

# HOKUETSU GROUP Integrated Report 2021

## Vision 2030

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ENVIRONMENT



INNOVATION



HOPE

ZERO CO<sub>2</sub> 2050

## Group Corporate Philosophy

As a people focused business group,  
we work to improve society globally,  
by providing socially and environmentally  
responsible products through innovative  
manufacturing on a global scale.

Established April 2018

- **“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.

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#### Editorial Policy

This report focuses on Hokuetsu Corporation's value creation strategy and its progress, in addition to themes that we recognize as particularly important matters in non-financial activity reports.  
Please also refer to our website for more detailed information.  
Please see the financial statements in the securities report.

#### Scope of reporting

• Companies covered by this report:  
Hokuetsu Group (Hokuetsu Corporation and main affiliated subsidiaries, etc.)  
• Period covered by the report:  
April 1, 2020-March 31, 2021  
(Some activities after this period are also reported)  
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**Aiming to sustainably improve corporate value by steadily executing the Medium-Term Management Plan.**

**岸本 哲夫**  
 Sekio Kishimoto  
 President and CEO

**Impact of the COVID-19 pandemic**

The Japanese economy during the current fiscal year languished due to the impact of the COVID-19 pandemic on the global economy. In addition to the stagnation in the global economy, the Japanese paper and pulp industry finds itself in a prolonged harsh environment with shrinking demand for printing and communication paper because of the digitization of information and media. Demand began recovering with the step-by-step resumption of social and economic activities in the second half of the fiscal year, but the Hokuetsu Group finished the fiscal year ended March 2021 with consolidated net sales of ¥222.5 billion (down 15.9% year on year), operating income of ¥1.7 billion (down 84.8% year on year), and ordinary income of ¥9.7 billion (down 37.7% year on year), resulting in a decline in income and profits. Net income attributable to owners of the parent company was ¥14.17 billion (up 75.6% year on year) due to posting a gain on sale from the transfer of all shares of Japan Brazil Paper and Pulp Resources Development Co., Ltd.

**Advancing the Medium-Term Management Plan to achieve our long-term vision**

The business environment surrounding us is expected to continue to be uncertain due to the impact of the COVID-19 pandemic. Given this situation, in April 2020, Our Group launched its new long-term corporate vision "Vision 2030," which aims for sustainable growth, and "Medium-term Management Plan 2023".

This plan focuses on advancing four objectives: **"(1) strengthen environmental competitiveness," "(2) shift business portfolio and expand business worldwide," "(3) strengthen business in Japan"** to meet new demand for paper, and **"(4) strengthen corporate governance"** as the foundation for the above with an eye on balancing environmental measures and corporate growth potential based on the SDGs.

**Advanced environmental responsiveness is the source of our strength zero CO<sub>2</sub> emissions by 2050**

The objective to **"(1) strengthen environmental competitiveness"** is the Group's top management issue. From early on, we have worked to produce paper and paperboard that is environmentally-friendly, and made capital investments of around ¥50 billion to reduce CO<sub>2</sub> over the last 25 years, such as by installing recovery boilers, wood biomass boilers, and mega solar power generation facilities at each of our mills. We are also working to reduce CO<sub>2</sub> emissions throughout the paper product life cycle. As a result, our paper products are made with 70% "CO<sub>2</sub> zero energy." This is the source of the Group's competitiveness. Furthermore, in order to emphasize the environmental vision that we are aiming for, in November 2020, we formulated "Hokuetsu Group Zero CO<sub>2</sub> 2050," which aims to realize virtually zero CO<sub>2</sub> emissions by 2050. To achieve this environmental vision, the Group is considering the building of new or expanded biomass boilers, consignment of privately-generated power between plants, and the introduction of heavy oil alternative technology and equipment at pulp mills.

**Accelerating our business portfolio shift and aggressively expanding new businesses in Japan and abroad**

In light of the recent circumstances, we believe that it is necessary to further advance our efforts to **"(2) shift business portfolio and expand business worldwide."**

Overseas, we are moving forward with various measures to secure stable profits over the long term, such as strengthening the electricity sales business and distribution network in our pulp business in Canada. Our white paperboard business in China set record-breaking profits due to rising product prices, and the start of the development and sales of containerboard at Jiangmen Xinghui Paper Mill. Furthermore, the performance materials business in China and France continues to set record-breaking profits at a pace that exceeds our Medium-Term Management Plan due to the progress of digitization worldwide. These efforts have resulted in a current overseas sales ratio of 31%.

In Japan, we will enter the household paper business and start producing and selling household paper products such as toilet paper, tissue paper, and paper towels, which are the only paper products with increasing demand. Our containerboard, which has already been in production since April 2020, is broadly accepted across the country and sales volumes are increasing.

**Building a new organization to meet new demand for paper in Japan**

The paper and pulp market is entering a new phase due to dramatic changes in society. In order to respond to this situation

accurately, the entire Group is working to **"(3) strengthen business in Japan."**

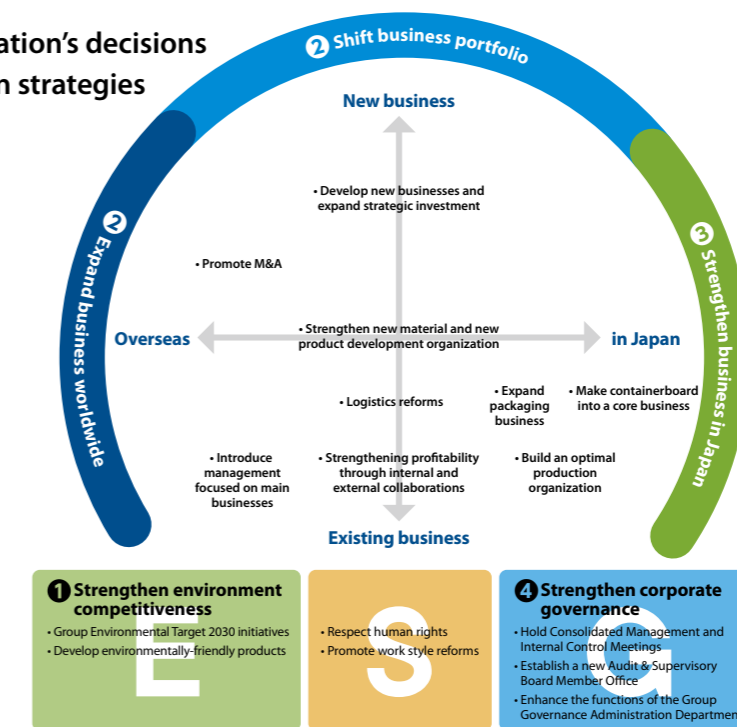
As one measure, in April 2021, we reorganized into two business divisions, the Paper & White Paperboard Business Division and the Performance Materials Division. Moving forward, the Paper & White Paperboard Business Division will aim to improve business efficiency and stabilize profits as an existing business, while the Performance Materials Division will focus on expanding the business domain of functional paper and earning revenue as a new material. With this new organization, we will maximize synergistic effects for the growth of the Group.

**Promoting risk management activities with the aim of further strengthening corporate governance**

Finally, regarding the objective to **"(4) strengthen corporate governance,"** we are working to solidify our corporate governance with the goal of realizing the Group Corporate Philosophy and the Group Code of Conduct. In the current fiscal year, we established the "Group Risk Management Basic Regulations" to identify management risks and clarify matters to be addressed. In addition, we also established the position of Chief Risk Management Officer to conduct risk management activities for risks related to occupational safety.

By promoting these efforts, we will improve the corporate value of the Group and aim to achieve transformation and growth with an eye on the next generation as a corporate group that is even more trusted by stakeholders.

**Hokuetsu Corporation's decisions and concentration strategies**



Promotion of SDG activities

## Working to improve society globally

Based on the trust of stakeholders, the Hokuetsu Group responds flexibly to changes in the business environment and contributes to solving social issues by “providing socially and environmentally responsible products through innovative manufacturing on a global scale,” while at the same time seeking to create economic and social value by performing business portfolio transformation.

### INPUTS

#### Capital to strengthen

##### Financial capital

- Expand growth investments  
→ See p.9-24

##### Natural capital

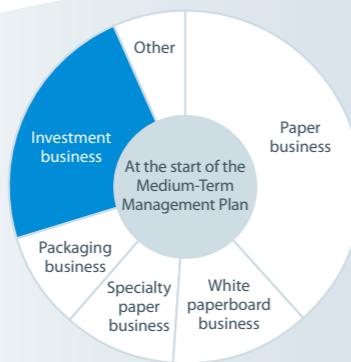
- Announced Zero CO<sub>2</sub> 2050  
→ See p.9-10
- Develop environmentally-friendly products  
→ See p.20  
→ See p.29

##### Human capital

- Thorough respect for diversity
- Work style reforms  
→ See p.26-27  
→ See p.36

#### Medium-Term Management Plan 2023

From April 1, 2020 to March 31, 2023 (3 years)



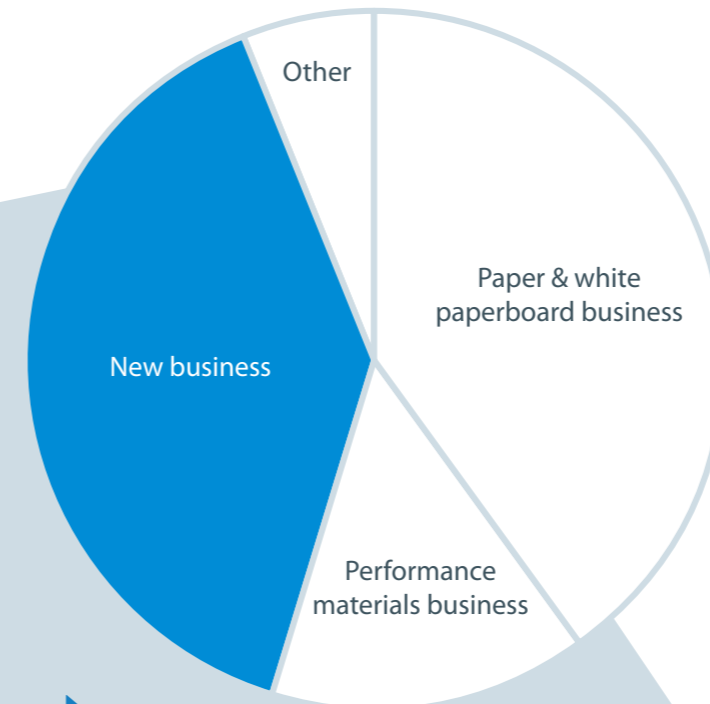
##### Shift business portfolio

- Expand business worldwide
- Strengthen business in Japan
- Strengthen profitability of existing businesses



##### Promote SDG-related activities

- Strengthen environment competitiveness
- Strengthen governance management



Reinvest achievements

### OUTCOMES

#### Vision 2030



##### ENVIRONMENT

A business group that contributes to sustainable social development based on environmental management

##### KPI

- Group Environmental Target 2030



##### INNOVATION

A business group that makes use of diverse human resources and the latest technology to challenge ourselves in new business fields in step with the times

##### KPI

- (By March 31, 2026)
- 10% of workforce comprised of women
- 60% paid leave acquisition rate



##### HOPE

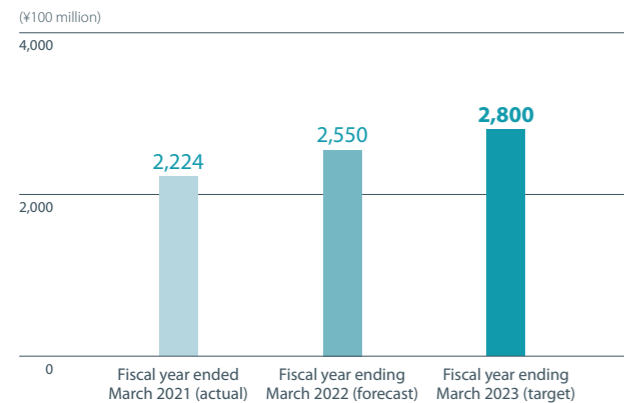
A business group made up of people working proactively with dreams, hopes and pride



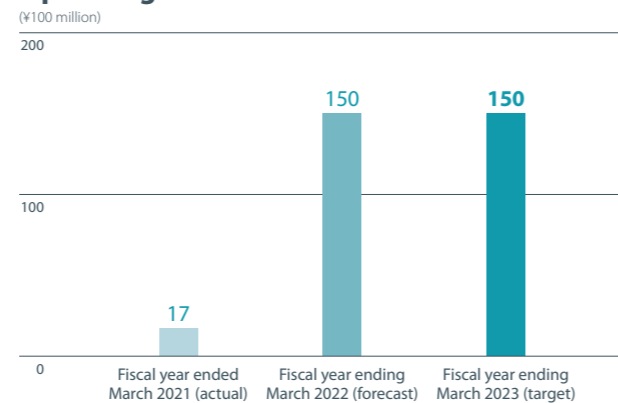
# Despite harsh circumstances, we made steady progress with measures toward achieving the plan in line with our policy.

## Targets and achievements

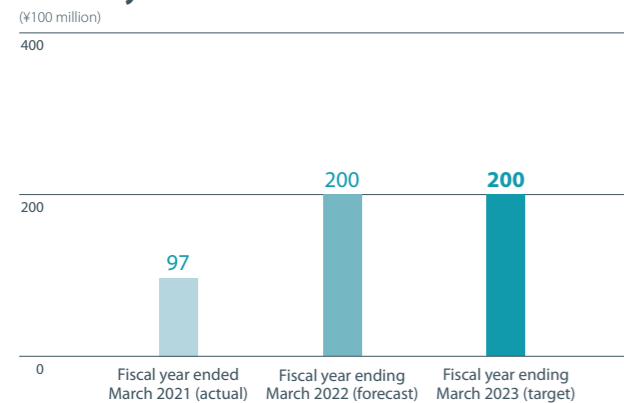
### Net sales



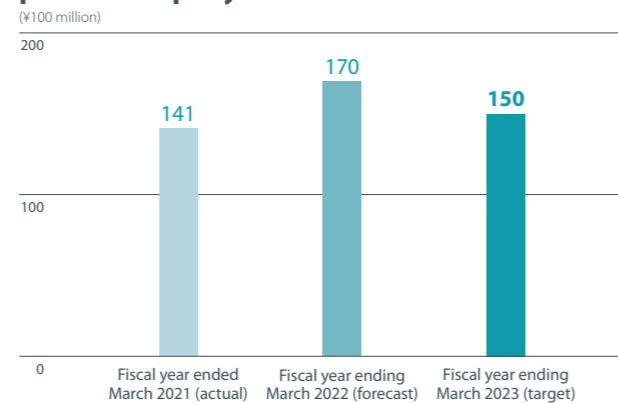
### Operating income



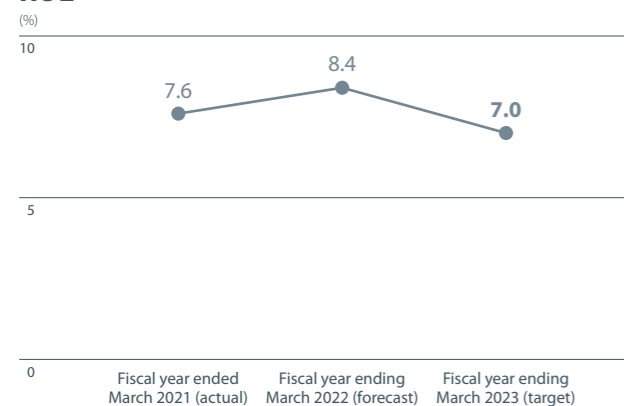
### Ordinary income



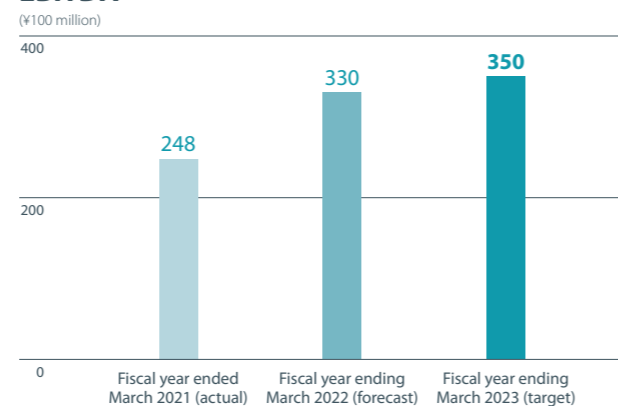
### Net income attributable to owners of parent company



### ROE



### EBITDA



## Progress

The global impact of the COVID-19 pandemic has been significant, even in the pulp and paper industry, and our consolidated sales for the fiscal year ended March 2021 decreased in Japan and overseas. Operating income also fell sharply. However, the paper and pulp market is gradually recovering and we expect higher income and profits for the fiscal year ending March 2022 as it is expected to recover a certain extent from the extreme decline in the previous year. The pulp market is also on a recovery trend. As a result, our consolidated earnings forecast will achieve the targets set for operating income, ordinary income, and net income in the Medium-Term

Management Plan 2023 one year ahead of schedule. Moreover, we will start the household paper business as an initiative to transform our business portfolio. This is a new investment project based on the basic policy of Medium-Term Management Plan 2023.

The Group is working to shift its business portfolio, expand business worldwide, and strengthen its business in Japan in accordance with the basic strategy of Medium-Term Management Plan 2023, such as starting the containerboard business from the current fiscal year. We will aim for sustainable growth by accelerating corporate activities based on these basic policies.

## Measures for Medium-Term Management Plan 2023

Basic Policy	Specific initiative	Related page
(1) Shift business portfolio	Develop new businesses	p15-16
	Expand strategic investment	
(2) Expand business worldwide	Introduce management focused on main businesses	p13-24
	Strengthen profitability through internal and external collaborations	
	Promote M&A	
(3) Strengthen business in Japan	Construct an optimal production system	p37-41
	Make containerboard into a core business	
	Expand packaging business	
	Strengthen profitability of existing businesses	
(4) Strengthen governance management	Hold Consolidated Management and Internal Control Meetings	p9-10 p20 p25-36 p42
	Establish a new Audit & Supervisory Board Member Office	
	Enhance the functions of the Group Governance Administration Department	
(5) Promote SDG-related activities	Group Environmental Target 2030 initiatives	p9-10 p20 p25-36 p42
	Develop environmentally-friendly products	
	Promote work-style reforms	
	Respect human rights	
	"hSA25" safety and health activities	



# Toward Creating New Value Release of Zero CO<sub>2</sub> 2050 in 2020



ZERO CO<sub>2</sub> 2050

**We aim to realize a society where people and the environment coexist, and are taking on the challenge of net-zero CO<sub>2</sub> emissions by 2050 through the use of biomass energy and the latest technology.**

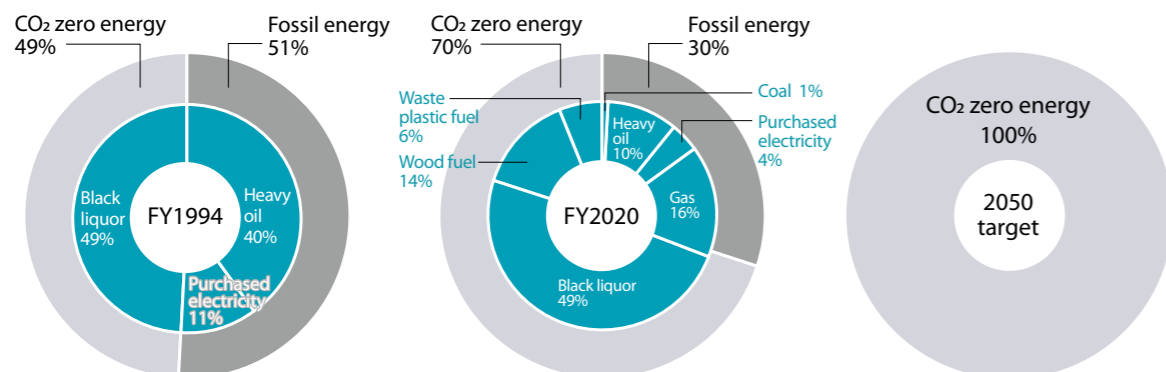
Hokuetsu Corporation has promoted CO<sub>2</sub> reduction measures to prevent global warming in the energy sector, such as introducing state-of-the-art, high-efficiency equipment like on-machine coaters, promoting systematic energy conservation, and switching fuel from heavy oil to gas. These efforts have resulted in our current ratio of "CO<sub>2</sub> zero energy" increasing to around 70%.

## Our history of CO<sub>2</sub> reduction measures

Our CO<sub>2</sub> reduction measures began in earnest in 1995 and has advanced along three axes: (1) switching fuel from heavy oil to gas, (2) introducing wood biomass boilers, and (3) introducing high-efficiency recovery boilers. Our energy profile in FY1994, immediately before implementing these CO<sub>2</sub> reduction measures, was 50% heavy oil and purchased electricity, and 50% black liquor. The only boilers we possessed then were heavy oil and recovery boilers. We have since moved forward with installing biomass boilers and high-efficiency gas cogeneration facilities at each mill and have now reduced the number of regular heavy oil boilers to zero, with all power generation facilities geared toward preventing global warming. This amounts to a total capital investment of approximately ¥50 billion. Our current energy consumption profile is about 70% "CO<sub>2</sub> zero energy" and 30% fossil fuel, of which the ratio of gas that generates lower CO<sub>2</sub> emissions accounts for 50%. Our aim is to have a "CO<sub>2</sub> zero energy" ratio of 100% by 2050.

Fiscal year	CO <sub>2</sub> reduction measures	
1995	Kanto Mill Ichikawa	Started natural gas power generation
1996	Niigata Mill	Installed new high-temperature and high-pressure recovery boilers
1999	Niigata Mill	Started natural gas power generation
2005	Niigata Mill	Installed new high-temperature and high-pressure recovery boilers, one of the largest in Japan
2006	Kanto Mill Katsuta	Installed new wood biomass boilers, one of the largest in Japan
	Nagaoka Mill	Converted heavy oil boilers to natural gas
2007	Niigata Mill	Installed new wood biomass boiler
2008	Kishu Mill	Installed new wood biomass boiler
2013	Niigata Mill	Installed new large-scale natural gas power generation facility
2014	Kanto Mill Katsuta	Installed new mega solar power generation equipment
	Hokuetsu Material Co., Ltd.	Installed new mega solar power generation equipment
2015	Niigata Mill	Installed new mega solar power generation equipment

## Hokuetsu Corporation energy profile



## Three key actions

### Shift from heavy oil to gas

Gas is the cleanest of fossil fuels and produces about half as much CO<sub>2</sub> as coal. While it is expensive, it is a fuel that contributes to preventing global warming. We have been switching from heavy oil to reduce CO<sub>2</sub>, starting with the introduction of gas turbines at the Kanto Mill Ichikawa in 1995, and then at the Niigata and Nagaoka mills. In particular, the 40,000 kW gas cogeneration power generation facility installed at the Niigata Mill in 2014 has an overall thermal efficiency of 90%, which is the highest level in the world.



### Installation of wood biomass boilers

Biomass is a net "CO<sub>2</sub> zero energy." In 2006, we installed a wood biomass boiler at our Kanto Mill Katsuta. The boiler generates 41,000 kW of electricity, which was one of the largest in Japan at the time. With the installation of this biomass boiler, the CO<sub>2</sub> emissions of the Kanto Mill Katsuta have been reduced to one-third. Biomass boilers were also installed at the Niigata and Kishu mills, which significantly reduced CO<sub>2</sub> emissions at each mill.



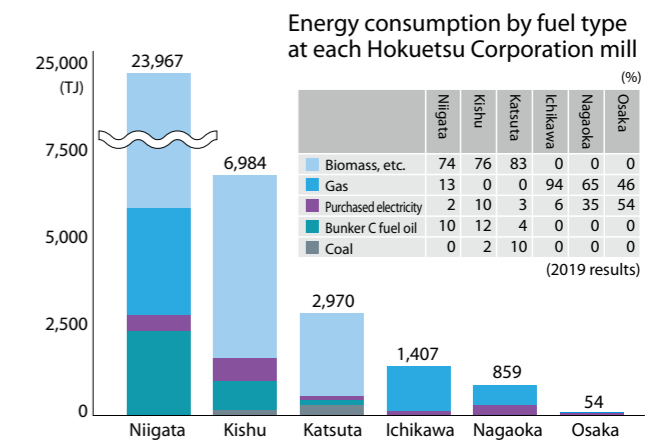
### Installation of high temperature and high-pressure recovery boilers

The production of pulp from wood creates a biomass fuel called black liquor. A recovery boiler is a dedicated boiler that uses this black liquor as fuel. The Niigata Mill produces the equivalent of 1,000 kL of crude oil a day in black liquor. To make the best use of this fuel, in 2005, the Niigata Mill installed the world's top class high-temperature and high-pressure recovery boiler capable of generating 85,000 kW. This has reduced our CO<sub>2</sub> emissions by 60,000 tons annually.



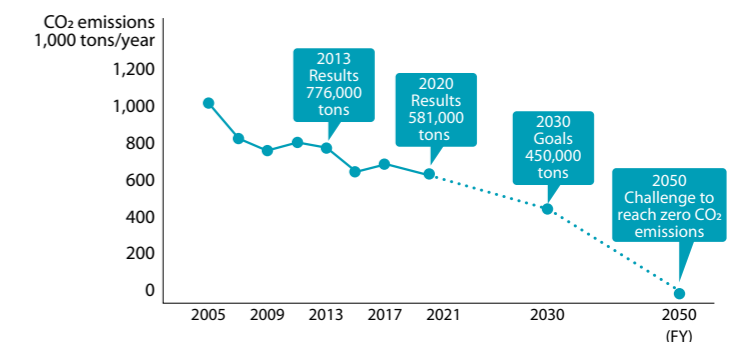
## Current energy profile by mill

The Kanto Mill Katsuta has the highest ratio of biomass, etc. at 83%. While the mill uses 10% coal to improve combustion in biomass boilers, we are studying how to eliminate the use of coal, and we would like to make it a zero CO<sub>2</sub> mill as soon as possible before 2030. The Niigata and Kishu mills are pulp mills. Their use of recovery boilers and wood biomass boilers has resulted in a "CO<sub>2</sub> zero energy" ratio of 70% or more. The Kanto Mill Ichikawa and Nagaoka Mill operate primarily on gas.



## Toward achieving Zero CO<sub>2</sub> 2050

In 2020, we emitted 580,000 tons of CO<sub>2</sub>. This was 25% lower than 2013 levels (43% reduction from 2005). Moving forward, we will continue to take on the challenge of achieving net zero emissions in 2050 by taking further measures to reduce CO<sub>2</sub>, such as switching from heavy oil to gas in pulp-making processes and in recovery boilers, and installing biomass boilers.




# Creating value together with the development of Japan's economy and society for 114 years since our founding

Hokuetsu Corporation started making paper in 1907 using the abundant water of the Shinano River, the longest in Japan, flowing through both Niigata and Nagano prefectures. We used rice straw produced in the vast, fertile Echigo Plain as a raw material. For 114 years since our founding, we have opened up new possibilities for paper and created new value as the economy and society grew.


**1907** Hokuetsu Paper Mills, Ltd. founded in Nagaoka City, Niigata prefecture

**1908** Nagaoka Mill built



**1914** Hokuetsu Itagami Co., Ltd. founded (current site of Niigata Mill)


**1916** Started production of paper at Niigata Mill



**1920** Ichikawa Mill (current Kanto Mill (Ichikawa)) built

**1925** Announced corporate creed (origin of corporate philosophy)


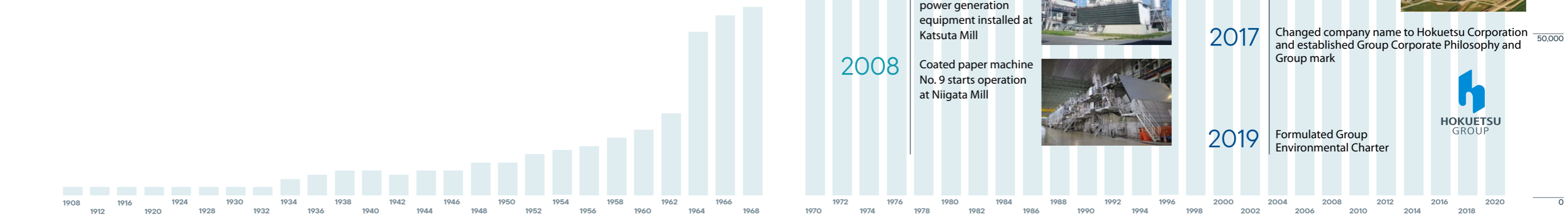
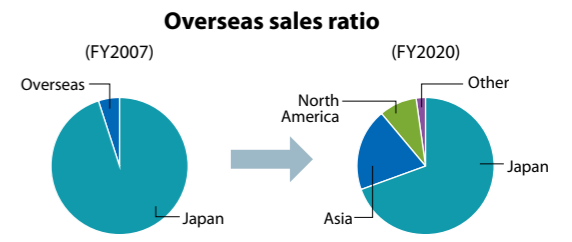
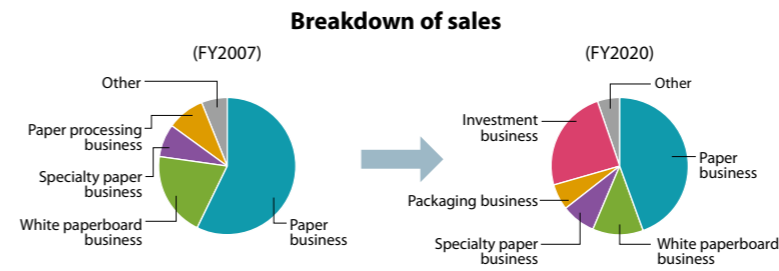
**1961** Started white paperboard production at Ichikawa Mill



**1964** Niigata Mill damaged by Niigata Earthquake

**1968** Started production of premium white paperboard at Niigata Mill

**1975** Katsuta Paper Processing Mill (currently Hokuetsu Package Co., Ltd.) built  
Katsuta Mill (current Kanto Mill (Katsuta)) built


**1907** From founding to establishment of a manufacturing base

**1961** Challenges in the field of white paperboard, indispensable for daily life

**1986** Business expansion by entering the coated paper field

**2008** Further leaps by promoting domestic and overseas M&A


**1986** Coated paper machine No. 6 starts operation at Niigata Mill




**1990** Coated paper machine No. 7 starts operation at Niigata Mill

**1993** Environmental Charter formulated


**1995** Gas turbine and cogeneration generator start operation at Ichikawa Mill




**1998** Coated paper machine No. 8 starts operation at Niigata Mill




Chlorine-free ECF pulp equipment introduced and named "Eco-pulp"



**2006** Oji Paper Co., Ltd. fails in hostile takeover bid for the company  
New wood biomass power generation equipment installed at Katsuta Mill



**2008** Coated paper machine No. 9 starts operation at Niigata Mill




**2008** Established a timber farming joint venture in South Africa and started timber farming business

**2009** Merged with Kishu Paper Co., Ltd. and changed company name to Hokuetsu Kishu Paper Co., Ltd.



**2012** Toyo Fibre Co., Ltd. is converted into a wholly owned subsidiary through a share exchange  
Through acquisition of stock, Daio Paper Corporation converted into an affiliate company, by applying the equity method  
Financiere Bernard Dumas S.A.S. (France) made into a wholly owned subsidiary through acquisition of stock



**2015** Jiangmen Xinghui Paper Mill Co., Ltd. (Guangdong Province, China) begins production of white paperboard



Alpac Forest Products Inc. (Canada) and Alpac Pulp Sales Inc. (current Alberta-Pacific Forest Industries Inc.) made into wholly owned subsidiaries through acquisition of stock.



**2017** Changed company name to Hokuetsu Corporation and established Group Corporate Philosophy and Group mark



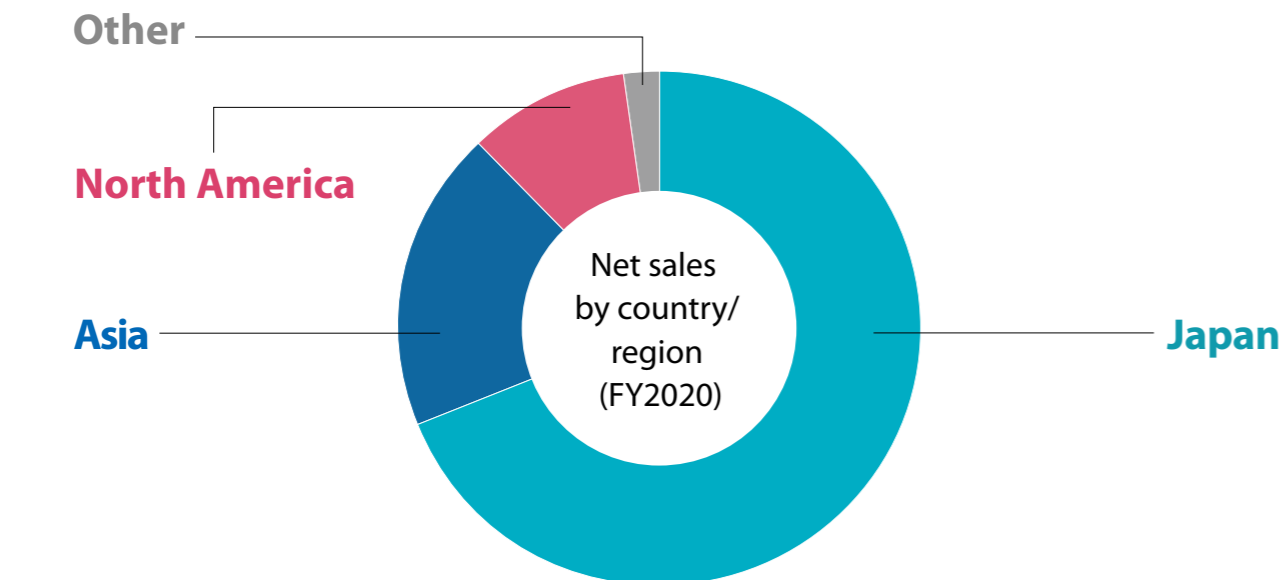
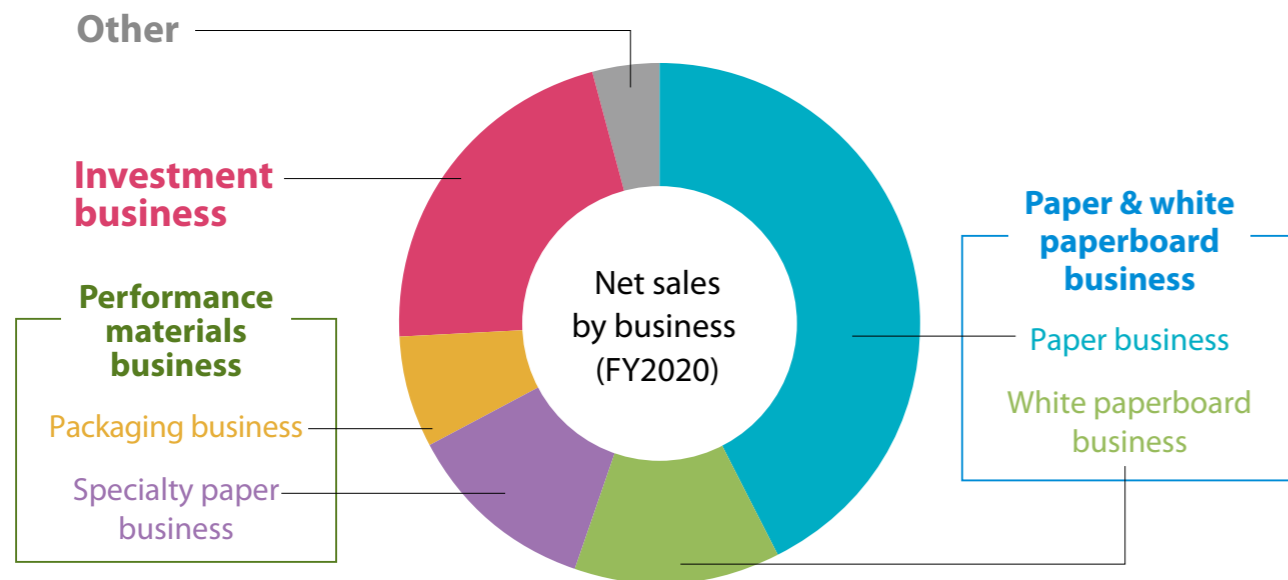
**2019** Formulated Group Environmental Charter



# At a glance Business Overview

Three businesses aiming to further improve efficiency and stabilize profits and expand into new business areas

**Consolidated sales of ¥222.4 billion** (fiscal year ending March 2021)



## Key developments

April 2020	July	November	March 2021
<ul style="list-style-type: none"> <li>Started containerboard business</li> <li>Started new long-term corporate vision, "Vision 2030," and new "Medium-term Management Plan 2023."</li> </ul>	<ul style="list-style-type: none"> <li>Received Logistics Environmental Conservation Activity Award</li> </ul>	<ul style="list-style-type: none"> <li>Formulated "Hokuetsu Group Zero CO<sub>2</sub> 2050"</li> </ul>	<ul style="list-style-type: none"> <li>Launched new woodchip carrier, Southern Ace</li> </ul>

HOKUETSU GROUP Integrated Report 2021

## 01 Investment Business

In order to realize the basic policy set forth in Medium-Term Management Plan 2023, the Business Investment Division will transform our portfolio into one that can grow sustainably, establish a management system that can make swift and definitive management decisions, and immediately implement measures at overseas Group companies. It also plays a role as an organization to realize fair and sound management by assessing the investment profitability of domestic affiliated companies accounted for under the equity method. In addition to managing and evaluating overseas Group companies such as Alberta-Pacific Forest Industries Inc. (AP-Forest) in Canada, and Jiangmen Xinghui Paper Mill Co., Ltd.

in China, we will transform our business portfolio in response to rapid structural changes in the economic situation surrounding our company by assessing existing domestic and overseas businesses and new investment businesses on the same scale and making definitive business investments.



Forest in Alberta, Canada

## 02 Paper and White Paperboard Business

The main products of the Paper & White Paperboard Business Division are printing and communication paper from the Niigata and Kishu mills, white paperboard from the Niigata and Kanto mills, and specialty paper from the Nagaoka Mill. The business division's coated paper and printing paper are their key products and boast a high market share in Japan. In addition, Kishu Mill's colored wood-free paper, with its tradition and rich color line-up, is loved by a wide range of customers. In recent years, we have been developing new products at the Nagaoka Mill such as food case applications and paper alternatives to plastic for white paperboard with the aim of making products that can deliver the highest satisfaction to our customers as stated in our Corporate Philosophy.



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## 03 Performance Materials Business

The Performance Materials Division's role is to foster the development of strategic business fields that will open up our future. Its aim is to rapidly realize new businesses by locating the Performance Materials Development Office, which is closely linked to our research laboratory, within the division, and having the sales and engineering departments work together to find and develop new businesses. In addition, we will position the containerboard business as a part of a new portfolio based on the technology cultivated in existing businesses since April 2020, and flexibly advance efforts to launch new businesses in Japan and overseas.





# 01 Investment Business



## Looking back on FY2020

Throughout the year, the Business Investment Division examined policies related to the Hokuetsu Group's restructuring of business in Japan and the optimal business portfolio from a global perspective, including overseas operations, and proposed several new business projects. One of these is our decision to enter the household paper business, which was announced on May 14, 2021. In addition, the division solicited a wide range of new business projects within the Hokuetsu Group. It selected promising projects from more than 250 applications and decided to move forward with feasibility studies.

### AI-Pac

The pulp business at Alberta-Pacific Forest Industries Inc. in Canada saw lower profits as prices fell due to the slump in the international pulp market. While working to prevent the spread of COVID-19, it has started work to install a recovery boiler heat recovery facility to expand its electricity sales business and is also working to expand its mill-site warehouse in order to optimize product distribution.

#### AI-Pac overview

<b>Location</b>	Boyle, Alberta, Canada
<b>Business</b>	Pulp manufacturing, electricity sales, etc.
<b>Products</b>	Hardwood pulp, softwood pulp
<b>Production capacity</b>	600,000 tons/year

### Jiangmen Xinghui Paper Mill

In the white paperboard business at Jiangmen Xinghui Paper Mill Co., Ltd., the procurement of imported recycled paper was completely banned from January 2021 due to the tightening of environmental regulations in China, forcing a switch to procuring all of its recycled paper in China. In addition, in the midst of the turbulent reorganization of the premium packaging paper

industry in China, the company conducted precise production and sales activities and set record-breaking profits. The company also updated its hot-air drying equipment to achieve its specified purpose and reduced energy costs to save energy.

#### Overview of Jiangmen Xinghui Paper Mill

<b>Location</b>	Jiangmen, Guangdong, China
<b>Business</b>	White paperboard manufacturing
<b>Products</b>	Coated duplex board, coating liners, white liners
<b>Production capacity</b>	300,000 tons/year

#### TOPICS Jiangmen Xinghui Paper Mill

##### Contributing to low CO<sub>2</sub> emission business with new technology

The upgrade work of the coater dryer at Jiangmen Xinghui Paper Mill was published in an industry machine supplier magazine as a success story of how introducing technology can improve production efficiency and build competitiveness in low CO<sub>2</sub> emission manufacturing.

**Better quality and 35% energy saving in Jiangmen Xinghui PM1**  
Coating section air dryers upgraded with Valmet Air Dryer Nozzles

**Results**

- Steam saving 31 - 41% (consumption of medium pressure steam decreased from 7.2 t/h → 4.9 t/h)
- Less melting and improved paper quality
- Better sheet runnability
- Lower dryer temperature (170 °C → 150 °C) and less heat load into machine hall

**Grade: Grey Back Board**  
Tape: 4300 mm  
Operation speed: 520 m/min

Valmet

### Daio Paper

Daio Paper became an affiliated company accounted for under the equity method in 2012. It is a general paper manufacturer headquartered in Tokyo and Shikoku. In particular, it is a highly

competitive company in containerboard and household paper, which helps diversify the Group's business portfolio.

## FY2021 outlook

Earnings at AI-Pac are expected to improve significantly on the back of the recovery in the pulp market. We will continue to implement measures to secure long-term stable profits that can withstand fluctuations in the pulp market and consider new businesses that take into account indigenous peoples and the environment.

With respect to Jiangmen Xinghui Paper Mill, there are continued drastic fluctuations in both raw material procurement and product sales. We will strive to secure long-term stable profits by stably securing recycled paper as a raw material and introducing cost-cutting technology.

## FOCUS FY2021 concrete action plan

### Entry into the household paper business

Household paper products such as toilet paper, tissue paper, and paper towels are daily necessities for which we expect stable demand in the future. Utilizing our wealth of knowledge and technology in high-quality, low-cost, and high-efficiency operations developed over the years, Hokuetsu Corporation has decided to establish a new household paper production facility at the Niigata Mill near the Kanto area, a mass consumption market, to produce and sell household paper products. Our household paper products are made with 70% or more "CO<sub>2</sub> zero energy," and we will continue to contribute to the realization of a carbon neutral society through the supply of these household paper products.

#### Overview of production facility

<b>Location</b>	Niigata City, Niigata Prefecture (at the Niigata Mill)
<b>Capital investment</b>	Papermaking equipment, processing equipment, product warehousing, etc.
<b>Products</b>	Toilet paper, tissue paper, paper towels, etc.
<b>Production capacity</b>	25,000 tons/year
<b>Planned capital expenditure</b>	Approximately ¥15 billion
<b>Start of production</b>	December 2023 (estimated)





## 02 Paper and White Paperboard Business



### Looking back on 2020

Paper and paperboard shipments fell sharply due to the COVID-19 pandemic. Hokuetsu Corporation has been moving forward with building an optimal production system and developing products for new applications in our paper and white paperboard businesses.

#### Paper business

Shipments of printing and communication paper in Japan fell significantly due to the decrease in demand for commercial printing stemming from the cancellation of and self-restraint exercised toward various events due to the COVID-19 pandemic and the decrease in PPC paper for offices due to the spread of telework. Shipments at Hokuetsu Corporation were approximately 20% lower than the previous year. By product, coated paper for leaflets and pamphlets fell sharply, but catalogs such as for mail-order shopping remained firm due to demand from more people staying at home. The volume was stable in the publishing industry as it saw record growth in comics and strong demand for study-aid books and illustrated reference books. Sales volumes increased with respect to exports as demand for paper remained firm due to the early economic recovery in China and the economic recovery in other Asian countries for which the impact of COVID-19 infections had not been so severe. Exports of base paper for paper cups and thermal base paper, primarily for processing applications, grew at the Kishu Mill.

### 2021 outlook

Based on "Medium-Term Management Plan 2023," we will move forward with the strengthening of our marketing and sales and flexibly respond to changes in society under a new organizational structure.

#### Medium-Term Management Plan 2023 initiatives

We launched a new organizational structure in April 2021. With regard to paper and white paperboard, we will proactively

#### White paperboard business

Of the approximately 1.17 million tons of white paperboard shipped by Japanese manufacturers in 2020, we maintained a 20% share of the market by shipping approximately 230,000 tons in Japan. The COVID-19 pandemic caused shipments of white paperboard by Japanese manufacturers to fall by nearly 10%, and Hokuetsu Corporation was also greatly affected. Regarding premium white paperboard and special paperboard, demand for souvenir packaging and POP advertising and catalog applications fell significantly due to a decrease in the movement of people caused by the stagnation of the tourism industry and as companies rethought advertising budgets. However, coated duplex board for food packaging remained relatively strong due to greater stay-at-home demand for home-cooked meals. Exports of coated duplex board to Southeast Asia resumed for the first time in 30 years in response to product price increases against the backdrop of rising global waste paper prices.

respond to changes in the market by reviewing our sales structure according to our customers' business models amid drastic changes in market trends. We will also strengthen our

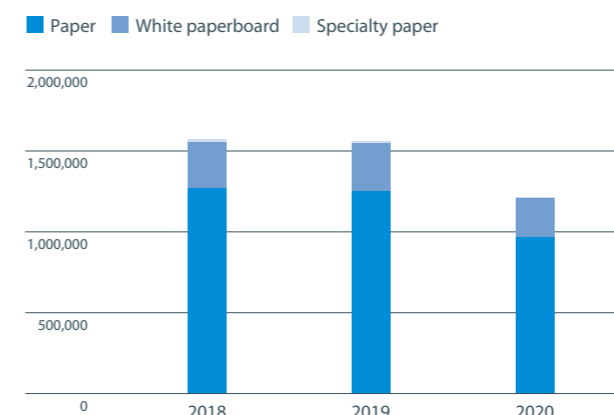
sales capabilities even during the COVID-19 pandemic and pursue improvements in the efficiency of production and distribution with the aim to realize synergy with the Group. We are also planning to meet new needs and enter new markets. We will actively work on developing primary food containers and plastic alternative containers as their demand is expected to grow in Japan and overseas. Regarding exports, with the shortage of containers becoming pronounced, we will strengthen our direct trading system and

work to transform the portfolio of our customers. We will reduce fixed and proportional costs at the Niigata, Kishu, and Kanto mills to restore competitiveness and build an optimal production system. In addition, with the newly added fancy paper at the Nagaoka Mill, the new organizational structure will aim for a synergic effect regarding colored paper "Yayoi color," and premium printing paper such as High-Apis NEO.

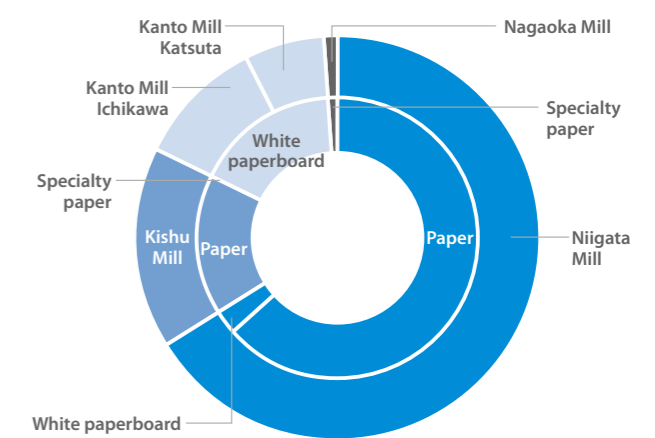
### Key efforts related to priority measures

Business strategy	Status of efforts
Build an optimal production system for printing and communication paper according to domestic and overseas demand trends	We will pursue a product mix for our profit center that responds to change and aim for maximum profits while being aware of the superiority of paper sales and pulp production as well as fluctuations in the price of waste paper.
Strengthen export and sales capabilities based on a direct trading system	We will promote direct trade in exports. We will increase orders for A3 paper to increase the operating rate of paper machine No. 9 (N9) at the Niigata Mill and focus on fields where demand for coated duplex board and uncoated paper for processing is expected to grow.
Expand sales of packaging products and plastic alternative packaging materials	Exports of base paper for paper cups are growing in response to the demand for alternatives to plastic. We will propose and expand the sale of paper products and cutlery as alternative materials for primary food containers used in fast food and convenience stores.
Develop products for new use by applying printing and communication paper manufacturing technology	We will work to develop new products, such as offering to new markets the functionality of transparent paper and water-absorbent paper for coasters, which were born from the application of manufacturing technology.
Discover latent demand for our products and improve customer satisfaction	We will establish the Wholesale Merchant Department, Direct Sales Department, and Publishing & Media Department in accordance with the business models of our customers to strengthen our sales capabilities. We will further aim to improve services by establishing a new Material Logistics Department and building a functional management system.
Incorporate new product needs into the packaging business as a united Hokuetsu Group	As part of strengthening our organization in response to the growing demand for paper products due to the transition away from plastics, we will thoroughly share information within the Hokuetsu Group and promptly respond to user requests to meet latent needs.
Expand the Kanto Mill Katsuta as a next-generation environmental manufacturing base	The Kanto Mill Katsuta has set its own goal of becoming a "CO <sub>2</sub> zero" mill by 2030. It will implement biomass power generation and employ mega solar as an effort to advance biomass power generation.

### Paper & White Paperboard Business Division Production (t)



### Production ratio by product type and mill (2020)

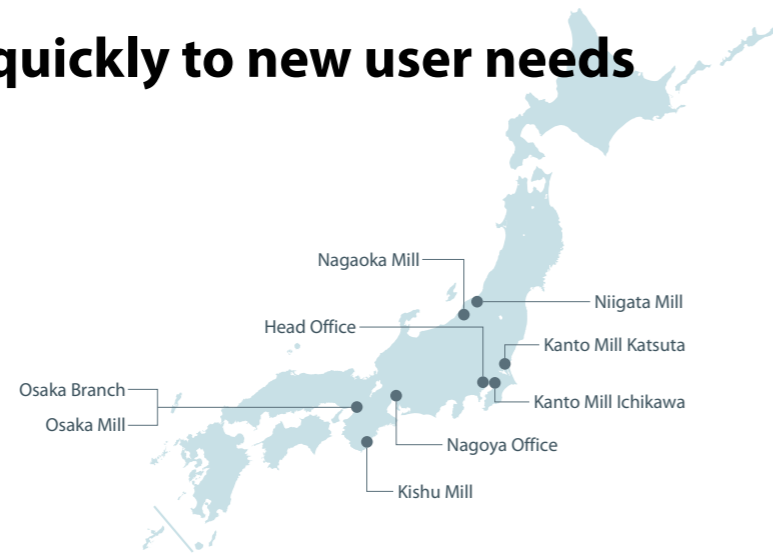


## Paper & White Paperboard Business

### FOCUS Responding quickly to new user needs

01

#### Transition to a new organization

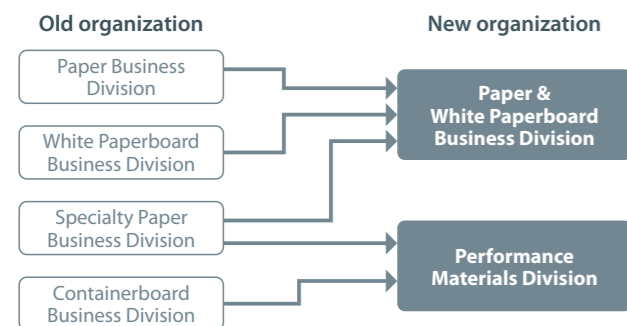


#### Features

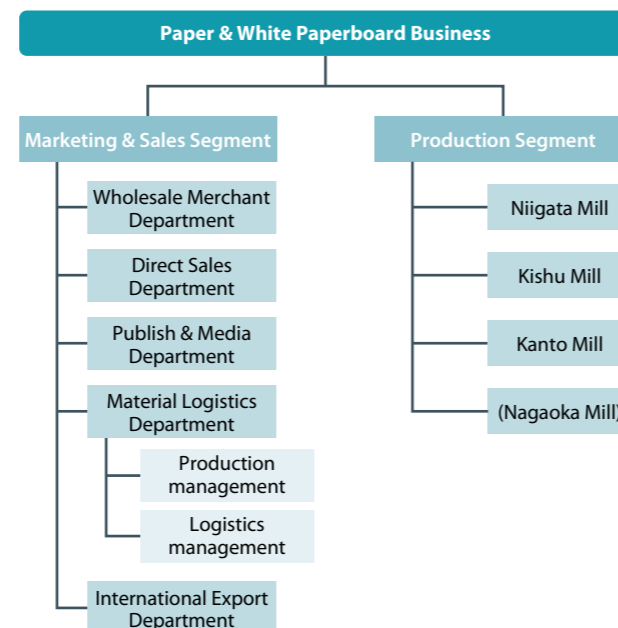
We reviewed the organization of our business divisions, which had been created based on product items, and consolidated the existing paper business (printing and communication paper, specialty paper and fine paper) and white paperboard business. The Sales Department follows the business types of our customers and be reorganized as the Wholesale Trading Department, Print-on-Demand Department, Publishing Department, and the International Export Department. The new division will leverage the strengths of handling all of our products and strive to uncover latent needs in specialized categories and strengthen its sales capabilities.

In addition, we will advance our sales activities in collaboration with Hokuetsu Paper Sales, strengthen accompanying visits to customers, propose products that meet customer needs, and implement meticulous responses in an integrated manner to build relationships that earn trust. The Material Logistics Department (new) is divided into production (paper making) and logistics (delivery), and coordinates daily with the Niigata Mill, Nagaoka Mill, Kishu Mill, and Kanto Mill to improve efficiency by optimizing production, rationalizing logistics and consolidating inventory.

#### Organizational structure



#### New organization



02

#### Plastic alternatives (paper container material)



#### Product introduction

Base paper for paper cups is a paper that is primarily used for paper cups, paper plates, and paper trays. In recent years, the advantages of paper have been recognized from the viewpoint of the SDGs and decarbonization, and base paper for cups is attracting attention. There are two types of base paper for cups, coated and uncoated paper products, both of which comply with Japan's Food Sanitation Act, and this material is used as base paper for various foods.

#### Characteristics

- **Coated products:** Coated products have a coating applied to the surface of the paper. Applying a coating yields a higher coloring effect than that of uncoated products, making the paper suitable for printing. Due to its high print reproducibility, it is suitable for use in applications that require decoration. Our paper is characterized by layering many sheets of paper into a laminate, which resists tearing and cracking during molding and is suitable for various processes. Its basic weight is 190-450g/m<sup>2</sup>.  
**Main uses:** Ice cream cups, food packaging
- **Uncoated products:** Unlike coated products, uncoated products have an uncoated paper surface. The paper is soft to the touch because it does not have a coating. Our paper is a single-layer paper manufactured from a single sheet, and it is soft because it has a higher specific volume than coated products, making it easy to process. For this reason, it is used not only for cups but also for trays and paper plates. In addition, since it is manufactured on a large machine, it has the advantage of being suitable for mass production. Its basic weight is 100g/m<sup>2</sup> to 280g/m<sup>2</sup>.  
**Main uses:** Paper cups, paper plates, paper trays

#### Future outlook

We entered the paper cup market in 2015 and have expanded our sales by constantly improving our products. As coated products have been used in a variety of applications, we will continue to develop a wide range of products while earnestly addressing the needs of our customers. Currently, we export most of our uncoated products, but will increase sales in Japan in the future. In both cases, we will further advance product characteristics such as processing suitability and will also work to develop functional base paper moving forward. We have formulated "Hokuetsu Group Zero CO<sub>2</sub> 2050" and set the goal of becoming carbon-neutral. Hokuetsu Corporation can provide the best solutions for the needs of customers seeking to decarbonize. We will offer various proposals to our customers while promoting both our quality and environment aspects.

#### TOPICS

##### Plastic alternatives - Paper cutlery base paper

The Hokuetsu Group also produces base paper for paper cutlery, such as paper spoons and paper muddlers, which serves as an alternative material to plastics.





# 03 Performance Materials Business



## Performance Materials Department

### Looking back on 2020 and future outlook

The Performance Materials Department divides its priority fields into four categories and boldly takes on the challenge of creating new value in paper making, centered on industrial paper made for IoT and 5G.

Priority area	Paper product
Advanced information technology-related (IOT/5G-related) Smartphones, automobiles, industrial equipment, etc.	Chip carrier tape base paper (HOCTO), abrasive-coated base paper, metal interleaving paper, electromagnetic noise suppression sheets
Environment and hygiene-related Water, air, medical, etc.	Reverse osmosis membrane (RO membrane) backings, filter media, battery separators, dry non-woven fabrics, medical-related
Plastic alternatives and food-related	Specialty fiber board (PASCO), oil resistant paper, oxygen absorber-related, packaging-related
Other functional paper (communication paper-related, etc.)	Crimping paper, foam paper, OCR paper, various processed base paper

#### Advanced information technology-related (IOT/5G-related)

In 2020, while domestic demand for paper shrank due to the impact of the COVID-19 pandemic, industrial paper, such as HOCTO, a base paper for chip carrier tape for transporting electronic components, and abrasive-coated base paper, performed well mainly in China, which recovered quickly from the pandemic. Global economic activity is expected to recover from 2021 onwards, and further sales increase can be expected.

#### Plastic alternatives and food-related

The SDGs have drawn attention to the issue of plastic waste worldwide, and we are strengthening our sales activities with the keyword of plastic reduction. The number of customers that have made decisions to adopt our products, such as oil-resistant paper trays for major convenience stores, has been steadily increasing and we will continue to expand the range of customers moving forward.

#### Environment and hygiene-related

Our mainstay reverse osmosis membrane (RO membrane) backings, which are a necessity for water treatment applications, are performing well both in Japan and overseas and have avoided being affected by the COVID-19 pandemic. Due to heightened attention to hygiene, our filter media for air filters has also performed well.

#### Other functional paper (communication paper-related, etc.)

Processed base paper applications remained firm despite the COVID-19 pandemic affecting communication paper in general, including our mainstay crimped paper. We will work to grow sales of new products such as IJ Form, and actively roll out sales activities.

## Containerboard Department



No. 6 paper machine at the Niigata Mill

### Niigata Mill No. 6 paper machine specifications

Start of production	April 2020
Type	On-top multi-cylinder fourdrinier
Wire width	5,800 mm
Finishing width	5,150 mm
Products	Containerboard base paper (corrugated mediums, reinforced corrugated mediums, etc.)
Production capacity	130,000 t/year
Daily production	400 t/day

\* Containerboard base paper at the Niigata Mill is forest management certified.

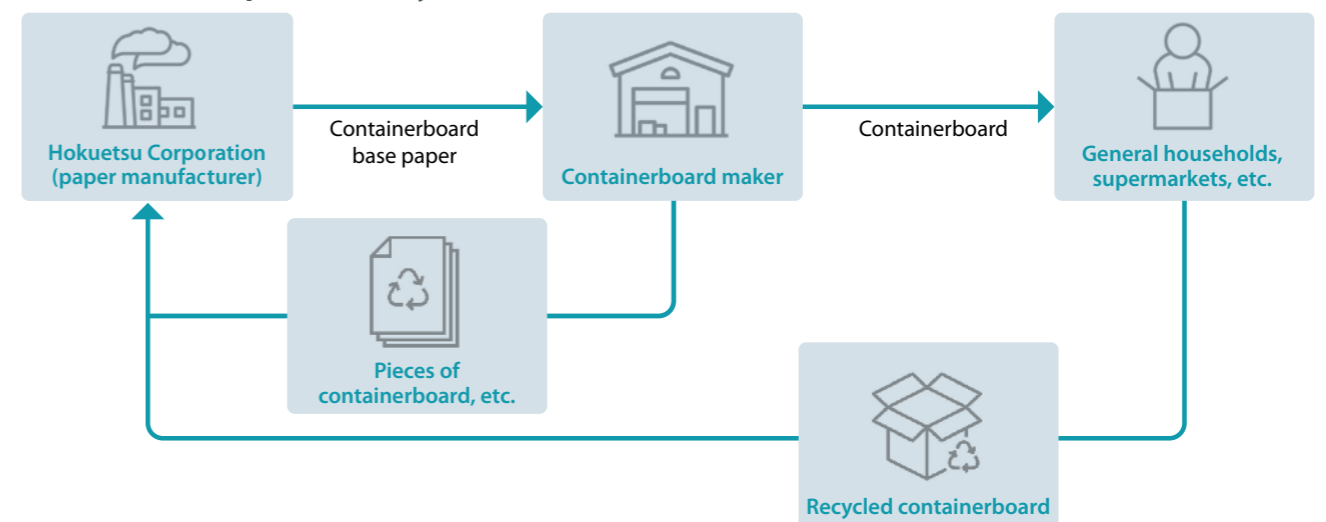
### Looking back on 2020

From April 2020, we upgraded the No. 6 paper making machine at the Niigata Mill that stopped its operation in 2019 and started production and sales of containerboard base paper under the slogan of "local production for local consumption" to make the best use of used containerboard base paper generated in Niigata prefecture. Until now, there was no mill in Niigata prefecture that produced containerboard base paper, and all recycled paper generated in the prefecture was transported outside its borders. As such, the Group's production of containerboard at the Niigata Mill will reduce the environmental load associated with the transportation of recycled paper, and will also enable containerboard manufacturers, who are customers, to use base paper with a lower environmental load. Although we just entered this market in fiscal 2020, we were able to receive many orders because of the confidence in the production management system and quality that we have cultivated over the years at the Niigata Mill, and the affinity for the idea of "local production for local consumption."

### Prospects for the future

We will strengthen sales both domestically and for export and maximize production efficiency to improve profitability. At the same time, along with the current corrugated medium base paper, we will actively advance the development of a newly-proposed base paper that can maintain the same performance (strength) as before with less raw material (thin). In its development, we will use the features of the paper machine and the paper making technology developed from our conventional printing paper production. From production to sales, we will continue to make effective use of locally-produced containerboard for highly efficient production and realize scheduled delivery to customers. By doing so, we will reduce our environmental load in the transportation of products thoroughly upstream and downstream. In terms of exports, we will make effective use of the local port of Niigata and aim for flexible sales depending on the destination, whether China, South Korea, or ASEAN countries.

### Containerboard production cycle

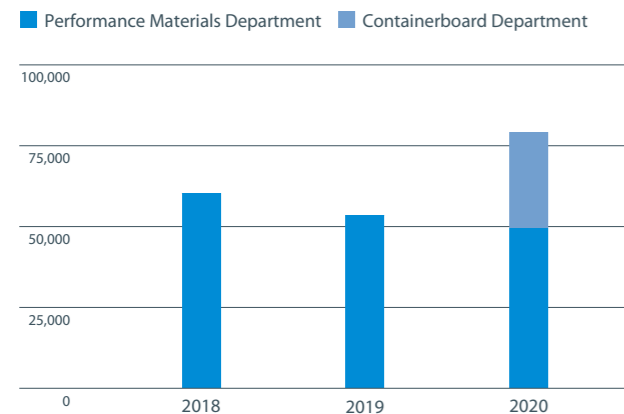


## Performance Materials Business

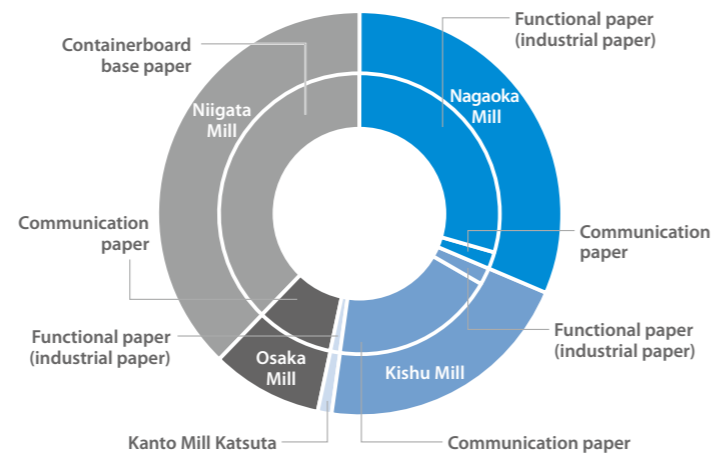
### Key efforts related to priority measures

Business strategy	Status of efforts
<b>Performance Materials Department</b>	
Efforts related to measures to build a system to produce and sell growth products from a global perspective	Bernard Dumas, a French Group company, boasts the top share of battery separators. We will continue to expand our sales channels to the US market through our American sales company, HC USA.
Capture demand for plastic alternatives	We are expanding sales of PASCO hard fiber board for hooks and hangers for major apparel companies. Oil-resistant paper plays an active role in fried food trays at convenience stores and is being developed as a product to meet the stay-at-home demand and the trend of reducing the use of plastic.
Develop businesses that leverage the strength of the Group's integrated production from base paper to processed products	HOCTO chip carrier tape base paper uses raw materials pulped at the Niigata Mill and produced at the Nagaoka and Kanto Katsuta mills. Some products are processed by Toh Tech (subsidiary in China) and sold to local customers.
Restructure our business portfolio and study new fields and new businesses	In the paper processing field, we will move forward with concentrating on our core competencies and focus on the packaging field.
Strengthen business by deepening cooperation among Group companies	We will collaborate with six companies consisting of five affiliated companies under our control (Hokuetsu Toyo Fibre, Nikkan, Shanghai Toh Tech, HC USA, Bernard Dumas) and Hokuetsu Package, to build a business structure that can create more Group synergies.
<b>Containerboard Department</b>	
Deepen relationships with customers and expand the basics of production and sales in the containerboard base paper business	We listen directly to the comments of many customers and quickly reflect their needs in production and sales.
Promote the improvement of production efficiency and improve profitability at an early stage	We are working to improve production efficiency by boosting efficiency in each department. We will effectively remove foreign materials in recycled paper and contribute to improving overall efficiency.
Capture customer needs and link them to the future growth of the containerboard business	We will develop thinner and thicker papers and develop the market with the aim of expanding their introduction in e-commerce and mail ordering, which are expected to grow.

Performance Materials Division: Production volume (t)

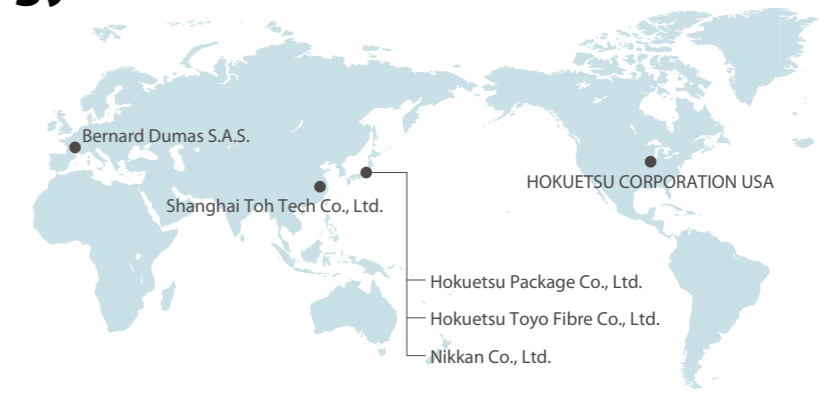


Production ratio by product type and mill (2020)



### FOCUS Building a new organization to pursue Group synergy

#### Cooperation with Group companies



#### Background

Due to the organizational structuring dated April 1, Hokuetsu Package, whose strength is in the growing packaging business, became a member of the Performance Materials Department, in addition to our five existing Group companies. This has further strengthened the organization, which covers everything from upstream base paper manufacturing to downstream processing segments. We will deepen cooperation with Group companies and provide products that satisfy our customers.

#### Development organization

In the Performance Materials Department, we will aim for sustainable growth by enhancing market competitiveness in the priority fields we have set. To expand our new business domain, we have built an organization that allows us to work closely with the Performance Materials Development Office, which is located within the Performance Materials Division, so we can quickly respond to customer needs. In addition, we have Group companies that have processing segments covering each category, so we have an organization in place that is capable of proposing ideas in a concrete form.

Priority area	Group Company	Business
Advanced information technology-related (IOT/5G-related) Smartphones, automobiles, industrial equipment, etc.	Shanghai Toh Tech Co., Ltd.	Processing and sales of chip carrier tape
Environment and hygiene-related Water, air, medical, etc.	Bernard Dumas S.A.S.	Manufacture and sale of glass fiber sheets
	HOKUETSU CORPORATION USA	Sale of various paper products to the US market
Plastic alternatives and food-related	Hokuetsu Package Co., Ltd.	Manufacture and sale of paper containers and processed paper products
	Hokuetsu Toyo Fibre Co., Ltd.	Manufacture and sale of vulcanized fiber products
Other functional paper (communication paper-related, etc.)	Nikkan Co., Ltd.	Processing and sales of various paper products

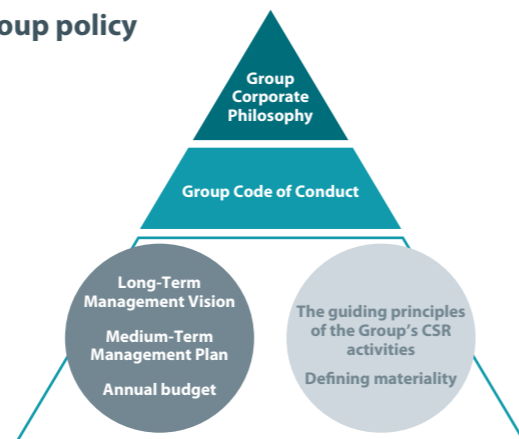
# Initiatives in CSR Activities

The sustainability of a company's business activities has become increasingly important. In our case, the Group aims to create new value by supporting the SDGs and advancing our own CSR activities while keeping international standards in mind. In FY2021, we will launch "Zero CO<sub>2</sub> initiatives," the priority issues of our CSR Activity Goals and move forward with business activities that meet the demands of all stakeholders.

## Group policy

For the Group to realize the Group Corporate Philosophy, each employee is keenly aware of the Group Code of Conduct in conducting business, while advancing CSR activities through the goals of our Long-Term Management Vision and Medium-Term Management Plan, and our main business. It is through these two pillars that we seek to further enhance new corporate value.

### Group policy

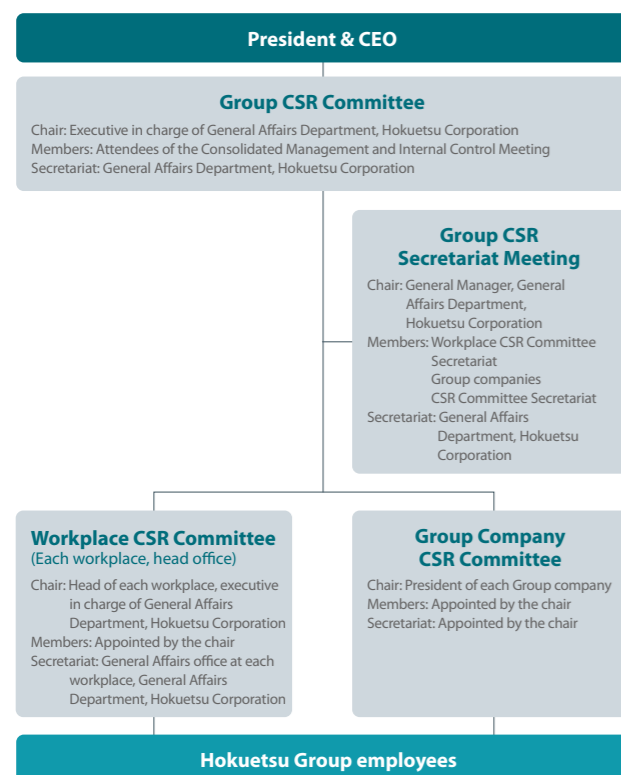


## The guiding principles of the Group's CSR activities

The Hokuetsu Group, based on the Group Corporate Philosophy, seeks to truly enhance corporate value and works to improve society globally through its business using its strong

relationships of trust with all stakeholders, including employees, customers, business partners, suppliers, consumers, shareholders, and local communities.

## CSR Activity Goals structure



## Relation to SDGs

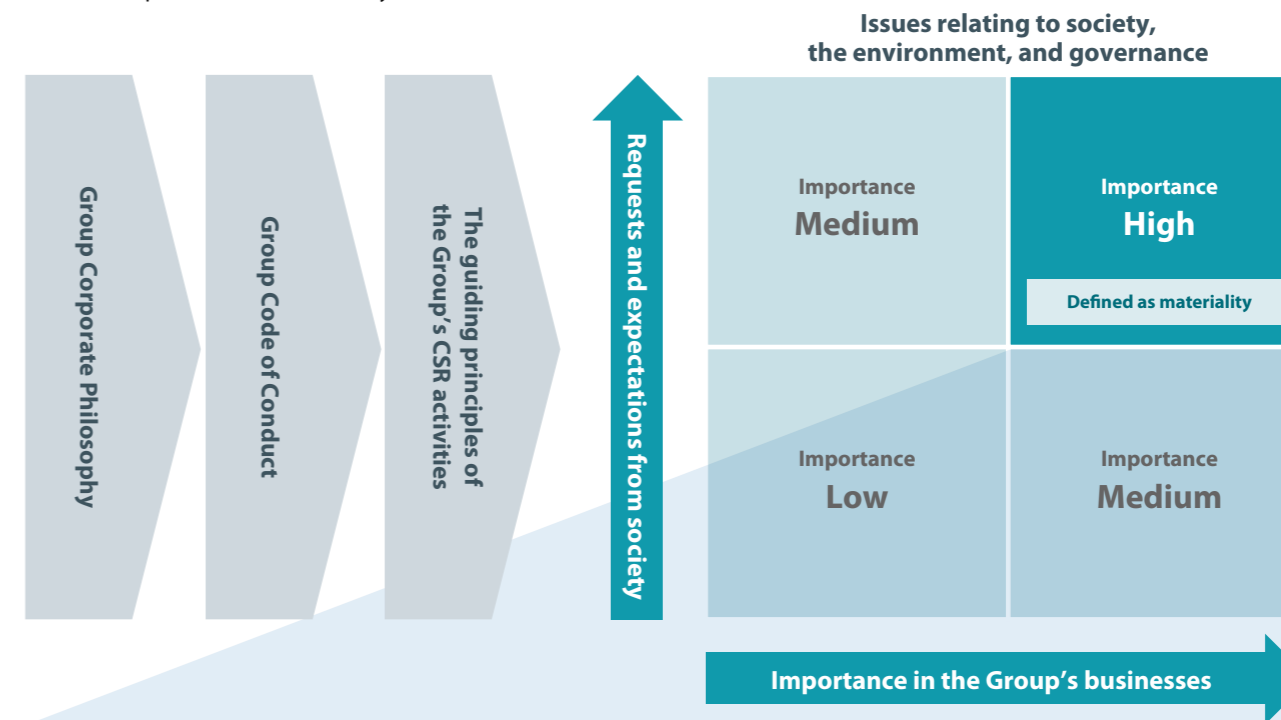
The principles of a "people focused business group," "socially and environmentally responsible," and "innovative manufacturing on a global scale," stated in the Group Corporate Philosophy, are in line with the SDGs policy. The Group promotes its CSR activities based on the 17 goals and 169 targets of the SDGs.



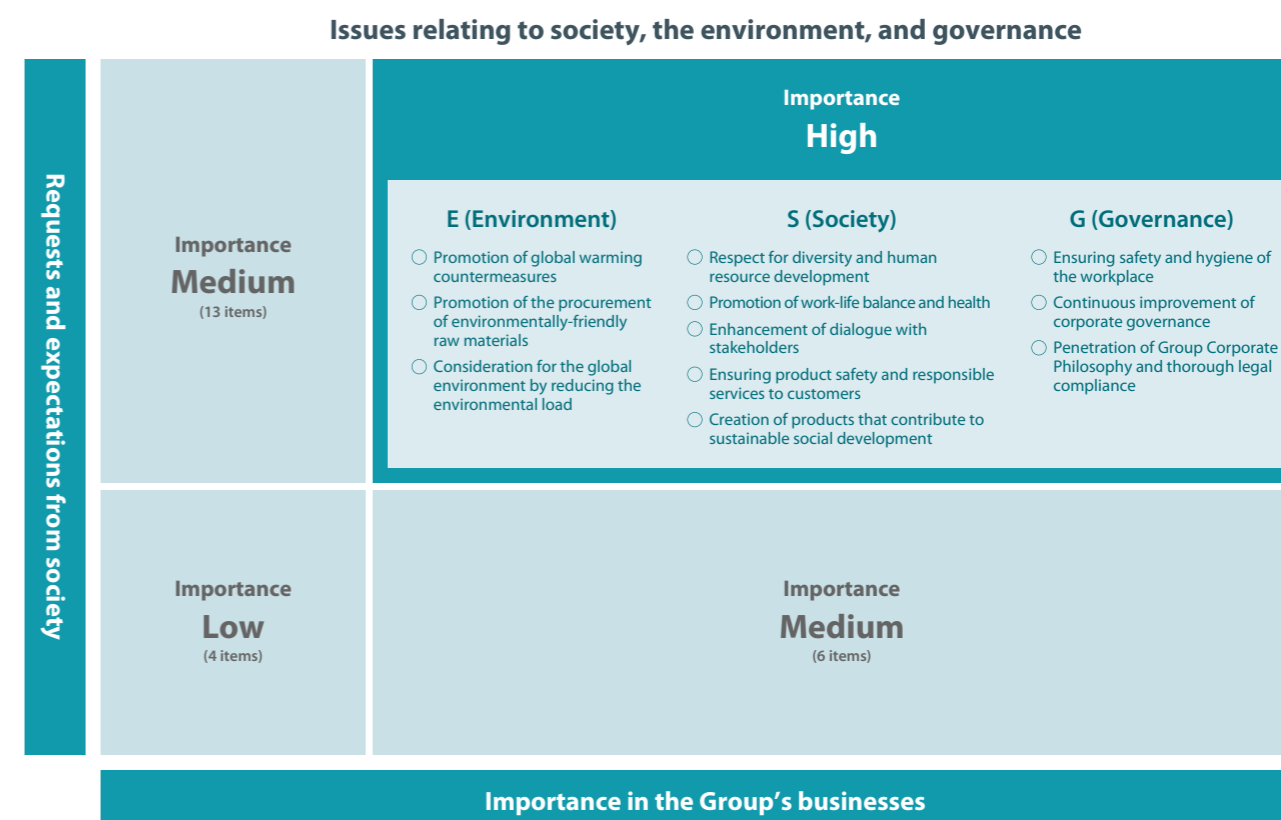
## Process of identifying materiality

The Group has selected 34 issues based on the two axes of "requests and expectations from society" and "importance in the Group's businesses" based on our Group Policy. In FY2020, we identified important issues (materiality) that should be

prioritized in the medium to long term. We believe that identifying materiality and contributing to resolving social issues will enhance the sustainability of the Group.



## FY2021 Identifying materiality






## FY2020 CSR Activity Goals

In April 2021, the Group CSR Committee set new CSR Activity Goals to achieve the medium- to long-term target of "Zero CO<sub>2</sub> 2050." The goals are classified as issues, with the environment

being classified as a priority issue that we should focus on. We will continue to engage in CSR activities as a group.

No.	Category	CSR activity goal	Relevant SDGs		
			Goal	Target	
<b>Priority issue</b>					
1	Environment	Achieve "Zero CO <sub>2</sub> 2050" to reduce CO <sub>2</sub> emissions to virtually zero by 2050 through the use of biomass energy and the latest technology.	      	6.3 7.2 9.4 11.6	12.4 12.5 13.3 15.2
<b>Issue</b>					
2	Raw Material Procurement	Promote the procurement of environmentally friendly raw materials	 	12.7 15.4	
3	Consumer Issues	Continue to ensure product quality and respond responsibly to customers		14.1	
4	Work environment	Ensure safety and hygiene of the workplace		3.6	
		Promote respect for diversity and development of human resources		5.1 5.c	
		Promote better health along with work-life balance		8.5	
5	Organizational governance	Promote continuous improvement of corporate governance			
		Establish the position of Chief Risk Management Officer (CRO) and strengthening risk management of issues such as the novel coronavirus		3.3	
6	Fair business practices	Aim for the Group Corporate Philosophy to take hold and ensure thorough legal compliance	 	10.2 10.3 16.5	
7	Relationship with society	Continue to enhance dialogue with stakeholders			

## 1. Environmental Conservation Initiatives

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

The Hokuetsu Group established its Group Environmental Charter based on the Group Corporate Philosophy and Group Code of Conduct.

To realize the Charter, we established 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 Policy

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 our fundamental objective in environmental conservation is to reduce all environmental burdens to meet the highest environmental standards in the world using the latest technology.

#### Group Environmental Target 2030

In order to realize the principles of the Group Environmental Charter, we established Group Environmental Goal 2030 as the Group's vision 10 years into the future. We are moving forward from various aspects to promote the environmental conservation, including measures to combat global warming, which the Group considers to be the most important environmental issues.

\* Visit our website for more details.  
(<http://www.hokuetsucorp.com/en/environment/charter.html>)

#### Group Environmental Target 2030

<b>1. Global warming countermeasures</b>
<ul style="list-style-type: none"> <li>• Reduction of CO<sub>2</sub> emissions by 43% (approximately 450,000 tons) compared to fiscal 2005 levels.</li> <li>• Promotion of CO<sub>2</sub> emission reductions in the logistics sector.</li> </ul>
<b>2. Forest development and management</b>
<ul style="list-style-type: none"> <li>• Procurement of all wood raw materials from forests with established proof of legality and sustainability (maintaining 100% usage rate).</li> <li>• Continuance of forest management aimed at improving biodiversity and multiple functions of forests.</li> </ul>
<b>3. Resource utilization and recycling</b>
<ul style="list-style-type: none"> <li>• Reduction of water consumption.</li> <li>• Promotion of effective use of wastepaper by expanding products using wastepaper.</li> </ul>
<b>4. Waste countermeasures</b>
<ul style="list-style-type: none"> <li>• Improvement of effective utilization rate of waste.</li> </ul>
<b>5. Compliance with environmental regulations and management of emissions</b>
<ul style="list-style-type: none"> <li>• Reduction of environmental load substances associated with wastewater and exhaust gases.</li> </ul>
<b>6. Environmentally-friendly products/technologies</b>
<ul style="list-style-type: none"> <li>• Expansion of environmentally friendly products (development of products that solve problems of ocean plastic pollution).</li> <li>• Use of raw materials and chemicals with low environmental impact.</li> </ul>

Target: Group companies in Japan and all overseas production sites

#### TOPICS

##### Disclosing climate-related financial information Endorsing the Task Force on Climate-Related Financial Disclosures (TCFD)

In February 2021 we endorsed the TCFD. Moving forward, we will continue to disclose information based on the TCFD framework. Hokuetsu Corporation recognizes the risks of climate change as follows. Global warming and extreme weather resulting from climate change causes droughts, forest fires, torrential rains, large typhoons, and landslides. These disasters affect the procurement of wood and other raw materials, and pose risks such as harming the value of forest assets owned by the Group. Moreover, disruption of the supply chain and to the Group may affect

various business activities. In view of such a situation, the Group has been making capital investments for fuel conversion to biomass and other fuels in order to reduce the risk of climate change and is taking the initiative in reducing greenhouse gas emissions. Furthermore, as part of our environmental management, we formulated "Hokuetsu Group Zero CO<sub>2</sub> 2050," in November 2020 to reduce CO<sub>2</sub> emissions to virtually zero by 2050 and are working to promote environmental management.



## I Natural materials as alternatives to plastics

The Group is developing a number of special materials made from biomass. Among them, PASCO and vulcanized fiber not only contribute to the construction of a circular society, but also appeals to the heart (sensibilities) of users due to their unique

texture, in addition to their strength and durability that surpass that of paper. We are working in collaboration with companies that are design and environment-conscious to expand sales of the material.

## I PASCO

PASCO is board paper made by laminating dozens of layers of paper made mainly from recycled materials and renewable wood pulp fibers. Its thickest type is as thick as 5 mm. One of its features is that it can be used for a long time compared to ordinary paper materials because of its excellent strength and durability. PASCO's unique warmth and softness, as well as its unique look of the leather-like surface coating, gives users a sense of relief

while stimulating the creativity of creators. It is used in a variety of applications and fields, from living interior materials such as store fixtures, boxes, trunks, and stationery, to industrial materials such as electrical insulation, and footwear materials such as shoe insoles. The application area of PASCO is being expanded.



Rescue board that can withstand up to 200 kg even if it gets wet



Boomerang type hanger imagining a circular economy

## I Vulcanized fiber

The Group commercialized vulcanized fiber in the 1930s. Part of the cellulose fiber that makes up paper is made into ultra-fine (nano-sized) fibers, and the cellulose nanofibers firmly bond to the cellulose fibers. In other words, it is a tough, all-cellulose (all biomass) material. Vulcanized fibers were invented in the United Kingdom approximately 160 years ago, and they are durable and strong material that allows bending and shallow 3D drawn molding. In addition to acting as a base material for conventional polishing discs and travel cases, it has a growing range of applications that are closely related to daily life, such as mini hangers, hooks and cards that replace plastics.



A shoehorn with a beautiful smooth twist

## I Recipient of "Judges' Special Award" in the Zero Carbon Challenge Cup

Our Kanto Mill Katsuta was awarded the "Judges' Special Award" at the Zero Carbon Challenge Cup hosted by the Japan Network for Climate Change Actions, which recognizes various efforts to connect companies and organizations to realize a carbon-free society. The judges praised our mill's active measures under the theme of "Challenge to Zero CO<sub>2</sub> through the Use of Biomass

Boilers" to prevent global warming by using biomass power generation and mega solar, which achieved a biomass ratio of 90% during normal operation. Going forward, we will continue to work toward the early realization of "zero CO<sub>2</sub>" mills with the aim of further improving the ratio of biomass.



Presentation of the final results



Reporting their win to the Ibaraki prefecture Governor Oikawa

## I Certification as an "Eco Rail Mark" company

We were certified by the Ministry of Land, Infrastructure, Transport and Tourism in August 2021 as an "Eco Rail Mark" company, a system established by the Ministry and managed by the Railway Freight Association. Freight transportation by rail is an environmentally friendly method that emits much less CO<sub>2</sub>, which causes global warming, than other transportation methods. The Eco Rail Mark is a system that certifies the eco rail mark for companies that transport goods and raw materials by rail above a certain level. Displaying the mark provides consumers with a benchmark. On the occasion of receiving Eco Rail Mark certification, we will further engage in efforts aimed at realizing a society in which people and nature coexist.



## I Held "HOKUETSU GROUP Paper and Environment Exhibition 2020" online

As a part of our environmental communication, we launched the online exhibition "HOKUETSU GROUP Paper and Environment Exhibition 2020" in 2020.

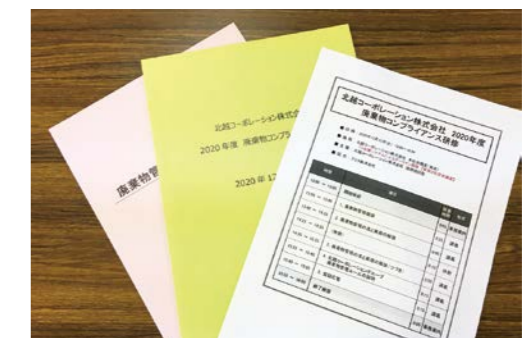
The exhibition showcased various initiatives that we take, such as using biomass energy to reduce CO<sub>2</sub> and paper alternatives to plastics. We will continue to hold this exhibition online as an alternative to EcoPro, in which we have found difficult to participate due to the COVID-19 pandemic.



HOKUETSU GROUP Paper and Environment Exhibition 2020

## I Training in waste compliance

We hold waste compliance training every year for employees involved in waste management work in the Group. In FY2020, to avoid novel coronavirus infections, we connected 10 offices via a video conference to conduct training online. By holding the training online, all members from across Japan were able to participate without restrictions on the location. 71 people attended, which was about twice as many as usual. We will continue our efforts to improve waste compliance.

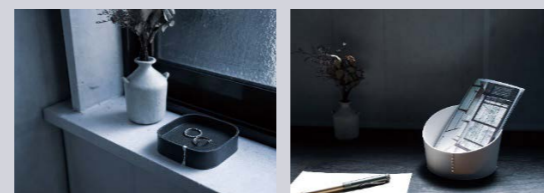


Texts used for waste compliance training

### TOPICS

#### Brand development through co-creation with partner companies

We are also focusing on branding products using PASCO. The Creative Design Department of Hokuetsu Package Co., Ltd. and KaB DESIGN, Inc. have collaborated to co-create a concept brand with a special feeling of storing important things. As an example, we have launched the "Shimauto"™ series of concept products that make it fun to store things.



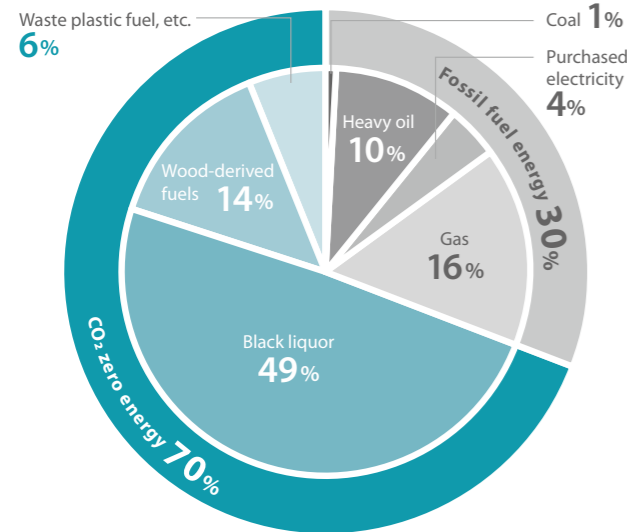
"Shimauto"™ series trays and boxes



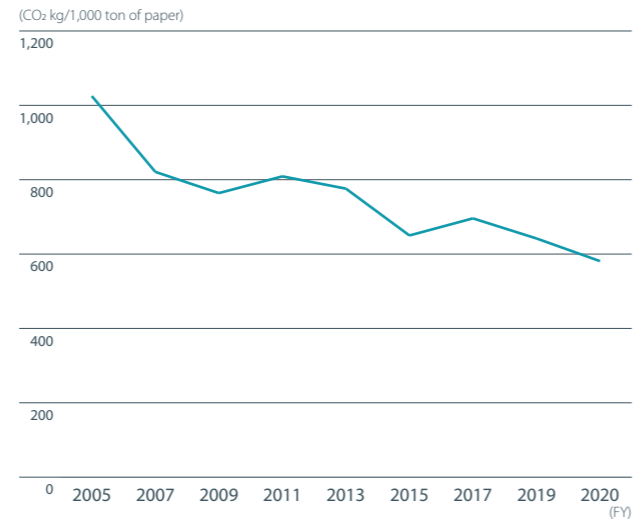
## Environmental-Related Data

The Group practices a minimum environmental impact policy with the aim to minimize any impact on the environment. One of those efforts is the global challenge of reducing CO<sub>2</sub> emissions. Our per-unit emission level is among the best in the industry, through the use of "CO<sub>2</sub> zero energy" and natural gas, which are low-emission fuels.

### Hokuetsu Corporation's energy composition ratio (results for FY2020)



### Hokuetsu Corporation's per-unit CO<sub>2</sub> emission trend



Scope: Hokuetsu Corporation

## FY2020 Material balance

### Input

Fossil energy input*1	9,779,000 GJ	
Non-fossil energy input*1	21,947,000 GJ	
Input of water resources	88,829,000 m <sup>3</sup>	
Raw material consumption	Wood chips	1,363,000 t
	Purchased pulp	60,000 t
	Wastepaper	253,000 t

### Output

CO <sub>2</sub> *1	581,000 t	Wastewater BOD*2	336 t	
SOx	405 t	Wastewater COD*2	862 t	
NOx	2,031 t	Wastewater SS	525 t	
Dust		Industrial waste generated	224,000 t	
		Industrial waste final disposal volume	5,000 t	
Chemical substances subject to the PRTR law	Discharge	1.2 t	Paper/paperboard production volume	1,255,000 t
Chemical substances	Transported	0 t		

## Changes in Environmental Performance

		Unit	FY2016	FY2017	FY2018	FY2019	FY2020
Air	SOx	kg/ton of paper	0.21	0.33	0.36	0.31	0.32
	NOx	kg/ton of paper	1.36	1.45	1.36	1.31	1.60
	Dust	kg/ton of paper	0.06	0.07	0.07	0.07	0.06
Water quality	Water consumption	m <sup>3</sup> /ton of paper	57.3	58.1	59.1	60.6	70.1
	Wastewater BOD*2	kg/ton of paper	0.25	0.26	0.29	0.28	0.27
	Wastewater COD*2	kg/ton of paper	3.33	3.54	3.94	4.23	4.37
	Wastewater SS	kg/ton of paper	0.28	0.28	0.35	0.36	0.42
Chemical substances	Volume of chemicals subject to the PRTR law discharged/transported	g/ton of paper	1.45	0.91	0.99	0.96	-
Industrial waste	Final disposal	kg/ton of paper	5.7	4.5	4.3	4.3	4.0

\*1 Energy input and CO<sub>2</sub> emissions are provisional values as of August 2021.

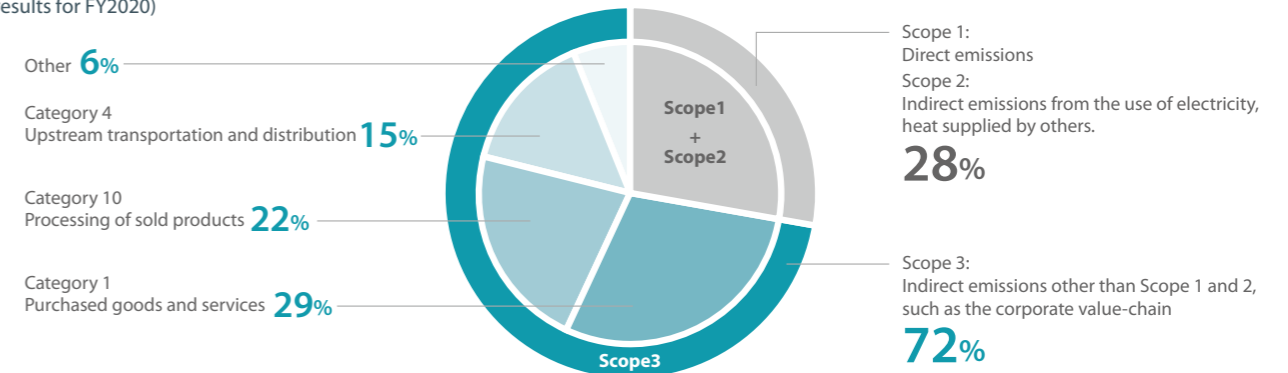
\*2 Mills that discharge wastewater to rivers use BOD, while mills that discharge wastewater to the sea use COD to manage wastewater quality.

## 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 not just during our own production stages but across the entire corporate

value-chain (Scope 3 emissions). From FY2017, we have been working toward effectively reducing greenhouse gas emissions as an entire Group, by expanding our scope to overseas Group companies to achieve the goal.

### Estimates of greenhouse gas emissions across the entire corporate value-chain of the Group (results for FY2020)



## Environmental Conservation Cost

Scope of calculations: Hokuetsu Corporation Target period: April 1, 2020 - March 31, 2021 Monetary unit: Millions of yen

Category	Major activities and their results	Investment	Cost
1. Business area costs: Environmental conservation costs to control environmental impact that results from key business operations within the business area		3,631	5,623
Composition	(1) Pollution control cost	376	2,633
	a. Air pollution control measures	91	398
	b. Water pollution control measures	250	2,171
	c. Noise, vibration, and odor control measures	35	62
	(2) Global environmental preservation cost	2,158	1,062
	a. Prevention of global warming	1,883	1,056
	b. Energy conservation	260	(Included in manufacturing cost)
	c. Company-owned tree farms in Japan	15	5
	d. Afforestation activity overseas	-	-
	(3) Resource circulation cost	1,095	1,928
a. Efficient utilization of resources	1,047	(Included in manufacturing cost)	
b. Reduction, recycling, treatment, disposal, etc., of industrial waste	47	1,928	
2. Upstream/downstream costs: Environmental preservation costs to control environmental impact that results from key business operations upstream and downstream		-	470
Composition	(1) Purchase of materials, etc., with smaller environmental impact	-	3
	(2) Recycling and collection of containers and packaging	-	467
3. Administrative costs: Environmental conservation costs stemming from administrative activities		-	250
Composition	(1) Environmental training for employees, etc.	-	1
	(2) Building, implementation, and obtaining certification for an environmental management system	-	8
	(3) Monitoring and measuring environmental impact	-	67
	(4) Running costs for an environmental conservation system, etc.	-	171
4. R&D costs: Environmental conservation costs stemming from R&D activities		-	146
Composition	(1) R&D to develop products that contribute to environmental conservation	-	36
	(2) R&D and planning to curtail environmental impact at the manufacturing stage, etc.	-	110
5. Social activity costs: Environmental preservation costs stemming from social activities		4	68
Composition	(1) Planting of greenery, beautification, etc.	4	43
	(2) Support, etc., of environmental preservation activities by the local community	-	-
	(3) Support for environmental groups	-	11
	(4) Disclosure of environmental conservation information and related advertisements	-	13
6. Environmental remediation costs: Costs incurred from dealing with environmental degradation		-	98
<b>Total</b>		<b>3,635</b>	<b>6,658</b>



## 2. Raw Material Procurement

### We are promoting raw-material procurement based on CSR (Corporate Social Responsibility) that considers the environment and society.

In order for customers to use our products with confidence that fit the demands of society, the Group is procuring materials, chemicals and fuels, etc. as raw-material for our products in compliance with the Group Fundamental Policy for Raw Materials Procurement formulated in 2019.

#### Group Fundamental Policy for Raw Materials Procurement

We shall promote raw-material procurement based on CSR that considers 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 Corporate Social Responsibility.

1. We shall comply with the applicable laws, regulations and international norms.
2. We shall procure raw materials considering environment, society, and human rights.
3. We shall procure wood materials considering sustainability of forests and biodiversity.

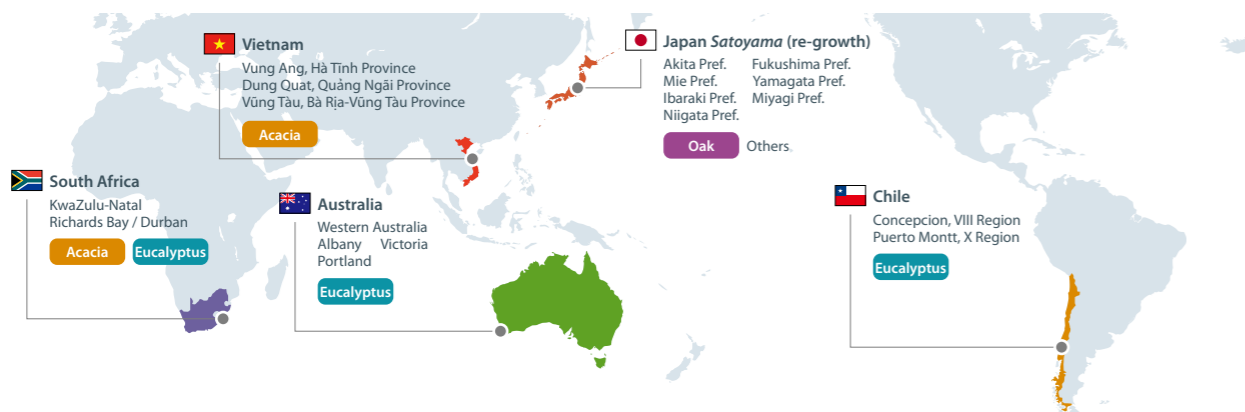
4. We shall open our doors to all suppliers and engage in fair trade.
5. We shall build a mutual trust relationship and aim for a mutual development with business suppliers.
6. We shall appropriately manage the information that we obtained through transactions.

#### Request to Business Partners

Visit our website for more details.  
(<http://www.hokuetsucorp.com/en/environment/procurement.html>)

#### Procurement of Wood chips in FY2020

Country	Tree species	Forest classification		Means of verifying legality			Volume of wood chips procured from Overseas/ Japan (1,000 BDt)	Share of wood chips by source
		Plantation	Re-growth	Traceability report	Declaration of legality of timber for material of wood chips	Forest certification system		
Chile	Eucalyptus	●	—	●	●	●	1,353	99%
South Africa	Acacia	●	—	●	●	●		
	Eucalyptus	●	—	●	●	●		
Australia	Eucalyptus	●	—	●	●	●		
Vietnam	Acacia	●	—	●	●	●	10	1%
Japan	Oak, others	—	●	●	—	—		



#### The Group wood material procurement

The Group only procures wood material (wood chips, pulp) that we have verified its legality and sustainability in accordance with our Policy on Procurement of Wood Material\*.

The wood material market, as well as other material markets, is greatly affected by the trends in the paper industry in China, which has been rapidly investing in equipment in recent years, and procurement competition has been intensifying for some grades. Under these circumstances, the Group has built a strong

relationship of trust with legally-compliant and sustainable suppliers and continues reliable procurement even during the COVID-19 pandemic. We will continue our stable wood material procurement that provides our customers the opportunity to use our products with confidence.

\* Visit our website for more details.  
(<http://www.hokuetsucorp.com/en/environment/policy.html>)

## 3. Consumer Issues

### Continuing to ensure product quality and treating customers responsibly

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

Based on our 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 develop and improve 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, we also promote intellectual property management to maintain our relative

- superiority in relation to other companies.
4. We respond sincerely to any complaints about our products and strive to provide a speedy and appropriate response in such cases.
- Furthermore, through implementing measures to prevent recurrence, we promote quality improvement and obtain the trust of our customers.

#### Swift and responsible customer response

The Group is focusing on MR activities in which sales staff regularly visit our customers as part of efforts to strengthen our quality control system and prevent product defects from occurring. The valuable feedback we receive from our customers and the latent needs that emerge from the discussions that our sales staff conduct with customers help us develop new products. The Sales Department acts as the point of contact if a problem occurs with a product, and we have a system in place in which we coordinate with each mill and related department so we can respond promptly. Going forward, we will continue to strive to maintain a sense of urgency in our responses in order to provide a stable supply of products that customers can use with peace of mind.

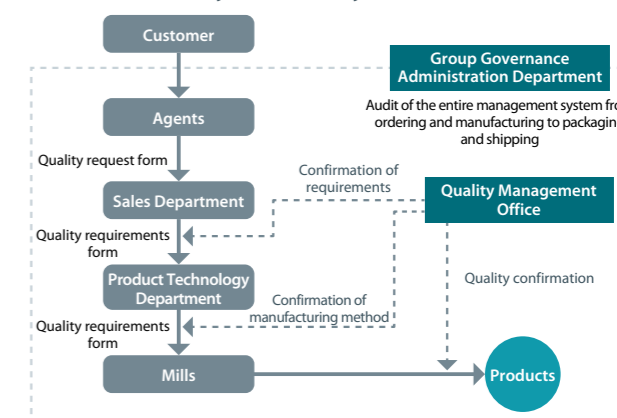


A staff meeting in progress

#### Quality audit system

At the Group, our internal quality auditor conducts regular checks of the safety of raw materials and the compliance with in-house standards of products used for food containers and wrapping so that we can provide our customers with products that are safe and secure, as well as having stable quality. In order to increase the independence of the Quality Management Office, it became part of the Safety, Environment & Quality Management Division from FY2020, which has allowed for a system that conducts more objective audits. Moreover, we confirm that products are safe and secure for our customers by conducting joint audits with the Group Governance Administration Department at each workplace and Group company.

#### Product Quality Control System Chart



## 4. Work Environment

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

We established the new Group Fundamental Policy for Health and Safety based on the Group Corporate Philosophy to create workplaces in the Group where employees can work safely and securely with purpose and vigor. We make it clear 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 clarify any applicable workplace health and safety guidelines and ensure that employees in their respective areas understand and follow the guidelines.
4. All employees shall actively participate in health and safety activities and engage in safe behavior at all times.

#### “hSA25” safety and health activities that the entire Group engages in from a medium-term perspective

The Group actively engages in promoting safety and health activities aimed at eradicating occupational accidents. Since 2013, we have been focusing on strengthening safety management, which has steadily lowered the number of occupational accidents. In addition, we created the medium-term safety activity plan “hSA25” (hokuetsu Safety Action 2025) with the aim of further lowering occupational accidents within the Group. We are actively working to prevent occupational accidents in order to lead to a major change in the awareness of all employees.



Symbol

##### Group goals

- Zero serious accidents in the Hokuetsu Group
  - 25\* or fewer occupational accidents in the Group in fiscal 2025
- \* Including minor accidents

##### 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 mutual support)
- Active involvement in overseas Group companies

### Promoting women in the workplace

We updated and announced our general employer action plan for the Act on the Promotion of Female Participation and Career Advancement in the Workplace the Act on Advancement of Measures to Support Raising Next-Generation Children on April 1, 2021. We have made several improvements, such as working on various measures, increasing the proportion of female employees and reviewing child support allowances and work systems. We will continue our efforts based on our action plan and goals.

#### Percentage of female workers

As of February 16, 2021	As of February 16, 2016	Percentage change vs. 2016
7.5%	5.9%	+1.6%

### Human resources data

#### Average years of employment

Gender	As of February 16, 2021	As of February 16, 2016	Change in years vs. 2016
Male	22 years 4 months	21 years 5 months	+11 months
Female	13 years 9 months	15 years 9 months	-2 years
Difference	8 years 7 months	5 years 8 months	+2 years 11 months

#### Competitive ratio in hiring

Category	Gender	2021 new graduates hired at head office	2016 new graduates hired at head office	Change in ratio vs. 2016
Technical staff	Male	6.0x	4.5x	133%
	Female	-	3.3x	-
Administrative staff	Male	13.0x	6.6x	197%
	Female	26.0x	6.3x	413%

#### Rate of annual paid leave taken

Gender	September 16, 2019-September 15, 2020	September 16, 2014-September 15, 2015	Change in years vs. 2016
Male	56.7%	48.6%	+8.1%
Female	73.7%	79.7%	+6.0%
Total	57.8%	50.1%	+7.7%

### Fighting the spread of infections

In May 2020, we started full-scale telework as a countermeasure against the COVID-19 pandemic. We made a smooth transition partly because we had already been planning to shift to telework in response to the international sports event scheduled to be held in the summer of 2020. During the pandemic, we took thorough measures to prevent the spread of the novel coronavirus, such as separating office spaces and holding video conferences and online meetings.

### Conducting compliance training

We conduct compliance training for Group employees with the theme of “eradicating harassment.” In the first half of fiscal 2020, 3,776 people took the training. We have been conducting ongoing training since May 2020 using online meetings and videos to prevent COVID-19 infections.

#### TOPICS

##### Acquired ISO 45001 certification

Hokuetsu Corporation acquired ISO 45001 certification in June 2021 to ensure the progress of and results for “hSA25.” Moving forward, we aim to improve our safety and health performance by putting into practice a safety and health management system that complies with international standards. We will strive to create a workplace where employees actively work toward achieving the Group safety goals for 2025.

















## 5. Organizational Governance

### Responding to the revised Corporate Governance Code to further improve transparency and fairness

The HOKUETSU GROUP aims to continue to be a company trusted by all stakeholders by building an appropriate corporate governance system in accordance with Japan's Corporate Governance Code revised in June 2021.

#### Executive Officers

 Sekio Kishimoto President and CEO	 Mitsushige Yamamoto Managing Director	 Shigeharu Tachibana Managing Director	 Yasuyuki Kondo Director	Masayuki Kuribayashi Corporate Officer
 Shigeru Wakamoto Director	 Hiroyuki Otsuka Director	 Mitsuyasu Iwata Director (Outside Director)	 Kazuo Nakase Director (Outside Director)	Makoto Yanagisawa Corporate Officer
 Hiromitsu Kuramoto Director (Outside Director)	 Manabu Ueno Standing Audit & Supervisory Board Member	 Jun Itoigawa Outside Audit & Supervisory Board Member	 Keiji Watanabe Outside Audit & Supervisory Board Member	Kazuhiko Itagaki Corporate Officer
				Shoji Suzuki Corporate Officer
				Koji Goto Corporate Officer
				Kunihiko Kashima Corporate Officer
				Satoshi Miyake Corporate Officer
				Tomoyuki Iida Corporate Officer
				Kunihiko Ando Corporate Officer
				Maou Sugimoto Corporate Officer
				Satoshi Okamoto Corporate Officer

#### Director skill matrix

Name	Position and responsibility	Specialty/character									
		Corporate management	Internationally-minded	Industry knowledge	ESG	Finance and accounting	Production technology and R&D	Sales and marketing	Human resources and labor	Purchasing and Procurement	
Sekio Kishimoto	President and CEO	●	●	●	●			●	●	●	
Mitsushige Yamamoto	Managing Director COO, Performance Materials Division		●	●	●			●			
Shigeharu Tachibana	Managing Director COO, Paper & White Paperboard Business Division		●	●	●			●			
Yasuyuki Kondo	Director Corporate Planning Department, Corporate Management Department				●	●			●		
Shigeru Wakamoto	Director and COO, Production Technology Division, Deputy Division Manager, Safety, Environment & Quality Management Division				●		●				
Hiroyuki Otsuka	Director Niigata Mill Manager, Paper & White Paperboard Business Division				●		●				
Mitsuyasu Iwata	Outside Director	●	●		●						
Kazuo Nakase	Outside Director	●		●				●			
Hiromitsu Kuramoto	Outside Director	●	●							●	

#### Outside director's message

### Working to increase corporate value



Mitsuyasu Iwata  
Director (Outside Director)

#### Practice of corporate philosophy

Our corporate philosophy extolls being "socially and environmentally responsible" and a "people-focused business group." As climate change becomes more serious, how human beings can be "socially and environmentally responsible" and sustain prosperity is a pressing issue. We have been practicing environmental management for some time, and have achieved the best CO<sub>2</sub> emissions per unit in the pulp and paper industry. Moving forward, the Group as a whole needs to move together along this path. In addition, Japanese companies have historically achieved good results under a "people-focused business" management that values all stakeholders. As the economy globalizes and the business environment changes, collaboration and trust with all people involved in the company's activities are essential elements for increasing corporate value.

#### Transforming our business portfolio

Based on this corporate philosophy, we have restructured our production and logistics systems in Japan, as well as exported pulp and paper products and expanded our overseas business amid declining demand for paper. In October 2020, we established the Group Business Investment Division to strengthen cooperation inside and outside the Group, carry out M&As, etc., and tackle issues to further expand our overseas business. Following our entry into the containerboard business at the Niigata Mill, we are proceeding with the transformation of our business portfolio by entering the household paper business. Going forward, we will continue to develop new businesses in Japan and overseas with the aim of achieving sustainable growth for the Group. Personally, I will use my own experience to play an impartial role independent of management to help the Group maximize its capabilities to increase its corporate value.

### Basic philosophy of corporate governance

In order to achieve long-term stable improvement of our corporate value, which is the most important management issue, Hokuetsu Corporation will build an appropriate corporate governance system in accordance with the following basic concepts.

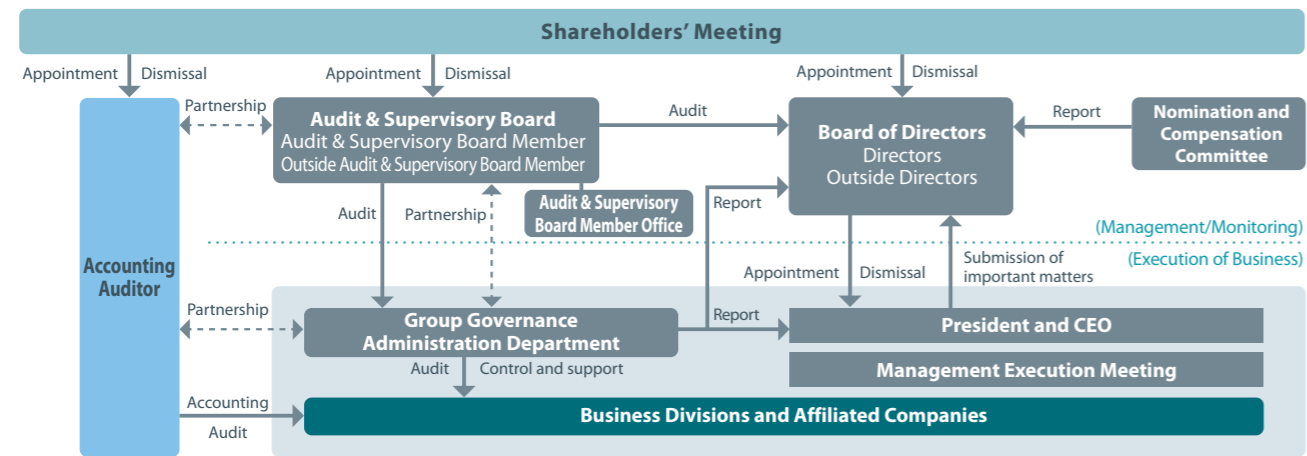
- We respect the rights of our shareholders and will strive to establish an environment in which shareholders can exercise their rights appropriately and to secure equality between shareholders.
- We recognize the importance of corporate social responsibility and will strive to collaborate appropriately 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 our Basic Policy for Active and Constructive 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 to be shared by all employees and executive officers of our corporate group.



## Organizational Structure Chart of Corporate Governance



### Composition and achievements

<b>Organization design</b> Company with a Board of Directors and Board of Corporate Auditors	<b>Number of directors*<sup>1</sup></b> 9 (3 outside corporate auditors included)	<b>Number of Audit &amp; Supervisory Board Members*<sup>1</sup></b> 3 (2 outside Audit & Supervisory Board Members included)	<b>Number of independent directors and auditors*<sup>1</sup></b> 5
<b>Number of meetings of the Board of Directors*<sup>2</sup></b> 14	<b>Number of Board of Corporate Auditors meetings*<sup>2</sup></b> 14	<b>Attendance rate of outside directors at Board of Directors meetings*<sup>2</sup></b> 100%	<b>Attendance rate of outside Audit &amp; Supervisory Board Members at Board of Corporate Auditors meetings*<sup>2</sup></b> 100%
<b>Accounting auditor</b> KPMG AZSA LLC			

\*<sup>1</sup> As of June 29, 2021. \*<sup>2</sup> Results for fiscal 2020.

## I 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 of overall management 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 represent diversity and have expertise in the Board of Directors. The Board is chaired by the President and CEO. In order to strengthen our corporate governance system, outside directors make up one third of the board members.

### Audit & Supervisory Board Members and the Board of Corporate Auditors

Our Audit & Supervisory Board Members 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 Audit & Supervisory Board Members 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 ability 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 audit 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 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. The Nomination and Compensation Committee is comprised of the President and CEO and two outside directors, and is chaired by the President and CEO.

## I Director's remuneration

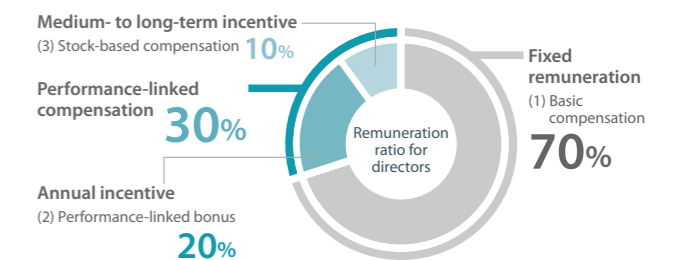
### Basic Policy

The remuneration of directors functions as a sufficient incentive to enhance stable, long-term corporate value, and is a system that comprehensively reflects the performance of the company and individuals. Remuneration consists of basic compensation as fixed remuneration, an annual incentive (performance-linked bonus) as performance-linked remuneration, and a medium- to long-term incentive (stock-based compensation). The decision-making policy regarding remuneration for

individual directors is deliberated by the Nomination and Compensation Committee, which consists of two outside directors and the president and CEO, which is then determined by the Board of Directors. Details of the individual remuneration are determined in accordance with that policy. The remuneration of outside directors consists of only basic compensation as a fixed remuneration.

### Decision policy

The basic remuneration for directors is a fixed monthly compensation, and is determined by comprehensively considering the position, responsibilities, and years of service, taking into account the performance of the company and employee salary level. Performance-linked remuneration consists of performance-linked bonuses as cash compensation and stock-based compensation as non-cash compensation linked to the degree of contribution to corporate performance and work performance. Performance-linked compensation is an index that measures a company's performance and profitability in terms of quantitative aspects, such as consolidated sales, consolidated operating income and consolidated ordinary income. It also looks at qualitative aspects as an index that aims to increase corporate value over the medium to long term. The system comprehensively reflects the degree of contribution to ESGs (environment, society, and governance) and is paid at a certain time every year. The remuneration of directors is based on a ratio of 7:2:1 (basic remuneration: performance-linked bonus: stock-based compensation), which is deliberated by the Nomination and



Compensation Committee and decided by the Board of Directors. Regarding the remuneration of individual directors, the president, who has been delegated based on a resolution of the Board of Directors, appropriately determines the amount of basic individual remuneration and the evaluation and distribution of performance-linked bonuses in accordance with the decision policy on the individual remuneration for directors. For stock-based compensation, the Board of Directors determines the number of stock options to be allocated to each individual director based on the opinion of the Nomination and Compensation Committee.

### FY2020 Remuneration for directors and corporate auditors

Officer classification	Number of officers	Total amount by type of remuneration			Total compensation
		Fixed remuneration	Performance-linked compensation		
		Basic compensation	Performance-linked bonuses	Stock options	
Director (outside director)	11 (2)	¥216 million (¥25 million)	¥46 million (¥1 million yen)	¥32 million (¥1 million)	¥295 million (¥25 million)
Audit & Supervisory Board Member (outside Audit & Supervisory Board Member)	4 (2)	¥24 million (¥9 million)	¥1 million (¥1 million)	¥1 million (¥1 million)	¥24 million (¥9 million)
Total	15	¥240 million	¥46 million	¥32 million	¥319 million

\* As of the end of FY2020, there were 11 directors (including 2 outside directors) and 3 Audit & Supervisory Board Member (including 2 outside Audit & Supervisory Board Member).

## 6. Fair Business Practices

### Strengthening our compliance system in response to diversifying management risks

The Group is steadily implementing measures to strengthen its compliance system in response to management risks that have become more diverse and complex with the 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. In updating this registration, we verify the Group's whistleblowing system from an objective third-party perspective every year, improve it as necessary, and update it. 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

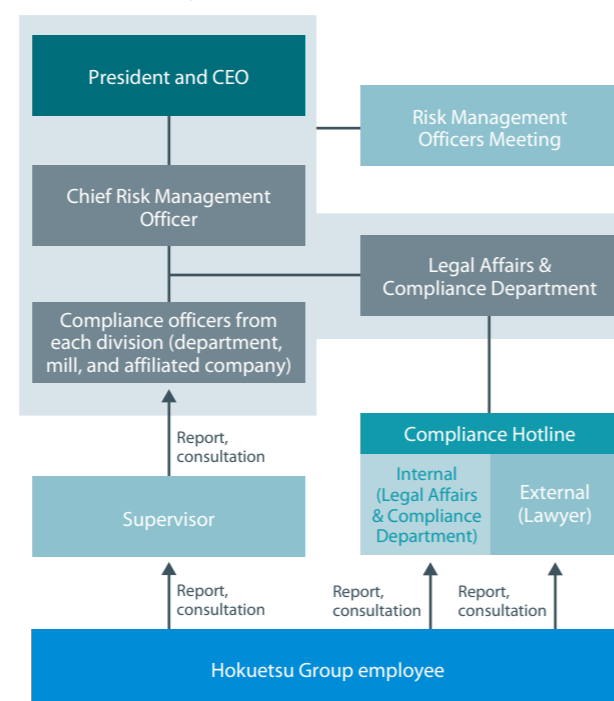
#### Conducting ongoing compliance training

The Group conducts annual compliance training with in-house lawyers as instructors. In fiscal 2020, we conducted training on topics important to the Group, such as compliance with the Act against Delay in Payment of Subcontract Proceeds, etc. in collaboration with various suppliers and contractors. In addition, overseas subsidiaries conducted e-learning training on the topic of "preventing discrimination and harassment" to raise awareness of compliance among their employees. Moving forward, we will continue to provide training planned on timely topics that are directly linked to relevant business activities and matters that apply to the times.

#### Responding to management risks

The management risks to the Group's global business are diversifying every year and require more advanced measures. We established the Group Risk Management Basic Regulations in November 2020 with the aim of avoiding or minimizing the management risks of the Group, and to identify management risks in normal times and define matters to be addressed. Under the initiative of the Chief Risk Management Officer, we have assigned risk management officers to each division and subsidiary of the Hokuetsu Group in order to address all management risks as a group. Each Group company also accurately grasps the potential risks to their company and engages in efforts to minimize the risks of the entire Group as much as possible.

#### Compliance System Chart



## 7. Relationship with Society

### Deepening relationships with stakeholders and striving to be a company involved in the community

The HOKUETSU GROUP has been successfully coexisting with society as a community-based company. We will continue our existing efforts and add new challenges to further promote our contribution to society.

#### Collaboration with Nagaoka City and Nagaoka Institute of Design

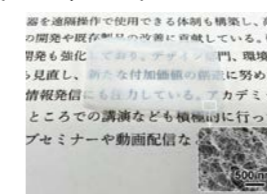
The Nagaoka Mill is collaborating with and supporting the "Nagaoka Monozukuri BOOK," a joint production by Nagaoka City and students from the Nagaoka Institute of Design. This book, distributed to elementary and junior high school students, introduces monozukuri, or manufacturing technology companies, in the city as a project designed to increase interest in monozukuri to help develop human resources for the future. The book is printed on μ Matt paper made at our Niigata Mill.



2021 edition of "Nagaoka Monozukuri BOOK"

#### Cooperation with technology development project of the Japan Science and Technology Agency

The Performance Materials Development Office at Head Office has been participating in joint research led by the University of Tokyo since 2020 in a public call for participants by the Japan Science and Technology Agency to "realize a low-carbon society," and has been cooperating to develop innovative technologies. Specifically, we are developing a transparent, heat-insulating porous material that controls the precise structure of cellulose nanofibers.



Highly transparent, heat-insulating porous material that allows the letters behind it to be seen through

#### Summer student program at Al-Pac

In addition to providing internship opportunities and scholarships to students, Al-Pac also supports employment. As one of their efforts, they hire students majoring in forestry to work for a short period in Al-Pac's forest management division, where they learn forest cultivation, harvesting, and management methods while engaging in actual forest management. By providing these opportunities to gain experience, Al-Pac is helping to develop future human resources who will become experts in the forest management sector.



Student surveying the state of forest development

#### Donation of used clothing to a South African orphanage

The Hokuetsu Group is using its woodchip carriers to transport and donate used clothing to orphanages and schools for the disabled in South Africa. In February 2021, we collected used clothing from the Niigata Mill and other business locations and donated about 500 pieces of clothing to an orphanage in South Africa. We will continue to engage in CSR activities that contribute to the SDGs.



Children at an orphanage in South Africa



## Consolidated and Non-consolidated Financial Highlights

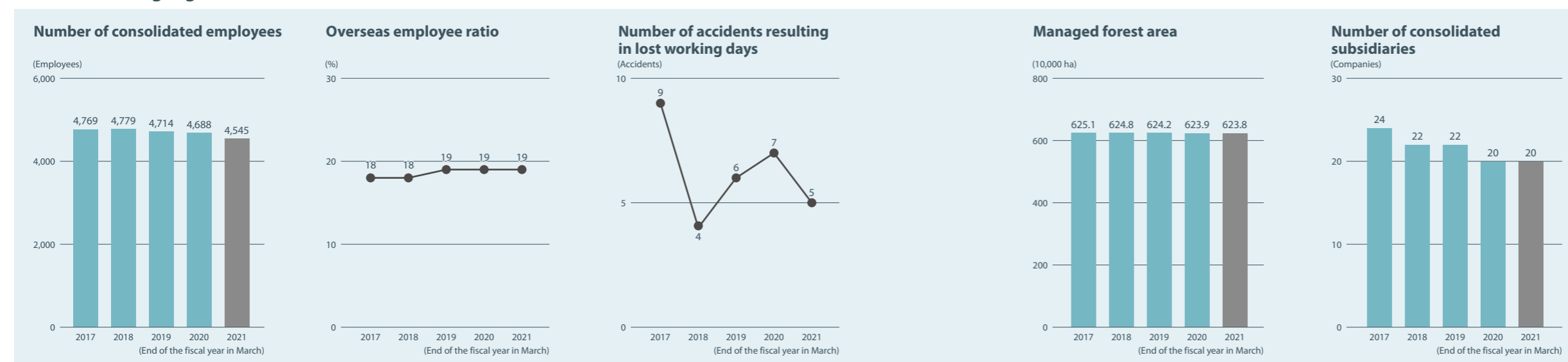
### Financial Highlights

Financial data	G-1st						C-next						V-DRIVE						Medium-Term Management Plan 2023	
	Year ending March 31, 2012	Year ending March 31, 2013	Year ending March 31, 2014	Year ending March 31, 2015	Year ending March 31, 2016	Year ending March 31, 2017	Year ending March 31, 2018	Year ending March 31, 2019	Year ending March 31, 2020	Year ending March 31, 2021	Year ending March 31, 2021	Year ending March 31, 2021								
Net sales	¥230,570	¥208,280	¥223,865	¥228,400	¥246,849	¥262,398	¥269,100	¥275,807	¥264,618	¥222,454	\$2,009,159									
Operating income	10,823	3,658	3,308	6,140	9,236	12,900	11,414	10,130	11,209	1,702	15,371									
Ordinary income	13,781	10,516	8,481	11,463	10,588	14,056	13,908	13,015	15,652	9,757	88,122									
Net income attributable to owners of parent company	12,673	8,169	6,105	8,359	7,477	10,381	10,327	9,156	8,073	14,173	128,005									
EBITDA <sup>(Note 2)</sup>	35,283	25,538	26,974	30,582	31,125	33,938	33,871	32,313	34,883	24,802	224,003									
Capital expenditures	7,977	12,160	23,919	11,128	9,425	12,751	14,710	16,089	16,231	14,136	127,671									
Total assets	332,979	343,114	350,808	351,033	363,658	362,205	366,448	368,082	344,731	363,075	3,279,222									
Net assets	150,628	158,795	158,824	168,573	169,529	181,035	191,977	192,861	180,862	195,419	1,764,985									
Interest-bearing debt	117,144	129,137	136,387	123,724	129,586	116,754	108,240	109,726	106,832	113,991	1,029,548									
<b>Cash flows</b>																				
Cash flows from operating activities	28,953	21,203	18,676	27,858	20,944	28,918	19,742	21,627	43,975	23,761	214,601									
Cash flows from investing activities	-9,565	-25,127	-22,805	-16,261	-3,628	-13,649	-14,158	-19,275	-20,199	-19,575	-176,801									
<b>Per share data (Yen/U.S. dollars)</b>																				
Earnings per share (EPS)	62.09	40.08	30.54	44.39	39.69	55.09	54.68	48.44	43.45	84.40	0.76									
Book value per share (BPS)	727.66	770.02	834.44	888.16	894.74	956.63	1,011.58	1,016.16	1,073.08	1,039.17	9.39									
Dividends per share	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	14.00	0.13									
<b>Key ratios</b>																				
EBITDA/Net sales (%)	15.3%	12.3%	12.0%	13.4%	12.6%	12.9%	12.6%	11.7%	13.2%	11.1%										
Operating income ratio (%)	4.7%	1.8%	1.5%	2.7%	3.7%	4.9%	4.2%	3.7%	4.2%	0.8%										
Net income ratio (%)	5.5%	3.9%	2.7%	3.7%	3.0%	4.0%	3.8%	3.3%	3.1%	6.4%										
Equity ratio (%)	44.7%	45.6%	44.8%	47.7%	46.4%	49.8%	52.2%	52.2%	52.3%	53.8%										
ROA (%) <sup>(Note 3)</sup>	4.2%	3.1%	2.4%	3.3%	3.0%	3.9%	3.8%	3.5%	4.4%	2.8%										
ROE (%)	8.9%	5.4%	3.9%	5.2%	4.5%	6.0%	5.6%	4.8%	4.3%	7.6%										
Debt equity ratio (times)	0.79	0.82	0.87	0.74	0.77	0.65	0.57	0.57	0.59	0.59										

Notes  
 1. Amounts in US dollars were converted at ¥110.72 to one dollar, the currency exchange rate prevailing in the Tokyo Foreign Exchange Market as of March 31, 2021.  
 2. EBITDA = Ordinary income + interest expenses + depreciation and amortization costs + depreciation of goodwill - depreciation of negative goodwill  
 3. ROA = Ordinary income ÷ average total assets at the beginning and end of the fiscal year × 100

\* The Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28 issued on February 16, 2018) has been applied from the beginning of the fiscal 2019. The primary business indicators, etc. pertaining to fiscal 2018 are those after the retroactive application of the relevant accounting standards.

### Non-financial highlights





## Business Locations

### Japanese Group companies

Main locations  
■ Head office / branch office production/research locations  
● Japanese Group company

Central Research Laboratory



Nagaoka Mill



Niigata Mill



Hokuetsu Toyo Fibre Co., Ltd.



Tokyo Head Office

Hokuetsu Paper Sales Co., Ltd.

Hokuetsu Package Co., Ltd.

Nagoya Office

Osaka Branch

Osaka Mill



Kishu Mill



Hokuetsu Paper Tec Kishu Co., Ltd.

Kanto Mill Katsuta



Hokuetsu Package Co., Ltd. Kanto Mill

Hokuetsu Paper Tec Katsuta Co., Ltd.

Kanto Mill Ichikawa



- Hokuetsu Paper Tec Niigata Co., Ltd.
- Techno-Hokuetsu, Ltd.
- MC Hokuetsu Energy Service Company
- Hokuetsu Engineering Co., Ltd.
- Hokuetsu Logistics Co., Ltd.
- Hokuetsu Suiun Co., Ltd.

Hokuetsu Material Co., Ltd.

### Overseas Group companies

Main locations  
▲ Sales office  
● Overseas Group company

Bernard Dumas S.A.S.



Shanghai Toh Tech Co., Ltd.



Ho Chi Minh Representative Office

Jiangmen Xinghui Paper Mill Co., Ltd.



Alberta-Pacific Forest Industries Inc.



HOKUETSU CORPORATION USA

#### Production/research locations

Niigata Mill/Kishu Mill/Kanto Mill Ichikawa/Kanto Mill Katsuta/Nagaoka Mill/Osaka Mill  
 Central Research Laboratory

#### Consolidated subsidiaries

##### Japan

Paper and pulp segment

Hokuetsu Paper Sales Co., Ltd./Hokuetsu Toyo Fibre Co., Ltd.  
 Hokuetsu Paper Tec Niigata Co., Ltd./Hokuetsu Paper Tec Kishu Co., Ltd.  
 Hokuetsu Paper Tec Katsuta Co., Ltd./Techno-Hokuetsu, Ltd.  
 MC Hokuetsu Energy Service Company

Packaging and paper processing segment

Hokuetsu Package Co., Ltd.

Timber business

Hokuetsu Material Co., Ltd.

Engineering business

Hokuetsu Engineering Co., Ltd.

Transportation/warehousing business

Hokuetsu Logistics Co., Ltd./Hokuetsu Suiun Co., Ltd.

Other

Hokuetsu Pallet Co., Ltd.

##### Overseas

Paper and pulp segment

Alberta-Pacific Forest Industries Inc.  
 Xing Hui Investment Holdings Co., Ltd.  
 Jiangmen Xinghui Paper Mill Co., Ltd.  
 Bernard Dumas S.A.S.  
 Shanghai Toh Tech Co., Ltd.

#### Affiliated companies accounted for under the equity method

Daio Paper Corporation/Nikkan Co., Ltd./Niigata GCC Co., Ltd./Niigata PCC Co., Ltd.

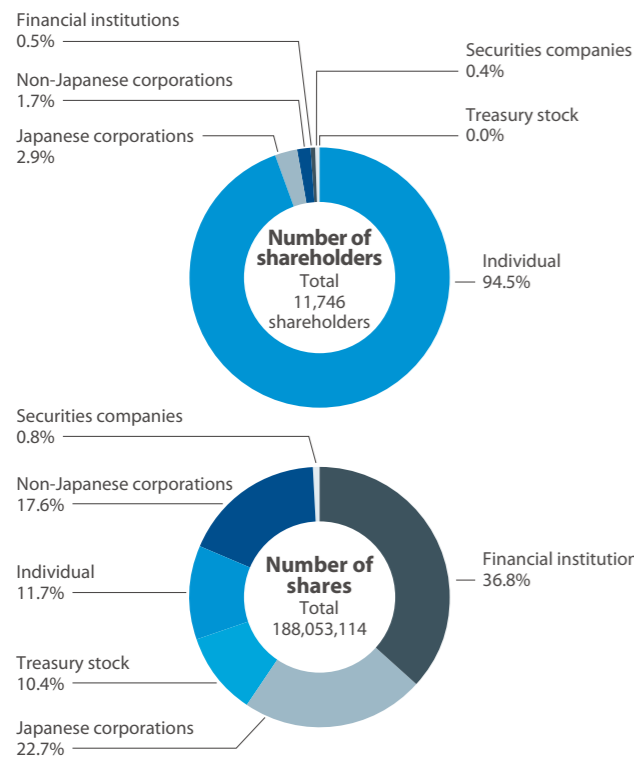
## Corporate Information

### Equity Data

#### Stock Information (as of March 31, 2021)

Shareholder registry administrator	Mizuho Trust & Banking Co., Ltd.
Number of shares authorized	500,000,000
Number of shares issued	188,053,114
Number of shareholders	11,746

#### Distribution of shares by shareholders (as of March 31, 2021)

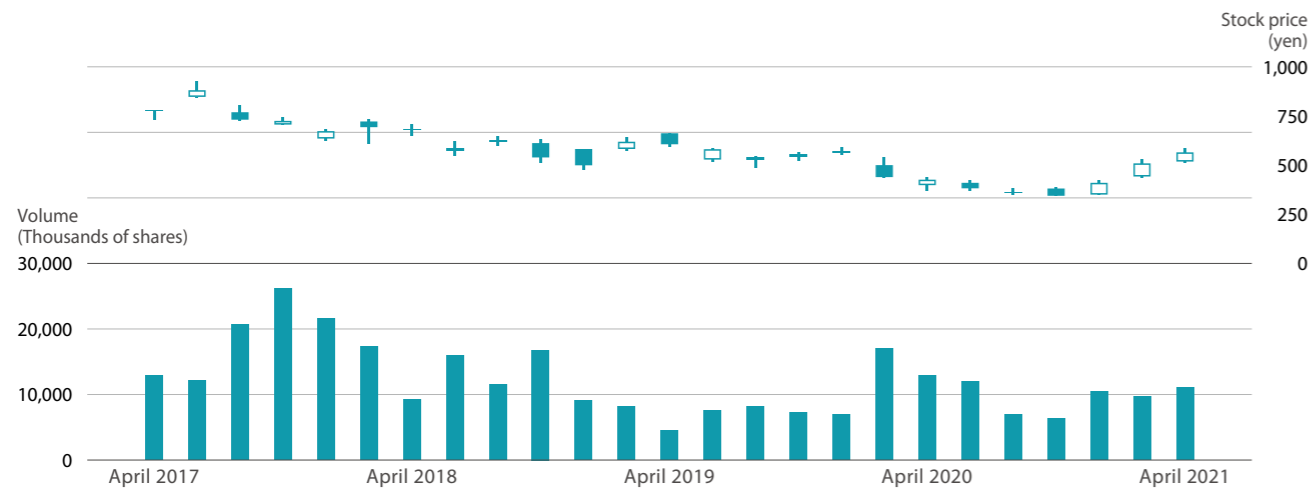


#### Major Shareholders (as of March 31, 2021)

Name	Number of shares held (Thousands of shares)	Percentage to total number of shares in issue (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	9,364	5.56
Daishi Hokuetsu Bank, Ltd.	8,632	5.12
OASIS JAPAN STRATEGIC FUND LTD.-CLIENT ACCOUNT	8,453	5.02
Custody Bank of Japan, Ltd. (Trust Account)	8,211	4.87
Daio Kaiun Co., Ltd.	6,741	4.00
Hokuetsu Corporation Ownership Association	6,611	3.92
Sumitomo Realty & Development Co., Ltd.	6,066	3.60
Sompo Japan Insurance Inc.	4,499	2.67
Misuga Kaiun Co., Ltd.	4,400	2.61
Kawasaki-kami Unyu Co., Ltd.	4,350	2.58

\* In addition to the above, the Company holds 19,552 thousand shares of treasury stock.

#### Change in stock price and trading volume



### Corporate Data

Corporate Name:	Hokuetsu Corporation
Established:	April 27, 1907
Head office:	3-5-1, Nishizao, Nagaoka, Niigata Prefecture
Capital:	42,020,940,239 yen
Fiscal year ending:	March 31
Number of consolidated subsidiaries:	20 (15 in Japan, 5 overseas)
Number of affiliated companies accounted for under the equity method:	4
Number of employees:	4,545 (consolidated); 1,606 (non-consolidated) as of March 31, 2021

#### Website information

Hokuetsu Group website content including 'ZERO CO2 2050' and navigation options.

Top > Corporate Guide > Hokuetsu Group

IR Information section of the website with various informational links.

Top > IR Information

Value Creation Business Model section with a pie chart showing business domains: Paper Business, Specialty Paper Business, White Paperboard Business, Packaging Business, and Investment Business.

Top > Value Creation Business Model

CSR/Environment/Health and Safety section with a diagram of the Organizational Structure of Corporate Governance.

Top > CSR  
Top > Environmental Activities · Health and Safety

# HOKUETSU GROUP Integrated Report 2021

Published December 2021

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Cover printed on High Apis NEO(F) Max white 174.5g/m<sup>2</sup>, inside pages on  $\mu$  Matt EX, 128g/m<sup>2</sup>.