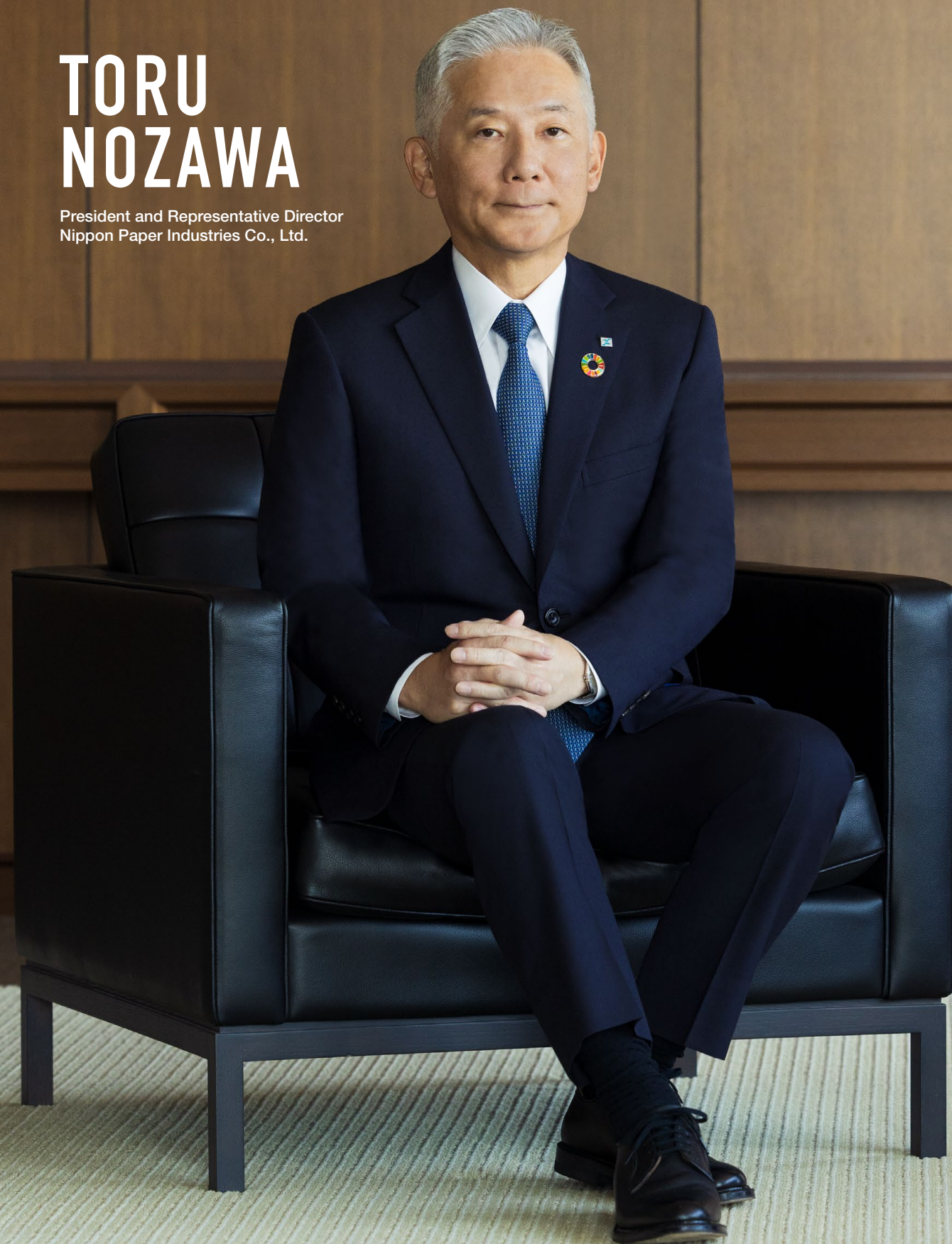


# Message from

**TORU  
NOZAWA**

President and Representative Director  
Nippon Paper Industries Co., Ltd.



# the President

Message from the President

## We Leverage the Strengths of the Three Circulations and Enhance Corporate Value with the Aim of Achieving Sustainable Growth

### Domestic Business Gets Back on Track with the Medium-Term Business Plan in FY2024/3

In FY2023/3, NIPPON PAPER GROUP fell into an operating loss for the first time since our listing due to an unprecedented surge in prices for raw materials and fuel, and we faced very challenging management conditions. All of our Group employees, however, shared a strong sense of urgency regarding the need to overcome this situation, and worked to improve profitability. As a result, we were able to return to profitability in FY2024/3 and bring about a certain degree of recovery in business performance.

Looking back at FY2024/3, in Japan real wages failed to keep pace with rising prices and consumer confidence lacked momentum as a result. Still, with the exception of graphic paper, which has seen a structural decline in demand, each of our businesses maintained a certain level of demand over the course of the year, thanks in part to government price control measures, including subsidies for fuel oil prices. Overseas, meanwhile, economic trends in each region, including declining consumption in Europe and the U.S. and China's economic slowdown, had a significant impact on the Company's business.

In our domestic business, amidst a significant decline in demand for paper, we developed a policy to shift the Paper and Paperboard Business's profit center from the mills to the sales divisions in 2021. As we shared a sense of urgency, cooperation between the sales divisions and manufacturing front lines grew stronger, and an awareness of the sales divisions as a profit center quickly took hold. This move toward lateral cooperation spread not only among the sales divisions, but to the corporate and other divisions, and has strengthened organizational capabilities across the Group as a whole.

The speed at which we execute measures has increased, such as in our quick reaction to the recent sharp depreciation of the yen. Each division proposed cost improvements and these proposals were put together at an early stage. At the mills as well, we are seeing a proactive approach to challenges, including the ability to use raw materials and fuel that could not be used before thanks to the efforts and ingenuity of employees on-site, leading to cost reductions. Through these kinds of efforts, FY2024/3 operating profit in our domestic business exceeded ¥30.0 billion, putting it back on track with the Medium-Term Business Plan 2025. I feel confident we were able to turn a crisis into an opportunity by mobilizing the power of each and every one of us.

In our overseas business, sales of liquid packaging board and other products dropped at Nippon Dynawave Packaging Company, LLC (NDP) in the U.S., and demand also declined significantly at Jujo Thermal Oy (Jujo Thermal) in Europe. Further, China's economic slowdown had a major impact as the market worsened for containerboard exports from Opal in Australia to China and Southeast Asia. As a result, the overseas business has become a drag on the recovery of consolidated results, and rebuilding it has become an urgent issue.

Going forward, addressing rising labor and logistics costs will be critical. Looking back at the continued economic growth of the 1980s, price levels rose each year, but so did workers' wages. While current economic conditions differ from those times, we expect that the increase in labor and logistics costs is not a temporary phenomenon, and assume those costs will continue rising. It is necessary to shift to appropriate pricing that is reproducible to maintain a stable supply system, while carefully monitoring manufacturing cost trends going forward.



## Expanding the Daily-Life Products Business to Achieve the Targets of the Medium-Term Business Plan 2025

To achieve the targets of the Medium-Term Business Plan 2025, it is essential that we improve the profitability of the Daily-Life Products Business. To that end, we aim to expand net sales in the Daily-Life Products Business from ¥436.8 billion in FY2024/3 to ¥500.0 billion in FY2026/3.

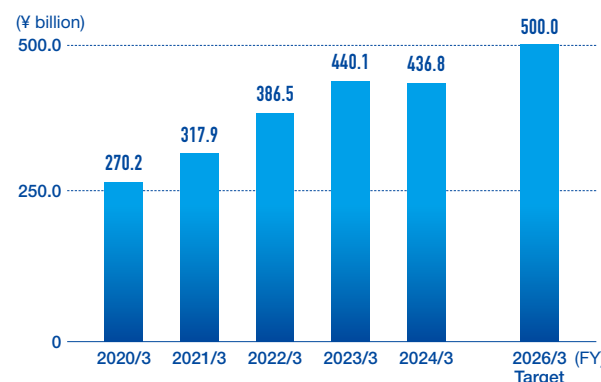
While Opal continues to face a challenging situation, as noted below, other Daily-Life Products Businesses recovered in FY2024/3 after what had been an extremely difficult previous fiscal year, and we expect further growth in FY2025/3. To realize an operating income margin of 7% or more, as set out in the 2030VISION, we are undertaking proactive capital investments, and to maximize the effect of those investments, we plan to push forward with development of products that offer high added value.

In the Liquid Packaging Carton Business, we will introduce a new filling system jointly developed with Shikoku Kakoki Co., Ltd., and will work toward growth in the global market by leveraging our alliance with Shikoku Kakoki and Elopak ASA in Norway. Also important is our collaboration with NDP, which will conduct major maintenance on its facilities in FY2025/3 in an effort to stabilize operations and improve productivity.

In the Household Paper and Healthcare Business, Nippon Paper Creca's new paper machine installed in Ishinomaki Mill began operation, following the No. 3 paper machine at Creca-Kasuga. New equipment not only offers high production efficiency, but because the pulp produced at the Ishinomaki Mill can be used as is in the production of household paper, it is expected to bring overwhelming cost competitiveness. We will also go beyond the domestic market, working with global partners to expand sales in markets overseas.

We are also making proactive capital investments in the Chemical Business, where we are particularly focused on carboxymethyl cellulose (CMC) for lithium-ion batteries for electric vehicles (EVs). We plan to start operation of our plant in Hungary, which is under construction, in December 2024, and going forward will expand sales by establishing multiple production sites outside of Japan as well.

### 01 Daily-Life Products Business Change in Net Sales



In new businesses, we believe cellulose nanofibers (CNF) could become a game-changer. With a view to exports, we are moving forward with R&D based on the Group's technological capabilities through collaboration with a wide range of partners. We will work to quickly commercialize these efforts so that CNF can become a major pillar supporting the Daily-Life Products Business.

### Rebuilding Opal Is a Top Priority

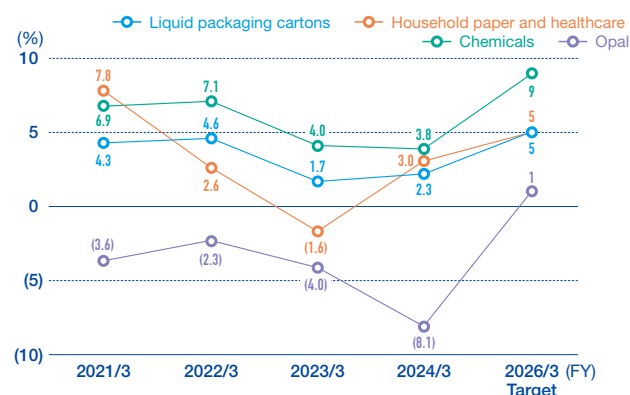
We have positioned the rebuilding of Opal in Australia, one of the mainstays of the Packaging Business, as a top current priority. Opal's business consists of the Maryvale Mill of the former Paper Australia Pty Ltd, acquired in 2009, and the Packaging Business of the former Orora Limited, acquired in 2020. The Maryvale Mill, in particular, is generating significant losses, and improving that situation is our top priority.

Faced with the situation that its supply of eucalyptus wood from state-owned forests would stop at the end of 2022, the Maryvale Mill decided to withdraw from the Graphic Paper Business in February 2023 and to specialize in production of competitive base paper for packaging.

We have established three key performance indicators (KPIs) aimed at bringing the Maryvale Mill back to profitability. The first is to increase the daily output of the continuous digester that manufactures pulp. The Maryvale Mill has shut down two of its five paper machines, leaving it with three for containerboard and craft paper. Accordingly, pulp manufacturing equipment was shifted from the batch digester to a low-cost continuous digester. Daily output has steadily increased, and we are confident this change has been effective. The second KPI involves improving the composition of export sales. Given the challenging export market conditions in Asia, we will work quickly to develop export destinations outside of Asia and expand the use of base paper within Opal, among other steps. The third is a reduction in fixed costs, primarily labor costs. We are currently considering other measures to further improve profitability at the Maryvale Mill in an effort to return it to profitability, and we intend to make a concerted effort to rebuild its business as soon as possible.

Meanwhile in the Packaging Business, we are moving

### 02 Daily-Life Products Business Change in Operating Income Margin



forward with capital investments aimed at introducing the latest equipment. A new corrugated box plant began operation in the state of Victoria, Australia in August 2023; the plant has twice the labor productivity of previous Opal plants. Other existing plants are also in the process of updating aging processing equipment. Through these capital investments, we aim to boost production capacity and reduce costs while also strengthening our sales structure to increase sales and expand profits in the Oceania region's corrugated box market. Efforts to strengthen the Packaging Business base and expand profits are progressing according to plan.

The Company's management team, including myself, will visit Opal and work closely with their management to share goals with a focus on increasing the effectiveness of these various measures.

### Accelerating Business Structure Transformation to Increase Corporate Value

While the Company is working toward its 2030VISION and the Medium-Term Business Plan 2025, our price to book-value ratio (PBR) remains low. Our analysis attributes this to the fact that return on capital has not reached the level expected by the market and that financial leverage is high. We have started to consider ways to improve PBR to increase corporate value in the medium to long term.

PBR multiplies return on equity (ROE) by the price-to-earnings ratio (PER). We will improve ROE by addressing issues in the Paper and Paperboard Business, where profitability is low compared to the amount of invested capital, through a shift to the Daily-Life Products Business and other business domains where high profits can be expected. As for improvement of PER, it is important to communicate and share our growth story with our stakeholders, namely that the Daily-Life Products Business will grow its earnings going forward through business structure transformation. Further, with regard to return on invested capital (ROIC), we need to hold internal discussions aimed at achieving our target profit margin and establish KPIs in line with the specific characteristics of each business.

The Paper and Paperboard Business—particularly graphic paper—requires enormous invested capital, making it difficult to generate profits and improve ROE; demand is also declining. In addition to existing efforts such as raising production efficiency and reducing fixed costs, one solution

is to improve our asset turnover ratio as much as possible by tightening the way we hold inventory or enhancing labor productivity through a shift to DX. We need to consolidate our production sites to increase competitiveness and consider ways to increase sales, not only in the domestic market where demand is declining, but in exports as well.

In the Daily-Life Products Business, we will first work to ensure that the effects of investments made to date are realized. If there are any issues after verifying those results, we will promptly implement additional measures to address them. In capital investments going forward, we will closely examine the scale and feasibility of sales and profits to ensure a high return on invested capital.

→ P.19–23 Financial Capital

### Focusing on Investment in Human Capital to Develop Human Resources

Investment in human capital is extremely important in increasing the value of human resources, in turn leading to improved corporate value. We view it from four perspectives: recruiting, education, retention and proper allocation.

First, we are working to expand our recruiting channels, including mid-career recruitment and so-called comeback recruitment—welcoming back employees who have left the Company at one point. At the same time, we have also begun a global application program aimed at recruiting students with a strong international orientation and sound foreign-language proficiency as candidates for overseas assignment. In FY2025/3, we also plan to consider and implement recruitment of non-Japanese on the front lines of production, in anticipation of a future decline in the workforce.

As for education, I believe that companies should be proactive in developing human resources that lead to improved corporate value, and we are thus focusing our efforts on education of both career-track employees and front-line operators. With an eye toward future sustainable mill operations, we hope to create a system by which we can select and train employees from among local recruits to enable them to take on overall management of the mills. In FY2025/3, we will also accelerate our efforts to develop personnel capable of holding overseas postings and DX professionals through enhanced training and other steps as an urgent issue.

In terms of retention, we are moving forward with the introduction of a Regional Career-Track Employment System and other efforts. To maintain and enhance employee engagement, it is necessary to establish a system that takes individual employee career plans into consideration, addressing cases in which an employee's work area may be limited by childcare, nursing care, and other circumstances.

For our younger employees, we have created opportunities that will expose them to different perspectives and give them a sense of the wide range of fields in which they can play an active role within the Group. In the past, I have had open discussions and lunch meetings with younger employees, but in FY2025/3, we plan to expose them to different perspectives by providing a venue for interaction between younger employees and general

managers from divisions other than those to which they belong. As I mentioned last year, to develop and retain human resources, it is important to entrust them with responsibilities and then express appreciation and encouragement for the results of their efforts.

One example of our efforts regarding appropriate allocation of human resources was the launch of the Household Paper Business within the Ishinomaki Mill. A new paper machine for household paper was set up in the building where the N6 machine had been installed at the Ishinomaki Mill. In conjunction with this, employees who were once involved in the Graphic Paper Business have been given the responsibility of producing household paper by utilizing the technical skills they had gained thus far. We are also continuing work on human resource reallocation in advance of our business structure transformation.

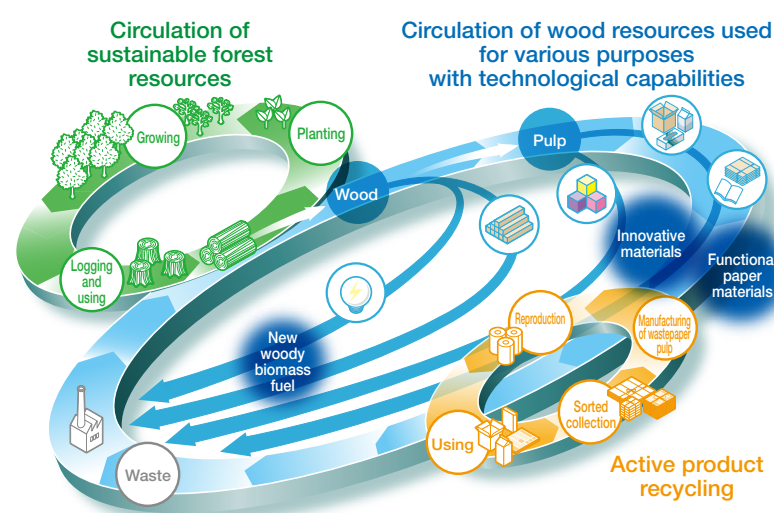
Improving engagement is another very important theme in human capital management. We have been conducting ongoing engagement surveys for some time, and the results of surveys at our graphic paper mills, where employees are seeing a decline in equipment utilization rates due to decreasing demand, indicate that the sense of uncertainty is having an impact on engagement. To dispel concerns about the future of the workplace, in FY2025/3 we plan to first work to improve coaching skills for line managers and then encourage dialogue within the workplace, in an effort to improve engagement.

→ P.32–35 Human Capital

### Realizing 2030VISION on the Strength of the Three Circulations

The Group's business model called "Three Circulations" is based on developing business that achieves resource circulation. The Three Circulations refers to the following three types of resource circulation: circulation of sustainable forest resources, circulation of wood resources used for various purposes with technological capabilities, and active product recycling.

### 03 Three Circulations Business Model



The Group has approximately 160,000 hectares of renewable forest resources in Japan and overseas, as well as the technology to make full and effective use of those resources. Further, in our long history of procuring wood raw material domestically and overseas, we have built strong partnerships with a wide range of players in the forestry and timber industries. We consider this strong supply chain to be one of our great assets. The challenge is how to maximize forest value, and expand new products that can be created from wood resources.

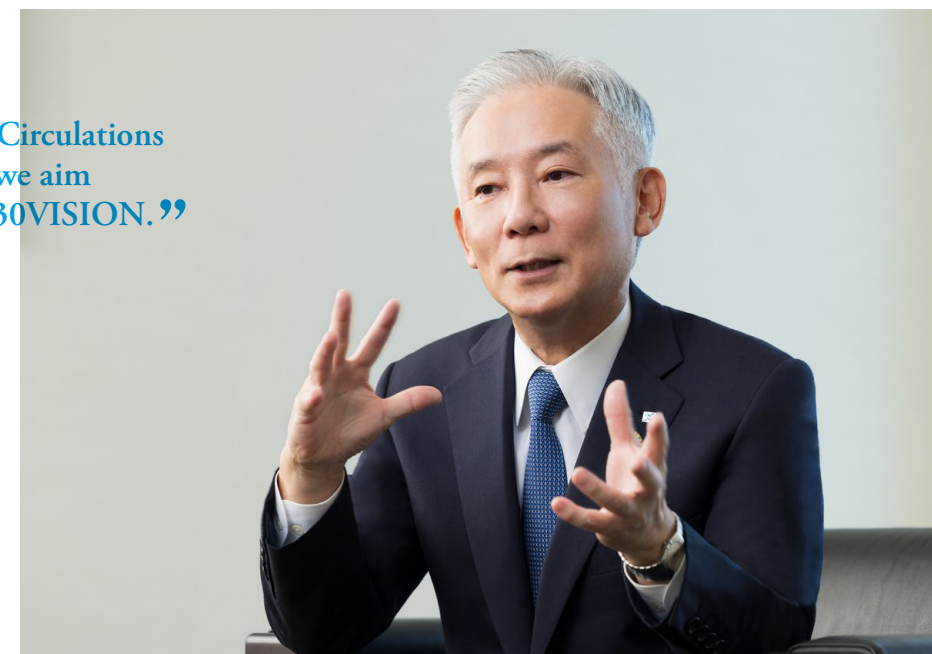
In order to maximize forest value, we are expanding our elite tree seedling production business by utilizing our proprietary proliferation technologies. We are working in cooperation with the Forestry Agency, local governments and seedling companies, and have thus far obtained certification as a specified plant propagator for elite tree seedling production in Akita, Shizuoka, Tottori, Hiroshima, Oita and Kumamoto prefectures. Our goal is to establish a production system for 10 million seedlings per year by FY2031/3. On J-Credit system, we have established a target to register projects equivalent to 200,000 t-CO<sub>2</sub> in company-owned forests in Japan by FY2028/3. We are closely monitoring revisions and other changes in forest management methods and promoting utilization of J-Credits.

To expand new products created from wood resources, the Biomass Material Business Division is taking a central role in advancing the development and sales of CNF and consideration of bioethanol. To begin with, paper, paperboard, liquid packaging cartons, household paper, and others are all products similarly based on wood resources. Given the inevitable decline of demand for paper going forward, the question of how to utilize pulp is a major theme. We will bring a sense of speed to our efforts to develop and commercialize pulp applications. Although forest resources are renewable, the surface area of forests cannot be expanded indefinitely. Trees absorb and fix CO<sub>2</sub> as they grow, so we are also advancing efforts to maximize CO<sub>2</sub> absorption in forests by utilizing our breeding and proliferation technologies. These technologies can be used

not only in our own forests, but in similar fashion in the resources of other companies. In terms of securing resources, we also recognize the growing importance of circulating resources through product recycling, so it will be important to determine what kind of business model should be developed in response. By addressing customer needs for replacing plastic with paper while simultaneously recycling paper products, the Group will encourage recycling of resources. In fact, we have already begun collaborating with customers, the government and local regions. For example, we are working in a broad collaboration with Nihon Tetra Pak K.K. on efforts to improve recycling rates of paper beverage containers (paper cartons), and we intend to further increase the value of paper cartons as biomass material.

I am convinced that the Group's Three Circulations will prove a major strength in the

“With the Three Circulations as our strength, we aim to realize the 2030VISION.”



future society that will require solutions to environmental problems and the realization of a sustainable society. I also believe that a powerful push to advance this business model will be essential to ensuring the creation of a circulation-oriented society. Discussions about how to run this business model have begun to take place throughout the Company, and the concept has become more widespread. Our goal now is to leverage the Three Circulations as a strength that will lead to the realization of the 2030VISION.

→ P.24–31 Natural Capital → P.36–39 Intellectual Capital

→ P.40–41 Manufactured Capital → P.42–43 Social and Relationship Capital

### Promoting Sustainability Management

I believe there are very few companies that are capable of utilizing wood resources to create value and expanding that value globally. The Group's business model makes it possible to achieve a circular economy through effective use of resources, reduction of environmental impacts, and sustainable forest management. As for the reduction of greenhouse gas (GHG) emissions, the entire Group is working together on this global issue with a sense of speed in response to increasing demand from society. While our target is a 54% reduction in FY2031/3 compared to FY2014/3, we have achieved a 37% reduction by FY2024/3, which is generally in line with the plan. Going forward, we are committed to accelerating our efforts further by simultaneously improving production efficiency through reorganization of our production system, shutting down coal boilers, fuel conversion, maximizing the use of black liquor, and energy savings and other measures. In the future, we will also introduce new technologies that can contribute to GHG emissions reductions.

With regard to governance, we will continue working to strengthen the supervisory function of the Board of Directors. Our outside directors constantly offer diverse, frank opinions

and suggestions, including at the executive level, and the directors have a well-established awareness of the need to actively incorporate the opinions of outside directors in order to envision the future of the Group. This is one of the key features of the Company's governance. Regarding performance standards for director remuneration, the Personnel & Remuneration Advisory Committee conducted a review of our remuneration system. As a result, beginning from FY2025/3, those performance standards will incorporate the achievement of our GHG emissions reduction target under 2030VISION and achievement of our employee engagement targets. Further, for mill managers and sales division general managers, we have introduced a system to qualitatively evaluate the extent of their efforts from the perspective of women's advancement and reflect this in their performance evaluations. We will take this opportunity to further raise awareness of ESG among our directors. ESG items have been included in our performance standards in response to requests from our outside directors.

For the benefit of all our stakeholders, including society as a whole and within the Group, we are determined to enhance the corporate value of the Group and to realize sustainable growth as a comprehensive biomass company shaping the future with trees. We ask for your continued support for NIPPON PAPER GROUP, and as the President, I will work with a strong sense of duty toward achieving the goals of our Medium-Term Business Plan 2025.

*Toru Nozawa*

**Toru Nozawa**  
President and Representative Director  
Nippon Paper Industries Co., Ltd.