



HOKUETSU
GROUP

Corporate Report 2020

Hokuetsu Corporation

HOKUETSU GROUP

Corporate Report 2020 Editorial Policy

We issue our corporate report in the form of an integrated report that summarizes the Group's management strategies, financial information, and ESG and SDGs initiatives to deepen communication with all of our stakeholders. The Group has achieved steady growth through its business activities of expand overseas business, reformatify the competitiveness of mills, and strengthen the base of the consolidated management system under "Vision 2020" Long-term Management Plan and "V-DRIVE" Medium-Term Management Plan. From April of this fiscal year, we have also started Long-term Corporate Vision "Vision 2030" and Medium-term Management Plan 2023. Together with our stakeholders, the Group aims to achieve the corporate group image set forth in "Vision 2030" and realize further growth.

Companies covered by this report:
HOKUETSU GROUP (Hokuetsu Corporation and main affiliated subsidiaries, etc.)

Period covered by the Report:
April 1, 2019 - March 31, 2020 (Some activities that took place after the end of this term are also reported.)

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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.

Contributing to SDGs

The Group contributes to SDGs by practicing the Group Corporate Philosophy and Group Code of Conduct in our business activities.



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Swiftly and flexibly implementing new management plans with an eye toward a post-COVID-19 society



岸本 哲夫

Sekio Kishimoto
President and CEO

The economy in Japan in FY2019 was a tough business environment due to the sharp decline in global economic activity owing to the effects of trade friction between the United States and China and COVID-19 which I will refer to here as the pandemic. Even in Japan's pulp and paper industry, there was no way to avoid a significant reduction in demand for printing and communication paper, and we had no choice but to cut production.

Given this business environment, the Group's financial results for fiscal 2019 were consolidated net sales of ¥264.6 billion, operating income of ¥11.2 billion, and a record high ordinary income of ¥15.6 billion.

The Japanese government declared a state of emergency in April 2020, but we also forged ahead with preventive measures such as teleworking, staggered work hours, and the use of hand sanitizer. The state of emergency was lifted in late May. However, since then, the pandemic has continued to relentlessly spread to various parts of the world and continues to have a serious impact on the global economy. A second wave hitting Japan is a real possibility.

Due to the effects of the pandemic, demand for paper products and pulp has been rapidly declining both in Japan and overseas, which has had a significant impact on the Group's performance. As such, we announced a revised business forecast on August 7, 2020. The pandemic is expected to have an impact on the global economy for the foreseeable future, but we will implement Long-term Corporate Vision "Vision 2030" and Medium-term Management Plan 2023 swiftly and flexibly in response to a changing environment with an eye toward a post-coronavirus society, and aim for further growth.

Five basic policies of Medium-term Management Plan 2023

In April 2020, the Group announced a new long-term corporate vision, “Vision 2030,” and initiated the Medium-term Management Plan 2023 to achieve that vision. Medium-term Management Plan 2023 aims to further increase our corporate value by swiftly and decisively pushing forward with management measures centered on the five basic policies of shifting our business portfolio, expanding business worldwide, strengthening business in Japan, strengthening corporate governance, and promoting SDG-related activities.

The key strategies are as follows

1. Shift business portfolio

In order to respond to falling demand in the Japanese market of our paper business, we will strategically export paper and pulp products and expand our overseas business. We also rebuilt the No. 6 paper machine at the Niigata Mill, which was stopped in 2019, and will promote the containerboard business, which has already started production. This business makes the most use of used containerboard generated in Niigata prefecture, and primarily sells to customers in Niigata under the strategy of “local production for local consumption,” and will provide a stable supply to customers and while encouraging some exports. At the same time, under the newly-established Group Business Investment Division, we will respond to rapid structural changes in the economic circumstances affecting the company and promote the transformation of a business portfolio that can grow sustainably.

2. Expand business worldwide

We have expanded our overseas business by investing in cost reductions at Alberta-Pacific Forest Industries, our Canadian market pulp manufacturing and sales company, strengthening the production system of battery separators at Dumas in France, and expanding sales of white paperboard at Jiangmen Xinghui Paper Mill in China. In addition to these, we established the Business Investment Division in October 2020, and will expand our business globally by adding to our major overseas businesses with strategic investments through M&As.

3. Strengthen business in Japan

In the paper and white paperboard business, we will construct an optimal production system that meets demand trends and will continue to improve distribution costs. In the specialty paper business, demand for chip carrier tape base paper used for transporting electronic components for 5G-related devices, smartphones, and automotive equipment, and RO membrane backing for the water treatment field is increasing. We aim to further expand our sales channels while listening to the needs of our users. In the packaging business, where demand for substitute for plastic is expected, we are leveraging the strengths of the Group, which can consistently produce from base paper to final products.

4. Strengthen corporate governance

We aim to become a corporate group that is trusted by all stakeholders by realizing our Group Corporate Philosophy and Group Code of Conduct, and have continued to implement various measures to strengthen corporate governance. These efforts have included holding Consolidated Management and Governance Meetings for all Group companies every half year in FY2019 plus Overseas Group Governance Meetings for overseas group companies in France, Canada, and China, to raise the awareness of Group executives.

We will strengthen our internal control by reorganizing Consolidated Management and Governance Meetings into Consolidated Management and Internal Control Meetings from April 2020, and an Audit & Supervisory Board Members Office was established as a support to enhance the effectiveness of audits by Audit & Supervisory Board Members. Furthermore, in April, we established the position of Chief Risk Management Officer (CRO), who reports directly to the CEO, with the aim of avoiding or minimizing the management risks to the Group.

We are strengthening our risk management system under the initiative of the CRO.

5. Promote SDG-related activities

The Group is developing sustained and highly effective CSR activities based on the Sustainable Development Goals (SDGs) advocated by the United Nations in order to continuously improve corporate value.

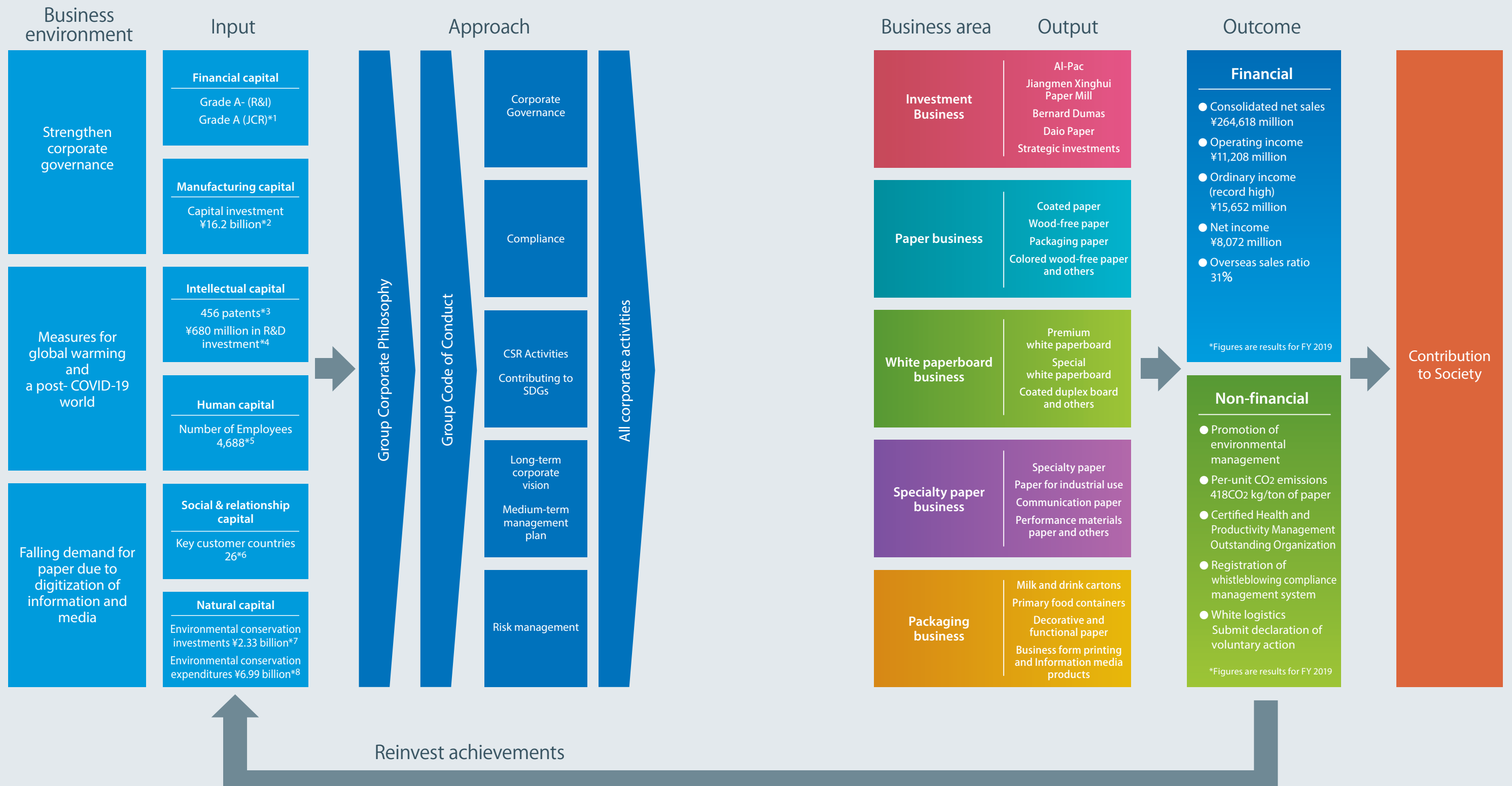
In particular, with regard to environmental issues, we have newly formulated Group Environmental Target 2030, set targets for 2030, and have started to work on them.*¹ Additionally, we were certified as FY2020 Health and Productivity Management Outstanding Organization in the large enterprise category as a company engaging in efforts for health and productivity management program led by the Ministry of Economy, Trade and Industry.*² We will formulate a basic group safety and health policy, and will work on new safety and health activities, such as aiming to acquire ISO 45001 in line with the medium-term safety target of “hSA25.”*³

The Group will implement these management plans and push forward with measures to strengthen shareholder returns. In March 2020, we were able to improve shareholder value by canceling all 21,210,700 of our own shares through off-auction own share repurchase trading. Moreover, to further strengthen shareholder returns, we announced the interim dividend and year-end dividend for the fiscal year ending March 2021 will be increased to ¥7 per share, and the annual dividend will be ¥14 per share. We will continue to aim to further improve our corporate value by swiftly and decisively promoting management measures based on the trust of all stakeholders.

*1 see p.24, *2 see p.23, and *3 see p.22.

Contributing to the realization of a sustainable society based on our new goal of increasing corporate value

Based on the trust of stakeholders, the Group acts flexibly in response to changes in the business environment, and seeks to solve social issues and increase our corporate value by "providing socially and environmentally responsible products through innovative manufacturing on a global scale."



*1 Issuer credit rating by Rating and Investment Information, Inc. (R&I) (August 30, 2019), *2, *3, *4, *6, *7, and *8 are FY2019 results. *5 As of March 31, 2020 (consolidated)

10 years of doing business in line with “Vision 2020” with the aim of carving out a position as a truly global company

The HOKUETSU GROUP formulated the long-term management vision “Vision 2020” in April 2011, and was able to achieve a level of results by expanding as a global company in line with the corporate image that we aimed to achieve by 2020. To create further sustainable growth, we formulated a new long-term corporate vision, “Vision 2030.”

Corporate image target of “Vision 2020” and measures to realize it

1 A business that promotes environmental management and places importance on the environment in its various business activities

- Gas turbine facility installed in the Niigata Mill
- Calculations of greenhouse gases begun across the entire supply chain (from FY2013) (see p.27)
- Per-unit CO₂ emissions (single substance Hokuetsu Corporation, non-consolidated)
FY2011: 437CO₂ kg/ton of paper
→FY2019: 418CO₂ kg/ton of paper (4% reduction) (see p.26)
- High-efficiency Black Liquor evaporator activated at Niigata Mill
- New wood chip carrier (eco ship) introduced
- Operation of solar power generator facilities (Niigata Mill, Kanto Mill, Hokuetsu-Material)
- Published environmental activity magazine “KINKON”
- Exhibited at EcoPro exhibition



Our new woodchip carrier, Southern Treasure

2 A business that provides attractive products with high quality and cost-competitiveness, through advanced technology

- Expansion of high-bulk-LWC paper products lineup
- Acquire and maintain Food Safety System Certification FSSC22000 (see p.43)
- Expand lineup of FSC® certified products
- Development and sale of paper container and paper straw material (see p.37)
- Development of Cellulose Nano Fiber and Carbon Fiber composite material (see p.25)
- Development of paper material “Panse” (see p. 31)



Example use of “Panse”

3 A business that continues steady growth and endless challenges with passion

- Acquisition of shares of Daio Paper Corporation, making it an equity-method affiliate
- Acquisition of performance materials paper company Bernard Dumas (France) (see p.35)
- White paperboard production started at Jiangmen Xinghui Paper Mill (China) (see p.35)
- Acquisition of pulp business company Al-Pac (Canada) (see p.35)
- Promotion of modal shift from truck transport to container transport (see p.37)
- Started containerboard base paper business (see p.13)



No.6 paper machine at Niigata Mill started production of containerboard base paper

(Hokuetsu Corporation FSC license code: FSC-C005497)

The new Long-term Corporate Vision “Vision 2030” aimed at sustainable growth and effort toward further evolution and transformation throughout the entire HOKUETSU GROUP

Name: Vision 2030
Period: April 1, 2020-March 31, 2030 (10 years)

Basic Policy

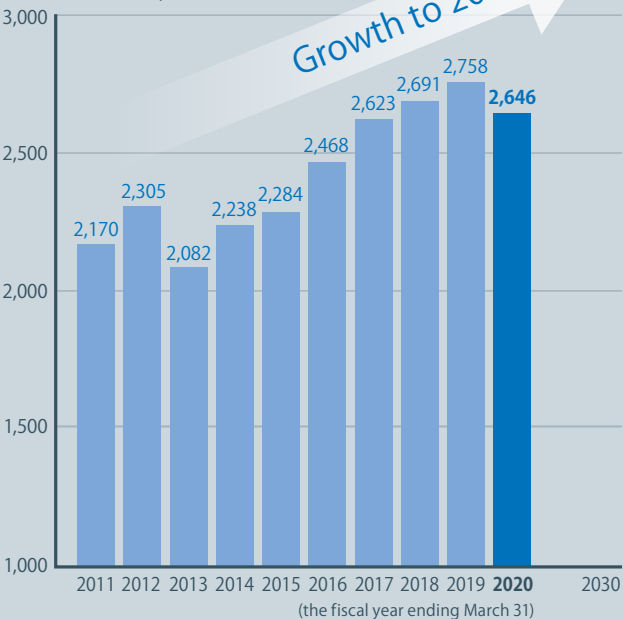
In a business environment that is subject to major changes, the Group and all its stakeholders will aim for continuous growth by promoting management with effective governance and compliance, and developing and providing services and products that are both high quality and cost-competitive through environmentally-friendly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

Target image of the Group in 2030

- A business group that contributes to sustainable social development on the axis of 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

Achieved global operations under the previous long-term plan vision, “Vision 2020”

Consolidated net sales
(hundred million yen)



Overseas sales ratio
(%)

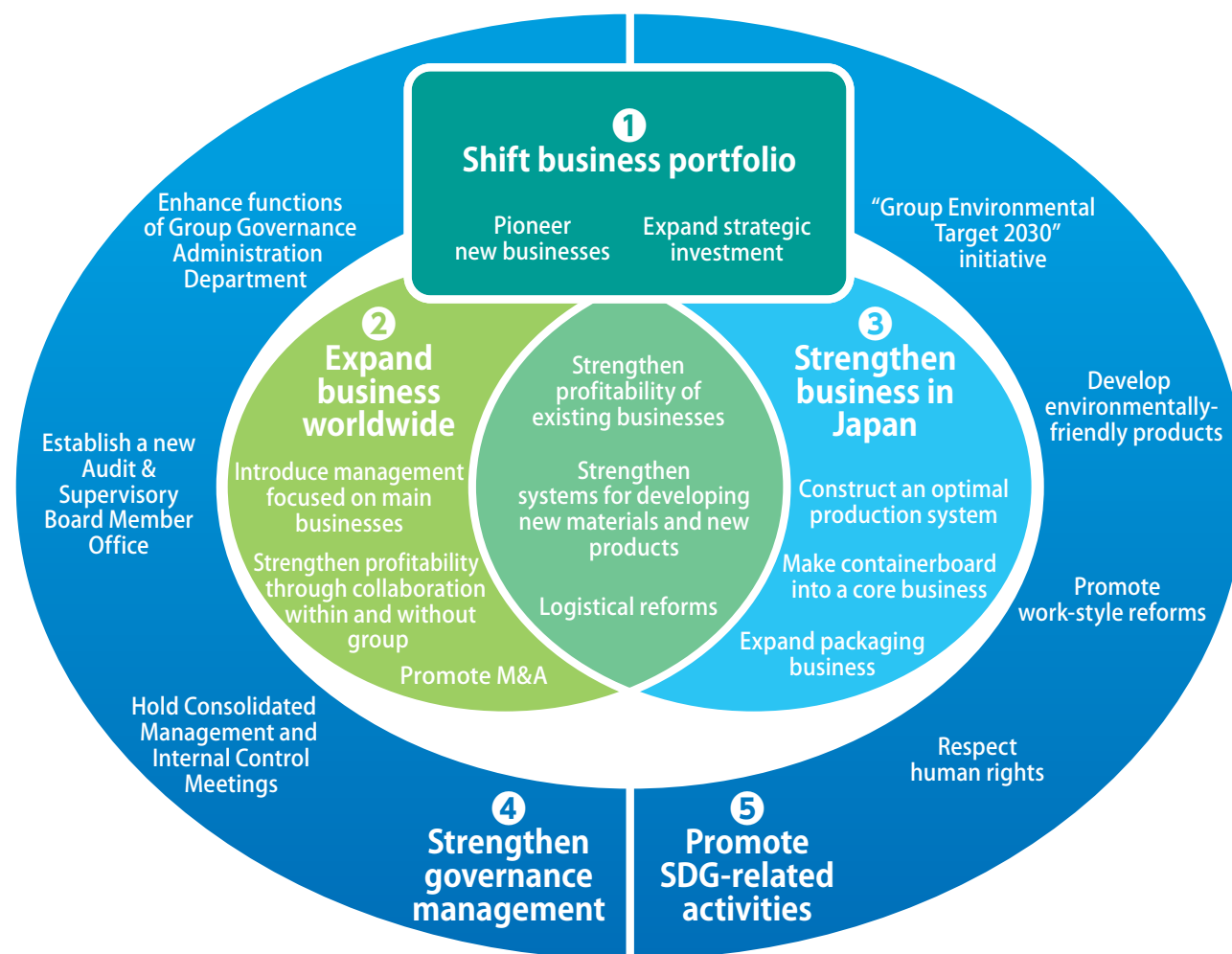


The start of the Mid-term Management Plan 2023: The first step toward achieving a new Group image

We have formulated Medium-term Management Plan 2023 as the first step toward realizing the new Group image set forth in the Long-term Corporate Vision "Vision 2030." Based on its five basic policies, we will accelerate our business portfolio shift that we have been promoting in order to develop new businesses that will be the core of the future in Japan and abroad, aiming for the sustainable growth of the Group.

Name: Medium-term Management Plan 2023

Period: April 1, 2020-March 31, 2023 (3 years)



Target consolidated management indicators (FY2022)

Net sales: ¥280 billion
Operating income: ¥15 billion
Ordinary income: ¥20 billion
Net income attributable to owners of parent company: ¥15 billion
ROE: 7.0%
EBITDA: ¥35 billion

Investment plan

Total Investment: ¥110 billion
Investment allocation: Strategic Investment: ¥70 billion
(Capital investment with the main goal of strengthening competitiveness; policy investment, including M&As; R&D investment)
Maintenance and renewal investment: ¥40 billion

* In formulating this plan, it is assumed that the coronavirus pandemic will end within FY2020.

Basic policies of Medium-term Management Plan 2023

① Shift business portfolio

We will pioneer new core businesses in Japan and overseas and accelerate the business portfolio shift that we have promoted, with the aim of the continuous growth of the Group.

② Expand business worldwide

We will develop a system to manage our main businesses outside Japan in a focused and collective manner for further collaboration within and without the Group and more profitability, and expand our businesses globally through investments like M&As.

③ Strengthen business in Japan

We will strengthen the profitability of our existing businesses by implementing measures such as logistics reforms and constructing an optimal production system that meets trends in demand, make our containerboard business into a core business, and further expand our packaging business.

④ Strengthen corporate governance

We will strengthen our internal controls by holding "Consolidated Management and Internal Control Meetings" and enhancing the functions of the Group Governance Administration Department, set up an Audit & Supervisory Board Member Office (support staff for Audit & Supervisory Board Members), and increase the effectiveness of Audit & Supervisory Board Members' audits.

⑤ Promote SDG-related activities

We will promote activities that contribute to the SDGs through initiatives to reach the "Group Environmental Target 2030," the development of environmentally-friendly products such as plastic alternatives, and workstyle reforms.

Production of containerboard base paper started in April 2020 to further improve corporate value

In order to further expand our business area, the Group upgraded the paper machine at the Niigata Mill that was stopped in 2019 and started production of containerboard base paper (corrugated medium) in April 2020.

The Group has added the containerboard base paper business to our existing paper and white paperboard, specialty paper, packaging, and investment businesses, and is simultaneously expanding its business domains and transforming our business portfolio.

