



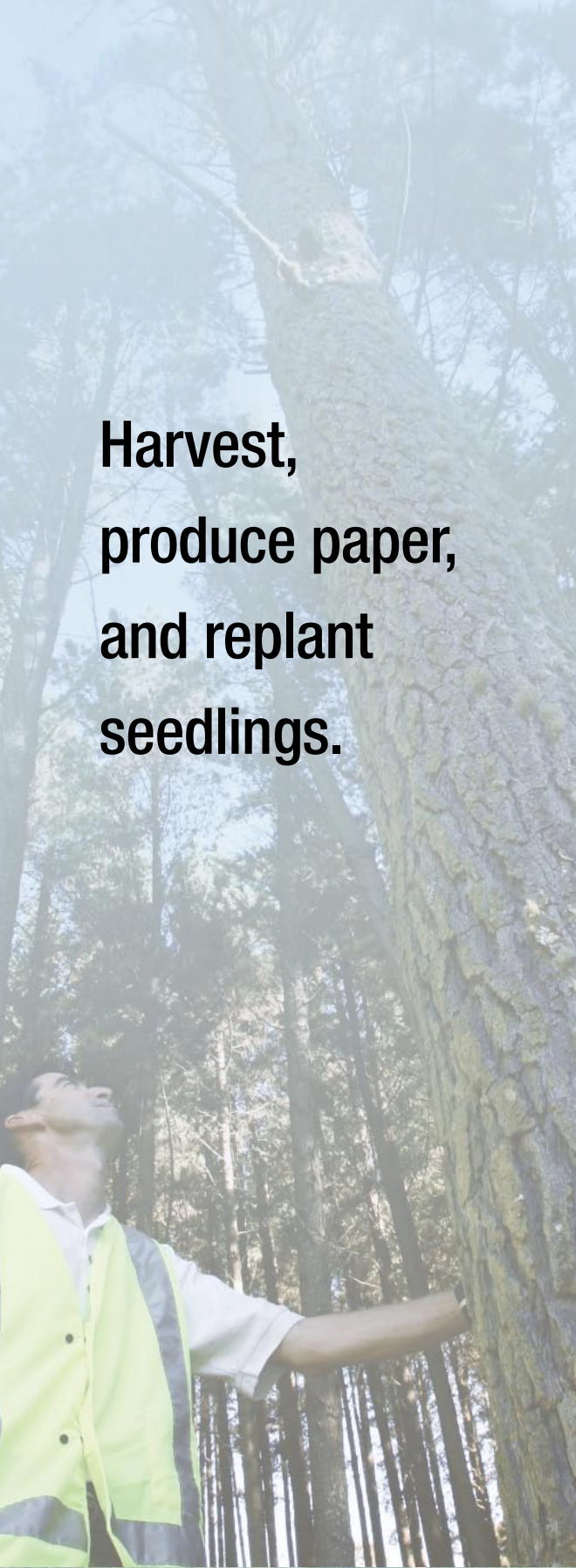
Green, Forever

# Oji Paper Group Environmental and Sustainability Report 2008

Listening to Stakeholders



**Harvest,  
produce paper,  
and replant  
seedlings.**



## Editorial policy

We understand that the smoke incident in 2007 and the falsification of recovered paper ratios that came to light in 2008 have caused great inconvenience to consumers and society at large. The Oji Paper Group deeply regrets these incidents. We have investigated the chain of events and causes behind them, and are working hard to ensure such episodes are not repeated. Seeking the opinions of various stakeholders, we are engaging in multiple discussions with the aim of transforming who we are as a company and restoring full confidence in the Oji Paper Group. This report prioritizes disclosing these processes in the first "Special Report" section.

President and CEO Kazuhisa Shinoda called for a stakeholder dialogue with outside experts and took to heart their forthright advice. We also held a roundtable discussion among mill and business managers, moderated by Mariko Kawaguchi, Senior Analyst, Management Strategy Research Department, Daiwa Institute of Research, Ltd. The participants investigated the falsification incident and put their heads together to consider what Oji Paper should do next.

To ensure that the incident is not merely forgotten and to improve communication with all stakeholders, we have established a new Environmental Communication Committee. This report also describes the Committee's activities.

The Oji Paper Group is determined to make the changes needed to ensure it can continue to fulfill its mission of providing a stable supply of paper using a recycling-based business model built on forest recycling, paper recycling, and initiatives to combat global warming.

## Period of coverage

April 1, 2007 – March 31, 2008

Except for numerical data, some sections may contain information from April 2008 and later.

## Reference guidelines

*Environmental Reporting Guidelines* (fiscal 2007 version), Ministry of the Environment, Japan. *Sustainability Reporting Guidelines 2006*, Global Reporting Initiative (GRI)

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### Papers used in this report

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**“I deeply regret that we falsified the percent of recovered paper contained in some of our products, and am totally determined to lead a united group-wide effort to regain the full trust of society.”**



*K. Shinoda*

**Kazuhisa Shinoda**

President and Chief Executive Officer  
Oji Paper Co., Ltd.

May 2008

### **Our commitment: Never again betray the trust of the public**

In January 2008, Oji Paper announced that there had been discrepancies between the actual and labeled content ratios of some recovered paper products for more than ten years. I realize that this incident caused great inconvenience and concern to many different parties, including customers and consumers, for which I offer my sincere apologies.

Oji Paper has been working for almost two years to correct the discrepancies in the affected products. Today, all of our products contain the percent of recovered paper that is shown on the label. However, the fact remains that, in the past, we produced and sold products that misrepresented the content ratios of recovered paper. This act betrayed the trust of many sectors of society—not only consumers who were proactively choosing environmentally friendly products, but also all the people who made daily efforts to recycle paper through the separation and recovery of used paper. Again, I offer my deep apologies for this betrayal.

As a company in the basic materials industry, it has been our fate to have few points of contact with end-consumers, and regrettably we were not sufficiently aware of the change in society's values regarding the environment. I think this is one factor that contributed to the falsification incident. It is also unfortunately true that we did not pay enough attention to the content ratio of recovered paper in each individual product and, lamentably, lacked respect for people's efforts to be

environmentally responsible, including consumers and all the volunteers who work diligently to recycle.

Traditionally, Oji Paper has been an aggressive proponent of environmental management, focusing on expanding tree plantations outside Japan and facilitating the use of recovered paper. We have also worked to reduce CO<sub>2</sub> emissions through efforts such as energy conservation and switching fuels. Despite all this effort, we still committed an act that betrayed the trust of society, and I profoundly regret that it happened.

Following the announcement of the incident, the company's outside directors led an investigation into the causes and a fact-finding survey. We revised the order-taking structure and established a checking system in the sales division. We strengthened the system of controls governing the content ratio of recovered paper at our mills, and started providing all employees with education on pertinent matters. We are systematically taking measures to prevent any recurrence of such an episode. We also intend to actively incorporate ideas from outside the company. We received a variety of advice on Oji Paper's policies for the future during a recent stakeholder dialogue with outside experts (see pages 11-14). We will devote ourselves to operations that place the highest priority on compliance so as to restore full confidence in Oji Paper as quickly as possible. All officers and employees are united in the effort to prevent any recurrence of this incident and to ensure that we do not betray your trust again.

### **Striving to secure a stable supply of resources and provide a sustainable supply of paper**

As we strengthen compliance, reduce environmental impact, and pursue environmental improvements, there is another important matter that we must address as a paper company: securing raw materials for papermaking. The demand for paper in Asia is forecast to increase every year. On the other hand, resources will likely become

more and more limited. A solid resource strategy is needed to provide a sustainable supply of paper.

Oji Paper's resource strategy is built on two mainstays: increasing the use of recovered paper and expanding its tree plantations outside Japan. We will raise our recovered paper utilization rate from 60.4% in fiscal 2007 to 62% by fiscal 2010. Although it is becoming more and more difficult each year to secure supplies of recovered paper, we are determined to increase our utilization rate by strengthening our procurement system and developing technology that will enable us to make use of recovered paper that is currently difficult to recycle.

We will also keep working to grow our tree plantation outside Japan. We are expanding the area of our plantations and will attain our goal of 300,000 hectares by 2010. At the same time, we will also expand our use of chips produced from carefully managed forest resources, including plantation timber and wood from certified forests. Our plan is to increase the percentage of plantation wood in our imported chips to 81% by fiscal 2011, and to raise the percentage of certified wood in our imported chips to 65% by fiscal 2011.

Furthermore, we will make effective use of timber grown in Japan. The use of thinned cedar and cypress, which account for much of the potential wood resources in Japan, is lagging behind. There are challenges, including the facts that turning thinned timber into chips is expensive and that it is difficult to use cedar as a raw material for making chips. Still, we are determined to increase the percentage of their use as raw materials for papermaking through technology development and to work with the government and other forestry industry firms to expand their use. With the cost of wood from outside Japan rising and the competitiveness of timber grown in Japan improving these days, Japan's forest industry is showing signs of recovery. Going forward, we will turn the use of timber grown in Japan into a solid business.

# Business Profile of the Oji Paper Group

## Business Overview

The Oji Paper Group is engaged in businesses in four main fields: pulp and paper products, converted paper products, wood and tree-planting, and other businesses.

### • Pulp and paper products

The Oji Paper Group's core business, this entails the production and marketing of all types of paper, from newsprint and other printing and communications papers to paperboard and tissue paper.

### • Converted paper products

This business encompasses the production and marketing of corrugated containerboard, paper containers, thermal paper, disposable diapers, and other specialty paper products.

### • Wood and tree-planting

This consists of the maintenance of our company-owned forests in Japan, operating tree plantations outside Japan, exporting, importing and processing wood, and greenery businesses such as landscaping and gardening.

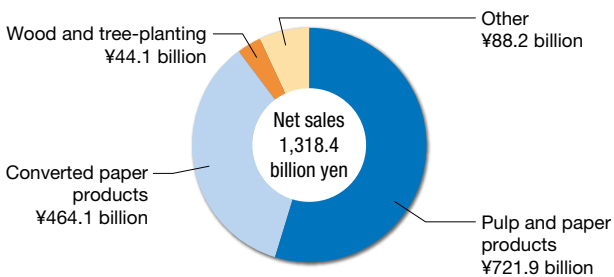
### • Other businesses

This field includes logistics, real estate, machinery, food-related businesses, as well as the management of hotels and concert halls.

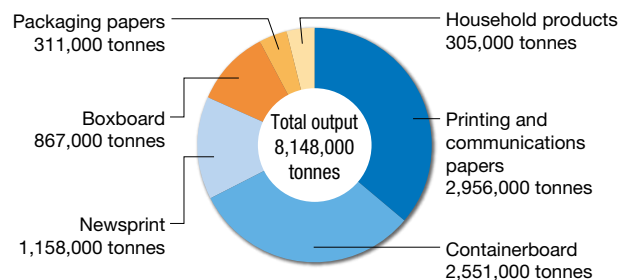
## Company Data

<b>Name:</b>	Oji Paper Co., Ltd.
<b>Headquarters:</b>	4-7-5 Ginza, Chuo-ku, Tokyo, Japan 104-0061
<b>Established:</b>	August 1, 1949
<b>Representative Director:</b>	Kazuhiro Shinoda, President and Chief Executive Officer
<b>Paid-in Capital:</b>	¥103,880 million
<b>Main Business:</b>	Manufacturing and marketing of pulp, paper and converted paper products
<b>Net Sales (fiscal 2007):</b>	Non-consolidated: ¥568,389 million Consolidated: ¥1,318,380 million
<b>Number of Employees (as of March 31, 2008):</b>	Non-consolidated: 4,452 Consolidated: 20,056

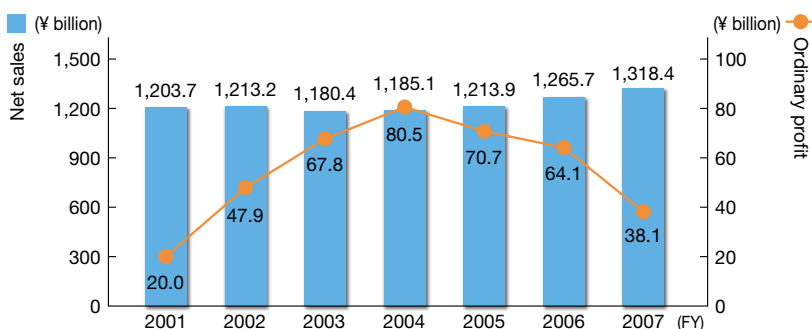
## Net Sales by Business (Fiscal 2007, Consolidated)



## Production by Product Type (2007, Consolidated)



## Net Sales and Ordinary Profit (Consolidated)



### Definitions of terms in this report

Oji Paper Co., Ltd.: Refers to the non-consolidated company.

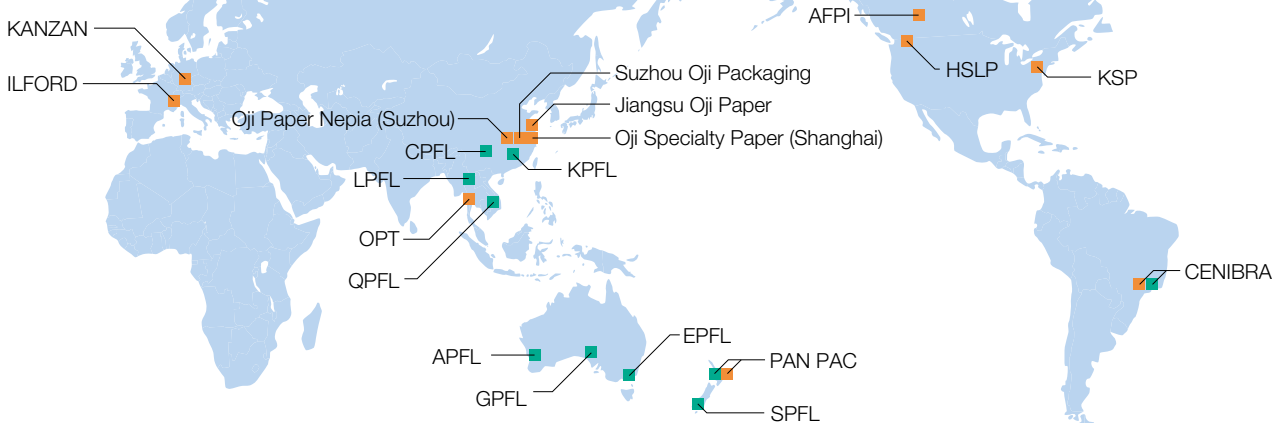
Oji Paper Group: Refers to Oji Paper Co., Ltd., and 88 companies including its major subsidiaries listed on the right.

Four primary subsidiaries: Oji Paperboard Co., Ltd., Oji Specialty Paper Co., Ltd., Oji Nepia Co., Ltd., and Oji Chiyoda Container Co., Ltd.

Group companies: Refers to all the companies of the Oji Paper Group, excluding Oji Paper Co., Ltd.

## Major Overseas Facilities

- Manufacturing facilities
- Tree plantations



KANZAN: Kanzan Spezialpapiere GmbH  
 ILFORD: Ilford Imaging Switzerland GmbH  
 CPFL: Guangxi Oji Plantation Forest Co., Ltd.  
 LPFL: Oji Lao Plantation Forest Co., Ltd.  
 OPT: Oji Paper (Thailand) Ltd.  
 QPFL: Quy Nhon Plantation Forest Company of Vietnam Ltd.

KPFL: Huizhou Nanyou Forest Development Co., Ltd.  
 APFL: Albany Plantation Forest Company of Australia Pty. Ltd.  
 GPFL: Green Triangle Plantation Forest Company of Australia Pty. Ltd.  
 EPFL: East Victoria Plantation Forest Company of Australia Pty. Ltd.  
 PAN PAC: Pan Pac Forest Products Ltd.  
 SPFL: Southland Plantation Forest Company of New Zealand Pty. Ltd.

AFPI: Alpac Forest Products Inc.  
 HSLP: Howe Sound Pulp and Paper Limited Partnership  
 KSP: Kanzaki Specialty Papers Inc.  
 CENIBRA: Celulose Nipo-Brasileira S.A.

## Major Facilities in Japan

### Oji Paper Mills

- |                  |                   |              |                 |
|------------------|-------------------|--------------|-----------------|
| 1. Kushiro Mill  | 2. Tomakomai Mill | 3. Fuji Mill | 4. Kasugai Mill |
| 5. Kanzaki Mill  | 6. Yonago Mill    | 7. Kure Mill | 8. Tomioka Mill |
| 9. Nichinan Mill |                   |              |                 |

### Oji Paperboard Mills

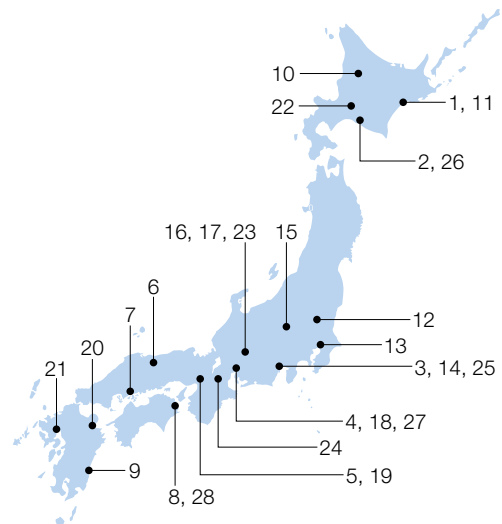
- |                 |                    |                |                      |
|-----------------|--------------------|----------------|----------------------|
| 10. Nayoro Mill | 11. Kushiro Mill   | 12. Nikko Mill | 13. Edogawa Mill     |
| 14. Fuji Mill   | 15. Matsumoto Mill | 16. Ena Mill   | 17. Nakatsugawa Mill |
| 18. Sobue Mill  | 19. Osaka Mill     | 20. Oita Mill  | 21. Saga Mill        |

### Oji Specialty Paper Mills

- |                 |                  |                |                |
|-----------------|------------------|----------------|----------------|
| 22. Ebetsu Mill | 23. Nakatsu Mill | 24. Shiga Mill | 25. Tokai Mill |
|-----------------|------------------|----------------|----------------|
- (Iwabuchi Facility, Fuji Facility, Daiichi Facility, Fujinomiya Facility, Shibakawa Facility)

### Oji Nepia Mills

- |                    |                 |                    |
|--------------------|-----------------|--------------------|
| 26. Tomakomai Mill | 27. Nagoya Mill | 28. Tokushima Mill |
|--------------------|-----------------|--------------------|



## Major Subsidiaries

### ■ Pulp and paper products

Oji Paperboard Co., Ltd.  
 Oji Specialty Paper Co., Ltd.  
 Oji Nepia Co., Ltd.  
 Oji Tsusho  
 Oji Recovered Paper & Market Pulp Co., Ltd.  
 Pan Pac Forest Products Ltd.  
 Jiangsu Oji Paper Co., Ltd.  
 Oji Paper (Thailand) Ltd.

### ■ Converted paper products

Oji Chiyoda Container Co., Ltd.  
 Mori Shigyo Co., Ltd.  
 Oji Tac Co., Ltd.  
 Oji Packaging Co., Ltd.  
 Oji Seitai Kaisha, Ltd.  
 Oji Kinocloth Co., Ltd.  
 Oji Interpack Co., Ltd.  
 APICA Co., Ltd.  
 Chuetsu Co., Ltd.

Mori Kamihanbai, Co., Ltd.  
 Kanzaki Specialty Papers Inc.  
 Kanzan Spezialpapiere GmbH  
 Ilford Imaging Switzerland GmbH

### ■ Wood and tree-planting

Oji Forest & Products Co., Ltd.

### ■ Other businesses

Oji Logistics Co., Ltd.  
 Oji Real Estate Co., Ltd.  
 Oji Cornstarch Co., Ltd.  
 Oji Engineering Co., Ltd.  
 Hotel New Oji Co., Ltd.  
 Oji Salmon Co., Ltd.  
 Oji Hall Co., Ltd.

# Report: Falsification of the Percent of Recovered Paper Contained in Recycled Paper Products

These pages provide a brief report on the sequence of events and causes leading to Oji Paper's falsification of the percent of recovered paper contained in its recycled paper products, as well as the internal reforms the company is undertaking to ensure it never happens again.

## Overview

In January 2008, a comprehensive internal investigation revealed that the percent of recovered paper contained in recycled paper produced and marketed by Oji Paper Co., Ltd., and Oji Specialty Paper Co., Ltd., was still being falsified—in some cases, since the early 1990s—despite the efforts of some within the company since 2005 to stop the practice.

Oji Paper would like to take this opportunity to repeat its sincere apologies for the great inconvenience this falsification has caused users, consumers, and all other affected parties.

## How the falsification was discovered, and the formation of an investigative team

Immediately after announcing the results of an internal investigation in January 2008, the company formed a special investigative team consisting of outside executive officers and corporate attorneys to conduct a fact-finding study, uncover the causes of the falsification, and recommend measures to prevent a recurrence. On February 20, 2008, the team announced the results of its investigation, detailing the causes of the falsification. The team's report was based on a variety of information sources including: a review of information on transitions in production systems and the addition of recovered paper processing equipment; quantitative surveys of all available numerical data from April 2006 onward; and interviews with the people involved. Below is a summary of the team's findings.

### Investigation results 1

#### Origins and subsequent growth of the problem

The investigation found that the falsification of the percent of recovered paper ("content ratio") began in 2000 for printing paper and in the early 1990s for PPC (copy paper).

Oji Paper launched its first 100% recycled paper products—the Green 100 Series—in April 1997. At that time there was no falsification. However, in 2000 the recycled paper production system changed significantly when production was transferred from the Edogawa Mill, which had been handling large quantities of wood-free recovered paper, to other mills. Following this change, the procurement of wood-free recovered paper became very difficult, making it hard for the company to maintain the required brightness. To close this gap, the percent of recovered paper contained in some products was reduced. At the time, this was not perceived as a problem by the people involved. Later, the company, locked in intense competition with its rivals over the quality of 100% recycled paper products, launched new coated paper products with enhanced brightness. These new products required a switch to larger paper machines capable of producing premium-quality products. With these changes, the production capacity of the paper machines exceeded the capacity of the deinked pulp (DIP) equipment, and priority was given to maintaining quality and supply by lowering the

percent of recovered paper used. With PPC (copy paper), the primary cause of the falsification was the technical inability to blend enough DIP into products and still produce the high level of quality demanded by customers.\*

As time went on, the market for recycled paper with high percentages of recovered paper continued to dramatically expand, especially after Japan's Law on Promoting Green Purchasing came into force in January 2001. To meet this demand, the company gradually increased the capacity of DIP equipment or took quality measures, but was still unable to handle the increase in sales, which was outstripping the capacity of its DIP equipment. Falsification grew as a result. Various efforts to correct the problem began within the company in 2006. Despite this, in the period from April to September 2006, the content ratio of recovered paper was still being falsified in 29% of all recycled paper products. This was the beginning of the end of the most pervasive falsification.

\* The quality demanded of PPC is different than that of normal printing paper, as high quality is demanded not only in terms of brightness and elimination of impurities but also in ease of conveyance through copy machines (i.e., the ability to make copies smoothly without the paper getting jammed, even at high speed or when doing double-sided printing, which is technically difficult, since paper tends to curl when the sheets are heated to high temperatures during printing).

### Investigation results 2 Causes

Below, the causes of the problem and its growth are classified based on a comprehensive analysis of the information gained in interviews and the results of the investigation described above.

#### ● Causes by type of paper

Pattern 1: Representative example: Responding to rapid increases in sales volume of the Green 100 Series (quantity cause)

1. Limitation of raw materials (capacity of DIP equipment, volume of procurable recovered paper)
  - The capacity of DIP equipment was overrun by a sharp increase in production or by temporary congestion.
  - The procurement of recovered paper, especially wood-free recovered paper, became difficult depending on the location of the mill.
2. Changed production systems (expanded production at inadequate mills, etc.)
  - Production was set up at mills with little DIP equipment capacity and mills that had difficulty procuring sufficient quantities of recovered paper in order to handle increasing sales volumes.
3. Unreasonable acceptance of orders (expanded acceptance of orders without consideration of raw material limitations and production capacity)

Pattern 2: Representative example: Demand for increased quality (increased brightness, fewer impurities, etc.) in the Green 100 Series (quality cause 1)

1. Responding without careful consideration to customers' demands for increased quality comparable to competitors' products
  - Customers sought an increase in quality to the same level as competitors' products with higher brightness and fewer impurities, and the company responded by blending fresh pulp without careful consideration.
2. Corporate culture unable to admit technological shortcomings
  - The corporate culture made it very difficult for anyone to say that Oji Paper was unable to produce products of the quality that rival companies seemed to be able to achieve.



3. Corporate culture unwilling to lose orders by not meeting demand  
**Pattern 3: Representative example: Pictorial postcard paper, ink jet postcards (quality cause 2)**

1. Products that were, in fact, technically impossible
  - These products had such high quality requirements that it was technically impossible to meet the specified content ratio even if only high-quality wood-free recovered paper was blended into the pulp.
2. Situation in which orders were not received unless products included recycled paper
  - In a situation in which orders for a product that was being produced by other companies were not received unless the nominal content ratio was achieved, the company unfortunately accepted orders for products that it could not produce.
  - At first, the company was blending wood-free recovered paper into the pulp. But, due to circumstances in which procurement was difficult and a lack of knowledge of the definition of recovered paper, there was a misunderstanding that blending broke from within the mills into the pulp created recycled paper.
3. Corporate culture resistant to turning down repeat orders

**Pattern 4: Representative example: PPC**

Combination of the above quantity cause and quality causes 1 and 2.

#### ● Causes common to all product classes

1. Insufficient compliance awareness
  - Normal quality standards (brightness, level of impurities, etc.), delivery times, and quantity were emphasized as factors leading to potential client complaints, but the content ratio of recovered paper was not a subject of complaints. This made it too easy to give priority to quality, delivery times, and quantity.
  - It is practically impossible for customers to verify the content ratio of recovered paper, and so some people involved believed that falsification would not become a problem.
  - Multiple testimonies were obtained in the interviews that there was a lack of awareness about the content ratio of recovered paper.
2. Shortcomings of management systems and poor communication
  - There was no system in the mills for checking for falsified content ratios of recovered paper and no system of checks by sales organizations at headquarters.
  - There was poor communication; for example, salespeople made verbal promises to customers about the content ratio of recovered paper and then failed to convey this information correctly to the mills, and the mills lowered the content ratio of recovered paper depending on operational circumstances and produced products without informing salespeople.
3. Insufficient perception of social changes
  - While there was awareness of the use of recovered paper, there was insufficient recognition of the strong environmental awareness of consumers and the accompanying changes in their consumption behavior for recycled paper products.

### Investigation results 3

#### Chronology of steps taken to correct the problem

##### ● Efforts of the Paper Business Division

According to the results of interviews, the obstacle to discovering and dealing with the falsification earlier were the scant awareness of compliance before the start of compliance initiatives within the company in 2004 and the organizational changes in the 1990s following two mergers.

Around 2002, some employees in the sales department noticed that the amount of recovered paper included in recycled paper sold by the company was actually greater than

its recovered paper processing capacity. These employees requested the technology department to conduct an investigation, recognized that falsification was indeed taking place, and reported it to the head of the Paper Business Division. However, the situation was not immediately changed, in part due to the perceived need to meet existing commitments to customers. Later, the Quality Control Department called for a correction of the situation. Again, a choice was made to prioritize keeping supply commitments with customers, at the expense of honesty about the content ratios.

In 2003, the company established a Corporate Compliance Office. An employee in the technology department who received compliance training outside the company in 2005 heard that individuals could potentially be held responsible if problems like this were left unresolved. This employee and the above-mentioned employees in the sales department formed a project team in the Business Division to correct the situation and started working on the issue. After conducting a half-year investigation into what was really taking place, this team began to resolve the problem gradually, for instance, by proposing substitute products to customers. It was difficult to make much progress in some cases due to the pressure to maintain relationships with customers. With top management strongly emphasizing compliance, the team members sometimes virtually forced the corrections upon customers, citing "company policy." In some cases, however, this resulted in lost orders, when customers' understanding could not be obtained. Thus, in January 2008, there were still some falsified products remaining. As of June 2008, the content ratios of recovered paper in all Oji Paper products are accurate as shown.

##### ● Efforts of the Communications Paper Business Division

As the result of an organizational restructuring in October 2004, PPC and other products were transferred from the Paper Business Division to the Communications Paper Business Division. At that time, the head of the Communications Paper Business Division received a report about falsification from the person in charge and immediately instructed people to work out a way to fix the problem, focusing on technological solutions. Corrective measures were gradually introduced starting in 2006. As in the case described above, a project team to correct the problem was launched within the Business Division and substitute products were proposed to customers. In addition, measures were taken in terms of equipment, and production was stopped at mills without adequate facilities and transferred to other mills. During the course of making corrections, the company responded to the situation by utilizing the available capacity of DIP equipment at other mills, transporting and using DIP from other mills regardless of the additional cost, and blending wood-free recovered paper into pulp. In January 2008, however, there were still some falsified products remaining. As of June 2008, the content ratios of recovered paper in all products are accurate as shown.

# Establishment of an Organized System of Checks to Ensure Falsification Never Happens Again

## Strengthening of systems

Oji Paper developed measures to prevent a recurrence based on the investigation of the causes leading to the falsification of recovered paper products. The group is strengthening its systems and conducting verification at every stage, from the acceptance of orders through the supply of products containing recovered paper pulp, to ensure that this kind of betrayal of trust never happens again.

### ● Revision of system for accepting product orders

First of all, we changed our internal documentation system in the sales department, which now includes a verification method at the time of the acceptance of orders. Sales staff must specify the required content ratio of recovered paper pulp in the registration document that is issued when a customer requests the development or improvement of products and in the quality specifications that are used to provide quality instructions during production. The person in charge must confirm in advance and approve the content ratio of recovered paper pulp that should be observed.

### ● System for verifying the content ratio of recovered paper pulp during production

Management in the mills of the content ratio of recovered paper pulp during production requires even more detailed verifications. One factor behind the occurrence of the falsification is the fact that transactions were taking place based solely on paper manufacturers' self-proclaimed content ratios of recovered paper pulp. It is important for paper manufacturers to establish reliable management systems. At the same time, systems need to be developed to enable business partners who purchase paper products to verify the content ratio based on defined standards.

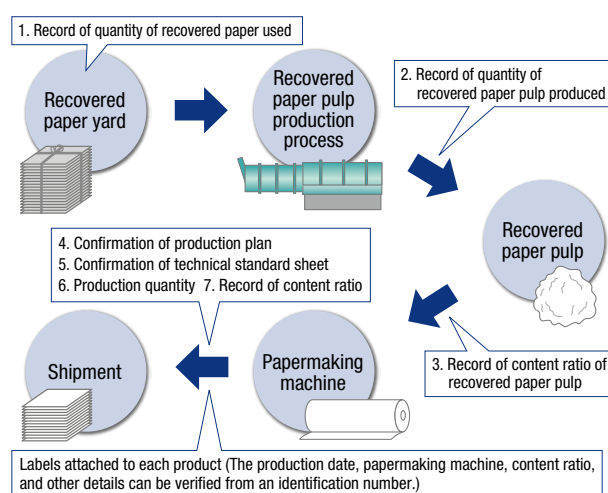
The Japan Paper Association established the Committee to Consider the Falsification Issue. The committee discussed systems for verifying the content ratio of recovered paper pulp during production and decided in April 2008 that the industry as a whole would work on adopting a system for verifying these content ratios. In this verification system, customers as well as paper manufacturers can verify at various points in the process that recovered paper is being used appropriately by confirming the type and quantity of recovered paper raw material used, the capacity of equipment to manufacture recovered paper pulp, and the balance of the quantity of recovered paper pulp used in paper products (figure 1).

### ● Management and auditing of the content ratio of recovered paper

The Oji Paper Group has ensured that everyone at the relevant business sites is thoroughly familiar with the details of this new verification system, prepared a Procedure Manual for Managing the Content Ratio of Recovered Paper Pulp, and has been operating the system since July 1, 2008. In developing these procedures and carrying them out, we established an internal audit committee that periodically checks to make sure that content ratios are being managed properly. At business sites that have acquired ISO 14001 certification, the procedures

have been made part of the environmental management system. This framework enables regular auditing by outside auditing bodies and ensures continuous strict operation of the system. Recognizing that the production and shipping of products containing recovered paper pulp is an activity that affects customers' purchasing of environmentally friendly products, the Oji Paper Group is determined to make every effort to prevent further falsification and to supply products containing recovered paper pulp that can be used with confidence.

**Figure 1** Process for Verification of the Content Ratio of Recovered Paper Pulp



## Efforts to reform Oji Paper's corporate culture

While it is important to have a system for checking the content ratio of recovered paper, it is equally important to raise the awareness of the employees who will operate that system. In response to the insufficient awareness of the importance of compliance that was one of the causes of this incident, we are educating employees to give the highest priority to compliance in their work. Specifically, following by the smoke incident in July 2007, management has been giving lectures at each mill. In September 2007, we revised the Oji Paper Group Behavior Standard (see page 26), establishing detailed rules that employees must follow in their daily work. We are strengthening compliance efforts every day, including having all compliance leaders hold regular training sessions and compliance meetings at each workplace (see page 28).

Further, in June 2008, we established an Environmental Communication Committee with the company president and other executives serving as advisors, with the aim of strengthening communication in and outside the company. This move was taken in response to the insufficient recognition of social changes, which was one of the causes of the falsification incident, as well as the lack of consumers' perspectives and inadequate information disclosure, which were pointed out in a stakeholder dialogue (see pages 11-14). More details about this committee are provided on page 59.

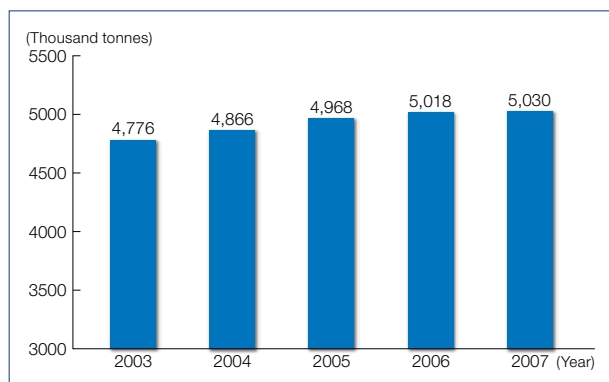
# Paper Recycling at Oji Paper

## Oji Paper's policy: Maximum possible use of recovered paper

The Oji Paper Group remains committed to its paper recycling policy of maximum possible recovery and overall use of recovered paper. In 2007, the group used approximately 5.03 million tonnes of recovered paper (26.5% of the recovered paper used in Japan; graph 1), and the group's products overall contained 60.4% recovered paper. The use of recovered paper must be promoted from the twin perspectives of recycling as much reusable material as possible and reducing the volume of waste.

The recycling of paper means to reproduce pulp—the raw material for paper—from recovered paper. As paper recycling grows, wood resources—the raw material for fresh pulp—are saved. The paper industry is supported by forest resources, which grow thanks to the blessings of the sun. The key when using forest resources is that the amount used does not exceed the amount grown. The amount of forest resources used is reduced through paper recycling, while the amount of forest resources grown is increased through forest recycling. We think of this as “extending the product lifetime of pulp, the raw material of paper.” Today, each Japanese person consumes approximately 250 kg of paper and paperboard in one year. Without paper recycling, this would all have to come from forest resources. If the recycling of pulp—the raw material for paper—can be performed four times, then the use of forest resources can be reduced by 75%. Oji Paper is committed to continuing to make maximal use of recovered paper, which is one of Japan's valuable resources.

**Graph 1** Volume of Recovered Paper Used by the Oji Paper Group



## Aiming for a total recovered paper utilization rate of 62% by fiscal 2010

The Oji Paper Group believes that it is more important to maximize the total volume of recovered paper utilized by the group, rather than focusing on the content ratio of recovered paper in every single one of its products. The environmentally responsible thing to do is to recover as much paper as possible and to carefully match the quality of the

recovered paper used for raw material to the grade of the paper to be produced.

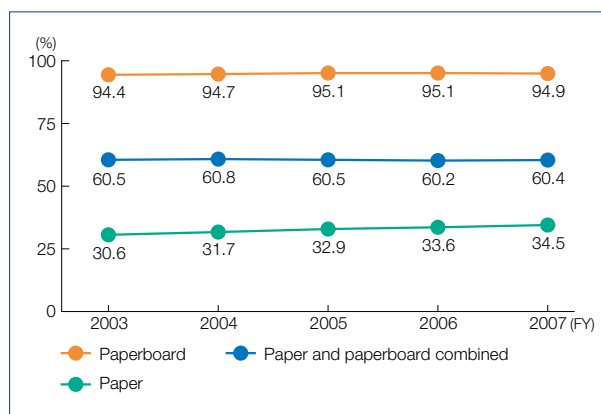
Paper recycling in Japan started soon after World War II with containerboard and paperboard. In 1958, the Fuji Mill was the first mill in Japan to install paper recycling equipment and to establish deinking techniques for removing ink from recovered paper. Since then, it has become possible to blend recovered paper into a wide range of paper varieties, all the way up to high-grade printing papers. We use high-quality recovered paper to make printing papers and copy papers and use other recovered paper that cannot be recycled into printing papers for quality reasons such as color and amount of extraneous material (dirt and ink) to make containerboard and paperboard. By aggressively promoting this system of cascade use, in which the use of recovered paper is separated depending on the quality of paper to be made, the group has been maximizing its recovered paper utilization rate.

We have set the goal of raising our recovered paper utilization rate to 62% in fiscal 2010. Increasing the content ratio of recovered paper to higher levels than ever before will be the challenge in attempting to achieve this goal. We will address this issue from various angles, including using more types of recovered paper that have never been recycled before.

With a view to ensuring a stable supply of recovered paper, Oji Recovered Paper & Market Pulp Co., Ltd., is working to achieve stable procurement and achieve highly efficient distribution of recovered paper by centrally managing the procurement of recovered paper for the Oji Paper Group.

On the technology front, we are working to increase the quality of recovered paper pulp despite the falling quality of recovered paper. These efforts include installing new equipment for more efficiently removing extraneous material with lower energy consumption, considering chemicals that can be used effectively in the deinking process and designing more efficient production flows. True to its belief in the importance of the maximum possible recovery and overall use of recovered paper, the Oji Paper Group will continue to promote paper recycling in the future.

**Graph 2** Oji Paper Group's Recovered Paper Utilization Rate



## Stakeholder Dialogue

# Re-examining Oji Paper's Business Model

The trust society had in Oji Paper was severely damaged when it was revealed that the company had been falsifying the percent of recovered paper contained in its recycled paper products for years. How could this type of incident ever have occurred? What were the causes? On May 20, 2008, Kazuhisa Shinoda, President and CEO, and Hirokazu Ishii, Corporate Officer and Deputy General Manager, Paper Business Division, Oji Paper Co., Ltd., met with five outside experts who have provided valuable feedback to Oji Paper in the past. Reflecting on the falsification, the participants in this dialogue discussed how the Oji Paper Group ought to proceed, and what it could do to make a fresh start.



### A deeply disappointing betrayal of trust

\* Honorific titles are omitted in text.

**Shinoda:** First of all, I would like to apologize for our falsification of the content ratio of recovered paper. I am truly sorry that Oji Paper betrayed the trust of society in this way. I profoundly regret what took place, and, as the chief executive, I am compelled by a great sense of urgency to improve our company. Please let me ask you to be very frank with us about what we need to do to reform our management.

**Ishii:** We formed an internal project team and started to work on correcting the situation, but that is hardly an excuse for the misconduct. I deeply regret the terrible thing we did. In the days and months ahead, I am determined to change things and would ask for your guidance.

**Koujitani:** At the Green Purchasing Network, we had a real sense of partnership with the paper companies in introducing green purchasing. So, to be frank, we really felt betrayed. It also took too long from the identification of the incident to the disclosure of the information. The whole situation is extremely disappointing. However, nothing will come from dwelling on the past. I am more concerned with how to calm the chaos in the green purchasing market and formulate new measures for the future.

**Shibuya:** Honestly, this was a truly unforgivable incident. At the same time, I regret that my company, which uses large amounts of paper, had insufficient knowledge of the use of recovered paper and technologies for using it to make recycled paper. We asked for higher and higher content ratios of recovered paper without fully realizing what it took to increase those ratios. Be that as it may, I still feel that Oji Paper, as an industry leader, should have better educated its users on these points.



**Matsuda:** I think there were two problems. One is the falsification of data. This is a serious problem within the corporate culture at Oji Paper. If the root of this is not identified and removed, the same thing is almost certain to happen again and again. The other issue is the ideal content ratio of recovered paper, which is certainly a debatable question. This issue is essentially distinct from the problem of falsification, and the two need to be discussed separately.

**Koujitani:** I think society’s reaction would have been different if Oji Paper had been the only company involved in this incident. But the fact that 17 companies committing the same kind of falsification generated misunderstanding, and the whole situation made it difficult for each company to communicate its thoughts to consumers.

**Shinoda:** One thing I would like to make clear is that the assertions in the mass media that there was industry-wide collusion were untrue. The paper industry is marked by a predisposition to fierce, even excessive, competition. While it is true that people ended up promising the moon out of a desire to avoid losing orders to competitors, it is absolutely not the case that companies worked together to falsify content ratios.

### How to improve the corporate culture that enabled the falsification

**Niihara:** Based on my experience with examining various corporate scandals, I think that the corporate cultures at companies where scandals occur share some common features. They almost always have a compartmentalized, closed organizational structure, an easygoing “white collar” mindset among employees that excuses brash expediency for short-term gain, arrogance about their brand, and a gap between their own actions and how their company is viewed by the public. I think it would be good for the company to take this incident as an opportunity to rethink itself and internally discuss the issues in order of priority.



**Kawaguchi:** I took a mill tour the other day, and got a strong sense that the people work as a very close-knit community. Mill employees are all full-time. Company-owned houses are nearby. It seems that there are not many chances to interact with outside people. Although many of the employees were enthusiastic, good people, I felt that it was a very closed world. This poses serious issues when it comes to the capability to correct problems in the corporate culture.

**Niihara:** Employees tend to lose confidence when a scandal occurs. Why don’t you create standards of conduct with the input of all employees, starting by rethinking the company’s *raison d’être*? This is one way to get ideas from the young people who may be leading the company 30 years from now. I recommend bringing people together in various locations, including the mills, to discuss your response. It is important not to try to forget the incident, but rather to find ways to learn from it.

## Participants

### Outside experts



**Mariko Kawaguchi**  
Senior Analyst, Management  
Strategy Research Department  
Daiwa Institute of Research, Ltd.



**Kazuya Koujitani**  
Executive Director / Secretary  
General  
Green Purchasing Network (GPN)



**Kazuhiro Shibuya**  
Venture Service Industry Group:  
Group Publisher  
Nikkei Business Publications, Inc.



**Hiroaki Niihara**  
Director for Corporate  
System Division  
Ministry of Economy,  
Trade and Industry



**Fusako Matsuda, Ph.D.**  
Lead Assessor of Greenhouse  
Gas Emissions and Environmental  
Management Systems,  
President  
Environmental Economics Institute, Inc.



**Kazuhisa Shinoda**  
President and  
Chief Executive Officer  
Oji Paper Co., Ltd.



**Hirokazu Ishii**  
Corporate Officer,  
Deputy General Manager  
Paper Business Division  
Oji Paper Co., Ltd.

### Oji Paper Co., Ltd.

### The gap between the company and consumers enabled the falsification

**Shinoda:** Like many paper companies, I must admit that Oji Paper has traditionally had very little contact with consumers. This caused us to be slow in recognizing changes in consumer values. I think this is the main factor enabling the falsification to go on for such a long time. However, it is our job in management to understand consumers, precisely because of this lack of contact. This means that the blame falls absolutely on the delinquency of our management team. I am also aware that we have a problem with the openness of our organizations. Conventionally, paper companies have not been very open, but this has been improving in recent years. Nevertheless, we have not been keeping up with the speed at which society is changing.

**Koujitani:** Having little contact with consumers just sounds like an excuse. I thought that listening to the market was a common practice for companies. You really must make an effort to close the gap between Oji Paper's values and the values demanded by the market.

**Niihara:** It may be true that you, like any firm in a basic materials industry, have little contact with consumers. However, even if there is a big gap between consumers and the company, there should still be many ways to gather information, such as directly selling some products or seconding employees to sales companies.

**Kawaguchi:** I think it would help to work much more closely with NGOs and even to take the bold step of seconding employees to them. Then, how about communicating with outside stakeholders and really taking their views into account.

**Shinoda:** We will do our best to make these changes, with your valuable guidance.

### Should a paper company use the environment as a selling point or not?

**Shinoda:** I have always said that the environment should not be used in sales and marketing—that is, it should not be used as an appeal point in promoting sales. I think that the use of the environment in sales and marketing brought us the outcome we are currently facing. It was a mistake for an industry that has not been in a position to monitor changing consumer values to try to expand sales by boasting about environmental performance.

**Matsuda:** That opinion sounds very backward. The current practice at companies that have acquired ISO 14001 certification is to procure paper based on environmental considerations.

**Niihara:** The paper industry is not the only basic materials industry using the environment as a selling point. The number of consumers who will buy products even at high prices if they are good for the environment actually is increasing.

**Shinoda:** It is from an ethical perspective that I say that the environment should not be used in sales and marketing. Unfortunately, however, the demands of ethics and the desire to make a profit are not always compatible in the business world. In any case, especially in the case of the paper industry, which faces so many factors beyond its control, such as the supply of recovered paper, I don't think it should be used in sales and marketing.

**Shibuya:** I think I understand the risk of using the environment in sales and marketing. I think the decision to purchase products should be made based on a company's overall environmental performance, rather than looking only at individual products.

**Koujitani:** Right now the market demands environmental consideration in everything. Paper has become broadly accepted by society as a synonym for environmentally friendly products. This is because it is a product that everyone uses and one of the few that can complete the recycling loop. It has a tremendous value, as it can also be used in environmental education. I would ask you to appreciate anew how valuable paper is, and to conduct your business with environmental responsibility.



### Oji Paper must provide a definition of environmentally friendly paper

**Koujitani:** Right now the green purchasing market is in turmoil. Until now, the market demanded paper with high content ratios of recovered paper, without regard to whether it is ultimately good for the environment or not. So, now that it cannot get the supply, the market is trying to redefine what is good for the environment. Please discuss what kind of paper really has a minimum environmental impact and publicize that information without delay. We too will take action to quickly disseminate the new standards to the market.

**Shinoda:** The discussion about paper with a low environmental impact is not over. There are many ways of looking at it, and there are different views even within Oji Paper. In

particular, it is difficult to calculate the quantitative environmental impact of making virgin pulp. Personally, I think it is better to use recovered paper by blending it more widely into a variety of products, rather than using it to make some 100% recycled paper.

**Shibuya:** Now, I wonder why users were so particular about the content ratio. Rather than the content ratio in individual paper products, I think that total amount of recovered paper is more important. It would be good for you, as a paper company, to announce that you intend to increase the total amount of recovered paper used.

**Ishii:** Arguing over which paper is good or bad gets you nowhere. I would like people to evaluate us based on the initiatives we take as a company and use that as a basis for making purchasing decisions.

**Kawaguchi:** Whether it is a good idea or not to debate the environmental performance of paper on a micro level at all is a valid question. I think that is fine with cars, for example; but, in the case of paper, I think that discussion should have been on a macro level right from the beginning.

**Matsuda:** I agree. When the discussion starts from recycling, it always turns to the content ratio, which is putting the cart before the horse. Without looking at the overall picture from a macro point of view—that is, asking what is the worldwide extent of forest resources that can be used for paper and how can they be supplemented with recovered paper—we end up heading in the wrong direction. Going forward, I think discussions need to adopt this perspective.



**Shinoda:** Thank you for all the good advice you provided today. From here on, we will take this incident as an opportunity to spend time within the company discussing how to address environmental issues and considering what actions to take. Listening to what was said today, I truly feel sorry for throwing a cloud over society's growing environmental awareness, and have redoubled my resolve to get to the root of these issues. I am determined to ensure that we keep disclosing as much information as possible and sincerely request your continued guidance.



# Mill and Business Managers' Roundtable

## Taking an Objective Look at the Falsification Incident

The falsification of the percent of recovered paper contained in recycled paper products caused a great deal of inconvenience and betrayed the trust of society. On May 27, 2008, seven mill managers and business department managers gathered together for a roundtable discussion. The company invited Mariko Kawaguchi, Senior Analyst at Daiwa Institute of Research, Ltd., to serve as moderator to help the group be objective and consider the future.

### Naivety regarding falsification cited as one cause

At the opening of the roundtable discussion, Ms. Kawaguchi offered her impressions after touring Oji Paper's Kasugai Mill and participating in the stakeholder dialogue (see pages 11-14). "Although paper is such a familiar product, we do not recognize the difficulty of making paper and the actual situation surrounding the paper recycling business, and there is a wide gap between our understanding and the industry's recognition." She started the discussion with the question, "How could this falsification have continued without correction for over ten years?"

In response, a number of participants mentioned naivety regarding the gravity of falsifying the content ratios. Mr. Kondo said, "Before we knew it, the content ratio of recovered paper was no longer a spec that had to be delivered, but just a sales point." Messrs. Sata and Tottori both made statements to the effect that, "Unlike brightness, impurities, and other visible quality factors, the content ratio of recovered paper is not obvious. So, priority ended up going to the maintenance of visible quality."

Mr. Kizuka explained, "Until now, the biggest task of the production floor was to deliver the level of visible quality demanded. Changing the content ratio of various raw materials was seen as one means of delivering the quality expected. While there was an awareness of the need to blend recovered paper into the pulp, using a different content ratio was not thought of as such a big problem." He also indicated, "I think the problem continued on without anyone calling for it to stop precisely because of this lack of conscious intent to deceive."

Mr. Ase recalled, "I noticed that sales was marketing paper with overstated content ratios, but we left it as is when told that that situation could not be rectified right away. A plan was made to correct it, and I regret that we could not respond immediately. Unfortunately, we placed less priority

on end consumers than some other stakeholders, and we lacked effort when it came to understanding their views.

Mr. Ishii explained, "The need for recycled paper rose rapidly after the Green Purchasing Law came into force in April 2001. Production capacity did not keep up with this demand, but this fact was not conveyed honestly to consumers. Orders that were impossible to fulfill were accepted even though they should have been declined." Regarding quality, Mr. Yamakita said, "Fundamentally, both paper quality and the content ratio of recovered paper cannot be simultaneously increased forever. There are limits. We should have communicated this accurately to consumers and sought their views. Instead, we displayed arrogance by deciding on our own that a certain content ratio should be good enough." Many participants in the discussion expressed regret that the company had chosen to be deceitful instead of explaining honestly that what cannot be done simply cannot be done.

Mr. Kondo spoke about the need to empower the company to improve itself. "In the beginning, we worked to make paper that met demands in terms of both quality and content ratio. That became increasingly difficult when complaints regarding quality increased and a shortage of recovered paper resources emerged. Falsification, once tried, became part of a continuing pattern. The same thing could happen again if we do not have a mechanism for monitoring our own behavior." Ms. Kawaguchi ventured the opinion that "it seems you did not have a means of correcting situations, even those that started small."

### Definition of environmentally friendly paper needs to be disseminated

Ms. Kawaguchi pointed out, "It seems that within the paper industry this incident is being seen mainly as a compliance problem, not a problem in which recovered paper was wasted,

## Participants

### Moderator



**Mariko Kawaguchi**  
Senior Analyst  
Management Strategy  
Research Department  
Daiwa Institute of  
Research, Ltd.

### Oji Paper Group



**Hiroshi Kizuka**  
Corporate Officer  
Kasugai Mill  
Oji Paper Co., Ltd.



**Shuichi Sata**  
Corporate Officer  
Nichinan Mill  
Oji Paper Co., Ltd.



**Atsushi Yamakita**  
Corporate Officer  
Fuji Mill  
Oji Paper Co., Ltd.



**Yoichi Ase**  
Corporate Officer  
Kure Mill  
Oji Paper Co., Ltd.



**Hirokazu Ishii**  
Corporate Officer,  
Deputy General Manager  
Paper Business Division  
Oji Paper Co., Ltd.



**Masaya Kondo**  
General Manager  
Tokai Mill  
Oji Specialty Paper Co., Ltd.



**Yuji Tottori**  
General Manager  
Sales Department II  
Communications Paper  
Division  
Oji Paper Co., Ltd.





or in other words, not as an environmental problem. But, the understanding outside the industry is different. The majority see the incident as an environmental issue, in the sense that consumers who thought they were buying environmentally conscious products were betrayed.” She then invited the group to consider how best to conceptualize the relationship between environmental problems and the paper industry.

While making maximum possible use of recovered paper is a must, the paper industry no longer supports the claim that paper with a high content ratio of recovered paper is always the most environmentally friendly. Out of consideration for the environment, the Oji Paper Group has emphasized increasing its total group-wide use of recovered paper rather than maximizing the recovered paper used in individual products. In this way, the group makes the optimal use of recovered paper by matching the quality of recovered paper to the intended grade and use of the paper being made from it.

Ms. Kawaguchi reminded the group, “But there is still a deep-seated misunderstanding among consumers that paper with the highest content ratio of recovered paper is the most environmentally conscious. I think that most people think that they can help reduce environmental impact by purchasing such paper.”

This statement elicited more expressions of regret and some ideas about the challenges Oji Paper must take on in coming years. Mr. Kizuka mentioned, “It is certainly true that as a company, and as an industry, we did not adequately disseminate the information needed to dispel this misunderstanding. When developing a paradigm for truly environmentally friendly manufacturing, one needs to look at the entire balance of raw materials, including wood taken from certified forests and thinned timber, not just recovered paper.” Mr. Ishii added, “I suppose we must explain things beginning with ‘why there is a need to use recovered paper,’ including the imperative to manufacture recycled paper from recovered paper in order to protect forest resources, even when the production process does not have the lowest environmental impact.”

In response to these arguments, Ms. Kawaguchi stated, “Paper is a very unusual product in that environmental quality can easily become a major selling point. For that reason alone, there is a need to convey proper information.” She described the need for continual dissemination of information that will enable consumers to judge what kind of paper is really best for the environment. This means revealing all specs related to environmental impact, including not only the content ratio of raw materials but also how those raw materials are procured and what the brightness is.

### System for introducing consumer opinions must be built

The lively exchange of views continued on the topic of the gap in sensibilities between the paper industry and consumers.

The group noted that one factor behind the recent incident was the lack of recognition in the industry that consumers today are looking not only for product quality, but also quality in the manufacturing process and level of environmental consideration.

Mr. Ishii offered, “Oji Paper’s business model is basically B-to-B, and so we do not have a great deal of contact with end consumers. In part because of this, we had not properly grasped consumers’ needs. If this incident had not occurred, I think we may never have known how big the gap was. Oji Paper needs to let consumers know what it is working on now and inform them of the kind of initiatives it is taking. Then, it needs to introduce the feedback received from consumers into its business operations.”

Ms. Kawaguchi raised this issue: “The existence of the wholesalers that stand between the manufacturer and consumers goes rather unnoticed from the outside. Even if consumers do not actually demand that much brightness in their paper, I imagine a “risk coefficient” of sorts is applied when those needs are conveyed to the manufacturer—that is, something like, ‘complaints will be unlikely if you make the paper about this bright.’ In other words, it seems that this sort of telephone game is being played, with agencies in the middle.” In response, Mr. Ishii reported that as one measure to correct this kind of situation, Oji Paper is proceeding with an initiative in which the contents of contracts in the supply chain from Oji Paper to agencies, wholesalers, and consumers are all being documented and verified.

Finally, Messrs. Sata and Ishii talked about future challenges and goals. Mr. Sata said, “I would like to build a system that enables us to be more sensitive to various trends. I also want to take this incident as encouragement to say ‘no’ when we need to and work harder to improve so that we can say ‘yes’ more often.” Mr. Ishii added, “There was insufficient communication with consumers, but before that, there was a lack of internal communication between production and sales. I want to increase that communication.” Ms. Kawaguchi then concluded the discussion, saying, “The flow of information was jammed at many places. Looking at the big picture now, I think that this had become a major problem and was the origin of the current incident. I would like to see you take this as an opportunity to ensure that information flows more smoothly while also proactively incorporating outside perspectives.”



Mariko Kawaguchi touring the Kasugai Mill.

“Although paper is such a familiar product, most people know little about the production floor.”

# The Unique Role of the Oji Paper Group

Papermaking starts with forest-making, and Oji Paper will keep following this natural cycle in its recycling-based business model.



## Papermaking starts with forest-making

Wood is the raw material for paper. In Japan today, 60% of the raw material used to make paper is recovered paper. Of course, to use recovered paper means recycling the wood fibers that paper was originally made from.

It takes long periods of time for forests, the source of wood, to grow. They are home to many animals, help to preserve water and enrich soil, and are essential to Earth's inhabitable climate.

When paper was a valuable commodity with limited demand, it was possible to achieve balanced use of timber without destroying the natural forests. However, the threat of deforestation became a real possibility following rising demand for paper. Accordingly, forest maintenance and tree planting became important tasks for the paper industry. We who understand the importance of forests and the difficulty of forest development sincerely hope that people the world over will treat paper as a precious item made from the forests that are a valuable asset for the Earth.

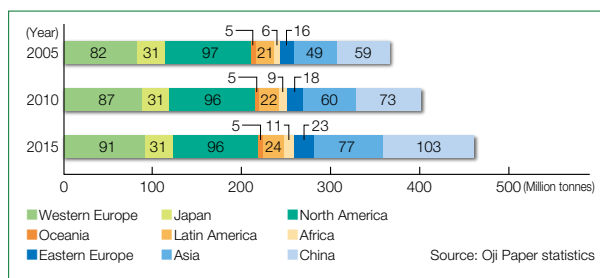
## Recycling-based business provides a stable supply of paper

Paper has long been considered a measure of culture. As a culture and economy develop and lifestyles become more affluent, per capita consumption of paper increases. In coming years, the demand for paper is certain to increase dramatically, particularly in Asia, which is achieving remarkable economic growth (graph 1).

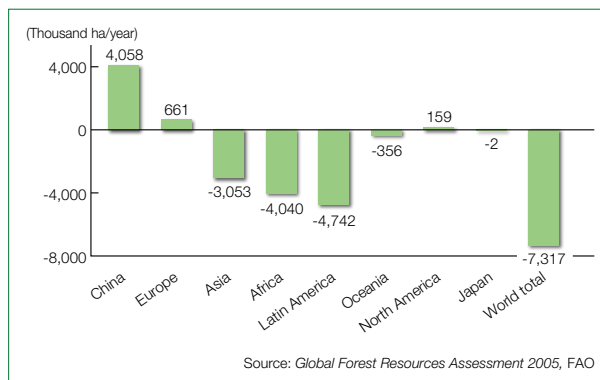
At the same time, total worldwide forest area continued to decline by approximately 7.3 million hectares per year from 2000 to 2005 (graph 2). The main reasons for this include excessive logging for fuel wood, development of large-scale farms and plantations, and inappropriate slash-and-burn agriculture.

We believe that the Oji Paper Group's social mission is to deliver a long-term, sustainable and stable supply of paper in a way that properly values the world's forest resources for the treasure that they are. This is why Oji Paper advocates and practices a recycling-based business model (figure 1).

Graph 1 World Paper Demand Forecast



Graph 2 Change in Worldwide Forest Area (average annual change for 2000-2005)



## Demonstrating a commitment to sustainability

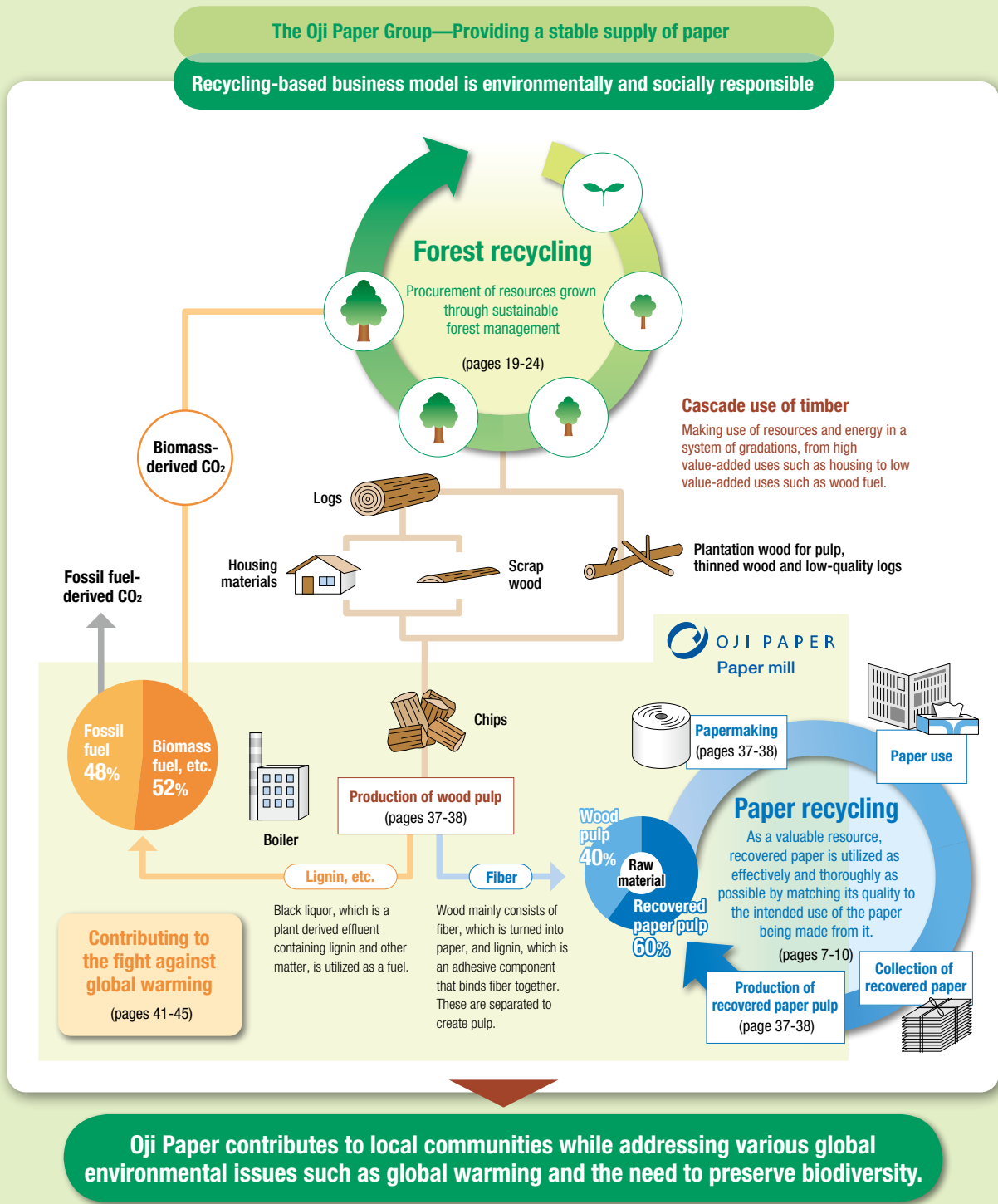
As a leader in the paper industry, the Oji Paper Group's responsibility is to contribute to the realization of a sustainable society.

We are dedicated to continuously undertaking initiatives that give due consideration to environmental and social needs, regardless of the time and cost. Such activities include forest management, expansion of tree plantations, effective utilization of recovered paper, and the fight against global warming. We are also aware that it is our duty to proactively disseminate information about these initiatives.

When it comes to current environmental issues, Oji Paper is determined to explain the adverse effects on the Earth of buying cheap paper that has a high environmental impact, and further, why environmentally friendly products are more expensive. The group wants to engage in a thoughtful dialogue with consumers about the social and environmental costs of paper.

**Figure 1** The Oji Paper Group's Recycling-Based Business Model

The Oji Paper Group is committed both to meeting the social demand for paper and working to protect the global environment. With Oji Paper's innovative business model, these two goals are not mutually exclusive. Oji Paper is fully engaged in forest recycling, paper recycling, and the fight against global warming.



# Forest Recycling

## Management Team Discusses Forest Management

We interviewed the managers responsible for the Forest Department and the Wood Material Department on the topic of Oji Paper's forest management. The discussion touched on how the Oji Paper Group will respond to the world's rapidly increasing demand for paper, and explored the possibilities for expanding tree plantations and the use of wood grown in Japan.

**The demand for paper has been increasing rapidly in recent years, especially in emerging markets. How is the Oji Paper Group responding to this trend?**

**Kawabe:** I believe that meeting the growing demand is one of our major social responsibilities as a paper company. We are systematically expanding our production structure, for instance, building an integrated pulp and paper mill in Nantong, China with the capacity to produce 1.2 million tonnes of printing paper annually. However, no matter how much we strengthen our production structure, it cannot be operated to capacity without a stable supply of wood, the essential raw material for paper. We are addressing this issue in two ways: by expanding our company-owned plantations, and by securing new plantation resources outside the group.

**Nishimura:** In recent years, demand for timber has been growing sharply, and not only in the field of paper. Forecasts show worldwide demand for timber outstripping supply. We can already see a trend toward resource nationalism, with several countries having dramatically increased export tariffs on all kinds of timber. In order to meet demand, the Oji Paper Group is looking to increase the area of its company-owned plantations and maximize its self-sufficiency in wood resources. Of course, we will also continue making maximal use of recovered paper.

**Oji Paper has established a goal of increasing the area of its tree plantations outside Japan to 300,000 hectares by fiscal 2010. How is that coming along?**

**Nishimura:** As of the end of fiscal 2007, the area of our tree plantations was 181,000 hectares. The competition for securing land for plantations is intensifying as a result of the recent increase in cultivation for biofuels and natural rubber. Further, the growth of plantation trees has slowed in some areas due to the droughts related to climate change. New plantations, of course, are subject to the same major risks. Despite these challenges, the Oji Paper Group's commitment to increasing its plantations remains unchanged, and we are doing everything we can to achieve our goal.

**More people have been calling for thinned timber from Japan to be used. What are your thoughts on this?**

**Nishimura:** Tree thinning needs to be implemented without delay to ensure healthy forests, which can help slow global warming. Thinned timber is also one form of Japan's valuable wood resources. However, the fact of the matter is that costs are prohibitive of directly processing logs from Japanese thinned timber into woodchips and using them as a raw material for paper. If we really want to encourage the use of thinned timber, a distribution system that can rival that of imported wood would need to be established, and it would have to be capable of reducing logging costs and ensuring a stable supply. Further—and this is not limited to just thinned timber—integrated use of timber would need to be encouraged, including uses other than paper, such as lumber, plywood, and biomass. I think that the structure of

### Hiroyuki Nishimura

General Manager, Forest Department  
Strategic Resource Management Division  
Oji Paper Co., Ltd.



### Azumi Kawabe

General Manager,  
Wood Material Department  
Strategic Resource Management Division  
Oji Paper Co., Ltd.



## The Oji Paper Group has always practiced sustainable forest management, and will always continue to do so.

Japan's forest industry needs to be changed—not just by the paper industry, but in cooperation with other industries, the government, and other concerned parties.

**Kawabe:** The Oji Paper Group is already making ample use of thinned larch and fir from Hokkaido. The challenge is how to expand the use of Japanese cedar, the thinning of which is lagging. Toward that end, we need to establish a stable supply at a competitive cost. Fortunately, we received a thinned timber model business proposal from the Forestry Agency and have started working on increasing supply to the Yonago Mill in the San'in region. We plan to roll out this model nationwide, wherever there is an Oji Paper mill. Although the quality of cedar is inferior as a pulp raw material compared to other softwood species, we would still like to do our best to use more of it at each mill.

**As a paper company, the utilization of forest resources is indispensable to Oji Paper's business, and the Oji Paper Group has committed itself to using only timber that has been produced through sustainable forest management. What specific initiatives are being taken to translate this commitment into action?**

**Nishimura:** Our company-owned plantations are operated while maintaining a careful balance between environmental, social, and economic factors, including paying due consideration to biodiversity. It is also our policy to obtain forest certification for all tree plantations. Outside Japan, our tree plantations are growing on the land of other countries. We have to ensure that residents near the plantations welcome them. We strive to build relationships of trust with residents by, for instance, digging wells and fixing up elementary school buildings. As for wood raw material coming from outside Oji Paper's own plantations, I think that it is vitally important to ensure the legality of the raw material, for instance, by making sure that we never buy illegally logged timber.

**Toward that end, supply chain management must be important, right?**

**Kawabe:** Traceability reports from suppliers are firmly in place for wood raw material, enabling us to identify from where and in what form raw material was shipped. I think thorough enforcement of this system is the only way to prevent the inclusion of illegally logged timber. Of course, the expectations of society change every year, and so we revise the format of reports accordingly.

**Nishimura:** But I want people to understand that there is a limit to supply chain management of timber. There are inevitably some factors that cannot be confirmed. Nevertheless, I want to keep improving the situation, even little by little, by obtaining the understanding and cooperation of suppliers. With that thought in mind, we continue to push our efforts forward.

**Are you gaining the cooperation of suppliers?**

**Kawabe:** Yes, I believe we are. At present, our contracts with suppliers clearly state that they must submit traceability reports and not include illegally logged timber in shipments. It was difficult when we first introduced these requirements, but we explained and were able to gain their consent.

**Nishimura:** The relationship between Oji Paper and its suppliers is one of equal partnership. Hence, the procurement policy we established in 2007 is called the Partnership Procurement Policy. Of course, we have to implement new policies like this collaboratively with our partners. So, I want to gradually improve each year with the full understanding of our suppliers.



## Procurement of Timber, the Raw Material of Paper

### Practicing environmentally and socially friendly procurement

The Oji Paper Group has established Wood Raw Material Procurement Guidelines to be followed when procuring wood raw material (graphs 1-3). In line with these guidelines and with a view to CSR procurement, we verify the status of suppliers' CSR implementation, make sure that illegally logged timber is not included in wood raw material, and confirm that resources are supplied from sustainably managed forests.

Moreover, we require all suppliers to submit traceability reports for wood raw material. Reports are submitted for each shipload of imported wood chips. For small-batch domestic wood, they are submitted once a year, and each truckload is confirmed to be free of illegally logged timber. Traceability reports are audited by a third party and the summaries are made public. This initiative is in agreement with Japan's Law on Promoting Green Purchasing, which was revised in April 2006.

#### Wood Raw Material Procurement Guidelines (Overview)

##### Basic Approach

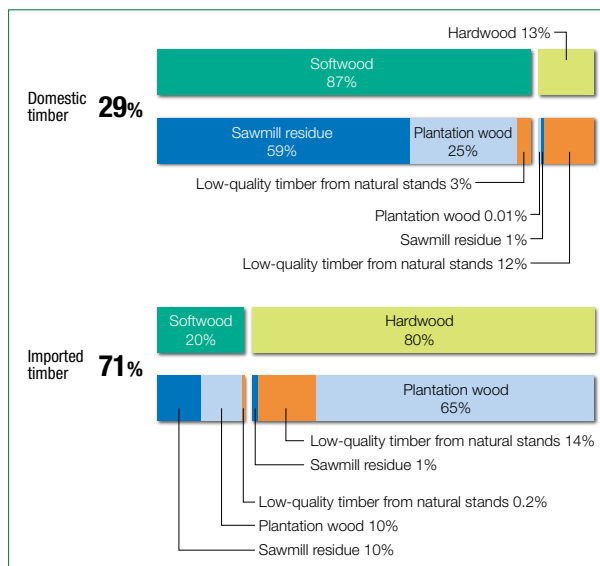
Wood used in making paper is a resource of excellent reproducibility. Through appropriate management and use, forest resources contribute to the prevention of global warming by absorbing and sequestering carbon dioxide (CO<sub>2</sub>) and to the preservation of biodiversity. Oji Paper will pursue CSR procurement when procuring wood raw materials, by acquiring resources grown through sustainable forest management, in accordance with the Oji Paper Group Partnership Procurement Policy.

##### Procurement Guidelines

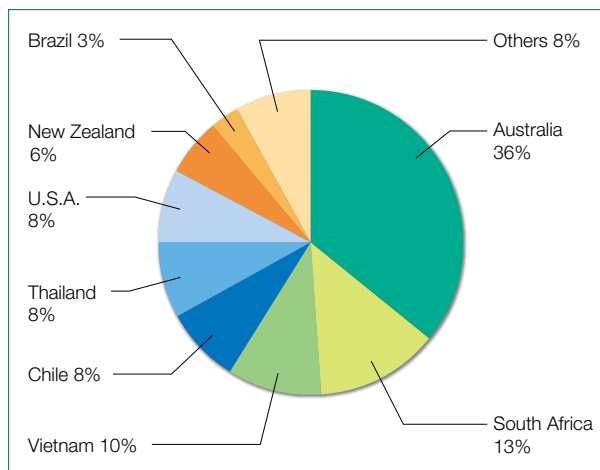
- (1) Expand procurement of wood from certified forests
- (2) Increase use of plantation trees
- (3) Utilize unused wood effectively
- (4) Verify that procurement is in compliance with laws and is environmentally friendly and socially responsible
  1. Implement monitoring of suppliers
  2. Ensure raw material traceability
- (5) Disclose information

\* Oji Paper will pursue CSR procurement when procuring pulp, in accordance with these guidelines and based on the Oji Paper Group Partnership Procurement Policy.

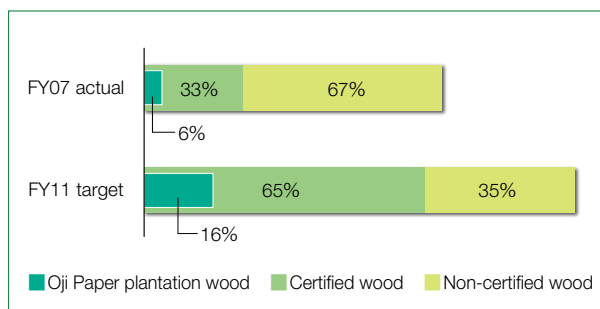
Graph 1 Procured Wood Chips (Fiscal 2007)



Graph 2 Sources of Imported Chips (Fiscal 2007)



Graph 3 Share of Wood from Certified Forests, of All Imported Chips



## Oji Paper promotes all the useful roles that forests play through the management and utilization of its company-owned forests.

### The Oji Paper Group's Company-Owned Forests

#### All company-owned forests obtain SGEC forest certification

By December 2007, the Oji Paper Group had obtained SGEC forest certification for the 173,000 hectares of its 381 company-owned forests from Hokkaido to Kyushu, excluding profit-sharing forests. SGEC upholds seven criteria for protecting forest environments. One of these, for example, is the preservation of biodiversity, which requires forests to be managed in such a way that their living richness is maintained. Oji Paper has met all seven criteria and obtained forest certification, but the company will continue improving the level of forest management through a process of annual management reviews. The Oji Paper Group is committed to managing its company-owned forests to ensure that they continue to play all the vital roles that forests should.

The Japan Forest Technology Association, which conducted our forest certification review, provided suggestions regarding education and training for employees about various topics, including biodiversity. In response, we prepared Red Data Book Field Guides in six prefectures, including areas under the jurisdiction of the Hokkaido Government Oshima Subprefectural Office and the Tokyo Metropolitan Government, and distributed them to employees and other workers in the forestry business. We will continue making these guides for other prefectures and plan to produce 30 in all.

\* SGEC forest certification: Sustainable Green Ecosystem (SGEC) forest certification is a mechanism for having an independent third party evaluate and certify that a forest is being well managed according to sustainable forest management criteria.

#### Have you heard of the fish called Sakhalin taimen?

The Sakhalin taimen is Japan's largest freshwater fish. It is also in the greatest danger of extinction. Two years ago, the International Union for Conservation of Nature and Natural Resources (IUCN) added the fish to its Red List of Threatened Species. Sakhalin taimen live only in Russia's Far East Region and in a few rivers in Hokkaido. The Sarufutsu River, which runs through the Sarufutsu Forest—the Oji Paper Group's largest company-owned forest (17,300 ha)—is one of these important rivers. Oji Paper is committed to forest management that pays due consideration to the protection of biodiversity. Accordingly, we cooperate with the Wild Salmon Center (WSC), members of the Sarufutsu Sakhalin Taimen Association, NPOs with professional knowledge in and outside Japan, and other experts to preserve a sound habitat for the Sakhalin taimen and prevent its extinction.



Sakhalin taimen from the Sarufutsu River, Hokkaido.



Akebonosou (*Swertia bimaculata*) photographed at the Hosono Forest in Kyoto.



Red Data Book Field Guides

#### Acquisition of SGEC forest certification by Oji Paper Co., Ltd.

##### Hiroshi Kita

Managing Director  
Japan Forest Technology Association

##### Expectations for Oji Paper Co., Ltd.

Forest certification in Japan lags far behind Western countries. I think that the fact that Oji Paper, which holds Japan's largest company-owned forests, took the initiative to acquire SGEC forest certification for all its company-owned forests will have a major impact on spreading forest certification in Japan.

##### Evaluation of the management of Oji Paper's company-owned forests

Oji Paper's company-owned forests are located from Hokkaido all the way to Kyushu. The company therefore holds various types of forests featuring diverse natural, social, and economic conditions. We reviewed its forest management practices at its main company-owned forests nationwide. We confirmed that, tailored to the local conditions of each of its company-owned forests, Oji Paper is working hard in the areas of timber production, conservation of natural environments including the protection of wild fauna and flora, and building positive relationships with local communities, for instance, by offering forest recreation opportunities.

SGEC reviews are based on the 7 criteria and 35 indicators of the Montréal Process. Suggestions are provided for each indicator when criteria are not met or when there are problems with the way in which they are met.

To help Oji Paper improve the management of its forests, we proposed points for improvement in the following areas: conservation of biodiversity, protection of endangered wildlife, education and training of employees regarding the conservation of biodiversity and other matters, and implementation of monitoring. However, no critical issues that would prevent certification were identified, and the company's forest management was evaluated as sufficiently meeting the criteria required by SGEC.

## The Oji Paper Group's Tree Plantations outside Japan

### Tree plantations that balance environmental, community, and economic needs

The Oji Paper Group started growing trees on plantations outside Japan in the 1970s. Since the 1990s, these plantations have been expanding steadily. With the aim of securing resources for the future, our goal today is to increase the area of our tree plantations outside Japan to 300,000 hectares by fiscal 2010. As of the end of fiscal 2007, the group has planted a total area of 180,000 hectares at 10 locations in six countries (graph 1, table 1).

The harvesting of trees on these plantations has already started, and the volume of chips produced from them is increasing. These chips are expected to account for 40% of our total import of chips when the trees on our future 300,000 hectares of plantations attain harvestable size.

We develop overseas tree plantations with careful attention to the balance among environmental, community, and economic needs. In Laos, for example, we form committees

made up of company staff, government officers, and village residents, who help us select plantation sites. Moreover, we are also working hard to obtain forest certification overseas, which we plan to acquire for all plantations in the future. Our aim is to preserve biodiversity and to ensure a stable supply of raw material by making sure that our plantations are sustainable.

Graph 1 Area of Tree Plantations outside Japan

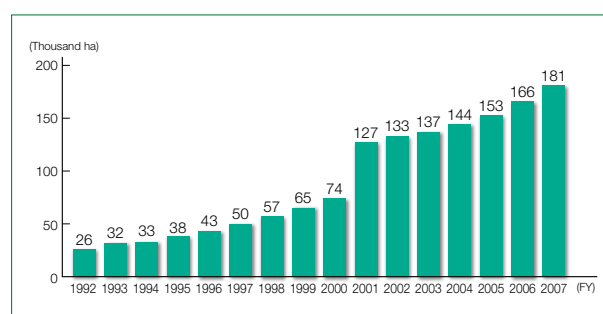


Table 1 Oji Paper Group Tree Plantations Outside Japan

	Country	Region	Company	Est.	Cooperating companies	Tree species	Target plantation area (ha)	Plantation area at end of FY07 (ha)	Harvest cycle (years)	FSC certification year
Chip export	New Zealand	South Island	SPFL	92	Oji Paper, ITOCHU, Fuji Xerox,	Eucalyptus	10,000	9,899	12	2004
	Australia	Western Australia	APFL	93	Oji Paper, ITOCHU, Senshukai, Tohoku Electric Power, Nippon Yusen	Eucalyptus	26,000	23,696	10	2004
	Vietnam	Binh Dinh Province	QPFL	95	QPFL: 100% (Oji Paper, Sojitz, Dai Nippon Printing)	Acacia, Eucalyptus	9,100	10,642	7	2006
	Australia	Victoria	GPFL	97	Oji Paper, Sojitz, Toppan Printing, HEPCO Hokkaido Electric Power	Eucalyptus	10,000	6,548	10	
	Australia	Victoria	EPFL	99	Oji Paper, Sojitz, Shogakukan, Japan Pulp and Paper	Eucalyptus	10,000	3,103	10	
	China	Guangxi Zhuang Autonomous Region	CPFL	01	Oji Paper, Marubeni	Eucalyptus	7,500	6,660	6	
	Laos	Central Laos	LPFL	05	Holding companies (Oji Paper, Kokusai Pulp & Paper, Shueisha, Mitsui S. K. Lines, Senshukai, Recruit, Daiichi Paper, Honda Trading, Maruman, U-CAN, A-One, Sato, C's Create, Nishizaki Paper Sales, Fellissimo, Belluna), Government of Laos	Eucalyptus	50,000	11,322	7	
	China	Huizhou, Guangdong	KPFL	05	Guangdong Petro-trade Development, Oji Paper, Marubeni	Eucalyptus	33,000	21,864	5	
	Brazil	State of Minas Gerais	*CENIBRA	73	Japan Brazil Paper and Pulp Development (Oji Paper, Japan Bank for International Cooperation, others)	Eucalyptus	43,450	54,472	7	2005
Pulp production	New Zealand	North Island	PAN PAC	91	Oji Paper	Radiata pine	30,000	32,970	30	2001
Total							229,050	181,176		
Target							300,000			

Tree plantation areas are as of the end of December 2007 for CPFL, KPFL, and CENIBRA and as of the end of March 2008 for the others. The area for QPFL includes 1,542 hectares of plantations loaned to another companies.

\* The total target area and planted area (estimated) for CNB, including the leased area of 17,000 hectares, were pro-rated by our investment percentage (CNB: 39.84%).



## The Oji Paper Group is actively developing overseas tree plantations.

### A Report from the Field on Forest Recycling

#### Management of a tree plantation in Brazil

Situated on the Atlantic Ocean coast of South America, Brazil is 23 times the size of Japan. CENIBRA's pulp mill is located 300 km inland from the southeastern coast. CENIBRA was established as a Japan-Brazil joint venture in 1973. In 2001, it became a wholly owned subsidiary of Japan Brazil Paper and Pulp Resources Development Co., Ltd., which is capitalized by Japanese paper companies including Oji Paper, Itochu Corporation, and the Japan Bank for International Cooperation.

In 2007, CENIBRA produced 1.16 million tonnes of pulp, which it marketed globally to Europe, Asia, Japan, and North and South America. More than 90% of the timber it uses as a raw material is covered by its own eucalyptus plantations, enabling the company to produce pulp with near self-sufficiency. Of its 250,000 hectares of land, 130,000 hectares are planted as plantations. The company logs plantation trees every seven years on average and then replants them. In 2005, it obtained FSC forest certification.

The land purchased by the company thus far has been of two kinds: land already planted with trees, and pasture land. If there are natural stands on pasture land, those stands are protected as is. The areas around rivers, lakes, and other reservoirs, and steep land with a 45 degree grade or more, are designated as protected forest and not used as plantations. Besides these areas, 20% of the land is left in its natural state and designated as protected forest. These protected forests are designated legally. The land used as plantation land is the remaining pasture land.

On the plantation land allocated to timber production, we strive to improve the growth of trees to ensure a steady supply



Mutum birds, a rare species on the verge of extinction. We raise the birds and use the natural forests on half our land to provide habitat for them.

of wood raw material. Eucalypti with good growth are chosen, crossed with each other, and planted in various locations. Then a parent tree is selected from among those with good growth in that location. This takes ten or more years. Next, the soil, precipitation and other weather conditions of the land where that tree is planted are investigated. A work method is determined based on those results and inspections are made to verify that that method has been reliably implemented. Efforts are also made to improve the efficiency of logging and transport. This has become necessary to remain competitive, since the local currency has become stronger recently.

Moreover, at a private preservation area set up in the protected forests, the company breeds and releases birds in the area that are on the verge of extinction (e.g., mutum birds). It also plants local species in landslide scars and along bare riversides to stabilize and restore the land. In this way, CENIBRA is pursuing sustainable timber production that pays due consideration to the environment.



Vast eucalyptus plantations. Original natural stands are left as protected forests.



Takao Murayama says of the long process, "In the end, after more than 10 years, only one tree out of 40,000 is selected as a parent tree."

# Management

## Corporate Philosophy and Corporate Code of Conduct

## Management System

## Progress Report on CSR Procurement

# Corporate Philosophy and Corporate Code of Conduct

The Oji Paper Group has inherited a corporate philosophy rooted in the ethos of the company's founder, Eiichi Shibusawa.

### The foundation of Oji Paper's business operations

The founder of Oji Paper, Eiichi Shibusawa, frequently used two words—*rongo* (the Analects of Confucius) and *soroban* (abacus)—to emphasize the importance of consistently combining good ethics with profitable business practices. The Oji Paper Group has incorporated this ethos into its Corporate Philosophy and its Corporate Code of Conduct, which is the guideline for action to realize the Corporate Philosophy. We have also established the Behavior Standard as basic standards that each employee should follow (page 26). Further, the Corporate Code of Conduct makes respecting the environment a management priority. Accordingly, we established the Oji Paper Group Environmental Charter and the Environmental Action Plan 21 (page 35), which sets quantitative targets to be achieved by fiscal 2010, to ensure that we strike a responsible balance with the needs of the global environment in all of our corporate activities.

### Corporate Philosophy

**Contribution to the Environment and Culture  
Innovation and Speed  
Global Reputation for Dependability**

With pride in and recognition of its responsibilities as a leading paper company, Oji Paper will work to continuously improve itself and win greater trust worldwide.

### Oji Paper Group Corporate Code of Conduct

**Oji Paper Group Environmental Charter  
Environmental Action Plan 21**

(page 35)

### Oji Paper Group Behavior Standard

(Compliance with laws and regulations)

### Global Compact

In June 2003, the Oji Paper Group became a member of the United Nations Global Compact. We then wrote the spirit of the Global Compact into the Oji Paper Group Corporate Code of Conduct and Behavior Standard, and we strive to put both into practice in all of our daily operations. The Global Compact requires participating companies and organizations to uphold and practice ten principles in the areas of human rights, labor, the environment, and anti-corruption. Its membership includes 5,226 companies and organizations from around the world, of which 62 are Japanese (as of April 1, 2008).



### WBCSD

The Oji Paper Group participates in the World Business Council for Sustainable Development (WBCSD), where it addresses issues faced by the forestry industry, such as establishing forest certification systems and preventing illegal logging, as well as the role companies should play in steering the world toward sustainable development and helping to counter global warming. The WBCSD issues guidelines for sustainable development founded on three core concepts: economic growth, environmental preservation, and social justice.



World Business Council for Sustainable Development

### Oji Paper Group Corporate Code of Conduct

- I. We, the management and employees of the Oji Paper Group, hereby adopt the Oji Paper Group Corporate Code of Conduct, as detailed below, as guiding principles for corporate activities based on an awareness of our responsibilities as a good corporate citizen and on high ethical principles appropriate for an organization that enjoys the trust of society.
- II. We, the management and employees of the Oji Paper Group, will strive at all times to implement this Code, and to contribute to the genuine enrichment of society.

#### 1. Compliance with the law

We will comply with the letter and spirit of the law in Japan and other countries, respect corporate ethics and all social standards, including common sense, and ensure that our business activities are fair and honorable.

#### 2. Harmony with the environment

We will promote forest recycling and paper recycling and maintain and develop business activities that are in harmony with the environment from a global perspective.

#### 3. Supply of safe, useful products and services

We will contribute to society and culture by developing and supplying products that will allow us to gain the satisfaction and trust of customers, with proper consideration for usefulness and safety.

#### 4. Communication with society

We will establish relationships of trust with all stakeholders, including customers, shareholders, and local residents, through an active commitment to good communication with society.

#### 5. Participation in social contribution activities

We will contribute to the development and improvement of society through active participation in social contribution activities.

#### 6. Coexistence with the international community

We will respect the culture and customs of other countries and contribute to local communities.

#### 7. Contribution through manufacturing

We will express our pride in our role as a manufacturer by contributing to local communities through production activities guided by a commitment to safety and protecting the environment, and by contributing to the advancement of industry through technology development and innovation.

#### 8. Achievement of employee satisfaction

We will take all possible steps to ensure employee health and safety, and we will strive to give employees opportunities to achieve happiness and prosperity and realize their potential as individuals.

### Oji Paper Group Behavior Standard

- I. To fulfill the spirit of the Oji Paper Group Corporate Code of Conduct, the Oji Paper Group Behavior Standard is adopted as a standard to be followed in the daily activities of all management and employees.
- II. All management and employees should recognize the need to be responsible for following this Behavior Standard and must not act against this standard.

#### Relationship with society

- 1) Compliance with relevant business laws
- 2) Environmental conservation
- 3) Ensuring safety
- 4) Sensible action
- 5) Wholesome relationship with politics and government
- 6) Severance of relationships with antisocial groups and organizations
- 7) Coexistence with the international community

#### Relationship with customers, business partners, and competitors

- 8) Seeking a relationship of trust with customers
- 9) Maintenance of an honest, wholesome relationship with business partners
- 10) Compliance with antitrust law, subcontracting law, and other related laws
- 11) Prohibition of unfair competition
- 12) Compliance with laws and regulations related to importing and exporting

#### Relationship with shareholders and investors

- 13) Disclosure of management information
- 14) Prohibition of insider trading

#### Relationship with employees

- 15) Respect of human rights
- 16) Ensuring safety and health in the workplace
- 17) Fulfillment of duties and self-development

#### Relationship with the company

- 18) Compliance with company rules
- 19) Management of company secrets
- 20) Appropriate records and accounting
- 21) Appropriate use of computer systems
- 22) Maintenance of company assets
- 23) Prohibition of conflicts of interest
- 24) Prohibition of political and religious activities in the workplace

#### Proactive communication

- 25) Open working environment

# Management System

The Oji Paper Group is working to earn the full trust of society by strengthening its corporate governance and compliance.

## Corporate governance

At Oji Paper, key management issues are deliberated by the Executive Council, which is comprised of directors who also serve as executive officers, and final decisions are taken by the 12-member Board of Directors, which includes two outside directors. Officers with business expertise are responsible for the implementation of decisions made by the Board of Directors. All of these activities are audited by four auditors, two of whom are external (figure 1).

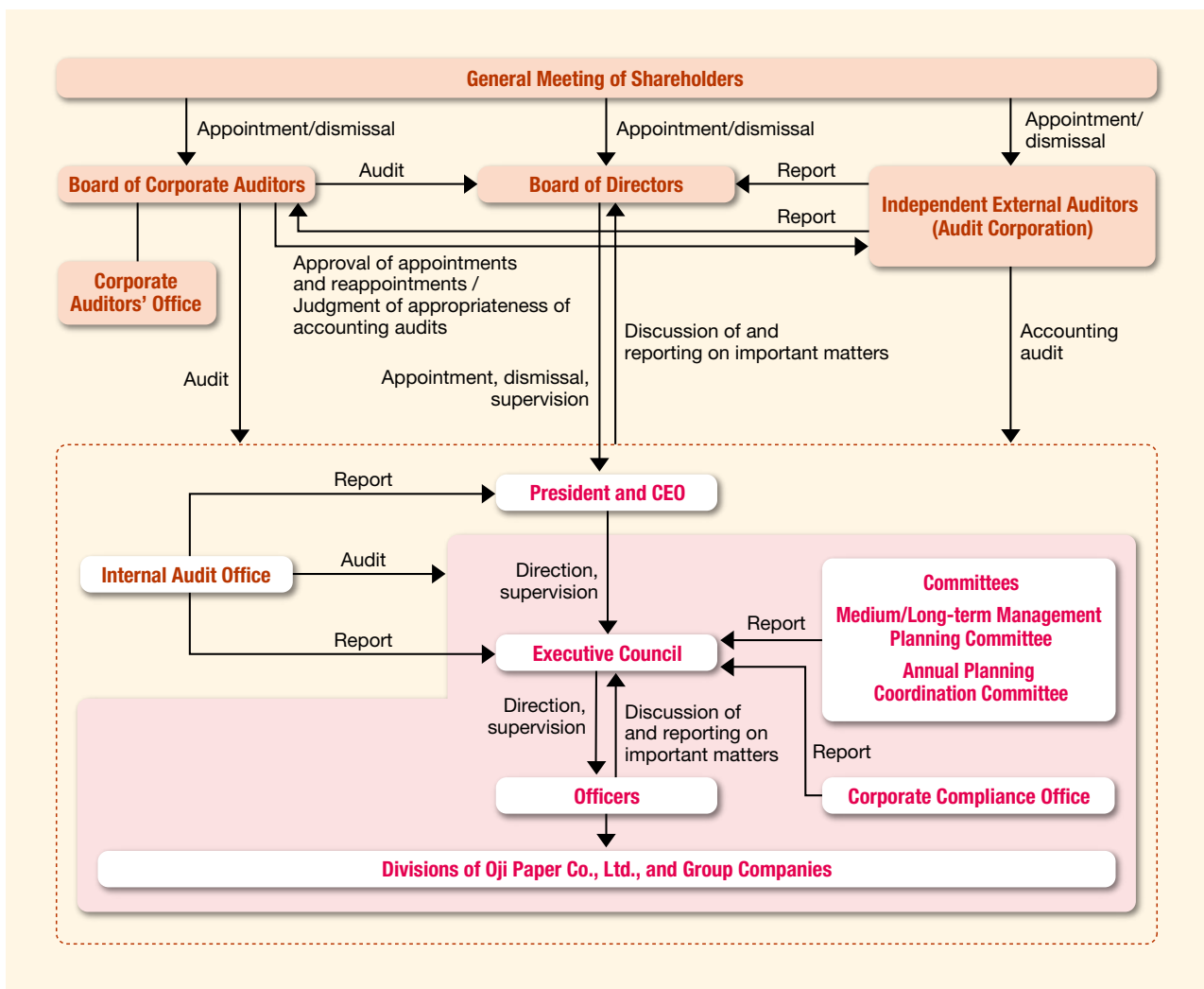
To create incentives for management to improve corporate value, we have adopted partial stock-option-based compensation for directors, thus linking compensation with company performance.

The Oji Paper Group's Corporate Code of Conduct declares the ethos that the president and all group employees

shall put into practice. We have also established Basic Guidelines for Building an Internal Controls System. This system ensures that high ethical standards are maintained and that legal compliance and appropriate risk management are integrated into all business activities.

In line with the Basic Guidelines, the Internal Audit Office, which is independent from business-execution organizations, audits their compliance and risk management. Audit results are reported to the company president and to the Management Committee, which is tasked with verifying and evaluating steps taken to address major risks related to internal controls and with monitoring the functionality of internal control systems. We believe this commitment to efficient, sound, and transparent management is vital to earning the trust of society and realizing continual improvement of corporate value.

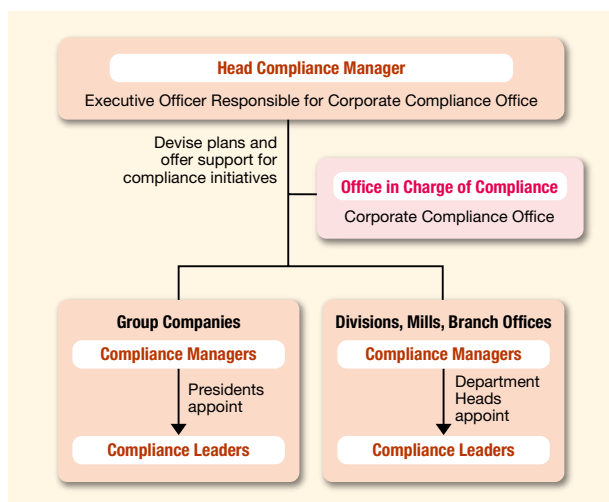
Figure 1 Function of the Internal Controls System in the Corporate Governance Framework



### Compliance framework

The Oji Paper Group recognizes that the practice of compliance management is vital to the continuation of business and stable growth. Accordingly, in January 2004 the group built a new compliance framework (figure 2). Oji Paper has been making progress, spearheaded by the Corporate Compliance Office, and Compliance Leaders in each division, to promote compliance by providing education and ensuring that employees are thoroughly familiar with the Corporate Code of Conduct and the Behavior Standard (page 26).

Figure 2 Compliance Organization



### Compliance education

In fiscal 2007, we implemented internet-based case study sessions for all executives and managers at the Oji Paper Group (approximately 3,500 people), mandatory compliance meetings for all employees (all employees must participate every six months), and rank-based training programs (photo 1) in an effort to disseminate compliance awareness.

In addition, we provided information in a small booklet as well as other learning materials, including quizzes and case studies, to raise employees' awareness of legal compliance.



Photo 1 Kazuhisa Shinoda, President and CEO, delivers a lecture at a Compliance Leader Training session held in October 2007.

### Business ethics helpline

Oji Paper's business ethics helpline provides contacts for consulting about or reporting violations of laws and other misconduct (including work-related and sexual harassment issues). The goal of the helpline is to prevent such incidents or correct them through early detection. The Oji Paper Group set up two contact points: internally, the Corporate Compliance Office, and externally, an attorney at law. In fiscal 2007, 35 incidents were reported or consulted about, and appropriate measures were taken in all cases.

### Preparing for an effective response to any disaster

The Oji Paper Group's disaster prevention system features a clear chain of command, with the lead disaster prevention manager for the Oji Paper Group positioned at Oji Paper Co., Ltd., and disaster prevention managers appointed at each facility of every group company (figure 3). To support these managers, there is also a Disaster Prevention Committee at Oji Paper Co., Ltd. The committee deliberates on basic policies for group-wide disaster prevention management. In addition, disaster prevention leaders meetings are held at each group company, and disaster prevention inspections conducted at each site.

The Oji Paper Group's disaster prevention rules are stipulated in the Oji Paper Group Comprehensive Disaster Prevention Regulations, which specify the basics of our disaster prevention system. In accordance with these regulations, each group site has established its own business- and community-appropriate Comprehensive Disaster Prevention Rules and implemented disaster prevention education and drills.

Moreover, with many facilities located in earthquake-prone Japan, Oji Paper has an advanced earthquake disaster prevention system. Examples include the company's Emergency Code of Behavior for use in the event of an earthquake, the implementation of safety confirmation drills using a Safety Confirmation System, and an information management system built in accordance with anticipated risks. In the future, we will install emergency earthquake flash report receivers and work to automate emergency broadcasts and prevent secondary accidents.

Figure 3 Oji Paper Group's Disaster Prevention Organization



# Management System

## Relationships with stakeholders

Trusting relationships with all types of stakeholders are indispensable to every company's continued existence and development (figure 1).

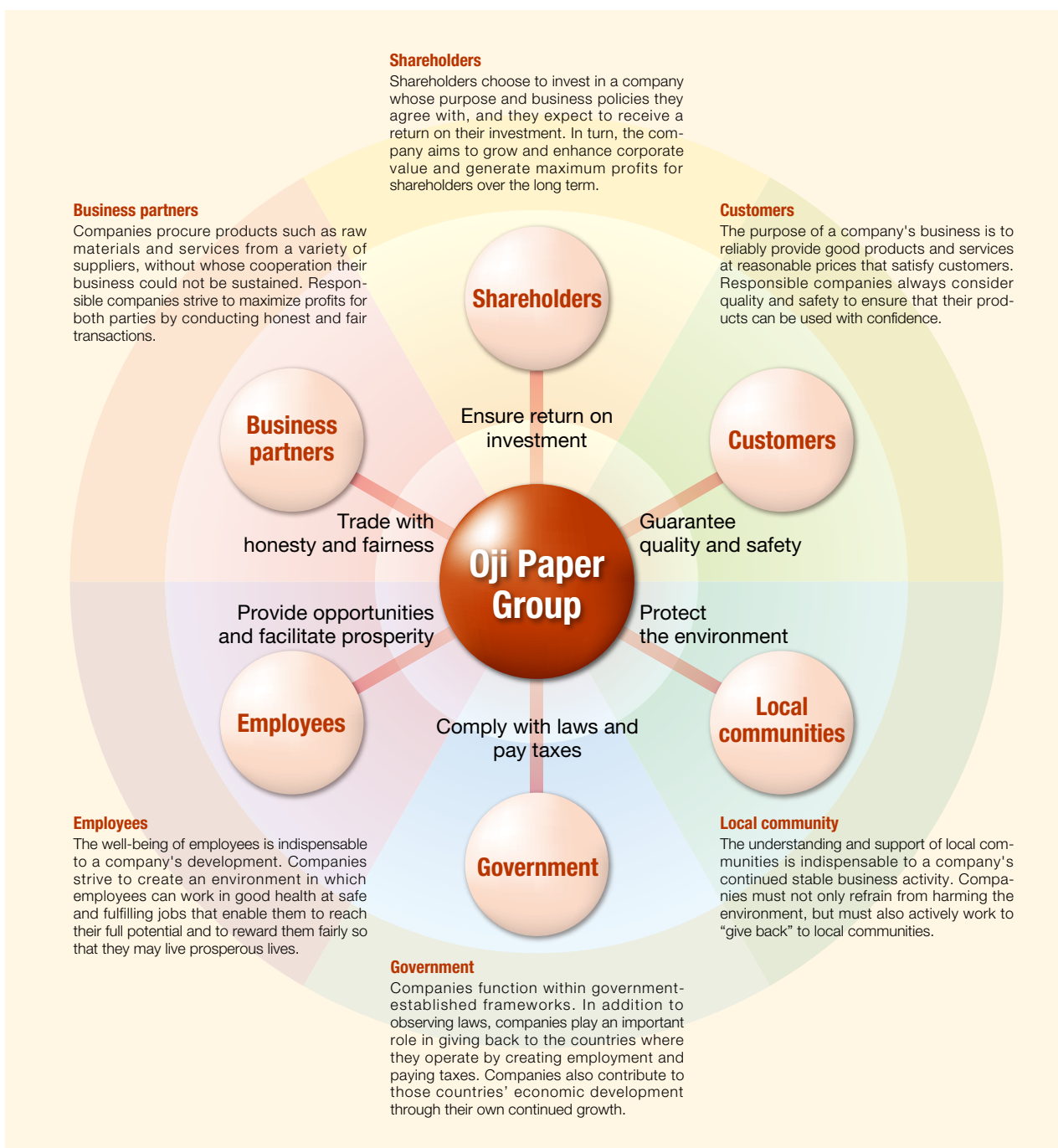
Eiichi Shibusawa, the founder of Oji Paper, frequently used two words—*rongo* (the Analects of Confucius) and *soroban* (abacus)—to define the company's ethical commitment to society and the company. Oji Paper has never forgotten its

mission as an institution vital to the public, and has endeavored to build trusting relationships with all stakeholders.

We remain dedicated to satisfying the expectations of our diverse stakeholders, and understand the importance of coordinating their sometimes conflicting interests to ensure a fair and mutually acceptable balance.

True to the company's foundational ethos, everyone at the Oji Paper Group, from the top executives downward, has redoubled their resolve to earn the full trust of all stakeholders.

Figure 1 Earning the Trust of All Stakeholders



# Progress Report on CSR Procurement

Oji Paper ensures that its procurement of raw materials is environmentally and socially responsible, using a cooperative framework with suppliers.

## Oji Paper and suppliers team up on CSR procurement

With economic globalization and the increasing demand for resources driven by economic growth in developing countries, socially responsible procurement, or “CSR procurement,”<sup>\*1</sup> has become a vital concern.

Papermaking involves the use of forest and other natural resources as raw materials. Oji Paper sources some of these resources from Vietnam, China, Thailand, and other developing countries, which are considered to have a relatively higher “CSR risk.” When using such resources, we strive to minimize environmental impact, demonstrate social consideration, and contribute to the community where those resources are found. Accordingly, we see it as part of the Oji Paper Group’s social responsibility to verify the environmental and social impact generated by the procurement of raw material by tracing it back all the way through the supply chain, and to expect our suppliers to use social responsible business practices, as well.

To fulfill this responsibility, we established the Oji Paper Group Partnership Procurement Policy in April 2007. This policy calls for cooperation with suppliers to ensure that socially responsible practices are followed when procuring raw materials.

We have created new Wood Raw Material Procurement Guidelines—an enhanced version of our Wood Raw Material Procurement Policy established in April 2005—and made them a part of the broader Partnership Procurement Policy. In line with the Guidelines, we pursue CSR procurement, ensuring that all of our wood raw materials are grown through sustainable forest management. Consistent with this new commitment, we will consider the environmental and social impact of all raw materials procured—not only wood raw materials—in accordance with the Partnership Procurement Policy.

<sup>\* 1</sup> CSR procurement: The practice, when procuring raw materials, of expecting suppliers to join one’s own commitment to considering environmental and social impact and other corporate social responsibility issues.

## Questionnaire on wood raw material

In fiscal 2007, we held a briefing session for persons in charge of the procurement of imported and domestic timber. Later, we sent a questionnaire to our 557 principal suppliers (32 overseas and 525 in Japan) to ascertain the status of their legal compliance, consideration of environmental and social issues, and other CSR initiatives. The survey helped to enhance their understanding of the importance of CSR procurement.

### Oji Paper Group Partnership Procurement Policy

#### Basic Approach

The Oji Paper Group, in order to fulfill its social responsibilities in business when procuring raw materials, pursues CSR (corporate social responsibility) procurement that takes environmental and social factors into consideration in cooperation with business partners throughout its supply chain.

Our CSR procurement activities are based on principles such as the United Nations Global Compact, the Oji Paper Group Corporate Code of Conduct, and the Oji Paper Group Environmental Charter. By implementing CSR procurement, we seek to contribute to a truly enriched and sustainable society.

We continually seek to improve our CSR procurement activities by communicating closely with business partners.

#### Our Requests to Business Partners

The Oji Paper Group requests business partners in its supply chain to take the actions enumerated below, and works together with them to help them to do so. We also expect our business partners to encourage their suppliers to take these actions.

<sup>\*</sup> This procurement policy applies to all raw materials procured by the Oji Paper Group. The procurement of wood raw materials is covered by the Wood Raw Material Procurement Guidelines which are subordinate to this procurement policy.

<sup>\*</sup> Monitoring will be conducted as needed in order to effectively pursue CSR procurement that considers environmental and social factors.

<p><b>(1) Ensure stable supply</b></p> <ol style="list-style-type: none"> <li>1. Offer competitive prices</li> <li>2. Ensure quality and delivery</li> </ol>	<p><b>(4) Demonstrate social concern</b></p> <ol style="list-style-type: none"> <li>1. Protect human rights (prohibit child labor, forced labor, discrimination, and harassment)</li> <li>2. Protect labor rights (maintain good labor relations, avoid long working hours, and ensure minimum wage standards are met)</li> <li>3. Ensure workplace safety and health</li> <li>4. Contribute to society and the local community</li> </ol>
<p><b>(2) Comply with laws and social standards, and engage in fair trade</b></p> <ol style="list-style-type: none"> <li>1. Comply with relevant laws and international conventions</li> <li>2. Maintain sincere and healthy relations with business partners</li> </ol>	<p><b>(5) Communicate with society</b></p> <ol style="list-style-type: none"> <li>1. Build relationships of trust with stakeholders through communication</li> <li>2. Respect the cultures and customs of other countries</li> <li>3. Appropriately disclose and protect information</li> </ol>
<p><b>(3) Consider the environment</b></p> <ol style="list-style-type: none"> <li>1. Reinforce environmental management systems</li> <li>2. Reduce waste and effectively use resources</li> <li>3. Pursue global warming countermeasures</li> <li>4. Protect biodiversity</li> <li>5. Reduce environmental impact</li> <li>6. Manage chemical substances</li> </ol>	

# Environmental Performance

## Environmental Management and Auditing

Progress Following Last Year's Smoke Incident

The Oji Paper Group Environmental Charter and Environment Action Plan 21

## Research and Development

## Environmental Impact of the Paper Industry

## Product Safety

## Initiatives to Combat Global Warming

## Statistics

# Environmental Management and Auditing

Oji Paper constantly strives to improve environmental performance and reduce environmental risk at production sites using comprehensive environmental management systems and strict environmental audits.

## Oji Paper Group's environmental management system

The Oji Paper Group's environmental management system is shown in figure 1. The Environmental Committee, chaired by an executive responsible for environmental affairs, holds meetings at Oji Paper Co., Ltd., which plays the central role in the Group's environmental management system. The Committee discusses points of issue and determines important policies regarding environmental management for the entire Oji Paper Group. Below the Environmental Committee are the Environmental Preservation Subcommittee, Forest Resources Subcommittee, Recovered Paper Utilization Subcommittee, and Energy Subcommittee. Based on the recommendations and policies of the Environmental Committee, these subcommittees work to appraise the situation in each of their specialized areas and to consider various issues.

The Environmental Audit Committee makes regular on-site inspections to check the status of environmental conservation at each of the group's mills, identify problems, and provide improvement guidance.

In addition to all this, each mill has a Mill Environmental Committee chaired by the mill manager, which meets monthly. These committees discuss specific problems and challenges to environmental conservation at their mill and ensure compliance with policies decided by the Environmental Committee and instructions from the Environmental Management Department.

## Status of adoption of environmental management systems—targeting group-wide certification

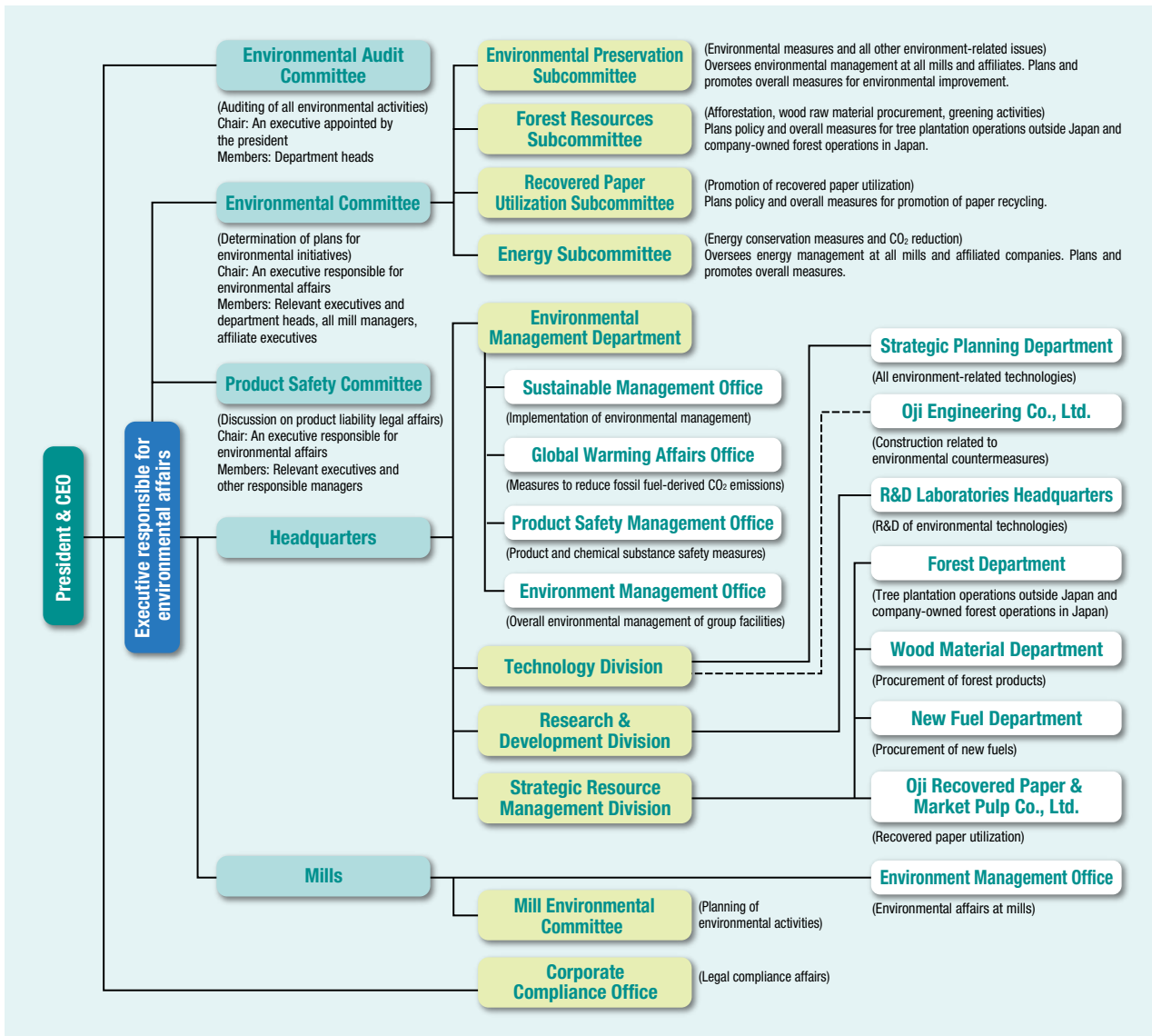
The Oji Paper Group's Environmental Action Plan 21 calls for each site to adopt an environmental management system (EMS) that suits its circumstances. All papermaking mills completed acquisition of ISO 14001 certification by fiscal 2005, and containerboard mills are working toward certification now.

### Status of EMS certification

ISO 14001	106 out of 226 sites subject to environmental auditing, including all Oji Paper mills
KES	Chuetsu Co., Ltd. (Shiga Mill), Kiyoshiyouki Co., Ltd. (Shiga Mill, Suzuka Mill), NIHON SEIKAHOUSO Co., Ltd.
Green Management	Oji Rikuun Co., Ltd. (13 logistic centers)



Figure 1 Environmental Management Organization



### Efforts to adopt simplified EMS

It is difficult for small and medium-size facilities to acquire and maintain ISO 14001 certification due to the labor and costs involved. Instead, small and medium-size facilities in the group have started working toward the acquisition of KES<sup>1</sup>, Eco-Action 21<sup>2</sup>, or other simplified environmental management system certification. Three companies within the group have already started KES initiatives and acquired certification: the Shiga Mill of Chuetsu Co., Ltd., the Shiga Mill and Suzuka Mill of Kiyoshiyouki Co., Ltd., and NIHON SEIKAHOUSO Co., Ltd.

We are also considering rolling out the O-EMS certification system, which is Oji Paper's own simplified EMS for facilities so small that cannot realistically acquire even KES or Eco-Action 21 certification. We completed the overall framework for the O-EMS system in fiscal 2007. Fuchigami Danbo-ru, a

group company that produces cardboard boxes, has already started operating the system.

We plan to conduct a review in fiscal 2008, and if it passes inspection, Fuchigami Danbo-ru will be the first facility to be certified under the system. After certification, the facility will undergo environmental audits from the Environmental Management Department and periodic reviews, enabling effective environmental management without placing an excessive burden on the facility. It is a very positive step for small-size facilities to build their own EMS, rather than only taking the passive approach of making corrections after being audited. Going forward, we will actively roll out this system to small-size facilities within the group.

<sup>1</sup> KES: A review and registration system for environmental management systems conducted by NPO KES Environmental Organization.

<sup>2</sup> Eco-Action 21: A certification and registration system for environmental management systems conducted by the Institute for Global Environmental Strategies.

# Environmental Management and Auditing

## The significance and method of environmental auditing

The Oji Paper Group conducts a broad scope of environmental audits, covering group companies involved in paper and paperboard manufacturing and processing, research facilities and printing mills. Audits cover 226 sites in Japan. On-site audits of these facilities are made every two years.

As reported on pages 43-44 of the *Environmental and Sustainability Report 2007*, the smoke incident led us to completely overhaul our environmental auditing systems and format. The major change was to move away from audits that tend to assume people always have the best intentions and adopt audits that make the safer assumption that people are corruptible.

Specifically, audits now try to get to the bottom of what is really happening at work sites by, for example, verifying operational notes instead of just daily reports and interviewing workers about how they handle issues. Auditors also now take the time to verify that there are no mistakes in data by conducting unannounced comparisons of reported numbers against original data and chart records. Moreover, we held meetings with the relevant departments and conducted a review to make certain that there are no legal gaps—i.e., no environmental laws and regulations being overlooked.

Among these improvements, we have dramatically increased the number of items on our environmental auditing checklist from 170 to 470. We continue to work to make the checklist even better by revising items as we conduct audits and making reviews from time to time.

Audits conducted by the Environmental Management Department alone, however, are by definition limited and could possibly overlook something. For that reason, in December 2007 we requested AOI Environmental Consulting Co., Ltd., to undertake an outside evaluation of the Kasugai Mill in regards to Japan's Air Pollution Control Law and Water Pollution Control Law.

We compiled the items from this evaluation that were particularly applicable to the entire group, ensured that everyone was familiar with them by holding briefings group-wide, and incorporated them into our environmental audit checklist.



An environmental audit in progress

## Third-party Feedback

### An Evaluation of Oji Paper

#### Atsushi Mizoroki

Consultant, Certification in Control Self-Assessment, Certified Fraud Examiner  
Business Promotion Department, Business Promotion Division  
AOI Environmental Consulting Co., Ltd.

In 2007, I accepted a request from Oji Paper to carry out an evaluation as an outside expert, as part of measures the company was taking following several incidents of misconduct related to the Water Pollution Control Law and Air Pollution Control Law.

As an expert in internal controls and corporate fraud countermeasures, I conducted the evaluation from multiple perspectives. By including individual interviews with employees in the evaluation process, I aimed to get at the truth, and I believe I was able to get down to the nitty-gritty of actual business operations.

Moreover, I not only clarified existing issues, but also, by inspecting latent compliance vulnerabilities, was able to reveal systemic issues for future management discussion.

In the end, numerous issues were identified. I am confident that Oji Paper can regain trust and further improve itself as a company by putting the following items revealed in the evaluation into practice.

1. Oji Paper should identify on its own potential problems.
2. The group should start working on countermeasures at each plant by addressing the issues identified across the entire organization.
3. The group should continue soliciting regular outside evaluations, rotating the target facilities.



Mr. Mizoroki (right), with the general manager of Kasugai Mill



Mr. Mizoroki carefully checking data on the mill's production floor

## Progress following last year's smoke incident

In July 2007, emission of smoke in excess of standards and the improper handling of data were discovered at nine mills belonging to two companies of the Oji Paper Group: at Oji Paper, the Kushiro Mill, Tomakomai Mill, Fuji Mill, Kasugai Mill, and Yonago Mill; and at Oji Paperboard, the Nikko Mill, Edogawa Mill, Fuji Mill, and Saga Mill. These acts were in violation of Japan's Air Pollution Control Law, Electricity Business Act, and other laws. These incidents caused great inconvenience and concern in every quarter, for which we again apologize sincerely.

Looking ahead, we will continue working to strengthen our environmental management system, ensure that all employees recognize the social responsibilities we have as a company, and see to it that the entire group makes a unified effort to prevent any further misconduct, so that we may recover the full trust of society as soon as possible.

## Measures to prevent a recurrence

The primary factors behind the smoke incident were: (1) a lack of awareness at work sites regarding legal regulation values; (2) poor checking of environmental management data; and (3) poor maintenance and management of facilities, etc. Based on these factors, we established measures to prevent a recurrence of the smoke incident. We reported the progress of those measures in an appropriate manner to the relevant government ministries and agencies and made that information public on the company's website. Moreover, the measures to prevent a recurrence were taken not only at the mills where the problems occurred, but also at 25 mills belonging to four companies of the Oji Paper Group: Oji Paper Co., Ltd., Oji Paperboard Co., Ltd., Oji Specialty Paper Co., Ltd., and Oji Nepia Co., Ltd.

Below is a report on the progress of the measures to prevent a recurrence.

### I. Organizational and management measures

- A. We implemented education to ensure that work is carried out in conformity with policies prioritizing the environment and compliance.
  1. We distributed to employees copies of the *Environmental and Sustainability Report* including a message from the president about the smoke incident to ensure everyone was aware of it. Management gave admonitory lectures about environmental conservation and compliance at mills. Further, an admonitory lecture by the president of Oji Paper Co., Ltd., was broadcast simultaneously throughout the group to ensure thorough group-wide understanding beyond just the four companies listed above.
  2. Each mill manager wrote up and distributed to employees a letter explaining the causes of the smoke incident and countermeasures. We also established a framework for having

the mill manager implement regular patrols and provide appropriate instruction to pollution prevention managers. Further, the Environment Management Offices at the mills and at the headquarters conducted a joint verification of applicable environmental laws and regulations.

- B. We revised our environmental management system.
  1. We mandated data checks by multiple people.
  2. We made sure that pollution prevention managers appropriately carry out their work as defined by law, that senior management, the Environment Management Office, and pollution prevention managers are immediately notified when on-site personnel discover irregularities, and that equipment is stopped when continued operation would result in a violation of the law. We prepared a system for early detection of environmental risks, holding discussions, and undertaking follow-up to create an open workplace culture.
  3. We rigorously reexamined our approach to date on environmental auditing and thoroughly implemented legal and regulatory compliance audits. See page 33 for full details.
- II. Technological and equipment measures
  - A. We took other group-wide measures.
    1. We installed warning lights and other such devices in highly visible locations to make all operators aware of any irregularities.
    2. We reviewed operation methods, including equipment stoppage, to ensure observance of standard values, and prepared a manual to standardize procedures.
  - B. We took various mill-level measures.
 

We analyzed the causes behind the occurrence of the smoke incident at each mill and completed improvements in operating methods and equipment. For example, the concentration of nitrogen oxide in smoke may increase if there is poor balance between the amount of fuel and amount of combustible air when changing the volume of steam generated by a boiler. For that reason, we improved the burners and optimized the control of combustible air volumes.

We also improved our concentration calculation program and optimized the concentration measurement range of our sensors in order to prevent standards from being exceeded due to monitoring instrument malfunctions.



Warning light

### III. Regaining the trust of local communities

- A. We built a system for promptly reporting to local authorities as needed in the event of the occurrence of an environmental irregularity.
- B. We established an environmental monitor meeting system at all mills to facilitate communication between community residents and mills. See page 56 for full details.
- C. We conducted drills including people in the community to test our emergency communication plan.

# Environmental Management and Auditing

## The Oji Paper Group Environmental Charter and Environment Action Plan 21

The Oji Paper Group established eight Action Guidelines in its Environmental Charter to make it clear that addressing environmental issues is a top management priority. We have also set specific numerical targets, in the Environmental

Action Plan 21, to make certain that the Action Guidelines are put into practice. Below, we report on our performance and the progress made in fiscal 2007 toward achieving our targets for fiscal 2010.

### Environmental Charter: Basic Policy

The Oji Paper Group Environmental Charter requires the Oji Paper Group to help create a truly enriched and sustainable society by developing business activities that harmonize with the environment from a global perspective. The Charter calls for the Oji Paper Group to make autonomous efforts to achieve further environmental improvement, and aggressively drive its forest recycling, paper recycling, and global warming countermeasures forward.

Environmental Charter Action Guidelines	Environmental Action Plan 21 (fiscal 2010 targets)	Fiscal 2007 Activities and Progress	Pages(s)
1. Promotion of forest recycling	<ul style="list-style-type: none"> <li>Establish 300,000 ha of overseas plantations.</li> </ul>	<ul style="list-style-type: none"> <li>Total plantations outside Japan: 181,176 ha Up 15,505 ha from FY06</li> </ul>	19-24
2. Promotion of paper recycling	<ul style="list-style-type: none"> <li>Achieve a recovered paper utilization rate of 62%.</li> </ul>	<ul style="list-style-type: none"> <li>Recovered paper utilization rate: 60.4% Up 0.2 points from FY06</li> </ul>	7-10
3. Promotion of global warming countermeasures	<ul style="list-style-type: none"> <li>Reduce fossil fuel-based energy consumption per unit of production by 20% relative to fiscal 1990 levels.</li> <li>Reduce fossil fuel-based carbon dioxide emissions per unit of production by 20% relative to fiscal 1990 levels.</li> </ul>	<ul style="list-style-type: none"> <li>Fossil fuel-based energy consumption per unit of production: 238 liters (crude oil conversion basis) / tonnes of products Achieved 25.2% reduction from FY90</li> <li>Fossil fuel-based CO<sub>2</sub> emissions per unit of production 0.631 tonnes-CO<sub>2</sub> / tonnes of products Achieved 25.5% reduction from FY90</li> </ul>	41-45
4. Reinforcement of environmental improvement measures and environmental management systems	<p>Targets</p> <p>(1) Pursue certification under environmental management systems, including ISO 14001 or other EMS, selecting the system best suited to each facility. Group companies involved in distribution aim to achieve certification under the Ministry of Land, Infrastructure, Transport and Tourism's Green Management System at all business sites by March 2007.</p> <p>(2) Pursue acquisition of forest certification at all overseas forest plantations and under the Sustainable Green Ecosystem Council (SGEC) program at company-owned forests in Japan.</p>	<ul style="list-style-type: none"> <li>Newly acquired ISO 14001 certification: 2 facilities</li> <li>Other EMS certifications: 2 facilities</li> <li>Green Management System certifications: 0</li> <li>SGEC forest certification: 143 sites, 25,000 ha</li> <li>Facilities that underwent environmental audit: 94 out of 226 sites</li> </ul>	31-34, 37-40, 46-48
5. Development of production technologies and products that minimize environmental impact		<ul style="list-style-type: none"> <li>Environmentally friendly research and new product development</li> </ul>	36
6. Reduction and effective utilization of waste	<ul style="list-style-type: none"> <li>Ultimately reduce the volume of landfill disposal to zero through further efforts to reduce or reuse waste.</li> <li>Achieve a final disposal ratio of 0.5% by March 2011.</li> </ul>	<ul style="list-style-type: none"> <li>Amount of final disposal in landfills: 70,000 BD tonnes Up by 9,000 BD tonnes from FY06</li> <li>Final disposal rate: 0.83% Up by 0.10 point from FY06</li> <li>Effective utilization rate: 90.1% Up by 0.63 point from FY06</li> </ul>	36, 46
7. Transfer of environmental protection technology to other countries		<ul style="list-style-type: none"> <li>Forestry Research Institute in Australia</li> <li>Conducted technical survey in preparation for the paper mill construction in China</li> </ul>	—
8. Building relationships of trust with stakeholders		<ul style="list-style-type: none"> <li>Participated in Eco-Products 2007 with exhibition booth (Dec. 2007)</li> <li>Participants in Oji Forest Nature Schools: 72 people</li> <li>Held community environmental monitor meetings: 136 times</li> <li>"Groundwork" programs: Held community clean-up, beautification, and tree-planting activities: 1,597 times with the participation of 23,220 people</li> <li>Recovered disposable chopsticks: 455 tonnes</li> </ul>	56, 58

\* Companies covered in items 3 and 6: Oji Paper Co., Ltd., Oji Paperboard Co., Ltd., Oji Specialty Paper Co., Ltd., and Oji Nepia Co., Ltd.

\* Companies covered in item 8: Group companies mentioned in Table 6 on page 48.

# Research and Development

The wastes generated during the production of paper and paperboard can be transformed into products with new uses that make the most of the characteristics of those materials.

## Effective utilization of combustion ash

In its Environmental Action Plan 21, the Oji Paper Group set a goal of achieving a final disposal ratio of 0.5% or below by fiscal 2010. Accordingly, the R&D Laboratories Headquarters in the Research and Development Division of Oji Paper Co., Ltd., is working to find new ways to effectively utilize combustion ash, which accounts for approximately 70% of our final disposal of waste.

Fine fibers, clay, and other extraneous materials included in paper are separated and discharged during the production process of paper and paperboard. These waste materials are called paper sludge. The ash left after incinerating paper sludge (PS ash) accounts for approximately 40% of all our combustion ash. This PS ash contains calcium, magnesium, iron, and other essential elements for plant growth. It also acts as a pH buffer in acidic soil.

Starch is used during the papermaking process to add strength to the paper and to hold the fiber and filler\*1 in sheets. The corn steep liquor (CSL) discharged as a byproduct from the starch production process contains nitrogen, phosphorus, potassium, and other plant nutrients.

Focusing on these characteristics, we started studying the use of PS ash as a growth promoter for plants. By mixing PS ash, CSL, and new chemical agents and turning the mixture into pellets, it becomes possible to lengthen the effect through the gradual release of the nutrients. In this way, we established a technology that can be used as a growth promoter.

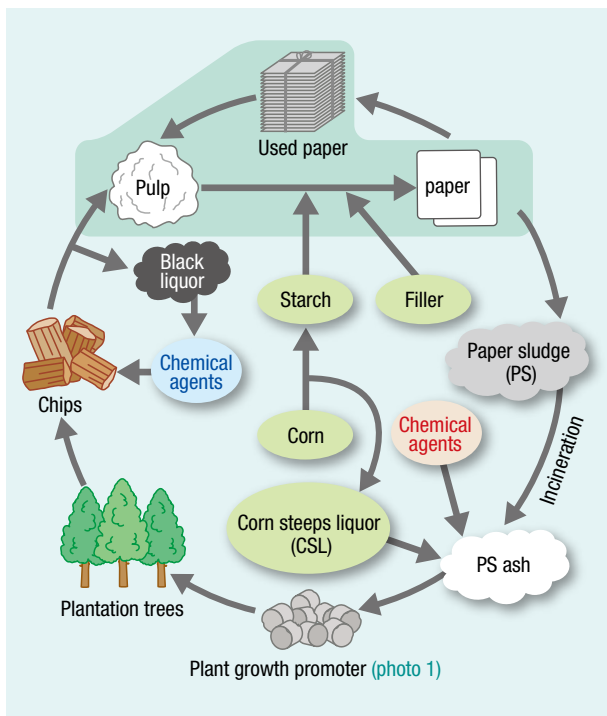
At present, we are looking at how to make wide use of this technology on our company-owned forests and tree plantations outside Japan.

\* 1 Filler: A generic term for such materials as clay, talc, and calcium carbonate. Loading filler into paper improves smoothness and printability, increases brightness, and prevents strike through.



Photo 1 Plant growth promoter produced from PS ash

Figure 1 Circular Flow in the Effective Utilization of PS Ash



Without application of growth promoter

With application

# Environmental Impact of the Paper Industry

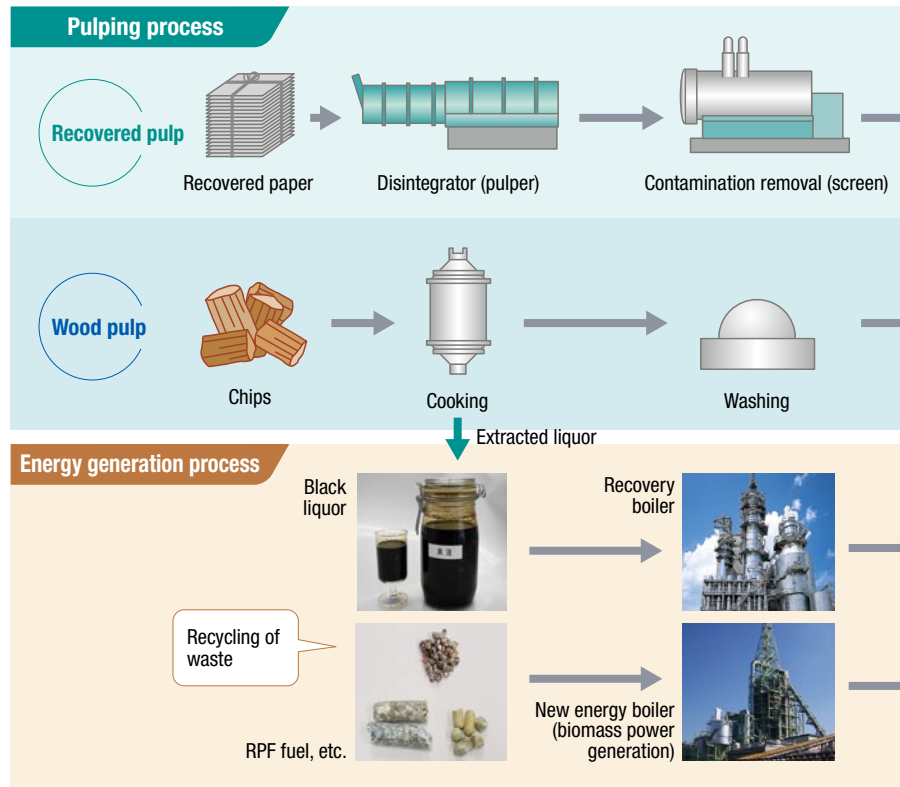
The Oji Paper Group verifies the inputs of resources needed for its production activities and the environmental impact of its mills. The company is making the most of its recycling-based business model to reduce its overall environmental impact.

## Reconsidering the environmental impact of mills

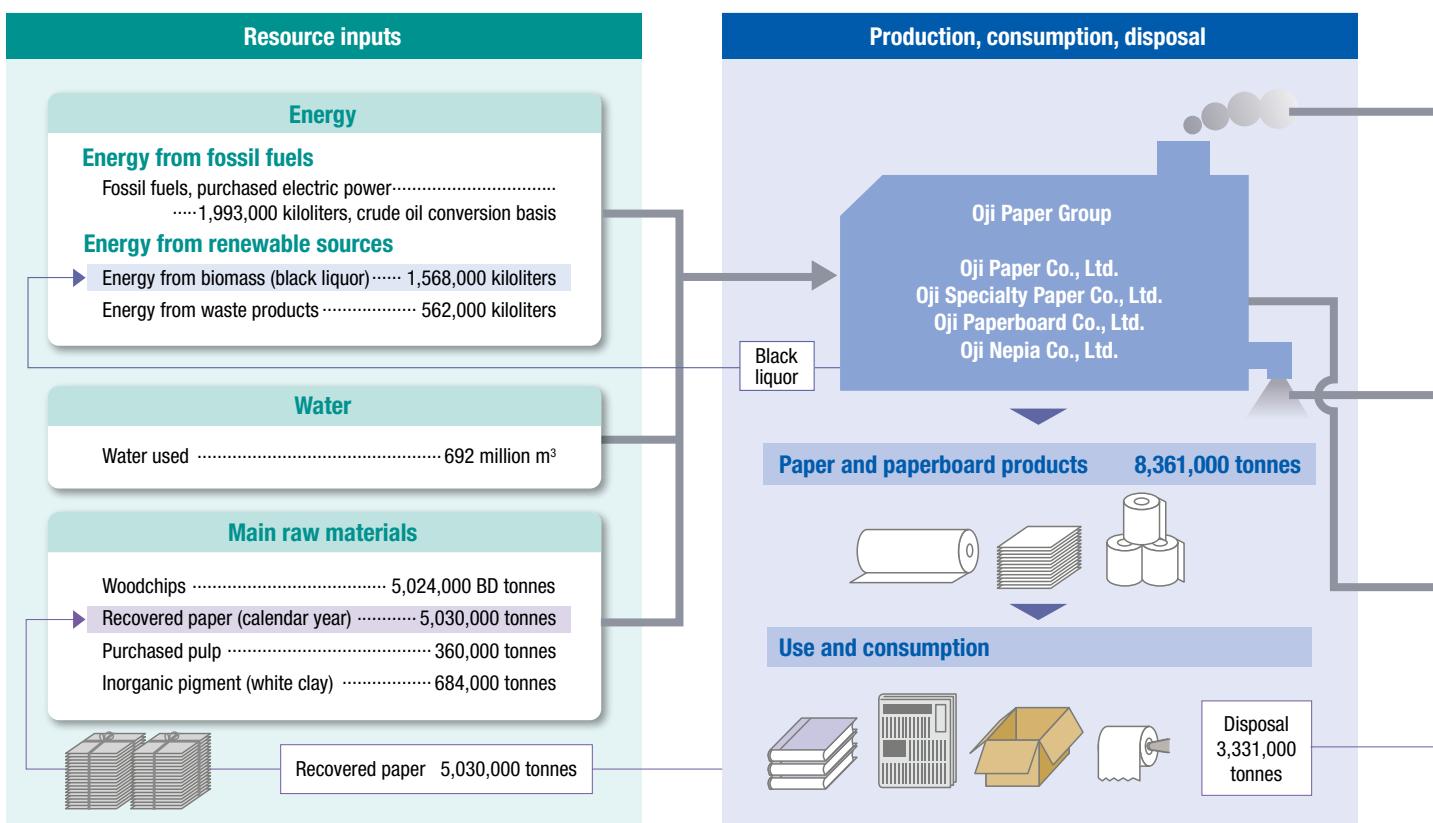
The pulp and paper industry is said to consume a relatively large amount of energy. On the other hand, the industry is ahead of other industries in the use of biomass energy, such as the utilization of the black liquor generated during the kraft pulping (cooking) process as a fuel in recovery boilers. The Oji Paper Group has been moving ahead of other companies in the adoption of new energy boilers (biomass power generation), which burn RPF\* and other fuels made from waste material, as part of its efforts to transition away from fossil fuels. Moreover, the group is working aggressively in other ways to reduce environmental impact, for instance, through waste recycling and CO<sub>2</sub> sequestration by company-owned forests in Japan and tree plantations outside Japan.

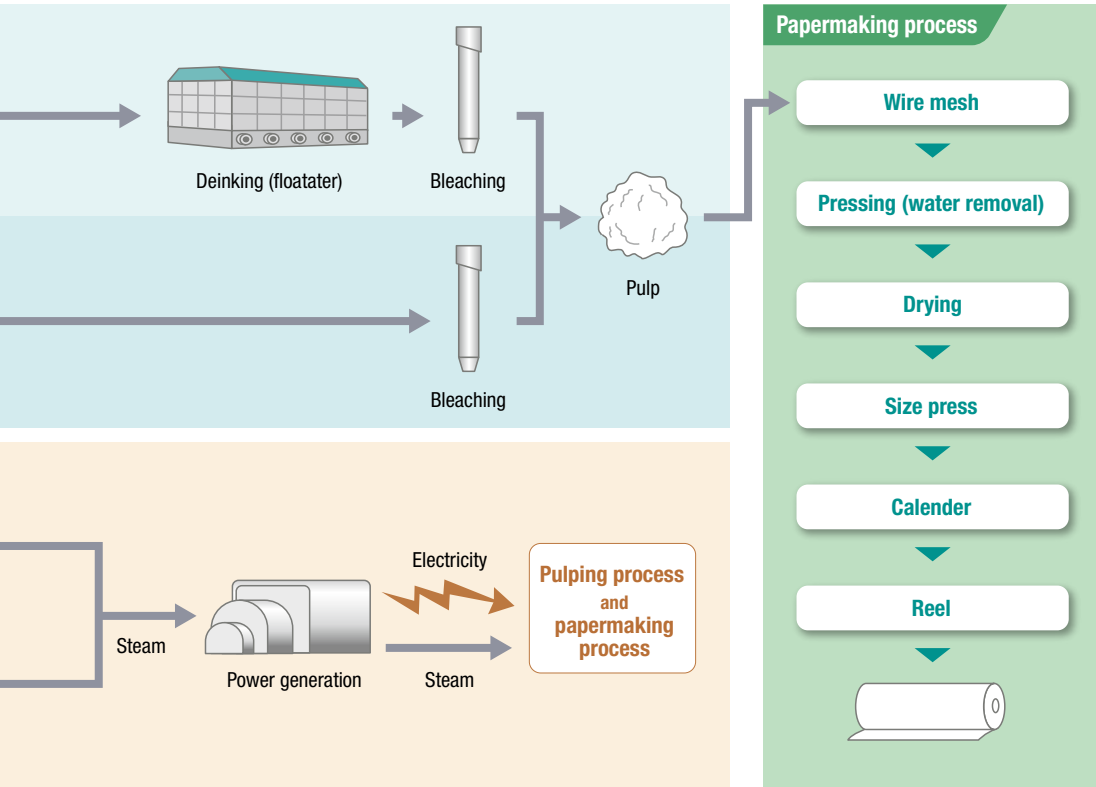
\* Japanese English coinage meaning "Refuse Paper and Plastic Fuel." A solid fuel made by mixing waste plastic with recovered paper that is difficult to recycle.

## Flow Chart of Pulp and Paper Business



## Resource and Energy Inputs and Environmental Impact (Fiscal 2007)





<sup>\*1</sup> SOx (sulfur oxides): Oxides of sulfur (mainly sulfur dioxide) included in the exhaust gas from boilers, incinerators, and other combustion equipment. SOx emissions, which are said to be a major cause of air pollution, have been reduced in recent years using SOx gas absorption systems.

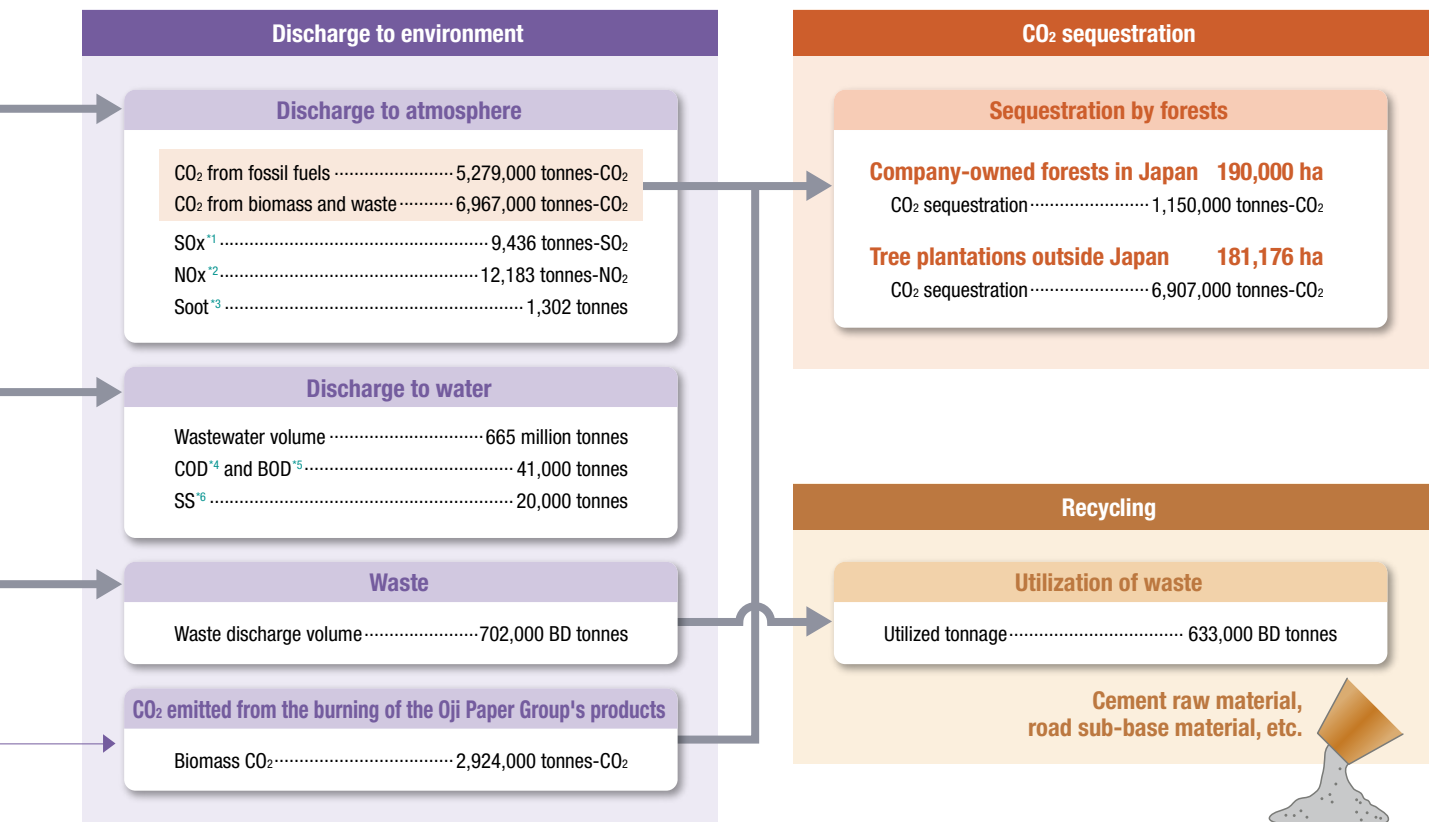
<sup>\*2</sup> NOx (nitrogen oxides): Oxides of nitrogen included in the exhaust gas from boilers, incinerators, and other combustion equipment. NOx produce photochemical oxidants through a photochemical reaction triggered by ultraviolet light.

<sup>\*3</sup> Soot: Particulate matter included in the exhaust gas from boilers, incinerators, and other combustion equipment. The exhaust gas is generally released to the air after being processed in multi-cyclone soot collectors and electrostatic precipitators.

<sup>\*4</sup> COD (chemical oxygen demand): The amount of oxygen consumed to decompose organic compounds in water through oxidation. The smaller the number, the cleaner the water.

<sup>\*5</sup> BOD (biochemical oxygen demand): The amount of oxygen consumed when microorganisms decompose organic compounds in water. BOD is an indicator of the amount of biodegradable organic compounds in wastewater.

<sup>\*6</sup> SS (suspended solids): Insoluble material in wastewater. When there is a lot of suspended sediment, it settles out in aquatic environments, and may accumulate into sludge if there is an excessive amount.



# Product Safety

Consumers directly handle the paper that we produce. We give careful consideration to ensuring consumer safety and safeguarding the health of our employees at the production stage, beginning with the selection of raw materials.

## Checking the safety of products

Made primarily from cellulose fiber, paper is generally a very safe product. Depending on the type of paper, however, pigments, binders (adhesives) and so on have to be added to give the paper printability, writability, and other properties. The Oji Paper Group performs safety checks on raw materials other than cellulose fiber to improve the safety of its products.

Moreover, we confirm our products' conformity with laws and regulations in and outside Japan by obtaining certificates of analysis from third parties as needed. In fiscal 2007, we launched two new initiatives (1 and 2 below) to further improve product safety checks, and continued with other efforts (3 below), as well.

### 1. Systematic safety checks of food-use products

The Japan Paper Association has established its own Voluntary Standards for Paper and Paperboard Intended to Come into Contact with Food, based on a need to ensure a higher level of safety and reliability. The standards took effect on October 1, 2007.

As a member of the Association, the Oji Paper Group restructured its internal quality control rules to properly observe these standards. It established and enforced product safety instructions (a procedure for conducting safety checks in the mills) corresponding to the basic requirements of the Association's standards: (1) regular performance of sanitation standards tests; (2) confirmation of the absence of items on a prohibited use list; (3) implementation of guidelines relating to the manufacture of paper and paperboard; and (4) implementation of guidelines relating to the manufacture of paper and paperboard made from recovered paper.



**Photo 1** At a product safety audit at the Tokai Mill's Fujinomiya Facility operated by Oji Specialty Paper Co., Ltd.

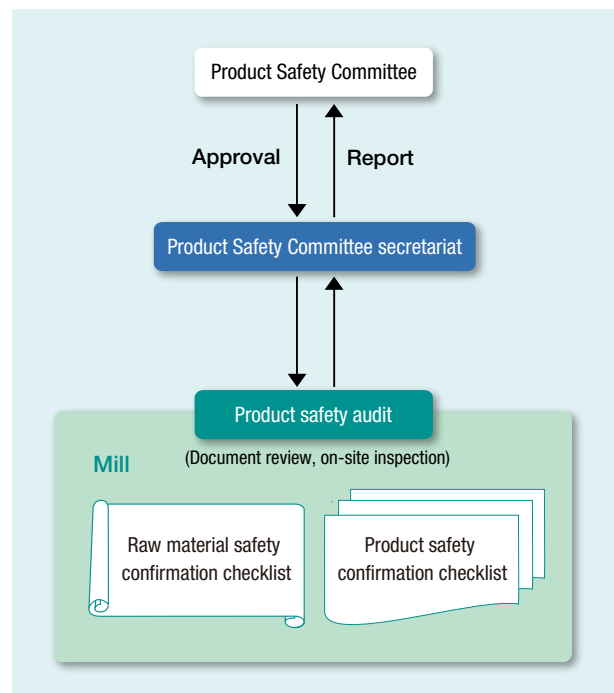


Production process under inspection at the Fuji Mill of Oji Kinocloth Co., Ltd.

### 2. Product safety audits

The Oji Paper Group's Product Safety Committee organization has started conducting product safety audits, regularly verifying the status of product safety checks in mills (figure 1, photo 1). Moreover, the Product Safety Committee secretariat helps to ensure product safety in daily operations by supporting the product safety audits.

**Figure 1** Flow Chart of Product Safety Audits





**3. Safety checks of raw materials**

Safety checks of raw materials used in manufacturing processes have been performed using the following two systems.

**(1) Pre-use evaluation system**

When considering the use of a new raw material, regulatory and hazard information is checked using a pre-use evaluation system based on the company's own New Raw Material Safety Sheets. We have used this system since 1994, the year before Japan's Product Liability Law came into effect. In cooperation with raw material manufacturers, Oji Paper's mills and headquarters conduct investigations from their respective positions (figure 2).

**(2) Information updating system**

With the mandated control of chemical substances becoming stronger in and outside Japan, the need to promptly obtain new regulatory and hazard information has become more critical than ever. To stay ahead of this trend, Oji Paper regularly updates information on raw materials currently in use through regulatory and hazard information study sheets. The group has been obtaining the cooperation of raw material makers in this effort, which compliments its pre-use evaluation system, since 2006.

**Disclosing information to customers**

**Providing product safety information**

We actively provide information on product handling and safety so that customers can use the Oji Paper Group's products with confidence.

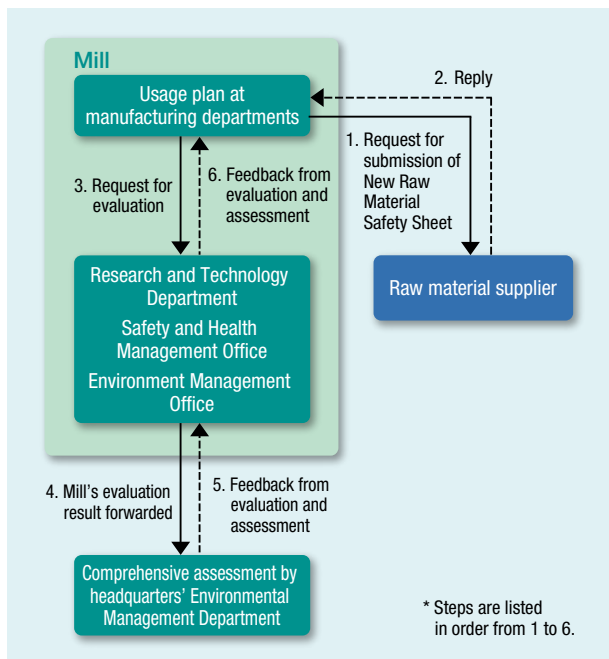
For special products that contain substances specified in laws and ordinances in quantities above defined amounts, we issue Material Safety Data Sheets (MSDS<sup>\*1</sup>) in accordance with the law. For most products, which are not applicable to the conditions for MSDS issuance, we issue an Article Information Sheet (AIS<sup>\*2</sup>). In addition, we issue investigation reports based on investigations conducted in response to individual inquiries about product safety.

\* 1 Material Safety Data Sheet (MSDS): A means of communicating hazard and toxicity information and handling precautions for chemical substances when those substances are traded between businesses.  
 \* 2 Article Information Sheet (AIS): Instructions that provide information needed to safely handle articles with the aim of preventing product-related accidents.

**Product Safety Charter**

The Oji Paper Group established its Product Safety Charter in 1995 to clearly describe its commitment to ensuring product safety.

**Figure 2 New Raw Material Safety Sheet Evaluation Flowchart**



**Product Safety Charter**

Oji Paper has, throughout its history, delivered safe products, fully recognizing that its corporate social responsibility entails providing quality and services that enable customers to use its products with peace of mind. Going forward, we will continue to fulfill the trust of our customers by ensuring that all of our employees reliably implement the following commitments.

1. We will continually improve our group-wide quality control system, ensuring that we always provide safety-conscious products using the latest technology.
2. We will provide timely and appropriate information on product safety and proper usage.

# Initiatives to Combat Global Warming

Oji Paper is taking a hands-on, site-based approach to reducing both total primary energy consumption and consumption of fossil fuels.

## Fighting global warming

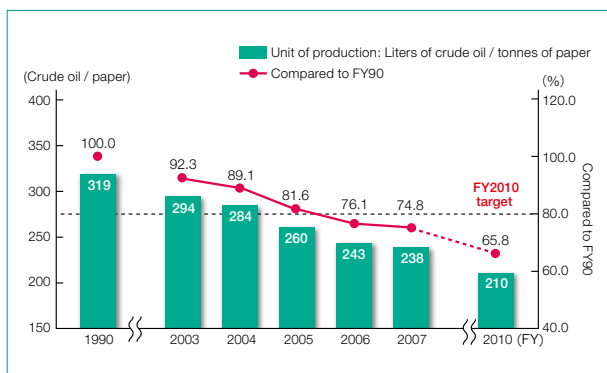
### Boilers using new energy sources

In its Environmental Action Plan 21, the Oji Paper Group set targets for the “promotion of global warming counter-measures”—a 20% reduction of fossil fuel-based energy consumption per unit of production and a 20% reduction of fossil fuel-derived CO<sub>2</sub> emissions per unit of production by 2010, compared to fiscal 1990 levels. In fiscal 2007, we surpassed both targets two years ahead of schedule, with a 25.2% reduction in fossil fuel-based energy consumption (graph 1) and a 25.5% reduction in CO<sub>2</sub> emissions per unit of production (graph 2). A major contributor to this achievement was the adoption of boilers that use new energy sources. In light of this success, Oji Paper plans to set new targets that make the most of the efficiency of these boilers.

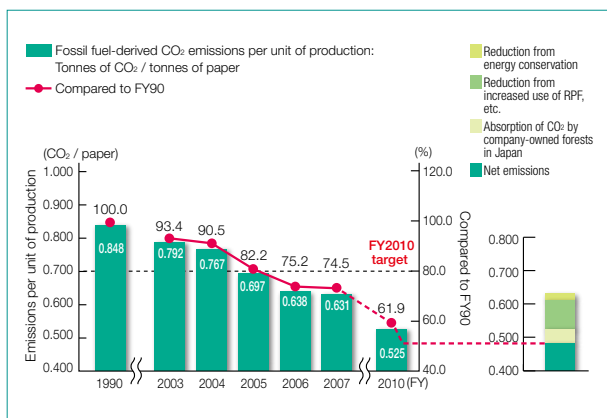
The Oji Paper Group is investing in the conversion from fossil fuels to waste-derived fuels (RPF<sup>1</sup>, scrap tires, etc.) and biomass fuels (scrap wood from buildings, etc.), neither of which have often been used in the past. Six of these “new energy boilers” were up and running by fiscal 2007, and we have plans to put three more into operation in the future (table 1, photo 1).

\* 1 Please refer to note on page 37.

**Graph 1 Fossil Energy Consumption per Unit of Production**



**Graph 2 Fossil Fuel-derived CO<sub>2</sub> Emissions per Unit of Production, and Forecasted Reduction**



## More ways to reduce CO<sub>2</sub> emissions

The Oji Paper Group is determined to continue reducing CO<sub>2</sub> emissions when using fossil fuels by using those with a low CO<sub>2</sub> emission factor (such as town gas instead of heavy oil C). Our R&D division is working to find ways to manufacture bioethanol from unused wood, including thinned timber. In these and many other ways, the Oji Paper Group is making a concerted effort to combat global warming.

**Table 1 Adoption of New Energy Boilers**

Mill	Start of operation	Main fuel	Amount of evaporation
Tomakomai Mill, Oji Paper	April 2004	RPF	260t/h
Oita Mill, Oji Paperboard	May 2004	RPF	200t/h
Yonago Mill, Oji Paper	June 2005	RPF, scrap tires	250t/h
Nichinan Mill, Oji Paper	May 2006	Scrap tires, wood	130t/h
Tokai Mill's Shibakawa Facility, Oji Specialty Paper	Nov. 2006	Wood	7t/h
Kasugai Mill, Oji Paper	Oct. 2007	RPF, scrap tires	140t/h
Tomioka Mill, Oji Paper	Nov. 2008 (planned)	RPF, scrap plastics	300t/h
Nikko Mill, Oji Paperboard	End 2008 (planned)	Wood, scrap tires, RPF	70t/h
Tomakomai Mill, Oji Paper	2011 (planned)	RPF, wood	260t/h



**Photo 1** The new energy boiler put into operation in 2006 at the Nichinan Mill

## Renewable Energy and Waste-derived Energy

The Oji Paper Group defines oil, coal, and electrical power purchased from power companies as “fossil fuel-based energy.” It considers black liquor, other biomass fuels, and hydroelectric power “renewable energy.” RPF (a fuel derived from the waste of products made from fossil resources) and scrap tires are considered “waste-derived energy.” The sum of all of these is “primary energy.”

Renewable energy is a renewable resource. Biomass fuels generate CO<sub>2</sub> when combusted; however, the CO<sub>2</sub> that is released is the CO<sub>2</sub> that was absorbed during the course of growth. So, from a lifecycle perspective, theoretically this causes no increase in atmospheric CO<sub>2</sub>. This is why biomass fuels are considered carbon neutral.

When it is technically and economically difficult to prioritize the “3Rs” (reduce, reuse, and recycle), Oji Paper incinerates combustibles, considering sanitation and waste reduction issues. Simply incinerating such waste to dispose of it would result in increased CO<sub>2</sub>. However, using it as an alternative fuel reduces the usage of fossil fuels and thus holds down CO<sub>2</sub>. The government of Japan also encourages using waste-derived energy as a means of reducing consumption of fossil energy.

**Paper industry uses much energy not derived from fossil fuels**

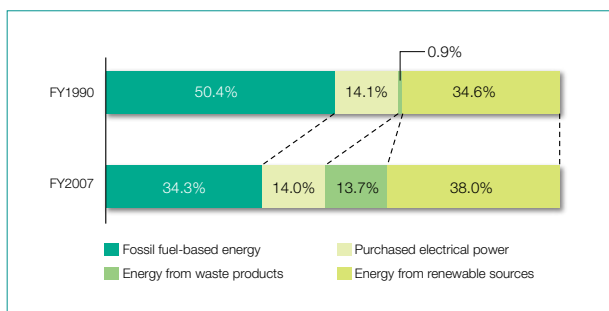
**The paper industry is one of the largest consumers of energy**

Like other basic material manufacturers such as the steel and chemical industries, the paper industry is a major consumer of energy. This is because of the large amounts of electrical power needed to run manufacturing equipment and the large amounts of heat required to dry the sheets of paper made from pulp that has been disbursed in water.

**The paper industry gets top grades in biomass fuel use**

Looking at the Oji Paper Group’s energy consumption for fiscal 2007, it is clear that more than half of its consumed energy came from renewable energy sources and waste products (graph 3). Among renewable energy sources, our use of black liquor is especially high, accounting for 30% of overall energy sources. We use black liquor, a plant-derived waste liquor generated when manufacturing pulp from wood chips, as a fuel in special boilers. Black liquor is a biomass fuel peculiar to the paper industry. In fiscal 2005, about 8.6 million kiloliters, on a crude oil conversion basis, of biomass fuels were used in Japan. Of these, approximately 50% was accounted for by the paper industry’s black liquor. In view of that, Japan’s paper industry is setting an outstanding example in the use of biomass fuel.

**Graph 3 Energy Composition in FY1990 and FY2007**



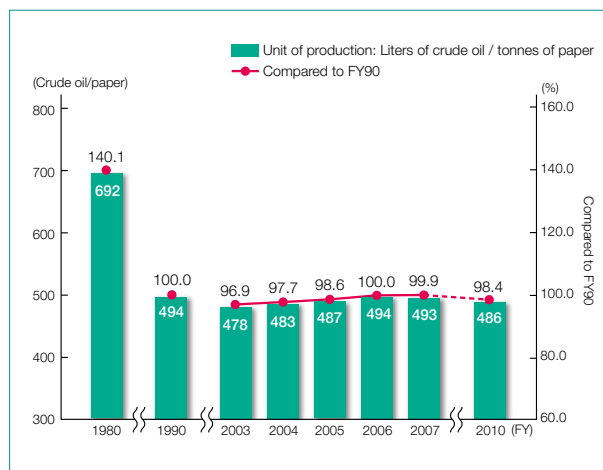
**Pursuing energy conservation**

**Efforts to reduce total primary energy consumption**

Energy conservation has been a top priority at the Oji Paper Group for many years. Comparing primary energy consumption per unit of production for fiscal 1980 and fiscal 1990, we see a substantial reduction of nearly 30% in only 10 years. This reduction was the result of the adoption of energy conservation equipment in response to the oil crisis of the 1970s. Specific examples include improved efficiency of the black liquor recovery boilers that burn black liquor, and the adoption of highly efficient auxiliaries (motors, fans, etc.).

However, the pace of reduction has slowed since 1990, and our fiscal 2007 performance was nearly flat at 99.9% of the fiscal 1990 level (graph 4). The main cause for this is the fact that the first major stage of investment in potentially effective energy conservation equipment is complete. Additional factors include the enhancement of equipment for improving product quality and for heightening added value, enhancing environmental equipment in response to strengthened environmental regulations, and increased consumption of energy that does not contribute directly to improving production efficiency, such as installing equipment for the in-house production of the chemicals needed for our manufacturing activities. Every year, we implement energy savings equivalent to 1.0-1.5% of our total primary energy consumption, but this effect is usually offset by increases elsewhere.

**Graph 4 Total Primary Energy Consumption Per Unit of Production**



**Using a site-based approach to reduce energy waste**

Striving to achieve a breakthrough in this situation, the Energy Committee, which meets every year, set the target of a year-on-year reduction of 0.5%. One specific effort to meet that goal is the Energy Conservation Patrols that perform multi-person visual checks for energy waste at facilities. The truth of the matter is that reductions in total primary energy consumption cannot be realized without the gradual accumulation of these modest, site-based efforts, including checking the status of air conditioning, lighting, and the insulation of steam piping.

What is more, one cannot expect a sharp reduction in total primary energy consumption without great innovations. Development of innovative technology must be undertaken beyond the confines of the paper industry through long-term cooperation between industry, government, and academia.

# Initiatives to Combat Global Warming

## Comprehensive evaluation of CO<sub>2</sub> emissions

While the Oji Paper Group emits CO<sub>2</sub> from its facilities, the trees on its company-owned forests in Japan and plantations outside Japan sequester a great deal of CO<sub>2</sub>. We make it our practice, therefore, to comprehensively evaluate our gross CO<sub>2</sub> emissions from the manufacture of pulp and paper and the sequestration of CO<sub>2</sub> by our trees (graph 5).

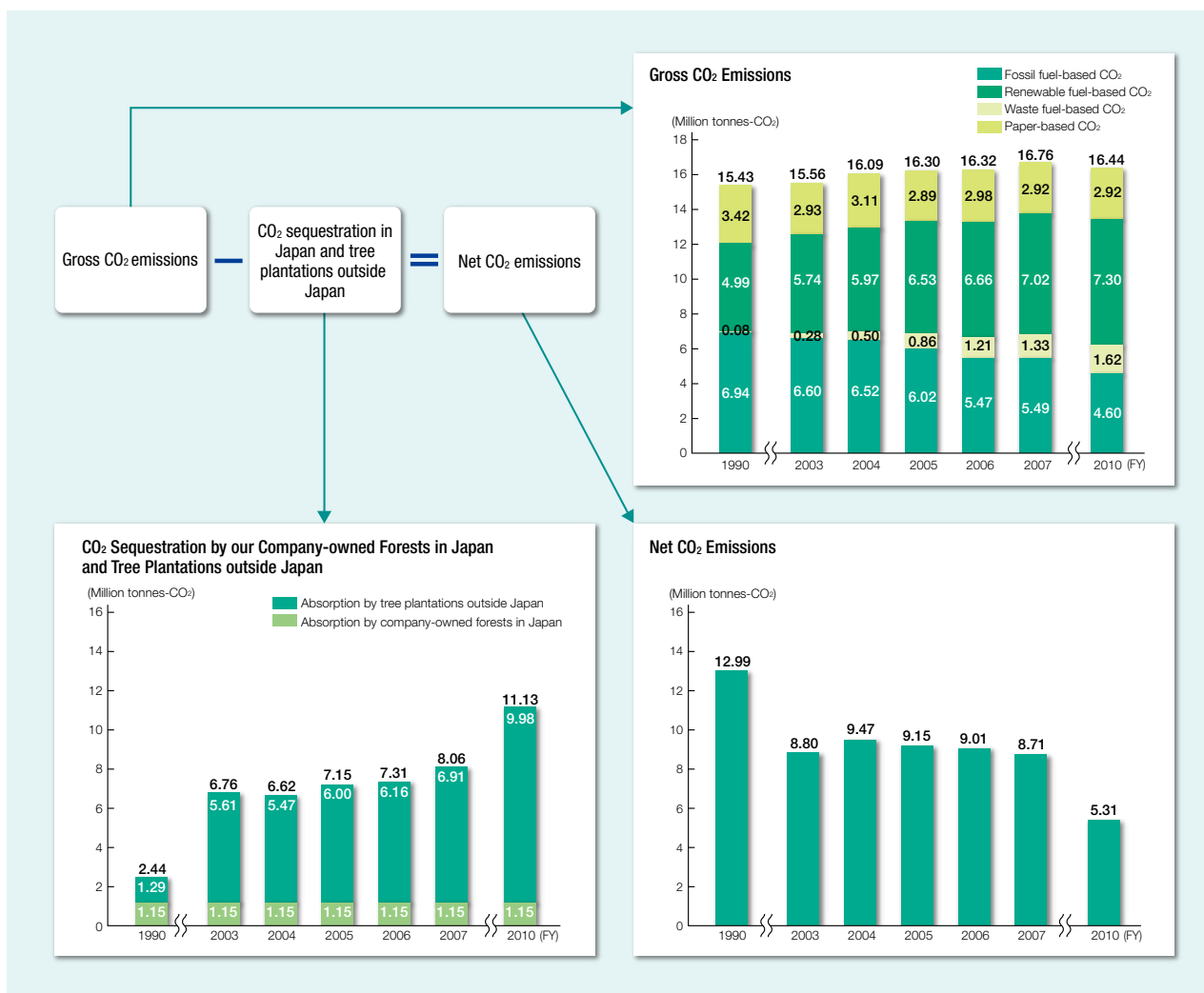
The evaluation of gross CO<sub>2</sub> emissions includes Oji Paper Co., Ltd., Oji Paperboard Co., Ltd., Oji Specialty Paper Co., Ltd., and Oji Nepia Co., Ltd., which manufacture paper in Japan, and Pan Pac and GENIBRA, which produce pulp outside Japan and supply it to the companies in Japan. The CO<sub>2</sub> emitted from these companies' facilities is derived from fossil fuels as well as waste and renewable energy sources. After the paper we produce is utilized as recovered paper, it will eventually no longer be reusable due to quality deterioration. Accordingly, we also include the amount of CO<sub>2</sub> that

will be emitted when this paper is incinerated, considering the fact that it will likely be burned as some point.

We estimate our net CO<sub>2</sub> emissions as the difference between gross CO<sub>2</sub> emissions and the amount of CO<sub>2</sub> that is sequestered during the growth of trees at our company-owned forests in Japan and plantations outside Japan. In fiscal 2007, our company-owned forests in Japan and plantations outside Japan sequestered about 50% of the amount of our gross CO<sub>2</sub> emissions. We forecast that this figure will reach about 70% by fiscal 2010 as our overseas plantations expand.

From a global perspective, our net CO<sub>2</sub> emissions represent the actual amount of CO<sub>2</sub> emitted by the Oji Paper Group. We project that our fiscal 2010 net CO<sub>2</sub> emissions will be half the 1990 level. The Oji Paper Group is determined to steadily move forward with global warming countermeasures through sustainable forest management at our company-owned forests in Japan and plantations outside Japan.

Graph 5 Comprehensive Evaluation of CO<sub>2</sub> Emissions



**Contributing to the fight against global warming through overseas tree plantations**

**Our tree plantations outside Japan absorb 6.91 million tonnes of CO<sub>2</sub>**

Tree plantations contribute to the prevention of global warming through the sequestration of CO<sub>2</sub>. The amount of CO<sub>2</sub> sequestered by the Oji Paper Group's plantations outside Japan in fiscal 2007 is estimated at 6.91 million tonnes of CO<sub>2</sub>. This figure reaches a total of 8.06 million tonnes of CO<sub>2</sub> per year when the group's company-owned forests in Japan are included.

**Developing the Afforestation and Reforestation CDM and obtaining methodology approval**

The Oji Paper Group has been working actively on the development of the Afforestation and Reforestation CDM based on the Clean Development Mechanism (CDM) under the Kyoto Protocol.

The Afforestation and Reforestation CDM is a tool for addressing global warming, an official mechanism under the Kyoto Protocol. In a CDM, developed countries implement projects to reduce or eliminate emissions of greenhouse gases in developing countries, and in return get credits called certified emission reductions.

A CDM project must have its methodology approved in advance,<sup>\*1</sup> following the CDM Executive Board's procedures. Then, a Project Design Document using the approved methodology must pass the CDM Executive Board's strict scrutiny.

The Oji Paper Group has developed a new methodology—afforestation and reforestation on degraded land for sustainable wood production—that was officially approved and registered by the CDM Executive Board in July 2007. This methodology has received attention in and outside Japan as the world's first methodology to emerge from the paper industry.

\*1 Methodology: A description of the methods for quantifying and monitoring the reductions (absorption and sequestration) of emissions of greenhouse gases in a CDM project.

**Reforestation CDM project in Madagascar**

In Madagascar, which was the model in the development of the above methodology, degraded grasslands are spreading due to excessive logging for fuel wood and the reduction of forests caused in part by wildfires. The new methodology targets lands that were beyond hope of forest recovery, having been left as grasslands or degraded land since 1989.

In parallel with the development of the methodology, the Oji Paper Group established a 100 hectare pilot tree plantation in 2006. Although the tree plantation is only 100 hectares, it is the largest forest in this region. Hundreds of community members per day helped with the tree planting work. The schools of the villages neighboring the plantation

reopened, the wildfires are decreasing, and residents' attitudes toward forest conservation are changing.

In addition to helping in the fight against global warming, the sustainable forest industry also contributes to the sustainable development of local communities by creating employment, fostering technicians, conserving soil, and suppressing wildfires.



Community residents measuring the height of two-year-old eucalyptus trees

**Fighting global warming at the office**

With the first commitment period of the Kyoto Protocol underway since April 2008, there is a need to improve energy conservation and take other steps against global warming in offices. On November 20, 2007, Nippon Keidanren (Japan Business Federation) issued a call for more energy conservation in offices to fight global warming.

In response, the Oji Paper Group established an Office Energy Conservation Measures Team in December 2007. The Team set the numerical target of reducing energy consumption by at least 1% from the previous year in the main building, Building No. 1, and Shinonome Laboratory.

During the first year, energy conservation measures for lighting in offices and hallways and power saving measures for office equipment are estimated to reduce energy consumption by 1.63 million MJ (3.6 times 1 KW), which equates to a reduction of 74 tonnes-CO<sub>2</sub> on a CO<sub>2</sub> conversion basis (a 1.3% reduction compared to the fiscal 2006 performance).



Before (left) and after (right) taking energy conservation measures with lighting. Covers were removed to maintain the needed illumination after the number of fluorescent bulbs was reduced (implemented in offices in the main building).

# Initiatives to Combat Global Warming: Distribution Policy

## Reducing CO<sub>2</sub> from distribution: Phasing out cross transport and shifting modes of transport

The Oji Paper Group is making efforts to improve distribution efficiency and reduce emissions of CO<sub>2</sub> and other greenhouse gases during distribution.

### Responding to Japan's revised Energy Conservation Law

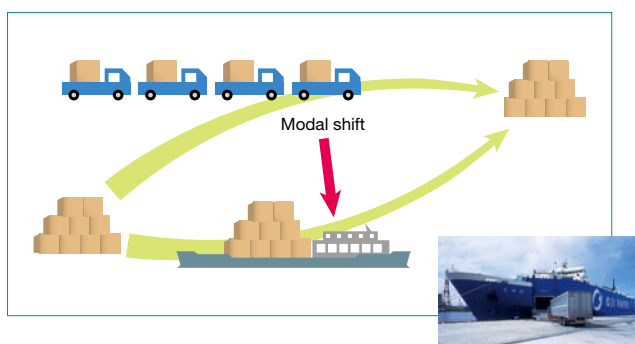
Japan's revised Energy Conservation Law, which took effect in April 2006, expanded the coverage of regulations to include the distribution field. The Oji Paper Group was designated as a specified consigner.<sup>\*1</sup> On June 30, 2008, we made our second set of submissions to the Kanto Bureau of Economy, Trade and Industry: an energy consumption report for fiscal 2007 and a medium- to long-term energy conservation plan.

Starting with this submission, every year we will take a medium- to long-term perspective and report whether the group succeeded in reducing energy consumption per unit of production by a 1% average for the year and make a comparative report on the energy conservation plan versus the plan for the previous fiscal year. Going forward, we will continue striving to reduce energy consumption per unit of production by pursuing a modal shift<sup>\*2</sup> (figure 1), which reduces environmental impact, and by reducing cross transport, which improves distribution efficiency.

\* 1 A freight consigner with 30 million tonne-kilometers or more of annual freight volume, calculated by multiplying the freight (in tonnes) by the distance shipped (in kilometers).

\* 2 The shifting of the means of transport from truck-based freight transport, which has high CO<sub>2</sub> emissions, to ship and rail, which have a lower environmental impact and mass transport capacity.

Figure 1 Modal Shift



### Modal shift and the reduction of cross transport

The Oji Paper Group ships products to users throughout Japan from its mills located across the country: 9 mills of Oji Paper Co., Ltd., 12 mills of Oji Paperboard Co., Ltd., 4 mills and 6 production facilities of Oji Specialty Paper Co., Ltd., and 3 mills of Oji Nepia Co., Ltd. Cross transport occurs depending on the destination, leading to increased CO<sub>2</sub> emissions.

Depending on the product class, the group produces products of the same quality at multiple mills. So, by shipping as much as possible to users near the production mill, we are reducing emissions of CO<sub>2</sub>. While we have been

working on reducing cross transport for some time now, we will strengthen our efforts to reduce it further following enforcement of Japan's revised Energy Conservation Law (figure 2).

We are also implementing modal shift as a measure for reducing environmental impact. The Oji Paper Group's modal shift rate for fiscal 2007 was 71% (graph 1). This rate greatly exceeds the 40% average for all companies in Japan.

Further, as part of our acquisition of Green Management Certification<sup>\*3</sup> (13 logistics centers as of June 9, 2008), we installed a digital tachograph in all company vehicles as part of our efforts to make environmental improvements. These devices helped us improve drivers' awareness of safe driving and economical driving, which in turn resulted in fewer accidents and a reduction in fuel expenses through improved fuel economy.

Through such measures the Oji Paper Group will continue working to make further environmental improvements in the future.

\* 3 A review-based certification and registration system for businesses that undertake at least a certain level of initiatives based on a green management manual. The Foundation for Promoting Personal Mobility and Ecological Transportation acts as the certifying organization.

Table 1 Environmental Impact of Group's Product Transportation in FY2007

	Weight transported	Average distance transported	Weight x distance	CO <sub>2</sub> emissions
	(1,000 tonnes)	(km)	(Million tonne-kilometers)	(1,000 tonnes)
Ship	2,831	955	2,703	109
Rail	509	776	395	8
Automobile	8,724	142	1,241	42
Total	12,064	360	4,339	159

Graph 1 Modal Shift Rate

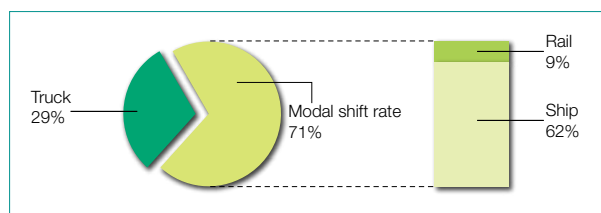
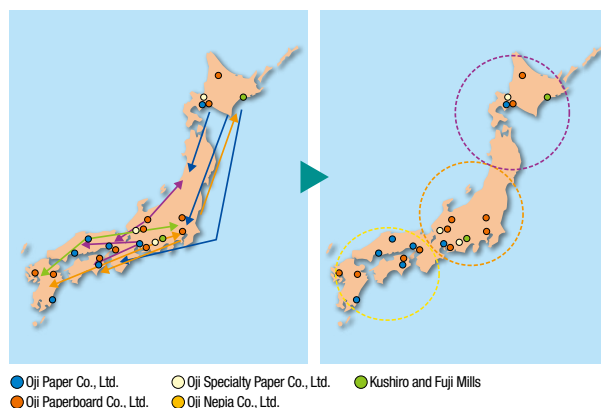


Figure 2 Illustration of the Oji Paper Group's Cross Transport

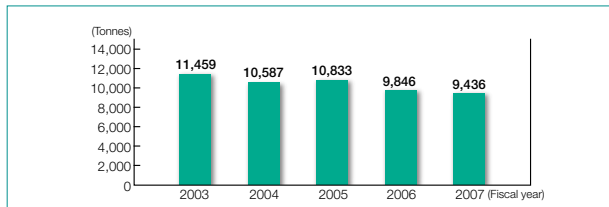


● Oji Paper Co., Ltd.    ● Oji Specialty Paper Co., Ltd.    ● Kushiro and Fuji Mills  
 ● Oji Paperboard Co., Ltd.    ● Oji Nepia Co., Ltd.

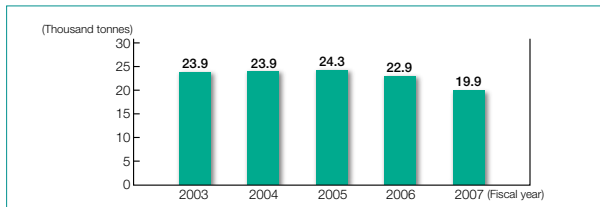
# Environmental Impact of the Oji Paper Group (Statistics)

## Air, Water and Wastes

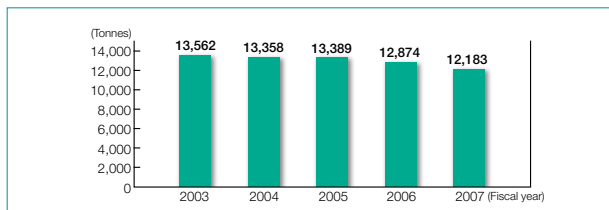
Graph 1 SOx<sup>\*1</sup> Emissions



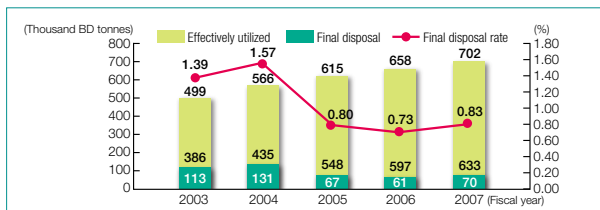
Graph 7 Emissions of Suspended Solids<sup>\*7</sup>



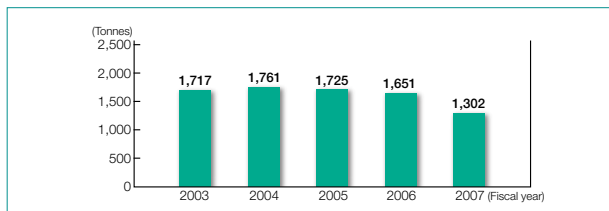
Graph 2 NOx<sup>\*2</sup> Emissions



Graph 8 Effective Utilization of Wastes, Final Disposal, Final Disposal Rate<sup>\*8</sup>



Graph 3 Soot<sup>\*3</sup> Emissions



\* Companies covered by graphs 1-8: Oji Paper Co., Ltd., Oji Paperboard Co., Ltd., Oji Specialty Paper Co., Ltd., and Nepia Co., Ltd.

\* 1 Sulfur oxides (SOx): See note 1 on page 38.

\* 2 Nitrogen oxides (NOx): See note 2 on page 38.

\* 3 Soot: See note 3 on page 38.

\* 4 VOC: Volatile organic compounds, including thinners such as toluene, acetone, and ethyl acetate.

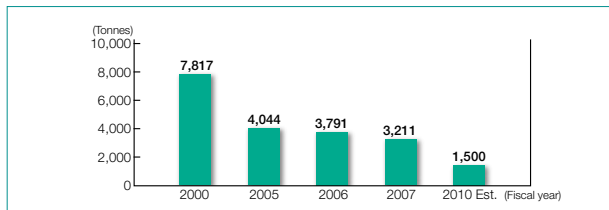
\* 5 COD (chemical oxygen demand): See note 4 on page 38.

\* 6 BOD (biochemical oxygen demand): See note 5 on page 38.

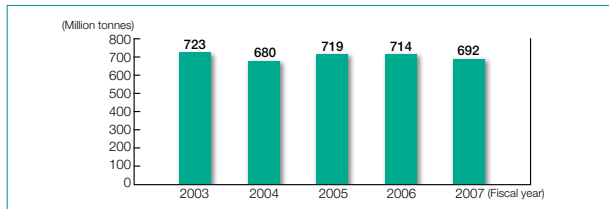
\* 7 SS (suspended solids): See note 6 on page 38.

\* 8 Final disposal rate: The amount of waste generated at mills that was disposed of by burying in landfills, expressed as a percentage of production volume.

Graph 4 VOC<sup>\*4</sup> Emissions



Graph 5 Water Usage



Graph 6 COD<sup>\*5</sup> and BOD<sup>\*6</sup> Emissions

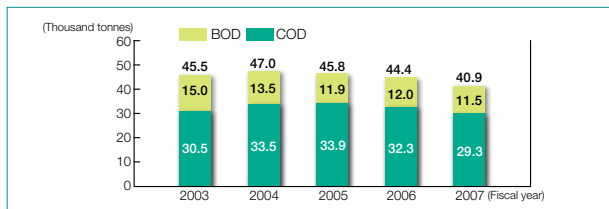


Table 1 Storage of PCB Wastes

(Unit: kg)

Company	Amount stored	Processed	Amount after process
Oji Paper Co., Ltd.	40,556	0	40,556
Oji Paperboard Co., Ltd.	44,001	0	44,001
Oji Specialty Paper Co., Ltd.	13,996	0	13,996
Other	19,874	679	19,195
<b>Total</b>	<b>118,427</b>	<b>679</b>	<b>117,748</b>

\* As of April 2008

## Accident report

From the start of fiscal 2007 to June fiscal 2008, two accidents occurred at Oji Paper Group facilities: a leak of unneutralized alkaline chemicals off premises; and a fire in a mill that resulted from wood dust igniting inside a conveyor belt. Responding the first one, we made structural improvements to the dike and took other measures to prevent a recurrence. For the second, we made equipment modifications so that wood dust would not pile up inside the conveyor belt, and installed temperature sensors and a sprinkler system.

We regret the great inconvenience these events caused for residents who live near the mills. Going forward, we will thoroughly implement equipment maintenance, training in work procedures, and other measures to prevent a recurrence.

## Environmental Accounting

**Table 2 Environmental Conservation Cost**

(Unit: ¥ million)

Category	Main initiatives	Investment	Costs
1. Environmental conservation costs for curbing environmental impact generated by production and service activities within business sites		24,099	18,821
Breakdown	a. Environmental conservation management costs	3,782	11,477
	b. Global environmental conservation costs	7,265	816
	c. Resource circulation costs	13,052	6,529
2. Costs for curbing environmental impact generated upstream or downstream by production and service activities	Costs for purchasing low-sulfur fuel (balance amount)	0	325
3. Environmental conservation costs related to administrative activities	Employee education, ISO 14001 costs, costs for air and water analysis, costs for operating committees and other organizations, etc.	0	762
4. Environmental conservation costs related to R&D activities	Product development that contributes to environmental conservation by promoting utilization of recovered paper, curbing environmental impact that occurs during production, etc.	145	1,844
5. Environmental conservation costs related to social activities	Philanthropic programs, support for various environmental groups, environmental and sustainability reporting, environmental exhibitions, etc.	0	139
6. Costs related to environmental damage	Pollution impact levy (SOx)	0	938
Total		24,244	22,829

**Table 3 Economic Benefit Associated with Environmental Conservation Activities**

(Unit: ¥ million)

Effect	Value
Income from company-owned forests in Japan	526
Cost reductions through energy conservation	3,370
Income from recycling	1,213
Total	5,109

### Method and scope of data aggregation

\* Data aggregation was performed in accordance with the *Environmental Accounting Guidelines* published by Japan's Ministry of the Environment.  
 \* Scope of aggregation: Oji Paper and its main affiliates (Oji Paperboard, Oji Specialty Paper, Oji Nepia, Oji Chiyoda Container, Oji Cornstarch, and Oji Tac)  
 \* Period covered: April 1, 2007 – March 31, 2008

## Release and Transfer of PRTR Chemical Substances

**Table 4 PRTR<sup>9</sup> Summary Sheet for the Oji Paper Group Mills (Data for April 2007 — March 2008)**

(Unit: tonnes, except for dioxins, which are mg-TEQ)

Substance	Amount handled (output)	Released to atmosphere	Released to public waters	Total released (calculated value)	Total transferred (calculated value)	Total released and transferred (FY07)	Total released and transferred (FY06)
zinc compound (water-soluble)	50		3	3	7	10	11
acrylic acid	1			0	0	0	0
2-aminoethanol	22			0	0	0	0
diethylenetriamine	2			0	0	0	0
n-alkylbenzenesulfonic acid and its salt (C=10-14)	2			0	0	0	0
antimony and its compounds	5			0	0	0	0
ethylbenzene	6	2		2	0	2	0
ethylene glycol	13			0	3	3	2
xylene	1,029	6		6	1	7	6
glyoxal	6			0	0	0	0
chloroform	16	10	5	15	0	15	4
vinyl acetate	710	1		1	0	1	1
cyclohexylamine	5	5		5	0	5	4
styrene	11			0	0	0	0
copper water-soluble salt (except complex salt)	74		16	16	1	17	2
toluene	4,830	2,304		2,304	232	2,535	3,081
lead and lead compounds	11			0	0	0	0
bis (8-quinolinolato) copper	1		1	1	0	1	0
hydrazine	1			0	0	0	0
di-n-butyl benzyl phthalate	1			0	0	0	0
benzene	348	33		33	0	33	26
boron and its compounds	268	1	13	14	3	16	17
poly (oxyethylene) alkyl ether (C=12-15)	14			0	0	1	0
formaldehyde	8	1	4	4	0	4	11
manganese and its compounds	3		3	3	0	3	1
methylenebis (4,1-cyclohexylene) diisocyanate	4			0	0	0	0
Total (t) (excluding dioxins)	7,444	2,362	46	2,407	248	2,654	3,171
dioxins (mg-TEQ)	2,115	288	55	363	1,752	2,115	1,918

<sup>9</sup> PRTR (Pollutant Release and Transfer Register)

Under the PRTR system, businesses ascertain the amounts of chemical substances that could be harmful to human health and/or ecosystems which they have emitted to the environment and transferred as part of waste and report that data to a government agency. The government agency then uses the data to tabulate and publish information on the amounts of chemicals emitted and transferred.

Except for dioxins, this table includes only substances of which 1 tonne or more was handled.



## Data for Individual Mills and Companies

Table 5 Environmental Impact of Individual Mills of Oji Paper Co., Ltd. (Fiscal 2007)

Mill	Production	Environmental impact on water				Environmental impact on atmosphere			Waste				
		Water consumption	Waste-water	COD or BOD	Suspended solids	Sulfur oxides	Nitrogen oxides	Soot	Effectively utilized waste	Disposed waste	Total transferred	Effective utilization rate	Final disposal rate
		a				SOx	NOx		b	c	b+c	b/(b+c)	c/a
Tonnes	Thousand tonnes	Thousand tonnes	Tonnes	Tonnes	Tonnes-SO <sub>2</sub>	Tonnes-NO <sub>2</sub>	kg	BD tonnes	BD tonnes	BD tonnes	%	%	
Kushiro Mill	655,625	75,556	69,401	6,863	3,057	1,550	951	165,000	61,918	568	62,486	99.1	0.087
Tomakomai Mill	1,264,789	139,455	129,494	10,878	5,607	2,029	2,622	62,000	246,422	4,139	250,561	98.3	0.327
Fuji Mill	428,293	31,900	31,686	1,299	539	57	307	17,100	36,643	392	37,035	98.9	0.092
Kasugai Mill	796,524	64,199	63,935	3,380	1,594	330	1,539	190,500	42,834	21,815	64,649	66.3	2.739
Kanzaki Mill	75,221	344	230	12	7	0	19	35	8,288	8	8,295	99.9	0.010
Yonago Mill	620,200	46,785	46,785	3,181	1,450	840	1,189	96,000	48,065	610	48,675	98.7	0.098
Kure Mill	294,958	48,509	49,101	2,328	836	23	881	25,000	12,457	66	12,523	99.5	0.022
Tomioka Mill	602,228	59,745	59,380	3,230	831	241	1,178	244,000	25,660	2,337	27,997	91.7	0.388
Nichinan Mill	271,973	39,942	39,942	2,648	2,333	1,063	464	50,000	17,738	26,897	44,635	39.7	9.889
Total	5,009,811	506,434	489,955	33,821	16,254	6,132	9,149	849,635	500,024	56,831	556,855	89.8	1.134

Table 6 Environmental Impact of Oji Paper Group Companies (Fiscal 2007)

	Number of facilities	Production	Energy		Environmental impact on water quality					
			Fossil fuel consumption	CO <sub>2</sub> emissions	Water consumption	Wastewater	COD	BOD	COD+BOD	Suspended solids
			a	Crude oil equivalent	Derived from fossil fuels					
Tonnes	Thousands of kl	Thousands of tonnes-CO <sub>2</sub>	Thousands of tonnes	Thousands of tonnes	Tonnes	Tonnes	Tonnes	Tonnes		
Oji Paper Co., Ltd.	9	5,009,811	1,207	3,227	506,434	489,955	26,945	6,876	33,821	16,254
Oji Paperboard Co., Ltd.	11	2,629,901	503	1,370	112,547	103,941	1,540	1,881	3,420	2,135
Oji Specialty Paper Co., Ltd.	9	493,236	174	436	66,922	65,194	497	2,767	3,264	1,447
Oji Nepia Co., Ltd.	3	227,940	109	246	6,053	6,019	356	0	356	90
Oji Cornstarch Co., Ltd.	3	335,970	48	105	10,349	10,033	60	89	149	53
Oji Chiyoda Container Co., Ltd.	31	986,867	38	85	382	206	0	8	8	6
Mori Shigyo Group (excluding Oji Paper Co., Ltd.)	21	866,872	33	73	374	146	0	17	18	4
Oji Tac Co., Ltd.	1	14,047	6	12	248	248	0	0	0	1
Yupo Corporation	1	24,230	16	33	51	48	0	0	0	0
Oji Kinocloth Co., Ltd.	2	27,637	11	21	442	442	0	0	0	0
Oji Packaging Co., Ltd.	2	71,104	5	11	27	27	0	0	0	0
Total for 21 other affiliates	68	411,550	44	91	3,285	2,847	125	1	125	12
Total	161	11,099,165	2,194	5,710	707,115	679,107	29,522	11,639	41,161	20,003

	Number of facilities	Environmental impact on atmosphere			Waste				
		Sulfur oxides	Nitrogen oxides	Soot	Effectively utilized waste	Disposed waste	Total transferred	Effective utilization rate	Final disposal rate
		SOx	NOx		b	c	b+c	b/(b+c)	c/a
Tonnes-SO <sub>2</sub>	Tonnes-NO <sub>2</sub>	kg	BD tonnes	BD tonnes	BD tonnes	%	%		
Oji Paper Co., Ltd.	9	6,132	9,149	849,635	500,024	56,831	556,855	89.8	1.134
Oji Paperboard Co., Ltd.	11	854	1,871	155,480	77,246	5,597	82,843	93.2	0.213
Oji Specialty Paper Co., Ltd.	9	2,053	954	282,141	47,041	5,181	52,222	90.1	1.050
Oji Nepia Co., Ltd.	3	397	209	14,400	8,589	1,985	10,574	81.2	0.871
Oji Cornstarch Co., Ltd.	3	13	56	1,520	1,965	458	2,423	81.1	0.136
Oji Chiyoda Container Co., Ltd.	31	133	53	5,501	102,187	726	102,913	99.3	0.074
Mori Shigyo Group (excluding Oji Paper Co., Ltd.)	21	187	55	17,002	77,285	747	78,032	99.0	0.086
Oji Tac Co., Ltd.	1	3	1	23	2,485	30	2,515	98.8	0.210
Yupo Corporation	1	0	0	0	869	34	903	96.2	0.142
Oji Kinocloth Co., Ltd.	2	0	17	0	1,877	62	1,939	96.8	0.226
Oji Packaging Co., Ltd.	2	0	0	4	10,349	85	10,434	99.2	0.120
Total for 21 other affiliates	68	127	40	10,485	23,976	1,624	25,601	93.7	0.395
Total	161	9,899	12,405	1,336,190	853,894	73,360	927,254	92.1	0.661

# Social Performance

## Customer Relations

## Employee Relations

## Community Relations

## Corporate Citizenship

## Customer Relations

Oji Paper is committed to pursuing authentic communication with customers. We will continue striving to help people learn about our sustainable business model and the value of paper.

### Oji Paper's approach to communication with customers

The Oji Paper Group is connected to consumers through its paper products. Due to the nature of our business as a major paper manufacturer, however, our direct interaction with general consumers—who are, in fact, ultimately our customers—has been rather limited. Nevertheless, we recognize that it is the Oji Paper Group's social responsibility to give people the chance to learn about our sustainable business model and to understand how valuable paper is, since it is made with precious natural resources.

Going forward, we are determined to focus on further enhancing communication with consumers through Nepia Tissue and other paper products that general consumers use every day.

### Listening to customers

#### Oji Nepia's Customer Service Office

It is our basic commitment to provide customers with products that they will always be satisfied with. Accordingly, we are making efforts to communicate with customers and channel their valuable opinions and requests through systems that we have developed to make use of customer feedback in the development of better products.

Every day, telephone representatives with consumer advisor qualifications listen to the voices of customers in the Customer Service Office at Oji Nepia Co., Ltd. (photo 1). The office handles on average 70 to 80 inquiries per day. On a daily basis, these opinions and requests are channeled to product developers, sales staff, and the company president, and efforts are made to enable prompt and precise responses and improvement.

Tissue paper is a product that directly touches customers' faces. In recent years, inquiries about odors have increased. In response, we have trained in-house personnel who are qualified to judge odors. We have placed these odor monitors in the mills that manufacture household



**Photo 1** Five consumer advisors respond to customer inquiries



**Photo 2** Odor monitors testing for offensive odors

products, where they conduct regular checks, and take corrective measures (photo 2).

Moreover, we have improved access for customers and created toll-free numbers that can be dialed even from cell phones by customers with inquiries about children's diapers.

### Communication through the Oji Paper Library

In November 2006, the Oji Paper Group opened the Oji Paper Library (photo 3) on the first floor of its headquarters to make it easier for more people to learn about its paper products for themselves.

Until now, Oji Paper has had few opportunities for direct communication with the end-consumers who use paper, since its paper products are often delivered to users through distribution agents.

The Oji Paper Library displays samples of a wide variety of papers for visitors—including designers and creative artists who use paper in all sorts of projects—to touch and see. We have also set up an opinion box in the library for visitors to provide opinions and make inquiries. In response, sales staff members may visit customers directly to exchange opinions. Further, the library started distributing an e-mail newsletter as a means of sending out information and broadening communication.

We are looking forward to continuing to use the Oji Paper Library effectively as a place to receive feedback directly from customers and to exploring the possibilities of paper.



Photo 3 Visitors can freely peruse a wide variety of papers

### Customer communication makes products better

#### Improving packaging materials: Oji Chiyoda Container Co., Ltd.

Oji Chiyoda Container is working with its customers to improve packaging materials. The EcoCute (an energy efficient heat pump for heating water for domestic use) made by Daikin Industries, Ltd., is very heavy and so used to be packaged in a wooden frame (photo 4). Oji Chiyoda Container earned a good review from Daikin Industries by enabling the switch to strong containerboard packaging designed specifically for the EcoCute (photo 5), which reduced Daikin's costs and made packaging work easier. This switch also had positive effects in terms of the environment and distribution, since containerboard is recyclable and light.

The conventional packaging style of "covering" Sony's large 46-inch or bigger TVs resulted in problems such as the difficulty of lifting large boxes and hitting the ceiling or lighting during unpacking. By packaging the TVs in a three-piece carton (photo 6), the packing and unpacking work became much more efficient and the containerboard weight and resources needed were reduced, resulting in lower costs.



Photo 4 Before improvement (wooden frame)

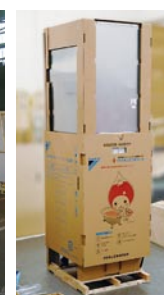


Photo 5 After improvement (containerboard packaging suitable for heavy objects)

#### Effects of improvement

- Distribution cost ..... Down 20%
- Man-hours for packaging ..... Down 30%
- Packaging cost ..... Down 35%



Photo 6 Exterior case for large TVs (three-piece carton)

#### Effects of improvement

- Container board weight .... Down 20%
- Packaging cost ..... Down 10%

### Improving user friendliness with customer feedback: The Design Center and Oji Kinocloth Co., Ltd.

Reed Cooking Paper, sold in paper-based or film varieties, is manufactured by Oji Kinocloth Co., Ltd., and marketed by Lion Corporation. In response to requests from customers for a product that was easier to handle and tear and cleaner to use with food, we developed a plastic holder just for Reed Cooking Paper (photo 7). In an investigation by monitors, the product was very well received for its ease of use and cleanliness.



Photo 7 The plastic cover makes it easy to dispense the paper and protects it from water, oil, and dust.

# Employee Relations

Our human resource programs are designed to ensure employee health and safety, provide comfortable workplaces, and give all employees the opportunity to prosper by realizing their full potential.

## The Oji Paper Group's human resources system

### Management based on respect for people

The Oji Paper Group is proud of its excellent labor relations, characterized by bonds of affection and trust cultivated over a 130-year history. This intangible relational asset is, in fact, our most valuable possession. Built on the bedrock of our management philosophy—management based on respect for people—our fundamental human resources policy is to build an organization that encourages each employee's originality and ingenuity.

As the Oji Paper Group evolves into a global corporation, in recent years we have been shifting from a seniority-based human resources system to a performance-based system. Grounded in stable labor relations, this change in focus will enable us to further enhance our human assets in terms of both quality and quantity and to energize our organizations. We are also encouraging all employees to improve their abilities, providing group-wide job rotations, and striving to place the right person in every job.

**Table 1** Main Human Resources Programs

<b>Performance-based human resources and salary system for managers</b>	Introducing a transparent performance evaluation system and salary system based on clarification of the results and abilities expected of managers.
<b>Ability-based grade system for basic-position employees</b>	Operating an ability-based human resources and wage system based on clear functional qualification standards.
<b>Personnel transfer and assignment system</b>	Systematically implementing job rotations to enable individuals to demonstrate their abilities more effectively, based on a commitment to having the right person in every job.
<b>"Self-declaration" system</b>	Implementing annual employee self-declarations of career vision in conjunction with interviews with supervisor, with a view toward long-term, systematic human resources development.
<b>Encouraging employees to pursue new qualifications</b>	Operating a system of providing incentive pay for employees who acquire new qualifications, in order to create a corporate culture where individuals take the initiative to learn and advance their careers.

## Constructive labor-management dialogue

Oji Paper Co., Ltd., and the Oji Paper New Workers' Union engage in constructive dialogue with the aim of fostering greater stability and progress in labor relations. This dialogue is based on the five principles stated in the preamble of the company's labor agreement (table 2), which are founded on the basic philosophy that "labor and management shall strive to establish stable labor relations, cooperating based on mutual trust and understanding, in recognition of the company's corporate social responsibility and mission, acknowledging that good labor conditions and the prosperity of the company are interdependent."

**Table 2** Five Principles in the Preamble of the Labor Agreement

<b>Respect for independence</b>	The company and labor union shall respect each other's independence.
<b>Communication</b>	The company and labor union shall communicate sufficiently based upon mutual trust and understanding.
<b>Peaceful solutions</b>	The company and labor union shall seek solutions to problems between them in a peaceful manner.
<b>Proper impartiality in personnel affairs</b>	The company and labor union shall, after due consultation, establish general standards relating to the personnel affairs of union members, and the company shall use proper impartiality in the application of those standards.
<b>Improvement and optimization of labor conditions</b>	The company and labor union shall work together to promote the modernization of the company and corporate group and thereby ensure their existence and prosperity, maintain, improve, and optimize the labor conditions of union members, and strive to stabilize employment throughout the corporate group.

## Recruitment at Oji Paper

The declining birth rate and aging of the population in Japan are forecast to lead to a labor shortage. In this state of affairs, the Oji Paper Group is attempting to secure high quality human resources, aiming to be a richly creative and highly sensitive corporate group with a streamlined workforce of superior personnel.

## Labor union conducts administrative checks and monitors corporate ethics

Oji Paper's environmental management focuses on tree plantations outside Japan and utilizing as much recovered paper as possible. The incident which came to light early in 2008, that the company betrayed the trust of society by falsifying the percent of recovered paper in its recycled paper products, is truly regrettable. We must reflect deeply on this betrayal and ensure that such an episode never happens again.

Toward that end, I think it is important to exert the labor union's administrative checking function fully and to create an open culture where frank discussions can be held about problems in the workplace. Now, more than ever, society demands that corporate management places top priority on compliance. Corporate misconduct runs the risk of being a fatal mistake and also affects employment issues.

The labor union must be actively involved in the CSR activities that the company undertakes, in part to protect employment. At meetings and training sessions, I call on union members to always act with an awareness of how to meet the expectations of society.

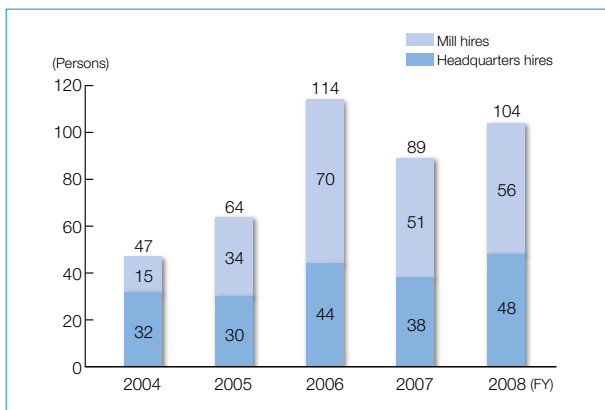
In addition, I am determined to see to it that, in coordination and cooperation with each of the Oji Paper Group's unions, we work with management and play a significant role in putting corporate ethics on a firm footing throughout the entire Oji Paper Group as we help to develop the group's future activities.



**Makoto Mieda**  
President  
Oji Paper New Workers' Union

Specifically, while carefully managing medium to long-term personnel transitions, we are implementing systematic recruitment (graph 1) in order to: (1) attract and develop human resources with potential to grow into senior management positions; (2) foster future basic-position employees in operational divisions and smoothly pass down technical skills; (3) correct imbalances in the workforce and between job classifications; and (4) prepare for new businesses and other new developments as well as strengthen sales capabilities.

**Graph 1** Number of Regular-Employee, New-Graduate Hires at Oji Paper Co., Ltd.



### Improving the workforce

The rapid diversification of Japanese society is being driven by forces such as technological innovation and globalization. To successfully navigate all this change, Oji Paper is working to establish a solid business foundation that can respond flexibly to any circumstance. We see education and other programs to strengthen and strongly motivate our workforce as the key to building such an organization—we believe our people are the wellspring of all business development. Accordingly, we have been implementing a major overhaul of our group human resources system, including affiliates.

The changes are focused on three priority areas: (1) creating a culture where people take the initiative to learn; (2) strengthening competence on the job; and (3) enhancing education to foster the top managers of the future.

Specifically, to create a culture where people take the initiative to learn, we are supporting independent skill development by establishing a correspondence-based elective skills development courses. To strengthen competence on the job, we have prepared rank-based and division-based education guidelines and implemented programs based on those guidelines in order to encourage smooth generational transitions and make sure that techniques and skills are passed down smoothly from skilled craftsmen to the younger generation. In the area of education to foster top managers, we have opened the Oji Management School for top executive candidates for the next generation. The school is intended to pass down the company’s management principles and management philosophy and put new business creation and corporate reforms into practice. We also implement business basics training on an open recruitment basis with the aim of giving group managers the chance to acquire the basic knowledge, viewpoints, and ways of thinking needed to be successful as a management executive (figure 1).

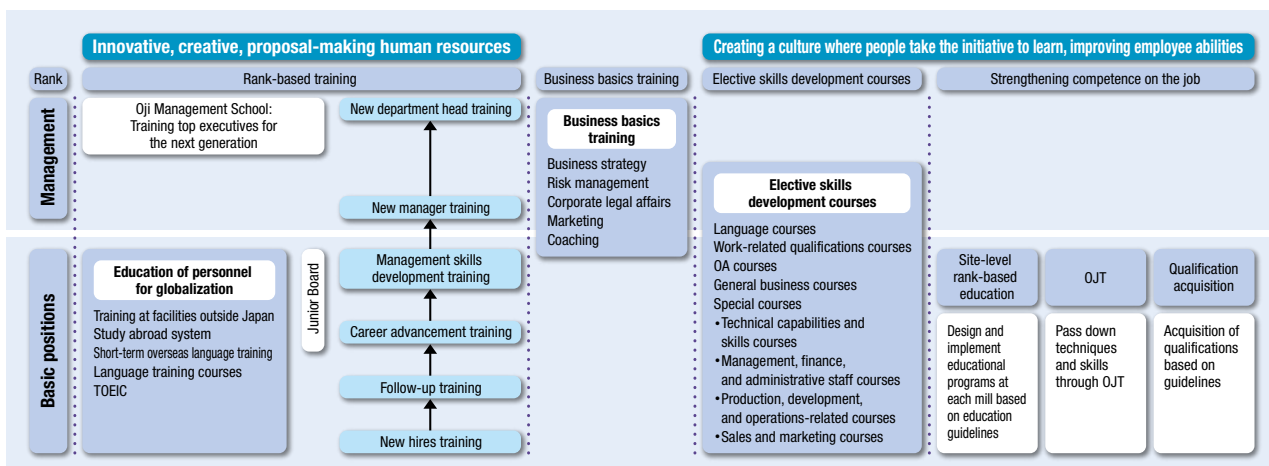


Employees maintaining their skills



Planting trees during training session for new hires in career track positions

**Figure 1** The Oji Paper Group’s Education Structure



# Employee Relations

## Building workplaces for diverse personnel

### Creating workplaces that are comfortable for women

In April 2005, Oji Paper Co., Ltd., established a five-year Master General Business Action Plan based on Japan's Law for Measures to Support the Development of the Next Generation. We have striven to ensure that raising children and work are compatible, supporting employees' commitment to childcare by providing leave programs and helping with finances (table 3). In part due to its fulfillment of the targets set out in the Action Plan, Oji Paper was approved as an employer that meets all standards set by the head of the Tokyo Labour Bureau on March 19, 2008.

We will continue working to create workplaces that make it easy for both women and men to raise children, thus helping to make sure that the children who will lead the next generation grow up safe and sound.

**Table 3 Measures Supporting Childcare at Oji Paper Co., Ltd.**

<b>Free childcare consultation service</b>	Oji Group Health Consultation Office
<b>Shorter working hours system</b>	Systems (flextime, part-time) to enable care for children before they start elementary school
<b>Encouraging childcare leave</b>	Encouraging male employees to take childcare leave
<b>Expanding situations under which reserve leave can be taken</b>	Reserve leave can now be taken to care for children who are sick or injured, before they start junior high school
<b>Paying a partial salary during childcare leave</b>	Paying a partial salary to employees from the time they start childcare leave until their child reaches one year of age. This goes beyond the requirements of Japanese law.



Certification mark (nicknamed *Kurumin*)

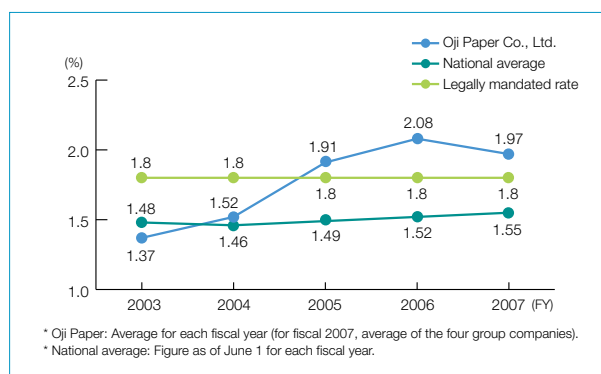
### Employment of persons with disabilities

Since fiscal 2004, we have been working in cooperation with public agencies and NPOs to further the employment of persons with disabilities, including the intellectually disabled, for whom it is considered difficult to secure places of work.

In June 2007, we established Oji Clean Mate Co., Ltd., which was approved in September 2007 for group treatment as a special subsidiary under Japan's Law for Employment Promotion of Persons with Disabilities along with Oji Paper Co., Ltd., Oji Human Support Co., Ltd., and Oji Nepia Co., Ltd.

We will continue to work actively to ensure stable employment and expand the occupational fields available to persons with disabilities.

**Graph 2 Employment Rate for Persons with Disabilities**



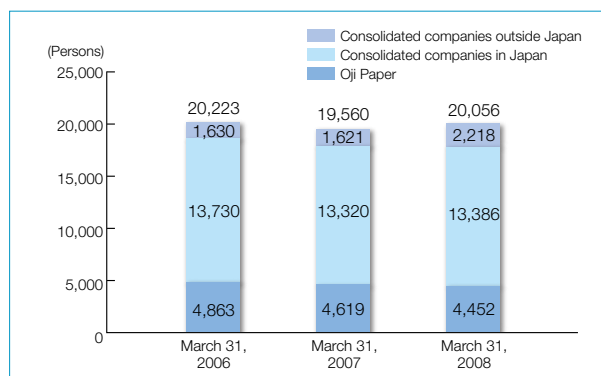
### Employment of seniors: Considering extending the compulsory retirement age to 65

Oji Paper Co., Ltd., is considering adopting an extended compulsory retirement age system with the aims of: (1) securing a labor force, focusing on manufacturing and facilities divisions, and making use of the skills of veteran craftsmen and engineers in an environment in which the birthrate is rapidly declining and the population aging quickly; and (2) improving employee welfare by providing employment opportunities that will form the basis of a stable livelihood for seniors.

The company is holding discussions with the labor union on creating systems that will enable employees to continue working actively until age 65, including revising the personnel and wage systems and upgrading workplace environments.

As of March 31, 2008, the Oji Paper Group has a total of 20,056 employees, of which 2,218 are at overseas consolidated companies.

**Graph 3 Number of Oji Paper Group Employees**



## Working toward a healthy work-life balance

### Revising work hours

Many respondents indicated on an internal questionnaire that it has been difficult to take paid holidays and compensatory time off. There were also disparities among workplaces in the amount of overtime people work. In light of this situation, the human resources department sent a message to all facilities and offices encouraging the reduction of total work hours. We are making a group-wide effort to ensure that employees can enjoy a satisfying work-life balance, for instance, reconsidering work assignments, improving efficiency, and exploring various new work styles.

In fiscal 2007, the rate of taking paid holidays was 54% (average for basic-position employees, excluding seconded employees at Oji Paper Co., Ltd.).

**Table 4 Annual Work Hours Per Person** (Hours/year)

	FY2005	FY2006	FY2007
Work hours per person	1,943.2	1,979.3	1,963.8

\* Average for basic-position employees (excluding seconded employees) at Oji Paper Co., Ltd.

### Multifaceted support for employees' plans for life

We hold life-planning seminars for employees at all facilities across Japan with the aim of providing individuals with necessary information and a chance to think about their future life plans, including purpose in life, work, lifestyle, and asset building. Spouses may participate in the seminars, making them useful for the future planning of married couples as well.

Going forward, we will continue to offer better support so that employees can live meaningful, well-rounded lives.

## Securing safe, healthy workplaces

### Comprehensive support for employee health management

We are taking initiatives to provide comprehensive support for the health management of employees and their families: (1) full implementation of regular health checkups and special health examinations and complete focus on early detection and treatment of disease; (2) continuous implementation of mental health measures and complete focus on early detection and treatment of mental illness; and (3) improvement of workplace environments and health management based on Japan's Health Promotion Law.

Specifically, we established the Oji Paper Group Health Consultation Office, which is a 24-hour phone consultation office with a professional staff that can provide information about medical institutions and nursing care, and offer consultations about health, medical treatment, and mental health issues. We are also taking steps to clearly distinguish and enforce smoking and non-smoking areas.

## Occupational safety and health initiatives

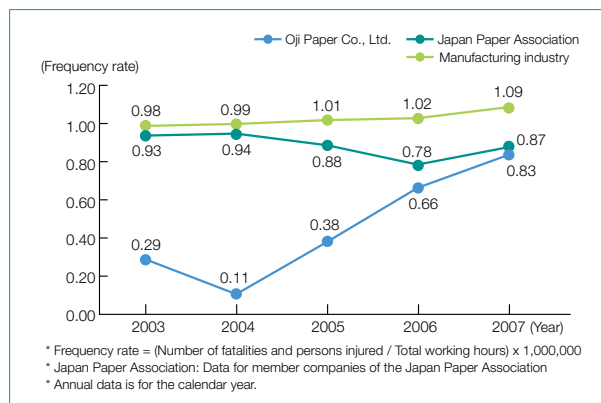
In 2007, we addressed various issues using the Oji Paper Group Guidelines for the Promotion of Occupational Safety and Health. These initiatives included the eradication of accidents, facilitating the widespread adoption of risk management and occupational safety and health management systems (OSHMS), strengthening safety activities at our group companies, and the encouragement of a culture of safety. At Oji Paper mills and some mills operated by our primary subsidiaries, which had already adopted OSHMS, we encouraged its broad use. We promoted the adoption of the OSHMS at mills that had not yet done so. At other group companies, we continued efforts to reduce risks and spread the use of risk management through safety patrols.

Nevertheless, in 2007 there were six accidents resulting in absence from work, one more than in 2006, in part due to a serious accident in which four people were injured. At the facilities of our partner mills and companies, there were four accidents resulting in absence from work—the same as the year before—one of which was a fatal accident. Accidents resulting in absence from work at our group companies increased from 27 to 31.

To remedy this situation, in 2008 we will work to further improve safety at all Oji Paper Group companies. In particular, we will adopt and start operating OSHMS at all mills operated by our primary subsidiaries that have not yet done so.

Moreover, we incorporated crossover audits, in which mills conduct audits on each other in addition to the audits performed by the headquarters, into our internal audits, which are an important part of the OSHMS. This system enables audits to be carried out more effectively by pointing out suggestions from multiple viewpoints and sharing examples of best practices.

**Graph 4 Frequency Rate of Injuries Leading to Lost Work Time**



### Safety awards

In 2007, one mill out of a total of nine, plus one facility, won Oji Paper's Award for Safety Excellence (a total of 6 million accident free working hours) and two mills won the Safety Award for Effort (a total of 4 million accident free working hours).

# Community Relations

The Oji Paper Group makes every effort to foster meaningful communication with the communities near its tree plantations and mills, and strives to gain their understanding and support for its operations.

## Working with local communities near tree plantations outside Japan

### Harmony in action—local communities and CENIBRA (Brazil)

Celulose Nipo-Brasileira S.A. (CENIBRA) regards maintaining harmony with nearby communities essential. The company is sensitive to the diverse needs of local communities when undertaking its work. For example, starting from the planning stage before tree planting and logging, the company spreads the work out over time so as not to dirty the water, if the work area includes a community water reservoir. Priority is naturally given to traffic safety when trucks run near a town, and the company also sprinkles water to suppress dust and takes other measures out of consideration for the local community.

CENIBRA invites school teachers and students to its facilities and explains the tree plantation business in order to foster understanding of what things are really like at tree plantations that operate with consideration for the environment and the local community. It also donates notebooks and sports equipment to local schools. Moreover, in cooperation with municipalities and other organizations, the company visits small villages in remote locations with the aim of improving awareness of health and hygiene, providing consultations on health and education, bringing children together to play, and otherwise improving the standard of living. Furthermore, the company rents private houses in small villages, puts up displays that highlight the importance of the environment for everyone and explain the company's tree plantation business, provides tables, chairs, dictionaries, and other supplies, and offers the houses as places for children to do their homework on the way home from school (photo 1).

Since 1985, CENIBRA has practiced a system known as *fomento* plantations. Under this system, the company contracts with farmers and provides them with saplings and tree planting techniques. The farmers then grow the trees on their own land and the company buys the raw wood back seven years later. This system has added the industrial option of tree farming to areas where grazing-based livestock farming and agriculture were the only choices.

Beekeepers who are members of the local beekeeping association place their bee hives on the plantations and collect eucalyptus honey (photo 2). The association determines the rules for the placement of bee hives on the plantations.



Photo 1 Children learning about the environment at a private house in the town

The company receives a share of the honey from the beekeepers, who, being on site, help out by immediately contacting the company if there is a fire or other emergency.

The company also lends parts of its plantations to municipalities in an effort to provide plots where landless people can grow gardens. The manager of the association of people who are borrowing land says that there are many people waiting for a turn, suggesting that numerous people in the community could benefit from this program.

In this way, the company is undertaking a range of activities. It is not the case, however, that the company's 250,000 hectares are all in one spot. It owns small and large plantations spread out over 49 municipalities and managed in about 12 different zones. This makes it all the more important for the company to develop together with the local communities while obtaining their cooperation and understanding.



Photo 2 Bee hives on a eucalyptus plantation

### Emphasizing cooperation with NGOs and staying in touch with communities

Economic development is a nationwide priority in Laos, which is one of the least-developed countries in Asia. In a country like this, Oji Lao Plantation Forest Co., Ltd. (LPFL) not only aims to create local employment through its tree plantation business, but also works to improve the living standard of residents. In an arrangement with the Lao government as a joint-venture partner, LPFL donates funds for social contributions corresponding to the land area of its tree plantations. Specifically, these funds for social contributions are used in villages near tree plantations to build wells, provide building materials for schools and temples, and construct roads (photo 3).

The company undertakes other community development initiatives in a wide range of forms. It builds community centers to spur on community development, carries out educational programs and exchange activities between the company and local communities, holds regional soccer matches,



Photo 3 A well built by LPFL in a local village



and donates notebooks and other supplies to local elementary schools with support from the Oji Paper Group and other sponsor companies (photo 4). With these efforts now in their third year, many local residents have become fans of LPFL.

At the same time, as a community-based business, the company inevitably shares the challenges that local residents face. The land for the company's tree plantations is provided by the Lao government. Nevertheless, last year the Japan International Volunteer Center (JVC), a Japanese NGO active in Laos, pointed out to LPFL and Oji Paper that "the livelihoods of residents are being impacted by the expropriation of village land."

In response, we visited that village to confirm the facts and improved the selection process for tree plantation land (photo 5). We explained the improvements to JVC and obtained their understanding. This incident highlights the importance of cooperation with NGOs.

LPFL's tree plantation business is not always smooth sailing, but its employees continue to overcome the challenges of a difficult environment. We believe that making contributions to community development in addition to growing trees is the true mark of a tree plantation business that has become rooted in the local community.



**Photo 4**  
Children using donated notebooks in their studies



**Photo 5**  
Speaking with the residents on a visit to the village

### Exchange of views held on forest management in Tasmania

In April 2008, the Rainforest Action Network (an environmental protection organization), the Consumers Union of Japan, and the Sloth Club asked for an interview with Oji Paper about forest management in Tasmania. We think it is desirable to deepen mutual understanding regarding forestry practices in Tasmania through discussion with NGOs, the Australian government, and the Tasmanian government's Forest Practices Authority.

Accordingly, on May 19 we held an exchange of views at the Australian Embassy regarding forest management in Tasmania. Environmental protection organizations, the Tasmanian government, and two paper companies including Oji Paper participated in the discussion.

### Consideration for local communities near mills in Japan

#### Working to regain trust

##### Environmental monitor system at all the mills of four companies

At all its mills throughout Japan, the Oji Paper Group has implemented an environmental monitor system in which mills receive feedback and information from nearby residents. This has proven an effective means of deepening communication with local communities. We believe that responding reliably to the voices of nearby residents and proactively releasing environmental information will help further our environmental initiatives, including the control of odors and noise, and also help build trust with local communities.

When the smoke incident came to light in July 2007, we immediately offered an apology and explained the situation to the residents of the communities near the mills where the incident occurred. We also launched the environmental monitor system at seven mills and three facilities of four companies—Oji Paper Co., Ltd., Oji Paperboard Co., Ltd., Oji Specialty Paper Co., Ltd., and Oji Nepia Co., Ltd.—thereby expanding the system to all mills of these four companies.

##### Environmental communication at Edogawa Mill

The Edogawa Mill of Oji Paperboard Co., Ltd., held a briefing on request from the local authorities. It explained the status of operations, the fact that there were no health hazards, and measures to prevent a recurrence in the future.

In November 2007, the mill established an environmental monitor system, and in December, held an exchange of views with 15 environmental monitors (photo 6). The monitors expressed opinions about noise from the mill and asked questions about odors, and mill employees explained the causes. The monitors also expressed appreciation for the mill's raking up of leaves and other community clean-up efforts and requested mill tours. We are committed to putting greater effort into environmental measures and communication with local communities in an effort to regain the trust of society and protect the environment.



**Photo 6** First meeting of environmental monitors at the Edogawa Mill of Oji Paperboard

# Corporate Citizenship

The Oji Paper Group is committed to fulfilling its corporate social responsibility as a good corporate citizen. Our main social contribution initiatives make the most of the characteristics of our core business, and we also emphasize community-based activities.

## Integrating Social Contribution With Our Core Business

### Reconsidering the toilet environment, starting with toilet paper

Oji Nepia Co., Ltd., as a company that manufactures and markets toilet paper, is finding unique new ways to contribute to society.

Returning to its corporate philosophy of contributing to lifestyle and culture and winning the trust of society as a manufacturer of household products, Oji Nepia decided to try a “Poo Class” in cooperation with the Japan Toilet Association. Starting in June 2007, the company sent representatives to visit five elementary schools and provided 484 children with a learning opportunity about good toiletry habits. The children learned about the significance of excretion, the relationship between health, physical condition, and excrement, and its connection to the foods they eat.

The children also learned about the environment, including that toilet paper is made from trees and recovered paper, that the toilet paper and excrement flushed down the toilet are decomposed by microorganisms into water and dirt, that some of it becomes fertilizer and other evaporates and falls with rain, providing nutrients for trees to grow.

The children made comments such as, “Going to the toilet isn’t embarrassing anymore, now that I understand,” and “Now I can use the toilet even at school.” We received many happy remarks about the effect of the class from parents and guardians, including, “It helped improve my child’s eating habits,” and “We talked as a family about how to use toilet paper.”



At a “Poo Class” session



The children track their progress daily.

With the “Poo Class” being well received and requests for classes continuing to come in, we started considering other ways to better communicate the cultural aspects of the toilet environment to society.

Turning our attention overseas, we learned that, every year, more than 1.5 million children worldwide become sick due to polluted water and lack of toilets, and end up losing their lives as a result of dehydration.

Oji Nepia Co., Ltd., then decided to undertake the “nepia 1,000 Toilets Project,” which supports the activities of UNICEF with part of the company’s profits from product sales. Through the accumulation of donations to UNICEF for each package of product bought by customers, the project aims to help protect the lives and health of around 13,000 people by installing toilets in 1,000 homes and installing or repairing toilets in 15 schools in the Democratic Republic of Timor-Leste (i.e., East Timor), the youngest country in Asia. According to the UNICEF office in East Timor, the under-five mortality rate in the country is as high as 130 per 1,000 live births.

The year 2008 is the International Year of Sanitation. As a company that manufactures and markets toilet paper, Oji Nepia is determined to develop this toilet project and undertake activities with great social significance.



A “Poo Class” held at an elementary school in East Timor



Project leader Toshiyuki Kon of the Marketing Department, Sales Division, Oji Nepia Co., Ltd.



Product packaging with announcements about the project was designed to get the word out broadly about the project, which donated a part of profits to UNICEF.

## Community-Based Social Activities

### Helping in the restoration of endemic species on Mount Apoi

A tract of alpine plants on Mount Apoi, located at the southern end of the Hidaka Mountains near Cape Erimo in Hokkaido, is designated as a special national treasure by the government of Japan. However, the vegetation has been changing and the number of alpine plants decreasing in recent years due to the theft of rare plants and the effects of climate change.

The Mount Apoi Restoration Committee, made up of volunteers from the nearby town of Samani, is working on restoration activities. However, since Mount Apoi is designated as a quasi-national park and specially protected area, people are not allowed to make any alterations. For that reason, Oji Paper agreed to let its company-owned forest that borders Mount Apoi be used as a restoration experiment site. We are cooperating with the residents of Samani and the Restoration Committee in an enthusiastic effort to restore the natural functions of Mount Apoi.



Building a drainage ditch on the restoration experiment site

### Oji Forest Nature School

The Oji Forest Nature School is a hands-on environmental education program run in cooperation with the Japan Environmental Education Forum. In fiscal 2007, the fourth year of the program, we opened the school in Shizuoka, Hiroshima and Miyazaki prefectures. The program helps children—the leaders of the future—to gain an appreciation of the relationships between the forest and people, nature and human life, and the forest and industry, all while having fun in the great outdoors. We hope to build close relationships with communities by facilitating local residents' understanding of the Oji Paper Group's activities through the Nature School.



Children on a tour touch wood chips for the first time

### Environmental preservation through cooperation among industry, academia, government, and civil society

The Council on Environmental Development, which consists of 20 organizations from industry, academia, government, and civil society in southern Tokushima Prefecture, implements traffic congestion countermeasures, conducts water quality surveys in rivers, counters deterioration of bamboo groves, and otherwise works to protect the environment. The Tomioka Mill of Oji Paper Co., Ltd., is an active participant of the Council.

In fiscal 2007, the Council conducted a social experiment to relieve traffic congestion as a means of helping fight global warming. Some 100 employees of the Tomioka Mill were among the 545 participants. By practicing staggered commuting and taking other steps, they were able to ease traffic congestion on the Nakagawa Bridge and other spots, thereby suppressing CO<sub>2</sub> emissions by roughly 400 kg. The Council also conducted an investigation of water quality in four rivers (76 locations) in the city of Anan. Three employees of Tomioka Mill joined a group of more than 50 taking pH and COD measurements.



Conducting a water quality survey

### Tour of nature restoration and forest development in the Kushiro Wetlands

In cooperation with the Kushiro Development and Construction Department of Japan's Ministry of Land, Infrastructure, Transport and Tourism and the Ecosystem Conservation Society-Japan, the Kushiro Mill of Oji Paper Co., Ltd., carried out a tour of nature restoration and forest development in the Kushiro Wetlands for residents who live and work in and around the city of Kushiro. An attempt to give people an understanding of nature restoration in the wetlands, forests in the surrounding area, and the relationship with local industry, the tour included a company-owned forest and the Kushiro Mill. Participants said that they had gained a deeper understanding of local industry by seeing activities of a paper company that they normally have no chance to see.



Enjoying a nature game at a company-owned forest

# Stakeholder Dialogue Leads to Establishment of Environmental Communication Committee

## Establishment of Environmental Communication Committee

A great deal of trust in the Oji Paper Group was lost due to the smoke incident in 2007 and the falsification of recovered paper ratios in 2008. The company has responded to these incidents of misconduct by inviting input from various parties on how to get the Oji Paper Group back on track.

One of those discussions, a stakeholder dialogue with five outside experts held in May 2008, reviewed the recovered paper incident and discussed the future course of the group (see pages 11-14).

During that dialogue, some of the experts pointed out the “gap between the company and consumers” and the “need for information dissemination” as factors that allowed the falsification of recovered paper ratios to continue. This underscored for Oji Paper the importance of good communication with all stakeholders, including consumers and citizens outside the company as well as employees inside the company.

To prevent a recurrence of such an episode, the experts suggested “not to try to forget the incident” and proposed that “all employees,” especially the young people who will lead in the future, “rethink the company’s *raison d’être*.” We felt the need for each employee to reflect on this incident and to discuss ways of making a fresh start.

In view of that and based on the firm commitment of President Shinoda, we established an Environmental Communication Committee with the aims of enhancing communication with stakeholders, boosting the awareness of employees, and improving corporate value by recovering the trust of society as soon as possible and improving the internal alignment of the different parts of the Oji Paper Group. The committee consists of 35 members—executive officers, department heads, and younger employees of group companies—and is advised by six executives including the president.



President Shinoda giving instructions at the opening of a committee meeting.



Hirokazu Ishii, Corporate Officer, Deputy General Manager, Paper Business Division, acts as committee chairperson.

## Committee initiatives

Going forward, the committee will exchange opinions with stakeholders in and outside the company, review the corporate posture of the Oji Paper Group once again, and disclose information in a transparent manner in and outside the company. The committee aims to make use of the ideas of younger people to break through conventional thinking, revitalize communication and disseminate information with a sense of urgency.

Environmental communication is an important tool for making smooth progress with CSR activities and can lead to the strengthening of corporate governance. With a particular awareness of B-to-C environmental communication, we will ask the opinion of numerous people, including customers, user companies, and ordinary citizens, and will make efforts to gain their full understanding of the Oji Paper Group’s ideas and activities.



Meeting of the Environmental Communication Committee on June 12, 2008

# Third-party Opinion of This Report



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Graduated from the School of Letters, Arts and Sciences I at Waseda University and earned a Ph.D. from the Graduate School of Sociology at Kansai University. Positions held include editor of *Kurashi No Techo* magazine; director, head of the research office, and head of the corporate secretariat at The Daiiei, Inc.; managing director at the University of Marketing and Distribution Sciences; president and CEO of Kiss-FM Kobe; and chairman and CEO of the Consumer Economics Research Institute, Inc.

In Japan, the year 2008 began as news broke of the widespread falsification of the percent of recovered paper contained in recycled paper products. It came to light that New Year's greeting cards that should have been made with 40% recovered paper actually contained only 1% or at best a few percent. The falsification was not limited to New Year's greeting cards; the content ratio on recovered paper labels was also a lie in copy paper and printing paper. What is more, almost all paper companies in Japan were found to have practiced the same kind of falsification. Consumers who had been preferentially purchasing recycled paper in an effort to help the global environment were filled with irrepressible anger at this betrayal. Japan's Ministry of the Environment, which had promoted green purchasing, was disgraced, and all the paper companies lost the trust of society in wave after wave of condemnation.

Oji Paper, a leader in the industry, was no exception; it was revealed that the company had been practicing falsification for over 10 years.

It goes without saying that the Oji Paper Group's *Environmental and Sustainability Report 2008* could not avoid reporting on the incident. Society is closely watching Oji Paper's response to the falsification, waiting to see how it will reform itself and how it will act to regain the trust of society. Does this report stand up to such scrutiny?

A 12-page special report includes a message from the president on pages 3-4, a disclosure entitled "Falsification of the Percent of Recovered Paper Contained in Recycled Paper

Products" on pages 7-8, "Establishment of an Organized System of Checks to Ensure Falsification Never Happens Again" on page 9, "Stakeholder Dialogue" on pages 11-14, and "Mill and Business Managers' Roundtable" on pages 15-16. This would seem to indicate that the company is making a serious effort to reflect on its conduct and respond appropriately.

However, examining the content of the special report, one cannot help but wonder whether the company truly regrets its actions. Notably, one sees remarks here and there that seem like excuses, such as one to the effect that "we had not properly grasped consumers' needs due to our business being basically B-to-B," and another basically saying "we had few points of contact with consumers because we are in a basic materials industry." But the problem is not just a matter of the company being insensitive to the needs of consumers. The issue is the disreputable act of a major company telling lies and falsifying claims. No excuse will hold water. If the company's conclusion, after investigating the causes for the falsification it committed, is only that it was not sensitive enough, it only highlights the astounding truth that it has thus far practiced a management style of ignoring consumers.

The Corporate Philosophy and Corporate Code of Conduct explained on pages 25-26 and the environmental management and environmental audits described starting on page 31 are all excellent indeed. Looking only at these pages, one could easily get the impression that Oji Paper could not possibly make a mistake, with such outstanding organizations, systems, rules, and educational programs all in place. One is left thoroughly impressed and has no doubts that Oji Paper is a leading company. Why is it then, despite all this, the company creates a scandal nearly every year? I cannot help but feel that the cause must run deep within the company—to its very corporate culture.

However, there is hope. Page 59 describes the establishment of an Environmental Communication Committee. The immediate creation of this committee by President Shinoda in response to the need for better communication with consumers and society as a whole, and also to let in some fresh air, allows one to hope that the company's corporate culture will truly change. If the top executive changes, the company will also change. Thus, I place my expectations on the boldness and courage of Mr. Shinoda.

## Response to third-party opinion

Despite our efforts thus far to practice management placing top priority on compliance, the falsification of the content ratio of recovered paper products betrayed the trust of many stakeholders. I offer my sincere apologies.

Reforming our corporate culture, as Mr. Kogure suggested we should, is a pressing issue for the Oji Paper Group. The management team, executives, and all employees are committed to tackling this problem with bravery and conviction.

The Environmental Communication Committee is visiting various stakeholders to obtain their opinions on this incident. Through this activity we are gaining a keen appreciation of the immensity of the gap in perspectives between the company and those outside the company, and also of the need to disseminate information in clear language. Going forward, I am determined to promote closer communication with stakeholders and make every effort to reform the corporate culture of the Oji Paper Group.



**Shinichiro Kondo**

Director, Executive Officer  
Oji Paper Co., Ltd.



The "Team Minus 6%" logo, created by the Japanese government for the national campaign to achieve Japan's Kyoto Protocol commitment of a 6% reduction in greenhouse gases. The mark has been adapted by Oji Paper.



Oji Paper's own mark for paper made from 100% recycled paper.

