The Nippon Paper Group, as a comprehensive biomass enterprise, pursues business endeavors that are founded on sustainable forest management and promote sustainable growth by using, and later recycling, every bit of the renewable wood resources it harvests. As such, we have a social responsibility to contribute to the sustainable development of society by making effective use of wood resources, which are renewable. With proper forest management, forests can be used as a sustainable resource, and forest ecosystems and biodiversity can be protected. Because forests act to sequester CO₂, using wood resources actually helps to prevent global warming. At the Nippon Paper Group, therefore, we treat the sustainable procurement of raw materials as one of our highest priorities.
Pursuing sustainable and stable wood resources procurement

Woodchips, which are the main raw materials for pulp and paper, are derived from forests that are deeply intertwined with the global environment and ecosystems. Procurement entails the support not only of suppliers in and outside of Japan, but also the communities and government authorities of local production areas. Taking into consideration the impact on the environment and society, the Nippon Paper Group recognizes the importance of working closely with suppliers to establish a sustainable supply chain that incorporates production area forest ecosystem, local community, occupational safety and health as well as other concerns.

Accordingly, we are endeavoring to build a structure and framework that will allow us to sustainably procure renewable wood resources.

Philosophy and Basic Policy

Putting in place a philosophy and basic policy that reflects the opinions of stakeholders

The Nippon Paper Group established its Philosophy and Basic Policy Concerning Raw Materials Procurement in fiscal 2005. In formulating this philosophy and basic policies, a draft proposal was released to the public so as to solicit the opinions of stakeholders in Japan and overseas. The Group considered all of the close to 2,000 comments received, and incorporated several suggestions into revisions made to the draft.

Sustainable Forest Management

Practicing proper planning and management

Forestry management considers not only economic, but also environmental and social sustainability. The Nippon Paper Group defines sustainable forest management as:
1) Biodiversity is conserved.
2) The productivity and soundness of the forest ecosystem is maintained.
3) Soil and water resources are conserved.
4) Diverse social needs are satisfied.

Proper planning and management are important factors in the sustainable management of forests. A considerable amount of time is required to cultivate trees to their maturity. In putting together a viable sustainable forest management plan, it is important to consider factors including the areas allocated to afforestation and harvesting, the rate of growth, the surrounding environment and the impact on society. Landscape concerns related to efforts to protect waterside forests and address other such needs must also be examined. Taking full advantage of its expertise in forest management, the Group is promoting proper planning and management.

Framework for Promoting Raw Materials Procurement Management

Overseeing raw material procurement for the entire Group

The Nippon Paper Group established the Raw Materials Committee, chaired by the general manager of the Raw Materials and Purchasing Division at Nippon Paper Industries. This subcommittee deliberates on a wide variety of important issues concerning raw material procurement, including the Group’s overarching procurement policy.

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

<table>
<thead>
<tr>
<th>Philosophy</th>
</tr>
</thead>
<tbody>
<tr>
<td>We are committed to establishing a reliable raw materials procurement system through global supply chain management in consideration of the environment and society.</td>
</tr>
</tbody>
</table>

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

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

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

In addition to actively promoting the use of recycled paper, we procured wood resources from sustainably managed forests.

Current Status of Paper Raw Materials Procurement

Using waste paper and wood resources as raw materials

The Nippon Paper Group is engaged primarily in the manufacture of paper products. Fifty-five percent of the raw materials are composed of recycled paper and the remaining 45% consists of such wood resources as woodchips. Both types of raw materials are used to produce pulp.

Breakdown of raw materials for paper manufacturing* (Fiscal 2013)

- Other pulp (Wood resources): 44.9%
- Recycled paper: 55.1%

* The Group in Japan

Initiatives aimed at stable waste paper procurement

The collection of waste paper has taken on greater importance with each passing year. This is attributable not only to government initiatives aimed at reducing the volume of waste, but also to measures designed to promote the recycling of resources. Waste paper is an essential resource accounting for more than 60% of the raw materials used by Japan’s paper industry.

Against this backdrop, the Nippon Paper Group has maintained a stable system for procuring waste paper. This system, the product of many years of collaboration with the waste paper industry, promotes the recycling of waste paper.

Initiatives aimed at stable wood resource procurement

Nippon Paper Industries is responsible for procuring wood raw materials for the Group. Around two-thirds of the wood resources are procured from overseas and one-third sourced from Japan. The Oceania region, including Australia, is a major source for overseas hardwood and softwood, and accounts for 37% and 76%, respectively.

Breakdown of wood raw materials procurement (Fiscal 2013) (Nippon Paper Industries Co., Ltd.) (tonnes=bone dry tonnes)

<table>
<thead>
<tr>
<th>Country</th>
<th>1,000 tonnes</th>
<th>Percentage</th>
<th>Species</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>908</td>
<td>36.5%</td>
<td>Eucalyptus</td>
</tr>
<tr>
<td>South Africa</td>
<td>569</td>
<td>22.9%</td>
<td>Eucalyptus</td>
</tr>
<tr>
<td>Brazil</td>
<td>513</td>
<td>20.6%</td>
<td>Eucalyptus, Acacia</td>
</tr>
<tr>
<td>Chile</td>
<td>363</td>
<td>14.6%</td>
<td>Eucalyptus</td>
</tr>
<tr>
<td>Vietnam</td>
<td>133</td>
<td>5.3%</td>
<td>Acacia</td>
</tr>
<tr>
<td>Total</td>
<td>2,486</td>
<td>100.0%</td>
<td></td>
</tr>
</tbody>
</table>

■ Tree species Nippon Paper Industries Co., Ltd. procured from overseas, and their countries of origin (Fiscal 2013) (tonnes=bone dry tonnes)

<table>
<thead>
<tr>
<th>Country</th>
<th>1,000 tonnes</th>
<th>Percentage</th>
<th>Species</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia/New Zealand</td>
<td>233</td>
<td>76.1%</td>
<td>Radiata pine</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>69</td>
<td>22.5%</td>
<td>Douglas fir</td>
</tr>
<tr>
<td>Russia</td>
<td>4</td>
<td>1.4%</td>
<td>Yezo spruce</td>
</tr>
<tr>
<td>Total</td>
<td>306</td>
<td>100.0%</td>
<td></td>
</tr>
</tbody>
</table>

* “Certified” refers to a forest management certification (see page 25).
Sustainable Procurement of Raw Materials

Practicing sustainable forest management emphasizing legal compliance and using certifications as benchmarks

Basic Stance

Focusing on legal compliance and transparency in the procurement of raw materials

The Nippon Paper Group is a strong advocate of sustainable raw materials procurement that takes into consideration environmental and social concerns. Our procurement of wood resources rests on the principles of legality and sustainability, on that basis we emphasize clear identification of the origin of wood resources and the maintenance of full accountability.

When purchasing from external suppliers, we make every effort to enhance our supply chain management capabilities, taking into consideration society’s needs and the environment. At the same time, we strive to develop a system that is conducive to reliable procurement and employ third-party forest certification programs to benchmark the adequacy of raw materials procurement.

In the context of procurement from company-owned forests, we pursue overseas afforestation projects to increase our plantation timber procurement. Moreover, we practice sustainable forest management by acquiring forest certifications for company-owned forests both in Japan and overseas.

Sustainable wood resources procurement

- Sourcing from sustainable forests (sustainability)
- Clearly identifying the origin of timber (traceability)
- Maintaining full accountability (accountability)

Action Plan for Wood-Based Raw Material Procurement

Strictly prohibiting purchases from illegal logging while promoting procurement that takes into consideration society’s needs and the environment

The Nippon Paper Group has put in place its Action Plan for Wood-based Raw Material Procurement based on the Group’s Philosophy and Basic Policy Concerning Raw Materials Procurement. This action plan provides a roadmap that incorporates checks on the legality of woodchips, allowing the Group to practice CSR procurement. This action plan also helps enhance traceability with respect to woodchips procured from overseas while placing considerable emphasis on trade association certification of the legality of woodchips produced in Japan.

- Confirming the legality of imported woodchips
In procuring wood from overseas suppliers, document verifications are performed on a vessel-by-vessel basis to ensure that the area where the wood was harvested and the supplier of the wood are in compliance with relevant laws, and that no illegally harvested wood is included. In fiscal 2013, it was determined, based on shipping documents and questionnaire responses provided by each supplier, that no illegally harvested woodchips were procured from overseas suppliers.

- Confirming the legality of domestically produced woodchips
In 2006 guidelines for confirming the legality of woodchips were specified as stipulated in the Law on Promoting Green Purchasing. Set forth as methods for confirming legality were the submission of individual harvesting and other documents, and the acquisition of a trade association certification approving the system of procurement management.

Nippon Paper Lumber has acquired this trade association certification. By taking in shipments of domestically produced timber and woodchips through this company, Nippon Paper Industries is receiving supplies of legally confirmed materials.

- Enhancement of traceability
Overseas suppliers are surveyed and requested to attend hearings. Every effort is made to enhance traceability while confirming compliance with statutory requirements regarding forest management, the species of woodchips and existence or otherwise of forest certification. Through these means, the Nippon Paper Group strives to confirm woodchip legality and sustainability. For woodchips procured from Japanese suppliers, traceability has been secured in accordance with the Guideline for Verification of Legality and Sustainability of Wood and Wood Products issued by the Forest Agency.

- Concern for human rights, labor and the local community
Utilizing a process of surveys and hearings, Nippon Paper Industries works to confirm its suppliers’ policies and systems toward human rights and labor. This process has allowed the company to confirm that no human rights or labor relations issues have arisen.

At the same time, a large number of suppliers is working closely with local communities through social contribution activities including donations to schools and welfare facilities.
Acquiring Certification for All Company-Owned Forests Inside and Outside Japan

Acquired certification through sustainable management

Forest certification programs entail third-party confirmation that forests are being managed in a sustainable manner. The Nippon Paper Group uses these programs as benchmarks for sustainable forest management.

Certification acquired in Japan

Nippon Paper Industries has acquired forest certification from the Sustainable Green Ecosystem Council (SGEC) for all company-owned forests in Japan. SGEC evaluates the sustainable management of forests, including preservation of the wide-ranging functions of forests such as watershed protection and biodiversity conservation while taking into account the Japanese climate and conditions. The forests owned by Nippon Paper Industries have received SGEC certification acknowledging the company’s efforts to engage in forest management that takes into consideration biodiversity and the natural environment of each region. Moving forward, the company will maintain this certification.

Certifications acquired outside Japan

Nippon Paper Industries has completed its objective of obtaining certifications of all its forests overseas.

* FM and CoC Certification

The forest certification system is composed of two components—the Forest Management (FM) component, which certifies that forests are responsibly managed, and the Chain-of-Custody (CoC) component, which certifies that products from certified forests have been properly processed and distributed.

Under the FM certification system, a third party certifies that the management of forests is being undertaken in a sustainable manner based on various objective benchmarks including (1) compliance with regulatory requirements and system frameworks, (2) maintenance and conservation of forest ecosystems and biodiversity, (3) respect for native and local resident rights, and (4) maintenance and improvement of forest productivity.

CoC certification is a system covering all operators engaged in the processing and distribution of timber materials. In addition to certifying that products (certified woodchips) are managed based on the forest certification standard in each process including processing and distribution, CoC certification confirms that a risk assessment of all non-certified woodchips has been undertaken. Products display a certification mark in the event that all operators have acquired CoC certification across all processes.

Status of forest certification acquisition for overseas afforestation project

<table>
<thead>
<tr>
<th>Overseas plantation project by operating company</th>
<th>Certification system name (License no.)</th>
<th>Date of acquisition</th>
</tr>
</thead>
<tbody>
<tr>
<td>VTP (Australia)</td>
<td>AFS</td>
<td>May 2005</td>
</tr>
<tr>
<td>PTP (Australia)</td>
<td>AFS</td>
<td>June 2006</td>
</tr>
<tr>
<td>BTP (Australia)</td>
<td>AFS</td>
<td>April 2006</td>
</tr>
<tr>
<td>SEFE (Australia)</td>
<td>AFS</td>
<td>October 2006</td>
</tr>
<tr>
<td>Volterra (Chile)</td>
<td>FSC® (FSC-C120206), CERTFORCHILE</td>
<td>January 2014, December 2007</td>
</tr>
<tr>
<td>Forestco (South Africa)</td>
<td>FSC® (FSC-C022307)</td>
<td>April 2003</td>
</tr>
<tr>
<td>AMCEL (Brazil)</td>
<td>FSC® (FSC-C023383), CERFLOR</td>
<td>December 2008, September 2014 (expected)</td>
</tr>
</tbody>
</table>

Overview of major forest certification programs

<table>
<thead>
<tr>
<th>Certification program name</th>
<th>Details and features</th>
</tr>
</thead>
<tbody>
<tr>
<td>FSC®—Forest Stewardship Council® A global forest certification program</td>
<td>FSC® is a non-profit international member-based organization that certifies that forests are being managed in compliance with its 10 principles and standards. FSC® has adopted the FM and CoC certification system.</td>
</tr>
<tr>
<td>PEFC—Programme for the Endorsement of Forest Certification A program that promotes mutual recognition of the forest certification programs of individual countries</td>
<td>PEFC bases its sustainability benchmark on a broad consensus expressed in intergovernmental processes and guidelines. It provides a mutual recognition system that endorses compatibility and comparability of the responsible forest management systems of individual countries. Launched across countries in Europe, the program encompasses the forest certification programs of 37 countries around the world. In similar fashion to FSC®, PEFC has adopted the CoC certification system. Examples of certifications mutually recognized by PEFC (for forests owned by Nippon Paper Industries Co., Ltd.) Australian Forestry Standard (AFS; Australia / CERTFORCHILE: Chile / CERFLOR; Brazil)</td>
</tr>
<tr>
<td>SGEC—Sustainable Green Ecosystem Council A forest certification program established in Japan</td>
<td>SGEC certifies forest management combining an abundant natural environment with continuous lumber production. SGEC engages in an evaluation based on seven criteria and 36 benchmarks while taking into consideration Japan’s natural environment as well as its social customs and culture. SGEC has also adopted the CoC certification system.</td>
</tr>
</tbody>
</table>
Practicing sustainable forest management at company-owned forests over an area extending to 90,000 hectares

Nippon Paper Industries owns approximately 90,000 hectares of company forest in 400 locations in Japan. Accordingly, the company is the second largest owner of forests in the private sector.

For the Nippon Paper Group, forests are not only an important business resource — as a corporate group whose existence is closely tied to the health and conservation of forests, we recognize and work to manage the integrity of the multifaceted role forests play within society.

In recent years, deterioration of artificially planted Japanese cypress and Japanese cedar forests throughout Japan has become a concern. The reason for this deterioration is low lumber prices that have squeezed forest industry profitability and made it impossible to perform thinning and other necessary maintenance. To invigorate the industry and prevent further forest deterioration, the Japanese government announced its Forest and Forestry Revitalization Plan in 2009. Under this plan the government has committed the nation’s resources to promoting the use of domestically produced wood, and lifting the nation’s wood self-sufficiency rate from 24%, as of 2008, to 50% by 2020.

The Nippon Paper Group is working to increase the percentage of domestically produced wood it uses to make paper. Having reached 30% in fiscal 2008, this figure rose by over 6 percentage points, to 36.5%, in fiscal 2013. Producing a greater volume of paper entailed the use of less domestically produced wood as a percent of raw materials used than in the prior year, but still resulted in a year-on-year absolute increase of 6% in our usage of this material in 2013. Moving forward, the Nippon Paper Group will continue to actively use domestically produced wood, and thereby contribute to the revitalization of Japan’s forest industry.

Distribution of company-owned forests in Japan and composition by species (Nippon Paper Industries Co., Ltd.)

- Sugenuma Forest (Gunma Prefecture)
  - Hardwood 11%
  - Other softwood 3%
  - Japanese larch 4%
  - Japanese cypress 6%
  - Japanese cedar 9%
  - Spruce, fir 9%
  - Pine 9%
  - Other 5%

- Hokkaido
  - Hardwood 42%
  - Other softwood 3%
  - Spruce, fir 9%
  - Other 5%

- Chugoku/Shikoku
  - Hardwood 42%
  - Other softwood 3%
  - Spruce, fir 9%
  - Other 5%

- Kyushu
  - Hardwood 11%
  - Other softwood 3%
  - Japanese larch 4%
  - Japanese cypress 6%
  - Japanese cedar 9%
  - Spruce, fir 9%
  - Pine 9%
  - Other 5%

- Kanto/Chubu/Kinki
  - Hardwood 11%
  - Other softwood 3%
  - Japanese larch 4%
  - Japanese cypress 6%
  - Japanese cedar 9%
  - Spruce, fir 9%
  - Pine 9%
  - Other 5%

- Tohoku
  - Hardwood 11%
  - Other softwood 3%
  - Japanese larch 4%
  - Japanese cypress 6%
  - Japanese cedar 9%
  - Spruce, fir 9%
  - Pine 9%
  - Other 5%

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  - Japanese larch 4%
  - Japanese cypress 6%
  - Japanese cedar 9%
  - Spruce, fir 9%
  - Pine 9%
  - Other 5%
Domestic timber utilization rate\(^1\) (Nippon Paper Group)

\[ \begin{array}{cccccccc}
\hline
\text{Nippon Paper Group’s domestic timber utilization rate} & 30.4 & 31.6 & 30.2 & 37.2 & 36.5 & 33.8 \\
\text{Japan’s wood self-sufficiency rate (calendar year)} & 34.4 & 34.7 & 34.4 & 32.9 & 28.6 & \\
\text{Pulp and chip wood self-sufficiency rate }\(^{2}\) & \\
\end{array} \]

\(^1\) The domestic (Japan) timber utilization rate includes sawmill residues.  
\(^2\) Source: Supply and Demand of Lumber issued by the Forestry Agency of Japan 
\(^3\) Source: Yearbook of Paper and Pulp Statistics issued by the Ministry of Economy, Trade and Industry of Japan

Organizing private-sector forest owners in the Yatsushiro area

Increasing the competitiveness of Japan’s forest industry requires that forest owners work together to have good road network and systematic thinning operations. The signing of a memorandum of understanding on the advancement of forest management in Kyushu by Nippon Paper Co., Ltd., the Kyushu Regional Forest Office; Oji Paper Co., Ltd.; Sumitomo Forestry Co., Ltd.; and others in September 2009 set in motion a process that would result in the March 2014 conclusion of a forest management and lumber production agreement for the Yatsushiro region, a groundbreaking wide-area model agreement by private-sector forest owners to manage forests collaboratively in Kyushu. Participants in the agreement include Kumanomo Prefecture, Yatsushiro City, the Yatsushiro Shinrin Forest Cooperative, and Nippon Paper Co. Ltd.

Case Selling copier paper made with thinned wood from Kyushu

Nippon Paper Industries has begun to sell “Kininaru Kami” copier paper made with wood from forest thinning operations in Kyushu.

Since 2009, the “Kininaru Kami” product series has been promoted by the Kyushu Regional Forest Office, eight prefectural governments (seven in Kyushu, plus Okinawa), paper companies, paper distributors, and others participating on a committee for the advancement of a movement aimed at generating popular support for the invigoration of Japan’s forest industry. This movement seeks to return a portion of the revenue from sales of products using wood from forest thinning operations to forest owners to promote forest management, invigorate the forest industry and mountain villages, and help stop global warming.

Nippon Paper Industries’ “Kininaru Kami” copier paper, which was introduced in July 2013, is made by the company’s Yatsushiro Mill, in Kyushu, with wood from forest thinning operations in Kyushu. The product package carries the “Kininaru Kami” series name in prominent characters, together with a map of Kyushu and a likeness of Kumamon, Kumanomo Prefecture’s PR mascot, to all to emphasize the product’s “made in Kyushu” origins.

Case Actively promoting the use of domestic timber

With its network for domestic timber collection in Japan, and its ability to handle a comprehensive lineup of products, Nippon Paper Lumber is actively developing its domestic timber business. In fiscal 2013, the company handled approximately 700,000 m\(^3\) of domestically produced materials, and ranked second in its field in Japan. The company aims to lift this figure to 1,000,000 m\(^3\), and, to this end, is continuing to develop new applications while working to further boost exports.

Domestic timber sales results by product type

\[ \begin{array}{c|cccc|c}
\hline
\text{Unprocessed timber} & 472 & 464 & 562 & 529 & 632 & 703 & \\
\text{Processed products} & \\
\end{array} \]

Case Creation of the “Japan wood mark” and participation in promotion activities

Based on the concept that greater use of domestically produced wood by Japan’s people and industries will rejuvenate the country’s forests, the Forestry Regeneration Committee of the Japan Project-Industry Council (JAPIC) created the Japan wood mark, and a committee dedicated to the promotion of its use, in August 2013.

Nippon Paper Industries contributed to the creation of the Japan wood mark and is one of the original participants on the Japan Wood Mark Committee. As it engages in activities that help to advance use of the Japan wood mark, Nippon Paper Industries intends to apply it as a sales promotion tool for wood from the forest it owns in Japan.
Afforestation projects that help the local ecology

Case

The Nippon Paper Group conducts afforestation projects on grasslands, former farms and pastures and on harvested plantation land. We select species, focusing mainly on Eucalyptus, according to individual climatic conditions and materials available for making paper. Eucalyptus trees are known for their quick growth. In order to maintain a balance between the planting of fast-growing, highly profitable trees and the biodiversity needs of each region, we implement appropriate measures and keep vegetation along rivers and water courses where the potential effects on the ecology are large. For example, over half of the property held by Brazil-based AMCEL is protected as a conservation area. In addition to soil erosion countermeasures and the monitoring of water quality, every effort is being made through joint surveys with universities and research institutes to protect the natural vegetation and wildlife.

Overview of Afforestation Areas
Managing 116,000 hectares of forest land in four countries

The Nippon Paper Group manages 116,000 hectares of forest land in the four countries of Australia, South Africa, Chile and Brazil.

Afforestation areas under management

<table>
<thead>
<tr>
<th>Country</th>
<th>Hectares</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>11,000</td>
</tr>
<tr>
<td>Brazil</td>
<td>54,000</td>
</tr>
<tr>
<td>Chile</td>
<td>13,000</td>
</tr>
<tr>
<td>Australia</td>
<td>38,000</td>
</tr>
<tr>
<td>Total</td>
<td>116,000</td>
</tr>
</tbody>
</table>

Consider the needs of local residents (see pages 69, 71)