

Feature Story: Raw Material Procurement

To Realize a Sustainable Global Society

The Current State and Prospects for Procurement of Raw Materials

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

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

Feature Story 2 CSR Activities Associated with Raw Material Procurement in the Pulp and Paper Business



Promoting CSR in the Supply Chain

A supply chain is one of the highest priority issues

One of the recent topics in the CSR field is no doubt the supply chain. For a company that conducts business in a global economy, it is required to pay attention not only to the company's activities but also to the activities of raw material and product suppliers. Now, such a company is also required to positively tackle issues related to labor, human rights, and the environment at the supplier side.

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



Yukuo Fukunaga
 Managing Director of
 Nippon Paper Industries Co., Ltd.
 Chairperson of the Raw Materials
 Subcommittee

Raw Materials Subcommittee established to seek the ideal in procurement of raw materials

The philosophy of the Charter on the Environment of the Nippon Paper Group is "coexistence with the natural environment as the basis for their sustainable corporate activities." Nippon Paper Industries has played the leading role in promoting overseas afforestation and making the most of the forest certification system. No crosscutting organization for considering the supply chain, however, has existed. Therefore, the Raw Materials Subcommittee was established to promote supply chain management paying attention to CSR, and it was designated as the supreme body for formulating the Group's policies. The Nippon Paper Group is committed to

procuring raw materials in a sustainable and stable way, giving special consideration to conservation of the global environment and the characteristics and culture of local communities.

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

Philosophy and Basic Policy Concerning Raw Materials Procurement

(established on October 5, 2005)

Philosophy

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

Basic Policy

1. Environmentally friendly raw materials procurement
 - (1) We procure woodchips, lumber and pulp from forests under sustainable forest management.*
 - (2) We use and deal with no illegally logged lumber and we support the eradication of illegal logging.
 - (3) We make active use of recycled materials to help build a recycling-oriented society.
 - (4) We make appropriate procurement of chemical substances in compliance with relevant laws and regulations.
 - (5) We build traceability systems to ensure the above policies are practiced throughout the supply chain.
2. Socially aware raw materials procurement
 - (1) We pursue fair deals with suppliers on equal terms.
 - (2) We ensure that the entire supply chain has appropriate human rights and labor practices.
3. Promotion of dialogues with stakeholders
 - (1) We engage in dialogues with stakeholders to improve the quality of our raw materials procurement in constant consideration of the environment and society.
 - (2) We proactively disclose information so that our initiatives are better known.

* Sustainable forest management:

Forestry management that not only considers economic rationality, but also environmental and social sustainability. The Nippon Paper Group defines sustainable forest management as follows:

- 1) Biological diversity is conserved.
- 2) The productivity and soundness of the green ecosystem is maintained.
- 3) Soil and water resources are conserved.
- 4) Diverse social needs are satisfied.

The Philosophy and Basic Policy established after thoroughly examining the opinions from stakeholders

The draft of the Philosophy and Basic Policy on procurement of raw materials was opened and comments from stakeholders were invited for approximately one month from June 17 to July 19, 2005. It was posted on the Web site and communicated to NGOs concerning the environment and human rights, suppliers, wood-related industry groups, and employees of the Core Group Companies. As many as 2,000 individuals and groups in total gave us

their comments during the period, which shows their significant interest in the supply chain of the Core Group Companies.

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

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

Flow of inviting comments on the Philosophy and Basic Policy



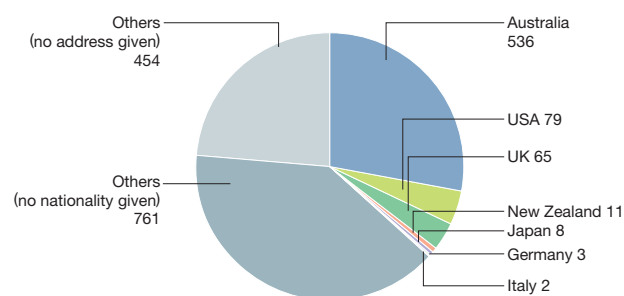
Summary of public comments

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

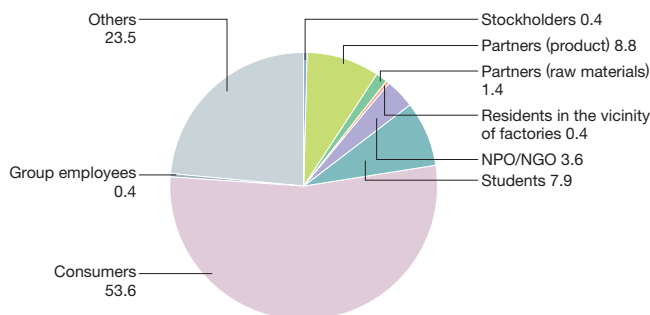
Classification of comments and ratio

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

Number of comments by area



Ratio by type of stakeholders (%)



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

For Stable Product Supply— Stable Raw Material Procurement

Current state of raw material procurement

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

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

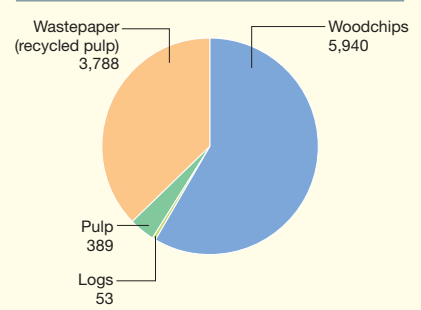
As the ratio of imported materials, namely hardwood chips, against total raw materials is high and stakeholders are keenly interested in this field, we are shifting the origin of imported hardwood chips to planted forests and certified forests. It is our plan that all domestic

factories of the Core Group Companies shall procure all imported hardwood chips, including raw materials from the businesses we are not involved in, from planted forests or certified forests by the end of 2008. In FY2004, the ratio increased approximately 4% compared to the previous year, achieving 80%.

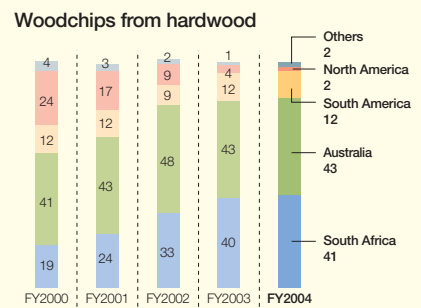
The hardwood woodchips and lumber procured in Japan originate from logging of softwood forests mixed with hardwood ones and sustainability utilized forests near human habitation. The softwood is from afforested trees or sawmill residues and thinned wood home and abroad.

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

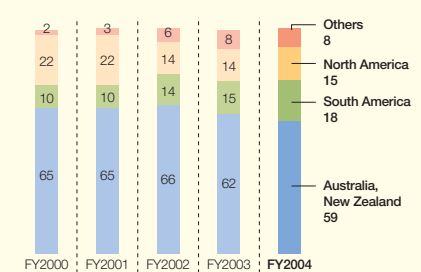
Consumption of raw materials originated from wood (unit: 1,000 BDT)



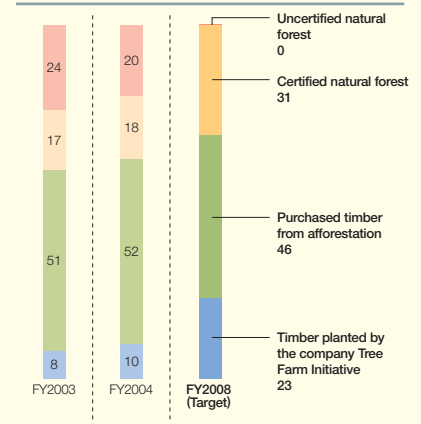
Imported woodchips by region (unit: %)






Woodchips from softwood



Imported hardwood resource by type (unit: %)



Overseas afforestation of Nippon Paper Industries Co., Ltd.

Country	Overseas plantation companies	Current status of the country of origin
 Australia	WA Plantation Resources Pty. Ltd. (WAPRES) (Jointly invested with Marubeni Corporation)	Australia has huge natural forests as well as afforested forests of 1.72 million ha (estimated as of the end of 2004) and is the world's largest exporter of woodchips for papermaking. From this country, the Core Group Companies procure woodchips from regrowth forests under sustainable forest management, woodchips made of cutoffs and thinned wood from afforested pines, and woodchips from afforested eucalyptuses intended for papermaking materials.
	South East Fibre Exports Pty. Ltd. (SEFE) (Jointly invested with ITOCHU Corporation)	
	Nippon Paper Treefarm Australia Pty. Ltd. (100% invested by Nippon Paper Industries: Controlling over the Tree Farm Project in Australia)	
 South Africa	Forest Resources Pty. Ltd. (Jointly invested by CTC and Sumitomo Corporation)	South Africa is one of the world's leading countries in the field of afforestation. It supplies approximately two-thirds of the total logs produced in the afforested areas as large as 1.34 million ha (as of the end of 2004) as raw material for pulp. The Core Group Companies purchase woodchips including FSC-certified ones produced from the plantations of two suppliers: Central Timber Cooperative Ltd. (CTC*) and the country's largest paper manufacturing company, Mondi.
 Chile	Volterra S.A. (Jointly invested with Sumitomo Corporation)	In the center of Chile, afforestation of pines and eucalyptus utilizing the area's mild climate represents a very active business. The total area afforested is approximately 2.1 million ha as of the end of 2004. The forest products exported from the area play an important role in supporting Chile's economy.

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

For the Global Environment—Protection and Maintenance of Forest Resources

Promoting and nurturing the "Tree Farm Initiative"

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

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

Some grown afforestation has already supplied woodchips. We are committed to achieve the target for 2008. When the afforestation is complete, we will only utilize full-grown trees each year to maintain a stable forest resource accumulation to ensure a sustainable supply.

Efforts to acquire forest certifications

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

In a forest certification system,^{*1} a third party organization certifies sustainable forest management. The Core group Companies set a target of acquiring forest certification for all domestic and overseas company-owned forests by the end of 2008.

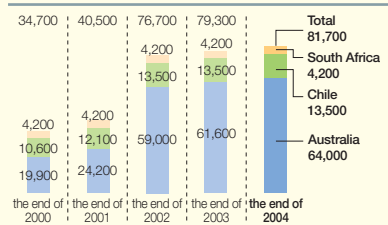
By the end of FY2004, all overseas company-owned forests acquired ISO 14001. Hereafter, we will endeavor to implement it as their system and promote acquisition of performance certifications most appropriate for the local forest. In addition to the company-owned forests, overseas afforestation projects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

Acquisition of forest certification

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	Certiforchile to be acquired
VTP/VIZ	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 to be acquired
BTP/AAP/ECOT	Acquired on March 30, 2005	AFS to be acquired

Company-owned forests (by area)	SGEC
Hokkaido	Planning to acquire the certification in 2005
Tohoku	Planning to acquire the certification in 2006-2008. (700ha of forest in Shizuoka was certified on March 24, 2005.)
Kansai, Chugoku and Shikoku	
Kyushu	Acquired the certification on March 24, 2005

Area of overseas afforestation by country (ha)



will endeavor to acquire certification from Japan's unique performance certification system SGEC.^{*2}

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

^{*1} There are two types of forest certification system certification (ISO 14001) and performance certifications (FSC, PEFC, AFS, etc.)

^{*2} SGEC stands for Sustainable Green Ecosystem Council.

Conservation of biodiversity

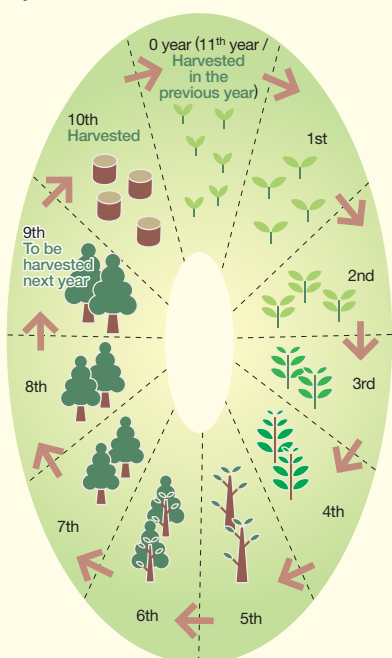
The goals of the management of the forest owned by the Core Group Companies are to nurture forests through sustainable forest management, to help forests exert their multifaceted environmental conservation functions, and to secure sustainable profit.

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

Data of domestic company-owned forests regarding biodiversity

IUCN category	Applicable area (1,000 ha)	Commercial forest area (1,000 ha)	Environmental forest area (1,000 ha)	Ratio of environmental forest area (%)
I a	0.0	0.0	0.0	—
I b	0.0	0.0	0.0	—
II	3.9	0.6	3.3	85%
III	0.0	0.0	0.0	—
IV	0.0	0.0	0.0	—
V	3.2	2.5	0.7	22%
VI	0.0	0.0	0.0	—
N/A	82.7	68.3	14.4	17%
Total	89.8	71.4	18.4	20%

Cycle of afforestation



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

Australia

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

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

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

SEFE has also played an important role as a major business in a small community in the south east of New South Wales in terms of the local transportation infrastructure and employment opportunity for more than thirty-five years since its

beginning of factory operation in 1969. The Australian Commonwealth Government and each state government concluded the Regional Forest Agreements (RFA), major policies of which are conservation of natural environment, industrial promotion by heightening the added value, and expansion of afforestation. According to the RFA, SEFE procures raw materials properly from the commercial forest areas defined for each region and contributes to the protection of areas with environmental and cultural value as well as natural habitats of protected rare animals and plants.



National meeting of the Community Business Partnership

South Africa

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



Land lent to residents (farmland and football ground)

Chile

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

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

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



Wooden bridge constructed in collaboratively with local administrative agencies