

# 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.

## Management Philosophy

### Shaping an Abundant and Affable Future for the World

Our goal:  
To realize an abundant and affable future

#### Four pillars

**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

#### 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.

##### 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.

##### 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.

Corporate Motto: *Passion with Sincerity*

## Message from the Chairman

# Striving for Sustainable Growth toward 2026 and Beyond in Fidelity to Our Founding Spirit and Unchanging Values of “Passion with Sincerity” and the Principle of Putting the Actual Locations of Operations First

The COVID-19 pandemic is still raging all over the world, although significant progress has been made in vaccinations. I would like to extend my sincere condolences to the families of COVID-19 victims.

In 2020, amid the pandemic and the resulting dysfunction of supply chains worldwide, the Daio Paper Group promptly started producing face masks in Japan. Since then, we have enhanced our system for face mask supply in hopes that our products will help medical professionals and other essential workers in the forefront of combating this infectious disease. As a manufacturer of products that support people's lives and society, we have been working to ensure business continuity while also placing priority on assuring the health and safety of Daio Paper Group employees and their families.

Since earlier this year, the management of the Daio Paper Group has been refreshed with Mr. Yorifusa Wakabayashi appointed as President, Representative Director, and CEO, and myself as Chairman and Representative Director. Looking back on my ten years of leading the Group as president from June 2011, it struck me that I have never felt satisfied for even the briefest moment. The Great East Japan Earthquake occurred in March 2011 just before my appointment as president. As the vice president in charge of production then, I immediately rushed to Iwaki City in Fukushima Prefecture and Sakura City in Tochigi Prefecture, the disaster-affected areas where manufacturing companies in our Group were located, to provide relief supplies, help the plants recover from any disaster damage, and secure product distribution lines. I was appointed as president amid such great turmoil, soon after which a scandal came to light in September of the same year. In the face of many severe difficulties that emerged after, I have done my best in the firm belief that employees are closely watching how I work, so, as the corporate leader, I must not escape from or waver in front of any difficulties.

In 2012, the reformed Daio Paper Group made a fresh start by formulating the First Medium-Term Business Plan for the subsequent three years and setting a goal to achieve in 15 years by the end of FY2026. During the nine-year period of the First to Third Medium-Term

Business Plans from 2012, we have made Group-wide efforts to implement various measures to achieve the goal. A major factor behind our reform efforts was changes in our Group's business environment. Against the background of progress in digitalization, we were facing a significant decline in demand for graphic paper—paper for reading and writing use—which had long been the core of our Group's business. The Group's sustainable growth required a radical shift in its business structure. Therefore, with strong determination, we carried out the structural reform of our Paper Business, that is, a shift to more profitable types of products, under the First Medium-Term Business Plan. Since the Second Medium-Term Business Plan, we have shifted the focus of our Paper and Paperboard Business from graphic paper to containerboard, for which demand remains strong, and have further changed our course toward the expansion of the Home and Personal Care (H&PC) Business, whose product lineup includes facial and toilet tissues of rapidly growing demand, making active capital investments. Moreover, we have expanded our business into overseas markets, which we view as our growth drivers. Beginning with Thailand in 2011, we have established operational bases in China, Indonesia, Turkey, and Brazil to build a full-scale global network.

In terms of business performance, the Daio Paper Group has taken steady steps toward growth despite the decline in the entire market for the papermaking industry. I believe that we have achieved this thanks to the understanding and support of various stakeholders, including shareholders, investors, and suppliers, and most importantly, thanks to the cooperation of all Daio Paper Group employees. During these nine years, the attitudes of employees have significantly changed. We have significantly slimmed down our organizations, including the Mishima Mill, taking such decisive action as reducing the workforce by calling for Daio Paper Corporation employees to retire voluntarily. It was a very tough decision for me to make, and it still pains my heart to think of it today. I have personally went to where our employees work and explained to them time after time, “All of us remaining at the Company must do our best with a positive attitude while keeping in mind the thoughts of other employees who had



## Masayoshi Sako

Chairman and Representative Director

to leave the Company.” I have visited our mills and subsidiaries over a hundred times to share directly with Daio Paper Group employees my vision of the fresh start of the reformed Group. During these nine years, the occasion of my greatest happiness has been the annual ceremony for commending employees of great service. At every ceremony, I listened to the presentations of the commended employees explaining how they accomplished what they did, and it warmed my heart to notice that our employees were becoming more independent and self-directed.

Our approach of Group-wide integrated operations, which tears down hierarchical barriers, has also taken a considerably firm hold on the Group. The principle of putting the actual locations of operations first has permeated the entire Group, whose sales philosophy is “What is made by Daio is sold only by Daio sales representatives.” While valuing our relationships with distributors, we have consistently maintained the stance of readily visiting the actual locations of where our products are sold or used and listening attentively to our users. Neither position nor title matters—all of us in the Daio Paper Group, including me as the president, carry this out. Through this, the speed with which all of us can detect changes in the market has accelerated our decision-making, enabling our Group to occupy a relatively advantageous position in the industry. I have read daily sales reports written by our sales representatives every day over the past nine years. This is because I recognize that it is of the highest importance to know what is happening at the actual locations of operations when making corporate management decisions.

I suppose that, as a president appointed amid the great turmoil of an emergency, I have used a management method that may be described as top-down. However, to continue to grow sustainably, the Daio Paper Group will have to abandon the top-down management method. Mr. Wakabayashi—the new president with vast experience, great achievements, and favorable qualities—is a bottom-up-style leader who can unite all employees while valuing their individual opinions. I suppose that the Daio Paper Group will face various difficulties in the process of implementing the fourth, fifth, and subsequent Medium-Term Business Plans, but I trust that he will lead the Group to overcome such difficulties with fierce determination and an unwavering focus on the Group's goal, while keeping the corporate motto “Passion with Sincerity” as our unchanging value. Yoshida Shoin, a 19th-century Japanese intellectual, once said: “A lack of dreams means a lack of ideals. A lack of ideals means a lack of plans. A lack of plans means a lack of implementation. A lack of implementation means a lack of success. Therefore, a lack of dreams means a lack of success.” I hope that the new president will have ambitious dreams and devote himself to further developing the Daio Paper Group.

A company should not only pursue profits—that is pure greed—but also contribute to raising the living standards of all people living on Earth and to increasing employment and invigorating the local communities in the areas where the company operates. I will support the new management so that the Daio Paper Group will be able to practice its management philosophy “Shaping an Abundant and Affable Future for the World” from such a perspective.

## Message from the President and CEO

### Yorifusa Wakabayashi

President and Representative Director  
Chief Executive Officer



## Making a Total Commitment to Achieving the Targets Set in the Medium-Term Business Plan and Fulfilling the Long-Term Vision with the Aim of “Shaping an Abundant and Affable Future for the World”

### To shape an abundant and affable future for the world

Passion and sincerity lead to greatness—that was the principle that Daio Paper’s founder, Isekichi Ikawa, lived by. Embracing this founding spirit as its credo, Daio Paper has achieved business growth while responding to changes in the business environment and social needs since its founding in 1943. The world

today faces many difficult global challenges, including climate change and the pandemic. In addition, our business environment has experienced very rapid changes, such as a radical shift to decarbonization and the acceleration of digitalization.

Amid such a situation, I was appointed as President, Representative Director, and CEO in April 2021, which also marked the start of the Fourth Medium-Term Business Plan, the latest

of the three-year business plans the Group has implemented since 2012. In May 2023, the final year of the Fourth Medium-Term Business Plan, Daio Paper will celebrate the 80th anniversary of its founding. I believe that the fulfillment of our long-term vision of becoming a corporate group with net sales of 800 billion to 1 trillion yen in FY2026, the final year of the Fifth Medium-Term Business Plan, which will follow the current Fourth Plan, will provide the Group

with the foundation for sustainable growth toward the centenary of Daio Paper’s founding.

Furthermore, we have declared that we will achieve carbon neutrality by 2050, more distant in the future than our centenary. Meeting the Daio Paper Group’s responsibilities for solutions to climate change, the top-priority global challenge, requires us to overcome many barriers. To become a strong corporate group that can overcome such barriers, we will make a strong commitment to fulfilling our long-term vision. We in the Daio Paper Group aim to practice our management philosophy “Shaping an Abundant and Affable Future for the World” through our business activities based on our corporate motto “Passion with Sincerity,” in other words, to contribute to the fulfilled, happy, and safe lives of people around the world.

### Integrated operations as a business model with the strength of *fueki ryuko* (permanence and readiness for change)

The foundation for our efforts to achieve this aim lies in our long-cherished, permanent corporate motto “Passion with Sincerity” and our ability to change based on our prompt decision-making. I believe that our strength lies in this good combination of permanence and readiness for change, or *fueki ryuko* in Japanese. The spirit expressed in our corporate motto, which our founder left to us as the credo that he had discovered after his struggle against many challenges, is permanent and will never change. The “three *gen*” principle of solving a problem by going to the actual location (*genba*), inspecting the actual situation (*genbutsu*), and ascertaining the actual facts (*genjitsu*), which is embodied by the sales philosophy “What is made by Daio is sold only by Daio sales representatives,” has also widely permeated Daio Paper together with the corporate motto. Meanwhile, the Daio Paper Group’s reformative ability to implement comparative advantage strategies more quickly than the speed at which its business environment changes can be described as the Group’s readiness for change. This ability is underpinned by the Daio Paper Group’s business model of Group-wide integrated operations, which is evident from the absence of organizational barriers despite the Group’s division into two businesses: the B2B

Paper and Paperboard Business and the B2C Home and Personal Care (H&PC) Business. For example, a sales representative in charge of newsprint may recommend our toilet tissue to newspaper companies, while an H&PC sales representative may introduce our copy paper to hospitals. Our integrated operation business model enables all Group companies to align with each other toward business growth. Thoroughly integrated operations, which cover not only sales representatives but also mill and factory workers, as well as staff in charge of development, marketing, and back-office functions, are a strength and asset of the Daio Paper Group.

Our great strengths and assets also lie in the flexible production system and cost competitiveness of the Mishima Mill (Ehime Prefecture, Japan), one of the world's largest coastal paper mills and the Daio Paper Group's core paper mill. This mill boasts high competitiveness in pulp production, an original technology for processing recovered paper, its advantageous location next to an international trade port, and production equipment for most kinds of pulp and paper. The Mishima Mill is advantageous in being able to shift flexibly between different production systems according to changes in demand and thus supports the Daio Paper Group's business growth.



### Review of the Third Medium-Term Business Plan: Achieving net sales growth for the eighth consecutive fiscal year and establishing an all-time record in net profit in FY2020

During the period of the Third Medium-Term Business Plan until FY2020, we were actively committed to implementing our priority measures: the radical cross-business structural reforms of the Paper and Paperboard Business and the H&PC Business; the global expansion and strengthening of profitability of the H&PC Business; and new businesses. We accelerated our shift from graphic paper, for which demand was rapidly declining, to packaging paper, for which demand was strong against the backdrop of enormous e-commerce demand, and to household paper products, for which new needs would be created due to consumers' heightened hygiene consciousness and lifestyle changes.

#### <Major initiatives implemented during the period of the Third Medium-Term Business Plan>

- Converting the paper machine at the Mishima Mill into a containerboard machine and beginning to export high-quality containerboard with advanced functions to China and other Asian markets
- Implementing M&A of corrugated container companies to enhance the downstream business, and promoting the integrated production of all types of paper, from containerboard to corrugated container products
- Installing a machine for household paper products at the Kawanoe Mill (Ehime Prefecture, Japan) and restarting the operation of the mill as a production base for household paper products to strengthen our system for providing household paper products to the domestic and overseas markets
- Strengthening our system for providing products combating COVID-19 (mainly by starting the domestic production of disposable face masks and increasing the production output of sanitizing wipes and paper towels)
- Pursuing multi-category business expansion in overseas markets, especially in China, Thailand, and Indonesia

- Entering new markets in South America and the Middle East (by acquiring hygiene product manufacturers in Brazil and Turkey)

As a result of these initiatives, although our consolidated net sales for FY2020 fell slightly short of the target set in the Third Medium-Term Business Plan, we achieved all other targets for our FY2020 consolidated financial results. In FY2020, we achieved an increase in net sales for the eighth consecutive fiscal year and a growth in profit attributable to owners of parent for the third consecutive fiscal year, with the latter an all-time records.

### Business strategies in the Fourth Medium-Term Business Plan

It is predicted that, despite the upward trend in the Japanese economy mainly due to progress in COVID-19 vaccinations and the economic recovery in China and the U.S., the future of the Japanese economy will remain uncertain against the background of prolonged U.S.–China trade friction, more infectious coronavirus variants, and other circumstances.

In April 2021, amid this situation, the Daio Paper Group launched the Fourth Medium-Term Business Plan, which establishes the basic policies of (1) establishing a strong and resilient business portfolio, (2) improving financial strength, and (3) responding to climate change (achieving carbon-neutral status by 2050).

As detailed elsewhere in this report, in response to the aforementioned consistent decline in paper demand due to paperless work and home environments and digitalization, we will continue to shift the focus from graphic paper to packaging paper, for which demand is expected to remain strong. In addition, heightened public awareness of the environment has increased the need for products that can serve as plastic alternatives, such as unbleached kraft paper and EliPla+, which are high value-added and have high unit price. We will also strive to increase sales of these products.

In the H&PC Business, we will make maximum use of the brand power of Elleair, the most popular brand in the Japanese household paper product market, to achieve synergy between household paper products



and absorbent products in sales promotion. We will provide our absorbent products, including disposable baby diapers, for which our market share significantly increased as a result of last year's major product redesign, disposable adult diapers, and sanitary napkins to further contribute to solving social challenges, such as addressing the problem of an aging population combined with a declining birthrate and extending healthy life expectancy.

Meanwhile, in terms of the procurement of fluff pulp\* which is a main material of absorbent products, we have so far relied on overseas suppliers mainly in northern Europe and Brazil. However, lessons learnt from having to suspend supply of product due to global supply chain disruptions amid the early waves of the COVID-19 pandemic in 2020 have caused us to decide to start producing fluff pulp in-house at the Mishima Mill to avoid risk. It will not be easy to start Japan's first fluff pulp production due to issues such as cost, but we will readily take up this challenge, which we believe matches the social mission of our Company as a manufacturer of essential products.

During the period of the Fourth Medium-Term Business Plan, our overseas H&PC Business will be our top-line growth driver. In this business, we aim to achieve net sales of 135.0 billion yen, more than double the current figure. We will work to not only increase local sales of products manufactured locally in the countries where we already have production bases but also export those products to neighboring countries with the aim of expanding our geographic reach using our production bases

\*Fluff pulp: Pulp that is mixed with superabsorbent polymers in the production process of absorbent products such as disposable diapers

as footholds. We will also strive to make a further leap through strategic M&A and the creation of synergy out of that, as well as the exploration of frontier markets. In the huge market of China in particular, our disposable baby diapers are recognized under the nickname of “diapers of Dawang” (the Chinese reading of the characters “Daio,” meaning “king”), and we have been widely accepted as the highest-quality disposable baby diaper brand. In May 2021, we also launched sanitary napkins onto the Chinese market on a trial basis with a view to leveraging the power of the Dawang brand to achieve business expansion by diversifying our offerings, from disposable baby diapers to sanitary napkins, household paper products, disposable adult diapers, sanitizing wipes, and face masks. We aim to scale up this business model to all areas of our operation in a manner that is suitable for each area.

Moreover, our efforts to commercialize cellulose nanofiber (CNF), which has great potential for a new business, have made remarkable progress. Our CNF was used as a material in a racing EV, which participated in a race held in the U.S., verifying the durability of the material which helped reduce the weight of the vehicle. We will continue to take up the challenge of pioneering such new businesses, together with the radio frequency identifier (RFID\*) business, which is expected to contribute to digital transformation (DX).

\*RFID: Also called IC tag (contactless electronic tag)

Another focus of our efforts this fiscal year is the Shikokuchuo City Carbon Neutrality Council, which was established in June 2021 with the participation of local paper manufacturers, government bodies, financial institutions, and other parties in Shikokuchuo City, where the Mishima Mill is located. In this first-ever initiative that the papermaking industry has implemented to deliberate on an energy shift in the Shikokuchuo area through collaboration between government, the private sector, and financial institutions, we will explore the possibilities of shifting to a new energy source, which is the most important challenge for us to solve toward the achievement of carbon neutral status.

Meanwhile, to perform corporate management with keen awareness of the cost and profitability of capital investment, we will begin to use return on invested capital (ROIC) as an internal indicator for the profitability of each business and the appropriateness of each investment case. Under the Fourth Medium-Term Business Plan, we will maintain financial discipline and take action within the scope of depreciation and amortization. During the period of the Fifth Medium-Term Business Plan, we will strengthen our cash creation capacity, which will enable us to achieve further business growth, and improve our cash flow.

By implementing these measures, 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. During the three years from FY2020, we aim to achieve top-line growth of over 150.0 billion yen, which is definitely not a moonshot. With the strong determination to become a company that will survive for a century, we will “gear up” as declared in the slogan of the Fourth Medium-Term Business Plan, and make determined efforts to reach this must-achieve target.

### Toward sustainable corporate management

I believe that achieving sustainable growth requires our Group to not only increase its economic value but also raise its social value by providing practical solutions to social challenges through business activities. Therefore, we will promote our practice of sustainability management from three perspectives: creating shared value (CSV); preventing and reducing adverse impacts on society and the environment; and building a management foundation for value creation.

We will motivate our employees—an integral part of our management foundation—to create new innovations by fostering a corporate culture that helps ensure their mental and physical health and psychological security, and encourages everyone to express their views without constraint. In this sense as well, we believe that it is indispensable to enhance our diversity and inclusion measures. We have appointed women to serve as the general manager and manager of the Diversity Promotion Department, which was established this year. They are quickly implementing various initiatives, including a diversity education program targeting managerial staff and training aimed at helping employees eliminate their own unconscious bias. We will also enhance our governance as the core of our management foundation. We mapped out our first-ever skills matrix this year, and the framework has enabled us to identify that we need to enhance the skills of our production and finance staff. We will focus our efforts on improving our governance system so that it becomes well-balanced by selecting from a wide choice of possible measures, including the appointment of outside directors and utilization of in-house human resources.

### Our efforts to help achieve the SDGs and our support for the TCFD

The promotion of sustainable corporate management naturally involves contributing to the achievement of the SDGs. While our history of tackling social challenges is longer than that of the SDGs, which were established in 2015, we formulated the Sustainability Vision in May 2021 to clarify the linkage between our sustained efforts and the SDGs. We have also identified material issues, decided on the specific steps to take until 2030, and specified quantitative KPIs. To combat climate change, we aim to reduce CO<sub>2</sub> emissions by 46% from FY2013 levels by FY2030 according to our road map toward the achievement of carbon neutrality by 2050.

In May 2021, we also announced our support for the Task Force on Climate-related Financial Disclosure (TCFD) as part of our efforts to address climate change. Our Sustainability Committee has begun to conduct scenario analysis in the 2°C, 4°C, and 1.5°C scenarios to identify transitional risks, physical risks, and opportunities. We are also preparing to issue an announcement by next April about our governance, strategy, risk management, and targets and indicators, which are the four core elements of the TCFD recommendations, after thorough examination at Management Meetings and Board of Directors Meetings.

### Message to stakeholders

The Daio Paper Group recognizes the return of profits to investors and shareholders as a key management issue. Our policy is to ensure that returns to our shareholders will reflect the increase in equity due to business growth while continuing the stable distribution of dividends in consideration of our performance status and internal reserves, and we have added dividend on equity ratio to our indicators to fulfill that. Support from our stakeholders is vital for our realization of the management philosophy “Shaping an Abundant and Affable Future for the World.” We will do our best to become a corporate group whose development will contribute to the development of local communities and to the achievement of the SDGs. We look forward to your continued support.



# History of the Daio Paper Group

—Speedy decision-making and great implementation ability have enabled the Daio Paper Group to continue to create value, resulting in its record performance in FY2020.

Daio Paper was founded in Shikokuchuo City, Ehime Prefecture, in 1943 to produce and sell *washi* (traditional Japanese paper), and 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. In 2011, the Company expanded into growing overseas markets, including Thailand, China, and Indonesia, on a full scale.

Under the Third Medium-Term Business Plan, in a prompt response to changes in the Japanese market, Daio Paper took the decisive action of shifting from graphic paper to packaging paper and household paper products. Furthermore, to address risks and take advantage of opportunities amid the COVID-19 pandemic, the Company implemented the momentous decisions to build additional production facilities for alcohol-based sanitizing wipes and paper towels and to produce face masks in Japan, resulting in its record net sales and profit attributable to owners of parent in FY2020.

## Responses to the COVID-19 pandemic

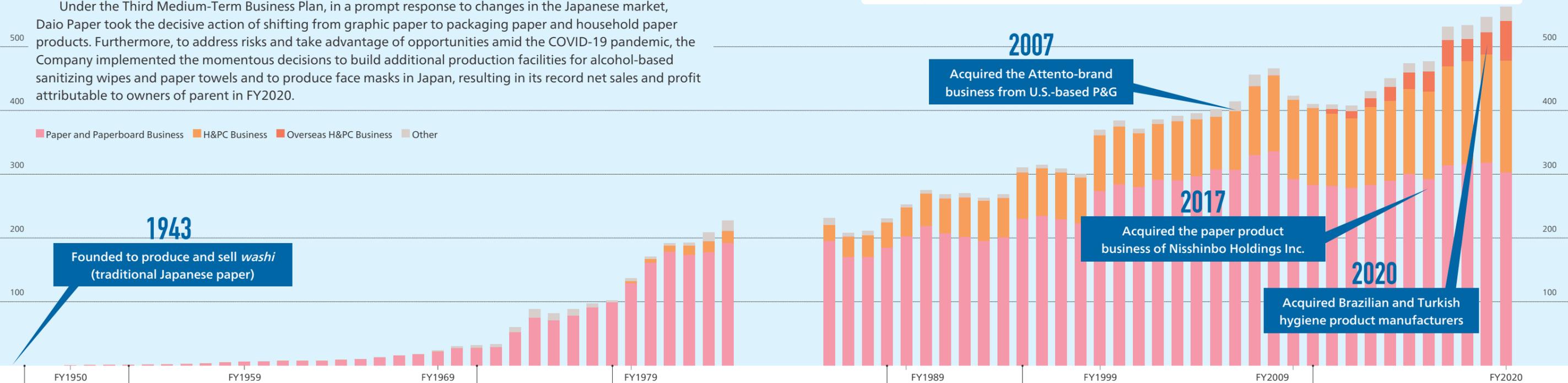
The Daio Paper Group has implemented COVID-19 countermeasures based on the following policies:

- 1. Prevent the spread of the COVID-19 pandemic through Daio Paper 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.

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

(Billions of Yen)

(Billions of Yen)



Ceremony for celebrating the completion of a paper mill



Kawanoe Mill serving as the core of linerboard production



Construction of the New Mishima Mill



Facial tissue and toilet tissue at launch



Disposable baby diapers and sanitary napkins at launch



A stretch of forest owned by Forestal Anchile



Iwaki Daio Paper



Elleair International China (Nantong)

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

The Company 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

The Company 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

The Company decided to enter the absorbent product market. It started producing and selling disposable baby diapers in 1980, and sanitary napkins in 1982.

1989

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

1996

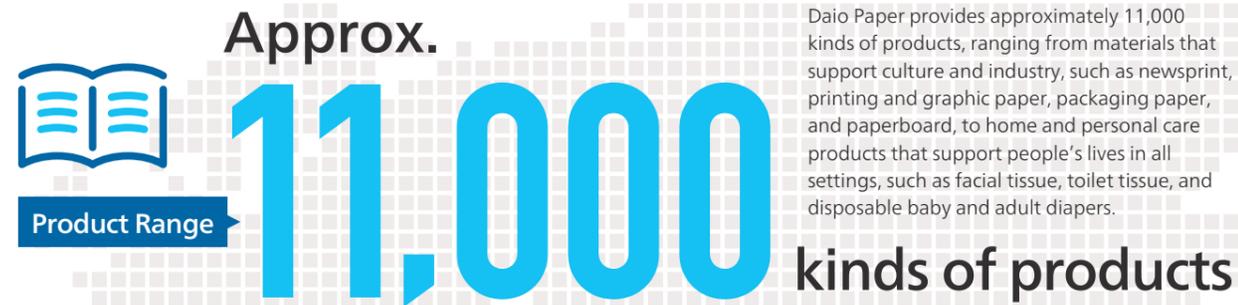
The Group decided to found Iwaki Daio Paper in Iwaki City, Fukushima Prefecture, within 180 km from Tokyo, the largest source of recovered paper in Japan. The new company began to produce and sell newsprint made from 100% recovered paper, Japan's first such product.

2011~

In anticipation of a decline in domestic demand, the Group 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.

## At a Glance

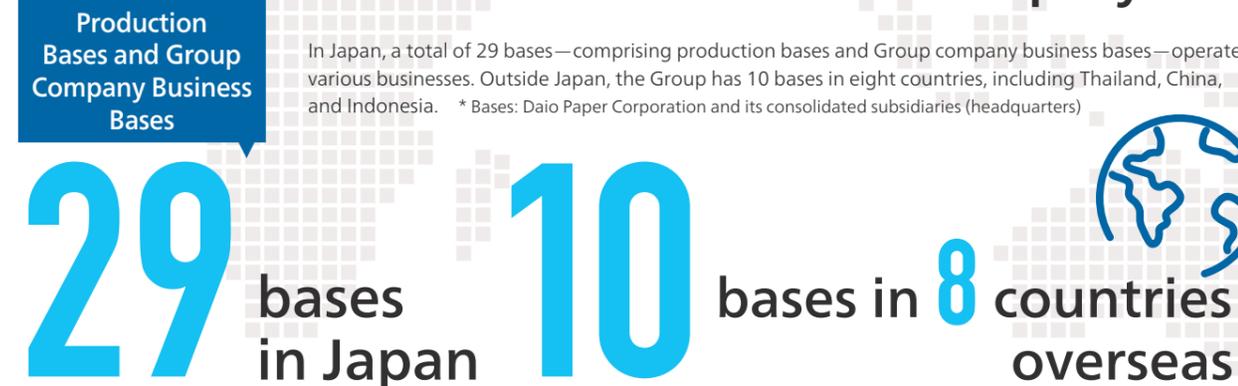
Daio Paper is a manufacturer of a full range of paper products, including newsprint, printing paper, and packaging paper, and consumer household goods, including facial tissue and other household paper products, disposable diapers, and feminine care products.



Daio Paper provides approximately 11,000 kinds of products, ranging from materials that support culture and industry, such as newsprint, printing and graphic 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 the Daio Paper Group, over 12,000 employees are working in various places in Japan and abroad. The Group aims to create a favorable working environment where every employee can demonstrate their talents fully, and is also committed to encouraging female employees' career development as a measure for diversity management.



In Japan, a total of 29 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)

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



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 (Nationwide Retail Store Panel Survey) in the facial tissue, toilet tissue, and kitchen towel markets (on a monetary basis in FY2020)

The Daio Paper Group owns 590 km<sup>2</sup> of forested land—roughly the same area as Tokyo's 23 special wards—in Chile, South America. About half of this, 280 km<sup>2</sup> of land, is preserved as natural virgin forest toward the conservation of biodiversity and sustainable forest management.



In FY2020, the Daio Paper Group spent 3,109 billion yen on research and development, which the Group has continued to conduct toward its sustainable growth. Recently, the Group has been focused on researching and developing cellulose nanofiber (CNF), a material expected to have various applications and contribute to a decarbonized society.

### 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.

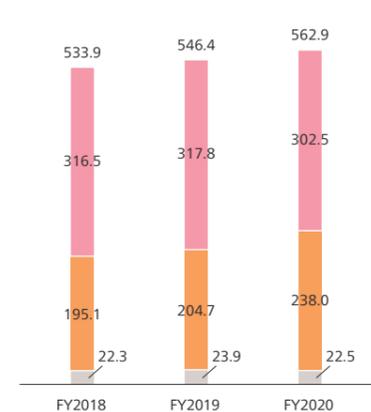
#### Home and Personal Care Business

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

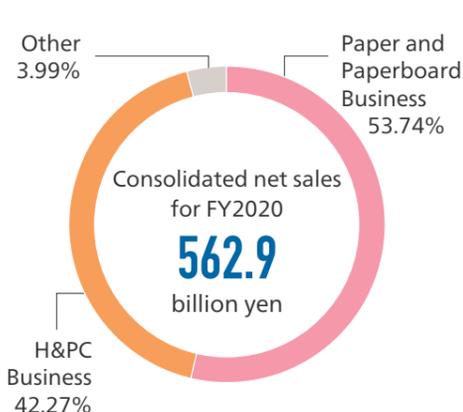
#### Other

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

### Net Sales (Billions of Yen)



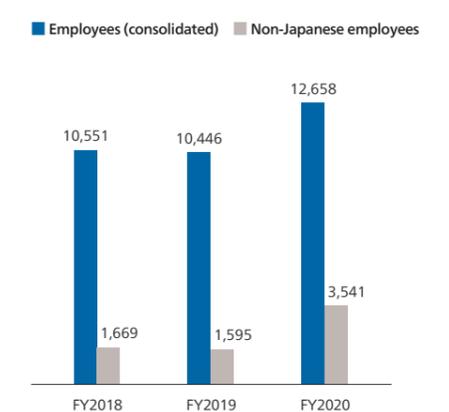
### Net Sales Composition by Segment



### Results and Targets of the 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)



## Strengths of the Daio Paper Group

The Mishima Mill, one of the world's largest coastal paper mills, is the principal source of Daio Paper Group's competitiveness. The mill supports the Group's sustainable growth through various measures, including establishing a resilient production system that can respond to changes in the demand structure and reducing

the environmental impact of its operation. In addition, the Group strives to increase its brand power, sales capabilities, and corporate value based on its marketing-oriented sales policy represented as "What is made by Daio is sold only by Daio sales representatives."

### Core Competence

Technological capabilities to produce a wide range of paper products that meet changing demand and further broaden the product range at the Mishima Mill, one of the world's largest coastal paper mills, which is highly cost competitive due to its coastal location, and sales capabilities to market this wide range of products

#### Competitive Advantage 1

### Product Value Chain

- 1 Integrated production, beginning with raw material production
- 2 Coastal location and one of Japan's largest pulping facilities
- 3 Flexible production system that can meet changing demand

We have built a product value chain capable of efficient production to provide a timely response to changes in paper demand to achieve sustainable growth.

The Mishima Mill, our core paper mill, is one of the world's largest coastal paper mills and engages in the integrated production of paper and paperboard with in-house produced pulp. Its annual production output is approximately 2.0 million tons, which accounts for about 9% of Japan's total annual paper and paperboard production.

The Mishima Mill has one of Japan's largest pulping facilities, which is connected through a network of pipes to 17 paper machines and feeds the appropriate types of pulp to each machine according to the quality of paper to be produced. This system enables us to flexibly switch between different product types to always meet changing market demand.

#### Competitive Advantage 2

### Environmentally Conscious Company

- 1 Sustainable forest management (tree planting)
- 2 Sustainable resource recycling (advanced use of recovered paper)
- 3 Sustainable and effective use of resources (reuse of waste)

Since the establishment of Daio Paper Corporation, we have been engaged in environmental conservation through various initiatives, including utilizing a high percentage of recovered paper, lowering energy consumption, and recycling industrial water. We own 590 km<sup>2</sup> of forested land—roughly the same area as Tokyo's 23 special wards—in Chile, South America, and are practicing sustainable forest management there. About half of this, 280 km<sup>2</sup> of land, is preserved as natural forest to conserve biodiversity.

In addition, we now use a higher percentage of recovered paper than the average in the industry as a result of our efforts to increase our use of hard-to-recycle recovered paper, which were previously disposed of as waste. We also aim to achieve zero emissions by dividing hard-to-recycle recovered paper into material (pulp) and fuel (such as plastic film mixed in with recovered paper) and utilize both. Through such approaches, we are actively committed to environmental conservation.

#### Competitive Advantage 3

### Market-driven Business Strategy

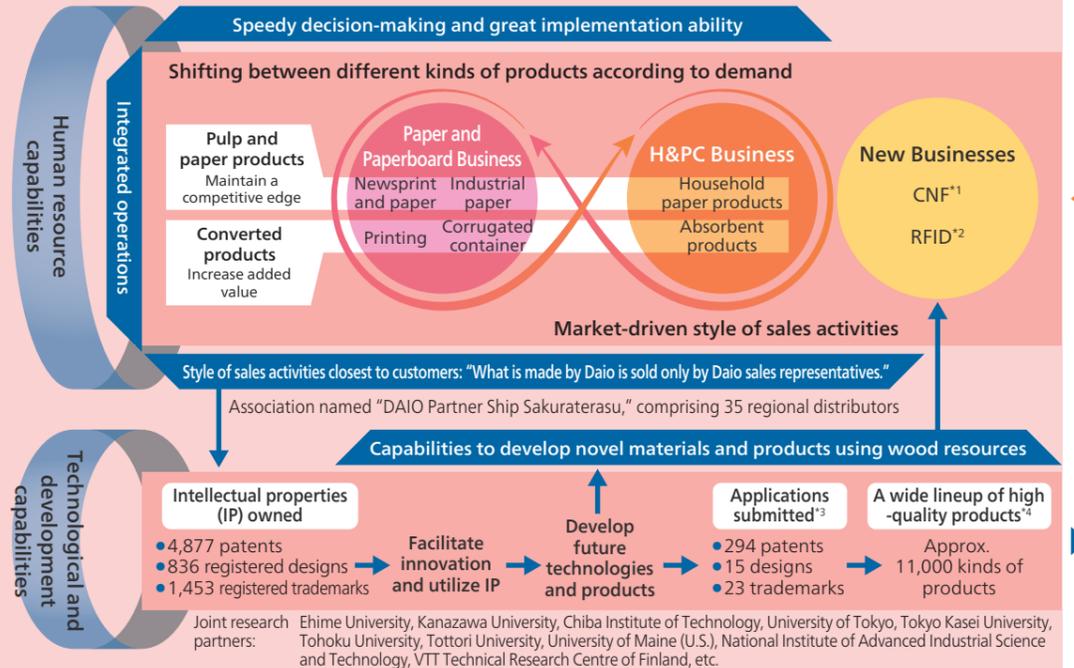
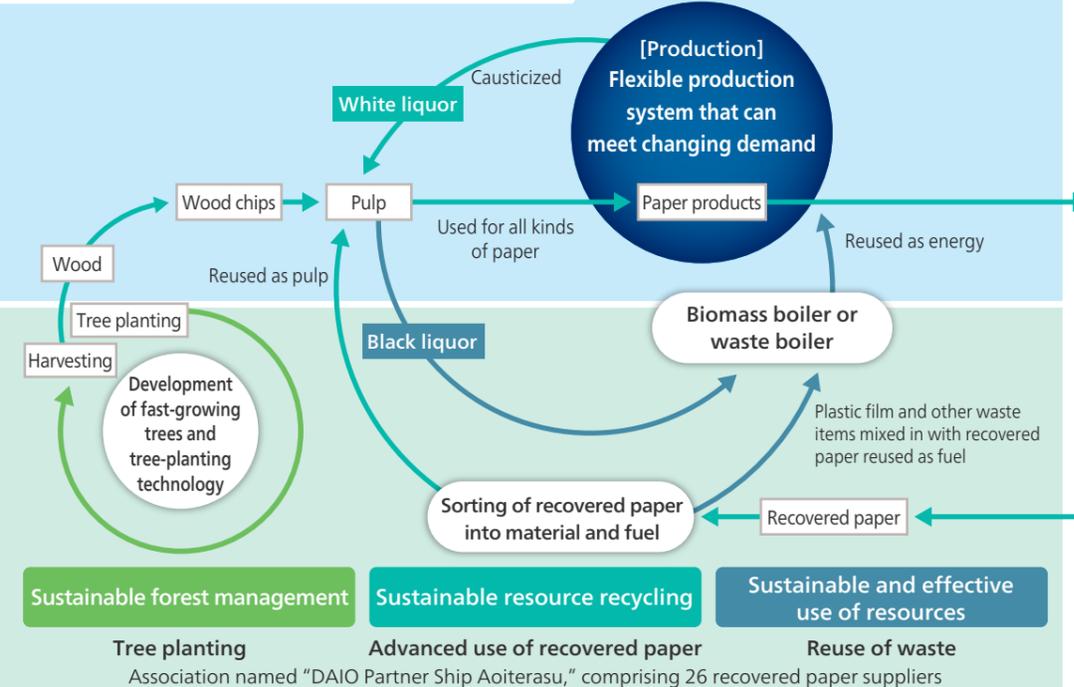
- 1 Speedy decision-making and great implementation ability
- 2 Integrated operations (Integration between product development, production and sales; integration between paper and printing, containerboard and corrugated container converting; integration between the Paper and Paperboard Business and the H&PC Business)
- 3 Style of sales activities closest to customers: "What is made by Daio is sold only by Daio sales representatives"

As a manufacturer that aspires to know its customers best, we have devoted efforts to expanding our sales networks and training our sales representatives based on our basic stance: "What is made by Daio is sold only by Daio sales representatives."

Every sales representative detects market trends through their day-to-day marketing activities with customers to facilitate product development and proposals that can promptly meet customer needs. In our operations not only in Japan but also in the rest of the world, we have broadened our lineup of high-performance and high-quality products so that they will fit into the local culture and customs of each country/region. We have thus raised the satisfaction levels of local consumers.

\*1 CNF: Cellulose nanofiber  
 \*2 RFID (radio frequency identifier): Contactless electronic smart tag  
 \*3 Number of applications submitted in FY2018  
 \*4 Number of kinds of products registered in our database  
 \*5 Source: Intage SRI (Nationwide Retail Store Panel Survey) in the facial tissue, toilet tissue, and kitchen towel markets (on a monetary basis in FY2020)

Integrated production, beginning with raw material production (tree planting ▶ wood chips ▶ paper ▶ converting)



Sales capabilities to market a wide range of products

### Brand power

No.1 market share<sup>\*5</sup>

Facial tissue: 26.9%

Toilet tissue: 30.8%

Kitchen towels: 29.8%

## Material issues of the Daio Paper Group

Daio Paper 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.



### (1) Issues of stakeholder concern

We detected issues of considerable concern to stakeholders from among issues related to our operations, and social and other issues, through dialogue with stakeholders.

### (2) Important issues for us

From among our risks and opportunities, we picked out issues that we recognize 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 have to do and the things we can do to achieve the goal and future visions in linkage with each of the SDGs.

### (1) Business strategies

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



### (2) Social issues

From among the issues of stakeholder concern and important issues for us picked out at Step 1-(1) and 1-(2), we organized the important themes that are related to social issues that are expected to have an impact on our corporate value unless we addressed them, in consideration of global trends and the current social situation, while comparing those issues with key issues in the Global Reporting Initiative (GRI) standards and other standards set by evaluation organizations.

### (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 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 important meetings, such as 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)

- 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)

Identified through dialogue

- CSR procurement and supply chain management
- Progress in diversity initiatives and human resource management
- 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 us (examples)

- 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

Picked out from among our risks and opportunities and analyzed

- 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 Paper Group

The Daio Paper Group has striven to solve social issues through its business activities and created value by propelling its business activities and leveraging various kinds of capital and strengths while enhancing its governance.

To 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," we will continue to provide all stakeholders with new value and live up to our management philosophy: "Shaping an Abundant and Affable Future for the World."

## Corporate Philosophy

### Shaping an Abundant and Affable Future for the World

Our goal: An abundant and affable future

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



Core competence ▶ pp. 17-18

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

#### Hygiene

The issue of poverty will have been solved, and people's living standards will have been raised, ensuring their healthy lives.

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

People around the world will be able to lead happy and fulfilled lives.

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

The Earth will have been regenerated into a planet 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

Major social issues		
<ul style="list-style-type: none"> <li>• Changes in consumers' preferences and lifestyles</li> <li>• Decrease in Japan's population, especially its working population</li> <li>• Poverty issues and emerging countries' economic growth</li> <li>• The increasing need to extend healthy life expectancy</li> </ul>	<ul style="list-style-type: none"> <li>• Measures for coexistence with COVID-19</li> <li>• Growing public concern about human rights issues</li> <li>• Responses to the aging society with a declining birthrate</li> <li>• Corporate misconduct and scandals</li> </ul>	<ul style="list-style-type: none"> <li>• Increase in the number of natural disasters due to climate change</li> <li>• Realization of a decarbonized society</li> <li>• Marine plastics</li> <li>• Heightened public awareness of conservation of the global environment</li> </ul>
Material issues ▶ pp. 19-20		
<ol style="list-style-type: none"> <li>1. Strategic transformation of our business portfolio</li> <li>2. Acceleration of global expansion</li> <li>3. Creation of new businesses</li> <li>4. Coexistence with local communities</li> </ol>	<ol style="list-style-type: none"> <li>5. Establishment of sustainable supply chain</li> <li>6. Respect for human rights, development of human resources, and compassion for employees</li> <li>7. Fair and highly transparent management</li> </ol>	<ol style="list-style-type: none"> <li>8. Response to climate change</li> <li>9. Realization of a recycling-oriented society</li> <li>10. Forest conservation and maintenance of biodiversity</li> </ol>

- 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)

