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

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

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

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

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

Synergies

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

¥3.4 billion cost benefit over 5 years (2007-2011)
3. Synergies
Synergies

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

Initial
¥3.5 billion

Ongoing
¥26.5 billion
Synergies over Five Years
(2007-2011)

Immediate impact of full operations of N6 machine at Ishinomaki Mill and N9 machine at Niigata Mill

Ongoing (Billion yen annually)

Synergies over Five Years
(2007-2011)

Initial

May consider broadening alliance scope

A ¥6 billion annual impact from third year of alliance
Total Synergies over Five Years
(2007-2011)

(Billion yen over 5 years)

Production: Immediate impact of N6 and N9 machines

Production: OEM consignments and logistics rationalization

Raw materials: Joint procurement

Technologies: Sharing process technologies

Initial: ¥3.5 billion

Ongoing: ¥26.5 billion

Initial:

3.5

Ongoing:

26.5

Total:

30.0
Synergies for Each Partner
(Totals for 2007-2011)

(Billion yen over 5 years)

¥12.4 Billion

- Initial production savings: ¥0.9
- Raw materials: ¥2.5
- Production Network: ¥2.5
- Technology: ¥7.4

¥17.6 Billion

- Initial production savings: ¥1.9
- Raw materials: ¥5.5
- Production Network: ¥5.5
- Technology: ¥7.7

Initial

Ongoing
Synergies from Alliance between Nippon Paper and Hokuetsu

**Nippon Paper synergies**

**Ongoing impact: ¥3.4 billion**
- Technology sharing: ¥0.6bn
- Production network and logistics: ¥1.4bn
- Joint procurement of raw materials: ¥1.4bn

**Initial impact: ¥1.9 billion**
- Synergies: ¥5.2bn
- Increase in production and profit: ¥1.9bn

**Hokuetsu synergies**

**Ongoing impact: ¥2.6 billion**
- Technology sharing: ¥0.2bn
- Production network and logistics: ¥0.5bn
- Joint procurement of raw materials: ¥1.9bn

**Synergies: ¥8.4bn**
- Increase in production and profit: ¥5.8bn
  - ¥4.2bn from Mitsubishi Corp.
  - ¥1.6bn from Nippon Paper

**Initial impact: ¥5.8 billion**

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

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

Ongoing impact: Annual benefits from third year
For Reference

Hokuetsu synergies

Created from materials Oji Paper announced on August 11, 2006

Initial impact: ¥5.4 billion

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

Ongoing benefits: ¥0.4 billion

- Synergies ¥0.4 bn
- Increase in production and profit ¥7.5
- Loss from output decline -¥6.5bn
- Decrease in labor costs and other fixed expenses -¥6.3bn

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Oji Paper synergies

Synergies ¥7.1bn

Rationalization of transportation resources: ¥0.6bn
Cost reductions on purchase of raw materials and fuel: ¥1.1bn
Increase in labor costs and other fixed expenses -¥2.1bn

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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

- Joint Working Committee
- Production Structure Committee
- Raw Materials Committee
- Technology Committee

The partners may form other committees as needed.
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