The last report (issued in November 2004) was the first sustainability report to comprehensively report the environmental conservation and social activities of the Nippon Paper Group. It was edited with a focus on the Group's core business, the pulp and paper business. This year, however, the second sustainability report enhances the description of activities by the whole Group. As a result, it was determined that detailed environmental performance data and basic information including characteristics of the papermaking industry should be covered only in the HTML edition of the Sustainability Report 2005 available on the Web site.

The contents are divided into chapters by stakeholder with featured pages about raw material procurement, which is one of the highest priority issues in the Nippon Paper Group’s CSR.

Periods Covered
From April 1, 2004 to March 31, 2005. The period is referred to as FY 2004 in this report.

The occupational safety and health report (pages 64 to 67) covers the period from January 1 to December 31, 2004. Part of the report includes information as of April 2005 or later.

Referenced Guidelines
- Environmental Reporting Guidelines (2003 version) of the Ministry of the Environment
- Sustainability Reporting Guidelines 2002 by Global Reporting Initiative (GRI)
- Global Compact, etc.

Media used for disclosure of CSR-related information
This document is published to report and disclose the CSR-related efforts of Nippon Paper Group, Inc., to all stakeholders. In addition, the Group’s CSR-related activities are also disclosed through the media on the right for your reference.

Request for documents:
http://www.np-g.com/e/appliform/

Scope of Organizations
In this report, the holding company, Nippon Paper Group, reports the activities of nine companies including the Nippon Paper Group and eight core companies as listed below:

- Nippon Paper Group, Inc.
- Nippon Paper Industries Co., Ltd.
- Nippon Daishowa Paperboard Co., Ltd.
- CRECIA Corporation
- NIPPON PAPER-PAK CO., LTD.
- Nippon Paper Chemicals Co., Ltd.
- COCA-COLA BOTTLING CO., LTD.
- Kitakami Paper Co., Ltd.
- Nippon Paper Industries USA Co., Ltd.
- Nippon Seitai MFG. CO., LTD.
- KOYO PAPER MFG. CO., LTD.
- PAL CO., LTD.
- SHIKOKU COCA-COLA BOTTLING CO., LTD.

The 16 companies listed above are defined as "the Core Group Companies" in this report, clearly differentiated from the Nippon Paper Group (or the Group), which includes organizations outside the eight companies listed above. The organization of the Nippon Paper Group is outlined on pages 4 and 5.

Each section, however, may cover different organizations. Therefore, each section clearly specifies the scope covered.

Disclaimer
This report includes statements of fact and historical data as well as plans, forecasts, and estimates (forward-looking statements) based on the business plan and policies of Nippon Paper Group, Inc. These forward-looking statements are the result of assumptions or judgments based on currently available information as this report was prepared. Situated that the estimates described in the forward-looking statements may differ significantly from actual results due to a number of important factors including future business activities or changing market conditions.
The Nippon Paper Group is a pure holding company; the actual businesses are operated by subordinate companies. Nippon Paper Industries Co., Ltd. handles the paper business and Nippon Daishowa Paperboard Co., Ltd. is involved in the paperboard business. Each company has its own subsidiaries. The Group consists of Nippon Paper Group, Inc., 152 subsidiaries, and 52 affiliates as of March 31, 2005. Forty-four subsidiaries out of the above are included in the consolidated accounting.

The businesses of the Nippon Paper Group are composed of the four areas of pulp and paper, paper-related, housing and construction materials, and other businesses, with the pulp and paper business assuming a dominant position.

### Consolidated net sales

<table>
<thead>
<tr>
<th></th>
<th>FY 2001</th>
<th>FY 2002</th>
<th>FY 2003</th>
<th>FY 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pulp and paper</td>
<td>1,175,698</td>
<td>1,192,649</td>
<td>1,192,649</td>
<td>1,192,649</td>
</tr>
<tr>
<td>Housing and construction</td>
<td>63,708</td>
<td>65,231</td>
<td>65,231</td>
<td>65,231</td>
</tr>
<tr>
<td>Paper-related</td>
<td>3,235</td>
<td>3,239</td>
<td>3,239</td>
<td>3,239</td>
</tr>
<tr>
<td>Pulp and paper</td>
<td>47,269</td>
<td>65,231</td>
<td>65,231</td>
<td>65,231</td>
</tr>
</tbody>
</table>

**Total**

<table>
<thead>
<tr>
<th>FY 2001</th>
<th>FY 2002</th>
<th>FY 2003</th>
<th>FY 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,211,422</td>
<td>1,165,450</td>
<td>1,188,049</td>
<td>1,188,049</td>
</tr>
</tbody>
</table>

### Consolidated operating income

<table>
<thead>
<tr>
<th></th>
<th>FY 2001</th>
<th>FY 2002</th>
<th>FY 2003</th>
<th>FY 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pulp and paper</td>
<td>6,246</td>
<td>6,246</td>
<td>6,246</td>
<td>6,246</td>
</tr>
<tr>
<td>Housing and construction materials</td>
<td>4,987</td>
<td>4,987</td>
<td>4,987</td>
<td>4,987</td>
</tr>
<tr>
<td>Paper-related</td>
<td>47,269</td>
<td>47,269</td>
<td>47,269</td>
<td>47,269</td>
</tr>
<tr>
<td>Pulp and paper</td>
<td>47,269</td>
<td>47,269</td>
<td>47,269</td>
<td>47,269</td>
</tr>
</tbody>
</table>

**Total**

<table>
<thead>
<tr>
<th>FY 2001</th>
<th>FY 2002</th>
<th>FY 2003</th>
<th>FY 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>42,422</td>
<td>50,450</td>
<td>55,679</td>
<td>55,679</td>
</tr>
</tbody>
</table>

### Number of employees by business

<table>
<thead>
<tr>
<th></th>
<th>FY 2001</th>
<th>FY 2002</th>
<th>FY 2003</th>
<th>FY 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-organizational$^1$</td>
<td>3,235</td>
<td>3,239</td>
<td>3,239</td>
<td>3,239</td>
</tr>
<tr>
<td>Other division</td>
<td>1,917</td>
<td>1,917</td>
<td>1,917</td>
<td>1,917</td>
</tr>
<tr>
<td>Housing and construction materials</td>
<td>1,174</td>
<td>1,174</td>
<td>1,174</td>
<td>1,174</td>
</tr>
<tr>
<td>Paper-related</td>
<td>1,747</td>
<td>1,747</td>
<td>1,747</td>
<td>1,747</td>
</tr>
<tr>
<td>Pulp and paper</td>
<td>8,722</td>
<td>8,722</td>
<td>8,722</td>
<td>8,722</td>
</tr>
</tbody>
</table>

**Total**

<table>
<thead>
<tr>
<th>FY 2001</th>
<th>FY 2002</th>
<th>FY 2003</th>
<th>FY 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>17,153</td>
<td>15,662</td>
<td>14,987</td>
<td>14,987</td>
</tr>
</tbody>
</table>

*1 For net sales and operating income, the electricity supply segment, formally included in the pulp and paper segment, is counted as the business of other divisions in FY 2003 and FY 2004.

*2 "Cross-organizational" means the employees responsible for multiple divisions.
### Core Operating Companies

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Headquarters</th>
<th>Founded</th>
<th>Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nippon Paper Industries Co., Ltd.</td>
<td>1-12-1 Yuraku-cho, Chiyoda-ku, Tokyo 100-0006 Japan</td>
<td>August 1, 1949</td>
<td>104,873 million yen</td>
</tr>
<tr>
<td>Nippon Daishowa Paperboard Co., Ltd.</td>
<td>2-1-3 Nihombashi, Chuo-ku, Tokyo 103-0027 Japan</td>
<td>August 28, 1913</td>
<td>10,863 million yen</td>
</tr>
<tr>
<td>CRECIA Corporation</td>
<td>6-22-1 Nishishinjuku, Shinjuku-ku, Tokyo 163-1105 Japan</td>
<td>April 2, 1963</td>
<td>4,667 million yen</td>
</tr>
<tr>
<td>SAN-MIC SHOJI CO., LTD.</td>
<td>2-2-1 Uchikanda, Chiyoda-ku, Tokyo 101-8536 Japan</td>
<td>July 11, 1979</td>
<td>1,000 million yen</td>
</tr>
</tbody>
</table>

### Other Operating Companies

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Headquarters</th>
<th>Founded</th>
<th>Capital</th>
</tr>
</thead>
</table>

### Core Operating Companies

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Headquarters</th>
<th>Founded</th>
<th>Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>NIPPON PAPER-PAK CO., LTD.</td>
<td>11 Ichigaya-Funogawara-cho, Shinjuku-ku, Tokyo 162-0826 Japan</td>
<td>March 18, 1965</td>
<td>4,000 million yen</td>
</tr>
<tr>
<td>Nippon Paper Chemicals Co., Ltd.</td>
<td>5-1 Goban-cho, Chiyoda-ku, Tokyo 102-0076 Japan</td>
<td>October 1, 2002</td>
<td>3,000 million yen</td>
</tr>
</tbody>
</table>

### Other Operating Companies

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Headquarters</th>
<th>Founded</th>
<th>Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nippon Seitai Corporation, FLOWRIC CO., LTD., Nichiita Package Industries Co., Ltd., Sakurai Co., Ltd.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Core Operating Companies

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Headquarters</th>
<th>Founded</th>
<th>Capital</th>
</tr>
</thead>
</table>

### Other Operating Companies

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Headquarters</th>
<th>Founded</th>
<th>Capital</th>
</tr>
</thead>
</table>

### Core Operating Companies

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Headquarters</th>
<th>Founded</th>
<th>Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nippon Paper Development Co., Ltd.</td>
<td>1-9-5 Oji, Kita-ku, Tokyo 114-8555 Japan</td>
<td>August 6, 1968</td>
<td>710 million yen</td>
</tr>
</tbody>
</table>

### Other Operating Companies

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Headquarters</th>
<th>Founded</th>
<th>Capital</th>
</tr>
</thead>
</table>

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* Descriptions of each division and operating company are based on information as of March 31, 2005.

* Nichiita Package Industries Co., Ltd. merged with Tokan Packaging System Co., Ltd., to become NIPPON TOKAN PACKAGE CO., LTD.
**Outline of the Nippon Paper Group**

**Production Sites of Each Operating Company and Major Products**

### Pulp and Paper Division

**Nippon Paper Industries Co., Ltd.**
- **Kushiro Mill**: Newsprint, printing and writing paper, papermaking pulp
- **Asahikawa Mill**: Printing and writing paper, business communication paper, industrial paper, paperboard, papermaking pulp
- **Yufutsu Mill**: Newsprint, printing and writing paper, business communication paper, industrial paper
- **Shiroi Mill**: Printing and writing paper, business communication paper
- **Ishinomaki Mill**: Printing and writing paper, business communication paper
- **Shiraoi Mill**: Printing and writing paper, business communication paper
- **Ishinomaki Mill**: Printing and writing paper, business communication paper
- **Iwanuma Mill**: Newsprint, printing and writing paper
- **Fuji Mill (Suzukawa)**: Business communication paper
- **Fuji Mill (Fuji)**: Newsprint, printing and writing paper
- **Iwakuni Mill**: Newsprint, printing and writing paper, business communication paper
- **Komatsushima Mill**: Business communication paper
- **Yatsushiro Mill**: Newsprint, printing and writing paper, business communication paper

**Nippon Daishowa Paperboard Co., Ltd.**
- **Nippon Daishowa Paperboard Tohoku Co., Ltd.**: Linerboard and corrugated medium, printing and writing paper, papermaking pulp
- **Nippon Daishowa Paperboard Kanto Co., Ltd., Soka Mill**: Linerboard and corrugated medium, paperboard for containers, core paperboard, gypsum board base paper
- **Nippon Daishowa Paperboard Kanto Co., Ltd., Ashikaga Mill**: Linerboard and corrugated medium, core paperboard, pastebord
- **Nippon Daishowa Paperboard Yoshinaga Co., Ltd.**: Linerboard and corrugated medium, paper-coated board, business communication paper, base paper for coated paper
- **Nippon Daishowa Paperboard Nishinippon Co., Ltd., Geibo Mill**: Linerboard and corrugated medium, paper-coated board, papermaking pulp, printing and writing paper, industrial paper
- **Nippon Daishowa Paperboard Nishinippon Co., Ltd., Kochi Mill**: Specialty paper

**CRECIA Corporation**
- **Tokyo Mill**: Facial tissue, bath tissue, paper towel, industrial-use products
- **Kaisei Mill**: Facial tissue, bath tissue, paper towel, industrial-use products
- **Kyoto Mill**: Facial tissue, bath tissue, paper towel, adult care products
- **Iwakuni Mill**: Facial tissue, bath tissue, paper towel
- **Kitakami Paper Co., Ltd.**: Newsprint, industrial paper, linerboard and corrugated medium
- **KOYO PAPER MFG. CO., LTD.**: Printing and writing paper, patent-coated board, bath tissue
- **Nippon Paper Industries USA Co., Ltd., Port Angeles Mill**: Printing and writing paper

**Paper-related Division**

**NIPPON PAPER-PAK CO., LTD.**
- **SOKA PAPER-PAK CO., LTD.**: Liquid-packaging cartons, folding carton for packaging
- **EGAWA PAPER-PAK CO., LTD.**: Liquid-packaging cartons, laminated papers
- **MIKI PAPER-PAK CO., LTD.**: Liquid-packaging cartons
- **ISHIOKA KAKO CO., LTD.**: Liquid-packaging cartons, folding carton for packaging
- **Nakoso Film Co., Ltd.**: Film, household products

**Nippon Paper Chemicals Co., Ltd.**
- **Gotsu Works**: Dissolving pulp, CMC, yeast, ribonucleic acids, lignin, powdered cellulose
- **Iwakuni Works**: Lignin-related products, synthetic dispersant, synthetic organic polymer, chlorine and sodium hydroxide
- **Higashimatsuyama Works**: Optical films, recording media, materials for the printing and platemaking industries
- **Yufutsu Works**: Powdered cellulose
- **Komatsushima Works**: Ingredients for sweetener and cosmetics

**Nippon Seitai Corporation**
- **Asahikawa Mill**: Kraft paper bags
- **Maebashi Mill**: Polyethylene bags
- **Kyotama Mill**: Kraft paper bags
- **Niigata Mill**: Kraft paper bags
- **Kyoto Mill**: Kraft paper bags, polyethylene bags
- **Akita Jujo Chemicals Co., Ltd.**: Papermaking chemicals, fermentation nutrition products and edible basidiomycetes (Maitake)

**Housing and Construction Materials Division**

**PAL CO., LTD.**
- **YUFUTSU PALKENZAI Co., Ltd.**: Building materials
- **KANTO PALKENZAI Co., Ltd.**: Building materials
- **PALTEC Co., Ltd.**: Building materials
- **N&E Co., Ltd.**: Building materials

**Other Division**

**SHIKOKU COCA-COLA BOTTLING CO., LTD.**
- **Komatsu Plant**: Soft drinks and other beverages
In June 2005, I succeeded former President Takahiko Miyoshi as President of Nippon Paper Group.

FY 2005 is the final year of our first medium-term business plan. The influence of unexpectedly large increases in petroleum prices means that we have had to face the prospect of failing to meet our profit targets, but we have largely completed the qualitative improvements we had planned. This completes the preparation of the fundamental basics of our business so that the Nippon Paper Group can move into growth from FY 2006.

In April 2005, we set up Group Vision 2015, our vision of how the Nippon Paper Group should develop over the next decade. In line with this vision, we intend to rank among the top five corporate groups in the pulp and paper industry worldwide. All around the world, the paper manufacturing industry is still expanding business opportunities. The Nippon Paper Group is headquartered in Japan, adjoining rapidly growing Asian markets. The Japanese market is sophisticated and expected to generate even higher profits by proper market cultivation. The Nippon Paper Group, by making full use of its core competences and management resources in the paper business, will succeed despite the increasing intensity of competition in international society, and achieve growth as we seek sustainable increases in corporate value.

The first step in achieving this vision will be the start of our second medium-term business plan in April 2006. This involves setting targets, identifying issues, and drawing up important policies for the next three years, and committing to their implementation. Currently, the entire Group is conducting practical investigations, and the plan will be finalized within this fiscal year.

Group Vision 2015 is not concerned only with achieving profits. Companies that take their non-financial corporate social responsibility (CSR) lightly will simply not survive. On the other hand, profits are the best return that a company can make to all of its stakeholders — customers, shareholders, employees, suppliers and local communities — and maximizing these returns is the way the enterprise fulfills its role in society, justifying its continued existence. Looked at
this way, CSR is fundamental to management, which must act so as to reconcile CSR with the quest for profits.

Pursuing multi-faceted environmental protection that leads to corporate profits

The Nippon Paper Group, when the parent Nippon Paper Industries Co., Ltd. was formed in 1993, set up an Environmental Charter and from the following year introduced a company-wide environmental assessment system. In 1995 we published the industry’s first environmental report and strengthened the entire company’s commitment to the environment. In 2000, we started the Zero Discharge initiative, so called because it seeks to advance the reuse of waste products. Currently, the amount of waste landfilled has been reduced to 0.1% or less (expressed as a percentage of the value of manufactured product). Even lower targets have been set and we are extending them to the entire Group. These efforts temporarily involved environmentally related investments and costs, and instead of simply transporting the wastes to the landfill efforts had to be made to process wastes and develop applications for their use. However, during this work, we accumulated major intangible advantages from working closely with local government authorities and other sectors of industry, acquiring know-how and increasing the awareness of every employee. In addition, we were able to make direct contributions to profits by minimizing environmentally related costs through seeking higher cost-effectiveness, or managing to avoid building new landfill facilities.

We are also committed to reducing the environmental impact of our products. Among products that reflect Nippon Paper Industries’ concern for the environment are low-density paper and neutralized paper for newsprint. Low-density paper uses less raw materials to produce paper of a given thickness, leading to savings in materials and energy. In the neutralization of newsprint, calcium carbonate is used as filler. As this is plentifully available within Japan it enables savings in importing and transporting materials and corresponding reductions in the emission of CO2. Increasing the amount of filler used also enables reduction in the use of wood-based raw materials. As calcium carbonate itself is white, its use in newsprint enables a higher proportion of recycled paper to be used. Personally, I would like to see the proportion of recycled newsprint reach 100%.

At the moment, Nippon Paper Industries is introducing new technology for methane-based fermentation treatment of pulp wastewater at the Yufutsu Mill and the Iwakuni Mill with the help of grants from the Ministry of Economy, Trade & Industry, achieving reductions in chemical oxygen demand (COD) and in the use of fossil fuels. In this way, the development of new technologies for conserving resources, reducing CO2 emissions and saving energy works to increase profits. Naturally, such technologies are not developed overnight, but are the fruit of historical strengths in R&D, and I believe they are an important source of our competitive advantage.

Working ever harder for our social responsibilities

In October 2003, the Nippon Paper Group established the CSR Committee, and this year it completed its second full year of operation. During this period, third-party audits of our environmental management were performed, weaknesses identified, and improvements made. We also newly established the Raw Materials Subcommittee and set up a materials purchasing policy around our supply chain management (SCM) system. In the near future, we will complete drawing up action plans and implementing socially responsible purchasing.

Since November 2004, we have been participating in the United Nations Global Compact. The Nippon Paper Group supports the ten principles on human rights, labor, the environment and anti-corruption that constitute the Global Compact and aims to further improve management.

Just as our past CSR activities have been integral to management, we will endeavor to enhance these activities, maintaining our attitude that there is always room for improvement. I would be delighted if, after reading the 2005 edition of our Sustainability Report, as many people as possible would let me know their opinions.
A year has already passed since we published our Sustainability Report in November 2004, a period in which the Nippon Paper Group’s approach to CSR has been diversifying.

Most group companies are engaged in pulp and paper manufacturing or in paper processing. The fact that the main raw material is wood, a natural resource, means that the supply chain is a most important theme for the Group and for our stakeholders. In FY 2005, heeding the opinions of the widest possible range of stakeholders, we laid down the Philosophy and Basic Policy on Raw Materials Procurement. Based on this policy, we will establish action plans for traceability and other systems.

We are also devoting major efforts to achieve safety in our manufacturing activities. In equipment-intensive industries like pulp and paper, a single mistake may cause a major accident. We have identified the factors that constitute threats to workplace safety and have introduced a risk-assessment approach to steadily reduce the degree of danger. This is a major new move towards achieving zero industrial accidents, and precisely because we expect this to prove effective we feel responsible for ensuring its thorough dissemination and implementation.

To encourage our employees to contribute to society by engaging in voluntary activities, we held a BORAMADO (trans: volunteer show-window) event (see P73). We plan to make this into an annual program. The aim is not only to deepen the exchanges between group employees and those outside the company but also to make employees more aware of social problems and to encourage those who will respond to them.

With the Kyoto Protocol going into effect, we have responded to the need for stronger measures against global warming by starting operation of a biomass boiler at Nippon Paper Industries’ Nakoso Mill in FY 2004. We intend to introduce these boilers in turn at more mills, thereby reducing greenhouse gases caused by the use of fossil fuels.

This sustainability report has been structured to reflect the various separate concerns of stakeholders in the marketplace, the environment, our employees and society. We have also added a special section on supply-chain activities, as they form a most important aspect of our group operations. Last year, the title of the Japanese version of this report translated literally as “Sustainability Report.” This year, we have called both our Japanese and English editions “Sustainability Report,” to reflect the need for a sustainable society. In the context of our continuing dialog with stakeholders, this name reflects our attitude of seeking sustainable development not only for our enterprise but also for society. We trust that by reading it, you will gain a better understanding of the Nippon Paper Group business activities.
Nippon Paper Group’s Vision, Action Charter and Codes of Conduct

(Established on April 1, 2004)

**Vision**
Nippon Paper Group will strive to become a world-class company through our diverse business activities.

**Ideals for Our Group**
1. Achieving superior, stable profits for our shareholders
2. Winning the trust of our customers
3. Having positive, forward-looking employees
4. Preserving corporate ethics

**Action Charter**
1. We shall pursue a sustainable growth for the future to contribute to society through our business activities.
2. We shall abide by the letter and the spirit of laws and regulations, and comply with the highest ethical standards and social codes of conduct, both in Japan and abroad.
3. We shall conduct our business in a fair, transparent and liberal manner.
4. We shall win the trust of customers through the development and provision of socially useful and safe products and services.
5. We shall disclose corporate information positively and fairly to all stakeholders of the Group.
6. We shall actively address environmental issues, and shall endeavor to conserve and enhance the environmental state of our planet.
7. We shall maintain consistency between the corporate development and the personal contentment of individual employees, and create a company filled with dream and hope.

**Codes of Conduct**
1. **Fulfillment of social responsibilities**
   (1) We shall contribute to society through our business activities, centered on paper manufacturing, as a good corporate citizen.
   (2) When conducting businesses overseas, we shall respect local cultures and customs, and carry out our businesses in a way that can contribute to regional development.
   (3) We shall stand up firmly against antisocial factions and groups.

2. **Fair, transparent and liberal corporate activities**
   (1) We shall not become involved in a cartel, collusive behavior, inappropriate labeling or other acts that violate the provisions and spirit of Anti-Trust Law and related regulations, and we shall conduct fair business transactions.
   (2) We shall not become involved not only in bribery of public officers, illegal political contributions or offering of profits, but also in actions that could be conceived as back-scratching or cozy relations with legislature or administrative bodies.
   (3) We shall not become involved in after-hours entertainment or gift giving that is unacceptable given community standards and general business practice.

3. **Winning trust of customers**
   (1) We shall consistently provide products and service that are socially useful, of high quality and with a high degree of safety, and environmentally friendly.
   (2) We shall provide quality labels and other product information accurately and fairly, to enable customers to make informed choices.
   (3) We shall take every opportunity to listen to the opinions of customers, and endeavor to maximize customer satisfaction.

4. **Strict handling of corporate information**
   (1) We shall manage business information, intellectual property rights, customer information, personal information and other important internal information strictly and appropriately.
   (2) We shall not obtain or use information on customers or competitors in an illegal way.
   (3) We shall respect the intellectual property rights of others.

5. **Fair and positive disclosure of corporate information**
   We shall positively disclose not only business-related information but also fair and reliable information on our environmental and community activities to our customers, consumers, shareholders, investors, business partners, regional communities, administrative bodies, employees and other stakeholders.

6. **Active involvement with environmental issues**
   (1) We shall promote afforestation projects, to create and make effective use of sustainable forest resources.
   (2) We shall promote energy conservation, the use of wastepaper and other measures to effectively use resources that are limited in quantity.
   (3) We shall manage and reduce all types of discharge and waste generated in the course of corporate activities.
   (4) We shall research and develop manufacturing technologies, and products and services that are in harmony with the environment.

7. **Desirable mindset of employees**
   (1) To act with a willingness to improve oneself and to take up challenges, to make corporate development consistent with personal contentment.
   (2) To abide by laws, regulations and social codes, and to be responsible for one’s own conduct.
   (3) To respect each other’s human rights and to consider the positions of others when taking action.
   (4) To distinguish at all times between official and private settings, and to avoid using business positions for personal benefit.
   (5) To restrain from using for private purposes nonpublic information obtained in one’s company or in the course of business.
Promotion of CSR Management

Basic philosophy

The Core Group Companies aim to be world-class companies that gives consideration to the environment and society. To realize this objective, it is important to secure a sound foundation in environmental conservation with attention to occupational safety and health and disaster prevention as well as maintaining a high level of corporate ethics. Based on this recognition, we are committed to fulfilling our corporate social responsibility (CSR) from a wide variety of aspects by realizing the four ideals declared in the corporate vision statement: Achieving superior, stable profits for our shareholders, winning the trust of our customers, having positive, forward-looking employees, and preserving corporate ethics.

CSR promotion structure

As an organization to promote the implementation of CSR management, the CSR Committee was established in October 2003. Headed by the CSR Director (Executive Vice-President of Nippon Paper Group, Inc.), the Committee is composed of presidents and executives from the Core Group Companies and discusses important issues regarding CSR. Since its establishment, we have defined our corporate vision, action charter, and codes of conduct of the group and established the philosophy and basic policy regarding human rights, employment and labor, and social contribution activities. Thus, we have endeavored to build the Group’s framework that will act as the basis for fulfillment of CSR.

Under the CSR Committee, each subcommittee exercises control over the activities in its area of specialization.

Participating in industrial groups and an advisory body at home and abroad

To play a role in the economic development and realization of a sustainable society in Japan and the world in collaboration with other companies and organizations, the Group participates in a variety of industrial groups.

Nippon Paper Group, Inc., is a member of the Japan Business Federation (Nippon Keidanren) and the World Business Council for Sustainable Development (WBCSD). In November 2004, it joined the Global Compact.

The Group’s operating companies, including the Nippon Paper Industries Co., Ltd., Nippon Daishowa Paperboard Co., Ltd., and Kitakami Paper Co., Ltd., are the members of the Japan Paper Association.

Participation in the United Nations Global Compact

To play a role in the world’s sustainable development from a global perspective, Nippon Paper Group, Inc., joined the Global Compact.

In 1999, United Nations Secretary-General Kofi Annan called for participation in the international initiative Global Compact, which consists of ten principles covering the four fields of human rights, labor standards, the environment, and anti-corruption. The member companies voluntarily promote the progress and realization of the

CSR promotion structure

President

CSR Director (Nippon Paper Group, Inc. Executive Vice-President)

CSR Committee

- Functions: Group CSR program, Action Charter and Codes of Conduct, Environmental Charter, Product Safety Charter, CSR Report and other major CSR issues


Subcommittees:

- Corporate Ethics Subcommittee: Functions: Corporate ethics, compliance, human rights, non-discriminatory treatment, and other issues.
- Social Contribution Subcommittee: Functions: Social and regional contribution, collaboration with NPOs, NGOs, and other issues.
- Safety & Health Subcommittee: Functions: Occupational safety and health, risk prevention, security, and employee safety, and other issues.
- Raw Materials Subcommittee: Functions: Raw materials procurement criteria, guidelines for suppliers, and other issues.
- Environment Subcommittee: Functions: Environment protection, resource recycling, environmental audit, and other issues.

principles outlined in the Global Compact, aiming at the sustainable growth of society. We were the twenty-third company in Japan to participate.

The ten principles of the Global Compact cover all aspects required for the fulfillment of CSR. By utilizing them as a reference, the direction of CSR management promotion is clarified. The principles also enable us to share information regarding CSR and liaise with other companies, international organizations, government agencies, global labor, and NGOs to contribute to a number of activities in this field. Based on this understanding, Nippon Paper Group, Inc., joined the Global Compact and declared its commitment to building a global framework for realization of a sustainable society. We will continue our efforts to familiarize the concept of CSR in corporate culture and improve corporate value.

**Participation in WBCSD**

Nippon Paper Group, Inc. joined the World Business Council for Sustainable Development (WBCSD) in July 2002. WBCSD is a coalition of international companies that pursues sustainable development by balancing the three pillars of economic growth, ecological balance, and social progress. We are one of twenty-two Japanese members as of April 2005. We regard it as our mission to contribute to CSR fulfillment not only within our Group but also within the industry by assuming leadership of the industry and solving shared issues for the realization of sustainable development.

Within the WBCSD, many projects are ongoing in each of five sectors: forest products, mining and minerals, cement, mobility, and electricity. As a global leader in the paper manufacturing industry, we are part of a working group named the Sustainable Forest Products Industry (SFPI) with nineteen other companies in the paper, pulp, and forestry industries. The SFPI tackles global issues including sustainable management of the world’s forests, eradication of illegal logging, credible forest certification systems, and sustainable production of forest products, and we communicate with stakeholders to find solutions.

**Communication with stakeholders**

The Group places high value on communication with a variety of stakeholders including customers, shareholders and investors, business partners, local communities, administrative agencies, and employees. We utilize a broad range of communication tools to disseminate company information and established contact points or opportunities for direct communication with stakeholders to reflect their comments in company management.

**Enhancing communication tools**

To communicate the CSR-related efforts of the Core Group Companies, a CSR communication pamphlet titled Ta-ra is published quarterly. The annual report is published to report the financial statement, and the sustainability report is issued once a year to report CSR-related activities including environmental conservation activities. In addition to the available printed material, we have a Web site on the Internet to transmit information in a timely fashion.

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Major communication contacts</th>
<th>Means of communication*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers (consumers, and users, etc.)</td>
<td>Sales sections, Quality control sections, Customer relations sections</td>
<td>Individual interviews, Customer relations sections</td>
</tr>
<tr>
<td>Society and local residents (local community, NPOs/NGOs, municipalities, media, etc.)</td>
<td>M&amp;Ms and works, Responsible sections within each business segment</td>
<td>Environmental security, environmental monitoring systems, factory explanatory meetings, etc.</td>
</tr>
<tr>
<td>Business partners (agents, suppliers, subcontractors, etc.)</td>
<td>Material procurement sections, Human resource sections</td>
<td>Social contribution activities, etc.</td>
</tr>
<tr>
<td>Shareholders (shareholders, investors, etc.)</td>
<td>IR sections, General affairs sections</td>
<td>Annual reports, business reports, IR site, etc.</td>
</tr>
</tbody>
</table>

*In addition to the means in the table, telephones, facsimiles, and e-mail are used as basic communication tools with all stakeholders.
Nippon Paper Group, Inc. places the highest priority on fair corporate management in order to enhance the transparency of business operations for a variety of stakeholders including customers, shareholders, investors, business partners, local communities, administrative agencies, and employees.

We, as a pure holding company, consider separating management and business operations, strengthening the growth strategy of each operating company, supervising and auditing the current status of profits and losses and major investment as the headquarter of group management, and fulfilling accountability to stakeholders as the basis of corporate governance. We will also ensure compliance by supervising and auditing the operating companies.

The Board of Directors assumes the role of establishing the basic business policy of Nippon Paper Group and the Group companies; ensuring compliance with laws, regulations, and the articles of incorporation; and making the important business decisions of the Group, as well as supervising the operation of each subordinate company. Under the Board of Directors, the Management Committee consists of the Group’s chairperson, all directors, and resident auditors. The Management Committee discusses the basic policy and strategy regarding corporate management of Nippon Paper Group and all Group companies as well as important issues in terms of business operations of the operating companies.

Nippon Paper Group employs a corporate auditor system. Auditors attend important meetings, including the Board of Directors and the Management Committee, to observe the execution of business operations by the directors. Auditors ensure that the overall business of Nippon Paper Group and operating companies is conducted lawfully and properly.

Hosted by the board of auditors, the Nippon Paper Group Auditors Information Network is regularly convened to enhance Group auditing, where auditors of Nippon Paper Group discuss the auditing policy and methods collaboratively with auditors from the major Group companies and exchange information to enhance the liaison between all parties. The Board of Auditors of Nippon Paper Group, the Internal Auditing Office within the Financial Division, and the independent auditors of Nippon Paper Industries endeavor to strengthen the liaison and enhance the auditing function by adjusting the auditing plan with each other and exchanging audit results.

As of October 2005, Nippon Paper Group has nine directors but no outside director. The Board of Corporate Auditors consists of two internal corporate
It is essential for every executive and employee to demonstrate a high level of ethics and act in compliance with laws and social norms for fair and transparent corporate activities. The Core Group Companies have established a compliance structure based on the Group’s action charter and codes of conduct and are making every effort to apply them in every facet of its business activities.

The Core Group Companies discuss issues in terms of corporate ethics and compliance in the Corporate Ethics Subcommittee established under the CSR Committee. The policies and plans determined by the Subcommittee are communicated to the Group Compliance Liaison Conference held by the Compliance Office in the General Affairs Dept. of Nippon Paper Industries, inviting people in charge of compliance from the seven major operating companies* of the Group. In this conference, specific problems and plans are discussed.

In FY 2004, the seven companies defined the codes of conduct and distributed a guidebook in which the details are clearly described for executives and employees to further strengthen awareness. Nippon Paper Group, Inc. and Nippon Paper Industries provided educational opportunities for new employees, managers, including newly-appointed managers and employees working in mills, to facilitate an understanding of compliance.

### Compliance with Personal Data Protection Law

In accordance with the full enforcement of the Personal Data Protection Law on April 1, 2005, the Basic Policy of Nippon Paper Group, Inc. and Nippon Paper Industries Co., Ltd. Concerning Privacy Protection were established and published on the Web site. The Personal Information Handling Manual was also prepared and distributed to all employees of Nippon Paper Group and Nippon Paper Industries.

In addition, an internal structure for comprehensive protection and management of personal information was developed for each company. Nippon Paper Industries appointed the Personnel & General Affairs Div. director as the comprehensive manager for personal information protection, assigned major responsibility for personal information protection to the General Affairs Dept., and selected a personal information protection manager in each division and works.

The seven major operating companies* of the Group are also urged to establish policies, prepare and circulate manuals, and build an internal structure.

### Helpline

Any conduct or behavior that may conflict with laws, social norms, or corporate ethics should be improved through the chain of command in the workplace. Some employees, however, may find it difficult to raise questions or consult with others within their own workplaces.

Recognizing this, the Group introduced the Helpline System on April 1, 2004. The system allows any employee of the Group to make a direct notification or hold consultations outside the chain-of-command structure within the workplace. The Compliance Office, which operates under the General Affairs Dept. of Nippon Paper Industries Co., Ltd., is the contact body inside the Group. There are also contact bodies outside the Group. The Helpline System guarantees the privacy of whistleblowers and protects them from problems potentially occurring after notification or consultation, so that they can do so without anxiety. It also ensures that notification and information from employees are appropriately addressed in the early stages.

#### Flow of the Helpline System

<table>
<thead>
<tr>
<th>User</th>
<th>Notification/consultation</th>
</tr>
</thead>
<tbody>
<tr>
<td>External contacts</td>
<td>Notification/consultation</td>
</tr>
<tr>
<td>Company specializing in telephone counseling</td>
<td>Response</td>
</tr>
<tr>
<td>Legal office</td>
<td>Response</td>
</tr>
<tr>
<td>Internal contact</td>
<td>Notification/consultation</td>
</tr>
<tr>
<td>Compliance Office, General Affairs Dept., Nippon Paper Industries Co., Ltd.</td>
<td>Response</td>
</tr>
</tbody>
</table>

Feature Story: Raw Material Procurement

To Realize a Sustainable Global Society

The Current State and Prospects for Procurement of Raw Materials

The Core Group Companies procure most major materials, namely wood resources, from abroad. As long as wood resources originate in the forest and it largely contributes to global environment conservation, suppliers and the countries of origin as well as a variety of stakeholders express considerable interest in their procurement. The Group is working on global supply chain management to realize sustainable procurement of raw materials, paying attention to the environment and society. In this chapter, we would like to report on the current state and prospects of that effort.

Feature Story 1 Interview with the Chairperson of the Raw Materials Subcommittee
Promoting CSR in the Supply Chain

Feature Story 2 CSR Activities Associated with Raw Material Procurement in the Pulp and Paper Business
One of the recent topics in the CSR field is no doubt the supply chain. For a company that conducts business in a global economy, it is required to pay attention not only to the company’s activities but also to the activities of raw material and product suppliers. Now, such a company is also required to positively tackle issues related to labor, human rights, and the environment at the supplier side.

The supply chain is one of the highest priority issues if we pursue CSR in the pulp and paper industry, because we consume wood, a gift of nature, as raw materials, and a variety of stakeholders are involved in the business. Although the major raw material of pulp and paper is a renewable wood resource, failure in proper management may lead to destruction of the environment. For this reason, we have to manage the supply chain from the viewpoint of CSR giving consideration to the environment and society.

The philosophy of the Charter on the Environment of the Nippon Paper Group is “coexistence with the natural environment as the basis for their sustainable corporate activities.” Nippon Paper Industries has played the leading role in promoting overseas afforestation and making the most of the forest certification system. No crosscutting organization for considering the supply chain, however, has existed. Therefore, the Raw Materials Subcommittee was established to promote supply chain management paying attention to CSR, and it was designated as the supreme body for formulating the Group’s policies. The Nippon Paper Group is committed to procuring raw materials in a sustainable and stable way, giving special consideration to conservation of the global environment and the characteristics and culture of local communities.

Since its establishment, the Raw Materials Subcommittee has sought the ideal in raw material procurement of the Core Group Companies, by holding CSR seminars focusing on raw material procurement and analyzing the status quo. Based on the results of the past activities, it established the Philosophy and Basic Policy on procurement of raw materials for the Core Group Companies after thoroughly communicating with stakeholders. It is going to be reflected in the establishment and implementation of concrete action plans.

**Philosophy and Basic Policy Concerning Raw Materials Procurement**  
(established on October 5, 2005)

**Philosophy**
We are committed to establishing a reliable raw materials procurement system through global supply chain management in consideration of the environment and society.

**Basic Policy**

1. Environmentally friendly raw materials procurement
   (1) We procure woodchips, lumber and pulp from forests under sustainable forest management.*
   (2) We use and deal with no illegally logged lumber and we support the eradication of illegal logging.
   (3) We make active use of recycled materials to help build a recycling-oriented society.
   (4) We make appropriate procurement of chemical substances in compliance with relevant laws and regulations.
   (5) We build traceability systems to ensure the above policies are practiced throughout the supply chain.

2. Socially aware raw materials procurement
   (1) We pursue fair deals with suppliers on equal terms.
   (2) We ensure that the entire supply chain has appropriate human rights and labor practices.

3. Promotion of dialogues with stakeholders
   (1) We engage in dialogues with stakeholders to improve the quality of our raw materials procurement in constant consideration of the environment and society.
   (2) We proactively disclose information so that our initiatives are better known.

---

*Sustainable forest management:
Forestry management that not only considers economic rationality, but also environmental and social sustainability. The Nippon Paper Group defines sustainable forest management as follows:
1) Biological diversity is conserved.
2) The productivity and soundness of the green ecosystem is maintained.
3) Soil and water resources are conserved.
4) Diverse social needs are satisfied.
The draft of the Philosophy and Basic Policy on procurement of raw materials was opened and comments from stakeholders were invited for approximately one month from June 17 to July 19, 2005. It was posted on the Web site and communicated to NGOs concerning the environment and human rights, suppliers, wood-related industry groups, and employees of the Core Group Companies. As many as 2,000 individuals and groups in total gave us their comments during the period, which shows their significant interest in the supply chain of the Core Group Companies.

The comments were classified, summarized, and discussed within the organization. We found that many of them were valuable, so some were adopted into the modification of the Philosophy and Basic Policy.

Now, we are moving to the stage of establishing concrete action plans. The details will be introduced in the next report. The Nippon Paper Group is committed to further enhancing the supply chain management.

### Summary of public comments

Total number of comments: 1,919 (40 on Japanese edition and 1,879 on English edition)

#### Classification of comments and ratio

<table>
<thead>
<tr>
<th>Category</th>
<th>Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Socially aware raw material procurement</td>
<td>48.2</td>
</tr>
<tr>
<td>Old growth forest conservation in Tasmania</td>
<td>45.9</td>
</tr>
<tr>
<td>Forests under sustainable management</td>
<td>3.4</td>
</tr>
<tr>
<td>Dialogues with stakeholders</td>
<td>0.8</td>
</tr>
<tr>
<td>Recycling of raw materials</td>
<td>0.7</td>
</tr>
<tr>
<td>Chemical Substances</td>
<td>0.2</td>
</tr>
<tr>
<td>Illegal logging</td>
<td>0.1</td>
</tr>
<tr>
<td>Others</td>
<td>0.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

The details of the summary are available on the Web site: http://www.np-g.com/e/csr/ideology/materials.html

#### Number of comments by area

- Australia: 536
- USA: 79
- UK: 65
- New Zealand: 11
- Japan: 8
- Germany: 3
- Italy: 2
- Others (no address given): 454
- Others (no nationality given): 761

#### Ratio by type of stakeholders (%)

- Consumers: 53.6
- Students: 7.9
- Residents in the vicinity of factories: 8.8
- NPO/NGO: 3.6
- Management: 0.4
- Partners (product): 2.5
- Partners (raw materials): 0.4
- Group employees: 0.4
- Stockholders: 0.4

Flow of inviting comments on the Philosophy and Basic Policy:

1. The draft of the Philosophy and Basic Policy is opened.
2. Invitation of comments started (via the Web site and postal mail).
3. Invitation of comments closed.
4. Opinions classified and summarized.
5. The draft amended and answers prepared within the company based on the comments collected.
6. The Philosophy and Basic Policy examined by the Raw Materials Subcommittee, followed by CSR Committee.
7. The Philosophy and Basic Policy and answers made public.
8. Action plans established.
For Stable Product Supply—Stable Raw Material Procurement

Current state of raw material procurement

The pulp and paper business, the core business of the Core Group Companies, purchases the raw materials of wood origin from external parties. Factories of the Core Group Companies in Japan procure almost 75% of the woodchips from overseas, which occupy more than half of raw materials procured.

To ensure sustainable procurement of the resources, the Core Group Companies promote afforestation based on the Tree Farm Initiative (see page 20) through local joint ventures in Australia, Chile, and South Africa.

As the ratio of imported materials, namely hardwood chips, against total raw materials is high and stakeholders are keenly interested in this field, we are shifting the origin of imported hardwood chips to planted forests and certified forests. It is our plan that all domestic factories of the Core Group Companies shall procure all imported hardwood chips, including raw materials from the businesses we are not involved in, from planted forests or certified forests by the end of 2008. In FY2004, the ratio increased approximately 4% compared to the previous year, achieving 80%.

The hardwood woodchips and lumber procured in Japan originate from logging of softwood forests mixed with hardwood ones and sustainability utilized forests near human habitation. The softwood is from afforested trees or sawmill residues and thinned wood home and abroad.

Increase in demand for wood is expected in the Chinese and other markets. Stable procurement of overseas woodchips and lumber will be more and more important. The Core Group Companies, lead by the Raw Materials Subcommittee, will promote CSR-based procurement in accordance with the Philosophy and Basic Policy Concerning Raw Materials Procurement.

Overseas afforestation of Nippon Paper Industries Co., Ltd.

<table>
<thead>
<tr>
<th>Country</th>
<th>Overseas plantation companies</th>
<th>Current status of the country of origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>WA Plantation Resources Pty. Ltd. (WAPRES) (Jointly invested with Marubeni Corporation)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>South East Fibre Exports Pty. Ltd. (SEFE) (Jointly invested with ITOCHU Corporation)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Nippon Paper Treefarm Australia Pty. Ltd. (100% invested by Nippon Paper Industries: Controlling over the Tree Farm Project in Australia)</td>
<td></td>
</tr>
<tr>
<td>South Africa</td>
<td>Forest Resources Pty. Ltd. (Jointly invested by CTC and Sumitomo Corporation)</td>
<td></td>
</tr>
<tr>
<td>Chile</td>
<td>Volterra S.A. (Jointly invested with Sumitomo Corporation)</td>
<td></td>
</tr>
</tbody>
</table>

* CTC is an union organization established by forestry businesspersons in South Africa.

Consumption of raw materials originated from wood (unit: 1,000 BDt)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Logs</td>
<td>53</td>
<td>41</td>
<td>24</td>
<td>19</td>
</tr>
<tr>
<td>Pulp</td>
<td>3,788</td>
<td>3,636</td>
<td>3,636</td>
<td>3,636</td>
</tr>
<tr>
<td>Wastepaper (recycled pulp)</td>
<td>389</td>
<td>389</td>
<td>389</td>
<td>389</td>
</tr>
<tr>
<td>Woodchips</td>
<td>5,840</td>
<td>5,840</td>
<td>5,840</td>
<td>5,840</td>
</tr>
</tbody>
</table>

Imported woodchips by region (unit: %)

<table>
<thead>
<tr>
<th>Woodchips from hardwood</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
</tr>
<tr>
<td>Chile</td>
</tr>
<tr>
<td>Others</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Woodchips from softwood</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia, New Zealand</td>
</tr>
<tr>
<td>South America</td>
</tr>
<tr>
<td>North America</td>
</tr>
<tr>
<td>Others</td>
</tr>
</tbody>
</table>

Imported hardwood resource by type (unit: %)

<table>
<thead>
<tr>
<th>FY2003</th>
<th>FY2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uncertified natural forest</td>
<td>0</td>
</tr>
<tr>
<td>Certified natural forest</td>
<td>31</td>
</tr>
<tr>
<td>Purchased timber from afforestation</td>
<td>46</td>
</tr>
<tr>
<td>Timber planted by the company Tree Farm Initiative</td>
<td>23</td>
</tr>
</tbody>
</table>
Promoting and nurturing the “Tree Farm Initiative”

The Core Group Companies started afforestation in Chile in 1992 to nurture resources for hardwood chips by themselves while protecting forest resources. Afforestation has been expanded to Australia and South Africa based on the Tree Farm Initiative.

The Tree Farm Initiative nurtures trees and harvests and uses only full-grown trees each year. The target toward the end of 2008 is afforestation of 100,000 ha. As of the end of 2004, 81,700 ha of afforestation have been completed, which occupies 82% of the target.

Some grown afforestation has already been harvested while protecting forest resources for hardwood chips by the company. The afforestation in Chile in 1992 to nurture resources for hardwood chips was certified by the company-owned forests.

Acquisition of forest certification

<table>
<thead>
<tr>
<th>Overseas afforestation project (by company)</th>
<th>ISO14001</th>
<th>Performance certification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foresteis</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Waipapa</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Volterra</td>
<td></td>
<td></td>
</tr>
<tr>
<td>VTP/Auz</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SEFE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PTP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BTP/AAP/AFS</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Cycle of afforestation

Cycle of afforestation

Efforts to acquire forest certifications

Shrinking forests and deforestation, including illegal logging on a global scale, have been a major concern. It is essential for the Core Group Companies to manage the forest in a sustainable way.

In a forest certification system, 3 a third party organization certifies sustainable forest management. The Core group Companies set a target of acquiring forest certification for all domestic and overseas company-owned forests by the end of 2008.

By the end of FY2004, all overseas company-owned forests acquired ISO 14001. Hereafter, we will endeavor to implement it as their system and promote acquisition of performance certifications most appropriate for the local forest. In addition to the company-owned forests, overseas afforestation projects controlled by the company have already completed acquisition of ISO certifications. For domestic company-owned forests, we will endeavor to acquire certification from Japan’s unique performance certification system SGEC.12

As of the end of FY2004, 53,300 ha out of 171,400 ha have acquired performance certifications, accounting for 31% of total domestic and overseas company-owned forests.

Conservation of biodiversity

The goals of the management of the forest owned by the Core Group Companies are to nurture forests through sustainable forest management, to help forests exert their multifaceted environmental conservation functions, and to secure sustainable profit.

Domestic company-owned forests are classified into two categories considering their biodiversity and environmental characteristics: environmental forest area and commercial forest area. In the former forest stand, environmental functions are conserved by banning the logging of trees for the purpose of lumber production. In the latter forest stand, wood is utilized as resource under appropriate forest management. In the domestic and overseas company-owned forests, acquisition of forest performance certifications, which define standards for conservation of biodiversity and ecosystem in forests, is promoted.

Data of domestic company-owned forests regarding biodiversity

<table>
<thead>
<tr>
<th>IUCN category</th>
<th>Applicable area (1,000 ha)</th>
<th>Commercial forest area (1,000 ha)</th>
<th>Environmental forest area (1,000 ha)</th>
<th>Rate of environmental forest area (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>—</td>
</tr>
<tr>
<td>b</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>—</td>
</tr>
<tr>
<td>I</td>
<td>3.9</td>
<td>0.6</td>
<td>3.3</td>
<td>85%</td>
</tr>
<tr>
<td>II</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>—</td>
</tr>
<tr>
<td>III</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>—</td>
</tr>
<tr>
<td>IV</td>
<td>3.9</td>
<td>0.6</td>
<td>3.3</td>
<td>85%</td>
</tr>
<tr>
<td>V</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>—</td>
</tr>
<tr>
<td>VI</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>—</td>
</tr>
<tr>
<td>N/A</td>
<td>82.7</td>
<td>68.3</td>
<td>14.4</td>
<td>17%</td>
</tr>
</tbody>
</table>

Total 89.8 71.4 18.4 20%
CSR Activities Associated with Raw Material Procurement in the Pulp and Paper Business

Living with Local Communities—Appreciating and Protecting Its Culture, and Contributing to Society

Australia

WAPRES respects the local culture where it works, recognizes the importance of conservation of historic sites, and constantly communicates with the local municipalities and historic site conservation groups. Furthermore, it is developing training programs to improve knowledge and awareness of local culture and local assets, including historic sites, so that employees can carry out their responsibility while respecting such culture and assets. To minimize the effect of planting on the environment and the neighboring community, employees investigate the quality of water and soil beforehand.

The company recognizes the importance of environmental education in the community as well. It sends employees to schools near the Blackwood River running southwest of Western Australia to promote environmental education with respect to the water quality of the river. The Blackwood Waterwatch Program won the Prime Minister’s Award for Excellence in Business Partnership 2003 at the national meeting of the Community Business Partnership in Australia and climbed onto the shortlist of the Special Award for Longevity section in 2004.

SEFE has extended a scholarship for more than ten years to one applicant to the Australian National University Forestry Department living in the local community. By supplying school expenses (enrollment fee, tuition, course materials, and on-site training), dormitory expenses, and an allowance for home leave, it supports nurturing human resources who contribute to the local society and the scholarship is genuinely welcomed by the community.

SEFE has also played an important role as a major business in a small community in the south east of New South Wales in terms of the local transportation infrastructure and employment opportunity for more than thirty-five years since its beginning of factory operation in 1969. The Australian Commonwealth Government and each state government concluded the Regional Forest Agreements (RFA), major policies of which are conservation of natural environment, industrial promotion by heightening the added value, and expansion of afforestation. According to the RFA, SEFE procures raw materials properly from the commercial forest areas defined for each region and contributes to the protection of areas with environmental and cultural value as well as natural habitats of protected rare animals and plants.

Chile

In the area where Volterra conducts business, there are several regions that have a strong relationship with the culture of the indigenous Indio, like religious monuments or historical ceremonial sites. As long as the Chilean administration strives to respect the culture of the Indios through its National Corp. for Indigenous Development (CONADI), the company also endeavors not to spoil the value of the local culture.

Volterra significantly contributes to the development of the local infrastructures through construction of wood bridges, sharing the expenses with local administrative agencies, in addition to the improvement of roads and the repair of bridges in deserted villages. Since 2005, the company has participated in the Five-Year Plan for Afforestation in Mountain Villages project as a new approach.

The project is led by the Corporación Chilena de la Madera (CORMA) and its membership afforestation companies and provides residents of such areas with seedlings of pines and eucalyptus to help them plant trees. It aims at restoration of eroded land by tree planting, prevention of forest fire by enlightening them about forest conservation and improvement of the residents’ living standard by providing job opportunities created by the afforestation project. In the first project (1998 to 2002), 5.5 million seedlings were provided to residents and land of approximately 5,000 ha was restored and became green. The second project targets the planting of five million trees during the given five years. Volterra is to contribute 10,000 seedlings every year for five years.

South Africa

Forestco is strongly concerned about maintaining harmony with the local culture and community. The company persistently donates and contributes to festivals rooted in the culture and tradition of people who live on the company’s business property, and it also helps in the conservation of graveyards in the afforestation. At the same time, it offers part of its business properties in the form of farmland and pastureland, supplies drinking water, and installs water tanks to protect residents’ human rights and living rights.

Sustainability Report 2005 21
Chapter I

In the Market

To be an enterprise group that is expected and trusted by the market, we will fulfill our responsibilities to customers, shareholders, and suppliers.

It is the basic responsibility of an enterprise to satisfy customers through provision of high-quality products and services and to answer the expectation to shareholders by making a steady profit from the business activities and returning the profit to them. The Core Group Companies are committed to being an enterprise that is trusted and expected by stakeholders in both the product and stock markets.

Recognition of Current Situation

Since ancient days, paper has been used for a wide variety of purposes, including packaging and recording. It also plays indispensable roles as a protective material for important property and as media like notebooks, books, and newspapers to record and convey information to people. It is the responsibility of paper manufacturers to ensure a stable supply to society.

Needless to say, product supply is the revenue base of the Core Group Companies as well as a source for maintaining sound business and sharing profit with a variety of stakeholders.

It is very important to efficiently produce and sell safe products of high quality under a careful production plan, keeping a watchful eye on the business environment, including raw material procurement and distribution, and the trends in market demand.

The Core Group Companies aim at being an enterprise group that is trusted by stakeholders and contributes to society by ensuring a stable supply of safe products and services of high quality, while responding to the diverse requests of society.
Outline of FY2004 and Plan

To help customers use our products safely, the Core Group Companies transmit appropriate product information and respond to questions and requests from customers with a dedicated contact body in each operating company. Under the circumstances where consumers’ awareness of product safety is increasing, enhancement of measures to prevent accidents caused by products and prevention of recurrence once an accident occurs is becoming more and more important. The Core Group Companies established the Philosophy and Basic Policy on Product Safety, under which we will further strengthen the safety control over products and services.

Furthermore, to stably secure raw materials through fair trade where conservation of the global environment is well considered and to maintain the system for stable product supply, we will tackle enhancement of supply chain management (see page 16 to 21).

On the other hand, we will disclose information appropriately at the right time to shareholders and investors and maintain active dialogue with them, through which their opinions and requests are reflected to the greatest extent possible in fair and transparent company management. By continuing the supply of products needed by society, we will steadily make a profit and return it to stakeholders.
Product safety management system

Each operating company composing the Core Group Companies has been tackling construction of a product safety management system individually since before the business integration in March 2001.

After the integration, the focus is on the product safety management system of the whole group, on which each system is built.

Building and implementing a product safety management system of the whole group

The Core Group Companies have the Product Safety Subcommittee under the CSR Committee founded in October 2003. The Subcommittee has control over the activities of the whole group in terms of product safety and discusses important issues including compliance with the Product Liability Law and chemical substance management.

Under the Product Safety Subcommittee is the Product Safety Meeting where managers from related divisions of Nippon Paper Industries and product safety managers from the Group companies participate. In the Meeting, information on product safety is shared and measures against concerns are discussed among the Group companies, based on which reports are prepared and submitted to the subcommittee. Other subordinate organizations of the meeting are the Chemical Substance Manager Meeting and the LCA*1 Manager Meeting, each of which discusses chemical substance management and LCA concretely.

Promoting acquisition of certifications of quality management systems


In December 2005, Nippon Daishowa Paperboard Yoshinaga Co., Ltd. obtained the certification, and this will complete the acquisition of by all mills of Nippon Daishowa Paperboard group companies. Gotsu Works and Yufutsu Works of Nippon Paper Chemicals Co., Ltd. will acquire the certification in January, 2006.

In addition to ISO 9001, each company implements other quality management methods that match its business and product characteristics. For example, NIPPON PAPER-PAK CO., LTD. introduced the method for HACCP*2 and implements it together with ISO, resulting in improved quality and hygienic management.

*1 LCA stands for Life Cycle Assessment. It is to analyze and evaluate the environmental impact generated in all processes from raw material procurement to processing of parts and components, production, construction, operation, disassembly and disposal of products and structures.

*2 HACCP stands for Hazard Analysis and Critical Control Point. It is a hygiene management method developed by the National Aeronautics and Space Administration (NASA) when it produced the space diet. It detects and analyzes all hazards that may occur in every stage of the food production process, identifies the critical control points to prevent the occurrence of hazards, defines management standards, and constantly observes, measures, and records compliance to the standards to secure product safety.
To be prepared for the future recycling of resources and waste treatment, use of polyolefin (PO) material is increasing more than ever in the packaging materials fields and the automobile industries.

Nippon Paper Chemicals Co., Ltd., produces SUPERCHLON®, which is chlorinated polypropylene (PP) Resin, and AUROREN®, which is an appropriately acid modified PP resin with a special crystal structure. These two products demonstrate excellent adhesive properties to PO materials and are highly rated and widely used as raw materials for coatings, inks, and adhesives.

On the other hand, in the coating and adhesion processes of a wide variety of manufacturers, reduction of volatile organic compounds (VOC) included in the coatings and adhesives and emitted into the air has become a critical issue in light of environmental conservation and the physical safety of operators. To respond to that social requirement, the company has endeavored to develop an aqueous type of SUPERCHLON® and AUROREN®. The products include less VOC, while sustaining the same workability and performance as existing inks and adhesives. A significant reduction of VOC in the coating process is highly evaluated.

In view of the enforcement of restrictions on VOC emissions scheduled for April 2006, these products are expected to answer a wide variety of customer needs.

PAL CO., LTD. places the issue of sick house syndrome as one of the top priorities and has continued aggressive efforts since 1998. The company identified the chemical substances and amount of emissions included in all products and raw materials. Based on the results, it promoted the reduction of the use of formaldehyde, as well as total abolition of the use of other substances subject to VOC restrictions, or conversion to other substances.

For wooden flooring materials, including strip flooring, the company replaced the raw material, plywood, with one emitting less formaldehyde. In the production process of strip flooring, it stopped the use of substances subject to VOC restrictions and decided to use other materials. Through these efforts, the working environment in the factory was also improved.

Wood materials for stairs are now produced using coatings that do not include substances specified by PRTR Law.

For fittings including doors and closet doors, the company uses wood base materials with less formaldehyde emissions and adhesives that do not contain materials subject to VOC restrictions and the PRTR Law to paste components together. Decoration materials for the surface of fittings has already been changed from vinyl chloride resin to olefin resin, which thus eliminated the threat of generation of dioxin when incinerated.

In addition, in the moth-proofing process for wood flooring materials and base sheets for exterior walls, organophosphorus insecticide, which is not subject to construction-related laws and restrictions but toxicity is a concern, is avoided and nonorganophosphorus agent is used.

* Strip flooring: Wood-flooring material with a long narrow shape and Japanese-style design. It is often used at the entrance or in corridors.
CRECIA Corporation develops and produces household paper products that provide customers with a sense of relief.

For example, as a personal care product, it markets pads and liners providing more comfort and higher functions for customers who suffer from light incontinence. Another example is tissue paper wetted with lotion that provides a higher moisture retention function to prevent damaging the skin of customers suffering from pollinosis or rhinitis.

Nippon Seitai Corporation endeavors to manufacture products that ensure safety for customers. In 2002, the company adopted a policy to exercise unprecedented original hygienic measures. Since then, it has improved the production line that produces large-size food-packaging bags.

Specifically, the improvement includes raising employees’ awareness of hygiene, as well as the addition of an anteroom and double shutters to the entrance to the production area to prevent any foreign matter from entering the area.

Furthermore, foreign matter removal equipment, N Cleaner, was installed in each tubemaking machine to suck foreign matter adhered to the surface of paper and film. It turned out that in the production process of heavy-duty paper bags, edge dust and other foreign matter tended to adhere to the kraft paper, the major material of the bags. The company determined to introduce a three-step removal system, where N Cleaners are incorporated into printers and bag-making machines in addition to the tubemaking machines. After verifying its elimination by a self-designed and developed prototype, the system was introduced in the Asahikawa and Saitama Mills in July 2004, both of which mostly produce food-packaging bags.

Introduction of this system dramatically improved the reliability of foreign matter removal. The above two factories are now able to produce the clean bags as standard. The company is preparing to introduce the system in other bag-making factories.

The Food Safety Basic Law was established to improve food safety and hygiene on May 23, 2003 in Japan. Part of the Food Sanitation Law was amended on May 30, 2003, and manufacturers and sellers of food packaging were positioned as food related businesses in the food industry. Such progress in development of legal systems reflects higher demand from society in terms of food safety and hygiene.

NIPPON PAPER-PAK produces and sells paper cartons and other beverage cartons to milk and other food manufacturers. The company gives special consideration to occupational safety and health and offers products made mostly of paper fiber. It introduced the philosophy of HACCP in the liquid packaging carton production process in 1999 and has endeavored to enhance hygienic management. To maintain cleanliness in the production area, for example, employees change footwear to the one for exclusive use in such areas and remove foreign matter with an air shower in the anteroom. The work wear is redesigned to improve the capability to prevent foreign matter from falling and other hygienic functions. Basic measures are thoroughly taken, including the habit of washing hands and sterilization with alcohol. In addition, all toilets are equipped with the Washlet, a Japanese-style bidet.

For risk management, the company referred to the guidelines specified in the Japanese Industrial Standards (JIS) and others and established the Product Risk Management Manual. It clarifies which measures should be taken in case of a product accident. Emergency drills are conducted every year, where effectiveness of the manual is verified, including traceability and an emergency communication network.

The company will further strengthen the hygienic management and study possibilities of introducing ISO 22000*, a new management system, in addition to ISO 9001 and 14001, certifications of which have already been acquired and systems introduced.
Hand washing and sterilization with alcohol before entering the production area

Air shower in an anteroom before entering the production area to remove foreign matter

Changing to footwear for exclusive use in the production area

Protecting personal information of customers

CRECIA Corporation deals with household paper products for consumers and, by the nature of the business, the company handles personal information of customers through such operations as answering inquiries and consumer campaigns. To ensure compliance with the Personal Information Protection Law enforced in full scale in April 2005, the responsible organization and manager were clearly determined in FY2004 and the Basic Policy Concerning Privacy Protection was established as of April 1, 2005. This was made open to the public on the Web site. The company made every effort to enforce compliance with the policy on its employees and will continue education and efforts to raise awareness of the employees as well as enhance its managing system.

Reflecting comments and requests from customers in business

The Core Group Companies always endeavor to take customers’ comments and requests as a valuable asset, reflect them in product development and process improvement to increase customer satisfaction, and continue to be an enterprise group that is worth being trusted.

To respond to complaints from customers promptly, each operating company has its own dedicated organization. These organizations conduct their own activities while constituting the Product Safety Meeting to share information on complaints and claims for compensation accumulated by each company, as well as measures taken.

Major operating companies and their dedicated organizations

<table>
<thead>
<tr>
<th>Company name</th>
<th>Dedicated organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>CRECIA Corporation</td>
<td>S.E.O. Division and Customer Service Representatives</td>
</tr>
<tr>
<td>NIPPON PAPER-PAK CO., LTD.</td>
<td>Quality Assurance Dept.</td>
</tr>
</tbody>
</table>

Nippon Paper Industries responding to customers’ comments

To respond to the comments and complaints from customers promptly, Nippon Paper Industries deploys service engineers (SE) to all sales offices in various parts of the country. SEs visit the customer’s site to check the circumstances subject to the complaint, locate the cause, and take remedial measures with related divisions and production factories.

Providing handling suggestions

For pulp and paper products, MSDS,* inclusion of chemical substances and analytical data of the included chemical substances are provided to customers by request.

For household paper products, handling suggestions are clearly indicated on the products and MSDS is also provided as required for the orderers of OEM (original equipment manufacturing) products.

In FY2004, no nonconformity or breach of regulations regarding product information and descriptive labeling was found, and no defective was collected in terms of product safety.

* MSDS stands for Material Safety Data Sheet. To ensure proper management of chemical substances by businesses, advanced submission of the sheet is mandatory, when transferring or providing products containing chemical substances specified by the PRTR Law. The sheet shall include properties and handling suggestions of the chemical substance.

* ISO 22000: International standards for food safety management systems (FSMS), including requirements specified in HACCP and part of ISO 9001. The standards can be used independently but can be used together with other standards like ISO 9001 as well. It covers the whole food supply chain, including food and services suppliers, and is scheduled to be internationally standardized around autumn 2005.
CRECIA responding to customers’ comments

On all household, industrial, and nursingcare products of CRECIA Corporation, telephone numbers of customer support are clearly specified. This is the company’s representative for inquiries, indication, opinions, and suggestions from diverse customers who show interest in the CRECIA products. The roles of this function are classified into the following three categories:

1) For Customers
   It fulfills a high level of customer satisfaction by acknowledging inquiries and complaints and adequately responding to them. The company regards customer opinions as a treasure trove of valuable information.

2) For the Company
   Complaints and opinions from customers are communicated to the related divisions within the company and used for product improvement or development and service enhancement.

3) For Society
   It is used to measure the degree of customer satisfaction through the viewpoint of customers and establish a corporate culture that stands on compliance.

As a mechanism to accomplish these roles, CRECIA has constructed a Customer Support System on its intranet. A database of the inquiries and opinions is compiled and utilized. Customer service representatives make a summary of accumulated information, provide it to the related divisions, and reflect customer opinions in the business activities through a monthly report to the division meetings. The database is accessible from related divisions like marketing and development and utilized for product development as required.

The customer service representatives strive to realize zero complaints and to improve quality in liaison with headquarters and the quality control sections of factories. A quality control meeting is held quarterly, attended by the staff from both headquarters and factories. Each factory holds meetings to identify the cause and measures against complaints it receives and to improve product quality.

Serious complaints are classified into four categories and submission of cause/measures reports is obligatory: 1) Product Liability (PL) Law related issues or a case that may influence the human body; 2) a case that may destroy company credibility; 3) a product that is unusable or does not carry out its function; and 4) a product that is usable but falls outside the standard or permissible range.

SHIKOKU COCA-COLA BOTTLING responding to customers’ complaints

Consumer complaints regarding products are handled by Customer Service of Coca-Cola (Japan) via toll-free telephone, and the information is distributed to SHIKOKU COCA-COLA BOTTLING via the Internet. The person in charge shall transfer it to the relevant office when receiving the information.

The company has an Incident Management & Crisis Resolution System for accidents caused by the product. The system comprises responsible persons from the relevant departments in the company and addresses the issues according to the assessed level of crisis.

Sample of improvement utilizing customers' opinions

CRECIA received a request from customers to remodel the incontinence pad to prevent leakage and added 3D gather to the pad to prevent leakage from the side. To prevent leakage from the back, the company developed a new longer product named the Security Long Pad.
The Core Group Companies are fully aware that stable product supply is an imperative responsibility of a manufacturer. We produce pulp and paper products according to a carefully adjusted production plan to fill actual demand based on the annual or biannual budget and prevent equipment failure and disordered operation, factors that inhibit stable production, from occurring.

### Efforts for stable production

**Production plan based on the demand forecast**

The Core Group Companies are fully aware that stable product supply is an imperative responsibility of a manufacturer. We produce pulp and paper products according to a carefully adjusted production plan to fill actual demand based on the annual or biannual budget and prevent equipment failure and disordered operation, factors that inhibit stable production, from occurring.

**Efforts to prevent equipment failure**

Regular maintenance is incorporated in the production plan for each production facility to prevent failure from occurring. For all the efforts, accidental failure may occur. Monitoring and maintenance system are prepared to enable prompt repair and recovery even at night.

The decrease in production that naturally comes with equipment failure shall be recovered by production adjustment within the month of the failure or absorbed by inventory adjustment in the factory or the company.

**Efforts to prevent disordered operation**

Disordered operation means that the machine itself operates but has some defective condition like production of defectives. We focus on identification of the cause and the measures taken to solve the disorder. Normally, it is addressed by each factory, mainly by the department or section in charge of the relevant equipment. However, if it requires large amount of investment or more personnel than estimated due to the disorder involving a wide variety of problems, the headquarters shall participate in problem solving.

### Report on the causes of fire and the measures taken

In FY2004, two factories in the Core Group Companies had a fire, and the operation was temporarily suspended. The following are the reports on the outline of two fire accidents:

**Asahikawa Mill of Nippon Paper Industries Co., Ltd.**

In the middle of the night on April 27, 2004, Asahikawa Mill of Nippon Paper Industries (Asahikawa city, Hokkaido) had a fire due to an oil leak in one paper machine. A public fire department extinguished the fire after approximately two hours of fire fighting. No spread of the fire to other facilities or outside the factory was observed.

#### Cause of the fire

From a rotary joint that supplies high-temperature oil into a roll (equipment to smooth the surface of paper) installed on the paper machine, oil leaked and caught fire. The joint had been serviced by its manufacturer and was operated for the first time on the day of the fire. It is assumed that the frictional heat caused by the poor servicing melted the components and resulted in an oil leak.

#### Preventative measures taken

To prevent the frictional heat, the cause of the oil leak, from occurring, we requested the manufacturer to redesign the rotary joint and review the servicing control standards, both of which were completed.

**Nippon Daishowa Paperboard Tohoku Co., Ltd.**

In the afternoon of March 14, 2005, a fire occurred from a cut tire bin (a container that stores tire chips for fuel) of the paper sludge (PS) boiler generator in the Nippon Daishowa Paperboard Tohoku (Akita city, Akita prefecture). A public fire department tried to extinguish the fire by hosing and injecting nitrogen gas. At the same time, to place top priority on human life and safety, the factory operation was suspended. This is because the bin might explode if the tire chips in the bin caught fire.

In the early morning of the third day after fire broke out, the fire went down and hit a lull. In the afternoon of the twelfth day, March 25, the fire was extinguished. No spread of a fire to other facilities or outside the factory or injured person, including firefighter, was observed. However, we do recognize the inconvenience to neighbors from the black smoke and offensive odor caused from the combustion of tire chips.

#### Cause of the fire

The facility was under piping work. It is assumed that a spark from the gas burner used by the piping company was caught by the fuel tire chips in the bin.

#### Preventative measures taken

All production facilities of Nippon Daishowa Paperboard as well as Nippon Daishowa Paperboard Tohoku reviewed the company regulations in terms of disaster and fire prevention. Especially, use of fire and communication, and direction and confirmation of engineering works involving the use of fire were strictly regulated and all employees and subcontractors were made fully familiarized with the regulation. The cut tire bin and ancillary facilities lost by the fire were temporarily restored and operation of the PS boiler was restarted from May. We are discussing with the manufacturers to prepare a substantial restoration plan, paying attention to fire prevention and extinction.
For Shareholders—
Appropriate Information Disclosure and Return of Profit

Fair and positive information disclosure

Basic principles in information disclosure

The Nippon Paper Group works together to promote company management to fulfill the corporate social responsibility (CSR) including securing ethics, fairness and transparency in addition to pursuing economic profit.

To secure transparency in the company management, the company endeavors to help a variety of stakeholders understand the Group’s management and business activities through prompt and fair information disclosure. The Action Charter and the Codes of Conduct (see page 11) define the fair and positive disclosure of corporate information.

IR Office is placed under the direct control of the president and responsible for the information disclosure to shareholders and investors. It consists of the full-time staff from the Nippon Paper Group as well as staff from the major subsidiaries (Nippon Paper Industries, Nippon Daishowa Paperboard, and CRECIA) that account for significant portion of the Group’s performance. This enables them to accurately grasp the Group’s business. Concrete activities include account settlement results and strategy explanatory meetings, and other regular corporate information sessions, as well as annual reports and other information disclosures on the website.

FY2005 is the final year of the First Medium-term Business Plan (FY2003 to 2005) and we will explain its progress, present the medium-term vision, and disclose risk information on a timely basis.

Communication with shareholders in a general shareholders meeting

Nippon Paper Group, Inc. has held the general shareholders meetings at Tosho Hall in Marunouchi, Tokyo since the first meeting in FY2001 considering the convenience of shareholders and wanting to invite as many shareholders as possible. In FY2004, approximately 200 shareholders took part in the meeting. The company answered questions about provision for doubtful receivables and the business of Nippon Paper Group in detail in the question and answer session.

To reflect the opinions of shareholders home and abroad in the company management, the company endeavors to help understanding of the agenda and promote execution of voting rights by mailing English invitations through a subcontracting specialized company. Approximately 80% of voting rights were executed in the meeting in FY2004. We will continue efforts to send invitation to shareholders at the earliest possible timing, and to provide information through a specialized company.

As a communication tool with shareholders, the company issues and sends business reports biannually after the general shareholder meeting and the finalization of interim account settlement.

IR activities eliminating information gap

Regular explanatory meetings are held to promote appropriate and timely information disclosure and understanding through dialogue with investors.

For institutional investors and analysts, the company holds biannual account settlement and strategy explanatory meetings after the announcement of interim and full year financial results, presented by the president and accounting/finance director, president also holds small meetings four times a year. Annual reports are issued and sent out annually to outline the account settlement and business. In addition, IR Office of Nippon Paper Group plays a key role in inviting and visiting domestic and overseas investors to have individual meeting with them and conduct mill tours. Hereafter, IR activities overseas shall be enhanced.

On the other hand, for individual investors, the company holds explanatory meetings and sends annual reports upon request. Furthermore, the company endeavors to disclose information fairly and timely to institutional and individual investors in Japan and overseas utilizing the Internet and the company’s Web site. The data and materials used in account settlement and strategy explanatory meetings for analysts are disclosed on the company’s Web site in both Japanese and English. Separate IR Web sites for institutional investors and individual investors are open to transmit the company’s IR information.

As a new service, it started distribution of IR information via e-mail to institutional investors and analysts in FY2004. From FY2005, IR information is also distributed to individual investors who have registered for the information distribution service.

Account settlement and strategy explanatory meeting
Reflecting opinions from shareholders and investors in business

The Nippon Paper Group is committed to dialogue with shareholders and investors and reflecting their opinions and requests in the company management. The comments and requests collected through explanatory and other meetings are reported to the top management by the responsible division each time and the top management refers to it when they make decisions. In FY2004, there were inquiries from shareholders about the additional measures and the timing for returning profit and the top management is carefully studying the case.

Basic policy about dividends

Nippon Paper Group, Inc. is committed to reinforcing the management base, improving profitability, making effort for sustainable growth of its corporate value, and thus fulfilling the expectations of shareholders.

It is our basic policy about dividends to comprehensively examine the Group’s performance and enhancement of earning retention and to continue stable distribution of dividends whenever possible.

Transition of dividends (yen)

<table>
<thead>
<tr>
<th>Year</th>
<th>Dividends</th>
</tr>
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<tbody>
<tr>
<td>FY2002</td>
<td>8,000</td>
</tr>
<tr>
<td>FY2003</td>
<td>4,000</td>
</tr>
<tr>
<td>FY2004</td>
<td>4,000</td>
</tr>
</tbody>
</table>

Debt rating

Listed below are the major debt ratings of Nippon Paper Group, Inc.

Major debt rating

<table>
<thead>
<tr>
<th>Rating agencies</th>
<th>Ratings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating and Investment Information, Inc. (R&amp;I)</td>
<td>Long-term bond: A (as of December 2004)</td>
</tr>
<tr>
<td>Standard and Poor’s (S&amp;P)</td>
<td>Long-term bond: BBB- (as of March 2005)</td>
</tr>
</tbody>
</table>

Evaluation from SRI research/rating agencies

Recently, Socially Responsible Investment (SRI), which evaluates a company from social dimensions including compliance, environmental conservation, and respect for human rights, has become familiar at home and abroad, in addition to the profit and financial standing of the company. A variety of agencies provide SRI evaluation and Nippon Paper Group, Inc. is included in the following SRI indices:

Major SRI indices including Nippon Paper Group, Inc.
(as of the end of August 2005)

<table>
<thead>
<tr>
<th>Overseas</th>
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<tbody>
<tr>
<td>FTSE-i Good Global Index</td>
</tr>
<tr>
<td>FTSE-i Good Japan Index</td>
</tr>
<tr>
<td>Japan</td>
</tr>
<tr>
<td>Morningstar SRI Index</td>
</tr>
</tbody>
</table>
Recognition of Current Situation

All human beings share the challenge of conserving and maintaining the global environment in sound condition and promoting sustainable development. In February 2005, the Kyoto Protocol became effective, defining the targets for CO2 reduction for developed nations. Businesses now undertake a more significant role in the achievement of the goals of the Protocol.

Among all, paper manufacturing is an industry that consumes a huge amount of resources in its production process, including water, fuel, and wood materials. Therefore, conservation of the global environment, or the source of such resources, is the key issue that exerts enormous influence on the existence of the industry.

Under the recognition, each of the Core Group Companies has conducted environmental conservation activities that meet the characteristics of its business. For the purpose of fulfilling the Group’s social responsibility, it is important to enhance environmental management and continue the improvement of environmental performance of the whole Group. Based on the environmental conservation activities that have been conducted by each mill and office, now is the time to build an organization or scheme that exercises control over the efforts of each company, pursuing more substantial results.

Balancing production and environmental conservation, we will handover the global environment in sound condition to the next generation.

As a business dependent on forest resources, or a gift of nature, as its major raw material, we place the highest priority on conservation of the global environment. To realize sustainable development in harmony with the global environment, the Core Group Companies vigorously promote the recycling of wastepaper, prevention of global warming, reduction and recycling of waste generation, energy saving, resource saving, and the reduction of environmental impact caused by their business activities, while nurturing renewable forest resources ourselves.
Outline of FY 2004 and Policy

Based on the system established by each subordinate company, we are currently enhancing the environmental management of the whole Group. We are examining the plan to acquire blanket certification of ISO 14001 as a group by FY 2011. In preparation for that, subordinated companies, mills, and offices that have not yet acquired certification of an environmental management system are currently endeavoring to acquire ISO 14001 or other certification such as Eco-Action 21.

The Group is also reducing the environmental impact of its products through their whole life cycle from selection of raw materials to production, distribution, and disposal after use. While investing in the equipment for environmental conservation, the Group promotes expansion of the use of wastepaper, reduction of CO₂ emissions from fossil fuels through the utilization of biomass fuel, and reduction of the use and emission of hazardous chemical substances. In FY 2004, one mill of Nippon Paper Industries Co., Ltd., started operation of a biomass power generation facility, and key manufacturing companies in the Pulp and Paper Business achieved the targets of reducing the final-disposal waste predetermined by each company. We will set higher targets and make efforts to reduce environmental impacts.
Environmental charter

As paper manufacturing is largely dependent on nature, which nourishes wood, the raw material for paper, the Nippon Paper Group is always aware of the importance of being thoughtful of its impact on the environment from a long-term viewpoint.

Nippon Paper Industries Co., Ltd. and Daishowa Paper Manufacturing Co., Ltd., predecessors of the Nippon Paper Group, independently established the Charter on the Environment in 1993 and have been ecologically conscious in their business. When Nippon Unipac Holding (present Nippon Paper Group, Inc.) was founded, the Charter on the Environment by the Group was established. The Group’s core production companies have established their own specific action guidelines in accordance with the Charter.

Each subordinated company consisting of the Nippon Paper Group or its mills has been tackling construction of an environmental management system individually since before the business integration in March 2001.

Each mill of the major subordinated companies has its own environmental management system based on such standards as ISO 14001, and each company has an Environment Subcommittee to supervise the system. An example is Iwakuni Mill of Nippon Paper Industries. The Environment Management Committee and Environment Manager are responsible for operations, and the Technical Service & Environmental Control Department at the Mill exercise control over all administrative tasks.

Based on the organizations of each company, we endeavor to enhance the total environmental management system as a group.

Environmental management promotion scheme

The Charter on the Environment
(established on March 30, 2001)

<table>
<thead>
<tr>
<th>Philosophy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nippon Paper Group regards the coexistence with the natural environment as the basis for their sustainable corporate activities. Based on this recognition, the group will strive to achieve a recycle-based society and to protect the natural environment on a global scale over the long term.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Basic Policy</th>
</tr>
</thead>
</table>
| 1. Forest Resource Protection
   The group shall promote tree-farm operations for securing sustainable resources basis and utilize wood resources efficiently. |
| 2. Efficient Use of Resources
   The group shall promote energy savings, utilization of wastepaper, and recycling of containers and packaging. |
| 3. Reduction of Environmental Impact
   The group shall enhance the management of substances that may impact on the environment and promote to reduce the usage of such substances, as well as the enhancement of the reduction of wastes. |
| 4. Consistency of Technological Development and Environmental Protection
   The group shall engage in the R&D of new products and manufacturing technology which is in consistent with environmental protection. |
| 5. Advanced Disclosure of Environmental Information
   The group shall actively disclose environmental information and promote internal & external communication. |

<table>
<thead>
<tr>
<th>Action Guidelines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Each group company shall establish its own specific action guidelines that are in compliance with the basic philosophy and policy.</td>
</tr>
</tbody>
</table>

Nippon Paper Group, Inc.

President: [Name]
CSR Director: [Name]
CSR Committee: [Name]
Environment Subcommittee: [Chairperson: General manager of the Technical & Engineering Div. of Nippon Paper Industries Co., Ltd.]
Secretariat: Environment Dept. of Nippon Paper Industries

Subordinated companies

Nippon Paper Industries Co., Ltd.
Environment Subcommittee

Nippon Daishowa Paperboard Co., Ltd.
Environment Subcommittee

CRECIA Corporation

NIPPON PAPER-PAK CO., LTD.

Nippon Paper Chemicals Co., Ltd.

Mills and facilities

Kushiro Mill
Asahikawa Mill
Nippon Daishowa Paperboard Tohoku Co., Ltd., Soka Mill
Nippon Daishowa Paperboard Co., Ltd.
CRECIA Corporation
NIPPON PAPER-PAK CO., LTD.
Nippon Paper Chemicals Co., Ltd.

* The Environment Subcommittee of Nippon Paper Group, Inc. also undertakes the role of the Environment Subcommittee of Nippon Paper Industries.
The present situation of construction and implementation of environmental management systems

Nippon Paper Group, Inc., has an Environment Subcommittee under the CSR Committee that was established in October 2003. The Environment Subcommittee discusses a variety of environmental management issues of the whole Group, including policy formulation and object setting for environmental conservation activities. The general manager of the Technical & Engineering Division of Nippon Paper Industries, Co., Ltd. is appointed as chairperson of the subcommittee and the Environment Department of the same company assumes the role of secretariat.

The agenda discussed and resolved by the Environment Subcommittee of Nippon Paper Group, Inc., shall be communicated to the Environment Subcommittee of each subordinated company, which discusses the issues regarding the environmental management of the company based on the resolution and promotes its own environmental conservation activities.

Promoting acquisition of certification for environmental management systems

The Nippon Paper Group promotes acquisition of ISO 14001 certification, an international standard for environmental management systems. In FY 2004, five sites acquired the certification. The operating companies listed on the right have acquired certification as of October 2005.

Strengthening the environmental management of the whole Group

To further strengthen environmental management as a group, the Nippon Paper Group plans to acquire blanket certification of ISO 14001 by FY 2011. As an effort toward acquisition, the Group’s mill and offices that have not acquired ISO 14001 certification set a target of acquiring the certification or introducing one of the simplified environmental management systems like Eco-Action 21 by the end of FY 2008. All mills and offices of Nippon Paper Industries Co., Ltd., also aim at acquiring the blanket certification.

<table>
<thead>
<tr>
<th>Company name</th>
<th>Mills, office or production subsidiaries*</th>
<th>Date acquired</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Akita</td>
<td>18 Dec. 2004</td>
</tr>
<tr>
<td></td>
<td>Yutaka</td>
<td>30 Nov. 1998</td>
</tr>
<tr>
<td></td>
<td>Ishikawa</td>
<td>31 Jan. 2002</td>
</tr>
<tr>
<td></td>
<td>Ibaraki</td>
<td>12 Nov. 1999</td>
</tr>
<tr>
<td></td>
<td>Iwate</td>
<td>27 Aug. 1999</td>
</tr>
<tr>
<td></td>
<td>Aomori</td>
<td>6 Nov. 1998</td>
</tr>
<tr>
<td></td>
<td>Shizuo</td>
<td>8 Sept. 2000</td>
</tr>
<tr>
<td></td>
<td>Fukuoka</td>
<td>31 Dec. 2001</td>
</tr>
<tr>
<td></td>
<td>Fukuoka</td>
<td>2 Feb. 1999</td>
</tr>
<tr>
<td></td>
<td>Iwaki</td>
<td>1 Nov. 1999</td>
</tr>
<tr>
<td></td>
<td>Komatsu</td>
<td>30 Sept. 1999</td>
</tr>
<tr>
<td></td>
<td>Yubetsu</td>
<td>24 Dec. 1999</td>
</tr>
<tr>
<td></td>
<td>Research &amp; Development Div.</td>
<td>14 Apr. 2001</td>
</tr>
<tr>
<td></td>
<td>Nippon Daishowa Paperboard Kantō Co., Ltd.</td>
<td>3 Dec. 1999</td>
</tr>
<tr>
<td></td>
<td>Nippon Daishowa Paperboard Shōkai Co., Ltd.</td>
<td>7 Dec. 2001</td>
</tr>
<tr>
<td></td>
<td>Nippon Daishowa Paperboard Nishinippon Co., Ltd. (Takamatsu Mill)</td>
<td>1 Dec. 2000</td>
</tr>
<tr>
<td></td>
<td>Nippon Daishowa Paperboard Nishinippon Co., Ltd. (Kochi Mill)</td>
<td>7 Dec. 2001</td>
</tr>
<tr>
<td></td>
<td>CREOA Corporation</td>
<td>Tokyo</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kakei</td>
</tr>
<tr>
<td></td>
<td>KOYO PAPER MFG. CO., LTD.</td>
<td>Higashimatsuyama</td>
</tr>
<tr>
<td></td>
<td>Matsumi Paper Co., Ltd.</td>
<td>Hitachi</td>
</tr>
<tr>
<td></td>
<td>NAKAJIMA SHOHU CO., LTD.</td>
<td>Headquarter</td>
</tr>
<tr>
<td></td>
<td>This company</td>
<td>Whole company</td>
</tr>
<tr>
<td></td>
<td>NIPPON PAPER-PAK CO., LTD.</td>
<td>Headquarters and Liquid Packaging Center</td>
</tr>
<tr>
<td></td>
<td>KOMA PAPER-PAK CO., LTD.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ishikawa</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kitahakata</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Yurutsu</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Komatsu</td>
</tr>
<tr>
<td></td>
<td>Daishowa Uniboard Co., Ltd.</td>
<td>Headquarter and Minami Mill</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Insulser Sales Dept.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>South East Asia</td>
</tr>
<tr>
<td></td>
<td>South East Asia</td>
<td>Whole company (Headquarters, mills, forest land business and others)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bunkyo Treefarm Project</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Victoria Treefarm Project</td>
</tr>
</tbody>
</table>

1 Mills, offices or production subsidiaries with acquired the certificate in FY 2004.
2 Two divisions denote Landscape Department and Tokyo Sports and Amusement Department.

* Eco-Action 21 is a guideline laid down by the Ministry of the Environment as a method to encourage a range of small- to medium-sized corporations, schools, and public institutions to establish, operate, and maintain a system for effective and efficient implementation of environmental efforts; set and implement environmental objectives; and summarize, evaluate, and report the their results. Certification and registration systems based on this guideline are provided for businesses.
## Environmental audit

The Core Group Companies regularly conduct two types of environmental audits: a system audit and a performance audit.

A system audit means an environmental audit based on ISO 14001 standards (ISO audit), and it audits the status of implementation of the environmental management system. Internal environmental auditors of each company conduct an internal environmental audit, and external auditing organizations provide an external environmental audit.

On the other hand, a performance audit is an in-house environmental audit voluntarily conducted by the Core Group Companies. Headquarters of each company audit the performance of its mill in terms of environmental conservation activities. This is currently performed by five manufacturing companies among the Core Group Companies; Nippon Paper Industries Co., Ltd., Nippon Daishowa Paperboard Co., Ltd., CRECIA Corporation, NIPPON PAPER-PAK CO., LTD. and Nippon Paper Chemicals Co., Ltd. Grasping and improving the present situation from two aspects of system and performance effectively accelerates environmental conservation activities.

The in-house environmental audit checks the environmental performance of the mill based on the company’s Action Guidelines compliant with the Charter on the Environment by the Nippon Paper Group. Specifically, members of the Environment Subcommittee from the company’s headquarters and staff from other mills visit a mill to audit documents, including environment-related data, and then perform a site audit in the factory.

Taking the characteristics of the mills into account, auditors compare the status of their environmental conservation activities, verify whether they are appropriate, point out the areas that need improvement, and report them to the president of the company. Priorities are set to the check items in this annual in-house environmental audit in accordance with the social circumstances and the issues the company has in terms of environmental conservation. In FY 2005, Nippon Paper Industries focused on the audit of the check/verification systems for wastewater quality survey results, as well as calibration of automatic measurement equipment in response to the falsification of data of wastewater quality that occurred in other companies in Japan in the same year.

### Environmental education and training

The Core Group Companies provide environmental education mostly to the mills and offices that have acquired ISO 14001 certification. Each mill or office offers employees opportunities to learn basic knowledge about the environment based on ISO 14001 standards, as well as hierarchical education including that for new recruits to understand the environmental policy, target, and objective and specialist education for operators of environmental facilities like the wastewater treatment plant. In addition to the education within the mills and offices, the Core Group Companies utilize training opportunities sponsored by

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### Details of environmental audits

<table>
<thead>
<tr>
<th>Company name</th>
<th>Period of audit</th>
<th>Priority check points</th>
<th>Audit results</th>
<th>Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nippon Paper Industries Co., Ltd.</td>
<td>May-Aug 2005</td>
<td>Control of wastewater processing</td>
<td>Double-checking, feedback to the sites, and regular calibration are properly performed.</td>
<td>For early detection and prompt response to any abnormality, sensors and continuous measurement equipment should be fully utilized.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Response to abnormality/emergency</td>
<td>There was a case where a problem occurred due to an inappropriate response to an abnormality.</td>
<td>Response procedures shall be optimized and education/training opportunities shall be provided in line with the current situation.</td>
</tr>
<tr>
<td>Nippon Daishowa Paperboard Co., Ltd.</td>
<td>May-Aug 2005</td>
<td>Conservation of local environment</td>
<td>Imperfection in the checking system was found in one mill and then corrected. Other mills are in good condition.</td>
<td>More waterproof tanks for chemical tanks shall be built. Manuals for abnormalities detection shall be understood and emergency drills conducted.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Use and storage of electric devices containing PCBs and disposal plans for the future</td>
<td>Use and storage are in good condition. Registration of PCB waste disposal at an earlier time is being studied.</td>
<td>Devices in operation shall be replaced sooner. Registration of PCB waste disposal shall be made at an earlier time.</td>
</tr>
<tr>
<td>CRECIA Corporation</td>
<td>Jun 2005</td>
<td>Compliance with environment-related laws and regulations</td>
<td>The level of management in each mill is improved due to the acquisition of ISO 14001. All regulated values are achieved.</td>
<td>There were some cases where a small volume of chemical leaked, while no influence was observed outside the mills. Therefore, measures shall be implemented for obsolete facilities.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Current status of energy saving</td>
<td>Specific energy consumption of all mills in total has been improved by 1.7% compared to the previous year.</td>
<td>Energy saving shall be further promoted and specific energy consumption shall be improved by 1% or more compared to the previous year.</td>
</tr>
<tr>
<td>NIPPON PAPER-PAK CO., LTD.</td>
<td>Feb-Mar 2005</td>
<td>Current status of waste disposal</td>
<td>Recycling rate of 99.4% or above has been maintained as a result of enhanced separation.</td>
<td>Further separation shall be promoted and waste generation shall be minimized.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Compliance with laws</td>
<td>No problem was observed.</td>
<td>Compliance with standards shall be maintained.</td>
</tr>
<tr>
<td>Nippon Paper Chemicals Co., Ltd.</td>
<td>Apr-Jun 2005</td>
<td>Current status of VOC emissions into the air and measures taken</td>
<td>Emissions into the air have been reduced in all mills. It is mainly due to the measures implemented but partly due to the change in brands produced. Measures should be continually implemented hereafter</td>
<td>Objectives shall be set and control shall be enhanced for proper implementation of self-imposed regulations on VOC emissions into the air.</td>
</tr>
</tbody>
</table>
external organizations. They support employees in terms of expenses and flexibility in working hours when they participate in such external seminars for acquisition of pollution-related qualifications, like the Pollution Control Manager and expert knowledge on the latest information on the environment.

For environmental-friendly business activities, increased awareness of every employee is essential. The Core Group Companies will continue to provide educational and training opportunities and to increase awareness and power of execution of all employees.

Environmental education in FY 2004

| Total hours of environmental education: | 24,730 hours |
| Cumulative number of participants:     | 18,913       |

Measures for emergencies

Most of the core subordinated companies of the Nippon Paper Group are manufacturing companies. As they use chemicals and combust fuel in boilers, they face risks of leakage of chemicals and fire.

To minimize such risks, waterproof banks are built around the tanks that contain chemicals, leakage of which may impact the environment. In preparation for a case where normal effluent treatment should become impossible because of chemical leakage, an emergency communications system was established, including a reporting system to municipalities and public fire services. Emergency drills are regularly conducted, and the communications system and equipment are reviewed as required.

When we look at FY 2004, Asahikawa Mill of Nippon Paper Industries Co., Ltd. had a fire on April 27, 2004, and Nippon Daishowa Paperboard Tohoku Co., Ltd. had one on March 14, 2005 (see page 29). Both cases were reported to the public fire service at the earliest opportunity according to the emergency procedure and thus extinguished.

Compliance with environmental laws and regulations

In FY 2004, the Core Group Companies did not commit any serious violations of environmental laws and were not subject to accompanying monetary penalties, lawsuits, or accidents that seriously influenced the environment. In December 2004, however, dioxins in concentrations over the emission standards were detected in an incinerator of the Geibo Mill of Nippon Daishowa Paperboard Nishinippon Co., Ltd. (Otake City, Hiroshima Prefecture). In February 2005, mercury exceeding the environmental limit was detected in the examination of river water quality conducted by Iwaki City, and it was assumed that wastewater from Nakoso Mill of Nippon Paper Industries Co., Ltd. was the cause. The details of the accidents and measures taken are explained below.

Report

- **Failure to adhere to the standard value for emission of dioxins**
  Geibo Mill of Nippon Daishowa Paperboard Nishinippon Co., Ltd. It was revealed that the density of dioxins contained in gas emitted from a general-purpose incinerator exceeded the standard value.

  Businesses are obligated to measure the density of dioxins from incinerators at least once a year, and the mill carried out the measurement in December 2004. The result showed the detection of dioxins at 10 ng-TEQ/m³ N (the standard value is 5 ng-TEQ/m³ N). It was reported to Hiroshima Prefecture, and the use of the incinerator was halted under the instruction of an administrative body.

  The Mill has conducted the measurement of dioxin density regularly, but the density has never exceeded the standard value up to that time.

- **Mercury leakage in drainage and measures taken**
  Nakoso Mill of Nippon Paper Industries Co., Ltd. An examination of the water quality of the Hiruta River by Iwaki City in February 2005 detected 0.0053 mg/l (the environmental standard is 0.0005 mg/l or less) of mercury. Iwaki City conducted an inspection in March, revealing that drainage from the Nakoso Mill contained mercury 0.0032 mg/l, which had never been detected up to that time. Although the content did not exceed the environmental standard value for wastewater (0.005 mg/l), it was assumed that the origin of mercury was drainage from the mill.

  The Nakoso Mill does not use mercury as a raw material. The on-site inspection, however, revealed that it was contained in the drainage from a equipment (called a “scrubber”) for washing exhaust gas from biomass boilers (see page 49). The device has been in operation since September 2004 but no mercury was detected in the examination of the water quality in November 2004. From this fact, it was assumed that the problem did not lie in the device itself but in the fuel, which was wood waste, and that some was contaminated by mercury, and it was mixed into the drainage during a limited period only.

  The mill stopped the use of wood waste. At the same time, it installed in the biomass boiler, as permanent measures, wastewater treatment equipment to eliminate mercury in the chemical reaction, even if contaminated wood waste was accidentally included as fuel. The effect was reconfirmed by our measurement.

  An improvement plan adopting this method was submitted and accepted by Iwaki City. Accordingly, the Nakoso Mill restarted the use of wood waste. We adopted an environmental quality standard value as our control index, which is stricter than the standard value for industrial effluent to measure and control the mercury level in drainage.
Overview of FY 2004

In FY 2004, the cost for environmental conservation amounted to approximately 26 billion yen, including a pollution prevention cost of 15 billion yen and a resource circulation cost of 7.4 billion yen. Investment in environmental conservation was approximately 9.7 billion yen, constituting approximately 17% of the total investment. Most of the investment went to waste treatment equipment, water-pollution prevention equipment, and global warming preventive measures, representing approximately 73% of the total investment in environmental conservation. As the effects of environmental conservation measures, energy saving, reduced amount of landfill, and improvement in wastewater recycling rate were observed. Direct economic effects were converted to approximately 5.2 billion yen.

Environmental Accounting

Coverage of the accounting system Expanded to the Core Group Companies

Nippon Paper Industries Co., Ltd., and Nippon Daishowa Paperboard Co., Ltd. substantially introduced environmental accounting in FY 1999 to grasp the costs and effect of environmental conservation activities quantitatively and to utilize them as guidelines for their business activities. Since FY 2003, coverage of the environmental accounting system has been expanded to the Core Group Companies.

Environmental conservation costs

<table>
<thead>
<tr>
<th>Categories</th>
<th>Key activities</th>
<th>Cost (million yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Business area cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Pollution prevention cost</td>
<td>Cost for operation and maintenance of air pollution prevention facilities (desulfurization, dust collection, etc.) and charge for pollution load (SOx)</td>
<td>5,352</td>
</tr>
<tr>
<td>2. Global environmental conservation cost</td>
<td>Cost for preventing global warming</td>
<td>81</td>
</tr>
<tr>
<td>3. Resources circulation cost</td>
<td>Cost for operation and maintenance of company-owned domestic forests</td>
<td>629</td>
</tr>
<tr>
<td>(2) Upstream / downstream cost</td>
<td>Cost for effective utilization of wastepaper (wastepaper recycling)</td>
<td>Included in manufacturing cost.</td>
</tr>
<tr>
<td>1. Countermessages for recycling shipped materials</td>
<td>Cost for recovery, retrofitment, and disposal of pallet and packaging materials</td>
<td>1,025</td>
</tr>
<tr>
<td>2. Other upstream / downstream cost</td>
<td>Cost for outsourced waste treatment, transport cost, etc.</td>
<td>7,432</td>
</tr>
<tr>
<td>(3) Administration cost</td>
<td>Cost for ISO 14001 examination and operation of a secretariat office, cost for internal environmental audits and environmental subcommittee meetings, etc.</td>
<td>169</td>
</tr>
<tr>
<td>1. Cost for disclosing environmental information</td>
<td>Cost for preparing environmental reports, environmental ad expenses, participation fee for environmental events, and environmental exhibitions</td>
<td>39</td>
</tr>
<tr>
<td>2. Cost for monitoring environmental impacts</td>
<td>Cost for measuring devices, monitoring devices, outsourced analysis, etc.</td>
<td>134</td>
</tr>
<tr>
<td>3. Cost for training employees on environmental issues, etc.</td>
<td>Cost for environmental education of employees and participation in external seminars, Cost for external instructors invited to internal seminars, acquisition, and promotion of qualifications authorized by the government, including pollution control managers, etc.</td>
<td>44</td>
</tr>
<tr>
<td>4. Cost for environmental improvement activities, including nature conservation, tree planting and cleaning</td>
<td>Cost for cleaning and planting trees on the factory sites, participation in cleaning initiatives around the factories, etc.</td>
<td>319</td>
</tr>
<tr>
<td>(4) R&amp;D cost</td>
<td>Cost for R&amp;D of environmentally friendly products, R&amp;D for reducing environmental impacts in the paper manufacturing process, labor cost of researchers, etc.</td>
<td>1,070</td>
</tr>
<tr>
<td>(5) Social activity cost</td>
<td>Natural conservation, tree planting, cleaning, and landscape conservation activities in the local communities. Donation and support for environmental organizations. Support for environmental activities by local residents, etc.</td>
<td>18</td>
</tr>
<tr>
<td>(6) Environmental remediation cost</td>
<td>Cost for eliminating influence of environmental impact</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>26,027</td>
</tr>
</tbody>
</table>
Investment for environmental conservation

<table>
<thead>
<tr>
<th>Categories</th>
<th>Key activities</th>
<th>Cost (million yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Pollution prevention investment</strong></td>
<td>Investment in air pollution prevention facilities (desulfurization, dust collection, etc.)</td>
<td>166</td>
</tr>
<tr>
<td></td>
<td>Investment in water pollution prevention facilities (biological treatment, clarifiers, dehydrators, etc.)</td>
<td>1,013</td>
</tr>
<tr>
<td></td>
<td>Investment in noise, vibration, odor prevention, and other related facilities</td>
<td>536</td>
</tr>
<tr>
<td><strong>2. Global environmental conservation investment</strong></td>
<td>Investment in preventing global warming and energy conservation</td>
<td>1,929</td>
</tr>
<tr>
<td>Other global environmental conservation investment</td>
<td>Tree Farm project and others</td>
<td>931</td>
</tr>
<tr>
<td><strong>3. Resource circulation investment</strong></td>
<td>Equipment investment in effective utilization of wastepaper (wastepaper recycling)</td>
<td>954</td>
</tr>
<tr>
<td></td>
<td>Equipment investment in waste treatment facilities</td>
<td>4,128</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>9,658</td>
</tr>
</tbody>
</table>

Investment and others

<table>
<thead>
<tr>
<th>Categories</th>
<th>Indicator of benefits</th>
<th>Monetary benefits (million yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1) Benefits within the business areas</strong></td>
<td>Income from company-owned domestic forests</td>
<td></td>
</tr>
<tr>
<td>Benefits associated with company-owned domestic forests</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefits from overseas afforestation</td>
<td>Increase in afforested areas</td>
<td>2,400 ha (cumulative total 81,700 ha)</td>
</tr>
<tr>
<td>Benefits from energy conservation measures</td>
<td>Reduction in the use of fuels</td>
<td>50,751 kl reduction (heavy oil equivalent)</td>
</tr>
<tr>
<td></td>
<td>Reduction of CO2 emissions</td>
<td>0.14 million ton reduction</td>
</tr>
<tr>
<td>Benefits from recycling of waste</td>
<td>Reduction of the volume of waste that is landfill</td>
<td>5,649 BDt reduction (from 23,816 to 18,167 BDt)</td>
</tr>
<tr>
<td></td>
<td>Ratio of landfilled waste by product</td>
<td>0.22% (0.28% in FY 2003)</td>
</tr>
<tr>
<td><strong>2) Benefits corresponding to upstream / downstream</strong></td>
<td>Increase in use of wastepaper</td>
<td>48,000 ton increase (from 3,777,000 to 3,825,000 tons)</td>
</tr>
<tr>
<td>Benefits as increased use of wastepaper</td>
<td>Ratio of wastepaper used</td>
<td>51.0% (50.8% in FY 2003)</td>
</tr>
<tr>
<td></td>
<td>Pallet recovery ratio</td>
<td>51.3% (60.1% in FY 2003)</td>
</tr>
<tr>
<td><strong>3) Other benefits</strong></td>
<td>Development of high-quality newsprint production technologies</td>
<td></td>
</tr>
<tr>
<td>Benefits corresponding to research and development</td>
<td>Development of new products of low-density paper</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Application of cloning technology in saving endangered species</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Expanded sales of denatured polyolefin products subject to VOC restrictions</td>
<td></td>
</tr>
<tr>
<td>Benefits corresponding to social activity</td>
<td>Regional cleaning activities</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>5,168</td>
</tr>
</tbody>
</table>

Environmental conservation benefit

<table>
<thead>
<tr>
<th>Categories</th>
<th>Detail of benefits</th>
<th>Indicator of benefits</th>
<th>Monetary benefits (million yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1) Benefits within the business areas</strong></td>
<td>Income from company-owned domestic forests</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefits as increased use of wastepaper</td>
<td>Increase in use of wastepaper</td>
<td>48,000 ton increase (from 3,777,000 to 3,825,000 tons)</td>
<td></td>
</tr>
<tr>
<td>Benefits from overseas afforestation</td>
<td>Increase in afforested areas</td>
<td>2,400 ha (cumulative total 81,700 ha)</td>
<td>481</td>
</tr>
<tr>
<td>Benefits from energy conservation measures</td>
<td>Reduction in the use of fuels</td>
<td>50,751 kl reduction (heavy oil equivalent)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reduction of CO2 emissions</td>
<td>0.14 million ton reduction</td>
<td>1,141</td>
</tr>
<tr>
<td>Benefits from recycling of waste</td>
<td>Reduction of the volume of waste that is landfill</td>
<td>5,649 BDt reduction (from 23,816 to 18,167 BDt)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ratio of landfilled waste by product</td>
<td>0.22% (0.28% in FY 2003)</td>
<td>3,122</td>
</tr>
<tr>
<td><strong>2) Benefits corresponding to upstream / downstream</strong></td>
<td>Increase in use of wastepaper</td>
<td>48,000 ton increase (from 3,777,000 to 3,825,000 tons)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ratio of wastepaper used</td>
<td>51.0% (50.8% in FY 2003)</td>
<td></td>
</tr>
<tr>
<td><strong>3) Other benefits</strong></td>
<td>Development of high-quality newsprint production technologies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefits as increased use of wastepaper</td>
<td>Increase in use of wastepaper</td>
<td>48,000 ton increase (from 3,777,000 to 3,825,000 tons)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ratio of wastepaper used</td>
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<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>5,168</td>
<td></td>
</tr>
</tbody>
</table>

Standard for calculation

2) The classification is based on “Guide for Environmental Conservation Cost Classification 2003.” (Pollution/health compensation money is counted as pollution prevention cost.)
3) Coverage: Of all companies covered by consolidated accounting, listed on the right is coverage of the environmental accounting. In the environmental conservation benefit, however, each item specifies its own coverage.
4) Period covered by calculation: From April 1, 2004 to March 31, 2005
5) Unit: million yen (rounded off to the nearest million)
Material balance of the Nippon Paper Group

Of all businesses of the Core Group Companies, the pulp and paper, processed paper products, chemical products, housing and construction materials, and beverage businesses use raw materials and fuel to produce products. Input and output of these businesses are included in the material balance of the Core Group Companies.

In the pulp and paper business, woodchips, pulp, and wastepaper are mostly used for the production of paper and paperboard. Inorganic filler means calcium carbonate, clay mineral, and others and is used to increase the opacity and acceptance of ink. Most of inorganic chemicals are used to produce deinked pulp and to bleach pulp. The processed paper products produce paper containers like milk cartons and paper bags for rice. The raw materials used are base paper and resin as well as ink for print on paper containers and bags, etc.

The chemical products business manufactures dissolved pulp, which is a raw material for rayon, chlorinated polyolefin, polymer coagulant, and other products. Raw materials include woodchips and chemicals.

The housing and construction materials business manufactures construction materials from lumber and woodchips.

The beverage business uses saccharides as the primary raw materials to produce soft drinks and beverages and packs them in containers for delivery.

All these businesses use water, and the pulp and paper business consumes the largest amount. In FY 2004, the total water consumption of the Core Group Companies amounted to 1,019 million tons.

Oil and coal are used as fuel for private electric generators. Electricity is privately generated in the pulp and paper business and part of other businesses. Other businesses purchase electricity from power companies.

Material balance of the Nippon Paper Group

### Input

- **Fossil energy consumption**: 123 PJ
- **Electricity**: 1,740 GWh
- **Oil**: 1,329,000 kl
- **Coal**: 1,990,000 tons
- **Gas**: 94,000 tons

- **Chemical substances subject to PRTR Law**: 21,923 tons

- **Water consumption**: 1,019 million tons

- **Raw materials**
  - Woodchips: 6,191,000 BDt
  - Logs: 66,000 BDt
  - Pulp: 389,000 ADt
  - Wastepaper (recycled pulp): 3,788,000 ADt
  - Inorganic filler: 734,000 tons
  - Inorganic chemicals: 349,000 tons
  - Base paper: 14,000 ADt
  - Resin: 10,000 tons
  - Printing ink: 2,000 tons
  - Raw material chemicals: 60,000 tons
  - Beverage cartons: 14,000 tons
  - Saccharide: 10,000 tons

### The Nippon Paper Group

#### Scope of data collection

- Nippon Paper Group, Inc.
- Nippon Paper Industries Co., Ltd.
- Nippon Daishowa Paperboard Co., Ltd.
- CRECIA Corporation
- Kitaikami Paper Co., Ltd.
- KOYO PAPER MFG. CO., LTD.
- Nippon Paper Development Co., Ltd.
- Nippon Paper Lumber Co., Ltd.
- PAL CO., LTD.
- SHIKOKU COCA-COLA BOTTLING CO., LTD.
- Nippon Paper Chemicals Co., Ltd.

**Of all businesses of the Core Group Companies, the pulp and paper, processed paper products, chemical products, housing and construction materials, and beverage businesses use raw materials and fuel to produce products. Input and output of these businesses are included in the material balance of the Core Group Companies.**

### Output

- **CO₂ emissions from fossil fuels**: 8.97 million tons
- **NOx emissions**: 4,720 tons
- **SO₂ emissions**: 10,700 tons
- **Chemical substances subject to PRTR Law**
  - Amount released: 409 tons
  - Amount transferred: 14 tons
- **Wastewater**
  - COD/BOD: 63,500 tons
  - SS: 27,000 tons
  - AOX: 1,390 tons
- **Waste generation**
  - Landfill: 18,167 tons

- **Product**
  - Paper: 5,670,000 ADt
  - Paperboard: 1,914,000 ADt
  - Pulp: 229,000 ADt
  - Paper container: 157,000 tons
  - Chemical product: 86,000 tons
  - Building materials: 86,000 tons
  - Beverage: 127,000 tons
The core business of the Core Group Companies is manufacturing and sales of pulp and paper; major products are paper and paperboard, and their main materials are woodchips and wastepaper. If we cut down forests randomly to procure raw materials, it will lead to an impact on the environment. The Core Group Companies, however, endeavor to realize sustainable raw material procurement through scheduled afforestation to secure resources, promoting acquisition of forest certifications, and avoiding purchasing illegally logged trees.

In FY 2004, the companies consumed 5,940,000 tons of woodchips and 3,788,000 tons of wastepaper and produced 7,584,000 tons of paper and paperboard. The domestic production amounted to 7,444,000 tons, excluding production by Nippon Paper Industries USA, commanding almost one-fourth of total domestic paper and paperboard production.

Water is essential for pulp and paper production. The Core Group Companies consumed 935,000,000 tons of water in total for the Pulp and Paper Division in FY 2004.

Pulp and paper mills consume enormous energy. They are equipped with private electric generators having boilers that combust fuel to generate steam and turbines that generate electricity using steam as the power source. We purchase fuel for electricity generation as well as electricity itself from outside to compensate for the shortage that electricity generated by us could not satisfy. In FY 2004, we purchased 1,990,000 tons of coal and 1,261,000 kiloliters of oil. The total amount of electricity purchased from power companies was 1,656,000 MWh.

Carbon dioxide (CO₂) is emitted as a result of combustion of fuel in boilers. CO₂ emissions of fossil fuel origin amounted to 8,680,000 tons in FY 2004. Coal ash and incinerator ash from the heat recovery process of paper sludge are generated during paper production. These are effectively reused as materials of cement and for other purposes. As a result of such efforts, landfill of waste was limited to 17,467 tons in FY 2004.
As each core subordinated company of the Nippon Paper Group does totally different business, we do not set up a common target for the Core Group. Companies' target for environmental conservation activities. Each subordinated company establishes its own targets based on the characteristics of the businesses. Shown below are the targets and achievements by companies in FY 2004.

### Nippon Paper Industries, Co., Ltd.

<table>
<thead>
<tr>
<th>Category of the target</th>
<th>Medium and long-term target</th>
<th>Efforts in FY 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conservation of forest resource</td>
<td>100,000 ha or more of overseas forests planted by the company by FY 2008.</td>
<td>Expansion of tree planting area.</td>
</tr>
<tr>
<td>Green procurement of raw materials</td>
<td>One million BDt of woodchips absolute dry weight supplied from overseas forests planted by the company by FY 2008.</td>
<td>Management of trees planted by the company.</td>
</tr>
</tbody>
</table>
| Prevention of global warming | All domestic and overseas Company-owned forests shall acquire forest certifications by 2006. | Japa: SGEC certification acquired by all company-owned forests in Kyushu. 
Overseas: ISO 14001 certification acquired by all company-owned forests. |
| Reduction of landfill of waste | The ratio of certified materials and afforested trees to imported hardwood chips shall be 100% by 2008. | Expansion of ratio of forests planted by the company to be increased from 8% in FY 2003 to 10%. |
| Reduction of landfill of waste | Ratio of deinked pulp (DIP) composed in newsprint shall be 75% or above. | Increase the ratio of DIP, while securing quality. |

### Nippon Daishowa Paperboard Co., Ltd.

<table>
<thead>
<tr>
<th>Category of the target</th>
<th>Medium and long-term target</th>
<th>Efforts in FY 2004</th>
</tr>
</thead>
</table>
Operation of methane fermentation equipment in Yufutsu Mill. |
| Energy consumed in the transportation process reduced by 5% compared to FY 2002 by FY 2010. | Reduction of long distance and streamlining transportation. |
| Reduction of landfill of waste | The ratio of landfill of waste to total product weight reduced to 0.01%. | Promotion of effective use of wastes. |
| Rate of effective utilization of wasted cargo pallets improved to 80% by FY 2010. | Disposed pallets crushed and used as woodchips for manufacturing paper or board. |

### CRECIA Corporation

<table>
<thead>
<tr>
<th>Category of the target</th>
<th>Medium and long-term target</th>
<th>Efforts in FY 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prevention of global warming</td>
<td>CO2 emission reduced by 10% compared to FY 1990 by FY 2010.</td>
<td>Use of non-fossil fuel increased while use of heavy oil decreased.</td>
</tr>
<tr>
<td>Specific fossil energy consumption reduced by 10% compared to FY 1990 by FY 2010.</td>
<td>Use of non-fossil fuel increased while use of heavy oil decreased.</td>
<td></td>
</tr>
<tr>
<td>Reduction of landfill of waste</td>
<td>The ratio of landfill of waste against total product weight reduced to 0.1% by FY 2005 and 0.01% pursued after achievement of 0.1% or less.</td>
<td>Promotion of effective use of wastes.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category of the target</th>
<th>Medium and long-term target</th>
<th>Efforts in FY 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prevention of global warming</td>
<td>Specific energy consumption improved by 5% compared to FY 2005.</td>
<td>Specific energy consumption improved by 1% compared to FY 2003.</td>
</tr>
<tr>
<td>Reduction of landfill of waste</td>
<td>The ratio of landfill of waste to total product weight reduced to 0.1% or less by FY 2005.</td>
<td>Landfill of waste reduced by reducing generation of waste and effective utilization of generated waste.</td>
</tr>
<tr>
<td>Achievements in FY 2004</td>
<td>Evaluation</td>
<td>Future action</td>
</tr>
<tr>
<td>------------------------</td>
<td>------------</td>
<td>---------------</td>
</tr>
<tr>
<td>81,700 ha (79,300 ha at the end of FY 2003)</td>
<td>Steadily expanding.</td>
<td>Further promote expansion.</td>
</tr>
<tr>
<td>322,000 BDt (318,000 BDt in FY 2003) both in absolute dry weight.</td>
<td>Steadily increasing.</td>
<td>Secure stable supply from the forest planted by the company.</td>
</tr>
<tr>
<td>Japan: 19,000 ha acquired out of total 90,000 ha (21%). Overseas: 100% at the end of FY 2004</td>
<td>Japan: Progressing as planned Overseas: AGS certification acquired by WAPRES</td>
<td>Further promote expansion of areas that acquired certifications.</td>
</tr>
<tr>
<td>80% (76% in FY 2003) forests planted by the company increased from 8% to 10%</td>
<td>Steadily increasing.</td>
<td>Increase the ratio of lumber from certified natural forests.</td>
</tr>
<tr>
<td>73.7% (72.1% in FY 2003)</td>
<td>Steadily increasing, just one step away from achievement</td>
<td>Increase the ratio of DIP with no influence on quality.</td>
</tr>
<tr>
<td>Decreased by 2.5% compared to FY 1990.</td>
<td>Steadily decreasing.</td>
<td>Start operation of biomass boilers one after another, while promoting common energy saving measures.</td>
</tr>
<tr>
<td>Decreased by 6.6% compared to FY 1990.</td>
<td>Steadily decreasing.</td>
<td>Start operation of biomass boilers one after another, while promoting common energy saving measures.</td>
</tr>
<tr>
<td>Decreased by 0.4% compared to FY 2002.</td>
<td>Haul distance shortened, while the ratio of trucking increased.</td>
<td>Promote use of railroad transportation.</td>
</tr>
<tr>
<td>0.007% (0.014% in FY 2003)</td>
<td>The target achieved.</td>
<td>Maintain the target achievement.</td>
</tr>
<tr>
<td>66% (31% in FY 2003)</td>
<td>Steadily increasing.</td>
<td>Further increase the rate of effective utilization.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Achievements in FY 2004</th>
<th>Evaluation</th>
<th>Future action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decreased by 10% compared to FY 1990.</td>
<td>The target achieved.</td>
<td>Further promote reduction.</td>
</tr>
<tr>
<td>Decreased by 10.3% compared to FY 1990.</td>
<td>The target achieved.</td>
<td>Further promote energy saving.</td>
</tr>
<tr>
<td>0.078% (0.13 points improvement compared to the previous fiscal year)</td>
<td>The target achieved.</td>
<td>Further promote the effective use.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Achievements in FY 2004</th>
<th>Evaluation</th>
<th>Future action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved by 1.67% compared to FY 2003.</td>
<td>The target for FY 2004 achieved.</td>
<td>Further promote energy saving.</td>
</tr>
<tr>
<td>The ratio of landfill of waste to total product weight reduced to 0.034%.</td>
<td>The target achieved.</td>
<td>Further reduce landfill and aim at achieving 0.01% or less against total product weight.</td>
</tr>
</tbody>
</table>
The domestic paper manufacturing industry has endeavored to increase the use of wastepaper. Wastepaper consumption was 4.7 million tons in 1970, 7.86 in 1980, 14.49 in 1990, and has shown an increase to 18.54 million tons in 2004. The ratio of wastepaper to all types of raw materials of paper exhibits an increase as well, marking 41.5% in 1980, 51.5% in 1990, and 60.4% in 2004.

On the other hand, the base paper for cardboard does not need a high brightness and therefore, deinking is not required. The wastepaper utilization rate in domestically produced paperboard exceeds 90% and always maintains a high level. For print paper or copy paper, on the other hand, deinking or bleaching is essential, and the wastepaper utilization rate has been slow in this field for technical reasons.

The Core Group Companies strived to increase the amount of recycled fiber used in papermaking by pushing up the rate of composition of recycled fiber used in newsprint, one of the paper categories. In FY 1999, approximately 11 billion yen was invested, and new plants were built in Kushiro Mill and Ishinomaki Mill of Nippon Paper Industries Co., Ltd. with daily output of 540 tons in total.

When we see FY 2004, the DIP3 line in the Iwanuma Mill of Nippon Paper Industries increased its production capacity to 290 tons, and production of DIP with a high brightness was enabled in January 2005. Investment in wastepaper treatment facilities of the Core Group Companies amounted to 2.56 billion yen in FY 2004.

### Promoting investment in wastepaper recycling facilities

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### Endeavor to increase deinked pulp (DIP) in newsprint

Pulp fiber is separated from wastepaper to produce recycled fiber. The next process is deinking and bleaching, but the required degree differs from product to product.

Of all paper and paperboard, paperboard, which is the base of cardboard, does not need deinking and bleaching. Therefore, use of recycled fiber is easy, and the wastepaper utilization rate exceeds 90% in this category. Conversely, for paper, especially printing paper, the rate is below 40%.

Paper is used as information media and requires a high level of brightness and a long storage life. When recycled fiber is mixed into printing paper, it should be deinked and then bleached using chemicals. It is different from kraft pulp, one of the major components of paper, and its production process requires an outside energy supply. The concurrent cost and environmental impact are the causes that inhibit the use of wastepaper in the production of paper.

For newsprint, the required brightness and long storage life is lower than other types of paper but opacity and...
ink acceptance are required. In addition, a large amount of newsprint needs to be printed in a very limited period of time by its nature and, thus, requires high intensity and operationality. Mechanical pulp satisfies these requirements and has often been used in newsprint, while it consumes a large quantity of energy in the production process.

When we consider the issue of production cost and energy consumption, it is more advantageous if we use wastepaper pulp (DIP) for newsprint, which does not required a high level of brightness and originally used mechanical pulp, than to use it for printing paper of high quality.

Nippon Paper Industries Co., Ltd., dealing in the paper business, aims at achieving a 75% mixture ratio of DIP used in newsprint. The figure was about to reach 74% in FY 2004 and target achievement is only one step away.

Mixture ratio of DIP in newsprint by Nippon Paper Industries Co., Ltd. (%)
Efforts to Prevent Global Warming

Companies amounted to 8,970,000 CO₂-t, a reduction of 1.5% compared to the previous year (102% of FY 1990). This was due to the commencement of operations of a biomass boiler in the Nakoso Mill of Nippon Paper Industries in October 2004, improvement in the combustion efficiency of boilers in Nippon Paper Industries USA, increase in biomass energy consumption instead of fossil fuel, and other energy saving activities conducted by each mill.

* The Kyoto Protocol came into effect on February 16, 2005. This obligates 30 developed nations to achieve their own targets for reduction of greenhouse gas emissions.

Overview of greenhouse gas emissions from the Pulp and Paper Division

In the Pulp and Paper Division, the Group’s key business, the amount of products (paper, paperboard, pulp, etc.) amounted 8.02 million tons and fossil fuel energy consumed showed a 1.6% decrease from the previous year to 118 PJ (94.4% of FY 1990). As a result, specific fossil energy consumption amounted to 14.8 GJ/product-ton, which is a reduction of 3.7% from the previous year. The greenhouse gas emissions from the Pulp and Paper Division (CO₂ equivalent) were 8.68 million tons, a reduction of 1.5% from the previous year (99.6% of FY 1990). The specific energy consumption was 1.08 CO₂-tons/product-ton and a reduction of 3.5% from the previous year.

Efforts to reduce CO₂ emissions

Effective utilization of non-fossil fuels

In the pulp and paper production process, energy has been recovered in the form of steam and electricity from black liquor generated from the pulp process and paper sludge from the dewatering process, which has reduced the consumption of fossil fuel, such as heavy oil. Recently, the Core Group Companies have promoted the purchase and effective use of non-fossil fuels, including RPF, waste tires, and wood waste, in place of fossil fuels.

For consumption of non-fossil fuel in the Pulp and Paper Division in FY 2004, RPF amounted to 72,000 tons, waste tires amounted to 54,000 tons, and wood waste amounted to 245,000 tons. Their calorie equivalent was 4.1% of total fuel consumption, resulting in a 1.6% increase from FY 1990.

Consumption of new non-fossil fuels (1,000 tons) and ratio in calories (%) in the Pulp and Paper Division

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Waste tires</td>
<td>165</td>
<td>127</td>
<td>127</td>
<td>127</td>
<td>131</td>
</tr>
<tr>
<td>Ratio in calories (%)</td>
<td>54</td>
<td>38</td>
<td>38</td>
<td>38</td>
<td>38</td>
</tr>
<tr>
<td>Wood waste</td>
<td>245</td>
<td>245</td>
<td>245</td>
<td>245</td>
<td>245</td>
</tr>
<tr>
<td>RPF</td>
<td>72</td>
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</table>

Energy input and specific energy consumption of fossil fuel energy in the Pulp and Paper Division (PJ: 10¹²J)

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</thead>
<tbody>
<tr>
<td>Energy input</td>
<td>127</td>
<td>134</td>
<td>136</td>
<td>126</td>
<td>126</td>
<td>125</td>
<td>123</td>
<td>121</td>
<td>119</td>
<td>117</td>
<td>115</td>
<td>113</td>
</tr>
<tr>
<td>Specific energy consumption</td>
<td>1.08</td>
<td>1.09</td>
<td>1.09</td>
<td>1.08</td>
<td>1.08</td>
<td>1.08</td>
<td>1.08</td>
<td>1.08</td>
<td>1.08</td>
<td>1.08</td>
<td>1.08</td>
<td>1.08</td>
</tr>
<tr>
<td>Non-fossil energy</td>
<td>71</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</table>

CO₂ emissions from burning fossil fuels in all businesses (million tons)

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CO₂ emissions from burning fossil fuels</td>
<td>8.59</td>
<td>8.60</td>
<td>8.62</td>
<td>8.64</td>
<td>8.66</td>
<td>8.68</td>
<td>8.70</td>
<td>8.72</td>
<td>8.74</td>
<td>8.76</td>
<td>8.78</td>
<td>8.80</td>
<td>8.82</td>
<td>8.84</td>
</tr>
</tbody>
</table>

Overview of FY 2004

With the effectuation of the Kyoto Protocol, prevention of global warming on a world scale entered a new phase. Japan is obligated to cut its emissions by 6% below 1990 levels during the period 2008–2012, and both public and private sectors need to endeavor to achieve the target.

Most of the gas emitted from business activities of the Core Group Companies is CO₂. To contribute to the prevention of global warming through the reduction of CO₂, they devote efforts to energy saving and effective utilization of non-fossil fuel, setting goals for reducing greenhouse gas emissions from fossil fuels (CO₂ equivalent) to 85% of the actual figure in FY 1990 by the end of FY 2010 for Nippon Paper Industries Co., Ltd. and 90% for Nippon Daishowa Paperboard Co., Ltd., as well.

In FY 2004, CO₂ emissions from the burning of fossil fuels by the Core Group
Biomass power generation systems fueled by wood waste

In October 2004, a fluidized bed boiler mostly fueled by wood waste and a 15,000 kW steam turbine generator power plant were completed at the Nakoso Mill of Nippon Paper Industries Co., Ltd.

At the Nakoso Mill, 34,000 kiloliters of heavy oil has been consumed per year to generate steam and electricity with a heavy oil boiler and a diesel generator to supply the production process. The new boiler combusts approximately 90,000 tons of wood waste as the main fuel, which would have been disposed of as industrial waste otherwise, and reduces heavy oil consumption by approximately 98%. As a result, CO₂ emissions from the burning of fossil fuel will be reduced by approximately 100,000 tons per year. In addition, the co-generation system supplies steam. In total, the energy efficiency of the power generation system is as high as 66%, which is more than 150% of ordinary industrial thermal power plants. The boiler is equipped with bag filters to remove dust from emission gas and with wet desulfurization equipment to remove sulfur oxide, thus proving its environmental friendliness.

Following the Nakoso Mill of Nippon Paper Industries, the Ishinomaki Mill, Fuji Mill, and Iwakuni Mill plan to build biomass power generation systems as well. For the existing boilers of each mill that can use non-fossil fuel, use of such fuel is promoted.

Efforts for introduction of anaerobic wastewater treatment equipment

In July 2005, a demonstration plant of anaerobic wastewater treatment equipment started operation in the Yufutsu Mill of Nippon Paper Industries Co., Ltd. This is the second plant operation following the Yufutsu Mill of the same company in August 2004. Anaerobic wastewater treatment equipment effectively utilizes methane gas generated from the treatment process as fuel. By burning the gas in the boiler as fuel in place of heavy oil, 10,000 tons of CO₂ emissions are expected to be reduced yearly.

Establishing a non-fossil fuel procurement system

In addition to the introduction and expansion of biomass power generation systems as well as promotion of energy conversion in existing facilities, a stable non-fossil fuel procurement system is being prepared. In FY 2004, we endeavored to increase procurement from existing suppliers and cultivate new suppliers, resulting in a substantial increase in the amount of non-fossil fuel procurement and consumption compared to the previous year. Nakoso Mill of Nippon Paper Industries commenced operation of a biomass power generation system in October and has established a stable procurement system for wood waste fuel mostly from suppliers in the Kanto Area.

The Ishinomaki Mill, Fuji Mill, and Iwakuni Mill of Nippon Paper Industries are also planning to build biomass systems and endeavor to complement the shortage of non-fossil fuel from the Kanto and Kansai Areas, where a huge quantity of such fuel seems to be generated, while securing the fuel from the neighboring areas of each mill.

Through utilization of wood waste, Nippon Paper Industries is committed to contributing to the reduction of the burden of waste disposal issues, which is becoming more serious.

Saving energy in the general-purpose devices

Engineering works for energy saving, including conversion to inverters in driving motors and other general-purpose devices, are underway at Nippon Paper Industries Co., Ltd. The company plans to achieve 1.5% in energy savings compared to FY 1990 each year from FY 2003 to FY 2005. A total of 454 engineering projects were conducted in FY 2004, saving energy of 55,752 kiloliters (crude oil equivalent) or achieving a 1.19% reduction compared to FY 1990, but the target was not achieved. One of the factors in the failure lies in the difficulties finding the points requiring energy saving after years of positive efforts. To achieve the target in FY 2005, Nippon Paper Industries established an Energy-Saving Exploration Team at one of its affiliates, Jujo Research*, to find general-purpose devices that can be subject to the engineering projects for energy saving in each of the company mills.

Twenty-one engineering projects at Nippon Daishowa Paperboard Co., Ltd. reduced energy consumption by 7,265 kiloliters (crude oil equivalent), nine projects reduced consumption by 1,423 kiloliters at CRECIA Corporation, and two projects reduced consumption by 420 kiloliters at NIPPON PAPER-PAK CO., LTD.

* Jujo Research deals in technical information surveys, translation, and consulting in terms of pulp and paper.
For the Global Environment
Efforts to Prevent Global Warming

Promoting rationalization of logistics and energy saving

In FY 2004, traffic volume of Nippon Paper Industries Co., Ltd., showed an increase to 102.2% and energy consumption to 101.9% compared with the previous year.

The company, however, reviewed the positional relationship between production and consumption areas and promoted reselection of an appropriate production site to reduce distant or crossed transportation. As a result of such streamlining efforts in distribution, ton kilometers* leveled off to 100.3% compared to the previous year. Energy consumption per traffic volume was reduced to 99.7%.

Means of transportation is a factor that exerts a heavy influence on the volume of energy consumption. In the statistics for traffic volume by means of transportation at Nippon Paper Industries in FY 2004, the ratio of motor trucks showed a 0.8% increase, railroads a 0.1% increase, and ships a 0.9% decrease compared with the previous year. This reflects the shift from long-distance transportation like railways and ships to short-distance transportation like trucks, following the policies of reselection of appropriate production sites and streamlined distribution. While the transportation distance shortened, the ratio of trucks, the environmental impact of which is higher than that of railroads and ships, increased. It offsets the reduction of energy consumption made by the shift. We will try to use a means of transportation with a lower environmental impact, while continuing efforts to shorten the transportation distance.

* Ton kilometer = traffic volume x transportation distance

Promoting acquisition of Green Management Certification

To further promote environmental conservation activities, Nippon Paper Industries Co., Ltd. recommends that distribution partners acquire Green Management Certification. Among all affiliates, Hotoku Co., Ltd. acquired the certification following NANKO Butsuryu Support Co., Ltd.

The scope of Green Management Certification was expanded in July 2005 to include domestic shipping and warehousing companies and almost all distribution companies that have business with Nippon Paper Industries (excluding railroad service) are covered. Taking this opportunity, Nippon Paper Industries will also expand the scope of the recommendation to domestic shipping and warehousing companies in addition to trucking companies. We do not limit our activities to giving recommendations only but will place priority on the companies that acquired certification.

Promoting CO₂ absorption and sequestration through management of company-owned forests

Of all the functions forests have, CO₂ absorption and sequestration attract the most attention as they contribute to the prevention of global warming. This is a function where trees absorb CO₂ in their growth phase and retain it in the trunks and branches for a long period of time. Nippon Paper Industries Co., Ltd. appropriately manages its domestic company-owned forests of 90,000 ha and sequestrates 250,000 tons of CO₂ per year.*

The company’s original coefficients are adopted. Coefficients in the “Evaluations of Multiple Functions of Forests (November 2001)” defined by the Science Council of Japan are adopted.

<table>
<thead>
<tr>
<th>Artificial forest</th>
<th>Softwood</th>
<th>41 %</th>
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<th>5.96</th>
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<td>0.540</td>
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<td>Total</td>
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<td>2.70</td>
<td>0.600</td>
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</table>

| Bare land         | 6 %      | 5,000 | 0.68   | 0.500| 3,480  |

| Total             | 100 %    | 90,000| 3.35   | 0.600| 134,819|

The method to calculate CO₂ sequestration in domestic forests has not been fixed yet. Nippon Paper Industries uses the method specified in the “Evaluations of Multiple Functions of Forests (November 2001)” defined by the Science Council of Japan.

Energy consumption by means of transportation

<table>
<thead>
<tr>
<th>FY 2002</th>
<th>FY 2003</th>
<th>FY 2004</th>
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<td>Truck</td>
<td>1.10</td>
<td>1.05</td>
</tr>
<tr>
<td>Railroad</td>
<td>0.46</td>
<td>0.46</td>
</tr>
<tr>
<td>Ship</td>
<td>1.10</td>
<td>1.05</td>
</tr>
</tbody>
</table>

Traffic volume by means of transportation

<table>
<thead>
<tr>
<th>FY 2002</th>
<th>FY 2003</th>
<th>FY 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Truck</td>
<td>1,881</td>
<td>1,796</td>
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<tr>
<td>Railroad</td>
<td>838</td>
<td>843</td>
</tr>
<tr>
<td>Ship</td>
<td>431</td>
<td>529</td>
</tr>
</tbody>
</table>

* Method to calculate CO₂ sequestration in domestic forests has not been fixed yet. Nippon Paper Industries uses the method specified in the “Evaluations of Multiple Functions of Forests (November 2001)” defined by the Science Council of Japan.
Water plays an extremely important role in the production of pulp and paper and is an essential resource. Wood chips and wastepaper are suspended in water to react with chemicals. Pulp is extracted from the water. Then, the pulp is suspended in water again and dehydrated while spread thinly and evenly on the wire. By drying it with heat, paper is completed. As production of paper pulp increases, the volume of required water also increases.

In other industries, water is mostly used to cool production equipment. In the paper manufacturing industry, most water is used in the production process for pulp and paper. As the water used in such a process will be contaminated by organic matter and chemicals in the raw materials, application of recycled water is very limited. For this reason, water consumption by the paper industry occupies more than 20% of all industries in Japan. River water, industrial water, and groundwater are supplied to the production process. River water is clarified by purifying facilities on the factory sites before use. Groundwater is generally used without treatment.

All companies in the industry started efforts to recycle water within the pulp and paper mills in earlier days. Water consumed to produce one ton of paper or paperboard exceeded 400 tons in 1965, excluding the amount of recycled water. Efforts to save and recycle water have been promoted, and it was reduced to less than 200 tons in 1980 and less than 100 tons in 2000. It means consumption was reduced to 25% or less after a 35-year effort.

The Pulp and Paper Division of the Core Group Companies used 935 million tons of water in FY 2004, for a 15 million ton reduction from the previous year. This is due to the substantial decrease in water consumption as a result of halting operations of paper machines in the Shiraoi Mill of Nippon Paper Industries and the Kaisei Mill of CRECIA Corporation. As investment in terms of saving water has been made for more than 30 years, it is difficult nowadays to dramatically reduce water consumption simply by improving equipment.

**Overview of FY 2004**

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Overview of FY 2004

Each core subordinated company of the Nippon Paper Group devotes efforts to the reduction of waste generation and landfill.

In FY 2004, waste generation by the Core Group Companies amounted to approximately 560,000 tons, for a 37,000-ton increase compared to the previous year. The landfill was 18,000 tons, a 6,000-ton decrease from the previous year.

We will tackle the effective use of wastes to further reduce their generation and landfill.

Overview of waste generation and landfill in the Pulp and Paper Division

In FY 2004, waste generation by the Pulp and Paper Division amounted to 530,000 tons (8% increase from FY 2003) and the landfill of 17,000 tons (21.6% reduction from FY 2003). This accounts for 95% of waste generation and 96% of landfill for the Group. Ratio of landfill per product weight was 0.22%, for a 0.06% reduction from the previous year.

As for the breakdown of wastes generated from the Pulp and Paper Division, incinerated ash (ash of incinerated paper sludge and coal ash) occupies approximately 80% of waste generation, followed by sludge, wood waste, scrap metal, wastepaper, and waste plastic in that order. In FY 2004, 17,000 tons of incinerated ash and sludge were landfilled.

Progress in reduction efforts of landfill depends on the situation where a company resides even among the Core Group Companies. As Nippon Paper Industries USA Co., Ltd. has a large landfill site, it landfilled 15,000 tons of incinerated ash and sludge in FY 2004. On the other hand, pulp and paper mills in Japan are now on the way to reducing their final landfills. Total capacity of landfill from all mills only amounted to approximately 2,400 tons. As a result of continued efforts by subordinated companies, the volume of landfill by the Core Group Companies was reduced to 40% in the last five years.

Efforts to reduce waste generation and landfill

Each core subordinated company of the Nippon Paper Group sets a target for the reduction of landfill individually and makes efforts for its achievement.

Efforts by Nippon Paper Industries Co., Ltd.

The target was set to reduce the final disposal to 0.1% of production in 1996. In March 2001, all mills achieved the target. After this, a more severe target of 0.01% was set and the effort continued.

As a change of a few tons significantly influence the rate at this stage, we promoted efforts to increase the recycling rate by inches in FY 2004. As a result, the landfill for the year was reduced to 510 tons (711 tons in FY 2003) compared with 450,000 tons of waste generation. The landfill rate per production was 0.007% (0.014% in FY 2003), achieving the target. We will maintain the level hereafter.

Test to use ash as roadbed (Kushiro Mill of Nippon Paper Industries)
The company set targets to reduce the landfill to 0.1% of production by FY 2005 and then to 0.01% and is reducing the landfill.

In FY 2004, the company endeavored to reduce wastes and increase effective utilization. As a result, the landfill was reduced to 1,700 tons (4,700 tons in FY 2003), and the landfill rate per production was 0.078% (0.21% in FY 2003), achieving the target. The company will make continued efforts to further reduce wastes and increase effective utilization to achieve the next target.

The company set targets to reduce the landfill per product weight to 0.1% of production by FY 2005 and is reducing the landfill.

In FY 2004, the company grappled with the reduction of waste generation and effective utilization, but waste generation showed a temporary increase due to the damage caused by a typhoon and production model change. As a result, waste generation was 6,111 tons (2% increase from FY 2003), the landfill was 64 tons (144% increase from FY 2003), and the landfill rate per production was 0.034%, for a 0.021% increase compared to the previous year. The company will endeavor to minimize waste generation and enhance separation and effective utilization for the achievement of the target of 0.01% or below.

Promoting recycling pallets for disposal

Wooden pallets for product transportation are reused as many times as possible. However, once the pallet is damaged or deteriorated and becomes unusable, most are disposed of in the consumption areas.

Nippon Paper Industries Co., Ltd. started recycling such pallets subject to disposal in FY 2003 for use as woodchips for papermaking. The company has started the recycling of pallets generated from the following five mills — Asahikawa, Ishinomaki, Iwanuma, Fushiki, and Yatsushiro — and plans to expand the range to other mills accordingly.

In FY 2004, 55,509 out of 84,133 pallets subject to disposal were recycled, and the effective utilization rate* was 66%. The company set a target of 80% to be achieved by FY 2010 and will further promote the program.

Nippon Paper Industries Co., Ltd.

- WAVY

WAVY is a paper product made of 100% natural pulp with epoch-making extensibility. It enables continuous press molding and creation of 3D images. As it can be disposed of as burnable garbage, it is expected to be used as food containers replacing plastics, as well as the raw material for models in place of expanded polystyrene. Using WAVY, Nippon Paper Industries jointly develops with Nippon Seitai Corporation an resource-saving heavy duty paper bag (WAVY Bag) demonstrating excellent crushworthiness and anti-slipping capability.

- New package for CCP Ace, carbonless paper

Packaging for CCP Ace, carbonless paper, was simplified to reduce materials; the material itself was changed to an easy-to-open, recyclable one.

Nippon Daishowa Paperboard Co., Ltd.

- Base for paper beverage carton — Cartocan

Cartocan is a paper beverage carton made from thinned domestic lumber, which can be recycled to become facial tissue and other products. Nippon Daishowa Paperboard supplies the base as an original member of the Morikami Council (Council for Popularization of Paper Beverage Cartons to Nurture Forest)* and promotes popularization of Cartocan to contribute to package recycling and nurturing forests in Japan.

* http://www.morikami.jp/ (The site is in Japanese only.)
For the Global Environment

Efforts to Prevent Environmental Pollution

Preventing water Pollution

In the pulp and paper industry, most water is used in the production process, not for cooling equipment as in many other industries. Dirty water that cannot be reused anymore is discharged from the process. The wastewater includes minute pulp fibers, filler, and soluble materials of wood origin. The pulp and paper mills of the Core Group Companies constantly measure the degree of pollution with such indices as COD*1, BOD*2, SS*3, and AOX*4, and treat the wastewater before discharging.

The pollutants in the wastewater discharged from the production process are removed by coagulation after adding chemicals, or organic matters are decomposed and removed by biological treatment. It also adjusts the pH and releases treated water to rivers and the sea.

The substance that is contained in wastewater from the pulp and paper mills of the Core Group Companies and exerts an impact on the environment has been steadily reduced for the past five years. The volume of substances in wastewater that has an influence on the environment was almost the same as the previous year. In FY 2005, it is expected that the AOX will be substantially reduced due to the completion of converting kraft pulp bleaching equipment into ECF-based equipment in three lines.

Preventing air pollution

Minimizing emission of SOx, NOx and dust

A huge amount of electricity and steam is required to manufacture pulp and paper. The mill is equipped with boilers and turbines and power is generated privately in the mill. Sulfur in both fossil and non-fossil fuel generates sulfur oxides (SOx) and nitrogen incombustible air creates nitrogen oxide (NOx), which are emitted from exhaust fluxes together with vapor and CO₂.

The pulp and paper mills of the Core Group Companies measure the amount of these substances contained in the gas discharged from the production process and make sure the statutory standard value is satisfied before discharging. For this purpose, mills are equipped with devices that remove SOx or dust as required.

In FY 2004, the total emission of air pollutants by the Core Group Companies showed a somewhat increasing trend compared to the previous year, resulting in 4,720 tons of SOx (100.8% of FY 2003), 10,700 tons of NOx (105.7% of FY 2003) and 2,020 tons of dust (102.9% of FY 2003). Some mills, however, showed a reduction.

For example, Nippon Paper Industries USA Co., Ltd. succeeded in substantially reducing SOx emissions as a result of reduced heavy oil consumption. Shiraoi Mill of Nippon Paper Industries also extensively reduced the emission of NOx and dust as a result of reduction in fuel consumption in boilers in line with the reduction in production capacity. Fuji Mill of the same company extended the facility to concentrate black liquor, and the density of solid content was increased by 6% from 66% to 72%, resulting in improved combustion efficiency and a reduction in dust emissions to approximately 70%.

Emission of COD/BOD (unit: 1,000 tons)

Emission of SS (unit: 1,000 tons)

Emission of AOX (unit: 1,000 tons)

Emission of SOx (unit: 1,000 tons)

Emission of NOx (unit: 1,000 tons)

* The weight is SOx equivalent.

* The weight is NOx equivalent.

*1 COD: The chemical oxygen demand is a measure of the quantity of oxidizing agent consumed to decompose organic matter in water, expressed as the equivalent amount in oxygen. It is a typical index to measure seawater or lake water contamination by organic matter.

*2 BOD: Biochemical oxygen demand is a measure of the quantity of oxygen consumed by the microorganisms in the decomposition of organic matter. It is a typical index to measure river water contamination by organic matter.

*3 SS: A Suspended Solid means particles 2 mm or smaller in diameter that float on the surface or is suspended in water. It includes minute particles of clay minerals with slower sedimentation, zooplankton/phytoplanklon and the dead bodies, decomposed matter or attached microbes, and organic or metal sediment from sewage or industrial wastewater.

*4 AOX: Adsorbable Organic Halides are one of the indices that indicate the total amount of mostly chlorinated organic compounds contained in wastewater and are measured by the amount adsorbed by activated carbon.
Minimizing emission of hazardous air pollutant (chloroform, etc.)

When kraft pulp is bleached using gaseous chlorine or hypochlorite, chloroform and other organic compounds are unintentionally generated by the chemical reaction and emitted into the air. Nippon Paper Industries Co., Ltd. introduced the first ECF (elemental chlorine free) bleaching method in Japan to eliminate chlorine gas from the bleaching process in the Kushiro Mill in June 1996. The Yufutsu Mill introduced the first ozone ECF bleaching method in Japan in January 2001. The Japan Paper Association set a 35% reduction of chloroform emissions into the air by the end of FY 2003 compared to the actual figure for FY 1999. Nippon Paper Industries Co.,Ltd. and Nippon Daishowa Paperboard Co., Ltd. achieved their FY 2003 targets of reduction of hazardous air pollutants including chloroform.

In FY 2004, the Pulp and Paper Division of the Core Group Companies emitted 162.5 tons of chloroform into the air (54.7-ton reduction from FY 2003), which means a 60% reduction compared to the actual figure in FY 1999. In FY 2005, the Iwakuni Mill and Shiraoi Mill of Nippon Paper Industries will complete the conversion of kraft pulp bleaching equipment into ECF-based equipment. By this completion, chloroform emissions into the air will also be reduced.

Preventing soil contamination

Raw materials and chemicals used in the pulp and paper mills do not include such soil contaminants as heavy metals or trichloroethylene. Therefore, no serious soil contamination would be observed in this industry by nature. The soil of the former Kameari Mill of Nippon Daishowa Paperboard Industries (Katsushika-ku, Tokyo) was examined for contamination when the mill was sold. During this investigation, contamination by arsenic, fluorine and lead at a slightly higher level than the environmental quality standard was detected. The contamination, however, was limited to only a small part of the factory site, and the detected arsenic and fluorine were never used at any time in the factory’s history. Lead was detected only at the point of use in the past. A total of 13,200 m² of soil was removed and treated from the detected area and the surrounding area by a subcontracted company in FY 2003 and subsequently 4,200 m² was removed in FY 2004.

Response to the issue of lime sludge in Imahama, Shizuoka

Lime sludge was found at the seashore of Imahama, Fujii City, Shizuoka Prefecture. The investigation showed that it was generated from the Fuji Mill (Suzukawa) of Nippon Paper Industries Co., Ltd. (then-Suzukawa Mill of Daishowa Paper Manufacturing Co., Ltd.) and buried before 1958. The lime sludge consists mostly of calcium, and does not include any hazardous substances, but is extremely alkaline.

In March 2004, emergency mitigation measures to cover the exposed part with liner sheets and crushed stones were completed. After this, permanent measures were implemented from September 2004; 19,800 m³ of lime sludge was completely removed, and the site was backfilled with gravel. The removed lime sludge was sent to a cement manufacturer for use as raw material. The permanent measure was completed in March 2005, and the completion report was submitted and accepted by Shizuoka Prefecture.

Preventing noise, vibration and offensive odor

Since pulp and paper mills produce large amounts of products, the production equipment is huge. As long as the machines have motors and pumps, they could be sources of noise and vibration. In FY 2004, we received ten complaints about noise and two about vibrations. When a mill receives a complaint, it identifies the cause. If reduction of noise or vibration is possible, we will implement appropriate measures as soon as possible. If it is difficult to take prompt action, we will make the best possible temporary solutions and then discuss and implement permanent measures. To the person who made a complaint, we will explain the current situation and the measures taken and seek an understanding. When each mill recognizes problematic noise or other issues, regardless of the presence or absence of a complaint, it will implement the necessary measures, like restraining noise generation at the source or installing soundproof devices according to the seriousness.

Preventing offensive odor

Using a liquid mixture consisting primarily of caustic soda and sodium sulfide penetrating into woodchips, kraft pulp is made of pulp fibers extracted from the woodchips. Sodium sulfide is essential for pulp production but contains sulfur. It is a substance that tends to generate such odors as hydrogen sulfide, methyl mercaptan, methyl sulfide, and methyl disulfide. In FY 2004, we received seventeen complaints about offensive odors.

Complaints about Noise, Vibration and Offensive Odor [FY 2004]

<table>
<thead>
<tr>
<th>Company name</th>
<th>Noise</th>
<th>Vibration</th>
<th>Smell</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nippon Paper Industries Co., Ltd.</td>
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<tr>
<td>Showa Paper Co., Ltd.</td>
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<tr>
<td>Total</td>
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</tr>
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SHIKOKU COCA-COLA BOTTLING CO., LTD.
PAL CO., LTD.
Akita Jujo Chemicals Co., Ltd.
Nippon Paper Chemicals Co., Ltd.
PAL CO., LTD.
KOYO PAPER MFG. CO., LTD.
Kitakami Paper Co., Ltd.
CRECIA Corporation
Nippon Paper Industries Co., Ltd.
Nippon Paper Industries USA Co., Ltd.

Seashore after permanent measures implemented.

* For the details of this issue, see the Sustainability Report 2004.

*1 Ozone ECF bleaching: Of all ECF bleaching methods that do not use chlorine gas, this is the method that uses ozone as a bleaching chemical.

*2 Japan Paper Association: An industry organization of pulp and paper manufacturers.
### Results of PRTR (Japan)\(^1\)

<table>
<thead>
<tr>
<th></th>
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<td>7</td>
<td>107-13-1 Acrylonitrile</td>
<td>1,205</td>
<td>t</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>24</td>
<td>80-05-7 n-butyllauronic acid</td>
<td>0</td>
<td>t</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>29</td>
<td>80-05-7 4,4'-isopropylidiphenyl (bisphenol A)</td>
<td>187</td>
<td>t</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>30</td>
<td>25088-38-6 Bisphenol A type epoxy resin</td>
<td>30</td>
<td>t</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>43</td>
<td>107-21-1 Ethylene glycol</td>
<td>24</td>
<td>t</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>44</td>
<td>110-80-5 Ethylene glycol monooethyl ether</td>
<td>4</td>
<td>t</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>45</td>
<td>108-86-4 Ethylene glycol monooethyl ether</td>
<td>1</td>
<td>t</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>63</td>
<td>1330-20-7 Xylene</td>
<td>639</td>
<td>t</td>
<td>206</td>
<td>50</td>
</tr>
<tr>
<td>65</td>
<td>107-22-2 Glycol</td>
<td>8</td>
<td>t</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>66</td>
<td>111-30-8 Glutaraldehyde</td>
<td>5</td>
<td>t</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>80</td>
<td>79-11-6 Chloroacetic acid</td>
<td>1,550</td>
<td>t</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>95</td>
<td>67-66-3 Chloroform</td>
<td>357</td>
<td>t</td>
<td>72</td>
<td>269</td>
</tr>
<tr>
<td>114</td>
<td>108-91-8 Cyclohexylamine</td>
<td>6</td>
<td>t</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>134</td>
<td>96-23-1 1,3-dichloro-2-propanol</td>
<td>9</td>
<td>t</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>170</td>
<td>2824-38-4 Organic tin compounds (as Sn)</td>
<td>5</td>
<td>t</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>177</td>
<td>102-42-5 Styrene</td>
<td>4,381</td>
<td>t</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td>179</td>
<td>DBPs*</td>
<td>3.98</td>
<td>g-TEQ</td>
<td>0.00</td>
<td>1.00</td>
</tr>
<tr>
<td>227</td>
<td>108-88-3 Toluene</td>
<td>2,610</td>
<td>t</td>
<td>13</td>
<td>60</td>
</tr>
<tr>
<td>266</td>
<td>106-99-0 1,3 butadiene</td>
<td>3,442</td>
<td>t</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>270</td>
<td>84-74-2 di-n-butyl phthalate</td>
<td>6</td>
<td>t</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>304</td>
<td>108-53-5 Boron and its compounds (as B)</td>
<td>6</td>
<td>t</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>307</td>
<td>Polyoxyethylene allyl ether</td>
<td>10</td>
<td>t</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>309</td>
<td>Poly(oxyethylene) nonylphenyl ether</td>
<td>14</td>
<td>t</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>310</td>
<td>108-93-0 Formaldehyde</td>
<td>3,987</td>
<td>t</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>313</td>
<td>108-31-6 Malic anhydride</td>
<td>20</td>
<td>t</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>314</td>
<td>79-41-4 Methacrylic acid</td>
<td>42</td>
<td>t</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>316</td>
<td>28067-47-2 2-(dimethylamino) ethyl methacrylate</td>
<td>54</td>
<td>t</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>318</td>
<td>90-62-6 Methyl methacrylate</td>
<td>1,184</td>
<td>t</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Total = 21,553

\(^1\) Substance volume handled of which is one ton or above are calculated excluding dioxins. No ozone depleting substance subject to PRTR Law as listed below is handled.

- CFC-11, CFC-12, CFC-13, CFC-114, CFC-115, Halon-1211, Halon-1301, Halon-2402, Tetrachloromethane, 1,1,1-trichloroethane, HCFC-21, HCFC-123, HCFC-133, HCFC-142, HCFC-142b, HCFC-225 and Methylychloride

\(^2\) Dioxins are intentionally generated.

\(^3\) Total does not include dioxins.
Chemical management system

A variety of chemical substances is used to produce pulp and paper. Currently, apart from the volume of consumption, hundreds of chemical substances are used in the pulp and paper mills of the Core Group Companies. It is necessary to verify whether they include hazardous substances specified by the PRTR Law and Law Concerning the Examination and Regulation of Manufacturer etc. of Chemical Substances to determine if it is appropriate to continue using them.

Each subordinated company has made decisions by itself to continue to use such substances or not. However, the Core Group Companies started a new system to manage chemical substances as a whole on April 1, 2004, as a practice of corporate social responsibility by the companies. Under the Product Safety Subcommittee, one of the subcommittees that support the CSR promotion structure, the Chemical Substance Manager’s Meeting was established. Participated in by major subordinate companies handling a variety of chemical substances, including Nippon Paper Industries Co., Ltd., Nippon Daishowa Paperboard Co., Ltd., CRECIA Corporation, and NIPPON PAPER-PAK CO., LTD., the meeting manages chemical substances of the whole Core Group Companies.

Chemical substance manager’s meeting

The meeting covers the following:
- Collecting information about laws and toxicity in terms of chemical substances
- Investigating chemical substance safety and making a judgment as to whether they will continue to use such chemicals based on collected information
- Discussing policy about the management of chemicals they use
- Collecting data from the products of each mill and factory and their contents
- Sharing information between subordinate companies

To fulfill these roles, persons with expertise are necessary. The meeting consists of specialists from the Environment, Production, and Purchasing Dept. and the Research & Development Div., as well as the Quality Assurance Dept. of Nippon Paper Industries.

Headquarters

In practice, the mills and factories manage chemical substances. The headquarters of subordinate companies administer the status of management in factories, report information to the Chemical Substance Manager Meeting, and communicate and coordinate between related divisions within the company.

Mills and factories

The mills and factories manage chemical substances under the ISO 14001 management system. Each mill updates, manages, and stores the MSDS. If there is a substance in which safety is not clear, the mill reports it to and seeks advice from the Chemical Substance Manager Meeting via the headquarters. Laboratories also check the safety of chemical substances in the development stage under the ISO system. If they find any concerns, they will seek advice from the meeting as well.

* MSDS stands for Material Safety Data Sheet.

Current status of PCB management

With its excellent insulation performance, PCBs have been used as insulating oil for such electric devices as transformers and capacitors. The Core Group Companies own a large number of such devices and PCBs are used in part of them.

Since it has been impossible to detoxify PCBs safely in Japan, they are currently stored in mills and other facilities. The Core Group Companies own 218 electric devices containing PCBs in operation and 906 kept in custody as of the end of FY 2004.

Operating electric devices with PCBs are being replaced in sequence by devices without PCBs. The devices not in operation are packed in stainless steel airtight containers and placed under severe control so that PCBs will not leak from the containers or percolate downward through the soil. When detoxification of PCBs is possible, the Group will commission its treatment to an external body as soon as possible.

<table>
<thead>
<tr>
<th>Quantity of PCBs possessed of the Core Group Companies*</th>
<th>Transformers</th>
<th>Capacitors</th>
<th>Reactors</th>
</tr>
</thead>
<tbody>
<tr>
<td>In operation</td>
<td>4</td>
<td>212</td>
<td>2</td>
</tr>
<tr>
<td>Stored</td>
<td>13</td>
<td>892</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>17</td>
<td>1,104</td>
<td>3</td>
</tr>
</tbody>
</table>

* The values were carefully examined by each mill in FY 2004. Therefore, some of the values may differ from the ones stated in the Sustainability Report 2004.
With Employees

Promoting occupational safety and health and seeking a comfortable working environment, we endeavor to establish a good relationship between employees and the companies.

Employees are important partners in a company, and the two should seek mutual growth. We know that maintaining good relations between labor and management through productive dialogue and collaboration with each other will result in the development of both sides. The Core Group Companies will ensure a safe working environment and build a fair personnel and compensation system to assist all employees in achieving their potential.

Recognition of Current Situation

Japan currently suffers from a falling birthrate and an aging population. The Law for Measures to Support the Development of the Next Generation was enacted in April 2005 to counter the falling birthrate and support parents in balancing work and child rearing. The government is also promoting expansion of employment opportunities for the elderly. On the other hand, diversity in employment to accommodate individual life styles or values is also sought.

The Nippon Paper Group advocates “Having positive, forward-looking employees” as one of its Ideals for Our Group. Incorporating the social background and requirements, it is improving its working environment and systems so that every employee can work with pride and purpose without anxiety. Paper manufacturing, one of the core businesses of the Core Group Companies, is a typical process industry, and each production site involves heavy machinery and dangerous operations. Therefore, maintaining a safe working environment is a priority issue to ensure safety and prevent disasters.
Outline of FY 2004 and Policy

To guarantee that our human resources reach their potential, the Group appoints the right person for the right job and ensures discrimination-free employment, and fair appraisals and compensation. In addition, the Group devotes its energy to education and training to support employees’ career development. Currently, employment of people with disabilities and promotion of women are not yet considered satisfactory; these are issues to be solved and will be positively addressed.

As for safety and disaster prevention, Nippon Paper Industries Co., Ltd. had no accidents involving injuries and illnesses that resulted in lost work time in 2004. However, a fatal accident occurred to an employee of a partner company in a mill. There are still things that need improvement. Nippon Paper Industries is committed to maintaining a zero accident policy and, with other operating companies, endeavors to prevent accidents and disasters.
In order to gain high levels of trust from society and fulfill its responsibilities, the Nippon Paper Group places great importance on individual employees demonstrating high moral standards and strong motivation.

Thus in October 2004, the group established the Philosophy and Basic Policy on Human Rights, Employment and Labor. In addition to respecting human rights in every aspect of our business activities, we aim to develop a working environment that makes the most of a diverse range of human resources and to create a company overflowing with dreams and hope.


At the moment, each operating company individually maps out a recruitment plan and manages its human resources. The Group, however, will take the initiative in the comprehensive management of employees of operating companies for realization of diversified employment.

The rate of employment of people with disabilities by Nippon Paper Industries Co., Ltd., the key operating company of the Group, remains at 1.33% (94 people) as of August 1, 2005, which is regrettably below the statutory rate (1.80%).

The paper manufacturing industry is a typical process industry, where production facilities operate on 24-hour schedules and employees work in a three-shift system. Many employees must handle dangerous articles such as large, high-speed revolving bodies and chemicals or operate cranes and other machines that require a certain level of physical ability. Although we have endeavored to create a safe, comfortable working environment, there are still limitations on the employment of people with disabilities from a viewpoint of ensuring security.

However, the current rate of employment can never be overlooked. To improve the situation, Nippon Paper Industries established a Handicapped Staff Employment Promotion Group in the Personnel Department at headquarters, as well as sections in charge of personnel affairs in the mills, and started efforts to achieve the statutory rate at the earliest stage.

Moreover, administrative sections have started an initiative to realize ideal working conditions for handicapped staff, including barrier-free facilities, to expand the range of opportunities for employment. We will further study and promote the policy to expand employment within the Group.

### Philosophy and Basic Policy on Human Rights, Employment and Labor

(established on October 1, 2004)

#### Philosophy

Respecting fundamental human rights at all times and making the most of individuality and the capabilities of a diverse range of human resources, we aim to create a company overflowing with dreams and hope.

#### Basic Policy

1. **Respect for human rights**
   - We pledge to respect fundamental human rights and not to engage in any behavior that disregards such rights, including discrimination based on matters such as nationality, race, place of birth, sex, religion, medical condition or disabilities, sexual harassment and the abuse of power. We also pledge to manage personal information appropriately in order to prevent infringements of privacy.

2. **Prohibition of forced and child labor**
   - We pledge not to force any employees to carry out unreasonable work. We also pledge not to employ children aged under the minimum employment age stipulated in local laws and regulations.

3. **Promotion of personnel training and skill development**
   - We pledge to promote personnel training and skill development programs to help improve individual employees’ abilities and skills through the establishment and maintenance of structure to make the most of the individuality and capabilities of a diverse range of human resources.
Employment opportunities for veteran employees
Nippon Paper Industries Co., Ltd. inaugurated a system in 1982, ahead of the industry, where union members choose a course at the age of 55. The system opened the way for employment until the age of 63 in phases. In 2001, the system was modified, and the Reemployment after Compulsory Retirement System was introduced to allow employees to choose to work until 65 at maximum. It makes the best use of the affluent experience and several decades of knowledge employees have cultivated through their duties.

Under the System, Nippon Paper Industries has 19 contract employees aged 60 or older (as of May 2005). The System also allows its affiliated companies to employ people over 60.

In addition, in June 2005, Nippon Paper Industries introduced an Early Transfer System aimed at increasing the competitiveness of such companies and modified the Reemployment after Compulsory Retirement System. The former system permanently transfers an employee aged 55 or older on loan to the company, and the modified Reemployment after Compulsory Retirement System basically obligates the affiliate to employ the transferred employee until 62, thus expanding employment opportunities for veteran employees.

The role of veteran employees, like passing down techniques to the next generation, is increasing every year. Nippon Paper Industries and other operating companies will further promote the employment of veterans.

Flow of the reemployment after compulsory retirement system
(For the members of Nippon Paper Industries Union)

- Compulsory retirement from Nippon Paper Industries at 60 years of age
  - Reemployment limit presented six months prior to the retirement date (60 years old)
- Early transfer to affiliates
  - Reemployment limit presented six months prior to the retirement date (60 years old)
- Reemployment by Nippon Paper Industries
  - Requirements: A union member who wishes to be reemployed and meets the selection standard
  - Limit of age: Contract may be renewed every year until 65.
- Reemployment by affiliate companies
  - Requirements: A union member who wishes to be reemployed and is selected by the affiliate company
  - Limit of age: Contract may be renewed every year until 65.
- Reemployment of persons who were transferred to affiliates at 55
  - Requirements: A union member who has been transferred to an affiliate under the Early Transfer System, wishes to be reemployed and is selected by the company
  - Limit of age: Basically until 62 and with limits of not more than 65

Working environment with no discrimination or harassment
Participation in external seminars on human rights
The Core Group Companies provide educational opportunities to employees for the purpose of implementing appropriate personnel policies in consideration of human rights. Each operating company or division sends persons in charge of personnel affairs to the training courses or seminars hosted by administrative and other agencies. We will continue these activities.

Consultation for the concerns of employees
Nippon Paper Industries Co., Ltd. has a Sexual Harassment Consultation Service within the Personnel Dept. to respond to inquiries or reports from employees.

Operated by the Compliance Office, the Helpline System also allows any employee to make direct notification of sexual harassment or abuse of power issues. These systems guarantee the privacy of whistleblowers or those who seek consultations and protect them from potential retaliation after the notification or consultation.

In FY 2004, there were inquiries and reports from the Group’s employees regarding promotion, rest/holidays, and working environment. Responsible divisions of each company were requested to respond appropriately, and the employees who made the inquiries or reports were notified of the measures to be implemented and consent to them.

Protection of employees’ personal information
With the full implementation of the Personal Data Protection Law, Nippon Paper Group, Inc. and Nippon Paper Industries Co., Ltd. established the Basic Policy Concerning Privacy Protection and the Personal Information Handling Manual in April 2005, which were distributed to all executives and employees of the ten operating companies.* Hereafter, awareness of employees will be raised and education will be enhanced.

To ensure appropriate management and handling of personal data not only of customers but also of employees (employment management information), Nippon Paper Industries concludes confidentiality agreements with the persons in charge of personnel affairs, limits access to the personnel information system, enhances the security of the servers, and takes other security management measures.

Sustainability Report 2005
Employment and Working Environment That Make the Most of a Diverse Range of Human Resources

**Educational and training systems that support capacity development**

**Promoting human resource cultivation and capability development**

The Core Group Companies build and maintain the mechanism for human resource cultivation and development of capabilities that make full use of the personalities and abilities of diverse people to support skill improvement and the career development of individuals.

**Enhancing and promoting selective education**

In addition to human resource cultivation based on hierarchic group training or on-the-job training (OJT), a selective education system started in October 2004 where employees can select courses of their choice. The system offers a variety of courses, including correspondence courses that support the acquisition of language skills or certifications, as well as creativity and self-innovation seminars or other self-development seminars to support the self-development and voluntary career development of each individual employee. In FY 2005, the educational and training systems will be further enhanced by increasing the number of programs.

**Cultivating human resources with a global perspective**

Nippon Paper Industries Co., Ltd. introduced an open-recruitment study abroad program to cultivate human resources with an international outlook who can tackle a task from a global perspective. It supports employees who have a variety of objectives and backgrounds, including acquisition of an MBA, dispatch of engineers to technical colleges, learning as research students, or language training in English and Chinese. In FY 2004, eleven employees chose to study abroad under the system.

In addition to Nippon Paper Industries, Nippon Paper Chemicals Co., Ltd. and NIPPON PAPER-PAK CO., LTD. have their own study abroad programs.

Fostering leaders of the next generation

While the business environment is shifting dramatically, it has become more important to cultivate executive candidates with a clear-sighted conceptual capability and the power of execution at an early stage.

Nippon Paper Group introduced the training to cultivate future executives for its eight core operating companies. This is an opportunity to systematically educate leaders of the next generation through the acquisition of basic knowledge required for management.

Providing life planning seminar

Nippon Paper Industries Co., Ltd. provides a Life Plan Seminar for employees in their 50s, where a variety of programs are offered, including explanations of company and public programs, as well as lectures on life planning, motivation development, and health care. The goal is to renew the employee’s awareness of the current status of society, the company, and the family and provide support for planning their life after retirement. This will be offered to employees in their 30s and 40s.

Educational system of Nippon Paper Industries Co., Ltd. (hosted by headquarters)

<table>
<thead>
<tr>
<th>Category</th>
<th>Regular employee</th>
<th>Chief</th>
<th>Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selected</td>
<td>Overseas education and training</td>
<td>Training of young business leaders (outside training)</td>
<td>Training to cultivate future executives (in-house)</td>
</tr>
<tr>
<td>Hierarchic</td>
<td>Education for new recruits</td>
<td>New manager training</td>
<td>First-grade manager training</td>
</tr>
<tr>
<td>Appointed</td>
<td>Appraiser training</td>
<td>Leadership</td>
<td>Accounting</td>
</tr>
<tr>
<td>Selective</td>
<td>Time management</td>
<td>Creativity</td>
<td>Self-innovation</td>
</tr>
<tr>
<td></td>
<td>Presentations I and II</td>
<td>Negotiations</td>
<td>Correspondence course</td>
</tr>
</tbody>
</table>

* Number and contents of selective educational courses are always subject to change.
* In addition to the above table, each mill has its own training programs.
To realize a working environment where employees can prove themselves and work pleasantly and with vigor, the company focuses on a personnel system that fairly evaluates the processes and results of the individual’s accomplishments.

The appraisal system for management and core staff of the business leader course consists of the capability (job accomplishment process) appraisal based on competencies that are specifically described in the action guidelines and the performance (results) appraisal based on the target management system. Appraisal standards are open and clear, and the appraisal results are fed back to the employees to increase awareness of their own strengths and issues in exercising the duties to enhance motivation to develop their capabilities.

In the promotion screening, the personnel assessment system, which evaluates different aspects of the capabilities required after promotion from the objective viewpoint of an external evaluation organization, is introduced to further pursue fairness and transparency.

Nippon Paper Industries Co., Ltd. defines service invention as “an invention by an employee, which falls within the scope of service of the company by its nature and the process of which belongs to the business of the company the employee is or was engaged in at present or in the past.” Company regulations stipulate that the right to apply for a patent shall be transferred to the company, and the inventor shall be officially commended and compensated.

Nippon Paper Industries Co., Ltd. established an action plan to respond to the Law for Measures to Support the Development of the Next Generation, enforced in April 2005.

Outline of the plan
Period: April 1, 2005 to March 31, 2010
Objectives:
1. Childcare leave
   At least one person shall take leave during the defined period. Seventy percent of mothers shall take the leave.
2. Reduction of overtime working hours and promotion of use of annual leave
3. Expansion of exceptional measures for child raising
   Study the expansion of the exceptional period from “until three years” to “until entering an elementary school”

In compliance with Law for Measures to Support the Development of the Next Generation

Nippon Paper Industries Co., Ltd. is a union shop, and all permanent employees, excluding managers, are members of the union. Under the common objective of creating a better company, management and the labor union have opportunities for sincere discussion, respecting each other’s position, and endeavor to improve measures and the working environment.

In the regular central labor-management council meeting, diverse issues are discussed between management and the labor union, covering corporate management to work conditions and welfare systems. Other labor-management special committees are held to establish, improve, or abolish systems based on an agreement between the parties.
Philosophy and Basic Policy on Safety and Health Measures

In October 2004, the Nippon Paper Group established the Philosophy and Basic Policy on Safety and Health Measures to share the commitment toward safety and risk prevention with all constituents of the Group and to standardize the initiatives, which have been established and conducted individually by each subordinated company under the same policy and develop them in a sustainable manner.

Under the Philosophy and Basic Policy, each subordinated company proactively tackles risk prevention and makes efforts to further improve the working environment.

System to promote occupational safety and health

Collaboration between labor and management for a safe working environment

The Core Group Companies established a Safety and Health Subcommittee under the CSR Committee to create a safe working environment in each company. Each operating company established a Safety and Health Committee in each mill or office, and the committee takes the initiative to ensure safety and health and prevent disasters. Within Nippon Paper Industries Co., Ltd., for example, the committee comprises the employees and management of each mill, where the agenda required for safety and health are thoroughly discussed, including priority management policies in terms of safety and health, as well as specific measures for implementation. By doing so, both employees and management comply with the two conditions defined in the labor agreement: the company shall implement the measures required for safety and health in the mills and offices and improve the working environment; and employees shall comply with the rules in terms of safety and health.
Safety and disaster prevention in the workplace

Frequency of occupational accidents
The Core Group Companies prevent occupational accidents in accordance with the Basic Policy on Safety and Health and the Basic Policy on Safety and Risk Prevention. However, we are not satisfied with the safety performance of the core operating companies based on the number of accidents involving injuries and illnesses resulting in lost work time.

As countermeasures, each operating company established priority policies and specific measures in terms of occupational safety and health to eradicate occupational accidents. As a plan for the whole Group, we are studying the construction of an occupational safety and health management system and the introduction of a risk assessment method. We are committed to increasing safety and realizing a comfortable working environment.

Frequency rate of occupational accident

<table>
<thead>
<tr>
<th>Year</th>
<th>All manufacturers in Japan</th>
<th>Nippon Paper Industries Co., Ltd.</th>
<th>Nippon Paper Group</th>
<th>Members of Labor Affairs Committee of Japan Paper Association</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>1.18</td>
<td>0.92</td>
<td>0.94</td>
<td>0.03</td>
</tr>
<tr>
<td>2001</td>
<td>1.07</td>
<td>0.87</td>
<td>0.89</td>
<td>0.04</td>
</tr>
<tr>
<td>2002</td>
<td>0.97</td>
<td>0.86</td>
<td>0.88</td>
<td>0.03</td>
</tr>
<tr>
<td>2003</td>
<td>0.86</td>
<td>0.80</td>
<td>0.85</td>
<td>0.03</td>
</tr>
<tr>
<td>2004</td>
<td>0.93</td>
<td>0.95</td>
<td>0.90</td>
<td>0.02</td>
</tr>
</tbody>
</table>

Number of accidents involving injuries and illnesses resulting in lost work time

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>15</td>
<td>7</td>
<td>16</td>
<td>7</td>
<td>7</td>
</tr>
</tbody>
</table>

Occupational accident severity rate

<table>
<thead>
<tr>
<th>Year</th>
<th>All manufacturers in Japan</th>
<th>Nippon Paper Industries Co., Ltd.</th>
<th>Nippon Paper Group</th>
<th>Members of Labor Affairs Committee of Japan Paper Association</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>0.44</td>
<td>0.13</td>
<td>0.13</td>
<td>0.53</td>
</tr>
<tr>
<td>2001</td>
<td>0.12</td>
<td>0.12</td>
<td>0.12</td>
<td>0.53</td>
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<tr>
<td>2004</td>
<td>0.00</td>
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<td>0.53</td>
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Report on fatal accidents in factories

In FY 2004, no fatal accidents occurred involving an employee of Nippon Paper Industries Co., Ltd. However, one subcontractor died at a mill of Nippon Paper Industries.

Summary of the accident

Date : June 10, 2004
Place : Yufutsu Mill of Nippon Paper Industries
Victim : A 57-year-old subcontractor employed for 21 years (Yufutsu Paper Processing Center Co., Ltd.)
Work : Carrying base paper
Accident: Caught between the rolls when carrying the rolled base paper.
Cause : Noncompliance with safety and health work standards (crane operation rules) and improper operation of a hoisting crane.

Measures implemented

As measures for improper operation;
1. Direction signs, safety signs, and off limit signs were added, and the hoist operator switch was modified.
2. The communication system was enhanced by carrying transceivers.
3. Operation standards were reviewed and enhanced.
4. Comprehensive safety check was implemented throughout the company and safety awareness by all employees was enhanced.

Strengthening voluntary factory standards in terms of safety and disaster prevention

To ensure safety in the workplace and prevent occupational accidents while complying with laws, the Core Group Companies established voluntary standards for each mill and implemented regular safety inspections. To strengthen such efforts throughout the Group, the Factory Regulations and the Disaster Prevention Manual were prepared in FY 2004 after investigating the current circumstances in each mill to develop a model of voluntary standards. The regulations and the manual will be improved and rooted in all mills in FY 2005.
Risk assessment means a new logical management technique to grasp and evaluate dangerous or hazardous conditions in each mill and factory and to promote continuous efforts to implement risk reduction measures.

Nippon Paper Industries Co., Ltd. developed a unified policy for the introduction of the technique, and education has been provided by lecturers dispatched from the Japan Industrial Safety and Health Association in all thirteen mills since FY 2004. In FY 2005, as a trial period, each mill will map out and implement a plan based on the risk management techniques, and from FY 2006, implementation of activities based on the technique are planned. Other operating companies are planning to promote the technique from FY 2005.

Safety education

To carry out their responsibilities safely, employees must acquire knowledge, skills, and techniques, as well as be able to put such capabilities into practice. For this reason, safety education is essential.

In the Core Group Companies, major operating companies take the initiative to improve the curriculum of safety education, such as factory seminars, and try to improve the knowledge, skills, and techniques of employees in partner companies as well as their own employees.

Disaster prevention education and training

For disaster prevention, if a natural disaster like an earthquake or a typhoon should occur, it is most important to minimize the damage and to expend all possible means to prevent a secondary disaster.

We want to establish a system that enables us to respond appropriately in each case by performing drills in anticipation of a wide variety of disasters. Joint training with the responsible public fire service is also conducted.

Furthermore, we will establish an organization for disaster prevention, build a risk management system, check and amend the disaster prevention manuals as required, improve disaster prevention equipment, and communicate techniques and skills helpful for disaster prevention. As part of our day-to-day operations, we will include a regular checkup of facilities and equipment, concentrate our efforts on early detection of any abnormality, and implement appropriate measures to address the abnormality. If any accident or disaster should occur, we will take prompt action and liaise or cooperate with the local community. We believe we will be able to respond appropriately during an accident or disaster and fulfill our corporate social responsibility by establishing such systems and providing thorough training.

Liaising with responsible administrative bodies and local community

Our corporate responsibility is to establish a liaison and to cooperate with the local community for disaster prevention. For this purpose, Nippon Paper Industries Co., Ltd. provides opportunities to share information, in terms of disaster prevention and safety, or to invite the local community on factory tours. We try to exchange information and establish a relationship of trust with local residents on such occasions.

Each mill of the group will establish such a liaison with the local community.

Awards

In 2004, the following mills of Nippon Paper Industries Co., Ltd. received awards for occupational safety and health: We are committed to further strengthening the system and creating a comfortable working environment that prevents accidents.

Safety awards

<table>
<thead>
<tr>
<th>Company and awards</th>
<th>Awards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iwakuni Mill of CRECIA Corporation</td>
<td>Awarded by the chief of the Yamaguchi Labour Bureau for excellence in safety and health</td>
</tr>
<tr>
<td>Gotsu Works of Nippon Paper Chemicals Co., Ltd.</td>
<td>Awarded by the director-general of the Fire and Disaster Management Agency for excellence in hazardous substance handling in 2004 (An Award received in Tokyo in June 2004)</td>
</tr>
</tbody>
</table>

Awarded by the chief of the Yamaguchi Labour Bureau
The Core Group Companies will realize a safe, comfortable working environment through compliance with laws and regulations regarding safety and health. For this purpose, each mill or office establishes a policy and a plan and makes a variety of efforts.

In one such effort for safety and health, the Safety Control Sec. and working environment measurement experts continuously measured the operational environment, including the volume of dust, standard control concentration of chlorine, volume of organic solvent used, noise level, temperature, humidity, and luminous intensity for computer operation.

Our objective, in terms of employee health, is the prevention and early detection of disease. For example, during or after the regular annual health examination, a public health nurse will interview each employee under the supervision of an industrial physician and offer advice on the prevention of disease. In addition, industrial physicians regularly visit the workplaces. Based on the results and their advice, we will establish a good working environment considering hygiene and health.

In addition, the companies give extra consideration to the health of not only employees but also their families. An opportunity for a medical examination is also offered to the spouses of employees. We recognize that no special problem was observed in the results of the medical examinations in 2004. We will further continue the efforts in each mill or office.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of examinees</th>
<th>Ratio of persons with abnormal findings (unit: %)</th>
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<tbody>
<tr>
<td>2000</td>
<td></td>
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<tr>
<td>2003</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>6,579</td>
<td>3,199</td>
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Products containing asbestos and the opening of consultation contacts for inquiries from employees

Asbestos has become a major social issue in Japan. Nippon Paper Group, Inc. disclosed the products containing asbestos and provided consultations for inquiries from employees (and retired employees) on August 3, 2005.

Within the Group, it was ascertained that the following two mills of Nippon Paper Industries Co., Ltd. produced base paper for processing that contained asbestos.

- Products: Aspaar (content of white asbestos: 60% or above) Minepaar (content of white asbestos: approx. 5%)
- Produced by: Nakoso Mill (Iwaki City, Fukushima) from November 1971 to December 1979 Fushiki Mill (Takaoka City, Toyama) from April 1973 to March 1987

Additional information:
- For details, visit the URL below: http://www.np-g.com/whatsnew/whatsnew06080301.html (Japanese only)
Considering the influence that business activities exert on society at all times, we will endeavor to live together with the local and global society.

Sustainable company development cannot be realized without a relationship of mutual trust with society. Among all, it is essential for manufacturers to live together with the local communities where the factories reside. The Nippon Paper Group will maintain and further develop the good relationship with the local community that each operating company has built since its foundation.
Recognition of Current Situation

A prerequisite for the continual existence of a business is to obtain understanding from and secure the base for the continuation of business in the local community within which it resides. In order to substantially contribute to society as a corporate citizen, it is also important for a company to consider and implement what it can do from a global perspective.

Each mill and office of the Core Group Companies endeavors to establish communication with local residents. It strives to live together and contribute to the local community through local cleaning activities, cosponsorship or participation in local events, and in many other ways. In addition, cosponsorship or donation to concerts and events has contributed to the development of art and culture.

We think that the Group should further enhance these activities to be a company trusted by society at a higher level.

Summary of FY 2004 and Policy

The Core Group Companies established the Social Contribution Subcommittee under the CSR Committee and improved the system and base where the whole Group is able to focus on social contribution activities. The Social Contribution Subcommittee took the initiative to study ways to improve the Group’s activities, while collecting information on the social contribution activities conducted by the mills and offices, and succeeded in putting some of the plans into practice in FY 2004. Primarily, we focus on the activities by the Nippon Paper Group, including activities about technical capabilities that have been accumulated through the core business and paper, the core product of the Group, as well as utilization of company-owned forests.

We will facilitate the participation of employees and further enhance the activities. Furthermore, we will share information more actively to obtain the understanding and sympathy of the public regarding the Group’s social contribution activities.

We are committed to further deepening the relationship with society through these activities and developing as a corporate group where each employee can take positive action for society.
**Philosophy and Basic Policy for Social Contribution Activities**

In April 2004, the Nippon Paper Group formulated the philosophy and principles for its community activities, which the entire Group shall promote as a corporate citizen.

We will implement the following initiatives based on the Philosophy and the Principles.

- **Promote corporate citizenship activities in which our employees play an active role.**
- **Increase the community involvement of the mills of the Group companies and overseas affiliates.**
- **Create corporate citizenship programs on a scale appropriate for each Group company.**
- **Promote activities that effectively utilize the businesses and expertise of each Group company.**
- **Effectively use the forests owned by Nippon Paper Industries in Japan (about 90,000 ha).**
- **Establish a system to support employees’ voluntary social activities.**
- **Employ effective PR inside and outside of the Group.**

In addition, each of the fifteen Group companies appoints a social contribution manager, who organizes the activities at each company. The social contribution activities conducted by each company in the past align with the Social Contribution Subcommittee, and then endeavors to enhance the activities themselves. They are committed to being positively involved in and contributing to the local community and facilitate the acceptance of community activities.

**Promotional structure of corporate citizenship**

**Social Contribution Subcommittee plays a key role in the promotion of activities**

The corporate citizenship activities of the Nippon Paper Group are discussed and determined by the Social Contribution Subcommittee established under the CSR Committee, and its headquarters draws up and executes plans for the activities under the CSR promotion framework. The headquarters consist of staff selected from the Public Relations Office, Environment Dept., R&D Planning Dept., Forestry Dept., and Marketing Dept. of Nippon Paper Industries Co., Ltd. (In August 2005, it was enhanced by increasing the number of staff.) The headquarters will focus on programs that make the most of the businesses and expertise of each Group company and that effectively utilize the domestic forests owned by Nippon Paper Industries to promote social contribution activities. Specific activities including “Effective use of the businesses and expertise,” “Use of forests owned by Nippon Paper Industries,” and “Support for the group’s employees participating in community activities” are conducted by the Corporate Citizenship Promotion Team consisting of employees as volunteers.

**The Corporate Citizenship Promotion Team taking the initiative together with headquarters**

To encourage employees participation in the social contribution activities, the Corporate Citizenship Promotion Team was formed through an announcement to Group companies in June 2004. The team members are expected to serve one year and constitute three working groups where they map out and implement social contribution plans together with the headquarters. In August 2005, new members were appointed after the announcement process to ten core operating companies in Tokyo. The members consist of staff volunteers who exercise the leadership and will endeavor to familiarize and enhance the activities started in FY 2004.

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In FY 2004, two Social Contribution Subcommittee meetings were held where company-wide social contribution activities, including sponsorship for a variety of external events and enhancement of PR activities, were discussed and determined.

To enhance PR, a new social contribution page was opened on the Website of the Nippon Paper Group in June 2004, and the Group’s first Community Activities Report was issued in February 2005. The report will be further enhanced and issued annually. In addition, on the Group’s intranet, a new social contribution page was established to facilitate employee participation in such activities.

As action plans for FY 2005, support for acceptance of factory tours by updating the factory introduction videotape of Nippon Paper Industries and for environmental education programs sponsored by newspaper publishing companies were determined.

The Nippon Paper Group supports growing plantlets of old cherry trees with highly public, historical, and academic interest by applying the unique tree cloning technology that was developed through the afforestation business.

The cherry blossom is Japan’s national flower and loved by the people. Many of the Prunus yedoensis (Someiyoshino), however, are more than sixty years old, and a decline in the tree form is often pointed out. Growing cherry trees from cuttings is difficult, and production by grafting requires more than three years before being prepared for planting, and rooting into rootstock often fails. Growing the next generation of such old trees has been a challenge. However, cherry trees can now be cloned by applying a rooting technology based on photoautrophic culture system,* Nippon Paper Industries’ unique technology, and efficiently grown from the cuttings.

With this technology, plantlets were successfully grown from ancient cherry trees entrusted by Shiogama Shrine (Shiogama City, Miyagi Prefecture) and Katsurakiniimasuhonoikazuchi Shrine (a.k.a. Fuefuki Shrine, Katsuraki City, Nara Prefecture).

The Nippon Paper Group would like to offer the technology to conserve old cherry trees of historical interest, symbols of Japan, to answer the need of organizations or individuals that own such trees in Japan.

* Photoautrophic culture system: A method to strengthen the photosynthetic capacity of a plant and to have it take root by applying high-density CO2, water, and light, instead of sugar, as an energy source.

Cosponsoring the Gala Concert of the Long-Thibaud International Competition and inviting individuals who are visually impaired

Nippon Paper Industries, Ltd./CRECIA Corporation

Nippon Paper Industries and CRECIA cosponsored the gala concert for Kleenex Special Long-Thibaud International Competition held at Suntory Hall, Tokyo, on February 14, 2005.

Obtaining cooperation from the Japan Philanthropic Association, the companies invited 89 people with visually impairments (including attendants).

Started in Paris in 1943, the Long-Thibaud International Competition is a classical music competition with a more than 50-year history and is recognized as one of the four major competitions in the world, along with the Chopin Competition, the Tchaikovsky Competition, and the Queen Elizabeth Competition, providing young musicians around the world with opportunities to spread their wings and become international master musicians.

The Competition is held in cycles of three years, the first of which is the violin contest and the second is the piano contest. The third is the grand gala concert to commend the grand prize winners and runners-up from the previous two years. Song Siheng (China), winner of the grand prize in the piano competition the previous year, Alberto Nose (Italy), the second prize winner, and Lim Dong Hyek (Korea), a guest, were invited to the Gala Concert in February 2005. The Nippon Paper Group will continue cosponsoring the competition.
To contribute to society using paper, an core product of the Group, the group tentatively donated paper to elementary schools. It intends to enhance student’s expressive power by using longer and wider paper than the usual standard drawing paper or simili paper in educational arts and crafts classes.

In FY 2004, paper of 92 cm wide and 300 meters long was donated to the seven schools listed below:

- Ota Ward Haneda Elementary School in Tokyo
- Tokyo Jogakkan Primary School
- Tokyo Prefectural Oji Second School for Handicapped Children
- Tokyo Prefectural Oji School for Handicapped Children
- Tokyo Prefectural Kita School for Handicapped Children
- Funabashi Municipal Miyamahigashi Elementary School in Chiba Prefecture
- Tamagawa Gakuen Elementary Division

In February 2005, Nippon Paper Industries Co., Ltd. decided to open the Kitayama Forest, a 670-hectare forest owned by Nippon Paper Industries in the city of Fujinomiya, Shizuoka, to Nihon Construction College (Fujinomiya, Shizuoka Prefecture, president: Masuo Watanabe), run by Fugaku Gakuen, for educational purposes.

The Kitayama Forest is located on the southwestern side of Mt. Fuji. With an approximate forest capacity of 140,000 cubic meters, it is filled with Japanese cedars and cypresses aged 40 and older. On a gently sloping mountainside, it is a sustainable and efficient source of high quality lumber for building materials. In December 2003, Kitayama Forest obtained Japan’s unique forest certification from the Sustainable Green Ecosystem Council (SGEC).

Nihon Construction College was established in 1987 by the late Yasuji Kikuchi, who was a master carpenter and the founding president of Kikuchi Kensetsu Co., Ltd. (head office: Shizuoka-shi, Shizuoka Prefecture). The college’s mission was to train architectural technicians, equipping them with the skills to continue traditional Japanese building techniques. In the 2004 academic year, the college launched a new discipline called Studies of Forestry Resources to begin providing future architectural technicians. Actually producing lumber for building purposes, the Kitayama Forest now serves as a tool to gain practical experience, offering learning processes ranging from sound forest management to lumber production.
Utilizing company-owned forests: a trial program, Malnuma Enjoy! Project, kicks off

On May 28 and 29, 2005, the “Malnuma Enjoy! Project” kicked off at Chalet Malnuma in the Sugenuma company forest (Katashina Village, Tone-gun, Gunma Prefecture). This project was held to discuss the program for learning about nature and making the most of utilizing the company-owned forests as one of the Corporate Citizenship activities.

The Nippon Paper Group’s employees and their families together with children from Katashina Village participated in the project as monitors and enjoyed many interesting events, including making miso and tofu, Katashina’s specialty, observing constellations, hiking, and picking wild edible plants, thanks to the full cooperation of MARUNUMA KOGEN RESORT CO., LTD. From now on, based on the results of the questionnaire completed by the participants, the Group’s Social Contribution Committee will consider implementing unique activities held in the company-owned forests of Sugenuma.

“Forest Smarts” signboards installed in Sugenuma company forest


In the Sugenuma company forest, a walking course to sites of historical and natural significance was built, starting from the Rock Garden in front of the top of Mt. Nikko Shirane Station on the cableway. A total of 13 signboards along the walking course provide hikers with information regarding the functions of the forests and nature of Mr. Nikko Shirane, as well as with the opportunity to enjoy nature based on some knowledge about the forests.

Support for the employee participation in community activities

BORAMADO — introduction to community activities for working people

On February 22, 2005, a program for introducing volunteer activities called Boramado was held for employees of the Nippon Paper Group. This is an effort to encourage employee participation in community activities and was planned and operated by the employees’ participation support group in cooperation with the Japan Philanthropic Association. Before planning the event, a survey was conducted via questionnaires to 1,652 Group employees to find out how they felt about volunteer activities, and the results were reflected in the activities.

A total of 103 employees participated in BORAMADO and listened to the presentation about the activities of seven invited volunteer groups during the first half of the program. The second half was spent in free exchanges under the direction of the volunteer group staff. Some participants attached stickers with messages written in local languages on the books to be presented to children in Asia, and others enjoyed learning how to operate a wheelchair at the hands-on learning booth.

A charity secondhand books market was held at the venue. Sales of approximately 24,000 yen have been donated to Shanti Volunteer Association’s Disaster Relief Operation for Areas Affected by the Sumatra Earthquake and Tsunami.

The second BORAMADO is planned for FY 2005.

Employee volunteers participate in activities by the Shirane-aoi Preservation Group

Shirane-aoi* is a perennial designated as a semi-endangered species in the Red Data Book of Gunma Prefecture. To protect and breed the plant, the Shirane-aoi Preservation Group was set up in December 2000 at the initiative of Gunma Prefectural Oze High School and the residents of Katashina Village in Tone-gun, Gunma Prefecture.

Nippon Paper Industries offered its own Sugenuma Forest, located in Katashina Village, Tone-Gun, Gunma Prefecture, as a site for planting Shirane-aoi. Since 2002, a dedicated band of Company employees has volunteered to participate in the group’s planting activities. To further promote the effort, volunteers were recruited from the Nippon Paper Group companies in FY 2004, and 23 employees participated in the planting and cleaning in June and 19 in the cleaning in September.

They will continually invite volunteers from the Nippon Paper Group companies and enhance their activities including maintenance of mountain trails with employee volunteers.

Shirane-aoi (Glaucidium palmatum) is a perennial that grows wild in the mountainous areas extending north from central Honshu to Hokkaido. The Japanese name comes from Mt. Nikko-Shirane and reflects the fact that the plant is found in abundance around this mountain.
<table>
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<tr>
<th>Category and elements</th>
<th>Self-evaluation*2</th>
<th>Page number of this report</th>
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<tbody>
<tr>
<td>1 Vision and Strategy</td>
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<td>2 Profile</td>
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<tr>
<td>3 Governance Structure and Management Systems</td>
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<td>4 GRI Content Index</td>
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<tr>
<td>5 Performance Indicators</td>
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</tr>
</thead>
<tbody>
<tr>
<td>5 Performance Indicators</td>
<td></td>
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</tbody>
</table>

*1 Comparison with core indicators in the guidelines.
*2 Each sign in this column has the following meaning: Stated, Partially stated, Not stated.
*3 For EN12, an indicator has not been finalized yet.
Editor’s Postscript

This year, we placed greater emphasis on the viewpoints of stakeholders and therefore divide the text into four chapters, each of which stands on Market, Environment, Employees or Society. Feature Story was also added to report the Group’s raw material procurement. This is because we recognize that a supply chain plays one of the most important roles when the Nippon Paper Group wants to fulfill its corporate social responsibility.

Although the number of pages is almost the same as the last year, the volume of contents other than the environment has increased. Issues about the environment are only a part of the CSR we should assume. Information included in the report has further increased and the contents are more comprehensive than ever. It is our concern that the comprehensiveness might discourage readers to read through the report.

It might be a time for us to consider an editorial policy where only issues important to the Nippon Paper Group and its stakeholders are selected and reported. We are committed to improving the report to provide valuable information to stakeholders.

CSR Office, Nippon Paper Group, Inc.
Nippon Paper Group, Inc. has joined the "Team Minus 6%" project, a national campaign to realize 6% reduction of greenhouse gas emissions, the target assigned to Japan in the Kyoto Protocol.

The Paper Used for This Report

This report is printed on U-Lite, a coated wood-free paper. U-Lite is paper made from planted trees using chemicals that have a smaller impact on the environment and utilizes biomass energy effectively. The manufacturing method to produce the paper minimizes the generation of wastes and thus proves as environmentally friendly as recycled paper. As a leading company in the paper manufacturing industry, Nippon Paper Group is committed to the manufacture of paper based on resource-saving and recycling-oriented methods that harmonize with the environment.

* Grammage: 157.0 g/m² for covers and 104.7 g/m² for text pages