



HOKUETSU
GROUP

Hokuetsu Corporation

HOKUETSU GROUP

Integrated Report **2024**

(Fiscal year ended March 31, 2024)



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Editorial Policy

This report is published for the purpose of communicating the Hokuetsu Group's value creation strategy and its progress, in addition to themes that we recognize as particularly important issues in non-financial activity reports. In editing this report, we refer to the International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC), the Ministry of Economy, Trade and Industry's Guidance for Collaborative Value Creation 2.0, and the GRI Standards. Please also refer to our website for more detailed information.

Disclosure system



Scope of reporting

- Companies covered by this report: Hokuetsu Group (Hokuetsu Corporation and main affiliated subsidiaries, etc.)
- Period covered by the report: April 1, 2023-March 31, 2024 (Some activities after this period are also reported.)
- Contact: General Affairs Department, Hokuetsu Corporation, Telephone +81-3-3245-4500
- Published: October 2024
- WEB: Corporate website <https://www.hokuetsucorp.com/en/index.html>

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Structure of the Hokuetsu Group Philosophy

Hokuetsu Group Corporate Philosophy

As a people focused business group, we work to improve society globally, by providing socially and environmentally responsible products through innovative manufacturing on a global scale.

“**People-focused business group**” is the expression of our vision for the future, what we want to become, our goal.

- A business group that values its connection to its stakeholders and the relationship of trust with them.
- A business group that pursues the happiness of its employees.
- A business group that respects diversity and empowers its people.

“**Socially and environmentally responsible**” means to create a sustainable society in harmonious coexistence with nature, guided by the concept of “minimum impact” to keep all impact on the natural environment to the minimum at each stage from the procurement of raw materials to the manufacture of end products.

“**Products through innovative manufacturing on a global scale**” means to pursue innovation, to aim at delivering the greatest satisfaction to our customers by enhancing our technological capabilities.

“Socially and environmentally responsible,” “products through innovative manufacturing on a global scale”: these are the values, the philosophy, that we uphold. It is the mission of our corporate group, the foundation of our existence, to “**work to improve society globally**” through these values.

Hokuetsu Group Code of Conduct

The Group hereby sets forth its “Hokuetsu Group Code of Conduct” to signify the basic rules to be observed by all of its officers and employees in all activities they engage in toward realizing the Group's Corporate Philosophy.

1. We Shall Comply with Laws and Regulations, and Act in a Responsible Manner in Line with the Social Norms
2. We Shall Strive for Environmental Conservation and Seek Harmonious Coexistence with Society and Local Communities
3. We Shall Respect Human Rights and Strive to Secure a Safe, Hygienic and Pleasant Workplace Environment
4. We Shall Conduct Business with Integrity and Fairness
5. We Shall Appropriately Manage Corporate Assets and Information

Caution Regarding Forward-Looking Statements

This report contains some descriptions of future performance. Such forward-looking statements are not guarantees, and are subject to risks and uncertainties. Actual results may differ from these forward-looking statements for a variety of factors, including changes in the operating environment. Other contributing factors are the domestic and international economic conditions pertaining to our business sectors, demand trends for our products and services, and foreign exchange and stock market trends. Please note that this is not an exhaustive list of factors.

Message from the President and CEO

Aiming to further strengthen our relationship of trust with stakeholders

President and CEO
Sekio Kishimoto



Looking Back on the Fiscal Year Ended March 31, 2024

During the year, the global economy became increasingly uncertain due to the Russian invasion of Ukraine, geopolitical tensions in the Middle East, ongoing global inflation, and concerns about economic slowdown in China and Western countries. In addition, the operating environment surrounding the domestic paper and pulp industry has grown increasingly challenging because of digitalization, declining birth rates, shrinking demand for printing and communication paper in the post-pandemic "new normal" era, and changes in market structure.

In this challenging operating environment, the Group generated consolidated net sales of ¥297.1 billion (down 1.4% year on year) and operating income of ¥15.3 billion (down 11.7% year on year) in the fiscal year ended March 31, 2024, amid falling international pulp prices and slowdown in economic activity in China, among other factors. Ordinary

income amounted to ¥17.8 billion (up 54.9% year on year), mainly owing to an improvement in the share of profit of entities accounted for using the equity method. Net income attributable to owners of parent company was ¥8.4 billion (up 0.9% year on year), reflecting extraordinary losses associated with the partial transfer of shares in our white paperboard business in China, and a related decrease in total corporate taxes. For the fiscal year ending March 31, 2025, we forecast net sales of ¥310.0 billion, a new record, owing to an increase in the export sales volume and higher pulp sales prices. Although soaring raw materials and fuel prices continue to affect us on the profit front, we anticipate cost improvements that should lead to operating income of ¥17.0 billion and ordinary income of ¥19.0 billion. We forecast annual dividends of ¥22 per share, up ¥4 year on year.

Key Financial Indicators Over Time

(Millions of yen)

(Fiscal year ended in March)	2021	2022	2023	2024	2025 (forecast)
Net sales	222,454	261,617	301,205	297,057	310,000
Operating income	1,702	20,456	17,288	15,268	17,000
Ordinary income	9,757	29,515	11,472	17,766	19,000
Net income attributable to owners of parent company	14,173	21,207	8,326	8,397	14,000
ROE (%)	7.6	10.3	3.8	3.5	5.5
EBITDA	24,802	43,255	24,263	31,627	32,300
Exchange rate (Yen)	106	113	136	145	155
Dubai crude oil (\$/bbl)	45	78	93	82	85

*Exchange rates are USD/JPY. Actual exchange rates and crude oil prices are averages for the fiscal year.

Progress on "Medium-term Management Plan 2026" to Realize our Long-term Management Vision, "Vision 2030"

The Group launched Medium-term Management Plan 2026 in April 2023, based on its Long-term Management Vision, Vision 2030. The plan's three basic policies are to shift the business portfolio, strengthen competitiveness, and promote sustainability (ESG) activities. In line with this policy, we will swiftly and resolutely implement management measures aimed at enhancing corporate value through such measures as achieving effective net-zero CO₂ emissions.

Shifting the Business Portfolio

To reinforce its global business development, in April 2024 the Group reorganized its sales structure. We divided the Paper & White Paperboard Sales Division into the Domestic Paper & White Paperboard Sales Division and the Global Trading Division in a bid to strengthen business competitiveness in Japan and overseas. In another reorganization aimed at shifting the business portfolio, we established the New Business Development Department, which is supervised directly by the CFO. We are working to secure earnings levels in the Paper & White Paperboard Business and the Performance Materials Business, and develop and sell high-value-added products in the containerboard base paper business. In the cup business, we are promoting paper containers with the aim of offering plastic-free products.

Strengthening Competitiveness

To further enhance corporate value, the Group is working to strengthen competitiveness on the cost, environmental, and safety fronts.

To strengthen cost competitiveness, we are focusing on optimizing the production system for profitable purchasing, purchasing from multiple suppliers to distribute risk, and keeping a close eye on domestic demand trends when conducting pulp sales. In the wake of the Noto Peninsula earthquake that occurred in January 2024, we have been working to strengthen business continuity based on our business continuity plan (BCP), such as by transferring production of some product brands from the Niigata Mill to the Kishu Mill. We are also promoting better business process efficiencies through digital transformation (DX) at the Niigata Mill. In addition, we have revised product prices to reflect changes in the external environment, such as high raw materials and fuel prices and soaring logistics costs.

To enhance environmental competitiveness, we have been working to curtail CO₂ emissions. In FY2023, CO₂ emissions

on a non-consolidated basis amounted to 638,000 tons, down 37.8% from FY2005 levels. We are also actively promoting measures to address the issue of climate change, such as participating in efforts to launch an advanced carbon dioxide capture and storage (CCS) project in Niigata Prefecture.

To bolster competitiveness on the safety front, we are promoting safety and health activities under hSA25 that utilize ISO 45001, the international standard related to safety, and are conducting ongoing engineering safety measures to reduce disaster risk.

In May 2024, we entered in a Basic Strategic Business Alliance Agreement with Daio Paper Corporation. In July, we commenced "round transportation" which means to transport each product on the way back and forth of trucks between production bases, thereby reducing costs by improving logistics efficiency. As a result of this alliance, we expect operating income to increase by around ¥3.0 billion in FY2026, owing to its effects in the areas of production technology, raw material purchasing and product logistics.

Promoting Sustainability (ESG) Activities

The Group is committed to promoting sustainability (ESG) activities in order to contribute to the development of society through its business and achieve further growth of the Group.

On the environmental front, we are engaged in initiatives aimed at forest management and biodiversity conservation at owned and managed forests, both in Japan and overseas. From the CDP, an international non-profit organization, we have received an "A-" rating, the leadership level, for two consecutive years in the "climate change" category and obtained a "B" rating in the "forest" category. On the social front, we are actively investing in human capital through the establishment of the Hokuetsu Group Human Resource Development Policy and the promotion of diversity. We are also pursuing new possibilities for paper, such as the development of new products for plastic-free and electromagnetic wave noise suppression sheets that are effective in next-generation communications, including in high-capacity communication cables and for 5G. Furthermore, we hold approximately 80 IR and SR meetings annually to enhance dialogue with shareholders and investors. On the governance front, we promote the active involvement of external directors and endeavor to improve the operation of the Board of Directors. Our Nomination and Compensation Committee, a voluntary committee, has considered director selection and compensation systems.

Enhancing Corporate Value Founded on Relationship of Trust with Our Stakeholders

The Hokuetsu Group Corporate Philosophy states that, "As a people focused business group, we work to improve society globally, by providing socially and environmentally responsible products through innovative manufacturing on a global scale." We strive to uphold this philosophy in our business activities. Our vision of being a "people-focused business group" represents our commitment to prioritizing connections and trust with our stakeholders above all else. The Group

will continue striving for sustainable growth alongside its stakeholders, while working to enhance corporate value and address societal challenges through the implementation of its Long-term Management Vision, Vision 2030, and Medium-term Management Plan 2026.

We look forward to your continued support as the Group aims to evolve and grow for the next generation based on the trust of all of our stakeholders.

Value Creation Process

The Group has grown steadily through business activities centered on its corporate philosophy and code of conduct. We will continue to implement various initiatives under Medium-term Management Plan 2026 and engage in sustainability activities in order to enhance corporate value by realizing our Long-term Management Vision, Vision 2030, and strive to resolve challenges to becoming a sustainable society.

Hokuetsu Group Corporate Philosophy

As a people focused business group, we work to improve society globally, by providing socially and environmentally responsible products through innovative manufacturing on a global scale.



Financial information

Grade	A-(R&I) ^{*1}
Total net assets	¥252.4 billion ^{*2}
Interest-bearing debt	¥104.4 billion ^{*2}

Intellectual capital

Patents	376 ^{*3}
R&D expenditures	¥750 million ^{*2}

Manufacturing capital

Capital investment	¥15.31 billion ^{*3}
Offices in Japan	24 ^{*2}
Overseas offices	6 ^{*2}

Human capital

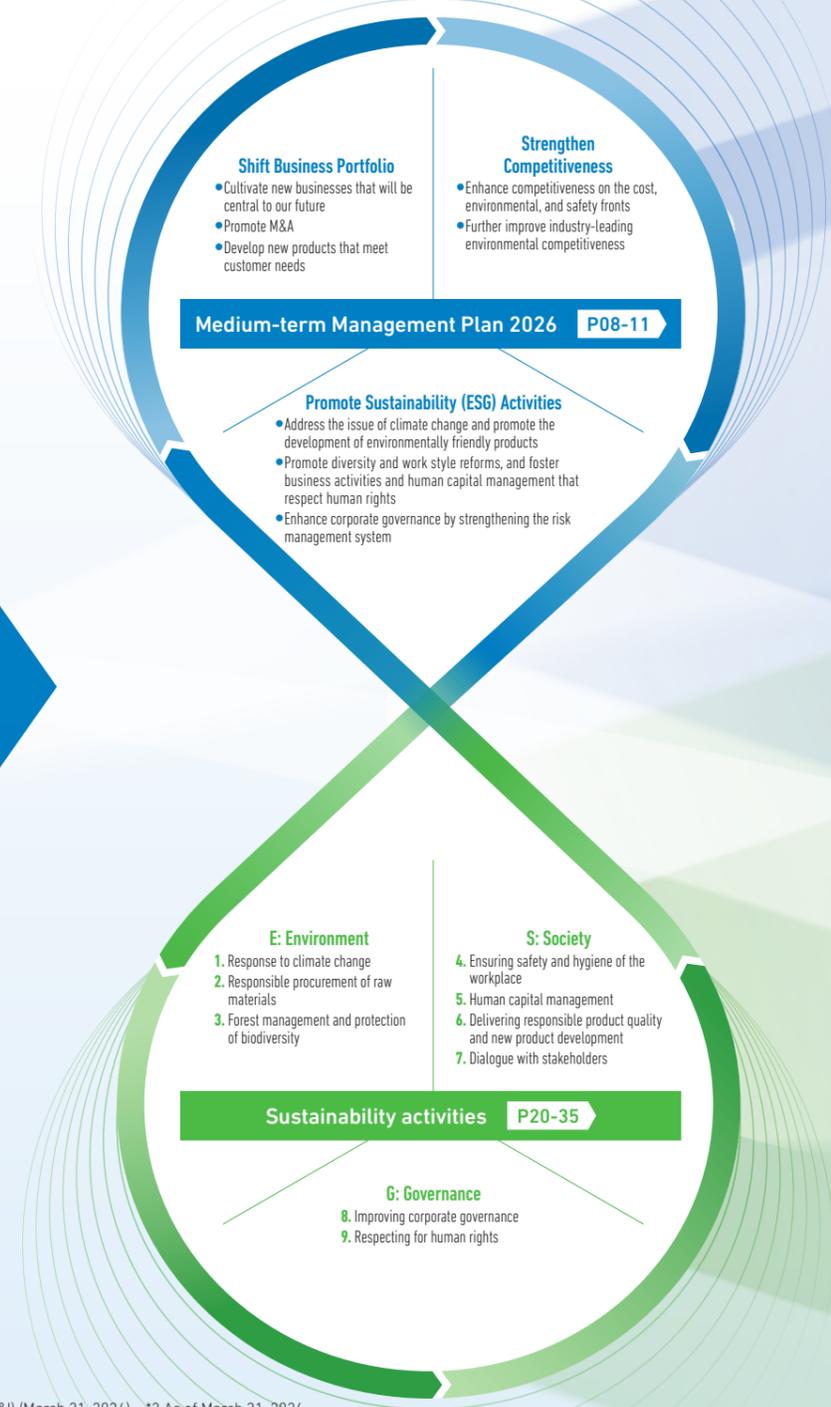
Consolidated employees	3,749 ^{*2}
Employees at overseas subsidiaries	517 ^{*2}
Employee education and training expenses	¥24 million ^{*4}

Social & relational capital

Main sales countries over 40^{*5}

Natural capital

Environmental conservation investment	¥1.94 billion ^{*4}
Environmental conservation expenditures	¥7.71 billion ^{*4}
CO ₂ emissions	638,000 tons ^{*4}



Providing services and products that are both high quality and cost-competitive through environmentally friendly business activities

Business Overview P12-19

Paper and White Paperboard Business

Main product type

- Coated paper
- Uncoated paper
- Specialty white paperboard
- Coated duplex board

Performance Materials Business

Main product type

- Functional paper
- Specialty paper and communication paper
- Containerboard base paper

Overseas Business

Main product type

- Pulp business
- Performance materials business

Our Vision for 2030

Long-term Management Vision 2030

Basic Policy

In a business environment that is subject to major changes, the Group and all its stakeholders will aim for continuous growth by promoting management with effective governance and compliance, and developing and providing services and products that are both high quality and cost-competitive through environmentally friendly business activities.

Consolidated management indicators

- A business group that contributes to sustainable social development based on environmental management
- A business group that makes use of diverse human resources and the latest technology to challenge ourselves in new business fields in step with the times
- A business group made up of people working proactively with dreams, hopes, and pride

Creating economic value

Consolidated management indicators under Medium-term Management Plan 2026 (FY2025)

- Net Sales ¥330 billion
- Operating Profit ¥20 billion
- Ordinary Profit ¥24 billion
- Net Income Attributable to Owners of Parent Company ¥20 billion
- ROE 8.0%
- EBITDA ¥39 billion

Creating social and economic value

Hokuetsu Group Environmental Target 2030

- Reduction of CO₂ emissions by 43% (approximately 450,000 tons) compared to FY2005 levels.
- Continuance of forest management aimed at improving biodiversity and multiple functions of forests.
- Expansion of environmentally friendly products

Safety and health activity hSA25

- Zero serious accidents in FY2025
- 25 or fewer occupational accidents in the Group

*1 Issuer rating by Rating and Investment Information, Inc. (R&I) (March 31, 2024) *2 As of March 31, 2024
 *3 Results for FY2023 (consolidated) *4 Results for FY2023 (non-consolidated) *5 Main countries with sales results in FY2023

Our Value Creation Journey

For the 117 years since our founding, we have contributed to the development of society and culture through the art of papermaking.

In 1907, we began our papermaking journey in Niigata Prefecture, which boasts one of Japan's highest rice production volumes. Making skillful use of abundant rice straw, our main raw material of the time, and the blessings of the Shinano River's water, we embarked on our papermaking venture. Over the past 117 years, we have continued to grow steadily, embracing relentless challenges and opening up new possibilities in the world of paper.

Net sales
(Millions of yen)

300,000

200,000

100,000

0

Founding and Stability Period

1907–1985

From our founding to the establishment of manufacturing infrastructure

In 1907, Hokuetsu Paper Mills, Ltd. was founded in Nagaoka City, Niigata Prefecture, beginning with the production of cardboard from rice straw. In 1916, the Niigata Mill began producing Western-style paper, which became the foundation for the Group's future development. In 1920, the Ichikawa Mill (now Kanto Mill Ichikawa) was constructed, expanding the sales of Western-style paper in the Tokyo metropolitan area.

In 1961, in response to a sharp increase in demand for packaging materials, the Ichikawa Mill began producing white board. In 1975, the Katsuta Mill (now Kanto Mill Katsuta) was built, and the company took the industry lead in producing all manner of white paperboard.



The Nagaoka Mill at the time of our founding

Rapid Growth Period

1986–2007

Innovation in the paper business, move to an environmentally friendly production system

To meet growing demand for coated paper, in 1986 the Company introduced the No. 6 paper machine at the Niigata Mill. Our on-coat machine, capable of simultaneously performing both papermaking and coating, was the world's first of its kind for fine paper products. Our coated paper "High Series" earned high praise in the market, establishing the Company as a leading comprehensive manufacturer of paper. The No. 7 paper machine at the Niigata Mill started operations in 1990, followed by the No. 8 paper machine in 1998, further expanding our business scale.

Since around that time, the Company began focusing on environmental management. In 1993, we established the Hokuetsu Paper Environmental Charter. In 1998, we introduced chlorine-free bleaching technology for pulp, which was the first of its kind in Japan for large-scale plants, reducing the wastewater load. Since the 2000s, we have been actively transitioning from the use of heavy oil to gas as fuel and introducing wood biomass boilers and high-efficiency recovery boilers, substantially reducing CO₂ emissions.



Wood biomass boiler (Kanto Mill (Katsuta))

Transition Period

2008–2019

Strengthening international competitiveness through overseas expansion

Marking the occasion of the 100th anniversary of its founding in 2007, we introduced the No. 9 paper machine at the Niigata Mill in 2008 to further strengthen the Company's competitiveness. We made Niigata's East Port our base for overseas expansion, greatly increasing our export volume. During this period, we expanded our domestic and overseas businesses. In 2011, we merged with Kishu Paper Co., Ltd. In 2012, Toyo Fibre Co., Ltd. (now Hokuetsu Toyo Fibre Co., Ltd.) became a subsidiary, as did Financiere Bernard Dumas S.A.S. (now Bernard Dumas S.A.S.) of France, and then in 2015 by Canadian companies Alpac Forest Products Inc. and Alpac Pulp Sales Inc (now Alberta-Pacific Forest Industries Inc.).

In 2018, we changed our company name to Hokuetsu Corporation as part of our global development. We established the Hokuetsu Group Corporate Philosophy and continued to create value in order to help enrich the lives of people around the world.



Management integration with Kishu Paper Co., Ltd.



Alberta-Pacific Forest Industries Inc.

Creating New Value through Decarbonization

2020 to the future

Shifting the business portfolio and promoting sustainability management

With the aim of achieving further sustainable growth, in 2020 we formulated a Long-term Management Vision, Vision 2030, and the Hokuetsu Group Environmental Target 2030. We also announced Hokuetsu Group ZERO CO₂ 2050, aiming to effectively net-zero CO₂ emissions by 2050. To achieve these goals, we are advancing the shift in our business portfolio through initiatives such as expanding into the containerboard base paper business, making a full-scale entry into the cup base paper market, and using paper-making technology to develop new products. Additionally, we are enhancing our environmental competitiveness through efforts to promote decarbonization.

In 2021, we formulated the Hokuetsu Group Basic Sustainability Policy to address environmental, social, and governance issues. We identified our materiality, set sustainability activity implementation targets and KPIs, and have been implementing various initiatives and establishing the systems necessary to promote sustainability.

HOKUETSU GROUP

ZERO CO₂ 2050™

Hokuetsu Group ZERO CO₂ 2050



No. 6 paper machine at the Niigata Mill (containerboard base paper)

1907 1919 1929 1939 1949 1959 1969 1979 1989 1999 2009 2019 2023 (Fiscal year)

Medium-term Management Plan 2026

Our CFO Describes the Group's Financial Strategy

We will realize the goals of Medium-term Management Plan 2026 to enhance our corporate value.



Director CFO Makoto Yanagisawa

Financial Strategies to Further Enhance Corporate Value

We are currently pursuing initiatives under Medium-term Management Plan 2026, which is the second step toward realizing Vision 2030, the Group's Long-term Management Vision. Our consolidated financial targets for FY2025, the plan's final year, are net sales of ¥330.0 billion, operating income of ¥20.0 billion, ordinary income of ¥24.0 billion, net income attributable to owners of parent company of ¥20.0 billion, ROE of 8.0%, and EBITDA of ¥39.0 billion.

Over the past three years, our average ROE has exceeded the industry average for major paper and pulp manufacturers. However, as a company listed on the Prime Market of the Tokyo Stock Exchange, we recognize the need for further improvement. We will continue to pursue the various policies outlined in Medium-term Management Plan 2026 to reach our ROE target of 8.0%, which exceeds our cost of shareholders' equity and will drive our business activities forward.

As part of its efforts to improve ROE under Medium-term Management Plan 2026, the Company is working to shift the business portfolio (products and sales markets). We aim to

reduce the weight of our domestic printing and communication paper business, which accounted for 35% of consolidated net sales in FY2023. This business has been experiencing low demand. Instead, we will prioritize businesses with higher expected levels of profitability and growth. Within the Group, business profitability and other factors are managed and evaluated using an internal hurdle rate that is based on the weighted average cost of capital (WACC). In addition to shifting the business portfolio, the Company will continue to consider flexible and optimized production systems that can respond to rapidly changing market needs, as well as efficient replacement of business assets through strategic investments. Furthermore, as part of its capital cost improvement measures, the Company is working to improving financial leverage through the use of interest-bearing debt while maintaining financial discipline. Furthermore, during the period of the Medium-term Management Plan 2026, the Group has formulated and is proceeding with planned investments totaling ¥110.0 billion. Of this amount, we have earmarked

Investment Plans and Results under Medium-term Management Plan 2026

(Millions of yen)

(Fiscal year)	2023	2024 (plan)	2025 (plan)	2025 (plan, three-year cumulative)
Total Investment	15,300	19,000	75,700	110,000
Growth & Improvement Investment	2,900	4,500	22,600	30,000
Maintenance & Renewal Investment	12,400	14,500	13,100	40,000
(Key items included in Growth & Improvement Investment and Maintenance & Renewal Investment)				
Environment-related investment	1,900	1,500	5,600	9,000
Human capital investment	1,100	500	4,400	6,000
IT & system investment	1,300	1,500	1,200	4,000
Strategic Investment	-	-	40,000	40,000

¥30.0 billion for growth and improvement investments, ¥40.0 billion for maintenance and renewal investments, and ¥40.0 billion for strategic investments aimed at expanding business areas. If all investments are executed according to plan, we expect interest-bearing liabilities to rise by approximately ¥50.0 billion over the course of three years. However, we

believe this will improve our financial leverage without compromising our current financial soundness.

To ensure we are able to raise funds smoothly, we have obtained credit ratings from Rating and Investment Information, Inc. (R&I) and Japan Credit Rating Agency, Ltd. (JCR). We intend to maintain or improve these ratings, which are shown below.

Rating Information (As of March 2024)

Rating company	(Long-term) issuer rating	Short-term rating
Rating and Investment Information, Inc. (R&I)	A- positive	a-1
Japan Credit Rating Agency, Ltd. (JCR)	A/Stable	-

To Our Stakeholders

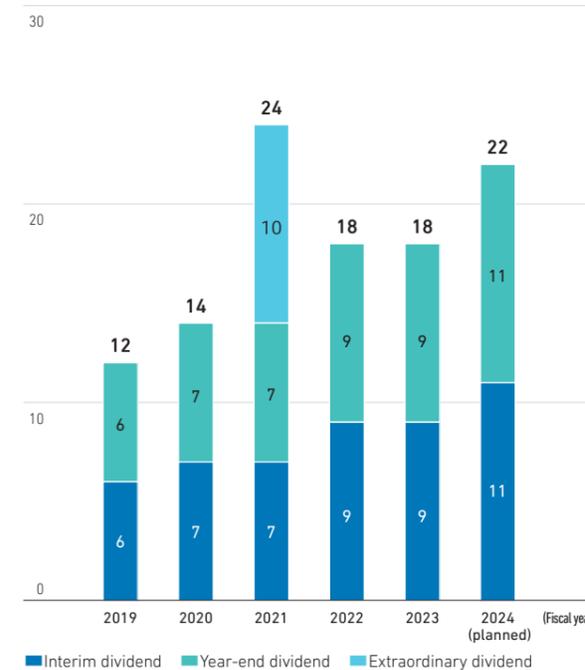
We recognize the importance of enhancing engagement with stakeholders in order to improve our corporate value and determine our share price. In our sustainability efforts, we have identified "dialogue with stakeholders" as one aspect of our materiality. Going forward, we will strive to further increase the number of IR/SR meetings from approximately 80 per year and enhance disclosure of information.

Regarding shareholder returns, our basic policy is to

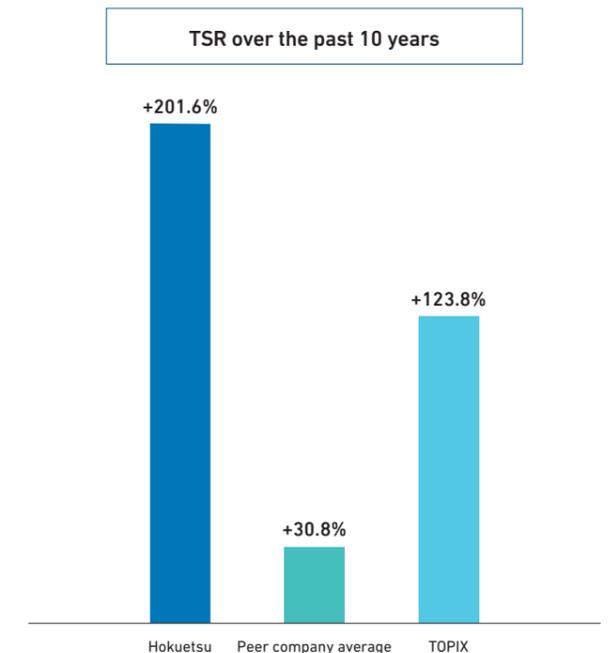
implement a capital policy that takes into account financial soundness, capital efficiency, and a balance of capital returns, and to provide stable and continuous dividends. We gradually increased annual dividends from ¥12 in FY2019 to ¥18 in FY2023. In FY2024, we plan to increase the annual dividend further, to ¥22. In addition to maintaining our annual dividend, we will continue to consider sustained dividend increases while taking cash allocation into account.

Dividends per share

(Yen)



TSR (Total Shareholder Return)



Medium-term Management Plan 2026

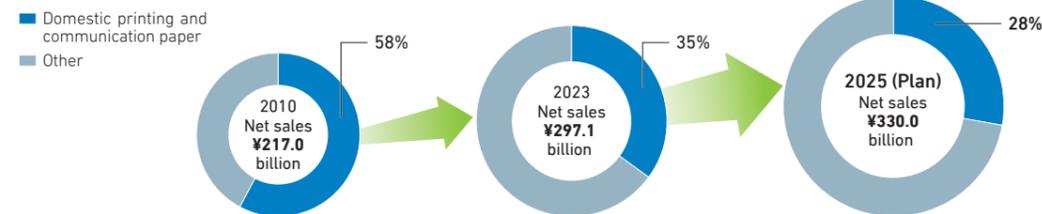
Initiatives to Shift the Business Portfolio

Main results in FY2023

- We reorganized the Paper & White Paperboard Sales Division into the Domestic Paper & White Paperboard Sales Division and the Global Trading Division.
- The Group Business Investment Division was dissolved, a New Business Development Department was established.
- Jiangmen Xinghui Paper Mill Co., Ltd., which had been developing a white paperboard business in China, was excluded from the scope of consolidation, due to a transfer of some of its shares in Xing Hui Investment Holdings Co., Ltd.
- We signed an exclusive manufacturing and sales agreement with a Dutch paper container molding company for Japanese rights to the Halopack® high-performance paper container.

Consolidated net sales

(Fiscal year)



Overseas sales ratio

(Fiscal year)



CLOSE UP

Signing of exclusive manufacturing and sales agreement for Halopack®, a high-performance paper container

Hokuetsu Package, a Group company, entered into a licensing agreement with Packable B.V. of the Netherlands in April 2023. Packable holds worldwide patents for Halopack®, a resealable and high-performance paper container that has sold approximately 350 million units in 11 countries. Through this agreement, Hokuetsu Package has obtained exclusive manufacturing and distribution rights for the Japanese market. This move comes in response to the increasing demand for plastic-free products due to the global trend toward reduced CO₂ emissions and growing environmental awareness. As a result, major processed food manufacturers, distributors, and convenience store chains are considering transitioning from traditional plastic containers to paper containers.

Halopack® is a paper-based container that maintains various barrier properties equivalent to those of high-performance multilayer plastic containers by welding a high-performance multilayer barrier film to the inner surface. Its seamless top flange allows for perfect airtight seals, facilitating gas replacement and skin packaging, which extends the shelf life of processed foods. Moreover, by using different inner film materials, the container can accommodate various temperature ranges for food storage, including room temperature, refrigerated, and

frozen, and can be tailored to the optimal specifications for different cooking methods such as in the microwave or oven. The container also features proposal-based specifications that allow for the recycling of used containers by separating the inner film from the cardboard, enabling the Group to continuously develop and adapt to a wide range of applications, such as high-temperature baking and quick freezing at ultra-low temperatures. We will strive to expand the sales of this innovative and future-oriented paper container.



Halopack® high-performance paper container

Initiatives to Strengthen Competitiveness

Main results in FY2023

- The Profit Management Office enacted controls to create an optimal production system.
- We diversified supply sources to distribute risk and kept a close eye on domestic demand trends while focusing on pulp sales.
- We augmented business continuity by transferring some grades from Niigata Mill to Kishu Mill for production in line with our business continuity plan (BCP).
- We streamlined business processes through digital transformation (DX) at the Niigata Mill.
- We signed a Basic Strategic Business Alliance Agreement with Daio Paper Corporation.

CLOSE UP

Signing of a Basic Strategic Business Alliance Agreement with Daio Paper Corporation

On May 15, 2024, we entered a basic strategic business alliance agreement with Daio Paper Corporation. As a result of this alliance, we are currently targeting an increase in operating income of about ¥3 billion in FY2026, three years from now, in the areas of production technology, raw material purchasing, and product logistics. Over the medium to long term, we expect to increase our competitiveness through the business alliance by considering joint research on new technologies, energy conversion, DX promotion, forest resource utilization, and other themes.

As part of our business partnership, in July 2024 we commenced a "round transport" initiative. Under this initiative, Daio Paper Corporation delivers paper products produced at its Kani Plant to the Niigata area. On the return trip, trucks carry products from our Niigata Mill to customers in the Chubu area. This approach aims to improve sales expenses and other factors. We also conducted a product transportation test between the city of Shikoku Chuo in Ehime Prefecture to the city of Niigata, using railway containers we own. Going forward, we plan to supply products from the Niigata Mill to the Kansai region using railway containers, then load products from Daio Paper's Mishima Mill into our containers for transportation to the Niigata area.

We will continue to study the mutual use of rail containers and trucks owned by our two companies, as well as the mutual use of logistics warehouses, in an ongoing effort to improve logistics efficiencies and reduce CO₂ emissions.



A truck from Daio Logistics Co., Ltd. carrying products from the Niigata Mill



Our container, loaded with products from Daio Paper's Mishima Mill

Initiatives to Promote Sustainability (ESG) Activities

Main results in FY2023

- We received an "A-" in CDP's "Climate Change" category for the second year in a row and a "B" in the "Forest" category.
- We participated in the "GX League" led by the Ministry of Economy, Trade and Industry.
- We promoted efforts to launch an advanced carbon capture and storage (CCS) project in Niigata Prefecture.
- We adding solar panels to our building at the Niigata Mill housing the No. 9 papermaking machine.
- Our Sodegawa forest in Iwate Prefecture was certified by the Ministry of the Environment as a "Symbiosis with nature" site.
- Our shares were included in the FTSE Blossom Japan Sector Relative Index.
- Our shares were included in the MSCI Nihonkabu ESG Select Leaders Index.

Business Strategy Overview

Overview of Main Businesses

Paper & White Paperboard Business



P14-15

Paper

Our main product varieties in the paper segment include printing and communication paper used for books, magazines, catalogs, and brochures. We offer a diverse product lineup of high-quality coated paper, fine paper, mechanical paper, and bulky mechanical coated paper that has excellent printing and workability characteristics, as well as rich expressive capabilities. Through these offerings, we strive to meet the diverse needs of our customers. Our core products are coated paper and woodfree paper, and in color woodfree paper we are a top domestic brand with a long-standing tradition and a wide range of products, widely favored by many customers.



White Paperboard

We offer a wide range of grades in our white paperboard product line, from cast-coated paper to art card and premium white paperboard (SBS), specialty white paperboard (FBB), and coated duplex board (CCNB), to meet the diverse needs of our customers. These grades are used not only for packaging boxes but also for commercial printing materials such as catalogs, brochures, and postcards, as well as for covers, text for publishing, and processing base paper. We strive to develop new products to meet recent demand for primary food containers



Performance Materials Business



P16-17

Functional Paper

We develop specialty paper and performance materials that expand the possibilities of paper. We offer a wide range of products to meet customers' diverse needs, including industrial paper, communication paper, specialty processed products, specialty fiberboard, and more.



Containerboard Base Paper

Since April 2020, we have been engaged in the production and sales of base paper for corrugated media. We are promoting thin and high-strength reinforced media for lightweight solutions.

Paper Cup Base Paper

In October 2022, we set up a new dedicated office to fully enter into the market for cup stock paper and paper containers. Our products, which are plastic-free and environmentally friendly, have been adopted as containers for frozen food, and we have received orders from major food companies.



Packaging and Paper Processing

Hokuetsu Package Co., Ltd. is responsible for this field, which engages in the manufacturing and sale of high-quality paperboard, laminated products, liquid containers, and other packaging solutions.

Exports

In April 2024, the Global Trading Division was established to further strengthen competitiveness in our export business. Our mills have excellent export competitiveness and product development capabilities so that the Hokuetsu brand is widely recognized. We export approximately 300,000 metric tons annually. In the paper segment, we boast an overwhelming export share among Japanese manufacturers.



Pulp

Canada-based Alberta-Pacific Forest Industries Inc. engages in the manufacturing and sale of commercial pulp. Production covers both hardwood and softwood pulp, with a production capacity of 640,000 metric tons per year, making this one of the largest operations in North America. The company also operates a power generation business, supplying and selling electricity generated from biomass to the power grid in Alberta Province.



Performance Materials

France-based Bernard Dumas S.A.S. primarily produces AGM battery separators made from glass fiber, as well as air purification filter paper. Shanghai Toh Tech Co., Ltd., based in China, processes products used in the manufacture of chip carrier tapes used for transporting electronic components such as capacitors and resistors.

Overseas Business



P18-19

Reorganization

Reorganizing the sales structure

In April 2024, we restructure the Paper & White Paperboard Sales Division into the Domestic Paper & White Paperboard Sales Division and the Global Trading Division in order to respond to significant changes in the operating environment surrounding pulp and paper industry. This restructuring is aimed at simultaneously enhancing competitiveness in both domestic and international operations. As part of this

restructuring, the International Export Department from the Paper & White Paperboard Sales Division and the Ho Chi Minh City Representative Office (Vietnam) from the Resources & Raw Materials Division were transferred to the Global Trading Division. We will reinforce our sales structure in the Paper & White Paperboard Business, Performance Materials Business, and Overseas Business to further satisfy our customers.

Classification of Business and Organization



Note: Companies within dotted-line boxes are consolidated subsidiaries listed on pages 16-19.

Establishment of the New Business Development Department

We have been progressing with our business portfolio shifts through mergers and acquisitions, both in Japan and overseas, as well as the entry into new fields utilizing papermaking technology. As one of the fundamental principles of our Medium-term Management Plan 2026, which commenced in April 2024, we have further accelerated our business portfolio shifts by strategically dissolving the Group Business Investment Division and establishing

the New Business Development Department that reports directly to the CFO. Moving forward, the New Business Development Department will take the lead in considering and executing new business ventures and M&A deals to optimize the Group's business portfolio, achieving the goals of the Medium-term Management Plan 2026, exploring future core businesses, and ultimately aiming for the sustainable growth of the Group.

Paper and White Paperboard Business



FY2023 in review

In FY2023, which was the first year of Medium-term Management Plan 2026, we pushed our sales activities in four departments: the Paper Sales Department, the White Paperboard Sales Department, the Product Logistics Department, and the International Export Department. Through communication with various customers, we adapted our sales strategies for demand changes.

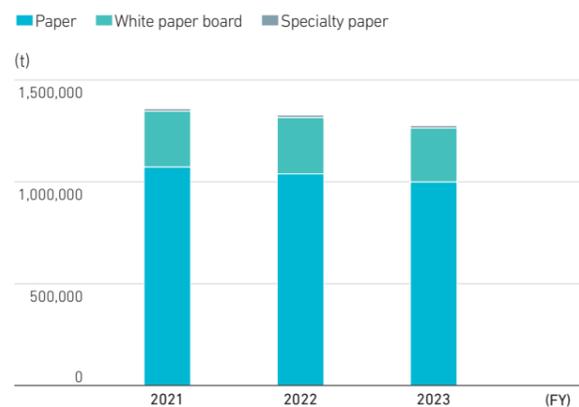
Significant yen depreciation has caused a sharp increase in raw

materials and fuel prices, as well as pushing up logistics costs. As a result, we have made some adjustments to our product lineup. Meanwhile, we have been facing a noticeable decline in demand for graphic paper, which is our core product in the fine paper business. In addition, we have actively communicated our environmental initiatives to our customers, emphasizing the superior environmental performance of our products and promoting the development of environmentally friendly products.

Summary of the Domestic Paper & White Paperboard Sales Division

	Business Strategy	Status of initiatives in FY2023
Paper Sales Department	<ul style="list-style-type: none"> To promote production efficiency, sales and mills are optimizing production to respond customer needs in accordance with the Profit Management Office's strategy. 	<ul style="list-style-type: none"> We adjusted the production balance between Niigata and Kishu mills to meet customers' needs under changes in the operating environment, such as the sudden yen depreciation and the natural disasters.
White Paperboard Sales Department	<ul style="list-style-type: none"> To recover our market share of coated duplex board (CCNB), we are promoting to target customers and maximizing white paperboard profits in cooperation with the Cup Business Development Office. 	<ul style="list-style-type: none"> Although sales of coated duplex board decreased 1.4% due to slow demands, we outpaced the industry average by promoting products to our major customers.
Product Logistics Department	<ul style="list-style-type: none"> To resolve the "2024 problem" in logistics, we are addressing transportation capacity shortages and promoting modal shifts to ensure product transportation stability. 	<ul style="list-style-type: none"> To examine alternative transportation methods, we identified the areas where truck delivery is difficult. To promote a modal shift, we increased the number of railway containers from Niigata Mill to Kansai and beyond and launched them from Kanto Mill (Ichikawa, Katsuta) to the Kansai area.

■ Paper and White Paperboard Business: Production



■ Major products (brands)

Paper	Coated woodfree paper	<ul style="list-style-type: none"> •Printing paper (μ Coat Neos, Hi-Alpha, Hi-Eta, μ Mat, Alpha Mat)
	Uncoated woodfree paper	<ul style="list-style-type: none"> •Printing paper (Kinmari SW, Kishu Fine Paper N, Light Cream Kinmari, Minuet Series and various book papers) •Colored Woodfree Paper (Kishu Colored Woodfree Paper) •Information Paper (PPC, etc.) •Packaging Paper
White paperboard		<ul style="list-style-type: none"> •Premium Whiteboard Paper (SBS) (No-Back W-F, Hi-Lucky F) •Specialty Whiteboard Paper (FBB)(NEW Tough Ivory, NEW DV-F) •Coated Duplex Board (CCNB) (Mari Coat-F)
Specialty paper		<ul style="list-style-type: none"> •Premium Printing Paper (Peacock Kent (F), Hi-Apis NEO (F)) •Fancy Paper (Black & Black Series, Yayoi Color)

Paper and White Paperboard Business

Business strategy going forward

In April 2024, the start of the second year of Medium-term Management Plan 2026, we introduced a new organizational structure with the establishment of the Domestic Paper & White Paperboard Sales Division and the Global Trading Division. We also made a clear delineation between the domestic sales department and the international export department.

The Domestic Paper & White Paperboard Sales Division aims to secure our market share in the Japanese market even amid its challenging conditions, taking into account the price adjustments in FY2022 on both paper and white paperboard. We will strive to maximize profitability through production and sales strategies that adapt to changes.

Paper Sales Department

We will maintain our existing customer share and build new sales channels by highlighting our environmental advantages and proposing paper solutions with an accurate understanding of the highly volatile market. We also establish a flexible production system utilizing our main mills, the Niigata and Kishu mills. With the Profit Management Office, we aim for maximum profitability through optimized production.

In coated paper, we will maintain sales volume by implementing an order-taking system that remains closely

aligned with the market and by producing and shipping products to users in a timely manner.

In uncoated paper, we will secure a market share by making targeted approaches to various customers and by managing inventories to minimize the loss of sales opportunities. For our premium Color Woodfree paper, celebrating the 70th year of sales in FY2024, we will focus on stimulating demand through promotional items and strengthening our dealer relationships.

White Paperboard Sales Department

We will recover and further expand sales volumes in various categories, including high-end white paperboard, specialty white paperboard, and coated duplex board, by promoting target users. We will ascertain customers' needs and work closely with our mills and Product Logistics Department to consistently deliver better products to our customers.

In addition, we aim to expand our sales by developing new products that use plastic-free materials with the Paper Cup Business Development Office and the Product Development Office. We will also continue to engage in face-to-face sales in order to be chosen by our customers so that we will outpace industry standards.

Product Logistics Department

To address the "2024 problem" in logistics, we have introduced a dynamic management system provided by Hacobu, Inc. at each of our mills to manage truck drivers' wait time. This approach has reduced their wait time substantially; currently, across all mills, the wait time could be minimized within two hours for more than 95% of drivers. Going forward, we will conduct monthly inspections and continue support to maintain this level of efficiency.

As part of our strategic business alliance with Daio Paper Corporation, we have launched three regional groups for the East Japan area, the Central and Kansai area, and the West Japan area, and each group has commenced its activities. We will calculate the benefits this approach brings over the three-year period from FY2024 and realize the effects of the alliance, such as reducing costs and enhancing transportation efficiency.

CLOSE UP

Reducing the environmental impact of transportation

The Group is promoting a modal shift away from trucking, which has a higher environmental impact, to more environmentally friendly transportations such as railways. This helps us lower CO₂ emissions in the transport of raw materials and products. As a result of this effort, we can reduce CO₂ emitted during transportation by around 80–90%.

In addition to using railways, the Group aims to improve transportation efficiency by employing its own 20ft containers specifically for roll products and by building a dedicated railway line within the Niigata Mill. By strengthening rail container transportation, we will accelerate the modal shift and reduce CO₂ emissions further.



Rail transport using a dedicated line in the Niigata Mill



FY2023 in review

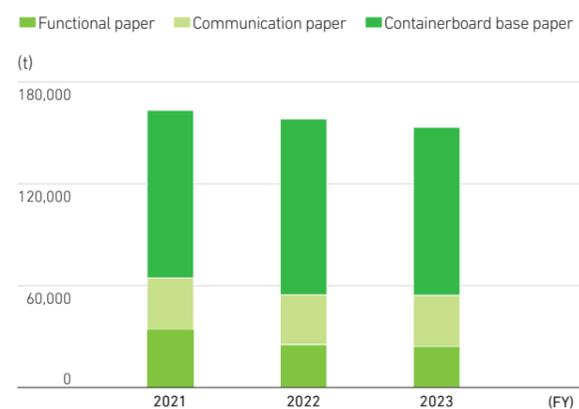
In FY2023, the Japanese government recategorized COVID-19 as a Class 5 infectious disease, leading more people to return to pre-pandemic lifestyle and leading to a certain degree of demand recovery as events and inbound tourism resumed. However, business performance varied in different product sectors. A recovery in the industrial sector was delayed by

global inflation and the economic slowdown in China. Against this backdrop, the Performance Materials Sales Division focused on developing high-performance products in each field and proposing paper as an alternative material to plastics, engaging in sales activities tailored to the times.

Summary of the Performance Materials Sales Division

	Business Strategy	Status of initiatives in FY2023
Performance Materials Sales Department	<ul style="list-style-type: none"> We will strive to create new markets, such as alternatives to plastics, to strengthen our environmental competitiveness. 	<ul style="list-style-type: none"> In paper materials, we are working to expand sales of our Poem oil- and water-resistant paper materials and PASCO, and we see these materials being used in more plastic-free products.
Containerboard Sales Department	<ul style="list-style-type: none"> We will reinforce our sales base in both the domestic and export markets and accelerate production efficiency improvements. 	<ul style="list-style-type: none"> We succeeded in expanding sales of thin base paper for domestic use and base paper for light packaging (paper bags) for export, for which demand is expected to increase. We also received new export orders for base paper for building materials.
Paper Cup Business Development Office	<ul style="list-style-type: none"> We will promote our capacity to produce low-CO₂ base paper and work to develop paper cup base paper that utilizes the quality characteristics of both paper and white paperboard. 	<ul style="list-style-type: none"> We have been working with multiple converters to evaluate the molding process. We have faced both issues and opportunities for quality improvement, resulting in a steady increase in the number of projects utilizing base paper.
Product Development Office	<ul style="list-style-type: none"> We are working toward the commercialization of paper packaging materials as an alternative to plastic and electromagnetic wave shielding materials. 	<ul style="list-style-type: none"> We made progress in the uptake of our environmentally friendly paper packaging material, Panse, and electromagnetic noise suppression sheets.

Performance Materials Business: Production



Major products (brands)

Functional paper	Industrial paper	<ul style="list-style-type: none"> Chip carrier tapes (HOCTO) Various process papers Abrasive base paper Filter paper for air purifiers Base paper for paper spoons
	Specialty processed products	<ul style="list-style-type: none"> Heavily coated/ Kira coated products Water- and oil-resistant paper (Poem) Inkjet paper
	Specialty fiber-board	<ul style="list-style-type: none"> PASCO
Communication paper		<ul style="list-style-type: none"> Form paper OCR paper Crimped paper Inkjet offset common paper
Containerboard base paper		<ul style="list-style-type: none"> Corrugated medium, Reinforced corrugated medium

Performance Materials Business

Business strategy going forward

The Performance Materials Sales Division contributes to society with environmentally friendly product lines and advanced technology.



Hanger hook made of PASCO®



Paper cups made of "Panse" environmentally friendly paper packaging material



Electromagnetic noise suppression sheet

Performance Materials Sales Department

The Performance Materials Sales Department aims to meet society's needs through proposals that reduce plastic waste and by offering other environmental solutions through the development of high-performance products based on paper materials. Firstly, in response to the expected increase in AI-powered services in advanced technology fields, we will ensure a stable supply of HOCTO® base paper for electronic component

tape, used in component transportation, as well as microfine® filter media. Additionally, we will deliver a range of high-performance products made from paper materials such as PASCO® and Poem, and contribute to accessing clean water on a global scale through the production of reverse osmosis membrane supports, thus making a positive impact on the environment and society.

Containerboard Sales Department

The Containerboard Sales Department focuses on expanding sales channels, ensuring stable supply, and reducing environmental impact through weight reduction. Despite limited prospects for a rapid market recovery, the department will reinforce sales of lightweight base paper,

for which domestic demand is expected to increase going forward. In exports, the department will prioritize profit by pursuing development in applications beyond corrugated cardboard boxes and engaging in sales activities that prioritize profitability.

Paper Cup Business Development Office

We will accelerate the development of paper cup base paper that matches user needs, leveraging our strength in low-CO₂ base paper production capacity and the quality characteristics of both paper-based and white paperboard-based materials. Additionally, we will actively

engage in a wide range of initiatives fostering a shift toward paper, such as plastic-free container proposals in collaboration with Hokuetsu Package Co., Ltd., and marketing activities involving paper containers.

Product Development Office

We will continue to explore the commercialization of plastic-alternative paper packaging materials and electromagnetic wave shielding materials to meet user needs. In the field of paper packaging materials, we will develop products that take into account packaging machine compatibility

and the logistics process. In relation to electromagnetic waves, we will not only develop ultra-thin electromagnetic noise suppression sheets but also lightweight and heat-resistant electromagnetic wave absorbers, with the aim of expanding into the aerospace industry.

Hokuetsu Toyo Fibre Co., Ltd.

Hokuetsu Toyo Fibre produces vulcanized fibers that combine nano and micro cellulose. Vulcanized fibers are made from natural cellulose, giving them the characteristic properties of paper while exhibiting much stronger performance. They are also biodegradable and can return to the soil as part of the natural environmental cycle. With various properties such as strength, impact resistance, insulation, wear resistance, and oil resistance, vulcanized fibers are used in various industries worldwide, including in machinery parts, abrasive materials, and electrical insulation materials. We will continue to enhance our corporate value and contribute to society through the development of environmentally friendly products.



Suitcase made of vulcanized fiber

Hokuetsu Package Co., Ltd.

Hokuetsu Package operates in our Packaging and Paper Processing Business, leveraging its strength in the consistent production of base paper and paper materials, as well as processed products. We provide our customers with high-quality products in various fields, including paper containers, food packaging, and confectionery boxes used in convenience stores and supermarkets, as well as processed paper such as laminated boards used in cosmetics and medical product packaging, and milk and beverage containers under the TOHEI-PAK brand. Going forward, we will strive to accurately capture changes in the market environment and user needs, expand our existing business, and promote the sale of new products, including new businesses and high-performance paper containers.



TOHEI-PAK brand containers for milk and other beverages

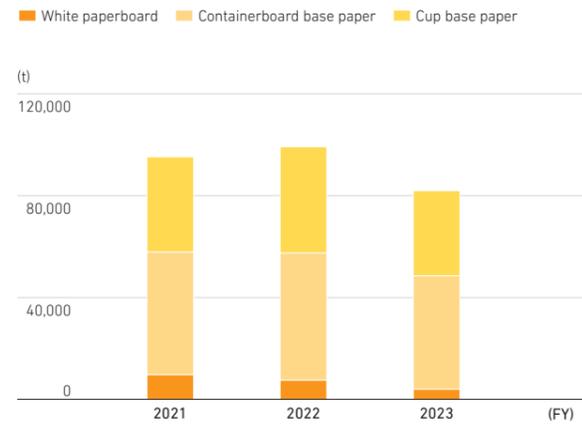
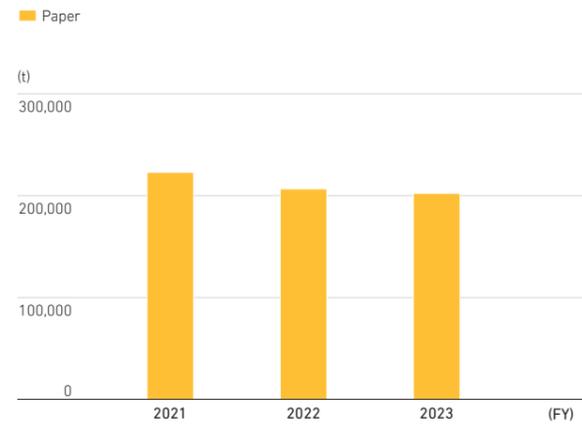


FY2023 in review

In FY2023, our export volume reached approximately 280,000 tons, earning us the top share of the Japanese market in the printing and communication paper segment. Our main product, coated paper, benefited from stable maritime logistics around the world and steady product supply as the COVID-19 pandemic eased, and we maintained high sales prices. In high-quality paper, the sales focus shifted to processed base paper applications and performed well on both the price and quantity fronts. Additionally, in FY2023, the exchange rate

helped us to achieve high profit margins. On the other hand, in the containerboard (corrugating medium) business we faced a challenging environment due to the overall worsening of the Asian market caused by lower Chinese exports. To overcome this situation, we proactively pursued new product development, including introducing lightweight grade and the development of recycled kraft paper. In paper cup base paper, we shifted our focus to Taiwan and successfully increased sales volume by 41% year on year, securing a new market.

Export volume



Future strategy for the Global Trading Division

We interact directly with around 50% of our overseas customers, evincing our focus on strengthening relationships with loyal customers. Although we face the prospect of falling domestic demand, we will leverage the production scale of our mills, the strategic location of our port facilities, and our accumulated technological expertise to utilize the unique competitive strengths of each mill. Our priority is to pursue a marketing strategy that prioritizes stable supply. Furthermore, we will strive for continuous increases in exports and contribute to maintaining high operation rates. Our product development capabilities have earned plaudits

from overseas customers, and we are experiencing rising demand for products that are resilient to changing market conditions, such as paper cup base paper and recycled kraft paper for processing and packaging purposes. We are shifting our focus toward developing high-margin products. In terms of logistics, taking into account the "2024 logistic challenge," we plan to increase shipments from the Niigata East Port and implement measures to expand the quantity of products bundled within our Niigata and Kishu mills, with the aim of lowering logistics costs.

Overseas Business

Alberta-Pacific Forest Industries Inc. (Al-Pac)

Status of initiatives in FY2023

In the pulp business, in FY2023 the logistics issues that caused problems in the previous year improved significantly, and an ample supply of freight cars were available to ship products. As a result, the sales volume was up year on year. However, pulp prices continued to decline from the beginning of the year, and although they rose in the latter half, pulp sales fell significantly compared to the previous year. In the power sales business, electricity demand remained weak due to relatively mild weather compared to the previous year, resulting in a decrease in electricity sales volume.

Future business strategy

To achieve stable pulp production and improve cost competitiveness, we will continue to invest in the conversion to the highly efficient mill, increase pulp yield from logs, improve energy costs, and optimize processes to reduce chemical usage. Additionally, we are investing to expand our power sales business by enhancing steam turbine condensation capacity to increase power generation, with plans to start operation in the fall of 2024. Furthermore, as a new initiative to reduce greenhouse gas emissions, we are actively considering a carbon capture and storage (CCS) project to separate and recover CO₂ derived from biomass fuel emitted during Al-Pac's pulp production process, store it in appropriate nearby locations, and generate negative carbon credits.



Exterior view of Alberta-Pacific Forest Industries Inc.

Bernard Dumas S.A.S.

Status of initiatives in FY2023

Amid strong demand for automotive and industrial products, we worked to ensure the stable raw material procurement and product sales, resulting in year-on-year increases in sales volumes and sales.

Future business strategy

The European AGM battery separator market has entered a stable period. However, with the increasing adoption of AGM batteries and the expanding demand for replacements, we will strive to maintain and expand our market share in Europe, as well as aim to expand sales outside of Europe.



Exterior view of Bernard Dumas S.A.S.

Shanghai Toh Tech Co., Ltd.

Status of initiatives in FY2023

A V-shaped economic recovery had been expected after the Chinese government ended its zero-COVID policy at the end of 2022. However, a sluggish real estate market and other factors have resulted in a slow recovery.

Future business strategy

Shanghai Toh Tech worked to expand its customer base in response to the changing business environment mentioned above, and has had some success. Going forward, we anticipate that investments in communication infrastructure for AI servers and data centers will become more vigorous, and we will continue working to capture growth opportunities in this field.



Exterior view of Shanghai Toh Tech Co., Ltd.

TOPICS

Hokuetsu Corporation Ho Chi Minh City Representative Office

As part of our overseas strategy, we opened a representative office in Ho Chi Minh City, Vietnam, in December 2019. The office is responsible for tasks such as sourcing chips and conducting market research and gathering information on paper products in Vietnam. The office has grown to become an essential base for our overseas strategy. Through this office, we will continue to strengthen direct transactions with overseas suppliers and users.



The Southern Ace chip ship unloading in Vietnam

Sustainability

The Group recognizes that sustainability is a management priority in order to promote the long-term enhancement of corporate value. As such, the Group is actively pursuing initiatives to address sustainability issues, starting with its Long-term Management Vision, Vision 2030.

Sustainability structure

We have established the Hokuetsu Group Basic Sustainability Policy to drive sustainability initiatives across the Group. This policy clarifies the approach and direction for addressing sustainability issues, including ESG concerns.

Hokuetsu Group Basic Sustainability Policy

In order to be "socially and environmentally responsible," as stated in the Hokuetsu Group Corporate Philosophy, the Group will contribute to the realization of a sustainable society by minimizing any impact on the environment from raw materials to end products.

We will:

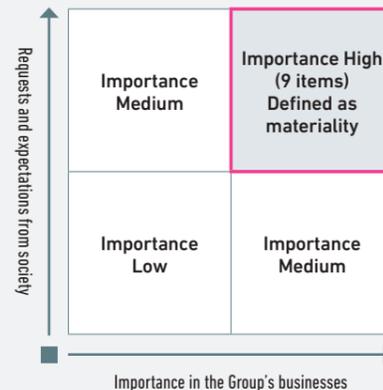
- Strive for zero CO₂ emissions by 2050.
- Work to solve social issues through our business based on our Long-term Management Vision.
- Continue to be a sincere company that thoroughly complies with laws and regulations together with our business partners and customers.

To promote concrete sustainability efforts, we have established the Group Sustainability Committee, chaired by the president and CEO, as well as the Group Sustainability Secretariat Meeting as a subordinate organization. Additionally, we have organized Sustainability Committees in each of our business locations and Group companies, allowing us to collectively carry out sustainability activities as a group. The deliberations of the Group Sustainability Committee are reported to the Board of Directors, ensuring effective oversight by the Board.



Identifying materiality (important issues)

Under the Hokuetsu Group Corporate Philosophy, the Group identifies materiality by selecting issues based on "requests and expectations from society" and "importance in the Group's businesses," taking into account international standards and other references. In order to respond to changes in the external environment, in April 2023 we conducted a review when formulating Medium-term Management Plan 2026, resulting in the identification of nine materiality areas. The Group believes that identifying materiality and contributing to the resolution of social issues will enhance its sustainability.



Strategy

The Group has set Sustainability Activity Implementation Targets for the three-year period from FY2023 to FY2025, based on the identified risks and opportunities related to the materiality specified in Medium-term Management Plan 2026.

	Materiality	Risks	Opportunities	Sustainability Activity Implementation Targets
 E (Environment)	Response to climate change	<ul style="list-style-type: none"> Mill shutdowns and logistics disruptions due to extreme weather (heavy rain, floods, typhoons, heavy snow, droughts, etc.) or natural disasters (earthquakes, tsunamis, volcanic eruptions, forest fires, etc.) 	<ul style="list-style-type: none"> Growing need for renewable energy Empathy for advanced environmental considerations (e.g., climate change measures) 	<ul style="list-style-type: none"> Achieve "Zero CO₂ 2050" to reduce CO₂ emissions to virtually zero by 2050 through the use of biomass energy and the latest technology
	Responsible procurement of raw materials	<ul style="list-style-type: none"> Companies that do not consider ESG in their supply chain 	<ul style="list-style-type: none"> Improved reputation in society through promotion of green transformation (GX) 	<ul style="list-style-type: none"> Promote CSR-aligned raw materials procurement that considers the environment and society based on the Hokuetsu Group Fundamental Policy for Raw Materials Procurement
	Forestry management and protection of biodiversity	<ul style="list-style-type: none"> Environmental destruction, collapse of biodiversity including decrease in wildlife and other species due to destruction of nature 	<ul style="list-style-type: none"> Building a sustainable supply chain Enhance image by promoting Company-owned forest management 	<ul style="list-style-type: none"> Leveraging the multiple functions of forests, maintain proper and sustainable management of Hokuetsu-owned and managed forests Preserve the biodiversity of owned and managed forests, and strive for community interaction through owned and managed forests
 S (Society)	Ensuring safety and hygiene of the workplace		<ul style="list-style-type: none"> Reduce occupational accidents through improved safety performance 	<ul style="list-style-type: none"> Strive for an accident-free workplace by following the HSA25 roadmap
	Human capital management	<ul style="list-style-type: none"> Business stagnation due to mill and other equipment accidents Occurrence of serious accidents, overwork, etc. 	<ul style="list-style-type: none"> Enhance employee satisfaction through better systems for human resource development, health management, and work style reform 	<ul style="list-style-type: none"> By promoting human capital management, accelerate talent hiring and training, striving to increase the competitiveness of the Group as a whole
	Delivering responsible product quality and new product development	<ul style="list-style-type: none"> Loss of motivation due to mental health, harassment, etc. Decline in sales due to product complaints 	<ul style="list-style-type: none"> Boost revenues by increasing the number of environmentally friendly products Develop new customers and strengthen relationships with existing customers 	<ul style="list-style-type: none"> Ensure product quality and safety Develop new, environmentally friendly products
	Dialogue with stakeholders		<ul style="list-style-type: none"> Earn stakeholder trust 	<ul style="list-style-type: none"> Continue good relationships with stakeholders (shareholders/investors, sellers/suppliers, consumers, employers, communities)
 G (Governance)	Improving corporate governance	<ul style="list-style-type: none"> Loss of public trust due to violations of regulations, laws, etc. 	<ul style="list-style-type: none"> Maintain and strengthen management systems to enhance corporate value 	<ul style="list-style-type: none"> Continuously improve corporate governance Strive to enhance risk management activities
	Respecting human rights	<ul style="list-style-type: none"> Human rights issues manifested due to poor supplier management 	<ul style="list-style-type: none"> Gain trust from society through response to respect for human rights 	<ul style="list-style-type: none"> Promote approaches that respect human rights

See pages 22–35 for indicators and targets related to individual materiality items.

Risk management

We inspect sustainability-related risks at Workplace Sustainability Committees and Group Company Sustainability Committees. The findings are discussed and reviewed at Group Sustainability Secretariat Meetings, and the progress is managed by the Group Sustainability Committee.

Additionally, risks including climate change and nature-related risks, as well as overall business risks, are managed in Risk Management Officer Meetings, which are attended by the president and CEO, to monitor the status of risk control.

Initiatives to Achieve Materiality (Important Issues)



Materiality 01

Response to climate change issue

Reason to emphasize

The Group has taken the lead in reducing CO₂ emissions to reduce climate change risks. We reflect risks and opportunities in our management strategy based on the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and are engaging in environmental management with the aim of achieving net zero CO₂ emissions by 2050.

Main group-wide KPI

- Reduce CO₂ emissions in 2030 by 43% compared to FY2050

Progress (FY2023)

- CO₂ emissions: 638,000 tons (non-consolidated), 37.8% reduction compared to FY2005

Aiming for net zero CO₂ emissions

The Group has been working to reduce CO₂ emissions since 1995 as a measure against climate change, and our capital investment over the past 29 years has amounted to approximately ¥50 billion.

Currently, we are aiming to achieve the goal of "Zero CO₂ 2050," which aims to reduce CO₂ emissions to net zero by 2050, and to "reduce CO₂ emissions in 2030 by 43% compared to 2005." Specifically, we will take on the challenge of switching to city gas and/or natural gas, which emit less CO₂ when burned than heavy oil, and increase our zero CO₂ energy ratio. In addition, we will take on a challenge of reducing CO₂ emissions by creating an environment where we can make the most of the renewable energy, we generate in-house using biomass, solar, and other sources.

Furthermore, in addition to using our own forest resources, we will continue to work towards achieving our KPIs by taking measures such as improving energy efficiency, including saving power consumption and saving steam consumption.

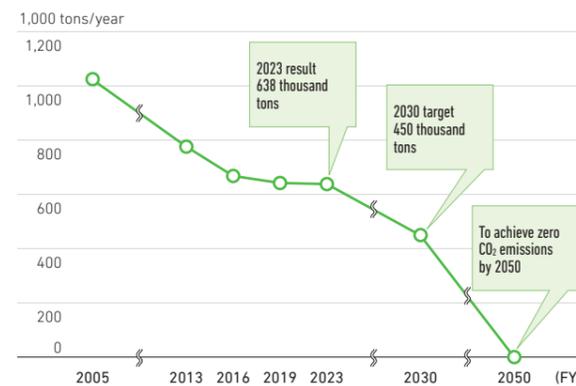
Initiatives to reduce CO₂ emissions

	Execute to 2030	Challenge to 2050
Promotion of energy conservation	Reduce unit energy consumption by 1% per year	
Fuel Conversion	Switch to fuel with lower CO ₂ emissions	Introduce new carbon-neutral fuel
	Convert fuel from heavy oil to natural gas for pulp manufacturing equipment (boilers, kilns)	
Renewable energy	Phase out coal	
	Consider advanced use of biomass power generation	Study the use of renewable energy / Introduce renewable energy power generation equipment
CO₂ fixation and capture	Increase CO ₂ fixation through effective use of afforestation sites	Conduct CCUS* feasibility study

To achieve net zero CO₂ emissions

* CCUS: Carbon dioxide Capture, Utilization and Storage

Change in CO₂ emissions (non-consolidated)



- [Hokuetsu Group Environmental Charter](https://www.hokuetsucorp.com/en/environment/charter.html)
- [Hokuetsu Group Environmental Target 2030](https://www.hokuetsucorp.com/en/environment/system.html)

Use biomass energy

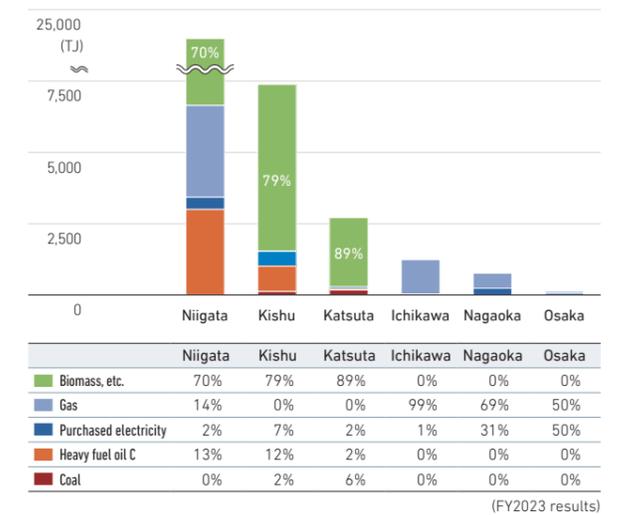
Renewable wood biomass absorbs CO₂ during its growth process, so it is believed even if it is burned it will not increase CO₂ in the atmosphere.

The Kanto Mill (Katsuta), Niigata Mill, and Kishu Mill conduct production activities using mainly biomass energy. All mills have achieved a zero CO₂ energy ratio of over 70% using biomass energy, waste energy, etc.

In particular, the Kanto Mill (Katsuta) has increased its zero CO₂ energy ratio to 89% by using a large wood biomass boiler that uses construction waste and other biomass materials as fuel. We will continue to take on the challenge of increasing our biomass energy ratio and aim for CO₂ emission-free mills ahead of 2030.

We will continue to expand the possibilities of using biomass energy, take further measures to reduce CO₂ emissions, and continue our challenge of achieving net zero emissions by 2050.

Energy consumption by fuel at each mill of the Company



CLOSE UP

Initiatives to commercialize first CCS in Japan

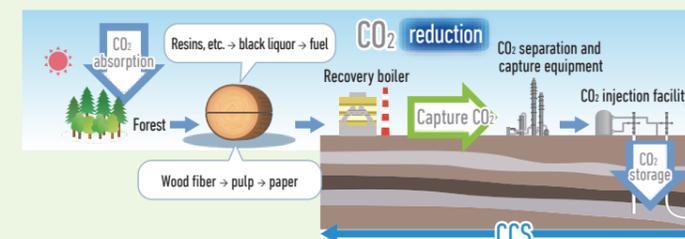
Together with three participating companies*, the Company has been entrusted with a study titled FY2024 "Engineering Design for Japanese Advanced CCS Project," which was publicly solicited by the independent administrative agency Japan Organization for Metals and Energy Security (JOGMEC). The Company is the only pulp and paper manufacturer among the companies selected by JOGMEC.

The study aims to start a CCS business in East-Niigata area by 2030 and examine the separation and capture

of CO₂ emitted from existing mills and power plants, CO₂ injection and storage points, and the construction of transportation pipelines that connect these venues. As part of the study, we will study equipment that separates and captures CO₂ derived from biomass fuel at the Niigata Mill and carry out engineering work in the CCS value chain by March 2025.

* Japan Petroleum Exploration Co., Ltd., Mitsubishi Gas Chemical Company, Inc., Tohoku Electric Power Co., Inc.

Image Diagram of the CCS Business



By participating in the CCS business, we will take on the challenge of further reducing CO₂.

What is CCS?

CCS stands for "Carbon dioxide Capture and Storage." This technology separates and captures carbon dioxide (CO₂) emitted from factories, etc., and stores it deep underground.

Initiatives to Achieve Materiality (Important Issues)



Materiality **02**

Responsible procurement of raw materials

Reason to emphasize

The Group operates globally, and we engage in procurement that takes into consideration society, human rights, and the environment based on our raw materials procurement policy to resolve social issues throughout the supply chain.

Main group-wide KPI
<ul style="list-style-type: none"> Procure raw materials produced with consideration for society, economy, and environment.

Progress (FY2023)
<ul style="list-style-type: none"> Procure only raw materials produced legally in the forests where resources are protected, forests are cultivated, and properly managed.

Sustainable raw material procurement

The Group has its "Policy on Procurement of Wood Material" where all wood chips and pulp we purchase are produced by logs that come from legally and properly managed sustainable forests. Furthermore, we use our own traceability system to continually check the legality and sustainability of logging, and conduct annual third-party audits. Another audit by the Japan Paper Association's Illegal Logging Measures Committee verifies that there is no illegal logging. In FY2023, we conducted a traceability report audit in Japan with SGS Japan and applied for re-registration as a wood-related business entity based on the Clean Wood Act.

In addition, the Group is contributing to climate change mitigation in its raw material procurement. Of the dedicated ships we lease for transporting wood chips, we have increased to 44% the proportion of state-of-the-art low-fuel-consumption ships, which offer 15% better fuel efficiency than conventional vessels. Going forward, we aim to raise this proportion to 50% and further reduce CO₂ emissions from shipping imported chips by sea.

Policy on Procurement of Wood Material
<https://www.hokuetsucorp.com/en/environment/policy.html>

Hokuetsu Group Fundamental Policy for Raw Materials Procurement
<https://www.hokuetsucorp.com/en/environment/procurement.html>

■ Procurement of wood chips from abroad (FY2023)

Country	Name of wood for woodchips	Forest classification		Traceability report	Means of verifying legality		Annual volume of wood chips procured (1,000 BDT)
		Plantation	Re-growth		Declaration of legality of timber for material of wood chips	Forest certification approved by third party	
Chile	Eucalyptus	●	—	●	●	●	1,599
South Africa	Acacia	●	—	●	●	●	
	Eucalyptus	●	—	●	●	●	
Australia	Eucalyptus	●	—	●	●	●	
Vietnam	Acacia	●	—	●	●	●	



Materiality **03**

Forestry management and protection of biodiversity

Reason to emphasize

The Group manages a total of approximately 6,053 thousand hectares of company-owned and managed forests in Japan, South Africa, and Canada. Protecting our irreplaceable nature is the responsibility of our Group, which is able to do business receiving the bounty of nature.

Main group-wide KPI
<ul style="list-style-type: none"> Maintain and increase CO₂ absorption capacity of company-owned and managed forests Strengthen regional exchanges related to biodiversity

Progress (FY2023)
<ul style="list-style-type: none"> CO₂ absorption: Approximately 7,047 thousand tons/year Carry out forest operations that take biodiversity into consideration, and regional exchanges

Forest management and cultivation that considers biodiversity

Of the forests we own in Japan, natural forests have a high contribution to biodiversity, so as a rule we do not harvest native forests and protect them as they are. In addition, in forests where we produce softwood logs but growth is not as good as expected and they are naturally invaded by hardwood, we manage them to become mixed species forests of softwood and hardwood to improve biodiversity.

In our owned forests in South Africa, we designate protected forests (unlogged) by setting aside conservation areas for natural forests and riparian zones. We also employ methods from the South African National Biodiversity Institute to conserve these protected forests. We are currently implementing forest management practices that prioritize the preservation and improvement of biodiversity.

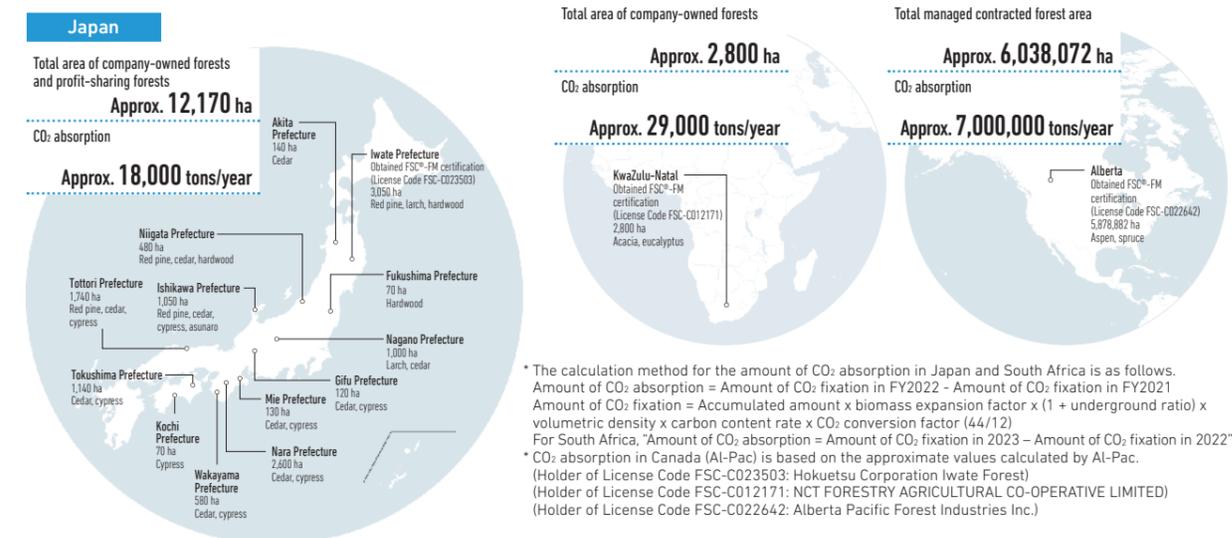
Al-Pac of Canada has entered into a forest management agreement with the government of Alberta, managing a vast forest area of approximately 6,038 thousand hectares, which is larger than Japan's Kanto-Koshinetsu region. This area consists of diverse landscapes, including not only forested areas but also wetlands and lakes, supporting a wide range of flora and fauna. Al-Pac collaborates with government agencies, industry organizations, and environmental conservation groups to participate in various surveys and improvement activities.



Al-Pac is involved in conservation efforts targeting the endangered caribou (northern reindeer).

Al-Pac of Canada has entered into a forest management agreement with the government of Alberta, managing a vast forest area of approximately 6,038 thousand hectares, which

■ Managed forest area of the Group



* The calculation method for the amount of CO₂ absorption in Japan and South Africa is as follows.
 Amount of CO₂ absorption = Amount of CO₂ fixation in FY2022 - Amount of CO₂ fixation in FY2021
 Amount of CO₂ fixation = Accumulated amount x biomass expansion factor x (1 + underground ratio) x volumetric density x carbon content rate x CO₂ conversion factor (44/12)
 For South Africa, "Amount of CO₂ absorption = Amount of CO₂ fixation in 2023 - Amount of CO₂ fixation in 2022"
 * CO₂ absorption in Canada (Al-Pac) is based on the approximate values calculated by Al-Pac.
 (Holder of License Code FSC-C023503: Hokuetsu Corporation Iwate Forest)
 (Holder of License Code FSC-C012171: NCT FORESTRY AGRICULTURAL CO-OPERATIVE LIMITED)
 (Holder of License Code FSC-C022642: Alberta Pacific Forest Industries Inc.)

Initiatives to Achieve Materiality (Important Issues)



Materiality **03** Forestry management and protection of biodiversity

Disclosing information according to TNFD recommendations

The Task Force on Nature-related Financial Disclosures (TNFD) is an international organization that aims to create a unified framework for disclosing information on risks and opportunities related to natural capital and biodiversity, in order to transform the negative impacts on nature into positive

ones through business activities.

The Group discloses the recommended disclosure items outlined in TNFD's Final Recommendations v1.0, following the four pillars of "governance," "strategy," "risk and impact management," and "metrics and targets."

Governance

The Group recognizes that sustainability, including climate change, natural capital, and biodiversity, is a topmost management priority. We are committed to actively and proactively promoting solutions to address these challenges. As part of our efforts, we have identified the following material

issues: (1) Response to climate change, (2) Responsible procurement of raw materials, and (3) Forestry management and protection of biodiversity.

See page 20 for information on our sustainability structure.

Strategy

The Group used the LEAP approach and analytical tools recommended by TNFD to analyze and evaluate the Company's dependence and impact on nature, from raw material

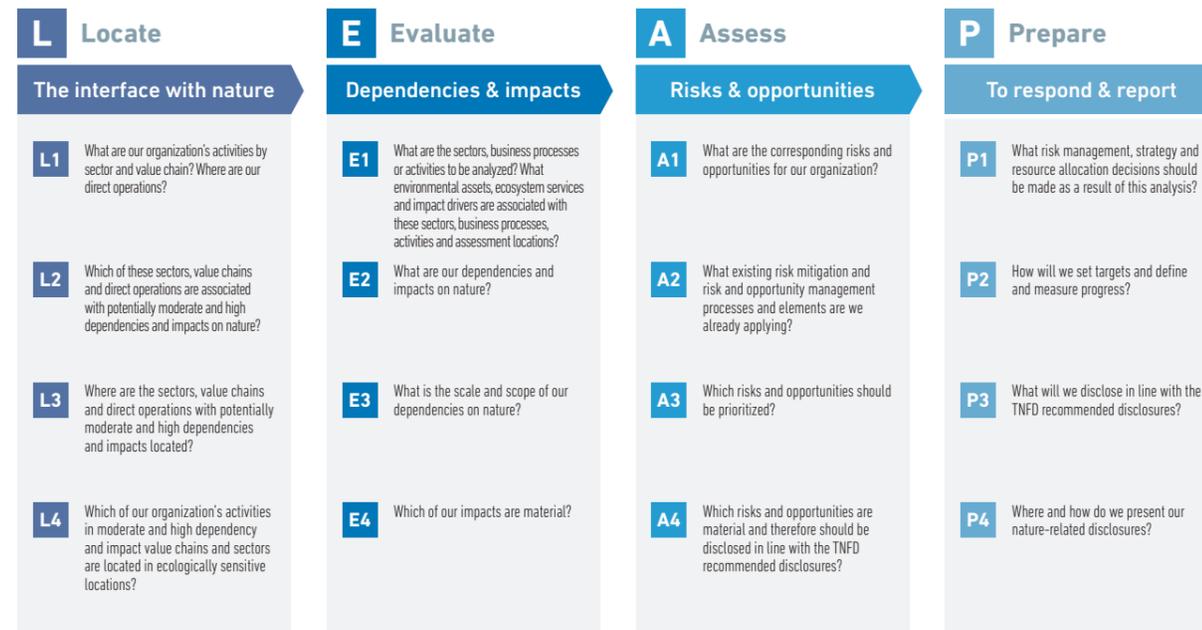
procurement to direct operations. Based on the results, the Company identified specific risks and opportunities.

• Concept behind the LEAP approach

The LEAP approach involves four stages: Locate, Evaluate, Assess, and Prepare. Through this approach, the Group comprehensively analyzes the risks and opportunities associated with nature by identifying points of contact with the natural environment (Locate), evaluating dependencies and impacts on nature (Evaluate), assessing risks and

opportunities related to nature (Assess), and addressing and disclosing specific issues (Prepare). The Group has taken a tentative approach to the LEAP approach and has conducted analysis and evaluation of dependencies/impacts and risks/opportunities related to nature.

LEAP Approach



• Locate (The interface with nature)

To identify priority locations for the Group, we analyzed the activity areas from timber procurement to direct operations, and assessed the interaction with nature and the state of the environment in those areas. We determined priority locations based on two axes: "material locations," which are areas with identified significant dependencies or impacts on important natural resources, and "sensitive locations," which are biologically delicate areas. The Group used the LEAP approach

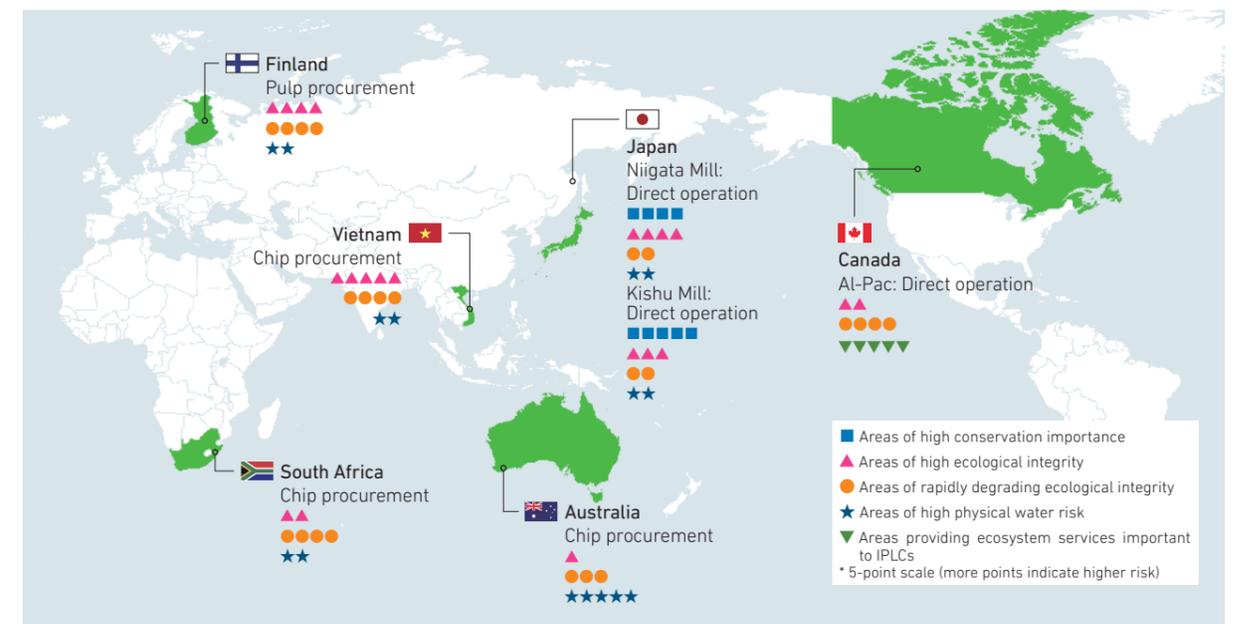
recommended by TNFD, focusing on the entire process from raw material procurement to direct operations, and utilized analysis tools such as IBAT*1 and Aqeduct**2 to identify the points of interaction between business activities and nature, as well as the condition of the natural environment.

*1 A tool developed by the International Union for Conservation of Nature and Natural Resources (IUCN) and others that allows users to identify areas of importance for the conservation of biodiversity on a map
 **2 Data platform on water risk provided by the World Resources Institute (WRI), a non-profit organization

Priority locations	• Areas that should be prioritized for assessment and response
Sensitive locations	• Locations of business activities/assets that border "ecologically sensitive nature" that meet one or more of the following five criteria
	Criterion 1: Areas of high conservation importance (e.g., near protected areas)
	Criterion 2: Areas of high ecological integrity
	Criterion 3: Areas of rapidly degrading ecological integrity
	Criterion 4: Areas of high physical water risk
Material locations	• Locations where significant nature-related dependencies/impacts and risks/opportunities have been identified to exist

The evaluation results for "priority locations," which are simultaneously "sensitive locations" and "material locations," are as follows. In addition to the evaluation indicators shown in the

table above, we identify priority locations based on our criteria as sites that have significant nature-related dependency and impact, as well as being of financial importance to our business.



Initiatives to Achieve Materiality (Important Issues)



Materiality **03** Forestry management and protection of biodiversity

• Evaluate (dependencies & impact)

The Group evaluated its dependencies and impact on the environment in its business activities using the analysis tool ENCORE. The evaluation results are shown below.

Impacts				
	Applicable Prozesse	Large-scale forestry	Production of paper products	Biomass energy production
Land use	Use of land area	VH	—	—
Resource extraction	Water use	—	VH	H
Climate change	GHG emissions	H	M	H
Pollution	Air pollution	—	M	H
	Water pollution	H	H	H
	Soil pollution	—	H	—
	Solid waste	—	M	H

* Evaluation on a 5-level scale (Very Low, Low, Medium, High, Very High) (— indicates no data)
* Analysis results as of April 2024

Dependencies				
	Applicable Prozesse	Large-scale forestry	Production of paper products	Biomass energy production
Supply services	Animal-based energy	VL	—	—
	Fiber and other materials	VH	M	VL
	Ground water	VH	VL	M
	Surface water	VH	VH	M
Regulation and maintenance services	Pollen media	H	—	—
	Soil quality maintenance	H	—	—
	Water quantity regulation	H	M	M
	Water purification	—	—	L
	Biodegradation	M	—	VL
	Dilution effect	—	—	—
	Filtration function	VL	—	VL
	Climate regulation	VH	VL	VL
	Disease control	H	—	—
	Flood and storm control	VH	—	M
	Erosion control	VH	—	L
	Pest control	H	—	—

• Assess (risks & opportunities) and prepare (to respond & report)

Based on the identified priority locations from the "Locate" phase and the evaluation results from the "Evaluate" phase, we conducted an analysis of risks and opportunities related

to natural capital and biodiversity. We comprehensively assessed each risk and opportunity based on the "probability of occurrence" and "level of impact."

VC stage	Risk/Opportunity	Priorities	Responses
Transition	Risks	High	<ul style="list-style-type: none"> Develop and implement "Fundamental Policy on Procurement of Wood Materials;" (1) Obtain "Five Items to Prove Legality and Sustainability" declarations from suppliers and information on collected wood; (2) Conduct fact-finding by employees and on-site inspections as necessary; (3) Conduct verification of procurement by third-party certification bodies; (4) Complete and renew registration as a Class 1 and Class 2 wood business under the Clean Wood Act; (5) In South Africa and Canada, conduct environmental, social, and biodiversity-conscious afforestation projects Maintain FSC-FM certification
		High	<ul style="list-style-type: none"> Procure wood raw materials based on (1) to (5) Respect the customary rights of local communities In South Africa and Canada, adhere to FSC-FM standards and sustainable forest management In Canada, develop human resources in all aspects of forest management through student programs
	Opportunities	High	<ul style="list-style-type: none"> Procure wood raw materials based on (1) to (5) Acquire forest certification at Company-owned forests in Iwate and Tokushima prefectures Promote management of other Company-owned forests in accordance with the principles of the certification system as a certified forestry company Maintain FSC-FM certification and promote a certain level of differentiation in customer evaluations by satisfying customer demand for certification
	Direct operation	Risks	Medium
Medium			<ul style="list-style-type: none"> Directly contribute toward achieving the 30by30 objectives by participating in the 30by30 Alliance and registering Company-owned forests as certified nature symbiosis sites
Opportunities		Low	<ul style="list-style-type: none"> Promote environmental impact reduction as a business through disclosure of information via website, integrated reports, ESG Databook, KINKON (environmental activity newsletter), external assessments such as CDP, stewardship reports, etc.; (6)
Opportunities		Medium	<ul style="list-style-type: none"> Increase the amount of water reused and reduce water withdrawal by increasing the amount of purification and filtration equipment for treated water generated from paper manufacturing equipment Promote environmental impact reduction as a business through information disclosure based on (6) Direct contribution toward achieving 30by30 targets

VC stage	Risk/Opportunity	Priorities	Responses
Transition	Risks	Low	<ul style="list-style-type: none"> Develop and market paper materials as plastic alternatives to create plastic-free products Promote environmental impact reduction as a business through information disclosure based on (6)
	Opportunities	Medium	
Physical	Risks	Medium	<ul style="list-style-type: none"> Diversify dependence on procurement countries and promote advantageous purchasing and stable procurement by having multiple suppliers in each country where we conduct procurement
		Low	
	Risks	Low	<ul style="list-style-type: none"> Assess natural disaster risk and countermeasures in mills Review business continuity plan (BCP) based on Emergency Response Regulations Raise water intake facility electrical room to cope with heavy rainfall
		Medium	<ul style="list-style-type: none"> Increase circulation of treated water generated from paper manufacturing equipment and reduce water withdrawal

* Priority: The magnitude of risk/opportunity is evaluated by "size of impact on business" x "probability of occurrence" and expressed as high, medium, or low.

Risk and Impact Management

The Group recognizes climate change, natural capital, and biodiversity-related risks and opportunities as significant management issues. In our Group risk management activities, we evaluate the degree of impact and likelihood of occurrence of these risks. Based on this evaluation, we develop a risk

management basic plan and promote measures to avoid, reduce, or transfer risks.

See page 21 for information on risk management related to sustainability.

Metrics and Targets

• TNFD's Global Core Disclosure Metrics

The Group discloses information according to the TNFD's recommended Global Core Disclosure Metrics, as indicated below.

Category	No	Metric	Details of the Group's disclosure
Nature change factors (dependency, impact)	Climate change	—	Scope 1, 2, and 3 emissions GHG emissions (Scope 1, 2, and 3)(See ESG Databook, CDP climate change)
	Land use	C1.0	Total spatial footprint Total area managed by the organization, total area rehabilitated or restored, anthropogenic disturbance, natural disturbance (See ESG Databook, CDP Forests)
	Change	C1.1	Changes in terrestrial, freshwater, and marine use Conversion of primary forest, area of secondary forest in natural regeneration, conservation efforts, sustainably managed terrestrial areas (See ESG Databook, CDP Forests)
		C2.1	Wastewater COD, BOD (See ESG Databook)
Pollution	C2.2	Waste generation and disposal Waste generation, effective utilization, and final disposal (See ESG Databook)	
	C2.4	Non-GHG air pollutants NOx, SOx, VOC, particulate matter (See ESG Databook)	

* Core global disclosure indicators not listed in the table above (e.g., C3.0 Water withdrawal from areas of scarce water) are under consideration for action.

• Group targets

The Group is implementing the concept of "minimum impact" to minimize the impact of its business activities on the natural environment. In line with this concept, we have formulated the

"Hokuetsu Group Environmental Target 2030" as to be achieved by 2030, and are actively working toward these targets.

Hokuetsu Group Environmental Target 2030
<https://www.hokuetsucorp.com/en/environment/system.html>

Initiatives to Achieve Materiality (Important Issues)



Materiality **04** Ensuring safety and hygiene of the workplace

Reason to emphasize

The Group established the Hokuetsu Group Fundamental Policy for Health and Safety based on the belief that safety and health are at the core of management. We conduct safety and health activities that consider not only all Group employees but also those involved in our business activities.

Main group-wide KPI	Progress (FY2023)
<ul style="list-style-type: none"> Zero serious accidents in FY2025 25 or fewer occupational accidents (including minor accidents) in the Group in FY2025 	<ul style="list-style-type: none"> Serious accidents: 0 Occupational accidents: 36 (0 fatal accidents, 14 lost-time accidents, 22 non-lost-time accidents)

Creating a safe workplace through safety and health activities, called "hSA25"

Safety and health activities, called "hSA25 (hokuetsu Safety Action 2025)" is an initiative to achieve the KPIs of "zero serious accidents" and "25 or fewer occupational accidents" by FY2025. Specifically, we are working on creating a safe workplace through three approaches: "objects," "people," and "systems," including proactive capital investment, activities to improve safety management, and developing sensitivity to risk through the introduction of safety VR equipment.

In FY2023, a total of 36 occupational accidents occurred throughout the Group (0 fatal accidents, 14 lost-time accidents, and 22 non-lost-time accidents, including minor accidents). This was the lowest number of occupational accidents since the current Group was formed. Our hSA25 activities have steadily improved the Group's safety performance.



hSA25 Roadmap



FY2023 activity results

Activity	Details
Produced and utilized original VR safety training	Created VR content that reproduces actual accidents that have occurred in the Group and conducted experiential education to increase sensitivity to danger
Regular ISO 14001 audit (external audit)	Underwent an audit by the Japan Quality Assurance Organization (JQA). In June 2024, all Group companies at mills were also registered as affiliated workplaces.
Safety and health slogan contest	Total of 5,705 entries from around the Group, the most to date
Held Hokuetsu Group Safety and Health Conference	Met in Nagaoka City, Niigata Prefecture, for the first time in four years (a total of 180 executives and employees from all of the Company's business units and 20 Group companies in Japan gathered and pledged to improve safety and health).
Top labor-management safety inspections	The central general safety and health manager and the labor union central executive committee chairman conducted safety inspections at all mills. We promoted safety and health activities through labor-management cooperation.
Safety exchange training session between workplaces	To cultivate safety personnel, next-generation safety leaders were selected as members, and all six mills were divided into three groups for the purpose of mutual exchanges.
Safety audit	In FY2023, we conducted audits all of our business units and 14 domestic Group companies for compliance with the ISO 45001 system, occupational health and safety laws and regulations, and implementation of engineering facility measures.



Original VR safety content (experience a forklift accident)



Top labor-management safety inspections



Materiality **05** Human capital management

Reason to emphasize

In order to rapidly shift our business portfolio and innovate in response to rapid changes in the business environment, we are developing and promoting human resources who can be the driving force behind change, ensuring diversity, and striving to sustainably improve corporate value.

Main group-wide KPI	Progress (FY2023)
<ul style="list-style-type: none"> Double the percentage of women, non-Japanese, and mid-career hires in management and executive ranks from the current level (FY2021) of approximately 10% by 2030, etc. 	<ul style="list-style-type: none"> Percentage of women, non-Japanese, and mid-career hires in management and executive ranks (non-consolidated): Approx. 10%

Promoting diversity and fostering a corporate culture

The Group launched the Diversity Committee in FY2021 and established the Hokuetsu Group Basic Policy on Diversity. We are also continuing to develop systems to ensure diversity of people, such as revising the "Policy to Ensure Diversity in Human Resource Development and Internal Environment" and establishing the "Hokuetsu Group Human Resource Development Policy." Our basic policy is for each employee to independently shape their own career, regardless of gender or nationality. At the same time, we aim to boost individual motivation and revitalize our organization, promote human resource development that respects independence and the spirit of challenge, and foster a corporate culture that is easy to work in and in which individuality can be fully demonstrated.

In FY2023, based on the Hokuetsu Group Human Resource Development Policy, we introduced an evaluation system aimed at nurturing talent within the Company. Currently, we are conducting training sessions primarily for evaluators to ensure the establishment of the system. Additionally, we have made various improvements such as revising the attendance allowance for on-call work, implementing a new system for rest and leave, reviewing the incentive program for acquiring

qualifications, and establishing a mechanism to aggregate training expenses, the number of attendees, and learning hours.

Under the Medium-term Management Plan 2026, we plan to invest a total of ¥6 billion in human capital and will further strengthen our efforts in the future to realize human capital management.



Training session for evaluators

<https://www.hokuetsucorp.com/en/sustainability/report.html>

Initiatives to maintain and promote employee health

The Group formulated the Hokuetsu Group Health Declaration in FY2021 and established a health management system headed by the executive officer in charge of the Personnel Department. We are promoting the creation of a workplace that prioritizes the peace of mind and safety of each employee. We also consider employee health management from a management perspective and strategically implement through measures to achieve work-life balance and improve mental health. In recognition of these efforts, the Company maintained its certification for the third year in a row as "Health & Productivity Management Outstanding Organization (Large enterprise category)."

Progress of individual initiatives (non-consolidated)

Initiative	FY2023 target	FY2023 result
Annual health checkup rate	100%	100%
Smoking rate	30% or less	32.7%
Employees who exercise regularly	30% or more	29.6%
Employees taking stress checks	95% or more	95.1%

Initiatives to Achieve Materiality (Important Issues)



Materiality **06**

Delivering responsible product quality and new product development

Reason to emphasize

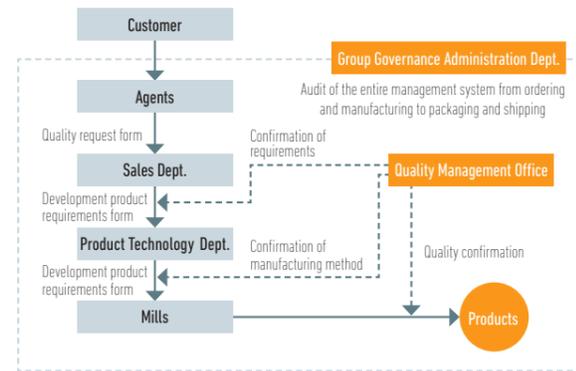
We are developing new businesses that will become our future core businesses and promoting a shift in our business portfolio. This includes developing environmentally friendly products that meet customer needs, creating products using advanced nano-materials, and focusing on expanding applications and adding higher value to existing products.

Main group-wide KPI	Progress (FY2023)
<ul style="list-style-type: none"> ● Zero product liability accidents (non-consolidated) ● Expand environmentally friendly products ● Develop products harnessing nanotechnology 	<ul style="list-style-type: none"> ● Product liability accidents: 0 ● Expand plastic-free/reduced plastic products such as Panse ● Develop electromagnetic noise suppression sheet and fluorine-free air filter paper

Quality control system to ensure product safety

Within the Group, the Quality Management Office regularly conducts internal quality audits to ensure compliance with various regulations. This includes checking the safety of raw materials, ensuring compliance with self-imposed standards for products intended for food applications, and implementing quality control based on product specifications. Furthermore, the Group Governance Administration Department conducts audits on the management system from receipt of orders to shipment, ensuring that the products meet customer requirements.

Quality control system



Developing products that contribute to the realization of a sustainable society

The Group has been expanding the production and sales volume of food containers compliant with food hygiene laws, as well as paper cups and paper cutlery base paper, with the aim of promoting plastic reduction. Additionally, we have developed biomass products that are stronger, more durable, and more biodegradable than paper products.

In FY2023, the Group focused on developing various paper

containers and paper cutlery, including those for frozen foods, aiming to expand cup base paper production and increase the adoption and quantity of new paper containers. Furthermore, in FY2024, Hokuetsu Package Co., Ltd. plans to commence commercial production of "Halopack®" a high-performance packaging produced and sold by Packable of the Netherlands, and is actively conducting promotional activities targeting users.

TOPICS

First tie exhibiting at "Microwave Exhibition 2023"

We exhibited for the first time at "Microwave Workshops & Exhibition 2023," the largest event in Japan related to microwave technology, held at PACIFICO Yokohama from November 29 to December 1, 2023. We showcased a newly developed electromagnetic wave noise suppression sheet using nanocarbon, which attracted a high level of interest from many experts in the field. Currently, it is being adopted for industrial equipment applications.



Materiality **07**

Dialogue with stakeholders

Reason to emphasize

We believe that communicating with stakeholders is important to increase our corporate value. In addition to increasing opportunities for dialogue with investors and shareholders, we strive for harmonious coexistence with local communities.

Main group-wide KPI	Progress (FY2023)
<ul style="list-style-type: none"> ● Improve stakeholder engagement ● Respond to various questionnaire surveys ● Continue social contribution activities 	<ul style="list-style-type: none"> ● IR/SR meetings: Approximately 80 times/year ● Responded to Nikkei SDGs Management Survey, Nikkei Smart Work Management Survey, Toyo Keizai CSR Survey, etc. ● Continued mill tours and supported various organizations and events

Active in IR/SR activities

The Group strives to disclose corporate information in a timely and appropriate manner and to respond courteously to inquiries from shareholders and investors.

In recent years, there have been an increasing number of inquiries from institutional investors in particular, so we hold

IR/SR meetings approximately 80 times a year to increase opportunities for dialogue with shareholders and investors. We will continue to work to improve corporate value through a variety of dialogues.

Harmonious coexistence with the local communities

Harmonious coexistence with local communities is essential for smooth business activities. We aim to be a company that is trusted by the local community. We are working to solve various social issues that exist in the community through

communication with local residents, from participating in events and environmental activities, to fostering the next generation and supporting medical care and welfare.

ESG Databook 2024 > Social > Harmonious Coexistence with the Local Communities
https://www.hokuetsucorp.com/pdf/esg2024_en.pdf

Main initiatives (FY2023)

Genre	Initiative	Initiative underway
Education	Hosting of factory tours, internships, etc.	The Company has hosted a total of 2,170 people
	Cooperating in the production of supplementary reading materials, "Job Notebook" and "Job Book," for elementary and junior high school students	We cooperated in the production of supplementary reading support materials for elementary and junior high schools published by Tokyo's Chuo, Taito, and Sumida wards. The books introduce the appeal of the paper manufacturing industry to many children.
	Scholarships for indigenous communities, etc.	AI-Pac provided C\$384,120 in scholarships and corporate sponsorships
Welfare	Cooperation in funding activities by WWF Japan	We support activities aimed at creating a sustainable society and have continued to support them since 1993.
	Donations to the Japan Mottainai Food Center, an NPO	Donated 200 emergency rations
	Support for the Road to Hope Community Foundation	AI-Pac is cooperating in the activities of a non-profit organization that supports cancer patients to receive treatment outside their local area.
Local Community	Cleanup and beautification activities around mills	A total of 240 Company employees nationwide participated in local cleanup activities.
	Cooperation with a great folk song of the Niigata Festival	About 70 dancers from the Group participated in the Niigata Festival a Great Folk Song.
	Niigata Mill hosts Bon dance festival	A Bon dance festival was held at Niigata Mill with the participation of the neighborhood community association and local residents.
	Sketch competition	106 elementary school students near the Niigata Mill applied, and the grand prize-winning sketch was featured on the cover of a memo pad.
	Provision of beverages at the KATSUTA MARATHON	We provided beverages to participating runners using our environmentally friendly product, "Panse" paper cups.
	Cooperation with Nagaoka regional revitalization events	We participated in the Nagaoka University of Technology's COI-NEXT Project, "Resource-circulating bio-community base through co-creation in the rice-growing region of Niigata."

Initiatives to Achieve Materiality (Important Issues)



Materiality 08 Improving corporate governance

Reason to emphasize

We have established the "Hokuetsu Group Corporate Philosophy" and "Hokuetsu Group Code of Conduct" to ensure that the Group's officers and employees thoroughly comply with laws, the Articles of Incorporation, and internal regulations, thereby strengthening and enhancing internal controls.

Main group-wide KPI
<ul style="list-style-type: none"> ● Enhance content of disclosure ● Continue risk reduction activities

Progress (FY2023)
<ul style="list-style-type: none"> ● Implemented various compliance training programs ● Reviewed business continuity plans (BCPs) at 11 domestic production sites

Compliance

The Group has been working to strengthen the compliance system of the entire group by implementing the compliance items set forth in the "Hokuetsu Group Code of Conduct" with the aim of enhancing our corporate value through the realization of the "Hokuetsu Group Corporate Philosophy." In FY2023, we conducted training sessions to raise awareness about the prevention of bullying within the Company and its Group companies, aiming to prevent a deteriorating work environment. We also provided training to personnel responsible for industrial waste management within the Company and domestic group companies. This training, conducted by external instructors, deepened our understanding of case studies and consultation points with administrative authorities. Moving forward, we will continue to provide training related to compliance to further enhance compliance awareness within the Group.



Risk management

Risk management structure

The Group has appointed a chief risk management officer under the direct control of the president, and promotes risk management to avoid or minimize management risks through Risk Management Officer Meetings. Additionally, Consolidated Management Internal Control Meetings, which are held once every six months, examine the internal management systems

of Group companies. Furthermore, the Group Governance Administration Department conducts internal audits based on the "Internal Audit Regulations," and the heads of the departments subject to internal audits are responsible for the improvement status of residual risk items identified and recommendations made during internal audits.

Risk management activities

In FY2023, we continued our efforts to address information security challenges, including cyber-attacks, through training and other initiatives. We also conducted inspections and improvements of our business continuity plan (BCP) to ensure our ability to fulfill supply responsibilities during large-scale natural disasters. Additionally, we implemented a system at each business location to enable the verification of weather

and natural disaster risk information on an online map, as part of our ongoing efforts to minimize management risks.

Furthermore, in identifying management risks that hinder the Group, we conducted a risk assessment across the entire Group, including overseas operations, incorporating issues related to respect for human rights. We quantified the risks and created risk maps to clarify management risks.



Materiality 09 Respect for human rights

Reason to emphasize

By promoting business activities that respect human rights, we aim to build a strong trust-based relationship with stakeholders, which will contribute to the expansion of business opportunities and the stable supply of products.

Main group-wide KPI
<ul style="list-style-type: none"> ● Sign up to the United Nations Global Compact ● Establish a human rights policy ● Establish approaches for respecting human rights

Progress (FY2023)
<ul style="list-style-type: none"> ● United Nations Global Compact: Signed in January 2023 ● Hokuetsu Group Human Rights Policy: Formulated in April 2023 ● Conducted training sessions for executives and managers

Human rights policy

To further promote its efforts to respect human rights, the Group has established the "Hokuetsu Group Human Rights Policy" in line with various international norms such as the "UN Global Compact Principles" and the "Guiding Principles on

Business and Human Rights." Moving forward, the Group will continue its efforts to implement actions based on the human rights policy.

Initiatives related to respect for human rights

As part of its sustainability initiatives, the Group is actively promoting efforts to respect human rights and reporting on the progress to the Group Sustainability Committee, which is attended by the president and CEO.

In FY2023, we invited Mr. Masao Seki, senior advisor at Sompo Japan Insurance Inc., to conduct a training session on human rights-respecting management for executives. We also implemented e-learning sessions on the role of companies in respecting human rights for the management staff of the Company and domestic group companies. We will continue to work on identifying human rights risks, improving the internal environment, and addressing the supply chain.

Overview	FY2023 results
Workshop on management respecting human rights	<ul style="list-style-type: none"> ● Attended by Company directors, Audit & Supervisory Board members, executive officers, and mill managers
E-learning about the role of companies in respecting human rights	<ul style="list-style-type: none"> ● Attended by 153 of the Company's 161 managers (attendance rate of 95%) ● Attended by 245 of 246 managers at Group companies in Japan (attendance rate of 99%)

Steps of initiatives for respecting human rights

Fiscal year	Procedure	Items implemented
2023	1	Signed the United Nations Global Compact, formulated the Group Human Rights Policy, held training sessions for executives, implemented educational activities for managers, surveyed initiatives involving respect for human rights
	2	Compilation of surveys and creation of risk maps
2024	3	Identification of business areas with significant risks and the process of generating human rights risks
	4	Assessment of the impact of human rights risks and identification of human rights issues
2025	5	Implementation of initiatives and monitoring (follow-up survey) of the identified human rights issues
	6	Disclosure of information on initiatives under procedures 1 to 5 (early response as necessary)
	7	Establishment of reporting and consultation channels to allow stakeholders' input to be heard (early response as necessary)



Training seminar on human rights management

Corporate Governance

We have adopted a company with an Audit & Supervisory Board as our organizational form.

Number of directors	10	Number of Audit & Supervisory Board members	3	Number of Nomination and Compensation Committee members	3
Of which, independent outside directors	4 (40%)	Of which, number of outside Audit & Supervisory Board members	2 (66%)	Committee chair	Mitsuyasu Iwata
Number of directors stipulated in the Articles of Incorporation	15 or fewer	Number of Audit & Supervisory Board members stipulated in the Articles of Incorporation	5 or fewer	Committee member	Kazuo Nakase
Number of female directors	1	Accounting auditor	KMPG AZSA LLC	Committee member	Sekio Kishimoto

Directors		
		
Name and role	Sekio Kishimoto President and CEO	Shigeru Wakamoto Senior Managing Director
Years in office	16 years	5 years
Attendance at the Board of Directors	100% (15/15)	100% (15/15)
		
Name and role	Shigeharu Tachibana Senior Managing Director	Makoto Yanagisawa Director CFO
Years in office	7 years	1 year
Attendance at the Board of Directors	100% (15/15)	100% (11/11)
		
Name and role	Yutaka Ishizuka Director	Tomoyuki Iida Director
Years in office	1 year	1 year
Attendance at the Board of Directors	100% (11/11)	100% (11/11)

		
Name and role	Mitsuyasu Iwata Director Outside Independent	Kazuo Nakase Director Outside Independent
Years in office	9 years	7 years
Attendance at the Board of Directors	100% (15/15)	100% (15/15)

		
Name and role	Hiromitsu Kuramoto Director Outside Independent	Hiroko Nihei Director Outside Independent
Years in office	3 years	2 years
Attendance at the Board of Directors	100% (15/15)	100% (15/15)

Audit & Supervisory Board Members		
		
Name and status	Manabu Ueno Standing Audit & Supervisory Board Member	Toraki Inoue Audit & Supervisory Board Member Outside Independent
Years in office	3 years	—
Attendance at the Audit & Supervisory Board	100% (14/14)	(Newly appointed in June 2024)
Attendance at the Board of Directors	100% (15/15)	(Newly appointed in June 2024)

	
Name and status	Go Kondo Audit & Supervisory Board Member Outside Independent
Years in office	—
Attendance at the Audit & Supervisory Board	(Newly appointed in June 2024)
Attendance at the Board of Directors	(Newly appointed in June 2024)

Corporate Governance

Basic Perspective on Corporate Governance

In order to achieve long-term stable improvement of our corporate value, which is the most important management issue, we are building an appropriate corporate governance system in accordance with the following basic concepts.

- We respect the rights of our shareholders and will strive to establish an environment in which shareholders can exercise their rights appropriately and to secure equality between shareholders.
- We recognize the importance of corporate social responsibility and will strive to collaborate appropriately with shareholders and other stakeholders in order to develop a corporate culture in which business is conducted with self-discipline in a sound manner.
- We will ensure transparency and fairness in our decision-making by establishing an executory system for timely disclosure and by conducting the timely and appropriate disclosure of non-financial information beyond requirements mandated by laws and regulations.
- We will strive to secure the effectiveness of the Board of Directors based on our fiduciary responsibilities and accountability to our shareholders. We will also enhance the strategic, decision-making, and oversight functions of the Board of Directors through its analysis and assessment.
- We will actively and constructively engage in dialogue with our shareholders based on a separately established basic policy to support the enhancement of our stable, long-term corporate value.

Composition of directors

To achieve the objectives of Medium-term Management Plan 2026, the specific management decisions that are well-versed in our business is required, including globalization, promoting new businesses, and advancing our strategic business alliance with Daio Paper Corporation.

The Board of Directors is appropriately composed of members with industry expertise and specialized knowledge in their respective fields, ensuring a balance in terms of scale, skillsets, and diversity. The Board of Directors carries out its executive duties under the guidance and supervision of the outside directors.

■ Director skill matrix

Name	Position	Specialty/Character								
		Corporate management	Internationally minded	Industry knowledge	ESG/Sustainability	Finance and accounting	Technology/IT	Sales and marketing	Human resources and labor	Purchasing and procurement
Sekio Kishimoto	President and CEO	●	●	●	●	●		●	●	●
Shigeru Wakamoto	Senior Managing Director	●		●	●		●			
Shigeharu Tachibana	Senior Managing Director	●	●	●	●			●		
Makoto Yanagisawa	Director CFO			●	●	●			●	
Yutaka Ishizuka	Director			●	●		●			
Tomoyuki Iida	Director	●	●	●	●					●
Mitsuyasu Iwata	Outside Director	●	●		●	●				
Kazuo Nakase	Outside Director	●		●	●			●		
Hiromitsu Kuramoto	Outside Director	●	●		●					●
Hiroko Nihei	Outside Director		●		●				●	

Board of Directors

The Board of Directors strives to increase corporate value and the common interests of shareholders, and aims to enhance long-term stable corporate value by realizing appropriate corporate governance. It is responsible for monitoring overall management, including the execution of duties by the corporate management, and decides important matters prescribed by laws and regulations, our articles of

incorporation, and our Rules for the Board of Directors.

The Board delegates the decision-making for business matters other than those shown at left to the corporate management in order to enhance the mobility and vitality of the management. It also maintains an internal control system and checks whether the execution is effective in cooperation with relevant departments.

Audit & Supervisory Board Members and the Audit & Supervisory Board

Our Audit & Supervisory Board Members and our Audit & Supervisory Board conduct operational audits and accounting audits from an independent and objective perspective on the basis of their fiduciary duties towards our shareholders.

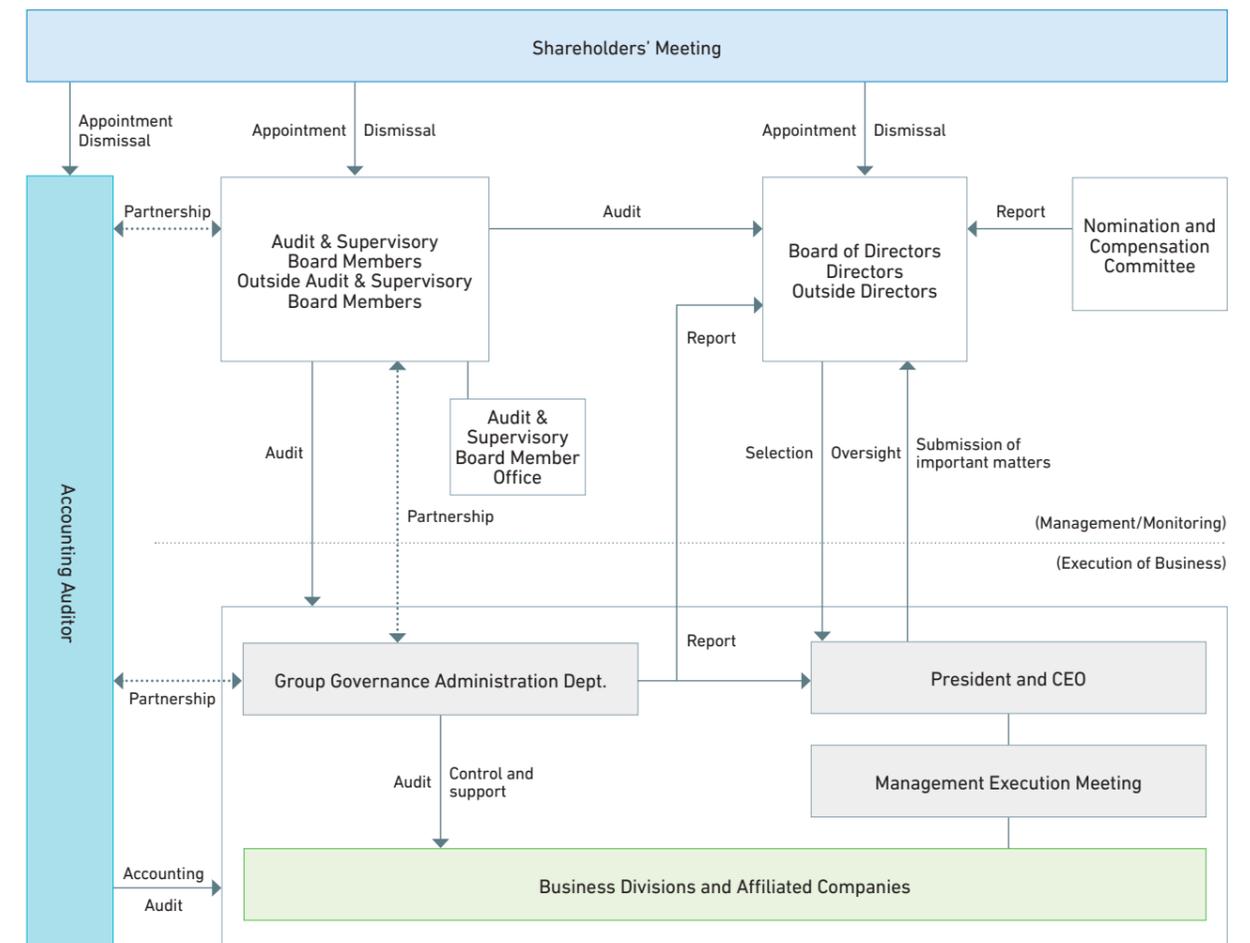
Audit & Supervisory Board Members also audit the execution of duties of each director, and express their appropriate opinions at Board of Directors meetings on the

basis of their fiduciary duties aforementioned.

Our Audit & Supervisory Board Members and our Audit & Supervisory Board enhance their effectiveness by organically combining the robust independence of the outside Audit & Supervisory Board Members and the high information gathering ability of the standing Audit & Supervisory Board Members.

Corporate governance system

■ Organizational Structure of Corporate Governance



Corporate Governance

Remuneration of directors and Audit & Supervisory Board members

We determine individual director compensation in accordance with our policy in this regard.

Category of Directors	Total amount by type of remuneration (Millions of yen)			Total amount of remuneration (Millions of yen)	Number of eligible directors (Persons)
	Fixed remuneration	Performance-linked remuneration			
	Basic remuneration	Performance-linked bonuses	Stock option compensation		
Director (excluding Outside Directors)	150	37	22	210	9
Outside Director	28	-	-	28	4
Subtotal	179	37	22	239	13
Audit & Supervisory Board Member (excluding Outside Audit & Supervisory Board Members)	13	-	-	13	1
Outside Audit & Supervisory Board Member	14	-	-	14	2
Subtotal	27	-	-	27	3
Total	206	37	22	266	16

Note: The Company had six directors (excluding outside directors) as of March 31, 2024.

Analysis and evaluation of the effectiveness of the Board of Directors

To further enhance our corporate governance, the Board of Directors including outside directors evaluates its effectiveness, such as strategic, decision-making, and oversight functions, and discusses how to improve the operation in the following years. Specifically, a survey on the governance structure, including the Nomination and Compensation Committee, is conducted anonymously among all directors including outside directors. After that, the Board of Directors analyzes survey

results and formulates measures for any issues that are identified. Because of this process, the members of the Board of Directors have been deemed to possess the knowledge, experience, and abilities necessary to effectively fulfill their roles and responsibilities. They have constructive discussions and appropriate oversight functions, so that overall Board effectiveness is ensured. In FY2023, a survey was conducted in March 2024 to evaluate the Board of Directors.

1 The composition of the Board of Directors	<ul style="list-style-type: none"> Is the size of the Board of Directors appropriate? Does the Board of Directors have the knowledge, experience, ability, and diversity (expertise, professional experience, age, gender, etc.) for the management strategy? Are the number and proportion of outside directors appropriate?
2 The Board of Directors operation and agenda	<ul style="list-style-type: none"> Are the content and volume of materials used for explanations, reports, etc., at Board of Directors meetings, and is the timing of prior distribution of materials, appropriate? Does the Board of Directors operate effectively in an atmosphere that encourages frank, free and vigorous discussion? Is the frequency and time of Board of Directors meetings appropriate? Is the scope and number of proposals submitted to the Board of Directors appropriate? Are risks for individual proposals appropriately verified by the Board of Directors, and are the decision-making process and authority clear? Is the Board of Directors proactively addressing issues surrounding sustainability from the perspective of improving corporate value over the medium- to long-term?
3 Others	<ul style="list-style-type: none"> Is the Nomination and Compensation Committee appropriately operating in accordance with our policies and standards for director nominations and compensation (including succession planning) and explaining and reporting its findings to the Board of Directors? Have issues identified in previous Board of Directors evaluations been appropriately remedied?

Based on the evaluation results, we conducted pre-briefing sessions in order to improve the ongoing challenges related to the operational aspect of the Board of Directors, which were pointed out in the previous fiscal year. As a result, the quality of discussions has improved, and there have been lively discussions with sufficient time dedicated to each agenda item. We have confirmed that the Board of Directors continues to be effective. On the other hand, although there has been considerable improvement in the early distribution of Board of

Directors materials, we have received requests for even earlier distribution. Therefore, we will promptly implement improvement measures. We recognize that our efforts so far have steadily contributed to the enhancement of the effectiveness of the Board of Directors. Going forward, we will continue to work on the ongoing improvement of the operational and structural aspects of the Board of Directors, as well as the maintenance of an environment for furthering deeper discussions among directors on medium- to long-term management strategies.

Diversification of the Board of Directors and efforts to strengthen corporate governance

To enhance corporate value by reinforcing corporate governance, including by strengthening the functions of the Board of Directors, we actively promote an increase in the proportion of outside directors, the appointment of female directors, and the proactive appointment of external talent.

FY2021

Increase in the percentage of outside directors: 18% → 33%

FY2022

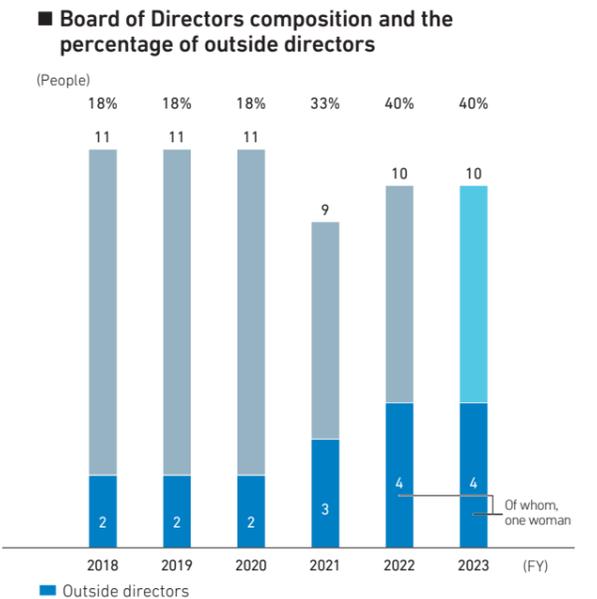
Appointment of a female director: 1 in 10

Increase in the percentage of outside directors: 33% → 40%

FY2023

Appointment of an outside director as chair of the Nomination and Compensation Committee

Two newly appointed directors come from other industries, ensuring diversity.



Outside directors

Kunihiko Kashima General Manager, New Business Development Department	Koji Goto COO, Performance Materials Sales Division; General Manager, Containerboard Sales Department; Profit Management Office	Kiyoshi Iizuka Osaka Branch Manager
Hisashi Abe General Manager, White Paperboard Sales Department, Domestic Paper & White Paperboard Sales Division; General Manager in charge of administration of White Paperboard Business; Staff General Manager, ZERO CO; Promotion Office, Production Technology Division	Kunihiro Ando Kanto Mill Manager; General Manager, Ichikawa Product Department	Maou Sugimoto COO, Safety, Environment & Quality Management Division; COO; In charge of Group Governance Administration Department (General Manager) and Information System Department
Satoshi Okamoto COO, Global Trading Division; Profit Management Office	Katsuhide Nishikata Nagaoka Mill Manager; General Manager, Administration Department	Shigetaka Kato General Manager, International Export Department, Global Trading Division; General Manager in charge of administration of International Export Business; Staff General Manager, CEO Office
Takashi Kasahara In charge of Personnel Department (General Manager) and Executives' Secretariat (General Manager); General Manager, CEO Office; Profit Management Office	Naoto Ooba General Manager, Paper Sales Department, Domestic Paper & White Paperboard Sales Division; General Manager in charge of Woodfree Paper and administration of Paper Sales Business; Niigata Office Manager; Staff General Manager, ZERO CO; Promotion Office, Production Technology Division	Kazuhiro Takasumi Kishu Mill Manager
Keiichi Kobayashi President, CEO & CAO Alberta-Pacific Forest Industries Inc.	Yoshiharu Togawa In charge of General Affairs Department (General Manager); General Manager, Public Relations Office	Yasushi Ichiki General Manager, Corporate Planning Department

Corporate Governance

Messages from Outside Directors

The Company has established the “Basic Policy for Active and Constructive Dialogue with Shareholders” as part of its basic policy on corporate governance and places emphasis on engaging in dialogue with stakeholders.

We received various questions and valuable opinions from

Serving as Chair of the Nomination and Compensation Committee

Outside Director Mitsuyasu Iwata

The Nomination and Compensation Committee consists of three members, including two outside directors and the representative director. I serve as the committee chair.

The committee aims to enhance the supervisory function of the Board of Directors and further strengthen corporate governance by ensuring objectivity and transparency in the procedures for the nomination and compensation of directors. In last fiscal year, the committee met five times.

Our proposal for the selection of director candidates and guidelines for determining executive compensation, which were developed through discussions in the committee, were submitted as resolutions to the Board of Directors and subsequently presented as agenda items at the regular shareholders' meeting. At SR meetings, we received questions

stakeholders during IR and SR meetings and shareholders' meetings. In this regard, the Company's outside directors have provided their opinions on the Group's challenges and initiatives to enhance the Group's corporate value.



and feedback from shareholders and other stakeholders regarding anti-takeover measures, responses to shareholder proposals, transparency of director terms and the process of determining compensation.

The Nomination and Compensation Committee will continue to engage in detailed discussions concerning the nomination of directors and procedures for determining compensation.

How We Chose to Conclude a Strategic Business Alliance with Daio Paper Corporation

Outside Director Hiromitsu Kuramoto

In May 2024, the Company entered into a Basic Strategic Business Alliance Agreement with Daio Paper Corporation. This decision was based on the recognition that strengthening competitiveness through structural reforms and transforming the business portfolio were management priorities, and that addressing these issues and promoting such initiatives would help enhance the Company's long-term corporate value.

To objectively and neutrally consider the merits of the strategic business alliance, the Company established a Restructuring Study Group composed solely of outside directors. In detailed discussions, this group examined the matter thoroughly from a perspective distinct from the Company's executive side.

Looking at the benefits of the business alliance, we determined that a stronger partnership with Daio Paper Corporation would be possible without an additional capital injection from the Company. We concluded that the alliance could



yield sufficient effects and would be positive for the Company. We also held discussions to address potential drawbacks.

On extensive discussions, the Company evaluated all available options, including on topics such as the integration of management, partnerships, and the acquisition or divestment of shares, to improve corporate value and enhance the benefit to shareholders. We reached the conclusion that a business alliance was the most suitable choice and reported this conclusion to the Board of Directors.

Discussion of the Independent Committee on the Renewal of the Response Policy

Outside Director Hiroko Nihei

In response to a large-scale acquisition of the Company's stock certificates by Daio Kaiun, KAWASAKI PAPER TRANSPORT CO., Ltd., and Misuga Kaiun Co., Ltd (hereinafter, collectively, "Daio Kaiun et al"), in December 2023 and following a resolution by the Board of Directors, the Company introduced the "Policy for Responding to the Large-Scale Acquisition of the Company's Share Certificates" (hereinafter, the "Company's Response Policy").

After confirming that Daio Kaiun Co., Ltd. might be engaging in purchasing activities through Tokyo Pulp & Paper Corporation, which was reasonably suspected to be in a cooperative relationship, the Company's Board of Directors consulted with the Independent Committee regarding the continuation and update of the Company's Response Policy.

The Independent Committee, consisting of four outside directors, appointed an independent legal advisor from outside the Company's Board of Directors. They conducted deliberations on matters of consultation, including the logical necessity and rationality of updating the Company's Response Policy within the effective period.

Based on three discussions, the Independent Committee determined that Daio Kaiun et al. qualified as a party planning

a large-scale acquisition of the Company's shares. Therefore, the Committee recommended extending the validity period of the Company's Response Policy until the conclusion of the Board of Directors meeting to be held after the regular shareholders' meeting in June 2025. Additionally, the Committee recommended that if Daio Kaiun et al. were found to have initiated a large-scale acquisition without following the prescribed procedures in the Company's Response Policy, the Company's Board of Directors should activate countermeasures (taking into utmost consideration of the recommendations from the Independent Committee at that time). The Committee advised us that including this as an agenda item at the shareholders' meeting was appropriate.



On Succession Planning

Outside Director Kazuo Nakase

The Process of Selecting the President's Successor

The Company is actively reviewing and revising its succession plan, led by two outside directors of the Nomination and Compensation Committee, for the development of a successor to the president.

Specifically, based on the management requirements of CEO, including the ability to have a clear vision and execute it, portfolio management ability, and global governance ability as an international company, the Company continues to consider potential successors through a transparent and objective process, focusing on external recruitment and the selection of promising young talent. Currently, the Company has established a dual senior manager system with one person from a technical background and another from a sales background, to maintain a succession system.



The Process of Appointing Directors

The Nomination and Compensation Committee asked all directors and executive officers to submit papers related to the direction and strategy of medium- to long-term corporate management. Committee chair Iwata and I also conducted individual interviews.

Subsequently, based on a skill matrix to assess a balanced composition of directors, we evaluated the directors and selected candidates to propose new directors. Finally, the CEO participated and the Nomination and Compensation Committee finalized the proposal.

Financial and Non-financial Data

Hokuetsu Corporation and Consolidated Subsidiaries
Fiscal years ended March 31 and as of March 31

	G-1st		C-next		V-DRIVE			Medium-term Management Plan 2023			Medium-term Management Plan 2026	
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2024
	(Millions of yen)										(Thousands of U.S. dollars (Note 1) ¹)	(Thousands of U.S. dollars (Note 1) ¹)
Financial data												
Net sales	¥223,865	¥228,400	¥246,849	¥262,398	¥269,100	¥275,807	¥264,618	¥222,454	¥261,617	¥301,205	¥297,057	\$1,962,067
Operating income	3,308	6,140	9,236	12,900	11,414	10,130	11,209	1,702	20,456	17,288	15,268	100,845
Ordinary income	8,481	11,463	10,588	14,056	13,908	13,015	15,652	9,757	29,515	11,472	17,766	117,345
Net income attributable to owners of parent company	6,105	8,359	7,477	10,381	10,327	9,156	8,073	14,173	21,207	8,326	8,397	55,462
EBITDA* ²	26,974	30,582	31,125	33,938	33,871	32,313	34,883	24,802	43,255	24,263	31,627	208,897
Research and development expenses	769	735	710	778	713	784	682	666	615	702	745	4,921
Depreciation & Amortization	19,071	19,006	19,553	19,094	19,065	18,390	18,451	14,482	13,213	11,854	12,864	84,967
Capital expenditures	23,919	11,128	9,425	12,751	14,710	16,089	16,231	14,136	13,462	12,532	15,314	101,149
Total assets	350,808	351,033	363,658	362,205	366,448	368,082	344,731	363,075	376,956	388,445	415,630	2,745,244
Net assets	158,824	168,573	169,529	181,035	191,977	192,861	180,862	195,419	216,974	225,950	252,401	1,667,114
Interest-bearing debt	136,387	123,724	129,586	116,754	108,240	109,726	106,832	113,991	99,088	103,726	104,362	689,313
Cash flows from operating activities	18,676	27,858	20,944	28,918	19,742	21,627	43,975	23,761	20,186	1,747	22,321	147,431
Cash flows from investing activities	-22,805	-16,261	-3,628	-13,649	-14,158	-19,275	-20,199	-19,575	-1,648	-12,753	-15,495	-102,345
Cash flows from financial activities	-7,471	-16,772	-12,302	-14,447	-10,645	-934	-17,262	4,358	-19,188	-2,100	-3,802	-25,112
Per share data (Yen/U.S. dollars)												
Earnings per share (EPS)	30.54	44.39	39.69	55.09	54.68	48.44	43.45	84.40	126.22	49.54	49.94	0.33
Book value per share (BPS)	834.44	888.16	894.74	956.63	1,011.58	1,016.16	1,073.08	1,159.49	1,286.82	1,339.89	1,496.55	9.88
Dividends per share	12.00	12.00	12.00	12.00	12.00	12.00	12.00	14.00	24.00	18.00	18.00	0.12
Key ratios												
EBITDA/Net sales (%)	12.0	13.4	12.6	12.9	12.6	11.7	13.2	11.1	16.5	8.1	10.6	—
Operating income ratio (%)	1.5	2.7	3.7	4.9	4.2	3.7	4.2	0.8	7.8	5.7	5.1	—
Net income ratio (%)	2.7	3.7	3.0	4.0	3.8	3.3	3.1	6.4	8.1	2.8	2.8	—
Equity ratio (%)	44.8	47.7	46.4	49.8	52.2	52.2	52.3	53.6	57.4	58.0	60.5	—
ROA (%) ³	2.4	3.3	3.0	3.9	3.8	3.5	4.4	2.8	8.0	3.0	4.4	—
ROE (%)	3.9	5.2	4.5	6.0	5.6	4.8	4.3	7.6	10.3	3.8	3.5	—
Debt equity ratio (times)	0.87	0.74	0.77	0.65	0.57	0.57	0.59	0.59	0.46	0.46	0.41	—
Price Earnings Ratio (PER) (times)	16.96	12.12	16.91	14.09	12.55	13.36	9.30	6.14	5.51	17.90	38.53	—
Price Book-value Ratio (PBR) (times)	0.62	0.61	0.75	0.81	0.68	0.64	0.38	0.45	0.54	0.66	1.29	—
Non-Financial Data												
GHG emissions (1,000 tons-CO ₂) ⁴												
Scope 1	—	—	—	—	—	—	694	657	680	728	610	—
Scope 2	—	—	—	—	—	—	79	57	64	62	64	—
Scope 3	—	—	—	—	—	—	1,511	1,210	1,397	1,341	1,278	—
Industrial waste generated (1,000 tons) ⁴	—	—	—	—	—	—	264	224	257	302	287	—
Effective utilization amounts (1,000 tons) ⁴	—	—	—	—	—	—	257	219	252	298	284	—
Water intake (1,000m ³) ⁴	—	—	—	—	—	—	94,700	88,800	95,700	94,900	94,800	—
Number of employees (people)	4,272	4,394	4,801	4,769	4,779	4,714	4,688	4,545	4,270	4,163	3,749	—
Frequency rate of occupational accidents ⁵	—	—	—	—	—	—	0.97	0.79	2.45	1.74	1.63	—

*1 Amounts in US dollars were converted at ¥151.40 to one dollar, the currency exchange rate prevailing in the Tokyo Foreign Exchange Market as of March 31, 2024.

*2 EBITDA = Ordinary income + interest expenses + depreciation and amortization costs + depreciation of goodwill - depreciation of negative goodwill

*3 ROA = Ordinary income / average total assets at the beginning and end of the fiscal year * 100

*4 Non-consolidated performance

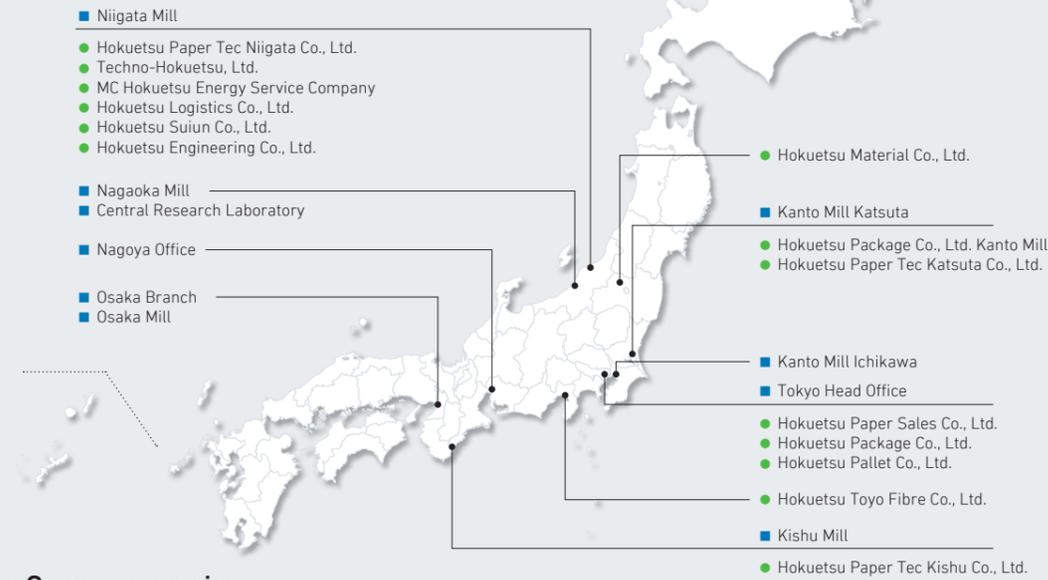
*5 Including affiliated subsidiaries as well as partner companies

* The Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28 issued on February 16, 2018) has been applied from the beginning of FY2019. The primary business indicators, etc., pertaining to FY2018 are those after the retroactive application of the relevant accounting standards.

Corporate Information

Japanese Group companies

Main locations ■ Head office / branch office / office / production / research locations ● Japanese Group companies



Overseas Group companies

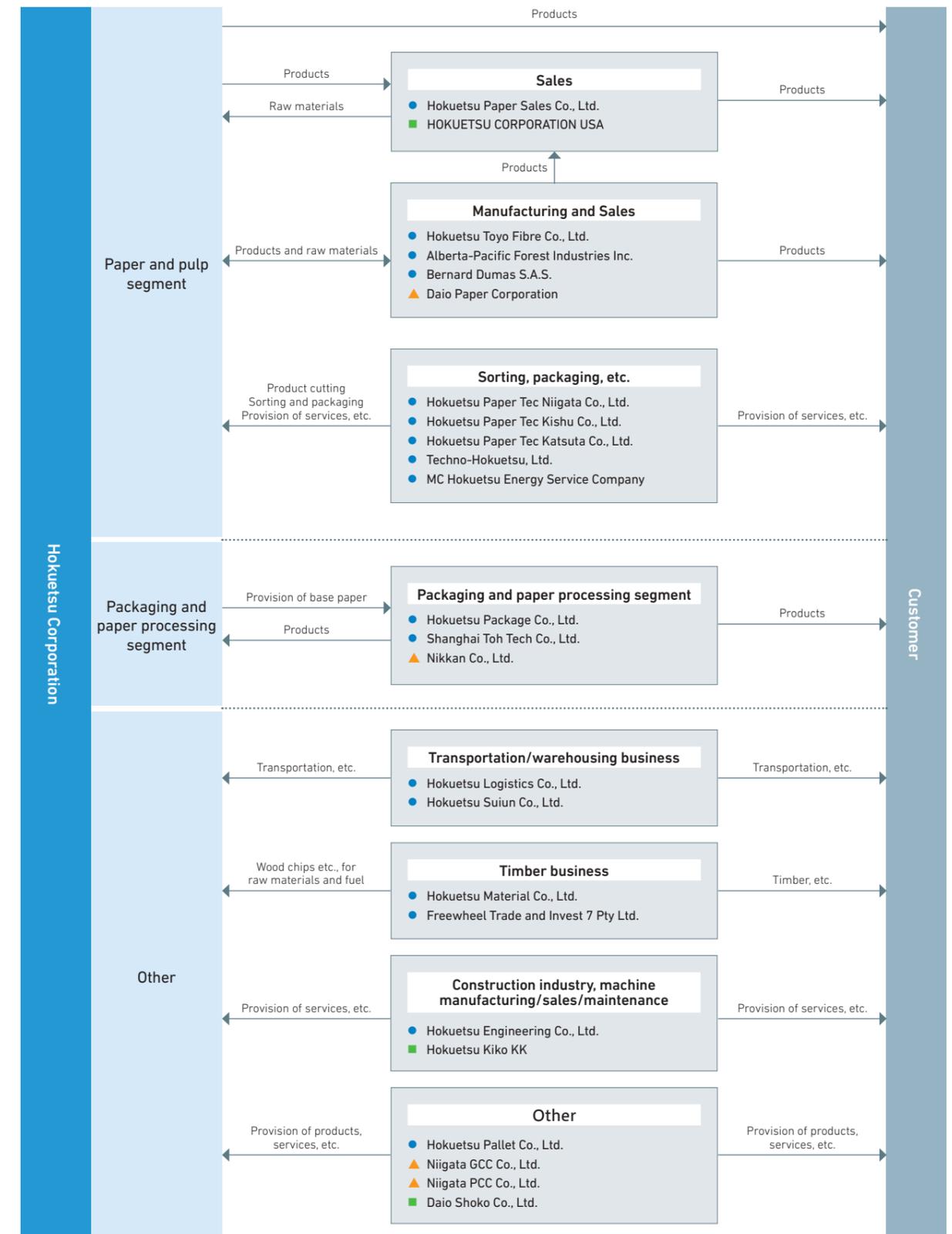
Main locations ▲ Overseas location ● Overseas Group companies



Production/research locations		Niigata Mill/Kishu Mill/Kanto Mill Ichikawa/Kanto Mill Katsuta/Nagaoka Mill/Osaka Mill/Central Research Laboratory	
Consolidated subsidiaries	Japan	Paper and pulp segment	Hokuetsu Paper Sales Co., Ltd./Hokuetsu Toyo Fibre Co., Ltd./Hokuetsu Paper Tec Niigata Co., Ltd. Hokuetsu Paper Tec Kishu Co., Ltd./Hokuetsu Paper Tec Katsuta Co., Ltd. Techno-Hokuetsu, Ltd./MC Hokuetsu Energy Service Company
		Packaging and paper processing segment	Hokuetsu Package Co., Ltd.
		Timber business	Hokuetsu Material Co., Ltd.
		Construction industry, machine manufacturing/sales/maintenance	Hokuetsu Engineering Co., Ltd.
	Overseas	Transportation/ warehousing business	Hokuetsu Logistics Co., Ltd./Hokuetsu Suiun Co., Ltd.
		Other	Hokuetsu Pallet Co., Ltd.
		Paper and pulp segment	Alberta-Pacific Forest Industries Inc./Bernard Dumas S.A.S.
Affiliated companies accounted for under the equity method		Daio Paper Corporation/Nikkan Co., Ltd./Niigata GCC Co., Ltd./Niigata PCC Co., Ltd.	
Affiliated companies accounted for under the equity method		HOKUETSU CORPORATION USA/Freewheel Trade and Invest 7 Pty Ltd. Hokuetsu Kiko KK/Daio Shoko Co., Ltd.	

Organization

● Group companies (consolidated subsidiaries) ▲ Affiliated companies accounted for under the equity method ■ Affiliated companies not accounted for under the equity method



Corporate Information

Equity Data

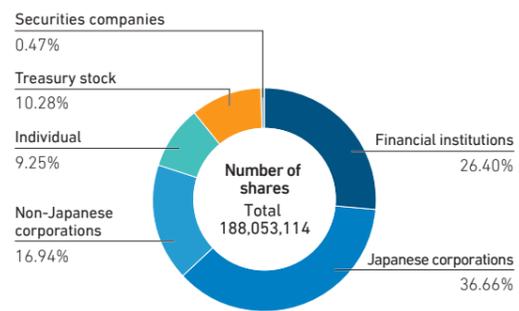
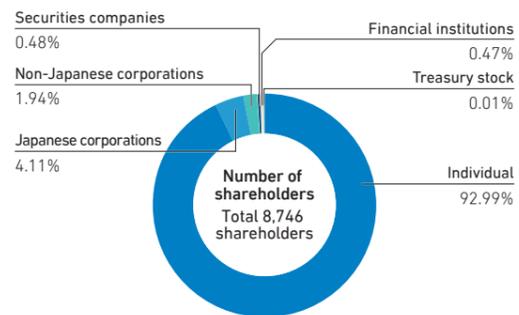
(as of March 31, 2024)

Stock Information

Securities code	3865
Number of shares authorized	500,000,000
Number of shares issued	188,053,114 (including own shares)
Number of shareholders	8,746

Listed Stock Exchange	Tokyo
Share unit number	100 shares
Shareholder registry administrator	Mizuho Trust & Banking Co., Ltd.
Independent audit firm	KPMG AZSA LLC

Distribution of shares by shareholders



Major Shareholders

Name	Number of shares held (Thousands of shares)	Shareholding ratio (%)
Misuga Kaiun Co., Ltd.	18,806	11.15
DAIO KAIUN CO., LTD.	16,820	9.97
The Master Trust Bank of Japan, Ltd. (Trust Account)	10,080	5.97
Daishi Hokuetsu Bank, Ltd.	8,332	4.94
Company's Agent Stockholding	6,938	4.11
Sumitomo Realty & Development Co., Ltd.	6,066	3.60
CGML PB CLIENT ACCOUNT/COLLATERAL	5,895	3.49
OASIS JAPAN STRATEGIC FUND LTD.	5,615	3.33
MLI FOR CLIENT GENERAL OMNI NON COLLATERAL NON TREATY-PB	4,755	2.82
Sompo Japan Insurance Inc.	4,499	2.67

* In addition to the above, Hokuetsu holds 19,321,000 shares of treasury stock. The shareholding ratio is calculated excluding treasury stock.

Stock related data

	March 2020	March 2021	March 2022	March 2023	March 2024
Number of shares issued	188,053,114	188,053,114	188,053,114	188,053,114	188,053,114
Market capitalization at end of period (millions of yen)	75,973	97,411	130,696	166,803	361,814
Price earnings ratio (PER) (times)	9.30	6.14	5.51	17.90	38.53
Price book-value ratio (PBR) (times)	0.38	0.45	0.54	0.66	1.29

Corporate Data

(as of March 31, 2024)

Corporate Name:	Hokuetsu Corporation
Established:	April 27, 1907
Head office:	3-5-1, Nishizao, Nagaoka City, Niigata Prefecture
Capital:	42,020,940,239 yen
Fiscal year ending:	March 31
Number of consolidated subsidiaries:	16 (13 in Japan, 3 overseas)
Number of affiliated companies accounted for under the equity method:	4
Number of employees:	3,749 (consolidated); 1,481 (non-consolidated)

Initiatives & External Evaluation

Endorsed Initiatives



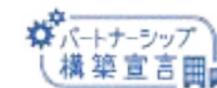
We signed the United Nations Global Compact on January 24, 2023. The Group is committed to implementing and continuously improving the 10 principles of the UN Global Compact.



We have joined the GX League, an initiative of the Ministry of Economy, Trade and Industry. The Group will promote our efforts to achieve carbon neutrality and contribute to the transformation of the entire economic and social system in cooperation with participating companies and organizations.



We are participating in the "30by30 Alliance for Biodiversity," a coalition of volunteers aiming to achieve the "30by30 Target" promoted by the Ministry of the Environment. Through our participation in this alliance, the Group will visualize the importance of biodiversity and conservation activities, and contribute to achieving the 30by30 goal.



We endorsed and announced the "Declaration of Partnership Building" established by the "Council on Promoting Partnership Building for the Future," whose members include the Chairman of Japan Business Federation, the President of The Japan Chamber of Commerce and Industry, the President of Japanese Trade Union Confederation, and relevant ministers.

External Evaluation



We have been certified by the Ministry of Economy, Trade and Industry as a Health & Productivity Management Outstanding Organization 2024 (large enterprise category). This was our third consecutive year for this certification. The Health & Productivity Management Outstanding Organization certification program recognizes companies that practice particularly outstanding health management.



For two consecutive years, the Company has received an "A-" rating, the highest level of leadership, in the area of "Climate Change" and a "B" rating in the area of "Forest" from CDP, an international non-profit organization that addresses environmental information disclosure.



We have been certified as a company engaging in Eco-Rail Mark activities and having certified products by the Eco-Rail Mark Management and Operating Committee, which is authorized by the Ministry of Land, Infrastructure, Transport and Tourism and operated by the Railway Freight Association. The Group will further promote rail freight transportation, an environmentally friendly means of transportation, to reduce CO₂ emissions.



We have been selected as a constituent of the FTSE Blossom Japan Sector Relative Index, a global ESG investment index. This index includes Japanese companies that have demonstrated excellent performance in the ESG field and have been recognized for their efforts to reduce greenhouse gas emissions based on the TPI Management Quality Score. This index is also used as an ESG investment index by GPIF, the world's largest institutional investor.



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