth markets, e.g., the Nantong Project

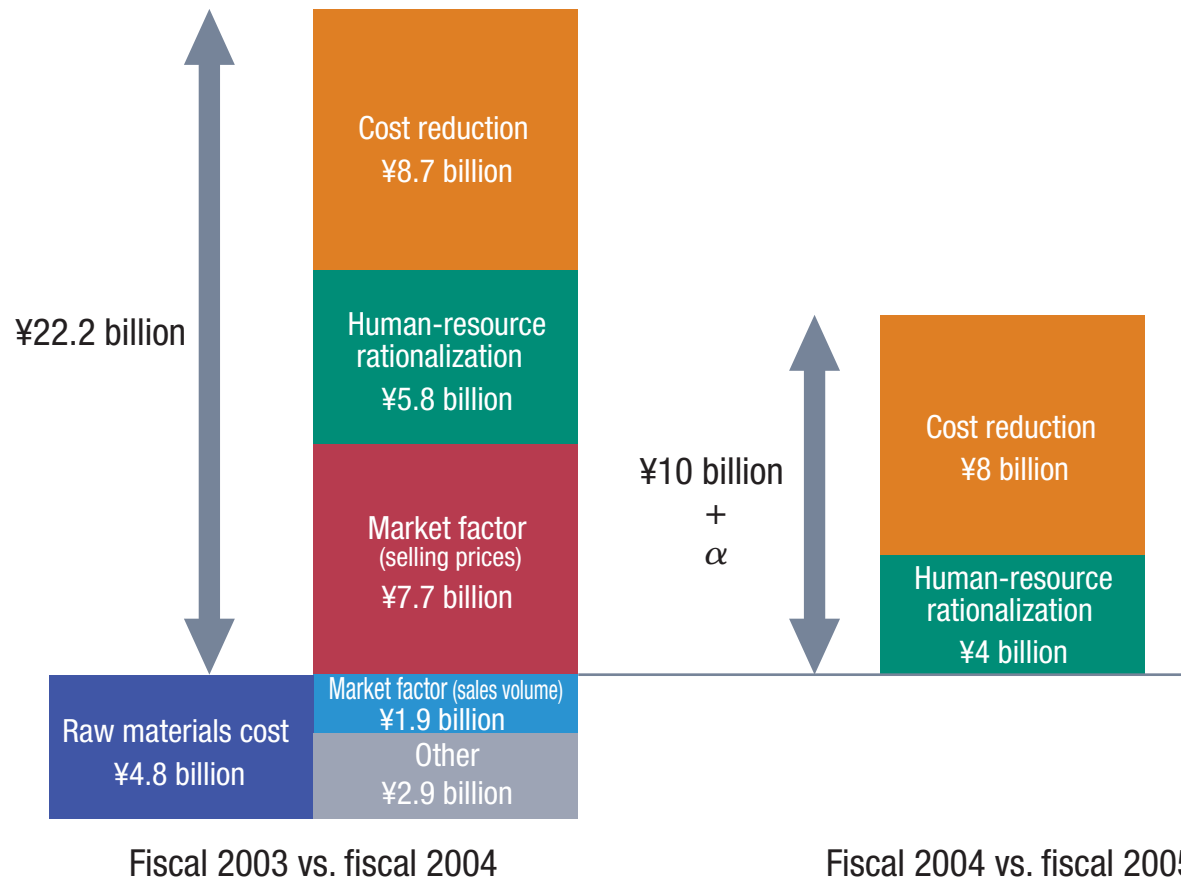
Targeting ¥100 Billion Ordinary Profit

■ Achievement and Maintenance of ¥100 Billion Ordinary Profit (1)



Factors Contributing to Achieving ¥100 Billion Ordinary Profit

Achievement and Maintenance of ¥100 Billion Ordinary Profit (2)



Details of cost reduction

(¥100 million)

	Fiscal 2003 vs. Fiscal 2004	Fiscal 2004 vs. Fiscal 2005
Introduction of RPF boiler	23	16
Optimization of purchasing	9	22
Increase of production efficiencies and others	55	42
Total	87	80

Human-resource rationalization

Total number of domestic employees

At the end of March 2004	18,242
At the end of March 2005	17,590
At the end of March 2006	17,160



Continued cost reduction efforts

- Reduction of total personnel expenses

Job reduction from the end of March 2004 through the end of March 2006: 1,100

Estimated number of employees leaving the company from the end of March 2006 through the end of March 2009: 2,000 (new hiring to be restricted)

- RPF boiler effect

New installation in 2005 at Yonago Mill and in 2006 at Nichinan Mill

- Improvement of efficiency

In-house manufacturing of chemicals, more energy saving, and other efforts



New technologies, new products and new services

- Maintenance and improvement of superior product qualities

- Creation of new demand

- Support of environment-friendly policy



Restructuring of the existing domestic production capacity (S&B)

- S&B (scrap and build), with competition and differentiation against imported paper in mind



Aggressive M&A

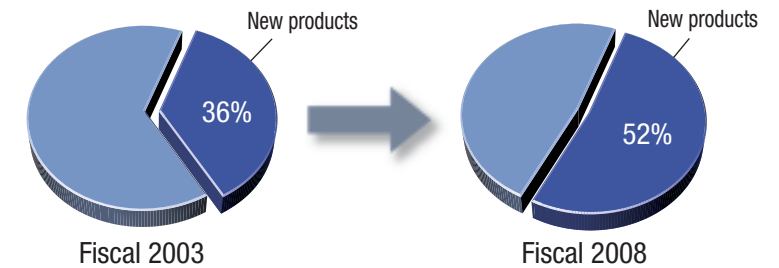
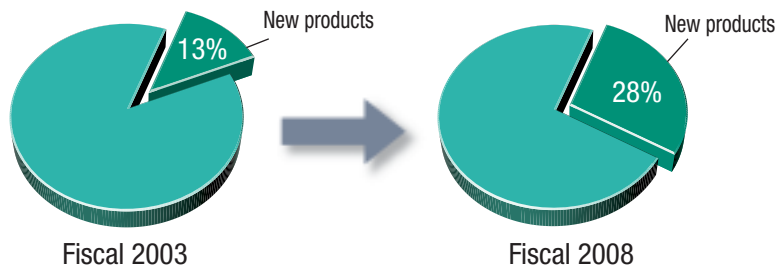
- Efforts to strengthen downstream business

New Products (1)

Achievement and Maintenance of
¥100 Billion Ordinary Profit (4)

Sales ratio

New-product sales ratio Fiscal 2003 **9%** → Fiscal 2008 **17%**



Examples

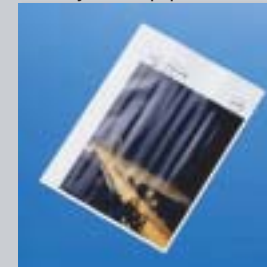
Kinфуji +



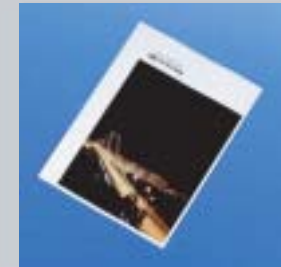
New art paper that enables printing ink to dry in less than half the normal time

Non-Wrinkle series

Ordinary coated paper



OK Non-Wrinkle



This product minimizes wrinkles in offset printing.

“Kasadaka” series



“Bulky” high-volume,
reduced-weight printing paper
with excellent printing
characteristics

Condenser films



Super-thin polypropylene films
(for use in hybrid vehicle condensers, etc.)

Printing papers for digital photographs



A series of printing papers for digital
photographs, such as high-gloss ink-jet paper





Transparent thermal films



Transparent thermal-sensitive
films to print computer-
generated images for medical
diagnosis





Strategies in Each Business Division (1)

Achievement and Maintenance of
 ¥100 Billion Ordinary Profit (5)

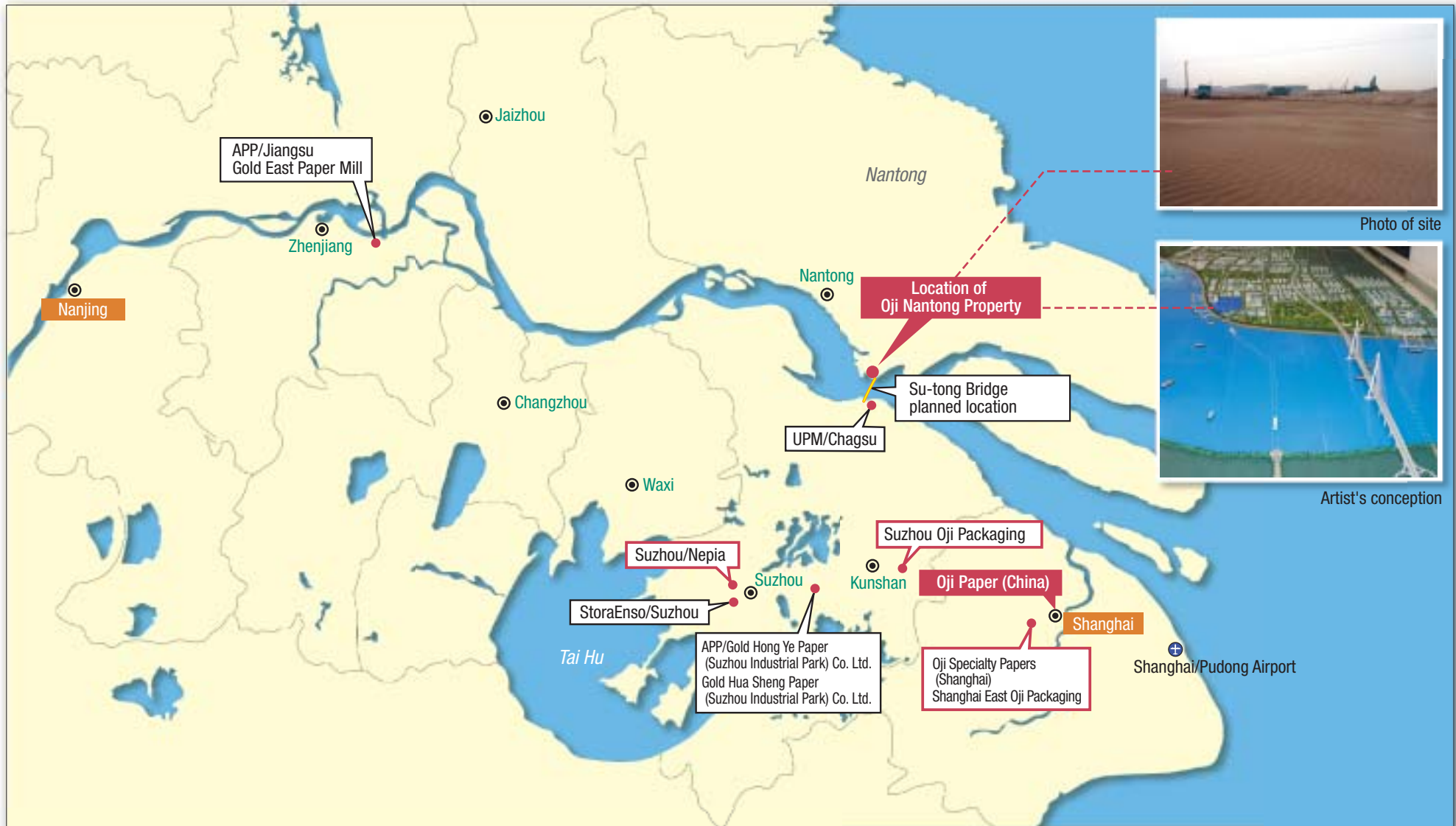
	Business environment	Business strategies
Newsprint Business 	Domestic demand →	<ul style="list-style-type: none"> • Maintaining existing prices • Introducing new products • Reviewing the supply system
	Paper imports →	
Printing Papers Business 	Domestic demand →	<ul style="list-style-type: none"> • Selecting and concentrating paper type and grade • Maintaining existing prices • Introducing new products • Restructuring the production capacity (S&B) • Streamlining distribution channels
	Paper imports ↗	
Communication Papers Business 	Domestic demand ↗	<ul style="list-style-type: none"> • Introducing new products • Sales promotion highlighting technological advantages over other makers • Reviewing non-performing businesses • Strengthening business in Asia
	Paper imports ↗	
Boxboard and Packaging Papers Business 	Domestic demand ↘	<ul style="list-style-type: none"> • Sales promotion highlighting quality superiority over competing products • Maintaining existing prices • Developing potential demand • Introducing new products
	Paper imports ↗	

Strategies in Each Business Division (2)

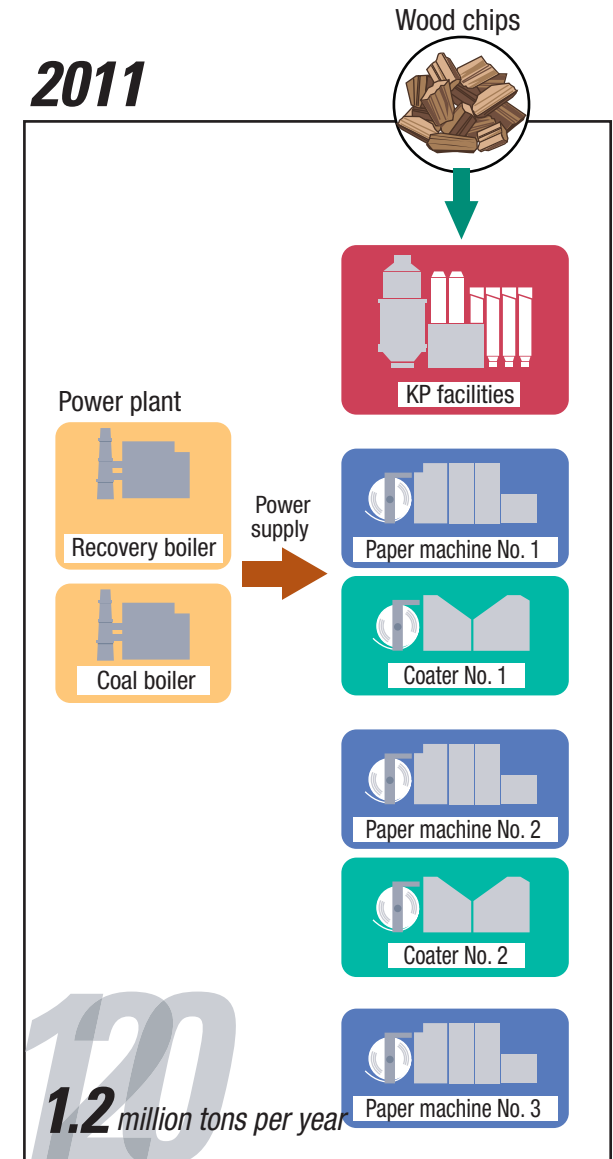
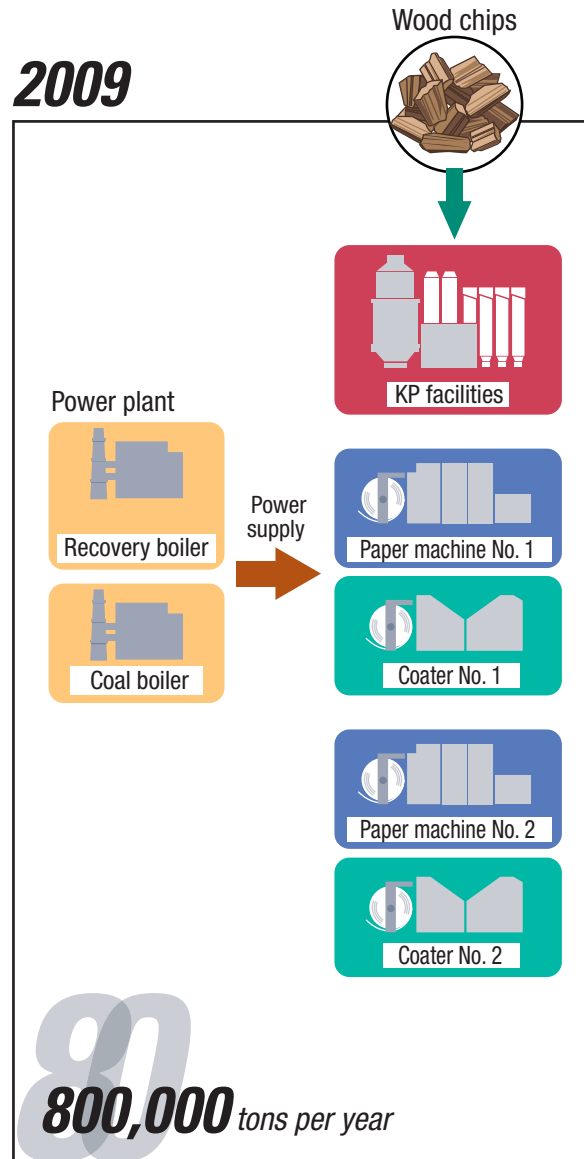
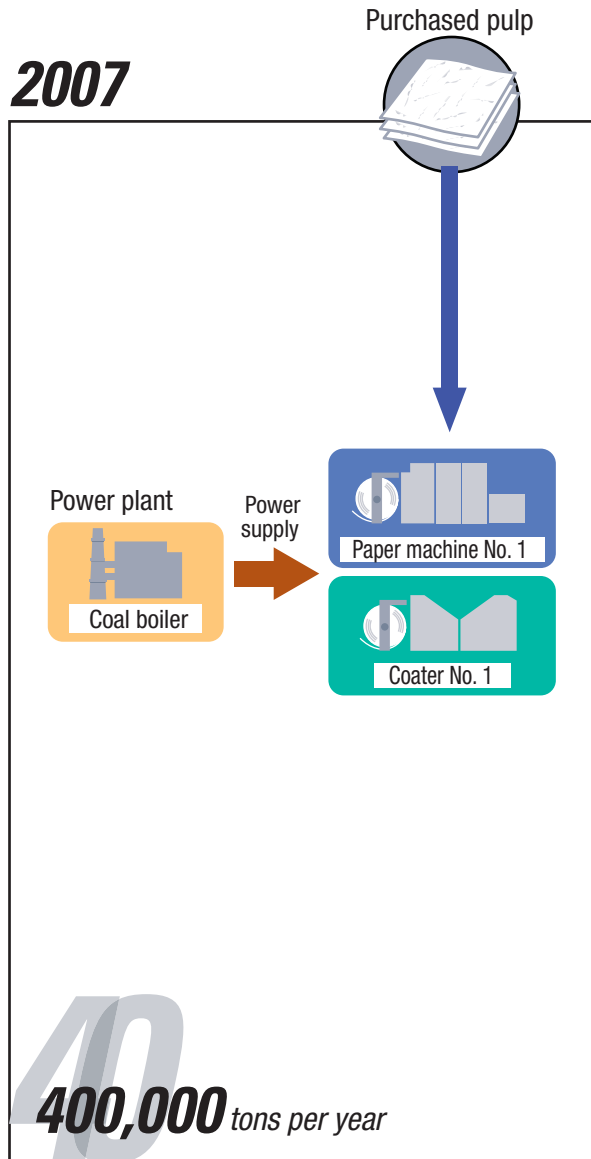
Achievement and Maintenance of
 ¥100 Billion Ordinary Profit (5)

	Business environment	Business strategies
Specialty Papers Business 	Domestic demand	<ul style="list-style-type: none"> • Introducing new products • Reviewing non-performing business • Completing plans to optimize the production system of Fuji Paper Co. Ltd. • Realizing the consolidation effect of new companies as early as possible
	Paper imports	
Containerboard Business 	Domestic demand →	<ul style="list-style-type: none"> • Maintaining existing prices • Procuring wastepaper on a stable basis • Restructuring production capacity (S&B)
	Paper imports →	
Corrugated Containers Business 	Domestic demand →	<ul style="list-style-type: none"> • Restoring original prices and improving long-standing transaction terms • Differentiating the company and products from the competition • Restructuring production capacity (S&B) • Boosting profits from overseas operations
Household Products Business 	Domestic demand ↗	<ul style="list-style-type: none"> • Supporting higher prices • Enhancing the brand power of the company's products • Introducing new products
	Paper imports ↗	

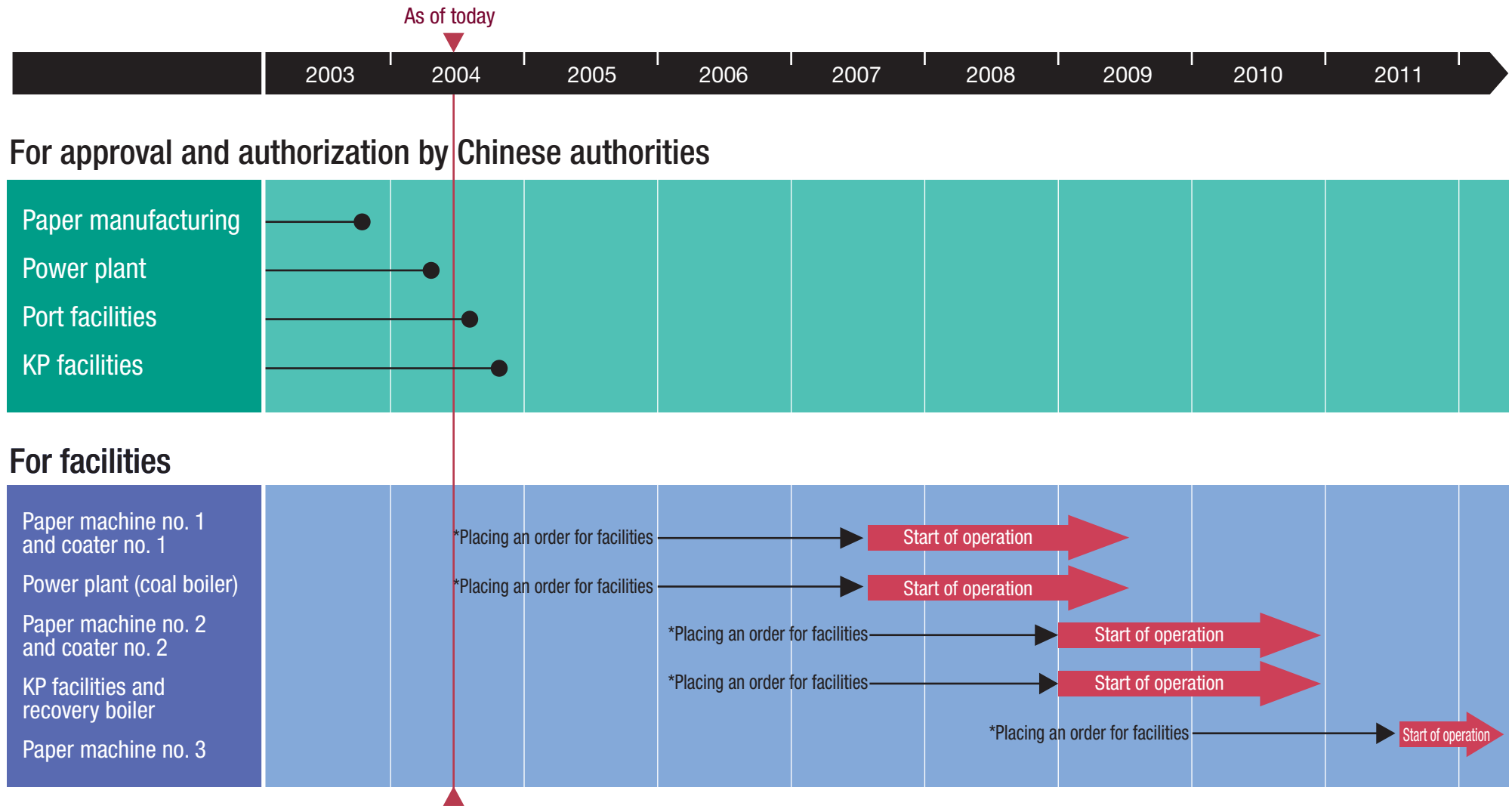
Map of Area Surrounding Nantong Project



Plant and Equipment Outline



Total investment: ¥220 billion

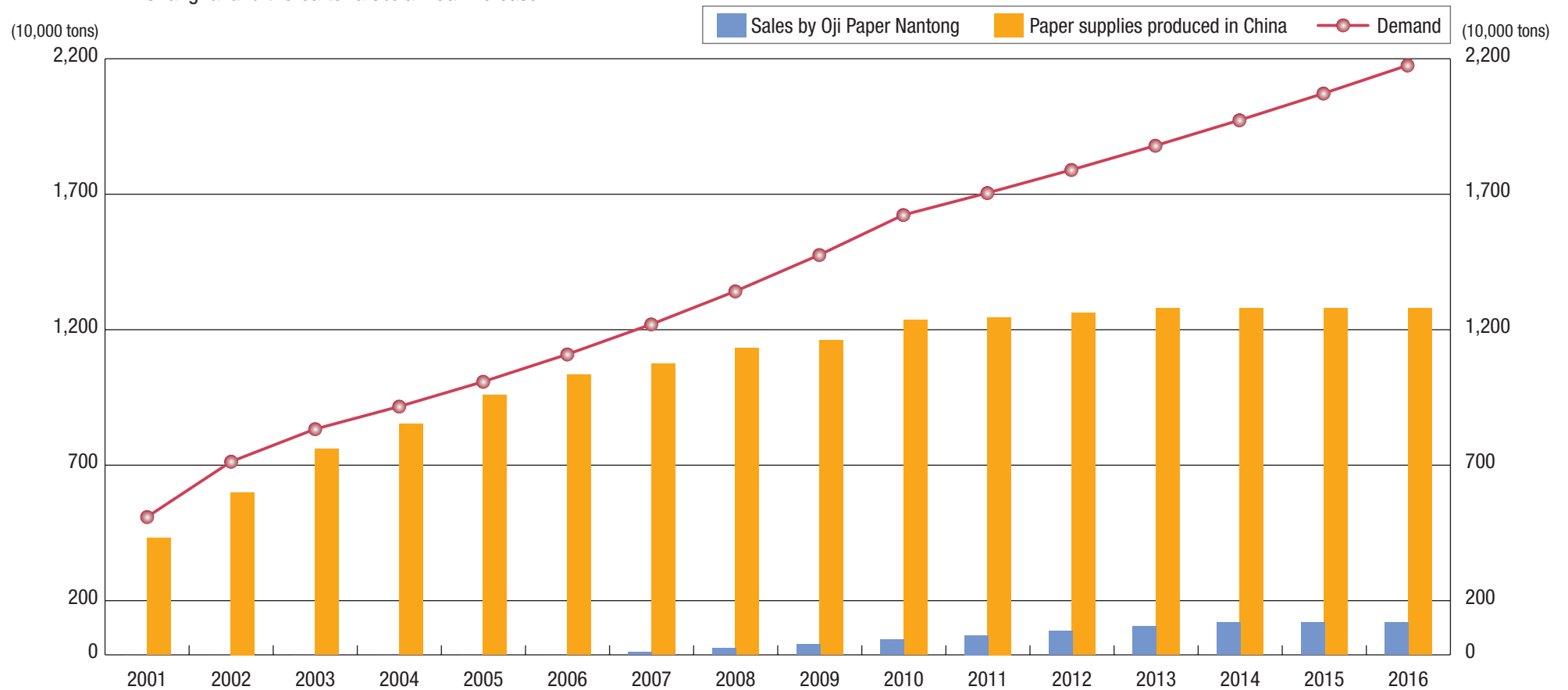


*The placement of these orders is subject to approval of KP facilities by Chinese authorities.

Balance between Supply and Demand

Supply and demand outlook for coated and uncoated printing paper in China

Our projections assume a 10% increase in demand from now until the 2008 Beijing Olympics and the 2010 World Exposition in Shanghai and thereafter a 5% annual increase.



Basic awareness

We project a stable increase in demand in China.

In the meantime, as paper supplies increase, we will face tougher competition from other manufacturers.

We plan to compete with other manufacturers that have established a presence in China ahead of us, mainly by offering a broader product lineup and higher product quality, as well as through cost competitiveness.

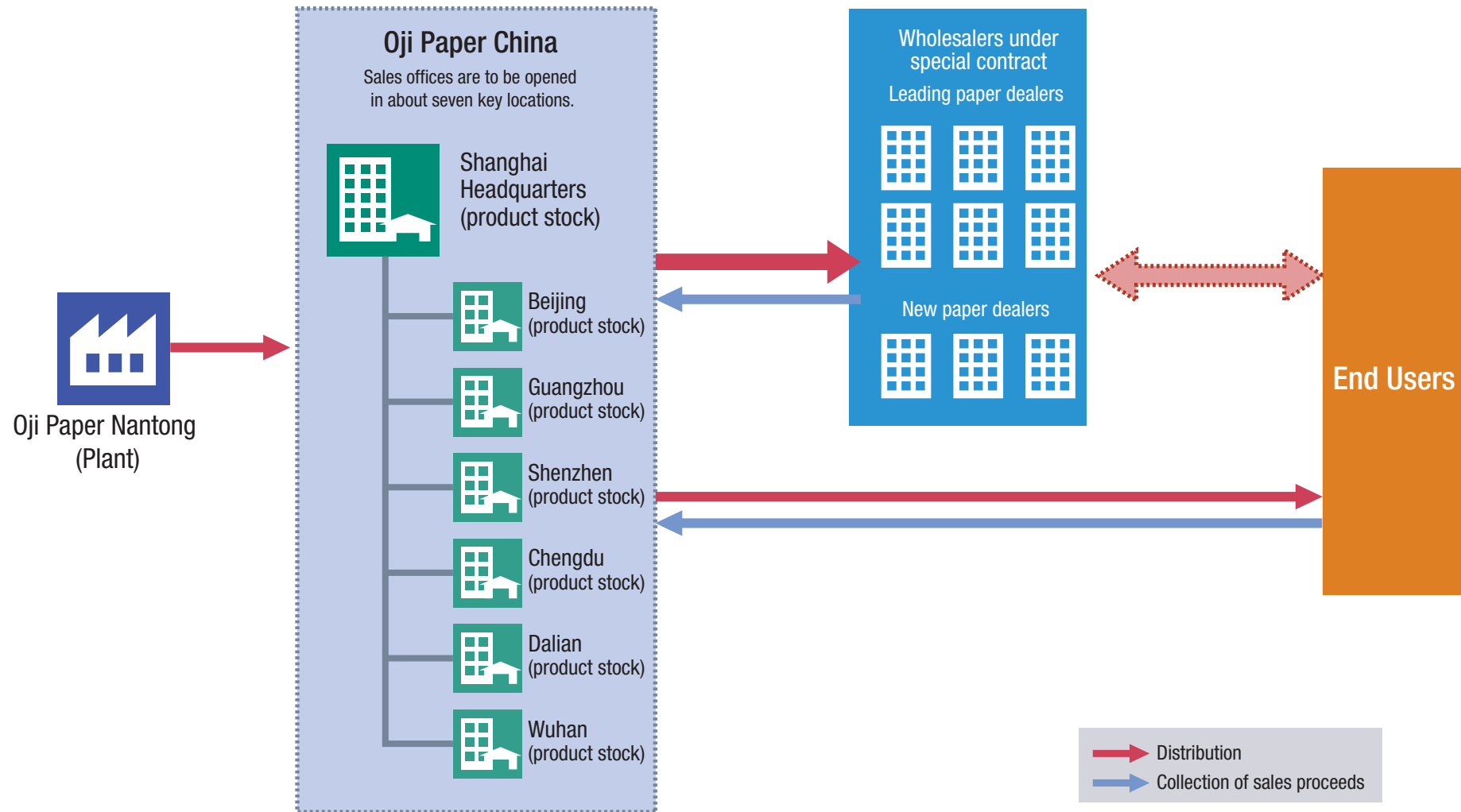
Business policy on a product-by-product basis

- **Production and sales items** Mainly coated paper after paper machine no. 1 goes into operation
Broader product line-up in coated paper and wood-free paper after paper machine no. 2 goes into operation
- **Paper quality** The highest quality available in China
- **Pricing** Premium price appropriate for high-quality paper
- **Sales target** A 10% market share in 2011 for coated paper

Procurement of raw and other materials

For key items, the company already has suppliers in China.

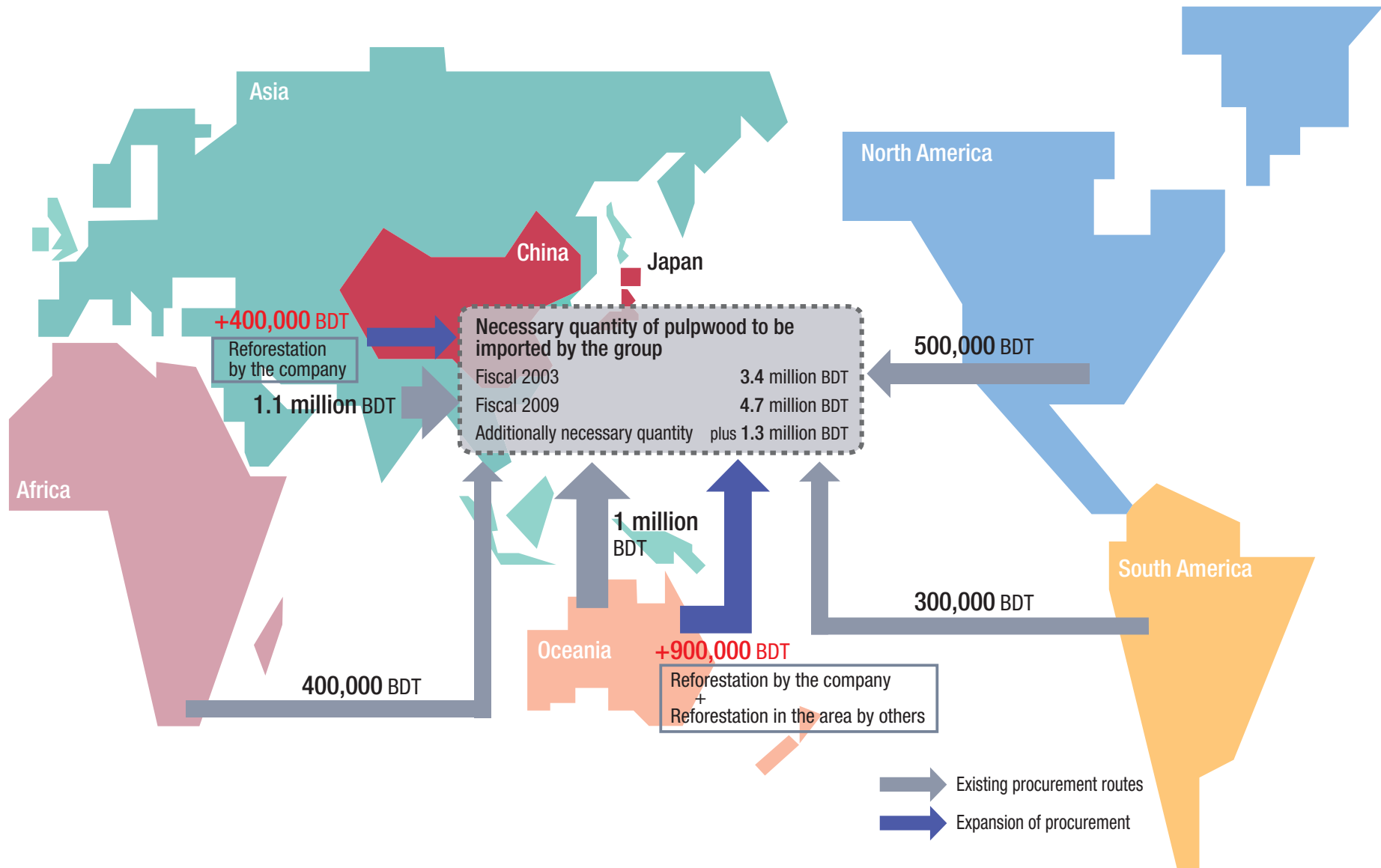
Flowchart of Distribution in China



Earnings Scheme (Profit and Loss, Cash Flow, Etc.)

Plant and equipment		One machine One coater	>>>>>	KP facilities Two machines Two coaters	>>>>>	KP facilities Three machines Two coaters	>>>>>	>>>>>	>>>>>	>>>>>	>>>>>
Investment Amount	¥ billion	65	115	40
Fiscal year		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Sales volume	1,000 tons	94	258	472	640	808	982	1,066	1,130	1,130	1,130
Break down	Coated paper	1,000 tons	94	258	396	559	722	876	926	934	934
	Wood-free paper	1,000 tons	0	0	76	81	86	106	140	196	196
Sales amount	¥ billion	8	22	39	53	67	82	89	94	94	94
EBITDA	¥ billion	(1)	1	9	16	20	26	29	31	31	31
Before-tax profit	¥ billion	(3)	(4)	(2)	5	7	14	18	21	22	23
After-tax profit	¥ billion	(3)	(4)	(2)	5	7	14	17	20	21	20
Profit margin	%	(38%)	(18%)	(5%)	9%	10%	17%	19%	21%	22%	21%
Operating cash flow	¥ billion	(2)	0	6	13	16	22	25	26	27	25
Total	¥ billion	(2)	(2)	4	17	33	55	80	106	133	158

Strategies for Securing Wood Resources



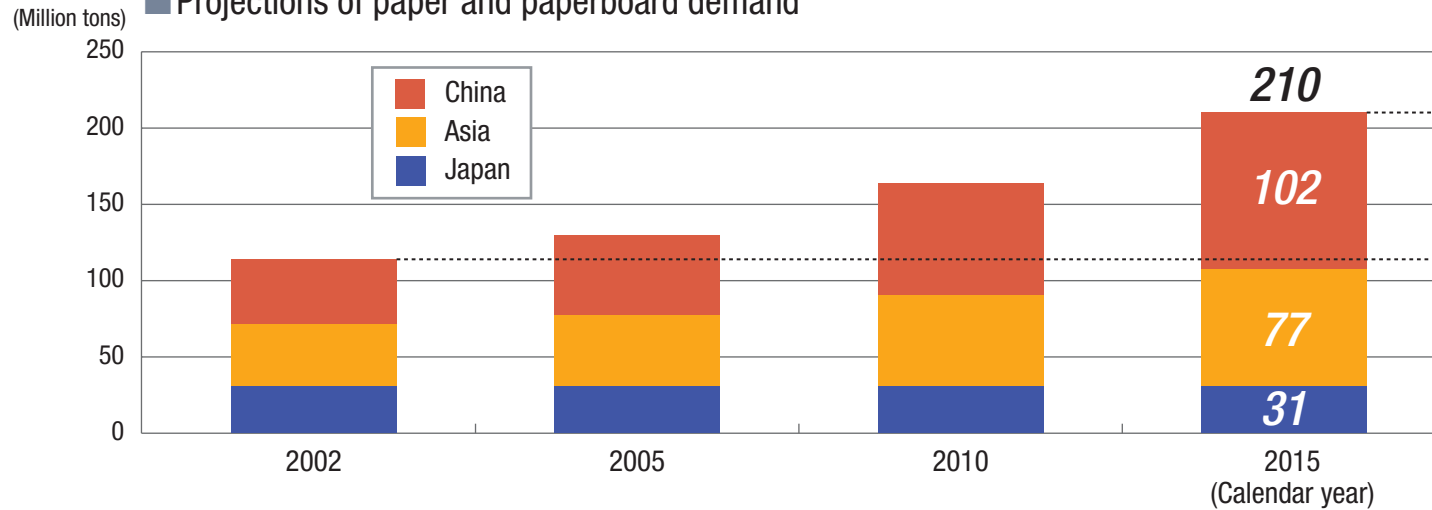
Basic management targets in fiscal 2004-2008

	Fiscal 2003	Target	With the following in mind
Ordinary profit	¥67.8 billion	Over ¥100 billion (level to be achieved continually)	The basis for increasing our shareholders' value and obtaining resources to make strategic investments
ROE	7.0%	Over 7.0%	Accomplished despite projected growth of shareholders' equity
D/E ratio	1.6	Under 1.5	Minimum target to be reached to realize financial health that will enable large-scale investments
Sales-to-ordinary-profit ratio	5.7%	Over 5% in all business divisions	Minimum target to be reached

Outlook for Asian Demand for Paper and Raw Materials

Future Concerns
as an Asian Company (1)

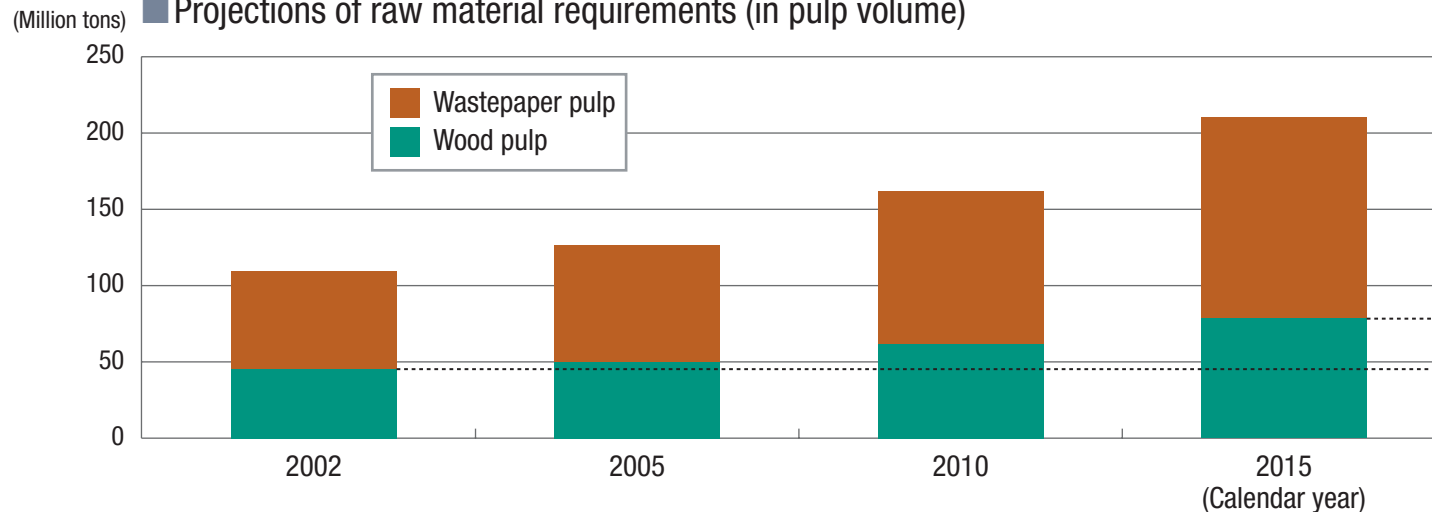
■ Projections of paper and paperboard demand



96 million BDT

China 60 million tons
Asia 36 million tons
Japan 0 million tons

■ Projections of raw material requirements (in pulp volume)






Converted to corresponding
reforested area: 9 million ha
Wood pulp: 61 million BDT

33 million BDT

Capital investment required from 2002 to 2015 to meet growing paper and paperboard demand in Asia

Estimated demand growth for paper and paperboard: 96 million tons

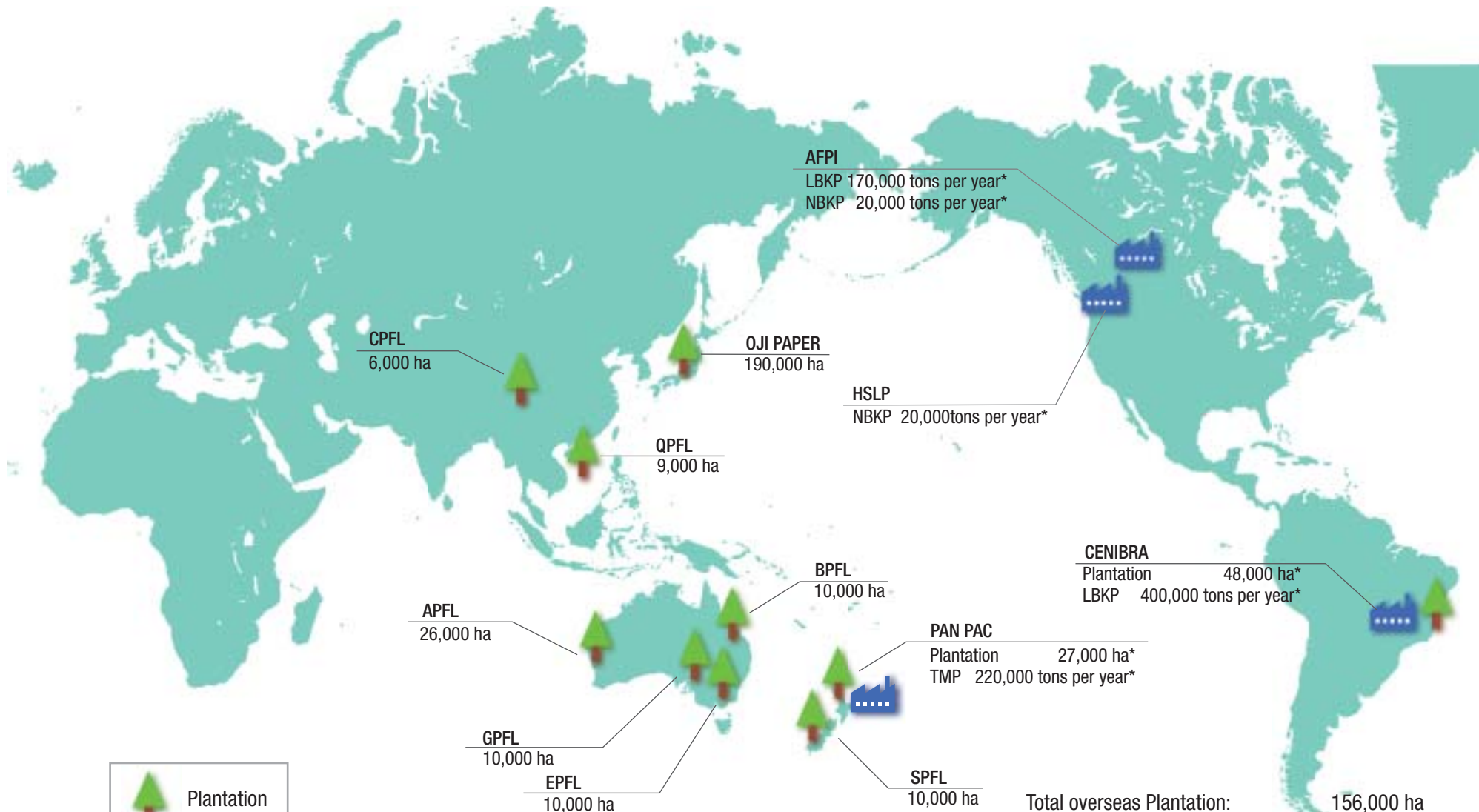
Necessary capital investment amount

	Paper and paperboard plant and equipment	96 million tons	➔	US\$ 96 billion
	Wastepaper plant and equipment:	68 million tons	➔	US\$ 13.5 billion
	Pulp plant and equipment	33 million tons	➔	US\$ 33 billion
Total		US\$ 142.5 billion		
Annual average		US\$ 11 billion		

Funds are required for yearly capital investment of more than US\$10 billion.

Projects for Procuring Wood Resources on a Stable Basis

Future Concerns
as an Asian Company (3)



Total overseas Plantation: 156,000 ha
(For reforestation projects underway, the target figures are indicated)

Pulp production capacity: 990,000 tons per year

*Company's share of total capacity