



# **Strategic Alliance between Hokuetsu Paper Mills and Nippon Paper Industries**

**December 1, 2006**

**Hokuetsu Paper Mills, Ltd.  
Nippon Paper Industries Co., Ltd.**

# Announcement and Background

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## **Strategic Alliance Signed**

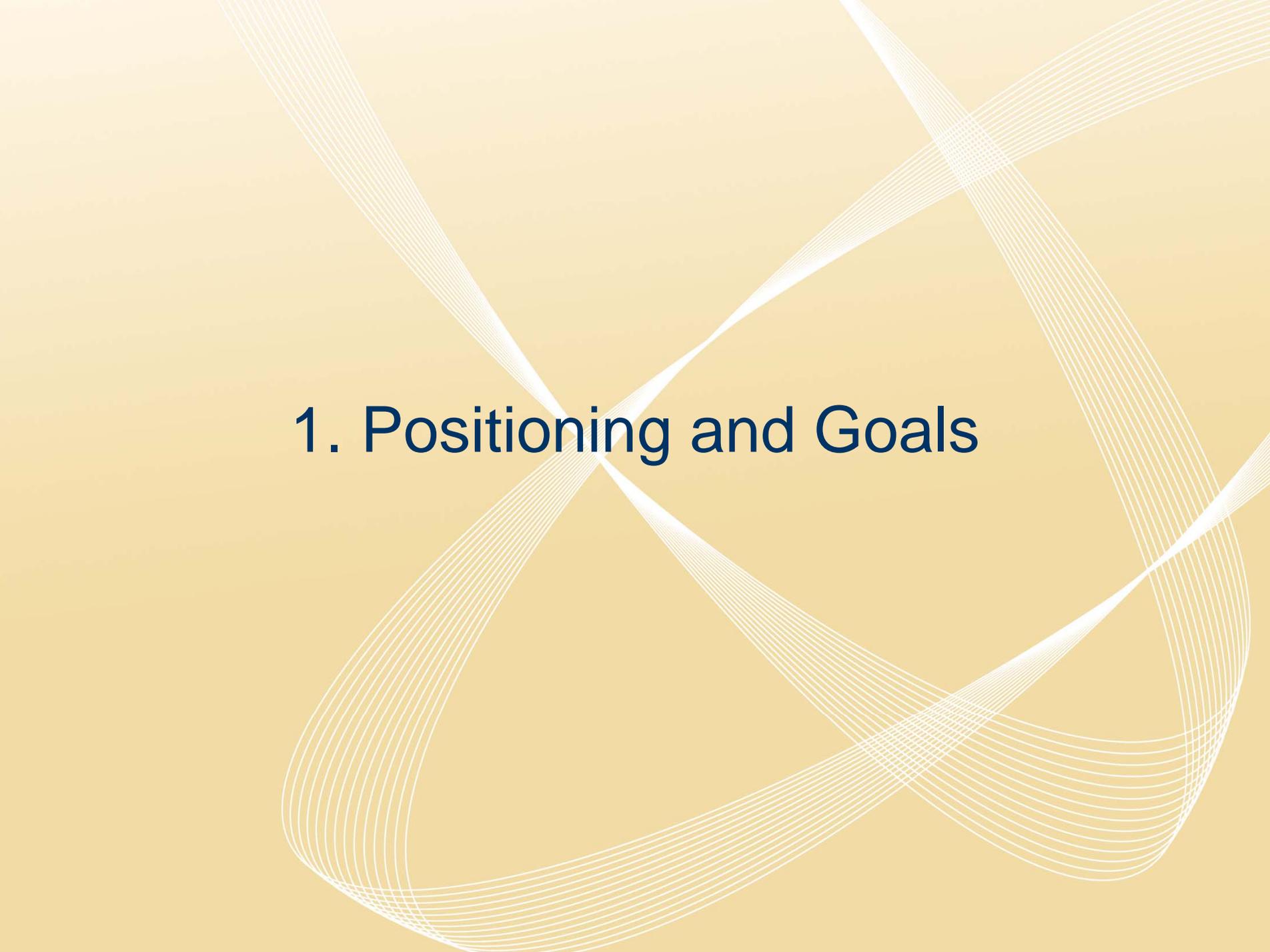
- September 12, 2006  
Hokuetsu and Nippon Paper agree to discuss strategic alliance
- December 1, 2006  
Strategic alliance signed
- April 2007  
Start implementation of alliance initiatives

# Strategic Alliance Overview

1. Positioning and goals

2. Scope

3. Synergies



# 1. Positioning and Goals

# Challenges Facing Japan's Paper Industry

## Japan

- World's third-biggest paper producer  
(2005 production was 30.95 million metric tons)
- Market beginning to plateau
- Rising imports, increasing price competition

## Overseas Markets

- Demand surging in Asia, particularly in China
- Market globalization intensifying price competition



The Japanese paper industry must secure stability and profitability in the domestic market while overcoming intensifying competition in the international marketplace to survive and grow

# Goals



Most profitable in industry



Top domestic papermaker

Respect management autonomy and swiftly realize synergies

Create world-class network of large seaboard mills (in Niigata, Ishinomaki, and Iwakuni)

Strategic focus on lightweight coated paper in overseas markets

**Cultivate healthy domestic market**

**Improve customer service**

**Strengthen international competitiveness**

# Key Benefits for Hokuetsu

Boost lightweight coated paper capabilities  
of key Niigata Mill

Deploy growth strategies in Asian markets

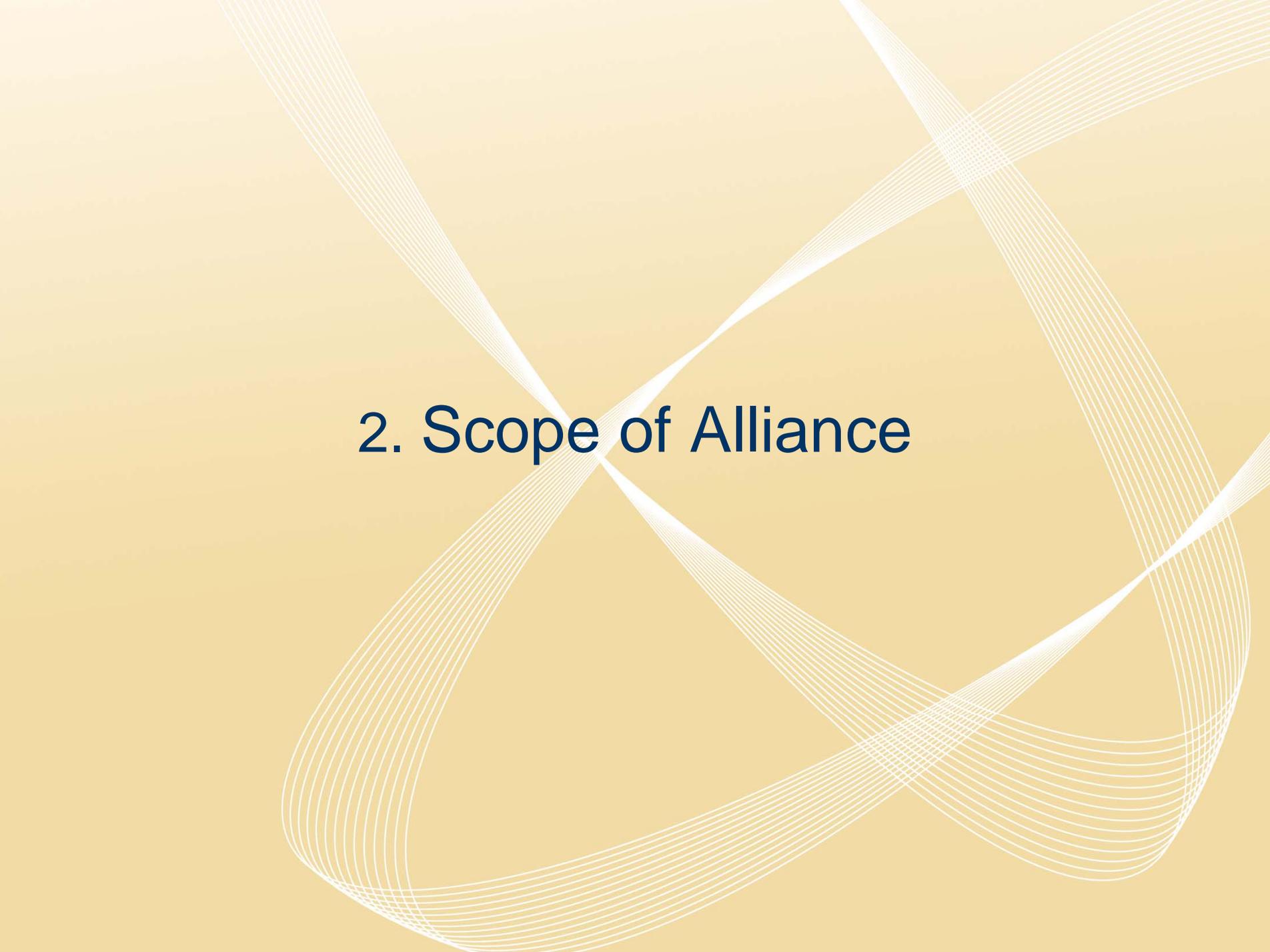
Secure stable position and earnings base  
in domestic market

# Key Benefits for Nippon Paper

Bolster domestic and overseas paper businesses

Raise international competitiveness

Secure stable position and earnings base  
in domestic market



## 2. Scope of Alliance

# Key Areas



Most profitable in industry



Top domestic papermaker

Draw on combined management expertise of alliance partners to optimize synergies

① Production and logistics

② Raw materials procurement

③ Technology

Mitsubishi Corporation will work together alongside with Hokuetsu and Nippon Paper from a global standpoint

Partners may broaden alliance scope as needed

# Production and Logistics

## Synergies

**¥13.7 billion cost benefit over 5 years (2007-2011)**  
(Initial cost benefit of ¥3.5 billion plus ¥10.2 billion of ongoing benefits)

- ① Facilitate the smooth launch of operations at new state-of-the-art manufacturing facilities (N6 on-machine coater at Nippon Paper's Ishinomaki Mill and the N9 facility at Hokuetsu's Niigata Mill)
- ② Consign production between the two partners on an original equipment manufacturer basis
- ③ Work together to cultivate international markets
- ④ Share shipping and distribution networks

# Raw Materials Procurement

Synergies

**¥12.9 billion cost benefit over 5 years**  
(2007-2011)

- ① Secure stable supply of raw materials through co-development and joint procurement
- ② Cut procurement expenses by working together to strengthen logistics networks and boost operational efficiency while sharing technological expertise to switch to lower-cost raw materials

# Technology



Synergies

**¥3.4 billion cost benefit over 5 years**  
(2007-2011)

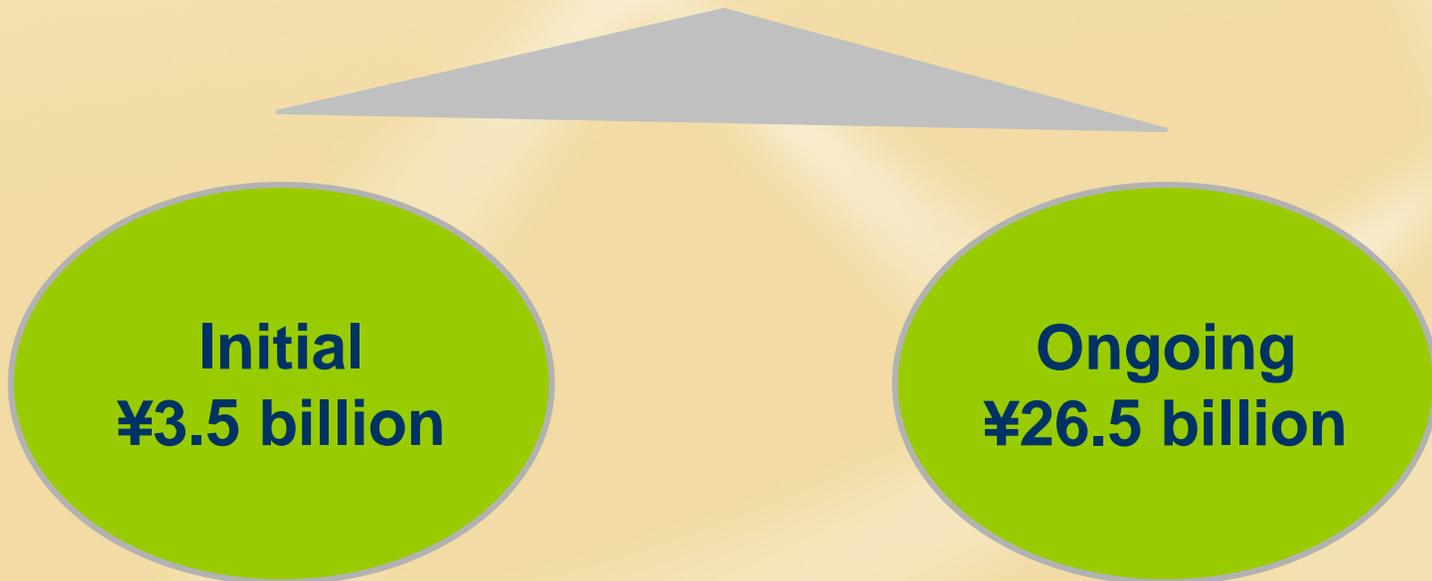
- ① Improve efficiency by sharing manufacturing and operations technology
- ② Consider launching joint initiatives to address common technological issues in areas such as quality control, maintenance and the environment

The background features a smooth gold-to-cream gradient. Overlaid on this are several sets of thin, white, parallel lines that curve and intersect to form a complex, abstract pattern resembling a stylized infinity symbol or a series of overlapping loops.

## 3. Synergies

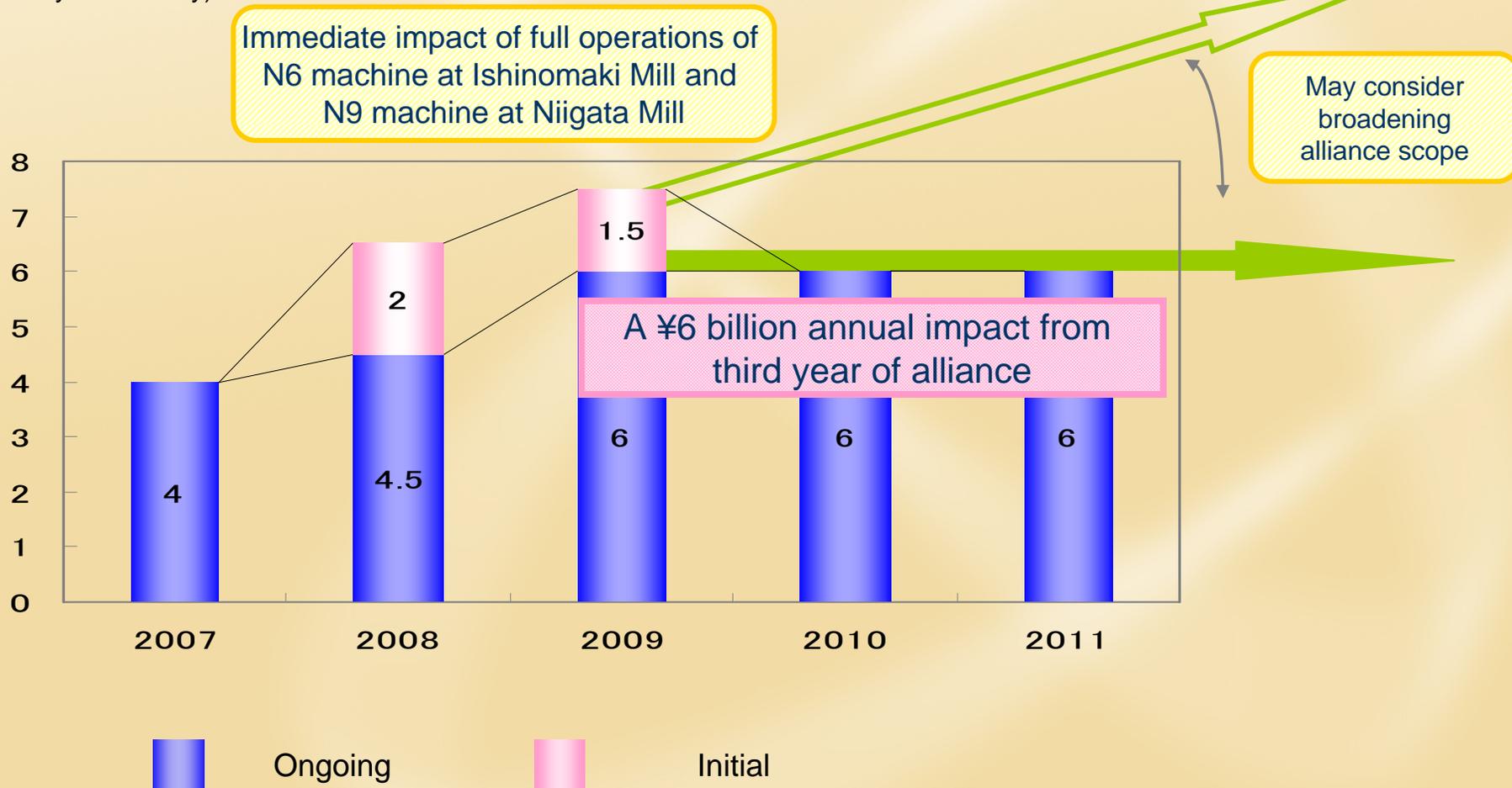
# Synergies

**An aggregate of ¥30 billion accruing to both partners from 2007 through 2011**



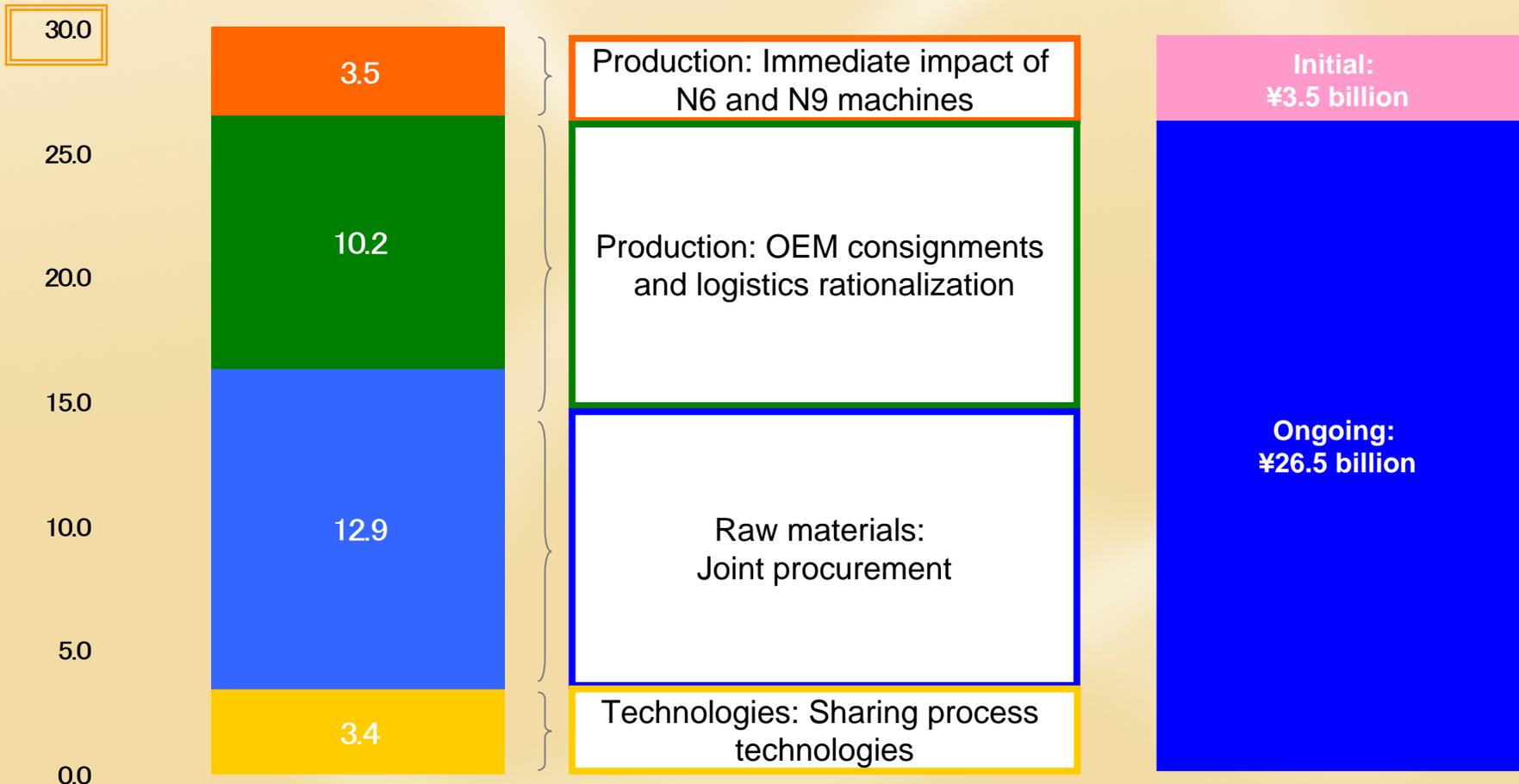
# Synergies over Five Years (2007-2011)

(Billion yen annually)



# Total Synergies over Five Years (2007-2011)

(Billion yen over 5 years)



# Synergies for Each Partner

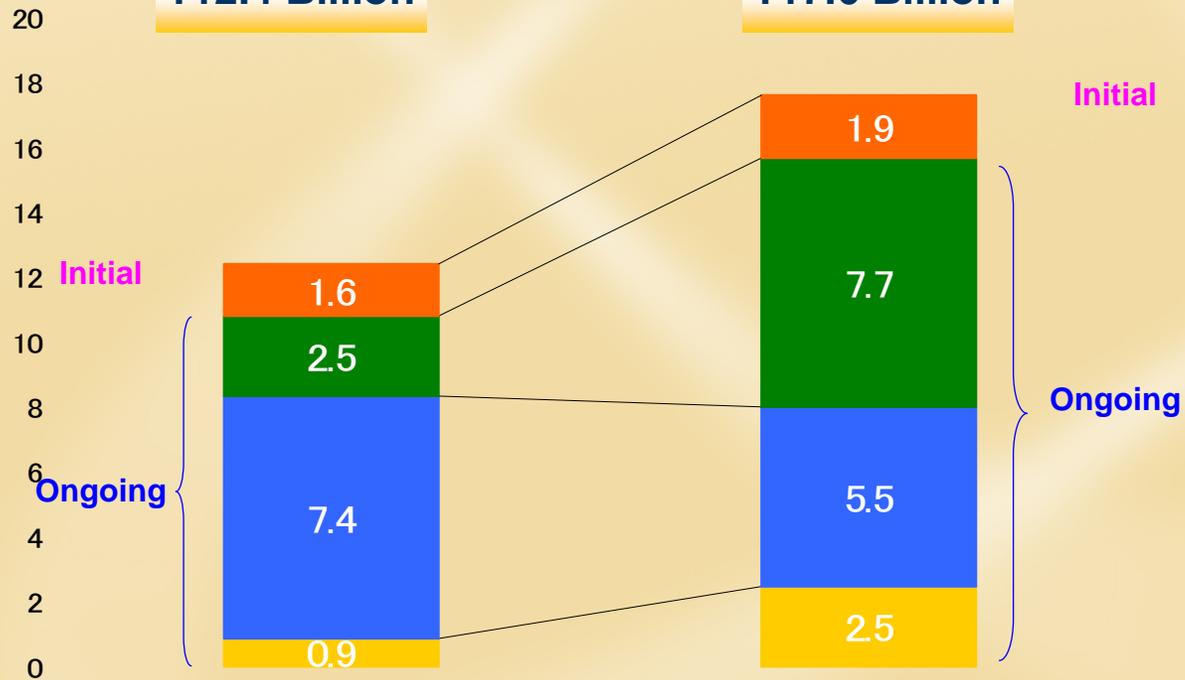
(Totals for 2007-2011)

(Billion yen over 5 years)



**¥12.4 Billion**

**¥17.6 Billion**

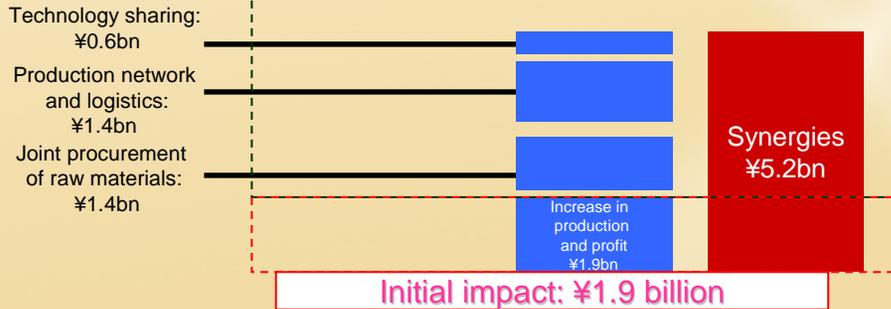


■ Initial production savings   
 ■ Production Network   
 ■ Raw materials   
 ■ Technology

# Synergies from Alliance between Nippon Paper and Hokuetsu

## Nippon Paper synergies

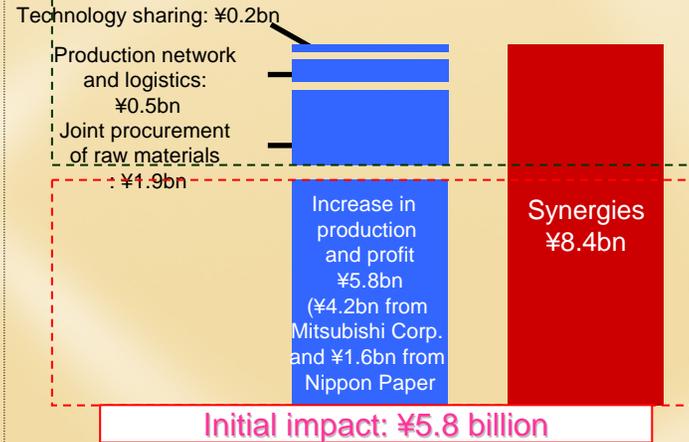
Ongoing impact: ¥3.4 billion



■ Figures exclude cost benefits from scrap & build of N9 facility at Ishinomaki Mill

## Hokuetsu synergies

Ongoing impact: ¥2.6 billion



■ Plan to export excess production from on-machine coaters  
 ■ Consider supplying coated paper domestically depending on demand

Ongoing impact: Annual benefits from third year

# For Reference

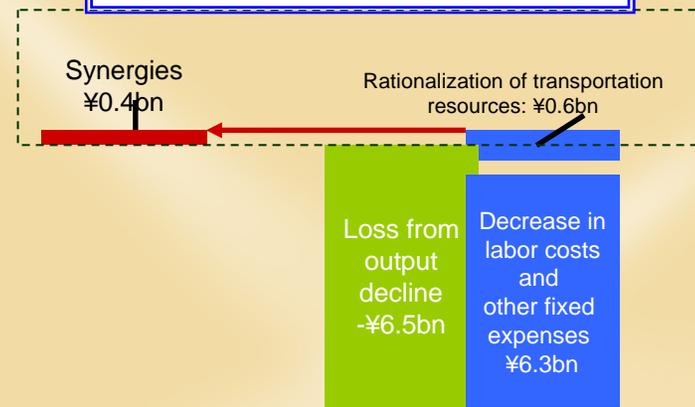
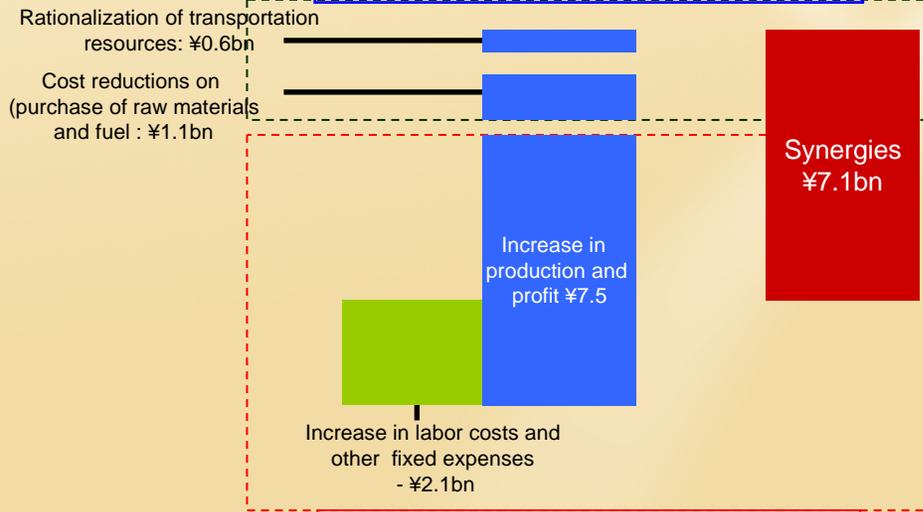
## Hokuetsu synergies

## Oji Paper synergies

Created from materials Oji Paper announced on August 11, 2006

**Ongoing benefits: ¥1.7 billion**

**Ongoing benefits: ¥0.4 billion**



**Initial impact: ¥5.4 billion**

■ Oji Paper to scrap facilities to eliminate production surpluses  
 = Domestic transfers envisaged

■ Scrap small and outdated facilities

On August 9, 2006, Hokuetsu estimated a negative impact of ¥13.4 billion to ¥17.9 billion

# Alliance Structure

**Establishing a Joint Working Committee to replace the Feasibility Committee**



The partners may form other committees as needed

# Disclaimer Regarding Forward-Looking Statements

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