Conclusion of Basic Agreement Concerning Containerboard and Sack & General Purpose Kraft Paper Businesses

October 7, 2015

Nippon Paper Industries Co., Ltd. Tokushu Tokai Paper Co., Ltd.
Overview of Business Alliance

Tokushu Tokai Paper

Establishment of production company

Shimada Mill
Production subsidiary

Nippon Paper Industries

Investment

Joint incorporation-type demerger
containerboard and sack &
general purpose kraft paper

New sales company

Net sales Around ¥110 billion

Tokushu Tokai Paper:
- More than 50% (consolidated subsidiary)
- At least 33.4% and less than 50% (equity-method affiliate)

Nippon Paper:
- At least 33.4% and less than 50% (equity-method affiliate)

Tokushu Tokai Paper:
- More than 50% (consolidated subsidiary)
Tokushu Tokai Paper Shimada Mill

- Located: Shimada City, Shizuoka, Japan
- Established: 1910
- Area: 460,000 m²
- Paper machines: 6, including 3 containerboard machines and 2 kraft machines
- Annual production: Containerboard 550,000 t, Kraft paper 73,000 t, etc.

**Features**

- **High quality containerboard and kraft paper made with own kraft pulp**
- **Located in the center of Japan**
  - Cheaper product logistics costs, raw material procurement capability (wastepaper, woodchips)
- **Excellent energy cost competitiveness due to little dependence on fossil fuel.**
  - Early adoption of waste boilers that burn internally generated paper sludge and biomass boilers using woody biomass fuel.
  - Plan to construct new biomass boiler to drastically reduce purchase cost of external power.
Business Environment
Domestic Demand Trend (1995-2014)

Real GDP

Containerboard

Sack kraft paper

General-purpose kraft paper

Cabinet Office "Annual Reports on National Accounts (GDP)"
Japan Paper Association "Paper & containerboard annual reports: domestic shipments"
Industry Shares (2014)

Containerboard (Market size around ¥500 billion)

- Oji Materia: 25%
- Rengo: 17%
- Marusan Paper Mfg: 3%
- Koa Kogyo: 5%
- Daio Paper G: 13%
- Kitakami Paper: 1%
- Tokushu Tokai Paper: 6%
- Others: 17%

Domestic shipments: 8.8 million t

Sack & general-purpose kraft paper (Market size around ¥40 billion)

- Oji Materia: 14%
- Oji Paper: 13%
- Daio Paper: 18%
- Chuetsu Pulp & Paper: 18%
- Taiko Paper Mfg: 11%
- Nippon Paper Industries: 14%
- Oji Paper: 13%
- Tokushu Tokai Paper: 18%
- Others: 17%

Domestic shipments: 410,000 t

*Share of domestic shipments
*Figures for market size are estimates.

Japan Paper Association “Paper & containerboard annual reports: domestic shipments”
Major Production Bases

- Nippon Paper Industries manufacturing bases
- Tokushu Tokai Paper manufacturing bases
- Mills manufacturing own kraft pulp (Kushiro, Akita and Shimada Mills)

*Production volumes: CY2014 actual

Total production
Linerboard 1,480,000 t
Corrugating medium 380,000 t
Kraft paper 120,000 t

- **Kushiro Mill**
  - Kraft paper: 46,000 t

- **Akita Mill**
  - Linerboard: 390,000 t

- **Otake Mill**
  - Linerboard: 200,000 t
  - Corrugating medium: 6,000 t

- **Shimada Mill**
  - Linerboard: 450,000 t
  - Corrugating medium: 100,000 t
  - Kraft paper: 73,000 t

- **Ashikaga Mill**
  - Corrugating medium: 140,000 t

- **Soka Mill**
  - Linerboard: 150,000 t
  - Corrugating medium: 140,000 t

- **Fuji Mill Yoshinaga**
  - Linerboard: 290,000 t

Other: Asahikawa Office, Hokkaido Mill
- Linerboard 600 t, Kraft paper 700 t
Aims of Business Alliance

Expected synergies

- **Further development of Shimada Mill**
  Combine production knowhow of both companies to strengthen quality and cost competitiveness

- **Joint procurement of raw materials, fuel and other materials**

- **Establishment of efficient sales structure**
  Promotion of more efficient sales activities with 1.8 million tonnes containerboard production volume

- **Exploration of possibilities for alliance in household paper products and specialty paper sectors**
  Pursuit of synergies utilizing strengths of both companies
Significance of the Business Alliance for Stakeholders

Customers
- Further improvement of quality and services
- Strengthening stable supply structure

Employees
- Stable development of the business
- Enhancement of motivation

Shareholders
- Enhancement of corporate value
- Effective utilization of funds through avoidance of redundant investment
**Schedule**

- **Oct. 7, 2015 (Today)**: Conclusion of basic agreement
- **Apr. 2016 (Tentative)**: Conclusion of final agreement
- **Jun. 2016 (Tentative)**: General Meeting of Shareholders of Tokushu Tokai Paper (Resolution to approve demerger of Shimada Mill)
- **Oct. 2016 (Tentative)**: Completion of the transaction (Establishment of new manufacturing company and new sales company)