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Oji's Opinion against Objection Announced by Hokuetsu

Oji Paper Co., Ltd. ("Oji") proposed the business integration to Hokuetsu Paper Mills, Ltd. ("Hokuetsu") based on the understanding that the business integration (the "Business Integration") between Hokuetsu and Oji represents a strategic best fit against the background of a paper/pulp industry in Japan forced to respond to the integration of the East Asian market and exposed to global competition.

In response to our proposal, on July 21, 2006, Hokuetsu's board of directors decided to issue shares (the "Placement") to and enter into a business alliance (the "Business Alliance") with Mitsubishi Corporation ("Mitsubishi"). It is highly regrettable that Hokuetsu has failed to present any concrete benefits of such actions.

Hokuetsu asserts that its market capitalization as an independent company will reach over 280 billion yen by 2010. However, this assertion seems to be based on overly optimistic assumptions and, in light of the increase in the cost of raw materials and fuels, changing market conditions in East Asia and tightening domestic demand in Japan, Hokuetsu does not have sufficient scale necessary to survive as an independent company. Structural problems related to Hokuetsu's heavy dependence on the printing/communications paper business also make it clear that the Business Integration with Oji is the best way to improve Hokuetsu's value. Hokuetsu continues to assert that the Business Integration will not enhance its corporate value. However, Hokuetsu has failed to present any specific reasons to back up such an assertion.

Hokuetsu has also raised concerns about the effect on employee morale and the possible adverse impact on the local community. However, since it initially proposed the Business

Integration, Oji has stated that it will be carried out in a way so as to dissipate any fears of employees or local residents.

Oji is determined to pursue the Business Integration and does not currently intend to change any of the terms or conditions of the tender offer. Oji will continue its efforts to obtain the understanding and support necessary to consummate the Business Integration.

Oji's Rebuttal against Hokuetsu's Press Release Entitled
"Notice Recommending Rejection of Tender Offer by Oji"

1. Purpose of the Proposed Business Integration

A. Challenges for Japanese Paper and Pulp Manufacturers

As Oji has been stressing, Japanese manufacturers, who had previously operated in a somewhat closed domestic market, are now being forced to compete with foreign manufacturers owning highly efficient facilities and in a unified and expanded market, making it necessary for these Japanese manufacturers to introduce large and state-of-the-art facilities to achieve structural cost reductions and grow in size. Leading paper and pulp manufacturers in Europe and North America and growth-stage paper and pulp manufacturers in East Asia have achieved a high level of efficiency by installing large, state-of-the-art and efficient facilities in the region, and are eyeing entry to the Japanese market, causing the Japanese producers to feel threatened by paper imports. Hokuetsu inappropriately focused solely on the decrease of imported papers in 2004 and 2005 to come to the conclusion that there is a downward "trend" in the volume of imported paper. However, notwithstanding such short-term anomalies, the trend is upward if viewed from a medium- to long-term perspective (see page 2 of the attached material).

B. Hokuetsu's Challenges

Hokuetsu stresses the high production efficiency per employee in its Niigata Mill and, indeed, Oji thinks highly of Hokuetsu's industry-leading production efficiency. However, high production efficiency alone is not enough to compete in a globally integrated market. Against the background of constraints related to structure and size, such as inadequate corporate scale, limited room for further cost cutting and heavy reliance on the printing/communications paper business, as well as the increase in fuel and raw material prices, Hokuetsu's decline in profitability in recent years has been such that it has been forced to change its accounting method from a declining-balance method to a straight-line method. This is reflected in its performance in the market: its stock price for the most recent one year underperforms those of its domestic competitors and its PBR has remained less than one for a long period of time. The

market, too, is taking a severe view of Hokuetsu's growth potential. In light of the situation facing Hokuetsu, one has to conclude that it would be quite difficult for Hokuetsu to successfully resolve the issues it faces while remaining an independent company (see pages 3 to 8 of the attached material).

Hokuetsu claims that Oji, in calculating the tender offer price (the "Tender Offer Price"), has intentionally ignored the effect of the full operation of N9 which is central to Hokuetsu's growth strategy. However, President Miwa himself has stated in an interview (in Japanese) with Nikkei Sangyo Shimbun reported on June 13, 2006 that "Initial operating levels [will be] approximately 100,000 tons a year [sold] in Japan and 80,000 tons a year [sold to] overseas OEM purchasers" and that "[N9] will post an accounting loss for 2 to 3 years since the facilities will commence operations at a level of 200,000 tons a year" (see page 9 of the attached material). Oji also believes that it would be difficult to operate N9 profitably on a short-term basis. Accordingly, we calculated the Tender Offer Price based on the assumption that the effect of the full operation of N9 will be realized on a medium- to long-term basis. Oji believes that it will be extremely difficult for Hokuetsu to accomplish its announced "Policy to pursue a market capitalization of 280 billion yen or higher by 2010" because (i) such goal is premised on an "EBITDA multiple of 10 times," which Hokuetsu has never attained during the previous five years, and (ii) the market continues to judge the fulfillment of the J-100 Plan difficult due to Hokuetsu's failure to explain concrete benefits of the Business Alliance with Mitsubishi (see pages 10 and 11 of the attached material).

C. Effect of Business Alliance with Mitsubishi

Hokuetsu has failed to state any specific benefits of the Business Alliance in its press release (in Japanese) dated August 9, 2006 "Notice Relating to Hokuetsu's Independent Management and Enhancement of Shareholder Value." In particular, Oji fears that Hokuetsu's failure to give concrete, quantitative benefits of the "strategic procurement of raw materials" and "improvements in transportation and distribution functions", areas that are supposed to constitute core synergies, may give rise for concern among Hokuetsu employees. It is also extremely regrettable that Hokuetsu has not presented any persuasive reasons for issuing shares to a third party at a considerable discount when compared to a price per share derived from the market capitalization it has publicly promised to achieve.

D. Cross-Company Scrap and Build

The proposed scrap and build with Oji should lead to a more efficient production facilities system through a combination of Hokuetsu's currently planned expansion of its coated paper production facilities and the scrapping of Oji's aging, small-scale facilities. This will allow Hokuetsu to quickly achieve the increase in production capacity aimed at through the introduction of its large, cutting-edge facilities. Oji is confident that this would achieve a rapid increase in the utilization rate from levels which would otherwise be low for the time being and represents the best way to achieve an efficient production system.

E. Reduction of Cost of Raw Materials and Fuel

Hokuetsu has stated that the Business Alliance with Mitsubishi will result in cost reductions with respect to raw materials and fuel. However, Hokuetsu has not provided concrete, quantitative benefits of the Business Alliance with Mitsubishi and it appears to Oji that Hokuetsu has not given due consideration to all available options. Oji is confident that the appropriate solution to the problem lies in utilizing the increase in corporate scale resulting from the Business Integration and to expand and strengthen purchasing power by engaging in a joint purchasing program.

F. Risk Relating to the Expansion of Business

Hokuetsu points out that the long-term relationship of trust with its customers, which it believes is one of its strengths, would be adversely affected by the Business Integration. However, as explained from the outset, Oji will respect such customer relationships. Oji plans to maintain Hokuetsu's relationships with existing customers and trading partners after the Business Integration. The enhanced competitiveness expected from the Business Integration would also benefit customers, and for this reason, Oji believes that customers, too, will support the Business Integration.

Hokuetsu has also highlighted issues with regard to the Antimonopoly Act of Japan. However, considering the continued expansion of facilities producing both board paper

and coated paper in South Korea and China and the increasing competition posed by imported paper, Oji believes that these issues will not constitute problems under the Act.

Oji consulted with the Japan Fair Trade Commission (“FTC”) in advance of its proposal of the Business Integration. Because the FTC can conduct hearings with relevant parties only following the commencement of the tender offer, Oji would not have been able, from a procedural point of view, to meet Hokuetsu’s demand that Oji should have “received an answer to the effect that there are no problems under the Antimonopoly Act of Japan or that, if there are problems, that the tender offer be started only after giving due consideration to ways to rectify these problems.” Currently, Oji is yet to receive an opinion from the FTC. In the case that the FTC requires certain actions be taken, Oji will take appropriate measures. But even in such case, Oji believes that the realization and the effectiveness of the Business Integration would not be materially affected.

2. Advantages for the Local Community and Employees

A. Advantages for the Local Community

It is understandable that some people are nervous about the Business Integration and Oji feels that it is its duty to provide a full explanation. However, Oji would like the local community to understand that Hokuetsu will remain substantially unchanged after the Business Integration as exemplified by the following statements: “Hokuetsu will certainly remain as a separate entity”, “Hokuetsu’s head office will not be relocated”, and “Hokuetsu’s relationships with trading partners will continue unaltered”. Further, the full operation of Hokuetsu’s large, cutting-edge facilities will result in increased business with trading partners.

Hokuetsu insists that Oji’s proposal is just an offer for the Niigata Mill operation. However, Oji’s proposal aims for a business integration with the entire Hokuetsu operation, including the Nagaoka and Kanto Mills, as well as marketing, sales and other back-office operations, and certainly not solely the acquisition of the Niigata Mill. Therefore, Oji has no intention of requiring the division of the Niigata Mill from Hokuetsu. Despite Oji’s explanation of this in the “Proposal of Business Integration” submitted to Hokuetsu on July 3, 2006 and in Oji’s Press release “Notice Regarding

Commencement of Tender Offer” dated August 1, 2006, Hokuetsu’s management has insisted that Oji’s proposal is nothing more than a request for the splitting off of the Niigata Mill. This has unnecessarily exacerbated the concerns of Hokuetsu employees as well as other stakeholders in the region and Oji finds it difficult to understand Hokuetsu’s repeated insistence on these points.

Oji has always operated its mills based on the principal of “maintaining good relationships with local residents and local administration” and is proud to be a company that values relationships with local communities and people by actively participating in various events and volunteering activities.

B. Advantages to Employees

Hokuetsu has been insisting that the Business Integration will considerably undermine the morale of its employees and its productivity. However, Oji respects the pride Hokuetsu employees hold in their contribution to Japanese “craftsmanship.” Oji’s proposal rests on the twin foundations of “No adverse impact to Hokuetsu’s employees” and “Respect for Hokuetsu’s corporate culture and its value as an integrated organization including the Niigata Mill, the Nagaoka Mill and the Kanto Mill”. Oji is, like Hokuetsu, a Japanese company engaged in “craftsmanship,” and deeply understands how important Hokuetsu employees are to the company. As Oji has been consistently stating since July 3, 2006, the date on which the proposal of the Business Integration was presented to Hokuetsu, it is Oji’s basic policy to maintain the employment of Hokuetsu employees, pay scale and work place after the Business Integration and not to change the relationship between the management and employees. Oji believes that every employee of Hokuetsu will be able to benefit equally from the Business Integration.

3. Disadvantages of Business Integration

According to Hokuetsu, the negative financial impact of the Business Integration would amount to approximately 13.4 to 17.9 billion yen. However, as Hokuetsu has not presented any concrete justification to support such figures, Oji finds this difficult to understand. In response to questions from Hokuetsu, Oji presented a breakdown of synergies available to Hokuetsu on July 20, 2006. If Hokuetsu wishes to dispute any of these figures, Oji would

ask that Hokuetsu set out any counter-arguments it may have based on the figures that Oji has already presented (see p.12 of the attached material).

4. Business in China

After receiving an executed confidentiality agreement from Hokuetsu, Oji, in response to Hokuetsu's inquiry on Oji's business in China, provided Hokuetsu with materials including tables showing return on investment (*toshisaisan-hyo*). It was Oji's understanding that Hokuetsu was satisfied with the explanation given. However, to Oji's complete surprise, Hokuetsu alleged that "there is no reference in the business plan to the East Asian market which we insist is integral to the Japanese market."

Oji has been carefully evaluating and preparing for entry into the growing Chinese market by carrying out sufficient forestation as well as market research and has been analyzing expected returns on investment in great detail. Therefore, Oji believes that the risk of business in China pointed out by Hokuetsu is low.

Oji's View of the Process to Date

1. Background to the Commencement of the Tender Offer

A. Background to the Approval and Announcement of the Proposal for Business Integration dated July 23

Oji proposed a business integration (the "Proposal") with Hokuetsu on July 3 and requested Hokuetsu to respond by the morning of July 24, taking into account Hokuetsu's need for sufficient time to evaluate the Proposal. In order to obtain the understanding of the board of directors of Hokuetsu, Oji organized various meetings for both parties to exchange their respective views on the Proposal and promptly responded in good faith to Hokuetsu's questions. On July 18, more than two weeks after the submission of the Proposal, Oji received for the first time questions in writing and promptly responded by providing detailed written responses to such questions on July 20. Because responding to Hokuetsu's questions relating to the sections entitled "Facility and Profitability Plans Relating to the China Nantong Business" and "Post Business Integration Factory and Business Establishment Restructuring Plan, Capital Expenditure Plan, Plan to Scrap Aging and Small-Scale Facilities" and "Oji's Primary Major Capital Expenditure Plan" would involve disclosure of important confidential information, Oji requested that the parties enter into a standard confidentiality agreement covering only such confidential information. (Because Hokuetsu did not sign the confidentiality agreement until July 25, Oji was unable to provide the confidential information relating to the above matters to Hokuetsu prior to such time. During such time, however, Hokuetsu did not make any comments to the confidentiality agreement, and the parties entered into the confidentiality agreement without revisions or modifications to the version provided by Oji).

However, on July 19 Hokuetsu suddenly introduced its "Defensive Measures Against Any Large-Scale Acquisition of Hokuetsu Shares (the "Defense Plan")". Further, on July 21 Hokuetsu resolved and announced the placement to (the "Placement") and business alliance (the "Business Alliance") with Mitsubishi. The

Placement has an effect of making Mitsubishi by far the largest shareholder with 24.44% of the voting rights, and together with the Business Alliance, Oji understood the foregoing actions to mean that the board of directors of Hokuetsu (the “Board”) was expressing its management decision in favor of the Placement and Business Alliance, and not in favor of the Business Integration. Based on the subsequent press coverage explaining that the Placement and Business Alliance are incompatible with the Business Integration, Oji believes that there is no reason to think that its understanding was incorrect. Further, on July 23, Hokuetsu requested that Oji abandon the tender offer and Business Integration. Looking at the background of events, it is clear that Hokuetsu had already made up its mind on July 23 to reject the Business Integration Proposal made by Oji.

After Hokuetsu made clear its decision to reject the Business Integration with Oji, it was only natural for Oji to expect that Hokuetsu would put to its shareholders the question of whether they preferred the Placement and Business Alliance with Mitsubishi or the Business Integration Proposal made by Oji and, taking their opinion into consideration, reconsider their decision. Therefore, on July 23 Oji’s board resolved and announced the Proposal, conditioned on the withdrawal of the Placement and the Business Alliance.

Further, the principal reasons for making the Proposal on July 23 conditioned on the withdrawal of the Placement and the Business Alliance were: (i) Oji would not be able to maintain the Tender Offer Price of 860 yen if the Placement were consummated, (ii) the Placement and Business Alliance made the goal of acquiring a majority of the shares of Hokuetsu more difficult; and (iii) Oji hoped that, if the shareholders understood Oji’s Proposal, Hokuetsu’s Board would possibly reconsider the Proposal in light of their fiduciary duty to the shareholders.

Further, the principal reasons for Oji’s Board to resolve to proceed with, and announce the Proposal on July 23, one day before the deadline to respond to the Proposal are: (i) Hokuetsu’s Board made a management decision incompatible with the Business Integration with Oji, (ii) Hokuetsu conveyed to Oji on July 23 that they were rejecting the proposed Business Integration with Oji, (iii) media coverage of this matter was becoming imminent, (iv) Oji thought that a prompt decision and announcement thereof would be desirable considering , among other things, effects on the market when

it opened on the Monday following July 23. Hokuetsu has made the criticism that Oji unilaterally announced publicly the Proposal, but considering the foregoing circumstances, Oji does not understand why an announcement one day earlier constitutes such a problem for Hokuetsu.

B. Background to the Commencement of the Tender Offer on August 2

As discussed above, Oji was hoping that the Hokuetsu Board would reconsider the Proposal by taking into account the interests of Hokuetsu's shareholders, and while Oji had intended to create the opportunities and time for meetings with Hokuetsu in this regard, Hokuetsu announced on July 24 that it had no intention to withdraw the Placement or the Business Alliance and again made it clear that it would not proceed with the Business Integration but with the Placement to and Business Alliance with Mitsubishi. Notwithstanding the foregoing, on July 24, Oji received questions in writing from Hokuetsu. The questions in writing related to details of Oji's business in China, and while Oji believed that many of the questions were to a level of detail which was clearly above and beyond what is necessary to give appropriate consideration to the Proposal, Oji believed that if Hokuetsu was seriously reconsidering the Proposal, then Oji would make every effort to respond to Hokuetsu's questions. However, in a situation where Hokuetsu has already made clear its intention not to withdraw the Placement and Business Alliance, it was not clear whether Hokuetsu had sincere intentions to reconsider the Proposal, and in light of this, Oji sent a letter to Hokuetsu dated July 24 requesting Hokuetsu to make clear their view of the relationship between the Placement and Business Alliance and the Business Integration with Oji. Moreover, in order for Hokuetsu to respond adequately to the July 24 questions in writing which went into considerable detail, Oji judged that it would need to disclose a large amount of confidential information relating to its operations, and as such, Oji requested that the parties enter into a further confidentiality agreement. (The proposed version of this confidentiality agreement was sent to Hokuetsu on July 29. The contents therein are the same as those in the July 25 confidentiality agreement except that, to avoid the necessity of entering into other confidentiality agreements in the future to cover other confidential information, the form of the July 29 confidentiality agreement provides for the addition of other confidential information on an on-going basis. This confidentiality agreement, however, has not been entered into between the parties).

On July 25, Oji received the executed confidentiality agreement requested on July 20, and provided the relevant confidential information to Hokuetsu. At such time, Oji received from Hokuetsu information on what Oji was told is the scrap and build plans that Hokuetsu was evaluating. Because Oji was also told that such information contained non-public information and also because Oji, as a company proposing a business integration with Hokuetsu, is in no position to evaluate Hokuetsu's scrap and build plans, Oji returned on the following day such information to Hokuetsu without reading or reviewing its contents. Although no explanation had been given with respect to Oji's inquiry on the relationship between the Placement and Business Alliance and the Business Integration with Oji, in response to a request to answer Hokuetsu's questions from July 24, Oji requested that Hokuetsu provide such an explanation as well as the executed confidentiality agreement. At such time, Oji also responded that it was preparing answers to Hokuetsu's July 24 questions.

Because Oji still wanted Hokuetsu to reconsider the Placement and Business Alliance and to proceed with the Business Integration, as the foregoing correspondence was taking place, Oji requested a meeting of the top management of both parties and proposed that the parties take time to re-evaluate the situation rationally and to temporarily suspend the consummation of the Placement and the commencement of the Tender Offer (Oji proposed temporarily suspending the consummation of the Placement and the commencement of the Tender Offer, but not to completely reconsider them). In response, Hokuetsu was to consider this proposal, and although Oji waited for a response from Hokuetsu, Oji did not hear back from Hokuetsu heading into the weekend of July 31. As such, Oji had no choice but to determine that Hokuetsu had no intention of taking time to re-evaluate the situation.

Based on the situation described above, Oji accepted that the likelihood of Hokuetsu's Board withdrawing the Placement and the Business Alliance and supporting the Business Integration with Oji was low. Because Oji also believed that there are a number of Hokuetsu shareholders who desire the consummation of the Business Integration with Oji, Oji decided to commence the Tender Offer as of August 1 in order to directly determine the wishes of the Hokuetsu shareholders.

2. Oji Not Bound by the Terms of the Defense Plan

A. The Relationship Between the Defense Plan and the Business Integration

As described above, the Proposal from Oji for the Business Integration was submitted on July 3, more than two weeks prior to the adoption of the Defense Plan. Even after the adoption of the Defense Plan, Hokuetsu had been dealing with Oji outside the framework of the Defense Plan, including, for instance, attending meetings with Oji and sending questions in writing. Based on this, Oji believes that it is clear that the Business Integration proposal and the Tender Offer undertaken to achieve it are not bound by the terms of the Defense Plan.

In response to criticism that the Defense Plan was adopted after the submission of the Proposal by Oji, Hokuetsu is taking the position that, because the Proposal was not submitted with Oji's Board resolution, no formal proposal was submitted to Hokuetsu prior to the adoption of the Defense Plan. However, it is unrealistic to believe that the submission of the Proposal was not a formal proposal, especially when the representative directors of Oji themselves submitted the Proposal, and given the fact that Hokuetsu was handling the Proposal by submitting questions or rejecting certain proposals therein, it is clear that Hokuetsu believed the Proposal to be Oji's formal proposal. Further, Oji understands that the normal practice in M&A transactions is that the board of directors resolves to approve transactions not during the proposal stage of a transaction but immediately before the final agreement.

B. Oji's Efforts to Provide Relevant Information and Time for Consideration

As described above, Oji has been taking actions to provide relevant information and time for consideration to Hokuetsu since the submission of the Proposal on July 3. Based on its decision to consummate the Placement, the rejection of the Business Integration, the failure to respond to Oji's proposal to temporarily suspend the Placement and the commencement of the Tender Offer, and its overall rejection of the Business Integration, Hokuetsu has been in effect indicating its intent not to consider the Proposal. Further, it appears that one of the purposes of the Defense Plan is to provide time to consider other alternatives, but because Hokuetsu had already made a management decision to consummate the Placement and the Business Alliance, it is in a situation where it does not need additional time to consider other alternatives.

Further, it is very easy to point out problems (such as those relating to the structure of the “independent committee” that recommended implementation of the Defense Plan) with the Defense Plan. However, without even raising any such problems, based on the fact that Hokuetsu’s Board itself, which adopted the Defense Plan, did not have the intent to secure relevant information or to consider other alternatives, and because Hokuetsu is in a situation where it does not need additional time to consider other alternatives because it made a management decision at a very early stage that is incompatible with the Business Integration, Oji does not believe that there is any reason to think that Oji would have to follow the procedures set forth in the Defense Plan.