

At a Glance

Daio Paper is a full-range paper manufacturer engaged in the integrated production and sale of all types of paper from pulp produced in-house. The Group currently operates businesses in two segments: the business-to-business Paper and Paperboard Business and the business-to-consumer Home and Personal Care (H&PC) Business.

Number of Products

Approx.
20,000 specifications of paper



Market Share

No.1



Daio Paper manufactures and sells newsprint, printing and publication paper, communication paper, wrapping paper, containerboard and household paper products—a total of approximately 20,000 different specifications of paper made from pulp produced in-house.

Elleair is the signature Daio Paper brand. Daio Paper entered the facial tissue market in 1979 and captured the top market share in just seven years. Daio Paper has had No.1 market share in the facial tissue, toilet tissue and kitchen paper categories since 2018.

Source: INTAGE SRI, Facial Tissue, Toilet Tissue, and Kitchen Towel Market (based on value in FY2018 and FY2019)

Area of Company-Owned Forest

59,000 ha

Daio Paper owns 59,000 hectares of forested land in Chile, roughly the same area as Tokyo's 23 wards. Of this, Daio Paper has preserved 28,000 hectares as native forest and is working to maintain biodiversity.



Forests and plantations owned by Forestal Anchile in Chile, South America

Number of Employees

10,446

(As of March 31, 2020)



Number of Production and Group Company Business Sites

27 sites in Japan

9 sites in **8** countries overseas

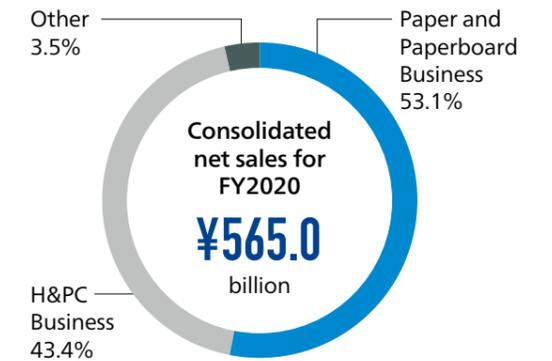
(As of September 30, 2020)



Third Medium-Term Business Plan Performance

	(Billions of Yen)		
	FY2018	FY2019	FY2020 (Plans)
Net sales	533.9	546.4	565.0
Operating profit	12.1	30.6	32.0
Operating profit margin	2.3%	5.6%	5.7%
Profit attributable to owners of parent	4.7	19.2	14.5

Net Sales Composition by Segment



Paper and Paperboard Business

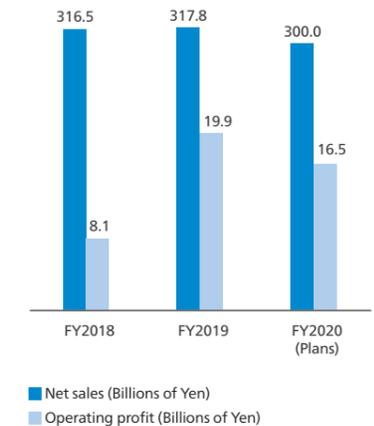
Description of Business

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

Overview of FY2019

During the fiscal year ended March 31, 2020 (FY2019), Daio Paper stopped the N7 paper machine at Mishima Mill in order to rebuild it into a containerboard machine (operational in April 2020). Daio Paper worked to maintain market conditions by decreasing its paper production volume and increasing the usage of hard-to-recycle recovered paper by leveraging our recovered paper processing technologies. Due to these efforts, both net sales and operating profit in the Paper and Paperboard Business increased from the previous fiscal year.

Net Sales and Operating Profit



Home and Personal Care (H&PC) Business

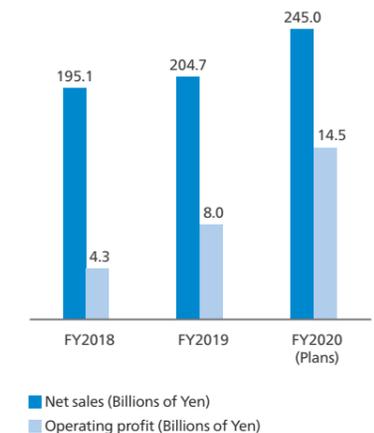
Description of Business

Production and sale of household paper (e.g. facial tissues), disposable baby and adult diapers, feminine care products, wet wipes, etc.

Overview of FY2019

In FY2019, the Home and Personal Care (H&PC) Business focused efforts on stabilizing supply by strengthening its production and logistics systems, mainly for household paper and wet wipes. In addition, Daio Paper identified profit improvement as a key issue at the beginning of the period, and it worked to revise prices, making use of its position as the leading household paper manufacturer in Japan. Due to these efforts, both net sales and operating profit in the H&PC Business increased from the previous fiscal year.

Net Sales and Operating Profit



History of the Daio Paper Group

Daio Paper was established in Shikokuchuo City, Ehime Prefecture in 1943 as a manufacturer of newsprint and containerboard. The Company subsequently expanded into the paper business and the household paper business, growing into a full-range paper manufacturer. By leveraging the brand power developed through its household paper business, Daio Paper entered the absorbent products market with products such as disposable baby diapers. In 2011, Daio Paper built a disposable baby diaper factory in Thailand, embarking on a full-scale expansion into overseas markets with the aim of further growth.

Leap Forward

1960-1980

Making a leap forward as a full-range paper manufacturer capturing changes in industrial and demand structure

Daio Paper commenced construction on the New Mishima Mill in 1970, and it has, over the years, also both modified existing and installed new paper machines, pulp facilities and in-house power generation facilities at the Mishima Mill. With the successive installation of the N1 to N4 paper machines, Daio Paper completed its foundation as a full-range paper manufacturer, stabilizing supply and improving productivity for a wide variety of papers, such as printing and wrapping paper in addition to newsprint and containerboard. In 1979, Daio Paper commenced production and sale of the Elleair brand of facial tissue and toilet tissue to respond to changes in both industrial and demand structures, building the foundation for Daio Paper's unique product portfolio of today.



1970: Built the New Mishima Mill



1979: Launched Elleair facial tissues



1980: Launched disposable baby diapers

Establishment

1943-1960

Became a newsprint manufacturer against a background of growing demand for paper

Daio Paper was established in 1943 through a merger of Shikoku Paper Corporation and 13 other paper companies for the purpose of manufacturing and selling *washi* (traditional Japanese paper).

In 1947, the founder Isekichi Ikawa decided to switch to manufacturing *yoshi* (paper made in the Western style) as he foresaw the downturn of *washi* and determined that *yoshi* is the only way forward. Subsequently, against a backdrop of growing demand for paper, in addition to newsprint, Daio Paper expanded its containerboard facilities, establishing the foundation of its business.



1952: The Mishima Mill

(Billions of Yen)

600

500

400

300

200

100

FY1950

FY1959

FY1969

FY1979

FY1989

FY1999

FY2009

FY2019

■ Paper and Paperboard Business ■ H&PC Business ■ H&PC overseas business ■ Other

Diversification

1980-2010

Winning No.1 market share with product development and sales strategies that foresaw consumers' needs

Daio Paper made its full-scale entry into the household paper market, launching the production and sales of kitchen paper—following facial tissues and toilet tissues—and also disposable diapers. Daio Paper's Elleair brand facial tissue and toilet tissue won the No.1 market share with product development and sales strategies that foresaw consumers' needs.

In June 1989, Daio Paper established Forestal Anchile LTDA. in Chile and commenced its forestry business. In addition, Iwaki Daio Paper Corporation was established in 1996 in Iwaki City, Fukushima Prefecture, and it commenced the production and sale of Japan's first newsprint made from 100% recovered paper.



1983: Acquired Nagoya Pulp (now the Kani Mill)



1989: Established Forestal Anchile LTDA.



1996: Established Iwaki Daio Paper Corporation



2007: Acquired the Atteno brand disposable adult diaper business

To the Global Stage

2010-

Accelerating overseas expansion of the H&PC Business using know-how and technological capabilities developed in Japan

Daio Paper accelerated the expansion of the H&PC Business into overseas markets using the know-how and technological capabilities developed in Japan. The Company has worked to expand its business by increasing the areas in which it operates, establishing local production and sales subsidiaries in Thailand, China and Indonesia, and acquiring hygiene products manufacturers in Brazil and Turkey.



2011: Established Elleair International Thailand Co., Ltd.



2012: Established Elleair International China (Nantong) Co., Ltd.



2014: Established PT. Elleair International Manufacturing Indonesia

(Billions of Yen)

600

500

400

300

200

100

Strengths of the Daio Paper Group

The driving forces behind the growth of the Daio Paper Group are the competitive advantages cultivated in a wide range of businesses extending from materials such as newsprint, printing paper and containerboard, through to home and personal care products that support day-to-day lives, as well as the strengths that originate from the Group's competitive advantages.

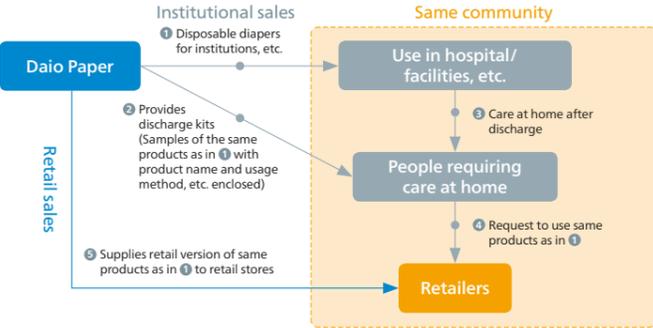
<p>Competitive Advantage 1</p> <p>Product Value Chain</p> 	<p>Daio Paper has built a product value chain capable of timely and efficient production in response to changes in paper demand trends in order to achieve sustainable growth.</p> <p>The Mishima Mill, Daio Paper's core paper mill, is one of the world's largest coastal paper mills and engages in integrated production of paper and paperboard from pulp produced in-house. Its annual production capacity is approximately 2.1 million tons, or some 8% of Japan's total paper and paperboard production.</p> <p>The Mishima Mill is located adjacent to an international trade port, putting it at an advantage in terms of logistics costs and procurement costs for raw materials and fuel. It also has softwood and hardwood pulp facilities with one of Japan's largest pulp production capacities and they supply pulp in slurry form directly to the paper machines through pipes. For these reasons, the paper and containerboard produced by Mishima Mill is highly cost-competitive.</p>
<p>Competitive Advantage 2</p> <p>Market-Driven Business Strategy</p> 	<p>With a basic stance of what is made by Daio is sold only by Daio sales representatives and as a manufacturer that aspires to know its customers best, we have put efforts into the expansion of our sales networks and the training of sales representatives. We have also applied the business-to-consumer marketing style of the H&PC Business to the Paper and Paperboard Business, creating a sales strategy that is unique in the business-to-business paper and paperboard industry.</p> <p>Each and every sales representative observes and anticipates market trends through their day-to-day marketing activities with customers, and relates that information to facilitate product development and proposal activities that respond quickly to customer needs. This market-driven business strategy is unique to Daio Paper and is one of our competitive advantages.</p>
<p>Competitive Advantage 3</p> <p>Environmentally Conscious Company</p> 	<p>Since its establishment, Daio Paper has been engaged in environmental conservation, with initiatives such as high utilization rate of recovered paper, energy conservation and recycling of industrial water. In 1989, we established a forestry company Forestal Anchile LTDA. in Chile, South America. The company owns 59,000 hectares of forested land, approximately the same area as Tokyo's 23 wards, and practices sustainable forest management. We have preserved 28,000 hectares, about half of the landholding, as native forest and are working on the conservation of biodiversity.</p> <p>Daio Paper is also actively conserving the environment through business development that is in harmony with the global environment, such as achieving a recovered paper usage rate that exceeds the industry average by increasing usage of hard-to-recycle recovered paper, a material that was previously disposed of as waste.</p>

The Mishima Mill accounts for some **8%** of Japan's total paper and paperboard production



- The coastal mill is one of the most cost competitive in Japan
- Produces a wide range of pulps, paper and containerboard products

Community-Based Integrated Care Systems Initiatives
(Integrated support and services involving Daio Paper, hospitals, elderly care facilities and retailers)



Forested land owned by Forestal Anchile LTDA. in Chile, South America: **59,000 ha**



- Approximately same area as Tokyo's 23 wards
- Half of the area preserved as native forest

Core Competencies

Brand Power

- Full-range paper manufacturer that operates a Paper and Paperboard Business and a H&PC Business
- Elleair brand assets and brand-building capabilities

Cost Competitiveness

- Sharing of advanced technological capabilities and expertise through integrated Group operations
- High productivity in the procurement of materials, in production and in sales
- Intellectual property upheld by large numbers of patent applications filed and patents in force

Human Resource Capabilities

- Diverse human resources underpinning sustainable corporate growth
- Functional organizations for procurement of raw materials, production and sales
- Diverse management

Problem-Solving Capabilities

- Business development toward the realization of a sustainable society
- Co-existence with all stakeholders

Daio Paper Group's Vision

The Daio Paper Group has tackled diverse challenges and created new value as a full-range paper manufacturer engaged in the production and sale of paper and paperboard products and home and personal care products.

The source of this value creation is DAIO, the four pillars of Daio Paper's management philosophy, "Shaping an abundant and affable future for the world." Going forward, we will continue to provide value that exceeds the expectations of all stakeholders through the provision of high value-added, people-friendly products.

Daio Paper Group's Credo, Strengths and Strategies

Credo (Four Pillars of the Management Philosophy)

- D** : Dedicated Dedication to manufacturing
- A** : Attentive Bonds with local communities
- I** : Integrated Corporate culture providing safety and motivation to work
- O** : Organic Contribution to the global environment

Unique Strengths

- (1) Brand Power**
 - Full-range paper manufacturer that operates a Paper and Paperboard Business and a H&PC Business
 - Elleair brand assets and brand-building capabilities
- (2) Cost Competitiveness**
 - Sharing of advanced technological capabilities and expertise through integrated Group operations
 - High productivity in the procurement of materials, in production and in sales
 - Intellectual property upheld by large numbers of patent applications filed and patents in force
- (3) Human Resource Capabilities**
 - Diverse human resources underpinning sustainable corporate growth
 - Functional organizations for procurement of raw materials, production and sales
 - Diverse management
- (4) Problem-Solving Capabilities**
 - Business development toward the realization of a sustainable society
 - Co-existence with all stakeholders

Growth Strategies

- Promote globalization to support long-term growth
- Transform business structure in response to changes in the business environment
- Deepen initiatives pertaining to the SDGs to contribute to a sustainable society

Social Issues

- Changes in the market environment due to the declining birthrate and aging population
- Changes in purchasing behavior and lifestyle patterns due to the digitization of the purchasing process and means of information gathering
- Decline in working population
- Growing needs due to increasing healthy life expectancy
- Increase in the number of people in need of nursing care in a society where longevity is the norm
- Responding to COVID-19
- Economic and population growth in emerging countries
- Improvement in living standards due to economic growth
- Increasing global awareness of environmental conservation
- Zero-carbon society
- Plastic-free movement (reduction of marine plastic)

Initiatives Aimed at Solving Social Issues

D Dedication to Manufacturing

(1) Sustainable innovation

- Provide products that meet consumers' needs through flexible production system
- Maintain stable supply system through development of product value chain



A Bonds with Local Communities

(1) Comfortable lifestyle (2) Harmonious growth with local communities

- Grow in harmony with local communities
- Create employment and develop communities



I Corporate Culture Providing Safety and Motivation to Work

(1) Provision of people-friendly services

- Provide support for stress-free nursing care activities with *Gambaranai Kaigo-seikatsu o Kangaeru Kai*
- Develop and provide products to respond to COVID-19 and large-scale disasters



(2) Abundant lifestyle

- Improve employee satisfaction
- Achieve accident-free workplaces

O Contribution to the Global Environment

(1) Provision of environment-friendly products

- Develop and sell products that reduce plastic waste
- Develop applications for cellulose nanofiber (CNF) and increase sales

(2) Passing on a healthy Earth to the next generation

- Reduce CO₂ emissions from fossil fuel energy sources
- Achieve zero emissions
- Increase use of hard-to-recycle recovered paper
- Forestry business



Customers



High-quality, high value-added products and services

Employees and their families



Safety-first workplace environment

Suppliers



Grow together

Local communities



Lifestyle, industrial and cultural development

Shareholders and investors



Stable dividend

Shaping an abundant and affable future for the world

Message from the President



Masayoshi Sako

President and
Representative Director

Toward Achievement of Our Long-Term Vision

Net sales of
¥800 billion
to **¥1 trillion**
in FY2026

Home and Personal
Care (H&PC) Business
net sales ratio of
50% or more

H&PC overseas
business net
sales ratio of
30% or more

Since its founding, the Daio Paper Group has grown as a full-range paper manufacturer while expanding its business operations by flexibly responding to changes in its business environment.

Moving forward, the Group will continue to pursue further growth strategies and the transformation of its business structure amid rapid changes in the business environment. Through this, the Group seeks to achieve sustainable growth so as to realize its management philosophy of “Shaping an abundant and affable future for the world” through initiatives that contribute to the Sustainable Development Goals (SDGs).

Flexibly Responding to Changes in the Business Environment and Pursuing Radical Structural Reform

In recent years, the papermaking industry has been undergoing a period of major structural transformation. For the Daio Paper Group to provide a variety of value to society and continue to be an attractive company for its stakeholders amid this trend of the times, it is essential to radically reform its business structure. As such, the Group has adopted the following as its long-term vision: “To strategically reform its business portfolio and become a sustainable corporate group capable of continuous growth.” For this reason, we are pursuing multifaceted initiatives to achieve our targets for FY2026: net sales of ¥800 billion to ¥1 trillion, 50% or more of which will be generated by the H&PC Business and 30% or more from H&PC overseas business.

The crux of our strategy is the Mishima Mill, the Group’s core paper mill, which is located in Shikokuchou City, Ehime Prefecture. Its strengths, such as its ability to manufacture kraft pulp with a competitive edge, its recovered paper processing technology that is top-tier in Japan, and its strategic location next to an international trade port, have enabled us to implement our key measures. We are making full use of these comparative advantages in infrastructure to respond to changes in demand trends and firmly pursue a radical cross-business structural reform of the Paper and Paperboard Business and the H&PC Business.

Review of FY2019: Achieved Increases in Sales and Income Amid Harsh Business Conditions

In the fiscal year ended March 31, 2020 (FY2019), uncertainty about the future of the global economy increased due to the prolonged U.S.-China trade friction and other factors. At the same time, in Japan, it was a year marked by major changes in the business environment, including the occurrence of a series of natural disasters and the change in consumer sentiment following the consumption tax rate hike, as well as the impact of the spread of COVID-19 from early 2020. Looking at the papermaking industry, domestic demand for paper and paperboard in 2019 was down 3.6% and 1.9%, respectively, from the previous year and totaled 25.36 million tons (down 2.8% compared with the previous year).

Under these circumstances, in FY2019—the second year of our Third Medium-Term Business Plan, “Move on: Reform and Soar Above”—we proactively implemented strategies with a view to medium- to long-term growth while responding to rapid changes in the external environment.

With regard to the Paper and Paperboard Business, we rebuilt the N7 paper machine at the Mishima Mill into a machine for containerboard, for which there is strong demand. The rebuilt machine has been in operation since April 2020. In addition, we worked on pushing through price revisions for paper and paperboard, and on reducing costs by increasing the ratio of hard-to-recycle recovered paper pulp used in containerboard manufacturing.

With regard to the H&PC Business in Japan,

Message from the President

our focus has been on stable supply as we strengthen the production and sales structure for household paper products, demand for which is increasing at a remarkable rate. The first household paper machine at the Kawano Mill, which is adjacent to the Mishima Mill, has been in operation since September 2018.

In H&PC overseas business, we laid the foundations for the future such as by pursuing a multi-category business expansion strategy as we started to sell premium toilet roll in China, by realigning our distributor structure in Indonesia and Thailand, by strengthening activities in Turkey and by opening a representative office in Russia.

As a result of these efforts, in FY2019, we achieved net sales and operating profit of ¥546.4 billion and ¥30.6 billion respectively, both exceeding the previous fiscal year, and profit of ¥19.2 billion, a record high. The structural reforms are progressing steadily, and it is evident that our ability to respond to changes in the environment has improved significantly. However, our focus is nonetheless on achieving the goals for the final year of our medium-term business plan, and my concern is on making steady progress, step by step, by means of corporate management that is mindful of continuity rather than singular events.

Responding to Changes in the Business Environment, Including COVID-19

The COVID-19 pandemic has had a tremendous impact on the economy as well as society, and the business environment surrounding the Group has undergone significant change. Amid declining demand for paper due to the advancement of digitalization and other factors, the impact of COVID-19 has been greater than expected, and we believe that the decline in demand is occurring at a pace several years faster than initial projections.

On the other hand, new business opportunities are emerging as the needs for H&PC-related products are diversifying due to changes in lifestyles and heightened hygiene consciousness stemming from the COVID-19 pandemic. Through flexible and prompt response, the Group aims to capture these business opportunities under its basic policy regarding structural reform: "to repurpose kraft

pulp with a competitive edge to manufacture paper grades with growing demand or high value-added paper grades." Furthermore, as the leading manufacturer of household paper products in Japan, our flexible and prompt response holds great significance in terms of fulfilling our social responsibilities too.

To that end, we are implementing three measures.

The first involves strengthening the supply of paper towels. In response to the rapid increase in both demand from corporations, such as offices and commercial facilities, and demand from households, we decided to install a new dedicated papermaking machine and converting equipment for paper towels at our core mill, the Mishima Mill. Full operation is scheduled to begin in July 2021.

The second measure is to meet the needs for products for cleaning with wipes. We are working to expand and reinforce our facilities to meet the nationwide shortage of sanitizing wet tissues brought about by the switch from cloths to disposables and the demand to wipe and clean outside the home.

The third measure is the start of domestic production of disposable face masks. In April 2020, we installed and started operating a state-of-the-art mask production machine at Elleair Product's Tochigi Mill (in Sakura City, Tochigi Prefecture), and in June, we installed and started operating a second unit. With a monthly production capacity of 26 million masks, we will contribute to stabilizing the supply of masks for retail and for institutions and corporations.

Review of the First and Second Medium-Term Business Plans and Progress with the Third Medium-Term Business Plan, "Move on: Reform and Soar Above"

Since 2012, the Group has been formulating a medium-term business plan every three years to flexibly respond to various management issues that arise from changes in its operating environment and to sustainably increase its corporate value. The Group's long-term vision is "To strategically reform its business portfolio and become a sustainable corporate group capable of continuous growth" and we strive to achieve it by formulating and executing a

We will respond to the diversifying needs brought about by changes in lifestyles following the spread of COVID-19.



15-year growth strategy, spanning from the first to the fifth medium-term business plans. Each business plan is devised by envisioning our ideal form of business in the medium to long term, and conceiving what should be done at that point in time to realize that vision.

Under the First Medium-Term Business Plan, "Restart—Solid Reform and Further Growth" (FY2012 to FY2014), we declared the rebuilding of our management base as our priority issue and focused on strengthening governance and improving our financial position to, as its slogan suggests, start over as a newborn Daio Paper. Under the Second Medium-Term Business Plan, "Step-up—Leap and Expand" (FY2015 to FY2017), we worked to expand globally by broadening the foundation we built under the First Medium-Term Business Plan. By expanding the H&PC Business in Japan and overseas while accelerating changes in business structure through M&A and other means, we laid the groundwork for future growth.

Under the Third Medium-Term Business Plan, which is currently under way, we are aiming to bring the results of the past to fruition and to develop a strong corporate structure that can respond to sudden changes in the external environment. To that end, we are deploying the following key strategies.

The first is the structural reform of the Paper and Paperboard Business. In anticipation of changes in the demand structure for paper and newsprint, we have been steadily shifting from graphic paper to packaging paper by making full use of the advantages of the Mishima Mill. The containerboard produced by the N7 machine—the containerboard machine which was rebuilt from a paper machine and which started operating from April 2020—will mainly be exported to China and other Asian countries.

To facilitate that, we are developing a sales structure that regards Japan and Asia as one market. Meanwhile, in the paper business, we are expanding the scale of the business by acquiring printing companies to strengthen the business through the integration of our paper and printing operations.

The next key strategy involves the global expansion and the strengthening of the profitability of the H&PC Business. In the domestic H&PC Business, we will continue to strengthen our production capacity and structure, which we have been doing since the Second Medium-Term Business Plan. In addition, we are expanding our lineup of value-added products to establish our position as No.1 in terms of market share in all categories, such as facial tissue, toilet tissue and kitchen paper. In the H&PC overseas business, amid intensifying competition in each country, we are leveraging the brand equity established through our baby diaper business in those countries to speed up multi-category business expansion with the goal of turning the business into a growth driver. This will be achieved by diversifying our product offerings, such as by adding household paper and feminine care products.

We have also made progress with new businesses, which will lead on to the fourth and fifth medium-term business plans. In July 2020, we launched a biomass power generation business that utilizes the feed-in tariff (FIT) scheme. We are also planning to accelerate efforts toward commercializing cellulose nanofiber (CNF)*, a wood pulp-derived, highly functional material.

*Cellulose nanofiber (CNF): A wood pulp-derived, highly functional material that is only one-fifth the weight of steel but possesses five times its strength and that is expected to be used in diverse applications

The Keys to Achieving Our Long-Term Vision: Integrated Operations and Globalization

The keys to achieving our long-term vision are the deployment of integrated operations and the globalization of our business.

The term “integrated operations” carries many meanings. The first meaning involves the integrated operations of production and sales. We believe that in order to survive in the harsh business environment, it is essential for our workers at the mills and factories—our production sites—and those who are at the forefront of sales—our sales staff—to think from each other’s perspectives, detect the waves of change and proactively take action.

The second meaning involves integrated operations across businesses: the Paper and Paperboard Business and the H&PC Business, the overseas business and domestic business, and even across smaller divisions. To create new growth opportunities and avoid missing opportunities, we have to work to optimize our operations by doing away with organizational and hierarchal barriers so that we are free to utilize both vertical and horizontal connections within the organization to advance our business. The third and last meaning is integrated operations in terms of business matching. The integration of the paper and printing businesses is one example. Since the Second Medium-Term Business Plan, we have welcomed several printing companies into the Group through M&A and have been working to integrate operations of the paper and printing businesses. The main motive behind this strategy is to enable the Group to quickly detect changes in the market, such as demand trends,

like a radar. As a paper manufacturer, it is important for us to ascertain how paper is being used and grasp other factors, and I think that this will turn into an advantage that will help to set us further apart from our competitors.

Given that domestic demand is declining at a quicker pace than ever before, globalization is an indispensable strategy for the Group to continue growing sustainably. We have already achieved some results in Asia. Moving forward, we seek to expand our geographical coverage, such as to include Turkey and its neighboring countries, as well as South America with a focus on Brazil, and we shall deploy our unique, built-in-Asia business model there. To gain a foothold into the region, we acquired the Turkish hygiene products manufacturer, Özen A.S. in May 2020 and the Brazilian sanitary goods manufacturer, Santher S.A. in June. We plan to realize synergy effects with both businesses in their respective countries first by applying the know-how we have cultivated in the Japanese and Asian markets. At the same time, we plan to develop these businesses into regional bases with an eye to entering the markets of neighboring countries and regions, such as Russia, the Middle East and Africa.

In the years ahead, as we expand our geographical coverage in the area, we ultimately hope to eventually expand into Northern Africa from Turkey, and into Southern Africa from Brazil to cover the whole of Africa.

Initiatives toward SDGs Underlying the Group’s Sustainable Growth

The Group is implementing sustainable management to realize its management philosophy of “Shaping an abundant and

affable future for the world.” By working to solve a range of environmental and social issues through our business, we aim to co-create value with society and build relationships of trust with our stakeholders. We believe that the realization of our management philosophy is in line with the principles behind the SDGs, which aim to solve social issues.

One of our top priorities is to tackle climate change. Under a medium- to long-term plan, we are implementing four mainstay initiatives: (1) energy transition, (2) material transition, (3) energy saving and (4) forestry business.

Toward energy transition, we are using waste plastics and other waste materials as fuel, and we are promoting the conversion from coal to biomass fuel. By 2030, we will shut down one of the three coal-fired boilers at the Mishima Mill, and we aim to completely phase out the use of coal by 2050.

Next, we will work to reduce CO₂ emissions across product life cycles through material transition. We are working to take advantage of CNF’s lightweight and high-strength properties to reduce the weight of automobiles, which will improve fuel efficiency and therefore contribute to CO₂ emission reductions. In addition, as paper is suitable for recycling, we are also working to supply paper materials as alternatives to plastic materials, such as *EliPla+*, which is suitable for disposable cutlery, and heat-sealable, oil-resistant paper, which can replace laminated paper.

Concerning energy saving, the entire Group is working toward the goal of reducing energy consumption per unit by 1% every year. Also, as hard-to-recycle recovered paper is conventionally unused and has been disposed of as waste, we plan to increase its usage, with a goal of raising the ratio of hard-to-recycle recovered paper pulp in containerboard to 30% by FY2030.

Lastly, we are also working to increase CO₂ absorption and fixation through our forestry business in Chile.

As a priority on the social front, we are working on measures to improve quality of life (QOL) to realize a healthy and long-lived society. Amid advances being made toward an inclusive community-based society in Japan, we are operating a community site (“Long-term care circle created by everyone”), which provides a forum for people involved in long-term care to interact on the Internet, and we are also supporting child-rearing together with

Ehime Prefecture and Shikokuchuo City. Meanwhile, we are working to coexist with local communities in Japan and overseas. We contribute to communities overseas through initiatives such as the Heart Support Project, which gives support to empower women in Kenya, a market Daio Paper has yet to enter. We also support working mothers by offering highly absorbent baby diapers that require less frequent changing to suit the different living conditions in each country.

Internally, our priority issue is to create a safe and rewarding corporate culture, and to that end, we are focusing on diversity and inclusion (D&I) as well as health management initiatives.

Finally, we will continue to further develop and strengthen our governance. We have started evaluating the effectiveness of the Board of Directors, introduced a stock-based incentive system for officers and strengthened the supervisory function by establishing compliance, remuneration and nomination committees.

To All Our Stakeholders

The Company places top priority on the return of profit to shareholders. Its basic policy is to continue to pay stable dividends, while taking into consideration factors such as the status of business and the sufficiency of retained earnings.

With regard to our future finance and capital strategies, we will conduct a thorough review of our investment plans in light of the impact of the economic slowdown caused by the spread of COVID-19. We aim to limit investments to within the scope of depreciation expenses, and we will prioritize necessary investments that strengthen the Company’s profitability and for structural reform. We will also focus on strengthening our financial position with a goal of achieving A credit rating in FY2023, the final year of the Fourth Medium-Term Business Plan.

Although the goals of our long-term vision are set at high levels, we will strive to achieve those goals through integrated Group operations, embodying the Company’s founding spirit and our credo: “Passion with sincerity leads to greatness.”

On behalf of the Company, I would like to extend my thanks to all of our stakeholders and we sincerely look forward to your continued and unwavering support.

In response to changes in the environment, we are firmly pursuing the radical cross-business structural reform of the Paper and Paperboard Business and the H&PC Business.