



HOKUETSU
GROUP

Corporate Report 2020

Hokuetsu Corporation

HOKUETSU GROUP Corporate Report 2020 Editorial Policy

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

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

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

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Group Corporate Philosophy

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

Contributing to SDGs

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



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



岸本 哲夫

Sekio Kishimoto
President and CEO

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

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

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

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

Five basic policies of Medium-term Management Plan 2023

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

The key strategies are as follows

1. Shift business portfolio

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

2. Expand business worldwide

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

3. Strengthen business in Japan

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

4. Strengthen corporate governance

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

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

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

5. Promote SDG-related activities

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

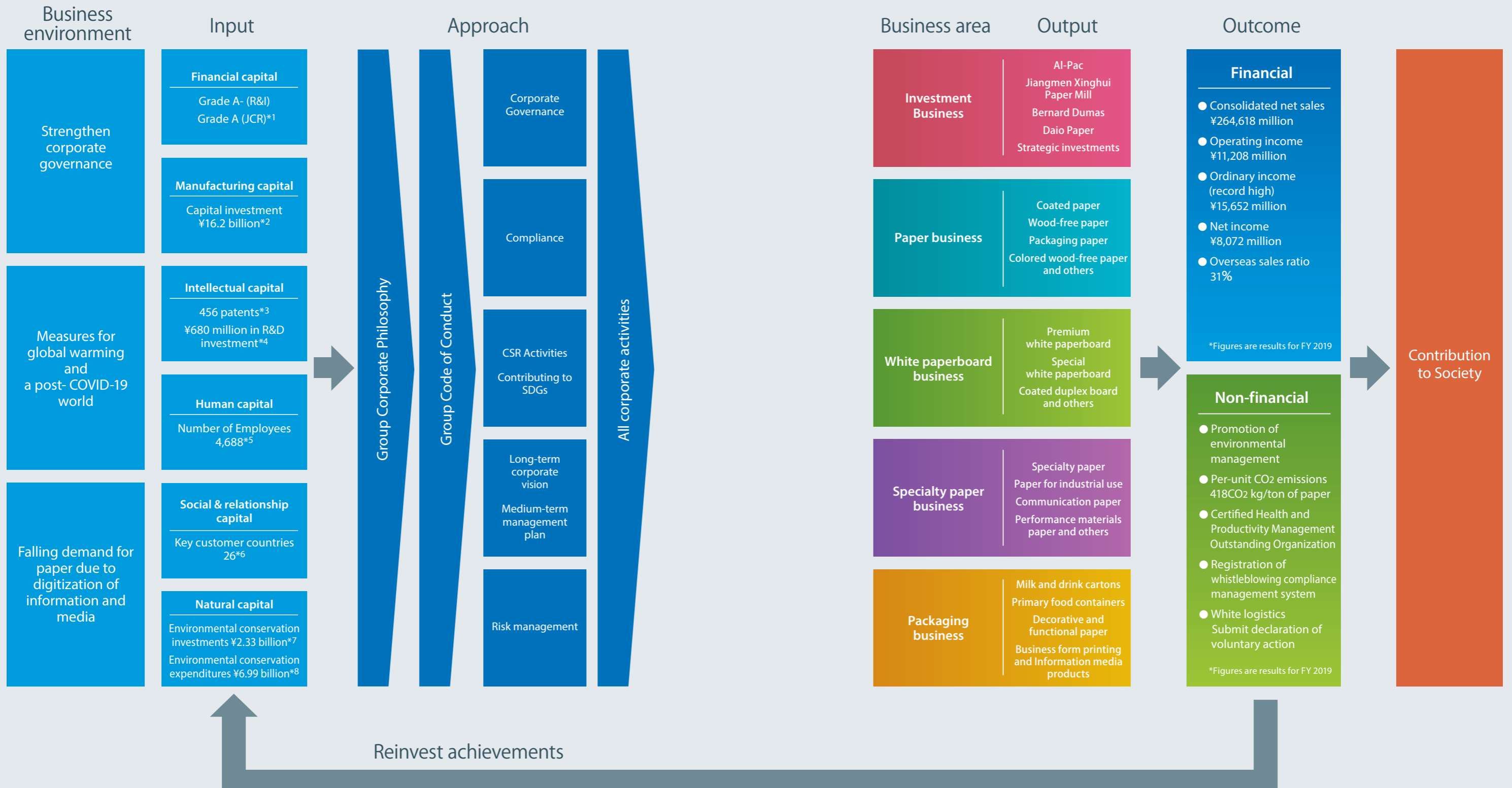
In particular, with regard to environmental issues, we have newly formulated Group Environmental Target 2030, set targets for 2030, and have started to work on them.*1 Additionally, we were certified as FY2020 Health and Productivity Management Outstanding Organization in the large enterprise category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

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

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

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

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



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

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

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

Corporate image target of "Vision 2020" and measures to realize it

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

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



Our new woodchip carrier, Southern Treasure

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

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



Example use of "Panse"

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

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



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

(Hokuetsu Corporation FSC license code: FSC-C005497)

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

Name: Vision 2030

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

Basic Policy

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

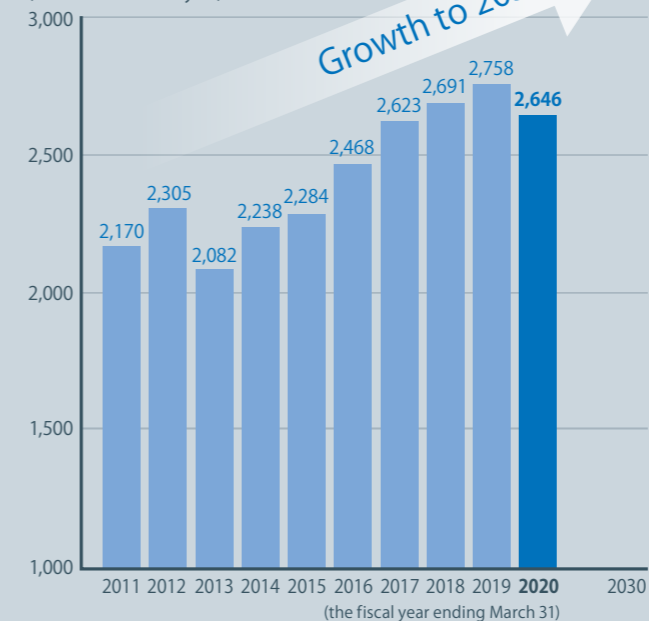
Target image of the Group in 2030

- A business group that contributes to sustainable social development on the axis of environmental management
- A business group that makes use of diverse human resources and the latest technology to challenge ourselves in new business fields in step with the times
- A business group made up of people working proactively with dreams, hopes and pride

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

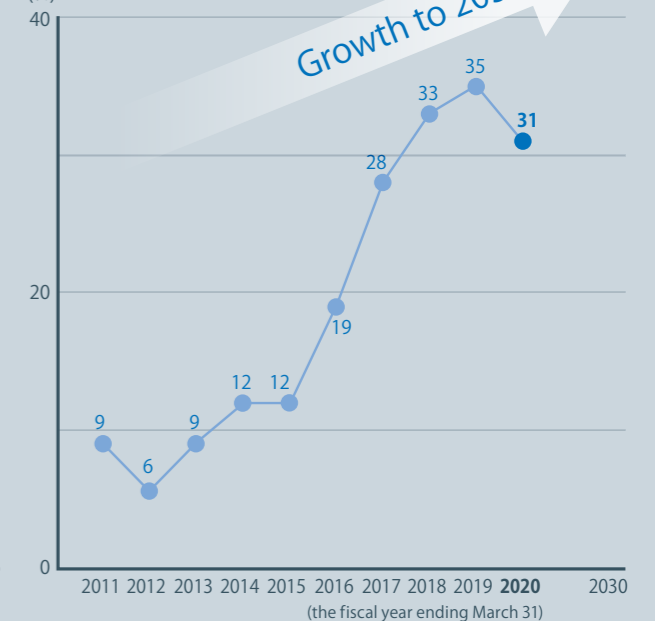
Consolidated net sales

(hundred million yen)



Overseas sales ratio

(%)

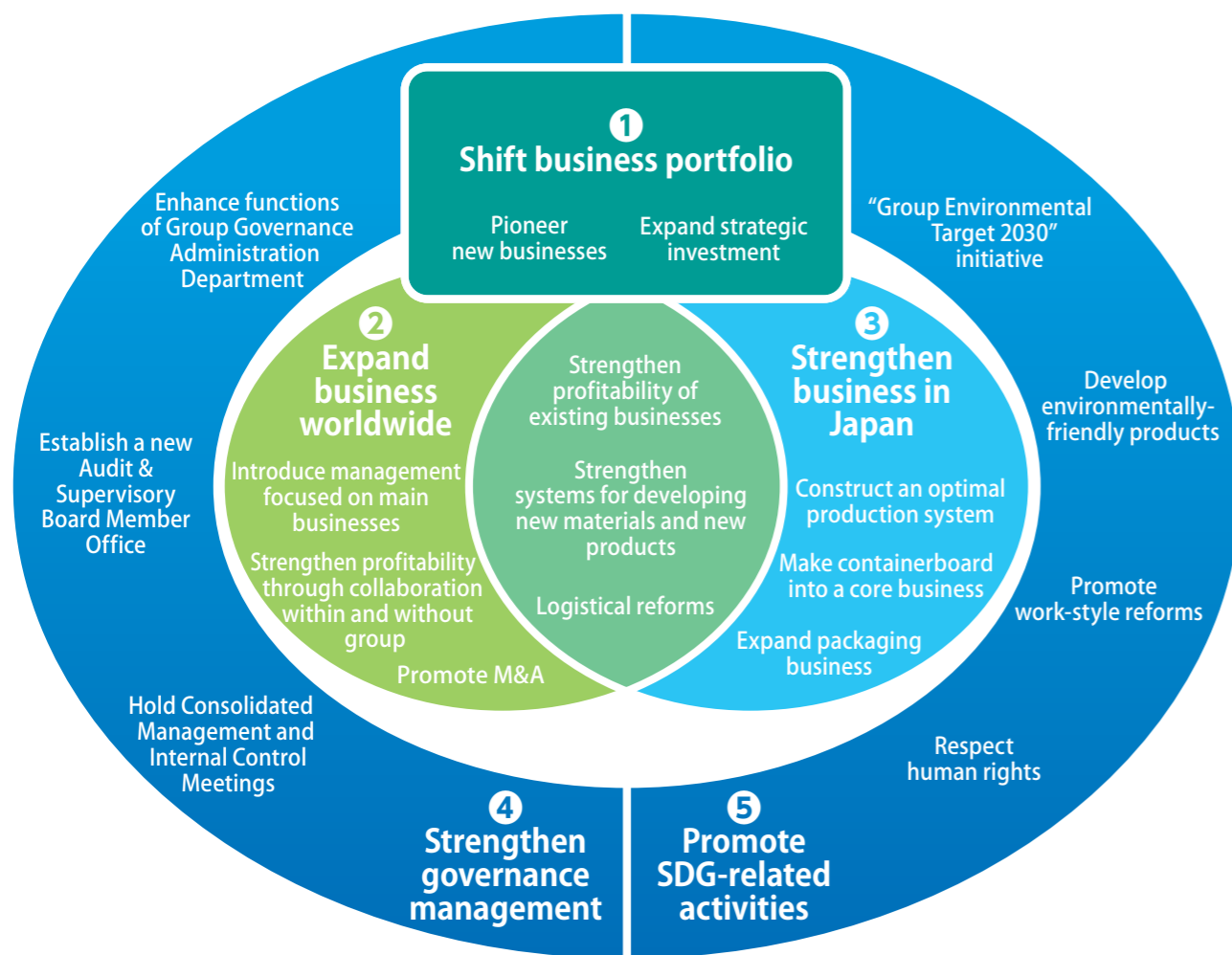


The start of the Mid-term Management Plan 2023: The first step toward achieving a new Group image

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

Name: Medium-term Management Plan 2023

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



Target consolidated management indicators (FY2022)

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

Investment plan

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

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

Basic policies of Medium-term Management Plan 2023

① Shift business portfolio

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

② Expand business worldwide

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

③ Strengthen business in Japan

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

④ Strengthen corporate governance

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

⑤ Promote SDG-related activities

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

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

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

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



Empowering for the Creating New Value

Growth Strategy and Foundation for Value Creation

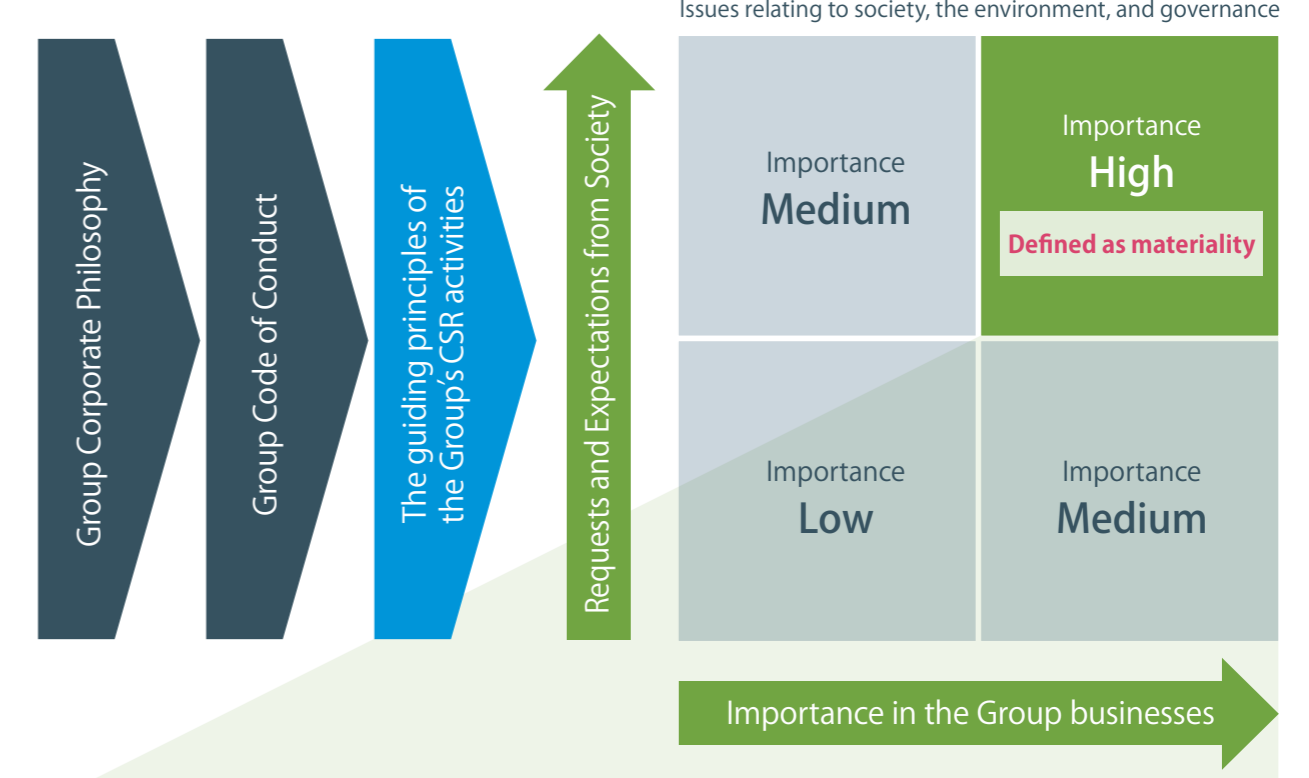
Creating new value through our
environmentally friendly business activities.

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

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



Defining materiality



Materiality and CSR Activity Goals

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

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

Defining materiality → 2020 CSR Activity Goals

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

Inspection and review of FY2019 targets

(1) Organizational governance (governance)

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

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

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

(3) Labor practices (work style)

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

(4) Environment (promotion of environmental management)

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

(5) Fair business practices (strict compliance)

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

(6) Consumer issues (responsibility to customers)

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

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

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

Relation of CSR Activity Goals to SDGs

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



Striving to realize appropriate corporate governance that considers all stakeholders

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

Basic Philosophy of Corporate Governance

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

- We respect the rights of our shareholders and will strive to establish an environment in which shareholders can exercise their rights appropriately and to secure equality between shareholders.
- We recognize the importance of corporate social responsibility and will strive to collaborate appropriately with shareholders and other stakeholders in order to develop a corporate culture in which business is conducted with self-discipline in a sound manner.
- We will ensure transparency and fairness in our decision-making by establishing an executory system for timely disclosure and by conducting the timely and appropriate disclosure of non-financial information beyond requirements mandated by laws and regulations.
- We will strive to secure the effectiveness of the Board of Directors based on our fiduciary responsibilities and accountability to our shareholders.
We will also enhance the strategic, decision-making, and supervisory functions of the Board of Directors through its analysis and assessment.
- We will actively and constructively engage in dialogue with our shareholders based on Basic Policy to Actively and Constructively Engage in Dialogue with Shareholders to support the enhancement of our stable, long-term corporate value.

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

Organizational Structure of Corporate Governance

Board of Directors

The Board of Directors strives to increase corporate value and the common interests of shareholders, and aims to enhance long-term stable corporate value by realizing appropriate corporate governance. It is responsible for overseeing overall management, including the execution of the duties of the corporate management team, and decides important matters as prescribed by laws and regulations, our articles of incorporation, and our Rules for the Board of Directors. It delegates the decision-making for business matters other than those listed above to corporate management in order to enhance the mobility of the business and management vitality, while also exercising oversight of the status of the execution by the corporate management.

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

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

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

Corporate Auditors and the Board of Corporate Auditors

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

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

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

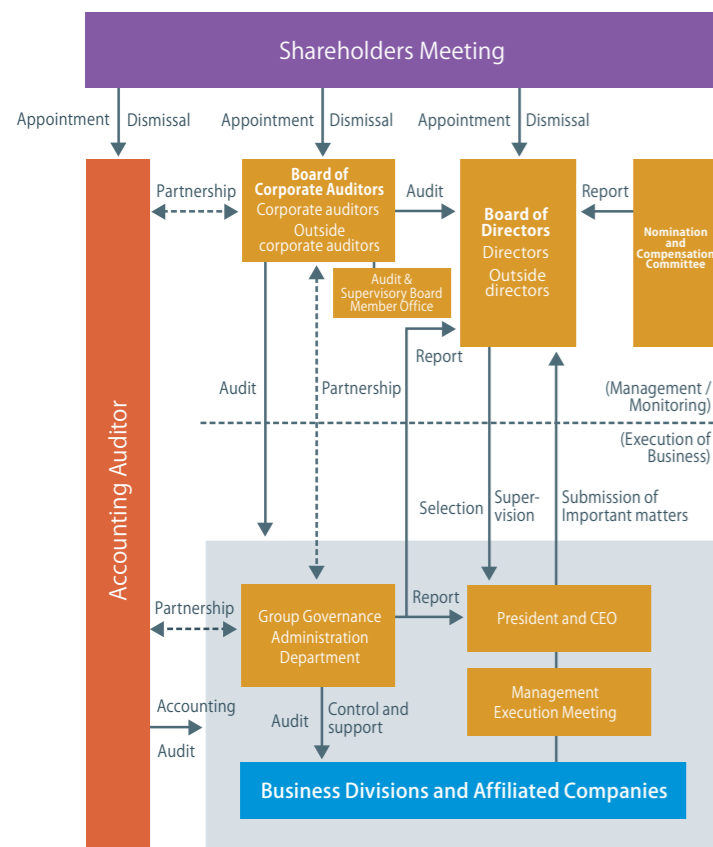
The number of members of the Board of Corporate Auditors is 5 or less, as stipulated in the Articles of Incorporation, with more than half of the members composed of outside corporate auditors in order to ensure the independence of the Board of Corporate Auditors. The Board is chaired by a standing corporate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

Nomination and Compensation Committee

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

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

Organizational Structure of Corporate Governance



FY2019 Results (as of March 31, 2020)

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

* Three as of June 26, 2020.

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

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



The 182nd annual general shareholders' meeting

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

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

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

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



Whistleblowing Compliance Management System certificate

Creation of the Chief Risk Management Officer (CRO) position

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

Conducting ongoing compliance training

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



A compliance training session

Compliance System



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

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

Summer vacation sketch contest

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



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

Comprehensive collaboration agreement with Nagaoka University of Technology

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

Active involvement in community events

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

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



The hardwood chips provided for the Shinjo Kado Yaki Festival

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

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



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

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

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

Group Fundamental Policy for Health and Safety

Philosophy

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

Guidelines

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

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

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



Symbol

Means of achieving the goals of “hSA25” and key activities

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

Initiatives to acquire ISO 45001 certification

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

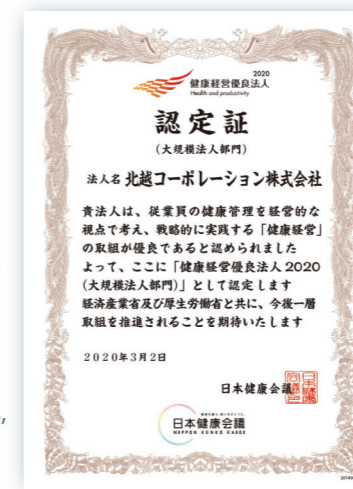
Continuing to create a more comfortable working environment while having clear goals

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

Certified Health and Productivity Management Outstanding Organization

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

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



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

Compliance with Power Harassment Prevention Act

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

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

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



Poster for the mental and physical health consultation desk

Change in average age and average years of employment

Average age

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

(Hokuetsu Corporation, non-consolidated)

Average years of employment

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

(Hokuetsu Corporation, non-consolidated)

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

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

To achieve its aims, we formulated the new Group Environmental Target 2030 in April 2020. The Target shows what all Group companies in Japan and overseas should aim for by FY2030.

Group Environmental Charter

Philosophy

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

Basic Policies

1. We shall pursue environmentally friendly manufacturing.
2. We shall combat global warming.
3. We shall nurture forests in a sustainable manner.
4. We shall recycle resources.
5. We shall reduce and reuse waste effectively.
6. We shall aggressively invest in facilities to reduce environmental burden.
7. We shall enhance environmental communication.

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

Group Environmental Target 2030

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

Global warming countermeasures

- Reduction of CO2 emissions by 43% (approximately 450,000 tons) compared to fiscal 2005 levels.
- Promotion of CO2 emission reductions in the logistics sector.

Forest development and management

- Procurement of all wood raw materials from forests with established proof of legality and sustainability (maintaining 100% usage rate).
- Continuance of forest management aimed at improving biodiversity and multiple functions of forests.

Resource utilization and recycling

- Reduction of water consumption.
- Promotion of effective use of recovered paper by expanding products using recovered paper.

Waste countermeasures

- Improvement of effective utilization rate of waste.

Compliance with environmental regulations and management of emissions

- Reduction of environmental load substances associated with wastewater and exhaust gases.

Environmentally-friendly products / technologies

- Expansion of environmentally friendly products (development of products that solve problem on ocean plastic pollution).
- Use of raw materials and chemicals with low environmental impact.

Target : Group companies in Japan and all overseas production sites

Group environmental topics

Measures to combat global warming

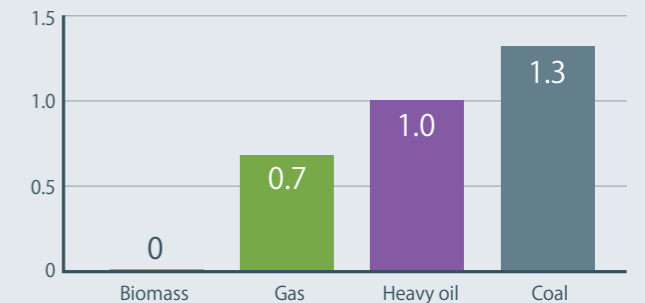
We are moving forward with switching fuels by converting to low CO2 emission biomass energy and gas, and engaging in energy-saving activities. Biomass refers to renewable organic resources derived from organisms and absorbs CO2 as it grows, so even if it is burned, the amount of CO2 in the atmosphere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



Black liquor

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

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



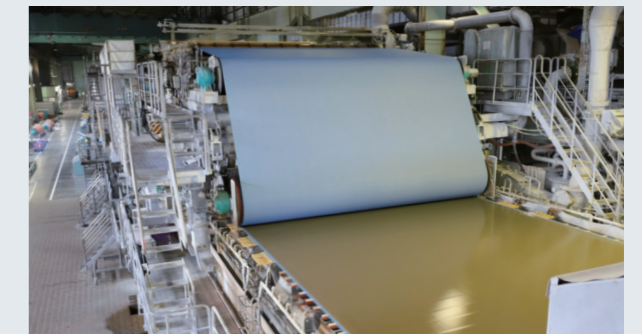
Resource utilization / recycling

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



Filtration device installed at the Niigata Mill

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

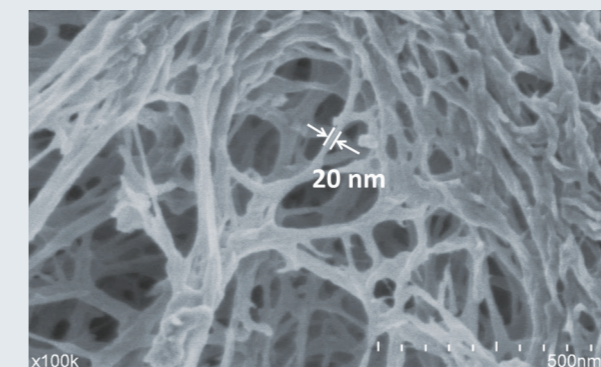


No. 6 paper machine at the Niigata Mill

Environmentally-friendly products / technology

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

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



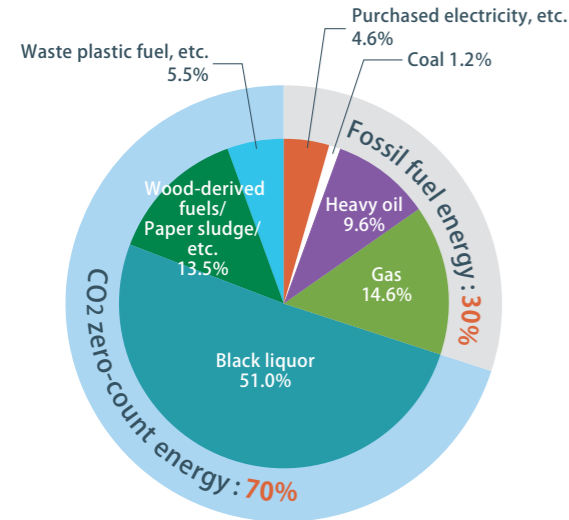
Enlarged photo of vulcanized fibers



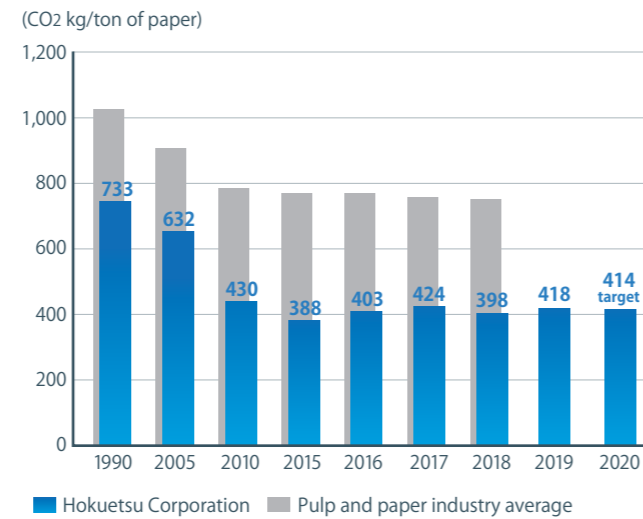
Sample Panse applications

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

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



Hokuetsu Corporation's per-unit CO2 emission trend



Material Balance (results for FY2019)

Scope: Hokuetsu Corporation

Input			Output			
Fossil energy input *1	10,951,000 GJ		CO2*1	654,000 t	Wastewater BOD*2	375 t
Non-fossil energy input *1	25,654,000 GJ		SOx	481 t	Wastewater COD*2	949 t
Input of water resources	94,725,000 m ³		NOx	2,041 t	Wastewater SS	562 t
Raw material consumption	Wood chips	1,788,000 t	Dust	109 t	Industrial waste generated	264,000 t
	Purchased pulp	56,000 t	Chemical substances subject to the PRTR law	Discharge 1.5 t Transported 0 t	Industrial waste final disposal volume	7,000 t
	Used paper	239,000 t			Paper/paperboard production volume	1,564,000 t

Changes in Environmental Performance

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

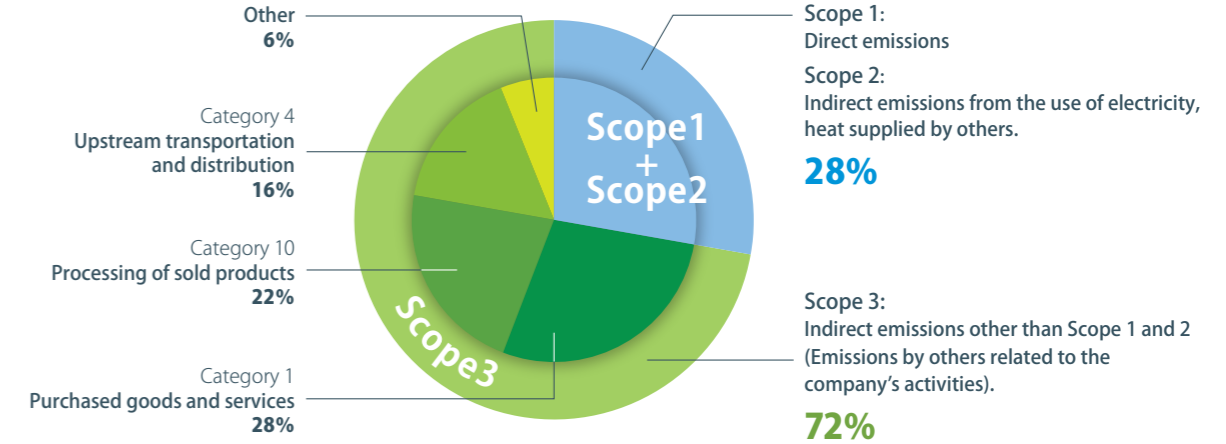
*1 Energy input and CO2 emissions are provisional values as of August 2020.

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

Reduction of Greenhouse Gas Emissions Across the Corporate Value-Chain

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

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



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

Environmental Preservation Cost

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

Examples of Environmental Conservation Benefits

Monetary unit: Millions of yen

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

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

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

Group Fundamental Policy for Raw Materials Procurement

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

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

Request to Business Partners

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

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

The Group wood material procurement

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

Policy on Procurement of Wood Material

1) Basic stance

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

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

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

1. Secure the traceability of wood materials

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

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

2. Proof of legality and sustainability

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

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

3. Transparency

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

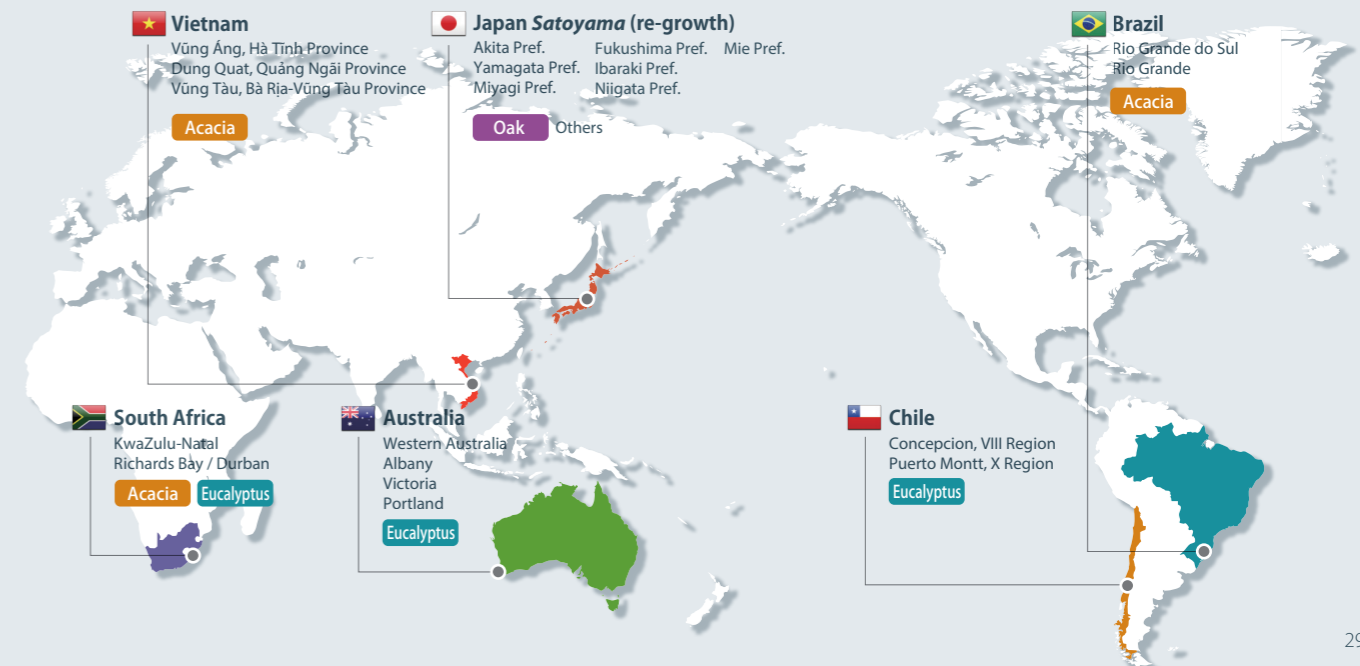
3) Maintenance of biodiversity

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

Procurement of Woodchips in FY2019

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

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



Continuing to ensure product quality and treat customers responsibly

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

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

Basic Principles Related to the Quality Control of Products

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

Swift and responsible customer response through sales force automation

We have introduced a sales force automation system (SFA system) to share information within the Sales Department in order to strengthen how to quickly respond to customer requests. With each staff member entering valuable opinions, such as complaints about products and requests for improvements from customers, into the SFA system, staff can instantly share information with everyone, which results in making quicker improvements.

We also hold regular meetings, such as staff meetings to share information between head office, branch, and sales offices, quality meetings on the topics of stable product supply and quality improvement, and regular cycle meetings with each mill to realize high-efficiency and optimal production so that we are able to supply products to customers that they can feel confident using.



A staff meeting in progress

Strengthening the quality control system of the entire Group

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



An internal quality audit being conducted

Contributing to SDGs by developing new alternatives to plastic

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

"Panse" as plastic alternative

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

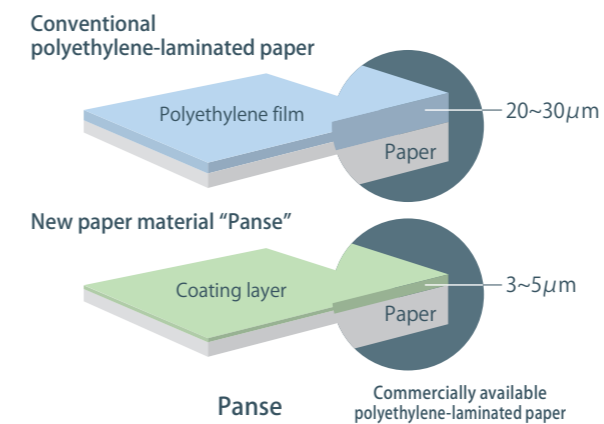
environmentally-friendly paper material. Although it is paper, it has virtually the same performance as polyethylene-laminated paper. By maintaining the biodegradability and other properties of paper, it can significantly reduce the amount of plastic used in plastic films and laminates.

Panse is a product that we create together based on the needs of our customers, and we have received inquiries from many customers. The Group aims to use Panse to contribute to SDGs together with our customers.

Key features of environmentally-friendly paper material "Panse"

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

Structure of Panse



	Panse	Commercially available polyethylene-laminated paper
Heat sealing temperature	130°C and above	130°C and above
Heat sealing strength (gf/4 mm)	160 Material fracture ○	140 Material fracture ○



Sample Panse applications

Innovating for the Creating New Value

Value Creation Business Model

1. Investment Business
2. Paper Business
3. White Paperboard Business
4. Specialty Paper Business
5. Packaging Business

We will transform our business portfolio into one that can grow sustainably in response to changes in economic conditions

Kunihiko Kashima
COO, Group Business Investment Division

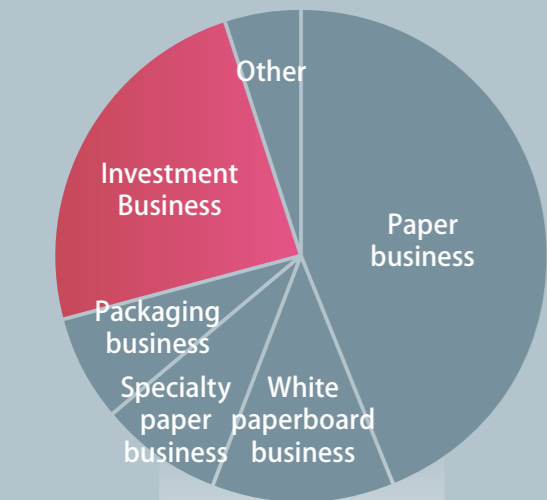


SDGs closely relating to our business

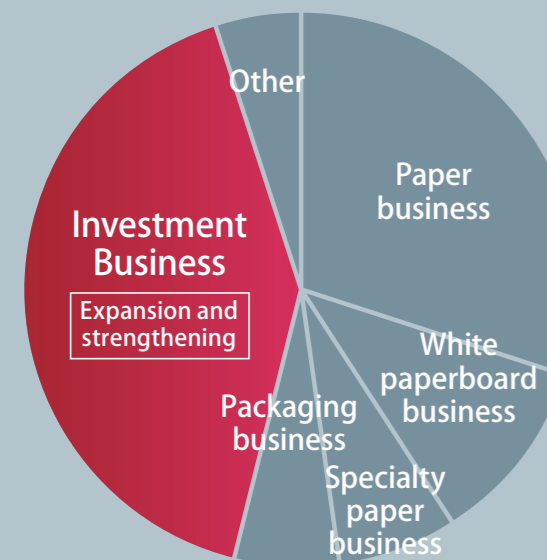


Business Overview

We created the new Group Business Investment Division during an organizational change in October 2020. In order to realize the basic policy set forth in Medium-term Management Plan 2023, the 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 certain 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 (Al-Pac) in Canada, Jiangmen Xinghui Paper Mill Co., Ltd. in China, and Bernard Dumas S.A.S. (Dumas) in France, we will transform our business portfolio in response to rapid structural changes in the economic situation surrounding our company by assessing existing businesses in Japan and overseas and new investment businesses on the same scale and making definitive business investments.



Business portfolio shift



Medium-term Management Plan 2023 initiatives

In addition to managing and assessing each related Group company, we will make strategic investments through M&As and aim to transform the Group's business portfolio into one that can grow sustainably.

Alberta-Pacific Forest Industries Inc.

Alberta-Pacific Forest Industries Inc. (Al-Pac) of Canada is the largest manufacturer and retailer of pulp in North America, boasting an annual output of 530,000 tons of hardwood bleached kraft pulp and 80,000 tons of softwood bleached kraft pulp (2019 results). Al-Pac is entrusted by the Government of Alberta with managing 6.4 million hectares of forest land (an area that is larger than Kyushu and Shikoku combined), and uses this resource as raw pulp material.



Jiangmen Xinghui Paper Mill Co., Ltd.

Jiangmen Xinghui Paper Mill is a white paperboard manufacturer located in Guangdong Province, China. Its main products are coated duplex board with grayback used as packaging materials for various products, blister-packaging paperboard, and uncoated products. The company has built a sales network centered on Guangdong and Liaoning provinces in the north, and Hainan in the south, and does business with customers in a wide range of regions. It is also Hokuetsu's agent for exporting and selling printing and communication paper and white paperboard produced by us to the South China area.



Bernard Dumas S.A.S.

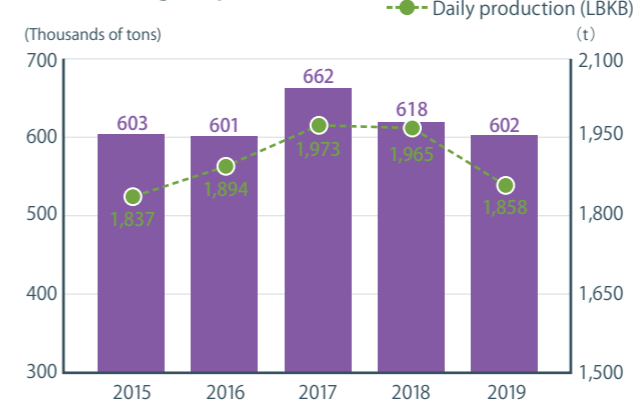
Bernard Dumas S.A.S. (Dumas), which became a wholly owned subsidiary in 2012, is a French manufacturer of functional materials and specialty paper that boasts the top share of battery separators made from glass fiber in Europe. With the company becoming a subsidiary, the Group has become the world's second largest glass fiber sheet maker. We are developing products while sharing technical know-how with Dumas, which has led to the start of production of automotive battery separators at the Nagaoka Mill.



Daio Paper Corporation

Daio Paper, which became an affiliated company accounted for under the equity method in 2012, is a general paper manufacturer headquartered in Tokyo and Shikoku. In particular, it is a highly competitive company in containerboard and household paper that we do not produce, which helps diversify the Group's business portfolio.

Al-Pac change in production



Focus & Topic

Studying capital investment to expand into the power sale business at Al-Pac

Al-Pac has a policy of improving profitability by expanding the power export business (capital investment) in anticipation of higher power market prices due to changes in environmental measures. Currently, we are working on conserving steam through large-scale process waste heat recovery and using the steam to increase the amount of power generated by existing turbines. We are also studying and examining the introduction of new power generation equipment in the future. We are confident that this will contribute to the improvement of sustainable corporate value as Al-Pac's core business that is not significantly affected by pulp market conditions, and which is in line with federal and provincial government policies that are transitioning to low-carbon energy.



The expansive forests of Alberta, Canada

We will strengthen our competitiveness by giving overall optimal considerations while responding to rapid changes in the market environment

Shigeharu Tachibana
COO, Paper Business Division



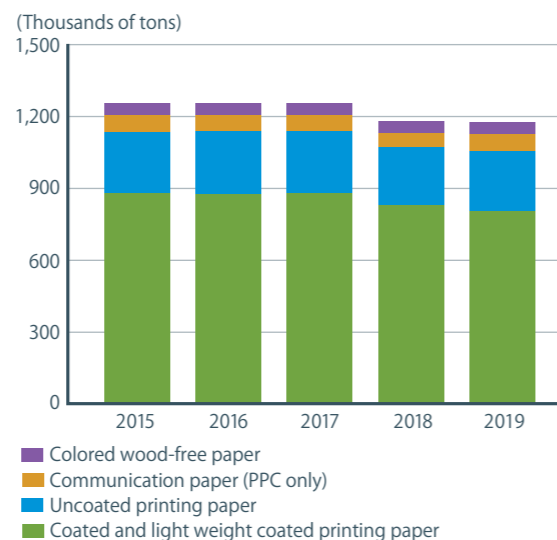
SDGs closely relating to our business



Business Overview

The main product of the Paper Business is printing and communication paper used for books, magazines, catalogs, and brochures. Coated paper and uncoated printing paper are our key products in our product line-up, with production of coated paper in FY2019 having the third highest share in Japan and uncoated printing paper taking the second highest share. Furthermore, our colored wood-free paper with its tradition and rich product line-up is a top brand in Japan, which shows that it is loved by a wide range of customers.

Paper production by product



Medium-term Management Plan 2023 initiatives

Thoroughly strengthening the competitiveness of the Niigata and Kishu Mills and the Sales Department

Our shipment of printing and communication paper in 2019 exceeded its previous year, especially in the first half. We drew higher orders because our production were relatively favorable, on the other hand there were multiple natural disasters and supply instabilities at other manufacturers in 2019. Export sales were 210,000 tons per year due to the deterioration of international market conditions owing to international trade friction. This was a very severe export environment and we did not reach our target of 300,000 tons per year.

For 2020, based on Medium-term Management Plan 2023, the first step toward realizing "Vision 2030," the new long-term management vision, the Niigata Mill, Kishu Mill, and the Sales Department are aligned in the same direction working together, and engaged in full-fledged efforts to enhance our competitiveness in order to respond to rapid changes in the external environment. Specifically, we will focus on the following:

Paper Business Division

With demand declining significantly due to the novel coronavirus pandemic, safety and compliance are our top priorities, and we will work to maintain firm sales prices in Japan and continue stable operations and further improve costs at both the Niigata and Kishu mills.

Niigata Mill

1. Establish an accident-free and disaster-free mill by striving for thorough compliance and independent health management.

2. Prevent operational troubles and large equipment failures with planned maintenance.
3. Give optimal consideration in response to the decrease in domestic and overseas demand and cut costs to maximize profits.
4. Promote SDGs through energy, pulp, and papermaking from chips.

Kishu Mill

1. Complete the implementation of risk assessment measures and draw up preventive measures for disasters, the environment, and operational trouble.
2. Strive for thorough compliance where all employees share awareness and responsibility as members of society.
3. Strengthen quality control, strive to prevent the occurrence of defective products, and visit customers individually to work to develop new markets and new products.
4. Work to enhance competitiveness through optimal production in line with changes and challenging cost improvements.

Sales Department

1. In the face of declining demand, maintain sales prices in Japan and engage in sales activities with an awareness of the industry share of our main products.
2. Conduct regular visits of our users by staff at our mills to strengthen relationships and respond appropriately to customer requests to generate stable sales.
3. With exports, given that demand in Japan cannot be expected to expand, aggressively promote direct trade to develop sales measures that accurately capture overseas market trends, and further strengthen relationships of trust with customers to expand sales channels.
4. Switch to paper materials as a substitute for plastic packaging and expand sales in consideration of environmental issues.

Focus & Topic

Aggressively rolling out a further modal shift

We were awarded the "21st Logistics Environmental Conservation Activity Award" for the transportation (modal shift) of DIP pulp at the Kishu Mill, which started in July 2019.

Also, part of the transportation of products from the Niigata Mill to northern Kanto, which used to be done by trucks, was converted to Japan Railway Container Transportation in March 2020. Until August 2020, rolled products were transported by rail stacked in 12 ft containers, and are then transloaded (rolled) onto trucks at a warehouse near the freight terminal before delivering them to users. From September, we have been able to use our own privately-owned 20 ft containers to transport the products to users without transloading them. We are also considering round trip freight in the future, and are aiming for so-called "container round use."

Expanding for the growing demand for process application products

In response to the global demand for plastic alternatives, the export of base paper for paper cups and paper straws produced at the Kishu Mill has been growing in recent years. Exports of base paper for notebook, paper bag and thermal paper for China are also growing, and we have made upgrades to meet the required quality. We are in the process of rapidly expanding our lineup in response to rising demand. We will move ahead with the development of products for new applications both in Japan and abroad, and aim to increase our sales volume based on these manufacturing technologies.



No. 9 paper machine at the Niigata Mill

We improve customer satisfaction by accurately understanding changes in demand structure and providing environmentally-friendly and high-quality products

Shoji Suzuki
COO, White Paperboard Business Division

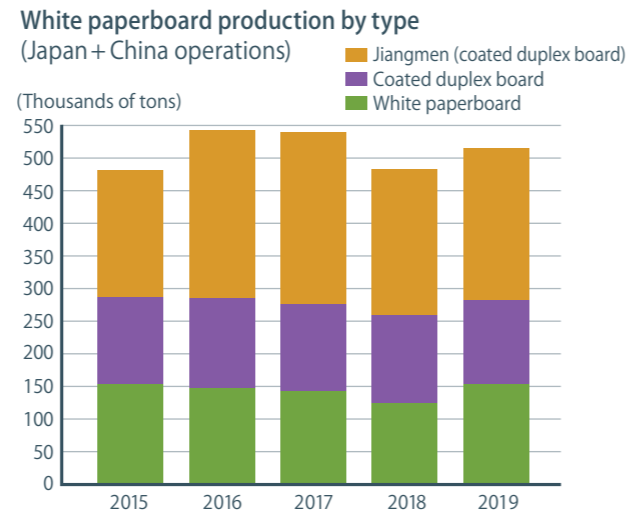


SDGs closely relating to our business



Business Overview

Our division's main products are premium white paperboard, special white paperboard, coated duplex board, cast-coated paper, etc. We have established a graded pyramid lineup of whiteboard products, in order to meet our customers' diverse needs. The major use of our products is in commercial printing, which includes packages, catalogs, POP advertising, postcards, and publication covers. Most recently, we have been working on developments to incorporate new demand for primary food containers, alternatives to plastic containers, and packaging materials. Our production sites in Japan are at the Niigata Mill and Kanto Mill (Ichikawa and Katsuta) and overseas by Group company Jiangmen Xinghui Paper Mill, located in Jiangmen, Guangdong Province, China.



Medium-term Management Plan 2023 initiatives

The way forward with primary food containers and alternatives to plastic containers

In 2019, total shipments in Japan of white paperboard by manufacturers was approximately 1.26 million tons with the Group accounting for about 260 thousand tons, or 20% of the market share in Japan. Although we have maintained our market share, shipments have fallen by about 10,000 tons from the previous year due to lower demand. Demand in Japan for white paperboard is strong in the food and pharmaceutical fields, which are the main uses of paperboard for paper containers, but users continue to cut costs by reducing food loss, reducing packaging, and switching to flexible packaging. The inbound effect has also shrunk after its peak in 2017. Also, due to a decrease in POP advertising and catalogs due to rethinking publishing and advertising expenses, the total volume is expected to continue to shrink. However, we anticipate new demand for primary food containers and alternatives to plastic containers, and we will continue to actively develop this field.

Building a system that can respond quickly to changes in the environment

With the start of our new medium-term management plan, we will seek to optimize the white paperboard business as a whole, build a system that can respond quickly to changes in the environment, and work to improve customer satisfaction. Specifically, we will focus on the following:

1. Further strengthen proposals to users, mutual visits, and technical cooperation to increase sales of white paperboard.
2. Promote efforts toward maintaining appropriate inventories. We will achieve efficient delivery by consolidating the products of the Kanto Mill (Ichikawa) at the i Missions Park (IMP) Ichikawashiohama warehouse,

- which started operation in October 2019. This will improve convenience for distributors and converters.
- 3. Promote the development of primary food containers and plastic alternatives with the aim of capturing new demand.
- 4. Contribute to the profits of the entire Group by sharing information and sales strategies with our Group companies, Hokuetsu Package and Hokuetsu Paper Sales.

Making the Kanto Mill an environmentally-friendly manufacturing hub

We are engaging in the following specific initiatives from FY2020:

- **Discover market potential for our products and improve customer satisfaction**
Promote the creation of attractive products by uncovering user needs and leveraging the superior quality our white paperboard
- **Capture demand for alternatives to plastic containers and packaging materials**
Move forward with proposals for paperboard-based primary food containers and packaging materials, and work with converters to expand sales in response to demands for alternatives to plastic
- **Incorporate new product needs with the Group (Hokuetsu Package and Hokuetsu Paper Sales)**
Further strengthen collaboration with Hokuetsu Package and Hokuetsu Paper Sales, who are close to users, accurately grasp product needs from consumers, and work on developing attractive new products
- **Develop the Kanto Mill as a next-generation environmentally-friendly manufacturing hub**
Take advantage of the location of the Kanto Mill in the Kanto region, which is the largest area of consumption and producer of used paper in Japan, and move forward with its conversion as an urban mill to an environmentally-friendly manufacturing hub.

Focus & Topic

New i Missions Park (IMP) Ichikawashiohama warehouse begins operations

Operation of the new i Missions Park (IMP) Ichikawashiohama warehouse in Ichikawa, Chiba began in October 2019. The purpose of the warehouse is to consolidate the product inventories of the Kanto Mill (Ichikawa), which are stored at multiple locations across the Kanto region. By consolidating product inventories, items that were previously shipped from multiple locations will be stored in one location, improving our shipping efficiency and costs. Improving our shipping efficiency will also help address the recent shortage of truck drivers. In considering consolidation of our warehouses, we carefully gathered information in advance, and found that the IMP Ichikawashiohama warehouse was most suitable due to the fact it is close to the mill, has good access to delivery destinations and multiple road options, and has favorable operating costs. We will continue to support our customers in delivering better products with greater peace of mind and safety.



No.1 paper machine at the Kanto Mill Katsuta

Advancing a global manufacturing and sales for growth produces that anticipates market needs

Yoshinori Kawashima
COO, Specialty Paper Business Division



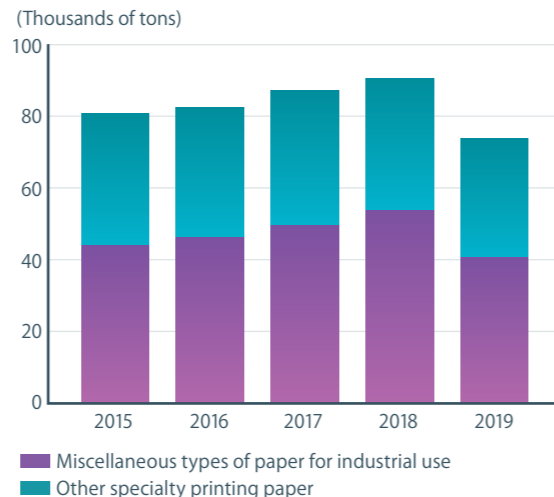
SDGs closely relating to our business



Business Overview

The main products of the Specialty Paper Business Division are premium printing paper, fancy paper, communication paper, paper for industrial use, specialty processed products, specialty fiber boards, and more. Among these, products such as chip carrier tape base paper, adhesive postcard paper, and abrasive-coated base paper boast a large share of the Japanese market. Going forward, we will further solidify our domestic base while strengthening our competitiveness and revenue-earning capability in the global market.

Production of specialty paper by product type



Medium-term Management Plan 2023 initiatives

Achieving solid expansion of our business field despite receiving some impact of the COVID-19 pandemic

The Specialty Paper Business Division conducts business in close cooperation with head office and strategic businesses and subsidiaries (Hokuetsu Toyo Fibre, Nikkan, Shanghai Toh Tech, and HC USA). From the perspective of the entire Group, including the business fields of subsidiaries, our basic policy is to become closer to end users on a global scale, accurately grasp the potential needs of customers, and bring products to the market. In 2019, we have focused on broadening our business field of the entire Group without wavering from our core businesses. This effort has steadily gotten on track and we have been able to expand our business field. In 2019, business was affected by the trade friction between the United States and China for almost the entire year, which resulted in a serious downturn with various types of functional paper, such as chip carrier tape base paper for smartphones, which is highly dependent on the Chinese market. While there were signs of a recovery beginning to appear at the beginning of the year, the world was overwhelmed by the pandemic, and we are in a situation where we cannot forecast the direction of the business division in all business fields.

Accelerating expansion into growth markets such as plastic alternatives and environmental health

The specialty paper segment is in a difficult situation due to the accelerating decline in demand for fancy paper and premium printing paper. We are focusing on food-related fields centered on oil-resistant paper, for which we expect stable sales, and promoting the development of products related to plastic alternatives to work to expand into new markets. While the market for communication paper is shrinking, the pandemic is creating a harsh situation due to the decline in mark sheets for car and horse race betting and answer sheets, which rely heavily on OCR paper. We will strengthen our efforts in processed base paper applications, expand sales of adhesive postcard paper, and develop new applications. In the Functional Paper Sales Department, sales of chip carrier tape base paper for transporting electronic components for smartphones and base stations has been strong, but the situation for automotive use remains sluggish. Abrasive-coated base paper and specialty fiber board (PASCO) were affected by inventory adjustments taken due to the effects of the pandemic, but are now returning to normal to reflect actual demand. However, there is strong demand for high-performance air filter media to combat infectious diseases and water treatment membrane backings used to filter drinking water. We will continue to work in accordance with the SDGs, such as the goals for clean air and water, the IT field, and the plastic alternatives field.

Focus & Topic

Making further advances in the efficiency and rationalization of existing businesses

The Specialty Paper Business Division is focusing on the following initiatives as the basic policy of the Medium-term Management Plan 2023.

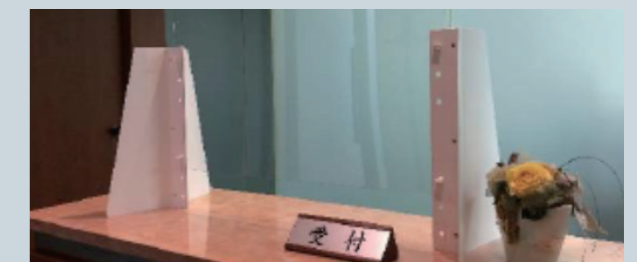
- Build a system to produce/sell growth products from a global perspective.
- Address the demand for plastic alternative materials.
- Enter new fields and businesses for high added value products.



Plastic alternative materials

Preparing for a market recovery after the COVID-19 pandemic

We are making preparations to strategically respond to the recovery of the market after the pandemic is over. We anticipate the smartphone market will further grow due to the steady progress of 5G, the promotion of IoT, and the trend toward the electrification of automobiles. This means we must thoroughly prepare a system to ramp up the production and sale of performance materials paper for these fields. The pandemic has rapidly increased the need and importance of environmental health products on a global scale, such as water treatment products and air filters. We will make the early realization of a system to increase the production of RO membrane backings for water treatment that covers the entire global market a top priority. Also, we will leverage the trend toward plastic alternatives and actively promote the development and roll out of various materials (fiber, PASCO, Panse, and other materials for food packaging) that are compatible with plastic alternatives.



PASCO spray prevention panel



No.5 paper machine at the Nagaoka Mill

Aiming to improve total packaging services to be safe, secure, and environmentally-friendly



Maou Sugimoto
COO, Packaging Business Division

SDGs closely relating to our business



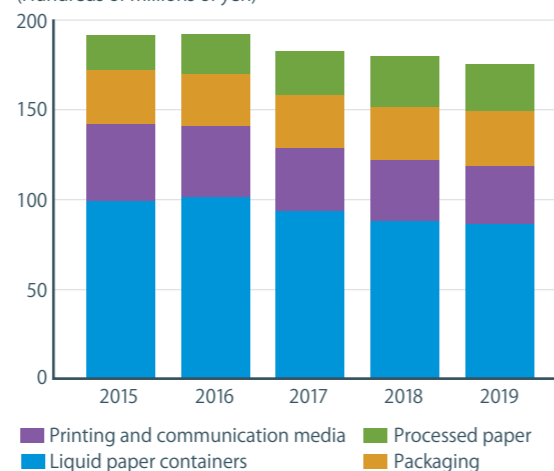
Business Overview

In the Packaging Business, our consolidated subsidiary, Hokuetsu Package Co., Ltd. (HPC) develops business by leveraging the strengths of its integrated production from making base paper and developing materials to the design, printing, and processing of finished products.

HTC produces "TOHEI-PAK" brand milk cartons, packaging materials for primary food containers and confectionery boxes, functional and cosmetic processed paper used for cosmetics and OTC pharmaceutical packaging, and printed materials such as adhesive postcard and mark sheet paper. They also manufacture communication media products for the processing of personal information data.

Net sales by business

(Hundreds of millions of yen)



Medium-term Management Plan 2023 initiatives

Improved profitability for mainstay milk cartons

In FY2019, sales of our mainstay milk and drink cartons declined due to a decrease in sales volume, but profits improved due to revisions of the selling price and controlling raw material costs. Sales of packaging materials increased thanks to a significant increase in the sales volume of paper trays and sleeves for convenience stores. In the processed paper segment, the sales volume of thin-film deposition paper for cosmetics decreased as inbound demand calmed down. In the business form printing and communication media products segment, the decline in demand has yet to bottom out.



Examples of product packaging

Rebuilding a system that can respond quickly to changes in the environment

FY2020 marked the start of Medium-term Management Plan 2023, but the business environment is becoming more severe due to the rapid stagnation of economic activity associated with the COVID-19 pandemic. For this reason, we will swiftly review our production system in response to changes in packaging demand trends, improve operational efficiency throughout the company, and reallocate personnel to improve profitability. On the sales front, we will steadily implement sales activities that accurately capture what our customers really want, concentrate on our core competences in our product lineup, and focus on planning and developing new products. In the milk carton segment, we will work to recover our market share, which decreased due to the upgrading of filling machines for our business partners. In the packaging materials segment, we will expand our production system to further strengthen our competitiveness in the field of primary food containers, such as trays for prepared foods and desserts. In the processed paper segment, we will demonstrate the cost competitiveness provided by the introduction of an 8-color rotogravure printing press and expand sales of laminated products for cups for ice cream and instant noodles. In the communication media segment, we will use our newly introduced color IJ printer to provide digital on-demand printing products.

Focus & Topic

Strengthening marketing to meet demand for plastic alternatives

The sales and profits of Hokuetsu Package Co., Ltd., which is in charge of the Group's packaging business, has been on a downward trend from FY2016 since it was formed by the merger of two companies in FY2015. This is due to the high sales composition ratio of gable top type milk cartons and business form printing and communication media products, whose demand continues to decline structurally. We will further move forward with efficiency and the streamlining of these existing businesses. However, in addition to strengthening our marketing capabilities by deepening cooperation between Group companies, we will also strengthen product and application development of alternative materials to single-use plastics, for which demand is expected to increase, by collaborating with users and other industries. We will also consider building a new business portfolio with the aim of securing new sources of revenue. We will restructure our business portfolio through these efforts.

Initiatives based on Group Environmental Target 2030

As an initiative set forth in Group Environmental Target 2030, we are working to expand environmentally-friendly products such as milk cartons and processed paper made from FSC and PEFC certified paper. With processed paper in particular, our lineup includes high-brightness PET-deposited paper, made by laminating cast-coated paper containing recycled paper and aluminum-deposited PET film, and transfer-deposited paper, which does not have aluminum-deposited PET film in its products, to meet the needs to reduce the use of plastic and use more plastic alternatives. This paper is used by major cosmetics manufacturers in Japan and overseas. We also strive to ensure product quality and be responsible to our customers. The Katsuta Production Department, which produces packaging products for beverages and food, uses FSSC22000 (food safety management system) to provide safe and secure products. The Tokorozawa Production Department, which handles personal information from customers, uses ISMS and PMS to thoroughly protect and manage personal information.

(Hokuetsu Package FSC license code: FSC-C105145)



Katsuta Production Dept.



Sekio Kishimoto
President and CEO



Yoshinori Kawashima
Managing Director



Mitsushige Yamamoto
Managing Director



Shuji Sekimoto
Director



Yasuyuki Kondo
Director



Shigeru Wakamoto
Director



Hiroyuki Otsuka
Director



Masayuki Kuribayashi
Director



Shigeharu Tachibana
Director



Mitsuyasu Iwata
Outside Director



Kazuo Nakase
Outside Director



Kaoru Mashima
Standing Corporate Auditor



Jun Itoigawa
Outside Corporate Auditor



Keiji Watanabe
Outside Corporate Auditor

Corporate Officers

Makoto Yanagisawa Shinobu Ogata Yoshitaka Hashimoto Kazuhiko Itagaki Shoji Suzuki Yutaka Ishizuka
Kunihiko Kashima Satoshi Miyake Tomoyuki Iida Maou Sugimoto Satoshi Okamoto

(As of June 29, 2020)

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Consolidated Financial Highlights

Value up-10

G-1st

C-next

V-DRIVE

Financial data	Millions of yen												Thousands of U.S. dollars (Note 1)
	Year ending March 31, 2009	Year ending March 31, 2010	Year ending March 31, 2011	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, 2020
Net sales	¥182,782	¥193,952	¥217,013	¥230,570	¥208,280	¥223,865	¥228,400	¥246,849	¥262,398	¥269,100	¥275,807	¥264,618	\$2,431,480
Operating income	8,122	9,888	8,742	10,823	3,658	3,308	6,140	9,236	12,900	11,414	10,130	11,209	102,995
Ordinary income	6,593	9,436	10,148	13,781	10,516	8,481	11,463	10,588	14,056	13,908	13,015	15,652	143,821
Net income attributable to owners of parent company	1,750	7,106	5,296	12,673	8,169	6,105	8,359	7,477	10,381	10,327	9,156	8,073	74,180
EBITDA (Note 2)	25,695	31,580	32,336	35,283	25,538	26,974	30,582	31,125	33,938	33,871	32,313	34,883	320,527
Capital expenditures	31,376	6,286	8,635	7,977	12,160	23,919	11,128	9,425	12,751	14,710	16,089	16,231	149,141
Total assets	313,378	340,944	322,233	332,979	343,114	350,808	351,033	363,658	362,205	366,448	368,082	344,731	3,167,610
Net assets	135,029	138,173	137,870	150,628	158,795	158,824	168,573	169,529	181,035	191,977	192,861	180,862	1,661,876
Interest-bearing debt	137,060	136,640	121,157	117,144	129,137	136,387	123,724	129,586	116,754	108,240	109,726	106,832	981,641

Cash flows

Cash flows from operating activities	9,620	36,484	25,719	28,953	21,203	18,676	27,858	20,944	28,918	19,742	21,627	43,975	404,071
Cash flows from investing activities	-34,804	-10,637	-6,209	-9,565	-25,127	-22,805	-16,261	-3,628	-13,649	-14,158	-19,275	-20,199	-185,601

Per share data (Yen/U.S. dollars)

Earnings per share (EPS)	8.25	33.75	25.55	62.09	40.08	30.54	44.39	39.69	55.09	54.68	48.44	43.45	0.40
Book value per share (BPS)	632.42	658.61	670.49	727.66	770.02	834.44	888.16	894.74	956.63	1,011.58	1,016.16	1,073.08	9.86
Dividends per share	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	0.11

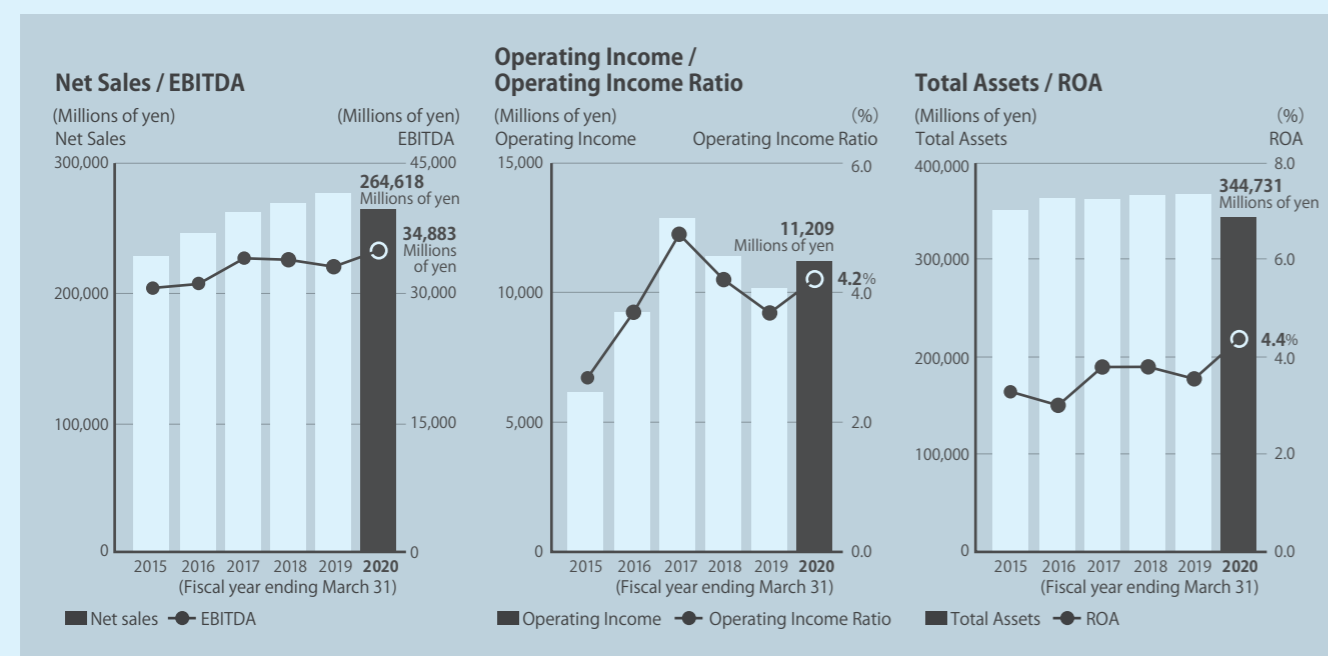
Key ratios

EBITDA/Net sales (%)	14.1%	16.3%	14.9%	15.3%	12.3%	12.0%	13.4%	12.6%	12.9%	12.6%	11.7%	13.2%
Operating income ratio (%)	4.4%	5.1%	4.0%	4.7%	1.8%	1.5%	2.7%	3.7%	4.9%	4.2%	3.7%	4.2%
Net income ratio (%)	1.0%	3.7%	2.4%	5.5%	3.9%	2.7%	3.7%	3.0%	4.0%	3.8%	3.3%	3.1%
Equity ratio (%)	42.8%	40.3%	42.6%	44.7%	45.6%	44.8%	47.7%	46.4%	49.8%	52.2%	52.2%	52.3%
ROA (%) (Note 3)	2.2%	2.9%	3.1%	4.2%	3.1%	2.4%	3.3%	3.0%	3.9%	3.8%	3.5%	4.4%
ROE (%)	1.3%	5.2%	3.9%	8.9%	5.4%	3.9%	5.2%	4.5%	6.0%	5.6%	4.8%	4.3%
Debt equity ratio (times)	1.02	0.99	0.88	0.79	0.82	0.87	0.74	0.77	0.65	0.57	0.57	0.59

Notes

1. Amounts in US dollars were converted at ¥108.83 to one dollar, the currency exchange rate prevailing in the Tokyo Foreign Exchange Market as of March 31, 2020.
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 the fiscal 2018 are those after the retroactive application of the relevant accounting standards.



Management's Discussion and Analysis

Business Environment and Results

The Japanese economy during the current fiscal year saw improvements in the employment and income environment and firm corporate capital expenditures and public expenditures, but the impact on the global economy due to the decline in consumption due to the increase in the consumption tax and the slowdown in global trade exerted downward pressure, and uncertainty is increasing. The Japanese pulp and paper industry is still in a tough business environment due to the effects of soaring logistics costs and other factors, such as the continuing decline in demand for printing and communication paper.

In the Group, although the price of paper was revised in January 2019, sales fell due to sluggish demand in Japan and stagnant selling prices overseas.

On the earnings front, operating income and ordinary income increased due to the price revision of paper and the effects of various cost-cutting measures. On the other hand, net income attributable to owners of parent company fell due to recording an impairment loss of property, plant and equipment at Jiangmen Xinghui Paper Mill Co., Ltd. The Group's results for this period were as follows.

Millions of yen		Change
Net sales:	¥264,618	(-4.1%)
Operating income:	¥11,209	(+10.6%)
Ordinary income:	¥15,652	(+20.3%)
Net income attributable to owners of parent company:	¥8,073	(-11.8%)

Business Results by Segment

1. Paper and Pulp Business Segment

For the Paper and Pulp Business Segment, despite the revision to the price of paper in January 2019, income fell due to sluggish demand in Japan and stagnant selling prices overseas. On the earnings front, profits increased due to the price revision of paper and the effects of various cost-saving measures.

By product type, sales of paper declined due to lower demand brought on by the effect of the digitization of advertising media and mail order catalogs. Due to price revisions implemented in January 2019, results in Japan were up compared to the previous year. However, exports fell below the previous year's results due to the effects of trade friction between the United States and China.

With white paperboard, sales of specialty white paperboard and coated duplex board for pharmaceuticals were strong, but inbound demand in the cosmetics and souvenir-related segments declined significantly, falling below the previous year's results. Sales of premium white paperboard were sluggish for storefront POP applications, various cards, and publication cover applications, and fell below the previous year's results.

As for specialty paper, in the functional paper field, results for chip carrier tape base paper for transporting electronic components fell below the previous year's results due to trade friction between the United States and China while air purification filters, etc. also declined due to a decrease

in export orders. Fancy paper in general has seen declining demand and furthermore is being downgraded to general paper. Premium printing paper, which has been performing well, is now struggling. With communication paper, the declining use of adhesive postcard paper for notifications and the use of forms continued as the shift to digital media progressed, and performance fell below the previous year's results.

With pulp, the price of pulp fell due to the impact of trade friction between the United States and China, and fell below the previous year's results.

In view of the above, the results in the Pulp and Paper Segment were as follows.

Millions of yen		Change
Net sales:	¥237,895	(-4.2%)
Operating income:	¥9,321	(+17.2%)

2. Packaging and Paper Processing Segment

In the packaging and paper processing business, income and profits declined due to lower orders for liquid containers and lower orders for cosmetics due to a decrease in inbound demand.

In view of the above, the results for the Packaging and Paper Processing Segment were as follows.

Millions of yen		Change
Net sales:	¥18,228	(-5.0%)
Operating income:	¥418	(-50.3%)

3. Others

In the Other segments (encompassing wood products, the waste paper wholesale business, construction, transportation, warehousing and other businesses), sales increased due to an increase in external orders for the wood products segment despite the overall harsh order environment. On the earnings front, earnings rose due to the effect of various cost-saving measures.

In view of the above, the results in the Other segments were as follows.

Millions of yen		Change
Net sales:	¥8,495	(+1.6%)
Operating income:	¥890	(+25.5%)

Financial Position

Total assets as of the end of fiscal 2019 (March 31, 2020) decreased ¥23,351 million from the previous year to ¥344,731 million. This decrease was mainly due to cash and deposits increasing ¥6,180 million, merchandise and finished goods increasing ¥3,187 million on one hand, accompanied by notes and accounts receivable decreasing ¥17,630 million, raw materials and supplies decreasing ¥3,957 million, investment securities decreasing ¥2,920 million, and property, plant and equipment decreasing ¥7,489 million due to depreciation expenses.

Total liabilities as of March 31, 2020 decreased by ¥11,351 million to ¥163,869 million from the previous year. This decrease was mainly due to interest-bearing debt decreasing ¥2,893 million, notes and accounts payable decreasing ¥2,048 million, income taxes payable decreasing ¥1,444 million, and liability for retirement benefits decreasing ¥4,747 million.

Net assets as of March 31, 2020 decreased by ¥11,999 million to ¥180,862 million from the previous year. The decrease in net assets was brought about mainly by a decrease in retained earnings from retirement of treasury stock, of ¥4,719 and a decrease in unrealized holding gains on securities, net of taxes of ¥6,716 million.

Cash Flows

The balance of cash and cash equivalents as of March 31, 2020 increased by ¥6,181 million from the previous year to ¥21,384 million.

Cash flows from operating activities

Net cash provided by operating activities totaled ¥43,975 million (103.3% increase year-on-year).

The main sources of cash provided were ¥12,711 million in income before income taxes, ¥18,451 million in depreciation and amortization, ¥6,383 million in impairment loss of property, plant and equipment, and ¥17,551 million in a decrease in notes and accounts receivable. The main components of cash used were ¥4,875 million in gain on contribution of securities to retirement benefit trust, equity in income of affiliates of ¥4,581 million, and income taxes paid of ¥4,859 million.

Cash flows from investing activities

Net cash used in investing activities totaled ¥20,199 million (4.8% increase year-on-year).

The main components of cash used were ¥4,570 million for purchase of investment securities and ¥14,857 million for the purchase of property, plant and equipment.

Cash flows from financing activities

Net cash used for financing activities totaled ¥17,262 million (¥934 million of net cash used in the previous consolidated fiscal year).

The main components of the cash used were a ¥3,500 million decrease in commercial papers, ¥15,552 million repayment of long-term loans, ¥10,097 million for the purchase of treasury stock, and ¥2,275 million for payment of dividends. The main contributors to cash provided were ¥16,000 million in proceeds from long-term loans.

Basic Policies Regarding Earnings Distribution and Dividend Payments for Fiscal 2019 and Fiscal 2020

In order to continue growth investment to improve long-term and stable corporate value, Hokuetsu Corporation implements capital policy in light of a balance of financial soundness, capital efficiency and returns to shareholders, and considers providing stable and continuous dividends as its "fundamental policy regarding capital measures." The dividend is distributed twice a year with an interim dividend and a year-end dividend, and the decision-making bodies for the company with respect to interim dividends and year-end dividends are, in compliance with the provisions of the Articles of Association, the Board of Directors and the General Meeting of Shareholders respectively.

Based on this fundamental policy, the company decided to distribute a year-end dividend of ¥6 per share in fiscal

2019, ended March 31, 2020. Combined with the interim dividend of ¥6, the annual dividend was maintained at ¥12 per share.

Taking into consideration that we have been able to achieve certain results in various management measures based on the long-term management vision, for the forecast for fiscal 2020, ended March 31, 2021, the company currently plans ¥7 per share for both the interim and year-end dividends and the annual dividend at ¥14 per share.

Fiscal 2020 Outlook

The Japanese economy is rapidly deteriorating due to the effects of the COVID-19 pandemic, and we expect that the extremely difficult situation will continue. There are also concerns that COVID-19 may cause the Japanese and other foreign economies to further slow down.

Given these circumstances, the environment surrounding the pulp and paper industry is becoming more uncertain due to rapid changes in demand trends in Japan and global market price trends. The Group will continue to make thorough efforts to reduce costs to strengthen its profit structure.

We will also seek to stabilize earnings at an early stage in the corrugated board base paper business, which began commercial operations in April this year.

We have prepared the following earnings forecast taking into consideration these circumstances.

Millions of yen		Change
Net sales:	¥210,000	(-20.6%)
Operating income:	¥1,000	(-91.1%)
Ordinary income:	¥5,500	(-64.9%)
Net income attributable to owners of parent company:	¥3,500	(-56.6%)

Major Business Risks

The Group currently considers the following to be its principal areas of business risk.

(Particularly important risks)

- Fluctuations in product demand and prices
- Fluctuations in raw material and fuel market prices
- Foreign exchange rate fluctuations
- Overseas political and economic circumstances
- Interest rate fluctuations
- Legal regulations and litigation
- Capital investment

(important risk)

- Natural and other disasters
- Mergers and acquisitions among other capital transactions
- Share price fluctuations
- COVID-19
- Information security
- Internal control of overseas subsidiaries

Consolidated Balance Sheets

Hokuetsu Corporation and Consolidated Subsidiaries
As of March 31, 2020 and 2019

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
CURRENT ASSETS:			
Cash and deposits (Notes 3 & 4)	¥21,384	¥15,203	\$196,490
Notes and accounts receivable (Note 4)			
Trade	56,068	73,256	515,189
Unconsolidated subsidiaries and affiliates	438	681	4,025
Allowance for doubtful accounts	(7)	(56)	(64)
Inventories (Note 6)	54,352	54,940	499,421
Prepaid expenses and other	5,445	6,074	50,031
TOTAL CURRENT ASSETS	137,680	150,098	1,265,092
PROPERTY, PLANT AND EQUIPMENT:			
Land and timberland	24,994	25,596	229,661
Buildings and structures	84,722	83,737	778,480
Machinery and equipment	429,963	427,957	3,950,777
Leased assets	500	759	4,594
Right-of-use assets	2,620	—	24,074
Construction in progress	4,251	3,151	39,061
	547,050	541,200	5,026,647
Less accumulated depreciation	(419,660)	(406,319)	(3,856,106)
NET PROPERTY, PLANT AND EQUIPMENT	127,390	134,881	1,170,541
INVESTMENTS AND OTHER ASSETS:			
Investments in securities (Notes 4 & 5)	19,005	29,347	174,630
Investments in and receivables from unconsolidated subsidiaries and affiliates	52,099	44,693	478,719
Long-term loans receivable	9	8	83
Guarantee deposits	482	356	4,429
Asset for retirement benefits (Note 16)	2,109	2,669	19,379
Deferred income taxes (Note 11)	1,840	2,067	16,907
Other (Note 7)	6,542	6,390	60,112
Allowance for doubtful accounts (Note 7)	(2,425)	(2,427)	(22,282)
TOTAL INVESTMENTS AND OTHER ASSETS	79,661	83,103	731,977
TOTAL ASSETS	¥344,731	¥368,082	\$3,167,610

The accompanying notes are an integral part of the consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
CURRENT LIABILITIES:			
Short-term loans (Notes 4 & 8)	¥10,189	¥11,795	\$93,623
Commercial paper (Note 4 & 8)	7,000	10,500	64,320
Current maturities of long-term debt (Notes 4 & 8)	9,439	13,936	86,732
Notes and accounts payable (Note 4)			
Trade	24,749	27,004	227,410
Unconsolidated subsidiaries and affiliates	929	1,037	8,536
Income taxes payable (Note 11)	1,087	2,531	9,988
Accrued expenses	8,945	9,196	82,192
Other	9,194	8,295	84,481
TOTAL CURRENT LIABILITIES	71,532	84,294	657,282
LONG-TERM LIABILITIES:			
Long-term debt (Notes 4 & 8), less current maturities	80,205	73,495	736,975
Deferred income taxes (Note 11)	435	1,045	3,997
Accrued environmental expenditures	804	767	7,388
Provision for business structure improvement	197	247	1,810
Provision for reforestation	376	373	3,455
Liability for retirement benefits (Note 16)	7,266	12,014	66,765
Asset retirement obligations (Note 17)	2,442	2,376	22,439
Other	612	610	5,623
TOTAL LONG-TERM LIABILITIES	92,337	90,927	848,452
CONTINGENT LIABILITIES (Note 9)			
NET ASSETS (Note 10)			
SHAREHOLDERS' EQUITY:			
Common stock:			
authorized			
—500,000,000 shares in 2020 and 2019			
issued and outstanding			
—188,053,114 shares in 2020 and 209,263,841 shares in 2019	42,021	42,021	386,116
Capital surplus	45,341	45,348	416,622
Retained earnings	100,880	105,599	926,950
Treasury stock	(9,709)	(9,933)	(89,212)
TOTAL SHAREHOLDERS' EQUITY	178,533	183,035	1,640,476
ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAXES			
Unrealized holding gains on securities, net of taxes	2,160	8,877	19,847
Unrealized losses on hedging derivatives, net of taxes	21	(2)	193
Foreign currency translation adjustment	337	(388)	3,097
Accumulated adjustments for retirement benefit, net of taxes (Note 16)	(868)	583	(7,976)
TOTAL ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAXES	1,650	9,070	15,161
SHARE SUBSCRIPTION RIGHTS	81	104	744
NON-CONTROLLING INTERESTS	598	652	5,495
TOTAL NET ASSETS	180,862	192,861	1,661,876
TOTAL LIABILITIES AND NET ASSETS	¥344,731	¥368,082	\$3,167,610

Consolidated Statements of Income

Hokuetsu Corporation and Consolidated Subsidiaries
For the years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
NET SALES (Notes 18)	¥264,618	¥275,807	\$2,431,480
COST OF SALES	213,143	224,668	1,958,495
GROSS PROFIT	51,475	51,139	472,985
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12)	40,266	41,009	369,990
OPERATING INCOME	11,209	10,130	102,995
OTHER INCOME(EXPENSES):			
Interest and dividend income	1,124	1,063	10,328
Interest expenses	(654)	(774)	(6,009)
Foreign exchange gains (losses)	(1,178)	405	(10,824)
Equity in income of affiliates	4,581	1,260	42,093
Gain on sales of investments in securities	897	633	8,242
Loss on devaluation of investments in securities	(27)	—	(248)
Loss on sales or disposal on property, plant and equipment	(1,752)	(1,113)	(16,099)
Impairment loss on property, plant and equipment (Note 13)	(6,383)	(142)	(58,651)
Loss on reduction of property, plant and equipment	(57)	(34)	(524)
Gain on contribution of securities to retirement benefit trust (Note 16)	4,875	—	44,795
Other, net	76	1,276	699
	1,502	2,574	13,802
INCOME BEFORE INCOME TAXES	12,711	12,704	116,797
INCOME TAXES (Note 11):			
Current	2,211	3,837	20,316
Deferred	2,398	(93)	22,035
	4,609	3,744	42,351
NET INCOME	8,102	8,960	74,446
NET INCOME(LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	29	(196)	266
NET INCOME ATTRIBUTABLE TO OWNERS OF PARENT COMPANY	¥8,073	¥9,156	\$74,180
		Yen	U.S. dollars (Note 1)
	2020	2019	2020
AMOUNTS PER SHARE OF COMMON STOCK (Note 2):			
Net income	¥43.45	¥48.44	\$0.40
Diluted net income	40.95	47.73	0.38
Cash dividends applicable to the year	12.00	12.00	0.11

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Comprehensive Income

Hokuetsu Corporation and Consolidated Subsidiaries
For the years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
NET INCOME	¥8,102	¥8,960	\$74,446
OTHER COMPREHENSIVE INCOME (Note 20)			
Unrealized holding gains on securities, net of taxes	(5,436)	(2,318)	(49,949)
Unrealized gains on hedging derivatives, net of taxes	17	25	156
Foreign currency translation adjustment	722	(3,501)	6,634
Adjustments for retirement benefit, net of taxes	(1,405)	(39)	(12,910)
Share of other comprehensive income of associates accounted for using equity method	(1,322)	83	(12,147)
TOTAL OTHER COMPREHENSIVE INCOME	(7,424)	(5,750)	(68,216)
COMPREHENSIVE INCOME	¥678	¥3,210	\$6,230
Comprehensive income attribute to owners of the parent company	653	3,455	6,000
Comprehensive income attribute to non-controlling interests	25	(245)	230

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

Hokuetsu Corporation and Consolidated Subsidiaries
For the years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes	¥12,711	¥12,704	\$116,797
Depreciation and amortization	18,451	18,390	169,540
Impairment loss of property, plant and equipment	6,383	142	58,651
Loss (gain) on sales or disposal of property, plant and equipment	1,695	885	15,575
Loss on reduction of property, plant and equipment	57	34	524
Gain on contribution of securities to retirement benefit trust	(4,875)	—	(44,795)
Interest and dividend income	(1,124)	(1,063)	(10,328)
Interest expenses	654	774	6,009
(Increase) decrease in notes and accounts receivable	17,551	111	161,270
(Increase) decrease in inventories	801	(7,114)	7,360
Increase (decrease) in notes and accounts payable	(2,339)	(564)	(21,492)
Increase (decrease) liability for retirement benefits	187	188	1,718
Equity in (income) losses of affiliates	(4,581)	(1,260)	(42,093)
Other, net	1,578	754	14,499
SUBTOTAL	47,149	23,981	433,235
Interest and dividend income received	1,528	1,480	14,040
Interest paid	(606)	(720)	(5,568)
Income taxes paid	(4,859)	(3,222)	(44,647)
Insurance payment received	763	108	7,011
NET CASH PROVIDED BY OPERATING ACTIVITIES	43,975	21,627	404,071
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for purchases of investment securities	(4,570)	(4,192)	(41,992)
Proceeds from sales of investment securities	2,128	1,105	19,553
Payments for purchases of property, plant and equipment	(14,857)	(15,627)	(136,516)
Proceeds from sales of property, plant and equipment	65	643	597
Other, net	(2,965)	(1,204)	(27,243)
NET CASH USED IN INVESTING ACTIVITIES	(20,199)	(19,275)	(185,601)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in short-term loans	(1,464)	(3,813)	(13,452)
Increase (decrease) in commercial paper	(3,500)	(500)	(32,160)
Proceeds from long-term loans	16,000	12,200	147,018
Repayments of long-term loans	(15,552)	(6,446)	(142,902)
Proceeds from issuance of unsecured yen straight bonds	—	10,000	—
Redemption of unsecured yen straight bonds	—	(10,000)	—
Dividends paid	(2,275)	(2,274)	(20,904)
Proceeds from stock issuance to minority shareholders	—	63	—
Payments for purchases of treasury stock	(10,097)	(2)	(92,778)
Other, net	(374)	(162)	(3,436)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(17,262)	(934)	(158,614)
TRANSLATION (LOSS) GAIN ON CASH AND CASH EQUIVALENTS	(333)	(497)	(3,061)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,181	921	56,795
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	15,203	14,282	139,695
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 3)	¥21,384	¥15,203	\$196,490

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Hokuetsu Corporation and Consolidated Subsidiaries
For the Years ended March 31, 2020 and 2019

	Millions of yen													
	Number of shares	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gains (losses) on securities, net of taxes	Unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustment	Accumulated adjustments for retirement benefit, net of taxes	Total accumulated other comprehensive income, net of taxes	Share subscription rights	Non-controlling interests	Total net assets
Balance at March 31, 2018	209,263,814	¥42,021	¥45,524	¥98,815	¥(9,977)	¥176,383	¥11,361	¥(22)	¥3,065	¥367	¥14,771	¥122	¥701	¥191,977
Net income attributable to owners of parent company	—	—	—	9,156	—	9,156	—	—	—	—	—	—	—	9,156
Cash dividends (¥12.00 per share)	—	—	—	(2,269)	—	(2,269)	—	—	—	—	—	—	—	(2,269)
Disposal of treasury stock	—	—	(3)	—	49	46	—	—	—	—	—	—	—	46
Purchases of treasury stock	—	—	—	—	(1)	(1)	—	—	—	—	—	—	—	(1)
Change in equity resulted from increase in capital of consolidated subsidiaries	—	—	(173)	—	—	(173)	—	—	—	—	—	—	—	(173)
Increase in treasury stock by change in equity in affiliates under equity method	—	—	—	—	(4)	(4)	—	—	—	—	—	—	—	(4)
Change in scope of affiliates under equity method	—	—	—	(103)	—	(103)	—	—	—	—	—	—	—	(103)
Net changes during the year	—	—	—	—	—	—	(2,484)	20	(3,453)	216	(5,701)	(18)	(49)	(5,768)
Balance at March 31, 2019	209,263,814	¥42,021	¥45,348	¥105,599	¥(9,933)	¥183,035	¥8,877	¥(2)	¥(388)	¥583	¥9,070	¥104	¥652	¥192,861
Cumulative effects of changes in accounting policies	—	—	—	(248)	—	(248)	—	—	—	—	—	—	—	(248)
Restated balance	—	¥42,021	¥45,348	¥105,351	¥(9,933)	¥182,787	¥8,877	¥(2)	¥(388)	¥583	¥9,070	¥104	¥652	¥192,613
Net income attributable to owners of parent company	—	—	—	8,073	—	8,073	—	—	—	—	—	—	—	8,073
Cash dividends (¥12.00 per share)	—	—	—	(2,269)	—	(2,269)	—	—	—	—	—	—	—	(2,269)
Disposal of treasury stock	—	—	(0)	—	55	55	—	—	—	—	—	—	—	55
Purchases of treasury stock	—	—	—	—	(10,097)	(10,097)	—	—	—	—	—	—	—	(10,097)
Retirement of treasury stock	(21,210,700)	—	(7)	(10,275)	10,282	—	—	—	—	—	—	—	—	—
Increase in treasury stock by change in equity in affiliates under equity method	—	—	—	—	(16)	(16)	—	—	—	—	—	—	—	(16)
Net changes during the year	—	—	—	—	—	—	(6,717)	23	725	(1,451)	(7,420)	(23)	(54)	(7,497)
Balance at March 31, 2020	188,053,114	¥42,021	¥45,341	¥100,880	¥(9,709)	¥178,533	¥2,160	¥21	¥337	¥(868)	¥1,650	¥81	¥598	¥180,862

	Thousands of U.S. dollars (Note 1)													
	Number of shares	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gains (losses) on securities, net of taxes	Unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustment	Accumulated adjustments for retirement benefit, net of taxes	Total accumulated other comprehensive income, net of taxes	Share subscription rights	Non-controlling interests	Total net assets
Balance at March 31, 2019	209,263,814	\$386,116	\$416,687	\$970,311	\$(91,271)	\$1,681,843	\$81,568	\$(18)	\$(3,565)	\$5,357	\$83,342	\$956	\$5,991	\$1,772,132
Cumulative effects of changes in accounting policies	—	—	—	(2,279)	—	(2,279)	—	—	—	—	—	—	—	(2,279)
Restated balance	—	\$386,116	\$416,687	\$968,032	\$(91,271)	\$1,679,564	\$81,568	\$(18)	\$(3,565)	\$5,357	\$83,342	\$956	\$5,991	\$1,769,853
Net income attributable to owners of parent company	—	—	—	74,180	—	74,180	—	—	—	—	—	—	—	74,180
Cash dividends (\$0.11 per share)	—	—	—	(20,849)	—	(20,849)	—	—	—	—	—	—	—	(20,849)
Disposal of treasury stock	—	—	(0)	—	506	506	—	—	—	—	—	—	—	506
Purchases of treasury stock	—	—	—	—	(92,778)	(92,778)	—	—	—	—	—	—	—	(92,778)
Retirement of treasury stock	(21,210,700)	—	(65)	(94,413)	94,478	—	—	—	—	—	—	—	—	—
Increase in treasury stock by change in equity in affiliates under equity method	—	—	—	—	(147)	(147)	—	—	—	—	—	—	—	(147)
Net changes during the year	—	—	—	—	—	—	(61,721)	211	6,662	(13,333)	(68,181)	(212)	(496)	(68,889)
Balance at March 31, 2020	188,053,114	\$386,116	\$416,622	\$926,950	\$(89,212)	\$1,640,476	\$19,847	\$193	\$3,097	\$(7,976)	\$15,161	\$744	\$5,495	\$1,661,876

Notes to Consolidated Financial Statements

Hokuetsu Corporation and Consolidated Subsidiaries
Years ended March 31, 2020 and 2019

Note 1: Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP")

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of HOKUETSU Corporation ("the Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information

included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2020, which was ¥108.83 to U.S. \$1.00. The convenience translation should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Note 2: Summary of Significant Accounting Policies

(a) Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries ("the Companies"). All significant inter-company balances, transactions and unrealized profits have been eliminated in consolidation.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

Goodwill, except for immaterial amounts, are amortized within twenty years from the day of the occurrence of goodwill for the period when the effect exists.

Investments in all significant unconsolidated subsidiaries and affiliates are accounted for by the equity method.

The number of consolidated subsidiaries and affiliates accounted for by the equity method is as follows:

	Number of Companies	
	2020	2019
Consolidated subsidiaries	20	20
Affiliates accounted for by the equity method	4	4

The consolidated financial statements are prepared using their financial statements as of March 31 except for following companies;

Companies	Fiscal year end
Alberta-Pacific Forest Industries Inc.	December 31
Xing Hui Investment Holdings Co., Ltd.	December 31
Jiangmen Xinghui Paper Mill Co., Ltd.	December 31
Bernard Dumas S.A.S.	December 31
Shanghai Toh Tech Co., Ltd.	December 31

Significant transactions, which occurred during the period between these fiscal year ends and March 31,

are adjusted in the accompanying consolidated financial statements.

(b) Consolidated statements of cash flows

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents, and which represent an insignificant risk of change in value.

(c) Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the spot exchange rates as of the fiscal year end, with the translation gains or losses reported in profit or loss. Assets and liabilities of overseas subsidiaries are translated into Japanese yen at the spot exchange rates as of the fiscal year end, and their income and expenses are translated into Japanese yen at the average exchange rates during the fiscal year with the translation gains or losses included in foreign currency translation adjustment and non-controlling interests in the net assets section of the consolidated balance sheet.

(d) Securities

Under the Japanese accounting standard for financial instruments, all companies are required to classify those securities as (a) securities held for trading purposes ("trading securities"), (b) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliates or (d) all other securities that are not classified in any of the above categories ("available-for-sale securities"). The Companies did not have the securities defined as (a) and (b) above in the years ended March 31, 2020 and 2019.

Equity securities issued by unconsolidated subsidiaries and affiliates not accounted for by the equity method are stated at the moving-average cost.

If the market value of available-for-sale securities declines significantly, such securities are stated at market value and the difference between market value and the carrying amount is recognized as loss in the period of the decline. If the market value of equity securities, except for those accounted for by the equity method, is not readily available, such securities should be written down to these fair values with a corresponding charge in the statement of income in the event net asset value declines significantly.

Available-for-sale securities are included in investments and other assets.

Available-for-sale securities with market values are stated at market value. Unrealized gain and loss on these securities are reported, net of applicable income taxes, as a separate component of accumulated other comprehensive income, net of tax in net assets section. Cost on sale of such securities are computed using the moving-average cost.

(e) Allowance for doubtful accounts

The Companies provide the allowance for doubtful accounts in an amount sufficient to cover probable losses on collection by estimating individually uncollectible amounts in addition to applying an historical rate of bad debts incurred in the past.

(f) Inventories

Inventories held for sale in the ordinary course of business are stated at the lower of cost or net sales value. Cost is primarily determined by the monthly average method for raw materials, supplies and merchandise and finished goods. Cost of work-in-process is primarily determined using the FIFO (first-in, first-out) method. Cost of timber is primarily determined using the specific identification method.

(g) Property, plant and equipment (excluding leased assets)

Property, plant and equipment are stated at cost. Subsidies related to the acquisition of assets are deducted directly from the cost of the related assets.

- Buildings, structures and machinery and equipment
Mainly straight-line method over the useful lives.
- Other tangible fixed assets
Mainly declining-balance method at rates determined based on the useful lives.

Expenditures for new facilities and those that substantially increase the future benefits of existing plant and equipment are capitalized. Maintenance, repair and minor renewals are charged to expenses as incurred.

(h) Finance leases

Finance leases, except for certain immaterial or short-term finance leases which are accounted for as operating leases, are capitalized.

Leased assets related to finance leases without transferring ownership are depreciated over the lease period as useful life using the straight-line method with

no residual value.

(i) Right-of-use assets

The right-of-use asset is subsequently amortized on a straight-line basis over the shorter of the term of the lease or the useful life of the asset determined on the same basis as the Company's property, plant and equipment. Overseas subsidiaries using International Financial Reporting Standards started to apply IFRS No.16 Lease (hereinafter referred to as "IFRS16") from the current fiscal year. In accordance with IFRS16, lessees are required to recognize almost all leases as assets or liabilities in the consolidated balance sheet.

(j) Accrued environmental expenditures

Accrued environmental expenditures are provided at an estimated amount for environmental expenses, including disposal cost of contaminated soil caused by the use of snow-melting agent by the Company's Canadian subsidiary and disposal of PCB (polychlorinated biphenyl) waste.

(k) Provision for loss on disaster

The Company sets aside an amount on the basis of estimated costs incurred in preparation for expenditures required for the restoration of assets damaged during a disaster.

(l) Provision for reforestation

Based on an agreement with the state government, the Company's Canadian subsidiary is engaged in forest harvesting for the purpose of procuring raw timber for pulp materials and the anticipated costs arising from reforestation and silviculture (coniferous forest) have been incorporated into accounts as liabilities.

(m) Provision for business structure improvement

A provision has been made for the amount of estimated losses incurred in connection with a review which was implemented to improve business structure.

(n) Issuance costs of stocks and bonds

Issuance costs of stocks and bonds are expensed as incurred.

(o) Derivatives and hedge accounting

The Companies state derivative financial instruments at fair value and recognize changes in the fair value as gain or loss unless hedge accounting is applied.

If derivative financial instruments are used as hedges and meet certain hedging criteria, unrealized gains or losses on derivatives are recorded for changes in fair value of derivative financial instruments until the related loss or gain on the hedged items is recognized.

Special treatment has been adopted for interest rate swaps that qualify for special treatment.

In addition, integrated treatment has been adopted for interest rate and currency swaps that qualify for integrated treatment (special treatment / appropriated treatment).

(p) Income taxes

The Companies recognize the tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

(q) Per share information

Net income per share is computed based upon the average number of shares of common stock outstanding during each fiscal year. The average number of common shares used in the computation was 185,800,021 shares and 189,007,882 shares in 2020 and 2019, respectively. For the year ended March 31, 2020, diluted net income per share was ¥40.95 (\$ 0.38).

Cash dividends per share have been presented on an accrual basis and include dividends to be approved after the balance sheet date, but applicable to the year then ended.

(r) Reclassification and restatement

Certain prior year amounts have been reclassified to conform to the current year presentation.

These reclassifications had no impact on previously reported results of operations or retained earnings.

(s) Accounting methods for retirement benefits

(1) Attribution method for projected retirement benefits

In calculating retirement benefit obligations, the projected retirement benefits are attributed to the period up to the end of the current consolidated accounting period based on benefit formula basis.

(2) Method of amortization relating to actuarial gain or losses and past service cost.

Actuarial gains or losses are amortized from the subsequent financial year using the straight-line method over 10 years, which is not longer than an estimated average remaining service period of the employees when the gains or losses are incurred.

(3) Simplified method for small enterprises, etc.

When calculating retirement benefit obligations and retirement benefit costs, some consolidated subsidiaries use the simplified method, in which the year-end voluntary payments relating to retirement benefits are treated as retirement benefit obligations.

(t) Change in accounting policy

(Application of IFRS No. 16 "Leases")

Overseas subsidiaries using International Financial Reporting Standards started to apply IFRS No.16 from the current fiscal year. In accordance with IFRS16, lessees are required to recognize almost all leases as assets or liabilities in the consolidated balance sheet. Having followed the transitional treatment regarding the application of IFRS 16, the cumulative effects of the changes in the accounting policies were subtracted from the opening balance of retained earnings for the current fiscal year.

As a result, in the consolidated balance sheet of the current fiscal year, "Right-of-use Assets" classified as

property, plant and equipment, "Others" classified as current and non-current liabilities increased by ¥2,317 million (\$21,290 thousand), ¥227 million (\$2,086 thousand) and ¥1,609 million (\$14,785 thousand), respectively. In addition, "Prepaid expenses and other" classified as current assets, "Leased assets" classified as property, plant and equipment, "Others" classified as investment and other assets and "Deferred income taxes" classified as long-term liabilities decreased by ¥111 million (\$1,020 thousand), ¥126 million (\$1,158 thousand), ¥591 million (\$5,430 thousand) and ¥0 million (\$0 thousand), respectively.

The effects on the consolidated statement of income and earnings per share information for the current fiscal year were inconsequential.

Having reflected the cumulative effects on the opening balance of net assets for the current fiscal year, the opening balance of retained earnings in the consolidated statement of changes in net assets decreased by ¥248 million (\$2,279 thousand).

The effects on the consolidated statement of cash flow for the current fiscal year were inconsequential.

(u) Disclosure of new accounting standards issued but not yet effective

Following accounting standards and guidance are those issued but not yet adopted.

"Accounting Standard on Revenue Recognition" (ASBJ Statement No. 29; March 31, 2020)

"Implementation Guidance on Accounting Standard on Revenue Recognition" (ASBJ Guidance No. 30; March 31, 2020)

(1) Overview

This is a comprehensive accounting standard on revenue recognition. Revenues are to be recognized by applying the following five steps.

Step 1: Identify of contract with customer.

Step 2: Identify the performance obligation in contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when, or as, the entity satisfies a performance obligation.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects from adoption of this accounting standards.

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

"Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019)

"Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, July 4, 2019)

"Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 4, 2019)

"Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019)

"Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

In order to enhance comparability with internationally recognized accounting standards, "Accounting Standard for Fair Value Measurement" an "Implementation Guidance on Accounting Standard for Fair Value Measurement" (together, hereinafter referred to as "Fair Value Accounting Standards") were developed and guidance on methods measuring fair value was issued. Fair Value Accounting Standards are applicable to the fair value measurement of the following items:

- Financial instruments in "Accounting Standard for Financial Instruments" ; and
- Inventories held for the purpose of trading in "Accounting Standard for Measurement of Inventories"

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects from adoption of this accounting standards.

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

"Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" (ASBJ Statement No. 24, March 31, 2020)

(1) Overview

The standard provides a summary of the accounting principles and procedures adopted when the relevant accounting standards are not clear.

(2) Effective date

Effective from the end of the fiscal year ending March 31, 2021.

"Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020)

(1) Overview

The standard discloses information that contributes to the understanding of users of financial statements with respect to the content of accounting estimates for risk items among the amounts recorded in the financial statements for the current fiscal year that will have a significant impact on the financial statements for the next fiscal year.

(2) Effective date

Effective from the end of the fiscal year ending March 31, 2021.

(v) (Additional information)

(1) Items with a risk of having a significant impact on the consolidated financial statements for the next fiscal year of the accounting estimates recorded in the

consolidated financial statement.

Demand for paper and pulp products has sharply declined both in Japan and overseas due to the impact of the COVID-19 pandemic, and lower sales and other factors have affected the HOKUETSU GROUP's performance. We have determined that there is significant uncertainty in the future business plan that is the basis for the application of impairment accounting for noncurrent assets and the recoverability of deferred tax assets.

(2) Amounts recorded in the consolidated financial statements for the current fiscal year
The Group recorded an impairment loss of ¥6,383 million (\$58,651 thousand) in the fiscal year ended March 31, 2020, and deferred tax assets were drawn down ¥1,393 million (\$12,800 thousand).

(3) Other information contributing to the understanding of users of consolidated financial statements regarding the content of accounting estimates

(i) Calculation method of the amounts recorded in the consolidated financial statements for the current fiscal year

Impairment accounting of fixed assets is applied and deferred assets are recorded based on the future operating cash flow estimated in the future business plan and future taxable income.

(ii) Major assumptions used to calculate the amounts recorded in the consolidated financial statements for the current fiscal year

The spread and end of the COVID-19 pandemic in the future is unclear, and while it is nearly impossible to predict the future impact on the Group's business results, we make the assumption on best estimates that Japan is expected to make a gradual recovery after the state of emergency is lifted, but it will be difficult to recover to the level before the pandemic during the next fiscal year. Moreover, assuming that the current situation will continue abroad until the end of the next fiscal year, we will incorporate future impacts into our business plan and estimate future operating cash flows and future taxable income.

(iii) Impact on consolidated financial statements for the next fiscal year

The period and amount of operating cash flow and taxable income may be affected uncertain economic fluctuations in the future, if the actual period and amount differ from the estimate, there is a possibility that the impairment loss of noncurrent assets recorded in the consolidated financial statements for the current fiscal year and the amount of deferred tax assets recorded may be significantly affected.

Note 3: Cash and Cash Equivalents

A reconciliation of cash and deposits shown in the consolidated balance sheets and cash and cash equivalents presented in the consolidated statements of cash flows at March 31, 2020 and 2019 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Cash and deposits	¥21,384	¥ 15,203	\$196,490
Cash and cash equivalents	¥21,384	¥15,203	\$196,490

Note 4: Financial Instruments

Information on financial instruments for the year ended March 31, 2020 and 2019 are as follows.

Status of Financial Instruments

The Companies raises necessary funds for investment plans to conduct its business of manufacturing, sale and processing of paper mainly by bank loans or issuance of bonds. Temporary cash surpluses are invested in deposits and short-term working capital are raised by bank borrowings or issuance of commercial paper. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described below.

The Company manages and mitigates customer credit risk from trade receivables in accordance with its Debt Management Policy. Consolidated subsidiaries also implement the same control in accordance with the Company's Debt Management Policy.

Investments in securities are exposed to the risk of market price fluctuations. Those securities are composed of mainly stocks associated with business and capital alliances with principal business partners.

The Companies regularly obtain their fair value.

The Company uses interest rate swap contracts to reduce the risk of fluctuations in interest costs related to debt, and interest rate and currency swaps to reduce the risk of fluctuations in principal and interest costs related to foreign currency-denominated debt.

The Company and certain consolidated subsidiaries use forward exchange contracts to reduce the risk of fluctuations in foreign exchange rates regarding certain trade receivables and payables denominated in foreign currencies.

Fair Values of Financial Instruments

The book values, fair values and differences of the financial instruments as of March 31, 2020 and 2019 are as follows. Financial instruments with fair values not readily determinable are excluded from the following table (see (b)):

	Millions of yen		
	Book value	Fair value	Difference
			2020
(1) Cash and deposits	¥21,384	¥21,384	¥—
(2) Notes and accounts receivable	50,078	50,078	—
(3) Electronically recorded monetary claims	6,428	6,428	—
(4) Investments in securities:			
① Stocks of affiliates	47,204	52,973	5,769
② Available-for-sale securities	13,714	13,714	—
Total assets	¥138,808	¥144,577	¥5,769
(5) Notes and accounts payable	¥19,360	¥19,360	¥—
(6) Electronically recorded obligations-operating	6,318	6,318	—
(7) Short-term loans	10,189	10,189	—
(8) Commercial paper	7,000	7,000	—
(9) Bonds*1	30,000	29,953	(47)
(10) Long-term loans payable*2	57,610	57,589	(21)
Total liabilities	¥130,477	¥130,409	¥(68)
Derivative transactions*3	¥ 29	¥ 29	¥—

	Millions of yen		
	Book value	Fair value	Difference
			2019
(1) Cash and deposits	¥15,203	¥15,203	¥—
(2) Notes and accounts receivable	67,709	67,709	—
(3) Electronically recorded monetary claims	6,228	6,228	—
(4) Investments in securities:			
① Stocks of affiliates	39,788	45,402	5,614
② Available-for-sale securities	24,034	24,034	—
Total assets	¥152,962	158,576	¥5,614
(5) Notes and accounts payable	¥21,409	¥21,409	¥—
(6) Electronically recorded obligations-operating	6,632	6,632	—
(7) Short-term loans	11,795	11,795	—
(8) Commercial paper	10,500	10,500	—
(9) Bonds*1	30,000	30,045	45
(10) Long-term loans payable*2	57,192	57,286	94
Total liabilities	¥137,528	¥137,667	¥139
Derivative transactions*3	¥ 4	¥4	¥—

Thousands of U.S. dollars

	2020		
	Book value	Fair value	Difference
(1) Cash and deposits	\$196,490	\$196,490	\$—
(2) Notes and accounts receivable	460,149	460,149	—
(3) Electronically recorded monetary claims	59,065	59,065	—
(4) Investments in securities:			
① Stocks of affiliates	433,741	486,749	53,008
② Available-for-sale securities	126,013	126,013	—
Total assets	\$1,275,458	\$1,328,466	\$53,008
(5) Notes and accounts payable	\$177,892	\$177,892	\$—
(6) Electronically recorded obligations-operating	58,054	58,054	—
(7) Short-term loans	93,623	93,623	—
(8) Commercial paper	64,320	64,320	—
(9) Bonds*1	275,658	275,227	(431)
(10) Long-term loans payable*2	529,359	529,166	(193)
Total liabilities	\$1,198,906	\$1,198,282	\$(624)
Derivative transactions*3	\$266	\$266	\$—

*1 Bonds payable within a year are classified as "current maturities of long-term debt" on the consolidated balance sheets.

*2 Current portion of long-term loans payable is classified as "current maturities of long-term debt" on the consolidated balance sheets.

*3 Receivables and payables incurred by derivative transactions are presented in net. Net payables are presented in parenthesis.

(a) Calculation method of fair values of financial instruments and securities and derivative transactions are as follows:

Assets

(1) Cash and deposits

With regard to deposits with indefinite maturity and time deposits with maturities within one year, the carrying values approximate fair value.

(2) Notes and accounts receivable and (3) Electronically recorded monetary claims

The carrying values of assets mentioned above approximate fair value because of their short maturities.

(4) Investments in securities

The fair value of marketable equity securities is measured at the quoted market price of the stock exchange. Please see Note 5 regarding securities categorized by holding purposes.

Liabilities

(5) Notes and accounts payable (6) Electronically recorded obligations-operating (7) Short-term loans, and (8) Commercial paper

The carrying values of liabilities mentioned above approximate fair value because of their short maturities.

(9) Bonds

The fair value of bonds issued by the Company is measured at the quoted market price.

(10) Long-term loans payable

The fair values of long-term loans payable are determined by discounting the aggregated amount of the principal and interest using estimated interest rate, assuming that the same type of borrowing was newly made. The fair values of long term loans payable which qualify for special treatment for interest rate swaps and integrated treatment for interest rate currency swaps are determined by discounting the aggregated amount of the principal and interest that are included as part of the relevant interest rate swap and interest rate currency swap at the estimated interest rate, assuming that the same type of borrowing was newly made.

Derivative Transactions

For details of derivative transactions, see Note 15.

(b) Unlisted equity securities have no market price and there is no way of estimating for future cash flows. Determining fair value is therefore acknowledged to be extremely difficult and they are not included in (4) Investments in securities.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unlisted equity securities	¥9,448	¥9,465	\$86,814

(c) Planned redemption of receivables after the balance sheet date

	Millions of yen				Thousands of U.S. dollars	
	2020		2019		2020	
	Due in one year	Due after one year through two years	Due in one year	Due after one year through two years	Due in one year	Due after one year through two years
Cash and deposits	¥21,384	¥—	¥15,203	¥—	\$196,490	\$—
Notes and accounts receivable	50,078	—	67,709	—	460,149	—
Electronically recorded monetary claims	6,428	—	6,228	—	59,065	—
Total	¥77,890	¥—	¥89,140	¥—	\$715,704	\$—

(d) Repayment schedule of short-term loans, commercial paper, bonds and long-term loans payable

	Millions of yen					
	2020					
	Due in one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due over five years
Short-term loans	¥10,189	¥—	¥—	¥—	¥—	¥—
Commercial paper	7,000	—	—	—	—	—
Bonds	—	20,000	—	10,000	—	—
Long-term loans payable*	9,150	5,364	25,682	4,568	12,568	278
Total	¥26,339	¥25,364	¥25,682	¥14,568	¥12,568	¥278

	Millions of yen					
	2019					
	Due in one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due over five years
Short-term loans	¥11,795	¥—	¥—	¥—	¥—	¥—
Commercial paper	10,500	—	—	—	—	—
Bonds	—	—	20,000	—	10,000	—
Long-term loans payable*	13,861	10,372	4,823	25,109	3,027	—
Total	¥36,156	¥10,372	¥24,823	¥25,109	¥13,027	¥—

	Thousands of U.S. dollars					
	2020					
	Due in one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due over five years
Short-term loans	\$93,623	\$—	\$—	\$—	\$—	\$—
Commercial paper	64,320	—	—	—	—	—
Bonds	—	183,772	—	91,886	—	—
Long-term loans payable*	84,077	49,288	235,983	41,974	115,484	2,554
Total	\$242,020	\$233,060	\$235,983	\$133,860	\$115,484	\$2,554

*Long-term loans payable include the current maturities of long-term loans payable.

Note 5: Securities

The following tables summarize acquisition costs and book value of securities with available fair value at March 31, 2020 and 2019:

Available-for-sale securities:

Type	Millions of yen		
	2020		
	Acquisition cost	Book value	Difference
Equity securities:			
with book value (fair value) exceeding acquisition costs	¥6,476	¥10,109	¥3,633
with book value (fair value) not exceeding acquisition costs	5,061	3,605	(1,456)
	¥11,537	¥13,714	¥2,177

Type	Millions of yen		
	2019		
	Acquisition cost	Book value	Difference
Equity securities:			
with book value (fair value) exceeding acquisition costs	¥11,091	¥21,466	¥10,375
with book value (fair value) not exceeding acquisition costs	3,130	2,568	(562)
	¥14,221	¥24,034	¥9,813

Type	Thousands of U.S. dollars		
	2020		
	Acquisition cost	Book value	Difference
Equity securities:			
with book value (fair value) exceeding acquisition costs	\$59,505	\$92,888	\$33,383
with book value (fair value) not exceeding acquisition costs	46,504	33,125	(13,379)
	\$106,009	\$126,013	\$20,004

Total sales of available-for-sale securities sold in the year ended March 31, 2020 amounted to ¥2,128 million (\$19,553 thousand), the related gains amounted to ¥897 million (\$8,242 thousand). Total sales of available-for-sale

securities sold in the year ended March 31, 2019 amounted to ¥1,105 million, the related gains amounted to ¥633 million.

Note 6: Inventories

Inventories at March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Merchandise and Finished goods	¥29,201	¥26,013	\$268,318
Work-in-process	2,429	2,247	22,319
Raw materials and supplies	22,722	26,680	208,784
	¥54,352	¥54,940	\$499,421

Note 7: Amounts Relating to Fraudulent Activity for the year ended March 31, 2015

Balances relating to fraudulent activity at March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balances:			
Investments and other assets			
Other	¥2,360	¥2,360	\$21,685
Allowance for doubtful accounts	(2,360)	(2,360)	(21,685)

Note 8: Short-Term Debt, Commercial Paper, and Long-Term Debt

(1) Short-term debt had weighted-average interest rates of 1.36% and 2.30% at March 31, 2020 and 2019, respectively.

(2) The weighted-average interest rate on commercial paper were (0.00)% and (0.01)% at March 31, 2020 and 2019, respectively.

(3) Long-term debt at March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Long-term loans from banks and other financial institutions			
(Loans due with one year, weighted-average interest rate 0.45%)	¥9,150	¥13,861	\$84,077
(Loans due after one year, weighted-average interest rate 0.22%)	48,460	43,331	445,282
0.170% unsecured yen straight bonds due in 2021	10,000	10,000	91,886
0.180% unsecured yen straight bonds due in 2021	10,000	10,000	91,886
0.220% unsecured yen straight bonds due in 2024	10,000	10,000	91,886
Lease obligations			
(Loans due with one year)	289	75	2,655
(Loans due after one year)	1,745	164	16,035
	89,644	87,431	823,707
Less current portion due with one year	(9,439)	(13,936)	(86,732)
Long-term debt	¥80,205	¥73,495	\$736,975

(4) The annual maturities of long-term debt at March 31, 2020 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2021	¥9,439	\$86,732
2022	25,652	235,707
2023	25,937	238,326
2024	14,810	136,084
2025	12,789	117,513
2026 and thereafter	1,017	9,345
	¥89,644	\$823,707

Note 9: Contingent Liabilities

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Guarantee obligation	¥6	¥0	\$56
Discounted export bill	—	¥126	—
Discounted electronically recovered receivables	—	¥25	—
Transfer of electronically recorded receivables	¥34	¥63	\$312

Note 10: Net Assets

Net assets comprise four subsections, which are shareholders' equity, accumulated other comprehensive income, net of tax, share subscription rights and non-controlling interests.

Under the Japanese Corporate Law ("the Law") and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

In cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Appropriations of legal earnings reserve and additional paid-in capital generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. However, by resolution of the shareholders' meeting, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. Other capital surplus and retained earnings are included in capital surplus and retained earnings, respectively.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law and regulations.

At the annual shareholders' meeting held on June 26, 2020, the shareholders approved cash dividends amounting to ¥1,011 million (\$9,290 thousand). Such appropriations have not been accrued in the consolidated financial statements at March 31, 2020. Such appropriations are recognized in the period in which they are approved by the shareholders.

Note 11: Income Taxes

The Companies are subject to a number of taxes levied on income, which, in the aggregate, resulted in normal statutory income tax rates of approximately 30.5% for the year ended March 31, 2020 and 2019.

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended March 31, 2020 and 2019:

	2020	2019
Statutory tax rate	30.5%	—
Non-deductible expenses	1.6	—
Dividends received not taxable	(0.1)	—
Per capita inhabitants taxes	0.4	—
Valuation allowance	(0.8)	—
Effect of change in tax rates	(5.4)	—
Equity in income of affiliates	(11.0)	—
Difference from tax rate of foreign subsidiaries	20.6	—
Other	0.5	—
Effective tax rate	36.3	—

Note: The note is omitted, because the difference between the statutory tax rate and effective tax rate after adoption of tax-effect accounting is less than 5% of the statutory tax rate for the year ended March 31, 2019.

Significant components of deferred income tax assets and liabilities at March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred income tax assets:			
Accrued bonuses	¥788	¥736	\$7,241
Unrealized gain from sales of inventories	197	120	1,810
Liability for retirement benefit	4,543	4,054	41,744
Long-term accrued amount payable	20	21	184
Unrealized gain from sales of fixed assets	901	912	8,279
Unrealized holding gain on fixed assets	907	1,901	8,334
Depreciation and amortization	686	737	6,303
Impairment loss of fixed assets	2,022	521	18,579
Loss on devaluation of investments in securities	961	968	8,830
Provision for business structure improvement	60	75	551
Accrued environmental expenditures	266	303	2,444
Asset retirement obligations	690	736	6,340
Net operating loss carry forwards	2,662	2,905	24,460
Allowance for doubtful accounts	831	820	7,636
Accumulated adjustments for retirement benefit	378	-	3,473
Other	2,111	2,328	19,399
Subtotal deferred income tax assets	18,023	17,137	165,607
Valuation allowance related to net operating loss carryforwards(Note 2)	(2,210)	(1,949)	(20,307)
Valuation allowance related to deductible temporary differences(Note 1)	(8,138)	(7,001)	(74,777)
Valuation allowance (Note 1)	(10,348)	(8,950)	(95,084)
Total deferred income tax assets	¥7,675	¥8,187	\$70,523
Deferred income tax liabilities:			
Asset for retirement benefit	¥(2,399)	¥ (1,079)	\$(22,044)
Reserve deductible for Japanese tax purpose	(44)	(65)	(404)
Reserve for deferred gain on sales of fixed assets for tax purpose	(813)	(831)	(7,470)
Valuation difference on property, plant and equipment	(1,942)	(1,939)	(17,844)
Unrealized holding gain on securities	(871)	(3,049)	(8,003)
Accumulated adjustments for retirement benefit	—	(224)	—
Other	(201)	22	(1,848)
Total deferred income tax liabilities	¥(6,270)	¥ (7,165)	\$(57,613)
Net deferred income tax assets (liabilities)	¥1,405	¥1,022	\$12,910

Note 1: The valuation allowance increased by 1,398 million yen. The main reason for this increase is due to the increase in valuation allowances related to impairment loss of fixed assets at consolidated subsidiaries.

Note 2: The total amount of net operating loss carryforwards and other deferred tax assets for each period carried forward for tax purposes.

Year ended March 31, 2020

	Millions of yen						
	2021	2022	2023	2024	2025	2026 and thereafter	Total
Loss carryforwards (a)	¥623	439	22	667	435	476	¥2,662
Valuation allowances	¥(623)	(428)	(22)	(667)	(435)	(35)	¥(2,210)
Deferred tax assets	¥—	11	—	—	—	441	¥452

	Thousands of U.S. dollars						
	2021	2022	2023	2024	2025	2026 and thereafter	Total
Loss carryforwards (a)	\$5,725	4,034	202	6,129	3,997	4,373	\$24,460
Valuation allowances	\$(5,725)	(3,933)	(202)	(6,129)	(3,997)	(321)	\$(20,307)
Deferred tax assets	\$—	101	—	—	—	4,052	\$4,153

(a) Net operating loss carryforwards is the amount multiplied by the statutory effective tax rate.

(b) The amount of ¥452 million (\$4,153 thousand) of deferred tax assets is recorded for net operating loss carryforwards

of ¥2,662 million (\$24,460 thousand) (amount multiplied by the statutory effective tax rate).

(c) The amount of ¥452 million (\$4,153 thousand) in deferred tax assets was mainly recognized with regards to the balance of net operating loss carryforwards at the Company of ¥425 million (\$3,905 thousand) (amount multiplied by the statutory effective tax rate).

A valuation allowance has not been recognized for the part determined to be recoverable due to projected future taxable income with regard to the net operating loss carryforwards recorded in deferred tax assets.

Year ended March 31, 2019

	Millions of yen						
	2020	2021	2022	2023	2024	2025 and thereafter	Total
Loss carryforwards (a)	¥76	646	454	22	686	1,021	¥2,905
Valuation allowances	¥(70)	(641)	(454)	(22)	(686)	(76)	¥(1,949)
Deferred tax assets	¥6	5	0	—	—	945	¥956

(a) Net operating loss carryforwards is the amount multiplied by the statutory effective tax rate.

(b) The amount of 956 million yen of deferred tax assets is recorded for net operating loss carryforwards of 2,905 million (amount multiplied by the statutory effective tax rate).

(c) The amount of 956 million yen in deferred tax assets was mainly recognized with regards to the balance of net operating loss carryforwards at the Company of 920 million yen (amount multiplied by the statutory effective tax rate). A valuation allowance has not been recognized for the part determined to be recoverable due to projected future taxable income with regard to the net operating loss carryforwards recorded in deferred tax assets.

Note 12: Research and Development Expenses

Research and development expenses are recognized in the consolidated statements of income in the year when they are incurred. Research and development expenses

included in selling, general and administrative expenses are ¥682million (\$6,267 thousand) and ¥784 million for the years ended March 31, 2020 and 2019, respectively.

Note 13: Impairment Loss on Property, plant and equipment

The Companies classify property, plant and equipment into groups based on the place of business and the products with mutual supplementation. However, the

Companies classify real estate for rent and idle properties, which are not expected to be used in the future, individually.

In the year ended March 31, 2020, the Companies recorded impairment loss on property, plant and equipment for the following group of assets:

Use	Location	Type	Amount	Amount
			Millions of yen	Thousands of U.S. dollars
White paperboard business	Guangdong, China	Machinery and equipment, Vehicles, etc.	6,309	57,971
Afforestation business	Alberta, Canada	Right-of-use assets	73	671
Paper processing facilities	Tokorozawa, Saitama	Machinery and equipment, Vehicles	1	9
Idle assets	Shingu, Wakayama and elsewhere	Land, etc.	0	0
Total	—	—	¥6,383	\$58,651

(Process for Recognition of Impairment Loss on Property, plant and equipment)

With the deterioration of the business environment due to U.S.-China trade friction, in the white paperboard production facilities of the Paper and Pulp segment, where the recoverable amount is less than the book value, the book value has been reduced to the recoverable amount, and the amount of the decrease is an impairment loss recorded as an other expense.

In evaluating afforestation business assets at fair value and a book value of zero for afforestation business assets in the Paper and Pulp Segment, the book value of related right-of-use assets was reduced to the recoverable amount, and the amount of the decrease is an impairment loss recorded as an other expense. The recoverable amount of these items is calculated by the fair value based on IFRS. The recoverable amount of white paperboard production facilities is the fair value

less costs of disposal, and is calculated by a third-party appraisal.

In the Packaging and Paper Processing segment, the Board of Directors decided to withdraw from the target business because there are no expectations that demand will recover and it is difficult to maintain the system, so the book value is reduced to the recoverable amount and the amount of the decrease is an impairment loss recorded as an other expense. With regard to idle assets, the book value was reduced to the recoverable amount because their future use is not expected, and the amount of the decrease is an impairment loss recorded as an other expense. The recoverable amount of these items is measured by the fair value less costs of disposal and evaluated based on a reasonable estimate. The recoverable amount for the assets which have difficulty in sale and other conversion is evaluated as zero.

In the year ended March 31, 2019, the Companies recorded impairment loss on property, plant and equipment for the following group of assets:

Use	Location	Type	Amount
			Millions of yen
Idle assets	Niigata City, Niigata Prefecture, etc.	Machinery and equipment, Vehicles, etc.	142
Total			¥142

(Process for Recognition of Impairment Loss on Property, plant and equipment)
With regard to idle assets, the book value was reduced to the recoverable amount because their future use is not expected, and the reduced amount was recorded

under other expenses as an impairment loss. The recoverable value is measured by the net sale value, evaluated based on the rational estimates. The recoverable value for the assets which have difficulty in sale and other conversion is evaluated as zero.

Note 14: Lease Transactions

Lease transactions for the years ended March 31, 2020 and 2019 are as follows:

Operating lease transactions

Lease commitments under non-cancelable operating leases at March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
(lessee)			
Due within one year	¥152	¥ 182	\$1,397
Due after one year	403	741	3,703
	¥555	¥ 923	\$5,100
(lessor)			
Due within one year	¥25	¥12	\$230
Due after one year	391	23	3,592
	¥416	¥35	\$3,822

Note 15: Derivative Transactions

Derivative financial instruments currently utilized by the Companies include mainly forward exchange contracts, interest rate swap contracts, and interest rate and currency swaps contracts, all of which are for hedging purposes.

The Companies use forward exchange contracts to avert exposure to market risks arising from changes in foreign exchange rates, interest rate swap contracts to avert the Companies' exposure to adverse movements in interest rates and interest rate and currency swap contracts to avert the Companies' exposure to adverse movements in principal and interest on foreign currency loans payable.

Forward exchange contracts, interest rate swap contracts, and interest rate and currency swaps contracts, are subject to risks of foreign exchange rate changes and interest rate changes, respectively.

The derivative transactions are executed by the Company's Corporate Planning Department and managed by the Company's Accounting Department in accordance with the established policies and within the specified limits on the amounts of derivative transactions allowed. Information on derivative transactions is reported quarterly to the president, general managers, and other management.

The Companies evaluate hedge effectiveness by comparing the cumulative changes in cash flows or the changes in fair value of hedged items and the corresponding changes in fair value of the hedging derivative instruments. If the percentage changes of hedged items and hedging instruments, ranging between approximately 80% to 125%, hedging transactions are considered to be effective.

Derivative transactions for which hedge accounting had not been applied at March 31, 2020 and 2019 are not applicable.

Derivative transactions for which hedge accounting had been applied at March 31, 2020 and 2019 are as follows.

(1) Currency-related

Type of derivative transaction	Main hedged items	Millions of yen						Thousands of U.S. dollars		
		2020			2019			2020		
		Notional amount	Over one year	Fair value	Notional amount	Over one year	Fair value	Notional amount	Over one year	Fair value
Forward exchange contracts										
Buy contracts	Trade payables									
	U.S. Dollar	¥1,487	¥—	¥25	¥184	¥—	¥4	\$13,664	\$—	\$230
	EUR	¥175	¥—	¥4	¥—	¥—	¥—	\$1,608	\$—	\$37

Fair value on forward exchange contracts is based on the price offered by the contracted financial institution.

(2) Interest –related

The following interest rate swap contracts are used as hedges and meet certain hedging criteria. The net amount to be paid or received under the interest rate

swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Type of derivative transaction	Main hedged items	Millions of yen						Thousands of U.S. dollars		
		2020			2019			2020		
		Notional amount		Fair value	Notional amount		Fair value	Notional amount		Fair value
		Over one year	Total	Over one year	Total	Over one year	Total	Over one year	Total	
Interest rate swap contracts										
Receive floating, Pay fixed	Long-term loans payable	¥7,580	¥6,820	¥—	¥11,340	¥7,580	¥—	\$69,650	\$62,667	\$—

Fair value on interest rate swap contracts is based on the price offered by the contracted financial institution.

Market value of interest rate swap is included in the corresponding hedged long-term debt as this interest

rate swap is recorded as an adjustment to the corresponding hedged long-term debt under the special treatment.

(3) Interest and currency –related

Type of derivative transaction	Main hedged items	Millions of yen						Thousands of U.S. dollars		
		2020			2019			2020		
		Notional amount		Fair value	Notional amount		Fair value	Notional amount		Fair value
		Over one year	Total	Over one year	Total	Over one year	Total	Over one year	Total	
Interest rate and currency swaps contracts										
Receive floating, Pay fixed	Long-term loans payable	¥9,747	¥8,780	¥—	¥10,713	¥9,747	¥—	\$89,562	\$80,676	\$—
Receive U.S. dollar, Pay Japanese Yen										

Fair value on interest rate and currency swap contracts is based on the price offered by the contracted financial institution.

Market value of interest rate and currency swap is

included in the corresponding hedged long-term debt as this interest rate and currency swap is recorded as an adjustment to the corresponding hedged long-term debt under the special treatment.

Note 16: Retirement Benefits

The Company and its consolidated subsidiaries have in place a corporate pension fund plan and a lump-sum retirement payment plan as their defined benefit pension plan, and some consolidated subsidiaries use small-to-medium enterprises' retirement benefit mutual aid schemes in conjunction therewith. Furthermore, the Company has set up a retirement benefits trust. In

addition, a defined contribution pension plan has been established for certain overseas consolidated subsidiary.

Under the corporate pension fund plan and the lump-sum retirement payment plan of some consolidated subsidiaries, liabilities for retirement benefit and retirement benefit costs are calculated using the simplified method.

1. Defined benefit plans, except plan applied simplified method**(1) Movement in retirement benefit obligations**

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at the beginning of the year	¥16,453	¥16,334	\$151,181
Service cost	810	862	7,443
Interest cost	113	111	1,038
Actuarial (gain) loss	225	(220)	2,067
Benefits paid	(647)	(571)	(5,945)
Other	19	(63)	175
Balance at the end of the year	¥16,973	¥16,453	\$155,959

(2) Movements in plan assets

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at the beginning of the year	¥8,454	¥8,540	\$77,681
Expected return on plan assets	99	100	910
Actuarial (gain) loss	(1,637)	(104)	(15,042)
Contributions paid by the employer	189	175	1,737
Benefits paid	(280)	(197)	(2,573)
Contribution to retirement benefit trust	6,394	—	58,752
Other	12	(60)	110
Balance at the end of the year	¥13,231	¥8,454	\$121,575

(3) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Funded retirement benefit obligations	¥13,800	¥5,919	\$126,803
Plan assets	(13,231)	(8,454)	(121,575)
	569	(2,535)	5,228
Unfunded retirement benefit obligations	3,173	10,534	29,156
Total Net liability (asset) for retirement benefits	3,742	7,999	34,384
Liability for retirement benefits	5,844	10,643	53,699
Asset for retirement benefits	(2,102)	(2,644)	(19,315)
Total Net liability (asset) for retirement benefits	¥3,742	¥7,999	\$34,384

(4) Retirement benefit costs	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Service cost	¥810	¥862	\$7,443
Interest cost	112	111	1,029
Expected return on plan assets	(99)	(100)	(910)
Net actuarial gain amortization	(157)	(168)	(1,443)
Other	2	16	19
Total retirement benefit costs	¥668	¥721	\$6,138
Gain on contribution of securities to retirement benefit trust*	(4,875)	—	(44,795)

*This account is recorded in other income.

(5) Adjustments for retirement benefit	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Actuarial gains and (losses)	¥(2,019)	¥(52)	\$(18,552)
Other	1	(4)	9
Total adjustments for retirement benefit	¥(2,018)	¥(56)	\$(18,543)

(6) Accumulated adjustments for retirement benefit	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unrecognized actuarial gains	¥1,255	¥(763)	\$11,532

(7) Plan assets

1. Plan assets comprise:

	2020	2019
Bonds	18.6%	28.9%
Equity securities	65.4%	48.3%
Cash and deposits	3.4%	5.0%
General account of life insurance companies	10.2%	16.0%
Other	2.4%	1.8%
Total*	100.0%	100.0%

* Total plan assets include the pension benefits trust, established under the corporate pension system, which accounted for 12.7% and 46.5% of plan assets in the previous and the current fiscal year, respectively.

2. Determination method of long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets

have been considered in determining the long-term expected rate of return.

(8) Actuarial assumptions

The principal actuarial assumptions:

	2020	2019
Discount rate	0.6% (mainly)	0.6% (mainly)
Long-term expected rate of return	1.0% (mainly)	1.0% (mainly)
Anticipated rate of increase	2.8% (mainly)	2.8% (mainly)

2. Defined benefit plan applying the simplified method

(1) Movement in liability for retirement benefits	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at the beginning of the year	¥1,346	¥1,340	\$12,368
Retirement benefit costs	285	226	2,619
Benefits paid	(129)	(129)	(1,185)
Contributions paid by the employer	(86)	(83)	(790)
Other	(1)	(8)	(10)
Balance at the end of the year	¥1,415	¥1,346	\$13,002

(2) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Funded retirement benefit obligations	¥883	¥859	\$8,113
Plan assets	(833)	(851)	(7,654)
	50	8	459
Unfunded retirement benefit obligations	1,365	1,338	12,543
Total Net liability (asset) for retirement benefits	1,415	1,346	13,002
Liability for retirement benefits	1,422	1,371	13,066
Asset for retirement benefits	(7)	(25)	(64)
Total Net liability (asset) for retirement benefits	¥1,415	¥1,346	\$13,002

(3) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Total retirement benefit costs based on the simplified method	¥285	¥226	\$2,619

3. Defined contribution pension plan

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Required contributions provided to defined contribution pension plans at consolidated subsidiary	¥355	¥361	\$3,262

Note 17: Asset Retirement Obligations**1. Asset retirement obligations recorded on the consolidated balance sheets****(1) Outline of the asset retirement obligations recorded:**

The Company recorded asset retirement obligations covering the expenses for the removal of asbestos to be incurred at the time of removal from buildings and structures owned by the Company, treatment expenses

stipulated by the Waste Management and Public Cleansing Act, and expenses for the restoration to their original state of properties leased by consolidated subsidiaries.

(2) Basis for the calculation of the amount of the relevant asset retirement obligations:

The projected use period of each fixed asset is estimated to be 4 to 64 years based on the useful life of each, and the discount rate of 0.180% to 2.330% is used.

(3) Movement in the total amount of the relevant asset retirement obligations during the fiscal year ended March 31, 2020 and 2019:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at the beginning of the year	¥2,541	¥3,031	\$23,348
Increase from acquisition of property, plant and equipment	48	—	441
Unwinding of discount	12	36	110
Increase (Decrease) due to change in estimates	47	(70)	432
Decrease in loss on disposal of property, plant and equipment	(161)	(319)	(1,479)
Foreign currency translation adjustment	29	(137)	267
Balance at the end of the year	¥2,516	¥2,541	\$23,119

2. Asset retirement obligations other than those recorded on the consolidated balance sheets

The Companies have obligations to restore land, buildings and other structures which the Companies use under lease or rental contracts to their original state when vacating them. However, in case the use periods of the leased properties related to such obligations are

indefinite, and also in view of the fact that the Companies currently have no plan to exit from these properties, it is not possible to clearly estimate the amounts of asset retirement obligations. For this reason, the asset retirement obligations that correspond to these obligations are not recorded in the accompanying consolidated financial statements.

Note 18: Segment Information**1. Overview of Reportable Segments**

Reportable segments of the Company are components subject to regular review so that the Board of Directors is able to decide on the best allocation of management resources and evaluate results.

The Companies evaluate business results on an each company basis, and treat independent entity as a unit functioning within each of its business segments. The Company groups each company into segments according to commonality in economic characteristics, product manufacturing methods and markets. Based on

this approach, the Company maintains two reporting segments: the "Paper and Pulp Business" and the "Packaging and Paper Processing Business."

The Paper and Pulp Business consists of the manufacture and sale of paper and pulp products, while the Packaging and Paper Processing Business consists of the manufacture and sale of paper containers and liquid package cartons, various printing products, including business forms, and the data processing service (DPS) business.

2. Basis for measurement of segment sales, segment income or loss, segment assets and other significant items:

The basis of the accounting treatment for the reportable segments is substantially the same as described in

"Summary of Significant Accounting Policies" herein. The segment income represents the operating income-based amount. The intersegment revenues and transfers are determined based on the prevailing market value.

3. Information on segment sales, segment income or loss, segment assets and other significant items:

	Millions of yen					2020
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others*1	Adjustments*2	Consolidated*3
Sales:						
Sales to outside customers	¥237,895	¥18,228	¥256,123	¥8,495	¥—	¥264,618
Intersegment sales or transfers	2,630	68	2,698	35,737	(38,435)	—
Total	240,525	18,296	258,821	44,232	(38,435)	264,618
Segment income	¥9,322	¥418	¥9,740	¥890	¥579	¥11,209
Segment assets	¥325,676	¥17,759	¥343,435	¥20,619	¥(19,323)	¥344,731
Other items						
Depreciation and amortization	¥17,470	¥954	¥18,424	¥440	¥(413)	¥18,451
Impairment loss	¥6,382	¥1	¥6,383	¥0	¥—	¥6,383
Investment in affiliates	¥49,097	¥—	¥49,097	¥—	¥—	¥49,097
Increase in property, plant and equipment/intangible assets	¥14,580	¥1,269	¥15,849	¥836	¥(454)	¥16,231

	Thousands of U.S. dollars					2020
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others*1	Adjustments*2	Consolidated*3
Sales:						
Sales to outside customers	\$2,185,932	\$167,491	\$2,353,423	\$78,057	\$—	\$2,431,480
Intersegment sales or transfers	24,166	625	24,791	328,375	(353,166)	—
Total	2,210,098	168,116	2,378,214	406,432	(353,166)	2,431,480
Segment income	\$85,657	\$3,841	\$89,498	\$8,177	\$5,320	\$102,995
Segment assets	\$2,992,520	\$163,181	\$3,155,701	\$189,461	\$(177,552)	\$3,167,610
Other items						
Depreciation and amortization	\$160,526	\$8,766	\$169,292	\$4,043	\$(3,795)	\$169,540
Impairment loss	\$58,642	\$9	\$58,651	\$0	\$—	\$58,651
Investment in affiliates	\$451,135	\$—	\$451,135	\$—	\$—	\$451,135
Increase in property, plant and equipment/intangible assets	\$133,970	\$11,660	\$145,630	\$7,682	\$(4,172)	\$149,140

*1 The "Others" category indicates business segments not included in the reportable segments, encompassing the wood products business, the wastepaper wholesale business, the construction business and the transportation and warehousing business.

*2 Amounts of adjustments are as follows:

(1) Adjustments in segment income in the amount of ¥579 million (\$5,320 thousand) mainly represent eliminations of intersegment transactions.

(2) Adjustments in segment assets in the amount of ¥(19,323) million (\$177,552 thousand) include ¥(23,483) million (\$215,777 thousand) for eliminations of intersegment debts and credits and ¥4,160 million (\$38,225 thousand) for the corporate assets that are not allocated to each reportable segment.

(3) Adjustments in increases in property, plant and equipment and intangible fixed assets totaling ¥(454) million (\$4,172 thousand) represent eliminations of intersegment unrealized gains on noncurrent assets.

*3 Segment income is adjusted to reflect operating income as recorded in the consolidated statements of income.

	Millions of yen					
	2019					
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others*1	Adjustments*2	Consolidated*3
Sales:						
Sales to outside customers	¥248,253	¥19,192	¥267,445	¥8,362	¥—	¥275,807
Intersegment sales or transfers	2,945	101	3,046	36,077	(39,123)	—
Total	251,198	19,293	270,491	44,439	(39,123)	275,807
Segment income	¥7,956	¥841	¥8,797	¥710	¥623	¥10,130
Segment assets	¥345,786	¥18,359	¥364,145	¥18,944	¥(15,007)	¥368,082
Other items						
Depreciation and amortization	¥17,641	¥796	¥18,437	¥393	¥(440)	¥18,390
Impairment loss	¥137	¥—	¥137	¥5	¥—	¥142
Investment in affiliates	¥41,669	¥—	¥41,669	¥—	¥—	¥41,669
Increase in property, plant and equipment/intangible assets	¥14,254	¥1,594	¥15,848	¥622	¥(381)	¥16,089

*1 The "Others" category indicates business segments not included in the reportable segments, encompassing the wood products business, the wastepaper wholesale business, the construction business and the transportation and warehousing business.

*2 Amounts of adjustments are as follows:

(1) Adjustments in segment income in the amount of ¥623 million mainly represent eliminations of intersegment transactions.

(2) Adjustments in segment assets in the amount of ¥(15,007) million include ¥(21,398) million for eliminations of intersegment debts and credits and ¥6,391 million for the corporate assets that are not allocated to each reportable segment.

(3) Adjustments in increases in property, plant and equipment and intangible fixed assets totaling ¥(381) million represent eliminations of intersegment unrealized gains on noncurrent assets.

*3 Segment income is adjusted to reflect operating income as recorded in the consolidated statements of income.

(Related information)

Year ended March 31, 2020

1. Information by Region

	Millions of yen					
	2020					
	Japan	United States	China	Asia	Others	Total
Net Sales	¥183,880	¥26,925	¥25,973	¥16,702	¥11,138	¥264,618

	Thousands of U.S. dollars					
	2020					
	Japan	United States	China	Asia	Others	Total
Net Sales	\$1,689,608	\$247,404	\$238,657	\$153,469	\$102,342	\$2,431,480

Classification of net sales is determined by country or geographical location of customers.

Major countries and areas which belong to segments other than Japan are as follows:

(1) AsiaSouth Korea, India, Taiwan, Vietnam, Pakistan

(2) Other.....Europe, Canada, the Middle East, Oceania

	Millions of yen			
	2020			
	Japan	Canada	Others	Total
Property, plant and equipment	¥106,835	¥13,014	¥7,541	¥127,390

	Thousands of U.S. dollars			
	2020			
	Japan	Canada	Others	Total
Property, plant and equipment	\$981,669	\$119,581	\$69,291	\$1,170,541

2. Information by Major Customer

Name of Customers	Millions of yen	Thousands of U.S. dollars
	2020	2020
SHINSEI PULP & PAPER COMPANY LIMITED	¥34,832	\$320,059

Year ended March 31, 2019

1. Information by Region

	Millions of yen					
	2019					
	Japan	United States	China	Asia	Others	Total
Net Sales	¥178,871	¥30,829	¥30,165	¥20,188	¥15,754	¥275,807

Classification of net sales is determined by country or geographical location of customers.

Major countries and areas which belong to segments other than Japan are as follows:

(1) AsiaSouth Korea, India, Vietnam, Taiwan, Thailand

(2) Other.....Canada, Europe, the Middle East, Oceania

	Millions of yen			
	2019			
	Japan	Canada	Others	Total
Property, plant and equipment	¥111,362	¥9,312	¥14,207	¥134,881

2. Information by Major Customer

Name of Customers	Millions of yen
	2019
SHINSEI PULP & PAPER COMPANY LIMITED	¥34,923

(Information on the amounts of amortization and unamortized balance by reportable segment)
Year ended March 31, 2020

							Millions of yen
							2020
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others	Adjustments	Consolidated	
Goodwill:							
Amortization of goodwill	¥125	¥—	¥125	¥—	¥—	¥125	
Balance at end of year	¥1,004	¥—	¥1,004	¥—	¥—	¥1,004	

							Thousands of U.S. dollars
							2020
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others	Adjustments	Consolidated	
Goodwill:							
Amortization of goodwill	\$1,149	\$—	\$1,149	\$—	\$—	\$1,149	
Balance at end of year	\$9,225	\$—	\$9,225	\$—	\$—	\$9,225	

Year ended March 31, 2019

							Millions of yen
							2019
	Paper and Pulp Business	Packaging and Paper Processing Business	Total	Others	Adjustments	Consolidated	
Goodwill:							
Amortization of goodwill	¥134	¥—	¥134	¥—	¥—	¥134	
Balance at end of year	¥1,170	¥—	¥1,170	¥—	¥—	¥1,170	

Note 19: Related Party Transactions

(1) Transactions with related party

Year ended March 31, 2020

Parent company and principal stockholder, etc., of the Company

											2020
Attribute	Name	Location	Amount of capital or investment in capital	The contents of a business operation or an occupation	Ownership ratio (Parent company ownership ratio) of voting rights (%)	Relationship	Nature of transaction	Transaction amount	Account	Balance at the end of the fiscal year	
Principal stockholder	Mitsubishi Corporation	Chiyoda-ku, Tokyo	¥204,447 million (\$1,878,590 thousand)	A general trading company	(Parent company ownership ratio) Direct 4.0	—	Purchases of treasury stock	¥9,359 million (\$85,997 thousand)	—	—	

(Transaction terms and conditions, policy to decide such terms and conditions)

The acquisition of its own shares by the company excuted based on a resolution of the Board of Directors on February 21, 2020 at the closing price 476 yen on February 25, 2020 by the Trading Network Off-Auction Own Share Repurchase Trading System (ToSTNeT-3). As a result of the transaction, Mitsubishi Corporation removed from "principal stockholder" and was no longer "related party".

Year ended March 31, 2019

Parent company and principal stockholder, etc., of the Company

											2019
Attribute	Name	Location	Amount of capital or investment in capital	The contents of a business operation or an occupation	Ownership ratio (Parent company ownership ratio) of voting rights (%)	Relationship	Nature of transaction	Transaction amount	Account	Balance at the end of the fiscal year	
Principal stockholder	Mitsubishi Corporation	Chiyoda-ku, Tokyo	¥204,447 million	A general trading company	(Parent company ownership ratio) Direct 19.4	Agency for the products of the Company	Sales of paper	¥15,295 million	Account receivable-trade	¥3,413 million	

(Transaction terms and conditions, policy to decide such terms and conditions)

The sales price of paper is determined each time through negotiations, taking into account market prices.

(2) Notes on parent company or significant affiliated company

For the year ended March 31, 2020 and 2019, the significant affiliated company is Daio Paper Corporation and its summarized consolidated financial statement is as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Total current assets	¥299,019	¥299,650	\$2,747,579
Total noncurrent assets	463,860	445,964	4,262,244
Total current liabilities	215,434	177,817	1,979,546
Total noncurrent liabilities	338,090	368,710	3,106,588
Total net assets	209,536	199,339	1,925,351
Net sales	546,433	533,890	5,020,978
Income before income taxes	31,251	6,970	287,154
Net income attributable to owners of parent company	19,199	4,697	176,413

Note 20: Comprehensive Income

Amounts reclassified to net income in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unrealized holding gains (losses) on securities, net of taxes			
Occurrence amount	¥(1,866)	¥(2,591)	\$(17,146)
Reclassification adjustment	(5,745)	(633)	(52,789)
Before tax effect	(7,611)	(3,224)	(69,935)
Tax effect	2,175	906	19,986
Unrealized holding gains (losses) on securities, net of taxes	¥(5,436)	¥(2,318)	\$(49,949)
Unrealized gains (losses) on hedging derivatives, net of taxes			
Occurrence amount	¥24	¥59	\$221
Reclassification adjustment	—	(22)	—
Before tax effect	24	37	221
Tax effect	(7)	(12)	(65)
Unrealized gains (losses) on hedging derivatives, net of taxes	¥17	¥25	\$156
Foreign currency translation adjustment			
Occurrence amount	¥722	¥(3,501)	\$6,634
Reclassification adjustment	—	—	—
Before tax effect	722	(3,501)	6,634
Tax effect	—	—	—
Foreign currency translation adjustment	¥722	¥(3,501)	\$6,634
Adjustments for retirement benefit, net of taxes			
Occurrence amount	¥(1,861)	¥113	\$(17,100)
Reclassification adjustment	(157)	(168)	(1,443)
Before tax effect	(2,018)	(55)	(18,543)
Tax effect	613	16	5,633
Adjustments for retirement benefit, net of taxes	¥(1,405)	¥(39)	\$(12,910)
Share of other comprehensive income of associates accounted for using equity method			
Occurrence amount	¥368	¥190	\$3,381
Reclassification adjustment	(1,690)	(107)	(15,528)
Share of other comprehensive income of associates accounted for using equity method	¥(1,322)	¥83	\$(12,147)
Total other comprehensive income	¥(7,424)	¥(5,750)	\$(68,216)

Note 21: Stock Option

The Company has the compensation plan based on the stock option system for its directors other than outside directors.

(1) The following shows the Company's stock options as of March 31, 2020.

Stock options	Persons granted	Number of stock options granted	Grant date	Exercise price	Exercise period
2012 Stock options	11 directors	153,500 shares	July 17, 2012	¥1	From July 18, 2012 to July 17, 2027
2013 Stock options	9 directors	117,000 shares	July 12, 2013	¥1	From July 13, 2013 to July 12, 2028
2014 Stock options	9 directors	80,000 shares	July 11, 2014	¥1	From July 12, 2014 to July 11, 2029
2015 Stock options	9 directors	62,000 shares	July 13, 2015	¥1	From July 14, 2015 to July 13, 2030
2016 Stock options	9 directors	58,500 shares	July 14, 2016	¥1	From July 15, 2016 to July 14, 2031
2017 Stock options	9 directors	35,500 shares	July 14, 2017	¥1	From July 15, 2017 to July 14, 2032
2018 Stock options	9 directors	65,000 shares	July 13, 2018	¥1	From July 14, 2018 to July 13, 2033
2019 Stock options	9 directors	68,500 shares	July 12, 2019	¥1 (\$0.01)	From July 13, 2019 to July 12, 2034

(2) The following shows the number of stock options.

	2012 Stock options (shares)	2013 Stock options (shares)	2014 Stock options (shares)	2015 Stock options (shares)	2016 Stock options (shares)	2017 Stock options (shares)	2018 Stock options (shares)	2019 Stock options (shares)
Non-vested stock option:								
Outstanding at March 31, 2019	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	68,500
Forfeited	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	68,500
Outstanding at March 31, 2020	—	—	—	—	—	—	—	—
Vested stock option:								
Outstanding at March 31, 2019	9,500	32,500	33,500	23,500	36,000	23,500	60,500	—
Vested	—	—	—	—	—	—	—	68,500
Exercised	9,500	23,000	28,000	17,500	30,500	2,500	5,000	—
Forfeited	—	—	—	—	—	—	—	—
Outstanding at March 31, 2020	—	9,500	5,500	6,000	5,500	21,000	55,500	68,500

(3) The following shows the per share prices.

	2012 Stock options	2013 Stock options	2014 Stock options	2015 Stock options	2016 Stock options	2017 Stock options	2018 Stock options	2019 Stock options
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1(\$0.01)
Average stock price at exercise	¥512	¥511	¥479	¥469	¥442	¥351	¥351	—
Fair value price at grant date	¥314	¥359	¥354	¥599	¥657	¥743	¥505	¥488(\$4.48)

(4) The following shows the estimate method for stock option price.

	2012 Stock options	2013 Stock options	2014 Stock options	2015 Stock options	2016 Stock options	2017 Stock options	2018 Stock options	2019 Stock options
Estimate method	Black-Scholes option-pricing models	Black-Scholes option-pricing models	Black-Scholes option-pricing models	Black-Scholes option-pricing models	Black-Scholes option-pricing models	Black-Scholes option-pricing models	Black-Scholes option-pricing models	Black-Scholes option-pricing models
Expected volatility	33.243%	35.972%	37.089%	37.064%	37.117%	32.561%	32.621%	32.188%
Expected life	8 years	8 years	8 years	8 years	8 years	8 years	8 years	8 years
Expected dividend	¥12/share	¥12/share	¥12/share	¥12/share	¥12/share	¥12/share	¥12/share	¥12/share (\$0.11/share)
Risk-free interest rate	0.502%	0.685%	0.356%	0.295%	(0.352)%	0.025%	(0.045)%	(0.207)%

Note 22: Subsequent Events**Distribution of Retained Earnings**

The following items were approved at the annual shareholders' meeting of the Company held on June 26, 2020:

Payment of a cash dividend of ¥6.00 (\$0.06) per share, or a total of ¥1,011 million (\$9,290 thousand), to shareholders on record as of March 31, 2020.

Independent Auditor's Report

Independent auditor's report

To the Board of Directors of Hokuetsu Corporation:**Opinion**

We have audited the accompanying consolidated financial statements of Hokuetsu Corporation ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2020 and 2019, the consolidated statements of income and comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies, other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and its consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Corporate auditors and the board of corporate auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements

as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

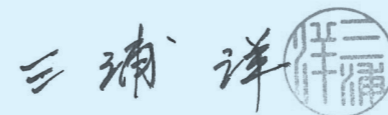
We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

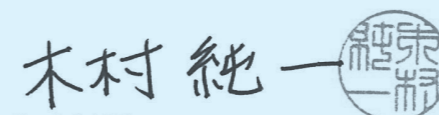
We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.



Hiroshi Miura

Designated Engagement Partner

Certified Public Accountant



Junichi Kimura

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

August 4, 2020

Key events

2019	March	Successfully developed cellulose nanofiber and carbon fiber composite material
	April	Formulated Group Environmental Charter, Group Fundamental Policy for Raw Materials Procurement, Group Basic Policy for Information Security
		Stopped No. 6 paper machine at the Niigata Mill
	May	Announced start of containerboard base paper business
	July	Notice regarding cancellation of business alliance
	August	Hokuetsu Material Sakata Plant starts operations
	September	Registered Whistleblowing Compliance Management System
	October	Submitted declaration of voluntary action of "White Logistics" movement
		Start of operations at i Missions Park Ichikawashiohama warehouse
		Launched new wood chip carrier, Southern Treasure
		Installed 1400IJ full-color continuous paper inkjet printer at Hokuetsu Package
	December	Opened Vietnam liaison office in Ho Chi Minh City
Dumas of France sets new records for production volume, sales, and earnings		
2020	February	Developed environmentally-friendly paper material "Panse"
	March	Received FY2020 Health and Productivity Management Outstanding Organization in the large enterprise category certification
		Conducted purchase and retirement of treasury stock
	April	Started containerboard base paper business
Started new Long-term Corporate Vision, "Vision 2030," and new Medium-term Management Plan 2023.		

Stock Information (as of March 31, 2020)

Shareholder registry administrator	Mizuho Trust & Banking Co., Ltd. 1-2-1, Yaesu, Chuo-ku, Tokyo
Number of shares authorized	500,000,000
Number of shares issued	188,053,114
Number of shareholders	12,192

Major Shareholders (as of March 31, 2020)*

Name	Number of shares held (Thousands of shares)	Percentage to total number of shares in issue (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	10,890	6.46
The Master Trust Bank of Japan, Ltd. (Trust Account)	9,968	5.92
Mitsubishi Corporation	6,808	4.04
Hokuetsu Corporation Ownership Association	6,023	3.58
Kawasaki-kami Unyu Co., Ltd.	5,920	3.51
Sompo Japan Nipponkoa Insurance Inc.	4,499	2.67
The Daishi Bank, Ltd.	4,317	2.56
The Hokuetsu Bank, Ltd.	4,315	2.56
Misuga Kaiun Co., Ltd.	4,080	2.42
DFA International Small Cap Value Portfolio	3,989	2.37

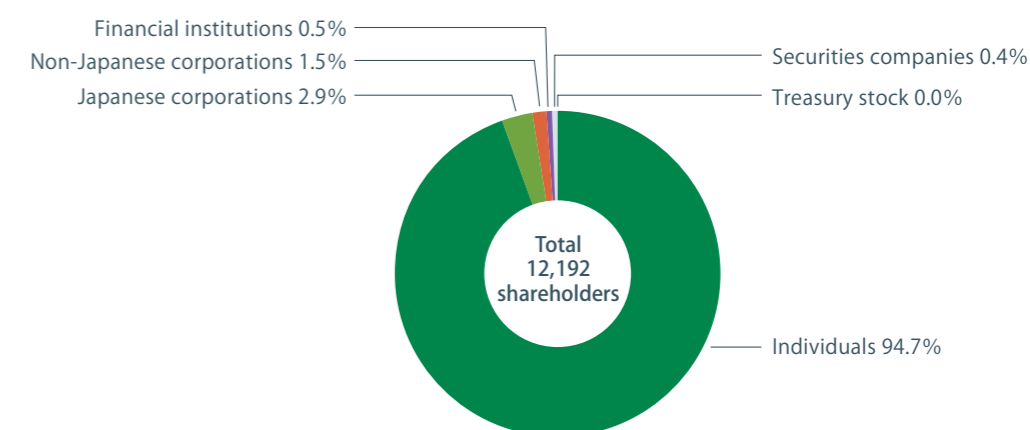
* In addition to the above, the Company holds 19,577 thousand shares of treasury stock.

* Sompo Japan Nipponkoa Insurance Inc. changed its name to Sompo Japan Insurance Inc. on April 1, 2020.

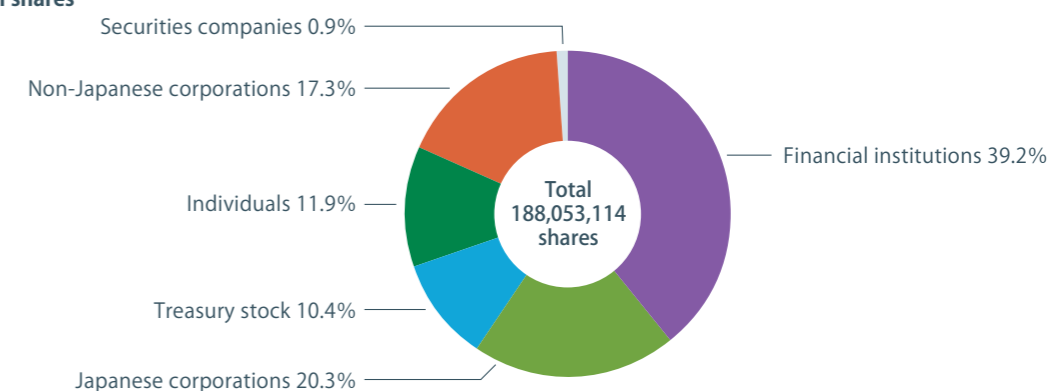
* Japan Trustee Services Bank, Ltd. (Trust Account) changed its name to Custody Bank of Japan, Ltd. on July 27, 2020.

Distribution of shares by shareholders (as of March 31, 2020)

Number of shareholders



Number of shares



Hokuetsu Corporation

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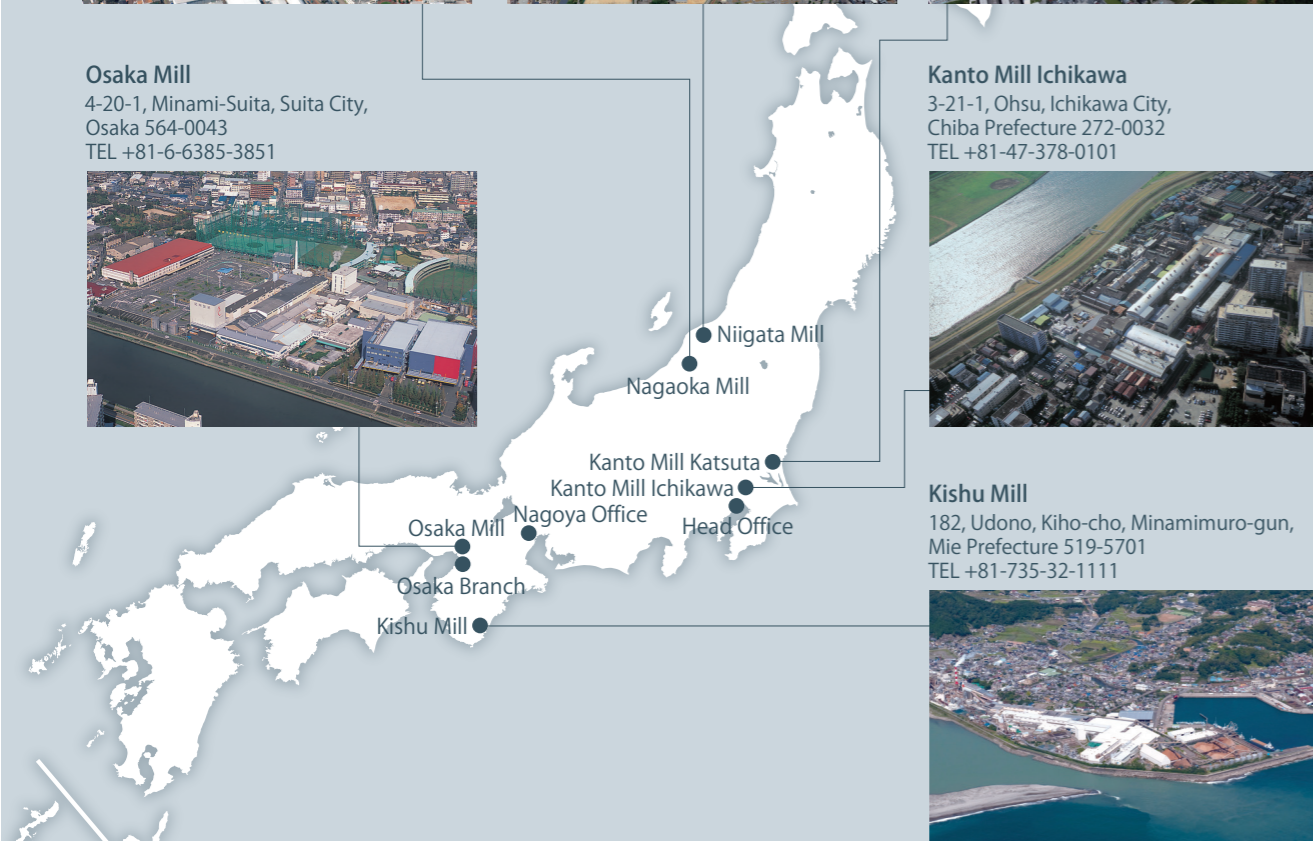
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TEL +81-735-32-1111



Osaka Mill
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Osaka 564-0043
TEL +81-6-6385-3851



Group Companies

Bernard Dumas S.A.S.



Shanghai Toh Tech Co., Ltd.



Jiangmen Xinghui Paper Mill Co., Ltd.



Alberta-Pacific Forest Industries Inc.



Corporate Data

Corporate Name: Hokuetsu Corporation
 Established: April 27, 1907
 The registered head office: 3-5-1, Nishizao, Nagaoka, Niigata Prefecture
 Paid-in 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: 4,688 (consolidated); 1,633 (non-consolidated) as of March 31, 2020

Consolidated Subsidiaries

Hokuetsu Paper Sales Co., Ltd.	MC Hokuetsu Energy Service Company
Alberta-Pacific Forest Industries Inc.	Hokuetsu Package Co., Ltd.
Xing Hui Investment Holdings Co., Ltd.	Shanghai Toh Tech Co., Ltd.
Jiangmen Xinghui Paper Mill Co., Ltd.	Hokuetsu Logistics Co., Ltd.
Bernard Dumas S.A.S.	Hokuetsu Suiun Co., Ltd.
Hokuetsu Toyo Fibre Co., Ltd.	Hokuetsu Material Co., Ltd.
Hokuetsu Paper Tec Niigata Co., Ltd.	Hokuetsu Engineering Co., Ltd.
Hokuetsu Paper Tec Kishu Co., Ltd.	Hokuetsu Pallet Co., Ltd.
Hokuetsu Paper Tec Katsuta Co., Ltd.	Hokuetsu Trading Corporation
Techno-Hokuetsu, Ltd.	Kishu Kohatsu Co., Ltd.

Affiliated Companies Accounted for Under the Equity Method

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

Hokuetsu Corporation

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