

Hokuetsu Corporation



HOKUETSU
GROUP

Corporate Report 2019

HOKUETSU GROUP

Corporate Report 2019 Editorial Policy

The objective of this Corporate Report is to deepen communication with all of our stakeholders by providing an integrated report that summarizes not only financial information, such as our management strategy and business results of our five main businesses, but also non-financial information, such as ESG information pertaining to the environment, society, and governance. It is our hope that this Corporate Report will deepen understanding of our stakeholders of the HOKUETSU GROUP, which is striving to increase corporate value across the pulp and paper industry. We have also published even further detailed information on our company website, and we encourage you to refer to this resource as well.

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

Period covered by the Report:
April 1, 2018 - March 31, 2019 (Some activities that took place after the end of this term are also reported.)

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Contributing to SDGs

The 2030 Agenda for Sustainable Development (SDGs) was adopted at the UN General Assembly in 2015. SDGs are the 169 targets in 17 goals (including poverty, inequality, education, and environment) that all countries and regions aim for to realize a better international society. The Group contributes to SDGs through the practices of the Group Corporate Philosophy and the Group Code of Conduct.



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Aiming for evolution and growth by leveraging changes in the business environment



岸本 哲夫

Sekio Kishimoto
President and CEO

The economy in Japan in fiscal 2018 was on a steady overall recovery path, but the global economy slowed due to the intensifying trade friction between the United States and China, which has started to have a large effect mainly in Japanese manufacturing.

The business environment for the pulp and paper industry has become more severe due to the impact of the digitization of communication media that has reduced demand for printing and communication paper, soaring logistics costs and raw material and fuel prices, and changes in the structure of society.

Last year, we declared that we would transform ourselves for a new future, and changed the company name to Hokuetsu Corporation, and also strengthened our Group competitiveness through efforts such as establishing a new Group Corporate Philosophy, Group Code of Conduct, and Group symbol.

In addition, as per the final stage of Vision 2020, our long-term management plan for 2020, the Group has steadily implemented management strategies to achieve the targets of the “V-DRIVE” Medium-Term Management Plan. As a result, the Group consolidated net sales for the fiscal year ended March 31, 2019 increased by 2.5% from the previous fiscal year to ¥275.8 billion, marking a record high for the fourth consecutive year. For the fiscal year ending March 31, 2020, we are aiming for record sales of ¥285 billion, operating income of ¥16.5 billion, and ordinary income of ¥18.0 billion, and are implementing management strategies such as diversifying the business portfolio principally in our five core businesses.

First, in Japan, we have been strategically expanding exports from Japan to foreign countries, with a record high of about 300,000 tons per year. To cope with cost increases caused by soaring raw material and fuel prices and increased logistics costs, we revised the price for paper from January 2019. And we stopped the No. 6 paper machine at the Niigata Mill at the end of March 2019 in order to optimize the balance between supply and demand for the domestic printing paper market. We later restarted the No. 6 paper machine for a limited period of two months to primarily do OEM supply for other manufacturers in response to the extremely short supply of printing paper in Japan. As we have already announced, we will invest ¥1.8 billion to upgrade the No. 6 paper machine and enter the corrugated medium base paper business, where demand is expected to increase for food and online shopping. The upgrade has been underway since July 2019, and production and sales are planned for 2020.

Overseas, the pulp business of Alberta-Pacific Forest Industries (Al-Pac) in Canada continues to make a significant contribution to the Group’s consolidated net sales and earnings, and we expect this stable performance to continue in fiscal 2020. In addition, the Group has decided to make a ¥3 billion investment in the thermal paper business in Changxing County, Zhejiang Province, China in November 2018, to establish new revenue bases following Bernard Dumas in France, Jiangmen Xinghui Paper Mill and Shanghai Toh Tech in China, and Al-Pac in Canada. The distribution of a wide variety of products has been increasing every year with the spread of e-commerce in China, and the demand for thermal paper for labels used in product delivery is rapidly expanding, so we have plans at this mill in China to process the base paper produced at the Kishu Mill. Currently, we are rapidly proceeding with the construction of the mill so we can start commercial production in 2020.

Based on the content of the SDGs (Sustainable Development Goals) put forth by the United Nations, the Group has established concrete CSR activity implementation targets in compliance with the International Organization for Standardization (ISO 26000), and is promoting ongoing and highly effective CSR activities. With respect to environmental management, our measures against global warming by reducing CO2 emissions, biodiversity measures such as forest preservation activities, and product measures that comply with the international FSC® certification, won praise from Nikkei Inc. in its annual Environmental Management Survey where we won first place in the pulp and paper industry for the third consecutive year.

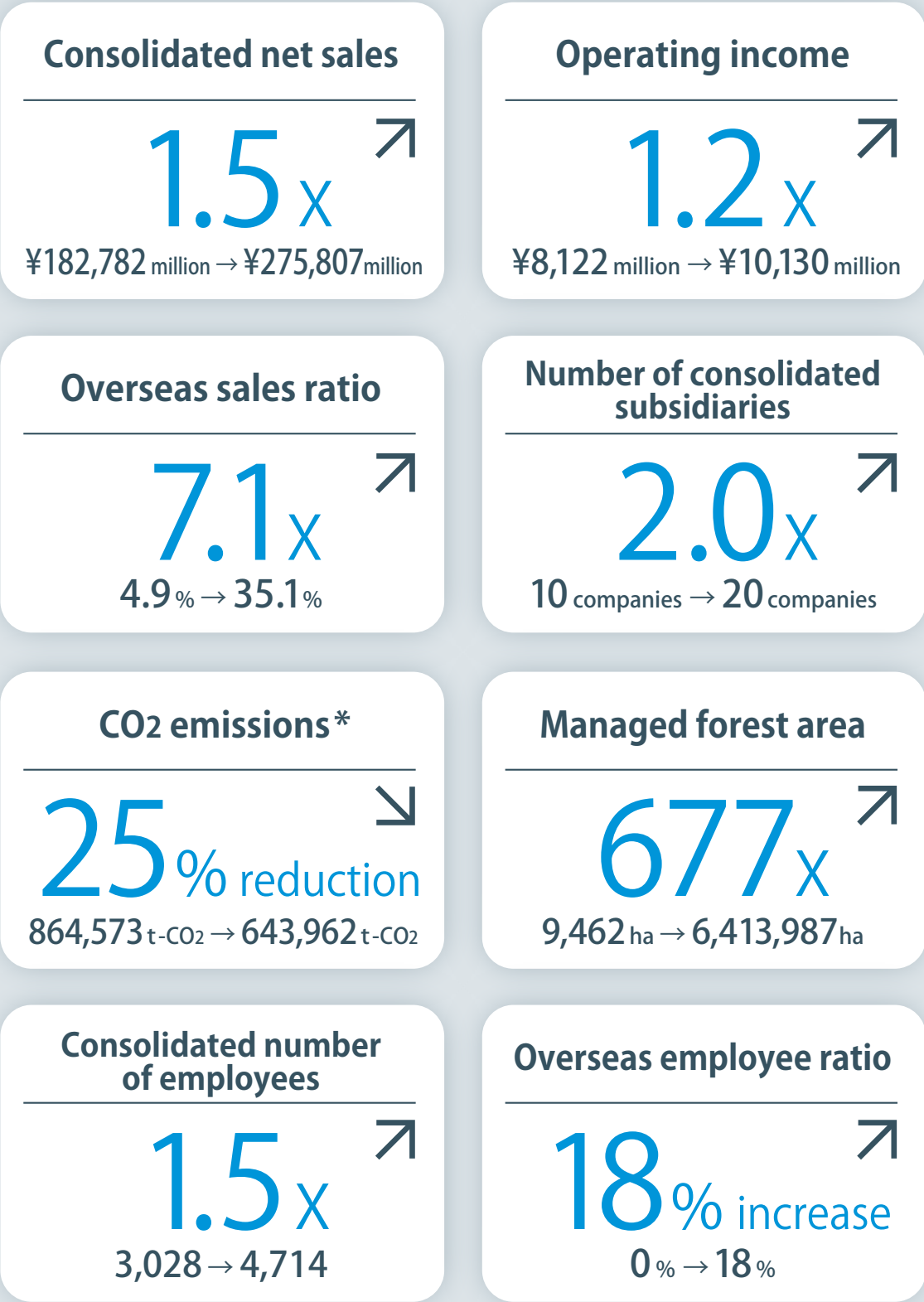
At the Central Research Laboratory in Nagaoka, we are actively engaged in joint research and development with the Industrial Research Institute of Niigata Prefecture and Nagaoka University of Technology on new possibilities for paper and pulp. Additionally, the Group has developed a new composite material that combines next-generation cellulose nanofibers and advanced carbon fibers. We have already established the mass-production technology for this at our Group company, Hokuetsu Toyo Fibre.

The Group will continue to innovate by leveraging new knowledge and technologies in the development of new and existing products, and will further enhance the Group’s competitiveness. We will diversify our business portfolio by reinforcing our business in Japan and expanding our business overseas, as well as continuing to evolve and grow with a view to the next generation based on the trust of all our stakeholders.

(Hokuetsu Corporation FSC license code: FSC-C005497)

The Group’s growth over the past decade

Comparison of key financial and non-financial information between
fiscal year ended March 2009 and fiscal year ended March 2019



*CO2 emissions are shown on a non-consolidated basis, as it is difficult to compare with 10 years ago due to the expansion of business.



Group Corporate Philosophy

私たちは人間本位の企業として、自然との共生のもと技術を高め、最高のものづくりによって、世界の人々の豊かな暮らしに貢献します。

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.

我们作为以人为本的企业，在与自然共生的基础上提升技术，通过最佳的产品生产，为全世界人们的富足生活做贡献。

En tant que groupe d'entreprises axé sur les personnes, nous travaillons afin d'améliorer la société à l'échelle mondiale, en fournissant des produits socialement responsables et respectueux de l'environnement grâce à des procédés de fabrication innovateurs.

“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.

To improve society globally

The Group combines the trust of stakeholders and a wide range of capital to respond flexibly to changes in the business environment, and constantly creates maximum value through a business model based on future predictions of risks and opportunities.

