



Nippon Paper Group, Inc.
Sustainability Report
2005

Editorial Policy

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

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

* An HTML version of the Sustainability Report 2005 is available at the URL below (Japanese only):
http://www.np-g.com/csr/report/environment_societ/web_ver2005/
For additional information on business activities, see the Nippon Paper Group Web site.
<http://www.np-g.com/e/>

Periods Covered

From April 1, 2004 to March 31, 2005.

The period is referred to as FY 2004 in this report.

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

Referenced Guidelines

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

Media used for disclosure of CSR-related information

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

Request for documents*:
<http://www.np-g.com/e/apliform/>

* The site accepts requests for the Company Profile, Annual Report in addition to this report. The Financial Report and Business Report (Japanese only) can be downloaded from the IR site (<http://www.np-g.com/e/ir/>).

Scope of Organizations

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

[Nippon Paper Group, Inc.](#), [Nippon Paper Industries Co., Ltd.](#), [Nippon Daishowa Paperboard Co., Ltd.](#), [CRECIA Corporation](#), [NIPPON PAPER-PAK CO., LTD.](#), [Nippon Paper Chemicals Co., Ltd.](#), [Nippon Paper Lumber Co., Ltd.](#), [SAN-MIC SHOJI CO., LTD.](#), and [Nippon Paper Development Co., Ltd.](#) (The contribution to total consolidated sales of the nine companies listed here was 83%.)

The scope of organizations covered by the environmental accounting and environmental performance data consists of the following 16 companies:

[Nippon Paper Group, Inc.](#), [Nippon Paper Industries Co., Ltd.](#), [Nippon Daishowa Paperboard Co., Ltd.](#), [CRECIA Corporation](#), [NIPPON PAPER-PAK CO., LTD.](#), [Nippon Paper Chemicals Co., Ltd.](#), [Nippon Paper Lumber Co., Ltd.](#), [SAN-MIC SHOJI 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.](#), and [SHIKOKU COCA-COLA BOTTLING CO., LTD.](#) (The contribution to total consolidated sales of the 16 companies listed here was 91%.)

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

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

● CSR communication pamphlet Ta-ra (Japanese only)

The pamphlet is published quarterly as a tool to supplement communication with stakeholders in an effort toward fulfillment of CSR. The CSR-related activities of Nippon Paper Group, Inc. are summarized in the pamphlet for easy understanding.

● Website (<http://www.np-g.com/e/>)

Including news releases, the most recent status of Nippon Paper Group, Inc. is available on the site for a variety of stakeholders. PDF or HTML versions of the Group's reports are posted on the Web site so that not only the newest version but also past data are always available (The HTML version is only available in Japanese).



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.

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Management
Structure

Feature Story:
Raw Material Procurement

In the Market

For the Global
Environment

With Employees

In Society

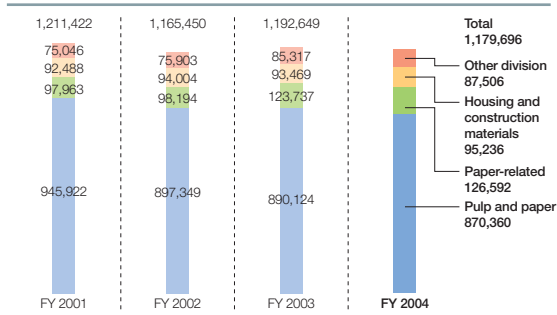
Outline of the Nippon Paper Group

Nippon Paper Group Contributes to Society through a Stable Paper Supply

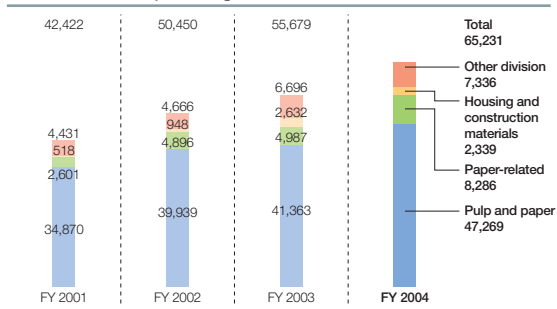
The Nippon Paper Group is a pure holding company; the actual businesses are operated by subordinate companies. Nippon Paper Industries Co., Ltd. handles the paper business and Nippon Daishowa Paperboard Co., Ltd. is involved in the paperboard business. Each company has its own subsidiaries. The Group consists of Nippon Paper Group, Inc., 152 subsidiaries, and 52 affiliates as of March 31, 2005. Forty-four subsidiaries out of the above are included in the consolidated accounting.

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

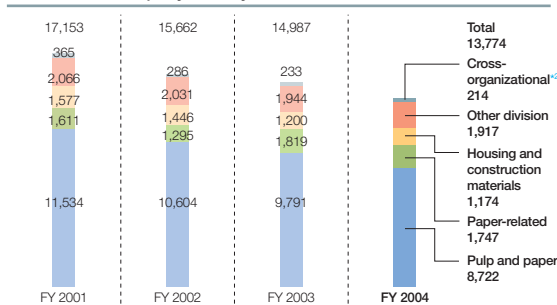
Consolidated net sales*1 (unit: million yen)



Consolidated operating income*1 (unit: million yen)



Number of employees by business



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

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

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. The paper segment includes newsprint, printing paper, business communication paper, and industrial paper, which are produced by Nippon Paper Industries Co., Ltd., Kitakami Paper Co., Ltd., KOYO PAPER MFG. CO., LTD., and Nippon Paper Industries USA Co., Ltd. Paperboard includes linerboard and corrugated medium and patent-coated board manufactured by the production subsidiaries of Nippon Daishowa Paperboard Co., Ltd., and sold by Nippon Daishowa Paperboard. Household paper products mostly mean facial tissue and bath tissue, sold by CRECIA Corporation, which boasts such world-renowned brands as Kleenex® and Scottie®. Pulp, often used as the raw material for paper, is manufactured and sold by Nippon Paper Industries.



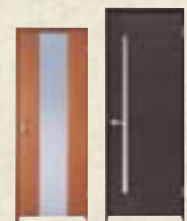
Paper-related Division

The paper-related division manufactures and sells processed paper, corrugated fiberboard, and chemical products. Processed paper products includes liquid packaging cartons represented by PURE-PAK®, a paper container for dairy products, produced by the production subsidiaries of NIPPON PAPER-PAK CO., LTD., and sold by NIPPON PAPER-PAK. Paperboard is manufactured and sold by Nichiita Package Industries Co., Ltd. Chemical products are manufactured and sold by Nippon Paper Chemicals Co., Ltd. Major products are dissolving pulp; material for rayon and cellophane; ribonucleic acid, extracted from yeast grown from the sugar content of wood and used for flavoring; and functional chemical products including chlorinated polyolefin.



Housing and Construction Materials Division

The housing and construction materials division procures and sells lumber, manufactures and sells construction materials, and deals in civil engineering-related businesses. Lumber is procured and sold by Nippon Paper Lumber Co., Ltd. Construction materials are manufactured by the production subsidiaries of PAL CO., LTD., and sold by PAL. Civil engineering-related businesses mean construction of bases and buildings required for equipment installation within the Nippon Paper Group and conducted by NIPPON PAPER UNITEC CO., LTD. and other companies.



Other Division

Bottling and sales of beverages, development and operation of sports/leisure facilities, and the warehousing and transportation business are included in this category. For beverages, SHIKOKU COCA-COLA BOTTLING CO., LTD. sells Coca-Cola and canned coffee in the Shikoku District. For the sports/leisure business, Nippon Paper Development Co., Ltd. operates ski areas, bowling alleys, and gyms. NIPPON PAPER LOGISTICS CO., LTD. and Nanko Unyu Co., Ltd. assume responsibility for the warehousing and transportation segment.



Core Operating Companies

Nippon Paper Industries Co., Ltd.

Headquarters 1-12-1 Yuraku-cho, Chiyoda-ku,
Tokyo 100-0006 Japan
Founded August 1, 1949
Capital 104,873 million yen

Nippon Daishowa Paperboard Co., Ltd.

Headquarters 2-1-3 Nihonbashi, Chuo-ku,
Tokyo 103-0027 Japan
Founded August 28, 1913
Capital 10,863 million yen

CRECIA Corporation

Headquarters 6-22-1 Nishishinjuku, Shinjuku-
ku, Tokyo, 163-1105 Japan
Founded April 2, 1963
Capital 4,667 million yen

SAN-MIC SHOJI CO., LTD.

Headquarters 2-2-1 Uchikanda, Chiyoda-ku,
Tokyo 101-8536 Japan
Founded July 11, 1979
Capital 1,000 million yen

Other Operating Companies

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 CO., LTD., Kokuei Paper Co., Ltd., Daishowa International

Core Operating Companies

NIPPON PAPER-PAK CO., LTD.

Headquarters 11 Ichigaya-Funagawara-cho,
Shinjuku-ku, Tokyo 162-0826
Japan
Founded March 18, 1965
Capital 4,000 million yen

Nippon Paper Chemicals Co., Ltd.

Headquarters 5-1 Goban-cho, Chiyoda-ku,
Tokyo 102-0076 Japan
Founded October 1, 2002
Capital 3,000 million yen

Other Operating Companies

Nippon Seitai Corporation, FLOWRIC CO., LTD., Nichiita Package Industries Co., Ltd.*, Sakurai Co., Ltd.

* Nichiita Package Industries Co., Ltd. merged with Tokan Packaging System Co., Ltd., to become NIPPON TOKAN PACKAGE CO., LTD.

Core Operating Companies

Nippon Paper Lumber Co., Ltd.

Headquarters 1-9-5 Oji, Kita-ku, Tokyo 114-
8552 Japan
Founded September 10, 1970
Capital 440 million yen

Other Operating Companies

Daishowa Kohrin Co., Ltd., South East Fibre Exports Pty. Ltd. (SEFE), NIPPON PAPER UNITEC CO., LTD., Daishowa Unitec Co., Ltd., Kokusaku Kiko Co., Ltd., PAL CO., LTD., N&E CO., LTD., Daishowa Uniboard Co., Ltd., Daishowa Housing Co., Ltd., Kunimoku House Co., Ltd.

Core Operating Companies

Nippon Paper Development Co., Ltd.

Headquarters 1-9-5 Oji, Kita-ku, Tokyo 114-
8555 Japan
Founded August 6, 1968
Capital 710 million yen

Other Operating Companies

SHIKOKU COCA-COLA BOTTLING CO., LTD., Graphic Arts Communication, Asahikawa Grand Hotel Co., Ltd., NEW HOKKAI 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.

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

Outline of the Nippon Paper Group

Production Sites of Each Operating Company and Major Products

Pulp and Paper Division

Nippon Paper Industries Co., Ltd.

- 1 Kushiro Mill**
Newsprint, printing and writing paper, papermaking pulp
- 2 Asahikawa Mill**
Printing and writing paper, business communication paper, industrial paper, paperboard, papermaking pulp
- 3 Yufutsu Mill**
Newsprint, printing and writing paper, business communication paper, industrial paper

- 4 Shiraoi Mill**
Printing and writing paper, business communication paper
- 5 Ishinomaki Mill**
Newsprint, printing and writing paper, business communication paper
- 6 Iwanuma Mill**
Newsprint, printing and writing paper
- 7 Nakoso Mill**
Business communication paper

- 8 Fuji Mill (Suzukawa)**
Business communication paper, industrial paper
- 9 Fuji Mill (Fuji)**
Newsprint, printing and writing paper
- 10 Fushiki Mill**
Newsprint, printing and writing paper
- 11 Iwakuni Mill**
Printing and writing paper, business communication paper, papermaking pulp
- 12 Komatsushima Mill**
Business communication paper
- 13 Yatsushiro Mill**
Newsprint, printing and writing paper, business communication paper

Nippon Daishowa Paperboard Co., Ltd.

- 14 Nippon Daishowa Paperboard Tohoku Co., Ltd.**
Linerboard and corrugated medium, printing and writing paper, papermaking pulp
- 15 Nippon Daishowa Paperboard Kanto Co., Ltd., Soka Mill**
Linerboard and corrugated medium, paperboard for containers, core paperboard, gypsum board base paper
- 16 Nippon Daishowa Paperboard Kanto Co., Ltd., Ashikaga Mill**
Linerboard and corrugated medium, core paperboard, pasteboard
- 17 Nippon Daishowa Paperboard Yoshinaga Co., Ltd.**
Linerboard and corrugated medium, patent-coated board, business communication paper, base paper for coated paper
- 18 Nippon Daishowa Paperboard Nishinippon Co., Ltd., Geibo Mill**
Linerboard and corrugated medium, patent-coated board, papermaking pulp, printing and writing paper, industrial paper
- 19 Nippon Daishowa Paperboard Nishinippon Co., Ltd., Kochi Mill**
Specialty paper

CRECIA Corporation

- 20 Tokyo Mill**
Facial tissue, bath tissue, paper towel, industrial-use products
- 21 Kaisei Mill**
Facial tissue, bath tissue, paper towel, industrial-use products
- 22 Kyoto Mill**
Facial tissue, bath tissue, paper towel, adult care products
- 23 Iwakuni Mill**
Facial tissue, bath tissue, paper towel

Kitakami Paper Co., Ltd.

Newsprint, industrial paper, linerboard and corrugated medium

KOYO PAPER MFG. CO., LTD.

Printing and writing paper, patent-coated board, bath tissue

Nippon Paper Industries USA Co., Ltd., Port Angeles Mill

Printing and writing paper

Paper-related Division

NIPPON PAPER-PAK CO., LTD.

- 1 SOKA PAPER-PAK CO., LTD.**
Liquid-packaging cartons, folding carton for packaging
- 2 EGAWA PAPER-PAK CO., LTD.**
Liquid-packaging cartons, laminated papers
- 3 MIKI PAPER-PAK CO., LTD.**
Liquid-packaging cartons
- 4 ISHIOKA KAKO CO., LTD.**
Liquid-packaging cartons, folding carton for packaging
- 5 Nakoso Film Co., Ltd.**
Film, household products

Nippon Paper Chemicals Co., Ltd.

- 6 Gotsu Works**
Dissolving pulp, CMC, yeast, ribonucleic acids, lignin, powdered cellulose
- 7 Iwakuni Works**
Lignin-related products, synthetic dispersant, synthetic organic polymer, chlorine and sodium hydroxide
- 8 Higashimatsuyama Works**
Optical films, recording media, materials for the printing and platemaking industries
- 9 Yufutsu Works**
Powdered cellulose
- 10 Komatsushima Works**
Ingredients for sweetener and cosmetics

Nippon Seitai Corporation

- 11 Asahikawa Mill**
Kraft paper bags
- 12 Maebashi Mill**
Polyethylene bags
- 13 Saitama Mill**
Kraft paper bags
- 14 Niigata Mill**
Kraft paper bags
- 15 Kyoto Mill**
Kraft paper bags
- 16 Kyushu Mill**
Kraft paper bags, polyethylene bags

17 Akita Jujo Chemicals Co., Ltd.

Papermaking chemicals, fermentation nutrition products and edible basidiomycetes (Maitake)

Housing and Construction Materials Division

PAL CO., LTD.

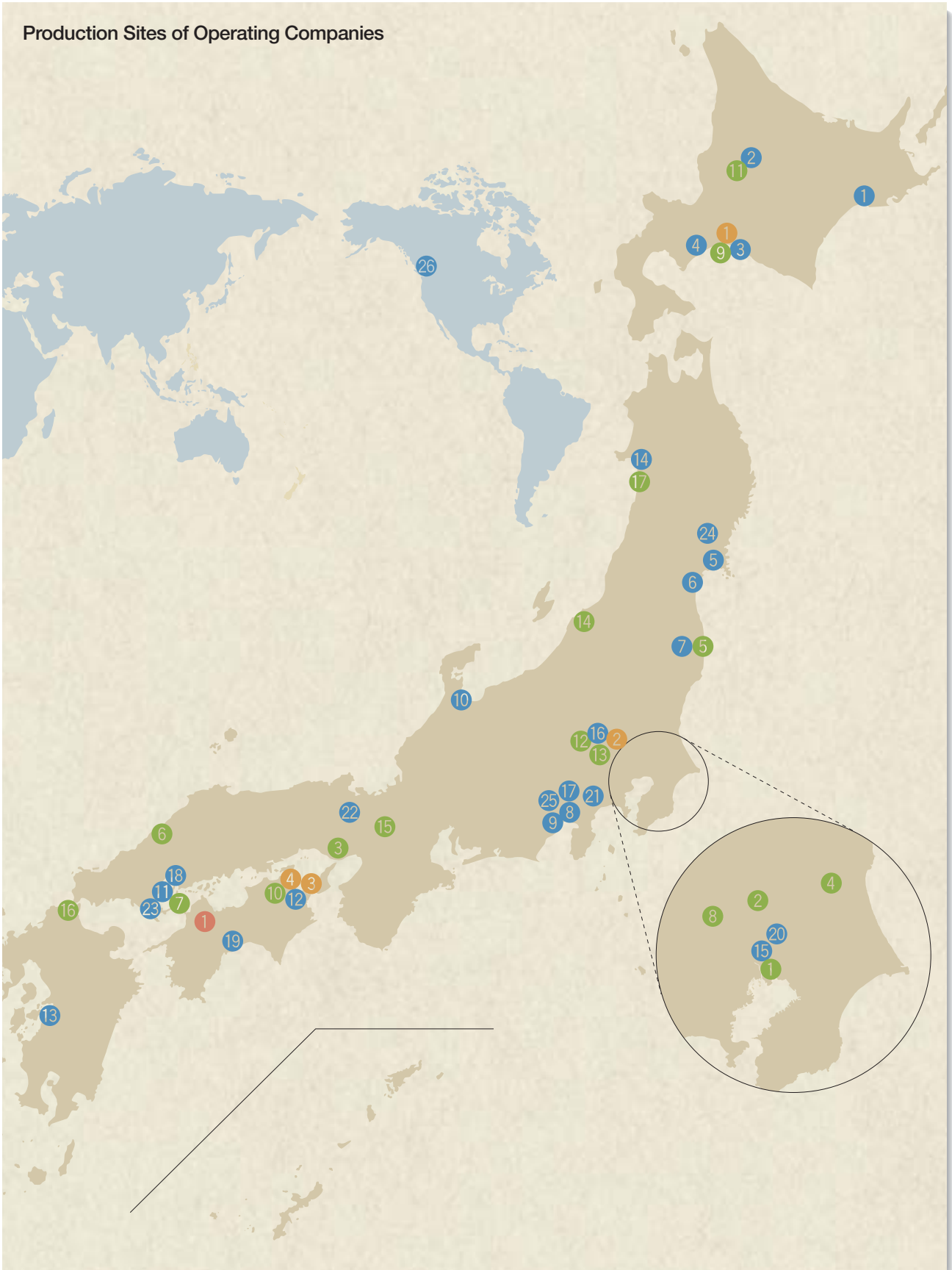
- 1 YUFUTSU PALKENZAI Co., Ltd.**
Building materials
- 2 KANTO PALKENZAI Co., Ltd.**
Building materials
- 3 PALTEC Co., Ltd.**
Building materials
- 4 N&E CO., LTD.**
Building materials

Other Division

SHIKOKU COCA-COLA BOTTLING CO., LTD.

- 1 Komatsu Plant**
Soft drinks and other beverages

Production Sites of Operating Companies



Top Management Commitment

We Are Aware of CSR as a Fundamental of Management to Be Reconciled with the Quest for Profits



M. Nakamura
Masatomo Nakamura
President

We aim to increase corporate value over the coming decade

In June 2005, I succeeded former President Takahiko Miyoshi as President of Nippon Paper Group.

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

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

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

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

this way, CSR is fundamental to management, which must act so as to reconcile CSR with the quest for profits.

Pursuing multi-faceted environmental protection that leads to corporate profits

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

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

white, its use in newsprint enables a higher proportion of recycled paper to be used. Personally, I would like to see the proportion of recycled newsprint reach 100%.

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

Working ever harder for our social responsibilities

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

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

Just as our past CSR activities have been integral to management, we will endeavor to enhance these activities, maintaining our attitude that there is always room for improvement. I would be delighted if, after reading the 2005 edition of our Sustainability Report, as many people as possible would let me know their opinions.

October 2005

Message from the CSR Director

Implementing Original Approaches to CSR That Reflect the Characteristics of Group Businesses



I. Nakajima

Iwao Nakajima
Executive Vice President

A year has already passed since we published our Sustainability Report in November 2004, a period in which the Nippon Paper Group's approach to CSR has been diversifying.

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

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

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

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

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

October 2005

Management Structure
Feature Story: Raw Material Procurement
In the Market
For the Global Environment
With Employees

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

Codes of Conduct

1. Fulfillment of social responsibilities

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

2. Fair, transparent and liberal corporate activities

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

3. Winning trust of customers

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

4. Strict handling of corporate information

- (1) We shall manage business information, intellectual property rights, customer information, personal information and other important internal information strictly and appropriately.

- (2) We shall not obtain or use information on customers or competitors in an illegal way.
- (3) We shall respect the intellectual property rights of others.

5. Fair and positive disclosure of corporate information

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

6. Active involvement with environmental issues

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

7. Desirable mindset of employees

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

Promotion of CSR Management

Management Structure
 Feature Story: Raw Material Procurement
 In the Market
 For the Global Environment
 With Employees
 In Society

Basic philosophy

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

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

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

companies and organizations, the Group participates in a variety of industrial groups.

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

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

Participation in the United Nations Global Compact

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

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

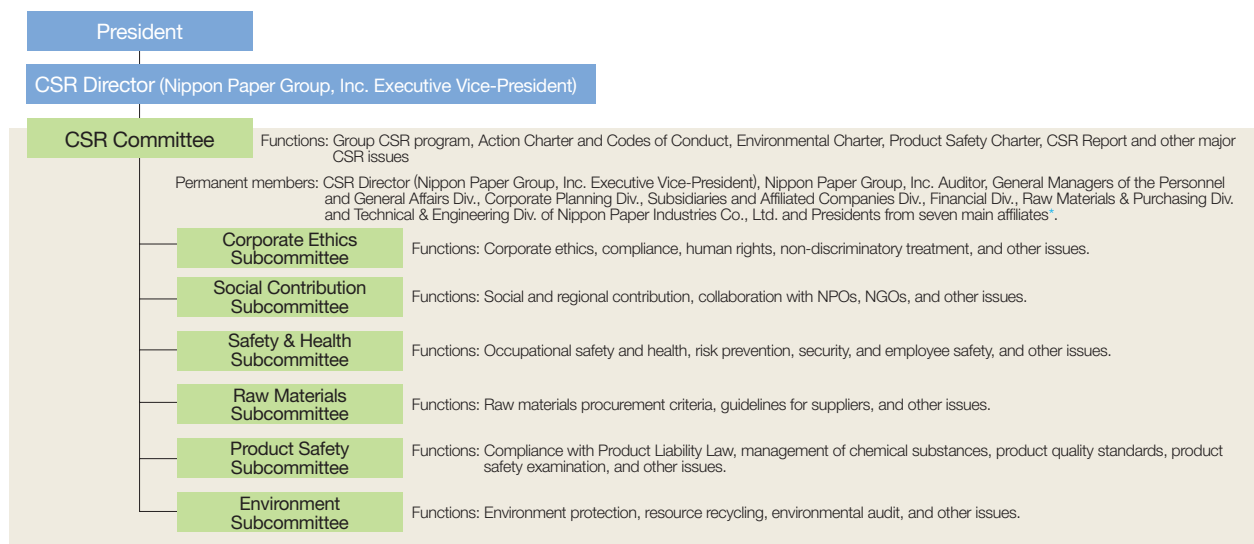
CSR promotion structure

As an organization to promote the implementation of CSR management, the

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

To play a role in the economic development and realization of a sustainable society in Japan and the world in collaboration with other

CSR promotion structure



* Seven companies mean Nippon Daishowa Paperboard Co., Ltd, CRECIA Corporation, NIPPON PAPER-PAK CO., LTD., Nippon Paper Chemicals Co., Ltd., Nippon Paper Lumber Co., Ltd., SAN-MIC SHOUJI CO., LTD., and Nippon Paper Development Co., Ltd.

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

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

■ Participation in WBCSD

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

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

sustainable production of forest products, and we communicate with stakeholders to find solutions.

Communication with stakeholders

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

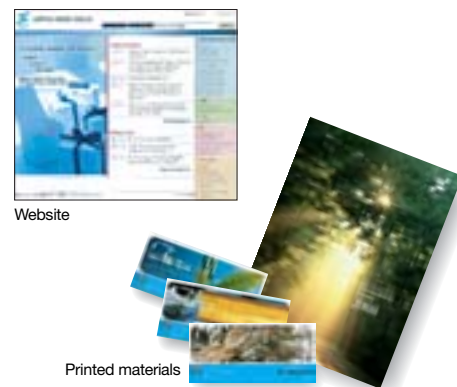
■ Enhancing communication tools

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

■ Participation in CSR Consortium*

To create opportunities to communicate with as many stakeholders as possible, Nippon Paper Group, Inc. joined the CSR Consortium in June 2004 for communication with stakeholders via the Internet. We have exchanged opinions with a number of people about such topics as "About paper" and "Working environment comfortable for women" and are endeavoring to reflect information obtained through these opportunities in our corporate activities.

* CSR Consortium: A CSR communication project hosted by DFF Inc. People in charge of CSR from member companies and stakeholders can communicate directly with stakeholders about a wide variety of topics. <http://www.csrc.jp/> (Japanese only)



Website

Printed materials

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, etc. ● 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.

Corporate Governance

Management Structure
 Feature Story: Raw Material Procurement
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Basic philosophy

Nippon Paper Group, Inc. places the highest priority on fair corporate management in order to enhance the transparency of business operations for a variety of stakeholders including customers, shareholders, investors, business partners, local communities, administrative agencies, and employees.

We, as a pure holding company, consider separating management and business operations, strengthening the growth strategy of each operating company, supervising and auditing the current status of profits and losses and major investment as the headquarter of group management, and fulfilling accountability to stakeholders as the

basis of corporate governance.

We will also ensure compliance by supervising and auditing the operating companies.

Structure in support of corporate governance

Group governance separating management and business operations

To practice group governance under the structure of separated management and business operations, each operating company shall be based on the principles of autonomy, independence, and self-responsibility for its business operations, and Nippon Paper Group shall minimize its involvement in business operations.

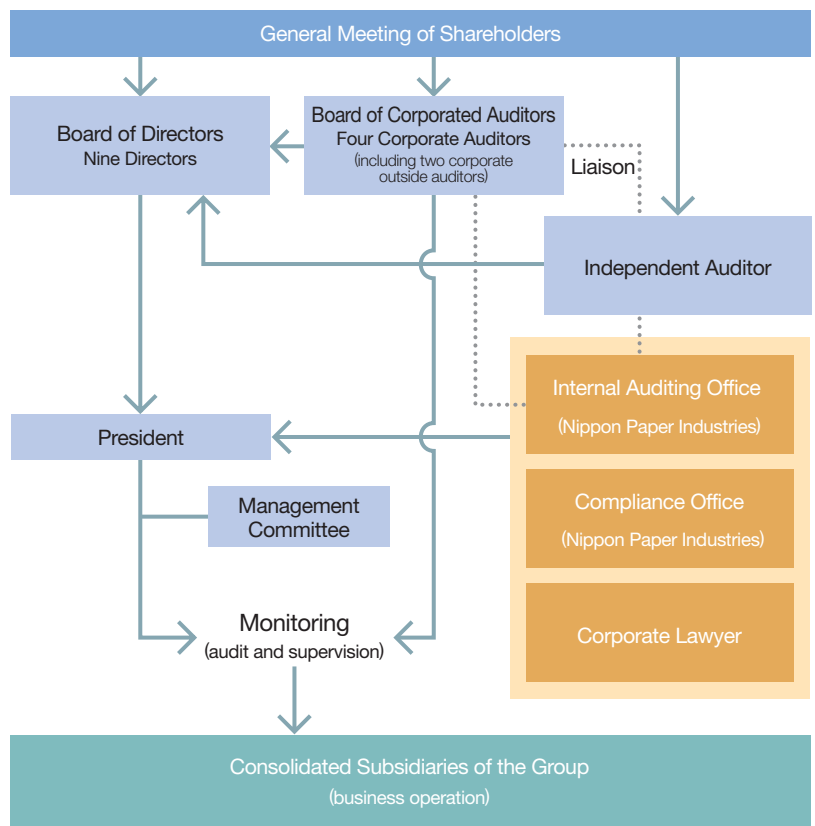
The Board of Directors assumes the role of establishing the basic business policy of Nippon Paper Group and the Group companies; ensuring compliance with laws, regulations, and the articles of incorporation; and making the important business decisions of the Group, as well as supervising the operation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

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

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

As of October 2005, Nippon Paper Group has nine directors but no outside director. The Board of Corporate Auditors consists of two internal corporate

Schematic structure in support of corporate governance



auditors and two outside corporate auditors.

Strengthening compliance

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

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

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

Compliance with Personal Data Protection Law

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

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

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

* Seven major operating companies* of the Group: Nippon Daishowa Paperboard Co., Ltd. CRECIA Corporation, NIPPON PAPER-PAK CO., LTD., Nippon Paper Chemicals Co., Ltd., Nippon Paper Lumber Co., Ltd., SAN-MIC SHOJI CO., LTD. and Nippon Paper Development Co., Ltd.



Website explaining personal information protection policies

Helpline

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

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

