

# Daio Abundant and Affable Future 2030

The Daio Group will achieve the Three Well-beings (Hygiene, Life, and Regeneration) to realize an abundant and affable future through the four pillars of our management philosophy that have underpinned our business operations since our establishment.

We will ensure a link between solutions to social issues that we have been addressing and the SDGs to be achieved by the world community, thereby contributing to the attainment of the SDGs through our business operations.



Daio Group Sustainability Vision

## Three Well-beings

### 1. Hygiene

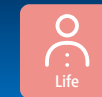
Protect well-being of the body



We will make hygiene products accessible, inspire good habits, protect people's health, and realize an inclusive society in every community.

### 2. Life

Enhance well-being of lifestyles



We will provide services that enhance lifestyles, improve the quality of life, and enable people to lead happy and enriching lives.

### 3. Regeneration

Restore well-being of the earth



We will actively conserve the environment and regenerate the earth back into a planet with abundant nature where diverse organisms coexist and thrive.

Four pillars of our management philosophy and social issues that we have been addressing

## D Dedicated Dedication to manufacturing

1. Strategic transformation of our business portfolio
2. Acceleration of global expansion
3. Creation of new businesses

As a manufacturer that is the closest to customers, we embody our sales philosophy: "What is made by Daio is sold only by Daio sales representatives." By identifying society's needs quickly, we have reflected them into our business operations, products, and services.

## A Attentive Bonds with local communities

4. Coexistence with local communities
5. Establishment of a sustainable supply chain

Our united efforts with local government and communities, as well as related industries, including papermaking, conversion, distribution, and logistics, have led to the development of Shikokuchuo City, the place of our founding, into Japan's top city of paper.

## I Integrated Corporate culture providing safety and motivation to work

6. Respect for human rights, development of human resources, and compassion for employees
7. Fair and highly transparent management

Believing that employees are a company's driving force, we established a health insurance association in 1958. Since then, we have been working on employee health and vitality from a management viewpoint, and are fully committed to human resource development (e.g., foreign language training, study abroad programs, and technical skills training).

## O Organic Contribution to the global environment

8. Response to climate change
9. Realization of a recycling-oriented society
10. Forest conservation and maintenance of biodiversity

Inheriting our founder's tenet, "Should our business cause pollution in my hometown and disturb the local community, we had better not carry on that business," we have been engaged in forest recycling (afforestation), paper recycling (achievement of a high utilization rate of recovered paper), etc.

Business operations

### Structural shift of product mix according to demand

**Pulp and paper products**  
Maintain a competitive edge

**Converted products**  
Increase added value

### Paper and Paperboard Business

Newsprint and paper Industrial paper

Printing Corrugated containers

### H&PC Business

Household paper products

Absorbent products

### New Businesses

CNF\*1

RFID\*2

Market-oriented sales style

\*1 CNF: Cellulose nanofiber

\*2 RFID (radio frequency identifier): Contactless electronic smart tag

Contribution to achieving the SDGs

#### Major initiatives

#### Sales of environmentally friendly products

- Environmentally conscious products (e.g., using recovered paper)
- Products that reduce plastic waste
- Forest Stewardship Council (FSC)-certified paper
- Reduction of plastic use



#### Sales of products against infectious diseases

- Masks, sanitizing wet wipes, and paper towels



#### Provision of products and services for an aging population

- Provision of services to reduce caregivers' anxiety and burden
- Sales of products for active seniors



#### Major initiatives

#### Contribution to invigorating and developing local communities

- Coexistence together with local business partners
- Preservation and creation of employment through capital investment
- Formation of a pulp and paper industrial cluster



#### Coexistence with and support for the local community of each production base

- Invigoration of the local economy
- Cooperation with local communities toward establishing essential infrastructure, including water supply for daily use and irrigation



#### Major initiatives

#### Respect for human rights and diversity

- Empowerment of female employees (increasing the percentage of female managers)
- Promotion of paternity leave uptake
- Employment of the disabled



#### Development of global human resources

- Reinforcement of language training programs
- Overseas training programs for young employees



#### Work-style reform and health and productivity management

- Promotion of paid leave uptake
- Promotion of smoking cessation rates and improvement of mental health care



#### Major initiatives

#### CO2 emissions reduction, absorption, and fixation

- Transition to biomass fuel
- Effective use of waste fuel
- Energy saving and improvement in energy use efficiency
- Improvement of logistics efficiency and promotion of modal shift
- CO2 absorption and fixation through forestation



#### Reduction, reuse, and recycling (3Rs)

- Achievement of a high utilization rate of recovered paper
- Recycling and reuse of water



Material Issues and Contribution to Achieving the SDGs

To solve each of the material issues that it has identified, the Daio Group has formulated business

strategies and initiatives, and has set numerical targets for the relevant key performance indicators (KPIs).

Four Pillars of Our Management Philosophy	Material Issues	Business Strategies		Solving Social Issues through Business Operations			Relevant SDGs	
<div>D</div> <div>Dedicated</div> <div>Dedication to manufacturing</div> <div><div>Hygiene</div><div>Life</div><div>Regeneration</div></div>	Strategic transformation of our business portfolio	<b>[Newsprint and paper business]</b> <ul style="list-style-type: none"><li>Review the production system and sales structure</li><li>Strengthen the downstream printing business</li></ul>	<b>[Industrial paper and containerboard business]</b> <ul style="list-style-type: none"><li>Continue to ensure a stable supply in Japan</li><li>Accelerate overseas expansion</li></ul>	<ul style="list-style-type: none"><li>Make a shift from paper to containerboard<ul style="list-style-type: none"><li>Preserve employment by continuing the operation of machines</li></ul></li></ul>			<div><div>3</div><div>GOOD HEALTH AND WELL-BEING</div></div> <div><div>4</div><div>QUALITY EDUCATION</div></div> <div><div>5</div><div>GENDER EQUALITY</div></div> <div><div>8</div><div>DECENT WORK AND ECONOMIC GROWTH</div></div> <div><div>9</div><div>INDUSTRY, INNOVATION AND INFRASTRUCTURE</div></div> <div><div>12</div><div>RESPONSIBLE CONSUMPTION AND PRODUCTION</div></div> <div><div>17</div><div>PARTNERSHIPS FOR THE GOALS</div></div>	
	Acceleration of global expansion	<b>[H&amp;PC domestic business]</b> <ul style="list-style-type: none"><li>Increase the domestic market share of the absorbent products business</li><li>Establish a multi-category business model</li></ul>	<b>[H&amp;PC overseas business]</b> <ul style="list-style-type: none"><li>Promote multi-category business in the countries of the Daio Group's operation</li><li>Enter new markets and build the business foundation</li></ul>	<ul style="list-style-type: none"><li>Contribute to local development at each overseas base<ul style="list-style-type: none"><li>Improve technological and development capabilities and create and preserve employment</li></ul></li><li>Use RFID to enhance operating efficiency and promote work-style reform</li><li>Sell environmentally friendly products (e.g., those that reduce plastic use)</li><li>Sell products against infectious disease (masks, sanitizing wet wipes, etc.)</li></ul>				
	Creation of new businesses	<b>[New businesses]</b> <ul style="list-style-type: none"><li>Cellulose nanofiber (CNF)</li><li>Radio frequency identifiers (RFID, or IC tags)</li></ul>		KPI Targets for FY2030	FY2020 Results	FY2021 Results		FY2022 Results
				Number of fields where CNF is commercialized	7	2		2
<div>A</div> <div>Attentive</div> <div>Bonds with local communities</div> <div><div>Hygiene</div><div>Life</div><div>Regeneration</div></div>	Coexistence with local communities	<b>Major Initiatives</b> <ul style="list-style-type: none"><li>Provide stable supply of water for daily use and irrigation that supports local agriculture and dairy farming in Chile</li><li>Number of certified Attento Meister Professionals</li></ul>	KPI Targets for FY2030	FY2020 Results	FY2021 Results	FY2022 Results	Relevant SDGs	
			—	—	—	—	<div><div>2</div><div>ZERO HUNGER</div></div> <div><div>3</div><div>GOOD HEALTH AND WELL-BEING</div></div> <div><div>6</div><div>CLEAN WATER AND SANITATION</div></div> <div><div>8</div><div>DECENT WORK AND ECONOMIC GROWTH</div></div>	
	Establishment of a sustainable supply chain	<ul style="list-style-type: none"><li>CSR procurement</li><li>Forest certification</li></ul>	Supplier survey response rate 100% Suppliers with a survey score of 3.5 or higher out of 5 90% Retention of forest certification in Japan and abroad 100%	87% 56% 100%	95% 62% 100%	96% 61% 100%	<div><div>10</div><div>DETERMINED INDIVIDUALS</div></div> <div><div>11</div><div>SUSTAINABLE CITIES AND COMMUNITIES</div></div> <div><div>12</div><div>RESPONSIBLE CONSUMPTION AND PRODUCTION</div></div> <div><div>15</div><div>LIFE ON LAND</div></div> <div><div>17</div><div>PARTNERSHIPS FOR THE GOALS</div></div>	
<div>I</div> <div>Integrated</div> <div>Corporate culture providing safety and motivation to work</div> <div><div>Life</div></div>	Respect for human rights, development of human resources, and compassion for employees	<ul style="list-style-type: none"><li>Promotion of diversity &amp; inclusion<ul style="list-style-type: none"><li>Promote women's advancement<ul style="list-style-type: none"><li>Promote paternity leave uptake</li><li>Promote annual paid leave uptake</li><li>Employ the disabled</li><li>Reduce overtime work hours</li><li>Develop human resources</li></ul></li><li>Provide compassion for employees<ul style="list-style-type: none"><li>Health and productivity management : Promote smoking cessation</li><li>Safety and health: Eliminate lost time injuries</li></ul></li></ul></li></ul>	Female managers (entire company)* <sup>1</sup> 10.0% (H&PC)* <sup>2</sup> 13.0% Female leaders (assistant managers and supervisors)* <sup>2</sup> — Number of female leaders (assistant managers and supervisors)* <sup>2</sup> 21 Female managerial-track employees* <sup>2</sup> — Paternal leave uptake* <sup>1</sup> 100.0% Annual paid leave uptake* <sup>1</sup> 90.0% Disabled employees* <sup>1</sup> 2.8% Average overtime work hours (of non-managerial employees)* <sup>1</sup> 10.0h Number of applicants for the Daio Career Challenge system* <sup>2,3</sup> — Number of employees using the distance learning subsidy scheme* <sup>2</sup> — Employees with a TOEIC score of 600 or higher* <sup>2</sup> 30.0% Number of participants in overseas career workshops* <sup>2</sup> — Three-year retention of new-graduate employees* <sup>4</sup> 90.0% Employees with a smoking habit* <sup>1</sup> 22.0% Lost time injury frequency rate* <sup>1</sup> 0.69	2.2% 3.5% 9.0% 21 15.0% 6.3% 67.2% 2.3% 20.8h 20 158 14.4% 23 75.0% 26.1% 1.11	2.8% 5.4% 8.3% 19 15.8% 28.9% 71.7% 2.4% 22.5h 36 143 15.7% Canceled due to the COVID-19 pandemic 74.7% 23.9% 1.14	5.2% 5.6% 11.1% 24 18.4% 79.3% 72.6% 2.2% 19.9h 14 113 15.6% 176 82.2% 30.0% 1.01	<div><div>3</div><div>GOOD HEALTH AND WELL-BEING</div></div> <div><div>4</div><div>QUALITY EDUCATION</div></div> <div><div>5</div><div>GENDER EQUALITY</div></div> <div><div>8</div><div>DECENT WORK AND ECONOMIC GROWTH</div></div> <div><div>10</div><div>DETERMINED INDIVIDUALS</div></div>	
	Fair and highly transparent management	<ul style="list-style-type: none"><li>Sustainably enhance effective and highly transparent governance system</li></ul>	—	—	—	—	—	
<div>O</div> <div>Organic</div> <div>Contribution to the global environment</div> <div><div>Life</div><div>Regeneration</div></div>	Response to climate change	<ul style="list-style-type: none"><li>Transit to biomass-derived fuel, effectively use waste fuel, and adopt other measures toward decarbonization</li></ul>	Reduction in fossil fuel-based CO <sub>2</sub> emissions (compared to FY2013)* <sup>5</sup> 46% Energy intensity 1% reduction per year	10.3% Not achieved	3.2% Not achieved	7.0% Achieved	<div><div>3</div><div>GOOD HEALTH AND WELL-BEING</div></div> <div><div>6</div><div>CLEAN WATER AND CLEAN ENERGY</div></div> <div><div>7</div><div>RENEWABLE ENERGY AND CLIMATE ACTION</div></div> <div><div>8</div><div>DECENT WORK AND ECONOMIC GROWTH</div></div>	
	Realization of a recycling-oriented society	<ul style="list-style-type: none"><li>Promote the use of hard-to-recycle recovered paper (by increasing the content of recovered pulp in containerboard at the Mishima Mill, our core paper mill)</li><li>Realize zero waste emission</li><li>Promote water circulation for reuse and purification of wastewater through proper wastewater treatment</li></ul>	Recovered paper content in containerboard 30%  Waste recycled 100% Reductions in water intensity and wastewater COD intensity 1% reduction per year (sales-based)	15.7%  98.7% Water: 1.6% COD: 3.0%	15.7%  98.4% Water: 5.6% COD: 9.9%	14.2%  97.1% Water: 10.5% COD: 6.0%	<div><div>9</div><div>INDUSTRY, INNOVATION AND INFRASTRUCTURE</div></div> <div><div>11</div><div>SUSTAINABLE CITIES AND COMMUNITIES</div></div> <div><div>12</div><div>RESPONSIBLE CONSUMPTION AND PRODUCTION</div></div> <div><div>13</div><div>CLIMATE ACTION</div></div>	
	Forest conservation and maintenance of biodiversity	<ul style="list-style-type: none"><li>Protect the Patagonian cypress, a designated natural treasure in Chile, in cooperation with a local NGO</li><li>Breed and release endangered fish Kawabata-moroko in cooperation with Tokushima Prefecture</li></ul>	Preservation of the approx. 280 km <sup>2</sup> of existing natural forests Increase in the forested area 150 km <sup>2</sup> (by FY2050)	No change Approx. 0.3 km <sup>2</sup>	No change Approx. 4.0 km <sup>2</sup>	No change Approx. 2.0 km <sup>2</sup>	<div><div>14</div><div>LIFE BELOW WATER</div></div> <div><div>15</div><div>LIFE ON LAND</div></div> <div><div>17</div><div>PARTNERSHIPS FOR THE GOALS</div></div>	

\*1 The KPI targets for FY2030 and the FY2022 results are consolidated figures. The FY2020 and FY2021 results are non-consolidated figures. \*2 The KPI targets for FY2030 and the FY2020, FY2021, and FY2022 results are non-consolidated figures. \*3 The Daio Career Challenge system is an internal open call system. \*4 The KPI targets for FY2030 are consolidated figures. The FY2020, FY2021, and FY2022 results are non-consolidated figures. \*5 The amount of emissions from subsidiaries that became part of the Daio Group in and after the reference year 2013 is included.



## Initiatives to Achieve the SDGs

## Dedicated

Dedication to Manufacturing

Material Issues:

Strategic transformation of our business portfolio / Acceleration of global expansion / Creation of new businesses

## Basic Approach

As a manufacturer that understands its customers' needs, we operate based on the belief "what is made by Daio is sold only by Daio sales representatives." While providing high-quality and value-added products and services, we are striving to realize people-friendly manufacturing in harmony with the global environment.

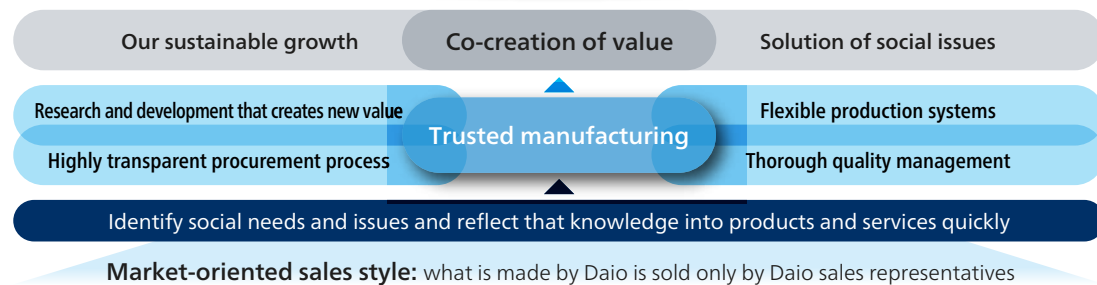
As a full-range paper manufacturer engaged in the production and sale of paper, containerboard and home and personal

care products, we quickly identify new social needs and issues in a wide range of fields, reflect that knowledge into our research and development that creates new value and also into our flexible production systems, and ensure high transparency in our procurement process and thoroughness in quality management. By doing so, we will realize "trusted manufacturing" and co-create value and achieve sustainable corporate growth and the solution of social issues.

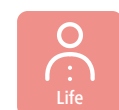
Mishima Mill, Daio Paper

## Management Philosophy

## Shaping an abundant and affable future for the world



## Major Initiatives



## Strategic transformation of our business portfolio Entry into the pet care products market

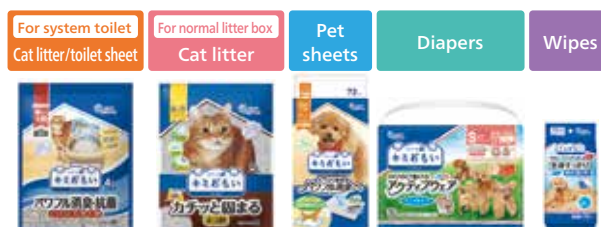
## Our sustainable growth

- Launching new products in growing fields

## Solution of social issues

- Reduction, reuse and recycling (3Rs)

The total number of dogs and cats kept in Japan has reached approximately 15.89 million.<sup>\*1</sup> Spending on each pet is increasing due to the increase in the average life span of pets and the change in pet-keeping styles as pets become part of the family, leading to the expansion of the pet-related market. Under the Daio Group Sustainability Vision, we aim to realize a society where people and diverse organisms coexist and thrive. To this end, we have entered the pet care products business with the desire to deliver products and services that enrich the lives of pets and their families and make them feel happy by utilizing the product development capabilities and production technologies that we have cultivated through the Elleair brand. By utilizing production rejects and scraps generated in the process of producing household paper and disposable diapers as raw materials for paper-based cat litter, we have established an environmentally-conscious business model<sup>\*2</sup> and will continue to reduce environmental impact at the same time.



<sup>\*1</sup>: According to the "2022 National Survey on Dogs and Cats Ownership in Japan," conducted by the Japan Pet Food Association  
<sup>\*2</sup>: For details on the establishment of an environmentally-conscious business model, please refer to page 79.  
<sup>\*</sup> Initiatives for achieving Target 5 of Goal 12

## Fulfilling Our Purpose

-Value Creation Story of the Daio Group-

## Achieving Sustainable Growth

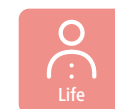
-Strategy for Continuing to Provide Value-

## Responding to Social Issues

-Foundation for Sustainable Growth-

## Data and Information

-Financial and Corporate Data-



## Acceleration of global expansion Elis Heart Support Project

## Our sustainable growth

- Increase of our brand profile at home
- Establishment of a foundation for making inroads into the African market

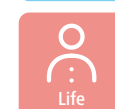
## Solution of social issues

- Hygiene improvement (control of infectious diseases)
- Access to vocational training, etc.

We are keen to help developing countries solve social issues, such as the spread of infectious diseases caused by the lack of widespread hygienic practices and the inability to escape poverty since insufficient access to proper education prevents people from becoming self-reliant. Since 2018, under the Elis Heart Support Project, we have been working in Africa to reduce infectious diseases through education on and dissemination of how to make cloth sanitary pads, and to support access to vocational training. In FY2023, we supported the making of cloth sanitary pads, fostered peer educators,<sup>\*1</sup> provided information on sexuality and hygiene, and offered counseling by nurses in a community space in Zambia. We will continue to provide support for hygiene improvement and women's independence, and expand our business globally at the same time by building a foundation for expansion into Africa as well as increasing our brand profile at home, in conjunction with projects aimed at solving social issues.

<https://www.elleair.jp/hs/>


<sup>\*1</sup>: Peer educators are people who provide education and communicate information to their peers. "Peer" means "companion" or "friend."  
<sup>\*</sup> Initiatives for achieving Target 3 of Goal 3, Target 5 of Goal 4, Target 1 of Goal 5, and Target 17 of Goal 17



## Creation of new businesses Application development of cellulose nanofibers

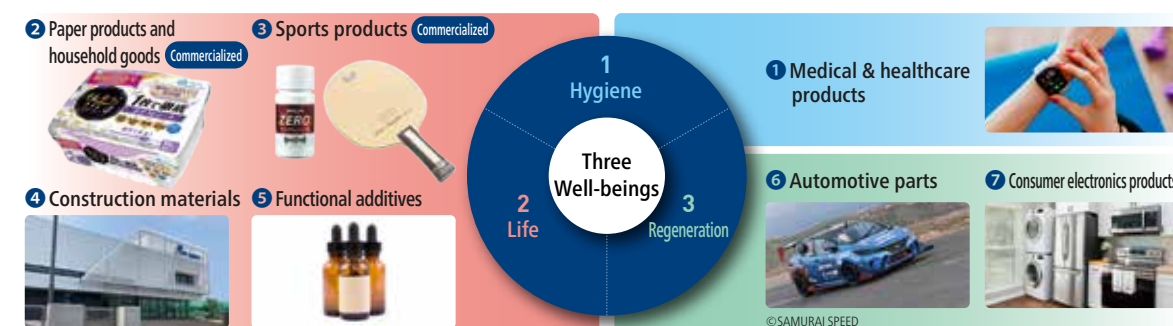
## Our sustainable growth

- Business expansion through new business launch

## Solution of social issues

- Development of environmentally-friendly products in the automobile, sports, beauty care and other fields contributing to a better quality of life
- Transition from fossil fuel materials to non-fossil fuel derived materials

Regarding cellulose nanofibers ("CNF"), whose related market is expected to be worth 6 trillion yen by 2050, we are developing manufacturing development processes that make full use of the facilities, technologies, and know-how that we have accumulated as a pulp and paper manufacturer, and developing applications that take advantage of the various functions of CNF, which paper and pulp do not have. Furthermore, with the growing need for CNF as a material that can contribute to the realization of a low-carbon society through the use of CNF to reduce product weight and plastic usage, the number of CNF samples we have provided increased significantly, and product development and adoption are progressing. Based on our Mishima Mill's strengths of utilizing diverse pulp and being able to supply CNF in various forms and fiber sizes to meet user needs, as well as our vision of "Three Well-beings," we are aiming to commercialize products using CNF in seven fields, including medical & healthcare products, paper products, household goods, and automotive parts, and have so far commercialized products using CNF in two fields. To develop new applications, we have also started semiconductor material development in collaboration with Tohoku University, the University of Tokyo, and the National Institute of Advanced Industrial Science and Technology. We will accelerate the development of CNF manufacturing technology and applications by maximizing the use of the pilot plant for CNF composite resin, which has been in operation since FY2021, and aim for early commercialization of a wide range of applications, including construction materials, functional additives, and consumer electronics products. <https://www.daio-paper.co.jp/en/development/cnf/>



(FY)	2018 result	2019 result	2020 result	2021 result	2022 result	2023 target	2026 target	2030 target
CNF commercialization fields	1	1	2	2	2	3	5	7

<sup>\*</sup> Initiatives for achieving Targets 2 and 4 of Goal 8, Target 5 of Goal 9, Target 2 of Goal 12, and Target 16 of Goal 17



## Initiatives to Achieve the SDGs

## Attentive

Bonds with Local Communities

Material Issue:

Coexistence with local communities

## Basic Approach

As a global corporate group with operating bases in eight countries, the Daio Group aims to be a good corporate citizen and earn trust throughout the world. We actively support local initiatives to contribute to local development while realizing coexistence with local communities through our business operations.

Both at home and abroad, we will continue to hold plant tours for local residents and students and participate in local communities. We hope to enhance their understanding of our business operations and we aim to grow harmoniously with local communities.

## Management Philosophy

Shaping an abundant and affable future for the world

Harmonious growth  
with local communities

## Response to declining birthrate and aging population

We are striving to contribute to community development so that vulnerable communities can live without worry, by, for example, providing services that will lead to the extension of healthy life spans and supporting the establishment of a community-based integrated care system. To respond to the declining birthrate and aging population, we are providing support for people to enjoy comfortable lives.

## Contribution to invigorating and developing local communities

While respecting various international norms and each country and region's laws, cultures, religions, customs, etc., we will contribute to developing people's daily lives, cultures and industries around the world through our global business operations.

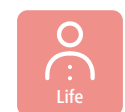
## Coexistence with and support for local communities

We are striving to enhance understanding of our business operations by, for example, holding plant tours for local residents and students, promoting local sports, and participating in volunteer activities. While contributing to each country and region's development, we will continue to grow together with local communities.

## Major Initiatives



Hygiene



Life



SDG 3



SDG 8



SDG 11



SDG 17

## Realization of comfortable and effective incontinence care Secure and comfortable for both the caregiver and the recipient

As the birthrate declines and the population ages, there is the risk of a decline in the quality of care at nursing care facilities due to a shortage of nursing personnel. In addition, research has shown that incontinence problems can affect healthy life spans, and we believe that it is necessary to improve the quality of care by increasing the number of human resources with knowledge of incontinence care at nursing care facilities. To that end, under the slogan of "comfortable and effective incontinence care,"<sup>\*1</sup> we are encouraging nursing care workers and others to get certified as "Attento Meister Professional" to promote the acquisition of appropriate knowledge about the correct use of Attento-brand<sup>TM</sup> disposable diapers and advice, suggestions, and support related to incontinence care. We began this initiative in 2017, and as of the end of June 2023, we have certified a total of 5,011 people as an "Attento Meister Professional," with the goal of having 22,000 certified by FY2030. Through the "Attento Meister Professional" initiative, we are aiming to realize effective support for incontinence care that is secure and comfortable for both the caregiver and the recipient.



Attento Meister Professional Search

(FY)	2018 result	2019 result	2020 result	2021 result	2022 result	2023 target	2026 target	2030 target
Number of certified Attento Meister Professionals	465	1,273	1,805	2,778	4,787	6,700	12,700	22,000

\*1: "Comfortable and effective incontinence care" means incontinence care that is secure and comfortable for both the caregiver and the recipient.

\*2: Daio Paper's adult disposable diaper brand

\* Initiatives for achieving Target 4 of Goal 3, Target 5 of Goal 8, Target 3 of Goal 11, and Target 16 of Goal 17

## Fulfilling Our Purpose

-Value Creation Story of the Daio Group-

## Achieving Sustainable Growth

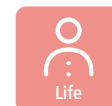
-Strategy for Continuing to Provide Value-

## Responding to Social Issues

-Foundation for Sustainable Growth-

## Data and Information

-Financial and Corporate Data-



Life



## Contribution to invigorating and developing local communities

Our group company, Forestal Anchile LTDA. (Chile, South America), practices sustainable forest management and continues to engage in dialogue with indigenous communities and strengthen their rights in accordance with the New York Declaration on Forests. The city of Purranque, Chile, where the forests owned by the company are located, suffers from water shortages every year during the dry season, and the company is working to develop infrastructure together with the community to help secure water for local residents' daily needs.

- ① Through dialogues with local residents and internal studies, Forestal Anchile proposed and constructed facilities for taking water from the Puquitrhue River, which runs through the forests that it owns, and storing it in tanks via approximately 2,300 m of water pipes. The company is currently in discussions with the Chilean government to construct a drinking water supply system for approximately 70 households in the area using the facilities.
- ② Forestal Anchile is protecting approximately 60 water sources for domestic use and irrigation in the forests that it owns by designating them as areas with high conservation value, and is improving water intake facilities and providing water storage tanks as needed.

Forestal Anchile also offers materials and skills training in fruit cultivation, knitting, cooking, and other skills to indigenous groups, as well as cooperates in cultural activities. The company supports local residents in the acquisition of skills and knowledge that will lead to local economic development and personal growth.



Irrigation tank



Skills training for local residents



Intake from the Puquitrhue River



Two water tanks set on the premises of a school in Los Riscos

\* Initiatives for achieving Targets 3 and 4 of Goal 2, Target 4 of Goal 6, Target 1 of Goal 11, and Target 16 of Goal 17

Material Issue:

Establishment of sustainable supply chain

## Basic Approach

At the Daio Group, we perform procurement activities based on the Daio Group Sustainable Procurement Guidelines Based on the SDGs in line with the stance described on the right.

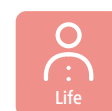
Daio Group Sustainable Procurement Guidelines Based on the SDGs  
<https://www.daio-paper.co.jp/wp-content/uploads/2210en.pdf>

1. We comply with laws and regulations, social norms and internal rules, respect the cultures and customs of the countries where our suppliers are located, and fulfill our corporate social responsibility by giving due consideration to human rights, environmental conservation, safety and health, and contributions to local communities in our supply chain in order to realize a sustainable society.

2. We build good partnerships with our suppliers, conduct fair and equitable transactions, and work to mutually improve and develop quality and technical capabilities.

3. We cooperate with our suppliers to formulate a business continuity plan (BCP) and monitor and promote its implementation, aiming to secure a stable supply system.

## Major Initiative



Life



Regeneration



SDG 8



SDG 10



SDG 12



SDG 15

## Establishment of sustainable supply chain CSR Procurement: Procurement based on the Daio Group Sustainable Procurement Guidelines Based on the SDGs

If a company that does not take social responsibility in terms of human rights and the environment is left unchecked in our supply chain, this may lead to boycotts of our products and a decline in our brand value. To avoid this, we have formulated the Sustainable Procurement Guidelines Based on the SDGs, which include compliance with laws and regulations on human rights, environmental conservation and preservation, and health and safety, and fair and equitable transactions, as well as BCP and contributions to local communities, so that we and our suppliers can work together to fulfill our social responsibilities. To confirm that our procurement is in accordance with the guidelines, we conduct a questionnaire survey of our suppliers every year. With a response rate reaching 96%, 61% of the respondents received a rating of 3.5 or higher on a 5-point scale this year. We have provided explanations to small-scale suppliers with low evaluation scores for the purpose of promoting the SDGs, and will continue to request and provide support for improvement to achieve CSR procurement throughout the supply chain.

	(FY)	2018 result	2019 result	2020 result	2021 result	2022 result	2023 target	2026 target	2030 target
Supplier survey response rate		-	-	87%	95%	96%	100%	100%	100%
Number (percentage) of suppliers rated 3.5 or higher on a 5-point scale		-	-	56%	62%	61%	75%	85%	90%
Retention of forest certification at home and abroad		100%	100%	100%	100%	100%	100%	100%	100%

\* Initiatives for achieving Target 7 of Goal 8, Target 3 of Goal 10, Targets 4 and 6 of Goal 12, Targets 1 and 2 of Goal 15, and Target 16 of Goal 17



## Initiatives to Achieve the SDGs

## Integrated

Corporate Culture Providing Safety and Motivation to Work

Material Issues:

Respect for human rights, development of human resources, and compassion for employees / Fair and highly transparent management ▶ Corporate Governance from p.81

## Issues and Actions in Human Resources Strategy and Future Vision

Aiming for sustainable growth, the Daio Group is promoting human capital management through measures for promotion of diversity & inclusion, development of human resources, and compassion for employees.

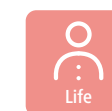
We will also create innovation by increasing the engagement of each and every employee, which will lead to a sustainable increase in corporate value and realize our management

philosophy of "Shaping an abundant and affable future for the world."

To further improve employee engagement, we have changed from the conventional "Employee Satisfaction Survey" to the "Engagement Survey" from FY2021, to visualize engagement and identify operational issues at each unit.



## Major Initiatives



## Promotion of diversity &amp; inclusion

To expand our domestic and international Home and Personal Care ("H&PC") Business, which is a growth engine for sustainable development, as well as new businesses, we are focusing on the development of diverse human resources. In FY2019, we established the Diversity Committee, chaired by the President and Representative Director, to reform our corporate culture and create an environment so that diverse human resources can take on challenges and play an active role. In particular, we consider the empowerment of female employees to be one of the most important issues for the expansion and growth of our H&PC Business, and we are working to increase the number of female employees on the managerial track and to increase the percentage of female managers to 10% by FY2030 (5.2% in FY2022) through various training programs, including cross-industry exchange training for women.

To date, we have been developing female leaders (section heads and chiefs) who are candidates for next-generation managers while working to (1) recruit and foster excellent human resources, (2) introduce support and systems for balancing work and childcare, (3) promote understanding of diversity within the company and reform the corporate culture. We will continue to promote the empowerment of female employees by focusing on the implementation of leadership development training programs, mid-career recruitment of female managers, improvement of the gender gap in balancing family and work, and measures against unconscious bias.

## Reinforcement of the diversity promotion system

- Established the Diversity Committee (2019)

## Achievement of 10% female manager percentage (FY2030)

- Mid-career recruitment (female managers)
- Next-generation leader (manager) training

## Outcome

- Innovation through achieving diversity in decision-making in feminine care product planning and other specialized areas

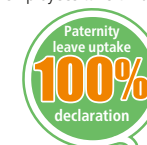
## Declarations and statements

- Endorsement of WEPs (2021)
- Declaration of commitment to being a company where 100% of male employees take childcare leave (2021)

## Increase in female leaders (section heads and chiefs)

## External evaluations

- Nadeshiko Brand (2014, 2016 and 2018)
- Bloomberg Gender-Equality Index (2021 and 2022)



## 1 Recruit and foster excellent human resources

- Increase in the number of female employees on the managerial track (new graduate hires) (2012-)
- Provision of female cross-industry exchange training for female leaders (2014-)
- Provision of designated distance learning courses (e.g., fundamentals for managers)

## 2 Introduce support and systems for balancing work and childcare

- Introduction of GOO.N SukuSuku Leave (paid leave for childcare purposes) (2017-)
- Opening of GOO.N SukuSuku House (facility for employer-provided childcare services) (2018-)
- Introduction of the flextime program, promotion of remote work and promotion of annual paid leave uptake (2020-)
- Promotion of paternity leave uptake (2021-)

## 3 Promote understanding of diversity within the company and reform the corporate culture

- Unconscious bias training (2019-)
- LGBTQ understanding training (2020-)
- Diversity training for executives and general managers (2021-)
- Training to promote understanding of women's health (2021-)



	FY2019 Result (Unconsolidated)	FY2020 Result (Unconsolidated)	FY2021 Result (Unconsolidated)	FY2022 Result (Unconsolidated)	FY2022 Result (Consolidated)	FY2023 Target (Consolidated)	FY2026 Target (Consolidated)	FY2030 Target (Consolidated)	Target company
Percentage of female managers	2.0%	2.2%	2.8%	2.7%	5.2%	6.0%	8.0%	10.0%	Consolidated companies*
Percentage of female leaders (section heads and chiefs)	11.3%	9.0%	8.3%	11.1%	—	—	—	—	Daio Paper (employees on the managerial track)
Number of female leaders (section heads and chiefs)	16	21	19	24	—	—	—	—	Daio Paper (employees on the managerial track)
Percentage of female employees on the managerial track	13.8%	15.0%	15.8%	18.4%	—	—	—	—	Daio Paper
Percentage uptake of paternity leave	4.0%	6.3%	28.9%	82.7%	79.3%	100.0%	100.0%	100.0%	Consolidated companies*
Percentage uptake of annual paid leave	78.7%	67.2%	71.7%	75.0%	72.6%	70.0%	80.0%	90.0%	Consolidated companies*

\* Consolidated companies (Domestic consolidated subsidiaries subject to legal disclosure requirements)

## TOPICS Female cross-industry exchange training

The training program, which involves forty to forty-five female employees from nine companies in different industries, requires participants to work together on an assignment. This enables them to gain exposure to different corporate cultures, broaden their perspectives, and acquire the practical leadership skills required. Through a curriculum of main training (2 days), 4-month assignment preparation, and follow-up training (1 day), as well as dialogue with female managers and networking unique to the cross-industry training program, each participant learns how to become a leader who is uniquely herself. The goal is for participants to be able to further demonstrate their abilities in the workplace after the training program.



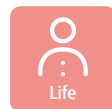
Scene from the group training

## Impressions of the training from a participant

During the dialogue with female managers in the main training session, I was struck by the fact that all of them did not place too much weight on "becoming a manager," which made me realize that I had unconsciously raised the bar for female managers myself. Collaborating on a shared assignment with individuals from various industries was also a rewarding experience. It felt akin to a cultural exchange and offered a completely different kind of experience compared to my daily work. It was a valuable opportunity for me to reconsider my career and the way I work.

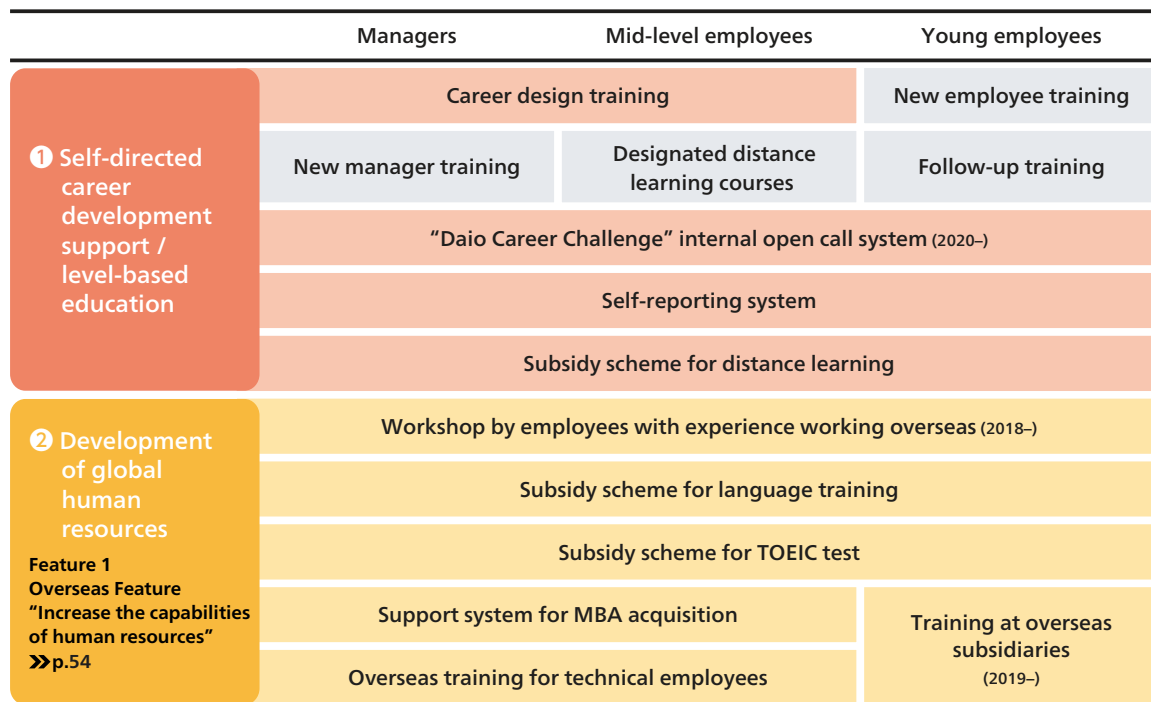
Participant in FY2022 **Mika Eto**  
Sustainability Promotion Department

\* Initiatives for achieving Targets 1, 5 and C of Goal 5, and Target 3 of Goal 10



## Development of human resources

To respond flexibly to the rapidly changing business environment and diversifying needs of consumers, and to remain a sound and competitive company, we believe that it is important for each and every employee to think deeply, discuss issues with relevant personnel, and work as one across organizational boundaries to solve day-to-day problems. As part of our measures to develop self-directed human resources who think, decide, and act on their own initiative, we have introduced systems to support self-directed career development, such as the Daio Career Challenge (internal open call for employees to select their own career), a self-reporting system (a system that allows employees to report their preferences for department, work location, etc.), and a subsidy scheme for distance learning. Furthermore, we are working on measures focused on expanding our domestic and international H&PC business, as domestic demand for paper and containerboard is declining year by year due to the progress of digitalization and a declining population. To accelerate global expansion with the goal of realizing our future vision, "an Abundant and Affable Future" (a future where hygiene habits and products are prevalent and women are empowered across the world), we are working in particular to develop global human resources.



Sound and competitive company

## 3 Recruit and foster excellent human resources

- Referral recruitment system (2019-)
- Stock-based incentive system for managers (2021-)
- Comeback (rehiring of retirees) system

	FY2019	FY2020	FY2021	FY2022	FY2023	FY2026	FY2030	
	Result	Result	Result	Result	Target	Target	Target	Target company
① Number of applicants for Daio Career Challenge <sup>*1</sup>	19	20	36	14	—	—	—	Daio Paper
② Number of employees using the subsidy scheme for distance learning	161	158	143	113	—	—	—	Daio Paper
③ Percentage of employees with TOEIC 600+	14.1%	14.4%	15.7%	15.6%	16.5%	20.0%	30.0%	Daio Paper
④ Number of participants in the workshops by employees with experience of working overseas	—	23	Canceled due to the COVID-19 pandemic	176	—	—	—	Daio Paper
⑤ Retention rate of new graduates after 3 years <sup>*</sup>	75.3%	75.0%	74.7%	82.2%	85.0%	87.0%	90.0%	Daio Paper

<sup>\*1</sup>: Internal open call system

<sup>\*</sup> The retention rate of new graduates after 3 years is calculated as a 3-year average. (The rate for FY2022 is a weighted average of the 3-year retention rate for new graduates on the managerial track hired between FY2018 and FY2020.)

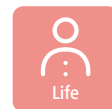
## TOPICS Workshop by employees with experience of working overseas

To help employees deepen their understanding of the realities of working overseas, we regularly hold an overseas career workshop online, in which employees working overseas serve as panelists to explain both the work and personal aspects of their experience working overseas, such as job scopes and workplace scenes in their respective countries, and engage in panel discussions. In FY2022, a total of 176 employees participated in the workshop on two occasions, and the rate of understanding and satisfaction with the workshop was extremely high, at approximately 90%.

Scene from a remotely held workshop by employees with experience of working overseas



<sup>\*</sup> Initiatives for achieving Targets 3 and 4 of Goal 4



## Compassion for employees

We aim to create a vibrant workplace environment that puts safety and security first, where each employee is able to work with vitality by always prioritizing safety and security in our operations above all else. We believe that if employees and their families are not in good health, they will not be able to maintain their motivation and focus, which will reduce productivity and even affect business performance. The Daio Group announced the Daio Group Declaration of Health in FY2014 and continues to hold Health Management Committee meetings chaired by the Chief Health Officer (CHO: General Manager of General Affairs and Personnel Division) to create an environment where employees can work in good health through efforts to promote their physical and mental health. In addition, with the three pillars of "safe awareness," "safe environment," and "safe work" to achieve zero accidents, we are committed to protecting the safety of all people working in our business sites and are engaged in safety and health activities on a daily basis.

### 1 Promotion of health and productivity management

- Daio Group Declaration of Health (FY2014)
- Establishment of Health Management Committee (2018-)
- Smoking cessation program (2019-)
- Establishment of Health Consultation Desk (2020-)
- Sports club management / Partnership with external sports clubs
- Establishment of counseling desk (2014-)
- Mental health awareness training for managers (2016-)
- Implementation of mental health check (stress check)

### External evaluations



### 2 Promotion of safety and health

- Establishment of annual safety activity policy common to all group companies (2014-)
- Implementation of Safety Wednesday web conference (2012-)

#### Main actions taken

- Workplace improvement through risk assessment
- Conducting mutual patrols among group companies
- Disaster drills based on the assumption of a large-scale disaster
- Holding of AED lifesaving training sessions

		FY2019	FY2020	FY2021	FY2022	FY2023	FY2026	FY2030	
		Result	Result	Result	Result	Target	Target	Target	Target company
Health and productivity management	Smoking rate	30.5%*1	26.1%*1	23.9%*1	30.0%	29.0%	26.0%	22.0%	Consolidated companies (Member companies of the Daio Paper Health Insurance Association)
Safety and health	Lost time injury frequency rate <sup>*2</sup>	0.90	1.11	1.14	1.01	0.90	0.80	0.69	Consolidated companies <sup>*3</sup>

<sup>\*1</sup>: The smoking rates from FY2019 to FY2021 are results of Daio Paper on a non-consolidated basis. <sup>\*2</sup>: The lost time injury frequency rate is for the full year.

<sup>\*3</sup> Consolidated companies (manufacturing subsidiaries in Japan, etc.)

## TOPICS Implementation of "Safety Wednesday"

With the goal of reducing lost-worktime injuries, we hold a "Safety Wednesday" web conference every Wednesday. All group manufacturing companies in Japan participate in the conference, with over 200 attendees each time, to share corrective actions to prevent similar accidents and preventive actions for potential accidents based on accident case studies.

Scene from "Safety Wednesday"

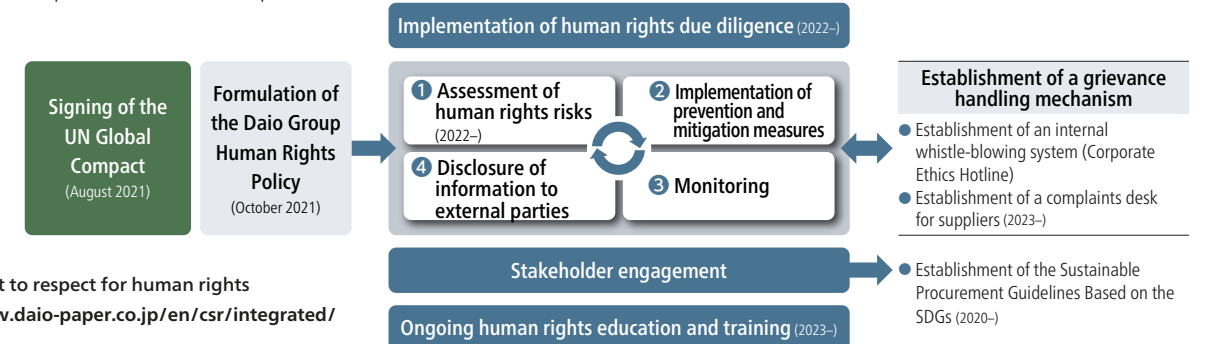


<sup>\*</sup> Initiatives for achieving Targets 4, 6 and 9 of Goal 3, Targets 5 and 8 of Goal 8, and Target 2 of Goal 10



## Commitment to human rights

In May 2021, the Daio Group formulated the Daio Group Sustainability Vision with the aim of realizing our management philosophy of "Shaping an abundant and affable future for the world." In August of the same year, we expressed our support for the UN Global Compact, which sets forth principles for the protection of human rights, and in October of the same year, we formulated the Daio Group Human Rights Policy in compliance with the UN Guiding Principles on Business and Human Rights. The Daio Group clearly states "respect for human rights" as one of its material issues, based on the belief that a society where the freedom, dignity and inherent rights of every individual are upheld is imperative to shaping "an Abundant and Affable Future", which is the Group's future vision. As we continue to expand our business globally under the Daio Group Human Rights Policy, we will continue to contribute to the realization of a sustainable society by establishing a human rights due diligence process and implementing thorough education on respect for human rights, with the cooperation of our business partners.



Commitment to respect for human rights

<https://www.daio-paper.co.jp/en/csr/integrated/respect/>

<sup>\*</sup> Initiatives for achieving Target 7 of Goal 8





# Initiatives toward a Carbon-free Society

SECTION 01

Fulfilling Our Purpose  
-Value Creation Story of the Daio Group-

SECTION 02

Achieving Sustainable Growth  
-Strategy for Continuing to Provide Value-

SECTION 03

Responding to Social Issues  
-Foundation for Sustainable Growth-

SECTION 04

Data and Information  
-Financial and Corporate Data-

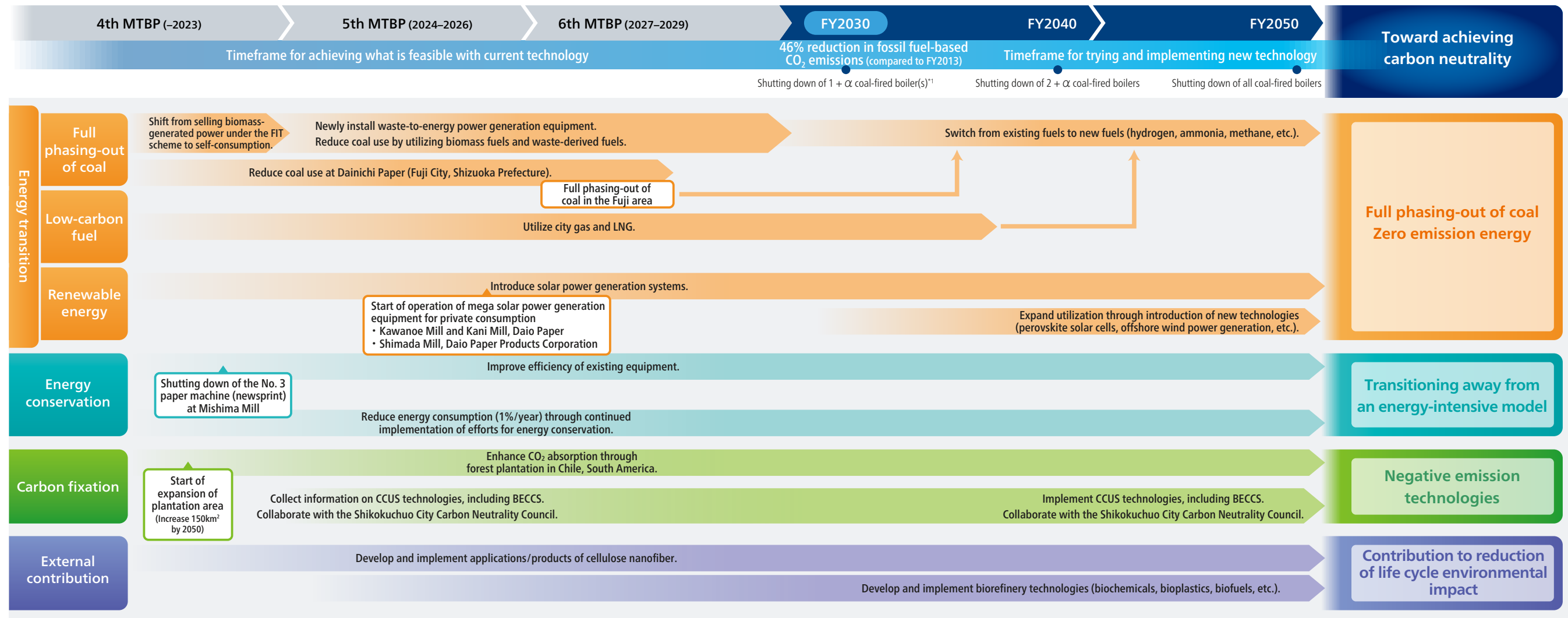
The Daio Group declared its commitment to achieving carbon neutrality by FY2050 in May 2021. In accordance with the Daio Global Environmental Charter, we have been promoting a variety of environmentally friendly initiatives, including energy conservation and the use of biomass fuels. Recognizing that addressing climate change is one of the most important management

issues, we will continue to formulate and implement measures in line with the roadmap that we have established to achieve carbon neutrality, while making disclosures and efforts in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

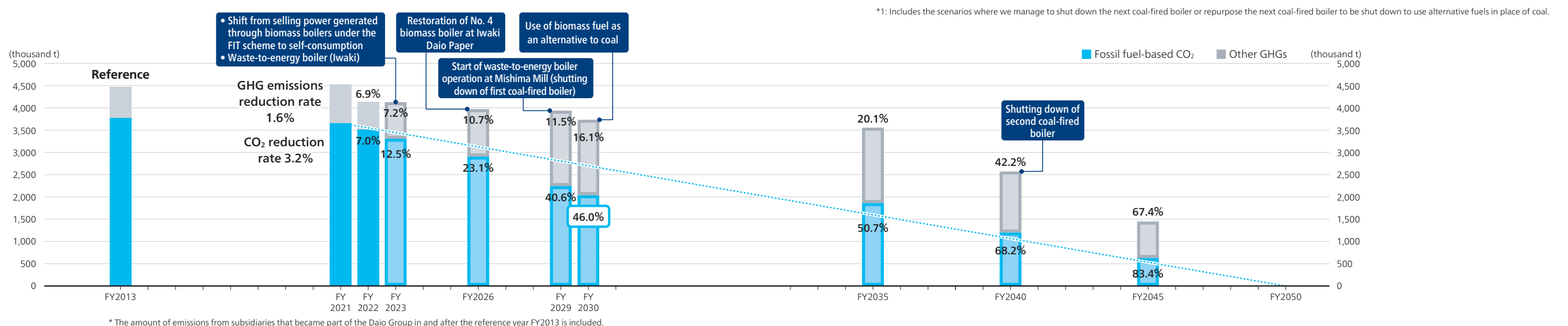


We will actively work to reduce dependence on fossil fuel by using alternative fuels and applying new technologies in cooperation with local communities.

Roadmap to Achieving Carbon Neutrality by 2050



Estimated CO<sub>2</sub> emissions reduction



\* The amount of emissions from subsidiaries that became part of the Daio Group in and after the reference year FY2013 is included.



Message from the General Manager of the Production Division

## Accelerating our efforts to realize carbon neutrality in response to the shift toward a carbon-free society

Toshikatsu Tanahashi

Director, Managing Executive Officer  
Responsible for Production Unit; General Manager of Production Division;  
General Manager of Mishima Mill

### Phasing out coal ahead of schedule

Responding to climate change is a pressing global issue, and it is a natural responsibility for companies to work to reduce greenhouse gas (GHG) emissions, which are a factor in causing global warming. The paper industry, in particular, is heavily dependent on fossil fuels at present, and it is an imperative that we achieve carbon neutrality by FY2050 through a conscious shift away from fossil fuels while maintaining the economic rationality necessary for the company's survival.

We have established a roadmap for achieving carbon neutrality by FY2050 from the three approaches of "phasing-out of coal," "promotion of energy conservation," and "expansion of carbon sinks." We aim to reduce fossil-based CO<sub>2</sub> emissions in our production activities by 46% from the FY2013 level by FY2030 and to achieve carbon neutrality by FY2050, as the basic policy of the roadmap. The most important initiative is to shut down coal-fired boilers, and we are working to bring forward the plan to shut down the three coal-fired boilers at the Mishima Mill, which I am responsible for, one by one every ten years by FY2030, FY2040, and FY2050, and to gradually replace them with alternative power generation facilities. Looking back to FY2022, the logistical disruptions caused by the COVID-19 pandemic, combined with the impact of Russia's invasion of Ukraine, caused fossil fuel prices, mainly coal, to soar sharply especially after the summer of 2022. Due to these rapid changes in the business environment, the Mishima Mill, which uses a large amount of coal, also suffered a major blow to its performance due to the soaring raw material and fuel prices. In response to these sudden changes in the business environment, we brought forward the shift from selling power generated through biomass boilers under the FIT scheme to self-consumption, which was originally planned for FY2030 or later, switched 63,000 kW worth of electricity from coal to biomass power generation in April 2023, and shut down the No. 3 paper machine that manufactures newsprint in April, thereby optimizing the mill's energy efficiency. As a result, we expect to achieve a gradual reduction in the annual coal consumption at the entire company from 1.2 million tons in 2013 to an estimated 950,000 tons in 2023.

### Accelerating energy conservation activities as well

Energy conservation efforts are something that each employee can carry out at the production site to contribute to achieving carbon neutrality. At our mill, we are conducting the "From the Ground Up Movement," in which we accumulate energy conservation efforts from the employees one by one. Each member of the production staff proposes ways to improve energy conservation and shows a sense of ownership by prioritizing and implementing these proposals. This movement, driven by the "on-site capabilities" of the production staff, has become deeply entrenched at our mill. The Daio Group's target for energy conservation is 1% reduction in base unit per sales every year. However, at the Mishima Mill, as raw material and fuel prices soared, momentum to accelerate efforts grew throughout the mill, and since the summer of 2022, we have concentrated on implementing the energy conservation improvement activities based on the on-site capabilities and also made equipment improvements. As a result, we achieved energy savings of approximately 2.5%. These activities are being deployed throughout the Daio Group's production mills.

### Challenges and anticipated risks for future initiatives

To further accelerate our initiatives toward carbon neutrality, it is important to continue to procure stable and inexpensive alternative fuels to coal. At the Mishima Mill, while we have plans to decommission the coal-fired boilers, we have a plan to build a waste-to-energy boiler. This is a significantly effective measure for phasing out of coal; however, with the rapid acceleration of efforts to achieve carbon neutrality, not only in the paper industry but also in other industries, competition to procure fuels for waste-to-energy boilers is expected to intensify. We are currently discussing measures to expand the number of collection points for stable fuel procurement. The main raw material for waste-to-energy boilers is refuse paper & plastic fuel (RPF), which is solid fuel made by solidifying waste paper and waste plastics among industrial waste, which are generally difficult to recycle as materials, into pellet form. However, we plan to make the waste-to-energy boiler to be constructed at the Mishima Mill able to effectively utilize, in addition to RPF, waste materials that have been simply incinerated in the past. The first boiler with this specification in Japan was installed

and started operation at Iwaki Daio Paper in February 2023, and we have already started collecting and using waste-derived fuels that could not be used before. From now on, we will accumulate know-how on the collection and use of new waste-derived fuels and accelerate the reduction of coal consumption through the construction and operation of the waste-to-energy boiler at the Mishima Mill.

Talks are underway in Japan to introduce a carbon tax (carbon pricing) in 2028, and we believe that the longer we delay our efforts toward carbon neutrality, the more pronounced the negative impact will be on our company, both in terms of costs, including those related to carbon pricing, and in terms of operation. In the process of increasing our brand appeal to consumers by shifting our focus toward the Home and Personal Care Business, our brand image will also be affected by our stance toward creating a carbon-free society. We place a high priority on the capital investments necessary to advance carbon neutrality, and we will continue to make decisions quickly while balancing investment timing and costs, carbon neutral management, and economic rationality.

### Also contributing to achieving carbon neutrality in the region

Based on the idea that activities to achieve carbon neutrality should be carried out throughout the entire supply chain and region, the Shikokuchuo City Carbon Neutrality Council in Shikokuchuo City, Ehime Prefecture, where the Mishima Mill is located, was established in 2021 to promote the activities. The council, which initially started with three managing companies, Daio Paper Corporation, Marusumi Paper Co., Ltd., and Ehime Paper Mfg. Co., Ltd., has now grown to encompass 24 general member companies situated in the Shikokuchuo City area. To date, the council has held a total of five meetings attended by general member companies in addition to the managing companies, and with the cooperation of the Ministry of Economy, Trade and Industry, the Ministry of the Environment, and businesses with energy conservation-related technologies, has provided information on the latest trends in carbon neutrality and energy conservation technologies, and conducted educational activities. To realize carbon neutrality by FY2050, in the first phase until FY2030, the managing and general member companies are aligning their efforts to utilize biomass, black liquor, and renewable energy, and to improve the energy efficiency of existing equipment. The government is promoting the establishment and implementation of subsidies and other measures to support the introduction of renewable energy, while financial institutions have decided to provide funding for existing technologies and support for the visualization of emissions. In this way, the scope of issues handled through the regional councils is expanding, encompassing matters that would be difficult for a single company to address, and we are aware that expectations are growing for companies to take an active role in the management of regional carbon neutral councils and their operations. In terms of community involvement, we have begun to consider the use of in-vessel composting technology, which uses microorganisms to solidify general waste into fuel for use

in waste-to-energy boilers to be constructed in the future. The majority of household waste is currently incinerated, but many incinerators are aging and will need to be rebuilt in an increasing number of municipalities in the coming years. Under these circumstances, a growing number of municipalities, particularly in Ehime, Kagawa, and Tokushima prefectures, are considering the use of in-vessel composting, which was adopted by Mitoyo City in Kagawa Prefecture, located approximately 30 km from our mill. By procuring and using such solid fuel as an alternative to coal and other fossil fuels, we will be able to both mitigate global warming and achieve cost savings, which makes economic sense. This scheme also allows municipalities to dispose of waste at a lower cost and at the same time sell the waste as fuel. Since this will lead to GHG emissions reduction in the entire Shikoku region, we would like to be actively involved in what we call the "win-win cycle for all" of the local government, region, and company. In terms of logistics, too, we have begun to use double-trailer trucks to ship products, which will help reduce GHG emissions while improving transportation efficiency.

### Effective use of water resources

Pulp and paper manufacturing requires a large amount of water. Shikokuchuo City, where the Mishima Mill is located, is an area with little rainfall due to its topography. We have been able to secure the necessary water volume due to three dams (Shingu, Yanase, and Tomisato Dams) that were constructed on the Dozan River with the cooperation of the national and prefectural governments, and with thanks to the wisdom and great labor of those who came before us. The Mishima Mill puts in efforts to make effective use of such precious water. It uses different qualities of water for different purposes, such as for pulp manufacturing, papermaking, and cooling water. It also reuses approximately 10% of the used water, such as by filtering it for use as reclaimed water. Due in part to climate change, we are suffering from drought more and more these days. In FY2022, there was a period in which the water supply was once again restricted, with a reduction of up to 35% at one point, from the standard availability due to a significant decrease in rainfall. Our culture of water conservation and water reuse has been handed down from generation to generation, and with our accumulated know-how from the past, we have built a system that enables us to operate without affecting product quality even if we raise the amount of reclaimed water used to about 30%, allowing us to keep the mill's production facilities in full operation and continue supplying customers even under such circumstances. We will continue to operate with constant awareness of water and energy conservation.

### Message to stakeholders

As a paper mill that uses a large amount of fossil fuels, with unwavering determination and will to become carbon neutral, we are advancing our initiatives, and we are prepared to expedite our plans even if just a little ahead of schedule, in anticipation of changes in the business environment. On top of that, we will do our utmost to deliver products that will be selected by and satisfy our customers, and we hope for your continued support.

Response to the Task Force on Climate-related Financial Disclosures (TCFD)

At the same time as formulating the Daio Group Sustainability Vision in May 2021, the Daio Group expressed its support for the TCFD recommendations, and it is working to evaluate climate-related risks and opportunities in line with the TCFD recommendations and reflect them in the management strategies and risk management, thereby enhancing disclosure of information, including financial impacts.

Governance

At the Daio Group, the Daio Group Sustainability Vision, its sustainability strategy, was established by the Board of Directors in May 2021. In conjunction with that, the Sustainability Committee meets once every three months to assess climate-related risks and opportunities, set the targets, policies, and strategies, and confirm and deliberate on the progress of its initiatives. The Sustainability Committee is chaired by the President and Representative Director and comprises Managing Executive Officers and Directors, attended by full-time Audit & Supervisory Board Members, Outside Directors and Outside Audit & Supervisory Board Members as observers. Matters decided by the Sustainability Committee are reported once each quarter to the Board of Directors’ meeting. All members of the Board of Directors oversee the implementation and progress of the initiatives related to climate change, as well as approve and decide important matters. Under the Sustainability Committee is the ESG Subcommittee, under which eight working groups (WGs) are established. Specific initiatives related to climate-related risks and opportunities are examined and promoted by the Global Warming Countermeasures WG, the TCFD Response WG, the Logistics GHG Emissions Reduction WG, the Forests & Biodiversity Response WG, and the Value Co-Creation WG, and monitored by the ESG Subcommittee. The Group has identified “Response to Climate Change” as one of its material issues, and among the areas, it identified decarbonization as a priority. The promotion of the full phasing-out of coal, in particular, is taken charge of by the Managing Executive Officer and Director responsible for the Production Unit, and initiatives are reported and monitored also at the Production Meetings and the Medium-Term Business Plan Implementation Meetings, which are attended by Directors and Executive Officers.

Strategy

The Daio Group has conducted a scenario analysis in the medium term (until 2030) and long term (until 2050) based on a 1.5°C scenario and a 4°C scenario to determine how climate change would impact the domestic businesses of the Paper and Paperboard Unit and the Home & Personal Care (“H&PC”) Unit. When setting the conditions of each scenario, with regard to the transition scenario, we referenced scenarios such as the SSP1-1.9 and SSP5-8.5 scenarios in the Sixth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC), and the NZE and the STEPS in the World Energy Outlook 2022 of the International Energy Agency (IEA). With regard to physical risks, we conducted risk assessments based on data from Aqueduct provided by the World Resources Institute (WRI), “Climate Change in Japan 2020” published by the Ministry of Education, Culture, Sports, Science and Technology of Japan and the Japan Meteorological Agency, Four Twenty Seven, Inc., ENCORE, “Spreading like Wildfire: The Rising Threat of Extraordinary Landscape Fires” (2022) issued by UNEP, and other sources. As regards the scale of financial impact of risks and opportunities in the scenario analysis shown on the right, “Large” indicates an impact of 15 billion yen or more, “Medium” indicates an impact of 5 to 15 billion yen, “Small” indicates an impact of less than 5 billion yen, and “-” indicates under analysis.

Scenario Analysis

Transition risks

We recognize that in the 1.5°C scenario, we face legal and regulatory risks such as carbon taxes although there are differences in carbon pricing between domestic and overseas manufacturing sites, raw material price increase risks, and market and reputational risks due to responses regarding information on the carbon footprint of products (CFP). In terms of energy, we have analyzed that the Paper and Paperboard Business accounts for most of the risk; however, we will also take actions in the domestic and overseas H&PC Business, and the Group as a whole will work toward the reduction target by FY2030 (46% reduction of fossil fuel-based CO<sub>2</sub> emissions by FY2030 compared to FY2013), and make further efforts to achieve carbon neutrality by FY2050. In particular, with respect to the domestic operations, we reviewed the roadmap for energy-related measures to be implemented mainly by the Mishima Mill. In March 2023, we shifted from selling power generated through biomass boilers under the FIT scheme to self-consumption at the Mishima Mill. We will continue to actively promote fuel switching and other

energy transition initiatives, and energy conservation in the future. Furthermore, we analyzed the supply chain of raw materials in this fiscal year, taking into account the increase or decrease in volume due to future changes in market conditions, and analyzed the maximum risks. We will also work on establishing a low-carbon supply chain of raw materials, particularly in logistics activities, to reduce risks, including Scope 3.

1.5°C scenario

		Risks	Description of implications	2030 1.5°C	2050 1.5°C	Strategies and actions
Policies and regulations	Mandatory CO <sub>2</sub> emissions reduction obligation scheme Tightening of regulations on GHG emissions Rising carbon pricing		<ul style="list-style-type: none"><li>● Introduction of GHG emissions regulations and carbon pricing</li><li>● Increase in costs due to rising energy prices</li></ul>	Large	Medium	<ul style="list-style-type: none"><li>● Shift from selling power generated through biomass boilers under the FIT scheme to self-consumption.</li><li>● Adopt renewable energy sources such as solar energy.</li><li>● Switch from fossil fuels to waste-based fuels through the installation of waste-to-energy boilers and other measures to shut down one or more coal-fired boilers by FY2030.</li><li>● Implement and continue investments in energy conservation technologies.</li><li>● Expand area of forest plantations.</li><li>● Promote initiatives such as those through the Shikokuchuo City Carbon Neutrality Council (including CCUS).</li><li>● Burn black pellets in waste-to-energy boilers and coal-fired boilers.</li><li>● Introduce hydrogen and ammonia combustion technology.</li></ul>
			<ul style="list-style-type: none"><li>● Increase in prices of various materials due to the introduction of a carbon tax</li></ul>	Medium	Large	<ul style="list-style-type: none"><li>● Choose low-GHG-emitting materials from the first stage of product development to curb cost increases.</li></ul>
Market and reputation	Shift to environmentally compliant products		<ul style="list-style-type: none"><li>● Decrease in sales of environmentally non-compliant products</li><li>● Decrease in sales due to delay in CFP labeling</li><li>● Decrease in demand due to ethical consumption</li></ul>	—	—	<ul style="list-style-type: none"><li>● Change product design to be environmentally compliant.</li><li>● Promote and respond to CFP labeling, etc.</li><li>● Promote the use of recycled plastic.</li></ul>
Technologies	Low-carbon energy transition in goods transport		<ul style="list-style-type: none"><li>● Increase in costs due to the adoption of new technologies and other measures to lower carbon intensity of transport modes</li><li>● Fuel switch</li></ul>	Small	Small	<ul style="list-style-type: none"><li>● Promote the modal shift from trucks to coastal vessels and roll-on/roll-off ships, the reduction in transport distances, the use of double-trailer trucks, etc.</li><li>● Adopt new technologies in line with advances in autonomous vehicles, hydrogen or synthetic fuel-powered trucks, etc.</li></ul>

Physical risks

We expect that physical risks such as droughts, storm surges and tidal waves anticipated in the 4°C scenario will not have a significant impact on the Group’s domestic and overseas sites, based on their locations. However, we are aware of the risk of short-term disruption of logistics due to flooding of less than 50 cm in the mills and surrounding areas caused by torrential rains, etc. To reduce such risks, we will enhance our business continuity plan (BCP) and business continuity management (BCM), including for logistics, as well as continue to promote water-saving technologies and the use of water recycling.

Furthermore, we recognize that as time lapses to 2030 and 2050, wildfires and other hazards will increase in some foreign countries due to the effects of climate change. With regard to forest resources, we will diversify procurement sources, increase tree planting to secure sufficient procurement volume, select, breed and develop tree species suitable for the region and climate, as well as take other measures to reduce risks.

4°C scenario

		Risks	Description of implications	2030 4°C	2050 4°C	Strategies and actions
Acute	Increase in frequency of typhoons and torrential rains		<ul style="list-style-type: none"><li>● Impact of natural disasters on production activities (flooding)</li><li>● Damage to roads, railroads, and port facilities leading to supply chain disruptions and suspension of transportation of goods and raw materials</li></ul>	Small	Small	<ul style="list-style-type: none"><li>● Continue to enhance BCP and BCM.</li></ul>
Chronic	Changes in precipitation and weather patterns and an increase in average temperature		<ul style="list-style-type: none"><li>● Damage to plantation forests and raw material suppliers affecting procurement stability</li></ul>	Small	Small	<ul style="list-style-type: none"><li>● Diversify suppliers for stable procurement.</li><li>● Increase tree planting to secure sufficient quantity of raw materials.</li><li>● Select, breed and develop tree species suitable for the region and climate of afforested areas.</li></ul>

Opportunities

In the 1.5°C scenario, while climate change poses risks to us, opportunities could also arise from it. As shown in our Roadmap to Achieving Carbon Neutrality (pages 71 and 72), we will actively work to reduce our dependence on fossil fuels by applying our know-how and new technologies to enable us to use a wide variety of fuels. We will also promote energy transition by installing waste-to-energy power generation equipment, solar power generation facilities and other such facilities, as well as promote energy conservation through the adoption of new technologies. We will work on these as part of our initiatives toward coexistence with local communities. In addition, by promoting the development of products that are environmentally conscious or help consumers adapt to climate change and launching such products in the market, we will work toward achieving the Three Well-beings (Hygiene, Life, and Regeneration) to embody our philosophy of “Shaping an Abundant and Affable Future for the World.”

In FY2022, as part of our social contribution activities, as shown on page 78, we reduced the amount of plastic used in product packaging in the Home & Personal Care (“H&PC”) Business, and released products that can help to eliminate and reduce plastic in the Paper and Paperboard Business. As for cellulose nanofibers (“CNF”), a new material, we also promoted application development by supplying samples of CNF-containing composite resin, which can reduce the weight and increase the strength of products. We also began developing biorefining technology that utilize materials from the paper industry. We will strive to make significant improvements in product life cycle environmental impact for society as a whole.

1.5°C scenario

		Opportunities	Description of implications	2030 1.5°C	2050 1.5°C	Strategies and actions
Products and services	Changes in consumer needs Development of new products and services through technological innovation		<ul style="list-style-type: none"><li>● Increase in demand for environmentally conscious products (FSC products, plastic-replacing and plastic-reducing products)</li><li>● Increase in demand for products that help consumers adapt to climate change (products for sweat control and emergency preparedness)</li><li>● Changes in perceptions of recycling</li><li>● Pressure to reduce industrial waste</li><li>● Increase in water efficient products to conserve water resources</li></ul>	Small	Small	<b>[Paper &amp; Paperboard Unit]</b> <ul style="list-style-type: none"><li>● Increase lineup of products to replace plastic, and lineup of packaging and functional materials.</li><li>● Increase lineup of products with forest certification (e.g. FSC-certified paper).</li><li>● Develop CNF materials and RFID technology and increase lineup of such products.</li></ul> <b>[H&amp;PC Unit]</b> <ul style="list-style-type: none"><li>● Switch to plastic-free packaging materials.</li><li>● Increase lineup of products that help consumers adapt to climate change, such as masks and hygiene products.</li><li>● Develop and increase sales of sweat control products and products to stay cool in heat waves.</li><li>● Develop products to support water conservation, e.g. products that easily disintegrate in water.</li></ul>
			<ul style="list-style-type: none"><li>● Increase in demand for bio-materials and products</li></ul>	—	—	<ul style="list-style-type: none"><li>● Develop and expand sales of biomass chemical products and materials using papermaking materials.</li></ul>
Resource efficiency	Recycling of raw materials Reuse of materials		<ul style="list-style-type: none"><li>● Cost reduction by establishing a recycling system for raw materials</li><li>● Higher consumer satisfaction via compliance with environmental policies and requirements</li></ul>	—	—	<ul style="list-style-type: none"><li>● Establish a system for collecting and recycling used disposable diapers.</li><li>● Install facilities to reuse materials.</li><li>● Introduce environmentally conscious products onto the market.</li></ul>



## Risk Management

At the Daio Group, the Sustainability Committee takes charge of the comprehensive management of all sustainability-related issues, including climate change.

Its subcommittee, the ESG Subcommittee, consists of eight working groups (WG), among which five are in charge of identifying climate-related risks and opportunities: the Global Warming Countermeasures WG, the TCFD Response WG, the Logistics GHG Emissions Reduction WG, the Forests & Biodiversity Response WG, and the Value Co-Creation WG. The climate-related risks and opportunities that are identified by the WGs are then evaluated by the ESG subcommittee. Ultimately, the elements of risks and opportunities that need to be addressed are deliberated at the Sustainability Committee.

In developing strategies for TCFD, we performed a scenario analysis to identify and assess climate-related risks. In the process, we comprehensively extracted all possible drivers of climate change (risks and opportunities) by classifying them into the following three groups to identify the items that would affect finance: 1) Transition risks (a. Policies and regulations, b. Market, c. Reputation, d. Technologies), 2) Physical risks (a. Acute, b. Chronic), and 3) Opportunities (a. Energy source, b. Market, c. Resilience, d. Products and services, e. Resource efficiency). We assessed the scope of impact and the degree of uncertainty (high/low) for these items. We also conducted both qualitative and quantitative

assessments to determine the magnitude of the financial impact of these items. In carrying out these assessments, scenarios such as the NZE and the STEPS in the World Energy Outlook 2022 of the International Energy Agency (IEA) were referenced for transition risks, and parameters (carbon pricing, raw material prices, etc.) from sources such as Aqueduct provided by the World Resources Institute (WRI), "Climate Change in Japan 2020" published by the Ministry of Education, Culture, Sports, Science and Technology of Japan and the Japan Meteorological Agency, Four Twenty Seven, Inc. and ENCORE were used for physical risks. Matters discussed by the Sustainability Committee are reported to the Board of Directors' meeting once each quarter and integrated into the management of the Group. Similarly, matters regarding the identification and assessment of risks that may have a significant impact on management, including compliance violations and misconduct are discussed at the Risk and Compliance Committee, and are reported regularly to the Board of Directors and integrated into the management of the Group. The risks and opportunities identified at the Sustainability Committee and the Risk and Compliance Committee, together with the comprehensiveness of identification of the risks and opportunities and the responses to them, are shared and managed in an integrated manner by the Sustainability Promotion Department and the General Affairs Department, which are the respective secretariats of these committees.

## Metrics and Targets

In conjunction with the Daio Group Sustainability Vision, we have set the goal of achieving carbon neutrality by FY2050 as our long-term vision for global warming countermeasures. As a milestone goal, we have also set a target of reducing Scope 1 and Scope 2 CO<sub>2</sub> emissions from fossil fuel combustion by 46% (from 2013 levels) by FY2030. Our Roadmap to Achieving Carbon Neutrality presents our target to shut down all three coal-fired boilers at the Mishima Mill, our core mill, by FY2050. We have set milestone targets for a gradual shift away from coal of shutting down at least one boiler by FY2030, the second boiler by FY2040 and the third boiler by FY2050. Based on the TCFD scenario analysis and market conditions for raw materials and fuels, we are moving up the timing for shutting down the coal-fired boilers, and have completed the shift from selling power generated through biomass boilers under the FIT scheme to self-consumption and the shutting down of the No.3 paper machine for newsprint. We are also working on the development of black pellets

as a substitute for coal and also co-combustion of black pellets and coal, and aim to achieve the shutdown of at least one coal-fired boiler by FY2030. Internally, we will carry out a fuel transition to renewable energy and low-carbon fuels (such as LNG) and undertake further energy-saving measures. To contribute to reducing GHG emissions of the entire community, our waste-to-energy boiler will also make use of waste generated in the region for thermal recycling. Furthermore, we are working to expand the area of our forested land. By balancing the CO<sub>2</sub> emissions reduction and the carbon absorption and fixation, we will ultimately achieve carbon neutrality by FY2050. With regard to Scope 3 emissions, we have completed calculations for Daio Paper on a non-consolidated basis in FY2021 and for Daio Paper on a non-consolidated basis plus domestic production companies in FY2022. We will work to quantify and set targets for emissions of the entire Group.

### Target (Scope 1 + 2)

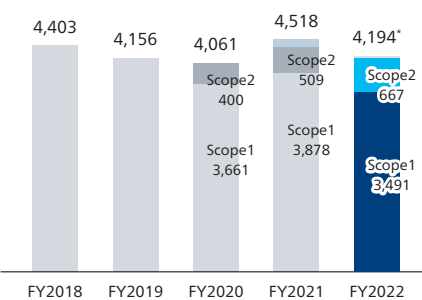
**FY2050**  
Long-term vision for global warming countermeasures  
- To achieve carbon neutrality by 2050 -

### FY2030 Target for global warming countermeasures

**Target** Reduce CO<sub>2</sub> emitted through production activities by 46% compared to FY2013.

### Results (Scope 1 + 2)

■ GHG emissions (thousand t)



\* FY2022: Net GHG emissions excluding the amount equivalent to green power certificates sold: 4,158,000 tCO<sub>2</sub>

### Result (Scope 3)

Emissions in FY2022  
Scope 3: 2,297,000 tCO<sub>2</sub>  
See pages 79 to 80 for details on GHG emissions by category and initiatives with suppliers.

**Scope 3**  
Reduce GHG emissions throughout the supply chain in cooperation with suppliers.

## H&PC products: Initiative to reduce the amount of plastic used in product packaging

The H&PC Unit is working to reduce the amount of plastic used in product packaging in response to growing awareness of ethical consumption, the practice of purchasing products that are considerate of the global environment, people, and society.

In response to the Plastic Resource Circulation Act, we are promoting paper packaging and development of environmentally friendly products as follows, with the goal of reducing waste plastic emissions intensity from H&PC products by 10% or more by FY2025, compared to FY2020.

### Paper packaging for products

"Ellever Paper Towel"  
Adopted environmentally friendly paper packaging



### Initiative to reduce environmental impact

"Kirekira! Toilet Cleaning Wipe"  
Reduced height and thickness of the container to reduce the amount of plastic used



## Paper products: Track record of efforts to develop and launch plastic-replacing and plastic-reducing products

### Development/launch

Since the launch of the Elipla Series (10 types) in February 2022, the number of product types in the Elipla Series has been expanded and has now grown to 31 types.

### New brand of environmentally friendly paper "Elipla Series" received the "Plastics Smart Excellent Case Award" from the Ministry of the Environment

We received the Plastics Smart Excellent Case Award in the Use and Reduce category from the Ministry of the Environment for our Elipla Series, which is a product series that can help to eliminate and reduce plastic. To realize our management philosophy of "Shaping an abundant and affable future for the world," the Daio Group is working to solve social issues through our business activities under its vision of the Three Well-beings: Hygiene, Life and Regeneration.



## Track record of efforts to develop and launch cellulose nanofibers (CNF)

Utilizing the CNF composite resin pilot plant equipment that started operation in March 2022, we succeeded in developing a composite resin with higher cellulose concentration of 67% from the previous 55%, and started supplying samples of "ELLEX-R67." We are promoting application development through sample evaluation by users.

As other examples of application development, a new product "Fan Zhendong CNF" was launched in September 2022 by a table tennis racket manufacturer that started using our CNF in their rackets in 2020, and in October, CNF was adopted and commercialized as a wax material for skis and snowboards.

## Initiatives to reduce Scope 3 emissions

To achieve carbon neutrality by 2050, regarding Scope 1 and Scope 2, we are working on activities to reduce GHG emissions throughout the region, as indicated in the Roadmap. In addition, the Daio Group has visualized Scope 3 emissions, which are indirect emissions from its supply chain, and is promoting activities to reduce GHG emissions in cooperation with suppliers and competitors.

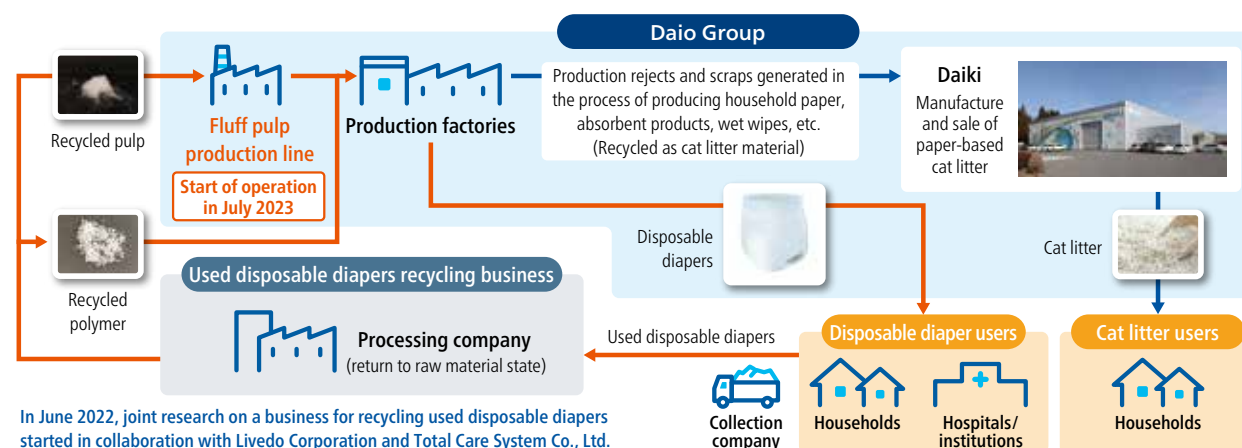
### Emissions throughout the supply chain

(Unit: thousand tCO<sub>2</sub>)

Emissions throughout the supply chain		FY2021	FY2022	Target range
Scope1	Direct emissions	3,878	3,491	Daio Group
Scope2	Indirect emissions	509	667	Daio Group
Scope3	Other emissions	1,782	2,297	
Category 1	Purchased Goods and Services	683	1,321	For FY2021, Daio Paper on a non-consolidated basis, for FY2022 Daio Paper on a non-consolidated basis plus domestic production companies
Category 2	Capital Goods	166	124	Daio Group
Category 3	Fuel- and Energy-Related Activities Not Included in Scope 1 or Scope 2	320	123	Daio Group
Category 4	Upstream Transportation and Distribution	313	408	For FY2021, Daio Paper on a non-consolidated basis, for FY2022 Daio Paper on a non-consolidated basis plus domestic production companies
Category 5	Waste Generated in Operations	26	27	Daio Group
Category 6	Business Travel	2	2	Daio Group
Category 7	Employee Commuting	6	6	Daio Group
Category 8	Upstream Leased Assets	Not applicable	Not applicable	
Category 9	Downstream Transportation and Distribution	91	109	* The transportation of master rolls of paper for converting between Daio Paper and its domestic production companies and other affiliated companies is included in Category 9.
Category 10	Processing of Sold Products	-	-	
Category 11	Use of Sold Products	-	-	
Category 12	End-of-Life Treatment of Sold Products	176	178	
Category 13	Downstream Leased Assets	Not applicable	Not applicable	
Category 14	Franchises	Not applicable	Not applicable	
Category 15	Investments	Not applicable	Not applicable	

### Scope 3: Establish an environmentally friendly business (recycling) model

Our Scope 3 Category 12 emissions are mainly due to the disposal of disposable diapers. In June 2022, we began research on a business for recycling used disposable diapers in collaboration with Livedo Corporation and Total Care System Co., Ltd. We are also utilizing production rejects and scraps generated in the process of producing household paper and disposable diapers in the manufacture of cat litter at Daiki Co., Ltd., which became a Group company recently. We will strive to reduce GHG emissions by establishing an environmentally friendly business model through a diaper collection scheme.



### Scope 3: Initiatives to reduce GHG emissions in the logistics sector

In the logistics sector, the entire Daio Group is promoting initiatives to build an environmentally friendly delivery network. Specifically, in Japan, we are promoting a modal shift from trucks to coastal vessels and roll-on/roll-off ships, joint use of 31-foot containers for rail transportation, and joint distribution with other companies to reduce GHG emissions. In anticipation of future changes in the external environment of the logistics industry, we are also considering new means of transportation, such as the use of double-trailer trucks, which will also lead to truck driver work style reform.

#### Initiative to share one-way 31-foot containers with Suntory Logistics Ltd.

Since FY2022, we have been carrying out joint distribution by mixing paper products of our Group in rail containers from Osaka to Tokyo used by Suntory Holdings Limited. Furthermore, we have established a new scheme of one-day round-trip trailer transportation in the Kanto and Kansai regions by using our intermediate location as a switch point, as well as started mixed loading in available space in such trailers. This enabled the operation of new routes in addition to an increase in the number of operations on existing ones. This initiative is expected to reduce CO<sub>2</sub> emissions by approximately 216 tons per year, and we achieved an annual reduction of 35 tons in FY2022. This will also lead to a reduction in drivers' working hours, contributing to an improved working environment (work style reform).



Loading and transporting colored linerboard of Daio Paper in a 31-foot container  
Photo provided by: Suntory Logistics Ltd.

#### Initiative to introduce double-trailer trucks



Photo provided by: Seishin Sangyo Unyu Co., Ltd.

We are considering the introduction of a double-trailer truck as one of the measures to address the 2024 logistics problem, and we conducted a four-day demonstration test of relay transportation using it (approximately 850 km between Saitama and Ehime) from June 5. Double-trailer trucks have been permitted on roads in selected sections since 2018, and the number of sections increased in November 2022. This has made it possible to operate from Ehime and Shizuoka prefectures, where the Group's core sites are located, which led to the implementation of this test. This is the first time in Japan that a double-trailer truck ran on the Seto Ohashi Bridge and Akashi-Kaikyo Bridge as well as transported freight within Shikoku Island. We expect to reduce CO<sub>2</sub> emissions by approximately 40% compared to operating two trucks.

#### Modal shift to coastal vessels and roll-on/roll-off ships

In FY2021, we achieved a modal shift of paper and paperboard products from the Mishima Mill bound for Nagoya to coastal vessels, which, together with the shift of H&PC products bound for Gyoda (Saitama Prefecture) to roll-on/roll-off ships in FY2018, contributed to a reduction of approximately 752 tons of CO<sub>2</sub> emissions per year. In FY2022, we also achieved a modal shift of paper and paperboard products bound for Kyushu and Shizuoka to coastal vessels, which is expected to reduce CO<sub>2</sub> emissions by approximately 215 tons per year. Furthermore, in FY2023, we will work to achieve a modal shift of fluff pulp from the Mishima Mill bound for the Kanto region to coastal vessels, and transport paper and paperboard products from the Kani Mill bound for the Kyushu region by sea, which is expected to reduce CO<sub>2</sub> emissions by approximately 574 tons per year.



Photo provided by: Daio Kaiun Co., Ltd.



# Corporate Governance

## Our Measures to Strengthen the Corporate Governance Structure

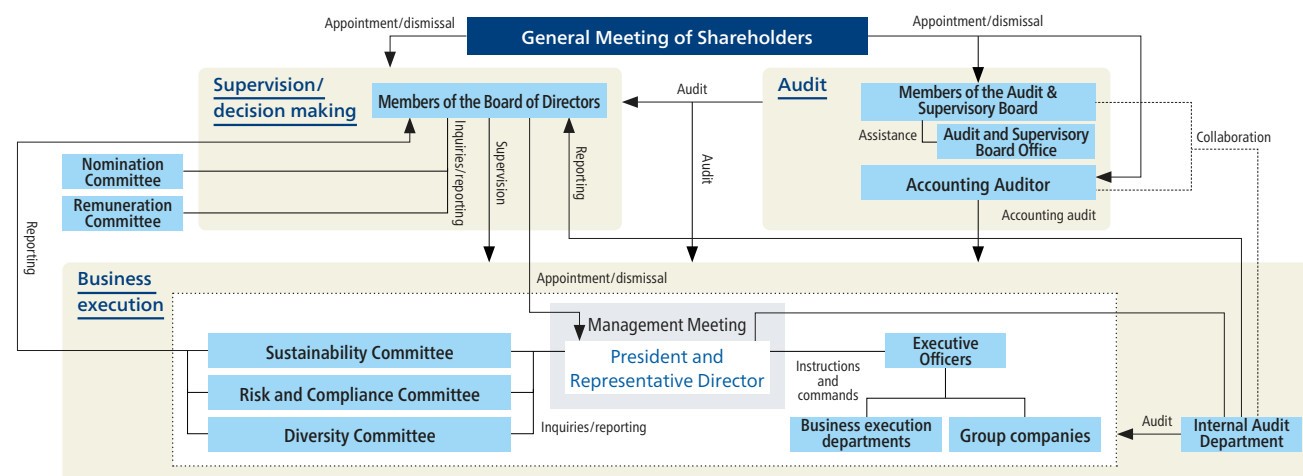
Daio Paper continuously reviews and strengthens its governance structure through adapting to the Corporate Governance Code and exchanging opinions with Outside Officers and investors. In FY2022, based on the revised Corporate Governance Code, we reviewed the relationship between the Board of Directors and voluntary committees from the perspectives of effective functioning of the Board of

Directors and initiatives to address issues pertaining to sustainability. As a result, we strengthened the Board of Directors' function to monitor business execution and established a structure in which the Board of Directors takes initiative in promoting sustainability management. We will continue to work to strengthen the practical aspects of the governance structure and enhance disclosure.

## Key Measures Implemented to Strengthen Corporate Governance

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	
Medium-Term Business Plans	The First Medium-Term Business Plan			The Second Medium-Term Business Plan			The Third Medium-Term Business Plan			The Fourth Medium-Term Business Plan (until FY2023)			
	Restart Solid Reform and Further Growth			Step-up Leap and Expand			Move on Reform and Soar Above			GEAR UP The Next Growth Stage, to a New Future			
President	From 2011 Masayoshi Sako									From 2021 Yorifusa Wakabayashi			
Corporate Governance Basic Policy				From 2015 Disclosed Corporate Governance Basic Policy									
Clarification of roles of supervision and execution	Number of Directors	From 2012 13							From 2019 16	2021 12	2022 11	2023 12	
	Number of independent Outside Directors	From 2012 2				From 2017 3			From 2021 4				
	Number of female Directors					From 2017 1		From 2020 0	From 2021 1				
Effectiveness evaluation of the Board of Directors				From 2016 Effectiveness evaluation of the Board of Directors									
Establishment of Nomination Committee and Remuneration Committee	Nomination Committee						From 2018 Established the Nomination Committee						
	Remuneration Committee	From 2012 Established the Remuneration Committee											
Committees	Sustainability Committee								From 2020 Established the Sustainability Committee				
	Risk and Compliance Committee	From 2008 Established the Compliance Committee											
	Diversity Committee								From 2019 Established the Diversity Committee				

## Corporate Governance Structure (as of July 1, 2023)



## Board of Directors

The Board of Directors of Daio Paper bears the function of supervising overall management and works to ensure the fairness and transparency of management while making decisions on important matters for business execution as specified by laws and regulations or the Articles of Incorporation. The Board of Directors shall consist of no more than 15

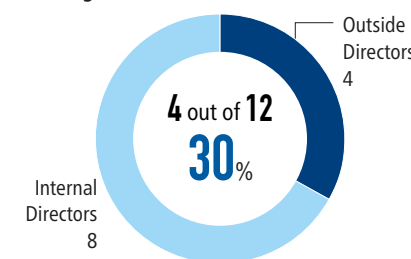
members, as stipulated in the Articles of Incorporation. That is the necessary and appropriate number of members to ensure an effective management structure and substantial discussions at the Board of Directors meetings. Adequate consideration is also given to ensuring diversity and sufficient expertise on the Board of Directors.

## Major Issues Examined by the Board of Directors in FY2022

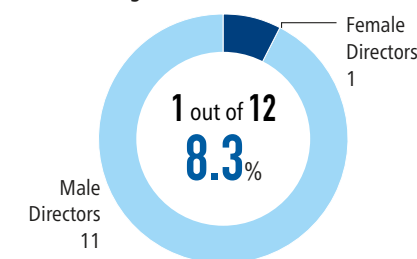
- **Management strategies** Progress of the Medium-Term Business Plan and consideration of the next Medium-Term Business Plan, global strategies, status of initiatives concerning sustainability
- **Governance** Review of the committee structure to enhance governance, enhancement of risk management structure, status of compliance with Corporate Governance Code
- **Capital policy** Dividend policy, review of capital plan, loans and debt guarantees

## Composition of the Board of Directors (as of July 1, 2023)

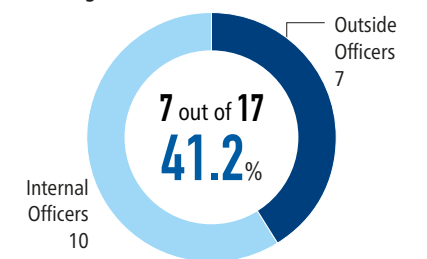
Percentage of Directors who are Outside Directors



Percentage of Directors who are female



Percentage of Officers who are Outside Officers



## Skills Matrix of Directors (as of July 1, 2023)

The table below shows the fields in which we expect our Directors to contribute significantly based on their insight and experience.

Name	Position	Independence	The fields in which we expect our Directors to contribute significantly									
			(1) Corporate management	(2) Corporate planning / M&A	(3) Sales / marketing	(4) Manufacturing / technology development	(5) Finance / accounting	(6) Personnel / HR development	(7) Legal affairs / risk management	(8) Overseas business / global experience	(9) Sustainability / ESG	(10) IT / DX
Yorifusa Wakabayashi	President and Representative Director Chief Executive Officer		○	○	○		○			○	○	
Kunihiro Okazaki	Executive Vice President and Representative Director Executive Vice President		○	○	○			○				○
Hiroshi Yamasaki	Director Managing Executive Officer		○			○			○	○	○	
Yukihiro Tanaka	Director Managing Executive Officer			○				○	○		○	
Atsushi Ishida	Director Managing Executive Officer			○	○					○		○
Hirofumi Fujita	Director Managing Executive Officer		○			○				○		○
Toshikatsu Tanahashi	Director Managing Executive Officer		○			○			○		○	
Shuhei Shinagawa	Director Managing Executive Officer			○			○		○			○
Naosuke Oda	Outside Director	○	○	○	○			○				○
Yoichi Takei	Outside Director	○		○					○		○	
Yoshinobu Hiraishi	Outside Director	○							○	○	○	
Haruko Ozeki	Outside Director	○		○				○	○	○		

## Effective Evaluation of the Board of Directors

We conduct an annual evaluation of the effectiveness of the Board of Directors to ensure its proper functioning, addressing any identified issues and implementing measures for improvement as needed.

### ● Method of Evaluation

We conducted an anonymous self-evaluation questionnaire targeted at all Directors and Audit & Supervisory Board Members. Using the results of the questionnaire, which were collected by an external organization, we carried out analysis and evaluation. We also interviewed our Officers.

### ● Overview of the Evaluation Results

We evaluated the Board of Directors from 10 standpoints: vision; composition; operation; discussions; monitoring function; support system for Directors and Audit & Supervisory Board Members; training; dialogue with shareholders (investors); Directors' self-initiated execution of business; and operation of committees. As a result, we confirmed that the Board of Directors is largely functioning properly and that its effectiveness is sufficiently ensured.

### ● Actions Taken to Address Issues Identified in the FY2022 Board of Directors' Effectiveness Evaluation

In response to the issues identified in the FY2022 Board of Directors' effective evaluation, namely, "reviewing the relationship between the Board of Directors and committees thereunder" and "delegating more authority to the Management Meeting," we reviewed the detailed rules on matters to be discussed at the Board of Directors' meetings and clarified the committees' duty to report to the Board of Directors, thereby enhancing the Board of Directors' monitoring function over business execution. We also added new matters for discussion, creating a conducive environment for the Board of Directors to engage in in-depth discussions on medium to long-term management issues.

### ● Issues for the Future

In light of the rapidly changing business environment, we will continue to have discussions on sustainability, IT, DX, and other related issues at the Board of Directors' meetings for the achievement of sustainable long-term growth. In parallel, we will create avenues for acquiring knowledge to enhance the depth of the discussions as needed.

## Measures to Enhance the Effectiveness of the Board of Directors

To promote substantial, productive discussions at the Board of Directors meetings and to enhance the effectiveness of the Board of Directors, we will continue

to implement the measures indicated below, including providing information that will help Outside Officers deepen their understanding of our operations.

Measures	Frequency	Details
Holding briefing sessions for Outside Officers before the Board of Directors meetings	Once a month	We hold a briefing session for Outside Officers before the monthly meeting of the Board of Directors so that they can deepen their understanding of the discussion points, the background, purposes, etc. of the proposals to be presented at the meeting. By doing so, we strive to secure time for substantial discussions at the meeting.
Distributing materials for the Board of Directors meetings in advance and utilizing briefing materials	Once a month	We distribute the relevant materials before each meeting of the Board of Directors and also utilize briefing materials that outline the key points, background, objectives, risk countermeasures, etc. of the proposals to be presented at the meeting. By doing so, we strive to ensure that the points of the proposals are understood clearly.
Ensuring that our Officers perform site inspections	A few times a year	We ensure that our Officers conduct periodic inspections at our mills and other facilities to enhance their understanding of our operations.
Holding information-exchange sessions between Outside Directors and Audit & Supervisory Board Members	Twice a year	We hold information-exchange sessions between our Outside Directors and Audit & Supervisory Board Members twice a year to ensure even closer cooperation between them.
Providing a wide variety of information for Outside Officers	At appropriate times	We share materials and minutes of the Management Meeting and other internal meetings, such as meetings of various committees, with Outside Officers, thereby striving to help them understand the background of examination of the matters. We also share a wide variety of industrial reports, information on our IR efforts, etc. with our Outside Officers, with the aim of helping them deepen their understanding of industrial trends and our operations.

## Remuneration of Officers

### Basic Policy on Remuneration of Directors

The appropriate remuneration levels of Directors are determined based on various elements, including the business environment, performance, and consistency with employee compensation. The remuneration system aims to effectively attract outstanding individuals and motivate Directors to improve business performance, ultimately leading to an increase in our corporate value.

### Overview of the Remuneration System for Officers

#### ● Composition of Remuneration of Officers

The remuneration for our Officers is composed of basic compensation, which is fixed remuneration, bonuses, which are tied to business results, and stock-based compensation. The types of remuneration paid to Directors, Audit & Supervisory Board Members, and Outside Officers are as follows.

Officer category	Basic compensation	Bonuses	Stock-based compensation
Directors (excluding Outside Directors)	○	○	○
Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members)	○	-	-
Outside Officers	○	-	-

#### ● Basic Compensation for Directors

Full-time Directors receive a fixed amount specified by position in the Regulations on Remuneration of Officers. Representative Directors receive an additional fixed amount. The remuneration for Outside Directors comprises only basic compensation. The amount paid to each Outside Director is based on the status of their membership on committees of the Company.

#### ● Performance-linked Remuneration (Bonuses)

In order to boost motivation for annual performance targets, bonuses are paid in accordance with a consolidated performance indicator. The amount of consolidated ordinary profit, which is an objective performance measurement indicator, is used as the

performance indicator. The base amount of a bonus for a Director of the base position ("base bonus amount") is calculated by multiplying the amount of consolidated ordinary profit for the previous fiscal year by a certain percentage specified in the Regulations on Remuneration of Officers. The amount to be paid to each individual is calculated by multiplying the base bonus amount by a percentage determined by position and a percentage determined by the performance evaluation rank of each individual. No bonuses are paid if a consolidated ordinary loss is recorded in the previous fiscal year.

#### ● Stock-based Compensation

The purpose of stock-based compensation is to directly link the remuneration of Directors to our stock value. This aligns the Directors' interests with our shareholders by involving them in the profits and risks associated with fluctuations in the stock price, thereby raising their motivation to contribute to medium to long-term improvements in business performance and corporate value. In this stock-based compensation system, we have created a trust by contributing cash, and the trust acquires shares of Daio. Through the trust, each Director will receive a number of shares equivalent to the number of points allocated to them.

#### ● Policy on Deciding Percentages for Basic Compensation, Bonuses, and Non-monetary Compensation

To serve as an incentive for improving business performance and corporate value, bonuses are decided in correlation with the amount of consolidated ordinary profit. This design ensures that the proportion of bonuses increases with improved performance.

#### Percentages if the target consolidated ordinary profit is achieved (FY2023)

(\* The figures may differ slightly depending on the position.)

Monthly salary	Bonuses	Stock-based
79%	7%	14%



## Voluntary Committee Activities

### ● Nomination Committee

The Nomination Committee is established as an advisory body to the Board of Directors to enhance objectivity and transparency in the nomination of candidates for Directors, etc. and the appointment and dismissal of Directors, etc. It is chaired by an independent Outside Director, and independent Outside Directors constitute the majority of its members. Two Outside Audit & Supervisory Board Members attend as observers.

The Nomination Committee receives inquiries from the Board of Directors regarding the nomination, appointment and dismissal of candidates for Directors and Executive Officers of a Managing Executive Officer position or higher. It reports back on the inquiries in accordance with the nomination policy set out in our Corporate Governance Guidelines.

### ● Remuneration Committee

The Remuneration Committee is established as an advisory body to the Board of Directors to ensure the objectivity and transparency of decisions on remuneration of Directors, etc. It is chaired by an independent Outside Director, and independent Outside Directors constitute the majority of its members. Two Outside Audit & Supervisory Board Members attend as observers with the aim of further enhancing the objectivity and transparency of the processes to decide the remuneration of Officers. The Remuneration Committee receives and reports back on inquiries from the Board of Directors regarding the policy, etc. on deciding the remuneration of our full-time Directors and Executive Officers of a Managing Executive Officer position or higher. The Committee also decides on the evaluation and the amount of remuneration of each of these officers in accordance with the remuneration decision policy resolved by the Board of Directors.

### ● Sustainability Committee

The Sustainability Committee is established under the Board of Directors for the purpose of formulating the sustainability strategy (a sustainable corporate strategy that integrates environmental, social, and governance concerns) for the entire Daio Group. This strategy seeks to improve the Group's social value through solving social issues while enhancing its corporate value. It is chaired by the President and Representative Director and consists of a total of nine members, namely, all the full-time Directors, including the General Manager of the Sustainability Promotion Division, and the General Manager of the Overseas Business Group. Outside Directors, full-time Audit & Supervisory Board Members, and Outside Audit & Supervisory Board Members attend as observers. The Sustainability Committee decides material issues related to sustainability and determines targets, commitments, and initiatives for such material issues. The ESG Subcommittee, established under the

Sustainability Committee, consists of eight working groups that are aligned with sustainability trends and material issues: (1) global warming, (2) logistics GHG emissions reduction, (3) environmental load reduction, (4) SDG-based procurement promotion, (5) response to TCFD, (6) forests and biodiversity, (7) value co-creation, and (8) ESG information disclosure enhancement. Each working group has specific initiatives and key performance indicators, and they are working toward the goals through the deliberation of measures and progress checks.

### ● Risk and Compliance Committee

The Risk and Compliance Committee is established under the Board of Directors to manage risks and enhance compliance of the Daio Group. It is chaired by the Director responsible for risk and compliance and consists of a total of nine members, including other executive officers. Outside Directors, full-time Audit & Supervisory Board Members and Outside Audit & Supervisory Board Members, and the General Manager of the Internal Audit Department attend as observers.

The Committee comprehensively identifies and assesses risks, implements unified management of the risk control measures, and deliberates on those risk control measures in accordance with the severity of the risks. Through these actions, it checks the risk management structure of the Daio Group.

Subcommittees are established under the Risk and Compliance Committee. Each subcommittee reports on the status of its initiatives to the Risk and Compliance Committee as necessary. Specific implementation measures according to the characteristics of each risk are examined, determined, and promoted, thereby making the risk management structure highly effective.

### ● Diversity Committee

The Diversity Committee is established under the Board of Directors to realize diversity across the entire Daio Group through initiatives to facilitate an inclusive work environment that enables flexible working style and that is accommodating to individuals regardless of gender, age, nationality, disability, the form of employment and other factors. The Committee is chaired by the President and Representative Director and consists of a total of nine members, including Directors and Managing Executive Officers. Outside Directors, full-time Audit & Supervisory Board Members and Outside Audit & Supervisory Board Members attend as observers.

The Diversity Committee formulates the basic policy for promoting diversity, material issues, measures to promote diversity and workstyle reform for the entire Group, and it works to implement the measures through reporting to the Board of Directors, distributing messages from top management, and inputs to executives, managers, and employees.

## IR Activities

### ● Policy for IR Activities

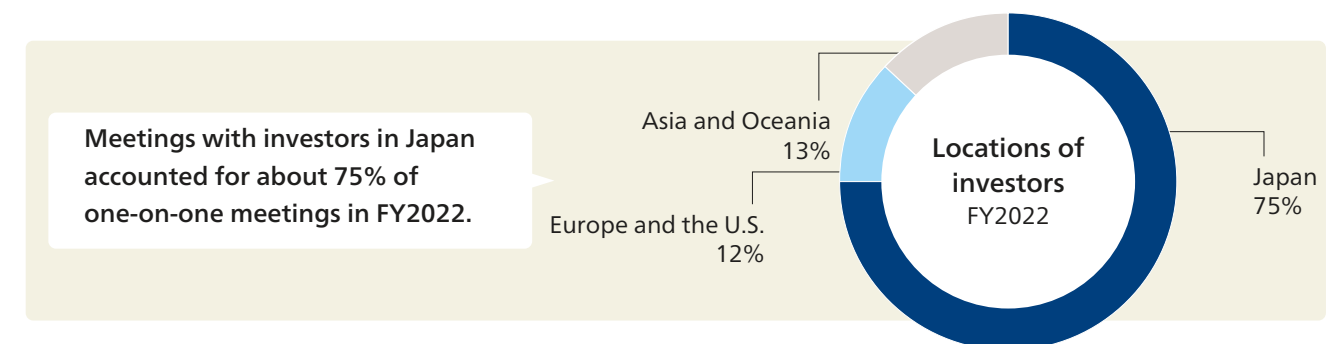
At the Daio Group, we follow our corporate motto "Passion with Sincerity" and focus on making timely, appropriate and fair information disclosure to our stakeholders, including shareholders, investors and analysts, and promoting sincere and proactive dialogue with them. We will continue to make efforts to explain the direction of our management policy and business strategies clearly and to provide feedback on opinions received to management (including Outside Directors) and reflect them in our corporate activities appropriately.

### ● Major IR Activities and IR Structure

Details of the dialogues are promptly relayed to the management team after each event.

Activities	FY2020	FY2021	FY2022	Major persons in charge (FY2022)
One-on-one meetings with institutional investors	67	77	91	General Manager and Manager in charge of IR
Earnings and strategy briefing for analysts and institutional investors	6	6	5	President, CFO, General Manager of Corporate Planning Division
Overseas IR events*	4	1	2	President
Events for institutional investors (mill tours, etc.)	0	0	3	General Manager and Manager in charge of IR
Events for individual investors	0	1	2	General Manager of Corporate Planning Division, General Manager in charge of IR

\*Events geared toward overseas investors mainly took place online due to COVID-19.



### ● Major themes of dialogue

- Response to the soaring costs of raw materials and fuels caused by historic exchange rate fluctuations and geographical risks
- Performance results and strategies for growth businesses of H&PC domestic business and overseas business
- Demand trends after COVID-19
- Progress in the Medium-Term Business Plan
- Policy for shareholder return

Briefing for individual investors



Please check the website below for IR materials.  
<https://www.daio-paper.co.jp/en/ir/>

Web-based briefing for individual investors



## Directors, Audit &amp; Supervisory Board Members and Executive Officers (As of July 1, 2023)

## ● Representative Directors



**Yorifusa Wakabayashi**  
President and Representative Director  
Chief Executive Officer  
Responsible for Home & Personal Care Unit

July 2018: Director and Managing Executive Officer  
General Manager of Home & Personal Care Domestic Business Group  
April 2019: Director and Managing Executive Officer  
General Manager of Domestic Business Group, Home & Personal Care Unit  
April 2021: President and Representative Director  
Chief Executive Officer



**Kunihiro Okazaki**  
Executive Vice President and Representative Director  
Executive Vice President  
Responsible for Sales and Global Logistics Division

June 2012: Director and Managing Executive Officer  
June 2015: Director and Senior Managing Executive Officer  
April 2016: Representative Director and Senior Managing Executive Officer  
April 2019: Executive Vice President and Representative Director  
April 2021: Executive Vice President and Representative Director  
Executive Vice President

## ● Directors

**Hiroshi Yamasaki**

Director, Managing Executive Officer  
General Manager of Resources and Procurement Division and General Manager of Sustainability Promotion Division, Corporate Unit

May 2017: Director, Deputy General Manager of Production Division, and General Manager of Mishima Mill  
April 2019: Director, Deputy General Manager of Production Division, Production Unit and General Manager of Mishima Mill  
April 2021: Director, Managing Executive Officer Responsible for Production Unit; General Manager of Production Division

**Yukihiro Tanaka**

Director, Managing Executive Officer  
General Manager of General Affairs and Personnel Division, Corporate Unit; Responsible for Risk & Compliance

April 2019: Director, General Manager of Corporate Planning Division, Corporate Unit  
April 2021: Director, Managing Executive Officer  
General Manager of Corporate Planning Division, Corporate Unit  
June 2021: Director, Managing Executive Officer  
General Manager of General Affairs and Personnel Division, Corporate Unit

**Atsushi Ishida**

Director, Managing Executive Officer  
General Manager of Paper & Paperboard Business Group, Paper & Paperboard Unit; Responsible for Intelligence Technology Planning Division, Corporate Unit

April 2021: Managing Executive Officer  
General Manager of Industrial Paper and Containerboard Business Group, Paper & Paperboard Unit  
June 2021: Director, Managing Executive Officer  
General Manager of Industrial Paper and Containerboard Business Group, Paper & Paperboard Unit  
May 2023: Director, Managing Executive Officer  
General Manager of Paper & Paperboard Business Group, Paper & Paperboard Unit

**Hiroyuki Fujita**

Director, Managing Executive Officer  
General Manager of Domestic Business Group, Home & Personal Care Unit

July 2018: Executive Officer, General Manager of Paper Business Group  
June 2019: Director, General Manager of Newspaper and Paper Business Group, Paper & Paperboard Unit  
July 2020: Director of Daio Paper; Chairman and Director of Santher-Fábrica de Papel Santa Therezinha S.A.  
June 2021: Managing Executive Officer of Daio Paper; Chairman and Director of Santher-Fábrica de Papel Santa Therezinha S.A.

**Toshikatsu Tanahashi**

Director, Managing Executive Officer  
Responsible for Production Unit; General Manager of Production Division; General Manager of Mishima Mill

July 2019: Executive Officer  
Senior Deputy General Manager of Mishima Mill, Production Division, Production Unit <Responsible for Manufacturing Department>  
April 2021: Senior Executive Officer  
Deputy General Manager of Production Division, Production Unit and General Manager of Mishima Mill  
April 2023: Managing Executive Officer  
Deputy General Manager of Production Division, Production Unit and General Manager of Mishima Mill

**Shuhei Shinagawa**

Director, Managing Executive Officer  
General Manager of Corporate Planning Division and Business Administration Division, Corporate Unit

April 2021: Senior Executive Officer  
General Manager of Corporate Planning Department, Corporate Planning Division, Corporate Unit  
June 2021: Senior Executive Officer  
General Manager of Corporate Planning Division, Corporate Unit  
July 2022: Managing Executive Officer  
General Manager of Corporate Planning Division, Corporate Unit

## ● Outside Directors

**Naosuke Oda**

Director (Outside)  
Appointed in 2022

**Yoichi Takei**

Director (Outside)  
Appointed in 2020

**Yoshinobu Hiraishi**

Director (Outside)  
Appointed in 2021

**Haruko Ozeki**

Director (Outside)  
Appointed in 2021

## ● Audit &amp; Supervisory Board Members

**Hiromitsu Fujii**

Audit & Supervisory Board Member

**Tsutomu Ariyasu**

Audit & Supervisory Board Member

**Yoichiro Yamakawa**

Audit & Supervisory Board Member (Outside)

Appointed in 2008

**Takemi Nagasaka**

Audit & Supervisory Board Member (Outside)

Appointed in 2016

**Kyoko Okada**

Audit & Supervisory Board Member (Outside)

Appointed in 2020

## ● Executive Officers

Managing Executive Officers	<b>Hiroyuki Shidara</b>	Chairman and Director of Santher-Fábrica de Papel Santa Therezinha S.A.
	<b>Toshiki Yamagami</b>	President and Representative Director of Elleair International Turkey Kişisel Bakım Ürünleri Üretim A.Ş.
	<b>Hiroshi Mizobuchi</b>	General Manager of Product Development Division, Home & Personal Care Unit; Responsible for Global Marketing Division, Home & Personal Care Unit
	<b>Takahisa Kashiwabara</b>	President and Representative Director of Elleair International China (Nantong) Co., Ltd.
Senior Executive Officers	<b>Michihiko Tamaki</b>	General Manager of Advanced Materials R&D Center, Production Division, Production Unit
	<b>Takashi Yoshida</b>	General Manager of Intelligence Technology Planning Division, Corporate Unit
	<b>Mitsuru Ogawa</b>	General Manager of Human & Family Care Sales Division, Domestic Business Group, Home & Personal Care Unit
	<b>Makoto Saito</b>	General Manager of Overseas Business Group, Home & Personal Care Unit; General Manager of Overseas Business Promotion Division, Overseas Business Group, Home & Personal Care Unit
Executive Officers	<b>Yukio Kume</b>	Executive Vice President and Director of Elleair International China (Nantong) Co., Ltd.
	<b>Mikiro Shiramine</b>	Deputy General Manager of Resources and Procurement Division (Responsible for Purchase Planning Department and Overseas Resources Department)
	<b>Takashi Imaizumi</b>	General Manager of Intellectual Property Department, Corporate Planning Division, Corporate Unit
	<b>Junichi Ikawa</b>	Deputy General Manager of Sustainability Promotion Division, Corporate Unit
	<b>Akihisa Yano</b>	Acting Manager of Mishima Mill, Production Division, Production Unit (Responsible for Utility Unit)
	<b>Masahiko Takeshima</b>	President and Representative Director of Elleair International (Thailand) Co., Ltd.
	<b>Yoshitsugu Fujii</b>	General Manager of Newsprint Sales Division, Paper & Paperboard Business Group, Paper & Paperboard Unit
	<b>Akio Nagaoka</b>	President and Representative Director of Daio Package Corporation
	<b>Shuji Ozaki</b>	Acting Manager of Mishima Mill, Production Division, Production Unit (Responsible for Paper Production Unit)
	<b>Akihisa Masuda</b>	General Manager of General Affairs Department, General Affairs & Personnel Division, Corporate Unit (Responsible for General Affairs in Shikoku)
	<b>Takeshi Kojima</b>	Deputy General Manager of Business Administration Division, Corporate Unit
	<b>Kazuyoshi Tagami</b>	General Manager of Global Logistics Division



## Round-table Talk by Outside Directors

The four Outside Directors of Daio Paper had a round-table talk on our governance structure and issues in business management from two perspectives: review of the previous fiscal year and the future direction. Here are the contents of the talk.

### Review of FY2022

#### — Please give us your evaluation of our governance initiatives in FY2022.

**Ozeki:** Last year, the three committees, Risk and Compliance, Sustainability, and Diversity, were clearly positioned as organs of the business execution segment, and their structures were reviewed. The Risk and Compliance Committee enhanced the activities for risk assessment, which had been conducted by the Compliance Committee, its predecessor, by modifying the direction of activities so that various risks can be identified not only through a bottom-up approach but also from a top-down perspective. For these committees, in addition to reviewing matters handled by each committee, it is necessary to define more specifically the relationship between these committees and discussions at the Board of Directors' meetings. Through trial and error, a first step toward reform has been taken. So I will continue to keep an eye on their progress with further structural enhancement.

**Takei:** Regarding the three committees you mentioned, the position of Outside Directors on the committees was changed from committee members to observers. Also, Outside Directors are now assigned to different committees as observers. As a result, I feel that it has become difficult to obtain information about the committees to which I am not assigned as an observer. Therefore, there is room for further improvement in

enhancing cooperation with the Board of Directors to facilitate better sharing of information on committee discussions and, in particular, ensure timely reporting of significant matters. For the Nomination Committee and the Remuneration Committee, we must continue to consider ways to bring their operation closer to what the Corporate Governance Code requires. On the other hand, I recognize certain improvements in the efficiency of the Board of Directors' operation, such as the introduction of tablet devices at the Board of Directors' meetings.

**Oda:** I was appointed as an Outside Director only last year, but my impression about the committees, especially the Risk and Compliance Committee and the Sustainability Committee, is that regarding each of their themes of discussion, they should go through a process of thoroughly considering and discussing within the company the stance and direction of the approach of the company before bringing them to discussion with the Board of Directors. Sharing of information and reporting to the Board of Directors are important. However, rather than just listing themes like a textbook, I think it is necessary to have more in-depth discussions within the company about its stance and approach on each of the themes.

**Hiraishi:** As all of you have pointed out, I, too, have noticed the structural issue of a significant disparity in the information available to me depending on my participation in a committee. Regarding the

reorganization of the Risk and Compliance Committee, the aim was to recognize risks much earlier than before so as to accelerate consideration of responses thereto. I think the direction for improving awareness of risk management is right. I participated in the Sustainability Committee as an observer last year for the first time. As international standards and frameworks are being developed, I think it is noteworthy that awareness of sustainability has been recognized and shared throughout the company as demonstrated in actions such as the release of the Sustainability Vision and the declaration of achieving carbon neutrality by FY2050. Of course, we could argue that Daio Paper, as a company in the manufacturing industry, which has a significant impact on the environment, should have strengthened its recognition and awareness of sustainability earlier and reflected them in business management. However, it is making steady progress with reform, and I would like to keep paying attention to future development.

#### — Please share with us your suggestions for further enhancement of our governance structure.

**Takei:** Although there are many issues to be discussed by the Board of Directors, improvements can be seen in the content, time allocation, format, etc. of the agenda items. Going forward, the company will increase the weight of its Home & Personal Care (H&PC) business, while the Japanese government has set a target of

a 30% female executive ratio. In response, we must consider the number of members of the Board of Directors, including Audit & Supervisory Board Members, and its composition. Of course, the urgent priority for the moment is to rebuild the business performance. However, we must also continue to consider the ideal governance structure.

**Oda:** After I became an Outside Director last year, what surprised me most was the thickness of the paper documents shared as reference materials for the Board of Directors' meetings and the detailedness of their contents. I think this represents the company's culture of placing emphasis on reporting. But what is more important than reporting is to clarify the themes and issues to be discussed at the Board of Directors' meetings and deepen discussions from multiple angles. Matters that need to be confirmed in advance should be confirmed in the advance briefing held before the Board of Directors' meeting, and then discussions should be deepened during the meeting. In this sense, thanks to the introduction of tablet devices as Mr. Takei mentioned, the operational aspect has been gradually improved over the past year.

**Hiraishi:** Yes. Since I first joined the Board two years ago, I have been overwhelmed by the "paper culture" that the company has inherited, from materials for advance briefings to those for the actual Board of Directors' meetings, and to the minutes prepared after the meetings. The use of tablet devices has facilitated

### Yoichi Takei

Outside Director

Became Outside Director of Daio Paper in June 2020. Has expertise as an attorney-at-law and served as an officer at other companies.

### Haruko Ozeki

Outside Director

Became Outside Director of Daio Paper in June 2021. Served as the legal head and an officer at another company.

### Naosuke Oda

Outside Director

Became Outside Director of Daio Paper in June 2022. Served as the president and representative director at another company.

### Yoshinobu Hiraishi

Outside Director

Became Outside Director of Daio Paper in June 2021. Served as a diplomat in various countries.



organization and simplification of the meeting agenda, improving efficiency of operation. The overall governance system cannot be improved overnight. However, based firmly on the history and traditions that the company has inherited, the company must boldly change what should be changed in light of the emerging global standards for governance structure, without decelerating the governance reform. What I can point out as a step of improvement is that in response to a request of us, Outside Directors, meetings to exchange opinions between the three Representative Directors and the four Outside Directors began to be held once every few months on top of the Board of Directors' meetings. These are very good opportunities for us to exchange opinions with the execution side beyond the scope of the agenda of Board of Directors' meetings, so I would like to see this trend continue in the future.

**Ozeki:** I heard it was difficult to obtain tablet devices due to the COVID-19 pandemic, but with support from Outside Directors, it was finally realized. Everyone involved, including not only the secretariat but also members of the Board of Directors, is benefiting from them. Also, as Mr. Takei said, the discussion about the ideal Board of Directors for the company was delayed because the highest priority was on issues related to business performance, but of course it has not been shelved. As to the target ratio of 30% for women in executive positions, the level of social requirement will never decline in the future. Since diversity on the Board of Directors is insufficient, I recognize this as a theme that should be discussed in line with the direction that the Corporate Governance Code aims at.

#### — How do you evaluate our human capital strategy, and what are the issues?

**Oda:** In line with going paperless, under the leadership of President Wakabayashi, the company has begun to promote a shift from “a job for the end goal of reporting” to “a job that involves thinking actively for the end goal of driving changes.” Over the past year, I have felt that the company is good at having top-down instructions thoroughly followed, while the bottom-up awareness of employees to question the current situation in a positive sense and make changes is rather weak. Cultivating a corporate culture in which employees think for themselves and make changes will definitely lead to a stronger corporate structure. And I strongly agree with the policy of promoting the development of such highly independent and autonomous human resources.

**Hiraishi:** While placing importance on training new

graduates, Daio Paper also actively hires competent human resources from outside the company and promotes them even to core positions, such as General Managers of Divisions or Departments. In view of future business expansion overseas, I am confident that the direction of human resource recruitment and development is right. On the other hand, when looking at sustainable growth on a global scale, we must consider human resources in a broader and multilayered range. It is important to help employees build career paths over the medium to long term through such means as having young employees experience overseas duties and assigning personnel with global experience to core positions of the Headquarters. If such human resource development and promotion becomes established as part of the corporate culture, I think it will attract talented human resources in terms of hiring new graduates and developing next-generation successors. Not only for global human resources, the same goes for development of female executives. As a company listed on the Prime Market, Daio Paper will be sooner or later urged to disclose the targets for the numbers of female officers and managers and their percentages. So, a major task for the company would be robust planning and successful implementation of a human resource strategy that can achieve such targets.

**Ozeki:** In order for the company to continue to exist and thrive in the future, it is necessary to continuously hire personnel who have a skill set different from before. In the Sustainability Committee, we are discussing the theme of how to be a company of choice. There are many issues that need to be addressed to become a company that will be chosen in the job market and, in particular, to become an attractive company that can appeal to the pool of human resources that the company wants. In addition to enhancing diversity in skill sets, I think it is important for not only the Corporate Unit but also subsidiaries and plants to proactively introduce a job-based personnel system that makes it easier to clarify the responsibilities of each position and the required skill sets and competencies.

**Takei:** Looking back on this year, there are several points that I evaluate highly, such as reviewing employee career paths and encouraging male employees to take childcare leave. On the other hand, for the development of female managers and global human resources, I think it is necessary to consider stronger initiatives with the Diversity Committee placed at the core. I think there are also many other important issues to be addressed, such as increasing engagement by employees of subsidiaries and group companies and making investment in human resources in the technology and digital aspects.

I hope that the company will prioritize and organize its human resources strategies and thereby strengthen the structure. Due to the severe business results in FY2022, the company was unable to raise the wages of its hard-working employees, which must have affected the employees' motivation. I think it is necessary, from the perspective of securing competent human resources, to consider the introduction of a job-based personnel system.

#### For future growth

##### — For growth in the future, what are the social issues that the company should address? And what do you think are the societal expectations placed upon the company?

**Hiraishi:** There are a wide range of social issues that the company should address. But efforts toward decarbonization and climate actions are particularly important in order to achieve the target of carbon neutrality by FY2050. The company has launched some plastic-replacing products, and I expect it will further advance development of technologies that contribute to the environment. In terms of human resources, while working to secure diversity in its human resources, the company should develop an environment to make the company itself continue to be attractive to its existing human resources through such initiatives as establishing a fair evaluation system based on abilities of individuals. I think this will address at the company the issue of human rights in a broad sense. In addition, in view of natural disaster risks, I expect the company to strengthen measures to prevent or mitigate disasters and to establish a supply chain structure that is resilient to disasters if they occur so that the company can fulfill its social responsibility.

**Ozeki:** The company has already been working on social issues and risk management. In terms of manufacturing, in particular, I think that the risk associated with the concentration of various functions at the Mishima Mill is a critical and urgent issue to be addressed. Meanwhile, the company has shifted its focus for the future from B2B-oriented paper and paperboard business to the B2C-oriented field of household and hygiene products. It is expected that the company will increase its presence and popularity in the general consumer goods market. On the other hand, instead of relying on the fields in which it currently has strengths, in line with structural changes in the domestic population pyramid, the company needs to sharpen its awareness of trends and changes in the market segments in which the company may

demonstrate its meaning of existence and which may serve as a source of profits.

**Takei:** Social issues are not issues that arise from the company but emanate from outside. I think it is dangerous to have the idea that tackling social issues is good enough for a company. As movements and changes in society have been accelerating significantly, the company will not be able to survive unless it keeps up with them and works to solve the social issues. With such a sense of crisis, I think it is important for the company to undergo a painful structural change. As for manufacturing bases, the risk of concentration at the Mishima Mill is as mentioned by Ms. Ozeki. On the other hand, manufacturing sites have been constantly suffering from a water shortage for the past few years. I think the entire region, including the government, should take steps to address the issue of water resources.

**Oda:** The company has been enhancing its sustainable



management through such actions as upgrading the Sustainability Promotion Department to the Sustainability Promotion Division in the organizational reform this year. I think the enhancement of sustainable management is very important to solve social issues. I hope that the establishment of a structure to enhance sustainable management, including the Sustainability Committee, will lead to solving social issues.

##### — Please give us your advice for strengthening our growth foundation, such as the H&PC Business and overseas business expansion.

**Ozeki:** The company has several unique strengths that other companies do not have, such as production of fluff pulp. These strengths in the value chain from procurement to manufacturing are useful for sustainable



growth of the company. Ideas from within the company are of course important. But in order to grasp various changes with a sense of speed, I think it is also important to actively bring in insights from outside the company.

**Takei:** In the automobile industry, for example, amid what is said to be a once-in-a-century period of great change, there are companies that are rapidly shifting to EVs and companies that see EVs as an option. Similar changes are taking place in the papermaking industry. The company initially attempted to make a soft landing while reaping benefits by becoming one of the remaining players in the paper industry. But now this is becoming difficult. In Europe and the U.S., most paper manufacturers have shifted to the paperboard business. The company has positioned H&PC as the priority area and will change the allocation of resources, including human resources. In this process, I think the conventional mindset of pursuing “merits of scale” should also be changed. At the same time, as the trend of emphasizing ESG is likely to continue, forward-looking actions need to be taken. In determining a management direction, such as making effective use of human resources and digital technologies to focus on core businesses with a small number of selected employees and placing priority on creating profits, the company’s ability to adapt its mindset and execute changes is tested.

**Oda:** With domestic demand stagnant and growth opportunities sought overseas, it is important to change the business structure while developing high-value-added products to differentiate the company from competitors. The shift of the priority area to H&PC and overseas is not wrong. So, it will become extremely important to have a function to control ASEAN as a whole, overseas as a whole, or H&PC as a whole, from the perspective of total optimization while allowing individual local bases, such as those in Thailand, Vietnam, and Indonesia, to work hard to expand their respective

businesses. President Wakabayashi has taken charge of H&PC. I see this as a positive move. I believe discussing thoroughly on individual issues to find answers and considering total optimization from a broad perspective are both important.

**Hiraishi:** As ESG perspectives are becoming increasingly important, management based on ESG will be fundamental to companies. When expanding business overseas in the H&PC area, lessons learned from the past successes and failures should be reflected in overseas investment in the future to prevent the recurrence of the same failures. To make overseas business profitable, I think it is important to have a time span that takes into account various possible twists and turns that may arise from local history and social and economic circumstances.

#### — How do you envision the Daio Group of the future?

**Takei:** Since around 2000, the company has recognized that paper would eventually be replaced by digital, and the speed of the shift has been accelerating these days. In the past couple of years, it has become necessary to materialize the future picture we envisioned in the past ahead of schedule. It seems that the company is now urged to change not only its business portfolio but also its entire business structure. I expect the company will consider and carry out dynamic structural changes, including leveraging pulp instead of paper as its mainstay and enhancing technology in areas that are not paper, such as cellulose nanofibers, without dismissing even the possibility of removing “paper” from its company name, and envision growth toward future.

**Oda:** The business results of FY2022 were very severe. The company can no longer manage the situation by following what it has done so far. And I hope the company will turn this situation into a positive engine to change its fundamental structure. In terms of carbon neutrality, the initial policy was to shut down one coal-fired boiler every 10 years. However, due to soaring coal prices and rapid weakening of the yen, the company has begun to move ahead of schedule, including technological development. Reform may be opposed by conservatives. But when the situation has become this severe, there is no choice but that “we must do it.” I believe that we have come to such a point. So, with a strong awareness of the company’s Purpose (raison d’être), “with Passion with Sincerity, we will achieve Three Well-beings and realize an abundant and affable future,” I hope that the company will undergo a major reform by deepening constructive discussions to turn this

difficult situation into a positive vector, and all individual employees will voluntarily play active roles in it.

**Hiraishi:** As Mr. Oda said, it is important to make use of the experience of the drastic fall from the record-high profits in FY2021 to deficits in FY2022 for the future. At present, under these severe circumstances, the company is struggling to find ways to make improvements in the future through identifying the features of its business structure. In a sense, having experienced rock bottom has helped the company improve its resilience. Seeing it now as standing at a new starting point, I hope the company will leverage its strengths to implement structural reform, which is a shift to H&PC. For the future, I think it is also necessary to establish a brand image that makes it easier for general consumers and society to understand the company’s social mission and roles. I feel strong empathy for the Three Well-beings, namely, Hygiene, Life, and Regeneration, which the company values. No matter what its business structure is like in the future, I think it is important for the company to continue to communicate to society the value the company creates for society in an easy-to-understand manner.

**Ozeki:** Imagining the company existing in the future, say, 30 years or 50 years from now, which is difficult to predict, it would be no surprise if the company is engaged in a business completely different from now. It is highly possible that “paper” will no longer be included in the company name. I want not only the current executives but also young members, who will lead the company at that time, to discuss how the “Daio” brand should be rooted in society in the future. Looking back at history, under the leadership of the founder and his successors, the company continued to improve its business performance until around FY2021. But the performance declined significantly in FY2022, and the company decided to make a major shift to H&PC, partly due to the trends of the times. I guess that Daio Paper is now at a major turning point in its history. I believe we need to ask ourselves what will be the company’s purpose (raison d’être) 30 years from now, why we engage in business, and what are our unchanging core values. In the talk last year, I mentioned the importance of individuals with sound skepticism and an enterprising spirit. I think this is a good opportunity to have such individuals to actively discuss the future of the company without fixating on the preservation of what it is now and with an eye to even starting a completely different business.

#### — Finally, please give a message to our stakeholders.

**Oda:** In order for the company to increase its corporate

value in the future, I believe it is essential to leverage the sense of crisis under the current severe situation to promote and accelerate reform of the business structure. The company is at the stage of seeing the reform of its business structure over the medium to long term, strengthening the human resources base, and designing and implementing the reform in a speedy manner. In my own experience on the side of promoting businesses, I was sometimes bound by immediate tasks in front of me or past experience and tended to have a narrow perspective. Now, from a position a little distant from the company’s frontline operations, I will do my best to provide positive stimulations, based on my past failures and successes.

**Hiraishi:** I think the company has increased its resilience through trial and error, facing various difficulties during the past year. The company will have to overcome every issue for its growth, such as expanding business into new markets abroad, entry into the pet care products market, and exploring new businesses through development of cellulose nanofiber and other materials. In particular, in the course of the company’s overseas business expansion, my overseas experience during my time as a diplomat may be useful in several situations, such as M&A and PMI of overseas companies. Through contributing to improving the company’s global corporate value, I will do my best to respond to the expectations of the stakeholders.

**Ozeki:** The urgent task for the company is to rebuild and strengthen its business. But it does not mean that the governance reform can be relaxed. I will continue to aggressively express my opinions and recommendations while monitoring the executive side through the Board of Directors so that governance reform can be steadily implemented. Reform of the committee system has only just begun. I will do my best to help the executive team set a direction and firmly hold the steering wheel as they move forward.

**Takei:** In FY2022, what the company thought were their strengths turned into weaknesses. At the same time, I think that the move toward carbon neutrality served as a good opportunity to encourage reform within the company. As it has become difficult to imagine what the future will look like beyond the 5th MTBP, the company is being forced to draw a different picture of the future and make plans from a new stance. While the company will move forward with drastic reform after clarifying its new direction, I will personally offer various opinions from market and legal perspectives, thereby contributing to turning the current crisis into a positive opportunity for all members of the company to head in a new direction.

