



**Nippon Paper Group**

Sustainability  
Report  
**2008**



# Sustainability Report 2008: Editorial Policy


We have prepared two versions of this report. This version focuses on the most important themes, while the Detailed Edition provides comprehensive coverage of the CSR activities of the Nippon Paper Group.

**Sustainability Report 2008**

**This report**

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- Focuses on the most important issues
- Published in a highly readable paper version
- Reports major performance information in the form of a data packet



**Sustainability Report 2008 (Detailed Edition)**


**PDF format (Japanese only)**

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We are enriching our website to ensure up-to-date reporting

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- Comprehensive report
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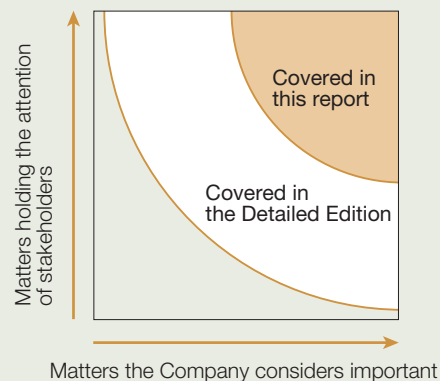
The Nippon Paper Group publishes sustainability reports (booklets and web versions) to report to our stakeholders on our efforts to fulfill our corporate social responsibilities (CSR). In creating these reports, we have fully disclosed relevant information and clearly specified important matters.

For fiscal 2007, we have published the *Sustainability Report 2008* (Detailed Edition), which aims to be a more comprehensive report, as well as this report—*Sustainability Report 2008*—which summarizes the major efforts the Group has made in the most important areas. The Detailed Edition is available in a publicly viewable and printable electronic (PDF) format on the CSR section of our website.

In fiscal 2007, which this report covers, the Nippon Paper Group was responsible for two serious problems: exceeding emissions standards for soot and smoke at mills and inappropriate data handling along with discrepancy in the ratio of de-inked pulp content. In this report, we place top priority on reporting related to these issues, and have included in the first part of the booklet as much information as possible on the status of implementation of the measures we are taking to prevent recurrence.

These important themes were chosen based on the matters of concern to our stakeholders as well as those that the Company considers important. Stakeholder concerns were evaluated according to 39 different areas of concern by Group employees who have frequent contact with our stakeholders in their daily work. We also referenced the results of questionnaires we received and provisions listed in relevant guidelines.

## Approach to Selecting Important Themes



# Contents

## Period Covered

April 1, 2007–March 31, 2008\*

\* Includes some information from before April 1, 2007, or after March 31, 2008.

## Scope of Organizations\*

In this report, the holding company, Nippon Paper Group, Inc. reports on the activities of nine companies including the Nippon Paper Group, Inc., and the eight core companies listed below:

Nippon Paper Group, Inc.; Nippon Paper Industries Co., Ltd.; Nippon Daishowa Paperboard Co., Ltd.; Nippon Paper Crecia Co., Ltd.; NIPPON PAPER-PAK CO., LTD.; Nippon Paper Chemicals Co., Ltd.; Nippon Paper Lumber Co., Ltd.; NP Trading Co., Ltd.; Nippon Paper Development Co., Ltd.

(The contribution to total consolidated sales of these nine companies was 86%.)

The scope of organizations covered with respect to basic policies and systems concerning the environment, environmental accounting and environmental performance data consists of the following 17 companies:

Nippon Paper Group, Inc.; Nippon Paper Industries Co., Ltd.; Nippon Daishowa Paperboard Co., Ltd.; Nippon Paper Crecia Co., Ltd.; NIPPON PAPER-PAK CO., LTD.; Nippon Paper Chemicals Co., Ltd.; Nippon Paper Lumber Co., Ltd.; NP Trading Co., Ltd.; Nippon Paper Development Co., Ltd.; KOYO PAPER MFG. CO., LTD.; Kitakami Paper Co., Ltd.; Nippon Paper Industries USA Co., Ltd.; Nippon Seitai Corporation; Akita Jujo Chemicals Co., Ltd. (unconsolidated); PAL CO., LTD.; Daishowa Uniboard Co., Ltd.; SHIKOKU COCA-COLA BOTTLING CO., LTD.

(The contribution to total consolidated sales of the 17 companies listed here was 94%.)

\* Mishima Paper Co., Ltd. (currently, Nippon Paper Papyrus Co., Ltd.), which became a wholly owned subsidiary of the Company by stock swap on February 1, 2008, is not included in the scope of this report because the deemed date of acquisition has been set as the final date of the fiscal year.

The 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 companies listed above. The organizational structure of the Nippon Paper Group is outlined in “Outline of the Nippon Paper Group” on pg. 28-29. Each section of this report, however, may cover different organizations. Therefore, this section clearly specifies the scope covered.

## Referenced Guidelines

- Environmental Reporting Guidelines (2007 edition) of the Ministry of the Environment
- Sustainability Reporting Guidelines (3rd edition) by Global Reporting Initiative (GRI)
- United Nations Global Compact, etc.

## 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. These forward-looking statements are the result of assumptions or judgments based on currently available information as this report was prepared. Be advised 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.

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We will continue our efforts to maintain communications with our stakeholders as we strive to rebuild trust and establish sustainable management practices.



**Yoshio Haga**  
President  
Nippon Paper Group, Inc.

### **We are taking steps to prevent problems from recurring and to regain trust**

Nippon Paper Group (the “Group”) engaged in business activities under the banner of the four corporate objectives that it established as its goals in its Group Vision: achieving superior, stable profits; winning the trust of our customers; having positive, forward-looking employees; and preserving corporate ethics. However, from June to July 2007, incidents of soot and smoke emissions in excess of standards and inappropriate data handling came to light at some Groups. Furthermore, in January 2008, the de-inked pulp content in certain recycled paper products that had been produced and sold by three Group companies—Nippon Paper Industries Co., Ltd.; Nippon Daishowa Paperboard Co., Ltd.; and Mishima Paper Co., Ltd. (currently, Nippon Paper Papyrus Co., Ltd.)—differed from the specified content ratio. We apologize to the local communities, our customers, and all others for the considerable trouble these problems caused.

Given that these issues cost the Group a considerable amount of public confidence, our top management priority is to regain that trust. We will take swift and sure measures to prevent recurrence. Such measures will include finding the causes of these problems through an investigative committee that includes outside experts. We will also accept third-party audits based on the results of our investigations of the implementation status of the measures to prevent recurrence. We have also enhanced our compliance structure through reorganization, including the establishment of a CSR Division at Nippon Paper Group, Inc., on June 27, 2008. In taking these steps, we will ask our stakeholders for their views and reflect their input as we steadily work to restore confidence.

### **We will practice “growth-oriented management” in response to the demands and expectations of society**

In addition to continuing efforts to regain trust, the Group will pursue sustainable management practices to fulfill its three missions of sustained growth of corporate value; return of profits to stakeholders; and harmony with the economy, the environment and society. To meet these challenges, I will aggressively take advantage of opportunities and strive to bring out the Group’s full potential with a constantly proactive stance. I aim to employ “growth-oriented management” through which we will pursue sustainable growth in all areas, including business scale, profitability, raw materials procurement, financial position, and cultivation of human resources. In our Group Vision, we seek to be ranked in the world’s top five pulp and paper corporations in 2015. We are committed to raising our corporate value by responding to the expectations of our stakeholders through development as a company.

Through management, we strive to expand revenues, return profits to shareholders, and achieve harmony with the environment and society by basing our business activities on service to society through the supply of paper that supports people’s lifestyles and contributes to the advancement of culture.

### **We will intensify our CSR activities in dialog with all our stakeholders**

To implement “growth-oriented management” and fulfill the Company’s missions, it is important to ascertain the concerns and expectations of our stakeholders, and to sensitively adjust our activities accordingly. We will place more emphasis on daily communications with stakeholders, accurately track the demands of society on the Company, and use such input to improve our CSR efforts.

At the same time, we would like to help resolve societal challenges from a global perspective, as climate change and other situations reach new levels of seriousness and complexity. To this end, we have joined the WBCSD—a consortium of international corporations seeking sustainable development—and supporting and participating in the United Nations Global Compact, with its 10 principles that encompass human rights, labor, the environment, and elimination of corruption. We will coordinate and cooperate with the public from a broader perspective as we advance our own efforts.

### **We request your input to assist our future activities**

This *Sustainability Report* covers the background, causes, and measures to prevent the recurrence of the problem of discrepancy of de-inked pulp content, and the implementation status of measures to prevent recurrence of the soot and smoke emissions issue. We also report on our efforts, emphasizing four areas in which our stakeholders have expressed high interest during daily communications: efforts to prevent climate change through more ambitious targets for reductions of CO<sub>2</sub> emissions; sustainable procurement of raw materials that respects environmental conservation across the supply chain, as well as human rights and labor issues; promotion of recovered paper recycling aimed at forming a recycling society; and community contributions that encourage coexistence with society. I would appreciate your opinions and suggestions about this report.

October 2008



# Issue of the Discrepancy in the Ratio of De-Inked Pulp Content

In January 2008, the Company reported to the relevant government authorities and notified the public that Nippon Paper Industries Co., Ltd., had been manufacturing certain recycled paper products with lower-than-standard de-inked pulp content and misrepresented that content.

This situation caused considerable confusion, distress, and concern to consumers, customers, government authorities, and many others. Moreover, this situation betrayed the trust of many citizens, including those who cooperate with daily paper recycling efforts by sorting and collecting recovered paper. We cannot deny that our actions could be called “fake environmentalism.” We express our deepest apology and herewith report on the background of the problem, its causes discovered through investigation, and our preventative measures.

## Developments since Emergence of the Problem

In an effort to clarify the situation, we asked outside experts to assist in our investigation.

In January 2008, we discovered and reported to the relevant government authorities that Nippon Paper Industries Co., Ltd., had been manufacturing and selling paper for New Year’s postcards with de-inked pulp content less than the standard. A subsequent internal investigation revealed that some other recycled paper products—copier paper, printing paper, and packaging paper used for envelopes and other purposes—also had de-inked pulp content lower than the standards.

In response to these developments, on January 21, 2008, Nippon Paper established an Investigation Committee that included outside experts and the Recurrence Prevention Committee composed of members of the Company. These committees conducted a thorough investigation into the causes and explored measures to prevent recurrence. A similar issue was discovered in certain paper products containing non-wood fiber pulp. Based on the results of these investigations, the Investigation Committee summarized and released its findings on the situation, causes, and measures to prevent recurrence in March in its *Report on the Discrepancy in the Ratio of De-Inked Pulp Content*.

Since then, we have taken a variety of steps to resolve this issue, including efforts to prevent recurrence and

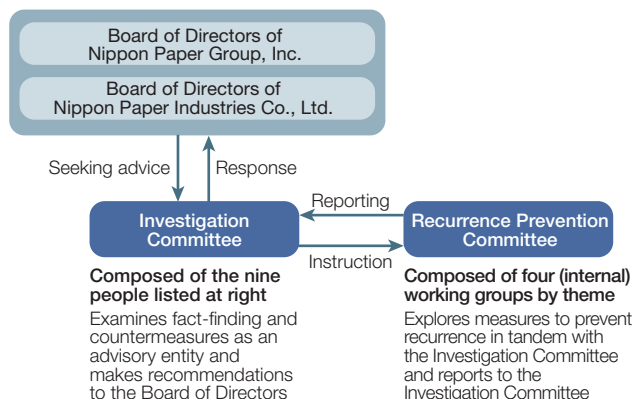
implementation of a monitoring system, along with a third-party audit of the operational progress on such measures, as well as compliance education. Moreover, we take seriously the fact that we have caused confusion and distress for many concerned parties and have broken the trust of citizens who make efforts to recycle paper. To take responsibility for these problems, Masatomo Nakamura resigned as president.

 [Report on the Discrepancy in the Ratio of De-Inked Pulp Content](http://www.np-g.com/e/whatsnew/whatsnew08032603.html)  
<http://www.np-g.com/e/whatsnew/whatsnew08032603.html>

## Major Developments

January 9	Announced that de-inked pulp content of paper for New Year’s postcards was below standards
January 16	Announced that de-inked pulp content had been misrepresented
January 21	Established the Investigation Committee and Recurrence Prevention Committee
February 14	Instituted provisional internal rules to prevent recurrence
February 20	Submitted a fact-finding report to Japan’s Ministry of the Environment and Ministry of Economy, Trade and Industry
March 7	Announced that non-wood fiber pulp content had been misrepresented
March 24	Investigation Committee submitted its final report
April 2	Announced changes in officers, including the resignation of the president, and establishment of the CSR Division
April 25	Received a Cease and Desist Order from the Japan Fair Trade Commission
April 30	Released quality specifications for copier paper on our website, based on measures to prevent recurrence
June 27	President resigned; CSR Division established
July 31	Audit by SGS Japan Inc. was concluded upon establishment of procedures based on measures to prevent recurrence

## Roles of the Investigation Committee and Members



### Investigation Committee

**Chairperson**  
Nippon Paper Group, Inc.  
Noboru Hasegawa  
Executive Vice President  
(CSR Committee Chairman)

**Vice-Chairperson**  
Nippon Paper Group, Inc.  
Masaru Motomura  
Director (Corporate Ethics Subcommittee Chairman)

**Members**  
So-Tech Consulting Inc.  
Mizue Unno, Managing Director  
Law Offices of Yanagida & Nomura  
Hiroshi Akiyama, Attorney at Law  
Nippon Paper Group, Inc.  
Keisuke Ito, Senior Corporate Auditor  
Naoki Yanagida, Corporate Auditor  
Yukitoshi Miyata, General Manager, Internal Auditing Office  
Tsutomu Naito, General Manager, CSR Office  
Nippon Paper Industries Co., Ltd.  
Shinichi Nakajima, General Manager, Compliance Office

Note: Members’ titles are as of establishment



## Causes of Discrepancy of De-Inked Pulp Content

Major causes were lack of compliance awareness and deficiencies in internal monitoring systems and administrative structure.

The following report details the causes of the discrepancies found as a result of reviews of documents and hearings at headquarters and Company mills.

The mills had employed recovered paper primarily to use resources effectively and reduce costs. Later, demand grew for environmentally friendly products that specified the ratio of de-inked pulp. At that time, under the assumption that future advances in technology would improve the quality of de-inked pulp, the Company decided without thorough consideration to accept orders for products even though they did not meet quality requirements for the specified ratios of de-inked pulp. At the mills, the content ratios were not considered as an element of quality assurance that warranted strict observance. Such a lack of compliance awareness was the root of the problem.

The other causes were deficiencies in our administrative structure. There were weaknesses in internal monitoring and communication among sales, quality assurance, mills, and other departments. It became customary to accept orders based only on sales assessments without confirming whether quality could be maintained at the specified de-inked pulp content ratios. Moreover, an internal checking system to prevent such actions did not exist.

 [Report on the Discrepancy in the Ratio of De-Inked Pulp Content](http://www.np-g.com/e/whatsnew/whatsnew08032603.html)  
<http://www.np-g.com/e/whatsnew/whatsnew08032603.html>

### Cease and Desist Order

On April 25, 2008, Nippon Paper Industries Co., Ltd., received a Cease and Desist Order from the Japan Fair Trade Commission pursuant to the Act against Unjustifiable Premiums and Misleading Representations, pertaining to four copier paper products: Reborn PPC Natural, Reborn PPC Clean, FCP-UP, and IMAGIA. The order stated that the de-inked pulp content of these products was substantially less than that displayed on the packaging, websites, and elsewhere, falsely leading consumers to believe the products were better than they actually were.

Nippon Paper Industries Co., Ltd., published an apology for misleading consumers in newspapers and on its website. The company will implement measures to prevent recurrence, as detailed in this report, and will work to regain the public's trust.

## Developments since Discovery of the Problem

We have ceased production of the relevant products and worked to recycle products already manufactured and sold.

Along with investigations into the cause of the problem, production and shipping of the products in question were halted as a temporary measure until steps could be taken to prevent recurrence. We also reported the discrepancies to our customers and suspended all related orders. To meet our supply responsibilities, we instituted a new rule in February 2008 based on the results of the ongoing investigations into this situation. The rule states that sales departments will accept orders only after mutual confirmation with production management, quality assurance, and other related departments.

For problem products that had already been shipped, the quality requirements of these products as paper were met, and so there was no impact on using this paper for printing and other purposes. Therefore, considering it undesirable from the standpoint of effective use of resources to throw away usable paper, we requested that customers use the products.



Relabeling products with accurate information

If there were problems, we asked customers to return the products.

Returned or unshipped portions of the problem products were relabeled with accurate information or statements to that effect and shipped.

### Results of Investigation into Products with Misrepresented Content Ratios

Product type		First occurrence
Printing paper	Coated paper	1998
	Fine paper	1995
	High-brightness postcard paper	1992
Business communication paper	Copier paper	1990
Non-wood fiber paper (kenaf, bagasse)		1994

### Amount of Products Sold with Misrepresented Labels\*

	Products subject to the law on promoting green purchasing	Products not subject to the law on promoting green purchasing
FY2003	23,000 tons/month	28,000 tons/month
FY2004	24,000 tons/month	29,000 tons/month
FY2005	27,000 tons/month	30,000 tons/month
FY2006	27,000 tons/month	29,000 tons/month
First half of FY2007	26,000 tons/month	28,000 tons/month
Second half of FY2007	10,000 tons/month	17,000 tons/month

\* Total sales quantities for each paper brand could only be verified as far back as fiscal 2003, which is the earliest year with records in the company's internal database. Out of the brands with misrepresented labels, approximately 70 were subject to the Law on Promoting Green Purchasing (Law Concerning the Promotion of Procurement of Eco-Friendly Goods and Services by the State and Other Entities), and approximately 300 were not.

## Issue of the Discrepancy in the Ratio of De-Inked Pulp Content

### Measures to Prevent Recurrence: Raising Compliance Awareness

**We consider this problem serious and are striving to enhance our compliance and employee awareness.**

Based on the findings of the investigation into this issue, we have explored and formulated measures to prevent recurrence from two perspectives: the compliance aspect and the systems aspect; the latter includes administrative structures and mechanisms. We are aligning these measures with the verification system (see pg. 10) of the Japan Paper Association—an industry group.

In terms of compliance, in light of the lack of awareness toward strict adherence to the de-inked pulp ratios and the fact that corrective actions were not taken even after confirmation that the ratios were to be strictly observed, we decided to rebuild the compliance framework for the Group and institute compliance education.

To strengthen the compliance framework, we established the CSR Division and placed within it a CSR Department that includes a Compliance Office. We are also providing compliance education to officers and employees of all the Group companies as we work to elevate the compliance awareness of the Group's employees.



Compliance education

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



Mizue Unno  
Managing Director,  
So-Tech Consulting Inc.

**Awareness reforms should be integrated throughout corporate activities. Furthermore, a broader perspective is needed with regard to initiatives involving environmentally friendly products and the sustainable procurement of raw materials.**

In participating in this investigation as a member of the Investigation Committee, I observed that the problem was that de-inked pulp content was not considered a quality standard to be adhered to in the first place. Stakeholders have grown more vigilant in recent years, and awareness within the company was out of touch with the accepted norm of considering quality in a comprehensive manner that encompasses the processes used to create products and use of raw materials consistent with labeling. It seems that a widespread concern about disruptions of business kept corrective actions from being taken, even though some employees were aware that content ratios were being falsified.

Although adequate measures are being taken to prevent a recurrence, it is not simply a matter of creating and implementing mechanisms and procedures. A similar problem is likely to occur in a different area unless consciousness is raised on a daily basis. In addition to implementing compliance education, senior management should take the initiative to continually demonstrate its commitment inside

and outside the Company to changing the corporate culture.

The issue will also not be resolved by merely strengthening internal countermeasures. Obviously, the production of 100% recycled paper was almost impossible from a quality perspective. Other reasons raise questions worthy of re-examination by society, such as whether recycled paper is actually good for the environment and what makes a product environmentally friendly, including consideration of its impact on CO<sub>2</sub> emissions during its life cycle. Nippon Paper Industries Co., Ltd. cannot bring this turn of events about on its own, so I would like to see the Company take collective action as the industry leader.

Moreover, paper manufacturers are being called on to approach long-term environmental measures as a common global awareness of the issues, for example importing woodchips as raw materials from overseas. Utilization of lumber from tree thinning within Japan and expansion of procurement to sources around the world must be reviewed from the perspective of sustainable sourcing of raw materials.



Measures to Prevent Recurrence, Implementation Status and Plans

Measures to Prevent Recurrence	Implementation Plans and Progress on Measures to Prevent Recurrence
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**1. Rebuilding the Compliance Framework**

**Strengthening the Compliance Framework**

Until now, we maintained a groupwide structure with a Compliance Office in the General Affairs Department of Nippon Paper Industries Co., Ltd., and a Corporate Ethics Subcommittee in the Nippon Paper Group. However, in response to the issue under discussion, we decided to consider reinforcing the compliance framework.

**Familiarizing Employees with the Whistleblower System (Help Line)**

The existing help line system was not used effectively to combat the current problem. Learning from this, we will familiarize Group employees with the main points and methods of use of the system to encourage early discovery and resolution of compliance issues.

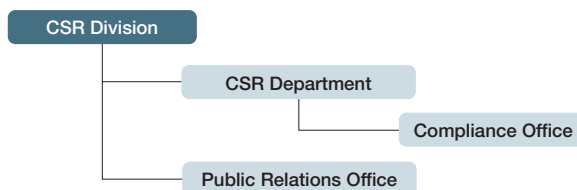
**Enhancing Control and Monitoring Systems**

We intend to review the structure of the CSR Committee and its subcommittees and seek to further expand auditing at headquarters in areas such as the environment. We will also promote information sharing among the Board of Corporate Auditors, the Internal Auditing Office and internal compliance organizations to boost the efficacy of audits going forward.

To reinforce the compliance framework, we created a CSR Division at the Group head office on June 27, 2008. At the same time, we moved the Compliance Office into the CSR Department.

The CSR Division strives to build the compliance awareness of Group employees and to change the corporate structure and culture. Upon establishment of the new division, we disbanded the CSR Committee and at each subsidiary that handles its own production lines we created a committee to manage environmental and other relevant areas. We are carrying out legal compliance audits in the area of the environment (see pg. 16). We are also promoting information sharing among the Board of Corporate Auditors, the Internal Auditing Office, and the Compliance Office to make future audits more effective.

**Organization of the CSR Division**



**2. Thorough Implementation of Compliance Education**

**Conducting Compliance Training**

We will implement new compliance education for all Group employees. In addition to general training, the education will include training on issues related to designated laws and job types. In fiscal 2008, in particular, education will cover focus themes concerning compliance with consumer protection laws, such as the Act against Unjustifiable Premiums and Misleading Representations, and the Unfair Competition Prevention Act.

**Conducting Compliance Manager Education and Skill-Building Training**

We will bolster the skills of compliance managers at each Group company to improve their grounding as leaders in education, and raise awareness in each organization by creating additional opportunities for Company employees to learn.

**Conducting Tests and Questionnaires on Compliance Consciousness and Understanding**

Following the above-mentioned training, we intend to administer periodic tests to check the compliance awareness and level of understanding of everyone in the Group. Based on an analysis of the results, we will select focus issues and incorporate them into training plans.

Through June 2008, we provided training to all officers of Nippon Paper Industries Co., Ltd., that had any involvement in the issue under consideration, as well as to each of the sales, quality assurance, and production management departments at the company's head and branch offices. From July to August, we conducted training sessions at the company's major mills and started training at other Group companies in September. The training sessions also disseminate information about the Help Line System.

Going forward, we plan to carry out training for compliance managers and administer tests of compliance awareness and understanding.

**Implementation of Compliance Education**

April to June 2008	For: Officers of Nippon Paper Group, Inc. Officers of Nippon Paper Industries Co., Ltd.
	For: All employees of sales, quality assurance and production management departments at the head office of Nippon Paper Industries Co., Ltd.
	For: All employees of branch offices of Nippon Paper Industries Co., Ltd.
	For: New employees of Nippon Paper Industries Co., Ltd.
July to August 2008	For: All employees at the major mills of Nippon Paper Industries Co., Ltd.
September to November	For: Nippon Daishowa Paperboard Co., Ltd.; Nippon Paper Papyrus Co., Ltd.

## Issue of the Discrepancy in the Ratio of De-Inked Pulp Content

**Measures to Prevent Recurrence:  
Building Internal Check Systems and an  
Administrative Structure**

We will establish work processes that do not permit discrepancies and will verify the status of operations by third-party audits.

We have constructed mechanisms to prevent another discrepancy of de-inked pulp content. The major administrative factors that led to the problem under consideration were that the sales department took orders without checking whether the required products could be manufactured with the standard de-inked pulp content ratios, and that there was no mechanism for sharing and managing de-inked pulp content ratios as product quality criteria to be adhered to in the related departments. We created audit-based checking and monitoring mechanisms to rectify this situation.

In implementing these measures to prevent recurrence, we have placed particular emphasis on third-party audits as a restraining mechanism. One reason the misrepresented de-inked pulp content did not become public for so many years is that the content cannot be accurately measured by analysis of the finished recycled paper products. Since the de-inked pulp content can only be verified during the manufacturing process, we rely on internal checking systems, making it difficult to guarantee the content outside the Company. In light of this, we built mechanisms for undergoing third-party audits in the manufacturing process. Along with the incorporation of the ISO 14001 environmental management system, we will maintain and enhance the effectiveness of this audit mechanism as we strive to win the trust of our customers and all our stakeholders.

**Japan Paper Association's Verification System**

The Japan Paper Association formulated a de-inked pulp content ratio verification system, which it released on April 4, 2008. The system allows firms doing business with paper companies to enter the paper mills and investigate the status of usage of de-inked pulp and other materials if it is deemed necessary to validate documentation published by the paper company.

The Nippon Paper Group is accepting validation based on this verification system. Please refer to the Japan Paper Association website for details on the verification system.

 Japan Paper Association website  
<http://www.jpaa.gr.jp/en/>

## Measures to Prevent Recurrence, Implementation

## Measures to Prevent Recurrence

**1. Preventing Unchecked Decisions to Accept Orders  
by Sales Departments***Mechanisms to verify certifiable de-inked pulp content ratios*

We have restructured the decision-making process for taking orders to involve all related departments (Sales, Quality Assurance, Raw Materials Procurement, and the Mills). The new process checks whether the product will satisfy the customer in terms of quality and if the required amount of de-inked pulp can be supplied. The process specifies that orders will not be taken if even one of the related departments concludes that the required products cannot be manufactured.

**2. Ensuring Recognition of the Importance of Content Ratio Standards and Confirmation of Actual Content Ratios***Mechanisms to ensure strict adherence to de-inked pulp content ratio standards*

We have compiled and are employing a consistent set of quality specifications within the Company to ensure that the de-inked pulp content ratio is clearly specified as a criterion of quality and strictly followed. The quality specifications add de-inked pulp content ratios to the quality criteria, which formerly consisted only of properties such as strength and brightness. The quality specifications are approved by the departments in charge of quality assurance, which have the final responsibility for product quality, and shared among each department at headquarters and at the mills. The mills utilize the quality specifications in manufacturing the products.

To verify whether the finished products adhere to the specified content ratios, the mills manufacturing the products check production data, and the departments in charge of quality assurance at headquarters also confirm the actual results.

**3. Verification by Creation of Documented Procedures and Conducting Audits***Establish Unique Third-Party Audits Mechanism from Performance and System Aspects*

A full set of processes encompassing decisions to accept or reject orders, sharing of content ratio standards, production, and confirmation of quality performance—including content ratios—will be continually executed, and the processes will be documented as procedures in writing and managed and operated at headquarters, the branch offices, and the mills. The procedures for this set of processes are subject to audits to verify management and operational status.

Audits will be conducted on the performance aspect, to verify that the procedures are valid and being practiced correctly, and the systems aspect, to verify that the procedures are being managed and periodically reviewed through PDCA. This approach limits the tendency for audits to lose substance. Furthermore, we are implementing a two-pronged method of operation with internal audits carried out inside the Company, along with third-party audits by outside institutions.

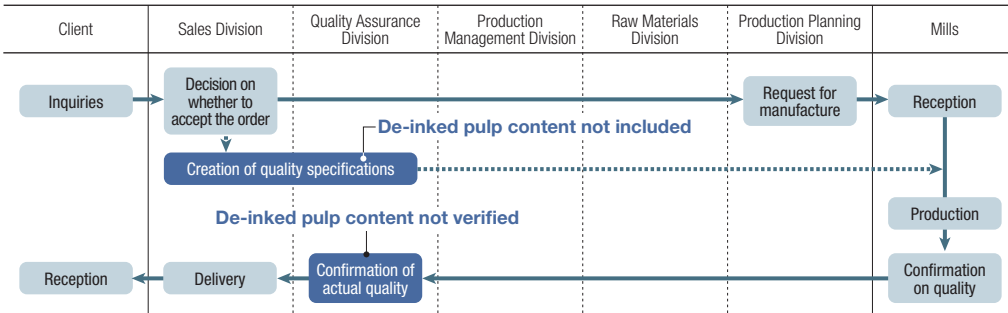
Audits of the systems aspect will incorporate the ISO 14001 environmental management system, which was already in operation at the Company. Audits covering the performance aspect will for the first time be entrusted to SGS Japan Inc.,\* which is an accredited certification body for the Forest Stewardship Council (FSC) forest certification program. These internal and third-party audits will be conducted periodically, and we are committed to taking solid measures to remedy any violations that may be discovered.

## Status and Plans

### Implementation Plans and Progress on Measures to Prevent Recurrence

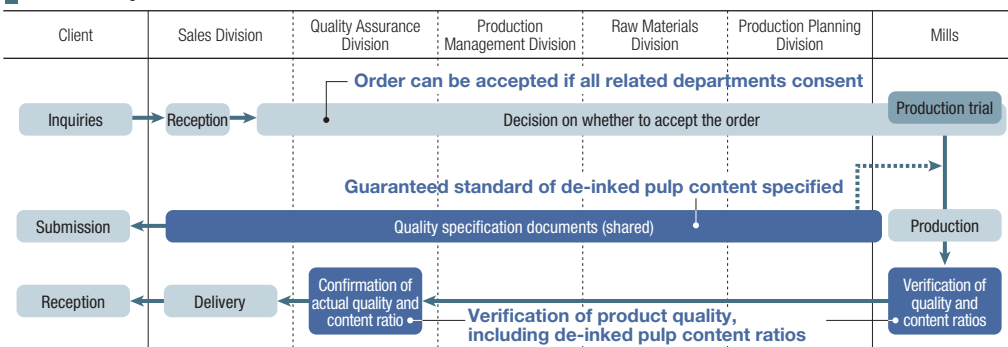
#### Order-Taking and De-Inked Pulp Content Management Flow Chart

##### System before Corrective Measures



- Orders were accepted by the Sales Department
- De-inked pulp content ratios were listed in Sales Department documents, but not in the production standards at the mills
- There was no process to verify the actual content ratios

##### Current System after Corrective Measures



- Orders are accepted by the judgment of all related departments
  - Common quality specifications are employed groupwide
  - Content ratios are mutually verified between the mill and the departments in charge of quality assurance at headquarters
- Currently, information is shared and actual content ratios are verified based on the procedure shown at left.

As model cases, third-party audits were implemented at headquarters and at the Yatsushiro Mill by SGS Japan Inc., in February 2008. At the end of July, the first fiscal year of audits was completed for all mills producing general-purpose products with guaranteed de-inked pulp content ratios, and at headquarters. Management systems based on procedures specified as measures to prevent recurrence were also constructed, and their operational status was confirmed. We plan to carry out periodic audits that include internal auditing.

#### Business Sites Audited by SGS Japan Inc.

Company	Business site	Audit date
Nippon Paper Industries Co., Ltd.	Headquarters	February 18
	Yatsushiro Mill	February 21
	Fushiki Mill	May 21
	Ishinomaki Mill	June 24
	Iwanuma Mill	June 25
	Kushiro Mill	July 11
	Komatsushima Mill	July 17
	Fuji Mill	July 24
Nippon Daishowa Paperboard Co., Ltd.	Asahikawa Mill	July 31
	Yoshinaga Mill	July 25



Third-party audit (SGS Japan)



Third-party audit (SGS Japan)



SGS Japan's audit report

#### \* SGS Japan Inc.

This is the Japanese unit of SGS—the world's largest inspection, verification, and certification organization, headquartered in Switzerland. SGS Japan conducts certification examinations for the forest certification standards FSC and PEFC, the ISO 14001 environmental management system standards, and the ISO 9001 quality management system standards.



## Issue of the Discrepancy in the Ratio of De-Inked Pulp Content

**Status of Other Operating Companies**

**We are also taking measures to prevent recurrence at Nippon Daishowa Paperboard Co., Ltd., and Mishima Paper Co., Ltd.**

In addition to Nippon Paper Industries Co., Ltd., we now know that other Group's operating companies, Nippon Daishowa Paperboard Co., Ltd., and Mishima Paper Co., Ltd. (currently, Nippon Paper Papyrus Co., Ltd.), sold products with misrepresented pulp content ratios for

recycled and non-wood paper. We have summarized the results of investigations at each company and measures to prevent recurrence, and posted them on our website. The substance of the problems at these two companies and the measures to prevent recurrence are reported below.

At both companies, we responded to customer requests by using a checklist based on the verification system formulated by the Japan Paper Association in preparation to undergo inspections by customers on material usage status.

**Problems and Measures to Prevent Recurrence at Nippon Daishowa Paperboard Co., Ltd.****● Facts**

We established an Investigation Committee composed of members of the Company and outside experts to investigate the causes of the incident, clearly identifying responsibility and validating the countermeasures taken.

Between approximately 100 and 15,000 tons per year of 21 brands of recycled paper and between approximately 200 and 700 tons per year of two brands of non-wood paper containing kenaf or bamboo pulp were being sold with misleading labels. The oldest instance of a discrepancy for any brand was 1991.

**● Cause**

For recycled paper, we discovered that prioritization—starting at the initial product development stage—of quality over other standards for content of de-inked pulp created deviations.

We also found that the quality of de-inked pulp in recent years had more of the discrepancies reviewed and resolved.

In the case of non-wood paper, we learned that a similar situation arose because priority was given to concerns about deliveries of non-wood pulp and quality issues. It is clear in both cases that there was a lack of consideration from the consumer's perspective and of overall compliance awareness.

**● Measures to prevent recurrence**

We have decided to revise procedural documents pertaining to new product development, and specify customer requests besides those related to general product quality in the order forms for new products. We will also conduct internal audits once a year to verify that the procedures are being correctly applied. In addition, we plan to institute compliance education.



For more information, please refer to our website:

<http://www.np-g.com/whatsnew/whatsnew08031001.pdf>

<http://www.np-g.com/whatsnew/whatsnew08031002.pdf>

(Japanese only)

**Problems at Mishima Paper Co., Ltd. (currently, NIPPON PAPER PAPYLIA CO., LTD.), and Measures to Prevent Recurrence****● Facts**

We established a Recycled Paper Issue Investigation Committee composed of members of the company to investigate the causes of the incident, clearly determine responsibility, and explore measures to prevent recurrence.

A fact-finding survey revealed that between 2,000 and 4,000 tons per year of five brands of recycled paper and between 200 and 800 tons per year of six brands of non-wood paper containing kenaf, bagasse or hemp pulp were being manufactured and sold with misleading labeling. The oldest instance of a discrepancy for a recycled paper brand began in 1991.

**● Cause**

For recycled paper and non-wood paper, we found that prioritization of degrees of brightness and other quality issues

over the standards for content of de-inked pulp and non-wood pulp created deviations in such content, resulting in discrepancies. It is clear that a lack of compliance awareness was what permitted such circumstances to transpire despite our contracts with our customers.

**● Measures to prevent recurrence**

We will institute compliance education and reinforce our current quality assurance structure by creating a system within the company's quality control department for checking monthly usage of materials to enable verification of content ratios. We will also conduct periodic internal audits.



For more information, please refer to our website:

<http://www.np-g.com/contents/000158597.pdf>

(Japanese only)

## Rebuilding Trust

We will fulfill our social responsibilities in all areas, including activities at the Japan Paper Association.

The issues of boiler soot and smoke\* at the mills of Nippon Paper Industries Co., Ltd., which were discovered in July 2007, and the January 2008 finding of discrepancy of recycled paper and other materials have betrayed the trust of many of our stakeholders. In addition to measures to prevent recurrence from the systems aspect, including compliance and administrative structure mechanisms, the Group is committed to the steady advancement of numerous efforts to recover the trust it has lost.

\* The soot and smoke issues at the mills of Nippon Paper Industries Co., Ltd. are reported in pg. 14-15.

## Disclosure

### Publication of Information on Our Website

The Group will publish on its website the results of investigations on, reports of and the status of measures to prevent recurrence of these issues as appropriate. We will release information on the progress of measures to prevent recurrence from time to time, and we will continue working to reflect the input of consumers and customers requesting verification of progress on such measures.



**WEB** Important notice from Nippon Paper:  
<http://www.np-g.com/other/important.html>  
 (Japanese only)

## Responsibilities to Our Customers

### Explanations to Individual Customers and Accommodation of On-Site Inspections

In addition to giving explanations to customers as appropriate directly or through sales agents, we will clearly specify standards for de-inked pulp content and other properties of each product in quality specifications on our website and on product packaging paper and labels. We will also accommodate customer requests by furnishing customers with documents proving content ratios and accepting on-site inspections of mills by customers based on the Japan Paper Association's verification system.

## Responsibilities to Society

### Toward Higher Goals, Including Reductions of CO<sub>2</sub> Emissions

The Group has promoted a variety of environmental conservation efforts based on its environmental action plan. Based on what we have learned in dealing with this issue, we will solidify our efforts up to now and work to contribute more to the environment and society.

In particular, we have revised upward our previous goals for climate change prevention (see pg. 20). We will also consider and do what we can when needed, such as improving recovered paper utilization and using materials from within Japan to preserve and nurture Japanese forests, contributing to society by offering hands-on courses on the natural environment, expanding forests planted by the Company and conducting dialogue with stakeholders on issues such as looking for ways to develop a sustainable paper manufacturing industry.

### Enhancing Recycled Paper Production Technology Considering Production of Copier Paper with 100% De-Inked Pulp Content

A major factor leading to the discrepancy of copier paper presented as containing 100% de-inked pulp was that the deviation in de-inked pulp content expanded due to a pursuit of paper quality. We are re-attempting production in an effort to achieve the standards for both de-inked pulp content and other quality categories.

We are currently conducting tests on the quality challenges that must be overcome—such as feedability problems (number of paper jams), paper curling, high amounts of dust and dirt, and problems with stability during operation—but we have not yet reached an appropriate quality level. We will continue our efforts to establish stable quality, aiming to reach a conclusion on feasibility in September 2008.

### Cooperation with Industry Companies New Ways to Contribute to Society and the Environment as an Industry

We have decided to contribute a total of approximately ¥1 billion to supplement the environmental preservation activities of the 15 member companies of the Japan Paper Association (including Nippon Paper Industry Co., Ltd.; Nippon Daishowa Paperboard Co., Ltd.; and NIPPON PAPER PAPYLIA CO., LTD.).

Of this figure, we will donate 500 million yen to the Paper Recycling Promotion Center to fund programs to promote recovered paper recycling by raising awareness and offering support at the local level, and another 500 million yen to the National Land Afforestation Promotion Organization to be allocated to programs promoting tree thinning by volunteers, the use of resultant lumber, and enlightenment activities.

# Status of Measures to Resolve Soot and Smoke Issues at the Mills of Nippon Paper Industries Co., Ltd.

From June to July 2007, a voluntary internal investigation carried out at Nippon Paper Industries Co., Ltd., revealed that soot and smoke emissions at six mills exceeded the standards of the Air Pollution Control Law, and that measurement data at four of the mills was inappropriately altered. We offer our sincere apology for the considerable trouble the issue caused for local citizens, related organizations and other parties.

This issue was announced by Nippon Paper, on July 2, 2007. Since then, the company has worked to strengthen environmental management and regain trust by implementing measures to prevent recurrence. The status of these measures is reported below.

\* The history and causes of this issue are reported in detail on pg. 10-11 of *Nippon Paper Group Sustainability Report 2007* (Japanese only).

## Framework for Drafting and Promoting Measures to Prevent Recurrence

In order to prevent recurrence, we established a special committee to explore and implement preventive measures.

Nippon Paper established a special committee to prevent recurrence and to thoroughly investigate the causes and advance preventive measures. The committee considered and implemented measures from three aspects: organization, management and facilities. In implementing these measures, realizing that management at headquarters was inadequate, the committee promoted the drafting of preventive measures primarily at headquarters. In addition, extensive preventive steps were taken in coordination with the operations side.

Recognizing that mill operations coexist with and rely on trustworthy relationships with local residents, we consulted with local governments and the local community at each mill, and incorporated their views in the measures to prevent recurrence.

## Status of Specific Measures to Prevent Recurrence

We will steadily implement preventive measures to achieve meaningful results.

To prevent such problems from happening again, we decided to take measures from three perspectives: revising operations and facilities to prevent emissions from exceeding effluent standards, creating a system to prevent emissions from exceeding management standards and changing awareness and corporate culture to prevent future occurrences.

In terms of operations and facilities, we revised operation control procedures and installed environmental surveillance monitors as well as units for spraying urea-water to reduce the concentration of nitrogen oxides, among other improvements to facilities and operation controls.

The measures on the management side included introducing an environmental information control system to monitor the operational status of facilities from multiple departments. We also conducted an environmental audit focusing on the execution status of measures to prevent recurrence.\*

In conjunction with these measures, to improve awareness and habits within the Company, we are implementing compliance education and striving to ensure that all employees place top priority on the environment.

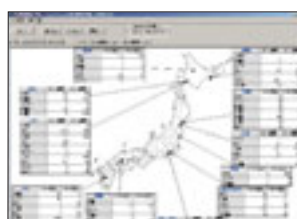
\* For more information about the environmental audit, please refer to pg. 16.



Environmental surveillance monitor



Unit for spraying urea-water



Environmental information control system screen

## ● Building Trust Relationships through Risk Communication

We intend to focus more on dialog with local residents to rebuild trust in our relationships. As part of this additional focus, we will give detailed explanations on the current problem and measures to prevent recurrence through “risk communication” with local residents.

Risk communication involves disclosure of risks related to chemicals and the environment, and communication about disasters and related topics. Risk communication had previously been carried out at certain mills and was expanded to all mills in fiscal 2007. We aim to rebuild



Risk communication

relationships through such activities, with the participation of neighborhood residents and related government officials.



## Measures to Prevent Recurrence and Status of Implementation

(1) Measures to Prevent Recurrence from the Operations and Facilities Aspect	Implementation Status
<b>Formulation of Guidelines and Ensuring Observance of Operation Control Procedures</b> Create <i>Guidelines for Legal Compliance at Soot- and Smoke-Emitting Facilities</i> at headquarters, and revise operation control procedures for soot- and smoke-emitting facilities at all mills based on the guidelines. Read through operation control procedures and conduct emergency response drills to ensure full adherence to the guidelines.	Completed at all mills
<b>Introducing a Safety Interlock System</b> Implement an interlock for emergency shutdown of the boilers before the integrated concentration of emissions over a one-hour period starting at the top of a given hour can reach the integrated concentration value for one hour at the standard emissions limit.	Completed implementation on all 14 scheduled boilers
<b>Installation of Environmental Surveillance Monitors</b> Install dedicated surveillance monitors enabling boiler operators to quickly discover anomalies by constantly checking the data required for management.	Completed at all mills
<b>Introducing an Advanced Warning System</b> To enable early detection of anomalies, install spinning alert lights with warning sirens that activate when the average of the integrated values continually measured exceeds a voluntary control standard. Set the warning to continue sounding until the above value falls below the voluntary control standard.	Completed at all mills
<b>Augmenting Personnel to Enhance the Environmental Monitoring Structure</b> Add one employee besides the operator to enhance the environmental monitoring structure at startup and shutdown.	Completed at all mills
<b>Installing Units for Spraying Urea-Water in Recovery Boilers</b> Install units for spraying urea-water in recovery boilers to steadily reduce nitrogen oxide concentration and lower the work burden on operators when the amount of fuel changes.	Installed at the Asahikawa, Iwanuma, Iwakuni and Yatsushiro mills
(2) Measures to Prevent Recurrence from a Management Aspect	Implementation Status
<b>Organizational Changes to Separate Operations from Management</b> Separate operations from management, establish a Safety and Environmental Control Department to ensure comprehensive environmental management, and create an Environmental Control Section within the new office.	Completed at all mills
<b>Introducing an Environmental Information Management System</b> Implement an environmental information management system enabling hourly monitoring of the operating status of all boilers (one-hour average of continually measured values on the hour) 24 hours a day, so that not only the mills but also headquarters can check and manage boiler operations. Add a function to automatically send e-mails to persons in charge in the event of an anomaly.	Completed system enabling data to be collected from all mills
<b>Compilation of Environmental Records, and Implementation of Measures to Prevent Alteration</b> Implement a system that outputs daily reports in a PDF format and restrict authority to view the output screen with a password, so that the daily report data comprising the environmental management information of the mill cannot be altered.	Completed at all mills
(3) Education to Change Employee Consciousness	Implementation Status
<b>Change of Employee Consciousness by Top Management</b> The President and the Vice President visit and give speeches at the mills to directly urge on-site employees to make the environment their top priority.	Completed implementation at all mills
<b>Education by the Compliance Office</b> The Compliance Office at headquarters conducts compliance education at stratified workshops for all employees, to impress on everyone that the environment is top priority.	Completed implementation at all mills
<b>Education on Legal Compliance by the Environment &amp; Safety Department</b> Hold a drive section chief conference and a technology exchange conference attended by people in charge at each mill, to clarify which laws to uphold and ensure full compliance.	Completed implementation with participation by people in charge at each mill
<b>Education of Top Management</b> Administer compliance training to all officers of Nippon Paper Group, Inc.; Nippon paper industries Co., Ltd.	Completed
<b>Improving Workplace Culture</b> Utilize informal workplace discussions, liaison meetings at the workplace and a suggestion system to correct the current situation in which misconduct is difficult to report, and to build a corporate culture that proactively improves environmental management.	Ongoing at all mills

# Efforts Related to Soot and Smoke Issues at the Mills of Nippon Paper Industries Co., Ltd. Strengthening Environmental Management

## For Responsible Environmental Management

Toward Preventing Recurrence of the Soot and Smoke Issues, we will enhance environmental management and conduct thorough environmental audits.

In fiscal 2006, Nippon Paper Industries Co., Ltd., announced its intention to strengthen its framework for reliably identifying laws to be observed with the aim of boosting environmental compliance, and to conduct an environmental audit specialized for legal compliance.

In the course of this environmental audit, which ran from May to June 2007, several questionable matters concerning soot- and smoke-emitting facilities led to the discovery of the problem later in the year.

By continuing with such environmental audits, the Group aims to reinforce its framework for ensuring problems come to light, and to solidly monitor the implementation status of measures to prevent recurrence.

### Strengthening the Framework for Reliably Identifying Laws to Be Observed

To accurately respond to wide-ranging and relatively frequent changes in environmental legislation, Nippon Paper Industries Co., Ltd., has signed advisory agreements with knowledgeable legal experts.

A new legal search system as well as advice on new and complex laws has bolstered the framework for reliably identifying laws to be observed and their content. We remain committed to promoting swift responses to new legislation.

番号	法令名称	施行期
001	環境基本法	2002/07
002	大気汚染防止法(大気汚染防止法の一部を改正する法律(環境省令))	2006/07
003	大気汚染防止法(大気汚染防止法の一部を改正する法律(環境省令))	2006/04
004	大気汚染防止法	2006/07
005	大気汚染防止法(大気汚染防止法の一部を改正する法律(環境省令))	2006/07
006	大気汚染防止法(大気汚染防止法の一部を改正する法律(環境省令))	2006/07
007	大気汚染防止法(大気汚染防止法の一部を改正する法律(環境省令))	2006/07
008	大気汚染防止法(大気汚染防止法の一部を改正する法律(環境省令))	2006/04
009	大気汚染防止法(大気汚染防止法の一部を改正する法律(環境省令))	2006/04
010	大気汚染防止法(大気汚染防止法の一部を改正する法律(環境省令))	2006/04
011	大気汚染防止法(大気汚染防止法の一部を改正する法律(環境省令))	2006/04
012	大気汚染防止法(大気汚染防止法の一部を改正する法律(環境省令))	2007/04
013	大気汚染防止法(大気汚染防止法の一部を改正する法律(環境省令))	2006/07
014	大気汚染防止法(大気汚染防止法の一部を改正する法律(環境省令))	2006/04

Legal search system

### Specialized Environmental Audits for Environmental Compliance

The environmental audits specialized for legal compliance, which Nippon Paper began conducting in fiscal 2007, have been focused on verifying compliance status, based on the guideline published in March 2007 by the Ministry of the Environment and the Ministry of Economy, Trade and Industry. Although the audits are conducted by people in charge of the Environment & Safety Department at headquarters, we are effecting voluntary environmental improvement at every mill and Group company by including as members staff in charge of environmental matters at mills and Group companies not subject to the audits.

In fiscal 2008, we took the time to confirm that measures to prevent recurrence of the soot and smoke issues of the previous fiscal year were being solidly implemented, and that no similar problems related to the Water Pollution Control Act, the Waste Disposal Act or other environmental statutes were arising.



Documentation audit (Shirai Mill)



Site verification (Shirai Mill)



Checklists used in the audit

### Expanding Compliance Audits to Affiliates

The environmental audits specialized for legal compliance, conducted by Nippon Paper Industries Co., Ltd., since fiscal 2007 have been attended by people in charge of environmental matters at Group companies, where they learn about legal compliance audits. To extend such audits to all Group companies, we are also explaining the audit status of Nippon Paper Industries Co., Ltd., at the Group Environment Subcommittee meetings attended by managers in charge of environmental matters at Group companies.

## Steps toward Stronger Environmental Management

We revised our Charter on the Environment, and clearly positioned it as the foundation of the Group's environmental preservation activities.

### ● Revision of Our Charter on the Environment

The Group revised its Charter on the Environment in March 2007. In light of changing circumstances surrounding environmental issues in recent years, we released a draft of the revisions and sought opinions broadly from our stakeholders to reflect communication with them in the review process. We then drew upon the input we received to modify the draft.

The environmental action plan, Green Action Plan 2010, which was formulated at the same time, sets concrete Group goals for each of the six items in the Basic Policy of the Charter on the Environment. This marks the first time

the Group's action plan has been explicitly stated, and we will make a concerted effort across the Group to achieve the concrete goals set forth.

\* Please refer to pg. 35 for the full text of Green Action Plan 2010 and its status.

### Features of the Revision of the Charter on the Environment

#### Content

Specified respect for biodiversity as our philosophy

Explicitly stated our intention to promote climate change countermeasures

Explicitly stated our intention to observe environmental statutes

Specified our intention to promote environmental communication in communities

#### Revision Process

Elicited shareholders' views and reflected them in the revisions

### Revised Charter on the Environment, and Formulation of an Action Plan Based on the Charter

#### Nippon Paper Group Charter on the Environment: Philosophy

The Nippon Paper Group is committed to helping preserve the global environment over the long term and contributing to the development of a recycling-based society by carrying out its corporate activities in recognition of the importance of biodiversity.

#### Nippon Paper Group Charter on the Environment: Basic Policy

1. Act to counter global warming
2. Protect and develop forest resources
3. Increase use of recycled resources
4. Comply with environmental statutes and work to minimize our environmental impact
5. Develop environmentally friendly technologies and products
6. Engage in active environmental communication

#### Nippon Paper Group Environmental Action Plan: Green Action Plan 2010

Green Action Plan 2010 sets more concrete goals for the Group, based on its Philosophy and Basic Policy.

#### Environmental Action Plans at Each Group Company

Nippon paper industries Co., Ltd.; Nippon Daishowa Paperboard Co., Ltd.; and each of the other operating companies set concrete goals based on Green Action Plan 2010.



# Promotion of CSR Management

The Nippon Paper Group is responsible for the two major problems of smoke and soot issues at mills, and discrepancies in the de-inked pulp content ratio. Regaining the trust lost due to these issues is a top management priority. We will work to rebuild trust step by step, incorporating input from our stakeholders in management decisions.

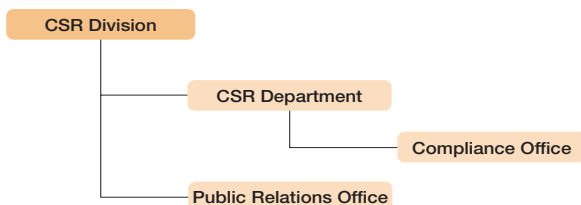
### Framework for Promoting CSR Management

We created a CSR Division to strengthen the framework for promoting CSR.

In June 2008, the Group created a CSR Division within Nippon Paper Group, Inc., to build a CSR promotion framework centered on corporate governance and compliance. We reinforced the existing CSR Office and established a CSR promotion framework under line management by having the current vice president head up the CSR Division.

The CSR Division includes a CSR Department, which houses the Compliance Office, and a Public Relations Office. In addition to enhancing compliance and risk management, we aim to actively disseminate information to stakeholders and reflect their requests in management decisions. We will construct an organization that will not permit any more misconduct and will earn the trust of its stakeholders.

#### Organizational Structure of the CSR Division



### Dialogues with Stakeholders

We emphasize dialogue with stakeholders and participate in external organizations in Japan and overseas.

In addition to practicing CSR according to the Group's Action Charter, it is important to converse with a diverse range of stakeholders and reflect their opinions and requests in management decisions based on appropriate judgment. The Group utilizes a variety of communication tools to disseminate corporate information. We have set up contact points for direct dialogue with stakeholders, and we strive to incorporate their views into management. In fiscal 2007, Nippon Paper Industries Co., Ltd., instituted efforts to deepen communication with local residents, such as holding risk communications (see pg. 14) sessions—which

were previously held only at selected mills—at all its mills.

Moreover, as globalization advances, we are coordinating with other corporations and groups in responding to increasingly serious and complex issues for society, striving for harmonious economic, environmental and public relations. We are affiliated with a variety of groups, such as the World Business Council for Sustainable Development (WBCSD), a consortium of international corporations seeking sustainable development, and support the United Nations Global Compact, with its principles concerning human rights, labor, the environment, and anti-corruption.

#### Nippon Paper Group's Vision and Action Charter (Established April 1, 2004)

##### Vision

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

##### Ideals for Our Group

- Achieving superior, stable profits for our shareholders
- Winning the trust of our customers
- Having positive, forward-looking employees
- Preserving corporate ethics

##### Action Charter

1. We shall pursue 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 dreams and hope.

# Compliance

We established the CSR Division as our compliance core. We will thoroughly implement compliance, including legal compliance, across the Group as we strive to achieve the two major compliance-related goals of imbuing the Group with the determination never to permit any misconduct and transforming the corporate structure and culture.

## Strengthening the Administrative Structure for Compliance

We strengthened the framework for thoroughly implementing compliance throughout the Group.

By establishing the CSR Division in June 2008, we enhanced the framework enabling line management of compliance. We are currently working to fully implement legal compliance by cooperating with outside organizations to identify laws relevant to an array of aspects of our corporate activities. We are also conducting legal compliance audits in coordination with related departments for the environment, safety and other areas requiring specialized knowledge.

The CSR Division spearheads the expansion of compliance to each Group company. By transferring the Compliance Office—formerly part of Nippon Paper Industries Co., Ltd.—to the Company's CSR Division, the Company has reinforced its role as a contact point for compliance activities at each Group company.

Each Group company has appointed a compliance manager, and will work together to develop compliance through the activities of the Group Compliance Liaison Meeting held by the Compliance Office.

## Seeking to Transform the Corporate Structure and Culture

We are conducting compliance training and taking other steps toward internal reform.

Enhancing employees' sense of responsibility and invigorating workplaces are important challenges for creating a self-governing organization that enables employees to speak freely and where their suggestions are discussed. Each employee in the Nippon Paper Group is also a consumer and a member of society. We recognize that encouraging employees to consider matters from the perspective of an individual member of society and to take a second look at the actions of their own company is the first step toward changing the corporate culture.

Through compliance training and other activities, the CSR Department aims to reform the corporate structure and culture by conveying the importance of compliance to Group employees.

## Conducting Compliance Training

Nippon Paper Group, Inc., takes the soot and smoke issues and the de-inked pulp issue seriously and is proceeding with compliance training at Nippon Paper Industries Co., Ltd., and all other Group companies to ensure everyone's full understanding of compliance and prevent recurrence. Particularly at Nippon Paper industries, which is the backbone of the Core Group Companies, we administered training through August 2008



Compliance training

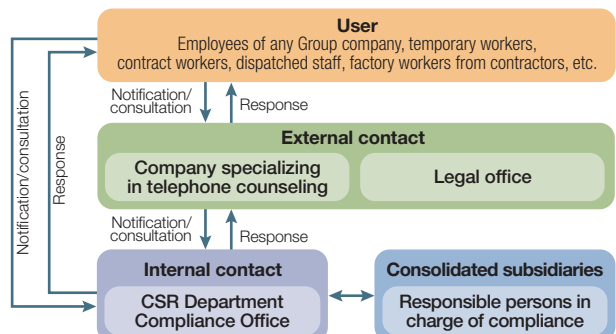
to the president and other officers, as well as the employees at headquarters and at all mills (including subcontractors).

## Help Line (Group Whistleblower System)

We aim to forestall problems and detect them early on by giving all employees a better understanding of the Help Line System.

The Group has maintained the Help Line System since fiscal 2004. The system allows any employee of the Group to notify directly or consult outside the chain-of-command structure concerning actions in the workplace that could violate laws, social norms, or corporate ethics. We set up contact points inside and outside the Group, and the Help Line System guarantees the privacy of whistleblowers and will protect them from problems potentially occurring after notification or consultation, so that they can do so without anxiety. The system also ensures that notification and information are appropriately addressed in the early stages.

### Flow of the Help Line System

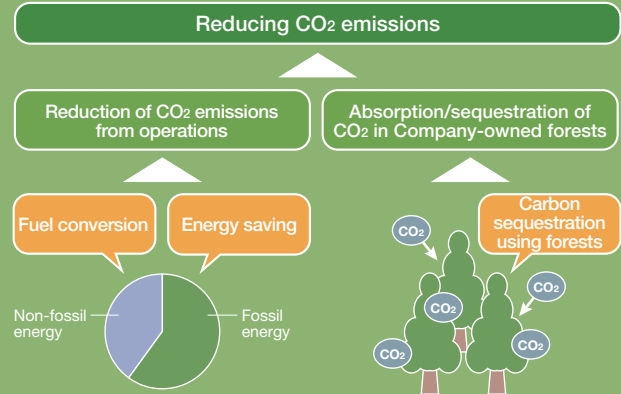


# Climate Change

We are working to reduce CO<sub>2</sub> emissions during production and in all other operations.



As the impact of climate change becomes more serious, the Group is channeling resources toward reducing CO<sub>2</sub> emissions. We strive to reduce the amount of CO<sub>2</sub> emitted into the atmosphere principally by reducing fossil energy consumption through the promotion of energy savings in production and distribution processes, introducing biomass boilers and other fuel conversions, and sequestering carbon through management of Company-owned forests.



## Limiting CO<sub>2</sub> Emissions from Operations

### We set more ambitious goals for reducing CO<sub>2</sub> emissions.

In April 2008, the Group revised upward the CO<sub>2</sub> reduction targets in its environmental action plan. The new targets are based on projections of reduced CO<sub>2</sub> emissions owing to the steady progress of energy conversion. As the first commitment period of the Kyoto Protocol nears, the Nippon Paper Group will accelerate its efforts to help reduce CO<sub>2</sub> emissions.

#### More Ambitious Targets for Reduction of CO<sub>2</sub> Emissions (for fiscal 2010, compared with fiscal 1990)

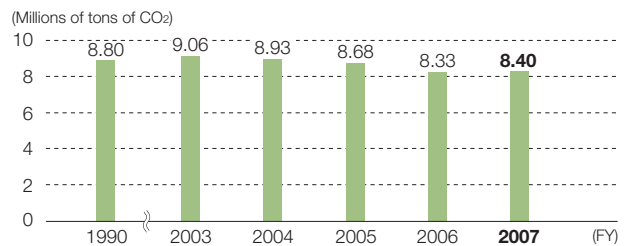
- Emission units: 16% reduction (former target, 10%)
- Fossil energy units per product: 20% reduction (former target, 13%)

### CO<sub>2</sub> emissions from fossil fuels in fiscal 2007 were 4.5% lower than in fiscal 1990.

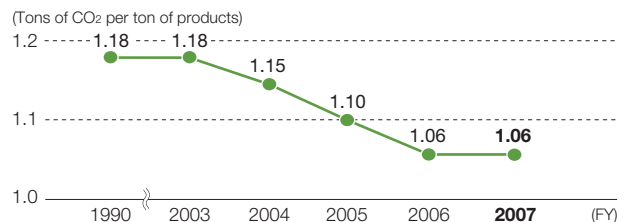
By implementing measures to limit CO<sub>2</sub> emissions, the Group cut the CO<sub>2</sub> emissions from fossil fuels by 4.5% in fiscal 2007, compared with fiscal 1990 levels.

We are also making progress on a unit basis. CO<sub>2</sub> emission units represent the amount of CO<sub>2</sub> emissions from fossil fuels per ton of paper products. For fiscal 2007, CO<sub>2</sub> emission units in the pulp and paper business were 10.2% lower than in fiscal 1990. Units of fossil energy decreased 15.3%.

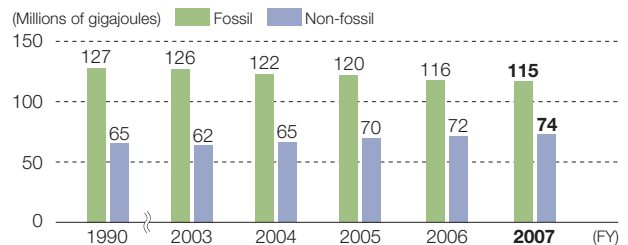
#### CO<sub>2</sub> Emissions from Fossil Fuels (All Businesses)



#### Units of CO<sub>2</sub> in the Pulp and Paper Business



#### Energy Input (All Businesses)



#### Fossil Energy Units in the Pulp and Paper Business



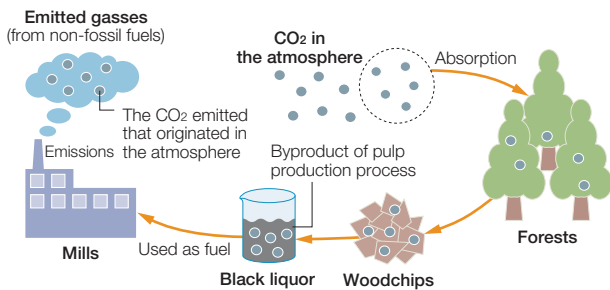


## Fuel Conversion Using Non-Fossil Energy

- We have achieved a non-fossil fuel ratio of 39%.

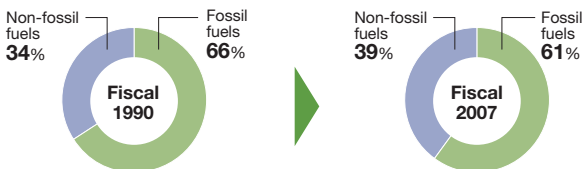
The Group seeks to limit the concentration of CO<sub>2</sub> in the atmosphere by promoting the utilization of black liquor, which is a byproduct of making pulp from woodchips, and expanding usage of scrap wood and other non-fossil fuels by building biomass boilers. In fiscal 2007, non-fossil fuels provided 39% of all the energy used by the Group.

### Utilization of Biomass Energy



Plants absorb CO<sub>2</sub> from the atmosphere through photosynthesis as they grow, so the CO<sub>2</sub> released when burning plant-based biomass for energy is gas that originated in the atmosphere. Therefore, biomass is considered "carbon neutral," as it does not increase the amount of global CO<sub>2</sub>.

### Non-Fossil Fuel Usage Ratio



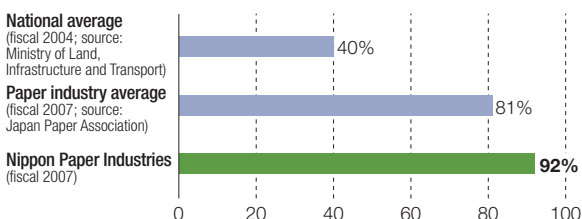
## Energy Conservation in Distribution Processes

- We have achieved a modal shift\* rate of 92%.

The Group is working to reduce CO<sub>2</sub> emissions by saving energy in distribution processes. Nippon Paper Industries has achieved a modal shift rate of 92%—far surpassing the national average of 40%.

\* Modal shift: Streamlining shipping by switching transportation methods to ships and railways capable of carrying large loads.

### Comparison of Modal Shift Rates



## Carbon Sequestration through Company-Owned Forests

- We are cutting CO<sub>2</sub> concentrations in the atmosphere through appropriate management of forests.

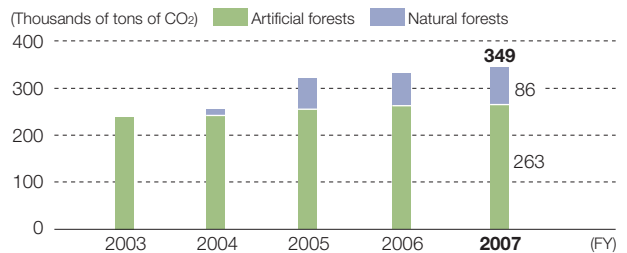
Forests reduce the concentration of CO<sub>2</sub> in the atmosphere, because trees absorb CO<sub>2</sub> as they grow.

The Group actively maintains forests to fully utilize this CO<sub>2</sub> absorption ability. By appropriately managing a total of 90,000 hectares of Company-owned forest in Japan, we continue to sequester 350,000 tons of CO<sub>2</sub> each year.



Company-owned forest in Aka, Hokkaido

### Yearly Amount of CO<sub>2</sub> Absorbed/Sequestered in Company-Owned Forests in Japan



\* The portion harvested is deducted from the sequestered amount of CO<sub>2</sub>.

\* Sequestered from artificial forests, and natural forests with forest certification.

## Joint Survey on Bioethanol with Cosmo Oil Co., Ltd.

Recently bioethanol has attracted attention as a fuel that does not increase the atmospheric CO<sub>2</sub> concentration. In particular, bioethanol production technologies that use rice straw or trees as fuel are getting noticed because they do not compete for food sources like corn.

Nippon Paper Chemicals Co., Ltd., has commenced joint research with Cosmo Oil Co., Ltd., on commercialization of bioethanol using wood as fuel. We are studying the commercial viability of bioethanol production using sugars contained in black liquor, which is a byproduct of sulfite pulp manufacturing.

# Sustainable Procurement of Raw Materials

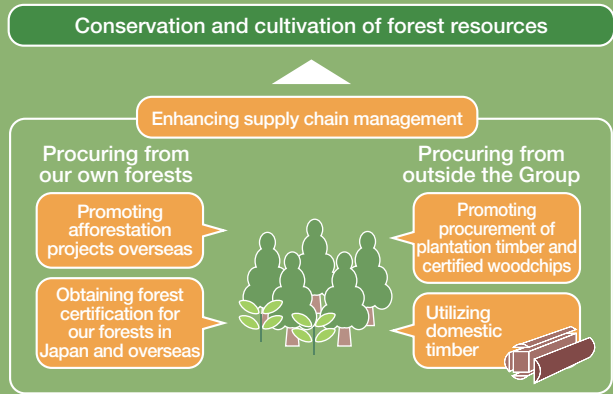
We aim to procure raw materials with respect for the environment and society. To this end, we are enhancing supply chain management by promoting afforestation projects overseas and procurement of certified woodchips.



Wood resources, which are the main raw materials for pulp and paper, are supplied from forests deeply intertwined with the global environment and ecosystems.

Therefore, it is important to keep forests in a sustainable condition and to follow all relevant statutes.

The Group endeavors to create a framework and mechanism for the sustainable procurement of wood materials from precious forests with respect for local forest ecosystems, communities and occupational safety and health.



## Enhancing Supply Chain Management

- We are stepping up efforts to procure raw materials with due respect for biodiversity and society.

Procurement of wood resources involves suppliers in Japan and overseas, local communities, government entities, and many other parties. The substantial impact on society of this process makes it important that we work with suppliers to respect local environments and communities while maintaining a sustainable supply chain.

To advance such efforts as the Group, in October 2005, we established the Philosophy and Basic Policy Concerning Raw Materials Procurement. Before finalization, we released a draft for stakeholders' comments. We internally discussed all of the nearly 2,000 opinions we received from within Japan and overseas, and referenced them during the revising of the draft.

In August 2006, based on the Philosophy and Basic Policy Concerning Raw Materials Procurement, we launched an action plan for promoting CSR procurement that incorporated checks on the legality of woodchips.

According to this action plan, we enhance traceability to ensure legality and sustainability. A questionnaire for suppliers is a part of this action, in which their action for the environment, human rights, and working conditions is also examined.

 Philosophy and Basic Policy  
<http://www.np-g.com/e/csr/management/materials.html>

 Action Plan  
[http://www.np-g.com/e/csr/management/action\\_plan.html](http://www.np-g.com/e/csr/management/action_plan.html)

## Promoting Afforestation Projects Overseas

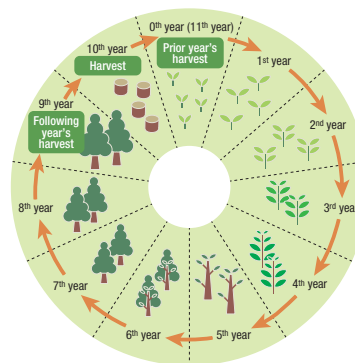
- Our goal is to develop more than 200,000 hectares of plantations by 2015.

Nippon Paper Industries is spearheading a Group afforestation project called the "Tree Farm Initiative". The project seeks sustainable procurement of raw materials by growing as many trees as are harvested each year.

Our plantation area overseas totaled 104,000 hectares at the end of September 2006, which was two years earlier than our initial goal of developing 100,000 hectares by fiscal 2008.

We have therefore set a new goal of developing more than 200,000 hectares of plantations by 2015. The total area stood at 166,000 hectares at the end of 2007, indicating that we can almost certainly achieve the new goal.

### Afforestation Cycle



10-Year Harvesting Cycle

We plant trees on a schedule each year and harvest and use them after they have grown large. After harvesting, we regenerate the forests by replanting as well as "coppicing," in which shoots that sprout from stumps are grown into new trees. We grow hardwood chip resources by managing forests through this cycle.

## Obtaining Forest Certification for Our Forests in Japan and Overseas

- We expect to acquire forest certification\* for all our forests in Japan and overseas by 2008.

The Group intends to obtain forest certification for all its forests in Japan and overseas by 2008. In October 2007, all of our forests in Japan obtained forest certification.

As of the end of 2007, all of our overseas plantations were certified, except for Amapa Florestal e Celulose Ltda. (AMCEL) of Brazil, which joined the Group at the end of 2006. AMCEL is expected to obtain certification in 2008.

### \* Forest certification

Forest certification is a system by which third-party institutions objectively evaluate and certify that companies are properly maintaining and managing forests with consideration for society and the environment. Typical forest certification systems are administered by organizations such as the Forest Stewardship Council (FSC), which is well-known in Japan, the Programme for the Endorsement of Forest Certification schemes (PEFC), which accounts for approximately 70% of the world's forest certification and the Sustainable Green Ecosystem Council (SGEC), which provides a certification unique to Japan.

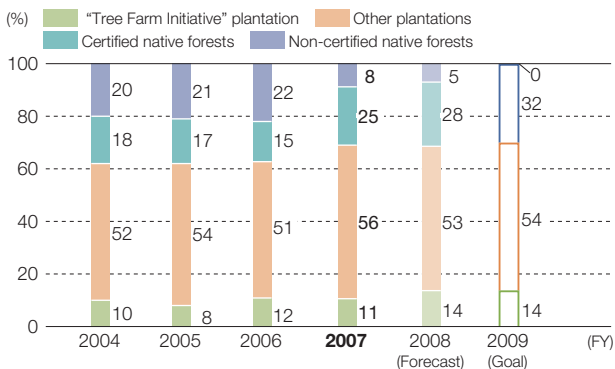
## Promoting Procurement of Plantation Timber and Certified Woodchips

- 92% of our imported hardwood chips are from plantation or certified wood chips.

To obtain woodchips from sustainable forests, Nippon Paper Industries aims to procure 100% of its imported hardwood chips from plantation or certified forests by fiscal 2008.

In fiscal 2007, imported woodchips which are certified or from plantations rose to 92% while the majority of the remaining 8% was non-certified woodchips, sourced primarily from state-owned natural forests in Australia. We expect to complete certification of them in fiscal 2008 and reflect it in our business results for fiscal 2009.

### Sources of Imported Hardwood (Fiscal 2007)



## Utilizing Domestic Timber

- We actively use sawmill residues and thinned timber in Japan.

After World War II, cypress and cedar trees were aggressively planted in Japan, and these resources now require thinning and other maintenance to ensure healthy growth. However, many plantations have not been adequately maintained due to stagnant lumber prices, raising concerns about forest deterioration.

To keep the forests in good condition, the Group believes that the utilization of domestic timber, including thinned timber, must be encouraged. In addition to our independent efforts to improve paper making techniques to raise the percentage of domestic timber used, we will coordinate with the Forestry Agency to promote the use of thinned timber. Through these initiatives, we aim to increase the group wide ratio of domestic timber usage to 30%\* by fiscal 2010.



The final stage of the thinning operation (Company-owned forest in Kitayama, Shizuoka Prefecture); white tape tied to trees indicates those to be thinned.

\* Percentage of domestic timber out of the total amount of raw materials used for our pulp and paper mills in Japan.

## Respect for Biodiversity

Based on our Charter on the Environment (pg. 17) and its Philosophy and Basic Policy Concerning Raw Materials Procurement, the Group strives to procure raw materials with respect for biodiversity and to protect and maintain forests.

We set aside approximately 20% of our 90,000 hectares of forest in Japan as environmental forest stands, prohibiting their harvest as timber to protect the local ecosystem and its environmental functions, such as replenishment of water sources. The stands include areas designated as national parks in Akan and Nikko, which are preserved as habitats for a myriad of living things.

Moreover, the forest certification we are pursuing for all our forests in Japan and overseas entails an objective third-party assessment of our respect for biodiversity as part of the review of forest sustainability.

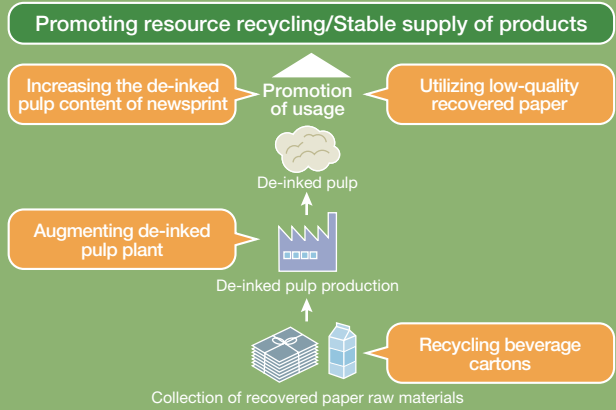


# Promoting Recovered Paper Recycling

We are contributing to the creation of a recycling society that makes maximum use of recovered paper.



The paper manufacturing industry has long promoted recycling to deal with garbage issues and utilize resources effectively. In Japan, the RP utilization rate (the percentage of recovered paper in the raw materials used for making paper) is more than 60%, making recovered paper an essential raw material for the stable supply of paper. To increase this rate, the Group is augmenting its recovered paper processing capabilities and using currently unused and low-quality recovered paper.



## Augmenting De-Inked Pulp Plant

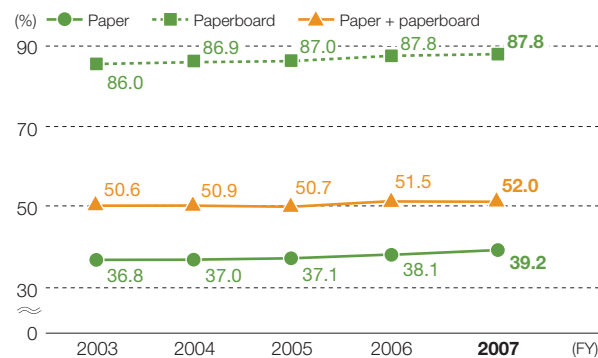
- We commenced operations at de-inked pulp plant with the maximum processing capacity.

The Group had promoted recovered paper utilization with a target usage rate of at least 50% by fiscal 2008. We achieved this goal with a rate of 52% in fiscal 2007.\*

To further promote recovered paper utilization, Nippon Paper Industries is expanding and enhancing its de-inked pulp plants. In August 2007 at the Ishinomaki Mill, which is one of the largest de-inked pulp plants operated by the Core Group Companies with a daily capacity of 530 tons, went on line.

\* The Nippon Paper Group's RP utilization rate is lower than the rate of 61.2% for all of Japan because printing paper constitutes a large portion of the Group's products, whereas paperboard (linerboard and corrugating medium), which generally has a high recovered paper content, constitutes a small portion.

Group RP Utilization Rates\*



\* RP utilization rate = Recovered paper / (Recovered paper + Other pulp)

## Utilizing Currently Unused Recovered Paper and Low-Quality Recovered Paper

- We are advancing technical development and capital investment to utilize unused recovered paper and low-quality recovered paper.

In 2007, the domestic recovered paper recovery rate reached a record-high 73.6%. The Group is working to further raise its recovered paper recovery rate by utilizing recovered paper for confidential documents and other as yet unrealized uses.

Low-quality recovered paper is also being collected as the recovered paper recovery rate increases. We are actively pursuing technical developments to raise rates through the utilization of such low-quality recovered paper.

### Example Recycling Confidential Documents

In March 2008, the Soka Mill of Nippon Daishowa Paperboard Co., Ltd., built new facilities for recycling confidential documents.

In the past, confidential documents from offices were usually incinerated to prevent information leakage. Now, these facilities will recycle such documents as recovered paper. The sealed, indoor, dedicated facilities process boxes of documents



Confidential document recycling plant

without opening them, turning the dissolved confidential documents into linerboard, corrugating medium and other forms of paperboard.

**Example** **Developing Ink Detachment Techniques for Toner Printed Materials**

In response to the recent decline in recovered paper quality, Nippon Paper Industries is implementing the latest technologies in its recovered paper treatment facilities to remove foreign matter and ink.

UV Breaker, a multiaxial kneading machine developed jointly with an equipment manufacturer, is a new technology that offers superior ink detachment and dispersion capabilities. The machine will enhance the Company's ability to process materials



UV Breaker

printed with UV ink and toner, which are difficult to detach and disperse. Recovered paper is expected to incorporate a higher ratio of both types of printed materials.

**Expanding De-Inked Pulp Content in Newsprint**

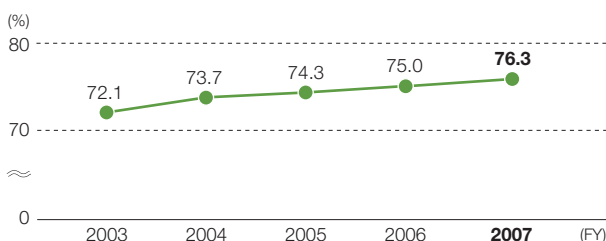
- **We have achieved our target of 75% de-inked pulp content for newsprint.**

Paper for which whiteness is not as important and that will be used and stored for only short periods can utilize large amounts of recovered paper with low environmental impact. Paperboard for cardboard and other uses could be considered ideal for this purpose, with recovered paper utilization rate near 90%, but this is approaching the upper limit of recovered paper utilization.

Therefore, to expand recovered paper usage, Nippon Paper Industries set a target of at least 75% de-inked pulp content for newsprint, which is the second most suitable paper for recovered paper utilization after paperboard. This goal was achieved in fiscal 2006, and the content ratio was raised to 76.3% in fiscal 2007.

In this way, the Group is advancing utilization of recovered paper by setting targets for specific products in addition to collective targets for all products.

**De-Inked Pulp Content Ratio Newsprint**  
(Nippon Paper Industries Co., Ltd.)



**Beverage Carton Recycling**

- **We are pursuing the industry target of at least 50% recovery for beverage cartons by fiscal 2010.**

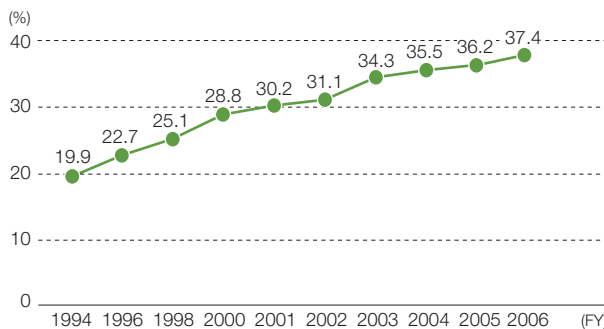
In promoting higher recovered paper usage rates, the Group coordinates with the other companies in the industry to expand the volume of recovered paper collected. Among these efforts, we are focusing on promoting recovery of beverage cartons used to package milk, juice and other beverages, as these cartons yield quality de-inked pulp.

NIPPON PAPER-PAK CO., LTD., is advancing beverage carton recycling as a member of the Committee for Milk Container Environmental Issues. The committee set a goal of at least 50% recovery for beverage cartons by fiscal 2010, and works with Japan Milk Carton Recycling Association, a citizens' group, to promote the placement of milk carton collection boxes. The initiative calls on schools, local governments, public facilities, and business establishments across Japan to cooperate in placing the boxes, and focuses on enlightening the government and consumers through local conferences, recycling workshops, and educational visits throughout Japan. In fiscal 2006, Japan achieved a paper beverage carton recovery rate of 37.4%.



Milk carton collection box

**Percentage of Beverage Cartons Collected**

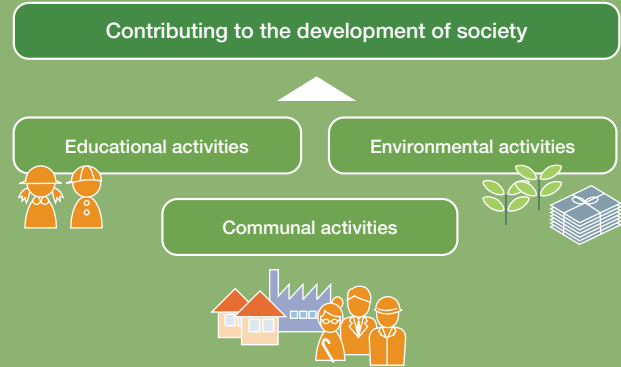


# Social Contribution Activities

We engage in a variety of social contribution activities to maintain the confidence of and remain close to local residents as a good corporate citizen.



The Group's core paper business assists the development of society and culture through the stable supply of paper, which is indispensable to daily life. Nippon Paper Group also actively contributes to social development in a variety of non-business ways to fulfill its responsibilities as a corporate citizen.



## Social Contribution Activities

- We continue to conduct educational, environmental and community activities.

To contribute to the development of overall society, the Group participates in a broad range of social contribution activities related to education, the environment, and communities. We put emphasis on dialogue with stakeholders to understand societal needs precisely and reflect them in such activities.

### Major Social Contribution Activities

Education-Related Efforts	
	Holding sports classes and events (ice hockey, baseball, etc.)
	Using Company-owned forests (School of Friendship for Forests and Paper, etc.)
	Sponsoring musical contests, inviting people to concerts
	Offering public mill tours for social experience
	Offering internships for job experience
	Providing paper products and educational visits to academic institutions
Environmental Activities	
	Preserving endangered species using proprietary techniques
	Holding world environmental forums (seminars for general audiences)
	Promoting the spread of recycling (collecting recovered paper, disposable chopsticks, etc.)
	Planting trees
	Cooperating with volunteer activities, such as those of the Shirane-aoi Preservation Group
Community Activities	
	Cleaning up around mill sites
	Opening Company recreational facilities (gymnasiums, etc.) to the public
	Participating in and sponsoring festivals and other community events
	Contributing to community safety (child safety, traffic safety)
	Holding summer festivals, gateball (similar to croquet) tournaments, and other events

\* Please refer to *Sustainability Report 2008 (Detailed Edition)*, pages 114-121, for information on other social contribution activities.

### Example Sponsoring Gala Concerts for the Long-Thibaud International Music Competition

Started in Paris in 1943, the Long-Thibaud International Music Competition is a classical musical contest that has more than half a century of history. Ranked one of the four major classical music competitions in the world alongside the Chopin, Tchaikovsky and Queen Elizabeth international contests, this contest produces many famous performers.

The Group supports the competition by sponsoring the Prize of the creativity-Nippon Paper Group to the most creative performer in the finals held each year in Paris, and by co-sponsoring the Gala Concert held in Japan.

The Gala Concert was held in January 2008 and enchanted the full audience with the performances of 2007 piano grand prize winner Hibiki Tamura, second-place piano contestant Jun Hee Kim, and other spectacular guests.

We also have invited visually challenged people to the event since fiscal 2005. Including their



Violin performance at the competition

attendants, 55 people enjoyed the great performances at the 2008 concert.



**Example School of Friendship for Forests and Paper**

The School of Friendship for Forests and Paper is the Group's course on the natural environment utilizing the approximately 90,000 hectares of forest owned by Nippon Paper Industries in Japan. The aim of this event is to let children interact with nature and learn the importance of nature by understanding that the paper they use every day is connected with forests. The school invites participants from the general public. All programs are planned and operated by Nippon Paper's employees with cooperation from the Japan Philanthropic Association and local high schools.

Since fiscal 2006, a total of eight sessions for more than 200 children have been held in Company-owned forests in Gunma and Kumamoto prefectures. We are also considering holding the School in our forests in Hokkaido and the Tohoku region.

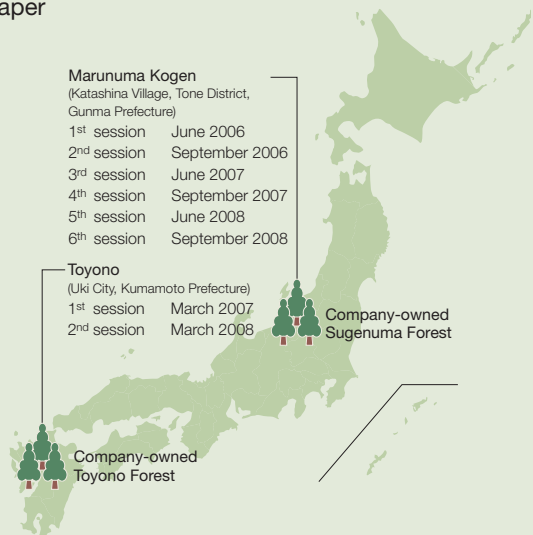


**Forest walking**  
Employees guide participants around naturally abundant Company-owned forests, showing highlights of hiking trails and commenting on the vegetation.



**Making paper from twigs**  
Participants use twigs found in the forest to make pulp with their own hands, which they turn into paper to make their own postcards.

**The Expanding School of Friendship for Forests and Paper**



**Example Preserving Endangered Species with Proprietary Techniques**

In nature, plants grow by photosynthesis utilizing sunlight, carbon dioxide and water to convert light energy into chemical energy. Nippon Paper Industries has developed a technique that makes the most of a plant's ability of photosynthesis through propagation by cuttings. This technique is used to help preserve biodiversity by protecting endangered species and historically valuable plants.

The technique boosts plants' photosynthetic activities and promotes rooting by preparing healthy environments for photosynthesis within special culture rooms and containers. It is now possible with this technique to root plant species for which plantlet rooting and propagation was previously difficult.

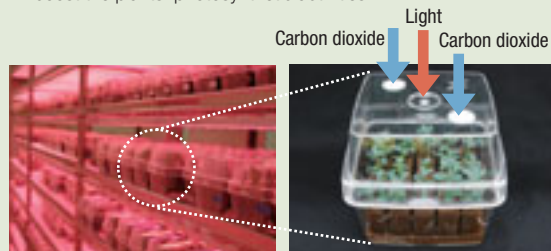
For instance, by request from the University of Tokyo's Koishikawa Botanical Gardens and the Japan Forest Tree Breeding Association, we successfully employed the technique to breed plants classified as Schedule 1A endangered species of the Ogasawara Islands. We contribute to the preservation of these invaluable plants by replanting a portion of the rooted plantlets in the islands.



Rooted *Morus boninensis*

**Technique for Cultivating Cuttings in Containers**

- (1) Place the container in a cultivating room with an elevated carbon dioxide concentration and light with suitable wavelengths to boost the plants' photosynthetic activities.



- (2) Even tree varieties that previously had difficulty taking root as cuttings are able to do so.



# Outline of the Nippon Paper Group

## Company Profile

**Corporate Name** Nippon Paper Group, Inc.  
**Address** Shin-Yuraku-cho Building, 1-12-1, Yuraku-cho, Chiyoda-ku, Tokyo, Japan  
**Capital** 55.73 billion yen

**Date of Incorporation** March 30, 2001  
**Securities Code** 3893  
**Telephone** +81-(0)3-3218-9300

## Group Companies (As of March 31, 2008)

### By Financial Statement Classification

Consolidated subsidiaries	42
Non-consolidated subsidiaries	103
Affiliates	49

### By Region

	Japan	USA	Canada	Australia	Total
Consolidated subsidiaries	39	1	1	1	42
Affiliate companies accounted for by the equity method of accounting	5	1	1	1	8

## Segment Data (As of the end of March 2008)

### > Pulp and Paper Division

The pulp and paper division, the core business of Nippon Paper Group, manufactures and sells paper, paperboard, household paper products, and pulp.

#### Consolidated Subsidiaries

Nippon Paper Industries Co., Ltd., Nippon Daishowa Paperboard Co., Ltd.\*<sup>1</sup>, Nippon Paper Crecia Co., Ltd., NP Trading Co., Ltd.\*<sup>3</sup>, Kitakami Paper Co., Ltd., KOYO PAPER MFG. Co., Ltd., Daishowa North America Corporation, Nippon Paper Industries USA Co., Ltd., Nippon Daishowa Paperboard Tohoku Co., Ltd.\*<sup>1</sup>, Nippon Daishowa Paperboard Kanto Co., Ltd.\*<sup>1</sup>, Nippon Daishowa Paperboard Yoshinaga Co., Ltd.\*<sup>1</sup>, Nippon Daishowa Paperboard Nishinippon Co., Ltd.\*<sup>1</sup>, HAGA Paper Trading Co., Ltd.\*<sup>4</sup>, Kokuei Paper Co., Ltd., Mishima Paper Co., Ltd.\*<sup>2</sup>

\*<sup>1</sup> On April 1, 2008, Nippon Daishowa Paperboard Co., Ltd. absorbed Nippon Daishowa Paperboard Tohoku Co., Ltd., Nippon Daishowa Paperboard Kanto Co., Ltd., Nippon Daishowa Paperboard Yoshinaga Co., Ltd., and Nippon Daishowa Paperboard Nishinippon Co., Ltd.

\*<sup>2</sup> On February 1, 2008, Nippon Paper Group, Inc. made Mishima Paper Co., Ltd. its wholly owned subsidiary by stock swap. On April 1, 2008, the subsidiary's name was changed to Nippon Paper Papylia Co., Ltd.

\*<sup>3</sup> On October 1, 2007, NP Trading Co., Ltd. absorbed Mantsune Corporation.

\*<sup>4</sup> On April 1, 2008, HAGA Paper Trading Co., Ltd. merged with Kawachiya Paper Co., Ltd. and changed its name to KYODO PAPER HOLDING CO., LTD.

### > Paper-Related Division

The Paper-related Division manufactures and sells processed paper products, such as paper containers for liquids and heavy-duty sacks, as well as dissolved pulp and functional chemical products.

#### Consolidated Subsidiaries

NIPPON PAPER-PAK CO., LTD., Nippon Paper Chemicals Co., Ltd., Nippon Seitai Corporation, FLOWRIC CO., LTD., Sakurai Co., Ltd.

### > Housing and Construction Materials Division

The Housing and Construction Materials Division purchases and sells lumber, manufactures and sells construction materials, and conducts civil engineering work.

#### Consolidated Subsidiaries

Nippon Paper Lumber Co., Ltd., South East Fibre Exports Pty. Ltd., NIPPON PAPER UNITEC CO., LTD.\*<sup>5</sup>, Kokusaku Kiko Co., Ltd., PAL CO., LTD., N&E CO., LTD., Daishowa Uniboard Co., Ltd., Kunimoku House Co., Ltd.

### > Other Division

The other division manufactures and sells soft drinks, develops and operates sports and leisure facilities, and is engaged in the warehouse and transportation business.

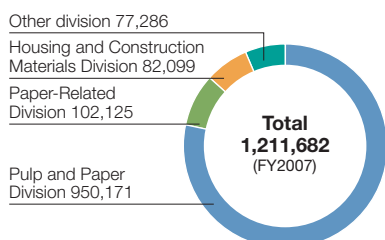
#### Consolidated Subsidiaries

Nippon Paper Development Co., Ltd., Graphic Arts Communication, NIPPON PAPER LOGISTICS CO., LTD.\*<sup>5,6</sup>, Kyokushin Transport Co., Ltd., NANKO UNYU CO., LTD., Hotoku Co., Ltd., IWAKUNI-KAIUN CO., Ltd.\*<sup>6</sup>, SHIKOKU COCA-COLA BOTTLING CO., LTD., SHIKOKU SAWAYAKA SERVICE CO., Ltd., CANTEEN CO., LTD., SHIKOKU COCA-COLA VENDING CO., LTD., SHIKOKU CUSTOMER SERVICE CO., LTD., SHIKOKU COCA-COLA PRODUCTS CO., LTD., DYNFLOW CO., LTD.

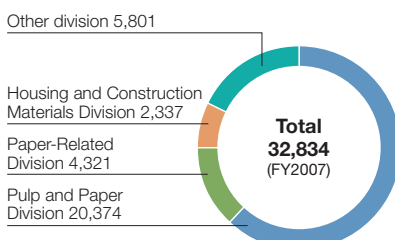
\*<sup>5</sup> On May 1, 2007, Daishowa Logistics Co., Ltd. and Nippon Paperboard Logistics Co., Ltd. were integrated into Nippon Paper Logistics Co., Ltd. through joint assimilative-divisive merger.

\*<sup>6</sup> On April 1, 2008, IWAKUNI-KAIUN CO., LTD. was absorbed by Nippon Paper Logistics Co., Ltd. PaperCreacia Co., Ltd. on August 1, 2006.

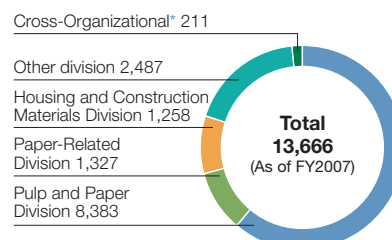
### Consolidated Net Sales (Millions of yen)



### Consolidated Operating Income (Millions of yen)



### Consolidated Number of Employees by Business



\* "Cross-organizational" means the employees responsible for multiple divisions.

## Production Sites of Each Operating Company (As of April 1, 2008)

### > Pulp and Paper Division

#### ● Nippon Paper Industries Co., Ltd.\*1-2

- ① Kushiro Mill    ② Asahikawa Mill    ③ Yufutsu Mill    ④ Shiraoi Mill
- ⑤ Ishinomaki Mill    ⑥ Iwanuma Mill    ⑦ Nakoso Mill    ⑧ Fuji Mill
- ⑨ Fushiki Mill    ⑩ Iwakuni Mill    ⑪ Komatsushima Mill    ⑫ Yatsushiro Mill

#### ◆ Nippon Daishowa Paperboard Co., Ltd.\*3

- ⑬ Akita Mill    ⑭ Soka Mill    ⑮ Ashikaga Mill    ⑯ Yoshinaga Mill
- ⑰ Otake Mill

#### ■ Nippon Paper Crecia Co., Ltd.

- ⑱ Tokyo Mill    ⑲ Kaisei Mill    ⑳ Kyoto Mill    ㉑ Iwakuni Mill

#### ▲ Nippon Paper Papylia Co., Ltd.

- ㉒ Harada Mill    ㉓ Suita Mill    ㉔ Kochi Mill

#### ● Kitakami Paper Co., Ltd.

- ㉕ Ichinoseki Mill

#### ◆ KOYO PAPER MFG. CO., LTD.

- ㉖ Head Office Mill

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

- ㉗ Port Angeles Mill

### > Paper-Related Division

#### ● NIPPON PAPER-PAK CO., LTD.

- ① SOKA PAPER-PAK CO., LTD.    ② EGAWA PAPER-PAK CO., LTD.
- ③ MIKI PAPER-PAK CO., LTD.    ④ ISHIOKA KAKO CO., LTD.
- ⑤ Nakoso Film Co., Ltd.

#### ◆ Nippon Paper Chemicals Co., Ltd.

- ⑥ Gotsu Works    ⑦ Iwakuni Works    ⑧ Higashimatsuyama Works
- ⑨ Yufutsu Works    ⑩ Komatsushima Works

#### ■ Nippon Seitai Corporation

- ⑪ Asahikawa Mill    ⑫ Maehashi Mill    ⑬ Saitama Mill    ⑭ Niigata Mill
- ⑮ Kyoto Mill    ⑯ Kyushu Mill

#### ▲ Akita Jujo Chemicals Co., Ltd.

- ⑰ Head Office Plant

### > Housing and Construction Materials Division

#### ● PAL CO., LTD.

- ① YUFUTSU PALKENZAI Co., Ltd.    ② KANTO PALKENZAI Co., Ltd.
- ③ PALTEC Co., Ltd.    ④ N&E CO., LTD.

#### ◆ Daishowa Uniboard Co., Ltd.

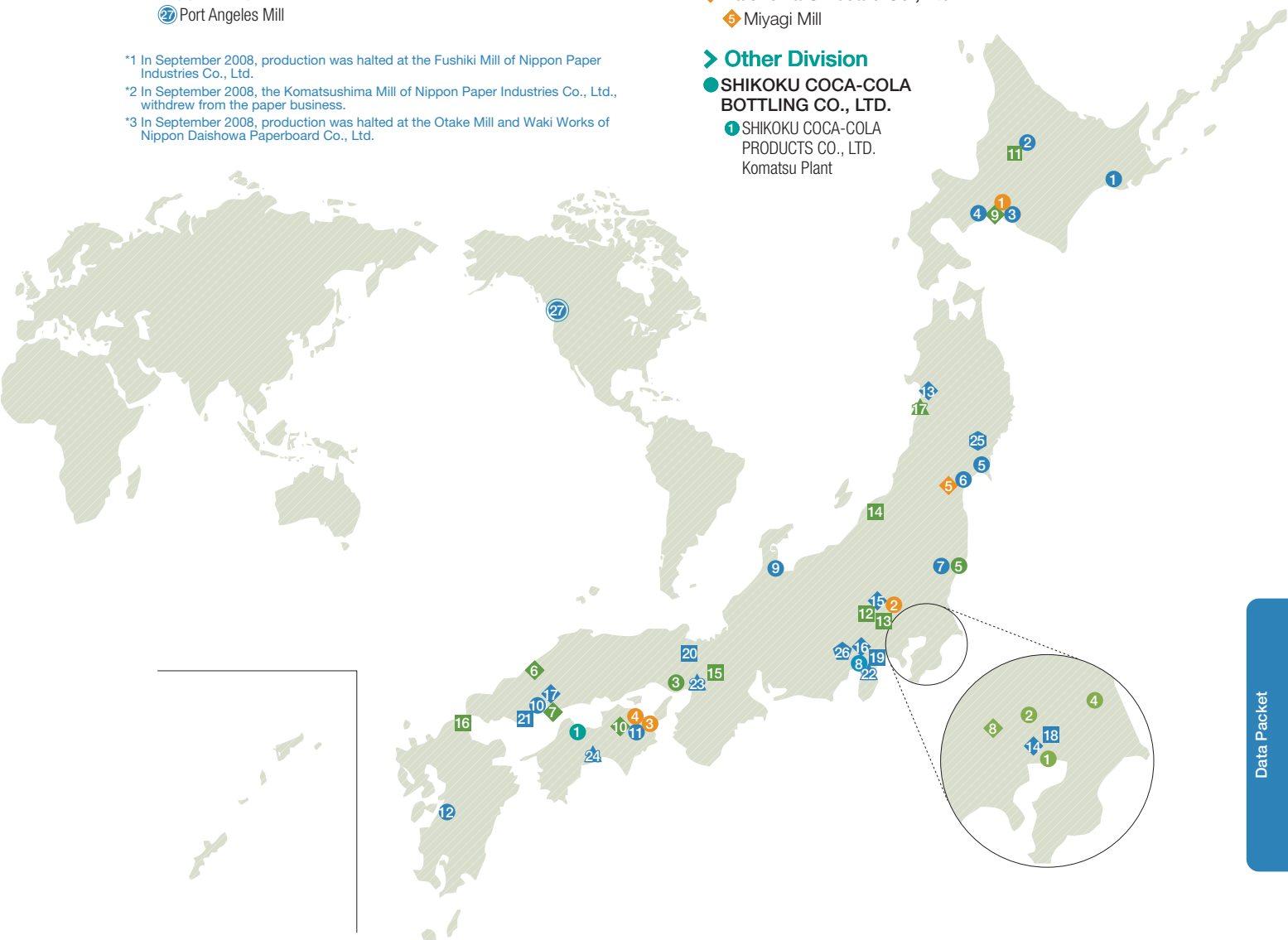
- ⑤ Miyagi Mill

### > Other Division

#### ● SHIKOKU COCA-COLA BOTTLING CO., LTD.

- ① SHIKOKU COCA-COLA PRODUCTS CO., LTD. Komatsu Plant

\*1 In September 2008, production was halted at the Fushiki Mill of Nippon Paper Industries Co., Ltd.  
 \*2 In September 2008, the Komatsushima Mill of Nippon Paper Industries Co., Ltd., withdrew from the paper business.  
 \*3 In September 2008, production was halted at the Otake Mill and Waki Works of Nippon Daishowa Paperboard Co., Ltd.





# Economic Indexes

## Economic Indexes

	Unit	FY2003	FY2004	FY2005	FY2006	FY2007
Consolidated Net Sales*1	Millions of yen	1,192,649	1,179,696	1,152,166	1,175,264	1,211,682
Pulp and Paper Division	Millions of yen	890,124	870,360	860,993	889,866	950,171
Paper-Related Division	Millions of yen	123,737	126,592	110,350	101,459	102,125
Housing and Construction Materials Division	Millions of yen	93,469	95,236	94,041	100,489	82,099
Other Division	Millions of yen	85,317	87,506	86,781	83,449	77,286
Consolidated Operating Income	Millions of yen	55,679	65,231	48,391	44,655	32,834
Pulp and Paper Division	Millions of yen	41,363	47,269	33,197	30,650	20,374
Paper-Related Division	Millions of yen	4,987	8,286	6,181	4,898	4,321
Housing and Construction Materials Division	Millions of yen	2,632	2,339	2,607	2,993	2,337
Other Division	Millions of yen	6,696	7,336	6,404	6,112	5,801
Operating Income to Net Sales	%	4.7	5.5	4.2	3.8	2.7
Consolidated Ordinary Income	Millions of yen	50,665	62,801	49,403	47,088	32,800
Consolidated Net Income	Millions of yen	24,258	24,350	17,192	22,952	5,661
Total Assets	Millions of yen	1,637,366	1,529,975	1,492,427	1,565,978	1,625,571
Interest-Bearing Debt	Millions of yen	842,278	766,139	692,078	738,230	785,322
Cash Dividends per Share	Yen	8,000	8,000	8,000	8,000	8,000

\* Overseas operations account for less than 10% of consolidated sales.

## Major Debt Rating (As of August 2008)

Rating Agencies	Ratings
Rating and Investment Information, Inc. (R&I)	Long-term Debt A
Japan Credit Rating Agency, Ltd. (JCR)	Long-term Debt A+

## Major SRI Indices Adopted (As of the end of March 2007)

Overseas	Domestic
FTSE4Good Global Index	Morningstar Socially Responsible Investment Index
FTSE4Good Japan Index	

## Major Organizations in Which Nippon Paper Group, Inc., Is a Member (As of April 1, 2008)

### Global

Name
World Business Council for Sustainable Development (WBCSD)
"Sustainable Forest Product Industry" Working Group (SFPI Working Group)
The United Nations Global Compact

### Domestic

Name
Japan Paper Association*
Nippon Keidanren
Caux Round Table (CRT) Japan

\* Nippon Paper Industries Co., Ltd., Nippon Daishowa Paperboard Co., Ltd., Nippon Paper Papyrus Co., Ltd., and Kitakami Paper Co., Ltd., which are operating companies, are members.

# Employment and Occupational Safety and Health\* Indicators

\* Safety and health data are calculated by calendar year.

## Number of Employees by Business

	As of FY2003	As of FY2004	As of FY2005	As of FY2006	As of FY2007
Number of Employees on a Consolidated Basis	14,987	13,774	12,798	12,584	13,666
Pulp and Paper Division	9,791	8,722	8,148	8,040	8,383
Paper-Related Division	1,819	1,747	1,196	1,200	1,327
Housing and Construction Materials Division	1,200	1,174	1,256	1,254	1,258
Other Divisions	1,944	1,917	1,995	1,885	2,487
Cross-organizational*	233	214	203	205	211

\* "Cross-organizational" means the employees responsible for multiple divisions.

## Percentage of Female Workers and the Rate of Employment of People with Disabilities (As of April 1, 2008) (%)

Item	Percentage/Rate
Percentage of Female Workers in Management*	1.06
Rate of Employment of People with Disabilities*	1.60

\* Organizations from which data were collected: Nippon Paper Group, Inc., Nippon Paper Industries Co., Ltd., Nippon Daishowa Paperboard Co., Ltd., Nippon Paper Crecia Co., Ltd., NIPPON PAPER-PAK CO., LTD., Nippon Paper Chemicals Co., Ltd., Nippon Paper Lumber Co., Ltd., NP Trading Co., Ltd., Nippon Paper Development Co., Ltd.

## Status of Occupational Safety and Physical Examinations

	Unit	FY2003	FY2004	FY2005	FY2006	FY2007
Frequency rate of occupational accident* <sup>1</sup>	Frequency rate	0.67	0.46	0.63	0.57	0.55
Occupational accident severity rate* <sup>1</sup>	Severity rate	0.04	0.02	0.02	0.02	0.01
Percentage of persons with abnormal physical examination findings* <sup>2</sup>	%	45.1	48.6	51.4	53.2	53.4

\*<sup>1</sup> Organizations from which data were collected: Manufacturing sites of Nippon Paper Industries Co., Ltd., Nippon Daishowa Paperboard Co., Ltd., Nippon Paper Crecia Co., Ltd., NIPPON PAPER-PAK CO., LTD., and Nippon Paper Chemicals Co., Ltd.,

\*<sup>2</sup> Organizations from which data were collected: Nippon Paper Group, Inc., Nippon Paper Industries Co., Ltd., Nippon Daishowa Paperboard Co., Ltd., Nippon Paper Crecia Co., Ltd., NIPPON PAPER-PAK CO., LTD., Nippon Paper Chemicals Co., Ltd., Nippon Paper Lumber Co., Ltd., NP Trading Co., Ltd., and Nippon Paper Development Co., Ltd.

# Acquisition of ISO Certification

## Acquisition of ISO 9001 Certification (As of April 1, 2008)

Company name	Mill/Manufacturing Company/Work
Nippon Paper Industries Co., Ltd.	Nakoso Mill
Nippon Daishowa Paperboard Co., Ltd.	Akita Mill, Ashikaga Mill, Soka Mill, Yoshinaga Mill, Otake Mill
Nippon Paper Papyrus Co., Ltd.	Harada Mill, Suita Mill, Kochi Mill
NIPPON PAPER-PAK CO., LTD.	SOKA PAPER-PAK CO., LTD., EGAWA PAPER-PAK CO., LTD., MIKI PAPER-PAK CO., LTD., ISHIOKA KAKO CO., LTD.
Nippon Paper Chemicals Co., Ltd.	Gotsu Works, Yufutsu Works, Iwakuni Works, Higashimatsuyama Works
FLOWRIC CO., LTD.	Nagoya Mill, Concrete Research Center, Headquarters
Nippon Seitai Corporation	Saitama Mill, Asahikawa Mill
Nippon Paper Development Co., Ltd.	Landscape Department
SHIKOKU COCA-COLA PRODUCTS CO., LTD.	Komatsu Mill
Kokusaku Kiko Co., Ltd.	
NIPPON PAPER UNITEC CO., LTD.	Four business sites at headquarters
NANKO UNYU CO., LTD.	
Graphic Arts Communication	

## Acquisition of ISO 14001 Certification (As of April 1, 2008)

Company name	Mills/Manufacturing Companies/Works
Nippon Paper Industries Co., Ltd.	Kushiro Mill, Asahikawa Mill, Yufutsu Mill, Shiraoi Mill, Ishinomaki Mill, Iwanuma Mill, Nakoso Mill, Fuji Mill, Fushiki Mill, Iwakuni Mill, Komatsushima Mill, Yatsushiro Mill, R&D Dept.
Nippon Daishowa Paperboard Co., Ltd.	Akita Mill, Soka Mill, Ashikaga Mill, Yoshinaga Mill, Otake Mill
Nippon Paper Crecia Co., Ltd.	Tokyo Mill, Kaisei Mill, Kyoto Mill, Iwakuni Mill
Nippon Paper Papyrus Co., Ltd.	Harada Mill, Suita Mill, Kochi Mill
KOYO PAPER MFG. CO., LTD.	Headquarters - Mill
Kitakami Paper Co., Ltd.	Headquarters - Ichinoseki Mill
NP Trading Co., Ltd.	Company-wide
NIPPON PAPER-PAK CO., LTD.	Headquarters, Liquid Packaging Center, SOKA PAPER-PAK CO., LTD., EGAWA PAPER-PAK CO., LTD., MIKI PAPER-PAK CO., LTD., ISHIOKA KAKO CO., LTD.
Nippon Paper Chemicals Co., Ltd.	Gotsu Works, Iwakuni Works, Higashimatsuyama Works, Yufutsu Works, Komatsushima Works
Nippon Paper Industries USA Co., Ltd.	Port Angeles Mill ◆
Nippon Seitai Corporation	Headquarters, Maebashi Mill, Saitama Mill, Kyusyu Works, Kansai Works ◆, Hokkaido Works ◆
Daishowa Uniboard Co., Ltd.	Company-wide
SHIKOKU COCA-COLA BOTTLING CO., LTD.	Headquarters, SHIKOKU COCA-COLA PRODUCTS CO., LTD.; Headquarters, SHIKOKU SAWAYAKA SERVICE CO., LTD.; Headquarters, CANTEEN CO., LTD.; Headquarters, DYNAFLOW
Nippon Paper Lumber Co., Ltd.	Insulator Sales Dept.
Nippon Paper Development Co., Ltd.	Headquarters, Landscape Department, Tokyo Sports and Amusement Department
Sakurai Co., Ltd.	Headquarters
South East Fibre Export	Company-wide
Nippon Paper Treefarm Australia	Portland Treefarm Project, Bunbury Treefarm Project, Victoria Treefarm Project
WAPRES	Company-wide
Forestco	Company-wide
Volterra	Company-wide
AMCEL	Tree Farming and Forest Survey Department

\* The diamond symbol (◆) indicates a mill, manufacturing company or works newly certified in fiscal 2007.

# Raw Material Procurement-Related Indicators

## Countries of Production and Species of Woodchips the Group Procured from Overseas (Fiscal 2007)

### Hardwood

Country	Percentage	Species
Australia	50%	Eucalyptus
South Africa	26%	Eucalyptus, acacia
Brazil	9%	Eucalyptus, acacia
Chile	8%	Eucalyptus
Uruguay	6%	Eucalyptus
Indonesia	1%	Acacia

### Softwood

Country	Percentage	Species
Australia	65%	Radiata pine
United States	16%	Douglas fir
Brazil	7%	Caribbean pine
Canada	5%	Spruce pine fir
New Zealand	3%	Radiata pine
Russia	2%	Russian pine
Chile	2%	Radiata pine

## Overseas Afforestation Areas by Country

(Thousands of hectares)

Country	End of 2002	End of 2003	End of 2004	End of 2005	End of 2006	End of 2007
Australia	59.0	61.6	64.0	73.7	77.9	79.6
Chile	13.5	13.5	13.5	13.5	13.5	12.7
Brazil	—	—	—	—	62.0	62.0
South Africa	4.2	4.2	4.2	12.1	12.1	11.6
Total	76.7	79.3	81.7	99.3	165.5	165.9

## Status of Forest Certification for Overseas Afforestation Projects and Company-Owned Forests in Japan

Overseas afforestation project (company)	System certification (ISO14001)	Performance certification
WAPRES/RTA (Australia)	Acquired on April 2003	AFS acquired on September 2004
VTP/VIZ/JAF MATE/KTA (Australia)	Acquired on November 2003	AFS acquired on May 2005
PTP (Australia)	Acquired on February 2005	AFS acquired on June 2006
BTP/AAP/ECOT (Australia)	Acquired on March 2005	AFS acquired on April 2006
SEFE (Australia)	Acquired on August 2004	AFS acquired on October 2006
Volterra (Chile)	Acquired on November 2003	CERTFORCHILE acquired on December 2007
Forestco (South Africa)	Acquired on July 2002	FSC acquired on April 2003
AMCEL (Brazil)	Acquired on October 2003	FSC acquisition planned (during 2008)

Company-owned forests in Japan by area	SGEC certification	Comments
Hokkaido	Acquired on December 2005	* The Company's Kitayama Forest in Shizuoka Prefecture was certified in December 2003.
Tohoku	Acquired on October 2007	
Kanto and Chubu	Acquired on October 2007	
Kinki and Shikoku	Acquired on December 2006	
Kyushu	Acquired on March 2005	

## Biodiversity Data for Company-Owned Forests in Japan and Overseas Afforestation Projects

IUCN category*	Japan			Ratio of environmental forest area (%)	Overseas Applicable area (thousands of hectares)
	Applicable area (thousands of hectares)		Environmental forest area		
	Commercial forest area	Environmental forest area			
Ia	0	0	0	—	0
Ib	0	0	0	—	0
II	3.9	0.6	3.3	85%	0
III	0	0	0	—	0
IV	0	0	0	—	0
V	3.2	2.5	0.7	22%	0
VI	0	0	0	—	0
Not applicable	82.7	68.3	14.4	17%	165.9
Total	89.8	71.4	18.4	20%	165.9

### \* IUCN categories

- Ia/Ib: Strict nature reserve/wilderness area (Protected area that is managed mainly for scientific research and wilderness protection)
- II: National park (Protected area managed mainly for ecosystem protection and recreation)
- III: Natural monument (Protected area managed mainly for conservation of specific natural features)
- IV: Habitat/Species Management Area (Protected area managed mainly for conservation through management intervention)
- V: Protected Landscape/Seascape (Protected area managed mainly for landscape/seascape protection and recreation)
- VI: Managed Resource Protected Area (Protected area managed mainly for the sustainable use of natural ecosystems)

# Environment-Related Indicators

## Material Balance for All Businesses

Input				Output			
<b>Fossil energy input</b>		<b>Raw materials</b>		<b>Fossil fuels</b>		<b>Phosphorous</b> 280t	
Electricity	2,230GWh	Woodchips	7,439,000t	<b>CO<sub>2</sub> emissions</b>	8,400,000t	<b>Waste generation</b>	699,000BDt
Oil	940kℓ	Logs	65,000t	<b>SO<sub>x</sub> emissions</b>	3,850t	<b>Landfill</b>	25,000BDt
Coal	2,167,000t	Pulp	398,000t	<b>NO<sub>x</sub> emissions</b>	9,540t	<b>Products manufactured</b>	
Gas	133,000t	Recovered paper	3,962,000t	<b>Soot and dust</b>	1,720t	Paper, household paper	
<b>Non-fossil energy input</b>		Inorganic filler	752,000t	<b>Chemical substances subject to PRTR Law</b>			
Black liquor	4,811,000t	Inorganic chemicals	336,000t	(amount released) 260t			
New energies	1,274,000t	Base paper	148,000t	(amount transferred) 7t			
<b>Chemical substances subject to PRTR Law</b>		Resin	37,000t	<b>Wastewater</b>	994,000,000t	Paperboard	1,850,000t
(Amount handled)	23,958t	Printing ink	1,000t	Public waters	992,000,000t	Pulp	347,000t
<b>Water consumption</b> 1,039,000,000t		Raw material chemicals	25,000t	Sewer	2,000,000t	Paper container	159,000t
River water	677,000,000t	Beverage cartons	10,000t	<b>COD/BOD</b> 64,500t			
Industrial water	328,000,000t	Saccharide	9,000t	<b>SS</b> 23,600t			
Well water	34,000,000t	Wood-based construction materials		<b>AOX</b> 770t			
Public water supply	1,000,000t		26,000t	<b>Nitrogen</b> 1,960t			

## Major Environmental Performance Data

		Unit	FY2003	FY2004	FY2005	FY2006	FY2007
Water consumption		Millions of tons	1,037	1,034	1,039	1,036	1,039
Wastewater	Amount discharged	Millions of tons	1,014	1,007	1,013	1,008	994
	COD/BOD	Thousands of tons	65.2	63.5	65.6	64.9	64.5
	SS	Thousands of tons	28.6	27.0	26.8	27.1	23.6
	AOX	Thousands of tons	1.27	1.39	0.93	0.79	0.77
Gas Emissions	SO <sub>x</sub>	Thousands of tons	4.76	4.83	4.02	3.85	3.85
	NO <sub>x</sub>	Thousands of tons	10.3	10.9	10.2	9.96	9.54
	Soot and dust	Thousands of tons	1.96	2.02	2.05	1.76	1.72
Waste	Amount generated	Thousands of tons	521	578	565	618	699
	Landfill	Thousands of tons	24	18	20	27	25
Energy	Fossil energy input	Millions of GJ	126	122	120	116	115
	Non-fossil energy input	Millions of GJ	62	65	70	72	74
	Fossil fuel-derived CO <sub>2</sub> emissions	Millions of tons	9.06	8.93	8.68	8.33	8.40

## Environment-Related Complaints (Fiscal 2007)

Item	No. of complaints	Item	No. of complaints
Noise	27	Dust and mist dispersal	11
Vibration	1	Smoke	13
Offensive odor	14	Other	11
Total: 77			

## External Awards for Environmental Conservation Activities (Fiscal 2007)

Mill	Award	Award organization
Kitakami Paper Co., Ltd.	Minister of the Environment Award of Merit for Promoting the Formation of a Recycling Society	Ministry of the Environment
ISHIOKA KAKO CO., LTD.	Printing Industry Environmentally Friendly Plant Award	Japan Federation of Printing Industries

## Storage and Use of PCB-Containing Electrical Equipment

	Transformers	Capacitors	Reactors	Ballasts
Stored	20	997	1	2,556
In operation	12	120	0	27

\* Figures denote confirmed units.



## Environment-Related Indicators

PRTR Investigation Result\*<sup>1</sup> (fiscal 2007)

Cabinet order No.	CAS No.	Chemical substance	Unit	Amount handled (Amount generated)	Amount removed	Amount released	Amount transferred
1		Water-soluble zinc compounds (as Zn)	t	2		0	0
2	79-06-1	Acrylamide	t	1,302		0	0
3	79-10-7	Acrylic acid	t	549		0	0
7	107-13-1	Acrylonitrile	t	1,797		1	0
13	78-67-1	2,2'-azobisisobutyronitrile	t	1		0	0
24		n-alkylbenzenesulfonic acid and its salts	t	63		1	0
29	80-05-7	4,4'-isopropylidenediphenol (bisphenol A)	t	132		0	0
30	25068-38-6	Bisphenol A type epoxy resin	t	20		0	0
40	100-41-4	Ethylbenzene	t	3		0	0
43	107-21-1	Ethylene glycol	t	7	4	0	0
44	110-80-5	Ethylene glycol monoethyl ether	t	2		0	1
63	1330-20-7	Xylene	t	100	40	14	0
65	107-22-2	Glyoxal	t	9		0	0
80	79-11-8	Chloroacetic acid	t	1,571		0	0
95	67-66-3	Chloroform	t	284	70	184	0
114	108-91-8	Cyclohexylamine	t	2	2	0	0
134	96-23-1	1,3-dichloro-2-propanol	t	2	1	1	0
176		Organic tin compounds (as Sn)	t	8		0	0
177	100-42-5	Styrene	t	6,010		12	0
179		Dioxins* <sup>2</sup>	g-TEQ	3.93		1	7
227	108-88-3	Toluene	t	2,565	6	35	6
268	106-99-0	1,3-butadiene	t	4,370		5	0
304		Boron and its compounds (as B)	t	9		0	0
307		Poly (oxyethylene) alkyl ether	t	10		0	0
309	9016-45-9	Poly (oxyethylene) nonylphenyl ether	t	3		0	0
310	50-00-0	Formaldehyde	t	4,344		6	0
313	108-31-6	Maleic anhydride	t	19		0	0
314	79-41-4	Methacrylic acid	t	352		0	0
318	2867-47-2	2-(dimethylamino) ethyl methacrylate	t	119		0	0
320	80-62-6	Methyl methacrylate	t	303		0	0
Total (excludes substances less than one kilogram)* <sup>3</sup>			t	23,958	124	260	7

\*<sup>1</sup> The amounts of substances handled (excluding dioxins) that total one ton or more were handled. (Besides dioxins, no designated Type I chemical substances that are subject to reporting if the handling quantity is 0.5 ton or more were handled.) No ozone depleting substance subject to PRTR Law as listed below was handled.

(CFC-11, CFC-12, CFC-13, CFC-114, CFC-115, Halon-1211, Halon-1301, Halon-2402, CBNETET, 1,1,1-trichloroethane, HCFC-21, HCFC-123, HCFC-133, HCFC-142, HCFC-142b, HCFC-225 and Methylbromide)

\*<sup>2</sup> Dioxins are unintentionally generated.

\*<sup>3</sup> Total does not include dioxins.

## Environmental Accounting\*

## Cost for Environmental Conservation

(Millions of yen)

Category	Cost
(1) Business area cost	
1. Pollution prevention cost	16,552
2. Global environmental conservation cost	635
3. Resources circulation	8,155
(2) Upstream/downstream cost	1,221
(3) Administration cost	619
(4) R&D cost	1,362
(5) Social activity cost	36
(6) Environmental remediation cost	742
Total	29,322

\* Accounting standards are based on the "Environmental Accounting Guidelines 2005"

## Investment for Environmental Conservation

(Millions of yen)

Category	Amount
(1) Business area investment	
Pollution prevention investment	1,620
Global environmental conservation investment	38,327
Resource circulation investment	2,543
Total	42,490

## Economic Benefits of Environmental Conservation

(Millions of yen)

Effect	Amount
Income from our forests in Japan	488
Reduced expenses from energy saved	1,612
Reduced disposal expenses through effective use of waste	5,150
Reduced expenses through recycling of shipping materials	546
Total	7,796

## Targets and Performance of Environmental Conservation Activities

Basic Policy in the Charter on the Environment	Green Action Plan 2010	Fiscal 2007 efforts and progress
1. Act to counter global warming	Reduce carbon dioxide emissions from fossil fuels by 10% from their fiscal 1990 levels on a per-product basis by fiscal 2010	Promoted energy savings and operation of biomass boilers at mills. Progress: Achieved 10.2% reduction compared with fiscal 1990; revised reduction target to 16%.
	Reduce fossil fuel consumption by 13% from its fiscal 1990 level on a per-product basis by fiscal 2010	Promoted energy savings and operation of biomass boilers at mills. Progress: Achieved 15.3% reduction compared with fiscal 1990; revised reduction target to 20%.
	Reduce greenhouse gas emissions	Implemented a greenhouse gas information management system.
	Manage company-owned forests in Japan based on sound practice designed to ensure carbon dioxide absorption and sequestration	Promoted acquisition of certification for company-owned forests in Japan. Acquired certification for all company-owned forests in Japan*1.
2. Protect and develop forest resources	Proceed with the Tree Farm Initiative, an overseas afforestation project that fosters sustainable sources of hardwood chips, to achieve an overseas afforestation area of 200,000 hectares by 2015	Achieved former target (100,000 hectares) two years early, in fiscal 2006. Reached 166,000 hectares as of the end of 2007 under the new goal.
	Acquire forest certification for all company-owned forests by 2008	Overseas: All tree farms were certified by December 2007, except for Amapa Florestal e Celulose S.A. (AMCEL), which joined the Group at the end of 2006. Japan: Acquired forest certification for all forests by October 2007*1.
	Increase the proportion of material from certified or afforested forests to 100% of imported hardwood chips by 2008	Raised ratio from 78% in fiscal 2006 to 92% in fiscal 2007*2.
	Develop advanced technologies for boosting lumber cultivation	Planted 140,000 fast-growing, desiccation-tolerant superior trees in a plantation in western Australia.
3. Increase use of recycled resources	Increase the recovered paper usage rate to 50% or higher by fiscal 2008	Raised de-inked pulp (DIP) content while maintaining quality. Reached 52% in fiscal 2007.
	Reduce final waste disposal to maximum 4% of fiscal 1990 levels by fiscal 2010	Final waste disposal amount for fiscal 2007 in Japan was 2% of fiscal 1990 levels. Target attained.
	Increase the ratio of products made from waste to 25% or more of total waste generated, by fiscal 2010	Promoted implementation of granulation facilities. Achieved 27% realization ratio of products made from waste in fiscal 2007*3.
4. Comply with environmental statutes and work to minimize our environmental impact	Maintain and strengthen our environmental management systems	Obtained ISO 14001 certification for the Kansai and Hokkaido works of Nippon Seitai Corporation, and the Port Angeles Mill of Nippon Paper Industries USA Co., Ltd.
	Define and manage voluntary control targets for preventing air, water, and soil pollution; noise; vibration; and foul odors	Set voluntary management targets for air and water quality, and instituted controls to observe emission standards and protocols.
	Control chemical substances appropriately by identifying substances whose use is to be prohibited or emissions, reduced	Encouraged the use of alternative substances. Reduced emissions of substances subject to the Pollutant Release and Transfer Register (PRTR) law from 274 tons to 260 tons.
	Accelerate the shift to transport modes, containers, and packing materials with low environmental impacts	Increased transportation by railway as new machinery came on line at the Ishimaki Mill of Nippon Paper Industries Co., Ltd. We are working to raise the railway transportation rate by fully utilizing our current shipping capabilities.
	Move ahead with green procurement of office equipment, supplies, and other needs	Recommended green procurement at each Group company.
5. Develop environmentally friendly technologies and products	Step up the research and development of environmentally safe, resource-saving products	Continued developing resource-efficient technologies, considering performance enhancements and usage techniques for filler for bulky paper.
	Conduct research and development of technologies for reducing environmental impact at all stages of manufacturing	Advanced construction of a system for integrated production of forest-certified paper.
	Continue to install and improve resource-saving equipment	Brought new recovered paper processing facilities on line with a capacity of 530 tons per day.
6. Engage in active environmental communication	Disclose environmental information to stakeholders in a timely manner through sustainability reports and on the website	Published sustainability reports and magazines communicating with the public on environment issues. We are currently updating our website.
	Engage actively in local environmental communication through dialogue with the public and the government	Continued risk communication and other environmental communication.
	Play an active role and support environmental conservation activities and initiatives	Participated in cleanup, tree-planting and local afforestation activities.

\*1 Refers to forests owned by Nippon Paper Industries Co., Ltd., which owns 95% of the Group's forests in Japan.

\*2 Refers to Nippon Paper Industries Co., Ltd.

\*3 Refers to Nippon Paper Industries Co., Ltd., and Nippon Daishowa Paperboard Co., Ltd.

## Matters Reported in Sustainability Report 2008 (Detailed Edition)



<http://www.np-g.com/csr> (Available in Japanese)

### Top Management Commitment

#### Report

- Issue of Discrepancy of De-inked pulp Content
- Status of Implementation of Measures to Resolve Soot and Smoke Issues at the Mills of Nippon Paper Industries

#### Management-Related Responsibilities

- **Group Governance**  
Basic philosophy/Governance framework/  
Internal control system/Officer remuneration
- **CSR Management**  
Basic philosophy/Management framework/  
Nippon Paper Group Action Charter/Participation in industrial  
and paper industry groups and domestic and overseas  
advisory organizations/Major CSR activities in fiscal 2007
- **Dialogue with Stakeholders**  
Basic philosophy/Invigorating communication
- **Disclosure, Investor Relations, and Return of Profits to Shareholders**  
Disclosure/Investor relations/Mechanisms to reflect  
shareholder and investor input in management/Return of  
profits to shareholders/Protecting shareholder profits/  
Outside audits and third-party assessments
- **Compliance**  
Compliance framework/Protection of personal information/  
Measures against Internet-related risks

#### Environmental Responsibilities

- **Material Balance**  
Material balance and flow in pulp and paper businesses
- **Environmental Management**  
Charter on the Environment/Framework for promoting  
environmental management/Strengthening environmental  
compliance/Environmental education/Emergency response  
training/Status of legal violations and accidents/  
Environmental communication
- **Preventing Climate Change**  
Basic policy and goals for preventing climate change/  
The three pillars of limiting CO<sub>2</sub> emissions/Fiscal 2007 results/  
Non-fossil energy usage/Carbon sequestration using forests/  
Reducing CO<sub>2</sub> emissions by promoting energy savings/  
Limiting CO<sub>2</sub> emissions in distribution/Efforts by each Group  
company to prevent climate change/Efforts at Company  
offices/Aiming to limit CO<sub>2</sub> emissions at employee  
households
- **Respect for Biodiversity**  
Respecting biodiversity in our corporate activities/  
Efforts through our main business/Social contribution efforts

#### • Promoting Recovered Paper Usage

Augmenting recovered paper processing facilities/Utilizing  
unused and low-quality recovered paper/Recovered paper  
utilization rate/Increasing recovered paper usage for  
newspapers/Promoting beverage carton recycling

#### • Limiting Production and Emission of Waste

Reducing final disposal of waste/Promoting appropriate  
waste management

#### • Preventing Pollution

Limiting pollutant emissions/Preventing water contamination/  
Preventing soil contamination/Controlling noise, vibration,  
and odors/Managing chemical substances

#### • Targets and Performance of Environmental Conservation Activities

#### • Environmental Accounting

### Responsibilities in Procuring Raw Materials

#### • Policy and Management

Basic approach/Philosophy and Basic Policy

#### • Efforts in the Supply Chain

Current status of wood-based raw material procurement/  
Action plan for wood-based raw material procurement/  
Efforts toward stable procurement of recovered paper

#### • Promotion of Overseas Afforestation Projects

Overview and progress of the Tree Farm Initiative/  
Obtaining certification for our forests/Preserving biodiversity

#### • Protecting and Cultivating Company-Owned Forests in Japan

Efforts related to Nippon Paper Industries forests in Japan

#### • Status of Tree Farms

Australia/South Africa/Chile/Brazil

### Responsibilities to Shareholders

#### • Responsibilities to Customers

Basic philosophy and recognition of current status/  
Strengthening product safety management/Ensuring basic  
quality and stable product supply/Interfacing with customers/  
Promoting technology and product development/  
Efforts at each operating company

#### • Responsibilities to Employees

Philosophy and Basic Policy on Human Rights, Employment,  
and Labor/Cultivating human resources/  
Creating workplaces that support employee diversity/  
Occupational safety and health

#### • Responsibilities to Communities

Basic philosophy/Framework for promoting social  
contribution activities/Overview of social contribution  
activities/Educational activities/Environmental activities/  
Activities that benefit communities and society

### Comparison with Guidelines

# Third-Party Comments, Actions in Response to Third-Party Comments

## Third-Party Comments



Yoshinao Kozuma  
Professor, Faculty of Economics,  
Sophia University

The Nippon Paper Group's *Sustainability Report 2008* may be one of fiscal 2008's most attention-grabbing corporate social responsibility reports. This is because many of the Group's stakeholders are interested in its response to the problem of de-inked pulp content discrepancy discovered in January 2008, which was a significant shock to the public.

Starting with the Top Management Commitment, this report systematically covers the Group's apology, the factual progression of the problem, analysis of the causes, and measures to prevent recurrence, spanning 10 pages that convey the Group's swift and appropriate response to the problem. The extent of the coverage in this report also indicates the Group's seriousness toward this matter.

This kind of misconduct not only harms society's trust in a corporation, it cuts into revenues and brings the continuation of the organization into question. The recent spate of fraudulent incidents demonstrates the importance of appropriate *ex post facto* measures to avoid this outcome.

After the problem situation came to light, the Company launched an Investigation Committee including outside experts, which reported that a lack of compliance awareness and inadequate administrative structure were the main causes. Measures to prevent recurrence were

then proposed and implemented: rebuilding the compliance structure and carrying out thorough compliance education to improve compliance awareness, and establishing work processes and undergoing third-party audits to shore up the administrative structure.

However, I think processes to confirm the effectiveness of preventive measures are also needed. In particular, without verifying whether enhancing compliance education is actually an effective means of improving compliance awareness and the corporate culture and structure, the danger of other problems originating from the same structure remains, even if recurrence of the original problem is prevented. Education and training merely represent one-sided transmission of information, and tests on the content studied only determine whether the knowledge is there.

The conclusion that the corporate culture was the cause of the problem makes it unclear who is responsible. I doubt education and training devoid of the awareness of personal responsibility can produce real changes in mentality.

Since the problems are structural, I would expect improvements to be more effective if there were some kind of follow-up to the preventive measures instituted.

### Profile

After withdrawing from the Sophia University Graduate School of Economics upon completion of the latter period of the doctoral course, Yoshinao Kozuma became a research assistant at the Nagoya Institute of Technology and attended the Limperg Institute for Business and Economic Research as a guest researcher funded by the Dutch government. He became an associate professor at the University of Shizuoka School of Administration and Informatics, and then took up his current position as associate professor in the Faculty of Economics at Sophia University. He has held successive positions as chair or member of CSR- and environment-related advisory panels, study groups, and research conferences for the Ministry of the Environment; the Ministry of Economy, Trade and Industry; the Ministry of Land, Infrastructure and Transport; the Cabinet Office; and the Japanese Institute of Certified Public Accountants. He is also director of the Japan Accounting Association.

## Actions in Response to Third-Party Comments

I apologize again to all those affected and to the general public for the considerable trouble caused by the problems of soot and smoke at our mills and the discrepancy of de-inked pulp content.

As Professor Kozuma pointed out, to fully prevent misconduct, top management and all members of the core Group companies must recognize that legal compliance is their highest responsibility as members of society and reflect this in all their actions. We are presently reinforcing our organizational structure and promoting employee education. We intend to survey compliance awareness within the Company by distributing questionnaires. Periodically repeating this process will enable us to verify the efficacy of our efforts, identify challenges, and make improvements as we establish compliance awareness in the corporate culture. The president and all other members of the Group's top management will continue to demonstrate this resolve inside and outside the Company as we take these steps.



Tsuyoshi Yamashita  
Executive Vice President,  
Representative Director  
and General Manager  
of CSR Division





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### Cover Photograph

Sugenuma Forest owned  
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Photographer: Yuhji Itsumi



### The Paper Used for This Report

This report is printed on forest certified paper consisting of at least 15% de-inked pulp. The de-inked pulp content was verified by a management system created by Nippon Paper Industries. Third-party audits by SGS Japan Inc. confirm that the system is operating correctly.

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