Shareholders’ Value Maximization under Independent Management
—Discussion on Business Integration Proposal by Oji
August 9, 2006
Hokuetsu Paper Mills, Ltd.
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Executive Summary

On August 1, 2006, Oji announced a tender offer for all shares of Hokuetsu (the “Tender Offer”). The board of Hokuetsu opposed to this Tender Offer, which will most likely be unbenefticial for its shareholders, as announced in its Press Release on August 2, 2006.

Summary

- For nearly 100 years since its establishment, Hokuetsu has strived to enhance its shareholders’ mid-to-long term value through efficient management and coexistence with the local community under independent management.
- Additionally, Hokuetsu is committed to enter a new stage of growth by expanding the coated printing paper production facility in the Niigata Mill (N9) as announced on May 18, 2006.
- Oji’s one-sided business integration proposed goes against the corporate philosophy and value creation model which Hokuetsu has relied on and interfere with future growth.
- Furthermore, Oji’s offering price deliberately disregards Hokuetsu’s growth plan and has been set to capture Hokuetsu’s mid-long term value at a preferable price.

Hokuetsu asks its shareholders and investors for their continued understanding and support for the company’s effort to enhance corporate value.
Hokuetsu’s Value Creation Model – Efficient Management and Maximizing Shareholder Value

Maximizing Shareholder Value

- Mid-long term growth strategy
- Remuneration to all stakeholders, particularly its shareholders

Highest Profitability in the Industry

- Highest profitability amongst peers
- High financial stability

Efficient Management

- Highest productivity in industry
- Concentrated resources
  - Focused product strategy
  - Ideal location of production and distribution network

Highly Motivated Employees

- Nearly 100 years of history
- Coexistence with local community
- Innovative technologies

Independent Management

Hokuetsu has worked to maximize its shareholders’ value through efficient management with a focus on growing core products.
Hokuetsu and Oji’s Corporate DNA

Hokuetsu takes a completely different approach to maximize shareholders’ value from Oji Paper.

**Enhancement of Shareholder Value**

**Hokuetsu Paper**
- Focus on growth products
  - Focus on competitive areas
  - Aim to be a specialized manufacturer
- Efficient management
- Organic growth and mutually beneficial business alliance

**Hokuetsu’s DNA**
- Pioneering spirit
- Independence and innovation

**Oji Paper**
- Aim to be a General Manufacture
  - Increase influence over clients by developing a comprehensive product line-up
- Values larger scale and market presence
- Restructuring by leveraging acquisitions

**Oji’s DNA**
- Ambition to become industry leader
  - Expansion-oriented

**Oji’s one-sided proposal puts Hokuetsu’s DNA at risk**
Track Record of Continuous Growth

Hokuetsu and aggregate industry sales volume of paper and paperboard

Hokuetsu has outperformed the industry under efficient management

Source: Japan Paper Association
Note: Indexed with 1981 set at 1.0
1. Overview of Hokuetsu’s Current Situation
History of Hokuetsu’s Independent Growth

- May 1907  Hokuetsu Paper Mills, Ltd. established in Nagaoka City, Niigata Prefecture, Japan
- October 1908  Nagaoka Mill starts production of paperboard
- July 1914  Hokuetsu Itagami Co., Ltd. established in Niigata City, Niigata Prefecture, Japan
- February 1917  Hokuetsu Mills merges with Hokuetsu Itagami, renamed as Niigata Mill
- December 1920  Constructed Ichikawa Mill, started production of wood free paper
- May 1949  Shares listed on Tokyo Stock Exchange
- June 1964  Niigata Mill was hit by the Niigata Earthquake
  - Severe conflict between Labor and Management (Management: Layoff vs Union: Strike)
- March 1970  Declaration of cooperation between Labor and Management
  - End to a prolonged period of conflicts
  - Introduction of efficiency improvement activities
- October 1971  Constructed Katsuta Mill
- July 1986  Niigata Mill installed on-machine coater (Machine No.6)
  - Start of full-scale business development
- September 1990  Niigata Mill installed on-machine coater (machine No.7)
- July 1998  Niigata Mill installed on-machine coater (machine No.8) and starts production of ECF pulp
- April 2000  Ichikawa Mill combines with Katsuta Mill, and renamed as Kanto Mill
- August 2003  The Company acquires Ibaraki-Katsuta Mill of former Nippon Kakoh Seishi
- October 2004  Nagaoka Mill was hit by Chuetsu Earthquake
  - The Company restarted operation in one week with 24-hour recovery efforts

Enhancement of competitiveness under the cooperation of Labor and Management
# The Source of Efficient Management

<table>
<thead>
<tr>
<th>Advantages and Uniqueness</th>
<th>Descriptions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Focused Product Strategy</strong></td>
<td>▶ Main Products: Printing paper, White paper and Specialty paper&lt;br&gt;▶ 2/3 of overall production output is Coated paper, with highest growth rate among printing paper</td>
</tr>
<tr>
<td><strong>2. Highest Production Efficiency in the Industry</strong></td>
<td>▶ Concentrated production system at 3 domestic mills, operated by 4 production divisions&lt;br&gt;▶ Niigata Mill is the largest and most efficient mill in Japan for printing paper</td>
</tr>
<tr>
<td><strong>3. Innovative Technologies</strong></td>
<td>▶ Pioneering spirit to continuously strive for innovative technology&lt;br&gt;▶ Lead the industry by developing numerous innovative technologies</td>
</tr>
<tr>
<td><strong>4. Highest Profitability Among Peers</strong></td>
<td>▶ Highest profitability among industry peers&lt;br&gt;▶ Has recorded the highest recurring profit margin in the pulp and paper industry for 13 consecutive years until 2004 (Consolidated base)</td>
</tr>
<tr>
<td><strong>5. Ideal Location of Production and Distribution Network</strong></td>
<td>▶ Owns production facilities in Niigata, which is located near Kanto region, where 60% of domestic paper and paperboard are consumed&lt;br&gt;▶ Flexible production system adjustable to customers’ specific needs</td>
</tr>
<tr>
<td><strong>6. High Financial Stability</strong></td>
<td>▶ Debt to Equity ratio is 0.65&lt;br&gt;▶ Extremely sound financial stability among its industry peers</td>
</tr>
<tr>
<td><strong>7. Sales System that realizes high Margins</strong></td>
<td>▶ Prompt adjustment to diversifying users’ needs&lt;br&gt;▶ Detailed services which enable high margins</td>
</tr>
</tbody>
</table>
1. Focused Product Strategy

Focused resources in the fastest growing coated paper segment

- Hokuetsu’s management strategy which identifies core products is a notable difference from Oji or Nippon Paper
- Hokuetsu allocates its resources particularly on high growth coated paper, with the quality and price competitiveness highly appreciate by the market

Hokuetsu has realized efficient management through focused product strategy

Source: Japan Paper Association
Note: CY2005 Figures
2. Highest Production Efficiency in the Industry

Hokuetsu’s Niigata Mill boasts the highest efficiency among its industry peers.
3. Innovative Technologies

Main innovative technologies developed from Hokuetsu’s pioneering spirit

- **Both side coated paper**
  - The world’s first both side coated paper, overcoming the structural difficulties of Paperboards (Niigata’s No.4 machine, 1968)

- **On-machine coater method**
  - The world’s first on-machine coater method for the production of A3 grade coated paper, which had been coated using off-coater method (Niigata’s No.6 machine, 1986)
  - Production of A2 grade coated paper with equivalent quality as off-coated paper. This product contributes to Hokuetsu’s cost competitiveness through space and power saving (1990)

- **ECF (Elementary Chlorine Free)**
  - First in Japan to shift all craft pulp bleaching to ECF pulp for the first time in Japan (2000)
  - Significantly reduced the environmental impact

Continued product innovation is the source of Hokuetsu’s competitive advantage
4. Highest Profitability Among Peers

Hokuetsu boasted the highest recurring profit margins among its industry peers for 13 consecutive years until 2004 by focusing on its core products and efficient management system.
5. Ideal Location of Production and Distribution Network

By strategically planning the production network near major markets, Hokuetsu has successfully established a flexible production and distribution system that enables it to meet customers’ specific needs.

- Demand of paper and paperboard by region: Kanto 60%, Kinki 21%, Nagoya 9%
- Volume of recycled papers generated by region: Kanto 45%, Kinki 15%, Nagoya 9%

Established an ideal production and distribution system with easy access to major markets.

Ideal Location for Production Network

- Flexible production system meeting customers’ needs
- Detailed customer support
- Cost advantage in distribution

Top 5 printing paper mills

Niigata Mill
Nagaoka Mill
Kanto Mill - Katsuta Factory
Kanto Mill - Ichikawa Factory
Tokyo Main Office
6. High Financial Stability

Outstanding financial stability among industry peers

- Maintaining financial stability is crucial amid the end of BOJ’s zero-interest-rate policy
- Interesting bearing debt has decreased to JPY73.6bn in 2005 from its peak in 1998 at JPY112.5bn
- As a result, Hokuetsu’s current D/E ratio is 0.65, significantly lower than the industry average * of 1.69


Hokuetsu’s mid-term management plan of a D/E ratio of 0.6 is achievable
7. Sales System that Realizes High Margins

Customer-oriented sales approach utilizing Hokuetsu’s competitive advantage

- Hokuetsu meets diversifying users’ needs

<table>
<thead>
<tr>
<th>User’s Needs</th>
<th>Hokuetsu’s Strengths</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Quality</strong></td>
<td>4 on-machine coaters at a single mill (No.6 - No.8 machines+N9)</td>
</tr>
<tr>
<td>- Light weight</td>
<td>- Consistent quality made from same raw material</td>
</tr>
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<td>- High opacity</td>
<td>- Adjustable supply system</td>
</tr>
<tr>
<td>- High print aptitude</td>
<td>- Flexible papermaking cycle</td>
</tr>
<tr>
<td>- Stability</td>
<td>- Quick response by on-machine coater</td>
</tr>
<tr>
<td><strong>Shipment</strong></td>
<td>- Proximity to the market allows swift delivery</td>
</tr>
<tr>
<td>- Right amount</td>
<td></td>
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<tr>
<td>- Right price</td>
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<tr>
<td>- Right time</td>
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Hokuetsu has reached high margins providing thorough customer service and quickly responding to customer needs
2. Mid-to-long Term Corporate Strategy
## Summary of “J-100” Plan (FY2007 Management Target)

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</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,476</td>
<td>1,512</td>
<td>1,537</td>
<td>1,580</td>
<td>1,685</td>
</tr>
<tr>
<td>Recurring Profit</td>
<td>125</td>
<td>125</td>
<td>72</td>
<td>100</td>
<td>170</td>
</tr>
<tr>
<td>Recurring Profit Margin</td>
<td>8.4%</td>
<td>8.3%</td>
<td>4.7%</td>
<td>6.3%</td>
<td>10.1%</td>
</tr>
<tr>
<td>ROA (Based on Recurring Profit)</td>
<td>5.5%</td>
<td>5.7%</td>
<td>3.1%</td>
<td>4.5%</td>
<td>7%</td>
</tr>
<tr>
<td>D/E Ratio</td>
<td>0.8</td>
<td>0.7</td>
<td>0.6</td>
<td>0.6</td>
<td>&lt;0.6</td>
</tr>
<tr>
<td>EBITDA Margin</td>
<td>17.9%</td>
<td>17.1%</td>
<td>13.4%</td>
<td>18.4%</td>
<td>18%&lt;</td>
</tr>
</tbody>
</table>

Note: 2006-2007 Expected D/E ratio excludes the effect of Mitsubishi’s private replacement.

### Approaches to achieve management target of FY2007 (Compared with Actual FY2005)

- **Revenue**: +JPY 14.8bn
  - Paper Product: JPY 10bn
  - Processed Paper: JPY 3.3bn
  - Others: JPY 1.5bn

- **Operating Income**: +JPY 9.8bn
  - Reduced COGS + Biomass: JPY 3.6bn
  - Increased Sales Volume: JPY 2.6bn
  - Reduced Fixed Costs: JPY 2.5bn
  - Pricing Strategy, etc.: JPY 1.1bn

Hokuetsu is committed to the “J-100” Plan ending in FY2007.
### Measures to achieve the “J-100” Plan (FY2007 Management Target)

<table>
<thead>
<tr>
<th>Key actions to fulfill the “J-100” Plan</th>
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<tbody>
<tr>
<td><strong>Niigata Mill</strong></td>
</tr>
<tr>
<td>▶ Printing paper production improvement (Additional output of 30,000 tons/year)</td>
</tr>
<tr>
<td>▶ Cost reduction from biomass electric power generation</td>
</tr>
<tr>
<td>▶ Chemical cost reduction for coated paper</td>
</tr>
<tr>
<td><strong>Nagaoka Mill</strong></td>
</tr>
<tr>
<td>▶ Reconstruction of the mill (production expansion of stencil for sandpaper)</td>
</tr>
<tr>
<td>▶ Expand sales of IT related products</td>
</tr>
<tr>
<td>▶ Cost reduction by shifting fuel to gas</td>
</tr>
<tr>
<td><strong>Kanto Mill</strong></td>
</tr>
<tr>
<td>▶ White paperboard production improvement (Ichikawa Factory, Additional output by 40,000 ton/year)</td>
</tr>
<tr>
<td>▶ Cost reduction from biomass electric power generation (Katsuta Factory)</td>
</tr>
<tr>
<td>▶ Full contribution from electricity sales business (Expected to start operation in August, 2006 and full contribution from FY2007)</td>
</tr>
<tr>
<td>▶ Energy cost reduction in the production process</td>
</tr>
<tr>
<td>▶ Expand sales of cast coating paper</td>
</tr>
<tr>
<td>▶ Restructure production system for paperboard products</td>
</tr>
<tr>
<td><strong>Group Companies</strong></td>
</tr>
<tr>
<td>▶ Hokuetsu Package Co., Ltd.</td>
</tr>
<tr>
<td>▶ Increase sales volume by renewing glue laminator</td>
</tr>
<tr>
<td>▶ Improve R-4 coater, Kanagawa Mill operating rate</td>
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<tr>
<td>▶ Increase Marudai Paper’s product volume</td>
</tr>
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</table>
N9 leads Hokuetsu’s New Growth Stage

Following the completion of “J-100” Plan in FY2007, Hokuetsu will enter into a new growth stage with the full operation of N9 starting in FY2008

- N9 is the driving force of the next growth stage developed upon Hokuetsu’s past 20 years of accumulated know-how with on-machine coater developments (Niigata’s No.6, No.7 and No.8)

- Concept of N9 facility
  - Higher Quality
    - All processes via on-line (Stencil→Coating→Calendar)
  - Faster and Wider
    - Wire width: 10 meter
    - Production capacity: 350,000 tons
  - Saving and Recycling
    - Utilization of biomass energy

- N9’s financial impact (Hokuetsu’s management plan: FY2007-FY2011) (Unit: JPY 100 million)

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</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,685</td>
<td>1,755</td>
<td>1,865</td>
<td>1,965</td>
<td>2,015</td>
</tr>
<tr>
<td>Recurring Profit</td>
<td>170</td>
<td>154</td>
<td>158</td>
<td>186</td>
<td>205</td>
</tr>
<tr>
<td>EBITDA</td>
<td>290</td>
<td>299</td>
<td>318</td>
<td>348</td>
<td>363</td>
</tr>
<tr>
<td>N9 Operating ratio</td>
<td>—</td>
<td>30%</td>
<td>80%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Note: Projections above are current projections. Hokuetsu plans to announce post-“J-100” Plan, including projections for N9, around March 2008.
Overview of N9 Plan

On May 18, 2006, Hokuetsu announced the expansion of the coated papermaking facility in Niigata Mill

- Further enhancement of global competitiveness in quality and cost with long-term views
- Fourth on-machine coater in Niigata Mill
- Expansion of production capacity was decided based on the strong demand for Hokuetsu products which exceeded existing production capacity
- Set the following strategies taking into account the influence upon the domestic market
  - OEM (Original Equipment Manufactures) for domestic and global corporations
  - “Scrap and build” across borders and companies
  - Cultivate new overseas users

<table>
<thead>
<tr>
<th>Overview of New Facility</th>
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</thead>
<tbody>
<tr>
<td><strong>1. Location</strong></td>
</tr>
<tr>
<td><strong>2. Start of Operation</strong></td>
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<tr>
<td><strong>3. Product line</strong></td>
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<tr>
<td><strong>4. Specifications of the facility</strong></td>
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<tr>
<td><strong>5. Investment amount</strong></td>
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Financing for N9 Plan and Business Alliance with Mitsubishi Corporation

Financing
- Of a total of JPY 55 billion required for the implementation of the N9 plan, approximately JPY 30 billion has been raised through equity finance
  - Maintain healthy financial standing
  - Maintain financial resilience to butter effect of future rise in interest rates of debt instruments

Business Alliance
- Realize the complementary synergies from a full value chain in paper and pulp business through the alliance with Mitsubishi Corporation, a general trading company
- Enhance value chain globally by utilizing Mitsubishi’s financial strength, investment expertise

Benefits from business alliance with Mitsubishi Corporation
- 1) Strategic procurement of raw material
  - Expertise about raw material business
  - Overseas tree plantation and pulp business
- 2) Enhancement of Distribution Function
  - Domestic and global sales channels
  - Solid access to end users

The Third Party Allotment and business alliance with Mitsubishi Corporation ensures Hokuetsu’s launch of N9 plan and entrance into a new growth stage
1) Strategic Procurement of Raw Material

Support strong growth by N9 Plan through a stable, long-term vision and global procurement of raw materials

- Woodchips and tree plantation business
  - Utilize Mitsubishi Corporation’s know-how and financial resources regarding Woodchips and tree plantation business in South America, Australia, etc.
  - Establish stable raw material supply system through new joint projects
    - Joint charter of ships for Woodchips
    - Hokuetsu’s participation in current Mitsubishi Corporation’s projects
    - Diversified utilization of plantations

- Pulp business
  - Competitive procurement of pulp by utilizing Mitsubishi Corporation’s know-how for production and marketing
  - Acquire and utilize global pulp market information

- Auxiliary material business
  - Stable procurement of Kaolin, a key pigment for coated paper, from Mitsubishi Corporation’s direct investments overseas
  - Flexible procurement of auxiliary materials, such as glass fiber etc., utilizing Mitsubishi Corporation’s global sourcing function as a general trading company

Possible to establish a stable and strategic procurement system which is crucial for all paper industry peers
2) Strengthening of Distribution Function

Enhancement of commercial structure in Japanese market with stable growth and entry to overseas market, with strong growth

- **China and South Asia Market**
  - Expand sales by utilizing IT support, distribution services provided in China and sales channels that Mitsubishi Corporation has developed over the years

- **North America Market**
  - Distribution function, such as inventory, process and credit control, is essential for the entry into the North American market, which is the world’s largest market
  - Utilize Mitsubishi Corporation’s distribution know-how based on marketing experience in the North American market

- **Domestic Market**
  - Cultivate new users by user-oriented proposals that paper distributors cannot provide

- **Promoting OEM**
  - Utilize Mitsubishi Corporation’s overall business capability and credibility to seek overseas business alliance opportunities including OEM production
  - Commence N9’s early launch and further focus on core products by promotion of OEM

**Strengthening the distribution function is essential in order to improve international competitiveness**
3. Objections to Oji’s Proposal
Background of Oji’s Proposal

Oji’s Proposal was intended to block healthy competition

- Hokuetsu has had continued discussions with Oji regarding the enhancement of international competitiveness over the last few years

- Throughout these discussions, due to the negative impact of the cutting edge N9 facility over the market Hokuetsu is planning to install, Oji has requested Hokuetsu to cancel the construction several times

- Oji’s request to Hokuetsu has consistently been coercive, detrimental to healthy competition

- After Hokuetsu officially announced the construction of N9, Oji shifted its strategy to acquire Hokuetsu’s factories and access to the Tokyo region by announcing a merger proposal on July 23rd, and a take over bid on August 2nd
Issues regarding Oji’s Proposal (1)

- **Hokuetsu is capable of improving business efficiency and securing resources without business integration**
  - In order to maintain competitiveness in the market, it is necessary to focus on improving and securing competitiveness for each individual mill
  - Hokuetsu has already improved management efficiency making the business integration with Oji unnecessary
  - Hokuetsu is capable of securing resources by utilizing its alliance with various companies, including Mitsubishi Corporation
  - Business integration with Oji, which operates inefficient facilities, will have a negative impact on Hokuetsu

### Comparison of Production Efficiency per Worker

(Unit: Tons/Worker)

<table>
<thead>
<tr>
<th>Company</th>
<th>Efficiency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hachinohe</td>
<td>1,452</td>
</tr>
<tr>
<td>Yonago</td>
<td>1,312</td>
</tr>
<tr>
<td>Iwakuni</td>
<td>1,251</td>
</tr>
<tr>
<td>Ishimaki</td>
<td>1,151</td>
</tr>
<tr>
<td>Mishima</td>
<td>1,108</td>
</tr>
<tr>
<td>Nomachi</td>
<td>1,106</td>
</tr>
<tr>
<td>Tomioka</td>
<td>1,072</td>
</tr>
<tr>
<td>Kasugai</td>
<td>1,028</td>
</tr>
<tr>
<td>Shiraoi</td>
<td>946</td>
</tr>
</tbody>
</table>

Source: Japan Paper Association, Company Filings
Note: CY2005 Figures
Issues regarding Oji’s Proposal (2)

- **Oji should conduct scrap & build through its own facilities**
  - Oji should improve its competitiveness by independently carrying out scrap and build, including its new China plant, instead of conducting scrap & build in combination with Hokuetsu’s N9 facility and Oji’s old, small-scale facilities
  - Additionally, Oji should disclose its concrete plan on scrap & build and the effect of such acts upon its shareholders, clients, employees and local community
  - Becoming a part of Oji’s restructuring will deprive Hokuetsu of its autonomy in directing sales and production policy, preventing Hokuetsu from providing enhanced value to its stakeholders
Issues regarding Oji’s Proposal (3)

- Alliance without business integration can have the same effect
  - Hokuetsu has a track record of realizing through alliances between independent parties, i.e. Comprehensive Business Alliance with Mitsubishi Paper (2000/7 – 2005/7)
  - For Hokuetsu, business integration is merely an option to realize the gains from an alliance, whereas Oji brings business integration first
  - In fact, there are companies such as Nippon Paper that intend to seek such an alliance with respect to Hokuetsu’s independent management, Hokuetsu will consider such alliance positively

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Comprehensive Business Alliance with Mitsubishi Paper Mill

Alliance has resulted in the following:
- Cost reduction in procurement of raw material
- Cost reduction in production and sale
- Increase in the amount of production and sales
⇒ Hokuetsu and Mitsubishi Paper achieved a total benefit of JPY 5.5 billion annually
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The proposal focuses only on Niigata Mill

- Oji does not mention anything about Nagaoka Mill nor Kanto Mill (Ichikawa factory and Katsuta factory) in the proposal
- In addition, Oji clearly states that the purpose of the proposed merger is to acquire production bases in Tohoku and Hokuriku region where Oji does not have production facilities
- On the other hand, Nagaoka Mill and Kanto Mill are key production bases as well as revenue source for Hokuetsu
  - Kanto Mill is an important production base for white paperboard
  - Nagaoka Mill is the production base for highly profitable value added products
- There is no guarantee that mills other than Niigata Mill will become a target of restructuring, in which case the mid-long term value of various stakeholder of Hokuetsu could be badly damaged

Oji’s proposal is simply an attempt to gain control over the Niigata Mill and will damage Hokuetsu’s overall value
Issues regarding Oji’s Proposal (5)

- **Risks regarding stable supply of products for users**
  - The business integration will mean less alternative options for users who procure paper and pulp products from multiple manufacturers.
  - Stable procurement of paper and pulp products is crucial for many users.
  - The success of the proposed business integration may lead to alienation of current users.
  - The Fair Trade Commission has approached Hokuetsu with regard to the share of post-business integration with Oji. Hokuetsu has submitted relevant materials and is fully cooperating with the investigation.

> “The acquisition is in violation of the anti-monopoly law. Prices for white paperboard (used to make tissue boxes) will be raised adversely effecting printing companies and consumers.”

  *Niigata Nippo, 2006/8/5 - Daio Vice President, Motokawa Ikawa*

> “The market share of post-integration of Oji and Hokuetsu will likely violate the anti-monopoly law. This integration is damaging to the printing industry and as the Japan Federation of Printing Industries, we express our absolute opposition”

  *Press Release, 2006/8/8, Japan Federation of Printing Industries*
Issues regarding Oji’s Proposal (6)

- **Lack of specific proposals regarding benefits to the local community**
  - Oji has raised “secure employment” and “contribution to the local community” in connection with its employment policy, but Hokuetsu has historically implemented and maintained such a policy alone.
  - Oji’s focus is limited to employment and compensation policy, and it is unclear what Oji’s understanding is towards Hokuetsu’s strong ties to the local community that has supported Hokuetsu’s competitive advantage.

### Contribution to the Local Community

- **Contribution as a Local Entity**
  - Contribution to the community through tax payments
  - Contribution to the post-war reconstruction in Nagaoka
  - Founded Science Museum, Sekisetsu Museum of Science and Hokuetsu Paper Myojo Gakuen
  - Promoted the utilization of Niigata Port (as Japan Sea rim Industry Port)

- **Reconstruction Support from Natural Disasters**
  - Support volunteer activities in flood-hazard on July 13, 2004
  - Support of restoration from Chuetsu Earthquake on October 23, 2004

- **Convention Center**
  - Cultural contribution to the local community and sponsored publishing business
Issues regarding Oji’s Proposal (7)

- **Lack of explanation about Oji’s business in China**
  - Oji has not explained its management plans for the East Asia market which it claims is being integrated with the Japanese market
  - It is extremely unusual for Oji not to have mentioned anything about its large investment plans in China as it is likely to have a significant impact

<table>
<thead>
<tr>
<th>Risks associated with operations in China (Hokuetsu’s view)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital Investment</strong></td>
</tr>
<tr>
<td>- US$ 1.9 billion dollars</td>
</tr>
<tr>
<td>- Risk of costing more due to delay in plans</td>
</tr>
<tr>
<td>- Two paper machines (400,000 tons each), pulp series (700,000 tons)</td>
</tr>
<tr>
<td><strong>Expected Risks</strong></td>
</tr>
<tr>
<td>- Uncertain sales channel and credit risk</td>
</tr>
<tr>
<td>- Risk of entering a highly dominated market, such as APP China and Chenming Paper</td>
</tr>
<tr>
<td>- Unclear development situation of Chinese distribution system</td>
</tr>
<tr>
<td>- Risk of procuring sufficient raw materials</td>
</tr>
<tr>
<td>- Unclear environmental preservation level required</td>
</tr>
<tr>
<td>- Local residents’ understanding and support</td>
</tr>
<tr>
<td>- Risk over the financial soundness due to the large investment required</td>
</tr>
</tbody>
</table>

Hokuetsu may have to bear Oji’s Chinese operation risk
Primary Risk factor of the Business Integration Proposal

Hokuetsu potentially bears the following risk factors by becoming a subsidiary of Oji

- Oji’s view on the merits from the proposed business integration is based on no due diligence and limited information
- Hokuetsu estimates the total impact of the proposed business integration will be approximately ▲JPY 13.4 – 17.9 billion

<table>
<thead>
<tr>
<th>Risk Factor</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced production due to the commencement of &quot;scrap and build&quot; across Hokuetsu and Oji</td>
<td>▲JPY 6.0 - 10.5 billion</td>
</tr>
<tr>
<td>Disposal of business, production restrictions based on Anti-Trust Laws</td>
<td>▲JPY 1.7 billion</td>
</tr>
<tr>
<td>Lowered productivity due to decreased employees' morale</td>
<td>▲JPY 3.2 billion</td>
</tr>
<tr>
<td>Risk of users’ share adjustment</td>
<td>▲JPY 1.5 billion</td>
</tr>
<tr>
<td>Risk of losing customer base due to reduction of distribution cost</td>
<td>▲JPY 1.0 billion</td>
</tr>
</tbody>
</table>

Subtotal of downside due to business integration: ▲JPY 13.4 – 17.9 billion

Note: Calculated on income based on pre-tax of FY2009E

Oji’s proposal does not only have issues with its content but does not have economic rationale
4. Views on Valuation
Stock Performance in Recent Years

Hokuetsu believes it has gained shareholders’ understanding and support for management’s strategy to enhance shareholder value in the mid-to-long term.

Hokuetsu has outperformed the top 3 players in the paper and pulp industry for the past 2 years.

Source: Factset
Note1: Index assigns 2004/7/28 figure as 100
Issues Regarding Valuation by Oji

Oji’s view regarding valuation

- Oji bases its tender offer price on valuation (multiples) which only refers to expected EBITDA and net income in FY2006 and FY2007 (I/B/E/S Estimates)

Hokuetsu’s Objection

- **Disregard of N9:** Oji intentionally neglects the impact of N9 (Operation starts in FY2008) as a driving force leading a new growth phase for Hokuetsu
- **Short Sighted:** Oji’s proposed tender offer price does not reflect Hokuetsu’s mid-to-long term corporate value and is calculated only from a short-term perspective

### Hokuetsu’s Management Plan (FY2006—FY2010)

<table>
<thead>
<tr>
<th></th>
<th>FY2006</th>
<th>FY2007</th>
<th>FY2008</th>
<th>FY2009</th>
<th>FY2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>158.0</td>
<td>168.5</td>
<td>175.5</td>
<td>186.5</td>
<td>196.5</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>21.3</td>
<td>29.0</td>
<td>29.9</td>
<td>31.8</td>
<td>34.8</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>5.2</td>
<td>9.5</td>
<td>8.6</td>
<td>8.8</td>
<td>10.5</td>
</tr>
</tbody>
</table>

(Hoketsu’s estimated figures, including N9 Plan which were disregarded by Oji)

Oji’s proposed tender offer price (JPY 800) does not adequately reflect the mid-to-long term value of Hokuetsu
Hokuetsu’s View on Valuation

Future Goal for Hokuetsu

- N9 is key to Hokuetsu’s expansion strategy and is the driving force of future growth
- Once the capital markets recognize the impact of the immediate operation of N9, there will be significant increase in the valuation of Hokuetsu
- EBITDA multiple, which includes the impact of N9, is the appropriate valuation method to evaluate Hokuetsu’s active capital investment strategy

<table>
<thead>
<tr>
<th>Hokuetsu’s Management Plan (FY2007—FY2010)</th>
<th>(Unit: JPY billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FY2007</td>
</tr>
<tr>
<td>Revenue</td>
<td>168.5</td>
</tr>
<tr>
<td>EBITDA</td>
<td>29.0</td>
</tr>
<tr>
<td>Net Income</td>
<td>9.5</td>
</tr>
<tr>
<td>N9 Operating Ratio</td>
<td>—</td>
</tr>
</tbody>
</table>

Note1: Projections above are current projections. Hokuetsu plans to announce post-“J-100” Plan, including projections for N9, around March 2008

Hokuetsu’s managerial goal is to maximize mid-to-long term shareholder value
Valuation Upside

Hokuetsu’s Equity Value based on EBITDA multiples

(Unit: JPY 100 million)

<table>
<thead>
<tr>
<th>Equity Value as of today (market cap. As of 2006/7/27 + TPA to Mitsubishi)</th>
<th>Equity Value Target (FY2010)</th>
<th>Equity Value at Oji’s Tender Offer Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>304</td>
<td>2,841</td>
<td>1,712</td>
</tr>
<tr>
<td>1,042</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note1: Equity Value Target = (Expected EBITDA in 2010)\(^{(Average of comparable companies' EBITDA multiple from 2006 to 2007 : 10.0)}\) - (net debt in FY2010 : assume same level as FY2006)

Note2: Net debt = interest bearing debt + minority interest - cash and cash equivalents

Note3: Industry peers are Oji, Nippon, Daio, Mitsubishi, Chuetsu, Rengo, Kishu, Mishima

Stand-alone value of JPY 280 billion should be the basis of the acquisition premium
Hokuetsu Has Entered into a New Growth Phase

Equity Value
JPY 280 billion + $\alpha$

Hokuetsu’s Strength

- Focused Product Strategy
- Highest Production Efficiency in the Industry
- Innovative Technologies
- Highest Profitability Among Peers
- Ideal Location of Production and Distribution Network
- High Financial Stability

Highly Motivated Employees
Independent Management
### Appendix: Comparison with Industry Peers

(in JPY million)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Hokuetsu</td>
<td>104,173</td>
<td>168,030</td>
<td>7.9x</td>
<td></td>
<td></td>
<td>7.6x</td>
</tr>
<tr>
<td><strong>Comparable Company</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oji</td>
<td>682,269</td>
<td>1,425,395</td>
<td>9.1x</td>
<td></td>
<td></td>
<td>8.3x</td>
</tr>
<tr>
<td>Nippon Paper Group</td>
<td>492,935</td>
<td>1,193,466</td>
<td>10.2x</td>
<td></td>
<td></td>
<td>9.3x</td>
</tr>
<tr>
<td>Daio</td>
<td>134,599</td>
<td>494,441</td>
<td>9.1x</td>
<td></td>
<td></td>
<td>8.6x</td>
</tr>
<tr>
<td>Mitsubishi</td>
<td>66,521</td>
<td>236,335</td>
<td>11.3x</td>
<td></td>
<td></td>
<td>10.3x</td>
</tr>
<tr>
<td>Chuetsu</td>
<td>29,514</td>
<td>97,571</td>
<td>9.1x</td>
<td></td>
<td></td>
<td>8.7x</td>
</tr>
<tr>
<td>Rengo</td>
<td>40,831</td>
<td>214,690</td>
<td>NM</td>
<td></td>
<td></td>
<td>NM</td>
</tr>
<tr>
<td>Kishu</td>
<td>15,856</td>
<td>26,477</td>
<td>NA</td>
<td></td>
<td></td>
<td>9.0x</td>
</tr>
<tr>
<td>Mishima</td>
<td>6,558</td>
<td>20,748</td>
<td>11.1x</td>
<td></td>
<td></td>
<td>9.1x</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td></td>
<td></td>
<td>10.0x</td>
<td></td>
<td></td>
<td>9.0x</td>
</tr>
<tr>
<td><strong>Median</strong></td>
<td></td>
<td></td>
<td>9.6x</td>
<td></td>
<td></td>
<td>9.0x</td>
</tr>
<tr>
<td><strong>Max</strong></td>
<td></td>
<td></td>
<td>11.3x</td>
<td></td>
<td></td>
<td>10.3x</td>
</tr>
<tr>
<td><strong>Min</strong></td>
<td></td>
<td></td>
<td>9.1x</td>
<td></td>
<td></td>
<td>8.3x</td>
</tr>
</tbody>
</table>

Source: Factset, Toyo Keizai

Note1: Stock price as of July 21
Note2: Shares outstanding of Hokuetsu is as of July 21 (164.05 million)