Creating the No. 5 Paper and Pulp Manufacturer in the World

OJI PAPER

Reference Material

August 11, 2006

Oji Paper Co., Ltd.

Hokuetsu's Challenges

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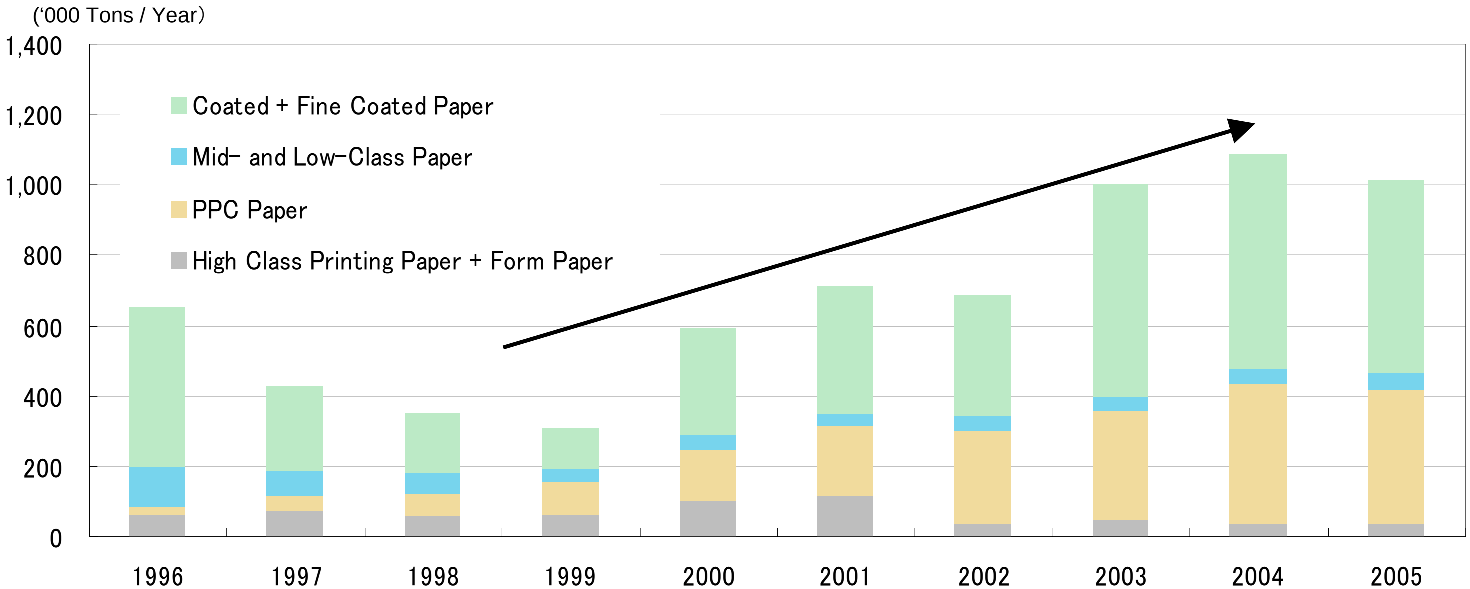
	Hokuetsu's Assertions (*)	Oji's Views
1	Hokuetsu's strength lies in "selective concentration on particular products," "profitability that is superior to other companies in the industry," and "the highest productivity in the industry."	■ Because of "selective concentration on particular products" and "the highest productivity in the industry," Hokuetsu lacks room for further cost reductions and cannot absorb the increased costs of fuel and raw materials. ■ "Profitability that is superior to other companies in the industry" is a thing of the past; Hokuetsu has recently had a significant decline in profits and faces a high risk of its profitability being adversely impacted in the future.
2	Hokuetsu has been achieving the maximization of shareholder value through efficiency promoted by concentrating management efforts on products with high growth potential.	■ Hokuetsu's share price performance, in comparison to its competitors since 2003, and its price to book value ratio, which has continued to be lower than 1x show that Hokuetsu has not really achieved maximization of shareholder value.
3	Hokuetsu's target market value for FY2010 is 284.1 billion yen, which is calculated by assuming the successful implementation of the J-100 Plan and an EBITDA multiple equal to the average of Hokuetsu's competitors of 10x (FY2006-2007).	■ Analysts believe that Hokuetsu will have difficulty achieving the J-100 Plan. The business alliance with Mitsubishi Corporation (which lacks a concrete basis for potential benefits) cannot be expected to assist Hokuetsu in achieving the J-100 Plan. In addition, over the last five years, Hokuetsu has never had an EBITDA multiple over 10x, and its average multiple over the last 5 years is approximately 6.9x. It is extremely aggressive for Hokuetsu to set its goal as having a market cap of 284.1 billion yen based on an EBITDA multiple of 10x.
4	Oji's tender offer price intentionally disregards the effects of N9, which is a key factor in Hokuetsu's new era of growth (N9 will be operational from FY2008).	■ As stated by Hokuetsu President Miwa, it will be difficult to realize a return on the N9 investment over the short-term. The tender offer price is calculated based on the assumption that such returns will be realized over the mid- to long-term.

* Based on "Independent Management of Hokuetsu Paper and Promotion of Shareholder Value – Opinion Regarding Business Integration Proposal," dated August 9, 2006.

Rising Paper Imports

- While fluctuating from year to year, there is a rising trend in imports of printing and communications paper.
- While import volume showed a year-on-year decrease in 2005, due to the continued strengthening of latent pressures of imports, imports of paper products are expected to continue to rise over the mid- to long-term.

Trends in Import Volume

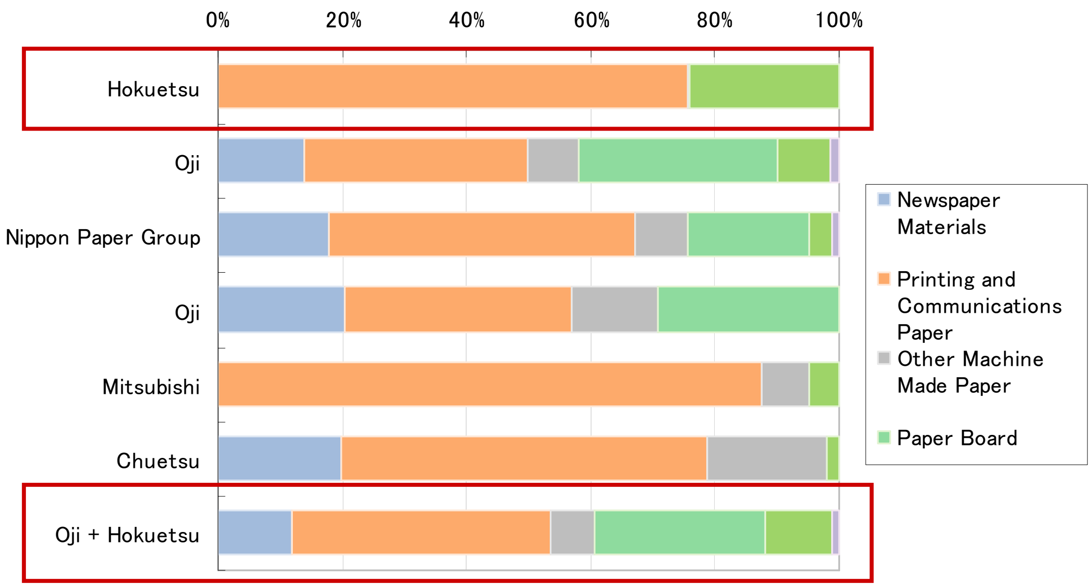


Source: JPA "2005 Annual Statistics of Paper/Paper-Board", JPA official web site, Customs statistics

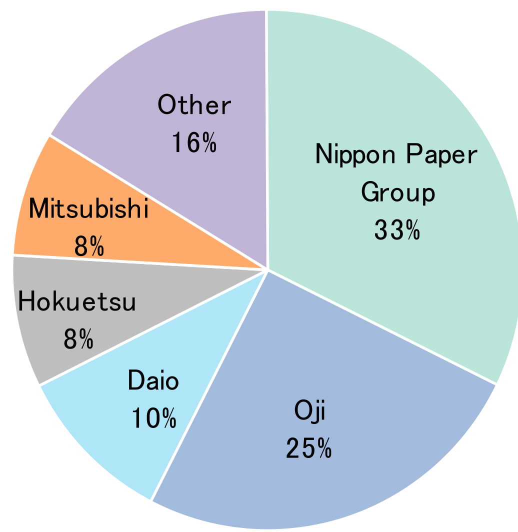
Limitations of Independent Management (1 of 4)

■ Hokuetsu has structural limitations due to its heavy reliance on the printing and communications paper business. Hokuetsu's lack of top market share in the printing and communications paper business, on which it relies heavily for profit, is a recognized weakness.

Business Portfolio（Production by Product）



Market Share of Printing and Communications Paper（2005）



■ **The business integration between Hokuetsu and Oji will bring about a well-balanced business portfolio**

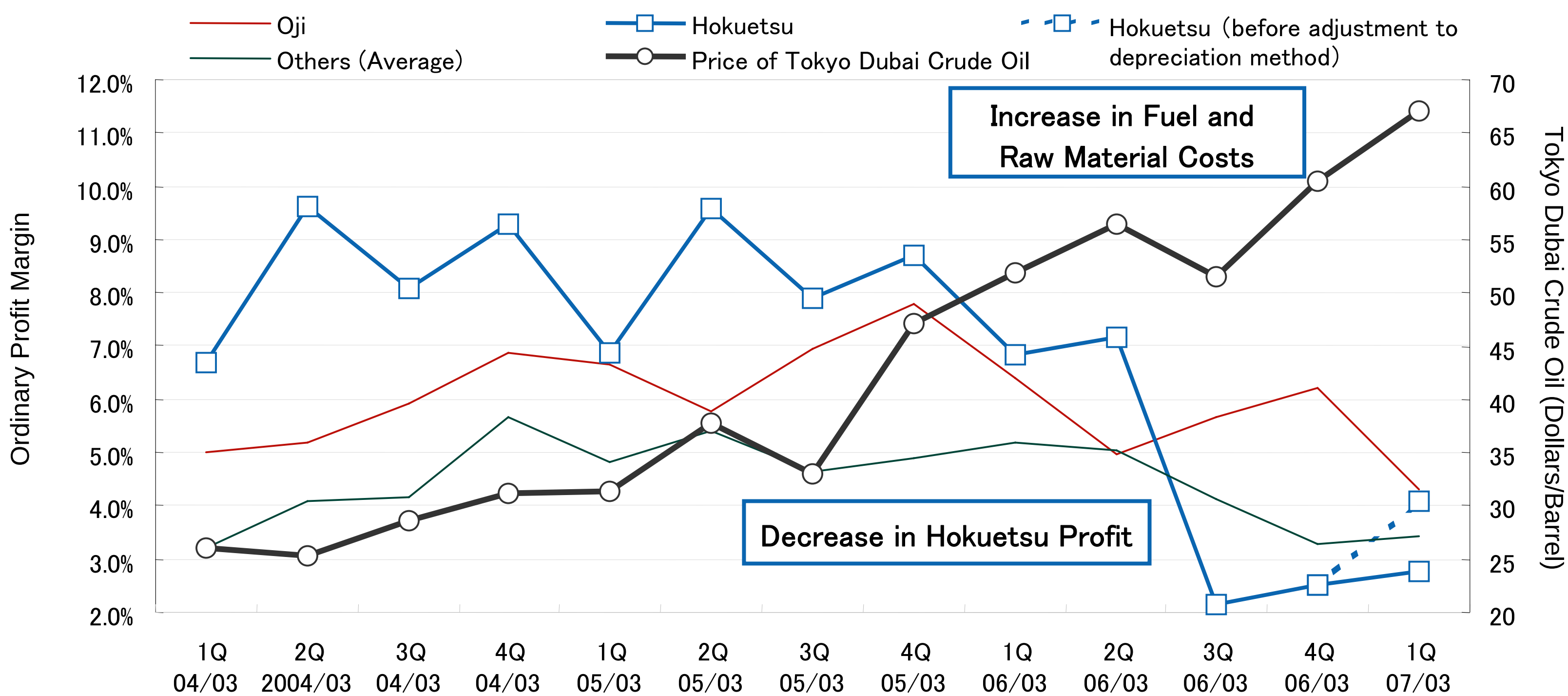
■ **While the production of printing and communications paper will increase with the introduction of the N9 facility, it will not bring Hokuetsu top market share**

Source）Japan Paper Association "Paper/Board Statistics 2005"
Note 1）"Oji" includes Oji Paper, Oji Specialty Paper and Oji Nepia.
Note 2）"Nippon Paper Group" includes Nippon Paper Industries, Nippon Daishowa Paperboard, Fuji Coated Paper, Kitakami Paper and Nippon Paper Crecia.
Note 3）"Daio" includes Daio Paper and Nagoya Pulp.
Note 4）"Mitsubishi" includes Mitsubishi Paper and Kitakami High Tech Paper.

Limitations of Independent Management (2 of 4)

■ Hokuetsu's profitability has been adversely impacted by its structural limitations. This is because Hokuetsu lacks room for further cost reductions and is susceptible to increases in the costs of fuels and raw materials and market fluctuations.

Ordinary Profit Margin (Quarterly)



Source) Prepared by Oji based on each company's Summary of Consolidated Financial Statements *(kessan-tanshin).*

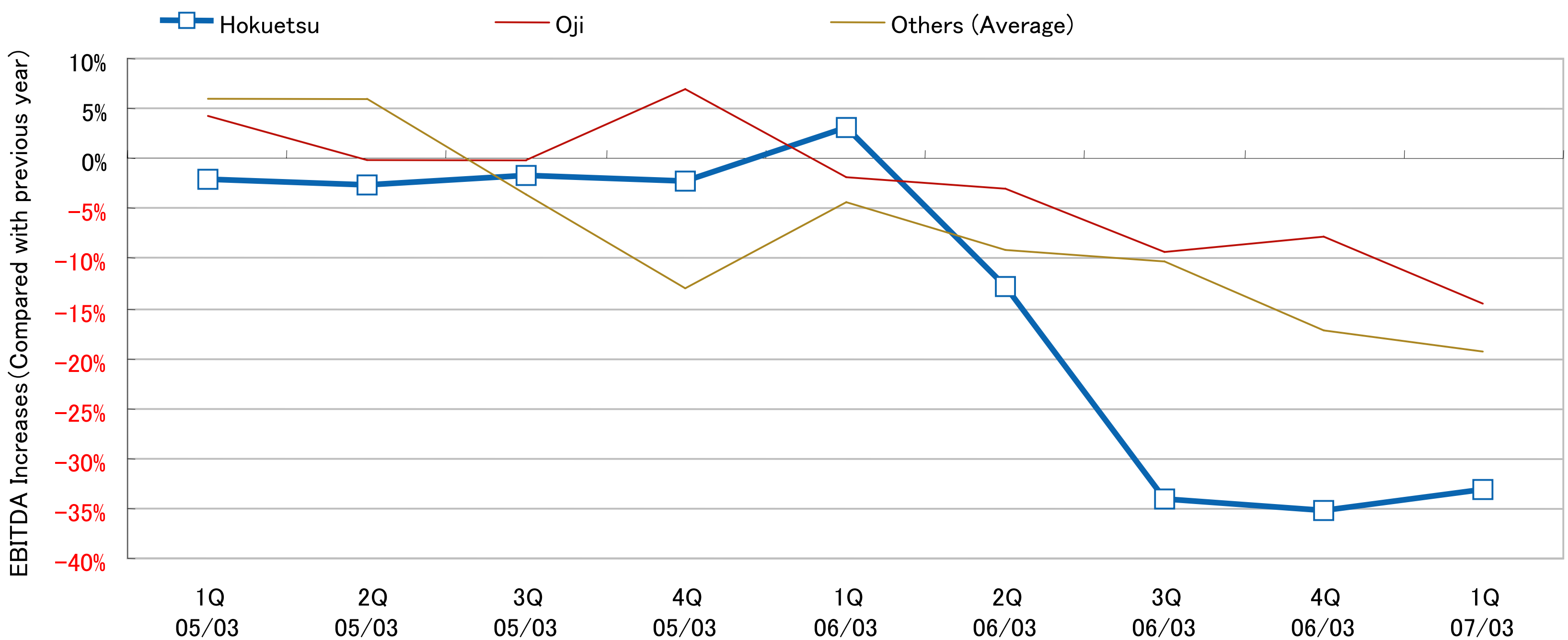
Note 1) From the 1st quarter of this year, Hokuetsu changed its depreciation method from a declining-balance method to a straight-line method; however, in order to retain comparability with past figures, depreciation is calculated by using the declining-balance method (adjustment amount: 500 million yen).

Note 2) "Others (Average)" is the average of Nippon Paper Group, Daio Paper, Mitsubishi Paper, Chuetsu Pulp Company and Rengo.

Limitations of Independent Management (3 of 4)

- Hokuetsu's March 2006 3rd Quarter EBITDA showed a 30% year-on-year decline, showing a high risk of further deterioration of its business results.

Trend of EBITDA Growth Rate（Quarterly year-on-year increase）



Source） Each company's Summary of Consolidated Financial Statements (*kessan-tanshin*).
Note 1） EBITDA = Operating income + Depreciation + Amortization of Consolidated Account Adjustment.
Note 2） "Others (Average)" is calculated as the average of Nippon Paper Group, Daio Paper, Mitsubishi Paper, Chuetsu Pulp Company and Rengo.
Note 3) Depreciation and amortization of consolidated account adjustment are calculated using 1/4th of the annual results.
Note 4) Results from the preceding fiscal year are used for the calculation of Daio Paper's depreciation and amortization of consolidated account adjustment for the 1st quarter of FY2006.

Limitations of Independent Management (4 of 4)

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- Hokuetsu's revenue is approximately 150 billion yen, ranking 47th in the world.
- Competition for forestry resources is expected to intensify due to an increase in consumption driven by population growth.
- Achieving significant corporate scale is necessary to continue to secure resources globally.

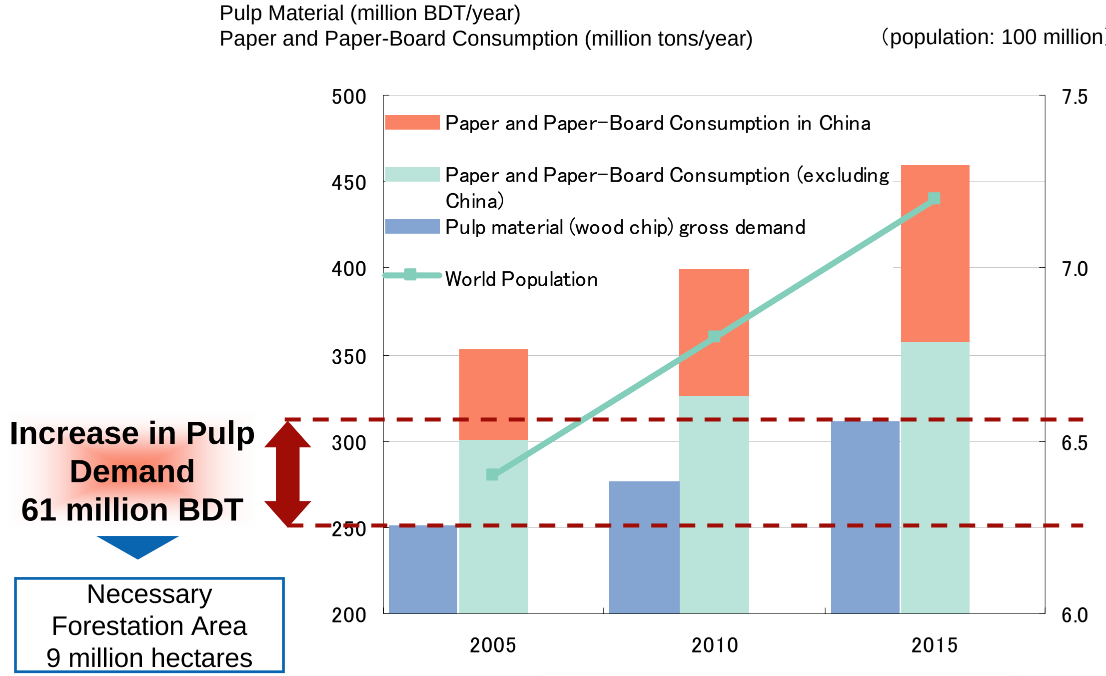
Revenue Ranking: Paper and Pulp Industry

RANK	Company	Sales (billion USD)
1	International Paper	23.1
2	Stora Enso	12.8
3	Svenska Cellulosa (SCA)	12.2
4	Georgia-Pacific	12.2
5	Procter & Gamble	10.7
6	UPM-Kymmene	10.3
7	Oji	9.6
8	Kimberly-Clark	9.3
9	Nippon Paper Group	9.2
10	Weyerhaeuser	8.7
24	Kappa Packaging	3.5
25	Rengo	3.3
26	Daio	3.0
27	Bowater Incorporated	2.8
32	Sonoco Products Company	2.3
33	Packaging Corporation of America	1.9
34	Mitsubishi	1.8
35	Myllykoski Corporation	1.8
46	Nampak	1.3
47	Hokuetsu	1.2
48	Portucel Soporcel	1.2

Source: "2004 Global Ranking of 100 Paper Pulp Companies" (PPI September 2005 issue) and each company's official web site.

Note) The sales data of each company in the table represents the aggregated sales of its paper and pulp related businesses.

Estimate of Pulp Demand



Overseas Forestation Area (Current)

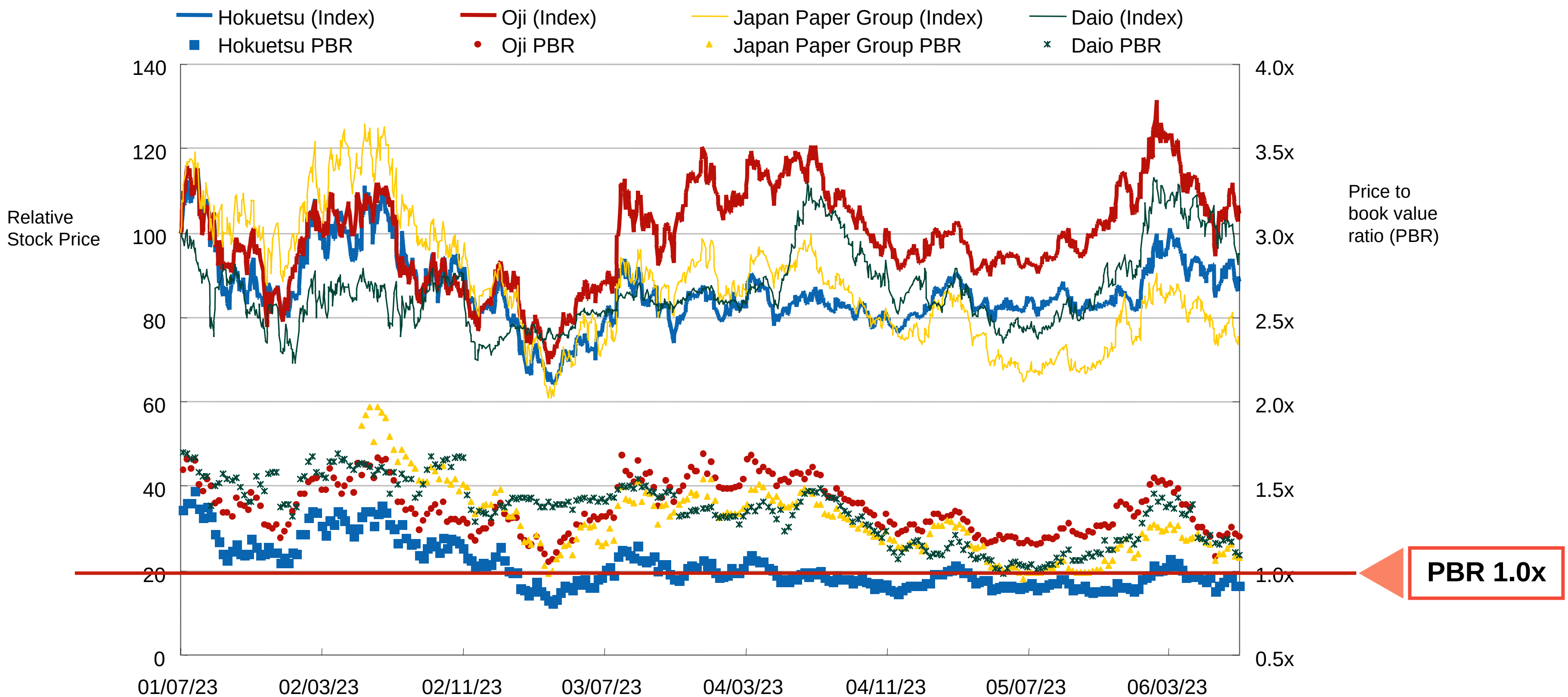
Oji	152 thousand hectares
Hokuetsu	4 thousand hectares

Note 1) The average annual growth rate of paper and paper-board consumption is 2.6 %. Chinese consumption is expected to grow annually by 7%.
Note 2) Pulp demand is based on Oji's estimates.
Note 3) World Population: FAO Population Statistics.
Note 4) Overseas Forestation Area (current) was prepared by Oji based on Japan Paper Association materials.

Hokuetsu Share Price: Changes in Price to Book Value Ratio (Last 5 Years)

■ Hokuetsu's price to book value ratio has been mostly below 1x since November 2003, and Hokuetsu has not been creating a sufficient level of shareholder value.

Trends in Relative Stock Price and Price to Book Value Ratio (PBR)（Past 5 years）



Note 1）Relative share prices are calculated with the price on July 23, 2001 set as 100.
Note 2）Price to book value is calculated as Market Value÷Shareholders' Equity.
Note 3）Market Value is calculated by multiplying Weekly Closing Price by Number of Shares Issued (excluding treasury stock and parent shares held by subsidiaries).
Note 4）Shareholder's Equity is based on the most recently announced preliminary annual financial statements or preliminary interim financial statements as of the date of the relevant stock price.
Note 5）Share price obtained from AMSUS. The other numerical data are based on each company's publicly available information.
Note 6）As Nippon Paper Group was established pursuant to a stock transfer in March 2001, PBR figures from consolidated annual financial statements available from May 2002 are used.

Hokuetsu Share Price:
Change in Price to Book Value Ratio (most recent one year)

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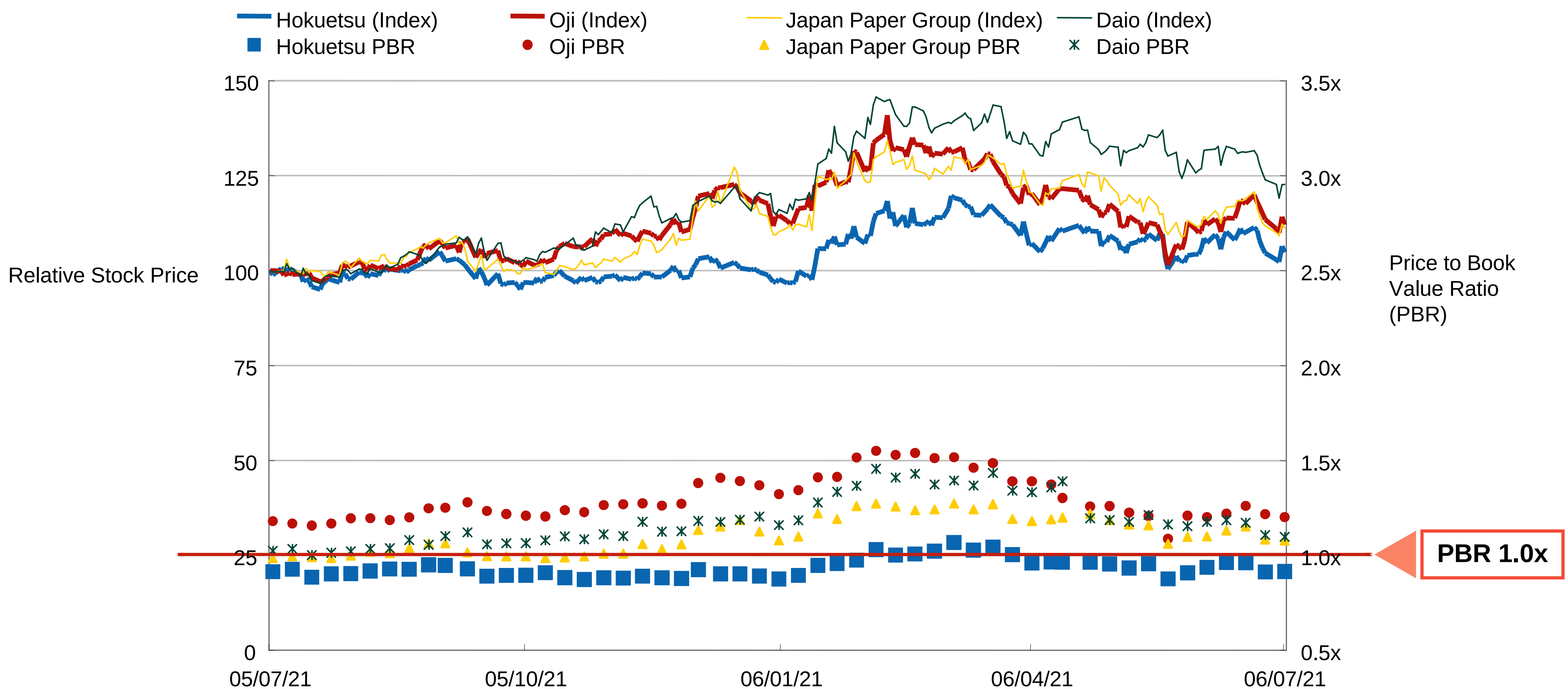
- Hokuetsu's share price has been underperforming that of its three main competitors for the last one-year period.
- Hokuetsu's price to book value ratio has been mostly below 1x for the last one-year period, and Hokuetsu has not been creating a sufficient level of shareholder value.

Trends in Relative Stock Price and PBR (Most Recent One Year)



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Note 5) Share price obtained from AMSUS. The other numerical data are based on each company's publicly available information.

Hokuetsu's Large and State-of-the-Art Facility (N9)

- As stated by Hokuetsu President Miwa, it will be difficult to realize a return on the N9 investment over the short-term. The tender offer price is calculated based on the assumption that such returns will be realized over the mid- to long-term.

Analyst reports and excerpts of newspaper articles on N9

- Profitability
  - It is true that there will be a loss for the first two or three years for accounting purposes

    Translated excerpt from "Interview with President Masaaki Miwa" on Nikkei Sangyo Shimbun dated June 13, 2006.

  - Hokuetsu Paper Mills initially plans to keep the output of its 350,000-ton machine to 200,000 tons, with almost half of this allotted to OEM. Even apart from falling prices, there is the possibility of the machine entering operation with an earnings handicap.

    Excerpt from "Equity Research Japan Hokuetsu Paper" of Morgan Stanley dated June 2, 2006.

  - We expect Hokuetsu Paper Mills' earnings to continue to be greatly affected by the business environment for printing paper, which is being buffeted by the winds of globalization.

    Excerpt from "Equity Research Japan Hokuetsu Paper" of Morgan Stanley dated June 2, 2006.

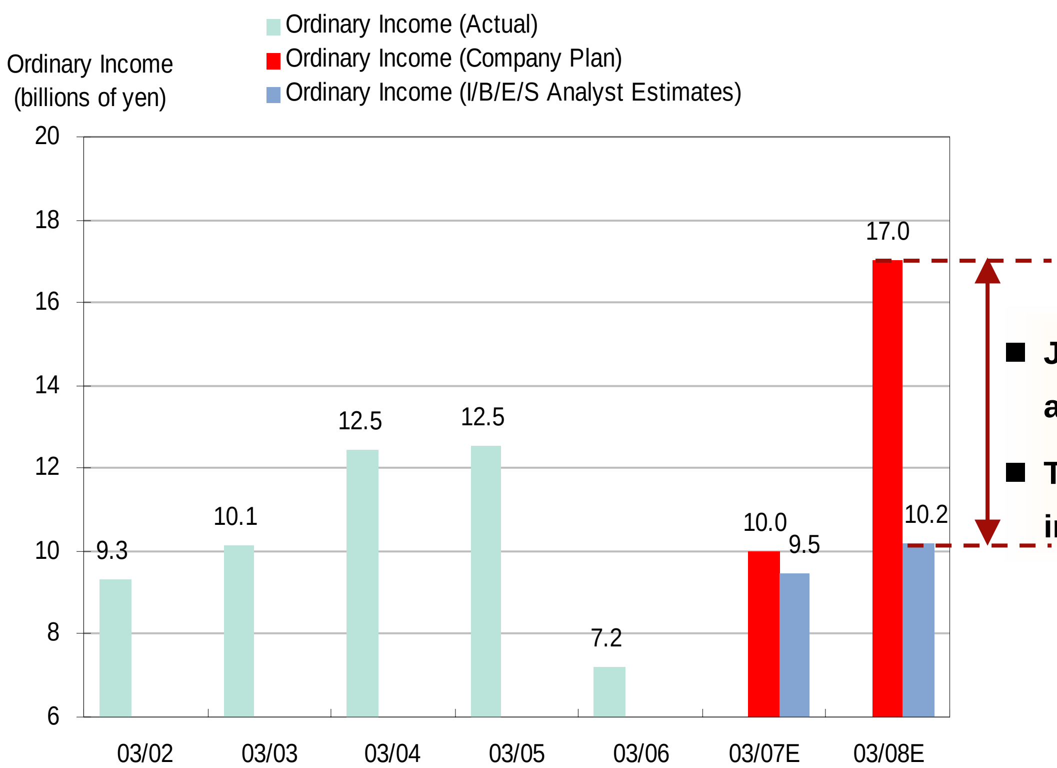
- Operation
  - The facility will start operation with production capacity of 100,000 tons a year in Japan and 80,000 tons allocated to overseas OEM.

    Translated excerpt from "Interview with President Masaaki Miwa" on Nikkei Sangyo Shimbun dated June 13, 2006.

Hokuetsu's J-100 Plan

- As the performance of Hokuetsu's J-100 plan diverges widely from analyst expectations and the potential benefits from the business alliance with Mitsubishi Corporation have not been provided in any concrete terms, it will not be easy for Hokuetsu to achieve the J-100 Plan.

Trends in Hokuetsu's Ordinary Income



Source: Hokuetsu official web site, Bloomberg
Note 1) 03/07E (Company Plan) is based on Hokuetsu's announced estimates, and 03/08E (Company Plan) is based on figures from the J-100 Plan as announced by Hokuetsu (03/07E indicates FY2006 projections and 03/08E indicates FY2007 projections).
Note 2) 03/07E (I/B/E/S Analyst Estimates) and 03/08E (I/B/E/S Analyst Estimates) are based on the average of analyst estimates in I/B/E/S from May 19, 2006 (the day after Hokuetsu's announcement of expansion of facilities for coated paper production) to July 21, 2006.
Note 3) D/E Ratio for the J-100 Plan is calculated as interest-bearing debt ÷ shareholders equity.
Note 4) EBITDA for the J-100 Plan is calculated as ordinary income + interest paid + depreciation expense.

J-100 Plan in FY2007

	Consolidated	Non-Consolidated
Ordinary Income	¥17 billion	¥15 billion
Ordinary Income/ Sales	10% or more	10% or more
Capital to Asset Ratio	50% or more	50% or more
ROA (Ordinary Income/ Total Assets)	7% or more	7% or more
D/E Ratio	0.6 or less	0.6 or less
EBITDA/Sales	18% or more	18% or more

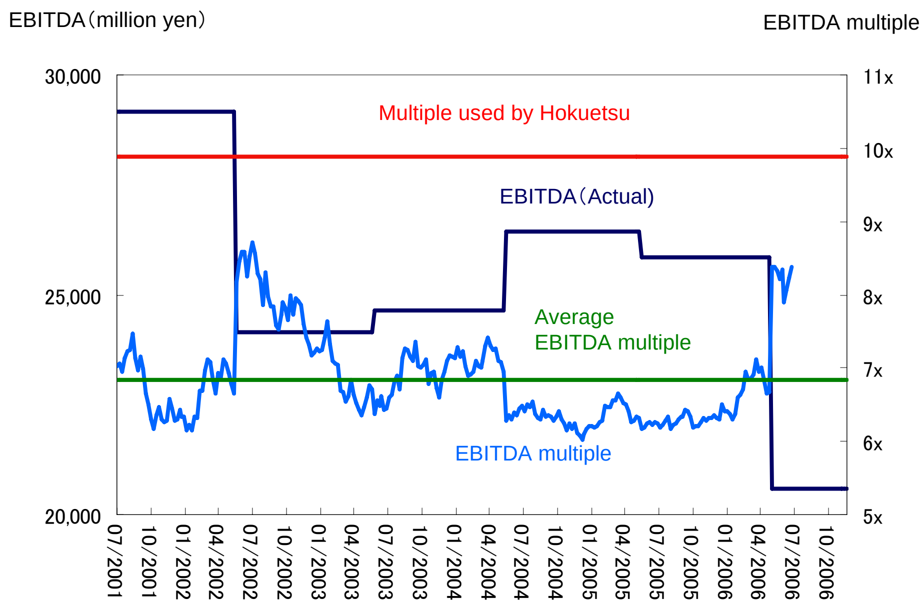
- **J-100 Plan diverges widely from analyst expectations**
- **The disparity in projected ordinary income for FY2007 is ¥6.8 billion**

- The ¥10 billion in ordinary income for 03/07E under the Company Plan includes a ¥2.4 billion positive impact from a change in depreciation method.
- Hokuetsu expects a 70% increase in target ordinary income from ¥10 billion for the current period (03/07E) to ¥17 billion in the following period (03/08E). The amount of the increase can be broken down as follows: ¥1.2 billion relating to sales price and product mix, ¥0.6 billion relating to materials costs, ¥0.8 billion relating to pulpwood prices, ¥2.6 billion from efficiency improvements and ¥1.8 billion relating to enhanced productivity and sales.

Valuation of Hokuetsu

- The EBITDA multiple Hokuetsu used for the valuation of its shares is extremely high and in the last 5 years has never been achieved. It is too optimistic to use an EBITDA multiple of 10x to value Hokuetsu's shares.
- Hokuetsu's average EBITDA multiple over the last 5 years is 6.9x. This is a striking difference from the multiple Hokuetsu uses for the valuation of its shares.

Trend of Hokuetsu's EBITDA Multiple (actual)



Note1) EBITDA = Operating income + Depreciation + Amortization of Consolidated Account Adjustment

Note2) EBITDA Multiple = Enterprise Value ÷ EBITDA

Note3) Average EBITDA multiple represents the average EBITDA multiple (weekly) over 5 years prior to the offer date (June 30, 2006)

Note4) Enterprise value is defined as the sum of Market Value and Net Debt.

Note5) Market Value is calculated by multiplying Weekly Closing Price by Number of Shares Issued (excluding treasury stock and parent shares held by subsidiaries).

Note6) Net Debt = Debt + Minority Interest – (Cash/Cash Deposit + Marketable Securities).

Note7) With respect to the financial data, Income Statement data is taken from the latest full-year report available on the date the share price was taken, while Balance Sheet data is taken from either the latest full-year or the interim financial reports previous to the day the share price was taken, whichever is the most recent.

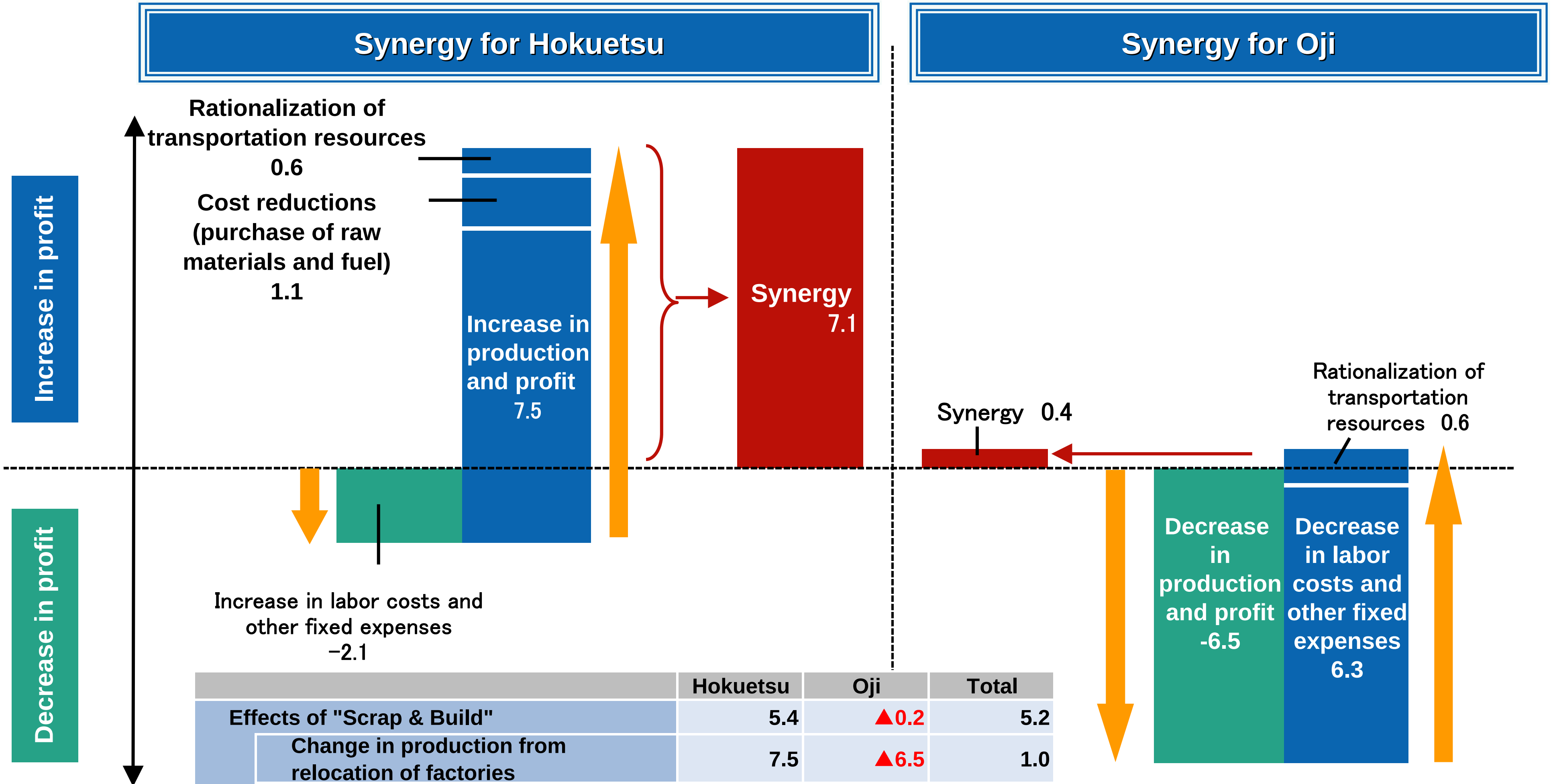
Note8) Share price obtained from AMSUS. Other numerical data are taken from each company's public information.

Note9) The EBITDA multiple used by Hokuetsu is based on "On the Independence of Management and Improvement of Shareholder Value of Hokuetsu Paper Mills – Remarks on Oji Paper Mills' Proposed Business Integration", dated August 9, 2006.

Business Integration Synergies

- Synergies from the Business Integration with Oji will bring benefits mainly on the Hokuetsu side.

(Billion yen)



	Hokuetsu	Oji	Total
Effects of "Scrap & Build"	5.4	▲0.2	5.2
Change in production from relocation of factories	7.5	▲6.5	1.0
Change in production from fixed costs	▲2.1	6.3	4.2
Streamlining of distribution	0.6	0.6	1.2
Reduction in cost of fuel and raw materials	1.1	-	1.1
Total Synergies	7.1	0.4	7.5