Harnessing Two Strategic Alliances to Drive Our Vision

December 7, 2006

Nippon Paper Group, Inc.
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I. Nippon Paper Group’s Vision
【1】Group Vision 2015

Drive to become a top-five player in all aspects in the global pulp and paper sector

＜Financial Goals＞
Consolidated net sales of ¥1.5 to ¥2 trillion
Consolidated operating margin of 8%-10%
Solid domestic demand has driven the expansion of Japan’s paper industry over the years. But now that market is mature, so entering fast-growth areas around Asia will be the key to growth.
The importance of a Global Top 5 ranking

Scale, regional consolidation, and structural changes are transforming the global pulp and paper industry

<table>
<thead>
<tr>
<th>Region</th>
<th>Business Climate</th>
<th>Corporate Developments</th>
<th>Market Size (million metric tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>Market maturation and EU integration</td>
<td>Consolidation into two large Northern European manufacturers</td>
<td>100</td>
</tr>
<tr>
<td>North America</td>
<td>Market quickly maturing</td>
<td>International Paper, Weyerhauser, and other large companies restructuring</td>
<td>100</td>
</tr>
<tr>
<td>Asia (including Japan)</td>
<td>Japanese market maturing, international market consolidating, and Asian market booming</td>
<td>Reorganizations and consolidation accelerating</td>
<td>140</td>
</tr>
</tbody>
</table>
Drive to become a top-five player in the global pulp and paper sector

Judging by the experience of other industries, we expect consolidation into a few major players in each market

Group Vision 2015 seeks to make the Nippon Paper Group a major Asian presence in the global market

Drive to become one of the world’s top-five pulp and paper groups
II. Addressing the Challenges Facing Japan’s Paper Industry
Addressing the Challenges Facing Japan’s Paper Industry

Japan
- World’s third-biggest paper producer
- Market is beginning to plateau
- Declining exports and rising imports

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

Japanese paper industry must further stabilize domestic market and maintain profitably while overcoming intensifying competition in international marketplace to survive and grow
Nippon Paper Group’s Current Position

Opportunities
- Outstanding coating technologies
- Large coastal paper mills
- Expanding Asian markets

Weaknesses
- Paper imports increasing
- Paper prices converging internationally
- High raw materials and fuel costs and competition for resources
- Weak paperboard business

Strengths

Threats
- Weak paperboard business
- High raw materials and fuel costs and competition for resources
- Paper prices converging internationally
- Paper imports increasing
Current Initiatives

Paper

Maintain domestic lead and strengthen international competitiveness

- Deploy large scale production facilities
- Bolster fundamentals through alliances

Paperboard and packaging products

Eliminate weaknesses and reinforce fundamentals

Restructure through alliances, acquisitions, and mergers

Fuel and raw materials strategies

- Purchase plantations to secure wood chip supply
- Switch to alternative fuels from heavy oil
- Conserve energy and resources
Industry Outlook

Industry-wide reorganization will enhance competitiveness and stabilize operations, providing the strength and scale companies need to do business internationally.

Companies will need to be reorganized through various means:

- Alliances
- Mergers
- Acquisitions
- Integrations

Nippon Paper Group will be a key driver in consolidations.
Why Form Alliances?

Alliances

- Prioritize speed in realizing synergies
  - Build flexible collaborative structures
  - Amass strengths
  - Complementary capabilities

M&As

- Entail time, effort, and expense, and constrain competition
  - Realignment of businesses
  - Market share issues
  - Labor agreements

Address changes in business environment and corporate strategies

- Hard to fully realize benefits
- Strategic mismatches
- Instability

Ultimately:
- Realize full benefits
- Pursue common strategies
- Stabilize corporate fundamentals
Ⅲ. Two Strategic Alliances
Two Strategic Alliances

Alliance between Hokuetsu Paper

Secure world-class domestic production network and strengthen competitiveness of international product lineup

Alliance between Rengo and Sumitomo Corporation

Complement strengths in paperboard and corrugated product areas (Reinforce areas of weakness)
【1】Strategic Alliance between Hokuetsu Paper Mills and Nippon Paper Industries

Most profitable in the domestic industry

Leading papermaker of Japan
Significance of the alliance

Swiftly realize synergies, while respecting management autonomy

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

Strategic focus on LWC
to target overseas markets

Cultivate healthy domestic market

Improve customer service

Strengthen international competitiveness

Share expertise in core competence of coated paper products
### Major on-machine coaters for A3 and lightweight coated products

<table>
<thead>
<tr>
<th>Company</th>
<th>Mill</th>
<th>Machine No.</th>
<th>Daily production (metric tons)</th>
<th>Main products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nippon Paper</td>
<td>Asahikawa</td>
<td>1</td>
<td>352</td>
<td>LWC</td>
</tr>
<tr>
<td></td>
<td>Ishinomaki</td>
<td>N5</td>
<td>570</td>
<td>LWC</td>
</tr>
<tr>
<td></td>
<td></td>
<td>N6</td>
<td>1,000</td>
<td>A3, LWC</td>
</tr>
<tr>
<td></td>
<td>Iwakuni</td>
<td>9</td>
<td>706</td>
<td>A3, LWC</td>
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<tr>
<td></td>
<td>Subtotal</td>
<td>4</td>
<td>2,628</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Niigata</td>
<td>6</td>
<td>358</td>
<td>A3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>7</td>
<td>448</td>
<td>A2, A3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>8</td>
<td>695</td>
<td>A2, A3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>N9</td>
<td>1,000</td>
<td>A2, A3</td>
</tr>
<tr>
<td></td>
<td>Subtotal</td>
<td>4</td>
<td>2,500</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>8</td>
<td>5,128</td>
<td></td>
</tr>
</tbody>
</table>

Create the strongest production network and bolster export competitiveness

A2 coated: woodfree coated, A3 coated: light-weight woodfree coated
Focus on Growth Potential of Coated Paper

Global supply-demand balance of coated paper

2004 supplies
43 million metric tons

2005-2009 capacity changes
Asia +3.18
North America - 0.75
Europe - 0.46
Total +1.97

2009 demand projection (annual growth rates)
Asia 15 3%
North America 12 0%
Europe (CEPI) 17 1%
Others 2
total 46 1.5%

Source: Based on data from Resource Information Systems, Inc.
※ Sample demand projection
Platform for Expanding Overseas Sales

Nippon Paper Group’s sales network
Nippon Paper, NP Trading, and San-Mic Trading

Trading houses’ sales networks

Overseas market
## Strengthening Overseas Paper Sales through Group Network

### Sales sites and production sites

<table>
<thead>
<tr>
<th>Region</th>
<th>Staff</th>
<th>Company</th>
<th>Office</th>
<th>Location</th>
<th>No of Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>China Office</td>
<td>Shanghai</td>
<td>6</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>China Office (Guangzhou Branch Office)</td>
<td>Guangzhou</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Nippon Paper Industries Trading (Shanghai)</td>
<td>Beijing Office</td>
<td>Shanghai</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td></td>
<td>NP Trading</td>
<td>Jakarta Office</td>
<td>Jakarta</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Kuala Lumpur Office</td>
<td>Kuala Lumpur</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>San-Mic Trading (Hong Kong)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>San-Mic Trading (S)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>San-Mic Trading (Thailand)</td>
<td>(3 staff from Singapore Office)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td>2</td>
<td>Nippon Paper Industries USA</td>
<td></td>
<td>Port Angeles</td>
<td>2</td>
</tr>
<tr>
<td>Europe</td>
<td>2</td>
<td>Nippon Paper</td>
<td>Europe Office</td>
<td>Amsterdam</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>NP Trading</td>
<td>Paper Trading Dept., Overseas Div.</td>
<td>Tokyo</td>
<td>10</td>
</tr>
</tbody>
</table>

### Printing paper market size (including for newsprint) (Million metric tons)

- Japan: 42
- North America: 20
- East/South Asia and Oceania: 43
- Other markets: 17
- CEPI: 43
- Europe: 16
- China: 18

### High growth potential
Key Areas

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
Synergies

An aggregate of ¥30 billion accruing to both partners from FY2007 through FY2011

Initial ¥3.5 billion

Synergies

Ongoing ¥26.5 billion

Initial ¥1.9 billion

Benefits for Nippon Paper Group

Ongoing ¥15.7 billion
Production and Logistics

**Synergies**

¥13.7 billion cost benefit over 5 years (FY07~FY11)
(Initial cost benefit of ¥3.5 billion plus ¥10.2 billion of ongoing benefits)

**Benefits for Nippon Paper Group**

¥9.6 billion cost benefit over 5 years (FY07~FY11)
(Initial cost benefit of ¥1.9 billion plus ¥7.7 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

Benefits for Nippon Paper Group

¥12.9 billion cost benefit over 5 years (FY2007~FY2011)

¥5.5 billion cost benefit over 5 years (FY2007~FY2011)
Technology

Synergies

Benefits for Nippon Paper Group

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 (FY2007~FY2011)

￥2.5 billion cost benefit over 5 years (FY2007~FY2011)
Immediate impact of full operations of N6 machine at Ishinomaki Mill and N9 machine at Niigata Mill

¥6 billion annual impact from third year of alliance

May consider broadening alliance scope

Synergies over Five Years
(FY2007~FY2011)

(Billion yen annually)

2007 2008 2009 2010 2011

4 4.5 6 6 6

Ongoing

Initial

(Fiscal year)
【2】The three-company strategic alliance of Rengo, Nippon Paper Group, and Sumitomo Corporation

- Leader in paperboard, corrugated products, and other packaging products
- Leading papermaker of Japan
- Strong raw materials sourcing capabilities and global network
Strategic Alliance Goals

Foundations of paperboard and corrugated products business
Create leading group in Asian market

Swiftly realize synergies
Strengthen supply chain network
Penetrate overseas markets
Optimal Combination of Synergies

- Paperboard leader
  (No. 2 in 2005 in domestic production volume)
- Upstream through downstream capabilities
- Focused on corrugated products
  - No. 1 in corrugated products
  - No. 2 in containerboard
- Corrugating medium accounts for high proportion of containerboard
  - No. 4 in liners
  - No. 1 in corrugating medium

- Operations centered on Nippon Daishowa Paperboard
  (No. 3 in domestic paperboard production in 2005)
- Integrated materials sourcing with paper business
- Only containerboard included in consolidation
  - No. 4 in corrugated products (through Nippon Tokan Package)
  - No. 3 in containerboard
- Liners account for high proportion of containerboard
  - No. 2 in liners
  - No. 4 in corrugating medium

Creates the strongest alliance in Japan’s paperboard sector
No. 1 in containerboard
No. 1 in corrugated products
Scope of the strategic alliance

- Paperboard business
- Packaging business
- Joint Sourcing of Raw Materials
Specific areas for joint consideration

1. Formulate comprehensive strategy to restructure and strengthen Nippon Paper Group’s packaging business
2. Expand the scope of the Firms’ joint supply network and work together to cut logistics costs
3. Leverage Sumitomo’s domestic and overseas networks
4. Jointly scrap and build containerboard facilities
5. Share technological and human resources in paperboard and packaging businesses
6. Identify and cultivate new growth areas in packaging
7. Other mutually agreed initiatives
Global Paper Company Rankings in 2005

<table>
<thead>
<tr>
<th>Global Ranking</th>
<th>Domestic Ranking</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>International Paper</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td>Stora Enso</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td>SCA</td>
</tr>
<tr>
<td>4</td>
<td></td>
<td>P&amp;G</td>
</tr>
<tr>
<td>5</td>
<td></td>
<td>Georgia-Pacific</td>
</tr>
<tr>
<td>6</td>
<td>1</td>
<td>Oji Paper</td>
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<tr>
<td>7</td>
<td></td>
<td>Kimberly-Clark</td>
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<tr>
<td>8</td>
<td></td>
<td>UPM-Kymmene</td>
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<tr>
<td>9</td>
<td></td>
<td>Weyerhaeuser</td>
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<tr>
<td>10</td>
<td>2</td>
<td>Nippon Paper</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Rengo</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hokuetsu Paper</td>
</tr>
</tbody>
</table>

Source: PPI
IV. Toward the Group Vision 2015
Current situation and strategies

Opportunities
- Outstanding coating technologies
- Large coastal paper mills
- An expanding Asian market

Weaknesses
- Weak paperboard business

Strengths

Alliance with Rengo
- Install N7 machine at Ishinomaki Mill

Weak paperboard business and competition for resources
- High raw materials and fuel costs and competition for resources
- Paper prices converging internationally
- Paper imports increasing

Secure diverse supplies from Mitsubishi Corp. and Sumitomo Corp.
- Buy plantations
- Use alternative fuels

Alliance with Hokutetsu
- Install N7 machine at Ishinomaki Mill
Nippon Paper Group’s Goals

Opportunities

- Outstanding coating technologies
- Large coastal paper mills
- An expanding Asian market
- Strengthen paperboard business

Strengths

- Install N7 machine at Ishinomaki Mill
- Alliance with Rengo
- Achieve world-class cost-competitiveness
- High raw materials and fuel costs and competition for resources

Weaknesses

- Alliance with Hokuetsu
- Install N7 machine at Ishinomaki Mill

Threats

- Secure diverse supplies from Mitsubishi Corp. and Sumitomo Corp.
- Buy plantations
- Use alternative fuels
Medium-Term Business Plans and Alliance Impact

Operating income

(¥ billion)

Target

FY02 03 04 05 06 07 08 09 10 11

1st MTBP

2nd MTBP

3rd MTBP

Achieve integration effects and stabilize financial base
- Reform manufacturing structure
- Reduce interest-bearing debt
- Improve productivity

Strengthen foundation of domestic core businesses
- Reduce oil consumption
- Conserve resources
- Large-scale scrap and build

Expand in overseas markets
- Augment state-of-the-art paper machine
- Expand overseas business

Domestic Alliance Strategy

Overseas Alliance Strategy

※MTBP=Medium-Term Business Plan
V. Reference Materials
Business Segment Sales in 2005

Source: Company Financial and Annual Reports
Paper and Paperboard Production Volume in 2005
(Companies with annual production exceeding 1 million metric tons)

Source: Japan Paper Association
Strategic Alliance between Hokuetsu Paper Mills and Nippon Paper Industries

Total Synergies over 5 Years (FY2007 ~ FY2011)

<table>
<thead>
<tr>
<th>(¥ billion)</th>
<th>Production: Immediate impacts of N6 and N9 machines</th>
<th>Production: OEM consignments and logistics rationalizations</th>
<th>Raw materials: Joint sourcing</th>
<th>Technologies: Sharing process technologies</th>
</tr>
</thead>
<tbody>
<tr>
<td>30.0</td>
<td>3.5</td>
<td>10.2</td>
<td>12.9</td>
<td>3.4</td>
</tr>
<tr>
<td>25.0</td>
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<tr>
<td>20.0</td>
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<tr>
<td>15.0</td>
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</tr>
<tr>
<td>0</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Initial: ¥3.5 billion
Ongoing: ¥26.5 billion
Synergies for Each Partner
(Totals for FY2007—FY2011)

(Billion yen over 5 years)

¥12.4 Billion

¥17.6 Billion

Initial

Initial production smooth startups

Production network

Ongoing

Raw materials

Technology
Nippon Paper and Hokuetsu Paper
Coated Paper Production Bases

※Source: Japan Paper Association 2005 annual report

SLWC: Super Light-weight coated or Bitokoshi paper
Domestic demand for Printing and Communication Paper in Past Five Years

Source: Japan Paper Association
Market Share
Printing and Communication Paper, Coated Paper (2005)

Source: Japan Paper Association
The three-company strategic alliance of Rengo, Nippon Paper Group, and Sumitomo Corporation

Cement Alliance through Share Ownership

- **Share profitability**
- **Expression of strength of commitment to alliance**
- **Stable shareholder ownership**

- **Rengo**
  - Leader in paperboard, corrugated products, and other packaging products
  - 3%
  - 0.1%

- **Nippon Paper Group**
  - Leading papermaker of Japan
  - 5%
  - 0.6%

- **Sumitomo Corporation**
  - Strong raw materials sourcing capabilities and global network
  - 3%
  - (Complete by March 31, 2008)
Rengo and Nippon Paper Group
Domestic Paperboard Production Bases

- **Rengo Amagasaki Mill**: Medium 140,085 t, Core board 25,622 t, Others 13,563 t, Total 179,270 t
- **Rengo Kanezu Paper Mill**: Linerboard 365,708 t, Core board 140,085 t, Others 79,158 t, Total 585,941 t
- **Nippon Daishowa Paperboard Kanto Ashikaga Mill**: Linerboard 185,328 t, Medium 213,667 t, Others 89,158 t, Total 478,153 t
- **Nippon Daishowa Paperboard Kanto Soka Mill**: Linerboard 174,293 t, Medium 166,382 t, Core board 6,568 t, Total 341,242 t
- **Rengo Tonegawa Paper Mill**: Linerboard 264,033 t, Medium 467,977 t, Core board 25,917 t, Others 20,027 t, Total 737,954 t
- **Nippon Daishowa Paperboard Kanto Yoshinaga Mill**: Linerboard 304,758 t, Medium 210,746 t, Core board 25,917 t, Others 20,027 t, Total 561,444 t
- **Marusan Paper**: Linerboard 107,920 t, Medium 166,382 t, Core board 6,568 t, Others 15,779 t, Total 344,228 t
- **Osaka Paper**: Linerboard 96,155 t, Medium 190,190 t, Total 286,345 t
- **Koyo Paper**: White board 32,614 t, Others 15,779 t, Total 48,393 t
- **Kitakami Paper**: Linerboard 84,035 t, Others 15,779 t, Total 99,814 t
- **Nippon Daishowa Paperboard Tohoku**: Linerboard 365,708 t, Core board 140,085 t, Others 15,779 t, Total 521,572 t

Source: Japan Paper Association 2005 annual report
"Others" includes Yellow Paperboard Chip Ball, Color Paperboard, Waterproofing core base paper, Plaster board core base paper, Wanpu and others.
Rengo and Nippon Paper Group
Overseas Paperboard and Corrugated Cardboard Production Bases

- Dalian Rengo Packaging
- Tianjin RP
- Qingdao RP
- Wuxi RP
- Shanghai Office
- Nippon Paper Industries Trading
- Shanghai RP
- Everwealth Paper Industries (Shanghai)
- Nippon Paper Industries Trading
- Zhejiang Nippon Paper
- Guangdong RP
- Zhonshan Rengo Hung Hing Paper Mfg.
- Zhonshan Ren Hing Paper Mfg.
- SMRPC
- MINCORR
- Sime Rengo Packaging Malasia
- Subang Jaya
- Sime Rengo Packaging Singapore
- Jakarta
- SuraBaya
- Semarang
- Surya Rengo Containers
- Bakuran
- Tampo
- CTP
- TCL
- NHPT
- TCI
- TCC
- TCR
- TCVS
- SuraBaya

Legend:
- Rengo Base
- Nippon Paper Group Base
Domestic Paperboard and Corrugated Cardboard Production Volumes 2001 to 2005

From Paper and Pulp Statistics 2005 of Japan Paper Association
Market Share
Corrugated Cardboard (2005)

- Rengo G 25%
- Oji Paper G 24%
- DYNAPACK G 3%
- Daio Paper G 4%
- Nippon Paper G 6%
- Crown Package 3%
- Tomoku G 7%
- Others 28%

Estimates from Rengo and Nippon Paper Group
# Management indices

## Group Vision 2015 targets

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Operating income</td>
<td>¥ 48.4 billion</td>
<td>¥ 80.0 billion</td>
<td>Domestic ¥100 billion + overseas</td>
</tr>
<tr>
<td>Operating income to net sales</td>
<td>4.2 %</td>
<td>6.4 %</td>
<td>8~10%</td>
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<td>Operating cash flow※</td>
<td>¥ 95 billion</td>
<td>¥ 120 billion</td>
<td>¥ 150 billion</td>
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</table>

※Real cash flow, excluding year-end adjustments

## Other targets

<table>
<thead>
<tr>
<th></th>
<th>Fiscal 2005</th>
<th>Fiscal 2008</th>
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</thead>
<tbody>
<tr>
<td>ROE</td>
<td>3.9 %</td>
<td>8.0 %</td>
</tr>
<tr>
<td>ROIC</td>
<td>5.0 %</td>
<td>7.0 %</td>
</tr>
<tr>
<td>Equity ratio</td>
<td>29.5 %</td>
<td>31.2 %</td>
</tr>
<tr>
<td>Interest-bearing debt</td>
<td>¥ 692.1 billion</td>
<td>¥ 700 billion</td>
</tr>
<tr>
<td>Debt-equity ratio</td>
<td>1.5 times</td>
<td>1.4 times</td>
</tr>
<tr>
<td>Number of employees</td>
<td>12,798</td>
<td>12,000</td>
</tr>
</tbody>
</table>
● These materials include company-related forecasts, plans, and management targets. Forward-looking statements are based on assumptions about the future and trends at the time of producing these materials and contain uncertainties. Actual results could differ significantly from what is presented here.

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