

Growth Strategy and Foundation for Value Creation

Learn about the Group's growth strategy and the foundation in our value creation process.

The final stage of the “Vision 2020” Long-Term Management Plan Reaching the goals of the “V-DRIVE” Medium-Term Management Plan

The HOKUETSU GROUP formulated and announced the long-term management vision, Vision 2020, in April 2011. In FY2019, we have been making progress in the “V-DRIVE” Medium-Term Management Plan focused on our five core businesses with the aim the achieving “Vision 2020.”

“Vision 2020”: Corporate Vision for 2020 (announced April 2011)

- Be environmentally conscious in all corporate activities and promote **environmental management**
- Offer **attractive products** with excellent quality and competitiveness using advanced technology
- Work with passion and seek **steady growth and ever greater challenges**
- **Sales target: ¥300 billion or above** (overseas sales ratio: 25%)

“V-DRIVE” Medium-Term Management Plan

Variation: Promote the creation of new fields and the reform of the business structure

Value: Enhance the corporate value

Victory: Ride to victory by achieving “Vision 2020”

DRIVE: Accelerate corporate activities for these three “V”s

Overview of “V-DRIVE” management plan

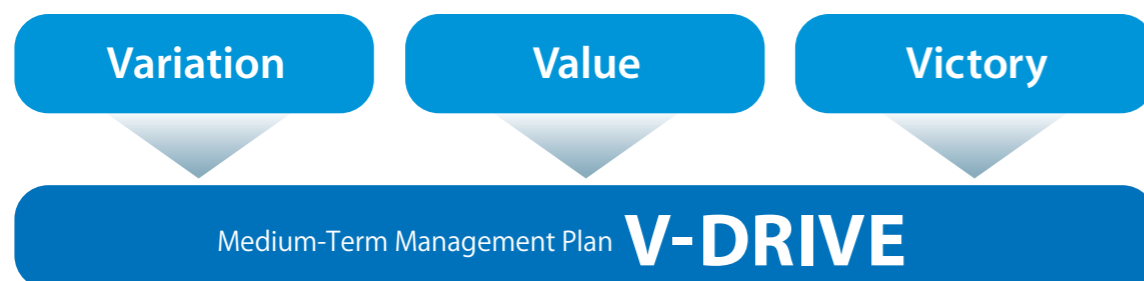
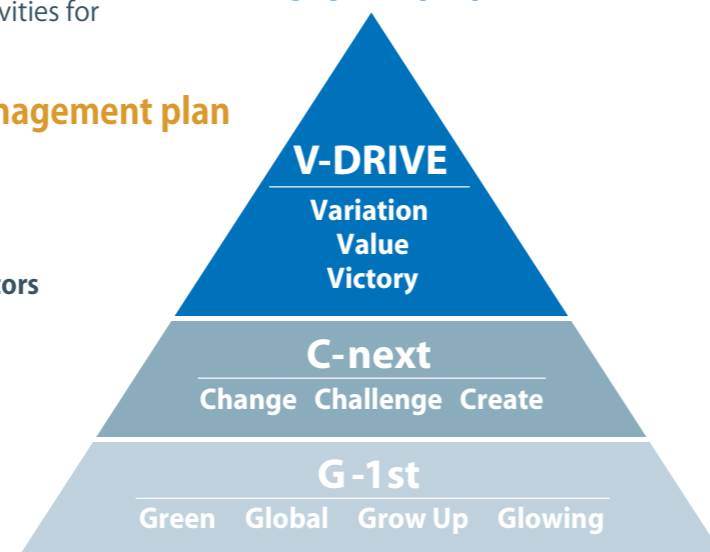
Period of the Plan

From April 1, 2017, through March 31, 2020 (three years)

Consolidated management indicators

Net sales: ¥300 billion
Operating income: ¥15 billion
Net sales operating income ratio: 5.0% or above
ROE: 6.0% or above
EBITDA: ¥40 billion
Net debt-equity ratio: 0.6 or less

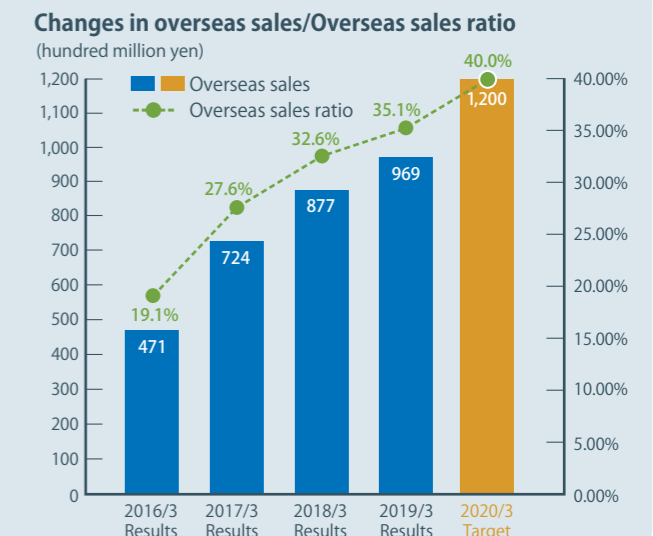
Vision 2020



Basic policy and main strategy of “V-DRIVE” Medium-Term Management Plan

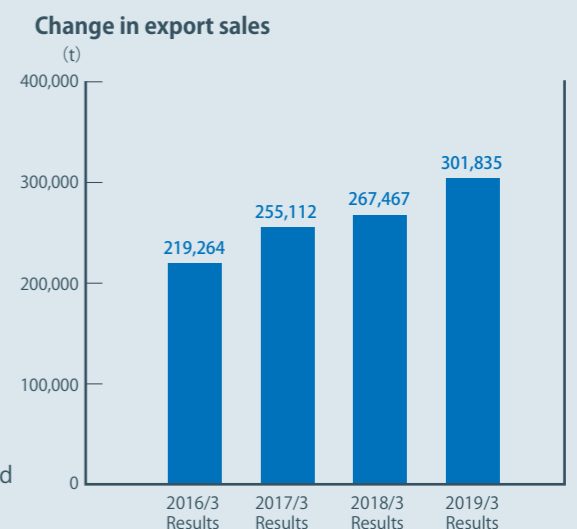
1. Expand overseas business

- Transform portfolio to increase overseas sales ratio
Overseas sales ratio of 35.1%
- Grow white paperboard business of Jiangmen Xinghui Paper Mill Co., Ltd. in China (p. 34–35)
- Develop pulp business
 - Expand profits of subsidiary Alberta-Pacific Forest Industries (p. 40–41)
 - Resource and Pulp Business Division as our fifth business Launched in January 2019
- Established Zhejiang Yue Hong New Materials Co., Ltd. for the thermal paper business in China



2. Recover and reinforce the competitiveness of our mills

- Revised prices (packaging paper, printing and communication paper, paper for liquid package cartons)
- Expanded export sales to more than 300,000t
- Stop the No.6 paper machine at Niigata Mill, upgrade it, and start production of linerboard and corrugated medium (scheduled for February 2020)
- Realize environmentally-friendly logistics
 - Launched new chip carrier Snow Camellia (Eco-ship with 15% lower fuel consumption than conventional carriers)
 - Facilitate modal shift to 20-foot shipping containers
- Develop environmentally-friendly products (products such as base paper for paper muddlers, spoons, cups, and straws, and CNF reinforcement material)



3. Strengthen our consolidated management system

- Established Group Basic Policy (April 2019)
Group Environmental Charter, Group Fundamental Policy for Raw Materials Procurement, Group Basic Policy for Information Security
- Issued a newsletter summarizing the points of our management book and conducted self-checks by Group companies to strengthen the Group corporate management system (from July 2018)
- Held overseas Group governance conferences (April and July with another scheduled for December 2019)



Carrying out Environmental Initiatives in a systemic Group-wide manner in line with new Group Environmental Charter

The Group formulated a Group Environmental Charter based on the Group Corporate Philosophy and Group Code of Conduct, and carried out a wide variety of different Group-wide environmental conservation initiatives.

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.

Concept of minimum impact

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.

We aim for “minimum impact” to keep all impacts on the natural environment and ecosystems to the minimum from raw materials to products, so that humans and nature can coexist forever.

Measures to combat global warming

The Group considers measures to combat global warming as it is the most important environmental issue in the world, and is working on initiatives, such as transitioning to energy with low CO₂ emissions and efforts to conserve energy. In addition, we named our approach to reducing CO₂ emissions “Slim CO₂” and created an easily-recognizable symbol.



1. Use of biomass energy

Biomass refers to renewable organic resources derived from organisms, and the energy obtained from biomass is called biomass energy. Biomass 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 extracted in the process of making pulp, the raw material for paper made from wood chips, is also classified as biomass energy.

Examples of biomass boilers in the company



Niigata Mill
Black liquor recovery boiler



Kishu Mill
Wood biomass boiler



Kanto Mill (Katsuta)
Wood biomass boiler



Kanto Mill (Ichikawa)
Gas heat exhaust boiler

2. Promoting the use of gas

We use fossil fuels for energy that cannot be covered by biomass energy alone, and among these, we promote the use of gas with low CO₂ emissions. Our Kanto Mill (Ichikawa) first started gas power generation in 1995. Following that, we installed a gas turbine at the Niigata Mill, and converted the all boilers at the Nagaoka Mill to run on gas.

Group environmental preservation topics

1. Implementation of environmental auditing

Environmental auditing of the Group is implemented primarily by the Environmental Management Department.

The auditing was carried out at all mills and research laboratories of Hokuetsu Corporation, and two Group companies in FY2018.

Environmental auditing entails checking compliance with environment-related laws, but we also see it as a

precious opportunity to observe actual onsite conditions and provide advice to relevant staff members. In particular, it provides a good opportunity to engage in communication with environment-related staff members at Group companies, and contributes to the creation of a Group management system that provides a sense of unity.

2. Promotion of environmental education

The Environmental Management Department and environment-related staff members at each mill are taking the lead in conducting environmental positioning training sessions that bring together different mills. In FY2018, we had enthusiastic discussions among environment-related staff members on areas such as case studies on responses to trouble at each mill and examples of introducing environmental instruments.

We also continue to hold waste compliance training throughout the Group for those engaged in waste management. In FY2018, we conducted training which included basic information that those

engaged in waste management and everyone as an employee of the Group should know.



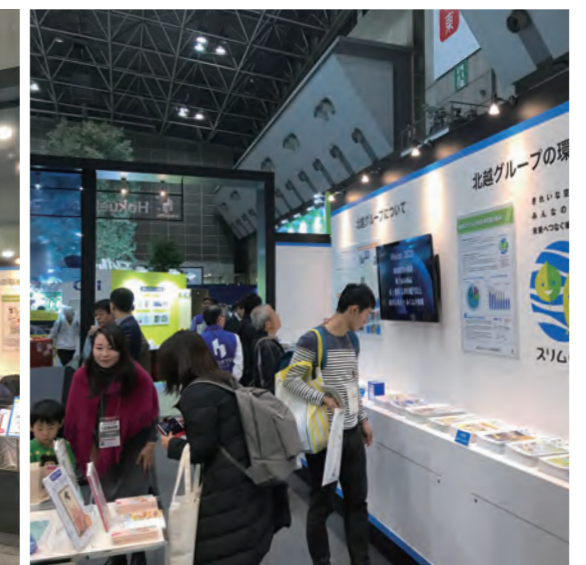
3. Enhancing environmental communication

In order to enhance environmental communication, which is one of the fundamental policies of the Group Environmental Charter, the Group exhibits at EcoPro, the largest environmental exhibition in Japan. Exhibiting at EcoPro allows us to share information with our stakeholders as this show attracts most

general visitors of all the exhibitions. At EcoPro 2018, held in December 2018, we exhibited new materials and paper products related to the issue of marine plastics, which has become a hot topic in recent years.

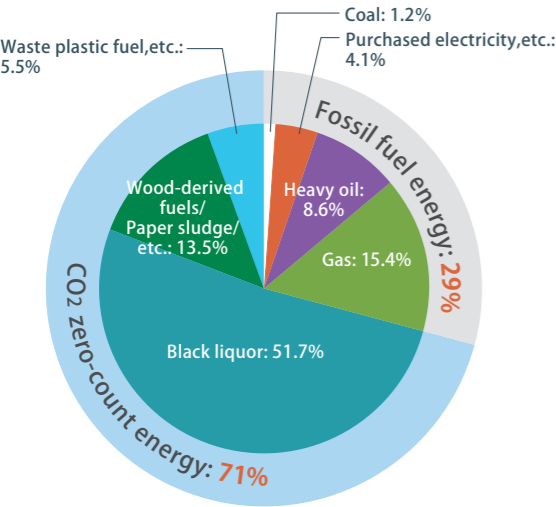


The Group's booth at EcoPro 2018

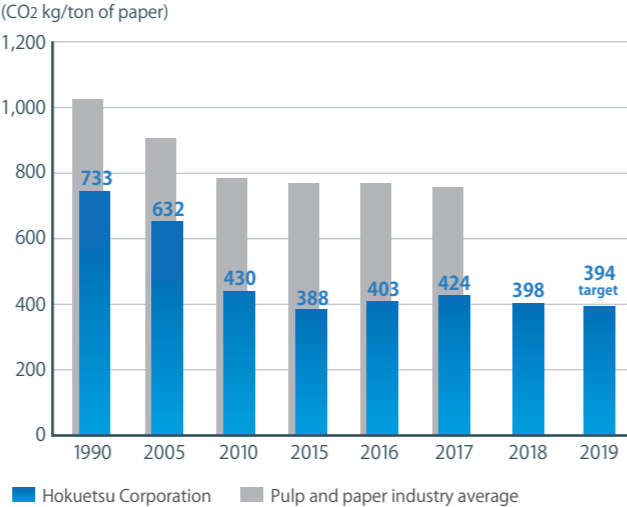


The Group employs a minimum environmental impact policy at all of our production bases as a participant in the global challenge of reducing CO2 emissions. Our per-unit emission level is one of the best in the industry, through use of CO2 zero-count natural gas with competitively low emissions.

Hokuetsu Corporation's
energy composition ratio (results for FY2018)



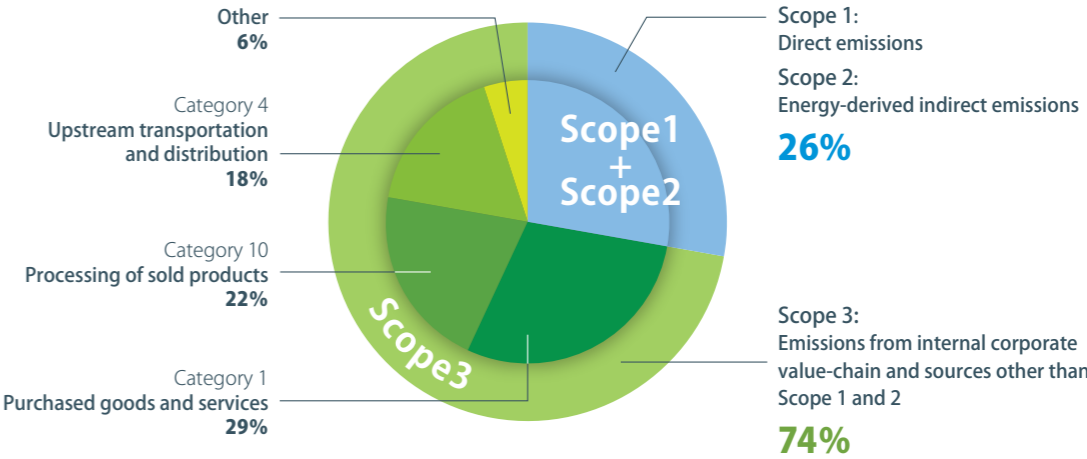
Hokuetsu Corporation's
per-unit CO2 emission trend



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 FY2018)



Environmental Preservation Cost

Scope of calculations: Hokuetsu Corporation
Target period: April 1, 2018 - March 31, 2019
Monetary unit: Millions of yen

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		2,030	6,245
Composition	(1) Pollution control cost	517	2,856
	a. Air pollution	34	449
	b. Water pollution	478	2,313
	c. Noise, vibration, and odor	4	93
	(2) Global environmental preservation cost	1,201	1,238
	a. Prevention of global warming	688	1,229
	b. Energy preservation	69	(Included in manufacturing cost)
	c. Tree farms in Japan	76	5
	d. Afforestation activity overseas	366	3
	(3) Resource circulation cost	312	2,150
	a. Efficient utilization of resources	259	(Included in manufacturing cost)
	b. Reduction, recycling, treatment, disposal, etc., of industrial waste	53	2,150
2. Upstream/downstream costs: Environmental preservation costs to control environmental impact that results from key business operations upstream and downstream		-	509
Composition	(1) Purchase of materials, etc., with smaller environmental impact	-	5
	(2) Recycling and collection of containers and packaging	-	504
3. Administrative costs: Environmental preservation costs stemming from administrative activities		-	248
Composition	(1) Environmental training of employees, etc.	-	3
	(2) Building, implementation, and obtaining certification for an environmental management system	-	10
	(3) Monitoring and measuring environmental impact	-	84
	(4) Running costs for an environmental preservation system, etc.	-	149
4. R&D costs: Environmental preservation costs stemming from R&D activities		-	148
Composition	(1) R&D to develop products that contribute to environmental preservation	-	33
	(2) R&D and planning to curtail environmental impact at the manufacturing stage, etc.	-	114
5. Social activity costs: Environmental preservation costs stemming from social activities		-	68
Composition	(1) Planting of greenery, beautification, etc.	-	37
	(2) Support, etc., of environmental preservation activities by the local community	-	2
	(3) Support for environmental groups	-	14
	(4) Disclosure of environmental information and related advertisements	-	14
6. Environmental remediation costs: Costs incurred from dealing with environmental degradation		-	96
Total		2,030	7,316

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	66

Material Balance (results for FY2018)

Scope: Hokuetsu Corporation

Input		Output	
Fossil energy input	10,882,000 GJ	CO2	644,000 t
Non-fossil energy input	26,263,000 GJ	SOx	586 t
Input of water resources	95,774,00 m ³	NOx	2,207 t
Raw material consumption	Wood chips 1,920,000t Purchased pulp 74,000t Used paper 251,000t	Soot and dust	113 t
		Chemical substances subject to the PRTR law	Discharge 1.6 t Transported 0 t
		Wastewater BOD*1	405 t
		Wastewater COD*1	908 t
		Wastewater SS	567 t
		Industrial waste generated	280,000t
		Industrial waste final disposal volume	7,000 t
		Paper/paperboard production volume	1,620,000 t

Changes in Environmental Performance

		Unit	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019 target
Global warming	CO2*1	kg/ton of paper	393	388	403	424	398	394
Air	SOx	kg/ton of paper	0.13	0.14	0.21	0.33	0.36	0.24
	NOx	kg/ton of paper	1.28	1.32	1.36	1.45	1.36	1.39
	Soot and dust	kg/ton of paper	0.07	0.07	0.06	0.07	0.07	0.07
Water quality	Water consumption	m ³ /ton of paper	55.4	56.4	57.3	58.1	59.1	58.8
	Wastewater BOD*2	kg/ton of paper	0.25	0.28	0.25	0.26	0.29	0.27
	Wastewater COD*2	kg/ton of paper	5.55	3.97	3.33	3.54	3.94	4.22
	Wastewater SS	kg/ton of paper	0.41	0.35	0.28	0.28	0.35	0.34
Chemical substances	Volume of chemicals subject to the PRTR law discharged/transported	g/ton of paper	2.49	1.73	1.45	0.91	0.99	1.57
Industrial waste	Final disposal	kg/ton of paper	5.2	4.1	5.7	4.5	4.3	4.0

*1 Energy input and CO2 emissions are provisional values as of August 2019.

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

Advancing the development of new materials in a plastic-free era

Our research and development department is comprised around our Central Research Laboratories, Novel Materials Development Office, and Technical & Development Department under the Technical & Development Division. Recently, it has been focused on developing cellulose nanofibers (CNF).

Research & Development

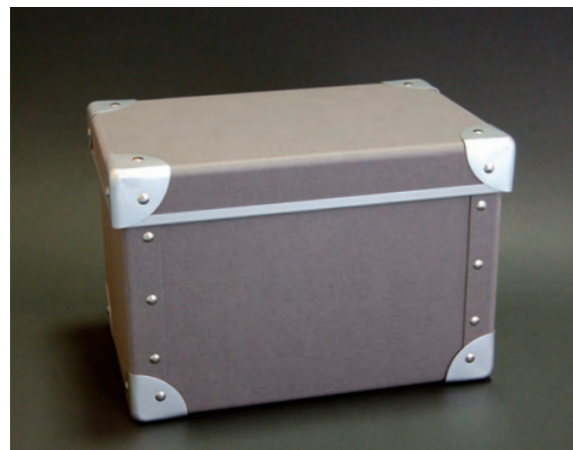
Working to enhance competitiveness by developing and applying new functional materials

Focusing on developing new materials in a plastic-free era

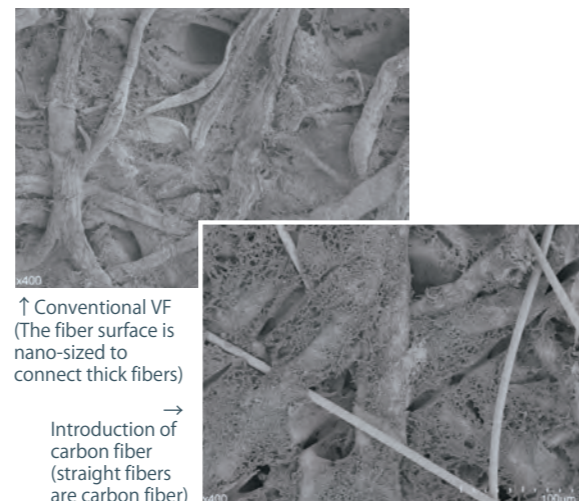
The Group is developing a new composite material that combines the next-generation material of cellulose nanofibers with the advanced material of carbon fibers. Specifically, we have succeeded in developing a composite material that is approximately 20% lighter than conventional vulcanized fiber (VF) by blending a small amount of carbon fiber with VF, an all-cellulose CNF reinforced material, for a material that maintains workability and strength while suppressing expansion and contraction due to changes in the surrounding environment. Hokuetsu Toyo Fibre, part of the Group, has already established the mass production technology for

this composite material.

VF is a material obtained by treating paper (cellulose) with special chemicals, and has the unique property of being strong but biodegradable. The Group has analyzed this material through its basic research and has confirmed for the first time in the world that during the chemical treatment process, cellulose becomes CNF and is strongly bonded. VF is highly anticipated as a next-generation “substitute for plastic,” and we are now working with the Industrial Research Institute of Niigata Prefecture to create functional materials that leverage the characteristics of VF.



Example of processing with a composite material that fuses CNF and carbon fiber



Quality Control

Strict quality control initiatives and providing correct information

An independent body tasked with auditing quality

An independent body tasked with auditing quality Based on the Group's Basic Principles related to the Quality Control of Products, 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. Our internal quality auditor carries out regular checks on the safety of raw materials, the compliance with in-house standards of products to be used as food containers and wrapping, the proportion of recycled paper included in pulp, and the regulatory compliance of each production department, etc. An independent body (quality management office) has been created within the Technical & Development Division to carry out the auditing.

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.

Promoting procurement of raw materials that carefully consider the environment and society for corporate social responsibility

As there are structural changes such as a declining population, digitalization and the spread of e-commerce and are external changes such as the strengthening of environmental regulations in China, a labor shortage in logistics in Japan and demand for fuel, the procurement environment for raw materials (resources, materials, fuel, etc.) used in our mills has been changing. Along with promoting procurement in accordance with the Group Fundamental Policy for Raw Materials Procurement established in April 2019, we also focus on globalization of our human resources to procure raw materials from overseas efficiently.

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 Philosophy and the 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 issues.

1. Compliance with the 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

Biomass woodchips supplied by Hokuetsu Material

Hokuetsu Material, which is a part of the Group, contributes to reduce our environmental impact by focusing on the procurement of forest residue, unusable logs for sawn timber (to supply them) as energy sources. We have opened a new biomass woodchips mill to supply for large-scale biomass power plant in Yamagata Prefecture since 2018, and have started supplying biomass woodchips to the power plant, while Hokuetsu Material continues to supply biomass woodchips to the Group.

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 confidence. 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 sustainability

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, wood chips, lumber, pulp products, and forest products is done fairly throughout the entire 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 from natural forest
- 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 FY2018

Hokuetsu Corporation exports virtually all of its woodchips demand. The global woodchips market has varied significantly, i.e. China became the largest importer of hardwood chips since 2016 and Indonesia once an exporter became an importer after 2018. We are striving for stable procurement by further strengthening the relationship with our wood chip suppliers that we have cultivated so far and only procure secured legal woodchips in accordance with our Policy on Procurement of Wood Material so that our customers can buy and use our paper products with confidence.



Country	Species	Forest classification (natural, re-growth, plantation & sawmill residue, etc.)		Method of verifying legality			Overseas / Domestic woodchips purchase volume(K BDT)	Percentage by forest classification
		Plantation	Re-growth	Traceability report	Declaration legality of timber	Forest certification System		
Brazil	Acacia	●	—	●	●	●	1,879	98%
Chile	Eucalyptus	●	—	●	●	●		
South Africa	Acacia	●	—	●	●	●		
	Eucalyptus	●	—	●	●	●		
Australia	Eucalyptus	●	—	●	●	●		
Vietnam	Acacia	●	—	●	●	●	41	2%
Japan	Oak, etc.	—	●	●	●	(*)		
Total							1,920	100%

*We carried out a risk assessment of domestic woodchips based on Japan's National Risk Assessment (NRA), approved in August 2014; and we were approved to handle domestic woodchips as controlled woodchips.

Marine transport of woodchips
by eco-ship wood chip carrier

Woodchips that we consume are transported by woodchip carriers based on long-term charter contracts with shipping companies. The Southern Treasure, scheduled to in service in 2019, is a state-of-the-art eco-ship (with 15% lower fuel consumption and equipped with a scrubber) that also meets the coming SOx regulations that will go into effect from January 2020.

We are also working to reduce the environmental impact by the marine transportation of woodchips.



The Southern Treasure under construction

Check by Third-Party Audits and
Internal Auditing

We have consumed (1) FSC® certified woodchips and (2) Controlled woodchips in the Niigata and Kishu mills. These woodchips have met the principles and standards set forth by the FSC and are woodchips made of the wood introduced in FSC-certified forests and/or wood that has been confirmed as the wood introduced in well-managed forest confirmed by a third-party organization based on a risk assessment of the requirements of managed wood (controlled wood) defined by the FSC.

We also have our own traceability system* and periodically confirm the information relating to woodchips consumed at the two mills, and regularly verify items such as legality, sustainability, and biodiversity preservation status, etc. In addition, we also have had external audits, such as Japan Paper Association which is the paper industry organization, and SGS Japan Inc. which is a third-party organization, to enhance the verification accuracy of this system.

(Hokuetsu Corporation FSC license code: FSC-C005497)

*Traceability system: Tracking of historical information related to production and distribution of wood and woodchips, it could be described as a system for keeping tabs on production and distribution information.

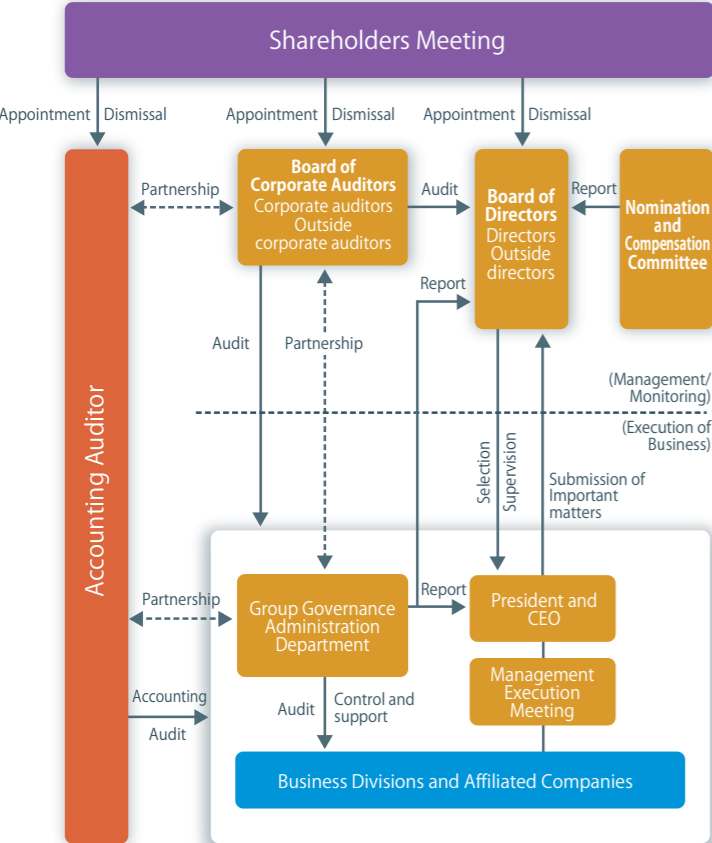


Audit certificate issued by SGS Japan Inc.

Aiming for transparent, fair, prompt and decisive decision-making that improves corporate value

By realizing the “Group Corporate Philosophy,” the Group aims to be a company that is trusted by all stakeholders, and has established a Nomination and Compensation Committee to further strengthen its governance system.

Organizational Structure of Corporate Governance



FY2018 Results

Organization design		
Company with a Board of Directors and Board of Corporate Auditors		
Number of directors	Number of corporate auditors	Number of independent directors/ auditors
10 * (2 outside directors included)	4 (2 outside corporate auditors included)	4
Number of Board of Directors meetings	Number of Board of Corporate Auditors	
12	16	
Attendance rate of outside directors at Board of Directors meetings	Attendance rate of outside corporate auditors at Board of Corporate Auditors meetings	Accounting auditor
100%	96%	KPMG AZSA LLC

*11 as of June 26, 2019.

Creation of a Nomination and Compensation Committee

In order to further improve our corporate governance, we established a voluntary Nomination and Compensation Committee in the fall of 2018. The committee deliberates on matters concerning the nomination and compensation of directors in response to the request of the Board of Directors, which they then determine. In FY2018, the Nomination and Compensation Committee convened six times, and the Board of Directors met twice based on the reports of the Nomination and Compensation Committee.

Determining Compensation of the Board of Directors

Director compensation is composed of basic remuneration as a fixed remuneration determined by position, etc., an annual incentive (performance-linked bonus), and medium- to long-term incentive (stock-based remuneration) linked to performance of the company and contribution to said performance. The indicators related to performance-linked compensation are consolidated net sales, consolidated operating income, and contribution to ESG (environment, society, and corporate governance). The compensation for outside directors consists of only basic remuneration.

Basic Policy on Corporate Governance (excerpts)

Article 2: Basic Philosophy of Corporate Governance

1. 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.
 - (1) 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.
 - (2) 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.
 - (3) 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.
 - (4) 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.
 - (5) We will actively and constructively engage in dialogue with our shareholders based on a basic policy established separately to support the enhancement of our stable, long-term corporate value.
2. The Board of Directors shall establish and disclose the Group Code of Conduct to be shared by all employees and executive officers of our corporate group.

Article 3: Role of the Board of Directors

1. The Board of Directors strives to enhance the common interest of our shareholders and achieve appropriate corporate governance, in order to enhance stable, long-term corporate value.
2. The Board of Directors performs a supervisory function over all 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.
3. The Board of Directors 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.
4. Outside directors give advice from a neutral position independent from management for enhancing our stable, long-term corporate value, and play a significant role in the decision-making for the important management issues of our company. They also supervise conflicts of interest between our company and management.
5. 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.
6. The Board of Directors determines the appointment and dismissal of directors based on the evaluation of the Nomination and Compensation Committee.

Article 7: The Role of Corporate Auditors and the Board of Corporate Auditors

1. 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.
2. 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.
3. Our 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 Basic Policy on Corporate Governance is published on our website.

Steadily enhancing our compliance system as a global company

The Group formulated its Group Corporate Philosophy, to fulfill its responsibilities as a global company, and its Group Code of Conduct, as the set of rules to achieve its philosophy, on April 1, 2018. These are practiced by all executives and employees of the Group in Japan and overseas, and we are implementing various measures to further enhance our compliance system.

Formulating and sharing Group policies

The Group formulated its Group Policy, based on our Group Code of Conduct, as a basic policy that should be shared and realized by the entire Group for each major field of business, and implemented it on April 1, 2019. It is comprised of the Group Environmental Charter, Group Fundamental Policy for Raw Materials Procurement, and Group Basic Policy for Information Security. These Group policies have been translated into English, French, and Chinese, and are shared with the entire Group, including our overseas subsidiaries. In addition, we are working to share and explain the purpose and content of the policies through opportunities such as at Group Governance Meetings, which are described below.

Creation of the new Legal Affairs & Compliance Department

On April 1, 2019, we merged the Compliance Affairs which previously belonged to the Group Governance Administration Department with the Legal Affairs which belonged to the General Affairs Department, to create the Legal Affairs & Compliance Department. The new department is headed by an in-house lawyer, and with the heads of the Personnel Department and General Affairs Department as members, working under the



leadership of the Chief Compliance Officer, is responsible for formulating compliance measures (training, etc.) for the entire Group, including domestic and overseas subsidiaries, and responding to whistle-blowing. As of July 1, an in-house lawyer joined as a new member. Going forward, we will continue to strengthen the compliance system of the entire Group and improve our ability to respond to unforeseen circumstances, with the Legal Affairs & Compliance Department as the hub.

Overseas Group Governance Meetings

The Group held its first Overseas Group Governance Meeting at Jiangmen Xinghui Paper Mill, China in December 2017. The second Overseas Group Governance Meeting was held at Bernard Dumas in France in April 2019, followed by another meeting at Al-Pac in Canada in July later that year. At the first Meeting, the Chief Operating Officers (COO) of four overseas subsidiaries attended, but now the Meetings are held with the CEO of Hokuetsu Corporation visiting each overseas subsidiary individually for more substantial discussions. In particular, in addition to our CEO, members of our Board of Directors, including outside corporate auditors, also attended the meeting at Al-Pac, in Canada which has large business scale. Both meetings hosted lively discussions on compliance, governance, internal control, and other matters. Another Overseas Group Governance Meeting is scheduled to be held at a subsidiary in China in December 2019, and this meeting will also be held regularly in the future.



The Overseas Group Governance Meeting held at Bernard Dumas



Members of the Overseas Group Governance Meeting held at Al-Pac

Creating a workplace where all employees can work safely and securely with purpose and vigor

The Group is striving to establish a workplace where employees can work safely and securely with purpose and vigor. The entire Group is working to improve the environment, including training for working in new ways that are in line with the times and mental health measures.

Actively improving the work environment and developing human resources

● Toward works style reforms

In July 2019, we held in-basket training for managers and time management training for general employees as specific initiatives created by the Work Style Reform Promotion Committee established in 2018. In the time management training, many participants became aware of time-wasting habits that they had not thought of on a daily basis through hands-on and participatory programs.

Moving forward, we will establish a labor-management subcommittee at each office/mill and review the work system in order to have shop-floor discussions based on the draft proposals of the Work Style Reform Promotion Committee.

Moreover, we will promote the use of IT to improve the efficiency and quality of work. From April 2019, the Corporate Officer in charge of the General Affairs Department also became in charge of the Information Systems Department. Doing so will make it possible to improve the efficiency of routine work by using IT while achieving the overall optimization of our internal systems.



Time management training attended by approximately 25 employees, including Group companies

● Health and productivity management initiative

The Group is working on the early detection and prevention of illness among employees. Specifically, we have tied up with the Group Health Insurance Association to review the content of health checkups, expand cancer screening assistance, expand support for flu vaccinations, and conduct dietary guidance from a registered dietitian. We conduct stress checks for mental health every October and are working to use the results of group analysis by feeding them back to management and managers at each workplace. From FY2019, we expanded the number of external consultation services to prevent mental health problems.

Change in average age and average years of employment

Average age

	2017	2018	2019
Male	43.1	42.8	43.2
Female	38.8	39.8	39.2
Average	42.8	42.6	42.8

(Hokuetsu Corporation, non-consolidated)

Average years of employment

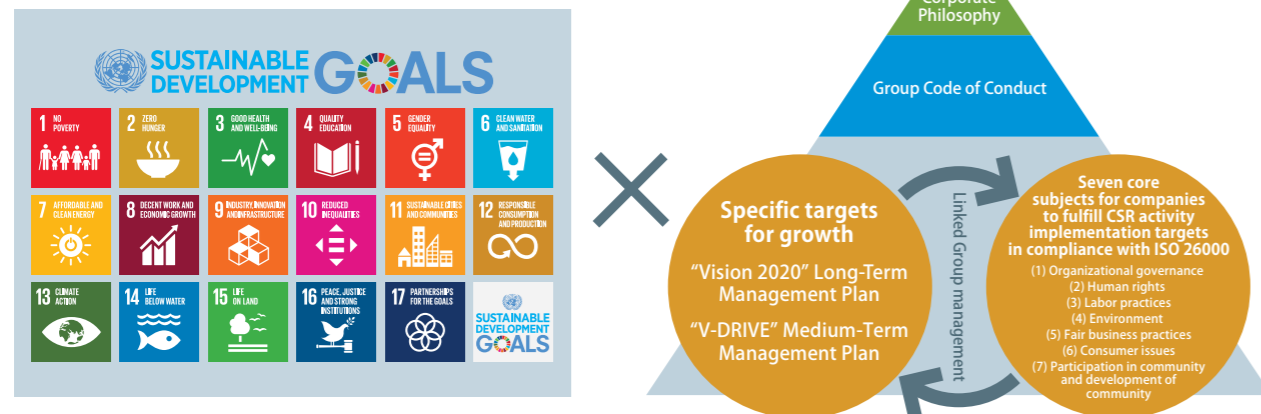
	2017	2018	2019
Male	18.5	18.6	19.3
Female	11.9	11.3	11.7
Average	18.1	18.1	18.8

(Hokuetsu Corporation, non-consolidated)

Promoting CSR activities as one of the drivers of management throughout the entire Group

The Group established its Group Corporate Philosophy in 2018 at the same time it changed its company name, and is developing specific activity goals that comply with the seven core issues of social responsibility stipulated in the ISO 26000 international standard and is promoting CSR activities. Part of this initiative is based on the same philosophy as the goals and targets set forth in the SDGs for the realization of a better international community.

The Group's approach to CSR activities



Inspections for FY2018 goals

(1) Organizational governance (governance)

- The Group Corporate Philosophy, Group Code of Conduct, and Group symbol were established in line with the change of company name, and the meanings of the Group Corporate Philosophy and Group Code of Conduct were published in various communication media compliance handbooks with the aim of sharing it with the entire Group.

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

- Issued newsletters to employees during Human Rights Week.
- Established the Group Fundamental Policy for Raw Materials Procurement stating that we promote procurement that takes human rights into consideration.

(3) Labor practices (work style)

- We established the Work Style Reform Promotion Committee to promote work improvements to improve the appropriate working environment.

(4) Environment (promotion of environmental management)

- Our initiatives on the environment are described on p. 16–19 of this report.

(5) Fair business practices (strict compliance)

- Our compliance initiatives are described on p. 26 of this report.

(6) Consumer issues (responsibility to customers)

- Our customer initiatives are described mainly in the value creation business models described from p. 30–41 of this report.

(7) Participation in community and development of community (Coexistence with local community)

- We continue to support Kyu-Can-Cho Project of Pan Akimoto Co., and used our chip carrier to distribute canned bread to elementary schools in Eswatini in July and January. We also use our chip carrier to deliver donated athletic shoes (used) from elementary schools in Tochigi Prefecture to elementary schools in Eswatini.
- Approximately 1,600 people a year take part in tours at the Niigata Mill.
- In addition to starting joint research with the Industrial Research Institute of Niigata Prefecture, the Central Research Laboratory received the Nagaoka Innovation Award from the Regional Renaissance Creation Association, to which Nagaoka City and Nagaoka University of Technology belong.
- See p. 29 of the report for communication with local communities.

Priority CSR Activity Goals for FY2019

No.	Seven core subjects in compliance with ISO 26000	Connection to SDGs (items that the Group can engage in)	Activity Goals for FY2019
1	Organizational governance (governance)		Promote the creation of an organization to maximize the corporate value of the Group
2	Human rights (respect for the rights given to all people)	5 Gender equality	Respect the rights given to all people and maintain an appropriate working environment
3	Labor practices (work style)	5 Gender equality 8 Decent work and economic growth	Promote work-life balance and improve productivity through innovative and improved work styles
4	Environment (promotion of environmental management)	6 Clean water and sanitation 7 Affordable and clean energy 11 Sustainable cities and communities 13 Climate action 15 Life on land	Reduce environmental impact, aim for eradicating environmental claims, and realize a "Minimum Impact Mill"
5	Fair business practices (strict compliance)		Strengthen the Group compliance system through sustained education and training
6	Consumer issues (responsibility to customers)	12 Responsible production and consumption 14 Life below water	Work to improve customer satisfaction
7	Participation in community and development of community (Coexistence with local community)	2 Zero hunger	Seek coexistence with local communities through communication with local communities and social contribution activities

Aiming to be an approachable company by interacting with local communities

As part of social contribution activities, the Group actively promotes exchanges with local communities. We also provide ongoing support for mill tours, community clean-up activities, community events, internships and hands-on learning for students, as well as the "Kyu-Can-Cho Project" that has provided canned bread for disaster relief supplies to Eswatini since 2014.

Active participation in community events

The Group participates in various local events and deepens exchanges with the local community. In July 2018, we had a paper-making corner to create original postcards as a kick-off event for the 150th anniversary of the opening of the Port of Niigata at Umifesta Niigata held in Niigata City, Sado City, and Seiro Town.

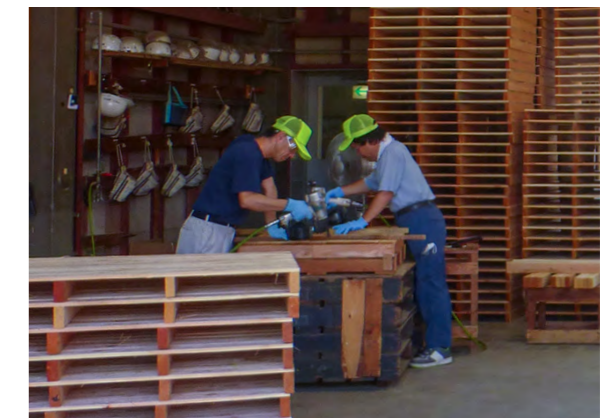
In August, we participated in the minyo-nagashi folk dance parade at the Niigata Festival and danced to a Bon odori folk song called "Niigata Jinku." Also, many local residents participated in the "Mill Bon Odori Dance Festival" held at the Niigata Mill and, in a new initiative, we distributed medaka (Japanese rice fish) raised in the clean water of the Niigata Mill.



Niigata Festival minyo-nagashi folk dance

Ordering the manufacture of pallets at a welfare factory for the physically disabled

Hokuetsu Pallet Co., Ltd., part of the Group, has traditionally supported the philosophy of the social welfare corporation Keyaki no Sato as part of its work in support for persons with disabilities, and orders the production of wooden pallets from the corporation's Yamabiko Works in Kawagoe City, Saitama Prefecture. Each carefully-made wooden pallet is used primarily by printing companies. Yamabiko Works is greatly trusted and has earned the praise of its customers by making high-quality products while delivering them on time.



Making pallets at Yamabiko Works

Actively welcoming mill tours

As part of our efforts to "coexist in harmony with communities," the Group conducts mill tours for various educational institutions and local residents on an ongoing basis. In FY2018, approximately 1,600 people took part in tours of our Niigata Mill, with approximately 2,300 people taking tours across the entire Group. The mill tours are for elementary, junior high, and high school students, and local residents. The tour offers an easy-to-understand introduction to our environmental measures such as reducing the Group's CO₂ emissions and the initiatives of the Group as a global corporate group.



A mill tour conducted at the Kanto Mill (Ichikawa)