

ENGLISH TRANSLATION FOR REFERENCE PURPOSE ONLY

*This notice is an English translation of the original Japanese text of the timely disclosure statement dated May 27, 2019 issued by Daio Paper 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.*

May 27, 2019

To Whom It May Concern:

Name of Company: Daio Paper Corporation  
Name of Representative: Masayoshi Sako  
President, CEO and Representative Director  
Securities Code: 3880  
(First Section, Tokyo Stock Exchange)  
Contact Person: Tetsuya Watanabe  
Director  
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## **Introduction of New Stock-based Incentive System**

The Board of Directors of Daio Paper Corp. (“the Company”) today decided to present a proposal at the 108th Ordinary General Meeting of Shareholders (“the Shareholders Meeting”) scheduled for June 27, 2019, to revise the system for remuneration of the Company’s Directors (excluding Outside Directors, the same applying hereinafter) by introducing a new stock-based incentive system using a trust (“the System”).

### **1. Purpose of introducing the System**

While remuneration for the Company’s Directors currently comprises basic remuneration and bonus to directors, the System is newly introduced.

By more clearly linking remuneration of Directors and the Company’s shareholder value, the System is designed to enhance the motivation of Directors to contribute to greater business performance and corporate value of the Company over the medium- to long-term.

Through introducing the System, remuneration for the Company’s Directors will comprise basic remuneration, bonus to directors and the stock-based incentive.

If introduction of the System is approved at the Shareholders Meeting, a similar stock-based incentive system is planned for Executive Officers of the Company.

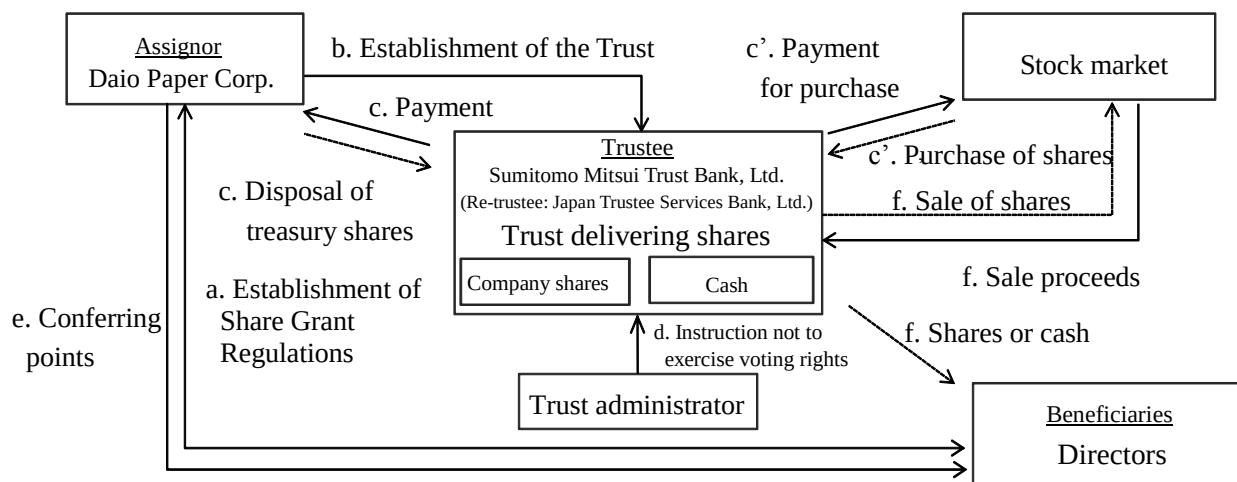
### **2. Overview of the System**

#### **(1) Overview of the System**

The System is a stock-based incentive system, in which a trust established and funded by the Company (“the Trust”) acquires shares of the Company, and a number of such shares corresponding to the number of points granted to each Director by the Company shall be distributed to the Director through the Trust.

The System delivers shares of the Company to the Company’s Directors who hold office during a 5-year period from the following day of the closing date of the Shareholders Meeting until the day of the closing date of the Ordinary General Meeting of Shareholders held in June, 2024 (“the Applicable Period”). Such shares are in principle granted to each Director at the time of his/her retirement from office as a Director.

< Outline of the Structure of the System >



- a. The Company establishes Share Grant Regulations for Directors.
- b. The Company establishes the Trust (a third-party-benefit trust) for granting shares with Directors as beneficiaries. In doing so, the Company entrusts an amount of money to the trustee equivalent to that for funds to acquire shares (limited to the amount approved at shareholders meeting).
- c. The trustee acquires, in a single tranche, a number of shares of the Company sufficient for the expected future grant of shares (either by disposing of treasury stock or by purchasing from the stock market (including after-hours trading)).
- d. The Company appoints a trust administrator (must be a party independent of the Company or any officer of the Company) to be responsible for protecting the interests of the beneficiaries subject to the Share Grant Regulations and for supervising the trustee throughout the trust period. The trust administrator will issue instructions to the trustee not to exercise any voting rights associated with the shares of the Company held in the Trust throughout the trust period, and the trustee will comply with these instructions.
- e. The Company confers points to eligible Directors in accordance with the Share Grant Regulations.
- f. Directors meeting the requirements set forth in the Share Grant Regulations and the trust agreement receive, as beneficiaries of the Trust, a grant of shares of the Company corresponding to the accumulated number of points from the trustee. In certain specific cases set forth in advance in the Share Grant Regulations and the trust agreement, the trustee sells in the stock market a portion of the shares to be granted and grants cash instead.

It should be noted that Sumitomo Mitsui Trust Bank, Limited, which will be the Trustee under this System, will entrust (re-entrust) the management of the trust assets to Japan Trustee Services Bank, Ltd.

## (2) Establishment of the Trust

The Company establishes the Trust by providing the funds necessary for the Trust to acquire, in a certain period of time in advance, the number of shares of the Company reasonably estimated to be needed for the grants in accordance with (6) below, subject to approval of the introduction of the System at the Shareholders Meeting. The Trust shall, as described in (5) below, acquire shares of the Company by using the funds contributed by the Company.

### (3) Trust period

The trust period is approximately five years beginning in August 2019 (planned) and ending in August 2024 (planned); provided, however that the trust period may be extended as described in (4) below.

### (4) Maximum amount of funds held in the Trust for acquiring shares of the Company

For funds necessary for the Trust to acquire shares of the Company to be granted to Directors under the System, the Company contributes during the Applicable Period an amount not exceeding ¥440 million as remuneration for Directors holding office during the Applicable Period, to establish the Trust with the beneficiary of eligible Directors. The Trust acquires shares of the Company from the stock market (including in after-hours trading) or from subscribing to the treasury shares to be disposed of by the Company using funds entrusted by the Company.

Note: The monetary amount to be actually entrusted to the Trust by the Company shall include the estimated necessary expenses such as trust fees and compensation for the trust administrator, etc., in addition to the funds required to acquire shares of the Company.

The Applicable Period may be extended up to five years at a time by a resolution of the Company's Board of Directors, and the trust period may be extended accordingly (including by effective extension of the trust period by transferring the trust assets of the Trust to another trust established by the Company for an identical purpose, the same applying hereinafter) to continue the System. In this case, the Company contributes up to an amount of ¥88 million multiplied by the number of such extended years of the Applicable Period into the Trust as additional funds for acquiring shares of the Company necessary for granting to Directors under the System for such extended part of the Applicable Period, to continue the conferring of points in (6) 1. below, as well as the grant of shares of the Company as described in (6) 2. below (the same is applying thereafter).

Even in case that the Applicable Period is not extended and the System is not continued, if there are Directors who have not retired from office and who have accumulated points at the expiration of the trust period, the Company may extend the trust period of the Trust until such Directors retire from office and the corresponding grant of shares of the Company is completed.

### (5) Acquisition of shares of the Company by the Trust

Initial acquisition of shares of the Company by the Trust is planned by way of disposing treasury stock or purchase from the stock market, in an amount not exceeding the maximum as funds to acquire shares as described in (4) above. The details of the method of acquisition will be determined and disclosed after the Shareholders Meeting.

During the trust period, if the number of shares of the Company held in the Trust could fall short of the number of shares that corresponds to the number of points to be conferred to Directors during the trust period, due to an increase in the number of Directors, etc., the Company may, without exceeding the maximum amount entrusted as described in (4) above, entrust additional money to the Trust to acquire additional shares of the Company.

### (6) Calculation of the number of shares to be granted to Directors

#### 1. Way to confer points to Directors

The Company confers to each Director a certain number of points as specified in accordance with their individual rank, etc., on a given date during the trust period, in accordance with the Share Grant Regulations.

However, the total number of points to be conferred to all Directors by the Company during a single fiscal year shall not exceed 104,000.

## 2. Grant of shares of the Company to Directors

Directors receive grants of shares of the Company corresponding to their accumulated number of points conferred as described in 1. above in accordance with the procedure described in 3. below.

The number of shares of the Company granted to each Director is equal to the number of points accumulated by each Director; provided, that, if there has been an event deemed reasonable to adjust the number of shares of the Company to be granted, such as share split or share consolidation, the reasonable adjustment may be made corresponding to the ratio of share split or share consolidation.

## 3. Delivery of shares of the Company to Directors

Upon retirement from office, each Director will receive delivery of shares of the Company as described in 2. from the Trust through the procedure to be identified as beneficiary.

Nevertheless, a certain proportion of shares of the Company may be sold by the Trust in order for the Company to withhold his/her tax on his/her income and granted to Directors in the form of cash instead of shares of the Company. Furthermore, in any case where shares of the Company held in the Trust are exchanged for cash, such as tender offer and settlement thereof for shares of the Company held in the Trust, the cash proceeds may be paid out in place of delivering shares of the Company.

### (7) Non-exercise of voting rights

In accordance with instructions from the trust administrator which is independent of the Company or any officer of the Company, voting rights associated with the shares of the Company held in the Trust shall not be exercised at all, in order to ensure neutrality towards the management of the Company with respect to the exercise of the voting rights associated with the shares of the Company held in the Trust.

### (8) Handling of dividends

Dividends of the shares of the Company held in the Trust shall be received by the Trust to be used to acquire shares of the Company and for trust fees to be paid to the trustee with respect to the Trust.

### (9) Handling of assets remaining at the expiration of the trust period

Of the assets remaining in the Trust at the expiration of the trust period, all shares of the Company are to be acquired by the Company without consideration and then cancelled by resolution of the Board of Directors, while a certain amount of cash is to be donated to public service entities having no interest with Directors of the Company, as arranged in advance in the Share Grant Regulations and the trust agreement.

## Reference: Overview of the Trust

- i. Assignor: Daio Paper Corp.
- ii. Trustee: Sumitomo Mitsui Trust Bank, Ltd.  
(Re-trustee: Japan Trustee Services Bank, Ltd.)
- iii. Beneficiaries: Directors who satisfy beneficiary requirements
- iv. Trust administrator: Plan to appoint a third party independent of the Company and the Company's Directors
- v. Type of trust: Trust of money other than money trust (third-party-benefit trust)
- vi. Date of trust agreement: August 2019 (planned)
- vii. Trust period: August 2019 to August 2024 (planned)
- viii. Purpose of trust: To deliver shares of the Company to beneficiaries in accordance with the Share Grant Regulations

End