NIPPON PAPER GROUP

Nippon Paper Group
Sustainability Report
2006

Sustainability Report 2006

NIPPON PAPER GROUP, INC.

Introduction – Editorial Policy

The Nippon Paper Group has issued a group-wide report of its corporate social responsibility (CSR) efforts since fiscal 2004. By comprehensively reporting on the Group's efforts as a whole and listening to the opinions of diverse stakeholders through publication of the previous two reports, we were able to gauge the current status and future tasks concerning the CSR of the Nippon Paper Group, and also understand the concerns of our stakeholders.

Building on this recognition, we moved away from providing all-encompassing coverage in this report and instead focused on the Group's CSR efforts that stakeholders are most interested in and which are of the highest importance by reflecting the current situations both inside and outside the company. We hope that by identifying key issues and reporting specifics in an easy-to-understand format, this report will help readers develop a clear idea about our Group's CSR efforts.

About the Nippon Paper Group

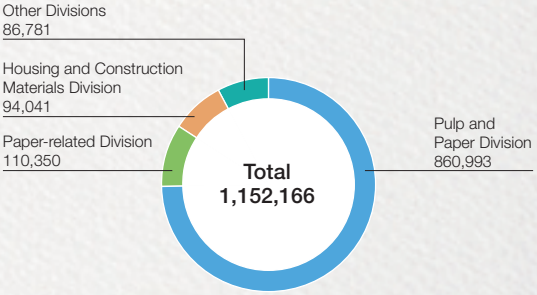
The Nippon Paper Group consists of Nippon Paper Group, Inc., which is a pure holding company, Nippon Paper Industry Co., Ltd., which handles the business of paper, and Nippon Daishowa Paperboard Co., Ltd., which is involved in the paperboard business. Both Nippon Paper Industries Co., Ltd. and Nippon Daishowa Paperboard Co., Ltd. have affiliate companies engaged in the manufacture, sale, or provision of services related to paper, pulp, and other products and services.

The business of the Nippon Paper Group is composed of the four areas of pulp and paper, paper-related, housing and construction materials, and other businesses, with the pulp and paper business, which is engaged in the manufacture and sale of paper and paperboards, assuming a dominant position.

* Please refer to pages 44 and 45 regarding the details of individual business segments and production sites.

Outline of the Nippon Paper Group

Sales by Division in fiscal 2005 (million yen)



CONTENTS

2 Introduction – Editorial Policy
2 About the Nippon Paper Group

CSR Management

4 Top Management Commitment
7 Nippon Paper Group's Vision, Action Charter and Codes of Conduct
8 Group Governance
10 Promotion of CSR Management
12 Appropriate Information Disclosure

Efforts for Key Issues in CSR

14 The Nippon Paper Group and Society

16 Human Resource Development
18 Celebrating the Diversity of Employees
20 Safety and Disaster Prevention Efforts

24 Product Safety
26 Responding to Customers

28 Sustainable Procurement of Raw Materials

32 Approaches to Prevention of Global Warming
36 Promoting Optimal Recycling of Wastepaper
38 Reducing Waste Generation and Discharge
40 Green Proportions for Paper Products

42 Promote Corporate Citizenship Activities

Data Packet

44 Outline of the Nippon Paper Group
46 Pulp and Paper Manufacturing Process
47 Economic Indexes
48 Employment-related Indicators
48 Occupational Health and Safety-related Indicators
49 Product Quality-related Indicators
49 Raw Material Procurement-related Indicators
50 Environment-related Indicators

55 Comparison with GRI Sustainability Reporting Guidelines 2002
55 Comparison with the Global Compact
56 Independent Review
57 Editorial policy/Editor's Postscript

Top Management Commitment

The Nippon Paper Group is committed to continuously generating profits while maintaining harmony with the environment and society, and distributing its profits appropriately to stakeholders.

Masatomo Nakamura,
President

M. Nakamura

Noboru Hasegawa,
Director in Charge of CSR

N. Hasegawa

Becoming a Corporate Group That Meets the Demands of Society

We believe there are three missions that the Nippon Paper Group must heed as it conducts its business.

The first mission is the sustained growth of our corporate value. The growth of corporate value is tantamount to the generation of profit. A corporation cannot maintain a meaningful existence without earning profits. Japan's pulp and paper industry has long been regarded as a domestic demand-driven industry. Today, however, it is transforming itself into a global operation. Succeeding in international competition is requisite. The first and foremost mission of the Nippon Paper Group is constructing a corporate structure that can generate profits in a stable manner in this environment.

Our second mission is returning profits to our stakeholders. By using profits earned from business operations as the sole financial resource, we can reward everyone who has a stake in our Group in various ways, such as providing financial stability for our employees, developing superb products and services that please our customers, assisting in community growth and environmental conservation, and distributing dividends to our shareholders. Properly rewarding the stakeholders who support our corporate activities is a particularly important corporate mission.

The third mission is achieving harmony with the economy, environment, and society. The Nippon Paper Group is engaged mainly in the pulp and paper business, as well as other businesses related to pulp and paper. For more than 2,000 years, paper has aided people and contributed to cultural development. As a corporation that manufactures paper, which is an essential commodity for society, Nippon Paper Group will continue to energetically dedicate itself to environmental preservation as we grow.

The "Group Vision 2015" of the Nippon Paper Group declares that "we aim to achieve sustainable growth in corporate value. We aim to become one of the top five pulp and paper companies worldwide, in both name and substance, by 2015." The Nippon Paper Group's second medium-term business plan for the next three years, launched in fiscal 2006, represents the first step toward achieving the Group Vision 2015. From an environmental perspective, our work will center on three main areas: the launch of new-energy boilers that do not use heavy oil, the strengthening of recycled paper facilities, and the promotion of a product strategy that ensures integrated environmental controls on the entire process from the procurement of raw materials to product sales.

The pursuit and proper distribution of profits while maintaining harmony with the environment and society is one of the goals we strive for daily. Moreover, we try to establish relationships of genuine cooperation with our diverse stakeholders, which include employees, customers, business partners, communities, and shareholders, and thus hope to become a corporate group that will be valued by everyone.

Pressing Forward with CSR Efforts While Endorsing International Organizations and Principles

Nippon Paper Group, Inc. is a member of the WBCSD*. The WBCSD is a coalition of international companies that pursues sustainable development by balancing the three pillars of economic growth, ecological balance, and social progress.

We also support and take part in the United Nations Global Compact. The Global Compact is built on 10 principles that span the following four areas: human rights, labor, the environment, and efforts to counter corruption. We voluntarily make efforts to advance these principles and aim for sustainable growth of society through these efforts.

We believe it is extremely important for us to recognize and operate under the schemes of these international organizations and principles since they were built on global platforms, and provide a basic framework for our CSR. The Nippon Paper Group is committed to continuing our support of such international efforts and conducting our business in compliance thereof. That is our promise to you.

* WBCSD: World Business Council for Sustainable Development

Identification of Major Issues Within and Outside the Nippon Paper Group and Efforts for Their Resolution

CSR activities are endeavors that focus on social issues. When we look at not only Japan but also the rest of the world, we find that the quality of life has improved for many people. However, it is also true that there are fields and regions in which problems remain unsolved. At the global level, such issues as global warming and limitations on the use of wood and other resources await resolution. At the corporate level, supply chains, health and safety, and the creation of meaningful work for employees are some of the tasks that need to be addressed.

CSR is an integral and inseparable part of corporate activity. Today, corporate value cannot grow without advancing these social issues. For us to be able to press forward with our CSR, it is therefore imperative that all stakeholders who are deeply connected to our corporate activities fully understand and agree with our CSR activities. What issues are important to the Nippon Paper Group and its stakeholders? We believe that we must first identify the issues, tackle them proactively, and then report on the progress.

This report identifies 11 areas as matters of interest to both the Nippon Paper Group and its stakeholders.

The Nippon Paper Group has evolved with society. We will continue to actively search for ways to accomplish our goals and press forward with our efforts. We are confident that you will appreciate the full extent of our work when you read this report. We look forward to hearing your honest opinions on our efforts so far.

Nippon Paper Group's Vision, Action Charter and Codes of Conduct

(Established on April 1, 2004)

Vision

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

Ideals for Our Group

1. Achieving superior, stable profits for our shareholders
1. Winning the trust of our customers
1. Having positive, forward-looking employees
1. 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.

Codes of Conduct

1. Fulfillment of social responsibilities

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

2. Fair, transparent and liberal corporate activities

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

3. Winning trust of customers

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

4. Strict handling of corporate information

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

5. Fair and positive disclosure of corporate information

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

6. Active involvement with environmental issues

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

7. Desirable mindset of employees

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

Group Governance

Striving for Fair Management through Dialogue with Diverse Stakeholders

Basic Policy of Corporate Governance

Nippon Paper Group, Inc. strives to realize fair management in an effort to increase the transparency of its business management to diverse stakeholders, which include customers, shareholders, investors, business partners, local communities, administrative agencies, and employees.

Being strictly a pure holding company, Nippon Paper Group, Inc. separates itself from the execution of business operations. We believe that the basics of corporate governance consist of promoting the growth strategies of Group member companies so as to raise the company's value to shareholders, monitoring (auditing and supervising) the Group member companies as their control center, and fulfilling accountability to stakeholders. We will also ensure that all Group member companies comply with applicable laws and regulations through these monitoring functions.

This clarification of the organization and its functions, combined with the separation of Nippon Paper Group, Inc.'s governance of the Group from the operations of member companies, is what distinguishes the Nippon Paper Group's governance. In order to implement this principle, each member company is, as a general rule, expected to run its operations based on the principles of "freedom, independence and self-responsibility." Nippon Paper Group, Inc. thus minimizes its involvement in the operations of individual companies.

Structure in Support of Corporate Governance

Board of Directors

The Board of Directors of Nippon Paper Group, Inc. consists of nine internal directors. The Board approves the basic management policies and other matters that are stipulated by applicable laws, regulations, and the articles of incorporation, and all other important business matters relating to Nippon Paper Group, Inc. and its member companies, and supervises the progress of the companies' business operations.

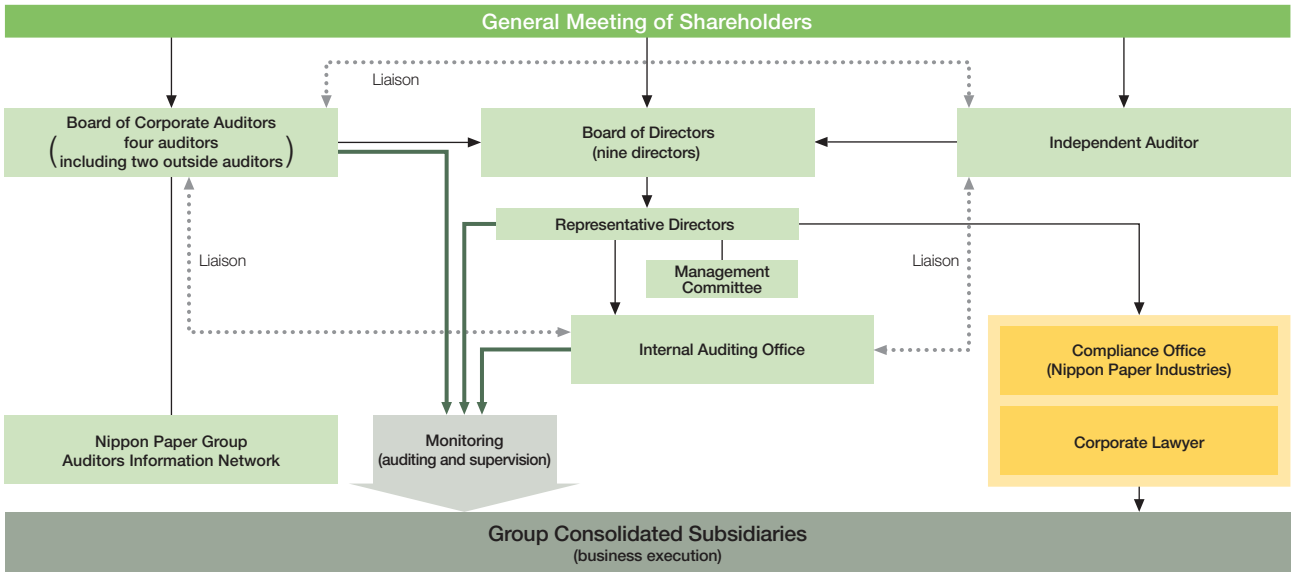
Management Committee

The Group's chairman and all directors, together with the resident corporate auditors, form the Management Committee, which is established under the Board of Directors. The Management Committee examines the basic policy and strategy of Nippon Paper Group, Inc. and of the entire Group, and important matters concerning the operations of individual Group companies. It also ensures that all companies comply with applicable laws and regulations.

Auditors

Nippon Paper Group, Inc. adopts a corporate auditor system. There are four corporate auditors, two of whom are outside auditors. The outside auditors are selected from individuals who have never been employed by the Nippon Paper Group. This is a way to ensure strong surveillance and audit functions, so that the Nippon Paper Group's business operations can be scrutinized from the viewpoint of outsiders. The corporate auditors attend important meetings, including the Board of Directors and the Management Committee, to closely monitor the execution of duties by the directors. In addition, the auditors conduct rigorous audits of all company operations to verify compliance with laws and ensure propriety.

Corporate Organization and Internal Control



In addition, the Nippon Paper Group Auditors Information Network was established and is hosted by the Board of Corporate Auditors to enhance Group audits. At the Network meetings, Nippon Paper Group, Inc.'s corporate auditors periodically discuss the audit policy and methods with auditors from major Group companies, and exchange information to enhance collaboration.

Regarding the internal control department, the Internal Auditing Office of Nippon Paper Industries Co., Ltd.'s Financial Division was integrated into Nippon Paper Group, Inc. on June 1, 2006, so as to strengthen the structure of internal control systems throughout the Group. The office was reestablished as the Internal Auditing Office and reports directly to the President.

Internal Control System

In compliance with the Company Act, which was enacted on May 1, 2006, and its related regulations, the Board of Directors of Nippon Paper Group, Inc. approved the "Basic Policy for Establishing the Internal Control System." This policy is shown on the company's Website and in its financial reports. Moreover, the Group's "Corporate Governance Report" is disclosed on the Websites of the Tokyo, Osaka, and Nagoya Securities Exchanges. In accordance with this policy, Nippon Paper Group, Inc. ensures that the execution of duties by the company's directors is in compliance with applicable laws and regulations, as well as its articles of incorporation, and presses forward with the construction of a system that ensures the propriety of the company's operations.

* The full text of the Basic Policy for Establishing the Internal Control System can be viewed at the following Website:

WEB http://www.np-g.com/e/news/news06052602.pdf

Compliance System

It is essential for every executive and employee to demonstrate a high level of ethics and act in compliance with laws and social norms for fair and transparent corporate activities. The Core Group Companies have established a compliance structure based on the Group's action charter and codes of conduct and are making every effort to apply it in every facet of their business activities.

The Core Group Companies discuss issues in terms of corporate ethics and compliance in the Corporate Ethics Subcommittee established under the CSR Committee. The policies and plans determined by the Subcommittee are communicated to the Group Compliance Liaison Conference held by the Compliance Office in the General Affairs Dept. of Nippon Paper Industries. In this conference, other more concrete issues and measures are also discussed. In order to further strengthen the company's efforts on Group-wide compliance in line with the Basic Policy for Establishing the Internal Control System, each of the 21 consolidated subsidiaries appointed a person in charge of compliance at their respective companies on August 1, 2006. This expanded coverage of the policy beyond the seven major operating companies of the Group.

During fiscal 2005, Nippon Paper Industries Co., Ltd. released the "Manual on the Anti Trust Law for Salespeople" on October 1, and provided training mainly to members of the sales department.

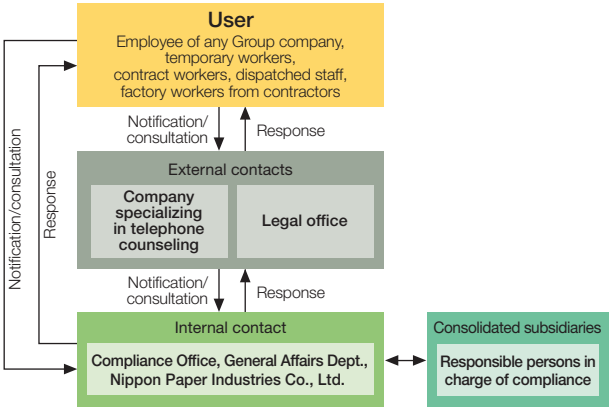
Efforts to Protect Personal Information

In accordance with the objectives of the Act on the Protection of Personal Information, Nippon Paper Industries Co., Ltd. has conducted an annual review of the personal information held by individual departments since fiscal 2005. Inventory of the data is taken using the control ledger to eliminate unnecessary data, so as to ensure that information is properly handled. Concurrently with these efforts, Nippon Paper Industries Co., Ltd. established the "Rules on the Handling of Personal Information" on April 1, 2006, so as to have a system and basic rules for the handling of personal information firmly in place.

Nippon Paper Group Help Line (Whistleblower System)

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

Flow of the Help Line System



Promotion of CSR Management

Executing CSR by Determining Focal Areas Based on Business Characteristics

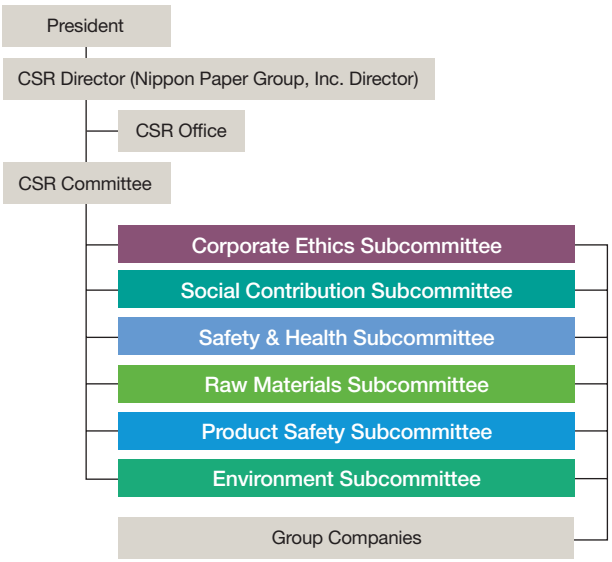
Management System of the Group

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

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

Six subcommittees are established within the CSR Committee. These six subcommittees were created to handle specific areas of CSR activities that should be promoted as group-wide efforts. They supervise and implement Group activities in their specialized areas of responsibility.

CSR Promotion Structure



Corporate Ethics Subcommittee

The Corporate Ethics Subcommittee is responsible for the corporate ethics, compliance, human rights, and employment practices that are exercised by Group companies.

Philosophy and Basic Policy on Human Rights, Employment and Labor (Philosophy)

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

* The full text of the Philosophy and Basic Policy can be viewed at the following Website:

WEB http://www.np-g.com/e/csr/ideology/ethics.html

Social Contribution Subcommittee

The Social Contribution Subcommittee oversees contributions to society and communities by Group companies, assists employees with participation in community activities, and supervises cooperation with NPOs.

Safety and Health Subcommittee

The Safety and Health Subcommittee examines such themes as workplace safety and health, disaster prevention and security, and employee safety measures taken in Japan and abroad.

Raw Materials Subcommittee

The Raw Materials Subcommittee examines such themes as the establishment and application of raw material procurement standards, and communication of company policies to suppliers.

Product Safety Subcommittee

The Product Safety Subcommittee examines such themes as compliance with product liability laws, control of chemical substances, matters related to quality standards, and reviews of product safety.

Environment Subcommittee

The Environment Subcommittee examines such themes as environmental conservation, recycling of resources, and environmental audits.

Basic Policies of Nippon Paper Group, Inc. and Nippon Paper Industries Co., Ltd. Concerning Privacy Protection (extract)

To ensure compliance with the Law for Privacy Protection and other regulations, the Nippon Paper Group, Inc. and Nippon Paper Industries Co., Ltd. ("Nippon Paper Industries") have established voluntary rules and set up an organization for the management of personal data of customers, partners, employees, and other stakeholders of Nippon Paper Industries that are used in the course of daily business.

* The full text of the Basic Policy can be viewed at the following Website:

WEB http://www.np-g.com/e/disclaimer/index.html#02

Philosophy and Basic Policy for Social Contribution Activities (Philosophy)

As a member of society, we shall proudly promote activities that contribute to social development.

* The full text of the Philosophy and Basic Policy can be viewed at the following Website:

WEB http://www.np-g.com/e/csr/ideology/social_commission.html

Philosophy and Basic Policy on Safety and Health Measures (Philosophy)

In addition to acknowledging that it is the company's duty to guarantee safety and health and striving to develop pleasant, improved working conditions, we pledge to work ceaselessly to prevent any and all accidents, minor or major.

* The full text of the Philosophy and Basic Policy can be viewed at the following Website:

WEB http://www.np-g.com/e/csr/ideology/disaster.html

Philosophy and Basic Policy Concerning Raw Materials Procurement (Philosophy)

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

* The full text of the Philosophy and Basic Policy can be viewed at the following Website:

WEB http://www.np-g.com/e/csr/ideology/materials.html

Philosophy and Basic Policy on Product Safety (Philosophy)

We pledge to work to improve safety at every stage of the life cycle of our products, from design to manufacture, supply, and disposal, and to provide products and services that the public can trust.

* The full text of the Philosophy and Basic Policy can be viewed at the following Website:

WEB http://www.np-g.com/e/csr/ideology/products.html

The Charter on the Environment (Philosophy)

Nippon Paper Group regards the coexistence with the natural environment as the basis for its sustainable corporate activities. Based on this recognition, the group will strive to achieve a recycling-based society and to protect the natural environment on a global scale over the long term.

* The full text of the Philosophy and Basic Policy can be viewed at the following Website:

WEB http://www.np-g.com/e/csr/ideology/enviro_commission.html

Corporate Ethics Subcommittee | Social Contribution Subcommittee

Masaru Motomura, Chairman

Director and General Manager of the Personnel & General Affairs Div.
Nippon Paper Industries Co., Ltd.

The importance of compliance is well accepted by the Nippon Paper Group. Furthermore, we consider our relationship with employees, who are partners of the company, to be of extreme importance. In particular, the development of human resources and creation of an environment where diverse workers can display their competence and women can be recognized are extremely important as a means of securing competent workers against the backdrop of Japan's declining population. Yet another important theme involves the social contribution efforts that permit us to be actively involved in social issues as members of society.

Compliance ▶ P9
Human Resource Development ▶ P16
Celebrating the Diversity of Employees ▶ P18
Promote corporate citizenship activities ▶ P42

Raw Material Subcommittee

Yasushi Kurata, Chairman

Managing Director and General Manager of the Raw Material & Purchasing Div.
Nippon Paper Industries Co., Ltd.

The mainstay of the Nippon Paper Group is its pulp and paper business. Wood-based resources that are derived from forests are the main raw materials for this business segment. We believe supply chain management that heeds the environment and society is a necessity as we procure these resources that are watched with concern by environmental NGOs and all of our stakeholders.

Sustainable procurement of raw materials ▶ P28

Safety & Health Subcommittee | Product Safety Subcommittee | Environment Subcommittee

Noboru Hasegawa, Chairman

Executive Vice President and General Manager of the Technical & Engineering Div.
Nippon Paper Industries Co., Ltd.

The Nippon Paper Group is engaged mainly in manufacturing. As such, the basic social responsibilities of the Group include ensuring workplace and product safety, as well as environmental conservation. In the area of environmental conservation, restricting greenhouse gas emissions from our mainstay pulp and paper operations, promoting the use of wastepaper, and controlling the generation and discharge of waste are our three top-priority tasks.

Safety and Disaster Prevention Efforts ▶ P20
Product Safety ▶ P24
Approaches to prevention of global warming ▶ P32
Promoting Optimal Recycling of Wastepaper ▶ P36
Reducing Waste Generation and Discharge ▶ P38

Appropriate Information Disclosure

Toward the Voluntary and Fair Disclosure of Corporate Information to Achieve Highly Transparent Business Management

Basic Belief in the Disclosure of Information

In order to maintain fair and sound business management, it is important not only to establish an appropriate management system, but also to openly disclose the company's business management and activities to stakeholders and pay attention to their opinions and evaluations.

Based on this philosophy and in line with the Group's Action Charter and Codes of Conduct (see page 7), the Nippon Paper Group strives to disclose its corporate information to all stakeholders positively and fairly, so as to consistently increase the transparency of its corporate management. The Nippon Paper Group Disclosure Policy was established in October 2005 to be used as a guideline for such conduct.

Specifically, we comply with the provisions of the Securities Exchange Act and other relevant laws and regulations, as well as the prompt disclosure rules stipulated by securities exchanges, and disclose information in a timely manner, standing on the principles of transparency, fairness, and continuity. Furthermore, we disclose information that may not be required by applicable laws, regulations, or the prompt disclosure rules, but which is deemed to be of interest to our stakeholders and other members of society, as promptly and accurately as possible regardless of whether or not such disclosure is advantageous to Nippon Paper Group.

* The full text of the Disclosure Policy can be viewed at the following Website:

WEB http://www.np-g.com/e/ir/policy/

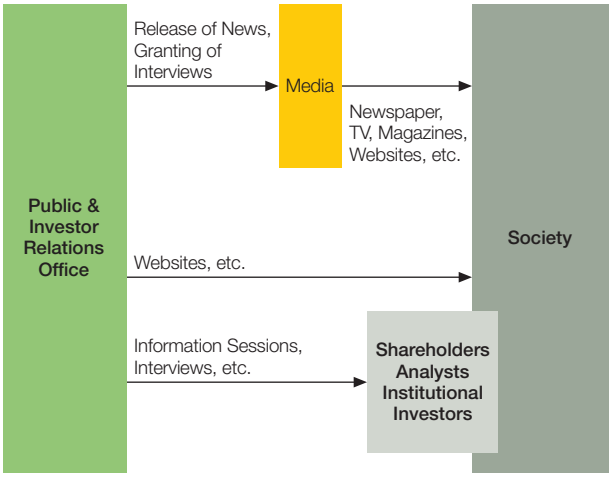
Promoting the Disclosure of Information in Addition to What Is Legally Mandated

From a wide range of information pertaining to the Nippon Paper Group, the Public & Investor Relations Office of Nippon Paper Group, Inc. selects and discloses what it deems important for managerial and social purposes.

The Public & Investor Relations Office, which reports directly to the President, handles public relations work, as well as investor relations work. In the area of public relations, the office releases news to various media groups and grants interviews. It also promotes communication with Group employees. This office is responsible for the open and fair disclosure of corporate information to society through the media. Regarding investor relations, the office is in charge of disclosing information to shareholders and investors. Drawing on the information disclosed, the office actively communicates with shareholders and investors as part of its investor relations activities. In addition, the Group has constructed a system to accurately determine the business conditions of the Group in order to satisfy its duty to disclose the Group's annual results and other financial information.

This is accomplished by IR personnel of the Nippon Paper Group and staff from each of the major operating companies (Nippon Paper Industries Co., Ltd., Nippon Daishowa Paperboard Co., Ltd., and Nippon Paper Crecia Co., Ltd.), whose performance accounts for a significant portion of the consolidated financial results.

Flow of Information Disclosure



Information Seminar for Individual Investors

For individual investors, the Nippon Paper Group held an investor meeting that was sponsored by the Nagoya Securities Exchange in August 2005. About 200 individual investors and salespeople from securities firms attended this seminar. The Nippon Paper Group presented its corporate overview and vision, followed by a question and answer session. A wide variety of questions were raised and lively discussions held. Moreover, the Nippon Paper Group displayed a wide array of its paper products, including paper used at home, in the display area of the seminar hall. The display was well received by the attendees.

Investor Meeting for Individual Investors

Communication with Diverse Stakeholders

The Group places high value on communication with a variety of stakeholders including customers, shareholders and investors, business partners, local communities, administrative agencies, and employees, as an integral part of implementing its CSR management. We established contact points or opportunities for direct communications with stakeholders to reflect their opinions in corporate management.

Publication of Various Communication Tools

The Nippon Paper Group disseminates corporate information by using a variety of communication tools. Opinions and requests received from stakeholders are examined internally so that they can be reflected in the company's business management practices as much as possible.

Group Communication Magazine "Dynawave"

Sustainability Report

Annual Report

Communication Contacts with Stakeholders

Stakeholders	Major communication contacts	Means of communication*
Employees (executives, permanent employees, part-time employees, etc.)	Human resource sections	Labor-management councils, labor-management committees, etc.
Customers (consumers, end users, etc.)	Sales sections Quality control sections Customer relations sections	Individual interviews Customer relations sections
Society and local residents (local community, NPOs/NGOs, municipalities, media, etc.)	Mills and works	Environmental security, environmental monitoring systems, factory explanatory meetings, etc.
	Responsible sections within each business segment	Interviews, etc.
	Social contribution sections	Social contribution activities, etc.
Business partners (agents, suppliers, subcontractors, etc.)	Material procurement sections Human resource sections	Individual interviews, etc.
Shareholders (shareholders, investors, etc.)	IR sections General affairs sections	General shareholders' meetings, explanatory meetings, Annual reports, business reports, IR site, etc.

* In addition to the means in the table, telephones, facsimiles, and e-mail are used as basic communication tools with all stakeholders.

Major Communication Tools

Tool	Published By	Description	Main Targeted Readers
Sustainability Report	Nippon Paper Group	Comprehensively analyzes efforts on CSR.	All stakeholders
CSR Communication Journal (Ta-ra)	Nippon Paper Group	Analyzes CSR efforts in easy-to-understand language.	All stakeholders
Social Contribution Report	Nippon Paper Group	Introduces social contribution activities.	All stakeholders
Corporate Profile	Individual companies	Provides an overview of the company.	All stakeholders
Dynawave (Group Communication Magazine)	Nippon Paper Group	Explains what is happening within the Group in easy-to-understand language.	Employees, families of employees, business partners
In-house magazine and mill magazine	Individual companies and mills	Explains what is happening in the companies and mills in easy-to-understand language.	Employees and families of employees
Company information for job applicants	Individual companies	Provides an overview of the company.	Job applicants
Annual reports	Nippon Paper Group	Comprehensively analyzes the condition of operations.	Individual investors, institutional investors, analysts
Business reports	Nippon Paper Group	Analyzes the condition of operations in easy-to-understand language.	Shareholders
Internet Website	Individual companies	Comprehensively analyzes information about business operations.	All stakeholders
IR information mailings	Nippon Paper Group	IR information	Individual investors, institutional investors, analysts

The Nippon Paper Group and Society

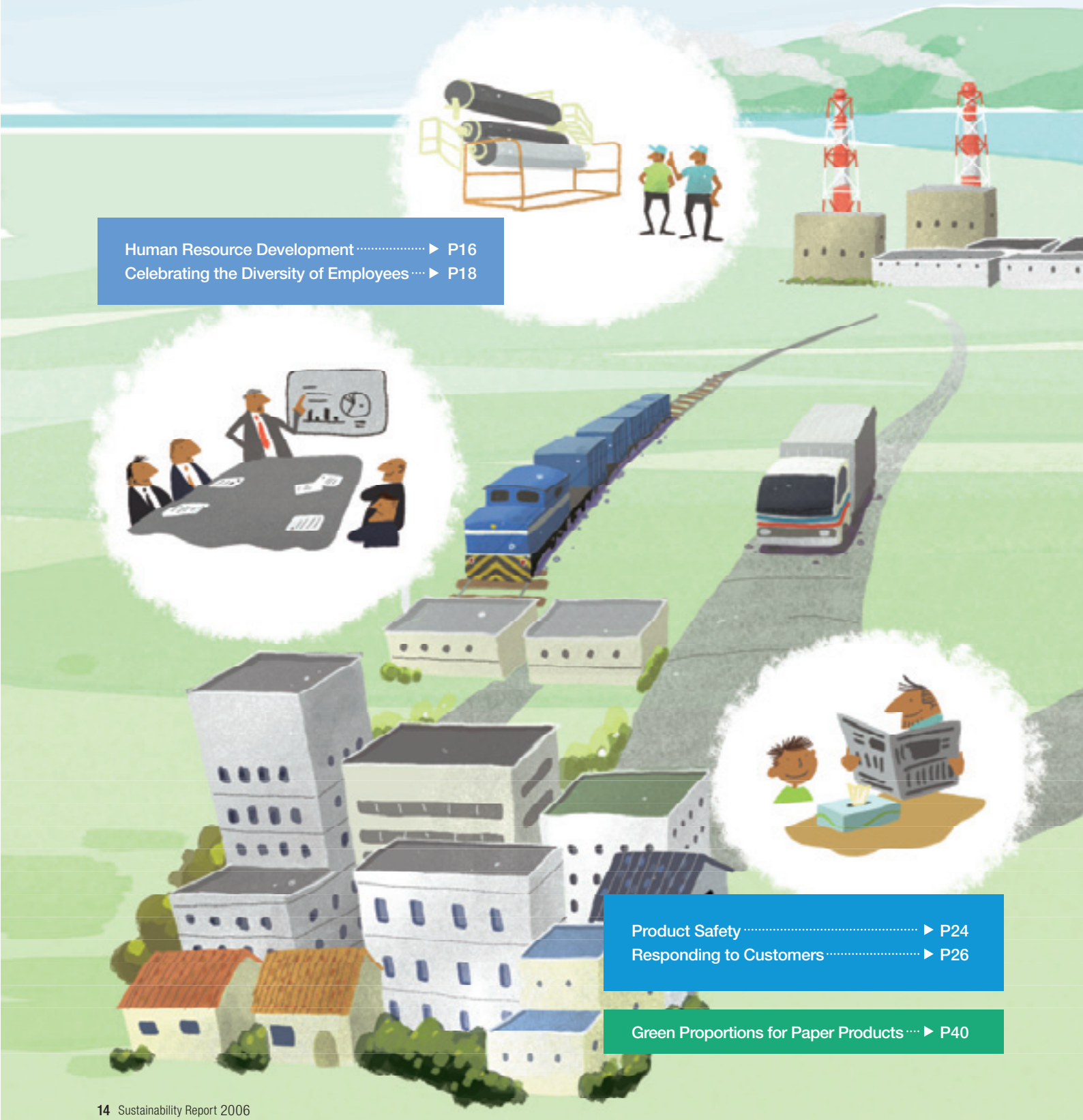
Safety and Disaster Prevention Efforts ▶ P20

Approaches to prevention of global warming ▶ P32
Reducing Waste Generation and Discharge ▶ P38

Human Resource Development ▶ P16
Celebrating the Diversity of Employees ▶ P18

Product Safety ▶ P24
Responding to Customers ▶ P26

Green Proportions for Paper Products ▶ P40



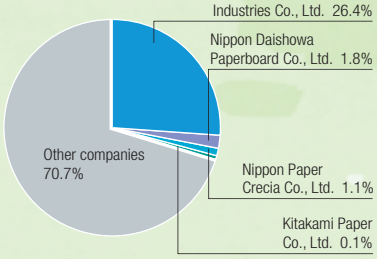
Sustainable procurement of raw materials ▶ P28

Promoting Optimal Recycling of Wastepaper ▶ P36

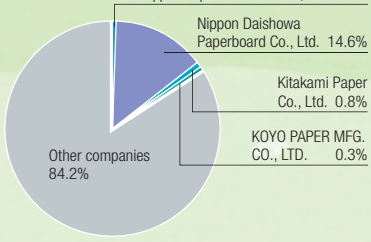
Promote corporate citizenship activities ▶ P42

Domestic Production Ratio of the Core Group Companies
(Based on calendar year 2005)

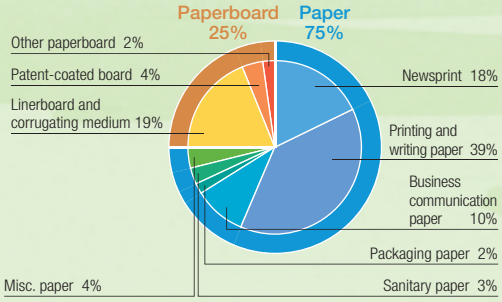
Paper



Paperboard



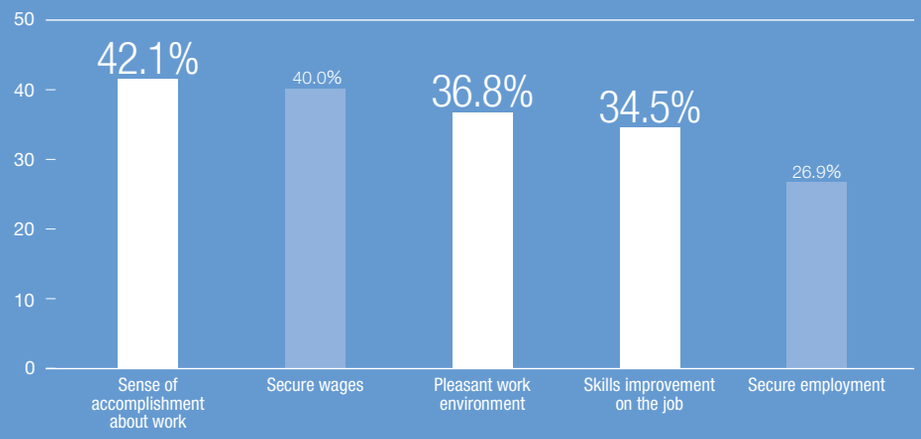
Breakdown of the Products of the Pulp and Paper Business (Based on calendar year 2005)



Human Resource Development

Constructing a Mechanism for Human Resource Development That Permits Employees and the Company to Grow Together

Factors That Are Important to Workers (Top 5 Responses from among Multiple Choice Answers)



* Source: Survey on the Human Resource Strategies and Vocational Awareness in a Society with a Declining Population, Japan Institute for Labor Policy and Training (Released in July 2005)

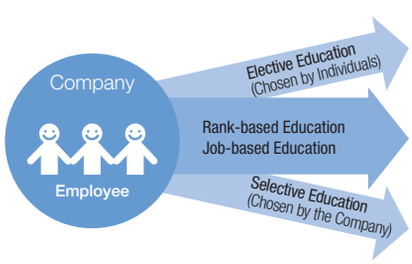
For a corporation to grow steadily, it is indispensable that each employee, who provides support for corporate activities, also grows. The Nippon Paper Group strives to build a sound relationship with its employees, who are important partners, so that both employees and the Nippon Paper Group grow together.

Toward this goal, the Nippon Paper Group concentrates its efforts on the development of human resources. Included in the action charter is a provision stating that the Group must "maintain consistency between the corporate development and the personal contentment of individual employees, and create a company filled with dreams and hope." We are building a mechanism whereby motivated and capable individuals can improve their skills by equitably offering opportunities for learning. Furthermore, we strive to assign the right persons to the right positions, and provide fair evaluation and compensation that are commensurate with each worker's level of competence and achievement.

Through these efforts, the Nippon Paper Group encourages individuals to grow, fosters a corporate climate of independent spirit, and promotes corporate growth. By channeling profits that are thus earned back to employees and other stakeholders, we hope to create a positive cycle in which employee motivation is once again elevated. We are reinforcing this mechanism for human resource development, which provides the foundation for such growth, by focusing our attention on the following five areas:

(1) Support of self-development and voluntary career building
(2) Early identification and development of potential leaders
(3) Reinforcement of the field power
(4) Support for the development of lifelong plans and career plans
(5) Assignment of the right individuals to the right positions

Partnership between Employees and the Company



Satisfaction of Individual Employees

- Increase in the market value of employees
- Improvement in the level of job satisfaction
- Fair compensation commensurate with achievements

Company's Expansion

- Growth of partners
- Creation of a self-directed corporate spirit
- Identification of the next generation of leaders

System of Training

Rank-based Education: The objective is to give employees the skills that are necessary for the performance of duties associated with specific job ranks or titles. (Examples: training of newly hired employees, supervisory training, training of new managers, training of managers who make performance evaluations)

Job-based Education: The objective is to help employees acquire the knowledge required for specific jobs to which they are assigned and improve their competence. (Examples: training to strengthen sales power, gatherings at which to exchange technical information)

Selective Education: The objective is to identify and train promising top management candidates and specialists early in their careers. (Examples: study abroad, management candidate training seminars)

Elective Education: The objective is to promote self-directed career building that meets the needs of individual employees. (Examples: correspondence courses, assistance with acquisition of qualifications)

Support of Self-Enhancement and Voluntary Career Planning

The Nippon Paper Group supports employee self-enhancement and voluntary career planning through such means as correspondence courses, group seminars, and an incentive program to encourage the acquisition of qualifications. Nippon Paper Industries Co., Ltd., for example, expanded its program in fiscal 2005 and offered eight group seminars and 43 correspondence courses for a total of 51 courses.

Fostering Leaders of the Next Generation

The Nippon Paper Group has programs to identify high achieving employees who have the potential to become future executives, and train them systematically. As part of these programs, the top management training course is implemented with the objective of having the participants acquire the basic knowledge necessary for business management. Twenty-one employees of the Group took part in the course in fiscal 2005.

In addition, Nippon Paper Industries Co., Ltd., Nippon Paper Chemical Co., Ltd., and Nippon Paper-Pak Co., Ltd. offer an overseas study program to give employees a global perspective. In fiscal 2005, a total of nine individuals took advantage of this program.

Launch of Efforts to Strengthen "Field Power"

As the environment surrounding the company becomes increasingly strenuous, it is necessary to strengthen "field" power—the source of our competitiveness—to continue operating the company soundly. For this reason, Nippon Paper Industries Co., Ltd. organized the "Committee to Study the Strengthening of Mill-Level Field Power" in April 2006. The committee launched a study of specific measures to "strengthen the capability for producing goods based on technology and skills passed on to the younger generation," and "create a field organization that is capable of independently identifying and solving problems." The study is focused on such aspects of paper mills as manufacturing, engineering, technology, environment, and finishing.

Support of Life Planning and Career Planning

In recent years, employees have seen a hike in the age at which public pension payments begin, as well as increasingly diverse lifestyles. Today, they must consider a number of factors when planning their careers and retirement living. To provide support for their efforts, core operating companies of the Nippon Paper Group offer Life Plan Seminars to enhance employee understanding of the company's and government' s programs, as well as their need to develop meaningful living and manage their health. Nippon Paper Industries Co., Ltd. started to offer this seminar in fiscal 2004 to employees in their 50s. In fiscal 2005, the seminar was expanded to include employees in their 30s and 40s.

The Right Person in the Right Job

We believe that employees who are happy with their jobs and garner a sense of satisfaction from their work not only grow personally but also help energize the workplace. Accordingly, the Nippon Paper Group periodically surveys employees to find out what kind of job assignments they wish to have, and tries to match employee strengths with job types while taking into consideration individual employee preferences about jobs.

In fiscal 2005, Nippon Paper Industries Co., Ltd. began to conduct this "personnel preference survey" with all of its employees. In prior years, only those in the managerial positions and "core employees" who were on the business leader track were included in the survey. In addition, the company launched the "In-house Staff Recruitment Program." This program allows any employee to apply for a job opening in any department within the company.

An Employee Speaks

While I found the sales-related work I was doing to be rewarding, I also desired to see the world at large and develop a deeper understanding of the whole company. Right about that time, the company launched the overseas study program. My English was not very good and I could barely keep up with the lectures. By earning my MBA, however, I did acquire a foundation for understanding the entire concept of management by studying everything from the basics of economics to finance, accounting, marketing, and business strategies. This foundation is indispensable for my current work, which is communicating daily with investors, understanding the intent behind their questions, and responding to them appropriately. The study abroad was very meaningful as it allowed me to broaden the scope of my work.

Ichiro Ehara, Manager
Public & Investor Relations Office
Nippon Paper Group, Inc.

Example Training Session at NP Trading Co., Ltd. (Leadership Training to Challege the Unknown)

NP Trading Co., Ltd. held a crash training session for systematic mastery of the theory and skills regarding business management. The aim of the session was to nurture young professionals identified as possessing the ability to continue achieving results by employing strategic thinking.

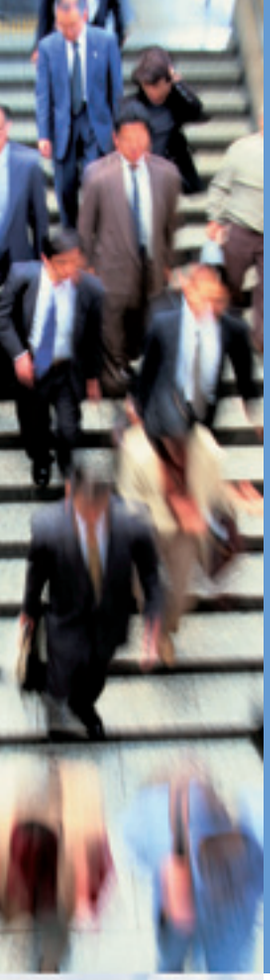
The training was attended by section managers, who spent three days and two nights together in a camp-style environment. They developed a deep understanding of innovative leadership, accounting, and creative business strategies. At the same time, they learned about managerial sensibilities and techniques that incorporate the perspective of total optimization, how to identify tasks by recognizing changes in the environment within and outside the company, and acquiring the ability to achieve goals. We will continue to build an aggressive corporate climate that accepts the challenge of changes by training the next generation of managers through these training sessions.

Managers in the training session

Fair Evaluation and Compensation Programs

The Nippon Paper Group strives to make personnel evaluations that are fair and transparent by eliminating discrimination based on gender and other factors. As part of this effort, we conduct individual review sessions with employees to give them feedback on their evaluations.

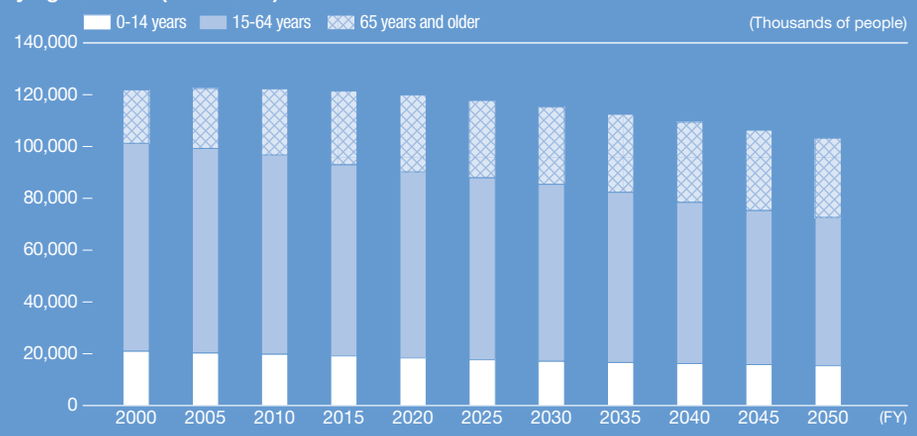
Nippon Paper Industries Co., Ltd. gives competence evaluation and performance evaluation to all its managers and the "core employees" who are on the business leader track. The competence evaluation is based on "competency" that clearly indicates the guidelines for action. The performance evaluation is based on the management by objective system. By informing individual employees of the results of their evaluation based on clear criteria, the company encourages employees to recognize their strengths and areas where they need more work to enhance their capabilities. Beginning in fiscal 2006, all employees will be given their evaluation results.



Celebrating the Diversity of Employees

Promoting a Dynamic Organization Where Diverse Workers Can Demonstrate Their Capabilities

Declining Birthrate and an Aging Population in Japan (A Shrinking Labor Pool) /Population by Age Bracket (3 brackets)



* Projected population as of October 1 of each year (medium variant), based on the Projected Future Population of Japan (Estimation as of January 2002), National Institute of Population and Social Security Research

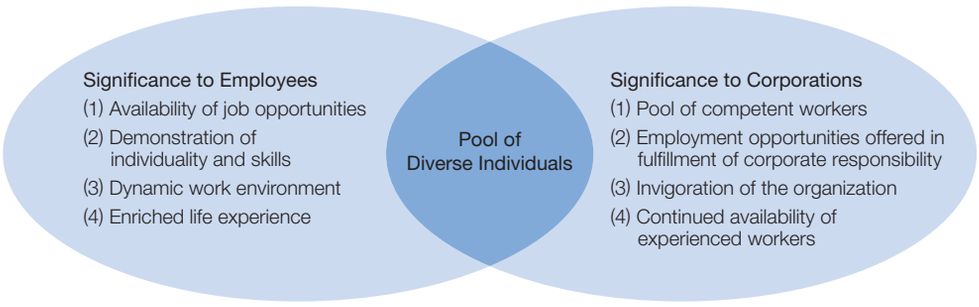
The Nippon Paper Group ensures discrimination-free recruitment and employment that respect basic human rights so as to ensure diversity among its workers. Employees with different personalities stimulating one another and mutually helping to develop a deep understanding serve to boost energy in the workplace. Especially in the coming years, competition among corporations for capable workers is expected to intensify as the labor pool shrinks. In this situation, it is an important measure for any corporation to increase the breadth of its organization by utilizing diverse workers. It is therefore important to construct mechanisms and systems to ensure that the workers needed are not barred from employment due to gender, disabilities, or age. Needless to say, such mechanisms and systems are constructed in compliance with relevant laws and regulations.

Paper manufacturing is a typical process industry. The employment of women and people with disabilities on the production sites lags behind other industries. We nonetheless believe that we can expand the job types where such workers can perform well. It is also true that passing technology on to the younger generation is an immense and common theme for all domestic manufacturing companies. To address this issue, the hiring of veteran employees who have technical expertise is an absolute necessity.

Based on this, the Nippon Paper Group strives to reinforce its system for utilizing diverse human resources by placing emphasis on the following three areas:

(1) Stepped-up hiring and promotion of women
(2) Expanded hiring of people with disabilities
(3) Utilization of veteran employees

Significance of Ensuring a Diverse Workforce



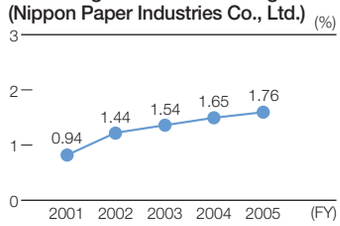
Promoting the Hiring and Advancement of Women

As of April 2006, women accounted for 9.7% of the total number of employees of the Nippon Paper Group. Among management positions, women only accounted for a meager 1.3%. The main reason for these figures is that a large percentage of employees work at production sites where the hiring of women would be difficult. Thus, a number of issues still remain to be resolved before the existing gender disparity can be eliminated.

In contrast, female employees account for 17.6% of research and administrative positions (at Nippon Paper Industries Co., Ltd.). The Nippon Paper Group is making efforts to aggressively hire and promote women so that women can work in a greater range of jobs and be a source of vitality for the company.

Toward this goal, Nippon Paper Industries Co., Ltd. launched the "Women's Perspectives Project" in October 2005. The objective of the project is to let female workers consolidate and analyze the current issues and needs that block them from reaching their fullest potential from their own perspectives, and thus develop concrete measures to overcome these problems. In fiscal 2005, "child rearing and nursing care issues" and "realization of a fulfilling work life" (or the building of a corporation where all individuals, regardless of gender, can try to achieve self-actualization) were the two core concepts of the project. Questionnaires and other tools were used to survey the situation in the company. Other actions are to be proposed in fiscal 2006.

Percentage of Female Managers (Nippon Paper Industries Co., Ltd.)



Increased Hiring of Disabled Workers

Due to safety concerns, a number of restrictions still exist for the employment of disabled workers on the production sites of the paper manufacturing industry. As of April 2006, disabled workers accounted for 1.35% of the Nippon Paper Group's workforce. This percentage is lower than the statutory rate of 1.80%.

In order to rectify the situation, Nippon Paper Industries Co., Ltd. is pressing forward to expand the job categories for disabled workers and remove barriers from the facilities. In fiscal 2005, the Personnel Department of headquarters and the personnel department at each mill established the Handicapped Staff Employment Promotion Group. The company is thus striving to promote the hiring of disabled workers and meet the mandatory employment rate as quickly as possible.

Deployment of Veteran Employees

As society grows increasingly gray, the deployment of senior workers is important both as a way to respond to the needs of society and for the succession of technology. In 2001, Nippon Paper Industries Co., Ltd. adopted the Reemployment after Compulsory Retirement System to allow employees to choose to work until 65 at maxim. These employees can now utilize their experience and knowledge that they have acquired over a number of years even past their retirement.

In fiscal 2005, the Reemployment after Compulsory Retirement System was strengthened in conjunction with the adoption in June of the Early Transfer System, which reassigns employees to affiliate companies. Individuals who transfer out of Nippon Paper Industries Co., Ltd. are re-employed by affiliate companies until they reach 62 years of age as a general rule (and up to the maximum of 65 years of age). Furthermore, the system for general employees was revised and a new re-hiring system for managerial workers created in April 2006 in response to revision of the Law for the Stabilization of Employment of the Aged. The active hiring of motivated and capable individuals is now being planned.

Such systems for the re-hiring of veteran employees are being created both at the Nippon Paper Industries Co., Ltd. and other core operating companies of the Group.

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

The core operating companies of the Nippon Paper Group have established action plans, based on the Law for Measures to Support the Development of the Next Generation, and provide support for the diverse ways in which employees work, including accommodation for child care.

In addition, the Group strives to construct and maintain an environment that accommodates employee needs through the "Women's Perspectives Project" and the "Shorter Work Hour Committee," which includes both labor and management to study ways of making work hours even more relaxed than they are now.

Launch of the "Product Development Team by Women" at Nippon Paper Crecia

In today's marketing industry, there is a saying that, there can be no hit product unless it captures the "hearts of women." The saying epitomizes the importance of product development from a woman's point of view. Nippon Paper Crecia, one of the core operating companies of the Nippon Paper Group, launched the "Feminine Product Development Project Team" in April 2006 after realizing that more than half of the purchasers of tissue paper and toilet tissue—the company's mainstay products—are women. The team consists solely of female employees.

The project's goals are to let female workers uncover consumer needs that are unique to women, and then have them develop and launch products that achieve maximum customer satisfaction by meeting consumer needs from a "uniquely feminine" point of view. Ten members selected from various departments at the head office named the team "Naradewa," which means "uniquely." Through the activities that will take place over the year, the team hopes to develop products while being conscious of their "uniquely feminine" perspectives.

A project team meeting

Hiring of New Graduates

The Nippon Paper Group hires new graduates every year to ensure a balanced age composition of its workforce, and provides the younger generation with employment opportunities. In fiscal 2005, the head office of Nippon Paper Industries Co., Ltd. hired a total of 45 (38 male and 7 female) main career track workers.

Changes in the Number of New Graduates Hired

(Number of people)

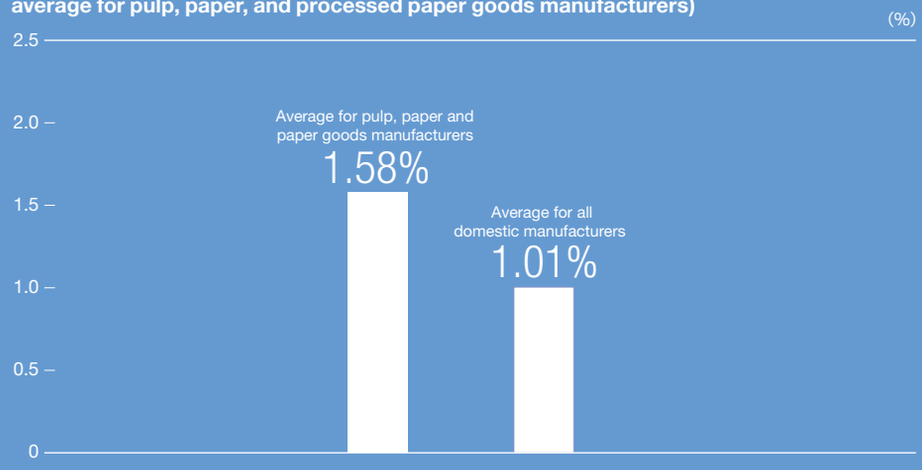
FY	2001	2002	2003	2004	2005
Male	26	24 (1)	28	27 (1)	38 (1)
Female	1	3	5	3 (1)	7
Total	**27**	**27 (1)**	**33**	**30 (2)**	**45 (1)**

* Main career track positions of Nippon Paper Industries Co., Ltd. Figures in brackets indicate the numbers of new foreign graduates hired.

Safety and Disaster Prevention Efforts

Striving for "Safety First" Operation So Everyone Can Work Worry Free

Frequency of Industrial Accidents (The average for domestic manufacturers and the average for pulp, paper, and processed paper goods manufacturers)



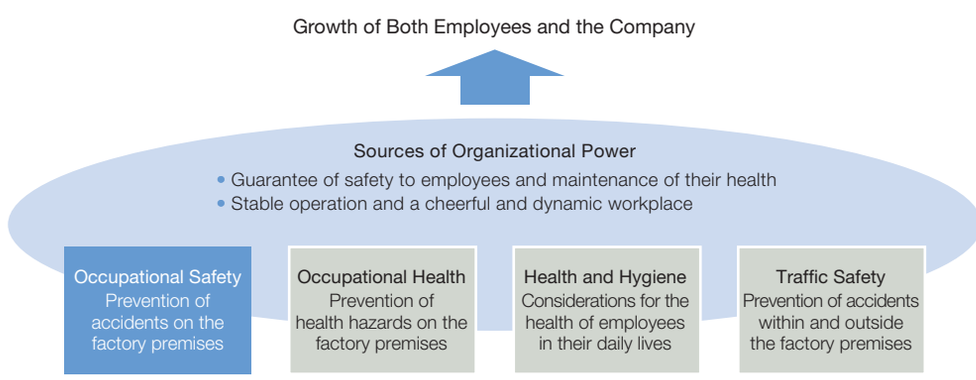
* Source: Japan Industrial Safety and Health Association (2005)

Maintaining a safe work environment for employees is one of the most basic responsibilities of any corporation.

Huge pulp manufacturing equipment and a number of paper machines that include large spinning and moving parts are installed in pulp and paper plants. For operational reasons, these spinning and moving parts are located very close to where workers are stationed. Although rigorous safety precautions are taken, it is difficult to enclose entire machines to keep them safe. As a result, the pulp and paper industry has a high "frequency rate," an indicator of the frequency at which industrial accidents occur. Approximately 45% of all occupational injuries in the industry are caused by these large machines pulling in or pinching workers' limbs. The industry's "severity rate," which indicates the seriousness of occupational injuries, is also high compared with other industries.

Recognizing these industry-specific risks, the Nippon Paper Group strives for "Safety First" operation by particularly stressing the occupational safety aspect of occupational safety and health. In addition, the Nippon Paper Group takes an active role in maintaining and promoting the health of employees, and creating a pleasant work environment. These efforts help maintain and improve productivity. We therefore believe such an investment to be a major requirement for our being able to press forward with business strategies while maintaining sound business management.

Occupational Safety and Health, the Basis of Sustained Growth

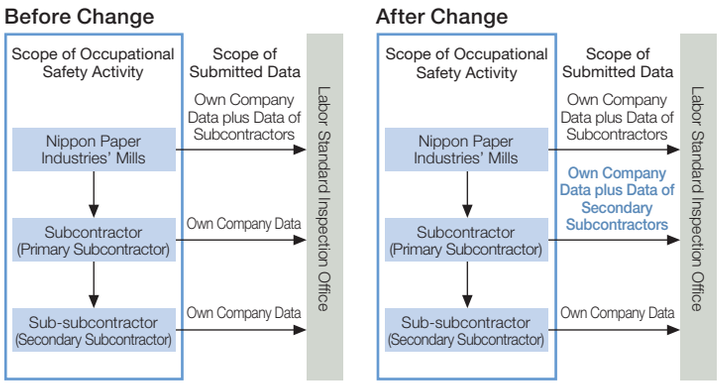


Reinforced On-site Safety Supervision

Nippon Paper Industries Co., Ltd. has always endeavored to ensure workplace safety with the intention of preventing personal injury within the premises of its mills. Unfortunately, an employee of a secondary subcontractor was killed while working at a Nippon Paper Industries mill during fiscal 2005. Recognizing the seriousness of the situation, the company has reinforced its safety and health controls over workers at mills in fiscal 2006.

A secondary subcontractor is a contractor that is hired by a Nippon Paper Industries' subcontractor (the primary subcontractor) to perform work on Nippon Paper Industries' premises. The occupational safety of a secondary subcontractor is the responsibility of the primary subcontractor. Until recently, injuries suffered by secondary contractors were not included in the official occupational safety statistics of the primary contractor. Nippon Paper Industries Co., Ltd. thus saw a need to heighten the effectiveness of the occupational safety control mechanisms used within the company premises, including control over secondary contractors. Consequently, the company decided to count occupational injuries suffered by secondary contractors that are regularly on the mill premises as part of the occupational injury data of the primary contractor, and submit the data to the labor standard inspection office. The retention of permanent records on the outcome of occupational safety controls in the form of official data makes clear the supervisory responsibility of primary contractors. This is one way that the company urges primary contractors to devote efforts to occupational safety.

Scope of Official Records of Occupational Injuries at Nippon Paper Industries' Mills



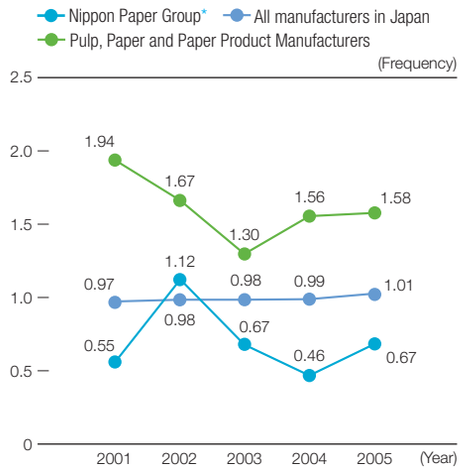
Efforts on Safety Education

In addition to adequate safety measures and mechanisms, a strong sense of responsibility held by those in supervisory positions and the proper guidance given to their subordinates play an important role in boosting workplace safety. For this reason, the Nippon Paper Group makes dedicated efforts to provide safety education to its employees.

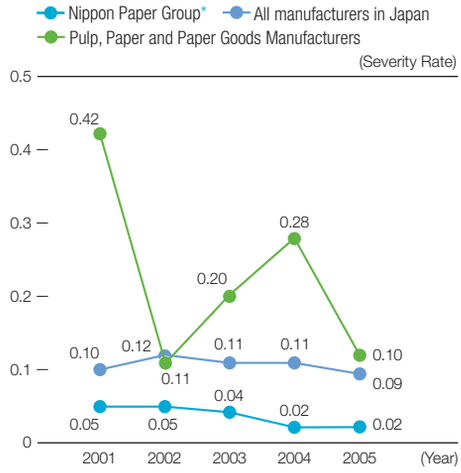
In 2005, the head office of Nippon Paper Industries Co., Ltd. sponsored a "Mill Safety Seminar." Lecturers from outside the company were sent to the mills to give lectures and conduct workshops for line managers and supervisors. Lectures focused on knowledge that is required to ensure safety and the instructional methods to be used with subordinates. The lectures were followed by workshops where explanations were given with the use of role-playing. By urging managers and supervisors to have a renewed awareness of safety, the company hopes to achieve and maintain an environment that is free of accidents and injuries at all of its work locations.

Mill Safety Seminar (at Fuji Mill of Nippon Paper Industries Co., Ltd.)

Frequency of Occupational Accident



Occupational Accident Severity Rate



* Nippon Paper Group means the mills of the following five companies; Nippon Paper Industries Co., Ltd., Nippon Daishowa Paperboard Co., Ltd., Nippon Paper Chemicals Co., Ltd., Nippon Paper Crecia Co., Ltd., and NIPPON PAPER-PAK CO., LTD.

Accidental Death of a Subcontractor Employee (2005)

Name of the Mill	Summary
Iwakuni Mill	**Date of Incident:** May 19, 2005 **Location:** Inside a chip freighter that was docked by the mill berth. **Victim:** A subcontractor employee that was hired to unload chips from chip freighters (55 years of age) **Description of the Accident:** Contact with a bulldozer during an unloading operation.

Stepped-up Collaboration with On-site Subcontractors

In order to prevent occupational injuries on the mill premises, stepped-up efforts are being made to collaborate with subcontractors and other businesses that work on the company premises in addition to protecting the employees of the Nippon Paper Group. For example, Nippon Paper Industries Co., Ltd. is promoting such efforts as the Safety Patrol and safety education, which are conducted jointly with subcontractors that work on the company's premises, and with the labor union.

The Safety Patrol involves the top-level mill managers of Nippon Paper Industries Co., Ltd. and those of its subcontractors strolling the work areas inside the mills to identify areas that raise safety concerns, as well as the risky behaviors of workers.

Implement Risk Assessment Techniques

Risk assessment is a new management technique that involves the identification and assessment of risk factors at each workplace, and the rational and continuous implementation of risk reduction measures.

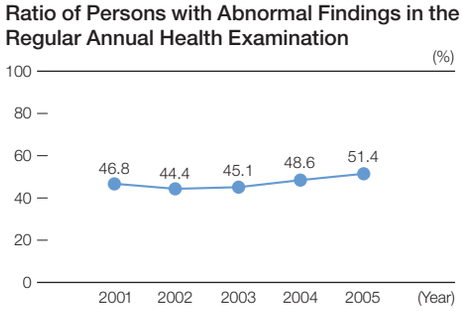
Nippon Paper Industries Co., Ltd. established standardized policies to adopt this technique and began to implement these policies at mills in April 2005. The policies are scheduled to become effective by September 2006.

The core operating companies of the Group other than Nippon Paper Industries Co., Ltd. are also studying and making preparations for the adoption of risk assessment techniques.

Efforts on Occupational and Personal Health

The Nippon Paper Group strives to maintain a workplace environment that is safe and comfortable, while complying with applicable safety and health laws and regulations. As part of this effort, environmental measurements are taken periodically at each workplace. In addition, periodic health evaluations, including a diagnosis of adult-onset diseases and a Web-based mental health care system, are offered to ensure that the physical and emotional health of employees is maintained and further enhanced.

Ratio of Persons with Abnormal Findings in the Regular Annual Health Examination



Efforts on Traffic Safety

Traffic safety education is offered to raise the awareness of employees about traffic safety. The objective is to ensure their safety while commuting. In addition, the company conducts such activities as checks on the use of seat belts by employees who commute by car. The checks are conducted at the entrances to parking areas.

Efforts on Disaster Prevention

Individual mills adopt their own disaster prevention measures that are suitable for the nature of their operation and regional characteristics. They create a manual on disaster prevention, including the preparation for natural disasters, and conduct emergency drills. For example, the head office of Nippon Paper Industries Co., Ltd. (located in Chiyoda-ku, Tokyo) reprinted the "Manual of Emergency and Disaster Countermeasures" in October 2005. The manual provides instructions on such matters as establishing a command center and methods of confirming employee safety. The manual was distributed to all officers and employees. During fiscal 2005, the Nippon Paper Group experienced no fire that had a serious impact on production or the environment of nearby residents.

Emergency Drill
(Tokyo Mill of Nippon Paper Crecia Co., Ltd.)

Health Survey Relating to Asbestos

An asbestos-related problem surfaced within Japan in the summer of 2005. On August 3, 2005, the Nippon Paper Group announced the opening of an information office for current and former employees. They are encouraged to contact the office regarding asbestos-containing products.* The company continued its internal investigation within the Group and has taken the steps below.

* An overview of asbestos-containing products and information about the Asbestos Information Office can be found at the following Website:

WEB **http://www.np-g.com/whatsnew/whatsnew05080301.html (Japanese only)**

Occupational Health

It was confirmed that operations involving asbestos had taken place at some operating companies in the Group. In response, the Nippon Paper Group decided to conduct an asbestos-related health survey of its employees. None of the confirmed operations was of the type that dispersed airborne dust over a wide area. It was thus determined that the areas surrounding the mills where these operations took place were not affected.

Buildings

An investigation was conducted at each of the mills, warehouses, offices and other work locations of the Nippon Paper Group regarding sprayed asbestos that had been used as a construction material. The investigation was conducted in accordance with the scheme described at right. Investigation through Step 3 has been completed. Step 4 is to be gradually implemented.

Products

It was found that Nippon Paper Industries Co., Ltd. had manufactured asbestos-containing paper for treatment (under the product names Aspaar and Minepaar) at two of its mills between 1971 and 1987. The company released this information to the public on August 3, 2005, upon opening its information center. Furthermore, asbestos dispersion tests were conducted by tearing these products. The test results revealed a very low probability of asbestos being dispersed. The test results were forwarded to the base paper users who purchased these products.

Method of Investigating Asbestos Sprayed on Buildings

1. **Confirmation of Use**
   Determine whether asbestos was sprayed, based on the year of the building's construction, design blueprints, visual inspection, and microscopic analysis.

2. **Risk Ranking of Used Sites**
   Rank each site where asbestos was sprayed in accordance with the severity of risks, based on such factors as the condition of asbestos attachment (i.e. risks of dispersion potential) and the frequency at which the affected facilities are used.

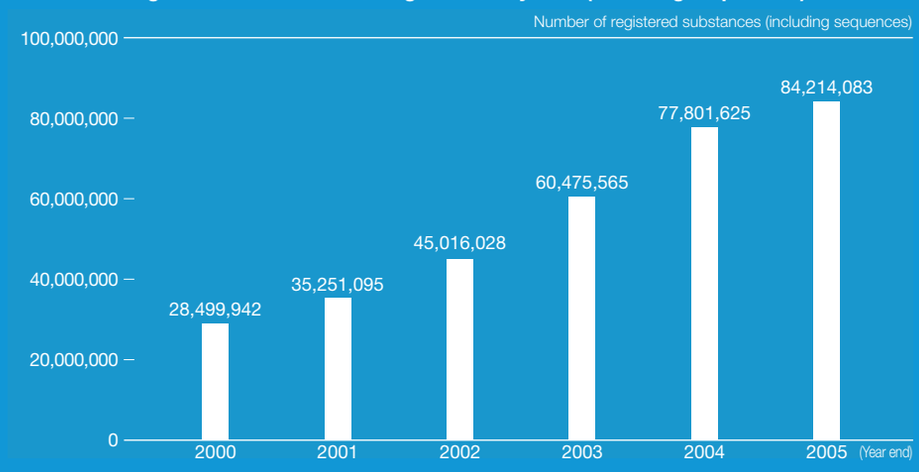
3. **Countermeasures at High Risk Sites**
   The following countermeasures are taken at the sites that have high risks of asbestos dispersion and high frequency use (Risk Rank A):
   - **Emergency Measures:** Make the area off-limits and notify all employees.
   - **Permanent Measures:** Study such measures as removal in addition to emergency measures.

4. **Countermeasures at Low Risk Sites**
   - **Study such measures as removal.**
   - **Implement periodic monitoring by employing inspections and records.**

Product Safety

Providing Safe Products to Customers by Exercising Rigorous Controls on Chemicals

Number of Registrations on the CAS Registration System (including sequences)

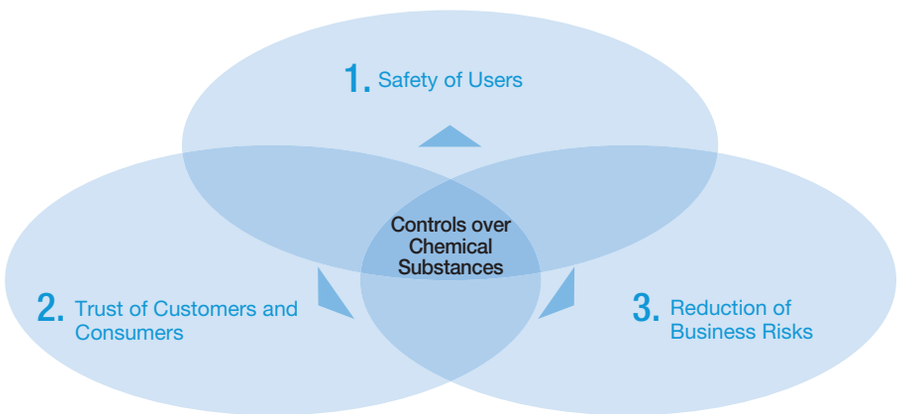


* CAS: Chemical Abstract Services (a division of the American Chemical Society, with the world's largest chemical information database)

Providing safe products that customers can use without worry is an important responsibility of any manufacturer. As concerns grow about the chemicals contained in products, manufacturers must accurately assess the risks that accompany the use of these substances. They are expected to take prompt action by suspending or reducing the use of chemicals in response to such risks. The number of chemicals that are identified in the world continues to rise, while the laws and regulations concerning their use have grown increasingly stringent.

The Nippon Paper Group manufactures and sells a wide range of products. Various chemicals are used in the manufacture of these products. For example, our main product, paper, uses inorganic fillers and chemicals. To ensure safety for manufacturers that print or process these paper products, as well as for consumers, the end users, the Nippon Paper Group exercises rigorous controls over chemical substances. We believe this is indispensable for gaining the trust of our customers and consumers, as well as for reducing business risks.

Reasons for Controlling Chemical Substances



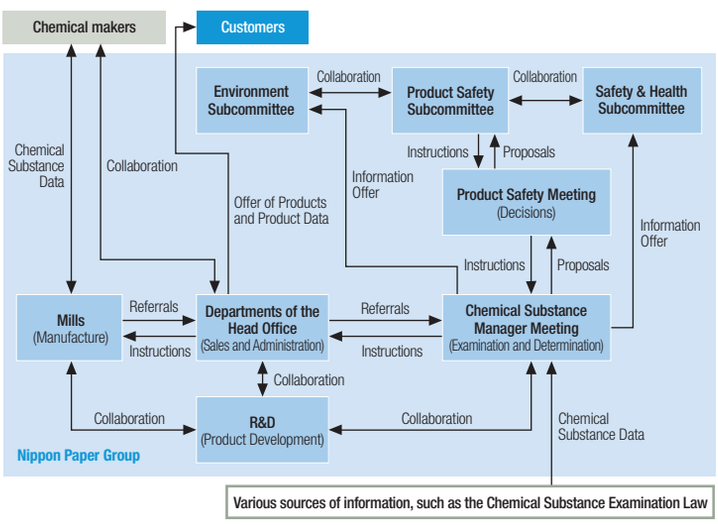
System of Chemical Substance Control

At the Nippon Paper Group, the Product Safety Subcommittee, one of the subcommittees under the CSR Committee, plays a central role in the management of chemical substances that are used in products. The subcommittee is responsible for ensuring that all companies, mills, and manufacturing sites of the Nippon Paper Group control chemical substances in accordance with the policies of the Nippon Paper Group concerning product safety, as well as applicable laws and regulations. In addition, the "Chemical Substance Manager Meeting" is established as a body subordinate to the Product Safety Subcommittee. All manufacturing companies of the Group where a large number of chemicals are used send their employees who are responsible for controlling the use of chemical substances at their respective companies to the Meeting. The Meeting not only gathers information about highly specialized chemical substances, it also examines various chemicals and determines whether said chemicals may be used at mills and other manufacturing sites within the Group, based on the information obtained.

Some of the information obtained by the Chemical Substance Manager Meeting is important not only for product safety but also in terms of environmental protection, workplace safety, and the prevention of occupational hazards. For this reason, the Meeting offers such information on chemical substances to the Environment Subcommittee and the Safety and Health Subcommittee. These subcommittees also strive to reduce business risks relating to chemical substances from their own points of view.

Mills and other manufacturing sites have constructed and implemented their respective chemical substance control systems in compliance with ISO 14001, a set of international standards relating to environmental management.

Chemical Substance Management System



Ensuring Product Safety with Early Risk Identification and Action

To properly control chemical substances, it is important to accurately understand their inherent risks and respond promptly. For this reason, the Chemical Substance Manager Meeting of the Nippon Paper Group collects information concerning laws and regulations relating to chemical substances, including the Law concerning the Evaluation of Chemical Substances and Regulation of Their Manufacture, etc. Law concerning Reporting, etc., of Releases to the Environment of Specific Chemical Substances and Promoting Improvements in Their Management (PRTR law), as well as various types of academic data obtained from within and outside of Japan. Furthermore, the Meeting keeps in close touch with chemical makers to exchange information. Through these measures, the Group strives to identify risks as early as possible.

Chemical substances that are identified to be of high risk through this process are either suspended from use or replaced with safer alternatives so as to ensure product safety.

PRTR Law

The domestic manufacturing units of the Group control chemical substances that are used at their respective sites, including those that are used in products, subject to the PRTR Law. Furthermore, these units are working to reduce the amounts of discharged chemicals.

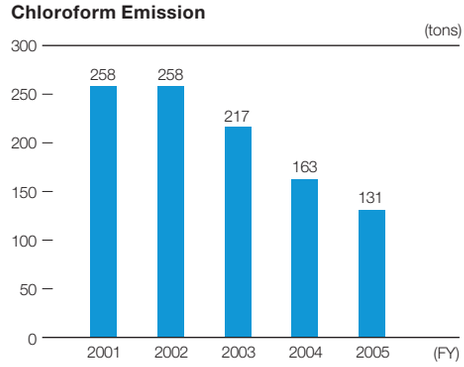
During fiscal 2005, the domestic business locations of the Group handled 22,876 tons of chemical substances subject to the PRTR Law, and released 359 tons while transferring 23 tons. The amount of chemicals released was down by 50 tons from the preceding year.

* Please see the data packet at the end of the report (on page 51) for PRTR results.

Chemical Substance Control relating to Manufacturing Processes and Facilities: Control of Chloroform Release

Chloroform, a substance subject to the PRTR Law, is released as a byproduct in the conventional craft pulp bleaching process. In order to control the amount of chloroform released, Nippon Paper Industries Co., Ltd. has been converting its craft paper bleaching facilities to the ECF (elemental chlorine free) process since fiscal 1996. During fiscal 2005, ECF conversion was completed on three lines at the company's Shiraoi Mill and Iwakuni Mill. The amount of chloroform released was reduced to 131 tons, marking a reduction of 32 tons from the preceding year.

Chloroform Emission



Control of PCB

PCB has a superb insulation property and was used in the past in such electrical equipment as transformers. Some of the Nippon Paper Group's business sites have units of electrical equipment that were purchased long ago and contain PCB. Those units no longer being used have been warehoused.*1 The Nippon Paper Group is taking steps to request Japan Environmental Safety Corporation*2 to detoxify and dispose of PCB over a period of time.

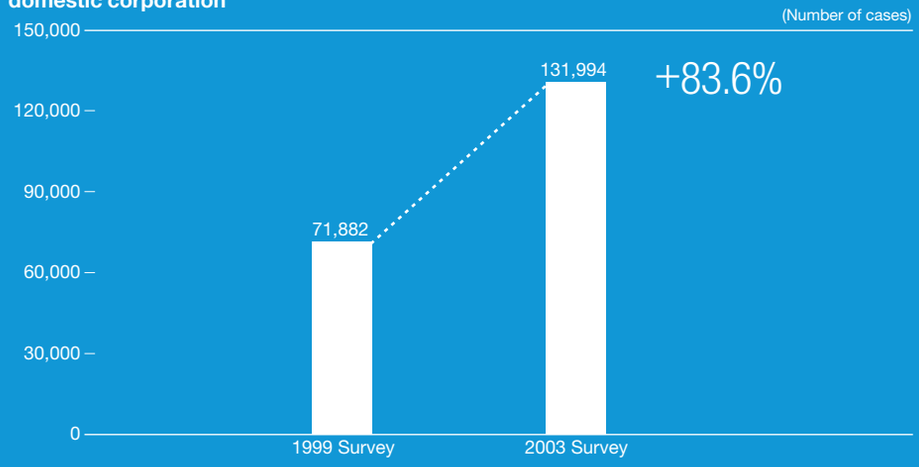
*1 Please see the data packet at the end of the report (on page 51) for the number of units of PCB-containing electrical equipment that are warehoused or in use.

*2 Japan Environmental Safety Corporation: a special corporation under the supervision of the Ministry of the Environment and incorporated with 100% government financing

Responding to Customers

Responding with Sincerity to Our Customers to Achieve Maximum Satisfaction

Annual number of customer calls received by the Consumer Relations Department of a domestic corporation

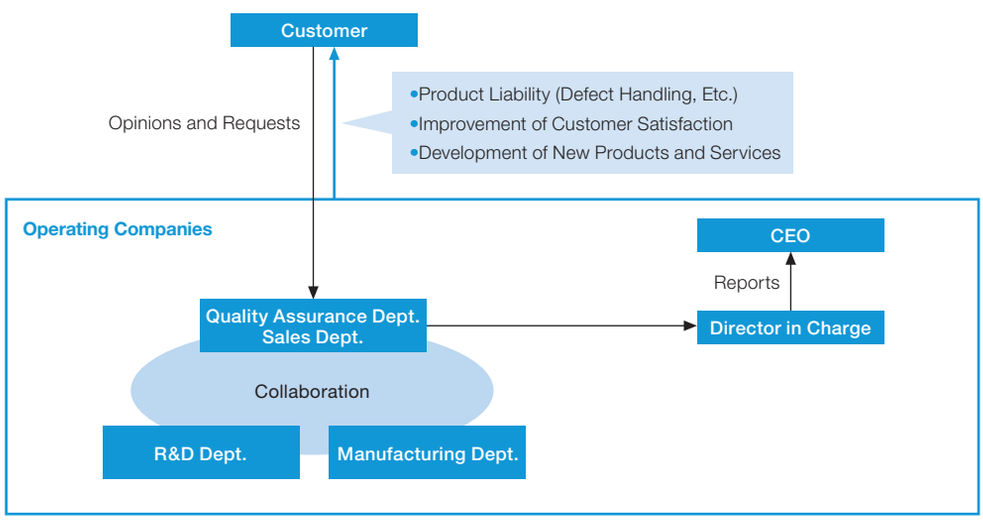


* Source: "Survey of Consumer Relations Departments and Voluntary Codes of Conduct among Corporations," released by the Cabinet Office

In its "Nippon Paper Group Codes of Conduct," the Nippon Paper Group stipulates that it provides safe products and services that are of high quality and utility to society." To honor this commitment, it is important that the Nippon Paper Group not only listens to customers' opinions and wishes and promptly rectifies any product defects and problems that occur, but also maintains a correct corporate posture and behavior.

Based on this, the Nippon Paper Group strives to pay close attention to customers and raise the level of customer satisfaction. Each of the Group's operating companies receives various questions, opinions, and requests from customers through its own customer relations department and salespersons. Customers provide a wealth of information. Attentively grasped and understood, this information can lead to the development of new products and services. Furthermore, we can secure the trust and satisfaction of our customers by sincerely responding to their complaints. Thus, the Nippon Paper Group is working to construct organizational systems that respond to customers in accordance with their individual business and characteristics, in an effort to maximize their satisfaction.

Basic Mechanism of Customer Response



Response to Customers Shaped by Individual Operating Companies' Business and Customer Characteristics

The Nippon Paper Group conducts a wide array of business operations. Its customers also range widely from corporations to general consumers. Each operating company has thus established a system to respond to customer needs, based on the characteristics of its customers.

For example, at Nippon Paper Industries Co., Ltd., which manufactures and sells paper to mostly corporate customers, the Quality Assurance Dept. comprehensively manages opinions and requests received from customers through salespeople and responds to them in collaboration with other departments, such as sales, R&D and manufacturing. The Quality Assurance Dept. communicates specific measures taken and their outcome to customers to ensure customer satisfaction. Product complaints and other information that has serious implications are reported to the officer in charge and the company president, along with any countermeasures proposed.

In the corporate sale segment of the paper and paperboard business, the quality assurance department of individual companies makes periodic customer calls to confirm their evaluation of product and service quality. When problems and areas that need improvement are found, action is taken in collaboration with other departments.

Product Development in Response to Customers' Voice (Nippon Paper Crecia Co., Ltd.)

Nippon Paper Crecia Co., Ltd. manufactures and sells tissue paper and other paper products for home use. The company concentrates its efforts on product development that responds to customer needs. In fiscal 2005, functional improvements were made to such personal care products as incontinence products and paper towels, incorporating suggestions received from customers by the Customer Service Center.

"Poise, Pads® for Light Incontinence"

Improvement to the pad surface material and enhancement of absorbent material performance led to the materialization of a pleasant feel even after the absorption of urine. Responding to an opinion about the package design regarding how difficult it is to determine the size or absorbency of the pads, improvements were made to the manner in which the information is presented. Concurrently, the coating of the package film was changed to prevent a buildup of dust and dirt while the product is on store shelves.

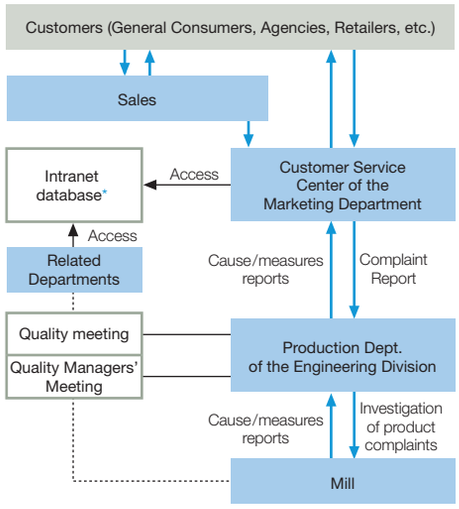
"Kleenex® Paper Towel Super Dry"

A wide array of requests has been received about the sheet size of paper towels, which are used for a variety of purposes in the kitchen, due to economic and functional considerations. Consequently, a perforated line was added at half the intervals of conventionally perforated rolled sheets to let consumers cut a sheet to the most suitable size for any specific use.

Customer Response System for General Consumers

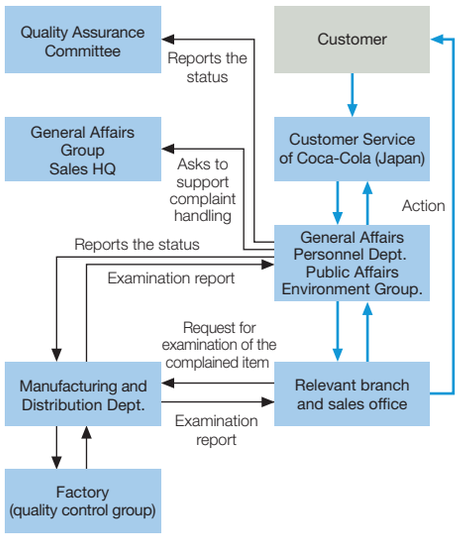
The operating companies that mainly sell products designed for general consumers have built and put to use a mechanism for improving customer satisfaction by maintaining smooth communication with general consumers, and by developing and selling superb products.

Flow of Customer Response at Nippon Paper Crecia Co., Ltd.



* Records of information received by the intranet database are registered and controlled in accordance with the rules set forth by the "Basic Policy Concerning Privacy Protection" of Nippon Paper Crecia Co., Ltd.

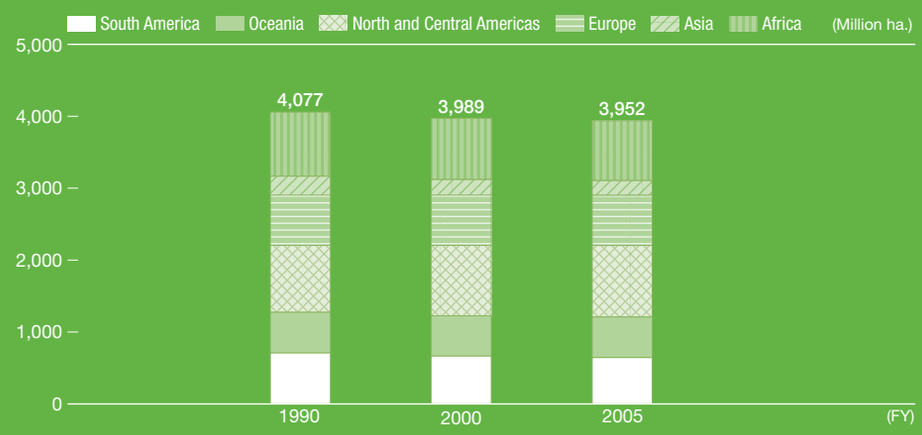
Flow of Customer Response at SHIKOKU COCA-COLA BOTTLING CO., LTD.



Sustainable procurement of raw materials

Supply Chain Management that Values Dialogue with Stakeholders

Changes in the Forest Areas of the World



* Source: FAO, Global Forest Resources Assessment 2005.

As corporate activities grow increasingly global, CSR in the supply chain is gaining importance. The wide distribution of raw materials and products on a global scale enables consumers to choose inexpensive and high-quality products from among a multitude of choices. On the other hand, raw material and product suppliers now need to pay close attention to not only their own behaviors but also the behaviors of their raw material and product suppliers. In order for them to successfully maintain a sustainable supply chain they need to be concerned about occupational health and safety, human rights and the environment.

In the pulp and paper industry, supply chain management is an especially important issue in connection with CSR. Wood resources—the main raw materials for pulp and paper—are produced by forests that play an important role in the conservation of the global environment. The procurement of these resources involves diverse stakeholders. Although wood resources are renewable, they have the potential for destroying the environment unless their impact on the surrounding environment is accurately understood. The forest areas of the world are still decreasing despite afforestation efforts in various locations. At the same time, a number of environmental NGOs are pressing for wood procurement that respects the forest ecosystem.

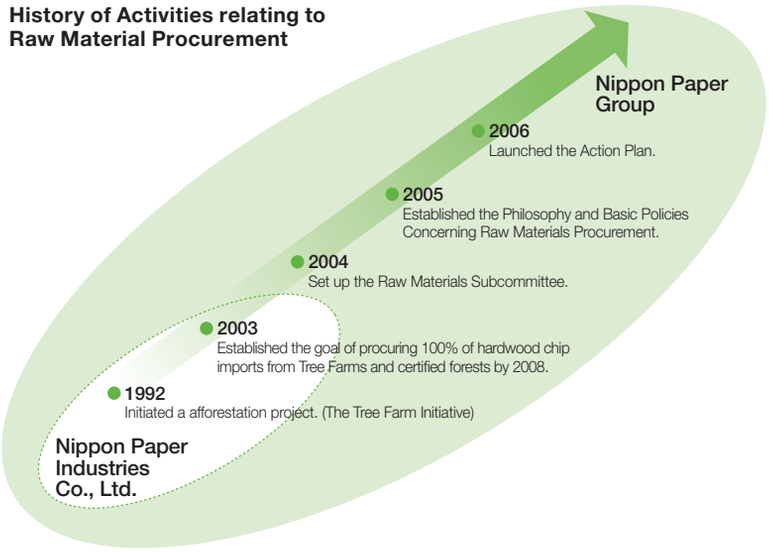
The Nippon Paper Group believes strongly in fulfilling its CSR while responding to the demands and concerns of society. It therefore intends to practice supply chain management that is kind to the environment and society. To achieve this goal, the Nippon Paper Group sets out to implement its supply chain management of woodchips. Woodchips are the main raw material used in the pulp and paper business, the mainstay of the Group.

Initiating an Action Plan Built on the Philosophy and Basic Policies

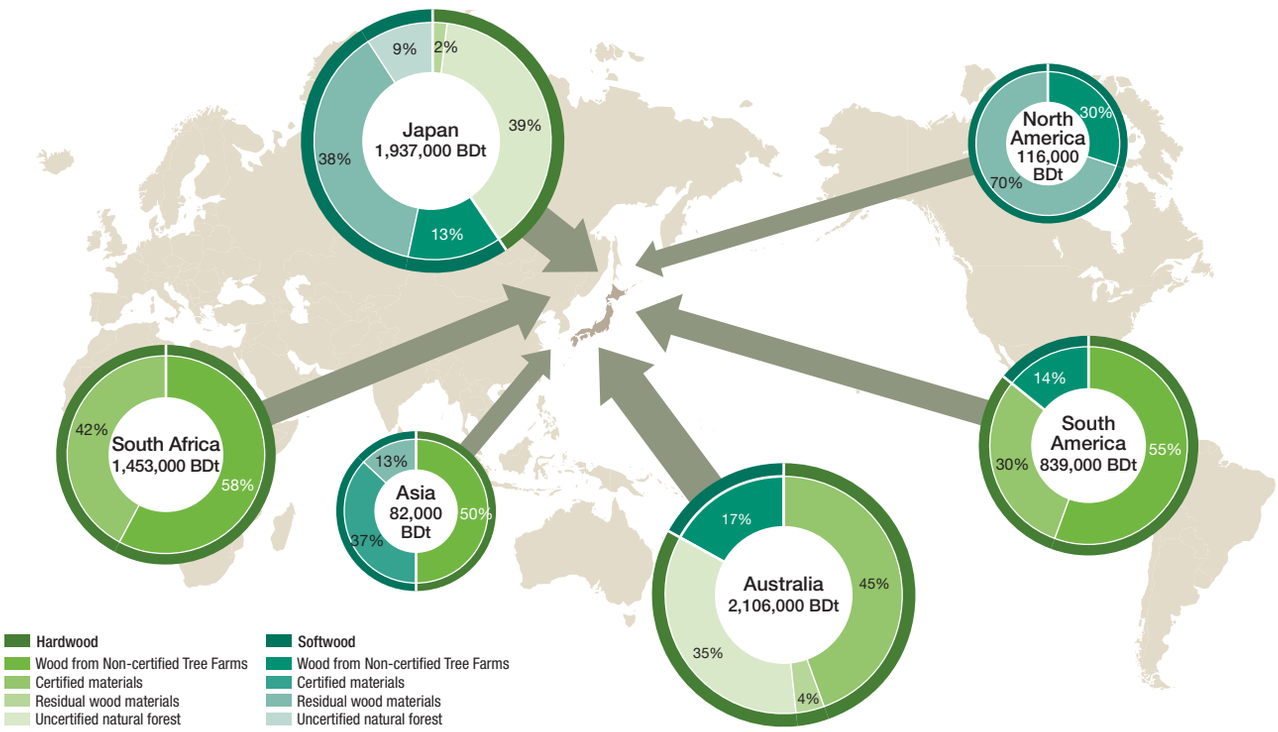
Nippon Paper Industries Co., Ltd., the core business entity of the Nippon Paper Group's pulp and paper operations, has been actively engaged in promoting afforestation projects in foreign countries and adopting forest certification systems. In October 2004, the Nippon Paper Group set up the Raw Materials Subcommittee in an effort to promote a group-wide drive for the procurement of sustainable raw materials. This was followed in October 2005 with the establishment of the "Philosophy and Basic Policies Concerning Raw Materials Procurement." The draft of this document was released to the public prior to its finalization so as to initiate dialogues with all stakeholders. Their opinions were solicited from both within and outside Japan, and incorporated into revisions made to the draft.

In August 2006, the Nippon Paper Group launched an action plan based on the "Philosophy and Basic Policies Concerning Raw Materials Procurement." Specific steps will be taken in the future in accordance with that action plan.

History of Activities relating to Raw Material Procurement



Sources of Woodchips and Logs Purchased by the Nippon Paper Group for Domestic Manufacture of Pulp and Paper (fiscal 2005)



Action Plan for Wood-based Raw Material Procurement

In the "Philosophy and Basic Policies Concerning Raw Materials Procurement," established in October 2005, the Nippon Paper Group upheld the following policies:

- Procure woodchips, lumber, and pulp from forests under sustainable forest management
- Do not use or handle illegally logged lumber and support the eradication of illegal logging
- Ensure that the entire supply chain has appropriate human rights and labor practices

The Action Plan, which took effect in August 2006, is an initiative to put these policies into practice.

* The full text of the Philosophy and Basic Policy can be viewed at the following Website:

http://www.np-g.com/e/csr/ideology/materials.html

Description of the Action Plan

Efforts relating to Foreign-source Materials	
Procurement System	Nippon Paper Industries Co., Ltd. procures woodchips for use as raw materials for pulp and paper from approximately 20 foreign suppliers, including some affiliates. These chips are purchased mainly through trading firms. These suppliers are known to be reliable partners with whom we have done business for a number of years.
Description of Efforts Made	(1)On a boat-by-boat basis, document verifications are performed 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."
	(2)Suppliers are surveyed annually in detail with respect to the following: •Applicable laws and regulations, and the suppliers' compliance with those laws and regulations •The classification of forests, their ownership, and the status of forest certification •Considerations given to human rights, labor, and society •Conservation of biodiversity, ecosystems, and soil and water resources
	(3)The same survey and confirmation procedures that apply to woodchips are also conducted regarding imported pulp.

Efforts relating to Domestically Produced Materials	
Procurement System	Nippon Paper Lumber and Nanei, two subsidiaries of Nippon Paper Industries Co., Ltd., obtain domestically produced materials used as raw materials for pulp and paper from approximately 750 suppliers.
Description of Efforts Made	(1)Nippon Paper Lumber and Nanei are authorized by a lumber-related organization to be in compliance with the law. The two companies supply Nippon Paper Industries Co., Ltd. with materials that are certified to be in compliance with the law.
	(2)Nippon Paper Lumber and Nanei not only verify that the materials purchased from suppliers are in compliance with the law, but also obtain the following types of information about each of the suppliers: •Name and address of the supplier •Whether the supplier is certified by an industry organization •Description of the materials (thinned wood, sawmill residues, domestic materials, imported materials, hardwood, softwood) •Considerations given to labor and the environment
	(3)Verification is also performed with respect to domestically produced pulp so as to ensure that neither illegally harvested wood nor wood that poses a threat to the environment is included.

* Certification regarding the Verification of Legality: This is consistent with the "Guidelines for Verification of Legality and Sustainability of Wood and Wood Products" (February 15, 2006) of the Forestry Agency, set forth in the Basic Policy on Promoting Green Purchasing in connection with the Law Concerning the Promotion of Procurement of Eco-Friendly Goods and Services by the State and Other entities. Member organizations of the Japan Federation of Wood Industry Associations and other wood industry organizations certify a business after reviewing the controls on sorting of woods whose legality has been verified and other document controls that are exercised by the business. Certified businesses can sell wood whose legality has been verified by displaying the certification number granted by the certifying industry organization.

Measures to Ensure that Materials are Procured in Conformity with the Procurement Policies	
Document Retention	Relevant materials are retained for five years. When there are separate document retention requirements imposed by the Commercial Code or other laws, the legal requirements supersede the company rules. Furthermore, these materials are disclosed in the event that they are needed for audits and other similar purposes.
System of Investigations and Audits	(1)Employees of Nippon Paper Industries Co., Ltd. are stationed in all countries that are major sources of woodchips, including Australia, Chile, and South Africa. The employees witness the loading of chips onto boats and verify the quality of raw materials received. In addition, they gather information about the operations of suppliers, as well as information on the social conditions in the local areas.
	(2)The raw materials department at each mill periodically inspects the subsidiaries that handle the procurement of domestic materials so as to ensure that domestic materials meet legal requirements, and that the subsidiaries properly gather information about their suppliers. In addition, these departments and subsidiaries conduct similar inspections of affiliated chip mill.
	(3)Nippon Paper Industries Co., Ltd. plans to use a third party to conduct audits to ensure that wood-based materials are procured in conformity with the company's policies. The company hopes to gain objective third-party evaluations of its efforts and plans to press forward with the recommendations received.
Disclosure of Audit Findings and Other Information	The contents of audits by a third party, the findings of the company's in-house investigations, and other important information will be presented in the company's sustainability reports and on its Website.

Past Efforts for the Sustainable Procurement of Wood-based Raw Materials

The Nippon Paper Group has made efforts toward sustainable procurement by establishing numeric targets for the procurement of wood-based raw materials.

Overseas Tree Farms

The Nippon Paper Group started an afforestation project in Chile in 1992 and has since pressed forward with afforestation in accordance with its "Tree Farm Initiative", under which an amount equal to the annual growth is harvested. Pursuing a target of "100,000 hectares of afforestation by 2008," the Group had attained 99,300 hectares by the end of 2005.

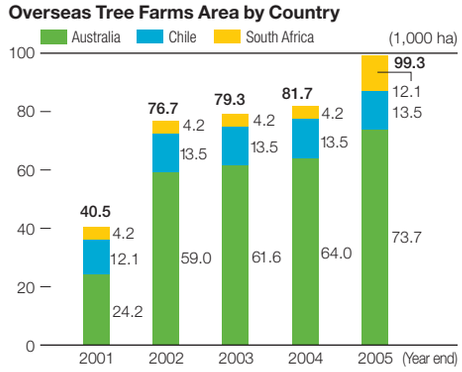
Forest Certification

A forest certification system is one under which a third-party organization certifies sustainable forest management. The Nippon Paper Group has set a goal of "having all of its company-owned forests within and outside Japan certified by 2008." As of June 2006, nearly 100% of the company-owned forests in Australia were certified as being sustainable.

Imported Hardwood

In order to ensure sustainable procurement, the Nippon Paper Group's domestic pulp and paper mills intend to procure all of their hardwood imports from lumber harvested from either tree farms or certified forests by 2008. As of fiscal 2005, these sources accounted for 80% of total hardwood imports.

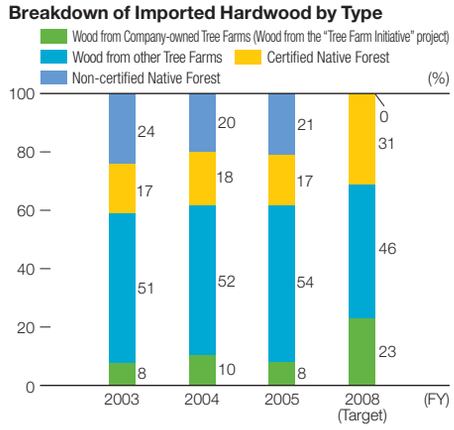
Overseas Tree Farms Area by Country



Status of Forest Certification Acquisition among Company-owned Forests

	Acquisition Rate	Certification System
Australia	93%	AFS
South Africa	100%	FSC
Chile	0%	Certforchile (Planned)
Japan	70%	SGEC

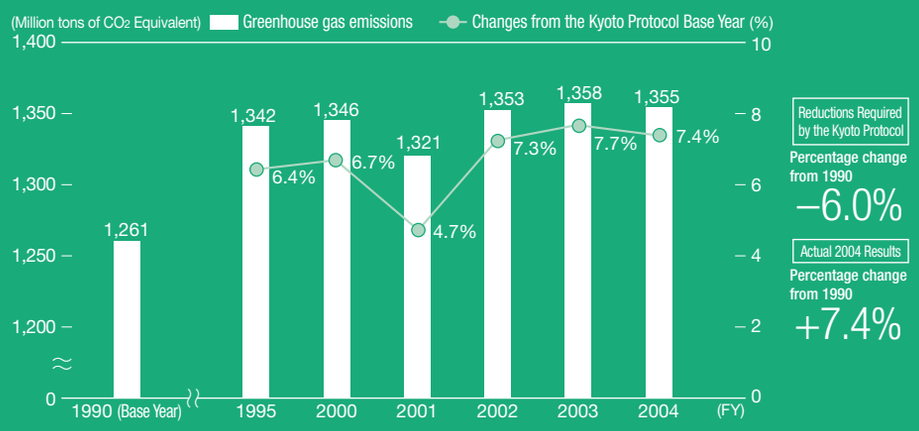
Breakdown of Imported Hardwood by Type



Approaches to prevention of global warming

Moving Forward with Energy Strategies with a Medium- to Long-term Focus and in Fulfillment of Responsibility as a Member of Society

Changes in Domestic Greenhouse Gas Emissions



* Source: Greenhouse Gas Inventory Office (GIO) (Data updated on August 30, 2006)

As the Kyoto Protocol took effect (on February 16, 2005), pressure is being placed on advanced countries to take action on the issue of global warming. Citizens, environmental NGOs, media, governments of the world, and corporations are highly interested in this issue for their own reasons and taking action to countering global warming.

In Japan, the public and private sectors are both working hard to meet the country's duty to "reduce the emissions of greenhouse gases, such as carbon dioxide, over a five-year period from 2008 to 2012 by 6% from the 1990 levels" as required by the Kyoto Protocol. However, not much progress has been made at this point.

To the Nippon Paper Group, the majority of whose mills are located in Japan, controlling greenhouse gas emissions is an important theme. The pulp and paper manufacturing industry—the Group's mainstay business—is a large consumer of fossil fuels, which are the major source of carbon dioxide emissions. As of fiscal 2004, approximately 5.5% of the total carbon dioxide emissions by the entire domestic industrial sector, or 25.84 million tons*, were attributed to the pulp and paper manufacturing industry. The industry's impact is thus significant.

The Japan Paper Association, of which Nippon Paper Industries Co., Ltd. is a member, established its "Voluntary Action Program for the Environment" and takes part in the voluntary action program of Nippon Keidanren. The program aims to reduce the specific consumption of fossil energy per product by 13% and the specific unit of carbon dioxide emissions by 10% from the fiscal 1990 levels by fiscal 2010. The industry has been tackling the challenge with a degree of determination that is being praised by the industrial sector.

The pulp and paper industry uses large quantities of a non-fossil fuel (biomass energy called black liquor) that is produced as a by-product in the process of manufacturing pulp (fiber that becomes the raw material for paper) from wood chips. The percentage of this non-fossil fuel use has been declining with an increase in the manufacture of recycled fiber, which does not generate black liquor (see page 36). Nevertheless, the utilization of non-fossil fuel helps control the consumption of fossil fuels. It is also especially important to increase the rate of use of non-fossil fuels to combat the rising price of fossil fuels, represented by heavy oil, in recent years as part of medium- and long-term energy cost strategies.

Recognizing this, the Nippon Paper Group is striving to curb its carbon dioxide emissions by reducing the use of fossil fuels and promoting energy-saving measures to achieve the dual objectives of fulfilling its responsibility as a member of society and attaining sustained growth by ensuring profits over the medium and long term.

* Source: Japan Paper Association. Figures represent carbon dioxide emissions from fossil fuels as reported by the 37 member corporations.

Use of Unutilized Energy Sources and Promotion of Energy-Saving Measures

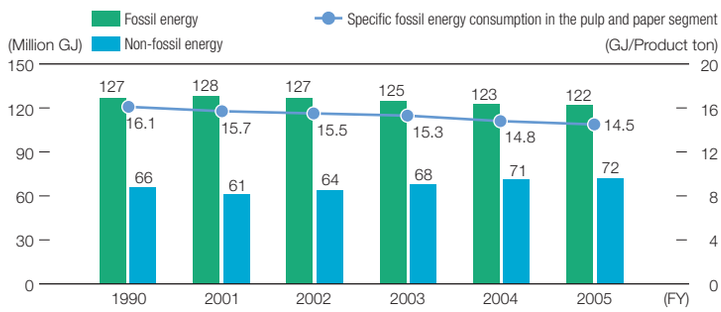
Carbon dioxide emissions from fossil fuels that are released by Nippon Paper Industries Co., Ltd. and Nippon Daishowa Paperboard Co., Ltd., which are Nippon Paper Group's pulp and paper operating companies, account for as much as approximately 85% of the total carbon dioxide emissions by the Group. Both companies pledged in their respective environmental charters to reduce their greenhouse gas emissions to 85% and 90%, respectively, from what they generated in fiscal 1990 by fiscal 2010 (see page 53).

As the result of effectively using unutilized energy sources and reducing energy consumption, the consumption of fuel energies by the entire operations of the Group has been falling for five consecutive years since fiscal 2001. Accordingly, the carbon dioxide emissions from fossil fuel consumption have also decreased since fiscal 2001. In fiscal 2005 those emissions totaled 8.83 million tons.

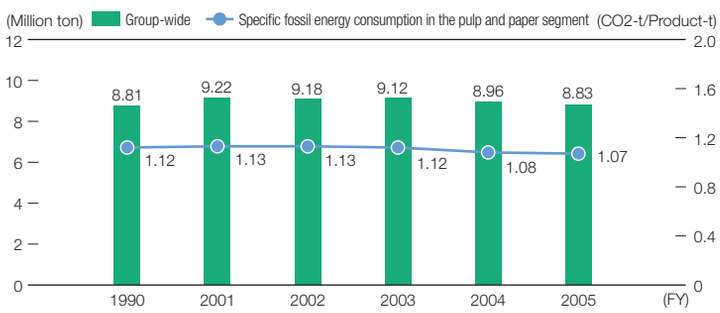
The specific energy consumption per product has also been improving. The pulp and paper segment saw its specific fossil energy consumption (GJ/product ton) drop from 16.1 to 14.5 between fiscal 1990 and fiscal 2005. Likewise, the unit of fossil fuel-sourced carbon dioxide emissions fell from 1.12 to 1.07 over the same period.

The reduction of fossil fuel-sourced carbon dioxide emissions is projected to total 1.00 million tons, thanks to large-scale investment, including those made for biomass boilers to be introduced by 2008 (see page 34).

Energy input in all businesses



Group-wide Carbon Dioxide Emissions from Fossil Fuel Combustion



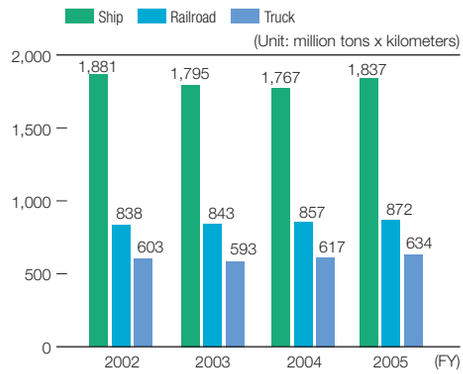
Green Distribution

Nippon Paper Industries Co., Ltd. targets to lower its distribution-related energy consumption by 5% from the levels of fiscal 2002 by fiscal 2010.

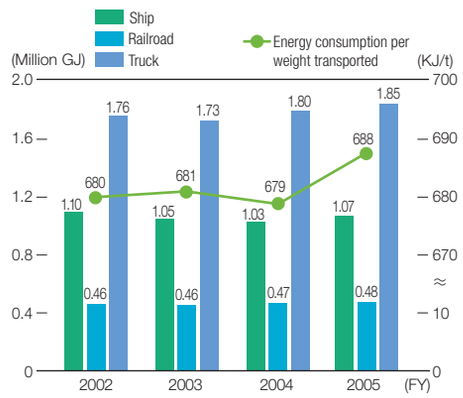
Energy consumption by ship, railroad, and truck transport during fiscal 2005 grew marginally in all three categories from the levels of fiscal 2004. The increases in ship and railroad transport reflected the impact of a modal shift, mainly in medium to long-distance transportation. During fiscal 2005, production shifted to mills that are close to consumer markets, such as the Tokyo metropolitan area. This led to increased short-distance transport by trucks and raised energy consumption in the truck transport category.

The Nippon Paper Group is currently exploring ways to aggressively promote green distribution through such means as modal shifts, and working toward the attainment of its goals.

Traffic volume by means of transportation (Nippon Paper Industries Co., Ltd.)



Distribution-Related Energy Consumption (Nippon Paper Industries Co., Ltd.)



Boosting the Use of Non-fossil Fuels

As demand for paper grows worldwide, it is important to limit energy consumption in the manufacturing process so as to reduce the emissions of greenhouse gases. However, energy-saving measures that are applied to existing facilities can accomplish only so much.

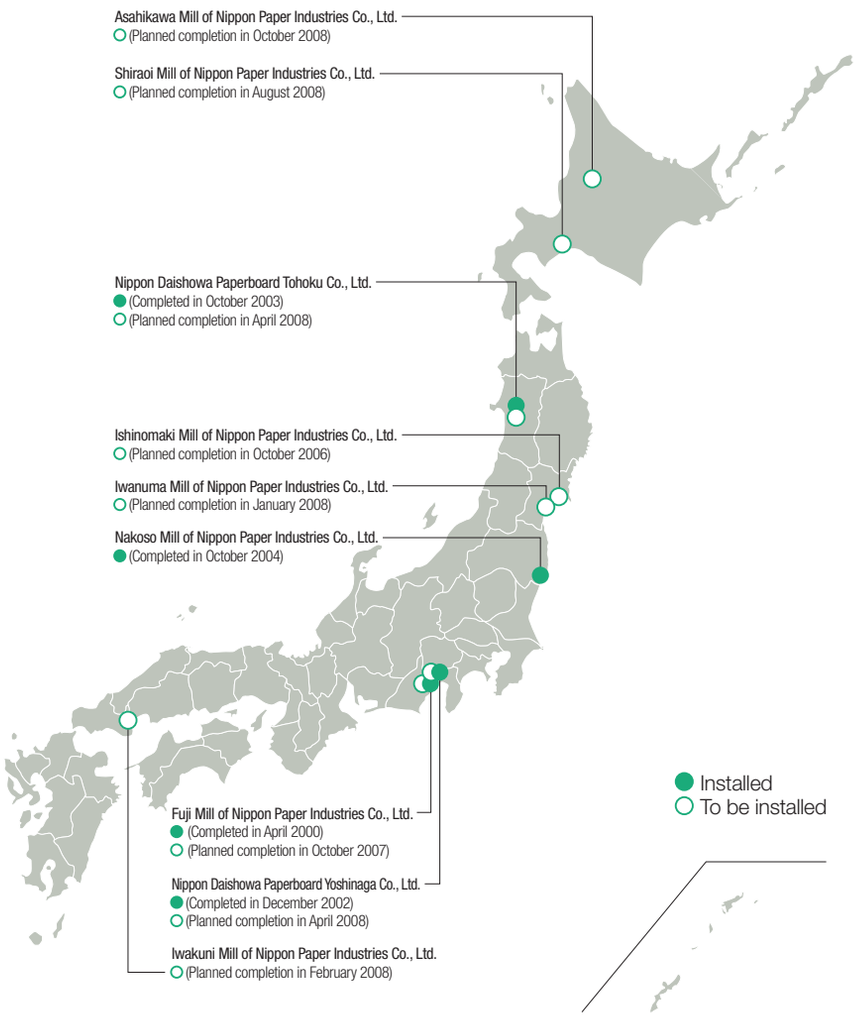
It is for this reason that the Nippon Paper Group has been pressing forward with an energy shift from fossil fuels, which emit carbon dioxide, to non-fossil fuels. The Group has been installing power generators that use not only black liquor, which is a by-product of pulp manufacturing, but also wood waste, RPF, discarded tires, and other unutilized energy for fuels. By the end of fiscal 2005, Nippon Paper Industries Co., Ltd. and Nippon Daishowa Paperboard Co., Ltd., the core operating companies of the paper and pulp segment, installed and began to run these generators at four of their mills.

These generators are to be installed at eight more mills between fiscal 2006 and fiscal 2008 in accordance with the Medium-term Business Plan.

The installation of these generators resulted in a reduction in carbon dioxide emissions of approximately 200,000 tons annually at the four mills where they have been running. Total reductions at the eight mills where new generators are to be installed are projected to be approximately 800,000 tons per year.

Biomass boiler
(Ishinomaki Mill of Nippon Paper Industries)

Status of Power Generation with the Use of Unutilized Energy



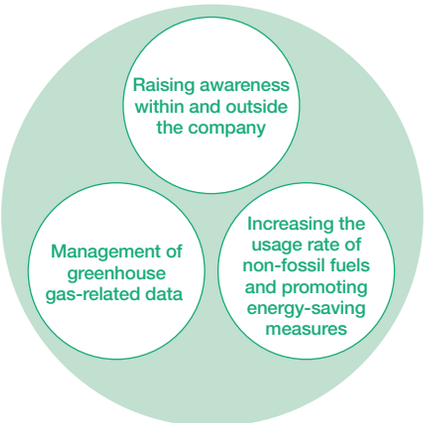
Establishment of the Climate Change Office

The Nippon Paper Group has been working on global warming countermeasures by focusing on three areas: “management of greenhouse gas-related data,” “increasing the usage rate of non-fossil fuels and promoting energy-saving measures,” and “raising awareness within and outside the company.”

Operating companies of the Group have promoted energy-saving measures and the use of non-fossil fuels as a way to reduce carbon dioxide emissions. Carbon dioxide accounts for most of the greenhouse gases that are released. To further promote these efforts on a Group-wide basis, the Climate Change Office was newly established within the Environment Dept. of Nippon Paper Industries Co., Ltd. on November 1, 2005.

The Climate Change Office collects and analyzes related information about applicable laws, regulations, and developments in Japan and abroad. It also directs the global warming countermeasures of the Group and has been pressing forward with the “management of greenhouse gas-related data,” and the “raising awareness within and outside the company.”

Three Focal Areas of Global Warming Prevention Efforts



Management of Data relating to Greenhouse Gases

To tackle the prevention of global warming and take effective countermeasures as the Group, it is important to recognize the amount of greenhouse gas emissions that occur in the process of transporting raw materials and products, as well as at such non-manufacturing locations as the head office and sales offices, in addition to greenhouse gas emissions from mills. Data on greenhouse gases other than carbon dioxide, such as methane, must also be collected even though their emissions are minor compared with carbon dioxide emissions.

The Climate Change Office is taking steps to ensure that these types of data are accurately collected and managed.

Raising Awareness Within and Outside of the Company

The Climate Change Office has been working to foster awareness about the issues both within and outside the company so that company’s efforts are highly effective. In particular, the office has been urging employees to become aware of global warning issues. During fiscal 2005, posters and brochures that called for the prevention of global warming were displayed or distributed at all work locations. In addition, the Group’s public relations magazine published articles about global warming countermeasures.

Nippon Paper Group, Inc. and Nippon Paper Industries Co., Ltd. took part in the Team Minus 6% campaign, which is promoted by the Ministry of the Environment. Cool Biz and Warm Biz, phrases that are used to encourage businesses to move away from their dependence on heating and air-conditioning, were practiced in an effort to reduce energy use in offices.

Nippon Paper Industries USA Receives the Environmental Excellence Award

Nippon Paper Industries USA received the Environmental Excellence Award from the Association of Washington Businesses (AWB) in recognition of its achievement through the heat recovery project at the company’s mill.

The project aimed to reduce petroleum consumption by recovering and using heat energy in flue gases from the biomass boiler. Nippon Paper Industries USA completed installation work in 2002. In 2003 the mill installed a modern combustion air injection system. The new over fire air system improved combustion efficiency and both projects have reduced air emissions.

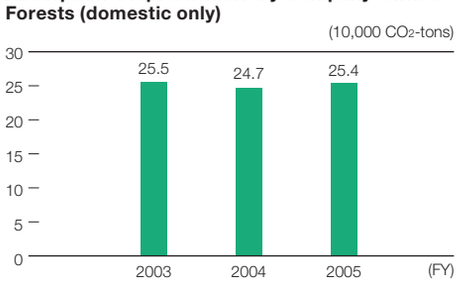
This resulted in annual heat recovery equivalent to 105,000GJ (16,000 barrels of oil). Furthermore, the use of heat energy captured this way has resulted in the lowest oil usage since 1990 and 40% lower than in 2002, when the project was commenced.

Award by the AWB

Carbon Dioxide Absorption and Sequestration through Management by Company-owned Forests in Japan

Nippon Paper Industries Co., Ltd. owns a total of approximately 90,000 hectares of domestic forests. Forests have the function of carbon dioxide absorption and sequestration. Trees absorb carbon dioxide in the process of growing and accumulate cellulose and other types of carbon in their trunks and branches for a number of years. By managing its forests properly, Nippon Paper Industries Co., Ltd. helps approximately 250,000 CO_2-tons of carbon dioxide to be sequestrated annually.

Changes in the Amount of Carbon Dioxide Absorption/Sequestration* by Company-owned Forests (domestic only)

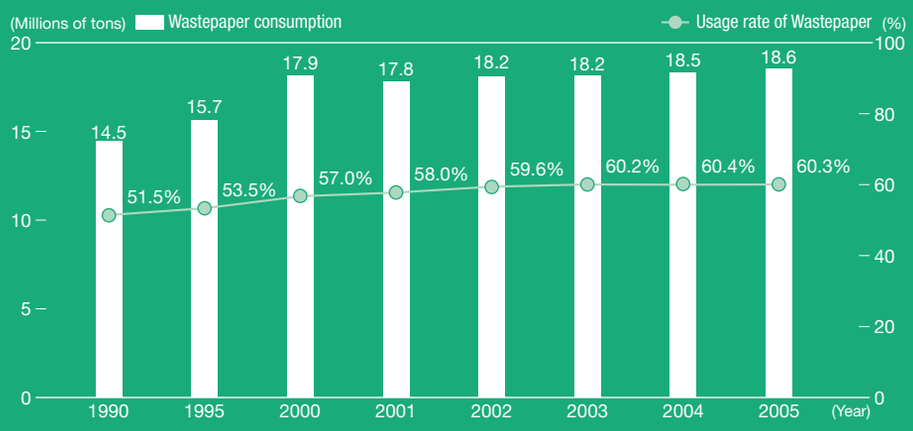


* Computations are based on the “Evaluation of the Multiple Functions of Forests (Nov. 2001)” made by the Science Council of Japan.
- Carbon dioxide absorptions by natural forests are not included.
- Carbon dioxide is assumed released when trees are harvested. This amount is deducted from the amounts of absorption/sequestration.

Promoting Optimal Recycling of Wastepaper

In Pursuit of Optimal Recycling of Wastepaper by Balancing Resource Recycling with Energy Cost

Wastepaper Consumption and Usage Rate of Wastepaper in Japan



* Source: Pulp and Paper Statistics, the Ministry of Economy, Trade and Industry

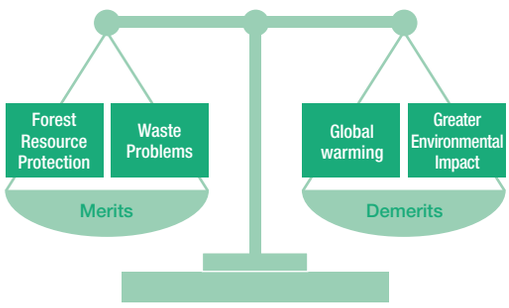
The global demand for paper has been on a rising trend. The Nippon Paper Group and other forestry companies strive for sustainable forest management. With the ongoing planting of trees and harvesting of only the annual growth, wood resources provide the main raw material for paper while forest resources are protected. Nevertheless, there is a limit to the amount that can be supplied. At the same time, there is a growing problem of waste disposal, giving rise to another important theme: how to effectively utilize the massive volumes of wastepaper generated as the result of paper consumption.

Use of recycled wastepaper as the raw material for paper manufacturing can solve both of these problems.

There are, however, problems associated with the manufacture of paper from wastepaper. One is that the manufacturing process involves the significant use of fossil fuels, exerting a negative impact on global warming. This is because no black liquor is produced as a by-product in the process of making pulp from wastepaper. Black liquor is produced in the process of manufacturing kraft pulp (virgin pulp) from wood chips and used as fuel in the kraft pulp manufacturing process. Second is that the use of chemicals increases in order to remove print ink (de-inking) and bleach the pulp. This raises both the environmental impact and manufacturing cost.

To limit such a negative impact, the use of wastepaper as a raw material should be restricted to such applications as low quality paper, paperboard which need not be deinked. When done right, the recycled wastepaper can lower the raw material cost and allow products to be offered more affordably. The Nippon Paper Group carefully weighs the merits against demerits, and tries to strike a balance in its quest to recycle wastepaper.

Balancing Merits against Demerits of Wastepaper Recycling



Turning Wastepaper into Newsprint

To make pulp from wastepaper, wastepaper is first dispersed in water to extract pulp fiber. Such treatments as deinking and bleaching are subsequently given if needed.

Paperboard, which is used to make corrugated fiberboard, does not require a high degree of brightness. Deinking and bleaching treatments are thus not necessary. This makes paperboard a good application for recycled fiber. The usage rate of wastepaper in paperboard already exceeds 90%. In contrast, paper that is used as an information medium requires a high degree of brightness. Due to the high cost and environmental impact of deinking and bleaching treatments, the usage rate of wastepaper in this type of paper has not even reached 40%. To increase the use of wastepaper in spite of such negative factors, it is necessary to suppress the heavy environmental impact and fossil fuel use as much as possible, while raising the usage rate of wastepaper in paper manufacturing. For this reason, the Nippon Paper Group is pressing forward with the use of wastepaper in newsprint.

Newsprint requires a relatively low degree brightness compared with other types of paper. Mechanical pulp, which is the conventional raw material for newsprint, consumes large quantities of electricity in its manufacturing process. (Mechanical pulp is made by mechanically crushing raw materials.) Replacing mechanical pulp with recycled fiber enables wastepaper to be recycled, while maintaining low environmental impact and energy consumption. Nippon Paper Industries Co., Ltd. targets to raise its use of recycled fiber (de-inked pulp) in newsprint to 75%. In fiscal 2005, the rate was 74.3%.

Comparison of characteristics and wastepaper applicability by type of paper

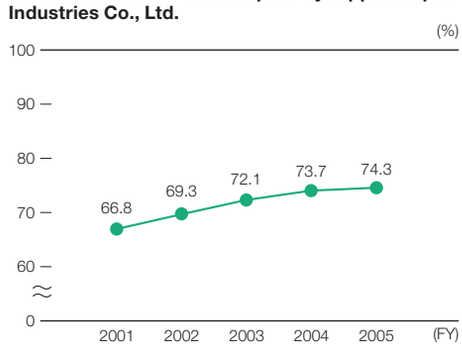
Type of paper	Paperboard	Newspaper	Printing paper
Required brightness	Low	Medium	High
Current major raw material	Recycled fiber	DIP	Kraft pulp
Applicability of wastepaper	★★★	★★	Needs bleaching ★
	Recycled fiber	DIP Deinking	Bleaching (requires high production cost)

Promoting the Collection and Recycling of Beverage Cartons

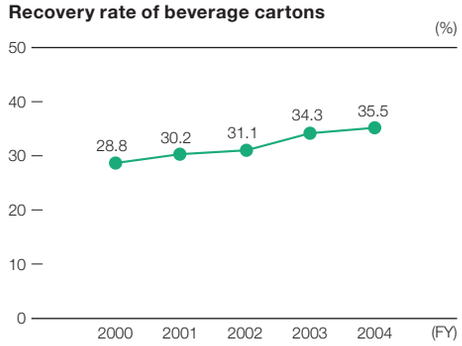
Cartons for milk and juice are made of high-quality paperboard that contains no recycled fiber. In order to protect the contents of the cartons from leakage as well contamination, both sides of the packaging board are coated with resin, mainly polyethylene, on which packaging designs are printed. Once these barrier coatings are removed, high-quality virgin pulp can be recovered from the cartons without a de-inking process.

As a member of the Committee for Milk Container Environmental Issues, NIPPON PAPER-PAK CO., LTD., one of the main operating companies of the Group, has supported the collection and recycling of beverage cartons. The Committee aims to raise the recovery rate of the cartons to at least 50% by fiscal 2010 and has promoted activities to encourage consumers' further understanding and cooperation in collaboration with the Japan Milk Carton Recycling Association, a nationwide citizen's group. As part of such activities, the Company has assisted these organizations in installing collection bins in schools, local government buildings, and other public facilities around the country.

Mixture ratio of DIP in newsprint by Nippon Paper Industries Co., Ltd.



Recovery rate of beverage cartons



Example Examples of products made with recycled beverage cartons

Such operating companies as Nippon Paper Crecia and Kitakami Paper Co., Ltd. manufacture and sell a variety of products made from pulp that is recycled from recovered beverage cartons. Nippon Paper Crecia gives a new life to scraps of beverage cartons that are recovered at Nippon Paper-Pak's plants by turning them into toilet tissue and hand towels.

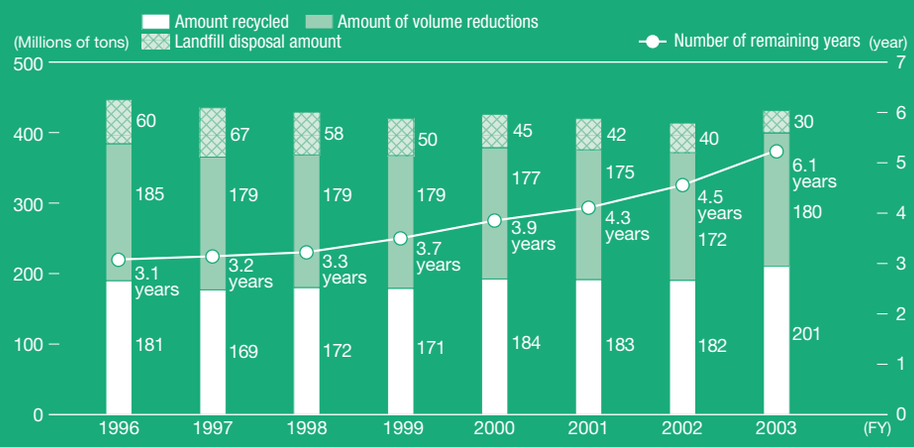
Nippon Paper Crecia
Left: Crecia Milk Carton Toilet Tissue for household use
Right: Crecia EF Hand Towels Soft Type 200 for industrial use

Kitakami Paper Co., Ltd.
"White Paper Straps" for newspaper collection

Reducing Waste Generation and Discharge

Striving to reduce the generation of waste and effectively utilize waste in an effort toward realizing a resource recycling society

Industrial Waste Discharge and Disposal in Japan



* Prepared based on the report entitled, "Industrial Waste Discharge and Disposal," released by the Ministry of the Environment

To build a recycling-oriented society, it is important to not generate trash. In other words, controlling the generation of waste is as essential as saving resources. Japan faces an especially urgent situation of having only several more years' worth of spare landfill capacity. Given this situation, the Nippon Paper Group endeavors to control its waste generation and emissions (the "Zero Discharge" program), while also slashing waste in terms of resource procurement cost so as to maintain sound business operations.

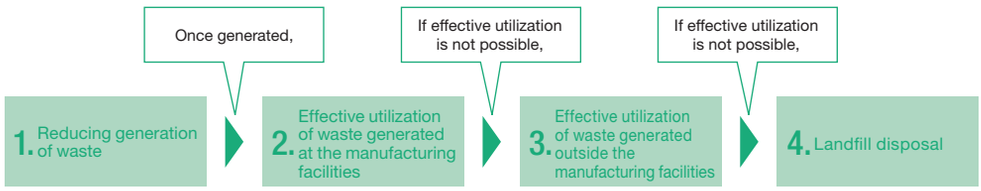
Incinerated ash accounts for about 80 percent of the waste generated by the Nippon Paper Group. One main source is the incinerated ash from coal that is used as boiler fuel by power generators at pulp and paper mills. The other main source is the ash generated in the process of thermal recovery from the combustion of paper sludge*.

Reducing these amounts is a challenge that confronts the Group. As fuel prices have soared in recent years, growing quantities of low quality coal with a high ash content are appearing in the market. Consequently, more coal ash is being generated than in the past. Incineration ash from the combustion of paper sludge is also increasing as recycled fiber, which produces greater amounts of paper sludge than virgin pulp, is being manufactured in increasing quantities.

Recognizing this situation, the Nippon Paper Group is concentrating its efforts on expanding the effective use of incinerated ash while curbing ash generation as much as possible.

* Paper sludge: Effluent sludge that contains pulp fiber that was not made into paper. It is discharged from the paper manufacturing process.

Conceptual Flow from Curbing Waste Generation to Reducing the Amount of Final Disposal



Curbing the Generation of Waste and Promoting Effective Use at the Manufacturing Sites

To effectively use the generated waste, additional labor and energy must be expended for such steps as the thermal recycling and processing to turn waste into recycled resources. The Nippon Paper Group thus strives not to generate waste in the first place, so as to avoid the misuse of such resources as raw materials and fuels.

As for the waste that is generated, the company endeavors to minimize the amount of waste sent to landfills by effectively utilizing the waste.

The first step in effective utilization of waste is to promote its use at the manufacturing sites where the waste is generated, thus achieving high efficiency and minimizing the environmental impact of transferring waste. For example, efforts are made to recover energy from combustibles and use waste acid to neutralize effluent. What cannot be effectively used on-site is then considered for effective use off -site.

Paper sludge Incinerator
(Nippon Daishowa Paperboard Yoshinaga Co., Ltd.)

Concentrated Efforts Made to Expand the Recycling Use of Paper Sludge Ash

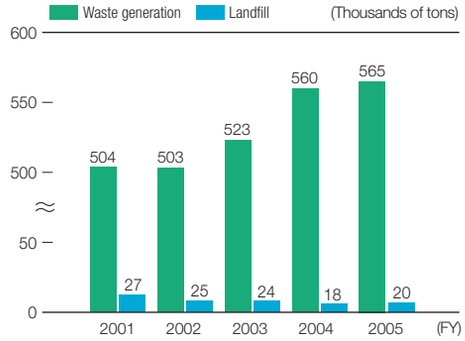
Nippon Paper Industries Co., Ltd. is the largest producer of incinerated ash in the Group. The company has been taking steps to find expanded applications for its ash.

Paper sludge ash can be used effectively in roadbed construction and soil improvement. Due to the trace amounts of heavy metals contained therein, untreated paper sludge ash cannot meet soil environmental standards.

Nippon Paper Industries' Kushiro mill has been developing hydrothermal solidification equipment that crystallizes and seals in heavy metals that are contained in paper sludge ash. Verification testing of the equipment began in fiscal 2006 to prepare for actual operation. Products that have gone through the granulation and hydrothermal reaction are lightweight, porous, and have good drainage properties. Taking advantage of these properties, such products are to be used as soil improvement agents.
Nippon Paper Industries Co., Ltd. continues to develop various technologies, including hydrothermal solidification technology, so as to find new uses for incinerated ash at each mill.

Verification Test Equipment
(Nippon Paper Industries' Kushiro Mill)

Waste Generation and Final Disposal



Operating Companies' Targeted Goals for Final Disposal Reduction

Nippon Paper Industries Co., Ltd., Nippon Daishowa Paperboard Co., Ltd., and Nippon Paper Crecia each set goals to control the generation and discharge of waste. These companies have all met their goals. Moreover, Nippon Daishowa Paperboard Co., Ltd. is pressing forward toward their new goal of 0.01%.

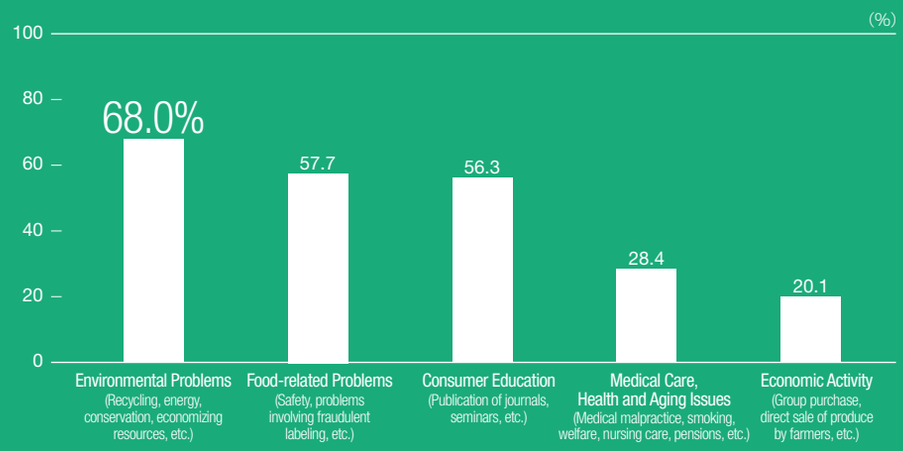
Company Name	Target
Nippon Paper Industries Co., Ltd.	Final disposal not to exceed 0.01% of production
Nippon Daishowa Paperboard Co., Ltd.	Final disposal not to exceed 0.1% of production
Nippon Paper Crecia Co., Ltd.	Final disposal not to exceed 0.01% of production

Green Proportions for Paper Products*

Seeking Green Proportions for Diverse Paper Product Uses

* Green Proportions: A coined term meaning "the golden rate of paper and green"

Matters of Interest to Consumer Groups (Top 5 responses from multiple answers given by 2,825 consumer groups surveyed in Japan)



* Source: Results of Basic Survey of Consumer Groups in fiscal 2004, Cabinet Office

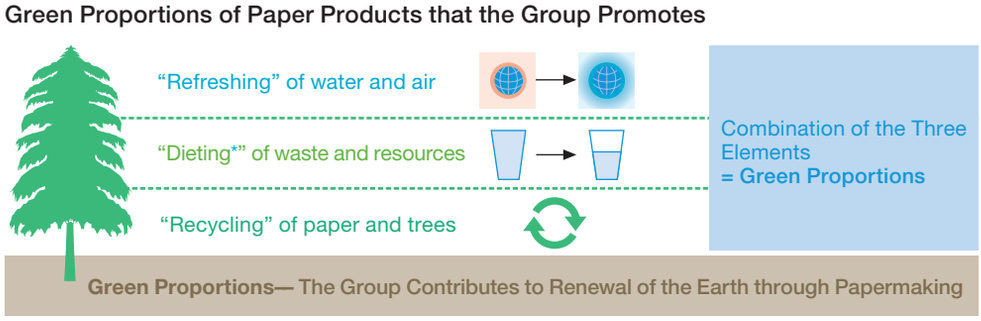
With environmentally friendly products currently in demand, it is important to reduce environmental impact throughout a product's life cycle, starting with the procurement of raw materials, including the recycling of wastepaper, production, and distribution.

Until recently, environmentally friendly paper was tantamount to "recycled paper." Today, the recovery rate of wastepaper is 70%, and 60% of wastepaper is used to make paper and paperboards. Thus, the serious "paper trash problem" posed from the second half of the 1980s to the early 1990s has more or less been solved.

Along with the recycling of wastepaper, the Nippon Paper Group has been taking steps on the issue of global warming (to reduce CO_2 emissions), yet another immense challenge that confronts us. This is because recycled paper that contains an extremely high percentage of recycled fiber, such as paper made of 100% recycled fiber, has a negative aspect involving higher fossil fuel-derived CO_2 emissions than paper made from chemical pulp. The use of large quantities of wastepaper as feed can also increase environmental impact due to the need to remove dust and foreign matter, and the process of improving brightness, which entails additional energy consumption and chemical use. (See page 36).

Paper is made mainly from forest resources that can be replenished by planned tree planting and the use of wastepaper. Biomass energy that is generated in the pulp manufacturing process can also be used. Furthermore, paper does not consume energy while being used by people, unlike home electric appliances or automobiles. By recognizing these characteristics of paper and the industry of pulp and paper, the Group practices "Green Proportions" to give consideration of products from the perspective of the environment.

Green Proportions of Paper Products that the Group Promotes

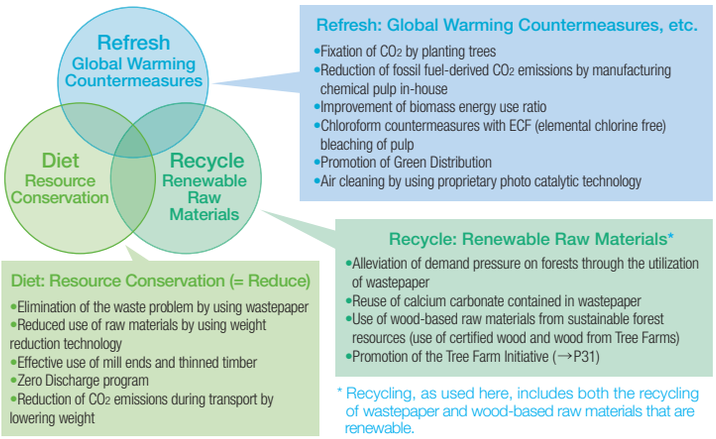


* Diet: The original meaning of the term is "prescribed meals, or a therapy based on the restricted consumption of food." The term as used here is intended to communicate a visual image of "weight reduction efforts and resource conservation" with regard to various aspects of the environment.

Targeting for Green Proportions to Fit the Use

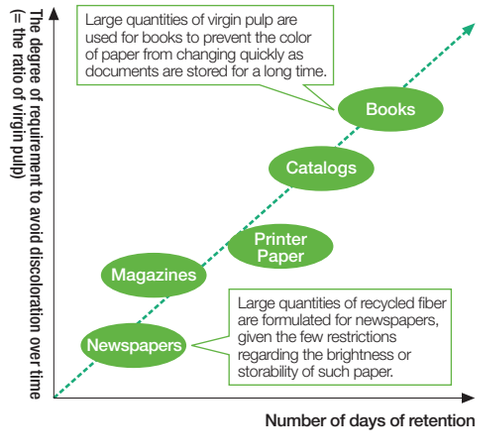
Different types of paper have different uses and retention periods depending on those uses. The anti- discoloration properties required of paper also vary (see the diagram at right). It is therefore important to skillfully formulate recycled fiber, which fades quickly, with virgin pulp, which has high storage stability. The "Green Proportions" conceived by Nippon Paper Industries Co., Ltd. are intended to strike a balance among the three elements shown in the following diagram for different uses, so that all types of paper contribute to environmental conservation and the alleviation of environmental impact.

Three Elements that Comprise the "Green Proportions"



* Recycling, as used here, includes both the recycling of wastepaper and wood-based raw materials that are renewable.

Product Life Cycles Dependent on Use



Product Example High-Quality Newsprint

A high percentage of recycled fiber that is formulated (approximately 75%) combined with a high ratio of filler that is formulated not only reduces the consumption of wood-based raw materials, but also reduces the visibility of ink from the back side. This contributes to lighter newspaper weight, as well as enhanced appearance.

Conventional newsprint — High-quality newsprint

Because ink does not seep through, the printed surface has a clear look.

Product Example U-Itimax (resource conserving paper)

U-Itimax is a matt-coated paper* that addresses the requirement of publishers for lightweight paper of the same paper thickness. Typically, the thicker the paper, the heavier and harder it is. U-Itimax has thick, light, and soft properties that were made possible by Nippon Paper Industry's proprietary technology for achieving bulk with light weight. Although no recycled fiber is formulated in U-Itimax so as to give it a long storage life, more paper is produced from a small amount of wood-based resources.

* Matt-coated paper: Coated paper whose white (non-printed) side retains its matt texture, while the printed side offers a high-quality finish.

Conventional matt-coated paper — [U-Itimax]

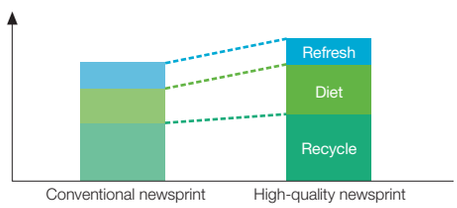
The photos show sectional views of the paper. U-Itimax creates space between fibers and reduces the use of wood.

Product Example IMAGIA

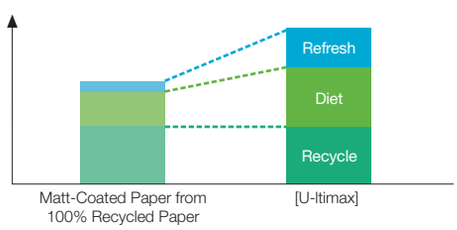
IMAGIA is a printer paper formulated with 30% recycled fiber, with the remaining 70% of virgin pulp obtained from Tree Farms and other sources. It can be used with a wide range of machines, from inkjet and laser printers to copiers. It is also suitable for color printing because of its high brightness.

Degrees of Contribution Made by Green Proportions Products (Conceptual Diagrams)

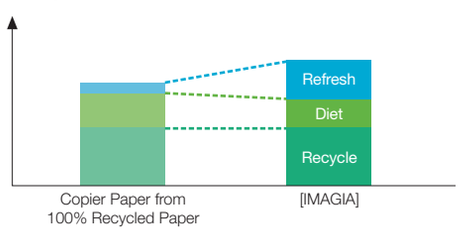
•High-Quality Newsprint



•U-Itimax



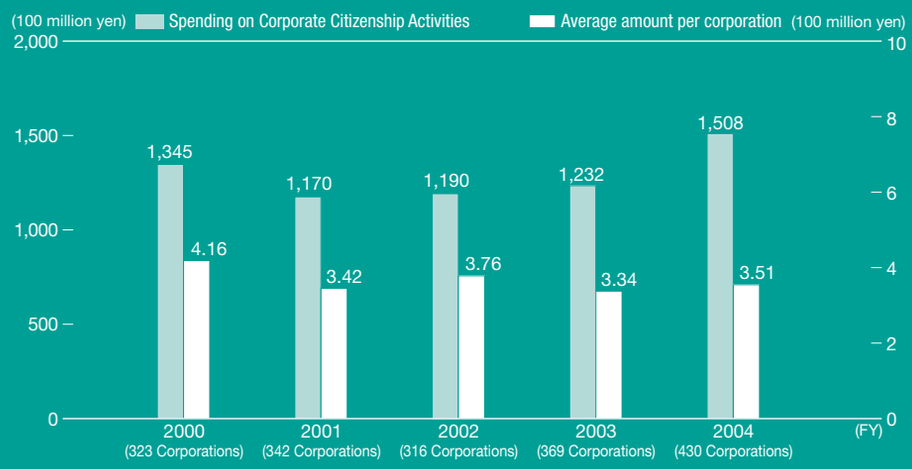
•IMAGIA



Promote corporate citizenship activities

Active Involvement with Society as a Corporate Citizen and Contributing to its Growth

Japanese Corporations' Spending on Corporate Citizenship Activities



* Source: The Results of a Survey on Spending for Corporate Citizenship Activities in fiscal 2004, Nippon Keidanren

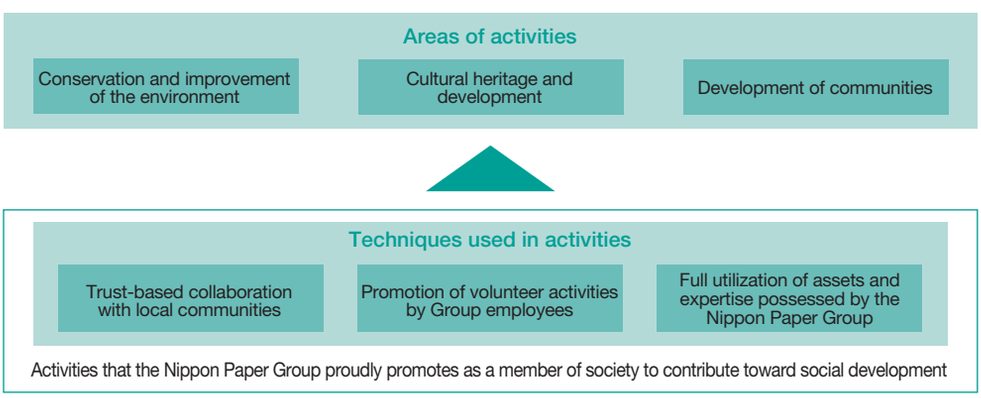
The Nippon Paper Group contributes to the growth of society by supplying paper that is essential for people's lives in a stable manner. In addition to making contributions through its business activities, the Group is actively engaged in social contribution activities as a corporate citizen.

Corporate citizenship activities are a way to recycle profits back to society. They are therefore a meaningful investment in realizing a society that is both appealing and full of energy. As employees become interested in social issues and take initiatives to act, the realization of certain corporate ideals presented in the Group Vision statement, namely for the Nippon Paper Group to become a corporation "having positive, forward-looking employees" and a corporation "preserving corporate ethics." become closer to reality.

With this recognition, the Nippon Paper Group conducts its activities in three fields. These activities are "cultural heritage and development," "conservation and improvement of the environment," and "the development of communities" in accordance with its Philosophy and Basic Policies concerning Corporate Citizenship Activities (see page 11).

In the implementation of these activities, emphasis is placed on being able to continue the said activities with the support of diverse stakeholders. Specifically, our efforts center on three major pillars: "trust-based collaboration with local communities" that surround the Nippon Paper Group's manufacturing sites (mills) throughout Japan; "promotion of volunteer activities by Group employees" with the objective of each employee developing a strong sense of pride through his or her interaction with society; and "full utilization of assets and expertise that are possessed by the Nippon Paper Group."

corporate citizenship activities of the Nippon Paper Group



System to Promote Corporate Citizenship Activities

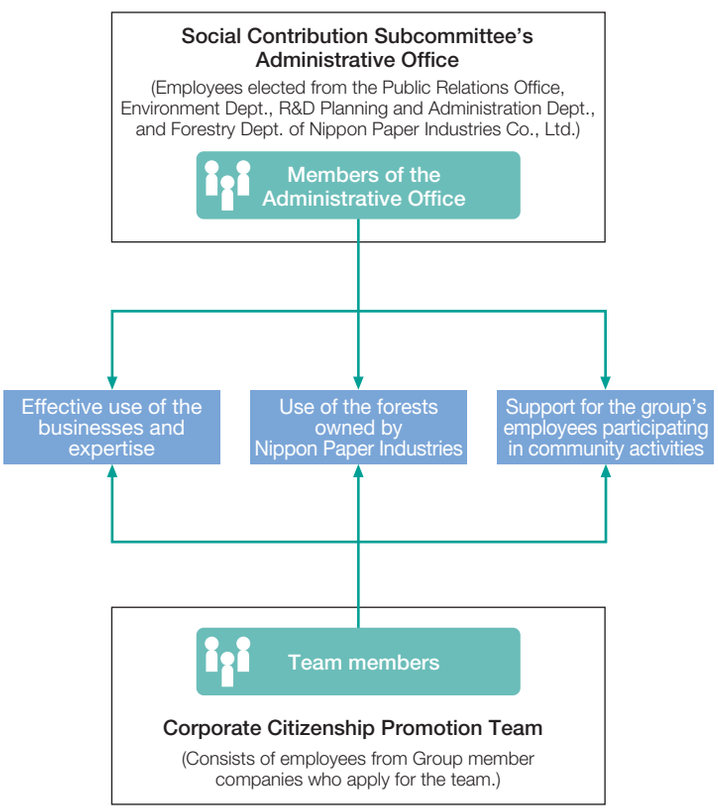
With the goal that employees take on corporate citizenship activities voluntarily, the Nippon Paper Group solicits applications from employees to work with the Social Contribution Subcommittee's administrative office. These employees comprise the Social Contribution Promotion Team. Nine employees participated in the team In fiscal 2004. In fiscal 2005, five employees were on the team. They formed three different working groups and conducted various activities. Each member plays a leadership role in various corporate citizenship programs offered by the Group during their one-year term. At the same time, they strive to foster understanding and support of corporate citizenship activities at their own workplaces in cooperation with their supervisors and coworkers.

The Nippon Paper Group targets the construction of a mechanism that permits even a greater number of employees to voluntarily take part in various types of corporate citizenship activities and develop close communications with local communities so as to be deeply involved with various activities that take place in those communities.

Specific Themes of Activities

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

System to Promote Corporate Citizenship Activities



Example School of Friendship for Forests and Paper

On June 10th and 11th of 2006, the School of Friendship for Forests and Paper was held at the company-owned Suganuma Forest of Nippon Paper Industries Co., Ltd. (located in Katashina village, Tone, in Gunma prefecture). All programs at the School were created by employees of the Nippon Paper Group as well as the textbooks used on the School days were prepared by them. Forty one participants, consisting of parents and children who were chosen from among the public and students of Gunma prefecture-run Oze High School, enjoyed strolls through the company-owned forest, created a star wheel, and made postcard-size paper, using twigs they picked up on their walk. Participants were pleased with the experience and many children expressed their desire to return to the school someday.

A walk through the forest, guided by employee volunteers

Example Program for introducing volunteer activities Second BORAMADO

In collaboration with the Japan Philanthropic Association, "Boramado," an introductory course to volunteering for Group employees, was held on March 7, 2006. The Second BORAMADO was held at the head office of Nippon Daishowa Paperboard Co., Ltd. More than 90 employees, including the organizing staff, attended the session. Activities of five volunteer organizations made presentations on the activities of each and Group employees who had participated as volunteers shared their experiences. A wide array of hands-on activities, including a demonstration of hearing assist dogs, a sign language lesson, and mini volunteer workshops, were offered to allow Group employees to develop an in-depth understanding of volunteer activities.

Participants experienced picture book making. Books will be donated to children.

* For details of the activities, please visit the following Website

WEB http://www.np-g.com/e/csr/social/

The Report on Corporate Citizenship Activities is published annually. (Japanese only)

For a copy, please access the following:

WEB http://www.np-g.com/appliform/

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
Capital	55.73 billion yen
Date of Incorporation	March 30, 2001
Securities Code	3893
Representative Telephone Number	+81-(0)3-3218-9300

Group Companies (As of the end of March 2006)

By Financial Statement Classification

Consolidated Subsidiaries	41
non-consolidated subsidiaries	108
affiliates	49

By Region

	Japan	USA	Canada	Australia	Total
Consolidated Subsidiaries	38	1	1	1	**41**
Affiliate companies accounted for by the equity method of accounting	4	1	1	0	**6**

Segment Data (As of the end of March 2006)

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., Nippon Paper Crecia Co., Ltd.*1, NP Trading Co., Ltd.*2, 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., Nippon Daishowa Paperboard Kanto Co., Ltd., Nippon Daishowa Paperboard Yoshinaga Co., Ltd., Nippon Daishowa Paperboard Nishinippon Co., Ltd., HAGA Paper Trading Co., Ltd. Kokuei Paper Co., Ltd.

*1 CRECIA Corporation changed its corporate name to Nippon Paper Crecia Co., Ltd. on August 1, 2006.

*2 San-Mic Shoji Co., Ltd. merged with Komine Nissho Co., Ltd. on April 1, 2006, and became NP Trading 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.*, Daishowa Unitec Co., Ltd.*, Kokusaku Kiko Co., Ltd., PAL CO., LTD., N&E CO., LTD., Daishowa Uniboard Co., Ltd., Kunimoku House Co., Ltd., Daishowa Kohrin Co., Ltd., Daishowa Housing Co., Ltd.

* NIPPON PAPER UNITEC CO., LTD. and Daishowa Unitec Co., Ltd. merged with Jujo Research Co., Ltd. and Plant Design Research Center and became NIPPON PAPER UNITEC CO., LTD. on July 1, 2006.

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.

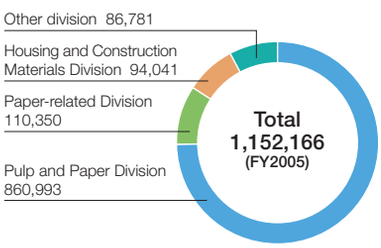
Other Division

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

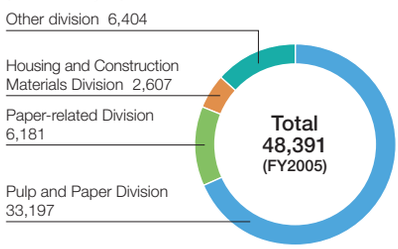
Consolidated Subsidiaries

Nippon Paper Development Co., Ltd., SHIKOKU COCA-COLA BOTTLING CO., LTD., Graphic Arts Communication, Asahikawa Grand Hotel Co., Ltd., NIPPON PAPER LOGISTICS CO., LTD., Kyokushin Transport Co., Ltd., NANKO UNYU CO., LTD., Hotoku Co., Ltd., IWAKUNI-KAIUN CO., LTD., Daishowa Logistics Co., Ltd., Daishowa Port Warehousing Co., Ltd.

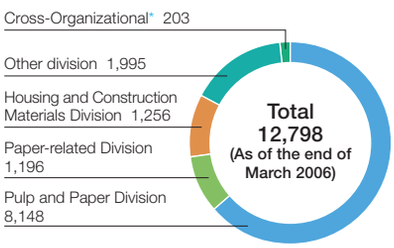
Consolidated Net Sales (Millions of yen)



Consolidated Operating Income (Millions of yen)



Number of employees by business



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

Production Sites of Each Operating Company

Pulp and Paper Division

Nippon Paper Industries Co., Ltd.

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.

13 Nippon Daishowa Paperboard Tohoku Co., Ltd.
14 Nippon Daishowa Paperboard Kanto Co., Ltd., Soka Mill
15 Nippon Daishowa Paperboard Kanto Co., Ltd., Ashikaga Mill
16 Nippon Daishowa Paperboard Yoshinaga Co., Ltd.
17 Nippon Daishowa Paperboard Nishinippon Co., Ltd., Geibo Mill
18 Nippon Daishowa Paperboard Nishinippon Co., Ltd., Kochi Mill

Nippon Paper Crecia Co., Ltd.

19 Tokyo Mill 20 Kaisei Mill 21 Kyoto Mill 22 Iwakuni Mill

Kitakami Paper Co., Ltd.

23 Ichinoseki Mill

KOYO PAPER MFG. CO., LTD.

24 Head Office Mill

Nippon Paper Industries USA Co., Ltd.

25 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 Maebashi 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.

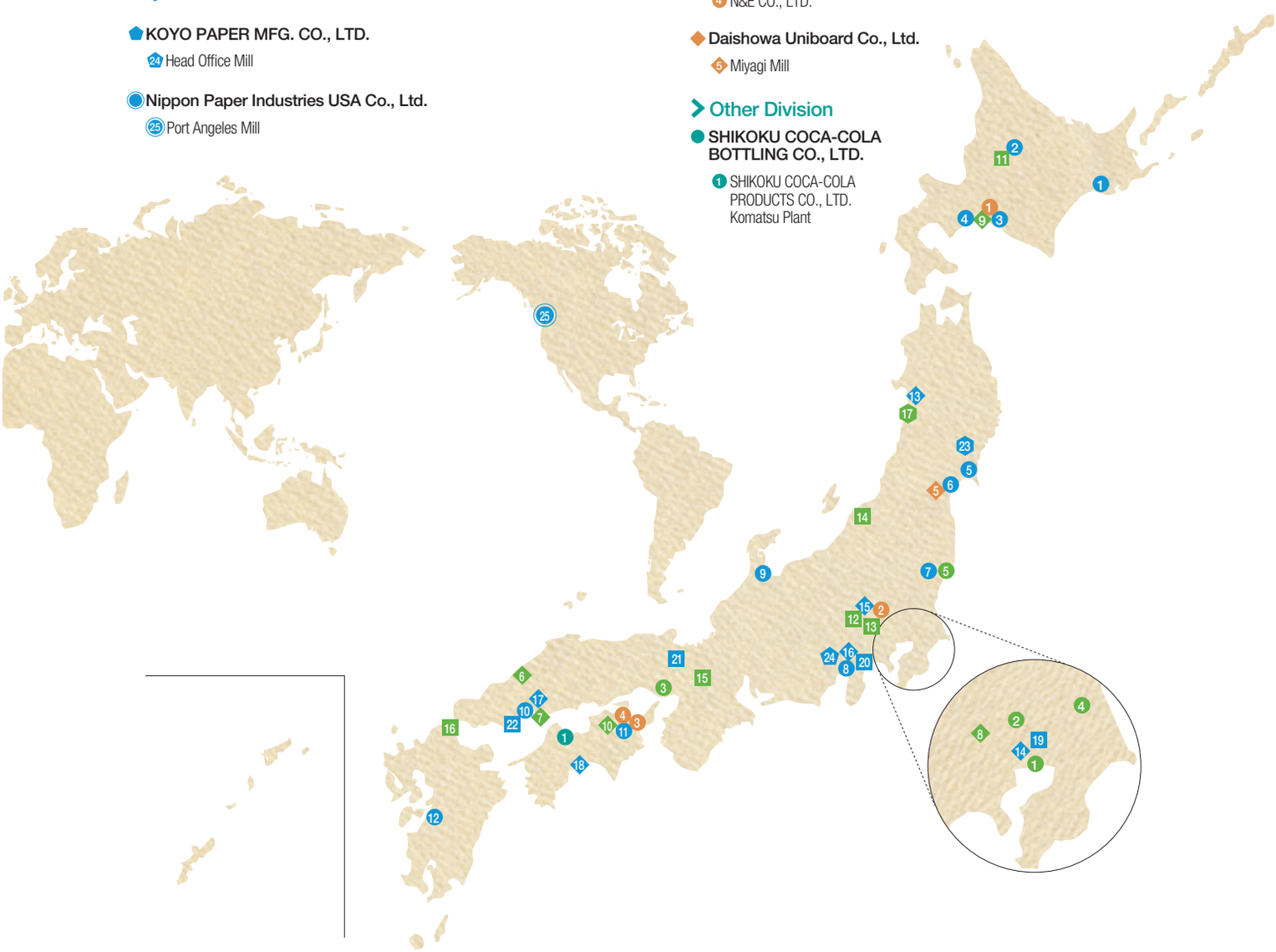
Daishowa Uniboard Co., Ltd.

5 Miyagi Mill

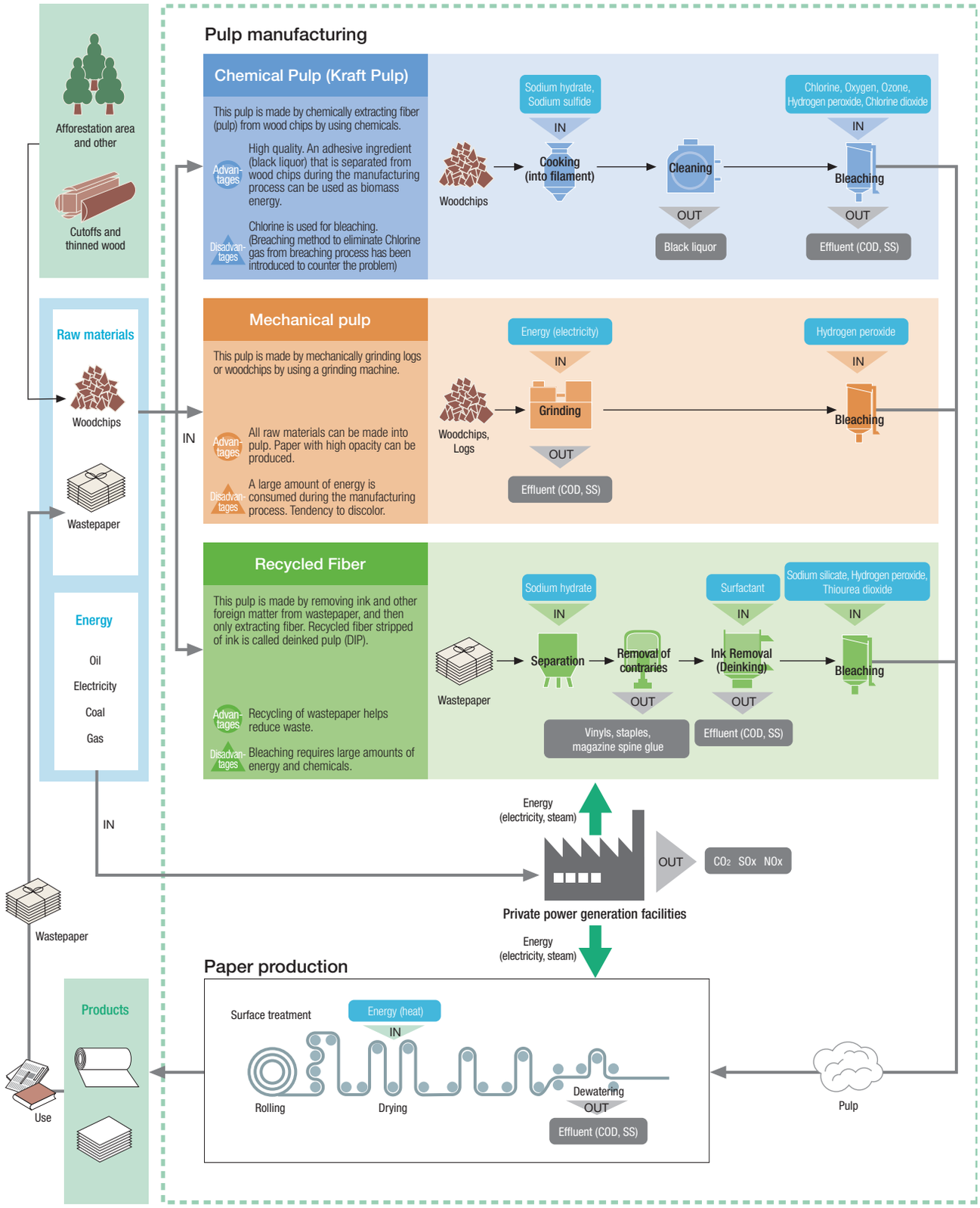
Other Division

SHIKOKU COCA-COLA BOTTLING CO., LTD.

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



Pulp and Paper Manufacturing Process



Economic Indexes

Major Financial Statements

	Unit	FY2001	FY2002	FY2003	FY2004	FY2005
Consolidated Net Sales*1, 2	Millions of yen	1,211,422	1,165,450	1,192,649	1,179,696	1,152,166
Pulp and Paper Division	Millions of yen	945,922	897,349	890,124	870,360	860,993
Paper-related Division	Millions of yen	97,963	98,194	123,737	126,592	110,350
Housing and Construction Materials Division	Millions of yen	92,488	94,004	93,469	95,236	94,041
Other Division	Millions of yen	75,046	75,903	85,317	87,506	86,781
Consolidated Operating Income*2	Millions of yen	42,422	50,450	55,679	65,231	48,391
Pulp and Paper Division	Millions of yen	34,870	39,939	41,363	47,269	33,197
Paper-related Division	Millions of yen	2,601	4,896	4,987	8,286	6,181
Housing and Construction Materials Division	Millions of yen	518	948	2,632	2,339	2,607
Other Division	Millions of yen	4,431	4,666	6,696	7,336	6,404
Consolidated Ordinary Income	Millions of yen	28,563	39,671	50,665	62,801	49,403
Consolidated Net Income	Millions of yen	–636	4,880	24,258	24,350	17,192
Interest-bearing Debt	Millions of yen	903,336	851,311	842,278	766,139	692,078
Cash Dividends per Share	yen	8,000	8,000	8,000	8,000	8,000

*1 Overseas operations account for less than 10% of consolidated sales.
*2 Figures for sales and operating income for fiscal 2003 through fiscal 2005 show the power supply business as part of the other division. This is a change from the prior practice of including the business as part of the Pulp and Paper Division.

Major Debt Rating

Rating agencies	Ratings
Rating and Investment Information, Inc. (R&I)	Long-term Debt A (As of May 2006)
Japan Credit Rating Agency, Ltd. (JCR)	Long-term Debt A+ (As of May 2006)
Standard and Poor's (S&P)	Long-term Debt BBB- (As of March 2005)

Major SRI Indices Adopted (As of the end of March 2006)

Overseas	Domestic
FTSE4Good Global Index FTSE4Good Japan Index	Morningstar SRI Index

Major Organizations that Nippon Paper Group, Inc. is a Member of (As of the end of March 2006)

Global

Name	Summary
World Business Council for Sustainable Development (WBCSD)	An association of international corporations that pursue sustainable development through the maintenance of balance among economic growth, ecological balance, and social progress.
"Sustainable Forest Product Industry" Working Group (SFPI Working Group)	One of the sector projects of WBCSD. Leading pulp and paper, and forestry product corporations of the world participate in the group. The project tackles such issues as the sustainable management of the world's forests and the combating of illegal logging.
The United Nations Global Compact	Supports ten principles that encompass human rights, labor, the environment, and anti-corruption, and makes voluntary efforts to advance these causes.

Domestic

Name	Summary
The Japan Paper Association*	A paper manufacturing industry organization comprised of major paper companies that intend to achieve sound growth of the Japanese paper industry.
Nippon Keidanren	An all-encompassing business organization whose mission is transforming Japanese economy into one that is sustainable and driven by the private sector.
Caux Round Table (CRT) Japan	An organization that strives to bring greater freedom, fairness, and transparency to society through business activities.

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

Employment-related Indicators

Employees by Business

	FY2001	FY2002	FY2003	FY2004	FY2005
Number of Employees on a Consolidated Basis	17,153	15,662	14,987	13,774	12,798
Pulp and Paper Division	11,534	10,604	9,791	8,722	8,148
Paper-related Division	1,611	1,295	1,819	1,747	1,196
Housing and Construction Materials Division	1,577	1,446	1,200	1,174	1,256
Other Division	2,066	2,031	1,944	1,917	1,995
Cross-organizational*	365	286	233	214	203

* "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, 2006)

(%)

Item	Percentage/Rate
Percentage of Female Workers in Management*	1.33
Rate of Employment of People with Disabilities*	1.35

* 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.

Occupational Health and Safety-related Indicators*

* Occupational health and safety data are compiled on a calendar year basis.

Status of Occupational Safety and Physical Examinations

	Units	2001	2002	2003	2004	2005
Frequency rate of occupational accident*1	Frequency Rate	0.55	1.12	0.67	0.46	0.67
Occupational accident severity rate*1	Severity Rate	0.05	0.05	0.04	0.02	0.02
Number of accidents involving injuries and illnesses resulting in lost work time*1	Number of Incidents	7	16	7	7	9
Percentage of persons with abnormal physical examination findings*2	%	46.8	44.4	45.1	48.6	51.4

*1 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.,

*2 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.

Major Safety Awards (2005)

Company, mill, or works	Awards
Iwanuma Mill of Nippon Paper Industries Co., Ltd.	Received an award for excellence in handling hazardous substances by the director-general of the Fire and Disaster Management Agency.
Nakoso Mill of Nippon Paper Industries Co., Ltd.	Received an award for excellence in safety from the director-general of the Fire and Disaster Management Agency.
Shiraoi Mill of Nippon Paper Industries Co., Ltd.	Received the Golden Order of Merit as an organization assisting with blood donation awarded by the Japanese Red Cross Society.
Kaisei Mill of Nippon Paper Crecia Co., Ltd.	Received an award for excellence from the chief of the Kanagawa Labour Bureau for excellence.

Product Quality-related Indicators

ISO 9001 Certification Status

Company Name	Mill/Manufacturing Company/Work
Nippon Paper Industries Co., Ltd.	Nakoso Mill
Nippon Daishowa Paperboard Co., Ltd.	Nippon Daishowa Paperboard Tohoku Co., Ltd., Ashikaga Mill of Nippon Daishowa Paperboard Kanto Co., Ltd., Soka Mill of Nippon Daishowa Paperboard Kanto Co., Ltd., Nippon Daishowa Paperboard Yoshinaga Co., Ltd.★, Geibo Mill of Nippon Daishowa Paperboard Nishinippon Co., Ltd., Kochi Mill of Nippon Daishowa Paperboard Nishinippon Co., Ltd.
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 Seitai Corporation	Asahikawa Mill★, Saitama Mill, Hokkaido Business Office★
Nippon Paper Chemicals Co., Ltd.	Gotsu Works★, Iwakuni Works, Higashimatsuyama Works, Yufutsu Works★
Nippon Paper Development Co., Ltd.	Landscape Department

* The mills, manufacturing companies, and works indicated by★were newly certified in fiscal 2005.

Raw Material Procurement-related Indicators

Imported Woodchips by Region

(%)

		FY2001	FY2002	FY2003	FY2004	FY2005
Woodchips from hardwood	South Africa	24	33	40	41	37
	Australia	43	48	43	43	44
	South America	12	9	12	12	18
	North America	17	9	4	2	0
	All Other	3	2	1	2	1
Woodchips from softwood	Australia, New Zealand	65	66	62	59	56
	South America	10	14	15	18	19
	North America	22	14	14	15	18
	All Other	3	6	8	8	7

Imported Hardwood Resource by Type

(%)

	FY2001	FY2002	FY2003	FY2004	FY2005
Wood from Company-owned Tree Farms (Wood from the "Tree Farm Initiative" project)	—	—	8	10	8
Wood from other Tree Farms	—	—	51	52	54
Certified Native Forest	—	—	17	18	17
Non-certified Native Forest	—	—	24	20	21

Overseas Afforestation Areas by Country

(Thousands of hectares)

	End of 2001	End of 2002	End of 2003	End of 2004	End of 2005
Australia	24.2	59.0	61.6	64.0	73.7
Chile	12.1	13.5	13.5	13.5	13.5
South Africa	4.2	4.2	4.2	4.2	12.1
Total	**40.5**	**76.7**	**79.3**	**81.7**	**99.3**

Forest Certification of Company-owned Forests

Overseas afforestation project (by company)	ISO14001	Performance certification
Forestco	Acquired on July 10, 2002	FSC acquired on April 30, 2003
WAPRES	Acquired on April 14, 2003	AFS acquired on September 16, 2004
Volterra	Acquired on November 18, 2003	Certforchile to be acquired
VTP (VIZ, YAA, JAF MATE)	Acquired on March 11, 2004	AFS acquired on May 24, 2005
SEFE	Acquired on August 19, 2004	AFS to be acquired
PTP	Acquired on February 8, 2005	AFS acquired on June 30, 2006
BTP (AAP, ECOT)	Acquired on March 30, 2005	AFS acquired on April 27, 2006

Domestic company-owned forests (by area)	SGEC
Hokkaido	Acquired the certification on December 1, 2005
Tohoku Kanto and Chubu Kinki, Chugoku and Shikoku	Certification to be acquired between 2006 and 2008, except for the company-owned Kitayama Forest in Shizuoka (700ha), which was certified on December 25, 2003.
Kyushu	Acquired the certification on March 24, 2005

Conservation of Biodiversity of Company-owned Forests

(Thousands of hectares)

IUCN category*	Domestic				Overseas
	Applicable area	Commercial forest area	Environmental forest area	Ratio of environmental forest area	Applicable area
Ia	0.0	0.0	0.0	—	0.0
Ib	0.0	0.0	0.0	—	0.0
II	3.9	0.6	3.3	85%	0.0
III	0.0	0.0	0.0	—	0.0
IV	0.0	0.0	0.0	—	0.0
V	3.2	2.5	0.7	22%	0.0
VI	0.0	0.0	0.0	—	0.0
Not Applicable	82.7	68.3	14.4	17%	99.3
Total	**89.8**	**71.4**	**18.4**	**20%**	**99.3**

* IUCN (The World Conservation Union) Website: http://www.iucn.org/

* 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*

* 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., 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., and SHIKOKU COCA-COLA BOTTLING CO., LTD.

Material balance (FY2005)

Input

Fossil energy consumption	
Electricity	1,897,000GWh
Oil	1,267,000t
Coal	1,917,000t
Gas	102,000t
Chemical substances subject to PRTR Law	
(Amount handled)	22,876t
Water consumption	
Water	1,039,000,000t

Raw materials	
Woodchips	6,282,000BDt
Logs	65,000BDt
Pulp	317,000t
Wastepaper (recycled fiber)	3,802,000t
Inorganic filler	817,000t
Inorganic chemicals	330,000t
Base paper	145,000t
Resin	13,000t
Printing ink	2,000t
Raw material chemicals	50,000t
Beverage cartons	11,000t
Saccharide	8,000t

Output

Fossil fuels CO_2 emissions	8,830,000t
SOx emissions	3,980t
NOx emissions	10,200t
Chemical substances subject to PRTR Law	
(amount released)	359t
(amount transferred)	23t
Wastewater	1,013,000,000t
COD/BOD	65,600t
SS	26,800t
AOX	930t
Waste generation	565,000t
Landfill	20,000t

Products Manufactured	
Paper	5,761,000t
Paperboard	1,918,000t
Pulp	262,000t
Paper container	148,000t
Chemical product	155,000t
Building materials	108,000t
Beverage	109,000t

* BDt: Dry weight after evaporation of moisture

Major Environmental Performance Data

		Unit	FY2001	FY2002	FY2003	FY2004	FY2005
Water consumption		Millions of tons	1,052	1,022	1,037	1,034	1,039
Wastewater	Amount discharged	Millions of tons	1,026	1,003	1,014	1,007	1,013
	COD/BOD	Thousands of tons	67.2	64.4	65.2	63.5	65.6
	SS	Thousands of tons	28.3	27.3	28.6	27.0	26.8
	AOX	Thousands of tons	1.86	1.57	1.27	1.39	0.93
Gas Emissions	SOx	Thousands of tons	6.13	5.05	4.73	4.75	3.98
	NOx	Thousands of tons	10.5	10.3	10.3	10.9	10.2
	Dust	Thousands of tons	1.93	2.05	1.96	2.02	2.05
	Chloroform*	tons	258	258	217	163	131
Waste	Amount generated	Thousands of tons	504	503	523	560	565
	Landfill	Thousands of tons	27	25	24	18	20
Energy	Fossil energy input	Millions of GJ	128	127	125	123	122
	Non-fossil energy input	Millions of GJ	61	64	68	71	72
	Fossil fuel-derived CO_2 emissions	Millions of tons	9.22	9.18	9.12	8.96	8.83

* Figures for chloroform are emissions from the Pulp and Paper segment only.

PRTR*1 investigation result*1 (fiscal 2005)

Cabinet order No.	CAS No. stance	Name of chemical substance	Unit	Amount handled (Amount generated)	Amount removed	Amount released	Amount transferred
2	79-06-1	Acrylamide	t	1,083	0	0	0
3	79-10-7	Acrylic acid	t	740	0	0	0
7	107-13-1	Acrylonitrile	t	1,610	0	1	0
24		n-alkylbenzenesulfonic acid and its salts	t	61	0	1	0
29	80-05-7	4,4'-isopropylidenediphenol (bisphenol A)	t	188	0	0	0
30	25068-38-6	Bisphenol A type epoxy resin	t	30	0	0	0
43	107-21-1	Ethylene glycol	t	7	0	0	0
44	110-80-5	Ethylene glycol monoethyl ether	t	2	1	1	0
63	1330-20-7	Xylene	t	580	2	31	0
65	107-22-2	Glyoxal	t	1	0	0	0
66	111-30-8	Glutaraldehyde	t	1	0	0	0
80	79-11-8	Chloroacetic acid	t	1,583	0	0	0
95	67-66-3	Chloroform	t	305	51	244	0
114	108-91-8	Cyclohexylamine	t	4	0	1	0
134	96-23-1	1,3-dichloro-2-propanol	t	3	0	0	0
176		Organic tin compounds (as Sn)	t	6	0	0	0
177	100-42-5	Styrene	t	5,011	0	10	0
179		Dioxins*2	g-TEQ	2.44	0	0.51	1.93
227	108-88-3	Toluene	t	2,422	5	60	14
268	106-99-0	1,3-butadiene	t	3,940	0	5	0
270	84-74-2	di-n-butyl phthalate	t	9	0	0	6
273	85-68-7	n-butyl Benzyl phthalate	t	1	0	0	0
304		Boron and its compounds (as B)	t	8	0	0	0
307		Poly (oxyethylene) alkyl ether	t	13	0	0	0
309	9016-45-9	Poly (oxyethylene) nonylphenyl ether	t	5	0	0	2
310	50-00-0	Formaldehyde	t	3,891	0	5	0
313	108-31-6	Maleic anhydride	t	17	0	0	0
314	79-41-4	Methacrylic acid	t	335	0	0	0
318	2867-47-2	2-(dimethylamino) ethyl methacrylate	t	59	0	0	0
320	80-62-6	Methyl methacrylate	t	960	0	0	0
Total*3			t	22,876	59	359	23

*1 The amounts of substances handled (excluding dioxins) that total one ton or more are calculated. No ozone depleting substance subject to PRTR Law as listed below is handled.
CFC-11, CFC-12, CFC-13, CFC-114, CFC-115, Halon-1211, Halon-1301, Halon-2402, Tetrachloromethane, 1,1,1-trichloroethane, HCFC-21, HCFC-123, HCFC-133, HCFC-142, HCFC-142b, HCFC-225 and Methylbromide

*2 Dioxins are unintentionally generated.

*3 Total does not include dioxins.

Storage and Use of PCB-containing Electrical Equipment (fiscal 2005)

(Number of units)

	Transformers	Capacitors	Reactors	Ballasts
Stored	9	922	1	2,434
In operation	3	190	0	27

* Figures denote confirmed units.

Complaints about Noise, Vibrations and Offensive Odor (fiscal 2005)

(Number of complaints)

Company name	Noise	Vibration	Offensive odor	Dust and mist dispersal	Smoke
Nippon Paper Industries Co., Ltd.	10	1	10	5	2
Nippon Daishowa Paperboard Co., Ltd.	2	0	0	0	0
Nippon Paper Crecia Co. Ltd.	1	0	0	0	0
Kitakami Paper Co., Ltd.	1	1	1	0	0
KOYO PAPER MFG. CO., LTD.	0	0	0	0	0
Nippon Paper Industries USA Co., Ltd.	0	0	0	0	0
NIPPON PAPER-PAK CO., LTD.	0	0	0	0	0
Nippon Paper Chemicals Co., Ltd.	0	0	0	0	1
Nippon Seitai Corporation	0	0	0	0	0
Akita Jujo Chemicals Co., Ltd.	0	0	0	0	0
PAL CO., LTD.	1	0	0	0	0
Daishowa Uniboard Co., Ltd.	0	0	0	1	0
SHIKOKU COCA-COLA BOTTLING CO., LTD.	0	0	0	0	0
Total	**15**	**2**	**11**	**6**	**3**

Acquisition of ISO 14001 Certification

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.	Nippon Daishowa Paperboard Tohoku Co., Ltd., Soka Mill of Nippon Daishowa Paperboard Kanto Co., Ltd., Ashikaga Mill of Nippon Daishowa Paperboard Kanto Co., Ltd., Nippon Daishowa Paperboard Yoshinaga Co., Ltd. , Geibo Mill of Nippon Daishowa Paperboard Nishinippon Co., Ltd., Kochi Mill of Nippon Daishowa Paperboard Nishinippon Co., Ltd.
Nippon Paper Crecia Co., Ltd.	Tokyo Mill, Kaisei Mill, Kyoto Mill, Iwakuni 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 Seitai Corporation	Headquarters ★, Maebashi Mill ★
Daishowa Uniboard Co., Ltd.	Headquarters – Miyagi Mill
SHIKOKU COCA-COLA BOTTLING CO., LTD.	Headquarters, SHIKOKU COCA-COLA PRODUCT CO., LTD.
Nippon Paper Lumber Co., Ltd.	Insulator Sales Dept.
Nippon Paper Development Co., Ltd.	Landscape Department and 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

* The head office and mill indicated by ★were newly certified in fiscal 2005.

Targets and Performance of Environmental Conservation Activities

Nippon Paper Industries Co., Ltd.

Category of the target	Medium and long-term target	Efforts in FY 2005	Achievements in FY 2005
Conservation of forest resource	100,000 ha or more of overseas forests planted by the company by FY 2008.	Expansion of tree planting area.	99,300 ha as of the end of 2005
Green procurement of raw materials	One million BDt of woodchips absolute dry weight supplied from overseas forests planted by the company by FY 2008.	Expansion of tree planting area.	300,000 BDt
	All of company-owned forests within and outside Japan shall acquire forest certifications by 2008.	Domestic: SGEC certification of all company-owned forests in Hokkaido Overseas: Continued efforts to acquire performance certification	Domestic: 62,700 ha (70% of total area) Overseas: Acquisition of AFS certification at VTP, etc.
	The ratio of certified materials and afforested trees to imported hardwood chips shall be 100% by 2008.	Continued efforts to have forests certified	79%
	Ratio of deinked pulp (DIP) composed in newsprint shall be 75% or above	To raise the DIP formulation ratio while ensuring high quality	74.3%
Approaches to prevention of global warming	Greenhouse gas emissions reduced to 85% compared to FY 1990 by FY 2010.	Operation of biomass boilers in Nakoso Mill Operation of methane fermentation equipment in Yufutsu and Iwakuni Mills	95.3% relative to FY 1990
	Specific purchased energy consumption improved by 10% compared to FY 1990 by FY 2010.	Operation of biomass boilers in Nakoso Mill Operation of methane fermentation equipment in Yufutsu and Iwakuni Mills	A 9.4% reduction from FY 1990 levels
	Energy consumed in the transportation process reduced by 5% compared to FY 2002 by FY 2010	A reduction of long distance and inter-crossing transport, and an increase in the use of railroad freight	A 2.5% increase over FY 2002 levels (A 1.3% increase in weight transported)
Reduction of landfill waste	The ratio of landfill of waste to total product weight reduced to 0.01%.	Promotion of effective use of wastes	0.007%
	Improvement in the rate of effective use of discarded cargo pallets to 80% by FY 2010	Pulverization of pallets destined for a landfill for use as chips for paper and board	40% compared with the FY 2003 achievement of 31%

Nippon Daishowa Paperboard Co., Ltd.

Category of the target	Medium and long-term target	Efforts in FY 2005	Achievements in FY 2005
Approaches to prevention of global warming	CO_2 emission reduced by 10% compared to FY 1990 by FY 2010.	An increase in the use of biomass fuel (scrap wood) and a decrease in the use of heavy oil at Nippon Daishowa Paperboard Tohoku Co., Ltd. Conversion of heavy oil to natural gas at the Ashikaga Mill of Nippon Daishowa Paperboard Kanto Co., Ltd.	A 12.1% reduction from FY 1990 levels
	Specific fossil energy consumption reduced by 10% compared to FY 1990 by FY 2010.	An increase in the use of biomass fuel (scrap wood) and a decrease in the use of heavy oil at Nippon Daishowa Paperboard Tohoku Co., Ltd. An increase in the use of non-fossil fuel and a decrease in the use of heavy oil at Nippon Daishowa Paperboard Yoshinaga Co., Ltd.	A 11.2% reduction from FY 1990 levels
Reduction of landfill waste	The ratio of landfill of waste against total product weight reduced to 0.1% by FY 2005 and 0.01% pursued after achievement of 0.1% or less.	Promotion of effective use of waste and attainment of the medium-term goal of 0.1%	0.04%

Nippon Paper Crecia Co., Ltd.

Category of the target	Medium and long-term target	Efforts in FY 2005	Achievements in FY 2005
Approaches to prevention of global warming	Specific energy consumption improved by 5% compared to FY 2000 by FY 2005.	Attainment of the medium-term goal of a 5% improvement by achieving a 2% improvement in specific energy consumption over FY 2004 levels	4.1% improvement over FY 2004 levels
Reduction of landfill waste	The ratio of landfill of waste to total product weight reduced to 0.1% or less by FY 2005.	Attainment of the medium-term target of 0.1% as the result of reducing landfill waste through a reduced generation of waste and effective use of waste	0.002%

Environmental Audits Implemented

Company name	Period of audit	Priority check points	Audit results	Countermeasures
Nippon Paper Industries Co., Ltd.	March-May 2006	Efforts to reduce environmental cost	The cost of treating boiler ash is expected to rise with the new installation of biomass boilers.	Efforts should be made to find added value for ash and explore new applications for it in cooperation with the head office.
		Control over wastewater treatment	No problem	Energy conservation and environment cost reductions will be studied from the standpoint of water conservation.
Nippon Daishowa Paperboard Co., Ltd.	April-June 2006	Conservation of the local environment (compliance with regulated values, a system of checks regarding measurement results, emergency readiness, etc.)	Rules concerning procedures that must be taken when measurements showing abnormal readings are partially inadequate.	Rules concerning the system of checks on measurement results will be reviewed and revised so as to enable speedy reporting and response.
		Efforts to reduce environmental impact	Good progress has been made in reducing the amount of waste destined to landfills, CO2 emissions, and the amount of chemical substances handled as controlled by the PRTR Law.	Continued efforts are being on effectively using waste and conserving energy.
Nippon Paper Crecia Co., Ltd.	May-June 2006	Compliance with environment-related laws and regulations	No problem	Compliance will continue to be monitored to ensure that limits are not being exceeded.
		Control over energy conservation and industrial waste	Specific energy consumption improved by 4.1% over the preceding year for all mills combined. The final landfill rate was 0.002%.	Improvement in specific energy consumption of 1% or higher over the preceding year will be targeted. The final landfill rate will remain steady.
NIPPON PAPER-PAK CO., LTD.	March 2006	Waste Disposal	A 99.7% recycling rate was achieved by ensuring the proper sorting of waste.	Further efforts will be made to minimize the generation of industrial waste and promote 3R.
		Compliance with applicable laws and regulations	There is full compliance with environmental laws and regulations, as well as environmental standards.	Compliance will continue to be monitored and controlled.
Nippon Paper Chemicals Co., Ltd.	May-June 2006	Compliance with applicable laws and regulations	No problem	Efforts will continue to be made to reduce environmental impact. The departments responsible will work together to respond to regulatory revisions.

Compliance with Environmental Laws and Regulations (fiscal 2005)

During fiscal 2005, there was no serious violation of environmental laws or regulations by the Nippon Paper Group. Moreover, there were no incidents that seriously affected the environment. However, the following environmental accidents occurred:

Mill	Date of Incident	Description of the Incident	Measures Taken
Nippon Paper Industries Co., Ltd. Nakoso Mill	June 29, 2005	The accidental disposal of unneeded chemicals caused wastewater to become clouded and COD to rise. Dead fish were found in the Binta River, in which the chemicals were released. The release of said chemicals is suspected of causing the death of the fish.	The procedures for handling chemicals and the emergency communication system were re-examined. Based on the review, all employees were given necessary instructions.
Nippon Paper Industries Co., Ltd. Iwanuma Mill	September 1, 2005	Ash dust was dispersed through a hole in the dust removal device (bag filter) of the paper sludge incinerator. The prefectural government of Miyagi ordered the mill to correct the problem.	As an emergency measure, the torn area of the bag filter was plugged to prevent dispersion. Later, the equipment was pulled out of service for repair work. In addition, a dust counter was installed to enable the real-time confirmation of dust generation.

External Awards for Environmental Conservation Activities (fiscal 2005)

Company/Mill Name	Award	Awarded By	Description
Nippon Paper Crecia Co., Ltd.-Iwakuni Mill	Mill with Excellent Energy Management (Awarded by the Chugoku Bureau of Economy, Trade and Industry)	Chugoku Bureau of Economy, Trade and Industry	Given to business organizations recognized for outstanding work in promoting proper energy management.
Kitakami Paper Co., Ltd.	Iwate - Being Aware of the Global Environment	Prefecture of Iwate	Business organizations recognized for outstanding work in promoting business activities that heed the environment.
Nippon Paper Industries USA Co., Ltd.	Environmental Excellence Award	AWB (Association of Washington Businesses)	Given to organizations recognized for outstanding work in making environmentally conscientious efforts.
SHIKOKU COCA-COLA PRODUCTS CO., LTD.	Plant with Excellent Energy Management (Awarded by the Shikoku Bureau of Economy, Trade and Industry)	Shikoku Bureau of Economy, Trade and Industry	Given to business organizations recognized for outstanding work in promoting proper energy management.

Environmental Accounting (fiscal 2005)

Cost for environmental conservation

(Millions of yen)

Category	Cost
(1) Business area cost	
1. Pollution prevention cost (Air and water countermeasures, etc.)	14,887
2. Global environmental conservation cost (Energy conservation, etc.)	597
3. Resources circulation cost (Wastepaper recycling, waste treatment, etc.)	7,601
(2) Upstream / downstream cost (Pallet recovery, etc.)	1,100
(3) Administration cost (ISO 14001 audit, etc.)	602
(4) R&D cost	1,269
(5) Social activity cost	40
(6) Environmental remediation cost	674
Total	**26,770**

Investment for environmental conservation

(Millions of yen)

Category	Cost
(1) Business area investment	
1. Pollution prevention investment (Air and water countermeasures, etc.)	8,548
2. Global environmental conservation investment (Energy conservation, etc.)	3,453
3. Resource circulation investment (Wastepaper recycling, waste treatment, etc.)	2,399
Total	**14,400**

Environmental conservation benefit

(Millions of yen)

Category	Cost
(1) Benefits within the business areas (Energy conservation, effective use of waste, etc.)	6,119
(2) Benefits corresponding to upstream / downstream (Pallet recovery, etc.)	306
Total	**6,425**

Standards for calculation

1) The calculation is based on the "Environmental Accounting Guidelines 2002" published by the Ministry of the Environment.
2) The classification is based on "Guide for Environmental Conservation Cost Classification 2003." (Pollution/health compensation money is counted as pollution prevention cost.)

Comparison with GRI Sustainability Reporting Guidelines 2002

Category and elements			Self-evaluation*2	Page number of this report
1 Vision and Rights Strategy		1.1	●	10-11
		1.2	●	4-6
2 Profile	Profile	2.1	●	44
		2.2	●	44
		2.3	●	44
		2.4	●	44
		2.5	●	44
		2.6	●	44
		2.7	●	26-27
		2.8	●	47
		2.9	◐	13
	Report Scope	2.10	●	Back cover
		2.11	●	57
		2.12	●	Back cover
		2.13	●	57
		2.14	N/A	
		2.15	N/A	
		2.16	N/A	
	Report Profile	2.17	◐	57
		2.18	●	54
		2.19	N/A	
		2.20	○	
		2.21	●	56
		2.22	●	57
3 Governance Structure and Management Systems	Structure and Governance	3.1	●	10-11
		3.2	●	8-9
		3.3	○	
		3.4	●	8-11
		3.5	○	
		3.6	●	8-11
		3.7	●	7, 10-11
		3.8	◐	8
	Stakeholder Engagement	3.9	◐	13
		3.10	◐	13
		3.11	●	13, 28-31
		3.12	●	13, 26-27
	Overarching Policies and Management Systems	3.13	◐	22
		3.14	●	47
		3.15	●	47
		3.16	●	11, 28-31
		3.17	○	
		3.18	N/A	
		3.19	◐	30-31, 53
		3.20	●	49, 50, 52
4 GRI Content Index	Integrated Indicators	4.1	●	55
5 Performance Indicators		Systemic indicators	●	
		Cross-cutting indicators	●	

*1 Comparison with core indicators in the guidelines.
*2 Each sign in this column has the following meaning:
●: Stated ◐: Partially stated ○: Not stated

Category and elements					Self-evaluation*2	Page number of this report
5 Performance Indicators	Performance Indicators	Direct impacts	Customers	EC1	●	2, 47
				EC2	●	47
			Suppliers	EC3	○	
				EC4	○	
			Employees	EC5	○	
			Providers of Capital	EC6	●	47
				EC7	○	
			Public Sector	EC8	○	
				EC9	○	
				EC10	○	
	Environmental Performance Indicators		Materials	EN1	●	50
				EN2	●	50
			Energy	EN3	●	50
				EN4	●	50
			Water	EN5	●	51
			Biodiversity	EN6	◐	50
				EN7	○	
			Emissions, Effluents, and Waste	EN8	●	51
				EN9	●	51
				EN10	●	51
				EN11	◐	51
				EN12	◐	51
				EN13	●	54
			Products and services	EN14	●	36-37, 40-41
				EN15	●	36-37
			Compliance	EN16	●	54
	Social Performance Indicators	Labor Practices and Decent Work	Employment	LA1	◐	48
				LA2	◐	19
				LA3	○	
				LA4	○	
			Health and Safety	LA5	●	20-23
				LA6	◐	22
				LA7	◐	48
				LA8	◐	11
			Training and Education	LA9	◐	16-17
			Diversity and Opportunity	LA10	●	10, 16-19
				LA11	◐	48
		Human rights	Strategy and Management	HR1	●	7, 10
				HR2	●	30-31
				HR3	◐	30-31
			Non-discrimination	HR4	●	7,10
			Freedom of Association and Collective Bargaining	HR5	○	
			Child Labor	HR6	◐	10
			Forced and Compulsory Labor	HR7	◐	10
		Society	Community	SO1	◐	30-31
			Bribery and Corruption	SO2	◐	7
			Political Contributions	SO3	◐	7
		Product Responsibility	Customer Health and Safety	PR1	●	24-27
			Products and Services	PR2	◐	26-27
			Respect for Privacy	PR3	◐	7, 11, 27

Comparison with the Global Compact

The Global Compact's ten principles			GRI (See page 55)
Human Rights	Principle 1:	Businesses should support and respect the protection of internationally proclaimed human rights; and	HR1, HR2, HR3, HR4
Labor Standards	Principle 2:	Make sure that they are not complicit in human rights abuses.	HR2, HR3
	Principle 3:	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	HR5, LA3, LA4
	Principle 4:	The elimination of all forms of forced and compulsory labor;	HR7
	Principle 5:	The effective abolition of child labor; and	HR6
	Principle 6:	The elimination of discrimination in respect of employment and occupation.	HR4, LA10, LA11
Environment	Principle 7:	Businesses should support a precautionary approach to environmental challenges;	3.13
	Principle 8:	Undertake initiatives to promote greater environmental responsibility; and	EN1, EN2, EN3, EN4, EN5, EN6, EN7, EN8, EN9, EN10, EN11, EN12, EN13, EN14, EN15, EN16, 1.1
	Principle 9:	Encourage the development and diffusion of environmentally friendly technologies	EN17 (P32-35)
Anti-corruption	Principle 10:	Businesses should work against all forms of corruption, including extortion and bribery.	S02

The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labor standards, the environment, and anti-corruption. This means that a company needs to bring about positive change in the areas that are relevant to its business operations through compliance and implementation of the standards. The principles are as follows.

THE GLOBAL COMPACT

Website of the UN Global Compact
http://www.unglobalcompact.org/

Independent Review

Method of Review

This opinion was prepared, based on the review, which entailed interviewing the officer in charge and other individuals responsible, and visiting a major mill. The comments presented here are own opinion on the content of the sustainability report, in reference to the core principles (Materiality, Completeness, and Responsiveness) of AA 1000 Assurance Standard.

Opinion on the Report Content

The Nippon Paper Group (hereafter the Group) has set clear policies regarding the procurement of raw materials to fulfill its responsibility that uses lumber, a natural resource, while paper companies are under constant scrutiny by critical stakeholders. I especially value the company's posture of engaging the public by seeking their comments in designing the procurement policy and reflecting public concerns in the finalized policy. Last year, the Group established an action plan based on its procurement policy and laid out the specifics of its future course. The Group's steady implementation can be expected.

Regarding the health and safety, occupational injuries are prone to occur in the paper manufacturing process. The report communicates the Group's dedication to thorough measures to achieve "Zero Accidents." Some fatal accidents did occur in spite of the Group's best efforts. By disclosing information, however, the Group has fulfilled its accountability. It can also be said to have made its employees even more keenly aware of the importance of safety precautions.

One of areas that can be improved is administrative linkage between the mills and the head office, and between the Group companies and the head office. In the area of the environment management, for example, efforts to reduce environmental impact and the system to achieve the goals are sufficiently done at the mill level. However, the overall management to supervise these efforts in the entire group is not adequate. To solve environmental issues of a global scale as the Group, an integrated system that establishes group-level policies and positions production sites in line with policies is necessary. Operational disparities across mills can also be solved once such a system is in place. This is true not only for environmental management but also for all business management. Today, there is a strong call for development of an internal control mechanism. I hope that focused efforts will be directed at the development of an integrated system that oversees the entire company.

Materiality:

In connection with activities that are covered by CSR, it is important to define the Group's KPIs (key performance indicators) so that employees can share activity targets and confirm accomplishments, and also communicate them to stakeholders. Currently, public data are presented together with the Group's performance data in the report. It is necessary to separate indicators for managerial control from those for disclosure.

Completeness:

Many items of information presented here are confined to Nippon Paper alone. However, the affiliate Group companies should also uphold the same level of CSR as the parent company, along with the accumulation of necessary data.

Responsiveness:

The Group responds to stakeholders who express concerns, and incorporates those interests in the Group's policies and action plans. In the future, I would like the Group to present its posture of engagement at the implementation stage. As for employees, it does not appear that there are adequate programs to reflect their voices in specific ways. The Group should look at the vitalization of employees as part of its CSR.

August 2006

Mizue Unno
Managing Director,
So-Tech Consulting Inc.
海野 みづえ

Editorial policy

This report is organized to give information about the CSR efforts by the Core Group Companies, with special attention to items that we consider important as having great impact on stakeholders within and outside the corporation, as well as the company itself. The first half of the report presents information about the management of the entire Group. The company's stance on various important matters and its efforts are described item by item. Performance data on the company's CSR efforts are presented at the end of the report in the form of a data packet.

Periods Covered

April 1, 2005 – March 31, 2006

* Data on "Safety and Disaster Prevention Efforts" appearing on pp.20-23 are for the period from January 1, 2005, to December 31, 2005. Furthermore, some data are dated earlier than April 1, 2005, or later than March 2006.

Scope of Organizations

In this report, the holding company, Nippon Paper Group, reports the activities of nine companies including the Nippon Paper Group, Inc. and eight core companies as 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. and Nippon Paper Development Co., Ltd.
(The contribution to total consolidated sales of the nine companies listed here was 84%.)

The scope of organizations covered with respect to basic policies and systems concerning the environment, the 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. and SHIKOKU COCA-COLA BOTTLING CO., LTD.
(The contribution to total consolidated sales of the 17 companies listed here was 92%.)

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 organization of the Nippon Paper Group is outlined on page 44.

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

Measure Used

Metric weights and measures are used in this report, i.e, one ton equals 1,000kg.

Referenced Guidelines

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

Media used for disclosure of CSR-related Information

This document is published to report and disclose the CSR-related efforts of Nippon Paper Group, Inc., to all stakeholders. In addition, the Group's CSR-related activities are also disclosed on the Website for your reference.

WEB **http://www.np-g.com/e/**

News about the Nippon Paper Group's latest developments is disclosed to diverse stakeholders. This includes the publication of news releases. PDF versions of various reports, including both the latest and earlier releases, can also be viewed on the company's Website.

Please contact the following for a printed copy of these reports:
http://www.np-g.com/e/appliform/

* In addition to this report, Ta-ra (Nippon Paper's CSR communication magazine), company profile and the annual report may be ordered. You may also wish to download the Nippon Paper Group's financial report and its business report from its IR Website (http://www.np-g.com/ir/). (Japanese only.)

Disclaimer
This report includes statements of fact and historical data as well as plans, forecasts, and estimates (forward-looking statements) based on the business plan and policies of Nippon Paper Group, Inc. These forward-looking statements are the result of assumptions or judgments based on currently available information as this report was prepared. 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.

Editor's Postscript

We organized this Sustainability Report 2006 to give information about the CSR efforts by the Core Group Companies, with special attention given to items that are important and of high interest to the stakeholders within and outside the corporation, as well as the Core Group Companies.

In the performance of CSR, priority should be given to important items, based on an evaluation of their impact on the stakeholders within and outside the corporation, as well as the corporation itself. In selecting several focal areas, we considered the fact that the main business of the Core Group Companies is in the pulp and paper segment. Recognizing the fact that the company is a manufacturer led to the selection of such focal areas as occupational health and safety, the procurement of raw materials, of which environmental NGOs are particularly interested, and the prevention of global warming, a shared goal of mankind. The human resource development of employees, who are important stakeholders, is yet another of the focal areas chosen. We hope that readers will review this report and give us their feedback on the report and the efforts of the Core Group Companies. We look forward to receiving opinions and comments.

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* Grammage: 135.0 g/m^2 for covers and 90.0 g/m^2 for text pages

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