

Empowering for the Creating New Value

Growth Strategy and Foundation for Value Creation

Creating new value through our
environmentally friendly business activities.

Promoting CSR activities by identifying materiality (important issues) and setting new targets

The Group's CSR activities are one of the two pillars of Group management alongside our long-term management vision and a medium-term management plan to help us realize our Group Corporate Philosophy and Group Code of Conduct. From fiscal 2020, we have set CSR activity implementation targets after identifying and defining the materiality (important issues) with respect to the Group.



Materiality and CSR Activity Goals

Materiality is an important issue relating to a company, in which a company prioritizes important management issues and expectations of stakeholders toward the company, and identifies the issues that the company tackle.

The Group evaluated both the importance to the business and the requests and expectations of stakeholders to define the materiality for the Group. Those defined issues are our CSR Activity Goals.

Inspection and review of FY2019 targets

(1) Organizational governance (governance)

- Aimed to strengthen our governance as a united Group by formulating a new Group Environmental Charter, Group Fundamental Policy for Raw Materials Procurement and Group Basic Policy for Information Security Policy, while also revising our information security policy and creating basic rules of Group CSR (in English, Chinese, and French).
- Aimed to improve the internal management of Group companies by publishing the MANAGEMENTBOOK Newsletter and having Group companies conduct self-inspections when the newsletter is released.
- Aim to promote risk management with reference to ISO31000 under the leadership of the Chief Risk Management Officer (CRO).

(2) Human rights (respect the rights given to all people)

- Issued communications internally to inform employees during Human Rights Week.
- Formulated the Group Fundamental Policy for Raw Materials Procurement and specified that procurement be promoted in consideration of human rights, along with requesting business partners to respect the rights of workers in the supply chain.

(3) Labor practices (work style)

- Held work style reform training in July 2019.
- Opened a mental and physical health consultation desk in September 2019.
- In response to the COVID-19 pandemic, we advanced various work styles centered on measures to prevent infection, such as switching from business trips to video conferencing, implementing staggered work hours, and establishing a time-limited special paid leave system.

(4) Environment (promotion of environmental management)

- Our initiatives on the environment are described on p.24-27 of this report.

(5) Fair business practices (strict compliance)

- Our compliances initiatives are described on p.20 of this report.

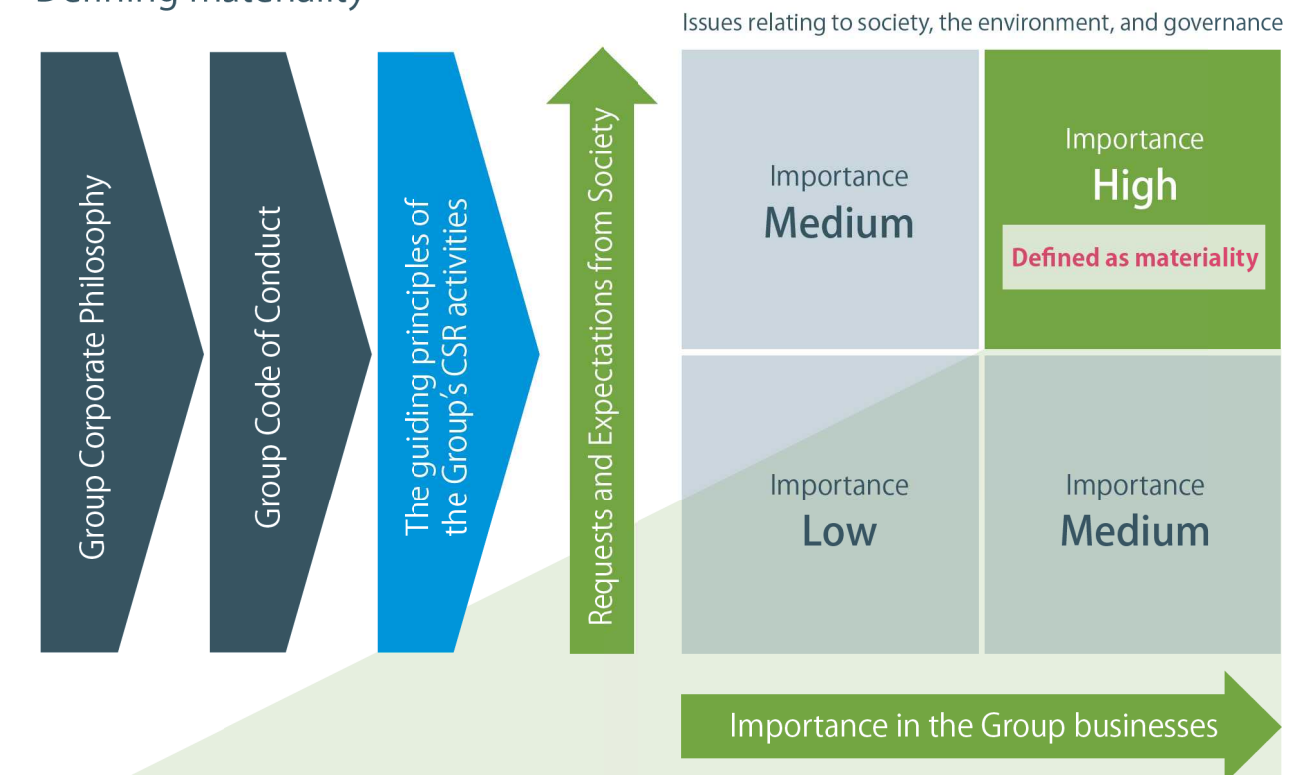
(6) Consumer issues (responsibility to customers)

- Our initiatives on our responsibility to customers are described mainly from p.28-30 of this report.

(7) Participation in community (coexistence with local community)

- Our initiatives on participating in community are described on p.21 of this report.

Defining materiality



Defining materiality → 2020 CSR Activity Goals

- Promote continuous improvement of corporate governance
Established the position of Chief Risk Management Officer (CRO) and strengthening risk management of issues such as the COVID-19 pandemic.
- Ensuring safety and hygiene of the workplace
Promote respect for diversity and development of human resources
- Promote better health along with work-life balance
- Promote measures to combat global warming including the reduction of CO₂
Aim to reduce environmental impact, including reducing the amount of industrial waste produced
Promote the procurement of environmentally-friendly raw materials
- Aim for the Group Corporate Philosophy to take hold and ensure thorough legal compliance
- Continue to ensure product quality and respond responsibly to customers
- Continue to enhance dialogue with stakeholders

Relation of CSR Activity Goals to SDGs

Our CSR Activity Goals for fiscal 2020 are closely related to 10 of the 17 goals stipulated in the SDGs.



Striving to realize appropriate corporate governance that considers all stakeholders

In order to achieve long-term stable improvement of our corporate value, which is the most important management issue, the Group has constructed an appropriate corporate governance system and aims to continue to be a company trusted by its stakeholders.

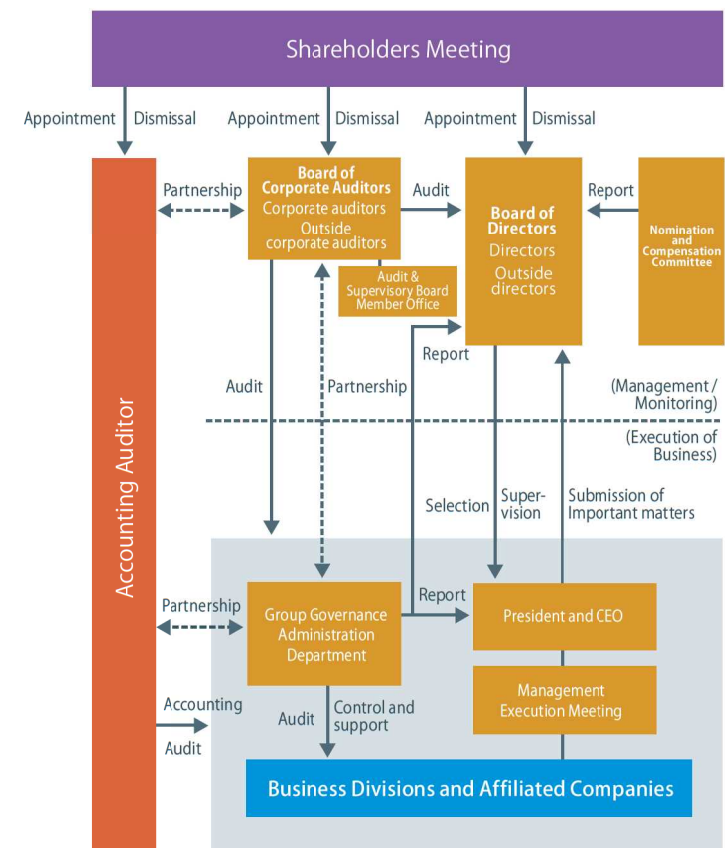
Basic Philosophy of Corporate Governance

In order to achieve long-term stable improvement of our corporate value, which is the most important management issue, we have built 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 supervisory functions of the Board of Directors through its analysis and assessment.
- We will actively and constructively engage in dialogue with our shareholders based on Basic Policy to Actively and Constructively Engage in Dialogue with Shareholders to support the enhancement of our stable, long-term corporate value.

The Board of Directors shall establish and disclose the Group Code of Conduct as a basic code of conduct shared by all employees and executive officers of our corporate group.

Organizational Structure of Corporate Governance



FY2019 Results (as of March 31, 2020)

Organization design		
Company with a Board of Directors and Board of Corporate Auditors		
Number of directors 11 (2 outside directors included)	Number of corporate auditors 4* (2 outside corporate auditors included)	Number of independent directors/ auditors 4
Number of Board of Directors meetings 15	Number of Board of Corporate Auditors 14	
Attendance rate of outside directors at Board of Directors meetings 96%	Attendance rate of outside corporate auditors at Board of Corporate Auditors meetings 100%	Accounting auditor KPMG AZSA LLC

* Three as of June 26, 2020.

Organizational Structure of Corporate Governance

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 overseeing overall management, including the execution of the duties of the corporate management team, and decides important matters as prescribed by laws and regulations, our articles of incorporation, and our Rules for the Board of Directors. It delegates the decision-making for business matters other than those listed above to corporate management in order to enhance the mobility of the business and management vitality, while also exercising oversight of the status of the execution by the corporate management.

Outside directors give advice from a neutral position independent from management to enhance our stable, long-term corporate value, and play a significant role in the decision-making for the important management issues of our company. They oversee conflicts of interest between our company and management.

The Board of Directors establishes the institutional systems for internal discipline and cooperates with the relevant departments to supervise and ensure that they are operating effectively.

The number of members of the Board of Directors shall be 15 or less, as stipulated in the Articles of Incorporation, and consists of directors and corporate auditors who have diversity and expertise in the Board of Directors. The Board is chaired by the President and CEO.

Corporate Auditors and the Board of Corporate Auditors

Our corporate auditors and our Board of Corporate Auditors conduct operational audits and accounting audits from an independent and objective perspective on the basis of their fiduciary duties towards our shareholders. Our corporate auditors also audit the execution of the duties of each director, and express their appropriate opinions at Board of Directors meetings on the basis of their aforementioned fiduciary duties.

Our corporate auditors and our Board of Corporate Auditors enhance their effectiveness by organically combining the robust independence of the outside corporate auditors and the high information gathering capacity of the standing corporate auditors.

The Board of Corporate Auditors evaluates the outside accounting auditor on the basis of their duties to shareholders and investors by confirming the independence and the institutional business operations for quality control, both of which are required of an outside accounting auditor.

The number of members of the Board of Corporate Auditors is 5 or less, as stipulated in the Articles of Incorporation, with more than half of the members composed of outside corporate auditors in order to ensure the independence of the Board of Corporate Auditors. The Board is chaired by a standing corporate auditor. Outside corporate auditors are outside corporate auditors determined by the independence judgment criteria set by the Financial Instruments Exchange.

Nomination and Compensation Committee

The Nomination and Compensation Committee prepares nominations for director candidates based on evaluations such as whether candidates have the right qualities to realize effective corporate governance and enhance stable, long-term corporate value. Their nominations are decided by the Board of Directors. Also, the committee deliberates matters concerning the remuneration system and the remuneration of directors in response to the advice of the Board of Directors, which are then determined by the Board of Directors. In FY2019, the Nomination and Compensation Committee was held twice.

The Nomination and Compensation Committee is comprised of the President and CEO and two outside directors. The committee is chaired by the President and CEO.

Measures for the annual general shareholders' meeting during the COVID-19 pandemic

We held its 182nd annual general shareholders' meeting on June 26, 2020. The meeting was significantly scaled back due to the risk of the spread of infection this year. As a measure to prevent the spread of infection at the annual general shareholders' meeting, shareholders who attended the meeting in person were guided to a conference room separate from our executive officers, and the meeting was held with an interactive online conference system that broadcast video and audio from the main venue.



The 182nd annual general shareholders' meeting

Steadily enhancing our compliance system in response to the changing times as a global company

As a global company, the Group has been steadily planning and implementing various measures to strengthen our compliance system in response to the changing times.

Registration of Whistleblowing Compliance Management System (System of Self-declaration of Conformity Registration)

The establishment of an effective whistleblowing system is regarded as an indispensable element in the compliance systems of companies both in Japan and overseas, and its importance is increasing. The Group registered its whistleblowing system, the "Compliance Hotline," on September 13, 2019 with the Whistleblowing Compliance Management System (System of Self-declaration of Conformity Registration) under the jurisdiction of the Consumer Affairs Agency. We were the first to register in the pulp and paper industry. The Group's whistleblowing system covers all Group companies, including overseas subsidiaries, and we will continue to strive to maintain and improve its effectiveness.



Whistleblowing Compliance Management System certificate

Creation of the Chief Risk Management Officer (CRO) position

The management risks to the Group as a global company are becoming more diverse, complex, and sophisticated every year, and are not limited to compliance issues. In April 2020, we established the position of Chief Risk Management Officer (CRO), who reports directly to the CEO, with the aim of providing a cross-organizational overview of these management risks so the entire Group can avoid or minimize them. Under the initiative of the CRO, we appoint risk management managers in each division and subsidiary of the company to strengthen risk management for the Group as a whole.

Conducting ongoing compliance training

The Group conducts annual compliance training with in-house lawyers as instructors. In fiscal 2019, we conducted training for all officers and employees of the Group in Japan on topics such as compliance with the Anti-Monopoly Act, eliminating harassment, and compliance with laws and regulations to prevent occupational accidents. Our overseas subsidiaries also conducted unified training through e-learning under the theme of preventing discrimination and harassment. We will continue to plan and implement timely training on topics that are in step with the times, while actively using remote conferencing and other tools in response to the novel coronavirus pandemic.



A compliance training session

Compliance System



Striving to be an involved company by continuing to interact with the community

The Group coexists with society as a company rooted in the community. We will continue our existing efforts and add new challenges to further promote our contribution to society.

Summer vacation sketch contest

The Niigata Mill holds a summer vacation painting contest. Since 2004, the mill has been soliciting watercolor paintings from six neighboring elementary schools on the theme of landscapes featuring Hokuetsu Corporation every year. In 2019, we received more than 100 entries. The best entry is used on the cover of our notepads every year, and the winning entries are put on display at various places in the mill for one year. The elementary school students put a lot of effort and creativity into their works that they paint from their own perspective, which include the mill under blue skies, sunsets and night views, cherry blossoms and rivers, rainbows, freight cars and the mill, and the Bon festival dance competition and the mill. The paintings color the mill with their unique touches and expressions, and have been well received by many stakeholders.



2019 Award of Excellence "Beautiful Fireworks and the Mill" (notepad)

Comprehensive collaboration agreement with Nagaoka University of Technology

Hokuetsu Corporation and Nagaoka University of Technology signed a comprehensive collaboration agreement in June 2019. The purpose of the agreement is to contribute to the promotion of science and technology, human resource development, and the development of global society. We collaborate with the university by dispatching researchers under contract, accepting trainees, providing technical consultations to specialized professors, and using coordinators to interact with companies in the community. We are also promoting cooperation between the university and Nagaoka City's local industries for an industry-academia collaboration.

Active involvement in community events

Hokuetsu Material Co., Ltd. provides about 2 tons of hardwood chips for the festival grounds of the Shinjo Kado Yaki Festival* held every spring during Golden Week by the Shinjo City Tourism Association of Yamagata Prefecture. This is an event that we will continue to actively cooperate with in the future.

* Kado: A type of fish related to herring. In the Tohoku region, the fish came to be called kado for the herring that rush to spawn and were caught in a gateway (kado). Since the fish appear in the northern sea during the spring spawning season, they are also called Harutsugeuo (harbingers of spring). Since the area around Shinjo City experiences heavy snowfalls, they are able to celebrate the arrival of spring by roasting the fish that arrives as the snow melts and drinking sake.



The hardwood chips provided for the Shinjo Kado Yaki Festival

Donating a portion of postal expenses for the exercise of voting rights at the annual general shareholders' meeting to a public interest incorporated foundation

We aim to realize a sustainable society as set forth in our Group Corporate Philosophy. As part of this, since 1993, we have been supporting World Wildlife Fund Japan (WWF Japan), which aims to create a sustainable society. From 2020, if shareholders exercise their voting rights via the Internet during the annual general shareholders' meeting, we shall donate a portion of the saved mailing costs to the Fund.



Sumatran elephants and children living in the forests of Sumatra, Indonesia

Advancing innovative safety activities so that everyone can work safely and securely with purpose and vigor

The Group is creating a workplace where employees can work safely and securely with purpose and vigor. We have created a new Group Fundamental Policy for Health and Safety based on the Group Corporate Philosophy. We realize that safety and health are the basis of management, and are actively advancing occupational safety and health activities to improve our safety and health performance.

Group Fundamental Policy for Health and Safety

Philosophy

We recognize that health and safety is an integral element for our group, and we are committed to ensuring that health and safety is a priority.

Guidelines

1. We shall comply with health and safety related legislative requirements and internal policies and guidelines.
2. Management shall provide a safe and healthy working environment.
3. Managers shall ensure that employees in their respective areas understand and follow all health and safety guidelines.
4. All employees shall actively participate in health and safety activities and engage in safe behavior at all times.

Engaging in "hSA25" safety and health activities as a Group from a medium-term perspective

In order to fulfill the social responsibilities set forth in the Group Fundamental Policy for Health and Safety, the Group sets medium-term safety goals and engages in ongoing and progressive safety and health activities. The medium-term activity plan is called "hSA25" (hokuetsu Safety Action 2025) and we intend to actively move forward with it.



Symbol

Means of achieving the goals of "hSA25" and key activities

1. Group-wide activities
 - Develop safety-oriented human resources (approach to people)
Provide safety education depending on career level and develop safety-oriented human resources
 - Promote equipment safety (approach to objects)
Construct a mechanism to reduce risk from the perspective of equipment safety
 - Construct a safety management system (approach to systems)
Use ISO 45001 to steadily promote hSA25 and achieve its goals
2. Workplace activities
 - Set and practice goals at workplaces to achieve Group goals
 - Promote safety activities in which each employee thinks and acts with "What can I do?" in mind
3. Reduce disaster risk by implementing ongoing safety measures
 - Reduce disaster risk by investing in essential/engineering safety measures in accordance with safety-related laws
4. Strengthen cooperation in the HOKUETSU GROUP
 - Engage in safety activities in which HOKUETSU GROUP companies come together (harmonious coexistence and support)
 - Active involvement of overseas Group companies

Initiatives to acquire ISO 45001 certification

By acquiring ISO 45001 certification and steadily putting into practice our safety and health management system, we aim to improve our safety and health performance in a positive spiral and create a workplace where people can work safely and securely with purpose and vigor. Our efforts are aimed at acquiring certification in June 2021.

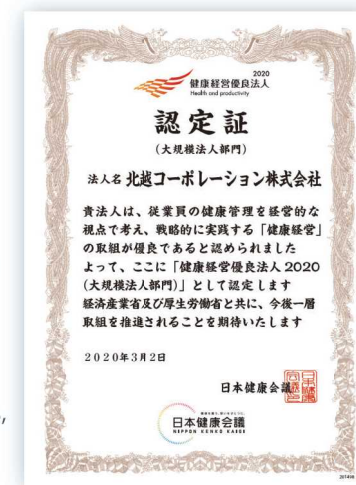
Continuing to create a more comfortable working environment while having clear goals

Our Group Code of Conduct clearly states that we respect human rights and strive to secure a safe, hygienic and pleasant workplace environment. Long-term Corporate Vision "Vision 2030" also sets the goal of becoming a business group made up of people working proactively with dreams, hopes and pride. The entire Group is working together to improve the workplace environment to achieve these goals.

Certified Health and Productivity Management Outstanding Organization

In March 2020, we were certified as FY2020 Health and Productivity Management Outstanding Organization in the large enterprise category as a company engaging in effort for a health and productivity management program selected by the Ministry of Economy, Trade and Industry. The Certified Health and Productivity Management Organization Recognition Program is an initiative by the Ministry of Economy, Trade and Industry to promote health and productivity management. It is a system that awards large corporations and small and medium-sized enterprises that practice particularly outstanding health management based on their efforts related to local health issues and the efforts of the Nippon Kenko Kaigi to promote health.

We have been working on promoting mental and physical health, and in addition to having employees receive annual health checkups and recommending treatment, we are actively implementing follow-ups and health guidance by industrial physicians. With respect to mental health, we have conducted a stress check based on the Industrial Safety and Health Act and opened a mental and physical health consultation desk available all year, which accepts consultations on illness, childcare, nursing care, and other matters.



FY2020 Health and Productivity Management Outstanding Organization certificate in the large enterprise category

Compliance with Power Harassment Prevention Act

Amendment to the Labor Policy Comprehensive Promotion Act (the Power Harassment Prevention Act) requiring employers to address power harassment was adopted in June 2019 and came into effect on June 1, 2020 for large companies like the Group. The Ministry of Health, Labor and Welfare's "Guidelines for Harassment in the Workplace" lists the following three specific preventive measures.

- Clarification of an employer's policy, etc. and its dissemination/informing employees of it
- Establishing the necessary systems to respond appropriately to consultations
- Prompt and appropriate after-the-fact response to power harassment in the workplace

The Group is steadily implementing these preventive steps, and already has a system and environment in place. We will continue our efforts to create a workplace where people can work with greater peace of mind.



Poster for the mental and physical health consultation desk

Change in average age and average years of employment

Average age

	2018	2019	2020
Male	42.8	43.2	43.2
Female	39.8	39.2	39.5
Average	42.6	42.8	42.9

(Hokuetsu Corporation, non-consolidated)

Average years of employment

	2018	2019	2020
Male	18.6	19.3	19.5
Female	11.3	11.7	12.1
Average	18.1	18.8	19.0

(Hokuetsu Corporation, non-consolidated)

Formulating Group Environmental Target 2030 and aiming to realize the philosophy of the Group Environmental Charter

The Group formulated its Group Environmental Charter based on the Group Corporate Philosophy and Group Code of Conduct.
To achieve its aims, we formulated the new Group Environmental Target 2030 in April 2020. The Target shows what all Group companies in Japan and overseas should aim for by FY2030.

Group Environmental Charter

Philosophy

We shall apply the concept of “minimum impact” to all our business activities in order to keep the impact of all our business activities on the natural environment to the minimum and contribute to the creation of an abundant future where humankind and nature coexist in harmony.

Basic Policies

1. We shall pursue environmentally friendly manufacturing.

2. We shall combat global warming.

3. We shall nurture forests in a sustainable manner.

4. We shall recycle resources.

5. We shall reduce and reuse waste effectively.

6. We shall aggressively invest in facilities to reduce environmental burden.

7. We shall enhance environmental communication.

*Minimum impact means that as long as humans exist, our impact on the natural world cannot be reduced to zero. This is why it is necessary to make that impact as small as possible (to a minimum). In addition to reducing waste, our fundamental objective in environmental conservation is to reduce all negative impacts on the environment, such as air pollution, wastewater, and odors, and uphold the highest environmental standards in the world.

Group Environmental Target 2030

In order to realize the principles of the Group Environmental Charter, we have formulated Group Environmental Target 2030 as the Group's vision 10 years into the future. We are moving forward with "minimum impact" from various aspects, including measures to combat global warming, which the Group considers to be the most important environmental issues.

Global warming countermeasures <ul style="list-style-type: none">● Reduction of CO2 emissions by 43% (approximately 450,000 tons) compared to fiscal 2005 levels.● Promotion of CO2 emission reductions in the logistics sector.
Forest development and management <ul style="list-style-type: none">● Procurement of all wood raw materials from forests with established proof of legality and sustainability (maintaining 100% usage rate).● Continuance of forest management aimed at improving biodiversity and multiple functions of forests.
Resource utilization and recycling <ul style="list-style-type: none">● Reduction of water consumption.● Promotion of effective use of recovered paper by expanding products using recovered paper.
Waste countermeasures <ul style="list-style-type: none">● Improvement of effective utilization rate of waste.
Compliance with environmental regulations and management of emissions <ul style="list-style-type: none">● Reduction of environmental load substances associated with wastewater and exhaust gases.
Environmentally-friendly products / technologies <ul style="list-style-type: none">● Expansion of environmentally friendly products (development of products that solve problem on ocean plastic pollution).● Use of raw materials and chemicals with low environmental impact.

Target : Group companies in Japan and all overseas production sites

Group environmental topics

Measures to combat global warming

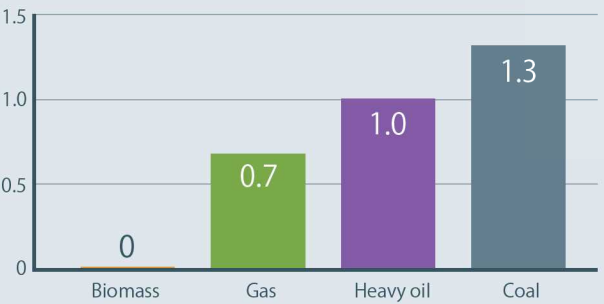
We are moving forward with switching fuels by converting to low CO2 emission biomass energy and gas, and engaging in energy-saving activities. Biomass refers to renewable organic resources derived from organisms and absorbs CO2 as it grows, so even if it is burned, the amount of CO2 in the atmosphere does not increase as a result.



Black liquor

Black liquor extracted in the process of making pulp, the raw material for paper made from wood chips, is also classified as biomass energy. In some instances where fossil energy is used, we have been actively introducing power generation equipment and boilers that use gas with low CO2 emissions as fuel.

CO2 emissions per amount of heat (compared to heavy oil)



Resource utilization / recycling

Since the papermaking process uses a lot of water, limited water resources must be used effectively. We pass wastewater containing fibers from the papermaking process through a filtration device and reuse it in the papermaking process. In FY2019, we introduced a new filtration device at the Niigata



Filtration device installed at the Niigata Mill

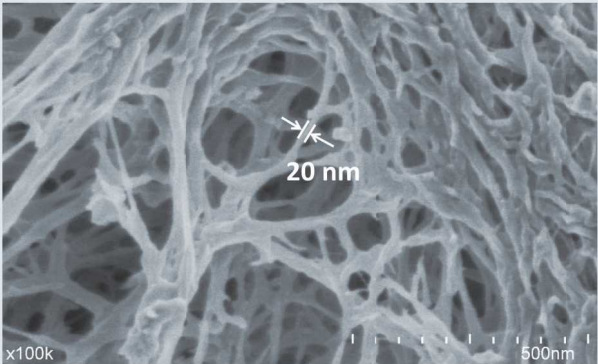
Mill and began saving 1.5 million m³ of water per year. In addition, the Niigata Mill No. 6 paper machine, which was repurposed to make containerboard base paper in April 2020, is also contributing to the effective use of recycled paper resources.



No. 6 paper machine at the Niigata Mill

Environmentally-friendly products / technology

The problem of ocean plastic pollution has become prominent in recent years, and paper materials are attracting more attention. The Group has developed vulcanized fiber, an all-cellulose material reinforced with cellulose nanofibers,



Enlarged photo of vulcanized fibers

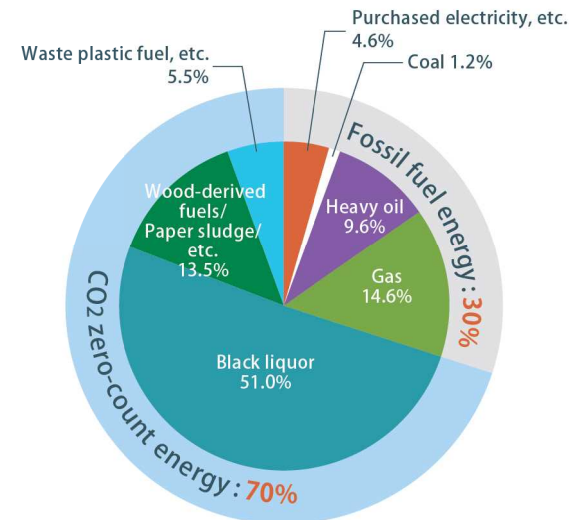
and “Panse,” a new material that can significantly reduce the amount of plastic used in food preservation.
(*See p. 31 for more information about Panse.)



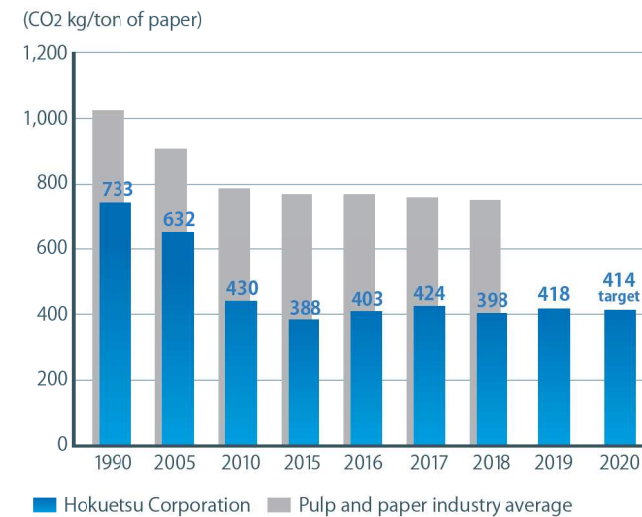
Sample Panse applications

The Group employs a minimum environmental impact policy at all of our production bases as a participant in the global challenge of reducing CO2 emissions. Our per-unit emission level is one of the best in the industry, through the use of CO2 zero-count energy and natural gas, which is a low-emission fuel.

Hokuetsu Corporation's energy composition ratio
(results for FY2019)



Hokuetsu Corporation's per-unit CO2 emission trend



Material Balance (results for FY2019)

Scope: Hokuetsu Corporation

Input			Output					
Fossil energy input *1		10,951,000 GJ	CO2*1		654,000 t	Wastewater BOD*2		375 t
Non-fossil energy input *1		25,654,000 GJ	SOx		481 t	Wastewater COD*2		949 t
Input of water resources		94,725,000 m³	NOx		2,041 t	Wastewater SS		562 t
Raw material consumption	Wood chips	1,788,000 t	Dust		109 t	Industrial waste generated		264,000 t
	Purchased pulp	56,000 t	Chemical substances subject to the PRTR law	Discharge	1.5 t	Industrial waste final disposal volume		7,000 t
	Used paper	239,000 t		Transported	0 t	Paper/paperboard production volume		1,564,000 t

Changes in Environmental Performance

		Unit	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020 target
Global warming	CO2*1	kg/ton of paper	388	403	424	398	418	414
Air	SOx	kg/ton of paper	0.14	0.21	0.33	0.36	0.31	0.28
	NOx	kg/ton of paper	1.32	1.36	1.45	1.36	1.31	1.42
	Dust	kg/ton of paper	0.07	0.06	0.07	0.07	0.07	0.07
Water quality	Water consumption	m ³ /ton of paper	56.4	57.3	58.1	59.1	60.6	60.8
	Wastewater BOD*2	kg/ton of paper	0.28	0.25	0.26	0.29	0.28	0.28
	Wastewater COD*2	kg/ton of paper	3.97	3.33	3.54	3.94	4.23	3.97
	Wastewater SS	kg/ton of paper	0.35	0.28	0.28	0.35	0.36	0.34
Chemical substances	Volume of chemicals subject to the PRTR law discharged/transported	g/ton of paper	1.73	1.45	0.91	0.99	0.96	1.27
Industrial waste	Final disposal	kg/ton of paper	4.1	5.7	4.5	4.3	4.3	3.9

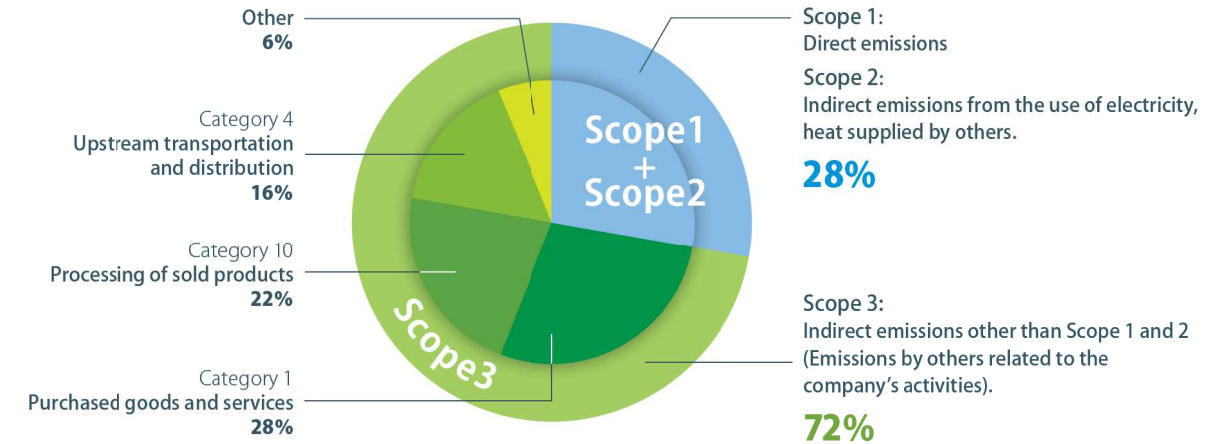
*1 Energy input and CO2 emissions are provisional values as of August 2020.

*2 Mills that discharge wastewater to rivers use BOD, while mills that discharge wastewater to the sea use COD to manage wastewater quality.

Reduction of Greenhouse Gas Emissions Across the Corporate Value-Chain

We believe it is important to ascertain and manage greenhouse gas emission levels across the entire product lifecycle, from raw materials procurement to product usage and disposal, and estimate the indirect greenhouse gas emissions across the entire corporate value-chain (Scope 3 emissions), not just during our own production stages, as part of efforts to effectively reduce greenhouse gas emissions. From FY2017, we have been working toward effectively reducing greenhouse gas emissions as a Group, in addition to expanding our scope to overseas Group companies.

Estimates of greenhouse gas emissions across the entire corporate value-chain of the Group
(results for FY2019)



Scope of calculations: Hokuetsu Corporation
Target period: April 1, 2019 - March 31, 2020
Monetary unit: Millions of yen

Environmental Preservation Cost

Category	Major activities and their results	Investment	Cost
1. Business area costs: Environmental preservation costs to control environmental impact that results from key business operations within the business area		2,327	5,916
Composition	(1) Pollution control cost	237	2,976
	a. Air pollution	53	460
	b. Water pollution	184	2,428
	c. Noise, vibration, and odor	-	87
	(2) Global environmental preservation cost	927	804
	a. Prevention of global warming	710	798
	b. Energy preservation	179	(Included in manufacturing cost)
	c. Tree farms in Japan	38	5
	d. Afforestation activity overseas	-	-
	(3) Resource circulation cost	1,162	2,135
	a. Efficient utilization of resources	1,112	(Included in manufacturing cost)
	b. Reduction, recycling, treatment, disposal, etc., of industrial waste	50	2,135
2. Upstream/downstream costs: Environmental preservation costs to control environmental impact that results from key business operations upstream and downstream		-	517
Composition	(1) Purchase of materials, etc., with smaller environmental impact	-	0
	(2) Recycling and collection of containers and packaging	-	517
3. Administrative costs: Environmental preservation costs stemming from administrative activities		-	245
Composition	(1) Environmental training of employees, etc.	-	4
	(2) Building, implementation, and obtaining certification for an environmental management system	-	8
	(3) Monitoring and measuring environmental impact	-	73
	(4) Running costs for an environmental preservation system, etc.	-	159
4. R&D costs: Environmental preservation costs stemming from R&D activities		-	143
Composition	(1) R&D to develop products that contribute to environmental preservation	-	35
	(2) R&D and planning to curtail environmental impact at the manufacturing stage, etc.	-	108
5. Social activity costs: Environmental preservation costs stemming from social activities		-	71
Composition	(1) Planting of greenery, beautification, etc.	-	43
	(2) Support, etc., of environmental preservation activities by the local community	-	1
	(3) Support for environmental groups	-	12
	(4) Disclosure of environmental information and related advertisements	-	14
6. Environmental remediation costs: Costs incurred from dealing with environmental degradation		-	97
Total		2,327	6,992

Examples of Environmental Conservation Benefits

Monetary unit: Millions of yen

Classification by relationship with business activities	Examples of benefits	Performance
Environmental preservation benefit related to resources input into business activities	Energy-saving effect	155

Promoting CSR that considers the environment and society in raw materials procurement

The procurement environment for raw materials (feedstock, materials, fuel, etc.) used in our mills has been changing in response to structural changes such as a declining population in Japan, the spread of IT and e-commerce, and external changes such as environmental regulations in China, a labor shortage in logistics in Japan and fuel demand. Together with promoting procurement in accordance with the Group Fundamental Policy for Raw Materials Procurement formulated in April 2019, we also strive to train human resources that can work globally so that we are able to supply products to customers that they can feel confident using.

Group Fundamental Policy for Raw Materials Procurement

We shall promote CSR (Corporate Social Responsibility) procurement that gives due regard to the environment and society under the following policy in procuring raw materials based on the Group Corporate Philosophy and Group Code of Conduct in order to fulfill our social responsibility.

- 1. We shall comply with the applicable laws, regulations and international norms.
- 2. We shall procure raw materials giving due regard to environment, society, and human rights.
- 3. We shall procure wood giving due regard to sustainability of forests and biodiversity.
- 4. We shall open our doors to all suppliers and engage in fair trade.
- 5. We shall develop a mutual trust relationship and a mutual development with business suppliers.
- 6. We shall control the information that we get through our transactions appropriately.

Request to Business Partners

Our Group values our entire supply chain to pursue “innovative manufacturing” in order to fulfill our corporate responsibility. As such, we ask our business partners to pay careful attention to the following matters.

- 1. Compliance with applicable laws, regulations and international norms
- 2. Reduction of the burden on the environment
- 3. Timber product procurement giving due regard to the sustainability of forests and biodiversity.
- 4. Respect for human rights (ban on unreasonable discrimination, forced labor, and child labor as well as any harassment)
- 5. Respect for labor rights and securing workplace safety and hygiene
- 6. Fair competition (ban on acts that restrict competition)
- 7. Appropriate management of confidential information and personal information acquired through transactions and respect for the intellectual property of others
- 8. Appropriate quality control, competitive pricing and stable supply

The Group wood material procurement

The Group only procures wood material (wood chips, pulp) verified to be legal and sustainable in accordance with our Policy on Procurement of Wood Material so that customers can use it with assurance. Almost all of our woodchips are procured from abroad. Since 2016, the global chip market has been significantly influenced by trends in China, the largest importer of hardwood chips, and has seen large growth in paper demand. The Group is striving for stable procurement by further strengthening the relationship with wood chip suppliers so far and by confirming the legality and sustainability of materials.

Policy on Procurement of Wood Material

1) Basic stance

Hokuetsu Corporation promotes the procurement of wood material produced in forests that are sustainably managed to provide products that customers can use with assurance. Based on our Group Fundamental Policy for Raw Materials Procurement, we also only procure wood that has been legally produced in protected, nurtured and managed forests.

2) Secure supply chains that have been established legally and sustainably

We comply with the laws and social norms of the areas where wood materials are produced, and procure wood materials produced in forests proven to be its legal and sustainable. We work with suppliers to confirm that procurement of timber, woodchips, lumber, pulp products, and forest products is done fairly throughout the supply chain.

1. Secure the traceability of wood materials

To prove the traceability of wood materials, we confirm the following facts:

- Name of the producer/supplier, forest certification, species of the wood material, production area, forest classification (natural, re-growth, plantation & sawmill residue, etc.), place of shipping, quantity, law to be observed, forest management system

2. Proof of legality and sustainability

We promote the procurement of certified materials in order to ensure that procured wood material is produced in forests that establish sustainable forest resources and legally-produced wood material, and confirm that the following wood is not included:

- Illegally harvested wood
- Wood harvested in violation of traditional and civil rights
- Wood harvested in forest that has a high conservation value and whose value is threatened by management activities
- Wood harvested by logging for the purpose of converting to natural forests
- Wood produced by genetic recombination







3. Transparency

We disclose information on wood materials that we procure on our website and in corporate reports.

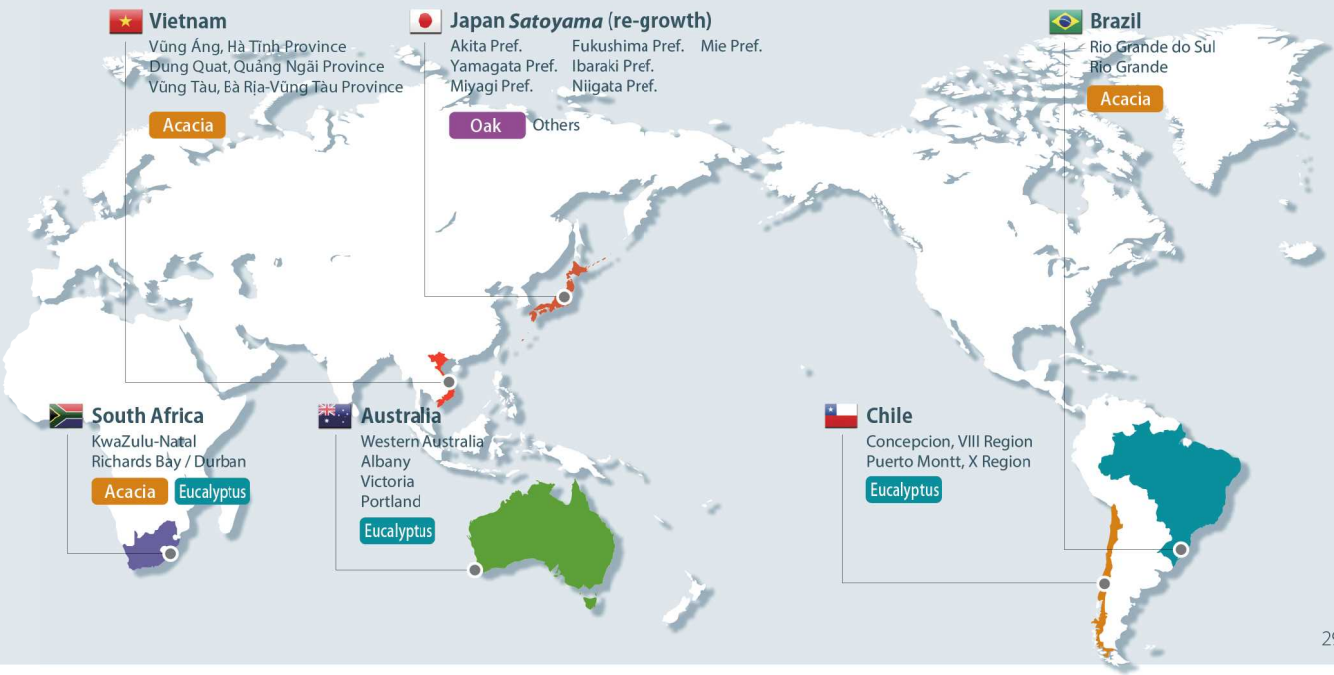
3) Maintenance of biodiversity

We procure wood materials produced in forests that take into account biodiversity conservation. In the forests that we own and manage in Japan and abroad, we run several forest operations taking into consideration biodiversity, such as securing conservation forest around water streams, securing protection areas, preserving high conservation value forest, and selecting appropriate planting species according to location.

Procurement of Woodchips in FY2019

Country	Tree species	Forest classification		Means of verifying legality			Overseas/Domestic wood chips Quantity procured (1,000 BDT)	Percentage
		Plantation	Re-growth	Traceability report	Declaration of legality of timber	Forest certification system		
 Brazil	Acacia	●	—	●	●	●	1,757	98%
 Chile	Eucalyptus	●	—	●	●	●		
 South Africa	Acacia	●	—	●	●	●		
	Eucalyptus	●	—	●	●	●		
 Australia	Eucalyptus	●	—	●	●	●		
 Vietnam	Acacia	●	—	●	●	●	31	2%
 Japan	Oak, etc.	—	●	●	●	(*)		
Total							1,788	100%

*We carried out a risk assessment of domestic chips based on Japan's National Risk Assessment (NRA) that was approved in June 2018, and every year obtain approval from a certification body to handle domestic chips as controlled woodchips.



Continuing to ensure product quality and treat customers responsibly

We aim to improve customer satisfaction through accurately understanding customer requests, strict quality control, and providing accurate information.

Based on our Basic Principles related to the Quality Control of Products as below, we are careful to ensure the safety of products and at the same time we make efforts to supply attractive products that fulfill the needs of our customers.

Basic Principles Related to the Quality Control of Products

1. In order to provide attractive products, we promote product improvement and new product development based on customers' requests.
2. We manufacture products with stable quality that are safe and that customers can use with confidence, while obeying all relevant laws and regulations.
3. In order to improve our cost competitiveness and moreover in order to maintain our relative superiority in relation to other companies, we promote control of intellectual property.
4. We respond sincerely to any complaints about our products and strive to provide a speedy and appropriate response in such cases. Further, through implementing measures to prevent recurrence, we promote quality improvement and obtain the trust of our customers.

Swift and responsible customer response through sales force automation

We have introduced a sales force automation system (SFA system) to share information within the Sales Department in order to strengthen how to quickly respond to customer requests. With each staff member entering valuable opinions, such as complaints about products and requests for improvements from customers, into the SFA system, staff can instantly share information with everyone, which results in making quicker improvements. We also hold regular meetings, such as staff meetings to share information between head office, branch, and sales offices, quality meetings on the topics of stable product supply and quality improvement, and regular cycle meetings with each mill to realize high-efficiency and optimal production so that we are able to supply products to customers that they can feel confident using.



A staff meeting in progress

Strengthening the quality control system of the entire Group

At the Group, our internal quality auditor conducts regular checks of the safety of raw materials, the compliance with in-house standards of products used for food containers and wrapping, the proportion of recycled paper in pulp, and the regulatory compliance of each production department, etc. An independent body (Quality Management Office) has been created as the primary body to carry out audits. We will endeavor to further strengthen our quality control system through efforts such as conducting audits jointly with the Group Governance Administration Department.



An internal quality audit being conducted

Contributing to SDGs by developing new alternatives to plastic

Ocean plastic pollution has become a global problem, and reducing single-use plastic products has become an urgent issue for the preservation of the global environment. The Group is developing alternatives to plastic, and has developed "Panse (Paper from New Sense)," a paper material made by applying an extremely thin water-based coating agent. We believe that the use of Panse will contribute to SDGs.

"Panse" as plastic alternative

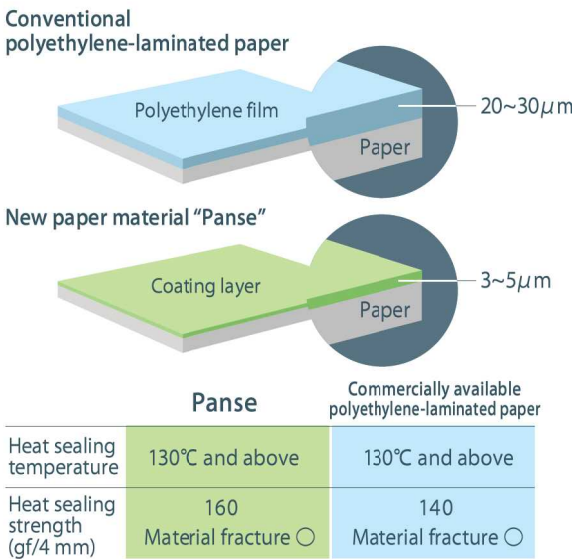
Due to the global problem of ocean plastic pollution, plastic shopping bags at places such as convenience stores in Japan are no longer being given out for free from July 2020, and the drive to reduce plastics overall has become active as well. There have been active developments of plastic-free products in the field of food packaging containers, such as contests held in Europe and the United States for paper alternatives to polyethylene-laminated paper cups, and such paper products are attracting attention as environmentally-friendly materials. The Group has developed "Panse" as an

environmentally-friendly paper material. Although it is paper, it has virtually the same performance as polyethylene-laminated paper. By maintaining the biodegradability and other properties of paper, it can significantly reduce the amount of plastic used in plastic films and laminates. Panse is a product that we create together based on the needs of our customers, and we have received inquiries from many customers. The Group aims to use Panse to contribute to SDGs together with our customers.

Key features of environmentally-friendly paper material "Panse"

1. It has the same heat-sealing properties as polyethylene-laminated paper.
2. By selecting the base paper, it is possible to give water, oil, and water vapor barrier properties to it.
3. It does not have oxygen barrier and odor blocking properties.
4. It is suitable for food containers containing beverages. The coating agents are listed in the U.S. Food and Drug Administration (FDA) and also comply with Ministry of Health, Labor and Welfare Notification No. 370.
5. It can be designed to be recyclable by selecting the base paper and application.
(The paper may be rejected as recyclable depending on its condition when collected, such as the base paper, processing method, uncleanliness after use, odors, etc.)
6. It is manufactured using biodegradable paper and environmentally-friendly water-based coating technology.
7. By tuning the base paper, it can be designed as a specialty product according to the desired application.

Structure of Panse



Sample Panse applications