

Shaping an Abundant and Affable Future for the World



Daio Group

Integrated Report 2022



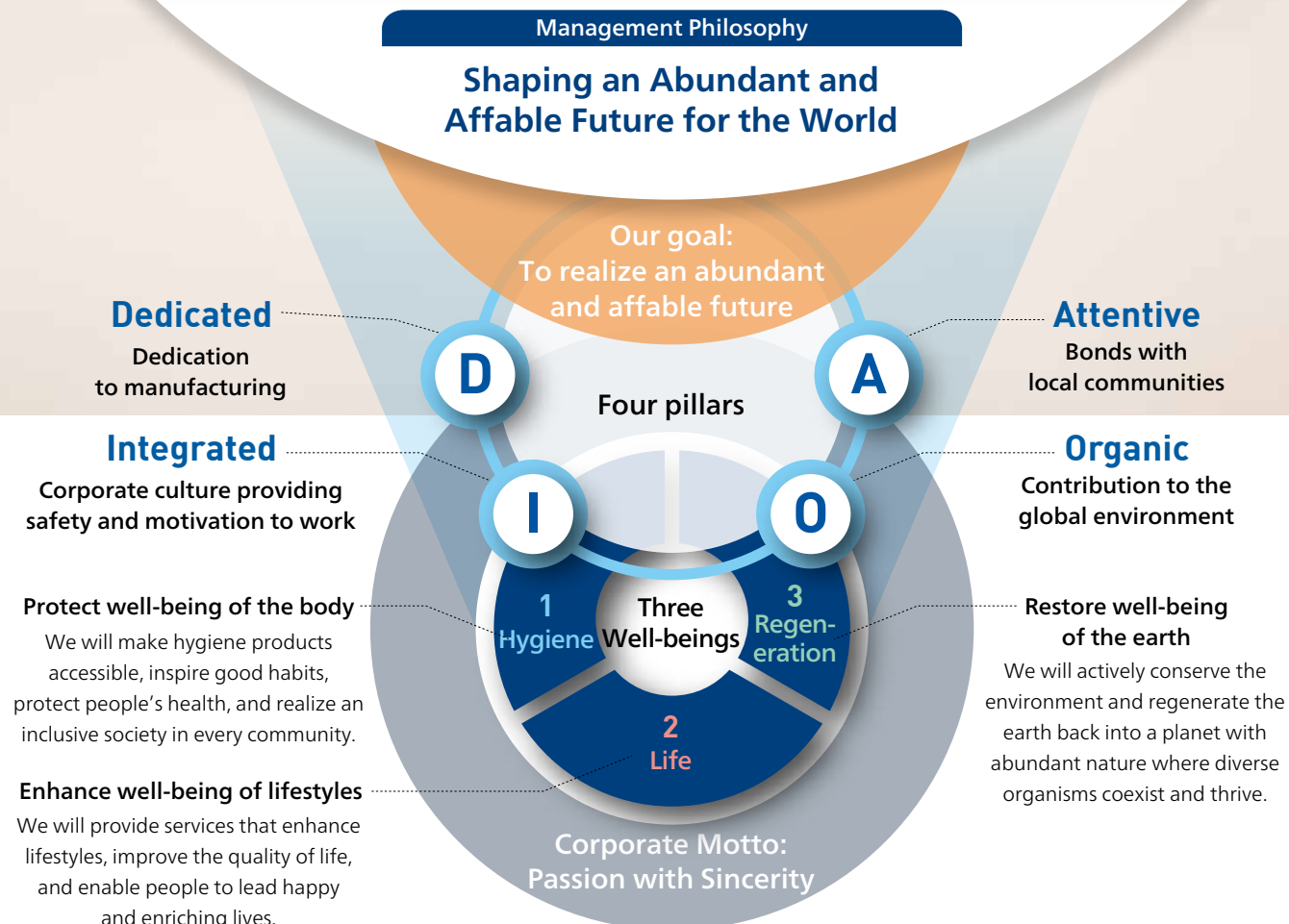
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Shaping an Abundant and Affable Future for the World

Management Philosophy

Under our corporate motto of Passion with Sincerity (our value), we will achieve Three Well-beings (our vision) and realize an abundant and affable future (our mission).

This is our management philosophy—"Shaping an abundant and affable future for the world"—embodied. This is our raison d'être—our purpose.



The four pillars of our management philosophy form the foundation to realize our goal of an abundant and affable future. The embodiment of these four principles will "shape an abundant and affable future for the world." We will incorporate the Three Well-beings that must be achieved into our business management. Keeping in mind our corporate motto and unchanging values "Passion with Sincerity," we will continue to take on challenges.

The Three Well-beings: what we seek to achieve
in order to realize an abundant and affable future.

Hygiene

Protect **well-being of the body**

Life

Enhance **well-being of lifestyles**

Regeneration

Restore **well-being of the earth**

The Three Well-beings compose the vision that the Daio Group aspires
to accomplish by solving social and environmental issues through its
business activities.

Reporting Period

April 1, 2021 to March 31, 2022
(Some information from outside the reporting period is
also included.)

Scope of Report

This report covers the 39 Daio Group companies. However, the
environmental data covers the production bases of Daio Paper
Corporation and the following 27 consolidated subsidiaries:
Iwaki Daio Paper Corporation; Dainichi Paper Corporation; Otsu
Paper Board Co., Ltd.; Harima Paper Tech. Corporation; Taisei Paper
Corporation; Marubishi Paper Tec. Corporation; Elleair Paper Co., Ltd.;
Akabira Paper Corporation; Elleair Product Co., Ltd.; Daio Paper Products
Corporation; Daio Printing Corporation; Miura Printing Corporation;
Daio Postal Chemical Corporation; Daiwa Shiko Co., Ltd.; Senmeisha
Corporation; Daio Package Corporation; Yorii Insatsu Shiki Co., Ltd.;
Uemura Shiko Corporation; Daio Mill Support Co., Ltd.; Daio Mill Support
Tokai Corporation; Elleair Texel Corporation; Forestal Anchile LTDA;

Elleair International (Thailand) Co., Ltd.; Elleair International China
(Nantong) Co., Ltd.; PT. Elleair International Manufacturing Indonesia;
Elleair International Turkey Kişisel Bakım Ürünleri Üretim A.Ş.; Santher –
Fábrica de Papel Santa Therezinha S/A

Guidelines Used as Reference

Environmental Reporting Guidelines 2018 (Ministry of the Environment,
Japan); ISO 26000; International Integrated Reporting Framework,
Japanese translation (VRF, formerly IIRC); Guidance for Collaborative
Value Creation (Ministry of Economy, Trade and Industry, Japan)

Publication Period

September 2022 (Publication of the next report is scheduled for
September 2023.)

Period Covered by Fiscal Year

In this report, FY2021 denotes the consolidated fiscal year ended March
31, 2022. The same applies to other fiscal years.

Visit the Daio Group website.

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

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Description of Future Outlook

Forward-looking statements included in this report are
based on various assumptions and do not assure or
guarantee the achievement of future financial figures or
the attainment of measures.

External Evaluations



Selected as a brand of the Health
& Productivity Stock Selection for
a second time after an interval of
three years

Note: The term "健康経営" (lit.
"Health and Productivity
Management") is a registered
trademark of Nonprofit
Organization KenkoKeiei.



Selected for
Bloomberg Gender-
Equality Index for the
first time



Acquired a DBJ BCM (Business
Continuity Management)
rating from the Development
Bank of Japan (DBJ)

Message from the President and CEO

First of all, I would like to express my sincere sympathy to those infected with COVID-19 and their families and my heartfelt thanks to all the people who are involved in COVID-19 treatment and prevention, including health professionals and administrative agency personnel.

Looking back on FY2021

The present age is said to be the era of VUCA (volatility, uncertainty, complexity and ambiguity). I strongly feel that we are living in such a chaotic world. In last year's Integrated Report, I mentioned that our business environment has experienced very rapid changes, such as a radical shift to decarbonization and the acceleration of digitalization, and that amid that, we are facing many difficult global challenges, including climate change and the pandemic. In the year since, our business environment

has seen further changes. Against a backdrop of Russia's invasion of Ukraine and other factors, fuel prices, such as those for crude oil and coal, have soared all over the world, and amid the prolonged unstable international situation caused by geopolitical risks, the yen is rapidly depreciating. Daio Paper is no stranger to dramatic changes—it has achieved business growth while responding to changes in the business environment and social needs since its founding in 1943. In FY2021, the Daio Group embarked on its Fourth Medium-Term Business Plan, which covers the years through to FY2023. Under the slogan "GEAR

Accelerating sustainability transformation while strengthening business resilience

UP: The Next Growth Stage, to a New Future," the Group has been vigorously carrying out various initiatives based on the three basic policies of (1) establishing a strong and resilient business portfolio, (2) improving financial strength, and (3) responding to climate change.

Looking back on FY2021, in spite of the sharp rise in raw material and fuel prices in the latter half of FY2021, we achieved net sales of 612.3 billion yen, hitting a record high for seven consecutive years, and an operating profit of 37.6 billion yen, posting an increase in profits for four consecutive years. Our ordinary profit and profit attributable to owners of parent also hit record highs. FY2021 marked a decade since we started formulating Medium-Term Business Plans. During the nine-year period of the First to Third Medium-Term Business Plans, we actively made

capital investments to drive future growth. FY2021 was the year in which such capital investments blossomed and bore fruit, and we were able to reap returns. On each business, amid a shrinking demand for graphic paper, the Paper and Paperboard Business continued to promote a shift to product types with potential for growth and improve productivity, thereby driving the growth of the Group in terms of both net sales and profits. With regard to the Home and Personal Care (H&PC) Business, due to decreased profits in overseas business, operating profit did not reach the FY2020 level, which was a record high. Nevertheless, both domestic and overseas businesses achieved a steady increase in net sales, and combined, the net sales of the H&PC Business hit a record high.

However, the year 2022 has brought more formidable challenges from the external



Yorifusa Wakabayashi
President and Representative Director
Chief Executive Officer

environment. The unprecedented rise in raw material and fuel prices and rapid progress in the yen's depreciation, among other continuing external factors, put pressure on the Company's profits. The future prospects of the Russia and Ukraine situation remain uncertain. We import raw materials and fuels from foreign countries, but rest assured, not from Russia. Still, that means rapid yen depreciation is a headwind for our company. Based on the current unit price of raw materials and fuels, a one-yen depreciation against the dollar will have a negative impact of about 600 million yen on operating profit. Therefore, for FY2022, we expect an increase in sales and a decrease in profits.

Addressing four issues

Daio Paper has continued its efforts to build

a corporate structure resilient to changes in the business environment. However, in an adverse business environment like today's, we recognize that it is necessary to take things up a gear and expedite our structural reforms. To this end, we have identified four material issues of top priority that we must address.

The first issue is the decline in demand for graphic paper, which we have been aware of since before we started the First Medium-Term Business Plan. Paper demand is expected to continue decreasing as virtually everyone is going paperless. We will respond to the shrinking paper demand by stepping up our ongoing efforts for structural reforms.

The second issue is the delay in bringing overseas business into the black. The Daio Group sets out these specific targets to be achieved by FY2026, the final year of the Fifth Medium-Term Business Plan: net sales of



800 billion yen to 1 trillion yen, 30% or more of which will be generated from the H&PC overseas business, and an operating margin of 10%. The H&PC overseas business will definitely be the driving force for the future growth of the Group. Although the H&PC overseas business recorded steady growth in net sales, it has yet to turn a profit due to external factors. We will bring the H&PC overseas business into the black as soon as possible by promoting multi-category business expansion through diversification of the product lineup for overseas markets and by accelerating the manifestation of synergy with the local subsidiaries acquired in Brazil and Turkey.

The third issue is the steep rise in prices of raw materials and fuels, which I have mentioned earlier. Soaring raw material and fuel costs have weighed most heavily on the Group's profits, and we have to raise prices again to cover rising raw material and fuel costs. To cope with rising raw material and fuel costs, we will further strengthen our business resilience.

The fourth issue is responding to sustainability challenges to realize a sustainable society. The Daio Group announced the Sustainability Vision in May last year, in which we declared our commitment to achieving carbon neutrality by 2050. Toward achieving this goal, we are phasing out coal power, in particular at our factories, to reduce dependence on fossil fuel. There are also calls for carbon neutrality to be achieved well before 2050, so we will

accelerate various ongoing initiatives for decarbonization with the aim of realizing a sustainable society.

Stepping up structural reforms

In response to an ever-shrinking demand for paper, since the First Medium-Term Business Plan, the Group has been promoting structural reforms based on the core strategy of making full use of Mishima Mill's pulp which boasts top-class competitiveness in Japan. To build a robust corporate structure resilient to changes in the business environment, we have strategically implemented measures to transform our business portfolio and shift our focus to household paper and packaging paper, for which demand is growing. Our structural reforms, aimed at maintaining full production of competitive pulp and avoiding permanent machine shutdowns, have thus far proceeded as planned: we converted paper machines into containerboard machines, installed new and additional household paper machines, and increased kraft pulp production. However, in the face of the tough situation we are in now due to steep rises in raw material and fuel prices, among other changes in the external environment, we shall have to further accelerate our structural reforms.

We will speed up our efforts to solidify our position as the top manufacturer of household paper and transform our business portfolio, focusing on the H&PC business, which is the growth engine for the Group. One of the key measures taken to that end is the start of in-house production of fluff pulp, which is used in disposable diapers. While production was originally scheduled to start in June 2025, we have decided to move it up to July 2023. Another key measure is the structural reform of production in the Chubu region. To further leverage the competitive pulp produced at the Kani Mill and strengthen delivery of household paper products to the Greater Tokyo Area, which is the center of demand, we will install an additional household paper machine at the Kani Mill and establish a new factory at a location about 5 kilometers away from the Kani Mill, equipped with a household paper converting machine and a logistics center. We aim to start operation of these machines in October 2024.

With a monthly production capacity of 3,000 metric tons, the addition of these machines will bring the household paper production capacity of the entire Group to 45,000 metric tons per month.

We will expand the business of the Paper and Paperboard Unit by strengthening the corrugated container business and increasing exports of containerboard to Asia. In the corrugated container business, we have been working to strengthen partnerships with independent corrugated container manufacturers. As part of such efforts, we acquired Yorii Insatsu Shiki Co., Ltd. and Uemura Shiko Corporation in 2020 and Yoshikawa Shigyo Corporation in 2021, consolidating them into the Daio Group. In May 2022, we acquired and consolidated Yoshizawa Industry Co., Ltd., a corrugated board and box manufacturer in Niigata Prefecture, into the Group. Regarding export of containerboard, we have received high ratings for the quality of our products developed for overseas markets, and orders have steadily increased. After we smoothed out our production and delivery process, exports of containerboard hit a record high in shipment volume in March 2022. As a result of these activities, we managed to increase the production output of the N7 machine of the Mishima Mill, which was converted from a paper machine into a containerboard machine, to 32,000 metric tons per month, exceeding the target of 30,000 metric tons per month that we set in the Fourth Medium-Term Business Plan. We will continue to strive to increase the added value and sales of our containerboard and corrugated container products.

Expediting multi-category business expansion in overseas markets

Regarding our overseas business, we are actively directing efforts to improve profitability, with a priority on the productivity of the factories in China and Brazil, which are huge markets. In China, we are working to expand into multiple product categories, building on our mainstay baby diapers. Specifically, we are striving to increase the sales of feminine care products, for which local production began in 2022. We plan to raise the sales ratio of products other than baby

diapers to about 25% of the total sales of the Chinese business by the end of FY2022. With regard to the baby diaper business, in addition to expanding sales of premium zone products, we are working to develop a market for our products in third-tier cities and below. We are also working to increase the sales of diaper pants as well as to strengthen our presence on e-commerce channels. By differentiating ourselves from local manufacturers through a strong lineup of high-valued-added products, not just in the feminine care category but also in the household paper category with lotion tissues, we will strive to increase profits.

In Brazil, we are working to expand our business not only through increasing sales of high-value-added products, but also through synergies that leverage the strengths of the three companies of Santher, Marubeni and Daio Paper. In Brazil, demand for single-ply toilet paper is decreasing while demand for two-ply and three-ply toilet paper is growing. We developed a high-value-added three-ply toilet paper product by utilizing Daio Paper's technological capabilities, and launched it in April 2022 under Santher's brand, "Personal," leveraging its brand power of top-class name recognition in Brazil. By actively launching new and high-value-added products, we will acquire new customers. Furthermore, we are utilizing the global network of Marubeni to access the African and South American markets, as well as to find out the feasibility of IoT-equipped feminine care product dispensers and disposable diaper subscription service in Brazil.

By implementing these strategies steadily, we aim to achieve net sales of 720.0 billion yen and operating profit of 51.0 billion yen in FY2023, the final year of the Fourth Medium-Term Business Plan.

Enhancing resilience to rising raw material and fuel prices

Even before the surge in raw material and fuel prices, the use of hard-to-recycle recovered paper and the stable procurement of wood chips have always been priorities for Daio Paper.

We use hard-to-recycle recovered paper by recovering pulp fiber for use in papermaking, a process known as material

recycling, and other residues as fuel for boilers, also known as waste-to-energy recovery. This initiative contributes to realizing a sustainable society as it seeks to reuse this category of wastepaper, which used to be simply incinerated as waste, by transforming it into a raw material and energy source. Through our continued efforts, the ratio of hard-to-recycle recovered paper pulp in containerboard rose to the 16% range in FY2021, and the profitability of the containerboard and corrugated container business also improved accordingly. We aim to raise the ratio of hard-to-recycle recovered paper pulp in containerboard to 30% by FY2030 while accumulating more proprietary technologies and operation know-how.

Our Group also possesses a high level of technological expertise in the production of various types of pulp and a flexible production system that allows us to switch between production of different product types without huge disruptions to achieve an optimum production balance. In tandem with our shift away from graphic paper, for which demand continues to decline, we will further strengthen our resilience to guarantee a stable supply of absorbent products, such as disposable diapers, for consumers. As I mentioned earlier, we will be moving up the start date of in-house fluff pulp production to July 2023. In addition, we are currently working to establish a technology to use pulp recovered from used disposable diapers in the production of fluff pulp. Disposable diapers, while essential for infants, elderly people, and their caregivers to lead comfortable lives, have high environmental impact as their high moisture content makes incinerating them difficult. In 2015, about 2 million metric tons of used disposable diapers were discarded in Japan. With an aging population, the number of people requiring care is expected to increase, and a certain amount of used diapers will continue to be discharged as waste. Through these initiatives, Daio Paper aims to ensure stable procurement of raw materials and contribute to the realization of a recycling-oriented society.

Regarding wood chips, which are raw materials for papermaking, we are working to ensure stable procurement of competitive hardwood and softwood chips from

Japan and overseas by fully leveraging the geographical advantage of the Mishima Mill, which is located adjacent to an international trade port. I believe this ability to stably procure woodchip is the source of the competitiveness of our company's pulp. We started engaging in the forestry business in 1989, when we established Forestal Anchile LTDA in Chile, South America. By further expanding our plantation area and boosting the growth rate of trees through improvement of tree species, we have promoted the absorption and fixation of CO₂ and increased the supply and competitiveness of hardwood chips. In transforming our business portfolio into one centered on the H&PC business in the future, it will be increasingly important to ensure that we can stably collect and supply softwood chips too. To this end, we will direct efforts to increase the volume of woodchips collected at the chip terminal facility of Oregon Chip Terminal INC, our subsidiary in Oregon, USA, and to improve its operational efficiency to reduce costs.

Meanwhile, in response to increasing demand for wood pellets in Chile, we have been working to venture into the pellet fuel business in Chile by utilizing our technologies and extensive network cultivated through forestry and chip production. We are now at the final stage before we start pellet fuel sales. We will first sell the pellets within Chile, and when we establish the technical know-how to produce black pellets, which have a superior advantage to regular wood pellets as an alternative fuel to coal, we intend to proceed with energy transition—this is one of our initiatives to move from fossil fuels to biomass, toward achieving carbon neutrality by 2050.

Responding to sustainability

In the Sustainability Vision announced last year, the Daio Group declared the achievement of carbon neutrality by FY2050 as its goal. We state in the Vision that with our founding spirit of "Passion with sincerity leads to greatness" in mind, we strive to achieve the Three Well-beings of Hygiene (protect well-being of the body), Life (enhance well-being of lifestyles), and Regeneration (restore well-being of the earth) in order to realize our management philosophy of "Shaping an

abundant and affable future for the world." We will accomplish the Three Well-beings through the four pillars of our management philosophy: "Dedication to manufacturing," "Bonds with local communities," "Corporate culture providing safety and motivation to work," and "Contribution to the global environment." We believe that our management philosophy embodies the goal of sustainability management.

Carbon neutrality is a goal under Regeneration. Our top priority is shutting down coal-fired boilers—we are replacing coal-fired boilers with alternative power generation facilities in phases. As part of such efforts to phase out coal, the third waste-to-energy boiler has been installed at Iwaki Daio Paper and is scheduled to commence operation in January 2023. With this, Iwaki Daio Paper will become a mill that uses in-house power generated only from non-fossil fuels. We also have plans to install a waste-to-energy boiler at the Mishima Mill. On CO₂ absorption, our plan to expand our plantation area in Chile is proceeding smoothly. In addition to these unique initiatives, we also take part in discussions continually at the Shikokuchuo City Carbon Neutrality Council, which was launched last year, to promote carbon neutrality at the regional level.

As part of our sustainability efforts through business activities, we provide products that help to reduce plastic waste under the unified brand called Elipla. We are working to increase brand recognition in order to promote the adoption of Elipla products. We have also started a project to address period poverty, in which we provide free sanitary napkins to students who cannot afford them in exchange for their opinions on our period products. We aim to make use of their opinions to create and develop better products that cater to their needs.

Cellulose Nanofiber (CNF), which is produced from wood pulp, is expected to become a new business pillar for our company. Our CNF composite resin pilot plant started operation in March 2022 on schedule. CNF is a material that will play a key role in the societal transition from high energy use to low energy use. We aim to achieve commercialization of CNF under the Fifth Medium-Term Business Plan by developing

a wide variety of applications, including automotive components, home electrical appliances, and concrete admixtures for construction.

I believe that achieving sustainability transformation is paramount toward ensuring the future growth of Daio Paper. I am confident that our company has the necessary foundations in place to successfully execute reforms. However, what is more important is that each and every member of the Company thinks and acts positively. Over the past year, in order to transform our company from a top-down organization into a bottom-up organization, I have worked to boost psychological safety in the workplace to foster a culture where every employee can express their opinions freely. I am glad to see that employees' mindsets have been gradually changing. As a global company that is actively pursuing overseas business expansion, we aim to become a company where diverse human resources can thrive and work to the best of their abilities. We will continue to be committed to diversity and inclusion, and we will actively promote human resource development and organizational vitalization to help every employee evolve, deepen their expertise and demonstrate their true worth, thereby leading to a sustainable increase in our corporate value.



History of the Daio Group

—Relentless pursuit of value creation through speedy decision-making and execution, and global expansion by leveraging brand power—

Daio Paper was founded in Shikokuchuo City, Ehime Prefecture, in 1943 to produce and sell washi (traditional Japanese paper), and it later developed as a manufacturer of newsprint and containerboard. The Company subsequently entered the paper business and the household paper business in a flexible response to changes in social needs, growing into a full-range paper manufacturer. By leveraging the brand power and sales channels it had developed through the household paper business, Daio Paper also entered the market for absorbent products, such as disposable baby diapers. Since 2011, the Company has expanded into growing overseas markets, including Thailand, China, and Indonesia, on a full scale.

Since 2018, in a prompt response to changes in the Japanese market, Daio Paper has promoted structural reforms to shift from graphic paper to packaging paper and household paper products while at the same time striving to penetrate its brands and expand its sales in overseas markets.

Furthermore, in order to tackle the social issue of shortages of infection control items amid the COVID-19 pandemic, the Company promptly decided to strengthen its supply system for alcohol-based sanitizing wipes, paper towels, and face masks in Japan and did so.

(Billions of Yen)
600



Responses to the COVID-19 pandemic

The Daio Group has implemented COVID-19 countermeasures based on the following policies:

1. Prevent the spread of the COVID-19 pandemic through Daio Group products and implement measures to avoid the suspension of production activities and the disruption of product supply.

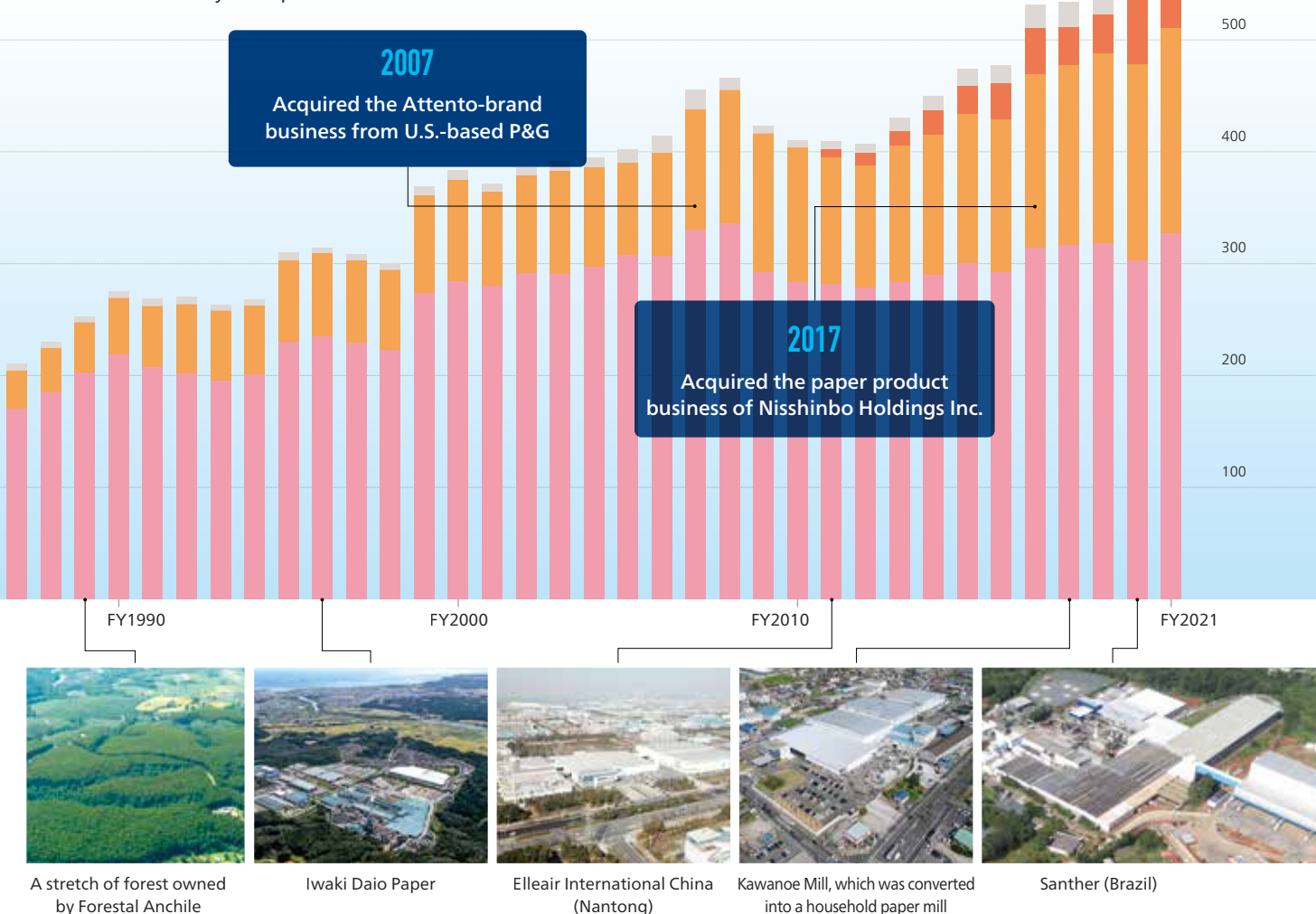
- The Group started face mask production in Japan by installing face mask production lines at Elleair Product's Tochigi Factory and beginning production in April 2020. The Group also supplied face mask to medical institutions and local governments.
- The Group increased the production output of household paper products through such measures as adding sanitizing wipe production lines to production factories of Elleair Paper and Elleair Product and installing paper towel production equipment at the Mishima Mill.
- Daio Package began to produce and sell partitions for infection control.

2. Create environments where customers, suppliers, employees, and their families can live safely.

- The Group has invested in systems for remote work and online meetings to create workplace environments where employees can work while maintaining social distance.
- Employees, staff of cooperating offices, and others who are to enter mills and factories (including contractors and carrier staff) undergo checks of their body temperature and physical condition.
- The Group provided voluntary workplace vaccinations to employees of the Tokyo Headquarters, the Mishima Mill, and nearby subsidiaries, as well as their family members.

(Billions of Yen)
600

The Daio Group will continue its efforts to both prevent the further spread of the COVID-19 pandemic and ensure the continuity of its production activities.



1947

The founder Isekichi Ikawa decided to switch from the production of *washi* (traditional Japanese paper) to *yoshi* (Western-style paper) because he foresaw a downturn in demand for *washi* and determined that the switch to *yoshi* would be the only way forward. Daio Paper thus started producing modern-style paper and newsprint.

1954

Daio Paper decided to strengthen the foundation for its development into an industrial paper manufacturer and newly installed kraft pulping equipment. As a result, the Company launched newsprint containing kraft pulp and pioneered kraft linerboard production by launching K Liner and KS Liner.

1972

Daio Paper decided to increase its production capacity to ensure the stable supply of all types of products, including not only newsprint and paperboard but also printing paper and packaging paper. The Company started construction of the New Mishima Mill with the aim of establishing a foundation for its development into a full-range paper manufacturer.

1979

Daio Paper decided to enter the household paper product market and began to produce and sell Elleair-brand facial and toilet tissue as part of its growth as a full-range paper manufacturer.

1980

Daio Paper decided to enter the absorbent product market. It started producing and selling disposable baby diapers and sanitary napkins in 1982.

1989

Aiming to achieve sustainable forest management, Daio Paper decided to establish Forestal Anchile in the Republic of Chile, South America, and went into the forestry business.

1996

Daio Paper decided to establish Iwaki Daio Paper in Iwaki City, Fukushima Prefecture, within 180 km from Tokyo, the largest source of recovered paper in Japan. The new company began to produce and sell newsprint made from 100% recovered paper, Japan's first such product.

2011~

In anticipation of a decline in domestic demand, Daio Paper decided to expand into overseas markets on a full scale and established a subsidiary for the local production of disposable baby diapers in Thailand in 2011, in China in 2012, and in Indonesia in 2014.

2018

As part of its production structure reform, Daio Paper converted the Kawanoe Mill into a household paper mill with a view to not only supplying household paper products to the Japanese market but also exporting them to Asian countries, including China. A household paper machine was added at the Mill in 2021.

2020

In order to accelerate global expansion, Daio Paper acquired hygiene product manufacturers in Brazil and Turkey.

At a Glance

The Daio Group manufactures and sells a full range of paper products, including newsprint, printing paper, and packaging paper, and consumer household goods, including facial tissue and other household paper products, disposable diapers, and feminine care products.

Approx. 11,000 kinds of products

Product Range

Daio Paper provides approximately 11,000 kinds of products, ranging from materials that support culture and industry, such as newsprint, printing and publication paper, packaging paper, and paperboard, to home and personal care products that support people's lives in all settings, such as facial tissue, toilet tissue, and disposable baby and adult diapers.

In FY2021, the Daio Group spent 3.547 billion yen on research and development. With the aim of achieving its sustainable growth, the Group has continued to conduct research and development to address environmental and social issues as well as consumer needs. The Group has been working to develop products that can contribute to plastic reduction and decarbonization, including paper products and a new material, cellulose nanofiber (CNF), from renewable wood resources.



R&D Expenses

3.547 billion yen

27 bases in Japan

10 bases in 8 countries overseas

Production Bases and Group Company Business Bases

In Japan, a total of 27 bases—comprising production bases and Group company business bases—operate various businesses. Outside Japan, the Group has 10 bases in eight countries, including Thailand, China, and Indonesia. * Bases: Daio Paper Corporation and its consolidated subsidiaries (headquarters) (as of June 30, 2022)

Business Description

■ Paper and Paperboard Business

Production and sale of newsprint, printing and publication paper, communication paper, packaging paper, containerboard and corrugated container products, pulp, etc.

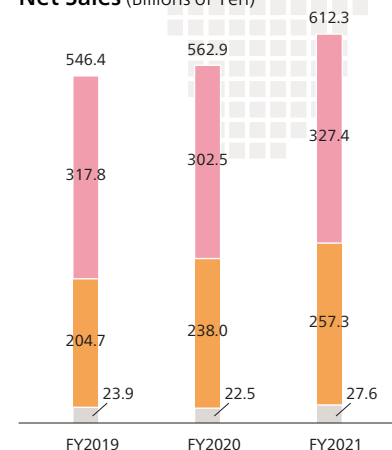
■ Home and Personal Care Business

Production and sale of household paper such as facial tissue, disposable baby and adult diapers, feminine care products, wet wipes, etc.

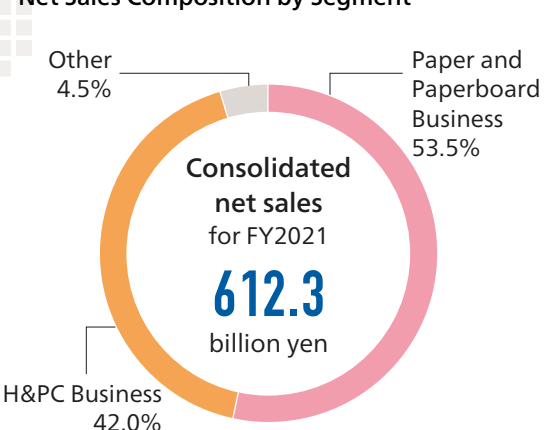
■ Other

Transportation, engineering, management of sports clubs and golf courses, etc.

Net Sales (Billions of Yen)



Net Sales Composition by Segment



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—

We operate our businesses while leveraging our various tangible and intangible assets to achieve sustainable growth and provide value for stakeholders.

No. 1

Household Paper Products' Market Share in Japan

Elleair is the signature brand of Daio Paper. The Company entered the Japanese tissue paper market with the brand in 1979, the latest among major paper manufacturing companies in Japan, and captured the top market share in just seven years. With products developed through market-driven approaches, Elleair is the top brand in the Japanese household paper industry.

*Source: Intage SRI+, sanitary paper market (facial tissues, toilet tissues, kitchen towels, and paper towels), April 2021 – March 2022, cumulative total sales by manufacturer



Group-owned Forest Area

590 km²

The Daio Group owns 590 km² of forested land—roughly the same area as Tokyo's 23 special wards—in Chile, South America. About half of this, 280 km² of land, is preserved as natural virgin forest toward the conservation of biodiversity and sustainable forest management.

Consolidated Workforce



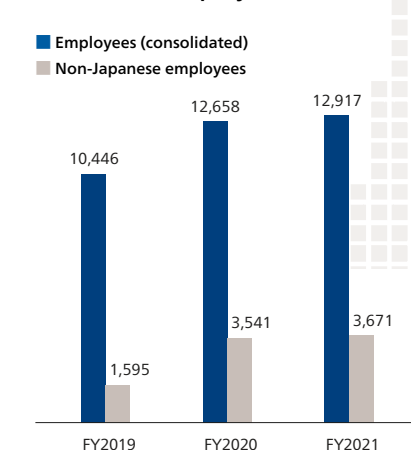
12,917 employees

The total number of employees in the Daio Group is about 13,000 employees. The Group aims to create a positive work environment where diverse employees can demonstrate their abilities to the fullest. To this end, the Group is promoting diversity management through various initiatives, such as supporting female employees' career development and encouraging male employees to take parental leave.

Results and Targets of the Three-Year Medium-Term Business Plans (MTBP)

	Results of the First MTBP (FY2014)	Results of the Second MTBP (FY2017)	Results of the Third MTBP (FY2020)	Targets set in the Fourth MTBP (FY2023)	Long-term vision to achieve during the period of the Fifth MTBP (FY2026)
Net sales	450.2	531.3	562.9	720.0	800-1,000
Operating profit (operating profit margin)	21.8 (4.8%)	11.1 (2.1%)	36.9 (6.6%)	51.0 (7.1%)	80.0-100.0 (10%)
Percentage of overseas H&PC business net sales	4.9%	7.7%	11.1%	18.8%	30% or above
ROE	10.0%	2.2%	10.1%	10% or above	12% or above
Net debt-to-equity (D/E) ratio	1.9	1.6	1.3	1.0	1.0 or below

Number of Employees (Consolidated)



Material Issues of the Daio Group

The Daio Group observes social trends from a global perspective and reviews key issues that it should tackle to increase its corporate value over the medium to long term, not only from a present-focused perspective but also from a future-oriented perspective, focusing on its goal. We have identified our priority material issues by taking the following steps.

STEP 1

Understand the environment surrounding the Group and social issues, and pick out and organize issues expected to have an impact on the Group's corporate value from among those issues

(1) Issues of stakeholder concern

We detected issues of considerable concern to stakeholders from among issues related to the Group's operations and among social and other issues through dialogue with stakeholders.

(2) Important issues for the Group

From among the risks and opportunities identified, we picked out issues that would have an impact on our corporate value unless we addressed them.

(3) Things we should do to achieve our goal (future visions)

We set our future goal and defined the future visions that would come to be when we achieve our goal. We then determined and organized the things we should do and the things we could do to achieve the goal and future visions in linkage with each of the SDGs.

STEP 2

Analyze and organize important themes

(1) Business strategies

We analyzed and organized the issues of stakeholder concern and important issues for our Group picked out at Steps 1-(1) and 1-(2) to determine which issues are important themes related to our business strategies.

STEP 3

Identify material issues

(1) Comparing the important themes with the things we should do to achieve our goal (future visions)

We compared the important themes organized at Step 2 with the things we should do to achieve our goal (future visions) determined at Step 1-(3), and we singled out the themes included in both groups as candidates for material issues.

(2) Determining material issues through discussions at important meetings

From the candidates for material issues, we further picked out the important issues that must be addressed immediately. We then raised them for discussion at the Sustainability Committee meeting, the Management Meeting and the Board of Directors meeting. Through multiple discussions, we finally identified our material issues.

Issues of stakeholder concern (examples)

Identified through dialogue

- Responses to the COVID-19 pandemic
- Current sales and future potential of environmentally conscious products
- Risk entailed by the global business expansion and progress therein
- Progress in the development of advanced CNF technologies and their application
- Relationships with local communities (such as social contribution activities)
- CSR procurement and supply chain management
- Progress in diversity initiatives and human resource development
- Establishment of a powerful governance system and risk management
- Decarbonization and other responses to climate change, use of recovered paper, and water resource management
- Conservation of biodiversity and forests

Important issues for the Group (examples)

Picked out from among our risks and opportunities and analyzed

- Population decrease and decline in paper demand in Japan
- Increases in income and improvement of living conditions of those at the bottom of the pyramid (BoP), which is estimated to comprise 4 billion people
- Development and practical application of new high-performance materials
- Harmony with local communities and supply chain management, including business continuity planning (BCP)
- Securing an organizational structure and management talents that can respond to business globalization
- Respect for human rights and the safety and health of employees and their family members
- Responses to international CSR requirements and risk management
- GHG emissions reduction by 2050
- Decrease in the amount of plastic used and exploration of alternative materials
- Reduction and reuse of industrial waste and water resource management
- Sustainable forest management and paying due attention to biodiversity

Forecasting from the perspective of the near future

Material issues

1. Strategic transformation of our business portfolio
2. Acceleration of global expansion
3. Creation of new businesses
4. Coexistence with local communities
5. Establishment of sustainable supply chain
6. Respect for human rights, development of human resources, and compassion for employees
7. Fair and highly transparent management
8. Response to climate change
9. Realization of a recycling-oriented society
10. Forest conservation and maintenance of biodiversity

Backcasting from the perspective of our goal

Our goal (future visions)

We defined the future visions that would come to be when we achieve our goal in linkage with each of the 17 SDGs and identified how we can contribute to the SDGs.



Value Creation of the Daio Group

At the Daio Group, we have continued to create value by striving to solve social issues through our business and by carrying out business activities that utilize various kinds of capital and strengths while working to enhance our corporate governance.

By continuing to provide all stakeholders with new value, we will fulfill our purpose (raison d'être) of achieving the Three Well-beings and realizing an abundant and affable future based on our corporate motto "Passion with Sincerity," and we will realize our management philosophy: "Shaping an Abundant and Affable Future for the World."

Major social issues	<ul style="list-style-type: none"> Changes in consumers' preferences and lifestyles Decrease in Japan's population, especially its working population Poverty issues and emerging countries' economic growth The increasing need to extend healthy life expectancy 	<ul style="list-style-type: none"> Measures for coexistence with COVID-19 Growing public concern about human rights issues Responses to the aging society with a declining birthrate Corporate misconduct and scandals 	<ul style="list-style-type: none"> Increase in the number of natural disasters due to climate change Realization of a decarbonized society Marine plastics Heightened public awareness of conservation of the global environment
Material issues » pp.17-18	<ol style="list-style-type: none"> Strategic transformation of our business portfolio Acceleration of global expansion Creation of new businesses 	<ol style="list-style-type: none"> Coexistence with local communities Establishment of sustainable supply chain Respect for human rights, development of human resources, and compassion for employees Fair and highly transparent management 	<ol style="list-style-type: none"> Response to climate change Realization of a recycling-oriented society Forest conservation and maintenance of biodiversity

Management Philosophy

Shaping an Abundant and Affable Future for the World

Hygiene

No poverty. High standards of living and health for all.

The issue of poverty will be solved, and people's living standards will be raised.

Infectious diseases will be kept under control.

Hygienic toilets will be common throughout the world.

Life

Happy and fulfilled lives for people around the world.

More people will enjoy their lives in retirement.

More women will be in more prominent roles in society.

Everyone will be able to work while raising children and/or looking after elderly people.

Regeneration

A regenerated planet Earth with abundant nature where diverse organisms can coexist and flourish.

Waste will be reduced, and a recycling-oriented society will be realized.

The entire supply chain will achieve carbon neutral status.

Significant progress will be made in the shift from plastic to naturally derived materials.

An abundant and affable future

Our goal: An abundant and affable future

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



Core competence
» pp.15-16

- Competitive advantage 1: Product value chain
- Competitive advantage 2: Environmentally conscious company
- Competitive advantage 3: Market-driven business strategy

① Our purpose (raison d'être)

② Social and material issues

③ Six capitals (input)

④ Core competence

⑤ Products and services by business segment (output)

⑥ Value: The impacts we bring (outcome)

Our mission ▶ To realize an abundant and affable future

Four pillars of our management philosophy

Dedication to manufacturing

Hygiene
Protect well-being of the body

Bonds with local communities

Life
Enhance well-being of lifestyles

Corporate culture providing safety and motivation to work

Regeneration
Restore well-being of the earth

Contribution to the global environment

Financial

- Total assets: 840.4 billion yen
- Net assets: 266.7 billion yen
- Net interest-bearing debts: 297.4 billion yen

Manufacturing

- Mishima Mill: One of the world's largest coastal paper mills
- Production output: Approx. 2.1 million t/year (9% of Japan's paper and paperboard production)
- Capital expenditures (FY2021): 64.2 billion yen

Intellectual

- Intellectual property owned: 4,831 patents, 1,015 registered designs, 1,575 registered trademarks

Social and relationship

- Associations such as DAIO Partner Ship Sakuraterasu and Aoiterasu
- Shikokuchuo City Carbon Neutrality Council

Human

- 12,917 employees, including 3,671 employees of non-Japanese nationality
- Future-oriented investment in employee education, health management and system improvements, etc.

Natural

- 590 km² of forested land owned, including 280 km² preserved as natural forest
- Water intake: 186.128 million m³/year

Newsprint and paper business



- Newsprint
- Printing paper
- Communication paper
- Printing
- Stickers/labels

Industrial paper and containerboard business



- Packaging paper
- Containerboard
- Corrugated container

Domestic and overseas H&PC business

- Facial tissue
- Toilet tissue
- Kitchen towels
- Face masks
- Wet wipes
- Body soap
- Shampoo

Other businesses

- RFID
- Golf courses
- Sports clubs
- Transportation
- Engineering

- Net sales: 612.3 billion yen
- Percentage of H&PC Business net sales: 42.0%
- Operating profit margin: 6.1%

- ROE: 9.5%
- Net D/E ratio: 1.1
- Rating (JCR and R&I): A-
- Capital expenditures (for the three years 2021–2023, including expenditures for M&A): 155.0 billion yen

- Approx. 11,000 kinds of highly competitive high-quality products
- Elleair as Japan's top household paper product brand
- External evaluations: Health & Productivity Stock Selection, etc.

- Shikokuchuo City as the city with the largest shipments of paper in Japan (for 16 consecutive years)
- Smoking rate: 23.9%
- Female managers: 2.8%
- Benefits: Group Long-term Disability Benefit plan (GLTD) and a stock-based incentive system for managers

- GHG emissions: 4.518 million t/year
- CO₂ emissions: 3.1% increase (from the 2013 level)
- Protecting endangered species (kawabata-moroko and Patagonian cypress)
- COD base unit: 9.9% reduction (year on year)
- Wastewater discharged: 173.600 million m³/year
- Water consumption: 12.528 million m³/year ([Water intake] – [Wastewater discharged])

[FY2026 targets]

- Net sales: 800 billion to 1 trillion yen
- Percentage of H&PC Business net sales: 50.0% or above
- Operating profit margin: 10.0%

- ROE: 12.0% or above
- Net D/E ratio: 1.0 or below
- Rating (JCR and R&I): A-level rating

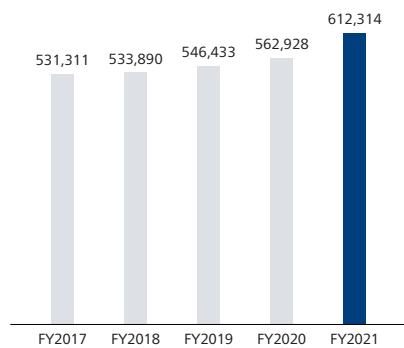
[Daio Abundant and Affable Future 2030]

Contribution to achieving the SDGs
» pp. 47–48

Financial and Non-Financial Highlights

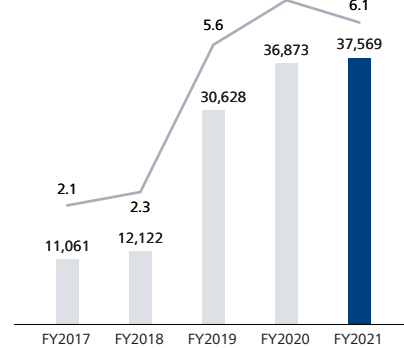
Financial Data

Net Sales (Millions of Yen)



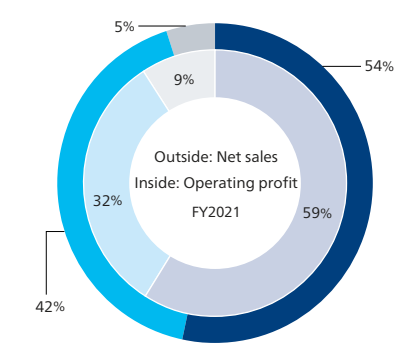
Operating Profit (Millions of Yen)

Operating Margin (%)

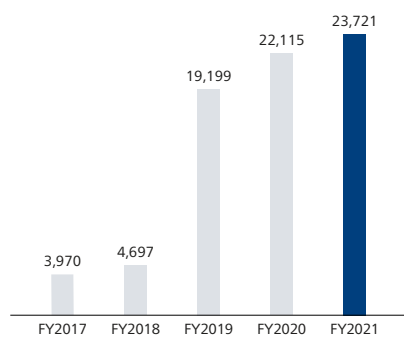


Composition of Net Sales and Operating Profit

Paper and Paperboard Home and Personal Care Other

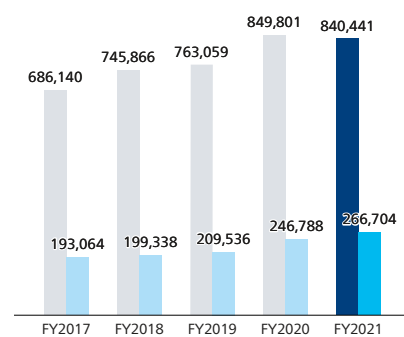


Profit Attributable to Owners of Parent (Millions of Yen)



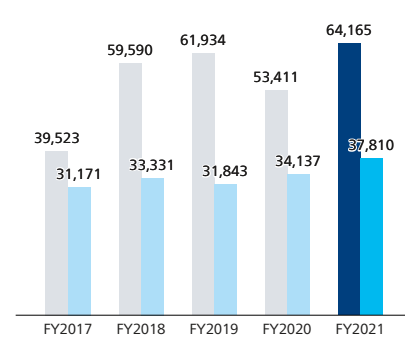
Total Assets (Millions of Yen)

Net Assets (Millions of Yen)

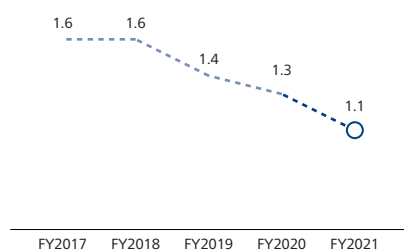


Capital Expenditures (Millions of Yen)

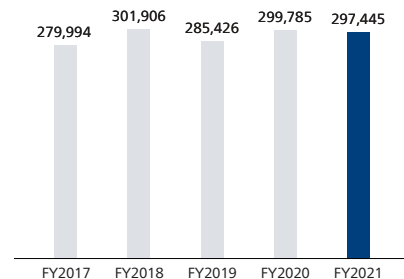
Depreciation (Millions of Yen)



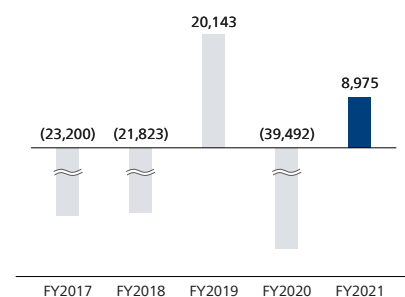
Net Debt to Equity Ratio



Net Interest-Bearing Debts (Millions of Yen)



Free Cash Flow (Millions of Yen)



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—

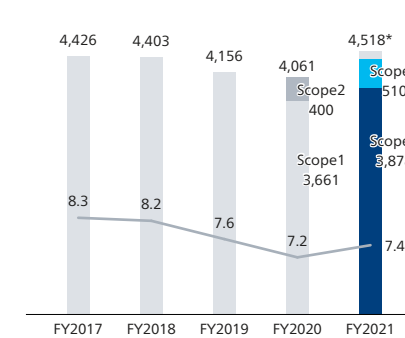
Non-Financial Data

Environmental related

Greenhouse Gas (GHG) Emissions

GHG Emissions (1,000 t)

GHG Emissions per Unit of Net Sales (t/million yen)

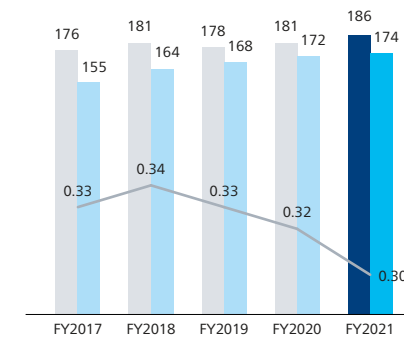


*FY2021: Net GHG emissions excluding the amount equivalent to green power certificates sold: 4,388; emissions per unit of net sales: 7.2

Water/Wastewater

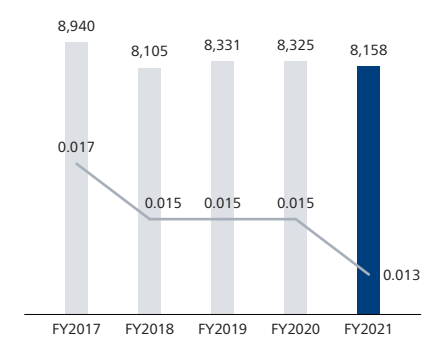
Water (million m³) Wastewater (million m³)

Water per Unit of Net Sales (1,000 m³/million yen)



COD Emissions

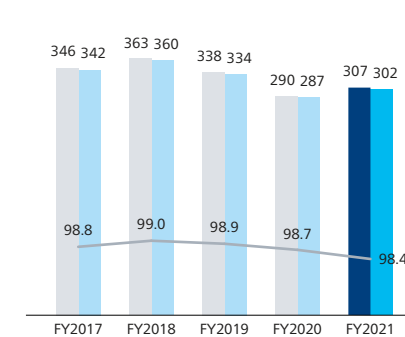
COD (t) COD per Unit of Net Sales (t/million yen)



Waste Created/Waste Reused

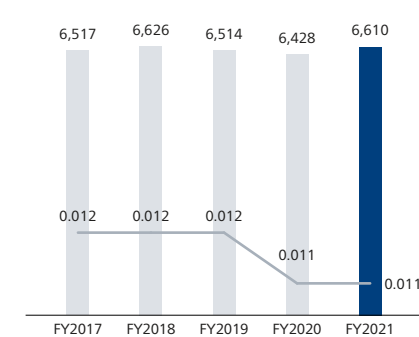
Waste Created (1,000 t) Waste Reused (1,000 t)

Reuse ratio (%)

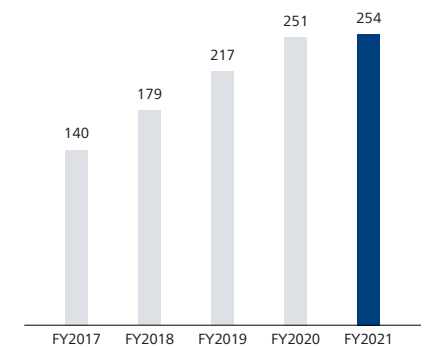


Nox Emissions

Nox (t) Nox per Unit of Net Sales (t/million yen)



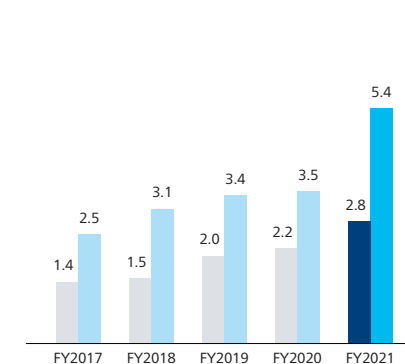
Hard-to-Recycle Recovered Paper Usage (1,000 t)



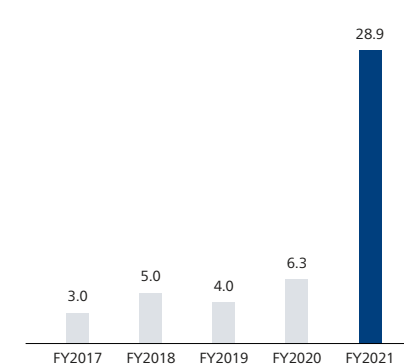
Human resources related

Female Manager Rate

Entire company (%) H&PC (%)

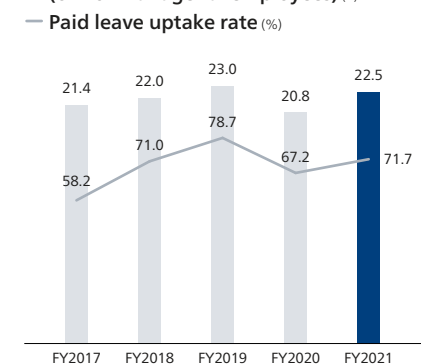


Paternity Leave Uptake Rate (%)



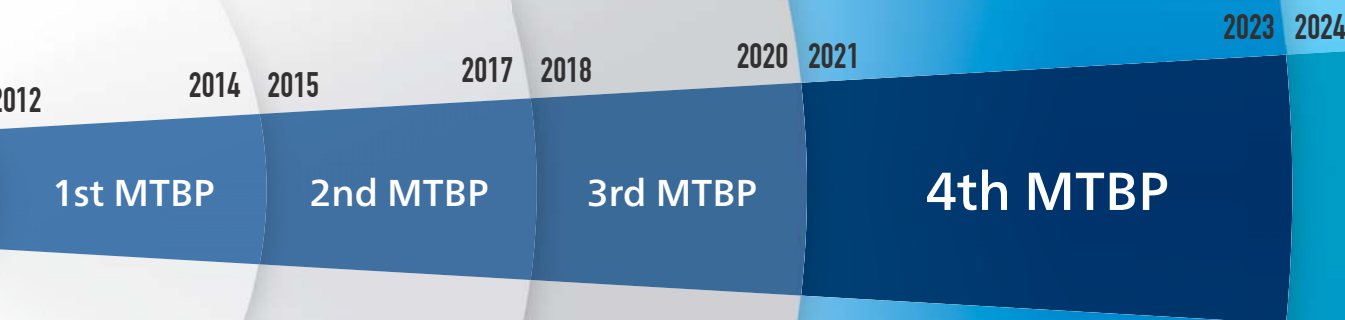
Average Overtime Work Hours (of nonmanagerial employees) (h)

Paid leave uptake rate (%)



Daio Group's Vision and Medium-Term Business Plans

The Group made a fresh start as the restructured Daio Group in 2012, and has since primarily pursued structural reforms and overseas expansion under its Medium-Term Business Plans. The Group set out its long-term vision with specific targets to be achieved by the fiscal year ending March 31, 2027 (FY2026): net sales of ¥800 billion to ¥1 trillion, 50% or more of which will be generated by the Home and Personal Care (H&PC) Business and 30% or more from the H&PC overseas business, and an operating margin of 10%. Aiming toward the next growth stage and a new future, the Group will strategically transform its business portfolio to become a corporate group capable of continuous growth.



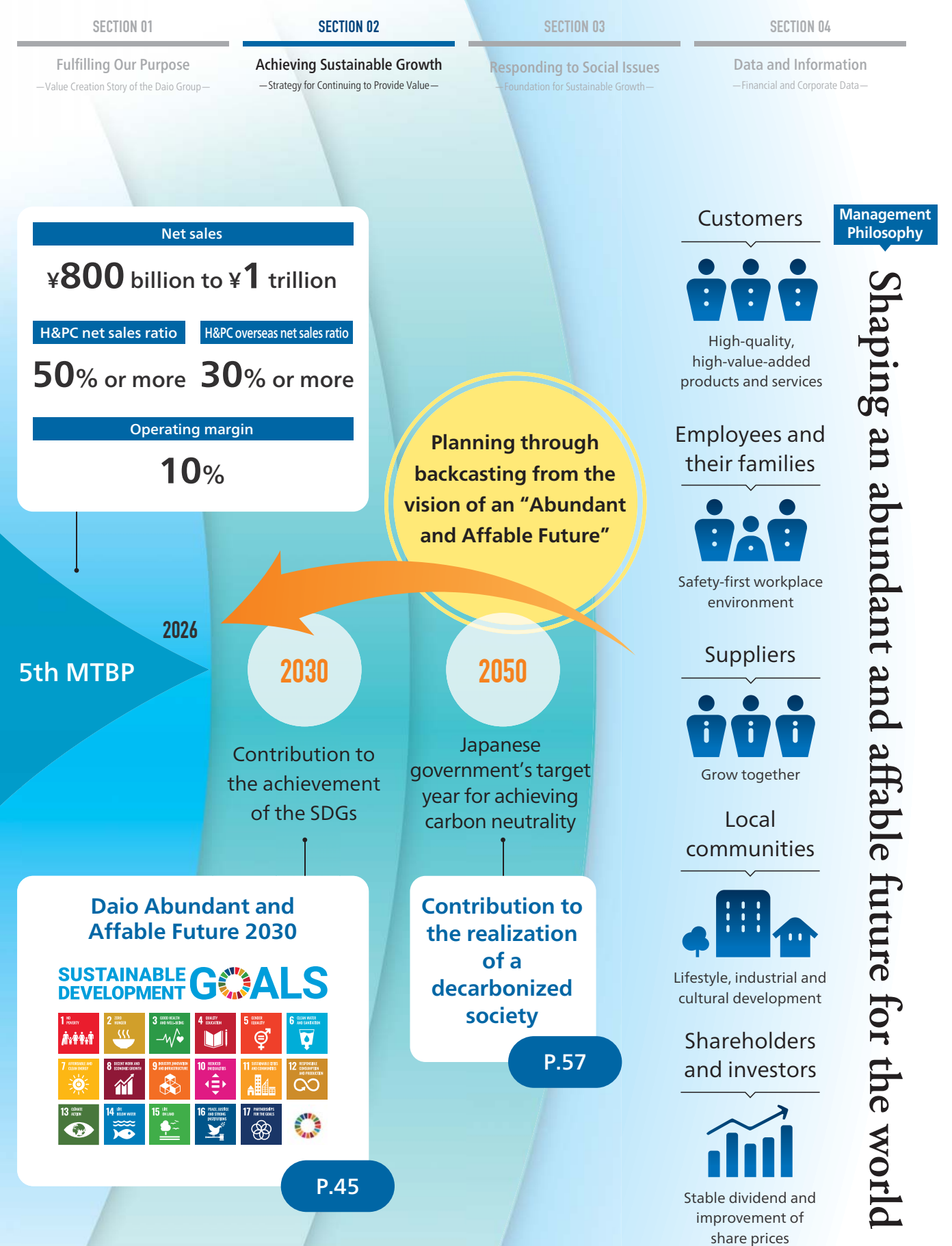
The Group's Medium-Term Business Plans, formulated by backcasting from the targets set out in the long-term vision, is centered around two business strategies: structural reforms to reinforce its business foundation and transform its business portfolio; and expansion into overseas growth markets to strengthen and expand the H&PC Business.

With regard to structural reforms, the Group has carried out a strategic shift of product mix, maintaining full pulp production and preventing machine shutdowns—it has even increased its kraft pulp production. By increasing the share of household paper and containerboard, which are experiencing growing demand, in its product mix and maintaining its machine utilization rate, the Group has amplified its competitive advantages.

Regarding overseas business expansion, by establishing production bases, which produce

mainly baby diapers, in China, Thailand and Indonesia, the Group has developed an infrastructure for local production and consumption in Asia. Under the Third Medium-Term Business Plan, the Group conducted M&A in Brazil and Turkey, establishing new entry points in South America and MENA (Middle East and North Africa).

While implementing these business strategies, the Group is also taking actions to combat the urgent global challenge of climate change and other ESG (environmental, social and governance) issues and to contribute to the creation of a sustainable society, which is the objective of the SDGs. Through these initiatives, the Group aims to realize its management philosophy of "Shaping an abundant and affable future for the world."



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

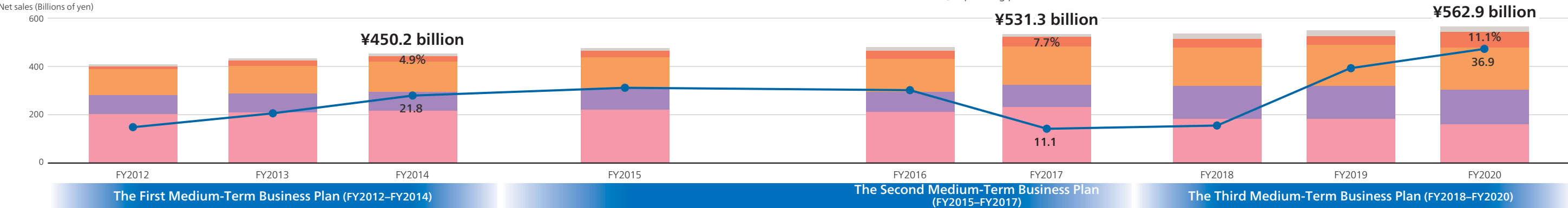


We will actively conserve the environment and regenerate the earth back into a planet with abundant nature where diverse organisms coexist and thrive.

Review of the Medium-Term Business Plans

Over the nine years from the First (FY2012) to Third (FY2020) Medium-Term Business Plans, the Group achieved significant improvements in business performance through the expansion of the H&PC Business, while maintaining stable sales in the Paper & Paperboard Business through structural reforms. The Group recorded increases in net sales and operating profit for eight and three consecutive years respectively, and successfully built the foundation for the next growth stage to a new future.

Net Sales and Operating Profit by Business



Restart—Solid Reform and Further Growth

Step-up—Leap and Expand

Move on: Reform and Soar Above

Basic Policies

- Rebuilding of business foundation
- Improvement of profitability of the paper business through cost reduction and structural shift of product mix
- Strengthening of the containerboard and corrugated container business
- Expansion of Home and Personal Care (H&PC) Business

- Structural shift of the paper business
- Strengthening of the containerboard and corrugated container business

- Further growth and acceleration of H&PC Business
- Development of new businesses / Cellulose Nanofiber (CNF)

- Radical cross-business structural reform of Paper and Paperboard Business and H&PC Business
- Global expansion and strengthening of profitability of H&PC Business
- Early commercialization of Cellulose Nanofiber (CNF)

Review

Promoted structural reforms and improvement of financial strength to rebuild the business foundation

(Billions of yen)	Targets	Results
Net sales	450.0	450.2
Ordinary profit	22.5	21.7
Interest-bearing debt	400.0	375.0
Equity ratio	17%	23.7%
Net debt to equity ratio	3.8	2.4

Promoted H&PC overseas business expansion
Achieved significant expansion of net sales through domestic M&A
Failed to achieve the profit target

(Billions of yen)	Targets	Results
Net sales	500.0	531.3
Ordinary profit	25.0	12.8
Net interest-bearing debt	250.0	280.0
Equity ratio	28%	25.9%
Net debt to equity ratio	1.5	1.6

Conducted cross-business structural reforms and overseas M&A
Achieved targets for all items other than net sales

(Billions of yen)	Targets	Results
Net sales	615.0	562.9
Operating profit*	32.0	36.9
H&PC overseas net sales ratio	15%	11.1%
ROE	8%	10.1%
Net debt to equity ratio	1.6	1.3

Restart
—Solid Reform and Further Growth

The First Medium-Term Business Plan (FY2012–FY2014):

Review

Under the First Medium-Term Business Plan, in response to a continuing decline in demand for paper and in order to maintain full pulp production at the Mishima Mill, the Group embarked on a structural reform. Aiming to improve the profitability of the paper business through thorough cost reduction and a structural shift of the product mix, the Group worked to reduce pulp costs by increasing kraft pulp production and improve the profitability of paper products by shifting to higher value-added products. At the same time, in order to build an optimal production system that meets demand, the Group converted paper machines at the Kani Mill into containerboard machines to respond to

increasing demand for containerboard. It also merged and integrated the operations of its corrugated container subsidiaries to strengthen the containerboard and corrugated container business.

Meanwhile, to further expand the H&PC Business as part of its growth strategy, the Group established factories in Thailand in 2011, in China (Nantong) in 2012, and in Indonesia in 2014 to produce mainly baby diapers, thereby building an infrastructure for local production and consumption in Asia.

The Group also worked on revamping its governance structure and improving its financial strength in order to rebuild its business foundation.

Issues

- Further structural shifting of the paper business
- Strengthening of production facilities of H&PC Business

Step-up
—Leap and Expand

The Second Medium-Term Business Plan (FY2015–FY2017):

Review

Under the Second Medium-Term Business Plan, the Group continued to promote the structural shift of the paper business and shifted the product mix to maximize profit. It also worked to further strengthen the containerboard and corrugated container business by starting operation of the No. 3 paper machine at Iwaki Daio Paper.

With regard to the H&PC domestic business, the Group acquired the paper products business from Nisshinbo Holdings Inc., achieving an increase in market share of household paper products.

The Group also worked to increase sales of high value-added products by leveraging the strength of the Elleair brand, and expanded the domestic supply capacity for absorbent products by commencing operation of Elleair Product’s Fukushima Factory. As for overseas business, in addition to expanding its production facilities and broadening the product lineup to increase sales in Thailand, China and Indonesia, the Group increased exports from Japan to Korea, Russia, Taiwan, etc.

Furthermore, with regard to the Cellulose Nanofiber (CNF) business, a new business that it hopes would drive future growth, the Group worked to expand the CNF product lineup by starting the operation of a pilot plant for the production of dry powder-type CNF.

Issues

- Radical structural reform from paper business to growth business
- Expansion into new overseas markets

Move on:
Reform and Soar Above

The Third Medium-Term Business Plan (FY2018–FY2020):

Review

Under the Third Medium-Term Business Plan, the Group launched a radical cross-business structural reform of the Paper & Paperboard Business and the H&PC Business. The Group resumed operation of the Kawanoe Mill in October 2018 to produce household paper by using pulp that was made available by shifting from paper to containerboard, and also strengthened the paper products business acquired from Nisshinbo Holdings Inc. Through these measures, the Group increased its share of the household paper products market and strengthened the profitability of the H&PC Business. As for growth strategies, the H&PC

overseas business focused on expanding sales of premium toilet tissue in China. Furthermore, the Group gained operation bases in new markets in South America and MENA through M&As in Brazil (Santher S.A.) and Turkey (Özen A.S.). In new businesses, the Group commenced the biomass power generation business using the feed-in tariff (FIT) scheme in July 2020. Also, progress was seen in the commercialization of CNF as material for table tennis rackets, parts of electric racing cars, etc.

Issues

- Continuation of ongoing structural reforms and promotion of overseas growth strategies (bringing overseas business into the black)
- Promotion of management that is conscious of capital efficiency and strengthening of financial strength

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—

The Group will continue to implement radical cross-business structural reforms of the Paper and Paperboard Business and the H&PC Business under the Fourth Medium-Term Business Plan, which has been underway since FY2021, and subsequent medium-term business plans. In its efforts toward overseas expansion, the Group plans to extend the coverage of its operations from its bases in Asia, Brazil and Turkey to surrounding areas, and also to promote multi-category business expansion by diversifying the range of its product categories in those markets with a view to multi-layering its businesses.

Newsprint and Paper Business Industrial Paper and Containerboard Business H&PC Domestic Business H&PC Overseas Business Other Businesses Operating profit

Overview and Progress of the Fourth Medium-Term Business Plan

GEAR UP The Next Growth Stage, to a New Future

Since FY2021, the Daio Group has been actively committed to implementing the Fourth Medium-Term Business Plan under the slogan “GEAR UP: The Next Growth Stage, to a New Future.” Aiming to realize the Three Well-beings, the Group has been accelerating its initiatives to shape a new future in high gear.

Basic Policies of the Fourth Medium-Term Business Plan

1 Establish a strong and resilient business portfolio	2 Improve financial strength	3 Respond to climate change (Carbon neutrality by 2050)
<ul style="list-style-type: none"> Build an even greater competitive advantage in the Paper and Paperboard (P&P) Business through continuous structural reforms Lead the Group's growth through faster multi-category business expansion and further acquisition in the Home and Personal Care (H&PC) Business Create future growth opportunities through new businesses such as Carbon Nanofiber (CNF) 	<ul style="list-style-type: none"> Strengthen cash generating capacity and improve cash flow by capitalizing on the results of structural reforms and strategic investment Promote management conscious of capital costs and return on capital by introducing ROIC as a management indicator Obtain and maintain a credit rating of A 	<ul style="list-style-type: none"> Promote the use of renewable energy, aiming to achieve decarbonization by 2050 Continually engage in proper plantation management and expansion of plantation areas Promote a shift to environmentally friendly materials through CNF and plastic-free product businesses
Progress highlights		
<ul style="list-style-type: none"> Started operating a paper towel machine at the Mishima Mill Started operating the second machine for household paper products at the Kawanoe Mill 	<ul style="list-style-type: none"> Obtained an A rating in September 2021 	<ul style="list-style-type: none"> Started conducting an environmental impact assessment in preparation for the installation of a waste-to-energy boiler at the Mishima Mill Obtained about 6.0 km² (nearly 1,500 acres) of land for plantation in Chile, South America

	1st MTBP (FY2014)	2nd MTBP (FY2017)	3rd MTBP (FY2020)	4th MTBP		Vision for the 5th MTBP (FY2026)
				(FY2021)	(FY2023)	
Net sales	450.2	531.3	562.9	612.3	720.0	¥800 billion to ¥1 trillion
Operating profit (operating margin)	21.8 (4.8%)	11.1 (2.1%)	36.9 (6.6%)	37.6 (6.1%)	51.0 (7.1%)	80.0-100.0 (10%)
H&PC overseas net sales ratio	4.9%	7.7%	11.1%	12.1%	18.8%	30% or more
ROE	10.0%	2.2%	10.1%	9.5%	10% or more	12% or more
Net debt to equity ratio	1.9	1.6	1.3	1.1	1.0	1.0 or less

Progress of the Fourth Medium-Term Business Plan						
Prioritized investments in the growth-driving H&PC business						
Business segment	FY2021			Plan for FY2023		
	Net sales (Billions of yen)	Operating profit (Billions of yen)	Operating margin	Net sales (Billions of yen)	Operating profit (Billions of yen)	Operating margin
Paper & Paperboard	327.4	22.3	6.8%	330.0	18.0	5.5%
H&PC	257.3*	11.9	4.6%	360.0	30.0	8.3%
(Breakdown)						
Domestic	183.2	15.5	8.5%	225.0	23.0	10.2%
Overseas	74.1	(3.6)	—	135.0	7.0	5.2%
Other businesses (including adjustments)	27.6	3.3	12.0%	30.0	3.0	10.0%
Total	612.3	37.6	6.1%	720.0	51.0	7.1%

* This net sales amount is a downward revision of about 6.1 billion yen from the previous disclosure due to the application of accounting standards for revenue recognition.

The H&PC Business will exceed the Paper and Paperboard Business in terms of net sales.

Material issues

Strategic transformation of business portfolio

Acceleration of global expansion

Creation of new businesses

P&P Business

Strengthen the business through competitive advantages

- Newsprint and paper
- Industrial paper and corrugated containers

Environmental changes

- Accelerating decline in graphic paper demand
- More diverse packaging needs
- Structural growth of e-commerce markets

Pursue further growth opportunities

- Maintain stable supply
- Strengthen printing and corrugated containers in the processing field
- Shift to product types where demand is anticipated
- Capture e-commerce demand and demand generated by a growing trend toward plastic reduction

H&PC Domestic Business

Expand market share across all categories

- Household paper
- Baby diapers

H&PC Overseas Business

Overseas business will lead growth

- Feminine care products
- Adult diapers

Environmental changes

- Rise in hygiene consciousness
- Lifestyle changes
- Fragmentation and diversification of uses
- Structural growth of e-commerce markets
- Progress of the aging society

Maximize growth opportunities

- Solidify the household paper business and strengthen the absorbent products business
- Increase brand loyalty
- Strengthen e-commerce sales channels
- Continually offer high-quality, high value-added products
- Respond to the with/after-COVID-19 society
- Premium strategy
- Accelerate expansion into growth segments and areas
- Accelerate growth through M&A
- Promote multi-category business expansion

New Businesses

Create a third business pillar

- CNF business
- RFID business (IC tags)

Environmental changes

- Increase in consciousness of environmental conservation
- Economic growth in developing countries
- Change in social issues

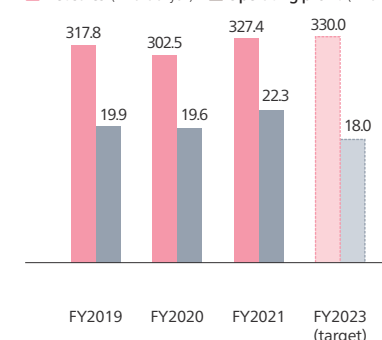
Create future growth opportunities

- Swift commercialization of the CNF business
- Entry into potential growth markets

Net Sales and Operating Profit Results and Outlook by Segment

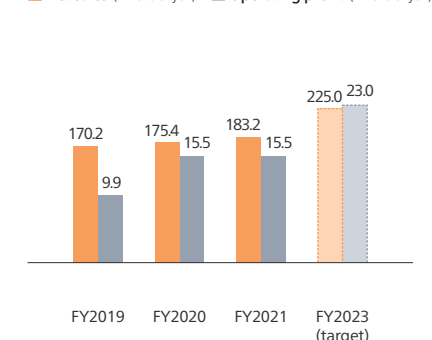
Paper and Paperboard Business

Net sales (Billions of yen) Operating profit (Billions of yen)



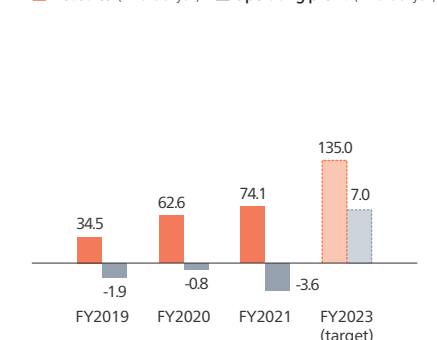
H&PC Domestic Business

Net sales (Billions of yen) Operating profit (Billions of yen)



H&PC Overseas Business

Net sales (Billions of yen) Operating profit (Billions of yen)



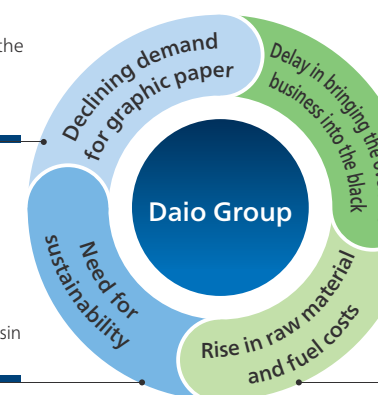
Four Issues Surrounding the Group and Urgent Countermeasures

Further promote structural reforms

- Implement the structural reform of production in the Chubu region
- Enhance the containerboard and corrugated container business

Accelerate initiatives to realize a sustainable society

- Install additional waste boilers
- Expand the total area of plantation land
- Shikokuchuo City Carbon Neutrality Council
- Launch Elipla products
- Start the operation of a pilot plant for CNF composite resin
- Provide students with free period products



Accelerate efforts to establish multi-category businesses and create synergy in overseas markets

- Establish the China Business as a multi-category business
- Create synergy between the three companies in the Brazil Business

Increase resilience to rising raw material and fuel costs

- Utilize hard-to-recycle recovered paper
- Start in-house production of fluff pulp
- Recycle used diapers
- Establish a scheme for procuring paper material chips stably
- Build up the pellet fuel business

Message from the Officer Responsible for Financial Affairs



Continuing to maintain a sufficient level of liquidity to brace against rapid changes in the management environment

Toshihiro Adachi

Executive Vice President and Representative Director, Executive Vice President (Responsible for Corporate Unit, Compliance and Sustainability; General Manager of Business Administration Division, Corporate Unit)

Basic policies on financial strategy

Our current 4th Medium-Term Business Plan (MTBP) defines three basic policies: 1) Establish a strong and resilient business portfolio, 2) Improve financial strength, and 3) Respond to climate change. During the three-year period of the previous 3rd MTBP, against the backdrop of a favorable funding environment and significant progress in improvement of our financial strength, we invested a total of approximately 175.0 billion yen with high leverage in anticipation that those investments would produce visible effects during the 4th MTBP. Amid considerable uncertainties in our business environment, including the lingering COVID-19 pandemic, we set a target of obtaining a credit rating of “A” from the Japan Credit Rating Agency, Ltd. (JCR) and Rating and Investment Information, Inc. (R&I) within the period of the 4th MTBP, while carefully selecting targets for capital investments that are necessary for our

growth. In FY2021, the first year of the plan, we succeeded in obtaining an “A- / Stable” rating from both JCR and R&I. In FY2022, with drastic changes in foreign exchange rates and a sharp rise in material and fuel prices, we are experiencing an increase in the severity of the business environment surrounding us. I believe that, in this situation, the Corporate Unit must play its role in maintaining the Group’s financial health (a credit rating of “A”) while continuing to make necessary growth investments. We have set a target of achieving net sales of 800.0 billion to 1 trillion yen by the end of the next 5th MTBP. To ensure that the Group will be able to invest aggressively in M&A and other projects during the 5th MTBP, we have adopted a main policy of increasing the Group’s financial strength by strengthening its cash generating capacity and improving cash flows under the 4th MTBP.

Review of the FY2021 results

In FY2021, we began to perceive the effects of capital investments we had made under the 3rd MTBP. Aiming for a target of achieving net sales of 720.0 billion yen in the final year of the 4th MTBP, in FY2021 we established all-time records in net sales for the seventh consecutive year, in operating profit for the second consecutive year, and in net profit for the third consecutive year. As shown by these results, which brought us an “A-” rating, we continued to grow steadily. Since the situation became favorable enough for us to issue corporate bonds, we did so in October 2021, for the first time in three years. As a result, the ratio of direct

funding (from corporate bonds and commercial paper [CP]) out of all interest-bearing debt increased from 13.9% as of end of March 2021 to 15.5% as of the end of March 2022. We aim to raise this ratio to 20% by the end of the final year of the 4th MTBP and to 25% by the end of the 5th MTBP period. We will continue our efforts to diversify fund sources and increase the amount of available funds for the 5th MTBP with the aim of establishing a stable footing to make investments for further growth and expansion.

The net debt to equity ratio improved from over 3 at a time during the 1st MTBP, to 1.3 as of the end of March 2021

and to 1.1 as of the end of March 2022. Despite being in a harsh environment, we aim to further improve this ratio to achieve a target of lowering it to 1 or less by the end of the final year of the 4th MTBP. The equity ratio exceeded 30% as of the end of March 2022 due to an increase in equity capital as a result of our efforts to increase net profit. Our aim for the foreseeable future is to raise the equity ratio to over 35%.

Although we succeeded in yielding good results in these metrics, there is still room for further improvement. We will continue to work to maintain a sufficient level of liquidity to brace against rapid changes in the management environment, and to create cash flows through asset reduction measures, including reducing strategic cross-

shareholdings. Furthermore, in consideration of future acceleration of our overseas business and foreign exchange risks, we are contemplating broadening the scope of contracts in which we use hedging transactions as well as the range of currencies we use. The changes in foreign exchange rates and raw material and fuel prices have caused cost increases far beyond what a single company can absorb. We thank our customers who have consented to our selling price revisions in the spring of 2022. Regrettably, given that raw material and fuel prices remain high, it is necessary for us to pass on the increased costs with further selling price hikes and we will continue to seek the understanding of our customers when doing so.

Vision for asset allocation toward sustainable growth

Let me explain our vision of the composition of net sales of 1 trillion yen, which we aim to achieve in the 5th MTBP. We envision that the Paper and Paperboard Business, which has so far led Daio Paper’s growth, will continue to generate annual net sales of 300 billion yen as we direct efforts to offset the inevitable decline in graphic paper sales, brought about by the shrinking paper market, by increasing sales of industrial paper, for which the market is expected to grow due to e-commerce demand and other factors. Meanwhile, the Home and Personal Care (H&PC) Business, our growth engine, will increase its annual domestic and overseas net sales to 300 billion yen each. We plan to earn the remaining 100 billion yen by fostering new businesses in highly promising growth fields, such as carbon nanofiber (CNF).

Based on this vision of the sales mix, in May 2021 we announced a plan to make a total capital investment of 125.0 billion yen during the three-year period of the 4th MTBP. Out of the total amount, 76.5 billion yen will be allocated to growth investment, which includes 55.5 billion yen to the H&PC Business and 10.5 billion yen to the CNF

business and other growth fields. The remaining 48.5 billion yen will be allocated to investment in the maintenance of the Mishima Mill and other facilities. In addition to this total amount (125.0 billion yen), we set a quota of 30.0 billion yen for M&A investment and used it to acquire Yoshikawa Shigyo Co., Ltd. in Hyogo Prefecture, Japan and Yoshizawa Industry Co., Ltd. in Niigata Prefecture, Japan, both of which are corrugated container manufacturers. We will continue to invest agilely in promising projects that can lead us to grow further. Moreover, in March 2022, we signed a contract with Pajero Manufacturing Co., Ltd. to purchase its land and building in a town neighboring the city where the Kani Mill is located with the aim of using the property as a new factory-cum-logistics warehouse. Although this investment was not budgeted for in the initial plan, we went ahead with this project as we saw it as an essential element for strengthening and expanding our H&PC domestic business. We will work to avoid exceeding the investment quota through methods such as reallocating a budget planned for other capital investments.

Progress in our efforts to increase return on invested capital (ROIC)

Up until recently, Daio Paper mainly used income-statement-based indicators as KPIs, and it made decisions on each investment project based on factors such as the payback period and the final return rate. Under the 4th MTBP, we started implementing a management style with an increased focus on business unit-specific capital efficiency. By introducing ROIC as a KPI, we hope that it would drive us to use capital invested efficiently, earning maximal operating profit with minimal capital invested, and improve both cash flows and our financial strength.

To raise awareness of ROIC throughout the Group, we hold workshops intended for all officers and executives of each business group, as well as financial and accounting staff of the subsidiaries. In the workshops, we explain in detail how to maximize ROIC by breaking down the ROIC

formula into each components, visualized by the reverse ROIC tree. In addition, at meetings on the progress of the 4th MTBP, the attendees regularly check on our progress toward undisclosed ROIC targets for the 4th MTBP period, using ROIC values of the entire Group and each business segment. At those meetings, the ROIC values are also analyzed from the two perspectives of the income statement and the balance sheet by breaking them down into such elements as the cost-to-sales ratio, the SG&A expense ratio, the fixed-asset turnover, and the ratio of fixed assets to capital invested.

The key to success is understanding how our everyday operations on-site affect the individual elements that constitute ROIC and how those effects will lead to improvements in ROIC, rather than simply inserting ROIC as it is as a measure of our everyday operations. For example,

against the backdrop of the continuing rise in raw material and fuel prices, the Materials Procurement Division may diversify its suppliers or secure alternative energy sources to lower the cost-to-sales ratio and consequently improve ROIC. Although necessary measures differ depending on the business segment or product, we will provide a more detailed breakdown of ROIC to facilitate discussions by each business group and help them create KPIs that are meaningful to the people on the ground, rather than just

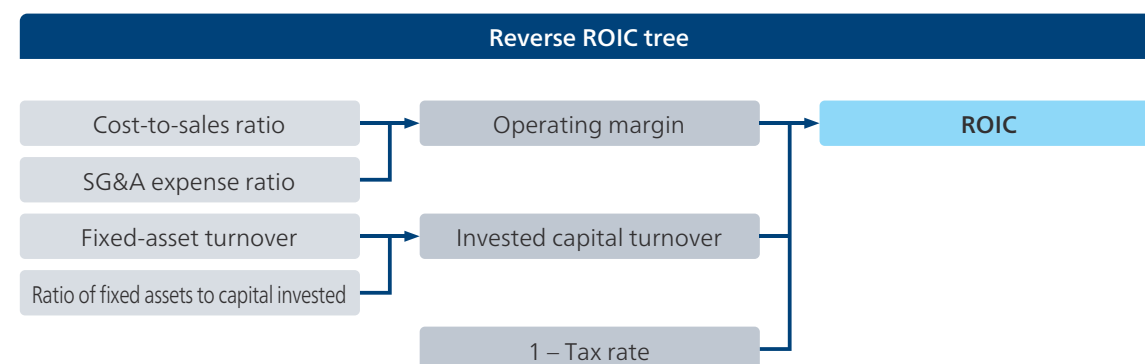
imposing it in a top-down manner, in order to accelerate Group-wide efforts to reduce inventories and improve the cash conversion cycle (CCC) and pursue management that is more conscious of capital efficiency.

I believe that ROIC is very beneficial for us as an indicator that each business group can use when discussing cost-effectiveness and the effects of investment to make various decisions, including decisions on M&A and other growth investments.

The ROIC of the entire Group and each business segment is calculated regularly, and the latest forecasts of ROIC are compared with internal ROIC targets for the 4th MTBP period to monitor our progress. The ROIC values are also analyzed from the two perspectives of the income statement and the balance sheet by breaking them down into such elements as the cost-to-sales ratio and fixed-asset turnover (see the reverse tree diagram of ROIC below).

Moreover, decisions on capital investment and M&A are made through evaluation from the perspective of ROIC.

Under the 4th MTBP, we will perform business management with full consciousness of segment-specific capital efficiency, and efficiently earn operating profit with a small amount of capital invested in order to improve both cash flows and our financial strength.



Initiatives for sustainability management

Daio Paper began to make a clear commitment to sustainability in 2017, when it established the CSR Department (currently the Sustainability Promotion Department). I acknowledge that we had been left far behind by other companies in terms of initiatives for sustainability. However, since we created the Sustainability Committee in 2020, we have devoted a huge amount of energy to speeding up our efforts to enhance our sustainability management. I myself recognize sustainability as the core of corporate management and our top priority. I also recognize environmental issues—such as response to climate change, the realization of a circular society, forest conservation, and the preservation of biodiversity—and social issues, including respect for human rights and human resource development, as material issues that Daio

Paper must tackle by priority.

Discussions at the Sustainability Committee meetings have helped illuminate Group-wide operational challenges, including response to the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations, energy-related challenges, human resource measures, and intellectual property strategy, thereby inspiring Group-wide cooperation in solving these challenges and even changing employees' mindsets drastically. Sustainability is a theme that should be positioned at the center of corporate management, so we are reconsidering the organizational position of the Sustainability Committee with a view to promoting it to be a more important organization. We will also increase the number of staff members of the Sustainability Promotion Department.

In last year's Integrated Report, I said that, in the judgement of each investment projects, "we will evaluate various factors comprehensively—not only monetary return, but also non-financial indicators such as CO₂ emission reduction effects." From April 2022, each investment plan must now include consideration of internal carbon pricing (ICP), building the perspective of sustainability into investment decision-making processes. Although the target year of achieving carbon neutrality is set as 2050, we will strive to achieve the target earlier by speeding up our efforts to utilize forest resources effectively and decarbonize operations. At the Shikokuchuo City Carbon Neutrality Council, which was established in June 2021, local companies and financial institutions and the municipality collaborate closely with each other to decarbonize Shikokuchuo City, a center of paper production in Japan. We will continue to make aggressive investment that contributes to decarbonization.

With regard to human resource strategy, we must further enhance the diversity of our staff in terms of gender, nationality, etc. For that purpose, we should also accelerate the automation of the pulp and paper industry itself. We will also invest in creating a working

environment where everyone can work safely and securely with pride in what they do. Our basic stance is "What is made by Daio is sold only by Daio sales representatives." We will also enhance our intellectual property strategy so that information and knowledge accumulated on the ground about various matters will be shared among staff seamlessly and leveraged to develop intellectual property, including patents.

In May 2021, we declared our support for the TCFD recommendations, and we have since worked to disclose information in line with those recommendations. Disclosure itself is very important, but I believe that the process of discussions in preparation for disclosure is also significant as it serves as a starting point for drastic reforms in the way we define business opportunities and the resilience of our businesses. I recognize that we are facing various challenges and risks concerning decarbonization, water resources, resource procurement from abroad, and the 2024 problem in Japan regarding logistics. However, I hope that we will transform such risks into opportunities by addressing them with a positive attitude. I estimate that, from the 5th MTBP, we would have to allocate a quota of about 30 billion yen to environmental investment for each three-year period.

Vision for shareholder return

In recognition of offering return to shareholders as one of our top priorities, we have adopted a basic policy of continuing stable dividend payments while taking into account our financial results, the need to increase internal reserves, and other factors. Since FY2021, we have begun

to use the dividend on equity ratio (DOE), which shows the ratio of the amount of dividends to equity, as an additional indicator. The DOE for FY2021 was 1.5%. We will maintain stable dividend payments for the long term while aiming to raise the ratio to 2.0% in the medium to long term.

Message to stakeholders

Under the 1st to 3rd MTBPs, we continued to grow while implementing various structural reforms. In FY2021, the first year of the 4th MTBP, we successfully kept to the plan. In FY2022, even in face of the massive impact of a rise in raw material and fuel prices and other factors, we will take them on as challenges to overcome and relentlessly work to increase our corporate value toward the 5th MTBP. We look forward to continued support from our stakeholders.



Toward Successful Implementation of the Fourth Medium-Term Business Plan

Paper & Paperboard Unit

Newsprint and Paper Business Group

• Message from the General Manager of the Business Group

We will continue to work to shift to new product types and ensure profits by providing products that can help resolve social issues while keeping each machine in full operation.

Tetsuya Kawabata

Executive Officer
General Manager of Newsprint
and Paper Business Group,
Paper & Paperboard Unit



Future vision of the Newsprint and Paper Business Group

Against the backdrop of digitalization and a shift to paperless work and lifestyles, demand for graphic paper, which the Newsprint and Paper Business Group handles, has been declining. It is predicted that the market will continue to shrink by about 5% per year. Amid such situational changes, we have continued to shift the use of advantageous pulp transported in slurry form through the pipes at the Mishima Mill to the types of products for which demand is likely to grow, with the aim of making Company-wide structural shifts while maintaining a stable supply of newsprint and paper. We will continue to boost sales of such products while concentrating newsprint and paper production in one location to keep our machines in full operation in order to offset the impact of declining demand on our business and maintain profits. While domestic demand for graphic paper continues to shrink and competition intensifies, we will safeguard our interest and emerge as a survivor in the industry by shifting to highly profitable product types while maintaining stable product supply.

Our strengths and challenges

The strengths of our business group lie in its product lineup based on pulp with competitive advantages from the Mishima Mill and its ability to sell out products manufactured with paper machines that are always in full operation, enabled by product-mix shifts through cross-business-group machine conversions, and thereby increase profitability. As part of the structural reforms we embarked on during the 1st MTBP period, we relocated the N3 paper machine at the Kani Mill to Iwaki Daio Paper and converted it into a containerboard machine. Under the 3rd MTBP, to utilize our production facilities at the Mishima Mill more effectively for the production of product types for which demand is more likely to grow, we converted the N7 paper machine into a containerboard machine, while stopping machine No. 16 and converting it into a paper towel machine. Under the current 4th MTBP, we are working to convert machine No. 15 at the Mishima Mill into a fluff pulp

production facility. We have ensured our sales and profits in the face of a decline in paper demand by converting paper machines at the Mishima Mill, which boasts high production efficiency and great competitiveness, into machines for products that are likely to be highly profitable.

Unlike other paper manufacturers, Daio Paper is engaged in manufacturing a wide range of products, from newsprint and paper to packaging and wrapping paper, including containerboard and corrugated containers, as well as household paper and absorbent products, which the Home and Personal Care (H&PC) Business Group is in charge of. Through cross-departmental collaboration, we can leverage that strength to market to our customers such a wide variety of products. Moreover, integrated operations that include even our subsidiaries have enabled us to propose total solutions, from papermaking upstream to printing downstream, to fulfill all of our end-users' needs. This is one of our major differentiating factors in terms of sales and marketing.

Meanwhile, I recognize that the key to overcoming the major problem of a decline in domestic paper demand will be to allocate limited management resources to growth fields in a timely manner by such means as organizational restructuring. In addition, while our Mishima Mill has one of the largest production capacities of any paper mill in the world, decarbonization of the mill is an important challenge we must tackle amid the growing urgency of climate change. The Japanese government has pledged to achieve carbon neutrality by 2050, and we have been implementing initiatives to become carbon neutral by 2050 according to schedule. However, there is public concern that the target year of 2050 is too late. Therefore, I recognize the need to carry out our initiatives with an eye to phasing out our use of coal earlier than initially scheduled.

Views on the current market environment (opportunities and risks)

Even amid a continuous decline in demand for newsprint and paper, the public need for products that can contribute to the achievement of the SDGs is growing. We will accelerate our

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—



• Development of the product lineup

The Paper and Paperboard Business Group has launched bright white, high-opacity paper products for catalog and pamphlet uses, including Utrillo L White and Utrillo L White Matte, and has also broadened its lineup of eco-friendly products. For example, some self-adhesive paper products are recyclable because we have switched to using water-soluble adhesives. We also make use of waste such as old rice and tea leaves to produce mixed-pulp paper. Moreover, amid the COVID-19 pandemic, Daio Paper launched not only antibacterial film but also New OA Paper Type H: COVID-19 Tasukeai-no-wa+, sales of which were partly donated to Japan Committee for UNICEF to help companies and households using copy paper to fulfill their hopes of protecting children around the world. Furthermore, a part of the sales of KININARU-KAMI, a copy paper product containing pulp derived from thinned wood, is contributed back to various Japanese prefectures, such as Kumamoto, Ehime and Osaka, as funds for thinning, which is a necessary practice to conserve forests. Although the Newsprint and Paper Business Group is planning to make price revisions again in the fall of 2022, after the spring of the same year, to pass on the increase in raw material and fuel prices, the business group aims to gain a superior position in the market by launching a wide variety of high-value-added paper products that other companies cannot provide, such as the easy-to-use, high-opacity Utrillo L Gloss Matte.

structural shifts through the development of new eco-friendly products while focusing on providing alternatives to plastic products and laminated paper. We are also working on various initiatives with the aim of achieving carbon neutrality by 2050, and we are ahead of other paper manufacturers in terms of commitment to achieving the carbon neutrality of the entire region of where we operate in, as seen in our activities with the Shikokuchuo City Carbon Neutrality Council. Stronger public awareness of environmental issues is likely to provide us with greater business opportunities.

Meanwhile, I recognize the so-called year 2024 logistics problem, that is, the expected risk that logistics costs will rise in Japan from 2024 onward due to overtime regulations to be newly imposed on truck drivers as part of work-style reforms, which will necessitate workarounds such as the construction of relay logistics bases. Under interrelated circumstances, such as the recent rise in raw material and fuel prices and our efforts toward carbon neutrality, we will adopt proactive measures to address this problem, including switching our transportation means from trucks to ships and reconsidering our transportation scheme.

friendly products, such as paper made from recovered paper, paper materials that can replace plastic materials or laminated paper, water-disintegrable self-adhesive paper, and Forest Stewardship Council (FSC)-certified paper, while contributing to the Daio-Group-wide efforts to decarbonization mainly at production bases, in order to contribute to the achievement of the SDGs.

In addition, we will share our vision of the Three Well-beings of Hygiene, Life and Regeneration with agencies and distributors by holding study meetings and other events, in order to gain their understanding of the Daio Group's commitment to achieving the SDGs throughout the supply chain.

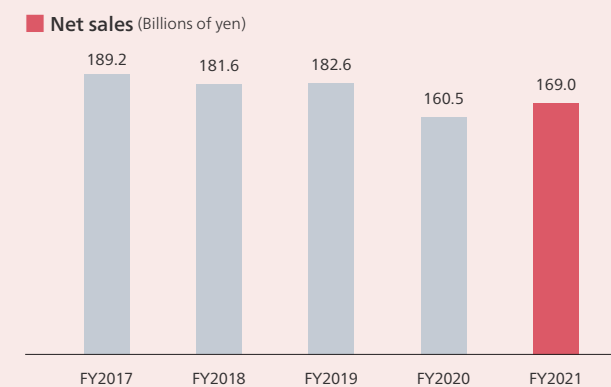
Business results for FY2021

For FY2021, the Newsprint and Paper Business Group achieved a year-on-year increase in both sales volume and amount, resulting in net sales of 169.0 billion yen. The main factor behind the results was increased demand for paper for advertising use, including leaflets, which reflected recovery from the previous year's stagnated economic activities due to the COVID-19 pandemic.

However, in FY2022, with growing instability of the international situation due to the Russian invasion of Ukraine, the disruption of international logistics, and the continuing rise in resource prices, we are facing major economic uncertainty, as well as a high likelihood of a further shrinking of the entire paper market. Adding to this difficult situation, a rapid increase in raw material, fuel, logistics and other costs due to the rise in prices of crude oil, coal, etc. is predicted to make our business environment unprecedentedly harsh. Furthermore, we are currently witnessing a very rapid depreciation of the yen. On the basis of the current level of raw material and fuel prices, an increase of one yen in the USD to JPY exchange rate has a negative impact worth approximately 0.6 billion yen on Daio Paper. Therefore, we forecast that the current trend in foreign exchange rates will have a massive adverse impact on our performance.

Resolving social issues through our business

Our business group will continue to provide environmentally



Paper & Paperboard Unit

Industrial Paper and Containerboard Business Group

• Message from the General Manager of the Business Group

Aiming to boost sales of wrapping and packaging paper as a growth engine against the backdrop of a promising start to containerboard exports and the current trend toward plastic-free lifestyles

Atsushi Ishida

Director, Managing Executive Officer
General Manager of Industrial Paper and Containerboard Business Group,
Paper & Paperboard Unit



Future vision of the Industrial Paper and Containerboard Business Group

The Industrial Paper and Containerboard Business Group deals in wrapping and packaging paper, including containerboard, corrugated containers, wrapping paper, and functional paper. Although we are unlikely to be able to avoid the future impact of the decline in the Japanese population, we have thus far achieved relatively good sales. Amid the ongoing shrinkage of the domestic paper market, we focus on continuing to boost sales in our business group as a growth engine of Daio Paper. It is said that the act of wrapping things with paper embodies the unique Japanese culture of handling things with great care—care that goes beyond consideration for the protection of the contents—as a way of showing their appreciation to delight the recipient. The Daio Group's management philosophy is "Shaping an abundant and affable future for the world." To help people express their hope of an "abundant and affable future" for others through wrapping and packaging, we will propose high-value-added solutions in both design and functional terms. I believe that it is especially meaningful in this digital age to develop and hand down the paper wrapping and packaging culture, which connects the hearts of people to each other, with the aim of contributing to people's better lives.

Our strengths and challenges

One of Daio Paper's strengths lies in its wide lineup of wrapping and packaging paper—from lightweight paper with a weight of 5 g/m² to heavyweight paper with a weight of 1,000 g/m²—apt for making products from shopping bags and secondary packages for food, to corrugated containers and cement sacks. In addition, the Company's ability to propose total packaging solutions to each customer through integrated operations across divisions also helps differentiate it from the competition. Corrugated boards are made of three layers: two layers of linerboards and a layer of a corrugated medium in-between. Daio Paper is the only Japanese paper manufacturer that can offer one-stop delivery of containerboard of all these types from a single mill, being capable of high-mix, low-volume manufacturing and delivery. The Company is also

the only Japanese paper manufacturer that has high-resolution printing facilities suitable for decorative printing on linerboard. It has the fourth largest manufacturing capacity for both containerboard and corrugated containers and the second largest manufacturing capacity for wrapping and packaging paper in the market. We are proud that our product range, from lightweight paper to heavyweight paper and functional paper, is among the broadest in the industry.

Meanwhile, despite progress in other major paper manufacturers' efforts to integrate paper production and conversion, Daio Paper has no bag-paper converting company among its direct subsidiaries, although the Group includes corrugated-container converting companies. I recognize that, since progress in the operational integration has caused a decrease in the number of independent converting companies, we must tackle the challenge of building a network, including a loose alliance in view of M&A, with independent bag manufacturers.

Views on the current market environment (opportunities and risks)

I recognize marine plastic pollution as one of the issues we must tackle urgently. I also recognize that heightened expectations for paper as a natural material against the backdrop of an accelerating global trend toward plastic-free lifestyles have provided us with a valuable business opportunity. Meanwhile, in parallel with a predicted increase in demand for corrugated containers and other packaging materials due to the growth of e-commerce, there is a growing trend toward the simplification of packages. We have identified the risk that the development of on-demand packaging systems designed to optimize packages will cause a decrease in the usage of packaging paper on a weight basis.

Resolving social issues through our business

Since wrapping and packaging paper is a material related to logistics, I do not believe that selling it marks the end of our responsibility. Rather, I believe that our streamlined operation, including post-sales logistics concerning the recovery of used paper, will contribute to sustainability. An increasing number of initiatives to streamline logistics, such as joint

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Major products



[Eco-friendly products]

Elipla series, a new brand of the entire range of products that contribute to plastic-free and low-plastic lifestyles



FS Elipla+ used for RAINGUARD+ from Nippon Notebook Corporation

Elipla stir stick used by Doutor Coffee Co., Ltd.

• Development of the product lineup

The Industrial Paper and Containerboard Business Group aims to boost sales of containerboard, its key product, by leveraging its capability to offer one-stop delivery of containerboard of all types from a single mill. It has also made significant progress in commercializing functional paper products intended to replace plastic products. The business group will devote further efforts mainly to proposing and boosting sales of the following products that can help reduce the use of plastic: the Elipla Premium Series stir stick made of high-density heavyweight paper, which is aimed at contributing to a plastic-free lifestyle; the FS Elipla Light secondary packaging material for food, where one of the layers of film has been replaced with a layer of paper; and the FS Elipla Heat-Seal.

In 2020, the N7 paper machine at the Mishima Mill was converted into a containerboard machine to manufacture containerboard for export to China and Southeast Asian countries. Due to difference in the condition of paved roads and the expected transportation distance, the required quality of corrugated containers varies between Japan on the one hand and China and Southeast Asian countries on the other. Pulp slurry piping and feeding equipment at the Mishima Mill presents an advantage in manufacturing linerboards with high burst strength suitable for export.

delivery initiatives, have been succeeding. Business activities with full consciousness of the sustainability of logistics and other processes have resulted in an improvement in profit.

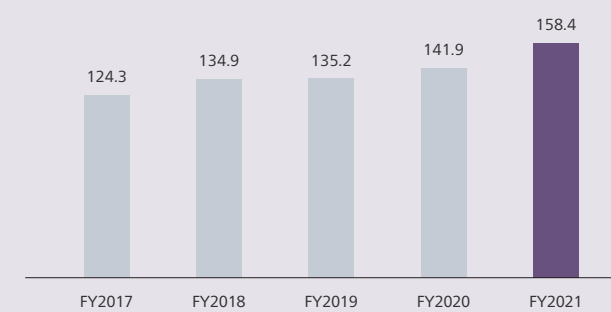
To achieve decarbonization, Daio Paper is striving to phase out its reliance on coal. Provided that we develop effective solutions to the issue of CO₂ emissions from production processes, it is highly likely that the Industrial Paper and Containerboard Business Group will continue to be blessed with greater business opportunities against the backdrop of the public trend toward plastic-free lifestyles.

While demand for both types of paper continues to decline, it should be noted that the ratio of graphic paper to industrial paper for packaging applications was formerly 6 to 4, but in 2020, demand for industrial paper exceeded that for graphic paper. We are exploring new demand for paper of novel kinds, including paper that can meet the need for plastic-free products, in order to fill the gap left by paper of conventional kinds, which formerly accounted for an overwhelming share of the market. I hope that Daio Paper will contribute to the growth of the entire pulp and paper industry by creating new businesses.

Business results for FY2021

For FY2023, the final fiscal year of the 4th MTBP, the Industrial Paper and Containerboard Business Group has set the target of achieving net sales of 173.0 billion yen, including 60.0 billion yen coming from the

■ Net sales (Billions of yen)



corrugated container business, which is expected to grow both in Japan and abroad. In FY2021, the corrugated board business established an all-time sales record on both a volume and a monetary basis. Sales in the export business also grew strongly due to our products' quality advantage and the establishment of effective production and delivery systems, as shown by the fact that the monthly production volume of the N7 machine at the Mishima Mill, which had been converted from a paper machine to a containerboard machine, reached a record high, exceeding 32,000 metric tons, in March 2022. Our share of the containerboard market increased significantly as a result of our capture of rapidly growing overseas markets. We also increased our share of the wrapping and packaging paper market by leveraging our ability to propose total packaging solutions underpinned by our wide product lineup and integrated operations, thereby taking steady steps toward capturing the highest market share within the next several years. Since we are currently under the massive impact of the rise in material and fuel prices, despite achieving sales growth on both a volume and a monetary basis, we have decided to revise our selling prices twice in a year, in the spring and fall of 2022. We are working to increase our sales volume and ensure profit while obtaining customers' consent to a price hike.

In FY2021, the first fiscal year of the 4th MTBP, we focused on enhancing our downstream business and conducting integrated operations. In particular, I recognize that our initiatives to integrate operations in the corrugated container business and the wrapping and packaging business, including staff exchanges, reorganization, and employee education, have made remarkable achievements. In FY2022, we will devote efforts to increasing profits from our business group by further sophisticating our paper converting techniques, launching more converted products and thereby enhancing the added value of products. We will also work on the major operational theme of "shifting from a B2B business to a B2C business" to capture end-consumer needs behind our B2B business and consider the next step we should take while building a network, possibly a loose alliance, with converting companies. We focus on reforming our operational style and improving our strength under the 4th MTBP, with a view to increasing our sales as an engine for further growth through aggressive capital investment and M&A.

Home & Personal Care Unit Domestic Business Group

• Message from the General Manager of the Business Group

Leading both solutions to social issues and Daio Paper's growth by fully leveraging the strong presence of the Elleair brand

Hiroyuki Shidara

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



Future vision of the H&PC Domestic Business Group

As Daio Paper's growth engine, under the next 5th MTBP, the H&PC Business will be a core source of the Company's consolidated sales and lead its growth through business expansion. Our Elleair brand of household paper products (facial tissue and toilet tissue) in particular has won great public recognition and trust as a high-quality brand, and has maintained the largest share of the Japanese market.* We will leverage the strong presence of the brand to enhance our absorbent products business (diapers and sanitary napkins) and thereby strengthen the entire business group. In addition, amid drastic situational changes, including the rise in material and fuel prices, as a leader of the household paper product industry, we will work to stabilize selling prices and continue to implement initiatives to make a significant contribution to the entire industry. Meanwhile, we are working on the challenge of maximizing profits while addressing the cost increase by clearly differentiating our absorbent products from those of our competitors, and creating new value for the market.

* Source: Intage SRI+, tissue sanitary paper market (facial tissues, toilet tissues, and kitchen towels), April 2021 – March 2022, cumulative total sales by manufacturer

Our strengths and challenges

One of Daio Paper's strengths lies in widespread public awareness of Elleair as a high-quality brand, which has been achieved through the Company's exceptionally strong capacity to supply and sell household paper products based on its production system that can meet various market needs. I believe that the strong brand presence of Elleair helps to increase the effectiveness of marketing and promotion activities while lowering the cost thereof, and it could also be leveraged for other product categories, including absorbent products.

Meanwhile, I recognize that we still have to address certain challenges, including improving the imbalanced locational distribution of factories of converted products, and minimizing risks in material procurement and supply in the event of an

emergency. For the former, we will enhance our production facilities in anticipation of an increase in our share of the market for converted products. To reduce procurement risks, we will insource the manufacture of meltblown nonwoven fabric and fluff pulp, and diversify our suppliers.

Views on the current market environment (opportunities and risks)

In widespread environmental conservation efforts to replace plastic with other materials, the value of paper as an alternative to plastic has begun to be publicly recognized again. Daio Paper is one of the companies that is actively committed to recycling not only paper but also diapers. I believe that our commitment to realizing a circular economy will provide us with new business opportunities in the future. Although the rapid depreciation of the yen we are currently witnessing is a headwind for production, there is a growing demand for domestic products due to a decreased supply of imported paper products. I recognize this as a favorable opportunity for us to increase our market share and demonstrate our competitive advantages. Moreover, we predict that the habit of wiping down surfaces, which has spread widely due to consumers' heightened consciousness of hygiene amid the COVID-19 pandemic, will continue and even take root. The increased use of paper towels and sanitizing wipes will also offer us greater business opportunities.

Meanwhile, amid the shrinkage of the paper market—especially the market for printing paper—due to the progress of digitalization, several competitors that have dealt in printing paper as their main business have announced that they will enter the household paper market. Therefore, we predict that competition in the household paper industry will become even fiercer in the coming two to three years. In the household paper category, where Daio Paper is the industry leader, we will work to stabilize our selling prices and maintain our profitability in the face of risks entailed by situational changes, including the ongoing rise in material and fuel prices and logistics costs.

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—

Major products

[Collaboration-based products]

- elis x M / mika ninagawa, featuring a design created in collaboration with the photographer and film director
- Attento-brand product developed jointly with Wacoal Corporation

[Eco-friendly products]

Products using paper packages:

- elis suhadanokimochi natural series
- Kirekira! Toilet Cleaning Wipe Refill

• Development of the product lineup

The Domestic Business Group of the Home & Personal Care (H&PC) Unit deals in and strives to enhance not only the Elleair-brand toilet tissue and facial tissue, which account for nearly 30% of the relevant Japanese market, but also sanitizing wipes, paper towels and masks, for which demand has grown amid the COVID-19 pandemic. It also devotes efforts to developing products using Daio Paper's proprietary R&D technology, such as the Kirekira! Toilet Cleaning Wipe series, the world's first such product series containing Cellulose Nanofiber (CNF), a plant-based natural material. The business group has also recently launched various collaboration-based products designed to embody inspiring messages. In addition to disposable baby diapers featuring a Disney design, in FY2021 it launched the elis COMPACT GUARD sanitary napkins with a colorful design created in collaboration with a brand under the direction of the photographer and film director Mika Ninagawa, who agreed with Daio Paper's hope of helping ease the sufferings and pain women experience during their periods. Moreover, in June 2022, disposable adult diapers in an underwear-like color, developed jointly with Wacoal Corporation, were launched with the aim of helping users overcome any emotional hurdles or embarrassment preventing them from wearing diapers.

Resolving social issues through our business

We are currently experiencing drastic changes in the social environment and consumer preferences, so we should change our products and our ways of thinking. We are striving to provide solutions to the many social issues that Japan is now facing, while significantly changing our direction toward a stronger commitment to achieving carbon neutrality and the SDGs. For example, against the background of the rapid aging of the Japanese population, there has been growing public concern about both elderly carers and young carers in the field of caregiving for elderly people. We hope to help reduce the burdens on such carers by providing our disposable adult diapers and other products. In addition, with period poverty becoming a focus of global concern, in 2022 Daio Paper launched the "meet my elis" project, which includes a program whereby the Company will provide 2,000 students who menstruate with elis-brand sanitary napkins free of charge for one year. Although we had to limit the number of recipients of free sanitary napkins, we have offered napkin coupons to all student applicants through their schools, and those applicants can use the coupons at stores near their schools. We hope that our efforts will help resolve the issue of period poverty.

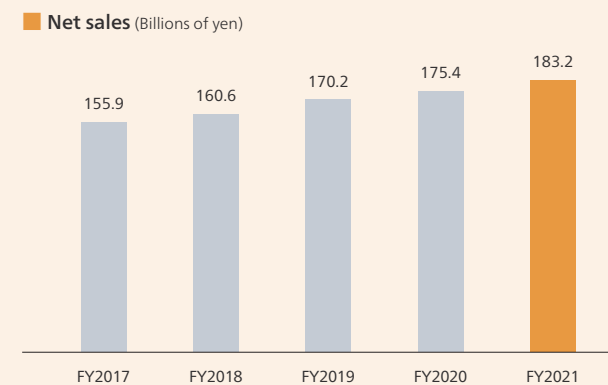
From the perspective of reducing plastic in products, under the Kirekira! brand, we have launched products whose containers use a smaller amount of plastic than previous containers and Japan's

first toilet cleaning wipes in a paper package. We are also preparing to replace plastic packages for other products, including sanitary napkins, with paper packages. Furthermore, we target to replace 60% of packaging materials with recycled plastics and biodegradable plastics by the end of the 5th MTBP period.

Moreover, Daio Paper is working to recycle used disposable diapers, which are now mostly disposed of and incinerated as they are. We have thus far managed to use materials recovered from used disposable diapers as fuel or building material, but we have also launched a joint research project to develop a technology for recycling used diapers into more valuable materials, with a view to constructing a diaper recycling plant in the future. We are planning to insource the manufacture of fluff pulp, an absorbent material for disposable diapers, from July 2023. We are looking to mix pulp recycled from used disposable diapers into our in-house fluff pulp, hoping that it would accelerate our efforts toward horizontal recycling, or the recycling of used products into the same kind of product.

Business results for FY2021

For FY2021, the Domestic Business Group of the H&PC Unit achieved net sales of 183.2 billion yen, an operating profit of 15.5 billion yen, and an operating margin of 8.5%, setting all-time records in both net sales and operating profit. For FY2023, the final fiscal year of the 4th MTBP, the business group has set the target of achieving net sales of 225.0 billion yen, an operating profit of 23.0 billion yen, and an operating margin of 10.2%. However, we predict that, in FY2022, we will face serious difficulty increasing operating profit due to the rise in raw material and fuel prices, while net sales will continue to grow. If we have to pass on the cost increase to consumers by hiking selling prices, I believe that we should also increase the added value of the products themselves when doing so. Since the start of the 4th MTBP period, we have launched many products to achieve the target of having new products account for 30% or more of net sales, and we will continue to do so. We are also planning to launch a new business in a field derived from the existing household paper and absorbent products businesses.



Home & Personal Care Unit Overseas Business Group

● Message from the General Manager of the Business Group

Aiming to increase the H&PC Overseas Business's share of the entire Group's net sales to 30% by accelerating multi-category business expansion and exploring new markets

Makoto Saito

Senior Executive Officer
General Manager of
Overseas Business Group,
Home & Personal Care Unit;
General Manager of
Overseas Business Promotion
Division, Overseas Business
Group, Home & Personal
Care Unit



Future vision of the H&PC Overseas Business Group

Against the backdrop of the continuing decline in the Japanese population, the H&PC Overseas Business is positioned as an engine for the Group's future growth. We are working to expand the H&PC Overseas Business to achieve the target of ensuring that it will consistently turn a profit and account for about 30% of the Group's net sales under the next 5th MTBP. While we have so far expanded into overseas markets mainly with disposable baby diapers, we are currently accelerating our efforts to leverage a high level of brand recognition of our baby diapers for multi-category business expansion with sanitary napkins, household paper, and other products. Moreover, the Turkish-based hygiene products manufacturer that Daio Paper acquired in 2020 (currently Elleair International Turkey Kisisel Bakim Urunleri Uretim A.S.) provides hand soaps, body washes, hair shampoos, and baby oils, so we will offer products in this new category to markets outside Turkey. We aim to expand our business from the countries where we already have production bases—Thailand, China, Indonesia, Turkey and Brazil—to their surrounding countries, to help improve the local hygiene environments through people's use of Daio Group products and enable those people to lead better lives.

Our strengths and challenges

Among Daio Paper's strengths are its abilities to develop premium products and to conduct marketing activities that match local needs. No product can satisfy people if it does not conform with local customs, no matter how highly value-added it may be. The Company's ability to create products that meet local needs through trial and error has helped increase its brand power. For example, in China, when economy products were prevalent, high-quality made-in-Japan products had great appeal to local consumers. However, as local manufacturers gained technological skills, the label of made-in-Japan alone no longer gives an overwhelming advantage to any products. Based on the principle of local production and consumption, Daio Paper has focused on producing high value-added products locally by

leveraging its great technological capabilities developed in Japan and cooperating with local staff in marketing activities that match local consumer trends, thereby resulting in the brand's success in taking root in the Chinese market and providing premium products.

Daio Paper's wide lineup of products includes not only facial tissue and toilet tissue but also sanitizing wipes, all of which boast a large share of the Japanese markets and a proven track record. This is a meaningful strength in our efforts toward multi-category business expansion.

Meanwhile, for the past two years, we have faced the problem of failing to align our business bases around the world with each other in terms of the speed of scaling out multi-category business operations partly due to COVID-19 lockdowns. In the markets we have recently entered in particular, travel restrictions have stagnated our business activities themselves. We will speed up our efforts to explore new markets as various COVID-19 restrictions are relaxed from now on.

Views on the current market environment (opportunities and risks)

The key to an effective sales strategy used to be getting as many products as possible onto the limited number of shelves in physical stores. As we are newcomers in every country we expand into, it is extremely difficult to secure shelf space in physical stores. However, e-commerce allows us to sell our products free of such physical limitations. The COVID-19 pandemic has raised the e-commerce penetration rate in most countries, so we will enhance our e-commerce sales by utilizing the know-how we have acquired in China, a leading country in e-commerce. On the other hand, I recognize that in addition to unforeseeable risks such as the COVID-19 pandemic, overseas businesses have inherent risks. That includes geopolitical risks and the risk of being affected by various factors such as changes in foreign exchange rates and rises in material and fuel prices. For example, with heightened geopolitical risks in Turkey, we are reconsidering our initial expectations of the destinations of exports from the country.



● Development of the product lineup for each country

In Thailand, where scented products are popular, the Overseas Business Group of the Home & Personal Care Unit launched the country's first scented disposable baby diapers in the fall of 2021. As feminine care products, whose sales are growing in Thailand, the business group has launched 42-cm-long night sanitary napkins, disposable period panties, and cool-feeling slim sanitary napkins successively since the start of FY2022. In China, the business group began to insource the local manufacture of sanitary napkins and launched premium and ultra-premium products in response to local needs. In Brazil, into which Daio Paper expanded in 2020, the business group launched high-value-added products, including sanitary napkins, disposable baby diapers and toilet tissue, by integrating the Company's excellent technologies, in addition to existing standard products. In the fall of 2022, disposable baby diaper pants will be launched to stimulate the Brazilian market. In Turkey, the only country where the Group's liquid-category products are manufactured, the business group will export liquid products to Daio Group companies worldwide for sale in their local market.

Resolving social issues through our business

I clearly recognize the very important role that the Overseas Business Group must play in realizing the Daio Group's management philosophy "Shaping an abundant and affable future for the world." Given that the Group's overseas expansion has only a short history and is still small in scale, I believe that the business group's current mission is to return profits to local communities stably in such forms as creating local employment by achieving business growth in the countries where we operate. Since these countries include many developing ones, we hope to contribute to better lives of local people by improving their living environments in terms of hygiene and convenience through the products we produce and sell.

Our ongoing specific initiatives include holding period education seminars targeting new students at universities in Thailand as an awareness-raising activity, and distributing samples of disposable baby diapers in cooperation with local healthcare centers in Indonesia to teach local people how to use disposable diapers, when to change diapers, etc., and thereby to promote the adoption of disposable baby diapers.

In China, Daio Paper has locally developed toilet tissue that disintegrates more easily in water, so that it can be flushed down even in local flush toilets characterized by low-pressure water flow. This has changed the local custom of putting used toilet tissue in trash cans and thus contributed to improving hygienic environments and

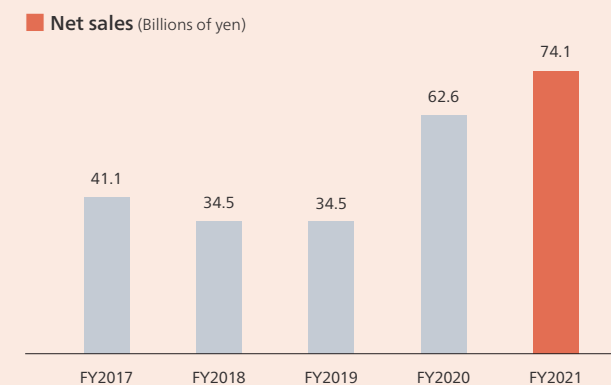
reducing waste.

At the bases of the H&PC Overseas Business, the rate of women's participation and advancement in the workplace is generally higher than in Japan. We will adopt various systems for actively supporting female staff and introduce those systems to Japan too. We hope to lead by example to inspire Group-wide efforts to increase opportunities for women to reach their full potential.

Business results for FY2021

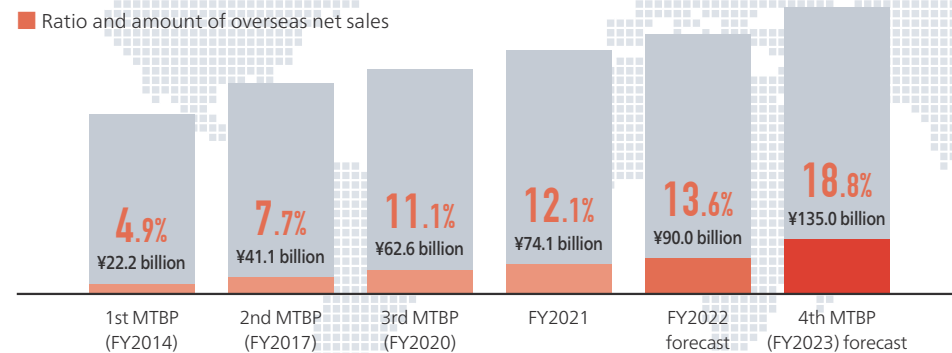
For the final fiscal year of the 5th MTBP (FY2026), the Overseas Business Group of the Home & Personal Care Unit has set the target of achieving net sales of 300.0 billion yen and an operating margin of 10% or more, as well as increasing the ratio of overseas sales to the Group's consolidated sales to over 30%. As a milestone on the road map toward the achievement of this target, we aim to record net sales of 135.0 billion yen and an operating margin of 5.2% or more in the final year of the 4th MTBP (FY2023).

For FY2021, we achieved a net sales increase of 18% year on year, but failed to reach the operating profit target set in the current plan mainly due to the massive impact of strict COVID-19 lockdowns in ASEAN countries. Our business activities in ASEAN countries were drastically limited due to travel restrictions amid the pandemic, resulting in the suspension of our efforts to explore new markets, just when we were working to open up new sales channels toward provincial cities, given that no significant progress had been made in product distribution in those countries. Meanwhile, our plan to develop new products was implemented according to schedule. Therefore, since the fall of 2021, we have launched high-value-added products that are clearly differentiated from competitors' products into all the overseas markets where we operate. I expect that a combination of the relaxation of COVID-19 restrictions and our launch of new products will provide a springboard for us to boost our sales going forward. I also view an increasing percentage of products bought via e-commerce services amid COVID-19 lockdowns as a favorable tailwind for Daio Paper. In FY2022, in the ASEAN region in particular, we aim to become able to remain stably in the black through a sharp recovery and raise our ratio of overseas sales to around 15%.



Trend of H&PC Overseas Business net sales

Ratio and amount of overseas net sales



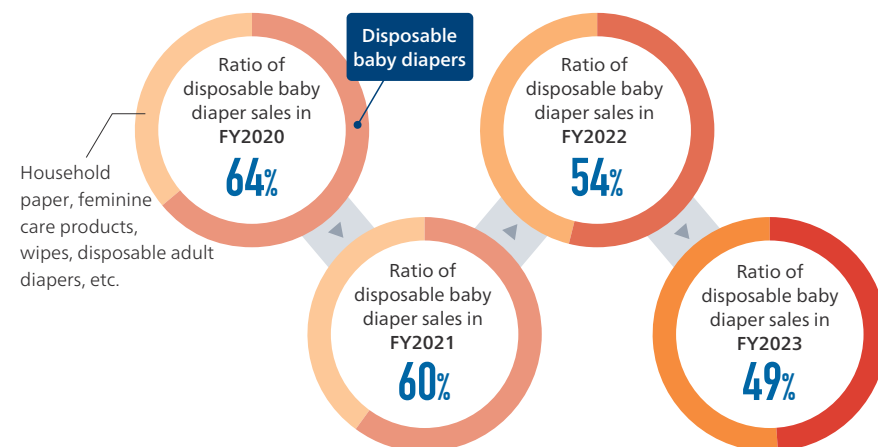
The Daio Group aims to further expand the Home & Personal Care (H&PC) overseas business as its core growth engine through multi-category business expansion in existing markets, including the Chinese market, and entry into new markets. Daio Paper will strive to accelerate its efforts to expand its overseas business through synergy with Group companies toward its expansion from Brazil and Turkey, where it has started full-scale operations through M&A, to surrounding countries.

At the peak of the COVID-19 pandemic, just as in Japan, consumers' shopping styles drastically changed outside Japan,

resulting in growth in e-commerce sales in various countries. The Daio Group leverages its strengths in e-commerce in Japan and China to enhance its e-commerce sales in other countries. It is also working to broaden the range of its products and product categories by adding new products and categories to existing ones.

These initiatives are expected to enable the Daio Group to achieve net overseas sales of 90.0 billion yen, an increase of 21% year on year, in FY2022, the second year of the Fourth Medium-Term Business Plan (MTBP).

Overseas business: Promotion of multi-category business expansion



We strive to accurately detect changes in consumer preferences and trends in sales at stores, quickly predict market trends, and leverage our capabilities to make prompt decisions and implement them in order to diversify our product lineup and increase the sales ratio of product categories other than disposable baby diapers while expanding net sales of baby diapers. We aim to raise the ratio of total sales of household paper, feminine care products, adult diapers, etc. to 51% to boost our net sales and profit.

Growth in e-commerce sales in Asia

E-commerce, that is, buying or selling products and services on the Internet, has grown in popularity mainly among young consumers. The COVID-19 pandemic and the consequent restrictions on travel and other human activities have caused drastic changes in consumers' shopping styles, resulting in further expansion of the e-commerce market.

In China in particular, Singles' Day—November 11 every year—has become not just a big event in the e-commerce industry alone but also the world's largest shopping event. We have estimated based on Nielsen data that, over 45% of purchases of disposable

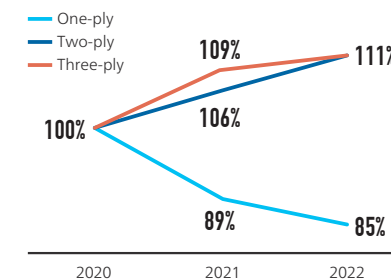
baby diapers and products in other categories that we have presence in is made over e-commerce in China. E-commerce sales of those products have also been rapidly growing in Southeast Asian countries, such as Thailand and Indonesia, against the backdrop of the COVID-19 pandemic.

We aim to boost e-commerce sales in each country by promoting our new products and high value-added products with the leverage of the presence of our brand, which we have strengthened with our disposable baby diaper business, while also distributing those products to physical stores.

Initiatives to create synergy

Brazil Business

Promoting further business expansion by boosting sales of high value-added products and taking advantage of synergetic effects
Developing and selling high value-added products by utilizing both Santher's brand power and the Daio Group's technological prowess



Source: Nielsen data on a quantity basis

Growth rate of the Brazilian markets for one-ply, two-ply and three-ply toilet tissues (with the 2020 level as 100)



High value-added feminine care products and baby diapers

In Brazil, where consumer demand for high value-added products is growing, we have launched a premium range of feminine care products and disposable baby diapers, as well as three-ply toilet tissue, by leveraging our technological prowess. We are currently working to boost sales of those products.

We have also launched initiatives to enhance our Brazil Business and extend the coverage of our operations to surrounding countries in the future by taking advantage of the global network of Marubeni Corporation.

Three-ply toilet tissue

Business expansion initiatives through the utilization of Marubeni Corporation's global network

Survey in preparation for entry into African markets

A sales pilot of feminine care products in Kenya has been prepared with a view to product launch within 2022.

Survey in preparation for extending sales coverage in South America

A survey and examination are under way on the feasibility of the export and sale of personal care products to South American countries.

New businesses in Brazil

- A feasibility study is under way on the introduction of IoT-based feminine care product dispensers targeting offices in São Paulo.
- A feasibility study is under way on a disposable diaper subscription service targeting nursery schools in São Paulo.

Turkey Business

Expanding domestic sales and sales of exports by developing a lineup of products using the Daio Group's know-how

Boosting domestic sales by offering a multi-category lineup of products, including GOO.N-brand products



The KOMILI Natural Tea Tree Oil series using a technology developed through the creation of olive-oil-based products has been launched under the concept of "hand-friendly antibacterial products."

Enhancement of the Turkey Business through the expansion of export sales to surrounding countries

In Turkey, we are striving to enhance domestic sales by providing high-value-added GOO.N-brand products, including baby care products and disposable baby diapers, leveraging both the high level of public recognition of the KOMILI brand, which originated in 1878, and the Daio Group's technological prowess.

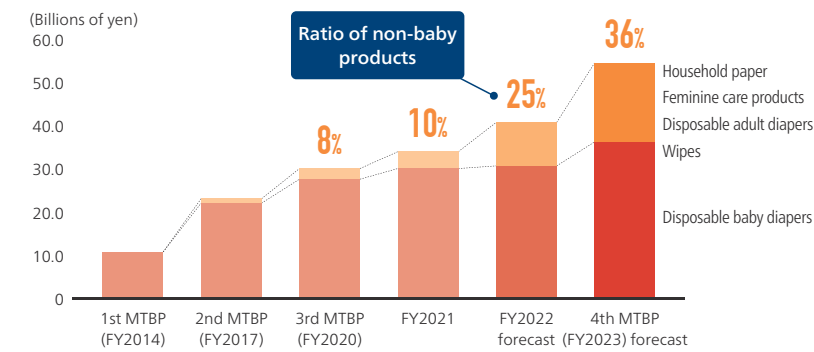
Although the Russian invasion of Ukraine has forced us to focus on domestic sales in Turkey, we aim to make a structural shift to increase the ratio of export sales to 50% or more during the 5th MTBP period.

China Business

Promotion of multi-category business expansion

Leading the growth of the overseas business through multi-category business expansion based on disposable baby diapers

Composition of China Business sales



Multi-category business expansion with feminine care products, household paper, etc.



Strengthening the foundation for the baby diaper business



In China, we are striving to boost sales by providing products in a wide range of categories, including household paper, whose lineup has recently been broadened, and feminine care products, which have started to be manufactured locally, by leveraging the presence of our brand and our sales channel, both of which have been strengthened through our disposable baby diaper business operations. In addition, we tackle social issues by donating disposable adult diapers to local nursing homes for the elderly and donating household paper products amid COVID-19 lockdowns, thereby earning greater public recognition.

Donating household paper and other products during Nantong City's lockdown



Responding to social issues and local needs

Thailand



elis School Roadshow

We hold this event at schools to share accurate information on how to use sanitary napkins and other related subjects with local lower-secondary school students, who do not yet have sufficient knowledge about menstruation. We also provide them with samples of sanitary napkins in the hope that they can lead better student lives.

Thailand

In Thailand, whose climate is categorized as a tropical monsoon climate, there has been growing interest in not only the comfortable feel of products but also their fragrance. We have launched various new products that can meet such local needs, including cool-feeling sanitary napkins, which help ease uncomfortable feeling even on sweltering days, and baby-powder-scented disposable baby diapers, with the aim of boosting sales.

Scented, cool-feeling sanitary napkins



Baby-powder-scented disposable baby diapers

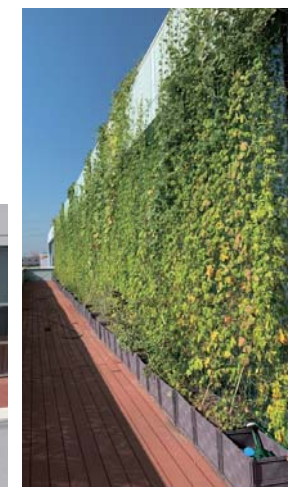
Indonesia



2-piece packages of masks

We have so far provided disposable baby diapers in single-piece packages to provide better access to this kind of product at traditional stores called "warung," which many consumers in Indonesia regularly use in their daily lives. Our lineup of masks imported from Japan amid the COVID-19 pandemic also includes a set of two masks in one package, which is intended to match local needs.

China



To reduce greenhouse gas (GHG) emissions from our factory, in 2021 we installed solar panels on its rooftop, thereby replacing part of the sources of the electricity the factory uses with a clean energy source. We have also installed green curtains made of climbing plants around the office building to save energy.

Daio Abundant and Affable Future 2030

At the Daio Group, we 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 the solutions of 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 lifestyle



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 of "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 sustainable supply chain

Our united efforts with local government and communities, as well as related industries, including papermaking, converting, distribution and logistics, have led Shikokuchuo City, the place of our founding, to develop 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 program, 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.

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

Major Initiatives

Sales of environmentally-friendly products

- Environmentally-conscious products (e.g. using recovered paper)
- Products that reduce plastic waste
- FSC certified paper



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 care-givers' 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 infrastructure supplying daily-use and irrigation water



Major Initiatives

Respect for human rights and diversity

- Empowerment of female employees (increasing 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 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



Toward solving identified material issues, we have set business strategies, initiatives, and numerical targets (KPIs) for each pillar.

SECTION 01	SECTION 02	SECTION 03	SECTION 04
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—

To accomplish the targets, we will enhance our corporate value on a continual basis by identifying specific points to implement through a back-casting approach and by co-creating value.

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 is the most familiar with 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, paperboard and home and

personal care (H&PC) products, we quickly detect 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 from sustainable corporate growth and the solution of social issues.

Mishima Mill, Daio Paper

Management Philosophy

Shaping an abundant and affable future for the world

Our sustainable growth

Co-creation of value

Solution of social issues

Research and development that creates new value

Flexible production systems

Highly transparent procurement process

Trusted manufacturing

Thorough quality management

Detect social needs and issues and reflect that knowledge into products and services quickly

Market-oriented sales style: what is made by Daio is sold only by Daio sales representatives

Major Initiatives



Strategic transformation of our business portfolio

Our sustainable growth

- Launching new products in growing fields
- Sales in overseas markets with demand growth



As demand for newsprint and paper continues to decline, we are shifting our product mix to produce more household paper mainly at the Mishima Mill, our core mill, to maintain and create employment. A paper towel production machine started operation at the Mishima Mill in July 2021, and in October, a second household paper production machine started operation at the adjacent Kawanoe Mill, where the first started operation in 2018. In addition, in response to changes in the demand structure due to increased levels of hygiene consciousness and changes in people's lifestyles during the COVID-19 pandemic, we installed a facial tissue converting machine at the Kani Mill in September, optimizing the production balance of household paper with other domestic mills and strengthening our ability to provide a stable supply.

Moreover, Kawanoe Mill's optimal location near the sea is crucial to propelling our multi-category business expansion strategy, as it enables us to export household paper produced at the Kawanoe Mill to China and other parts of Asia efficiently. In China, in particular, the "Toilet Revolution" is underway to improve the sanitary environment of toilets, and we believe that we can contribute to the movement by improving the availability and uptake of flushable toilet tissues.

* Initiatives for achieving Target 3 of Goal 3, Target 3 of Goal 8, and Target 8 of Goal 12

Reinforcement of the supply system for household paper

Solution of social issues

- Job creation by strengthening the production system
- Improvement of sanitation in overseas countries



Household paper machine at the Kawanoe Mill



Antibacterial toilet tissue in China

Fulfilling Our Purpose

—Value Creation Story of the Daio Group—

Achieving Sustainable Growth

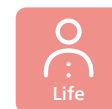
—Strategy for Continuing to Provide Value—

Responding to Social Issues

—Foundation for Sustainable Growth—

Data and Information

—Financial and Corporate Data—



Acceleration of global expansion Heart Support Project

Our sustainable growth

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

We are keen to help developing countries in solving social issues such as the spread of infectious diseases caused by the lack of access to hygienic sanitary products and the inability to escape poverty due to a lack of proper education and job opportunities. The Elis Heart Support Project, launched in 2018, has thus far provided education on how to make cloth sanitary pads and support for access to vocational training. In 2022, we will continue to utilize the community space that we have established in the area to provide counseling on hygiene and sexuality, as well as support for income generation through the acquisition of skills to make cloth sanitary pads. We also seek to help control infectious diseases by promoting the use of those cloth sanitary pads. In conjunction with our ongoing plans to solve social issues, we will work to increase our brand profile at home and establish a foundation for making inroads into the African market, thereby accelerating our global expansion.

<https://www.elleair.jp/hs/> (Japanese only)

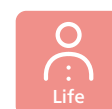
* Initiatives for achieving Target 3 of Goal 3, and Target 5 of Goal 4

Solution of social issues

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



Counseling and support for making cloth sanitary pads at the community space (operation started in September 2021)



Creation of new businesses Application development of cellulose nanofiber

Our sustainable growth

- Business expansion through new business launch

Solution of social issues

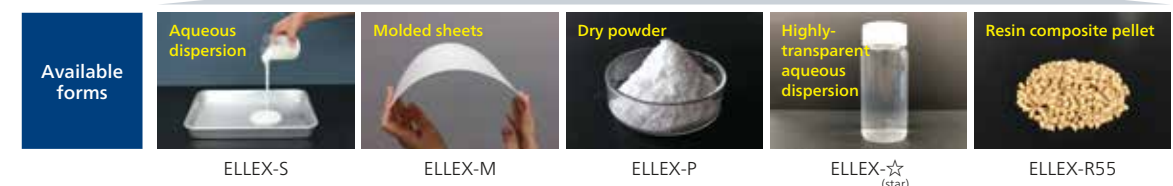
- Development of environmentally-friendly products in the automobile, sports, beauty care and other fields contributing to a better quality of life
- Transition from fossil fuel materials to non-fossil fuel derived materials

Cellulose nanofiber (CNF) is produced by refining wood fiber (pulp), an environmentally-friendly material, to nanosized fibrils. With the growing need to reduce CO₂ emissions, more companies have looked to use CNF to reduce product weight or plastic use, and the number of samples that we provide has also increased significantly. Setting application development targets to be achieved by 2030 in seven fields, we have already put CNF to practical use in two fields. In 2021, we put a new CNF composite resin pilot plant into operation to improve our productivity drastically through the establishment of an integrated manufacturing process. We are also working to develop a continuous manufacturing technology for CNF molded sheets in collaboration with Ehime University and Kawanoe Zoki Co., Ltd. By simultaneously improving CNF productivity and developing applications with partner companies through sample provision, we will expedite the process to commercialize and turn CNF into a new and viable business for us.

	(FY) 2018 result	2019 result	2020 result	2021 result	2022 target	2023 target	2026 target	2030 target
https://www.daio-paper.co.jp/en/development/cnf/								
CNF commercialization fields	1	1	2	2	2	3	5	7

Commercializable applications and prospective solution of social issues

CNF features	Gas barrier Oxygen barrier	Transparency Light-permeable	Size stability As high as silica glass	Lightweight and high strength 1/5 the weight of steel, 5 times the strength of steel	Pore controllability Large specific surface area	Other functional features Fine particles Dispersion and moisturization
Applications	Food bag with gas barrier, etc.	Replacement for glass, etc.		Car body, etc.	Artificial bone reinforcing agent, etc.	Paint, ink, cosmetic products, etc.



* 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.

Factory tour for a local kindergarten

Management Philosophy
Shaping an abundant and affable future for the world

Harmonious growth
with local communities

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 rich development, we will continue to grow together with local communities.

Response to declining birthrate and aging population

We are striving to contribute to community development so that the 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.

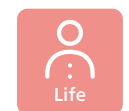
Contribution to invigorating and developing local communities

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

Major Initiatives



Hygiene



Life

Coexistence with and support for local communities / Support for women's independence

Period product provision for students

In April 2022, the period product brand Elis has revamped its brand message to "Here for none other than you," and launched the "meet my elis" project to declare that we are here for every individual who experiences periods in this diverse society. As part of the project and to play our part in solving the period poverty issue, we launched a period product provision program to provide free sanitary napkins to students who have difficulty obtaining sanitary napkins, in exchange for their honest opinions. We hope this program will help recipients spend their days more comfortably, and with their feedback about our products and period in general, we aim to provide products that meet more diverse needs than ever before.

<https://www.elleair.jp/elis/meetmyelis-shogaku/> (Japanese only)



	(FY)	2021 result	2022 target	2023 target	2026 target	2030 target
Reduction of the percentage of people who have difficulty purchasing or obtaining sanitary products in Japan		8.1%	6%	4%	2%	1%

* Source for FY2021 results: Percentage of respondents who answered that they "often" or "sometimes" had difficulty purchasing or obtaining sanitary products in the "Survey on the Impact of 'Period Poverty' on Women's Mental and Physical Health," released on March 23, 2022 by the Ministry of Health, Labour and Welfare

* Initiatives for achieving Target 6 of Goal 5

Fulfilling Our Purpose

—Value Creation Story of the Daio Group—

Achieving Sustainable Growth

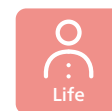
—Strategy for Continuing to Provide Value—

Responding to Social Issues

—Foundation for Sustainable Growth—

Data and Information

—Financial and Corporate Data—



Contribution to invigorating and developing local communities

- 1) Provide stable supply of water for daily use and irrigation that supports local agriculture and dairy farming
- 2) Provide neighboring residents with a space for setting a water tank for irrigation
- 3) Provide indigenous people's groups with skill training for growing fruits



1) Located in Chile, South America, Forestal Anchile LTDA works in cooperation with local communities toward establishing infrastructure and realizing local development. Purranque City, Osorno Province, Region X, where we own forests, suffers from a water shortage every dry season. In 2016, we were requested by the city's mayor and local residents to cooperate in drilling a well, but it was likely that such a well might not produce a sufficient amount of water. After continuing to engage in dialogues with local residents and in-house discussions, we proposed the best possible solution of setting a water pipe and water tanks. We installed an approximately 2,300-m waterpipe from the river running through forests possessed by Forestal Anchile and set water tanks. As a result, it has become possible to supply water on a stable basis, when power and water supply systems, which are within the jurisdiction of the regional government, are established.



Intake from Puquitrhue River



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



Irrigation tank



Skills training for local residents

- 2) To help secure irrigation water for local residents, we have provided a space for setting a tank for storing 13,000 L of spring water together with water intake equipment.
- 3) To contribute to local economic development, we provide indigenous people's groups with skills training for growing fruits, together with the necessary resources. We will continue this training so that local residents can obtain the necessary skills and realize sustainable agricultural development.

* 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 our Sustainable Procurement Guidelines in the stance described on the right.

Daio Group Sustainable Procurement Guidelines
Based on the SDGs

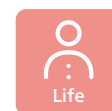
<https://www.daio-paper.co.jp/wp-content/uploads/2021001en.pdf>

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 Initiatives



Establishment of sustainable supply chain CSR Procurement: procurement based on the Sustainable Procurement Guidelines

The Daio Group Sustainable Procurement Guidelines Based on the SDGs set forth our commitments throughout our corporate group and supply chain not only to improve quality and technology, but also to ensure legal compliance in the fields of human rights, environmental preservation, safety and health, etc., conduct fair and equitable transactions, ensure BCP, and contribute to local communities. We have been communicating the guidelines to our business partners and have placed them on our website. Moreover, to confirm that our procurement is in accordance with the guidelines, we have conducted a questionnaire to survey our suppliers. With a response rate reaching 95%, 62% of the respondents received a rating of 3.5 or higher on a 5-point scale in FY2021. To accomplish our FY2030 targets—100% response rate, and at least 90% of suppliers receiving at minimum a rating of 3.5—we are giving respondents feedback on their responses, and also requesting low-rated respondents to improve their practices, while providing the necessary support. In FY2022, we will investigate and identify important human rights issues and formulate measures to prevent or reduce them. We will continue to work to realize sustainable procurement throughout our supply chain, while striving to achieve harmonious growth and development.



	(FY)	2018 results	2019 results	2020 results	2021 results	2022 targets	2023 targets	2026 targets	2030 targets
Supplier survey response rate		-	-	87%	95%	95%	100%	100%	100%
Suppliers rated 3.5 or higher on a 5-point scale		-	-	56%	62%	65%	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. 67

Basic Approach

At the Daio Group, we are striving to establish a corporate culture providing safety and motivation to work, in order to foster human resources who can take on challenges toward increasing corporate value on a sustainable basis under our founding spirit "Passion with sincerity leads to greatness."

By creating opportunities for human resources with diverse backgrounds to maximize their abilities and grow,

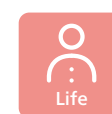
we will bring about organizational growth, value creation, and innovation.

We will also respect human rights, promote the health of our employees and their families, and realize a workplace free from labor accidents, thereby creating a working environment that is considerate of and safe for our employees.

"Tsumugu-kai," a bottom-up, cross-divisional corporate culture reform project



Major Initiatives

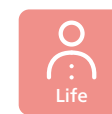


Respect for human rights

We regard respect for human rights as an important management issue and formulated the "Daio Group Sustainable Procurement Guidelines Based on the Sustainable Development Goals (SDGs)" in December 2020 and the "Daio Group Human Rights Policy" in October 2021. In FY2022, we will engage in human rights due diligence to identify, prevent, and reduce important human rights issues in the Daio Group's businesses and supply chains, including at overseas locations.

Daio Group Human Rights Policy
<https://contents.xj-storage.jp/xcontents/AS90325/828e8de9/4894/4139/a0ac/2875add2cd52/20211001120807802s.pdf>

* Initiatives for achieving Target 7 of Goal 8



Development of human resources

1) Develop next-generation leaders and global human resources 2) Develop self-directed human resources

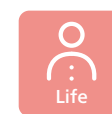
Aiming to develop human resources capable of creating value for sustainable growth, we are developing next-generation leaders and global human resources based on our business plan. In particular, to foster human resources who will in the future engage in our overseas businesses, our growth driver, we provide not only a conventional overseas training program, but also those indicated below to increase their foreign language proficiency and remove their hesitation about working abroad.

Furthermore, in order to develop self-directed human resources capable of flexibly responding to changes in the external environment, we have established a system that allows employees to shape their own careers and develop their capabilities by, for example, joining an external management training program, using a support program to obtain an MBA in Japan or abroad, and utilizing the Daio Career Challenge (internal open call for employees to select their own career) system. By making these efforts, we are striving to enhance employees' engagement and motivation.

- ▶ **Remove hesitation about working abroad:** 1) Overseas training program for young employees 2) Workshop on working overseas 3) Training program on global mindset
- ▶ **Increase foreign language proficiency:** 1) TOEIC online IP test 2) Financial support for online English conversation training

	(FY) 2018 results	2019 results	2020 results	2021 results	2022 targets	2023 targets	2026 targets	2030 targets
Employees fostered as next-generation leaders	45	52	60	67	72	84	108	140
Employees with TOEIC 600+	239	215	223	251	300	350	500	600
Transfers under the internal open call system	32	36	41	47	57	70	100	150

* Initiatives for achieving Targets 3 and 4 of Goal 4



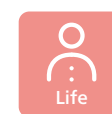
Promotion of diversity

Promotion of diversity & inclusion

Our goal is to create a corporate culture where each employee respects each other's individuality, recognizes diversity, and can work together with mutual trust. To promote diversity, we have placed the highest priority on creating a corporate culture where women can play an active role, and have worked to create a psychologically safe corporate culture by using internal social media to disseminate messages from top management and providing various training programs for management. We have also been actively assigning female employees to the Home & Personal Care (H&PC) Unit, which has the widest variety of opportunities for them to play active roles, and developing leaders through cross-industrial interaction programs. To further accelerate these initiatives to promote women's advancement, we will add the development of young female leaders and education and support for supervisors as priority items. Furthermore, we will drive reforms to establish a corporate culture where all employees can take on challenges and play active roles through the promotion of life and work balance by, for example, increasing the paternity leave uptake to 100% and encouraging employees to use the flexi-time and remote work schemes.

		(FY) 2018 results	2019 results	2020 results	2021 results	2022 targets	2023 targets	2026 targets	2030 targets
Female managers	(entire company)	1.5%	2.0%	2.2%	2.8%	2.9%	3.0%	6.5%	10.0%
//	(H&PC)	3.1%	3.4%	3.5%	5.4%	5.6%	6.0%	8.0%	13.0%
Female employees on the managerial track	(entire company)	13.3%	13.7%	15.0%	15.8%	18.5%	19.5%	24.0%	29.5%
//	(H&PC)	22.4%	21.7%	24.5%	25.4%	28.0%	29.0%	36.0%	40.0%
Paternity leave uptake		5.0%	4.0%	6.3%	28.9%	65.0%	100.0%	100.0%	100.0%
Disabled employees		2.2%	2.3%	2.3%	2.4%	2.3%	2.4%	2.5%	2.6%

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



Compassion for employees

1) Creation of a safe and secure workplace environment 2) Health and productivity management 3) Enhancement of schemes

Aiming to create a corporate culture that encourages value creation, we work to create a safe, energetic, and secure workplace environment where employees can work with vitality and enthusiasm, with safety and security as the top priority. With the goal of zero lost time injuries, we protect the safety of all employees at our facilities based on the three pillars of "safety awareness," "safe environment," and "safe work." Furthermore, we are committed to mental and physical health, and we announced the Daio Group Declaration of Health in FY2014 and the Work Style Reform Declaration in FY2016. We are working to implement a wide variety of measures while placing our focus on ensuring an appropriate life-work balance, improving lifestyle habits, providing ample care for mental health, and supporting early detection of disease and prompt medical care. By introducing flexible work systems such as flexi-time, remote work, and annual paid leave that can be taken by the hour, as well as a health consultation service, group long-term disability (GLTD) insurance for compensating for loss of earnings, and by promoting an age-friendly workplace, we are establishing an environment where employees can work without worry in this age of the 100-year life.

	(FY) 2018 results	2019 results	2020 results	2021 results	2022 targets	2023 targets	2026 targets	2030 targets
Lost time injury frequency rate	0.57%	0.90%	1.11%	1.14%	0.96%	0.90%	0.80%	0.69%
Smoking rate	31.2%	30.5%	26.1%	23.9%	23.5%	22.0%	18.0%	15.0%
Average overtime work hours (of nonmanagerial employees)	22.0h	23.0h	20.8h	22.5h	20.0h	18.0h	15.0h	10.0h
Paid-leave uptake	71.0%	78.7%	67.2%	71.7%	70.0%	80.0%	80.0%	90.0%

* Initiatives for achieving Targets 4, 6 and 9 of Goal 3, Targets 5 and 8 of Goal 8, and Target 2 of Goal 10

Initiatives to Achieve the SDGs

Organic

Contribution to the Global Environment

Material Issues:

Response to climate change / Realization of a recycling-oriented society / Forest conservation and maintenance of biodiversity

Basic Approach

Daio Paper established the Daio Global Environmental Charter in 1993 ahead of any other company in the papermaking industry. Since then, the Daio Group has been actively committed to solving environmental problems through its business operations based on the charter. In May 2021, the Daio Group Sustainability Vision was established, laying out our initiatives toward accomplishing the SDGs. To ensure a link between those initiatives and the previous

initiatives in which we have been engaged so far, as well as to incorporate these initiatives into our business management, the Daio Global Environmental Charter was revised at the same time. We will continue environmentally-friendly business operations toward realizing a sustainable carbon-free society in harmony with the global environment, a recycling-oriented society, and a society that coexists in harmony with nature.

Plantation owned by Forestal Anchile

Daio Global Environmental Charter

Principle The Daio Group will expand its business globally in harmony with the global environment while actively tackling environmental problems with the aim of realizing a sustainable society.

- Basic Policy**
1. Mitigation of global warming
 2. Forest conservation and maintenance of biodiversity
 3. Effective use of resources and environmentally friendly procurement of raw materials
 4. Reduction and effective use of waste
 5. Development and deployment of technologies and products with lower environmental impact
 6. Reduction of environmental load together with supply chain partners
 7. Legal compliance and active environmental communication/coexistence with local communities

For details of each item, read this QR code.



Management Philosophy

Shaping an abundant and affable future for the world

Future Visions

A borderless society that coexists in harmony with nature

An earth that is regenerated back into a planet with abundant nature and its forest area restored

Carbon neutrality throughout the supply chain

Clean energy used throughout the world

A recycling-oriented society with less waste

A shift from plastic to non-fossil fuel derived materials

CO₂ absorption and fixation

Forest conservation and maintenance of biodiversity
Sustainable forest management

Forestation
Protection of flora and fauna

GHG reduction

Response to climate change
Effective use of sustainable resources

Energy saving
Energy transition

Lower environmental impact

Realization of a recycling-oriented society
Sustainable recycling of resources

Reduction, reuse and recycling (3Rs)
Material transition

Fulfilling Our Purpose

—Value Creation Story of the Daio Group—

Achieving Sustainable Growth

—Strategy for Continuing to Provide Value—

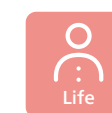
Responding to Social Issues

—Foundation for Sustainable Growth—

Data and Information

—Financial and Corporate Data—

Major Initiatives



Response to climate change Expansion of plantation area and effective use of forest resources

Located in Chile, South America, Forestal Anchile owns approximately 590 km² of forested land (of which approximately 280 km² are preserved as natural forests) and is engaged in sustainable forest management. To stably procure raw materials for papermaking and increase the amount of CO₂ absorbed and fixed, the company set a target in 2021 to expand its forest plantation area by 150 km², and so far, it has acquired and began managing approximately 6 km² of forested land (equivalent to 840 soccer pitches).



Wood pellet fuels

The company also begun producing wood pellets as a biomass fuel. Using residues from chip production, and waste wood, sawdust, etc. from local sawmills as raw materials, the company is promoting cascade utilization of wood-based resources without wastage. This will lead to revitalizing the local forestry and lumber industry, and can also contribute to the reduction of air pollution in Chile by promoting a transition from firewood stoves to pellet stoves.

* Initiatives for achieving Target 9 of Goal 8, Target 2 of Goal 12, and Target 2 of Goal 15



Newly acquired forested land



Realization of a recycling-oriented society Promotion of the use of hard-to-recycle recovered paper (gypsum board, laminated paper, etc.)

Toward the target of raising the ratio of hard-to-recycle recovered paper pulp in containerboard to 30% by FY2030, we are promoting the use of hard-to-recycle recovered paper, which used to be incinerated due to high levels of contaminants that inhibit recycling (i.e. plastics such as DVDs that come with magazines). Using our proprietary technology, we automatically sort pulp fiber from plastics and utilize the former as papermaking raw materials and the latter as fuel for waste-to-energy boilers to generate power. By using the residual waste as an energy source instead of merely incinerating it, we can reduce the use of fossil fuel and contribute to reducing CO₂ throughout the region. An environmental assessment is currently underway for the construction of a waste-to-energy boiler for further waste-to-energy utilization. Iwaki Daio Paper is also constructing a waste-to-energy boiler (scheduled to start operation in January 2023) that will use waste-derived fuel, which has been difficult to utilize before. Since a high utilization rate of recovered paper will lead to solving marine pollution (as waste plastic is also used effectively as a fuel), we will continue to work toward accomplishing the target.



Waste-to-energy boiler under construction at Iwaki Daio Paper

	(FY)	2018 result	2019 result	2020 result	2021 result	2022 target	2023 target	2026 target	2030 target
Ratio of hard-to-recycle recovered paper pulp in containerboard		13.7%	16.7%	16.7%	16.2%	17.1%	19.2%	27.0%	30.0%

* Initiatives for achieving Target 4 of Goal 8, Target 5 of Goal 12, and Target 1 of Goal 14



Forest conservation and maintenance of biodiversity

- 1) Protect Patagonian Cypress, a designated natural treasure, and Pudu, a near threatened species
- 2) Breed and release endangered freshwater fish Kawabata-moroko (Hemigrammocypris neglectus) in the Yoshino River



Pudu, identified in a forest in Los Riscos

1) Located in Chile, South America, Forestal Anchile preserves approximately 280 km² of its forested land as natural forests to protect the designated natural treasure Alerce (Patagonian Cypress). While communicating with the Chile National Forest Corporation and local NGOs, the company has a specialized organization conduct research on the forests to check the growth of the trees. Referring to recommendations from the organization, the company is carrying out preservation activities appropriately. In addition, the company designates natural forests and zones where endangered species might inhabit as "areas that are highly worthy of protection," and regularly conducts monitoring in those areas. In 2021, the company cooperated with an ecological survey conducted by a biological research group at a local university. Through the survey, the company found out that the Pudu (deer family), a near threatened species, lives in the forests that it owns. The company will continue to work toward ensuring coexistence and coprosperity of a wide variety of creatures in cooperation with related organizations.

2) The Tokushima Factory of Daio Paper Products Corporation is a member of an association breeding and releasing Kawabata-moroko, which is designated as Endangered Class IA. Using water tanks on its property, the factory has been breeding 200 fish that it received from Tokushima Prefecture in January 2016. The fish population declined by 50 in the first two years. However, by protecting the remaining fish from birds, setting protective cases for its fry, and managing the water temperature even more carefully, the factory has been successfully increasing the number of the fish since the third year. As of June 2022, 1,090 individual fish were identified. For further breeding, the factory has added various measures, such as monitoring the water quality, setting spawning beds, and cleaning the protective cases. Toward the target of releasing more than 200 fish to their original habitat, the factory will continue to breed the fish in cooperation with Tokushima Prefecture.



Kawabata-moroko, endangered freshwater fish inhabiting the Yoshino River

* Initiatives for achieving Target 6 of Goal 6, Targets 1, 2, 4, and 5 of Goal 15, and Targets 16 and 17 of Goal 17

Feature 2 Initiatives toward a Carbon-free Society

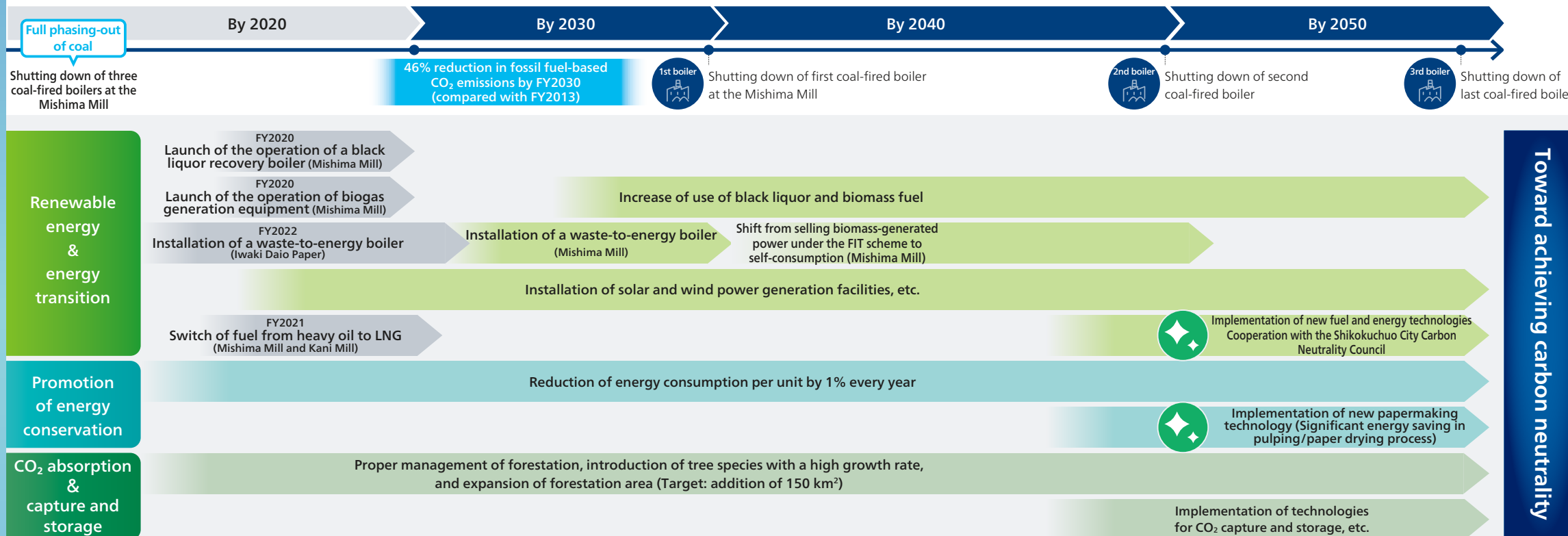
The Daio Group declared its commitment to achieving carbon neutrality by 2050 in May 2021. In accordance with the Daio Global Environmental Charter, we have been promoting a variety of environmentally friendly initiatives, including the promotion of energy conservation and the use of biomass fuels.

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 in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).



Roadmap to Achieving Carbon Neutrality by 2050

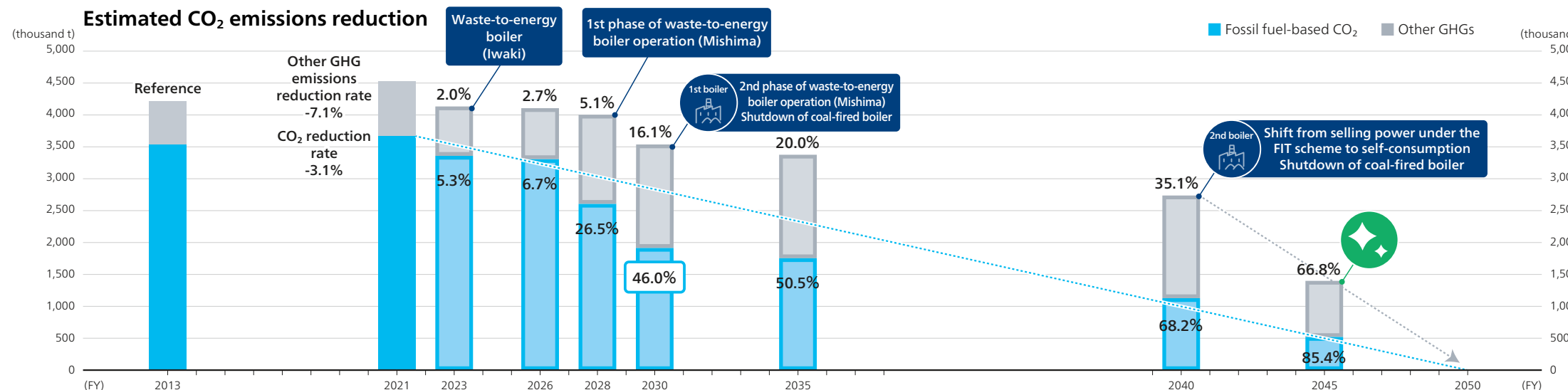
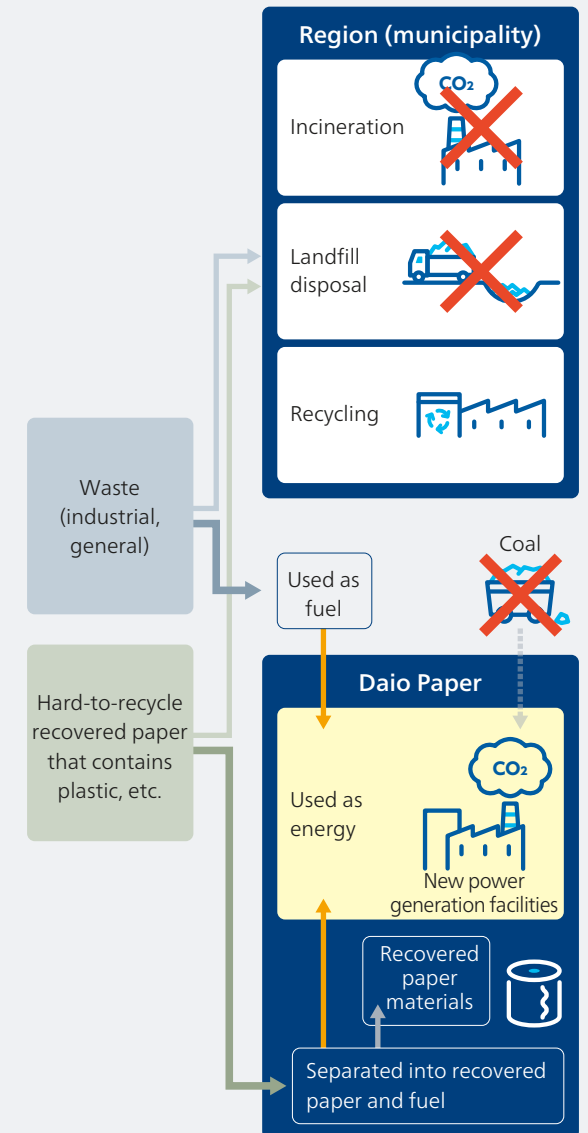
We will actively work to reduce dependence on fossil fuel by using alternative fuels and applying new technologies in cooperation with local communities.



Reducing greenhouse gas emissions in cooperation with the region through the introduction of waste-to-energy boilers

Efforts to reduce incineration and landfill disposal of waste and recycle as much waste as possible are made in the region, while Daio Paper utilizes the remaining waste as an alternative energy source to coal.

This scheme will lead to the reduction of incineration facilities and landfill sites in addition to the reduction of greenhouse gas emissions in the region.



* The amount of emissions in the reference year 2013 does not include emissions by subsidiaries that have become part of the Daio Group since then (still being compiled).
* A negative figure in the graph indicates an increase in emissions.

Message from the General Manager of the Production Division

Contributing to Achieving Carbon Neutrality of the Entire Region While Working to Reduce Use of Fossil Fuels at Production Sites

Hiroshi Yamasaki

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



Our challenges in the age of decarbonization

It is our mission in this day and age to leave a healthy planet to the next generation, and I see the growing global awareness of the importance of carbon neutrality as a very good thing in itself. In May 2021, we formulated the Daio Group’s Sustainability Vision, in which we committed to achieving carbon neutrality by 2050 as our long-term vision. In the Fourth Medium-Term Business Plan, we have also set “responding to climate change” as one of the three basic policies. With a strong determination to achieve carbon neutrality by 2050, we are making progress by promoting the use of renewable energy sources. Since the beginning of 2022, the invasion of Ukraine by Russia and the rapid depreciation of the yen have caused raw material and fuel prices to soar to unprecedented levels. Given such external environment, I personally feel that it is necessary to further expedite our efforts to achieve carbon neutrality.

The paper industry, while efficient in its use of electricity and steam, is considered an industry with high environmental impact as it consumes significant amounts of energy to produce paper. In the papermaking procedure, which makes up the bulk of the production process, pulp, which is an aggregate of wood fibers, is diluted with water to make a pulp mixture containing less than 1% of pulp. It is then used to make a thin wet sheet of pulp, known as paper web. This paper web with a water content of 99% would then be dried to about water content of 8%. This drying process inevitably requires heat. We rely on fossil fuels for about half of our heat sources. We will gradually replace them with renewable energy sources in order to achieve decarbonization. Our dependence on coal not only puts us at risk of higher coal prices today, but also at risk of carbon tax burdens in the future. Recently, we have received questions from customers about CO₂ emissions per metric ton of product, and we believe that our commitment to decarbonization also affects our brand image. Efforts toward decarbonization are also progressing in other industries, and some companies are leading the way in research and development of alternative energy sources, such as the use of hydrogen

and ammonia. To ensure that the paper industry as a whole will not fall behind, we will continue to take on the challenge of fundamentally reexamining the conventional papermaking process itself, while taking the lead in advancing sustainability initiatives within the industry.

Roadmap to achieving carbon neutrality by 2050

To achieve carbon neutrality by 2050, we will implement our initiatives based on the three approaches: “shift away from coal,” “promotion of energy conservation,” and “carbon sinks.” Of particular importance is the shutting down of coal-fired boilers. As a milestone toward achieving carbon neutrality, we have set a target of reducing CO₂ emissions in our production activities by 46% (compared to FY2013) by FY2030, and are proceeding with efforts to gradually replace coal-fired boilers with alternative power generation equipment by shutting down the three coal-fired boilers at the Mishima Mill one by one every 10 years, in 2030, 2040, and 2050.

Toward 2030, at the Mishima Mill, we have started the operation of a high-efficiency black liquor recovery boiler (FIT) in July 2020, as well as an anaerobic treatment facility that extracts biogas from pulp wastewater in October of the same year. In FY2021, we partially switched our lime kilns’ fuel source from heavy oil to liquefied natural gas (LNG), a low-carbon fuel. In addition to these efforts at the Mishima Mill, at Iwaki Daio Paper, the mill’s third waste-to-energy boiler fueled by wood residue and waste plastic is scheduled for operation in FY2022. The completion of the boiler will enable Iwaki Daio Paper to become a mill that uses only in-house power generated from non-fossil fuels. Moreover, Iwaki Daio Paper’s surplus power will be transferred to its adjacent Elleair Product’s Fukushima Factory. This is expected to contribute to reducing Fukushima Factory’s power purchases. We also plan to newly install a waste-to-energy boiler at the Mishima Mill, with environmental assessment currently underway. By 2030, we will shut down one of the three coal-fired boilers and replace it with this waste-to-energy boiler.

Even after 2030, we will continue to reduce our dependence on coal by making effective use of biomass

and waste-derived fuel. In 2040, the contract for selling biomass power to external parties using the feed-in tariff (FIT) scheme will expire. We will switch to using that biomass power internally, and by supplementing with renewable energy from solar and wind power generation facilities, we will be able to shut down the second coal-fired boiler at the Mishima Mill. Thereafter, when we shut down the last coal-fired boiler by 2050, we will achieve carbon neutrality. As various technological innovations are being developed toward achieving decarbonization, such as power generation using hydrogen and ammonia and underground storage of CO₂, we will determine the best solution for our company and formulate concrete measures to shut down the last coal-fired boiler.

In addition to measures to shift away from coal, we will continue to make efforts to expand carbon sinks through increasing our forested land area and to promote energy conservation.

Ongoing energy conservation activities

Sustainable business growth requires capital investment to increase production and expand the variety of products produced. I believe that it is important to build a production system in which capital investment, which is a corporate activity that increases energy consumption, would not result in an increase in GHG emissions for the company. As a company that is moving toward carbon neutrality, we will take firm control of our actions so that we can act responsibly.

An important initiative to achieve this is energy conservation efforts at production sites. For the past four to five years, at our mills, we have been implementing the “From the Ground Up Movement,” which involves accumulating energy conservation efforts one by one, and energy conservation awareness has become firmly established among employees working at the production sites. Last year, we endorsed the Task Force on Climate-related Financial Disclosures (TCFD). We convey the importance of our day-to-day conservation efforts to the employees on the ground by communicating in an easy-to-understand manner why we are required to act and disclose information in line with the TCFD recommendations.

The high level of awareness and the daily efforts at our production sites are manifestations of our resolute commitment toward achieving carbon neutrality by 2050 and I hope that they will lead to stronger relationship of trust with our

stakeholders.

Contributing to achieving carbon neutrality in the region

Carbon neutrality cannot be achieved through the efforts of one company alone. It is very important that the entire supply chain and the region work together.

To shift away from coal, Daio Paper plans to build two waste-to-energy boilers at the Mishima Mill in 2028 and 2030, and shut down one coal-fired boiler.

Looking at the entire Shikoku region, much of the waste from ordinary households is incinerated, which is a problem as waste incinerators cost a lot of money to construct and maintain. Against the backdrop of population decline and other factors, some municipalities are considering switching from costly waste incinerators to tunnel composting, which recycles waste into solid fuel through the power of microorganisms.

By procuring such solid fuel at a lower cost than fossil fuels, Daio Paper will be able to both curb 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 reductions 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 Shikokuchuo City, where the Mishima Mill is located, the Shikokuchuo City Carbon Neutrality Council was established last year, and since then discussions have been underway regarding a roadmap and measures for an area-wide energy transition in the region. Shikokuchuo City is home to many paper-related companies, and it boasts the nation’s highest value of paper product shipments. Not limited to paper-related industries, companies of different industries and sizes gathered in the same region, in cooperation with the local government, are sharing knowledge and information on the latest technological and policy trends, and issues related to decarbonization.

Even if general waste of the entire Shikoku region were to be converted into fuel through tunnel composting, the Mishima Mill has sufficient capacity to make use of all of it. We will make effective use of this council to introduce our initiatives and contribute to the realization of carbon neutrality for the entire region.

Effective Use of Water at the Mishima Mill

Pulp and paper production requires a large amount of water. The Mishima Mill (Shikokuchuo City, Ehime Prefecture), our core paper mill, is located in an area with little rainfall. However, the completion of three dams on the Dozan River (Shingu, Yanase, and Tomisato), thanks to the wisdom and great labor of our predecessors, has made it possible to secure water, leading to our development today.

Although it has a secure source of water, 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, paper making, and cooling water. It also reuses approximately 10% of the used water, such as by filtering for use as reclaimed water, or by recovering the heat from warmed cooling water.

In anticipation of a drought due to insufficient rainfall at the water sources, we have established a system that allows us to operate without affecting product quality even if the amount of reclaimed water used is raised to approximately 30% of the total amount of water used.

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

The Daio Group Sustainability Vision was established on May 27, 2021.

On the same day, the Daio Group expressed its support for the TCFD recommendations.

The Group is working to align its disclosure of climate-related financial information with the TCFD recommendations, such as by assessing its climate-related risks and opportunities and by integrating the processes into the Group's management strategy and overall risk management.



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 a month to assess and deliberate on matters regarding climate-related risks and opportunities, including the targets, policies, strategies, and progress of its initiatives. Chaired by the Executive Vice President and Representative Director responsible for Finance, the Sustainability Committee comprises Managing Executive Officers and Directors, Outside Directors, and Executive Officers engaged in ESG-related operations. One full-time Audit & Supervisory Board Member and one Outside Audit & Supervisory Board Member attend as observers.

The Chairman of the Sustainability Committee reports on matters decided by the Committee once each quarter at the Board of Directors' meeting to the President and Representative Director, who chairs the Board, as recommendations. All members of the Board of Directors assess, discuss, and oversee the implementation and progress of the recommendations, as well as approve and decide on

important matters.

Under the Sustainability Committee, there are three subcommittees: the Climate Change Response Subcommittee, the Environmental Impact Reduction Subcommittee, and the Value Co-creation Subcommittee. These subcommittees examine and implement specific initiatives related to sustainability, including initiatives regarding climate-related risks and opportunities. These three subcommittees, which are chaired by Executive Officers, are also responsible for identifying risks and opportunities and managing the progress of the initiatives.

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 Medium-Term Business Plan Implementation Meetings, which are attended by Directors and Executive Officers.

Strategy

The Daio Group has conducted a scenario analysis based on the below-2°C scenario and the 4°C scenario to determine how climate change would impact the domestic businesses of the Paper and Paperboard Unit and the H&PC Unit. When setting the conditions of each scenario, we referenced scenarios such as the RCP2.6 and RCP8.5 scenarios in the Fifth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC), and the SDS and the STEPS in the World Energy Outlook 2021 of the International Energy Agency (IEA).

With regard to physical risks, we conducted risk assessments based on data from Aqeduct 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 (MEXT) and the Japan Meteorological Agency (JMA), Four Twenty Seven, Inc., ENCORE and other sources.

As regards the scale of financial impact of risks and opportunities in the scenario analysis on the right page, "Large" indicates an impact of 30 billion yen or more, "Medium" indicates an impact of 15 to 30 billion yen, "Small" indicates an impact of 5 to 15 billion yen, and "Minute" indicates an impact of less than 5 billion yen.

Scenario Analysis

Transition risks

We recognize that in a below-2°C scenario, we face regulatory risks such as carbon taxes as well as other risks such as rising raw material prices. We will take actions to reduce energy-related risks by reducing CO₂ emissions from fossil fuel combustion by 46% from 2013 levels by 2030. Furthermore, we will work actively to adopt energy conservation measures and speed up fuel transition to achieve carbon neutrality by 2050. We will also work with our raw material supply chain to promote a shift to low-carbon solutions.

A below-2°C scenario

	Risks	Implications	Financial impact	Strategies and actions
Policies and regulations	Mandatory CO₂ emissions reduction obligation scheme	<ul style="list-style-type: none"> Introduction of GHG emissions regulations and carbon pricing Increase in cost of sales due to rising energy prices 	Medium	<ul style="list-style-type: none"> Switch from fossil fuels to waste-based fuels by installing two waste-to-energy boilers and shutting down one coal-fired boiler by 2030. Implement and continue investments in energy conservation technologies. Adopt renewable energy sources such as solar energy. Expand area of forest plantations. Promote initiatives such as those through the Shikokuchuo City Carbon Neutrality Council.
	Tightening of regulations on GHG emissions	<ul style="list-style-type: none"> Increase in prices of various materials due to the introduction of carbon tax 	Small	<ul style="list-style-type: none"> Choose low-GHG-emitting materials from the first stage of product development to curb cost increases.
Technologies	Low-carbon energy transition in goods transport	<ul style="list-style-type: none"> Increase in costs due to the adoption of new technologies and other measures to lower carbon intensity of transport modes 	—	<ul style="list-style-type: none"> Continue to promote a modal shift from trucks to coastal vessels and roll-on/roll-off ships and a reduction in transport distances. Adopt new technologies in line with advances in autonomous vehicles, hydrogen or ammonia-powered trucks, etc.

Physical risks

In a 4°C scenario, we expect that the physical risks posed by droughts and storm surges to our major domestic sites will not differ greatly from current levels in 2030. However, we recognize an increased risk of disruptions to the distribution of goods from flooding. To reduce such risks, we will enhance our business continuity plan (BCP) and business continuity management (BCM), including for logistics, as well as promote water-saving technologies and the rate of water recycling. Furthermore, we recognize that our overseas forest resources face an increased risk of wildfires and other fire hazards due to climate change. We will diversify procurement sources, increase tree planting to secure sufficient quantity of raw materials, select tree species suitable for the region and climate, as well as take other measures to reduce risks.

A 4°C scenario

	Risks	Implications	Financial impact	Strategies and actions
Acute	Increase in frequency of typhoons and torrential rains	<ul style="list-style-type: none"> Impact of natural disasters such as floods on production activities Damage to roads, railroads, and port facilities leading to supply chain and distribution disruptions 	Minute	<ul style="list-style-type: none"> Continue to enhance BCP and BCM.
Chronic	Changes in precipitation and weather patterns and an increase in average temperature	<ul style="list-style-type: none"> Damage to plantation forests and raw material suppliers affecting procurement stability 	—	<ul style="list-style-type: none"> Diversify suppliers for stable procurement. Increase tree planting to secure sufficient quantity of raw materials. Select, breed and develop tree species suitable for the region and climate of afforested areas.

Opportunities

While climate change poses risks to us, opportunities could also arise from it. As shown in our Roadmap to Achieving Carbon Neutrality (pages 57 and 58), we will actively work to reduce our dependence on fossil fuels by applying know-how and new technologies to enable us to use alternative fuels. We will also promote energy transition by installing waste-to-energy boilers, solar power generation facilities and other such facilities, as well as promote energy-saving 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."

	Opportunities	Implications	Financial impact	Strategies and actions
Products and services	Changes in consumer needs	<ul style="list-style-type: none"> Increase in demand for environmentally conscious products (FSC products, plastic-replacing and plastic-reducing products) Increase in demand for products that help consumers adapt to climate change (products for sweat control and emergency preparedness) Changes in perceptions of recycling Pressure to reduce industrial waste Increase in water efficient products to conserve water resources 	Minute	[Paper & Paperboard Unit] <ul style="list-style-type: none"> Increase lineup of products to replace plastic, and lineup of packaging and functional materials. Increase lineup of products with forest certification (e.g. FSC-certified paper). Develop CNF and RFID technology and increase lineup of such products. [H&PC Unit] <ul style="list-style-type: none"> Switch to plastic-free packaging materials. Increase lineup of products that help consumers adapt to climate change, such as masks and hygiene products. Develop and increase sales of sweat control products and products to stay cool in heat waves. Develop products to support water conservation, e.g. products that easily disintegrate in water.
	Development of new products and services through technological innovation	<ul style="list-style-type: none"> Rise in demand for plastic recycling and demand for biomass-derived reinforcement materials 	—	<ul style="list-style-type: none"> Make further progress in deploying technology to reinforce recycled plastics with CNF.
Energy source	Rise in use of renewable energy	<ul style="list-style-type: none"> Fuel cost improvement by procuring waste-derived fuel that is not currently being effectively used Thermal recycling (energy recovery) of waste that had been simply incinerated Material recycling of waste paper that had been simply incinerated or sent to landfills due to high contaminant content 	Minute	<ul style="list-style-type: none"> Install a waste-to-energy boiler that contributes to the entire community. Conduct research on industrial and municipal waste that is not effectively used. Increase use of hard-to-recycle recovered paper and its contaminants (plastics).
Resource efficiency	Strengthening recycling and zero waste emission efforts	<ul style="list-style-type: none"> Cost reduction by establishing a recycling system for raw materials Higher consumer satisfaction via compliance with environmental policies and requirements 	—	<ul style="list-style-type: none"> Establish a system for collecting and recycling used disposable diapers. Install facilities to reuse materials. Introduce environmentally conscious products onto the market.
	Recycling of raw materials			
	Reuse of materials			

Risk Management

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

The Sustainability Committee receives reports on the climate-related risks and opportunities and other issues related to sustainability, domestic and international trends and changes in the circumstances surrounding the Group, and the progress of initiatives using KPIs from its three subcommittees of the Climate Change Response Subcommittee, the Environmental Impact Reduction Subcommittee, and the Value Co-creation Subcommittee and deliberates on them. The Sustainability Committee has performed a scenario analysis to identify and assess climate-related risks. In the process, it 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. Technologies, c. Market, d. Reputation),
- 2) Physical risks (a. Acute, b. Chronic), and
- 3) Opportunities (a. Energy source, b. Market, c. Resilience, d. Products and services, e. Resource efficiency).

The Committee assessed the scope of impact and the degree of uncertainty (high/low) for these items. It 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 SDS and the STEPS in the International Energy Agency (IEA) World Energy Outlook 2021 were referenced for transition risks, and data (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 MEXT and JMA, Four Twenty

Seven, Inc. and ENCORE were used for physical risks.

In identifying and assessing climate change-related risks, the Environmental Impact Reduction Subcommittee and the Value Co-creation Subcommittee take charge of those for the Paper and Paperboard Unit and the H&PC Unit, respectively, and the Climate Change Response Subcommittee takes charge of those for energy, logistics and other mutual areas. Climate change-related risks identified by each subcommittee are shared at joint meetings involving all three subcommittees, and the results of the joint meetings, which are summarized by the Environmental Impact Reduction Subcommittee, are reported and discussed at the Sustainability Committee.

Matters discussed by the Sustainability Committee are reported to the Board of Directors' meeting once each quarter and integrated into the operation of the Group. Similarly, the Compliance Committee, which is chaired by the Executive Vice President and Representative Director responsible for the Corporate Unit (the same person who chairs the Sustainability Committee), takes charge of identifying and assessing risks that may have a significant impact on management, including compliance violations and misconduct. These risks are discussed at the Compliance Committee, and are reported regularly to the Board of Directors and integrated into the operation of the Group.

The Sustainability Promotion Department, which serves as the secretariat of the Sustainability Committee, and the Legal Department, which serves as the secretariat of the Compliance Committee, are organized under the Corporate Planning Division. Therefore, risks are comprehensively managed in an integrated manner by the Corporate Planning Division.

Metrics and Targets

The Daio Group Sustainability Vision, the Group's sustainability strategy, was established in May 2021. In conjunction with this, the Group set the goal of achieving carbon neutrality by 2050, which also serves as its long-term vision on global warming countermeasures. As a milestone goal, we have set a target of reducing scope 1 and 2 CO₂ emissions from fossil fuel combustion by 46% from 2013 levels by 2030.

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 2050. We have set milestone targets to shut down the first boiler by 2030 and the second boiler by 2040 for a gradual shift away from coal. 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 CO₂ emissions of the entire community, our waste-to-energy boiler will also make use of waste generated in the region for thermal recycling. With regard to scope 3 emissions, we will work to align it with our business strategy of increasing the proportion of H&PC products (absorbent products such as disposable diapers) within our business portfolio, and continue to work to quantify scope 3 emissions of the entire Group. Going forward, we will set and disclose our scope 3 emissions reduction targets and work to reduce emissions throughout the supply chain.

Furthermore, we will strive to increase our carbon absorption and fixation capacity by expanding the area of our forested land. By reducing emissions and increasing carbon absorption and fixation, we will achieve carbon neutrality by 2050.

Target (Scope 1 + 2)

2050 Long-term vision for global warming countermeasures

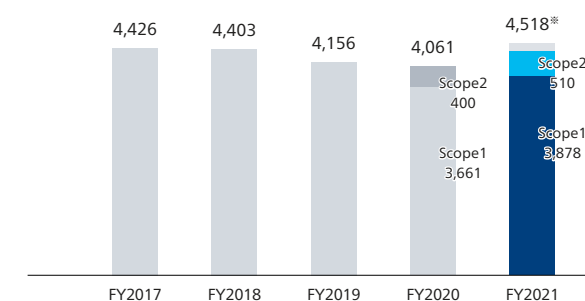
—To achieve carbon neutrality by 2050—

2030 Target for global warming countermeasures

Target Reduce CO₂ emitted through production activities by 46% compared to FY2013.

Results (Scope 1 + 2)

■ GHG emissions (thousand t)



*Actual emissions for the fiscal year ended March 31, 2022 excluding green power certificates sold: 4,388

Modal Shift and Joint Distribution Initiatives

(1) Modal shift from the Mishima Mill (Ehime Prefecture)

Daio Paper is continuously working to promote modal shift. In FY2021, we achieved a modal shift of cargoes bound for Nagoya to coastal vessels, which, together with the shift of cargoes bound for Gyoda (Saitama Prefecture) to roll-on/roll-off ships in FY2018, contributed to a reduction of approximately 752 metric tons of CO₂ emissions per year. In FY2022, we will achieve a modal shift of cargoes bound for Kyushu and Shizuoka to coastal vessels, which will reduce CO₂ emissions by approximately 215 metric tons per year. This initiative has been certified by the Ministry of Land, Infrastructure, Transport and Tourism as a modal shift, etc. promotion project.

(2) Joint distribution with Suntory Holdings Limited

From FY2022, the paper products of our Group will be transported together with the products of Suntory Holdings ("mixed loading") in their railroad containers from Osaka to Tokyo. Furthermore, we are establishing a new scheme that enables one-day round-trip trailer transportation in the Kanto and Kansai regions, using our intermediate location as a switch point, as well as mixed loading in available space.

This initiative is expected to reduce CO₂ emissions by approximately 216 metric tons per year.

This will also lead to a reduction in drivers' working hours, contributing to an improved working environment (work style reform).



Example of loading in a 31-foot rail container



Example of mixed loading and relay transportation

Corporate Governance

Directors, Audit & Supervisory Board Members and Executive Officers (As of July 1, 2022)

• Representative Directors



Yorifusa Wakabayashi

President and Representative Director
Chief Executive Officer

Jan. 2012: Executive Officer, General Manager of Newsprint Sales Division
Apr. 2016: Executive Officer, General Manager of Paper Sales Division
Jun. 2017: Director, General Manager of Home & Personal Care Domestic Business Group
Jul. 2018: Director and Managing Executive Officer, General Manager of Home & Personal Care Domestic Business Group
Apr. 2021: President and Representative Director Chief Executive Officer



Toshihiro Adachi

Executive Vice President and Representative Director
Executive Vice President
Responsible for Corporate Unit, Compliance and Sustainability; General Manager of Business Administration Division, Corporate Unit

Jun. 2012: Director and Senior Managing Executive Officer
Apr. 2016: Representative Director and Senior Managing Executive Officer
Apr. 2019: Executive Vice President and Representative Director
Apr. 2021: Executive Vice President and Representative Director Executive Vice President



Kunihiro Okazaki

Executive Vice President and Representative Director
Executive Vice President
Responsible for Sales, Resources and Materials Procurement Division and Global Logistics Division

Jun. 2015: Director and Senior Managing Executive Officer
Apr. 2016: Representative Director and Senior Managing Executive Officer
Apr. 2019: Executive Vice President and Representative Director
Apr. 2021: Executive Vice President and Representative Director Executive Vice President

• Directors



Hiroshi Yamasaki

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

Jun. 2012: Executive Officer, Acting General Manager of Mishima Mill, Production Division
Jul. 2016: Director, General Manager of Resources and Materials Procurement Division
Apr. 2019: Director, Deputy General Manager of Production Division, Production Unit and General Manager of Mishima Mill
Apr. 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

May 2017: Executive Officer, General Manager of Corporate Planning Division
Jun. 2017: Director, General Manager of Corporate Planning Division and in charge of Safety & Environment Control Department
Apr. 2019: Director, General Manager of Corporate Planning Division, Corporate Unit
Jul. 2021: Director, Managing Executive Officer General Manager of General Affairs and Personnel Division, Corporate Unit



Atsushi Ishida

Director, Managing Executive Officer
General Manager of Industrial Paper and Containerboard Business Group, Paper & Paperboard Unit

Jun. 2019: Senior Executive Officer, General Manager of Industrial Paper and Containerboard Business Group, Paper & Paperboard Unit
Jun. 2021: Director, Managing Executive Officer General Manager of Industrial Paper and Containerboard Business Group, Paper & Paperboard Unit



Hiroyuki Shidara

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

Apr. 2018: President and Representative Director, Elleair International (Thailand) Co., Ltd.
Jul. 2020: Executive Officer, General Manager of Human & Family Care Sales Division, Domestic Business Group, Home & Personal Care Unit
Jun. 2021: Director, Managing Executive Officer General Manager of Domestic Business Group, Home & Personal Care Unit



Yoichi Takei

Director (Outside)



Yoshinobu Hiraishi

Director (Outside)



Haruko Ozeki

Director (Outside)



Naosuke Oda

Director (Outside)

• Audit & Supervisory Board Members



Hiromitsu Fujii

Audit & Supervisory Board Member



Tsutomu Ariyasu

Audit & Supervisory Board Member



Yoichiro Yamakawa

Audit & Supervisory Board Member
(Outside)



Takemi Nagasaka

Audit & Supervisory Board Member
(Outside)



Kyoko Okada

Audit & Supervisory Board Member
(Outside)

• Executive Officers

Managing Executive Officers	Toshiki Yamagami	President and Representative Director of Elleair International Turkey Kişisel Bakım Ürünleri Üretim A.Ş.
	Hiroshi Mizobuchi	General Manager of Product Development Division, Home & Personal Care Unit; Responsible for Marketing Division, Marketing Communication Division, Home & Personal Care Unit
	Hiroyuki Fujita	Chairman and Director of Santher -Fábrica de Papel Santa Therezinha S.A.
	Takahisa Kashiwabara	President and Representative Director of Elleair International China (Nantong) Co., Ltd.
	Shuhei Shinagawa	General Manager of Corporate Planning Division, Corporate Unit
Senior Executive Officers	Toshikatsu Tanahashi	Deputy General Manager of Production Division, Production Unit; General Manager of Mishima Mill, Production Division, Production Unit
	Michihiko Tamaki	General Manager of Advanced Materials R&D Center, Production Division, Production Unit
	Takashi Yoshida	General Manager of Intelligence Technology Planning Division, Corporate Unit
	Mitsuru Ogawa	General Manager of Human & Family Care Sales Division, Domestic Business Group, Home & Personal Care Unit
	Makoto Saito	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	Satoshi Iseki	General Manager of Global Logistics Division
	Mikiro Shiramine	General Manager of Resources and Materials Procurement Division
	Takashi Imaizumi	General Manager of Intellectual Property Department, Corporate Unit
	Junichi Ikawa	General Manager of Accounting Department, Business Administration Division, Corporate Unit
	Tetsuya Kawabata	General Manager of Newsprint and Paper Business Group, Paper & Paperboard Unit
	Akihisa Yano	Acting Manager of Mishima Mill, Production Division, Production Unit (Responsible for Utility Unit)
	Masahiko Takeshima	President and Representative Director of Elleair International (Thailand) Co., Ltd.
	Yukio Kume	Executive Vice President and Director of Elleair International China (Nantong) Co., Ltd.
	Yoshitsugu Fujii	General Manager of Newsprint Sales Division, Newsprint and Paper Business Group, Paper & Paperboard Unit
	Akio Nagaoka	President and Representative Director of Daio Package Corporation

Basic Policy on Corporate Governance

Based on its Management Philosophy “Shaping an Abundant and Affable Future for the World,” the Daio Group aims to create sustainable value for all its stakeholders and the society by promoting sustainability management.

We define corporate governance as a framework to achieve sustainable growth and increase our corporate value over the medium to long term through the clear delineation of the roles and responsibilities of the decision making and supervision function and the business execution function in management to facilitate timely and agile decision making and actions—integral to our definition is the effective functioning of this framework.

In a rapidly changing business environment, the Daio Group has always kept up with changes in the times and implemented forward-looking reform initiatives, such as proactively changing its business portfolio and accelerating global business expansion, with the aim of achieving sustainable growth over the medium to long term. At the same time, we have also worked to establish an organizational structure that is capable of responding to various risks, which are increasingly complex and diversifying in line with our expanding overseas business and the changes in society. Through both offensive and defensive approaches, we are committed to further enhancing our governance.

Key Measures Implemented to Strengthen Corporate Governance

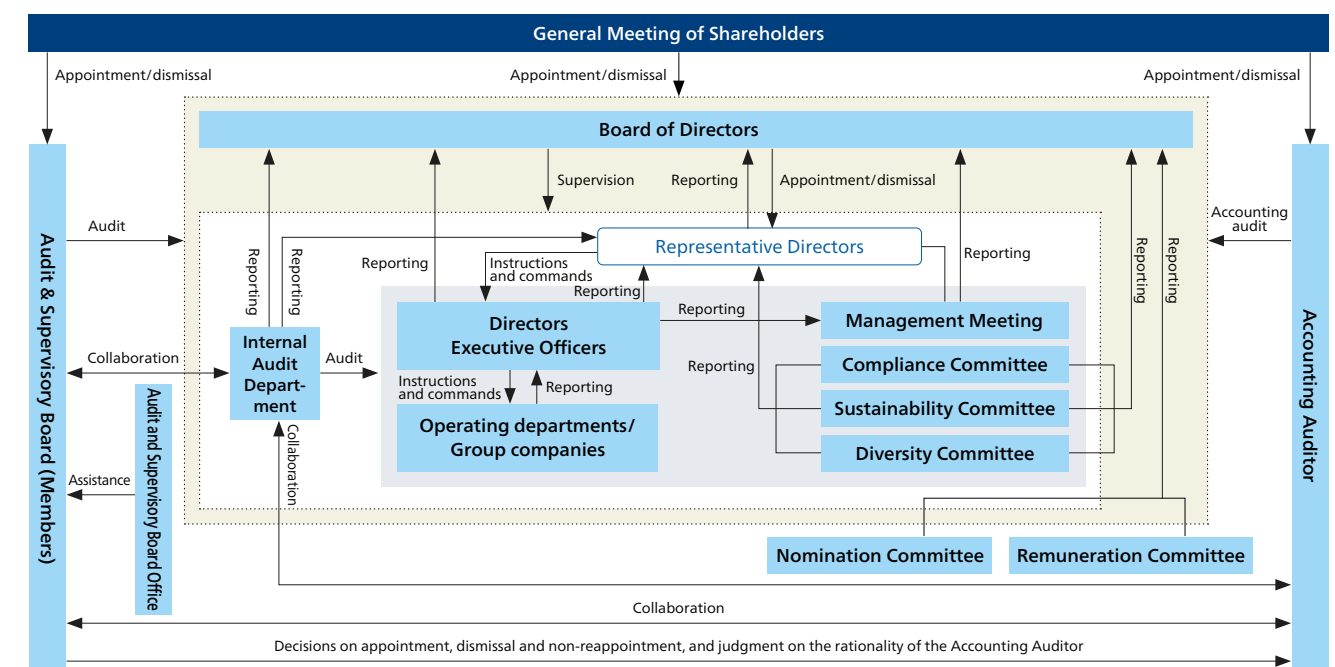
	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	
Medium-Term Business Plans		The First Medium-Term Business Plan			The Second Medium-Term Business Plan			The Third Medium-Term Business Plan			The Fourth Medium-Term Business Plan (until FY2023)		
		Restart Solid Reform 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 stipulated in Articles of Incorporation	From 2011 Up to 20										2022 Up to 15	
	Executive Officer system	From 2011 Introduced the Executive Officer system											
	Number of Directors	2011 14	From 2012 13						From 2019 16		2021 12	2022 11	
	Number of Outside Directors (independent Outside Directors)	2012 2 (2 independent)		From 2013 3 (2 independent)				From 2017 3 (3 independent)			From 2021 4 (4 independent)		
Establishment of Nomination Committee and Remuneration Committee	Nomination Committee							From 2018 Established the Nomination Committee					
												From 2021 Disclosed skills matrix of Directors	
	Remuneration Committee	From 2012 Established the Remuneration Committee											
										From 2019 Introduced the stock-based incentive system			
Effectiveness evaluation of the Board of Directors						From 2016 Started evaluating the effectiveness of the Board of Directors							
Committees	Compliance Committee	From 2008 Established the Compliance Committee											
	Sustainability Committee									From 2020 Established the Sustainability Committee			
	Diversity Committee								From 2019 Established the Diversity Committee				

Overview of the Corporate Governance Structure

Daio Paper is a company with an Audit & Supervisory Board. As such, while the Board of Directors makes decisions on management policies and important business execution and supervises the business execution for the entire Daio Group, the Audit & Supervisory Board and its members, independent from the Board of Directors, audit the Directors' performance of their duties. Moreover, in April 2021, we changed the structure of the Board of Directors and revised the Executive Officer system for the purpose of clarifying the

functions of the Board of Directors, which is engaged in decision making and supervision, and the Executive Officers, who are engaged in business execution. By doing so, we will further speed up corporate decision making and reinforce the supervisory function of the Board of Directors. We will continue to aim to enhance corporate value by realizing a structure ensuring decisive, timely management decision making and agile and robust business execution.

Corporate Governance Structure (as of July 1, 2022)



Board of Directors

Makes decisions on management policies and important business execution and supervises the business execution of the entire Daio Group.

Audit & Supervisory Board

The Audit & Supervisory Board and its members, independent from the Board of Directors, audit the Directors' performance of their duties.

Nomination Committee

Deliberates on matters related to the nomination of candidates for Directors, etc. and the appointment and dismissal of Directors, and reports back to the Board of Directors.

Remuneration Committee

Evaluates each full-time Director's performance and decides on their remuneration amount in accordance with the remuneration decision policy resolved by the Board of Directors.

Compliance 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.

Sustainability Committee

Deliberates on material issues related to sustainability, as well as on targets, commitments, and initiatives for such material issues.

Diversity Committee

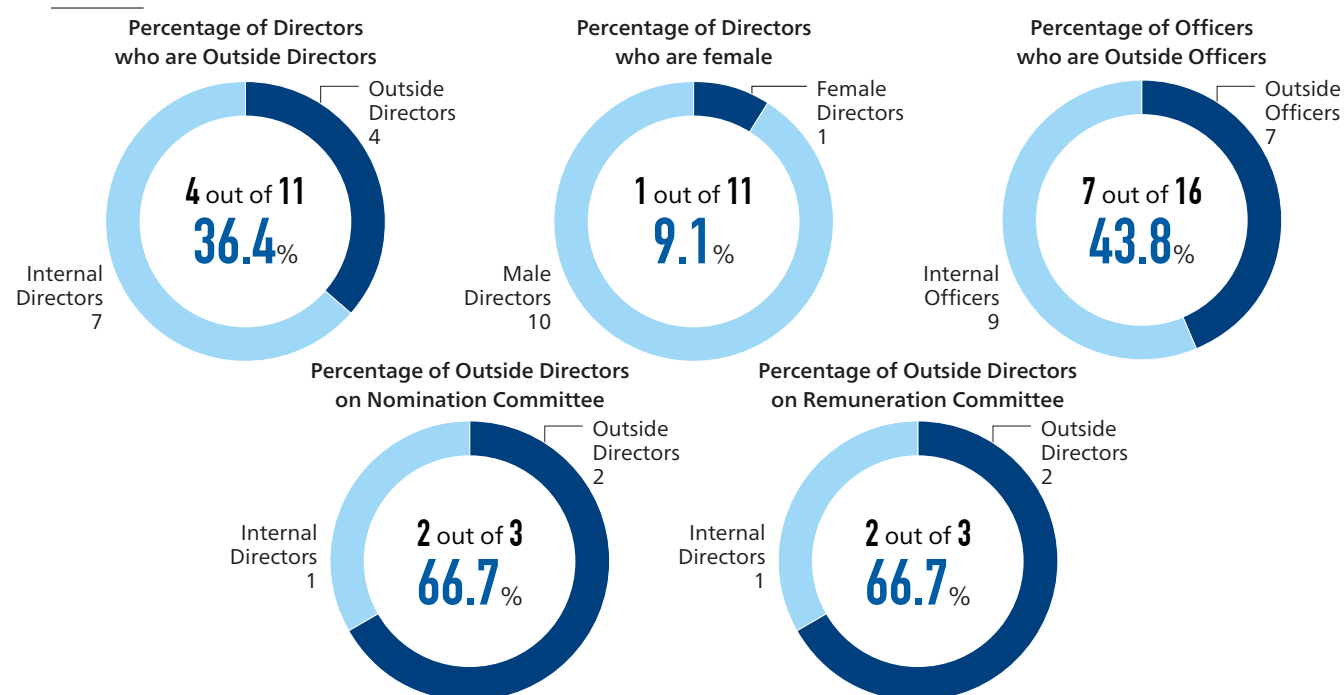
Formulates the basic policy for promoting diversity, and also establishes and promotes initiatives for material issues.

Structure of the Board of Directors, Nomination Committee, and Remuneration Committee

Policy on Structure

- Board of Directors** A maximum of 15 members, as stipulated in the Articles of Incorporation, constitutes the Board of Directors. It should comprise a 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 in the Board of Directors. Independent Outside Directors should constitute at least one-third of the Board of Directors. When choosing candidates for Directors, attention is paid to ensure a balance between individuals that are strong in business operation and individuals that are good at business administration in a wide range of business segments of the Daio Group, thereby ensuring a balance and diversity in the knowledge, experience and abilities of the Board of Directors as a whole.
- Nomination Committee** The Nomination Committee, an advisory body to the Board of Directors, is established 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 should constitute the majority. 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 the Managing Executive Officer position or higher. It reports back on the inquiries in accordance with the nomination policy set out in the Corporate Governance Guidelines.
- Remuneration Committee** The Remuneration Committee is established to enhance the objectivity and transparency of decisions on remuneration of Directors, etc. It is chaired by an independent Outside Director, and independent Outside Directors should constitute the majority. 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. of deciding the remuneration of our full-time Directors and Executive Officers of the 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.

Structure



Skills Matrix of Directors

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

Name	Position	Independence	(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
Yorifusa Wakabayashi	President and Representative Director Chief Executive Officer		○	○	○		○			
Toshihiro Adachi	Executive Vice President and Representative Director Executive Vice President		○				○	○	○	
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 Shidara	Director Managing Executive Officer		○		○					○
Yoichi Takei	Director (Outside)	○		○					○	
Yoshinobu Hiraishi	Director (Outside)	○							○	○
Haruko Ozeki	Director (Outside)	○	○						○	○
Naosuke Oda	Director (Outside)	○	○	○	○					

Remuneration of Officers

Basic Policy of 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 should be effective in motivating Directors to improve business performance and attracting outstanding individuals, thereby contributing to increasing 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

For full-time Directors, the fixed amounts specified for each position in the Regulations on Remuneration of Officers are paid. For representative Directors, a certain additional amount is also paid. The remuneration for Outside Directors comprises only basic compensation. The amount paid to each Outside Director is based on the status of their membership in committees of the company.

Performance-linked Remuneration (Bonuses)

In order to raise motivation for working toward achieving the target results of each fiscal year, 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 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 clarify the linkage between the remuneration of Directors and our stock value, and have Directors share with our shareholders the profits and risks associated with fluctuations in the stock price, thereby raising their motivation to contribute to improving business performance and increasing corporate value in the medium to long term. In this stock-based compensation system, we have created a trust by contributing cash, and the trust acquires shares of Daio. Through the trust, the number of shares that correspond to the number of points that we have given to each Director will be provided to each Director.

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

Bonuses are decided in proportion to the amount of consolidated ordinary profit. The system is designed to increase the rate of bonuses along with the improvement in business performance so that it can serve as an incentive for improving performance and corporate value.

Percentages if the target consolidated ordinary profit is achieved (FY2022)

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

Monthly salary	Bonuses	Stock-based
73%	14%	13%

Evaluation of the Effectiveness of the Board of Directors

We evaluate the effectiveness of the Board of Directors, in order to regularly examine whether the Board of Directors is functioning properly, and continue to identify issues and implement measures for improvement based on the results of the examination.

• Method of Evaluation

We conduct an anonymous self-evaluation questionnaire targeted at all Directors and Audit & Supervisory Board Members. Using the results of the questionnaire, which are collected by an external organization, we carry out analysis and evaluation.

Starting from this fiscal year, the secretariat of the Board of Directors interviews individual Outside Officers, to identify the issues that should be addressed to further improve the effectiveness.

• Overview of the Evaluation Results

We evaluated the Board of Directors from nine standpoints: composition; operation; discussions; monitoring function; support system for Directors and Audit & Supervisory Board Members; training; dialogue with stakeholders (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.

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

• Efforts to Address Issues Identified in the Effectiveness Evaluation of the Board of Directors in FY2021

The effectiveness evaluation in FY2021 revealed a need for more active and self-initiated efforts by the Board of Directors for sustainability-related issues. To address this issue, we introduced various measures, including regular reporting from the Sustainability Committee to the Board of Directors and workshops for Officers. We see these measures as having helped deepen the understanding of Officers and improve the provision of information necessary for discussions at the Board of Directors’ meetings.

• Issues for the Future

To stimulate the Board of Directors’ greater commitment to sustainability issues, we will implement various measures, including (1) reviewing the relationship between the Board of Directors and committees thereunder, (2) transferring more authorities to the Management Meeting, and (3) conducting training for members of the Board of Directors, and will thereby enhance discussions on sustainability issues.

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 summarize the overview, background, purposes, 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 inspect manufacturing sites at our mills and other facilities a few times a year in order to help them deepen 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 in order 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.

Reasons for Selection of Each Outside Officer

• Outside Director

Name	Independent Officer	Reason for selection	No. of Board of Directors’ meetings attended (FY2021)	Important concurrent positions ^{*1}
Yoichi Takei	○	We determined that he would be able to perform his duties as an Outside Director appropriately from an independent perspective by utilizing his expertise as an attorney-at-law and comprehensive business insight and broad experience cultivated while serving as an officer at other companies. He fulfills the requirements as an Independent Officer set forth in the Enforcement Rules for Securities Listing Regulations and we have judged that no conflicts of interest may arise with general shareholders. As a result, we have appointed him as an Independent Officer.	100% (14/14)	Partner/attorney-at-law, Meitetsu Law Offices Outside Auditor, YAMAKIN (JAPAN) Co., Ltd. Outside Director, NIPPON THOMPSON Co., Ltd. Outside Audit & Supervisory Board Member, Nippon Export and Investment Insurance
Yoshinobu Hiraishi	○	We determined that he would be able to perform his duties as an Outside Director appropriately from an independent perspective by utilizing his extensive experience, high-level expertise and broad insight cultivated while serving as a diplomat in various countries. He fulfills the requirements as an Independent Officer set forth in the Enforcement Rules for Securities Listing Regulations and we have judged that no conflicts of interest may arise with general shareholders. As a result, we have appointed him as an Independent Officer.	100% (11/11 ^{*2})	Advisor, Asociacion Nippo Chilena
Haruko Ozeki	○	We determined that she would be able to perform her duties as an Outside Director appropriately from an independent perspective by utilizing her extensive experience, high-level expertise and broad insight cultivated while serving as the legal head and an officer at other companies. She fulfills the requirements as an Independent Officer set forth in the Enforcement Rules for Securities Listing Regulations and we have judged that no conflicts of interest may arise with general shareholders. As a result, we have appointed her as an Independent Officer.	100% (11/11 ^{*2})	—
Naosuke Oda	○	We determined that he would be able to perform his duties as an Outside Director appropriately from an independent perspective by utilizing his extensive experience and broad insight cultivated while serving as the president and representative director and other executive positions of other companies. He fulfills the requirements as an Independent Officer set forth in the Enforcement Rules for Securities Listing Regulations and we have judged that no conflicts of interest may arise with general shareholders. As a result, we have appointed him as an Independent Officer.	— ^{*3}	Special Advisor, JFE Shoji Corporation

• Outside Audit & Supervisory Board Members

Name	Independent Officer	Reason for selection	No. of Board of Directors’ meetings attended (FY2021)	Important concurrent positions ^{*1}
Yoichiro Yamakawa	○	We determined that he would be able to perform his duties as an Outside Audit & Supervisory Board Member appropriately from an independent perspective by utilizing his expertise as an attorney-at-law and extensive experience cultivated while serving as an officer at other companies. He fulfills the requirements as an Independent Officer set forth in the Enforcement Rules for Securities Listing Regulations and we have judged that no conflicts of interest may arise with general shareholders. As a result, we have appointed him as an Independent Officer.	100% (14/14)	Partner/attorney-at-law, KOGA & PARTNERS
Takemi Nagasaka	○	We determined that he would be able to perform his duties as an Outside Audit & Supervisory Board Member appropriately from an independent perspective by utilizing his experience of accounting audits, advanced knowledge of finance and accounting, and experience and knowledge in global business expansion cultivated while serving as an officer at other companies. He fulfills the requirements as an Independent Officer set forth in the Enforcement Rules for Securities Listing Regulations and we have judged that no conflicts of interest may arise with general shareholders. As a result, we have appointed him as an Independent Officer.	93% (13/14)	Audit & Supervisory Board Member (Independent), Nabtesco Corporation Audit & Supervisory Board Member (Outside), SOLIZE Corporation
Kyoko Okada	○	We determined that she would be able to perform her duties as an Outside Audit & Supervisory Board Member appropriately from an independent perspective by utilizing her broad knowledge of CSR and corporate culture and extensive experience cultivated while serving as an Audit & Supervisory Board Member at other companies. She fulfills the requirements as an Independent Officer set forth in the Enforcement Rules for Securities Listing Regulations and we have judged that no conflicts of interest may arise with general shareholders. As a result, we have appointed her as an Independent Officer.	100% (14/14)	Outside Audit & Supervisory Board Member, Subaru Corporation Outside Audit & Supervisory Board Member, Japan Consumer Credit Service Outside Audit & Supervisory Board Member, NEC Corporation

^{*1}: As of June 29, 2022 ^{*2}: Appointed June 29, 2021 ^{*3}: Appointed June 29, 2022

IR Activities and Framework of Activities

At the Daio Group, we follow our corporate motto “Passion with Sincerity” and carry out IR activities with a focus on making timely, appropriate and fair information disclosure to shareholders and investors and promoting sincere and proactive communication with them. The IR team was established in July 2016 to promote engagement

(constructive dialogue) with shareholders and investors. We will continue to make efforts to explain our management policy and business conditions clearly and to reflect feedback from shareholders and investors in our corporate activities appropriately.

Principal IR Activities Conducted in FY2021 (from April 2021 to March 2022)

Activities	Number of events	Details
One-on-one meetings with institutional investors	77 times	IR interviews and teleconferences with domestic and overseas analysts and institutional investors
Earnings and strategy briefing for analysts and institutional investors	6 times	Quarterly briefings on business results; strategy briefings by the President held after the second and fourth quarters
Events organized by securities companies	1 time	Small meetings and one-on-one meetings with analysts and institutional investors at domestic and overseas investment conferences
Events for individual investors	1 time	Briefings for individual investors by persons in charge of IR

Dialogue by Outside Directors

At Daio Paper, we regard the enhancement of corporate governance as a critical management issue and have implemented various initiatives to strengthen our governance structure, including the introduction of the Outside Director system in 2012 and the establishment of the Nomination Committee and the Remuneration Committee.

This section presents a discussion by our three Outside Directors on our governance structure and issues in business management.

— About the roles expected of Outside Directors

Takei: I have been serving as an Outside Director of Daio Paper since June 2020. I think the role expected of me is to monitor whether the company's governance centered around the Board of Directors is functioning properly by utilizing the expertise I have acquired as an attorney-at-law through my engagement in corporate legal affairs in Japan—my main specialization being the Companies Act—and my experience of serving as an officer at other companies, and to provide advice especially in the fields of the law, compliance and market affairs.

Hiraishi: I was appointed last year. It was the first time in Daio's history a former diplomat was appointed as an officer, and personally, it was my first time to be involved in corporate management. So, I think it was an ambitious undertaking for both sides. While I spent my first year mostly learning and deepening my understanding, I also observed several opportunities during the discussions of the Board of Directors' meetings in which I could give useful advice based on my experience and knowledge. In view of the business expansion under the Fourth Medium-Term Business Plan, as well as the Fifth Medium-Term Business Plan that follows,

M&As involving overseas companies will be a major theme. I hope to give useful advice on such matters as the local conditions of each country, the method for smooth corporate management overseas, and development of global human resources.

Ozeki: I was appointed last year, too. I have worked for several Japanese and foreign companies, mostly consumer goods manufacturers, mainly in the fields of legal affairs, compliance and risk management. I was therefore involved in corporate management and governance mainly on the business execution side. I think I am expected to make use of my knowledge acquired from this experience in the management of Daio Paper.

— Evaluation of our governance structure

Takei: Since the scandal in 2011, I see that the company has made particular efforts to improve its governance. In April last year, for the purpose of strengthening the supervision function and expediting decision making of the Board of Directors, the number of Directors was decreased and the Executive Officers system was enhanced. Moreover, the proportion of Outside Officers on the Board of Directors was raised. As a result, the transparency

and objectivity of the Board were increased.

The company is strongly aware of the need to comply with the corporate governance code and properly catch up with ESG and other social requirements. I think this is good. I am hopeful that Daio Paper's governance will be further strengthened as the internal members of the Board of Directors unitedly take on enhancing governance with the same level of passion as they have for the respective business fields they are in charge of. The company still has room for improvement in terms of commitment to sustainability issues and diversity of the Board of Directors. Now that the framework of a strong governance has been established, I think the next step is for each Board member to gain a good understanding of the constituents of the framework and work to fill out the framework.

Hiraishi: That's right. The governance structure must not be a paper tiger. Even though the framework has been established, if it is not bolstered with concrete results or outcomes, it may easily collapse from the base when something happens. I therefore agree that filling out the governance framework with strong constituents is a major issue of the company.

Whether it is a country or a company, it is inevitable that it will start off on weak foundation, and therefore strong leadership is needed. Under the strong leadership of its first and second presidents, Daio Paper achieved significant growth by responding flexibly and promptly to changes in the demand for paper. Meanwhile, however, the scandal 11 years ago brought to light the malady of such an organizational structure. Since then, the company has moved from a "monarchy" with power concentrated in the hands of the founding family to a "republic" with a collegial body. Now, under the group leadership of the Board of Directors who assumes responsibility for the Group's future, the Company has been striving to strengthen its governance structure through trial and error. I sometimes yet see the culture and thinking of the former system in play in the current environment. I have also witnessed tension between the newcomers who do not know much about what had happened in the past and those who are still hanging onto the past. Still, today, I mostly see members with different backgrounds and values cooperate with each other from their respective standpoints to achieve the common goals set in the Fourth and Fifth Medium-

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.

Yoshinobu Hiraishi

Outside Director

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

term Business Plans. I think this is an outcome and an advantage of the present leadership.

Ozeki: Since its establishment by its founding family, Daio Paper has grown as a vigorous company from Shikoku. The scandal that occurred 11 years ago was a very painful experience for the company and it also seems to me that it has left its mark on some as a trauma. While striving to overcome this, the company is faced by big waves of changes in the external environment and trends such as the SDGs and decarbonization. The management of Daio Paper has been working very hard to keep riding such waves and advancing reform initiatives with a sense of urgency. However, we are also aware that we are still on our way and need further development.

For example, the company has promoted transfer of authorities from the Board of Directors to the execution side. But there are still many authorities that should be transferred. As for the various committees, such as the Sustainability Committee, while each committee has played their roles well so far, I have advised since soon after my appointment that there are still room for fundamental improvements in their operations, such as the themes that the committees address, their relationships with the Board of Directors and the clarification of their roles. Especially, the themes covered by the Sustainability Committee are broad-ranging, deep, and will become increasingly important in the future. All members of the Board of Directors agree that strategic discussions on sustainability issues are necessary. However, since the committees are positioned on the execution side, it is necessary to sort out such matters as picking out the themes that should be discussed by the Board of Directors and making time for such discussions in Board meetings.

Takei: I agree with Ms. Ozeki on her advice. In addition, while it is excellent that the Board of Directors conscientiously and carefully reviews each issue raised at the meetings, I would like to request

that time allocation be reviewed and the details and background of discussions at the Management Meeting and other meetings be shared with us.

In its business operations, Daio Paper is strongly conscious of its major competitors and, in some areas, has been striving to play catch-up with them. On the other hand, as demonstrated by the slogan: "What is made by Daio is sold only by Daio sales representatives," the company is also conscious of being self-reliant and has the capacity to take resolute actions. I believe that these are the company's merits. However, I also think the company needs to look at its strengths and weaknesses from a higher perspective and make more focused efforts. As for governance, thanks to efforts by the execution side, the frameworks of the Sustainability Committee and other committees have been established and we have seen decent effects from their efforts. However, I think their operation still has much room for improvement. For example, operation of the Nomination Committee and the Remuneration Committee should be reviewed to make them operate in the way that will achieve the true intention of the Governance Code.

One of the most important themes to be discussed at the Board of Directors' meetings is the direction in which the company should head from a long-term perspective. The company currently has the First to Fifth Medium-Term Business Plans to cover the 15 years from 2011. Now that the Fourth Medium-term Plan has already started, it is hard to say that the amount of discussions that the Board of Directors are having on the company's direction beyond the Fifth Medium-Term Business Plan at the Board meetings has been sufficient. In the coming 10 years or longer time span, sustainability issues will be increasingly complicated. The company has to discuss what kind of future vision they have for the company in the face of such complications. I have briefly brought this up on multiple occasions, but we need to have more substantial discussions. Over the past two years, due to the COVID-19 pandemic, site inspections were few and far between and I therefore had very few opportunities to forge personal ties with the members of Daio Paper. I hope for more opportunities to establish relationships beyond the surface level in the future.

Hiraishi: My first year of attending Board meetings was a productive one as I was given many opportunities to learn various opinions and field questions about Daio Paper's businesses and management. If I were to use a parliamentary



analogy to describe my impression of the Board of Directors, internal officers are like members of the ruling party while outside officers are like members of the opposition party. Basically, an agenda of a Board of Directors' meeting would have gone through the Management Meeting and other internal procedures before being presented at the meeting. Therefore, internal officers would have some background knowledge about the proposals in advance while many of the proposed matters are new to outside officers. So, outside officers often ask questions and express opinions at the Board of Directors' meetings. I think this is a situation often seen at many companies where outside officers account for an increasing proportion. I hope exchange of opinions between outside officers and internal officers will become more active in the future. Regarding operation, although detailed explanation is given for each of the diverse proposals, I would request that such explanation be condensed to focus specifically on themes that require decisions by the Board of Directors. As Mr. Takei said, there has not been a sufficient amount of discussions on the vision for the company after the Fifth Medium-Term Business Plan. In the current severe environment, I understand that the company wants to concentrate its efforts on achieving the targets of the Fourth and Fifth Medium-term Management Plans. However, I think it is necessary for the Board of Directors to look ahead and start discussing what actions should be taken from a long-term perspective.

In terms of diversity, the Board of Directors has one female Outside Director and one female Outside Audit & Supervisory Board Member, but all of the internal officers are men. It is probably difficult to immediately appoint female internal officers. However, I think it is important to systematically develop candidates for such executive roles and aim to become a company where it is the norm for many female internal members to serve actively on the Audit & Supervisory Board and the Board of Directors.

In the Home & Personal Care (H&PC) Business, in particular, over 50% of the products are targeted at female customers. Making effective use of women's perspectives is an important task for further growth of the company.

Takei: The governance framework has been established and the awareness of the need to enhance governance is high. So, I expect that these areas that are still insufficient will be improved by effective operation of the system.

Ozeki: I agree. It would be great if Mr. Wakabayashi, who became president last year and is also the chair of the Board of Directors, were present on the occasion of discussions on the governance structure like today. During his first year as President, it seems that he has focused his efforts on the operation of businesses and improving internal culture. Although COVID-19 still remains a barrier to communication, as I believe Mr. Wakabayashi has his own vision about the Board of Directors, I look forward to having more opportunities for us to hold frank discussions with him.

Hiraishi: To enhance governance, the unity of the entire management, for a positive purpose and not against a common threat, is necessary. So, I hope we can forge closer and stronger personal relationships between Outside Directors and internal officers by deepening our understanding of each other.



— Our efforts to address environmental issues

Ozeki: How to tackle environmental issues is not a question only for our company. It is a global concern and the stance that we should take has already been determined by public discourse. Of course, the management of Daio Paper is fully aware of this and

it announced in May 2021 its target of achieving carbon neutrality by 2050. Paper manufacturers generally use a large amount of coal. It seems that they are all having a hard time determining the speed and the specifics of decarbonization. On the other hand, the new material of cellulose nanofiber (CNF) is a budding field, and if they manage to raise it well, it could become a major business pillar in the future.

Hiraishi: Now that we cannot expect significant growth of the traditional paper and paperboard market, it appears that Daio Paper has chosen to position the H&PC market as its priority market, although it will continue to preserve its business in the traditional market. However, I think that it should look further into the future and make full use of the technologies it has to develop new markets for its new materials, such as CNF and the plastic-alternative Elipla. These materials can greatly contribute to a better environment. I personally think this could be one of the models for the future vision of the company beyond the Fifth Medium-Term Business Plan. As Mr. Wakabayashi once said, if CNF, which is currently undergoing trials for its application as automobile doors, could be further improved so that it can be applied as a material for aircrafts, it could result in the creation of a trillion yen market for CNF as an environment-friendly material that contributes to fuel efficiency. I think the company should work to take the lead in such a field. I believe that this is an important strategy that will help shape the direction for the sustainable growth of the company.

Takei: Achieving carbon neutrality by 2050 is a mission that no one can get out of. It is a tough mission for the mature papermaking industry. However, in addressing sustainability issues, I think Daio Paper should strive to be a game changer and an industry leader instead of just keeping in step with the moves of the industry. The company already has sufficiently strong sales and production capabilities, so I think it should further enhance its technology capabilities. If the company could make decisions to direct capital investments to the development of new materials, I believe it will result in significant return 10 years or 20 years from now.

— Human capital that supports the growth of the company

Takei: Daio Paper values its people as its important assets. At present, I do not see any significant gap between Outside Officers and the executive side concerning the stance on human capital. That being said, since overseas businesses will be a key to the

future growth of the company, I think it is necessary to reinforce human resources so that more of its people, no matter their background, could contribute actively in its overseas businesses.

Hiraishi: Regarding human capital, in addition to increasing women's participation as I mentioned earlier, it is important to acquire and develop human resources who have the know-how and experience in overseas business in view of the global business expansion in the future. In terms of human resources, I believe these are the two key elements for the future development of the company.

Ozeki: In rather abstract terms, the company should proactively bring in individuals with sound skepticism and an enterprising spirit, and let them play active roles. The company's growth is outpacing the rate at which the traditional recruitment and training style of hiring new graduates and training them from scratch can reinforce its human resources. The company has to increase mid-career recruitment, which should, incidentally but ideally, also enhance diversity in the company. If employees are recruited completely based on merit or their ability, diversity will naturally follow, and the company will achieve a workforce that is well-balanced in terms of gender, age, race, nationality and any other attributes. If the reality is not like that, it means that factors other than merit or ability are at play in the hiring and training process. It seems reasonable to say that we should increase women's participation in the H&PC Business because many of its target customers are women. Then, is it OK for the Paper & Paperboard Business to have few women? It is often said in Japan that toilsome, dirty, and dangerous jobs are not suitable for women. But men do not desire such jobs either, and therefore that is not a good reason for not hiring women in those fields. With the remarkable advancement of robot technology, jobs that require muscle strength are decreasing. I hope the company will take this point into consideration when recruiting or promoting employees. By doing so, I think the company can significantly change the demographic balance of its employees. And to change, the company should adopt a bold personnel strategy.

— Our priority social issues to address

Ozeki: The company recently launched an initiative to tackle an important social issue, period poverty. I strongly expect that the strengths of Daio Paper can be fully utilized in this project. On the other hand, for conservation of forests, I think more advanced strategies should be taken not only in Japan but also



overseas.

Takei: I agree. Conservation of forests is important for the natural environment. As shown by its initiative to realize the horizontal recycling of diapers back into diapers, the same as what they already are doing for paper, Daio Paper is very advanced in its awareness and efforts for social issues. Regarding human rights, I have not noticed any particular problems in its business.

Hiraishi: The papermaking industry as a whole, including Daio Paper, generates a great environmental impact as it is an equipment-intensive, coal-using industry with large machinery. The company has made efforts to conserve the environment, such as maintaining its own forests, but in total, its environmental impact is still exceeding its positive contributions. I think if the company advances its recycling technology, such as that for hard-to-recycle recovered paper, it will increase its social value and also help improve the image of the papermaking industry as a whole. It is also important to accelerate the reduction in dependence on fossil fuels as energy sources necessary for our business. The company has established the Shikokuchuo City Carbon Neutrality Council to take the lead in working toward carbon neutrality in its local community, and it is also advancing initiatives to promote effective utilization of biomass and waste-derived fuels as energy sources necessary for business continuation. I highly value these initiatives.

— What Outside Directors can do to increase our corporate value

Ozeki: I will make constant efforts to deepen my understanding of the company. Taking advantage of the position of a newcomer, I will pose constructive questions, which will hopefully result in providing good inputs for the company. I will not go with the flow, and I will continue to ask questions and express opinions on what may seem like tiny issues, if I sense that no one else is likely to point them out. So far, I have not had sufficient communication with the

execution side. Therefore, I hope that the company would make full use of us, the Outside Directors, and set up more opportunities for us to communicate with the execution side or the employees. I trust that Mr. Wakabayashi would take the lead in this.

Hiraishi: I will work to fulfill my responsibilities as an Outside Director and meet the expectations of shareholders by using the knowledge I personally have. To this end, I would like to communicate with not only other Directors and the Audit & Supervisory Board Members but also the employees engaged in daily operations, and deepen my understanding of the company through various learning opportunities. Immediately after Mr. Wakabayashi became President in April last year, he launched an internal campaign to encourage everyone to call each other, regardless of rank, using the honorific suffix of “-san” instead suffixing their job title. Before I was appointed in June, I had been called only by my title for over 10 years. So I was a little confused at first, but now I feel comfortable to be called “Hiraishi-san.”

It takes time to change the awareness of each individual. Even a small initiative may become a milestone one day. This small initiative creates an atmosphere where members can equally share their ideas and visions regardless of their job ranks, and this will eventually change the entire corporate culture. On this point, I, too, have high expectations for Mr. Wakabayashi.

Takei: Daio Paper is strongly motivated to improve its governance, and has enhanced the contents of its Integrated Report over the past few years. Its IR disclosure also indicates that the company keeps a close eye on the capital market's expectations for them. I am sure that the company will continue to enhance these moves, advance discussions on its vision after the Fifth Medium-term Management Plan in cooperation with Outside Officers, including both Outside Directors and Outside Audit & Supervisory Board Members, and communicate the results to the capital market and society. I hope I can be of some help in that.

Financial Highlights

Daio Paper Corporation and its Consolidated Subsidiaries
As of and for the fiscal years ended March 31

(Millions of Yen)											
Fiscal year	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
For the Fiscal Year:											
Net sales	408,985	407,362	430,054	450,239	474,076	477,139	531,311	533,890	546,433	562,928	612,314
Selling, general and administrative expenses	64,261	70,445	79,892	84,206	89,821	95,600	110,312	104,255	109,677	122,706	124,105
Operating profit	10,483	11,577	16,049	21,796	24,322	23,534	11,061	12,122	30,628	36,873	37,569
Ordinary profit	4,748	6,637	11,257	21,783	21,258	21,346	12,779	9,841	28,111	34,478	37,696
Profit (loss) attributable to owners of parent	(5,321)	15,109	6,293	13,208	14,594	12,136	3,970	4,697	19,199	22,115	23,721
Comprehensive income (loss)	(3,247)	22,075	11,826	27,942	9,599	14,904	2,735	1,582	13,476	19,987	25,088
EBITDA	42,622	43,637	47,180	59,137	57,724	58,248	51,177	49,869	66,714	77,187	84,055
Capital expenditures	18,200	21,726	24,948	31,587	37,309	32,453	39,523	59,590	61,934	53,411	64,165
Depreciation	29,584	26,409	26,403	27,202	26,987	29,016	31,171	33,331	31,843	34,137	37,810
Research and development expenses	1,399	2,149	2,836	2,683	2,791	2,901	3,280	2,809	3,042	3,109	3,547
Net cash provided by operating activities	23,775	50,805	58,091	44,740	47,010	62,931	28,284	40,287	68,012	64,210	71,395
Net cash used in investing activities	(32,171)	(41,455)	(26,826)	(28,580)	(26,073)	(31,393)	(51,484)	(62,109)	(47,869)	(103,702)	(62,420)
Net cash provided by (used in) financing activities	(7,379)	(13,441)	(37,242)	(29,429)	(17,475)	(22,037)	386	65,897	(14,049)	63,589	(50,609)
Free cash flow	(8,395)	9,350	31,265	16,160	20,937	31,538	(23,200)	(21,822)	20,143	(39,492)	8,975
At Fiscal Year-End:											
Total assets	596,425	659,112	646,112	652,744	656,310	657,747	686,140	745,866	763,059	849,801	840,441
Net assets	97,313	107,969	119,252	164,494	174,819	191,079	193,064	199,338	209,536	246,788	266,704
Current assets	269,483	246,258	243,871	252,489	257,154	257,048	256,965	299,650	299,018	328,364	291,300
Net interest-bearing debt	308,948	363,533	331,825	292,466	281,456	255,077	279,994	301,906	285,426	299,785	297,445
Cash and cash equivalents	86,332	82,457	79,046	69,072	72,169	82,733	60,086	103,407	109,384	130,301	88,897
Number of shares issued (shares)	129,018,785	129,018,785	129,018,785	149,348,785	149,348,785	149,348,785	149,348,785	153,713,191	154,531,953	169,012,926	169,012,926
Per Share Data (Yen):											
Basic earnings per share	(43.13)	126.51	51.52	93.48	100.15	83.28	27.25	31.70	127.91	138.73	142.91
Net assets per share	680.29	821.21	875.39	1,059.78	1,119.24	1,211.33	1,221.65	1,236.58	1,319.57	1,440.33	1,561.52
Cash dividends per share	8.50	8.50	8.50	8.50	10.50	10.50	10.50	10.50	13.50	17.00	22.00
Financial Ratios:											
ROE (%)	(6.3)	16.8	6.1	10.0	9.2	7.1	2.2	2.6	10.0	10.1	9.5
ROA (%)	(0.9)	2.3	1.0	2.0	2.2	1.8	0.6	0.6	2.5	2.6	2.8
Equity ratio (%)	14.0	14.7	17.0	23.7	24.9	26.8	25.9	24.9	26.1	28.2	30.8
Net debt to equity ratio (times)	3.7	3.7	3.0	1.9	1.7	1.4	1.6	1.6	1.4	1.3	1.1

Notes
1. Amounts are rounded down to the nearest million yen.
2. EBITDA = Ordinary profit + interest expenses + depreciation + amortization of goodwill + amortization of negative goodwill + equity in earnings of affiliates
3. Effective from the fiscal year ended March 31, 2019, the “Partial Amendments to Accounting Standard for Tax Effect Accounting” has been adopted, and all the deferred tax assets are presented under investments and other assets of non-current assets.
Consolidated financial statements for the fiscal year ended March 31, 2018 are restated in accordance with the presentation method after the amendments.

4. Effective from the fiscal year ended March 31, 2019, interest and dividends received and interest paid are presented under “Cash flows from operating activities.”
Consolidated financial statements for the fiscal year ended March 31, 2018 are restated to reflect the change in the classification.

Consolidated Financial Statements

Consolidated Balance Sheet

(Millions of Yen)

	As of March 31, 2021	As of March 31, 2022
Assets		
Current assets		
Cash and deposits	130,643	89,165
Notes receivable—trade	4,726	4,082
Accounts receivable—trade	95,292	88,559
Electronically recorded monetary claims—operating	8,005	7,988
Merchandise and finished goods	43,897	48,008
Work in process	7,317	7,275
Raw materials and supplies	28,635	31,621
Current portion of long-term loans receivable	3,000	—
Other	7,383	15,063
Allowance for doubtful accounts	(537)	(465)
Total current assets	328,364	291,300
Non-current assets		
Property, plant and equipment		
Buildings and structures	242,714	257,887
Accumulated depreciation	(153,900)	(160,706)
Buildings and structures, net	88,814	97,181
Machinery, equipment and vehicles	946,563	980,885
Accumulated depreciation	(764,677)	(785,957)
Machinery, equipment and vehicles, net	181,886	194,928
Land	82,146	83,183
Construction in progress	22,985	28,634
Other	31,662	34,868
Accumulated depreciation	(15,901)	(17,600)
Other, net	15,761	17,267
Total property, plant and equipment	391,594	421,195
Intangible assets		
Goodwill	55,902	50,489
Other	29,296	31,529
Total intangible assets	85,199	82,018
Investments and other assets		
Investment securities	24,431	21,924
Retirement benefit asset	1,523	1,674
Deferred tax assets	7,088	6,322
Other	11,631	15,996
Allowance for doubtful accounts	(156)	(130)
Total investments and other assets	44,519	45,787
Total non-current assets	521,313	549,001
Deferred assets	122	139
Total assets	849,801	840,441

(Millions of Yen)

	As of March 31, 2021	As of March 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable—trade	64,662	75,384
Short-term borrowings	13,744	13,738
Current portion of bonds payable	15,000	15,000
Current portion of long-term borrowings	64,813	65,580
Accounts payable—other	40,191	31,029
Current portion of long-term accounts payable—facilities	388	174
Income taxes payable	6,492	3,133
Contract liabilities	—	613
Provision for bonuses	5,786	5,550
Provision for bonuses for directors (and other officers)	169	156
Other	15,677	27,960
Total current liabilities	226,925	238,321
Non-current liabilities		
Bonds payable	45,000	45,000
Long-term borrowings	284,025	239,324
Long-term accounts payable—facilities	193	33
Retirement benefit liability	23,110	23,937
Provision for retirement benefits for directors (and other officers)	97	81
Provision for share awards	106	310
Provision for environmental measures	16	12
Provision for loss on business of subsidiaries and associates	49	37
Other	23,487	26,677
Total non-current liabilities	376,086	335,415
Total liabilities	603,012	573,736
Net assets		
Shareholders' equity		
Share capital	53,884	53,884
Capital surplus	55,901	55,112
Retained earnings	136,579	156,450
Treasury shares	(4,090)	(4,122)
Total shareholders' equity	242,275	261,325
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,226	3,445
Deferred gains or losses on hedges	22	219
Foreign currency translation adjustment	(8,645)	(7,189)
Remeasurements of defined benefit plans	1,353	1,288
Total accumulated other comprehensive income	(3,042)	(2,235)
Non-controlling interests	7,556	7,614
Total net assets	246,788	266,704
Total liabilities and net assets	849,801	840,441

Consolidated Statement of Income

(Millions of Yen)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Net sales	562,928	612,314
Cost of sales	403,347	450,640
Gross profit	159,580	161,674
Selling, general and administrative expenses	122,706	124,105
Operating profit	36,873	37,569
Non-operating income		
Interest income	236	382
Dividend income	546	712
Share of profit of entities accounted for using equity method	121	95
Foreign exchange gains	930	2,793
Subsidy income	607	281
Ship lease income	674	331
Other	1,758	2,863
Total non-operating income	4,874	7,460
Non-operating expenses		
Interest expenses	4,311	4,194
Expenses for ship lease	1,180	378
Other	1,777	2,761
Total non-operating expenses	7,269	7,333
Ordinary profit	34,478	37,696
Extraordinary income		
Foreign exchange gains	2,088	—
National subsidies	869	513
Gain on sale of non-current assets	70	83
Gain on sale of investment securities	435	987
Insurance claim income	869	2,099
Other	9	31
Total extraordinary income	4,343	3,715
Extraordinary losses		
Loss on sale and retirement of non-current assets	1,796	900
Loss on tax purpose reduction entry of non-current assets	869	510
Impairment loss	2,575	2,031
Loss on disaster	373	350
Adjustment of payment	—	888
Other	489	140
Total extraordinary losses	6,105	4,822
Profit before income taxes	32,717	36,588
Income taxes—current	11,600	12,554
Income taxes refund	(35)	(703)
Income taxes—deferred	(51)	865
Total income taxes	11,513	12,717
Profit	21,203	23,871
Profit (loss) attributable to non-controlling interests	(911)	150
Profit attributable to owners of parent	22,115	23,721

Consolidated Statement of Comprehensive Income

(Millions of Yen)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Profit	21,203	23,871
Other comprehensive income		
Valuation difference on available-for-sale securities	1,400	(766)
Deferred gains or losses on hedges	12	197
Foreign currency translation adjustment	(3,539)	1,849
Remeasurements of defined benefit plans, net of tax	883	(48)
Share of other comprehensive income of entities accounted for using equity method	26	(14)
Total other comprehensive income	(1,215)	1,216
Comprehensive income	19,987	25,088
Comprehensive income attributable to:		
Owners of parent	21,236	24,529
Non-controlling interests	(1,248)	559

Consolidated Statement of Cash Flows

(Millions of Yen)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Cash flows from operating activities		
Profit before income taxes	32,717	36,588
Depreciation	34,137	37,810
Impairment loss	2,575	2,031
Amortization of goodwill	4,382	4,450
Increase (decrease) in allowance for doubtful accounts	109	(95)
Share of loss (profit) of entities accounted for using equity method	(121)	(95)
Loss (gain) on sale of investment securities	(386)	(779)
Increase (decrease) in retirement benefit liability	320	464
Interest and dividend income	(782)	(1,095)
Interest expenses	4,311	4,194
Foreign exchange losses (gains)	(3,079)	(2,718)
Loss on tax purpose reduction entry of non-current assets	869	510
Subsidy income	(607)	(281)
Insurance claim income	(1,025)	(2,099)
Loss (gain) on sale of property, plant and equipment	(48)	(55)
Loss on retirement of property, plant and equipment	1,774	872
Decrease (increase) in notes and accounts receivable—trade	666	6,306
Decrease (increase) in inventories	(780)	(4,304)
Increase (decrease) in notes and accounts payable—trade	3,401	9,921
Increase (decrease) in accounts payable—other	(424)	(7,510)
Increase (decrease) in accrued consumption taxes	(883)	(977)
Increase (decrease) in other assets/liabilities	3,398	(2,787)
Other, net	618	(248)
Subtotal	81,143	80,101
Interest and dividends received	917	1,561
Interest paid	(4,466)	(4,479)
Proceeds from subsidy income	1,546	2,953
Proceeds from insurance income	982	2,103
Income taxes paid	(16,206)	(11,964)
Income taxes refunded	293	1,118
Net cash provided by (used in) operating activities	64,210	71,395
Cash flows from investing activities		
Proceeds from settlement of forward exchange contracts from acquisition of subsidiaries	2,088	—
Net decrease (increase) in time deposits	89	170
Purchase of property, plant and equipment	(54,137)	(63,789)
Proceeds from sale of property, plant and equipment	263	231
Proceeds from sale of investment securities	1,427	1,861
Purchase of intangible assets	(3,893)	(3,314)
Loans receivable granted	(859)	(664)
Collection of loans receivable	744	3,687
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(48,370)	—
Other, net	(1,054)	(602)
Net cash provided by (used in) investing activities	(103,702)	(62,420)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(166)	(6)
Proceeds from long-term borrowings	105,278	20,300
Repayments of long-term borrowings	(59,040)	(65,157)
Proceeds from issuance of bonds	—	14,932
Redemption of bonds	(4,170)	(15,000)
Proceeds from issuance of common shares assigned to non-controlling interests	25,011	509
Proceeds from sale of treasury shares	1,043	248
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(596)	(1,500)
Repayments of finance lease obligations	(1,274)	(1,913)
Cash dividends paid	(2,447)	(3,352)
Other, net	(49)	330
Net cash provided by (used in) financing activities	63,589	(50,609)
Effect of exchange rate change on cash and cash equivalents	623	(104)
Net increase (decrease) in cash and cash equivalents	24,721	(41,739)
Cash and cash equivalents at beginning of period	109,384	130,301
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	(4,048)	318
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	243	17
Cash and cash equivalents at end of period	130,301	88,897

Investor Information

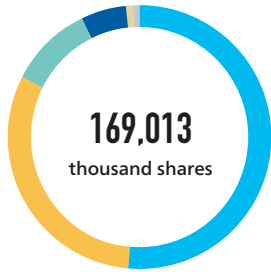
Status of Shares (As of March 31, 2022)

Authorized Shares	300,000,000 shares
Number of Shares Issued	169,012,926 shares
Number of Shareholders	12,200

Shareholder Distribution



Number of Shareholders by Type of Shareholders	
Individuals, others	92.5%
Other domestic companies	5.1%
Foreign institutions and individuals	1.7%
Financial institutions	0.4%
Securities companies	0.3%
Treasury stock	0.0%



Number of Shares by Type of Shareholders	
Other domestic companies	51.4%
Financial institutions	31.1%
Foreign institutions and individuals	10.3%
Individuals, others	5.7%
Treasury stock	0.8%
Securities companies	0.7%

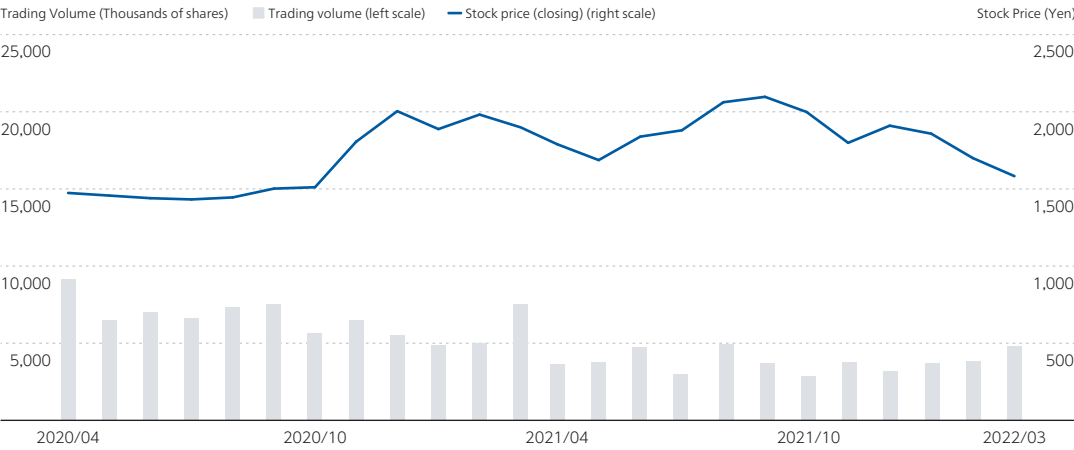
Major Shareholders

Name	Number of shares held (Thousands of shares)	Shareholding ratio (%)
Hokuetsu Corporation	41,589	24.8
The Master Trust Bank of Japan, Ltd. (Trust Account)	14,450	8.6
Daio Kaiun Co., Ltd.	7,112	4.2
The Iyo Bank, Ltd.	7,072	4.2
The Ehime Bank, Ltd.	6,920	4.1
Custody Bank of Japan, Ltd. (Trust Account)	6,532	3.9
Ehime Paper Manufacturing Co. Ltd.	5,331	3.2
Kami Shoji Co. Ltd.	4,700	2.8
The Norinchukin Bank	4,110	2.5
J.P. MORGAN BANK LUXEMBOURG S.A. 381572	3,326	2.0

Notes

1. The shares held by The Master Trust Bank of Japan, Ltd. (Trust Account) and Custody Bank of Japan, Ltd. (Trust Account) are related to trust service.
2. Shareholding ratio does not include treasury stock (excluding the shares held by trust bank as Trust for Delivery of Shares and Employee Stock Ownership Plan Trust).

Stock Price and Trading Volume

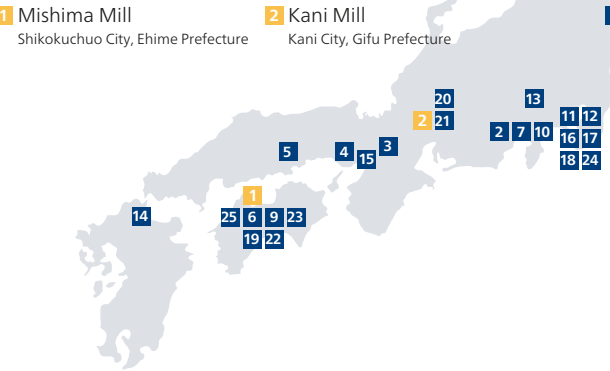


Corporate Data

Corporate Information (As of March 31, 2022)

Established	May 5, 1943
Capital	¥53.9 billion
Number of Employees	2,725 (Unconsolidated), 12,917 (Consolidated)
Offices	Tokyo Headquarters: 10-2, Fujimi 2-chome, Chiyoda Ward, Tokyo Tel: +81-3-6856-7500 Shikoku Headquarters: 628, Mishimakamiya-cho, Shikokuchuo City, Ehime Prefecture Tel: +81-896-23-9001
Mills	Mishima Mill (Ehime Prefecture), Kani Mill (Gifu Prefecture)
Branches	Osaka Branch, Nagoya Branch, Kyushu Branch (Fukuoka City)
Website	https://www.daio-paper.co.jp/en/
Main Products	Newsprint, coated paper, woodfree paper, printing paper for publication, PPC paper, carbonless paper, adhesive printing paper, wrapping paper, functional specialty paper, paperboard, various types of pulp, household paper (facial tissue, toilet tissue, paper towels), disposable baby and adult diapers, sanitary napkins, masks, etc.

Production Bases



Overseas Business Bases

- 26 Forestal Anchile LTDA. (Chile)
- 27 Elleair International Korea Co., Ltd. (South Korea)
- 28 Elleair International (Thailand) Co., Ltd. (Thailand)
- 29 Elleair International China (Nantong) Co., Ltd. (China)
- 30 PT. Elleair International Trading Indonesia (Indonesia)
- 31 PT. Elleair International Manufacturing Indonesia (Indonesia)
- 32 Oregon Chip Terminal INC. (U.S.A.)
- 33 Elleair International Turkey Kışisel Bakım Ürünleri Üretim A.Ş. (Turkey)
- 34 Santher-Fábrica de Papel Santa Therezinha S.A. (Brazil)
- 35 H&PC BRAZIL PARTICIPAÇÕES S.A. (Brazil)

Business Bases of the Group Companies

(as of June 30, 2022)
Locations of Headquarters of Consolidated Subsidiaries

Paper Manufacturing
1 Iwaki Daio Paper Corporation Iwaki City, Fukushima Prefecture
2 Dainichi Paper Corporation Fuji City, Shizuoka Prefecture
3 Otsu Paper Board Co., Ltd. Otsu City, Shiga Prefecture
4 Harima Paper Tech. Corporation* Kakogawa City, Hyogo Prefecture
5 Taisei Paper Corporation* Tsuyama City, Okayama Prefecture
6 Marubishi Paper Tec. Corporation Shikokuchuo City, Ehime Prefecture
* The above two companies will merge on October 1, 2022 and change the trade name to Daio Paper Techno Corporation.
H&PC Manufacturing
7 Elleair Paper Co., Ltd. Fujinomiya City, Shizuoka Prefecture
8 Akabira Paper Corporation Akabira City, Hokkaido
9 Elleair Product Co., Ltd. Shikokuchuo City, Ehime Prefecture
10 Daio Paper Products Corporation Fuji City, Shizuoka Prefecture
Printing
11 Daio Miura Corporation Sumida Ward, Tokyo
Corrugated Container
12 Daio Package Corporation Chiyoda Ward, Tokyo
13 Yorii Insatsu Shiki Co., Ltd. Honjo City, Saitama Prefecture
14 Uemura Shiko Corporation Kanda-machi, Miyako District, Fukuoka Prefecture
15 Yoshikawa Shigyo Corporation Kawanishi City, Hyogo Prefecture
Distribution
16 Tokyo Pulp & Paper International Co., Ltd. Chuo Ward, Tokyo
17 Daio Pulp & Paper Co., Ltd.* Chuo Ward, Tokyo
18 Elleair Business Support Co., Ltd.* Toshima Ward, Tokyo
* The above two companies will merge on October 1, 2022 and change the trade name to EBS Co.Ltd.
Paper Converting
19 Daio Mill Support Co., Ltd. Shikokuchuo City, Ehime Prefecture
20 Daio Mill Support Tokai Corporation Kawabe-cho, Kamo District, Gifu Prefecture
21 Elleair Textel Corporation Kani City, Gifu Prefecture
Engineering
22 Daio Engineering Co., Ltd. Shikokuchuo City, Ehime Prefecture
Transportation
23 Daio Logistics Co., Ltd. Shikokuchuo City, Ehime Prefecture
24 Daio Express Ltd. Chiba City, Chiba Prefecture
Other Businesses
25 Elleair Resorts Golf Club Co., Ltd. Matsuyama City, Ehime Prefecture

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—

Third-Party Assurance

Daio Paper has received assurance by DNV Business Assurance Japan on the environmental data, etc. presented in the Daio Group Integrated Report 2022 to enhance its reliability and accuracy.

Period covered: April 1, 2021 to March 31, 2022

Scope of verification

- GHG emissions: Scopes 1 and 2
- Water consumption: Water/wastewater
- Waste: Waste created/Waste reused
- Industrial accidents data: Rate of accidents involving lost working time

VERIFICATION STATEMENT

Statement No.: PRJN-389702

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initiate reporting of

Verification of Daio Group's Non-financial Information (2021)

< Scope of Verification >
DNV Business Assurance Japan K.K. has been commissioned by Daio Paper Corporation (hereafter the "Daio Paper") to perform a verification of the Daio Group's non-financial information assertion, including environmental data and occupational accident data (hereafter the "non-financial information") with respect to the following area:

- GHG emissions: Scope1&2
- Water use: Amount of water use and wastewater
- Waste: Amount of waste and waste reuse
- Occupational Accident Data: Lost Time Injury Frequency Rate

< Verification Criteria >
The criteria for identification, calculation, monitoring, and reporting of GHG (greenhouse gas), water use, waste, and occupational accident data to be verified are the calculation and reporting procedures established by Daio Paper. The criteria for verification include ISO 14064-3:2019, ISAE 3000, as well as the criteria required by the calculation and reporting procedures established by Daio Paper.

< Verification Statement >
It is DNV's opinion that with a limited level of assurance, nothing has come to our attention which causes us to believe that the assertion of environmental data and occupational accident data, reported in the "non-financial information," do not accurately reflect the Daio Paper Group's non-financial information, including environmental data and occupational accident data in accordance with the verification criteria identified as stated above.

< Verification Process and Methodology >
The reviews of the non-financial information, relevant documents, and subsequent follow-up interviews have provided DNV with sufficient evidence to determine the fulfilment of stated criteria.

The verification has been performed under the supervision of:

Tsuyoshi Katori, Lead Verifier
August 2022

The technical review has been performed under the supervision of:

Koichiro Tanabe, Technical Reviewer
August 2022

Independent Validation Verification Body:
DNV Business Assurance Japan K.K.

Naoki Maeda, Managing Director
25 August 2022

This Verification Opinions is based on the information made available to us and the engagement conditions detailed above. Hence, DNV cannot guarantee the accuracy or correctness of the information. DNV cannot be held liable by any party relying or acting upon this Verification Opinion.
DNV Business Assurance Japan K.K., Sanmoriga Chuo Bldg 5th Floor, 4-2-25, Gokiso-dori, Chuo-ku, Kobe 651-0087

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VERIFICATION STATEMENT

Statement No.: PRJN-389702

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< Period Covered by Calculation >
The period covered by the FY2021 non-financial information is 1 April 2021 to 31 March 2022.
*Only for the lost time injury frequency rate, the period covered is 1 January 2021 to 31 December 2021.

< Organization Boundary of Verification >
☒ Management Control ☐ Equity Share ☐ Others

< Quantification of GHG Data >
DNV's opinion is that the GHG data results in the quantification of GHG emissions that are real, transparent and measurable.

Type of GHGs Verified <input checked="" type="checkbox"/> CO ₂ <input checked="" type="checkbox"/> CH ₄ <input checked="" type="checkbox"/> N ₂ O <input type="checkbox"/> HFCs <input type="checkbox"/> PFCs <input type="checkbox"/> SF ₆ <input type="checkbox"/> NF ₃	Amount of GHG emissions Verified (Scope1&2) 4,387,788 tCO ₂ e
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< Quantification of Water use, Waste and Occupational Accident Data >
DNV's opinion is that the water use, waste and occupational accident data results in the quantification of water use that are real, transparent, and measurable.

Amount of Water use Verified 186,128,272 m ³	Amount of Wastewater Verified 173,600,387 m ³
Amount of Waste Verified 306,695 t	Amount of Waste Reuse Verified 301,826 t
Lost Time Injury Frequency Rate Verified 1.14	

The reported values above are fully covered by the verification.

< Verification Opinion >
☒ Unmodified Opinion
☐ Modified Opinion
☐ Adverse Opinion

As an independent third party, DNV has no financial dependencies on Daio Paper Corporation.

This Verification Opinions is based on the information made available to us and the engagement conditions detailed above. Hence, DNV cannot guarantee the accuracy or correctness of the information. DNV cannot be held liable by any party relying or acting upon this Verification Opinion.
DNV Business Assurance Japan K.K., Sanmoriga Chuo Bldg 5th Floor, 4-2-25, Gokiso-dori, Chuo-ku, Kobe 651-0087

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