

ENGLISH TRANSLATION FOR REFERENCE PURPOSE ONLY

This notice is an English translation of the original Japanese text of the timely disclosure statement dated February 13, 2024 jointly issued by Daio Paper Corporation and Hokuetsu Corporation, and is for reference purposes only. In the event of any discrepancy between the original Japanese text and this English translation, the Japanese text shall prevail.

February 13, 2024

To whom it may concern:

Name of Company: Daio Paper Corporation
Name of Representative: Yorifusa Wakabayashi
President and Representative Director Chief Executive Officer
Securities Code: 3880 (Prime Market of Tokyo Stock Exchange)
Inquiries: Shuhei Shinagawa
Director and General Manager of Corporate Planning Division
Telephone No.: +81 3 6856 7500

Name of Company: Hokuetsu Corporation
Name of Representative: Sekio Kishimoto
President and Chief Executive Officer
Securities Code: 3865 (Prime Market of Tokyo Stock Exchange)
Inquiries: Makoto Yanagisawa
Director and Chief Financial Officer
Telephone No.: +81 3 3245 4500

Notice of the Commencement of Discussions for a Strategic Business Alliance between Daio Paper Corporation and Hokuetsu Corporation

Daio Paper Corporation (hereinafter "Daio Paper") and Hokuetsu Corporation (hereinafter "Hokuetsu") have agreed today to begin concrete discussions toward forming a strategic business alliance (the "Business Alliance") to resolve management issues faced by both companies and to further enhance their corporate value amid the severe business environment surrounding the pulp and paper industry.

1. Background and Significance of the Business Alliance

Daio Paper and Hokuetsu are paper manufacturers that have worked to coexist with local communities through "*monozukuri*" (manufacturing) respectively, and will continue to aim to be trusted by all stakeholders ranging from customers to shareholders, business partners, local communities, and employees.

The two companies share the recognition that sharpening competitiveness through structural reforms at core mills and reforming their business portfolios are critical management issues amid a severe business environment that requires solutions to social issues, such as the 2024 problem in domestic logistics and measures to reduce environmental impact, in addition to declining demand for domestic paper such as printing and communication paper, changing demand structures, and continuing high prices for raw materials and fuel, including wood chips, coal, and heavy oil.

We agreed on the idea that, rather than each company taking measures individually to address these issues, it would produce more rapid effects if both companies join hands in reforming the structure and bolstering the revenue base; we will begin to consider specific measures with an eye toward forming the Business Alliance.

Through the Business Alliance, the two companies will maintain their independence and healthy competitive relationship while proactively considering initiatives that will contribute to the medium- to long-term enhancement of their respective corporate value, such as complementing each other by leveraging their respective strengths.

2. Background Leading to the Commencement of Discussions for the Business Alliance

Daio Paper and Hokuetsu had exchanged opinions, including meetings between top management, to improve the relationship between the two companies. In September 2023, we signed a confidentiality agreement and have conducted a series of preliminary studies and discussions at the subcommittee level on such initiatives as "production technology," "raw material purchasing," and "products logistics."

The two companies will hold discussions with the aim of signing an agreement on the Business Alliance around May of this year.

3. Main Themes of the Business Alliance

The main target areas of the Business Alliance at present are as follows: While respecting the relationship with existing business partners, we will continue to study and verify the feasibility and effectiveness of each measure through subcommittees.

(1) Production Technology

- Technical cooperation to improve productivity and quality of pulp and paper, and to reduce costs
- Establishment of cooperative production systems, including OEM (paper, base paper for corrugated containerboard, etc.)
- Sharing and mutual utilization of idle and spare articles
- Reduction of maintenance costs through information exchange on machine repair and equipment maintenance
- Information sharing on factory operations (health and safety, mill DX, technology succession, etc.)

(2) Raw Material Purchasing

- Increasing efficiency of procurement processes of various raw materials (response to BCP, CO₂ reduction, etc.)
- Establishment of a cooperative system for wood chip procurement
- Mutually accommodating pulp manufactured in-house and various raw materials
- Sharing know-how on overseas afforestation projects

(3) Products Logistics

- Improving cross distribution by utilizing the logistics networks of both company groups
- Round transportation between production sites of both companies
- Promoting modal shift through effective use of containers
- Mutual utilization of distribution warehouses and joint delivery

Further, in the mid- to long-term, we will also consider joint research on various themes, including new technologies, energy conversion, DX promotion, and forest resource utilization.

4. Overview of the Companies (as of March 31, 2023)

Daio Paper Corporation

(1)	Location	Iidabashi Grand Bloom, 10-2, Fujimi 2 chome, Chiyoda-ku, Tokyo		
(2)	Representative's name/post	Yorifusa Wakabayashi, President and Representative Director Chief Executive Officer		
(3)	Business details	Manufacture and sale of paper, paperboard, and household paper products		
(4)	Capital	53,884 million yen		
(5)	Established	May 5, 1943		
(6)	Major Shareholders and Shareholding Ratio	Hokuetsu Corporation		24.8%
		The Master Trust Bank of Japan, Ltd. (Trust Account)		7.4%
		Daio Kaiun Co., Ltd		5.0%
		Custody Bank of Japan, Ltd. (Trust Account)		4.3%
		The Iyo Bank, Ltd.		4.2%
		The Ehime Bank, Ltd.		4.1%
		Ehime Paper Manufacturing Co. Ltd		3.2%
		Kami Shoji Co. Ltd.		2.8%
		OASIS JAPAN STRATEGIC FUND LTD.		2.8%
The Norinchukin Bank		2.5%		
(7)	Relationship between Daio Paper and Hokuetsu	Capital Relationship	Daio Paper's shareholding ratio in Hokuetsu's common stock as of March 31st, 2023 is 1.4%.	
		Business Relationship	Not Applicable	
		Personnel Relationship	Not Applicable	
		Status of Relationship with Related Parties	Hokuetsu is Daio Paper's Other Affiliated Company.	
(8)	Daio Paper's consolidated operating results and consolidated financial positions for the last three years			
	As of / Fiscal year ended	Fiscal year ended March 2021	Fiscal year ended March 2022	Fiscal year ended March 2023
	Consolidated net assets	246,788 million yen	266,704 million yen	244,670 million yen
	Consolidated total assets	849,801 million yen	840,441 million yen	923,531 million yen
	Consolidated net assets per share	1,440.33 yen	1,561.52 yen	1,414.73 yen
	Consolidated net sales	562,928 million yen	612,314 million yen	646,213 million yen
	Consolidated operating profit	36,873 million yen	37,569 million yen	△21,441 million yen
	Consolidated ordinary profit	34,478 million yen	37,696 million yen	△24,050 million yen
	Profit attributable to owners of parent	22,115 million yen	23,721 million yen	△34,705 million yen
	Consolidated earnings per share	138.73 yen	142.91 yen	△209.01 yen
	Dividends per share	17.00 yen	22.00 yen	16.00 yen

(Note) Shareholding ratio does not include treasury stock (excluding the shares held by trust bank as Trust for Delivery of Shares and Employee Stock Ownership Plan Trust).

Hokuetsu Corporation

(1)	Location	3-5-1 Nishi-Zao, Nagaoka City, Niigata		
(2)	Representative's name/post	Sekio Kishimoto, President and CEO		
(3)	Business details	Manufacture and sale of paper and pulp products		
(4)	Capital	42,020 million yen		
(5)	Established	April 27, 1907		
(6)		Misuga Kaiun Co., Ltd.		11.2%
		The Master Trust Bank of Japan, Ltd. (Trust Account)		7.9%

Major Shareholders and Shareholding Ratio	MLI FOR CLIENT GENERAL OMNI NON COLLATERAL NON TREATY-PB		7.1%
	Daishi Hokuetsu Bank, Ltd.		4.9%
	Hokuetsu Corporation's Agent Stockholding		4.1%
	NOMURA CUSTODY NOMINEES LIMITED OMNIBUS-FULLY PAID (CASHPB)		3.8%
	Sumitomo Realty & Development Co., Ltd.		3.6%
	CGML PB CLIENT ACCOUNT/COLLATERAL		3.6%
	OASIS JAPAN STRATEGIC FUND LTD.		3.3%
	Custody Bank of Japan, Ltd. (Trust Account)		2.9%
(7) Relationship between Hokuetsu and Daio Paper	Capital Relationship	Hokuetsu's shareholding ratio in Daio Paper's common stock as of March 31st, 2023 is 24.8%.	
	Business Relationship	Not Applicable	
	Personnel Relationship	Not Applicable	
	Status of Relationship with Related Parties	Daio Paper is Hokuetsu's Affiliated Company accounted for by the equity method.	
(8) Hokuetsu's consolidated operating results and consolidated financial positions for the last three years			
As of / Fiscal year ended	Fiscal year ended March 2021	Fiscal year ended March 2022	Fiscal year ended March 2023
Consolidated net assets	195,419 million yen	216,974 million yen	225,950 million yen
Consolidated total assets	363,075 million yen	376,956 million yen	388,444 million yen
Consolidated net assets per share	1,159.49 yen	1,286.82 yen	1,339.89 yen
Consolidated net sales	222,454 million yen	261,616 million yen	301,204 million yen
Consolidated operating profit	1,701 million yen	20,456 million yen	17,288 million yen
Consolidated ordinary profit	9,756 million yen	29,514 million yen	11,471 million yen
Profit attributable to owners of parent	14,172 million yen	21,206 million yen	8,325 million yen
Consolidated earnings per share	84.40 yen	126.22 yen	49.54 yen
Dividends per share	14.00 yen	24.00 yen	18.00 yen

(Note) Shareholding ratio does not include treasury stock.

5. Future Outlook

We will examine and verify the impact of the Business Alliance on the respective companies' business performance for the next fiscal year and beyond, but we believe that it will contribute to the enhancement of both companies' value in the medium to long term. If any matters arise that should be announced in the future, we will disclose them promptly.

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