

June 3, 2024

To All

Name of Company: Hokuetsu Corporation

Name of Representative: Sekio Kishimoto, President and CEO

(Securities Code: 3865 (Prime Market of Tokyo Stock Exchange))

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### **Notice of Additional Explanations Related to Proposals Made at General Meeting of Shareholders**

Hokuetsu Corporation (the “Company”) has already explained the proposals for the 186th Ordinary General Meeting of Shareholders, to be held on June 27, 2024, in the “Notice of the Opinion of our Board of Directors on the Shareholders’ Proposals” (hereinafter “Board of Directors’ Opinion”) and the related, supplementary explanatory materials (hereinafter “Supplementary Explanatory Materials”) on May 22. However, Hokuetsu has decided to provide the additional explanations regarding the content of the questions from shareholders through the communication with them, as set forth below. The defined terms and expressions in the text are based on the Board of Directors’ Opinion.

Related materials can be found at the links below.

Notice of the Board of Directors’ Opinion on the Shareholder Proposal (May 22, 2024)

[https://www.hokuetsucorp.com/pdf/20240522\\_release03.pdf](https://www.hokuetsucorp.com/pdf/20240522_release03.pdf)<sup>1</sup>

Supplementary Explanatory Materials: Our Efforts to Enhance Corporate Value (May 22, 2024)

[https://www.hokuetsucorp.com/pdf/20240522\\_release04.pdf](https://www.hokuetsucorp.com/pdf/20240522_release04.pdf)

#### Notes

(“Q” denotes a question, and “A” denotes the explanation from the Company.)

**Q1. From the perspective of strengthening the corporate governance system more, we expect the number and ratio of Outside Directors to be increased further. From that perspective, was it not an option to accept some of the Outside Director candidates proposed by the shareholders?**

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<sup>1</sup> The English translations can be found at the links below.  
[https://www.hokuetsucorp.com/pdf/ogm2024\\_en.pdf](https://www.hokuetsucorp.com/pdf/ogm2024_en.pdf)

A1. The Company believes that increasing the number and ratio of Outside Directors is an important issue for the Company, and intends to consider it positively in the future. The Company plans to consult with the shareholders about the election of directors at the ordinary shareholders' meeting in June 2025, and will proceed with its deliberations on this anticipated schedule.

In addition, the detailed reasons for the Company's opposition to this shareholder proposal are as stated in the Board of Directors' Opinion, but a supplementary explanation of the reasons why the Company did not choose to accept individual candidates is provided below.

(1) Shareholder Proposal from Daio Kaiun

As stated in the Board of Directors' Opinion, the Company believes that the main purpose of Daio Kaiun et al. is to seize control of the management of Daio Paper, and that they are not interested in improving the corporate value of the Company itself. In fact, when the Nomination and Compensation Committee sent a letter of inquiry to each candidate through Daio Kaiun, the Company did not receive individual responses from each candidate, but only a general response compiled by Daio Kaiun. In addition, based on their past actions and circumstances, the Company believes that Daio Kaiun et al. may coordinate with the Oasis Group at any time. From these perspectives, the Company believes that the five (5) director candidates should be judged primarily on the basis of the intent behind Daio Kaiun's proposal. In addition, as stated in the Board of Directors' Opinion, even viewing the proposal from the perspective of the individual candidates' qualifications and skills, the Company could not find any reasons why they should be added to the current Board of Directors as Outside Directors.

(2) Shareholder Proposal from Oasis Fund

The Oasis Group is proposing not only the election of five (5) Outside Directors, but also the dismissal of one (1) Representative Director and four (4) Outside Directors. Above and beyond the qualifications of individual candidates, the Company believes that the overall picture of these proposals indicates that the Oasis Group substantially intends to seize control of the Company's management. In this context, (i) despite the intent to seize control of the Company's management, no concrete ideas have been presented regarding the future basic management policy for the Company, (ii) the Oasis Group is also a major shareholder of Daio Paper, and there is a possibility of conflicts of interest with the Company's general shareholders, and (iii) based on their past actions and circumstances, it is possible that the Oasis Group and Daio Kaiun et al. may coordinate at any time. For these reasons, the Company has decided to oppose the proposal. In addition, as stated in the Board of Directors' Opinion, even viewing the proposal from the perspective of the individual candidates' qualifications and skills, the Company could not find any reasons why they should be added to the current Board of Directors as Outside Directors.

**Q2. The term of office of the Company's Directors is two (2) years, but shouldn't the Company consider reducing it to one (1) year, from the perspective of improving the corporate governance**

**system?**

A2. Our Board of Directors and Nomination and Compensation Committee have already begun deliberations on the term of office of Directors, and the Company is positively considering a transition to a more appropriate corporate governance system, including reducing the term of office of directors to one (1) year, at the ordinary shareholders' meeting in June 2025, when the current term of office of the Company's Directors expires.

**Q3. Why did the Company choose a strategic business alliance with Daio Paper instead of a complete integration?**

A3. In order to consider the relationship with Daio Paper objectively and neutrally, from a perspective separate from that of the executive side, our Board of Directors established a Restructuring Review Committee, comprised only of the Company's independent Outside Directors, which discussed the matter carefully. The Restructuring Review Committee ran simulations and compared several structures, including a complete integration, a change in the ratio of Daio Paper shares held by the Company and shares of the Company held by Daio Paper, a complete sale, and a business alliance, in terms of the influence of the capital relationship on the merits of the alliance, such as "production technology," "raw material purchasing," and "product logistics," and the impact of deepening the alliance in terms of "sales," "finance," and "environment." In the course of the Company's deliberations, the Company engaged in numerous discussions, after making requests to the executive side for additional information, refining the simulations, and verifying the appropriateness of the assumptions.

As a result, with regard to the benefits of the business alliance, the Company has determined that it would be possible to deepen the alliance even without additional capital investments by the Company, as this would be positive for Daio Paper as well, and that the effects would be sufficient. On the other hand, there are concerns that a complete integration may result in the high probability of a decline in market share due to a review of supplier etc., the large negative impact on the Company's strategy of investments due to Daio Paper's financial condition, and the burden of investments for dealing with environmental issues, which Daio Paper has been accelerating recently (Daio Paper announced a plan to start operation of a biomass boiler (19 billion yen) at Iwaki Daio Paper Corporation, which is a subsidiary of Daio Paper, in 2025, and a recycling boiler at its Mishima plant in 2028). Please refer to pages 12 and 13 of the Supplementary Explanatory Materials for more details.

In addition, the Company has received many comments from its shareholders expressing their expectations that many more effects will be realized through the Business Alliance with Daio Paper. The effect of the Business Alliance that "Daio Paper and Hokuetsu ... target an increase in operating profit of approximately two billion yen and three billion yen, respectively, in FY2026, three years from now," which

the Company has disclosed at this time, is a number obtained by stacking the synergies in the alliance areas that Daio Paper and the Company could have discussed in detail at this time, which remain limited to a small number of areas. There are still many areas that need to be, and can be, considered, and the Company would like to continue to accumulate synergistic effects in the future. The Company recognizes that the environment surrounding the paper pulp industry is severe, and believes that it is important for both companies to continue discussions to achieve sustainable corporate management, with a strong sense of crisis, such that they cannot survive unless both companies' strengths work together.

**Q4. The policy of reducing the number of shares of Daio Paper held by the Company seems inconsistent with the decision to proceed with a strategic Business Alliance with Daio Paper. What is the thinking behind this?**

A4. As mentioned in the Company's responses to the other questions above, since the Company acquired shares of Daio Paper in 2012, the Company has been seeking to realize synergies, while someone consistently have been seeking to reduce and eliminate the Company's influence, which has led to a stalemate between Daio Paper and the Company. Although the Company has persistently engaged in dialogue with Daio Paper, the situation has remained unpredictable due to these past circumstances, and therefore, the Company has maintained a holding level of approximately 25%, from the perspective of retaining the Company's influence clearly. In recent years, the Company has been able to accelerate the dialogue with the current management of Daio Paper and build a relationship of trust between the two companies, leading to the execution of a basic strategic business alliance agreement and the establishment of a cooperative system with concrete content. Therefore, in the future, the Company will review the shareholding level, while taking into account the progress of the alliance, the Company's capital allocation and capital efficiency, and the situation of Daio Paper, and reduce the Company's holdings to the extent necessary to improve capital efficiency based on maintaining application of the equity method.

Daio Kaiun stated in its press release "Our Shareholder's Proposal" dated May 31, 2024 (the "Daio Kaiun Press Release") that with regard to the Daio Paper shares held by the Company, "even considering the past circumstances, (i) a full-scale alliance is not easy, (ii) selling the shares...funds and business companies will not buy them...it is not possible to sell them in the market...the feasibility of cashing out is poor, [Company note: translated into English by the Company]" etc., but as mentioned above, as a result of continuing dialogue with the current management of Daio Paper, the Company has been able to build a relationship of trust between the two companies and realize the execution of a basic strategic business alliance agreement, which is a full-scale alliance, and also leaves room for reducing the shares of Daio Paper held by the Company to the extent necessary to improve its capital efficiency.

**Q5. It seems that the problem could be solved by the Company selling Daio Paper shares to Daio Kaiun, but why not? Even if Daio Kaiun becomes the controlling shareholder of Daio Paper, it seems**

**unlikely that the alliance with Hokuetsu Corporation will be destroyed, from the perspective of economic rationality. What is the problem with this approach?**

A5. The Company's Board of Directors believes that if Daio Kaiun becomes the controlling shareholder of Daio Paper, the alliance with Daio Paper is likely to stagnate or be terminated.

Since the Company's acquisition of Daio Paper shares in 2012, there have been consistent activities by some members of the founding family and management of Daio Paper designed to reduce and eliminate the Company's influence, one example of which was the issuance of a large-scale bonds with share options by Daio Paper that led to the lawsuit filed by the Company. Currently, the Company has built a relationship of trust with the current management of Daio Paper through repeated dialogue, and has executed a basic strategic business alliance agreement; however, Toshitaka Igawa, the effective owner of Daio Kaiun, is a founding family member who is considered to be disgusted by our influence since 2012, and to be still acting on that basis. In short, the goal of Daio Kaiun et al. is basically to seize control of Daio Paper's management (through Daio Kaiun et al. by Toshitaka Igawa and the other members of founding family), and the Company believes those parties do not plan to develop a strategic Business Alliance between the Company and Daio Paper.

In Daio Kaiun Press Release, Daio Kaiun claims that the fact that the Company's President visited Daio Kaiun alone in July 2023 and proposed to buy back the shares of the Company held by Daio Kaiun was a symbolic event that showed that President Kishimoto was not aiming to improve the corporate value of the Company, but was acting on his own for self-preservation, without going through the deliberations of the Board of Directors, and therefore Daio Kaiun terminated the dialogue and consultation with the Company's President in September 2023 and has acquired additional shares of the Company to improve the Company's corporate governance, and so on. However, it is hard to believe it is reasonable to state that the fact that the Company's President visited Daio Kaiun, a shareholder of the Company, on his own, and mentioned the buy-back of the Company shares, shows that the Company's President was not aiming to improve the corporate value of the Company, but was acting on his own, and that in order to improve the corporate governance of the Company, Daio Kaiun borrowed ten (10) billion yen from the Nomura Trust and Banking Co., Ltd. and acquired a large number of shares of the Company, the price of which had skyrocketed.

In the first place, the meeting between the Company's President and Toshitaka Igawa, the effective owner of Daio Kaiun, on July 27, 2023 which is pointed by Daio Kaiun was initiated by an outside mediator with a connection to Daio Kaiun, and the mediator also was present at the dinner between Toshitaka Igawa and the Company's President on July 3 (hereinafter referred to as the "July 3 Dinner"). Prior to the July 3 Dinner, the mediator requested that the Company make some kind of "proposal" to Daio Kaiun at the dinner, and, at that time, since Daio Kaiun held 10.01% of the shares of the Company, in terms of the ownership ratio of share certificates, etc., the Company understood that the Company was being asked to make a proposal regarding the shares of the Company held by Daio Kaiun et al. At the July 3 Dinner, the Company's President told Toshitaka Igawa that if there was a request from Daio Kaiun, the Company was prepared to consider to buy back the shares of the Company held by Daio Kaiun et al., and Toshitaka Igawa immediately

replied that the transfer of Daio Paper shares held by the Company to Daio Kaiun was the condition for the transfer of the shares of the Company held by Daio Kaiun et al. to the Company. Therefore, the Company replied that the Company could not agree to this, in light of the status of negotiations on the strategic business alliance agreement with Daio Paper, which is an accurate statement of the factual situation.

Moreover, at that time, Toshitaka Igawa expressly stated that he wanted to control the personnel affairs of Daio Paper by acquiring the shares of Daio Paper held by the Company and expressed his intent to manage Daio Paper as he pleased. Also, at the meeting on July 27, Toshitaka Igawa once again proposed that if the Company could transfer the shares of Daio Paper held by the Company to Daio Kaiun, he would be willing to hand over the shares of the Company held by Daio Kaiun et al., but the Company refused such proposal again.

In light of these circumstances, the Company's Board of Directors has determined that selling the shares of Daio Paper held by the Company to Daio Kaiun, which would result in Daio Kaiun et al. seizing control of the management of Daio Paper, would hinder the progress of the Company's strategic Business Alliance with Daio Paper, and would not contribute to the Company's corporate value and the common interests of its shareholders.

**Q6. Daio Kaiun et al. hold about twenty (20) percent of the shares of Hokuetsu Corporation; can it be said that this is coercive?**

A6. The Company's Board of Directors has determined that the holding situation by Daio Kaiun et al. is of a coercive nature, from the following two perspectives. First of all, the Response Policy is targeted at Daio Kaiun et al, not at the Oasis Group.

Assuming this, one reason why we determined that the holding situation by Daio Kaiun et al. is coercive by nature is the rapid, large-scale purchases of the shares of the Company by Daio Kaiun. Daio Kaiun et al. have been increasing their purchases of shares of the Company, in and outside the market, rapidly and on a massive scale, since immediately after the Company refused their proposal to transfer the shares of Daio Paper held by the Company to Daio Kaiun in September of last year. That is, Daio Kaiun began rapidly buying up the shares of the Company on September 25 of last year from 18,826,000 shares prior to that date, and by the time the Company introduced its Policy for Responding to the Large-Scale Acquisition of the Company's Share Certificates, etc., on December 22 of last year, the shareholding percentages of Daio Kaiun et al. had risen sharply, from 10.01% to 18.94% (as of December 21) (as of the end of March of this year, the shareholding percentage of Daio Kaiun et al. is, in total, 21.12% on a voting rights basis).

Also, from the perspective of the Company's general shareholders, considering the fact that the combined shareholding percentage of the Oasis Group and Daio Kaiun et al. has reached nearly 40%, and the fact that Daio Kaiun et al. was in sync with the Oasis Group's campaign against the reappointment of the Company's Directors last year, objectively speaking, if the Oasis Group and Daio Kaiun et al., both of whom are major shareholders of Daio Paper, act in concert, they can take control of the Company's management at any time,

and the Company's general shareholders may be worried that their interests will be damaged. In that sense, the purchase of shares of the Company in the market by Daio Kaiun et al. can be said to be coercive. By the way, if all of the shareholder proposals by the Oasis Group and Daio Kaiun are approved, the Company's Board of Directors will consist of fifteen (15) members, including five (5) current internal Directors excluding the Company's President and CEO, Sekio Kishimoto, five (5) Outside Directors nominated by the Oasis Group, and five (5) Outside Directors nominated by Daio Kaiun (the maximum number of directors permitted by the articles of incorporation is fifteen (15)), and the management of the Company will be controlled by the Oasis Group and Daio Kaiun et al., both of which are major shareholders of Daio Paper. According to Daio Kaiun Press Release, it is not acting in coordination with Oasis, but shares a common sense of the problem and is considering supporting Oasis's proposal.

In addition, although the coerciveness is currently being suppressed by the introduction of Response Policy, Daio Kaiun has not provided any specific explanations or disclosures about its policy for the shares of the Company or the Company's future management policy, and it is believed that the risk of coerciveness remains high.

The other reason is the risk of holding and acquisition of shares of the Company by those who are likely to be in a joint cooperative relationship with Daio Kaiun et al. Tokyo Pulp & Paper Corporation. (hereinafter referred to as "Tokyo Pulp & Paper") acquired a significant number of shares of the Company without following the procedures set forth in Response Policy in March of this year after the introduction of Response Policy, and it is highly likely that Tokyo Pulp & Paper and Daio Kaiun et al. are in a joint cooperative relationship, considering that (i) Tokyo Pulp & Paper is a group company of the family that is the effective owner of Daio Kaiun, (ii) the attendee of the Company's annual shareholders' meeting in June 2023 on behalf of Tokyo Pulp & Paper came together with the attendee for KAWASAKI PAPER TRANSPORT CO., Ltd. (hereinafter referred to as "Kawasaki Paper Transport"), who acted in concert with Daio Kaiun, and (iii) at the meeting, the attendee for Kawasaki Paper Transport said, "Please count the votes of us, Kawasaki Paper Transport, ... entrance ticket number 15, Tokyo Pulp & Paper, ... against the election of director Sekio Kishimoto, candidate number 1," indicating that they even knew the entrance ticket number for Tokyo Pulp & Paper and made a statement that Tokyo Pulp & Paper and Kawasaki Paper Transport would exercise their voting rights in the same manner, and (iv) in fact, at that meeting, Tokyo Pulp & Paper supported all shareholder proposals while opposing the proposal to elect the Company's President and CEO, Sekio Kishimoto regarding the Proposal 2 "Election of Ten (10) Directors", as well as Daio Kaiun et al.

In addition, Toshitaka Igawa, the effective owner of Daio Kaiun, said on July 3 of last year, in relation to the Oasis Group, which already holds 18.00% of the Company's shares in terms of the ownership ratio of share certificates, etc., "We were in coordination with Oasis. From now on, we will go our separate ways," revealing that they had engaged in joint cooperative acts, etc. before the introduction of Response Policy.

End