

HOKUETSU PAPER MILLS, LTD.

Hokuetsu Paper Mills, Ltd.
CSR Report
2009

Toward a Bright Future of Humanity, Nature, and Society

Children playing joyfully, carefree under a bright blue sky and fleeting clouds, blessed with a gentle breeze; families enjoying a casual picnic in a lush green park -- like a picture of peace drawn on a canvas.

It is about time that we seriously consider the process of turning this picture into reality toward a bright future.

Contribute to the economy, environment, and society through devotion to papermaking.

Always be an attractive company for all stakeholders.

These two phrases sum up the commitment of the Hokuetsu Paper Mills Group.



Editorial Policy

Hokuetsu Paper Mills Group (hereafter “the Group”) is committed to meeting the expectations of stakeholders, including customers, shareholders, business partners, the community and employees, and to contribute to the sustainable development of society, as set in our corporate philosophy.

This report outlines the activities undertaken by the Group for meeting the stakeholders’ expectations from all perspectives including economy, environment, and society. By disclosing relevant information in a timely manner, we seek to solicit people’s understanding toward the Group’s various activities, deepen communication with the stakeholders, and raise our corporate value through papermaking.

Period Covered

April 1, 2008 – March 31, 2009
(However, includes some activities in April 2009 and onwards)

Companies Covered

Hokuetsu Paper Mills, Ltd., and major subsidiaries

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Guidelines Used

GRI, Sustainability Reporting Guidelines 2006.
Ministry of the Environment, Environmental Reporting Guidelines (Fiscal Year 2007 Version).

Website

www.hokuetsu-paper.co.jp
Information about the Group, including the content of this report, are posted on the Company’s website.

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A MESSAGE FROM PRESIDENT



In front of No.9 Papermaking Machine "N9" at the Niigata Mill

Greetings

Since our founding in 1907, our company has striven to grow and to contribute to society by providing our customers with ever better products. In 2003, we created the "Hokuetsu Paper Mills Corporate Philosophy" in order to contribute to society as a paper company with even greater appeal, clarifying that we will meet the expectations and trust of all of our stakeholders. This corporate philosophy establishes our goal: to "uphold the law and become a company that enjoys the trust of its customers, stockholders, business partners, and the community through highly transparent business activities." We believe that contributing to the formation of a society of sustainable development through the realization of this goal is itself the social responsibility of our company and an important factor in our management.

In recent years, the environment surrounding our company has changed significantly. With the need to reduce CO₂ emissions, the sudden world recession due to the spread of globalization, and the resulting rise in the overall unemployment rate, the role that companies must take in the formation of a society of sustainable development is greater than ever. Our company has always aggressively pursued resource and energy conservation, and efficient operation in order to promote ecologically conscious management. Recent examples of this include the switch of our energy resources from heavy oil to low CO₂ emission natural gas and biomass, and the changeover of wood chips imported from overseas to plantation trees. At the same time, we have contributed to the local community through engaging in regionally based-business activities while putting effort into the strengthening of our internal quality control and compliance systems.

Our company began a new management strategy known as "Value-up 10 Plan" in 2008. With the commencement of operations of the Niigata Mill No. 9 Paper Machine (N9), which forms the central pillar of the Value-up 10 Plan, we have prepared our growth strategy in accordance with a manufacturing framework ready for international competitiveness. As we proceed with the expedient tactical applicability of the N9, we are strengthening our internal control management structure in order to develop the strength in human resources to be able to deal with a changing management environment and improving compliance while strengthening our profitability. Further, motivated by the management integration with Kishu Paper Co., Ltd. in October of this year, we will strive for definitively efficient management and sustainable development to realize our position as a paper-making company with comprehensive international competitiveness.

This CSR report was prepared to clearly and thoroughly communicate the activities in which our company is currently engaged, categorizing them into the areas of economy, environment, and society. We will continue to strive to increase your trust in us as we deepen our communication with all our stakeholders and achieve an increased level of corporate value.

And, as always, we hope to continue on as a company which is appealing to all of our stakeholders as we continue to place our management focus on paper making with spirit.

We ask for your continued understanding and support.

岸本哲夫

Sekio Kishimoto
President and Chief Executive Officer
Hokuetsu Paper Mills, Ltd.

Activation of the new "N9" machine, one of the largest in the world

The new "N9" is one of the largest of its kind in the world. It is making a major contribution to quality improvement, the environment and the community.

In September 2008, the high speed all-online No.9 paper machine (N9) was activated at the Niigata Mill. Combined with the existing machines, the mill now boasts one of the greatest capacities both domestically and internationally. With this activation, Hokuetsu Paper Mills Group has now developed the foundation required for a growth strategy under a manufacturing framework ready for excellence in international competitiveness. With the construction of the N9, we are now able to meet the needs of our stakeholders more than ever before.

The N9 and our customers

With the four large-scale on-machine coaters including the N9 we have realized our philosophy of providing our customers with what they need when they need it with a stable level of quality. We have established a flexible manufacturing and sales framework that leverages the regional characteristics of Niigata. Further, we are proactively holding mill tours to enable our customers and the citizens of the region to view the new N9 machine which boasts the largest scale in Japan.

*There were 4,489 visitors in FY2008 (an increase of 1,836 over the previous year).

The N9 and the environment

A dedicated feed line was constructed from the N9 warehouse to the JR Container line to allow direct shipment of products. Emissions of CO₂ have been reduced and energy efficiency improved compared to shipment by trucks, used previously, and it also contributed to the reduction of traffic and noise. This is the realization of a modal shift to rail based transport which allows mass shipping while being gentle on the environment. By further placing warehouses in the northern Kanto area situated between the manufacturing and consumption regions, we are securing better shipping ability while greatly improving shipping efficiency.

*Reduction equivalent to 1,300t of CO₂ per year (FY2008 performance)

The N9 and the regional community

Since driving the first pile in March 2007, over 350,000 people became involved in the construction of the N9, and during the peak of construction over 1,800 people per day were at work, contributing to the development of the local economy through the cooperation of numerous individuals. Together with the activation of the N9, the Niigata East port is being used as the focal point for overseas expansion with increased overseas exports and expansion of the chip yard. More than 50% of our company's exports are shipped from Niigata East port. Further, the expansion of Niigata East port has been announced with the construction of a new container pier (scheduled for completion in FY2011), and we plan to continue to expand our use of the facilities for imports and exports.

The N9, and employment and safety

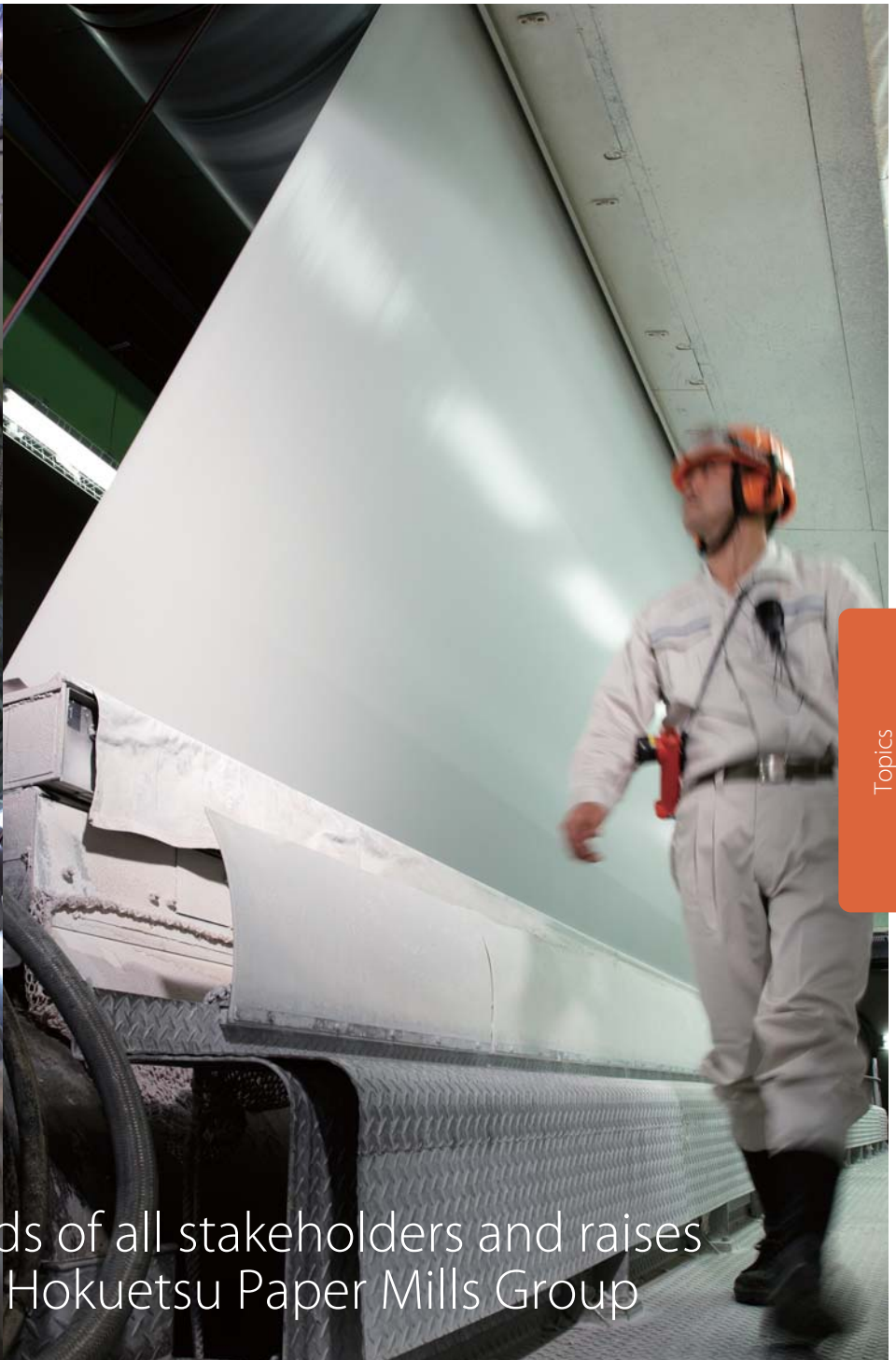
Many workers were employed locally for the operation of the new N9 machine. Disabled persons were proactively employed for the mill's reception department. The employees involved in the operation of the N9 engage in daily technical training and carry out safe and steady operation of the N9 based on the basic policy to place safety before all, and build a bright and healthy accident-free work place which is the Hokuetsu Paper Mills' Safety and Health Management Policy.



The wood-chip vessel Nine Frontier alongside the pier in Niigata East port.



Discharging of the chip boat.



The N9 meets the needs of all stakeholders and raises the corporate value of Hokuetsu Paper Mills Group



Merger with Kishu Paper Co., Ltd.

From October 1, 2009, the Company will become “Hokuetsu Kishu Paper Co., Ltd.” We will take a step forward for a new stage of advancement and growth.

Hokuetsu Paper Mills, Ltd. will merge with Kishu Paper Co., Ltd. to become Hokuetsu Kishu Paper Co., Ltd. from October 1, 2009. This will be an ideal opportunity to advance the integration process across the Group in order to further strengthen our competitiveness. We expect a major synergy effect through the merger of the two companies, which will be a great driving force for opening up a new stage for Japan’s paper industry.

A working committee will be launched in April toward the merger

A stock swap agreement has been concluded, with Hokuetsu Paper Mills, Ltd. being a parent company and Kishu Paper Co., Ltd. being a wholly owned subsidiary, effective October 1, 2009. In order to harness the synergy effect of the merger at an early date, a working committee was launched on April 1, 2009, through which we have been building up various deliberations.

Meeting diverse needs by expanding the product lineup

The merger with Kishu Paper Co., Ltd., which has strengths distinct from Hokuetsu Paper Mills, Ltd., will bring about various synergy effects. One of these effects will be the expanded product lineup, which will reinforce the variety of our products. Another will be the streamlining of our businesses, including reorganization of the operation in the areas of specialty paper and non-coated printing paper. While maintaining high quality, we will be able to meet various needs of customers reliably and thereby raise our corporate value.

Streamlining the logistics while maintaining geographical complementarity

Hokuetsu Paper Mills, Ltd., which runs mills in Eastern Japan (Niigata, Nagaoka, Ichikawa, and Katsuta), and Kishu Paper Co., Ltd., which runs mills in Western Japan (Kishu and Osaka), can complement one another geographically. By eliminating cross transports, we can streamline our logistics and deliver the products more quickly to our customers.



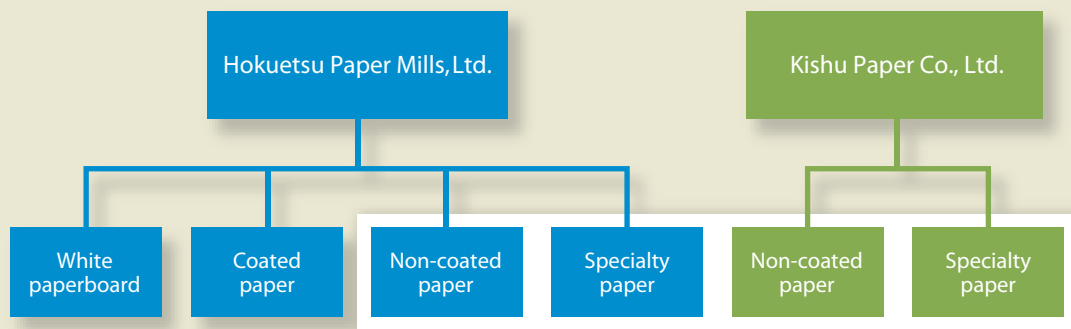
Increased interaction among the people will accelerate employees’ personal growth

We will seek proactive interaction through the exchange of people between the two companies and by moving the head office of Kishu Paper into our head office building. We will also engage in cooperation with paper converting subsidiaries. By increasing interaction among the people, we expect that all employees will be able to learn from each other and take further steps forward.

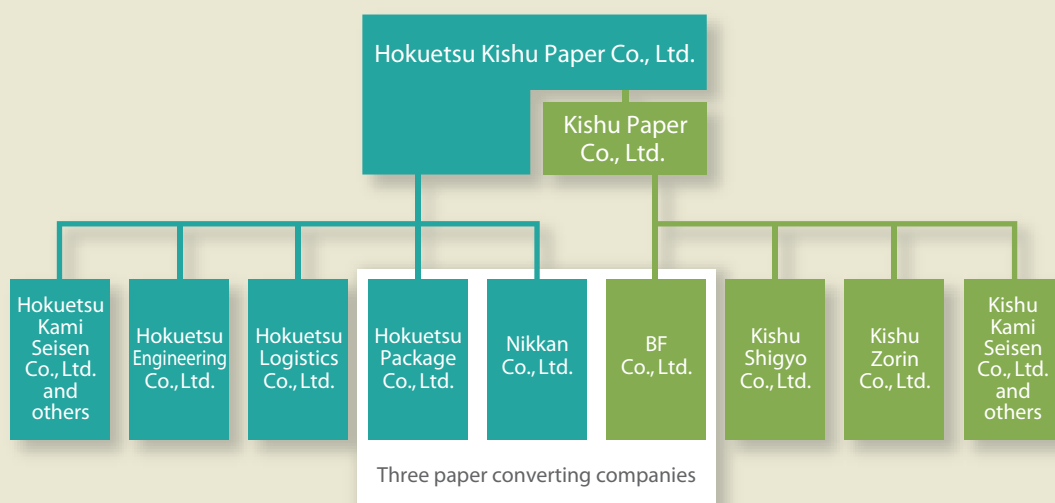
We strive to be a paper manufacturer with a unique edge in the area of printing paper, white paperboard and specialty paper.

- Possessing the resources to post over ¥270,000 million in net sales
- Holding a solid foundation within the domestic market
- Cash flow (EBITDA) of over ¥40,000 million available
- Highly efficient paper making focused on printing and communication paper
- Paper converting business through three group companies to meet diverse needs

Synergy of the Two Companies' Product Lineups



Composition of the Hokuetsu Kishu Paper Group



Afforestation across the globe (tree planting in South Africa)

Tree planting operations have begun in the Republic of South Africa. We are carrying out afforestation efforts with consideration for biological diversity.

Hokuetsu Paper Mills imports high quality wood chips from the ports of Durban and Richards Bay in the Republic of South Africa. Last fall, Mitsubishi Corporation formed a forestry joint business venture with the local NCT Forestry Co-Operative Limited (NCT) to start a close collaborative relationship ranging from tree planting to wood chip processing. The important keyword here is biological diversity.

Examining water, the environment, and tree planting

While South Africa is a semi-arid region with 480mm of rainfall on average per year, the South African government has stated the view that "water supply is possible for economic growth until the year 2050." While the planting of the fast-growing Eucalyptus and Acacia species allows for absorption of CO₂ and oxygen production necessary for humans and other life forms to survive, water is also consumed during growth. In afforestation, it is necessary to make efforts to secure water resources while maintaining awareness of the effect on the environment of tree planting.



Together with the staff of the local NCT Forestry Co-Operative Limited (NCT)

Ten percent is maintained as a nature preserve

The important theme here is in biological diversity which allows for the securing of the important water resources needed by the people, and coexistence

with diverse plants and animals. The placement of biological diversity as the first priority is reflected in the ongoing local efforts.

Throughout the entire tree planting region, the NCT group was determined to maintain approximately 10% of the land as representative areas of the ecosystem. Out of the 1,200ha that we possess, approximately 100ha are maintained as a preserve.

Establishment of original water border zone standards

How are preservation zones and tree planting areas determined? Generally, a buffer zone of 20m is stipulated between the planting area and the edges of rivers, lakes, and swamps. However, the NCT has its own standard for establishing water source borders. It establishes the water border at a height 50cm above the highest water level during rainy periods and protects a buffer zone of 20m from that point. If the slope is gentle then the protected area will be increased, thus water resources in wetlands are naturally protected over a wide area.



A region in which tree planting areas, preserved areas, and grasslands are contained together.



A river with a 20m buffer zone

Striving for coexistence with diverse plants and animals

The protected areas within the tree planting areas are ideal habitats for plants and animals. Biodiversity is increased because the grasslands and natural forests are maintained as they are. Chameleons can be found in the NCTs tree planting areas, as well as important mountain vegetation such as the Hilton daisy. In the grasslands, rare wildlife such as the oribi and the secretarybird can be found. Also, South Africa is the natural habitat of the Clivia flower which is a popular variety for gardening in Japan, and it can be found growing in the natural forests.

A chameleon



A clivia growing in the natural forest



A Hilton daisy growing within the protected area

NCT contributes to the protection of the oribi

The oribi, which has its habitat in the grasslands of South Africa, is in danger of extinction. In order to protect the oribi from extinction, the NCT is partnering with the NPO Oribi Working Group for a survey of oribi behavior, promoting the establishment of a protected area for the oribi to live, and other protection activities including transferring oribi to the protected area.



Protection of the endangered oribi

State-level efforts for environmental protection

The government of South Africa has revised laws regarding the environment and is proactively engaged in environmental protection activities. In the past ten years, the level of biodiversity here has returned to the position of third place in the world. Currently, seven locations are designated as World Heritage (natural heritage) Sites. Zebras and impalas can be sighted daily in the nature preserve known as Queen Elizabeth Park situated nearby Hokuetsu Paper Mills' forestry joint business venture, and the strelitzia, a popular cut flower, can be found growing on the side of the road along with aloe. This speaks a great deal to the biodiversity of South Africa.



A close encounter with impalas that populate the savannah.

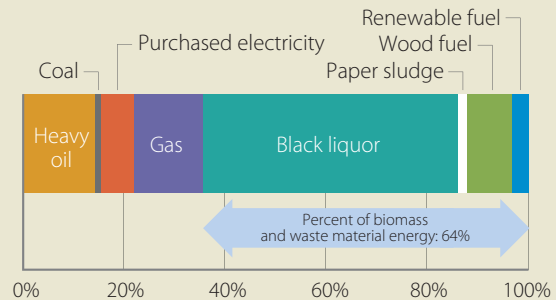
Clean Energy

A major reduction in CO₂ emissions through biomass fuel. Moving forward with the use of clean energy.

Hokuetsu Paper Mills is moving forward with the use of clean energy in all of its factories. At the Niigata Mill, the black liquor biomass fuel generated in the process of making paper from wood and wood biomass is utilized and natural gas is also used. The Kanto Mill (Katsuta) uses wood biomass, the Nagaoka Mill uses natural gas, and the Kanto Mill (Ichikawa) uses city gas to reduce CO₂ emissions.

Wood pulp can be used as energy. The biomass fuel called black liquor

Black liquor is being used at the Niigata Mill as boiler fuel in place of fossil fuels. Black liquor is a biomass product consisting primarily of resin generated when fiber is extracted from wood chips. In 2005, the 8RB, the largest recovery boiler in Japan, began operation. Black liquor energy comprises approximately two thirds of the energy requirements of the mill over all. The black liquor used at the Niigata Mill over one year is equivalent to the amount of oil carried by one supertanker.



Energy breakdown for FY2008
For the entire Hokuetsu Paper Mills company:
percent of heat generated

Wood composition and types of uses



The Kanto Mill (katsuta) and Niigata Mill use wood biomass fuel.

In the past, it was common to burn the scrap wood left over from tearing down a wood house in a kiln, however if it is finely broken down and metal such as nails are removed, it transforms into a wood fuel. Wood fuel has roughly half the calories of coal, thus it makes a perfect fuel for boilers. The wood biomass boilers placed in the Kanto (Katsuta) and Niigata factories use wood fuel made from scrap as their primary fuel.

The boiler at the Kanto (Katsuta) Mill began operations in 2006 and generates 41,000kW of electricity. The boiler at the Niigata Mill began operations in 2007 and generates 7,600kW of electricity.

We have been able to reduce our use of the limited resources of coal by using wood fuel.

The Nagaoka and Kanto (Ichikawa) factories have converted to natural gas.

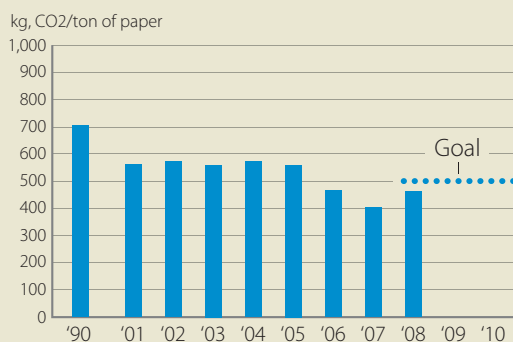
Starting in 2006, the two heavy oil boilers at the Nagaoka Mill were completely overhauled and the fuel used was switched completely to natural gas. Further, with the exception of the 1% of electricity used which is purchased, the Kanto (Ichikawa) Mill uses LNG (liquid natural gas) from city gas. Compared to natural gas, CO₂ emissions of coal are 1.8 times greater and those for oil are 1.4 times greater. As city gas does not contain sulfur, the boilers and gas turbines do not emit Sulfur Oxide (SO_x). Thus the conversion of boilers to natural gas plays a major role in reducing environmental impact.



The 8RB: the largest recovery boiler in Japan

Participation in the trial emissions trading scheme which began in October 2008

The trial emissions trading scheme in which Hokuetsu Paper Mills is participating has set a reduction target for CO₂ emissions (CO₂ emissions per CO₂ emissions source). In the scheme, the target will be achieved on a trial basis to work out any issues with the scheme itself. The scheme will last until 2012. In setting the goal, as the amount of CO₂ emissions per kilogram of paper was expected to worsen with the activation of the N9 high-speed all-online machine for making low substance coated paper, investment in equipment was made to reduce CO₂ emissions ahead of time such as the building of the 8RB and biomass power generator facility and conversion of boilers to natural gas. As a result, the goal was achieved in FY2008, and we will continue to reduce CO₂ emissions in order to achieve our goals in the future.



Changes in CO₂ emissions by source for Hokuetsu Paper Mills

Background for ISO certification for each mill

Niigata Mill

2009.9 ISO14001 certification acquired

Nagaoka Mill

1998.8 ISO9002 certification acquired
 2006.6 ISO14001 certification acquired
 2003.8 Conversion from ISO9002 to ISO9001 certification

Kanto Mill

1998.10 ISO9002 certification acquired by Katsuta Mill
 2000.4 Organizational structure of Ichikawa and Katsuta factories combined, name changed to Kanto Mill
 2000.10 Ichikawa Mill administration department acquired ISO14001 certification
 2001.4 Katsuta engineering department acquired ISO14001 certification
 2003.1 Katsuta engineering department converted from ISO9002 to ISO 9001
 2005.9 Entire Kanto Mill acquired ISO9001 certification with site expansion including Ichikawa engineering department

Environmental measures (biological treatment of waste water)

Recreating the cleaning power of seas and rivers in the mill. Biological treatment technology adopted for waste water treatment.

Hokuetsu Paper Mills is carrying out numerous measures to care for the environment and reduce the impact of mills on the environment as much as possible. Here we will explain how we clean water used in the mills using the power of nature through the examples of the oxygen aeration activated sludge method used in the Niigata Mill and the moving bed biofilm reactor method used in the Kanto (Ichikawa) Mill.

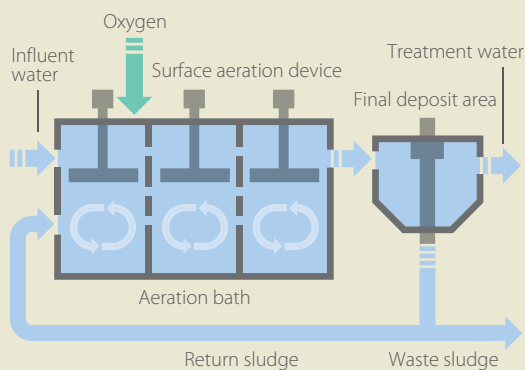
What is this biological treatment that shows its strength in waste water treatment?

Seas and rivers already have the ability to break down contaminants with the effect of cleaning the water. This cleaning effect is performed by bacteria and other microorganisms. Bacteria and protozoa collect in the green moss found on rocks in streams, and this is the basis of the thinking behind the oxygen aeration activated sludge method used in the Niigata Mill and the moving bed biofilm reactor method adopted in the Kanto (Ichikawa) Mill.

In order to enable the efficient, artificial recreation of the natural self-cleaning ability of water in a compact device for the biological treatment of waste water, it is necessary to create conditions adequate for the growth of microorganisms.

The oxygen aeration activated sludge method biological treatment method used in the Niigata Mill

It is a compact system which condenses the action of the bacteria and protozoa which are nature's workers, and the method used at the Niigata Mill is called the oxygen aeration activated sludge method. Just as humans must absorb oxygen from the air inside the body to survive, microorganisms in water also need oxygen. In the oxygen aeration activated sludge method, oxygen gas is used to distribute oxygen in the water. Thus the amount of oxygen in the water can easily be maintained at a specified level for a compact facility.



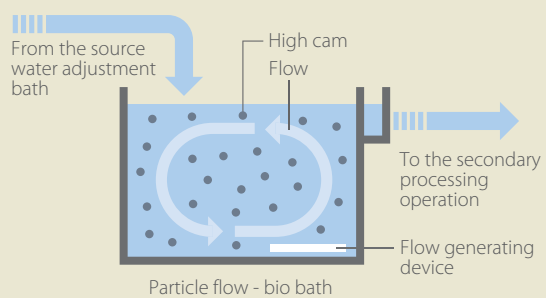
[Merits]

- The facility is compact because oxygen gas is used as the source for oxygen.
- The aesthetic appearance of the facility is maintained and the dispersal of droplets and foam is prevented because a hermetically sealed aeration bath is used.

The moving bed biofilm reactor method adopted at the Kanto (Ichikawa) plant

The moving bed biofilm reactor method uses a compact device which does not take up much space and is a high-performance system with highly efficient purification treatment abilities. Scores of microorganisms found in nature are allowed to grow on their own to clean the waste water, and the system can be said to recreate the natural cleaning process found in a river.

A large volume of tubular carriers (high cam) is placed in the bio bath (aeration bath) as shown in the figure, and by causing the aeration bath to flow uniformly throughout, a film of microorganisms is grown on each carrier. This film of microorganisms breaks down the organic matter in the waste water to purify it.



[Merits]

- Efficient processing is possible because the surface area per unit is large.
- The area used by the device is small because the volume used by the aeration bath is small.



A high cam before placement in the bio bath.

A high cam with microorganisms growing on it.



Balance with nature

Oxygen aeration activation sludge accessory equipment at the Niigata Mill

Involvement with our suppliers

We put the environment first in the procurement of raw materials and have built an open relationship with our domestic and international suppliers.

Of our wood raw materials, 94% is imported. This consists of fast-growing planted Eucalyptus and Acacia trees grown over ten years in barren land or unused grasslands. The remaining 6% is domestic wood from satoyama areas (the wooded border between farmland and forests in Japan). In order to continue providing our customers with products they can use with confidence, we approach the procurement of raw materials while maintaining the importance of our partnership with our suppliers, in accordance with the Environmental Charter of Hokuetsu Paper Mills*1.

We promote verification of the legality of procured materials and CSR activities for both imported and domestic materials.

Basic policy for raw materials procurement

1) Environment first

- With the Hokuetsu Paper Mills Environmental Charter as the basis for raw materials procurement, we purchase raw materials that our customers can use with confidence.
- All procurement from overseas is planted wood. We will expand our overseas forestry activities and increase the amount of provision from our own forestry resources. For domestic procurement, we will use and cultivate satoyama secondary forests and promote the utilization of unused materials.
- We promote the procurement of raw wood materials*2 that takes into consideration biodiversity and workersafety.

2) Open and fair transactions

- We open our doors to all suppliers and engage in fair and open transactions.

3) Legal compliance and disclosure of information

- We procure raw materials that are in compliance with relevant laws.
- We ensure that the raw wood materials from our

overseas suppliers are from appropriately managed forestry resources through direct investment and transactions, and disclose information regarding our wood chip sources.

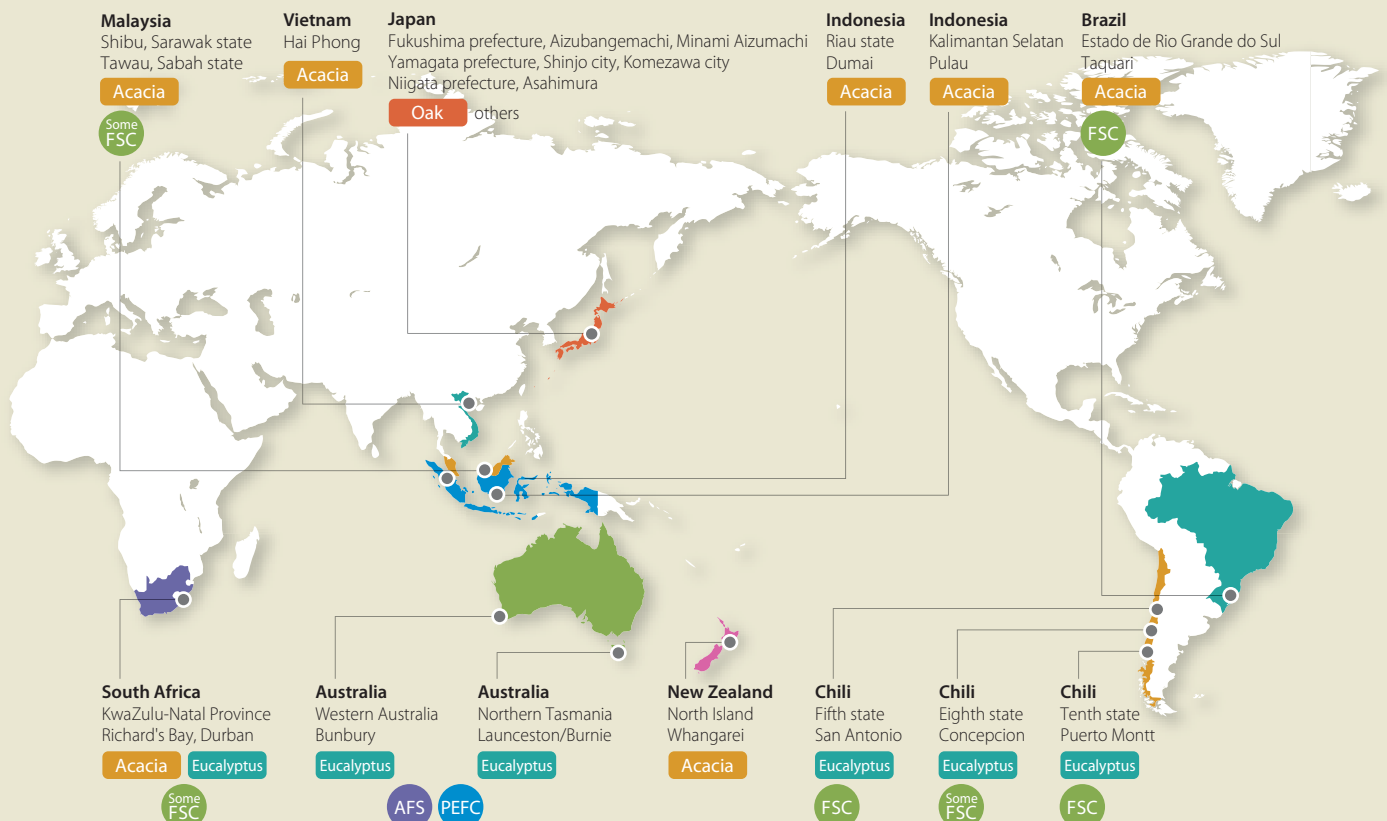
4) Reciprocal trust and prosperity

- We respect the history of our business partners, develop a relationship of trust, and strive for the best procurement regarding the environment, safety, quality and cost under a spirit of co-existence and co-prosperity.

*1 The fundamental principle of the Environmental Charter established by Hokuetsu Paper Mills is to make a social contribution toward the maintenance of an abundant global environment by working toward environmentally friendly business activities in order to meet the expectations of an excellent company and realize a society of sustainable development. To realize this, our fundamental policy includes 1) the protection and cultivation of forestry resources, 2) the reduction of environmental impacts in our business activities, and 3) the promotion of resources and energy efficiency.

*2The maintenance of biodiversity is the maintenance of a healthy environment in which diverse life forms may thrive and is directly connected to the maintenance of soil and water resources.

Wood chip sources (used in FY2008)



Imported materials

The wood chips we procure from overseas are from cultivated forests and primarily procured directly or through merchants from South Africa, Chili, Brazil, Australia and Malaysia.

[Specific actions]

Our employees and resident staff members survey the sites to collect accurate information regarding the following information.

- The company's location / the possession or lack thereof of accreditation by third parties / the varieties of trees collected and processed / the regions where the trees are grown / the company that grows the saplings / domestic laws which are being complied with and the state of compliance / a declaration of non-use of wood from illegal logging or logging in disputed areas / a map which shows the regions where the wood is collected

In order to ensure the legality of the wood materials

Each time wood is loaded onto the chip boats, we ensure that the basic information thereof is adhered to through verification of the relevant documentation.

A traceability report from the ShinCel company in South Africa



[Involvement with our suppliers]

Last fall, Hokuetsu Paper Mills began forestry operations in South Africa. Through this activity, we have advanced our cooperation with South Africa's ShinCel company with which we have been doing business since 2002. The photograph shows ShinCel Mill manager Bruce Bashford and President Matsuura of the forestry joint business venture.



ShinCel is also proactively engaged in CSR activities closely with the local community, such as holding a charity golf competition to raise money for the operation of an eight months old baby born with a severe heart condition.

The equivalent of approximately 1 million yen in emergency fund was donated. The operation was successful and the baby is said to be recovering steadily.



Domestic materials

The wood chips collected domestically as raw materials for paper are entirely comprised from sustainable secondary satoyama forests, and Hokuetsu Forest procures them primarily from Yamagata, Fukushima, and Niigata prefectures.

[Specific actions]

For all the growing areas for the acquired wood, Hokuetsu Forest stays aware of and verifies the following.

- When the chip mill purchases standing trees, that they begin logging and transportation after submitting a logging request to the government according to forestry law. / When the chip mill purchases raw wood, that they request a copy of the logging request from the delivering contractor.

To ensure the legality of our wood materials

We regularly verify the submission conditions for logging requests and the legality of the collected wood with Hokuetsu Forest.

The "Mill Certification for Business Certification Related to Legality and Sustainability" certification acquired by the Komezawa Mill of Hokuetsu Forest

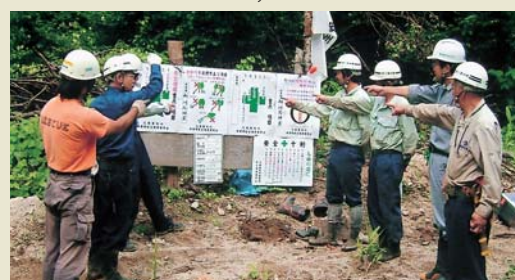


[Involvement with our suppliers]

This is Mill Manager Shishido of Yomezawa Mill, Hokuetsu Forest, a subsidiary of Hokuetsu Paper Mills. In addition to placing importance on communication with our business partners and activities in close cooperation with each region, we also focus our energy on safety measures.



Once per year we bring instructors from the Labor Standards Supervision Office to promote safety first among our business partners in a safety convention. Further, we put effort into daily safety inspections to ensure adherence to the work safety standards and enforcement of work safety.



Involvement with employees

A relationship where the company and our employees become one, together with our history of over 100 years. A bright and vigorous corporate culture which nurtures creativity and a thirst for challenge.

At Hokuetsu Paper Mills, our personnel are human treasures. Our history has been forged by all of our employees coming together as one to overcome hardships. Hokuetsu Paper Mills has cultivated a corporate culture which nurtures creativity and a thirst for challenge to simultaneously realize both the glory of the company and the improvement of working conditions. We further focus on safety and health management aiming to build an accident free workplace where staff can work at ease with the entire group working to prevent accidents.

A labor and management joint declaration which aims for both the glory of the company and the improvement of working conditions.

The corporate philosophy of Hokuetsu Paper Mills is to "create a bright and vigorous corporate culture that nurtures creativity and a thirst for challenge under the trust between management and labor." In this philosophy runs the spirit that has been created over our 100 years history where the company and employees came together as one to overcome hardships. This philosophy has at its roots in the Labor and Management Joint Declaration, which was adopted in 1970. This declaration represents the philosophy of simultaneously realizing both the glory of the company and the improvement of working conditions. Because the employees attempt to realize this with their own hands, they take on their tasks with initiative and are carrying out numerous autonomous reform efforts.

Historical background

Hokuetsu Paper Mills was placed in danger of going out of business as a result of the Niigata Earthquake of June 16, 1964, and had no choice but to restructure its personnel. Faced with this crisis, the company came together as one and continued with exhaustive efforts to rebuild, during the process of which the following was learned. Specifically, 1) the only way to protect individual livelihoods was the rebuilding of the company, the strengthening of its constitution and growth; and 2) management and labor must abandon confrontation and competition, and stand together with understanding and trust to work together to increase earnings through cooperation. With this understanding, it was decided that the Labor and Management Joint Declaration would be adopted.

Comments from the Chairman of the Labor Union

"For roughly the past half century, the words 'employment issues' have not existed in the lexicon of Hokuetsu Paper Mills. After the Niigata Earthquake, which struck in 1964, the first people to come running to the company to see if facilities were damaged were the employees. As a result of the earthquake, the company and employees came together as one to share a sense of concern which led to the Labor and Management Joint Declaration being adopted in 1970 as well as efforts to increase productivity. At Hokuetsu Paper Mills, small group activities where members raise issues themselves to improve operations and a safety convention for the creation of a safe environment are held regularly. The employees have a sense of craftsmanship, and there is a culture in which they can discuss technical theory with the management without barriers. These factors materialize in our high production efficiency.

I believe that in this, the spirit of the Labor and Management Joint Declaration, born forty years ago out of a history of over 100 years, is being well maintained."

Eimasa Igarashi
Central Executive Chairman, Hokuetsu Paper Mills Labor Union

[Labor and Management Joint Declaration]

For both the glory of the company and the improvement of working conditions:

- The establishment of modern labor and management relations
- The implementation of productivity activities
- The uncompromising quest for increased revenues should be proactively achieved.

March 3, 1970

Working together for occupational safety and health

All operation facilities and all group companies are working together to prevent accidents, aiming to build an accident free workplace where staff can work at ease based on placing safety before all and building a bright and healthy accident free work place.

● Determining the management policy for safety and health

The top decision-making body regarding safety and health, the Central Safety and Health Management Committee, is brought together every year in early December. The Safety and Health Management Policy for the following year is discussed, decided upon and extended to safety activities. Accidents from the current year are reflected on and analyzed, and important items to work on are established.

● Safety and Health Management Policy (FY2009)

The basic policy is to place safety before all and build a bright and healthy accident free work place.

Goal guideline for the fiscal year

- 1) Industrial accidents (including those with production interruption and those without): zero
- 2) Fires, explosions, leaks: zero
- 3) Driving under the influence, traffic accidents (whether victim or cause): zero
- 4) Reduction of illness (long-term leave)

Action guideline

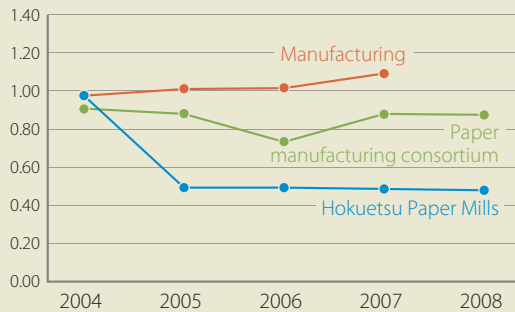
Verify safety by taking pause and using pointing and calling whether a task is a familiar one or not.

● Primary efforts continually being promoted

[All company foreman safety inspection]

Once per year, one or two individuals are chosen from among foremen who carry out safety inspections in the three mills in Niigata, Nagaoka, and Kanto (Ichikata, Katsuta). All members inspect each mill and share their observations of danger areas with each other for the prevention of accidents. Risk assessment is carried out for the danger areas identified, priorities are assigned, and reforms are made.

● Occurrence conditions of industrial accidents



Changes in the frequency of accidents with lost work time

Frequency rate: represents casualties due to industrial accidents per one million man hours and accident occurrence rate

Leverage the people, cultivate the people, increase corporate strength

Human resource development and human wealth utilization are positioned as important management measures in V-10, the management plan which began in April 2008 at Hokuetsu Paper Mills, aiming to leverage the people, cultivate the people, and increase corporate strength. For instance, Off-JT is being adopted centered on OJT for training to cultivate human resources by job grade and department. Further, support is provided for the employees to grow on their own through distance learning program and small group activities for personal development. Finally, beginning with the existing overseas trainee program, efforts are being made to strengthen human resources development for globalization.



Overseas trainees visiting China

Placing importance on family communication

Hokuetsu Paper Mills places the greatest importance on communication with the employees and their families. At each mill, celebrations are held when the children of employees enter elementary school, and school visits to factories are held.



By job level	Technical/craftsmanship. Job skills by department	Small groups (SG) QC	Other
Distance learning before employment Group learning before employment			
General level	<p>Technical/craftsmanship training</p> <ul style="list-style-type: none"> Shoushi (Straining the pulp to remove excess water) Shiryou (Pulp stock in slurry form before being strained) KP Power Facilities Sales Planning, accounting Administration, labor Information processing Materials Forestry Other departments <p>Operator technical training</p> <ul style="list-style-type: none"> Machine facilities Electrical facilities 	<p>All company SG leader gathering</p> <p>Practical QC leader educational training</p> <p>SG leader educational training</p>	<p>Safety and health education</p> <p>Distance learning for personal development</p> <p>English conversation training, trainee program</p> <p>Participation in outside company study sessions and seminars</p> <p>Overseas training, overseas trips</p> <p>Support for obtaining various accreditation</p>
Assistant manager level		<p>SG promotion/management committee</p> <p>SG supporter training</p>	<p>Labor and management productivity training</p>
Management			
<p>Newly assigned management training</p> <p>Department chief training</p> <p>Division chief training</p>			

Involvement with the local community

Contributing to the local community through disaster recovery support, cultural and educational activities, and the promotion of sports activities is an important part of our job.

1. Disaster recovery support

Charity donations for damage in the Sichuan earthquake in China

Hokuetsu Paper Mills has experience with disasters through the 1964 Niigata earthquake and the 2004 Chuetsu earthquake. Thus we have put great effort into providing volunteer efforts, charity funds, and supply support for the Chuetsu earthquake and Chuetsu offshore earthquake. Hokuetsu Paper Mills also provided charity funds through the Japan Business Federation when a major earthquake struck in Sichuan province, China on May 12, 2008.

2. Cultural and educational activities

The middle school work place experience class called Waku Waku Working (Niigata Mill)

The work place experience class called Waku Waku (exciting) Working was held over three days from October 21st to 23rd in 2008. Girls from the East Niigata Middle School, situated close to the Niigata Mill, were able to experience office work. A presentation was later given on the Waku Waku Working results at the middle school. The aim was to learn "how Hokuetsu Paper Mills was creating environmentally friendly paper," and the students were able to study biomass energy and forestry in only three days. The students went so far as to promote our company, reporting that "the discharge from Hokuetsu Paper Mills' chimneys is steam, not smoke, so everyone please go about your daily lives with peace of mind," that "Hokuetsu Paper Mills cares about the people of the community," and that "the on-site workers are supported by the staff in the offices and that this is a very important job".



Middle school students giving a presentation about their activities at Hokuetsu Paper Mills

A paper seminar held with Tokyo University of the Arts (Nagaoka Mill)

The annual paper seminar for the Department of Design, Fine Arts, Tokyo University of the Arts was held over three days from November 11, 2008. On the first day, tours were given of the Niigata Mill, Nagaoka Mill, and the Adachi paper machine. From the second day, intensive practice in paper extraction and fiber craft was carried out at the research facility. The number of students who tried fiber craft was higher than normal, and some of the creations were quite artistic while some had product potential. In paper extraction, persistent efforts were made to create wonderful works. During the presentation of the results on the final day, we received many valuable comments such as could be expected from art students, resulting in a meaningful paper seminar.

NHK : Cooperation for coverage by NHK Educational TV's high school program "Science" (Niigata Mill)

Coverage and filming of the soda recovery boiler at the Niigata Mill on September 6, 2008 for the production of NHK Educational TV's high school program "Science" which is broadcast every Friday. The program demonstrated how sodium hydroxide (caustic soda), and alkali metal, was used in the process of making paper, and how it was recovered and reused through the soda recovery boiler at the Niigata Mill.

Tokyo Philharmonic special concert in Nagaoka

On July 9, 2008, the Nagaoka Special Concert of the Tokyo Philharmonic was held at the Nagaoka Public Theater. Our company also cooperated as part of our cultural social contributions. The large hall, which boasts 1,500 seats, was completely packed with people of every age from students to the elderly. The conductor was Yosuke Funabashi who is active internationally and in Japan, and the theme was "connecting hearts through song." Funabashi and the soprano Shinobu Sato, in her memorably gorgeous dress, lead the concert. The concert also featured commentary between Mr. Funabashi and Ms. Sato between pieces. The pair had connections with Nagaoka and discussed their memories and favorite places there.



Provided by the Nagaoka City Foundation for Art and Culture Promotion

3. Interaction with the community

Shinano River Greening Mission (Nagaoka Mill)

The annual Shinano River Greening Mission was held on April 3, 2008. Members from the mill, research facility, and group companies collected garbage mainly around the banks of the Shinano River area. Though it was just a short period of time during the lunch break, enough trash was collected to fill a truck including 340kg of burnable trash, 30kg of cans and bottles, 40kg of metallic trash, and even a fire extinguisher and tires. The existence of Shinano River is essential for the livelihoods of the people of the community. We hope that it will always remain a clean river.

Summer holiday sketching concours (Niigata Mill)

The summer holiday sketching concours is held annually by the Niigata Mill. Third and fourth year students from six nearby elementary schools are invited to participate, and last year 100 submissions were received. The students who won the grand prize, the outstanding performance prize, and the Hokuetsu Paper Mills prize (chosen by the administration director from the submitted works) and their families were invited to attend an award ceremony on Saturday, November 8, 2008. The event included many activities such as a tour of the mill and a postcard making workshop, and was a great success with 186 participants. On this day, all the pictures displayed within the facility are replaced. Winning works displaying excellent painting skill and color usage are on display within the mill. All of the works remain in the memories of the employees and customers who visit the mill.



A work by a third year student which was used as the cover of the Niigata Mill note book.



Students and parents touring the N9.

4. Promotion of sports activities

Uniform sponsorship contract with the professional basketball team Albirex BB

Albirex BB is a professional basketball team that was started in 2003 and is an official member of the professional league. The team brings 2,800 visitors on average to a home game and over 60,000 to the total of 22 games. Hokuetsu Paper Mills first made a contract with the team in 2008 as part of local revitalization, as they are a professional team established locally by Niigata. Given the amount of visitors brought in, the contribution to the community is more than adequate. The uniform sponsorship was continued in 2009 as part of our benefits program, including a season pass to allow many of our employees to attend games.



The uniform of Albirex BB

Business Overview

- Pulp and paper manufacturing business
- Paper converting business
- Other

Corporate Data

Corporate Name: Hokuetsu Paper Mills, Ltd.

Head Office: 3-2-2 Hongoku-cho, Nihonbashi,
Chuo-ku, Tokyo 103-0021 Japan

Established: April 27, 1907

Paid-in Capital: ¥ 42,020,940,239 (As of March 31, 2009)

Number of Employees:

3,028 (Consolidated)

1,264 (Non-consolidated)

(As of March 31, 2009)

Offices and Mills: Niigata Mill

Nagaoka Mill

Kanto Mill Ichikawa Factory

Kanto Mill Katsuta Factory

Central Research Laboratory

Osaka Branch

Nagoya Office

Niigata Office

Consolidated Subsidiaries:

Hokuetsu Package Co., Ltd.

Hokuetsu Engineering Co., Ltd.

Hokuetsu Trading Corporation

Hokuetsukamiseisen Co., Ltd.

Katsutakamiseisen Co., Ltd.

Hokuetsu Logistics Co., Ltd.

Hokuetsu Suiun Co., Ltd.

Techno-Hokuetsu, Ltd.

Keiyo Shigen Center Co., Ltd.

Hokuetsu-Forest Co., Ltd.

“V-10” Consolidated Management Targets for FY2010

Net sales: ¥230,000 million

Ordinary income:

¥15,000 million

Ratio of ordinary income to net sales:

At least 6.5%

EBITDA: ¥36,000 million

ROA: At least 5.0%

Period Covered by V-10

April 1, 2008 – March 31, 2011 (three years)

Basic Policies

Hokuetsu Paper Mills Group is committed to become a papermaking company with all-round competitiveness in terms of quality, environment and cost by being an attractive company for all stakeholders. To this end, the Group will steadily work on expanding its printing paper business through early strategic operation of the N9 program, as well as on effective use of human resources and measures to increase corporate value, such as implementation of thorough compliance.

1. Achieving the investment targets

- Early stabilization of the N9 operation (Achieving high quality and low cost; Competing in the global market)
- Backing up profitability in the area of white paperboard and specialty paper

2. Balanced environmental management and internationalization

- Promoting balanced environmental management, such as resource saving, efficient energy use, CO₂ reduction, reforestation, recycling of used papers, etc.
- Promoting internationalization, such as partnership for streamlined raw material procurement and distribution.

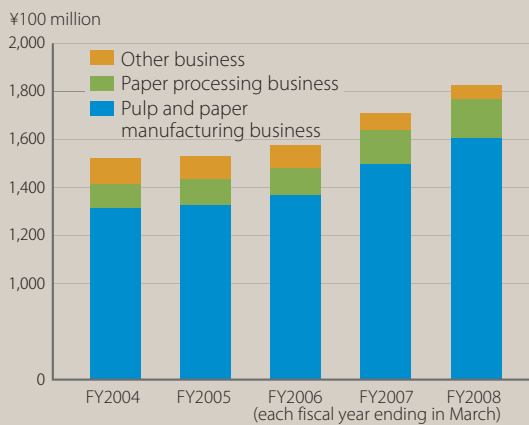
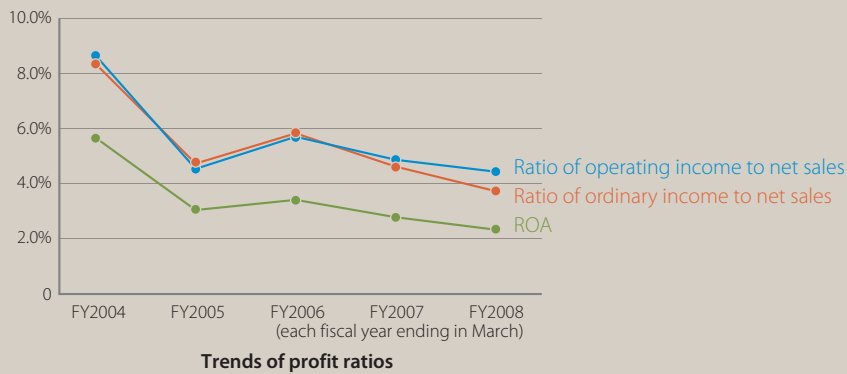
3. Developing and utilizing human resources

- Reshuffling into a flexible and responsive organization that can adapt to changes within and outside the company
- Human resources development through active training outside the company and people-to-people exchanges involving other industries in various settings including overseas
- Nurturing next-generation executives and utilizing personnel

4. Strengthening the management base

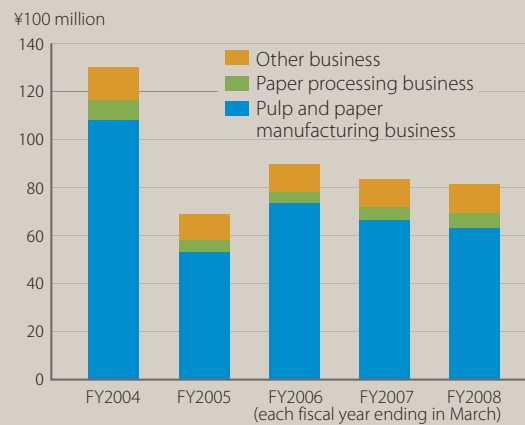
- Introduction of the Nagaoka Specialty Paper Division; streamlining operations by renovating the organization
- Strengthening and deepening consolidated management
- Ensuring true understanding and establishment of the concepts of compliance, internal control and others

Management Data



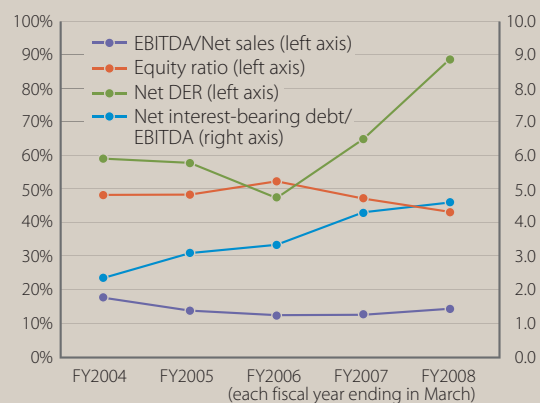
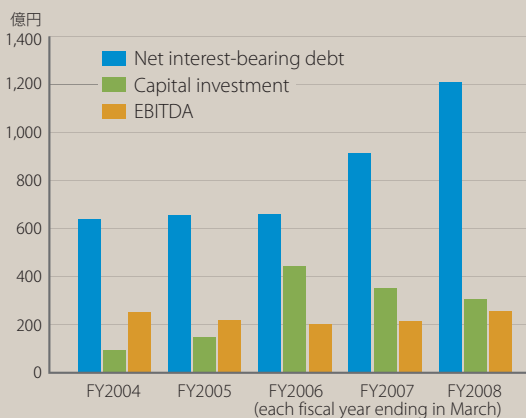
Net sales by segment

Net sales increased in core businesses



Operating income by segment

Cost increase due to the surge of the raw material and energy prices was compensated by energy conversion, improved internal efficiency, and adjustment of product prices.



For the inauguration of N9, the new No. 9 Papermaking Machine, at the Niigata Mill (production capacity of 350,000 tons per year; total investment amounting to about ¥80,000 million including appended facilities), which was decided to be constructed in May 2006 and began operation in September 2008, the Company reinforced its capital by about ¥30,000 million in 2006 and increased borrowing in order to meet robust capital demands.

Through recapitalization, the Company was able to avoid a major drop in the equity ratio and to keep down the net debt equity ratio (DER) to about 0.88 (88%), despite the increase in the net interest-bearing debt.

Going forward, abundant cash-flow will allow the Company to expand its possibilities in devising managerial measures.

Environmental Accounts

Scope of calculations: Hokuetsu Paper Mills, Ltd.
Target period: April 1, 2008 – March 31, 2009
Monetary unit: million yen

Environmental Conservation Cost

Category	Major activities and their results	Investment	Cost
1. Business area costs Environmental conservation costs to control environmental impacts which result from key business operations within the business area		1,563	4,755
Composition			
① Pollution prevention cost		521	3,043
a. Air pollution		-	484
b. Water pollution	Reinforced waste water treatment facility	447	2,421
c. Noise, vibration and odor		74	137
② Global environmental conservation cost		824	491
a. Prevention of global warming		4	471
b. Energy conservation	Energy-saving facility	85	(Included in the production cost)
c. Company-owned forest in Japan	Cost for nurturing company-owned forest	12	19
d. Reforestation overseas	Capital expenditure for overseas reforestation program	722	-
③ Resource circulation cost		217	1,220
a. Efficient utilization of resources		217	(Included in the production cost)
b. Reduction, recycling, treatment, disposal, etc. of industrial wastes		-	1,220
2. Upstream/downstream costs Environmental conservation costs to control environmental impacts which key business operations upstream and downstream		-	661
Composition			
① Purchase of materials, etc. with less environmental impact (green purchase)	Cost (difference) for purchasing low-sulfur fuels, and others	-	131
② Recycling and collection of containers and packaging	Cost for recycling wooden pallets, and others	-	530
3. Administration costs Environmental conservation costs stemming from administrative activities		-	183
Composition			
① Environmental training of employees, etc.	Education on environmental conservation, cost for acquiring licenses	-	2
② Building, implementation, and acquiring certification for an environmental management system	ISO14001-related costs	-	2
③ Monitoring and measuring environmental impacts	Maintenance fees for measuring instruments, commission fees for analysis	-	41
④ Running costs for an environmental conservation system, etc.	An in-plant system for environmental management	-	136
4. R&D costs Environmental conservation costs stemming from R&D activities		-	168
Composition			
① R&D to develop products that contribute to environmental conservation		-	53
② R&D and planning to curtail environmental impacts at the manufacturing stage, etc.		-	114
5. Social activity costs Environmental conservation costs stemming from social activities		-	72
Composition			
① Planting of greenery, beautification, etc.	Greening of the factory sites, and others.	-	43
② Support, etc. of environmental conservation activities by the local community	Community environmental fair, and others	-	4
③ Support for environmental groups		-	15
④ Disclosure of environmental information and related advertisements	Costs for compiling environmental reports	-	9
6. Environmental remediation costs Costs incurred for dealing with environmental degradation		-	78
Total		1,563	5,918

Due to estimation, the totals may not match.

Item	Content	Monetary value
Total investment during the target period		30,830
Total R&D cost during the target period		1,014

Monetary values are rounded off to the nearest million.

Examples of Environmental Conservation Benefits

Classification by relationship with business activities	Examples of benefits	Performance (compared to FY2007)
Environmental conservation benefit related to resources input into business activities	Energy-saving effect	¥205 million
Environmental conservation benefit related to waste or environmental impacts originating from business activities	Reduction of waste water BOD	0.44->0.43kg/ton of product
Environmental conservation benefit related to goods and services produced from business activities	Fresh pulp products made by Hokuetsu are ECF using mainly trees from planted forest and mountainous villages	

Environmental Charter

Hokuetsu Paper Mills declares its commitment to realizing the basic philosophy of the Charter as the pillar of its corporate activities through the unified efforts of labor and management.

Basic Philosophy

We seek environmentally-friendly corporate activities in order to realize a society capable of sustainable growth and to become a respectable member of the corporate community, and thereby contribute toward preserving a rich global environment.

Basic Philosophy

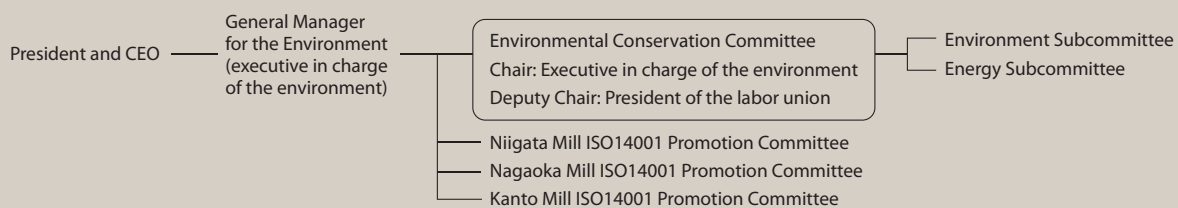
- Protection and nurturing of forest resources
- Mitigating environmental impacts resulting from business activities
- Promoting efficient use of resources and energy saving

Action guidelines

- Protection and nurturing of forest resources
- Improving environmentally-friendly production technology
- Promotion of energy saving
- Promotion of reusing and recycling old papers
- Reduction and effective use of waste materials
- Social contribution and in-house education
- Appropriate emergency responses

Structure for Promoting Environmental Management

Centering on the environmental conservation committee at the head office, the environmental conservation committee and the ISO promotion committee in each factory will take the lead in promoting company-wide conservation activities.



FY2008 Emissions – Annual Footprint Data

Impact	Item	Figure	Unit
Water quality	Paper and paper-board production	1,397	1,000 tons
	Water use	59,000	1,000m ³
	BOD discharge	599	tons
Air quality	SS discharge	701	tons
	CO ₂ emission	631	1,000 tons
	SO _x emission	330	tons
	NO _x emission	2,031	tons
	Dust emission	110	tons

Environmental Targets and Achievements

Impact	Item	Unit	FY1996 achievement	FY2008 achievement	FY2010 target
Preventing global warming	CO ₂ emission (CO ₂ equivalent)	kg/ton of product	667	452 -36% (compared to 1990)	494
	Energy saving	Fossil fuel energy (petroleum equivalent)	ℓ/ton of product	292	196 -32% (compared to 1990)
Preventing air pollution	SO _x	kg/ton of product	1.93	0.24	0.50
	NO _x	kg/ton of product	1.26	1.45	1.43
	Dust	kg/ton of product	0.16	0.08	0.12
Preventing water pollution	Waste water BOD	kg/ton of product	0.80	0.43	0.47
Reducing water use	Volume of water used	m ³ /ton of product	54.8	42.2	37.1

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