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Corporate Governance Guidelines

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Daio Paper Corporation

Chapter 1 General Provisions

Article 1 Purpose

This “Corporate Governance Guidelines” (hereinafter referred to as the “Guidelines”) set forth basic guidelines for the corporate governance of the Daio Paper Group (hereinafter referred to as the “Group”) for the purpose of establishing effective corporate governance, under the following Corporate Motto and Management Philosophy, in order to realize its sustainable growth and the enhancement of corporate value over its medium- to long-term.

<Corporate Motto>

Passion with Sincerity

<Management Philosophy>

Shaping an Abundant and Affable Future for the World

“Dedicated” Dedication to manufacturing

Our dedication to society and local communities drives us to innovate and deliver new value born from attention to regions, resources, and realizations.

“Attentive” Bonds with local communities

Our attention to individual cultures and regions drives us to contribute and work in harmony with local communities, demonstrating our standing as good corporate citizens.

“Integrated” Corporate culture providing safety and motivation to work

We will strive to maintain a diverse and friendly corporate culture that offers new challenges and a sense of security and trust to employees.

“Organic” Contribution to the global environment

We will actively work to grow organically, solving environmental problems and realizing a sustainable society for the world over.

Article 2 Basic Approach to Corporate Governance

The Group promotes sustainability management based on its management philosophy “Shaping an Abundant and Affable Future for the World” to realize sustainable creation of values for all stakeholders and society as a whole.

In this context, the Group considers corporate governance as a mechanism to realize sustainable growth and the enhancement of corporate value over medium- to long-term and as ensuring the functioning of the mechanism, by clarifying the role and responsibility of “the decision making and supervisory functions” and “the business execution function” of the management and promoting swift and flexible decision-making and implementation.

Amid the rapidly changing business environment, the Group has been working on reforms for achieving medium- to long-term sustainable growth such as business portfolio reform and speeding up global expansion by constantly adapting to the changing times and with foresight. At the same time, the Group will further enhance governance of management in line with the basic principles stated below with a right balance between offense and defense through initiatives, such as improvements in organizational structure to manage risks that are becoming increasingly complex and diverse, along with the expansion of overseas business and changes in society.

- (1) We honor the rights of shareholders and make efforts to provide an environment in which shareholders can properly exercise their rights and to ensure substantial equality among shareholders.
- (2) We acknowledge the importance of social responsibility and ensure appropriate collaboration with various stakeholders, including shareholders, customers, business partners, employees, and local communities, thereby engaging in sound business activities.

- (3) We ensure timely and appropriate disclosure of corporate information, including non-financial information, to be correctly understood and trusted by various stakeholders.
- (4) The Board of Directors provides highly effective supervision over Directors based on our fiduciary duty and accountability to shareholders.
- (5) We have beneficial and constructive dialogue to all shareholders as part of our efforts to achieve sustainable growth and increase our medium- to long-term corporate value.

Chapter 2 Corporate Governance Structure at Daio Paper

Article 3 Overview of the Corporate Governance Structure of the Company

The Company is a company with an Audit and Supervisory Board. As such, the Board of Directors makes decisions on important management policies and oversees business executions, while the Audit and Supervisory Board and its members, which is independent from the Board of Directors, audits the Directors' performance of their duties. The Management Meeting, which consists of the management team members (i.e., Executive Directors and Executive Officers), makes decisions on matters delegated by the Board of Directors to ensure prompt decision-making, efficient management, and enhancement of business execution function. We have the executive officer system in order to make prompt and courageous management decisions and establish a strong and flexible business execution structure for greater corporate value by clearly defining the roles and responsibilities of the Board of Directors and Executive Officers. The Board of Directors' primary function is to make decisions on critical management matters and supervise business execution, and that of Executive Officers is to execute operations.

We have non-mandatory committees in order to ensure the objectivity and transparency of our management, along with robust corporate governance and compliance across the Group. These committees are the Compliance Committee that deliberates and makes decisions regarding the consolidated management of comprehensively identified and assessed risks, coupled with countermeasures, and measures based on the severity of each risk; the Remuneration Committee that finalizes the evaluation of and remuneration for each of our Full-time Directors according to the policy on remuneration resolved by the Board of Directors; and the Nomination Committee that deliberates matters regarding the nomination of Board of Directors candidates and the election or dismissal of Directors and reports the outcomes of the deliberations to the Board of Directors.

To advance sustainability management and diversity management across the Group to continuously increase our corporate value, we have the Sustainability Committee that deliberates and makes decisions on sustainability-related initiatives, and the Diversity Committee that develops basic policy on diversity promotion, sets critical challenges, and advances the efforts to meet these challenges.

Article 4 Roles of the Board of Directors

1. The Board of Directors supervises the overall management, including the performance of duties by the management team, in order to ensure the fairness and transparency of management. The Board of Directors makes decisions for the Company by determining the execution of critical business operations specified in laws and regulations or the Articles of Incorporation.
2. The Board of Directors delegates the authority over the execution of and decision-making on other business operations than the critical operations mentioned in the preceding paragraph to lower-level meeting bodies, including the Management Meeting, and to the officers in charge of those operations. The Board of Directors supervises the performance of duties by those meeting bodies and officers.
3. Outside Directors supervise business execution by the Board of Directors and the management team and watch for any conflict of interest between the Company and the management team, among others, from stakeholders' perspective in order to realize the Group's sustainable growth and the enhancement of corporate value over its medium- to long-term.
4. Given the importance of issues related to sustainability, the Board of Directors sets out the "DAIO

Global Environment Charter,” which is the basic policy on social responsibility that the companies across the Group should fulfill to protect the global environment, thereby raising officers’ and employees’ awareness. The Board of Directors works to help with the sustainable development of society and continue increasing the Group’s corporate value by actively launching initiatives, with giving due consideration to stakeholders, to resolve the issues, based on the discussions at the Sustainability Committee.

Article 5 Composition of the Board of Directors

1. The number of the members of the Board of Directors at the Company shall be within 20 as specified in the Articles of Incorporation. Basically, it must be the number that is necessary and appropriate to ensure an effective management structure as well as substantive discussions at the Board of Directors meetings. Due consideration is also given to diversity and expertise within the Board of Directors.
2. Considering the importance of Outside Directors’ functions in corporate governance, one-third or more of the members of the Board of Directors shall be independent Outside Directors.
3. The Company selects Board of Directors candidates so that the Board of Directors will be evenly balanced between human resources capable of leveraging their strengths for the Group’s business operation in a wide range of business areas and those who are suited for business management. The Company ensures that the Board of Directors as a whole has a good balance of knowledge, experience, and skills, along with diversity, that are suitable for the Group’s business areas.

Article 6 Procedure for Electing and Dismissing Directors

1. The Company’s Board of Directors candidates shall be selected from a wide range of human resources in accordance with the guidelines on nomination stated below and officially nominated by a resolution of the Board of Directors. Before the resolution is passed, the Nomination Committee shall provide its opinions. The Nomination Committee is chaired by an independent Outside Director, and more than half of its members shall be independent Outside Directors.
 - (1) A person who has extensive knowledge and experience related to the Group’s business management and operation.
 - (2) A person who will understands social responsibility and missions in operations and will be capable of managing and operating business with fairness and accuracy based on high ethical standards.
2. Notwithstanding the preceding paragraph, the Company’s independent Outside Director candidates shall be selected from a wide range of human resources in accordance with the guidelines on nomination stated below and officially nominated by a resolution of the Board of Directors.
 - (1) A person who meets the Company’s criteria for determining independence and have no risk of causing any conflict of interest with general shareholders.
 - (2) A person who understands the Company’s Management Philosophy and fully understands the Group’s social responsibility and role.
 - (3) A person who is fully aware of his or her role as an Outside Director and be capable of supervising business execution and management by the Directors and of providing accurate and appropriate opinions and advice, applying his or her knowledge of and activities in the fields of corporate management, the economy, legal affairs, accounting, tax, and audits, among others.
3. If any event occurs that makes it difficult for a Director to properly perform his/her duties, such as a violation of law or regulation, the Board of Directors deliberates on the dismissal of the Director from his or her position or other actions, or on presenting a proposal for dismissal to a general meeting of shareholders. Before making the final decision, the Nomination Committee shall provide its opinions.
4. The Board of Directors shall supervise the training of successors to such a post as President and Representative Director based on reporting by the Nomination Committee, taking account of our Management Philosophy and management strategies.

Article 7 Procedure for Nomination of Audit and Supervisory Board Members

1. The Company's Audit and Supervisory Board Member candidates shall be selected from a wide range of human resources in accordance with the guidelines on nomination stated below. With approval from the Audit and Supervisory Board, these candidates shall be officially appointed by a resolution of the Board of Directors.
 - (1) A person who has extensive knowledge and experience related to the Group's business management and operation.
 - (2) A person who is capable of auditing the business execution by Directors from a fair and objective standpoint, and of contributing to more sound and transparent management.
2. Notwithstanding the preceding paragraph, the Company's independent Outside Audit and Supervisory Board Member candidates shall be selected from a wide range of human resources in accordance with the policies on nomination stated below. With approval from the Audit and Supervisory Board, these candidates shall be officially appointed by a resolution of the Board of Directors.
 - (1) A person who meets the criteria for determining independence that are specified by financial instruments exchanges, and have no risk of causing any conflict of interest with general shareholders.
 - (2) A person who understands the Company's Management Philosophy and fully understands the Group's social responsibility and role.
 - (3) A person who is fully aware of his or her role as an Outside Audit and Supervisory Board Member and is capable of supervising business execution by Directors from a neutral and objective point of view, applying his or her knowledge of and experience in the fields of corporate management, the economy, legal affairs, accounting, tax, and audits, among others, thereby contributing to more sound and transparent management.

Article 8 Policy regarding Training of Directors and Audit and Supervisory Board Members

1. The Company collects and provides information about the economic outlook, industry trends, legal compliance, corporate governance, finance and accounting, and other relevant matters that its Directors and Audit and Supervisory Board Members need to fulfill their roles and functions, thereby assisting the Directors and Audit and Supervisory Board Members with the performance of their duties.
2. After they assume their posts, the Company's Outside Directors and Outside Audit and Supervisory Board Members are briefed on and gain a full understanding of the Group's management strategies and management plans, the status of the Group's businesses, the business environment surrounding the Group, and the Group's management issues, among others, by the departments or officers in charge in a timely fashion to fulfill their roles and functions.

Article 9 Establishment of Non-mandatory Committees

1. The Company has established the Compliance Committee in order to further strengthen its risk management and compliance systems.
2. The Company has established the Remuneration Committee in order to ensure higher levels of objectivity and transparency in the process of determining remuneration for its Directors. This Committee shall be chaired by an independent Outside Director, and more than half of its members shall be independent Outside Directors.
3. The Company has established the Nomination Committee as an advisory body to the Board of Directors in order to ensure higher levels of objectivity and transparency in the process of nominating Board of Directors candidates and selecting or dismissing a Director. This Committee shall be chaired by an independent Outside Director, and more than half of its members shall be independent Outside Directors.
4. The Company has established the Sustainability Committee in order to map out its sustainability strategies (i.e., sustainable corporate strategies that are workable for the environment, society, and corporate governance) so that it will continue to work toward the solution of issues facing society and to increase its corporate value through business activities.

5. The Company has established the Diversity Committee in order to create diversity in the workplace across the Group by implementing measures that include increasing female managers and providing work environments that enable employees to adopt flexible work styles.

Article 10 Compliance Committee

1. The Compliance Committee deliberates and makes decisions regarding the consolidated management of comprehensively identified and assessed risks, coupled with countermeasures, and measures based on the severity of each risk.
2. In principle, the Compliance Committee shall be chaired by the Director in charge of Compliance and comprised of the management team members and Outside Directors.

Article 11 Remuneration Committee

1. The Remuneration Committee finalizes the evaluation of and remuneration for each of our Full-time Directors according to the policy on remuneration resolved by the Board of Directors and reports the final decisions to the Board of Directors.
2. The Remuneration Committee shall be chaired by an independent Outside Director, and more than half of its members shall be independent Outside Directors.

Article 12 Nomination Committee

1. The Nomination Committee receives requests for advice on the nomination of Board of Directors candidates and selection or dismissal a Director and provides its opinions according to the nomination policy specified in Article 6.
2. The Nomination Committee shall be chaired by an independent Outside Director, and more than half of its members shall be independent Outside Directors.

Article 13 Sustainability Committee

1. The Sustainability Committee deliberates and makes decisions regarding sustainability-related materiality (material issues), along with goals, commitments, and initiatives that center on materiality.
2. The Sustainability Committee shall be chaired by the Director responsible for the Corporate Unit and comprised of officers, including General Manager of the Production Division and Outside Directors.

Article 14 Diversity Committee

1. The Diversity Committee develops the Company's basic policy on diversity promotion, sets critical challenges, and advances the efforts to meet these challenges.
2. The Diversity Committee shall be chaired by President and Representative Director and comprised of officers, including General Manager of the General Affairs and Personnel Division.

Chapter 3 Actions to Protect the Interests of Stakeholders

Article 15 Monitoring System for Transactions between Related Parties

If the Group plans to conduct any transaction with related parties including its officers and major shareholders, or any other transaction that may cause a conflict of interest with the Group's related parties, the plan for the transaction shall be submitted to the Board of Directors in advance for approval and the outcome of the transaction shall be reported to the Board of Directors in order to prevent the transaction from damaging the interests of the Group and its stakeholders. When this occurs, any Director who would be involved in the conflict of interest shall not participate in the deliberation by the Board of Directors.

Article 16 Policy on Cross-shareholdings

1. The Company owns shares in its business partners and other entities as cross-held shares if doing so will help increase the Group's medium- to long-term corporate value in terms of business development and expansion as well as sustainable growth, thereby building and maintaining cooperative relationships with various companies.
2. At its Board meeting held annually in May, the Company regularly examines the rationality and necessity of continuing to own the cross-held shares acquired pursuant to the preceding paragraph. The Board of Directors discusses the matter from a medium- to long-term perspective, considering the weighted average cost of capital (WACC) and return on assets (ROA). If the Board of Directors decides that cross-holding is no longer appropriate, the Company will consider selling the shares based on dialogue and negotiation with relevant business partners.
3. When the exercise of voting rights pertaining to cross-held shares is proposed, the Company carefully reviews the proposal to consider the impact on the financial soundness of the issuer, whether the exercise will help increase the issuer's medium- to long-term corporate value as well as shareholder value, and all other aspects, before deciding whether to exercise the rights or not.
4. If a shareholder of the cross-shareholdings indicates to sell the shares in the Company, the Company will not interrupt the sale by suggesting to reduce transactions or other means.

Article 17 Corporate Ethics Hotline System

The Company has the Corporate Ethics Hotline System that enables its officers and employees to directly contact the Audit and Supervisory Board Office or an external law firm for whistle-blowing. The purpose of this system is to facilitate early internal discovery and reporting of personal or organizational violations of laws and regulations as well as misconduct, thereby ensuring public trust in the Company.

Chapter 4 Ensuring Appropriate Information Disclosure and Transparency

Article 18 Policy on Information Disclosure

The Company ensures timely, appropriate, and fair disclosure of corporate information, including its management strategies, financial condition, business activities, and CSR activities, in order to be correctly understood and trusted by stakeholders.

Chapter 5 Dialogue with Stakeholders

Article 19 Policy on Constructive Dialogue with Stakeholders

1. The Company values dialogue with stakeholders. It actively works to have constructive dialogue that is beneficial to all stakeholders on various occasions.
2. The Company makes the effort to have its management policy accurately understood by stakeholders through constructive dialogue, thereby advancing its sustainable growth and increasing its medium- to long-term corporate value.

Supplementary Provision

(Establishment, revision, and abolishment of the Guidelines)

Article 1 The Board of Directors makes the final decision on the establishment, revision, and abolishment of the Guidelines.

<Independence Standards of Independent Outside Directors>

To select independent Outside Director candidates, the Company considers the following requirements to determine whether each candidate has the required independence.

1. An independent Outside Director has no vital interests in the Group and is able to ensure his or her full independence.

More specifically, an independent Outside Director shall fall under none of the following:

- 1) A person for whom the Company is a major business partner, or an executive thereof; the Company's major business partner or an executive thereof
- 2) A consultant, accountant, or legal expert who has received a large amount of money or any other assets other than an officer's remuneration from the Company (or, if the person who has received those assets is a group such as a corporation or union, a person who belongs to the group)
- 3) An executive of the Company's major shareholder (a non-executive director also counts as an executive)
- 4) A person who fell under 1) to 3) above in the recent past
- 5) A close relative of any of the persons stated in a. to c. below (excluding those who are unimportant):
 - a. A person stated in any of 1) to 4) above
 - b. An executive of the Company's subsidiary
 - c. A person who fell under b. above or who was an executive of the Company in the recent past.

End