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# **Agreement to Enter into Joint Discussions for Forming a Strategic Alliance**

September 12, 2006

Hokuetsu Paper Mills, Ltd.  
Nippon Paper Group, Inc.



# Today's Agenda

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- 1 The Purpose of the Strategic Alliance
- 2 Overview of the Strategic Alliance
- 3 Further Partnerships



# 1 The Purpose of the Strategic Alliance

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# The Signing of the Memorandum of Understanding to Enter into Joint Discussions for Forming a Strategic Alliance

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- On September 12, 2006, Hokuetsu Paper and Nippon Paper have signed a memorandum of understanding (MOU) to enter into discussions for forming a strategic alliance between the two companies. The two manufacturing companies will first aim to work towards maximizing the effectiveness of the alliance, with the support of Mitsubishi Corp.
- Planning to create a Steering Committee and Divisional Sub-Committees, and to sign a definitive agreement by the end of November, 2006.
- Aiming at gradual implementation of the contents of the alliance from Year 2007



# Our Vision for the Japanese Paper Industry

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- A healthy domestic market competition, which will allow user choice. This is ensured by the top two manufacturers, Nippon Paper Group and Oji Paper, along with third force companies who have regional independence
- An environment which enables companies to form flexible alliances to realize greater competitiveness and capital investments, allowing for expansion into overseas markets

# The Ideal Management Strategy for Paper Companies in Japan

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- Expand into overseas markets from the domestic production bases by strengthening the highly efficient, large, integrated oceanfront plants. As a result, major plants for printing and business communication paper in Japan will be able to compete with those of Chinese and other Asian companies
- As for the domestic market, companies will be able to realize sufficient profit ability amid healthy competition, and continue to address challenges such as forestation, paper recycling, global warming and efficient utilization of energy, fulfilling its social responsibility



## Why Form an Alliance?

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- The independence of Hokuetsu Paper management comes first
- Moving towards a new industry structure through an alliance that mutually respects each other's independence
- Cooperation with Mitsubishi Corporation

# The Independence of Hokuetsu Paper Management Comes First

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- A business integration opposed by management and employees



Benefits of Integration < Disadvantages of Integration

- Loss of morale
- Slower achieving of results
- Constraints set by antitrust law

Maintaining and expanding the current efficient management is the best way to maximize corporate value





## Moving towards a New Industry Structure through an Alliance That Mutually Respects Each Other's Independence

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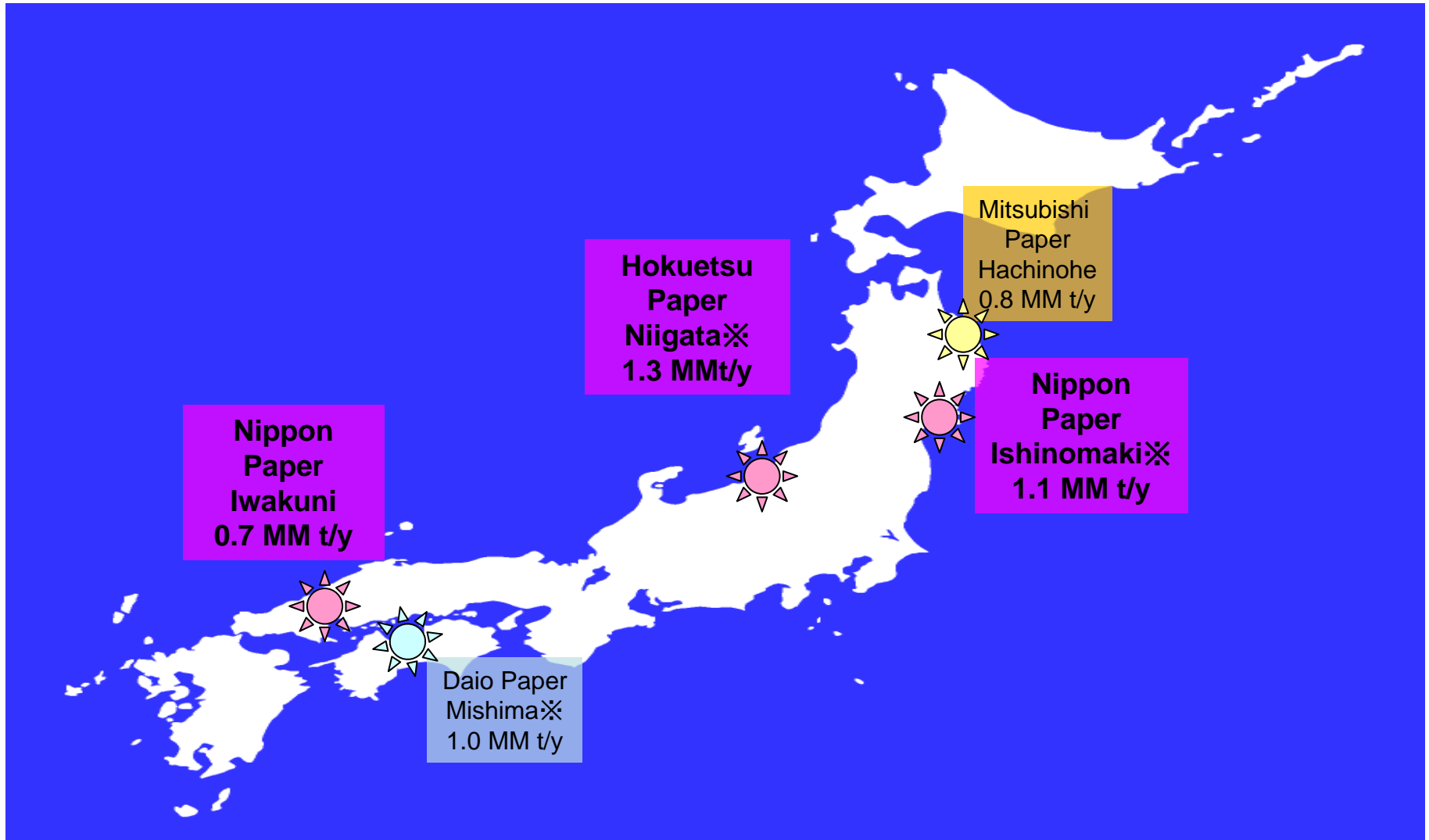
- The best way to maximize corporate value is to respect mutual independence and to cooperate in areas where each party can benefit from the others' unique strengths (e.g. steel industry, auto industry)
- An alliance focused on speed is the way to survive in the fast-moving Asian market
- Open alliance with flexibility to accommodate for different purposes and conditions (i.e. open to expanding alliance partners in the future)

# Similarity between Hokuetsu Paper and Nippon Paper

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- A common ground of management strategy between the two companies
  - Setting out for the Asian market from the major domestic production bases
  - Focusing on coated paper and lightweight coated paper (Additional investment in new machines)
- Similarities of business areas (except for papers)
  - White paperboard, specialty paper business
  - Liquid packaging cartons business
- Superiority of domestic production base locations
  - Paper-pulp integrated, large oceanfront plant

# Domestic Paper-Pulp Integrated, Large Oceanfront Plant (Adjacent to ports/Annual printing and business communication paper production over 0.7 MM ton/year)



※ Production capacity after the launch of new paper machines for Nippon Ishinomaki, Hokuetsu Niigata and Daio Mishima



# Support by Mitsubishi Corporation

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- Alliance with the largest trading company in Japan with solid reputation and achievements in energy resources, industrial machinery, consumer goods and etc
- Strengthening strategic procurement capabilities for raw materials
- Strengthening distribution capabilities including distribution within export markets (utilizing the network of Mitsubishi Corporation, the largest general trading company)



## 2 Overview of the Strategic Alliance

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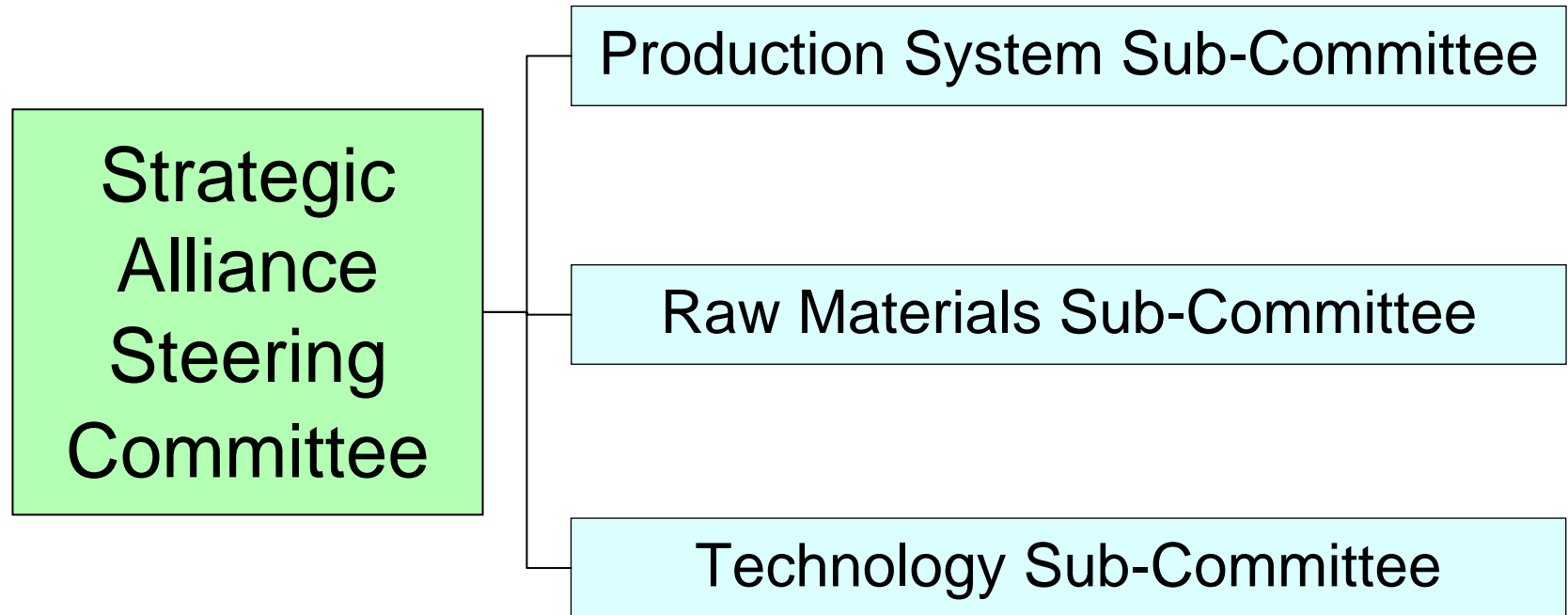
# Scope of the Strategic Alliance Discussion

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- 1 For the smooth launch of the two new large-sized on-machine-coaters, Nippon Paper Ishinomaki Plant N-6 paper machine (operation to start in fiscal year 2007) and Hokuetsu Paper Niigata Plant N-9 paper machine (operation to start in fiscal year 2008), and for achievement of early improvement of earnings, forming of a specific cooperative relationship within the OEM production consignment including existing facilities, operation, distribution of goods and procurement of raw materials
- 2 Overcoming of the common challenges within the paper industry, such as the environment, forestation, used paper recycling, energy and the paper technology and development, as well as forming of the specific cooperative relationship in the business fields such as white paper boards, specialty papers and the beverage packaging cartons

# Structure for the Strategic Alliance Discussions

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# Scope of the Alliance and Expected Benefits (Annual Amounts)

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- 1 Cooperation for the early realization of the benefits of the new paper machine  
..... JPY3.5Bn
- 2 Cooperation for the procurement of raw materials  
..... JPY4.2Bn
- 3 Cooperation for the production system, rationalization in distribution  
..... JPY0.8Bn

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Total Target JPY8.5Bn



# 1 Cooperation for the Early Realization of the Benefits of the New Paper Machine

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- Reciprocal consignments in OEM production in the lightweight coated paper business, a growth area

- The Effect -

Consigner: Increased business

opportunity through expanded capacity

Consignee: Able to operate the new facility sooner than scheduled



## 2 Cooperation for Procurement of Raw Materials

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- 1 Chips: Leverage the world's largest chips fleet with over 40 ships together and expanding joint shipping
- 2 Pulp: Reciprocally accommodate paper pulps
- 3 Used Paper: Develop technology for high-utilization of used paper
- 4 Others: Joint procurement of heavy oil and chemicals

# 3 Cooperation for Production System, Rationalization of Distribution

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- Shifting towards an optimal production system for each region
  - Kanto Area = Shifting to Hokuetsu Paper supply
  - Tohoku, Kansai, Kyusyu Area = Shifting to Nippon Paper supply
- Cooperation in distribution systems
  - Implement cooperation : Accommodate cargo transporters and trucks
  - Transportation: Both companies already use ecological rail freights for transportation
  - Acting as A Responsible Supplier: Increase trust from users



## 3 Further Partnerships

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# Building Further Partnerships

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- Restructure multi-company production systems
- Develop the technology and intellectual property of both companies

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